THE CITY OF SAN DIEGO

Report to the City Council

DATE ISSUED:	May 16, 2017	REPORT NO: 17-027
ATTENTION:	Budget Review Committee Agenda of May 18, 2017	
SUBJECT:	Fiscal Year 2017 Year-End Budget Monitoring Report	
REFERENCE:	Fiscal Year 2017 Mid-Year Budget Monitoring Report, #17-010 Fiscal Year 2017 First Quarter Budget Monitoring Report, # 16-099	

<u>REQUESTED ACTION:</u>
Approve the requested authorities and recommendation for appropriations as outlined in the Fiscal Year 2017 Year-End Budget Monitoring Report, #17-027.

<u>STAFF RECOMMENDATION:</u>
Approve the requested actions.

<u>EXECUTIVE SUMMARY OF ITEM BACKGROUND:</u>
The Fiscal Year 2017 Year-End Budget Monitoring Report (Year-End Report) presents year-end projections of revenues and expenditures for funds with budgeted personnel expenditures.

Per City Council Budget Policy (Policy No. 000-02), Quarterly Reports are presented to the Budget and Government Efficiency Committee and the City Council each fiscal year. The purpose of the Year-End Report is to compare year-end projections to the current fiscal year's budget. This report is an integral part of the budget process; it provides transparency to the City's budget and finances and delivers critical data for informed decision-making.

Financial Management (FM) produces this report, in collaboration with all City departments, to forecast year-end results between budget and actual revenues and expenditures. The Year-End Report is compiled using nine months of actual activity in budgeted operating departments, combined with FM and departmental projections of anticipated spending and revenue trends for the remainder of the fiscal year. In addition, the Report includes significant variances in projected revenues and expenditures as compared to the Fiscal Year 2017 Mid-Year Budget Monitoring Report (Mid-Year Report).

Statistical data, economic analysis, professional judgment and expertise from economic consultants, professional organizations and other resources support the year-end revenue and expenditure projection. This report provides the detail and analysis of the year-end projections. In addition, attached are Fiscal Year 2017 Charter 39 Supporting Schedules prepared by the City Comptroller's Office as of March 31, 2017.

The following discussions, analysis, and recommendations are included in this report:

- A high-level summary of projected revenues and expenditures
- Details on the major General Fund revenues and assumptions
- Discussion of General Fund revenue variances by department
- Update on General Fund Reserves
- Discussion of General Fund expenditure variances by category
- Discussion on significant variances projected for non-General Funds (significant variances are defined as greater than $500,000)
- Updates to the Risk Management Reserves
- Program updates from the Fiscal Year 2017 Mid-Year Budget Monitoring Report (Mid-Year Report)

This report also includes requested authorities and appropriation adjustments necessary to maintain budgetary control over certain General Fund and non-General Fund departments, which are projected to exceed budget before the end of the fiscal year. In addition, typical year-end authorities are requested to maintain budgetary control and compliance with the City Charter and Municipal Code are detailed within this report. Additional details regarding each appropriation adjustment request is included later in this Report.

CITY STRATEGIC PLAN GOAL(S)/OBJECTIVE(S):
Goal # 1: Provide high quality public service
Objective # 2: Improve external and internal coordination and communication

Goal # 3: Create and sustain a resilient and economically prosperous City

FISCAL CONSIDERATIONS:
See attached Report: Fiscal Year 2017 Year-End Budget Monitoring Report, # 17-027

EQUAL OPPORTUNITY CONTRACTING INFORMATION (if applicable):
N/A

PREVIOUS COUNCIL and/or COMMITTEE ACTION:
N/A

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:
N/A

KEY STAKEHOLDERS AND PROJECTED IMPACTS:
N/A

signature on file	*signature on file*
Originating Department	Deputy Chief/Chief Operating Officer

Attachment: Fiscal Year 2017 Year-End Budget Monitoring Report, #17-027

Fiscal Year 2017 Year-End Budget Monitoring Report May 2017

signature on file
Scott Chadwick
Chief Operating Officer

signature on file
Mary Lewis
Chief Financial Officer

signature on file
Tracy McCraner
Financial Management Director

signature on file
Vanessa Montenegro
Budget Coordinator

Tables may not foot due to rounding.

INTRODUCTION

The Fiscal Year 2017 Year-End Budget Monitoring Report (Year-End Report) presents year-end projections of revenues and expenditures for funds with budgeted personnel expenditures.

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- Program updates from the Mid-Year Report

This report also includes requested authorities and appropriation adjustments necessary to maintain budgetary control over certain General Fund and non-General Fund departments, which are projected to exceed budget before the end of the fiscal year. In addition, typical year-end authorities are requested to maintain budgetary control and compliance with the City

Charter and Municipal Code are detailed within this report. Additional details regarding each appropriation adjustment request is included later in this Report.

GENERAL FUND

OVERVIEW

The General Fund projects a budgetary surplus of $11.2 million by fiscal year-end as reflected in Table 1: Summary of FY 2017 General Fund Projections. The $11.2 million budgetary surplus is a result of a net increase in revenue of $15.4 million and a slight increase in expenditures which are estimated to be over budget by $4.2 million, as discussed below.

Summary of FY 2017 General Fund Projections

Table 1 | *in millions*

Revenue/Expenditures	Adopted Budget	Current Budget	Year-End Projection	Variance	Variance %
Resources					
Revenue	$ 1,330.0	$ 1,330.0	$ 1,345.4	$ 15.4	1.2%
Budgeted Use of Fund Balance (Excess Equity)	8.0	8.0	8.0	-	0.0%
Total Resources	**1,338.0**	**1,338.0**	**1,353.4**	**15.4**	**1.2%**
Total Expenditures	**$ 1,338.0**	**$ 1,338.0**	**$ 1,342.2**	**$ (4.2)**	**-0.3%**
Net Projected Activity	**$ 0.0**	**$ 0.0**	**$ 11.2**	**$ 11.2**	

Revenues are projected to exceed budget by $15.4 million, primarily due to increased receipts realized in the City's major General Fund revenues of $12.4 million in addition to an increase of $3.0 million in departmental revenue.

The primary factor contributing to the $12.4 million increase in major General Fund revenue is a one-time revenue of $13.6 million associated with the annexation of property near the Mount Hope Cemetery. This annexation was approved by the City Council in December 2016 and by the Local Agency Formation Commission (LAFCO) in April 2017. This one-time revenue source is in addition to slightly higher property tax revenues, which are offset by significantly lower franchise fee revenue estimates.

The primary factors for the $3.0 million increase in departmental revenue are in parking citation revenue and public safety reimbursable revenue discussed in more detail later in this Report.

The over budget expenditures of $4.2 million are attributed to various factors. The predominant factor is that the Fire-Rescue Department projects expenditures over budget by $10.9 million. This is comprised of $6.2 million in salaries, vacation pay, special pay and overtime, and $4.7 million in related fringe benefit expenditures. Since the development of the Fiscal Year 2017 Adopted Budget, which included three academies of 36 Fire Recruits, the academy size was later increased to 48 Fire Recruits to expedite full staffing within the Department. The positive impact of the increased recruitment efforts results in the Department projecting to be nearly fully staffed by the end of the fiscal year. While this is a positive trend, the corresponding budget impact is an over budget projection in salary expense due to the projected vacancy factor being higher than the actual vacancies projected for the fiscal year. Also contributing to the Fire-Rescue Department's over budget condition is the impact of the June 13, 2016 negotiated amendment to the Memorandum of Understanding (MOU) with the San Diego Firefighter's Local 145. This amendment authorized a program to reduce annual leave balances of Local 145 members and added new rules for mandatory time off. This change results in additional vacation time, pay-in-lieu of annual leave and overtime with commensurate fringe benefit impacts. Details of this projection are discussed in more detail later in the report.

The Transportation and Storm Water Department is projecting over budget expenditures of $3.7 million as a result of an increase in overtime, equipment rental expenditures and emergency contract work related to winter storms. Lastly, the Police Department projects over budget expenditures of $1.9 million primarily as a result of an increase in overtime expenditures, as well as supplies and contract expenditures. These over budget projections are offset with savings in energy and utilities as a result of a decrease in fuel costs and information technology expenditures as a result of departments decreasing non-essential spending.

The over budget department expenditures discussed above are offset with departmental expenditure savings primarily in Park and Recreation, Environmental Services and Real Estate Assets; and, departmental revenue in excess of budget primarily in Police, Fire-Rescue and City Treasurer departments.

The City has strong budgetary controls and monitoring processes in place to maintain a balanced budget. The analysis and projections presented in this report, combined with FM's continued monitoring of departmental projections of revenues and expenditures are critical to maintaining a balanced budget. Significant variance explanations are detailed later in this report.

CHANGES SINCE THE MID-YEAR REPORT

The current net year-end projection has increased by $15.4 million, an improvement of 0.4% in revenues and 0.7% in expenditures, from the Mid-Year Report as reflected in Table 2: Quarterly Comparison of FY 2017 General Fund Projections.

Quarterly Comparison of FY 2017 General Fund Projections
Table 2 *(Mid-Year vs. Year-End)* *in millions*

Revenue/Expenditures	Mid-Year Report	Year-End Report	Variance	Change %
Resources				
Projected Revenue	$ 1,339.4	$ 1,345.4	$ 6.0	0.4%
Major General Fund Revenues	1,054.1	1,061.6	7.5	0.7%
Departmental Revenue	285.4	283.8	(1.6)	-0.6%
Budegted Use of Fund Balance (Excess Equity)	8.0	8.0	-	0.0%
Total Resources	**1,347.4**	**1,353.4**	**6.0**	0.4%
Total Projected Expenditures	**$ 1,351.6**	**$ 1,342.2**	**$ (9.4)**	**-0.7%**
Personnel Expenditures	924.2	916.6	(7.6)	-0.8%
Non-Personnel Expenditures	427.4	425.6	(1.8)	-0.4%
Net Year-End Projection	**$ (4.2)**	**$ 11.2**	**$ 15.4**	

Projected revenue has increased by $6.0 million, or 0.4%, since the Mid-Year Report. This projection includes a projected increase in major General Fund revenues of $7.5 million, offset with a projected decrease in departmental revenue of $1.6 million. The major General Fund revenues have primarily increased as a result of property tax associated to an increase in home sales during the fiscal year, and increases in distribution of residual funds from the Redevelopment Property Tax Trust Fund (RPTTF). Also contributing to this increase in revenue is sales tax revenue as a result of improved consumer confidence and a large one-time correction to past sales tax distributions. In addition, transient occupancy tax revenue is projected to increase due to continued strong tourism activity projected through the end of the fiscal year.

Tables may not foot due to rounding.

Projected expenditures have decreased by $9.4 million, or 0.7%, since the Mid-Year Report. The majority of the variance can be attributed to decreased personnel expenditures. The primary factor for this variance is a projected decrease in salaries and wages, which are projected to decrease by $7.6 million.

In addition to decreased personnel expenditures, there was also a decrease in non-personnel expenditures of $1.8 million from the Mid-Year Report. This was as a result of the following factors:

- $1.3 million in energy related expenditures which resulted in an additional savings in the General Fund. This was due to a decrease in electrical services than what was projected in the Mid-Year Report, as a result of reduced consumption.
- $840,000 in overall information technology (IT) expenditures as a result of delayed IT projects.

These savings were partially offset with an increase of $880,000 in contractual expenditures in the Transportation and Storm Water Department primarily as a result of emergency storm water system maintenance located in the Hotel Circle area.

The City's Five Year Financial Outlook, released in November 2016, projected a shortfall of $36.9 million for the General Fund for Fiscal Year 2018. Subsequently, the Mid-Year Report projected a General Fund budgetary shortfall for Fiscal Year 2017 of $4.2 million. During the development of the Fiscal Year 2018 budget, it was determined that certain positions needed to be reduced to balance the budget and the review was needed to ensure that positions would be available for employees to move into during a reduction in force. As a result, the Chief Operating Officer (COO) requested all General Fund departments, and selected non-General Funds, to suspend non-essential discretionary spending in current Fiscal Year 2017 and established an additional budget monitoring process for filling vacant positions throughout the City. The process required departments to obtain executive management approval prior to filling vacant positons which resulted in personnel and fringe savings in the General Fund. The Year-End Report is now projecting a surplus of revenues over expenditures for the General Fund, as a result of departments not filling vacancies as anticipated during the Mid-Year Report and due to the success of these additional budget monitoring processes. Additional vacancies could occur throughout the year as a result of positions being filled from within due to transfers or promotional opportunities. Hiring from within helps maintain continuity of services and retain institutional knowledge; however, vacancies are difficult to predict during the budget monitoring process. Due to the projected surplus, the enhanced review of request to fill memos will be discontinued.

Additional details of the quarter to quarter variances by revenue and expense category or Fund are discussed throughout this Report.

GENERAL FUND REVENUE

General Fund revenues are projected to exceed budget by $15.4 million at fiscal year-end. This is attributed to an over budget collection of $12.4 million in major General Fund revenues and $3.0 million in departmental revenue. Assumptions influencing the major General Fund revenues are detailed in this Report, including any significant variances from the adopted budget.

FY 2017 General Fund Revenue Projections

Table 3 *in millions*

Revenue Source	Adopted Budget	Current Budget	Year-End Projection	Variance	Variance %
Major General Fund Revenues	$ 1,049.2	$ 1,049.2	$ 1,061.6	$ 12.4	1.2%
Departmental Revenue	280.8	280.8	283.8	3.0	1.1%
Total	**$ 1,330.0**	**$ 1,330.0**	**$ 1,345.4**	**$ 15.4**	**1.2%**

MAJOR GENERAL FUND REVENUES

The City's major General Fund revenues are projected to exceed budget by $12.4 million primarily as a result of one-time revenue for the annexation of property near the Mount Hope Cemetery. This one-time revenue source is offset by lower franchise fee revenue from San Diego Gas and Electric (SDG&E) and cable television providers. Table 4: FY 2017 Major General Fund Revenue Projections summarizes the projections by each major General Fund revenue category.

