

## City of San Diego Fiscal Year 2012 Budget – Councilmember DeMaio’s *Roadmap to Recovery* Proposal

### EXECUTIVE SUMMARY

The San Diego County Taxpayers Association has recently adopted a set of Budget Reform Principles that will be used to 1) evaluate various budget proposals that are presented to the public; and 2) outline the reform areas and items SDCTA believes should be included in any budget proposal that is adopted by the Mayor and City Council.

SDCTA has used these Principles to conduct a comparison evaluation of Councilmember Carl DeMaio’s *Roadmap to Recovery* proposal. The reforms within the *Roadmap to Recovery* align with 27 of the 37 elements within the SDCTA Budget Reform Principles (73%).

The Principles outline reforms in the following areas:

- Proper calculation of “structural” budget deficit
- Implementation of a General Fund spending cap
- Reduction in City pension costs
- Reform of retiree health care liability
- Employee Compensation Reform
- Reform of City operations
- Adoption of a transparent budget proposal to enable informed public debate

For the most part, reforms outlined in the *Roadmap* include many of the budget reform principles that have been adopted by SDCTA. While most of the elements within SDCTA’s “Transparent Budget Proposal” are not included in the *Roadmap*, they should be included in any budget proposal adopted by the Mayor and City Council as a way to ensure the most transparency for taxpayers throughout San Diego. Councilmember DeMaio’s proposal though does include other “Open Government” reforms to accomplish the goal of transparency.

The *Roadmap* also includes various reforms that are not specifically outlined by SDCTA, but could potentially generate additional savings to help alleviate the City’s budget deficit, implement programs to attract and retain employees, and expand transparency and open government. These include conducting various revenue audits, creating a bonus program for employees that shares savings from pension reform and making government more accessible to citizens.

In addition, Councilmember DeMaio’s *Roadmap* includes various ballot measures that would be brought before voters as a means to impose reforms on the City. The proposed language for each measure is not included within the *Roadmap*. Any recommendation from SDCTA would require its customary review and approval of SDCTA committees and the Board of Directors at the time the proposals are presented.

While accurate budgetary data has been difficult to obtain from the City, SDCTA has instead chosen to develop a set of Budget Reform Principles rather than attempt to independently develop



a balanced budget. SDCTA believes, given the data that has thus far been presented to the public, proper application of the Reform Principles will assist the City in eliminating its structural budget deficit, while maintaining an adequate level of transparency for San Diego taxpayers.

SDCTA will continue to use the adopted Budget Reform Principles to evaluate any additional budget proposals and ideas that are brought forward for City Council consideration, including the Mayor's Proposed FY 2012 Budget scheduled to be released on or around April 15, 2011. SDCTA will also ask for consideration of including Reform Principles within a budget proposal in those instances in which they are not included.

**BACKGROUND:**

**FISCAL YEAR 2011 BUDGET**

In December 2009, the Mayor and City Council adopted corrective actions to address what was at the time a \$179 budget shortfall for Fiscal Years (FY) 2010 and 2011. These actions included \$96.5 million in one-time solutions and \$82.6 million in on-going savings. An additional \$24.6 million in revenues were also set aside to help address the expected FY 2011 budget deficit. The FY 2011 budget adopted in June 2010 includes the solutions adopted by the City Council in December 2009, as well as \$28.2 million in additional solutions. These solutions included savings in fleet costs, reductions in services, supplies and equipment, savings in retiree health care annual costs, and restructuring of the McGuigan pension settlement agreement. Approximately \$14.1 million of the total solutions are considered one-time savings.

**Table 1: FY 2011 Adopted Budget Solutions**

|   |                       |
|---|-----------------------|
| <b>Departmental Savings in Fleet Costs</b>  | \$11.0 million        |
| <b>Savings in Departmental Reductions in Services, Supplies &amp; Equipment</b>                     | \$7.5 million         |
| <b>Savings in Retiree Health Care Annual Costs</b>  | \$3.0 million         |
| <b>Restructuring of Settlement Agreement for Alleged Pension Underfunding (McGuigan Settlement)</b> | \$6.7 million         |
| <b>Total</b>  | <b>\$28.2 million</b> |

On February 22, 2010, the City Council adopted eleven (11) guiding principles to address the City’s structural budget deficit. The adopted principles are as follows:

1. Eliminate the General Fund structural budget deficit through a balanced approach of ongoing expenditure reductions and revenue generation, including identifying new revenue sources.
2. Until the City achieves its targeted General Fund reserve level of 8%, the City should not consider using reserve balances to balance any budget shortfall and should ensure that it does not drop below the current level of 7%.
3. Actively pursue alternative service delivery methods, including managed competition, efficiency improvements and elimination of service duplications.
4. Prepare a 5-year Outlook each year and provide numeric values for alternative budget balancing options based on input from City Council, Mayor, and Independent Budget Analyst (IBA); be prepared each year to discuss alternative budget balancing options with the Budget Committee or City Council should the Outlook suggest an ongoing structural deficit.
5. One-time resources should be matched to one-time expenditures.
6. Achieve 100% cost recovery for programs and services that are intended to be fully cost recoverable through fees.
7. Reduce pension and retiree health care liability and annual City costs through the meet and confer process.
8. When deciding to construct new facilities or establish new programs, the City must take into consideration ongoing operation expenses and should identify ongoing funding to cover these expenses unless necessary to meet high priority needs.

9. Prioritize City services expenditures based on the City Charter requirements, Citizen Survey and other means of public input, benchmarking studies and departmental goals and performance data.
10. Maintain funding of the full annual required contributions (ARC) for the City’s pension obligations in a manner compliant with City Charter and develop a plan to fully fund the Retiree Health Care ARC.
11. Develop a plan to fund deferred capital infrastructure and maintenance needs to reduce the current backlog, identify the level of funding necessary to prevent the problem from growing larger, and to reduce the potential of increasing costs to identify the level of funding. Discuss at Budget and Finance Committee a policy to calculate and identify the level of funding for deferred maintenance budget needs.

The intent of the aforementioned principles was to assist the Mayor in submitting a structural budget elimination plan to the City Council by October 2010. This process has been abandoned, with the Mayor now proposing to release his Proposed FY 2012 Budget on or around April 15, 2011.<sup>i</sup> The Mayor has also stated that the FY 2011 budget will not completely eliminate the structural budget deficit, but will seek to eliminate “the city’s \$73 million structural deficit by the time he leaves office in 2012.”<sup>ii</sup>

**FISCAL YEAR 2012 BUDGET DEFICIT**

**Table 2: Fiscal Year 2012- 2016 Five-Year Financial Outlook  
 (in millions)**

|                                | FY<br>2012 | FY<br>2013 | FY<br>2014 | FY<br>2015 | FY<br>2016 |
|--------------------------------|------------|------------|------------|------------|------------|
| <b>General Fund Revenues</b>   | \$1,066.5  | \$1,103.6  | \$1,138.4  | \$1,174.6  | \$1,212.4  |
| <b>General Fund Expenses</b>   | \$1,123.2  | \$1,155.3  | \$1,182.9  | \$1,197.4  | \$1,210.9  |
| <b>Total Surplus/(Deficit)</b> | (\$56.7)   | (\$51.7)   | (\$44.5)   | (\$22.8)   | \$1.5      |

On February 7, 2011, the Mayor released an updated 5-Year Financial Outlook that projected a \$56.7 million budget deficit for FY 2012. This projected deficit is based on current assumptions about the economy, including

minimal revenue growth in FY 2012.<sup>iii</sup> In order to address the deficit, the City asked general fund departments to submit budget reduction plans by a targeted amount. The total reduction target for all departments outlined by the City equals \$75 million.<sup>iv</sup> At the November 10, 2010 Budget Committee meeting, it was announced the Mayor will release a proposed budget for FY 2012 on or around April 15, 2011. This is contrary to the process used to approve the FY 2011 budget, in which an 18-month budget was adopted in order to maximize the savings of mid-year budget cuts.

**FISCAL YEAR 2010 YEAR-END REPORT AND FISCAL YEAR 2011 BUDGET MONITORING**

In order to develop the FY 2012 budget and understand the severity of the projected deficit, accurate data regarding projected revenues and expenditures is required. This data is typically released in the form of Year-End Budget Reports and Quarterly Budget Monitoring Reports. Unfortunately, production of these reports, as well as the completion of the FY 2010 Comprehensive Annual Financial Report (CAFR) has been delayed due to delays in implementing the City’s new financial accounting system, OneSD. These problems have led to the delay of the release of important reports, including the FY 2010 Year-End Report, FY 2011 First Quarter

Report, and the FY 2012-2016 Five-Year Outlook. Until data is released and these reports are provided, accurate financial projections for FY 2012 will not be available.

In the City’s FY 2010 pension system Actuarial Valuation, it is noted the city-wide Annual Required Contribution (ARC) for FY 2012 is \$231.2 million. Previous estimates had the FY 2012 pension ARC listed at \$257.7 million, a \$26.5 difference. Of the \$231.2 million City-wide ARC, \$179.2 million is attributable to the General Fund.

