



THE CITY OF SAN DIEGO  
**REPORT TO THE CITY COUNCIL**

DATE ISSUED: February 23, 2012 REPORT NO: 12-018

ATTENTION: Budget and Finance Committee  
Agenda of February 29, 2012

SUBJECT: Fiscal Year 2012 Mid-Year Budget Monitoring Report

REFERENCE: Fiscal Year 2012 First Quarter Budget Monitoring Report, #11-154

REQUESTED ACTION:

Accept the report on Fiscal Year 2012 Mid-Year Budget Monitoring and approve the requested budget adjustments.

STAFF RECOMMENDATION:

Accept the report and approve the recommended appropriation adjustments.

SUMMARY:

The following report presents projections of year-end revenues and expenditures for the General Fund and other funds with budgeted staff. Projections were developed using actual (unaudited) data from July 2011 through December 2011, which provides six accounting periods of activity, and departments' information regarding expected spending trends and operations for the remainder of the year. This report includes discussion of year-end revenue and expenditure projections that vary from the Fiscal Year 2012 budget by \$500,000 or more.

The General Fund is projecting a net surplus of \$16.5 million of revenue in excess of expenditures at fiscal year-end. This is a significant turn-around from the \$7.6 million shortfall projected at the time of the First Quarter Budget Monitoring Report. Both revenue and expenditure projections have improved since the previous report. Revenues are projected to exceed budget by \$21.9 million, or 2 percent, which more than offsets the projected \$3.7 million of over budget expenditures.

In accordance with the Reserve Policy (Council Policy 100-20), the status of the General Fund Reserves is also included in this report. Based on the revenue and expenditure projections mentioned above, the reserve is projected to reach \$130.4 million at fiscal year end, which exceeds the 8 percent reserve target.

In accordance with the new Municipal Code Section 22.0229: Mid-Year Amendments to the Adopted General Fund Budget, a recommendation is included in this report regarding the use of the projected surplus. Of the \$16.5 million projected surplus, \$5.0 million is recommended to be applied to one-time expenditures and limited service restorations this fiscal year. Approval of

these actions will reduce the Fiscal Year 2012 projected ending reserve balance to \$125.4 million. In addition, it is anticipated that \$3.2 million of the projected \$16.5 million Fiscal Year 2012 surplus will need to be re-budgeted in Fiscal Year 2013 for expenses that have been delayed and will be incurred next fiscal year. This includes the re-appropriation of unspent City Council office budgets. This further reduces the reserve projection to \$122.2 million.

FISCAL CONSIDERATIONS:

Appropriation increases are requested for General Fund Departments with projected over budget expenditures of more than \$1.0 million or more than 3 percent of budget to provide spending authority for the increased expenses. These increases are supported by additional revenues and include funding for the Council District 9 office remodel. Additional funding is needed for the Ridgehaven generator installation and can be absorbed within existing department appropriations. Projected revenues are available in the Fire/Emergency Medical Services (EMS) Transportation Program Fund to support the requested budget increase. In addition, Capital Outlay funding is requested for an engineering review of Crystal Pier.

Incorporating the appropriation adjustments requested above, the Fiscal Year 2012 Mid-Year Budget Monitoring Report projects a General Fund surplus of \$16.5 million by fiscal year end. Pursuant to Municipal Code Section 22.0229: Mid-Year Amendments to the Adopted General Fund Budget, a recommendation for the use of a portion of this projected surplus is included in this report. Of the \$16.5 million, \$3.2 million will need to be re-budgeted in Fiscal Year 2013. Of the remaining \$13.3 million, \$3.7 million is recommended to be applied to one-time expenditures that, if funded this fiscal year, would reduce the Fiscal Year 2013 projected deficit. In addition, \$1.3 million is recommended to increase the number of recruits in the April Police academy and for limited service restorations in the Library and Park and Recreation Departments. The remaining \$8.3 million is recommended to be held as a cushion for variances in the Fiscal Year 2012 projections or to possibly address the Fiscal Year 2013 projected budget deficit.

PREVIOUS COUNCIL and/or COMMITTEE ACTION: None

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS: None

KEY STAKEHOLDERS AND PROJECTED IMPACTS: None

signature on file  
Angela Colton  
Financial Manager

signature on file  
Mark Leonard  
Financial Management Director

signature on file  
Mary Lewis  
Chief Financial Officer

signature on file  
Jay M. Goldstone  
Chief Operating Officer

Attachment: Fiscal Year 2012 Mid-Year Budget Monitoring Report

# **Fiscal Year 2012 Mid-Year Budget Monitoring Report**



**City of San Diego  
Financial Management Department  
February 2012**



# GENERAL FUND

The General Fund is projected to end the year with \$16.5 million of revenue in excess of expenditures as reflected in Table 1: Summary of FY 2012 General Fund Projections. Revenue is projected to exceed budget by \$21.9 million, or 2 percent, which more than offsets the over budget expenditure projection of \$3.7 million, or less than a percent. This is a \$18.3 million improvement from the Fiscal Year 2012 Adopted Budget that included the use of \$1.8 million in General Fund Reserves.

<b>Summary of FY 2012 General Fund Projections</b>				
<b>Table 1</b>				
<b>Revenue/Expenditures</b>	<b>Current Budget</b>	<b>Year-End Projection</b>	<b>Over Budget/ (Under Budget)</b>	<b>Variance %</b>
Projected Revenue				
Major General Fund Revenues	\$ 807,891,774	\$ 825,980,504	\$ 18,088,730	2.2%
Departmental Revenue	318,711,292	322,548,460	3,837,168	1.2%
Subtotal	\$ 1,126,603,066	\$ 1,148,528,964	\$ 21,925,898	1.9%
Projected Expenditures				
Salaries	\$ 504,578,841	\$ 507,280,269	\$ 2,701,428	0.5%
Fringe and Non-Personnel	623,809,434	624,776,473	967,039	0.2%
Subtotal	\$ 1,128,388,274	\$ 1,132,056,742	\$ 3,668,468	0.3%
<b>Net Year-End Projection</b>	<b>\$ (1,785,208)</b>	<b>\$ 16,472,222</b>	<b>\$ 18,257,430</b>	

These year-end projections incorporate \$15.8 million in additional revenue and \$3.2 million in less expenditures than were projected in the Fiscal Year 2012 First Quarter Budget Monitoring Report, #11-154 (First Quarter Report). The First Quarter Report also included an additional \$5.0 million for the potential costs of termination pay, from employees retiring early due to changes in Retiree Health, and rising fuel costs. This report includes revised projected termination pay expenditures within each department's salary projections based on the retirements that are known at this time. The expense is expected to be lower than the costs included in the First Quarter Report. In addition, unleaded fuel costs did not increase to the levels assumed in the First Quarter Report and the impacts can be absorbed by the Fleet Division of the General Services Department.

The combination of department revenue and expenditure projections plus these potential additional items resulted in a net year-end projection of negative \$7.6 million in the First Quarter Report, whereas, the current projection is a positive \$16.5 million. This is an improvement of \$24.0 million since the First Quarter Report, as reflected in Table 2: Comparison of FY 2012 General Fund Projections.

## Comparison of FY 2012 General Fund Projections

Table 2

Revenue/Expenditures	First Quarter Report	Mid-Year Report	Change Amount	Change %
Projected Revenue	\$ 1,132,720,376	\$ 1,148,528,964	\$ 15,808,588	1.4%
Projected Expenditures	1,135,277,925	1,132,056,742	(3,221,183)	-0.3%
Potential Additional Expenses <sup>1</sup>	5,000,000	-	(5,000,000)	-100.0%
<b>Net Year-End Projection</b>	<b>\$ (7,557,549)</b>	<b>\$ 16,472,222</b>	<b>\$ 24,029,771</b>	

<sup>1</sup> The First Quarter Report included an additional \$5.0 million estimated for termination pay and unleaded fuel.

As previously mentioned, General Fund Revenues are projected to exceed budget by \$21.9 million. All department revenues combined are projected to exceed budget by \$3.8 million, or 1 percent, this fiscal year. Projected shortfalls in some departments, such as the Public Works-Engineering and Capital Projects Department, are more than offset by projected overages in other departments, like the Park and Recreation and Transportation and Storm Water Departments. In addition, major General Fund revenues are projected to exceed budget by \$18.1 million, or 2 percent. Sales tax and transient occupancy tax revenues are projected to exceed budget by 4 percent and 5 percent, respectively. Based on actual revenue receipts through the first half of the fiscal year, sales tax is projected to exceed budget by \$9.1 million and transient occupancy tax revenue is projected to be over budget by \$3.9 million. Property tax is also projected to exceed budget, although by only 1 percent or \$5.3 million due to a higher rate of property tax collection. The current major General Fund revenue projections reflect an increase of \$9.6 million since the First Quarter Report. The primary contributors to this improvement in the projections are sales tax, up 1 percent, transient occupancy tax, up 3 percent, and property tax, up less than half a percent, from the First Quarter Report.

Department expenditure projections have declined by \$3.2 million since the First Quarter Report. Projections have been reduced primarily in the contracts category as departments conserve spending in this area to offset projected over budget expenditures in other areas, such as supplies. Although this is an improvement since the First Quarter Report, total General Fund expenditures are projected to exceed budget by \$3.7 million, or less than a percent, almost entirely in salaries. The Fire-Rescue Department is projected to exceed budget by \$5.6 million in salaries, which is partially offset by savings in other areas of the General Fund.

The net impact of the projected over budget revenues and expenditures is a projected General Fund surplus of \$16.5 million by fiscal year end. Pursuant to Municipal Code Section 22.0229: Mid-Year Amendments to the Adopted General Fund Budget, a recommendation for the use of this projected surplus is included later in this report.

It should be noted that this report does not incorporate fiscal changes as a result of the dissolution of the Redevelopment Agency of the City of San Diego (RDA) on February 1, 2012 per Assembly Bill x1 26 (AB 26). This is because final approval of the Enforceable Obligation Payment Schedule (EOPS) submitted by the City has not yet been obtained. There is a risk that payments for the administrative costs associated with former RDA agencies and City department support will not be approved at the level submitted. While some of these costs may be reduced through downsizing efforts, any remaining costs not approved in the EOPS would fall to the

City's General Fund. A similar risk exists for costs associated with payments toward City debt included in the EOPS (e.g. Petco Park). Should these payments not be approved, it would fall to the General Fund to meet these debt obligations. Should the General Fund be required to pick up these additional administrative and/or debt support costs, they may be offset by increased property tax revenue. However, this, too, remains unknown at this time.

## GENERAL FUND RESERVES

The Fiscal Year 2011 ending fund balance for the General Fund was \$113.9 million. If no additional actions were taken, the projected General Fund reserve balance for the end of Fiscal Year 2012 would be \$130.4 million. This is based on the current revenue and expenditure projections, resulting in a net increase of \$16.5 million to reserves at fiscal year end, as reflected in Table 3: FY 2012 General Fund Reserve Estimates. Most of the increased revenue is from ongoing sources in major General Fund revenues; however, the \$3.8 million increase in department revenues is primarily one-time revenue offset by other reductions.

<b>FY 2012 General Fund Reserve Estimates</b>	
<b>Table 3</b>	
<b>Description</b>	<b>Amount (in millions)</b>
FY 2011 Ending Balance	
Unassigned Balance	\$ 58.9
Emergency Reserve	55.0
Subtotal	\$ 113.9
FY 2012 Projected Activity	
Projected Revenue	\$ 1,148.5
Projected Expenditures	(1,132.1)
Subtotal <sup>1</sup>	\$ 16.5
<b>FY 2012 Projected Ending Balance</b>	<b>\$ 130.4</b>
Recommended Use of FY 2012 Projected Surplus	\$ (5.0)
<b>FY 2012 Revised Projected Ending Balance</b>	<b>\$ 125.4</b>
Re-Budget for FY 2013	(3.2)
<b>Revised Reserve Projection</b>	<b>\$ 122.2</b>

<sup>1</sup> The FY 2012 Adopted Budget assumed an impact of \$1.8 million.

In accordance with Municipal Code Section 22.0229: Mid-Year Amendments to the Adopted General Fund Budget, a recommendation is provided for the use of a portion of the Fiscal Year 2012 General Fund projected surplus. Of the \$16.5 million, \$5.0 million is recommended to be applied to one-time expenditures and limited service restorations. These recommendations are discussed in further detail later in this report. Approval of these actions will reduce the Fiscal Year 2012 projected ending reserve balance to \$125.4 million.

The projected \$125.4 million reserve balance represents 11 percent of Fiscal Year 2012 projected revenue and exceeds the reserve target by \$33.5 million. While this is very positive, the FY 2013-2017 Five-Year Financial Outlook, released in October 2011, projected a \$31.8 million

deficit for Fiscal Year 2013. This projection has been revised downward to a \$12.2 million deficit to reflect the new estimated Annual Required Contribution (ARC) amount recently received from SDCERS (based on the June 30, 2011 actuarial valuation). In addition, \$2.5 million of the projected Fiscal Year 2012 surplus will need to be re-budgeted in Fiscal Year 2013 for the Council Community Projects, Programs and Services allocations and for the Kinder Morgan litigation.

