
OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Status of Environmental Growth Fund

OVERVIEW

During discussion of the annual budget over the past few years, the status of the Environmental Growth Fund (EGF) has received increased attention. Recent changes to the uses of the EGF, caused primarily by the phase out of payments of outstanding debt, prompted a call for a long-term strategy to be developed to guide future budgetary decisions.

This report is intended to provide historical information about the EGF, the current status of the funding source, and its future outlook.

FISCAL/POLICY DISCUSSION

For the last two years, the IBA has included the development of an EGF strategy on its annual Policy Matrix, where issues are identified and monitored for progress throughout the year. As budgetary constraints have intensified and competing priorities arise for General Fund resources, newly available funds from the EGF have been increasingly directed to support existing eligible General Fund park and recreation programs and capital projects to ensure service levels are maintained to the extent possible. Over time, this shift has essentially become the City's strategy for the EGF, and changes to this approach, without the identification of other resources, will likely create an additional burden for the General Fund.

Franchise Fee Revenue

The City receives franchise fee revenues from utility companies and service providers in exchange for the use of the City's rights-of-way. The three largest companies with which the City has agreements are San Diego Gas & Electric (SDG&E), Cox Cable, and Time-Warner Cable. Fees charged are levied as a percentage of gross revenue, and rates are subject to negotiation with each entity, as provided in the franchise agreements.

SDG&E is the single largest generator of franchise fee revenue for the City, and pays three percent of its gross sales of natural gas and electricity within the City. Seventy-five percent of these revenues are deposited in the City's General Fund; the remaining twenty-five percent is deposited in the Environmental Growth Fund (EGF). Franchise fee payments are made by SDG&E four times a year in February, May, August and November. The May, August and November payments are each equal to 25% of the actual franchise payments made for the previous calendar year. The February payment is an adjustment payment made on the basis of SDG&E's actual results of operations for the preceding calendar year.

What is the Environmental Growth Fund (EGF)?

In June 1972, voters approved an amendment to the City Charter to add Section 103.1a (Attachment 1) to create the Environmental Growth Fund "which sets aside twenty-five (25) percent of revenues collected from franchises for the transmission and distribution of gas, electricity and steam to be used two-thirds for debt service on bonds of any nature which are subsequently authorized to acquire open space for park or recreational purposes and the remaining for the preservation and enhancement of the environment of the City of San Diego. If no such bonds are subsequently issued, the entire Environmental Growth Fund must be used exclusively for the preservation and enhancement of the environment of the City of San Diego."

On two occasions, in November 1972 and September 1973, voters failed to approve ballot measures for the issuance of general obligation bonds in the approximate amount of \$22 million for the acquisition and improvement of open space for park and recreational purposes, which would have pledged for repayment of the bonds the two-thirds portion of the Environmental Growth Fund created by Charter vote of the people for that purpose.

Municipal Code §63.30 entitled "Utilization of the Environmental Growth Fund" (Attachment 2) outlines further requirements for the use of the EGF, including priorities and a mechanism to temporarily suspend compliance with requirements in the event of insufficient revenues.

Open Space Park Facilities District No. 1

In 1978, the City formed the San Diego Open Space Park Facilities District No. 1 for the purpose of acquiring open space properties to implement the Open Space Element of the City’s General Plan benefiting all property within the City. In June 1978, voters approved a ballot measure to permit the Open Space Park Facilities District No. 1 to incur debt in the form of general obligation bonds, in one or more series, in the principal amount of \$65 million to provide funds for the acquisition of open space and other park facilities.

Consistent with the use of the two-thirds portion of the EGF, the City Council pledged the use of these funds as security for the bonds. In the event these funds were insufficient, the District was authorized to levy and collect a tax each fiscal year to make up the needed balance of funds required to meet the debt service payments.

City of San Diego EGF Revenues (in millions)		
Fiscal Year	25% of Franchise Fees to EGF	2/3 EGF
1990	\$5.3	\$3.6
1999	\$6.8	\$4.5
2000	\$7.5	\$5.0
2001	\$9.3	\$6.2
2002	\$13.3	\$8.8
2003	\$8.9	\$5.9
2004	\$10.8	\$7.2
2005	\$11.9	\$7.9
2006	\$11.7	\$7.8
2007	\$13.1	\$8.7
2008	\$12.9	\$8.6

In 1979, the City issued bonds in the amount of \$15 million, and in 1986, new bonds in the amount of \$20 million, and \$32.79 million in refunding bonds, were issued.

In November 1990, voters failed to pass a measure to allow the Open Space Park Facilities District No. 1 to issue \$100 million in bonds to provide funds for the acquisition of open space and other park facilities.

