

**Draft Responses to 2009/2010 Grand Jury Report
Entitled “San Diego’s City Financial Crisis: The Past, Present and Future”**

FINDINGS

Finding #01: General Fund revenues for FY 2010 is at least \$11 million short of expectations due primarily to shortfalls in projected property, sales and transient occupancy taxes.

Proposed Mayor’s Response: Partially Disagree. As reported in the Mayor’s Fiscal Year 2010 Mid-Year Budget Monitoring Report, issued February 24, 2010, General Fund revenues were projected to come in \$59.3 million under budget. Of this total, \$36.5 million, or 61.5%, of the performance below budget was related to shortfalls in major revenues such as sales and transient occupancy taxes. In the report, it was projected that this shortfall would be largely offset by expenditure reductions and the release of previous year budget, bringing the Mayor’s projected General Fund year-end budget shortfall to \$11.2 million. The budget shortfall was mitigated by General Fund expenditure and appropriation adjustments at the conclusion of FY 2010.

IBA Recommendation: Join the Mayor’s Response

Finding #02: The required pension contribution by the City for FY 2011 is \$231 million, approximately \$19 million more than the anticipated \$212 million contribution, necessitating potential additional service cuts in General Fund departments.

Proposed Mayor’s Response: Agree. While the final pension number came in at \$229 million, the \$231 million number was the estimate at the time of the release of the Grand Jury Report. The \$212 million referenced in this Finding was the amount included in the City’s Five Year Financial Outlook at the time of the report and based upon information obtained by SDCERS.

IBA Recommendation: Join the Mayor’s Response

Finding #03: Absent an increase in General Fund revenue, the projected increases in the required annual pension contribution in future fiscal years will necessitate even more service cuts in General Fund departments.

Proposed Mayor’s Response: Partially Disagree. Balancing the budget can be accomplished through additional revenues or additional reductions. Reductions do not necessarily have to come solely from service cuts. Over the past couple of years, the City’s labor unions have made many concessions which have reduced costs without a reduction in service. In addition, through business process reengineering and other efficiency studies, the City has reduced its costs without cutting services. However, at some point, as we saw in fiscal year 2011, services will be impacted.

IBA Recommendation: Respond with the following modification of the Mayor’s Response:

Partially Disagree. Balancing the budget can be accomplished through additional revenues, savings from reforms such as Managed Competition, or additional reductions. Reductions do not necessarily have to come solely from service cuts. Over the past couple of years, the City's labor unions have made many concessions which have reduced costs without a reduction in service. In addition, through business process reengineering and other efficiency studies, the City has reduced its costs without cutting services. However, at some point, as we saw in fiscal year 2011, services will be impacted.

Finding #04: Switching to the Teeter method of receiving property tax allocation from the County may stabilize that source of revenue and may result in an increase of about \$2 million per year for the City's General Fund.

Proposed Mayor's Response: Partially Disagree. While the Teeter method may result in a more stabilize revenue stream, it could also mean that the City receives less revenues in the long run. It should be noted that the City is currently conducting a study that will examine this alternative. The study is expected to be completed by the end of the year.

IBA Recommendation: Respond with the following modification of the Mayor's Response:

Partially Disagree. While the Teeter method may result in a more stabilized revenue stream, it could also mean that the City receives less revenue in the long run. It should be noted that the City is currently conducting a study that will examine this alternative. The study is expected to be completed by the end of the year.

Finding #05: The City's Finance Office has the expertise to select an alternate for the replacement of SDCERS, if need be.

Proposed Mayor's Response: Agree.

IBA Recommendation: Join the Mayor's Response

Finding #06: All of the above pay-down projections are actuarial estimates based on an analysis of the pension fund's fiscal condition at the close of FY 2009. In projecting the financial reconciliation, various officials indicated this is a dynamic economic condition that the City and the pension fund are facing. If it is examined at a different point in time, the unfunded liability and the projected ARC payments may differ.

Proposed Mayor's Response: Agree.

IBA Recommendation: Join the Mayor's Response

Finding #07: These pay-down projections are based partially on the assumption by SDCERS that its pension fund portfolio will earn at least 7.75% each and every year. Earnings over the past three years have been a negative 1.84%

Proposed Mayor's Response: Partially Disagree. The 7.75% rate of return is the assumed investment return over time. It is recognized that there will be years where SDCERS will earn in excess of the 7.75% assumed rate and years in which SDCERS will earn less.

