Citizen's Fiscal Sustainability Task Force Analysis of Proposition D

Reform Impact.

Further development of Fiscal Outlook Report published 12/2009.

September 26, 2010

Submitted by the members of the
Fiscal Sustainability Task Force
Vincent Mudd, Chairman

Introduction:

The City of San Diego is experiencing major fiscal stress. This chronic budget shortfall is fundamentally driven by increasing costs of City employee labor due to the past commitments made by prior City leadership. Current economic conditions, thus lower tax revenues, make the budgetary imbalance larger and even more difficult to resolve. As a result of this structural deficit, funds must be taken from fire, public safety, and other important core services, threatening the security and potentially decreasing the quality of life for San Diego's citizens and taxpayers.

It is important to note that the financial position of San Diego is similar to that of many other major municipalities today. And, it is also fair to point out that the current City leadership has taken numerous steps to address the financial shortfall, including the imposition of salary reductions for some employees, lower pension benefits for certain new hires, and a reduction of employee levels in specific areas. While these actions have been painful and necessary, they have not been sufficient to place the City on a sound financial footing.

The City currently estimates that the budgetary shortfall for FY2012 is at least $73 Million. Additionally, the City's Actuary has estimated that the true costs of the Retiree Healthcare Benefits are understated by $45 Million in the current projections. If the City desires to resolve its chronic structural budgetary imbalance, it must fund its known liabilities. Therefore, the projected budget shortfall for FY2012 is likely to be closer to $118 Million.

The Citizens Fiscal Sustainability Task Force has previously reported to City leadership that the single largest expense is the very high cost of City employee labor, primarily driven by the excessive cost of employee retirement benefits. The Task Force further pointed out that there were four approaches to dealing with this problem – further reductions in services provided by the City to its citizens, renegotiation of generous employee benefits, increases in fees and taxes paid by citizens, and the provision of services in more cost effective ways, such as privatization and outsourcing of City functions where appropriate. The Task Force noted that Proposition C, which was passed by city voters in 2006, mandated that City leadership utilize managed competition to secure needed services at reduced costs. However, this voter mandate has been essentially ignored by the City leadership despite its obvious financial benefit to the citizens of San Diego.

In the context of these continuing budget shortfalls, the City Council has proposed a combination of operational reforms and an incremental sales tax for a period of five years. Proposition D has been placed on the November 2010 ballot as a plan to temporarily increase the City's revenue while City leadership implements a series of operational reforms which are intended to eliminate the chronic budgetary imbalance and restore the City to fiscal stability.

In August, the Strategic Roundtable requested that the Citizens Fiscal Sustainability Task Force analyze Proposition D. The Task Force sought to answer the following questions:

1) Based on the currently available information and the current language of the ballot measure, **will** the passage of Proposition D eliminate the structural budget deficit, which includes adjusted pension ARC funding and full ARC Retiree Health Funding, by 2017, the year that the sales tax sunsets?
2) Based on the currently available information and with additional Council action, **can** the passage of Proposition D eliminate the structural budget deficit (which includes adjusted pension ARC funding and full ARC Retiree Health Funding) by 2017, the year that the sales tax sunsets?
3) Based on the currently available information, if Proposition D fails, **can** the structural deficit be eliminated without the use of deferrals and one-time shifts in FY2012?
4) If the structural deficit cannot be eliminated without the sales tax increase, what additional plan should be implemented and codified by the City Council prior to the November 2010 vote?

