

# Fiscal Recovery

The City of San Diego remains committed to restoring fiscal stability, addressing its financial obligations, and meeting its responsibility to provide essential core services to San Diego residents. The Fiscal Year 2010 Proposed Budget reflects this commitment and continues to enhance funding for eight significant areas of concern as described in the Mayor's Five-Year Financial Outlook. Prior to the Mayor taking office, funding these areas were either neglected or under-funded for many years, which affected the City's budget. The Five-Year Financial Outlook established funding for the following eight significant areas as a priority for the City's budget process:



- The City's Pension Plan
- The City's General Fund reserves
- The City's deferred maintenance and capital improvement needs
- The City's Retiree Health-Other Post Employment Benefits (OPEB)
- The City's obligations under the California Regional Water Quality Control Board (Municipal Storm Water Permit)
- The City's obligations under the Americans with Disabilities Act (ADA)
- The City's Workers' Compensation Fund reserves
- The City's Public Liability Fund reserves

The Fiscal Year 2010 Proposed Budget also continues many other initiatives designed to help restore fiscal stability to the City. It protects the City's ability to deliver essential core services, continues the Business Process Reengineering effort, and will continue the implementation of the voter-approved Managed Competition initiative.

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## Citywide Reorganization

The structure of the City continues to undergo a realignment intended to convert the City into a more efficient organization. These changes to the organization will allow for a better use of resources and promote accountability. The reform efforts that were made in Fiscal Years 2007 and 2008 continued into Fiscal Year 2009 in order to streamline the City's organizational structure. The Fiscal Year 2009 Annual Budget had a net reduction of 57.82 FTE positions. Significant reductions in revenues as a result of the economic downturn caused a budget gap during Fiscal Year 2009; as a result, the City eliminated an additional 150.95 FTE positions in the Fiscal Year 2009 Revised Budget approved by Council on December 9, 2008 and February 3, 2009. This reduction is carried forward in the Fiscal Year 2010 Proposed Budget for a total net reduction of 149.27 FTE positions.

## Funding the Pension Plan

Ensuring adequate funding for the City's Retirement System is critical for the long-term fiscal health and stability of the City. In November 2006, voters approved Proposition B, the Mayor's initiative calling for voter approval of any future increases in pension benefits for City employees. In Fiscal Year 2009 the Mayor and City Council passed a new pension reform plan, effective July 1, 2009, which will achieve savings in future years and are expected to lower future Annual Required Contribution (ARC) payments. In June 2008, the San Diego City Employees' Retirement System (SDCERS) released its 2008 actuarial valuation report for the City and determined that the City's ARC for Fiscal Year 2010 is \$154.2 million. This valuation applied the Entry Age Normal (EAN) method (calculating future actuarial liabilities beginning with the Fiscal Year 2008 valuation), assumed a 20-year Unfunded Actuarial Accrued Liability (UAAL) amortization period, and eliminated negative amortization. The ARC payment is expected to be transferred to the Retirement System on July 1, 2009.

## Building Reserves

Building healthy reserves will help insulate City services against periodic swings in the economy, as well as demands placed upon the City to pay the costs of emergencies, such as natural disasters. In addition, since the City's reserves are one of several factors considered by rating agencies, a strong reserve balance may help lower the cost to the City to borrow money. The City currently maintains several reserves for its operations, including the Emergency Reserve for the General Fund, established to fund unanticipated liabilities for natural disasters, catastrophic occurrences, and judgments.

The City's Reserve Policy calls for: a) the maintenance of adequate reserve levels for all of its reserves including the Emergency Reserve and the Appropriated Reserve in the General Fund; b) enhanced operating reserves for Enterprise Funds such as Water and Wastewater; c) a capital reserve; and other types of reserves. The City's policy defines a goal of having a minimum of 8.0 percent of General Fund revenues held in reserves by Fiscal Year 2012. For Fiscal Year 2010, the Reserve Policy calls for seven percent of General Fund revenues to be held in the General Fund reserves.

## Funding Deferred Maintenance

### *Streets*

Over the years, the City has undertaken several studies to catalog deferred maintenance needs for which no funding had been identified. For instance, the streets condition assessment was funded in Fiscal Year 2007 and completed at the end of calendar year 2007. The assessment found that 38.0 percent of street sections were considered "Acceptable" while 45.0 percent were "Fair" and 17.0 percent were "Poor". The City plans to assess street conditions every four years, with the next assessment scheduled for Fiscal Year 2011.

