THE CITY OF SAN DIEGO

MANAGER'S REPORT

DATE ISSUED: May 7, 2004 **REPORT NO.** 04-101

ATTENTION: Public Safety and Neighborhood Services Committee
Agenda of May 12, 2004

SUBJECT: Public Safety Funding Plan

REFERENCE: Comprehensive Public Safety Needs Assessment, Manager's Report 04-057 dated March 12, 2004
Public Safety Action Plan Report, PS&NS Committee Meeting of February 11, 2004
Initial 30-Day Post-Fire Overview, Manager's Report 03-242 dated December 3, 2003

SUMMARY

Issues –
1. Should the City Council direct the City Manager to allocate $8-$10 million of discretionary funding to public safety each year, Fiscal Years 2005-2009, as outlined in Tier I of the Public Safety Funding Plan?
2. Should the City Council consider placing the Comprehensive Public Safety Communications Plan as described in Tier II of the funding plan on the November 2004 or a subsequent ballot for approval with one of the proposed tax increases?
3. Should the City Council direct the City Manager to prepare a detailed financing plan using a particular tax source to fund the Comprehensive Public Safety Communications Plan?

Manager's Recommendation –
1. Direct the City Manager to allocate $8-$10 million of discretionary funding to public safety each year, Fiscal Years 2005-2009, as outlined in Tier I of the Public Safety Funding Plan.

2. Consider placing the Comprehensive Public Safety Communications Plan as described in Tier II of the funding plan on the November 2004 or a subsequent ballot for approval with one of the proposed tax increases.
3. Direct the City Manager to prepare a detailed financing plan using a particular tax source to fund the Comprehensive Public Safety Communications Plan.

Other Recommendations – None

Fiscal Impact – The proposed Public Safety Funding Plan reflects a three tier funding approach for the public safety needs. Tier I includes an $8-10 million annual allocation in General Fund revenues, totaling $100 million cumulatively over the period of Fiscal Year 2006 through Fiscal Year 2009. Tier II funding for the Comprehensive Public Safety Communications Plan totals $148.7 million over the period of Fiscal Year 2005 through Fiscal Year 2010. Annual requirements to fund this need range from $17.6 million to $21.7 million. Tier III public safety needs totaling $356 million over the period of Fiscal Year 2005 through Fiscal Year 2007 would require an annual commitment of funds in the amount of $93.4 million. Tiers II and III of the funding plan include the use of various financing options, including General Obligation and lease revenue bonds, Equipment Vehicle Financing Program, and new and/or increased taxes, including an ad valorem property tax and parcel tax, and increases to the existing property transfer tax, and Transient Occupancy Tax (TOT).

BACKGROUND

As part of the ongoing efforts of the Public Safety and Neighborhood Services (PS&NS) Committee to address public safety issues, a Comprehensive Public Safety Needs Assessment was presented to the committee at the March 17, 2004 meeting. The Needs Assessment followed the committee's review of numerous reports from the Fire-Rescue and Police departments regarding needs in various areas. The Needs Assessment was intended to be a consolidated look at the needs of the public safety departments for the five year period of Fiscal Year 2005 through Fiscal Year 2009 for the Fire-Rescue, including Lifeguards, and Police Departments, and through Fiscal Year 2010 for the Public Safety Communications Project. The Needs Assessment identified $478 million of unmet needs. During discussion of that report, the City Manager received direction to prepare a funding plan for meeting the needs and return to the PS&NS Committee.

The direction for the funding plan included multiple components, as follows:

1. Provide recommendations for new sources of revenue which are to cover:
    a. Existing public safety expenses
    b. Additional expenses needed to keep us from falling further behind
    c. New needs as outlined in the public safety needs assessment

2. Identify the program reductions needed within the budget to achieve the above three items should new revenues not be available. This should include but not be limited to agencies that are outside the City such as the Economic Development Corporation and ConVis. All should be described in the Fiscal Year 2005 budget.

3. Expedite moving the CEQA Significance Threshold determination review process through the Council committees for action.

4. Provide an analysis of the $100m that CCDC owes the City. The analysis should include information on the availability and highest and best use of this funding.

5. Redevelopment law – provide information on whether California Redevelopment Law can be changed to allow for funds to be used for public safety

6. CDBG funding – how can we use CDBG money for public safety?

7. Options for new revenue –
    a. Look at increasing the TOT and splitting the increase between PD & Fire
    b. Provide the total of General Fund bond indebtedness, particularly related to sports.

The purpose of this report is to present a funding plan to address the needs in accordance with the direction above. Each component of the motion above is addressed specifically within the body of this report, though the majority of the report falls within item 1. The following information has been developed by a team of City staff including representatives from the City Manager, Community & Economic Development, Financial Management, Fire-Rescue, Information Technology & Communications (IT&C), Police, and Treasurer Departments.

DISCUSSION

Addressing the City's unfunded public safety needs continues to be a high priority for the City Manager. This is reflected within the Fiscal Year 2005 Proposed Budget through the budgetary increases proposed for these departments. While it is a priority, the public safety issue cannot be viewed in isolation. Rather, it needs to be addressed in the context of the City's other major financial needs and current fiscal circumstances. In an effort to provide a guide for the future, the City Manager is aggregating all of the City's financial needs into a three-year financial plan which is anticipated to be presented to the City Council later in calendar year 2004. The following public safety funding plan is intended to help address one of these financial needs.

Public Safety Needs

As indicated above, the Needs Assessment presented to PS&NS in March 2004 included $478 million of needs. Since that time and throughout the development of the Proposed Fiscal Year 2005 Budget, the Needs Assessment has undergone review and revision, and some items have been included for funding in the proposed budget.

PUBLIC SAFETY NEEDS ASSESSMENT
From City Manager Report 04-057, dated March 12, 2004

Fiscal Year	2005	2006	2007	2008	2009	2010	TOTAL
Public Safety Communications Project	$ 10,178,000	$ 43,500,000	$ 25,000,000	$ 28,750,000	$ 21,000,000	$ 5,000,000	$133,428,000
Fire-Rescue Department	47,228,880	34,920,000	35,316,000	22,978,000	18,627,000	-	159,069,880
Police Department	82,219,378	27,703,972	18,004,378	43,656,784	14,831,400	-	186,415,912
GRAND TOTAL	**$139,626,258**	**$106,123,972**	**$ 78,320,378**	**$ 95,384,784**	**$ 54,458,400**	**$ 5,000,000**	**$478,913,792**

The $478 million described to PS&NS reflected the new requirements needed each year for Buildings/Facilities (including deferred maintenance), Equipment, Fleet, Personnel, and Operations and Maintenance needs. While the $478 million is a significant amount, it may not truly reflect the cumulative fiscal impact the addition of these annual operating costs, if implemented, would have on the City's General Fund.

Annual Operating Costs

A significant portion of the total identified costs for the Public Safety Communications Project, and the Police and Fire-Rescue Departments needs over the next five years are comprised of costs for personnel and operations and maintenance of new and existing facilities. It is important to note that these types of costs are of a recurring nature and typically escalate on an annual basis. The addition of staffing in year one creates a need for funding in that first year, and also in every subsequent year. Additionally, salary and benefit increases related to each new position create an increasing need in future years. These annual increases in salary and benefits were not previously included in the Needs Assessment. Because of these realities, it is important to ensure a permanent source of on-going funding is identified to support recurring costs. Using this approach to quantify the on-going annual fiscal impact of these needs on the General Fund results in a much greater funding requirement annually, and cumulatively, over the period of Fiscal Years 2006-2009.

The following table reflects the continuation of expenditures into future years related to staffing additions, as well as on-going operations and maintenance expenditures. An adjustment to reflect the impact of estimated salary and benefit increases for the new staffing has also been included. Following the incorporation of these changes, the Public Safety Needs Assessment now totals approximately $897 million, as shown below. As compared to the $478 million previously identified, this reflects a $418 million adjustment.

PUBLIC SAFETY NEEDS ASSESSMENT
INCLUDING ONGOING COSTS IN FUTURE YEARS

Fiscal Year	2005	2006	2007	2008	2009	2010	TOTAL
Public Safety Communications Project	$1,500,000	$43,500,000	$25,000,000	$28,750,000	$21,000,000	$5,000,000	$124,750,000
Staffing costs to implement	439,432	988,735	1,378,501	1,224,690	1,249,579	647,721	5,928,658
TOTAL PSCP	$1,939,432	$44,488,735	$26,378,501	$29,974,690	$22,249,579	$5,647,721	$130,678,658
Police Communications	$3,576,000	$2,676,000	$2,676,000	$2,676,000	$2,676,000	-	$14,280,000
Fire Communications	665,000	891,000	1,637,000	437,000	154,000	-	3,784,000
Total Public Safety Communications	$6,180,432	$48,055,735	$30,691,501	$33,087,690	$25,079,579	$5,647,721	$148,742,658
Fire-Rescue Department	$34,692,000	$35,550,315	$67,623,484	$74,313,932	$67,645,537	-	$279,825,268
Police Department	$64,303,778	$93,799,435	$89,654,311	$122,066,229	$98,557,961	-	$468,381,714
GRAND TOTAL WITH ONGOING COSTS	**$105,176,210**	**$177,405,485**	**$187,969,296**	**$229,467,851**	**$191,283,077**	**$5,647,721**	**$896,949,640**
Increase due to Ongoing Costs or reduction due to funding identified	***($34,450,048)***	***$71,281,513***	***$109,648,918***	***$134,083,067***	***$136,824,677***	***$647,721***	***$418,035,848***

For Communications Project: excludes $6.5 million for Mobile Data Terminal conversion and $1million for Microwave Network equipment upgrades funded in Proposed FY 2005 budget, and $325,000 to update City Paging Network and $353,000 for Microwave Network interim repairs which has already been funded.