FY 2017 Major General Fund Revenue Projections

Table 4 *in millions*

Revenue Source	Adopted Budget	Current Budget	Year-End Projection	Variance	Variance %
Property Tax	$ 502.0	$ 502.0	$ 506.2	$ 4.2	0.8%
Sales Tax	272.8	272.8	274.1	1.3	0.5%
Transient Occupancy Tax[1]	113.3	113.3	114.5	1.2	1.1%
Franchise Fees[2]	81.0	81.0	70.9	(10.1)	-12.5%
Property Transfer Tax	9.6	9.6	9.8	0.3	2.7%
Miscellaneous Revenue	70.5	70.5	86.1	15.6	22.1%
Total	**$ 1,049.2**	**$ 1,049.2**	**$ 1,061.6**	**$ 12.4**	**1.2%**

[1] Total City FY 2017 current revenue budget for transient occupancy tax is $216.3 million and the projection is $218.6 million. The balance is budgeted in the Transient Occupancy Tax Fund.

[2] Total City FY 2017 current revenue budget for franchise fees is $167.6 million and the projection is $141.5 million. The balance is budgeted in the Environmental Growth and Underground Surcharge Funds.

The major General Fund revenue projections are supported by the most recent economic information available and actual revenue distributions to the City during the first nine months of the fiscal year. The Fiscal Year 2017 budget for the major General Fund revenues reflected a continued improvement in the local, state, and national economies. The projections indicate that the positive signs shown by the local economic indicators during the development of the budget have generally continued throughout the fiscal year as reflected in Table 5: Local Unemployment Economic Indicators and Table 6: Local Real Estate Market Indicators.

Local Unemployment Economic Indicators

Table 5

Economic Indicator	March 2016	March 2017[1]	Change %
City of San Diego Unemployment	4.7%	4.0%	-0.7%
City of San Diego Number of Unemployed	32,800	28,300	-13.7%

Source: California Employment Development Department

[1] Preliminary number provided as of March 2017 and is subject to change.

As shown in Table 5: Local Unemployment Economic Indicators, the unemployment rate in City of San Diego has decreased from 4.7% in March 2016 to 4.0% in March 2017. Additionally, the total number of unemployed has decreased by 13.7%. Both indicators are positive signs that the local employment market continues to improve.

Local Real Estate Market Indicators

Table 6

Economic Indicator	Calendar Year 2015	Calendar Year 2016	Change %
City of San Diego Average Median Home Price	$476,315	$506,313	6.3%
City of San Diego Home Sales	16,478	16,897	2.5%
San Diego County Foreclosures	1,853	1,194	-35.6%
San Diego County Notices of Default	5,142	4,352	-15.4%

Source: CoreLogic and County of San Diego Assessor/Recorder/County Clerk

In addition to the progress in unemployment, real estate market indicators also have shown improvement. Median home prices for calendar year 2016 increased by 6.3% from calendar year 2015. Home sales experienced a growth of 2.5% when compared to calendar year 2015. In addition, there were significant decreases in both foreclosures and notices of default from 2015 to 2016.

Property Tax

FY 2017 Property Tax Revenue Projections

Table 7 *in millions*

Revenue Source	Adopted Budget	Current Budget	Year-End Projection	Variance	Variance %
Property Tax Growth Rate	5.25%	5.25%	5.70%	0.45%	N/A
Property Tax Projection	$ 502.0	$ 502.0	$ 506.2	$ 4.2	0.8%

The Fiscal Year 2017 Adopted Budget growth rate of 5.25% was based on preliminary assessed valuations from the County of San Diego of approximately 5.0% and prior year actual growth of 5.3%. The final assessed valuation growth from the County of San Diego indicated an actual growth of 5.7%. This is 0.45% higher than the 5.25% budgeted property tax growth rate leading to the slight increase in the 1.0% property tax base, the Motor Vehicle License Fee (MVLF) backfill payment, and the projected Redevelopment Property Tax Trust Fund (RPTTF) tax sharing pass-through payments as displayed in Table 8: FY 2017 Property Tax Revenue Projection Details.

Overall, property tax revenue is projected to be slightly over budget at fiscal year-end. Since the Mid-Year Report, the most significant change to the projection for property tax revenue is due to additional assessed value growth, increases in revenues in supplemental property taxes related to home sales during the fiscal year, and increases in distribution of residual funds from the RPTTF. When compared to the Adopted Budget, the year-end projection has increased by 1.2%.

FY 2017 Property Tax Revenue Projection Details

Table 8 *in millions*

Revenue Source	Adopted Budget	Current Budget	Year-End Projection	Variance	Variance %
1.0% Property Tax	$ 353.7	$ 353.7	$ 354.7	$ 1.0	0.3%
MVLF Backfill	128.4	128.4	129.3	0.9	0.7%
RPTTF Tax Sharing Pass-through Payments	5.1	5.1	6.3	1.2	23.7%
RPTTF Residual Property Tax	14.8	14.8	15.9	1.1	7.2%
Total	**$ 502.0**	**$ 502.0**	**$ 506.2**	**$ 4.2**	**0.8%**

Sales Tax

FY 2017 Sales Tax Revenue Projections

Table 9 *in millions*

Revenue Source	Adopted Budget	Current Budget	Year-End Projection	Variance	Variance %
Sales Tax Growth Rate	3.5%	3.5%	4.4%	0.9%	N/A
Sales Tax Projection	$ 272.8	$ 272.8	$ 274.1	$ 1.3	0.5%

Sales Tax revenue is expected to be over budget at fiscal year-end by $1.3 million. This is an increase of $2.6 million from the Mid-Year Report, primarily due to one-time sales tax corrections and the improvement of taxable sales during the fiscal year.

Sales tax revenues are driven by the sale of taxable goods within in the City. The City's sales tax consultant reviews and audits sales tax distributed to City. During Fiscal Year 2017, the City collected approximately $3.8 million in significant one-time corrections.

After adjusting for a one-time correction, the first quarter sales tax growth rate was 1.2%. This indicated the continuation of the Fiscal Year 2016 trend of lower than expected sales tax growth. The second quarter, however, showed improvement with growth in receipts of 3.3%. Preliminary data for the third quarter indicated strong growth at 6.7%; however, this included additional one-time corrections of sales tax to the City, which when removed, result in an adjusted growth rate of 1.9% for the quarter. The fourth quarter is projected to grow at 3.0%, resulting in an overall sales tax growth rate of 4.4% from Fiscal Year 2016 to Fiscal Year 2017.

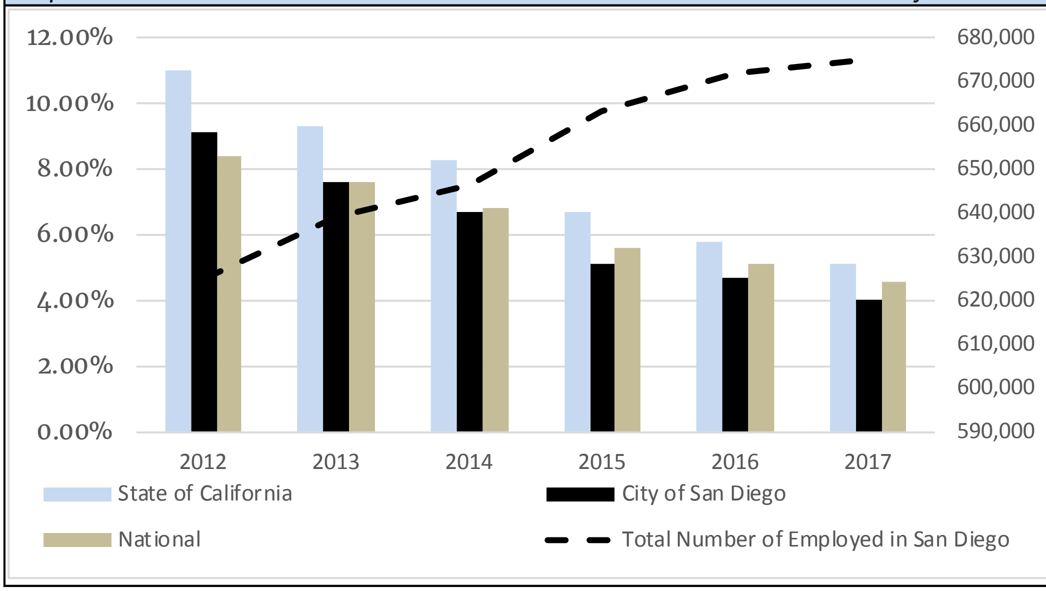
Tables may not foot due to rounding.

Major local economic drivers of the City's sales tax receipts include the unemployment rate, consumer confidence, and consumer spending.

- As of March 2017, the San Diego unemployment rate was 4.0% as preliminarily reported by the California Employment Development Department. The unemployment rates for both the State of California and the nation are 5.1% and 4.6%, respectively, as shown in Graph 1: Employed in San Diego and Unemployment Rates.
- Consumer confidence has steadily grown during Fiscal Year 2017 reaching 120.3 in April 2017, up 27% since April 2016 as displayed in Graph 2: Consumer Confidence Index.

Employed in San Diego and Unemployment Rates

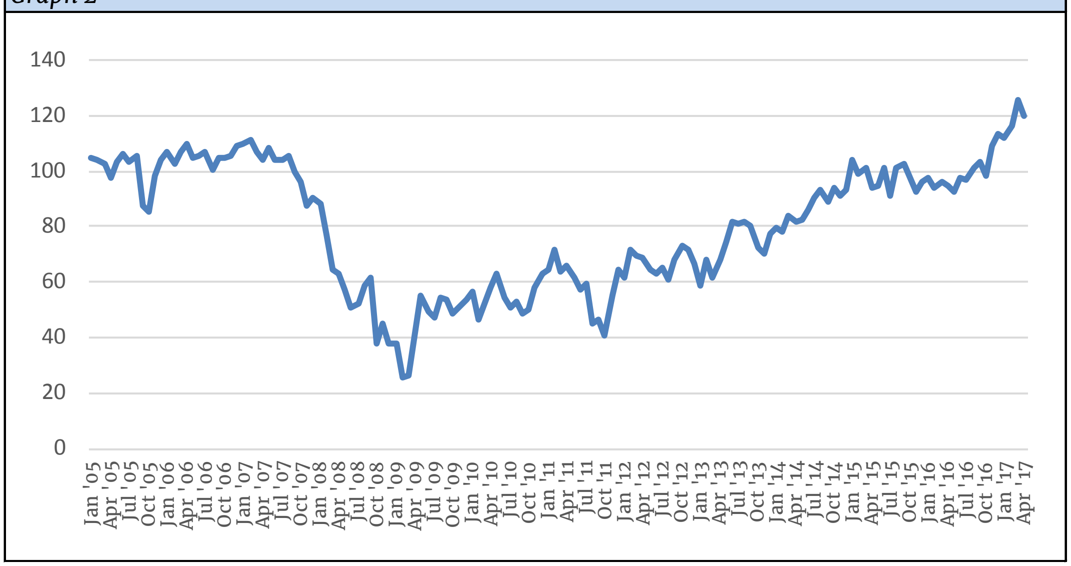
Graph 1 *as of March 2017*



Source: State of California, Economic Development Department

Consumer Confidence Index

Graph 2



Source: Conference Board

In addition to the increases in consumer confidence during Fiscal Year 2017, unemployment, interest rates, and fuel prices have remained relatively low. These factors led to the growth in sales tax related to restaurants, automobile sales, building materials, and industrial sales. Strong growth was also seen in the County Pool which includes sales tax generated from online sales. These increases were offset by weaker brick and mortar retail sales and continued contractions in fuel and energy sales due to low fuel prices. Sales tax is expected to continue at a growth rate of 3.0% for the remainder of Fiscal Year 2017.

Transient Occupancy Tax (TOT)

FY 2017 Transient Occupancy Tax (TOT) Revenue Projections

Table 10 *in millions*

Revenue Source	Adopted Budget	Current Budget	Year-End Projection	Variance	Variance %
TOT Growth Rate	6.0%	6.0%	6.0%	0.0%	N/A
TOT Projection	$ 113.3	$ 113.3	$ 114.5	$ 1.2	1.1%

[1]Total City FY 2017 current revenue budget for transient occupancy tax is $216.3 million and the projection is $214.7 million. The balance is budgeted in the Transient Occupancy Tax Fund.

The General Fund Transient Occupancy Tax (TOT) is projected to come in above budget at fiscal year-end by $1.2 million or 1.1%. This in an increase from the Mid-Year Monitoring Report due to higher than expected tourism activity in the months of November and December. The December 2016 Travel Forecast from the San Diego Tourism Authority (SDTA) and Tourism Economics, Inc. forecasts San Diego to outperform the nation in room demand and revenue per available room (RevPAR) growth in calendar year 2017. As a result of continued positive tourism trends, the monthly growth rate of 6.0%, included in the Fiscal Year 2017 Adopted Budget, is projected for the remainder of the fiscal year.

The positive tourism growth that has occurred since the economic turnaround began in 2010 is expected to continue through fiscal year-end according to the December 2016 Travel Forecast from SDTA and Tourism Economics, Inc. Table 11: San Diego County Visitor Industry provides a summary of the projected growth in economic indicators that impact the City's TOT receipts.

San Diego County Visitor Industry
Table 11

	CY 2014	CY 2015	CY 2016	CY 2017[2]
Visitors				
Total Visits (millions)	33.8	34.3	34.6	35.2
Overnight Visits (millions)	16.9	17.2	17.4	17.7
Hotel Sector				
Average Occupancy	74.6%	76.4%	76.4%	77.1%
Average Daily Rate	$ 141.38	$ 150.03	$ 154.21	$ 159.30
Revenue PAR[1]	$ 105.48	$ 114.58	$ 117.89	$ 122.81
Room Demand (growth)	6.4%	3.4%	1.3%	2.5%

Source: San Diego Tourism Authority and Tourism Economics
[1] Revenue Per Available Room (Average Occupancy multiplied by Average Daily Rate)
[2] Forecast - Tourism Economics, December 2016

Franchise Fees

FY 2017 Franchise Fee Revenue Projections
Table 12 *in millions*

Revenue Source	Adopted Budget	Current Budget	Year-End Projection	Variance	Variance %
SDG&E Growth Rate	2.0%	2.0%	2.0%	0.0%	N/A
Cables Growth Rate	0.0%	0.0%	0.0%	0.0%	N/A
Franchise Fee Projection	$ 81.0	$ 81.0	$ 70.9	$ (10.1)	-12.5%

Franchise fee revenue is generated from agreements with private utility companies and refuse haulers in exchange for the use of the City's rights-of-way. Currently, the City has franchise agreements with SDG&E, Cox Communications, Spectrum (formerly Time Warner Cable), AT&T, and refuse haulers. Approximately 83.0% of franchise fee revenue is comprised of receipts from SDG&E and cable companies. Revenue received from the agreements with SDG&E and the cable companies is based on a percentage of gross sales while the revenue received from refuse haulers is based on tonnage.

