

Presentation to San Diego Regional Economic Development Corporation Strategic Roundtable on City's Budget Trends and Challenges

June 6, 2018



Independent Budget Analyst



San Diego City Fiscal Trends and Challenges

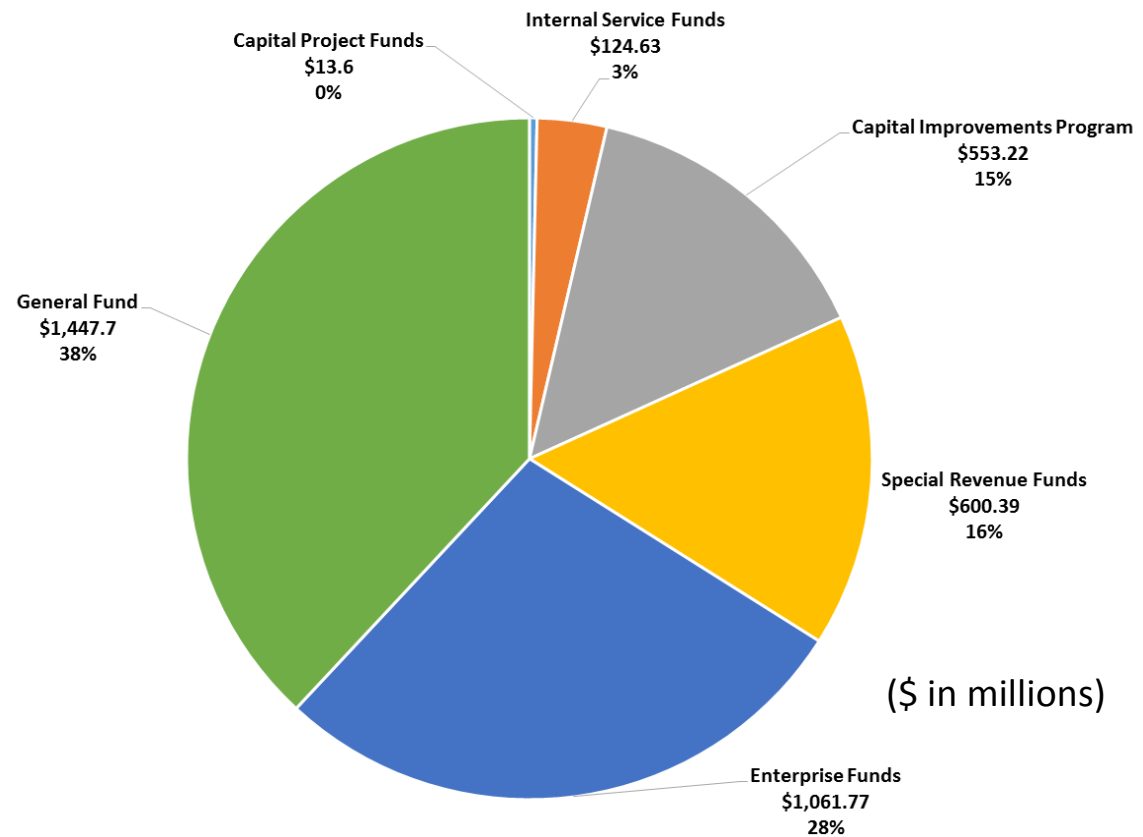
Introduction and Overview

- Presentation will focus on the City's General Fund revenue and expenditure trends, with a focus on:
 - Pension
 - Salaries and Wages
 - Reserves
 - Trash Collection
 - Infrastructure Needs
 - Storm Water Needs
- We will also take a look at FY 2020 and the potential for future deficit years
- We'll briefly look at possible revenue solutions for future years

City Budget – General Overview

FY 2019 Proposed Budget Expenditures

- The City's Proposed Budget for FY 2019 includes \$3.8 billion in total expenditures
 - 44% – \$1.7 billion – is expenditures in Enterprise Funds (ratepayers revenues; e.g. water and sewer) and Special Funds (dedicated revenue; e.g. utilities undergrounding)
 - 18% – \$678 million – is from our CIP and internal service funds.
 - 38% or \$1.4 billion – is from our General Fund
- Our General Fund is supported with tax revenue, and goes to provide general City services – police, roads, parks, libraries, etc



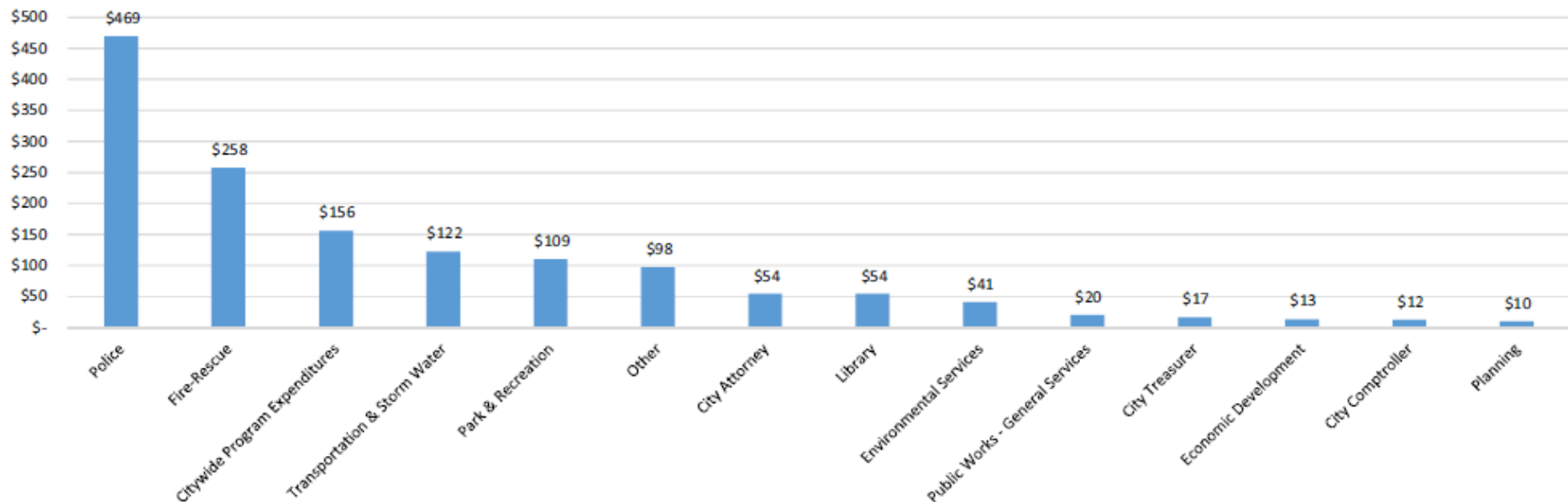
City Budget – General Overview

- This presentation is focused on the City's General Fund
 - The General Fund most closely tracks the overall economic condition of the region
 - The General Fund provides support for core City functions – public safety, parks and recreation, streets, storm drains, libraries, etc
 - These are core functions, but for the most part they do not have any specific dedicated funding source, and need to rely on our general tax revenue
- After 2008 recession, economic recovery was relatively slow, but economic expansion has continued for a record long time
 - City services have increased, but significant challenges remain
 - Given San Diego's relatively small number of programs and services with dedicated revenues, a future recession could have significant impacts on City services

General Fund Overview

Funding by Department (FY 2018; \$ in millions)

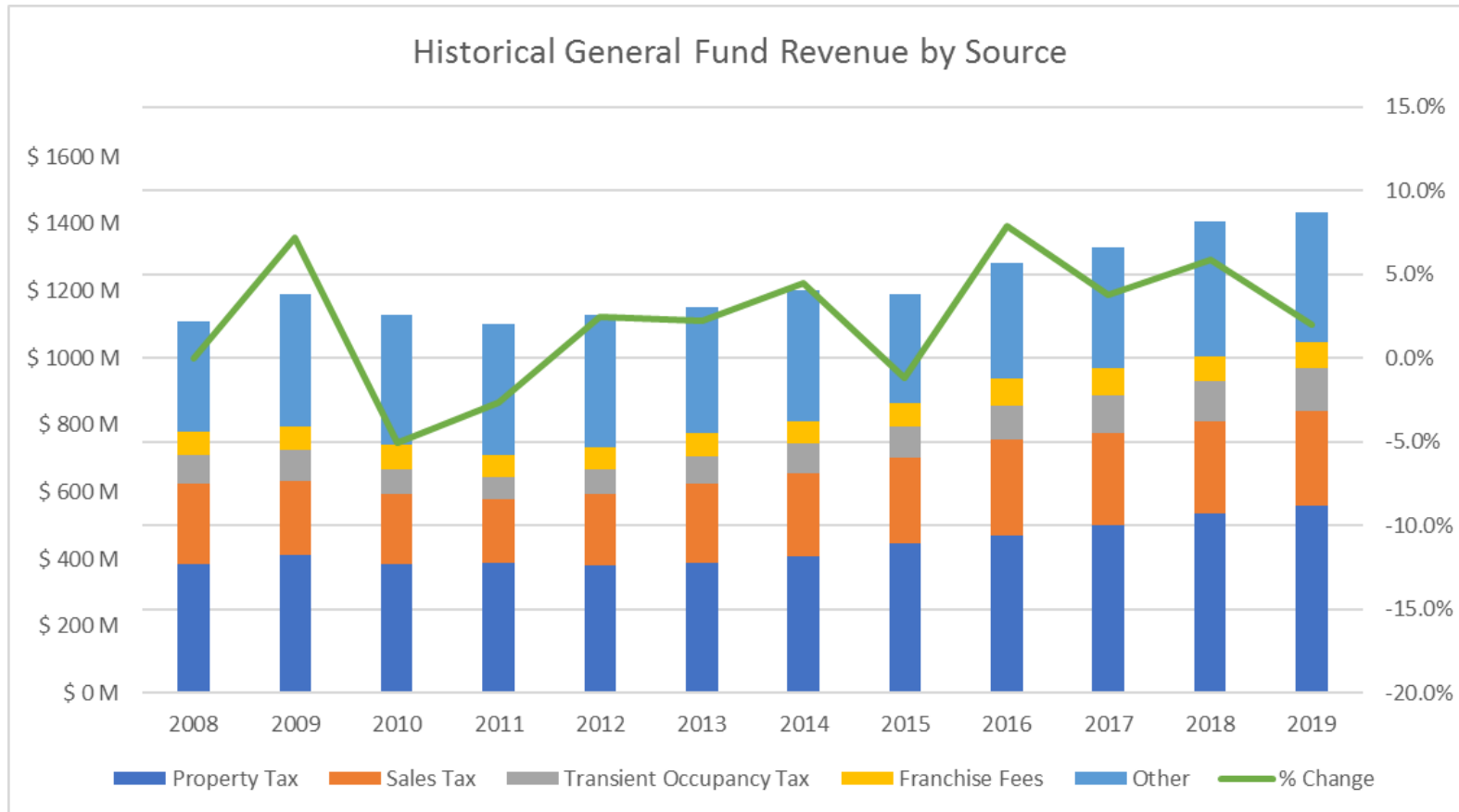
- Over half of all General Fund expenditures are in the Police and Fire-Rescue Departments



Note: The Other category includes: City Auditor, City Clerk, City Council, Communications, Debt Management, Department of Information Technology, Development Services, Ethics Commission, Financial Management, Human Resources, Infrastructure/Public Works, Internal Operations, Neighborhood Services, Office of Homeland Security, Office of the Assistant COO, Office of the Chief Financial Officer, Office of the Chief Operating Officer, Office of the IBA, Office of the Mayor, Performance & Analytics, Personnel, Public Utilities, Public Works - Contracting, Purchasing & Contracting, and Real Estate Assets.