IBA Recommendation: Respond with the following modification of the Mayor's Response:

Partially Disagree. The 7.75% ~~assumed~~ rate of return is ~~an-the~~ assumed average investment return over time. It is recognized that there will be years where SDCERS will earn in excess of the 7.75% assumed rate and years in which SDCERS will earn less.

Finding #08: The supposition that pension underfunding can be paid down by amortizing the unfunded pension obligation of \$2.2 billion over thirty years is unrealistic, according to top City officials.

Proposed Mayor's Response: Disagree. While it is a more lenient approach to paying down the unfunded liability, it is an acceptable approach under Governmental Accounting Standards and is the practice in most California cities.

IBA Recommendation: Join the Mayor's Response

Finding #09: SDCERS indicated that investment losses in FY 2009 were approximately 19.2% of its portfolio while the average for investment losses in the United States was 25%-30%.

Proposed Mayor's Response: Agree.

IBA Recommendation: Join the Mayor's Response

Finding #10: For every year SDCERS does not reach an investment return of 7.75%, the City is required to increase its contribution to the retirement fund.

Proposed Mayor's Response: Disagree. Investment gains and losses are only one factor that goes into the calculation of the Annual Required Contribution.

IBA Recommendation: Do not join the Mayor's Response and respond independently with the following:

Partially Disagree. Investment returns below 7.75% would produce investment experience losses to the pension system, increasing subsequent contribution amounts. However, returns above 7.75% would reduce future contributions.

Finding #11: The rate of return on SDCERS investments has been a negative 1.84% over the past three fiscal years, FY 2007- FY 2009.

Proposed Mayor's Response: Disagree. The annualized total investment return for FY 2007 to FY 2009 was negative 3.5%, per the June 30, 2009 SDCERS Comprehensive Annual Financial Report.

IBA Recommendation: Join the Mayor's Response

Finding #12: SDCERS reduced the guaranteed interest rate for DROP employees from 7.75% to 3.54% effective July 2009; there was a further reduction to 2.91% effective January 1, 2010. In order to maximize their benefits, some seventy to eighty veteran fire fighters and a like number of senior police officers locked in the then existing 7.75% interest rate on their DROP accounts by leaving the work force on or before June 30, 2009, rather than accepting the reduced interest rate. This negated some of the expressed effect of keeping experienced personnel on staff.

Proposed Mayor's Response: Partially Disagree. This statement may or may not be true. The City cannot contradict or affirm this statement without additional information.

IBA Recommendation: Respond with the following modification of the Mayor's Response:

Partially Disagree. ~~This statement may or may not be true. The City cannot contradict or affirm this statement without additional information.~~ There was also a change in the DROP annuity rate, which was reduced from 7.75% to 5% for DROP participants retiring after June 30, 2009. There were 421 City employees who retired from DROP during June 2009. DROP interest rates were likely among a number of factors considered by affected employees prior to making this major life decision.

Finding #13: DROP is not deemed to be a vested benefit for those employees who have not yet entered the program, according to San Diego City Attorney Opinion Number 2010-11, dated January 21, 2010.

Proposed Mayor's Response: Agree. This is the City Attorney's Opinion as written in opinion number 2010-1, dated January 21, 2010.

IBA Recommendation: Join the Mayor's Response

Finding #14: No actuarial study confirming the cost neutrality of DROP has been published to date.

Proposed Mayor's Response: Agree. The City is in the process of completing this study and it will be published by the end of the year.

IBA Recommendation: Join the Mayor's Response

Finding #15: For FY 2011, the City's contribution is more than three times the contributions of City elected officials.

Proposed Mayor's Response: Agree.

IBA Recommendation: Join the Mayor's Response

Finding #16: The concept of "substantially equal" contributions, shared by the City and its employees, to date has not been applied when determining responsibility for increased ARC payments resulting from SDCERS investment losses. For example, for FY 2011, the City's ARC payment includes over \$70 million it alone is paying to make up for SDCERS investment losses in FY 2009.

Proposed Mayor's Response: Disagree. It is unknown whether the concept of "substantially equal" has ever been applied to actuarial gains or losses, including investment losses. The concept of "substantially equal" is currently the subject of litigation.

IBA Recommendation: Join the Mayor's Response

Finding #17: These aforementioned obligations, liabilities and debts amount to \$7 billion.