For Fire Rescue: excludes $3.0 million in fire equipment that was included in Proposed FY 2005 Budget, $3.0 million in fire equipment to be funded from CCDC loan repayments to the City in FY 2005, and includes adjustments to needs assessment since previous report.

For Police: excludes $4,480,600 for Critical Fleet Equipment needs in FY 2005 included in Proposed FY 2005 Budget and $7.85 million for Northwestern Area Station to now be funded from developer funds in FY 2005

Three-Tier Funding Plan Summary *(Item 1 of the motion above)*

In addressing the public safety needs in the Fiscal Year 2005 Proposed Budget, the Fire-Rescue and Police departments are proposed to receive a combined net increase, including salary and benefit adjustments, of $60.9 million. This is achieved in part by reductions in the amount of $26.9 million to other non-critical areas of the City. Though this benefits the public safety services, other service areas are diminished. To alleviate the need for future reductions to non-public safety services while faced with ongoing unfunded needs, identification of additional sources of revenue is the key.

In acknowledging the need for additional revenue and the challenges posed, a funding plan has been developed to provide options for the City's policy makers in regard to levels of new revenue and potential sources. The items in the Needs Assessment were categorized into three mutually exclusive tiers, as follows:

TIER I - An $8-$10 million annual allocation in General Fund revenues to the Police and Fire-Rescue Departments for personnel and operations and maintenance items. The cumulative impact of Tier I will reach $100 million over Fiscal Years 2006 – 2009 of the funding plan. This tier primarily addresses the existing public safety expenses.

TIER II - Tier II funds a Comprehensive Public Safety Communications Plan, including the Public Safety Communications Project (PSCP) in its entirety, through Fiscal Year 2010, including Communications staffing needs of $5.9 million needed to implement the

PSCP, with the addition of Police and Fire-Rescue Department communications needs. Total costs of Tier II are approximately $148.7 million. Tiers II and III address additional expenses needed to keep us from falling further behind as well as new needs identified in the Needs Assessment.

TIER III - Ideally, Tier III would include all of the remaining requirements in the Needs Assessment. To attempt to provide a funding plan that could possibly be implemented, Tier III has been minimized to cover the short-term requirements through Fiscal Years 2005-2007. Though minimized, Tier III totals $356 million.

PROPOSED PUBLIC SAFETY FUNDING PLAN - THREE TIERS

Fiscal Year	2005	2006	2007	2008	2009	2010	TOTAL
Tier I - Police & Fire	$ - [(1)]	$ 10,000,000	$ 20,000,000	$ 30,000,000	$ 40,000,000	$ -	$ 100,000,000
Tier II - Communications	6,180,432 [(2)]	48,055,735	30,691,501	33,087,690	25,079,579	5,647,721	148,742,658
Tier III - Police & Fire	98,995,778	119,349,750	137,277,795	-	-	-	355,623,323
GRAND TOTAL	**$ 105,176,210**	**$ 177,405,485**	**$ 187,969,296**	**$ 63,087,690**	**$ 65,079,579**	**$ 5,647,721**	**$ 604,365,981**
Remaining Unfunded Needs				$ 166,380,161	$ 126,203,498	$ -	$ 292,583,659
Total Needs Assessment	$ 105,176,210	$ 177,405,485	$ 187,969,296	$ 229,467,851	$ 191,283,077	$ 5,647,721	$ 896,949,640

Notes:
[(1)] The Proposed Fiscal Year 2005 Budget includes $5 million for the Police Department and $3 million for the Fire-Rescue Department as part of Tier I funding.
[(2)] The Proposed Fiscal Year 2005 Budget includes an addition of $7.5 million for the Public Safety Communications Project.

These tiers were developed in close coordination with the public safety departments. It should be noted that the needs identified were based on a snapshot in time. The particular expenses identified are subject to revision as circumstances change. In addition, while the departments prepared the needs list based on the best information available, salary-related expenses may need to be reviewed further by Financial Management to ensure accuracy going forward. The Five-Year Plan outlined in Tier I of the funding plan would be approved each year by the City Council and any necessary adjustments could be made at that time. Should either of the latter two tiers be approved, fine tuning may be required as the detailed financing plan is developed and implemented.

The expenditure items and possible funding options for each tier are described in more detail in the pages that follow. While this funding plan attempts to fund $604 million for all three tiers, needs totaling $293 million for Fiscal Years 2008-2009 would remain unfunded under this plan.

Funding Options

As has been indicated previously, the optimal possibility for meeting the public safety funding requirements is to utilize a new and continuous revenue source. Based on the current identified need for new facilities, a schedule of long-term bond financing is proposed in both Tiers II and III. As several new facilities are expected to be needed and constructed during the course of the five-year plan, funding to cover project costs in the later years is assumed to be borrowed in later years to more closely align the timing of the borrowing and receipt of funds with the actual need and expenditure timeline.

Per the applicable laws governing tax-exempt municipal financings, the City must be reasonably certain that most of the bond proceeds will be spent within three years of the bond issuance. In addition, a phased financing implementation plan will also allow the City to lower its cost of borrowing.

For many of the equipment and fleet needs, the City's Equipment and Vehicle Financing Program (EVFP) has been identified as a possible option to minimize initial funding requirements. A Master Lease Program, EVFP is a short-term funding mechanism to lease-purchase equipment. A lease-purchase transaction is considered to be an ideal financing package for essential acquisitions of equipment. Although there are financing costs associated with lease-purchase transactions, the savings over traditional tax-exempt financing can be substantial. To qualify, the equipment has to be capitalizable as determined in the Federal Tax Code. Lease-purchase agreements may be structured for various terms from three (3) years up to ten (10) years, allowing the City to coordinate payments for essential acquisitions to meet budgetary restrictions and/or limited revenue capacity. Using lease-purchase terms ranging from three to seven years, based on the useful life of an acquisition, the lease providers provide funding for the purchase of equipment at tax-exempt rates if the equipment is used for governmental purposes. At the end of the term, the equipment will be owned by the City.

The City uses lease-purchase financing through the EVFP very judiciously. All items to be lease-purchase financed are subject to prior managerial approval and/or budgetary approval. Furthermore, lease-purchase acquisitions with an acquisition cost of over $1 million are subject to City Council approval. Each acquisition is reviewed by Financing Services staff to assess the suitability of lease-purchase financing.

Lease-purchase financing under the EVFP has enabled the City to a) spread the costs of acquiring equipment and vehicles over their useful lives in a predictable fashion; b) reap the benefits of acquiring equipment and vehicles in the near-term, versus waiting until cash is accumulated; c) acquire equipment and vehicles at current costs rather than deferring acquisitions to the future when cash may be available but acquisition costs have escalated; d) adjust acquisition plans to meet emerging or immediate needs. Advantages of utilizing EVFP are that it enables the City to initially obtain a greater number of vehicles and related equipment, with lower up-front costs and with payments spread over time. The City has been regularly entering into lease-purchase agreements to acquire essential acquisitions for a period of three to seven years allowing the City to coordinate payments to meet budgetary restrictions and/or limited revenue capacity. The EVFP has already been used to finance a wide variety of essential equipment (ambulances; fire and hazardous materials equipment; police vehicles; refuse containers and refuse packers for the implementation of the Automated Refuse Collection Program; recycling containers and recycling packers for the expansion of the Curbside Recycling Program; traffic signal lights; parking meters; telecommunications equipment; and service maintenance vehicles).

At the present time, costs related to Fire-Rescue fleet and equipment have been included as candidates for EVFP. A separate Request for Proposals (RFP) process to explore potential leasing options for Fire-Rescue is currently underway. Regardless of the lease versus lease-purchase method, revenue for the annual payments required under each program will need to be identified for funding in this plan.

Long Term Financing Methods

General Obligation Bonds

General Obligation bonds are backed by a pledge of the full tax-raising power of the issuing entity. The security for the bonds, and the source of repayment, is the power and obligation of the local government to levy property taxes at whatever rate is required to pay the debt service on the bonds (i.e., above and beyond the basic 1.0% rate). General Obligation bonds are self-supporting. In California, as in most states, such taxes are *ad valorem*, based on the value of property. Also in California, all General Obligation bonds must be approved by a two-thirds vote.

