

City of San Diego Fiscal Year 2014 Budget Overview

May 2013

SDCTA Adopted Budget Principles

In March 2011, the San Diego County Taxpayers Association (SDCTA) adopted seven Budget Reform Principles to be included in the City of San Diego's Fiscal Year 2012 budget. Those principles are:

- 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

SDCTA has advocated for these principles during previous budget deliberations and has continued to do so during the current budget process.

Fiscal Year 2014-2018 Five-Year Outlook

In October 2012, then Mayor Sanders released the Fiscal Year (FY) 2014-2018 Five-Year Outlook. Mayor Sanders estimated the FY 2014 budget could experience a \$4.9 million budget surplus. This estimate though did not include two significant impacts: the initial first year impact of implementing Proposition B and the impacts of the dissolution of redevelopment. A revised Outlook presented by the Independent Budget Analyst (IBA) estimated a budget deficit for FY 2014 totaling \$37 million. Following the confirmation of these impacts, the deficit was later reset at \$38.4 million.

Fiscal Year 2014 Proposed Budget

On April 15, 2013, Mayor Filner released his Proposed FY 2014 Budget. The city-wide proposed budget totals \$2.75 billion, including a \$1.2 billion General Fund budget. The Mayor's budget proposal includes \$23.7 million in one-time solutions and \$19.6 million in on-going solutions to address the budget deficit. These proposed solutions result in a \$5.5 million surplus which is being proposed to fund new expenditures in the budget.

The ongoing solutions include the use of several fund balances that will be allocated over a three-year period, as well as projected increases in other ongoing revenues. An additional \$21.6 million in a one-time SDG&E settlement is proposed to be moved from the Public Liability Reserve to addressing the deficit. No new ongoing revenues are proposed and no user fee increases are recommended by the Mayor's office to address cost recovery.

The \$1.2 billion General Fund budget is a 3.1 percent increase (\$36.4 million) over the FY 2013 adopted budget. The proposed General Fund budget includes 7,212 full-time equivalent (FTE) positions, a net increase of over 60 FTE positions in FY 2013.

The proposed budget includes increases in personnel and non-personnel expenses in various departments. The budget proposal allocates \$1.2 million for the addition of 16 police academy recruits, while another \$1.1 million has been budgeted for police equipment. The proposal includes nine additional FTEs in various infrastructure related departments as “support” for deferred capital maintenance. Nearly \$1 million and 6 FTEs have been designated for the Mayor’s new Civic and Urban Initiatives Program. This new program will be tasked with coordinating and linking fragmented urban and civic policies, and provide support to various working groups. Other proposed staffing increases include lifeguard hourly staffing support, storm water compliance monitoring and additional staffing to support the 2015 Balboa Park Centennial and increases in park acreage.

The Mayor is expected to release the May Revise and FY 2013 Year-End Report on May 21st.

Managed Competition

Following the successful completion and implementation of the city’s first managed competition process, Mayor Filner announced that despite some setbacks, the awarding of five additional competitions will continue and savings for those have been included in the FY 2014 Budget. These five competitions could generate as much as \$12.2 million in savings. The Mayor later stated five new processes that are ready to begin will be delayed as the city undertakes a review of the managed competition process. While additional managed competitions have been placed on hold, the Mayor did set aside \$160,000 for a consultant to evaluate efficiencies. The Mayor has expressed a strong interest in undertaking departmental efficiency studies in FY 2014 in order to generate potential savings to mitigate the FY 2015 projected deficit.

The performance indicators included within the proposed budget outlines a target of \$1.7 million in additional annual savings from business process reengineering, efficiency studies and the implementation of audit recommendations.

Infrastructure

The proposed budget also delays the issuance of an \$80 million deferred capital bond from Spring of 2013 to January 2014, and also delays all planned subsequent issuance to achieve \$5.6 million in debt service savings. The city is planning on an additional bond issuance of \$35 million in late FY 2013 that is not a part of the original bond schedule. Approximately 93 percent of the first deferred capital bond issued in 2009 has been expended, and 37 percent of the second bond of \$75 (2012) has been expended, encumbered or pre-encumbered. City staff is on pace to spend down the bond by August 2014.

