THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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FY 2013 Year-End Budget Adjustments and Year-End Budget Monitoring

OVERVIEW

The Financial Management Director issued the Fiscal Year 2013 Year-End Budget Monitoring Report ("Year-End Report") on May 21, 2013. The Year-End Report describes the current status of revenues and expenditures, and their year-end projections, based on actual (unaudited) data from July 2012 through March 2013, and provides an in-depth summary of changes to the General Fund (and other City funds) since the Mid-Year Budget Monitoring Report.

The IBA reviewed the Year-End Report and compared projections and additional information on the General Fund and other City funds to the Mid-Year Budget Monitoring Report ("Mid-Year Report", presented and approved by City Council on March 11, 2013). The Year-End Report continues to show the trend noted in the Mid-Year Report of both increasing revenues and expenditures; with revenue growth outpacing expenditure growth primarily due to major revenue increases. This increase in revenues above expenditures has resulted in an increased budgetary surplus from the Mid-Year Report, the majority of which is proposed to be subsequently re-budgeted in FY 2014.

We have provided additional information or clarification to the information presented in the Year-End Report to be considered in combination with the Mayor's May Revision to the FY 2014 Proposed Budget that will be heard at City Council on June 10, 2013.

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FISCAL/POLICY DISCUSSION

General Fund Revenues

Revenue Source *(in millions)*	FY 2013 Adopted Budget	FY 2013 Mid Year Report Projection	FY 2013 Year End Report Projection	Variance - Adopted to Year End	Variance - Mid Yr to Year End
Property Tax	$ 387.1	$ 401.8	$ 406.5	$ 19.4	$ 4.7
Sales Tax	236.3	234.4	234.1	(2.2)	(0.3)
Transient Occupancy Tax	81.7	83.6	82.9	1.2	(0.7)
Franchise Fees	71.7	67.9	68.0	(3.7)	0.1
Departmental & Other Revenue	374.4	381.2	382.3	7.9	1.1
TOTAL GENERAL FUND REVENUE	**$ 1,151.2**	**$ 1,168.9**	**$ 1,173.8**	**$ 22.6**	**$ 4.9**

Total General Fund revenue has increased $22.6 million as of the Year-End Report compared with the FY 2013 Adopted Budget, from $1.15 billion to $1.17 billion. The increase in revenue is primarily attributable to the following:

- $11.6 million increase in projected property tax distributions due to redevelopment dissolution;
- $6.9 million reimbursement from the Property Tax Administration Fund from San Diego County;
- $4.5 million increase related to the Civic San Diego budget; and
- $4.1 million in Service Authority for Freeway Emergencies (SAFE) funds.

These increases are offset by decreases in other revenues, including sales tax and franchise fees. Since the Mid-Year Report, General Fund revenues have increased by a marginal $4.9 million primarily due to an increase in the property tax revenue projection and other departmental revenues.

The following sections outline major General Fund revenues and departmental revenue items of note.

Major General Fund Revenues

Property Tax (1.0 percent assessed revenue)

The $388.0 million property tax projection in the Year-End Report reflects a $1.1 million increase over the $386.9 million projected in the Mid-Year Report. This increase is primarily due to a $1.0 million reduction in anticipated refunding activity, from $4.5 million to $3.5 million. The projection reflects a $2.0 million improvement over the $5.7 million in refunding activity assumed in the FY 2013 Budget. This revised projection is consistent with County Assessor reported trends of a reduction in the quantity and value of property assessment appeals countywide in comparison to recent years, and Financial Management's observation of a significant decline in year-to-date refunding trends.

Property Tax (RPTTF Distribution)

The Year-End Budget Monitoring Report includes $11.7 million in RPTTF tax-sharing pass-through payments and residual payments which is approximately $3.8 million over the $7.9 million included in Mid-Year Report. Financial Management's projections were developed prior to the State Department of Finance's (DOF) final determination on the Recognized Obligation Payment Schedule (ROPS) 4 on May 17, 2013. The final determination increases the amount of enforceable obligations payable from RPTTF from about $51.2 million to $58.3 million which reduces the amount of residual RPTTF available for distribution to the local taxing entities. We are projecting the total RPTTF distributed to the City to be reduced by about $800,000 from $11.7 million to $10.9 million, $3.0 million over the Mid-Year Report. It should be noted that these amounts exclude $2.5 million in tax sharing pass-through payments from the Center City Development Corporation, that were originally budgeted outside of property tax revenues. This $2.5 million tax sharing payment was projected to be received at budgeted levels in the Year-End Report (categorized as a portion of "transfer in" revenue); however, this revenue is currently counted in this property tax projection and will not be received in FY 2013.