Because General Obligation bonds are considered the strongest credit of an issuer, they carry the lowest interest rate, and therefore are the cheapest source of new capital financing. General Obligation bonds are also cost efficient in terms of the total issuance size required to meet a specific financing goal, since they can be issued without a debt service reserve fund requirement, which is traditionally equal to one year of debt service payments and funded from bond proceeds.

General Obligation bonds may only be used for the acquisition or improvement of real property, and may also finance eligible deferred maintenance. Although General Obligation bonds are restrictive in use, since they are backed by a pledge of the full faith, credit and the taxing power of the City it is also the least expensive bonding mechanism. Within the Public Safety Needs Assessment, items such as the Police Pistol Range, Emergency Vehicle Operations Course, Property Storage Facility, Canine Facility, and SWAT Facility would appear to meet the real property requirement for General Obligation bond financing. Personnel expenses, and equipment and supply expenses, including vehicle acquisition costs, are not eligible for General Obligation bond financing.

Lease Revenue Bonds & Certificates of Participation

Lease Revenue bonds and Certificates of Participation are generally based on lease agreements, with the borrower serving as the lessee and another entity, usually in the form of a specially created public entity or non-profit corporation, serving as the lessor and the issuer of the bonds. As lease obligations, Lease Revenue bonds and Certificates of Participation are not considered to be "indebtedness" subject to the California's voter approval requirements governing General Obligation bonds.

The lease, or leases, may be based on the new facility being financed and/or existing facilities owned by the issuing entity. The lease payments appropriated annually are used to pay the principal and interest on the lease obligations. Unlike General Obligation bonds, which are supported by increases in property taxes, lease obligations are usually supported by existing general purpose revenues (i.e., revenues not legally earmarked for a specific purpose) deposited in the issuing entity's General Fund, or various Special Revenue Funds. Revenues generated by the financed project may also be used to make debt service payments.

Lease revenue financings are somewhat less restrictive than General Obligation bonds, in terms of the types of costs that can be financed. In general, the proceeds generated from a lease revenue financing may be used for real property and equipment acquisitions with the term of the bonds structured to correspond with the useful life of the asset that is being financed or pledged. Fixtures, furnishings and equipment related to the facility being financed can also be eligible. Ongoing personnel expenses, operations and maintenance costs, supplies, and equipment with a limited useful life are not eligible for lease revenue financings.

As noted above, these financing vehicles, as lease obligations, are generally not considered "debt" as defined in the State Constitution, and, as such, not subject to voter-approval. However, if the issuing entity chooses to levy a special tax to pay the annual lease payments, rather than relying on an annual appropriation using existing revenues, then a two-thirds voter approval would be required under the voter approval requirement for all special taxes. San Diego has employed lease revenue obligations to finance a number of capital projects, most notably the convention center expansion and the new ballpark.

Potential Revenue Sources

With the exception of an ad valorem property tax increase under a General Obligation bond financing method, any increased revenues resulting from changes in the following revenue sources could be used either in conjunction with a specific long-term financing in the form of a Lease Revenue Bond or Certificates of Participation issuance, or as a revenue source on a cash basis to meet ongoing expenditure requirements, such as personnel or operations and maintenance, and/or meeting funding needs that are not eligible for bond financing.

<u>Ad Valorem Property Taxes</u>

As noted above, ad valorem property taxes are used to pay the debt service on voter approved debt in the form of General Obligation bonds receiving two-thirds voter approval. Typically, the tax rate would decline in future years, contingent upon growth in assessed valuation.

<u>Parcel Tax</u>

Parcel taxes are non-ad valorem property taxes, levied for a specific purpose. Most often, parcel taxes are used to service bonds, the proceeds of which finance the improvements. There are no specific guidelines on how a parcel tax would be levied. In practice, rates vary from a flat fixed rate for all parcels, to a multiple rate structure involving different rates for residential and non-residential parcels. A two-thirds vote would be required to impose a Parcel Tax. Generally, parcel tax rates would decline annually with total annual growth in the number of units.

<u>Transient Occupancy Tax</u>

Also known as a "bed," "room" or "hotel" tax, this tax is imposed on visitors for the privilege of occupying rooms in hotels, motels, inns and other lodging facilities for 30 days or less.

Statewide, about 83% of all cities levy this tax. The tax is collected by hotels and other lodging facilities based on a percent of the consumer's total lodging bill, before taxes.

Theoretically, an increase in TOT would require a two-thirds vote if the proceeds were to be used as a special tax for a specific purpose, and a majority vote as a general tax. However, the voter requirement for future tax increases is currently unsettled. The California Constitution provides that a general tax (a tax collected for general governmental purposes) requires only a simple majority vote of the electorate to become effective. On the other hand, a special tax (revenues collected and earmarked for a specific purpose) requires a two-thirds vote of the electorate to become effective. Currently, uncertainty exists about the legal effectiveness of a San Diego ballot proposition (Measure E) which obtained 54.4 percent of the vote in March of 2002. That measure purported to change the Charter of the City of San Diego to require a two-thirds vote to increase general tax. A companion measure on the same ballot (Measure F) passed by 50.3 percent of the vote. Measure F required that any action of the City imposing more than a simple majority vote of the electorate, must itself be approved by the same super majority requirement. If Measure F is valid, Measure E is invalid, and only a simple majority vote is necessary to approve a general tax increase. The validity of both Measures is currently being considered by the 4th District Court of Appeal and a decision is expected in 2004.

In addition to the voter approval requirements, the City Council has adopted various policies regarding any increase in TOT, including a provision that San Diego's TOT rate not exceed the average rate of 15 designated cities. In 1998, that maximum rate was 13.1%. This policy could be amended by subsequent Council action. Currently, the City's rate of 10.5% is below the rate of most other large cities.

Other California cities are exploring the feasibility of establishing a Mello-Roos special tax based on gross receipts of all hotel properties in the City. This special tax would need to be approved by two-thirds of the hotel property owners in the taxing district, as measured by the size of the parcels. The applicability of such a concept could be considered in San Diego.

Based on the Fiscal Year 2004 year-end estimate of $110.4 million, each one-cent of TOT would generate approximately $10.5 million in revenues.

Real Property Transfer Tax

Nearly every city in California levies a Real Property Transfer Tax. Most often, they are so-called "conforming" taxes, whereby a county levies a tax at $1.10 per $1,000 of sales price. Subsequently, a city levies a tax at $0.55 per $1,000. The city tax is credited against the amount of county tax due, with the result that both the city and the county each receive $0.55 per $1,000. Some cities have levied a "non-conforming" tax, at a rate above $0.55 per $1,000. In such cases, there is no credit against the county tax collection. The county receives the full share of the $1.10 per $1,000, and the city receives the amount generated from its own tax rate. The ability of a charter city to levy its own real property sale or transfer tax was challenged and has been confirmed by the State Supreme Court. The City of San Diego currently levies a conforming Property Transfer Tax. A two-thirds vote would be required to increase the Property Transfer Tax.

Three-Tier Funding Plan

Tier I – General Fund Allocations to Public Safety

The City Manager committed to developing a "three to five-year plan" for public safety in the Public Safety Action Plan presented to the PS&NS Committee on February 11, 2004. To fulfill that commitment, the Proposed Fiscal Year 2005 Budget was developed with additional funding dedicated to the Police, Fire-Rescue and Communications Departments. As described in the Public Safety section of Volume I of the Proposed Fiscal Year 2005 Budget, the first year in the Five-Year Plan, discretionary funding was allocated to the Police Department ($5 million) and to the Fire-Rescue Department ($3 million), $1.2 million was allocated to annualize the staffing for Fire Station #46, and $2.76 million was allocated for the fire-rescue helicopter. The following table reflects the budgetary changes included within the Fiscal Year 2005 Proposed Budget.

Fiscal Year 2005 Proposed Public Safety Changes

Annualization of FY 2004 and FY 2005 negotiated Public Safety salaries and benefits	$51,430,685
New Facilities (Fire Station #46)	$1,173,137
Fire Helicopter	$2,760,000
Police Department Discretionary Additions	$5,000,000
Deferred Maintenance	*$200,000*
Motive Equipment Outlay – including 150 operation vehicles such as black and whites, motorcycles, command vans, and undercover vehicles	*$4,500,000*
Police Academies - Supplies	*$200,000*
Digital Cameras	*$100,000*
Fire Department Discretionary Additions	$3,000,000
Deferred Maintenance	*$321,000*
Supplies and Services *Emergency Medical Supply* *Motive Repair Parts* *Facilities Maintenance* *Fire Battalion Chief Promotional Exam Process*	*$964,000*
Equipment Outlay *Two Open Cab Rigs* *Surf Rescue Vessels* *Personal Water Craft* *Safety and Support Equipment*	*$1,200,000*
Overtime	*$400,000*
Health Management Programs	*$115,000*
Non-Discretionary and Information Technology	$1,614,714
Firefighter/Paramedic Liability Insurance	$350,000
Maintain Civilian Vacancies in Police Department	($3,753,517)
Miscellaneous Reductions	($672,327)
TOTAL	**$60.9 million**

The Tier I funding plan proposes to continue to allocate $8 to $10 million annually for Police and Fire-Rescue Department needs, committing an increasingly greater share of General Fund resources to public safety for the following four fiscal years. This funding is proposed to come from expected growth in the major General Fund revenue sources; it assumes no new revenue sources. The new funding is proposed to be allocated among the two departments based on their respective shares of the current General Fund budget, resulting in a 68% share for Police, and 32% share for Fire-Rescue, or $6.8 million and $3.2 million, respectively, each fiscal year. Over the remaining years of the five-year plan, new funding of $100 million will be dedicated to public safety, assuming the maximum annual additional commitment of $10 million each year.

