# Honorable Mayor and City Council of the City of San Diego, California

The Financial Review and Status Report is intended to provide the Mayor and City Council with the midyear status of the Fiscal Year 2005 Budget as of the dates indicated herein. This report provides year-end projections based on the most recent actual revenue and expenditure data available, and should be viewed as a snapshot of the status of City funds. Projections of departmental revenues and expenditures are based on data through accounting period seven, ending December 31, 2004. Major General Fund revenue projections are based on receipts through February 10, 2005. As new data become available, it is likely that some of the figures presented in this report may change. While every attempt has been made to accurately reflect the current status based on the available information to date, significant unanticipated events may require considerable modifications.

### Fiscal Year 2005 Status

The City Council adopted a Fiscal Year 2005 budget totaling $2.49 billion, including $817.4 million for General Fund expenditures, $770.9 million for Enterprise Fund operations, $299.2 million for Special Revenue Fund operations, $14.5 million for Debt Service and Tax Funds, and $583.3 million for Capital Improvements Program expenditures. Currently, all funds are projected to operate consistent with their anticipated budgets except the City's General Fund, which comprises approximately 32.9 percent of the City's total budget.

Although the General Fund is experiencing financial challenges, the City Charter requires a balanced budget at year-end. This report describes the challenges that the General Fund is experiencing in Fiscal Year 2005, and the solutions that have been identified to ensure that the General Fund will be in balance by year-end. In addition, this report will describe any service-level impacts that may result from these current-year challenges or solutions, and will review the status of major General Fund revenues. Appendix A provides a brief review of General Fund revenues other than the major revenue sources. For updates on the status of other City funds, please refer to Appendices B, C and D, which cover Enterprise Funds, Special Revenue Funds and Internal Service Funds, respectively. The table below summarizes the unanticipated expenditure requirements and identified solutions for Fiscal Year 2005.

| | | | |
|---|---|---|---|
| **FISCAL YEAR 2005 PROJECTED ADDITIONAL GENERAL FUND REQUIREMENTS** | | | |
| Police Department | $ | 9,000,000 | |
| Fire-Rescue Department | $ | 2,000,000 | |
| City Attorney's Office | $ | 700,000 | |
| Retiree Health Care Payment | $ | 4,100,000 | |
| Public Liability | $ | 7,200,000 | * |
| Aerospace Roof | $ | 900,000 | |
| Pension Obligation Gap | $ | 2,600,000 | |
| Budgetary Savings Plan | $ | (10,370,000) | |
| TOTAL PROJECTED REQUIREMENTS IN EXCESS OF BUDGET | $ | 16,130,000 | |
| **FISCAL YEAR 2005 PROJECTED GENERAL FUND REVENUE STATUS** | | | |
| Major General Fund Revenue Surplus | $ | 9,430,000 | |
| Other Non-Departmental Revenue Surplus | $ | 400,000 | |
| Departmental Revenue Surplus | $ | 6,300,000 | |
| TOTAL PROJECTED SUPPLEMENTAL REVENUE | $ | 16,130,000 | |

** Total estimated public liability requirement in excess of appropriation. Some of this cost may be offset by contributions from other benefiting funds.*

In Fiscal Year 2005, the General Fund faces several unanticipated challenges. In the first section of this report, General Fund Expenditures, these challenges will be described in detail. The second section, General Fund Revenue, will outline the impacts to City revenue that have occurred as a result of action by the State of California, and will provide a status of the major General Fund revenue sources. The final section, General Fund Solutions, will describe the various solutions that have been identified to ensure that the General Fund remains in balance.

# I. General Fund Expenditures

In recent years, the demand for City services, as well as the cost of providing those services, has surpassed the supply of available revenues. Even with robust economic growth and substantial increases in General Fund revenue, expenditure requirements continue to grow at a faster pace than revenues, restricting the City's ability to maintain existing service levels or fund additional service needs. In addition, the State of California continues to take City revenues in order to fund its own budget deficit. As described in the State Impacts section, the passage of Proposition 1A on November 2, 2004 will provide increased protection of local revenues; however, the State will continue to take City revenues in Fiscal Years 2005 and 2006.

The Fiscal Year 2005 Budget projected General Fund revenue to grow by $74.4 million over the Fiscal Year 2004 Budget, an increase of greater than 10 percent. This $74.4 million increase includes a reduction of $17.3 million in property tax and $2.5 million in sales tax as a result of State action. To compensate for this revenue loss and required General Fund increases, General Fund departments were forced to reduce expenditures by $23.3 million in order to achieve a balanced budget.

## Expenditure Requirements

Ongoing monitoring of current year expenditures indicates that most departments are planning to restrict expenditures to within available revenues. However, the public safety departments have significant needs that cannot be met within their existing budgets. In addition, several other General Fund departments are projecting to end the year in a deficit status. Based on actual expenditure data provided by General Fund departments through December 31, 2005, the Police and Fire-Rescue Departments are projected to over-expend available revenues by a combined $11 million. These and other unanticipated expenditure requirements are described in more detail below.

### Police

During Fiscal Year 2005, the Police Department has continued to hold positions vacant in order to create salary savings to cover expenses in overtime, special pay, fringe benefits, utilities and data processing. Additionally, the Department has used some Non-General Fund revenue sources, including grants, to partially mitigate over-budget expenditures. Reductions over the last several years have strained the Department's ability to provide public safety services and necessary equipment. However, the Department has been able to purchase approximately 170 patrol, investigative and utility vehicles in an effort to reduce the over-aged fleet. The Department will also be proposing to the Mayor and City Council a plan to replace the entire motorcycle fleet (65 motorcycles) with the use of grant funds. Through January 2005, the Police Department has also hired 115 new recruits.

In Fiscal Year 2005, the Department implemented a major reorganization to redirect resources for basic public safety services and specialized enforcement such as gangs. Pending availability of funds, high priorities will remain addressing officer attrition by hiring new recruits and purchasing vehicles and essential equipment.

Based on year-to-date projections of overtime, data processing and other supplies and services needed to provide current service levels, the Department is projected to over-expend available revenues by approximately $9 million. Mitigation of this deficit will be addressed throughout the remainder of Fiscal Year 2005 to ensure that the General Fund remains in balance. The Department has not been asked to provide a five percent savings plan for Fiscal Year 2005 as has been requested by the City Manager of all non-public safety General Fund departments; however, actions are being taken to ensure that the Department is able to keep expenditure requirements at or below the projected deficit.

### Fire – Rescue

In Fiscal Year 2005, the San Diego Fire-Rescue Department will incur over-budget expenses in several areas. Personnel-related costs are anticipated to be higher than budgeted amounts due to terminal annual leave payouts, special pay, and overtime. In addition, training costs and staffing for Seventh Battalion field management and the Light and Air apparatus have resulted in further over-budget expenditures by the Department.

Several unanticipated requirements have made it more difficult for the Fire-Rescue Department to provide current levels of service within the existing budget. Among these unanticipated requirements are replacement of lifeguard fuel tanks, and fuel tank removal and site mitigation costs at several fire stations. In addition, due to the damage from the recent storms, lifeguards can no longer use their existing dock, and must instead lease dock space from private marinas, which will result in additional costs that have not yet been determined. Other unanticipated costs include an increase in site lease costs for Station 43 at Brown Field and higher than expected costs for energy and utilities, primarily related to fuel costs. Some mitigation of these over-budget expenses has come in the form of lower paramedic liability costs than originally anticipated, and unbudgeted revenue from Cedar Fire reimbursements.

Based on these unanticipated expenditure requirements, the Department is projected to over-expend available revenue by approximately $2 million. The Department has not been asked to provide a five percent savings plan for Fiscal Year 2005, though actions are being taken to ensure that the Department is able to keep additional expenditure requirements at or below the projected deficit.

### City Attorney

The City Attorney's Office is currently projecting to end the fiscal year with a net deficit of approximately $700,000. This projected net deficit is the result of over-budget expenditures for personnel and non-personnel related costs. The City Manager is working with the City Attorney's Office to maintain daily operations, but has requested that the department submit a savings plan. The City Attorney's Office will continue working to identify expenditure savings and revenue solutions in order to mitigate the projected deficit.

### Other Departmental Expenditures

A number of other General Fund departments are projecting to end the year with expenditures that exceed appropriations. While many of these departments are projected to be able to mitigate these over-expenditures with over-budget revenue, several departments are projecting to be in a deficit status by year-end. However, no department is projecting to end the fiscal year with a deficit greater than $500,000. Departments with the largest projected year-end deficit include Community and Economic Development and Environmental Services. These departments, along with all other departments, will continue working to identify solutions and opportunities to reduce or eliminate the projected deficits. Any departments still projecting a deficit toward the end of the fiscal year will be addressed during the annual Fourth Quarter Adjustment, presented to the Mayor and City Council for consideration in April or May. After applying the projected over-budget revenue toward the mitigation of all current projected deficits, the net revenue surplus is projected to be approximately $6.3 million, as depicted in the chart on page 2.

### Retiree Health Care Costs

On September 21, 2004, the Mayor and City Council's Pension Reform Committee presented to the Mayor and City Council the findings of its final report, which contained 17 specific recommendations. Recommendation # 5 stated that payments for retiree heath care benefits should no longer be funded via the retirement plan, and that Municipal Code section 24.1502(a)(5) should be eliminated, thereby removing health care benefits from the Plan's undistributed surplus earnings.

The Municipal Code currently provides that in any year in which the San Diego City Employees' Retirement System (SDCERS) realizes earnings that are sufficient, a portion of the City's contributions be deposited into the 401(h) health care trust, established in the Municipal Code to be used exclusively for eligible retiree's health care benefits. As noted by the Pension Reform Committee, this has the effect of reducing the amount of new contributions entering the SDCERS pension trust, making those funds unavailable to pay pension benefits. On September 30, 2004, the City Manager presented the City Council with an action plan, recommending that the City cease this practice by paying the balance of the Fiscal Year 2005 retiree health care benefits from City funds, and funding future retiree health care benefits in a manner that does not reduce the assets held by SDCERS.

Based on current projections of monthly health care insurance premiums, the cost of retiree health care benefits is estimated to be $14.4 million in Fiscal Year 2005. The Municipal Code currently states that retiree health care benefits will be paid from the 401(h) Fund until funds are exhausted, at which point benefits will be paid directly by the City from any source available. The balance in the 401(h) Fund at the beginning of Fiscal Year 2005 was approximately $7.9 million, which is now exhausted, leaving an estimated $6.5 million to be funded by other sources.

On January 26, 2005, the Mayor and City Council approved the City Manager's recommendation to amend the Fiscal Year 2005 Appropriation Ordinance to increase General Fund and Non-General Fund appropriations in order to provide funding for the payment of the remaining Fiscal Year 2005 health care benefits. This action will result in additional estimated expenditures of $4.1 million from the General Fund and $2.4 million from Non-General Funds.

### Public Liability

The City's Public Liability Fund provides funding for the City's self-insurance program for public liability claims, including claims for bodily injury, property damage, inverse condemnation, false arrest and errors and omissions, as well as other non-claim related expenses. Each year, the General Fund contributes funds to the Public Liability Fund based on an estimate of the City's liability in that fiscal year. In Fiscal Year 2005, Public Liability requirements include costs associated with the SEC investigation and outstanding financial audits, as discussed below.