Franchise fee revenue is projected to be under budget by $10.1 million due to decreases in revenue from SDG&E and cable companies. Since the Mid-Year Report, the City received confirmation of the SDG&E's initial estimate of a 7.0% decrease in calendar year 2016 revenue. As a result, projected SDG&E revenue is under budget by $7.6 million. Also, contributing to the loss in Franchise fee revenue is the reduction in the cable franchise fee revenue of $2.7 million. Since the Mid-Year Report, cable franchise fee revenue has declined by an additional $690,000 due to lower receipts from Spectrum and AT&T. Partially offsetting the under budget projections are franchise fees from refuse haulers, which are projected to end the fiscal year slightly over budget by an estimated $720,000 due to an increase in tonnage.

Property Transfer Tax

FY 2017 Property Transfer Tax Projections

Table 13 *in millions*

Revenue Source	Adopted Budget	Current Budget	Year-End Projection	Variance	Variance %
Property Transfer Tax Growth Rate	3.0%	3.0%	3.0%	0.0%	N/A
Property Transfer Tax Projection	$ 9.6	$ 9.6	$ 9.8	$ 0.3	2.7%

Property transfer tax is a levy on the sale of residential and commercial real estate property and is highly reflective of the activity in the housing market, which makes property transfer tax revenues generally more volatile to market changes than the 1.0% property tax levy. The County of San Diego collects $1.10 per $1,000 of the sale price when any real property is sold. The City is credited $0.55 per $1,000 against the County's charge, giving both the County and City each $0.55 per $1,000 of the sale price. The County collects the funds and transfers the City's portion on a monthly basis.

The growth in property transfer tax revenue is consistent with the rise in home sales and median home prices as displayed in Table 14: Local Real Estate Market Indicators. For Fiscal Year 2017, property transfer tax revenue is projected to be over budget at year-end. The increase is due to actual receipts exceeding budgeted amounts during the first half of the fiscal year. Due to slightly increased receipts in recent months, the year-end projection is being adjusted up by $260,000 from the Mid-Year Report to $9.8 million.

Local Real Estate Market Indicators

Table 14

Economic Indicator	Calendar Year 2015[1]	Calendar Year 2016[1]	Variance %
City of San Diego Average Median Home Price	$476,315	$506,313	6.3%
City of San Diego Home Sales	16,478	16,897	2.5%
San Diego County Foreclosures	1,853	1,194	-35.6%
San Diego County Notices of Default	5,142	4,352	-15.4%

Source: CoreLogic and County of San Diego Assessor/Recorder/County Clerk

Miscellaneous Revenue

FY 2017 Miscellaneous Revenue

Table 15 *in millions*

Revenue Source	Adopted Budget	Current Budget	Year-End Projection	Variance	Variance %
Miscellaneous Revenue Projection	$ 70.5	$ 70.5	$ 86.1	$ 15.6	22.1%

The Miscellaneous Revenue category includes General Governmental Services Billing (GGSB), which is a reimbursement from other City funds that use General Fund services, one-cent TOT transfer into the General Fund to support tourism related services, interest earnings attributable to the General Fund from the City's investment pool, refuse collection business tax and revenue from other agencies.

Since the Mid-Year Report, projections have increased primarily due to increased TOT revenue growth, adjustments in rent from non-General Fund departments, and unanticipated excess Motor Vehicle License Fees.

Economic Uncertainties

The Fiscal Year 2017 Adopted Budget incorporated moderate improvement in local economic indicators. The year-end projections and changes since the Mid-Year Report generally follow these trends in economic indicators; however, the positive growth in these indicators is slowing when compared to prior years. Financial Management will continue to monitor the condition of the national, state, and local economies and will update revenue projections in the Fiscal Year 2019-2023 Five-Year Financial Outlook in the fall.

DEPARTMENTAL REVENUE

General Fund departmental revenues are projected at $283.8 million by fiscal year-end which represents an increase of $3.0 million, or 1.1%, from the current budget. The following section discusses the significant factors contributing to the increase in projected departmental revenue.

FY 2017 Significant General Fund Revenue Variances by Department

Table 16 *in millions*

Department	Adopted Budget	Current Budget	Year-End Projection	Variance	Variance %
Fire-Rescue	$ 27.0	$ 27.0	$ 29.1	$ 2.1	7.6%
Office of Homeland Security	1.7	1.7	1.0	(0.6)	-37.8%
Office of the City Attorney	4.2	4.2	3.5	(0.6)	-14.8%
Office of the City Treasurer	19.3	19.3	20.7	1.4	7.0%
Park and Recreation	44.3	44.3	42.9	(1.4)	-3.2%
Police	45.1	45.1	48.2	3.2	7.0%
Public Works - General Services	3.7	3.7	2.9	(0.9)	-23.7%
All Other General Fund Departments	135.5	135.5	135.5	(0.1)	0.0%
Total	**$ 280.8**	**$ 280.8**	**$ 283.8**	**$ 3.0**	**1.1%**

Fire-Rescue

The Fire-Rescue Department projects revenue over budget by $2.1 million at fiscal year-end primarily due to the following increases:

- $790,000 in strike team deployment reimbursements from the California Office of Emergency Services, which is an increase of $450,000 from the Mid-Year Report.
- $500,000 in Urban Areas Security Initiative (USAI) grant reimbursements for operations, training, reimbursements for Regional Maritime Emergency Preparedness Manager and Geographic Information Systems (GIS) grant reimbursable revenue
- $400,000 increase in revenue for Fire-Rescue services provided to the Airport Authority.
- $320,000 increase in alarm permit fees and special events.

The current projection has decreased by a net $500,000 from the Mid-Year Report primarily due to the following decreases:

- $280,000 in transfer-in revenue from the Fire/EMS Transport Program Fund
- $190,000 in anticipated inspection fee revenue.
- $190,000 due to fewer than anticipated alarm permits and permits for special events.
- $130,000 related to reduced grant reimbursable positions.

Office of Homeland Security

The Office of Homeland Security projects revenue to be under budget by $640,000 at fiscal year-end primarily attributed to vacant grant reimbursable positions. The current projection represents a decrease of $100,000 from the Mid-Year Report.

Office of the City Attorney

The Office of the City Attorney projects revenue under budget by $620,000 at fiscal year-end primarily due to the following:

- $380,000 decrease associated with less than anticipated reimbursable work performed for Successor Redevelopment Agencies.
- $240,000 decrease related to less reimbursable work performed for City service providers.

According to the City Attorney's Office, this current projection represents a $440,000 decrease from the Mid-Year Report due to the re-allocation of current staff to focus on major cases and less work from service providers.

Office of the City Treasurer

The Office of the City Treasurer projects revenue over budget by $1.4 million at fiscal year-end primarily due to the following:

- $640,000 increase associated with the collection of delinquent account parking referral fees through the Department of Motor Vehicles (DMV) Collection Referral Fee Program.
- $440,000 increase in parking citations attributed to extended parking meter hours in the Hospitality Zone.
- $140,000 increase in Rental Unit Tax due to an increase in the number of billing statements issued.

The current projection represents a $360,000 increase from the Mid-Year Report primarily attributed to an increase in parking citations and an increase in revenue from the DMV's Collection Referral Program.

Park and Recreation

The Park and Recreation Department projects revenue to be under budget by $1.4 million at fiscal year-end due to a $1.8 million decrease in TOT reimbursements. This TOT revenue was reallocated to the Qualcomm Stadium Operations Fund in order to pay the stadium's concession vendor a reimbursement negotiated due to the San Diego Chargers early lease termination.

Police

Similar to the Mid-Year Report, the Police Department projects revenue to be over budget by $3.2 million at fiscal year-end primarily due to the following increases:

- $1.9 million in parking citations associated to the increased recruitment and retention of Parking Enforcement Officers.
- $1.5 million associated with policing services for special events provided at Qualcomm Stadium and Petco Park.
- $680,000 in reimbursements associated with policing services for the Major League Baseball All-Star game.

These increases are partially offset with an $840,000 decrease in vehicle code violations and associated traffic school fees.

Public Works — General Services

The Public Works — General Services Department projects revenue to be under budget by $890,000 at fiscal year-end primarily attributed to the availability of large reimbursable projects. The current projection has decreased by $150,000 from the Mid-Year Report and is primarily due to reimbursable, skilled labor positions not being filled as anticipated.

GENERAL FUND RESERVES

The City's Reserve Policy (Council Policy 100-20) documents the City's approach to establishing and maintaining strong reserves across City operations. In April 2016, amendments to the City's Reserve Policy were approved by the City Council to increase the General Fund Reserves and to establish a Pension Payment Stabilization reserve (Pension Reserve). Subsequently, in February 2017 amendments to the Reserve Policy, which are discussed in detail later in this report, were approved by City Council.

Fiscal Year 2017 General Fund Reserve Projections

The following table, Table 17: FY 2017 General Fund Balances and Reserve Estimates, displays the calculation for projected ending fund balance (excess equity).

FY 2017 General Fund Balances and Reserve Estimates

Table 17 *in millions*

Description		Amount	Revenue %
FY 2016 Audited Budgetary Fund Balance	**$**	**192.4**	**16.3%**
FY 2017 Projected Activity:			
Projected Revenue		1,345.4	
Projected Expenditures		1,342.2	
Net Projected Activity	$	3.2	
FY 2017 Projected Ending Fund Balance (Excess Equity)	**$**	**195.6**	**16.6%**
Emergency Reserve		94.3	8.0%
Stability Reserve		79.5	6.75%
FY 2017 Required Reserve Level[1]	**$**	**173.8**	**14.75%**
FY 2017 Adjustments:			
Adjustment for Low-Flow Diversion Capacity Charges		3.0	
FY 2017 Budgeted General Fund Reserve Contribution		7.6	
FY 2017 Projected Budgetary Fund Balance (Excess Equity)	**$**	**26.4**	**2.2%**
FY 2018 Proposed Budgeted Use of Fund Balance (Excess Equity)		8.3	
FY 2018 May Revision Budgeted Use of Fund Balance (Excess Equity)		14.1	
FY 2017 Projected Remaining Budgetary Fund Balance (Excess Equity)	**$**	**4.0**	**0.3%**

[1]Based on FY 2014 through FY 2016 audited operating revenues in acccordance with the City's Reserve Policy (CP 100-20).

The Fiscal Year 2017 projected remaining fund balance in excess of required reserves (excess equity) is $4.0 million, or 0.3%, after taking into account the following:

- $3.2 million in net projected surplus for Fiscal Year 2017 activity.
- $173.8 million, or 14.75%, required Fiscal Year 2017 reserve contribution.
- $3.0 million adjustment for low flow diversion capacity charges to accrue for remaining charges owed to the Public Utilities Department from the Transportation and Storm Water Department.
- $7.6 million Fiscal Year 2017 budgeted General Fund reserve contribution.

- $8.3 million Fiscal Year 2018 proposed budgeted use of fund balance.
- $14.1 million Fiscal Year 2018 May Revision budgeted use of fund balance.

This is an increase of $11.2 million in projected budgetary fund balance from the Mid-Year Report. The increase is primarily due to the decrease in expenditures and additional revenue realized in the major General Fund revenues, as discussed earlier in this Report. The Mid-Year Report had anticipated a potential use of fund balance of $4.2 million by fiscal year end to alleviate a small projected budgetary deficit. However, due to the enhanced budgetary measures implemented by the COO to reduce personnel costs and reduced spending from City departments, Fiscal Year 2017 is now projected to have a budgetary surplus, leaving the $4.0 million in excess equity.

The following details the projected reserves and excess equity for the General Fund in accordance with the City's Reserve Policy.

The audited Fiscal Year 2016 ending budgetary fund balance is $192.4 million, or 16.3%, of the three-year average of Fiscal Year 2014 through Fiscal Year 2016 audited General Fund operating revenues.

A $3.0 million adjustment for the Fiscal Year 2015 accrued low flow diversion capacity charges, due from the Transportation and Storm Water Department (TSW) to Public Utilities Department (PUD), is included in the General Fund balance calculation. Generally Accepted Accounting Principles (GAAP) require full recognition of the $5.1 million amount owed to PUD in the Fiscal Year ending June 30, 2015 CAFR. This accounting standard is different than budgetary principles; the $3.0 million adjustment includes the remaining amount owed from TSW to PUD and is in accordance with budgetary rules. This difference between accounting and budgetary basis will be fully adjusted in Fiscal Year 2018, completing the fund balance reconciliation.

The current General Fund reserve of 14.75% is comprised of an 8.0% Emergency Reserve and a 6.75% Stability Reserve. The amendments to the Reserve Policy approved on April 12, 2016 included increasing the Stability Reserve by 2.7% over a five-year period, or from 6.0% to 8.7%, of a three-year average of audited General Fund operating revenues. The Fiscal Year 2017 funding target for the Stability Reserve increased from 6.5% to 6.75%.

Financial Management included $7.6 million as a budgeted reserve contribution in the Fiscal Year 2017 Adopted Budget in anticipation of the Stability Reserve increase to 6.75%. The anticipated increase budgeted in Fiscal Year 2017 was calculated using the Fiscal Year 2014 and 2015 audited General Fund revenues and the Fiscal Year 2016 Adopted Budget operating General Fund revenues. Audited actual General Fund revenue received was greater than Fiscal Year 2016 Adopted Budget causing the average of the most recent three-years to increase, which resulted in an increase from the budgeted reserve contribution of $7.6 million to $8.8 million. The $8.8 million Stability Reserve increase is included as part of the Fiscal Year 2017 required reserve level as displayed in Table 17: FY 2017 General Fund Balances and Reserve Estimates.

