



THE CITY OF SAN DIEGO
REPORT TO THE CITY COUNCIL

DATE ISSUED: November 17, 2009 REPORT NO: 09-162
ATTENTION: City Council
Agenda of November 23, 2009
SUBJECT: Fiscal Year 2010 First Quarter Budget Monitoring Report
REFERENCE: Financial Performance Report (Charter Section 39 Report) As of
September 30, 2009

REQUESTED ACTION:

Accept the Report from the Mayor on Fiscal Year 2010 First Quarter Budget Monitoring.

STAFF RECOMMENDATION:

Accept the Report from the Mayor on Fiscal Year 2010 First Quarter Budget Monitoring.

SUMMARY:

The following report presents projections of year-end revenues and expenditures. Projections are determined using actual (unaudited) data from July 2009 through September 2009, or through accounting period three, and departmental information regarding spending trends and operations. This report includes discussion of year-end projections that vary significantly from the current budget for the General Fund and other budgeted funds with staff. For this report, a significant variance is defined as under or over budget revenues or expenditures of \$500,000 or greater.

GENERAL FUND

Earlier this fiscal year, the Chief Financial Officer instituted a new procedure regarding the treatment of prior year encumbrances. The City of San Diego has historically used prior year budgets as a means to preserve appropriations for encumbered commitments that are in place at the end of a fiscal year. These prior year budgets were held separate from the current year budget and not previously included in monitoring reports. This is inconsistent with best practices and creates difficulties for tracking and monitoring. Beginning with Fiscal Year 2010, the practice of maintaining a separate, prior year budget has been discontinued. All financial activity will be captured and reported as current year activity. In addition, the practice of carrying forward appropriations associated with these encumbered commitments will be discontinued for all General Fund departments this fiscal year.

Due to of this new procedure, departments were instructed to include projected expenditures associated with those commitments that continued from Fiscal Year 2009 and prior years in the expenditure projections provided in this report. This means that expenditures are being accounted for in Fiscal Year 2010 for which there are prior year appropriations but not current year budget. These expenditures are legally authorized expenditures that have been approved by the City Council in previous fiscal years. In order to make this transition, two things will happen that will affect the bottom-line General Fund projection this year: 1) expenditures will be higher than expected due to the prior year commitments being expensed; and 2) the carryover appropriations will be released to fund balance to offset these expenditures.

As a result of the transition to this new practice and the continued decline in revenues, the General Fund is estimated to conclude the fiscal year with a \$7.5 million shortfall. Current year expenditures are projected to exceed current year revenues by \$39.0 million; however, after adjusting for the liquidation of the prior year appropriations and making these funds available for Fiscal Year 2010 expenses, the year-end General Fund deficit is projected to be approximately \$7.5 million. Because projections are based on only three months of actual financial data and the fact that the Mayor is developing a long term strategy for addressing the Fiscal Year 2011 projected deficit, no budget amendments are being recommended at this time to close this budget gap.

Table 1: Summary of FY 2010 General Fund Projections recaps year-end projections for the General Fund. General Fund revenues are projected to end the fiscal year 4 percent below the current budget, while expenditures are projected to be 1 percent below the current budget. Revenues are expected to be \$50.4 million under budget due to the continued slowdown in the economy. At the time the Fiscal Years 2011 – 2015 Five-Year Financial Outlook was released, Fiscal Year 2010 revenue projections were revised downward by \$22.0 million. A further deterioration in revenues, by an additional \$28.4 million, is being seen now. This is almost entirely in the areas of sales tax and transient occupancy tax revenues. At the same time revenues are declining, cost containments put in place are resulting in expenditures being projected to conclude the year \$11.4 million below the current budget due primarily to vacancies throughout General Fund departments. As mentioned previously, expenditures associated with prior year commitments are included in these projections and approximately \$31.5 million of projected expenditures will be offset by the liquidation of prior year carry forward appropriations. At year-end, current year revenues and expenditures are anticipated to total \$1.079 billion and \$1.118 billion, respectively.

Summary of FY 2010 General Fund Projections
Table 1

| Revenue/Expenditures | Current Budget | Year-End Projection | Variance Amount | Variance % |
|--------------------------------|-----------------------|----------------------------|------------------------|-------------------|
| Projected Revenue | \$ 1,129,706,375 | \$ 1,079,342,739 | \$ (50,363,636) | 4% |
| Projected Expenditures | | | | |
| Salaries | \$ 516,133,494 | \$ 504,585,785 | \$ 11,547,709 | 2% |
| Fringe and Non-Personnel | 611,905,946 | 613,761,091 | (1,855,145) | 0% |
| Appropriated Reserve | 1,666,935 | - | 1,666,935 | 100% |
| Subtotal | \$ 1,129,706,375 | \$ 1,118,346,876 | \$ 11,359,499 | 1% |
| Net Year-End Projection | | \$ (39,004,137) | | |

Table 2: FY 2010 General Fund Reserve Estimates illustrates the combined impact to reserves of the projections and the new procedure regarding encumbrances. The Fiscal Year 2010 estimated beginning reserve balance is \$77.5 million, which is a combination of the Unallocated Reserve, \$22.5 million, and the Emergency Reserve, \$55.0 million. The release of \$31.5 million of carry forward appropriations partially offsets the projected year-end deficit of \$39.0 million, resulting in a new year-end projected shortfall of \$7.5 million. Based on current projections and the liquidation of carry forward budget, the Fiscal Year 2010 year-end reserve balance is projected to be \$70.0 million. The reserve goal for Fiscal Year 2010 is 7 percent, or \$75.6 million. Current projected activities would result in a \$5.6 million shortfall in reserves, compared to the 7 percent target.

FY 2010 General Fund Reserve Estimates
Table 2

| Description | Amount |
|---|----------------|
| FY 2010 Beginning Balance (unaudited) | |
| Unallocated Reserve | \$ 22.5 |
| Emergency Reserve | \$ 55.0 |
| Appropriated Reserve | \$ - |
| Subtotal | \$ 77.5 |
| FY 2010 Projected Activity | |
| Release of Carry Forward Appropriations | \$ 31.5 |
| FY 2010 Net Year-End Projection | \$ (39.0) |
| Subtotal | \$ (7.5) |
| FY 2010 Projected Ending Balance | \$ 70.0 |
| FY 2010 Reserve Goal (7%) | \$ 75.6 |
| Projected Variance | \$ (5.6) |

To address the significant revenue deficit projected in Fiscal Year 2011, as reflected in the Fiscal Years 2011-2015 Five-Year Financial Outlook, the Mayor will be recommending corrective

actions to reduce expenses. The recommendation will include proposed reductions to be implemented this fiscal year. In light of these pending recommendations, no budgetary adjustments are recommended as part of this report. Rather, it is recommended that remediation actions be taken for both Fiscal Years 2010 and 2011 concurrently and to be effective in January 2010.

GENERAL FUND REVENUES

The current General Fund revenue budget for Fiscal Year 2010 is \$1.130 billion. Revenues through September are under the period-to-date budget by \$41.6 million or 38 percent primarily due to the impact of the continued economic downturn. As displayed in Table 3: FY 2010 Actual and Projected General Fund Revenue, year-end revenues are projected to be below budget by \$50.4 million, or 4 percent.

FY 2010 Actual and Projected General Fund Revenue

Table 3

| Actual/Projection | Budget | Actual/ Projection | Over Budget/ (Under Budget) | Variance % |
|--------------------------|----------------|-------------------------------|--|-----------------------|
| Actual through September | \$ 108,949,542 | \$ 67,326,613 | \$ (41,622,929) | 38% |
| Year-End Projection | 1,129,706,375 | 1,079,342,739 | (50,363,636) | 4% |

Departmental revenues are projected to be under budget by \$17.7 million, or 6 percent, as shown in Table 4: FY 2010 General Fund Revenue Projections by Category and detailed in Attachment I: General Fund Projected Revenues. Similarly, major General Fund revenues are projected to conclude the fiscal year 4 percent, or \$32.7 million, under budget. The following sections discuss the variances between revenue projections and the current budget for both major revenues and departmental revenues.

FY 2010 General Fund Revenue Projections by Category

Table 4

| Revenue Source | Current Budget | Year-End Projection | Over Budget/ (Under Budget) | Variance % |
|-----------------------------|---------------------------|--------------------------------|--|-----------------------|
| Major General Fund Revenues | \$ 845,232,290 | \$ 812,532,082 | \$ (32,700,208) | 4% |
| Departmental Revenue | 284,474,085 | 266,810,657 | (17,663,428) | 6% |
| Total | \$ 1,129,706,375 | \$ 1,079,342,739 | \$ (50,363,636) | 4% |

Major Revenues

The Fiscal Year 2010 year-end projection for the General Fund major revenues is \$812.5 million, or 4 percent below the current budget, as reflected below in Table 5: FY 2010 Major General Fund Revenue Projections.

FY 2010 Major General Fund Revenue Projections

Table 5

| Revenue Source | Current Budget | Year-End Projection | Over Budget/ (Under Budget) | Variance % |
|--------------------------------------|-----------------------|----------------------------|--|-------------------|
| Property Tax | \$ 382,627,885 | \$ 392,696,027 | \$ 10,068,142 | 3% |
| Sales Tax | 210,141,169 | 184,374,213 | (25,766,956) | 12% |
| Transient Occupancy Tax ¹ | 75,907,285 | 66,834,085 | (9,073,200) | 12% |
| Franchise Fees ² | 73,586,929 | 70,163,821 | (3,423,108) | 5% |
| Safety Sales Tax | 7,057,580 | 6,297,815 | (759,765) | 11% |
| Property Transfer Tax | 4,511,178 | 4,338,522 | (172,656) | 4% |
| Motor Vehicle License Fees | 3,900,000 | 3,474,895 | (425,105) | 11% |
| Other Major Revenue | 87,500,264 | 84,352,704 | (3,147,560) | 4% |
| Total | \$ 845,232,290 | \$ 812,532,082 | \$ (32,700,208) | 4% |

¹ Total City FY 2010 current revenue budget for transient occupancy tax is \$144.9 million and the projection is \$127.6 million. The balance is budgeted in the Transient Occupancy Tax Fund.

