
EXECUTIVE SUMMARY

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The process of developing the Annual Fiscal Year 2005 Budget was a difficult endeavor as the requirements of providing services to the citizens of San Diego is still impacted by escalating costs of operations and the continuing shift of local revenues by State actions. Market indicators demonstrate that San Diego's economy is improving, and continues to outperform both the State and national economies; however, because General Fund revenues are still not adequate to fund ongoing expenditures, corresponding reductions to City operations are required. Budgeting is a revenue-driven process; when revenues are not sufficient, difficult decisions must be made to bring expenses in line with estimated revenues. This executive summary describes processes used to develop this budget and provides an overview of this \$2.48 billion Annual Budget.

Beginning in December, 2003, department directors met with the City Manager's Executive Team to discuss budgetary requirements and priorities for Fiscal Year 2005. Over the next two months in early 2004, the Executive Team reviewed forecasted revenues and expenditures through a series of budget planning meetings. During these meetings a variety of information was reviewed, including contracted salary and benefit increases for all four bargaining units, operating expenses for new facilities, mandated requirements, non-discretionary adjustments, and department requests. It must be stressed that decisions and ensuing implementations were proposed only after a considerable amount of analysis and debate.

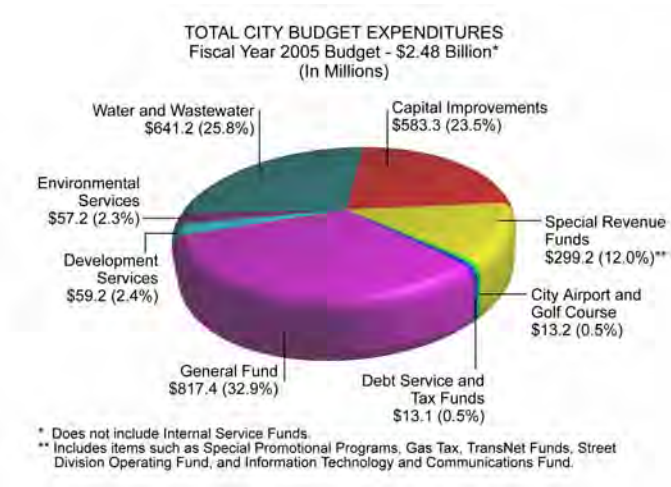
After carefully analyzing City operations, funding public safety remained the highest priority for Fiscal Year 2005, which impacted other General Fund departments; without significant new sources, revenue must be shared by all departments to fund operating requirements. In meeting this fiscal challenge, expenditures were reduced in some departments while other departments contributed by enhancing departmental or Citywide revenues. Of the \$74.4 million increase in revenue in the General Fund in Fiscal Year 2005 over the prior year, \$62.3 million was allocated to funding public safety priorities.

Between the presentation of the Proposed Budget on May 3, 2004 and its final adoption on July 20, 2004, the Mayor and City Council reviewed and amended proposed department budgets through public budget hearings. A variety of changes were made, including the adoption of new and revised cost recoverable fees, reinstatement of library hours, and additions to public safety budgets. These changes are reflected within each department's budget in Volumes II and III.

Although there have been expenditure reductions, the City has not used unappropriated reserves to balance the Annual Fiscal Year 2005 General Fund Budget; in fact, over \$2.2 million will be added to the General Fund reserve during Fiscal Year 2005. Furthermore, the Annual Budget provides that onetime revenues are used to fund onetime expenses, which is consistent with the City of San Diego's Principles of Budgeting and Finance. This budget will impact service levels; some programs have been reduced, others have been eliminated, and some City facilities will have reduced hours of operation. The focus in developing this budget has been to fund public health and safety activities and make reductions in areas that do not meet that criterion.

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The Annual Fiscal Year 2005 Budget was developed by utilizing forecasted revenue increases as a result of growth, new fees and one time revenues to fund the increased cost of operations. These increased costs resulted from contracted salaries, retirement system contributions, inflationary adjustments, and new facilities. Then, core priorities – mainly public safety – were increased, while non-public safety services were reduced until a balanced budget was achieved. These efforts resulted in a total combined Annual Fiscal Year 2005 Budget of \$2.48 billion.



Fiscal Year 2005 Total City Budget

Revenues and Expenditures

The City of San Diego's Total Combined Annual Fiscal Year 2005 Budget reflects revenues and expenditures equaling \$2.48 billion.

Five types of revenue funds compose the majority of the Annual Fiscal Year 2005 Budget: General Fund, Enterprise Funds, Capital Improvement Funds, Special Revenue Funds, and Debt Service and Tax Funds. The following chart shows a specific breakdown of funds:

Total City Fund Changes

| | FY 2005 Annual | Change from FY 2004 |
|----------------------------|------------------------|-----------------------|
| General Fund | \$ 817,432,989 | \$ 74,419,720 |
| Enterprise Funds | \$ 770,908,349 | \$ 12,324,958 |
| Capital Improvement Funds | \$ 583,292,351 | \$ 115,725,115 |
| Special Revenue Funds | \$ 299,230,959 | \$ 11,452,903 |
| Debt Service and Tax Funds | \$ 13,136,972 | \$ 2,354,788 |
| TOTAL | \$2,484,001,620 | \$ 216,277,484 |

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Personnel

The Annual Fiscal Year 2005 Budget includes a total of 11,096.14 positions; 6,955.31 of those positions are budgeted within the General Fund. The following chart presents a breakdown of positions budgeted within each major fund:

Total City Position Changes

| | Annual FY 2004 | Annual FY 2005 | Change |
|---------------------------------|-------------------|-------------------|-----------------|
| Total General Fund | 7,042.54 | 6,955.31 | (87.23) |
| Total Special Revenue Funds | 701.26 | 619.35 | (81.91) |
| Total Sewer Funds | 1,054.72 | 1,045.36 | (9.36) |
| Total Water Funds | 860.74 | 857.87 | (2.87) |
| Total Other Enterprise Funds | 986.22 | 999.40 | 13.18 |
| Total Internal Service Funds | 548.80 | 544.10 | (4.70) |
| Total Other Funds | 74.75 | 74.75 | - |
| Total Budgeted Positions | 11,269.03 | 11,096.14 | (172.89) |

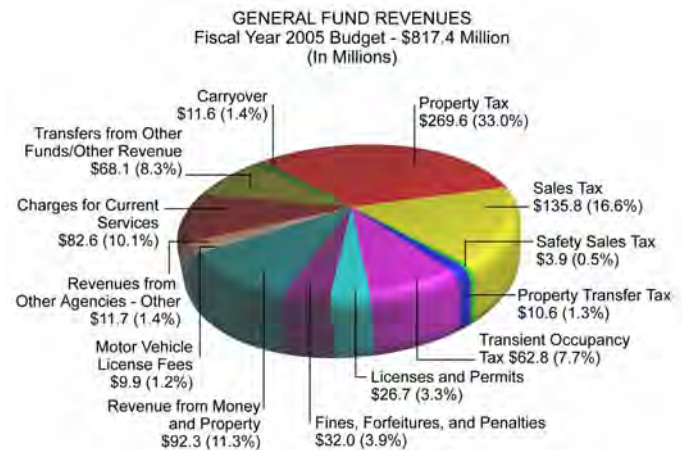
Please refer to Budget Summary Schedule II in the Financial Summary section and to the department detail in Volumes II and III for specific detail on position adjustments.

General Fund Revenues

Forecasting revenues is the first step in building a balanced budget; the amount of revenue that will be received in the upcoming fiscal year will determine the amount that can be expended. General Fund revenues pay for many of the direct services San Diego residents use every day such as police, fire, parks, refuse collection and libraries. For Fiscal Year 2005, General Fund revenues, including Fiscal Year 2004 carryover, are estimated to be \$817.4 million. Key economic indicators in San Diego County are helpful in formulating revenue estimates. Statewide and national economic trends may also impact revenue sources, along with policy decisions made at the State and federal levels; however, specific attention has been paid to local trends when forecasting revenue for Fiscal Year 2005.

Five major General Fund revenue sources, Property Tax, Sales Tax, Transient Occupancy Tax (TOT), Franchise Fees and Motor Vehicle License Fees, comprise approximately 65.4 percent of total General Fund revenue. These revenues are discussed in detail in the Financial Summary General Fund Revenue section of this volume.