## GENERAL FUND REVENUES

The current General Fund revenue budget for Fiscal Year 2012 is \$1.1 billion. Revenues are projected to be over budget by \$21.9 million, or 2 percent, at year end. This is a \$15.8 million increase from the projection in the First Quarter Report, of which, \$9.6 million is due to improved major General Fund revenues. Major General Fund revenues are projected to conclude the fiscal year at \$18.1 million, or 2 percent, over budget primarily in sales, property and transient occupancy tax revenues offset by the loss of motor vehicle license fee revenue that was eliminated in the State's Fiscal Year 2012 Budget. Department revenues are projected to be over budget by \$3.8 million, or 1 percent. The most significant increase in department revenues is the one-time \$4.3 million in deferred tow referral fee revenue for the Police Department. Taking into account this one-time revenue, the City's department revenues are projected to be slightly below budget. The following sections discuss the variances between revenue projections and the current budget for both major and department revenues, which are detailed in Attachment I: General Fund Projected Revenues.

### Major Revenues

The year-end projection for the General Fund major revenues is \$826.0 million, which is a 2 percent or \$18.1 million increase from the current budget of \$807.9 million. The projections for General Fund major revenues are based on the most recent economic information and revenue distributions to the City through the first six months of the fiscal year and are reflected in Table 4: FY 2012 Major General Fund Revenue Projections

<b>FY 2012 Major General Fund Revenue Projections</b>				
<b>Table 4</b>				
<b>Revenue Source</b>	<b>Current Budget</b>	<b>Year-End Projection</b>	<b>Over Budget/ (Under Budget)</b>	<b>Variance %</b>
Property Tax	\$ 380,908,544	\$ 386,178,988	\$ 5,270,444	1.4%
Sales Tax	211,589,835	220,672,541	9,082,706	4.3%
Transient Occupancy Tax <sup>1</sup>	74,787,161	78,667,129	3,879,968	5.2%
Franchise Fees <sup>2</sup>	67,688,948	68,061,082	372,134	0.5%
Property Transfer Tax	5,147,851	5,513,556	365,705	7.1%
Motor Vehicle License Fees	3,264,364	-	(3,264,364)	-100.0%
Other Major Revenue	64,505,071	66,887,208	2,382,137	3.7%
<b>Total</b>	<b>\$ 807,891,774</b>	<b>\$ 825,980,504</b>	<b>\$ 18,088,730</b>	<b>2.2%</b>

<sup>1</sup> Total City FY 2012 current revenue budget for transient occupancy tax is \$142.8 million and the projection is \$150.2 million. The balance is budgeted in the Transient Occupancy Tax Fund.

<sup>2</sup> Total City FY 2012 current revenue budget for franchise fees is \$124.7 million and the projection is \$128.5 million. The balance is budgeted in the Environmental Growth and Underground Surcharge Funds.



Sales, property and transient occupancy taxes are the primary contributors to the positive variance, with anticipated receipts of \$9.1 million, \$5.3 million and \$3.9 million, respectively, in excess of the current budget. Increases are also projected in franchise fees, property transfer tax and other revenues, which are partially offset by the shortfall in motor vehicle license fees. It should be noted that even with these projected improvements, the City's major General Fund revenue sources are still below their high points in Fiscal Years 2008 and 2009.

The Fiscal Year 2012 Adopted Budget for major General Fund revenues incorporated an improved economic forecast compared to previous fiscal years. There is renewed spending both in consumer goods and tourism, including business travel, which is evidenced by increased sales tax and transient occupancy tax revenues. However, these improved economic factors are tempered by a slight drop in local consumer confidence and a continuation of the sluggish housing market. While some State and national indicators of economic growth have slowed through the first half of the fiscal year, there are continued signs of improvement locally when comparing local indicators over a longer time period, as shown in Table 5: Local Economic Indicators.

<b>Local Economic Indicators</b>			
<b>Table 5</b>			
<b>Economic Indicator</b>	<b>December 2010</b>	<b>December 2011</b>	<b>% Change</b>
Unemployment	10.1%	8.9%	-1.2%
Number of Unemployed	70,000	62,900	-10.1%
USD Index of Leading Econ. Indic.	110.7	116.8	5.5%
San Diego County Home Sales	3,183	3,306	3.9%
San Diego County Median Home Price	\$ 342,258	\$ 325,718	-4.8%
Foreclosures	829	889	7.2%
Notices of Default	1,833	1,585	-13.5%

Source: California Employment Development Department, DataQuick Information Systems, USD Index of Leading Economic Indicators, San Diego County Assessor/Auditor/Recorder's Office

The unemployment rate for the City of San Diego has dropped by 1 percent since December 2010 to 8.9 percent in December 2011. This marks the first time San Diego's unemployment rate has dropped below 9 percent since April 2009. In addition, the University of San Diego's (USD) Index of Leading Economic Indicators also shows signs of improvement. This index provides a broader picture of the local economy as it summarizes data across several areas, including building permits, unemployment, local stock prices, consumer confidence, help wanted advertising and the national economy. Finally, a review of the local housing market continues to provide mixed signals. While there has been an increase in the number of sales and a decrease in notices of defaults, there has also been a decrease in median home price and an increase in the number of foreclosures.

Although the instability shown by equity markets during the first half of the fiscal year has slightly dampened some economic forecasts, signs of local recovery are still present, as shown in the table above and in the increases in tourism and sales tax receipts. Actual revenue receipts through the first half of the fiscal year are trending positively and have prompted slight increases in the projected growth rates for sales tax, transient occupancy tax and franchise fees for the

remainder of the fiscal year. This has resulted in a \$9.6 million increase from the General Fund major revenues projection in the First Quarter Report, as reflected in Table 6: Comparison of FY 2012 Major General Fund Revenue Projections.

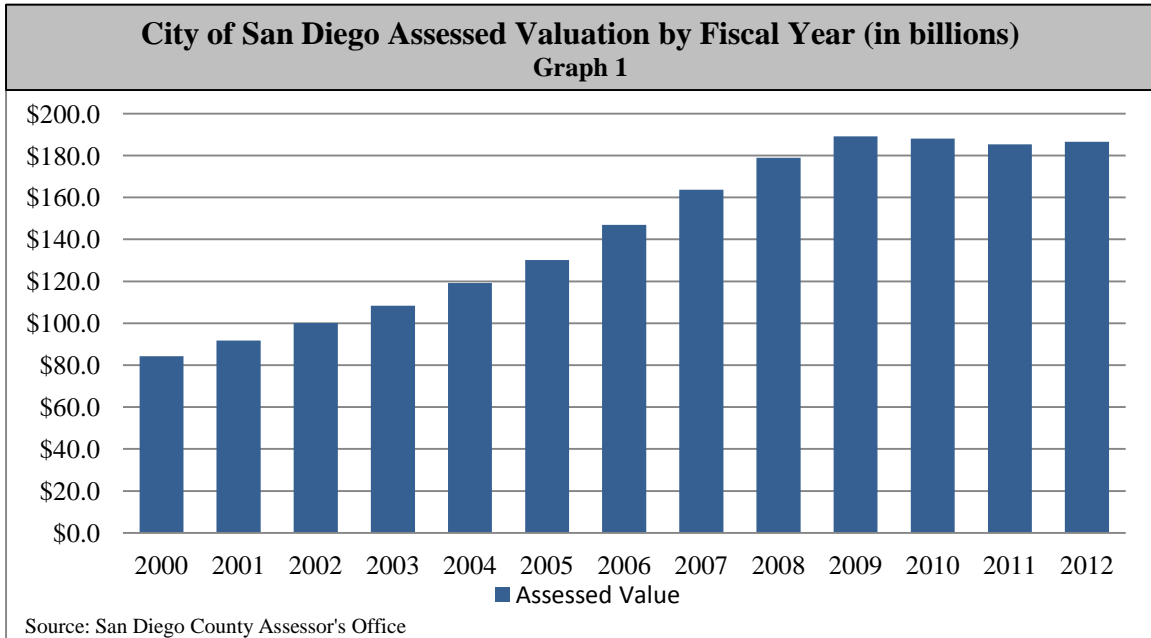
<b>Comparison of FY 2012 Major General Fund Revenue Projections</b>				
<b>Table 6</b>				
<b>Revenue/Expenditures</b>	<b>First Quarter Report</b>	<b>Mid-Year Report</b>	<b>Change Amount</b>	<b>Change %</b>
Property Tax	\$ 384,686,705	\$ 386,178,988	\$ 1,492,283	0.4%
Sales Tax	217,596,602	220,672,541	3,075,939	1.4%
Transient Occupancy Tax	76,128,190	78,667,129	2,538,939	3.3%
Franchise Fees	67,520,239	68,061,082	540,843	0.8%
Property Transfer Tax	5,616,446	5,513,556	(102,890)	-1.8%
Motor Vehicle License Fees	-	-	-	0.0%
Other Major Revenue	64,798,598	66,887,208	2,088,610	3.2%
<b>Total</b>	<b>\$ 816,346,780</b>	<b>\$ 825,980,504</b>	<b>\$ 9,633,724</b>	<b>1.2%</b>

### **Property Tax**

The year-end projection for property tax revenue is \$386.2 million, which is a 1 percent or \$5.3 million increase from the current budget. This is due to an increase in the projected property tax collection rate and a higher assessed valuation for the City of San Diego than what was estimated by the County when the Fiscal Year 2012 Budget was adopted. This revenue projection is \$1.5 million higher than the projection in the First Quarter Report due to an increase in the projected property taxes following the County's annual update to the City's share of the county-wide property taxes.

The City is projecting a 98 percent collection rate for property taxes, which is an increase from the 96.8 percent collection rate assumed in the budget. In Fiscal Year 2011, actual property tax revenue receipts exceeded forecasted levels due to an actual collection rate of 98 percent and it is anticipated this rate of collection will continue in Fiscal Year 2012.

The assessed valuation information, released by the County Assessor's Office in June 2011 subsequent to the preparation of the Fiscal Year 2012 Adopted Budget, reflects an increase in assessed valuation. This is the first time the City has experienced positive growth in assessed valuation since Fiscal Year 2009, which is an indicator that the local real estate market is continuing to stabilize. Graph 1 below displays the City of San Diego's Assessed Valuation for Fiscal Years 2000 through 2012.



**Property Transfer Tax**

The year-end projection for property transfer tax is \$5.5 million, which is a 7 percent or \$366,000 increase from the current budget. This reflects a \$103,000 decrease from the projection in the First Quarter Report based on actual receipts through the second quarter of the fiscal year and is reflective of the decline in median home prices.

Property transfer tax is levied on the sale of residential and commercial real estate property and is highly reflective of the activity in the housing market, making property transfer tax revenues generally more volatile than the 1 percent property tax levy. Accordingly, appreciation or depreciation in property values and sales volume in the local real estate market affect property transfer tax revenues. These changes in the market place are reflected in the monthly property transfer tax revenue receipts.

According to DataQuick Information Systems, the number of single family homes sold in San Diego County in December 2011 was 3,306, which is a 4 percent increase over the December 2010 home sales volume of 3,183. Notices of default and foreclosures have been declining from their record high levels during the recession. As of December 2011, there were 1,585 notices of default, which is a 14 percent decrease from the 1,833 notices of default in December 2010. There were 889 foreclosures in December 2011, which is a 7 percent increase from the December 2010 foreclosure count of 829. However, the total number of notices of default and foreclosures recorded during calendar year 2011 has decreased 11 percent and 9 percent, respectively, over total calendar year 2010 numbers. It is assumed that the declines in notices of default and foreclosures will continue into 2012, leading to an improvement in the market with the potential for median prices to stabilize.

