
City of San Diego's Fiscal Outlook

Citizens' Task Force
Report Highlighting
Challenges &
Opportunities

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Submitted by the members of the
Citizens' Fiscal Sustainability Task
Force
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Preface

The City's projected fiscal forecast for FY2011 shows a deficit of \$179M. This assumes the FY2010 budget ends the year balanced. On November 17, 2009, the Financial Management Department issued the Fiscal Year 2010 First Quarter Budget Monitoring Report, which presents projections of year-end revenues and expenditures, based on actual data for the first three months of the fiscal year (through September 30, 2009), the net projected budgetary deficit is \$7.5 million for FY 2010. If this trend continues, FY2010 could end with an unanticipated revenue shortfall.

In addition to the First Quarter Budget Monitoring Report, the County of San Diego reports that sales tax and property tax revenues are down for the entire County. While this is consistent with the City of San Diego's revised revenues forecast, it confirms the weakness in the current local economic conditions and the fiscal uncertainty the City now faces. We believe that the principles contained herein are imperative to the long term viability of the City. The announcement of further budget deficit growth that was reported on November 17th simply serves to underscore the state of emergency the City now faces. This only makes the suggestions contained in this task force report - to eliminate the structural deficit sooner, versus later - more imperative.

Introduction

This is a report on the Fiscal Outlook of the City of San Diego compiled by a special citizen's task force. Established as part of the Civic Leadership team, this task force is comprised of business leaders and professionals with expertise in the management of large and small organizations, municipal government, non-profits and educational institutions¹. All of the opinions and recommendations contained herein are those of the independent members of the committee.

This committee met weekly over a five-month period to study the overall status of the City's fiscal position. The task force reviewed relevant City of San Diego data and records², as well as similar data from other comparable municipalities. The task force interviewed members of the City's executive staff (including Jay Goldstone and his fiscal team). Also interviewed were the City's Independent Auditor and the Independent Budget Analyst - Andrea Tevlin - with her analyst team. The task force met with representatives from the County of San Diego, various local constituents, including organized labor, non-profits, private business and citizens groups, and various subject matter experts with expertise that covered trash, IT, public benefits, and municipal bankruptcy.

¹ Task force member bios can be referenced under "Task Force Member Bios" at the back of this document.

² Documents reviewed by task force members during the creation of this report can be referenced under "Source Materials".

Executive Summary

Our report takes into consideration the current financial status of the City of San Diego, the City's past financial history, and makes suggestions moving forward. Our approach is based on a set of guiding core principles that are intended to be used as a moral compass to not only resolve our current financial crisis, but to guide the City in making fiscally sound decisions in the future. Beyond core principles, we highlight a recommended course of action that is intended to immediately produce results in the form of budget savings. The task force recognizes that it will take a balance of cost cutting and revenue generating methods to achieve optimal stability. Everything must be on the table and no reasonable idea should be dismissed before it is fully vetted. Timing is everything. The timing for the implementation of any presented recommendation will have considerable impact on whether results can help right now, in the FY2011 budget, or in future budget years.

The City has been "living beyond its means" for a number of years; this has been accomplished in several ways, including:

- use of permissible accounting deferrals that do not recognize the true cost of long term commitments, such as retiree medical benefits promised to city employees
- underfunding of reserve accounts and deferring expenses to subsequent years, disguising the problems and moving their resolution to a future time
- underfunding the employee pension plan(s), causing a significant fiscal crisis for the city

This structural imbalance has become unmanageable and can only be addressed in four ways:

- Cost Cuts - significant reductions in City services to its residents, resulting in sizable City employee layoffs and deterioration in citizen quality of life
- Efficiency - delivery of City services in a more cost effective manner, including where appropriate, the use of private contractors, automation, outsourcing, and alternative methods of service delivery; City voters have mandated that the City make use of Managed Competition for the provision of services but the City has not implemented this practice
- Change in Scope - It is time for the City to fully assess the full offering of services it offers and discontinue those that are not core services
- Revenue Increases - increases in City fees and taxes on residents; however, the majority of meaningful increases in income cannot be accomplished without a citizen vote (unless the increase is for an enterprise fund) which means that new sources of income may not be available to the City general fund in the short term.

It is time for City leadership to step up and permanently address the chronic budget shortfall with structural changes in the way that the City conducts its fiscal business. Failure to do this now will result in the continued deterioration of the City's financial condition, as well as a reduction in the quality of life for its citizens. If the budget shortfall is not addressed quickly, it could lead to the City's inability to continue to provide the services the citizens have come to enjoy.

