THE CITY OF SAN DIEGO

Report to the City Council

DATE ISSUED:	January 30, 2017	REPORT NO: 17-010
ATTENTION:	Budget and Government Efficiency Committee Agenda of February 2, 2017	
SUBJECT:	Fiscal Year 2017 Mid-Year Budget Monitoring Report	
REFERENCE:	Fiscal Year 2017 Mid-Year Budget Monitoring Report, #17-010 Fiscal Year 2017 First Quarter Budget Monitoring Report, # 16-099	

REQUESTED ACTION:
Approve the requested authorities and recommendation for appropriations as outlined in the Fiscal Year 2017 Mid-Year Budget Monitoring Report, #17-010.

STAFF RECOMMENDATION:
Approve the requested actions.

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

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

Financial Management (FM) produces this report, in collaboration with all City departments, to forecast year-end results between budget and actual revenues and expenditures. The Mid-Year Report is compiled using five months of actual activity in budgeted operating departments, combined with FM and departmental projections of anticipated spending and revenue trends for the remainder of the fiscal year. This report is being issued a month earlier than in years past due to the streamlining efforts implemented by FM. This allows management and City Council to receive projections and recommended adjustments in a timelier manner, and allows FM to re-allocate staff resources with greater efficiency. Staff will return to Council with an update to the City's Budget Policy (Policy No. 000-02) and Mid-Year Ordinance, which both currently specify six months of actual data versus five months be utilized in preparation of this report. Statistical data, economic analysis, professional judgment and expertise from economic consultants, professional organizations and other resources support the projections of year-end revenue and expenditure estimates. This report provides the detail and analysis of the year-end projections. In addition, attached are Fiscal

Year 2017 Charter 39 Supporting Schedules prepared by the City Comptroller's Office as of November 30, 2016.

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

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

This report also includes requested authorities and an appropriation adjustment in the Development Services Fund. All adjustments are balanced by an increase in budgeted revenue, or fund balances available. These authorities and appropriation are requested for the Development Services Fund, Public Liability Operating Fund and an allocation of CIP funds for the 101 Ash Street building Capital Improvement Project (CIP). Additional details regarding each appropriation adjustment request is included later in this report.

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

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

FISCAL CONSIDERATIONS:
See attached Report: Fiscal Year 2017 Mid-Year Budget Monitoring Report, # 17-010

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

PREVIOUS COUNCIL and/or COMMITTEE ACTION:
N/A

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:
N/A

KEY STAKEHOLDERS AND PROJECTED IMPACTS:
N/A

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

Attachment: Fiscal Year 2017 Mid-Year Budget Monitoring Report, #17-010

Fiscal Year 2017 Mid-Year Budget Monitoring Report January 2017

SD Financial Management

signature on file	*signature on file*
Scott Chadwick Chief Operating Officer	Mary Lewis Chief Financial Officer
signature on file	*signature on file*
Tracy McCraner Financial Management Director	Vanessa Montenegro Budget Coordinator

Tables may not foot due to rounding.

INTRODUCTION

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

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

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Statistical data, economic analysis, professional judgment and expertise from economic consultants, professional organizations and other resources support the projections of year-end revenue and expenditure estimates. This report provides the detail and analysis of the year-end projections. In addition, attached are Fiscal Year 2017 Charter 39 Supporting Schedules prepared by the Office of the City Comptroller as of November 30, 2016.

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

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GENERAL FUND

OVERVIEW

The Mid-Year Report projects General Fund expenditures in excess of General Fund recourses by fiscal year-end as reflected in Table 1: Summary of FY 2017 General Fund Projections. The Mid-Year Report projects both revenue and expenditures to increase; however, the over budget expenditure projection of $13.6 million over budget has outpaced the over budget revenue projection of $9.5 million at this point in time. The General Fund has available cash in fund balance above the required reserve levels, or excess equity, carried forward from the financial close of Fiscal Year 2016. These funds can be appropriated at year-end if required to balance the General Fund budget; however, staff is not recommending an appropriation adjustment at this time. If actual revenues and expenditures occur as projected in this report, an appropriation adjustment may be requested in the Fiscal Year 2017 Year-End Budget Monitoring Report from available fund balance above reserve requirements, if necessary.

Summary of FY 2017 General Fund Projections

Table 1 — *in millions*

Revenue/Expenditures	Adopted Budget	Current Budget	Year-End Projection	Variance	Variance %
Resources					
Revenue	$ 1,330.0	$ 1,330.0	$ 1,339.4	$ 9.5	0.7%
Budgeted Use of Fund Balance (Excess Equity)	8.0	8.0	8.0	-	0.0%
Total Resources	**1,338.0**	**1,338.0**	**1,347.4**	**9.5**	**0.7%**
Total Expenditures	**1,338.0**	**1,338.0**	**1,351.6**	**(13.6)**	**-1.0%**
Net Projected Activity	**$ 0.0**	**$ 0.0**	**$ (4.2)**	**$ (4.2)**	

[1]Staff is not recommending an appropriation adjustment at this time, an appropriation adjustment will be requested in the FY 2017 Year-End Budget Monitoring Report from available fund balance above reserve requirements, if an adjustment is necessary.

Revenues are projected to exceed budget by $9.5 million, primarily due to increased receipts realized in the City's major General Fund revenues of $4.9 million in addition to an increase in departmental revenue of $4.6 million.

The primary factor contributing to the $4.9 million increase in major General Fund revenue is a one-time revenue of $13.6 million associated with the annexation of property near the Mount Hope Cemetery. This annexation was approved by the City Council in December 2016 and is awaiting final approval from the Local Agency Formation Commission (LAFCO). This one-time revenue source is offset by preliminary lower franchise fee revenue estimates recently received from San Diego Gas and Electric (SDG&E). Staff received this estimate from SDG&E as the Mid-Year Report was being finalized and included these significantly lower revenue estimates in the projections. Final analysis will be complete once the February clean-up payment is received from SDG&E and actual receipts are verified.

The primary factors for the $4.6 million increase in departmental revenue are in parking citation revenue and public safety reimbursable revenue discussed in more detail later in this report.

The increased expenditure projection of $13.6 million is primarily attributed to the Fire-Rescue Department over budget projected expenditures of $13.8 million. This is comprised of $8.3 million in salaries, vacation pay, special pay and overtime, and $6.3 million in related fringe benefit expenditures. Since the development of the Fiscal Year 2017 Adopted Budget, which included three academies of 36 Fire Recruits, the academy size was later increased to 48 Fire Recruits in an effort to expedite full staffing within the Department. The positive impact of the increased recruitment efforts results in the Department projecting to be nearly fully staffed by the end of the fiscal year. While this is a positive trend, the corresponding budget impact is an over budget projection in salaries due to the projected vacancy factor being higher than the actual vacancies projected for the fiscal year. Also contributing to the Fire-Rescue Department's over budget condition is the impact of the June 13, 2016 negotiated amendment to the Memorandum of Understanding (MOU) with the San Diego Firefighter's Local 145. This amendment authorized a program to reduce annual leave balances of Local 145 members and added new rules for mandatory time off. This change results in additional vacation time, pay-in-lieu of annual leave and overtime with commensurate fringe benefit impacts. Details of this projection are discussed in more detail later in the report.

Although the City's revenue and expenditures are projected to increase by fiscal year-end, the increased expenditure projections have outpaced the over budget revenue projections. Staff is not recommending an appropriation adjustment at this time as more actual data is necessary before such adjustment will be required, particularly in light of the preliminary SDG&E estimates. The Fiscal Year 2017 Year-End Budget Monitoring Report will include nine months of actual activity and will provide a better indicator of actual year-end revenues and expenditures. At that time, if expenditure projections are still trending consistent with the Mid-Year Report, staff will be recommending a one-time use of fund balance in excess of required reserves, or excess equity.

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

GENERAL FUND REVENUE

General Fund revenues are projected to exceed budget by $9.5 million at fiscal year-end. This is attributed to an over budget collection of $4.9 million in major General Fund revenues and $4.6 million in departmental revenue. Assumptions influencing the major General Fund revenues are detailed in this report, including any significant variances from the adopted budget. The current forecast for key General Fund revenues align closely with the budget; however, there could be potential impacts from the uncertainty at the national level which could negatively impact these projections. To provide an understanding of the risk to the projections forecasted in this report, each of the major General Fund revenue sources includes a sensitivity analysis of potential impacts should changes in the economy occur during the second half of the fiscal year.

FY 2017 General Fund Revenue Projections

Table 2 *in millions*

Revenue Source	Adopted Budget	Current Budget	Year-End Projection	Variance	Variance %
Major General Fund Revenues	$ 1,049.2	$ 1,049.2	$ 1,054.1	$ 4.9	0.5%
Departmental Revenue	280.8	280.8	285.4	4.6	1.6%
Total	**$ 1,330.0**	**$ 1,330.0**	**$ 1,339.4**	**$ 9.5**	**0.7%**

MAJOR GENERAL FUND REVENUES

The City's major General Fund revenues are projected to exceed budget by $4.9 million primarily as a result of one-time miscellaneous revenue for the annexation of property near the Mount Home Cemetery. This one-time revenue source is offset by lower franchise fee revenue from SDG&E. Table 3: FY 2017 Major General Fund Revenue Projections summarizes the projections by each major general fund revenue category.

FY 2017 Major General Fund Revenue Projections

Table 3 *in millions*

Revenue Source	Adopted Budget	Current Budget	Year-End Projection	Variance	Variance %
Property Tax	$ 502.0	$ 502.0	$ 503.3	$ 1.3	0.3%
Sales Tax	272.8	272.8	271.5	(1.3)	-0.5%
Transient Occupancy Tax[1]	113.3	113.3	112.5	(0.9)	-0.8%
Franchise Fees[2]	81.0	81.0	72.3	(8.7)	-10.8%
Property Transfer Tax	9.6	9.6	9.8	0.2	2.4%
Miscellaneous Revenue	70.5	70.5	84.8	14.3	20.3%
Total	**$ 1,049.2**	**$ 1,049.2**	**$ 1,054.1**	**$ 4.9**	**0.5%**

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

[2] Total City FY 2017 current revenue budget for franchise fees is $167.6 million and the projection is $145.8 million. The balance is budgeted in the Environmental Growth and Underground Surcharge Funds.

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The major General Fund revenue projections are based on the most recent economic information available and actual revenue receipts to the City during the first five months of the fiscal year. The Fiscal Year 2017 Adopted Budget for the major General Fund revenues reflected a continued, modest improvement in the local, state, and national economies. The projections indicate that the positive signs shown by the local economic indicators during the development of the budget have generally continued through the first five months of the fiscal year as reflected in Table 4: Local Unemployment Economic Indicators and Table 5: Local Real Estate Market Indicators.

Local Unemployment Economic Indicators

Table 4

Economic Indicator	December 2015	December 2016	Change %
City of San Diego Unemployment	4.5%	3.9%	-0.6%
City of San Diego Number of Unemployed	31,700	28,000 [1]	-11.7%

Source: California Employment Development Department

[1] Preliminary number provided as of December 2016 and is subject to change.

When compared to December 2015, the City of San Diego unemployment rate for December 2016 has decreased to 3.9%. Additionally, the total number of unemployed has decreased by 11.7%. Both indicators are positive signs that the local employment market continues to improve.

Local Real Estate Market Indicators

Table 5

Economic Indicator	Calendar Year 2015[1]	Calendar Year 2016[1]	Change %
City of San Diego Average Median Home Price	$473,318	$506,159	6.9%
City of San Diego Home Sales	14,937	15,601	4.4%
San Diego County Foreclosures	1,648	1,109	-32.7%
San Diego County Notices of Default	4,780	4,062	-15.0%

[1] Calendar year data through November

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

When compared to calendar year 2015, the average median home price through November 2016 has increased by 6.9%. Home sales for the same period also experienced an increase of 4.4%. This growth in home prices is consistent with the increase in property tax-related revenues the City received during the first half of the fiscal year. In addition, there continues to be significant decreases in both foreclosures and notices of default as the local real estate market continues to return to pre-recession levels.

