



## THE DEPTH OF THE FINANCIAL CHALLENGE FACING THE CITY OF SAN DIEGO

### FOREWORD

With the downturn in the economy, San Diego faces one of its greatest challenges. Over the past three years, the City has taken steps to cut costs and address long-festering problems. It has produced, for the first time, a Five Year Forecast (FYF) that helps identify projected revenues, expenditures, and the gap that needs to be closed. The City has also made an effort to transparently budget for all of workers on its payroll and to minimize questionable transfers between enterprise funds and the general fund.

The 2009 and 2010 budgets are going to present even greater challenges. On October 14, 2008 Mayor Jerry Sanders indicated that the City faces a \$43 million dollar shortfall. In perspective this forecasted deficit is equal to 3.0% of the City's FY 2009 General Fund and 7.2% of all non-public safety expenditures.

That deficit is larger than the budgets for the library department, environmental services, or the City Attorney.

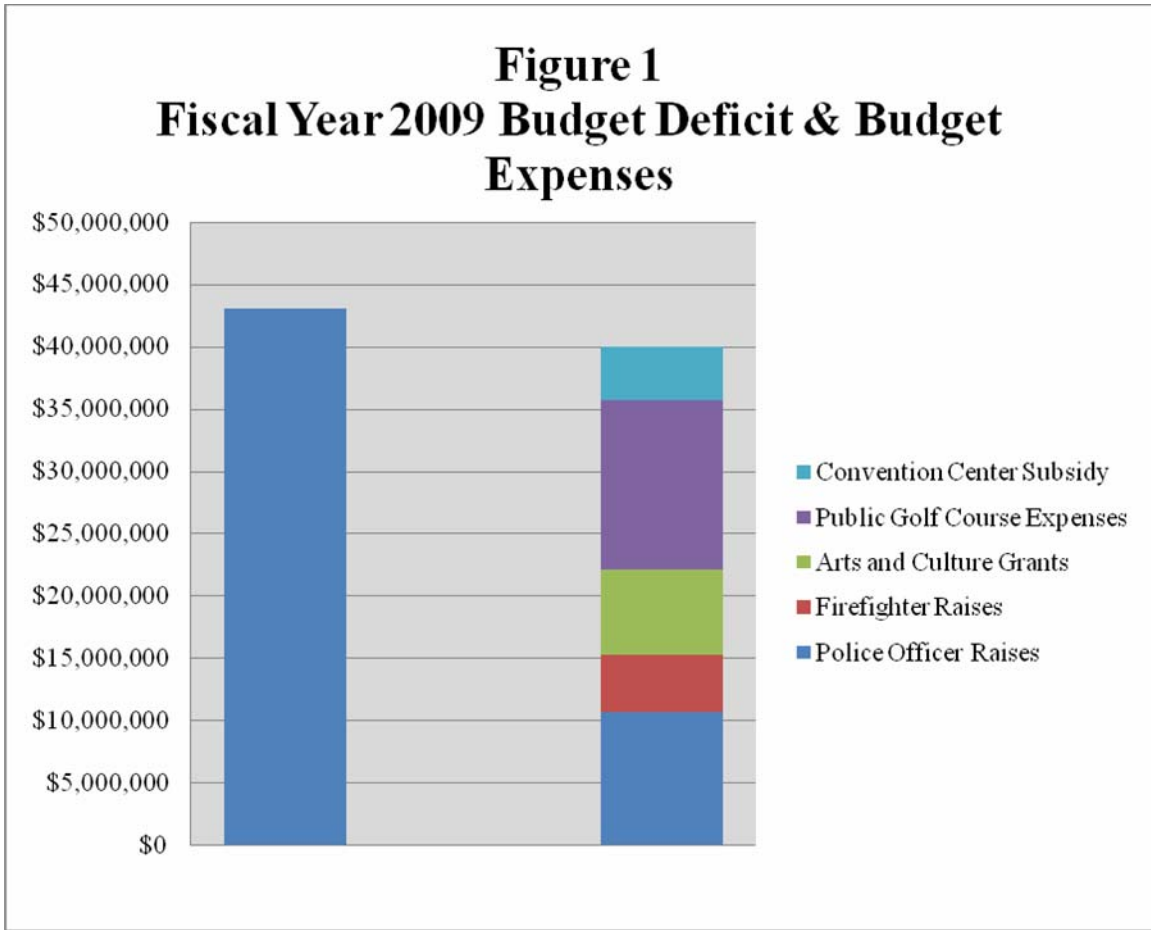
**FY 2010 could be even worse. If revenues "only" grow at the same rate that they are now projected to increase this fiscal year (4.6%), there would emerge an additional \$13 million gap. That would be on top of the previously forecasted deficit of \$66 million (for a total gap of \$79 million). If the City were to experience the average general fund growth rate it did during the last economic downturn (FY 2003 and FY 2004 at 1%), the deficit could balloon to more than \$115 million. If revenues do not grow over the next 18 months (remain at FY 2009 levels), the FY 2010 deficit could grow to \$128 million.**

As the Mayor has said this is a very serious time in our City's history. At the October 15, 2008 Budget Committee meeting both the City's Independent Budget Analyst and the Chief Operating Officer underscored the magnitude of the problem. The entire community needs to be ready to help the Mayor and the City Council tackle the looming financial tsunami. The public, private, and non-profit sectors must come together and confront the problem head. At this time of crisis all of us must come together – the Mayor, the City Council, business and labor, and support the necessary budget changes which address the City's fiscal challenges head on.

