

<b>2013-2014</b> <b>MID-YEAR BUDGET REVIEW</b>
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## STATUS OF GENERAL FUND EXPENDITURES

### OVERVIEW

General Fund expenditures through December totaled \$445.5 million, or 37.8% of the total 2013-2014 Modified Budget. This represents an increase of \$62.4 million, or 16.3%, from the December 2012 level of \$383.1 million. Encumbrances totaling \$34.1 million were \$2.0 million (6.0%) below the December 2012 level of \$36.2 million. Expenditures and encumbrances through December of \$479.7 million constituted 40.7% of the total Modified Budget (including reserves) of \$1.2 billion – without reserves of \$144.6 million, expenditures and encumbrances constituted 46.4% of the total Modified Budget.

The following chart displays the year-to-date expenditures (excluding encumbrances) compared to the prior year, by category.

#### 2013-2014 General Fund Expenditures through December (\$ in Thousands)

Category	Current Budget	YTD Actual	% of Budget	Prior Year % of Budget
<b>Departmental Expenditures</b>				
Personal Services	\$ 625,243	\$ 282,626	45.2%	45.9%
Non-Personal/Equipment	102,307	36,825	36.0%	30.1%
Other Departmental	17,258	6,902	40.0%	41.8%
<i>Subtotal Departmental Expenditures</i>	<u>744,808</u>	<u>326,353</u>	<u>43.8%</u>	<u>36.1%</u>
<b>Non-Departmental Expenditures</b>				
City-Wide Expenses	\$ 231,056	\$ 92,950	40.2%	17.0%
Capital Contributions	32,693	1,370	4.2%	24.0%
Transfers	24,873	24,873	100.0%	98.9%
Reserves	144,599	-	0.0%	0.0%
<i>Subtotal Non-Departmental</i>	<u>433,221</u>	<u>119,193</u>	<u>27.5%</u>	<u>21.1%</u>
<b>Total</b>	<b>\$ 1,178,029</b>	<b>\$ 445,546</b>	<b>37.8%</b>	<b>34.2%</b>

Overall, General Fund expenditures are tracking within anticipated levels and are expected to end the year with savings.

#### Recommended Adjustments

Various budget adjustments are recommended in this document to accomplish the following major urgent and required items:

- Address a limited number of urgent fiscal/program needs, including: the establishment of a \$4.0 million Police Department Overtime Reserve for 2014-2015, funded by Police salary and benefit savings; an increase of \$250,000 to support the Tree Maintenance and Sidewalk Repair Financial Hardship Assistance Program in the Transportation Department; the establishment of a \$230,000 Property Assessed Clean Energy (PACE) program appropriation to assist in the implementation

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of a PACE District as directed by the City Council on December 3, 2013; the reallocation of \$200,000 in Police Department salary and benefit savings to overtime to support a Downtown Foot Patrol program; an increase of \$200,000 to the Public Works Unfunded Projects appropriation to fund planning activities associated with the development of a City Hall lease agreement with the San Jose Patent and Trademark Office; and an increase of \$50,000 to support a South Bay Coalition to End Human Trafficking coordinator as directed by the City Council on September 13, 2013.

- Implement required technical and rebalancing actions including:
  - Reduce the Parking Citations/Jail Courthouse Fees appropriation by \$425,000 based on lower activity levels, which partially offsets lower than expected Parking Citation revenues (down \$1.0 million) as mentioned elsewhere in this document;
  - Address updated cost estimates, funding needs, and technical adjustments, including additional funding for Property Tax Administration Fees, Workers' Compensation State License, PeopleSoft Tax Updates and others.
- Appropriate additional grant, reimbursement, and/or fee related funds (\$12.9 million).

In total, adjustments recommended in this document result in a net increase of \$13.6 million to General Fund expenditures. Additional information on these adjustments can be found in Section III of this document. The following discussion highlights major General Fund expenditure activities through December.

Departmental Expenditures

Departmental expenditures include Personal Services (salaries, overtime, retirement, health, and other fringe benefit costs), Non-Personal/Equipment, and Other Departmental expenses. Personal Services' costs represent the largest single General Fund expense category for the City. These costs accounted for 63.4% of the General Fund expenditures to date.