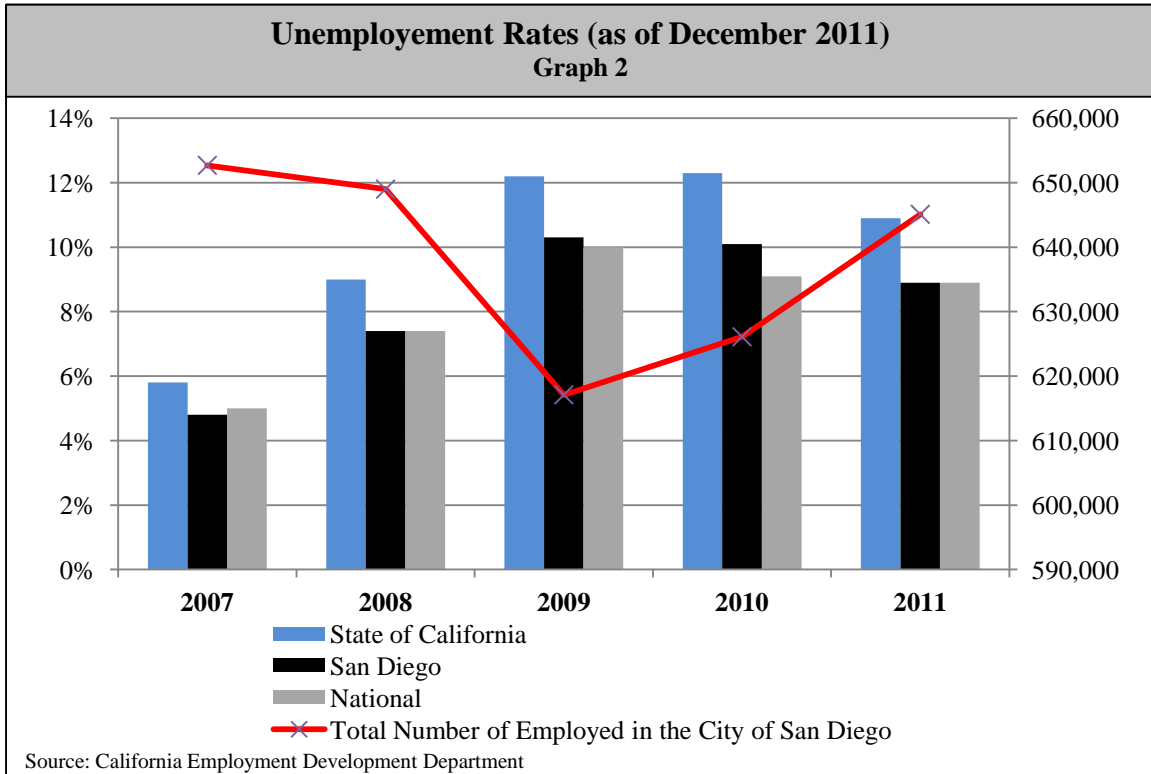
## Sales Tax

The year-end projection for sales tax is \$220.7 million, which is a 4 percent, or \$9.1 million, increase from the current budget. This projection reflects a \$3.1 million increase from the projection in the First Quarter Report. The City experienced positive growth in sales tax revenue throughout Fiscal Year 2011 and that trend has continued through the second quarter of Fiscal Year 2012, with gains reported in all economic sectors as shown in Table 7: Quarterly Sales Tax Revenue. For the second consecutive quarter, the transportation sector led the way in gains in taxable sales mainly due to higher new automobile sales and sales at service stations. Overall, consumer spending jumped from the previous quarter and helped stimulate the economy resulting in moderate growth for the third quarter of the calendar year (MuniServices, LLC).

<b>Quarterly Sales Tax Revenue (in millions)</b>				
<b>Table 7</b>				
<b>Economic Category</b>	<b>3rd Quarter CY 2010</b>	<b>3rd Quarter CY 2011</b>	<b>% Change</b>	
General Retail	\$ 14.4	\$ 15.0	4.2%	
Food Products	10.7	11.1	3.7%	
Transportation	9.1	10.2	12.1%	
Business to Business	7.9	8.6	8.9%	
Construction	3.4	3.5	2.9%	

Source: MuniServices, LLC

According to the December 2011 forecast from the State Board of Equalization, State-wide taxable sales are forecasted to grow by 9 percent in the remaining quarters of Fiscal Year 2012. Consumer spending has seen an increase throughout the first two quarters of the fiscal year, thus returning a favorable balance of sales tax receipts above projected revenue amounts. The City's projections for the remainder of the fiscal year reflect a moderate growth rate of 4.5 percent, which is a slight increase from the 4 percent growth rate that was incorporated in the First Quarter Report. In December 2011, the California Employment Development Department reported San Diego's unemployment rate at 8.9 percent and the State of California's unemployment rate at 10.9 percent, as shown in Graph 2: Unemployment Rates. With unemployment rates for both the City of San Diego and the State of California still at or above the national unemployment rate of 8.9 percent, moderate projections in sales tax growth have been applied for the remainder of Fiscal Year 2012.



**Transient Occupancy Tax (TOT)**

The year-end projection for total City TOT is \$150.2 million of which \$78.7 million is projected for the General Fund. This represents a 5 percent, or \$3.9 million, increase over the current General Fund TOT budget of \$74.8 million, and reflects an increase of \$2.5 million from the projection in the First Quarter Report. Actual receipts over the past several months have exceeded expectations. Further, forecast information from Tourism Economics for San Diego County continues to show sustained growth in tourism levels. Therefore, the growth rate has been revised upwards from the 4 percent incorporated into the First Quarter Report to 5 percent for the remainder of the fiscal year.

Overall, visitor growth in the San Diego region during calendar years 2011 and 2012 is projected at 3 percent and 2.3 percent, respectively, with overnight visitor growth of 3.3 percent and 1.3 percent during the same periods. Growth in room demand is projected to be 3.4 percent and 1.9 percent for calendar years 2011 and 2012, respectively. During the years of decline in tourism growth there had been very little expansion in room supply. As such, growth in room demand is anticipated to increase the average daily rate of hotel rooms. According to the December 2011 Quarterly Travel Forecast from the San Diego Convention and Visitors Bureau, the average daily rate is expected to reach \$124.36 for calendar year 2011, a 2.6 percent increase over calendar year 2010, and \$128.22 in calendar year 2012, an increase of 3.1 percent over calendar year 2011 projections. Table 8: San Diego County Visitor Industry provides statics used to develop the TOT projection.

**San Diego County Visitor Industry**  
**Table 8**

	CY 2009	CY 2010	CY 2011	CY 2012 <sup>1</sup>
<b>Visitors</b>				
Total Visits (millions)	29.6	29.9	30.8	31.5
Overnight Visits (millions)	14.4	15.1	15.6	15.8
<b>Hotel Sector</b>				
Avg. Occupancy	62.8%	66.4%	68.5%	69.2%
Avg. Daily Rate	\$ 124.28	\$ 121.19	\$ 124.36	\$ 128.22
Rev PAR <sup>1</sup>	\$ 78.11	\$ 80.51	\$ 85.21	\$ 88.74
Room Demand (growth)	-5.8%	7.0%	3.4%	1.9%

Source: San Diego Convention and Visitors Bureau and Tourism Economics

<sup>1</sup> Forecast - Tourism Economics, December 2011

<sup>1</sup> Revenue Per Available Room (Average Occupancy multiplied by Average Daily Rate)

### Franchise Fees

The year-end projection for General Fund franchise fee revenue is \$68.1 million, which is a 1 percent, or \$372,000, increase from the current budget. This projection reflects a \$541,000 increase from the projection in the First Quarter Report. This increased projection is primarily due to a change in forecasted revenue from SDG&E franchise fees following receipt of the estimated clean-up payment amount. Additional detail will be available once SDG&E finalizes the figures for calendar year 2011 and remits payment to the City.

### Motor Vehicle License Fees

The motor vehicle license fees (MVLFF) budget is \$3.3 million, which was based on the State of California MVLFF revenue estimates published in the Fiscal Year 2012 Proposed Governor's Budget. However, subsequent to finalizing the City of San Diego's Fiscal Year 2012 Adopted Budget, Senate Bill 89 was passed as a part of the State of California's Fiscal Year 2012 Adopted Budget, which eliminated all MVLFF allocations to cities. The state is redirecting this funding to support public safety grants.

### Other Major Revenues

The combined year-end projection for all other major revenues is \$66.9 million, which is a 4 percent, or \$2.4 million, increase from the current budget. Other revenues include general governmental services billing (GGSB), which is a reimbursement from other City funds that utilize General Fund services; the one-cent Transient Occupancy Tax (TOT) transfer into the General Fund; interest earnings attributable to the General Fund from the City investment pool; and refuse collector business tax. The current projection is \$2.1 million higher than the projection in the First Quarter Report. The projected increase in revenue is primarily due to increased transfers into the General Fund from the Transient Occupancy Tax Fund and from GGSB.

### Department Revenues

Combined department General Fund revenues are projected to exceed budget by \$3.8 million. This is an improvement of approximately \$6.2 million from the projections in the First Quarter

Report primarily due to the one-time \$4.3 million in deferred tow referral fee revenue for the Police Department and an increase in transient occupancy tax reimbursements to the Park and Recreation Department. Table 9: FY 2012 Significant General Fund Revenue Variances by Department displays departments with projected under or over budget revenues of \$500,000 or greater. These variances are discussed following the table.

**FY 2012 Significant General Fund Revenue Variances by Department**  
Table 9

Department	Current Budget	Year-End Projection	Over Budget/ (Under Budget)	Variance %
Park and Recreation	\$ 30,141,660	\$ 33,244,793	\$ 3,103,133	10.3%
Transportation and Storm Water	64,533,381	66,620,055	2,086,674	3.2%
Public Works - Eng & Cap Projects	57,287,009	55,970,354	(1,316,655)	-2.3%
Development Services	1,875,313	2,750,804	875,491	46.7%
Police	45,767,911	45,372,881	(395,030)	-0.9%

### **Park and Recreation**

The Park and Recreation Department projects revenues to exceed budget at year end by \$3.1 million, or 10 percent. This is primarily due to projected over budget transient occupancy tax revenue, therefore increasing the amount of funding available in the Transient Occupancy Tax Fund to reimburse the Park and Recreation Department for promotional activities. The current projection reflects \$2.8 million of over budget transient occupancy tax revenue to the Park and Recreation Department, which is an increase of \$1.9 million from the projection in the First Quarter Report. In addition to the increase in transient occupancy tax revenue, the department is also projecting additional reimbursements for over budget costs associated with opening recreation centers outside of budgeted operating hours.

### **Transportation and Storm Water**

The Transportation and Storm Water Department expects to conclude the fiscal year with \$2.1 million, or 3 percent, of revenue over budget. This is primarily due to enhanced tracking of parking citation revenue resulting in a more accurate allocation of this revenue to the General Fund departments that issue the citations. As a result, the Transportation and Storm Water Department is projecting \$2.4 million of additional parking citation revenue that was originally budgeted in the Police Department. The increase in projected parking citation revenue in the Transportation Storm Water Department is partially offset by a projected reduction in Storm Drain fee revenue, due to increased water conservation efforts, and reduced Gas Tax reimbursements, due to a decline in gasoline purchases according to the State. Due to these causes, the Transportation and Storm Water Department's revenue projection has improved by approximately \$1.7 million, from a positive variance of \$442,000 in the First Quarter Report, to a positive variance of \$2.1 million in this report.

### **Public Works-Engineering and Capital Projects**

The Public Works-Engineering and Capital Projects Department projects revenues to be under budget at fiscal year end by \$1.3 million, or 2 percent. Reimbursements for services are trending at Fiscal Year 2011 levels; however, this amount is lower than the Fiscal Year 2012 budget. This projection has improved by approximately \$700,000 since the First Quarter Report due to plans

to fill vacant reimbursable positions and the department's efforts to improve tracking of reimbursable staff time.

As a result of additional analysis conducted since the First Quarter Report was presented, the methodology for projecting reimbursable revenue has changed. Since reimbursable revenue is based on labor costs, it has been determined that revenue for this department should be projected as a percentage of personnel expenditures. Projected personnel expenditures were also reviewed as part of this analysis and were reduced based on the current status of vacancies in the department. The combination of the revenue increase and the expenditure decrease results in a projected \$2.2 million improvement from the First Quarter Report.

### **Development Services**

The General Fund divisions of the Development Services Department anticipate ending the year with \$875,000, or 47 percent, of revenue over budget. This is primarily due to increased reimbursements for services to other funds. In addition, the department is experiencing an increase in fee revenues.

### **Police**

The Police Department projects to conclude the fiscal year with \$395,000, or less than 1 percent, of revenue under budget. In the First Quarter Report, revenues were projected to be under budget by \$2.9 million, or 6 percent. Although the current variance does not meet the significant variance threshold for inclusion in this report, the favorable increase in projected year-end revenues from the First Quarter Report is significant. There are a variety of factors contributing to the change from the First Quarter Report, with the most significant being the parking citation revenues and the one-time deferred tow referral fee revenue. During preparation of the First Quarter Report, the \$4.3 million in tow referral fee revenue was held by the courts pending litigation. The case has concluded and this deferred revenue will be received by year-end.

Parking citation revenue in the Police Department is projected to be under budget by \$5.6 million. Additional analysis has been conducted on total General Fund parking citation revenues since the release of the First Quarter Report. Parking citation revenue has come in under budget for the past three fiscal years (Fiscal Years 2009 through 2011). This trend has continued through the first half of Fiscal Year 2012. Since the implementation of SAP, data has become available to track revenue by department. Using this data, an analysis of revenue receipts by department has revealed that the Public Works–Transportation and Storm Water Department earns a higher proportion of parking citation revenue than currently budgeted. Therefore, while Police is projected to be \$5.6 million under budget in parking citation revenue, Transportation and Storm Water is projected to be \$2.4 million over budget.