The Fiscal Year 2018 May Revision includes a proposed use of $14.1 million of the Fiscal Year 2017 projected ending budgetary fund balance in excess of reserves (excess equity). The proposed one-time uses are primarily for the following:

- $10.3 million contribution to pre-fund the General Fund Reserve to the Fiscal Year 2019 target of 15.25%. This recommendation is consistent with the City's prudent financial management practices to prepay reserves in anticipation of a budgetary shortfall in Fiscal Year 2019 as projected in the 2018-2022 Five Year Outlook. This action will free up ongoing revenues next year.

- $2.4 million for the Penny for the Arts program. This is one-time funding to support the Penny for the Arts program during Fiscal Year 2018 only, and should be utilized for one-time needs of the Arts program.
- $150,000 for a Police recruitment and retention study.
- $100,000 for Police Chief recruitment services.

If approved, the remaining Fiscal Year 2017 projected ending fund balance (excess equity) is projected at $4.0 million.

Pension Payment Stabilization Reserve

The Pension Payment Stabilization Reserve (Pension Reserve) was established per the City's Reserve Policy to mitigate any unanticipated increases in the annual pension payment, the Actuarially Determined Contribution (ADC). The Pension Reserve is intended to supplement unanticipated increases in the ADC payment as calculated in the most recent Actuarial Valuation Report produced for the San Diego City Employees' Retirement System's (SDCERS) actuary.

In Fiscal Year 2016, a total of $20.8 million citywide was contributed to the Pension Reserve with the use of excess equity. The contribution was based on the most recent three-year average of the ADC as reported in the Actuarial Valuation Reports produced by SDCERS' actuary as of June 30, 2015. The City's Fiscal Year 2017 payment was made on July 1, 2016 without drawing from the Pension Reserve.

The June 30, 2016 Actuarial Valuation Report produced by SDCERS' actuary Cheiron was approved by the SDCERS Board of Administration on March 10, 2017 and incorporates the actuarial assumptions in the Board approved 2011-2015 Experience Study. The SDCERS Board approved a significant change to mortality assumptions that increased the plan liability and the annual pension payment. The pension payment is $324.5 million citywide in Fiscal Year 2018. This is an increase of $63.4 million citywide, $45.2 million in the General Fund, over the Fiscal Year 2015 pension payment. Based on the June 30, 2015 Actuarial Report, the City had anticipated a pension payment of $267.9 million for Fiscal Year 2018, an increase of $6.8 million prior to the approval of the SDCERS 2011-2015 Experience Study on September 9, 2016. The unanticipated portion of the increase in the pension payment of $56.6 million is partially mitigated through the use of $20.8 million of the Pension Payment Stabilization Reserve. Per the City's Reserve Policy, use of the Pension Payment Stabilization Reserve requires the Mayor to prepare a plan to replenish the balance to policy levels no later than one year from the use of the Reserve. The Fiscal Year 2019-2023 Five-Year Financial Outlook, scheduled to be released in November 2017, will include a plan for the replenishment of the Pension Payment Stabilization Reserve in compliance with the City's Reserve Policy.

GENERAL FUND EXPENDITURES

PERSONNEL EXPENDITURES

New Positions Added in Fiscal Year 2017

The Fiscal Year 2017 Adopted Budget included 314.40 new, standard hour, positions to address critical needs and services, citywide. The following section provides a status update on the creation and staffing of these new positions.

Fiscal Year 2017 Adopted Budget - New Standard-Hour Positions
Vacancies as of May 15, 2017
Table 18

	New FTE Positions added in FY17 Budget	New FTE Positions setup in OM	% of FTE Positions that have been setup in OM	New FTE Positions filled	% of FTE Positions that have been filled
General Fund					
Fire-Rescue	41.00	41.00	100.0%	38.00	92.7%
Library	9.00	9.00	100.0%	8.00	88.9%
Park & Recreation	36.73	36.73	100.0%	27.22	74.1%
Police	13.00	13.00	100.0%	12.00	92.3%
Public Works - General Services	25.00	25.00	100.0%	15.00	60.0%
Transportation and Storm Water	46.00	46.00	100.0%	43.00	93.5%
Other	38.75	37.75	97.4%	33.75	87.1%
Total	**209.48**	**208.48**	**99.5%**	**176.97**	**84.5%**
Non-General Fund					
Development Services	20.75	20.75	100.0%	12.25	59.0%
Fleet Operations	5.50	5.50	100.0%	3.50	63.6%
Engineering and Capital Projects	49.50	49.50	100.0%	40.50	81.8%
Other	29.17	29.17	100.0%	23.17	79.4%
Total	**104.92**	**104.92**	**100.0%**	**79.42**	**75.7%**
Total FTE Positions	**314.40**	**313.40**	**99.7%**	**256.39**	**81.5%**

There are several steps in the recruitment process. The first and most vital step of this process is the creation of a position in the City's Organizational Management (OM) system. No other steps in the recruitment process can begin without the position first being created in the OM system. With this first step completed, Departments can begin to move through the hiring process.

As of May 15, 2017, 99.7%, of the 314.40 new FTE have been created in the OM system. Of the 314.40 new FTE, 256.39 or 81.5%, have been filled. The General Fund currently has 84.5% of the newly added positions filled and the non-General Funds have 75.7% of the positions filled. The Public Works – General Services continues to encounter difficulties identifying qualified candidates with specific industry skill sets.

The hiring review process for budgetary control and in anticipation of a reduction in force in Fiscal Year 2018 that began on February 22, 2017, resulted in approximately $7.6 million in salary and wages savings and is critical to balancing the Fiscal Year 2017 General Fund budget.

As a result of the projected year end budgetary surplus, the enhanced hiring review has been discontinued.

Salaries and Wages

The current projection for personnel expenditures is over budget by $5.1 million primarily due to an increase in salaries and wages, as displayed in Table 19: FY 2017 General Fund Personnel Expenditure Projections.

FY 2017 General Fund Personnel Expenditure Projections

Table 19 *in millions*

Expenditure Category	Adopted Budget	Current Budget	Year-End Projection	Variance	Variance %
Salaries and Wages	$ 534.5	$ 534.5	$ 540.8	$ (6.3)	-1.2%
Fringe Benefits	376.9	376.9	375.7	1.2	0.3%
Total	**$ 911.5**	**$ 911.5**	**$ 916.6**	**$ (5.1)**	**-0.6%**

The salaries and wages expenditure category is comprised of five distinct types of wages: salaries, hourly wages, overtime, pay-in-lieu of annual leave, and payment of leave balances upon termination. Salaries include compensation for benefited employees, while hourly wages include compensation for non-benefited employees. The expenditures in overtime include the total compensation at time and a half for both salaried and hourly employees. Pay-in-lieu of annual leave and payment of leave balances upon termination represent compensation in–lieu of use of annual leave. Payment of leave balances expenditures occur upon the employees' separation from the City.

FY 2017 General Fund Salaries and Wages Expenditure Projections

Table 20 *in millions*

Salaries and Wages Expenditure Category	Adopted Budget	Current Budget	Year-End Projection	Variance	Variance %
Salaries	$ 457.0	$ 457.0	$ 447.5	$ 9.5	2.1%
Overtime	53.4	53.4	65.4	(12.0)	-22.4%
Hourly	14.0	14.0	14.0	0.0	0.3%
Pay-in-Lieu of Annual Leave	7.2	7.2	10.0	(2.8)	-38.8%
Termination Pay	2.8	2.8	3.9	(1.0)	-36.9%
Total	**$ 534.5**	**$ 534.5**	**$ 540.8**	**$ (6.3)**	**-1.2%**

Salaries and wages expenditures are projected over budget by $6.3 million at fiscal year-end as displayed in Table 20: FY 2017 General Fund Salaries and Wages Expenditure Projections. The salaries category is projected under budget by $9.5 million, or 2.1% of current budget, at fiscal year-end offset by over spending in the other four personnel expenditure categories. The variances in the personnel expenditure categories are primarily due to the following factors:

- $9.5 million in salary savings attributed to vacancies, primarily attributed to the following Departments:
  - $3.0 million in the Police Department.
  - $1.2 million in the Transportations and Storm Water Department.
  - $1.4 million in the Park and Recreation Department.
  - $1.3 million in the Public Works - General Services Department.

- $12.0 million increase in overtime expenditures as follows:
  - $5.0 million in the Police Department primarily due to the following:
    - $1.5 million increase for extension of shift related overtime which includes training of new officers and post-shift report writing duties.
    - $1.4 million increase in grant/task force related overtime which is partially reimbursable.
    - $1.0 million increase related to special events overtime (including the Major League Baseball All-Star Game hosted in July 2016) which is reimbursable.
    - $600,000 increase for reimbursable AB109 related overtime.
    - $400,000 increase for the Communications Division staffing.
  - $3.5 million in the Fire-Rescue Department primarily due to the following increases:
    - $2.9 million in emergency operations including: $1.2 million related to the MOU amendment requiring mandatory annual leave for all Local 145 members, $980,000 in unbudgeted expenditures related to services provided in the San Pasqual Valley area and $580,000 for weather up staffing.
    - $390,000 for lifeguard services due to increased volume of beach incidents.
    - $150,000 for strike team and other deployments which are partially reimbursable.
  - $2.4 million increase in overtime in the Transportation and Storm Water Department primarily due to winter storm related overtime.
- $2.8 million net increase in pay-in-lieu of annual leave, most significantly in the Fire-Rescue Department of $860,000, Office of the City Attorney of $390,000, and $230,000 in the Transportation and Storm Water Department. The remaining variance is attributed to various other General Fund Departments.
- $1.0 million increase in payment of leave balances upon termination, most significantly in the Police Department of $590,000. The remaining variance is attributed to various other General Fund Departments.

Fringe Benefits

Fringe benefits expenditures are projected to be $375.7 million by fiscal year-end. This is a decrease of $1.2 million, or 0.3% from the Fiscal Year 2017 current budget. The variance of $1.2 million is due to fixed fringe decrease of $890,000, or 0.3% and a decrease of $330,000, or 0.3%, in variable fringe.

FY 2017 General Fund Fringe Benefits Projections

Table 21 *in millions*

Fringe Benefits Expenditure Category	Adopted Budget	Current Budget	Year-End Projection	Variance	Variance %
Fixed	$ 265.0	$ 265.0	$ 264.1	$ 0.9	0.3%
Variable	112.0	112.0	111.6	0.3	0.3%
Total	**$ 376.9**	**$ 376.9**	**$ 375.7**	**$ 1.2**	**0.3%**

Fixed fringe benefits expenditures include the pension payment, the Actuarially Determined Contribution (ADC) to the San Diego City Employees' Retirement System (SDCERS), as well as contributions for Workers' Compensation (WC), Long-Term Disability (LTD), Other Post-

Employment Benefits (OPEB), Unemployment Insurance and Risk Management Administration (RMA). The projected decrease in the fixed fringe benefit category is primarily due to the use of reserves for both WC and LTD. The net savings of $1.5 million in WC is attributed to the use of fund balance in excess of reserves of $2.0 million ($2.5 million citywide), offset by an increase of $550,000 due to a relocation based on actual filled positions in the General Fund and the non-General Funds. The allocation is based on the number of filled positions at the time of the personnel expenditure extraction. The shift in positions from General Fund to non-General Funds primarily occurs due to departmental transfers, attrition and/or vacancies. Similarly, a net savings of $470,000 in LTD is due to the use of $610,000 ($900,000 citywide) in LTD fund balance in excess of reserves, off-set by an increase of $140,000 due to a in the allocation based on actual filled positions in the General Fund and the non-General Funds.

The projected savings described above are offset by a projected increase in the General Fund's proportionate share of the ADC and OPEB. The projected variances in ADC and OPEB are $560,000, and $400,000, respectively. Fixed fringe costs are considered annual liabilities; therefore, the change due to filled positions in the General Fund and the non-General Funds has had an effect on actual and projected expenditures. The fringe cost allocations are based on budgeted positions and then the expense allocation is trued up at the end of the fiscal year based on actual filled positions.

Variances within the variable fringe benefits categories are projected under budget by $330,000 or 0.3% from current budget. This is due primarily to the following:

- $3.3 million reduction in flexible benefits expenditures. Flexible benefits are budgeted based on the health coverage selections of employees at the time the budget is developed. Variances from budget can be attributed to changes in coverage selections during open enrollment, which occurs subsequent to the adoption of the budget.
- $1.6 million and $1.4 million in over budget expenditures in Supplemental Pension Savings Plan (SPSPS) and Medicare, respectively. SPSP and Medicare expenditures are projected to exceed budget due to projected over budget overtime expenditures primarily in the Fire-Rescue Department.

Fire-Rescue Department - Personnel Expenditures

The Fire-Rescue Department projects a $10.9 million increase in expenditures over budget. This is comprised of the following increases:

- $6.2 million in salaries and wages
- $4.7 million in fringe benefits

This is partially offset with a projected savings of $1.0 million in energy and fuel costs, savings of $480,000 in information technology expenditures, and savings from the deferred transfer to the Vessel Replacement Fund as a result of the proposed elimination of the on-going transfer in Fiscal Year 2018.

The $6.2 million increase in salaries and wages is primarily the result of the following factors:

- $1.8 million in salaries, vacation, special pays, sick leave, and all other salaries and wages accounts. This is primarily the result of increasing the size of the 81st, 82nd and 83rd academies, from 36 to 48 recruits, to mitigate attrition and expedite hiring. As a result, the Fire-Rescue Department is projecting to be fully-staffed by the end of Fiscal

Year 2017. The vacancy factor estimated during the development of the Fiscal Year 2017 Adopted Budget assumed a higher vacancy rate than is now projected.

- $3.5 million in overtime due to: $1.1 million related to the MOU amendment requiring mandatory annual leave for all Local 145 members; $980,000 for the San Pasqual Valley Fast Response Squad (FRS #57) which was not budgeted; $580,000 storm-related staffing; and $470,000 in Lifeguard overtime due to the high volume of beach incidents.
- $860,000 in pay-in-lieu of annual leave related to the Memorandum of Understanding (MOU) amendment with Local 145 requiring mandatory annual leave payouts to reduce annual leave balances for members.

