

Residents' Budget Academy

March 14, 2018



Independent Budget Analyst





Office of the Independent Budget Analyst (IBA)

IBA provides clear, objective, unbiased analysis and advice to the City Council and the public regarding all legislative items bearing financial and policy impacts to the City of San Diego

- Provides support to the City Council and its Committees and information for the public
- Annually reviews and analyzes the Mayor's Proposed Budget and Five-Year Financial Forecast
- Analyzes and makes recommendations on financial reports and policy matters important to the City Council and the community

Why was the IBA Created?

In 2003, serious financial problems led to a loss of confidence at City Hall

- Loss of confidence led to citizen initiative to do away with City Manager form of government and switch to Strong Mayor/Strong Council which went into effect January 2006
- Strong Mayor ballot included creation of the Office of the IBA to advise the Council



Why our Office's Role is Important

It is critical to have checks and balances between the Executive Branch and the Legislative Branch in a Strong Mayor form of government

- To help ensure the City Council is coequal to the Mayor, the Council needs its own executive-level position to serve as independent advisor on all proposals before the Council

Why is the City's Budget Important?

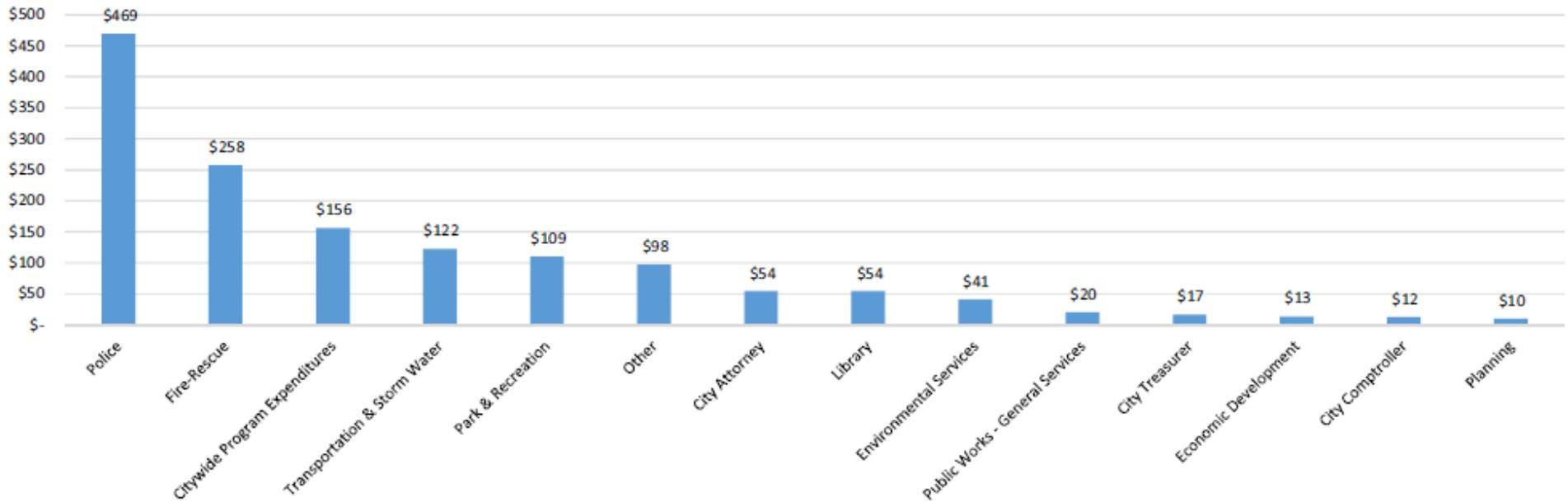
The Budget reflects City policies and community priorities, and allocates available funds for City programs and services

- Public Safety
- Infrastructure
- Parks and recreation
- Libraries
- City Planning
- Climate Action Plan
- Code Enforcement
- Arts & Culture
- Homeless Services
- Economic Development
- Environmental Services
- Internal City Services



Why is the City's Budget Important? *cont'd*

FY 2018 expenditures by department (in millions)



Note: The Other category includes: City Auditor, City Clerk, City Council, Communications, Debt Management, Department of Information Technology, Development Services, Ethics Commission, Financial Management, Human Resources, Infrastructure/Public Works, Internal Operations, Neighborhood Services, Office of Homeland Security, Office of the Assistant COO, Office of the Chief Financial Officer, Office of the Chief Operating Officer, Office of the IBA, Office of the Mayor, Performance & Analytics, Personnel, Public Utilities, Public Works - Contracting, Purchasing & Contracting, and Real Estate Assets.



Mayor/Council Roles and Authorities in the Budget Process

As the City's CEO, the Mayor is responsible for:

- Proposing a balanced budget to Council by April 15
- Providing any known changes to the budget in the May Revision, for Council consideration
- Carrying out the City's goals, policies, programs, and services reflected in the budget following adoption by Council

Mayor/Council Roles and Authorities in the Budget Process *cont'd*

The Council:

- Is responsible for reviewing and approving the Proposed Budget on or before June 15
- Has the authority to change budgeted line items or services and programs proposed in the Mayor's budget, as long as the budget remains balanced
- Has final budget authority



Mayor/Council Roles and Authorities in the Budget Process *cont'd*

The Office of the IBA:

- Reviews and analyzes the Mayor's Proposed Budget for Council and the public
- Provides support to the City Council and its Committees throughout the process
- Develops final budget recommendations for City Council consideration

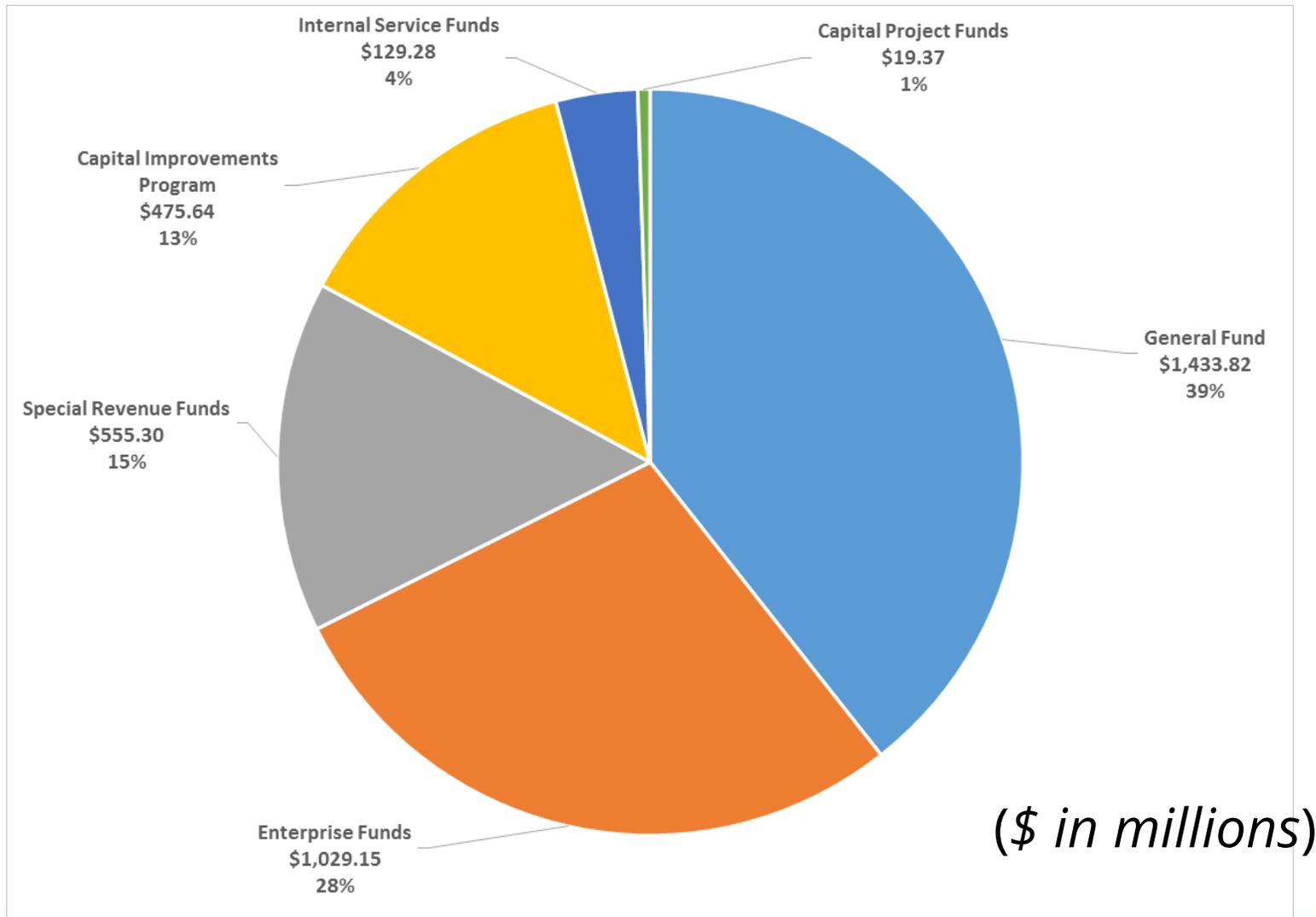
Mayor/Council Roles and Authorities in the Budget Process *cont'd*