In Fiscal Year 2005, available funding for claims is $13.43 million, $7.29 million of which is made up of prior year balance. Year-to-date, $6.70 million has been spent and/or encumbered on claims-related expenditures, while $4.83 million has been used for non-claim related expenditures and encumbrances. Based on available information on known and anticipated costs, an additional $7.2 million is estimated to be required to fully fund the Public Liability Fund for the remainder of the fiscal year. This amount represents the estimated public liability requirement in excess of appropriated funding, and may be partially offset by contributions from other benefiting funds. The $7.2 million includes costs that will be incurred for known non-claim expenditures such as legal costs associated with the SEC investigation and outstanding financial audits. The Attorney/Audit Fees section below provides a more detailed description of these costs.

Despite an improved safety record and a modest reduction in new claims filed, workers' compensation costs for the City of San Diego continue to grow, consistent with statewide workers' compensation trends. A newly implemented rate structure has helped pay for known costs. This projection may change if unanticipated claims for severe injuries are filed. These types of claims can change the projections by more than $1 million each due to the nature of the injury. Additional savings are being achieved as the newly approved workers' compensation reform is enacted. It is anticipated that the full impact of the legislation will be noticeable in future years with additional anticipated savings to the City.

### Attorney/Audit Fees

In Fiscal Year 2005 the City of San Diego has incurred unanticipated expenses relating to various legal and audit services. The two largest of these expenses have been made to the law firm Vinson & Elkins and to accounting firm KPMG.

On January 27, 2004 the City of San Diego filed a voluntary financial disclosure, which described the City's unfunded pension liability and noted errors that were discovered in the footnotes of the City's audited annual financial statements. Subsequent to the filing, the City Manager retained accounting firm KPMG to perform an audit of the City's Fiscal Year 2003 basic financial statements. The total Fiscal Year 2005 cost for the KPMG audit is estimated to be $1.4 million. The City has also retained the expertise of other law and accounting firms in conjunction with the KPMG audit, including Susman Godfrey and Chicago Partners.

In addition to the KPMG audit, the City Manager also retained the law firm of Vinson & Elkins (V&E) to investigate and prepare a report on the City's securities disclosure practices from 1996 through the present. Following an announcement by the Securities and Exchange Commission (SEC) that it was initiating an investigation into certain City financial matters, V&E was also requested to represent the City before the SEC.

The total Fiscal Year 2005 cost for these services is estimated to be $2.5 million. The City has also retained Hawkins, Delafield & Wood as disclosure counsel.

Pursuant to accounting standards and practices, the City was requested to conduct an additional investigation into legal issues and allegations of wrongdoing that were beyond the scope of the initial investigation by V&E. The additional investigation was necessary because the obligations of both the City and KPMG with respect to the allegations of illegal conduct in the context of an audit are broader than the investigation and reporting on federal disclosure law violations, the purpose for which V&E was initially retained. The City has retained V&E to perform the additional investigation. The table below provides a summary of the estimated Fiscal Year 2005 costs associated with the City's ongoing retention agreements.

| Contracted Firm | FY 2005 Total Appropriations |
|---|---|
| Vinson & Elkins | $2,500,000 |
| KPMG | $1,400,000 |
| Susman Godfrey LLP | $250,000 |
| Hawkins Delafield & Wood | $650,000 |
| Kroll, Inc. | $250,000 |
| Lexis Nexis | $150,000 |
| Chicago Partners & John Garvey | $100,000 |
| Breakwater Security Associates | $50,000 |
| Other | $225,000 |
| **TOTAL** | **$5,575,000** |

As the table shows, the City's financial exposure to these contracts in Fiscal Year 2005 is approximately $5.6 million, which does not include contract expenses that occurred in Fiscal Year 2004. The $5.6 million figure includes $2.45 million in additional costs that will be requested in the near future. The City Manager, in conjunction with the City Attorney, is developing an allocation of these expenses amongst the appropriate funds, and will direct the City Auditor to allocate these expenses accordingly. The $5.6 million represents the maximum amount for which the City will be obligated in Fiscal Year 2005 based on the current and anticipated Council-approved retention agreements. While the City should prepare to pay the maximum amount, payments are made on an ongoing basis as services are provided, so it is possible that total charges will be less than the maximum amount authorized. However, if the agreements are further amended the City may need to identify additional funding.

### Aerospace Museum Roof

The Aerospace Museum Roof Replacement capital improvement project has had significant cost increases and requires immediate corrective action. The original scope of work included a single roof application over an existing roof system. However, upon further technical review, the large and obsolete solar panels need removal; all roof drains need replacement; and the downspouts, which run inside the stucco walls of the building, have disintegrated and must be replaced. This historic structure houses vintage planes and has irreplaceable murals on the interior. During the recent rain events, the structure has leaked excessively, causing extreme concern.

The total project cost is estimated at $1,335,000. Funds totaling $425,000 were identified and approved through previous City Council actions. As approved by the Mayor and City Council on February 14, 2005, the remaining balance of $910,000 will be addressed utilizing the Balboa Park Inspiration Point Precise Plan Update

($33,945), and surplus General Fund revenues ($876,055), which are trending higher than anticipated and can be allocated toward the completion of this project.

### Pension Obligations

In Fiscal Year 2005, the City of San Diego has advanced $130 million to the pension fund. Employer contribution rates were established based on Fiscal Year 2005 budgeted positions in order to meet this obligation. However, due to position vacancies, the actual Fiscal Year 2005 fringe benefit expenses are lower than required to meet the entire pension fund obligation. This expenditure shortfall will be mitigated by adjusting the rates upward for the remainder of the fiscal year. As a result, General Fund departments are currently under-projecting their year-end fringe benefit expenditures by a cumulative total of approximately $2.6 million. While the budget was accurate, due to payroll costs being less than anticipated, adjustments will be made to ensure that the pension fund receives the appropriate amount.

### Storm-Related Costs

Another challenge for the City of San Diego in Fiscal Year 2005 is the damage caused by the heavy storms that began December 28, 2004, and recurred intermittently through January 11, 2005. The heavy wind, rains and flooding that came with the storms caused extensive damage around the City, from eroded bluffs and hillsides to severely damaged roadways, including the Fashion Valley Road damage and the dock at the Lifeguard Headquarters building. Preliminary estimates indicate that storm-related damage and cleanup may cost the City of San Diego up to $7.3 million, although some portions of these costs are already budgeted as labor expenses, and some repairs may not be executed within this fiscal year. As a result, these costs are not included as part of the additional expenditure requirements in the table on page 2.

The City is currently in the process of applying for reimbursement from the State Office of Emergency Services (OES). On January 15, 2005, the Governor issued a proclamation declaring a state of emergency in seven Southern California counties, including San Diego. The proclamation of a state of emergency allows the seven counties and the cities within them to apply for partial reimbursement of eligible response and repair costs. While the City expects to be at least partially reimbursed for the costs associated with the storms, no additional funding is anticipated to be received in Fiscal Year 2005, due to the lengthy process through which reimbursements are approved.

The chart below shows both the General Fund and Non-General Fund storm-related costs for each of the impacted departments. As the chart shows, of the estimated $7.3 million in storm-related costs, over $5.6 million is attributable to the General Fund. These costs have been submitted to the OES, and will likely require further clarification and possible revisions before the OES will begin assessing which of the costs are eligible for reimbursement.

| Department | General Fund | Non-General Fund |
|---|---|---|
| Development Services | $0 | $7,000 |
| Engineering & Capital Projects* | $2,185,000 | $0 |
| General Services | $50,000 | $0 |
| General Services - Streets | $0 | $1,092,840 |
| Information Technology & Communication | $0 | $15,250 |
| Metropolitan Wastewater | $0 | $99,097 |
| Library | $463 | $0 |
| Park and Recreation | $461,942 | $10,000 |
| Police | $126,306 | $0 |
| Real Estate Assets | $0 | $435,000 |
| San Diego Fire-Rescue** | $2,797,827 | $0 |
| Water | $0 | $25,000 |
| **Total Costs** | **$5,621,538** | **$1,684,187** |

** Includes damage to the Fashion Valley Road bridge, to be funded with Traffic Congestion Relief*

*** Includes damage to the lifeguard headquarter's dock, which will be unable to be repaired until a funding source is identified.*

As this table shows, the total storm-related costs for the General Fund are approximately $5.6 million. Further changes to this figure may occur as City staff continues to assess the damage caused by the storms. Therefore, this figure is not currently included in the current year budget deficit. Any expenses not already budgeted or reimbursed will be covered through unidentified surplus revenue or adjustments to expenditure priorities.

### Additional Expenditure Requirements

On October 11, 2004, the City Council passed Ordinance-19320 related to financial reporting and practices. To properly implement this ordinance, several City departments require enhanced staffing and associated non-personnel expenditures, which may affect the Fiscal Year 2005 financial status of the impacted departments. These departments include the City Auditor and Comptroller, the City Treasurer, Financial Management and City Attorney. The costs associated with implementation of this ordinance are currently unknown, and are not included in the summary of unanticipated expenditure requirements.

## Budgetary Savings Plan

The unanticipated expenditure requirements outlined above will be partially mitigated through the implementation of a budgetary savings plan. With the exception of the Police and Fire-Rescue departments, all General Fund departments have been asked to identify savings equal to five percent of their Fiscal Year 2005 Budget and to freeze hiring of non-public safety related positions. These savings may come in the form of personnel and non-personnel expenditure reductions, or identification of unanticipated revenue above and beyond current projections. Currently, an estimated $10.37 million in expenditure reductions and/or revenue enhancements will be required in order to maintain a balanced budget. In addition, all General Fund departments, including Police and Fire-Rescue, have been directed to be very conservative in the use of discretionary monies. Discretionary spending includes, but is not limited to, travel and meeting expenses, equipment purchases, office supplies, books and periodicals, parts and supplies, and contractual services. These reductions will have impacts across most departments as expenditures are restrained and positions remain vacant. Departments will continue to provide essential safety and health services; however, other services may experience delays.

## Expenditure Summary

The City's General Fund faces several unanticipated expenditure requirements in Fiscal Year 2005. These additional requirements are based on actual expenditure data through December 31, 2004. In response to these requirements, a budgetary savings plan has been implemented among the non-public safety departments in order to maintain a balanced budget. The table below summarizes the unanticipated Fiscal Year 2005 General Fund requirements, as well as the estimated savings from the budgetary savings plan.

| FISCAL YEAR 2005 PROJECTED ADDITIONAL GENERAL FUND REQUIREMENTS | | | |
|---|---|---|---|
| Police Department | $ | 9,000,000 | |
| Fire-Rescue Department | $ | 2,000,000 | |
| City Attorney's Office | $ | 700,000 | |
| Retiree Health Care Payment | $ | 4,100,000 | |
| Public Liability | $ | 7,200,000 | * |
| Aerospace Roof | $ | 900,000 | |
| Pension Obligation Gap | $ | 2,600,000 | |
| Budgetary Savings Plan | $ | (10,370,000) | |
| TOTAL PROJECTED REQUIREMENTS IN EXCESS OF BUDGET | $ | 16,130,000 | |

** Total estimated public liability requirement in excess of appropriation. Some of this cost may be offset by contributions from other benefiting funds.*

As the table indicates, the estimated savings from the budgetary savings plan only partially mitigates the total projected additional expenditure requirements. Projected additional revenue is anticipated to cover the remaining balance, as reflected on page 2 of this report.

