Citizen's Fiscal SustainabilityTask Force Analysis of FY2012 Budget Deficit

Reform Impact.

Further developmentof FiscalOutlookReports published12/2009and 9/2010.

March 9, 2011

Submitted by the members of the
Fiscal SustainabilityTask Force
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The Citizens Fiscal Sustainability Task Force has reviewed the overall financial condition of the City of San Diego. For reference, please see the prior reports the Task Force issued on December 11, 2009 and September 26, 2010.

The Task Force is comprised of ten members of our community, whose names are listed at the end of this report. These individuals have relevant backgrounds in business, government, education, and communications. The Task Force has been pointedly apolitical in its process of analyzing the City's financial issues and evaluating potential solutions.

The current Task Force review was initiated at the request of the Mayor and was subsequently supported by members of the City Council and the business community. The objective has been to independently and objectively analyze the budget projections and evaluate the various proposals under discussion to resolve the City's chronic budgetary shortfall. This report updates the prior Task Force reports to reflect the November 2010 defeat of Proposition D, the proposed sales tax increase, updated City financial projections, and other emerging information and issues.

This report is based upon the latest information available to the Task Force, garnered from the Mayor's most recent Five Year financial outlook and supplemented heavily by interviews with key City leadership, members of organized labor, local business and political leaders, and experts in matters relating to pension administration, legal, accounting, and similar disciplines. The Task Force thanks the City leadership for its time, insights, providing access to its staff and data resources, and to the staff for responding to numerous inquiries from the Task Force.

The purpose of the report is to provide objective observations to City leadership, inform and update the citizens of San Diego about the current financial condition of our City, identify the issues that must be resolved to return San Diego to a position of financial stability, and highlight the tradeoffs required to accomplish this critical task. The Task Force urges the Mayor and City Council to take immediate action to address the City's Structural Deficit in a meaningful way.

The problems facing San Diego are complex. The solutions will often not be easy or popular. However, the financial issues facing our City MUST be addressed, and if they are attacked with a healthy sense of urgency and with fairness and open communication in an atmosphere of common sacrifice, San Diego's structural budgetary shortfalls CAN be rectified.

The Task Force notes: since 2005, the Mayor, the Council, the City employees and the public have taken a number of actions to reduce the size and cost of government. These actions have included, but are not limited to:

- 6% pay cut - reduced General Fund payroll by $32.9 Million and reduced pension ARC by $8.1 Million in FY2011
- 1422 plus position reduction, yielding $103 Million citywide in salary and fringe savings
- Elimination of DROP, Retiree Medical Benefits, 13th check and PSC for new employees hired after July 2005 per litigation by the Mayor

- 2 tiered pension system with all unions but Fire. Currently under negotiation to increase retirement age and lower benefits
- Proposition B, no pension increases without voter approval. Was supported by the Mayor, placed on the ballot by Council and passed by voters
- Proposition C, managed competition. Was supported by the Mayor, placed on the ballot by Council and passed by the voters
- Accelerated pension payments to avoid negative amortization
- Bonds issued to address a portion of Deferred Maintenance which hadn't been addressed in many years

At the same time, services on which citizens relied have also been reduced in an effort to control costs. While these actions have been necessary and the City leadership is to be recognized for its efforts, San Diego's Structural Deficit remains. The problem has not been solved. The City leadership must take additional action to eliminate the Structural Deficits, especially in light of the public's strong rejection of a sales tax increase in November 2010.

Over the past few months, elected officials have made decisions to reject some proposed reform ideas. For every rejected savings opportunity without a replacement the City leadership can support, the problems compound and move further from a solution. Therefore, over the next two months, the Council should consider ALL proposals on the table before rejecting any more proposals outright. The "undertakers" are lining up to kill every ***single*** suggested reform - one issue at a time. The public is less eager to understand why the City leadership is willing to say NO to, and more interested in what City leadership commits to say YES to, and is then willing to implement. Now is the time to stop rejecting ideas until all ideas are considered openly and sufficient reform ideas are implemented to eliminate the persistent structural deficit.

This is why the concept of presenting a "Menu of Options" at March and April City Council meetings is the responsible model for elected officials to implement. It will allow the citizens to see the universe of available options in one place at one time before choosing which to evaluate and ultimately accept or reject. The Council will then be in a position to communicate to the Mayor before a budget is presented, those items that they would like to see included in the FY2012 budget.

In carrying out our efforts the Task Force:
- Gathered current data to understand the estimated size of the City of San Diego's FY2012 Structural Budget deficit.
- Gathered current data to understand the estimated size of the Deferred Maintenance Funding deficit not addressed in the budget.
- Analyzed and evaluated the ***Roadmap to Recovery*** developed by Councilmember Carl DeMaio, which was released on November 5, 2010.
- Reviewed and analyzed the ***City of San Diego's FY 2012-2016 Five-Year Financial Outlook*** (2012-2016 FYO), dated February 7, 2011
- Reviewed and analyzed any other plans brought before the Task Force

The financial projections supplied by the City and others that are utilized as the foundation of the Task Force's analysis contain a number of important assumptions and estimates not only on expenditures, but also on critical assumptions regarding future revenues. Over time, some of these projections may prove to be inaccurate, and of course the "moving target" aspect of this work will require revisions as reality alters prior estimates.

San Diego has a fiscal crisis.

The actual FY2012 budget deficit is larger than City leadership has indicated.

The City currently projects the General Fund budget shortfall for FY2012 (which begins in July 2011) could be approximately $56.7 Million if further actions are not taken. However, the Task Force believes that the budgeted expenses are understated by approximately $73.7 Million due to the lack of recognition of the fully funded liability for Employee Retiree Medical expenses ($29.3 Million) and the underfunding of $600 Million in Deferred Maintenance requirements ($44.4 Million in annual debt financing). Therefore, an accurate presentation of the FY2012 all-in General Fund budget deficits would indicate a shortfall of nearly $130.4 Million in FY2012.

The most important question citizens must ask their elected leaders: If San Diego's fiscal crisis drives the proposed cuts in public services, what specific solutions exist to solve the problem this year?

The Task Force believes this structural deficit condition must be rectified. ACTION IS REQUIRED NOW. The City leadership MUST address the City's fiscal problems with a far greater sense of urgency than has been previously exhibited. San Diego's budgetary shortfalls can be resolved, but the solutions will not be popular or easy to implement. The Task Force is concerned that the City leadership has not yet demonstrated the requisite level of commitment and political will to effectively resolve its fiscal crisis.

To resolve this budgetary imbalance, City leadership must consider increased revenues or reduced expenses. With the resounding defeat of Proposition D, revenue enhancement will not represent the majority of this solution.

The Task Force analyzed a number of proposals to eliminate this deficit. Many proposals are singular in nature yet their consequences can be combined with other ideas and therefore must be evaluated in light of the potential aggregated impact of other ideas. This analysis is complex. It contains assumptions as noted above. It is more important to understand the relative magnitude of the impact of a specific action or actions than to determine the precise financial result in the short term.

The Roadmap to Recovery Plan as written DOES NOT produce $87.19 Million in FY2012 savings needed to eliminate the $86 Million FY2012 Structural Budget Deficit nor does it create a surplus of $14.8 Million. Our analysis of the Roadmap to Recovery Plan concludes that it CAN potentially generate $41.51 Million in FY2012 savings if implemented by June 30, 2011. Therefore an additional $44.49 Million in savings must be found and implemented by June 30, 2011 to eliminate the Structural Budget Deficit.

Specific proposals have been suggested by members of the Council, the Mayor and the members of the public, which if addressed, approved and implemented by the City leadership in an expeditious manner, could produce annualized savings on the order of $86-$90 Million after full implementation. The Structural Budget Deficit would therefore be eliminated. While this amount would conveniently offset the City's current projected budget shortfall of $86 Million, the Task Force believes it is inappropriate to rely only on current expense savings of this amount, without addressing the underfunding of the Deferred Maintenance Funding Deficit. The budget is not balanced. Continuing to saddle future taxpayers with today's obligations is exactly how the City got into its current fiscal crisis.

Additional ideas for savings and reform shown to the Task Force have the ability to eliminate the Deferred Maintenance Funding deficit as well. These additional ideas are included in the "Options for Savings" section of this report. We call on the City Council to study this attached "Menu of Options", to identify savings totaling $44.4 Million, to approve them and then forward those recommendations to the Mayor for inclusion in his FY2012 budget. The Task Force contends the entire Structural Deficit must be eliminated. A plan fully funding the entire Deferred Maintenance Funding Deficit must be presented, approved and implemented by June 30, 2011.

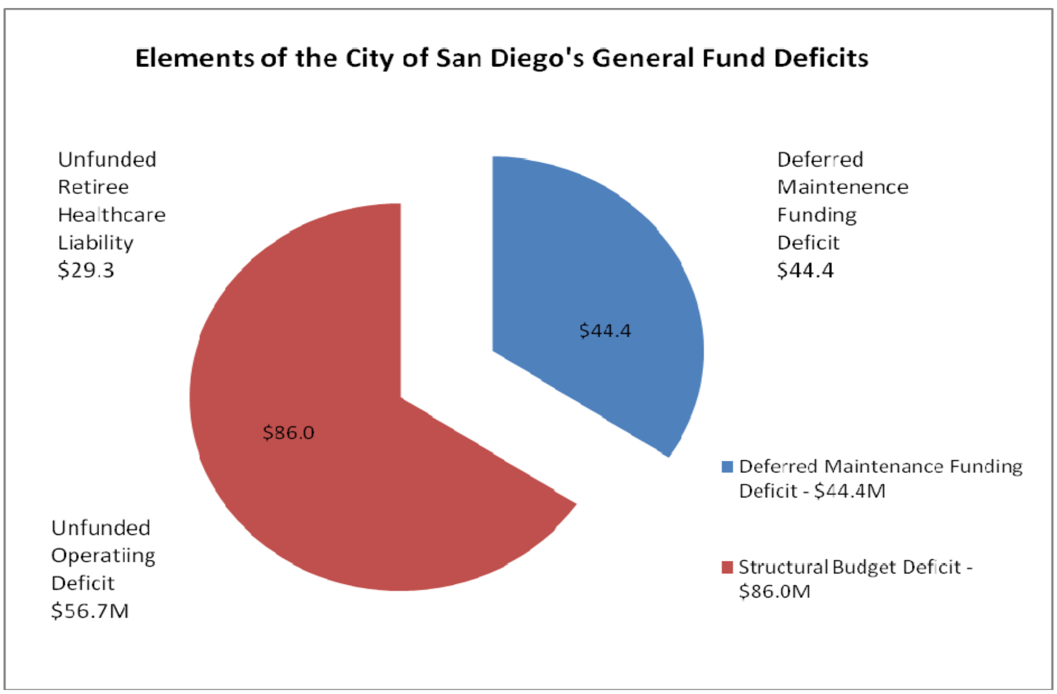
The Mayor and Council have the tools to resolve these deficits. The taxpayers of San Diego rightfully deserve and should demand that their elected officials, once and for all, resolve the City's deficit. In the past the City has balanced its budget each year by underfunding reserves for certain contingencies, deferring essential maintenance expenses, not funding or underfunding actuarially computed liabilities for pensions and retiree health commitments and other similar accounting shifts. Simply said, prior City leadership knowingly made promises that the City could ill afford at the time and then avoided the appropriate funding of these commitments, passing the obligation on to future City taxpayers.