- The Mayor can veto Council changes to the Proposed Budget
- The Council can override a Mayoral veto with six votes
- After the budget is adopted, the Mayor, Council, and IBA monitor expenditures, revenues, and significant City programs and services throughout the fiscal year
- Once the budget is adopted only the Mayor can initiate changes to the budget during the fiscal year



City of San Diego FY 2018 Adopted Budget

\$3.64 Billion





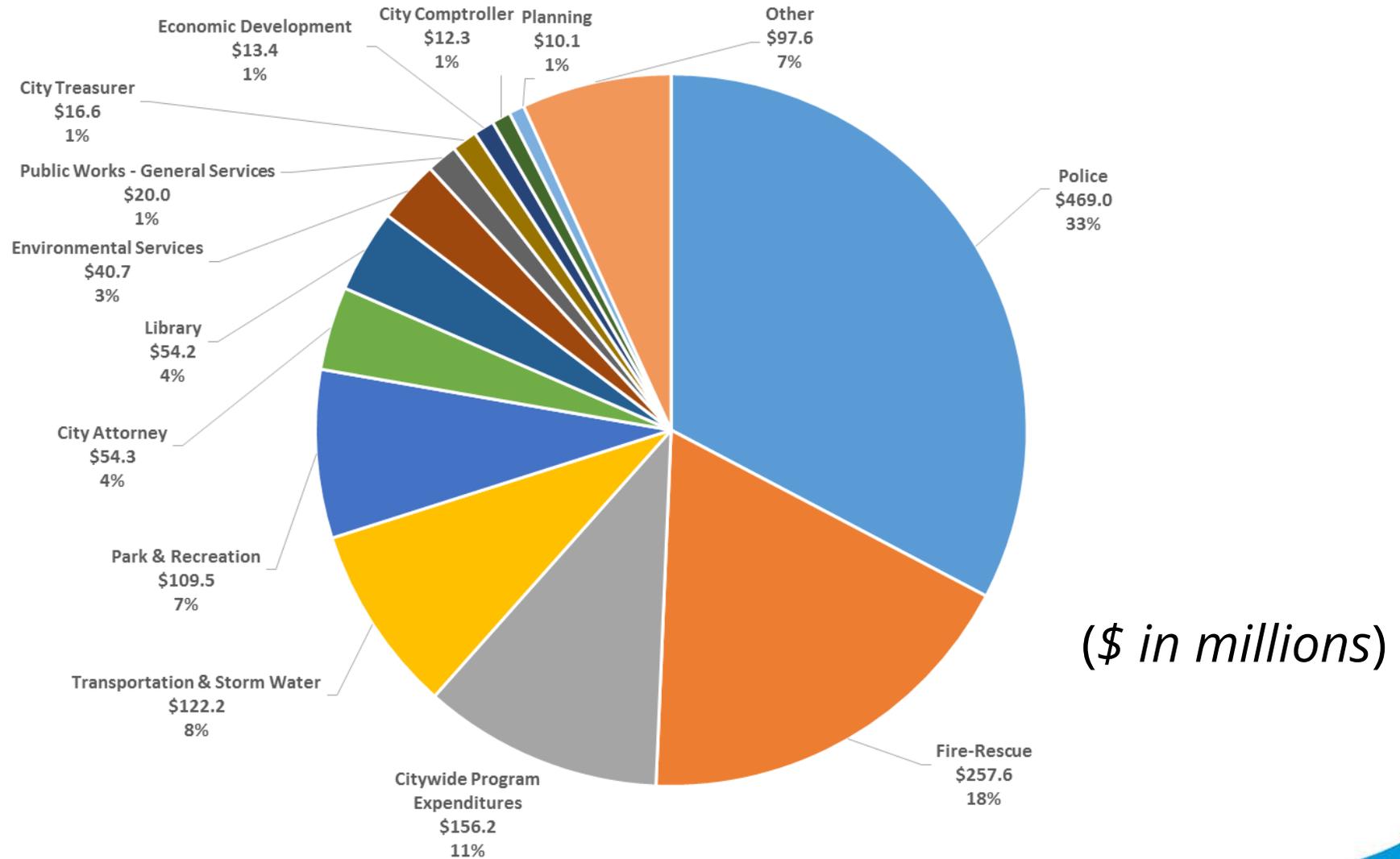
City of San Diego FY 2018 Adopted Budget *cont'd*

Budgeted full-time equivalent (FTE) positions by fund, over five years

Fund Type	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
General Fund	7,267.50	6,975.29	7,299.48	7,530.69	7,527.43
Special Revenue Funds	233.36	263.36	273.70	925.05	988.15
Enterprise Funds	2,366.69	2,385.39	2,475.08	2,481.79	2,500.35
Internal Service Funds	295.32	790.18	929.63	344.58	340.58
Other Fund: City Employee's Retirement System Fund	64.00	64.00	63.00	63.00	63.00
Total FTE positions	10,226.87	10,478.22	11,040.89	11,345.11	11,419.51