Proposed Mayor's Response: The Mayor disagrees with the aforementioned obligations, liabilities and debts and thus cannot substantiate the \$7 billion claim.

IBA Recommendation: Join the Mayor's Response

Finding #18: Proposed methods of enhancing revenue fall far short of satisfying these obligations, debts and liabilities; revenue enhancements may be insufficient to address budget shortfalls resulting from the projected increases in the City's ARC payments over the next five years.

Proposed Mayor's Response: Partially Disagree. The actual future ARC payments over the next five years are unknown. The current proposed revenue enhancement would be sufficient to cover modest growth in the City's ARC payment.

IBA Recommendation: Respond with the following modification of the Mayor's Response:

Partially Disagree. The actual future ARC payments over the next five years are unknown. The current proposed revenue enhancement [and savings from reforms](#) ~~would~~may be sufficient to cover modest growth in the City's ARC payment.

Finding #19: The implementation of a hybrid pension system for employees hired on or after July 1, 2009 will do little to reduce the burden on the taxpayers for decades, at which time these employees will reach retirement age.

Proposed Mayor's Response: Disagree. The new second tier pension system saves the City approximately \$1 million the first year of implementation, \$2 million the second year, \$3 million the third year and so on until it reaches approximately \$20 million annually.

IBA Recommendation: Respond with the following modification of the Mayor’s Response:

Disagree. The new second tier pension system saves the City approximately ~~\$500,000~~~~\$1 million~~ in the first year of implementation, ~~\$1~~~~\$2~~-million the second year, ~~\$1.7~~~~\$3~~-million the third year, ~~and so on until it reaches approximately~~ climbing to an estimated ~~\$28~~~~\$20~~ million ~~annually~~ in the thirtieth year of implementation. The total estimated savings over 30 years is projected at \$394 million.

Finding #20: Performance audits of the major City departments may identify operational efficiencies and expenditure reductions.

Proposed Mayor’s Response: Agree.

IBA Recommendation: Join the Mayor’s Response

Finding #21: There are desirable City owned parkland properties such as Mission Bay Park, Balboa Park and Torrey Pines Park.

Proposed Mayor’s Response: Agree.

IBA Recommendation: Join the Mayor’s Response

Finding #22: By charging minimal fees for each book, DVD, or other service provided, hours of operation could be increased to generate more revenue; library hours may not have to be reduced from forty-one to thirty-six hours per week, as they have in recent budget cuts.

Proposed Mayor’s Response: Partially Disagree. Some libraries have tried charging when new formats of materials are introduced (i.e. videos, DVDs, etc.). While this had the potential to generate revenue it created unanticipated consequences in service satisfaction and expenses. Patrons expected the newer formatted items to be readily available and did not want to pay to borrow items that have traditionally been free of charge. As a result, an increase in expense occurred due to the necessity of purchasing additional copies of recently released items. There was a further unanticipated consequence experienced in that patrons who did not want to pay to borrow no longer did so which reduced the number of loans and the program ultimately did not achieve the goal of generating enough revenue.

IBA Recommendation: Do not join the Mayor’s Response and respond independently with the following:

Disagree. Any new or increased general fund revenue option implemented in future budget processes could be considered as a potential funding source for increased hours for library operations.

The FY 2011 Library Department budget was reduced approximately \$1.3 million as a result of reducing weekly operating hours to 36 for the branch libraries. An additional \$1.1 million has been saved this year due to a reduction in the Central Library operating

hours from 52 to 44 hours per week, and by consolidating service points. Currently the Library Department estimates it will generate revenues of \$1.3 million from its fees, fines, and meeting room rentals for FY 2011 at all 36 library locations, decreased from its FY 2010 estimates of \$1.5 million.

The creation of a new library fee is not likely to generate sufficient revenue to fully reinstate recent reductions. Any proposed fee increase would require a legal analysis of any applicable laws and grant conditions that might impact the ability of the City to impose a fee for library services. Finally, instituting a fee for basic library services could have a harmful effect on ensuring access to important resources to all citizens, especially those who are least able to pay and may have the greatest needs.

Finding #23: Charging a fee for residential trash collection could save the City approximately \$54 million per year.