General Fund Overview

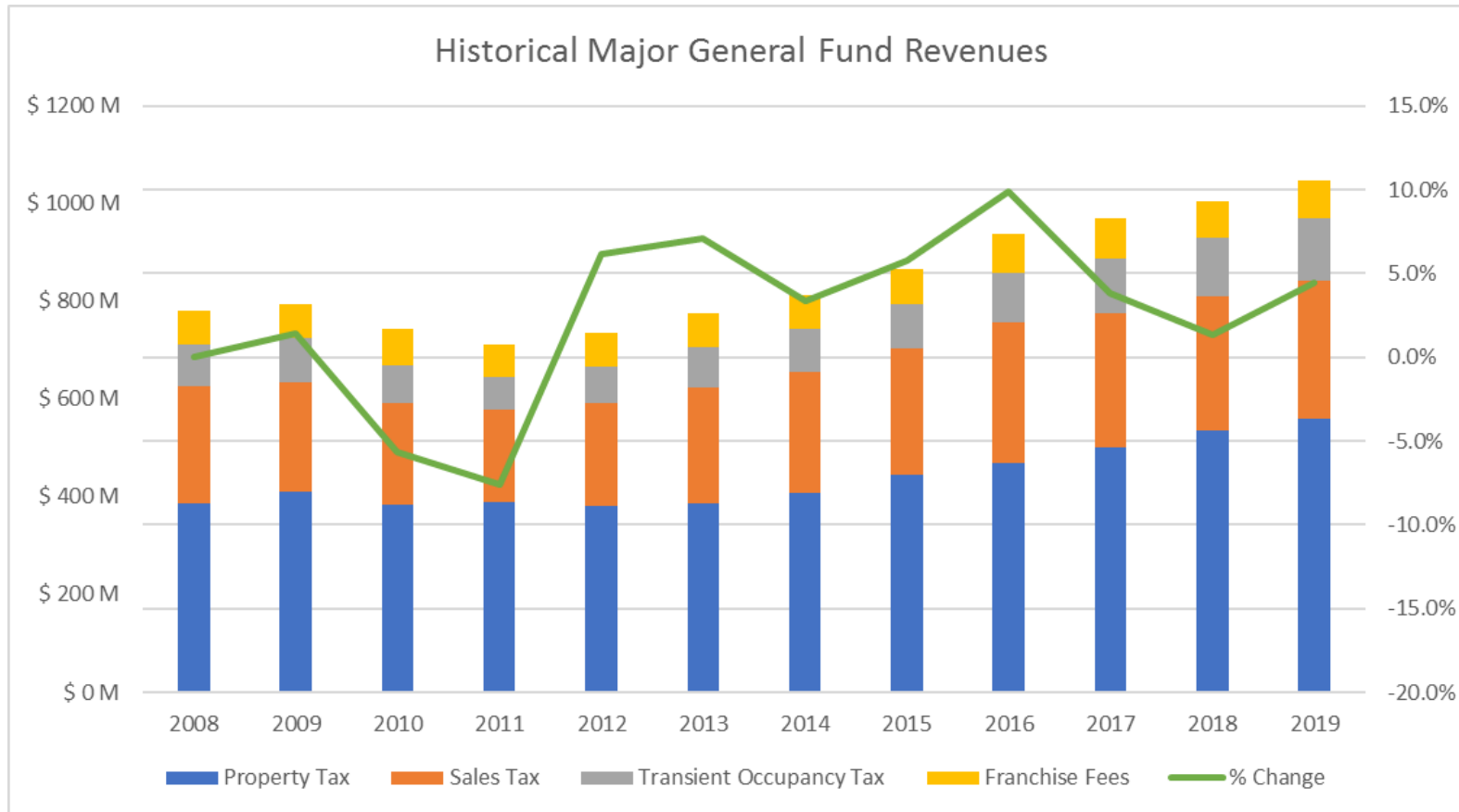
General Fund Revenues – Historical Receipts



- Revenues declined in FYs 2010 and FY 2011, but have been increasing since
- Revenue dip in FY 2015 is associated with moving Public Works staff and reimbursements into an Internal Service Fund, not an overall decrease in revenues

General Fund Overview

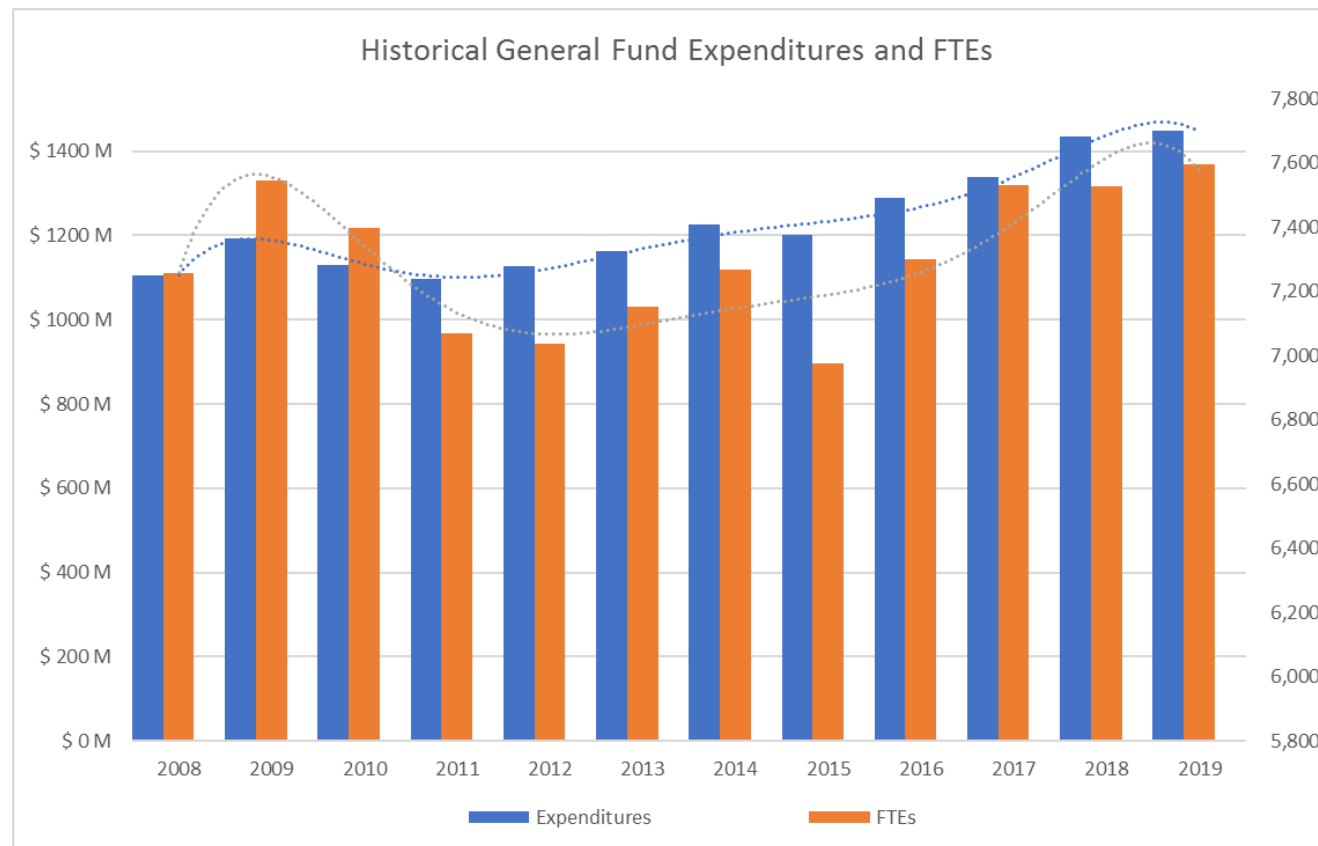
Major Revenues – Historical Receipts



- This chart removes the 'Other Revenues' category to more clearly show revenue from taxes and franchise fees
- These revenues more closely track overall regional economic activity

General Fund Overview

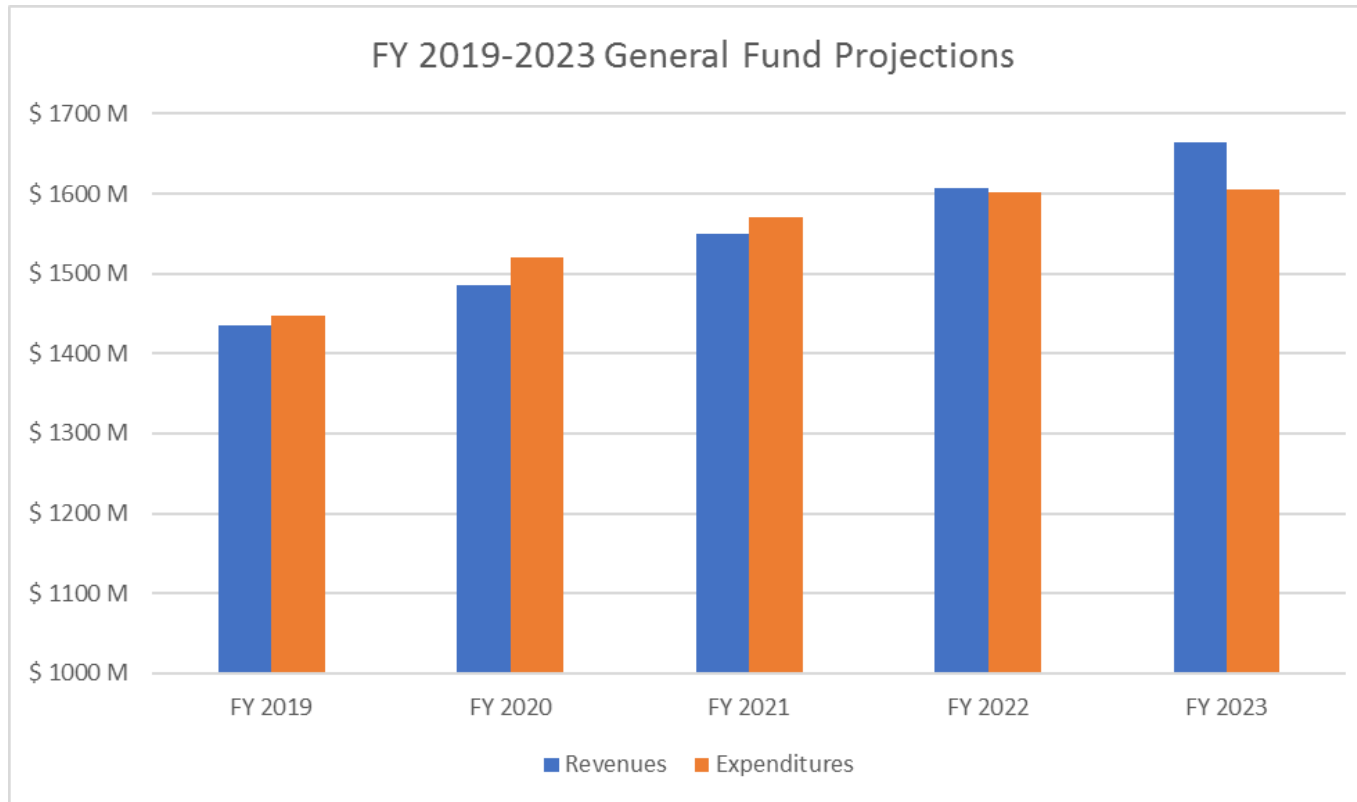
Historical Expenditures and FTEs



- This chart shows our General Fund expenditures and FTE positions over the last 10 years
- Increases and decreases to General Fund FTE positions closely track our overall General Fund expenditure trends

General Fund Overview

Projections through FY 2023



- This chart shows General Fund Revenues and Expenditures in the Proposed FY 2019 Budget, and projections from the Mayor's Five-Year Financial Outlook for FY 2020-2023
 - The FY 2019 Proposed Budget uses unspent General Fund dollars from FY 2018 to remain balanced
 - Potential deficits are projected in FYs 2020 and 2021

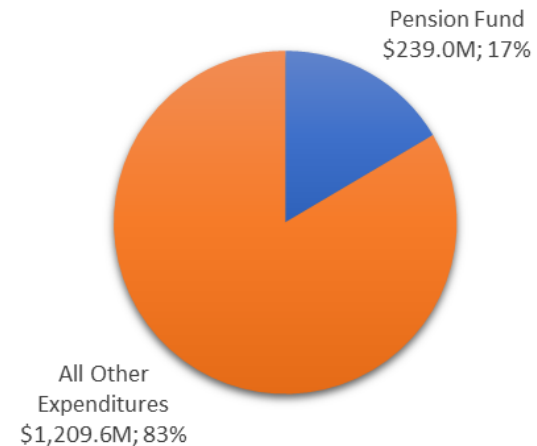
General Fund Overview

- Those deficits present significant challenges going forward
- Areas with major impacts on expenditures include:
 - Increased annual payments into the City's Pension Fund
 - Increases to salaries and wages for City employees
 - Maintaining City reserves at healthy levels
 - Public Safety expenditure commitments
 - Infrastructure funding needs
 - Storm Water Permit Compliance funding needs
- These impacts lead to projected deficits in FY 2020 and beyond, which must be addressed

