San Diego Citizens' Budget Project

'05 BUDGETARY OUTLOOK

Defining the Size of the Budget Challenges Facing the City of San Diego

Analysis by:

The Performance Institute

Constructing the Budget Outlook

Citizen Expectations for Service Levels

Expenditures

General Fund

Non-General Fund

minus

Revenues

General Fund

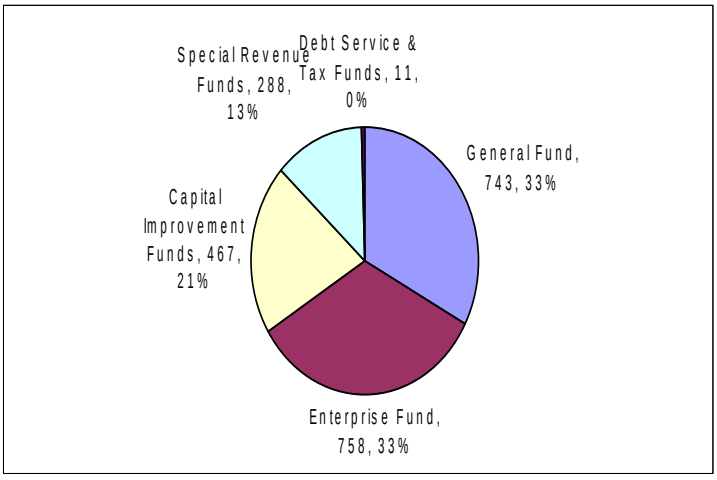
Non-General Fund

= Surplus or Deficit

Resources Available to the City to Meet Citizen Expectations

- General Fund
- Special Funds
- Enterprise Funds
- Capital Improvement Funds
- Debt Service and Tax Funds

FY04 Budget Expenditures by Category



Recent Trends in City Budget Categories

	FY02	FY03	FY04
Total General Fund Revenue	751,577,806	729,330,522	743,013,269
General Fund Expenses	730,020,086	729,330,522	743,013,269
Debt Service & Tax Funds	8,765,678	10,990,089	10,782,184
Special Revenue Funds	268,502,332	288,421,539	287,778,056
Enterprise Funds	678,672,788	680,314,271	758,583,391
Internal Service Funds	114,163,305	103,515,352	106,850,394
Capital Improvements Program	443,195,694	411,400,421	467,567,236
LESS: Inter-Fund Transactions and Internal Service Funds	*-291,194,776*	*-272,833,349*	*-281,927,056*
Net Total Combined Budget	**1,952,125,108**	**1,951,138,845**	**2,092,647,474**

’05 Budget Deficit

Forecasting Revenues and Expenditures for the ’05 Budget

Efficiency Deficit

Transparency Deficit

Accountability Deficit

Factors To Assess

Revenues

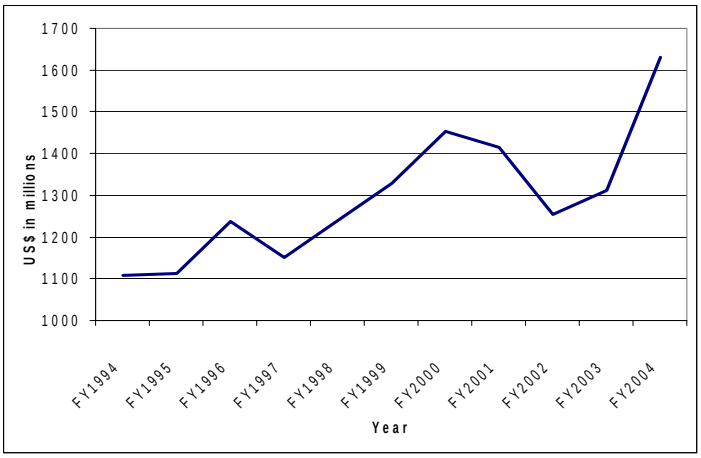
General Fund

Non-General Fund

- ’04 Revenue Shortfalls (’05 Inherited Shortfall)
  - Tax and Fee Receipts to the City (Budget vs. Actual)
  - State Funding Shortfall
- ’05 Revenue Assumptions
  - Economic Activity in Tax Base/Tax Rate Changes
  - Usage of Fee-Funded Services
  - Concessions/Rents
  - State/Federal Funding
  - Miscellaneous Sources

Our Revenue Forecast Uses “High” and “Low” Economic Scenarios to Define a Range of Possible Revenues in ’05. Without Access to the City’s Current Collection Rate by Revenue Category, Providing a Range is the Best Method. State Budget Impacts are Also Factored into Revenue Forecast.