Proposed Mayor's Response: Disagree. The \$54 million estimate is not accurate. Operational efficiencies implemented since FY 2009 have resulted in budget reductions. The FY 2011 budgeted cost to the City is approximately \$29.5 million for refuse collection, \$8.1 million for recyclable commodities collection, and \$5.7 million for yard waste collection, for a total of \$43.3 million.

IBA Recommendation: Join the Mayor's Response

Finding #24: Cost savings could be achieved by consolidation of various functions performed by both the City and the County.

Proposed Mayor's Response: Agree.

IBA Recommendation: Respond with the following modification of the Mayor's Response:

Agree. However, additional study of what services could be performed by both the City and the County, the legal ramifications, and the actual savings would need to occur prior to any consolidation being considered.

Finding #25: City Hall acted improvidently in cutting the public safety workforce for FY 2010 and FY 2011.

Proposed Mayor's Response: Disagree. There is no one at the City that got pleasure out of recommending or approving the cuts that were made to public safety; however, under State and local laws the Mayor must present and the City Council must adopt a balanced budget. Given all of the reductions in staffing and services made by the City over the past several years, the magnitude of the deficit projected for fiscal year 2011 and the fact that public safety represents over 50% of the City's General Fund budget, there was absolutely no other viable alternative short of shutting down libraries and recreation centers or spending down the City's limited reserves which would have had other cost consequences to the City. In addition, the use of

reserves instead of taking real cost reductions would have only increased the projected deficit for fiscal year 2012.

IBA Recommendation: Do not join the Mayor’s Response and respond independently with the following:

Disagree. One of the key duties of the City Council is to adopt an annual budget that is balanced and fiscally responsible. The budget must be balanced using very limited resources while addressing numerous critical needs and financial obligations. Passing an annual budget that is balanced and fiscally sound is a top priority of the City Council. The City of San Diego’s budget process includes a number of checks and balances, which brings transparency and objectivity to the process. Both the Executive and Legislative branches are involved, as well as analysis by the Office of the Independent Budget Analyst. The public is a key part of the process with hundreds of citizens participating at budget hearings conducted by the City Council’s Budget and Finance Committee and the full City Council.

Given the significant reductions in non-public safety staffing and services made by the City over the past several years, and the fact that public safety represents over 50% of the City’s General Fund budget, the City was limited in options to close the significant budget deficits for Fiscal Years 2010 and 2011. Once the City has the financial resources to do so, public safety will be the number one priority for restorations.

Finding #26: A proactive dialogue as to the efficacy of a Chapter 9 reorganization cannot be removed from any discourse as to the City’s financial health.

Proposed Mayor’s Response: Strongly Disagree.

IBA Recommendation: Do not join the Mayor’s Response and respond independently with the following:

Strongly Disagree. The Mayor and City Attorney have both publicly advised the City Council and citizenry that municipal bankruptcy is not an effective option for the City of San Diego for a variety of reasons, both financial and legal. Moreover, in a public financial training to the City Council on October 11, 2010, a representative of Fitch Ratings, one of the three major rating agencies, indicated that discussion of bankruptcy raises concerns for both rating agencies and investors regarding the ability and willingness of an issuer, such as the City, to repay its obligations. Premature discussion of Chapter 9 reorganization could adversely impact the City’s near and medium term financial position due to negative rating agency action, such as a ratings downgrade, and the related market responses. The City believes there are options available for reducing its liabilities that are less costly and more certain than bankruptcy and that any formal action by the City to investigate the efficacy of municipal bankruptcy, even as an academic exercise, is not in the best interests of the City.

Finding #27: A Chapter 9 filing would result in a federal determination of which fringe benefits and collective bargaining agreements could be restructured. The fringe benefit total is \$423.7 million, according to the FY 2011 Proposed Budget.

Proposed Mayor's Response: Partially Disagree. The amount of money the City currently spends on fringe benefits is accurate. This is out of a \$3 billion budget. It is estimated by outside experts that the City may spend tens of millions of dollars and it could take several years to wind its way through the courts before the City would ever have a final answer to this question. The courts would have to first determine whether or not the City qualified for Chapter 9, and even with the current projected deficit, it would be highly unlikely that finding would be made.