General Fund Overview

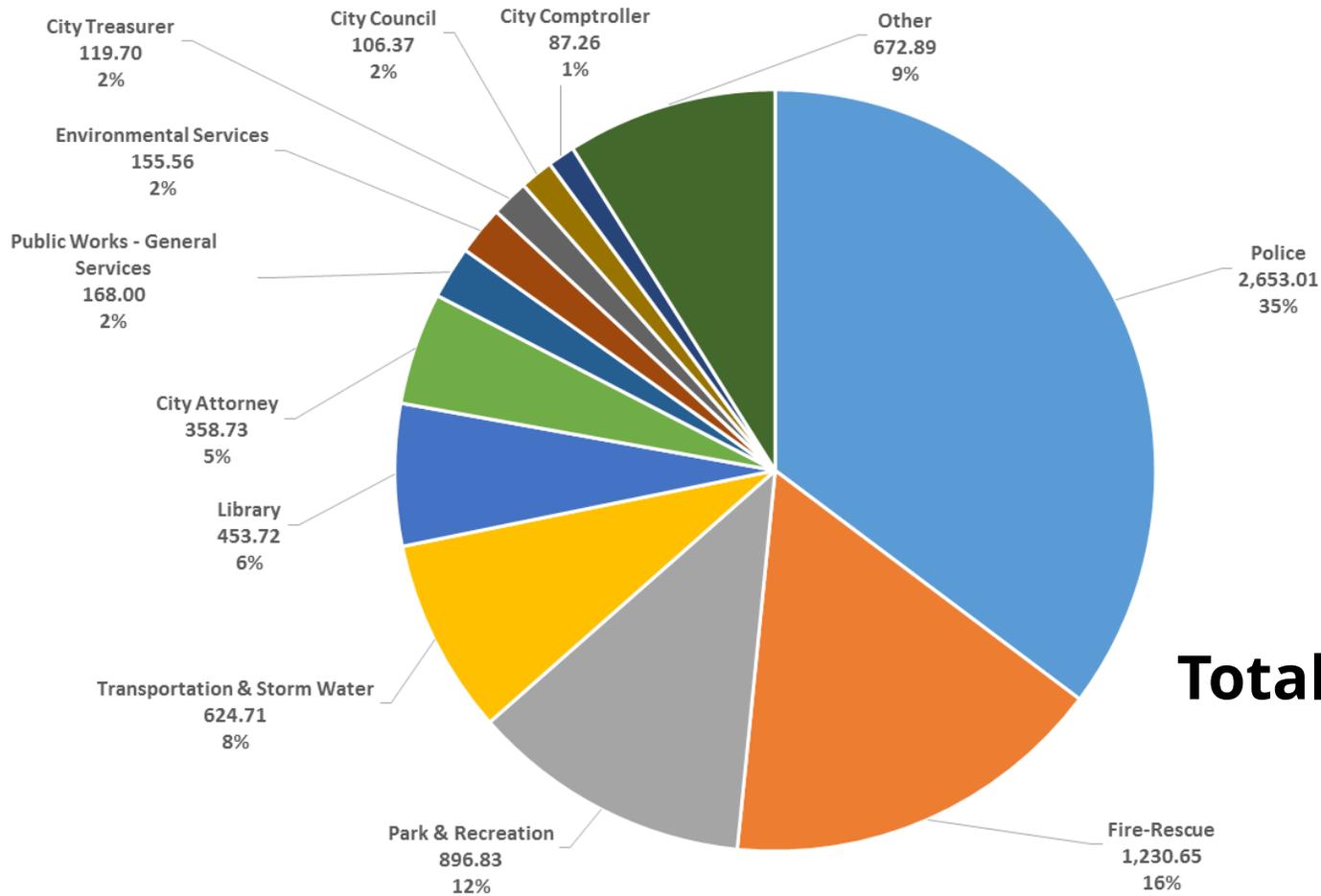
FY 2018 Expenditures: \$1.43 Billion





General Fund Overview *cont'd*

FY 2018 FTE by department



Total FTE: 7,527.43

Note: The Other category includes City Auditor, City Clerk, Communications, Debt Management, Development Services, Economic Development, Ethics Commission, Financial Management, Human Resources, Infrastructure/Public Works, Internal Operations, Neighborhood Services, Office of Homeland Security, Office of the Assistant COO, Office of the Chief Financial Officer, Office of the Chief Operating Officer, Office of the IBA, Office of the Mayor, Performance & Analytics, Planning, Public Works - Contracts, Purchasing & Contracting, and Real Estate Assets.

General Fund Overview *cont'd*

The FY 2018 General Fund expenditure budget has increased from the previous year, although the number of General Fund positions has decreased

- FY 2018 General Fund operating budget of \$1.43 billion represents a \$95.8 million or 7.2% increase over FY 2017
- Increase in FY 2018 budget due to a number of factors including:
 - Increase in the pension payment - \$45.2 million
 - Transfer to the Infrastructure Fund (Prop H) - \$17.8 million
 - Increases in flexible benefits largely related to labor agreements - \$16.7 million

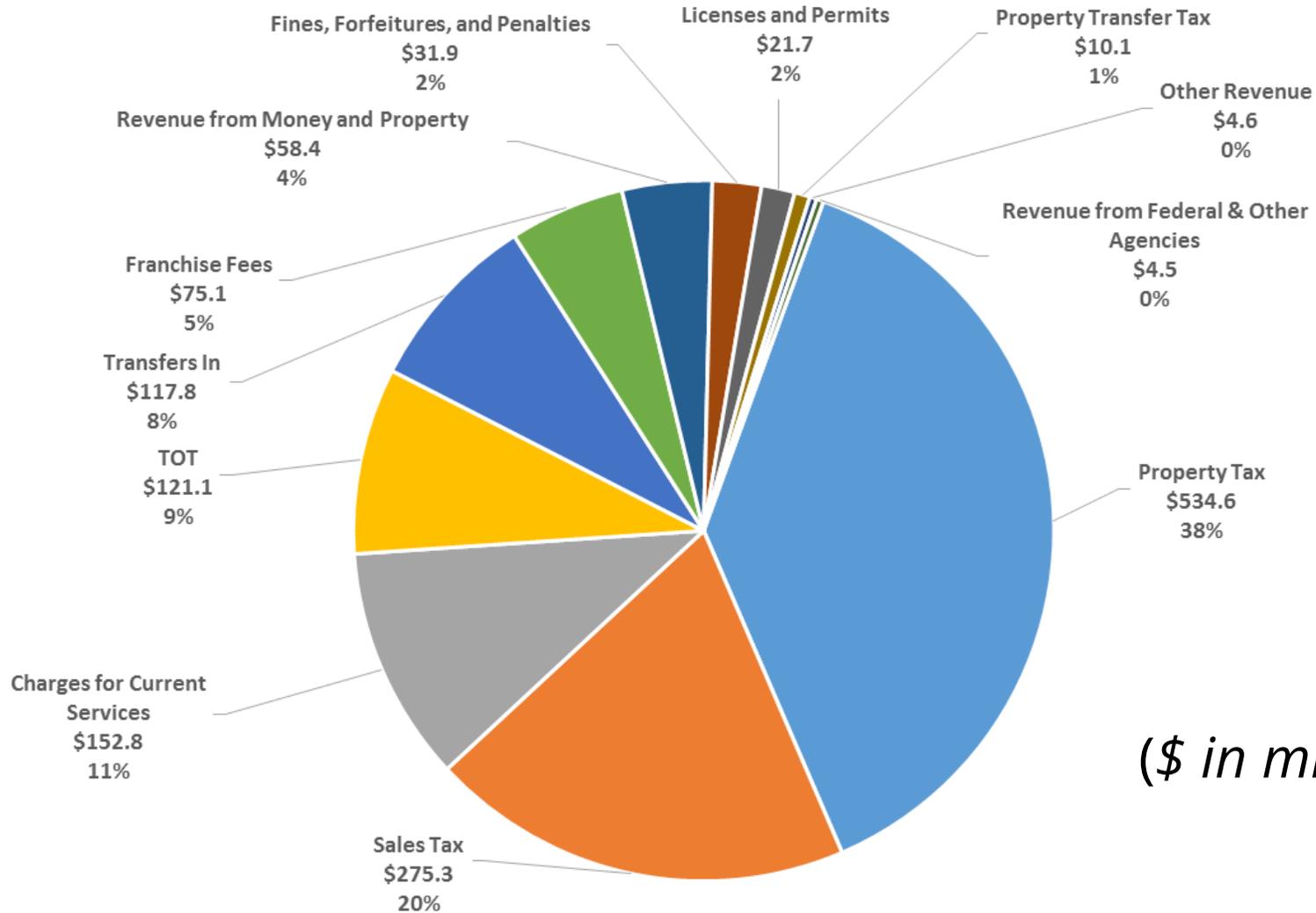


General Fund Overview *cont'd*

- The General Fund includes 7527.43 budgeted FTE positions in FY 2018, a net reduction of 3.26 FTE positions

General Fund Overview

FY 2018 Revenues: \$1.41 Billion



(\$ in millions)