Total Budget Revenue FY94-FY04



Factors To Assess

Expenditures

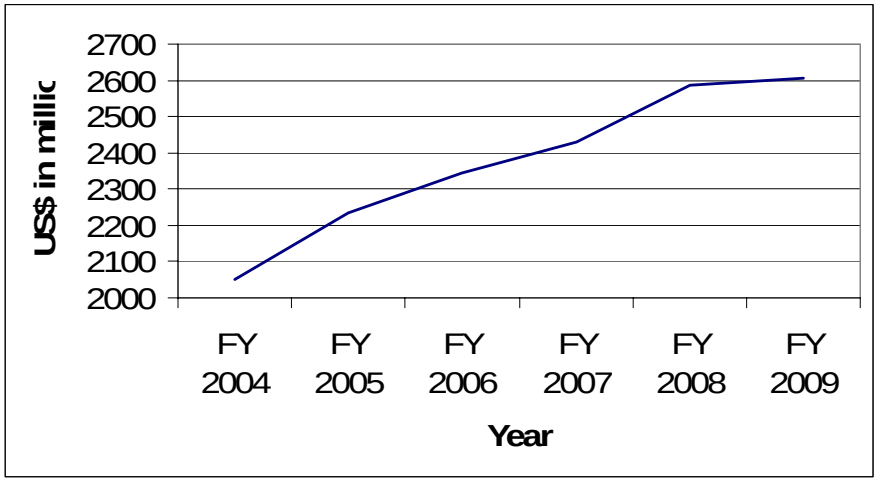
General Fund

Non-General Fund

- '04 Over-Expenditures ('05 Inherited Shortfall)
- '05 Service Level Increases
- '05 Federal/State Mandates
- '05 Operating Expense Increases
  - '05 Labor Costs (Direct and Pension Payments)
  - '05 Direct Expense Cost Drivers

Our Expenditure Forecast Uses the '05 Projected Figures Contained in the '04 Final Budget. Funding Requests Have Been Broken Down into General Fund, Special Fund, Enterprise Fund, Debt, and CIP—with General Fund data presented. These Projected Figures Contain "Ideal" Request Sought by Each Department to Keep Pace with Service Level Changes, Factor in Increased Labor Costs, and—in some cases—Catch Up from Previous Cuts.

Anticipated Expenses FY04-FY09



General Fund ’05

Revenue Source	’04 Budget Baseline	’05 Assumption	FY ’05 Low End	FY ’05 High End
Property Tax	$199,750,958	Continuation of housing market strength; 5%-7% increase in revenue source	$209,738,505	$213,733,525
Sales Tax **Safety Sales Tax**	$127,947,877	Continued improvement in local retail sales; 3%-4% increase in revenue source	$131,786,313	$134,345,271
TOT Tax	$57,998,226	Assumes no new TOT ballot initiative in November; increase in tourism increases revenue by 4%-6%	$60,318,155	$61,478,119
Property Transfer Tax	$8,472,719	Continuation of housing market strength; 5%-7% increase in revenue source	$8,896,354	$9,065,809
Licenses/Permits	$23,422,086	Business tax, rental unit taxes, parking meter rates, etc. to increase by 1-2%	$23,656,306	$23,890,527
Fines	$29,371,747	1-2% increase after huge increases (due to parking revenue changes) in ’04	$29,665,464	$29,959,182
Revenue from Money/Property	$32,608,859	Interest earnings still flat; 1-2% escalation in rents on city properties and concession activities	$33,022,722	$33,326,808
Franchise Fees	$52,086,577	Moderate escalation from negotiated fees (& energy revenues) from SD&E, cable and refuse industry	$52,086,577	$54,234,644
Internal Fund Transfers/Charges	$124,006,193	Charges for/Transfers to General Fund from other Funds for services; anticipated revenue based on other Fund condition; includes subventions & grants	$124,006,193	$124,006,193
MVLF Fee	$74,893,491	City portion of VLF funding through state (Actual FY 04: $62.3m; $74.9m proposed in state’s ’05 budget)	$74,900,000	$74,900,000
Misc	$872,968	Sale of publications and excess inventory/assets	$700,000	$900,000
Prior Year Balance	$11,581,568	No balance forward projected for ’04 budget	0	0

FY ’04 Revenues: $743,013,269

FY ’05 Revenues: $748,776,589 to $759,840,078

Budget Item	FY '05 Best Case	FY '05 Worst Case	Commentary
Carry Forward Balance	0	-$13,800,000	Assumes city doesn't fill the shortfall from state budget cut by 6/30; however, assumes no cost over-runs in city operations from budget amounts (Police: $5m; Fire: $3m)
Revenue Forecast	$759,840,078	$748,776,589	Provides High and Low Revenue Forecast from Previous Chart
'05 State Budget Cuts	-$14,750,000	-$14,750,000	Assumes Governor's proposed $14.75 million cuts in property tax revenues and state booking fee are only cuts to impact General Fund condition
Adjusted Revenues	**$745,090,078**	**$720,226,589**	
Enhanced Revenues	**DIALOGUE #2**	**DIALOGUE #2**	**"Options Report" will suggest ways to enhance revenues without direct tax rate changes**
Expenditures	**$827,257,785**	**$827,257,785**	**From '05 Projections in '04 City Budget for each City Department: Constitute Department's Suggested Increases: THESE WILL LIKELY BE REDUCED BY MANAGER!**
Spending Reductions	**DIALOGUE #2**	**DIALOGUE #2**	**"Options Report" will suggest ways to reduce General Fund expenses through cost efficiency reforms, fund shifts, etc.**
Deficit	**-$82,167,707**	**-$107,031,196**	

NOTE: Expenditure figures are based on publicly available data in City's FY '04 Budget Request, which lists '05 Projected Budget Expenditures requested by each Department. See http://www.sandiego.gov/budget/proposed/index.shtml.