The task force calls on the Mayor and City Council to take the steps necessary to return the city to a sound financial position. If City leaders do not take action to resolve this situation, they will jeopardize the City's fiscal stability and our claim to being "America's Finest City". At this time, every idea should be out on the table for consideration. The solution must be about fiscal balance. In the end, the task force concluded that a major structural deficit exists. No more "business as usual" for the City of San Diego - serious change is required.

The City's Current Fiscal Status

The City of San Diego's current fiscal outlook is very dire; Mayor Sanders disclosed (Fiscal Year 2011-2015 Five-Year Financial Outlook; September 30, 2009) that, absent meaningful actions taken at this time, current projections indicate an unprecedented shortfall in the FY2011 General Fund operating budget of ~ \$179Million, which is nearly 17% of general fund revenue.

	FY2011	FY2012	FY2013	FY2014	FY2015
General Fund Revenues:	\$ 1,061.6M	\$ 1,094.1M	\$ 1,125.4M	\$ 1,156.8M	\$1,196.6M
General Fund Expenses:	\$ 1,240.7M	\$ 1,253.3M	\$ 1,284.3M	\$ 1,328.9M	\$1,343.0M
Projected Shortfall:	<u>\$ (179.1M)</u>	<u>\$ (159.1M)</u>	<u>\$ (158.9M)</u>	<u>\$ (172.1M)</u>	<u>\$ (145.4M)</u>

Andrea Tevlin, City Council's Independent Budget Analyst, has reviewed these projections and concurs that the basis and assumptions for deriving these projections were sound; in fact, she states that these projections may be optimistic and do not fully take into account certain items that could make the actual results worse. The IBA forecasts a potential worst-case scenario that may result in a FY2011 shortfall *as large as \$230 million*.

It is reasonable to predict that once the mid-year actual revenue results come in, the City will need to adjust its revenue forecasts since revenues will probably be down substantially.

There is no dispute that the budget shortfall is severe and will not correct itself without major fiscal changes that are structural³ in nature and are designed to provide long-term solutions.

We must discontinue the process of using fund transfers, deferral of current year expenditures or underfunding obligations for future benefits that simply result in the moving of current year expenditures to the following year or years. The City must not delay developing a permanent solution to what seems to be a chronic budget deficit cycle. We strongly recommend against any more interim one time fixes that are predicated on the assumption that the future will be better than the present and merely take today's problems and make them bigger problems tomorrow.

³ Throughout this report, we will refer to Structural changes or fixes. "Structural deficit" is used as defined by lexicon as "A budget deficit that results from a fundamental imbalance in a government receipts and expenditures, as opposed to one based on one-off or short-term factors."

The City's Fiscal History

- The City has been “living beyond its means” for a number of years, deferring important expenses and postponing or underfunding a number of obligations that must now be addressed (such as aging infrastructure, underfunded retirement plans, and unfunded retiree medical benefits).
 - *The fact that some City officials believed “that temporary revenue or expenditure shifting or inappropriate reserve depletion is necessary given the current tough times and we will make it up when economic times are better” has damaged the City in the past. Hope can never be a strategy.*
 - *The fact that City officials chose to push out these costs to future year’s taxpayers has finally caught up with the City.*

- The City has granted employee benefits, including generous pension programs and retiree medical benefits, which have grown to an unsustainable level and have been severely underfunded.
 - *The fact that these benefits were basically unaffordable was masked for several years by overt accounting manipulations, namely not funding the full annual required contributions to the pension fund and not funding any of the actuarially computed cost for retiree health benefits (other than the “pay-as-you-go” cash expenses of existing retirees)*
 - *The costs, while not being recognized by the City in its annual budget, have continued to grow at a compounded rate with interest.*
 - *For example, in 1994 the City’s budget for pension expense was 6% of payroll cost. Today, 15 years later, the cost is now 28% of payroll (and growing) for pensions.*
 - *To be clear, this is not solely an indictment of organized labor, many constituencies participated in creating this problem, i.e., previous political leadership, including previous Mayors and council members, previous city management and previous Pension Board members. Everyone participated and everyone profited by allowing this issue to spiral out of control. There is no moral high ground that can be claimed by either side.*

- While the City has taken a number of steps to provide City services in the most efficient and cost-effective manner possible through the use of Business Process Re-engineering, it has not implemented its most powerful tool, Managed Competition. In November 2006, under Proposition C the voters mandated Managed Competition, which could yield more efficiencies and lower cost. To date the City has simply not implemented the Managed Competition mandated by the vote of the people.

