



THE CITY OF SAN DIEGO  
**REPORT TO THE CITY COUNCIL**

DATE ISSUED: September 20, 2006 REPORT NO: 06-131

ATTENTION: Council President and City Council  
Docket of September 25, 2006

SUBJECT: Amendment to San Diego Medical Services Enterprise [SDMSE]  
Operating Agreement Regarding Profit Distributions

REFERENCE: Memorandum to SDMSE Board of Managers, June 22, 2006 Re: Profit  
Distribution Policy

REQUESTED ACTION: Amend the SDMSE operating agreement between Rural Metro of San Diego [Rural Metro] and the City to allow for monthly profit distributions within the limitations prescribed in the referenced memorandum.

STAFF RECOMMENDATION: Amend the contract language as proposed by SDMSE management and approved by the SDMSE Board of Managers.

SUMMARY: San Diego Medical Services Enterprise, L.L.C. [SDMSE] is a limited liability company set-up by the City and Rural Metro of San Diego [Rural Metro] to provide 911 medical transport services to the City. SDMSE was created as the result of a competitive RFP process and has been in operation since 1997; the City and Rural Metro are its only members. In addition to EMS services for the City, SDMSE conducts business within the County of San Diego providing both emergency and non-emergency medical transportation services. Revenue generated by SDMSE is used to fund the operating expenses of the Enterprise. In addition to this, SDMSE generates profits and maintains a positive, predictable cashflow and has had no draws on its line of credit since February of 1999. Under the current operating agreement between the City and Rural Metro, profits from SDMSE are divided equally between the members.

The current profit distribution policy of SDMSE was memorialized in current operating agreement, authorized by the Council on November 15, 2004 and signed by the parties on November 30, 2004. This policy mandated that the following conditions be met before profits could be distributed:

1. All operating expenses are funded.
2. No line of credit balance is outstanding.
3. No draw on SDMSE's line of credit is necessary.
4. SDMSE has cash reserves of 20% in excess of projected operating expenses over a three month period [120% Requirement].

5. The profit distribution does not exceed 50% of the realized but undistributed net profits. On June 6th 2006, at a regularly scheduled meeting, the Board of Managers of SDMSE approved a management proposal to change the profit distribution policy, replacing the 120% Rule with a mandatory cash reserve of \$500,000 and delegating to management the authority to declare profit distributions.

Rural Metro of San Diego has already approved the change to the profit distribution policy.

The recommendation to change the policy is based primarily on two factors. First, the 120% Requirement was established as a conservative estimate to ensure adequate cash reserves for an enterprise that was new and without historical financial data. Second, as a mature enterprise, SDMSE has very stable and predictable cash expenditures and collections. After examining SDMSE's historic month-to-month cash variances, management determined that a cash reserve of \$500,000 is more than adequate to meet operating expenses. Moreover, any distribution would require the approval of SDMSE management, allowing for consideration of any potential future cashflow impacts.

Under the new profit distribution policy approved by the Board of Managers, the following conditions must be met before any profits may be distributed:

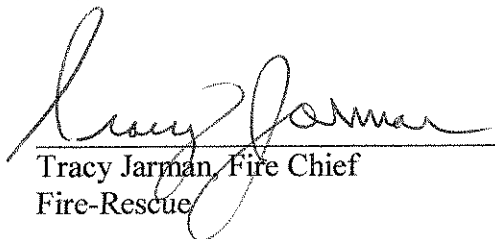
1. All current operating expenses of the Company are funded and both Members have been paid in full for the previous month's operating expenses
2. There is no outstanding balance on the Company's line of credit and the Managers do not foresee that any draw will be necessary.
3. The Company has a minimum of \$500,000 cash reserve in a cash reserve account.
4. The amount of the profit distribution will not exceed 50% of the undistributed net profit of the Company.

FISCAL CONSIDERATIONS: There are no fiscal impacts from this change.

PREVIOUS COUNCIL and/or COMMITTEE ACTION: The Council authorized the City Manager to enter into the Third Amended and Restated Operating Agreement, on file with the City Clerk as Document No. RR.299840.1, on November 13, 2004 and approved the Operating Agreement, on file with the City Clerk as Document No. RR.299840.1, on November 30, 2004.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS: Not applicable.

KEY STAKEHOLDERS AND PROJECTED IMPACTS: Key stakeholders include both the City and Rural Metro of San Diego.

  
Tracy Jarman, Fire Chief  
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