

CONCLUSION

The City is basically fiscally sound. San Diego operates within a restricted revenue base, its revenues per capita are lower than most major cities in the United States. San Diego operates within the restrictions of the Peoples Ordinance-adopted in a different era which precludes the collection of fees for residential trash collection. The City does not utilize some revenue sources such as Utility User Tax, Residential Trash Collection Fees, and Water/Sewer Utility Right-of-Way fee used by other California cities to offset the restrictions of Proposition 13.

San Diego, as with any governmental entity, has fiscal demands, which exceed current funding sources. While other cities have entered into higher levels of debt, San Diego has maintained an acceptable level of debt, and as a result has retained a positive credit rating over the years. Over the next few years, the City proposes increases in debt. These increases are planned to be mitigated by growth in existing revenue sources such that debt service as a percentage of revenues is only increasing by less than 1 percentage point.

However, there are some serious concerns, which the Committee felt needed to be brought into full focus and addressed by the City Council. These issues were long in their creation and certainly were not the product of the current City leaders. Nonetheless the incumbent Administration must publicly recognize the issues and develop to a plan deal with them.

First and foremost, operating within the restrictions identified above, decisions have been made over the years to defer physical infrastructure requirements in favor of more visible or other pressing needs. While this is a difficult issue to accurately quantify, City staff estimates unfunded deferred maintenance exceeds \$300 million. Deferred maintenance is a somewhat illusive issue in that reasonable people can differ on what is truly "needed" versus what is "nice to have". Similarly with Information Technology, what is truly needed in this rapidly changing world versus what is truly cost justified is often debated. But in any event, the City must visibly acknowledge this serious problem, accurately quantify it, and develop a financial plan to remedy the problem over a specified period of time.

The second concern is that, analogous to the "deferred maintenance", the City is likewise partially deferring until later years the recognition of currently incurred cost for pensions and retiree health benefits (i.e. earned by current employee to be collected in later years). The City is not having current year's taxpayers pay for all the pension and retiree health benefit costs that are earned in that year. This is placing a growing burden on future years' taxpayers.

Third, the City has been prudent over the last five years in recognizing the need for a reserve for unplanned "crises". As a result, reserves have gradually been built over the last few "boom" economic years, but the magnitude of it is still significantly less than other municipalities find prudent. The Committee encourages the City to continue to build these reserves up to at level of 7-10% of General Fund Revenues.