Analysis:

Because this analysis is quite complex, and because the passage of Proposition D is uncertain and therefore City leaders cannot be assured of the additional tax revenue that it would provide, the Task Force developed four potential scenarios (refer to the attached spreadsheets) to assist in the evaluation:

SCENARIOS	REFORMS	SALES TAX
A	No Reforms	No Sales Tax
B	Strong Reform (over 73 million per year average)	No Sales Tax
C	Weak Reform (under $5 million per year)	Sales Tax goes into effect 2nd half FY2012
D	Strong Reform. (over $73 million per year average)	Sales Tax goes into effect 2nd half FY2012

The Task Force analysis revealed that the Proposition D language is vague and ambiguous, and this therefore creates a high degree of uncertainty with respect to the specific actions that may be taken by City leadership. The actual impact of these actions, as well as other factors such as degree and timing, can vary significantly and will therefore produce materially different financial results. Because of this difficulty, and in an effort to "solve for an acceptable outcome," the Task Force elected to try to identify those circumstances that would be required to produce satisfactory results. The goal of the analysis was to develop answers that were internally consistent and as accurate as possible based upon the information that was available at this time.

The result of this analysis is that the Task Force believes that Scenario D (see attached spreadsheet) is the only one that provides for the possibility of elimination of the structural budgetary shortfall in the years after the expiration of the temporary sales tax increase while also eliminating the deficits in FY2013-2017. The other three scenarios only hide and defer the problem, especially during the period of a tax increase, ultimately failing to resolve the chronic budgetary shortfall. Once the sales tax increase expires in 2017, the City will continue its pattern of chronic budget imbalances and fiscal instability.

1) Based on the currently available information and the current language of the ballot measure, **will** the passage of Proposition D eliminate the structural budget deficit (which includes adjusted ARC pension funding and full ARC Retiree Health Funding) by 2017, the year that the sales tax sunsets?
   a. No. If the structural budget deficit is $118 million, as written, Proposition D creates only the certainty that some amount of increased sales taxes (estimated at $103 million), "shall be" collected, however there is no certainty that the reforms will create savings/revenue in the amount of at least $15 million annually nor is there any certainty that the City will not create additional spending or restore previously cut spending which could add to the structural deficit. In order to eliminate the structural budget deficit, the City of San Diego will need $118 million/year in either revenue or reform and no new spending increases. In its current form Proposition D does not provide a plan to eliminate the structural budget deficit. The new revenue created by the sales tax will only hide/defer the presence of a large deficit. This would mean that unless dramatic additional reforms were implemented in FY2012 – FY2017, the sales tax would sunset and the structural budget deficit could be even worse in FY2018.

2) Based on the currently available information and with additional Council action, **can** the passage of Proposition D eliminate the structural budget deficit (which includes adjusted pension ARC funding and full ARC Retiree Health Funding) by 2017, the year that the sales tax sunsets?

   a. Yes. **If and only if** the Council and the Mayor can adopt a plan/policy that guarantees achievement of items (i) (ii) and (iii) as listed below – *before a sales tax can be collected* – the passage of Proposition D can, under those specific conditions, eliminate the structural budget deficit by 2017, the year the sales tax will sunset. Reforms referred to below are defined as reductions in budgeted expenditures included in the Mayor's current five year budget outlook plus full ARC Retiree Health Funding.

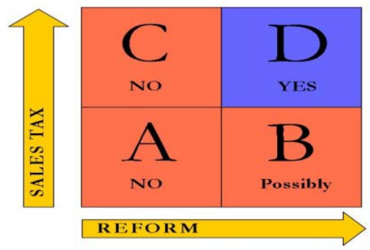
   Additional Council action identified as:

   i. Reform target value average of $73 million per year (as verified by Mayor and Independent City Auditor). Council to achieve a reform value target of at least $73 million per year ($730 million over a 10-year period) *before a sales tax is collected.* **By year 2018, the reforms must provide sufficient annual savings to produce a fully balanced budget without any revenue from the half-cent sales tax.**

   ii. Budget discipline freezes new spending at $20 million per year. Council to agree to freeze annual budgeted expenditures above the Mayor's current five-year budget outlook at no more than $20 million per year for five years *before a sales tax is collected.* The current five year budget outlook expenditures are to be increased to include full ARC Retiree Healthcare funding.

   iii. Budget discipline on future spending AND future surplus. In the event a budget surplus exists in a year that the sales tax is in effect, the Council shall commit that at least 50% of said surplus shall go to either reserves or to pay down debt. The remaining surplus may only be spent on critical infrastructure requirements or specific "one-time" activities that will not add to future annual budgeted expenditures.