In 1994, the City (through the District) issued \$64.26 million in refunding bonds, with a final maturity of January 1, 2009. In September 2003, the City partially refunded the outstanding bonds, and as a result, debt payments funded by the two-thirds portion of the EGF dropped from \$7.2 million in Fiscal Year 2004 to \$715,000 in Fiscal Year 2006.

Bond proceeds were utilized to acquire park lands in over forty-five locations, totaling in excess of \$76.2 million, as shown in the Statement of Land Acquisitions included in the District’s annual financial report, as of June 30, 2002 (Attachment 3).

Recent History of EGF

The IBA’s report on Modifications to the Mayor’s Proposed FY 2007 Budget (No. 06-26) discussed that the two-thirds portion of the EGF had been accumulating a large balance since outstanding bonds were partially paid down in Fiscal Year 2005. The IBA recommended that these funds be utilized for deferred maintenance projects that

contribute to preserving and enhancing the environment, consistent with the City Charter. At that time, approximately \$2.5 million was available, and the Park and Recreation Department provided a prioritized list of projects that could be carried out in Fiscal Year 2007, as shown in the table to the right, which were then included in the capital budget.

City of San Diego FY 2007 Park and Recreation EGF 2/3 Projects			
CD	CIP No.	Title	Amount
8	29-424.0	Beyer Blvd Local Staging Area and Trail	\$250,000
1,2	29-913.0	Coastal Bluff Erosion and Access	450,000
	29-910.0	Open Space Improvements:	
1,5		Los Penasquitos	200,000
7		Cowles Mountain Trails	200,000
6		Tecolote Drainage	350,000
3		Balboa Park – Arizona Landfill Reclamation Test Pilot	300,000
4		North Chollas Open Space Enhancement	250,000
6	29-911.0	San Diego River Improvements	500,000
		TOTAL	\$2,500,000

Recent annual expenditures within the EGF reflect the reduction in the bond payments, and the corresponding increases to reimbursements for park and open space maintenance, as shown in the table below.

City of San Diego Significant EGF Expenditures (in millions)						
Program	2004	2005	2006	2007	2008	2009*
Open Space Capital Projects	\$0.28		\$0.14			\$0.20
Park and Rec Capital Projects				\$0.73		\$2.10*
Regional Park/Open Space Maintenance	\$1.97	\$2.18	\$2.13	\$1.74	\$1.68	\$1.99
Reimburse Eligible Park Maintenance		\$1.50	\$1.28	\$1.70	\$1.91	\$1.91
Reimburse Eligible Open Space Maintenance					\$0.82	\$3.70
Turf & Field Rehab Reimbursement	\$0.33	\$0.33	\$0.33	\$0.11	\$0.05	\$0.33
District No. 1 Bond Payment	\$7.18	\$9.81	\$0.72	\$0.72	\$0.16	\$0.43
Park Maintenance Reimbursement			\$6.60	\$7.10	\$8.89	\$9.49
Other (MADs, Los Penasquitos, etc.)	\$0.43	\$0.29	\$0.55	\$0.30	\$0.31	\$0.26
TOTAL EGF	\$10.19	\$14.11	\$11.75	\$12.40	\$13.82	\$20.41

* FY 2009 figures reflect adopted budget, plus prior year funds for capital projects authorized in FY 2007 not yet expended.

Fiscal Year 2009 Budget

The Mayor's Proposed Fiscal Year 2009 Budget reflected significant fund balances totaling \$4.8 million within the EGF that led to the recommendation by the IBA to utilize these available funds to reimburse eligible park uses within the General Fund, as an alternative to reductions to park programs and services.

Upon staff review of the IBA's recommendation, it was determined that amounts shown in the Proposed Fiscal Year 2009 Budget did not accurately reflect the available balance of funds within the EGF, and the capital projects previously authorized for funding in Fiscal Year 2007 were not properly characterized, thereby overstating the amount of available funds. The Mayor's May Revision corrected this information, and recommended the use of \$2 million of the reduced available amount to reimburse the General Fund. During final budget decisions, the IBA recommended an additional \$1.49 million from the EGF to reimburse eligible uses within the General Fund, mitigating budgetary reductions.