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Provided below are the major revenue sources growth rates utilized in the preparation of the Annual Fiscal Year 2005 Budget. Forecasting of these revenue growth rates is important in determining funding for most General Fund expenditures. The chart demonstrates that Property Tax and TOT growth rates have remained relatively stable over the last three fiscal years, while the remaining revenue sources have had some volatility. Note that the Fiscal Year 2005 budgeted growth rates represent economic growth assumptions utilized in the forecasting process, and do not necessarily reflect percent changes from the Annual Fiscal Year 2004 Budget.

Major Revenues

| Major Revenue Sources | FY 2002 Growth Rate | FY 2003 Growth Rate | FY 2004 Growth Rate | FY 2005 Budgeted Growth Rate |
|---|---------------------|---------------------|---------------------|------------------------------|
| Property Tax | 7.3% | 7.0% | 8.8% | 8.0% |
| Sales Tax ⁽¹⁾ | 3.6% | 0.9% | 11.4% | 5.0% |
| Transient Occupancy Tax ⁽²⁾ | -9.8% | 5.3% | 7.6% | 6.0% |
| Motor Vehicle License Fees ⁽³⁾ | 4.0% | 5.2% | -17.9% | 3.0% |
| Franchise Fees ^{(4) (5)} | 33.7% | -20.7% | 22.7% | 3.9% |

⁽¹⁾ The Fiscal Year 2004 growth rate includes a one-time accrual adjustment of \$10.6 million.

⁽²⁾ The Fiscal Year 2003 growth rate includes the impact from Super Bowl XXXVII.

⁽³⁾ This reflects the reduction in VLF receipts due to the State take-away in Fiscal Year 2004. Please see page 26 for details regarding VLF changes resulting from State action.

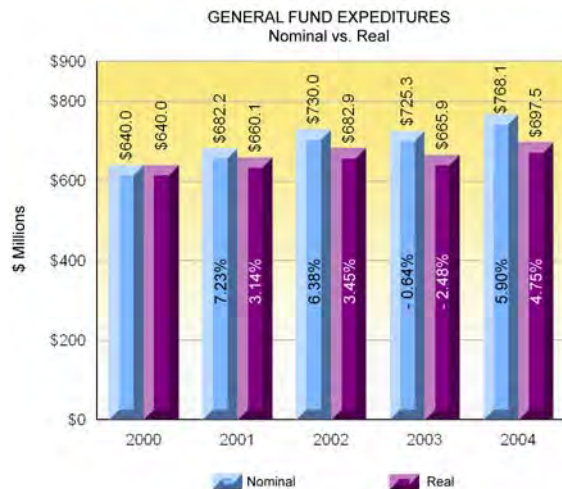
⁽⁴⁾ This reflects the volatility of natural gas prices in Fiscal Year 2003.

⁽⁵⁾ Franchise fees do not include an increase of \$38.8 million in undergrounding fees, effective Fiscal Year 2004, which are deposited into a separate fund.

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Nominal vs. Real Growth

The Annual Fiscal Year 2005 Budget projects General Fund growth of \$74.4 million over the Fiscal Year 2004 Budget. This \$74.4 million dollars is measured in nominal terms, which does not factor in inflation. The following graph depicts actual General Fund expenditures for Fiscal Years 2000 through 2004. For each fiscal year, the graph displays both nominal and real General Fund expenditures. *Nominal* expenditures are the actual expenditures for each year as presented annually. The *Real* General Fund expenditures are adjusted for inflation so that they can be compared exactly to one another in Fiscal Year 2000 dollars. This reflects the real purchasing power of revenue dollars. Real General Fund expenditures are calculated using the Consumer Price Index.



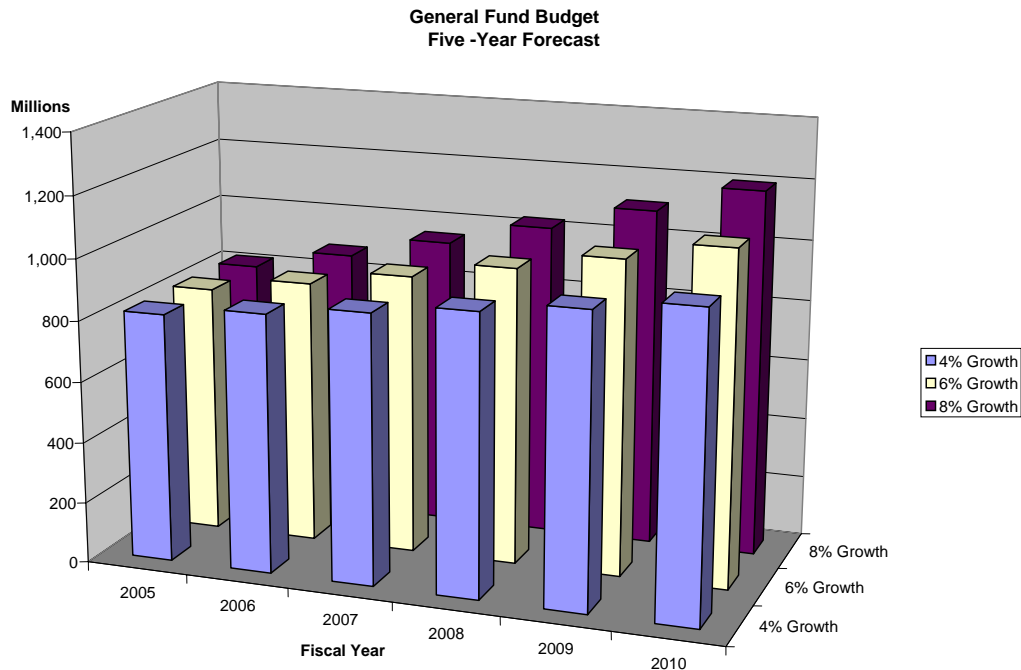
As the five-year graph shows, real growth has been substantially less than nominal growth. In nominal terms, the General Fund has increased by \$128.1 million, or 20 percent, between Fiscal Years 2000 and 2004. However, in real terms, the General Fund has only grown by \$57.5 million, or nine percent, during the same time period. In other words, the budget in Fiscal Year 2004 was only able to purchase nine percent more than in Fiscal Year 2000. In light of the emerging requirements for public safety, deferred maintenance, community needs, pension obligations, and transportation over the last five years, it has become increasingly difficult to maintain adequate core services, let alone implement service enhancements.

Over the past 20 years, the General Fund budget has averaged nearly six percent nominal growth per year. However, looking at the average growth rates over two different time periods demonstrates the structural changes that have taken place in the General Fund. Between Fiscal Years 1980 and 1993, the average General Fund nominal growth rate was nearly 8.5 percent per year. In contrast, General Fund nominal growth between Fiscal Years 1993 and 2004 averaged just four percent per year. It is interesting to note that Fiscal Year 1993 was the first year that the State began shifting property tax revenues from the City of San Diego and other local governments.

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Revenue Forecasting

Analyzing past growth rates is an important component in forecasting long term growth. The following graph provides a five-year forecast for the City General Fund with three different scenarios. Each scenario assumes a different average growth rate. The first scenario supposes four percent average annual growth, equivalent to General Fund growth in recent years. The second scenario presumes a six percent average annual growth rate, roughly equivalent to the General Fund's long-term average. The third scenario assumes eight percent average annual growth, equivalent to the General Fund's average growth from Fiscal Years 1980 to 1993.



Since revenue growth determines the amount that expenditures can grow, a greater percentage of growth will significantly increase the City's abilities to provide services. In addition to natural revenue growth from existing sources, additional revenue can be obtained by creating new revenue sources, increasing existing rates, or recovering revenue that has been diverted to the State.

New and Increased Revenue Sources

To minimize the number of reductions required in Fiscal Year 2005, the City Manager directed staff to evaluate costs and fees associated with providing City services. A number of services were identified that currently have no fees associated with them. Other services currently have associated fees or cost recovery rates that have not been updated recently, and are not fully recovering the costs associated with providing the service. In May and June of 2004, the Mayor and City Council were presented with a variety of options to generate up to \$11 million in additional revenue for the General Fund. Through budget hearings, \$6.01 million of revised cost recoverable rates and fees were approved for implementation on July 1, 2004. The following chart lists the various approved fees and the amount of revenue each is expected to generate for the General Fund.

