



THE CITY OF SAN DIEGO
REPORT TO THE CITY COUNCIL

DATE ISSUED: February 21, 2007 REPORT NO: 07-041

ATTENTION: Budget and Finance Committee
Agenda of February 28, 2007

SUBJECT: Fiscal Year 2007 Mid-Year General Fund Expenditure Monitoring

REFERENCE: Fiscal Year 2007 Mid-Year Budget Adjustments Report
Fiscal Year 2007 Mid-Year General Fund Revenue Monitoring Report,
07-031
Charter Section 39 Report: Period Six of Fiscal Year 2007, 07-032
Fiscal Year 2007 Period 1-4 Budget Monitoring Update Report, 06-191
Fiscal Year 2007 Period 1-2 Budget Monitoring Report, 06-148

REQUESTED ACTION:

1. Accept the Report from the Mayor on Fiscal Year 2007 Mid-Year General Fund Expenditure Monitoring.

STAFF RECOMMENDATION:

1. Accept the Report from the Mayor on Fiscal Year 2007 Mid-Year General Fund Expenditure Monitoring.

SUMMARY:

INTRODUCTION

The Mid-Year Report for fiscal year 2007 presents the status of General Fund expenditures and projects year-end results compared to the fiscal year 2007 budget. Projections are also provided for the non-general funds that have required additional funding from the General Fund in prior years. These projections are based on actual (unaudited) expenditure data for accounting periods one through five (July 1, 2006 through November 17, 2006); however, all actual data presented is as of period six (July 1, 2006 through December 15, 2006.)

Attachment I displays the fiscal year 2007 budget for each General Fund department and the year-end expenditure projections. The following sections of the report present the major variances between the fiscal year 2007 expenditure budgets and projected expenditures. These projections are based on extensive review of actual expenditures and department operations and

reflect best estimates of year-end expenditures. These are projections, however, and as such are subject to future revision.

Explanations of year-end General Fund revenue and expenditure projections are provided in Attachment II. General Fund revenue projections were provided as an attachment to the Fiscal Year 2007 Mid-Year General Fund Revenue Monitoring Report, 07-031, presented to the Budget and Finance Committee in January 2007. Attachment III displays the fiscal year 2007 budget and year-end revenue and expenditure projections for the non-general funds that have in prior years required resources from the General Fund to offset fund deficits. Explanations of significant variances between period six actual results compared to period budgets are provided for the remaining budgeted funds in Attachment IV. Period-to-date actual data as of period six compared to period budgets were provided for all budgeted departments and funds in the Charter Section 39 Report: Period Six of Fiscal Year 2007, 07-032, presented to the Budget and Finance Committee in January 2007.

SUMMARY OF REVENUE AND EXPENDITURE PROJECTIONS

Year-end projections of General Fund revenues and expenditures show a projected year-end revenue surplus of \$6.2 million and projected expenditure savings of \$6.0 million. The combined anticipated total year-end savings (over budget revenue and expenditure savings) of \$12.2 million is reflected in the following table.

Summary of General Fund Projections			
Description	Revised Budget	Year-End Projection	Net Amount
Revenue			
Projected Revenues	\$ 1,023,372,935	\$ 1,029,565,758	\$ 6,192,823
Expenditures			
Department Expenditures			
Projected Salaries	\$ 495,887,944	\$ 481,151,947	\$ 14,735,997
Projected Fringe and Non-Personnel	529,934,468	535,612,497	(5,678,029)
Subtotal	\$ 1,025,822,412	\$ 1,016,764,444	\$ 9,057,968
Repayments to Enterprise Funds¹	\$ -	\$ 3,019,503	\$ (3,019,503)
Total Projected Expenditures	\$ 1,025,822,412	\$ 1,019,783,947	\$ 6,038,465
Net Projected Savings (over budget revenue plus expenditure savings)			\$ 12,231,288

¹ Recycling, Refuse Disposal, Sewer, and Water Funds.

Revenue

Major revenues are projected to exceed the fiscal year 2007 budget by \$16.9 million, while departmental revenues, especially Service Level Agreement (SLA) billings, are expected to be below fiscal year 2007 budget amounts. The net result is an overall projected revenue surplus for

the General Fund of \$6.2 million. Please refer to the Fiscal Year 2007 Mid-Year General Fund Revenue Monitoring Report, 07-031, for a discussion of year-end revenue projections.

Expenditures

Projected expenditure savings of \$14.7 million are due to a large number of vacancies throughout the City; projected salary savings account for over 100% of the projected department expenditure savings. These savings are offset by additional funding needs resulting in an overall projected expenditure savings of \$6.0 million for the General Fund. If projections of surplus revenues and salary savings are realized, an additional \$12.2 million will be available at year-end to be deposited in the General Fund reserves.

