



# Review of the Mayor's Five-Year Financial Outlook for FY 2011-2015

Special City Council Meeting of  
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## Overview

- Mayor's Five-Year Outlook for FY 2011-2015 represents 4<sup>th</sup> iteration in series of long-term outlooks
- Continues to project significant deficits in each year
- Gloomier forecast than in past years; FY11 deficit of \$179 million projected



## Overview

- Overall, IBA concurs with the projections in the Five-Year Outlook
- Message is clear: San Diego is facing a dire financial situation
- A number of risks may result in larger deficits
- Few short-term options available other than budget reductions and service cuts



## General Fund Revenue

- Mayor's Outlook reflects an increase of \$89 million, or 8%, over the 5-year period
- Incorporates revised FY 2010 projections, equating to a \$21.7 million decline
- Adjusts for \$39.2 million in FY 2010 one-time revenue
- Overall, projections are in line with current economic forecasts



## Property Tax

- Outlook projects 0% growth in FY11, 2% in FY12, 3% in FY13 and 4% in FY14-15
- Assumes stabilization of housing market in FY 2011, with offsetting decline in the commercial market
- Concerns that the projection may be too optimistic in the near term



## Property Tax

- Magnitude of impact that decline in commercial market will have is unknown
  - Tax roll shows 77% decline in sales and new construction of properties over \$50 million
  - Experts: Won't hit bottom for three more years
- In recession of early 1990s, property tax receipts did not recover for several years
  - Suggests a longer recovery period
  - “Low Growth” scenario may be more appropriate



# Transient Occupancy Tax

- Outlook projects 1% growth in FY11, 3% in FY12, 3.5% in FY13, and 4% in FY14-15
- Based on revised FY10 growth of -4.0%, following an 11.4% decline in FY09
- Overall, reflects conservative assessment consistent with ConVis Travel Forecast
- However, FY10 projection may not be conservative enough



## Salaries & Wages

- Outlook includes no salary increases or restoral of 6% reduction in FY 2010
- Vacancy Savings
  - Current level continues and then is reduced
- Accrued Leave Liability
  - Increased estimated costs for payment of accrued leave as employees leave City; grows to \$16 million in FY 2014



## Fringe Benefits

- Outlook assumes no increases for fringe benefits other than pension and OPEB costs
- No increases assumed for Flexible Benefits
  - However, Buck Consultant's report suggests large annual increases in health care costs
  - Could result in negative impact to employees or increase costs to the City



## Pension

- Estimated UAL for June 30, 2009 is \$2 billion
  - Up from \$1.3 billion at June 30, 2008
- FY 2011 ARC estimated at \$224.8 million
  - Increase of \$70.6M from \$154M in FY 2010
  - General Fund contribution of \$182M, up \$57M
- Includes \$39.1 million (\$31.7M GF) for McGuigan settlement



## Pension

- Estimated FY 2011 ARC does not reflect potential impact of:
  - Negotiated pension plan changes
  - Salary freezes
  - Other changes effective July 1, 2009
- Could have positive impact on ARC
- Final valuation and ARC to be provided in December



## OPEB – Retiree Health

- Outlook includes \$62.2 million for FY 2011
  - “PAYGO” portion is \$37.2 million
  - Prefunding portion is \$25 million
- City’s UAL for June 30, 2010 is estimated at \$1.36 billion
- FY 2011 OPEB ARC estimated at \$120.3 million
  - Outlook contribution equals 52% of FY11 ARC
  - Payment of the full ARC is not legally required, but is a prudent financial goal



## Non-Personnel Expenditures

- **Supplies & Services** – 1.5% annual growth
  - Includes \$ for elections, removal of one-times
- **Information Technology** – 0% growth
  - Reflects decision to contract out
- **Energy & Utilities** – 5% growth
  - Consistent with prior Outlooks
- **Equipment Outlay** – 0% growth
  - Assumes tight spending controls