The salaries and wages expenditures have decreased by $1.9 million from the Mid-Year Report primarily as a result of not filling non-fire suppression staff as anticipated.

The corresponding impact to fringe benefit expenditures from the increased salaries and wages discussed above is a $4.7 million in over budget expenditures. The primary variance in fringe benefit categories are as follows:

- $1.7 million increase in SPSP contributions for new post Prop-B employees and increased overtime.
- $1.8 million increase in Retirement ADC allocation to the Fire-Rescue Department as result of projecting to reach near full staffing by the end of the fiscal year.
- $590,000 increase in Medicare costs which are calculated as a percentage of salaries.

While the Fire-Rescue Department is projected to be $4.7 million over budget in fringe benefits, the total General Fund fringe benefit expenditures are projected slightly under budget. The fringe benefit expenditure savings projected in other General Fund departments will offset the projected increased expenditures in the Fire-Rescue Department.

NON-PERSONNEL EXPENDITURES

The General Fund non-personnel expenditures are projected at $425.6 million by fiscal year-end. This represents a decrease of $900,000, or 0.2% of current budget. The following section discusses the variances for non-personnel expenditures by category and highlights the significant variances within the General Fund departments.

FY 2017 General Fund Non-Personnel Expenditure Projections

Table 22 — *in millions*

Expenditure Category	Adopted Budget	Current Budget	Year-End Projection	Variance	Variance %
Supplies	$ 35.9	$ 36.9	$ 37.6	$ (0.7)	-1.9%
Contracts	240.2	238.5	247.6	(9.0)	-3.8%
Information Technology	28.8	30.1	27.8	2.3	7.6%
Energy and Utilities	46.9	46.9	43.3	3.6	7.7%
Transfers Out	61.4	62.3	57.7	4.7	7.5%
Other	5.3	5.3	5.1	0.2	3.8%
Debt	4.6	4.1	3.6	0.5	12.3%
Capital Expenditures	3.5	2.4	3.0	(0.6)	-25.2%
Total	**$ 426.5**	**$ 426.5**	**$ 425.6**	**$ 0.9**	**0.2%**

Supplies

The supplies category is projected to exceed budget by $660,000, or 1.9% of current budget, at fiscal year-end primarily due to the following:

- $1.2 million increase in the Police Department for supplies, including ammunition, medical supplies, official forms and documents, locks and security hardware, batteries, and other safety supplies. This projection represents an increase of $140,000 from the Mid-Year Report primarily due to additional costs associated with uniform allowance.
- $240,000 increase in the Park and Recreation Department primarily attributed to expenditures for plants, fertilization, irrigation supplies and playground equipment to maintain City parks.
- $590,000 increase in the Fire-Rescue Department primarily for the replacement of thermal imaging cameras; the current model is obsolete and no longer supported by the manufacturer. This will allow firefighters to work more efficiently in finding victims and identify rapidly changing fire conditions in a structure fire. In addition, the increase is also associated with the purchase of personal escape systems.

The over budget projections noted above are partially offset by a projected savings of $1.1 million in the Real Estates Assets Department not anticipated during the Mid-Year Report due to savings in furniture, fixtures and equipment expenses as a result of the delay in the Civic Center Plaza reconfiguration.

Contracts

The contracts category is projected to exceed budget by $9.0 million, or 3.8% of current budget, at fiscal year-end primarily due to the following factors:

- $4.7 million in the Citywide Program Expenditures Department for lease and operating expenses of the 101 Ash Street building.

- $2.8 million in the Citywide Program Expenditures Department associated with a reclassification of the transfer to the Public Liability Reserve to the transfer out category.
- $2.8 million in the Transportation and Storm Water Department primarily due to an increase in expenditures for emergency contracts associated with the winter storms experienced in Fiscal Year 2016.
- $1.6 million in the Citywide Program Expenditures Department for an unbudgeted reimbursement associated with the Economic Development Incentive Agreement between the City and Illumina.
- $1.4 million in the Police Department primarily due to $680,000 increase in equipment motive usage fees associated with the acquisition of new vehicles, $350,000 for photocopy services, and $280,000 for travel/training expenses.
- $720,000 in the Library Department primarily due to $420,000 for increased security services needed at library branches citywide due to expanded library hours and increased events at the central library, $130,000 for facility repairs at the Central Library, and on-going printing services.
- $600,000 increase in the Real Estate Assets Department associated with the property management services of the DeAnza mobile home park.

These increases are partially offset by the following significant projected decreases:

- $1.5 million in the Real Estate Assets Department associated with moving expenses due to a delay in the Civic Center Plaza reconfiguration.
- $590,000 in the Economic Development Department associated with less than anticipated Civic San Diego project management activity.
- $500,000 in the Public Utilities Department for as needed clean-up/maintenance of recreational and lake facilities and fees associated to recreational and lake memberships.
- $400,000 in the Office of the City Treasurer which will be reallocated to mitigate salary and fringe costs of supplemental positions associated with the enforcement of the Earned Sick Leave and the Minimum Wage Ordinance. The $400,000 budgeted in contracts this fiscal year is being reduced in Fiscal Year 2018 and the department has requested the addition of 5.00 FTEs to enforce the Earned Sick Leave and Minimum Wage Ordinance.

Since the Mid-Year Report, contracts are projected to increase by $2.7 million primarily due to the following:

- $2.2 million increase in the Citywide Program Expenditures Department primarily attributed to the $1.6 million rebate to Illumina, Inc. per the Economic Development Incentive Agreement approved by City Council in 2014.
- $880,000 increase in the Transportation and Storm Water Department primarily attributed to an emergency storm water project in the Hotel Circle area.

These increases are offset by:

- $350,000 decrease in the Public Utilities Department for less services from the Water Fund associated to the maintenance and clean-up of recreational and lake facilities. This is offset with a decrease to public utilities departmental revenue.

Information Technology

The information technology category is projected to be under budget by $2.3 million, or 7.6% of current budget, at fiscal year-end. This is an overall decrease of $840,000 since the Mid-Year Report primarily due to the following factors:

- $530,000 decrease in the Transportation and Storm Water Department related to delays in enhancements for the storm water code enforcement system and the Transportation Alternatives Program (TAP) system in the Transportation and Storm Water Department. This is a decrease of $690,000 from the Mid-Year Report as a result in delays in delays in enhancements for the code enforcement system and TAP system, and delays in funding the 311 Customer Experience system.
- $480,000 decrease in the Fire-Rescue Department due to $390,000 in savings associated with Computer-Aided Dispatch oversight and maintenance expenditures and $90,000 in savings from the deferred purchase of back-up dispatch center equipment. This projection represents an increase of $120,000 from the Mid-Year Report.
- $280,000 decrease in the Office of the City Treasurer attributed to the rescheduling of the Centralized Payment Processing Solution to Fiscal Year 2018 and less than anticipated expenses for the Parking Citation System implementation.
- $220,000 decrease in the Office of the City Attorney due to delayed implementation of a software enhancement and efforts to reduce non-essential spending related to purchase of new hardware. This projection represents a decrease of $180,000 from the Mid-Year Report.

Energy & Utilities

The energy and utilities category is projected under budget by $3.6 million, or 7.7% of current budget, at fiscal year-end primarily due to the following:

- $2.0 million savings in fleet fuel primarily due to $1.2 million in the Police Department, and $500,000 in the Environmental Services Department.
- $1.9 million savings in electrical services primarily attributed to $780,000 in the Park and Recreation Department, $330,000 in the Library Department, and $300,000 in the Police Department.
- $1.0 million savings in the Fire-Rescue Department associated with diesel and aircraft fuel.

These savings are offset with the following increases:

- $620,000 in the Park and Recreation Department associated with an increase in water usage.
- $440,000 in the Police Department for modem and cellular phone service contracts.
- $360,000 in the Transportation and Storm Water Department primarily attributed to energy expenses paid to Caltrans for shared street light electricity costs.

Since the Mid-Year Report, energy and utilities expenditures have decreased by $1.3 million as a result of a decrease in projected electricity costs citywide.

Transfers Out

The transfers out category is projected under budget by $4.7 million, or 7.5% of current budget, at fiscal year-end attributed to the following:

- $4.7 million in the Citywide Program Expenditures Department primarily attributed to the reclassification of the Public Liability Reserve transfer of $2.8 million to meet the reserve target to the contracts category, and $1.9 million decrease in the transfer to the Park Improvement Fund associated with decreased lease revenues received from Mission Bay Park.
- $440,000 in the Fire-Rescue Department associated with the elimination of the transfer to the Lifeguard Vessel Replacement Fund.

These decreases are offset with an over budget expenditure projection of $400,000 in the Development Services Department resulting from the reclassification of the transfer for the Accela Project Tracking System and the transfer to the Nuisance Abatement Superfund; these expenditures are budgeted in the debt and contracts categories, respectively.

Since the Mid-Year Report, the transfers out category is projected to decrease by $1.9 million due to the following:

- $1.3 million in the Citywide Program Expenditures Department for the transfer to the Park Improvement Fund associated to decreased lease revenues received from Mission Bay Park.
- $440,000 in the Fire-Rescue Department associated to the elimination of the transfer to the Lifeguard Vessel Replacement fund. This savings will be used to partially mitigate over budget expenditures within the Fire-Rescue Department.

Other

The other category is projected under budget by $150,000, or 3.8% of current budget, at fiscal year-end primarily due to a decrease in the Citywide Program Expenditures Department primarily due to a lower than anticipated payment for the Supplemental Cost of Living Adjustment (COLA).

Debt

Similar to the Mid-Year Report, the debt category is projected under budget $530,000, or 12.3% of current budget, at fiscal year-end primarily due to the following:

- $350,000 decrease in the Transportation and Storm Water Department due to a delay in debt payments for the I AM San Diego asset management project not anticipated until Fiscal Year 2018.
- $200,000 decrease in the Development Services Department attributed to a payment for the Accela Project Tracking System posting in the transfer out category.

Capital Expenditures

Similar to the Mid-Year Report, the capital expenditures category is projected over budget by $640,000, or 25.2% of current budget, at fiscal year-end primarily due to the following:

- $300,000 in the Performance and Analytics Department for expenditures associated with system improvements for the "Get it Done" mobile application, the integration with the I AM San Diego asset management project, and annual fees.
- $220,000 in the Transportation and Storm Water Department for costs associated with the installation of office trailers at the Chollas facility.

NON-GENERAL FUNDS

Central Stores Fund

in millions

Rev/PE/NPE	Adopted Budget	Current Budget	Year-End Projection	Variance	Variance %
Revenue	$ 13.4	$ 13.4	$ 9.3	$ (4.1)	-30.4%
Personnel Expenditures	1.6	1.6	1.5	0.1	7.5%
Non-Personnel Expenditures	11.7	11.7	7.9	3.8	32.6%
Expenditures	13.4	13.4	9.4	3.9	29.6%
Net Year-End Projection	**$ (0.0)**	**$ (0.0)**	**$ (0.1)**	**$ (0.1)**	

Revenue:
The Central Stores Fund projects revenue under budget by $4.1 million at fiscal-year end primarily due to the following factors:

- $3.6 million decrease attributed to water meter sales and transfer of inventory to the Public Utilities Department.
- $500,000 decrease in the demand for storeroom items by City departments. This projection is a decrease of $400,000 from the Mid-Year Report.

Expenditures:
Similar to the Mid-Year Report, personnel expenditures in the Central Stores Fund are projected close to budget.

Non-Personnel expenditures are projected under budget by $3.8 million at fiscal year-end primarily due to the following factors:

- $3.6 million decrease attributed to water meter sales and transfer of inventory to the Public Utilities Department.
- $500,000 decrease in the demand for storeroom items by City departments. This projection is a decrease of $400,000 from the Mid-Year Report.

Development Services Fund

in millions

Rev/PE/NPE	Adopted Budget	Current Budget	Year-End Projection	Variance	Variance %
Revenue	$ 55.3	$ 57.3	$ 64.0	$ 6.7	11.7%
Personnel Expenditures	44.8	44.8	45.8	(1.0)	-2.1%
Non-Personnel Expenditures	12.9	14.9	17.5	(2.7)	-18.0%
Expenditures	57.7	59.7	63.3	(3.6)	-6.1%
Net Year-End Projection	**$ (2.4)**	**$ (2.4)**	**$ 0.7**	**$ 3.1**	

Revenue:
The Development Services Fund projects revenue to exceed budget by $6.7 million at fiscal year-end primarily due to the following factors:

- $3.2 million increase in Council-approved new user fees primarily associated with engineering plan check fees that went into effect October 1, 2016.

Tables may not foot due to rounding.

- $1.3 million increase for permits and issuance fees for non-residential and residential plan checks and the effects of the new California Building Standards Code.
- $1.2 million increase due to the sales of reports and publications (i.e. copies for environmental impact reports and property plans) attributed to an increased demand from the building industry.
- $800,000 increase due to additional plan reviews and buildings permits as a result of a continued improving economy.

Since the Mid-Year Report, revenues are projected to increase by $2.6 million primarily attributed to the following:

- $2.1 million increase associated to new user fees that went into effect October 1, 2016.
- $890,000 increase associated to increased permit and issuance fees as a result of new California Buildings Standards Code.
- $800,000 decrease in deposit revenue accounts for plan reviews and building permits converted to flat fees.

Expenditures:

Similar to the Mid-Year Report, personnel expenditures in the Development Services Fund are projected to exceed budget by $1.0 million at fiscal year-end primarily due to the following factors:

- $820,000 increase in overtime as a result of extended hours, and staff working additional hours to meet the demand for expedited projects and enhanced customer service levels.
- $290,000 increase for pay-in-lieu of annual leave.

The Development Services Fund projects non-personnel expenditures over budget by $2.7 million at fiscal year-end primarily due to the following:

- $1.3 million increase primarily attributed to rent and space planning for the 101 Ash Street building.
- $1.0 million increase for the purchase of the E-Plan and Qmatic software systems, and monitors that will aid in the implementation of the Accela project; and integration with the Project Tracking System.
- $360,000 increase primarily attributed to micro filming and scanning services associated to building plans.

