

The City of San Diego - Back From the Brink of Bankruptcy – or so They Thought

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Quick Recap

- City allegedly on the verge of bankruptcy
- Under SEC investigation for securities fraud
- November 2004 – Mayor elected for 2nd term
- April 2005 – Mayor resigns
- Self Imposed Sarbanes-Oxley
- No CAFRs issued since fiscal year 2002
- Fall 2005 – Two Council Members resign after being convicted of bribery

Quick Recap (cont.)

- December 2005 – New Mayor takes office
- January 1, 2006 – Strong Mayor form of government begins 5 year trial period
- New Top Management Team is selected
- Started January 23, 2006
- City Attorney who would rather write policy briefs than legal briefs

WHEW!!

**AND YOU THOUGHT
YOUR LIFE WAS
DIFFICULT**

Looks like a small
swell coming



- Short Term Thinking
- Territorial Decision Making
- Finance in silos
- No strong leadership
- Littlest Big City

Another day at
the beach or is
it “life is a
beach”



The City of San Diego
Sun, Surf and . . .

The waves keep coming!



- Established an external Audit Committee
- Poor Internal Controls
- Byzantine budgeting
- No long-range financial planning

Is the wave receding?
or maybe not . . .



Systemic under-funding of Pension System



Inadequate Financial Disclosures

Tsunami !



- Errors and omissions in financial statements and bond disclosures
- City voluntarily made disclosures on January 27, 2004

Tsunami !

(cont.)



- Credit Ratings downgrades and suspensions
- SEC charges City with violation of anti-fraud provisions of federal securities law
- Resignations and Indictments
- Delay in financial statements

And the Waves Keep Coming

- Inability to issue long-term debt in a historically low interest rate environment
- Millions of dollars paid in legal and financial consultant fees
- Short-term balance sheet borrowing to meet critical capital needs



Ratings Free Fall

S&P	July 2003 AA	Feb 2004 AA-	Sept 2005 Suspended
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MOODY'S	July 2003 Aa1	Aug 2004 Aa3	Sept 2004 A1	Aug 2005 A3
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FITCH	July 2003 AAA	Feb 2004 AA	Sept 2005 A	May 2005 BBB+
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So What's First?

- No luxury of time
- Need to determine fact from fiction
- Stabilize the Organization
- Develop a strategy that works

Clean-up



- Brought in seasoned employees
- Consolidated financial operations
- Developed a comprehensive five-year financial plan
- Begin strengthen internal controls

Clean-up



- San Diego adopts the “Gold Standard” for municipal financial disclosures
- Established a new Audit Committee
- Completed FY '03, '04, '05, '06 '07 CAFRs
- Comprehensive Five-year Financial Outlook
- Enhanced funding of the pension system

Five CARF's 19 Months

- City staff had never prepared a complete CAFR
- Used small local firm as auditor
- No internal controls
- Needed to wait for the Kroll Report
- Paralysis through analysis
- Paralysis through fear

Five CARF's 19 Months – (cont.)

- Fiscal year 2003 CAFR released in March 2007
- Over 60 prior year adjustments totaling over \$1 billion gross and \$600 million net
- Most were to capital assets
- Presented to Audit Committee for first time
- Presented to City Council for first time

Five Year Financial Outlook

- The cornerstone of our budget decisions
- Forces the City to take a longer perspective
- Forces the Council to face reality
- Allows for better prioritization of expenditures
- Stimulates debates

Five Year Financial Outlook – (Cont.)

- Build the baseline
- Revisit prioritize
- Layout your assumptions and methodology
- Constantly update

Emerging Leader in Municipal Disclosure Practices

- Disclosure Practices Working Group (DPWG)
- Mayor and City Attorney certification of Official Statements
- Financial and disclosure training for City Council and City staff
- Investor Webpage launched in May 2008

It's a New Day!



Moody's update city credit rating to 'stable'

The San Diego Union-Tribune, August 28, 2008

Standard & Poor's Reinstate San Diego Credit
Rating After Four Years

Bond Buyer, May 16, 2008

Current Ratings

General Obligation Bonds

- Standard & Poor's A (Positive)
- Moody's A2 (Stable)
- Fitch A+ (Stable)

Same Day or New Day?

“What’s wrong with a 1970’s
mainframe?”

Financial Information system reform:

New ERP: OneSD

Reform: Financial Controls

- CFO position established
- Reserve Policy and Debt Policy
- Audit Committee
- Auditor and Comptroller now two people
- SEC Monitor oversight of City's disclosure policies and practices



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Reform: New Pension Program

- Eliminates incentive and subsidy for early retirement at 55
- Groundbreaking plan design for government:
Defined contribution component
- Lowers plan cost
- Reduces City's exposure to investment risk

Reforms: Fundamentals

- Increase Reserves
- Pre-funding of retiree health liability
- Business Process Re-engineering and Managed Competition
- Funding for backlog of Deferred Maintenance projects, ADA and regulatory requirements

Labor Negotiations

- Five bargaining groups
- Impasse procedures
- Four new Council Members
- Pension Payments
- Health care reform
- Managed Competition



Heading back into the Public Markets—
January 2009

Is anyone out there?

Infrastructure, Infrastructure, Infrastructure

City's Current Debt Portfolio

- \$2.3 billion outstanding debt portfolio
- No variable rate exposure
- Capital for:
 - Public Safety Communications
 - Ballpark and Qualcomm Stadium Upgrades
 - Convention Center Expansion
 - Balboa Park and Mission Bay Improvements
 - Water and Wastewater Upgrades

Water and Sewer Systems

Multi-year Capital Improvements

- Rancho Bernardo Reservoir upgrade
- Expand Three Water Treatment Plants
- Water main replacement
- 44 miles sewer pipe rehab/replacement
- Complete Three major trunk sewers
- Three major trunk sewers under construction
- Pump Station 45
- Three other pump stations rehab/construction

Deferred Maintenance Bonds

- Roads and Infrastructure - \$450 - \$600 million
- Facilities - \$250 - \$300 million
- Financing Strategy
 - Multi-year approach
 - City Attorney support

What is Expected of the Team: Financial Leadership

- Accountability
- Uncompromised integrity and ethical standards
- Strategic vision
- Communication

AND ...

For San Diego, Much More....

- Tenacity
- Optimism
- Building up a demoralized workforce
- The TEAM as the unit of change
- Creating meaningful change out of many
“Same Days”

Questions