If the structural deficit is $118 million, as written, Proposition D creates only the certainty that some amount of increased sales taxes (estimated at $103 million) “shall be” collected. There is no certainty that the reforms will create savings/revenue in the amount necessary to eliminate the structural deficit or fund increased spending unless the Mayor and the City Council agree to the additional reform actions defined in items (i), (ii), and (iii) above.



3) Based on the currently available information, if Proposition D fails, can the structural deficit be eliminated without the use of deferrals and one-time shifts in FY2012?

a. Possibly, but unlikely. The Mayor has advised the City Council that he is prepared to make dramatic cuts. He has asked all departments to identify cuts that would save the General Fund up $76.7 million. We have been unable to study the details of the cuts or whether the cuts will eventuate. However, we can say that $76.7 million in cuts will reduce the size of the structural deficit but not eliminate it if the Retiree Healthcare liability is included in the budget deficit calculation. In addition, others have offered plans to address the budget crisis. We have heard statements by individuals that propose alternative strategies to deal with the budget deficit. We understand that a number of ideas have been presented that include reducing employee pension costs and cutting waste. We have also heard of plans that include new legal strategies that may address the internal high unit cost of labor at the City of San Diego. Unfortunately, at the time of this report, we have seen no fully-vetted plan that has been taken through a process of public scrutiny or has been reviewed by actuaries or independent financial experts.

   It is possible that the Council can exercise the will to pass strong reforms even if Proposition D fails. However, we have answered the question with skepticism as recent history has demonstrated that significant structural change comes very hard for the current leaders of the City. We are unaware of any plan from the Mayor or Council that communicates how the City will address the entire structural deficit if Proposition D fails without using one-time solutions or deferrals.

4) If the structural deficit cannot be eliminated without the sales tax increase, what additional plan should be implemented and codified by the City Council prior to the November 2010 vote?

a. Publishing a detailed plan that lays out exactly what happens if Proposition D fails is the responsible thing for the City of San Diego to do. Voters deserve to know what they are voting for as well as what they are voting against. The Mayor has asked all departments in the city to identify $76.7 million in cuts. We have been unable to study whether or not the cuts will eventuate or the details of the cuts, however we can say that $76.7 million in cuts will reduce the size of the structural deficit but not eliminate it (if the Retiree Healthcare liability is included in the budget deficit calculation).

   There seems to be a number of interesting ideas being debated; however, the data seems anecdotal and not refined into a functional plan. It would be in the best interest of the City to use the Budget Committee in conjunction with the Mayor's office to immediately undertake the responsibility for producing at least two plans for the citizens of San Diego to review.

   i. One plan we would expect to be heavily "cut" driven.
   ii. Another plan should be based on newer and more innovative ideas that may go as far as dramatically restructuring the way the City of San Diego works and functions. No reasonable idea should be dismissed without a full vetting.

      The high unit cost of labor will continue to require extensive cuts in service and must be addressed in a straightforward manner whether Proposition D passes or fails. One of the plans needs to identify a quantifiable way to significantly get the all-in labor and benefit cost structure more in line with what private sector employers are providing their workforce in the rest of the City of San Diego.

   It would be a great public service to have the plans available for public scrutiny before the November election.

Conclusion:

In summary, the financial condition of the City of San Diego is dire, and the analysis of the Task Force shows that a combination of reforms, service reductions, or tax increases averaging close to $190M a year will be required in order to bring the City budget into structural balance. The temporary sales tax increase only provides a little more than half of this funding, meaning that the balance MUST be provided from a combination of reforms and service reductions. Further, in order for this to be successful, current and future City leaders must be committed to making additional operating reforms, such as outsourcing or privatization of non-public-safety-related City services, employee benefit realignment or reductions, or additional service reductions to offset the impact of the sunset of the temporary sales tax increase.