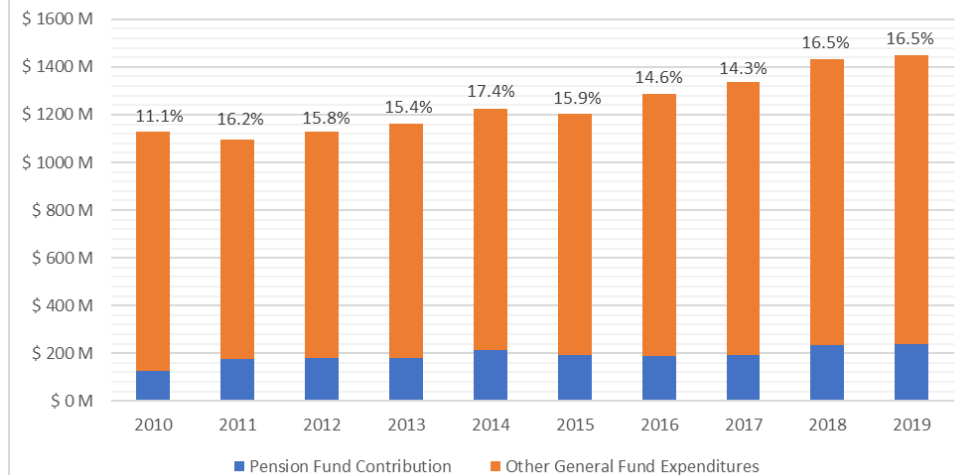
Pension Fund Contributions

- Annual pension payment is approximately 17% of total General Fund expenditures in FY 2019
- It has grown from approximately \$125 million in FY 2010 to \$239 million in FY 2019
- As non-discretionary payment obligations increase, General Fund financial flexibility is reduced to provide, maintain or enhance core public services

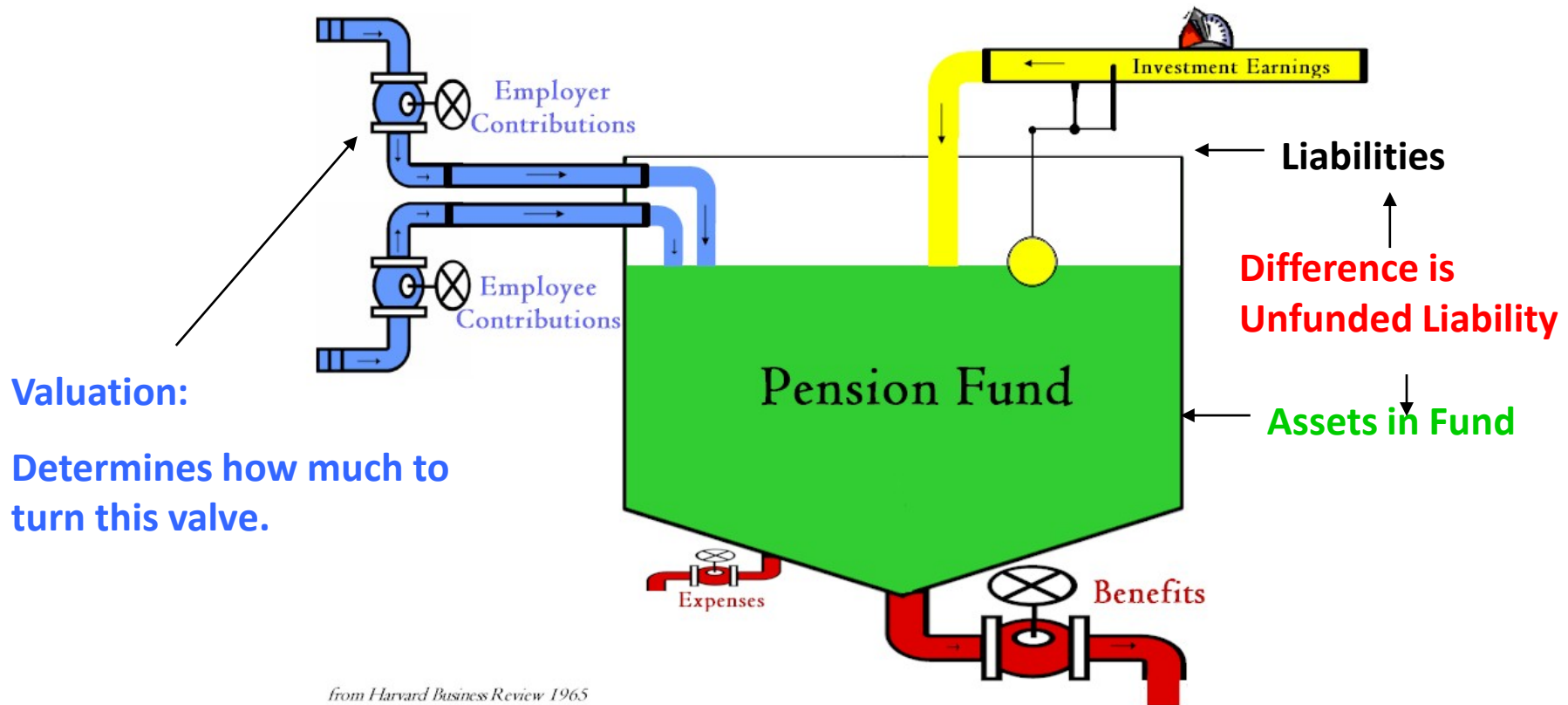
Pension Fund Contribution Share of General Fund Expenditures (FY 2019)



Historical Pension Fund Contributions as % of General Fund

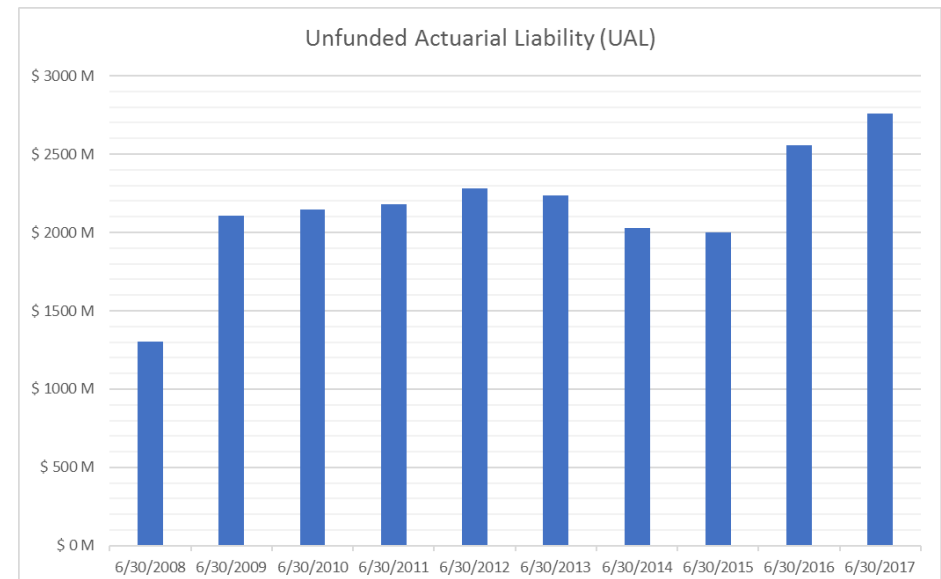
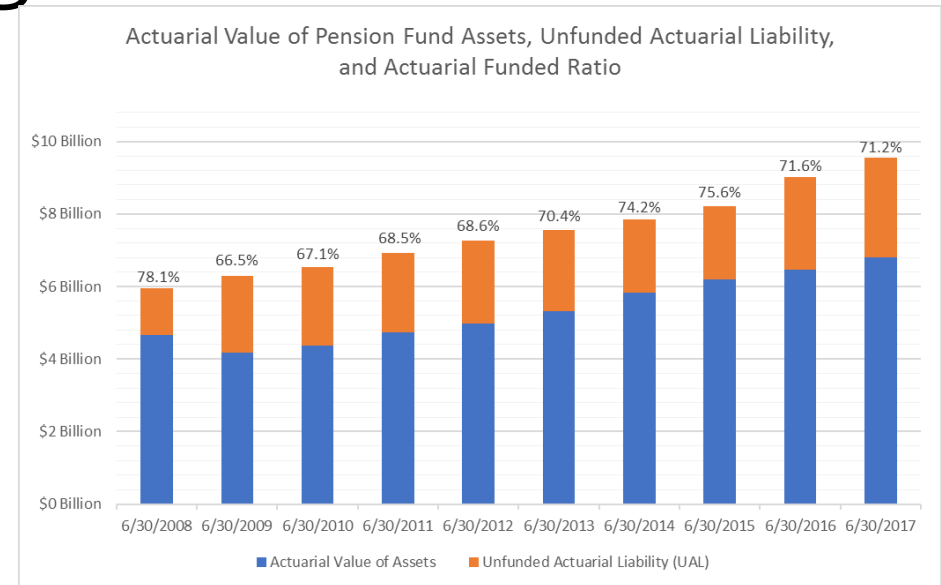