The Task Force urges the elected City leadership to exhibit the courage and political will to eliminate the deficits before the financial condition deteriorates further.

ANALYSIS AND FINDINGS

CURRENT SITUATION ASSESSMENT

	FY2012 Revised Outlook
Revenues	$1,076.1
Expenses	$1,132.8
Surplus/(Deficit)	($56.7)
Unrecognized Expense:	
- Fully Fund Retiree Health ARC	($29.3)
City's Structural Deficit	**($86.0)**
Deferred Maintenance Funding Deficit ($600M)	($44.4)
Size of all Deficits not fully funded	**($130.4)**



TOTAL ALL DEFICITS= $130.4 Million

The Task Force has analyzed the City's projected deficits and identified two broad categories of deficits: Structural and Deferred.

<u>Deficit</u>: Financial shortage that occurs when LIABILITIES exceed ASSETS. Each year the City of San Diego must approve a budget that does not produce a deficit.

<u>Structural Budget Deficit</u>: Financial shortage that occurs when LIABILITIES exceed ASSETS for multiple budget years. Each year the City produces a 5 year Outlook in order to demonstrate the status of projected budget years. If the Outlook shows projected budget deficits in future years, the City has a Structural Budget Deficit and should develop a plan to balance the budget in the out-years.

<u>Deferred Maintenance Funding Deficit</u>: Required infrastructure repairs, improvements and preventative maintenance that were knowingly delayed into future budget years yet still need to be completed but have never been properly funded. Deferred Maintenance reduces the life of an asset, reduces the quality of the asset, and makes repairs in the future more expensive.

QUANTIFYING THE CITY OF SAN DIEGO'S DEFICITS

The General Fund Structural Deficit is the combination of the recognized operational deficit of $56.7 Million plus the known actuarial underfunding of the Retiree Health Liability, $29.3 Million. The Task Force agrees with the Independent Budget Analyst that the Retiree Health liability should be fully funded. Therefore, the Structural Budget Deficit that should be eliminated in the FY2012 Budget is $86 Million.

A plan should be developed by June 30, 2011 to address the Deferred Maintenance Funding deficit in the City of San Diego. For too many years, our political leaders have known that the City has not properly maintained its roads, sidewalks and bridges. It has been easier to defer maintenance than fully fund the work each year. The City's Independent Auditor estimates the Deferred Maintenance Funding deficit to be $800 Million. This amount represents only the "catch-up" of Deferred Maintenance. To the City's credit, in the recently released 5 year Outlook, the City has developed a funding plan for $200 Million in Deferred Maintenance Funding. The finance cost is shown as $7.4 Million per $100 Million financed. While an admirable first step, there still remains $600 Million in Deferred Maintenance not addressed in the 5 year Outlook. Therefore, we ask that the City develop a plan to fully fund the Deferred Maintenance Deficit. We estimate that a $600 Million dollar bond will cost $44.4 Million per year to finance. The City must begin budgeting the $44.4 Million in their future budgets.

Therefore, an accurate presentation of the FY2012 all in General Fund budget deficits would indicate a shortfall of nearly $130.4 Million in FY2012.

To be clear, each year the City ***IS*** required to fully eliminate the $86 Million Structural Budget deficit. However according to the Government Standards Accounting Board (GASB), a Deferred Maintenance Funding deficit is ***NOT*** required to be fully funded or balanced and therefore is not technically part of the Structural Budget deficit. However, the practice of deferring and underfunding has created long term fiscal damage to City services. These costs should have been spent in the past and paid for by taxpayers in previous years. These costs have now been pushed onto current taxpayers. Further delay in funding not only deprives current and future taxpayers of quality usable City assets (e.g. good city streets) it also pushes the inevitable cost onto future taxpayers. The City of San Diego would be one of the first cities in America to fully fund its Deferred Maintenance deficit in its operating budget. Although this action would set a new standard in municipal government, the City should take a leadership position and develop a plan that fully funds the Deferred Maintenance deficit in its FY2012 budget and in all future budget years.

One significant cause of the City's projected FY2012 deficit is the underfunding of prior years costs which were deferred to future taxpayers rather than being budgeted and funded in the past years in which the costs were incurred. This practice of promising and committing to annual costs which were not affordable and consequently not budgeted but rather were pushed out onto future years taxpayers is clearly what has caused the current budget crisis. The principle cause of this problem is the extraordinary high cost of employee benefits which were promised to City employees without being adequately reserved. These annual costs were simply ignored and the eventual liability for such was pushed out to future taxpayers. Currently there is $215 Million of prior years costs in the FY2012 budget, representing 18/5% of the total, and this will have to continue for 15 – 30 years in the future.

To establish a starting point for the estimated deficit, the Task Force used the most readily available public information issued by the Mayor's office, City Auditor, and the Independent Budget Analyst. By referring to the Mayor's proposed ***FY2012-2016 Five-Year Financial Outlook*** issued on February 7, 2011 we were able to glean three key pieces of data:

- The current FY2012 Structural Deficit is stated as $56.7 Million, (FY2012-2016 page 3)
- The current FY2012 Structural Deficit related to the underfunded actuarial cost of providing Retiree Medical benefits is $29.3 Million, (2012-2016 FYO page 23)
- The current Deferred Maintenance Funding requirement is estimated at $800 Million, (Report of City Council May 7, 2009 Report #09-102 page 2; City Auditor Report June 2010). The Mayor's five year outlook includes debt service on bonds that will be issued in the amount of $100 Million each in 2013 and 2015 to fund a portion of this Deferred Maintenance deficit. This represents an annual debt service expense of $7.4 Million for each $100 Million issuance based on today's estimated rates. This leaves an unfunded Deferred Maintenance balance of $600 Million (the low end of the estimated range) which would represent an estimated additional debt service of close to $44.4 Million annually for the next 30 years. This annual cost is not included in the five year outlook.

Therefore, the Task Force concluded that the true size of the City of San Diego's General Fund Structural Deficit is the combination of $56.7 Million (source: 5 year Outlook), $29.3 Million (source 5 year Outlook (unfunded Retiree Health Liability), and $44.4 Million (annual financing for the Deferred Maintenance funding deficit) therefore equaling $130.4 Million. In the remainder of this report we will be using the number $130 Million so as not to give the appearance of a level of precision in deficit calculation that simply does not exist.

The Task Force, in including the additional debt service of $44.4 Million in annual expenditures, does not recognize the very real costs of having deferred so much maintenance over the years. While the bonds may not be issued in FY2012 to provide all of the "catch-up" funding needed, the debt service on that obligation is very real and the $44.4 Million represents the best estimate of the annual cost. In doing this we acknowledge that the debt service on $200 Million is being excluded from our deficit figures but since such debt service is already included in the current 5 year outlook, we choose to focus on the $600 Million not yet recognized.

The City must find reforms, expense reduction and necessary savings on the order of $86 Million that can be implemented and realized in FY2012 in order to resolve its Structural Budget deficit. In addition the City must fund its Deferred Maintenance Funding liability estimated to be at least $600 Million and if financed though 30 year bonds will require annual debt service of $44.4 Million. In order to ensure savings can actually be realized in FY2012, the plan must be presented by the Mayor and approved by the City Council no later than June 30, 2011. This plan should represent real structural expense reductions, not another round of deferrals and underfunding of reserves, which simply, once again, would push the problem out to future years. The primary reason the City is in a fiscal crisis today stems from the continued practice of deferral and underfunding that existed in the past. Libraries and fire stations are being closed now because the past City leadership knowingly underfunded its pension and retirement health plan promises it made to its employees in the past years. Any further deferral of current and past costs will severely aggravate the current fiscal crisis and further push the problem onto future taxpayers.

Further aggravating this situation, pension obligations were underfunded in the past; therefore current and future costs to honor past promises are high and expected to increase in the future. Pension costs alone, which were 6% of payroll in 1994, are expected to be nearly 30% of payroll this year. Retiree Health benefits have been promised but generally not funded beyond the current payments to retirees, creating an enormous unfunded current liability of roughly $1.3 billion in today's dollars.

The solutions to this chronic, devastating imbalance can be categorized as follows:

- Reduce the level of services provided by the City to its citizens. Historically, the City has taken this course of action, until the current staffing level has been described as having been "cut to the bone"
- Increase fees and taxes paid by citizens. The resounding defeat of Proposition D in November, 2010, has rendered this path as inaccessible at this time
- Provide desired services in more cost effective ways. The key is to reduce the unit cost of City labor either through compensation cuts to existing City employees, reducing the net number of City employees or by outsourcing to private providers that can provide quality service levels at a lower net cost to the City. The citizens passed Proposition C in 2006, which required the use of managed competition to reduce the cost of City services while improving the overall quality. City leadership has failed to take meaningful action on this citizen mandate until recently.

Instead, in the past the City has often "balanced" its budget each year by underfunding reserves for certain contingencies, deferring essential maintenance expenses, not funding or underfunding the actuarially computed annual liability for pensions and retiree medical liabilities, and other similar deferrals. That is exactly what has caused the crisis today. Due to the sizable imbalance between projected revenues and expenses, and the magnitude of the value of the items that have been underfunded or deferred, San Diego has reached the point where it can no longer rely upon budget shifts and deferrals. To put it plainly, it is time to pay the piper.

OBSERVATIONS ON RECENT DEFICIT RELATED ACTIONS BY THE CITY OF SAN DIEGO

In all frankness, the seeming absence of a sense of urgency demonstrated by the City leadership since the public's November 2, 2010 rejection of Proposition D's additional revenues as a deficit solution is disturbing. On November 3rd, the citizens of San Diego anticipated swift and aggressive actions from the City leadership to resolve what was advertised as a dire fiscal situation. With the prospect of $500 Million in new tax revenues coming from the passage of Proposition D, there was a commitment by the City to quickly implement the reforms articulated in our last report. Instead from November to December, little or no significant actions were taken by the elected officials to eliminate the Structural Deficit in 2012. When the 18 month budget was passed in December 2009, Councilman Young added an amendment requesting the Mayor present a plan by June 30, 2010 that would permanently eliminate the Structural Deficit. If Proposition D was that plan, then once Proposition D failed, it was anticipated that a new plan would be forthcoming. Instead, during the November Budget Committee meeting, when asked if the City would be developing a new mid-year budget to get a head start on new savings and reforms, City Management went on record indicating there were new positive economic results coming and a mid-year cut was not necessary (City Council Meeting November 11, 2010). In light of pre-election assurances by elected officials that Propositions D's failure would result in drastic service and cost reductions, the decision to not address mid-year budget cuts given that Proposition D did in fact fail stands in stark contrast with these promised actions.

With respect to recent indications the City would pursue the potential benefits of Managed Competition, the Managed Comp Guide was finally completed in December of 2010. However, the process to actually implement managed competition appears to be moving very slowly. On page 31 of the Five Year Outlook the managed competition implementation was described as follows:

> "The managed competition guide (reform #2) has been completed, and managed competition processes are currently underway for publishing and fleet management services. It is estimated that the City may save $100,000 - $200,000 in FY2012….."

In repeating that excerpt we only note the seemingly minimal benefit of managed competition savings being projected by City leaders in FY2012 when facing an $86 Million Structural Budget Deficit. Given the prevailing views that managed competition has the potential for immense savings, this rate of execution in the managed competition program is unacceptable. We are unsure if it is the fault of the Managed Comp Guide or some other factor. Whatever the reason, a renewed effort is necessary to dramatically accelerate the completion of multiple managed competitions to ensure significant savings can be realized in FY2012.

