



NATIONAL STEEL AND SHIPBUILDING COMPANY
A GENERAL DYNAMICS COMPANY

RICHARD H. VORTMANN
PRESIDENT

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Dear Fellow Blue Ribbon Committee Members:

With our committee now in "hibernation" until next Spring, as time has past and events gradually unfold at City Hall, I have been reflecting on our final report. As you might recall my redraft of Chairman Joe's initial draft was relative harsh in its appraisal of the City's fiscal health. After much discussion of whether the "sky was really falling" and did we really want to say all that, we, as a group, with my concurrence, evolved to the final version of our conclusion i.e. "the city is in good fiscal shape, but..."

Interestingly, the several "citizen comments" I have received regarding our report have all been essentially the same - "yeah, my balance sheet and credit rating would be good too, if I didn't maintain my house and pay all my expenses."

The committee's unstated concern over the ball park financing and any impact to the city's credit rating in general are now behind us. However certain recent developments since our report deliberation seems to accentuate the "buts" we made in our report.

First the City's EPA waiver on the sewer plant is now in question, which, worst case, would result in an mandatory unplanned multi-billion dollar liability. Even if the waiver is finally granted it likely will come with new restrictions which will reduce the available capacity for population growth (and thereby invalidate our report's conclusion that the City had a viable plan for the future assuming the proposed rate increases were approved).

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Second, the City appears to be equivocating on approving the first (of several planned) user rate increases for the Water Department. Worse, regulators, apparently in frustration of lack of progress on improving water quality, are "threatening" to publicly question the safety of our water supply (which most likely would lead to significant mandatory increased spending in facilities).

Third, the issue of storm water containment appears to be heating up with a potential price tag far higher than the "unbudgeted" \$143m we stated in our report.

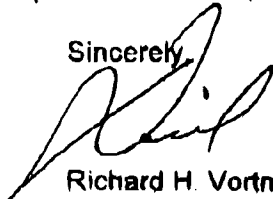
Fourth, as I continue to learn more about the City's pension system, coupled with the impact of the equity market bubble burst on the pension portfolio, it is clear the City has deferred to future taxpayers far more dollars than our report assumed. Further, there appears a chance the City will grant further pension benefits this year which will either increase the pension budget line item or (more likely) push yet more current costs out to future taxpayers. Unlike deferred maintenance, these are mandatory costs which ultimately must be paid; and these amounts explicitly grow with interest when they are deferred.

I have a growing and daunting concern that we possibly did our City a disservice by not ringing a very loud bell that:

- i) the City's fiscal health is not what it appears,
- ii) there are serious problems,
- iii) their solutions will be painful in terms of reduced services and/or increased taxes and fees, and
- iv) a comprehensive multi-year strategic plan to deal with the situation must immediately be developed; difficult decisions must be made now.

I offer these personal thoughts for the Blue Ribbon Committee's consideration. Even if you were all to share my concern on this issue, I am not certain of what to do next. I remain hopeful my fears expressed here will prove unfounded, but I am not optimistic.

Sincerely,



Richard H. Vortmann
President

RHV/lh