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BUDGET POLICY RECOMMENDATIONS for the CITY OF SAN DIEGO -- FISCAL YEAR 2008

Comply with Government Finance Officers Association's (GFOA) Best Practices – The City budget document should be prepared in accordance with GFOA best practices (Exhibit A).

Adopt a Financial Plan to Address Deferred Maintenance – The City has consistently deferred necessary repairs and maintenance to its capital infrastructure. The Association applauds the Mayor's initial efforts in addressing this challenge. However, further action is necessary, and time is of the essence. Without accurate information on the current conditions of the City's infrastructure, appropriate budget planning cannot occur. A long-term financial plan to address deferred maintenance and capital improvement projects is critically important. The City should prioritize collection of data on the condition of infrastructure and adopt a policy to address it responsibly. An appropriate level of funding should be allocated to this process so that planning can be expedited. While seeking enhanced funding from State and Federal sources, the City should not supplant its required contributions as matching funds for deferred maintenance.

Implement Pension Reform Policies – City leaders have been promising to undertake fundamental reforms of the pension system. These reforms have yet to materialize. The City should take a two-phased approach to pension reform. It should first design and implement a fair pension benefit structure for new hires. This new structure should focus on reducing the financial burden on the City and taxpayers while maintaining adequate incentives to attract and retain employees. The City should then work with labor unions to explore options for converting current employees to the new pension plan.

Reform Employee Healthcare – The City should restructure healthcare benefits for current and new employees. The city is not maximizing opportunities to achieve savings. A reduction in the quantity and type of plans made available to employees would save costs for the City, spreading risk over a larger pool of participants. Employees should also be restricted to City healthcare plans rather than City or labor union healthcare plans. Allowing employees to opt out of City plans and opt into union plans essentially subsidizes unions that profit from administering the plans.

Reform Retiree Healthcare – While the City has moved to eliminate future growth in retiree healthcare, it still faces tremendous costs in providing healthcare benefits for current retirees or employees soon to retire. The City should make a good faith effort to negotiate with retirees to reform the current healthcare benefit structure. For example, a reduction of healthcare plan options could result in savings without necessarily decreasing benefits for retirees. Likewise,

rather than a fixed healthcare stipend, a formula based on cost should be considered as an alternative. The City should immediately obtain a legal opinion on all possible courses of action.

Fund Other Post Employment Benefits (OPEB) Annual Required Contribution (ARC) –

The City should be applauded for its efforts to switch from a pay-as-you-go approach to retiree healthcare and so-called “other post-employment benefits” by 2010. However, current estimates of the OPEB liability range from \$600 million to \$1.4 billion. The City should commission an updated actuarial study of OPEB liabilities so that accurate fiscal planning can take place.

Define Core versus Non-Core Services – To the extent that budget cuts are deemed necessary, the City should determine which services are core to the City’s mission. Budget cuts should be made strategically, focusing on non-core services. Simplistic, across-the-board cuts are not advisable.

Fund Performance Measurement – It is impossible to restructure and streamline City government if service levels are unknown. The City must devote adequate resources to measuring its performance on the service it provides to the community. In order to accurately gauge efficiency it is essential that the City know two pieces of information—dollars spent and outcomes generated.

Fund Crucial Managerial Functions – Even as the City faces challenging budget constraints, it must not cut funding for crucial internal auditing and control mechanisms. It recently came to light that City staff had not been assigned to internal auditing functions for a number of months.¹ This is an unacceptable lapse in managerial best practices.

Reform City’s Grant Process – Although many local organizations provide invaluable services to the community, the city cannot continue to subsidize organizations without reform. At a time when public safety services are at risk, the City must focus its limited financial resources on programs or services that augment core services and/or result in clearly defined measurable economic development or increased tax revenues. There has been a lack of accountability and transparency in the way the City doles out taxpayer money in the form of grants (Community Development Block Grants and Special Promotional Programs) to non-profits. An independent body should regularly monitor and evaluate programs to ensure return on investment. If organizations cannot demonstrate a tangible return on the City’s investment, funding should be withdrawn. The existing Advisory Boards and Commissions that currently recommend approval of grant funds do not appear to be independent. The availability of grant funds has also been inadequately publicized resulting in only “insiders” knowing about funding availability. New policies must be implemented to ensure transparency, accountability and equity in the City’s grant funding process.

ADOPTED BY THE SDCTA BOARD OF DIRECTORS ON 4/20/07

¹ Jay Goldstone, City of San Diego, Chief Financial Officer, Budget and Finance Committee Hearing on 2/28/2007

EXHIBIT A

GFOA Best Practices

- The budget shall include a coherent statement of entity-wide, long-term financial policies.
- The budget shall describe the City's short-term initiatives that guide the development of the budget for the upcoming year.
- The budget shall include a budget message (budget summary section or transmittal letter) that articulates priorities and issues for the budget for the new year. The message should describe significant changes in priorities from the current year and explain the factors that led to those changes.
- The budget shall include clearly stated goals and objectives of organizational units.
- The budget shall include and describe all funds that are subject to appropriation.
- The budget shall present a summary of major revenue and expenditures, as well as other financing sources and uses, to provide an overview of the total resources budgeted by the organization.
- The budget shall include summaries of revenues and other financing sources, and of expenditures and other financing uses for the prior year actual, the current year budget and/or estimated current year actual, and the proposed budget year.
- The budget shall describe major revenue sources, explain the underlying assumptions for the revenue estimates, and discuss significant revenue trends.
- The budget shall include projected changes in fund balances (or fund equity), for appropriated governmental funds included in the budget presentation.
- The budget shall include budgeted capital expenditures, whether authorized in the operating budget or in a separate capital budget.
- The budget shall describe if and to what extent significant non-routine capital expenditures (other than the cost of the improvements themselves) will affect the entity's current and future operating budget and the services that the entity provides.
- The budget shall include financial data on current debt obligations, describe the relationship between current debt levels and legal debt limits, and explain the effects of existing debt levels on current operations.
- The budget shall explain the basis of budgeting for all funds, whether cash, modified accrual, or some other statutory basis.
- The budget shall describe activities, services, or functions carried out by organizational units.

- The budget shall provide objective measures of progress toward accomplishing the City's mission as well as the goals and objectives for specific units and programs. Performance measures should include the outputs of individual units and provide a meaningful way to assess the effectiveness and efficiency of those units.
- A schedule or summary table of personnel or position counts for prior, current year and budgeted years shall be provided.
- The budget shall provide summary information, including an overview of significant budgetary issues, trends, and resource choices.
- The budget shall explain the effect, if any, of other planning processes (e.g. long-range financial plans, strategic plans and capital improvement plans) upon the budget and the budget process.
- The budget shall describe the process for preparing, reviewing, and adopting the budget for the coming fiscal year. It also shall describe the procedures for amending the budget after adoption.
- The budget shall provide narratives, tables, schedules or matrices to show the relationship between functional units, major funds, and non-major funds in the aggregate.
- The document shall include a table of contents to make it easy to locate information in the document.
- A glossary should be included for any terminology (including abbreviations and acronyms) that is not readily understandable to a reasonably informed lay reader.
- The budget shall be produced and formatted in such a way as to enhance its understanding by the average reader.