On February 23, 2011, the Mayor released the FY 2011 Mid-Year Budget Monitoring Report. The Mid-Year Report is the City’s first comprehensive financial status report, including year-end projections, since the fiscal year began last July. Based on the report, General Fund revenues are projected to be approximately \$1.496 million over budget while expenditures are expected to be \$3.6 million under budget, resulting in a surplus of \$5.1 million.<sup>v</sup> The Report also includes recommendations to amend the General Fund budget to address projected deficits in the Fire-Rescue and Environmental Services Departments (\$3.4 million and \$1.5 million respectively). Corrective actions include transfers from the General Fund Appropriated Reserve and using excess departmental revenues.

**PROPOSITION D REFORM IMPLEMENTATION**

Voters within the City of San Diego rejected Proposition D, a proposed half-cent sales tax increase tied to ten (10) reforms, by a 62% to 38% margin during the November 2010 election. Following the election, the Mayor committed to the full implementation of the reforms outlined within Proposition D.

The Mayor’s office has provided the following expected completion dates for the ten (10) reforms outlined within Proposition D:

**Table 3: City of San Diego Prop D Reform Measure Implementation Timeline**

| <b>Reform Measure</b>  | <b>Timeline</b>                             | <b>Status</b>  |
|--|---|--|
| 1. Adopt Ordinance for Voluntary Defined Contribution Pension Plan                         | TBD - Subject to IRS Ruling                 | Meet & Confer discussions underway   |
| 2. Complete DROP Cost Neutrality Study   | Completion expected January 2011            | Buck consultants finalizing work on Study. Will present results to labor groups and City Council |
| 3. Complete Managed Competition Guide  | Final ordinance adopted 10/18/10            | Complete   |
| 4. Eliminate Employee Retirement Offsets for Elected Officials and Unrepresented Employees | Final ordinance adopted 10/19/10            | Complete   |
| 5. Eliminate Terminal Leave for All Employees  | First reading held 10/19/10                 | First reading 10/19/10   |
| 6. Establish Second Tier Pension Plan for Firefighters                                     | April 2011 with July 1, 2011 effective date | Discussions underway   |
| 7. Reduce Retiree Health Costs   | April 2011 with July 1, 2011 effective date | Discussions underway with labor organizations  |
| 8. Reduce Retirement Offset for Represented Employees                                      | April 2011 with July 1, 2011 effective date | Discussions underway with labor organizations  |

|   |  |          |
|---|--|----------|
| 9. Solicit Proposals to Provide IT Services | Issue RFP by March 2011. Completion expected in early fiscal year 2012 | Underway |
| 10. Solicit RFQ for Miramar Landfill        | Completion expected early fiscal year 2012                             | Complete |

**SDCTA BUDGET REFORM PRINCIPLES**

On January 21, 2011, the San Diego County Taxpayers Association (SDCTA) adopted a set of Budget Reform Principles. These principles serve two (2) functions: 1) serve as a guide to analyze various budget proposals that are introduced to the public; and 2) outline the reform areas and items SDCTA believes should be included in any budget proposal that is adopted by the Mayor and City Council.

**SDCTA Budget Reform Principles**

- 1 Proper Calculation of “Structural” Budget Deficit**
- 2 Implementation of General Fund Spending Cap**
- 3 Reduction in City Pension Costs**
- 4 Reform of Retiree Health Care Liability**
- 5 Employee Compensation Reform**
- 6 Reform of City Operations**
- 7 Adoption of transparent budget proposal to enable informed public debate**

**PROPER CALCULATION OF “STRUCTURAL” BUDGET DEFICIT**

The Mayor estimates the current structural budget deficit totals \$46.5 million. This figure does not include the amount needed to pay the full retiree health care ARC, or the full amount of the City’s deferred maintenance backlog. While the retiree health care ARC is provided each year following the completion of an actuarial analysis, the true size of the City’s deferred maintenance backlog is unknown.

The City has previously outlined its intent to provide not only an amount needed to eliminate its backlog of projects, but also how much is needed on an annual basis to maintain its assets. The City has noted:

*“The City’s capital improvement backlog is estimated to be approximately \$800 to \$900 million according to the most recent Five Year Financial Outlook. This amount is the most recent estimate and includes the cost of needed repairs to City facilities, streets and storm drains but does not include alleys, sidewalks or soft costs.”<sup>vi</sup>*

The total backlog could now total well over \$1 billion. It is important to understand how much is needed annually to maintain the system so that appropriate funding can be included in budget deliberations. Councilmembers, as well as members of the public, will then have accurate information when publicly discussing the impacts of potentially diverting funding to other areas and not properly funding the City’s infrastructure.

Additionally, the annual required contribution relating to the City’s retiree health care benefit should be fully funded each year. Given the stated intent to reform the current benefit, it is premature to state definitively what amount of retiree health care costs should be included, if any, when calculating the structural budget deficit. While the City is not legally required to pay the full retiree health care ARC, the unfunded liability has grown to a level that future payments will reach unsustainable levels.

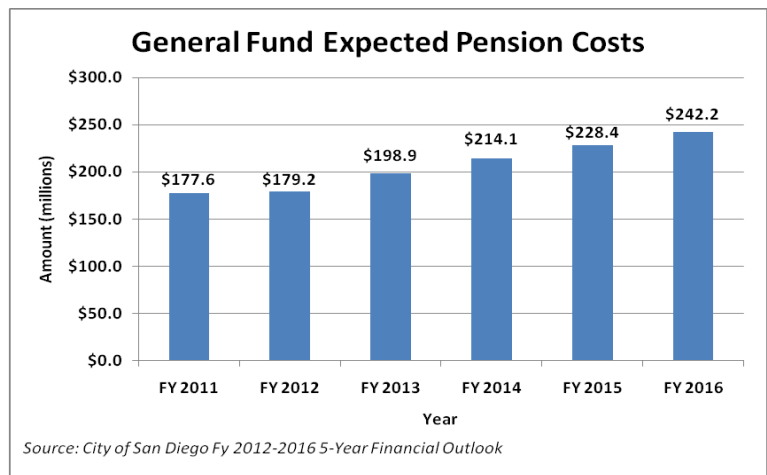
**IMPLEMENTATION OF GENERAL FUND SPENDING CAP**

Understanding that revenues may at some point rebound and exceed budgeted projections, measures must be implemented to ensure these unanticipated one-time revenues are not allocated to additional employee benefits or programs that require long-term funding. SDCTA has stated any revenues that exceed a defined rate of growth, based on the previous year’s Consumer Price Index, should be allocated to the following items:

- Reducing deferred maintenance backlog
- Contribute to the following based on highest return of invested dollar:
  - Reducing unfunded pension liability
  - Reducing retiree healthcare unfunded liability
  - Increasing reserves
  - Reducing outstanding debt

**REDUCTION IN CITY PENSION COSTS**

The main driver of the City’s fiscal woes has been the increase in pension costs. Between FY 2011 and FY 2016, pension costs are expected to increase by 36%.<sup>vii</sup> Understanding the pension benefit formula for current employees is vested, the City can still take steps to reduce costs in order to maintain services. The goal of any publicly funded pension should be to promote retirement security, not wealth accumulation.



To accomplish this goal, elected officials should create a new, 401(k)-type plan, coupled with Social Security or a similar modest defined benefit plan, for all new hires. The City should also pursue IRS approval of the option to allow current employees to opt-in to this lower tier pension plan as a means to save on contribution costs.

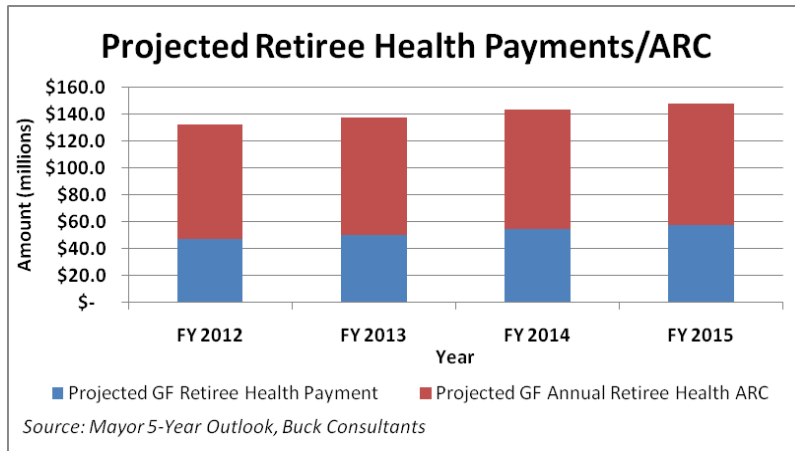
Currently the City “picks up” a portion of the employee’s required pension contribution for those represented by the Municipal Employees Association (MEA) and Teamsters 911 (Lifeguards). This contribution amounts to \$4.8 million annually, and can be eliminated during labor negotiations with these bargaining units. SDCTA has long advocated cities eliminate the “pick up” provision within employee contracts and require employees contribute their required share to their own pension plan. Furthermore, Charter Section 143 requires the City and employees to

contribute a “substantially equal” amount to an employee’s pension benefit. Requiring employees to contribute this equal share and the elimination of the “pick up” would satisfy this principle.

