CITY OF SAN DIEGO
Office of the Auditor & Comptroller

MEMORANDUM

March 22, 2006

TO: Honorable City Council Members

FROM: John Torell, CPA, City Auditor and Comptroller

SUBJECT: Monthly Fiscal Update

COPY: Mike Aguirre, City Attorney
Andrea Tevlin, IBA
Ronne Froman, COO
Jay Goldstone, CFO

CITY AUDITOR'S FISCAL STATUS UPDATE

March 29, 2006

Purpose and scope

This month's financial report focuses on the financial status and analysis of the FY 2006 operations of the City's proprietary funds.

The report compares FY 06 ***budgeted*** expenditures and revenues with ***actual*** amounts for the City's seven enterprise funds and six internal service funds for the period July 1, 2005 through February 24, 2006 (Period 8), representing 65.5% of the fiscal year. (See Schedule 1 attached). In addition, a narrative analysis is presented for selected funds of particular interest.

In addition to the information provided on the proprietary funds, this report also compares the General Fund, FY 2006 ***budgeted*** expenditures and revenues with ***actual*** amounts for the same period. (See Schedules 2, 3 & 4 attached).

Based on comments received from the committee members, we have modified our attached General Fund report to classify and summarize expenditures consistent with the summaries included in the City's annual budget. Also, we have expanded the Citywide Program budget to specifically identify each budgeted Citywide Program activity.

The overall General Fund projections do not significantly differ from last month's presentation.

PROPRIETARY FUNDS

Background

Proprietary funds are so named because they essentially mirror private business enterprises. In government, proprietary funds are designated as either enterprise funds or internal service funds, depending upon the customer base served.

Enterprise funds are typically used to account for services provided to the public for a fee to recover the cost of providing services (including capital replacement costs). In practice, enterprise funds can also be used to account for activities whose costs are only partially funded by fees and charges (e.g. transit districts).

The City currently has seven enterprise funds as follows:

- Airports
- Development Services
- Environmental Services – Refuse Disposal
- Environmental Services – Recycling
- Golf Course
- Metropolitan Wastewater Department (MWWD)
- Water Department

Internal service funds are utilized when the entity wants to centralize certain services (e.g. the print shop or the motor pool) within the government. The costs of services delivered are charged to the using departments on a cost-reimbursement basis.

The City has six major internal service funds as follows:

- Equipment Division
- Central Stores
- Publishing Services
- Special Training
- Diversity Fund
- Water and Sewer Design

Overview

Based on our review of available revenue and expense data and discussions with staff of selected departments, we estimate a year-end deficit in enterprise fund activity of approximately $26 million, after Capital Improvement Project (CIP) expenses of $136 Million are considered. The CIP expenditures are partially funded from reserves designated for this purpose from prior year budgets. We estimate year-end deficits for internal service funds of approximately $2 million. It is anticipated the full amount of these deficits will be funded through carryover fund balances in the impacted enterprise and internal service funds.

It should be noted that the use of carryover fund balances to cover current year expenses and CIP requirements could impact future years reserve balances and cash flows for the funds. The impacted enterprise funds (Metropolitan Wastewater and the Water Department) CIP programs may need an infusion of funding in order to continue at a level needed to replace deteriorating infrastructure. The impacted internal service funds (Equipment Division and Publishing Services) may need to revisit rate structures and/or services provided.

	Projected Revenue	Projected Expenditures	Projected Surplus/(Deficit)	Projected Utility CIP
Enterprise Funds				
Airports	$ 4,389,401	$ 3,064,216	$ 1,325,186	$ -
Development Services	57,591,860	56,938,997	652,863	-
Env Svcs - Refuse Disposal	43,399,650	32,221,647	11,178,003	-
Env Svcs - Recycling	21,384,368	21,776,951	(392,583)	-
Golf Course	13,001,535	11,282,062	1,719,473	-
Metropolitan Wastewater	334,830,763	298,561,604	36,269,159	69,591,361
Water	320,920,618	260,892,503	60,028,115	66,807,000
Internal Service Funds				
Equipment Division	$ 27,818,464	$ 29,972,332	$ (2,153,868)	$ -
Central Stores	26,604,077	26,294,031	310,046	-
Publishing Services	3,812,601	4,307,425	(494,824)	-
Special Training	774,794	682,585	92,209	-
Diversity Fund	459,096	332,787	126,309	-
Water & Sewer Design	23,837,740	23,837,740	-	-

Analysis

Enterprise Funds

Fund 41100 – Airports

With 65% of the year elapsed, Airports has expended 57% of its expenditure budget to date, and has collected 69% of its budgeted revenues. Currently, Auditor's projections show that Airports should have a net surplus of approximately $1.3 million for the year.

