

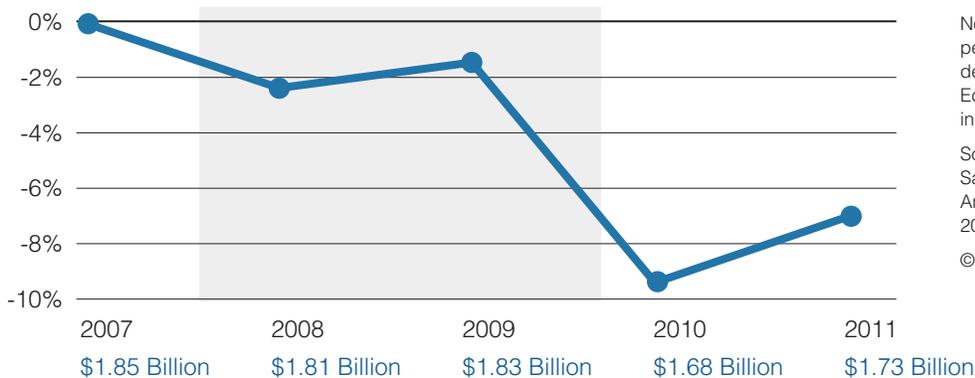
San Diego

Declining revenue led to spending cuts in San Diego

By 2011, San Diego's revenue had failed to return to the peak it reached before the Great Recession, and the city faced continuing financial challenges. Despite property tax growth, revenue fell 9 percent from the 2007 high point to the 2010 low, primarily because of losses in sales tax and nontax revenue. (See Figure 1.) Operating spending rose during that period, but the city ultimately cut expenditures in 2010 and 2011. Although San Diego has taken steps to address its long-term obligations, voter-approved pension reforms are being challenged in court.¹

FIGURE 1

San Diego Governmental Revenue, Percent Change From Pre-downturn Peak, 2007-11



Note: Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research. Amounts are in 2011 dollars.

Source: Pew calculations from San Diego's Comprehensive Annual Financial Reports for fiscal 2007-11.

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Declines in sales tax collections and intergovernmental aid drove revenue losses

Total revenue fell by \$176 million between the 2007 peak and the 2010 trough after adjusting for inflation. Declining sales tax receipts were the main cause, falling an inflation-adjusted \$86 million. Nontax revenue decreased \$76 million, largely because of lower revenue from private sources and the use of money and property.² Intergovernmental aid also fell \$39 million, even with an infusion of federal stimulus funds from the American Recovery and Reinvestment Act. Despite a housing crisis in California, property tax revenue in San Diego grew \$41 million from 2007 to 2010, but this was not enough to offset steep losses in other revenue streams.

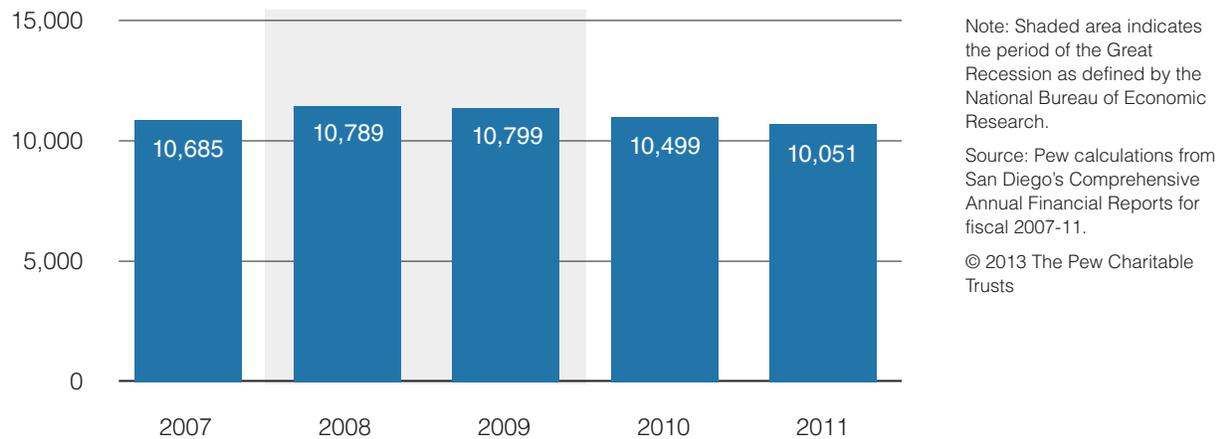
Spending grew as revenue declined, and cuts were implemented in 2011

Even as revenue contracted, operating spending increased 9 percent, caused primarily by a \$116 million bump in general government expenditures.³ At the same time, spending on parks, recreation, and cultural facilities grew \$39 million, and outlays on public safety, San Diego's largest budget category, rose \$7 million.

After the city's revenue hit bottom, officials cut spending in 2011 by eliminating more than 1,700 positions, including more than 300 in public safety,⁴ negotiating a 6 percent employee compensation cut, and introducing some city services to competitive bidding.⁵ (See Figure 2.)

FIGURE 2

San Diego Full-Time Equivalent Employees, 2007-11



In addition to the spending cuts, San Diego also used a series of midyear and one-time legislative adjustments.⁶ For example, in 2011, contributions to general fund reserves were deferred, freeing up revenue.