Proposition D as written does not provide enough certainty that the structural deficit will be eliminated by the time the sales tax sunsets without additional Council action. Of the four scenarios the Task Force studied (see attached spreadsheets), Scenario D, namely a mandate/ordinance to follow three new enforceable budget principles, may be a plan of action which provides for the reasonable possibility of the elimination of the structural budget deficit in the years after the expiration of the temporary sales tax increase.

The Council must:

1) Enact strong operational reforms that produce a minimum of $73 Million of annualized cost reductions, as verified by the Mayor and Independent City Auditor.

2) Implement a spending freeze that permits no more than $20 million per year of critical services restorations above the levels contemplated in the current plan.

3) 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 three principles should be codified by the City Council and Mayor prior to the November 2010 vote on Proposition D. The failure of City leadership to take these actions could easily lead to the majority of San Diego voters refusing to approve Proposition D.

Without the implementation of immediate and strong reforms along with dramatic spending discipline, even with a temporary sales tax increase, the City will continue its pattern of chronic budget imbalances and fiscal instability.

Proposition D is only part of the solution. The sales tax increase only works with strong structural reform AND spending holds; weak reform will not suffice and should be rejected. As the Task Force analysis has shown, strong reform alone, even if valued at $73 million per year, will still produce deficits until 2018 unless a new plan is put in place to eliminate the structural deficit in the years 2012-2017. To-date, the Task Force has not seen a plan that eliminates the structural deficit with hard and fast reforms alone.

Proposition D should not be seen as the end of reform. Much work will still remain. Proposition D should be seen as a temporary "bridge" to fiscal balance since structural reform takes time to produce positive fiscal results. When the bridge is removed (the sales tax increase sunsets), the City's budget must be structurally sound in order to balance without extending the sales tax.

The Task Force would like to acknowledge the cooperation and assistance that it received from all who helped us with our research Further, the Task Force would like to reiterate that the analysis contains assumptions and estimates that it believes are appropriate and relevant; however, numerous variables such as the ambiguities of the requirements for reforms contained within the language of Proposition D, as well as the timing and outcome of negotiations that must occur in the future, cannot be specifically quantified at this time.

Scenario A: No Reforms. No Sales Tax.

TASK FORCE REFORM IMPACT ESTIMATE	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
						Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
Total Forecasted Budgeted Revenue	**1,092**	**1,074**	**1,108**	**1,134**	**1,170**	**1,202**	**1,236**	**1,271**	**1,308**	**1,360**	**1,414**
Total Forecasted Budgeted Expenses	**1,092**	**1,146**	**1,170**	**1,204**	**1,218**	**1,225**	**1,240**	**1,255**	**1,271**	**1,322**	**1,375**
1 - Projected (Deficit) Surplus (MayorOffDataThru2015)	**$0**	**($73)**	**($63)**	**($70)**	**($48)**	**($22)**	**($3)**	**$16**	**$37**	**$38**	**$40**
OPEB (Funding in excess of $25mil in Mayor's budget))		(45)	(47)	(49)	(50)	(51)	(52)	(52)	(54)	(56)	(58)
Addl Adjusted OPEB Plus Addl Arc Funding			(6)	(10)	(13)	(17)	(20)	(22)	(25)	(26)	(27)
Total		(45)	(53)	(59)	(63)	(68)	(72)	(74)	(79)	(82)	(85)
2 - Projected (Deficit) Surplus (Mayor's Outlook + Revised Amt)	**$0**	**($118)**	**($115)**	**($129)**	**($111)**	**($90)**	**($75)**	**($58)**	**($42)**	**($44)**	**($45)**

*amounts may not add due to rounding *

If this analysis proves to be accurate, using the Mayor's estimates, without massive structural changes, the City will not have eliminated the structural deficit by 2018.