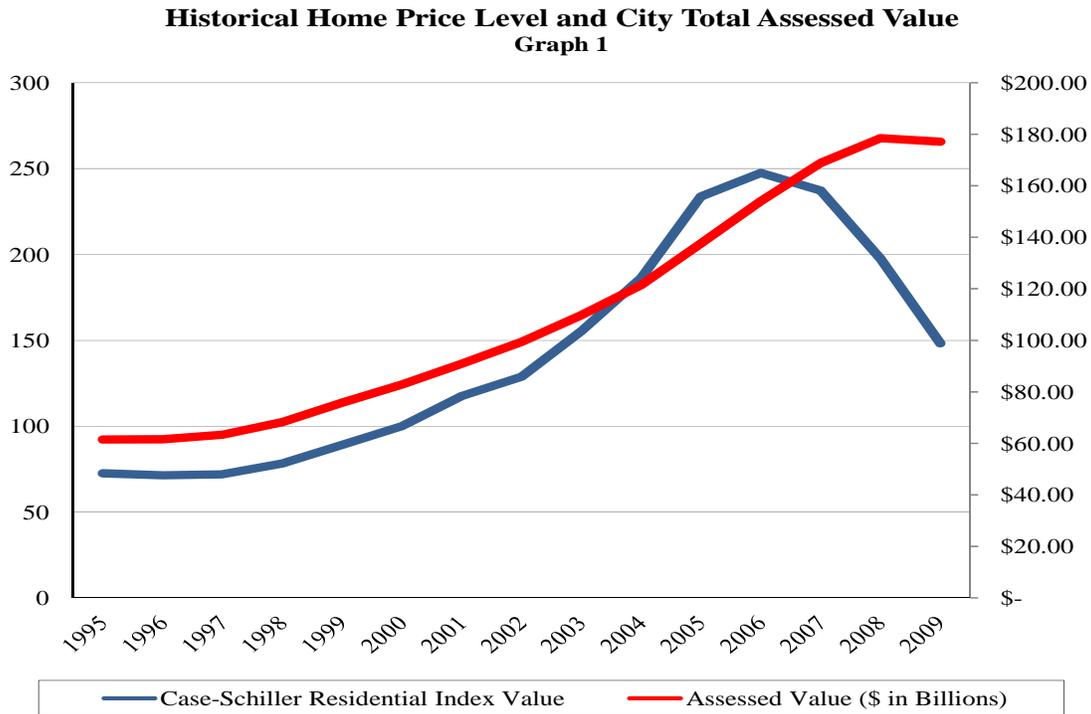
² Total City FY 2010 current revenue budget for franchise fees is \$137.0 million and the projection is \$133.6 million. The balance is budgeted in the Environmental Growth and Utilities Undergrounding Program Funds.

Property Tax

The Fiscal Year 2010 year-end projection is \$392.7 million, which is \$10.1 million, or 3 percent, higher than the current budget. The Fiscal Year 2010 property tax budget is \$382.6 million, which consists of \$277.6 million of 1 percent property tax levy and \$105.0 million of “in-lieu of VLF” property tax revenue. The property tax budget was prepared based on the City’s assessed valuation (AV) of a negative 3.4% provided by the San Diego County Assessor’s Office at the time of Fiscal Year 2010 budget development. This was a preliminary estimate from the County prior to their complete review of reassessment applications from homeowners and a comprehensive market review to determine continuing changes in the residential and commercial markets. Once the County Assessor’s Office completed this review, which was after the City’s Fiscal Year 2010 budget was adopted, the City’s AV was determined to be a negative 0.8 percent for Fiscal Year 2010. This adjusted AV change resulted in a projected increase of \$9.1 million in the City’s property tax revenue, from \$277.6 million for the 1 percent property tax levy, to \$286.7 million. Additionally, the estimated “in-lieu of VLF” property tax revenue that comprises the remaining property tax budget has also been adjusted. The “in-lieu of VLF” property tax revenue was established to compensate local jurisdictions for the reduction in revenue due to the decrease in the motor vehicle license fee rate in 2004. This figure is also adjusted annually by the State based on the change in the jurisdiction’s total AV, which is provided by the County to the State. The “in-lieu” amount of \$105.0 million in the Fiscal Year 2010 adopted property tax budget has been revised to \$106.0 million, according to the State’s calculated payment for the City.

The 1.0 percent property tax levy mentioned above is placed on the total AV of all commercial, residential, and industrial properties in the City. Due to the downturn on the real estate market, the average home price has dropped nearly 22 percent since December 2007 through August of 2009. For Fiscal Year 2010, the total City AV has dropped by \$1.4 billion or 0.8 percent from the previous fiscal year.

Graph 1 shows the historical home price level and City total AV from 1995 to 2009.



The decline in AV lagged the change in the residential market, which accounts for 70 percent of the total AV in the City, due to the new AV being recorded by the County Assessor as homes are sold or upon the receipt of the homeowners’ reassessment applications, both of which are reviewed for an adjustment.

The City’s total Fiscal Year 2010 property tax projection has been revised from the current budget of \$382.6 million to \$392.7 million, an increase of \$10.1 million or 3 percent over the current budget, as a result of the City’s AV change from a negative 3.4 percent to negative 1.5 percent. This resulted in a revised growth rate of negative 0.7 percent over Fiscal Year 2009 unaudited actuals as compared to the negative 3.3 percent assumed in the Fiscal Year 2010 adopted budget.

Property Transfer Tax

The year-end projection for property transfer tax is \$4.3 million, which is a 4 percent or \$173,000 decrease from the current budget. The Fiscal Year 2010 property transfer budget is \$4.5 million. The first quarter projected property transfer tax revenue for Fiscal Year 2010 was based on the assumption that average home sale prices in the City will continue to stabilize or increase marginally throughout Fiscal Year 2010. Based on the receipts through October 2009 and current market conditions, it is projected that property transfer tax receipts will be below the current budget.

Property transfer tax is levied on the sale of residential and commercial real estate property. Property transfer taxes are highly reflective of the housing market and are generally more

volatile than the 1 percent property tax levy. Accordingly, appreciation or depreciation in property values and sales volume in the local real estate market affect property transfer tax revenues, and changes in the market place are reflected in revenue received on a monthly basis.

Home sales volume in San Diego County has been declining steadily since reaching the high of 6,208 homes sold in June 2004. According to DataQuick Information Systems, the number of single family homes sold in September 2009 was 3,449, a 44.4 percent decrease over the June 2004 high home sales volume. However, the September 2009 home sales volume is 2.5 percent higher than the September 2008 home sales volume of 3,366. Home prices in the County are also beginning to stabilize, as the median home price for September 2009 was \$333,730, a 1.7 percent increase over September 2008 median home price of \$328,000, after declining to \$284,435 in January, 2009. The forecasted growth rate in the median home price may continue to be marginal during Fiscal Year 2010 due to the number of available foreclosed properties on the market and the difficulty in obtaining financing.

Sales Tax

The Fiscal Year 2010 year-end projection for sales tax revenue is \$184.4 million, which is 12 percent or a \$25.8 million decrease from the current budget. The Fiscal Year 2010 sales tax budget of \$210.1 million consists of \$159.2 million of Bradley-Burns sales tax revenue (75 percent of the 1 percent City’s sales tax rate) and \$50.9 million of “triple-flip” revenue (the remaining 25 percent of the 1 percent tax rate). The Fiscal Year 2010 sales tax budget was developed in May 2009 and was based on the economic information available at that time on a local and State level. In addition, during the Fiscal Year 2010 budget preparation, the City reviewed the taxable sales estimates prepared by the State Department of Finance, Beacon Economics, and the UCLA Anderson Forecast (shown in Table 6 below).

FY 2010 Taxable Sales Growth Forecast
Table 6

| | 1 st Quarter | 2 nd Quarter | 3 rd Quarter | 4 th Quarter |
|--|-------------------------|-------------------------|-------------------------|-------------------------|
| Beacon Economics ¹ | -7.6% | -5.6% | -2.4% | -1.5% |
| UCLA Anderson ¹ | -8.7% | -4.8% | 0.0% | 4.3% |
| State Department of Finance ² | -14.4% | -11.5% | 0.0% | -0.3% |

¹ Forecasted growth rates for County taxable sales.

² Forecasted growth rates for State taxable sales.

The State Department of Finance issued a more conservative projection for Fiscal Year 2010 for the entire State. The Beacon Economics and UCLA Anderson Forecast prepared countywide projections for the same time period which showed a significantly smaller decline in taxable sales. In addition, the main economic indicators that provide best estimates for performance of taxable sales (unemployment rate, per-capita income, population demographics, etc.) were considerably stronger on a local level than on a State level. The San Diego County unemployment rate as of May, 2009 was 9.6 percent, compared to the State unemployment level of 11.3 percent. The San Diego’s per capita income in 2008 was \$45,488 as compared to \$42,696 for the State (U.S. Bureau of Economic Analysis). These factors, in combination with the

historical outperformance of taxable sales on a local level as compared to the State’s overall performance, were assumed in the projection that the local growth in taxable sales would outperform the State’s estimates. The City’s Fiscal Year 2010 first quarter actual sales tax revenue growth experienced a deeper decline than projected by Beacon Economics and the UCLA Anderson forecast.