Through December, Personal Services expenditures for all City departments totaled 45.2% of the current Modified Budget, which is slightly below expectations (48.1%) at this point of the year. This expenditure level was also below the 45.9% expended through December last year. Overall, Personal Services expenditures are tracking to end the year with savings. As of January 6, 2014, the City had 543 vacancies city-wide (all funds) representing a vacancy factor of 9.6% with 331 of those positions in the General Fund. Although some of these vacancies are backfilled with temporary staffing resources, vacancy savings have been accumulating throughout the organization. As described in Section III of this document, budget actions are recommended to reallocate salary savings to overtime for the Police Department and the Fire Department. In addition, a number of reallocations of personal services savings

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to non-personal/equipment are recommended as well to reflect the usage of temporary staffing until vacancies are filled.

Non-Personal/Equipment expenditures of \$36.8 million are also tracking within anticipated levels with 36.0% expended through December, above prior year levels of 30.1% in December 2012. In addition to expenditures, \$19.5 million was encumbered, bringing the total amount of funding committed to \$56.4 million, or 55.1% of the \$102.3 million budget. Overall, these expenditures are expected to remain within budget for all departments with some savings generated by year-end. As a result of the high vacancy levels, many departments have needed to backfill with temporary staffing to continue service delivery. As described in Section III of this document, the reallocation of personal services savings to Non-Personal/Equipment appropriations is recommended for the Finance Department and Human Resources Department, and to ensure sufficient funding for recruitment support and the backfilling of vacant positions with temporary contractual staffing to maintain service delivery levels.

The Other Departmental category includes the budget for the Mayor and City Council, Library Grants, and Parks, Recreation and Neighborhood Services Fee Activities. Other Departmental Expenditures totaled \$6.9 million or 40.0% of the \$17.3 million budget through December, slightly above prior year levels of \$6.7 million (41.8%) in December 2012. In addition to expenditures, \$179,000 was encumbered, bringing the total amount of funding committed to \$7.1 million, or 41.0% of the Modified Budget.

*Non-Departmental Expenditures*

With a Modified Budget of \$433.2 million, Non-Departmental Expenditures includes City-Wide Expenses, Capital Contributions, Transfers, and Reserves.

Through December, City-Wide Expenses totaled \$92.9 million, or 40.2% of the Modified Budget of \$231.1 million. Adjusting for differences in timing due to the transition to a third party administrator for some of the Workers' Compensation appropriation payments, City-Wide Expenses totaled \$96.7 million or 41.8% of the Modified Budget. When expenditures and encumbrances of \$12.3 million are combined, the total amount of funding committed (\$109.0 million) was 47.2% of the budget. Overall, expenditures are anticipated to generate savings by year-end, primarily due to savings in overall workers' compensation claims costs and sick leave payments upon retirement.

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**2013-2014 City-Wide Expenses  
Expenditures by City Service Area  
(\$ in Thousands)**

City Service Area	Current Budget	YTD Actual	% of Budget	Prior Year Actual	Prior Year % of Budget
Community & Economic Development	\$ 29,102	\$ 16,672	57.3%	\$ 15,701	69.5%
Environmental & Utility Services	2,609	825	31.6%	2,194	33.7%
Neighborhood Services	10,062	2,922	29.0%	2,893	32.3%
Public Safety	22,403	5,724	25.6%	9,232	39.6%
Transportation & Aviation Services	7,789	2,515	32.3%	1,794	22.3%
Strategic Support	159,090	64,291	40.4%	13,002	6.7%
<b>Total</b>	<b>\$ 231,055</b>	<b>\$ 92,949</b>	<b>40.2%</b>	<b>\$ 44,816</b>	<b>17.0%</b>