# II. General Fund Revenue

## State Budget Impacts

The State of California's 2004-2005 Budget has dramatically changed the nature of local public finance in California, and will once again result in revenue reductions to the City of San Diego. Beginning in Fiscal Year 2005, the Vehicle License Fee (VLF) has been statutorily reduced to 0.65 percent of a vehicle's present value, and the VLF backfill has been eliminated. Beginning in 1999, the State Legislature enacted a series of "offsets" that effectively reduced the VLF rate paid by vehicle owners by 67 percent, from two percent of a vehicle's value to 0.65 percent. To compensate local governments, the State's General Fund backfilled the revenue that was lost as a result of these tax offsets. It should be noted that this tax reduction was not a statutory change in the tax rate, but rather an offset, or a credit, against the full two percent tax rate. As a result of the permanent reduction of the VLF rate in Fiscal Year 2005, the backfill has been eliminated. However, in order to hold cities harmless once again, the State will shift a commensurate amount of property tax revenue from the Educational Revenue Augmentation Funds (ERAF). Essentially then, State action in Fiscal Year 2005 will result in a dollar-for-dollar swap between the VLF backfill and property tax.

During the State's budget process, local government representatives and Governor Schwarzenegger negotiated on efforts to protect local government revenues. Local governments agreed to contribute $1.3 billion in each of the next two years as the State addresses its structural budget deficit. In exchange, the Governor agreed to support Proposition 1A, which passed in the November 2 election. Proposition 1A provides widespread protection of local revenues by requiring that any future confiscations by the State be supported by a 2/3 vote of the legislature, as well as a Governor's finding of a State fiscal emergency. Furthermore, Proposition 1A requires that any confiscation be paid back within three years. The $1.3 billion contribution by local governments, known as ERAF III, will be made in the form of a property tax shift to the Educational Revenue Augmentation Fund (ERAF). In Fiscal Year 2005, the City's contribution is estimated to be $17.3 million, which was incorporated in the Annual Budget.

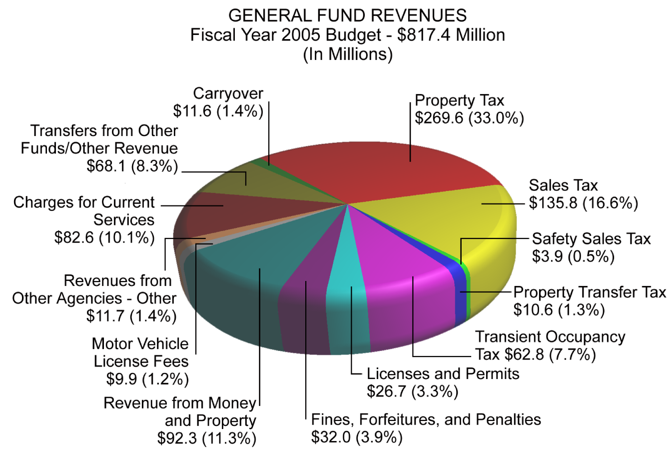
Action taken by the State has also impacted the City's sales tax revenue. On March 2, 2004, California voters passed Proposition 57, the Economic Recovery Bond Act, which authorized the one-time issuance of an Economic Recovery Bond of up to $15 billion to pay off the accumulated deficit in the State's General Fund. To finance the bond, the State has implemented a complex revenue shift known as the "triple-flip," whereby local governments will lose ¼-cent of their Bradley-Burns Sales and Use Tax. This ¼-cent tax will then be re-enacted at the State level and used as a dedicated revenue source to finance the Economic Recovery Bond. In an effort to hold local governments harmless, an equivalent amount of property tax will be shifted from ERAF to local governments. However, due to the mechanics of this shift, the year-over-year growth on the in-lieu property tax revenue will not be realized until the subsequent fiscal year. In other words, local governments will not receive Fiscal Year 2005 growth on the in-lieu property tax revenue until Fiscal Year 2006. In Fiscal Year 2005, this is estimated to cost the City approximately $2.5 million, which was incorporated into the Annual Budget.

Overall, action taken by the State of California in Fiscal Year 2005 will cause the City of San Diego to lose approximately $19.8 million in property tax and sales tax revenue. These losses were anticipated prior to the passage of the Annual Fiscal Year 2005 Budget, and are reflected in the property tax and sales tax budgets. No additional loss due to the State is expected in Fiscal Year 2005.

## Major Revenues

In Fiscal Year 2005, the General Fund revenue budget was $817.4 million. Four major revenue sources – property tax, sales tax, Transient Occupancy Tax (TOT), and franchise fees – account for 64.2 percent, or $525 million, of the total General Fund revenue budget. It should be noted that as a result of action taken by the State of California, vehicle license fees are no longer considered a major revenue source, although they will still be discussed in this section because of the issues related to the VLF-property tax swap.

Through February 2005, the four major revenues, along with vehicle license fees, are projected to end the year approximately $9.4 million over budget. This surplus is attributed to greater-than-expected revenue growth in all of the major revenues, as well as methodological revisions to the sales tax projections based on new information regarding implementation of the triple-flip. The chart below shows the composition of the Fiscal Year 2005 General Fund revenue budget.

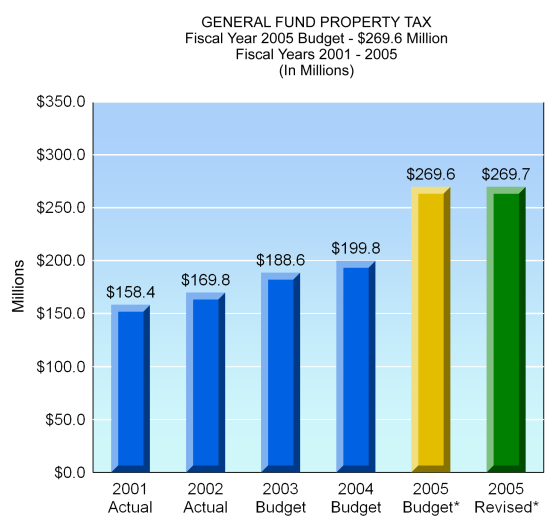



A more detailed description and current year status of each major revenue source is provided below. The bar charts reflect actual revenue data for Fiscal Years 2001 and 2002, budgeted figures for Fiscal Years 2003 – 2005, and year-end projections for Fiscal Year 2005. For more detail on the nature and status of other General Fund revenues, refer to Appendix A.

## Property Tax

Property tax revenue is collected by the County Tax Collector, and is based on a one percent levy on the assessed value of all real property. Proposition 13, passed by California voters in 1978, specifies that the property tax rate may not exceed one percent, and that assessed value may not exceed two percent growth per year unless there is a change in ownership or significant renovations.

The one percent property tax levy collected by the County Tax Collector is allocated to a number of agencies within the County's geographic area, including municipalities, school districts, special districts, and the County itself. In recent years, the City of San Diego received approximately $17.00 for every $100 in property tax that is generated within City limits. However, as a result of State action in Fiscal Year 2005, this ratio no longer applies.




* Includes property tax in-lieu payment from VLF-property tax swap

Over the last decade, several factors have contributed to a structural reduction in the amount of revenue that the City has received from property tax. In Fiscal Year 1993 the State took action to reduce its General Fund obligation for school funding by shifting local Property Tax revenue to school districts via the Educational Revenue Augmentation Fund (ERAF). This reallocation of funds caused a permanent shift in property tax revenue that has resulted in a cumulative loss of nearly $341 million through Fiscal Year 2004, according to the County of San Diego. In addition to the ERAF shifts, in Fiscal Year 1991 the state authorized counties to charge cities administrative fees for collecting and distributing property tax revenue. These charges have amounted to a cumulative total of approximately $14 million through Fiscal Year 2004.

The Annual Fiscal Year 2005 General Fund Budget for property tax is $269.6 million. This figure includes the "base" property tax projection of $216.0 million, an eight percent growth over Fiscal Year 2004 year-end estimates, as well as the VLF-property tax swap and the corresponding reduction due to ERAF III, as explained in the State Impacts section. Through the first half of Fiscal Year 2005, property tax revenue is trending slightly over budget. The table below illustrates the composition of the property tax budget, and the revised year-end projection:

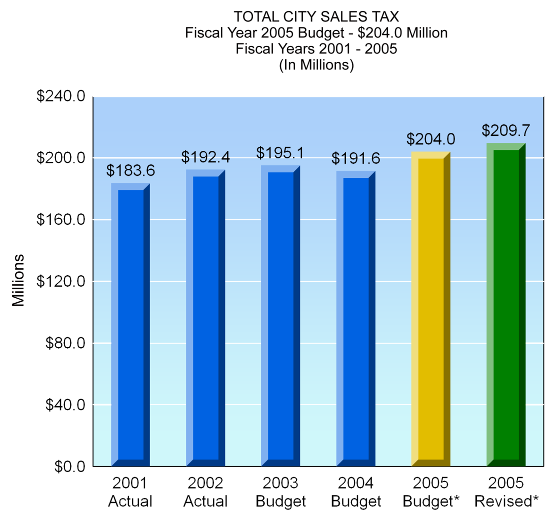
**Fiscal Year 2005 General Fund Property Tax**

| | BUDGET | REVISED |
|---|---|---|
| Base Property Tax | $216.0 million | $217.5 million |
| VLF-Property Tax Swap | $70.9 million | $69.1 million |
| ERAF III Shift | ($17.3 million) | ($16.9 million) |
| **TOTAL PROPERTY TAX** | **$269.6 million** | **$269.7 million** |

According to DataQuick, a local housing industry research company, San Diego County housing prices rose a record 21.1 percent in calendar year 2004, marking the ninth straight year in which housing prices have increased. For the year, the median price of all homes was $459,000, while the median price of all home sales in December was a record $491,000. The median prices of existing detached single-family homes reached $498,000 in 2004, an increase of $103,000 over 2003. Like the housing market, commercial real estate has seen impressive gains in recent years. According to an article in the San Diego Metropolitan magazine, investors purchased a record $1.3 billion in office buildings in 2003. Through the first three quarters of 2004, office investment had already reached $1.6 billion, and sales activity is expected to increase 25 to 30 percent in 2005.

### Sales Tax

Sales tax is the largest non-property tax source of revenue for the City's General Fund. Under the Bradley-Burns Sales and Use Tax law, cities receive one cent (or 13 percent) of the total sales tax levied on each dollar of taxable sales. The current sales tax rate in San Diego County is 7.75 percent, which consists of the statewide rate of 7.25 percent, plus 0.5 percent that is charged County-wide for transportation purposes (TransNet). Sales tax revenue is collected at the point of sale and forwarded to the state Board of Equalization. The City's sales tax revenue is then remitted by the state in the form of monthly payments.