In February 2011 it was revealed that the RFP for the Landfill Franchisee License was being pulled due to lack of bidder participation. The impact of this announcement was that any potential savings anticipated would be delayed past FY2012.

On March 3, 2011 the widely anticipated DROP Neutrality Study was released with a head-scratching conclusion. The study finds that the DROP program will cost the City $149 Million over 20 years, yet is considered "cost-neutral" because it did not exceed the 2% trigger required in the analysis. In other words, having the program could still cost the City 2% more than **not** having the program and still be considered cost-neutral. Only in a truly "upside-down" world can spending an extra $149 Million dollars be considered neutral. However, the real story is that there will be no savings realized as a result of the study's conclusions.

On March 3, 2011 the City Attorney confirmed that some Enterprise Funds, e.g. the golf Enterprise Fund, which were created by Council action and are not mandated by the City Charter, can be terminated and the City can enter into leases for private sector operation of services previously provided by selected Enterprise Funds. The lease revenue can then go to General Fund uses, such as public safety, parks and libraries. This is an important clarification because now the City can lower its employee costs by terminating these Enterprise Funds and also, generate new General Fund revenue while retaining ownership in the properties.

Recently a Council Committee unanimously rejected a reasonable fair-share fix proposed by the Mayor's office – discontinuing the special treatment for some residents receiving free trash pickup on non-City streets. The Charter specifically limits free trash pickup to City streets. This proposed reform is simply putting the City in concert with the Charter. Yet the populace's rejection of a reform item consistent with the Charter is an example of how hard it is to get the elected officials to stop pandering and to start leading.

The pace of change in the City of San Diego in the face of this fiscal crisis is not acceptable.

It has been our desire to see dramatic action at Council meetings involving expedient approval of measures that would eliminate the Structural Budget deficit. We have therefore delayed reporting our conclusions until March in order to give the Council and the Mayor time to produce demonstrable results that would not only show their commitment to the elimination of the Structural Budget deficit but to also demonstrate, through action, the specific reforms and cuts they would accept that would become the basis of the FY2012 budget. The added benefit of waiting until March was that it allowed the Task Force to see and hear the Council's positions on items such as the elimination or reduction of the Retiree Medical Liability; the level of urgency being placed on managed competition implementation; the degree to which promised implementation occurs of significant cuts in public safety, and the introduction into the public dialogue of any new ideas or suggestions by any persons or entities.

The Roadmap to Recovery Plan was developed by City Councilmember Carl DeMaio as a broad set of proposals for dealing with the City's fiscal crisis and was presented to the public on November 5, 2010. Councilman DeMaio is to be credited with taking the time to develop the Roadmap. It is a well researched and a well-thought out conceptual document that representing a series of ideas that can materially improve the financial position of the City.

The Task Force was asked to review the Roadmap and report our findings. We first reviewed and analyzed the items contained in the Roadmap to determine if the Plan could achieve its stated goals based on real-time events and actions by the elected officials. We then expanded our review to include additional proposals from across the community. Some proposals were not evaluated beyond a high level analysis since they did not, on the surface, appear to be viable or did not contain sufficient detail for an in-depth review. In evaluating specific ideas, we were mindful that just because an idea is presented with a justification and numerical assumptions it may not be feasible, politically achievable, or contain correct numerical values.

ROADMAP ANALYSIS

The Task Force considered three questions:

- Will the Roadmap "as written", eliminate the Structural Budget deficit in FY2012?
- Can the Roadmap, "with additional Council action" eliminate the Structural Budget Deficit in FY2012?
- Are there additional ideas, plans or actions that can be implemented along with the Roadmap that will help eliminate the Structural Budget deficit?

In evaluating the Roadmap to Recovery the Task Force found that some of the ideas are supported by very thoughtful calculations while others appeared to contain only rough estimates.

The Roadmap lists a broad array of ideas and concepts that might be deployed by the City to achieve fiscal soundness. Some are very broad statements and others are much more specific. However, the report identifies 25 specific items that claim to produce savings of $87 Million in FY2012. The Roadmap implies that all 25 items are actionable, reasonable and feasible and can all be implemented specifically by a majority vote of the council prior to the beginning of FY2012. The Roadmap further implies that if the 25 items are implemented, the FY2012 Structural Budget deficit, (as originally stated in the Mayor's FY2011 budget at $74 Million) will be eliminated and in fact, would generate a surplus of $14.8 Million.

Since a number of items identified in the Roadmap have previously been agreed upon, in concept, by the City Council and the Mayor, the Task Force found it reasonable to assume the Council will support actual implementation of these items, e.g. Managed Competition; Landfill Franchise; Data Processing Outsourcing; Reduction or Elimination of some Offsets; Ending the Practice of Terminal Leave; and Redevelopment District Debt Repayment.
The table below represents the listing of the 25 items that the Roadmap asserts will save $87.30 Million in FY2012 and also produce a $14.8 Million surplus, (relative to the Mayor's original projected FY2011 deficit reduction target of $74 Million). The table is taken out of the Roadmap documents. In looking at the

Roadmap, the Task Force notes that 9 of the proposed reforms/cuts represented 90% of the potential savings. We focused our review on these 9 key items.

Roadmap's Assumptions ($ in Millions)	
Proposed Budget Balancing Actions	**Roadmap to Recovery Projected FY 2012 Savings**
Managed Competition	11.66
Landfill Franchise License	10.00
Retiree Health Reform	21.47
Pension (Pay Freeze)	8.10
Mayoral & Legislative Reductions	1.62
Mgmt Analyst/PIO Reductions	1.63
Arts and Culture Reductions	1.84
Contracts & Supplies Reductions	4.19
Eliminate Mgmt Leave & Mgmt Vehicle Allowances	0.05
Convention Center Debt Refunding	0.40
Eliminate Offsets	4.79
Eliminate Terminal Leave	0.12
Suspend Fire EMT Specialty Pay	4.83
Suspend Fire Mgt Assignment Pay	0.72
Suspend Master Library Pay	0.26
Special Pay Reductions (MEA)	1.53
Risk Mgmt Audit Recommendations	0.25
City Council Pension Sub Equal Reform	0.05
Office of Mgmt & Budget Reorganization	1.62
2% General Salary Reductions (estimated)	3.25
Redevelopment Repayment & Expense Transfer	3.01
Recovery Auditing & Audit Function Transfers	1.50
Expansion of Marketing & Strategic Partnerships	1.00
Office of Special Events Revenue from TMD	0.20
Mid-Year (One-time FY2011 Savings)	3.10
Net Savings Subtotal	**87.19**

1. MANAGED COMPETITION: VALUE OF SAVINGS: $11.66 MILLION

Is the level of savings identified on this reform item reasonable and is the FY2012 timeline feasible? **Yes, but…**

The savings target is reasonable, if and only if, the City can contract with vendors to achieve 10% savings on $180-230 Million in current City services and implement the transition to private contractors by October 31, 2011 part way through the FY2012 budget year.

As a reminder, in 2006 the voters approved Proposition C, which mandated that City leadership utilize Managed Competition to reduce its cost of providing services.

The City Council did not agree until August 2010 to move ahead with the completion of the Managed Comp Guide. The Guide was finally completed in December 2010. This inexcusable timeline, 2006-2010, for the City to act on the citizen mandate, borders on reckless disregard for the wishes of the people. The guide was the only item blocking the start of real managed competitions so the concept of Managed Competition in the City of San Diego is now finally feasible.

We agree with Councilmember DeMaio that the City could achieve $11.6 Million in Managed Competition savings that could benefit the last 6 months of the FY2012 budget, if and only if, the Mayor presents and the Council approves final implementation plan for at least 7 Managed Competitions. The services competed would be need to represent a current total General Fund expense of $180-$230 Million in order to save a projected $23 Million in full 12 month savings. Of course, the Managed Competition guidelines require the savings must be at least 10% of the current expense rate in order to be approved through the Managed Competition process.

These savings are dependent on a number of factors:

Do we have the right competitive bidders?
Is the process fair and reasonable to the bidders?
Does the process result in actual savings?

Historically, the City has made little use of the Managed Competition process. However, in the one recent instance when the Mayor utilized competition to bid out its computer help desk function, the City was able to reduce its costs for this service by more than 50%. There is no reason the City should not expect to realize substantial savings as a result of the Managed Competition process. Because it will not be possible to achieve the full cost differential in the first full fiscal year of Managed Competition, we agree with the Roadmap that it is prudent to only project 50% of the anticipated annual savings in FY2012 order to allow for startup and transition costs.

As noted above, the City has moved at a glacial pace with implementation of Managed Competition. At the current pace, the Task Force is skeptical and believes it is entirely possible that no savings from Managed Competition will be realized in FY2012. However, it is entirely feasible for the City to expedite the process. These savings will be realized only if the City leadership fully embraces Managed Competition and pursues the identified areas with a strong sense of urgency.

2. LANDFILL FRANCHISE LICENSE: VALUE OF SAVINGS: $10.0 MILLION

In August 2010, the City committed to soliciting proposals to exit the Landfill Enterprise Fund. The theory of the reform item was that the City Charter does not mandate the City operate a landfill. Much like San Diego Data Processing, the City could simply "outsource" the work to a private firm. Therefore, if the City could find a private firm to take over the entire operation, allowing the City to close the Enterprise Fund, the City could generate a new "Licensing Revenue Stream" that could then go into the General Fund and pay for General Fund expenses. By electing to get out of the Landfill business, the City would no longer have City workers on the payroll to operate the Landfill which would in turn ultimately lower the long-range labor and benefit costs to the City.

The City of San Diego does not own the Miramar Landfill. The Navy owns the Landfill and the City has an agreement to operate the landfill for a specified time at which point the City will have to mitigate the site and return it to the Navy.

Electing to get out of a line of business is drastically different than taking a service item through the Managed Competition process because in the case of pure outsourcing, the City would not be attempting to retain the service at all and therefore would not need a bid from City workers. Twelve years ago, the County of San Diego exited the Landfill business. Operating a landfill was not a core competency of the County. The move generated real savings, reduced the County's long-term staffing liability and generated real dollars that the County was able to use to improve their operating bottom line and invest in new real estate. As a matter of fact, the tipping fees charged by the County twelve years ago are not substantially higher under the private operator.

The City hired a consultant to create and manage the RFP process in December 2010. In late February the City announced that no bidders had chosen to respond to the RFP and the RFP would be pulled and replaced with the Managed Competition process. This is a disappointing turn of events since it means that there will likely be NO savings in the FY2012 budget. It is also disappointing because the City will potentially stay in a business enterprise that is clearly not a core competency of a City. Private landfill operators have a dramatically different approach to managing the asset that we all consider trash and many have applied revolutionary solutions to the mitigation and management of waste. The City would truly benefit from closing the Landfill Enterprise and focusing its staf fon other mandated services.

We recommend the City take another crack at getting completely out of the landfill business and rebid the RFP with the necessary modifications to encourage the private operators to bid. Prior to the RFP being pulled, there were at least four bidders that were initially very interested in bidding the work. There has to be a reason that all four elected not to bid and the City needs to see if it is possible to modify and rebid the work.

Therefore, unless the City can rebid and hire a private operator by September 30, 2011, the Task Force cannot give the Roadmap credit for the $10 Million in FY2012 savings as shown in the plan.