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| Fiscal Year 2005 Revised Rates and Fees | | Revenue |
|---|--|--------------------------|
| Department and Fee | | |
| Fire-Rescue Department | | |
| Fire Company Inspection Fees | | \$1,185,000 |
| Subtotal | | \$1,185,000 |
| Police Department | | |
| Administrative Fee for Impounded Vehicles | | \$1,400,000 |
| Alarm Permit Revocation/Reissuance Fees | | \$500,000 |
| In-house Security Permit (Bouncer Card) Fees | | \$500,000 |
| Police/Traffic Control Rates for Commercial Events & Other Activities | | \$230,000 |
| Subtotal | | \$2,630,000 |
| Park and Recreation Department | | |
| Ground Use Fees | | \$110,000 |
| Aquatic Fees | | \$744,000 ⁽¹⁾ |
| Mount Hope Fees | | \$104,000 |
| Instructional Camp Fees | | \$7,000 |
| Comprehensive Park and Recreation Fee Schedule | | \$157,000 |
| Subtotal | | \$1,122,000 |
| Engineering and Capital Projects | | |
| Valet Zone Annual Inspection Fee | | \$20,000 |
| Subtotal | | \$20,000 |
| General Services Department | | |
| Disabled Parking Violation Fee | | \$162,000 |
| Disabled Parking Violation Processing Fee | | \$10,000 |
| Sidewalk Disabled Access Ramp Parking Violation Fee | | \$30,000 |
| Trailer Parking Violation Fine | | \$10,000 |
| Subtotal | | \$212,000 |
| Rates/Fees Adjusted by Managerial Authority | | |
| Changes to current rates and fees | | \$841,000 |
| Subtotal | | \$841,000 |
| | | |
| TOTAL | | \$6,010,000 |

⁽¹⁾ Following the passage of the Annual Fiscal Year 2005 Budget, some Aquatic Fees were rescinded. The projected Aquatic Fees revenue is now \$629,000, reducing the total revenue from revised rates and fees to \$5,895,000.

Fire-Rescue Department

Fire Company Inspection Program Fees

The Fire Company Inspection Program is responsible for safeguarding lives and property within our community from fire and explosion hazards, through a comprehensive community education program. Annually, 9,000 inspections are conducted through the program. A fee schedule was established to recover costs for annual fire prevention inspections that range from \$140 per fire lane inspection to \$633 per inspection for assemblies with occupancies of 50,001 or more. The projected net revenue to the General Fund is \$1,185,000, which will only recover expenses for conducting these services.

Police Department

Administrative Fee for Impounded Vehicles

The Police Department has the authority to remove and impound vehicles for a variety of reasons including: vehicles that are a hazard to the flow of traffic, vehicles that are illegally parked and show no

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evidence of registration, or vehicles that have been parked for more than 72 consecutive hours. The prior fee was \$53, and has been increased to \$102 to fully recover the cost of administering the program.

Alarm Permit Revocation/Reissuance Fees

Each year, the City of San Diego spends approximately \$2.3 million responding to false alarms; 99% of the alarms that police officers respond to are false alarms. Staff has determined the most effective means of addressing excessive false alarms is to focus on the chronic offenders by increasing the fee to reissue alarm permits once they have been revoked. The new fee schedule increases the fee for reissuing previously revoked permits from \$25 to \$75 for the first reissuance, and up to \$1,500 for the fourth reissuance of a revoked permit. This revenue will help offset the \$2.3 million expense of responding to false alarms.

In-house Security Permit (Bouncer Card) Fees

Due to the increase in incidents of violence related to bar activity in San Diego, it was proposed that a vice-regulated training and permitting program be created that would hold individuals (who are tasked with in-house security) responsible and accountable for a prescribed standard of conduct while performing duties that impact public safety. The first Bouncer Card fee will cost \$152 for the background check, print card fee, regulatory fee, and photo fee. Renewal of the permit will cost \$65 annually. It is estimated this new program will generate \$500,000 net revenue to the General Fund and establish needed standards for private security enforcement.

Police/Traffic Control Rates for Commercial Events and Other Activities

Commercial events and other activities that require police and traffic control support to ensure public safety are currently assessed a subsidized rate of \$55 per hour for police support and \$22 per hour for traffic control. These subsidized rates were originally established to provide support to non-profit organizations conducting public events on public property for the benefit of the public. A new rate structure was created to be fully cost recoverable for commercial events and other activities, while non-profit 501(c) organizations and the film industry will continue to be charged the subsidized rate. The new hourly rates of \$75 for police support and \$30 for traffic control will generate an estimated \$230,000 net revenue for the General Fund.

Park and Recreation Department

Ground Use Fees

Over the years a variety of permit types and fees have been approved by the Mayor and City Council that relate to the use of public park land by special event groups. The use of most park land for special events and other activities falls under the Park Use Permit fee structure. However, a Special Event and Commercial Activity rate applies only to Mission Bay Park special events and commercial activities. The new Ground Use Fees for all park land will consolidate and replace fees for: Private Event, Park Use, and Mission Bay Special Event and Commercial Activity Permits. The daily rates range from \$125 to \$975 and are anticipated to generate net revenue of \$110,000 for the General Fund.

Aquatic Program Fees

The Park and Recreation Department provides aquatic programs to swimmers of all ages and abilities. Additionally, the Aquatic Program offers First Aid and Lifeguard Water Safety Instructor Training classes, along with American Red Cross Safety Training Courses to those seeking CPR Certification.

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Currently, the Department operates 13 permanent pool facilities along with the Portable Pool Program that services communities where no permanent facilities exist. The total City pools program costs \$2.5 million annually. The new fees range from \$5.00 for adult facility admission, to \$180.00 for private swim lessons, and are anticipated to generate net revenue of \$1 million for the General Fund. In October 2004, the fee for persons entering a swim facility during recreational/open swim times who are not going into the water was rescinded. In addition, San Diego youth aquatic teams will be charged the same hourly rental fees as public schools and public colleges, rather than the higher rates originally passed by the Mayor and City Council. This will result in a decrease of \$115,000 in budgeted revenue that will be mitigated through other major revenue accounts that are projected to exceed their budgeted amounts.

Mount Hope Fee Schedule

Operated by the City since 1869, Mount Hope Cemetery provides modestly priced interment services to the citizens of San Diego and offers specialized services/areas for Veterans, Chinese, Muslims, and other groups. The City also provides indigent burial services on a cost recovery basis to the County of San Diego. Previously, Mount Hope's fees were 29 to 74 percent lower than fees charged by other local cemeteries. The new fees range from \$1,041 for a single grave site (resident) to \$164 for a granite marker (resident). The net revenue anticipated for the General Fund is \$268,000.

Instructional Camps

Privately operated recreational instructional camps held on public park land are becoming increasingly popular throughout California. In San Diego, these camps are primarily held throughout the shoreline area and include instruction in surfing, diving, kayaking, and other outdoor sports. The impact of these camps requires City staff support to monitor, maintain, and administer the areas used by the groups. Previously there was no fee associated with the authorization to use public park land for instructional camp purposes. The new fees establish a Daily Site Fee of \$10 and an Annual Permit Application Fee of \$150. The net estimated revenue of \$7,000 includes a seasonal lifeguard position that will be partially funded from the fees.

Comprehensive Park and Recreation Fee Schedule

Most rates and fees assessed by the Park and Recreation Department have not been updated since Fiscal Year 2001, although the cost to provide services has significantly increased. As a result, the Park and Recreation Department established or revised the following fees: Kumeyaay Campground Dump Fees, Off-leash Dog Practice Sessions, Skate Park Pass Fee Schedule, and Dance Class Fee Schedule. The net cost-recoverable revenue is estimated at \$167,000.

Engineering and Capital Projects Department

Valet Zone Annual Inspection Fee

Previously there was no charge to renew a valet parking permit, although City staff must investigate proof of insurance, the site, impact to traffic flow, and complaints on an annual basis. It is estimated that on average it takes three hours at the Assistant Engineer-Traffic level to process the necessary paperwork and issue the permit. As a result, a \$300 valet permit (annual) renewal fee was established. The net cost-recoverable revenue is estimated at \$20,000.

General Services Department

Disabled Parking Violation Fine

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In accordance with California State Law the Disabled Parking Violation Fee was increased to \$440 per citation. The projected net revenue to the General Fund is \$162,000.

Disabled Parking Violation Processing Fee

In 2003 the California Vehicle Code was amended to authorize local jurisdictions to establish an administrative fee, not to exceed \$25, for the processing and dismissal of parking citations when a vehicle is ticketed for not displaying a Disabled Persons Parking Placard. As a result, a processing fee of \$10 was established. Net revenue is estimated at \$10,000.