While this commitment of General Fund revenue growth will provide a source of funding for public safety over the five years of the funding plan, it should be noted that this option can be characterized as earmarking of discretionary revenues. Earmarking of General Fund revenues reduces flexibility in making funding decisions on an annual basis through the budgeting process. The City's Principles of Budgeting and Finance seek to avoid this type of commitment for this reason. Allocating a greater share of General Fund revenues may be necessary in order to begin to fund the City's public safety requirements, but over a multi-year period, such commitments erode the City's ability to react as may be needed to the fluctuations in the economic and fiscal environment, and would be considered a credit weakness among the credit rating and investor community. These factors have to be balanced against the need to address critical funding issues.

City Council Policy 100-19, Annual Appropriation for Library Maintenance, enacted beginning in Fiscal Year 2002, took a similar approach to ensuring that a dedicated stream of increasing General Fund revenues would be available for the ongoing operations and maintenance requirements of the Library system.

The Police and Fire-Rescue Departments were asked to identify items from the needs assessment as candidates for Tier I funding, with emphasis to be placed on requirements related to new facilities being placed in service in each particular year that would require the addition of personnel. While staffing has been emphasized, there is the potential for fire facility needs to shift in the future given the nature of the construction projects. Fire Station design and construction requires about two and a half years once funding has been identified. Opening of new Fire Stations is dependent on a number of factors, including the ability to execute bonds for the second phase of the Fire and Lifeguard Facilities Improvement Project, the accumulation of Developer Impact Fees (DIF) and Facilities Benefit Assessment (FBA) fees, and the availability of Capital Improvement Projects (CIP) funding. Staffing projections may need to be adjusted as additional information becomes available and construction projects are approved. Other expenditure needs may also need to be re-visited in the future based upon potentially shifting priorities and for Fire-Rescue, the Fire Accreditation process that is currently underway.

The following table lists the items proposed for funding of Tier I for Fiscal Years 2006-2009. Since Tier I funding is proposed to come from existing, though increasing, General Fund revenues, targeted expenditure items include personnel, and operations and maintenance costs.

TIER I- GENERAL FUND REVENUE ALLOCATION

- Public Safety needs from FY 2006 - 2009 funded through annual General Fund revenue allocation.
- Additional $8 - 10 million General Fund revenues allocated to Public Safety needs annually.
- A total of $100 million in General Fund revenues allocated to Public Safety from FY 2006-2009.

FUNDING NEEDS

	Notes	FY 06	FY 07	FY 08	FY 09
Police Department					
Personnel and O&M					
1. Overtime		$4,000,000	$8,000,000	$8,000,000	$8,000,000
2. Fringe associated with OT		$850,000	$1,300,000	$1,300,000	$1,300,000
3. Pay in Lieu		$830,000	$1,660,000	$1,660,000	$1,660,000
4. Terminal Leave		$300,000	$1,000,000	$1,000,000	$1,000,000
5. Special Pay	(1)	$820,000	$1,100,000	$1,100,000	$1,100,000
6. Information Technology	(2)		$540,000	$5,500,000	$5,500,000
7. Restore Positions/Funding Cut in FY 2004	(3)			$1,840,000	$5,689,000
8. Recruit Academies	(4)				$2,868,200
9. Personnel costs due to salary increases					$82,800
Subtotal Police Department		***$6,800,000***	***$13,600,000***	***$20,400,000***	***$27,200,000***
Fire-Rescue Department					
New Stations- Personnel	(5)				
10. Station 2 - Mission Valley	(6)	$1,629,000	$4,694,405	$5,930,000	$5,930,000
11. Station 6 - Otay Mesa	(7)	$815,000	$815,000	$1,629,000	$1,629,000
12. Station 54 - Paradise Hills	(8)			$856,000	$1,629,000
13. Station 47 - Pacific Highlands Ranch					$1,629,000
14. Personnel costs due to salary increases			$109,980	$252,872	$390,054
Subtotal New Stations		$2,444,000	$5,619,385	$8,667,872	$11,207,054
Unmet Needs- Personnel, Equipment, and O&M					
15. Seventh Battalion		$475,000	$475,000	$475,000	$475,000
16. Lifeguard Staffing for 4/10 work schedules		$272,000	$272,000	$272,000	$272,000
17. Restoration of three clerical positions				$150,000	$150,000
18. Staff support for MDT to MDC conversion					$118,972
19. Personnel costs due to salary increases			$33,615	$35,128	$41,946
20. Increase in Supplies & Services funding	(9)	$9,000			$200,000
21. MOU required equipment for Fire Stations					$121,000
22. Replace sedans used by fire inspectors					$214,028
Subtotal Unmet Needs		$756,000	$780,615	$932,128	$1,592,946
Subtotal Fire-Rescue Department		***$3,200,000***	***$6,400,000***	***$9,600,000***	***$12,800,000***
TOTAL TIER I		**$10,000,000**	**$20,000,000**	**$30,000,000**	**$40,000,000**
TOTAL PUBLIC SAFETY NEEDS (FY 2006 - FY 2009)					**$100,000,000**

Notes:

(1) Funding needs for Special Pay will be met partially in FY 2006 due to insufficient allocation.
(2) Information technology needs will not be met in FY 2007 due to insufficient allocation.
(3) Funding for position restoral will be partially met in FY 2008 due to insufficient allocation.
(4) Funding needs for recruit academies will be partially met in FY 2009 due to insufficient allocation.
(5) Personnel needs for new fire stations built under the Fire and Life Safety Capital Plan.
(6) Personnel needs for Station 2 in FY 2007 will be partially funded due to insufficient allocation.
(7) Personnel needs for Station 6 in FY 2007 will be partially funded due to insufficient allocation.
(8) Personnel needs for Station 54 in FY 2008 will be partially funded due to insufficient allocation.
(9) Remaining funds of $9,000 allocated to needed Supplies & Services; does not fully address all the supplies and services needs.

Tier II – Comprehensive Public Safety Communications Plan

The Public Safety Communications Project (PSCP) has identified unfunded costs from Fiscal Year 2005 through Fiscal Year 2010 of $124.7 million. Additional costs of $7.5 million previously identified as a short-term need have been included for funding in the Proposed Fiscal Year 2005 budget, and therefore excluded from this funding plan. In addition, staffing costs of over $5.9 million will be required during this same period in order to implement the PSCP and are included here.

To create a Comprehensive Public Safety Communications Plan, the Police and Fire-Rescue Departments were asked to identify additional communications needs within their departments for consolidation with the PSCP. These efforts resulted in the identification of $14.3 million in communications related needs for the Police Department, and $3.8 million for the Fire-Rescue Department, resulting in a funding need for the Comprehensive Public Safety Communications Plan of $148.7 million over this period. This list may be further refined as a detailed financing plan is developed should Tier II receive approval, which may result in an adjustment to the total cost though the intention would be for Tier II to remain in range of the $150 million.

The table on the following page reflects the detailed requirements related to the Comprehensive Public Safety Communications Plan, including Communications personnel required to implement the PSCP and the additional communications items identified by the Police and Fire-Rescue Departments.