## New Facilities

- New Facilities costs for 25.11 FTE totaling \$3.7 million have been included for Fire-Rescue and Park and Recreation
- Fire Station Master Plan – costs to address deficiencies not included
- Library Facilities Improvement Plan – costs to restart 2002 plan not included



## Main Library

- Scheduled to open in FY 2014
- Outlook assumes no General Fund impact
- Library staff estimates an additional 1.00 FTE and \$2.7M needed for operations
  - Anticipated to be offset with \$2.8M in private donations and new revenue
- Any shortfall in donations could result in the need for additional General Fund support



## Civic Center

- Outlook identifies four scenarios:
  - Two related to new construction
  - Two related to the continued occupancy
- Projected General Fund expenses range from \$1.3-\$33 million over five years
- Outlook includes \$5.6 million for CAB Fire Sprinklers,
  - No other capital outlays included to address Civic Center deferred maintenance



## Fire & Police Academies

- Significant retirements in Police and Fire at end of FY 2009 led to unanticipated vacancies
- Current hiring freeze and cancellation of police and fire academies may result in additional vacancy savings
- IBA estimates \$19 million in additional savings for Police Department in FY 2010 over current \$20.7 million vacancy factor



## Fire & Police Academies

- Estimated \$21.8 million in annual Police Dept. savings during Outlook period
- Estimated savings for Fire-Rescue Dept. close to budgeted vacancy of \$8.8 million
- If hiring freeze lifted, academies could be funded through department savings
- If hiring freeze remains, savings can continue to offset other funding categories



## Deferred Maintenance

- Outlook proposes to secure new funding through the issuance of long-term debt
- Total of \$300M in net proceeds over five years assumed through three issuances
- Proposes refinancing the initial bonds executed in March 2009
- Debt service increases to \$9.5M in FY11, \$18.7M in FY12, and \$27.9M in FY14



## Deferred Maintenance

- Condition assessments recently completed for Streets, Facilities, and Storm Drains
- Estimated backlog (excluding sidewalks & Civic Center):
  - \$688.1 million w/streets at 100% Acceptable
  - \$424.7 million w/streets at 75% Acceptable (industry standard)
- IBA recommends that the City Council discuss optimal street condition level



## Reserves

- Outlook includes funding to meet and maintain all reserve policy goals
- Total of \$27.5 million required in FY 2011, declining to \$3.2 million in FY 2015
- General Fund policy goal to reach 8% by FY 2012
- Public Liability & Workers' Comp. policy goal to reach 50% of claims by FY 2014



## Storm Water Compliance

- Outlook includes \$37.7 million per year for Storm Water compliance
  - No increase from FY10 Budget
- Storm Water Budget reduced by nearly \$12 million in FY09 and FY10
  - However, expected to remain in compliance with the current Municipal Permit
- New permit effective during Outlook period, may result in additional regulations



# Risks to Outlook

- Property Tax Revenue Assumptions
  - Concern over slower recovery in housing market and decline in commercial sector
  - “Low Growth” scenario would result in a \$128.8M reduction over the five year period

Property Tax Risk (in millions)	FY 2010 Forecast	FY 2011 Forecast	FY 2012 Forecast	FY 2013 Forecast	FY 2014 Forecast	FY 2015 Forecast
Mayor's Outlook	\$ 391.6	\$ 391.6	\$ 399.4	\$ 411.4	\$ 427.8	\$ 444.9
<i>Growth</i>	-1.8%	0.0%	2.0%	3.0%	4.0%	4.0%
Low Scenario	\$ 385.8	\$ 380.0	\$ 380.0	\$ 383.8	\$ 395.3	\$ 407.2
<i>Growth</i>	-3.2%	-1.5%	0.0%	1.0%	3.0%	3.0%
<b>Difference</b>	<b>(5.8)</b>	<b>(11.6)</b>	<b>(19.4)</b>	<b>(27.6)</b>	<b>(32.5)</b>	<b>(37.7)</b>