The fourth quarter of Fiscal Year 2009 and first quarter of Fiscal Year 2010 actual taxable sales performance for the City were below the expectations as demonstrated in Table 7 below. The City projected a negative 9.0 percent growth for the fourth quarter of Fiscal Year 2009 and a negative 5.0 percent growth for the first quarter of Fiscal Year 2010, based on the lower Fiscal Year 2009 fourth quarter estimates; the actual payments, however, came in at a negative 16.1 percent and negative 18.2 percent growth, respectively. Because the decline in taxable sales for those two quarters was more significant than expected, projections for the remaining three quarters of the fiscal year have been revised as shown in the table below.

| City's Sales Tax Growth Rates | | | | | |
|---|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| Table 7 | | | | | |
| | FY 2009 1 st Quarter | FY 2010 1 st Quarter | FY 2010 2 nd Quarter | FY 2010 3 rd Quarter | FY 2010 4 th Quarter |
| FY 2010 Adopted Budget | -9.0% | -5.0% | -3.0% | 0.0% | 0.0% |
| FY 2010 Revised Projection ¹ | -16.1% | -18.2% | -15.0% | -8.0% | -3.0% |

¹ Unaudited actual payments for FY 2009 and FY 2010 1st Quarters. Projected growth for the remainder of FY 2010.

The revised projected growth rates for sales tax have resulted in a decrease of \$18.8 million or 12 percent from the Fiscal Year 2010 Bradley Burns sales tax budget of \$159.2 million versus \$140.5 million revised projection. In addition, there was a decrease in the “triple-flip” revenue of \$7.0 million, as calculated by the State, and this information became available to the City in September 2009. Overall, the two components of the sales tax revenue, Bradley Burns and “triple flip”, have resulted in a projected decrease of \$25.8 million or 12 percent from the Fiscal Year 2010 sales tax budget.

The revised sales tax projection reflects a negative 13.5 percent growth over Fiscal Year 2009 unaudited actuals as compared to a negative 1.4 percent in the Fiscal Year 2010 adopted budget.

Safety Sales Tax

The Fiscal Year 2010 year-end projection for safety sales tax is \$6.3 million, which is 11 percent or \$760,000 below the current budget. The Fiscal Year 2010 safety sales tax budget is \$7.1 million, which was developed using similar growth rates as sales tax. The Fiscal Year 2010 safety sales tax projection has been revised to reflect updated growth rates in taxable sales. A weak performance of taxable sales in the local retail sector has affected this revenue source. In general, safety sales tax receipts follow the same economic trends as sales tax receipts. However, it should be noted that the distribution of safety sales tax revenues to cities is based on a different allocation formula than the distribution of sales tax, and therefore, this revenue does not entirely mirror sales tax revenue.

Transient Occupancy Tax (TOT)

The total City Fiscal Year 2010 TOT budget is \$144.9 million with the General Fund portion of \$75.9 million. The Fiscal Year 2010 year-end projection for General Fund TOT revenue is \$66.8 million, which is a 12 percent or \$9.1 million decrease from the Fiscal Year 2010 current budget.

The TOT budget was finalized in May 2009 with the tourism/hotel data available through March 2009. The Fiscal Year 2010 adopted TOT budget was revised from the Fiscal Year 2010 proposed TOT budget by \$4.7 million reflecting continuing negative trends in early 2009. The TOT budget assumed that the recession and rising unemployment continue to influence consumer spending, forcing cutbacks on travel plans and other discretionary spending for the individual consumer as well as business travel.

The City's TOT receipts received over the last six months, after the adoption of Fiscal Year 2010 TOT budget, indicate that TOT revenues in Fiscal Year 2010 continue to exhibit a more negative growth than expected. According to the most recent tourism report from the San Diego Convention and Visitors Bureau (CONVIS), a 3.3 percent decline in total visitors to San Diego is expected for the remainder of calendar year 2009, with overnight visits declining by 3.9 percent. Determining factors affecting TOT revenues are room demand and the average daily room rate (ADR) for hotel rooms in the City. CONVIS currently has forecasted room demand to decline by 4.9 percent, while ADR is projected to decline by 11.6 percent, from \$142 to \$125 from calendar year 2008 to 2009. CONVIS currently forecasts that tourism trends may reverse in early calendar year 2010. Compared to calendar year 2009, the total number of visitors to San Diego in calendar year 2010 is expected to increase by 1.6 percent with overnight visits to increase by 1.5 percent. Room demand is expected to increase by 2.3 percent while the ADR is expected to decline by 0.7 percent.

Based on recent TOT receipts and a further expectation of reduced tourism and business travel, revenues are expected to continue to decline as compared to the prior fiscal year. The total City Fiscal Year 2010 TOT revenue projection is \$127.6 million, which is a \$17.3 million or 12 percent decrease from the Fiscal Year 2010 TOT budget of \$144.9 million. The revised Fiscal Year 2010 projection for General Fund TOT revenue is \$66.8 million, which is a decrease of \$9.1 million or 12 percent from the Fiscal Year 2010 General Fund TOT budget of \$75.9 million.

The revised TOT tax projection reflects a negative 14.0 percent growth over Fiscal Year 2009 unaudited actuals.

Franchise Fees

The Fiscal Year 2010 year-end projection for General Fund franchise fee revenue is \$70.2 million, which is a 5 percent or \$3.4 million decrease from the Fiscal Year 2010 current budget. Franchise fee revenue results from agreements with private utility companies in exchange for the use of the City's rights-of-way. Currently, San Diego Gas and Electric (SDG&E), Cox Communications, Time Warner Cable, and AT&T are the franchises that pay the City. The revenue received from the above agreements is based on a percentage of gross sales. The lower revenue projection is due primarily to lower than anticipated revenue from refuse collection of \$2.5 million and cable TV franchise fees of \$900,000. Based on received revenues and current

trends in the refuse collection and cable TV revenue for the first quarter of Fiscal Year 2010, the projection for the remainder of the fiscal year for the General Fund franchise fee revenue was adjusted downwards by \$3.4 million from the current budget.

Motor Vehicle License Fees (MVLFF)

The Fiscal Year 2010 year-end projection for MVLFF is \$3.5 million, which is 11 percent or \$425,000 lower than the current budget. The Fiscal Year 2010 MVLFF budget is \$3.9 million which was based on a zero percent growth rate over Fiscal Year 2009 mid-year estimated revenues. MVLFF revenue is projected to be below budget based on receipts through the first three months of Fiscal Year 2010 and an uncertain auto industry sales outlook.

From July through September of this year receipts were 46.0 percent lower compared to a year earlier, primarily due to higher Department of Motor Vehicles (DMV) administrative costs consuming a larger share of MVLFF revenues. The DMV collects a share of statewide MVLFF revenues for administration costs before MVLFF is distributed to the cities on a per capita basis.

Revenue growth for the remainder of the fiscal year remains unclear after the recent expiration of the federal government's "cash-for-clunkers" program. While the program boosted auto spending, which contributed to October's reported third quarter GDP growth of 3.5 percent, it remains to be seen whether this growth is sustainable. The possibility exists that future sales were pulled to immediate sales by consumers that took advantage of the promotion who would have purchased later in the year.

As auto spending normalizes in the coming months and becomes reflective of future demand, MVLFF receipts will be closely monitored and assessed to make any necessary changes to the year-end projection.

Other Major Revenue

The decline in other major revenue is mainly attributable to a \$3.6 million decrease in the projection for two revenue transfers to the General Fund: 1) a \$1.6 million decrease in the one-cent transient occupancy tax transfer to the General Fund due to reduced forecasts for local tourism and business travel; and 2) a \$2.0 million reduction in the projection for tobacco securitization revenues due to reduced tobacco shipments nationwide. There is also a \$235,000 reduction in the refuse collector business tax projection. These reductions are offset by increases of \$750,000 in transfers from other City funds for reimbursement of costs incurred for the 2007 wildfires and larger than forecasted repayments from the CCDC for increased AB1290 revenue.

Department Revenues

Combined departmental revenues are projected to be under budget by \$17.7 million, contributing to the \$50.4 million projected shortfall in General Fund revenues. This is primarily due to less than anticipated Transient Occupancy Tax (TOT), \$9.1 million, and TransNet reimbursement revenue, \$900,000, to General Fund departments; suspension of the Business Tax and Rental Unit Business Tax processing fee, \$3.2 million, in accordance with Resolution R-305330; decline in Mission Bay performance-based lease revenues, \$2.5 million; and Police Department's traffic violations and parking citation revenues, \$1.9 million. Table 8: FY 2010

Significant General Fund Revenue Variances by Department displays departments with projected under or over budget revenue variances of \$500,000 or greater. These variances are discussed following the table.

FY 2010 Significant General Fund Revenue Variances by Department
Table 8

| Department | Current Budget | Year-End Projection | Over Budget/ (Under Budget) | Variance % |
|---------------------|-------------------|------------------------|--------------------------------|---------------|
| Park and Recreation | \$ 29,893,493 | \$ 22,884,332 | \$ (7,009,161) | 23% |
| City Treasurer | 26,298,217 | 22,686,331 | (3,611,886) | 14% |
| General Services | 35,865,128 | 32,725,917 | (3,139,211) | 9% |
| Fire-Rescue | 16,155,140 | 19,150,486 | 2,995,346 | 19% |
| Real Estate Assets | 41,794,909 | 39,245,732 | (2,549,177) | 6% |
| Police | 38,956,001 | 36,959,546 | (1,996,455) | 5% |
| Storm Water | 9,109,240 | 8,111,916 | (997,324) | 11% |
| City Attorney | 6,183,020 | 5,227,824 | (955,196) | 15% |

Park and Recreation

The Park and Recreation Department’s revenue budget is \$29.9 million. The department is projecting revenues to be under budget at year-end by \$7.0 million or 23 percent. The unfavorable variance is primarily the result of less than anticipated Transient Occupancy Tax (TOT) reimbursements due to overall decline in TOT revenue.