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## ***Storm Drains***

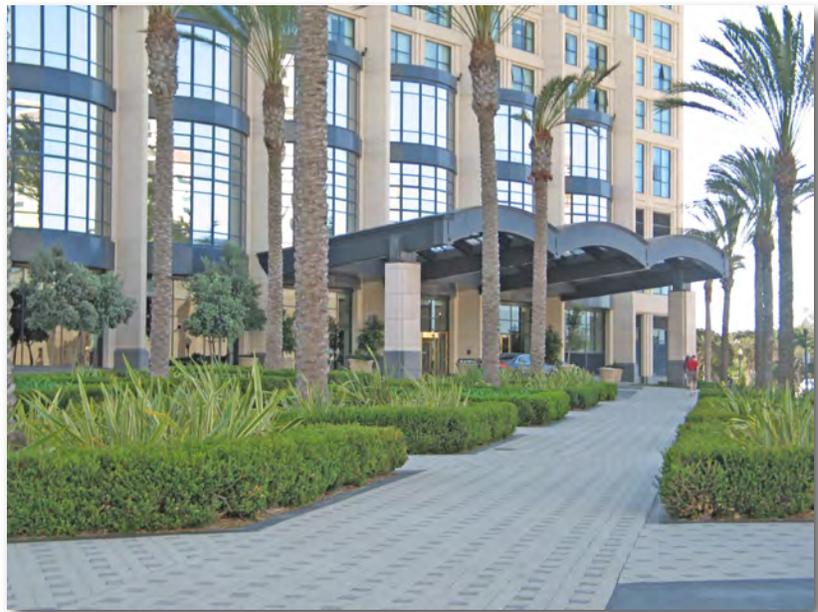
The phase I storm drain assessment was funded in Fiscal Year 2008 and will be completed in summer 2009. This assessment is addressing only the corrugated metal pipe storm drains that are in easements (i.e., outside of the City's right of way) and includes the identification of urgent construction requirements. The phase II storm drain assessment will address the corrugated metal pipe storm drains within the City's right of way in Fiscal Year 2009.

## ***Facilities***

The phase I facilities assessment was funded in Fiscal Year 2007 addressing 11 fire stations, eight police stations, and seven lifeguard facilities and was completed in Fiscal Year 2008. Phase II of the facilities assessment was funded in Fiscal Year 2008 and will be completed in summer of 2009 addressing 370 facilities including 34 fire stations, five police stations, 35 libraries, and 57 recreation facilities. Phase III of the facilities assessment will be funded in Fiscal Year 2010, and will cover the remaining minor facilities.

At the time of the Fiscal Year 2010 Proposed Budget preparation, it was estimated that the City's deferred maintenance and capital needs, excluding the Water and Wastewater enterprises, are in the range of \$800.0 to \$900.0 million.

On May 6, 2008 the City Council authorized the issuance of bonds (*City of San Diego Lease Revenue Bonds, Series 2008A - Various Capital Improvement Projects*) in the principal amount not to exceed \$108.0 million to finance various General Fund Deferred Maintenance Capital Improvement Projects and the cost of issuance. On March 20, 2009 the City closed a \$103.0 million private placement of Series 2008A Lease Revenue Bonds to fund repairs and maintenance to streets, park buildings, libraries, public safety facilities, and storm drains throughout the City. Funds from the financing will be allocated to street resurfacing (\$54.4 million), sidewalk repairs (\$9.5 million), maintenance and repairs of public facilities (\$24.8 million), and storm drain replacement and repair (\$14.0 million). The bonds were priced at an interest rate of 3.9 percent through June 2010.



The projects related to these bonds were budgeted and approved in the Fiscal Year 2008 and Fiscal Year 2009 Annual Budgets as part of the Capital Improvements Program.

The Fiscal Year 2010 Proposed Budget includes a total of \$32.2 million in deferred maintenance: \$15.5 million from Proposition 42; \$11.8 million from the sale of underperforming City-owned real estate; and \$4.9 million in debt service related to the \$103.0 million bond issuance.

