

Pension mischief, Prop. B, crumbling infrastructure: The making of the city’s budget crisis

How did San Diego come to find itself in this current financial fiasco? It’s complicated, but local leaders say there is plenty of blame to go around



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While some critics blame San Diego’s budget crisis on a single glaring problem like the Ash Street scandal or the city having too many middle managers, city finance officials, budget analysts and local leaders say the problem is much more complex.

San Diego’s challenges include a relatively low sales tax rate, staggering pension obligations and its distinction for decades of being the only city in California forced to provide free trash service to single-family homes. The city also faces some of the same hurdles many other local governments do — like unfunded state mandates on issues like water quality and the need in recent years to spend much more on emerging challenges like homelessness and climate change.

And then there is Proposition B, the 2012 city ballot measure that froze employee salaries for many years — fooling city leaders into believing they could provide more services than San Diego can actually afford.

The city’s budget challenges didn’t start getting labeled a crisis until officials decided three years ago to make up for those raise-free years by giving most employees a series of raises totaling nearly 23% over three years — making annual city expenses hundreds of millions more than annual city revenue.

City officials say those raises were needed to fight rashes of vacancies in key jobs and a chronic loss of institutional knowledge, as employees fled to other government agencies with higher wages. But those pay hikes are a key reason the city faces a \$146 million deficit in its \$2.2 billion budget for the new fiscal year and had to close a deficit of greater than \$250 million last spring for the ongoing fiscal year.

Some critics say another factor in the budget crisis is the incremental shift from bipartisan to all-Democratic leadership at City Hall, and away from past Republican proposals to outsource city services to the private sector in an effort to save money.

Another factor could be the \$500 million in federal aid the city received during the pandemic, which masked some budget problems and prompted a hiring spree at City Hall and several new initiatives.

San Diego spent its money more slowly and incrementally than many other government agencies and steered much of it to struggling small businesses.

But the city also launched some new initiatives without a plan for long-term funding. They included creating an Office of Race and Equity, an Office of Child and Youth Success, a Commission on Police Practices and a Mobility Department focused on bike lanes and scooter regulations.

“There’s definitely a myriad of circumstances and causes and a long history of decisions that can be questioned,” said Chris Cate, who served two terms on the San Diego City Council from 2014 to 2022 and helped lead the San Diego County Taxpayers Association before that.

“You could go back forever — there’s not one specific thing,” said Cate, now the chief executive of the San Diego Regional Chamber of Commerce.

Mike Zucchet, leader of the city’s largest labor union and himself a former San Diego City Council member, agreed there are many causes of the city’s budget crisis.

But he argued there is one overarching theme: Elected leaders have consistently ignored problems like decaying infrastructure and a structural deficit so they could keep constituents happy by providing services they couldn’t afford long-term, he said.

“Mayor after mayor and City Council after City Council starved long-term priorities for short-term gains and political wins,” said Zucchet, who served on the council from 2002 to 2005.

Cate said he experienced the same as a council member.

“When you are an elected official, you want to be seen as doing exciting things and new things,” Cate said. “It’s a lot more fun to stand up a new program than to focus on basic core services and nothing else.”

That dynamic has prompted city leaders to spend on new initiatives and programs instead of the decaying infrastructure of the city.

The strategy worked for many years, because most of the city’s infrastructure was built in the 1960s and 1970s and was expected to last around 50 years. But now that much of it is reaching the end of its useful life, city officials estimate they have a \$6 billion infrastructure backlog.

Now, in the view of many city leaders, the infrastructure backlog — which the city has no plausible plan to tackle — is arguably a bigger crisis than the operating deficit the city faces this spring.

Rolando Charvel, the city’s chief financial officer, said last week that decaying infrastructure means more injury lawsuits caused by crumbling roads and sidewalks — and higher costs as problems get harder to fix.

“When we underinvest in infrastructure, it just increases the liability later on — either through litigation or through the higher cost of maintaining these same assets,” Charvel told the City Council in his opening remarks on the proposed budget for the new fiscal year.

In Zucchet’s view, one reason that Mayor Todd Gloria and the City Council have faced so much public distrust and criticism is that they’re being frank about the city’s financial challenges for what he feels is the first time in decades.

A key factor in the city’s budget crisis is its \$3.5 billion pension debt, the product of years of mismanagement and subsequent corrective action.

The payment is a few hundred million dollars more than it could have been, thanks to the combination of a pension scandal two decades ago and in recent years some responsible — but costly — moves made by the city’s pension board.

City leaders and the pension board simultaneously increased benefits for retirees and shrank how much the city was paying toward those benefits, earning San Diego the nickname “Enron by the Sea.”

Charvel says paying off those mistakes still costs the city between \$88 million and \$188 million a year, which has helped its annual pension payment surge to a record \$563 million for the fiscal year that begins July 1.