* Includes property tax reimbursement from Triple-flip

The Fiscal Year 2005 Sales Tax budget is $204.0 million. Sales tax revenue is allocated to the General Fund and to various Non-General Fund departments, such as the Special Promotional Program, Street Division, and Police Decentralization. In Fiscal Year 2005 the General Fund is budgeted to receive $135.8 million. The total City sales tax budget is comprised of two parts: sales tax revenue that the City is projecting to receive from the ¾-cent allocation, and the property tax reimbursement that the City will receive as a result of the triple-flip, as explained in the State Impacts section. The property tax reimbursement is included in the sales tax budget for two principal reasons. First, the year-over-year growth in the reimbursement amount will be equivalent to the growth in taxable sales, not the growth in assessed valuation. As such, it should be considered a subset of sales tax, not a subset of property tax. Secondly, once the Economic Recovery Bonds are paid off, cities will no longer receive the property tax reimbursement, but will instead regain the ¼-cent sales tax that was diverted to the State by the triple-flip. In these two ways, the property tax reimbursement from the triple-flip is markedly different than the VLF-property tax swap, as described in the previous section. However, it is important to note that the triple-flip reimbursement will actually be received as property tax. The table below shows the Fiscal Year 2005 total sales tax budget, and the revised year-end projection:

**Fiscal Year 2005 Total City Sales Tax**

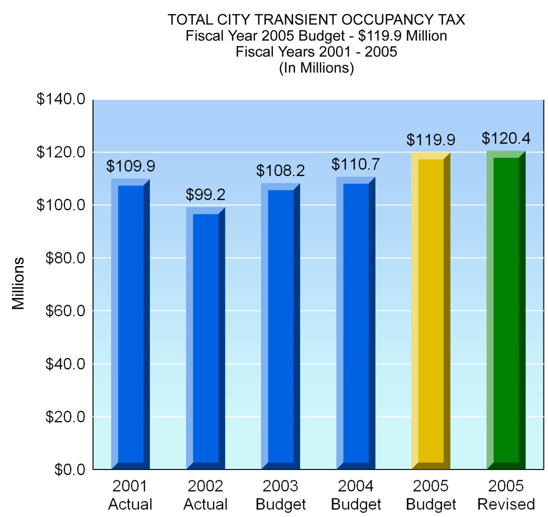
| | BUDGET | REVISED |
|---|---|---|
| Sales Tax (3/4-cent allocation) | $154.8 million | $161.4 million |
| Property Tax Reimbursement | $49.2 million | $48.2 million |
| **TOTAL SALES TAX** | **$204.0 million** | **$209.6 million** |

Year-to-date receipts reflect continued strength in the local economy. According to the State's Employment Development Department, San Diego County's unemployment rate in December 2004 was 3.2 percent, down from 3.5 percent in November and 3.6 percent in December 2003. For the month San Diego County had a net gain of 2,500 jobs, led by seasonal gains in retail trade, which added 1,300 jobs. Manufacturing contributed 300 jobs to December's total, marking the first month since June 2004 that manufacturing has added jobs. Between December 2003 and December 2004, total non-farm employment increased by 18,500 jobs. Construction added the most jobs over the past year, with a net increase of 9,100. The unemployment rate for California in December was unchanged at 5.8 percent on a seasonally-adjusted basis, although payroll employment declined by 25,000 for the month.

On the national level, the Commerce Department reported that retail sales in December increased 1.2 percent over the previous month, far greater than the 0.1 percent gain in November. For the year, retail sales grew 8 percent, the strongest growth since an 8.5 percent increase in 1999. The Commerce Department's report on retail sales also highlighted the strength of holiday sales, as December's retail sales increased 8.7 percent over December 2003, marking one of the strongest holiday sales gains since 1999. The National Retail Federation (NRF), which had been pessimistic about the strength of retail sales earlier in the season, recently announced that holiday sales in 2004 had increased 5.7 percent, beating its own forecast of 4.5 percent. The Commerce Department's monthly retail sales report is based on a survey of 12,000 retail businesses, including gas stations, car dealers, supermarkets and restaurants, all of which are excluded in the NRF survey.

### Transient Occupancy Tax

Transient Occupancy Tax (TOT) is levied on the daily rental price of hotel and motel rooms that are used by visitors to San Diego. Commonly known as the hotel tax or room tax, San Diego's TOT is levied at ten and one-half cents per dollar of the daily room price. Currently, five of the ten and one-half cents, or approximately 48 percent, is allocated to Special Promotional Programs for the promotion of tourism and other purposes designated by City Council policy. The remaining five and one-half cents, or approximately 52 percent, is allocated directly to the General Fund for general government purposes. The TOT was last raised in August 1994, when the rate was increased by one and one-half cents per dollar. A ballot measure proposing to increase the TOT by two and one-half cents per dollar was defeated on the November 2, 2004 election.




The Fiscal Year 2005 budget for TOT is $119.9 million, reflecting a six percent growth over Fiscal Year 2004 year-end estimates. Approximately $62.8 million is budgeted for the City's General Fund. Through the first seven months of Fiscal Year 2005, General Fund TOT revenues are projected to come in at $63.3 million, a surplus of nearly $500,000. These projections reflect a lodging market that continues to benefit from San Diego's status as one of the top tourist destinations in the country.

Tourism industry research firm Smith Travel Research reported that in the months of July and August, San Diego County's hotel occupancy rates were 84.8 percent and 85.1 percent respectively, second only to Oahu, Hawaii in July and the highest among the top 25 metropolitan markets in August. Average daily room rate increased as well in those months, growing 5.5 percent in July and 6.5 percent in August. Through November 2004, San Diego County's occupancy rate was 72.7 percent, up from 70.7 over the same time period in the previous year. Despite the gain, some data suggest that San Diego could be losing market share: Through November 2003, only Oahu and New York had recorded higher occupancy rates than San Diego; in 2004 the Long Beach area had managed to climb above San Diego. According to D.K. Shifflet and Associates, a travel market research and consulting firm, San Diego rose to number four in market share in 2002, but has since declined.

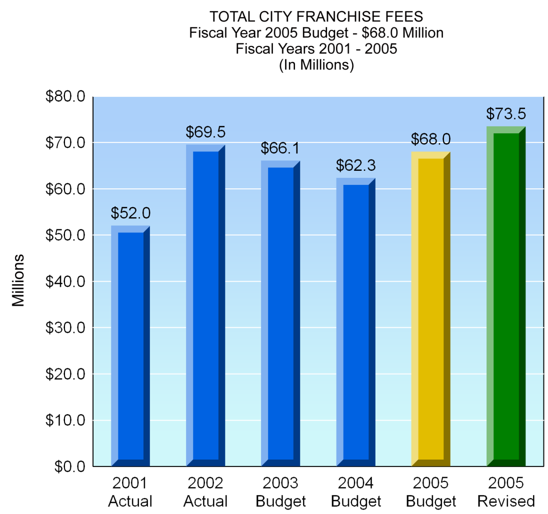
### Franchise Fees

Franchise fee revenue is paid to the City by utility companies and other service providers in exchange for the use of the City's rights-of-way. The three largest companies with which the City has franchise agreements are San Diego Gas & Electric (SDG&E), Cox Cable and Time-Warner Cable. The fees charged to these companies are levied as a percentage of gross revenue; the rates are determined through negotiation of the franchise agreement with each individual company.

SDG&E is the single largest generator of franchise fee revenue for the City. Under the terms of the agreement, the City charges three percent of gross natural gas and electricity sales within the City's jurisdiction. Seventy-five percent of SDG&E franchise revenue is deposited into the General Fund. The remaining 25 percent is deposited into the Environmental Growth Fund (EGF). One-third of the EGF is used for various environmental programs such as litter control and maintenance of open space, while the remaining two-thirds of the EGF is used for debt service on open space acquisition bonds. The franchise rate charged by the City to Cox Cable was increased from three to five percent on July 1, 2002. The rate charged to Time Warner Cable was likewise increased from three to five percent, effective January 8, 2004.

The City also collects franchise fees from private refuse collectors. These charges are based not on a percentage of gross revenues, but rather on the tons of solid waste that are collected annually. Currently, the City charges franchise fees on a two-tier system, whereby Class I haulers (those that regularly haul less than 75,000 tons per year) are charged $11 per ton, and Class II haulers (those that regularly haul more than 75,000 tons per year) are charged $12 per ton. The franchise rate was increased by one dollar effective July 1, 2003.

The Fiscal Year 2005 Budget for franchise fees is $68.0 million. Of this amount, the General Fund is budgeted to receive $56.8 million, with $11.2 million budgeted for the Environmental Growth Fund. Year-to-date, total City franchise fees are projected to finish the year at $73.5 million. General Fund franchise fees are projected to finish the year at $61.4 million, a surplus of $4.6 million over the budgeted amount. This projection includes a one-time franchise payment of $1.2 million from California American Water Company, and an estimated clean-up payment from SDG&E that is approximately $2.3 million greater than anticipated.



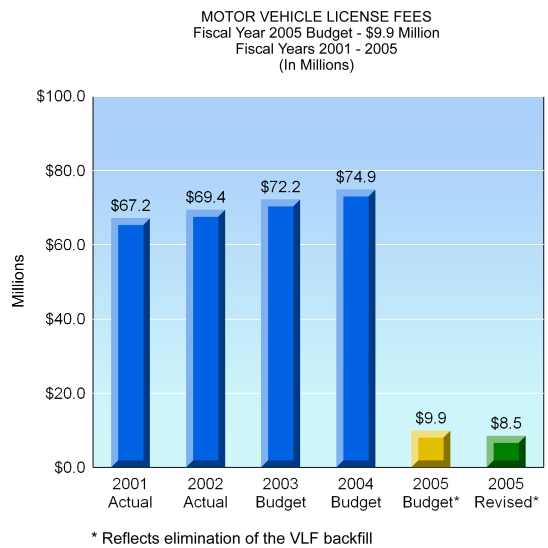

In addition to the three percent franchise fee charged to SDG&E, a 3.53 percent surcharge is levied on the gross sales of electricity within the City. All revenue from this surcharge is used for the undergrounding of utility lines, and is not allocated to the City's General Fund. Because this surcharge is passed on to the consumers, it required approval by the California Public Utilities Commission, which was given in December 2002. In Fiscal Year 2005, $38.8 million is projected to be received in utility undergrounding revenue.

### Motor Vehicle License Fees (VLF)

Motor Vehicle License Fees (VLF) are levied as a percentage of a vehicle's value, defined as the original purchase price less depreciation, and are paid annually to the Department of Motor Vehicles at the time of registration. The fees are forwarded to the State Controller's Office, which allocates the funds to local governments. Prior to Fiscal Year 2005, approximately 25 percent of total Statewide VLF revenues were allocated to counties for health and welfare program realignments. The remaining 75 percent was allocated to cities and counties on a per-capita basis.