City Treasurer

The City Treasurer Department is projecting to conclude the fiscal year \$3.6 million, or 14 percent, under budget in revenues. The unfavorable variances is the result of the City’s response to the Fourth District Court of Appeal in *Weisblat v City of San Diego*, 176 Cal. App. 4th 1022 (2009) ruling. The City suspended collection of the Business Tax and Rental Unit Business Tax Processing Fee per Resolution R-305330. In addition, the City will be issuing refunds of the Rental Unit Business Tax Processing Fee in accordance with Resolution R-305331.

General Services

The General Services Department is projecting revenues to be under budget at year-end by \$3.1 million or 9 percent. The unfavorable variance is primarily due to less than anticipated Transient Occupancy Tax (TOT) and TransNet reimbursements due to the overall decline in both TOT and TransNet revenues.

Fire-Rescue

The Fire-Rescue Department is projecting to receive \$3.0 million of over budget revenue. This represents a 19 percent variance from the department’s current revenue budget of \$16.2 million. The additional revenue is primarily due to reimbursement for Strike Team deployment and Emergency Medical Transport Services.

Real Estate Assets

The Real Estate Assets Department is projecting revenue to be under budget by \$2.5 million. This is a 6 percent variance from the department's current budget of \$41.8 million. Due to the economic downturn, Mission Bay performance-based lease revenues are lower than anticipated.

Police

The Police Department expects to conclude the fiscal year with \$2.0 million or 5 percent of revenue under budget. The unfavorable variance is due to decline in traffic violation and parking citation revenue as a result of vacancies in the department and a higher number of those ticketed being unable to pay.

Storm Water

The Storm Water Department is projecting revenues to be under budget at year-end by \$997,000 or 11 percent. The unfavorable variance is primarily due to less than anticipated Transient Occupancy Tax (TOT) reimbursements due to the overall decline in TOT revenue.

City Attorney

The Office of the City Attorney is projecting \$955,000 or 15 percent, of revenue under the current budget of \$6.2 million. The unfavorable variance is attributed to less than anticipated reimbursement revenue from various Service Level Agreements (SLA).

GENERAL FUND EXPENDITURES

The total Fiscal Year 2010 General Fund current expenditure budget is \$1.130 billion. Expenditures through September are on target with the period-to-date budget. Year-end projections show under budget expenditures of \$11.4 million or 1 percent as shown in Table 9: FY 2010 Actual and Projected General Fund Expenditures. These projections include expenditures associated with the commitments that continued from Fiscal Year 2009 and prior years. As previously discussed, approximately \$31.5 million of projected expenditures will be offset by the liquidation of prior year carry forward appropriations.

FY 2010 Actual and Projected General Fund Expenditures

Table 9

| Actual/Projection | Budget | Actual/ Projection | Under Budget/ (Over Budget) | Variance % |
|--------------------------|----------------|-------------------------------|--|-----------------------|
| Actual through September | \$ 233,853,031 | \$ 234,015,703 | \$ (162,672) | 0% |
| Year-End Projection | 1,129,706,375 | 1,118,346,876 | 11,359,499 | 1% |

Expenditures by Category

The under budget expenditure projection in the General Fund is primarily due to under budget salary and fringe expenditures, projected to be under budget by \$21.6 million. However, contracts is projected to be significantly over budget primarily due to carry forward encumbrances that are projected to be expended this fiscal year. This data is displayed in Table

10: FY 2010 General Fund Expenditure Projections by Category. Further, detailed discussion of expenditure variances follows.

FY 2010 General Fund Expenditure Projections by Category

Table 10

| Expenditure Type | Current Budget | Year-End Projection | Under Budget/ (Over Budget) | Variance % |
|-------------------------|-------------------------|----------------------------|--|-------------------|
| Salaries and Wages | \$ 516,133,494 | \$ 504,585,785 | \$ 11,547,709 | 2% |
| Fringe Benefits | 269,391,323 | 259,305,638 | 10,085,685 | 4% |
| Supplies | 24,097,306 | 23,802,383 | 294,923 | 1% |
| Contracts | 179,058,676 | 192,290,820 | (13,232,144) | 7% |
| Information Technology | 31,489,956 | 33,124,233 | (1,634,277) | 5% |
| Energy and Utilities | 32,406,638 | 32,497,870 | (91,232) | 0% |
| Other | 65,622,132 | 63,683,812 | 1,938,320 | 3% |
| CIP Contingency | 5,000 | 5,000 | - | 0% |
| Capital Expenditure | 5,582,202 | 4,806,355 | 775,847 | 14% |
| Debt | 4,252,713 | 4,244,980 | 7,733 | 0% |
| Appropriated Reserve | 1,666,935 | - | 1,666,935 | 100% |
| Total | \$ 1,129,706,375 | \$ 1,118,346,876 | \$ 11,359,499 | 1% |

Salaries and Wages

Budgeted salaries and wages are projected to expend \$656.9 million by fiscal year-end with \$504.6 million from the General Fund which produces a variance of \$21.4 million or 3 percent in salary savings city-wide with \$11.5 million or 2 percent variance in the General Fund. A hiring freeze went into effect in September 2009 for General Fund and internal service fund departments in order to produce additional savings to offset projected revenue shortfalls. The freeze is holding approximately 800 permanent positions vacant in the General Fund. Some vacant positions may continue to be filled with the approval of the Chief Operating Officer throughout the year. Additionally, some of the savings are being used to offset other personnel expenditures, such as out-of-class assignments, termination pays, payments in lieu of vacation, temporary help, and increased overtime in order to maintain continued service levels primarily focused in the areas of public safety, community services, and committed projects throughout the City.

Approximately one-third of the General Fund vacancies are public safety sworn positions in the Police and Fire-Rescue departments. Approximately \$6.9 million or 60 percent of the General Fund salary savings is due to the Police Department vacancies and includes sworn and non-sworn positions. Fire-Rescue is projecting to exceed budgeted salaries and wages by approximately \$870,000 due to over-budget expenditures caused by strike team responses that will be reimbursed by the state and by additional staffing of ambulances with fire fighters that will be reimbursed by the Emergency Medical Services Fund.

The budgeted vacancy savings in the General Fund is \$36.0 million. Any projected expenditure value the hiring freeze produces is not considered budgetary savings until the expenditure value surpasses the budgeted vacancy savings. This amount largely represents itself in the \$11.5

million in projected salary savings in the General Fund but this estimate could be reduced as departments fund out-of-class assignment pay, temporary help and overtime to support continued City operations in larger operating departments.

Upon execution of the labor concession terms into the Fiscal Year 2010 budget, there was an item that allows for an employee's choice of a reduction affecting his or her salary or the City's match to the Supplemental Pension Savings Plan (SPSP). The Financial Management Department assumed a budgeted three percent reduction in salaries and associated fringe to all Municipal Employee Association (MEA) positions. The objective was to provide flexibility in allowing City Council to approve a transfer of fringe appropriations due to savings towards salary deficits if necessary and remain in accordance with the City Charter provision in Article VII Section 73 specifying that appropriated salary expenditures cannot be transferred toward non-personnel expenditures for any reason other than a public emergency. The allocation of the three percent salary reduction for permanent budgeted MEA positions in the Fiscal Year 2010 budget was (\$4.6) million in the General Fund and (\$7.8) million city-wide. Since the majority of the MEA employees have since chosen to waive the City's SPSP matching contribution to the employee's mandatory contribution, the lack of higher savings in budgeted salaries is offset by fringe savings in SPSP and other associated fringe that is variable to salary rates.

Fringe Benefits

City-wide fiscal year-end fringe projections total \$353.1 million with \$259.3 million in the General Fund. The hiring freeze implemented in the third month of the fiscal year and projected to be maintained for the rest of the fiscal year has impacts to specific fringe accounts that produce savings since the obligation to expend the fringe account is based on a position being filled. These fringe accounts include Medicare, Employee Offset Payment, Retirement Offset Contribution, Unemployment Insurance, and Unused Sick Leave. The projected total savings from these accounts is \$1.2 million city-wide and \$746,000 in the General Fund.

The Supplemental Pension Savings Plan (SPSP) budgeted fringe account is projecting savings of \$5.7 million city-wide with \$3.5 million of this in the General Fund. This savings are largely due to MEA employees electing to waive their right to the City's mandatory matching contribution of the SPSP program.

The Flexible Benefits budgeted allocation was based on current enrollment during the budget development process last year. Since that time, enrollments decreased as a result of a significant amount of departures from the City mostly due to retirements in Police and Fire-Rescue departments. This enrollment decrease is projected to produce savings of \$570,000 city-wide with \$558,000 of this in the General Fund. Table 11 further illustrates General Fund budgeted fringe and projected expenditures for Fiscal Year 2010.

