AIRPORT COMMISSION
SAN FRANCISCO INTERNATIONAL AIRPORT
CITY AND COUNTY OF SAN FRANCISCO

INTER-OFFICE MEMORANDUM

TO: Leo Fermin **DATE:** February 25, 2010
THROUGH: Cindy Nichol
FROM: Denise Martinez, Julia Dawson
CC: Wallace Tang
SUBJECT: FY2009/10 Quarterly Budget Analysis as of December 31, 2009

EXECUTIVE SUMMARY

Based on results through the second quarter (Q2) and forecasts, the Airport's FY 2009/10 budget is projected to end the year in balance. Specifically, year-end operating revenue is projected to be $13.1 million higher than in the budget, while expenditures are projected to be $40.3 million below the revised budget.[1] The Airport is projected to use $13.7 million in Deferred Aviation Revenues, $19.2 million less than budgeted, and no budgeted Operating Fund Balance.[2] This means $19.2 million more in Deferred Aviation Revenue may be available for use in future years, subject to final year-end financial statements.

Financial Summary [3]

	FY 2009/10 Q2 YTD				FY 2009/10			
	Budget	Actual	Variance	Variance %	Budget	Forecast	Variance	Variance %
Enplaned Passengers [4]	8,738	9,866	1,129	12.9%	17,475	18,915	1,440	8.2%
Landed Weight (million lbs) [4]	13,669	14,563	894	6.5%	27,338	28,658	1,320	4.8%
Revenue								
Aviation	$161,837	$164,959	$3,122	1.9%	$323,674	$328,541	$4,867	1.5%
Non Airline	124,650	133,818	9,168	7.4%	249,300	257,578	8,278	3.3%
Operating	$286,487	$298,777	$12,290	4.3%	$572,974	$586,119	$13,145	2.3%
Non-Operating	69,537	35,400	(34,137)	(49.1%)	139,073	85,583	(53,490)	(38.5%)
Total	**$356,024**	**$334,177**	**($21,847)**	**(6.1%)**	**$712,047**	**$671,702**	**($40,345)**	**(5.7%)**
Expenditures	**$356,024**	**$313,531**	**($42,493)**	**(11.9%)**	**$712,047**	**$671,703**	**($40,345)**	**(5.7%)**
Surplus (Deficit)	**$0**	**$20,646**	**$20,646**	**5.8%**	**$0**	**($0)**	**($0)**	**0.0%**

[1] Revised budget is the annual budget and appropriations carried forward from the prior fiscal year.
[2] The budget reflects use of the Operating Fund Balance, which represents (1) a balancing budget entry to match the final expenditure budget and (2) expenditure appropriations carried forward from the prior fiscal year. If needed the Operating Fund Balance factors into the year-end reconciliation and affects either deferred aviation revenue or future year rates and charges.
[3] The primary source of these figures is the City's financial system. The budget figures for FY 2009/10 include carry-forward appropriations of $21.1 million.
[4] Jacobs Consultancy, Forecast for Financial Planning, February 12, 2010.

Total revenues through Q2 were $21.9 million (6.1%) below the YTD straight-line budget. The revenues include accruals for activity-based revenues such as landing fees and percentage rents based on gross sales, but no application of Deferred Aviation Revenue or Fund Balance. Total expenditures were $42.5 million below the YTD straight-line budget, generating a net surplus of $20.6 million through Q2. This reflects seasonal trends that produce higher revenue at the start of the fiscal year and expenditure patterns that are typically lower during the first half of the Fiscal Year.