To avert this continued deficit the city must take several steps by January 2011

1. Make significant structural changes to the size of the city workforce
2. The City must identify and commit to freezing any Add-Back spending in 2012 and beyond until structural balance is met.
3. The base budget must be dramatically reduced.
4. Every option must be placed on the table and an immediate Fiscal Emergency must be implemented which freezes spending throughout the General Fund.
5. The City must become a much smaller enterprise.
6. Selected Enterprise Funds would have to be restructured so they can pay a larger share of public safety service.
7. Selected Enterprise Funds will need to be eliminated entirely and outsourced with revenues going to the General Fund.
8. New legal strategies will need to be visited that seek to dramatically reduce benefit costs.
9. Additional reform measures should continue to be pursued since there is no guarantee of future revenue reductions/increases.

Caveats

Revenue growth is 4% in the years after 2012
Includes additional adjusted ARC payments above base budget
Retiree Health is fully funded
Managed Comp reform must be implemented immediately.
No added expenditures will be allowed without offsetting cuts/ reforms to balance the 2012 budget.

Scenario B: Strong Reform (over 73 million per year average). No Sales Tax.

TASK FORCE REFORM IMPACT ESTIMATE	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
						Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
Total Forecasted Budgeted Revenue	**1,092**	**1,074**	**1,108**	**1,134**	**1,170**	**1,202**	**1,236**	**1,271**	**1,308**	**1,360**	**1,414**
Total Forecasted Budgeted Expenses	**1,092**	**1,146**	**1,170**	**1,204**	**1,218**	**1,225**	**1,240**	**1,255**	**1,271**	**1,322**	**1,375**
1 - Projected (Deficit) Surplus (MayorOffDataThru2015)	**$0**	**($73)**	**($63)**	**($70)**	**($48)**	**($22)**	**($3)**	**$16**	**$37**	**$38**	**$40**
OPEB (Funding in excess of $25mil in Mayor's budget))		(45)	(47)	(49)	(50)	(51)	(52)	(52)	(54)	(56)	(58)
Addl Adjusted OPEB Plus Addl Arc Funding			(6)	(10)	(13)	(17)	(20)	(22)	(25)	(26)	(27)
Total		(45)	(53)	(59)	(63)	(68)	(72)	(74)	(79)	(82)	(85)
2 - Projected (Deficit) Surplus (Mayor's Outlook + Revised Amt)	**$0**	**($118)**	**($115)**	**($129)**	**($111)**	**($90)**	**($75)**	**($58)**	**($42)**	**($44)**	**($45)**
Potential Reform Total		**31**	**56**	**71**	**74**	**77**	**80**	**83**	**87**	**91**	**95**
3 - Projected Deficit After Reforms (Projected Deficit/Surplus plus Potential Reform)		**($87)**	**($59)**	**($58)**	**($37)**	**($13)**	**$5**	**$25**	**$44**	**$47**	**$49**
Add-Back Subtotal (Some Service Restoration)		**20**	**20**	**21**	**22**	**23**	**24**	**25**	**26**	**27**	**28**
4 - Proj Deficit incl additional costs expected and Prior Year Reform Savings Less Add-Back		**($107)**	**($80)**	**($79)**	**($59)**	**($36)**	**($19)**	**$1**	**$19**	**$20**	**$21**

amounts may not add due to rounding

If this analysis proves to be accurate, using the Mayor's estimates, the City will have eliminated the structural deficit by 2018, but not without the use of " one-time's" or deferrals.

It is not acceptable to have 6 more years of structural budget deficit.

It is unclear how the City could manage its cash flow with 6 years of structural budget deficits.

To avert this continued deficit the city must take several steps by November 2010

1. Reforms would have to happen very quickly and achieve an average value of $130-$140 million per year (2012-2018)
2. The City cannot afford any service restoration and must commit to freezing any Add-Back spending for service restoration.
3. The base budget will have to be dramatically reduced.
4. The City will have to immediately identify new revenue or new cuts
5. The City will have to dramatically restructure itself into a much smaller enterprise.
6. Selected Enterprise Funds would have to be restructured so they can pay a larger share of public safety service.
7. Selected Enterprise Funds will need to be eliminated entirely and outsourced with revenues going to the General Fund.
8. New legal strategies will need to be visited that seek to dramatically reduce benefit costs.
9. Additional reform measures should continue to be pursued since there is no guarantee of future revenue reductions/increases.