- The current economic recession has been deeper and may last longer than originally forecast. This has impacted nearly every taxpayer in the City and has severely impacted revenues that the City depends on. City revenues are down \$67 million from their fiscal year 2008 highs and the City needs to cut expenses to keep pace. . In fact recent revenue trend continue to move downward.

- The City raises the least General Fund Revenues per household, measured as a percentage of household income, of any of the ten largest cities in California.

- The City provides some services selectively to certain residents with no cost recovery to the General Fund while charging other residents and businesses for the same service. Examples include:
 - Residential Trash Collection
 - Storm Water Compliance

Core Principles

It is reasonable to assume that there will be considerable differences of opinion among citizens and political decision makers on how to deal with the current budget imbalance. In light of this, the task force has established a set of 'Core Principles' to be used as a guide in the inevitable discussions and debates.

1. Institute Sound Fiscal Management Practices

The City ***must*** live within its means. This necessitates a comprehensive budgeting process which accounts for all costs being incurred during the budget year, both out-of-pocket cash costs as well as properly funding reserves for costs of benefits being accrued and earned currently but to be paid in future years, including maintenance costs for current wear and tear usage which will have to be paid in future years, as well as for statistically derived necessary reserves for "self insured" liability exposures such as workers compensation, ADA compliance, and City legal liability claims.

2. Without a mandate from the voters to the contrary, the City must only provide the 'Core Services' that it can afford

The City should identify those essential services required by law or charter and fund only those services that ***existing*** revenues can support.

- State law and the City charter delineate those services that the City must provide (i.e. police department, fire department, water utility, public works services, water services, building inspection services, public health services, park and recreation services, library services and such other services as maybe desired and authorized by Council by ordinance).
- Unfunded state and federal mandates must also be provided for (i.e. storm water, waste water, clean water, ADA and State requirements to provide trash collection, OSHA, etc.)

3. The City must not use onetime deferrals to solve structural budget imbalances.

4. The City is a service provider; not an employment agency

Its purpose is to provide essential services to its citizens. It is not the purpose of the city to provide direct employment opportunities to its citizens but rather to employ people where the private sector is unable to efficiently and effectively, in a competitive arena, provide such services that the City Charter requires and/or the City chooses to provide its citizens.

5. The City should practice high quality "Cost-Efficient" Business Management

Except for those services that cannot be outsourced by law, the City should provide all other services using the most cost-effective means, whether this be by utilizing city employees, contractors, suppliers, or outside service providers. The public has been very clear that Managed Competition is a process that they want implemented so the public can receive the appropriate level of services at the lowest cost. The City should utilize alternative approaches to improving the efficiency and effectiveness of its operations; including automation, Managed Competition, and outsourcing. Due to labor contract provisions, such as generous pension plans, retiree medical benefits, etc. the fully-loaded City employee unit cost is very high; therefore it is critical that the City act to address these high unit costs immediately.

6. *Enterprise Funds must be scrutinized*

- Eliminate those funds that could be privatized and converted to revenue without expense or liability to the City, (i.e. IT, golf courses, airports), so that the City can focus on its core mission.
- Set up new funds that will require services provided to be self-funded (i.e. storm water compliance, trash, landfill management); not funded out of the General Fund.

7. *General Tax and Fee Increases should be considered only as a last resort*

As a general principle, general tax and fees should be set as low as possible while at the same time be sufficient to pay for the services needed to provide for an acceptable level of service to the public. The City does have a responsibility to attract and retain businesses in San Diego while providing a superior environment for its citizens to live and work; however its tax and fee policy should not be so high as to drive businesses or citizens out of the City of San Diego.

Quality of life is always an appropriate consideration for future generations and our ability to attract new businesses and citizens to “America’s Finest City”. Said differently, we realize we can’t save our way to prosperity. Nevertheless, any tax should be set as low as possible while at the same time be sufficient to pay for the services needed to provide for an acceptable or even desired level of service to the public.

8. *The City must avoid raiding reserve accounts or rainy day funds unless there is a declared public safety emergency*

The concept of reserve funding is to protect the City against future substantive risk. Reserve funding is a “best-practice” and should never be considered a slush fund to balance year-end shortfalls. Extraordinary use of reserves should require a high profile action (like the declaration of an emergency by the Mayor and City Council) so the public is aware they are being used and then only as an absolute last resort.