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## Addressing Escalating Retiree Health Care Costs

The annual costs of the City retiree health care benefits, otherwise known as Other Post Employment Benefits (OPEB), are projected to increase substantially in future years. To address this need, OPEB is being funded. The City entered into an agreement on January 18, 2008 with the CalPERS Employer Retiree Benefit Trust (CERBT) to pre-fund expenses related to post-employment healthcare benefits. The City budgeted \$57.1 million in Fiscal Year 2010, which is comprised of \$32.1 million for the annual retiree health benefits payments (pay-as-you-go) and \$25.0 million for pre-funding retiree health care benefits which are expected to be transferred to CERBT during Fiscal Year 2010.

## Maintaining Compliance with the Municipal Storm Water Permit

Compliance with the Municipal Storm Water Permit required by the California Regional Water Quality Control Board has created a large impact on the City's budget. The Fiscal Year 2009 Annual Budget



included \$48.8 million to comply with the permit. Functions include storm water pollution prevention, street sweeping, and storm drains and in Fiscal Year 2010 the City will continue to comply with the permit regulations by including \$45.5 million in the Fiscal Year 2010 Proposed Budget.

## Compliance with the Americans with Disabilities Act

The Americans with Disabilities Act (ADA) went into effect in 1990, requiring public and private agencies to make facilities and infrastructure universally accessible. ADA

improvements are permanent improvements to public sidewalks and facilities and include additional capital projects such as the installation of audible signals at intersections.

The City's first Five-Year Financial Outlook included a forecast of an annual allocation of \$10.0 million beginning in Fiscal Year 2008 to fund ADA projects, and the Fiscal Year 2010 Proposed Budget continues this practice by including \$10.0 million. The funding comes from the sale of underperforming City-owned real estate. In addition, the budget includes \$1.1 million from the Community Development Block Grant for a total ADA budget of \$11.1 million. This amount is budgeted in the Capital Improvements Program budget.

## Building the Workers' Compensation Fund Reserve

Workers' Compensation liabilities are estimated to be approximately \$156.1 million in filed claims, and the City needs to establish sufficient reserves in the Workers' Compensation Fund to cover increases in these liabilities. By establishing an acceptable reserve level, the City will provide better protection against adverse impacts on General Fund services. The Fiscal Year 2010 Proposed Budget includes an annual contribution of \$20.6 million of pay-as-you-go payment for Workers' Compensation claims, as well as a

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\$5.0 million contribution to achieve the 22.0 percent goal of value of outstanding claims as specified in the City's Reserve Policy. The \$5.0 million contribution to the Workers' Compensation Reserve will increase the reserve level to \$34.3 million.

## Building the Public Liability Fund Reserve

Similar to Workers' Compensation liabilities, the City has liabilities resulting from litigation whose value changes each year. These liabilities are currently estimated to be \$114.5 million in filed claims. Any excessive payouts for public liability claims would create a negative impact on General Fund services. The establishment of a sufficient reserve would insulate General Fund services from a detrimental payout if the City were found liable in a large claim or claims. The Fiscal Year 2010 Proposed Budget includes \$7.1 million to build the Public Liability Fund Reserve, an amount that is in addition to the annual pay-as-you-go allocation of \$18.0 million, for a total budgeted amount of \$25.1 million. The Fiscal Year 2010 goal for the Public Liability Reserve is 15.0 percent of outstanding claims value according to the City's Reserve Policy. The \$7.1 million contribution to the Public Liability Reserve will increase the reserve level to \$17.1 million.

**Table 1** compares the projections in the Fiscal Years 2010-2014 Five-Year Financial Outlook with the Fiscal Year 2010 Proposed Budget. The Fiscal Year 2010 Proposed Budget provides funding for each of the eight significant areas and demonstrates the Mayor's continuing commitment to implementing the Five-Year Financial Outlook to restore and maintain the City's financial strength.