Adjustments to Projections

Repayments to Enterprise Funds

The amount of General Fund expenses inappropriately charged to the Environmental Services Department's Recycling and Refuse Disposal Funds this fiscal year, based on the legal requirements of the funds as reported by the Office of the City Attorney, is estimated at \$2.0 million. This will be discussed in detail in the accompanying Fiscal Year 2007 Mid-Year Budget Adjustments Report and is reflected as item F in the Summary of General Fund Budget Adjustments Table 1 found on page 3 of that report. In addition, the General Fund must refund \$1.1 million of expenses charged to the Water and Metropolitan Wastewater Departments in fiscal year 2003, based on the findings of auditors Mayer Hoffman McCann.

Retirement and Retiree Health Adjustments

This adjustment is described in detail in the following section.

GENERAL FUND EXPENDITURES

Overview

In fiscal year 2007, the General Fund budget is approximately \$1.03 billion. Salaries account for nearly half, or \$495.9 million, of the total General Fund budget, while fringe and NPE account for 51% or \$529.9 million. Salary savings above the amount incorporated into the adopted budget are projected to be \$14.7 million. Although significant savings are projected in salaries, NPE for some departments, i.e., Police, San Diego Fire-Rescue, City Attorney, and Park and Recreation, are projected to exceed their respective budgets. These departments, with the exception of San Diego Fire-Rescue, are also projecting personnel savings. Since the City Charter prevents the use of funds budgeted for salaries to be used to support fringe and non-personnel expenditures (NPE), staff requests budget increases in NPE for several departments to mitigate projected over expenditures or to support new expenditures identified this fiscal year after the adoption of the final fiscal year 2007 budget. Department-specific projection information can be found in Attachments I: General Fund Projected Expenditures and II: General Fund Descriptions.

Staff address the projected NPE shortfalls in the accompanying budget adjustments report. In addition, staff request that projected salary savings in these departments be transferred to a salary reserve account that would be available at year-end to be added to the unallocated reserves.

These adjustments to the budget and the transfer of salary savings are described in detail in the Fiscal Year 2007 Mid-Year Budget Adjustments Report.

Salaries and Vacancy Factor

The vacancy rate for the General Fund through period six is 8.79%, an increase of 0.5% from period four and 3.55% higher than the 5.24% budgeted vacancy rate for fiscal year 2007. This increase in the vacancy rate is reflected in the projected \$14.7 million salary savings. These projected savings represent 3.0% of the entire General Fund salary budget. Many of these vacant positions will be removed from the fiscal year 2008 budget.

Several departments project significant salary savings. The Police Department is projecting an additional \$4.2 million in salary savings at year-end. This represents 2.0% of the Police Department's salary budget. The General Services, Engineering and Capital Projects, and Park and Recreation Departments project \$2.9 million, \$1.5 million, and \$1.3 million in salary savings, respectively. These three departments are currently participating in BPR and some positions are vacant pending the outcome. The City Auditor and Comptroller Department is expecting to fill vacant positions within the next few months; however, continuation of the current vacancies could result in \$1.1 million of projected salary savings at year-end.

Although most General Fund departments are realizing significant vacancies resulting in projected salary savings, the San Diego Fire-Rescue Department is projecting \$1.4 million of over budget salaries. This is due to a vacancy rate in the department lower than the rate budgeted in fiscal year 2007 and, possibly due to positions that were not budgeted for the emergency medical services (EMS) contract.

Fringe and Non-Personnel Expenditures

Despite the large projected salary savings, a few departments are projecting significant over budget NPE, the causes of which are department specific. Tax and Revenue Anticipation Notes (TRANS) expense is projected to be \$4.0 million over budget. The projected expense is approximately three times the budgeted amount as a result of the City's need to borrow as a private placement, with higher and less predictable interest rates. In addition, interest rates have been rising and have affected the borrowing cost. The fiscal year 2007 budget for TRANS was not adjusted to reflect the higher cost of borrowing this year as a result of the delays in issuance of the City's Comprehensive Annual Financial Reports (CAFRs).

The Police Department is projected to be over budget by \$3.8 million in data processing, energy, and certain fringe expenses. The Police Department represents that although the data processing budget was increased by \$3 million in fiscal year 2007, the department is structurally under funded in this area. The San Diego Fire-Rescue Department is projecting \$2.2 million of over budget expenditures due to a variety of factors, including fringe associated with projected over budget salaries and under budgeted energy and fuel expenses. In addition, due to the award of funding for the Urban Area Security Initiative, the department has incurred \$1.2 million in over budget expenditures that are to be reimbursed. The Office of the City Attorney is projecting \$1.1 million of over budget expenditures due to contracting with temporary employment agencies as a consequence of vacancies, additional expenses associated with court and litigation related activities, and under budgeted fringe. The Park and Recreation Department projects over budget

expenditures of approximately \$400,000 for waste removal services that were previously provided by the Refuse Disposal Fund, increased costs for downtown restroom maintenance due to the Living Wage Ordinance, unbudgeted supplies and services for new facilities, and higher than anticipated water and sewer costs.