3. RETIREE HEALTH REFORM: VALUE OF SAVINGS: $21.47 MILLION ELIMINATE RETIREE MEDICAL - ALL CURRENT WORKERS

When Pete Wilson was Mayor he negotiated a plan whereby the City workers would exit Social Security and Medicare in exchange for a new Defined Pension Plan and Retiree Medical for life. A few years later the courts would rule that everyone had to go back into Medicare. However, some employees would be out of Medicare for a number of years. At the time of this promised benefit, the actual value of the Retiree Medical Liability was unknown and unfunded. The City would use a process called "Pay Go" and simply pay the bills in the period that the cash expenses were incurred. This was one of the first great underfunding exercises by the City and it would not be until 2008 that the City would formally attempt to fully understand the size of the liability as well as the cost to fund the liability on a proper basis.

In 2009, the Council voted to begin negotiations with labor to reduce the cost of the Retiree Medical Liability. The Council gave the Mayor until April 2011 to return with a plan that reduced the liability with the ultimate goal of ensuring the benefit was funded properly. In 2010, while the Mayor and City employees groups were negotiating the item, the Council communicated via Proposition D that they were interested in reducing the Retiree Medical Liability. In early 2011, the Council and Mayor still appeared to be on the path to reducing the Retiree Medical Liability. However, there is no indication that they are negotiating a complete elimination of the Retiree Medical benefit and its associated liability for workers hired before 2005. The Roadmap asserts the Council has the authority to eliminate the benefit with a majority vote of Council. Since the Council would have to be the ultimate arbiter of the final Retiree Medical solution and they have communicated publicly that outright elimination of the benefit for current workers hired prior to 2005 is not an option they are pursuing, it is reasonable to conclude the savings identified in the Roadmap are unlikely to materialize. If the Council will not eliminate the benefit for workers not yet retired but hired before 2005, the Roadmap's projected savings for this item are not likely to be realized.

There are other opinions and they come from very credible sources. The City Attorney, citing recent case law, has advised the Council that the benefit is NOT a vested benefit and can be eliminated. This assertion may have formed the basis for the Roadmap to conclude this reform item was feasible and reasonable. There is, of course, a counter argument. Labor believes this promise is a vested right and is opposed to its elimination by Council action. The ultimate legal solution may need to be decided by the courts but in the meantime it appears that the City is trying to negotiate a compromise with its workers.

All across the country, labor is being told that the era of free retiree medical is over and they will have to pay their fair share. The Charter uses a phrase "substantially equal" when describing other areas where the City and the workers pay and contribute. If applied to retiree medical and if the benefit continues for the workers hired pre-2005, the workers may end up picking up their fair share of the expense, thus dropping the total size of the liability to the City budget substantially. However this is not the plan that the Roadmap has contemplated in its analysis.

4. PENSION (PAY FREEZE): VALUE OF SAVINGS: $8.1 MILLION

The City negotiated multi-year contracts with its labor groups in 2009 requiring a 6% salary compensation reduction, and no wage increase. These reductions were not all taken as across the board wage cuts but they were in fact reductions in gross payroll (but not reductions in pension step increases). The pay freeze did result in a net General Fund payroll savings of $32.9 Million. Since SDCERS uses a 4% wage inflation in their actuarial computations the fact that there was no programmed wage increase for 2010 meant the wage inflator would be zero for that pension year which then created a FY2011 ARC savings of approximately $8.1 Million.

This item is not a new reform created by the Roadmap. Rather it is the continuation of a policy already in place at the City. The recently released 5 year Outlook already includes this $8.1 Million in savings for FY2012. Therefore there is no additional savings identified in this item by the Roadmap.

5. ELIMINATE OFFSETS: VALUE OF SAVINGS: $4.79 MILLION

"Offsets" is the practice wherein the City "picks-up" or pays a portion of the employee's share of his/her pension expense. In August, 2010, the Council and Mayor intimated their commitment to reduce and eliminate some offsets. The practice of City funded offsets is not a sustainable business practice. For years the City deliberately chose not to pay for the full cost of the pension claiming it could not afford it while at the same time choosing to pay for all or a portion of the employee's share of the cost. We agree that this practice must end. The Council should have the authority to eliminate offsets.

Therefore we agree that this reform item can be negotiated and can be implemented in time to see savings in the FY2012 budget.

6. SUSPEND 4 SPECIALTY PAY CATEGORIES: VALUE OF SAVINGS: $7.34 MILLION

In January 2011, the City Attorney confirmed the City can reduce wages through negotiations and if an impasse is declared, the Council can impose a one-year reduction in wages. Subsequent Councils may also choose to continue those same wage/pay freezes or cuts in future years as well, but the current Council is limited to a one-year imposition on labor.

We believe this is the impetus for the Roadmap's conclusion that this reform item is reasonable and feasible. In the case of EMT specialty pay, the Roadmap presumes since Firefighters are required to be EMTs, the specialty pay is unnecessary and possibly duplicative to their base pay. To understand the issue we must understand the history of this particular specialty pay category.

Prior to 1979, the EMT services were provided by Police Department. This changed and the EMT services were given to the Fire Department. At the same time, the City contracted with a private firm to provide ambulance services to the City, relieving the City of the need to staff their own ambulance service. At the time, the currently employed firefighters were then required to add to their skill level and become certified EMTs. As is normal in the private sector, when employees increase their skill level though education, they commonly receive a change in their wages. Instead of raising the base pay of the fire fighters, a specialty pay was implemented that amounted to 8.5% of their base wage. Today, EMT certification is a condition of employment for a firefighter. The Roadmap therefore argues that the 8.5% specialty pay should be eliminated since all firefighters are required to be EMT's. This amounts to an 8.5% wage cut for all firefighters that receive EMT specialty pay. It is possible that this 8.5% pay cut may have no impact on attracting good firefighters since there is a current waiting list for new hires. However, a wage cut of 8.5% could impact the City's ability to attract and retain.

It is also important to note this particular item in the Roadmap is not the item that discusses the concept of making all specialty pay non-pensionable. This reform item will require extensive study to determine whether, unlike a wage cut which many believe the Mayor can negotiate and the Council can impose for one-year, the idea of retroactively rolling back a pensionable benefit may be more challenging; especially if it imposes permanent change and not just a one-year imposition. In order to achieve real pension savings, the elimination of all specialty pay as pensionable would have to be permanent in order to significantly impact the actuarial ARC and reduce cost to the General Fund in FY2012. If the elimination of specialty pay as pensionable will only apply to new hires versus attempting to impact existing employees, the impact and the savings projections would change. The City Attorney has opined on this subject but it is still not clear what the fiscal impact would be or in which fiscal years this savings could be realized. This of course may be an item that gets challenged in court; however, for our purposes here, we have to rely on the opinions of the City Attorney. However, the Roadmap did not attempt to quantify the savings that could be realized from eliminating all specialty pay as pensionable in FY2012 so we did not study the item.

The Roadmap identified 2 other specific specialty pays that it thinks is reasonable to eliminate. We do not completely understand why these specific specialty pay categories were selected by the Roadmap when there are over 30 specialty pay categories in the City of San Diego for example, specially trained equipment experts, helicopter pilots, linguists and SWAT team officers to name a few. The Roadmap seems to imply that it will start with these four and then seek to have ten eliminated by the end of the year. We would assume that the eventual goal of the Roadmap is the elimination of all specialty pay in the City of San Diego. However, the Council has the authority to cut wages and should they choose to exercise this authority and cut specialty pay for the identified groups, while not transferring the value of specialty pay into base pay, the savings listed in the Roadmap are reasonable and feasible.

7. 2% GENERAL SALARY REDUCTIONS (EXCLUDES PUBLIC SAFETY)

The City Council has the authority to impose salary reductions for one-year. As a result it is reasonable and feasible for the City to implement this savings idea.

According to the US Bureau of Economic Analysis, per-capita personal income in nominal dollars declined 2.1% between 2008 and 2009. This is the first decline in nominal per capita income since at least 1969, the furthest BEA records go back. Private sector employment in San Diego has declined by more than 92,000 jobs between 2007 and 2010. The unemployment rate in the region increased from 4.0% in 2006 to 10.3% in January 2010. Sales tax receipts flowing to the City's General Fund have declined $23.4 from 2008 levels – an indication of just how much the local economy has retracted and San Diegans have retrenched. According to research by the Kaiser/HRET survey of employer sponsored health plans, nationwide employees are contributing an additional $1,000 for family coverage (a total of $3997 in 2010) and $170 for individual coverage (a total of $899 in 2010) since 2006. By any measure, the San Diego taxpayers have seen their wages decrease, their economic situation grow more tenuous and their take home pay decline in the face of the worst downturn since the Great Depression.

Therefore it is reasonable and feasible those workers in the City of San Diego may be asked to take further reductions in compensation.

The Roadmap limits this 2% cut to non-public safety personnel. In addition, the cut would apply to non-classified employees. There are approximately 535 unclassified budgeted positions with a payroll cost of approximately $52 Million. The Roadmap does not show a dollar figure for savings related to a 2% wage cut to non-classified workers.

8. MID-YEAR (ONE TIME FY2011 SAVINGS)

At the time of the Roadmap's release, it seemed reasonable that the City would begin working on a revised budget. The public had been told to expect large cuts in public safety should the public vote down the Proposition D sales tax increase. However, at the budget hearing in January 2011, no interim budget was created and presented to Council for approval.

Therefore there is no savings to be realized from this element of the Roadmap

9. REDEVELOPMENT REPAYMENT & EXPENSE TRANSFER

The Charter allows the City to properly assign expenses to the Redevelopment Agencies. In the case of Petco Park for example, taxpayers were told the project was to have no impact on the General Fund. Yet the General Fund was in effect subsidizing the redevelopment agency by making debt payments that should have been borne by CCDC. The Council took action in January 2011 to make permanent the repayment of Petco Park debt payments by CCDC instead of the City. This action will create savings in FY2014 but will achieve no additional savings in FY2012. The City Council has already acted on this item and it has already been included in the 5 year Outlook.

There are other Redevelopment Agency expense transfers being considered by the Council and the Mayor and we should expect to see more completed in time to create savings in the FY2012 budget. However, we do not know where the Roadmap's $3 Million savings in FY2012 is coming from. It appears that the non-CDBG agency debt repayment is the primary source of the estimated $3 Million in FY2012 savings. However, this figure appears to be quite speculative. The other items listed are going to take effect in the future and will impact budgets starting in 2014 and beyond.

We also pulled an agenda item from a February 23, 2010 council meeting that may be related to this repayment item. The quoted item states:

> "*Staff's Recommendation to take the following actions:*
>
> *Direct staff to prepare a CDBG Loan Repayment Agreement for consideration by the City Council, pursuant to the terms and schedule for repayment as contained in this staff report;*
>
> *Direct staff to prepare any required documents for consideration by the City Council to accept payment deferred accounts payable liabilities by the Agency.*
>
> *Fiscal considerations*
>
> *The ERAF will reduce the funds available for investment this year in the City's redevelopment communities by $55.7 Million. In addition to the impact of the ERAF, the decline in property Assessed Valuations across many of the redevelopment project areas is requiring the Agency to reduce Project Budgets by cumulative total of $4.9 Million this Fiscal Year. When submitted for approval, the CDBG Repayment Plan will transfer $3.6 Million from the Agency to the City's CDBG Program this Fiscal Year.*
>
> (See Redevelopment Agency Report No. RA-10-11/RTC-10-015.)"