General Fund Overview *cont'd*

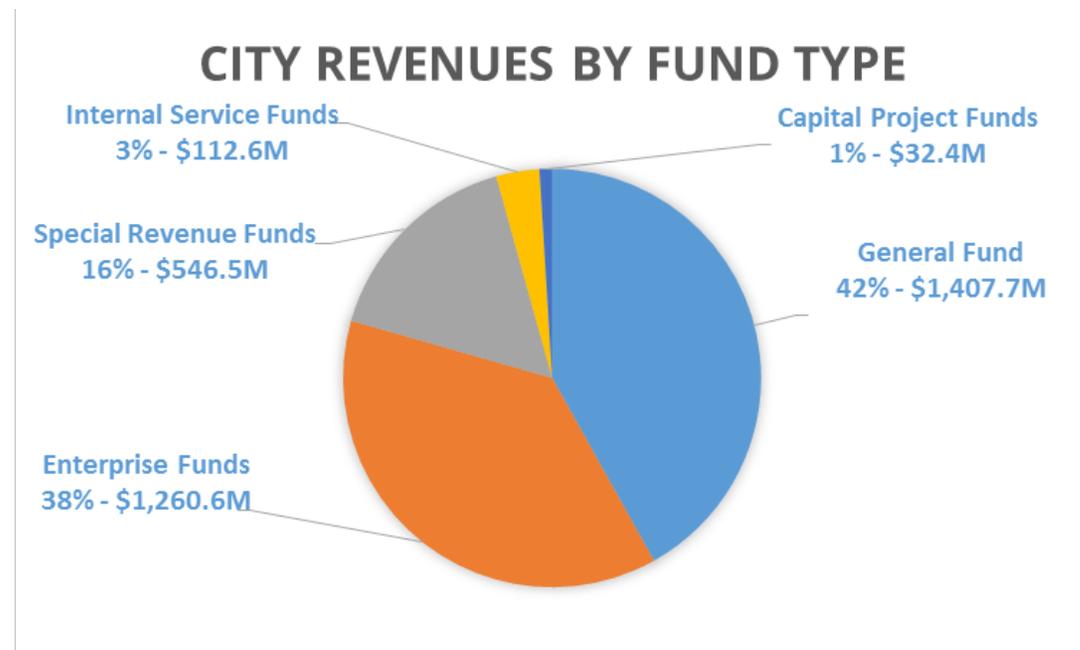
FY 2018 General Fund revenues are projected to increase \$77.8 million or 5.8% over FY 2017

- Revenues are monitored quarterly and projections are adjusted if appropriate
- Some General Fund revenue constraints exist including:
 - Infrastructure Fund: captures a portion of major General Fund revenue growth through FY 2022; then captures only a portion of Sales Tax revenue growth
 - People's Ordinance: constrains the City's ability to charge for trash/recycling pick-up
 - TOT: 10.5 cent charge on overnight hotel stays, only 5.5 cents is initially allocated to the General Fund

Enterprise Funds - Overview

The City has a number of funds in addition to the General Fund

- Enterprise funds are funds that receive revenue directly from user fees for a specific service, such as water and sewer fees
- In FY 2018, Enterprise Fund revenues total \$1.26 billion. This is the second largest source of revenue in the City's budget



Enterprise Funds – Overview *cont'd*

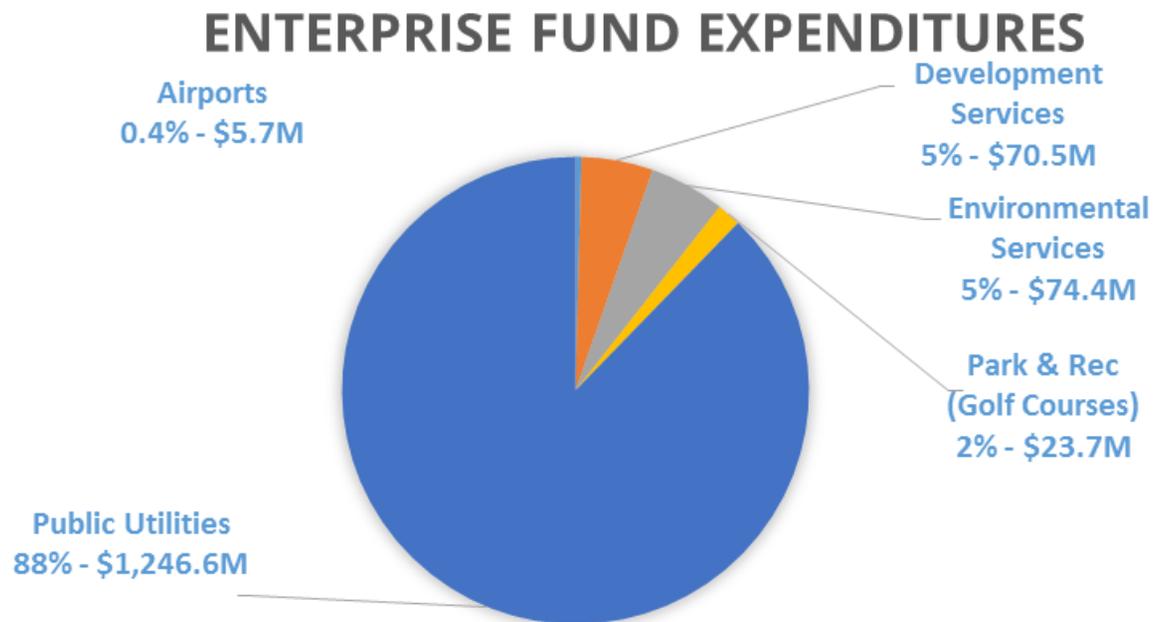
- Enterprise Fund departments and programs do not receive funding from general tax revenue
- Instead, these programs receive revenue from fees that are charged for the services, and these fees must be supported by a cost of service study
- California law – Proposition 218 and Proposition 26 – requires that fees collect no more revenue than is necessary to support services, and fees be approved either by voters or by the voters elected representatives (in San Diego, the City Council)

Enterprise Funds – Overview *cont'd*

- Revenue from these fees therefore does not support or subsidize other City programs, and must be spent on the service it is paid for
- Four City Departments are funded primarily through enterprise funds:
 - Airports
 - Development Services
 - Environmental Services
 - Public Utilities
- The Parks & Recreation Department's Golf Courses are also funded through an Enterprise Fund

Enterprise Funds – Overview *cont'd*

- Of these departments, Public Utilities accounts for the vast majority of expenditures
- We will therefore look more closely at them in the following slides



Enterprise Funds – Public Utilities

The Public Utilities Department (PUD) is responsible for providing water and sewer services to City residents and businesses

- Its FY 2018 budget includes 1,650 FTE positions, \$875.8 million in operating expenditures, and \$373.3 million in capital expenditures
- PUD actually consists of 3 separate enterprise funds:
 - Water Fund – Revenues come from water bills
 - Municipal Wastewater Fund – Revenue comes from sewer users
 - Metropolitan Wastewater Fund – Revenue comes from agencies outside the City that still send wastewater to the City's treatment plants

Enterprise Funds – Public Utilities *cont'd*

- Revenue from each source is used to provide those specific services – revenues being received from City water ratepayers is not used to pay for the treatment of outside agencies' wastewater
- On a roughly 5-year cycle, the Public Utilities Department reviews the water and sewer rates that it charges customers to ensure that they are appropriate and that there is a nexus between the rates charged and the services provided

Enterprise Funds – Public Utilities *cont'd*

- A number of things influence rates:
 - Costs to build and maintain infrastructure – pipes and pump stations and treatment plants – necessary to provide water and sewer service
 - Costs to purchase water
 - Costs associated with regulatory mandates
 - Financing costs and debt-service coverage associated with bonds used to fund large capital projects
 - Future projects and programs