FY 2010 General Fund Fringe Benefits Budget and Projections

Table 11

| Fringe Benefits Account | Current Budget | Year-End Projection | Under Budget/ (Over Budget) | Variance % |
|---------------------------------|-----------------------|----------------------------|--|-------------------|
| Retirement ARC | \$ 124,871,402 | \$ 119,333,925 | \$ 5,537,477 | 4% |
| Flexible Benefits | 39,007,082 | 38,449,086 | 557,996 | 1% |
| Retiree Healthcare Contribution | 22,320,912 | 22,256,579 | 64,333 | 0% |
| Workers' Compensation | 20,418,061 | 20,700,950 | (282,889) | 1% |
| OPEB | 17,384,195 | 17,325,389 | 58,806 | 0% |
| SPSP | 13,491,263 | 9,956,663 | 3,534,600 | 26% |
| Medicare | 6,907,227 | 6,063,185 | 844,042 | 12% |
| Risk Management Administration | 5,503,957 | 5,630,427 | (126,470) | 2% |
| Retirement Offset Contribution | 5,246,164 | 4,728,115 | 518,049 | 10% |
| Long-Term-Disability | 2,954,884 | 2,958,559 | (3,675) | 0% |
| Unemployment Insurance | 911,037 | 923,689 | (12,652) | 1% |
| Unused Sick Leave | 332,475 | 276,489 | 55,986 | 17% |
| Employee Offset Payment | 10,042,664 | 10,702,582 | (659,918) | 7% |
| Total | \$ 269,391,323 | \$ 259,305,638 | \$ 10,085,685 | 4% |

Certain fringe accounts are projected to be fully expended regardless of the number of vacancies due to fixed or obligated commitments related to settlement requirements and the City's Reserve Policy. These fixed fringe accounts include Workers' Compensation, Long-Term Disability, SDCERS Annual Required Contribution (ARC), OPEB, Retiree Healthcare Pay-Go Contribution, and the Risk Management Administration. These budgeted expenditures total \$249.0 million city-wide. Collection rate adjustments will continue to occur as necessary to ensure these fringe accounts are fully expended by fiscal year-end.

Contracts

General Fund departments are projected to be \$13.2 million, or 7 percent, over budget in contracts at year-end. The unfavorable variance is primarily due to carry forward encumbrances from prior fiscal years which will be expended in Fiscal Year 2010 and offset by the release of prior year appropriations to the General Fund reserve. The majority of the carry forward encumbrances are for storm water related contracts. However, there are various other contracts for slurry seal, landscape and brush management, the small business enhancement program, community plan updates, and the City's annual audit which contribute to the variance in this category.

Information Technology

General Fund departments are projected to be \$1.6 million, or 5 percent, over budget in information technology at year-end. The unfavorable variance is primarily due carry forward encumbrances which will be expended in Fiscal Year 2010 and is offset by the release of prior year appropriations to the General Fund reserve. The majority of the carry forward encumbrances are for annual maintenance and new or upgraded computer software for various departments.

Other

General Fund departments are projected to be \$1.9 million, or 3 percent, under budget in this category at year-end. The positive variance is primarily due to projected \$1.0 million savings in election costs and \$500,000 projected savings in lease payments.

Capital Expenditure

General Fund departments are projected to be \$776,000, or 14 percent, under budget in capital expenditures at year-end. The Park and Recreation Department is projecting the majority of the savings in this category due to conservative spending and less equipment needed due to vacant positions.

Supplies, Energy and Utilities, CIP Contingency and Debt

General Fund projections reflect spending in the areas of supplies, energy and utilities, CIP contingency and debt to be on target with the current budget.

Department Expenditures

Table 12: FY 2010 Significant General Fund Expenditure Variances by Department, displays the departments with projected over or under budget expenditure variances of \$500,000 or greater. These variances are discussed following the table. Attachment II: General Fund Projected Expenditures includes projections for all General Fund departments.

FY 2010 Significant General Fund Expenditure Variances by Department

Table 12

| Department | Current Budget | Year-End Projection | Under Budget/ (Over Budget) | Variance % |
|----------------------------------|----------------|---------------------|-----------------------------|------------|
| Police | \$ 398,258,568 | \$ 384,368,188 | \$ 13,890,380 | 3% |
| Storm Water | 37,651,248 | 47,030,954 | (9,379,706) | 25% |
| City Planning and Community Inv. | 14,802,681 | 16,448,096 | (1,645,415) | 11% |
| Administration | 3,915,763 | 2,712,257 | 1,203,506 | 31% |
| Citywide Program Expenditures | 52,921,079 | 52,021,749 | 899,330 | 2% |
| Environmental Services | 37,270,592 | 36,376,842 | 893,750 | 2% |
| DSD-Neighborhood Code Comp. | 6,530,597 | 5,659,673 | 870,924 | 13% |
| City Auditor | 2,531,417 | 3,319,528 | (788,111) | 31% |
| Library | 37,068,257 | 36,293,457 | 774,800 | 2% |
| Purchasing and Contracting | 4,267,264 | 3,564,435 | 702,829 | 16% |
| General Services | 61,393,308 | 61,908,793 | (515,485) | 1% |

Police

The Police Department is projecting to end the year with expenditures under budget by \$13.9 million or 3 percent of the current budget of \$398.3 million. This variance is attributed to \$15.5 million in projected salary and fringe savings resulting from over 300 vacant sworn and non-sworn positions due to a combination of attrition and the City's hiring freeze.

Storm Water

The Storm Water Department's current budget is \$37.7 million. The department projects to end the fiscal year with \$9.4 million, or 25 percent, of expenditures over budget. The projected expenditure variance is associated with the carry forward encumbrances for storm water related contracts and is offset by the release of prior year appropriations to the General Fund reserve.

City Planning and Community Investment

The City Planning and Community Investment Department is projecting to end the fiscal year with expenditures \$1.6 million, or 11 percent, over the current budget of \$14.8 million. The projected overage is due to carry forward encumbrances for contracts related to the Small Business Enhancement Program and Community Plan Updates and is offset by the release of prior year appropriations to the General Fund reserve.

Administration

The Administration Department is projecting to end the year with expenditures under budget by \$1.2 million or 31 percent. This is due to a new contract awarded to San Diego Medical Services Enterprise, LLC for Emergency Medical Transport Services which resulted in a estimated savings of over \$1.0 million.

Citywide Program Expenditures

The total year-end projection for Citywide Program Expenditures is \$52.0 million, which represents a favorable variance of \$899,000 or 2 percent of the current budget of \$52.9 million. The positive variance is primarily due to the projected \$1.0 million savings in election costs due to fewer measures added to the June ballot.

Environmental Services

The Environmental Services Department is projecting to end the year with expenditures under budget by \$894,000 or 2 percent. This is primarily due to vacancy savings, conservative spending and a decrease in tipping fee expenses related to a decrease in tonnage collected and disposed.

Development Services – Neighborhood Code Compliance

The Development Services – Neighborhood Code Compliance Department is projecting expenditures to be 13 percent, or \$871,000, under the current budget. This is primarily due to vacancies in the department and conservative spending.

City Auditor

The City Auditor is projecting to end the fiscal year with expenditures over budget by \$788,000 or 31 percent. The variance is primarily attributed to the carry forward encumbrance for the Fiscal Year 2009 annual audit, which is projected to be expended in Fiscal Year 2010, and will be offset by the release of prior year appropriations to the General Fund reserve.

Library

The Library Department is projecting to end the year with expenditures under budget by \$775,000 or 2 percent. The department's current expenditure budget is \$37.1 million. The department projects to have salary savings due to vacant positions.

Purchasing and Contracting

The Purchasing and Contracting Department is projecting expenditures to be under budget by \$703,000 or 16 percent of the current budget of \$4.3 million. The variance is primarily due to vacant positions and conservative spending.

General Services

The General Services Department's current budget is \$61.4 million. The department projects to end the fiscal year with \$515,000, or 1 percent, of expenditures over budget. The projected expenditure variance is due projected expenditures associated with the carry forward encumbrances for slurry seal contracts and asphalt materials and will be offset by the release of prior year appropriations to the General Fund reserve.

NON-GENERAL FUNDS

Projections based on the first three accounting periods of Fiscal Year 2010 are provided in Attachment III: Non-General Fund Projections for all non-general funds with staff. Non-general funds have also included expenditures associated with prior year encumbrances in the Fiscal Year 2010 projections. In contrast to the General Fund, non-general funds will retain sufficient prior-year appropriations to cover this year's expenditures. However, the current budget presented below and in the attachment do not include the carry forward budget. Once the Fiscal Year 2009 CAFR has been completed, and audited financial data is available, the carry forward budgets will be included in future reports. The new procedure regarding the treatment of prior year encumbrances will be fully implemented for non-general funds in Fiscal Year 2011. Also note that expenditures associated with the Capital Improvements Program are not included in the current budget or projections provided below or in the attachment. Those funds with significant budgetary variances in revenues or expenditures of \$500,000 or more are displayed in Table 13: FY 2010 Significant Non-General Fund Expenditure Variances and are discussed below.

Central Stores Internal Service Fund

Year-end expenditure projections for the Central Stores Internal Service Fund are \$2.4 million, or 10 percent, under the current budget of \$23.8 million. Similarly, revenues are projected to be \$2.2 million, or 9 percent, under the revenue budget. The expenditure variance is due to decrease in product demand from customer departments, which is offset by decreased revenues.

City Airport Fund

The City Airport Fund is projecting revenue to end the year \$666,000, or 12 percent, over the current revenue budget of \$5.4 million. This variance is the result of higher than anticipated lease revenue. Projected year-end revenues in the City Airport Fund exceed projected expenditures by approximately \$2.7 million.