We are unsure if the General Fund can take all of the $3.6 Million or whether this happened already. Unless we receive additional clarification we will be unable to score this $3 Million into FY2012.

We will say that the City should make every effort possible to ensure the General Fund is not subsidizing any Redevelopment Agency or Enterprise Fund. Therefore we support the Roadmap's assertion that the City should maximize its ability to seek repayment of any debt owed to it by any Redevelopment Agency and ensure the Redevelopment agencies are being properly charged for public safety services as well.

CONCLUSION ON THE ROADMAP ANALYSIS

In concluding our analysis of the Roadmap we have reached a determination that while the entire Roadmap presents several meritorious recommendations, the Roadmap does not produce $87 Million in guaranteed savings that can be realized in FY2012.

In addition we conclude that the Roadmap does not produce a $14 Million surplus in FY2012.

There are 5 key ideas that were listed in the Roadmap as savings for FY2012 that cannot be achieved. Due to real-time circumstances, as of March 1, 2011 the following ideas have already been rejected by the Council and cannot produce General Fund savings in FY2012:

Elimination of the Retiree Medical Benefit for all employees	$21.47 Million

The following ideas have been pulled or delayed by the Mayor's office and cannot produce savings in the FY2012 budget:

Landfill Franchise License	$10.0 Million
Mid-Year Budget Revise	$ 3.1 Million

The following item was already in place in 2010 and was already going to be included in the FY2012 budget due to past Council action so it cannot represent a new FY2012 savings:

Pension Pay Freeze impact for FY2012	$ 8.1 Million

Lastly, we are concerned that we cannot identify the source of the FY2012 projected savings for one of the ideas identified in the Roadmap related to Redevelopment. A number of the items listed were either savings that were already programmed or were savings that would occur in later fiscal years. The CDBG debt repayment seemed reasonable but lacks specificity. As such, we cannot assign a value to the idea until the item is clarified:

Redevelopment Repayment and Expense Transfer	$ 3.01 Million

The total adjustments that we have to deduct from the original FY2012 Budget Matrix is: $45.68

Original Roadmap FY2012 savings estimate:	$87.19
Deductions due to current conditions:	($45.68)
Revised Roadmap FY2012 Budget matrix savings:	$41.51 Million

We did want to add estimated savings to one of the reform ideas related to the 2% general salary reduction since the Roadmap did not have a number identified for non-classified employees. If we can be provided with a revised number for that item we can make an adjustment to the $3.25 Million estimate.

Revised and Edited Roadmap's Assumptions ($ in Millions)		
Proposed Budget Balancing Actions	**Roadmap to Recovery Projected FY 2012 Savings**	**Task Force Projected FY 2012 Savings**
Managed Competition	11.66	11.66
Landfill Franchise License	10.00	A
Retiree Health Reform	21.47	B
Pension (Pay Freeze)	8.10	C
Mayoral & Legislative Reductions	1.62	1.62
Mgmt Analyst/PIO Reductions	1.63	1.63
Arts and Culture Reductions	1.84	1.84
Contracts & Supplies Reductions	4.19	4.19
Eliminate Mgmt Leave & Mgmt Vehicle Allowances	0.05	0.05
Convention Center Debt Refunding	0.40	0.40
Eliminate Offsets	4.79	4.79
Eliminate Terminal Leave	0.12	0.12
Suspend Fire EMT Speciality Pay	4.83	4.83
Suspend Fire Mgt Assignment Pay	0.72	0.72
Suspend Master Library Pay	0.26	0.26
Special Pay Reductions (MEA)	1.53	1.53
Risk Mgmt Audit Recommendations	0.25	0.25
City Council Pension Sub Equal Reform	0.05	0.05
Office of Mgmt & Budget Reorganization	1.62	1.62
2% General Salary Reductions (estimated)	3.25	3.25
Redevelopment Repayment & Expense Transfer	3.01	D
Recovery Auditing & Audit Function Transfers	1.50	1.50
Expansion of Marketing & Strategic Partnerships	1.00	1.00
Office of Special Events Revenue from TMD	0.20	0.20
Mid-Year (One-time FY2011 Savings)	3.10	E
Projected Net Savings Subtotal	**87.19**	**41.51**
*A - The Landfill RFP has been pulled by the Mayor's Office for lack of bidders and the savings cannot be realized in the FY2012 budget	*C - The pay freeze that was negotiated 2 years ago produced savings of $8 million in the FY2011 ARC. Theses savings have already been included in the FY2012 Outlook	*E - A revised budget with Mid-Year cuts was never created or presented to Council. This item cannot create any savings in FY2012
***B - The City is activiely negotiating with its workforce to retain but reduce the size of the Retiree health benefit - but not eliminate the benefit as the Roadmap requires. The savings called for in the Roadmap cannot be realized in the FY2012 budget**	***D - This reform item was very difficult to understand. There was insufficient data to determine whether the General Fund can receive all of the CBDC repayments in FY2012**	

The remaining ideas contained in the Roadmap seem possible to implement. Many require an action by the Mayor's office since they are purely operational in nature. Others require Meet & Confer but all seem to require Council action in the end. As has been stated, the Mayor has the authority to negotiate. If both sides do not agree and an impasse is declared, the Council has the power to impose. We therefore conclude that the Council could in fact impose the remaining 20 items detailed in the Roadmap's FY2012 Budget Matrix. This represents a potential FY2012 savings of $41.62 Million.

FY2012 RISKS CONTAINED IN ROADMAP

There are some risks remaining in two of the items listed in the Roadmap. The pace of Managed Competition implementation is disturbing. We have given the Roadmap credit for acknowledging Managed Competition savings in the last six months of the FY2012 budget (January 2013-June 2013). The City will have until approximately October 31, 2011 to get at least seven items approved and implemented through the Managed Competition process. As we have previously stated, there will be some ramp-up time to achieve the savings. A calendar quarter may not be enough but that is the time that we have given in our analysis. At the pace the process is moving, this seems highly unlikely. However, it is clear a city that is highly motivated to get things done can find a renewed sense of purpose and push this process to move much, much faster. It is imperative we produce managed comp savings. If the City does not, the City must find another $11.66 in savings elsewhere. At this point, it is getting more and more difficult to find savings. Therefore the Managed Competition savings is included but is highly at risk.

Additionally, the issue of the specialty pay wage cut seems possible to achieve but highly unlikely. We have given the Roadmap the savings but this item will have to be watched very closely since it does involve a very large pay cut for the firefighters and may be unlikely to occur for a variety of reasons. If the Council does not approve this pay cut, another $7 Million in savings will have to found elsewhere to make up the savings deficit. As stated before, it is getting harder and harder to find savings.

We do, however, conclude that it is possible the Roadmap could produce $41.51 Million in savings realized in the FY2012 budget. We call on the Mayor and City Council to immediately act to accept the items contained in the Roadmap, shown below, with the amount of savings identified and include these items in the FY2012 budget to be presented to Council in May 2011.

Roadmap Savings Assumptions that can be recognized in FY2012 ($ in Millions)

Proposed Budget Balancing Actions	Roadmap to Recovery Projected FY 2012 Savings	Task Force Projected FY 2012 Savings
Managed Competition	11.66	11.66
Mayoral & Legislative Reductions	1.62	1.62
Mgmt Analyst/PIO Reductions	1.63	1.63
Arts and Culture Reductions	1.84	1.84
Contracts & Supplies Reductions	4.19	4.19
Eliminate Mgmt Leave & Mgmt Vehicle Allowances	0.05	0.05
Convention Center Debt Refunding	0.40	0.40
Eliminate Offsets	4.79	4.79
Eliminate Terminal Leave	0.12	0.12
Suspend Fire EMT Speciality Pay	4.83	4.83
Suspend Fire Mgt Assignment Pay	0.72	0.72
Suspend Master Library Pay	0.26	0.26
Special Pay Reductions (MEA)	1.53	1.53
Risk Mgmt Audit Recommendations	0.25	0.25
City Council Pension Sub Equal Reform	0.05	0.05
Office of Mgmt & Budget Reorganization	1.62	1.62
2% General Salary Reductions (estimated)	3.25	3.25
Recovery Auditing & Audit Function Transfers	1.50	1.50
Expansion of Marketing & Strategic Partnerships	1.00	1.00
Office of Special Events Revenue from TMD	0.20	0.20
Projected Net Savings Subtotal	**41.51**	**41.51**

STRUCTURAL BUDGET DEFICIT PROBLEMS STILL EXISTS

Assuming that the FY2102 Structural Budget Deficit is $86 Million, and the Roadmap can produce $41.51 Million in FY2012 savings, another $44.49 Million in new savings must be identified and implemented by June 30, 2011 in order to eliminate the FY2012 Structural Budget deficit.

This would still leave the issue of the $44.4 Million Deferred Maintenance Funding Deficit unresolved.

Thus, the Task Force pursued numerous reform/saving ideas submitted by 23 different groups of people. Some of the ideas were very poorly refined and nearly impossible to quantify. Other ideas were well thought out and well researched programs. With respect to those, the Task Force was able to make reasonable assumptions and achieve numerical estimates. Many of the ideas require that the City perform actuarial analysis in order to quantify the savings. We elected to leave the numerical targets out of any item that required actuarial analysis since appropriate actuarial analysis can be completed within the next 45 days if the City acts quickly on the request for information.

To follow is a chart representing the ideas that we have been presented. It is our goal to use these ideas to achieve the following savings targets:

> Identify an additional $44.49 Million in savings that can be applied to the FY2012 budget and eliminate the Structural Budget deficit in FY2012.
>
> Identify an additional $44.4 Million in savings that will fund the Deferred Maintenance Funding Deficit in FY2012. If we fall short in our effort to identify the full funding for the Deferred Maintenance Funding Deficit, we would expect a plan that can fully resolve whatever remains in FY2013.

In addition to the proposals contained in the Roadmap, the Task Force considered additional items that could be "reasonable and feasible" and could also be implemented by the Mayor as operational savings or could be imposed by Council through legislative action by June 30, 2011.

CAP THE RETIREE MEDICAL BENEFIT AND LIABILITY — VALUE OF SAVINGS: $29.3 MILLION

The City hired an actuary in 2009 (Buck Consultants) to study the option for addressing the Retiree Medical Liability. The conclusion of the study was that the City had a total liability for workers hired before 2005 of over $1.3 billion. If the workers already retired were separated out of the total, the remaining liability was over $700 Million. A number of options were presented that either eliminated the benefit or capped the benefit amount that the City would pay. The City is currently negotiating one of the many options contained in the Buck Study.

The size of the Citywide Retiree Medical Liability (both General Fund and Enterprise Funds) is estimated at $98.5 Million for FY2012 (FBO, page 23). The General Fund portion is approximately 70% of the total or $69.0Million. The budget contains $40.7 Million for the Retiree Medical benefit expenses in FY2012 – FY2016 thereby leaving a $29.3 shortfall from fully funding the liability.

The recently released 5 year outlook confirms that the City is only budgeting $40.7 Million for the budget item called Retiree Medical. This figure happens to be very close to what the City is currently spending for Retiree Medical in their FY2011 budget.