As described in the State Impacts section, beginning in Fiscal Year 2005 the VLF rate was statutorily reduced to 0.65 percent, and the State backfill was eliminated. With this change in law also came a change in the way VLF revenue is allocated. Total Statewide VLF revenues, now based on the 0.65 percent rate, are first allocated to counties for health and welfare program realignments, which account for nearly 75 percent of all revenue. The remaining VLF revenue, less administrative charges, is allocated only to cities. As a result, total receipts of VLF revenue by the City were expected to decline substantially.

The Fiscal Year 2005 budget for vehicle license fees is $9.9 million, a three percent increase over Fiscal Year 2004 year-end estimates, adjusted for the elimination of the State backfill. Subsequent to the passage of the Annual Fiscal Year 2005 Budget on July 20, 2004, the State Controller's Office released official VLF estimates for all cities. The State Controller's Office estimated that the City of San Diego would receive $6.3 million in VLF in Fiscal Year 2005. Based on data through the first seven months of Fiscal Year 2005, VLF revenue is projected to end the year at approximately $8.5 million, a deficit of $1.4 million from the budgeted amount, but $2.2 million over the State Controller's estimate.




Nationwide auto sales in December increased 8 percent from a year earlier, registering at 18.4 million vehicles on a seasonally-adjusted annual basis according to AutoData, an automotive research firm. December's sales pace marked the highest annual rate of any month in 2004, and set a record for sales in the month of December. Toyota led the December sales mark with a 22% increase in sales. For the year, Toyota has sold 2,060,049 vehicles in the U.S., a 10% increase from 2003 and the first time that the auto maker has surpassed the two-million sales mark. By contrast, General Motors, the number one U.S. auto maker, saw December sales fall by 3.2 percent. Based on preliminary figures for the entire year, total vehicle sales registered 16.9 million in 2004, a 1.4 percent increase over 2003, which was the fifth best year on record for vehicle sales.

## Major Revenue Summary

The four major General Fund revenues described in the prior section comprise approximately 64.2 percent of the City's General Fund. Healthy economic conditions at the local and Statewide levels have resulted in unanticipated revenue growth among the major revenues. Together with vehicle license fees, these revenues are projected to end the year with a surplus of approximately $9.43 million. The table below presents a summary of the anticipated surplus in each of the major General Fund revenues and vehicle license fees.

| FISCAL YEAR 2005 PROJECTED MAJOR GENERAL FUND REVENUE STATUS | |
|---|---|
| Property Tax | $ 130,000 |
| Sales Tax | $ 5,600,000 |
| Transient Occupancy Tax | $ 500,000 |
| Franchise Fees | $ 4,600,000 |
| Vehicle License Fees | $ (1,400,000) |
| TOTAL PROJECTED MAJOR REVENUE SURPLUS | $ 9,430,000 |

These projections are based on receipts through February 2005, and take into account anticipated economic conditions at the local and Statewide levels. While it is anticipated that economic conditions will remain favorable, significant unexpected changes in local and Statewide economic conditions may have an impact on these revenues. In addition to the projected surplus from the major General Fund revenues, the City is also projecting a $400,000 surplus from other non-departmental revenues, which includes safety sales tax, property transfer tax and interest earnings, and a net surplus of approximately $6.3 million from departmental revenues. See Appendix A for a more detailed description and current-year status of these revenues.

# III. General Fund Solutions

Unanticipated expenditure requirements in Fiscal Year 2005 have constrained the City's ability to maintain General Fund operations within the existing budget. In response to these challenges, various solutions have been identified that will ensure a balanced General Fund by the end of the fiscal year. A budgetary savings plan is anticipated to achieve approximately $10.37 million in expenditure reductions and/or revenue enhancements that will partially mitigate the additional expenditure requirements. In addition, the Police and Fire-Rescue Departments are working to ensure that all remaining expenditure requirements are kept at or below the projected deficit.

Continued strength in local and Statewide economic conditions has resulted in additional unanticipated revenue growth in the major revenue categories. Combined with additional unanticipated departmental and other non-departmental revenues, the total estimated revenue surplus is approximately $16.13 million. This additional unanticipated revenue will be used to help ensure that the General Fund will be in balance at year-end. The table below summarizes the Fiscal Year 2005 projected unanticipated expenditure requirements and identified solutions.

| FISCAL YEAR 2005 PROJECTED ADDITIONAL GENERAL FUND REQUIREMENTS | | | |
|---|---|---|---|
| Police Department | $ | 9,000,000 | |
| Fire-Rescue Department | $ | 2,000,000 | |
| City Attorney's Office | $ | 700,000 | |
| Retiree Health Care Payment | $ | 4,100,000 | |
| Public Liability | $ | 7,200,000 | * |
| Aerospace Roof | $ | 900,000 | |
| Pension Obligation Gap | $ | 2,600,000 | |
| Budgetary Savings Plan | $ | (10,370,000) | |
| TOTAL PROJECTED REQUIREMENTS IN EXCESS OF BUDGET | $ | 16,130,000 | |
| **FISCAL YEAR 2005 PROJECTED GENERAL FUND REVENUE STATUS** | | | |
| Major General Fund Revenue Surplus | $ | 9,430,000 | |
| Other Non-Departmental Revenue Surplus | $ | 400,000 | |
| Departmental Revenue Surplus | $ | 6,300,000 | |
| TOTAL PROJECTED SUPPLEMENTAL REVENUE | $ | 16,130,000 | |

** Total estimated public liability requirement in excess of appropriation. Some of this cost may be offset by contributions from other benefiting funds.*

# Conclusion

In Fiscal Year 2005, public safety continues to be a top priority. Despite a strong economy and robust revenue growth, operating requirements continue to outpace available resources. As a result, the City is unable to fully fund all of the non-public safety services and support that were anticipated in the Annual Fiscal Year 2005 Budget. The solutions outlined in this report will help ensure a balanced General Fund at the end of Fiscal Year 2005. However, should additional unanticipated requirements emerge between now and the end of the year, further appropriate measures may be necessary to achieve the City Charter requirement that a balanced budget be in place by the end of the fiscal year. The status of all funds, including the General Fund, will continue to be monitored throughout Fiscal Year 2005.

Respectfully submitted,

P. Lamont Ewell
City Manager

Attachments:
- Appendix A – Other General Fund Revenue
- Appendix B – Enterprise Fund Status
- Appendix C – Special Revenue Fund Status
- Appendix D – Internal Service Fund Status

# APPENDIX A - Other General Fund Revenues

### Safety Sales Tax

Safety sales tax is generated from a one-half percent sales tax levy for local public safety that became effective January 1, 1994, as a result of the passage of Proposition 172. The tax is imposed by the State and distributed to counties based on their proportionate share of statewide taxable sales. Counties then allocate the funds to the county and cities within the county based on each jurisdiction's proportionate share of the property tax loss that resulted from the ERAF shift in 1993-94 (ERAF II). Senate Bill 8 (1996) changed the allocation system for Proposition 172 revenue and increased the cap on the share that the City of San Diego and other cities receive.

The Fiscal Year 2005 budget for safety sales tax is $6.7 million, reflecting a 4.5 percent growth over Fiscal Year 2004 year-end estimates. Approximately $2.8 million is allocated for debt service payments on Fire and Lifeguard facility improvements; the remainder is allocated to the General Fund for public safety purposes such as recent additions for support for new fire facilities and funding of required overtime and salary increases. Since the introduction of safety sales tax, the growth of City public safety expenditures has consistently exceeded growth in safety sales tax by a significant margin. As a result, although all safety sales tax revenue is allocated to accommodate the increasing costs of public safety services, this revenue is not sufficient to fully fund all public safety needs in the City. Based on current year receipts, safety sales tax is projected to be $7.3 million at year-end. The General Fund portion is projected to finish the year at $4.5 million, approximately $600,000 over budgeted levels.

### Property Transfer Tax

A property transfer tax is levied on the sale of real estate. The County charges $1.10 per $1,000 of the sale price at the time ownership of real property is transferred. The City of San Diego charges a "conforming rate" of $0.55 per $1,000 of sale price, which is then credited against the County's charge. As a result, both the City and the County receive $0.55 per $1,000. Funds are collected by the County Recorder and distributed monthly to the City.

The Fiscal Year 2005 budget for property transfer tax is $10.6 million, a six percent projected growth over Fiscal Year 2004 year-end estimates. All revenue received from the property transfer tax goes into the General Fund. Based on year-to-date receipts, property transfer tax is projected to come in at $13.3 million by year-end, a $2.7 million surplus over the budgeted amount. This projection reflects a real estate market that remains strong. Sales of both residential and commercial property have substantially contributed to the growth in property transfer tax. In calendar year 2004, the median home price in San Diego County increased 21.1 percent, and the number of homes sold totaled 60,886, the most since 1988. Commercial real estate sales have remained strong as well, with such notable sales as the Wells Fargo Plaza in downtown for $148.3 million, the La Cima apartment complex in University Town Center for $131.25 million, and the Seaview Corporate Center in Sorrento Mesa for $92.1 million. More than $5.4 billion in commercial real estate sales were recorded in 2004, up from $5.3 billion in 2003.

### Interest Earnings

The City Treasurer is responsible for investing the City's cash assets exclusive of City Pension Trust Funds. All City funds are pooled and invested together to facilitate increased flexibility in the management of the portfolio for the purpose of maximizing interest earnings. Fund investment must be consistent with the City investment policy and the state's restrictions on types of investments. Investments may extend out to five years, depending on the climate in the investment marketplace and the cash flow requirements of the City. The Fiscal Year 2005 Budget for General Fund interest earnings is $1.2 million. Interest earnings revenue is also allocated to the Tax and Revenue Anticipation Notes Fund for payment of the interest expense related to the City's interim financing.

Due to the City's inability to issue Tax and Revenue Anticipation Notes (TRANs) and the revenue shifts enacted by the State of California, the percentage of the total investment pool that is attributable to the General Fund has declined markedly in Fiscal Year 2005. As a result, even though the investment pool is expected to meet or exceed interest earning targets, the General Fund interest earnings are projected to be under-budget and offset completely by the interest expense for the City's interim financing done in-lieu of TRANs. This reduction in interest earnings is projected to result in a shortfall of approximately $1.2 million for the General Fund.

### Other Non-Departmental Revenue

Other non-departmental revenue includes the refuse collector business license tax, booking fees, general government service charges, transfers from other funds and other miscellaneous revenue. Based on year-to-date projections, other non-departmental revenues are projected to finish the year with a shortfall of approximately $1.7 million. The shortfall is primarily due to unrealized revenue from treasurer collections and under-budget revenue from the refuse collector business license tax.

### Departmental Revenue

Departmental revenue includes revenue that is budgeted within specific General Fund departments. Examples include business license and rental unit taxes, parking meter collections, parking citations, rents and concessions, charges for services, and transfers from other funds. As mentioned in the Other Departmental Expenditures section, several General Fund departments are projecting to be in a deficit position at year-end. Currently, projected over-budget revenue among all non-public safety departments is sufficient to mitigate these projected deficits. While City Council approval is required to change the appropriation for departments that are projecting a deficit, the net revenue surplus after mitigation of all projected deficits is currently estimated to be approximately $6.3 million.