- Airport traffic has outperformed budget projections:
  - Enplaned passengers were 12.9% above the straight-line YTD budget, and are forecast at 8.2% above budget by year-end. The budget was based on a February 2009 forecast, at the height of the global economic recession. A moderating economy and low air fares that promoted leisure travel brought about significant gains in load factors (measure of aircraft occupancy). This resulted in a 4.1% passenger year-over-year increase through December. The forecast is based on the February 2010 consultant forecast, which anticipates a continuation of these trends.
  - Landed weight was 6.5% above the YTD straight-line budget and is expected to end the year at 4.8% above budget. Higher overall load factors are the basis for a larger increase in passengers than landed weight, as there are more passengers per landing. Increased domestic landings and decreased international landings also shift the aircraft mix to smaller aircraft.
- YTD aviation revenues are above the YTD budget by $3.1 million (1.9%) and are expected to end the year $4.9 million (1.5%) above budget. The variance is primarily the impact of higher than anticipated landed weight in the current forecast. Terminal rentals and other aviation activity show slight declines of 0.2% and 0.6%, respectively.
- Non-airline revenue is $9.2 million (7.4%) above the YTD budget and forecast at $7.4 million (3.0%) above budget by year end. Revenues are typically higher in the first half of the year due to seasonality. The forecast for the remainder of the year reflects seasonal slowing of travel demand and trends in per passenger spend rates.
- Non-operating revenues are $34.1 million (49.1%) below YTD budget and estimated at $53.5 million (38.5%) below budget by year end. The variance reflects projected use of less than half of the budgeted Deferred Aviation Revenue and none of the budgeted Operating Fund Balance. Unused Deferred Aviation Revenue will be factored into a future rate year. The Fund Balance budget is unsupported by current year revenues, and if needed, will factor into the year-end reconciliation and affect future rate years based on the Lease and Use Agreement.
- Total expenditures and accruals through Q2 are $42.5 million (11.9%) below the YTD straight-line budget. Total expenditures are forecast at $671.7 million or $40.3 million (5.7%) under budget at year end, which is $10.1 million more in savings than the first quarter forecast of $30.1 million. The largest areas of savings include personnel, debt service, San Francisco Police Department direct charge, and non-personnel services**.**
  - Personnel savings of $1.8 million are forecast at yearend due to delays in backfill of vacant positions.
  - Debt service savings of $22.9 million are forecast as a result of refundings and lower than budgeted variable interest rates.
  - Direct charge savings of $3.4 million are forecast primarily as a result of San Francisco Police Department attrition and recruitment challenges.
  - Non-personnel services savings of $10.6 million are anticipated at year end, due primarily to projected under spending on professional services contracts and judgments and claims.