Pension Fund Components

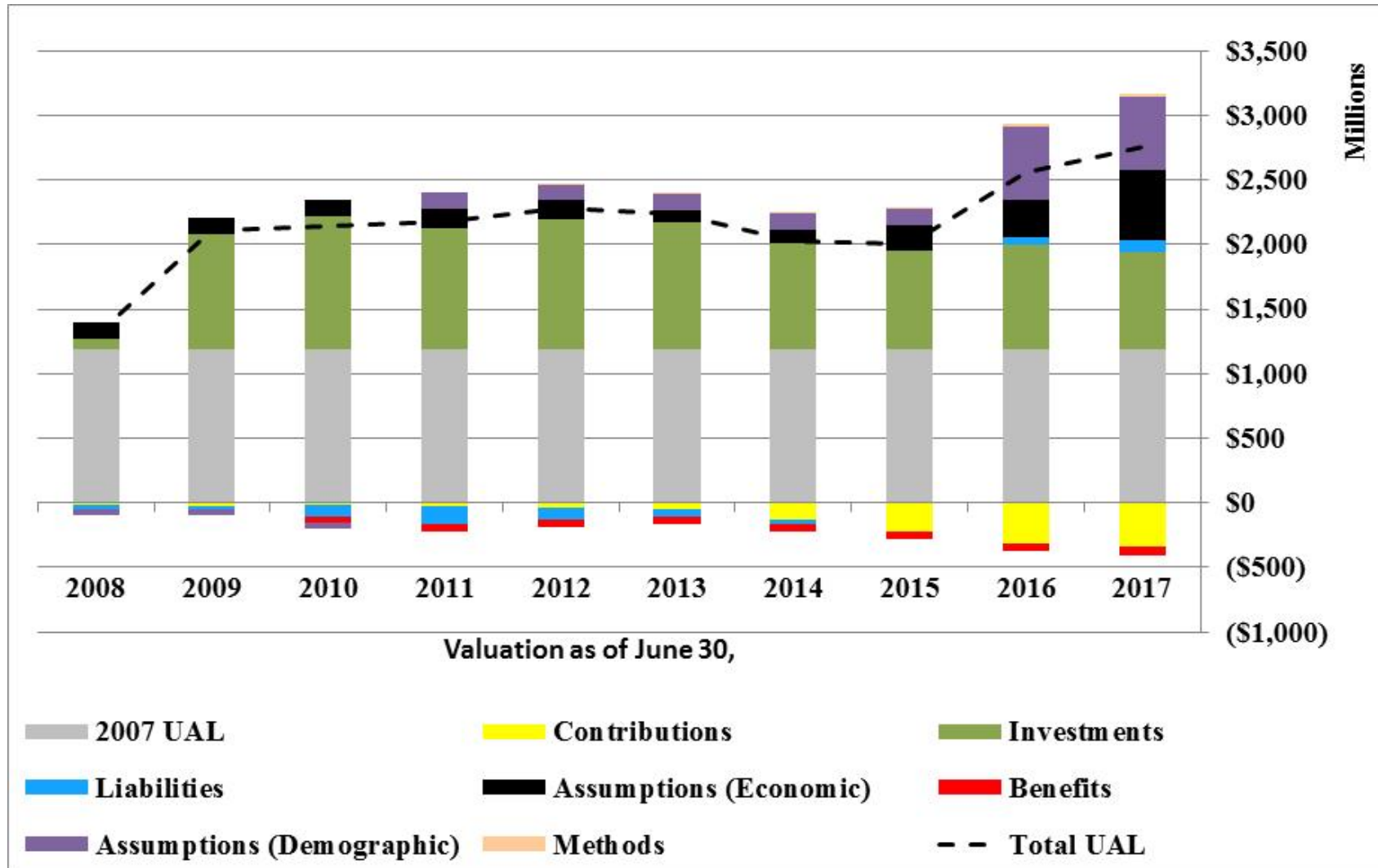


Pension Fund – Funding Ratios and UAL

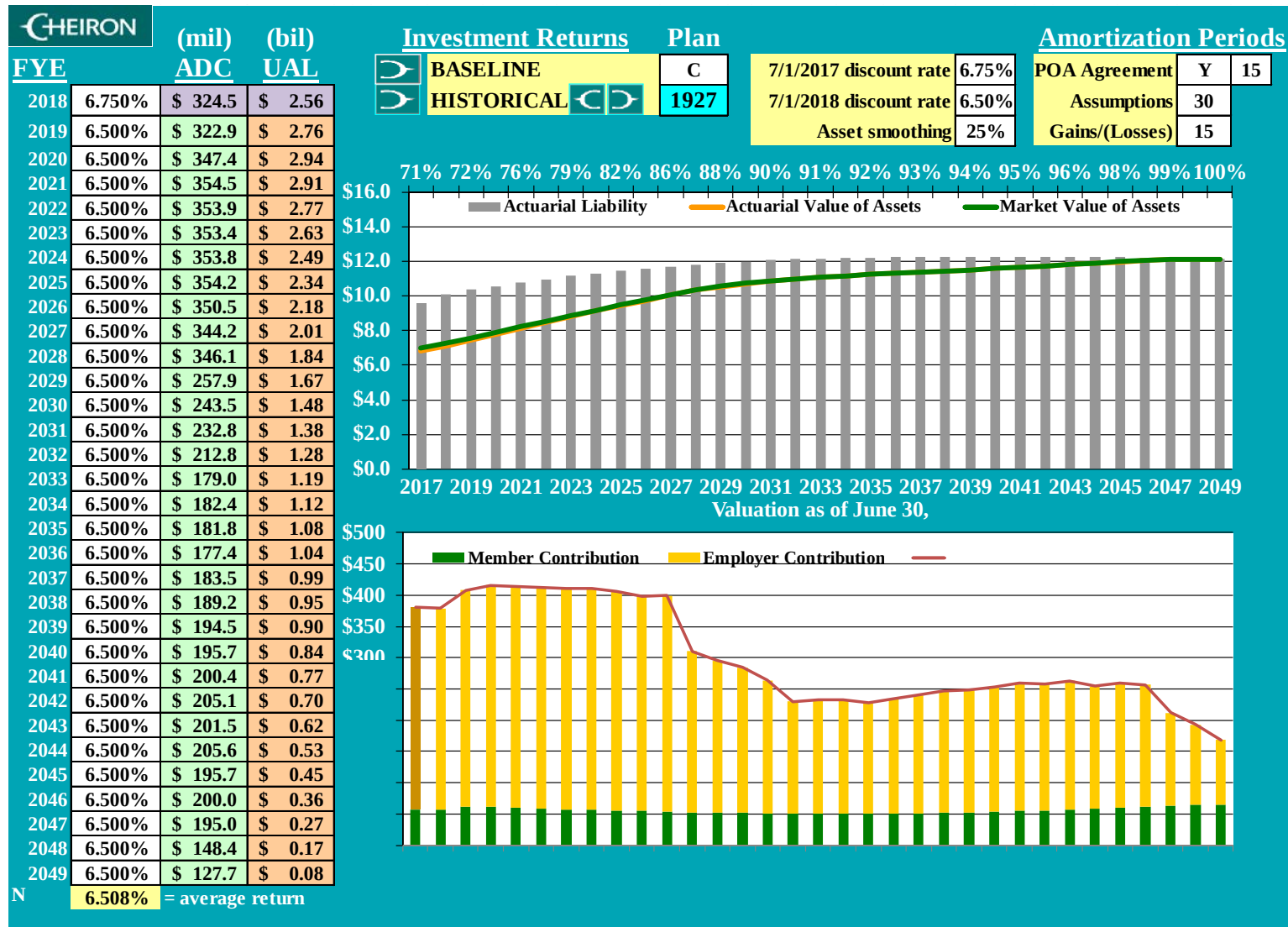
- Top table shows actuarial value of pension assets in blue and the UAL in orange
- Actuarial funded ratio is shown on top of each of the bars – ranges from a high of 78.1% in FY 2008 to a low of 66.5% in FY 2009
- Bottom chart shows the actual dollar value of the UAL. Estimated to be approximately \$2.76 billion in the Actuarial Valuation Report for the fiscal year ending June 30, 2017



Pension Fund Overview



Pension Fund Overview

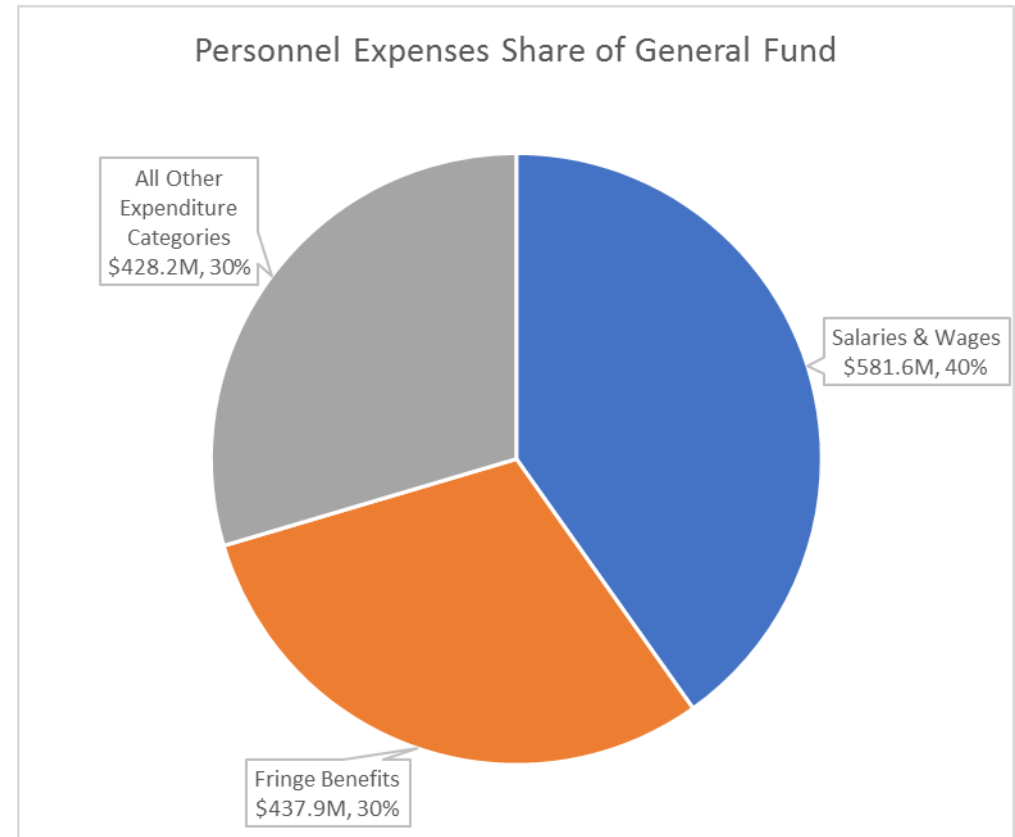


Pension Fund Takeaways

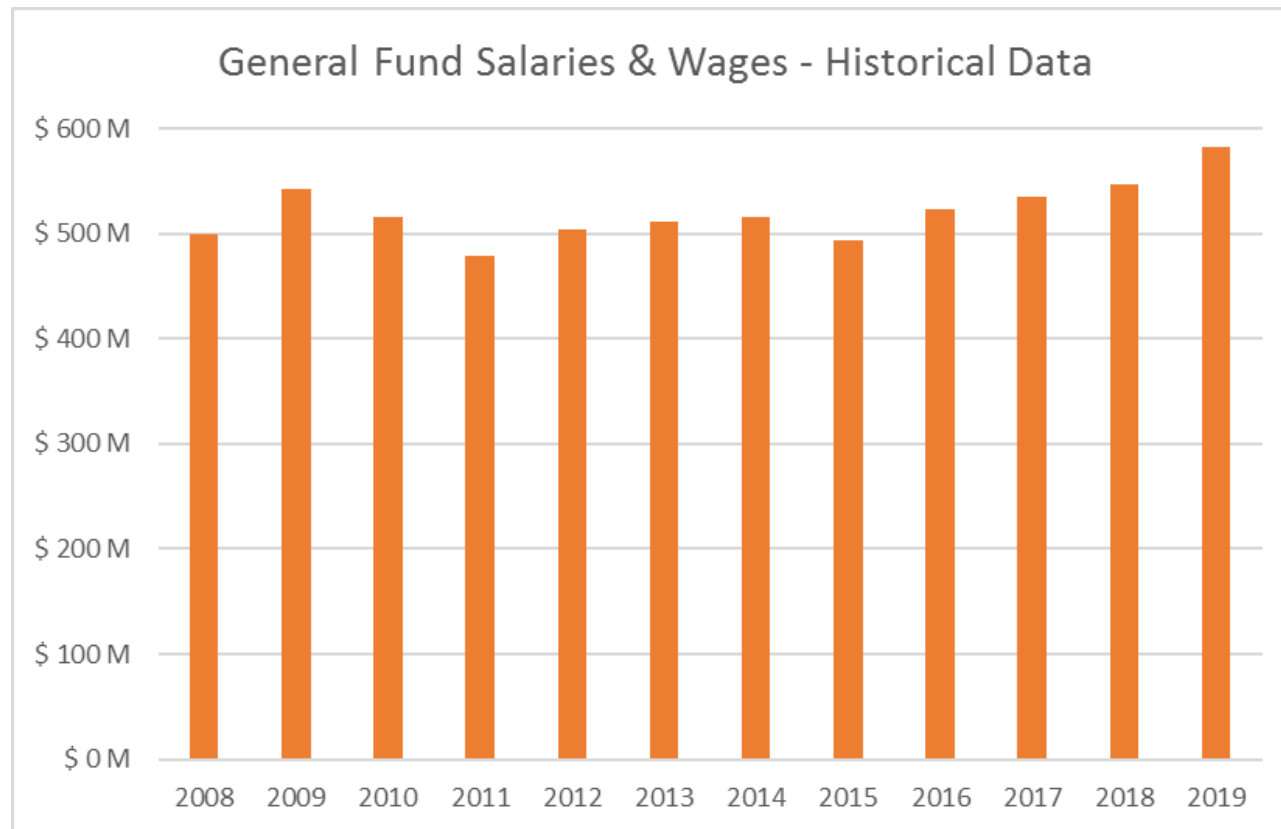
- Positive Developments in Recent Years
 - City has made full annual payment every year since FY 2009
 - Pension Board has adopted more conservative assumptions
 - Voters approve Prop. B in 2012 closing plan to new employees
 - Council receives periodic training/info from pension actuaries
- Challenges Going Forward
 - Annual pension payment will likely remain at or above the current level for the next decade
 - Adverse impact of future wage increases
 - Possibility of future market downturns
 - CA Supreme Court decision on validity of Proposition B

General Fund Salaries and Wages

- Salaries and Wages account for 40.2% of all General Fund expenditures
- Combined with fringe benefits, total Personnel Costs represent 70.4% of the General Fund
- FY 2019 Proposed Budget includes 7,596.24 FTE positions