Sidewalk Disabled Access Ramp Parking Fine

California Vehicle Code Section 22500(1), related to sidewalk access ramps that provide wheelchair accessibility, was amended in January 2003 to improve enforcement capability. This change improves enforcement by not requiring that disabled access ramps be designated with signage or red paint in order for a citation to be valid. Added enforcement will assist the disabled community by keeping the sidewalk access ramps clear and free from obstructions. The new fine for obstructing disabled sidewalk access ramps is \$290 per citation. The net revenue is estimated at \$30,000.

Trailer Parking Violation Fine

On January 4, 1993 Section 86.23(i) was added to the San Diego Municipal Code to prohibit unattached semi-trailers from parking on streets except for the purpose of loading and unloading. At the time, no violation fine schedule was established. The new fine of \$250 is estimated to generate net cost recoverable revenue of \$10,000.

City Manager Review of Existing Fees

Administrative Regulation 95.25 outlines the City's procedures required to establish fees to recover costs of providing City services. Once established by the Mayor and City Council, the City Manager is authorized to conduct annual reviews of the fees and charges to ensure that all reasonable costs incurred in providing these services are being recouped. As a result, adjustments were made to various fees that will generate revenue estimated at \$841,000. Adjustments were made to a variety of departments including City Clerk, City Treasurer, Engineering and Capital Projects and Neighborhood Code Compliance. Examples of the fees raised to improve cost recovery include: photocopies, docket subscription, City Council tapes or CDs, Non-Compliance Business Fee, Insufficient Funds Check Processing Fee, Solid Waste Code Reinforcement Inspection Fee, and Zoning Reinspection Fees. Many of the fees had not been adjusted since the late 1980s or early 1990s.

New Revenue

On July 1, 2004, the California State Fourth District Court of Appeal issued a ruling that could affect how the City may levy new or increased taxes. A three-judge panel unanimously ruled that any new or increased tax that is levied for general purposes must receive support from a simple majority of voters, not a two-thirds majority as was sought by Proposition E, passed in March of 2002. Proposition E, which was passed by 54.4 percent of voters, amended the City Charter to require a two-thirds majority approval for any new or increased tax, even if the tax revenue was to be used for general government purposes. The California Constitution requires that general purpose taxes be passed by a simple majority of voters, while a special tax, or a tax that is earmarked for specific purposes, must be passed by a two-thirds majority. The appellate court ruled that Proposition E was invalid because it attempted to modify State law.

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New, voter approved revenue sources have the ability to create significant revenue growth for the City of San Diego. The March 2004 election resulted in the defeat of a measure to increase the City's Transient Occupancy Tax (TOT). The measure required two-thirds voter approval to pass. This revenue would have allowed the City to increase funding for necessary services such as public safety. However, following its defeat, the emphasis on public safety was not diminished within this Annual Budget. The November 2, 2004 election also resulted in the defeat of Proposition J, which once again proposed an increase to the City's TOT. The proposed 2.5 cent increase was estimated to generate approximately \$12 million in Fiscal Year 2005, and over \$28 million per year in subsequent fiscal years. Since this increase was proposed for general government purposes, the revenue received from this increase could have been used to fund existing City services such as public safety, parks, libraries, or deferred maintenance. Because this measure was a general purpose tax, it required majority voter approval to pass.

Below is a brief summary of revenue information being researched by City staff. Because many of these revenues require a public vote, they cannot be implemented for Fiscal Year 2005. Except where noted, these potential revenue sources would require a vote of the public in order to be implemented or increased. In accordance with the Fourth District Court of Appeal's ruling in support of State law, any new tax or tax increase that is levied for general purposes will require simple majority voter approval, while any new tax or tax increase that is levied for specific purposes will require a two-thirds majority approval.

The City of San Diego's current Business License Tax is a \$34 flat fee for businesses with 12 or fewer employees, and a \$125 flat fee plus \$5 per employee for businesses with 13 or more employees. Based on Fiscal Year 2002 actual figures, doubling the current rates would generate an additional \$5.3 million in revenue and still allow the City to remain competitive with other California cities of comparable size.

The Refuse Hauler Franchise Fee was increased by \$1 per ton in Fiscal Year 2004; if it were increased by additional \$1 per ton, it would generate approximately \$850,000 per year for the General Fund. This fee is paid by private waste haulers that conduct commercial business within the City of San Diego. This fee may be adjusted with City Council approval.

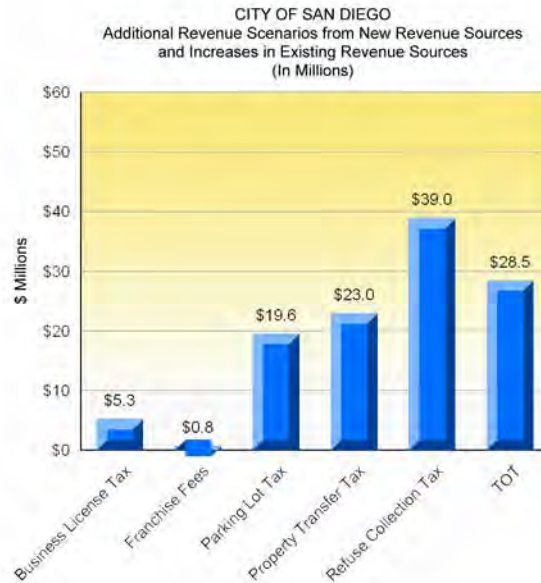
The City of San Diego currently does not levy a parking tax. This is similar to a franchise fee that is charged to private operators of parking lots within City limits. This tax is used by other cities throughout California. If the City were to propose a ten percent parking tax, it would generate approximately \$19.6 million in additional General Fund revenue.

Property Transfer Tax is collected by the County of San Diego (\$1.10 per \$1,000 of the sales price of real property). Of this amount, \$0.55 is allocated to the City of San Diego if the property is located within the City's jurisdiction. This type of tax collection is called "conforming". If the City levies a "non-conforming" tax at a rate above \$0.55 per \$1,000, the County would receive the full share of the \$1.10 per \$1,000, and the City would receive the amount generated from its own tax rate. If the City of San Diego levies its own "non-conforming" tax rate at \$1.75 per \$1,000, additional revenue to the General Fund would be approximately \$23 million per year based on Fiscal Year 2004 estimates.

The City of San Diego does not currently charge a refuse collection fee for municipal refuse collection services. The Environmental Services Department has estimated that a monthly refuse collection fee of \$10-\$13 would generate approximately \$39-\$45 million per year, covering the

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cost of residential refuse collection. A change to the municipal code to allow for the charging of this fee would require a simple majority vote by the public.



None of the revenue options discussed above, if implemented, could solve all of the City’s challenges; however, they could provide increased opportunities for meeting the numerous expectations and requirements for City operations.

Economic Forecast

The economic forecast for the San Diego Region remains positive for Fiscal Year 2005. The Economic Research Bureau of the San Diego Regional Chamber of Commerce estimates San Diego’s Gross Regional Product (GRP) in calendar year 2003 at \$129.2 billion, a record for the region and a 5.5 percent nominal growth over 2002. The Economic Research Bureau projects even stronger growth in 2004, with GRP increasing 6.2 percent to \$137.2 billion. San Diego’s economy continues to outperform both the State and national economies, in terms of both output growth and employment. The General Fund Revenue section of the Financial Summary discusses the Fiscal Year 2005 Economic Forecast in more detail.

Key Economic Indicators

The following economic indicators for San Diego County are primarily based on the San Diego Regional Chamber of Commerce, Economic Research Bureau in the “Forecast 2004 Economic Bulletin” for calendar year 2004. Other resources include the California Employment Development Department and DataQuick Information Systems, a local provider of real estate information. These represent just a few of the many indicators closely monitored by the City. All data listed below are on a calendar year basis.