Enterprise Funds – Public Utilities *cont'd*

- All these inputs are used in development of a Cost of Service Study which details the rates necessary for continued service – if costs go down, rates should down; if costs go up, rates should go up
- Per Proposition 218, any changes in rates ultimately must be approved by the City Council

City Council Budget Policies Guide the Budget
The City's Budget Policy provides standards for developing and monitoring the City's annual operating and capital budget as recommended by the Government Finance Officers Association (GFOA) and the National Advisory Council on State and Local Budgeting (NACSLB)

Standards include:

- A balanced budget (expenditures shall not exceed annual revenues plus available unrestricted fund balances)
- Performance measures and reporting of results during the budget process

City Council Budget Policies *cont'd*

- Mayor is required to prepare five-year forecasts for both operating and capital budgets
- Mayor provides quarterly budget monitoring reports to Council
- Public involvement (public hearings and outreach)
- ***One-time*** revenues shall be used to fund ***one-time*** expenditures; ***ongoing*** expenditures shall be supported by ***ongoing*** revenues

City Council Budget Policies *cont'd*

- The City shall fully fund the annual pension payment; and funding for retiree health shall also be a priority (based on existing labor agreements)

City Council User Fee Policy

Establishes the method for setting up fees and the extent to which they cover the cost of the service provided – as recommended by the GFOA, NACSLB, and Federal Government Office of Management and Budget (Circular A-87)

- A “user fee” is charged by a government agency to recipients of its services
- User fees generally apply to activities that provide special benefits to members of the public
- Examples of user fees are pool fees, park room rental fees, fire inspection fees, and others

City Council User Fee Policy *cont'd*

- “Cost recovery” is recouping a ***portion of or all*** costs associated with a particular service
- Cost recovery categories include full recovery (100%), partial recovery (below 100%, for example to subsidize or encourage use of the service), and fines and penalties
- Costs to be recovered include direct costs and indirect costs not directly associated with the service (including departmental and citywide overhead)

City Council User Fee Policy *cont'd*

- User fees shall be updated annually as part of the budget process until the next comprehensive (triennial) user fee study is publically presented and approved by Council

City Council Reserve Policy

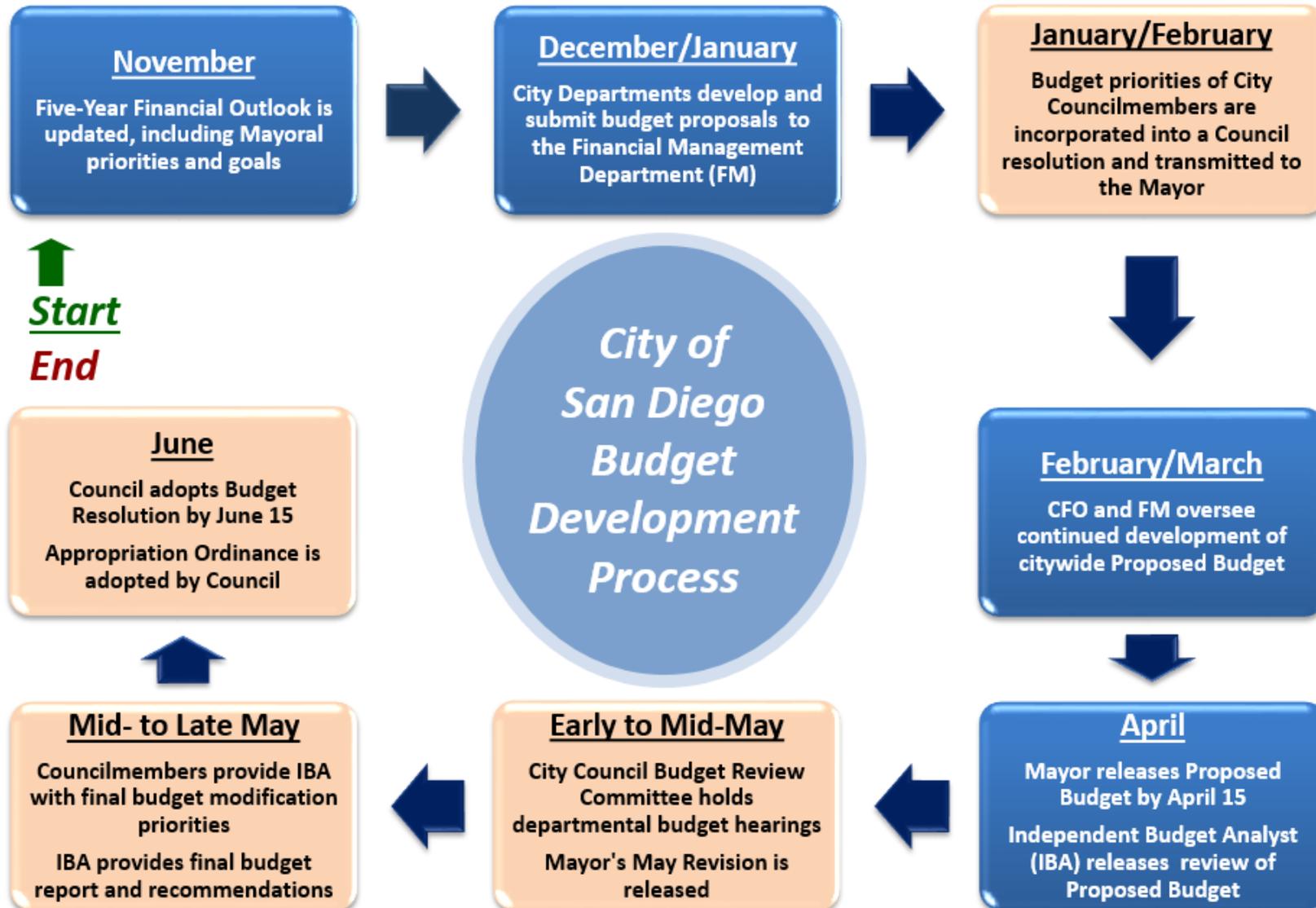
Strong reserves position an organization to weather unexpected events or significant economic downturns more effectively

- The Reserve Policy documents the City's approach to establishing and maintaining reserves, including:
 - Target reserve levels, and their calculation methodology
 - Time-frame for meeting reserve targets
 - Criteria for use of reserves
 - Process to replenish reserves

City Council Reserve Policy *cont'd*

- Some of the City's Reserves included in the policy:
 - General Fund Reserve
 - FY18 Reserve target is 15% and FY25 target is 16.7% of operating revenues
 - Comparatively, the FY07 Reserve was 3.8%
 - Pension Payment Stabilization Reserve
 - Utilized in FY18 to help cover increased pension costs
 - A plan to replenish the reserve is incorporated into the Five-Year Outlook
 - Risk Management Reserves (for the Workers' Compensation, Public Liability, and Long-Term Disability Funds)

FY 2019 Budget Development Process



FY 2019 Budget Development Process *cont'd*

Budget development begins in the fall of each year and ends in June when the Council adopts the budget

- October/November: CIP budget development process begins
- November:
 - Five-Year Financial Forecast released
 - Proposed budget development begins
- January:
 - Five-Year CIP Forecast released
 - City Council budget priorities developed

FY 2019 Budget Development Process *cont'd*

- February/March:
 - Approved City Council budget priorities sent to Mayor for consideration in the Proposed Budget
 - Mid-Year Budget Monitoring discussed at Council
- April:
 - Mayor's Proposed Budget released by April 15
 - IBA's review of the Proposed Budget released two weeks later
- May:
 - City Council Budget Review Committee hearings held, including one evening meeting
 - Mayor's May Revision to the Proposed Budget released