<b>TABLE 1 FUNDING FOR EIGHT SIGNIFICANT AREAS (IN MILLIONS)</b>				
	FY 2010 Projected in Outlook		FY 2010 Proposed Budget	
	All Funds	General Fund Amount	All Funds	General Fund Amount
ARC Payment	\$ 166.0	\$ 130.3	\$ 154.2	\$ 125.3
Reserves <sup>(1)</sup>	\$ 5.2	\$ 5.2	\$ -	\$ -
Deferred Maintenance <sup>(2)</sup>	\$ 3.6	\$ 3.6	\$ 32.2	\$ 4.9
OPEB	\$ 57.1	\$ 40.1	\$ 57.1	\$ 39.8
Municipal Storm Water Permit <sup>(3)</sup>	\$ 27.5	\$ 27.5	\$ 45.5	\$ 45.5
ADA Compliance <sup>(4)</sup>	\$ 10.0	\$ -	\$ 10.0	\$ -
Workers' Compensation Fund	\$ -	\$ -	\$ 5.0	\$ 4.0
Public Liability Fund	\$ 5.0	\$ 5.0	\$ 7.1	\$ 7.1
<b>SUB-TOTAL</b>	<b>\$ 274.4</b>	<b>\$ 211.7</b>	<b>\$ 311.1</b>	<b>\$ 226.6</b>
Financed Capital Projects	\$ -	\$ -	\$ -	\$ -
<b>TOTAL</b>	<b>\$ 274.4</b>	<b>\$ 211.7</b>	<b>\$ 311.1</b>	<b>\$ 226.6</b>

<sup>(1)</sup> Reserves goal will be reached through the release of encumbrances.

<sup>(2)</sup> Deferred maintenance is budgeted as follows: \$15.5 million in the non-general fund, \$4.9 million is budgeted in the General Fund for debt service, and the remaining \$11.8 million from land sales is budgeted in the Capital Improvements Program Budget.

<sup>(3)</sup> Fiscal Year 2010 Proposed Budget includes all storm-water related programs which were consolidated in Fiscal Year 2009 into a single department. Five-Year Financial Outlook reflected only the amount that was budgeted in the Storm Water Department prior to consolidation.

<sup>(4)</sup> \$10.0 million for ADA compliance is budgeted in the Capital Improvements Program Budget.

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## Corrective Actions Incorporated into the Fiscal Year 2010 Proposed Budget

In order to achieve a balanced budget, several solutions recommended in the Mayor's Five-Year Financial Outlook have been implemented in the Fiscal Year 2010 Proposed Budget.

### Cost Recovery Increase to Current City Fees and New User Fees (\$6.7 Million)

A User Fee Policy was adopted by City Council on March 10, 2009. The goal of the User Fee policy is to recover costs for the City services by updating fees annually. Included in the Fiscal Year 2010 Proposed Budget are adjustments to fees for City Clerk, City Treasurer, Community and Legislative Services, Police, Fire-Rescue, Neighborhood Code Compliance, Engineering and Capital Projects, and the Park and Recreation Department totaling \$6.7 million (refer to the Executive Summary Section of this Volume for more details on user fees.) The most significant changes to fee revenue are an increase of \$0.9 million in Alarm Permit Fees administered by the Police Department and an increase of \$2.0 million in Service Permit and Inspections Fees administered by the Fire-Rescue Department.

### Environmental Services Division Franchise Fees (\$1.7 Million)

The Fiscal Year 2010 Proposed Budget includes an additional \$1.7 million in revenue from a \$4/ ton increase related to Solid Waste Collection Franchise Fees (the Class I Franchise Fees from \$11/ton to \$15/ton and the Class II Franchise Fees from \$12/ton to \$16/ton). On March 25, 2009, the Natural Resources and Culture Committee approved forwarding the proposal to the City Council to be discussed on April 21, 2009. If approved by City Council, this proposal would be effective July 1, 2009.

### Proposition 42 (\$15.5 Million)

Proposition 42 provides infrastructure and operational funding for highways, public transit, and local street and road improvements. The Fiscal Year 2010 Proposed Budget includes \$15.5 million in Proposition 42 funds and is budgeted in the Transportations Relief Fund (AB 2928).

### Leveraging City Assets (\$21.8 Million)

The Real Estate Assets Department has identified properties for sale that will generate one-time revenue. To comply with the City Charter, revenues generated from the sale of public property will be used for funding of capital improvement projects. In the Fiscal Year 2010 Proposed Budget, additional revenue of \$5.0 million over the Fiscal Year 2009 amount of \$16.8 million is budgeted for CIP projects totaling \$21.8 million.