Since the Mid-Year Report, non-personnel expenditures have increased by $1.9 million primarily attributed to the following:

- $1.3 million increase for rent and space planning for the 101 Ash street building.
- $270,000 increase for micro filming services and scanning services associated to building plans.
- $240,000 increase attributed to the purchase of monitors for Accela support.

Engineering and Capital Projects Fund

in millions

Rev/PE/NPE	Adopted Budget	Current Budget	Year-End Projection	Variance	Variance %
Revenue	$ 83.2	$ 83.2	$ 76.9	$ (6.4)	-7.7%
Personnel Expenditures	69.3	69.3	67.1	2.2	3.2%
Non-Personnel Expenditures	14.0	14.0	10.5	3.5	25.0%
Expenditures	83.2	83.2	77.6	5.7	6.8%
Net Year-End Projection	**$ -**	**$ -**	**$ (0.7)**	**$ (0.7)**	

Revenue:
Revenue in the Engineering and Capital Projects Fund is projected under budget by $6.4 million due to vacant reimbursable positions offset with related savings in personnel expenditures.

Since the Mid-Year Report, revenues have decreased by $4.1 million primarily due to the delayed hiring of reimbursable positions and 29.00 reimbursable positions projected to be filled next fiscal year.

Expenditures:
Personnel expenditures in the Engineering and Capital Projects Fund are projected under budget by $2.2 million at fiscal year-end primarily due to the following decreases:

- $2.3 million in salaries attributed to vacant reimbursable positions.
- $400,000 in hourly expenditures attributed to vacant hourly positions.

The decrease in personnel expenditures is partially offset by the following increases:

- $660,000 in pay-in-lieu of annual leave.
- $620,000 in overtime expenditures primarily offset by reimbursable revenue.

Since the Mid-Year Report, personnel expenditures have decreased by $2.2 million primarily attributed to a $1.4 million decrease in salaries associated to the delayed hiring of positions and 39.00 positions projected to be filled next fiscal year.

Non-personnel expenditures are projected under budget by $3.5 million primarily attributed to the following:

- $2.0 million decrease in rent and tenant improvements for the property at 525 B Street. Rent expenditures came in lower than originally anticipated as a result of the timing of the lease negotiations and a one-time rental credit applied this fiscal year.
- $800,000 decrease in training expenditures associated to vacant positions, this is an additional decrease of $310,000 from the Mid-Year Report.
- $700,000 decrease in information technology expenditures primarily attributed to consultant services for software and various applications. This is a decrease of $570,000 from the Mid-Year Report attributed to the Primavera software and discretionary spending.
- $460,000 decrease associated to accounting, administrative, and training services.

These savings in non-personnel expenditures are partially offset with an increase of $400,000 in capital expenditures associated to furniture expenses for the relocation from Aero Drive to

Chesapeake. Purchases include new furniture and cubicles to conform to the new office floorplans and spacing standards.

The department is working with Financial Management and the Office of the City Comptroller to mitigate the projected overages. This balance will be mitigated through cost allocation in future years.

Fleet Services Operating Fund

in millions

Rev/PE/NPE	Adopted Budget	Current Budget	Year-End Projection	Variance	Variance %
Revenue	$ 50.8	$ 50.8	$ 51.1	$ 0.2	0.5%
Personnel Expenditures	20.5	20.5	19.8	0.7	3.4%
Non-Personnel Expenditures	35.6	35.6	31.2	4.4	12.3%
Expenditures	56.1	56.1	51.0	5.1	9.1%
Net Year-End Projection	**$ (5.2)**	**$ (5.2)**	**$ 0.1**	**$ 5.3**	

Revenue:
Similar to the Mid-Year Report, revenue in the Fleet Services Operating Fund is projected over budget by $240,000 at fiscal year-end primarily attributed to the following factors:

- $1.8 million increase in billable repair work for City vehicles.
- $1.2 million increase in rental pool revenue due to an increased number of vehicle rentals primarily from the Transportation and Storm Water Department.
- $800,000 increase in usage fee revenue due to an increase in City vehicles. Of the total increase, $500,000 is attributed in the Police Department.

These increased revenues are partially offset by the following decreases:

- $2.8 million in gasoline surcharge revenue due to a lower price per gallon in motor fuels than anticipated. This revenue decrease if offset with a corresponding decrease in expenditures.
- $1.1 million associated to special shop services, i.e. welding services and wash rack cleaning.

Expenditures:
Personnel expenditures in the Fleet Services Operating Fund are projected under budget by $700,000 primarily attributed to a savings of $1.3 million in salaries and fringe benefits expenditures. The personnel savings is associated with 26.00 vacant positions, in which 9.00 Fleet Technicians and Fleet Managers are projected to be filled by the end of the fiscal year. The decreased expenditures are offset with increases in the following:

- $630,000 in overtime due to vacancies and critical vehicle maintenance performed to meet service level standards.
- $200,000 in pay-in-lieu of annual leave.

Personnel expenditures have decreased by $560,000 from the Mid-Year Report primarily due to a decrease in salaries associated with not filling vacancies as anticipated, as well as a $100,000 decrease in overtime.

Non-personnel expenditures for the Fleet Services Operating Fund are projected under budget by $4.4 million at fiscal year-end due primarily due to the following:

- $2.8 million decrease in fleet fuel as a result of lower cost per gallon for motor fuels than anticipated in the development of the current year budget.
- $2.1 million decrease associated to the Fuel Focus System upgrade that is postponed for next fiscal year.
- $940,000 decrease in rent and building improvements due to the delay in lease negotiations for the new fire facility located at 850 Othello.

These savings in non-personnel expenditures are offset with an increase of $1.8 million in supplies as a result of an increase in billable work required to repair and outfit vehicles. These supplies include tires, repair and fitting parts.

Since the Mid-Year Report, non-personnel expenditures has decreased by $2.5 million primarily attributed to savings associated to the delay of the Fuel Focus system upgrade that will take place next fiscal year.

Qualcomm Stadium Operations Fund

in millions

Rev/PE/NPE	Adopted Budget	Current Budget	Year-End Projection	Variance	Variance %
Revenue	$ 19.8	$ 19.8	$ 36.9	$ 17.1	86.3%
Personnel Expenditures	3.6	3.6	3.6	(0.0)	-1.1%
Non-Personnel Expenditures	16.8	16.8	19.2	(2.4)	-14.5%
Expenditures	20.4	20.4	22.9	(2.5)	-12.1%
Net Year-End Projection	**$ (0.6)**	**$ (0.6)**	**$ 14.1**	**$ 14.6**	

Revenue:

The Qualcomm Stadium Operations Fund projects revenue over budget by $17.1 million at fiscal year-end primarily due to the following:

- $12.6 million increase from the early termination of the lease with the San Diego Chargers. This revenue is proposed to remain in fund balance to offset future year's debt service payments on the stadium bonds.
- $2.7 million increase related to a telecom lease and vendor sale proceeds.
- $1.7 million transfer from Transient Occupancy Tax revenue.

Expenditures:

Personnel Expenditures in the Qualcomm Stadium Operations Fund are projected to be close to budget by fiscal year-end.

Non-personnel expenditures are projected over budget by $2.4 million at fiscal year-end due to the following factors:

- $1.8 million payment to the stadium's concession vendor related to the San Diego Chargers early lease termination.
- $1.4 million primarily due to a transfer to the Qualcomm Stadium Capital Improvement Project Fund to replenish a fund balance deficit.

These increases are partially offset by a $400,000 decrease due to less than anticipated expenditures in supplies for remaining scheduled events.

This current projection represents an increase of $4.7 million from the Mid-Year Report and is primarily due to $1.8 million for an unanticipated concession vendor payment and a $1.2 million rent credit.

Recycling Fund

in millions

Rev/PE/NPE	Adopted Budget	Current Budget	Year-End Projection	Variance	Variance %
Revenue	$ 21.2	$ 21.2	$ 23.1	$ 1.9	8.8%
Personnel Expenditures	10.0	10.0	9.1	0.8	8.4%
Non-Personnel Expenditures	13.7	13.7	12.1	1.6	11.7%
Expenditures	23.7	23.7	21.3	2.5	10.3%
Net Year-End Projection	**$ (2.5)**	**$ (2.5)**	**$ 1.8**	**$ 4.3**	

Revenue:
The Recycling Fund projects revenue over budget by $1.9 million at fiscal year-end primarily due to the following factors:

- $880,000 increase in revenue as a result of unclaimed construction and demolition deposits not claimed within the 180-day timeframe.
- $630,000 increase due to reimbursements from the State's Container Redemption Value (CRV) program.
- $150,000 increase due to revenue from the sale of curbside recyclables and recycling and greenery container delivery fees.
- $140,000 increase in interest earnings on invested funds.
- $110,000 increase in tonnage reported from franchise haulers.

This projection represents an increase of $1.2 million from the Mid-Year Report primarily due to unclaimed construction and demolition deposits not claimed within the 180-day timeframe.

Expenditures:
Personnel expenditures in the Recycling Fund are projected under budget by $840,000 at fiscal year-end primarily due to vacancies. This projection represents a decrease of $600,000 from the Mid-Year Report primarily due to less than anticipated overtime.

Non-personnel expenditures in the Recycling Fund are projected to be under budget by $1.6 million at fiscal year-end primarily due to the following:

- $700,000 decrease in vehicle replacement assignment fees. This projection represents a decrease of $600,000 from the Mid-Year Report as a result of delayed vehicle replacements.
- $390,000 decrease in fleet fuel and electric services. This projection represents a decrease of $350,000 from the Mid-Year Report.
- $200,000 decrease in miscellaneous contractual services and supplies being charged to the Oil Payment Program Grant.
- $180,000 decrease in disposal costs at the Household Hazardous Waste Transfer Facility. This is an increase not anticipated in the Mid-Year Report.

Tables may not foot due to rounding.

- $140,000 decrease in contractual services for Recycling Education and Outreach projects.

Refuse Disposal Fund

in millions

Rev/PE/NPE	Adopted Budget	Current Budget	Year-End Projection	Variance	Variance %
Revenue	$ 31.3	$ 31.3	$ 33.3	$ 2.0	6.5%
Personnel Expenditures	13.0	13.0	13.1	(0.0)	-0.2%
Non-Personnel Expenditures	15.3	15.3	17.1	(1.8)	-11.8%
Expenditures	28.3	28.3	30.2	(1.8)	-6.5%
Net Year-End Projection	**$ 3.0**	**$ 3.0**	**$ 3.2**	**$ 0.2**	

Revenue:
The Refuse Disposal Fund projects revenue to exceed budget by $2.0 million at fiscal year-end primarily due to the following factors:

- $1.7 million increase associated to non-franchised haulers such as small businesses, residents, and non-profit organizations disposing trash at the City landfills.
- $110,000 increase in the interest earnings on invested funds.
- $80,000 increase in reimbursements for Ridgehaven facility maintenance expenses and office space rent, which is an increase not anticipated in the Mid-Year Report.
- $70,000 increase in sales of green commodities such as mulch, compost, and woodchips in the Miramar Greenery for drought resistant landscape. This projection represents a decrease of $70,000 from the Mid-Year Report.

Expenditures:
Personnel expenditures in the Refuse Disposal Fund are projected to be close to budget at fiscal year-end. This is a decrease of $390,000 from the Mid-Year Report primarily due to less than anticipated overtime as more vacancies have been filled.

Similar to the Mid-Year Report, non-personnel expenditures for the Refuse Disposal Fund are projected over budget by $1.8 million at fiscal year-end. The over budget expenditures are primarily due to an increase of $2.0 million for leasing of heavy landfill equipment. This increase is partially offset with decreases in fleet fuel, electric services, and capital expenditures.

Sewer Utility Funds

in millions

Rev/PE/NPE	Adopted Budget	Current Budget	Year-End Projection	Variance	Variance %
Revenue	$ 394.8	$ 394.8	$ 389.1	$ (5.8)	-1.5%
Personnel Expenditures	87.8	87.8	85.8	1.9	2.2%
Non-Personnel Expenditures	266.5	266.5	243.9	22.6	8.5%
Expenditures	354.2	354.3	329.7	24.6	6.9%
Net Year-End Projection	**$ 40.6**	**$ 40.5**	**$ 59.4**	**$ 18.8**	

Tables may not foot due to rounding.

Revenue:
The Sewer Utility Funds revenue is projected to be under budget by $5.8 million at fiscal year-end. This is primarily due to a $9.3 million decrease in sewer service charges as a result of lower flows associated with conservation efforts and $1.9 million decrease in State Revolving Fund (SRF) loan reimbursements resulting from delays in qualifying expenditures for reimbursement. This projection is partially offset by an increase in revenue of $1.6 million for Bureau of Reclamation Title XVI grant revenue for the Pure Water Program, anticipated billings of $1.1 million for sewer services to other City departments, and $1.3 million for more than anticipated building permit activity from large scale multi-family and commercial projects.

This projection reflects a decrease of $7.7 million from the Mid-Year Report primarily due to a decrease in projected sewer service charges.

Expenditures:
Personnel expenditures in the Sewer Utility Funds are projected under budget by $1.9 million at fiscal year-end due to vacancies. This is a decrease of $1.4 million from the Mid-Year Report due to additional salary and fringe benefits expenditure savings.

Non-personnel expenditures in the Sewer Utility Funds are projected under budget by $22.6 million at fiscal year-end primarily due to the following factors:

- $8.2 million decrease in contracts due to a combination of delays in various wastewater treatment facility projects that were postponed to Fiscal Year 2018 and the digester cleaning contract for the Point Loma Wastewater Treatment Plant being lower than anticipated. This projection is a decrease of $4.2 million from the Mid-Year Report.
- $4.1 million decrease in supplies due to purchasing less than anticipated construction, building/road and maintenance materials, and chemicals.
- $3.5 million decrease in the contingency reserve not needed this fiscal year.
- $3.0 million decrease in energy. This projection decreased by $4.3 million from the Mid-Year Report.
- $1.8 million decrease due to delays in implementing various information technology projects. This is a decrease of $1.1 million from the Mid-Year Report.
- $940,000 decrease due to delays in purchasing various capital equipment such as pumps, compressors, and other equipment.