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- **Employment:** San Diego's estimated unemployment rate was 4.3 percent for 2003, the same as the actual rate of 4.3 percent in 2002. Through August 2004, San Diego's unemployment rate has averaged just over four percent, slightly higher than the 2004 year-end projection of 3.9 percent.
- **Personal Income:** The 2004 projected per capita income is \$37,000, a 3.9 percent increase from the estimated \$35,600 in 2003.
- **Retail:** Sales are forecasted to reach \$30.5 billion in 2004, an increase of 5.9 percent from the estimated \$28.8 billion in 2003.
- **Housing prices:** The median price of a single-family home increased by an estimated 17.4 percent in 2003 over 2002, according to the Economic Research Bureau, and was projected to reach \$471,500 in 2004. In August 2004, DataQuick reported that the median price of all single-family homes had reached a record \$483,000. DataQuick and the Economic Research Bureau use different methodologies to estimate median home prices. The concluding factor, however, is that housing prices continue to sustain increased values.

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Significant General Fund Changes from the Fiscal Year 2004 Budget

Major indicators including Gross Domestic Product, unemployment, the housing market, and the tourism market all indicate that San Diego's economy is growing. It would seem, therefore, that the City of San Diego would have sufficient revenues to cover expenditures in Fiscal Year 2005. However, San Diego's revenue base is among the lowest per capita of any major city in the United States. Revenues continue to be diverted by the State of California, and ongoing expenditure requirements have grown at a faster rate than revenues. As a result, revenue growth is not sufficient to cover expenditures, and a variety of reductions have been implemented to ensure a balanced General Fund.

General Fund Revenue Increase Over Fiscal Year 2004 Budget

| | |
|----------------------|----------------|
| Net Revenue Increase | \$74.4 million |
|----------------------|----------------|

General Fund Expenditure Increases Over Fiscal Year 2004 Budget

| | |
|---|------------------|
| Public Safety annualization of FY 2004 and FY 2005 contracted salaries and benefits | \$ 51.4 million |
| Public Safety annualization of facility operating costs | \$ 1.2 million |
| Public Safety additions | \$ 14.0 million |
| Non-Public Safety annualization of FY 2004 and FY2005 contracted salaries and benefits | \$ 21.8 million |
| Non-Public Safety new facility and annualization operating costs | \$ 2.3 million |
| Non-Public Safety additions | \$ 7.0 million |
| Budgetary Savings Plan department reductions | (\$20.2 million) |
| Citywide Personnel Reductions | (\$ 2.0 million) |
| Non-discretionary accounts (insurance, energy, vehicle usage, information technology, etc.) | (\$.9 million) |
| Other Department Transfers/Reductions | (\$.2 million) |
| Net Expenditure Increases | \$74.4 million |

As demonstrated above, the Annual Fiscal Year 2005 Budget includes a \$23.3 million reduction in expenditures. This includes \$2.0 million in personnel reductions for unclassified, senior, and middle level staff in order to minimize the impact to critical service levels. Over the past two fiscal years, budget requirements were bridged through internal efficiencies while few complete program reductions were made. However, by Fiscal Year 2004, it became difficult to maintain current service levels with available funding because such an approach resulted in insufficient personnel and supplies to provide services to

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the public. For example, budgets for books and temporary library help may have been reduced, but the Library was still required to be open. In the Annual Fiscal Year 2005 Budget, library personnel and material budgets have been reduced, and Sunday hours will be limited, which will still allow the Library Department to provide a desired level of service to residents during open hours.

Even with personnel and non-personnel reductions, most departments will reflect overall increases in their budgets due to increased cost of operations resulting from contracted salaries, retirement system contributions, inflationary adjustments, and new facilities. The chart below represents the change in the General Fund over the last four fiscal years. The slight revenue increase in the General Fund during Fiscal Years 2003 and 2004 was due to limited revenues, while the revenue increase in Fiscal Year 2005 reflects growth in several major General Fund revenue sources, as well as a combination of onetime revenues and fee increases.

General Fund Change Fiscal Years 2002 - 2005

| | FY 2002 ⁽¹⁾ | FY 2003 | FY 2004 | FY 2005 |
|---------------------|------------------------|---------------|---------------|---------------|
| General Fund Budget | \$711,913,268 | \$729,330,522 | \$743,013,269 | \$817,432,989 |
| Percent Change | 8.24% | 2.45% | 1.88% | 10.02% |

⁽¹⁾ Fiscal Year 2002 does not include the General Fund Street Division Subsidy in order to be consistent with Fiscal Years 2003, 2004 and 2005.

Residents of the City of San Diego may encounter reduced customer services in their communities for many services such as parks and recreation, libraries, neighborhood services, and transportation, as well as other areas due to funding constraints. The chart below summarizes changes that are included in the Annual Fiscal Year 2005 General Fund Budget.

General Fund Changes by Program Area

| Program Area Budget | Annual Fiscal Year 2004 Budget | Annual Fiscal Year 2005 Budget | Change from Fiscal Year 2004 |
|------------------------------------|--------------------------------|--------------------------------|------------------------------|
| Public Safety | \$ 398,875,501 | \$ 461,496,291 | \$ 62,620,790 |
| Park and Recreation ⁽¹⁾ | \$ 71,931,953 | \$ 75,913,573 | \$ 3,981,620 |
| Sanitation and Health | \$ 42,770,700 | \$ 43,534,450 | \$ 763,750 |
| Transportation | \$ 7,332,944 | \$ 7,162,975 | (\$ 169,969) |
| Library ⁽²⁾ | \$ 35,891,707 | \$ 35,448,368 | (\$ 443,339) |
| Neighborhood Services | \$ 26,354,211 | \$ 23,208,581 | (\$ 3,145,630) |
| Operations Support | \$ 111,506,320 | \$ 119,502,774 | \$ 7,996,454 |
| Internal Support/Management | \$ 48,349,933 | \$ 51,165,977 | \$ 2,816,044 |
| TOTAL | \$743,013,269 | \$ 817,432,989 | \$74,419,720 |

⁽¹⁾ Mount Hope Cemetery division is included in Sanitation and Health.

⁽²⁾ Fiscal Year 2005 Library budget of \$35.4 million does not include grant funds, which are not budgeted in the General Fund.

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Personnel-Related Obligations

General Fund

A net increase of \$62.5 million is included in the Annual Fiscal Year 2005 General Fund Budget related to personnel expense which includes all annualized personnel expense increases from Fiscal Year 2004 and cost of living adjustments scheduled for Fiscal Year 2005. Personnel expenses will account for 77.97 percent of the Fiscal Year 2005 General Fund budget.

The Budget reflects an increase of \$13.3 million for the final year of a three year contract with labor bargaining units, Local 145, Local 127 and the Municipal Employee's Association (MEA) It also includes \$10.9 million for the final year of a two-year contract with the Police Officers Association (POA). The remaining \$38.3 million breaks down as follows: \$18.4 million for Retirement Rate increases; \$17.3 million for salary annualizations and adjustments; \$2.6 million for workers' compensation and long term disability premiums. Workers' compensation and long term disability costs have risen sharply in recent years due to rising medical costs, a marked increase in litigation, and extended claim duration periods.

Citywide Pension Contribution

The total employer contribution to the retirement system for all City funds in the Fiscal Year 2005 Annual Budget is \$130.0 million, a total increase of \$43.0 million from Fiscal Year 2004. The General Fund increase over Fiscal Year 2004 is \$30.0 million, composed of \$18.4 million for retirement rate increases and \$11.6 million for increased pension expenses associated with contracted salary increases salary annualizations and adjustments. The Pension Reform Committee recently presented to the Mayor and City Council its final report providing recommendations to address current unfunded liability of the San Diego City Retirement System. The Mayor and Council have accepted the Committee's report and have taken action on the Committees recommendations. The following chart reflects the budgeted pension contributions for the Annual Fiscal Year 2005 Budget. It indicates the City's share of the Fiscal Year 2005 retirement funding and the City's contribution toward the employee's share of retirement funding.

Annual Fiscal Year City Pension Contributions (2004 – 2005)

| Fund | Employer Contribution | | Employer Paid Employee Portion | |
|-------------------|-----------------------|----------------------|--------------------------------|---------------------|
| | FY 2004 | FY 2005 | FY 2004 | FY 2005 |
| General Fund | \$56,706,284 | \$86,685,110 | \$21,713,669 | \$24,367,160 |
| Non-General Funds | \$30,295,069 | \$43,315,189 | \$ 9,531,034 | \$10,899,544 |
| TOTAL | \$87,001,353 | \$130,000,299 | \$31,244,703 | \$35,266,704 |

During Fiscal Year 2005, it is anticipated that the City will begin negotiating new labor contracts with all four City labor bargaining units to begin in Fiscal Year 2006. The City's financial position with respect to revenue and expenditures will be part of the consideration.