Task Force Observations

- *The exclusion of the full actuarial cost of City-paid Retiree Health benefits in the financial forecast is unacceptable; the City must either:*
 - *Fully fund not only the pay-as-you-go costs for existing retirees but also the total actuarially accrued cost being currently incurred for existing employees (and the cost of the past service liability for employees' prior years of service) which has never been expensed or funded, or,*
 - *The City must explicitly announce to its employees that they no longer will have unlimited retiree health benefits. The City must also reduce the benefits to a level the budget can sustain, OR eliminate the benefit. The City cannot have it both ways (i.e. not accruing for the expense of current employee retiree health benefits because those benefits are not "vested benefits" while at the same time continuing to provide this benefit for employees).*
- The task force concluded that even though the number of City employees seems in line with comparable cities, the City's unit cost of labor is extremely high.
 - The cost of benefits, particularly pension and retiree health, is substantially higher than benefits provided in the private sector.
 - These benefit costs are a principle cause of the City's financial crisis; such costs are simply unaffordable given the City's current revenue structure. We believe that these costs are excessive and are also unjustifiable in the current market environment.
 - It is noted that this situation is not unique to San Diego; many other municipalities in California are facing budget crises due to this same issue: unaffordable employee costs. The city of Vallejo is already in bankruptcy due primarily to this issue.
 - Municipalities have repeatedly ratcheted up their labor costs to the highest comparable city wage scale, independent of the broader private sector labor market rates.
- The task force took note of inherent obstacles to efficiency in municipal operations.
 - Unlike in the private sector, there is no "bottom line" metric with which to evaluate performance and efficiency
 - In the private sector an operating entity must earn a profit on its invested capital or it simply ceases to exist. This built-in discipline is inherently absent in government operations.
 - Civil Service rules hinder personnel changes that would otherwise be made if "at will" employment rules similar to those used in the private sector were in place. The net result is that it is exceedingly difficult in practice to discharge a poorly performing employee. The consequence is reduced morale and a further increase in the cost of City operations. While the vast majority of City employees are competent, diligent workers, the forced toleration of underperforming employees is a serious morale problem, which over time impacts overall efficiency.
- The task force also concluded that the taxpayers have shown no real interest in increasing their tax burden to pay for the very high costs of City worker benefits. The City should not be in the business of assuring high value employment. Rather, the City should focus on delivering core services to the taxpayers at the best value possible.

Recommended Course of Action

1. The Mayor and Council must have the political will to declare a Fiscal State of Emergency and immediately eliminate the Structural Deficit.
2. Immediately eliminate the current 800 vacant positions from the budget. The presence of these vacant positions, while allowing for some operational flexibility, is problematic and could serve as a departmental expense "slush fund".
3. The City must immediately reduce, at a minimum, the quantity and/or quality of services that it provides to its citizens in order to eliminate sufficient cost to equal the \$179 million deficit in the 2011 budget.
4. The City must find a way to reduce its unit cost of labor to affordable levels more comparable to that in the private sector. It is unacceptable and unsustainable for citizens to have to reduce service levels to finance an excessive City worker benefit structure. This will take aggressive and innovative action.
5. The City must immediately implement the voter-approved Managed Competition Ordinance and begin to deliver services in a competitive and cost-effective manner either by City workers or by the private sector. This is a structural change already mandated by the voters and must be pursued with diligence and urgency.
6. The City should amend the Charter to significantly reduce or eliminate the number of classified positions; therefore giving the City a more flexible workforce.
7. The City should formally adopt the concept of a rolling multi-year budget cycle in order to eliminate the deceptive practice of pushing current year liabilities into the next year as a way to avoid properly resolving the chronic annual shortfalls.
8. The City should adopt the concept of a 'Poison Pill'⁴ to enforce a new fiscal management process. This will require a pre-approved formula for meeting future revenue shortfalls should the Mayor and City Counsel be unable to structurally solve the problem using normal procedures.
9. The City should immediately implement a plan to promote business expansion and growth in the City of San Diego. We compete with other cities for business expansion and must not lose our focus. The continued loss of business-related revenue will deal a major blow to the City's economic prospects. Importantly, superior fiscal management of the City's resources will go a long way to improving our ability to attract new businesses and the attendant taxpaying employees.
10. The City should establish a fact-based dialogue with citizens from all walks of life to establish a common vision of what services voters want and how much are they willing to pay for them.

⁴Poison Pill - See NY example

Institute a plan that is immediately implemented in the event of multi-quarter deficits. The plan would automatically include an across the board cut of services plus an automatic fee hike. No one would be spared and no one will be happy however this should motivate Council and the Mayor to manage and operate the City in a way that guarantees real-time fiscal stability. Details of this plan would have to be developed with input from the public and a Charter amendment would be required.