Overall, the local economy shows improvements in the employment and real estate market and the City anticipates the continuation of this growth for the remainder of the fiscal year. Nonetheless, the City will continue to closely monitor economic indicators for potential impacts to the major General Fund revenues.

Property Tax

FY 2017 Property Tax Revenue Projections Table 6					in millions
Revenue Source	**Adopted Budget**	**Current Budget**	**Year-End Projection**	**Variance**	**Variance %**
Property Tax Growth Rate	5.25%	5.25%	5.7%	0.5%	N/A
Property Tax Projection	$ 502.0	$ 502.0	$ 503.3	$ 1.3	0.3%

Property tax is projected to be over budget at fiscal year-end by $1.3 million or 0.3% primarily due to continued growth in assessed valuation for Fiscal Year 2017.

The Fiscal Year 2017 Adopted Budget growth rate of 5.25% was based on preliminary assessed valuations from the County of San Diego of approximately 5.0% and prior year actual growth of 5.3%. The final assessed valuation growth from the County of San Diego indicated an actual growth of 5.7%. This increased growth will result in an increase in the 1.0% property tax base, the Motor Vehicle License Fee (MVLF) backfill payment, and the projected Redevelopment Property Tax Trust Fund (RPTTF) tax sharing pass-through payments as displayed in Table 7: FY 2017 Property Tax Revenue Projection Details.

FY 2017 Property Tax Revenue Projection Details Table 7					in millions
Revenue Source	**Adopted Budget**	**Current Budget**	**Year-End Projection**	**Variance**	**Variance %**
1.0% Property Tax	$ 353.7	$ 353.7	$ 354.1	$ 0.4	0.1%
MVLF Backfill	128.4	128.4	129.3	0.9	0.7%
RPTTF Tax Sharing Pass-through Paymen	5.1	5.1	5.8	0.7	14.7%
RPTTF Residual Property Tax	14.8	14.8	14.1	(0.8)	-5.3%
Total	**$ 502.0**	**$ 502.0**	**$ 503.3**	**$ 1.3**	**0.3%**

In addition to tax sharing pass-through payments, the City will receive residual property tax payments. The residual property tax payment is the City's proportionate share of funds remaining in the RPTTF after ROPS requirements have been met. The projected residual property tax payment is approximately $14.1 million or $780,000 below the Fiscal Year 2017 budget amount. These projections were updated based on the eleventh ROPS (ROPS 11) submission to the Department of Finance (DOF) as approved by the City Council on January 10, 2017 and the Oversight Board on January 23, 2017.

Sensitivity Analysis

The projections for property tax revenues displayed in Table 7: FY 2017 Property Tax Revenue Projection Details reflect the current estimates the City anticipates to receive this fiscal year. All local real estate economic indicators continue to show growth; however, projections in Fiscal Year 2017 could be impacted by the actual collection rate and the amount of refunds for the 1% base property tax although not expected to be of a material amount.

The most significant variable influencing the current year-end projection for property tax revenue is the amount of the RPTTF residual payment. The RPTTF residual payment projection is based on the ROPS 11 but is still dependent upon approval by the DOF. If any of the

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enforceable obligations included on the ROPS were denied, the City would receive additional funds through the distribution of residual funds from the RPTTF of an indeterminable amount and would result in a positive impact to the General Fund.

Sales Tax

FY 2017 Sales Tax Revenue Projections

Table 8 *in millions*

Revenue Source	Adopted Budget	Current Budget	Year-End Projection	Variance	Variance %
Sales Tax Growth Rate	3.5%	3.5%	3.0%	-0.5%	N/A
Sales Tax Projection	$ 272.8	$ 272.8	$ 271.5	$ (1.3)	-0.5%

Sales tax revenue is projected to be under budget at fiscal year-end by $1.3 million, or 0.5%, primarily due to lower than expected growth in sales tax receipts in the prior year.

The Fiscal Year 2017 Adopted Budget was based on year-end estimates for Fiscal Year 2016. Actual Fiscal Year 2016 revenues received were lower than projected as reported in the Fiscal Year 2016 Year-End Financial Performance Report. As a result, the base for the Fiscal Year 2017 sales tax revenue projection is lower than assumed in the budget.

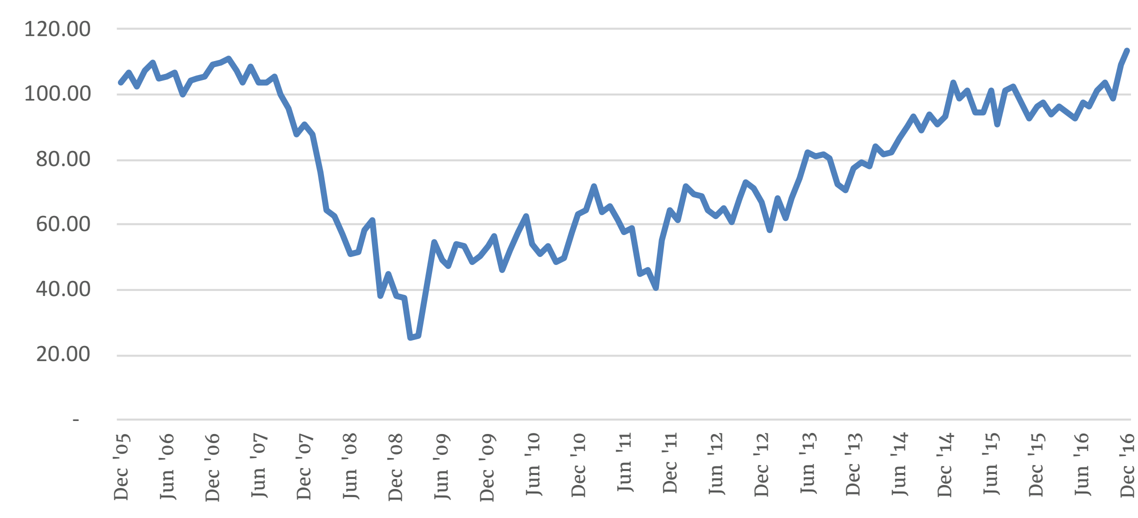
In the First Quarter Report, actual receipts were 4.6% higher than the same period last year; however, this included a one-time sales tax correction identified by the City's sales tax consultant. Adjusting for this correction, sales tax revenue growth was 2.2%. As a result, the year-end projection for sales tax revenues was reduced from the budgeted rate of 3.5% to 2.0%. Actual receipts for the second quarter were 3.3% and included no extraordinary one-time adjustments, as a result the year-end projection is now 3.0%. Preliminary information for the second quarter's receipts noted strong business-to-business services, a rise in fuel prices, and higher sales from the wholesale construction sector.

Local economic drivers impacting the City's sales tax receipts include the unemployment rate, consumer confidence, and consumer spending.

- As of November 2016, the San Diego unemployment rate was 4.1%, as preliminarily reported by the California Employment Development Department. Overall, the unemployment rate has decreased during the second half of calendar year 2016 and is trending towards pre-recession levels
- Consumer confidence has increased significantly since the election, rising sharply in November and continuing to climb in December 2016 to an all-time high of 113.70 or 18.1% growth from December 2015

Consumer Confidence

Graph 1



Source: Consumer Confidence Board

Taking into consideration the increase in consumer confidence and lower unemployment rates, it is expected that consumer spending will continue at a higher rate than previously forecasted. In consultation with the City's sales tax consultant, MuniServices LLC, the City now projects a 3.0% growth rate for the remainder of the fiscal year.

Sensitivity Analysis

The projections for sales tax revenues displayed in Table 8: FY 2017 Sales Tax Revenue Projections reflect the current estimates the City anticipates to receive this fiscal year. However, actual growth rates could be impacted by a variety of factors including the level of a reversal in the upward trend in fuel prices and uncertainty at the national level that may impact consumer confidence and/or business-to-business growth. If the growth rate were to be adjusted +/- 0.5% for each of the upcoming quarters, sales tax projections could change by approximately $900,000. Any potential increase or decrease in local taxable sales performance will directly impact the City's sales tax projection and will be reflected in the Fiscal Year 2017 Year-End Budget Monitoring Report and considered for the Fiscal Year 2018 Proposed Budget.

Transient Occupancy Tax (TOT)

FY 2017 Transient Occupancy Tax (TOT) Revenue Projections

Table 9 *in millions*

Revenue Source	Adopted Budget	Current Budget	Year-End Projection	Variance	Variance %
TOT Growth Rate	6.0%	6.0%	6.0%	0.0%	N/A
TOT Projection	$ 113.3	$ 113.3	$ 112.5	$ (0.9)	-0.8%

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

The General Fund Transient Occupancy Tax (TOT) is projected to come in slightly under budget at fiscal year-end by $860,000, or 0.8%, as a result of lower than expected tourism activity during the month of October. The December 2016 Travel Forecast from the San Diego Tourism Authority (SDTA) and Tourism Economics, Inc. does however forecast San Diego to outperform the nation in room demand and RevPAR growth in calendar year 2017. As a result of the projected positive growth in major TOT economic indicators and the sustained growth in TOT receipts in the first half of the fiscal year the TOT revenue growth rate of 6.0%, included in the Fiscal Year 2017 Adopted Budget, is projected for the remainder of the fiscal year.

The positive tourism growth that has occurred since the economic turnaround began in 2010 and is expected to continue through fiscal year-end according to the December 2016 Travel Forecast from SDTA and Tourism Economics, Inc. Table 10: San Diego County Visitor Industry provides a summary of the projected growth in economic indicators that impact the City's TOT receipts.

San Diego County Visitor Industry

Table 10

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

Source: San Diego Tourism Authority and Tourism Economics

[1] Revenue Per Available Room (Average Occupancy multiplied by Average Daily Rate)

[2] Forecast - Tourism Economics, December 2016

Sensitivity Analysis

The projections for TOT revenue displayed in Table 9: FY 2017 Transient Tax (TOT) Revenue Projections reflect the current estimates the City anticipates to receive this fiscal year. While the tourism market is strong, other economic indicators are volatile and could indirectly affect tourism in a negative manner in the second half of the fiscal year. If the growth rate were to be adjusted +/- 0.5% for the remainder of the fiscal year, TOT projections could change by approximately $600,000. Any potential increase or decrease in the travel industry will directly impact the City's TOT projection and will be reflected in the Fiscal Year 2017 Year-End Performance Report and considered for the Fiscal Year 2018 Proposed Budget.

Franchise Fees

FY 2017 Franchise Fee Revenue Projections

Table 11 | *in millions*

Revenue Source	Adopted Budget	Current Budget	Year-End Projection	Variance	Variance %
SDG&E Growth Rate	2.0%	2.0%	2.0%	0.0%	N/A
Cables Growth Rate	0.0%	0.0%	0.0%	0.0%	N/A
Franchise Fee Projection	$ 81.0	$ 81.0	$ 72.3	$ (8.7)	-10.8%

Franchise fee revenue is projected under budget at fiscal year-end by $8.7 million or 1.4%, due to revenue from SDG&E and cable franchise fees.

Franchise fee revenue is generated from agreements with private utility companies and refuse haulers in exchange for the use of the City's rights-of-way. Currently, the City has franchise agreements with San Diego Gas and Electric (SDG&E), Cox Communications, Time Warner Cable, AT&T, and refuse haulers. Approximately 85.0% of franchise fee revenue is comprised of receipts from SDG&E and cable companies. Revenue received from the agreements with SDG&E and the cable companies is based on a percentage of gross sales while the revenue received from refuse haulers is based on tonnage.