TIER II

- Public Safety Communications Project and Additional Police & Fire Communications Needs
- $148.7 million plan; Fiscal Year 2005-2010

FUNDING NEEDS						
CAPITAL COSTS	**FY 05**	**FY 06**	**FY 07**	**FY 08**	**FY 09**	**FY 10**
Public Safety Communication Project (PSCP)						
1. Microwave Network		$2,000,000				
2. Communications Support Equipment				$750,000		
3. New Data Network					$7,200,000	
4. Backup Dispatch/311 Center						
5. Radio Network		$24,000,000	$15,000,000	$7,500,000	$7,500,000	
6. Dispatch Center		$7,000,000	$3,500,000	$3,500,000		
7. CAD				$6,000,000		
8. Fire Alerting Station					$1,500,000	$3,000,000
PSCP- Sub Total	**$0**	**$33,000,000**	**$18,500,000**	**$17,750,000**	**$16,200,000**	**$3,000,000**
Fire						
9. Portable/Mobile Radios (800 MHz & VHF)	$369,000	$140,000				
10. Radio equipment for large scale incident mgmt van (COM1)		$38,000				
11. Wireless phones, pagers & intercoms	$7,000	$38,000	$62,000			
12. Reduced Stress Fire Station Alerting System.		$148,000	$148,000	$148,000		
13. Two mobile incident command trailers with tow vehicles		$238,000	$238,000			
14. Communications Command Vehicle (replacement)			$900,000			
15. Personal computer management & replacement	$135,000	$135,000	$135,000	$135,000		
FIRE - Subtotal	**$511,000**	**$737,000**	**$1,483,000**	**$283,000**	**$0**	**$0**
TOTAL CAPITAL COSTS	**$511,000**	**$33,737,000**	**$19,983,000**	**$18,033,000**	**$16,200,000**	**$3,000,000**
SOFT COSTS						
PSCP - Operations & Maintenance (O&M)						
16. Consultant Work	$1,500,000	$500,000				
17. Radio Network		$6,000,000	$5,000,000	$2,500,000	$2,500,000	
18. Dispatch Center		$3,000,000	$1,500,000	$1,500,000		
19. Consultant Work for CAD		$1,000,000				
20. CAD				$6,000,000		
21. Data Network Consultant				$1,000,000		
22. Fire Alerting Station					$500,000	
23. New Data Network					$1,800,000	
24. Backup Dispatch/311 Center						$2,000,000
PSCP O&M- Subtotal	$1,500,000	$10,500,000	$6,500,000	$11,000,000	$4,800,000	$2,000,000
Police - O&M						
25. Annual service costs for MCTs	$750,000	$750,000	$750,000	$750,000	$750,000	
26. Wireless phones (on going monthly fees)	$110,000	$110,000	$110,000	$110,000	$110,000	
27. MCT/Desktop Replacement	$1,800,000	$1,800,000	$1,800,000	$1,800,000	$1,800,000	
28. Pagers- Annual replacement	$16,000	$16,000	$16,000	$16,000	$16,000	
29. Digital Cameras	$900,000					
Police O&M- Subtotal	**$3,576,000**	**$2,676,000**	**$2,676,000**	**$2,676,000**	**$2,676,000**	**$0**
Fire - O&M						
30. Wireless service for Mobile Data Computer (MDC) system	$154,000	$154,000	$154,000	$154,000	$154,000	
Fire O&M- Subtotal	**$154,000**	**$154,000**	**$154,000**	**$154,000**	**$154,000**	**$0**
O&M Subtotal	**$5,230,000**	**$13,330,000**	**$9,330,000**	**$13,830,000**	**$7,630,000**	**$2,000,000**
31. **PSCP - Personnel**	$439,432	$988,735	$1,378,501	$1,224,690	$1,249,579	$647,721
Personnel Subtotal	**$439,432**	**$988,735**	**$1,378,501**	**$1,224,690**	**$1,249,579**	**$647,721**
TOTAL SOFT COSTS	**$5,669,432**	**$14,318,735**	**$10,708,501**	**$15,054,690**	**$8,879,579**	**$2,647,721**
GRAND TOTAL Tier II	**$6,180,432**	**$48,055,735**	**$30,691,501**	**$33,087,690**	**$25,079,579**	**$5,647,721**
GRAND TOTAL Tier II: FY 2005 - FY 2010						**$148,742,659**

TIER II
- $148.7 million plan; Fiscal Year 2005-2010

Capital Costs- Total Funded by Bonds and EVFP	**$511,000**	**$33,737,000**	**$19,983,000**	**$18,033,000**	**$16,200,000**	**$3,000,000**
TOTAL FY 05 - 10						**$91,464,000**
Costs funded by Bonds	$0	$33,000,000	$18,500,000	$17,750,000	$16,200,000	$3,000,000
Phase 1 (FY 05)	$51,500,000					
Phase 2 (FY 08)				$36,950,000		
FY 05 - FY 10 Total						$88,450,000
Costs funded by EVFP	$511,000	$737,000	$1,483,000	$283,000	$0	$0
FY 05 - FY 10 Total						$3,014,000
Soft Costs - Total All funded on a 'Pay As You Go' Basis	**$5,669,432**	**$14,318,735**	**$10,708,501**	**$15,054,690**	**$8,879,579**	**$2,647,721**
TOTAL FY 05 - 10						**$57,278,659**
GRAND TOTAL TIER II						**$148,742,659**

Funding options for Tier II have been prepared, and reflect the use of a lease revenue type financing over a twenty-year term, in two phases, for the capital expenses related to the PSCP. The financing term is driven by the useful life of the capital expenses. Additionally, estimates for use of the EVFP have been prepared for eligible equipment items that have a shorter useful life. Annual payments for the lease revenue financing and EVFP were estimated, and then combined with the annual requirements for Personnel, and Operations and Maintenance items (averaged over the five-year period) to determine the total annual funding requirements for Tier II. The annual requirements range from $17.6 million to $21.7 million. Based on these annual requirements, three options for raising sufficient new tax revenues were prepared. As shown in the Tier II Funding Plan table, mutually exclusive options to raise the total annual need are shown for a new Parcel Tax and for increases to the existing Property Transfer Tax, and Transient Occupancy Tax (TOT).

The City Manager is recommending placement of the Comprehensive Public Safety Communications Plan as described in Tier II of the funding plan on the November 2004 or a subsequent ballot for approval with one of the proposed tax increases. History has shown past success of a project such as this. In 1990, the voters approved a public safety communications project measure by 68.37%. The impact of a Parcel Tax to fund Tier II would range from $40 to $47 for a detached single family residence and a Property Transfer Tax would range from $224 to $251 per $100,000 of assessed valuation. The San Diego Chamber of Commerce has indicated support for the Property Transfer Tax. The TOT funding necessary to cover Tier II is a two cent increase. If the City Council is interested in this revenue source and pursuing an increase at the level attempted previously, two and a half cents, one-half cent would remain available for other uses. The revenue generated, approximately $5 million annually, could be utilized to fund other public safety expenses or for another use as the policy makers see fit. The Chamber has offered to poll regarding the information contained within this report.

As the bonds are proposed to be issued in two phases, annual requirements will increase as the second phase of bonds is issued, shown in Fiscal Year 2008. Further analysis under consultant advice will be needed in order to derive the appropriate tax rates to fit the needs of the public safety components and to provide the best opportunity for garnering necessary voter approval. The funding plan for Tier II is shown on the following page.

TIER II- FUNDING PLAN

	FY 05	FY 06	FY 07	FY 08	FY 09
Proposed Funding Mechanism					
Capital Expenses					
Bonds (Lease Revenue Bonds)[1]					
Phase I in FY 2005	$5,535,000	$5,535,000	$5,535,000	$5,535,000	$5,535,000
Phase II in FY 2008				$4,103,000	$4,103,000
EVFP[2]	$630,000	$630,000	$630,000	$630,000	$630,000
Average Personnel and O&M[3]					
Pay As You Go Basis	$11,456,000	$11,456,000	$11,456,000	$11,456,000	$11,456,000
TOTAL Annual Expenses	**$17,621,000**	**$17,621,000**	**$17,621,000**	**$21,724,000**	**$21,724,000**

Alternative Revenue Sources

OPTION 1
Parcel Tax (per unit, for each of the following type of Property)[4]

	FY 05	FY 06	FY 07	FY 08	FY 09
		Phase 1		Phase 2	
Single Family Detached Unit	$39.57	$39.25	$38.93	$47.59	$47.20
Attached Residential Unit	$41.68	$41.30	$40.93	$50.00	$49.54
Commercial/Industrial (per square foot)	$0.0069	$0.0068	$0.0068	$0.0083	$0.0083
Annual Revenues Generated	**$17,621,000**	**$17,621,000**	**$17,621,000**	**$21,724,000**	**$21,724,000**

OPTION 2
Property Transfer Tax

	FY 05	FY 06	FY 07	FY 08	FY 09
		Phase 1		Phase 2	
Total Tax rate (per $100,000 of sales valuation)[5]	$224	$224	$224	$251	$251
Annual Revenues Generated[6]	**$17,621,000**	**$17,621,000**	**$17,621,000**	**$21,724,000**	**$21,724,000**

OPTION 3
Transient Occupancy Tax (TOT)

	FY 05	FY 06	FY 07	FY 08	FY 09
		Phase 1		Phase 2	
TOT rate increment over existing rate[7]	$0.02	$0.02	$0.02	$0.02	$0.02
Annual Revenues Generated[8]	**$21,000,000**	**$21,945,000**	**$22,932,525**	**$23,964,489**	**$25,042,891**

1. Bonds estimated to be issued in 2 phases.
   First phase- Lease revenue bonds estimated at $63.7 million (net proceeds of $51.5 million), issued in FY 2005.
   Annual debt service (20 year term) is estimated to be $5.5 million.
   Second phase- Lease revenue bonds estimated at $46.6 million (net proceeds of $37 million), issued in FY 2008.
   Annual debt service (20 year term) is estimated to be $4.1 million.
2. Costs for EVFP financing are averaged over the financing period. Estimates are based on a 5 year term for equipment and a 7 year term for fleet.
3. Personnel and O&M costs vary from year to year. Estimates above reflect the average annual costs over the 5 year period of this funding plan.
4. Parcel Tax estimates are based on an annual growth in the number of parcels.
5. Total tax rate includes the rate increase needed to replace current property transfer tax revenues received by the City that will be lost to the County.
6. Estimates reflect the additional revenues generated due to the total tax rate. Estimates of Property Transfer tax receipts do not factor any growth in future years. Historically these revenues reflected a flat growth.
7. The 2% increase will be an increase applied to the existing 10.5% TOT rate.
8. Revenue estimates reflect the additional revenue generated by a 2% increase in TOT. Estimates are based on a 4.5% annual growth in TOT.