Fund 41300 – Development Services

With 65% of the year elapsed, Development Services has expended 60% of their budget due to reduced personnel expenditures caused by unfilled vacancies. Additionally, the department has received 57% of its budgeted revenues. At this point, Auditor's projection shows that Development Services will have a projected income of $0.6 million.

Funds 41506 thru 41509 – Metropolitan Wastewater

Based on projected revenues and expenditures the Auditor estimates an overall year-end surplus of $36.3 million from operating activities. In addition, we anticipate CIP expenditures of $69.6 million, which are partially funded from carryover reserves designated for CIP. We estimate up to $10 million of this amount will be carried over as continuing reserves for CIP. The department is expecting to spend a significantly lower amount on CIP than was originally budgeted in line with the dramatic cutback in their CIP program. This is primarily due to the lack of bond funding.

For operations, the department is projected to spend less than budget primarily due to the refinancing of debt service payments and not spending budgeted unallocated and contingency reserves, personnel savings due to vacant positions, and various other savings in supplies and services.

The department has received 68% of its budgeted revenues to date and is projected to have over budget revenues. While not included in these projections, the department is working towards receiving a $9 million Equipment Division replacement fund reimbursement.

Even though the department is projecting income from operations, the capital improvement program cannot be supported by this revenue source alone.

Funds 41500/41501 – Water

With 65% of the year elapsed, although Water has expended 48% of its budget and realized 67% of estimated revenues, Auditor's projects a surplus of approximately $60 million for the year. In addition, we anticipate CIP expenditures of $66.8 million, which are partially funded from carryover reserves designated for CIP. We estimate up to $15 million of this amount will be carried over as continuing reserves for CIP. The department is expecting to spend a significantly lower amount on CIP than was originally budgeted in line with the dramatic cutback in their CIP program. This is primarily due to the lack of bond funding.

The department is expected to spend less than budget primarily due to not spending budgeted unallocated and contingency reserves, personnel savings due to vacant positions, and lower than anticipated capital improvement program expenditures. These expenditures are expected to run $57 million under budget due to lack of available bond funding to complete planned projects and the resulting intentional cutback in the CIP program. The department has sufficient reserves to cover capital improvement costs as presently committed; however, any prolonged absence from the bond market may necessitate the need for future rate increases.

Internal Service Funds

Fund 50030 – Equipment Division

Equipment Division has expended 74.4% of their budget as of period 8. The department is projecting over budget expenditures in supplies, services and fuel costs. A $2.2 million operating loss is projected in the operating fund, primarily due to the increase in fuel costs and repair and maintenance of vehicles.

The expenditure for gasoline and diesel is projected to be $1.6 million over budget due to the general increase in fuel costs. The department expects to partially mitigate the deficit with over budget revenue from the using departments.

The expenditure for repair and maintenance is expected to be $635 thousand over budget. This increased cost is due to unexpected additional repairs to vehicles and the higher cost of repair parts. An over budget revenue from services to other departments including Usage Charges, Pool Rental Charges and Equipment Damage Repair Charges is expected to partially offset the over budget expenditure in repair and maintenance.

The department is expecting a transfer of revenue from the sub-funds to cover for the remaining deficit.

Fund 50020 – Publishing Services

With 65% of the year elapsed, Publishing Services has expended 67% of its budget due to the department's practice of purchasing the majority of its supplies at the beginning of the year. Revenue is projected to fall below budget due to a drop in work load production. Publishing Services has been experiencing a consistent drop in service requests over the last several years. This reduction can be attributed to the City's current fiscal climate, change in business practices, and departments/city agencies seeking outside vendors to meet their needs and/or utilizing existing personnel to complete requests.

There are no available reserves in the fund to cover the projected deficit, and actions should be taken to mitigate this deficit. Publishing Services has been analyzing its services and rate structure to better align its services with City requirements. Department management will be bringing forward recommendations to the Mayor regarding restructure and potential rate adjustments.