DATE ISSUED: June 1, 2000 **REPORT NO.** 00-122

ATTENTION: Honorable Mayor and City Council
Docket of June 5, 2000

SUBJECT: Rehabilitation of Aging Fire Stations

REFERENCE: Manager's Report No. 00-20, dated January 28, 2000

SUMMARY

Issues - Should the Mayor and City Council approve the use of Safety Sales Tax revenues as the source of payment on proposed bond issuances or earmark Safety Sales Tax revenue growth to fund the rehabilitation of aging fire stations?

Manager's Recommendations - Do not approve the use of Safety Sales Tax revenues as the source of payment on proposed bond issuances or earmark Safety Sales Tax revenue growth to fund the rehabilitation of aging fire stations. In addition, issue no further General Fund debt beyond what is currently contemplated without a new funding source. Lastly, direct the City Manager to seek funds from the State to address fire station needs.

Other Recommendations - None.

Fiscal Impact - Use of Safety Sales Tax revenues as the source of debt service for proposed bond issuances to fund the rehabilitation of aging fire facilities will reduce the City's ability to pay for increased costs associated with providing existing levels of service.

BACKGROUND

On February 2, 2000, the Public Safety and Neighborhood Services Committee voted 4-1 to annually designate sufficient monies from Proposition 172/Senate Bill 8 Safety Sales Tax revenues to support bond financing for the reconstruction and rehabilitation of fire stations and equipment as identified in City Manager's Report 00-20. The City Manager was directed to provide the City Council with information regarding the impact of this proposal on the City's overall budget.

DISCUSSION

Working in conjunction with Local 145, Fire and Life Safety Services staff has developed a prioritized list identifying the department's most pressing facility rehabilitation and replacement needs (see Attachment A). The list represents the department's highest needs regarding fire station replacement, new construction refurbishment, equipment replacement and maintenance. As stated, the list was developed from input provided by Local 145 and represents a unified approach to addressing the current unfunded facility needs of the department.

Safety Sales Tax (Proposition 172)

The City of San Diego receives a portion of the Proposition 172 half-cent sales tax approved by voters on November 2, 1993. Monies derived from this tax must be utilized solely for public safety services. The State Controller allocates these collected taxes back to the County Local Safety Fund for distribution. Cities receive five percent of the amount in the fund based upon their 1993-94 allocation that was derived from their proportional loss of property tax revenue to County school districts.

Senate Bill 8 changed the allocation system for Proposition 172 revenues and lifted the cap on the share the City of San Diego can receive.

In June 1994, City Council Policy 500-07 was adopted which directs the use of Proposition 172 funds to new public safety expenditures, insuring an increase to existing public safety expenditure levels. Through this policy, these sales tax funds are used to augment, not supplant, existing General Fund expenditures for public safety purposes.

Since adoption of the policy (effective FY 1995), the cumulative annual growth of the Safety Sales Tax funds has been $2.4 million. During that same period, public safety expenditures increased by $86.1 million. That total constitutes 65% of all new General Fund spending. Increases to public safety expenditures in the Police and Fire and Life Safety Services Departments far exceed the revenue increases received, insuring the City's compliance with Council Policy 500-07.

Even though public safety has accounted for 65% of all new General Fund spending during the above referenced period of time, there are high priority operational needs that are now unfunded. Utilizing Proposition 172 funds for debt service of capital needs will diminish our ability to fund day to day service delivery needs.

Issuance of Debt

In analyzing any proposed debt issuance that is not fully self-supporting, it is necessary to consider the impact the issuance would have on the level of General Fund-supported debt. Even though Proposition 172 revenues could be identified as the source of debt service for the proposed bond issuances, this debt would still be treated as General Fund-supported debt, since these funds are considered General Fund revenues and currently used to pay for ongoing operational expenses.

Although the City currently maintains acceptable General Fund debt levels, it is anticipated that in the near future, additional debt will be issued. The rating agencies have raised concerns regarding the issuance of additional debt and have indicated that they would be more receptive to increased debt accompanied by new revenue sources or significant increases in revenue which exceed General Fund expenditure requirements. In order to address projects put forward by the City Council and address credit concerns, the City Council will need to prioritize potential projects for the foreseeable future.

The phased approach that was proposed by Councilmember Warden would require an estimated total issuance of $24.1 million to provide funding for $20 million in improvements under Phase I. Under Phase II, to generate $10 million for improvements, the total size of issuance is estimated at $12.3 million (see Attachment B). These estimates assume that interest would have to be capitalized during the construction period.

Operational Impact of Funding Annual Debt Requirement

Since their inception in 1993, Safety Sales Tax revenues have been utilized to fund the Police and Fire and Life Safety Services Departments, as required by law. The costs for providing these services increases each year. Consequently, the growth of the revenues supporting those services must go up each year to support those increased expenses. For example, personnel costs currently constitute approximately 73% of the General Fund. Police and Fire and Life Safety Services comprise the majority of that amount. As a result, salary and benefit increases have a significant impact each year on the costs of providing those services and eliminating one of the sources to fund those increases will diminish our ability to fully fund them.

Safety Sales Tax (Proposition 172) Revenue Growth

Another option available is for the City Council to allocate, in the annual budget process, the growth in Safety Sales Tax revenues on a “pay as you go” basis for the rehabilitation and replacement of aging fire stations. Depositing revenues into the General Fund allows the City Council to set priorities on an annual basis through the budget process, based upon current needs. Earmarking funds limits the availability of funds for future year budget priorities and limits the Mayor and City Council’s discretion and ability to address changing priorities and future needs.

CONCLUSION

We recognize that many of our fire stations are in need of rehabilitation or replacement. To address that need, we are recommending that the Mayor and City Council direct the City Manager to work with Local 145 to seek funds from the State to address our fire station needs.

The State surplus has been estimated to be between $12 to $13 billion. Inasmuch as a significant portion of that surplus is due to the State taking City revenues and limiting our ability to fund high priority needs, repair and replacement of fire stations would be an appropriate use of these funds.

In order to maintain acceptable General Fund debt levels and sources of funds for public safety operating needs, and to avoid reducing the City's ability to pay for increased costs associated with providing existing levels of service, it is recommended that Safety Sales Tax revenues not be used as the source of debt service for proposed bond issuances to rehabilitate and replace aging fire stations.

As a general fiscal policy, it is not advisable to earmark or designate General Fund revenues over multiple fiscal years to fund specific activities or projects, particularly when those revenues are in the existing operational base. Earmarking funds limits the availability of funds for future year budget priorities and limits the Mayor and City Council's discretion and ability to address changing priorities and future needs.

ALTERNATIVES

Utilize Safety Sales Tax revenues as the source of debt service for proposed bond issuances to rehabilitate and replace aging fire stations, and direct that all Safety Sales Tax growth above the FY 2000 budgeted amount be used as a dedicated revenue stream to fund the rehabilitation and replacement of aging fire stations. This will reduce the revenue to pay for increased costs associated with providing existing levels of service.

Respectfully submitted,

Michael T. Uberuaga
City Manager

MCW

Note: Attachments available for review in the Office of the City Clerk.

Attachments: A. Fire Station Rehabilitation and Replacement Priority List
B. Fire Station Improvements Project Cash Flow