Overall, General Fund parking citation revenue is projected to be under budget by \$2.8 million primarily due to a combination of offenders not paying fines and the over budgeting of parking citation revenue while the number of citations have decreased. The revenue split between departments will be addressed in the Fiscal Year 2013 budget. Finally, a new method of projecting parking citation revenue has been established based on the number of citations paid and the average revenue per citation that will be utilized in future projections.



## GENERAL FUND EXPENDITURES

The total Fiscal Year 2012 General Fund current expenditure budget is \$1.1 billion. Year-end projections show over budget expenditures of \$3.7 million, or less than 1 percent. Over budget expenditures of \$4.8 million are anticipated in personnel while non-personnel expenditures are projected to be below budget by \$1.1 million at fiscal year end. These year-end expenditure projections are summarized below in Table 10: FY 2012 General Fund Expenditure Projections Summary.

<b>FY 2012 General Fund Expenditure Projections Summary</b>				
<b>Table 10</b>				
<b>Expenditure Type</b>	<b>Current Budget</b>	<b>Year-End Projection</b>	<b>Over Budget/ (Under Budget)</b>	<b>Variance %</b>
Personnel	\$ 813,518,779	\$ 818,326,942	\$ 4,808,163	0.6%
Non-Personnel	314,869,496	313,729,799	(1,139,697)	-0.4%
<b>Total</b>	<b>\$ 1,128,388,274</b>	<b>\$ 1,132,056,742</b>	<b>\$ 3,668,468</b>	<b>0.3%</b>

The current projection is an improvement of \$8.2 million from the projections included in the First Quarter Report, as displayed in Table 11: Comparison of FY 2012 General Fund Expenditure Projections. This is primarily due to lower projections for termination pay, fuel costs and contract expenditures. The additional \$5.0 million for the potential costs of termination pay, from employees retiring early due in large part to changes in Retiree Health, and rising fuel costs that were included in the First Quarter Report have been reassessed. Known termination pay expenditures are included in each department's projections and are lower than what was anticipated at the time of the First Quarter Report. Similarly, unleaded fuel costs did not increase to the levels projected by the department in the prior report. Contracts were anticipated to be at or near budget in the First Quarter Report but updated projections are \$5.4 million under budget. This is primarily due to conservative spending in an effort to offset increased costs in the supplies category. In addition, certain contractual expenses have been delayed until Fiscal Year 2013, such as the expected \$1.2 million for Kinder Morgan litigation fees, budgeted in Citywide Program Expenditures, and delays in completing Community Plan updates conducted by the Development Services Department. The following sections discuss the significant variances between expenditure projections and the current budget by categories of expenditures and by department, as detailed in Attachment II: General Fund Projected Expenditures.

<b>Comparison of FY 2012 General Fund Expenditure Projections</b>				
<b>Table 11</b>				
<b>Expenditure Type</b>	<b>First Quarter Report</b>	<b>Mid-Year Report</b>	<b>Change Amount</b>	<b>Change %</b>
Personnel	\$ 818,923,293	\$ 818,326,942	\$ (596,351)	-0.1%
Non-Personnel	316,354,632	313,729,799	(2,624,833)	-0.8%
Potential Additional Expenses <sup>1</sup>	5,000,000	-	(5,000,000)	-100.0%
<b>Total</b>	<b>\$ 1,140,277,925</b>	<b>\$ 1,132,056,742</b>	<b>\$ (8,221,183)</b>	<b>-0.7%</b>

<sup>1</sup> The First Quarter Report included an additional \$5.0 million estimated for termination pay and unleaded fuel.

## Expenditures by Category

As mentioned above, \$4.8 million of the projected overage is in salaries and fringe, primarily in the Fire-Rescue, Police, Park and Recreation, and Public Works–Engineering and Capital Projects Departments. Projected savings in contracts are expected to offset projected over budget expenditures in supplies, resulting in a non-personnel projection that is under budget by \$1.1 million. This data is displayed in Table 12: FY 2012 General Fund Expenditure Projections by Category. A detailed discussion of expenditure variances follows.

<b>FY 2012 General Fund Expenditure Projections by Category</b>				
<b>Table 12</b>				
<b>Expenditure Category</b>	<b>Current Budget</b>	<b>Year-End Projection</b>	<b>Over Budget/ (Under Budget)</b>	<b>Variance %</b>
Salaries and Wages	\$ 504,578,841	\$ 507,280,269	\$ 2,701,428	0.5%
Fringe Benefits	308,939,938	311,046,673	2,106,735	0.7%
Contracts	174,967,006	169,571,029	(5,395,977)	-3.1%
Transfers Out	51,399,776	51,361,932	(37,844)	-0.1%
Energy and Utilities	33,767,103	34,688,198	921,095	2.7%
Information Technology	23,240,801	23,235,382	(5,419)	0.0%
Supplies	17,837,314	21,666,275	3,828,961	21.5%
Other	6,125,145	6,052,600	(72,545)	-1.2%
Debt	5,949,959	5,949,959	-	0.0%
Capital Expenditures	1,582,392	1,204,424	(377,968)	-23.9%
<b>Total</b>	<b>\$ 1,128,388,274</b>	<b>\$ 1,132,056,742</b>	<b>\$ 3,668,468</b>	<b>0.3%</b>

### Salaries and Wages

Salaries and wages are projected to exceed budget by \$2.7 million, or less than 1 percent, primarily due to increased overtime, hourly wages, termination pay and pay-in-lieu of vacation. These increases are offset by salary savings from higher than anticipated vacancies in most departments, which is consistent with the trend projected in the First Quarter Report. The Fire-Rescue Department is projected to exceed their salaries and wages budget by \$5.6 million or 5 percent. Most of this deficit is the result of increased overtime expenditures to maintain constant staffing and an increase in the use of leave and vacant positions in the department. The Park and Recreation Department is expected to be over budget in salaries by \$547,000 due to increased pay-in-lieu of vacation, overtime and hourly wages. The hourly wages are mostly reimbursable costs for staffing non-hours of operation at Park and Recreation facilities. The Purchasing and Contracting Department is expected to be over budget in salaries by \$176,000 due to termination pay, pay-in-lieu of vacation, overtime and an additional position. In contrast, the Police, Library, Transportation and Storm Water, and Public Works–Engineering and Capital Projects Departments are all projected to be under budget in salaries and wages due to higher than anticipated vacancies; however, the savings from vacancies are partially offset by increased overtime, pay-in-lieu of vacation, and termination pay expenditures.

As a result of changes to the Retiree Health Ordinance, an increase in employee retirements is expected this fiscal year. The First Quarter Report included an additional \$3.3 million in termination pay expenditures above the termination pay amounts projected by the departments.

These projections have been updated using actual expenditures through the first half of the fiscal year plus projections of known and anticipated employee separations. Termination pay expenditures are projected to be \$3.7 million in the General Fund, which is \$1.6 million over budget. Because this projection is based on data known at this time, the actual impact could be greater as more employees make the decision to separate from the City. Termination pay will be closely monitored as the fiscal year progresses.

### Fringe Benefits

General Fund fringe benefits are projected to end the fiscal year \$2.1 million, or less than 1 percent, over budget. Expenses towards the Supplemental Pension Savings Plan (SPSP) are the primary contributor, as seen in Table 13: FY 2012 General Fund Fringe Benefits Projections and as discussed in the First Quarter Report. The Fiscal Year 2012 Adopted Budget assumed fewer employees selecting the City's SPSP mandatory contribution for their 6 percent compensation reduction than is being realized. As a result, SPSP expenditures are projected to be \$2.2 million over budget. This is offset by savings in the salaries category due to employees choosing furlough or salary reduction; however, those salary savings are not evident because of increases in overtime, hourly wages, termination pay and pay-in-lieu of vacation.

**FY 2012 General Fund Fringe Benefits Projections**

**Table 13**

<b>Fringe Benefits Account</b>	<b>Current Budget</b>	<b>Year-End Projection</b>	<b>Over Budget/ (Under Budget)</b>	<b>Variance %</b>
Retirement ARC <sup>1</sup>	\$ 178,344,882	\$ 178,716,116	\$ 371,234	0.2%
Flexible Benefits	38,528,802	37,347,717	(1,181,085)	-3.1%
Retiree Healthcare Contribution	24,660,803	24,841,121	180,318	0.7%
Workers' Compensation	16,520,137	16,604,653	84,516	0.5%
Other Post-Employment Benefits	14,450,420	14,530,838	80,418	0.6%
Employee Offset Savings	9,087,351	8,661,699	(425,652)	-4.7%
Supplemental Pension Savings Plan	8,967,482	11,126,187	2,158,705	24.1%
Risk Management Administration	6,502,707	6,545,651	42,944	0.7%
Medicare	5,466,427	6,166,879	700,452	12.8%
Long-Term-Disability	2,495,203	2,457,234	(37,969)	-1.5%
Other Fringe Benefits	3,915,724	4,048,578	132,854	3.4%
<b>Total</b>	<b>\$ 308,939,938</b>	<b>\$ 311,046,673</b>	<b>\$ 2,106,735</b>	<b>0.7%</b>

<sup>1</sup> Total City FY 2011 projection for the Retirement ARC is \$231.2 million. The balance is projected in the non-general funds.

Variations for fixed or obligated fringe benefits are attributed to differences between budgeted positions and personnel expenses compared to actual filled positions and personnel expenses. The fixed or obligated fringe benefits include SDCERS Annual Required Contribution (ARC), Retiree Healthcare Contribution (Pay-Go), Workers' Compensation, Other Post-Employment Benefits (OPEB), Risk Management Administration, Long-Term Disability, and Unemployment Insurance. The total City requirement for the fixed or obligated fringe benefits is \$322.1 million. The General Fund is projected to incur \$244.6 million of the City's total fixed or obligated fringe benefit expenses with the balance allocated to other City funds. Collection rates for these fringe benefits are adjusted as necessary throughout the fiscal year to ensure they are fully collected by fiscal year end and allocated appropriately among City funds.

## **Contracts**

The contracts category is projected to be \$5.4 million, or 3 percent, under budget. Reduced expenditures in this category are primarily due to slower expenditures for legal services related to the Kinder Morgan litigation and reduced Tax and Revenue Anticipation Notes expenses in Citywide Program Expenditures. Additional funding will be re-budgeted in Fiscal Year 2013 to cover the anticipated expenses associated with the Kinder Morgan litigation. Delays in Community Plan Updates in the Development Services Department and lower equipment rental fees for the Public Works-General Services Department also contribute to the under budget projection in this category. As previously stated, the majority of these savings are being used to offset over budget expenses in the supplies category within the respective departments.

## **Supplies**

Supplies expenditures are projected to end the fiscal year \$3.8 million, or 21 percent, over budget. The Public Works-General Services and Transportation and Storm Water Departments are the largest contributors to the over budget expenses in this category. The Public Works-General Services Department is experiencing increased costs for supplies and other materials, which may be partially due to the use of the Maintenance, Repair and Operation (MRO) cooperative purchasing agreements. Staff is evaluating changes to the MRO to reduce these costs. The Transportation and Storm Water Department has increased the amount of road repairs being completed, therefore increasing the supplies projection for the department, which is offset by savings in the contracts category. The Police Department is experiencing over budget expenses for Police Officers Association (POA) negotiated uniform allowance, which is partly due to a reduction in the supplies budget and an increase in officers returning to duty. In addition, the Fire-Rescue Department anticipates going over budget in supplies to replace critical personal protective equipment.

## **Energy and Utilities**

The energy and utilities category is projected to be \$921,000, or 3 percent, over budget at year end. A rise in diesel fuel costs for fire trucks and engines in the Fire-Rescue Department is the largest contributor to the projected over budget expenses. In addition, the delayed installation of energy saving street lights in the Transportation and Storm Water Department is also contributing to the variance.

## **Other Expenditure Categories**

General Fund projections reflect spending in the areas of transfers out, information technology, debt, capital and other to be at or slightly below the current budget.

## **Department Expenditures**

Table 14: FY 2012 Significant General Fund Expenditure Variances by Department displays the departments with expenditures projected to be over or under budget by \$500,000 or more. These variances are discussed following the table.

**FY 2012 Significant General Fund Expenditure Variances by Department**

**Table 14**

<b>Department</b>	<b>Current Budget</b>	<b>Year-End Projection</b>	<b>Over Budget/ (Under Budget)</b>	<b>Variance %</b>
Fire-Rescue	\$ 197,863,201	\$ 203,650,312	\$ 5,787,111	2.9%
Police	393,821,101	395,943,424	2,122,323	0.5%
Citywide Program Expenditures	52,900,326	51,275,389	(1,624,937)	-3.1%
Library	37,202,217	35,857,132	(1,345,085)	-3.6%
Park and Recreation	84,805,374	85,723,610	918,236	1.1%
Development Services	15,027,049	14,223,630	(803,419)	-5.3%
Public Works - General Services	14,632,853	15,424,525	791,672	5.4%
Transportation and Storm Water	99,518,993	98,774,420	(744,573)	-0.7%
Council Administration	1,719,451	2,282,797	563,346	32.8%

**Fire-Rescue**

The Fire-Rescue Department is projected to be \$5.8 million, or 3 percent, over budget at year end. This is primarily due to \$4.8 million in over budget personnel expenditures from increased overtime, payouts of annual leave, termination pay, hourly wages and special pays which are partially offset by savings from vacant positions and reduced fringe costs. The remaining \$1.0 million projected overage is in diesel fuel costs for fire trucks and engines. The expenditure projection for the Fire-Rescue Department has increased by \$2.3 million since the First Quarter Report due to an increase in the overtime projection resulting from a historical trend analysis and an increase in the department's fringe from the reallocation of fringe expenses citywide.