When calculating the pension benefit for employees, both the “base-pay” and “specialty pays” are included in the retirement calculation. Base-pay refers to the base salary of an employee, and specialty pays are the additional compensatory payments granted to employees for either additional training or incentive goals that are reached. The calculation of an employee’s pension benefit should only incorporate the base salary, and any additional compensation, including specialty pays, shall be non-pensionable. The pension calculation should also incorporate the highest three consecutive years of employment, rather than the highest one year, as a means to avoid “pension spiking”. This calculation should also be applied to all defined benefit pension plans currently in place for city employees.

Lastly, the City is in the process of completing a cost-study of the Deferred Retirement Option Plan (DROP). The study will determine if the program is cost-neutral to both the City and the employees within the program. Should the study determine the program is not cost-neutral; the City should take the necessary steps to make it so, as is required by the municipal code. The cost neutrality of the program should be reviewed annually to ensure this compliance.

**REFORM OF RETIREE HEALTH CARE LIABILITY**



Public employee retirement costs have garnered increasing attention and scrutiny over the last few years, particularly in San Diego. Despite this attention, discussion has mainly focused on pension benefits and has left out another future long-term liability—other post employment benefits such as retiree health care. As of June 30, 2009, the City has a \$1.3 billion unfunded health care liability, with a funding ratio of approximately 3%. The City funds

this obligation on a pay-as-you-go method as opposed to an actuarially-based method that ensures enough money is being placed into the plan to cover the employees enrolled by the time they enter retirement.<sup>viii</sup> The City also contributes an amount to prefund future benefits currently being earned.

For FY 2011, the City contributed \$57.8 million (\$40 million from the General Fund) to cover the retiree health obligation. Of this amount, \$32.8 million funded the pay-as-you-go requirement and \$25 million was set aside for prefunding. The FY 2011 Annual Required Contribution for the benefit totaled \$120.3 million, of which the City contributed 48%.

While contributing the full ARC for this benefit is not required, the City should implement reforms that reduce the current unfunded liability to protect future taxpayers from needing to cover these costs. To help accomplish this, the City should pay the full ARC each year moving forward.



## EMPLOYEE COMPENSATION REFORM

Because salaries and benefits consume a large portion of the City's budget, reforms in this area would have the most impact in generating budgetary savings. Job classifications and duties for non-public safety employees overlap with those of the private sector, and therefore compensation for these positions should be benchmarked to the local labor market (including non-profit positions). This benchmarking process should be coupled with reforms to the City's hiring and labor practices to assist in the acquisition and retention of the most qualified employees.

In order to maintain a level playing field in the local labor market, reforms must be made to the City compensation practices, including the elimination of terminal leave (as promised under Proposition D), ensuring specialty pays are only granted for special qualifications or skills (not granted for satisfying employment requirements), eliminating allowances for employments and incorporating strict reimbursements, and reducing the leave time accrual caps and cash-out policy.

## REFORM OF CITY OPERATIONS

SDCTA has long advocated for streamlining City government as a means to reduce costs and incorporate efficiencies. First and foremost, the City must begin the process of putting forward City functions for managed competition, and outsourcing when appropriate and feasible, both economically and efficiently. During the budget review process, the City should also incorporate further consolidation of similar City functions, as well as initiating further Business Process Reengineering studies or other efficiency studies to prepare City functions for managed competition. As part of streamlining and savings efforts, the City should also begin evaluating the potential of incorporating the use of volunteers to assist in staffing various City programs and functions, similar to the Retired Senior Volunteer Patrol (RSVP) program. Volunteers could staff City libraries and park and recreation centers to generate general fund budget savings.

Streamlining city operations and other various processes would allow for the creation of a more business friendly environment. More specifically, the City should focus on finding efficiencies that would allow for more simplified permitting processes for businesses. Expanding the use of public-private partnerships could also potentially enhance various public services, reduce City operating costs, and even generate revenue. Finally, in order to maximize revenues, the City should begin a bi-annual review process of all City leases to ensure lease renewals are contracted at fair market value.

## ADOPTION OF TRANSPARENT BUDGET PROPOSAL TO ENABLE INFORMED PUBLIC DEBATE

The City has successfully sought public input during the annual budget process known as "San Diego Speaks". These series of hearings are conducted throughout the City, and generate much public input and ideas for savings. The City should continue these hearings, but also expand upon these by incorporating information hearings about what the adopted budget incorporates. The City can also accomplish this additional outreach by publishing in various public spaces and on social media summaries of the adopted budget.

In an effort to be more transparent, the City should reengage in the use of identifying current service levels within each City department. This would allow for the use of an Activity Based Costing Method that demonstrates the inputs, outcomes, and unit cost of each service provided.

The City should also begin identifying what are core services, while outlining those services and programs that are not considered as such. Lastly, because of the volatility of revenues given the current economic climate, it would be beneficial to incorporate a sensitivity analysis of each major revenue source in the case savings would need to be identified if revenue projections do not come to fruition.

## COUNCILMEMBER DEMAIIO'S "A ROADMAP TO RECOVERY" PROPOSAL

On November 5, 2010, Councilmember DeMaio released a Budget Proposal entitled, *A Roadmap to Recovery (Roadmap)*. The *Roadmap* is intended to be a "comprehensive framework for solving the city's immediate and long-term financial problems". Ten commitments are outlined within the proposal, with each commitment outlining various short-term and long-term reforms intended to generate budgetary savings resulting in a balanced FY 2012 budget.

### **ROADMAP COMMITMENTS**

Councilmember DeMaio's ten (10) commitments include various reforms that achieve projected savings of \$87.3 million for FY 2012, as well as long-term savings that would result in a budget surplus each year between FY 2012 and FY 2016. The titles of each commitment are as follows:

1. Accountability for Results
2. Open Government
3. Back to Basics – Clean and Safe Neighborhoods
4. Comprehensive Pension Reform
5. Reform City Salaries and Labor Contracts
6. Fair and Open Competitive Bidding
7. Jobs-Friendly Policies
8. Rebuilding City Infrastructure
9. Regional Government Solutions
10. Lead by Example

Overall, the *Roadmap* seeks to implement 80 reform measures, including potential ballot measures that would be brought before voters for approval.

### **SUMMARY OF PROJECTED SAVINGS**

Table 4 below outlines the reform savings and projected surpluses for FY 2012 to FY 2016 as outlined within the *Roadmap*. The projected savings are based upon the revenues and expenditures outlined within the Mayor's FY 2011 – FY 2015 Five-Year Financial Outlook.

**Table 4: Proposed Five-Year Recovery Plan<sup>ix</sup>**  
**(in millions)**

| <b>Element of Roadmap</b>                        | <b>FY 2012</b> | <b>FY 2013</b> | <b>FY 2014</b> | <b>FY 2015</b> | <b>FY 2016</b> |
|--|----------------|----------------|----------------|----------------|----------------|
| Baseline General Fund Spending Level             | \$1,154.2      | \$1,180.1      | \$1,204.6      | \$1,216.4      | \$TBD          |
| Reorganization and Streamlining Savings          | -\$7.7         | -\$7.4         | -\$7.2         | -\$7.1         | -\$6.9         |
| Managed Competition Savings                      | -\$11.7        | -\$22.2        | -\$21.1        | -\$20.0        | -\$19.0        |
| Full Reform Option on Retiree Health             | -\$21.5        | -\$24.8        | -\$28.2        | -\$31.3        | -\$18.8        |
| Other Reforms                                    | -\$43.3        | -\$53.3        | -\$76.1        | -\$88.5        | -\$46.0        |
| Restoration of Public Safety                     | \$3.0          | \$6.0          | \$6.0          | \$7.0          | \$8.0          |
| Imposed General Fund Spending Cap                | \$1,070.0      | \$1,086.6      | \$1,087.1      | \$1,117.0      | \$TBD          |
| Baseline Defined Benefit Pension Payment         | \$200.0        | \$218.3        | \$235.3        | \$251.3        | \$266.6        |
| Impact of "Pensionable Pay" Freeze               | -\$8.1         | -\$18.0        | -\$28.8        | -\$40.7        | -\$53.8        |
| Impact of Streamlining/Managed Comp              | \$0.0          | \$0.0          | -\$0.9         | -\$1.6         | -\$1.9         |
| Impact of Opt-Out Programs                       | \$TBD          | \$TBD          | \$TBD          | \$TBD          | \$TBD          |
| New Projected Pension Payment                    | \$191.9        | \$199.4        | \$204.9        | \$229.0        | \$237.8        |
| "Share-in-Savings" Fund for Employee Bonuses     | N/A            | N/A            | N/A            | N/A            | N/A            |
| Net Take-Home Pay Increase from Opt Out Programs | TBD            | TBD            | TBD            | TBD            | TBD            |
| Infrastructure Lock-Box Fund                     | N/A            | \$8.2          | \$9.2          | \$20.3         | \$22.3         |
| <b>Projected General Fund Surplus</b>            | <b>\$11.8</b>  | <b>\$15.1</b>  | <b>\$28.9</b>  | <b>\$25.4</b>  | <b>\$23.7</b>  |

In an effort to conduct a proper review, the following sections outline a comparison of various reforms and proposals within the *Roadmap* to the adopted SDCTA Budget Reform Principles. Each section also outlines instances in which there are differences between the *Roadmap* and the Principle, and suggested reforms that could be included within the *Roadmap* (SDCTA Principles appear in blue).