Caveats

Revenue growth is 4% in the years after 2012

Includes additional adjusted ARC payments above base budget

Retiree Health is fully funded

100% of the annual Managed Comp savings will need to be realized in 2012

The Outsourcing reforms are realized in 2013.

No added expenditures will be allowed without offsetting cuts/ reforms to balance the 2012 budget.

Scenario C: Weak Reform (under $5 million per year). Sales Tax goes into effect FY2012.

TASK FORCE REFORM IMPACT ESTIMATE	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
						Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
Total Forecasted Budgeted Revenue	**1,092**	**1,074**	**1,108**	**1,134**	**1,170**	**1,202**	**1,236**	**1,271**	**1,308**	**1,360**	**1,414**
Total Forecasted Budgeted Expenses	**1,092**	**1,146**	**1,170**	**1,204**	**1,218**	**1,225**	**1,240**	**1,255**	**1,271**	**1,322**	**1,375**
1 - Projected (Deficit) Surplus (MayorOffDataThru2015)	**$0**	**($73)**	**($63)**	**($70)**	**($48)**	**($22)**	**($3)**	**$16**	**$37**	**$38**	**$40**
OPEB (Funding in excess of $25mil in Mayor's budget))		(45)	(47)	(49)	(50)	(51)	(52)	(52)	(54)	(56)	(58)
Addl Adjusted OPEB Plus Addl Arc Funding			(6)	(10)	(13)	(17)	(20)	(22)	(25)	(26)	(27)
Total		(45)	(53)	(59)	(63)	(68)	(72)	(74)	(79)	(82)	(85)
2 - Projected (Deficit) Surplus (Mayor's Outlook + Revised Amt)	**$0**	**($118)**	**($115)**	**($129)**	**($111)**	**($90)**	**($75)**	**($58)**	**($42)**	**($44)**	**($45)**
Potential Reform Total		**5**	**5**	**6**	**6**	**6**	**6**	**7**	**7**	**7**	**8**
3 - Projected Deficit After Reforms (Projected Deficit/Surplus plus Potential Reform)		**($113)**	**($110)**	**($123)**	**($105)**	**($84)**	**($69)**	**($51)**	**($35)**	**($37)**	**($38)**
Add-Back Subtotal (Some Service Restoration grow 4% per yr)		**20**	**20**	**21**	**22**	**23**	**24**	**25**	**26**	**27**	**28**
4 - Proj Deficit incl additional costs expected and Prior Year Reform Savings Less Add-Back		**($133)**	**($130)**	**($145)**	**($127)**	**($107)**	**($92)**	**($76)**	**($61)**	**($63)**	**($66)**
Proposed Tax Increase		**50**	**103**	**105**	**107**	**109**	**56**				
5 - Proj Surplus (Deficit) incl additional costs expected		**($83)**	**($27)**	**($40)**	**($20)**	**$3**	**($37)**	**($76)**	**($61)**	**($63)**	**($66)**

*amounts may not add due to rounding *

If this analysis proves to be accurate, using the Mayor's estimates, the City will not have eliminated the structural deficit by 2018, the year after the tax expires

To avert this continued deficit the city must take a number of steps by November 2010

1. New reforms would have to dramatically increase very quickly from $5 million to an average value of $80-90 million per year
2. The City cannot afford any service restoration and must commit to freezing any Add-Back spending for service restoration.
3. The base budget will have to be dramatically reduced.
4. The City will have to immediately identify new revenue, new reforms and/ or new cuts
5. The City will have to dramatically restructure itself into a much smaller enterprise.
6. Selected Enterprise Funds would have to be restructured so they can pay a larger share of public safety service.
7. Selected Enterprise Funds will need to be eliminated entirely and outsourced with revenues going to the General Fund.
8. New legal strategies will need to be visited that seek to dramatically reduce benefit costs.
9. Additional reform measures should continue to be pursued since there is no guarantee of future revenue reductions/increases.