As the Mid-Year Report was being finalized, staff received preliminary information from SDG&E that the calendar year 2016 revenue was significantly lower, approximately 7.0%, due to reduced consumption of electricity. The City will receive SDG&E's clean up franchise fee payment in February 2017 and will be able to confirm and reconcile this data at that time. Staff has included this still unconfirmed data into the projection. This significantly reduces the projected franchise fee revenue, creating an under budget estimate of $7.6 million in this major revenue category. In addition, due to reduced subscriptions, franchise fees for cable companies are also projected under budget by $1.9 million. Partially mitigating this under budget projection are franchise fees from refuse haulers, which are projected to end the fiscal year slightly over budget by approximately $800,000.

Sensitivity Analysis

The projections for franchise fee revenues displayed in Table 11: FY 2017 Franchise Fee Revenue Projections reflect the current estimates the City anticipates to receive this fiscal year. Based on the formula for upcoming SDG&E franchise fees; only the difference between the actual receipt of the clean-up payment and the estimate provided would impact the year-end projection. Revenue from cable franchise fees would be influenced by the number of subscriptions. The year-end projection incorporates the impact from the current reduction in subscription; additional loss in subscriptions above the current level could negatively impact the year-end projection.

Property Transfer Tax

FY 2017 Property Transfer Tax Projections

Table 12 *in millions*

Revenue Source	Adopted Budget	Current Budget	Year-End Projection	Variance	Variance %
Property Transfer Tax Growth Rate	3.0%	3.0%	3.0%	0.0%	N/A
Property Transfer Tax Projection	$ 9.6	$ 9.6	$ 9.8	$ 0.2	2.4%

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

For Fiscal Year 2017, property transfer tax revenue is projected to be over budget at year-end. The slight increase is due to actual receipts exceeding budgeted amounts during the first half of the fiscal year. The growth in property transfer tax revenue is consistent with the rise in home sales and median home prices as displayed in Table 13: Local Real Estate Market Indicators.

Local Real Estate Market Indicators

Table 13

Economic Indicator	Calendar Year 2015[1]	Calendar Year 2016[1]	Variance %
City of San Diego Average Median Home Price	$473,318	$506,159	6.9%
City of San Diego Home Sales	14,937	15,601	4.4%
San Diego County Foreclosures	1,648	1,109	-32.7%
San Diego County Notices of Default	4,780	4,062	-15.0%

[1] Calendar year data through November

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

Sensitivity Analysis

The projections for property transfer tax revenue displayed in Table 12: FY 2017 Property Transfer Tax Projections reflect the current estimates the City anticipates to receive this fiscal year. However, the volume of home sales and home prices can influence the amount of property transfer tax. If the growth rate for the remaining months is adjusted +/- 1.0%, the impact is approximately $55,000.

Other Major Revenue

FY 2017 Other Major Revenue Projections *Table 14*					*in millions*
Revenue Source	**Adopted Budget**	**Current Budget**	**Year-End Projection**	**Variance**	**Variance %**
Other Major Revenue Projections	$ 70.5	$ 70.5	$ 84.8	$ 14.3	20.3%

The Other Major Revenue category includes General Governmental Services Billing (GGSB), which is a reimbursement from other City funds that use General Fund services, one-cent TOT transfer into the General Fund, interest earnings attributable to the General Fund from the City's investment pool, refuse collector business tax, and other miscellaneous one-time revenues.

The Other Major Revenues category is projected to end the year over budget primarily due to the receipt of $13.6 million from the County of San Diego for annexing property that is located east of the Mount Hope Cemetery. The action was approved by the City Council in December 2016 and is awaiting final approval from the Local Agency Formation Commission (LAFCO).

In addition, the Mid-Year Report makes no assumption as to the receipt or use of funds from the Termination Clause of the Agreement with the San Diego Chargers. The San Diego Chargers have chosen to relocate to Los Angeles; however, no formal notification has been received per the terms of the lease agreement with the City of San Diego for Qualcomm Stadium. If a formal notice to terminate early is received between February 1 and May 1, the City is entitled to $12.6 million termination payment per the terms of the agreement.

Tables may not foot due to rounding.

DEPARTMENTAL REVENUE

General Fund departmental revenues are projected at $285.4 million by fiscal year-end which represents an increase of $4.6 million from the current budget. The following section discusses the significant factors contributing to the increase in projected departmental revenue.

FY 2017 Significant General Fund Revenue Variances by Department

Table 15 *in millions*

Department	Adopted Budget	Current Budget	Year-End Projection	Variance	Variance %
Economic Development	$ 8.1	$ 8.1	$ 7.5	$ (0.6)	-7.7%
Fire-Rescue	27.0	27.0	29.6	2.6	9.5%
Office of Homeland Security	1.7	1.7	1.1	(0.5)	-31.9%
Office of the City Treasurer	19.3	19.3	20.3	1.0	5.1%
Police	45.1	45.1	48.2	3.1	6.9%
Public Works - General Services	3.7	3.7	3.0	(0.7)	-19.8%
Transportation and Storm Water	56.4	56.4	55.9	(0.5)	-0.9%
All Other General Fund Departments	119.4	119.4	119.7	0.3	0.3%
Total	**$ 280.8**	**$ 280.8**	**$ 285.4**	**$ 4.6**	**1.6%**

Economic Development

The Economic Development Department projects revenue under budget by $630,000 at fiscal year-end primarily attributed to a decrease in revenue from Civic San Diego due to lower than projected reimbursable expenditures related to project management activities.

Fire-Rescue

The Fire-Rescue Department projects revenue over budget by $2.6 million at fiscal year-end primarily due to the following increases:

- $600,000 in reimbursement revenue from the Fire/Emergency Medical Services Transport Program Fund due to paramedic rotation activity
- $500,000 in Urban Area Security Initiative (UASI) grant reimbursements for operations training, reimbursements for the Regional Maritime Emergency Preparedness Manager and Geographic Information Systems (GIS) grant reimbursable activities
- $400,000 in revenue for Fire-Rescue services provided to the Airport Authority
- $350,000 in special events and alarm permit fees
- $350,000 in strike team deployment reimbursements from the California Office of Emergency Services

These increases in revenue will be used to partially offset the increased expenditures in the Fire-Rescue Department as discussed later in this report.

Office of Homeland Security

The Office of Homeland Security projects revenue under budget by $540,000 at fiscal year-end primarily attributed to three vacant and hourly reimbursable positions. The Department is projecting to have the positions filled in the last quarter of the fiscal year.

Office of the City Treasurer

The Office of the City Treasurer projects revenue over budget by $990,000 at fiscal year-end primarily due to the following:

- $520,000 increase associated with the collection of delinquent account parking referral fees recovered through the Department of Motor Vehicles Collection Referral Fee Program.
- $340,000 increase in parking citations attributed to the change in parking meter hours in the hospitality zone
- $190,000 in Rental Unit Tax due to an increase in the number of units billed

Police

The Police Department projects revenue over budget by $3.1 million at fiscal year-end primarily due to the following increases:

- $1.9 million in parking citations associated with the increased recruitment and retention of Parking Enforcement Officers
- $1.9 million associated with policing services for special events provided to Qualcomm Stadium and Petco Park (including the Major League Baseball All-Star game hosted in July 2016)

These increases are partially offset with a decrease of $630,000 in vehicle code violations and associated traffic school fees. The projected increased revenue will be used to mitigate the projected increase in Police overtime as discussed later in this report.

Public Works - General Services

The Public Works - General Services Division projects revenue under budget by $740,000 at fiscal year-end primarily attributed to availability of large reimbursable projects. The General Services Division continues to focus on maintenance and repairs as the core function of the Division. Tenant improvements and other projects are conducted with the availability of resources.

Transportation and Storm Water Department

The Transportation and Storm Water Department projects revenue under budget by $500,000 at fiscal year-end primarily due to a decrease of $1.3 million associated with vacant reimbursable positions in the Street Division. These positions are projected to be filled by fiscal year-end.

This decrease is partially offset with the following increases in revenue:

- $670,000 received from co-permittees (including, City of Del Mar, City of Poway, County of San Diego, Caltrans, City of Escondido, City of Solana Beach) for the San Dieguito Water Quality Inspection Program (WQIP) and Los Peñasquitos WQIP cost share agreements
- $190,000 associated with cost recovery revenue for damaged right-of-way assets such as street lights, traffic signals and trees

GENERAL FUND RESERVES

The City's Reserve Policy (Council Policy 100-20) documents the City's approach to establishing and maintaining strong reserves across City operations. On April 12, 2016, amendments to the City's Reserve Policy were approved by the City Council to increase the General Fund Reserves and to establish a Pension Payment Stabilization reserve (Pension Reserve). On February 2, 2017, amendments to the Reserve Policy are also scheduled to be proposed; however, no General Fund impacts are anticipated in Fiscal Year 2017.

Fiscal Year 2017 General Fund Reserve Projections

The following table, Table 16: FY 2017 General Fund Balances and Reserve Estimates, displays the calculation for projected ending fund balance (excess equity).

FY 2017 General Fund Balances and Reserve Estimates

Table 16 — *in millions*

Description		Amount	Revenue %
FY 2016 Audited Budgetary Fund Balance	**$**	**192.4**	**16.3%**
FY 2017 Projected Activity			
Budgeted Use of Excess Equity	$	8.0	
Adjustment for Low-Flow Diversion Capacity Charges		3.0	
FY 2017 Projected Ending Fund Balance (Excess Equity)	**$**	**181.4**	**15.4%**
Emergency Reserve		94.3	8.0%
Stability Reserve		79.5	6.75%
FY 2017 Required Reserve Level[1]	**$**	**173.8**	**14.75%**
FY 2017 Budgeted General Fund Reserve Contribution		7.6	
FY 2017 Projected Budgetary Fund Balance in Excess of Reserves (Excess Equity)	**$**	**15.2**	**1.3%**
Potential Use of Available Fund Balance in Excess of Required Reserves[2]		4.2	
FY 2017 Projected Budgetary Fund Balance in Excess of Reserves (Excess Equity)	**$**	**11.0**	**0.9%**

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

[2]Staff is not recommending an appropriation adjustment at this time, an appropriation adjustment will be requested in the FY 2017 Year-End Budget Monitoring Report from avaialable fund balance above reserve requirements, if an adjustment is necessary.

The Fiscal Year 2017 projected fund balance in excess of required reserves (excess equity) is $15.2 million, after taking into account the following:

- $8.0 million Fiscal Year 2017 budgeted use of fund balance for Police recruitment and retention and other one-time needs
- $3.0 million adjustment for low flow diversion capacity charges to accrue for remaining charges owed to the Public Utilities Department from the Transportation and Storm Water Department
- $173.8 million, or 14.75%, required Fiscal Year 2017 reserve target
- $7.6 million Fiscal Year 2017 budgeted General Fund reserve contribution

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

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

Aside from the $8.0 million budgeted use of fund balance for Police recruitment and retention and other one-time needs in the Fiscal Year 2017 Adopted Budget, the General Fund is projecting an additional $4.2 million in use of fund balance in excess of required reserves by fiscal year-end. Staff is not recommending a budget adjustment at this time as more actual data is necessary before such adjustment will be required. The Fiscal Year 2017 Year-End Budget Monitoring Report will provide nine months of actual data and will be a better indicator of actual year-end revenues and expenditures. At that time, if projections are still trending consistent with the Mid-Year Report, staff will be recommending a one-time use of fund balance in excess of required reserves, or excess equity.