**PROPER CALCULATION OF “STRUCTURAL” BUDGET DEFICIT**

**Table 5: SDCTA "Structural" Budget Deficit Calculation Principle vs. Roadmap**

| <b>SDCTA Reform Principle</b>  | <b>Included in this Proposal?</b> |
|--|-----------------------------------|
| The budget plan should identify the total deferred maintenance backlog   | Yes                               |
| An annual required amount should be identified to prevent an increase in the deferred maintenance backlog, and address all regular routine maintenance needs | Yes                               |
| The City should establish a reserve fund with a “maintenance of effort” clause to ensure increased expenditures should there be a budget surplus             | Yes                               |

The budget plan should include the full cost of providing retiree health care benefits

Yes

**THE BUDGET PLAN SHOULD IDENTIFY THE TOTAL DEFERRED MAINTENANCE BACKLOG**

Under Commitment #8, “Rebuilding City Infrastructure”, the *Roadmap* states a full accounting of the City’s backlog of infrastructure needs is a must. Although the liability has been estimated at over \$1 billion, the figure is misleading as it excludes assets such as sidewalks.

**A REQUIRED AMOUNT SHOULD BE IDENTIFIED ANNUALLY TO PREVENT AN INCREASE IN THE DEFERRED MAINTENANCE BACKLOG, AND ADDRESS ALL REGULAR ROUTINE MAINTENANCE NEEDS**

The same commitment further states, “The City’s infrastructure liability should be treated as seriously as our pension liability – with a rigorous financial assessment and monitoring.” It is also noted within the *Roadmap* that the Council has already agreed to such a proposal within the Structural Budget Deficit Elimination Principles adopted on February 22, 2010:

*“Develop a plan to fund deferred capital infrastructure and maintenance needs to reduce the current backlog, identify the level of funding necessary to prevent the problem from growing larger, and reduce the potential of increasing costs...”*

**THE CITY SHOULD ESTABLISH A RESERVE FUND WITH A “MAINTENANCE OF EFFORT” CLAUSE TO ENSURE INCREASED EXPENDITURES SHOULD THERE BE A BUDGET SURPLUS**

The *Roadmap* outlines two (2) different reforms that would create a reserve fund that would allocate additional funding to infrastructure projects. The proposed language that would create these funds is not yet available, so it is unclear if a “maintenance of effort” clause would be included.

**THE BUDGET PLAN SHOULD INCLUDE THE FULL COST OF PROVIDING RETIREE HEALTH CARE BENEFITS**

The *Roadmap* calls for the elimination of the retiree health care benefit currently afforded to employees. The *Roadmap* notes the unfunded portion of the retiree health care ARC represents part of the City’s “structural” budget deficit. In order to assist in eliminating this deficit, the *Roadmap* calls for its reform. By eliminating the benefit for current employees, the necessary funding to pay for the benefit for current retirees is below that of which is budgeted.

**ANALYSIS**

The *Roadmap*’s discussion regarding a proper calculation of the City’s deferred maintenance backlog and an annual funding amount to prevent an increase in the liability is consistent with the SDCTA principle. While SDCTA does not outline a specific benefit level for retiree health care, SDCTA does call upon reforming the benefit to a level that allows the City to pay the full ARC. Should this benefit following reform be at a level above the City’s current funding amount, the difference needs to be included within the total structural budget deficit. The *Roadmap* calls for the elimination of this benefit, therefore allowing the City to experience savings above and beyond what is currently allocated to pay for the benefit.

**GENERAL FUND SPENDING CAP**

**Table 6: SDCTA General Fund Spending Cap Principle vs. Roadmap**

| <b>SDCTA Reform Principle</b>  | <b>Included in this Proposal?</b> |
|--|-----------------------------------|
| All annual revenues above a defined rate of growth, as defined by the previous year’s Consumer Price Index, should be designated to the following: | No                                |
| - Reducing deferred maintenance backlog  | Yes                               |
| - Contribute to the following based on highest return of invested dollar:  |                                   |
| o Reducing unfunded pension liability  | Yes                               |
| o Reducing retiree healthcare unfunded liability   | Yes                               |
| o Increasing reserves  | Yes                               |
| o Reducing outstanding debt  | Yes                               |

**ALL EXCESS REVENUES DESIGNATED TO DEFERRED MAINTENANCE AND OTHER AREAS**

The *Roadmap to Recovery* calls for separate plans for spending surpluses from cost savings and surpluses from greater than expected revenues.

Spending excess revenues would be guided by a voter approved ballot measure (Charter amendment) that would establish an “Infrastructure Lock-Box” from FY 2012 to FY 2016. Any revenue in excess of 2% of projected revenue would be allocated to rebuilding core infrastructure. Under the proposed measure, “the Mayor and Council shall give priority to the repair of streets, sidewalks, and public facilities.”

Surpluses from controls of labor costs would be governed by an additional charter amendment, to be approved by voters, in accordance with the following formula:

- Up to 25% for additional infrastructure maintenance and repair projects
- Up to 25% for service restorations
- At least 50% for debt reduction or reserves

The baseline for the five-year spending cap would use the adopted FY 2011 budget as the baseline. The Mayor and Council would be required to negotiate future labor contracts and adopt budgets that stay within these caps.

**REFORMS NOT OUTLINED AS SDCTA REFORM PRINCIPLES**

SDCTA’s general fund spending cap principle outlines the suggested use of excess revenues, but does not address those surpluses that potentially exist from cost-savings. Under the *Roadmap*, those savings that occur because of lower-than-expected expenditures would be used for infrastructure projects, service restorations, debt reduction and reserves.

**ANALYSIS**

Many aspects of the *Roadmap to Recovery* spending cap reforms are in line with the accompanying SDCTA principles. The *Roadmap* does call for at least 50% of savings from labor costs to go to debt reduction; however the *Roadmap* does not specify which debts should be reduced. Assuming the unfunded pension liability and the retiree healthcare unfunded liability are included in this reduction plan, language addressing the importance of reducing these debts in particular should be included.

The Lock Box would require all revenue in excess of 2% to be set aside, but the *Roadmap* does not address potential increases in expenditures that might accompany the increase in revenues. The rationale for using a 2% rate of growth for revenues is not clear or outlined within the *Roadmap*. The cost of restoring services should include the increases to the pension system and other salary & benefit plans if new employees are to be added or rehired.

**REDUCTION IN CITY PENSION COSTS**

**Table 7: SDCTA Pension Reform Principles vs. *Roadmap***

| <b>SDCTA Reform Principle</b>  | <b>Included in this Proposal?</b> |
|--|-----------------------------------|
| 401(k)-type plan for new hires with Social Security or an equivalent modest defined benefit plan/Existing employees provided the option to move into lower tier. | Yes                               |
| The City and all employees shall pay a substantially equal share of pension costs  | Yes                               |
| Pensions shall be calculated based upon base pay only  | Yes                               |
| The City's Deferred Retirement Option Plan (DROP) shall be at least cost-neutral   | Yes                               |
| Calculation of a defined benefit shall be based upon the highest three consecutive year average of an employee's salary.   | N/A                               |

**PENSION REFORM DATA**

The *Roadmap to Recovery* obtained the services of Sheffler Consulting Actuaries, Inc. to provide modeling of financial impacts outlined in the *Roadmap*. A separate analysis was sought because the pension payments in the Five Year Financial Outlook used by the Mayor do not include the General Fund portion of the contributions, and could therefore be considered incomplete.

**401(K)-TYPE PLAN FOR NEW HIRES WITH SOCIAL SECURITY OR AN EQUIVALENT MODEST DEFINED BENEFIT PLAN/ EXISTING EMPLOYEES SHALL BE PROVIDED THE OPTION TO MOVE INTO THE LOWER TIER**

The *Roadmap* calls on the City to provide a 401(k) style plan to any new hires. Although there is no mention of a defined benefit component, the City would need to satisfy Social Security requirements to prevent the need of re-entering the Social Security system. Current employees would be allowed to leave the current pension system and enroll in the 401(k) plan with a defined benefit portion.

General employees and Police Officers already have hybrid plans that offer modest savings. The *Roadmap to Recovery* proposes further reductions to the cost of this hybrid plan. Actuarial analysis is provided for a 50% reduction in the defined benefit plan accompanied with a 5% defined contribution rate. Actual savings would depend on the number of current employees who choose the hybrid plan.

Both of these plans would require IRS approval.

