

**Key Points Made by the Independent Budget
Analyst (IBA) in IBA Report 08-14
City of San Diego Structural Deficit**

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1	Unless clear, decisive, and long-term solutions are implemented, municipal services will continue to erode in the future.
1	The City cannot continue to use temporary or one-time solutions to effectively combat its financial challenges. Structural deficits require structural solutions.
2	In general, a structural deficit is defined by a situation where ongoing expenditures consistently exceed ongoing revenues.
2	But there are several indications that the imbalances facing the City are structural in nature.
3	One of the clearest indications of the City's budget deficit are the budget reductions that have been implemented. Beginning in FY 2003, and in each fiscal year since, the City has been forced to make budget reductions in order to balance the budget. The fact that these reductions have been persistent, and in some cases increasing, is a strong indication that the deficit is structural in nature.
3	It should be noted that during these years, other measures such as one-time revenues were also employed to help balance the budget.
4	What is more striking is that these deficits have occurred during a time of healthy economic conditions and strong revenue growth.
4	The fact that budget deficits were persistent during good economic conditions is another clear indication of a structural imbalance.
4	Another indication that the City is facing a structural budget deficit is in the widespread use of one-time measures to balance the budget, usually in the form of one-time revenues.
4	A standard budget principle is that one-time revenues should not be used to fund ongoing expenditures[T]he deficits over the last several years have simply been too great. Many one-time revenues have been employed as budgetary solutions in lieu of additional service reductions. Furthermore, some of the one-time challenges facing the City such as the backlog of deferred maintenance are so immense that the magnitude of one-time solutions pale in comparison, and ongoing solutions to such challenges will likely be necessary.
5	[T]he City has been faced with a new deficit in each year, and in each year new one-time solutions have been implemented – in addition to sharp budget reductions – in the hopes of “getting us through” to better times. Even budget reductions can be viewed as one-time solutions, if the cuts are restored in the near future. Yet this has not occurred either.
5	[A] more subtle way that this discrepancy is often addressed, particularly over long periods of time, is by under-funding certain expenditure commitments in

	lieu of others. At times, departments are expected to absorb cost increases related to more pressing issues, and do so by shifting resources away from existing programs and services.
5	The public safety departments have long been underfunded in areas such as overtime and pays for both the Police and Fire-Rescue Department, leading to overages in personnel expense; and funding for public safety fleet replacement, resulting in significant maintenance and replacement needs for over-age police cruisers and fire engines.
7	[T]he chart still shows that public safety expenditures have increased as a percentage of the total General Fund, indicating that other General Fund departments and service areas have endured more significant cuts.
12	The Unfunded Needs Report indicated that non-public safety General Fund departments required an additional \$149 million; unfunded needs by the Police and Fire-Rescue Departments, developed separately but attached to the report, totaled an additional \$125 million, for a total General Fund need of \$274 million.
14	However, [the Mayor's Five-Year Financial] Outlook provides funding for these largely through one-time solutions and unfocused budget reductions. As previously mentioned, the magnitude of some of these challenges is so great that more significant, ongoing solutions will likely be required to solve them.
14	Underscoring this discussion is the reality that these deficits – and associated service impacts – will continue into the future absent corrective actions.
14	Another critical component in solving the structural imbalance is being honest with the community about what they can expect given the available resources.
16	Despite significant budgetary and service level reductions, employment of one-time revenues, and the lack of significant service enhancements over the past several fiscal years, the City of San Diego has been unable to resolve its financial and budgetary challenges.
16	Unless clear, decisive, and long-term corrective actions are implemented, budget deficits will persist well into the future, resulting in continual erosion of municipal services.