# APPENDIX B - Enterprise Fund Status

### Metropolitan Wastewater

The City of San Diego's Metropolitan Wastewater Department (MWWD) provides a regional wastewater service which treated approximately 179 million gallons per day in Fiscal Year 2004. MWWD treats wastewater from the City of San Diego and 15 cities and districts, in a 450 square mile area stretching from Del Mar to the north, Alpine and Lakeside to the east, and the Mexican border to the south. MWWD manages all of the resources needed to operate the current Metropolitan Sewerage System, serving a population of 2.1 million, and provides new facilities for improved treatment or additional capacity.

With City Council approval of rate increases of 7.5 percent per year for four years starting in March 2002, MWWD embarked upon an accelerated program of pipeline replacement/rehabilitation and a system-wide preventative-maintenance cleaning schedule for 2,972.45 miles of municipal sewer lines. By early 2004 all 2,972.45 miles had been cleaned and placed on a regular maintenance schedule, including the non-right-of-way portions such as those identified in the Canyon Access Program, as well as problematic right-of-way pipe sections as they were identified.

In addition to the focus on municipal sewer main cleaning, a televising assessment program has completed more than 1,200 miles of municipal sewer pipeline. Since concentrating on these older sections of pipeline, the Department has found the system in better than anticipated conditions and as a result, is reducing the rehabilitation and replacement of deteriorated pipelines from 60 miles per year to 45 miles per year while continuing the cleaning program regimen beyond Fiscal Year 2005. The Department will continue to work towards the goal of reducing sewer spills from 10.3 to 6.6 spills per 100 miles of sewer line by the end of Fiscal Year 2007. The impact of this Sewer Spill Reduction Program was a 65% reduction in spills in 2004 when compared to the current year 2000 baseline.

Because the City is temporarily unable to access the bond market since December 10, 2004, no new contracts have been awarded for Sewer Revenue Fund Capital Improvement Program projects. Other than CIP project awards and funding phases identified prior to December 10, all pipeline replacement, trunk sewer, and pump station replacement and rehabilitation have been placed on hold. At the time of this writing, the City anticipates returning to the bond market in Fiscal Year 2006. With a successful return to the bond market, MWWD is again prepared to quickly accelerate its CIP Program. The routine cleaning, repair, and minor pipeline segment replacement that is funded from the MWWD operating budget will not be impacted by the delays noted above.

The Metropolitan Wastewater Department will also be required to pay a portion of the expenses related to the KPMG Audit, Vinson & Elkins financial investigations, and Retirement Health funding. These expenses will be covered through the utilization of under-budget Operation and Maintenance expense.

MWWD expects to experience savings from reduced energy costs at new MWWD energy producing facilities as well as various departmental reserves. The Sewer Fund is anticipated to be in balance at year-end.

### Water

For over 100 years, the Water Department has provided safe and reliable water to the residents and visitors of San Diego in a professional, cost effective, and efficient manner. As a result, the public health, environment, and quality of life are enhanced.

In April 2002 the City Council approved five annual six percent rate increases to support additional CIP financing and operational requirements. The rate increases enabled the sale of additional water revenue bonds totaling $286.9 million at an historic forty year low for interest rates. Proceeds are being used to fund additional CIP projects as well as refund certain outstanding bonds that were issued in earlier years at higher interest rates. Anticipated CIP expenditures for Fiscal Years 2003 through 2007, including prior year appropriations, are approximately $511 million. $206 million of this amount was expended through Fiscal Year 2004. Expenditure estimates for Fiscal Years 2005 and 2006 are $105 million and $100 million respectively. Additional bond issuances are planned within the next four years. It is also anticipated that the continuation of CIP after Fiscal Year 2007 will require further rate increases and debt financing.

The Water Department's substantial CIP was the result of an extensive strategic planning effort that resulted in a series of capital projects intended to enhance the capability and reliability of the water infrastructure and adhere to a Department of Health Services Compliance Order. The multi-year effort includes water treatment plant upgrades, rehabilitating and installing water pipelines, and construction of pump stations and reservoirs. The Water Department has spent approximately $576 million for these projects from Fiscal Year 1999 through the end of Fiscal Year 2004.

Due to the lack of current published financial statements and the completion of related audits and investigations, as of mid December 2004, the Water Department has ceased awarding new contracts for the CIP program. This was done to ensure the City does not obligate itself to contracts it may not be able to fully fund without additional financing.

The Water Department has sufficient funding to continue work on vital Water treatment plants and major pipelines in Fiscal Years 2005 and 2006 that are pursuant to existing phase funded contracts. The Water Department has been meeting with the Department of Health Services to inform them of the rescheduling of projects and interim plans. It is likely the City will not be able to comply with some milestones in the referenced Compliance Order.

In August 2002 the City Council authorized the Water Department to proceed with the development and implementation of the Operations Division's Bid-to-Goal and International Organization of Standards (ISO) 14001 Program. The Water Department will be the first City agency in the nation to develop both concepts simultaneously. Designed to foster team orientation, improve productivity, decrease expenditures, measure results and assure accountability, the program also incorporates the (ISO) – Environmental Management System. The ISO-Environmental Management System supplements quality improvements by focusing on prevention of pollution, environmental improvements and increasing environmental issue awareness. The Bid-to-Goal/ ISO 14001 Program resulted in an Employee Optimization Bid with an incentive plan and commitment to certain service levels. The Memorandum of Understanding (MOU) authorizing the City Manager to approve a responsible bid was approved by the City Council on June 14, 2004 and the bid was accepted by the City Manager on July 7, 2004. The bid projects a savings of $1.2 million over the 5-year term of the agreement. The Environmental Management Program is well underway and on track for achieving the goal of attaining ISO 14001 certification by the end of this fiscal year. Through the first quarter of this fiscal year, 21 of the 27 performance goals of the Pay for Performance Program are tracking according to plan.

The Water Department has developed and begun implementation of a Strategic Business Plan to enhance efficiency, effectiveness and accountability in all areas of service delivery. Development of this plan included analysis of current work practices compared to industry "best practices", input from significant stakeholders, analysis of industry trends, and development of core business goals and objectives and strategies to achieve them. This plan will ultimately provide a means for the Water Department to optimize its work processes and all of its programs and resources around its mission: To provide the San Diego community with safe, reliable, cost effective water and outstanding customer service.

The Water Department will also be required to pay a portion of the expenses related to the KPMG Audit, Vinson & Elkins financial investigations, and Retirement Health funding. These expenses of approximately $1.6M will be covered within the existing Operations and Maintenance budget.

Currently, the Water Department Fiscal Year 2005 budget is consistent with the latest rate case and financial plan. Per ongoing analyses of existing conditions and trends, Department expenditure levels are expected to be within budget appropriations for Fiscal Year 2005. Department revenues are also closely approximating anticipated levels.

### Development Services

The Development Services Enterprise Fund is responsible for managing the majority of the construction and development project review services for the City of San Diego. Zoning and development information services are also a part of the Development Services Enterprise Fund. The major functions of building plan check and inspection, development and environmental planning, and subdivision review are centralized to provide greater coordination and management of development.

Total building valuation has increased from $1.895 billion in Calendar Year 2003 to $2.056 billion in Calendar Year 2004, an 8.5% increase. The total valuation measure is a useful economic, revenue, and workload indicator. Total valuation is the total value of the building construction work for which Development Services building permits are issued, based on industry- recognized valuation standards. Total annual valuation includes all residential and commercial projects.

For Fiscal Year 2005 forecasted revenues are expected to be $63.9 million and will exceed budgeted revenues by $3.9 million. Fiscal Year 2005 forecasted expenditures are projected to be $60.1 million, which is $.90 million less than budgeted expenditures. The Development Services Department monitors and controls its expenses throughout the fiscal year, and matches expenditures to the annual revenues and reserves available in the Development Services Enterprise Fund.

### Refuse Disposal and Recycling

The Environmental Services Department finances several programs from two enterprise funds: the Refuse Disposal Fund and the Recycling Fund. The purpose of the programs is to efficiently and effectively maintain a clean, safe, and healthy environment by reducing, collecting, and disposing of solid waste; implementing and encouraging public participation in recycling programs; preventing litter; managing hazardous materials; and educating the public about the benefits of a safe and sustainable environment.

Under direction of the Mayor and City Council, remapping of collection routes was implemented June 7, 2004, and improvements continue to be made to increase operational efficiencies. The Department has completed a multiyear program to expand the collection of commingled recyclable commodities to all residences receiving City-provided trash collection. Citywide expansion of separated greenery collection will continue as funds are available. The Enterprise Funds are projected to end the fiscal year with operating costs below budgeted levels and within funds available. However, projections indicate that modifications will be required to ensure the long-term viability of the funds.

### Golf Course

The Golf Course Enterprise Fund is used to manage and maintain Torrey Pines, Balboa Park Golf Complexes, and Mission Bay Golf Course and Practice Center. This Non-General Fund is financed solely from golf green fees, concessions, driving range fees and interest on revenue derived from those courses. During Fiscal Year 2005, in July, staff hosted the Junior World Golf Championship, the largest and most prestigious junior golf event in the world. On January 17-23, 2005, Golf Operations hosted the very exciting and highly publicized Buick Invitational PGA TOUR, played by many top golf professionals.

For Fiscal Year 2005, budgeted revenue for Torrey Pines was based upon the possible temporary closure of the North Course for replacement and drainage improvements, pending Council approval of the capital project. On January 11, 2005, the City Council deferred this project. As a result, revenues for Torrey Pines should exceed budgeted levels in Fiscal Year 2005. These additional revenues will assist with offsetting unbudgeted costs for storm-related damage, additional equipment and supplies needed to address maintenance issues on the North Course, and deferred maintenance repairs at the Mission Bay Golf Course and Practice Center. This fund will be in balance at year end.

### City Airport

The City Airport Enterprise Fund continues to be the major source of funding for developing and maintaining Montgomery Field and Brown Field Airports. Fiscal Year 2005 has been a year of significant progress in reaching the financial and airport development goals for the City.

Federal and State agencies continue to support Airport Capital Improvement Program (ACIP) projects. During this fiscal year, these agencies will provide at least $750,000 in grant funding, with additional money to follow as funding becomes available.

Montgomery Field ACIP projects for Fiscal Year 2005 include the design of a relocated helicopter landing area at the northwest corner of the airport, a realigned aircraft taxilane, engine run up aprons, and a blast pad. Construction should commence in Fiscal Year 2006.

Brown Field ACIP projects include a slurry seal and restriping of all airport operating areas, and the design to replace the airfield electrical and lighting system. Construction should commence in Fiscal Year 2006.

Expenditure projections indicate that both airports are operating within budget, and revenues are trending as expected with no major variations.

### Utility Underground Program

It is estimated that approximately 1,000 miles of overhead utilities exist in the City of San Diego. As of calendar year 2002, the City of San Diego Underground Program began converting overhead lines to underground at a pace of $10 million per year. This level of funding allowed approximately 10 to 12 miles of overhead lines to be buried per year along major roads and thoroughfares.