***THE CITY AND ALL EMPLOYEES SHALL PAY A SUBSTANTIALLY EQUAL SHARE OF PENSION COSTS AND THE EMPLOYEE'S OBLIGATION SHALL NOT BE BORNE BY THE CITY***

The *Roadmap* calls for the city to eliminate the offsets for members of the Municipal Employees Association (MEA) and Teamsters 911, as it has been eliminated for elected and unclassified/unrepresented employees and remaining represented employees. Contract negotiations are already scheduled for implementation for the FY 2012 budget year for the groups in question.

***PENSIONS SHALL BE CALCULATED BASED UPON BASE PAY ONLY FOR EXISTING EMPLOYEES AND NEW HIRES***

Also included is reform of the pensionable status of special pays as a means to further reduce pension costs. The *Roadmap* calls on the City's labor negotiating team to review at least ten (10) special pays for potential pension reforms by FY 2012. The *Roadmap to Recovery* does not include any cost savings in regard to this potential reform. Discussion of special pay is found within Commitment #5 of the *Roadmap*, and discussed under Employee Compensation Reform within this report.

***THE CITY'S DEFERRED RETIREMENT OPTION PLAN (DROP) SHALL BE AT LEAST COST-NEUTRAL AND REVIEWED ANNUALLY***

The Mayor and Council should implement any cost neutrality reforms outlined in the DROP Cost Neutrality Study, yet to be released, prior to July 1, 2011. Until this study is completed, savings cannot be fully evaluated.

***CALCULATION OF A DEFINED BENEFIT SHALL BE BASED UPON THE HIGHEST THREE CONSECUTIVE YEAR AVERAGE OF AN EMPLOYEE'S SALARY.***

This reform principle is not addressed by the *Roadmap to Recovery* because the proposal calls for all new employees to be placed within a 401(k)-type retirement plan.

***REFORMS NOT IDENTIFIED AS SDCTA REFORM PRINCIPLES***

The *Roadmap* proposes significant savings from a general salary freeze. The proposal to freeze salaries for five (5) years would provide savings to the City's annual pension costs. However, this salary freeze would not freeze the step increases for classified personnel. The *Roadmap* estimates a city-wide budget savings of \$8.1 million in FY 2012, culminating in an annual savings of \$53.8 million in FY 2016. Over the 5 years, the savings is estimated to total nearly \$150 million in the City's pension payment. A "hard-freeze" of both general salaries and step increases is not proposed within the *Roadmap*, and savings from this "hard-freeze" are not included.

This *Roadmap* addresses reforming elected officials pension plans as its 10<sup>th</sup> commitment: "Leading by Example". The Municipal Code would be amended to prevent any elected official taking office after December 1, 2010 to be eligible for the defined benefits plan. The *Roadmap* also outlines the establishment of a 401(k) style benefit plan, with a match of up to 7% of base

salary as long as the City does not take part in Social Security, and reducing the employer matching rate to 3% if Social Security is paid. This would not affect those who took office prior to that date.

The proposed amendment is as follows:

*24.1708 Elected Official Retirement Plan Effective December 1, 2010*

*Any Elected Officer who takes office after December 1, 2010 shall not be eligible to enroll in the retirement system provided for in Section 24.1701 through 24.1707.*

*Any Elected Officer who takes office after December 1, 2010 shall only receive a retirement allowance in the form of an employer contribution to match up to 7% of the annual base salary of that Elected Officer. For any year when the City of San Diego makes payments on behalf of Elected Officers into the federal Social Security system, the match shall be capped at no more than 3% of the annual base salary of the Elected Officer.*

The *Roadmap* also calls for an amendment to the Municipal Code to eliminate the cap on the pension contribution of elected officials. This cap results in SDCERS calculating a lower contribution rate for elected officials than exists for other city employees. The proposed amendment would ensure compliance with the “substantially equal” clause within the City Charter. Cost-savings estimates are not provided for this reform. These points are included under the heading “Lead by Example,” indicating the symbolic importance of including the reforms may be greater than the financial savings.

**ANALYSIS**

The *Roadmap to Recovery* addresses many of the SDCTA Budget Reform Principles. Actuarial analyses cannot provide cost saving projections for several components because their full impact cannot yet be defined. The *Roadmap* also does not include any legal costs of implementing the reforms. Even if the City Attorney opines reforms are legal, the opportunity exists that implementation would bring about a legal challenge.

SDCTA would encourage the *Roadmap* to include the principle of basing pensions on an average of an employee’s highest three consecutive year salary as a further cost savings to the City should the City maintain a defined benefit or hybrid pension plan.



**REFORM OF RETIREE HEALTH CARE LIABILITY**

**Table 8: Retiree Health Care Reform Principle vs. Roadmap**

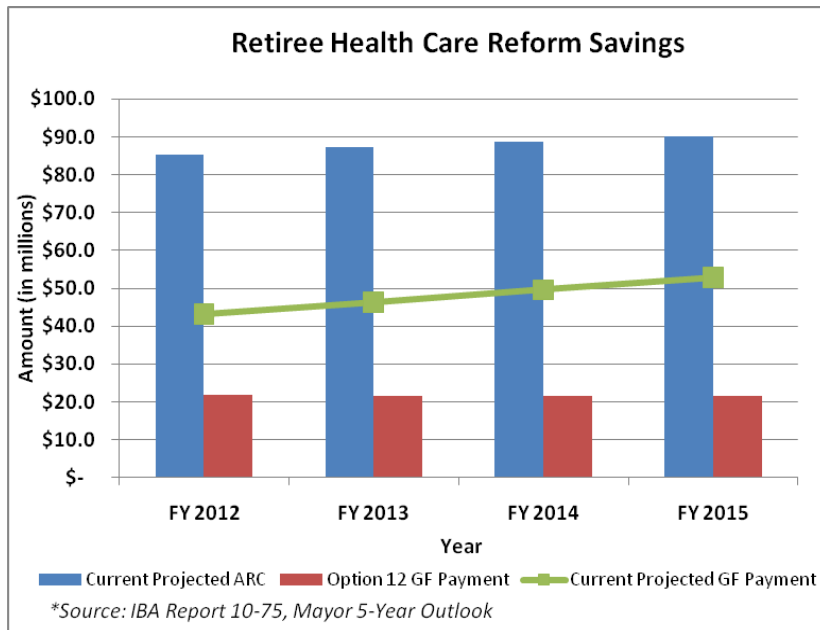
| SDCTA Reform Principle   | Included in this Proposal? |
|--|----------------------------|
| City should implement reforms to reduce the current retiree health care unfunded liability | Yes                        |
| City should pay the entire retiree health care Annual Required Contribution (ARC)          | Yes                        |

**RETIREE HEALTH CARE LIABILITY**

The *Roadmap to Recovery* calls for the City to implement “Option 12” presented to the Joint Committee on Retiree Health. This would leave benefits unchanged for employees who are already retired, but all current employees would have their retiree health care benefit eliminated.

**REDUCE CURRENT UNFUNDED RETIREE HEALTH CARE LIABILITY, AND PAY FULL ANNUAL REQUIRED CONTRIBUTION**

The *Roadmap* asserts that if the retiree health care benefit is eliminated for current employees, the General Fund savings will allow the City to pay the full annually required contribution.



**ANALYSIS**

According to the IBA, implementation of Option 12 would generate a cumulative General Fund savings of \$74.26 million from FY 2012 to FY 2015.

The *Roadmap* quotes findings of the Study by the Joint Committee on Retiree Health; however it should be noted the quotes are largely from the City’s own statements on their motivations and primary interests, and “does not represent an endorsement of those interests/motivations by any party to this Report other than the maker”.<sup>x</sup> The *Roadmap* does not

address the union opinion, and public unions have stated they do not believe the City has the ability to change these benefits. The *Roadmap for Recovery* does not budget for any potential legal costs that may be incurred defending this position, should they exceed the City Attorney’s departmental budget.

**EMPLOYEE COMPENSATION REFORM**

**Table 9: Employee Compensation Reform Principle vs. Roadmap**

| <b>SDCTA Reform Principles</b>   | <b>Included in this Proposal?</b> |
|--|-----------------------------------|
| Total net compensation of non-public safety employees should not exceed the local private sector   | Yes                               |
| City labor and hiring practices should include provisions that assist in the acquisition and retention of the most qualified employees; likewise, policies and practices ensure that performance is reviewed on a regular basis to make certain that poorly performing employees can be dismissed or demoted | Yes                               |
| Ensure specialty pays are only for special qualifications and skills, not job skills or certifications required for employment   | Yes                               |
| Eliminate ‘terminal leave’ benefit   | Yes                               |
| Employees to receive reimbursement and not allowances  | Yes                               |
| The City should reduce leave time benefit for employees, reduce the leave time accrual cap, and reform the leave time pay-out so that employees receive pay-out upon termination of employment   | Yes                               |

**TOTAL NET COMPENSATION OF NON-PUBLIC SAFETY EMPLOYEES SHOULD NOT EXCEED THE LOCAL PRIVATE SECTOR**

While a comparison between private sector wages and public employee wages is mentioned several times in the report, the act of benchmarking of city employee compensation to the local private sector is not outlined. Rather, the report offers a rationale for a reduction in city employee compensation given the reduction in private sector compensation within San Diego County between 2007 and 2010.

