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CITY MANAGER'S  
**BUDGET  
MESSAGE**



THE CITY OF SAN DIEGO

## Honorable Mayor and City Council of the City of San Diego, California

On May 3, 2004, I presented the Fiscal Year 2005 Proposed Budget, which totaled \$2.45 billion and included \$814 million for General Fund operations. The Fiscal Year 2005 Proposed Budget was developed using forecasted revenue growth to fund increased costs of operations resulting from contracted salaries, retirement system contributions, inflationary adjustments, and new facilities. Then, core priorities – mainly public safety – were enhanced while non-public safety services were reduced until a balanced budget was achieved.

Subsequent to the presentation of the proposed budget, the Mayor and City Council conducted comprehensive budget hearings with input from citizens, community groups and City departments. In finalizing the Annual Fiscal Year 2005 Budget, a variety of restorations were made, including hours at Library and Park and Recreation facilities. Increased revenue of \$172,000 was used to restore a portion of street maintenance contracts. The Mayor and Councilmembers Zucchet, Lewis and Maienschein identified \$3 million in sales tax loans that the Centre City Development Corporation will repay to the City. The \$3 million will be used to purchase fire apparatus to assist San Diego Fire-Rescue personnel in performing their emergency and lifesaving tasks. After concluding budget hearings, the Mayor and City Council adopted a budget of \$2.48 billion including \$817.4 million for General Fund operations.

The emphasis on public safety has impacted most General Fund departments and some service level impacts to the public will be unavoidable. Without significant new revenue sources to provide current services, the existing revenue must be shared by all departments to fund operating requirements.

The City has not used any reserves to balance the Annual Fiscal Year 2005 General Fund Budget; in fact this budget provides that over \$2.2 million will be added to the General Fund Unappropriated Reserve during Fiscal Year 2005, which now equals approximately four percent of the General Fund revenues budgeted for Fiscal Year 2005. Additionally, one-time revenues are used to fund one-time expenses, consistent with the City's Principles of Budgeting and Finance.

On September 9, 2003, the Mayor and City Council established the Pension Reform Committee to address concerns about the current unfunded liability of the San Diego City Employees' Retirement System (SDCERS). Since the adoption of the Annual Fiscal Year 2005 Budget, the Pension Reform Committee presented its report and recommendations regarding the pension system funding to the Mayor and City Council on September 21, 2004.

In January 2004, the City made voluntary disclosure filing with the Nationally Recognized Municipal Securities Information Repositories recognized by the U.S. Securities and Exchange Commission (SEC). There were two parts to the filing. The first included a description of the unfunded accrued actuarial liability of the SDCERS, projections anticipating the growth in the liability, an estimate of the accrued liability for retiree health care benefits, as well as a description of the mechanics by which the City funded SDCERS. The second part described errors discovered in the footnotes of the City's Fiscal Year 2002 audited annual financial statements.

In February 2004, the Mayor and City Council retained Vinson and Elkins to review the City's disclosure practices from January 1996 through February 2004 and investigate whether the City has failed to meet disclosure obligations concerning its funding of SDCERS. Soon after the release of the voluntary reports and the hiring of Vinson & Elkins, both the SEC and the United States Attorney for the Southern District of California initiated investigations regarding these issues.

The Vinson and Elkins report and recommendations were presented to the Mayor and City Council on September 20, 2004. The Mayor and City Council have taken action on both the Pension Reform Committee and the Vinson and Elkins recommendations.

Additionally, the City's credit ratings have been downgraded or suspended. Although these issues have presented challenges that will take time and resources to address, the business of operating the City and providing services to our citizens continues.

Public safety remains a high priority. Neighborhood services, such as Libraries and Park and Recreation services have continued and will be provided as presented in the Annual Budget. In short, the City of San Diego will remain committed to providing services relied upon by its citizens and visitors.

Organizational changes have been implemented throughout City departments. These changes are intended to improve customer service, achieve cost savings and efficiencies, better coordinate and streamline operations, and provide enhanced fiscal oversight. Additionally, the Fiscal Year 2006 Proposed Budget will reflect changes identified as a result of organizational and functional streamlining efforts. The goal of this process is to review, improve and streamline City operations by promoting teamwork within and among all departments.

Despite the efforts of City staff to maintain or reduce costs, the State of California's continued erosion of the City's revenue base renders impacts to services unavoidable. For Fiscal Year 2005, the State will be diverting \$17.3 million in city revenues to help reduce its operating deficit. Growth in the five major General Fund revenues for Fiscal Year 2005 is budgeted at \$42.8 million. The confiscation of \$17.3 million by the State represents over 40 percent of the City's major revenue budgeted growth this fiscal year. The State's continued reliance on local government's revenue increases the financial challenges of the City.

I am confident that the Annual Fiscal Year 2005 Budget will provide reliable services to the residents of the City of San Diego. Fiscal Year 2005 will be a year of developing and implementing action plans to address the pension system as well as regain the confidence of the financial markets. I look forward to working with the Mayor and City Council throughout this fiscal year to meet these challenges and transition my responsibilities to the incoming City Manager.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "P. Lamont Ewell". The signature is written in a cursive, flowing style.

P. Lamont Ewell  
City Manager

**THE CITY FILES ITS OFFICIAL STATEMENTS FOR BOND OFFERINGS, AUDITED FINANCIAL STATEMENTS, ANNUAL FINANCIAL INFORMATION, MATERIAL EVENT NOTICES, AND VOLUNTARY DISCLOSURES, WITH THE NATIONALLY RECOGNIZED MUNICIPAL SECURITIES INFORMATION REPOSITORIES (“NRMSIRS”) THAT ARE RECOGNIZED BY THE SECURITIES AND EXCHANGE COMMISSION. THE BUDGET WILL NOT BE FILED WITH THE NRMSIRS AND SHOULD NOT BE RELIED UPON BY AN INVESTOR IN DETERMINING WHETHER TO BUY, HOLD, OR SELL A SECURITY THAT IS SECURED DIRECTLY OR INDIRECTLY BY CITY REVENUES.**