A $3.0 million adjustment for the Fiscal Year 2015 accrued low flow diversion capacity charges, due from the Transportation and Storm Water Department (TSW) to Public Utilities Department (PUD), is included in the General Fund balance calculation. Generally Accepted Accounting Principles (GAAP) require full recognition of the $5.1 million amount owed to PUD in the Fiscal Year ending June 30, 2015 CAFR. This accounting standard is different than budgetary principles; the $3.0 million adjustment includes the $1.0 million which will be transferred each year for the remaining three years per mutual agreement between TSW and PUD and in accordance with budgetary rules. This difference between accounting and budgetary basis will be adjusted each year in the fund balance reconciliation until completely repaid in Fiscal Year 2019.

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

Financial Management included $7.6 million as a budgeted reserve contribution in the Fiscal Year 2017 Adopted Budget in anticipation of the Stability Reserve increase to 6.75%. The anticipated increase budgeted in Fiscal Year 2017 was calculated using the Fiscal Year 2014 and 2015 audited General Fund revenues and the Fiscal Year 2016 Adopted Budget operating General Fund revenues. Audited actual General Fund revenue received were greater than Fiscal Year 2016 Adopted Budget causing the average of the most recent three-years to increase, which resulted in an increase from the budgeted reserve contribution of $7.6 million to $8.8 million. The $8.8 million Stability Reserve increase is included as part of the Fiscal Year 2017 required reserve level as displayed in Table 16: FY 2017 General Fund Balances and Reserve Estimates.

Although the City's revenue and expenditures are projected to increase by fiscal year-end, staff will not be recommending an appropriation adjustment at this time. As the year progresses, and additional data is collected, if expenditure projections are still trending consistent with the Mid-Year Report, staff will be recommending a one-time use of fund balance in excess of required reserves, or excess equity during the Fiscal Year 2017 Year-End

Budget Monitoring Report. A $4.2 million potential use of available fund balance in excess of reserves is included in the Fiscal Year 2017 projected budgetary fund balance calculation.

In summary, the year-end results project the Fiscal Year 2017 projected ending fund balance in excess of reserves (excess equity) at $11.0 million. The Fiscal Year 2017 ending fund balance projection will be updated during the Fiscal Year 2017 Year-End Budget Monitoring Report as projections for revenue and expenditures are updated.

Pension Payment Stabilization Reserve

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

In Fiscal Year 2016, a total of $20.8 million citywide was contributed to the Pension Reserve with the use of excess equity. The contribution was based on the most recent three-year average of the ADC as reported in the Actuarial Valuation Reports produced by SDCERS actuary of June 30, 2015. The City's Fiscal Year 2017 payment has been made without drawing from the Pension Reserve. The updated actuarial report as presented on January 13, 2016 to the SDCERS Board of Administration projects a $324.5 million pension payment citywide in Fiscal Year 2018. This is an unanticipated increase of $63.4 million. Any potential use of the Pension Reserve will be considered during the preparation of the Fiscal Year 2018 Proposed Budget and will include a plan for replenishment.

GENERAL FUND EXPENDITURES

PERSONNEL EXPENDITURES

New Positions Added in Fiscal Year 2017

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

FY 2017 New FTE Positions

Table 17 *As of January 20, 2017*

	FY 2017 New FTE Positions	New FTE Positions created in OM	% of FTE Positions created in OM	New FTE Positions filled	% of FTE Positions that have been filled
General Fund					
Fire-Rescue	41.00	40.00	97.6%	33.00	80.5%
Library	9.00	9.00	100.0%	5.00	55.6%
Park & Recreation	36.73	36.73	100.0%	23.99	65.3%
Police	13.00	13.00	100.0%	10.00	76.9%
General Services	25.00	25.00	100.0%	8.00	32.0%
Transportation & Storm Water	46.00	46.00	100.0%	42.00	91.3%
Other	38.75	36.75	94.8%	28.75	74.2%
General Fund Total	**209.48**	**206.48**	**98.6%**	**150.74**	**72.0%**
Non-General Fund					
Development Services	20.75	20.75	100.0%	9.25	44.6%
Fleet Services	5.50	5.50	100.0%	2.50	45.5%
Engineering & Capital Projects	49.50	49.50	100.0%	29.00	58.6%
Other	29.17	29.17	100.0%	22.34	76.6%
Non-General Fund Total	**104.92**	**104.92**	**100.0%**	**63.09**	**60.1%**
Total	**314.40**	**311.40**	**99.0%**	**213.83**	**68.0%**

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

As of January 20, 2017, 311.40, or 99.0%, of the 314.40 new FTE have been created in the OM system; pending three positions still to be created. Of the 314.40 new FTE, 213.83 or 68.0%, have been filled. The General Fund currently has 72.0% of the newly added positions filled and the non-General Fund has 60.1% of the positions filled. The Public Works – General Services continues to encounter difficulties when filling positions due to competing with the outside private market and the availability of qualified candidates with specific industry skill sets. With the support of the Personnel Department, City departments are working diligently to fill these positions; with the expectation of the majority of the positions to be filled by fiscal year-end.

Salaries and Wages

The current projection for personnel expenditures is over budget by $12.7 million primarily due to an increase in salaries and wages, as displayed on Table 18: FY 2017 General Fund Personnel Expenditure Projections.

FY 2017 General Fund Personnel Expenditure Projections

Table 18 *in millions*

Expenditure Category	Adopted Budget	Current Budget	Year-End Projection	Variance	Variance %
Salaries and Wages	$ 534.5	$ 534.5	$ 546.5	$ (11.9)	-2.2%
Fringe Benefits	376.9	376.9	377.7	(0.8)	-0.2%
Total	**$ 911.5**	**$ 911.5**	**$ 924.2**	**$ (12.7)**	**-1.4%**

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

FY 2017 General Fund Salaries and Wages Projections

Table 19 *in millions*

Salaries and Wages Expenditure Category	Adopted Budget	Current Budget	Year-End Projection	Variance	Variance %
Salaries	$ 457.0	$ 457.0	$ 454.5	$ 2.5	0.5%
Overtime	53.4	53.4	64.5	(11.1)	-20.7%
Hourly	14.0	14.1	14.3	(0.2)	-1.8%
Pay-in-Lieu of Annual Leave	7.2	7.2	9.5	(2.3)	-31.3%
Termination Pay	2.8	2.8	3.7	(0.9)	-30.3%
Total	**$ 534.5**	**$ 534.5**	**$ 546.5**	**$ (11.9)**	**-2.2%**

Salaries and wages expenditures are projected over budget by $11.9 million at fiscal year-end as displayed in Table 19: FY 2017 General Fund Salaries & Wages Expenditure Projections. The salaries category is projected to have a surplus of $2.5 million, or 0.5% of current budget, at fiscal year-end offset by over spending in the other four personnel expenditure categories. The variances in the personnel expenditure categories are primarily due to the following factors:

- Salary savings primarily in the Police Department and Public Works - General Services Department of $1.9 million and $870,000, respectively, due to vacancies throughout the departments
- $11.1 million increase in overtime expenditures are as follows:
  - $5.0 million in the Police Department primarily due to the following:

- $1.4 million increase for extension of shift related overtime which includes training of new officers and post-shift report writing duties
- $1.4 million increase in grant/task force related overtime which is partially reimbursable
- $1.0 million increase related to special events overtime (including the Major League Baseball All-Star Game hosted in July 2016)
- $600,000 increase for reimbursable AB109 related overtime
- $400,000 increase for the Communications Division staffing

  - $3.5 million in the Fire-Rescue Department primarily due to the following increases:
    - $2.9 million in emergency operations including: $1.2 million related to the MOU amendment requiring mandatory annual leave for all Local 145 members, $980,000 in unbudgeted expenditures related to services provided in the San Pasqual Valley area and $580,000 for weather up staffing
    - $390,000 for lifeguard services due to increased volume of beach incidents
    - $150,000 for strike team and other deployments which are partially reimbursable
  - $1.6 million increase in overtime in the Transportation and Storm Water Department due to winter storms related overtime
- $200,000 net increase in hourly expenditures in the Park and Recreation Department, Office of the City Attorney, and Fire-Rescue Department which is partially offset with savings in the Library Department
- $2.3 million net increase in pay-in-lieu of annual leave most significantly in the Fire-Rescue Department of $760,000 and Office of the City Attorney of $250,000. The remaining variance is attributed in various other General Fund Departments
- $880,000 increase in termination pay, most significantly in the Police Department of $370,000. The remaining variance is attributed to various other General Fund Departments

Fringe Benefits

Fringe benefits expenditures are projected to be $377.7 million by fiscal year-end. This is an increase of $810,000, or 0.2%, from the Fiscal Year 2017 current budget. The variance of $810,000 is due to fixed fringe increase of $1.2 million, or 0.5%, partially offset by a decrease of $410,000, or 0.4%, in variable fringe.

FY 2017 General Fund Fringe Benefits Projections

Table 20 *in millions*

Fringe Benefits Expenditure Category	Adopted Budget	Current Budget	Year-End Projection	Variance	Variance %
Fixed	$ 265.0	$ 265.0	$ 266.2	$ (1.2)	-0.5%
Variable	112.0	112.0	111.6	0.4	0.4%
Total	**$ 377.0**	**$ 377.0**	**$ 377.7**	**$ (0.8)**	**-0.2%**

Fixed fringe benefits expenditures include the Actuarially Determined Contribution (ADC) to the San Diego City Employees' Retirement System (SDCERS) as well as contributions for Workers' Compensation (WC), Long-Term Disability (LTD), Other Post-Employment Benefits (OPEB), Unemployment Insurance and Risk Management Administration (RMA). The projected increase in fixed fringe benefits can be attributed to four of these categories: LTD, ADC, OPEB & WC. A projected variance of $200,000 in LTD is primarily due to an increase in claims. The projected variances in ADC, OPEB, and WC, of $340,000, $320,000, and $310,000, respectively, are due to a shift in filled positions between the General Fund and the non-general funds. This shift in filled positions has an effect on actual and projected expenditures because fixed fringe costs are annual liabilities the City is obligated to pay regardless of current employee count or salary amounts. Collection rates are adjusted periodically throughout the fiscal year to ensure that the required obligations are appropriately funded by the contributing departments and funds, which can result in the amount allocated between the General Fund and non-General Funds varying from the current budget.

Variances within the variable fringe benefits categories are projected under budget by $410,000 or 0.4% from current budget. This is due primarily to the following:

- $4.2 million in lower flexible benefits expenditures than expected. Flexible benefits are budgeted based on the health coverage selections of employees at the time the budget is developed. Variances to actuals can be attributable to changes in coverage selections during open enrollment, which occurs subsequently to the adoption of the budget.
- $1.3 million and $2.8 million in over budget expenditures in Medicare and SPSP respectively. In general, Medicare and SPSP expenditures will exceed budget due to over budget overtime expenditures primarily in the Fire-Rescue Department. SPSP expenditures correlate to over budget overtime expenditures for Prop B employees only and the City's defined contribution plan (SPSP-H) requirement to include all pay, including overtime, in the City's match to the defined contribution plan.

Fire-Rescue Department - Personnel Expenditures

The Fire-Rescue Department projects a $13.8 million increase in expenditures over budget. This is comprised of the following increases:

- $8.3 million in salaries and wages
- $6.3 million in fringe benefits

This is partially offset with a projected savings of $900,000 in energy and fuel costs as well as a projected savings of $360,000 in information technology expenditures.