Other key drivers of that higher payment are decisions by the pension board in recent years to adjust upward estimates of how long city retirees will live because of longer life expectancies, and to adjust downward how well pension system investments will fare.

Strong investment growth typically shrinks the city’s annual payment, because a crucial part of the city’s long-term payoff plan is significant growth in the value of investments made by the pension system. Pension officials estimate the payment would be \$200 million lower each year had the city stuck with its more optimistic forecasts.

Cate said the pension board has to strike a tough balance: make sure the system is using financially sound assumptions, but also try to avoid burdening city leaders with a crippling high annual payment.

City officials have zeroed in on that payment as a source of their budget woes. Charvel, who works for Mayor Gloria, listed the city’s rising pension debt as one of four main drivers of the city’s budget crisis in his opening budget remarks last week.

The other three he listed were the city’s relatively low sales tax rate, unfunded state mandates and the People’s Ordinance — a 1919 law that for more than a century barred San Diego from charging for trash pickup at single-family homes until voters overturned it in 2022.

Zucchet said that law cost the city tens of millions of dollars per year for decades — money that could have been spent on services or on repairing infrastructure problems before they prompted costly litigation. The city began charging for trash pickup last year, but a court challenge and a possible November ballot measure are seeking to force the city to stop.

On sales tax, Charvel stresses that San Diego has the lowest rate among California’s 10 most populous cities. It is far lower than Oakland at 10.75%, Long Beach at 10.5%, San Jose at 10% and Los Angeles at 9.75%.

San Diego unsuccessfully asked voters two years ago to raise the city’s sales tax rate from 7.75% to 8.75%. Many other local cities, including Chula Vista and Escondido, have hiked their rates to 8.75% in recent years.

For San Diego, a one-cent sales tax hike was expected to generate nearly \$400 million a year, wiping out the operating deficit and providing many millions each year for infrastructure.

Zucchet said raising the sales tax is almost certainly needed to solve the city’s budget crisis. In 2024, the chamber also supported doing so. But Cate said City Hall must regain voters’ trust before trying again.

On unfunded mandates, Charvel said the best example is new state stormwater rules that forced city spending on stormwater projects to jump from \$48.5 million in fiscal year 2021 to \$151.8 million in fiscal 2025. The city charges property owners one of the lowest stormwater fees in the state.

But the city has also expanded its mission in recent years in ways that mandates haven’t forced.

San Diego spends about \$80 million a year on homelessness programs and tens of millions each year fighting climate change and sea-level rise — expenses that didn’t exist in its budget 15 to 20 years ago.

And during the pandemic, the city added some other new initiatives without any dedicated money to fund them in future years, Cate said. And, the city keeps adding long-planned parks, libraries and fire stations that it then must staff.

San Diego has also been unusually slow in raising fees — often letting some remain at the same level for decades. The city raised parking meter rates from \$1.25 to \$2.50 in 2025 after many years with no hikes.

Other factors are also mentioned as dimming the budget outlook. Cate noted that outsourcing city services — a popular idea under Republican mayors — hasn’t come up since Kevin Faulconer left office in 2020. And Charvel pointed out the city faces the same rising costs all San Diegans do when it comes to power, insurance and buying cars.

Meanwhile, growth in the city’s main revenue streams — property tax, sales tax and hotel tax — has slowed in recent years. But the city benefited from a surge in property tax revenue during the pandemic, when housing prices rose sharply.

Many critics cite the city’s explosion in its ranks of highly paid middle managers as a key driver of the budget crisis. But a less-discussed element of that growth is the legacy of Proposition B.

The hiring freezes required by the measure, which also eliminated pensions for most new hires before being overturned by the courts in 2018, prompted city leaders to hire more middle managers who would be exempt from the measure’s pay limitations.

Before that hiring began drawing sharp criticism, the number of such managers working for the city climbed from about 50 to more than 400. Since criticism of those jobs has picked up in the last few years, the mayor has eliminated roughly half of those jobs.

A recent analysis by the city’s independent budget analyst found that San Diego has a smaller ratio of managers to front-line workers than the average for municipal agencies and the private sector, 11-to-1 versus 13-to-1.

Proposition B also left many police officer and firefighter jobs vacant, forcing the city to pay more overtime to smaller staffs so the city could be adequately covered. Despite the repeal of Proposition B, those elevated overtime numbers have persisted for the city’s police and fire departments.

Charles Modica, the city’s independent budget analyst, has authored thorough reports in recent years on each of the wide variety of factors that have caused the city’s budget crisis.

But in his opening remarks for this spring’s budget negotiations last week, he singled out ignoring infrastructure and Proposition B’s effect on employee pay.

“Going back to the 2010s, the city papered over its deficit by deferring infrastructure maintenance and suppressing city compensation levels, which generated short-term savings but enormous long-term costs,” Modica said.