Tier III – Police & Fire-Rescue: Fiscal Years 2005 - 2007

As described earlier, ideally, Tier III of this funding plan would include all remaining items in the needs assessment for the public safety departments through Fiscal Year 2009. As the remaining needs amount to $648 million, it seems unlikely that a plan to address this need in its entirety could be successful. As with Tier II, the specific funding needs assigned to Tier III were identified, and are comprised of the remaining Police and Fire-Rescue Department needs for Fiscal Years 2005 through 2007. To minimize the magnitude of this tier, items needed in Fiscal Years 2008 and 2009 have been excluded. The tables on the pages that follow detail the items contained in this tier.

A funding plan has also been prepared, and is shown in the table on the pages that follow. With a total funding need of $356 million, the funding plan for Tier III reflects the issuance of General Obligation bonds in Fiscal Year 2005, with a thirty-year term, for building and facility requirements. Additionally, the use of the EVFP is proposed for equipment and fleet needs, along with a lease of Police helicopters from the manufacturer. The annual needs for these items, together with the annual funding requirements for personnel and operations and maintenance expenses, result in an annual funding need of $93.4 million.

Tier III - $355.6 million plan; Fiscal Years 2005 -2007	**FY 05**	**FY 06**	**FY 07**	**TOTAL**
Capital and Equipment Costs				
Costs funded by General Obligation Bonds	$14,917,000	$20,366,667	$29,220,000	$64,503,667
Costs funded by EVFP	$25,231,290	$13,122,500	$14,044,275	$52,398,065
Costs funded by Lease Option	$2,695,000	$2,695,000	$2,695,000	$8,085,000
Costs funded on a 'Pay As You Go' Basis	$822,500	$672,500	$672,500	$2,167,500
Total Capital and Equipment costs	**$43,665,790**	**$36,856,667**	**$46,631,775**	**$127,154,232**
Soft Costs (Personnel and O&M)- All funded on a 'Pay As You Go' Basis	**$55,329,988**	**$82,493,083**	**$90,646,020**	**$228,469,091**
GRAND TOTAL TIER III				**$355,623,323**

Based on these annual requirements, three options for raising sufficient new tax revenues were prepared. As shown in the Tier III Funding Plan table, mutually exclusive options to raise the total annual need are shown for a new Parcel Tax and for increases to the existing Property Transfer Tax, and Transient Occupancy Tax (TOT). Each of these options is in combination with an ad valorem tax calculated to fund the annual payments of $4.59 million related to the General Obligation bonds. The impact of a Parcel Tax to fund Tier III would range from $197 to $195. The impact of a Property Transfer Tax would be $686 per $100,000 of assessed valuation. The TOT funding necessary to cover Tier III is an 8.5 cent increase.

In lieu of implementing a single tax option at these levels, a combination of these taxes at lower levels could also be employed to raise this level of needed funds. It should be noted that if both

Tiers II and Tiers III were to be implemented, the tax options shown for both tiers would need to be combined in order to raise sufficient funds to implement the funding requirements of both tiers.

More than one ballot measure may be required for submission to the voters to enact a General Obligation bond and to initiate a separate new tax or tax increase.

TIER III Summary: Public Safety Needs (Detail contained in Attachment 1)

FUNDING NEEDS	FY 05	FY 06	FY 07	TOTAL	% of total
FACILITIES/BUILDINGS					
FIRE					
Eleven new engine companies		$10,000,000	$15,000,000	$25,000,000	
Deferred maintenance of Fire and Lifeguard facilities	$6,470,000			$6,470,000	
Deferred maintenance of Fire training facility at NTC	$3,465,000			$3,465,000	
Replace boat dock at Lifeguard Headquarters	$1,400,000			$1,400,000	
Lifeguard headquarters replacement		$3,000,000		$3,000,000	
Relocate Station 28 to Montgomery Field			$5,000,000	$5,000,000	
Subtotal Fire	**$11,335,000**	**$13,000,000**	**$20,000,000**	**$44,335,000**	**69%**
POLICE					
Renovation/Upgrades - Area Stations	$500,000	$500,000	$500,000	$1,500,000	
Deferred Maintenance Needs	$462,000			$462,000	
Headquarters Deferred Maintenance	$350,000			$350,000	
Central Garage Refinements	$200,000			$200,000	
Hangar and office space for the Air Support Unit	$70,000			$70,000	
Repair/Upgrade Existing Pistol Range	$2,000,000			$2,000,000	
Regional Public Safety Training Institute			$6,420,000	$6,420,000	
Emergency Vehicle Operations Center		$1,666,667		$1,666,667	
Property Storage Facility		$5,000,000		$5,000,000	
Permanent Canine/SWAT Bldg			$200,000	$200,000	
New Firearms Training Facility		$200,000	$1,500,000	$1,700,000	
New Police Operations Center			$400,000	$400,000	
Mounted Enforcement Unit Offices			$200,000	$200,000	
Subtotal Police	**$3,582,000**	**$7,366,667**	**$9,220,000**	**$20,168,667**	**31%**
TOTAL FACILITIES/BUILDINGS	**$14,917,000**	**$20,366,667**	**$29,220,000**	**$64,503,667**	
FLEET					
Fire	$9,371,000	$3,973,000	$5,272,000	$18,616,000	40%
Police	$10,485,000	$8,695,000	$8,695,000	$27,875,000	60%
TOTAL FLEET	**$19,856,000**	**$12,668,000**	**$13,967,000**	**$46,491,000**	
EQUIPMENT					
Fire	$2,515,000	$1,488,000	$1,385,000	$5,388,000	33%
Police	$6,377,790	$2,334,000	$2,059,775	$10,771,565	67%
TOTAL EQUIPMENT	**$8,892,790**	**$3,822,000**	**$3,444,775**	**$16,159,565**	
Personnel					
Fire	$7,807,000	$22,775,315	$29,598,484	$60,180,799	31%
Police	$35,863,884	$47,678,664	$48,694,432	$132,236,980	69%
TOTAL Personnel	**$43,670,884**	**$70,453,979**	**$78,292,916**	**$192,417,779**	
O&M					
Fire	$3,664,000	$4,114,000	$4,968,000	$12,746,000	35%
Police	$7,995,104	$7,925,104	$7,385,104	$23,305,312	65%
TOTAL O&M	**$11,659,104**	**$12,039,104**	**$12,353,104**	**$36,051,312**	
RECAP					
Fire	$34,692,000	$45,350,315	$61,223,484	$141,265,799	40%
Police	$64,303,778	$73,999,435	$76,054,311	$214,357,524	60%
GRAND TOTAL - TIER III	**$98,995,778**	**$119,349,750**	**$137,277,795**	**$355,623,323**	

TIER III FUNDING PLAN

	FY 05	FY 06	FY 07
Proposed Funding Mechanism			
Capital Expenses			
General Obligation Bonds[1]	$4,590,000	$4,590,000	$4,590,000
EVFP[2]	$9,207,347	$9,207,347	$9,207,347
Lease[3]	$2,695,000	$2,695,000	$2,695,000
Cash for Equipment[4]	$722,500	$722,500	$722,500
Soft Costs[5]			
Average Personnel and O&M			
Pay As You Go Basis	$76,156,364	$76,156,364	$76,156,364
	$93,371,211	**$93,371,211**	**$93,371,211**

Proposed Alternative Revenue Sources

OPTION 1

	FY 05	FY 06	FY 07
Ad Valorem Tax[6] (per $100,000 of net secured valuation)	$4.40	$4.40	$4.40
Parcel Tax (per unit, for each of the following type of Property)			
Single Family Detached	$197.77	$196.14	$194.52
Attached Residential Unit	$208.30	$206.41	$204.52
Commercial/Industrial per square foot	$0.0343	$0.0341	$0.0339
Annual Revenues Generated (Ad Valorem Tax + Parcel Tax)	**$93,371,211**	**$93,371,211**	**$93,371,211**