The $8.3 million increase in salaries and wages is primarily the result of the following factors:

- $3.6 million in salaries, vacation, special pays, sick leave, and all other salaries and wages accounts. This is primarily the result of increasing the size of the 81st, 82nd and 83rd academies, from 36 to 48 recruits, to mitigate attrition and expedite hiring. As a result, the Fire-Rescue Department is projecting to be almost fully-staffed by the end of Fiscal Year 2017. The vacancy factor estimated during the development of the Fiscal Year 2017 Adopted Budget assumed a higher vacancy rate than is now projected; that has created a deficit projection in the salaries and wages category.
- $3.5 million in overtime due to: $1.2 million related to the MOU amendment requiring mandatory annual leave for all Local 145 members; $980,000 for the San Pasqual Valley Fast Response Squad (FRS #57) which was not budgeted; $580,000 storm-related staffing; and $390,000 in Lifeguard overtime due to the high volume of beach incidents.
- $760,000 in pay-in-lieu of annual leave related to the MOU amendment with Local 145 requiring mandatory annual leave payouts to reduce annual leave balances for members.

The corresponding impact to fringe benefit expenditures from the increased salaries and wages discussed above is a $6.3 million in over budget expenditures. The primary variance in fringe benefit categories are as follows:

- $2.6 million increase in SPSP contributions for new post Prop-B employees and increased overtime.
- $1.5 million increase in Retirement ADC. The ADC is projected based on actual positions in departments, compared to the budget which is initially allocated based on funded positions. The ADC total payment does not change, only the allocation to each department. Since more positions are filled than were estimated, the Fire-Rescue Department will be allocated a larger share of the ADC and a corresponding decrease will be allocated to other departments.
- $1.5 million increase in worker's compensation and Medicare, as both costs are calculated as a percentage of salaries.
- $520,000 increase in flexible benefits.

While the Fire-Rescue Department is projected to be $6.3 million over budget in fringe benefits, the total General Fund fringe benefit expenditures are only projected slightly over budget, as discussed above. The fringe benefit expenditure savings projected in other General Fund departments will mostly offset the projected increased expenditures in the Fire-Rescue Department.

NON-PERSONNEL EXPENDITURES

The General Fund non-personnel expenditures are projected at $427.4 million by fiscal year-end. This represents an increase in $910,000, or 0.2% of current budget. This is primarily attributed to savings in transfers out and energy and utilities, offset with increases in supplies and contracts. The following section discusses the variances for non-personnel expenditures by category and highlights the significant variances within the General Fund departments.

FY 2017 General Fund Non-Personnel Expenditure Projections

Table 21 *in millions*

Expenditure Category	Adopted Budget	Current Budget	Year-End Projection	Variance	Variance %
Supplies	$ 35.9	$ 36.9	$ 38.0	$ (1.2)	-3.3%
Contracts	240.2	238.1	244.8	(6.8)	-2.9%
Information Technology	28.8	29.5	28.7	0.8	2.7%
Energy and Utilities	46.9	46.9	44.6	2.3	4.9%
Transfers Out	61.4	62.6	59.6	3.0	4.8%
Other	5.3	5.3	5.1	0.2	3.8%
Debt	4.6	4.1	3.5	0.5	12.3%
Capital Expenditures	3.5	3.2	3.1	0.1	3.1%
Total	**$ 426.5**	**$ 426.5**	**$ 427.4**	**$ (0.9)**	**-0.2%**

Supplies

The supplies category is projected to exceed budget by $1.2 million, or 3.3% of current budget, at fiscal year-end primarily due to the following factors:

- $1.0 million increase in the Police Department in supplies, including ammunition, medical supplies, official forms and documents, locks and security hardware, batteries and other safety supplies
- $290,000 increase in the Park and Recreation Department primarily attributed to expenditures for plants, fertilization, irrigation supplies and playground equipment to maintain City parks
- $200,000 increase in the Fire-Rescue Department primarily due to the purchase of personal escape systems

These increases are partially offset by a projected $190,000 savings in the Transportation and Storm Water Department primarily due to savings in the Street division for lighting fixtures, building materials, and tools.

Contracts

The contracts category is projected to exceed budget by $6.8 million, or 2.9% of current budget, at fiscal year-end primarily due to the following factors:

- $6.0 million net increase in the Citywide Program Expenditures Department primarily due to $3.6 million increase in lease payments for the commencement of the lease-to-own purchase agreement for the 101 Ash building in Fiscal Year 2017 and $2.8 million associated with a transfer to the Public Liability Reserve offset with a savings in the transfer out category

- $2.6 million increase in the Transportation and Storm Water Department primarily due to emergency contracts for work performed associated with the winter storms experienced in Fiscal Year 2016 and early Fiscal Year 2017
- $1.4 million increase in the Police Department primarily due to $550,000 increase in equipment motive usage fees associated with the purchase of new vehicles, $350,000 for photocopy services and $280,000 for travel expenses
- $600,000 increase in the Real Estate Assets Department in expenses associated with the management of the DeAnza mobile home park
- $510,000 increase in the Library Department primarily due to a $360,000 increase in security services needed at library branches citywide due to expanded library hours and events and an increase for printing services contract
- $250,000 increase in the Fire-Rescue Department primarily due to Citygate studies associated to the fire dispatch merger, a Standards of Coverage, and an oversight/deployment analysis for ambulance services

These increased projections are partially offset by the following projected decreases as described below:

- $1.5 million in the Real Estate Assets Department due to a delay in the Civic Center Plaza reconfiguration
- $590,000 in the Economic Development due to less than anticipated Civic San Diego project management activity
- $380,000 in undistributed budget expenses allocated to the Office of the City Treasurer which will be used to mitigate salary and fringe costs of supplemental positions associated with enforcing the Minimum Wage Ordinance
- $280,000 in the Performance and Analytics Department due to contractual fees coming in less than expected for the following: training re-enrollment, recertification for the World Council on City Data, and support for the City's Strategic Plan and Initiatives spearheaded by the Department
- $200,000 in the Development Services Department for the Accela Project Tracking System, which was posted in the Transfers Out category

Information Technology

The information technology category is projected to be $800,000 under budget, or 2.7%, of current budget at fiscal year-end primarily due to the following factors:

- $260,000 decrease in the Fire-Rescue Department related to savings associated with the Computer Aided Dispatch oversight/maintenance and $90,000 in the deferred purchase of back-up dispatch center equipment
- $240,000 decrease in the Office of the City Treasurer attributed to delays in the enhancement of treasury systems such as the Centralized Payment Processing Solution that will not be fully implemented as planned in Fiscal Year 2017
- $160,000 decrease in the Police Department due to savings related to computer maintenance and equipment

Energy & Utilities

The energy and utilities category is projected under budget by $2.3 million, or 4.9%, of current budget, at fiscal year-end primarily due to the following:

- $2.2 million savings in fleet fuel primarily due to $1.2 million in the Police Department and $460,00 in the Environmental Services Department
- $1.0 million savings in electrical services expenditures in General Fund Departments

- $920,000 savings in the Fire-Rescue Department associated with savings in diesel and aircraft fuel

These savings are primarily offset by increases in the following:
- $800,000 in the Park and Recreation Department associated with an increase in water usage
- $280,000 in the Transportation & Storm Water Department primarily for energy expenses paid to Caltrans for shared street light electricity costs

Transfers Out
The transfers out category is projected under budget by $3.0 million, or 4.8% of current budget, at fiscal year-end primarily due to the following:
- $3.4 million decrease in the Citywide Program Expenditures Department primarily due to a $2.8 million transfer to the Public Liability Reserve to meet the reserve target of 40.0% which posted in the contracts category, and $550,000 transfer to the Park Improvement Fund associated to lower lease revenues received from Mission Bay Park

This decrease is offset by a transfer of $400,000 in the Development Services Department for the Accela Project Tracking System and the transfer to the Nuisance Abatement Superfund, which was budgeted in the debt and contracts categories, respectively.

Other
The other category is projected under budget by $230,000, or 3.8% of current budget at fiscal year-end primarily due to a $100,000 decrease in Citywide Program Expenditures Department primarily due to a lower than anticipated payment for the Supplemental Cost of Living Adjustment (COLA)

Debt
The debt category is projected under budget $550,000, or 12.3% of current budget by fiscal year-end due to the following:
- $350,000 decrease in the Transportation & Storm Water Department due to a delay in debt payments for I AM San Diego asset management project not anticipated until Fiscal Year 2018
- $200,000 decrease in the Development Services Department attributed to a payment for the Accela Project Tracking System posting to the transfers out category

Capital Expenditures
The capital expenditures category, which includes furniture, office equipment and work stations, is projected over budget by $90,000, or 3.1% of current budget at fiscal year-end. There are no significant variances to report.

Tables may not foot due to rounding.

NON-GENERAL FUNDS

Central Stores Fund

in millions

Rev/PE/NPE	Adopted Budget	Current Budget	Year-End Projection	Variance	Variance %
Revenue	$ 13.4	$ 13.4	$ 8.8	$ (4.5)	-34.0%
Personnel Expenditures	1.6	1.6	1.5	0.1	5.4%
Non-Personnel Expenditures	11.7	11.7	7.4	4.4	37.3%
Expenditures	13.4	13.4	8.9	4.5	33.4%
Net Year-End Projection	**$ (0.0)**	**$ (0.0)**	**$ (0.1)**	**$ (0.1)**	

Revenue:
The Central Stores Fund projects revenue under budget by $4.5 million at fiscal year-end primarily due to the following:

- $3.6 million decrease attributed to water meter sales and inventory which have been transferred to the Public Utilities Department
- $900,000 decrease in the demand for storeroom items by City departments

Expenditures:
Personnel expenditures in the Fund are projected close to budget by fiscal year-end.

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

- $3.6 million decrease attributed with water meter inventory transferring to the Public Utilities Department
- $900,000 decrease in the demand for storeroom items by City departments

The Fund is currently projected to maintain lower inventory levels in order to adjust to the decreased level of demand anticipated for the remainder of the fiscal year.

Development Services Fund

in millions

Rev/PE/NPE	Adopted Budget	Current Budget	Year-End Projection	Variance	Variance %
Revenue	$ 55.3	$ 55.3	$ 61.4	$ 6.1	11.0%
Personnel Expenditures	44.8	44.8	45.9	(1.1)	-2.4%
Non-Personnel Expenditures	12.9	12.9	15.7	(2.8)	-21.8%
Expenditures	57.7	57.7	61.6	(3.9)	-6.7%
Net Year-End Projection	**$ (2.4)**	**$ (2.4)**	**$ (0.2)**	**$ 2.2**	

Revenue:
The Development Services Fund projects revenue to exceed budget by $6.1 million at fiscal year-end primarily due to the following factors:

- $2.0 million increase due to the sales of reports and publications (i.e. copies for environmental impact reports and property plans) associated with an increased demand from the building industry

Tables may not foot due to rounding.

- $2.0 million increase associated with a transfer for the Accela lease purchase agreement from the General Fund ($200,000) and Civil Penalty Enforcement (CPE) Fund ($1.8 million). This expense was budgeted in the General Fund in the Development Services Department and the CPE Fund via debt expenditures; however, will now post in the Development Services Fund.
- $1.6 million increase due to additional plan reviews and building permits as a result of a continued improving economy
- $450,000 increase associated with permit and issuance fees for non-residential and residential plan checks and the effects of the new California Building Standards Code and the new increased fees that went into effect October 1, 2017.

Expenditures:
Personnel expenditures in the Development Services Fund are projected to exceed budget by $1.1 million at fiscal year-end primarily due to the following factors:

- $700,000 increase in overtime associated with extended lobby hours and staff working additional hours to meet the demand for expedited projects
- $320,000 increase for pay-in-lieu of annual leave

The Fund projects non-personnel expenditures over budget by $2.8 million at fiscal year-end primarily due to the following:

- $2.0 million increase in debt expenditures for the Accela lease purchase agreement. This amount will be offset with a revenue increase associated with a transfer from the General Fund and the Civil Penalty Enforcement Fund
- $770,000 increase associated with the purchase of the E-plan and Qmatic software systems that will aid in the implementation of the Accela project and integrate the project tracking software

The Development Services Fund will be requesting an appropriation adjustment to increase its revenue and debt expenditure budget by $2.0 million for the Accela project. The remaining net variance will be mitigated via the use of available fund balance.