**CITY LABOR AND HIRING PRACTICES SHOULD INCLUDE PROVISIONS THAT ASSIST IN THE ACQUISITION AND RETENTION OF THE MOST QUALIFIED EMPLOYEES; LIKEWISE, POLICIES AND PRACTICES ENSURE THAT PERFORMANCE IS REVIEWED ON A REGULAR BASIS TO ENSURE THAT POORLY PERFORMING EMPLOYEES CAN BE DISMISSED OR DEMOTED**

The first commitment addressed by the *Roadmap to Recovery* is entitled “Accountability for Results”. This commitment calls for the formation of performance measures developed within departmental strategic plans, and to use these performance measures to hold department managers accountable to performance contracts.

Under the *Roadmap*, each department should develop 5-7 goals, some addressing core outcomes for the community, other addressing transformational measures. These goals, and the department manager’s performance contract, would be displayed on the department’s website.

The report also proposes to eliminate the “last hired, first fired” policy, instead allowing employee performance reviews to be used to determine the most valuable employee. This process would start immediately during downsizing.

**ENSURE SPECIAL PAYS ARE ONLY FOR SPECIAL QUALIFICATIONS AND SKILLS, NOT JOB SKILLS OR CERTIFICATIONS REQUIRED FOR EMPLOYMENT**

Several special pays are highlighted in the *Roadmap to Recovery*, with the recommendation that specialty pays be eliminated when it can be shown that the compensated activities do not go well

beyond the basic job requirements, or when the special pay is provided to essentially all employees. The *Roadmap* specifically sites EMT pay and desk pay premium for firefighters, as well as master's degree specialty pay for librarians. In addition to the librarian specialty pay (Master's Degree Pay), the Municipal Employee's Association contract lists a number of additional pays and reimbursement rates. The *Roadmap* then calls for a 50% reduction in other MEA contract pay, with a reduction target of \$1.5 million.

#### **ELIMINATE 'TERMINAL LEAVE' BENEFIT**

The *Roadmap* calls for the city council to continue the process to eliminate the terminal leave benefit. Savings could range from \$120,000 to \$1.2 million.

#### **EMPLOYEES TO RECEIVE REIMBURSEMENTS AND NOT ALLOWANCES**

The *Roadmap to Recovery* would suspend all management vehicle allowances, but does not call for reimbursements, nor does it explain how these expenses would be addressed.

#### **THE CITY SHOULD REDUCE LEAVE TIME BENEFIT FOR EMPLOYEES, REDUCE THE LEAVE TIME ACCRUAL CAP**

The *Roadmap* would set the maximum hours that could be accumulated at 240 hours, and general employees would have their annual leave capped at 120 hours. The pay-in-lieu of leave program, which allows employees to receive payment in lieu of accrued leave time, is also addressed, with the intent to eliminate the policy, as it was estimated to have cost the General Fund \$6.1 million in FY 2010.

#### **REFORMS NOT IDENTIFIED AS SDCTA REFORM PRINCIPLES**

The *Roadmap to Recovery* also includes a 2% general salary reduction for non-public safety groups and a five (5) year base salary freeze for all city employees.

#### **ANALYSIS**

Many of the SDCTA budget reform principles are addressed within this category. The report does address the concept that City employee's compensation should be similar to those in the private sector, but there is no mention of how these comparisons will be made. SDCTA also understands there may be instances in which public sector compensation may be lower than similar job functions within the private sector for a number of reasons. Individuals attain various positions in the public, private or non-profit sector for various reasons, and thus understand that all job categories cannot provide similar compensation. The question also remains if the *Roadmap* accounts for the increase in vehicle reimbursements when calculating the savings for the elimination of the vehicle management allowance.

Reform 4.16 within the *Roadmap* also calls for the creation of a gain-sharing program that allows for performance based, non-pensionable pay bonuses. The program would begin in FY 2015 and would be based on documented savings from pension reform.

**REFORM OF CITY OPERATIONS**

**Table 10: Reform of City Operations Principle vs. Roadmap**

| <b>SDCTA Reform Principles</b>  | <b>Included in this Proposal?</b> |
|---|-----------------------------------|
| Expanding and creating public private partnerships that enhance service and/or reduce costs to taxpayers  | Yes                               |
| Streamlining City operations and permitting process to create a more business-friendly city   | Yes                               |
| The City’s adopted budget to include consolidation of similar service functions   | Yes                               |
| Implementation of Managed Competition and/or Direct Outsourcing   | Yes                               |
| The City to develop volunteer programs to augment and mitigate service level reductions, modeling the police department’s Retired Senior Volunteer Patrol (RSVP) program or other effective, well-established programs in other communities | Yes                               |
| The City to begin a bi-annual review process of all City leases to ensure lease renewals are contracted at fair market value  | No                                |
| The City to minimize the transfer of debt to the Redevelopment Agency and related entities so as not to negatively impact the completion of community plans and affordable housing  | No                                |

**EXPANDING AND CREATING PUBLIC PRIVATE PARTNERSHIPS THAT ENHANCE SERVICE AND/OR REDUCE COSTS TO TAXPAYERS**

The *Roadmap to Recovery* suggests Public-Private Partnerships (PPP) for two specific items. A PPP is recommended to institute business friendly resource programs, and expanded PPP’s for parks and recreation programs. There is no mention of exploring further partnerships.

**STREAMLINING CITY OPERATIONS AND PERMITTING PROCESS TO CREATE EFFICIENCIES**

The *Roadmap* calls for all City services provided to businesses and citizens to be streamlined using a consolidated call center and increased online transactions.

The *Roadmap* also calls for the City to use the system available in the new Enterprise Resource Planning (ERP) system that is being implemented across all City departments to accomplish this goal. If the City were to create a single call center, this call center could have information from several departments available to each caller.

The City would continue increasing online access for transactions between the City and the public, with the goal of reaching 95% of all small business transactions by FY 2015. Examples of these transactions would be allowing businesses to pay permits and fees online. The City Police Department has already begun work to allow transactions related to the alarm systems permitting to be done online. The *Roadmap* claims the Police Department expects to save time and money with this process. A PPP is recommended to create a pilot program as a first step to creating these online resources. The *Roadmap* for Recovery provides examples of improvements in availability of information to small businesses that have successfully aided these businesses in New York City and Louisville. Especially touted is the NYC Business Express, a consolidation of relevant business

information. Just as this NYC program began small, the *Roadmap* calls for the San Diego program to be instituted in phases.

In addition to these reforms, the *Roadmap* also lists several recommendations that implement the “Open for Business” small business action plan released from Councilmember DeMaio’s office in June 2010. These reforms include business district improvements and consolidation of small business services, as well a commitment to lower fees and taxes.

#### **THE CITY’S ADOPTED BUDGET SHOULD INCLUDE CONSOLIDATION OF SIMILAR SERVICE FUNCTIONS**

The *Roadmap* for Recovery identifies four (4) areas of long-term reforms involving consolidation. The *Roadmap* would look at potentially dissolving the Port of San Diego, combining Harbor Police with SD police and lifeguards, transfer prosecution of misdemeanor crimes from city attorney to district attorney, and consolidating support functions between the County of San Diego and City, such as auto maintenance, facilities management, etc.

Streamlining operations would also include Reform 1.4, which calls for the creation of a City Office of Management and Budget. This would consolidate and merge functions of Financial Management, Business Office, comptroller’s office, city treasurer, IT, purchasing/contracting, and other agencies. In addition, the Office of Management and Budget consolidation would result in a streamlining of Management Analysts. In total, this consolidation would result in a net reduction of 32.97 FTEs, and a total General Fund savings of approximately \$3.5 million.

#### **IMPLEMENTATION OF MANAGED COMPETITION AND/OR DIRECT OUTSOURCING**

The *Roadmap to Recovery* suggests that when an activity is considered for competitive bidding, the following questions should be asked:

- *“Whether an activity is needed in the first place*
- *Whether an activity should be “re-engineered” to be more efficient*
- *Whether an activity should be “sourced” differently, either through another staff unit, another agency, a non-profit organization, a program partner, or a private-sector vendor.”*

The *Roadmap* calls for the implementation of managed competition or direct outsourcing on eleven (11) functions, with actual savings expected to begin in mid-FY 2012. The estimated FY 2012 savings of over \$11 million accounts for the delay in starting these programs, and also does not account for pension payment reductions. The winner of competitions is not assumed, with only estimated savings outlined in budget projections.

The potential savings from the eleven (11) priority functions outlined to undergo managed competition and/or direct outsourcing are outlined in Table 11.