11. If the City Council is unable to make the required structural cuts that will balance the FY2011 budget without accounting deferrals and gimmicks, a "Citizen's Initiative" should be placed on the ballot that forces a permanent reduction of City staff by at least 1,500 people - which should yield a structural reduction of more than \$100 million once other long-term liabilities are included.
12. Once permanent fiscal disciplines have been implemented and exhausted, the City should seek voter approval to create new fees and/or taxes to support delivery of the remaining services that the citizens deem to be essential core services; for example Storm Water Compliance and Trash Collection.

Failing all of the above, a structural deficit would still exist and continue to put undo fiscal strain on the City; absent any other alternatives the City would be forced to consider seeking injunctive relief by filing for Chapter 9 Bankruptcy protection to allow the City to put its long-term fiscal house in order. Although the task force feels that in this uncertain national financial climate, all options should be on the table, at no time in our discussions with the city has the city recommended bankruptcy as an option.

The task force believes that a combination of items 1-12 will solve the budget deficit without having to seek bankruptcy protection. The voter initiative provides a powerful incentive for City leaders to make hard and difficult choices now - otherwise the public will make the choices for them.

Many solutions, however interesting, may not be possible to implement in time to actually impact the FY2011 budget. Therefore a clear understanding of the impact of timing on any proposed solution is critical when debating real solutions. The City must be mindful that the timing of any suggested actions can bear great significance on positive or negative fiscal results. As an example, if a revenue solution was preferred, it is important to understand that the timeline for any voter-approved revenue increase may not be viable until at least November 2010, too late to help the FY2011 budget shortfall. Another example might be the unwinding of past pension benefits. The fact is that the City has considered ways to legally reduce the excessive pension benefits over the past 36 months with little success. Although we do not want the city to stop pursuing its legal remedies, (which may have to eventually become a statewide constitutional challenge to the concept of vested benefits for municipal employees), we understand that even if successful, the extensive process to unravel these benefits or the constitutional challenge to vested pensions may not be realized for many years to come in light of potential extensive court appeals. Therefore this solution cannot be relied upon to resolve the FY2011 budget shortfall. The issue of timing will also apply if a bankruptcy option were to be considered. Declaring bankruptcy on a City the size of San Diego is not an overnight process or solution.

It is therefore very important to compel anyone that engages in the process of looking for structural reform in the City's budget to provide a clear answer as to the timing of their proposed solutions in order to be considered credible. Offering a solution that may take years to implement is a long-term solution, but it does not address the FY2011 budget shortfall. It is critical that we find real structural solutions to the FY2011 projected shortfall that does not negatively impact the FY2012 budget year.

Potential suggestions from others that do not address the structural issues

	<u>FY2011</u>	<u>FY2012</u>
Projected Budget Deficit (as of 10/09)	\$(179 Million)	\$(159 Million) carry forward from FY2011
<u>One-time transfers</u>		
<u>Delay</u> by 12 months the reserving of ADA	\$5 Million	\$(5 Million)
<u>Delay</u> by 12 months the reserving of Workers Compensation	\$5 Million	\$(5 Million)
<u>Delay</u> by 12 months the reserving of Legal Liability Fund	\$6 Million	\$(6 Million)
<u>Continue</u> Pay-As-You-Go for retiree health benefits at base level	\$20 Million	\$(20 Million)
<u>Raid</u> entire City Reserve Fund Balance for one year	\$80 Million	\$(80 Million)
<u>Extend</u> \$32 million McGuigan Lawsuit payment to 5 years vs two years	\$25 Million	\$(7 Million)
<u>Delay</u> one-time expenses and shift into 2012 budget year	<u>\$15 Million</u>	\$(15 Million)
New Deficit Total before additional budget cuts/transfers	<u>\$(23 Million)</u>	<u>\$(23 Million)</u>
Beginning FY2012 projected deficit (PLUS additional OPEB growth)		<u>\$(320 Million)⁵</u>

As you can see, there are a number of short-term tactics that would historically be used which appear to reduce the budget shortfall for FY2011 without making structural cuts in personnel or services. However, this only postpones and exacerbates the problem. We have seen the State of California practice this sort of short-sighted budgeting in the past. An informed public knows that this tactic does not resolve the basic budget imbalance.