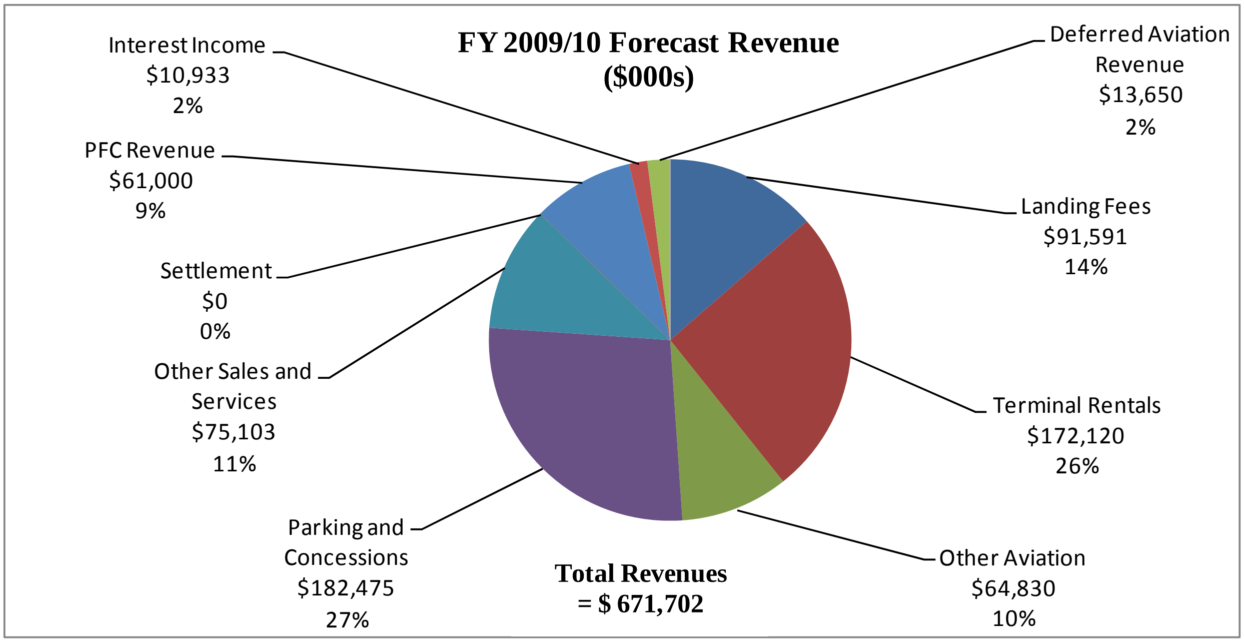
REVENUE SUMMARY

The FY 2009/10 revenue forecast of $672.5 million is $39.6 million (5.6%) below the revised budget of $712.0 million. Operating revenue is forecast above budget by $13.1 million (2.3%), partly offsetting a $53.5 million (38.5%) below budget forecast for Non-Operating revenue. These figures indicate an overall positive budget position, as less than half of the budgeted amount of Deferred Aviation Revenue and none of the budgeted Fund Balance is projected to be needed. Use of Operating Fund Balance would result in a deficit that would need to be recovered in airline rates in future rate years.

Revenue Forecast Summary
($000s)

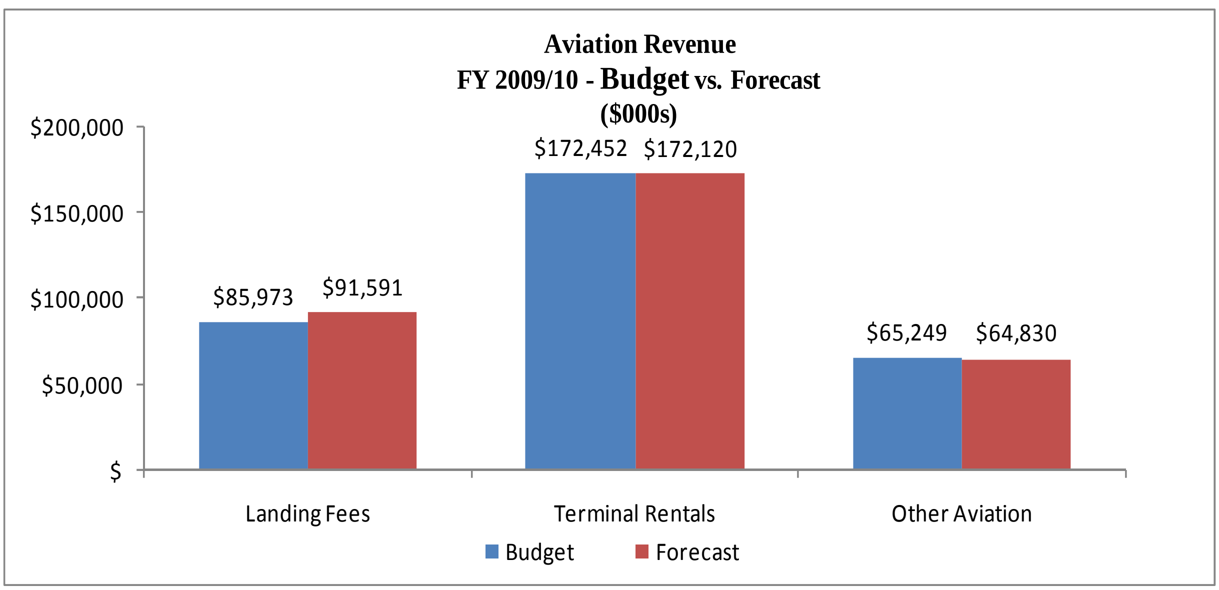
	FY 2009/10 Q2 YTD				FY 2009/10			
	Budget	Actual	Variance $	Variance %	Budget	Forecast	Variance $	Variance %
Landing Fees	$42,987	$46,421	$3,435	8.0%	$85,973	$91,591	$5,618	6.5%
Terminal Rentals	86,226	$85,909	(317)	(0.4%)	172,452	172,120	(332)	(0.2%)
Other Aviation	32,625	32,629	4	0.0%	65,249	64,830	(419)	(0.6%)
Total Aviation Revenue	*$161,837*	*$164,959*	*$3,122*	*1.9%*	*$323,674*	*$328,541*	*$4,867*	*1.5%*
Parking and Concessions	87,419	94,661	7,243	8.3%	174,837	182,475	7,638	4.4%
Other Sales and Services	37,232	39,157	1,925	5.2%	74,463	75,103	640	0.9%
Total Non-Aviation Revenue	*$124,650*	*$133,818*	*$9,168*	*7.4%*	*$249,300*	*$257,578*	*$8,278*	*3.3%*
Total Operating Revenue	*$286,487*	*$298,777*	*$12,290*	*4.3%*	*$572,974*	*$586,119*	*$13,145*	*2.3%*
PFC Revenue	30,500	30,500	0	0.0%	61,000	61,000	0	0.0%
Interest Income	7,523	4,900	(2,622)	(34.9%)	15,045	10,933	(4,112)	(27.3%)
Deferred Aviation Revenue	16,414	0	(16,414)	(100.0%)	32,827	13,650	(19,177)	(58.4%)
Operating Fund Balance	15,101	0	(15,101)	(100.0%)	30,201	0	(30,201)	(100.0%)
Total Non-Operating Revenue	*$69,537*	*$35,400*	*($34,137)*	*(49.1%)*	*$139,073*	*$85,583*	*($53,490)*	*(38.5%)*
Total Revenues	**$356,024**	**$334,177**	**($21,847)**	**(6.1%)**	**$712,047**	**$671,702**	**($40,345)**	**(5.7%)**