OPTION 2

	FY 05	FY 06	FY 07
Ad Valorem Tax (per $100,000 of net secured valuation)	$4.40	$4.40	$4.40
Property Transfer Tax (required tax rate per $100,000)[7]	$686.00	$686.00	$686.00
Annual Revenues Generated[8] (Ad Valorem Tax + Property Transfer Tax)	**$93,371,211**	**$93,371,211**	**$93,371,211**

OPTION 3

	FY 05	FY 06	FY 07
Ad Valorem Tax (per $100,000 of net secured valuation)	$4.40	$4.40	$4.40
Transient Occupancy Tax (TOT)			
TOT rate increment over existing rate[9]	$0.085	$0.085	$0.085
Annual Revenues Generated[10] (Ad Valorem Tax + TOT)	**93,840,000**	**97,856,250**	**102,053,231**

Assumptions

1. General Obligation bonds at $65 million (net proceeds of $64.5 million) issued in 2005. Annual debt service (30 year term) is an estimated $4.6 million.
2. Costs for EVFP financing are averaged over the financing period. Estimates are based on a 5 year term for equipment and a 7 year term for fleet.
3. Helicopters will be directly leased from the manufacturer.
4. Estimated annual average costs to fund equipment not eligible for lease purchase.
5. Personnel and O&M costs vary from year to year. Estimates above reflect the average annual costs over the 3 year period of this funding plan.
6. An Ad Valorem tax to fund the debt service on the GO bonds.
7. Total tax rate includes the rate increase needed to replace current property transfer tax revenues received by the City that will be lost to the County.
8. Property Transfer Tax revenue estimates reflect the additional revenues generated due to the total tax rate. Estimates of Property Transfer tax receipts do not factor any growth in future years. Historically these revenues reflected a flat growth.
9. The 8.5% increase will be an increase applied to the existing 10.5% TOT rate.
10. The TOT revenue estimates reflect the additional revenue generated by a 8.5% increase in TOT.

Fire & Life Safety Facilities Improvement Project

In 2001, through a series of City Council and Council Committee meetings and in an effort to upgrade the public facilities, an overall program for improving fire and lifeguard facilities was presented along with a corresponding financing plan. The original program included the addition, replacement, or remodeling of twelve fire and ten lifeguard facilities, with a total project budget of $45.2 million. The financing plan for the Fire & Life Safety Facilities Improvement Project contemplated a mixture of City funds and bond proceeds, and in June 2002, the City caused the issuance of the first of two anticipated bond issuances, producing $22.3 million in construction proceeds via a lease revenue bond; revenues earmarked for the lease payments come from a portion of the City's Proposition 172, Safety Sales Tax revenues.

Annual costs for personnel, and operations and maintenance costs as the new facilities are completed need to be identified and committed on an ongoing basis. The needs assessment prepared by the Fire-Rescue Department assumes the completion of new facilities that are to be funded in the Fire & Life Safety Facility Improvements Project, as well as those fire stations undergoing relocation and expansion through the City's Capital Improvement Program, and new stations to be funded through Facilities Benefits Assessments. The Fire-Rescue Department's estimates reflect costs of additional personnel, and related equipment, fleet, and operations and maintenance needs for the new and expanded facilities as they are completed and put in service over the next few years.

As many aspects of the Public Safety Funding Plan are dependent on the success and timing of the Fire & Life Safety Facility Improvements Project, and both efforts contemplate the issuance of bonds for public safety facilities, it will be necessary for the Fire & Life Safety Facility Improvements Project to be incorporated into the Public Safety Funding Plan should Tier III be approved. This coordination will ensure that the scheduling and funding of all new public safety facilities can be comprehensively reviewed, and the issuance of bonds for both efforts can be integrated, possibly achieving costs savings or economies of scale. Subsequently, funding for the annual costs related to the new facilities when completed over the course of the next few years will be addressed in the Public Safety Funding Plan, while these costs are not included in the Fire & Life Safety Facility Improvements Project. A revised financing plan for the Fire & Life Safety Facility Improvements Project will be returned to Council at a later date.

Important Considerations

Many items proposed in this funding plan would be dependent on the submission of ballot measures to the voters for consideration of new revenue sources and/or bond financings. If approved by the Mayor and City Council, and if these measures were to pass, consideration must be given to the time needed to implement possible new tax or tax changes and the impact on the timing and amount of any new revenues to be received by the City in Fiscal Year 2005. It is unlikely that this funding plan and the related expenditure items as stated for Fiscal Year 2005 could be implemented as shown. Scheduling considerations for particular projects, as well as a detailed review of items proposed for funding under the various financing options must occur, and cost increases during this period should be anticipated. Based on this, it is likely that the timing of specific projects will shift from the timing shown here, and amounts shown for each fiscal year will likely be revised. However, the funding options and tax proposals provide a clear indication of the types of funding that could be considered and the level of funding which will be required to meet the needs of the City's public safety departments.

Program Reductions *(Item 2 of the motion above)*

The Fiscal Year 2005 Proposed Budget required $26.9 million in reductions of non-critical departmental services and allocations to outside program subsidies. Specific examples of proposed reductions to outside programs include a $2.6 million reduction to the subsidy for the Convention and Visitors Bureau, and ten percent reductions to the San Diego Film Commission and the San Diego Regional Economic Development Corporation. Such reductions were made to provide a balanced budget and allow for the salary and benefit increases and new funding allocations, including $8 million of discretionary funding to Police and Fire-Rescue, which resulted in a net increase of $60.9 million to public safety. An example is provision of the $5 million discretionary allocation to Police as proposed in Fiscal Year 2005 is equivalent to the offset provided by the $5 million of reductions proposed in Park and Recreation. The reductions required difficult decisions be made and will have a service impact to the community.

The following is provided to demonstrate the level of reductions that would be required to fund the public safety needs should new revenue sources not be made available. Of the $478 million in the needs assessment, the Fiscal Year 2005 public safety need for Police and Fire-Rescue amounts to $129 million. In order to fund $129 million without new revenue sources, funding currently dedicated to other sources would have to be shifted to fund public safety. To do so, the City would have to reduce an amount of money in the General Fund that would be equivalent to funding for the entire Park and Recreation Department ($70.3 million) and the Library Department ($35.8 million), and would still have to identify an additional $22.9 million in reductions to reach the $129 million. Absent a long-term stable funding source, the business of public safety continues to rely on the current, limited funding sources and balancing public safety needs with others around the City.

CEQA Significance Thresholds *(Item 3 of motion above)*

The Public Safety Action Plan report, dated February 6, 2004, indicated that Development Services was in the process of revising its CEQA Significance Thresholds and expected to report back to the Land Use and Housing Committee upon completion. The current schedule provides for review of the thresholds by Development Services Department's Technical Advisory Committee on May 12, 2004 followed by the Land Use & Housing Committee on May 19, 2004.

Funding CCDC Owes the City *(Item 4 of motion above)*

Please see the memo dated April 22, 2004, "CDBG Fund Repayment from CCDC" (Attachment 2), for information regarding the Community Development Block Grant (CDBG) allocations made to the Centre City Development Corporation (CCDC) following its inception. The memo contains information provided by CCDC regarding the CDBG allocations and recommends against transferring any CDBG funds back to the City from CCDC at this time. Separately, in a memo dated April 23, 2004, the Mayor and Councilmembers Zucchet, Lewis and Maienschien announced that CCDC staff has recently indicated that, subject to CCDC Board of Director approval, approximately $3.0 million could be made available to help the City fund fire equipment by repayment of certain sales tax loans due to the City. CCDC is working cooperatively to try to assist the City with public safety funding needs such as funding equipment and apparatus while also maintaining their ability to fulfill their other financial commitments.

Developer Impact Fees

In response to City Council direction received March 23, 2004, CCDC has been researching an increase to Centre City Developer Impact Fees (DIF) and will return to Council in the near future. DIF provide a source of funds to address the impacts of new development upon the infrastructure of a specific community. DIF cannot be used to fund the existing development's share of need or impact. Public safety facilities (fire and police) are eligible to be funded by DIF, as well as parks, libraries and certain transportation projects.

If the City Council increases the Centre City DIF, the additional funding could help address some of the public safety facility expenses for the City. CCDC is currently working on the Community Plan Update (CPU), which, with related documents, will provide the majority of the documentation necessary to support the need to increase the Centre City DIF. Given the relationship between the CPU and the process to update the DIF, CCDC staff is moving toward recommending that they continue to pursue establishment of a revised DIF program in conjunction with the adoption of the new Centre City Community Plan.

Changing Redevelopment Law to allow for funding of Public Safety *(Item 5 of motion above)*

To expedite the issue rather than waiting to address it within this report, a memo was prepared April 12, 2004 by the Community and Economic Development Director, with the assistance of Governmental Relations, to provide an evaluation of a change to California Redevelopment Law to allow for funding of public safety expenses. The memo is attached (Attachment 3) and a request has been made that this issue be docketed at the Rules Committee at the earliest convenience.