**Table 11: Managed Competition Projected Savings**

| Departmental Budget    | Line Item                               | FTE Impact | General Fund Savings (annual) | General Fund Savings (FY12) |
|------------------------|---|------------|-------------------------------|-----------------------------|
| Environmental Services | Trash Collection Services               | 0 - 110.80 | \$4,397,265                   | \$2,198,633                 |
| Park & Recreation      | Maintenance                             | 0 - 56     | \$488,301                     | \$244,150                   |
| Park & Recreation      | Facilities Operation                    | 0 - 123.14 | \$1,405,231                   | \$702,615                   |
| Park & Recreation      | Beaches and Shoreline Maintenance       | 0 - 17     | \$809,065                     | \$404,532                   |
| Park & Recreation      | City-Wide Park Maintenance              | 0 - 95     | \$1,566,468                   | \$783,234                   |
| Park & Recreation      | Parks and building maintenance          | 0 - 97.82  | \$1,442,099                   | \$721,049                   |
| General Services       | Facilities                              | 0 - 98     | \$1,840,541                   | \$920,271                   |
| General Services       | Fleet and Auto Maintenance              | 0 - 249    | \$5,432,400                   | \$2,716,200                 |
| General Services       | Print Shop and Publishing               | 0 - 25     | \$101,366                     | \$50,683                    |
| Storm Water            | Street sweeping function                | 0 - 42     | \$733,960                     | \$366,980                   |
| Information Technology | Data Processing Corporation and City IT | 0 - 80     | \$5,000,000                   | \$2,500,000                 |

The *Roadmap* would also have the city consider the feasibility of selling the Data Processing Corp (DPC). Under the *Roadmap*, the city would award a contract to DPC to provide IT services so long as the cost is reduced by at least 15%. With this long term contract with the city, the *Roadmap* then recommends this revenue stream, as well as the capital equipment and workforce, will make the DPC a potentially valuable investment for a private company. This would be a one-time payment in the form of a sale, not a long term revenue lease.

The *Roadmap* also outlines significant FY

2012 gains (\$10 million) from the divestiture of the Miramar Landfill. The realization of these savings is unclear given the Mayor’s decision to abandon the Miramar Landfill proposal. Instead, the Mayor will pursue putting the landfill operations through the Managed Competition process. The Mayor’s Office is expected to begin the Managed Competition process for the landfill in May or June of 2011, but final approval may not come until mid-2012. It is also expected this process will not generate the \$10 million in savings originally estimated.<sup>xi</sup>

**THE CITY SHOULD DEVELOP VOLUNTEER PROGRAMS TO AUGMENT AND MITIGATE SERVICE LEVEL REDUCTIONS, MODELING THE POLICE DEPARTMENT’S RETIRED SENIOR VOLUNTEER PATROL (RSVP) PROGRAM OR OTHER EFFECTIVE, WELL-ESTABLISHED PROGRAMS IN OTHER COMMUNITIES**

The *Roadmap* calls for the creation of a city-wide Community Volunteer Corp as a long term commitment. No implementation strategies, costs, savings or impacts to services are assigned to this program.

**THE CITY SHOULD BEGIN A BI-ANNUAL REVIEW PROCESS OF ALL CITY LEASES TO ENSURE LEASE RENEWALS ARE CONTRACTED AT FAIR MARKET VALUE**

This budget principle is not mentioned within the *Roadmap*.

**THE CITY SHOULD MINIMIZE THE TRANSFER OF DEBT TO THE REDEVELOPMENT AGENCY AND RELATED ENTITIES SO AS NOT TO NEGATIVELY IMPACT THE COMPLETION OF COMMUNITY PLANS AND AFFORDABLE HOUSING**

The *Roadmap to Recovery* looks to increase general fund savings by transferring various infrastructure debts to the Centre City Development Corporation (CCDC). The *Roadmap* would transfer all remaining Petco Park debt, remaining and future Convention Center Expansion debt, and call on the organization to repay long term debt, both Community Development Block Grants and non-CDBG to the city. There is no mention of the possible effect on community plans or affordable housing plans within these proposals.

In addition to CCDC, the *Roadmap* calls for the Port District to continue the \$4.5 million contribution to the Convention Center debt service beyond the agreed upon 2014 contract termination date.

**ANALYSIS**

We applaud the ideas of managed competition and outsourcing, so long as they produce efficient and cost effective services, as well as the details provided for streamlining business operations. More attention should be given to the details of forming a volunteer organization, and SDCTA feels utilizing public private partnerships and consolidation of city services may lead to greater opportunities to realize cost savings. We strongly encourage the investigation of bi-annual lease reviews, and would caution against transfers of debt to other agencies without consideration of how this transfer will affect the completion of already adopted community plans.

**TRANSPARENT BUDGET PROPOSAL**

**Table 12: Transparent Budget Proposal Principle vs. Roadmap**

| <b>SDCTA Reform Principles</b>  | <b>Included in this Proposal?</b> |
|---|-----------------------------------|
| The City’s adopted budget should contain a sensitivity analysis of revenue projections for each major revenue source  | No                                |
| Where appropriate, the City should adopt an Activity Based Costing method that demonstrates the inputs, outcomes, and unit cost of each service provided  | Yes                               |
| The City should continue to hold budget deliberation meetings throughout the City, including hearings and other methods that provide a review of the adopted budget   | No                                |
| Within the annual budget, the City should identify what are the core services, while outlining those services and programs that are NOT considered core services  | No                                |
| The executive summary of the proposed and adopted budget should be published in local media and posted at public spaces (e.g. City Hall, libraries, recreation centers) in addition to posting on the City’s website and social media (Facebook, Twitter, etc.) | No                                |

**THE CITY'S ADOPTED BUDGET SHOULD CONTAIN A SENSITIVITY ANALYSIS OF REVENUE PROJECTIONS FOR EACH MAJOR REVENUE SOURCE**

While the *Roadmap* incorporated a sensitivity analysis for the purpose of developing the report, the *Roadmap* does not call for the inclusion of a sensitivity analysis within the City's adopted budget. The Independent Budget Analyst's review of the annual budget incorporates this type of analysis of major revenue sources.

**WHERE APPROPRIATE, THE CITY SHOULD ADOPT AN ACTIVITY BASED COSTING METHOD THAT DEMONSTRATES THE INPUTS, OUTCOMES, AND UNIT COST OF EACH SERVICE PROVIDED**

An Activity Based Costing method is a set of accounting methods used to identify and describe costs and required resources for activities within processes.<sup>xiii</sup> The *Roadmap* does believe that the Enterprise Resource Planning (ERP) System that is currently being implemented will allow for the cost-per-unit analysis of city services. The *Roadmap* believes the full-cost accounting that will be implemented under the ERP system can lead to the implementation of "performance-based budgeting", and calls for cost accounting studies of the top ten (10) city service areas in FY 2012. Other services will be included following this initial review.

**THE CITY SHOULD CONTINUE TO HOLD BUDGET DELIBERATION MEETINGS THROUGHOUT THE CITY, INCLUDING HEARINGS AND OTHER METHODS THAT PROVIDE A REVIEW OF THE ADOPTED BUDGET**

The *Roadmap* states that since the Mayor no longer attends City Council meetings under the strong-mayor system, the Mayor should be available for monthly 30-minute sessions of public comments and questions from citizens.

**WITHIN THE ANNUAL BUDGET, THE CITY SHOULD IDENTIFY WHAT ARE THE CORE SERVICES, WHILE OUTLINING THOSE SERVICES AND PROGRAMS THAT ARE NOT CONSIDERED CORE SERVICES**

The *Roadmap* does label some programs as non-core, but it does not recommend applying that principle to all budget items. The cuts suggested to these non-core programs are marked as temporary, but unlike other temporary cuts in the *Roadmap*, there is no time limit set on when these cuts would be reversed.

**THE EXECUTIVE SUMMARY OF THE PROPOSED AND ADOPTED BUDGET SHOULD BE PUBLISHED IN LOCAL MEDIA AND POSTED AT PUBLIC SPACES (E.G. CITY HALL, LIBRARIES, RECREATION CENTERS) IN ADDITION TO POSTING ON THE CITY'S WEBSITE AND SOCIAL MEDIA (FACEBOOK, TWITTER, ETC.)**

There is no mention of ensuring the public budget is made available to large numbers of citizens by utilizing various different methods. However, the *Roadmap* does state additional outreach could be implemented in the future during the annual budget process.

**REFORMS NOT IDENTIFIED AS SDCTA REFORM PRINCIPLES**

While some reforms in the *Roadmap* do not specifically identify ways in which to increase transparency related to the budget process, other proposals outlined are intended to achieve "Open Government". These include posting all city contracts online, amending council rules to allow a councilmember to place an item on the city docket, posting city financial transactions online, and increasing the number of city functions that are available online or through call centers. The *Roadmap* also calls for several different revenue audits aimed at identifying waste and ensuring the City is receiving all the revenue that is due to it.



## ANALYSIS

While the *Roadmap to Recovery* does discuss several options for open government, the reforms address broader government issues and do not primarily focus on reforming the transparency of the budget process. While SDCTA Principles may not directly align with some of the reforms, the objective of “Open Government” is similar. Additional reforms in regards to the budget process can be included to inform members of the public of the impacts of the decisions made by elected officials.

## BALLOT MEASURES

The *Roadmap to Recovery* would rely on ballot measures to create binding Charter Amendments to achieve the *Roadmap's* reform measures.