The Annual Fiscal Year 2005 General Fund Budget includes a decrease of (124.57) positions as a result of the reduction and elimination of a variety of General Fund programs to achieve budgetary savings. The net change in General Fund positions of (87.23) includes increases in reimbursable positions as well as staff for new or annualized facilities. The Annual Budget also includes the elimination of unclassified management positions Citywide.

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Annual Fiscal Year 2005 General Fund Position Changes

| | |
|--|-----------------|
| Total Fiscal Year 2004 General Fund Positions | 7,042.54 |
| Program Reductions | (124.57) |
| General Fund - New | 0.00 |
| Reimbursable from Other Sources - New | 10.29 |
| Reallocation/Reorganization | 0.00 |
| Annualizations | 12.83 |
| New Facilities | 14.22 |

| | |
|--|-----------------|
| Total General Fund Position Changes | (87.23) |
| Total Fiscal Year 2005 General Fund Positions | 6,955.31 |

124.57 positions will be reduced in Fiscal Year 2005 as part of Program Reductions. These positions are the result of departments reducing their Annual Fiscal Year 2005 Budget. In preparing for position reductions, City departments have maintained vacant positions when possible in Fiscal Year 2004 to minimize potential impact to City employees.

10.29 reimbursable positions have been added to the Annual Fiscal Year 2005 General Fund Budget. The positions will be funded by non-general funds, revenues or fees.

27.05 General Fund positions are associated with New Facilities and Annualizations for Fiscal Year 2005. New Facilities positions are a result of new facilities opening in Fiscal Year 2005. Annualizations are for those positions associated with facilities that were partially funded in Fiscal Year 2004, and will be fully budgeted in Fiscal Year 2005. In Fiscal Year 2005, new facilities account for 14.22 positions and annualizations account for 12.83 positions.

Non-Discretionary Expenses

Non-discretionary expenses include adjustments to items such as electricity, gas, water, sewer, insurance, information technology, and office leases after analysis and forecasting by City departments. These expenses are outside of the departments' control, and considered separately during budget deliberations. The total non-discretionary change in the General Fund budget is a decrease of \$0.9 million, which includes the decreases in information technology rates for Fiscal Year 2005. Departmental fiscal staff will continue to evaluate non-discretionary expenses throughout the year.

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New and Annualized Facilities

A total of \$3.5 million has been included in the Annual Fiscal Year 2005 Budget for new facilities and annualization of Fiscal Year 2004 facilities including a new fire station and two new libraries. Examples of new facilities costs include staffing, utilities, and maintenance. Departments with new or annualized facilities opening in Fiscal Year 2005 include:

| Department | Number of Facilities |
|---------------------------------------|----------------------|
| Park and Recreation | 19 |
| Library | 2 |
| San Diego Fire-Rescue (annualization) | 1 |

Park and Recreation – New Facilities

The Annual Fiscal Year 2005 Budget includes the addition of 13.22 positions and support costs totaling \$1,646,869 for 12 new or enhanced park and recreation facilities, listed below. Some sites will open during Fiscal Year 2005 and are budgeted for partial year funding only, with position and expense annualizations to occur in Fiscal Year 2006.

| |
|--|
| Balboa Park Improvements |
| Breen Park |
| Cabrillo Heights NP Comfort Station |
| Doyle Community Park Improvements |
| Lake Murray Comfort Station |
| Mission Trails Equestrian Staging Area |
| Open Space Added Acres |
| Otay Valley Regional Park |
| Pershing Middle School Joint Use |
| Rancho Penasquitos Skate Park |
| Scripps Ranch Overlook Park |
| Terrace Drive Park |

In addition to these facilities, support was added to fund maintenance crews, pesticide crews, and park forestry.

Based on available funding, new and/or enhanced facilities may not have been funded to the total amount requested the department. The operating expenses of some minor Park and Recreation facilities, such as maintenance for increases to open space, will need to be covered by existing resources.

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The annualization of 1.58 positions and support costs that were partially funded in Fiscal Year 2004, totaling \$386,200, are also included for seven new and/or enhanced park and recreation facilities. The annualized facilities include:

| |
|---|
| Black Mountain Ranch CP - Athletic Fields/Restrooms |
| Black Mountain Ranch NP West |
| Imperial & Marketplace |
| Mission Valley Landscape Improvements (Alvarado Road) |
| Open Space Maint. Added Acres |
| San Diego River Valley |
| Tecolote Nature Center Expansion |

Library – New Facilities

The Annual Fiscal Year 2005 Budget includes the addition of 1.85 positions and non-personnel expense of \$133,600 for two library facilities.

Florence Riford/La Jolla Branch Library Expansion

This project provided for a 15,700 square-foot expansion of the 10,000 square-foot facility located at 7555 Draper Avenue. The Friends of the La Jolla Branch Library provided the funding for this project construction, which opened on March 27, 2004. Additional funding in Fiscal Year 2005 will allow for the annualization of the increased costs of operating the expanded library facility.

North University City Branch Library

This project will provide for a new 15,000 square-foot branch library on a City-owned park site at Nobel Drive and Judicial Drive. Construction funding for this project is provided by Facilities Benefit Assessment revenues. The facility is scheduled to open in early Fiscal Year 2006, but two positions will be added in mid-Fiscal Year 2005 to order library materials and supplies, and conduct other activities needed to prepare the new branch library for opening.

The one-story library will include areas for children and young adults, a meeting room, a computer lab, and secured outdoor seating courtyards that can be accessed from the public library spaces. At the request of the community, the library has been designed so that it can be easily expanded in the future.

San Diego Fire-Rescue – New Facilities

The Annual Fiscal Year 2005 Budget includes the addition of 7.65 positions and support costs totaling \$1,719,150 for the annualization of Fire Station 46, which opened in January 2004. This 10,000 square-foot station is located at the intersection of Camino Ruiz and Lazanja and is serving the communities of Black Mountain Ranch and Torrey Highlands. Fire Station 46 is currently staffed as a single house with a crew to operate one fire engine. A 75 foot combination fire engine/truck is scheduled to be assigned to the station. Future enhancement will include one ambulance for response to medical emergencies. This station is the first of three fire stations that will be required to provide fire protection to the North City Planned Urbanizing Area.

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Department Additions

Department additions comprise new programs or services, and enhancements to existing programs. Public safety additions received the highest priority among department addition requests. Additions to the Police and Fire-Rescue departments are discussed in detail in the Public Safety Section located in this volume.

Programmatic Reductions

As previously discussed, the Annual Fiscal Year 2005 Budget General Fund expenditure requirements have increased primarily as a result of contracted salaries, workers' compensation costs, retirement system contributions, new facility costs, and non-discretionary increases. Since the large expenditure increase reflects the City's continued emphasis on public safety, most non-public safety General Fund departments were required to reduce appropriations in order to develop a balanced General Fund budget. The approach taken was to reduce programs that were not directly attributable to the health and safety of the residents and visitors of the City of San Diego.

Total General Fund reductions under the Budgetary Savings Plan for Fiscal Year 2005 are approximately \$23.3 million, or the equivalent of 3.3 percent of the Fiscal Year 2005 General Fund. Reductions that will have service impacts affecting the public are discussed below. For more detail on the impacts of all reductions, please see the Service Level Impacts section in this volume.

Park and Recreation

The Annual Fiscal Year 2005 Budget includes significant reductions for the Park and Recreation Department; programs and services will be reduced throughout Department facilities. These reductions will not include the complete closure of facilities, but many will have certain functions eliminated. Affected programs include: reduction of operating hours at recreation centers from 48 to 40 hours per week, impacting public recreational opportunities Citywide; reduction of the Special Events Showmobile's operating hours thereby reducing support for many special events including street fairs and parades; closure of 12 pools from November through February; reduction of park rangers, resulting in fewer ranger patrols and less enforcement; elimination of reservoir concessions at El Capitan Reservoir; and elimination of the Community Matching Funds Program.

Maintenance functions which will be reduced include: new facility maintenance, trail and canyon maintenance, and boat motor maintenance at City owned lakes.

Library

Given the continuing financial difficulties the City will face in Fiscal Year 2005, the Library Ordinance was suspended for Fiscal Year 2005 by City Council resolution on March 29, 2004. Although staff will be added to the Department to support the opening of two new facilities, the Library will have a reduction of support staff and the library materials budget, and will reduce the weekly hours at the Central Library from 64 to 52 hours. As a result of the reductions, the Library Department's ability to replace aging and damaged items will be impacted.