FY 2010 Significant Non-General Fund Expenditure Variances
Table 13

| Fund | Revenue/Expenditure | Current Budget | Year-End Projection | Variance Amount | Variance % |
|----------------------------|----------------------------|-----------------------|----------------------------|------------------------|-------------------|
| Central Stores | Rev \$ | 23,780,557 | \$ 21,534,656 | \$ (2,245,901) | 9% |
| | Exp | 23,780,557 | 21,416,978 | 2,363,579 | 10% |
| City Airport | Rev | 5,434,888 | 6,101,059 | 666,171 | 12% |
| Development Services | Rev | 45,868,370 | 39,346,681 | (6,521,689) | 14% |
| | Exp | 44,009,130 | 39,046,298 | 4,962,832 | 11% |
| Emergency Medical Services | Rev | 7,327,295 | 6,132,621 | (1,194,674) | 16% |
| | Exp | 7,154,723 | 6,248,043 | 906,680 | 13% |
| QUALCOMM Stadium | Rev | 18,672,629 | 18,154,002 | (518,627) | 3% |
| Recycling | Rev | 15,866,794 | 17,846,152 | 1,979,358 | 12% |
| | Exp | 21,695,273 | 19,989,887 | 1,705,386 | 8% |
| Refuse Disposal | Rev | 31,094,511 | 31,864,286 | 769,775 | 2% |
| | Exp | 36,765,823 | 34,763,820 | 2,002,003 | 5% |
| Sewer | Rev | 449,332,556 | 451,628,350 | 2,295,794 | 1% |
| | Exp | 359,271,205 | 384,621,485 | (25,350,280) | 7% |
| Water | Rev | 513,630,272 | 508,314,611 | (5,315,661) | 1% |
| | Exp | 384,541,038 | 410,283,652 | (25,742,614) | 7% |

Development Services Enterprise Fund

Year-end expenditure projections for the Development Services Enterprise Fund are \$5.0 million, or 11 percent, under the current budget of \$44.0 million. Revenues are projected to be \$6.5 million, or 14 percent, under the revenue budget. The expenditure variance is due to fringe savings associated with staffing vacancies captured in the \$9.2 million vacancy factor reduced from the salary category. In addition, the fund is projecting savings in contract expenditures due to less than anticipated development permit activity. The under budget revenue is due to a decrease in licenses and permits as a result of the current economic downturn, which is partially offset by \$2.1 million in fee increases approved by City Council.

Emergency Medical Services Fund

The Emergency Medical Services Fund’s expenditure projection is under budget by \$907,000 or 13 percent of the current budget of \$7.2 million and the revenue projection is under budget by \$1.2 million or 16 percent. This favorable projected expenditure variance is primarily due to anticipated overtime savings. The under budget revenue is due to a reduction in the General Fund transfer as a result of a new contract awarded to San Diego Medical Services Enterprise, LLC for Emergency Medical Transport Services which resulted in a estimated savings of over \$1.0 million. Year-end expenditures are projected to exceed revenues by approximately \$115,000, which will be covered by fund balance.

QUALCOMM Stadium Operating Fund

The QUALCOMM Stadium Operating Fund is projecting under budget revenues of \$519,000 or 3 percent. This is the result of less than anticipated auto connection parking lot events and concert revenues. The fund projects to end the year with \$528,000 of revenue in excess of projected expenditures.

Recycling Fund

The Recycling Fund projects expenditures to end the year \$1.7 million, or 8 percent, under the current budget of \$21.7 million. Similarly, a \$2.0 million, or 12 percent, favorable variance is projected in revenue. The positive variance in expenditures is primarily attributed to vacant positions in the department due to efficiencies. The projected over budget revenue is primarily due to increase in revenue from the sale of recyclable commodities and higher than anticipated tonnage. The fund projects to end the year with \$2.1 million of expenditures in excess of revenues, which will be covered by fund balance.

Refuse Disposal Fund

The Refuse Disposal Fund projects \$2.0 million, or 5 percent, of expenditures to end the year under the current budget of \$36.8 million. This variance is attributed to a projected decline in overall tonnage being deposited in the City landfill. However, revenues are projected to be \$768,000 over budget, or 2 percent, due to higher than anticipated sale of mulch and wood chips. Year-end expenditures are projected to exceed revenues by approximately \$2.9 million, which will be covered by fund balance.

Sewer Funds

The Sewer Funds are projecting year-end expenditures to be above the \$359.3 million current budget by \$25.4 million or 7 percent. Over budget revenues of \$2.3 million, or 1 percent, are also projected. The expenditure variance is due to carry forward encumbrances for contracts related to the various pump stations and is offset by prior year appropriations which will be reflected in future reports. The over budget revenue is primarily due to unanticipated interest earnings.

Water Department Fund

The Water Department Fund projects year-end over budget expenditures of \$25.7 million, or 7 percent, of the \$384.5 million current budget. An unfavorable revenue variance of \$5.3 million, or 1 percent, is also projected. The expenditure variance is primarily due to carry forward encumbrances for various engineering and consultant water related contracts and is offset by prior year appropriations which will be reflected in future reports. The unfavorable revenue variance is due to the decline in capacity fee charge revenue as the result of a decrease in large-scale commercial building permit activity.

FISCAL CONSIDERATIONS:

The General Fund is estimated to conclude the fiscal year with expenditures exceeding revenues by \$39.0 million. However, \$31.5 million of prior year appropriations will be released to fund balance and offset most of this shortfall, resulting in a net year-end variance of \$7.5 million. In addition, the General Fund is currently projected to have a shortfall of approximately \$5.6 million toward meeting the Fiscal Year 2010 reserves target.

Because projections are based on only three months of actual financial data and the fact that the Mayor is developing a long term strategy for addressing the Fiscal Year 2011 projected deficit, no budget amendments are being recommended at this time to close this budget gap. Rather, it is recommended that remediation actions be taken for both Fiscal Years 2010 and 2011 concurrently and to be effective in January 2010.

PREVIOUS COUNCIL and/or COMMITTEE ACTION: None.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS: None.

KEY STAKEHOLDERS AND PROJECTED IMPACTS: None.

Nader Tirandazi
Financial Management Director

Mary Lewis
Chief Financial Officer

Angela Colton
Financial Manager

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

| Business Center/Department | Adopted Budget | Current Budget | Year-End Projection | Over Budget/ (Under Budget) | Variance % |
|---|-----------------------|-----------------------|------------------------|--------------------------------|---------------|
| Major General Fund Revenues | | | | | |
| Franchise Fees ¹ | \$ 73,586,929 | \$ 73,586,929 | \$ 70,163,821 | \$ (3,423,108) | 5% |
| Interest Earnings | 4,091,471 | 4,091,471 | 4,091,471 | - | 0% |
| Motor Vehicle License Fees | 3,900,000 | 3,900,000 | 3,474,895 | (425,105) | 11% |
| Property Tax | 382,627,885 | 382,627,885 | 392,696,027 | 10,068,142 | 3% |
| Property Transfer Tax | 4,511,178 | 4,511,178 | 4,338,522 | (172,656) | 4% |
| Refuse Collector Business Tax | 1,000,000 | 1,000,000 | 765,000 | (235,000) | 24% |
| Safety Sales Tax | 7,057,580 | 7,057,580 | 6,297,815 | (759,765) | 11% |
| Sales Tax | 210,141,169 | 210,141,169 | 184,374,213 | (25,766,956) | 12% |
| Transfers from Other Funds | 82,408,793 | 82,408,793 | 79,496,233 | (2,912,560) | 4% |
| Transient Occupancy Tax ² | 75,907,285 | 75,907,285 | 66,834,085 | (9,073,200) | 12% |
| TOTAL | \$ 845,232,290 | \$ 845,232,290 | 812,532,082 | \$ (32,700,208) | 4% |
| City Planning and Development | | | | | |
| City Planning and Community Investment | 2,762,148 | 2,762,148 | 2,957,077 | 194,929 | 7% |
| Development Services - Neighborhood Code Compliance | 810,134 | 810,134 | 738,401 | (71,733) | 9% |
| Community Services | | | | | |
| Library | 1,539,418 | 1,539,418 | 1,277,881 | (261,537) | 17% |
| Park and Recreation | 29,893,493 | 29,893,493 | 22,884,332 | (7,009,161) | 23% |
| Non-Mayoral | | | | | |
| City Attorney | 6,183,020 | 6,183,020 | 5,227,824 | (955,196) | 15% |
| City Auditor | 122,323 | 122,323 | 122,323 | - | 0% |
| City Clerk | 30,352 | 30,352 | 28,961 | (1,391) | 5% |
| City Council - District 1 | - | - | - | - | 0% |
| City Council - District 2 | - | - | - | - | 0% |
| City Council - District 3 | 27,486 | 27,486 | 27,486 | - | 0% |
| City Council - District 4 | - | - | - | - | 0% |
| City Council - District 5 | 32,000 | 32,000 | 32,000 | - | 0% |
| City Council - District 6 | 32,000 | 32,000 | 32,000 | - | 0% |
| City Council - District 7 | 32,000 | 32,000 | 32,000 | - | 0% |
| City Council - District 8 | 32,000 | 32,000 | 32,000 | - | 0% |