In December 2002, the California Public Utilities Commission (CPUC) approved 3.53% surcharge on electricity for City of San Diego residents for the sole purpose of expanding the undergrounding of overhead electric lines. This surcharge is expected to generate approximate $39 million dollars per year. This is expected to increase the undergrounding of lines to about 35 to 40 miles per year.

Collection of this surcharge began in January 2003 with the City receiving its first payment in May 2003. In July, the first project funded with this surcharge began construction. For calendar year 2004, SDG&E completed 14 conversion projects and currently has 41 projects in construction. Total expenditures for undergrounding in calendar year 2004 are estimated at $54.9 million. In calendar year 2005, the City's Underground Conversion Program expects to begin an additional 23 projects and to expend approximately $55 million for underground conversions.

The current list of expanded projects which have been expedited due to this increased funding includes projects that will underground lines adjacent to more than 62 schools and 40 parks, recreation centers, libraries, hospitals, trolley stations, and post offices. At this increased level of undergrounding, it is estimated that all of these projects be completed in the next five to seven years, in addition to complete undergrounding of all 150 miles of major and residential collector streets within the City of San Diego that remain to be undergrounded.

Under current CPUC undergrounding rules, undergrounding of residential streets is normally prohibited. Under the City of San Diego Underground program the CPUC has granted a deviation from CPUC underground rules for the City of San Diego which will allow the undergrounding of residential streets. Thus, the City has now begun converting the 800 miles of residential streets that have had overhead lines for decades. A program has been devised and approved by Council that will allow conversions to happen in whole communities, with residential projects envisioned that will encompass large multi-block areas and not just single streets. It is anticipated that the completion of all residential areas within the City of San Diego may be completed in approximately 20 to 25 years.

The City's Underground Conversion Program no longer looks at how much undergrounding can be done on a year by year basis, but as an overall plan as to how to complete the undergrounding of the entire City. In this regard, a revised Prioritized Master Plan that lists all streets to be converted within the City was approved by the City Council on January 11, 2004 and is to be revised each year, no later than June 30th. City staff is required to report biannually to the City Council and the CPUC the status of both the fund accounting as well as the status of all underground projects which have been funded. Approximately $678,000 has been expended for the Utility Underground Program in Fiscal Year 2005. Expenditure projections indicate that the Program is operating within budget, and revenues are trending as expected with no major variations.

# APPENDIX C - Special Revenue Fund Status

### Centre City Maintenance Fund

The Centre City Maintenance Fund is used to identify maintenance problems, develop solutions, and coordinate services and projects for the benefit of downtown. Staff serves as liaison between City departments and businesses regarding resolution of maintenance issues. In addition to general maintenance and hand sweeping, approximately 60% of this fund is used to provide contractual services for weekend refuse collection, 24-hour-a-day downtown restroom availability, and Horton Plaza Theatres maintenance. Revenues and expenditures are projected to be in balance at year-end.

### Convention Center Complex and New Convention Facility

The Convention Center Complex Fund reflects the transfer of funds from Special Promotional Programs for the purpose of planning, promoting, operating, and maintaining the San Diego Convention Center, and also providing for the expansion of the Convention Center. This Fund is projected to be in balance at year-end.

The New Convention Facility Fund provides funding for the operation and maintenance of the Convention Center. In addition, it provides City services related to operational and developmental activities between the City, the Convention Center Corporation, and the San Diego Unified Port District. It is projected that this Fund will be in balance at year-end.

### Emergency Medical Services

Emergency Medical Services (EMS) provides 24-hour medical transportation services to the City of San Diego through San Diego Medical Services Enterprise, a public-private partnership between the City of San Diego and Rural/Metro Corporation. Ambulances are staffed by personnel from San Diego Fire-Rescue Department and Rural/Metro of San Diego.

It is expected that EMS expenditures will be recovered in total by the distribution of revenues and reimbursement from San Diego Medical Services Enterprise, Rural/Metro of San Diego, San Diego Fire-Rescue Department, and the City's General Fund budgets.

### Energy Conservation and Management Program

The Energy Conservation and Management Program completed installation of a 500 kilowatt cogeneration and photovoltaic power generation system at Police Department Headquarters, projected to save $600,000 annually. The Energy Division also accepted a $2.23 million loan from the California Energy Commission and is implementing energy efficiency measures and installing self generation technologies in 19 City-owned facilities, including libraries, park and recreation centers, and office buildings. These improvements include lighting and heating/air conditioning upgrades; high efficiency pool pumps; and solar thermal panels. In addition, the Energy Division partnered with the County of San Diego, San Diego Regional Energy Office and San Diego Gas and Electric to assist with the Rebuild a Green San Diego Program, which offers technical support and incentives to victims of the devastating 2003 Cedar Fire to install energy efficiencies and self generation systems on their rebuilt homes. These measures are expected to result in annual energy savings of 173,494 kilowatt hours. It is projected that this fund will be in balance at year-end.

### Environmental Growth

The Environmental Growth Fund is used exclusively for the purpose of preserving and enhancing the environment of the City of San Diego. This fund is financed from franchise revenues. One-third of the money funds maintenance costs for regional parks including Balboa Park, Mission Trails Regional Park, Tecolote Canyon Natural Park, Black Mountain Park, San Pasqual Open Space and Los Peñasquitos Park. Two-thirds of the monies received are used exclusively to pay the debt service for bonds issued for the acquisition, improvement and maintenance of open space to be used for park or recreational purposes. Revenues are anticipated to be in line with appropriations for the current fiscal year.

### Facilities Financing

Facilities Financing, a section of the Planning Department, is the implementation arm of Community Planning. Public Facilities Financing Plans identify community plan facilities and provide cost estimates. In conjunction with Community Planning, existing and build-out development projections are determined. From this determination, fees for each community are calculated based on the type and size of future development/redevelopment.

Facilities Benefit Assessments (FBA) or Development Impact Fees (DIF) are determined and charged for development in all planned urbanizing and urbanized communities within the City of San Diego. A developer usually pays one or the other (FBA or DIF), but not both. As development occurs, plan files are reviewed and fees assessed. Fees are collected from development when building permits are issued. The money is used by the City to provide needed public facilities such as streets, libraries, parks and fire stations. Key accomplishments are the number of community facilities provided all or in part with these fees. Facilities Financing also assesses Housing Trust Fund Fees (HTF). These fees were adopted by Ordinance O-17454 on April 16, 1990. This fee is applicable on new construction, additions, or interior remodeling to accommodate a change from the structure’s current use. These fees are only applicable to non-residential development and were established to meet, in part, the affordable housing needs of San Diegans.

Development Agreements, Tentative Maps, and Cost Reimbursement Districts are monitored to ensure that conditions are met on a timely basis and that funds collected are used for the purpose intended. Facilities Financing is responsible for portions of the Strategic Framework Element regarding financing strategy and city-wide inventory. This year, expenditures are programmed to be in balance at year end.

### Gas Tax

The Gas Tax Fund is a result of a combination of laws that tax the use of gasoline. The current total tax on fuel is $0.18 per gallon. The City of San Diego’s share of Gas Tax revenue is based on a formula using vehicle registration, assessed valuation and population. The funding generated is used to perform citywide repairs and restoration to existing roadways, reduce congestion, improve safety and provide for the construction of needed facilities within the public rights-of-way. In addition, this fund provides landscape maintenance for selected center medians and rights-of-way, traffic engineering and street maintenance services.

In Fiscal Year 2005, the Mayor and City Council approved $23.9 million in operating programs to be funded with Gas Tax funds. Based on the most recent estimates, the Gas Tax Fund will be in balance at year-end.

### Information Technology and Communications

The Information Technology (IT) Division establishes strategies, policies and procedures for effective implementation of citywide information technologies. In doing so, the IT Division manages the day-to-day operating agreement and negotiates user rates with San Diego Data Processing Corporation (SDDPC) on behalf of the City Manager. The Division is also responsible for the Cable TV Program, the City’s E-Government Program, including the City’s Web Site, the Geographic Information System (GIS) Program, IT Project Management, including operational IT standards and practices, Citywide IT budgeting, management of citywide IT contracts, and special projects such as the Employee Computer Purchase Program.

The IT Division is funded through the Information Technology and Communications Fund. Because the IT Division represents and provides services to all City departments, this portion of the Special Revenue Fund is paid for by all City departments. Approximately 29 percent of the cost for this fund is apportioned to the General Fund and 71 percent of the cost is covered by the Non-General Funds. The IT division projects sufficient revenues to cover its expenditures.

The Communications Division provides effective wireless communications to the City and other governmental agencies, engineering, installing, maintaining and repairing wireless communications systems. The Division is funded through the Information Technology and Communications Fund, with costs allocated citywide. The Communications Division is also forecasting full expenditure of the Fiscal Year 2004 Budget.

### Los Peñasquitos Canyon Preserve

The Los Peñasquitos Canyon Preserve Park Fund provides for the protection and enhancement of the natural features of Peñasquitos Canyon Preserve while providing for passive recreation in accordance with the Peñasquitos Master Plan. Sources of revenue for this fund include interest income from the endowment fund established as a result of the American-General land trade agreement, concession leases, and a transfer from the Environmental Growth Fund. Fiscal Year 2005 expenditures are projected to exceed annual revenues (the result of lowering interest earnings); however, there is sufficient fund balance to cover the anticipated revenue deficit.

### Optimization Program

The Optimization Program assists City business units to ensure that public services are provided to the citizens of San Diego in a productive and optimal manner. This is done through process re-engineering projects and departmental assessments. Since the program's inception, 22 re-engineering projects have been successfully completed resulting in $156 million in savings through cost avoidance and/or increased revenue. The program includes the administration of the Citywide Resident Satisfaction Survey, as well as the ongoing performance monitoring of City services that have undergone the competitive assessment process. It is projected that the Optimization Program will be in balance at year-end.

### Police Decentralization

This program funds the site acquisition, planning, and construction of new, permanent police facilities; annual debt payment for permanent facilities; and payment for jail services per a negotiated contract with the County of San Diego. The Police Decentralization Fund is projected to be in balance at year-end.

### Public Art

The Public Art Fund supports programs and services that advance the development of public art projects in San Diego and advocates the inclusion of artists in public and private development. It supports the management and maintenance of the City's art collection as well as the planning and administrative costs associated with the Public Art Program and implementation of the Public Art Master Plan. The Public Art Fund is projected to be in balance at year-end.

### QUALCOMM Stadium

QUALCOMM Stadium remains a vibrant and productive asset to the entire San Diego community and region. The Stadium has just completed its first year of operation without the San Diego Padres who have since moved to their new stadium, Petco Park.

During this initial year, the stadium has worked through some challenging operational issues. Full time staff has been reduced from 50 to 22 people. Operating the stadium with reduced staff and fulfilling tenant needs became new territory from both a personnel and resource perspective.

New events are being sought to replace the vacated baseball dates. Events such as Drum Corps International, National Professional Paintball Championships, new Soccer promoters providing additional soccer matches, Football camps, and concerts have been booked to help offset the vacated dates. During this year, it is expected that the stadium will select a company to produce a regularly scheduled Flea Market for the parking area that will produce an additional revenue source in Fiscal Year 2005.