The expenditure tracking for City-Wide Expenses can vary significantly depending on payment schedules and the timing of projects. The significant variance between 2012-2013 and 2013-2014 expenditures through December reflect the partial payment of the \$100 million Tax and Revenue Anticipation Notes (TRANS) in December 2013 of \$50.0 million. In some instances, the appropriations will not be fully expended by year-end because of the multi-year nature of some larger projects. As needed, recommendations will likely be brought forward at the end of the year to rebudget any savings to 2014-2015 to complete projects in progress. Adjustments to City-Wide Expenses appropriations are recommended in this document to align the budget with the year-end expenditure projections, additional details on these actions can be found in Section III of this report. Key actions recommended in this report include:

- Establishing funding for the PACE Program (\$230,000) and increasing the Public Works Unfunded Projects appropriation to support planning activities associated with the development of a City Hall lease agreement with the San Jose Patent and Trademark Office (\$200,000);
- Decreasing funding to align with current tracking levels (\$295,000) primarily reflecting a decrease in Parking Citations/Jail Courthouse Fees; and
- Recognizing various net zero grants, reimbursements, and fees of \$752,000. These expenditure increases are offset by corresponding increases in grant revenue.

In total, adjustments recommended in this document result in a net increase of \$887,000 to City-Wide Expenses. Additional information on these adjustments can be found in Section III of this document.

The following highlights key appropriations in City-Wide Expenses and transactions recommended in this report:

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- The \$100.6 million Tax and Revenue Anticipation Notes (TRANS) appropriation for the issuance, principal, and interest costs associated with the repayment of TRANS for cash flow purposes was issued in July 2013 and is tracking within budgeted levels. This appropriation constitutes the largest allocation in the Strategic Support CSA.
- Workers' Compensation Claims appropriations totaling \$20.2 million are budgeted across all CSAs with total expenditures of \$4.3 million through December 2013, or 21.4% of the Modified Budget. Beginning in 2013-2014, a pilot program wherein a third party administrator is processing claims for some departments in the City is underway; once expenditures are adjusted for timing difference in payments between City financials and the third party administrator, expenditures total \$8.1 million, or 40.0% of budgeted levels. If current expenditure trends continue, savings of approximately \$1.5 million to \$2.0 million are anticipated by year end. All appropriations are anticipated to remain at or below budgeted levels with the exception of the Public Works' Workers' Compensation Claims appropriation, which is tracking to exceed the budget as a result of four unanticipated high-value claims. To address this projected overage, a reallocation of projected savings from the Workers' Compensation Claims – Police Department to the Workers' Compensation Claims - Public Works Department in the amount of \$400,000 is recommended and would bring the Public Works appropriation to \$720,000. Due to the nature of workers' compensation claims, the Workers' Compensation appropriations will continue to be closely monitored, especially as the City continues its contract with the third party administrator.
- In the Strategic Support category, the General Liability Claims appropriation totals \$18.1 million, of which 55.1% is expended or encumbered through December compared to the 39.4% expended or encumbered in December 2012. This primarily is due to the \$4.95 million settlement agreement and \$1.0 million judgment against the city. It should be noted that the litigation exposure far exceeds the amount in this appropriation and the corresponding reserve (\$15.0 million) combined.
- Convention Center Lease Payments in the Community and Economic Development CSA of \$15.3 million accounts for debt service payments. Expenditures in this appropriation totaled \$11.8 million through December and are anticipated to remain within budgeted levels by year end.
- In the Strategic Support category, Sick Leave Payment Upon Retirement expenditures of \$764,000 through December reflect 7.3% of the total 2013-2014 budget of \$10.5 million. Typically, the majority of the expenses in this appropriation occur in the second half of the year. Historically, approximately 15%-30% of the total year end expenditures occur through December. Expenditures are expected to result in approximately \$700,000 in savings by year end.
- The Parking Citations/Jail Courthouse Fees appropriation of \$2.5 million in the Transportation and Aviation Services CSA is projected to end the year with savings as a result of lower than anticipated parking citations, which is also expected to result in lower parking fines. Downward

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adjustments to both the revenue estimate (down \$1.0 million) and the expenditure line item (down \$425,000) are recommended in this document to reflect this lower activity level.