IBA Recommendation: Do not join the Mayor's Response and respond independently with the following:

Disagree. While the cited fringe benefit total is correct, as noted in the response to Finding 26, the Mayor and City Attorney have both publicly advised the City Council and citizenry that municipal bankruptcy is not an effective option for the City of San Diego for a variety of reasons, both financial and legal. A Chapter 9 filing is likely to take several years to wind its way through the courts before the City would have a final answer regarding the restricting of agreements, and most, if not all, of the current collective bargaining agreements may have expired. Finally, there can be no certainty that a Chapter 9 filing would result in a determination that fringe benefits could be restructured.

RECOMMENDATIONS

10-125: Analyze the impact of the City's opting in to the Teeter Plan for receiving its allocation of property tax revenue and switch to that method for FY 2012 if the analysis reveals financial benefits for the City.

Proposed Mayor's Response: This recommendation has not yet been implemented. This approach is currently under study and the results will be reported to the City Council **by the end of the year.**

IBA Recommendation: Respond with the following modification of the Mayor's Response:

This recommendation has not yet been implemented. This approach is currently under study and the results will be reported to the City Council **this fall by the end of the year.**

10-126: Consider alternative methods of selecting investment advisors, including competitive bidding or reverse auction processes.

NOTE: The City Council is not required to respond to this recommendation. See Attachment C for SDCERS responses to the Financial Crises Grand Jury Report.

10-127: Investigate alternate retirement systems to determine whether the San Diego City Employees' Retirement System (SDCERS) should be dissolved in favor of another system, a purely outsourced operation, or retention of the current system.

Proposed Mayor's Response: This recommendation will not be implemented because it is not warranted or reasonable. At this time, the City Charter essentially provides for two alternatives for the administration of the City's retirement plan. These are either SDCERS or CalPERS. To move the administration of the plan to CalPERS would require a majority approval of all active members of SDCERS. In addition, the City's retirement factors would have to conform to one of the options currently offered by CalPERS.

IBA Recommendation: Respond with the following modification of the Mayor's Response:

Disagree. This recommendation will not be implemented because it is not warranted or reasonable. At this time, the City Charter essentially provides for two alternatives for the administration of the City's retirement plan. These are either SDCERS or CalPERS. To move the administration of the plan to CalPERS would require a majority approval of all active members of SDCERS. In addition, the City's retirement factors and system requirements would have to conform to one of the options currently offered by CalPERS. This may not be possible because vested rights of active and retired members would have to be protected.

10-128: Conduct a performance audit of SDCERS' administration of the City's pension system.

Audit Committee and Independent Auditor Response: Agree to implement. This recommendation is planned to be implemented in Fiscal Year 2010-11. Aside from the Grand Jury report, Council members Tony Young and Carl DeMaio requested that the City Auditor audit SDCERS' administration of the City's pension system. The SDCERS administration of the City's pension system is a high-risk activity that merits outside review. As a result, the City Auditor added this audit to the FY 2010-11 Annual Audit Work Plan.

IBA Recommendation: Join the Audit Committee and Independent Auditor Response

10-129: Approve and fund an actuarial analysis of DROP which would confirm or refute the fact that it is cost neutral.

Proposed Mayor's Response: This recommendation has not yet been implemented. The City is in the process of completing this study and it will be published by the end of the year.

Rules Committee IBA - Changed Recommendation: Join the Mayor's Response Respond with the following modification of the Mayor's Response:

~~This recommendation has not yet been implemented. This recommendation has been implemented. The City has approved and funded the study, which is in the process of completing this study currently underway and it anticipated to will be published by the end of the year.~~

10-130: Consider taking the steps necessary to declare an immediate moratorium on all new DROP entrants pending the completion of the cost neutrality analysis.

Proposed Mayor's Response: This recommendation requires further analysis.

IBA Recommendation: Do not join the Mayor's Response and respond independently with the following:

This recommendation requires further analysis. This recommendation involves legal issues related to labor negotiations and application of San Diego Charter section 143.1. The City has taken initial steps to amend the Municipal Code to eliminate eligibility for new DROP entrants who are unrepresented unclassified and unrepresented classified General Members who have not yet entered the program (except Council Assistants or Council Representatives). Concurrently, actions for elimination of DROP eligibility for unrepresented unclassified Lifeguards and Police are also underway. The first reading of an ordinance with regard to elimination of DROP eligibility for these employees was held on June 15, 2010. However, the City Council has not adopted the ordinance because SDCERS has stated that the ordinance requires a Charter section 143.1 vote of City employees, who are members of the retirement system. The vote is pending, and anticipated after the completion of the DROP cost neutrality study, which is expected to be completed by the end of the year.