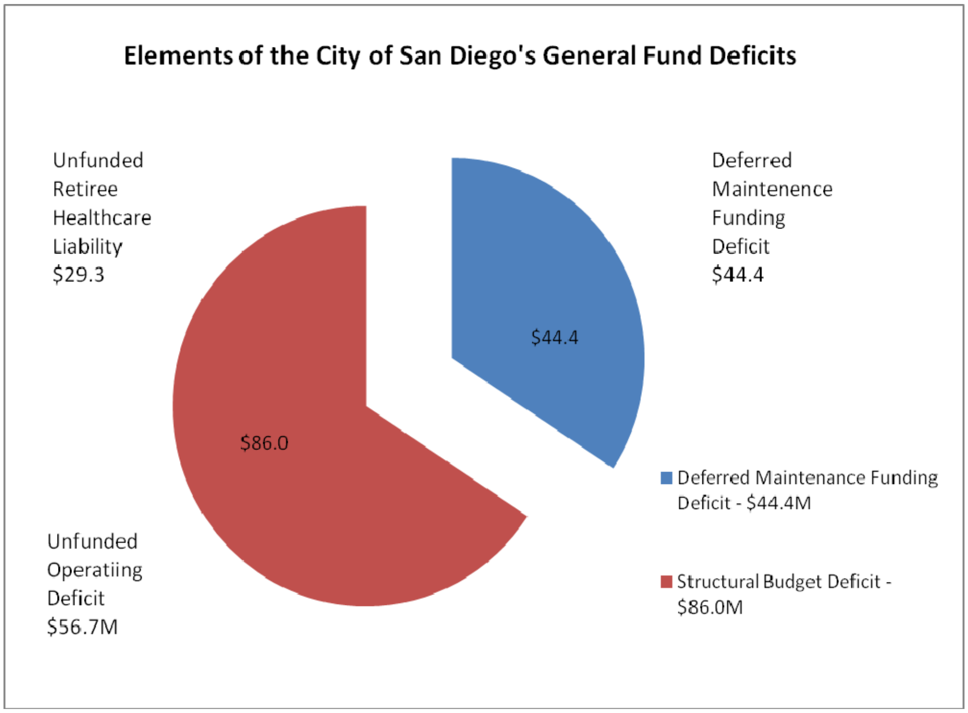
All across the country, labor is discovering that the era of free retiree medical is over and they will have to pay their fair share. The Charter uses a phrase "substantially equal" when describing other areas where the City and the workers pay and contribute towards a benefit. If applied to retiree medical and if the benefit continues for the workers hired pre-2005/9, the workers may end up picking up their fair share of the expense, thus dropping the total size of the liability to the City budget substantially. If the workers are required to pay a substantially equal share of the cost, the current $8,800 per year retiree health benefit package may be more than they care to spend and a new, less expensive retiree medical plan may emerge. This would mean that the City will no longer underfund the liability and would instead cap the expense at current levels. This action may resolve the $29.3 unfunded liability but will result in no real savings to the FY2011 budget.

REFORMS AND SAVINGS REQUIRING IMMEDIATE COUNCIL APPROVAL

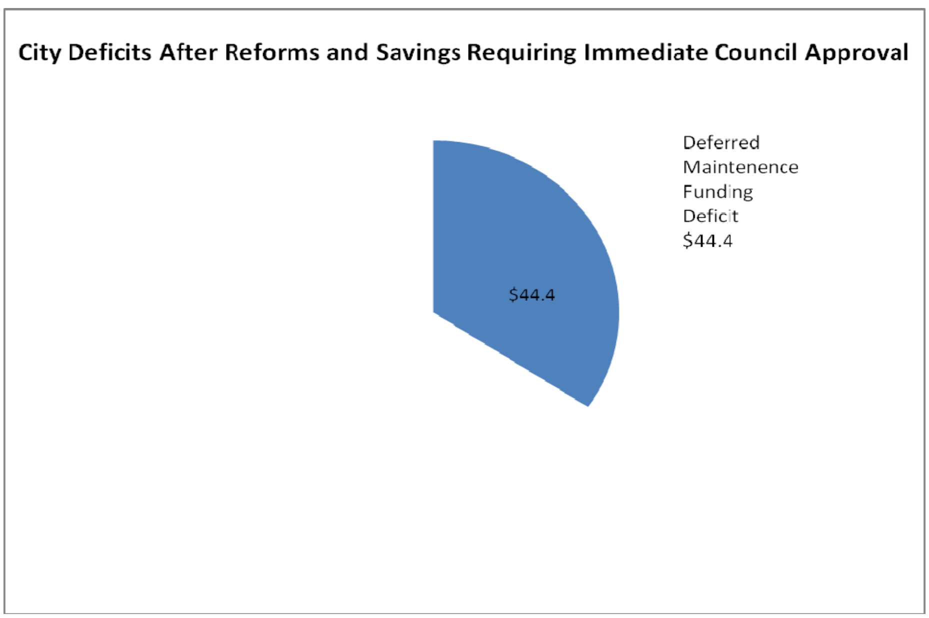
	Description	Value	Deliverable
1	Repayment of Redevelopment Debt owed to City not realized in 2011(May already be in the FY2012Outlook) $3.0 million		Already in FY2012Outlook
2	Reduce the number of vacant positions by 125positions. Even though the current budget does take some savings as a result of knowing that some vacant positions will not be filled, the fact remains that there are funds in the budget that represent vacant positions. Therefore, with the exception of hiring new recruits in public safety to replace retirees, leave any unfilled and vacant position unfilled for the next 12 months. Promotions shall be absorbed within the current department payroll. With the advent of managed Competition no department should be replacing any staff until the managed competitions are concluded and displaced personnel redeployed.	$ 8.0	Reduce the number of budgeted positions and slow down department spending.
3	Eliminate bonus healthcare payments to MEA & unclassifieds. Reduce management flex benefits and leave benefits to levels of front-line employees	$ 2.4	
4	Improved Sales Tax Revenue from 11/10- 1/30/11(Stronger than expected shopping season, vehicle sales , etc..)		County provided data
5	Eliminate Trash Pickup on Non City Streets	$ 1.2	
6	Utilize marketing partnership revenues for lifeguard services. There are proposals on the table today that would allow the city to have a cleaner beach by allowing sponsors and branding consistent with new sign ordinances. The revenue is sustainable and can be very creative.	$ 1.0	There are branding proposal
7	Secure & Implement energy-efficient lighting grants	$ 1.0	Lower power bills
8	Make 9th Council District "Budget Neutral". The City cannot afford to add expense at this time, especially an expense that will become a structural budget item from now on. What program should be cut to accommodate this increased cost. The net effect of this 9th Council seat and its staffing will be that some City Council person will be serving fewer citizens since there is no net increase in the number of city residents that will have their own Councilperson. This new seat represents a new expense that must be paid for by cutting expenses somewhere in the General Fund budget. It is reasonable that the Council absorbs this new seat within the current Council budget. It is understood that the 9th Council seat won't be filled until Dec 2012- this savings will represent a 7 month budget savings	$ 0.9	FY2013savings. Same number of residents are being served so they should be served from the same pot of General Fund dollars.
9	Eliminated unfunded retiree healthcare liability. Conclude negotiations that will allow City workers to pay a substantially equal portion of the retiree healthcare liability. Reduce the retiree healthcare plan annual allowance from $8,800/year/employee to $4,000/year/employee	$ 29.3	Eliminate unfunded retiree healthcare liability. Find a more affordable/sustainable plan. Sustantially equal
10	Adopt 4/10work week citywide	$ 1.0	
11	Expand the operating hours of parking meters and adjust the hourly cost depending on how frequently the spots are used	$ 0.9	Increases the average use of City metered parking spots from 38 to 80+%
12	Target the sale of some specific under-utilized assets to pay down capital debt. ***NOT*** to be used to cover Operating Expenses	$ 2.0	
	SUBTOTALOF KNOWN ADDITIONALSAVINGS	**$ 47.7**	

If all of these savings proposals identified above along with the Roadmap Saving Assumptions identified by the Task Force can be accepted and implemented via a budget ordinance prior to June 30, 2011, the $86M Structural Budget Deficit will be eliminated.

Deficits BEFORE Reform Savings



Deficits AFTER Reform Savings



The Deferred Maintenance Funding Deficit ($600 Million amortized to $44.4 Million/year for 30 years) still needs to be eliminated. The items below are pension savings ideas that require actuarial analysis to determine whether they can produce savings and in which budget cycle the savings can be realized. In some cases, these reforms may require extensive negotiations and legal adjudication before they can be implemented. However, it is still in the City Council and public's best interest to understand the impact of these potential reform options. We ask that the Council and the Mayor's office insert the value of the dollar savings in order to determine a list of ideas that can be accepted and ultimately total enough to resolve the Deferred Maintenance Budget Deficit.

Future Pension Reforms Deserving of Actuarial Analysis			
Item #	**Description**	**Value**	**Deliverable**
13	Change Pensionable Status of Special Pays. Eliminates all specialty pay as pensionable. Currently the City has a General Fund payroll of approx $500m with vacation accruals. Of that amount, close to $30million is so called "pensionable specialty pay". If you were to take $30million in payroll and make it no longer pensionable, this would have an impact on your long-term pension liability however it will not produce a pension ARC reduction of anywhere near the $30million per year savings in FY2012or FY2013that we have heard mentioned publicly. The highest pensionable salary will still be the basis for calculating a pension benefit so the elimination of specialty pay as pensionable may produce pension ARC payments in the long-term but not much in the first 1-3 years. This is an item that a pension actuary hired by the City of San Diego needs to explore to determine the potential for savings in the short and long term.	P.A.D.	Reduces long-range pension liability expense - zero in FY2012but more savings after 2015
14	Eliminate potential "Double Dipping" of Workers Comp Payments and concurrentdisability payments. Conduct disability audit to ensure the program is being managed as effectively as possible.	P.A.D.	Potential savings through the recovery of improperly received double payments
15	Seek negotiated settlement, global mediated settlement. This item is currently underway. The hope is that there might be a solution to deal with all of the open lawsuits related to pensions and benefits as well as resolve the substantially equal lawsuit. There is the potential to resolve other work related items that are being suggested as solutions to the long-term budget problems. A global solution would be welcome.	P.A.D.	Potentially resolves a number of issues related to benefits and work rules without requiring a long legal battle.
16	Impact from "Substantially Equal" Policy that pays 100% of the increment between total disability pension less the service pension portion thereof.	P.A.D.	Already in FY2012Outlook
17	Require City employees to share equally in pension investment performance using the "substantially equal" clause in the Charter. (Will not impact FY2012Budget, possible in future years)	P.A.D.	Complies with Charter. Substantially equal is fair to all parties.
18	Reduce cost of City's benefit packages - Adopt private sector model: Medical Co-Pays, Deductibles, Premium sharing via plan design thus City's aggregate package to be reduced in total		Potentially lower costs.
19	Specialty Pay - skills should be a fixed value, not a percentage of an individuals salary.	P.A.D.	Could provide payroll savings once the pays are normalized.
20	City to require employees to pay 50% of disability portion of pension normal cost	P.A.D.	Conforms to Charter's Substantially equal standards.

Future Pension Reforms Deserving of Actuarial Analysis Con't			
Item #	**Description**	**Value**	**Deliverable**
21	Perform more aggressive disability audits to ensure that persons receiving disability payments from the city are in fact unable to work. Develop a more active W-2 spotting program to identify potential fraud. This work is probably already being done but an effort needs to be made to see if the current program is achieving its goals.	P.A.D.	Potential recovery of improper payments.
22	Provide SDCERS an ordinance (with labor agreement) Freezing annual 4% programmed step increases at 0% for 5 years.	P.A.D.	Lowers the pension liability each year since it assumes wage growth every year
23	Broker a "trade off" wherein the employees voluntarily elect to avoid a significant further wage cut (necessary to eliminate the deficit) in return for an equal value reduction in pension benefits earned to date and to be earned in future years of employment (i.e. all current employees would voluntarily reduce their pension benefits to levels equal to those offered new hires). Such a trade off would also create an increase in the employees' take home pay given that it would also eliminate the deduction for the employee's 50% share of the reduced pension normal cost.	P.A.D.	Potentially lower costs.