- The Property Tax Administration Fee (PTAF) provides a payment to the County for the cost to administer property taxes. Based on preliminary projections provided by the County of Santa Clara, it is anticipated that fees will exceed levels assumed in the development of the 2013-2014 Adopted Budget of \$1.6 million by (\$185,000). A recommended increase is included in this report bringing the revised budget to 41.8 million, inline with current estimates.
- The budget of \$916,000 for the Workers' Compensation State License in the Strategic Support CSA is projected to be exceeded by \$85,000, and an upward adjustment to this appropriation (to \$1.0 million) is recommended to ensure sufficient funding is available. The current budget assumed a 5% increase in costs, while the actual increase was 14%. This increase is due to an increase to five of the six factors that are used to calculate the assessment each year.

Through December, General Fund Capital expenditures totaled \$1.3 million and encumbrances totaled \$2.2 million, bringing the amount committed to \$3.5 million, or 10.8% of the \$32.7 million budget. Overall, General Fund Capital expenditures are expected to end the year close to budgeted levels and no savings are anticipated at this time.

Transfers of \$24.9 million are 100.0% expended through December as anticipated. All of the transfers to the General Fund are processed at the beginning of the year and have been completed.

There are no expenditures against the Reserves budget of \$144.6 million because expenditures cannot be charged directly to a reserve. Several budget actions are recommended in this document that impact General Fund Reserves. The major actions are described below.

Significant increases to the Development Fee Program Reserves of \$10.8 million are recommended in this report based on current collection trends. Currently revenues in all Development Fee Programs are tracking to exceed budgeted levels as discussed in the General Fund Revenues section of this document due to higher than anticipated development activity in residential and non-residential areas. Increases in each of the Development Fee Program Reserves are recommended to ensure funding is preserved for program work-in-progress— Building (\$8.0 million), Planning (\$1.0 million), Public Works (\$1.0 million), and Fire (\$800,000).

The establishment of a \$4.0 million Police Department Overtime Reserve is recommended and would be funded from Police salary and benefits savings. As discussed below, the Police Department is expected to begin 2014-2015 with approximately 70-80 sworn vacancies based on current attrition rates. It is anticipated that additional overtime funding will be needed in 2014-2015 to continue backfilling for vacant patrol positions and maintain targeted enforcement of high crime activity through suppression cars. The funding will also be available to cover for civilian staffing vacancies as needed. The

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establishment of this reserve will provide the necessary overtime funding to continue to address these and other Police needs in 2014-2015.

A total decrease of \$899,000 to the Employee Compensation Planning Earmarked Reserve (\$766,000) and Salaries and Benefits Earmarked Reserve (\$133,000) are recommended to reflect:

- Net-zero adjustments to various departments to reflect 2.0% salary increases that were negotiated and agreed to by the City and three bargaining units (Association of Building, Mechanical and Electrical Inspectors (ABMEI), Association of Engineers and Architects (AEA), and International Brotherhood of Electrical Workers (IBEW));
- A mediator's recommended settlement has been reached between the City and the International Union of Operating Engineers, Local #3 (OE#3), and if ratified, this contract is currently scheduled for City Council consideration on February 25, 2014. Actions in this document assume the approval of the OE#3 contract. If this contract is not approved, savings will result in various departments and funds at year-end; and
- Distribution of funding associated with the management pay for performance program to departments with insufficient vacancy savings are included in this document.

Further details on this action as well as others can be found in Section III of this Report.

No budget action is recommended for the Contingency Reserve, which complies with the City Council 3% of expenditures policy and is currently at the \$31.0 million level.

**DISCUSSION OF SELECTED GENERAL FUND DEPARTMENTS**

<b>Expenditure Status (\$ in thousands)</b>			
<u>Department</u>	<u>2013-2014 Budget</u>	<u>YTD Actual</u>	<u>Prior YTD Actual</u>
<b>Fire</b>	\$164,741	\$76,703	\$71,769

On an overall basis, Fire Department expenditures are tracking below estimated levels. Personal Services expenditures of \$73.1 million tracked below anticipated levels (46.9% compared to the par of 48.1%). The Fire Department's Non-Personal/Equipment budget of \$8.9 million was 56.4% expended or encumbered through December. Both appropriations are expected to end the year within their respective budgeted allocations.