Note: $30.2 million of the Operating Fund Balance represents (1) a balancing budget entry of $9.1 million to match revenues to the final expenditure budget and (2) expenditure appropriations of $21.1 million carried forward from the prior fiscal year.



REVENUE FORECAST ANALYSIS

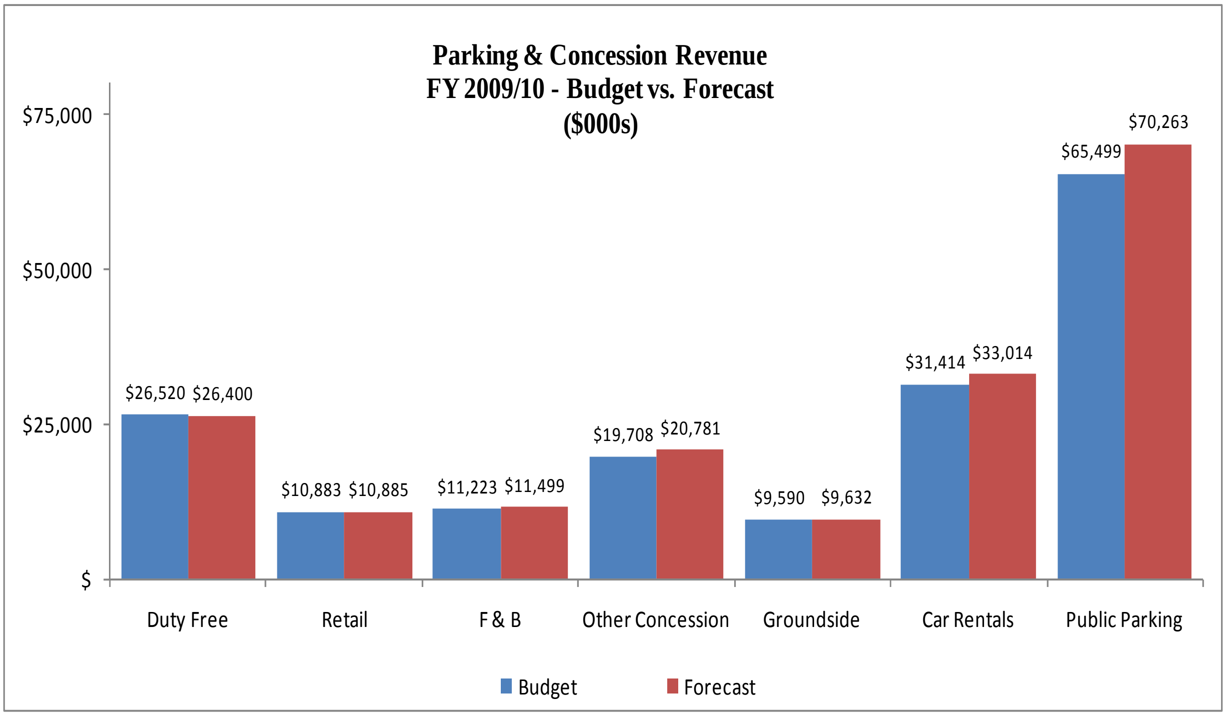
Aviation Revenue (landing fees, terminal rentals and other aviation revenue) is forecast at $328.5 million or $4.9 million (1.5%) above budget. This is an improvement of $3.5 million (1.1%) over the Q1 forecast, primarily due to an increased landed weight estimate.