Manager's '05 Budget Deficit Figure Will Be Lower

- Match Revenues: They will "match" projected revenues under existing state law (not including '05 state budget cut)
- '04 Cuts: Additional current year cuts will modify the baseline before '05
- Manager Guidance: Departments will be instructed to trim their "wish lists" down from their ideal '05 Projections
  - No restoration of previous cuts
  - Delay of program upgrades and capital investments
  - Possible labor cost reductions
- Fund Shifts: Shifting of activities from General Fund to Enterprise or Special Fund

How Much "Wish List" is in the '05 Projection? NOT MUCH!

- Employee Salary/Benefits: $30 million
- Public Safety Infrastructure: $10-20 million
- State Budget Cut: $14.8 million

The Citizens' Budget Will Use the Manager's **Revenue** and **Expenditure** Forecasts!

…Unless Peer Review of Manager's Forecasts Uncovers Significant Flaw

Background on Pressing Issues With Budgetary Implications…

Public Safety Investments
Capital Investments
Labor Contract for FY ’05 (and Beyond)
Pension Fund Liability

Public Safety Investments

Manager Report 04-057 (Copies Provided)

- Fire: $159 million
- Police: $186 million
  - ’04 Budget Projected ’05 Needs:
    285 new police cruisers; 72 new police positions; purchase of fire equipment, and complete payment on 8 new fire engines
- Public Safety Communications Project
  - In Progress: $678,000
  - Short Term (FY04-05): $10,000,000
  - Intermediate Term (FY06-09): $117,750,000
  - Long Term (FY 10): $5,000,000

Total: $478,000,000

Capital Improvements Program

Budget Element	FY 04 Proposed	FY 04 Budgeted	FY 05 Projected	FY 06 Projected	FY 07 Projected
Expenditures Funded by Designated Revenue Source	$502,335,451	$467,567,236	$523,000,000	$517,823,321	$412,403,908
Expenditures Without Funding Source	0	0	**$205,000,000**	**$53,456,848**	**$51,965,034**
Total Expenditure	$502,335,451	$467,567,236	$728,000,000	$571,280,169	$464,368,942

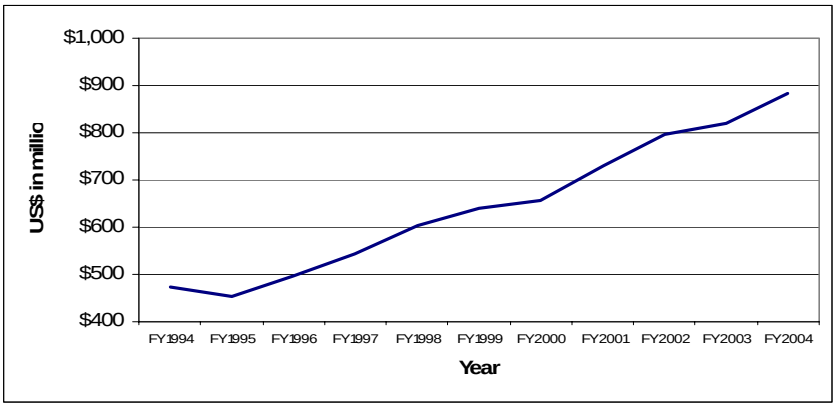
Many Capital Projects Remain on the "Unfunded List" and Get Pushed Off Into the Future.

Employee Costs and Benefits

- FY 2004 Increase: 6.2%
- FY 2005 Increase: 4.9%
- FY 2006+: Negotiations begin July 1, 2004
- Total **Five Year** SD Employee Costs: 35% Increase
- Total **Five Year** CA Personal Income Increase: 24%
- 1994-present: City budget up 20%; employee costs up 118%
- Workers Compensation Costs

Fiscal Year	# of Employees
1990	8,852
1991	9,249
1992	9,687
1993	9,490
1994	9,484
1995	9,521
1996	9,655
1997	9,781
1998	9,921
1999	10,083
2000	10,189
2001	10,576
2002	11,000
2003	11,236
2004	11,269

Total Labor Expenses



Pension Fund

- Retirement: $721 million liability in FY 2003 to $2.03 billion in FY 2009
- Health: $1.1 billion liability in FY 2009
- City Owes: $148 million plus interest (8%) in under-funding
- City Must Pay: Average $199 million a year to its fund between FY 2004 and FY 2011
- Risk Factors:
  - Adequate Investment by City into the Fund
  - Investment Performance in the Market
  - Cost in Administering Fund
  - Cost of Providing Existing Fund Benefits
  - Changes in Benefits Made by the City or Port