Leadership requires making difficult decisions. Practicing good fiscal leadership involves protecting the financial viability of the City of San Diego by making good decisions based on best practices. Once and for all, we must face up to the imbalance that has been created by our past refusal to address these issues. We have been here before. Allowing for one-time transfers is disingenuous and destructive since this only makes the FY2012 budget shortfall even worse. We must implement solutions that actually repair and balance the FY2011 budget while doing no damage to the FY2012 budget.

The task force strongly believes that any attempt to simply use fund transfers only serves to remind the public that the City leaders have chosen to ignore the painful lessons of the past rather than exercise the political will and discipline to face up to our challenges; fund transfers do not work forever. Further, any attempt to utilize inappropriate one-time fixes in lieu of structural changes in balancing the budget must not violate conditions of the City's requirements with any and all regulatory authorities.

⁵ This presumes the funding deferred in FY2011 is made in FY2012 through a catch up adjustment.

Conclusion

It is time for the concept of "sacred cows" and "impossibilities" to be put out to pasture. If we are to achieve true structural reform, everything must be put on the table to be debated openly, passionately and with honesty. In the past, too many ideas have been prematurely dismissed by people that believe that they alone recognize the right answers. A well informed public will make the right decisions.

Any option under consideration must take into deliberation whether the solution requires voter approval, charter change, council approval, judicial approval or legal adjudication. Each of these processes will impact the timing and implementation of each solution.

The Task Force applauds the City for taking decisive action on the FY2011 \$179 million dollar deficit; however, it used short-term deferrals like account shifting or reserve funding delays as part of its solutions and we do not support this. The sooner the deficit is resolved, the lower the shortfall for FY2011 and beyond will be. Action initiated now will result in less drastic cuts going forward. Since more than modest revenue increases cannot be realized prior to a public vote in November 2010, the budget must be balanced primarily with structural cuts in services. If the City cannot balance the General Fund operations budget while continuing to honor all past obligations by January 2010, a "Citizen's Initiative" should be placed on the November 2010 ballot that will specifically call for permanent cuts in City staffing.

The City has to change the way it does business. We must stop the half truths, unfunded mandates and budgetary gimmicks. We can no longer promise what we cannot afford. The task force herein recommends several near term solutions, but we must stay focused on the bigger problem -- the practice of making promises that we do not properly fund or have the resources to pay for -- or history will likely repeat itself. Once the budget is brought into structural balance we must continue to be vigilant in our stewardship of the quality of life. We do not propose only cuts in services as saving our way to prosperity. We must determine what quality of life citizens require and are willing to pay for.

We are asking our elected officials to show the political will to make the difficult decisions to permanently address the deficit once and for all with true structural reform. The time to act is now if we wish to preserve our claim as "America's Finest City".

Additional Information from the Task Force

The task force had a number of in-depth sessions where we discussed the structure of the City's fiscal problems. We used these sessions to brainstorm ideas from cost cutting and revenue increases to looking at the entire Civil Service structure and its impact on the way the City operates today and how it might act differently in the future. To follow are excerpts from these various brainstorming sessions.

Development Impact Fees

One of the more difficult questions that we were unable to resolve dealt with Development Impact Fees. Further extensive study of these fees is required.

1. How much has the City collected?
2. How long are the fees held?
3. If the project for which the fee was collected never eventuates when does the fee get returned and to whom is the fee returned?
4. How can the fees be used for projects that the fee was never collected to fund?

Cost Cutting Suggestions

1. Consider the sale of under-utilized city real estate assets. This would not be new revenue since it involves the sale of an asset. However the revenue received could be used to retire other capital debt/bond obligations which will relieve the General Fund of on-going expenditures.
2. With regard to employee benefits, the following issues should be aggressively investigated where existing state law allows or is eventually modified to allow changes in vested benefits,:
 - The City Charter calls for the cost of a normal pension to be shared 50 -50 between the City and the individual employee.
 - *The City should immediately (through Meet and Confer) stop paying any City "pick up" of the employee's 50 % that still remains from prior labor negotiations.*
 - The City, as the Plan Sponsor, should aggressively challenge with the Plan Administrator (SDCERS) the underlying logic and the computation of the current 50 -50 calculation.
 - *In 2002 the employees paid 10% of their salary while the City also paid 10%. But in 2009, the employee pays 10% while the City pays 30%.*
 - *Does normal cost include the 13th check? The COLA? If these are not part of "the cost of a normal pension to be 50 -50 shared" then are these truly vested benefits? Or can they, like retiree health, be eliminated?*
 - *Disability accounts for \$319 million of the current \$3.3 billion pension benefit liability. Disability benefits are not considered to be part of the normal pension cost that is shared 50 -50 between the City and the individual employee.*
 - *If disability is in fact different, then can it be eliminated as not being a vested benefit the same as retiree health?*
 - The City should aggressively preclude employees from simultaneous "double dipping" in both workers compensation and disability pension payments.
 - *The employees should be required to choose one or the other; a disability pension or a service pension.*