- Landing fee revenue is estimated at $5.6 million (6.5%) above budget based on the year-to-date actual and the current forecast, as confirmed by scheduled landings through the end of the fiscal year. The allowance for some cancellations and schedule changes for any potential softening of demand is less than allowed in the Q1 estimate. Two strong quarters and continuing trends resulted in an estimate that is $4.1 million (4.7%) above the Q1 forecast.

- Terminal rental revenue is estimated at $0.3 million (0.2%) below budget based on current airline leased space estimates that reflect a slight decrease in leased space. The estimate is unchanged from the prior forecast.
- Other aviation revenue is forecast to be at $0.4 million (0.6%) below budget based on net miscellaneous activities. The estimate is $0.5 million (0.8%) below the Q1 forecast.

Non-Aviation Revenue (parking, concessions and other sales and service revenue) is forecast at $257.6 million, $8.3 million or 3.3% above budget.



Parking and Concessions

- Parking revenue is estimated at $4.8 million or 7.3% above the annual budget as a result of the revised enplanement forecast and the full-year effect of a $1 per hour increase in hourly rates that commenced in November 2008. The Q2 parking revenue forecast is $0.6 million higher than the Q1 forecast as a result a stronger than expected performance in the second quarter as well as the increased passenger forecast.
- Rental car concession revenue is forecast at $1.6 million or 5.1% above the annual budget. This is $1.0 (3.2%) million higher than the prior forecast due to improving trends.
  - A 2.1% year-over-year forecast decline in rental contracts, revised from a 3.3% decline in the Q1 forecast, is more than offset by the average contract price. Estimated at 13.8% above the prior fiscal year, the average contract price increase likely resulted from higher prices established by rental car companies.
  - The forecast includes a $2.3 million year-end true-up, based on calendar year-end sales results. This amount increased by $0.6 million from the Q1 estimate due to higher than expected sales growth during the second quarter.

- The $15 per hybrid vehicle rental credit is estimated at $1.1 million for 2009 based on an estimated 71,800 reported contracts in this category. In addition, a $0.9 million credit is included in the forecast based on a 2 percentage point discount for low emission vehicle rentals during 2009 for those companies achieving the contract target of 15%.

- Revenue from telephone and Wi-Fi services is estimated at $1.3 million or 51.2% above the annual budget primarily due to high Wi-Fi usage. The T-Mobile Wi-Fi lease is scheduled to expire at the end of February 2010 at which point the lease will be on month-to-month holdover status pending a new agreement that will result in free Wi-Fi services at SFO. An estimated $0.4 million of "hold-over" rent is reflected in the forecast. The estimate is $0.8 million (24.1%) higher than the Q1 forecast based on actual to date and the holdover rent for the T-Mobile lease.
- Despite the anticipated increase in passengers during the fiscal year, food and beverage concession revenue is expected to increase by only $0.3 million or 2.5% but up from $0.03 million as forecasted in Q1. Based on current trends, a decline of 4.5% in the average food and beverage spending rate per enplaned passenger was used for the forecast.
- Duty Free revenue is estimated to be below the annual budget by $0.1 million or 0.5% as additional kiosk rental space requested by DFS is not being pursued. Duty Free revenue is based on minimum annual guarantee (MAG) rent, and is unchanged from the prior forecast.
- Retail concession revenue is forecast to be nearly flat at 0.1% above the annual budget. Slightly higher sales activity from the increased passenger activity forecast is offset by a $0.2 million rent credit to Host International related to the roadway retrofit construction that will affect the Starbucks location, requiring a partial rebuild of the store.
- Groundside trip fees are forecast at $0.05 million or 0.5% above budget with ground transportation revenue higher by $0.04 million (0.7%) and taxicabs by $0.01 million (0.3%). Although taxi trip counts showed slight improvement since the Q1 forecast, other ground transportation trips in aggregate remained at the prior forecast level.
- Other concession revenue is forecast at $0.3 million below budget based on the following:
  - Advertising revenue is forecast at $0.2 million (3.1%) below budget, due to a delay in the commencement of jet-bridge advertising. All other terminal advertising revenue is based on MAG rent, and is unchanged from the last forecast.
  - Passenger services revenue is forecast at $0.1 million (5.1%) below budget. The forecast includes $0.4 million of retroactive billing related to the closure of the CLEAR Registered Traveler locations, which covered most of the $0.5 million that was budgeted.