FY 2019 Budget Development Process *cont'd*

- May (*cont'd*):
 - Mayor's Year-End Budget Monitoring report released
 - City Councilmembers send final budget priority memoranda to IBA
- June:
 - IBA releases final budget recommendations report
 - City Council adopts the budget by June 15
 - Mayor has five business days to veto all or part of the Adopted Budget
 - Council has five business days to override all or part of the Mayor's veto (six votes needed)



FY 2019 Budget Development Process *cont'd*

Where we are currently in the process for FY 2019

- Mayor's FY 2019-2023 Five-Year Financial Outlook was released in November 2017
- FY 2019 City Council Budget Priorities Resolution was adopted by Council in February 2018

Council Budget Priorities: Background

- City Council's first step in the annual budget process is the development of a "Budget Priorities Resolution" in order to provide early guidance to the Mayor
- City Councilmembers have set their priorities this way each year since 2006
- In June 2016, voters amended the Charter to include this important step in the budget process
- IBA Report #18-01 REV identifies the highest-priority fiscal and policy items recurring in Councilmember memoranda

Council Budget Priorities: Key Items

- Unanimous support for the following expenditure categories:
 - Services for San Diego's homeless population
 - Programs related to the Climate Action Plan (CAP)
 - Wide variety of capital projects

Council Budget Priorities: Key Items *cont'd*

- Majority support for the following expenditure categories:
 - Public safety programs
 - Storm water infrastructure and maintenance
 - Sanitation services
 - Arts and culture
 - Connect2Careers program
 - Earned Sick Leave and Minimum Wage Ordinance
 - Development Services Department Code Compliance Division

Council Budget Priorities: Proposed Funding Sources

- No one suggestion prioritized by a majority of Councilmembers, however resources included:
 - Excess Equity
 - Excess Risk Management Reserves
 - Alternate replenishment plan for Pension Payment Stabilization Reserve
 - One-year suspension of Infrastructure Fund
 - Grant opportunities
 - Contracting and department budget reductions
 - Increased Cannabis Business Tax projections



BREAK



Mayor's FY 2019-2023 Financial Outlook

Released in November, deficits were projected for FY 2019-2021, when accounting for baseline growth and the Mayor's critical, strategic expenditures

Summary of Key Financial Data (\$ in Millions)					
	Fiscal Year 2019	Fiscal Year 2020	Fiscal Year 2021	Fiscal Year 2022	Fiscal Year 2023
Property Tax	\$563.7	\$590.2	\$622.6	\$651.6	\$679.9
Sales Tax	\$281.8	\$289.7	\$297.5	\$305.5	\$313.5
Transient Occupancy Tax	\$130.6	\$138.1	\$145.8	\$153.8	\$162.0
Franchise Fees	\$77.6	\$79.0	\$80.3	\$81.6	\$82.9
All Other Revenue Categories	\$380.6	\$389.2	\$404.2	\$415.1	\$426.6
BASELINE GENERAL FUND REVENUES	\$1,434.3	\$1,486.1	\$1,550.4	\$1,607.6	\$1,664.8
Salaries & Wages	\$549.5	\$550.4	\$551.1	\$551.0	\$550.5
Recognized Employee Organization Agreements	\$40.3	\$66.6	\$72.1	\$72.1	\$72.1
Retirement Actuarially Determined Contributions (ADC)	\$227.5	\$239.3	\$248.5	\$248.3	\$248.3
All other Personnel Expenditures	\$192.7	\$197.3	\$201.2	\$203.2	\$205.2
Non-Personnel Expenditures	\$400.0	\$409.6	\$420.2	\$433.3	\$444.8
Charter Section 77.1 - Infrastructure Fund	\$16.9	\$17.7	\$20.7	\$19.2	\$0.0
Reserve Contributions	\$5.0	\$14.9	\$15.1	\$17.4	\$17.3
BASELINE GENERAL FUND EXPENDITURES	\$1,431.9	\$1,495.7	\$1,528.8	\$1,544.5	\$1,538.3
BASELINE REVENUE (LESS)/ GREATER THAN EXPENDITURES	\$2.4	(\$9.6)	\$21.6	\$63.1	\$126.5
CRITICAL STRATEGIC EXPENDITURES	\$12.5	\$25.0	\$41.5	\$57.5	\$67.2
(AMOUNT TO BE MITIGATED) / AVAILABLE RESOURCES	(\$10.1)	(\$34.6)	(\$19.8)	\$5.6	\$59.3

Mayor's FY 2019-2023 Outlook: General Fund Baseline

Baseline revenues and expenditures are projected to grow over the Outlook period

- Baseline revenues:
 - Major General Fund revenues are projected to have slowing growth in each year of the Outlook
 - A major economic downturn (recession) is noted in the Outlook as a possibility, but is not included in revenue projections
 - Our Office agrees with the slowing growth projections; however, we note that property tax, sales tax, and TOT revenue projections in fiscal years 2021-2022 are substantially higher than in the previous year's Outlook

Mayor's FY 2019-2023 Outlook: General Fund Baseline *cont'd*

- Baseline expenditures:
 - FY 2023 General Fund Baseline expenditure projection is an increase of \$104.5 million, or 7.3%, over the FY 2018 Adopted Budget
 - No programmatic increases in the Baseline
 - Significant increases due to:
 - Compensation increases with the City's recognized employee organizations
 - Projected growth in contracts
 - Projected growth in energy and utilities expenditures



Five-Year Outlook: Mayor's Critical Strategic Expenditures

Mayor's Critical Strategic Expenditures Included in Outlook

General Fund		FY 2019	Total Outlook Period
Baseline Revenues		\$ 1,434,313,822	\$ 7,743,295,804
Baseline Expenditures		1,431,925,069	7,539,265,426
Outlook Baseline Surplus/(Deficit)		\$ 2,388,754	\$ 204,030,378
Mayor's Critical Strategic Expenditures (Net Total)			
City Clerk	Replace and maintain electronic voting system and audio-visual equipment	\$ -	\$ 520,000
Deputy Chief Operating Officer	Addition of new DCOO position responsible for large public project coordination and priorities	310,050	1,576,194
Special Projects			
City Treasurer	Cannabis business tax program administration	275,773	1,415,089
Citywide Program Expenditures	Debt service for the General Fund's Capital Improvements Program	20,000	27,210,000
Environmental Services	Elimination of the tipping fee discount at the Miramar Landfill	-	2,100,000
Fire-Rescue Department	Fire dispatcher staffing	658,875	3,361,579
	Replace one helicopter	1,700,000	10,900,000
	Institution of peak hour engines	-	22,142,297
	Funding for operational staffing of fire stations scheduled to complete construction during the Outlook period	925,000	17,683,997
Fleet Operations	Increase to charges to the General Fund for planned replacement of the City's fleet	-	53,264,411
Hepatitis A Response¹	Expenses related to the City's response to the Hepatitis A outbreak, including street sanitation	2,665,884	5,462,748
Homelessness	General Fund support for safe parking program	338,000	507,000
Information Technology	Baseline adjustments	(682,825)	(3,414,125)
	Motorola public safety contract	478,500	4,306,500
	Cyber security initiative support	58,177	297,549
Library	Staffing and operating costs for new facilities	142,809	4,880,072
Park & Recreation	Addition of staffing and operating costs for new facilities	2,167,505	20,550,431
	MADs Proposition 218 compliance/general benefit	192,861	1,060,735
Performance and Analytics	311 Customer Experience (Get it Done) Phase 1 expansion	686,355	3,508,686
Planning	Middle Income Density Bonus Program	250,000	250,000
Police	Addition of civilian positions and equipment	991,432	5,052,892
	New equipment: body worn cameras and tasers	-	4,296,560
Transportation & Storm Water	Pothole repair	170,000	1,170,628
	Pipe maintenance and repair	765,080	3,909,144
	Street sweeping	107,716	2,691,490
	Slurry seal maintenance	-	7,800,000
	Stop guide	250,000	250,000
	Pavement assessment	-	800,000
Mayor's Critical Strategic Expenditures (Net Total)		12,471,192	203,553,877
Net Surplus/(Deficit)		\$ (10,082,438)	\$ 476,501

¹Since the Outlook was released, Financial Management has updated its projections related to Hepatitis A sanitation services. Updated projections for the Hepatitis A response, including Department response efforts and the sanitation contract, total approximately \$3.3 million in FY 2019 and \$8.5 million over the Outlook period.