As a result of the Fire-Rescue Department's overtime projections in the First Quarter Report, additional analysis was conducted on the department's personnel expenditures. Due to the department's use of the constant staffing model, the entire personnel expenditures category must be considered when evaluating overtime expenditures, as the use of overtime to constant staff vacancies results in fringe benefit savings to the department. Generally, the overtime budget is established to cover operational needs for the fiscal year. However, actual overtime expenditures fluctuate due to vacant positions and the use of leave. When overtime expenditures exceed budget, savings in salaries and fringe from vacancies should mitigate the additional overtime expenditures; however, this has not been the case over the past several years. The projected over budget personnel expenditure in Fiscal Year 2012 is the continuation of a trend over the past several years where overtime expenditures to meet constant staffing needs exceed savings from vacancies, resulting in over budget personnel expenditures. This issue will be addressed in the Fiscal Year 2013 budget.

**Police**

The Police Department projects to end the fiscal year with expenditures over budget by \$2.1 million, or less than 1 percent. This is primarily due to \$2.5 million over budget fringe resulting from reallocating the fixed fringe expenses among City departments and funds. In addition, approximately \$967,000 of over budget expense is projected in supplies for the Police Officers Association (POA) negotiated uniform allowance and other necessary supplies. There is also an additional \$1.8 million in pass-through expenses for the new tow program, which is offset by increased revenues. These overages are offset by projected savings in salaries from vacancies,

electricity costs, and \$2.0 million less being transferred to the Police Decentralization Fund due to the State's discount on booking fees. The total expenditure projection for the Police Department is nearly the same as the \$2.2 million overage projected in the First Quarter Report; however, a variety of factors have changed. The pass-through for the tow program is an increase from the First Quarter Report but other projected expenses have been reduced, such as the overhaul of two helicopters which will be funded by other sources.

### **Citywide Program Expenditures**

The expenditure projection for Citywide Program Expenditures is \$1.6 million, or 3 percent, under budget. This is primarily due to delayed legal services related to the Kinder Morgan litigation, resulting in \$1.2 million of expenditures that are expected to occur next fiscal year rather than this year.

### **Library**

The Library Department is projected to end the year 4 percent, or \$1.3 million, under budget due to vacant positions. As of period 6, there were 48 vacant positions. While the department is actively working to fill those positions, overtime and hourly staffing are used to continue services, reducing the amount of savings realized from the vacancies. The current expenditure projection is approximately \$500,000 less than the projection included in the First Quarter Report. This is primarily due to a decrease in the projection for hourly staffing expenses.

### **Park and Recreation**

The Park and Recreation Department is projected to end the fiscal year with \$918,000, or 1 percent, of expenditures over budget primarily in salaries and fringe. Hourly staffing will exceed budget by approximately \$244,000 due to requests for opening recreation centers outside of budgeted operating hours. The cost for additional hours of operation are reimbursed. Over budget expenses for overtime, payouts of annual leave in-lieu of taking vacation, termination pay and special pays also contribute to the over budget projection. When the First Quarter Report was developed, savings were anticipated in energy expenses due to the department's conservation efforts which partially offset the over budget salary and fringe projection in that report. However, water expenses have risen, resulting in a higher over budget projection for the Park and Recreation Department than was reported previously.

### **Development Services**

The Development Services department projects to end the fiscal year 5 percent, or \$803,000, under budget. This is primarily due to delays in several community plan updates that were not anticipated by the department when the First Quarter Report was prepared. As a result of the delays, additional funding will be needed in Fiscal Year 2013.

### **Public Works-General Services**

The Public Works-General Services Department projects to end the fiscal year with \$792,000, or 5 percent, of expenditures over budget. This is related to higher costs for the purchase of materials to repair City facilities. A portion of this is due to the \$255,000 reduction that was included in the Fiscal Year 2012 Adopted Budget related to anticipated savings from the Maintenance, Repair and Operation cooperative purchasing agreements but the cost of materials is higher than expected and those budgeted savings will not be realized. Since the First Quarter

Report, the supply projection has increased significantly but the salaries and fringe projections have been reduced, resulting in only a slight increase in the overall department projection since the prior report.

### **Transportation and Storm Water**

The Transportation and Storm Water Department projects to expend \$745,000, or less than 1 percent, under budget by year end. This is due to approximately 67 vacant positions in the Street, Storm Water and Transportation Engineering Operations Divisions. The projected savings has increased since the First Quarter Report due to delays in filling vacant positions.

### **Council Administration**

The projection for Council Administration includes \$500,000, which is the estimated expense to begin the reconfiguration of the 11<sup>th</sup> floor of the City Administration Building to accommodate offices for the 9<sup>th</sup> Council District. In addition, since the First Quarter Report, \$50,000 has been added to the projection for the new Economic Development and Strategies Committee Consultant. As a result, the Council Administration Department is projected to be \$563,000, or 33 percent, over budget at year end. However, an expenditure appropriation adjustment is included in the accompanying Council actions to make the department's budget whole at year end for these anticipated expenditures.

## NON-GENERAL FUNDS

Projections based on the first six accounting periods of Fiscal Year 2012 are provided in Attachment III: Non-General Fund Projections for all non-general funds with staff. This information addresses operating expenditures only. Capital Improvements Program expenditures are not included in the current budget or projections provided in this report. Those funds with significant budgetary variances in revenues or expenditures of \$500,000 or more are displayed in Table 15: FY 2012 Significant Non-General Fund Variances and are discussed below.

**FY 2012 Significant Non-General Fund Variances**

**Table 15**

<b>Fund</b>	<b>Revenue/Expenditure</b>	<b>Current Budget</b>	<b>Year-End Projection</b>	<b>Over Budget/ (Under Budget)</b>	<b>Variance %</b>
Airports	Exp	\$ 4,740,207	\$ 3,682,408	\$ (1,057,799)	-22.3%
Central Stores	Rev	24,052,960	11,082,717	(12,970,243)	-53.9%
	Exp	24,052,960	10,804,217	(13,248,743)	-55.1%
Development Services	Rev	46,553,370	47,149,713	596,343	1.3%
	Exp	41,548,110	39,537,925	(2,010,185)	-4.8%
Fire/EMS Transportation Prog	Rev	7,870,926	12,313,254	4,442,328	56.4%
	Exp	11,215,596	15,582,778	4,367,182	38.9%
Fleet Services Operating	Rev	51,914,527	52,845,106	930,579	1.8%
Golf Course	Rev	15,957,225	16,683,210	725,985	4.5%
Publishing Services	Rev	5,158,804	3,716,664	(1,442,140)	-28.0%
	Exp	5,158,804	3,716,664	(1,442,140)	-28.0%
Recycling	Exp	20,801,747	20,212,796	(588,951)	-2.8%
Refuse Disposal	Rev	29,707,888	27,476,546	(2,231,342)	-7.5%
	Exp	34,562,075	30,471,118	(4,090,957)	-11.8%
Sewer Utility	Rev	473,166,000	421,056,678	(52,109,322)	-11.0%
	Exp	328,884,969	308,399,097	(20,485,872)	-6.2%
Transient Occupancy Tax	Rev	68,138,329	71,664,329	3,526,000	5.2%
	Exp	68,138,329	71,664,329	3,526,000	5.2%
Water Utility Operating	Rev	508,905,000	542,703,898	33,798,898	6.6%
	Exp	451,642,397	407,947,063	(43,695,334)	-9.7%
Wireless Comm. Technology	Exp	10,043,210	9,522,941	(520,269)	-5.2%

### **Airports Fund**

Expenditures are projected to be \$1.1 million, or 22 percent under budget for the Airports Fund. The Fiscal Year 2012 Adopted Budget included an increase of \$1.6 million for the maintenance of facilities, runways, and taxiways; however, the current projected maintenance needs are less than originally anticipated due to less emergency repairs. The fund is projected to end the fiscal year with \$829,000 of revenues in excess of expenditures.



### **Central Stores Fund**

The Central Stores Fund is projected to end the fiscal year with revenues under budget by \$13.0 million, or 54 percent, and expenditures under budget by \$13.2 million or 55 percent. As mentioned in the First Quarter Report, this is primarily due to discontinuation of the Citywide open purchase order program. Each City department now establishes their own purchase orders, which has reduced expenses in the Central Stores Fund as well as the revenue reimbursement received from other City departments. This change in practice has no impact on the expenses in other City departments. Rather than reimburse Central Stores, the departments now purchase materials directly from vendors. Additionally, there are projected savings in salary and fringe from three and a half vacant positions that will not be filled this fiscal year. The projected expenditure savings noted in the First Quarter Report decreased due to the availability of additional data to develop a more accurate projection of the effects of discontinuing the Citywide open purchase order program. Year-end revenues are projected to exceed expenditures by \$279,000.

### **Development Services Fund**

The Development Services Fund is projected to have over budget revenues of \$596,000, or 1 percent, and under budget expenditures of \$2.0 million, or 5 percent, at year end. The revenue projection has declined significantly from the \$7.9 million of over budget revenue projected in the First Quarter Report. While over budget revenue is still being projected due to increased land development and permit activity, the trend is much lower than what was anticipated when the First Quarter Report was released. Two large projects contributed a significant amount of revenue in the first quarter of the fiscal year; however, this has not been representative of a continuous monthly revenue trend and, therefore, the revenue projection for land development and permit activity has been reduced since the previous report. The revenue projection has also declined because current year overhead rates, which only became available recently, are lower than those of the previous fiscal year. In addition, the department will not be receiving reimbursement from the Federal Emergency Management Agency (FEMA) for the \$1.0 million in costs associated with the Council-approved fee waiver for victims of the 2003 and 2007 wildfires. The expenditure projection has also declined significantly since the First Quarter Report because the department is no longer projecting to spend the \$1.2 million Appropriated Reserve. The fund is projected to end the fiscal year with revenues in excess of expenditures by \$7.6 million.

### **Fire/Emergency Medical Services Transportation Program Fund**

The Fire/Emergency Medical Services (EMS) Transportation Program Fund's revenue projection is over budget by \$4.4 million, or 56 percent, primarily resulting from the new contract with San Diego Medical Services Enterprise (SDMSE). Expenditures are also projected to end the year over budget by \$4.4 million, or 39 percent, primarily due to a transfer of \$4.0 million to the General Fund Fire-Rescue Department. The new SDMSE agreement established a new average patient charge and an annual operating fee to be paid by Rural/Metro to the City. A portion of this operating fee will be transferred to the General Fund to offset the revenue from the discontinued First Responder fee. These projections are similar to those included in the First Quarter Report. The fund is projected to end the fiscal year with \$3.3 million of expenditures in excess of revenues, which will be covered by fund balance.

### **Fleet Services Operating Fund**

The Fleet Services Operating Fund is projected to end the fiscal year with \$931,000, or 2 percent, of revenues over budget. This is due to increased billable vehicle repairs, outfitting of new vehicles per client department requests, and motor pool rentals, which have also increased the revenue projection since the First Quarter Report. Approximately \$800,000 of the surplus revenue will be transferred to the Fleet Replacement Fund for future replacement of pool vehicles. In contrast to the First Quarter Report, expenditures are now projected to be on target at fiscal year end because unleaded fuel costs did not increase to the levels projected in the prior report. The fund is projected to end the fiscal year with \$1.5 million of revenues in excess of expenditures.

### **Golf Course Fund**

The Golf Course Fund's revenue is projected to be \$726,000, or 5 percent over budget. This is primarily due to an increase in user fee revenue at the Balboa Park Golf Course. An irrigation improvement project was implemented in the fall of 2011 that enhanced the course considerably. The fund is projected to end the fiscal year with \$2.1 million of revenue in excess of expenditures.

### **Publishing Services Fund**

The Publishing Services Fund's revenue and expenditures are projected to be \$1.4 million, or 28 percent, under budget. The projected reduction in expenses, and associated reduction in revenue reimbursements from other City departments, is primarily due to the new convenience and production copier contract approved by Council in November 2011. Further analysis, conducted after the First Quarter Report was issued, concluded that additional savings could be realized by using SAP functionality rather than installing the new network management system. The fund is projected to end the fiscal year with revenues equal to expenditures.