| Business Center/Department | Adopted Budget | Current Budget | Year-End Projection | Over Budget/ (Under Budget) | Variance % |
|--|-------------------|-------------------|------------------------|--------------------------------|---------------|
| Non-Mayoral (continued) | | | | | |
| Council Administration | \$ 59,212 | \$ 59,212 | \$ 59,212 | \$ - | 0% |
| Ethics Commission | - | - | 8,950 | 8,950 | 100% |
| Independent Budget Analyst | - | - | - | - | 0% |
| Personnel | 73,500 | 73,500 | 93,926 | 20,426 | 28% |
| Office of the Assistant Chief Operating Officer | | | | | |
| Administration | 253,500 | 253,500 | 243,807 | (9,693) | 4% |
| Assistant Chief Operating Officer | - | - | - | - | 0% |
| Business Office | - | - | - | - | 0% |
| Human Resources | - | - | 829 | 829 | 100% |
| Information Technology | - | - | - | - | 0% |
| Purchasing and Contracting | 796,856 | 796,856 | 797,931 | 1,075 | 0% |
| Office of the Chief Financial Officer | | | | | |
| Chief Financial Officer | 500,000 | 500,000 | 500,000 | - | 0% |
| City Comptroller | 2,723,824 | 2,723,824 | 2,688,177 | (35,647) | 1% |
| City Treasurer | 26,298,217 | 26,298,217 | 22,686,331 | (3,611,886) | 14% |
| Citywide Program Expenditures | - | - | - | - | 0% |
| Debt Management | 1,137,885 | 1,137,885 | 1,071,025 | (66,860) | 6% |
| Financial Management | 371,695 | 371,695 | 363,633 | (8,062) | 2% |
| Office of the Chief of Staff | | | | | |
| Community and Legislative Services | 1,587,244 | 1,587,244 | 1,587,244 | - | 0% |
| Office of the Mayor and Chief Operating Officer | | | | | |
| Mayor and Chief Operating Officer | - | - | - | - | 0% |
| Public Safety and Homeland Security | | | | | |
| Fire-Rescue | 16,155,140 | 16,155,140 | 19,150,486 | 2,995,346 | 19% |
| Office of Homeland Security | 915,742 | 915,742 | 646,261 | (269,481) | 29% |
| Police | 38,956,001 | 38,956,001 | 36,959,546 | (1,996,455) | 5% |

| General Fund Projected Revenues | | | | | |
|------------------------------------|-------------------------|-------------------------|-------------------------|--------------------------------|---------------|
| Business Center/Department | Adopted Budget | Current Budget | Year-End Projection | Over Budget/ (Under Budget) | Variance % |
| Public Utilities | | | | | |
| Water - Reservoir Recreation | \$ 1,835,513 | \$ 1,835,513 | \$ 1,842,388 | \$ 6,875 | 0% |
| Public Works | | | | | |
| Engineering and Capital Projects | 63,400,000 | 63,400,000 | 63,589,100 | 189,100 | 0% |
| Environmental Services | 1,144,105 | 1,144,105 | 1,045,961 | (98,144) | 9% |
| General Services | 35,865,128 | 35,865,128 | 32,725,917 | (3,139,211) | 9% |
| Public Works | - | - | - | - | 0% |
| Real Estate Assets | 41,794,909 | 41,794,909 | 39,245,732 | (2,549,177) | 6% |
| Storm Water | 9,109,240 | 9,109,240 | 8,111,916 | (997,324) | 11% |
| Total General Fund Revenues | | | | | |
| | \$ 1,129,706,375 | \$ 1,129,706,375 | \$ 1,079,342,739 | \$ (50,363,636) | 4% |

The current budget presented in this table is as of September 2009, accounting period 3, unless otherwise noted.

¹ Total City FY 2010 current revenue budget for transient occupancy tax is \$144.9 million and the projection is \$127.6 million. The balance is budgeted in the Transient Occupancy Tax Fund.

² Total City FY 2010 current revenue budget for franchise fees is \$137.0 million and the projection is \$133.6 million. The balance is budgeted in the Environmental Growth and Utilities Undergrounding Program Funds.

| General Fund Projected Expenditures |
|--|
|--|

| Business Center/Department | Adopted Budget | Current Budget | Year-End Projection | Under Budget/ (Over Budget) | Variance % |
|--|---------------------------|---------------------------|--------------------------------|--|-----------------------|
| City Planning and Development | | | | | |
| City Planning and Community Investment | \$ 14,802,681 | \$ 14,802,681 | \$ 16,448,096 | \$ (1,645,415) | 11% |
| Development Services - Neighborhood Code Compliance | 6,530,597 | 6,530,597 | 5,659,673 | 870,924 | 13% |
| Community Services | | | | | |
| Library | 37,068,257 | 37,068,257 | 36,293,457 | 774,800 | 2% |
| Park and Recreation | 85,952,859 | 85,952,859 | 86,130,259 | (177,400) | 0% |
| Non-Mayoral | | | | | |
| City Attorney | 37,790,631 | 37,790,631 | 37,541,013 | 249,618 | 1% |
| City Auditor | 2,531,417 | 2,531,417 | 3,319,528 | (788,111) | 31% |
| City Clerk | 4,404,528 | 4,404,528 | 4,473,851 | (69,323) | 2% |
| City Council - District 1 | 939,500 | 939,500 | 903,758 | 35,742 | 4% |
| City Council - District 2 | 939,500 | 939,500 | 856,690 | 82,810 | 9% |
| City Council - District 3 | 966,986 | 966,986 | 919,064 | 47,922 | 5% |
| City Council - District 4 | 939,500 | 939,500 | 828,355 | 111,145 | 12% |
| City Council - District 5 | 971,500 | 971,500 | 905,447 | 66,053 | 7% |
| City Council - District 6 | 971,500 | 971,500 | 895,741 | 75,759 | 8% |
| City Council - District 7 | 971,500 | 971,500 | 892,307 | 79,193 | 8% |
| City Council - District 8 | 971,500 | 971,500 | 846,092 | 125,408 | 13% |
| Council Administration | 1,712,081 | 1,712,081 | 1,678,874 | 33,207 | 2% |
| Ethics Commission | 891,287 | 891,287 | 929,931 | (38,644) | 4% |
| Independent Budget Analyst | 1,453,234 | 1,453,234 | 1,452,226 | 1,008 | 0% |
| Personnel | 6,227,456 | 6,227,456 | 6,201,939 | 25,517 | 0% |
| Office of the Assistant Chief Operating Officer | | | | | |
| Administration | 3,915,763 | 3,915,763 | 2,712,257 | 1,203,506 | 31% |
| Assistant Chief Operating Officer | 526,242 | 526,242 | 312,534 | 213,708 | 41% |
| Business Office | 1,456,057 | 1,456,057 | 1,102,746 | 353,311 | 24% |
| Human Resources | 2,466,151 | 2,466,151 | 2,465,051 | 1,100 | 0% |
| Information Technology | 16,511,184 | 16,511,184 | 16,486,354 | 24,830 | 0% |
| Purchasing and Contracting | 4,267,264 | 4,267,264 | 3,564,435 | 702,829 | 16% |

| General Fund Projected Expenditures | | | | | |
|-------------------------------------|--|--|--|--|--|
|-------------------------------------|--|--|--|--|--|

| Business Center/Department | Adopted Budget | Current Budget | Year-End Projection | Under Budget/ (Over Budget) | Variance % |
|--|----------------------|----------------------|------------------------|--------------------------------|---------------|
| Office of the Chief Financial Officer | | | | | |
| Chief Financial Officer | \$ 879,473 | \$ 879,473 | \$ 875,367 | \$ 4,106 | 0% |
| City Comptroller | 10,598,676 | 10,598,676 | 10,585,690 | 12,986 | 0% |
| City Treasurer | 17,866,743 | 17,866,743 | 17,564,521 | 302,222 | 2% |
| Citywide Program Expenditures | | | | | |
| Assessments to Public Property | 450,235 | 450,235 | 450,235 | - | 0% |
| Citywide Elections | 2,000,000 | 2,000,000 | 1,000,000 | 1,000,000 | 50% |
| Corporate Master Leases Rent | 9,350,765 | 9,350,765 | 8,883,088 | 467,677 | 5% |
| Employee Personal Property Claims | 5,000 | 5,000 | 4,501 | 499 | 10% |
| Insurance | 1,358,129 | 1,358,129 | 1,284,414 | 73,715 | 5% |
| Memberships | 630,000 | 630,000 | 630,000 | - | 0% |
| Preservation of Benefits | 1,425,000 | 1,425,000 | 1,425,000 | - | 0% |
| Property Tax Administration | 4,639,984 | 4,639,984 | 4,639,984 | - | 0% |
| Public Liability Claims Fund Transfer | 25,071,350 | 25,071,350 | 25,071,350 | - | 0% |
| Special Consulting Services | 1,350,000 | 1,350,000 | 1,993,561 | (643,561) | 48% |
| TRANS Interest Expense Transfer | 1,326,331 | 1,326,331 | 1,326,331 | - | 0% |
| Transfer to Park Improvement Funds | 5,036,208 | 5,036,208 | 5,035,208 | 1,000 | 0% |
| Transportation Subsidy | 278,077 | 278,077 | 278,077 | - | 0% |
| TOTAL | \$ 52,921,079 | \$ 52,921,079 | \$ 52,021,749 | \$ 899,330 | 2% |
| Debt Management | 2,632,092 | 2,632,092 | 2,277,133 | 354,959 | 13% |
| Financial Management | 3,788,279 | 3,788,279 | 3,741,945 | 46,334 | 1% |
| Office of the Chief of Staff | | | | | |
| Community and Legislative Services | 5,878,025 | 5,878,025 | 5,856,965 | 21,060 | 0% |
| Office of the Mayor and Chief Operating Officer | | | | | |
| Mayor and Chief Operating Officer | 642,234 | 642,234 | 639,582 | 2,652 | 0% |
| Public Safety and Homeland Security | | | | | |
| Fire-Rescue | 191,092,571 | 191,092,571 | 190,751,531 | 341,040 | 0% |
| Office of Homeland Security | 1,536,220 | 1,536,220 | 1,333,596 | 202,624 | 13% |
| Police | 398,258,568 | 398,258,568 | 384,368,188 | 13,890,380 | 3% |