Other Sales & Services

- Transportation and facility fee revenue is forecast at $0.5 million (2.3%) below the budget estimate. Rental car transactions declined 0.8% YTD over the prior year, an improvement over the first quarter, which indicated a 4% decline.
- Security services revenue is estimated at $0.2 million (8.3%) above budget due to the increased enplanement forecast.

- Utility revenue, based on the YTD actual, is forecast at $1.3 million (5.7%) above budget. The increase is primarily due to a reassessment in electricity usage, a reallocation of electricity cost in the rental car center between the Airport and the rental car tenants and increased rates. A mid-year water rate increase also contributed to the positive forecast.
- Refuse fees are estimated at $0.1 million (21.3%) above budget due to a 5% mid-year rate increase starting January 2010. Additionally, the budget assumed all non-airline tenants are operating under the 25% discounted green certified refuse rates. To date, approximately 26% of all tenants are green certified, an increase from 15% compared to the Q1 forecast.
- Telecommunication fees are estimated at $0.3 million (14.4%) above budget. This increase is the result of a 3% rate mid-year rate increase starting January 2010 and higher than anticipated activity than was estimated at the time the budget was prepared.
- Unchanged from the prior forecast, miscellaneous airport revenue is estimated at $0.5 million (83.4%) below budget. This revenue is variable, but declined concurrently with the implementation of a billing system that likely captures revenues in appropriate accounts.
- Other services such as license & permit sales and rent from government agencies, are all tracking to budget, with a net decrease of $0.1 million (0.2%).

<u>Non-Operating Revenue</u> is forecast at $53.5 million (38.5%) below budget.

- A total of $61 million in PFC revenue is expected to be used as budgeted to pay PFC-eligible debt service
- Interest income is estimated at $4.1 million (27.3%) below budget, based on actual income through December and the remainder of the year at below-budget rates on those accounts earning variable short-term interest. It is assumed that earnings on forward purchase agreements held by the fiscal agent will directly pay for debt service and not flow through the City accounting system.
    - The interest rate on pooled cash, assumed at 2.0% in the budget, averaged about 1.3% in the first half of the fiscal year.
    - Interest rates are expected to be below the 2.0% level for the remainder of the year and impacts both pooled cash and funds held by the Airport's fiscal agent.
    - The forecast is $3.0 million (21.8%) lower than the Q1 estimate. This reflects $4.3 million removed from the estimate, which is the forecast amount for the interest on forward purchase agreements that will be applied directly to debt service. Higher than anticipated earnings partially offset this budgetary correction.
- Deferred Aviation Revenues are estimated at $13.7 million, the amount required to balance the budget. This is $19.2 million (58.4%) below budget. Any portion not needed to balance the FY 2009/10 budget would be added to the cumulative surplus owed the airlines and applied to airline rates in future years per the Lease and Use Agreement.
- Operating Fund Balance is a combination of the amount used to balance between the rates and charges budget and the final approved budget and appropriations carried forward from the prior fiscal year. As with the Q1 forecast, the Operating Fund Balance will not be used.

EXPENSE SUMMARY

FY 2009/10 YTD expenditures and accruals are $313.5 million as compared to the YTD budget of $356.0 million, resulting in a $42.5 million (11.9%) savings. The Airport is forecast to end the year with $40.3 million in savings (5.7%) as compared to the revised budget of $712.0 million. This projected savings are $10.1 million higher than the Q1 forecast.