# Risks to Outlook

- TOT Revenue Assumptions
  - Concern that FY 2010 projection of -4.0% growth is still too optimistic
  - An additional 4.0% decline would result in a \$16.0M reduction over the five year period

TOT Risk (in millions)	FY 2010 Forecast	FY 2011 Forecast	FY 2012 Forecast	FY 2013 Forecast	FY 2014 Forecast	FY 2015 Forecast
Mayor's Outlook	\$ 71.2	\$ 71.9	\$ 74.1	\$ 76.7	\$ 79.7	\$ 82.9
<i>Growth</i>	-4.0%	1.0%	3.0%	3.5%	4.0%	4.0%
Risk Scenario <sup>1</sup>	\$ 68.3	\$ 68.9	\$ 71.0	\$ 73.5	\$ 76.4	\$ 79.5
<i>Growth</i>	-8.0%	1.0%	3.0%	3.5%	4.0%	4.0%
<b>Difference</b>	<b>(2.9)</b>	<b>(3.0)</b>	<b>(3.1)</b>	<b>(3.2)</b>	<b>(3.3)</b>	<b>(3.4)</b>

<sup>1</sup> Assumes an 8 percent decline in FY 2010 receipts over FY 2009.



## Risks to Outlook

- Salary Increases
  - Outlook assumes no salary increases or reinstatement of the 6% reduction in FY 2010
  - According to Outlook, each 1% increase would result in additional GF cost of \$5.2 million
  - Not realistic or sound business decision to assume no increases over the five-year period
  - IBA scenario assumes restoration of the 6% reduction over the Outlook period at a total additional cost of \$72.2 million



# Risks to Outlook

- Salary Increases (cont.)

General Fund Impact of Possible Salary Increases (in millions) <sup>1</sup>	FY 2010 Budget	FY 2011 Forecast	FY 2012 Forecast	FY 2013 Forecast	FY 2014 Forecast	FY 2015 Forecast
Salaries and Wages Forecast	\$516.1	\$512.1	\$521.3	\$527.5	\$536.7	\$523.1
Increased Salaries and Wages				\$533.8	\$549.4	\$548.9
<i>Annual Percentage Salary Increase</i>	-	0%	1%	1%	2%	2%
Increase to Salaries and Wages	-	\$ -	\$ 5.2	\$ 5.3	\$ 11.0	\$ 10.5
Increase to Fringe Benefits	-	\$ -	\$ 1.0	\$ 1.1	\$ 2.2	\$ 2.1
Subtotal Annual Impact	-	\$ -	\$ 6.3	\$ 6.4	\$ 13.2	\$ 12.6
<b>TOTAL GENERAL FUND IMPACT</b>		<b>\$ -</b>	<b>\$ 6.3</b>	<b>\$ 12.7</b>	<b>\$ 25.8</b>	<b>\$ 38.4</b>

1. Estimates assume an increase to fringe benefits of 20% of amount of salary increases for variable fringe benefit items. Typical fringe benefit rate as reflected in forecast ranges from 68% to 80%.



## Risks to Outlook

- State Impacts
  - State action in FY10 to result in \$36M loss in GF property tax, and \$55M loss in tax increment for the Redevelopment Agency
  - Cities narrowly avoided losing Gas Tax
  - Likely that State will look to City funds again as deficits continue
  - Potential loss of \$24.6M (\$23.1M General Fund) in Gas Tax revenue is possible



# Risks to Outlook

- OPEB PAYGO Contribution
  - Outlook projects PAYGO payment to increase from \$37.2M in FY11 to \$58.2M in FY15
  - Buck Consultants' projects PAYGO payments to be a cumulative \$52.7m higher