Engineering and Capital Projects Fund

in millions

Rev/PE/NPE	Adopted Budget	Current Budget	Year-End Projection	Variance	Variance %
Revenue	$ 83.2	$ 83.2	$ 80.9	$ (2.3)	-2.8%
Personnel Expenditures	69.3	69.3	69.3	-	0.0%
Non-Personnel Expenditures	14.0	14.0	11.6	2.4	17.2%
Expenditures	83.2	83.2	80.9	2.4	2.8%
Net Year-End Projection	**$ -**	**$ -**	**$ 0.1**	**$ 0.1**	

Revenue:
Revenue in the Engineering and Capital Projects Fund is projected under budget by $2.3 million due to vacant reimbursable positions offset with related savings in personnel expenditures.

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

- $930,000 in salaries attributed vacant reimbursable positions

- $400,000 in hourly expenditures attributed to vacant hourly positions

The savings in personnel expenditures are offset by the following increases:
- $800,000 in pay-in-lieu of annual leave
- $750,000 in overtime expenditures due to vacancies throughout the Department

Non-personnel expenditures are projected under budget by $2.4 million primarily attributed to the following decreases:
- $2.0 million in reduced rental expenditures for the property at 525 B Street. Rent expenditures came in lower than originally anticipated as a result of the timing of the lease negotiations. A one-time rental credit was applied this fiscal year.
- $800,000 in training expenditures associated with vacant positions

These savings in non-personnel expenditures are offset with increases in the following:
- $450,000 in supplies associated to the relocation of the Construction Management and Field Services Division from Aero Drive to Chesapeake. Expenditures include new furniture and cubicles to conform with the new office floorplans and spacing standards

Fire/Emergency Medical Services Transport Program Fund

in millions

Rev/PE/NPE	Adopted Budget	Current Budget	Year-End Projection	Variance	Variance %
Revenue	$ 12.3	$ 12.3	$ 12.6	$ 0.3	2.4%
Personnel Expenditures	4.8	4.8	5.2	(0.4)	-7.2%
Non-Personnel Expenditures	7.7	7.7	7.9	(0.3)	-3.5%
Expenditures	12.5	12.5	13.1	(0.6)	-4.9%
Net Year-End Projection	**$ (0.2)**	**$ (0.2)**	**$ (0.5)**	**$ (0.3)**	

Revenue:
The Fire/Emergency Medical Services (EMS) Fund projects revenue over budget by $300,000 at fiscal year-end associated with penalties paid by the City's 9-1-1 ambulance provider for non-compliance with contractual response time standards.

Expenditures:
Personnel expenditures in the Fire/Emergency Medical Services (EMS) Fund is projected to exceed budget by $350,000 at fiscal year-end primarily due to increased fringe benefit expenditures associated with fire fighter positions in the paramedic rotation program. Under this program firefighter/paramedics in the Fire-Rescue Department rotate into ambulances funded by the EMS Fund.

The Fund projects non-personnel expenditures over budget by $300,000 at fiscal year-end primarily due to a transfer of the EMS Fund fund balance to the General Fund. The Fund will be using available fund balance to offset the projected expenditures in excess of revenues.

Fleet Services Operating Fund

in millions

Rev/PE/NPE	Adopted Budget	Current Budget	Year-End Projection	Variance	Variance %
Revenue	$ 50.8	$ 50.8	$ 51.0	$ 0.2	0.4%
Personnel Expenditures	20.5	20.5	20.3	0.1	0.7%
Non-Personnel Expenditures	35.6	35.6	33.7	1.9	5.2%
Expenditures	56.1	56.1	54.1	2.0	3.6%
Net Year-End Projection	**$ (5.2)**	**$ (5.2)**	**$ (3.1)**	**$ 2.2**	

Revenue:

Revenue in the Fleet Services Operating Fund is projected over budget by $190,000 primarily attributed to the following increases:

- $2.1 million associated with billable repair work for City vehicles
- $1.4 million in rental pool revenue due to an increased number of vehicle rental
- $420,000 in usage fees due to the purchase of new vehicles primarily in the Police Department

These over budget revenues are partially offset by the following decreases:

- $2.8 million in gasoline surcharge revenue associated to a decrease in the price for fuel
- $1.1 million associated to special shop services, i.e. welding services and wash rack cleaning

Expenditures:

Personnel expenditures in the Fleet Services Operating Fund are projected under budget by $150,000 primarily attributed to a savings of $960,000 in salaries and $60,000 in fringe benefit expenditures associated with 32.00 vacant positions. 3.00 administrative positions were filled in December 2016 and 16.00 Fleet Technician series positions and 2.00 Fleet Manager positions are projected to be filled in February 2017, with the remaining vacancies anticipated to be filled by fiscal year-end. These savings are offset with increases in the following:

- $730,000 in overtime due to vacancies and critical work performed for vehicle maintenance to meet service level standards
- $160,000 in pay-in-lieu of annual leave

Non-personnel expenditures for the Fleet Services Operating Fund are projected under budget by $1.9 million at fiscal year-end primarily due to the following:

- $2.9 million savings in energy & utilities primarily attributed to $2.8 million savings in fuel cost as a result of a lower cost per gallon for motor fuels than anticipated in the current budget, and $100,000 decrease in electricity usage costs
- $1.0 million savings in contracts associated with savings in rent and building improvements due to a delay in the lease negotiations for the new facility located on 850 Othello

These savings in non-personnel expenditures are offset with a $2.1 million over budget projection in supplies as a result of an increase in billable work to repair and outfit vehicles. These supplies include tires, repair and fitting supplies. The Fund will be using available fund balance to offset the projected expenditures in excess of revenues.

Qualcomm Stadium Operations Fund

in millions

Rev/PE/NPE	Adopted Budget	Current Budget	Year-End Projection	Variance	Variance %
Revenue	$ 19.8	$ 19.8	$ 19.7	$ (0.2)	-1.0%
Personnel Expenditures	3.6	3.6	3.6	0.0	0.3%
Non-Personnel Expenditures	16.8	16.8	14.6	2.2	13.2%
Expenditures	20.4	20.4	18.2	2.2	10.9%
Net Year-End Projection	**$ (0.6)**	**$ (0.6)**	**$ 1.5**	**$ 2.0**	

Revenue:
The Qualcomm Stadium Operations Fund projects under budget revenue due to fewer major events scheduled at the stadium for the remainder of Fiscal Year 2017.

Expenditures:
Personnel expenditures in the Qualcomm Stadium Operations Fund are projected at budget by fiscal year-end.

Non-personnel expenditures are projected under budget by $2.2 million at fiscal year-end primarily due to fewer major events scheduled at the stadium for the remainder of Fiscal Year 2017.

Recycling Fund

in millions

Rev/PE/NPE	Adopted Budget	Current Budget	Year-End Projection	Variance	Variance %
Revenue	$ 21.2	$ 21.2	$ 21.9	$ 0.7	3.3%
Personnel Expenditures	10.0	10.0	9.7	0.2	2.4%
Non-Personnel Expenditures	13.7	13.7	13.2	0.6	4.1%
Expenditures	23.7	23.7	22.9	0.8	3.4%
Net Year-End Projection	**$ (2.5)**	**$ (2.5)**	**$ (1.0)**	**$ 1.5**	

Revenue:
The Recycling Fund projects revenue over budget by $700,000 at fiscal year-end primarily due to an increase of $610,000 in revenue from the State of California's Container Redemption Value Fund.

Expenditures:
Personnel expenditures in the Recycling Fund are projected under budget by $240,000 at fiscal year-end primarily due to three positions projected to be vacant by fiscal year-end.

Non-personnel expenditures for the Recycling Fund are projected under budget by $570,000 at fiscal year-end primarily due to a decrease of contractual services for recycling education and outreach projects. These contractual services are on hold as staff is defining requirements for necessary education and outreach for the selected provider. In the meantime, Department staff continue to conduct the recycling education and outreach projects.

Tables may not foot due to rounding.

Refuse Disposal Fund

in millions

Rev/PE/NPE	Adopted Budget	Current Budget	Year-End Projection	Variance	Variance %
Revenue	$ 31.3	$ 31.3	$ 33.6	$ 2.3	7.5%
Personnel Expenditures	13.0	13.0	13.5	(0.4)	-3.3%
Non-Personnel Expenditures	15.3	15.3	16.9	(1.6)	-10.7%
Expenditures	28.3	28.3	30.4	(2.1)	-7.3%
Net Year-End Projection	**$ 3.0**	**$ 3.0**	**$ 3.2**	**$ 0.3**	

Revenue:

The Refuse Disposal Fund projects revenue over budget by $2.3 million at fiscal year-end primarily due to the following factors:

- $1.7 million increase for non-franchised haulers including small businesses, residents and non-profit organizations disposing trash at the Miramar Landfill
- $300,000 increase in greens disposal fees
- $140,000 increase in sales of green commodities such as mulch, compost, and woodchips at the Miramar Greenery for drought resistant landscapes

Expenditures:

Personnel expenditures in the Refuse Disposal Fund are projected over budget by $430,000 at fiscal year-end. The over budget projection includes a savings of $250,000 in salaries attributed to 12.00 vacant positions that are anticipated to be filled by fiscal year-end. This savings is offset with the following increases:

- $350,000 in overtime as a result of the vacancies within the Department
- $120,000 in fringe benefit expenditures

Non-personnel expenditures for the Refuse Disposal Fund are projected over budget by $1.6 million by fiscal year-end primarily due to the leasing of heavy landfill equipment.

Sewer Utility Funds

in millions

Rev/PE/NPE	Adopted Budget	Current Budget	Year-End Projection	Variance	Variance %
Revenue	$ 394.8	$ 394.8	$ 396.8	$ 2.0	0.5%
Personnel Expenditures	87.8	87.8	87.2	0.5	0.6%
Non-Personnel Expenditures	266.5	266.5	253.4	13.1	4.9%
Expenditures	354.2	354.2	340.6	13.6	3.9%
Net Year-End Projection	**$ 40.6**	**$ 40.6**	**$ 56.2**	**$ 15.6**	

Revenue:

The Sewer Utility Funds revenue is projected over budget by $2.0 million at fiscal year-end. This is primarily due $1.9 million in unanticipated grant receipts for the Pure Water Program and $1.3 million due to an increase in building permit activity from large scale multi-family and commercial projects. The variance is offset by a decrease in State Revolving Financing (SRF) loan revenue of $1.4 million due to a delay in reimbursements from the State of California.

Tables may not foot due to rounding.

Expenditures:
Personnel expenditures in the Sewer Utility Funds are projected under budget by $510,000 primarily due to savings in fringe benefit expenditures as a result of vacant positions.

Non-personnel expenditures in the Sewer Utility Funds are projected under budget by $13.1 million at fiscal year-end primarily due to the following decreases:
- $4.4 million in supplies due to savings in building materials, equipment and tools, machine parts, chemicals, and office supply materials
- $4.1 million in contracts due to a combination of delays in various wastewater treatment facility projects that were postponed to Fiscal Year 2018 and the digester cleaning contract for the Point Loma Wastewater Treatment Plant coming in lower than anticipated.
- $3.5 million in contingency reserves not needed in this fiscal year.
- $850,000 due to excess reserves from debt service reserve funds.
- $720,000 due to purchasing various capital equipment such as pumps, compressors, and other equipment
- $600,000 due to delays in implementing various information technology projects

The non-personnel expenditure variance is offset by an increase of $1.3 million associated with delayed Fiscal Year 2016 SDG&E billing credits for accounts undergoing corrective action and delayed receipts of other energy vendor invoices in Fiscal Year 2016.