Overall, personal services expenditure levels tracked below estimated levels. When adjusted to exclude costs associated with the development fee programs (\$1.6 million), General Fund personal services

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expenditures of \$71.5 million are 47.2% compared to par of 48.1%. With a very small number of sworn positions vacant, it is anticipated that the Fire Fighter Recruit Academy scheduled for 2013-2014 will be delayed until August 2014. Resulting savings from the delay of this academy of approximately \$873,000 are anticipated to be used to offset a projected shortfall in the overtime category.

Through December, overtime expenditures of \$2.9 million tracked above anticipated levels with 53.6% expended. Overtime expenditures were incurred to backfill vacancies and absences in line duty positions (vacation, strike team deployments, modified duty, sick, disability, and other absences). The primary reasons for increased overtime include: (1) Year-to-date, the number of disability and modified duty hours is up 12% over last year's historically high levels; (2) strike teams were deployed to several fires throughout California in July and August, which resulted in the need for the Department to backfill duty positions with overtime; and (3) grant-funded training activities were conducted in October. The Department has completed reimbursement forms to recover costs related to strike teams and grant-funded training activities. Actions are recommended in this document to reallocate other personal services savings to overtime (\$750,000) and to recognize reimbursements for strike team deployments (\$132,000) and grant-funded training activities that were conducted in October (\$29,000) to ensure sufficient funding for this increase in overtime activities.

Personal services expenditures in the Fire Development Fee Program of \$1.6 million is tracking below estimated levels with 37.6% expended. Any savings realized in the Development Fee Program are returned to the Program's Earmarked Reserve.

Through December, the Fire Department was staffed with 192 filled Fire Fighter paramedic positions (181 front line Fire Fighter paramedics, 6 Supervisors, and 5 support) compared to the 132 front line Fire Fighter Paramedics that are necessary to fully staff all apparatus. The Department projects it will have no issues maintaining the target staffing level of 132 front line Fire Fighter Paramedics.

As part of the City Council's approval of Department absence and vacancy rates (March 2010), it should be noted that the number of sworn administrative staff in the Department through December was 27, which was below the authorized number of 33 due to vacancies in sworn positions.



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<b>Expenditure Status (\$ in thousands)</b>			
<u>Department</u>	<u>2013-2014 Budget</u>	<u>YTD Actual</u>	<u>Prior YTD Actual</u>
<b>Police</b>	\$316,524	\$139,101	\$130,867

On an overall basis, the Police Department’s expenditures are tracking below estimated levels. Personal Services expenditures of \$129.4 million tracked below anticipated levels (44.9% compared to the par of 48.1%), despite overtime expenditures of \$10.5 million through December tracking higher than anticipated levels with 57.8% expended of the current \$18.1 million budget. Based on current trends, Personal Services is tracking to end the year with savings of approximately \$7.0 million. Budget actions are recommended in this document to reallocate \$4.0 million of this savings to a Police Department Overtime Reserve to address anticipated overtime needs in 2014-2015 associated with sworn as well as civilian staff vacancies. These vacancies have also impacted overtime expenditures in 2013-2014.

Overtime consists of overtime expenditures and compensatory time. The Memorandum of Agreement with the Police Officer’s Association (POA) limits how much overtime can be earned for pay versus compensatory time. The compensatory time balance at the end of December 2013 was 170,409 hours for sworn personnel. This represents an increase of 9,824 hours (6.1%) compared to the December 2012 balance of 160,585.

Based on current expenditure trends, overtime expenditures are tracking to exceed the budget of \$18.1 million by approximately \$3.0 million. This increase is primarily due to the need to backfill for sworn positions that are vacant, not street-ready, and/or not available to work, as well as to backfill for civilian vacancies. The Police Department’s current overtime budget incorporates increases of \$6.2 million for 2013-2014 and is in close alignment with the 2012-2013 actual overtime expenditures of \$18.6 million. This funding provides resources while the Department works through filling and training vacant positions. However, the street-ready sworn positions are 2.6% (26 positions) lower than last year at this time, necessitating additional overtime resources to meet service demands. Also, dispatcher vacancies or positions in training continue to remain high (30%) which require backfilling to ensure adequate service levels. A reallocation of \$3.0 million of salary and benefit savings to overtime is recommended in this report to ensure service levels to our community remain at a minimum of last year’s levels.