Steve Francis  
Chairman, San Diego Institute for Policy Research

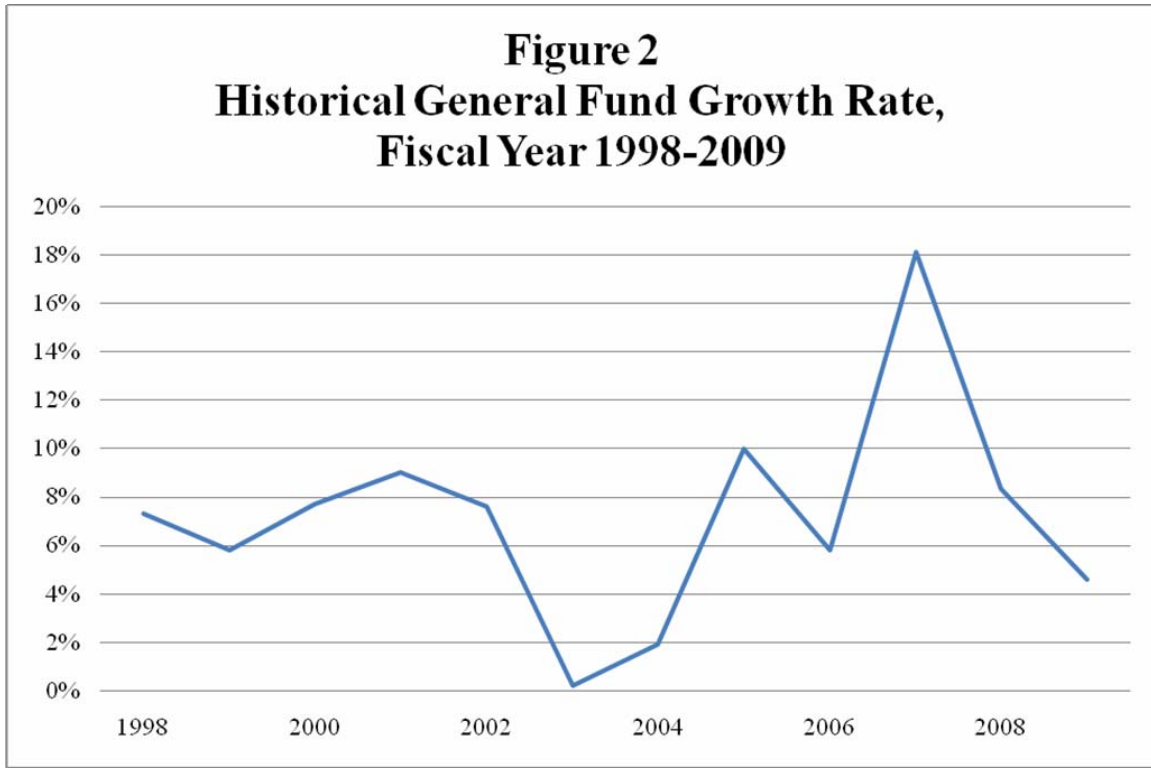
## I. Closing a \$43 million Gap Requires Tough Choices

\$43 million represents a significant percentage (7.3%) of the City's non-public safety General Fund expenditures. To put the budget gap in perspective, it is slightly greater than the cumulative Fiscal Year 2009 costs for new police and firefighter salary raises, arts and culture grants for 143 community events, institutions and organizations, operating expenses at the world-class Balboa Park, Mission Bay and Torrey Pines Golf Courses, and the City subsidy to the San Diego Convention Center.



## **II. San Diego's General Fund Revenues Flattened in the Last Recession**

The projected 4.6% General Fund revenue growth rate for Fiscal Year 2009 is not unprecedented. During 2001-2003 downturn San Diego's unemployment rate was as high as 5.6% (the county's unemployment rate presently stands at 6.4%). General Fund year-over-year revenue growth fell dramatically, from 7.6% in Fiscal Year 2002 to 0.2% in Fiscal Year 2003, rebounding only slightly to 1.9% in Fiscal Year 2004.