Five-Year Outlook: Mayor's Critical Strategic Expenditures *cont'd*

Critical strategic expenditures in the Outlook total \$203.6 million over five years

- When report was issued in November, the following deficits were projected in first three years of the Outlook:
 - FY 2019: \$10.1 million deficit
 - FY 2020: \$34.6 million deficit
 - FY 2021: \$19.8 million deficit
- Since the Outlook was released, an increase in the City's pension payment and new projected costs for homelessness programs have raised the FY 2019 deficit from \$10.1 million to \$22-24 million



Potential Funding Needs Not Included in the Outlook, Identified in IBA Report 17-39

Projected and Potential Expenditures in the FY 2019-FY 2023 Outlook Period

General Fund		FY 2019	Total Outlook Period
Baseline Revenues		\$ 1,434,313,822	\$ 7,743,295,804
Baseline Expenditures		1,431,925,069	7,539,265,426
Outlook Baseline Surplus/(Deficit)		\$ 2,388,754	\$ 204,030,378
Mayor's Critical Strategic Expenditures (Net Total)		12,471,192	203,553,877
Net Surplus/(Deficit)		\$ (10,082,438)	\$ 476,501
Selected Department Five-Year Requests not Included in the Outlook			
Environmental Services	Code Enforcement - CAP/Zero Waste	\$ 313,924	\$ 1,597,512
Fire-Rescue	Operations Funding for New Fire Stations (Fairmount and Paradise Hills)	-	12,978,532
Information Technology	PC Replacement	656,700	2,566,700
	Run the Business projects - OneSD	1,178,935	7,621,468
	Run the Business projects - IT Fund	389,880	1,187,500
Infrastructure Asset Management	IAM Support for Several Departments	883,027	4,478,199
Library	Janitorial Services for the Central Library	129,744	688,829
	Security Services	287,602	1,526,918
Performance & Analytics	Get it Done - Phase II	-	1,025,000
Personnel	Additional Staff Support	902,002	4,603,394
Planning	Climate Adaptation Plan	310,000	500,000
Police	Sworn and Civilian Positions	-	36,983,647
	Motorola Radio Replacement	1,729,221	8,646,105
Purchasing & Contracting	Animal Services Contract	147,318	753,370
Transportation Storm Water	Storm Water Permit Compliance Projects	13,319,859	98,219,152
Total Selected Department Five-Year Requests not Included in the Outlook		20,248,212	183,376,325
Net Surplus/(Deficit)		\$ (30,330,650)	\$ (182,899,824)

Potential Funding Needs Not Included in the Outlook, Identified in IBA Report 17-39 *cont'd*

- Other items of interest not included in the Outlook that may be of interest to the City Council or the community based upon prior budget discussions:
 - Increases in Commission for Arts & Culture funding
 - Graffiti abatement: Environmental Services pilot program and Transportation & Storm Water funding to address graffiti abatement requests within 5 days
 - Expanded recreation center hours
 - Tree planting and trimming

Five-Year Outlook: Potential Resources and Mitigation Actions

Included in the Outlook and our review, are possible actions to address the projected deficit

- Budget reductions of 2% requested from General Fund departments
- Use of reserves in excess of policy targets
- Use of fund balance (Excess Equity)
- One-year suspension of funding the Infrastructure Fund

Five-Year Outlook: Potential Resources and Mitigation Actions *cont'd*

- Increase to the Storm Drain Fee rates
 - SB 231 clarifies that storm drains and storm water systems are included under the definition of sewers
 - This change allows the City Council to adjust storm water and storm drain fees
 - An increase of \$1.00 per parcel per month would generate an additional \$6 million year; therefore an increase in the fee from \$0.95 to \$5.00 per parcel per month would generate an additional \$24.3 million per year
 - Council could consider requesting additional information or a proposal on adjusting the City's Storm Drain Fee

Significant Future General Fund Challenges

The General Fund continues to face a number of pressures/challenges over the coming years

- The City's annual pension payment
- Police officer recruitment and retention
- Homelessness
- Maintaining City service levels and expectations
- Infrastructure needs
- Storm Water needs
- Voter attitude towards tax increases
- Reliance on revenue susceptible to economic change

Defined Benefit Pension

Magnitude of the annual pension payment

- \$325M for FY18
 - 9% of the citywide budget
 - The \$236M General Fund portion is about 16.5% of the General Fund budget
- \$323M for FY19
- \$347M projected for FY20 – a final number is anticipated to be available around March of next year

Defined Benefit Pension

Challenges exist given the size of (and anticipated FY20 increase to) the pension payment

- Development of a large unfunded liability occurred over the last couple decades:
 - After some years of pension payment underfunding
 - Combined with the provision of retroactive benefit increases that were not funded
 - Additionally, the assumptions used in the pension payment calculation have become more conservative

Defined Benefit Pension

Steps have been taken to address prior underfunding and the health of the pension system in general

- Every year since FY06, the City has paid its pension payment in full
- With the June 2012 Proposition B ballot measure, the pension system is now closed to new (non-police) members
- SDCERS Board has been refining assumptions for the pension payment calculation

Defined Benefit Pension

Refinement of actuarial assumptions: intended to make the pension system better able to withstand negative investment and other experiences, but have significantly increased the pension payment

- Lowering the investment return assumption over the past several years
 - In FY07, the assumed rate of return was 8%, and for FY19 it is expected to be 6.5%
- Recent mortality assumption changes – anticipating that plan members will live longer

Defined Benefit Pension

Concerns regarding future investment returns

- Many investment consultants believe a market correction is possible in the next five years
- Investment earnings that are **lower** than the return assumed in the actuarial valuation could **further increase** future pension payments
 - Recall that the FY 2019 assumed rate of return is 6.5%
 - A lower return would be a factor that has an increasing effect on future pension payments

City Infrastructure

The City owns and maintains a variety of infrastructure assets

- Streets and sidewalks
- Libraries
- Park and recreation facilities
- Police, fire, and lifeguard facilities
- Storm drainage and flood control facilities
- Water and sewer facilities and pipelines
- Street lights and traffic signals
- Three golf courses and two airports

Infrastructure Support Provided through the Capital Improvement Program (CIP)

The City's CIP is composed of capital improvement projects and their funding sources

- CIP projects are construction projects that provide tangible, long-term improvements or additions of a permanent nature
- CIP projects do NOT include routine maintenance
- Public input is one way to identify project needs
- CIP projects are prioritized according to Council Policy

Infrastructure Support Provided through the CIP *cont'd*

- The Public Works Department implements most capital improvement projects
 - Engineering & Capital Projects Branch: 715.80 FTE positions
 - Contracts: 21.00 FTE positions
 - General Services – Facilities: 160.00 FTE positions