Use of CDBG Funding for Public Safety *(Item 6 of motion above)*

The Fire-Rescue Department has been granted a one year waiver by the federal government for the use of Community Development Block Grant (CDBG) monies to purchase fire fighting equipment for non-CDBG eligible areas, due to the challenges faced in fighting the October Cedar Fire with outdated and inadequate equipment. Ordinarily, the grant criteria are such that the City would not be able to purchase fire equipment with CDBG funds. While fire equipment is an exception in the CDBG criteria, there is also a low income requirement which would usually preclude the City from purchasing equipment as it tends to be rotated around rather than used specifically in any one area which may meet the low income standard. It is this low income component of the criteria that has been waived due to the fires. The equipment to be purchased with approximately $1 million of CDBG funding in Fiscal Year 2005 includes two new brush apparatus and equipment such as replacement hose, nozzles, and rescue rope and saws. The CDBG funding and its use for these purchases is included within the $3 million allocation to Fire-Rescue in the Fiscal Year 2005 Proposed Budget.

Options for New Revenue *(Item 7 of motion above)*

Potential to increase the TOT and split the increase between Police and Fire-Rescue

The second and third tiers of the funding plan outlined within this report are based upon new revenues and an increase to the TOT is one of the options. The funding plan has been developed based upon the needs submitted by the public safety departments. Tier II proposes funding the PSCP and related expenses, and Tier III proposes funding the remainder of needs not covered in Tier I or II for fiscal years 2005 through 2007. Both departments are handled equitably in the funding plan by maximizing the proposed revenue sources to cover the needs submitted by the departments for communication system expenses, Tier II, and the same period of time, Tier III.

Outstanding Long-Term Obligations

Attachment 4 is the Summary of Debt Obligations table from the Fiscal Year 2005 Proposed Budget, Financial Summary -- Debt Management section. This table includes the General Obligations and lease obligations backed by the City's General Fund. The total principal outstanding for these categories of bonds as of June 30, 2004 will be as follows:

General Obligations Bonds	\$45.7 million
General Purpose Revenue Obligations	\$579.6 million

The outstanding lease obligations pertaining to sports facilities are the 1996 Qualcomm Stadium Improvements Lease Revenue Bonds and the 2003 Ballpark and Redevelopment Project Lease Revenue bonds, both of which were issued by the Public Facilities Financing Authority, a Joint Powers Authority. The Qualcomm Stadium Improvements bonds, which were issued in the amount of \$68.4 million, will have an outstanding principal of \$62.87 million as of June 30, 2004. The issuance size of the lease revenue bonds for the Ballpark and Redevelopment Project was \$169.7 million. The first lease payment on these bonds is due on February 15, 2006. It is expected that the original bonds will be refunded to realize lower interest costs in the near future.

The Enterprise Fund obligations (sewer and water systems) shown in Attachment 4 are not backed by the City's General Fund.

Other Public Safety Funding Efforts

As the ultimate resolution of the public safety funding needs requires new sources of revenue be made available, there are various other efforts ongoing to obtain revenue in addition to the specific funding plan outlined above. These efforts are explained briefly below.

Grant Funding

In the Public Safety Action Plan report, dated February 6, 2004, efforts to obtain grant funding were outlined. Specifically, Park and Recreation is pursuing grant funding to assist with brush management expenses and the City has been awarded, and continues to seek, federal Homeland Security grant funding. For Fiscal Year 2005, \$6.5 million of Homeland Security and other grant funding has been obtained and will be utilized to fund the Mobile Data Terminal (MDT) conversion for both Fire-Rescue and Police departments, which is needed as part of the $133 million Public Safety Communication Project. This grant funding is reflected in the Fiscal Year 2005 Proposed Budget. Grant funding provides valuable aid to the City in funding public safety as well as other expenses. The City will continue to aggressively seek grants as opportunities arise.

Corporate Sponsorships

Pursuit of corporate sponsorship opportunities is an ongoing endeavor and the City has been successful in developing partnerships to help fund public safety expenses, among others. Through a partnership with General Motors, 34 emergency vehicles for Police, Fire-Rescue and Lifeguard were provided for a period of 2 years at a cost savings of $680,000 to the City. There is a possibility that this partnership will be extended for a second two-year period for a total savings of $1,360,000. The City's Regional Fire & Rescue Helicopter Program, which currently consists of one leased helicopter, provides San Diego County with the safe and timely response of a regionally based and locally controlled firefighting and multi-mission-capable helicopter. The Helicopter Program was initially funded as a pilot program through non-City sources such as the Service Authority for Freeway Emergencies (SAFE) and San Diego County. In 2003, the helicopter operated as a seasonal program and was funded through SAFE, corporate sponsors such as Scripps Health and Sycuan, private donations and San Diego City and County. The Fiscal Year 2005 Proposed Budget includes $2.76 million in the Fire-Rescue Department to fund a fire helicopter. This expense is expected to be offset by an anticipated $800,000 in revenue from outside sources secured through the City's Corporate Partnership Program.

Efforts to develop other corporate partnerships to benefit public safety will continue. Currently, a Request for Proposals (RFP) is being developed to procure police motorcycles. The Police Department and Purchasing are working with the Corporate Partnership Program to try and secure a marketing partnership with the motorcycle vendor in order to reduce the cost of the motorcycles or get them in-kind. Typically, new programs, equipment items, and vehicles/apparatus are the most conducive to corporate sponsorships.

Fees

The City Manager is in the process of preparing a proposal for various new fees to be presented to the City Council for consideration on May 25, 2004. The fee proposal will include fees proposed for Fire-Rescue and Police services, as well as fees for other City services. These include, but are not limited to, a Paramedic First-Response Service Fee, High Rise Inspection fees, and Public Assembly fees in support of Fire-Rescue services and increases to Impound Fees and Alarm Permit Fees in support of Police services. The Fiscal Year 2005 Proposed Budget currently contains $5.9 million of revenue based upon new fees. Should the City Council implement fees generating in excess of $5.9 million, that revenue would be available to restore expenditure reductions or address unfunded needs. A City Manager's Report describing all of the fees in detail will be issued on May 14, 2004.

There are also other fees which require further development, thus will not be included within the fee proposal report, but which could potentially be additional sources of revenue for public safety needs at a future date. These include the Fire Suppression Fee and the 911 Service Fee.

The Fire Suppression Fee is a fee that could be collected at the time water connection fees are paid for the purpose of recovering the cost of fire and medical emergency facilities and equipment that benefit the city as a whole. A 911 Service Fee could be charged to telephone service subscribers to cover the costs of equipment and facilities needed to provide an adequate and reliable 911 communication system. These potential fees will continue to be explored and brought to City Council at a future date.

Summary/Recommendation

In an effort to address the unmet public safety needs, the City Manager has developed a three-tier funding plan. Tier I proposes allocating $8-$10 million per year, Fiscal Years 2005-2009, of discretionary funding for public safety. Fire-Rescue and Police departments would utilize this funding to address their most critical needs, with emphasis placed on requirements related to new facilities being placed in service in each particular year that would require the addition of personnel. Tier II is proposed to utilize one of three new revenue sources to fund lease revenue bonds to fund approximately $150 million of expenses for the Comprehensive Public Safety Communications Plan and related expenses within the public safety departments. The final tier, Tier III, proposes utilizing new revenue to fund the remainder of public safety needs for fiscal years 2005-2007 which would be approximately $356 million.

The City Manager recommends approval of the allocation of $8-$10 million of discretionary funding to public safety each year, Fiscal Years 2005-2009, as outlined in Tier I of the Public Safety Funding Plan. In addition, it is recommended that funding of the Comprehensive Public Safety Communications Plan, as described in Tier II of the funding plan, be placed on the November 2004 or a subsequent ballot for approval in conjunction with a ballot measure for a new revenue source. If the latter is approved, it is further recommended that the Manager be directed to prepare a detailed financing plan using a particular tax source.

Next Steps

If the City Council directs the City Manager to proceed with Tier II or Tier III of the funding plan, staff would need to develop a more detailed financing plan including a cash flow associated with a specific revenue source. If a new tax is approved for placement on the November 2004 ballot, development of the cash flow will be timed to return with the review of the ballot measure. It is understood that for the November 2004 ballot, the City Council will be reviewing all ballot measures between June 28 and July 19, 2004. The ballot measure would need to be completely finalized by August 5, 2004 for submission to the City Clerk by August 6, 2004 for placement on the November ballot.

ALTERNATIVE

Consider other new sources of revenue such as a sales tax increase or trash collection fee.

Respectfully submitted,

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Bruce A. Herring
Deputy City Manager

HERRING/LKC

Attachments:
1. Tier III Detail
2. "CDBG Fund Repayment from CCDC" memo, dated April 22, 2004
3. "Use of Redevelopment Funding for Public Safety" memo, dated April 12, 2004
4. Summary of Debt Obligations table from the Fiscal Year 2005 Proposed Budget