

**OFFICE OF INDEPENDENT BUDGET ANALYST
CITY OF SAN DIEGO
M E M O R A N D U M**

No. 06-28

DATE: November 17, 2006

TO: Honorable Council President and Members of the City Council

FROM: Tom Haynes, Office of Independent Budget Analyst

SUBJECT: Motive Equipment Fund Transfers

Item 101 on the consent agenda for Tuesday, November 21, 2006 requests a \$5.0 million transfer to the Sewer Revenue Fund and a \$2.0 million transfer to the Metro Sewer Utility Fund from the Central Garage Equipment Replacement Fund. As explained in the executive summary accompanying the docketed action, the Equipment Division administers the Equipment Replacement Fund, which serves to replace non-public safety motive equipment for all General Fund and Non-General Fund Departments. The Replacement Fund is composed of various sub-funds to prevent the co-mingling of moneys from the different contributing funds.

Motive equipment is purchased from the Replacement Fund through the accumulation of assignment fees, or incremental payments made by departments each pay period in order to set aside money for replacing vehicles. Assignment fees are budgeted annually, and calculated based on the equipment's expected useful life and the cost of replacement. Over time, funds may accumulate in the Replacement Fund that are above and beyond what is needed to replace the current stock of motive equipment for any particular department or fund. As explained in the executive summary, this occurs primarily when departments continue to pay assignment fees on equipment that is used beyond its expected life cycle. The transfers requested with this action represent the accumulation of surplus replacement dollars over a 36 year period.

The IBA believes that the requested transfers are both appropriate and financially sound. Since assignment fees will continue to be paid for the current stock of motive equipment, these transfers will not affect the department's ability to replace vehicles in the future. Furthermore, as explained in the executive summary, it has been determined that the practice of paying assignment fees beyond vehicle life cycles is unnecessary, and will cease no later than the beginning of FY 2008.

Finally, it should be noted that the Natural Resources and Culture Committee, upon hearing this item on October 11, 2006, directed that the funds be used for the express purpose of supporting MWWD's ongoing Capital Improvement needs. Since the requested action does not specify the use of the funds, the Council may wish to add clarifying language to the resolution.