- *The City should aggressively monitor all people receiving disability benefits to ascertain whether their disability continues or whether they are in fact gainfully employed elsewhere. Such periodic confirmation efforts appear to be required by Muni code section 24.0407 but apparently are not being pursued.*
 - *Disability administration is an excellent candidate for outsourcing as it has become an area requiring considerable experience and expertise, especially in times of economic stress for workers.*

Revenue Generating Suggestions once structural fiscal discipline is restored

The City of San Diego raises the least General Revenues per household, as percentage of household income, of any of the ten largest cities in California. Therefore it may be reasonable that once the City has implemented long-term fiscal policies that do not create future deficits and successfully restores the trust of the Voters, and a shortfall remains; the City may look to the voters to approve new revenue.

Below are a few potential sources of new revenue for the City. By listing the items, the task force is not specifically endorsing the revenue concept or expressing any preference.

1. The following potential revenue generation sources should be looked into:
 - Transient Occupancy Tax (TOT)
 - Storm Water Compliance fees
 - Real estate transfer tax
 - Business license fee
 - Refuse collection fee
 - Utility users' taxes
 - Parking meters
 - Fire protection zones

In addition to new revenue, it is possible that the City may be providing services that the private sector can provide without the employment of City workers. Therefore the public can still receive the benefit of the service and the city can be relieved of the operations liability, expense and long-term future pension/retiree health expense.

1. Privatize the City's golf courses and receive new General Fund revenue
2. Outsource the operation of Brown Field and Montgomery to the Airport Authority and receive new General Fund revenue.
3. Outsource landfill management and receive new General Fund Revenue.
4. Evaluate other services that a city with a smaller workforce will be unable to provide internally yet can be provided by other public agencies or the private sector.
5. Non-core services that are currently being provided without a self-sustaining revenue source should immediately be eliminated as a future City obligation.

Closing Comments

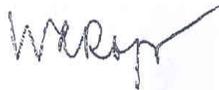
It is important to note that since FY2005, the City has made significant progress in addressing many of its financial challenges. In 2008, The City approved a new pension system for employees hired on or after July 1, 2009 that will in fact lower overall future pension cost. In addition effective February 2007, new hires no longer have the ability to purchase service credits, have access to the Drop Program, and no longer have a retiree medical plan paid for by taxpayers. In 2009 the City also enforced 6% wage concessions on the majority of city workers that would cover FY2010 and FY2011, thus lowering expenses for 2 fiscal years. Still, we are facing a minimum projected \$179 million dollar deficit for FY2011. The majority of this represents a structural deficit whereby without permanent change we will have to deal with this shortfall each year.

There have been a number of solid accomplishments by the Mayor and the Council that, in part, are returning the City to a more stable footing. The truth is that many of the recent fiscal changes will create savings in the future. By all accounts, the City employs a capable workforce of people who seem to be working in the best interest of our citizens. We are, however, still paying for past mistakes. Any real long-term remedy is going to be very difficult but necessary to resolve our fiscal imbalance between current revenues and cost of services.

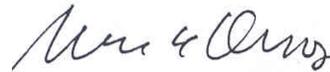
Current workers did not create the problems we are facing, yet they are going to be greatly impacted by any sustainable solutions to the City's chronic budget deficit. Simply stated, major cuts in personnel, benefits, and services, as well as increases in revenue are, in our judgment, unavoidable. The City must develop a plan that eliminates the FY2011 deficit with structural changes, not one-time fixes.



Vincent Mudd
Chairman



Bill Roper
Vice-Chairman



Neil Derrough



Pete Garcia



Mark Koob



Dan Shea



Susan Snow



Mark Stephens



Robert Tjosvold



Richard Vortmann



Barbara Warden

Source Materials

1. Fiscal Year 2011-2015 Five-Year Financial Outlook; September 30, 2009
2. IBA Report #: 09-75
3. Personnel Expense Analysis
4. Per Capita Income Comparison
5. City Revenue Comparisons
6. "The Bottom Line" report, (prepared by the Center on Policy Initiatives)
7. Classifications Compensation Survey
8. Central City Single Night Tax Rates and Tax Amount Comparisons
9. Five-Year Financial Plan Key Variable Sensitivity Analysis
10. Alternative Means for Financing Convention Center Expansion
11. Report on County of San Diego Outsourcing Program
12. IBA Per Capita Study and Peer City Benchmarking Comparison
13. Presentation on Municipal Bankruptcy Regulations
14. Under Utilized Asset Report, (prepared by EDC)
15. Bloomberg Financial Report on Municipal Bond Default
16. IBA report#09-88; 2010 First Quarter Budget Monitoring Report