### **Recycling Fund**

The Recycling Fund's expenditure projection is under budget by \$589,000, or 3 percent. This is primarily due to delays in receiving replacement vehicles. The department continues to use the retired vehicles until the replacements are received but is no longer paying vehicle assignment charges on the retired vehicles. Savings are also expected due to disposal of less waste material at the Hazmat Recycling Facility and several vacant positions. The increase in anticipated savings from what was included in the First Quarter Report is primarily due to the delay in receiving the replacement vehicles and the reduction in waste disposal at the Hazmat Recycling Facility. The revenue projection has declined significantly since the \$1.4 million over budget revenue projection included in the First Quarter Report to the current projection of \$303,000 over budget. This is due to a decline in the market price of sold commodities from the curbside recycling program. Year-end expenditures are projected to exceed revenues by \$588,000, which will be covered by fund balance.

### **Refuse Disposal Fund**

The Refuse Disposal Fund is projected to end the fiscal year with \$2.2 million, or 8 percent, of revenue under budget and \$4.1 million, or 12 percent, of expenditures under budget. These variances are primarily due to less tonnage deposited in the City landfill than budgeted, which results in less tipping fees revenue of approximately \$2.2 million. As a result of the current

tonnage levels, equipment rental expenses are down \$2.5 million and regulatory fees to CalRecycle, the Local Enforcement Agency and the County of San Diego are approximately \$500,000 lower. Savings are also projected in salaries due to vacancies, less fuel consumption from reduced vehicle usage at the landfill and in field operations, and reductions in purchases of machine parts and office supplies. Since the First Quarter Report was issued, the revenue projection has decreased slightly while the expenditure projection has slightly increased. Revenues continue to decline due to a decrease in tonnage collected from City forces and non-franchised refuse haulers. The expenditure projection increase is primarily due to needed replacement parts for the tarping machine used to cover refuse in the landfill. The fund is projecting expenditures to exceed revenues by approximately \$3.0 million, which will be covered by fund balance.

### **Sewer Utility Fund**

The Sewer Utility Funds are projected to end the fiscal year with revenues under budget by \$52.1 million, or 11 percent, and operating expenditures under budget by \$20.5 million, or 6 percent. The exhaustion of Public Facilities Financing Act (PFFA) funds, used for capital projects, accounts for \$46.0 million of the projected revenue deficit. Additionally, \$4.5 million of the projected revenue shortfall is due to rebates to residential sewer customers to satisfy the Shames litigation settlement. These revenue shortfalls are partially offset by greater than anticipated State Revolving Fund Loan proceeds, related to sewer pipeline rehabilitation, and a \$2.9 million projected surplus in capacity charge fees from large-scale development projects. The change in the revenue projection since the release of the First Quarter Report is due to revised estimates of reimbursements from the PFFA fund, as additional bond proceeds were used to reimburse Fiscal Year 2011 capital expenditures and the remaining balance of PFFA funds were used earlier this fiscal year. Changing needs and costs for chemical supplies and machine parts account for \$4.5 million of the projected expenditure savings. This is also the primary cause of the increased savings projected in expenditures since the First Quarter Report. In addition, the \$3.5 million Appropriated Reserve and \$1.3 million of the CIP contingencies are not anticipated to be spent this fiscal year. Additional savings are anticipated in contracts, personnel and energy costs. Year-end revenues are expected to exceed operating expenditures by \$112.7 million. This revenue, combined with fund balance, supports the Sewer Utility Capital Improvements Program.

### **Transient Occupancy Tax Fund**

Both revenues and expenditures in the Transient Occupancy Tax Fund are projected to exceed budget by 5 percent, or \$3.5 million. The total City transient occupancy tax (TOT) projection is \$150.2 million, of which \$71.5 million is in the Transient Occupancy Tax Fund. As discussed in the General Fund Revenues section earlier in this report, actual transient occupancy tax receipts have exceeded expectations over the past several months and forecast information from Tourism Economics for San Diego County continues to show sustained growth in tourism levels. The majority of this additional revenue will be used to reimburse the Park and Recreation Department for promotional activities supported by the General Fund. A portion will be transferred to the General Fund as part of the one-cent of discretionary TOT funding. The remainder of the over budget revenue will be used to offset over budget operational expenditures within the Transient Occupancy Tax Fund. The fund is projected to end the fiscal year with expenditures equal to revenues.

**Water Utility Operating Fund**

The Water Utility Operating Fund is projected to end the fiscal year with revenues \$33.8 million over budget, which is a 7 percent variance, and expenditures to be \$43.7 million under budget, or 10 percent. Grants and State Revolving Fund loan proceeds are projected to exceed budget by \$45.0 million but are offset by under budget projections for Public Facilities Financing Act (PFFA) funds, used for capital projects. The change in the revenue projection since the release of the First Quarter Report is due to revised estimates of reimbursements from the PFFA fund, as additional bond proceeds were used to reimburse Fiscal Year 2011 capital expenditures and the remaining balance of PFFA funds were used earlier this fiscal year. Expenditure savings of \$15.6 million are anticipated for water purchases due to lower demand and using more local water. This is also the primary cause of the increase in projected expenditure savings since the First Quarter Report. The Appropriated Reserve and CIP contingencies account for \$8.7 million of the under budget expenditure projection and another \$12.4 million in the contracts budget category is not anticipated to be needed this fiscal year. Additional savings are anticipated in personnel, energy and bond credits. Year-end revenues are expected to exceed operating expenditures by approximately \$134.8 million. This revenue, combined with fund balance, supports the Water Utility Capital Improvements Program.

**Wireless Communication Technology Fund**

The Wireless Communications Technology Fund's expenditures are projected to be \$520,000, or 5 percent, under budget at fiscal year end. Vacancies and conservative spending on supplies contribute to the projected expenditure savings. The fund is projected to end the fiscal year with \$6,000 of expenditures in excess of revenues, which will be covered by fund balance.

# APPROPRIATION ADJUSTMENTS

The following sections discuss the requested appropriation changes that accompany this report. The first section, Budget Corrections and Other Appropriation Adjustments, include increases to departments and funds that have over budget projections and need budget increases in order to continue operations through the end of the year. A few urgent capital projects are also included. The second section discusses the recommended use of the projected General Fund surplus, pursuant to Municipal Code Section 22.0229: Mid-Year Amendments to the Adopted General Fund Budget.

## BUDGET CORRECTIONS AND OTHER APPROPRIATION ADJUSTMENTS

The following budget corrections are requested for General Fund Departments and non-general funds with projected over budget expenditures of more than \$1.0 million or more than 3 percent of budget to provide spending authority for the increased expenses, as summarized in Table 16: FY 2012 Mid-Year Appropriation Adjustments.

<b>FY 2012 Mid-Year Appropriation Adjustments</b>				
<b>Table 16</b>				
<b>Fund/Department</b>	<b>Expenditures</b>		<b>Revenue</b>	
	<b>Increase/(Decrease)</b>		<b>Net Impact</b>	
<b>General Fund</b>				
Fire-Rescue	\$	5,788,000	\$	-
Police		2,123,000		-
Public Works - General Svcs		792,000		-
Council Administration		564,000		-
City Comptroller		376,000		-
Personnel		199,000		-
Major General Fund Revenues		-	9,842,000	
General Fund Total	\$	9,842,000	\$	9,842,000
			\$	-
<b>Non-General Funds</b>				
Fire/EMS Transportation Prog	\$	4,368,000	\$	4,368,000
			\$	-
<b>Capital Improvements Program (CIP)</b>				
CD9 Office Remodel - City Facilities Improvements (ABT00001)				
General Fund Contrib. to CIP	\$	500,000		
Crystal Pier Improvements (S11014)				
Capital Outlay	\$	300,000		
EOC - Ridgehaven Backup Generator (S10133)				
General Fund Contrib. to CIP	\$	130,040		
Water Contrib. to CIP		29,763		
Sewer Contrib. to CIP		27,927		
Development Services		6,509		
Refuse Disposal CIP		3,575		
Recycling CIP		2,186		
Project Total	\$	200,000		

These increases are supported by over budget revenues or available fund balances in non-general funds. Other departments and funds that currently have over budget expenditure projections will be monitored and additional budget adjustments may be requested before the end of the fiscal year. Appropriations are also requested for three capital projects, including the Council District 9 office remodel.

## **General Fund Appropriation Adjustments**

The requested General Fund budget increases total \$9.8 million. The expenditure increases are offset by revenue, to balance the budget adjustment.

### **Fire-Rescue**

An increase of \$5.8 million in expenditure appropriations is requested for the Fire-Rescue Department. This increase will support the projected over budget personnel expenditures and diesel fuel costs, as discussed earlier in this report.

### **Police**

The Police Department requires a \$2.1 million increase in expenditure appropriations. This is primarily due to increased fringe expenses associated with the reallocation of fringe among departments as well as projected over budget supply expenses, as discussed earlier in this report.

### **Public Works-General Services**

An expenditure appropriation increase of \$792,000 is needed for the Public Works-General Services Department. This is primarily due to the higher than expected costs for the purchase of materials to repair City facilities, as discussed earlier in this report.

### **Council Administration**

An increase of \$564,000 is requested for the Council Administration Department. Of this \$500,000 will be transferred to the City Facilities Improvements capital project to fund the reconfiguration of the 11<sup>th</sup> floor of the City Administration Building to accommodate offices for the 9<sup>th</sup> Council District, as discussed earlier in this report. The remaining amount will support the costs of the new Economic Development and Strategies Committee Consultant and refurbishment of the Committee Room.

### **City Comptroller**

The City Comptroller requires an increase of \$376,000 in expenditure appropriations. This is primarily due to increased pay-in-lieu of vacation, overtime and contract expenses associated with closing two fiscal years and the reallocation of fringe among departments.

### **Personnel**

The Personnel Department requires a \$199,000 increase in expenditure appropriations. This will primarily support unanticipated termination pay and pay-in-lieu of vacation expenses, in addition to costs associated with retiring the Personnel Application Tracking System that has been in place since the 1970s.

## **Major General Fund Revenues**

It is requested to increase the revenue budget in Major General Fund Revenues by \$9.8 million to balance the expenditure appropriation increases in General Fund Departments. This is supported by the over budget revenue projections for sales, property and transient occupancy taxes.

## **Non-General Fund Appropriation Adjustments**

### **Fire/Emergency Medical Services Transportation Program Fund**

The Fire/Emergency Medical Services (EMS) Transportation Program Fund requires an expenditure appropriation increase of \$4.4 million. This is primarily due to a transfer of \$4.0 million to the General Fund Fire-Rescue Department as a result of the new contract with San Diego Medical Services Enterprise (SDMSE), as discussed earlier in this report. The expenditure appropriation increase is offset by additional projected revenue.

## **Capital Improvements Program Appropriation Adjustments**

### **Council District 9 Office Remodel – City Facilities Improvements (ABT00001)**

Funding of \$500,000 from the General Fund is required to reconfigure the 10<sup>th</sup> floor of the City Administration Building to accommodate offices for the 9<sup>th</sup> Council District.

### **Crystal Pier Improvements (S11014)**

A new project is needed to repair Crystal Pier located at the end of Garnet Avenue in Pacific Beach. The pier was originally constructed in 1927 but a storm demolished 240 feet of the pier in 1983, which was reconstructed in 1987. Initial funding of \$300,000 from the Capital Outlay Fund is requested to conduct a study to determine what repairs are needed. This will include an investigation of the structural integrity of the pier below the surface of the ocean. Additional funding for the repairs will be requested once the full scope has been determined.

### **Emergency Operations Center – Ridgheaven Backup Generator Project (S10133)**

Additional funding is needed to install the generator at the City's Ridgheaven Court facility, the City's backup emergency operations center (EOC). An additional of \$200,000 is requested due to an increase in material and labor costs. In addition, the original project estimate did not include the costs for structural and civil engineering associated with the structural pad and the mandated storm water pollution control containment system. The cost will be allocated to the funds that participate in the EOC - General Fund Contributions to CIP Fund (\$130,040, which is included in the projections for Citywide Program Expenditures), Water Contributions to CIP Fund (\$29,763), Sewer Contributions to CIP Fund (\$27,927), Development Services Fund (\$6,509), Refuse Disposal CIP Fund (\$3,575), and Recycling CIP Fund (\$2,186).

## **RECOMMENDED USE OF PROJECTED GENERAL FUND SURPLUS**

As required by Municipal Code Section 22.0229: Mid-Year Amendments to the Adopted General Fund Budget, the following discussion and accompanying table describe the Mayor's recommended use of a portion of the projected General Fund surplus. The total projected budgetary surplus is \$18.3 million; however, the General Fund adopted budget assumed the use

of \$1.8 million of General Fund Reserves. Once this is removed from the budgetary surplus, the projected amount of Fiscal Year 2012 revenue in excess of expenditures surplus is \$16.5 million. Part of this surplus is due to \$3.2 million in savings in the current fiscal year that will be re-budgeted in Fiscal Year 2013. The year-end projections for the administration of the Council Offices reflect savings of \$1.3 million. In accordance with Council Policy 100-06, the estimated savings from this fiscal year are to serve as the basis for the next fiscal year's Community Projects, Programs and Services allocations. The delays in General Fund expenditures for the Kinder Morgan litigation and community plan updates have resulted in projected savings of \$1.2 million and \$700,000, respectively, this fiscal year that will need to be added to the Fiscal Year 2013 Proposed Budget. As a result of these adjustments, the remaining surplus available for programming in Fiscal Year 2012 is \$13.3 million as shown in Table 17: Recommended Use of FY 2012 Projected Surplus.