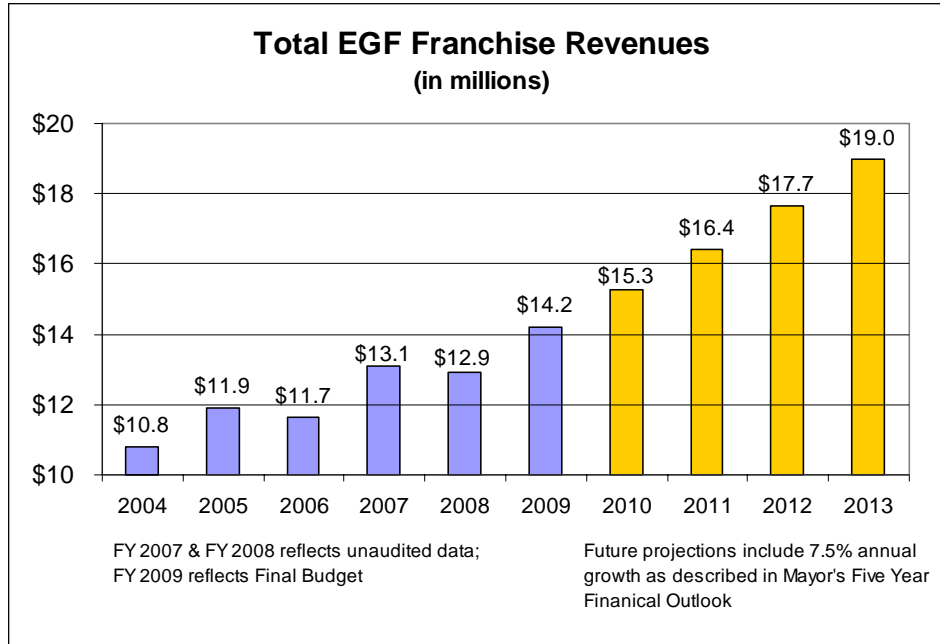
Following the adoption of the Fiscal Year 2009 Budget, and during reconciliation of audited figures due to the recent availability of the City's Comprehensive Annual Financial Reports (CAFR), it was discovered that revised information utilized for final budget decision-making overstated the amount of available EGF resources. It is estimated that the Fiscal Year 2009 budget for EGF may be overcommitted by approximately \$880,000 to \$1 million.

Staff members from Financial Management, Park and Recreation and the City Comptroller have discussed steps they will take to enhance communication between the departments, which will minimize such errors in the future. At present, it is unclear how this deficit will be addressed. Options to consider are the possible postponement of capital projects not yet underway or those that may not yet have total funding identified. Alternatively, reductions to General Fund reimbursements may be required. Recommendations to address this will be forthcoming in the First Quarter Financial Monitoring Report, expected in November.

Future Outlook of EGF

The Mayor's Five Year Financial Outlook had previously assumed an annual increase of 7.5% to the franchise revenue category within the General Fund. However, given actual results in recent years, this expected growth may be overly optimistic. The annual growth over the four-year period from Fiscal Year 2004 through Fiscal Year 2008 averaged approximately 4.9%. The Outlook also assumed the continuation of General Fund reimbursements from the EGF. However, the level of reimbursements increased for Fiscal Year 2009, since the issuance of the last Outlook. Possible shortfalls in future EGF revenues and/or reductions to the reimbursements could negatively impact funding available for General Fund departments, and could specifically impact park-related

programs and services. The next update to the Mayor’s Five Year Financial Outlook will be reviewed for revised revenues projections and planned uses for the EGF.



CONCLUSION

During discussion of the annual budget over the past few years, the status of the Environmental Growth Fund (EGF) has received increased attention. Recent changes to the uses of the EGF, caused primarily by the phase out of payments required for the payment of outstanding debt, prompted a call for a long-term strategy to be developed to guide future budgetary decisions.

As budgetary constraints have intensified, funds from the EGF have been increasingly directed to support existing eligible General Fund park and recreation programs and capital projects to ensure service levels are maintained to the extent possible. Over time, this shift has essentially become the City’s strategy for the EGF, and changes to this approach will likely create an additional burden for the General Fund.

Following the adoption of the Fiscal Year 2009 Budget, it was discovered that revised information utilized for final budget decision-making overstated the amount of available EGF resources, and that the Fiscal Year 2009 budget for EGF may be overcommitted by approximately \$880,000 to \$1 million. Recommendations to address this will be forthcoming in the First Quarter Financial Monitoring Report, expected in November.

If the City intends to continue to use all Environmental Growth Funds to support General Fund park maintenance and similar functions, as is currently the case, consideration should be given to permanently amending the Municipal Code, and seeking a possible change to the Charter, rather than temporarily suspending these requirements on an annual basis.

[SIGNED]

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[SIGNED]

APPROVED: Andrea Tevlin
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Attachments:

- 1) City Charter Section 103.1a: Environmental Growth Fund
- 2) Municipal Code §63.30 Utilization of the Environmental Growth Fund
- 3) Statement of Land Acquisitions - Open Space Park Facilities District No.1 Annual Financial Report, as of June 30, 2002