10-131: Consider taking the steps necessary to discontinue DROP for all new entrants should the actuarial analysis demonstrate that it is not cost neutral.

Proposed Mayor's Response: This recommendation requires further analysis. The City will examine several alternatives to the DROP program should the actuarial analysis demonstrate that it is not cost neutral. If an analysis is necessary, it will be conducted after the finding that the program is not cost neutral.

Rules Committee IBA Changed Recommendation: Join the Mayor's Response Respond with the following modification of the Mayor's Response:

This recommendation requires further analysis. San Diego Municipal Code §24.1401 states that "DROP is intended to be cost neutral." The City will examine several alternatives to the DROP program should the pending cost neutrality actuarial analysis study demonstrate that it is not cost neutral. If an further analysis is necessary, it will be conducted after the finding that the program is not cost neutral.

10-132: Evaluate each department of the City to determine potential cost savings, operational efficiencies and revenue enhancements.

Audit Committee and Independent Auditor Response: This Recommendation requires further analysis. Based on the results of the Citywide Risk Assessment, the City Auditor issues an Annual Audit Work Plan that documents proposed audits based on financial risk factors. Performance audit objectives can include reviewing the efficiency and effectiveness of government resources; assessing the reliability of financial information; assessing compliance with applicable laws and regulations, determining the attainment of goals and objectives; and assessing if government assets are appropriately safeguarded. Performance audits are conducted on department specific components, for example the Public Utility Department's Bid-2-Goal program, as opposed to auditing an entire department. Comprehensive audits of entire departments would require significant commitment of audit resources.

This recommendation requires further analysis because implementation would significantly impact the FY 2010-11 Annual Audit Workplan and would necessitate the involvement of the Audit Committee. Depending on the time frame for the review, additional audit resources may be needed. I will request that the Audit Committee Chairman place this issue on a future audit committee agenda.

IBA Recommendation: Join the Audit Committee and Independent Auditor Response

10-133: Direct the City's Department of Real Estate Assets to explore marketing aggressively to developers long term leasing (not sales) of desirable City owned properties, such as parkland in Mission Bay, Balboa Park, Torrey Pines and the Qualcomm Stadium area, as well as other parcels deemed appropriate for leases of 50-60 years.

Proposed Mayor's Response: This recommendation has been implemented to the extent reasonable. The Real Estate Assets Department (READ) is constantly looking to increase revenues by leasing desirable, marketable properties to developers or users for new development or redevelopment. However, conditions exist that inhibit development in the areas mentioned in the Grand Jury Report.

- Mission Bay – The amount of land available for commercial development is limited to a percentage of the total land in Mission Bay Park. Currently, the land available for commercial development is at its maximum limit. Unless the percentage of land for commercial development is increased or an existing tenant surrenders its leasehold, no opportunities for long term ground leases exist.
- Balboa Park – Council Policy 700-04 encourages non-profit uses in this area that provide cultural, recreational and educational services and the maintenance of a higher proportion of noncommercial uses than commercial uses. There are currently no significant opportunities for ground leases in Balboa Park.
- Torrey Pines – The City currently has long term ground leases with hotels, office buildings, and Scripps Hospital on its property at Torrey Pines. There is only one vacant parcel City owned parcel in this area which is more suited for a sale than a ground lease.

- Qualcomm Stadium Area - This area will require a significant planning effort prior to any change in use or future commercial development. Commercial development is not feasible until a master plan for the site has been completed.

IBA Recommendation: The City Council is not required to respond to this recommendation.

10-134: Explore the feasibility of outsourcing the City's entire library system.

Proposed Mayor's Response: The recommendation has been implemented. A pre-competition assessment for library services was conducted in June 2008 at which time only one potential independent contractor was identified that possessed the capability of running the City's library system. In the City's Managed Competition Guide, the Managed Competition Independent Review Board cannot recommend outsourcing unless they have at least two independent contractor proposals to consider. This pre-competition assessment would need to be updated and further analysis conducted to determine whether or not the feasibility of outsourcing has changed. Currently the Managed Competition staff time is devoted to actively pursue other services/systems, and this further analysis could not be conducted within the six month time frame allowed in Grand Jury reports.

IBA Recommendation: The City Council is not required to respond to this recommendation.