Managing the future: Reforms in long-term liabilities aimed to address fiscal concerns

Demand for services, investment decisions, and revenue performance driven by economic activity and demographic changes will shape San Diego's fiscal future.⁷ Long-term obligations that can be analyzed using the data available are pensions and retiree health care and other benefits.

Although the city made its annual recommended pension contributions, ballooning liabilities passed \$6.5 billion in 2010, leaving the city far short of full funding. Changes put in place in 2009 were followed by a more expansive 2012 referendum that drew national attention.⁸ Although legal challenges are pending

as of press time, all new employees except police will be enrolled in defined-contribution plans, which operate like private-sector 401(k) plans rather than traditional defined-benefit plans that guarantee pension checks for the full period of retirement.⁹ Pension calculations for current employees were changed to use a salary level frozen in place until 2018, rather than actual final salaries.¹⁰

Retiree health care obligations also continued to grow, exceeding the billion-dollar mark with just 6 percent of liabilities funded in 2010. In early 2012, the city and unions agreed on benefits changes that are expected to save \$714 million over 25 years. Officials called the deal the largest cost-savings measure ever implemented by the city.¹¹

See Pew's 30-city interactive at pewstates.org/City-Fiscal-Conditions-Interactive for complete data.

Endnotes

1 See the full study methodology at pewstates.org/City-Fiscal-Methodology for a detailed explanation of the terms used in this profile and view the underlying data at pewstates.org/City-Fiscal-Conditions-Interactive.

2 Revenue from private sources includes funds from the Facilities Benefit Assessment Credit program, which allows capital assets to be financed jointly by the city and private developers, who are compensated with credits toward future permit fees. City of San Diego, *Comprehensive Annual Financial Report, Fiscal Year Ended June 30, 2007* (2007), 14, http://www.sandiego.gov/comptroller/pdf/reports/cafr_2007.pdf.

3 City of San Diego, *Comprehensive Annual Financial Report, Fiscal Year Ended June 30, 2010* (2010), 38, http://www.sandiego.gov/comptroller/pdf/reports/cafr_2010.pdf.

4 Megan Burks, "How Budget Cuts Have Forced SD's Hand on Gang Policing," *Voice of San Diego* (March 15, 2013), <http://voiceofsandiego.org/2013/03/15/how-budget-cuts-have-forced-sds-hand-on-gang-policing>.

5 Street sweeping, information technology support, fleet maintenance, and landfill operations were among the areas opened for competitive bidding by outside providers. To date, city employees have won at least four bids by identifying additional efficiencies. Craig Gustafson, "Sanders: City Finance Problems Will End," *San Diego Union-Tribune* (Jan. 11, 2012), <http://www.utsandiego.com/news/2012/jan/11/sd-mayor-city-finance-problems-will-end>; City of San Diego, *Comprehensive Annual Financial Report, Fiscal Year Ended June 30, 2009* (2009), http://www.sandiego.gov/comptroller/pdf/reports/cafr_2009.pdf; Jen Lebron Kuhney, "City Workers Win Bid for Fleet Maintenance," *San Diego Union-Tribune* (Oct. 13, 2011), <http://www.utsandiego.com/news/2011/oct/13/city-workers-win-bid-for-fleet-maintenance>; and Jen Lebron Kuhney, "S.D. City Workers Win Another Job Bid," *San Diego Union-Tribune* (July 21, 2012), <http://www.utsandiego.com/news/2012/jul/21/tp-sd-city-workers-win-another-job-bid>.

6 City of San Diego, Fiscal Year 2011 Adopted Budget, Appendix: Legislative Actions, 336, <http://www.sandiego.gov/fm/annual/fy11/index.shtml>.

7 For more information on and analysis of the state of retirement funding in the 30 cities, see The Pew Charitable Trusts, American cities project, *Cities Squeezed by Pension and Retiree Health Care Shortfalls* (March 2013), http://www.pewstates.org/uploadedFiles/PCS_Assets/2013/Pew_city_pensions_brief.pdf.

8 Catherine Saillant and Tony Perry, "2 Big Cities OK Cuts to Worker Pension Costs," *Los Angeles Times* (June 7, 2012), <http://articles.latimes.com/2012/jun/07/local/la-me-pensions-20120607>.

9 State of California Public Employment Relations Board, *San Diego Municipal Employees Association, Deputy City Attorneys Association of San Diego, American Federation of State, County and Municipal Employees Local 127, and San Diego City Firefighters Local 145 v. City of San Diego* (Feb. 11, 2013), Case Nos. LA-CE-746-M, LA-CE-752-M, LA-CE-755-M, LA-CE-758-M, <http://www.cpf.org/go/cpl/?LinkServID=D6241EE5-1CC4-C201-3E28D8F610AA72E5>.

10 San Diego's Proposition B charter amendment passed with 66 percent of the vote June 5, 2012. City of San Diego, Proposition B: Amendments to the San Diego City Charter Affecting Retirement Benefits, <http://www.sandiego.gov/city-clerk/elections/city/pdf/retirementcharteramendment.pdf>.

11 Craig Gustafson, "City Retiree Health Care Deal Could Save \$714M," *San Diego Union-Tribune* (Jan. 24, 2012), <http://www.utsandiego.com/news/2012/jan/24/city-retiree-health-benefit-overhauled>.