This projection represents a decrease of $9.5 million from the Mid-Year Report due to delays in implementing information technology projects, awarding miscellaneous facility contracts, less than anticipated liability insurance claims, and overestimated impacts from SDG&E rate increases.

Transient Occupancy Tax Fund[1]

in millions

Rev/PE/NPE	Adopted Budget	Current Budget	Year-End Projection	Variance	Variance %
Revenue	$ 103.1	$ 103.1	$ 104.2	$ 1.1	1.1%
Personnel Expenditures	1.7	1.7	1.4	0.3	18.2%
Non-Personnel Expenditures	109.6	109.6	109.6	(0.0)	0.0%
Expenditures	111.3	111.3	111.0	0.3	0.2%
Net Year-End Projection	**$ (8.2)**	**$ (8.2)**	**$ (6.8)**	**$ 1.4**	

[1]The Transient Occupancy Tax Fund represents the Non-General Fund portion of the Transient Occupancy Tax revenue. Total City FY 2017 current revenue budget for the Transient Occupancy Tax is $216.3 million and the projection is $218.6 million. The balance of TOT revenue is budgeted in the General Fund.

Revenue:

The Transient Occupancy Tax (TOT) Fund is projected to be over budget by $1.1 million at fiscal year-end. As discussed in the Major General Fund Revenues section of this report, this is largely due to higher than expected tourism activity during the third quarter of Fiscal Year 2017.

Expenditures:

Personnel expenditures in the TOT Fund are projected under budget by $310,000 at fiscal year-end primarily due to three vacant positions in the Commission for Arts and Culture Department of which one position is expected to be filled by fiscal year-end.

Non-personnel expenditures are projected close to budget by fiscal year-end.

Underground Surcharge Fund

in millions

Rev/PE/NPE	Adopted Budget	Current Budget	Year-End Projection	Variance	Variance %
Revenue	$ 68.8	$ 68.8	$ 55.8	$ (12.9)	-18.8%
Personnel Expenditures	1.3	1.3	1.1	0.2	13.0%
Non-Personnel Expenditures	57.6	57.6	15.0	42.6	74.0%
Expenditures	58.9	58.9	16.1	42.8	72.7%
Net Year-End Projection	**$ 9.9**	**$ 9.9**	**$ 39.7**	**$ 29.9**	

Revenue:

The Underground Surcharge Fund projects revenue to be under budget by $12.9 million at fiscal year-end attributed to a $13.6 million decrease in payments from San Diego Gas and Electric (SDG&E) being less than anticipated. This is a $15.9 million decrease from the Mid-Year Report.

This decrease is offset by a $700,000 increase from interest proceeds

Expenditures:

Personnel Expenditures are projected to be $170,000 under budget due to vacant positions.

Non-personnel expenditures are projected to be under budget $42.6 million at fiscal year-end due to the amount of time needed to complete the environmental and design phases of the undergrounding projects. A large number of projects are currently being designed by SDG&E and these projects do not incur any expenses until they are under construction. In addition, limited resources at the participating utilities contribute to delays in project execution.

This current projection is an $8.3 million decrease from the Mid-Year Report and is primarily due to the amount of time needed to complete projects to move from the design phase into the construction phase taking longer than anticipated and the complete stoppage of one project due to an environmental study.

Water Utility Operating Fund

in millions

Rev/PE/NPE	Adopted Budget	Current Budget	Year-End Projection	Variance	Variance %
Revenue	$ 602.1	$ 602.1	$ 594.5	$ (7.7)	-1.3%
Personnel Expenditures	76.6	76.6	74.8	1.8	2.4%
Non-Personnel Expenditures	427.6	427.6	383.6	44.0	10.3%
Expenditures	504.2	504.2	458.4	45.8	9.1%
Net Year-End Projection	**$ 97.9**	**$ 97.9**	**$ 136.0**	**$ 38.1**	

Revenue:
The Water Utility Operating Fund revenue is projected to be under budget by $7.7 million by fiscal year-end due to a $15.5 million decrease in water sales from continued water conservation and local rainfall. This decrease is partially offset by a $3.1 million increase in financing proceeds for the Water Fund CIP and $3.3 million in Bureau of Reclamation Title XVI grant revenue for the Pure Water Program. This projection represents a decrease of $14.3 million from the Mid-Year Report primarily due to utilizing less commercial paper financing than anticipated in Fiscal Year 2017.

Expenditures:
Similar to the Mid-Year Report, personnel expenditures in the Water Utility Operating Fund are projected to be under budget by $1.8 million at fiscal year-end primarily due to vacancies.

Non-personnel expenditures are under budget by $44.0 million at fiscal year-end due to the following factors:

- $15.4 million decrease in water purchases from continued water conservation and local rainfall. This projection represents a decrease of $9.2 million from the Mid-Year Report.
- $9.9 million decrease in reserves from debt service reserve funds and savings from economic refunding efforts in Fiscal Year 2016. This projection represents a decrease of $6.7 million from the Mid-Year Report.
- $3.5 million decrease in the contingency reserves not needed this fiscal year.
- $2.9 million decrease in contracts primarily due to delays in water resource contracts that were postponed to Fiscal Year 2018 and equipment rentals. This projection is a decrease of $520,000 from the Mid-Year Report.
- $2.6 million decrease due to delays in implementing various information technology projects. This projection is a decrease of $1.7 million from the Mid-Year Report.

- $2.1 million decrease due to water meters originally budgeted in the operating budget, but are now being expensed through the Advanced Metering Infrastructure (AMI) CIP project.
- $2.1 million decrease in energy. This projection is a decrease of $1.6 million from the Mid-Year Report.
- $1.6 million decrease in supplies due to purchasing less than anticipated asphalt cement and road materials. This projection is a decrease of $1.6 million from the Mid-Year Report.
- $1.2 million decrease due to delays in purchasing various capital equipment such as pumps, compressors, and other equipment. This projection is a decrease of $660,000 from the Mid-Year Report.

The current non-personnel projection decreased by $25.8 million from the Mid-Year Report primarily due to a decline in water purchases due to conservation impacts and local rainfall events, unanticipated excess reserves from debt service reserve funds, additional delays in information technology projects, and overestimated impacts from SDG&E rate increases.

PROGRAM UPDATES

9-1-1 Dispatcher Recruitment and Retention

As of April 13, 2017, the Police Department's Communications Division has 130 filled positions and three vacant positions. The division has hired 44 new dispatchers, of which 39 are still working in the division or in the process of completing dispatcher training.

The City and the Municipal Employees' Association (MEA) mutually agreed upon awarding dispatchers an additional 5.0% for Peace Officers Standards and Training (POST) certification pay in July 2016. This POST certification pay increased an additional 5.0% in January 2017 and will increase an additional 5.0% in June 2017, for a cumulative 15.0% increase in dispatcher's pay. Also, the City and MEA have mutually agreed upon contractual raises in salary of 8.3% in July 2018 and 3.3% in July 2019 for this group of employees. In total, at the end of three fiscal years, dispatchers will have received an aggregate raise of 26.6% in salary and POST certification pay.

1,000 Miles of Street Repairs

One of the Mayor's top initiatives is to repair 1,000 miles of City streets in five years or less. The City completed 325 miles of street repair in Fiscal Year 2016 and plans to repair approximately 270 miles in Fiscal Year 2017 through asphalt overlay, slurry seal, and concrete street repairs. Fiscal Year 2017 projected expenditures of approximately $49.2 million are supported by several funding sources including TransNet, Gas Tax, and financing.

Through the third quarter of Fiscal Year 2017, the City has initiated repair of over 270 miles of City streets and has fully completed repair of 133 of those miles. Since the inception of this initiative in Fiscal Year 2016, the City has completed a total of 458 miles or 45.8% of the five-year goal of repairing 1,000 miles of streets.

Election Costs

The Fiscal Year 2017 Adopted Budget includes $4.2 million in non-personnel expenditures for the general election of the Mayor, City Attorney, Council Districts 1,3,5,7, and 9 and projected ballot measures. The citywide election budget is projected to end the fiscal year slightly over budget by $380,000 due to the expenses associated with the November 8, 2016 General Election. Compared to the Mid-Year Report, projections have increased by $130,000 due to a reconciliation payment from the County primarily associated with increased proposition expenses from the November 8, 2016 General Election.

Energy Cost Analysis

FY 2017 Energy Cost Projections

in millions

Fund	Adopted Budget	Current Budget	Year-End Projection	Variance	Variance %
General Fund	$ 11.3	$ 11.3	$ 9.4	$ 1.9	16.5%
Non-General Fund	30.6	30.6	25.8	4.8	15.6%
Total	**$ 41.9**	**$ 41.9**	**$ 35.3**	**$ 6.6**	**15.8%**

Expenditures in electrical services are projected under budget by $6.6 million citywide at fiscal year-end. This projection represents a decrease in expenditures of $1.9 million in the General Fund and $4.8 million in the non-General Funds. The electrical services projection was based on a straight-line methodology. Since the Mid-Year Report, actuals have come in lower than anticipated reducing the projected expenditures by $1.3 million. The Mid-Year Report was based on the first five periods of the fiscal year, which had higher energy expenditures in both the General Fund and non-General Funds resulting in over budget projections. The delayed Fiscal Year 2016 SDG&E billing for accounts undergoing correction and delayed receipts of other energy vendor invoices, primarily in the Public Utilities Department, have been resolved. The Environmental Services Department continues to develop and enhance their detailed analysis of electricity savings and FM will continue to monitor their analysis through Fiscal Year 2018.

Facilities Maintenance and Repairs

The Fiscal Year 2017 Adopted Budget included the addition of 21.00 FTE positions in the Facilities Division. To date the Facilities Division has filled 13.00 FTE positions. Six of the remaining eight vacant positions are anticipated to be filled by the end of this fiscal year with these additional vacancies projected to be filled in Fiscal Year 2018. The remaining two vacant positions, 1.00 Plasterer and 1.00 Roofer, will be reduced as part of the proposed budget reductions for Fiscal Year 2018.

Fuel Cost Analysis

FY 2017 Fuel Cost Projections

in millions

Fund	Adopted Budget	Current Budget	Year-End Projection	Variance	Variance %
General Fund	$ 8.5	$ 8.5	$ 6.4	$ 2.1	24.1%
Non-General Fund	3.1	3.1	2.4	0.7	22.5%
Total	**$ 11.6**	**$ 11.6**	**$ 8.8**	**$ 2.8**	**23.7%**

Similar to the Mid-Year Report, the Fleet Services Operating Fund is projecting a $2.8 million savings citywide in fuel expenditures by fiscal year-end. The projected savings are primarily due to a lower price per gallon in motor fuels than anticipated during the development of the Fiscal Year 2017 Adopted Budget. During the Fiscal Year, fuel consumption has remained consistent. Monthly unleaded fuel consumption is similar to that of the past two fiscal years. On the other hand, average diesel fuel consumption has slightly increased when compared to prior fiscal years. Similar to the Mid-Year Report, the fuel expenditure projection assumes an inflation rate of 4.0% for the remainder of the fiscal year to allow for price fluctuations in the cost per gallon.

Infrastructure Asset Management (I AM) San Diego Project

During the third quarter of Fiscal Year 2017, the Systems Integrator completed design of the "to be" solution and commenced the testing phase of the Project in April. As anticipated in the Mid-Year Report, the Project continued its proof of concept (POC) for the Asset Management Planning component of the system for right-of-way assets, which was launched in early February 2017. As of the third quarter of Fiscal Year 2017, the project has expended $11.2 million and encumbered $11.1 million in associated expenditures. The year-end projection anticipates that the majority of the budgeted expenditures will be expended with the exception of $1.5 million, which will be expended in Fiscal Year 2018. I AM San Diego is on schedule to go live in the second quarter of Fiscal Year 2018.

Police Officer Recruitment and Retention

In Fiscal Year 2017, a total of $4.0 million in one-time resources was budgeted for Police Officer recruitment and retention efforts in the Police Department. These Police Officer retention efforts were provided through a side letter agreement between the City of San Diego and the San Diego Police Officers Association. As outlined in the agreement, additional funding was allocated for uniforms and safety equipment. The Department has expended all funds for this purpose.

Focus from the Police Department's Recruiting Unit is on-going with scheduled visits to multiple cities throughout the area. The Recruiting Unit will visit nine cities outside of San Diego before the end of the fiscal year. Additionally, the Recruiting Unit started testing on Saturdays at Community Colleges throughout San Diego County to complement the weekly tests within the County. During Fiscal Year 2017, recruiters have attended 171 recruitment events to promote career opportunities and testing availability to potential applicants. Recruitment efforts includes outreach to military bases, college campuses, and community events. Advertising in local community newspapers, in addition to social media websites is presently underway as reinforcement to the face-to-face recruiting activities.

Additionally, there are 48 recruits that have graduated from the 109th Academy and 18 recruits that graduated in the 110th Academy on April 20, 2017. The 111th Academy is in process and includes 25 recruits with an anticipated graduation date in August 2017. The Department's goal is to average 43 recruits per academy over the course of Fiscal Year 2017.

Rehabilitation of Historical Building at Balboa Park

The Fiscal Year 2017 Adopted Budget includes a transfer from the General Fund, supported by the use of excess equity, to the Capital Improvement Program (CIP) budget of $1.5 million for improvements at the Thompson Medical Library/Eddy Auditorium facility. The rehabilitation will include the historical preservation of the exterior façade as well as the retrofit of interior area for use as office space for the Park and Recreation Department. The project is currently in the design phase with construction commencing July 2018.

Senior Center at Bay Terrace (Tooma Park) Community Park

The Senior Center at Bay Terrace (Tooma) Community Park is estimated at approximately $3.5 million in construction costs. During the Fiscal Year 2016 Year-End Budget Monitoring Report, $500,000 of excess equity was appropriated to fund the design phase of the project. The design phase began in Fiscal Year 2017 and will continue in Fiscal Year 2018 with additional funding of $500,000 from the Community Development Block Grant. Construction will commence when additional funding is identified.