The first Charter Amendment would impose five years of spending caps on the General Fund, and specifically be amended to cap labor costs, using the FY 2011 adopted budget as a baseline. This would also place a cap on net labor costs, giving the City Auditor the authority to certify these caps are being met. Additionally, this amendment would give specific guidelines on how surpluses could be spent. At least 50% must go to debt reduction or reserves, up to 25% for additional infrastructure maintenance and repair projects, and up to 25% for service restoration.

The next Charter Amendment would involve one or more ballot measures to enact pension reform measures.

The last Charter Amendment would establish a lock box requiring 2% of excess revenues to be allocated to core infrastructure projects. Priority would be given to repair of roads, sidewalks, and public facilities.

## ANALYSIS

Any ballot measure that is put before voters during an election cycle would be reviewed by SDCTA. SDCTA would follow regular policies and procedures related to reviewing ballot measures and providing recommendations to taxpayers throughout San Diego.

## CONCLUSION

Overall, the reforms within the *Roadmap to Recovery* align with 27 of the 37 elements within the SDCTA Budget Reform Principles (73%).<sup>xiii</sup>

For the most part, reforms outlined in the *Roadmap* include many of the budget reform principles that have been adopted by SDCTA. The elements within SDCTA’s “Transparent Budget Proposal” are not included within the *Roadmap*, but instead, other reforms are proposed to further the concept of “Open Government”. SDCTA believes the principles outlined under “Transparent Budget Proposal” should be considered for inclusion within any budget proposal adopted by the Mayor and City Council as a way to ensure the most transparency for taxpayers throughout San Diego. The *Roadmap* also includes various ballot measures that would be brought before voters as a means to impose reforms on the City. The proposed language of the measures is not included within the *Roadmap*, and any recommendation from SDCTA would require its customary review



and approval of SDCTA committees and the Board of Directors. The *Roadmap* also includes many reforms not addressed by SDCTA. These include conducting various revenue audits and creating a bonus program for employees that shares savings from pension reform.

While accurate budgetary data has been difficult to obtain from the City, SDCTA has instead chosen to develop a set of Budget Reform Principles rather than attempt to develop a balanced budget. SDCTA believes, given the data that has thus far been presented to the public, proper application of the Reform Principles will assist the City in eliminating its structural budget deficit, while maintaining an adequate level of transparency for San Diego taxpayers.

SDCTA will continue to use the adopted Budget Reform Principles to evaluate any additional budget proposals and ideas that are brought forward for City Council consideration, including the Mayor's Proposed FY 2012 Budget scheduled to be released on or around April 15, 2011. SDCTA will also ask for consideration of including Reform Principles within a budget proposal in those instances in which they are not included.

**Table 13: Summary of SDCTA Principles & Roadmap to Recovery**

| SDCTA Reform Principle                       |  | Included in this Proposal? |
|--|--|----------------------------|
| <b>STRUCTURAL BUDGET DEFICIT CALCULATION</b> | The budget plan should identify the total deferred maintenance backlog   | Yes                        |
|  | A required amount should be identified annually to prevent an increase in the deferred maintenance backlog, and address all regular routine maintenance needs    | Yes                        |
|  | The City should establish a reserve fund with a “maintenance of effort” clause to ensure increased expenditures should there be a budget surplus                 | Yes                        |
|  | The budget plan should include the full cost of providing retiree health care benefits   | Yes                        |
| <b>GENERAL FUND SPENDING CAP</b>             | All annual revenues above a defined rate of growth, as defined by the previous year’s Consumer Price Index, should be designated to the following:               | No                         |
|  | - Reducing deferred maintenance backlog  | Yes                        |
|  | - Contribute to the following based on highest return of invested dollar:  |                            |
|  | o Reducing unfunded pension liability  | Yes                        |
|  | o Reducing retiree healthcare unfunded liability   | Yes                        |
|  | o Increasing reserves  | Yes                        |
| <b>PENSION REFORM</b>                        | 401(k)-type plan for new hires with Social Security or an equivalent modest defined benefit plan/Existing employees provided the option to move into lower tier. | Yes                        |
|  | The City and all employees shall pay a substantially equal share of pension costs  | Yes                        |
|  | Pensions shall be calculated based upon base pay only  | Yes                        |
|  | The City’s Deferred Retirement Option Plan (DROP) shall be at least cost-neutral   | Yes                        |
|  | Calculation of a defined benefit shall be based upon the highest three consecutive year average of an employee's salary.   | N/A                        |
| <b>RETIREE HEALTH CARE REFORM</b>            | City should implement reforms to reduce the current retiree health care unfunded liability   | Yes                        |
|  | City should pay the entire retiree health care Annual Required Contribution (ARC)  | Yes                        |

|                                     |  |     |
|-------------------------------------|--|-----|
| <b>EMPLOYEE COMPENSATION REFORM</b> | Total net compensation of non-public safety employees should not exceed the local private sector   | Yes |
|                                     | City labor and hiring practices should include provisions that assist in the acquisition and retention of the most qualified employees; likewise, policies and practices ensure that performance is reviewed on a regular basis to make certain that poorly performing employees can be dismissed or demoted | Yes |
|                                     | Ensure specialty pays are only for special qualifications and skills, not job skills or certifications required for employment   | Yes |
|                                     | Eliminate 'terminal leave' benefit   | Yes |
|                                     | Employees to receive reimbursement and not allowances  | Yes |
|                                     | The City should reduce leave time benefit for employees, reduce the leave time accrual cap, and reform the leave time pay-out so that employees receive pay-out upon termination of employment   | Yes |
| <b>REFORM OF CITY OPERATIONS</b>    | Expanding and creating public private partnerships that enhance service and/or reduce costs to taxpayers   | Yes |
|                                     | Streamlining City operations and permitting process to create a more business-friendly city  | Yes |
|                                     | The City's adopted budget to include consolidation of similar service functions  | Yes |
|                                     | Implementation of Managed Competition and/or Direct Outsourcing  | Yes |
|                                     | The City to develop volunteer programs to augment and mitigate service level reductions, modeling the police department's Retired Senior Volunteer Patrol (RSVP) program or other effective, well-established programs in other communities  | Yes |
|                                     | The City to begin a bi-annual review process of all City leases to ensure lease renewals are contracted at fair market value   | No  |
|                                     | The City to minimize the transfer of debt to the Redevelopment Agency and related entities so as not to negatively impact the completion of community plans and affordable housing   | No  |
| <b>TRANSPARENT BUDGET PROPOSAL</b>  | The City's adopted budget should contain a sensitivity analysis of revenue projections for each major revenue source   | No  |
|                                     | Where appropriate, the City should adopt an Activity Based Costing method that demonstrates the inputs, outcomes, and unit cost of each service provided   | Yes |
|                                     | The City should continue to hold budget deliberation meetings throughout the City, including hearings and other methods that provide a review of the adopted budget  | No  |
|                                     | Within the annual budget, the City should identify what are the core services, while outlining those services and programs that are NOT considered core services   | No  |
|                                     | The executive summary of the proposed and adopted budget should be published in local media and posted at public spaces (e.g. City Hall, libraries, recreation centers) in addition to posting on the City's website and social media (Facebook, Twitter, etc.)  | No  |

## ENDNOTES

<sup>i</sup> Under Charter Section 265(b)(14), the Mayor shall ‘propose a budget to Council and make it available for public review, no later than April 15’.

<sup>ii</sup> “Mayor will push ballot measure to eliminate traditional pensions for new hires at city”. Office of Mayor Jerry Sanders Press Release. November 19, 2010.

<sup>iii</sup> City of San Diego FY 2012 – 2016 5-Year Financial Outlook.

<sup>iv</sup> City of San Diego memorandum dated September 13, 2010. “Fiscal Year 2012 Budget Reductions”.

<sup>v</sup> City of San Diego Fiscal Year 2011 Mid-Year Budget Monitoring Report. February 23, 2011. Report No. 11-031. Pg. 1

<sup>vi</sup> City of San Diego Fiscal Year 2009 Comprehensive Annual Financial Report. Pg. 17.

<sup>vii</sup> City of San Diego FY 2012 – 2016 5-Year Financial Outlook.

<sup>viii</sup> Governmental Accounting Standards Board. “Other Post-Employment Benefits: A Plain Language Summary of GASB Statements No. 43 and No. 45.” Available from [http://www.gasb.org/project\\_pages/opeb\\_summary.pdf](http://www.gasb.org/project_pages/opeb_summary.pdf).

<sup>ix</sup> Table represents partial list of proposed reforms and subsequent savings.

<sup>x</sup> City of San Diego Study by the Joint Committee on Retiree Health. Pg. 3.

<sup>xi</sup> Gustafson, Craig. “San Diego Won’t Sell Miramar Landfill”. February 18, 2011. [www.signonsandiego.com](http://www.signonsandiego.com)

<sup>xii</sup> U.S. Government Accountability Office. April 27, 1998.

<sup>xiii</sup> For the purposes of this calculation, SDCTA did not include the element relating to the pension calculation based upon a high-three year consecutive average of salary since the *Roadmap* calls for the implementation of a defined contribution retirement plan for new employees.