

FY 2018 Projected Budget Deficit

Clairemont Town Council

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Independent Budget Analyst





Office of the Independent Budget Analyst (IBA)

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

- Provides support to the City Council and its Committees
- Annually reviews and analyzes the Mayor's Proposed Budget and Five-Year Financial Forecast
- Reviews and comments on financial reports and policy matters important to the City Council and the community

City of San Diego FY 2018 Operating Budget

Why is there a deficit, how big is the deficit, what will the FY 2018 budget look like?

- Projected structural deficit – ongoing expenditures for existing services greater than ongoing revenues
- To understand the projected deficit this presentation will briefly review:
 - Mayor's Five-Year Financial Forecast (Outlook)
 - IBA review of the Outlook
 - Next steps in the budget process



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

- ***Mayor's FY 2018 Proposed Budget will be released April 14 – budget must be balanced***
- City Council has final review and approval of the budget, and can revise the Mayor's budget as long as the budget remains balanced

Overview of Mayor's Five-Year Outlook

The Outlook projects baseline deficits in FY 2018 and FY 2019, surpluses in FY 2020-2022

(\$ in millions)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Baseline General Fund Revenues	\$ 1,365.1	\$ 1,416.9	\$ 1,468.2	\$ 1,522.9	\$ 1,573.8
Charter Section 77.1 - Infrastructure Fund	17.0	15.1	14.4	12.8	13.0
Baseline General Fund Expenditures	1,384.9	1,422.5	1,453.3	1,469.9	1,480.7
Total Baseline Revenues (Less)/ Greater Than Expenditures	\$ (36.9)	\$ (20.7)	\$ 0.5	\$ 40.1	\$ 80.1

The baseline consists of those expenditures required to maintain existing services and programs, financial commitments, and mandates. It does **not** include planned or known future expenditures.

Overview of Mayor's Five-Year Outlook *cont'd*

Baseline expenditures are projected to grow from \$1.34 billion in FY 2017 to \$1.49 billion in FY 2022

- No programmatic or position increases in the baseline
- Significant increases due to:
 - Actuarially determined contribution (ADC) pension payment largely due to changes in mortality demographics
 - Recently negotiated labor agreements for non-pensionable compensation increases to address retention of Police Officers and other City employees
 - Voter-approved Proposition H (Infrastructure Fund) that sets aside a portion of General Funds annually for infrastructure

Overview of Mayor's Five-Year Outlook *cont'd*

Update: FY 2018 ADC projected to increase by \$9.7 million more than estimated in the Outlook, due to latest release from SDCERS

Significant Expenditure Increases (Updated ADC Increase)

(\$ in millions)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
ADC Increase	\$ 46.4	\$ 49.9	\$ 53.2	\$ 56.2	\$ 58.9
Increased Costs due to Labor Agreements	15.9	31.8	45.0	45.0	45.0
Infrastructure Fund	17.0	15.1	14.4	12.8	13.0
Total Increased Baseline Costs	\$ 79.3	\$ 96.7	\$ 112.6	\$ 114.0	\$ 116.9

- Baseline **revenues** are projected to grow from \$1.33 billion projected in FY 2017 to \$1.57 billion in FY 2022
- IBA believes that Outlook revenue growth projections and growth scenarios are reasonable

Mayor's Critical Strategic Expenditures

New critical expenditure items identified, but not "funded," in the Outlook total \$191.7 million over five years and include:

- Significant projects currently underway
- Contractual obligations
- Operating costs for new facilities under construction (fire stations, libraries, parks) and expected to be completed
- Support for City Council policies and priorities, such as debt-service payments for future deferred capital bonds/commercial paper borrowing

Mayor's Critical Strategic Expenditures *cont'd*

- Enforcement of voter-approved measures such as earned sick leave and minimum wage enforcement
- Vehicle replacement schedules

FY 2018 - Expenditures in Excess of Revenues

<i>(\$ in millions)</i>	FY 2018
Deficit - Outlook Baseline Calculation	\$ 36.9
Revised ADC Increase	9.7
Mayor's Critical Strategic Expenditures	17.9
Total Projected Deficit	\$ 64.5

IBA-Identified Potential Priority Expenditures

Additional items identified but not “funded” in the Outlook include:

- Significant IT projects such as expansion of the Infrastructure Asset Management Program
- Plans currently underway, including the Climate Adaptation Plan and the Parks Master Plan
- Operating costs for other new facilities coming online such as new fire stations in the outer years
- Support for recent City Council budget actions such as continuation of the 7% “Penny for the Arts” funding level

IBA-Identified Potential Priority Expenditures *cont'd*

- Contractual obligations including the final payment for synthetic turf replacement at Pershing Middle School
- Other recent budget/service priorities including:
 - 311 – Customer Experience and Service Delivery Program
 - Expanded recreation center hours
 - Officer recruitment and retention
- Street (slurry seal) and storm water permit requirement expenditures
- ***Any funding for these priority expenditures would increase the projected deficit if no new funding source is identified***

Mitigating the Projected Deficit

How will the projected budget shortfall be addressed?

- Five-Year Outlook projected a deficit, but also suggested mitigation strategies:
 - Changes to the City's Reserve Policy
 - Use of fund balance
 - Review of CIP cash management activities
 - Request for a 3.5% reduction to General Fund departments (although not all may be taken)

Mitigating the Projected Deficit *cont'd*

- Other mitigation strategies:
 - Use of Infrastructure Fund for eligible costs that contribute to the projected deficit
 - Use of excess Public Liability and Long-Term Disability reserves
 - Use of Pension Payment Stabilization Reserve
 - Recently received Charger's lease termination payment

Mayor's FY 2018 Proposed Budget

If there is a projected deficit, what will the budget look like?

- The Mayor's FY 2018 Proposed Budget will be released April 14
- The budget should be structurally balanced, meaning ongoing expenditures are paid for with ongoing resources
- All mitigation strategies will be considered
- Any new funding required for critical new expenditures will need to be offset by other reductions or new resources

Mayor's FY 2018 Proposed Budget *cont'd*

- Some existing City services, programs, or personnel may need to be cut back to balance the budget

City Council Approval of the FY 2018 Budget – Opportunities for Public Input

After the budget is proposed, the Council reviews it in May and adopts it in June

- IBA review of the Proposed Budget released April 28
- City Council Budget Review hearings May 3, 4, 8, 9 (with possibility of May 5 and 10)—detailed calendar to be released
 - Council reviews all General Fund department budgets
 - Provides opportunity for Council to thoroughly discuss and analyze Mayor's budget working with the IBA and Mayoral staff

City Council Approval of the FY 2018 Budget – Opportunities for Public Input *cont'd*

- City Council Budget Review hearings *cont'd*
 - Provides opportunity for significant public comment
 - City Council has final review and approval of the budget, and can revise the Mayor's budget as long as the budget remains balanced
- May 15, 6:00 pm – City Council meeting for public input on the Proposed Budget
- City Councilmembers submit budget priority memoranda, including recommendations for potential budget revisions, to Office of the IBA by May 22

City Council Approval of the FY 2018 Budget – Opportunities for Public Input *cont'd*

- June 5 – City Council final budget decisions and adoption of budget (opportunity for public comment)
- The City Council has final budget authority
 - The Mayor has five business days to veto Council budget decisions
 - The City Council has five business days to override a Mayoral veto



City of San Diego Budget Information

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

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