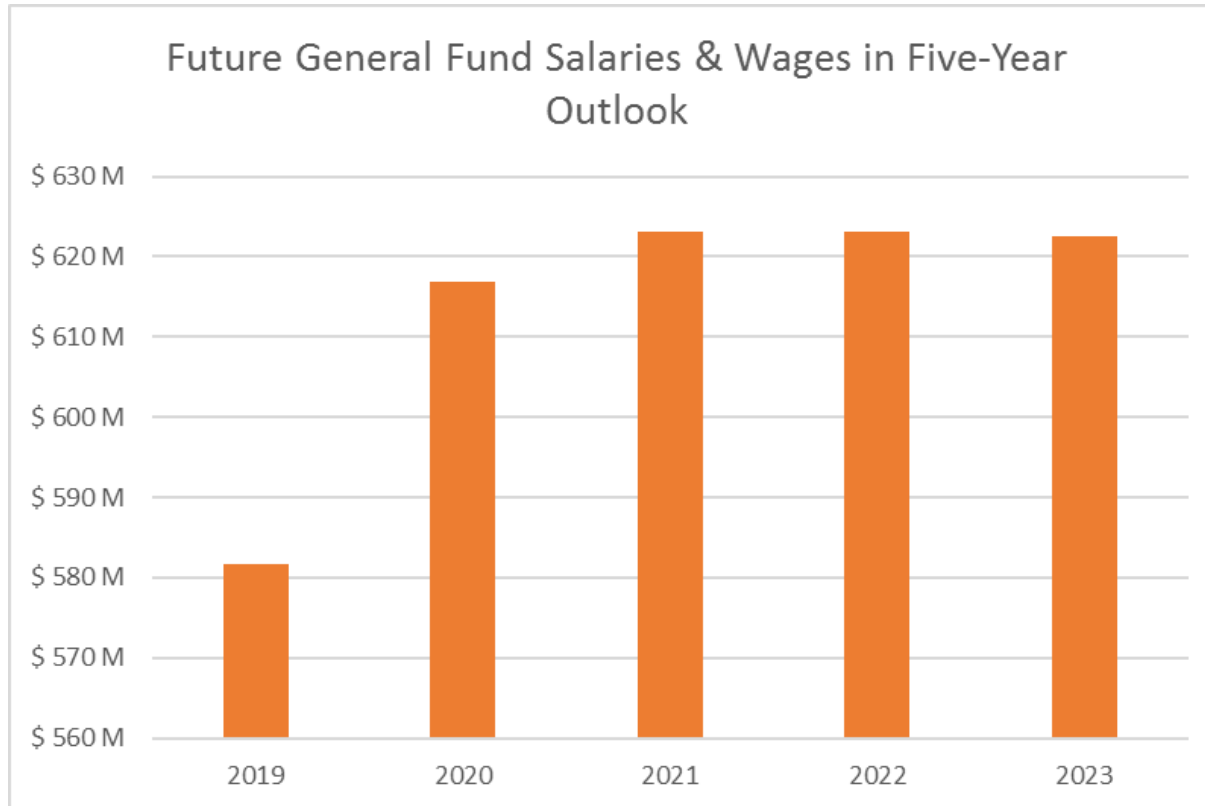


General Fund Salaries and Wages - History



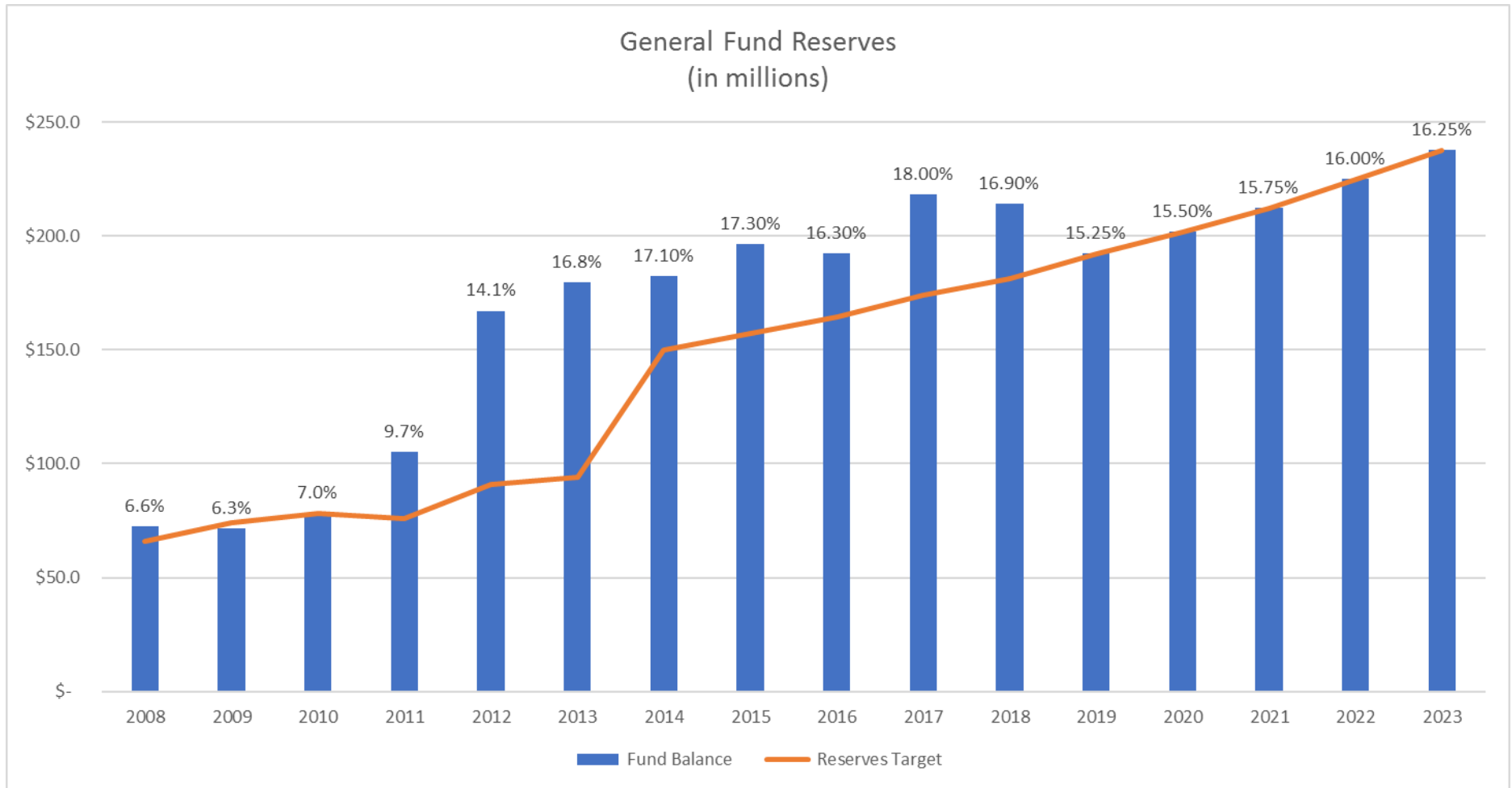
- This chart shows budgeted salaries and wages over last 10 years
- Ranges from \$478.6M in FY 2011 to \$581.6M in the FY 2019 Proposed Budget

General Fund Salaries and Wages - Future



- This chart shows future projected salaries and wages:
 - POA \$18.1M in FY 2019, \$26.7M FY 2020, \$5.5M FY 2021
 - MEA \$5.5M in FY 2019, \$4.9M in FY 2020
 - Unrepresented \$1.9M in FY 2019, \$1.9M in FY 2020
 - L127 \$1.5M in FY 2019, \$1.4M in FY 2020
 - DCAA \$973k in FY 2019
 - 911 \$684k in FY 2019, \$303k in FY 2020
 - L145 \$285k in FY 2019, \$2.3M in FY 2020

General Fund Reserves

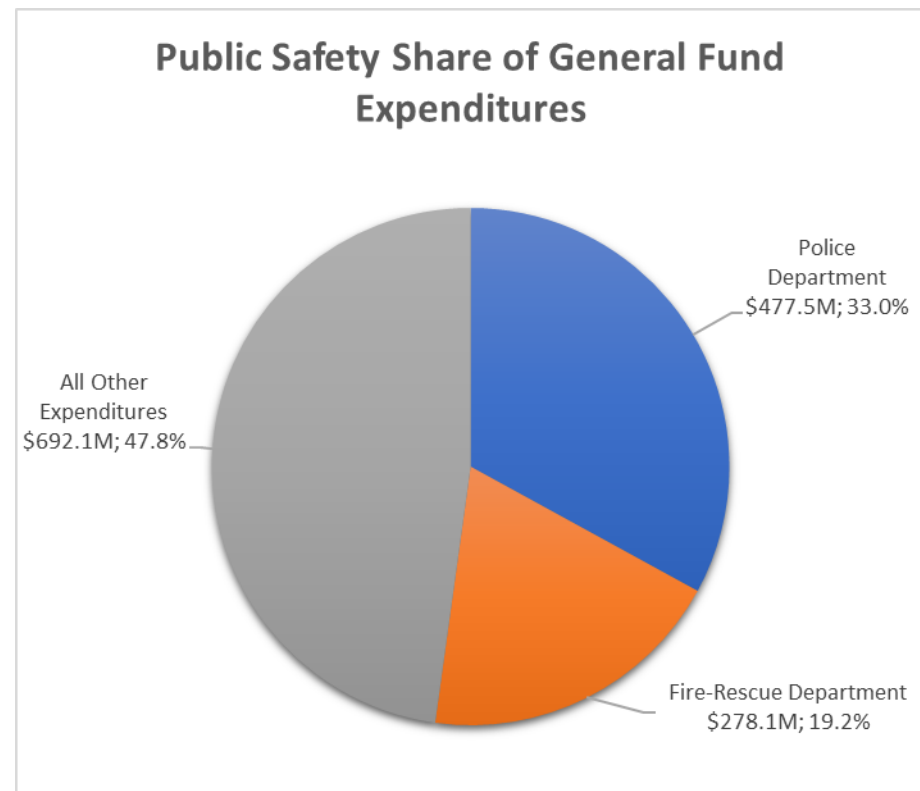


- Graph includes prior year unaudited actuals and future year targets
- Reserve policy established in 2007 with initial goal of 8%
- Current reserve goal 16.7% by FY 2025

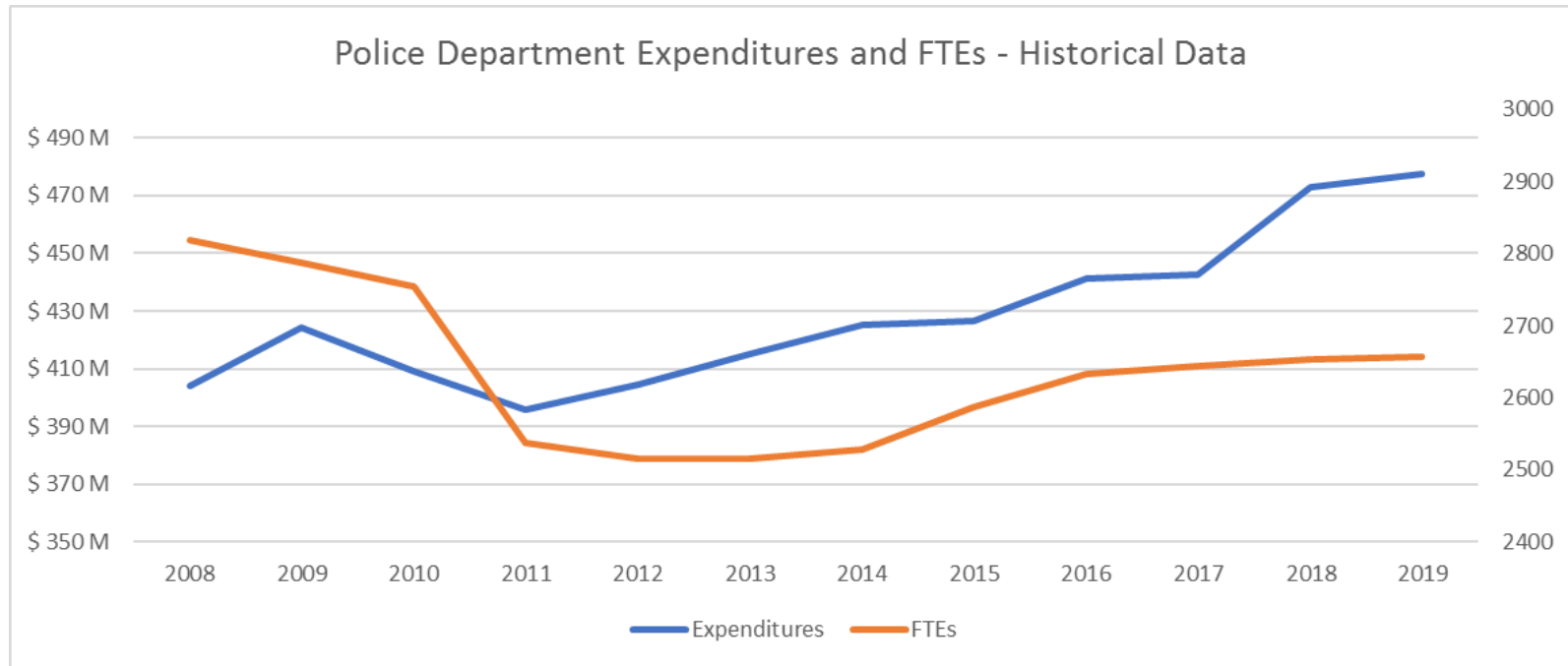
Public Safety – Police and Fire Departments

The City's expenditures on Public Safety take up over half of the General Fund.