## General Fund Reimbursement for Special Promotional Programs (\$12.3 Million)

The Fiscal Year 2010 Proposed General Fund Budget includes an additional \$3.6 million over the Fiscal Year 2009 amount of \$8.7 million for reimbursement of services in the General Fund that enhance or support tourism. This transfer will support miscellaneous activities such as Balboa Park events, maintenance of buildings in tourist areas, and other tourism related activities. Also, the Fiscal Year 2010 Proposed Budget includes the one cent of discretionary Transient Occupancy Tax that will be transferred back to the General Fund in the amount of \$14.0 million (per Municipal Code (section 35.0128)).

## Fiscal Year 2009 Budget Amendment (\$31.9 Million)

At the present time, the City is experiencing, as are other state and local governments across the country, extraordinary conditions in both the equity and debt markets and revised negative economic forecasts for the local, national, and world economies. In the first quarter of Fiscal Year 2009, the City recognized the impact of the prolonged economic downturn by revising downward its General Fund revenue projections that were the basis for the Fiscal Year 2009 budget. The City reviewed preliminary first quarter data and forecasted a General Fund budget deficit of approximately \$42.8 million for Fiscal Year 2009. This projected deficit was primarily the result of reduced revenues in the areas of sales tax, property tax,

transient occupancy tax, franchise fees, and interest earnings, as well as higher expenditures in booking fees and property tax administrative fees paid to the County. The \$42.8 million projected deficit represented roughly 3.0 percent of the General Fund.

The Mayor addressed the projected deficit by presenting to City Council on November 12, 2008 a revised Fiscal Year 2009 budget proposal to reduce expenditure appropriations by \$41.2 million. City Council adopted a Fiscal Year 2009 Revised Budget on December 9, 2008 that balanced the General Fund by including most of the proposed expenditure reductions totaling \$36.8 million. City Council added back \$4.2 million in expenditures and funded these costs with one-time revenues in Fiscal Year 2009. On February 3, 2009, City Council added back \$207,125 using one-time revenues to restore three painter positions in General Services, and through a generous donation to the City restored the Fire Pit Program in the Park and Recreation Department.



This budget carries forward into Fiscal Year 2010 the adjustments approved by City Council, which resulted in personnel expense and non-personnel expense reductions totaling \$30.8 million and a revenue increase of \$1.1 million<sup>1</sup>. The personnel expense reduction includes the elimination of 150.95 FTE positions. These adjustments are further explained in the Executive Summary Section of this Volume.

<sup>1</sup> Note that these figures are based on Fiscal Year 2010 annualized amounts

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## Projected Concessions from Labor Negotiations (\$29.8 Million)

In order to balance the Fiscal Year 2010 General Fund budget, the City is seeking approximately \$29.8 million in concessions from its labor organizations via contract negotiations as well as from unclassified and unrepresented employees. The total City impact is estimated to be \$41.3 million. The City has been engaged in these negotiations with its five labor organizations since late January 2009 with an estimated target date for completion being April 15, 2009. The City's labor organizations are: the Police Officers Association (POA), the International Association of Firefighters Local 145 (IAFF Local 145), the Municipal Employees Association (MEA), the Deputy City Attorneys Association (DCAA), and the American Federation of State, County, and Municipal Employees Local 127 (AFSCME Local 127). In February, the City presented a menu of options to each of the labor organizations which identified various ways in which the City could achieve approximately \$29.8 million in General Fund concessions necessary to balance the budget. Some examples of these options are: the implementation of a mandatory work furlough of up to 12 days during the fiscal year, a reduction in the City's payment of the employee's retirement contribution (also referred to as the "pick up"), reducing the City's costs associated with providing health care to employees by basing benefits on a different HMO provider, reducing the City's contribution to the employees' supplemental pension savings plan (SPSP), and reducing employee salaries. This is by no means an exhaustive list and is subject to change given the fact that the City is still engaged in negotiations at the date of this publication.

## Conclusion

In Fiscal Year 2010, the City will continue to pursue fiscal recovery while managing the sharp decline in major City revenues. In keeping with the City's goal of reducing structural budget gaps in coming years, the budget incorporates \$60.6 million in ongoing expenditure savings from the Fiscal Year 2009 Revised Budget and the projected concessions from labor negotiations and an increase in revenue of \$9.5 million from user fees and franchise fees.

The City is committed to preserving core services while fulfilling its financial obligations related to the eight significant areas.