The following are other ideas presented to the Task Force that could result in significant savings. These ideas should be discussed at Council and vetted to determine whether the Council would agree to study and implement these reforms as well. A decision to accept these reform ideas should be made by Council prior to completion of FY2012 budget. Many of these reform ideas don't have a dollar value shown, although all represent real General Fund savings. We would ask that the Council and the Mayor's office insert the value of the dollar savings in order to determine a list of ideas that can be accepted and ultimately total enough to resolve the Deferred Maintenance Budget Deficit. If any of the savings are not accepted by the Council, the Council is responsible for substituting those rejected savings with supplemental savings of equal value.

Additional Ideas for Reforms and Savings			
Item #	**Description**	**Value**	Deliverable
24	Additional Citywide tiered wage cuts: Under $30K = 0 $31K to $100K = 2% Over $100K = 4%	$ 8.1	Lower payroll expense in FY2012
25	If a wage cut is not acceptable, option 2 would be to implement mandatory furloughs of all non safety employees - 3 days per month. Alternatively, reduce headcount by 13% which saves both salary and benefits.		Lower payroll expense in FY2012
26	Dissolution of non-MANDATORY Enterprise Funds and ultimately convert to General Fund types, i.e. collapse Enterprise Funds and collect lease payments. Do not use the managed competition process. These are enterprises and services that do not have to be provided as part of the mandatory services that a city must provide its citizens with a City workforce. Begin with Golf, Airports and Planning Department		Reduces size of total city workforce. Shrinks long-term pension commitments.
27	Consolidate all city related call centers (General Fund and Enterprise Funds) into one operating unit or "One Stop" service center that can be managed by a private company. The city currently has call centers built into the budgets of a number of different departments. This practice is expensive, does not take advantage of any economy of scale, is duplicative and is inconsistent with current industry best-practices for customer service and cost management.		Reduces size of total city workforce. Reduces operations and equipment expenses. Shrinks long-term pension commitments.

Additional Ideas for Reforms and Savings Con't			
Item #	**Description**	**Value**	Deliverable
28	Streamline Management and administrative span of control to bring the management staffing oversight into balance across departments. Some departments are running very lean with the ratio of management and supervision to line worker. Other departments seem to have an excess of supervisors and managers especially in light of the fact that the workforce has been shrinking over the years. It appears the managers and supervisor ratio-to-worker have not been growing at the rate that they should considering the staffing changes. The City needs fewer bosses. The conclusion is that there are still too many managers managing too few employees.		Improves the efficiency of the operation. Puts management and the worker together in manner that makes them more efficient. Reduces high-wage overhead expense.
29	Expand use of volunteers to provide office/administrative data entry support to field workers and public safety personnel. Currently highly skilled and highly compensated workers are committing portions of their days performing data entry tasks much less effectively than a skilled data entry administrative clerk. As a result, valuable time is wasted and the skilled field worker is losing productive field time. Consider taking the data entry responsibility away from the field personnel and give them more time in the field		Makes the field professional more effective. More time in the field , less time in the office doing paperwork. Allows the volunteer to help multiple city workers. Improves community relations.
30	Explore the idea of feasibility of establishing a Retired Senior Volunteer (RSVP) for the Library Department. Expand use of volunteers in Library System. Library hours could be extended if a system of '2-on-2' on was implemented. Two City workers to 2 volunteers could insure longer library hours and a more engaged community.		Reduces some City payroll. Restores some library hours. Improves service.
31	Complete an Enterprise Fund "RESERVEADEQUACYand POLICY" Study. Many Funds are required to operate at some margin slightly above break-even and are to adjust their fees to a level sufficient to cover their cost of operations plus some reserve funding. However, there is no comprehensive public policy that allows the public to know if the Funds are properly reserved. Additionally, there is no way to know if the Funds are using their reserve policies as places to retain cash over the reasonable reserve target for the future. It is a good thing for an entity to be properly reserved. It is a bad thing for an entity to over-reserve while also driving up rates and costs to the citizens or the users of the Fund. Complete comprehensive review of all existing funds including their legal basis for existence, current and planned uses and fund balances. Any dollar savings will be used to lower rates or fund the new Public Safety "Response and Stand-By" Fee		Funds the Response and Stand-By Public safety fee. Lowers rates and fees to the public.
32	Explore the possibility of Outsourcing the entire library system. The Charter does not specify how many libraries are in the City of San Diego or who the workers are working for. There is an ordinance that requires a set amount of funding go to libraries but each year the ordinance is waived. The City should explore the option of finding a library operator that can operate the libraries and fund them properly in accordance to the Library ordinance.		Reduces size of total city workforce. Shrinks long-term pension commitments.

Additional Ideas for Reforms and Savings Con't			
Item #	**Description**	**Value**	Deliverable
33	Explore the possibility of outsourcing the entire trash collection system. The City Attorney and many others believe that the city Charter requires that trash be picked up on City Streets once per week. The Charter never specifies who those picking up the trash need to work for. A number of communities have gone to a strictly private trash collection and trash hauling with very positive results. The City should explore this option to determine if savings can be realized while quality is maintained.		Reduces size of total city workforce. Shrinks long-term pension commitments.
34	Renegotiate and/or re-bid SDCER's operating contractwith the City of San Diego to ensure the City is getting the best value for its costs. Every contractneeds to be re-bid in order to understand what your options for savings and efficiency may be.		Potentially lower costs.
35	Performance Audit of San Diego Medical Services Enterprise to ensure the City is receiving its reasonable share of profits /revenues generated by the enterprise through our partnership with Rural-Metro		Anticipate some addition revenue to come to the City as a result of the audit.
36	If a vacant position exists that is currently a classified position, eliminate the classified position and replace the position with a non-classified position. Amend Charter to reduce the number of classified positions. The Charter lists a number of Classified positions yet the actual number of classified employees has grown from year to year. Classified employees are a greater fiscal impact on the budget and the payroll and are covered by work rules that adds a management burden that does not exist with non-classified employees. There are certain positions that should remain classified but the City needs to begin eliminating a large majority of classified positions that are currently vacant.		Allows management more flexibility in the workplace. Potential payroll savings.
37	Specialty Pay should be calculated at a set value for the skill. In other words, specialty pay as a percentage of an individual's salary is not sustainable since it creates a disparity from worker to worker for the exact same skill. The City should decide that a special skill represents a set dollar value that can be fixed and properly budgeted. The special pay value of a helicopter pilot should be a set amount so that a pilot with a base pay of $80kand receiving a 5% specialty pay is not receiving more money for the same skill provided by a helicopter pilot with a base of $70k for the same skill set. This reform item should reduce the unit cost of specialty pay in the future. The reform also insulates the City's from the long-term funding impacts of future base salary increases. The skill that is worthy of special pay will be fixed as a flat rate and not a percentage of payroll.		
38	County of San Diego to take over City's cash management/INV process in an effort to save City of San Diego cost		Opportunity to leverage cost savings with County of San Diego

Additional Ideas for Reforms and Savings Con't			
Item #	**Description**	**Value**	**Deliverable**
39	Create a "Response and Stand-By Fee" that will be charged to Enterprise Funds for access to public safety services and infrastructure. Currently, our Enterprise funds do not have public safety infrastructure within their budgets. Instead, they rely on the city to provide services on an as-needed basis. in essence, the City of San Diego General Fund is acting as a insurance policy for the Funds and providing a public safety subsidy to the Enterprise Funds. Therefore, the City should immediately duplicate and emulate the current "Response and Stand-by" agreement that the City currently has with the Port of San Diego. This agreement frees the Port from having to staff and equip large public safety infrastructure and also allows the City of San Diego General Fund to practice good business management of their scare resources. The Enterprise Funds should not receive a subsidy from the General Fund. We understand that this would merely transfer cost from the General Fund to the Enterprise Funds.		Conforms to Charter. The General Fund should not be subsidizing Enterprise Funds or Redevelopment Agencies
40	Outsource Disability Administration . Disability Administration has become a stable cottage industry for private sector providers. Research if the city can achieve savings and also increase the audit and fraud recovery systems with a new administrator.		Potential for recovery of payments.
41	Solar Roofs Initiative for all City roofs and structures. The city of San Diego either rents or owns property with flat roof tops. In addition, the water Department owns and operates 42,000acres of land at the City's reservoirs. The City could enter into an agreement with a Power Purchase Agreement (PPA) to offer the City roofs and properties as receivers for solar panels. The PPA would build the infrastructure and provide the planes to generate electricity at City sites. The City would purchase energy at a dramatically reduced rates and would in effect take itself off the grid during peak hours. A number of PPA's already exist in San Diego and this is a process that can be online within he next 180days. In some cases the PPA must reinforce and replace rooftops to support the solar panels. As a result this might mean the city can get a new roof in some of its older properties.		Significant Energy savings and reductions to power costs.
42	Review recovery costs for the Safety Service at the Glider port and implement a user fee for vendors who conduct group activities on the beach, dive classes, kayak rentals, etc… In many cases, lifeguards are the providers of public safety and enforcement on our water ways. Tourists are especially at risk when newly navigating our beaches and rip currents. Therefore it is a reasonable concept to develop a more effective for cost recovery at our most public tourist attractions.		Generates new revenue. Allows for more service to be delivered at these venues.
43	Paid parking at the City beaches and Bays. Residents can be issued free permits. The City currently shoulders the entire burden of providing safety services and clean-up at the City beaches. However , the beaches in San Diego are frequented by people from the entire County as well as tourists yet none currently have a way to help defray the costs borne solely by the City for maintaining and securing our beaches and waterways. The concept of paid parking is not a new theory and a number of Cities already charge for parking. The revenue generated from this program can be broken into 5 pieces: Beach Protection; Fire Rescue and Lifeguards; Public Safety and Traffic Mitigation; General Fund; and to partially fund the Deferred Maintenance Funding Deficit.		Generates new revenue and creates a sense of shared financial commitment. Provides for increased lifeguard support at the beach. Funds Water rescue units.