Community and Economic Development

The Annual Fiscal Year 2005 Budget reflects reductions to the Commercial Revitalization Program, the Special Projects Program, and the Business Finance Program. The "6 to 6" Extended School Day Program is reduced by \$2 million, which will impact participant levels. The removal of the General Fund contribution of \$1.8 million will eliminate the competitive portion of the City's Social Services Program, which funded a total of 50 social service programs in the categories of Youth, Homeless, Seniors,

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HIV/AIDS, Disabilities, Domestic Violence, and others in Fiscal Year 2004. Community and Economic Development also reduced support staff, which reduces response times to the public; these positions received incoming public reception calls and assisted walk-in citizens, in addition to providing support to over 50 staff residing in Economic Development and Redevelopment Divisions.

Four Community Service Centers – Golden Hill, North Park, Otay Mesa/Nestor, and Tierrasanta – will close in Fiscal Year 2005. Four Police Storefronts – Tierrasanta; North Park; Golden Hill; and Otay Mesa/Nestor will also be closed, resulting in General Fund savings of \$715,346. Each Council District will maintain at least one Community Service Center for residents' convenience.

General Services – Storm Water

The “Think Blue” Education Program, which provides education and outreach services for the Storm Water Pollution Prevention Program, was reduced by 50 percent. Furthermore, additional reductions diminish the Division's ability to implement the watershed urban runoff management plans required by the Municipal Storm Water Permit.

Citywide Management

The City Manager reduced unclassified managerial staff to further streamline City operations. Additionally, it is important for management staff to show leadership in addressing budget difficulties. For this reason, unclassified managers reporting to the City Manager and independent departments will no longer receive the equivalent of 5.8% of the City funded portion of their retirement offset contribution. This cost will be shifted from the General Fund to the managerial employees, which will save the General Fund approximately \$1.4 million in Fiscal Year 2005. In addition, Non-General Funds will save approximately \$1.3 million in Fiscal Year 2005.

Unfunded Needs

There are many needs that require additional funding in Fiscal Year 2005 and in future years. Due to budget constraints, these items are not proposed to be funded at this time and include, but are not limited to:

- Public Safety Needs
- Basic Operating Needs – to provide customer service at expected levels of the community
- Deferred Maintenance
- Municipal Storm Water Permit requirements
- The Strategic Framework – the infrastructure needed to support the “City of Villages” concept
- National Pollution Discharge Elimination System (NPDES) Permit – to fund efforts to meet permit requirements
- Underground Storage Tanks
- Pension System Unfunded Actuarial Accrued Liability

The City Manager released an Unfunded Needs Report to provide greater detail regarding unfunded needs in City departments. The Fiscal Year 2004 Unfunded Needs Report provides a comprehensive overview of the basic needs that are characteristic of a large metropolitan city but are unmet due to competing priorities for available funding. Given the City of San Diego's low revenue base, funding decisions are largely determined based on available revenue, which may not coincide with departments' operating needs. The report is intended to be used as a guide to move forward while addressing the City's basic operating requirements.

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Restructuring/Reorganization

San Diego Police Department

The Annual Fiscal Year 2005 Budget reflects a comprehensive department-wide reorganization that the San Diego Police Department initiated in Fiscal Year 2004, including realignment of the budget to reflect the new organization. Overall, the goal was to manage Department resources more effectively and make operational changes to better meet the changing priorities of the community and the Department.

Other considerations for the reorganization were the needs to: 1) adjust to the budget reductions of the last two years; 2) address changes in crime trends, i.e. new and emerging crimes, such as Elder Abuse and Economic Crimes; 3) provide more officers in the field for public safety activities; and 4) adjust the supervisor span of control.

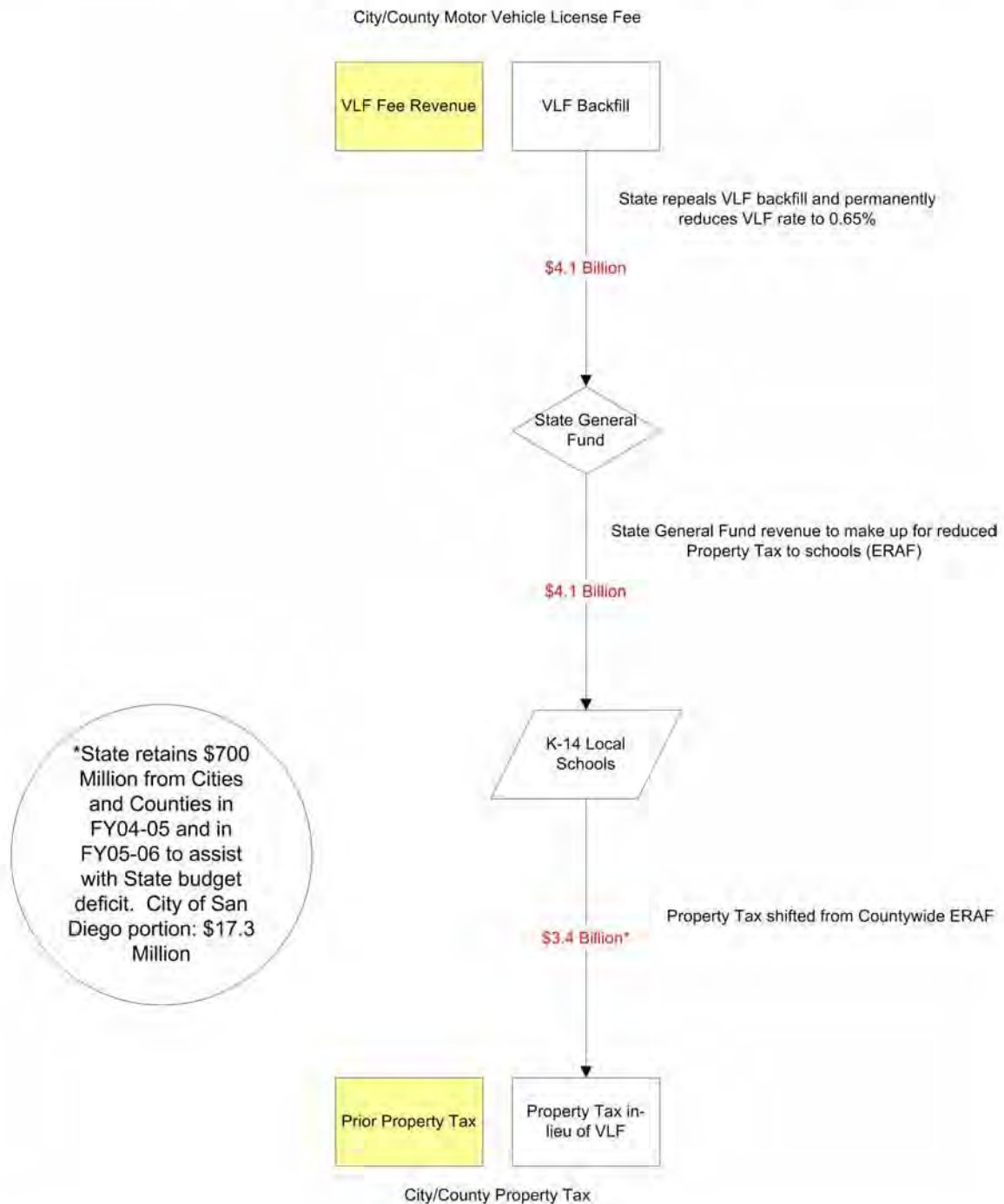
State Budget Impacts

The 2004-2005 State of California Budget will again cause reductions in revenue to the City of San Diego. During the State's budget process, local government representatives and Governor Schwarzenegger negotiated on efforts to protect local government revenues. Local governments agreed to assist in the budget cuts for the next two year 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 requires 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. Proposition 1A also requires that any confiscation must be paid back within three years. The agreed-upon share of the budget cuts is estimated to be \$17.3 million for the City of San Diego in Fiscal Year 2005 and again in Fiscal Year 2006.