Sales Tax

Sales tax is projected to end the fiscal year at $234.1 million which reflects a reduction of $2.2 million from budgeted expectations, and is approximately $300,000 less than the Mid-Year projection. The revised projection demonstrates a reduction from the Mid-Year forecast due to sales tax performance below expectations in the third quarter of the fiscal year, reflective of the holiday sales during the October – December 2012 period. The third quarter demonstrated growth of 4.5 percent, 0.8 percent less than the 5.3 percent growth assumed in the Mid-Year Report. The projected year-over-year growth for the fourth quarter of the fiscal year remains unchanged from budget at 5.3 percent. Despite slowed growth in the third quarter, a slowing is not anticipated to continue based on current available economic forecasts of continued improvements in employment, personal income, and consumer spending.

Transient Occupancy Tax (TOT)

The transient occupancy tax revenue projection in the Year-End Report is $82.9 million, which is a $765,000 or 1.0 percent decline from the Mid-Year Report (total City-wide TOT revenue has declined by $1.5 million from $159.7 million to $158.2 million). Year-to-date TOT revenue growth through the first six months of the fiscal year was 5.8 percent, which was higher than the 5.5 percent originally projected for this period in the Adopted Budget.

Based on this increase in growth above projected amounts, the growth rate for TOT revenue for the final six months of the fiscal year was increased from 5.5 percent to 6.0 percent as of the Mid-Year Report. However, the following three months of revenue receipts subsequent to the release of the Mid-Year Report totaled 1.4 percent growth over FY 2012 actual revenue, reducing the overall TOT forecast for FY 2013. Despite the recent decrease in growth, the remaining months projected growth rate has remained unchanged at 6.0 percent. FY 2013 TOT revenue may fall short of projected levels if the recent trend of a reduction in TOT growth persists for the remainder of FY 2013.

Citywide Issues

De-appropriation of grant funding from Skyline Hills branch library

During the May 22, 2013 City Council meeting, Councilmember Kersey and Alvarez inquired about the de-appropriation of $1.0 million in grant funding from the Skyline Hills branch library. Based on our inquiry with the Library Department, the following clarification has been provided.

In July 2004, the First Five Commission of San Diego granted the San Diego Public Library an award for $4.0 million to construct Preschooler's Door to Learning centers at four branch libraries: College-Rolando, Logan Heights, Serra Mesa-Kearny Mesa, and Skyline Hills. Each branch was allocated $1.0 million. The Preschooler's Door to Learning centers assist children under five with school readiness by encouraging them to develop an interest in reading and learning. Approved projects were to be under construction within two years of the award and eligible project expenditures were to be reimbursed from grant funds.

The original termination date of the funding agreement was November 2007. The Library Department was able to negotiate several extensions with the last extension of a November 2012 deadline. However, in May 2011 the City received a letter from the First Five Commission stating that due to the uncertainty of the State's financial condition, the Commission was resetting the termination date to June 2011. Construction was completed for the College-Rolando, Logan Heights, and Serra Mesa-Kearny Mesa libraries prior to the termination date; however, the Skyline Hills branch library did not have funding for construction in place prior to the termination date, which has led to the de-appropriation of grant funding.

General Fund Expenses

	FY 2013 Adopted Budget	FY 2013 Mid Year Report Projection	FY 2013 Year End Report Projection	Variance - Adopted to Year End	Variance - Mid Yr to Year End
Personnel Expenditures	$ 511.5	$ 512.1	$ 506.3	$ (5.2)	$ (5.8)
Fringe Benefits	321.1	320.3	320.8	(0.3)	0.5
Contracts	143.8	143.3	138.5	(5.3)	(4.8)
Energy & Utilities	42.7	42.8	41.6	(1.1)	(1.2)
Information Technology	42.9	42.9	43.1	0.2	0.2
Supplies	21.3	22.6	23.4	2.1	0.8
Other Expenditures	80.6	85.7	97.4	16.8	11.7
TOTAL GENERAL FUND EXPENDITURES	**$ 1,163.9**	**$ 1,169.7**	**$ 1,171.1**	**$ 7.2**	**$ 1.4**

Total General Fund expenditures have increased $7.2 million as of the Year-End Report compared with the FY 2013 Adopted Budget, from $1.16 billion to $1.17 billion. The increase in expenditures is primarily attributable to $17.2 million in Council-approved budget modifications[1], combined with a net decrease in other personnel and non-personnel expenditure projections.

