



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

DATE ISSUED: November 29, 2006                      REPORT NO: 06-184

ATTENTION: Council President and City Council  
Docket of Dec. 4, 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 Section 4.3 of the SDMSE operating agreement between the City of San Diego and Rural Metro of San Diego [Rural Metro].

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

SUMMARY:

On June 6, 2006, the SDMSE Board of Managers approved two changes to the SDMSE profit distribution policy.

The current policy stipulates that before a profit distribution can be considered, SDMSE's projected cash flows are 120% of projected operating expenses over a three month period. The new policy mandates that SDMSE have a cash reserve in excess of \$500,000 before a profit distribution is considered.

The 120% requirement was established seven years ago by the SDMSE Board of Managers as a conservative measure to ensure adequate cash reserves for an enterprise that was new and without historical financial data.

As a mature enterprise, SDMSE has very stable and predictable cash expenditures and collections. After close examination of SDMSE's historic month-to-month cash variances, the SDMSE Board of Managers determined that a cash reserve of \$500,000 is more than adequate to meet operating expenses. The Auditor also reviewed the \$500,000 cash reserve requirement and opined that it is adequate.

The SDMSE Board also voted to delegate the authority to declare a profit distribution to the officers of SDMSE. This includes a Chief Executive Officer, a President, and a Chief Operating Officer. There must be unanimous consent between the officers before any profit distribution is considered. The Mayor, City Council, and SDMSE Board of Managers will be informed in writing by the officers when a profit distribution is scheduled.

Giving the authority to the officers of SDMSE will allow SDMSE to make more frequent profit distributions to both partners, City of San Diego and Rural Metro, while maintaining a fiscally prudent policy.

The following is the proposed profit distribution policy with the new language underlined and the old language struck-out. All other language remains the same.

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.
3. There is no draw of SDMSE line of credit necessary.
4. The profit distribution does not exceed 50% of the realized but undistributed net profits.
5. ~~SDMSE has cash reserves of 20% in excess of projected operating expenses over a three month period.~~ SDMSE will maintain a minimum of a \$500,000 cash reserve in the SDMSE lockbox at the time of profit distribution.
6. The SDMSE officers unanimously agree to the amount of such distributions after considering any potential future cash impacts.

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

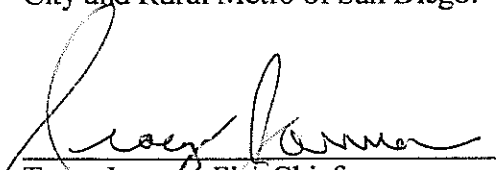
San Diego Medical Services Enterprise, L.L.C. [SDMSE] is a limited liability company set-up by the City and Rural Metro of San Diego [Rural Metro] to provide 911 medical transport services to the City. SDMSE was awarded the EMS contract as the result of a competitive RFP process and has been in operation 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.


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  
Fire-Rescue

  
\_\_\_\_\_  
Jill Ofen, Public Safety & Homeland Security  
Deputy Chief/Chief Operating Officer