In addition, a separate action is recommended in this document to increase the Police Department overtime budget by \$200,000, offset by salary and benefit savings, to fund a Downtown Foot Patrol Program (1.0 Police Sergeant and 4.0 Police Officers: five hours per day for five days a week) that will enhance safety and security, support ongoing surveillance and apprehension projects, and allow specialized units, such as the Downtown Services Unit and Metro, to focus on high crime activity. With these two actions, a total of \$3.2 million (from \$18.1 million to \$21.3 million) is recommended to be reallocated to the overtime budget.

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The chart below outlines current authorized sworn staffing levels and the number of street-ready sworn positions available to work:

**Police Department Current Sworn Staffing Levels**

	2013-2014 (as of 01/16/2014)
<b>Authorized Sworn Staffing</b>	<b>1,109</b>
Vacancies	(63)
<b>Filled Sworn Staffing</b>	<b>1,046</b>
Field Training Officers/Recruits	(76)
<b>Street-Ready Sworn Positions Available</b>	<b>970</b>
Disability/Modified Duty/Other Leaves	(75)
<b>Street-Ready Sworn Positions Working</b>	<b>895</b>

In order to fill the vacant sworn positions and put more Police Officers back on patrol, the Department continues to hold two Police Recruit Academies per year (October 2013 and April 2014). At this time, the Department is anticipating that 40 recruits will attend the Academy in April 2014. Although the Department is conducting regular police office recruit academies to hire for the sworn vacancies, the Department is anticipated to begin 2014-2015 with approximately 70-80 sworn vacancies based on current attrition rates.

A total of \$14.0 million (49.1%) of the Department's Non-Personal/Equipment budget was expended or encumbered through December. Excluding the remaining balances for centrally-determined details, including electricity, gas, and vehicle operation and replacement, the Department has approximately \$5.3 million, or 38.9% of the non-centrally-determined appropriation available for the remainder of the fiscal year. The Budget Office and the Department will monitor expenditures closely to ensure expenditures are within appropriated levels by year-end.

**Expenditure Status (\$ in thousands)**

<u>Department</u>	<u>2013-2014 Budget</u>	<u>YTD Actual</u>	<u>Prior YTD Actual</u>
<b>Office of Economic Development</b>	\$3,968	\$1,820	\$2,220

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Through December, expenditures for the Office of Economic Development were tracking above estimated levels with 51.2% expended. Personal Services expenditures totaled \$1.6 million (56.5% of the \$2.7 million budget), exceeding the par level of 48.1% including expenditures associated with the Development Fee Programs. The Office of Economic Development Non-Personal/Equipment budget of \$1.2 million was 39.3% expended or encumbered through December and is anticipated to end the year with approximately \$150,000 in savings.

Personal Services expenditures are tracking above estimated levels and, once adjusted to exclude year-to-date expenditures associated with the Development Fee Programs (\$83,000), it is anticipated that General Fund expenditures will exceed budgeted levels by approximately \$300,000. Higher than estimated expenditures are primarily due to Real Estate staff allocating a higher percentage of their time to work supported by the General Fund than was budgeted. To address a portion of the projected personal services overage, included in this report is a recommendation to reallocate \$150,000 of anticipated year-end Non-Personal/Equipment savings to Personal Services. If approved, this adjustment will bring down the projected personal services overage to \$150,000. The Office of Economic Development and the Budget Office will continue to closely monitor expenditures and may bring forward to the City Council more adjustments at year-end if needed.

Additional actions are recommended in this report to increase the Department's Personal Services appropriation in the amount of \$68,000 for the Management Pay for Performance Program and increase the Building Development Fee Program Personal Services appropriation \$50,000 to provide funding for higher than anticipated costs to support the Development Fee Program (from \$129,000 to \$179,000).