- Public Safety is a core City service; funding for our Police and Fire Departments constitutes \$755.6 million, or over 52% of our General Fund budget
- These Departments have an outsized influence on our overall expenditures – ensuring their continued funding at present or increased levels significantly limits our ability to fund increases to other programs and services

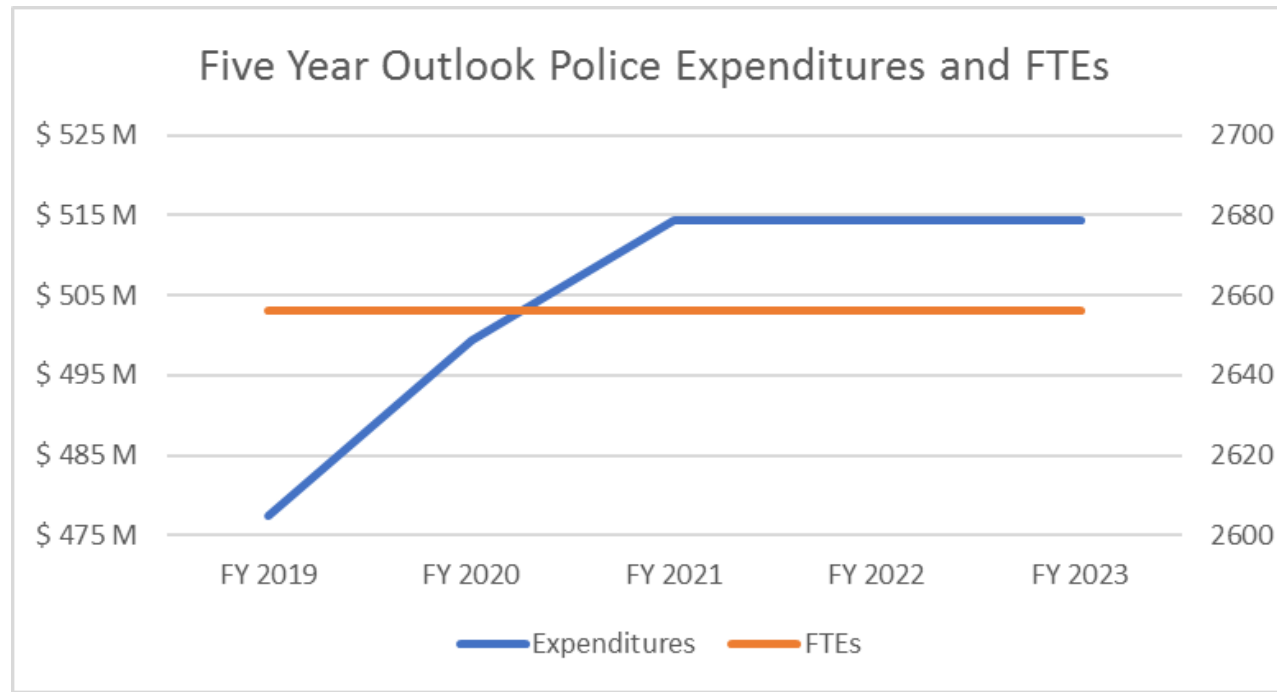


Public Safety – Police Department Expenditures and Staffing



- This chart shows our Police Department expenditures and total personnel over the last 10 years
- Expenditures and FTEs both dropped from FY 2008 to FY 2011; expenditures have since recovered, but budgeted FTEs have not and are lagging behind expenditures

Public Safety – Police Department Expenditures and Staffing

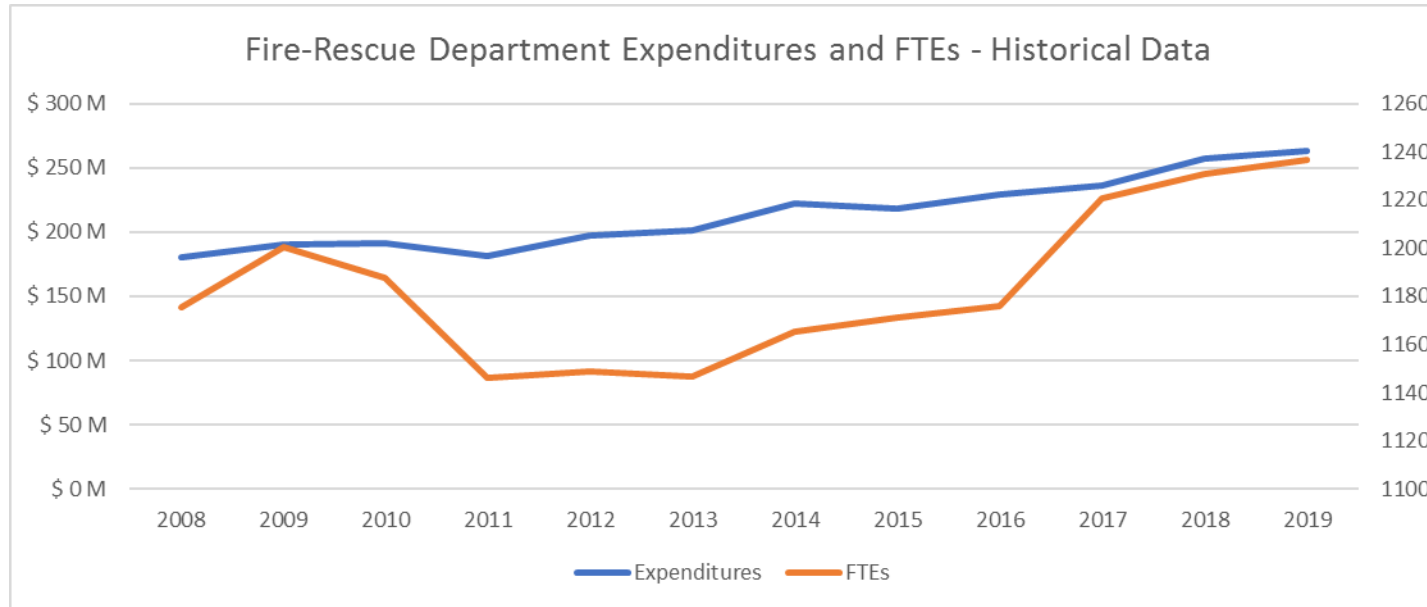


- This chart shows Expenditures and FTEs from the Mayor's most recent Five Year Financial Outlook
- You can see increased expenditures, associated with the most recent MOU with the Police Officers Association, though no additional FTE positions beyond FY 2019 amounts were included in that Outlook

Public Safety – Police Department Challenges

- Recruitment and Retention
 - 1,789 filled Police Officer positions out of 2,040 budgeted
 - Attrition rate is 14 departures per month
 - Hiring has been accelerated but has not kept pace with attrition
 - New contract in effect July 1, 2018
 - FY 2019 Proposed Budget includes \$18.5 million in compensation increases for POA members
- DROP Program
 - Adds pressure to Police Department staffing due to retirements
- Age of Workforce
 - Chief has noted that over half of sworn officers have six or fewer years of experience

Public Safety – Fire-Rescue Department



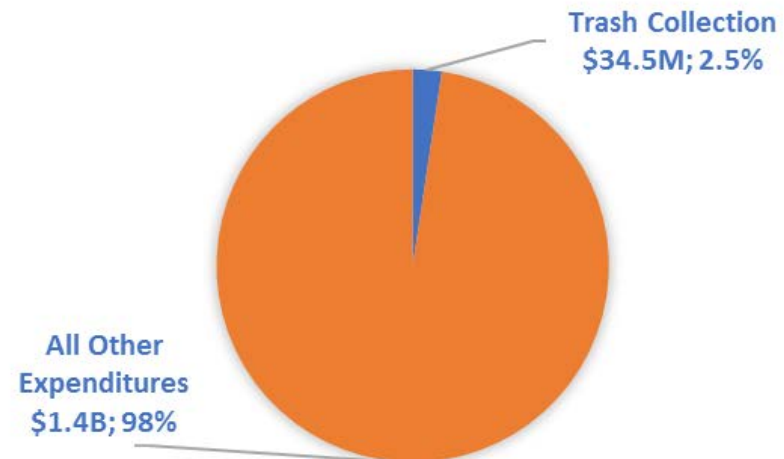
- This chart shows Fire-Rescue Department expenditures and total personnel over the last 10 years
- Expenditures have steadily increased from \$180 million in FY 2008 to \$264 million in FY 2019; while budgeted positions dipped in FYs 2010-2011 and remained flat through FY 2013, they have grown in each successive year
- Additional fire stations are needed to support increased personnel and decreased response times, per Citygate reports; this impacts our operating and capital needs

Residential Trash Collection

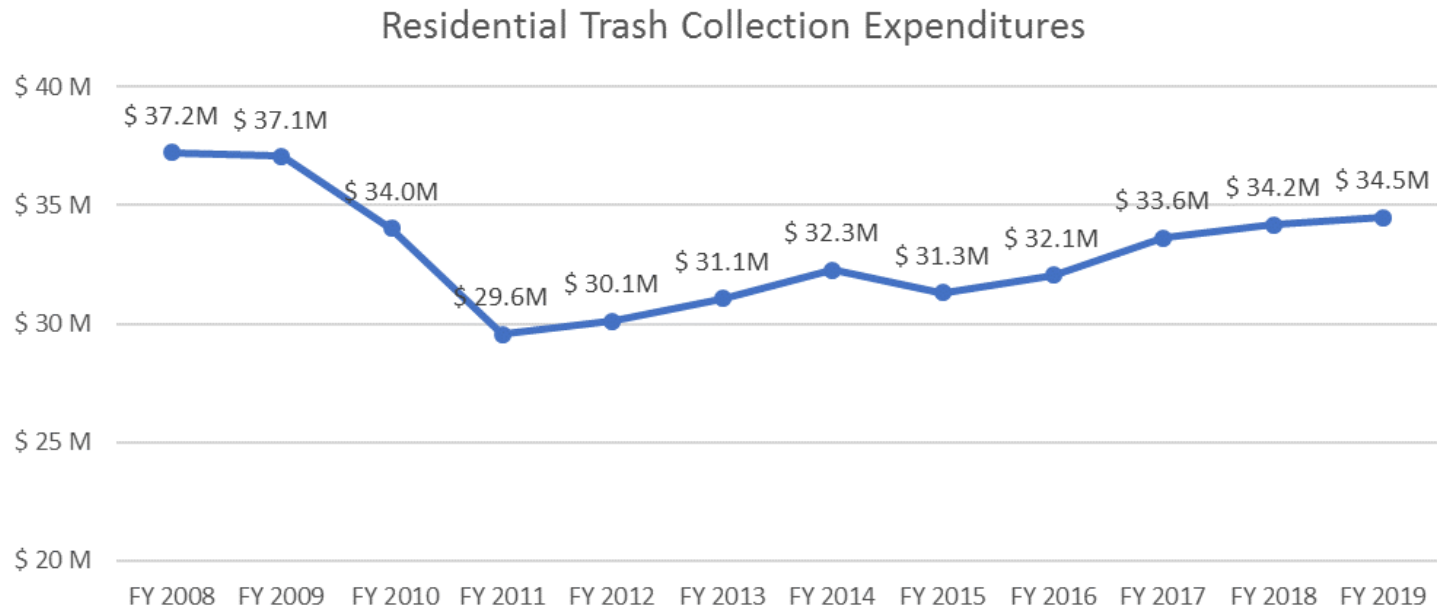
The City provides residential trash collection at no cost to City residents under the People's Ordinance of 1919

- Residential trash and recycling collection service is funded solely from the General Fund constituting \$34.5 million or 2.5% of the General Fund Budget
- While not a significant percentage of the General Fund, it is a service that is typically funded by user fees charged to residents in most other California cities