[1] $5.0 million for Civic San Diego expenditures; a $200,000 increase for vendor registration software; $6.9 million property tax administration fee refund which funds the Police CAD project; $1.1 million in mid-year use of surplus; and $4.0 million in mid-year net appropriation increases.

Since the Mid-Year Report, expenditures have increased $1.4 million, primarily due to the Council approved utilization of $1.1 million in the mid-year projected surplus, $4.0 million increase in departmental appropriations approved at mid-year, and $7.0 million in transfers out (transfer payments include $3.9 million worker's compensation reserve contribution to achieve percent target, $1.3 Central Stores payment due to invoice delays, and $1.1 million parking district payments, among others). This increase was offset by $4.8 million of savings in contract expenditures and $5.8 million reduction in salaries and wages among other minor changes.

Status of General Fund Reserve

The Year-End Budget Monitoring Report describes a projected $17.0 million budgetary surplus for FY 2013. Because revenues are projected to be higher and expenditures are projected to be lower than the current budget[2], the City is projecting that budgeted reserves of $14.3 million will not be utilized in FY 2013. Further, it is projected that there will be $2.7 million more in revenues than expenditures. These two combined amounts yield a FY 2013 budgetary surplus of $17.0 million.

Because FY 2013 actual revenues are projected to be $2.7 million higher than expenditures, the projected actual surplus is $2.7 million. Below is a table showing the calculation of the General Fund Reserve Balance for FY 2013 and FY 2014, which incorporates the projected surplus for FY 2013 and the use of reserves budgeted in FY 2014.

($ in millions)	Reserve	% Revenues
FY 2012 Ending Reserve Balance	$ 167.2	
FY 2013 Projected Surplus	2.7	
FY 2013 Projected Ending Reserve Balance	$ 169.9	14.5%
FY 2014 Use of Reserves	(13.9)	
FY 2014 Projected Ending Reserve Balance	$ 156.0	13.0%

**Does not reflect supplemental May Revise*

The estimated FY 2014 year-end General Fund reserve balance of $156.0 million includes $28.5 million for potential impacts due to the dissolution of the City's Redevelopment Agency (RDA). While the $28.5 million will cover the $28.0 million anticipated claw back of payments previously made under agreements that were disallowed by the State Department of Finance (DOF) under ROPS 3, additional impacts of $2.3 million to $9.9 million have been identified which surpass the amount set aside in General Fund reserve. These additional impacts could be reduced by $13.2 million in revenues resulting from the non-housing due diligence review as well as the City's share of any Claw Back that may occur. The items discussed below are not reflected in the reserve amounts shown in the table above, which underscores the need to preserve funds for ongoing risks to the General Fund.

[2] The current FY 2013 expenditure budget includes budget adjustments made after the adoption of the budget: increases of $5.0 million for Civic San Diego expenditures; a $200,000 increase for vendor registration software; the $6.9 million property tax administration fee refund which funds the Police CAD project; $1.1 million in mid-year use of surplus; and $4.0 million in mid-year net appropriation increases.

Potential New Impacts to General Fund Reserve Due to RDA Dissolution

Expenditure Impacts

1. *$1.6 million – Loan for Successor Agency Budget Shortfall*

The Successor Agency will seek approval on June 11, 2013 for a loan for up to $1.6 million to cover a deficiency in its budget for FY 2013; the actual loan amount is likely to be about $700,000. The shortfall is due to a reduction in the administrative cost allowance—which is calculated as 3% of the Successor Agency's distribution of RPTTF to pay enforceable obligations—based on items disallowed by the DOF on ROPS 3 (for the period July through December 2012). The City can seek recovery of the loan amount on a future ROPS, and if approved by the Oversight Board and DOF the City could be repaid as early as January 2014.

2. *$29.6 million – State Controller Claw Back*

Since the DOF has denied certain debt repayments between the City and former RDA on ROPS 3 and more recently on ROPS 4, the State Controller is likely to claw back payments previously made under those agreements, including $22.6 million for Petco Park improvements; $4.5 million for the Convention Center Phase II expansion; $0.9 million for general/startup debt; and $1.6 million for the Naval Training Center (NTC) Section 108 loan. Note that the City would receive its share of the claw back amount which is 21%.