The City of San Diego has budgeted this loss of \$17.3 million in the Annual Fiscal Year 2005 Budget. The loss will be accompanied by a complex shift of revenue from Motor Vehicle License Fees (VLF) to Property Tax. Starting in Fiscal Year 2005, the VLF rate to the taxpayer will be permanently set at 0.65 percent of a vehicle's value and the State will no longer provide a backfill on VLF to local municipalities for the difference between the 0.65 percent rate and the original two percent rate. The State will shift what would have been the backfill VLF backfill to the Educational Revenue Augmentation Fund (ERAF). ERAF will then shift Property Tax revenue to local governments. The City expects to receive \$17.3 million less in "Property Tax in lieu of VLF" than VLF that was shifted away as a contribution toward the State budget deficit. Figure 1 illustrates these shifts.

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Figure 1- VLF for Property Tax Swap

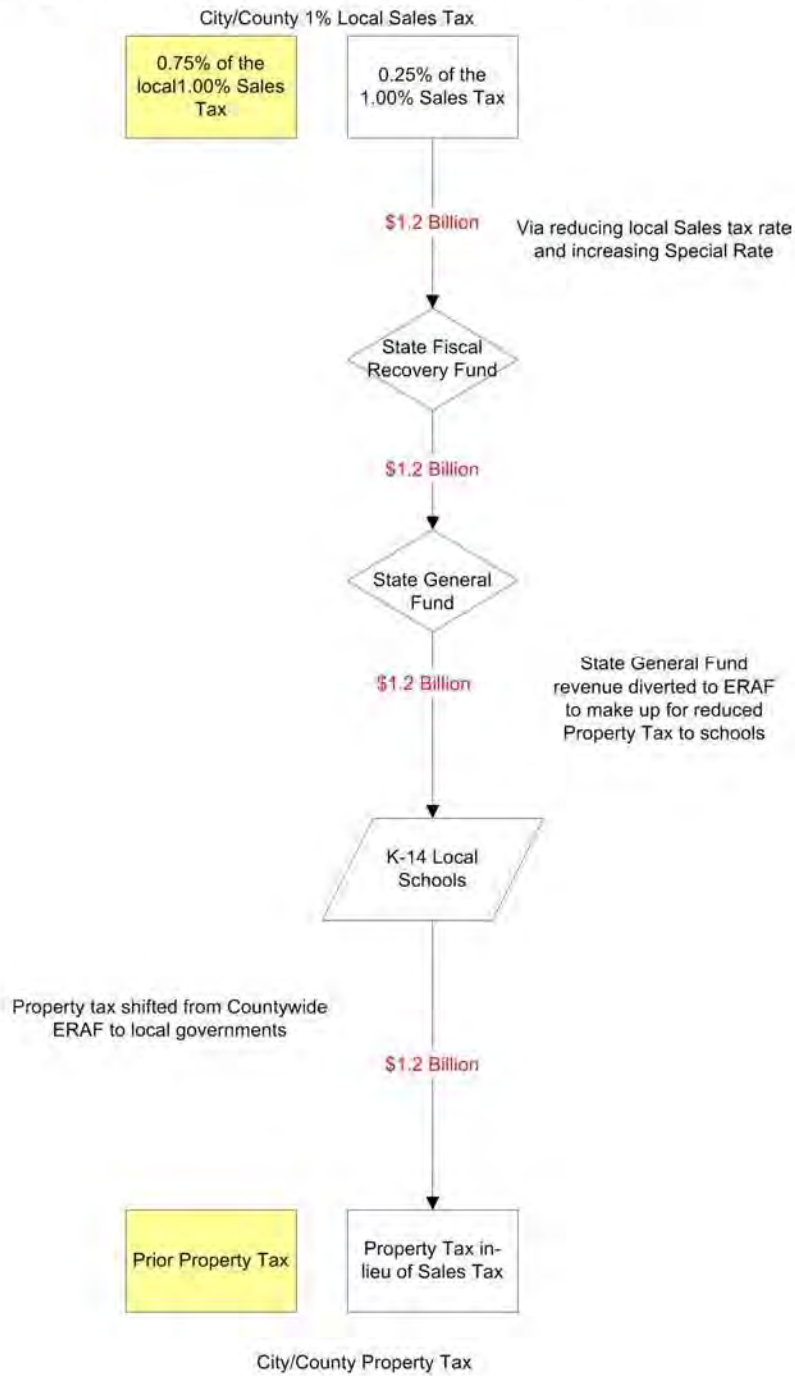


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The City has also incorporated a reduction of sales tax revenue in the Annual Fiscal Year 2005 Budget as a result of State action. On March 2, 2004, California voters passed Proposition 57, the Economic Recovery Bond Act. Proposition 57 authorized 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 the Educational Revenue Augmentation Funds (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 following fiscal year from when the growth actually occurs. In other words, local governments will not receive Fiscal Year 2005 growth on the in-lieu property tax revenue until Fiscal Year 2006. For the City of San Diego, this is projected to result in a loss of \$2.5 million in Fiscal Year 2005, which will be received in Fiscal Year 2006. Figure 2 illustrates the Triple-Flip.

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Figure 2- Proposition 57: "Triple Flip"



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The State Budget also includes the elimination or reduction of other programs and grants that would affect the City's Non-General Funds. All of the impacts to the City of San Diego are summarized in the table below.

State Impacts

| FY 2005 (July 1, 2004) | Budget |
|-----------------------------------|-------------------------|
| General Fund | |
| Property Tax/VLF Swap | (\$17.3 million) |
| Non-General Fund | |
| COPS funding | (\$ 0.4 million) |
| Law Enforcement/Technology grants | (\$ 0.4 million) |
| Library Foundation | (\$ 0.6 million) |
| Arts and Culture grants | (\$ 0.1 million) |
| Redevelopment | (\$ 4.9 million) |
| Total Citywide Impact | (\$23.7 million) |

In addition, it should be noted that the City continues to experience a loss of revenue due to the property tax shifts to the ERAF that began in Fiscal Year 1993. The chart below reflects revenue diverted from the City of San Diego's General Fund since Fiscal Year 1993 to ERAF and includes the estimated \$21.6 million diverted from Motor Vehicle License Fees in Fiscal Year 2004. This is a cumulative revenue shift of \$362.4 million. The amount of the shift of property tax to ERAF varies each year and it is anticipated that the City's loss in Fiscal Year 2005 will exceed the shift of \$41 million in Fiscal Year 2004.



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City Reserves

The City maintains several reserves for its operations. These include reserves for the General Fund, Debt Service and Tax Funds, Special Revenue Funds, Enterprise Funds, Capital Improvement Funds, and Internal Service Funds that can only be used for their intended purposes. Further detail can be found in Schedule V, "Summary of Revenues, Expenditures and Fund Balances," and some of the more significant Non-General Fund reserves are described later. Reserves used to support General Fund operations include the Allocated Reserve and the Unappropriated Reserve.

The Allocated Reserve is used to carry forward current year funds for projects that could not be completed prior to the end of the fiscal year. As part of the Fourth Quarter Budget Adjustment, the Mayor and City Council are asked to authorize the City Auditor and Comptroller to carry forward funds for specific projects.

The Unappropriated Reserve, also known as the General Fund Reserve, was established to fund major General Fund emergencies and to assist in maintaining a favorable bond rating. Specific expenditures are not budgeted within this reserve. For the Annual Fiscal Year 2005 Budget, approximately \$2.2 million will be added to this reserve, which will bring the total to \$32.9 million. No specific legal guidance or policy restrictions are placed on the use of these funds. However, Mayor and City Council authorization is necessary to expend these funds.

For Fiscal Year 2005, the General Fund Reserve will be equal to approximately four percent of General Fund revenue. Council Policy 100-20, *General Fund Reserve Level*, states that the General Fund Reserve shall be set at a minimum of three percent of annual General Fund revenues. The Council Policy establishes a further goal of bringing the General Fund Reserve to five percent of annual General Fund revenues by Fiscal Year 2014. The City Manager will continue to look at future revenue growth to ensure that the General Fund Reserve is consistent with Council Policy 100-20.

Conclusion

The Annual Fiscal Year 2005 Budget represents a total combined budget of \$2.48 billion, which includes 11,096.14 positions and a Capital Improvements Program Annual Budget total of \$583.3 million. This budget will enable employees to provide reliable services to the residents of the City of San Diego. In order to best serve the residents of the City of San Diego, the budget places the highest priority on Public Safety and core services.

The diversion of local revenues by the State of California has impaired the ability of the City to serve its residents. However, Proposition 1A was approved by voters in November 2004, and is expected to help protect the local revenue from continued erosion by the State of California. Throughout the fiscal year, City management will strive to serve the residents of the City of San Diego efficiently and effectively.