Task Force Member Bios

Vincent Mudd, Chairman

Vince Mudd is president and owner of San Diego Office Interiors. He currently serves as chairman of San Diego Regional Chamber of Commerce's Public Policy Committee and as treasurer of the San Diego Regional Economic Development Corporation. He also served as member to the City of San Diego's Charter Review Committee and chaired the State Compensation Insurance Fund's Investment Committee.

Bill Roper, Vice-Chairman

Bill Roper is President of Roper Capital Company, a private investment firm based in La Jolla. Previously, he was President and CEO Of VeriSign, Inc, a NASDAQ 100 provider of internet security products and services. He was also Executive Vice President and CFO of SAIC, a Fortune 300 diversified technology services company.

Neil Derrough

Neil Derrough is the former President of NBC 7/39 in San Diego. Prior to his position at NBC 7/39, he was the President of the CBS Television Stations in New York City. He served as CEO of School Futures Research Foundation, a group of charter schools in San Diego and other parts of California.

Pete Garcia

Pete Garcia is the former President and CEO of University Mechanical & Engineering Contractors. He serves as Chairman of the San Diego Regional Economic Development Foundation, Chairman of the board of AVID Center, past Vice-Chair of the State of California Commission for Economic Development. He is a member of the Strategic Roundtable, and a member of SDSU Engineering advisory board. Pete Garcia specializes in turnarounds of troubled companies and/or projects.

Mark Koob

Mark Koob was an owner/partner and CEO of Bumble Bee Seafoods; purchasing the company from bankruptcy and then selling it to Con Agra foods after it had grown to sales of almost \$1.0Billion and EBITDA of about \$100MM. Mark started Quan Investments LLC, a private equity fund which makes both passive and controlling equity investments in packaged goods companies across the country.

Dan Shea

Dan Shea has spent the last 30 years focusing on corporate finance and management, working on a variety of turnarounds and ultimately selling a company he controlled to a multi-national, Illinois Tool Works. In 1995, with partners, he started Paradigm Investment Group which now owns 100+ restaurants nationally and employs 3000+ people. He is President/CEO of Donovan's Steak & Chop House, locally owned, with operations in San Diego, Phoenix and Salt Lake City.

Susan Snow

Susan Snow serves as Managing Director of Odyssey Capital Group. She has managed HR, IT, Finance, Operations, Sales & Marketing, and Contracting departments. She has served in a number of high-level Financial, Executive and Board level roles and is a member of numerous public and private corporate Boards.

Mark Stephens

Mark Stephens is the Office Managing partner for the San Diego Office of Ernst & Young LLP. As a certified public accountant and audit partner he provides financial reporting guidance for public and private entities and directs financial audits for a wide variety of businesses. He holds positions on numerous boards of community organizations.

Robert Tjosvold

Robert Tjosvold previously held a dual role of Commercial Market Executive and Market President of San Diego County with Bank of America for 38 years. He served on the boards of the San Diego Regional Economic Development Corporation, the San Diego Regional Chamber of Commerce, YMCA of San Diego County and the Old Globe Theatre. He is currently a board member of the San Diego Bowl Game Association and the Scripps Health System.

Richard Vortmann

Richard (Dick) Vortmann served as President and CEO of National Steel and Shipbuilding Company (NASSCO) and as Vice President of General Dynamics Corporation. He was Interim President and CEO of the San Diego Regional Chamber of Commerce. He is the Chairman of Scripps Health, Vice Chairman of the Dept. of Commerce Sea Grant Colleges Advisory Board, and a Member of Council, American Bureau of Shipping. He was a Trustee of the San Diego City Employees Retirement System, a member of the San Diego Mayor's Blue Ribbon Finance Committee, and Vice Chair of the San Diego Pension Reform Committee.

Barbara Warden

Barbara Warden is currently President of the Holiday Bowl. She was previously President of the Downtown San Diego Partnership, Regional Vice President for WINfirst, and Owner/Publisher of Bernardo News. She also served on the San Diego City Council, District 5.