Additional Ideas for Reforms and Savings Con't			
Item #	**Description**	**Value**	Deliverable
44	Expand TMD to include additional hotels and other tourism related businesses. This would allow the City to move more of the responsibility for funding the expanded TMD's and continue to relieve the financial pressure for the City's General Fund		General Fund Savings
45	Implement trash-collection services Business Process Re-engineering plan.		
46	Consolidate overlapping & Redundant admin functions in Stormwater Department so that Stormwater and the Public Utilities Department can merge into one Enterprise Fund. Currently the Stormwater Department does not collect, harvest and treat stormwater while the Water Department struggles to purchase expensive water from Metropolitan at rates that begin at $500 per acre foot and will rise to over $2,500 per acre foot over the next 15 years. Even the water from the Poseidon Desal plant in Carlsbad is going to cost over $1,800 per acre foot. Consolidating the two departments will allow San Diego to explore better ways to capture a valuable resource that currently flows into the ocean untreated and becomes the source of pollution and EPA fines. The "waste no water campaign" rings hollow when hundreds of millions of gallons of rain water flows into the ocean every time it rains. In addition, the departments currently have duplicate equipment, call centers, staffing skill levels, vehicles, equipment, real estate, and facilities. Since Stormwater is a General Fund department and the Water Department is an Enterprise Fund, there will be a challenge merging the two into one. However it is clear that both departments are dealing with an important and scarce resource in the desert that we live in - water - yet we have not explored the positional savings that can be realized by putting these two entities into one highly functional department.		
47	Projected Sales Tax Revenue performs better than budget for the last 6 months of FY2011(1/1/11- 6/30/11). The County will provide data.	County Data Required	Increased sales tax revenue on improving economy.
48	Consolidate all city owned equipment into two regional locations and utilize a web-based an asset control system for check-in and management of all city assets. Current real estate and square footage is being used in all departments to store equipment and assets. This becomes a waste of valuable real estate , a potential duplication of inventory, a way for inventory control levels to spike Citywide, and an expensive way to move inventory in and out effectively. It is an industry best practice for the city to operate its asset and inventory control systems in a more effective manner by considering all General Fund assets the sole property of the entire City and allowing individual departments to access the inventory and assets through a centralized database and a centralized physical location.		
49	Merge the Stormwater Department into the Public Utilities Department. Currently both departments deal in the business of water. They have similar equipment and in some cases, similar management. However, the Stormwater Department is currently wasting an asset and resource that the Public Utilities is currently paying for - water. During the Poinsettia Bowl, the Public Utilities Department pumped close to 1.5 million gallons of water out of the stadium and placed that water back into the San Diego River. Who knows how much rain water flowed into our culverts and storm drains during the last storm. However, that very same stormwater is monitored and simply allowed to flow untreated into the ocean. There is a cost for this action and that is the number of fines levied on the City for storm water pollution. At the same time, the Public Utilities department is raising rates because we import most of our water at very high costs. Those costs are expected to rise by 1,000 percent over the next 15 years. Therefore if the Stormwater was collected and used by the Water Department, the city could achieve savings.		

Additional Ideas for Reforms and Savings Con't			
Item #	**Description**	**Value**	**Deliverable**
50	Enter into contracts with cities across the region to see if the city can provide services to other municipalities at a competitive price as a way to generate new revenue. The City conducted a survey of other cities in the region that would become potential customers. The City should act immediately and put together a Strategic Task Force on Cross-Municipal Services. If the City is going to remain the provider of certain services to the City itself, it should begin to look at ways to utilize its "economies of scale" and "recaptured cost of down-time" to drive down the total unit cost of providing a service. The City will therefore lower the costs that San Diegans will have to pay for City services as well.		Maximize City staff. Maximize the down-time uses of City assets. Generate revenue
51	Eliminate all cell phones, PDA's and other city paid for/employee used communications devices for all non-emergency personnel. There is no mandatory requirement that the city provide and pay for wireless devices and plans for all employee classifications. Reducing the number of devices will lower overall cost in the City but will also focus employee time on limiting communication to work related communication during business hours. The City will still provide phones and communication services at the work sites and work locations.		Reduce the number and volume of personal calls on City time. Data plans are getting very expensive. Lowers the actually unit and equipment costs for phone service.
52	Lower the cost available to employees if they chose to "Opt-Out" of the City Medical Benefits Program from $4,000to $2,000. There is logic to the concept of allowing employees to voluntarily withdraw for taking City medical benefits if they are already taking benefits through a spouse or some other means. For everyone that 'opts out' the City may save from having to absorb its portion of premium cost should the person take City benefits. However, while some simply choose to go without medical insurance, others 'opt-out' because the pay out is so large. Many employers do not offer a payment for opting out. The City payment is larger than is reasonable for a City facing fiscal issues. If the City needs to retain the 'opt-out' payment it should be reduced to a level more consistent with other institutions in the region. A lower 'opt-out' payment will produce savings for the City. While it is true that this change may drive more people to take City provided medical insurance and this could result in increased expense, the fact remains that a large number of people will still opt out for a variety of reasons so there should still be a new savings.	$ 2.0	Reduce cost of payments to employees for delivering no service. Saves $2,000per employee
53	City withdraws from Reciprocal pension agreements that allow an employee to leave the City of San Diego at their current rate of pay at time of departure and when they are employed by another public entity and if the employee receives a higher wage, the pension obligation at the City is adjusted upward to reflect the highest pensionable pay earned even though that highest pensionable salary was earned while the employee was NOT employed by the City of San Diego. This program places a financial burden on the City of San Diego and actually seems to encourage City employees to leave the City of San Diego. The City of San Diego should pay pension benefits based on the wages earned while employee was employed by the City of San Diego. When the employee leaves the City of San Diego, the City's liability should be limited to the employee's highest pensionable salary while at the City's of San Diego only.		Pension should stop once the employee leaves the City of San Diego. City should withdrawal from reciprocal agreement

CONCLUSION AND CALL TO ACTION

San Diego has a fiscal crisis.

The actual FY2012 budget deficit is larger than City leadership has indicated.

The City currently projects the General Fund budget shortfall for FY2012 (which begins in July 2011) could be approximately $56.7 Million if further actions are not taken. However, the Task Force concludes the budgeted expenses are understated by approximately $73.7 Million due to the lack of recognition of the fully funded liability for Employee Retiree Medical expenses ($29.3 Million) and the underfunding of $600 Million in Deferred Maintenance requirements ($44.4 Million in annual debt financing). Therefore, an accurate presentation of the FY2012 all-in General Fund budget deficits would indicate a shortfall of nearly $130.4 Million in FY2012.

The most important question citizens must ask their elected leaders is this: If a fiscal crisis is driving the proposed cuts in public services, what specifically are you going to do to solve the problem this year?

We conclude the City of San Diego is in a fiscal crisis.

It is time for the elected officials to stop finding reasons to reject reforms and start to find ways to say yes and implement suggested reforms. However popular it is to rage against reforms that reduce the cost and size of government, we expect the elected officials to do their jobs and make the tough calls that can lead San Diego out of structural imbalance and towards a new AAA credit rating.

The root causes of San Diego's Structural Deficit are the commitments, primarily retirement benefits that were made to City employees by prior City leadership, without the ability to fund these benefits with City revenues. Elected officials and City management knowingly made promises that the City could ill afford at the time and then avoided the funding of these benefits through deferrals. Now, the bill for these commitments is due, actually past due, and the City does not have the ability to pay.

Unfortunately, due to these commitments, San Diego now bears an average cost per City employee of more than $100,000 for salary and benefits. These employees, when appropriately accounted for, now consume nearly 75% of San Diego's General Fund budget. Therefore, the City has very few alternatives available to it other than to reduce its costs of employee labor, reduce public services or find a way to provide services more efficiently.

This problem can be approached either by negotiating with City employees to reduce the all-in costs of salary and benefits, or alternatively, the City must acquire necessary services now performed by employees from outside service providers through outsourcing, privatization, or similar methods of obtaining more cost effective labor costs.

Private sector employers have routinely been outsourcing to reduce costs and remain competitive for more than two decades. In fact, San Diego County has utilized outsourcing and privatization to reduce their costs, improve their operations infrastructure, and improve service levels quite effectively over the past ten years. If the county has been able to successfully control its expenses through this method right here in our own backyard, it is very difficult to understand or accept our City leadership's continued failure to fully implement this management process and help resolve San Diego's chronic budgetary shortfall.

The Task Force reviewed the Roadmap to Recovery Plan and concluded that the Roadmap as written could not solely produce enough savings to eliminate the FY2012 Structural Budget Deficit. In concluding our analysis of the Roadmap we have determined the Roadmap does not produce $87 Million in guaranteed savings that can be realized in FY2012.

In addition we found the Roadmap does not produce a $14 Million surplus in FY2012.

We have concluded the Roadmap could potentially produce $41.51 Million in savings if the relevant portions were implemented by Council prior to July 30, 2011. This would still leave a Structural Budget deficit of $44.49 in additional to a Deferred Maintenance Funding Deficit of $44.4 Million.

In reviewing numerous additional ideas for reform and savings presented by the Mayor, Council and the public, the Task Force was able to identify ideas that could be implemented by June 30, 2011, ideas when combined with the Roadmap's savings, would eliminate the entire $86 Million FY2012 Structural Budget Deficit. In addition, we have identified ideas for savings and reforms the Council and the Mayor should study that could produce sufficient savings to fund the entire Deferred Maintenance Funding deficit.

REQUESTED COUNCIL ACTIONS:

Assuming that the FY2102 Structural Budget Deficit is $86 Million, and the Roadmap can produce $41.51 Million in FY2012 savings, another $44.49 Million in new savings will have to be identified and implemented by June 30, 2011 in order to eliminate the FY2012 Structural Budget deficit.

Therefore we request the following Council actions be completed before May 2011:

The Council must:

1. ***Commit to approve a budget with at least $86 Million in additional savings in FY2012 withoutresorting to deferrals or underfunding reserves.***
2. ***Approve the identified Roadmap to Recovery savings totaling $41.5 Million, and forward to the Mayorforinclusion in his Maybudget.***
3. ***Formally requestan actuarial studyon the eleven pension changeslistedin the report.***
4. ***Analyze and select the additional reform proposals included in the report that Council will support, no laterthan the end of April.***
5. ***Committo approving a Deferred Maintenance Funding Plan to resolve the remaining $600 Million of Deferred Maintenance requirements.***
6. ***Adopt budget discipline which ensures that, in the event of any future budget surpluses, a minimum of 50% of the surplus will be utilized for expenditures on critical infrastructure requirements or important one-time expenditures that do not impact future budget year expense run rates.***

These six actions should be codified by the City Council and Mayor prior to May 2, 2011. The failure of City leadership to take these actions will result in the continuation of current Structural Budget deficits and may lead to the majority of San Diegans agreeing to ballot initiatives that would exercise their will over the elected officials.

The Task Force acknowledges the cooperation and assistance it received from all who helped us with our research. Further, the Task Force reiterates its collective analysis contains assumptions and estimates it believes are appropriate and relevant; however, numerous variables such as the ambiguities of the requirements for any specific reform as well as the timing and outcome of negotiations that must occur in the future, cannot be specifically quantified at this time.

Vincent Mudd, Chairman
Vincent Mudd is president and owner of San Diego Office Interiors. He is the current Chairman of the San Diego Regional Chamber of Commerce and is treasurer of the San Diego Regional Economic Development Corporation. Vincent has also served as a member on the City of San Diego's Charter Review Committee and chaired 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.

Erik Bruvold
W. Erik Bruvold founded the National University System Institute for Policy Research, and has guided the institute as its president through its first three years of operations, conducting several widely cited public policy and economic research reports on the San Diego region. Prior to joining NUSIPR, he was Vice President of Public Policy for the San Diego Regional Economic Development Corporation (EDC), where he oversaw the organization's public policy efforts on a range of issues impacting San Diego's business climate.

Pete Garcia
Pete Garcia is the former President and CEO of University Mechanical & Engineering Contractors. He served as Past Chairman of the San Diego Regional Economic Development Foundation, Past 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 Seafood's; purchasing the company from bankruptcy and then selling it to Con Agra foods after it had grown to sales of almost $1.0 Billion 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.

Susan Snow
Susan Snow serves as Principal of OSAS, Inc. 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 Chairman of Scripps Health System and a board member of the San Diego Bowl Game Association.

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 past 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 past-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.