Transient Occupancy Tax Fund

in millions

Rev/PE/NPE	Adopted Budget	Current Budget	Year-End Projection	Variance	Variance %
Revenue	$ 103.1	$ 103.1	$ 102.4	$ (0.7)	-0.7%
Personnel Expenditures	1.7	1.7	1.4	0.3	16.9%
Non-Personnel Expenditures	109.6	109.6	109.3	0.3	0.3%
Expenditures	111.3	111.3	110.7	0.6	0.6%
Net Year-End Projection	**$ (8.2)**	**$ (8.2)**	**$ (8.3)**	**$ (0.1)**	

Revenue:
The Transient Occupancy Fund is projected under budget by $780,000 at fiscal year-end. As discussed in the Major General Fund Revenues section of this report, this is largely due to lower than expected tourism activity during the second quarter of Fiscal Year 2017. However, this is not projected to have a negative impact on revenue projected for the remainder of the fiscal year.

Expenditures:
Personnel expenditures in the Transient Occupancy Tax (TOT) Fund are projected under budget by $290,000 at fiscal year-end due to three vacant positions in the Commission for Arts and Culture Department, of which one position is expected to be filled by fiscal year-end.

Non-personnel expenditures are projected under budget by $340,000 at fiscal year-end primarily due to a decrease of $310,000 in TOT transfers to the Major Events Revolving Fund and General Fund as a result of aggregate Transient Occupancy Tax revenue anticipated to come in slightly below budget. The Fund will be using available fund balance to offset the projected shortfall in revenues.

Underground Surcharge Fund

in millions

Rev/PE/NPE	Adopted Budget	Current Budget	Year-End Projection	Variance	Variance %
Revenue	$ 68.8	$ 68.8	$ 71.7	$ 2.9	4.2%
Personnel Expenditures	1.3	1.3	1.2	0.0	3.2%
Non-Personnel Expenditures	57.6	57.6	23.3	34.4	59.6%
Expenditures	58.9	58.9	24.5	34.4	58.4%
Net Year-End Projection	**$ 9.9**	**$ 9.9**	**$ 47.2**	**$ 37.3**	

Revenue:
The Underground Surcharge Fund projects revenue to exceed budget by $2.9 million at fiscal year-end primarily due to the increase in revenue received from San Diego Gas & Electric (SDG&E).

Expenditures:
Personnel expenditures are projected at budget by fiscal year-end.

Non-personnel expenditures are projected under budget by $34.4 million at fiscal year-end due to the amount of time needed to complete the environmental and design phases of the undergrounding projects. A large number of projects are currently being designed by SDG&E and these projects do not incur any expenses until they are under construction. In addition, limited resources at the participating utilities contribute to delays in project execution.

Water Utility Operating Fund

in millions

Rev/PE/NPE	Adopted Budget	Current Budget	Year-End Projection	Variance	Variance %
Revenue	$ 590.1	$ 602.1	$ 608.7	$ 6.6	1.1%
Personnel Expenditures	76.6	76.6	75.0	1.6	2.1%
Non-Personnel Expenditures	427.6	427.6	409.0	18.6	4.3%
Expenditures	504.2	504.2	484.0	20.2	4.0%
Net Year-End Projection	**$ 85.9**	**$ 97.9**	**$ 124.7**	**$ 26.8**	

Revenue:
The Water Utility Operating Fund revenue is projected over budget by $6.6 million at fiscal year-end. This is primarily attributed to $36.5 million of unbudgeted reimbursements from the 2016A bond proceeds and $57.3 million of projected revenue from the commercial paper program for CIP-related expenditures. However, this is being offset by an $87.6 million decrease in revenue from State Revolving Financing (SRF) loan proceeds due to the Water Fund CIP program being funded primarily through bond proceeds and commercial paper financing.

Expenditures:
Personnel expenditures in the Water Utility Operating Fund are projected under budget by $1.6 million at fiscal year-end primarily due to 57.00 vacant positions throughout the Department with various anticipated hire dates.

Non-personnel expenditures are under budget by $18.6 million at fiscal year-end due to the following factors:

- $6.2 million decrease due to a decline in water purchases from continued water conservation
- $3.7 million decrease due to excess reserves from debt service reserve funds.
- $3.5 million decrease in contingency reserves not needed in this fiscal year.
- $3.2 million decrease due to condition assessments, security contracts and other miscellaneous contracts with actual expenditures coming in lower than expected and due to delays through Fiscal Year 2018
- $890,000 decrease due to delays in implementing various information technology projects
- $570,000 decrease in delays of purchasing various capital equipment such as pumps and compressors

PROGRAM UPDATES

9-1-1 Dispatcher Recruitment and Retention

As of December 6, 2016, the Police Department's Communications Division has 130 filled positions and three vacant positions (one Dispatcher II and two Police Dispatcher classifications). The division has hired 41 new dispatchers since January 2016, of which 36 are still working in the division or in the process of completing dispatcher training.

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

1,000 Miles of Street Repairs

One of the Mayor's top initiatives is to repair 1,000 miles of City streets in five years or less. The City completed 322 miles of street repair in Fiscal Year 2016 and plans to repair more than 300 miles in Fiscal Year 2017 through asphalt overlay, slurry seal, and concrete street repairs. Fiscal Year 2017 projected expenditures of approximately $63.0 million are supported by several funding sources including TransNet, Gas Tax, and financing.

Through the first five months of Fiscal Year 2017, the City has initiated repair of 155 miles of City streets and has fully completed repair of 51 of those miles. The City is in the process of initiating over 150 more miles of road repair, all of which are expected to be completed by the end of Fiscal Year 2017. Since the inception of this initiative in Fiscal Year 2016, the City has completed a total of 373 miles, or 37.3%, of the 1,000 mile goal to-date.

Election Costs

The Fiscal Year 2017 Adopted Budget includes $4.2 million in non-personnel expenditures for the general election of the Mayor, City Attorney, Council Districts 1,3,5,7, and 9 and projected ballot measures. As of October 2016, the City received an estimate for the November 8, 2016 General Election, and petition verification costs totaling $4.4 million. Since the First Quarter Report, the City received an invoice associated with the June 07, 2016 Primary Elections totaling $62,000. As a result, the citywide election budget is now projected to end the fiscal year slightly over budget by $250,000.

Post-election, the Office of the Registrar of Voters will provide the City a final invoice of actual costs.

Energy Cost Analysis

FY 2017 Energy Cost Projections

Table 22 *in millions*

Fund	Adopted Budget	Current Budget	Year-End Projection	Variance	Variance %
General Fund	$ 11.3	$ 11.3	$ 10.3	$ 1.0	9.2%
Non-General Fund	30.6	30.6	31.4	(0.8)	-2.6%
Total	**$ 41.9**	**$ 41.9**	**$ 41.6**	**$ 0.3**	**0.6%**

Expenditures in electrical services are projected under budget by $300,000 citywide by fiscal year-end. This projection represents a decrease in expenditures of $700,000 from the First Quarter Report by using a straight-line projection based on current year actuals. Due to the limited data available during the First Quarter Report, the projection for Energy costs was previously developed using the previous year's actual data and incorporating anticipated current year purchases.

Electrical services in General Fund departments are projected under budget by $1.0 million and the Non-General Funds are projected $800,000 over budget by fiscal year-end. At the time of the development of the Fiscal Year 2017 energy budget, the City utilized the Fiscal Year 2015 actuals as a baseline, which included four rate increases imposed by SDG&E in Fiscal Year 2015, and built in estimated rate increases based on historical averages. The projected rate increases have been less impactful than expected, contributing to the overall savings. Rate based savings in the Non-General Funds are partially offset by delayed Fiscal Year 2016 SDG&E billing for accounts undergoing corrective action and delayed receipts of other energy vendor invoices in Fiscal Year 2016 primarily in the Public Utilities Department.

Expanded Hours at Recreation Centers

In September 2016, eight recreation centers increased their operating hours from 45 to 60 hours per week. These recreation centers include: Silver Wing, Skyline, Southcrest, Adams, La Jolla, Pacific Beach, San Carlos, and Lopez Ridge. The Fiscal Year 2017 Adopted Budget included the addition of 8.00 Assistant Recreation Center Directors and 2.00 Recreation Leader I-Hourly positions and associated non-personnel expenditures to support the expanded hours. All positions have been filled as of December 2016.

The additional staffing at recreation centers will allow increased programming for the following: new and existing teen centers; adult and senior patron oriented programming; additional afterschool programming focused on elementary and middle school patrons; new youth sports programs; and a new weekend programming for youth and adults, including 'Parent's Night Out', a low cost program to give parents the ability to enjoy an evening out while their children enjoy recreational activities.

Facilities Maintenance and Repairs

The Fiscal Year 2017 Adopted Budget includes the addition of 21.00 FTE positions to the Facilities Division of which 4.00 FTE positions have been filled (2.00 supervisor positions 1.00 Locksmith position and 1.00 Administrative Aide I position). Additionally, 4.00 Painter positions are pending the completion of the hiring process. The Division has undergone a temporary hold on the hiring of supervisor positions until the completion of an internal reorganization. The purpose of the reorganization is to re-align the trade skills of all existing supervisors with the teams they lead as a means to incorporate more effective teams across all skilled trades. The majority of the remaining vacancies are anticipated to be filled by the third quarter of the fiscal year.

Fuel Cost Analysis

FY 2017 Fuel Cost Projections					
Table 23					*in millions*
Fund	**Adopted Budget**	**Current Budget**	**Year-End Projection**	**Variance**	**Variance %**
General Fund	$ 8.5	$ 8.5	$ 6.3	$ 2.2	26.1%
Non-General Fund	3.1	3.1	2.5	0.6	18.8%
Total	**$ 11.6**	**$ 11.6**	**$ 8.8**	**$ 2.8**	**24.1%**

The Fleet Services Operating Fund is projecting a $2.8 million citywide savings in fuel expenditures by fiscal year-end. The projected savings in fuel expenditures has increased slightly from the First Quarter Report. The projected savings are primarily due to lower costs in motor fuels than anticipated during the development of the Fiscal Year 2017 Adopted Budget. Although projected fuel prices are lower than anticipated, fuel consumption has remained relatively steady. Monthly unleaded fuel consumption is similar to the monthly average for the past two fiscal years and diesel fuel consumption is slightly higher than the average of the past two fiscal years. Similar to the First Quarter Report, the fuel expenditure projection assumes an inflation rate of 4.0% during the fiscal year to allow for price fluctuations in the cost per gallon. The Fleet Operations Department will continue to monitor the fuel expenditures throughout the fiscal year and provide quarterly updates.

Infrastructure Asset Management (I AM) San Diego Project

During the second quarter of Fiscal Year 2017, the Systems Integrator continued conducting design and integration workshops with City staff to develop the "to be" solution. The Project also continued its proof of concept (POC) for the Asset Management Planning component of the system for right-of-way assets, which will be launched in early February 2017. As of the second quarter of Fiscal Year 2017, the project expended $6.3 million and encumbered $13.1 million and anticipates fully expending the budget by the end of the fiscal year. I AM San Diego is on schedule to go live in the first quarter of Fiscal Year 2018.

Penny for the Arts

The Penny for the Arts allocation for Fiscal Year 2017 totals $13.0 million including Creative Communities (CCSD) and Organization Support (OSP). At the end of the second quarter of Fiscal Year 2017, approximately 92.0% has been allocated to specific organizations by the Commission for Arts and Culture.