Comparison of PAYGO Estimates	FY 2010 Budget	FY 2011 Forecast	FY 2012 Forecast	FY 2013 Forecast	FY 2014 Forecast	FY 2015 Forecast
Mayor's Outlook	\$ 32.1	\$ 37.2	\$ 42.3	\$ 47.5	\$ 52.9	\$ 58.2
Buck Consultants	38.4	44.4	50.5	56.7	63.3	69.6
<b>Difference</b>	<b>\$ (6.3)</b>	<b>\$ (7.2)</b>	<b>\$ (8.2)</b>	<b>\$ (9.2)</b>	<b>\$ (10.4)</b>	<b>\$ (11.4)</b>



## Risks to Outlook

- Storm Water Compliance
  - Current Storm Water Permit to expire in 2013
  - New Permit may impose new regulations, which may require additional GF resources
- Emergency Operations Center Relocation
  - Civic Center redevelopment proposal does not include new EOC
  - Costs to relocate and build a new EOC could be significant, though undetermined



# Risks to Outlook

	FY 2011 Forecast	FY 2012 Forecast	FY 2013 Forecast	FY 2014 Forecast	FY 2015 Forecast
<b>Five-Year Outlook Projected Deficit</b>	\$ (179.1)	\$ (158.8)	\$ (155.9)	\$ (165.9)	\$ (136.5)
<b>Risks</b>					
<b>Revenue Scenarios</b>					
Property Tax	\$ (11.6)	\$ (19.4)	\$ (27.6)	\$ (32.5)	\$ (37.7)
TOT	\$ (3.0)	\$ (3.1)	\$ (3.2)	\$ (3.3)	\$ (3.4)
<b>State Impacts</b>					
Gas Tax	\$ -	\$ (23.1)	\$ (23.1)	\$ (23.1)	\$ (23.1)
<b>Expenditures</b>					
Potential Salary Increases	\$ -	\$ (6.3)	\$ (12.7)	\$ (25.8)	\$ (38.4)
Retiree Health PAYGO Estimates	\$ (7.2)	\$ (8.2)	\$ (9.2)	\$ (10.4)	\$ (11.4)
New Storm Water Regulations	TBD	TBD	TBD	TBD	TBD
Emergency Operations Center Relocation	TBD	TBD	TBD	TBD	TBD
<b>Total:</b>	\$ (200.9)	\$ (218.9)	\$ (231.7)	\$ (261.0)	\$ (250.5)



## Potential Solutions

- **Delay Reserve Contributions**
  - Delay the FY 2011 contribution to the Workers' Comp. and Public Liability reserves
  - Extend the timeframe for meeting the Workers' Comp. and Public Liability reserve policy goals by one year
  - Could result in FY 2011 savings of \$23.3 million
  - Would require reserve contributions to be made in FY 2015 to meet policy targets



## Potential Solutions

- Delay Reserve Contributions (cont.)
  - FY 2008 CAFR: Reserve goals being reassessed due to the economic downturn
  - Council may wish to discuss status of reassessment with CFO, and any impact on credit ratings.



## Potential Solution

- Unanticipated Vacancy Savings
  - City currently has around 800 vacant positions
  - Many the result of surge in FY09 retirements due to decrease in DROP interest rate
  - The additional unanticipated vacancies will likely reduce salary costs
  - Current hiring freeze could result in additional savings in FY11 and beyond, depending on length of the freeze
  - Could review vacant positions for elimination, which would result in permanent savings



## Potential Solution

- **Managed Competition**
  - May result in savings over Outlook period, but unlikely to have major impact for FY11
- **Pension & Benefit Reform**
  - Significant potential savings, but long-term in nature and further analysis needed
- **New Revenues**
  - Previously discussed, but little political support; require voter approval



## Conclusion

- Many past actions have been taken to move City toward financial health
- Without these accomplishments, fiscal challenges would be even more daunting
- However, City is facing historical General Fund deficits;
- Pension underfunding and negative impacts of recession are principle factors



## Conclusion

- Largely concur with Outlook projections
- Identified a number of potential risks that may exacerbate deficits
- Few viable solutions available other than deep budget reductions and service cuts
- Given magnitude of the problem, process should begin immediately to identify core services and establish funding priorities