Zero Waste

State Assembly Bill 341 (AB 341), enacted in 2011, is designed to increase the State of California's recycling of solid waste generated in the State. The City of San Diego's Zero Waste Plan identifies several proposed strategies to reach a 75.0% waste diversion by 2020 as well as lays the foundation for future diversion. The implementation efforts in Fiscal Year 2017 include:

- The Miramar Landfill CIP will include initial facility improvements such as a resource recovery facility, and an organics diversion facility.
- Franchise Haulers were required to meet 25.0% annual waste diversion goal by December 31, 2016, and 29.0% by December 31, 2017, which will be accomplished through the Franchise Agreement with refuse haulers. Staff is currently reviewing the hauler's current year 2016 report submittals to determine whether they met the 25.0% requirement.
- City Council approval of revisions to San Diego Municipal Code regarding Recyclable Materials Franchise Exclusions, and how AB 939 Fees are charged to Franchise Haulers. The amendments serve three important purposes: (1) providing for safe and efficient collection of these materials; (2) to achieve City compliance with AB 1826; and (3) to provide necessary funding to implement the Zero Waste Plan. These amendments will take effect July 1, 2017.
- Purchase $500,000 in recycling containers for use in parks and other public spaces.

RISK MANAGEMENT RESERVES

The Long-Term Disability, Public Liability, and Workers' Compensation Funds provide funding sources for certain claims made against the City. The City's Reserve Policy (CP 100-20) sets the required reserve level target for each fund as shown below in Table 23: FY 2017 Risk Management Liability Reserves. All Risk Management reserves are based on the average value of the annual actuarial liability for the three most recent fiscal years. The reserve targets for the Long-Term Disability, Public Liability, and Workers' Compensation Funds are based on the Fiscal Year 2014, 2015 and 2016 actuarial valuations. Amendments to the City's Reserve Policy, (CP 100-20), were approved by Council in February 2016 which included revisions to the funding goal for the Worker's Compensation Reserve. Additional details are included in the following section.

FY 2017 Risk Management Liability Reserves

Table 23 *in millions*

Description	Fund Name	Year-End Projection	Funding Goal/Target[1]
Risk Management	Long-Term Disability Fund	$ 17.4	$ 11.0
	Public Liability Fund	33.6	33.6
	Workers' Compensation Fund	54.0	28.2

[1]This represents the Fiscal Year 2017 funding goal of 100.0% for the Long Term Disability Reserve and 12.0% for the Workers' Compensation Reserve. The Fiscal Year 2017 target established for the Public Liability Reserve is 43.0%.

Long-Term Disability Reserve

The Long-Term Disability reserve provides non-industrially disabled City employees with income and flexible benefits coverage. The Fiscal Year 2017 reserve goal is $11.0 million or 100.0% of the average actuarial liability for the three most recent fiscal years. This reserve goal has decreased by $3.9 million from the Fiscal Year 2017 goal included in the adopted budget as a result of incorporating the Fiscal Year 2016 actuarial valuation in the three year average value of the annual actuarial liability. As of June 30, 2016, the balance in the Long-Term Disability Fund Reserve was $18.6 million or 169.0%, of the three year average of the annual actuarial liability, exceeding the Fiscal Year 2017 Long-Term Disability Fund Reserve goal. It should be noted that $900,000 citywide, of which $610,000 is the General Fund portion, of the Long-Term Disability Reserve was appropriated for one-time expenses in the Fiscal Year 2017 Adopted Budget. Based on year-to-date actual Long Term Disability expenses, an additional $300,000 of available fund balance in excess of the reserve goal is projected to be spent this fiscal year. This reallocation results in a projected ending fund balance of $17.4 million or 158.0% of the goal. Additionally, the Fiscal Year 2018 Proposed Budget includes the use of $2.1 million, of which $1.4 million is the General Fund portion, of fund balance in excess of the reserve goal. The funds held in reserve in excess of the policy goal are being held to support the funding of the Death and Disability benefit being negotiated with recognized labor organizations.

Public Liability Reserve

The Public Liability reserve is funded by the General Fund to support claims arising from real or alleged acts on the part of the City, including claims for bodily injury, property damage, and errors and omissions. For Fiscal Year 2017, the City's Reserve Policy requires that the Public Liability Fund Reserve equal 43.0% of the average value of the annual actuarial liability for the three most recent fiscal years, or $33.6 million. This reserve target has decreased by $5.9 million from the Fiscal Year 2017 target included in the Fiscal Year 2017 Adopted Budget as a result of incorporating the Fiscal Year 2016 actuarial valuation in the three year average value of the annual actuarial liability. The current balance of the Public Liability Fund Reserve is approximately $33.6 million or 43.0%, of the three year average of the annual actuarial liability, which meets the Fiscal Year 2017 Public Liability Fund Reserve target.

Workers' Compensation Reserve

The Workers' Compensation reserve provides funding for medical and disability costs for injuries and illnesses occurring in the workplace. On February 21, 2017, amendments to the Reserve Policy were approved by City Council to reduce the Workers' Compensation Reserve target from 25.0% t0 12.0% of the three-year average of outstanding actuarial liabilities. As a result, the Workers' Compensation Reserve Fund Fiscal Year 2017 policy goal is 12.0% of the most recent three year average of the annual actuarial liability, or $28.2 million. This amount is approximately one year of operating cash for the Workers' Compensation program. The current projected balance of the Workers' Compensation Reserve is approximately $54.0 million or 23.0% of the three year average.

The Fiscal Year 2018 Proposed Budget recommends the use of $14.7 million of the excess Workers' Compensation reserves for the following:

- $7.0 million to fully fund the General Fund Reserve to the Fiscal Year 2018 policy target level of 15.0%
- $3.1 million to fully fund the Public Liability Fund Reserve to the Fiscal Year 2018 policy target level of 47.0%
- $4.6 million reduction in workers' compensation operating expenses

The remaining excess Workers' Compensation reserves will be used to support workers' compensation operating reserves through Fiscal Year 2020.

APPROPRIATION ADJUSTMENTS

The following section discusses the appropriation adjustment recommended in the Year-End Report. This section includes requested authorities to allow for budget transfers and re-appropriations between General Fund departments and other non-general funds and typical year-end authorities to maintain budgetary control and compliance with the City Charter and Municipal Code are detailed within this report.

RECOMMENDED APPROPRIATIONS

Authorities are requested to allow for budget transfers and re-appropriations between General Fund departments and other non-general funds as displayed in Table 24: FY 2017 Year-End Appropriation Adjustments. All adjustments are balanced by an increase in budgeted revenue, decrease in budgeted expenditures, or fund balances available in non-general funds.

FY 2017 Year-End Appropriation Adjustments

Table 24

Fund/Department	Expenditures Increase/(Decrease)	Revenue Increase/(Decrease)	Net Impact[1]
General Fund			
Citywide Program Expenditures	$ 2,200,000	$ -	$ (2,200,000)
Economic Development	(500,000)		$ 500,000
Environmental Services	(700,000)		$ 700,000
Fire-Rescue	2,000,000	2,000,000	$ -
Human Resources	82,000		$ (82,000)
Major General Fund Revenues	-	1,698,000	$ 1,698,000
Office of the City Treasurer	(400,000)		$ 400,000
Real Estate Assets	(2,200,000)		$ 2,200,000
Personnel	216,000		$ (216,000)
Transportation and Storm Water	3,000,000		$ (3,000,000)
General Fund Total	$ 3,698,000	$ 3,698,000	$ -
Non-General Funds			
Development Services Fund	$ 2,600,000	$ 2,600,000	-
Energy Conservation Program	120,000	120,000	-
Facilities Financing	200,000	200,000	-
Petco Park Fund	360,000	260,000	(100,000)
Qualcomm Stadium Operations	2,500,000	2,500,000	-
Refuse Disposal Fund	1,500,000	1,500,000	-

[1] Remaining balances in non-General Funds will be offset by available fund balance.

General Fund

Citywide Program Expenditures

The Citywide Program Expenditures Department requires a $2.2 million increase in expenditure appropriations to support the projected over budget contract expenditures associated to rent and operating expenditures for the 101 Ash Street building.

Economic Development
The Economic Development Department is projected to have $500,000 in expenditure savings due to the projected savings in contracts associated with Civic San Diego. These savings will be utilized to offset over budget projections above.

Environmental Services
The Environmental Services Department is projected to have $700,000 in expenditure savings due to the projected savings in fleet fuel and contracts associated to equipment rent usage and assignment fees. These savings will be utilized to offset over budget projections in other General Fund departments.

Fire-Rescue
The Fire-Rescue Department requires a $2.0 million increase in expenditure appropriations to support the projected over budget vacation pay-in-lieu and overtime expenditures. In addition, the department will also require a $2.0 million increase in revenue appropriations to partially offset the over budget expenditures.

Human Resources
The Human Resources Department requires an $82,000 increase in expenditure appropriations to support over budget expenditures in fringe benefits.

Major General Fund Revenues
The Major General Fund Revenues are projected to have $1.7 million in excess revenue due to an increase property tax as a result of additional assessed value growth related to an increase in home sales and an increase projected residual receipts from the Redevelopment Property Tax Trust Fund (RPTTF). These over budget revenues will be utilized to offset the over budget projected expenditures above.

Office of the City Treasurer
The Office of the City Treasurer is projected to have $400,000 in expenditure savings due to the projected savings in contractual expenditures and delayed information technology projects. These savings will be utilized to offset over budget projections in other General Fund departments.

Personnel
The Personnel Department requires a $216,000 increase in expenditure appropriations to support over budget expenditures in fringe benefits.

Real Estate Assets
The Real Estate Assets Department is projected to have $2.2 million savings in contracts associated to moving expenses due to the delay in the Civic Center Plaza reconfiguration. This expenditure savings will be utilized to offset over budget projections in other General Fund departments.

Transportation and Storm Water
The Transportation and Storm Water Department requires a $3.0 million increase in expenditure appropriations to support over budget expenditures in contracts related to equipment rental, as-needed emergency contracts, and overtime associated to recent winter storms.

Non-General Fund Appropriation Adjustments

Development Services Fund
The Development Services Fund requires an increase in revenue and expenditures of $2.6 million. This increase will support the over budget expenditures for rent and space planning at the 101 Ash building, software systems that will aid in the implementation of the Accela project, and expenditures associated to building plans. The projected increase in revenue is due to higher than expected user fees associated to engineering plan check fees that went into effect on October 1, 2016.

Energy Conservation Fund
The Energy Conservation Fund requires an increase in revenue and expenditures of $120,000. This increase will support the over budget expenditures for consultant services that support the City's Climate Action Plan. The increase in revenue is due to higher than expected grant reimbursements from the California Public Utility Commission – Local Government Partnership.

Facilities Financing Fund
The Facilities Fund requires an increase in revenue and expenditures of $200,000. This increase will support the over budget rent expenses for the 101 Ash building. The increase in revenue is due to higher than expected revenues from Developmental Impact Fees and Facilities Benefit Assessment.

Petco Park Fund
The Petco Park Fund requires an increase in revenues of $260,000 and expenditures of $360,000. This increase will support the over budget expenditures for traffic control services at Petco Park. The increase in revenue is due to higher than expected revenue reimbursements for police services. The remaining balance will be offset by the use of fund balance.

Qualcomm Stadium Operations Fund
The Qualcomm Stadium Operations Fund requires an increase in revenue and expenditures of $2.5 million. This increase will support the over budget projected expenditures for contractual equipment expenditures due to a concession vendor payment resulting from the early termination of the Charger's lease and a transfer to Qualcomm's CIP fund. The increase in revenue is associated to telecom lease and an increased transfer from the TOT fund.

Refuse Disposal Fund
The Refuse Disposal Fund requires an increase in revenue and expenditures of $1.5 million. This increase will support the over budget expenditures for the lease of heavy landfill equipment. The increase in revenue is due to higher than expected revenue from non-franchised haulers.

BUDGET CONTROL AUTHORITIES

Additional authorities are requested which are typically requested at year-end to maintain budgetary control through the end of the fiscal year and compliance with the City Charter and Municipal Code.

General Fund

Additional authorities are requested to allow for budget transfers and de-appropriations between General Fund departments to address unanticipated events that may occur prior to year-end. These authorities are typically requested at year-end to maintain budgetary control through the end of the fiscal year and to maintain compliance with the City Charter and Municipal Code.

Salary and Non-Personnel Budget Transfers

Authority is requested to transfer salary appropriations in one General Fund department for fringe and/or non-personnel appropriations in another General Fund department with no net increase to either departments' total budget. This will allow departments to remain balanced, within the Charter Section 73 requirement that salary appropriations may not be used for any other purposes.

Bottom Line Re-Appropriations

Authority is requested to transfer excess appropriations from one General Fund department to offset a deficit in another General Fund department during fiscal year closing. This will result in a change to the bottom-line department budgets; however, there will be no net change to the bottom-line General Fund budget. The bottom-line appropriation transfer authority is to be used at fiscal year close, if necessary, after salary appropriation budget transfers have been applied.

Citywide

Increase Appropriations from Available Sources

Authority is requested to adjust appropriations as needed for unforeseen events in order to close Fiscal Year 2017.

CONCLUSION

The Year-End Report is projecting a budgetary surplus of $11.2 million by fiscal year-end. The $11.2 million budgetary surplus is a result of a net increase in revenue of $15.4 million and an increase in expenditures of $4.2 million.

Revenues are projected to exceed budget by $15.4 million, primarily due to increased receipts realized in the City's major General Fund revenues of $12.4 million in addition to an increase in departmental revenue of $3.0 million. The Fiscal Year 2018 May Revision proposes the use of $14.1 million of the projected ending fund balance (excess equity) for one-time uses, primarily to pre-fund General Fund reserves and a one-time allocation to the Penny for the Arts program within the Commission for Arts & Culture. The Fiscal Year 2017 projected fund balance in excess of required reserves is $4.0 million.

Lastly, this report includes requested authorities to allow for budget transfers and re-appropriations between General Fund departments and other non-General Funds and additional typical year-end authorities to maintain budgetary control and compliance with the City Charter and Municipal Code. All adjustments are balanced by an increase in budgeted revenue, or fund balances available.

ATTACHMENTS

I. General Fund Projected Revenues
II. General Fund Projected Expenditures
III. Non-General Fund Projections
IV. Non-General Fund Reserves
V. Fiscal Year 2017 Charter 39 Supporting Schedules, as of March 31, 2017

Tables may not foot due to rounding.