RESIDENTIAL TRASH COLLECTION SHARE OF GENERAL FUND EXPENDITURES



Residential Trash Collection – Historical Expenditures



- This chart shows our expenditures for residential trash collection over the last 10 years
- Expenditures were reduced significantly between FY 2009 to FY 2011 as a result of collection schedule/route reorganizations and have slowly increased since that time

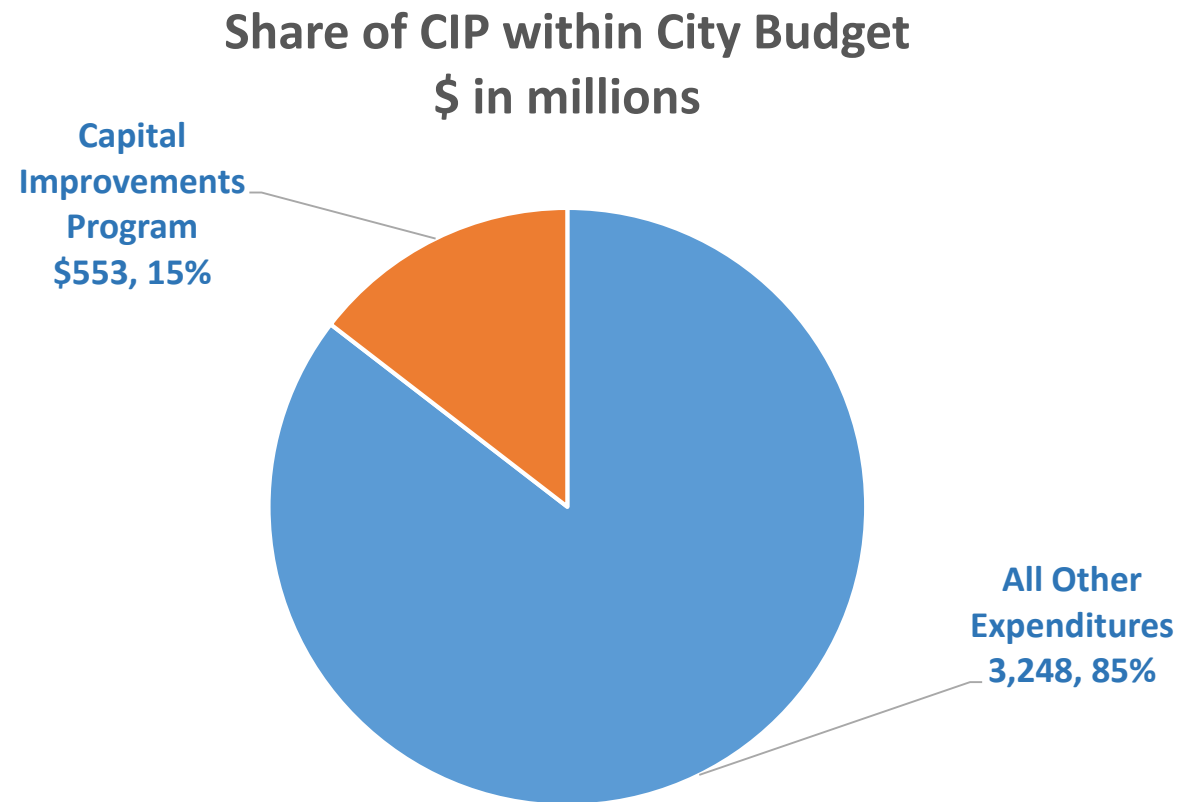
Residential Trash Collection - Challenges

- People's Ordinance prevents revenue generation from trash collection/recycling operations occurring for the nearly 300,000 residents that receive City collection services
- Unlike most other California cities, General Fund revenues must stretch to cover trash as well as police, fire, parks and libraries
- Single-family residences in other major cities in the state pay fees of between \$16 and \$77 per month for trash pickup; for example, the City of Los Angeles fee is \$36 per month

Capital Improvements Program (CIP)

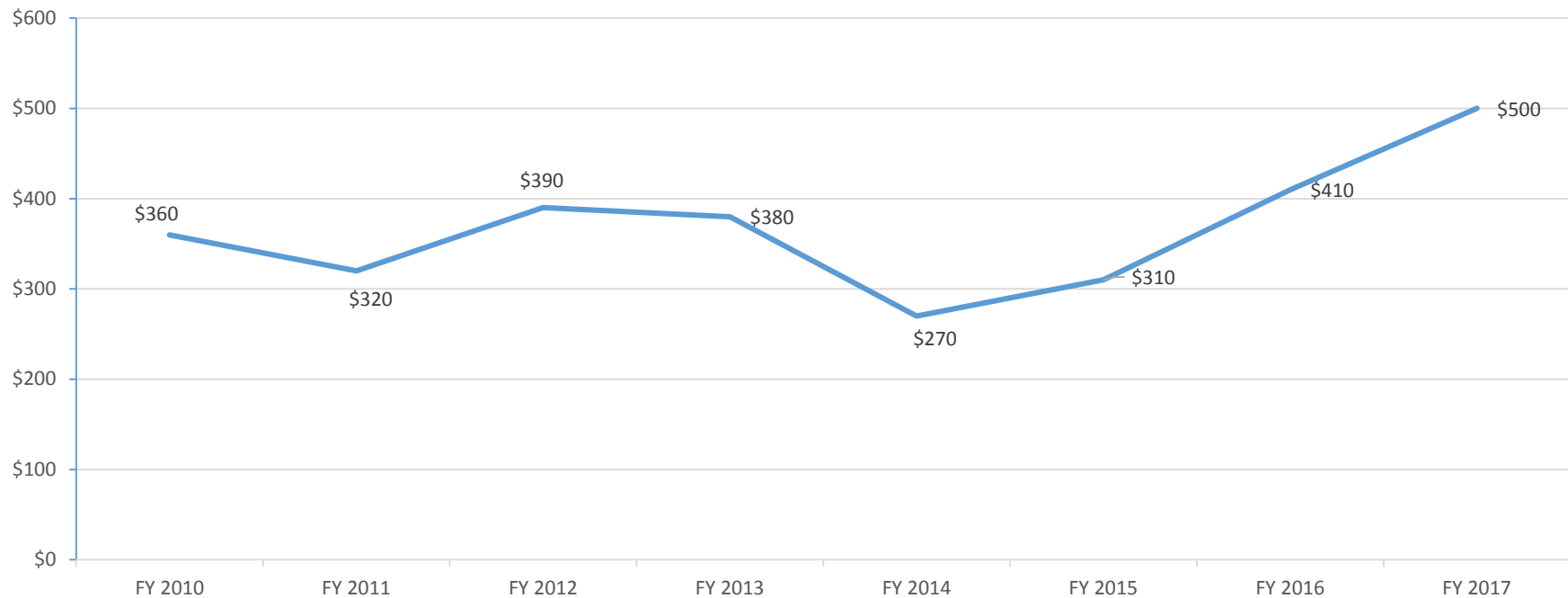
FY 2019 Proposed Budget

- CIP comprises 15% of the City's annual expenditures
- CIP is composed of capital improvement projects and their funding sources
- Total multi-year CIP: \$8 billion
- Includes funding appropriated in prior fiscal years, current year, and funding needed in future years



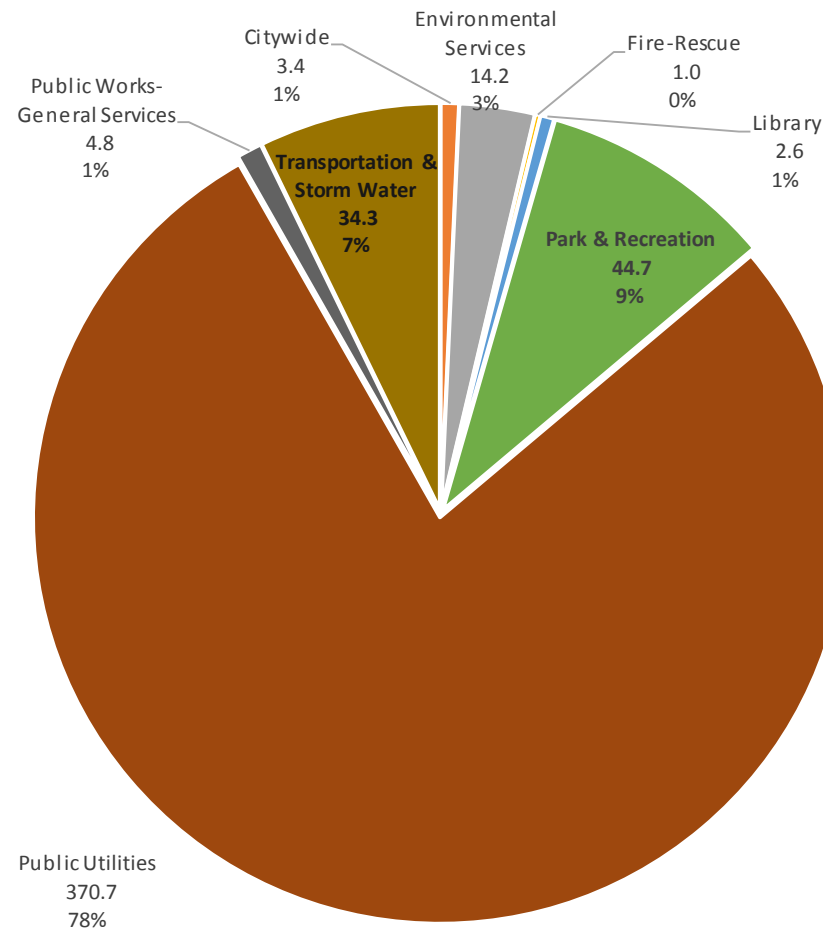
Capital Improvement Program (CIP)

Expenditures from FY 2010 to FY 2017, \$ in millions



- This chart shows CIP expenditures from FY 2010 to FY 2017, adjusted for inflation
- CIP expenditures have grown steadily since FY 2014

Key Capital Expenditures for FY 2018, \$ in millions



- 78% of the Adopted Budget funds Public Utilities Department projects, which are supported by fee-paying customers

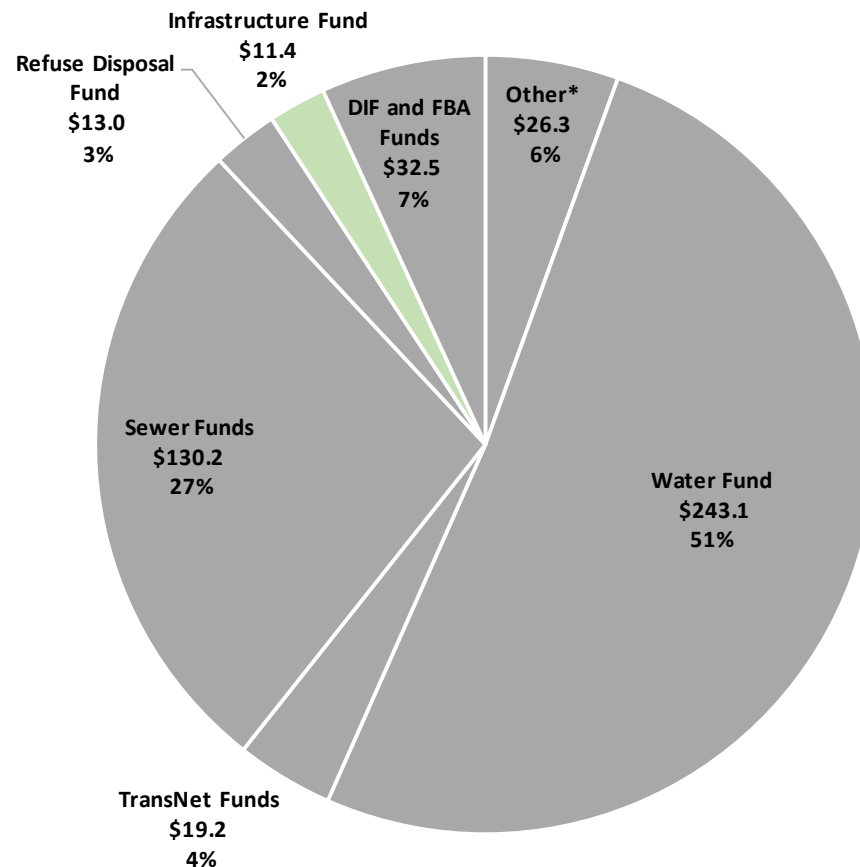
Pure Water

Expenditures from FY 2015 to FY 2019, \$ in thousands

Year	CIP	Pure Water	Percent of Pure Water in CIP
FY 2015	300,000	1,300	0%
FY 2016	400,000	14,200	4%
FY 2017	500,000	18,000	4%
FY 2018 Budgeted	697,100	74,100	11%
FY 2019 Proposed Budget	553,200	121,400	22%