Police Officer Recruitment and Retention

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

Focus from the Police Department's Recruiting Unit on recruitment efforts is on-going with scheduled visits to several other cities throughout the area. The Recruiting Unit will conduct an additional 10 tests outside of San Diego County to complement the weekly tests within the County. Recruiters have attended 121 recruitment events to-date to promote career opportunities and testing availability to potential applicants. The focus of recruitment efforts includes outreach to military bases, college campuses, and community events. Advertising in local community newspapers, in addition to social media websites, is presently underway as reinforcement to the face-to-face recruiting activities.

Additionally, there are 18 recruits that have graduated from the 108th Academy and 51 recruits anticipated to graduate in the 109th Academy in February 2017. The 110th Academy is in process with 20 recruits with an anticipated graduation date of April 2017. The Department's goal is to average 43 recruits per academy over the course of Fiscal Year 2017.

Senior Center in North Clairemont

The Fiscal Year 2017 Adopted Budget includes 2.50 limited positions to support the Senior Center in North Clairemont which includes 1.00 Assistant Recreation Center Director, 0.50 Recreation Leader I and 1.00 Grounds Maintenance Worker I. All positions have been filled. The funding will provide temporary services to the center, while a permanent provider is identified. The following activities are programmed by seniors (or volunteers) and are currently offered at the Senior Center: open play pool, senior exercise, open play bridge, art class, dominos, bingo, choir, tap dance, various open drop-in programs, and special events.

Senior Center at Bay Terrace (Tooma Park) Community Park

The Senior Center at Bay Terrace (Tooma Park) Community Park is estimated at approximately $3.5 million in construction costs. During the Fiscal Year 2016 Year-End Budget Monitoring Report, $500,000 of excess equity was appropriated to fund the design phase of the project. The design phase began in November 2016, with construction scheduled to begin in August 2018 provided other funding sources are identified.

Zero Waste

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

- The Miramar Landfill CIP will include initial facility improvements such as a resource recovery facility, and an organics diversion facility
- Franchise Haulers are required to meet 25.0% annual waste diversion goal by December 31, 2016, which will be accomplished through the amended Franchise Agreement with refuse haulers. Confirmation that the goal was reached will be available in February 2017.
- Implementation of the City's Construction and Demolition Ordinance amendment to increase the diversion of construction and demolition debris from landfill disposal, conserve the capacity and extend the useful life of the Miramar Landfill

RISK MANAGEMENT RESERVES

The Long-Term Disability, Public Liability and Workers' Compensation Funds provide funding sources for certain claims made against the City. The City's Reserve Policy (CP 100-20) sets the required reserve level target for each fund as shown below in Table 24: FY 2017 Risk Management Reserves. All Risk Management reserves are based on the average value of the annual actuarial liability for the three most recent fiscal years. The reserve targets for the Long-Term Disability, Public Liability and Workers' Compensation Funds are based on the Fiscal Year 2016 actuarial valuations.

FY 2017 Risk Management Reserves

Table 24 *in millions*

Description	Fund Name	Reserve Type	Year-End Projection	Funding Goal/Target[1]
Risk Management	Long-Term Disability Fund	Liability Reserve	$ 17.4	$ 11.0
	Public Liability Fund	Liability Reserve	39.5	33.6
	Workers' Compensation	Liability Reserve	56.5	58.7

[1]This represents the Fiscal Year 2017 funding goal of 100.0% for the Long Term Disability Reserve and 25.0% for the Workers' Compensation Reserve. The Fiscal Year 2017 target established for the Public Liability Reserve is 43.0%.

Long-Term Disability Reserve

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

Public Liability Reserve

The Public Liability reserve is funded by the General Fund to support claims arising from real or alleged acts on the part of the City, including claims for bodily injury, property damage, and errors and omissions. For Fiscal Year 2017, the City's Reserve Policy requires that the Public Liability Fund Reserve equal 43.0% of the average value of the annual actuarial liability for the three most recent fiscal years, or $33.6 million. This reserve target has decreased by $5.9 million from the Fiscal Year 2017 target included in the Fiscal Year 2017 Adopted Budget as a result of incorporating the Fiscal Year 2016 actuarial valuation in the three year average value of the annual actuarial liability. The current balance of the Public Liability Fund Reserve is approximately $39.5 million or 51.0%, of the three year average of the annual actuarial liability, exceeding the Fiscal Year 2017 Public Liability Fund Reserve target.

An appropriation adjustment is requested in this report to transfer $5.9 million of excess reserves in the Public Liability Reserve to the Public Liability Operating Fund where it will be used to pay for higher than anticipated operating costs.

Workers' Compensation Reserve

The Workers' Compensation reserve provides funding for medical and disability costs for injuries and illnesses occurring in the workplace. The Workers' Compensation Reserve Fund Fiscal Year 2017 policy goal is 25.0% of the most recent three year average of the annual actuarial liability, or $58.7 million, shall be maintained in reserves. This reserve amount has increased by $1.7 million from the Fiscal Year 2017 goal included in the adopted budget as a result of incorporating the Fiscal Year 2016 actuarial valuation in the three year average of the annual actuarial liability. The current projected balance of the Workers' Compensation Reserve is approximately $56.5 million or 24.0% of the three year average.

An update to the City's Reserve Policy will be presented at the Budget and Government Efficiency Committee hearing on February 2, 2017 to propose updates to the Workers' Compensation Reserve policy goal. Any updates to the reserve will be included in the Fiscal Year 2017 Year-End Budget Monitoring Report. In order to maintain the 25.0% reserve goal, an additional contribution of $2.2 million ($1.7 million General Fund) will be needed by the end of Fiscal Year 2017 if the policy goal is not reduced to 12.0%.

APPROPRIATION ADJUSTMENTS

The following section discusses the appropriation adjustment recommended in the Mid-Year Report. This section includes requested authorities and an appropriation adjustment in the Development Services Fund. All adjustments are balanced by an increase in budgeted revenue, or fund balances available. These authorities and appropriation are requested for the Development Services Fund, Public Liability Operating Fund and an allocation of CIP funds for the 101 Ash Street building CIP.

Although the City's General Fund revenue and expenditures are projected to increase by fiscal year-end, the increased expenditure projections has outpaced the revenue projections. The General Fund remains balanced as there is available General Fund fund balance above required reserves, or excess equity, carried forward from the financial close of Fiscal Year 2016. Staff is not recommending a General Fund budget adjustment at this time as more actual data is necessary before such adjustment will be required. The Fiscal Year 2017 Year-End Budget Monitoring Report will include nine months of actual activity and will provide a better indicator of actual year-end revenues and expenditures. At that time, if projections are still trending consistent with the Mid-Year Report, staff will be recommending a one-time use of fund balance in excess of required reserves.

RECOMMENDED APPROPRIATIONS

Authorities are requested to allow for a budget transfer and appropriations between non-General Funds as displayed in Table 25: FY 2017 Mid-Year Appropriation Adjustments. All adjustments are balanced by an increase in budgeted revenue, or fund balances available in non-General Funds.

FY 2017 Mid-Year Appropriation Adjustments

Table 25 *in millions*

Fund	Revenue Increase/(Decrease)	Expenditures Increase/(Decrease)	Net Impact
Non-General Fund			
Development Services Fund	$2,000,000	$2,000,000	$ -
Non-General Fund Total	$2,000,000	$2,000,000	$ -

Non-General Fund Appropriation Adjustment

Development Services Fund
The Development Services Fund requires an increase in revenue and expenditures of $2.0 million. This increase will support the over budget expenditures for debt payments for the implementation of the Accela project. The increase in revenue is due to a transfer from the General Fund and Local Enforcement Agency Fund totaling $2.0 million.

REQUESTED AUTHORITIES

Public Liability Operating Fund
The Public Liability Operating Fund requires an increase in expenditures of $5.9 million due to an estimated increase in expenditures. This increase in expenditures will be offset with a transfer of $5.9 million of excess reserves in the Public Liability Reserve Fund. The Public

Tables may not foot due to rounding.

Liability Reserve target has decreased from the Fiscal Year 2017 target included in the Fiscal Year 2017 Adopted Budget as a result of incorporating the Fiscal Year 2016 actuarial valuation in the three year average value of the annual actuarial liability.

Capital Improvement Projects

Revisions to CIP projects are requested to reallocate funding between projects as a result of the City's enhanced CIP cash management efforts.

101 Ash Street Building

On November 17 2016, the City Council executed a 20-year lease-to-own agreement for 101 Ash Street (O-20745). In addition, City Council authorized the establishment of a Capital Improvement Project (CIP) Fund for $5.0 million in tenant improvements. Staff is requesting authorization to appropriate up to $5.0 million to a new capital project for tenant improvements.

CONCLUSION

The Mid-Year Report projects General Fund expenditures in excess of General Fund revenues by fiscal year-end. The Mid-Year Report projects both revenue and expenditures to increase; however, the expenditure projection of $13.6 million over budget has outpaced the revenue projection of $9.5 million at this point in time. The General Fund has available cash in fund balance above the required reserve levels, or excess equity, carried forward from the financial close of Fiscal Year 2016. These funds can be appropriated at year-end if required to balance the General Fund budget.

Revenues are projected to exceed budget by $9.5 million, primarily due to increased receipts realized in the City's major General Fund revenues of $4.9 million in addition to an increase in departmental revenue of $4.6 million.

The primary factor contributing to the $4.9 million increase in major General Fund revenue is a one-time revenue of $13.6 million associated with the annexation of property near the Mount Hope Cemetery. This one-time revenue source is offset by preliminary lower franchise fee revenue estimates recently received from San Diego Gas and Electric (SDG&E). The primary factor for the $4.6 million increase in departmental revenue is in parking citation revenue and public safety reimbursable revenue discussed in more detail later in this report.

The increased expenditure projection of $13.6 million is primarily attributed to the Fire-Rescue Department over-budget projected expenditures of $13.8 million. This is comprised of $8.3 million in salaries, vacation pay, special pay and overtime and $6.3 million in related fringe benefit expenditures. Since the development of the Fiscal Year 2017 Adopted Budget, which included three academies of 36 Fire Recruits, the academy size was increased to 48 Fire Recruits in an effort to expedite full staffing within the Department. The positive impact of the increased recruitment efforts results in the Department projecting to be nearly fully staffed by the end of the fiscal year.

This report also includes requested authorities and an appropriation adjustment to allow for transfers and appropriations between non-General Funds. All adjustments are balanced by an increase in budgeted revenue, or available fund balance. These authorities and appropriation are requested for the Development Services Fund, Public Liability Operating Fund and an allocation of CIP funds for the 101 Ash Street building CIP.

Although the City's revenue and expenditures are projected to increase by fiscal year-end, staff is not recommending an appropriation adjustment at this time. The Fiscal Year 2017 Year-End Budget Monitoring Report will provide a better indicator of actual year-end revenues and expenditures. At that time, if expenditure projections are still trending consistent with the Mid-Year Report, staff will be recommending a one-time use of fund balance in excess of required reserves, or excess equity.

The City has strong controls and monitoring processes in place to maintain a balanced budget. The analysis and projections presented in this report, combined with FM's continued monitoring of departmental projections of revenues and expenditures, are critical to maintaining a balanced budget. The Financial Management Department will continue to monitor and provide updated projections in the upcoming Fiscal Year 2017 Year-End Budget Monitoring Report.

ATTACHMENTS

I. General Fund Projected Revenues
II. General Fund Projected Expenditures
III. Non-General Fund Projections
IV. Non-General Fund Reserves
V. Fiscal Year 2017 Charter 39 Supporting Schedules, as of November 30, 2016

Tables may not foot due to rounding.