Caveats

Revenue growth is 4% in the years after 2012

Includes additional adjusted ARC payments above base budget

Retiree Health is fully funded

100% of the annual Managed Comp savings will need to be realized in 2012

The Outsourcing reforms are realized in 2013.

If the analysis is accurate, after receiving 6 months of tax revenue, the city will still need an additional $88 million in either cuts or additional revenue

No added expenditures will be allowed without offsetting cuts/ reforms to balance the 2012 budget.

Scenario D: Strong Reform (over $73 million per year average). Sales Tax goes into effect FY2012.

TASK FORCE REFORM IMPACT ESTIMATE	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
						Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
Total Forecasted Budgeted Revenue	**1,092**	**1,074**	**1,108**	**1,134**	**1,170**	**1,202**	**1,236**	**1,271**	**1,308**	**1,360**	**1,414**
Total Forecasted Budgeted Expenses	**1,092**	**1,146**	**1,170**	**1,204**	**1,218**	**1,225**	**1,240**	**1,255**	**1,271**	**1,322**	**1,375**
1 - Projected (Deficit) Surplus (MayorOffDataThru2015)	**$0**	**($73)**	**($63)**	**($70)**	**($48)**	**($22)**	**($3)**	**$16**	**$37**	**$38**	**$40**
OPEB (Funding in excess of $25mil in Mayor's budget)		(45)	(47)	(49)	(50)	(51)	(52)	(52)	(54)	(56)	(58)
Addl Adjusted OPEB Plus Addl Arc Funding			(6)	(10)	(13)	(17)	(20)	(22)	(25)	(26)	(27)
Total		(45)	(53)	(59)	(63)	(68)	(72)	(74)	(79)	(82)	(85)
2 - Projected (Deficit) Surplus (Mayor's Outlook + Revised Amt)	**$0**	**($118)**	**($115)**	**($129)**	**($111)**	**($90)**	**($75)**	**($58)**	**($42)**	**($44)**	**($45)**
Potential Reform Total		**31**	**56**	**71**	**74**	**77**	**81**	**85**	**88**	**92**	**96**
3 - Projected Deficit After Reforms (Projected Deficit/Surplus plus Potential Reform)		**($87)**	**($59)**	**($58)**	**($37)**	**($13)**	**$6**	**$27**	**$46**	**$48**	**$51**
Add-Back Subtotal (Some Service Restoration)		**20**	**20**	**21**	**22**	**23**	**24**	**25**	**26**	**27**	**28**
4 - Proj Deficit incl additional costs expected and Prior Year Reform Savings Less Add-Back		**($107)**	**($80)**	**($79)**	**($59)**	**($36)**	**($17)**	**$2**	**$20**	**$21**	**$23**
Proposed Tax Increase		**50**	**103**	**105**	**107**	**109**	**56**				
5 - Proj Surplus (Deficit) incl additional costs expected		**($57)**	**$23**	**$26**	**$48**	**$73**	**$38**	**$2**	**$20**	**$21**	**$23**

* amounts may not add due to rounding *

If this analysis proves to be accurate, using the Mayor's estimates, the City will have eliminated the structural deficit by 2018 one year after the sales tax expires

This analysis is contingent on the Council passing an ordinance or other enforceable action that guarantees the following:

1. The target value of the 10 reforms must average $73 million per year ($730 million over a 10 year period) before a sales tax can be collected.
2. The City must identify and commit to freezing any Add-Back spending from 2012-2018 to not more than $20 million .
3. The Council can add no spending increases to the base budget other than the current proposed escalators.
4. The Council must commit that any surplus must be spent for reserves or to pay down debt (at least 50%) and that the balance be restricted to one-time spending that can not impact future budgets.
5. The Council action must be codified prior to the November election.
6. Additional reform measures should continue to be pursued since there is no guarantee of future revenue reductions/increases.
7. The $57 million deficit in FY2012 can be resolved by earlier collection of the sales tax and/or aggressive acceleration of the reforms in 2012