**Recommended Use of FY 2012 Projected Surplus**  
**Table 17**

<b>Description</b>	<b>Amount (in millions)</b>
<b>Calculation of Projected Surplus</b>	
Total Projected Budgetary Surplus	\$ 18.3
Budgeted Use of Reserves <sup>1</sup>	(1.8)
Projected FY 2012 Surplus Revenue	\$ 16.5
<b>Re-Budget for FY 2013</b>	
FY 2013 Council Community Projects, Prog. & Svcs	\$ (1.3)
FY 2013 for Kinder Morgan Litigation	(1.2)
FY 2013 for Community Plan Updates	(0.7)
Subtotal	\$ (3.2)
<b>Available Projected Surplus</b>	
	<b>\$ 13.3</b>
<b>Recommended for FY 2012 Use</b>	
SDFD Station Alerting Project	\$ (2.7)
CIP Emergency Reserve	(1.0)
Police Recruits in April Academy	(1.0)
Branch Library Hours	(0.2)
Recreation Center Hours	(0.1)
Subtotal	\$ (5.0)
<b>Remaining Projected Surplus</b>	
	<b>\$ 8.3</b>

<sup>1</sup> The FY 2012 Adopted Budget assumed the use of \$1.8 million in Reserves.

The available surplus of \$13.3 million provides an opportunity to fund one-time needs, which would address a portion of the projected Fiscal Year 2013 budget deficit, and some service restorations while preserving current General Fund Reserve levels. It is recommended to budget \$3.7 million for one-time expenses and \$1.3 million towards service restorations, as follows:

- \$2.7 million would be allocated to the Fire-Rescue Department, then transferred to the CIP to fully fund the SDFD Station Alerting project (L12002), and therefore alleviate a portion of the projected Fiscal Year 2013 budget deficit.
- \$1.0 million would be allocated to Citywide Program Expenditures, then transferred to the CIP to establish a CIP Emergency Reserve project that would provide an immediate



funding source for public works contracts to respond quickly to an emergency or natural disaster.

- \$1.0 million would be allocated to the Police Department to increase the number of recruits in the April academy.
- \$237,000 would be allocated to the Library Department to restore 4 hours of operations at all branch libraries, increasing branch library hours from 36 hours per week to 40 hours per week.
- \$63,000 would be allocated to the Park and Recreation Department to restore 5 hours of operations at recreation centers, from 40 hours per week to 45 hours per week.

After these recommended uses of the Fiscal Year 2012 projected surplus, \$8.3 million would remain unbudgeted and available to support any fluctuations in current year revenues and expenditures that may occur between now and the end of the fiscal year. If this projected funding is not needed in the current fiscal year, these funds would fall to the General Fund balance at year end.

# CONCLUSION

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## **General Fund Summary**

The General Fund is projecting a net surplus of \$16.5 million of revenue in excess of expenditures at fiscal year-end. This is a significant turn-around from the \$7.6 million shortfall projected at the time of the First Quarter Budget Monitoring Report. Both revenue and expenditure projections have improved since the previous report. Revenues are projected to exceed budget by \$21.9 million, or 2 percent, which more than offsets the projected \$3.7 million of over budget expenditures.

In accordance with the Reserve Policy (Council Policy 100-20), the status of the General Fund Reserves is also included in this report. Based on the revenue and expenditure projections mentioned above, the reserve is projected to reach \$130.4 million at fiscal year end, which exceeds the 8 percent reserve target.

In accordance with the new Municipal Code Section 22.0229: Mid-Year Amendments to the Adopted General Fund Budget, a recommendation is included in this report regarding the use of the projected surplus. Of the \$16.5 million projected surplus, \$5.0 million is recommended to be applied to one-time expenditures and limited service restorations this fiscal year. Approval of these actions will reduce the Fiscal Year 2012 projected ending reserve balance to \$125.4 million. In addition, it is anticipated that \$3.2 million of the projected \$16.5 million Fiscal Year 2012 surplus will need to be re-budgeted in Fiscal Year 2013 for expenses that have been delayed and will be incurred next fiscal year. This includes the re-appropriation of unspent City Council office budgets. This further reduces the reserve projection to \$122.2 million.

## **Appropriation Adjustment Summary**

Appropriation increases are requested for General Fund Departments with projected over budget expenditures of more than \$1.0 million or more than 3 percent of budget to provide spending authority for the increased expenses. These increases are supported by additional revenues and include funding for the Council District 9 office remodel. Additional funding is needed for the Ridgehaven generator installation and can be absorbed within existing department appropriations. Projected revenues are available in the Fire/Emergency Medical Services (EMS) Transportation Program Fund to support the requested budget increase. In addition, Capital Outlay funding is requested for an engineering review of Crystal Pier.

Incorporating the appropriation adjustments requested above, the Fiscal Year 2012 Mid-Year Budget Monitoring Report projects a General Fund surplus of \$16.5 million by fiscal year end. Pursuant to Municipal Code Section 22.0229: Mid-Year Amendments to the Adopted General Fund Budget, a recommendation for the use of a portion of this projected surplus is included in this report. Of the \$16.5 million, \$3.2 million will need to be re-budgeted in Fiscal Year 2013. Of the remaining \$13.3 million, \$3.7 million is recommended to be applied to one-time expenditures that, if funded this fiscal year, would reduce the Fiscal Year 2013 projected deficit. In addition, \$1.3 million is recommended to increase the number of recruits in the April Police academy and for limited service restorations in the Library and Park and Recreation Departments. The remaining \$8.3 million is recommended to be held as a cushion for variances in the Fiscal Year 2012 projections or to possibly address the Fiscal Year 2013 projected budget deficit.

# ATTACHMENTS

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- I. General Fund Projected Revenues
- II. General Fund Projected Expenditures
- III. Non-General Fund Projections

## General Fund Projected Revenues

Department	Adopted Budget	Current Budget	Year-End Projection	Over Budget/ (Under Budget)	Variance %
<b>Major General Fund Revenues</b>					
Charges for Current Services	\$ 22,709,930	\$ 22,709,930	\$ 23,721,354	\$ 1,011,424	4.5%
Franchise Fees <sup>1</sup>	67,688,948	67,688,948	68,061,082	372,134	0.5%
Interest and Dividends	1,888,098	1,888,098	2,480,414	592,316	31.4%
Motor Vehicle License Fees	3,264,364	3,264,364	-	(3,264,364)	-100.0%
Other Revenue	346,400	346,400	435,000	88,600	25.6%
Property Tax	380,908,544	380,908,544	386,178,988	5,270,444	1.4%
Property Transfer Tax	5,147,851	5,147,851	5,513,556	365,705	7.1%
Refuse Collector Business Tax	650,000	650,000	650,000	-	0.0%
Revenue from Money and Property	523,973	523,973	523,973	-	0.0%
Sales Tax	211,589,835	211,589,835	220,672,541	9,082,706	4.3%
Transfers In	38,386,670	38,386,670	39,076,467	689,797	1.8%
Transient Occupancy Tax <sup>2</sup>	74,787,161	74,787,161	78,667,129	3,879,968	5.2%
<i>Subtotal Major General Fund Revenues</i>	<u>\$ 807,891,774</u>	<u>\$ 807,891,774</u>	<u>\$ 825,980,504</u>	<u>\$ 18,088,730</u>	<u>2.2%</u>
Administration	420,465	420,465	718,833	298,368	71.0%
Business Office	-	-	-	-	0.0%
City Attorney	5,607,163	5,607,163	5,309,622	(297,541)	-5.3%
City Auditor	222,323	222,323	222,323	-	0.0%
City Clerk	18,352	18,352	18,352	-	0.0%
City Comptroller	2,541,760	2,541,760	2,233,998	(307,762)	-12.1%
City Treasurer	24,672,674	24,672,674	25,032,647	359,973	1.5%
Citywide Program Expenditures	-	-	-	-	0.0%
Council Administration	-	-	-	-	0.0%
Council District 1	-	-	-	-	0.0%
Council District 1 - Community Projects, Programs and Services	-	-	-	-	0.0%
Council District 2	-	-	-	-	0.0%
Council District 2 - Community Projects, Programs and Services	-	-	-	-	0.0%
Council District 3	-	-	-	-	0.0%
Council District 3 - Community Projects, Programs and Services	-	-	-	-	0.0%
Council District 4	-	-	-	-	0.0%
Council District 4 - Community Projects, Programs and Services	-	-	-	-	0.0%
Council District 5	-	-	-	-	0.0%
Council District 5 - Community Projects, Programs and Services	-	-	-	-	0.0%
Council District 6	-	-	-	-	0.0%
Council District 6 - Community Projects, Programs and Services	-	-	-	-	0.0%
Council District 7	-	-	-	-	0.0%

## General Fund Projected Revenues

Department	Adopted Budget	Current Budget	Year-End Projection	Over Budget/ (Under Budget)	Variance %
Council District 7 - Community Projects, Programs and Services	\$ -	\$ -	\$ -	\$ -	0.0%
Council District 8	-	-	-	-	0.0%
Council District 8 - Community Projects, Programs and Services	-	-	-	-	0.0%
Debt Management	889,645	889,645	701,251	(188,394)	-21.2%
Department of Information Technology	-	-	-	-	0.0%
Development Services	1,875,313	1,875,313	2,750,804	875,491	46.7%
Disability Services	-	-	15,415	15,415	100.0%
Economic Development	3,142,715	3,142,715	3,142,715	-	0.0%
Environmental Services	1,157,903	1,157,903	1,279,686	121,783	10.5%
Ethics Commission	-	-	8,800	8,800	100.0%
Financial Management	67,180	67,180	7,463	(59,717)	-88.9%
Fire-Rescue	29,282,954	29,282,954	29,329,174	46,220	0.2%
Human Resources	-	-	-	-	0.0%
Library	1,212,707	1,212,707	1,019,338	(193,369)	-15.9%
Office of Homeland Security	1,087,593	1,087,593	800,570	(287,023)	-26.4%
Office of the Assistant Chief Operating Officer	-	-	-	-	0.0%
Office of the Chief Financial Officer	800,000	800,000	425,063	(374,937)	-46.9%
Office of the Chief Operating Officer	-	-	-	-	0.0%
Office of the Independent Budget Analyst	-	-	-	-	0.0%
Office of the Mayor	1,355,700	1,355,700	1,356,316	616	0.0%
Park and Recreation	30,141,660	30,141,660	33,244,793	3,103,133	10.3%
Personnel	6,000	6,000	6,000	-	0.0%
Police	45,767,911	45,767,911	45,372,881	(395,030)	-0.9%
Public Utilities - Reservoir Recreation	1,100,000	1,100,000	1,100,000	-	0.0%
Public Works - Engineering and Capital Projects	57,287,009	57,287,009	55,970,354	(1,316,655)	-2.3%
Public Works - General Services	4,924,543	4,924,543	4,426,680	(497,863)	-10.1%
Purchasing and Contracting	893,550	893,550	1,236,393	342,843	38.4%
Real Estate Assets	39,702,791	39,702,791	40,198,934	496,143	1.2%
Transportation and Storm Water	64,533,381	64,533,381	66,620,055	2,086,674	3.2%
<b>Total General Fund Revenues</b>	<b>\$ 1,126,603,066</b>	<b>\$ 1,126,603,066</b>	<b>\$ 1,148,528,964</b>	<b>\$ 21,925,898</b>	<b>1.9%</b>

The current budget presented in this table is as of December 2011 (accounting period 6) unless otherwise noted.

<sup>1</sup> Total City FY 2012 current revenue budget for franchise fees is \$124.7 million and the projection is \$128.5 million. The balance is budgeted in the Environmental Growth and Underground Surcharge Funds.

<sup>2</sup> Total City FY 2012 current revenue budget for transient occupancy tax is \$142.8 million and the projection is \$150.2 million. The balance is budgeted in the Transient Occupancy Tax Fund.