Many departments are projecting NPE and fringe savings, which offset over budget expenditures in other departments, resulting in a net projected fringe and NPE savings of \$1.7 million for the General Fund. The General Services and Engineering and Capital Projects Departments are projecting savings of \$3.3 million and \$1.1 million, respectively, due to savings in fringe associated with vacant positions and based on conservative expenditure rates.

Staff project savings of \$4.1 million in the Citywide Program Expenditures Department that is mainly comprised of savings of \$4.7 million from the budgeted General Fund subsidy for Special Promotional Programs that will not be needed this year. (Transient Occupancy Tax (TOT) revenues to Special Promotional Programs are projected to exceed budget by over \$5 million, removing the need for an allocation from the General Fund.) These savings are offset by an unbudgeted expense of \$1.2 million in the Citywide Department for property tax administration expense. This expense is projected to total \$3.0 million in fiscal year 2007 and only \$1.8 million was budgeted in the City Auditor and Comptroller Department. Additional combined savings of \$600,000 in Citywide Program Expenditures contribute to the total projected savings of approximately \$4.1 million.

The Purchasing and Contracting and Equal Opportunity Contracting Departments project to be under budget by \$1.2 million and approximately \$600,000, respectively, in all categories of expenditures; while the Public Works Department projects to be over budget in all categories by over \$200,000. However, accurate projections and the overall net impact on the General Fund are difficult to determine at this time because the BPR recommendations have not been fully implemented. These projections will be revised in future reports and will reflect more accurate expenditure estimates once the BPR recommended budgetary adjustments have been applied.

Retirement and Retiree Health Contributions

The budgeted contribution in fiscal year 2007 to the San Diego City Employees Retirement System (SDCERS) is \$162 million and the budgeted contribution for retiree health is \$27.4 million. Due to the large number of vacancies throughout General Fund departments, the current contribution rates have undercharged departments these expenses. At the current contribution rates, it is estimated that contributions for retirement will total \$157.8 million. This results in an estimated shortfall of \$4.2 million. Of this, the General Fund is responsible for approximately \$3.3 million.

Based on current contribution rates for retiree health, the retiree health fund is estimated to have a shortfall of \$6.1 million. Of this amount, the General Fund is responsible for approximately \$4.1 million.

Contributions will be increased up to the budgeted amounts to meet the requested contribution for retirement and enough to cover the estimated shortfall in retiree health. This adjustment is shown on Attachment I: General Fund Projected Expenditures as an adjustment to projected

savings. It is important to note that this rate adjustment has no effect on the budgeted amount for either the pension contribution, or the contributions for retiree health. The additional \$7.4 million expense offsets projected fringe savings throughout General Fund departments.

SELECT NON-GENERAL FUNDS

Projections were also developed for non-general funds which could impact the General Fund, such as internal service funds or funds that have required support from the General Fund to balance in prior years. These funds include the Risk Management Administration, Central Stores Internal Service, QUALCOMM Stadium Operating, Equipment Operating, and Publishing Services Internal Funds. The Equipment Operating Fund is the only fund that is projected to receive less revenue than anticipated expenditures due to a reduction in revenue resulting from decreases in non-fleet gasoline and departmental usage charges. Funds will be transferred from the Equipment Replacement Fund to balance the Operating Fund and will not have a direct impact on the General Fund in fiscal year 2007. However, the transfer will reduce the funds available for future replacement of vehicles. Projections for these funds and additional information on other non-general funds can be found in Attachments III: Select Non-General Fund Projections and IV: Non-General Fund Descriptions.

CONCLUSION

Vacancies throughout General Fund departments contribute to the projected \$14.7 million of salary savings while department fringe and non-personnel savings are anticipated to be \$1.7 million. Department contribution for retirement and retiree health will be increased, resulting in additional projected expenditures of \$7.4 million that have been budgeted, but not reflected in year-to-date rates of expenditure. The unbudgeted repayments to the Recycling, Refuse Disposal, Water and Sewer Funds will amount to \$3.0 million. This results in a projected total fiscal year 2007 General Fund net expenditure savings of approximately \$6.0 million.

The net projected revenue surplus for the General Fund is \$6.2 million. The combined anticipated year-end savings (over budget revenue plus expenditure savings) is \$12.2 million (see the Summary of General Fund Projections table on page 2.) If projections of surplus revenues and salary savings are realized, an additional \$12.2 million will be available at year-end to be deposited in the General Fund reserves. These are projections, however, and as such are subject to future revision.

FISCAL CONSIDERATIONS: None, this is an informational report.

PREVIOUS COUNCIL and/or COMMITTEE ACTION: None.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS: None.

KEY STAKEHOLDERS AND PROJECTED IMPACTS: None.

Mary Lewis
Financial Management Director

Jay M. Goldstone
Chief Financial Officer

Attachments:

- I. [General Fund Projected Expenditures](#)
- II. [General Fund Descriptions](#)
- III. [Select Non-General Fund Projections](#)
- IV. [Non-General Fund Descriptions](#)