Caveats

Revenue growth is estimated at 4% in the years after 2012
Includes additional adjusted ARC payments above base budget
50% of the annual Managed Comp savings are realized in 2012, (this is $50 million in services that go through managed comp in 2012).
The Outsourcing reforms are realized in 2013.
If the sales tax is collected for more than 6 months in 2012, the 2012 deficit will drop however the 2017 surplus will be reduced by the like amount.
If the analysis is accurate , after receiving 6 months of tax revenue, the city will still need an additional $57 million in either cuts or additional revenue to balance in 2012.
After 2012, the City can be on the path towards structural fiscal sustainability.
As a matter of new budget discipline, no added expenditures will be allowed without offsetting cuts/ reforms to balance any future budget.

Basis for Estimates Related to Reforms in Scenarios B & D

- ❖ **Reform 2:** Managed Comp estimated to relate to $100 million in the first 2 fiscal years,($200 million in the remaining years), of the General Fund costs and given there is 10% minimum stated as the savings goal, we used 10% as the savings potential. Since the related costs increase in budget we used a 2% escalator for future periods.

- ❖ **Reform 4:** Cost Savings on landfill outsourcing (although we have not attempted to quantify or include the disposition of reserves, it may be possible that half of the remediation reserves could come back to General Fund if proposed outsourced landfill assumes half of the remediation liability.)

- ❖ **Reform 6:** Relates to the 95% of General Fund employees so we made the amount 19 times the amount of Reform 1 which covered 5% of the General Fund employees. Wages are flat in budget, so no escalator was used for future periods.

- ❖ **Reform 7**: Budget has $40 Million for General Fund OPEB of which an estimated $23 Million is PAYGO for current retiree benefit payments and $17 Million to help fund future cost growth or the unfunded obligation. Savings put in our draft model reflects a potential benefit freeze for future retirees. No impact on PAYGO amount. Mayor's budget includes funding $25million of the $70million OPEB 2012 Actuarial Funding that would be required to cover current year costs. Freeze estimated to reduce the $70 million ARC by 50% so Reform benefit based on Mayor's budget funding of $25 million of the ARC for OPEB is 50% therefore $12.5million then 5% annual growth later

- ❖ **Reform 8:** Data Processing outsourcing 20% reduction on an estimated $40 Million of DP costs discussed. The General Fund will see a potion of the $8 million in savings.

- ❖ **Reform 10:** Impact of lower ARC based on employees choosing 401k over defined benefit plan. Predicted savings will only impact the portion on ARC funding that deals with the substantially equal normal cost. The normal cost paid by the City in 2010 was $64 million. We applied the voluntary 401k plan savings to a percentage of the $64 million only. Our assumption assumes 15% of the workforce will take the new voluntary 401k plan.

- ❖ **Sales Taxes:** Sales Tax growth is projected at 2% per year after 2013

Task Force Member Bios

Vincent Mudd, Chairman

Vincent Mudd is president and owner of San Diego Office Interiors. He is currently the chair-elect 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.

Neil Derrough

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

Pete Garcia

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

Mark Koob

Mark Koob was an owner/partner and CEO of Bumble Bee Seafoods; purchasing the company from bankruptcy and then selling it to Con Agra foods after it had grown to sales of almost $1.0 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.

Dan Shea

Dan Shea has spent the last 30 years focusing on corporate finance and management, working on a variety of turnarounds and ultimately selling a company he controlled to a multi-national, Illinois Tool Works. In 1995, with partners, he started Paradigm Investment Group which now owns 100+ restaurants nationally and employs 3,000+ people. He is President/CEO of Donovan's Steak & Chop House, locally owned, with operations in San Diego, Phoenix and Salt Lake City.

Susan Snow

Susan Snow serves as 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 a board member of the San Diego Bowl Game Association and the Scripps Health System.

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

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