## General Fund Projected Expenditures

Department	Adopted Budget	Current Budget	Year-End Projection	Over Budget/ (Under Budget)	Variance %
Administration	\$ 2,395,873	\$ 2,395,873	\$ 2,283,182	\$ (112,691)	-4.7%
Business Office	1,012,879	1,012,879	947,643	(65,236)	-6.4%
City Attorney	42,032,583	42,080,839	42,099,945	19,106	0.0%
City Auditor	3,553,524	3,553,524	3,452,402	(101,122)	-2.8%
City Clerk	4,777,051	4,777,051	4,836,674	59,623	1.2%
City Comptroller	10,068,224	10,068,224	10,444,105	375,881	3.7%
City Treasurer	18,910,764	18,910,764	18,611,169	(299,595)	-1.6%
Citywide Program Expenditures					
Assessments to Public Property	463,235	463,235	463,235	-	0.0%
Business Cooperation Program	350,000	350,000	350,000	-	0.0%
Citywide Elections	2,875,000	2,875,000	2,875,000	-	0.0%
Corporate Master Leases Rent	9,550,342	9,550,342	9,550,342	-	0.0%
Employee Personal Property Claims	5,000	5,000	5,000	-	0.0%
Insurance	1,197,107	1,197,107	1,166,960	(30,147)	-2.5%
McGuigan Settlement	7,970,716	7,970,716	7,970,716	-	0.0%
Memberships	630,000	630,000	630,000	-	0.0%
Park Improvement Funds Transfer	2,281,433	2,281,433	2,416,360	134,927	5.9%
Preservation of Benefits	1,600,000	1,600,000	1,600,000	-	0.0%
Property Tax Administration	5,102,711	5,102,711	5,102,711	-	0.0%
Public Liability Claims Transfer	14,506,208	14,506,208	14,506,208	-	0.0%
Redistricting Commission	313,500	265,244	202,872	(62,372)	-23.5%
Special Consulting Services	4,200,000	4,644,221	2,846,875	(1,797,346)	-38.7%
TRANS Interest Expense Transfer	1,444,151	999,930	999,930	-	0.0%
Transfer to Capital Improvements Program	-	-	130,040	130,040	100.0%
Transportation Subsidy	459,179	459,179	459,140	(39)	0.0%
<i>Subtotal Citywide Program Expenditures</i>	<u>\$ 52,948,582</u>	<u>\$ 52,900,326</u>	<u>\$ 51,275,389</u>	<u>\$ (1,624,937)</u>	<u>-3.1%</u>
Council Administration	1,719,451	1,719,451	2,282,797	563,346	32.8%
Council District 1	1,021,617	1,021,617	901,846	(119,771)	-11.7%
Council District 1 - Community Projects, Programs and Services	218,032	213,132	213,132	-	0.0%
Council District 2	994,401	994,401	764,875	(229,526)	-23.1%
Council District 2 - Community Projects, Programs and Services	192,688	159,813	159,813	-	0.0%
Council District 3	1,110,608	1,110,608	951,361	(159,247)	-14.3%
Council District 3 - Community Projects, Programs and Services	182,778	160,684	160,684	-	0.0%
Council District 4	1,086,541	1,086,541	834,166	(252,375)	-23.2%
Council District 4 - Community Projects, Programs and Services	162,167	158,155	158,155	-	0.0%
Council District 5	1,026,526	1,026,526	815,064	(211,462)	-20.6%

## General Fund Projected Expenditures

Department	Adopted Budget	Current Budget	Year-End Projection	Over Budget/ (Under Budget)	Variance %
Council District 5 - Community Projects, Programs and Services	\$ 222,249	\$ 222,249	\$ 222,249	\$ -	0.0%
Council District 6	1,068,402	1,068,402	976,565	(91,837)	-8.6%
Council District 6 - Community Projects, Programs and Services	153,764	153,764	153,764	-	0.0%
Council District 7	1,093,564	1,093,564	1,005,700	(87,864)	-8.0%
Council District 7 - Community Projects, Programs and Services	175,023	175,023	175,023	-	0.0%
Council District 8	1,102,939	1,102,939	951,200	(151,739)	-13.8%
Council District 8 - Community Projects, Programs and Services	305,617	305,617	305,617	-	0.0%
Debt Management	2,372,729	2,372,729	2,283,433	(89,296)	-3.8%
Department of Information Technology	190,453	190,453	190,453	-	0.0%
Development Services	15,027,049	15,027,049	14,223,630	(803,419)	-5.3%
Disability Services	2,026,004	2,026,004	2,003,735	(22,269)	-1.1%
Economic Development	4,731,584	4,731,584	4,576,931	(154,653)	-3.3%
Environmental Services	33,333,848	33,334,798	33,398,085	63,287	0.2%
Ethics Commission	914,970	914,970	793,999	(120,971)	-13.2%
Financial Management	4,158,297	4,158,297	4,042,111	(116,186)	-2.8%
Fire-Rescue	197,853,201	197,863,201	203,650,312	5,787,111	2.9%
Human Resources	1,919,653	1,919,653	1,901,921	(17,732)	-0.9%
Library	37,202,217	37,202,217	35,857,132	(1,345,085)	-3.6%
Office of Homeland Security	1,815,520	1,815,520	1,545,998	(269,522)	-14.8%
Office of the Assistant Chief Operating Officer	311,204	311,204	311,204	-	0.0%
Office of the Chief Financial Officer	884,899	884,899	748,349	(136,550)	-15.4%
Office of the Chief Operating Officer	539,994	539,994	538,815	(1,179)	-0.2%
Office of the Independent Budget Analyst	1,684,697	1,684,697	1,640,071	(44,626)	-2.6%
Office of the Mayor	5,819,761	5,819,761	5,699,363	(120,398)	-2.1%
Park and Recreation	84,757,317	84,805,374	85,723,610	918,236	1.1%
Personnel	6,446,245	6,446,245	6,644,557	198,312	3.1%
Police	393,821,101	393,821,101	395,943,424	2,122,323	0.5%
Public Utilities - Reservoir Recreation	1,740,160	1,740,160	1,740,160	-	0.0%
Public Works - Engineering and Capital Projects	59,870,378	59,870,378	60,114,120	243,742	0.4%
Public Works - General Services	14,632,853	14,632,853	15,424,525	791,672	5.4%
Purchasing and Contracting	5,018,108	5,018,108	5,163,894	145,786	2.9%
Real Estate Assets	4,266,067	4,266,067	4,139,970	(126,097)	-3.0%
Transportation and Storm Water	99,514,118	99,518,993	98,774,420	(744,573)	-0.7%
<b>Total General Fund Expenditures</b>	<b>\$ 1,128,388,274</b>	<b>\$ 1,128,388,274</b>	<b>\$ 1,132,056,742</b>	<b>\$ 3,668,468</b>	<b>0.3%</b>

The current budget presented in this table is as of December 2011 (accounting period 6) unless otherwise noted.

Fund	Revenues/ Expenditure	Adopted Budget	Current Budget	Year-End Projection	Over Budget/ (Under Budget)	Variance %
Airports Fund	Revenues	\$ 4,476,334	\$ 4,476,334	\$ 4,510,940	\$ 34,606	0.8%
	Expenditures	4,740,207	4,740,207	3,682,408	(1,057,799)	-22.3%
Central Stores Fund	Revenues	24,052,960	24,052,960	11,082,717	(12,970,243)	-53.9%
	Expenditures	24,052,960	24,052,960	10,804,217	(13,248,743)	-55.1%
Concourse and Parking Garages Operating Fund	Revenues	2,945,804	2,945,804	2,874,552	(71,252)	-2.4%
	Expenditures	2,787,003	2,787,003	2,784,813	(2,190)	-0.1%
Development Services Fund	Revenues	46,553,370	46,553,370	47,149,713	596,343	1.3%
	Expenditures	41,548,110	41,548,110	39,537,925	(2,010,185)	-4.8%
Energy Conservation Program Fund	Revenues	3,037,617	3,037,617	3,109,128	71,511	2.4%
	Expenditures	2,476,657	2,476,657	2,258,537	(218,120)	-8.8%
Facilities Financing Fund	Revenues	2,067,205	2,067,205	2,020,239	(46,966)	-2.3%
	Expenditures	2,067,205	2,067,205	1,993,404	(73,801)	-3.6%
Fire/EMS Transportation Program Fund	Revenues	7,870,926	7,870,926	12,313,254	4,442,328	56.4%
	Expenditures	11,215,596	11,215,596	15,582,778	4,367,182	38.9%
Fleet Services Operating Fund	Revenues	51,914,527	51,914,527	52,845,106	930,579	1.8%
	Expenditures	51,258,674	51,258,674	51,312,324	53,650	0.1%
Golf Course Fund	Revenues	15,957,225	15,957,225	16,683,210	725,985	4.5%
	Expenditures	14,848,817	14,848,817	14,546,340	(302,477)	-2.0%
Information Technology Fund	Revenues	5,585,381	5,585,381	5,564,894	(20,487)	-0.4%
	Expenditures	5,578,211	5,578,211	5,230,039	(348,172)	-6.2%
Local Enforcement Agency Fund	Revenues	795,693	795,693	746,977	(48,716)	-6.1%
	Expenditures	826,716	826,716	802,595	(24,121)	-2.9%
Los Peñasquitos Canyon Preserve Fund	Revenues	132,000	132,000	150,158	18,158	13.8%
	Expenditures	200,738	200,738	205,652	4,914	2.4%
OneSD Support Fund	Revenues	21,250,474	21,250,474	21,324,759	74,285	0.3%
	Expenditures	21,242,793	21,242,793	21,097,448	(145,345)	-0.7%
PETCO Park Fund	Revenues	18,260,280	18,260,280	18,103,864	(156,416)	-0.9%
	Expenditures	17,361,608	17,361,608	17,046,299	(315,309)	-1.8%
Publishing Services Fund	Revenues	5,158,804	5,158,804	3,716,664	(1,442,140)	-28.0%
	Expenditures	5,158,804	5,158,804	3,716,664	(1,442,140)	-28.0%



## Non-General Fund Projections

Fund	Revenues/ Expenditure	Adopted Budget	Current Budget	Year-End Projection	Over Budget/ (Under Budget)	Variance %
QUALCOMM Stadium Operating Fund	Revenues	\$ 14,916,309	\$ 14,916,309	\$ 15,014,174	\$ 97,865	0.7%
	Expenditures	15,939,227	15,939,227	16,118,907	179,680	1.1%
Recycling Fund	Revenues	19,320,794	19,320,794	19,624,426	303,632	1.6%
	Expenditures	20,801,747	20,801,747	20,212,796	(588,951)	-2.8%
Redevelopment Fund	Revenues	3,768,383	3,768,383	3,571,205	(197,178)	-5.2%
	Expenditures	3,768,383	3,768,383	3,582,843	(185,540)	-4.9%
Refuse Disposal Fund	Revenues	29,707,888	29,707,888	27,476,546	(2,231,342)	-7.5%
	Expenditures	34,562,075	34,562,075	30,471,118	(4,090,957)	-11.8%
Risk Management Administration Fund	Revenues	9,225,761	9,225,761	9,225,761	-	0.0%
	Expenditures	9,225,761	9,225,761	9,198,501	(27,260)	-0.3%
Sewer Utility Funds <sup>1</sup>	Revenues	473,166,000	473,166,000	421,056,678	(52,109,322)	-11.0%
	Expenditures	328,362,612	328,884,969	308,399,097	(20,485,872)	-6.2%
Transient Occupancy Tax Fund						
Commission for Arts and Culture Department	Revenues	-	-	3,267	3,267	100.0%
Special Events Department	Revenues	150,000	150,000	145,490	(4,510)	-3.0%
Special Promotional Programs	Revenues	67,988,329	67,988,329	71,515,572	3,527,243	5.2%
<i>Total Transient Occupancy Tax Fund Revenues</i>		<u>\$ 68,138,329</u>	<u>\$ 68,138,329</u>	<u>\$ 71,664,329</u>	<u>\$ 3,526,000</u>	<u>5.2%</u>
Commission for Arts and Culture Department	Expenditures	871,683	871,683	887,961	16,278	1.9%
Special Events Department	Expenditures	590,603	590,603	584,948	(5,655)	-1.0%
Special Promotional Programs	Expenditures	66,676,043	66,676,043	70,191,420	3,515,377	5.3%
<i>Total Transient Occupancy Tax Fund Expenditures</i>		<u>\$ 68,138,329</u>	<u>\$ 68,138,329</u>	<u>\$ 71,664,329</u>	<u>\$ 3,526,000</u>	<u>5.2%</u>
Underground Surcharge Fund	Revenues	45,354,656	45,354,656	45,354,656	-	0.0%
	Expenditures	58,756,514	58,756,514	58,756,514	-	0.0%
Water Utility Operating Fund <sup>1</sup>	Revenues	508,905,000	508,905,000	542,703,898	33,798,898	6.6%
	Expenditures	451,642,397	451,642,397	407,947,063	(43,695,334)	-9.7%
Wireless Communications Technology Fund	Revenues	9,530,218	9,530,218	9,516,936	(13,282)	-0.1%
	Expenditures	10,043,210	10,043,210	9,522,941	(520,269)	-5.2%

The current budget presented in this table is as of December 2011 (accounting period 6) unless otherwise noted. Capital Improvements Program expenditure budgets are excluded.

<sup>1</sup> Revenues in the Sewer Utility and Water Utility Operating Funds support both Operating and Capital Improvements Program (CIP) activity; however, only Operating expenditures are reflected in this report.