| General Fund Projected Expenditures | | | | | |
|---|-------------------------|-------------------------|-------------------------|--------------------------------|---------------|
| Business Center/Department | Adopted Budget | Current Budget | Year-End Projection | Under Budget/ (Over Budget) | Variance % |
| Public Utilities | | | | | |
| Water - Reservoir Recreation | \$ 1,994,583 | \$ 1,994,583 | \$ 1,994,583 | \$ - | 0% |
| Public Works | | | | | |
| Engineering and Capital Projects | 63,344,067 | 63,344,067 | 63,316,643 | 27,424 | 0% |
| Environmental Services | 37,270,592 | 37,270,592 | 36,376,842 | 893,750 | 2% |
| General Services | 61,393,308 | 61,393,308 | 61,908,793 | (515,485) | 1% |
| Public Works | 314,407 | 314,407 | 310,500 | 3,907 | 1% |
| Real Estate Assets | 3,798,100 | 3,798,100 | 3,572,616 | 225,484 | 6% |
| Storm Water | 37,651,248 | 37,651,248 | 47,030,954 | (9,379,706) | 25% |
| Total General Fund Expenditures | | | | | |
| | \$ 1,128,039,440 | \$ 1,128,039,440 | \$ 1,118,346,876 | \$ 9,692,564 | 1% |
| General Fund Appropriated Reserve | | | | | |
| | 1,666,935 | 1,666,935 | - | 1,666,935 | 100% |
| General Fund Expenditures + Appropriated Reserve | | | | | |
| | \$ 1,129,706,375 | \$ 1,129,706,375 | \$ 1,118,346,876 | \$ 11,359,499 | 1% |

The current budget presented in this table is as of September 2009, accounting period 3, unless otherwise noted.

| |
|-------------------------------------|
| Non-General Fund Projections |
|-------------------------------------|

| Business Center/Fund | | Adopted Budget | Current Budget | Year-End Projection | Variance Amount | Variance % |
|--|--------------|-------------------|-------------------|------------------------|--------------------|---------------|
| City Planning and Development | | | | | | |
| Development Services Enterprise Fund | Revenues | \$ 45,868,370 | \$ 45,868,370 | \$ 39,346,681 | \$ (6,521,689) | 14% |
| | Expenditures | 44,009,130 | 44,009,130 | 39,046,298 | 4,962,832 | 11% |
| Facilities Financing Fund | Revenues | 2,337,579 | 2,337,579 | 2,480,190 | 142,611 | 6% |
| | Expenditures | 2,473,364 | 2,473,364 | 2,356,306 | 117,058 | 5% |
| HUD Programs Administration Fund | Revenues | 2,358,969 | 2,358,969 | 2,341,231 | (17,738) | 1% |
| | Expenditures | 2,300,196 | 2,300,196 | 2,592,918 | (292,722) | 13% |
| Redevelopment Fund | Revenues | 3,399,596 | 3,399,596 | 3,403,953 | 4,357 | 0% |
| | Expenditures | 3,399,596 | 3,399,596 | 3,360,872 | 38,724 | 1% |
| Solid Waste Local Enforcement Agency Fund | Revenues | 857,528 | 857,528 | 672,715 | (184,813) | 22% |
| | Expenditures | 894,705 | 894,705 | 804,423 | 90,282 | 10% |
| Community Services | | | | | | |
| Golf Course Enterprise Fund | Revenues | 17,013,019 | 17,013,019 | 16,896,653 | (116,366) | 1% |
| | Expenditures | 13,685,717 | 13,685,717 | 13,606,078 | 79,639 | 1% |
| Los Peñasquitos Canyon Preserve Fund | Revenues | 176,000 | 176,000 | 176,000 | - | 0% |
| | Expenditures | 194,838 | 194,838 | 193,110 | 1,728 | 1% |
| Office of the Assistant Chief Operating Officer | | | | | | |
| Central Stores Internal Service Fund | Revenues | 23,780,557 | 23,780,557 | 21,534,656 | (2,245,901) | 9% |
| | Expenditures | 23,780,557 | 23,780,557 | 21,416,978 | 2,363,579 | 10% |
| Information Technology Fund | Revenues | 3,164,595 | 3,164,595 | 3,188,168 | 23,573 | 1% |
| | Expenditures | 4,304,839 | 4,304,839 | 4,284,936 | 19,903 | 0% |
| Office of the Chief Financial Officer | | | | | | |
| OneSD Support Fund | Revenues | 12,898,704 | 12,898,704 | 12,892,711 | (5,993) | 0% |
| | Expenditures | 12,592,861 | 12,592,861 | 12,722,770 | (129,909) | 1% |
| Risk Management Administration Fund | Revenues | 7,895,579 | 7,895,579 | 7,895,578 | (1) | 0% |
| | Expenditures | 9,100,205 | 9,100,205 | 9,390,552 | (290,347) | 3% |

| |
|-------------------------------------|
| Non-General Fund Projections |
|-------------------------------------|

| Business Center/Fund | | Adopted Budget | Current Budget | Year-End Projection | Variance Amount | Variance % |
|--|--------------|-------------------|-------------------|------------------------|--------------------|---------------|
| Office of the Chief of Staff | | | | | | |
| Commission for Arts and Culture ^{1,2} | Revenues | \$ - | \$ - | \$ 8,446 | \$ 8,446 | 100% |
| | Expenditures | 836,326 | 836,326 | 860,349 | (24,023) | 3% |
| Special Events ^{1,2} | Revenues | 150,000 | 150,000 | 121,315 | (28,685) | 19% |
| | Expenditures | 567,314 | 567,314 | 588,347 | (21,033) | 4% |
| Public Safety and Homeland Security | | | | | | |
| Emergency Medical Services Fund | Revenues | 7,327,295 | 7,327,295 | 6,132,621 | (1,194,674) | 16% |
| | Expenditures | 7,154,723 | 7,154,723 | 6,248,043 | 906,680 | 13% |
| Public Utilities | | | | | | |
| Sewer Funds | Revenues | 449,332,556 | 449,332,556 | 451,628,350 | 2,295,794 | 1% |
| | Expenditures | 359,271,205 | 359,271,205 | 384,621,485 | (25,350,280) | 7% |
| Water Department Fund | Revenues | 513,630,272 | 513,630,272 | 508,314,611 | (5,315,661) | 1% |
| | Expenditures | 384,541,038 | 384,541,038 | 410,283,652 | (25,742,614) | 7% |
| Public Works | | | | | | |
| City Airport Fund | Revenues | 5,434,888 | 5,434,888 | 6,101,059 | 666,171 | 12% |
| | Expenditures | 3,100,398 | 3,100,398 | 3,388,141 | (287,743) | 9% |
| Concourse and Parking Garages Operating Fund | Revenues | 3,323,005 | 3,323,005 | 3,288,860 | (34,145) | 1% |
| | Expenditures | 3,984,236 | 3,984,236 | 3,896,306 | 87,930 | 2% |
| Energy Conservation Program Fund | Revenues | 2,002,305 | 2,002,305 | 2,088,199 | 85,894 | 4% |
| | Expenditures | 1,845,379 | 1,845,379 | 1,895,154 | (49,775) | 3% |
| Fleet Services Internal Service Fund | Revenues | 48,318,809 | 48,318,809 | 48,285,897 | (32,912) | 0% |
| | Expenditures | 51,362,815 | 51,362,815 | 51,740,384 | (377,569) | 1% |
| PETCO Park Fund | Revenues | 17,701,165 | 17,701,165 | 17,435,430 | (265,735) | 2% |
| | Expenditures | 23,423,234 | 23,423,234 | 23,009,782 | 413,452 | 2% |
| Publishing Services Internal Service Fund | Revenues | 5,475,862 | 5,475,862 | 5,302,077 | (173,785) | 3% |
| | Expenditures | 5,475,862 | 5,475,862 | 5,260,158 | 215,704 | 4% |

| |
|-------------------------------------|
| Non-General Fund Projections |
|-------------------------------------|

| Business Center/Fund | | Adopted Budget | Current Budget | Year-End Projection | Variance Amount | Variance % |
|---|--------------|-------------------|-------------------|------------------------|--------------------|---------------|
| Public Works (continued) | | | | | | |
| QUALCOMM Stadium Operating Fund | Revenues | \$ 18,672,629 | \$ 18,672,629 | \$ 18,154,002 | \$ (518,627) | 3% |
| | Expenditures | 18,080,125 | 18,080,125 | 17,625,868 | 454,257 | 3% |
| Recycling Fund | Revenues | 15,866,794 | 15,866,794 | 17,846,152 | 1,979,358 | 12% |
| | Expenditures | 21,695,273 | 21,695,273 | 19,989,887 | 1,705,386 | 8% |
| Refuse Disposal Fund | Revenues | 31,094,511 | 31,094,511 | 31,864,286 | 769,775 | 2% |
| | Expenditures | 36,765,823 | 36,765,823 | 34,763,820 | 2,002,003 | 5% |
| Utilities Undergrounding Program Fund | Revenues | 50,030,432 | 50,030,432 | 50,025,598 | (4,834) | 0% |
| | Expenditures | 1,173,395 | 1,173,395 | 1,229,296 | (55,901) | 5% |
| Wireless Communications Technology Fund | Revenues | 8,967,673 | 8,967,673 | 9,137,015 | 169,342 | 2% |
| | Expenditures | 10,055,665 | 10,055,665 | 9,944,033 | 111,632 | 1% |

The current budget presented in this table is as of September 2009, accounting period 3, unless otherwise noted. Capital Improvement Program expenditure budgets are excluded.

¹ The Commission for Arts and Culture and Special Events Department are funded by the Transient Occupancy Tax (TOT) Fund.