3. *$6.7 million – Items Disallowed on ROPS 4*

The DOF denied two items in ROPS 4 which could potentially impact the General Fund. This includes the Naval Training Center (NTC) Section 108 loan which was an outstanding balance of $6 million, with about $400,000 of this amount due in FY 2014. This also includes about $664,000 for project management from the Development Services Department on the Harbor Drive Pedestrian Bridge.

Revenue Impact

1. *$13.2 million – Non-Housing Due Diligence Review (DDR)*

The DDR of the non-housing funds of the Successor Agency, required per redevelopment dissolution law, identified $62.8 million of unobligated reserves for remittance to the County Auditor and Controller for distribution to local taxing entities. Pending the State Department of Finance's (DOF) final approval, the City will receive its share (21%) of about $13.2 million in additional property tax revenue, likely in early FY 2014. Given the continuing high level of risk to the General Fund due to redevelopment dissolution, we believe it is important to preserve these funds to mitigate future risks.

Closing and De-Appropriating Capital Improvement Program (CIP) Projects

The Year-End Budget Monitoring Report shows 19 CIP projects that have either been abandoned or canceled since they are no longer needed, no longer a priority, or cannot be executed due to financial, land acquisition, or environmental issues. These projects must be closed in order for the funds to be able to be de-appropriated. It is important to note that not all appropriations are backed by cash; the requested de-appropriation is $4.7 million while cash released to the original funding sources is $3.7 million. The table below provides detail on the department requesting that projects be closed and the remaining budget to be released for each project.

Project Name & Number	Department	Actual Expenditures	Available Budget	Cash Released
Supplier Relationship Management - SAP / S12021	Information Technology	$ -	$ 700,000	$ 700,000
Environmental Services Operations Yard Improvement / S01085	Environmental Services	66,061	813,567	813,567
Fire Station No. 10 - College Remodel / S01031	Fire-Rescue	-	21,822	-
Pt Loma-South Access Road Protection Project / S00316	Public Utilities	238,533	113,165	-
Pomerado Pipeline #2 / S00072	Public Utilities	8,586	11,669	-
Kearny Mesa Pipeline Upgrade / S10011	Public Utilities	199	-	-
Kensington Pressure Regulator / S10059	Public Utilities	-	-	-
Evan V. Jones Parkade Parking Equipment Upgrade / S11034	Real Estate Assets	49,548	500,452	500,452
Mission City Parkway/San Diego River / S00936	TSW	1,424,361	1,362,954	1,362,954
Eastgate Mall-Towne Centre to Miramar Road / S00848	TSW	730,746	751,255	-
I-805/Home Avenue Ramp Improvements / S11042	TSW	-	250,000	250,000
Mission Beach Boardwalk Widening Project / S00860	TSW	347,536	62,963	62,963
Bridge Preventative Maintenance Program / S00940	TSW	230,107	-	-
Port of San Diego Freeway Access / S12026	TSW	-	50,000	-
Ocean Front Walk-San Fernando to Ventura / S00875	TSW	343,265	48,767	48,767
Pedestrian Bridge - Ted Williams Parkway / S00938	TSW	23,835	1,165	1,165
Hollister Street Widening / S00980	TSW	2,068	-	-
Balboa Ave/Hathaway St Left Turn Lane Installation / S10047	TSW	4,163	-	-
Market St -Euclid Ave to 54th St- Improvements / S11043	TSW	-	-	-
	TOTAL	**$ 3,469,008**	**$4,687,780**	**$ 3,739,868**

The $700,000 that is being released from the Department of Information Technology's Supplier Relationship Management project is requested to be transferred to two projects in the FY 2013 Year-End Budget Monitoring Report, including $200,000 to the MLK Promenade and $500,000 to Rancho Mission Slope Repair. The remaining $3 million cash released from projects, including about $1.7 million for Transportation & Storm Water (TSW) projects, is not currently being reprogrammed in the FY 2014 budget. However, the asset-owning departments and Engineering & Capital Projects Department plan to assess funding sources and project needs, and subsequently request Council approval to appropriate the remaining cash subject to any restrictions per the original funding source.

CONCLUSION

The FY 2013 Year-End Budget Monitoring Report provides a comprehensive review of the General Fund's financial status through March 2013. The IBA has reviewed the revenue and expense information contained in the report and believes the projections included are conservative and appropriate based on current economic information and actual experience to date. Updated information for both revenues and expenses in the Year-End Report have been incorporated into the May Revise and IBA recommendations for the FY 2014 Adopted Budget.

The IBA recommends that the City Council accept the FY 2013 Year-End Budget Monitoring Report from the Mayor and authorize the requested appropriation adjustments.

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