Key Capital Expenditures for FY 2018

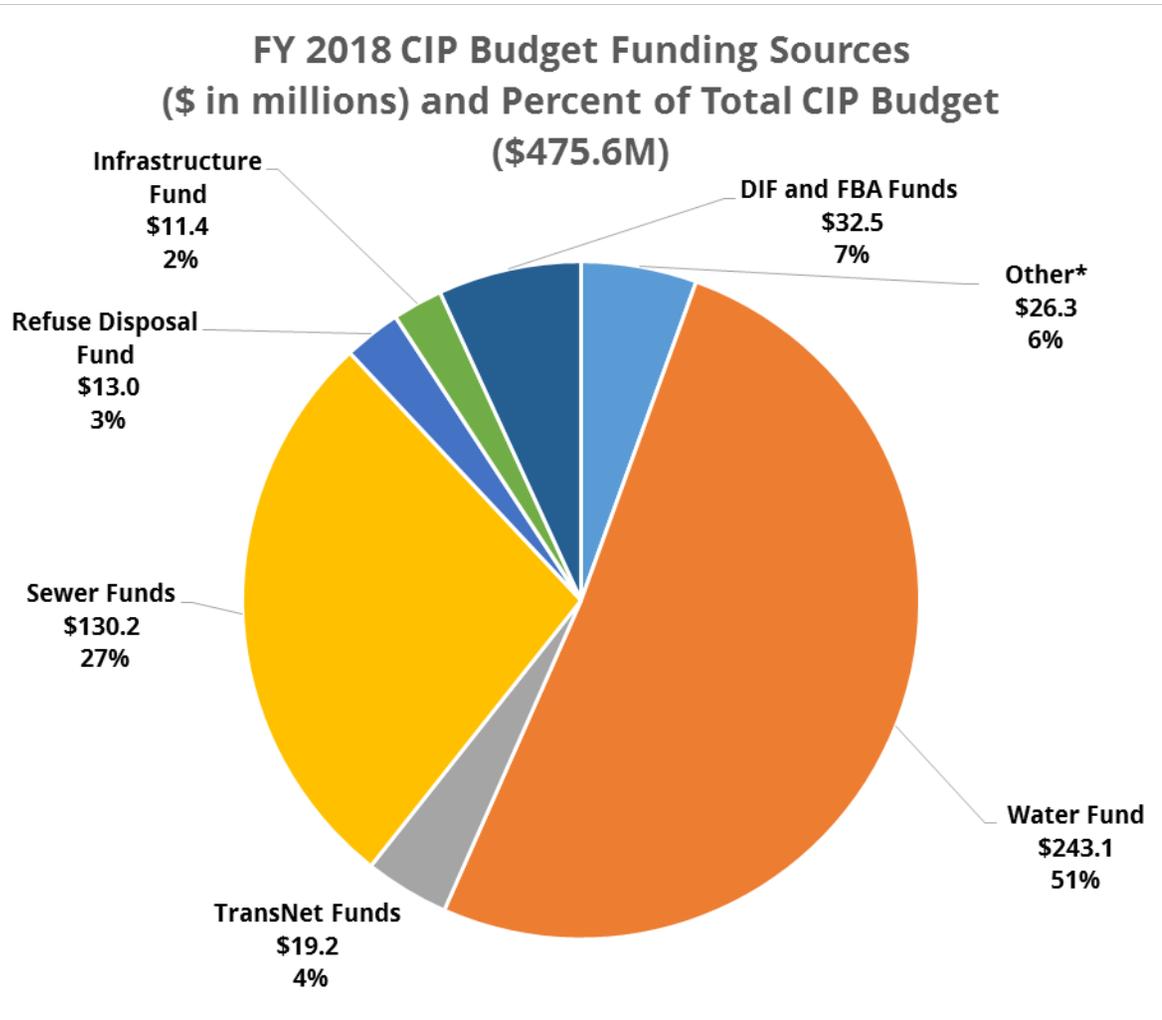
FY 2018 CIP budget is \$475.6 million

Department or Division	FY 2018 Adopted Budget (\$ in millions)
Airports	\$ -
Citywide	3.4
Environmental Services	14.2
Fire-Rescue	1.0
Library	2.6
Park & Recreation	44.7
Police	-
Public Utilities	370.7
Public Works-General Services	4.8
Transportation & Storm Water	34.3
Total	\$ 475.6

- Total multi-year CIP: \$8.02 billion
- Includes funding appropriated in prior fiscal years, current year funding, and funding needed in future years to complete projects

Key Revenues for FY 2018

CIP projects are supported by a variety of funding sources



- Funded projects largely driven by available funding

Major Challenges to the CIP

Limited Resources and Competing Priorities

- Limited discretionary funding available in the CIP
- Needs significantly exceed available funding: \$1.58 billion funding gap over 5 years
- Policy decisions are made that fund certain asset types over others, given limited resources

Major Challenges to the CIP *cont'd*

Growing Infrastructure Backlog

- Condition assessments have improved identification of the City's growing infrastructure needs
 - \$426.0 million to bring leased City buildings to good condition
 - \$24.8 million to bring park amenities to good condition
- Assessments are point-in-time estimates which increase over time if needs are left unaddressed
- Development of asset management plans will continue to refine the City's infrastructure needs

CIP: Looking Forward

Difficult to Optimally Maintain City Capital Assets

- Significant funding gap for asset needs that rely upon limited flexible funding available
- Infrastructure needs continue to grow

Funding Infrastructure

Three basic options

1. Save

- Pay-as-you-go

2. Borrow

- Bond Financing

3. Beg

- Secure state/federal grants or donations

Save

Pay-as-you-go

- Accumulate and/or utilize existing reserves
- Usually best suited when ample reserves exist or for more manageable project funding needs
- Funds projects on the backs of current users/taxpayers; future users get a free ride

Borrow

Bond Financing

- Lease Revenue and General Obligation (GO) bonds are most commonly used to finance public infrastructure
- City relies on Lease Revenue Bonds; last issued in 2015
- Makes annual cost more manageable
- Equitably spreads costs over multiple generations

Lease Revenue Bonds

Currently City's Primary Means for Financing Infrastructure

- Between FY 2010 and FY 2015, City issued \$333 million to fund General Fund Infrastructure
- Does not generate new revenues
- Repayment by City General Fund revenues
- No voter approval; approved by City Council

City's Financing Plans

Near-term financing plans anticipate \$270 million in General Fund borrowing

- Currently, streets, storm water, existing facilities and new fire stations are prioritized by Mayor
- City Council has also advocated for other projects, including parks, cycling safety improvements, and streetlight installations

General Obligation (GO) Bonds

GO Bonds Offer a Possible Alternative to the Continued Use of Lease Revenue Bonds

- Requires 2/3rds voter approval
- Generates new revenue source to repay debt
- Annual tax levied on property owners
- Citizen involvement is key for successful development of GO Bond program
- Almost 30 years since City's last GO Bond was issued

The FY 2019 Budget – Opportunities for Public Input

There are a number opportunities for public input on the budget throughout the year, but especially in the January – June timeframe

- Contact the Mayor and/or his staff during the development of Mayor's Proposed Budget process (November-April)
- Contact Councilmembers at any point in the year, but especially:
 - September: when they identify **capital project priorities** prior to the Mayor's request for Councilmember CIP input
 - November: during Council's review of the Mayor's Five-Year Outlook

The FY 2019 Budget – Opportunities for Public Input *cont'd*

- January: as Councilmembers develop their budget priority memos for the Mayor
- May:
 - Participate in Budget Review Committee hearings (May 2-9; plus City Council meeting May 14 at 6:00pm)
 - Attend Council District Town Halls or budget discussions
 - Contact Councilmembers prior to them sending their final budget priority memoranda to the IBA on May 21
- June: When City Council makes final budget decisions
- Throughout the year:
 - Review Mayoral or IBA budget reports released
 - Contact the IBA with any questions



More City of San Diego Budget Information

Information on the City's budget and other legislative items can be found on the IBA website

- IBA reports and a full list of key budget dates are online: <https://www.sandiego.gov/iba>
- Call our office for additional information: 619-236-6555
- City of San Diego budget visualization tool (charts and graphs displaying budget data by year): <https://sandiegoca.opengov.com/>
- City of San Diego budget document (Proposed and Adopted): <https://www.sandiego.gov/fm>