The Mayor has also proposed to eliminate \$8.3 million in deferred capital funding previously approved by the City Council in early 2012 to be expended this year. In total, ongoing maintenance and repair funding for the current fiscal year has been reduced by \$5.1 million, while the allocation for FY 2014 has been reduced by \$1 million. This leaves the city \$6 million short from its Deferred Capital Funding Plan adopted by the City Council in March 2012. The proposed budget also does not include any funding for undertaking condition assessments of sidewalks, public works department assets or park and recreation facilities.

Bringing Services “In-House”

The proposed budget includes \$200,000 to study the feasibility of the city assuming control of two services currently provided by outside organizations: Taxicab Administration and Emergency Medical Services (EMS).

The general fund budget includes \$100,000 to study the feasibility of the city taking over Taxicab Administration from the Metropolitan Transit System (MTS). The current contract with MTS expires in June 2013. Additionally, \$100,000 is budgeted within the EMS fund to pay for an EMS operations study to be performed by an outside consultant. The current contract for EMS services with Rural/Metro expires in June 2013, and the Mayor has stated his intent to seek approval to extend the current contract for one

additional year. The Mayor believes this extension will allow time to explore the idea of in-house delivery of EMS services.

The city's Small Business Enhancement Program is funded with an allocation of funding received from a portion (\$20) of the business license fee for small businesses. A total of \$315,000 is allocated to the Business Improvement District (BID) Council. The proposed budget eliminates \$185,000 from the budget that has been previously allocated to the BID Council. The BID Council provides, among other things, support for the city's Micro-Districts, technical assistance for small businesses, and coordination between the city's BIDs. The proposal has the city assuming the responsibility for administering these duties. The city has stated that they have hired an individual within a vacant position to build cross-departmental teams to assist in fulfilling these responsibilities. The cost of this position has not been outlined. Savings from the cut in BID Council support will be used to help alleviate the budget deficit. It is unclear how the remaining \$130,000 of funding will be redeployed to assist BIDs and other small businesses.

SDCTA Advocacy Areas

Since the release of the Mayor's budget, SDCTA has raised concerns regarding a number of areas within the budget, including the use of one-time funds for on-going costs, the reduction in funding for the city's infrastructure, and the decision to not move forward with additional competitions beyond the five that were nearly finished under Mayor Sanders. SDCTA has recommended to the Mayor and City Council to include additional funding for infrastructure, as originally adopted by the council as well as move forward with implementing managed competition to achieve savings.

Not outlined within the proposed budget are the costs associated with new labor contracts with the city's six labor unions. Recently five of the six unions outlined their offer of 14.5 percent across-the-board non-pensionable salary increases over the next five years. This offer would cost the city \$176 million over the five years. In return, the city would request the pension system, SDCERS, to adopt new assumption changes and reproduce its actuarial valuation to achieve even greater savings under Proposition B. The savings associated with this change totals \$109 million over the five-year period. SDCTA has stated its opposition to the proposed increases for the fact that costs are above and beyond the savings from Proposition B, as well as the fact that the Mayor has proposed reductions in infrastructure funding and halted new competitions.

Following the release of the May Revise, SDCTA will continue to advocate and work with the City Council to both move forward with reforms and funding of the city's infrastructure. In addition, SDCTA will continue to monitor discussions, to the extent possible, between the city and its labor unions regarding a new contract. SDCTA will work to ensure the contract is in compliance with Proposition B and does not exceed the savings associated with it. Lastly, SDCTA will work on a parallel track to determine the costs associated with moving services "in-house." The city does not currently own any related infrastructure and there would cause the city to incur costs to provide this service. The city has also not outlined the rationale or any related action that has resulted in a need to for eliminating funding for the BID Council operations. The specific duties and responsibilities for the new individual hired within the Economic Development Department to fulfill the past roles of the BID Council have not been outlined, and neither has the future role the BID Council will play in providing assistance to small businesses. The total impact to Micro-Districts and other assistance programs has yet to be determined.