### **III. FY 2010 Looms as Especially Challenging**

In the final budget for FY 2009 the City of San Diego projected general fund revenues of \$1,118,639,430. In October, the City announced that because of the economic slowdown, a \$43 million deficit had emerged in the FY 2009 General Fund, comprised of \$35 million in revenue shortfalls and \$8 million in unexpected expenses. This would **mean in FY 2009 the City's general fund revenues will grow only 4.6% (as opposed to the projected 7.8% growth rate).**

TABLE 1 – General Fund Revenue Projected in Final FY 2009 Budget

Source: City of San Diego FY 2009: Schedule I  
(in millions)

	FY 2008	FY 2009	Incremental Revenues	Projected Growth Rate
Final FY 2009 Budget	\$1,106	\$1,192	\$86.3	7.8%

Carrying that forward, if in FY 2010 the City achieves on this smaller base only a 4.6% growth rate in general fund revenues, an additional \$13 million deficit could emerge. That would be in addition to the previously projected \$66 shortfall.

TABLE 2 - 2009-2013 Five Year Forecast Budget Deficit if Revenues grow in FY 2010 at Same Rate as in FY 2009

Source: City of San Diego 2009-2013 Five Year Forecast  
(in millions)

FYF Previously Projected Deficit	FY 2010 (\$66.2)
Bad Case Revenue Scenario (FY08-09 Growth rate)	4.6%
Bad Case Deficit	(\$79)

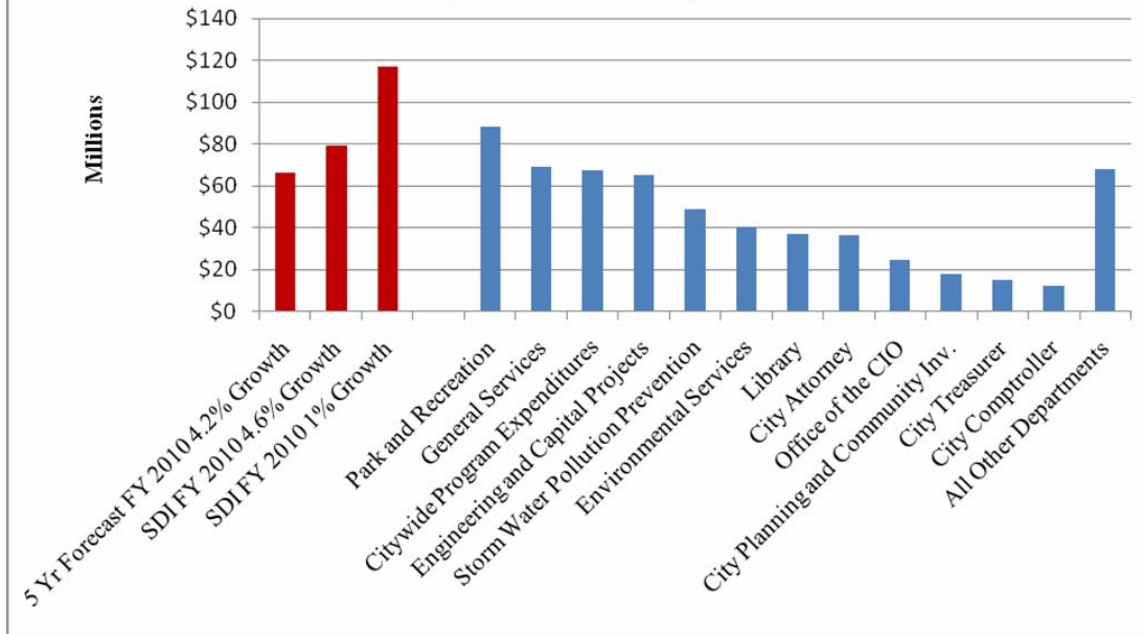
**In fact, it could be worse.** During the last recession (chiefly FY 2002 and FY 2003), the City's general fund grew only 1.0%. If FY 2009 and FY 2010 see a similar flattening of revenues, then it is possible that the City could be looking at a FY 2010 deficit of over \$115 million.

TABLE 3 – 2009-2013 Five Year Forecast Budget Deficit if Revenue Grows only as fast as the Average Rate in FY 2003 and FY 2004

Source: City of San Diego 2009-2013 Five Year Forecast

FYF Previously Projected Deficit	FY 2010 (\$66.2)
FYF Projected Growth Rate	4.2%
Worst Case Revenue Scenario (FY 03 & FY 04) Growth Rate	1.0%
Worst Case Deficit	(\$117)

**Figure 3  
Fiscal Year 2010 Projected Deficits & Non-Public Safety Budget Expenditures**



Readers should note these are worst case scenarios. The projected FY 2010 deficits are likely to be somewhat smaller due to savings that were realized during the FY 2009 budget process and if the solutions adopted in the FY 2009 mid-year adjustments create on-going savings. The City, however, does not provide the kind of information in its budget process (for example identifying which actions are one-time savings and which have on-going impacts on revenues and obligations) that would allow citizens to easily understand how particular budget actions impact the future projected deficits. When the City of San Diego releases its next Five Year Forecast in January 2009, SDI will update these projections.