### Seized and Forfeited Assets

This program provides for the expenditure of proceeds from seized and forfeited assets. Under the Federal Comprehensive Crime Control Act of 1984, local law enforcement agencies may receive seized and forfeited assets from the federal government from operations in which the local agencies participated. The large number of narcotics investigations conducted by the Police Department, in conjunction with federal authorities, makes the Department eligible for participation in the program. Federal law requires that assets received go toward enhanced enforcement activity and not be used to supplant normal City revenues. Assets have been used to support the Air Support Program, the STAR/PAL Program, and the Juvenile Services Program. The Seized and Forfeited Assets Fund is projected to be in balance at year-end.

### Solid Waste Local Enforcement Agency

Development Services' Solid Waste Local Enforcement Agency (LEA) is certified by the California Integrated Waste Management Board (CIWMB) to enforce state solid waste laws and regulations. To fulfill this mandate, the LEA carries out a comprehensive permitting and inspection program for all active solid waste facilities and operations within the City's jurisdiction. The LEA is also responsible for enforcing state requirements at closed, inactive, or abandoned disposal sites to ensure the protection of public health and safety and the environment. The fund is projected to be in balance at year-end.

### Special Districts Administration

The purpose of Special Districts Administration fund is to provide a cost-effective method for the City to facilitate provision of necessary public improvements in developing areas of the City. Special Districts Administration handles all aspects of the land secured debt issuance process, including district formation, bond issuance, and administration of special assessment districts and community facilities districts.

The overall budget for the Special Districts Administration is in good standing. It is anticipated that all expenses for Special Districts Administration will be reimbursed by revenue received by the end of Fiscal Year 2005.

### Special Promotional Programs

The purpose of this fund is to advance the City's economic health by supporting programs that increase hotel occupancy and attract industry, resulting in the generation of Transient Occupancy Tax (TOT) and other revenue; to develop, enhance, and maintain visitor-related facilities; and to support the City's cultural amenities and natural attractions. This fund is projected to be in balance at year-end.

### Storm Drain

Storm Drain fees were implemented by the City of San Diego in 1990 and are collected as part of all water and sewer utility bills. The revenue collected is expended for operation and maintenance of storm drains, construction of capital projects and the general management of the storm drain system, including monitoring the system for silt, toxic material and related pollutants. The current fee is .95 cents per single-family residence meter per month and .06 cents per hundred cubic feet, per month, for all other meters.

The Storm Drain Fund, which is comprised of Storm Drain fees, is budgeted at $6.0 million in Fiscal Year 2005. These funds are allocated in the current year budget for a wide range of activities related to construction and maintenance of storm drains as well as storm water management programs. The Storm Drain Fund will be in balance at year-end.

### Transportation/Street Division

The Street Division Operating Fund consists of funding from Gas Tax, Sales Tax, TransNet, and Water and Sewer Right-of-Way Fees. Budget reductions in the current fiscal year will result in a limited number of streets resurfaced and slurry sealed, and response time for requests for maintenance is longer than in previous years. However, Street Division continues to provide the best service possible with available resources, and it is expected that the Operating Fund will be in balance at year-end.

### TransNet

On November 7, 1987, voters in the County of San Diego approved the San Diego Transportation Improvement Program (TransNet), which allowed for a half-cent increase in the local sales tax (Proposition A). The term of this program is for 20 years ending in 2008. In November 2004, San Diego County voters approved a 40-year extension of the existing half-cent sales tax for transportation improvements for the entire region. These additional monies will be used for highway, transit, and local road improvements throughout the region. The City of San Diego's share of TransNet revenue is based on population and the number of local street and road miles maintained. The funds generated are used to perform citywide transportation improvements such as the repair and restoration of existing roadways and construction of needed facilities within the public rights-of-way. Through a cooperative effort with the San Diego Association of Governments (SANDAG), the City of San Diego is able to manage the fund so that the most pressing transportation problems are solved.

More specifically, TransNet revenue is allocated for traffic engineering and street maintenance services, graffiti control activities, transportation and drainage, traffic studies plans, and other TransNet eligible capital improvement projects.

In Fiscal Year 2005, the Mayor and City Council approved $31.4 million in operating programs and capital improvement projects to be funded with TransNet funds. In Fiscal Year 2005, the Mayor and City Council also approved a TransNet Commercial Paper budget of $19.6 million. Commercial Paper is a borrowing tool typically used to raise cash needed to cover current cash flow deficits and is generally viewed as a lower cost alternative to bank loans. SANDAG issues Commercial Paper on behalf of the City as advanced funding of TransNet monies projected to be received in the future. For Fiscal Year 2005, it is projected that $4.0 million of TransNet Commercial Paper will be issued.

### Unlicensed Driver Vehicle Impound

This program provides for specialized enforcement of state of California laws regarding the operation of a motor vehicle without a driver's license or with a suspended or revoked driver's license. The program was initiated with grant funding from the California Office of Traffic Safety and continues as a self-supported program funded by the fees imposed on the impound of vehicles of unlicensed drivers. It is anticipated that the fund will be in balance at year-end.

# APPENDIX D - Internal Service Fund Status

## Central Stores

The Central Stores Revolving Fund is responsible for the procurement, storage, and distribution of approximately $24.5 million in consumable materials and supplies to City departments, the administration of the Citywide Open Purchase Order Program, the redistribution and sale of surplus City property, the interoffice and United States Postal Service Mail Center operation, and the City Public Works Emergency Communication and Dispatch Center (Station 38). To date, the Surplus Property Program has realized $1,228,800 in revenue and the Mail Center has saved $226,486 in overall City USPS mailing costs. Revenues and expenditures are projected to be in balance at fiscal year end.

## Engineering and Capital Projects – Water and Wastewater Internal Service Fund

The Engineering and Capital Projects Department's Water and Sewer Design and Field Engineering-Water/Wastewater Divisions are funded through the Water and Metropolitan Wastewater Department. The purposes of these Divisions are to provide preliminary engineering, the design of water and wastewater projects, and construction inspection services. As of December 2004, the Division has 141 active water projects totaling $148.9 million and 310 active wastewater projects totaling $880.1 million.

An example of a major project that was started in June of 2004 is a new Sewer Pump Station (SPS #89) in Sorrento Valley. This new pump station will divert flow from SPS 65 and from Los Penasquitos Creek (LPC) on to SPS 64. The existing sewer mains in LPC are in dire need of repair and lie in an environmentally sensitive lagoon. This diversion will abandon these deteriorated mains in the lagoon and construct approximately 10,000 feet of new sewer lines ranging from 8" to 24" in diameter in existing streets. SPS #89 will pump 650 gallons per minute and include an emergency storage reservoir with a capacity of 85,000 gallons.

Another project that started construction in June of 2003 is the replacement of SPS 28, 29 and 45 with one larger and a more modern pump station that will be known as SPS 45. To eliminate SPS 28 and 29 the flow will be diverted from these stations via 5,226 feet of 24" gravity main to SPS 45. Most of this main is located approximately 20 feet under the Torrey Pines Golf Course and will be micro-tunneled to avoid disruption of the course and its patrons. From SPS 45 it will take the flow for a little over a mile via a 10" force main which then empties to an 18" sewer main for approximately three quarters of a mile which then discharges to the existing gravity main on Gilman Drive. This construction will take approximately two years to complete. The expenditures for the Division's are in alignment with Fiscal Year 2005 budget and project schedules.

## Equipment Division

The Equipment Division of the General Services Department is responsible for the acquisition, maintenance/repair, and disposal of the City's non-public safety fleet.

Fuel and repair parts cost continue to give the Division some concern. In Fiscal Year 2004 diesel and gasoline expenses were 30% greater than in Fiscal Year 2003. By utilizing a straight-line projection, it is estimated that Fiscal Year 2005 fuel expenses will be about 3% above the Fiscal Year 2004 recorded level.

Also, in Fiscal Year 2004, repair part expenses were 14% greater than in Fiscal Year 2003. By utilizing a straight-line projection, it is estimated that Fiscal Year 2005 repair part expenditures will be greater than the Fiscal Year 2004 recorded level. The combined Operating and Replacement Funds are projected to be in balance at the end of Fiscal Year 2005.

### Publishing Services
The Publishing Services Revolving Fund is responsible for managing, supervising and producing the City's publications, graphics, multimedia and convenience photocopier requirements in an efficient and organized manner to achieve the highest quality at the lowest possible cost. In Fiscal Year 2005 volume CD reproduction has been added to services offered, and the number of jobs priced immediately upon completion has approached 100 percent, as has response to customer satisfaction surveys. Over 3,700 printing, graphics, multimedia and photocopy requests have been completed thus far in the fiscal year. Photocopier uptime is at least 98 percent or greater with an average response time of two hours or less for service requests. Over the last three years revenues have continued to decline due to Citywide budget constraints. Mid-year review and analysis has resulted in initiatives to ensure the fund will be in balance by fiscal year end.

### Risk Management
Risk Management oversees the appropriations designated for the effective prevention, reduction or elimination of the City's risk by centralizing the administration of safety, employee benefits, Workers' Compensation and public liability exposure programs. Having these types of programs in place serves as an incentive for employee recruitment, retention and satisfaction, while protecting the City's assets, employees, and citizens.

The current workers' compensation costs are trending closely with newly established rates. However, any severe injuries that may be filed during the remaining part of the fiscal year would impact the available funds dramatically. In some cases, severe injuries may costs up to $1 million per claim.

During the spring of 2004, Governor Schwarzenegger approved the workers' compensation reform legislation. While some of the legislative changes were immediate, the true cost impact cannot be determined until later years.

Public Liability expenditures are trending higher than Fiscal Year 2004 for the same period. Current expenditure levels in the fund have increased by $5.2 million. The primary reason for the large increase is the continuing payments for non-claims related expenditures. Expenditures such as legal services incurred as a result of the ongoing investigations and legal counsel associated with the SEC investigations and financial disclosure practices. Additionally, unanticipated large claims related payments were made during the earlier part of the fiscal year.

It is projected that Risk Management will be in balance at year-end once the Public Liability costs are accommodated in the General and Non-General Funds.

### Special Training
The Special Training Program consists of three main components: Citywide Training, the City Manager's Equal Employment Opportunity Program, and the Employee Assistance Program. Citywide Training offers training classes and courses to employees across all levels of the organization and results in increased knowledge of best practices in supervision and management. Training programs include Supervisors Academy, Dimensions in Discipline, New Employee Orientation, and the Leadership Development Program.

The City Manager's Equal Employment Opportunity Program coordinates citywide EEO training, complaint tracking, and resolution issues, in conjunction with the Personnel department, Labor Relations, and the City Attorney's Office. The Program consults with departments on evaluating the feasibility of reasonable accommodation and delivers educational and compliance training on Americans with Disabilities Act (ADA) issues.

The Employee Assistance Program provides counseling and referral services that assist employees in solving personal and workplace problems that effect productivity, job performance, and workplace safety. EAP provides training for supervisors on early intervention skills to recognize problem signs and get employees help in addressing them. It is projected that the Special Training Program will be in balance at year-end.