10-135: Draft a ballot measure calling for the repeal of the People's Ordinance.

Proposed Mayor's Response: This recommendation will not be implemented at this time as other revenue sources are being explored.

IBA Recommendation: The City Council is not required to respond to this recommendation.

10-136: In addition, consider the benefits of outsourcing the entire trash collection operation.

Proposed Mayor's Response: This recommendation has been implemented. On September 30, 2010, the Mayor announced the first two city services to be put out to bid under managed competition. This announcement follows approval by the City Council of the first reading of an ordinance that will allow the city to move forward with managed competition. The timetable for moving forward with consideration of additional competitive procurements will be developed.

IBA Recommendation: The City Council is not required to respond to this recommendation.

10-137: Conduct an analysis of City services that are also provided by the County and neighboring cities, with the objective of cutting costs by consolidation.

Proposed Mayor's Response: This recommendation requires further analysis. In March, 2010, the City of San Diego began preparation of a survey on regionalization of services within the County. The survey was sent to all of municipalities in the County, the State and Federal governments, local school districts, and other public organizations in San Diego such as the Port

Authority and San Diego Association of Governments on June 21, 2010. It listed the services provided by the City of San Diego, and elicited interest from those surveyed as to which services they are interested in either purchasing from another entity, providing to other entities, or entering into a joint powers delivery of services. We received responses from the County and seven municipalities, and plan to meet with the interested parties to discuss next steps in assessing regionalization opportunities for the selected services of interest. It is not feasible to conduct an analysis of consolidation options without willing partners, and the City is hopeful that these discussions will be fruitful. We anticipate that the initial joint discussion will occur in November, 2010, at which time next steps and responsible parties will be identified.

IBA Recommendation: Join the Mayor's Response

10-138: Eliminate redundant positions and extraneous levels of management and supervision as middle managers leave City service through attrition.

Proposed Mayor's Response: This recommendation has been implemented. The City has eliminated over 1,400 full-time equivalent positions over the past four years. This has included the elimination of many positions through consolidation and through the flattening of the organization.

IBA Recommendation: Respond with the following modification of the Mayor's Response:

This recommendation has been implemented and will continue to be a part of every reduction process. The City has eliminated over 1,400 full-time equivalent positions over the past four years. This has included the elimination of many positions through consolidation and through the flattening of the organization.

10-139: Restore the cut to public safety personnel as a priority.

Proposed Mayor's Response: This recommendation has not yet been implemented. Once the City's has the financial resources to do so, public safety will be the number one priority. Until then, so long as the City faces future projected deficits, restoring any service that has been previous reduced is not financial responsible.

IBA Recommendation: Respond with the following modification of the Mayor's Response:

This recommendation has not yet been implemented. Once the City has the financial resources to do so, public safety will be the number one priority. ~~Until then, so long as the City faces future projected deficits, restoring any service that has been previous reduced is not financial responsible.~~

10-140: Convene a panel of bankruptcy experts to discuss the legal and financial ramifications of a Chapter 9 declaration of bankruptcy, in the context of a publicly noticed City Council or Council Committee meeting.

Proposed Mayor's Response: Strongly disagree. The Mayor does not support bankruptcy and does not feel that the City would even qualify for bankruptcy under Chapter 9. The citizens of San Diego would not be well served and any discussion of Chapter 9 sends the wrong message to both the San Diego community and to the financial markets. It would be irresponsible to convene a panel of bankruptcy experts.

IBA Recommendation: Do not join the Mayor's Response and respond independently with the following:

Recommendation will not be implemented. The Mayor and City Attorney have both publicly advised the City Council and citizenry that municipal bankruptcy is not an effective option for the City of San Diego for a variety of reasons, both financial and legal. Moreover, in a public financial training to the City Council on October 11, 2010, a representative of Fitch Ratings, one of the three major rating agencies, indicated that discussion of bankruptcy raises concerns for both rating agencies and investors regarding the ability and willingness of an issuer, such as the City, to repay its obligations. Premature discussion of Chapter 9 reorganization could adversely impact the City's near and medium term financial position due to negative rating agency action, such as a ratings downgrade, and the related market responses. The City believes there are options available for reducing its liabilities that are less costly and more certain than bankruptcy and that any formal action by the City to investigate the efficacy of municipal bankruptcy, even as an academic exercise, is not in the best interests of the City.