- This table shows expenditures and budgeted amounts for the CIP and the Pure Water program
- The Pure Water project began in FY 2015 and composes an increasingly larger share of the CIP

Funding Sources in the Adopted FY 2018 CIP Budget, \$ in millions



- The green section shows the amount of discretionary funding added to the CIP through the FY 2018 Adopted Budget

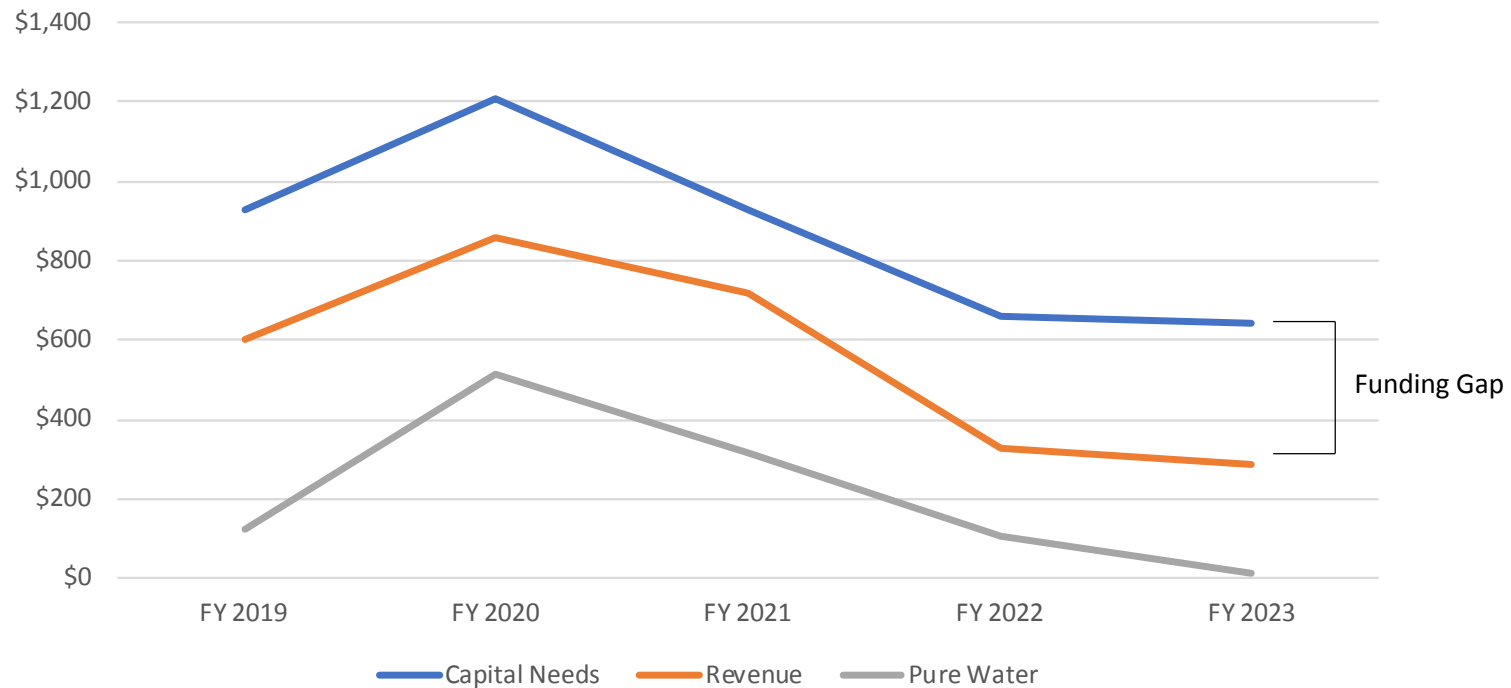
Historical Discretionary CIP Funding

Fiscal Year	Lease Revenue Bonds Issued (\$ in millions)
FY 10	\$103.3
FY 11	-
FY 12	75.0
FY 13	35.0
FY 14	-
FY 15	120.0
FY 16	-
FY 17	-
Total	\$333.3

Other Discretionary Funding Provided FY 10 - FY 17 (\$ in millions):	
General Fund	\$90.1
Capital Outlay	45.3
Total	\$135.4

- Total of \$469 million in discretionary funds provided and about \$3 billion in total CIP expenditures during this period. Funds continue to be spent down
- \$80 million commercial paper program recently approved will be spent over FY 19 and FY 20, and new Infrastructure Fund approved by voters provides \$16.2 million in FY 19
- Financing provides funding for assets without a dedicated funding source, but debt service paid from the General Fund was about \$21 million for FY 2017

Future CIP Needs and Funding Gap, \$ in millions



- This figure shows capital needs and identified funding from the Mayor's most recent Five Year Capital Infrastructure Outlook
- Capital needs exceed revenue by \$1.6 billion over the time period
- Pure Water is a major driver of capital needs and revenue

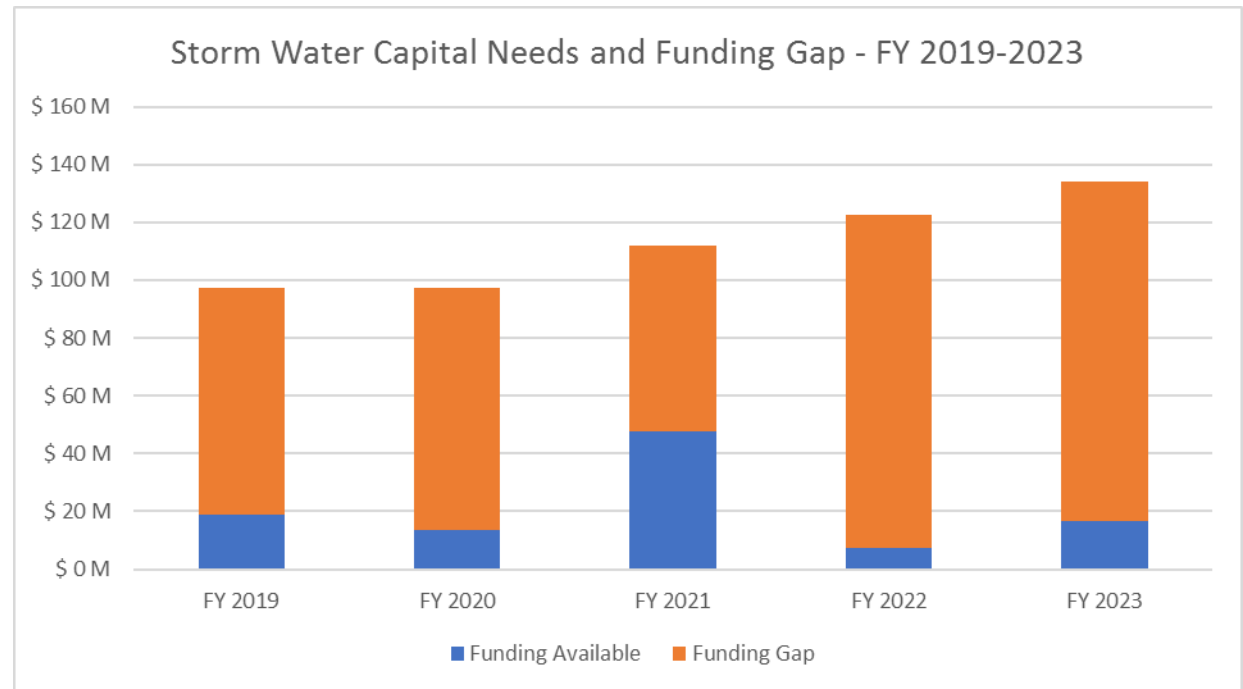
Future CIP Needs and Funding Gap, \$ in millions

Asset Type	Need	Funding	Gap	Percent of Needs Funded
Storm Water	\$563	\$104	\$459	18.5%
Streetlights	204	1	203	0.5%
Existing GF Facilities	286	121	165	42.3%
Parks	200	45	155	22.5%
Sidewalks	166	14	152	8.4%
Traffic Signals and ITS	144	11	133	7.6%
Bike Facilities	122	6	116	4.9%
Bridges	129	28	101	21.7%
Streets and Roads - Modifications	114	60	54	52.6%
New Fire Stations	69	40	29	58.0%
New Lifeguard Stations	6	-	6	0.0%
New Libraries	8	4	4	50.0%
New Police Stations	-	-	-	0.0%
Streets and Roads - Pavement	226	226	-	100.0%
General Fund Asset Total	\$2,237	\$660	\$1,577	29.5%

- This table shows that the entire funding gap exists within capital assets that do not have a dedicated funding source

Storm Water CIP Needs and Funding Gap

- The largest funding gap for capital needs - \$459 million over the next five years - exists in our Storm Water Program
- Capital and Programmatic needs for storm water increased significantly when the Regional Water Quality Control Board adopted a new Storm Water Permit with stringent water quality requirements in 2013
- Compliance costs are estimated at \$3.0 billion through FY 2035; noncompliance makes the City subject to fines of \$10,000 per day per violation
- City lacks a dedicated funding source sufficient to address this need
- Storm Drain Fee – 95 cents a month for a single-family home – generates only \$5.7 million per year, and has not been increased since 1996



Deficits, Resources and Revenues

New Revenue Sources can help mitigate potential deficits, and insulate City services from future economic downturns and recessions.

- Charging for residential trash pickup
 - The General Fund subsidizes 100% of these expenses - \$35M+ annually - for single family residences
- Increased Storm Water Fees
 - San Diego's Storm Drain Fee is 95 cents a month and generates \$5.7 million
 - Other CA city fees are higher – LA's is \$1.92/month, Monterey's is \$5.44/month, Santa Monica is \$10.00/month
 - A \$5/month fee in San Diego would generate an additional \$24.3 million; \$10/month would generate an additional \$53.3 million
- Higher sales tax rates
 - San Diego's effective Sales Tax rate is 8.0%; other cities in the County have rates up to 9.0%; other cities in the State have rates even higher
- General Obligation Bonds
 - Other cities use voter approved GO bonds backed by increases to property taxes to fund infrastructure improvements; San Diego does not
- Other Taxes and Fees – Utility Users Tax, Parking Occupancy Tax, etc.
 - Many other California Cities assess a variety of taxes and fees that San Diego does not

Revenue Challenges

- Establishing new revenues poses challenges:
 - New taxes or fees and increases to existing taxes that support general City services require a majority vote in a Citywide Election
 - New taxes or fees for a specifically defined purposes requires a 2/3rds vote in a Citywide Election
- Reliance on one or a few of types taxes makes City services subject to additional volatility.
 - When a large number of expenses are fixed or mandated, reliance on volatile revenue sources requires larger proportional cuts in other programs when revenue declines

Major Tax Revenue Volatility - Growth/Decline Range		
	<i>Declines</i>	<i>Growth</i>
<i>Property Tax</i>	-6.9%	9.2%
<i>Sales Tax</i>	-10.8%	12.9%
<i>Transient Occupancy Tax</i>	-16.2%	13.2%

Looking Forward to FY 2020 & a Future Deficit

City possibly facing double-digit deficit for FY 2020

- City faces a large number of mandated or essential expenditures:
 - Maintaining funding levels for Public Safety
 - Increases in salaries and wages per employee MOUs - \$37.5M in FY 2020
 - Pension Fund ADC - \$18.1M General Fund increase for FY 2020
 - Providing full funding for residential trash pickup –\$35 million for FY 2020
 - Funding Reserves to Targeted levels - \$9.0M for FY 2020
 - Storm Water Permit Compliance activities - \$84M gap in funding for capital needs
 - Addressing \$1.6B Five-Year Infrastructure funding gap

Additional Potential Impacts and Deficits

- Additional potential impacts to future budgets and deficits could include:
 - Court ruling overturning Proposition B
 - Passage of an Initiative that repeals the SB 1 Gas Tax - \$23 M/year
 - Uncertain ongoing costs for homelessness solutions
- FY20 could require expenditure reductions, new operational efficiencies, and/or new revenue sources in order to balance the budget