The projected savings are in Personnel ($1.8 million), Non-Personnel Services ($10.6 million), Materials & Supplies ($0.9 million), Equipment ($1.3 million), Debt Service ($22.9 million), Services of Other Departments ($1.5 million), and Airport Police and Fire Direct Charges ($3.4 million). These savings will be partially offset by a higher Annual Service Payment to the City, which is expected to exceed budget by $1.1 million as a result of higher than budgeted public parking, car rental sales and Wi-Fi service revenues. Additionally, Light, Heat and Power charges are expected to exceed budget by $0.9 million due to an anticipated rate increase. Forecast data are drawn from a combination of sources, including projections based on Q2 data and prior-year expenditure trends.

Expenditure Summary by Category
($000s)

	FY 2009/10 Q2 YTD				FY 2009/10			
	Revised Budget	Actual & Accrual	(Better)/ Worse	Variance %	Revised Budget	Forecast	(Better)/ Worse	Variance %
Personnel Services	69,246	68,635	(610)	(0.9%)	138,491	136,676	(1,816)	(1.3%)
Non-Personnel Services	45,139	32,356	(12,783)	(28.3%)	90,277	79,667	(10,611)	(11.8%)
Materials & Supplies	7,080	5,033	(2,048)	(28.9%)	14,161	13,298	(862)	(6.1%)
Equipment	2,378	1,577	(801)	(33.7%)	4,755	3,443	(1,312)	(27.6%)
Debt Service	157,597	147,148	(10,449)	(6.6%)	315,194	292,292	(22,902)	(7.3%)
Services of Other Departments	8,012	644	(7,367)	(92.0%)	16,023	14,566	(1,457)	(9.1%)
Light Heat & Power	17,362	16,449	(913)	(5.3%)	34,724	35,583	858	2.5%
Annual Service Payment	13,113	13,113	-	0.0%	26,226	27,371	1,145	4.4%
Public Safety	28,324	26,381	(1,943)	(6.9%)	56,648	53,260	(3,388)	(6.0%)
Facilities Maintenance	2,000	2,195	195	9.7%	4,000	4,000	-	0.0%
GASB 45 Retiree Health Benefits	5,774	-	(5,774)	-	11,547	11,547	-	-
Total Expense	**356,024**	**313,531**	**($42,493)**	**(11.9%)**	**712,047**	**671,703**	**(40,345)**	**(5.7%)**

- <u>Personnel Services $0.6 million (0.9%) under spending</u> – YTD variance is primarily due to vacancies in Business & Finance, Planning, and Operations & Security. Staff projects savings of $1.8 million (1.3%) at year end.

- Non-Personnel Services $12.8 million (28.3%) under spending – Spending in this category fluctuates throughout the year because of delays in contract awards and vendor selection for professional services contracts. Savings of $10.6 million (11.8%) are forecast for year end, primarily from professional services, equipment maintenance and judgments and claims.
- Materials and Supplies $2.0 million (28.9%) under spending –Timing of payments resulted in significant variance YTD. Savings of $0.9 million (6.1%) are forecast for year end, primarily in Facilities, which manages most of the budget for these expenditures and typically accelerates spending in this category as the fiscal year continues.
- Equipment $0.8 million (33.7%) under spending – Spending in this category varies during the fiscal year and depends on the bidding process and equipment delivery timelines. Year end savings of $1.3 million (27.6%) are expected in this category.
- Debt Service $10.4 million (6.6%) under spending – YTD savings are the result of refundings and better than budgeted variable interest rates. In addition, $10.7 million of appropriation, which was carried forward from FY 2008/09, is not expected to be needed before year end. Year end savings of $22.9 million (7.3%) is projected.
- Services of Other Departments $7.4 million (92.0%) under spending – Timing of payments as well as delays in signing Memorandum of Understanding (MOU) agreements with many City departments have contributed to budgetary savings YTD. Savings of $1.5 million (9.1%) are forecast at year end due to projected under spending from the Mayor's Office of Economic and Workforce Development, Risk Management, DHR and Controller's internal audits work orders.
- Light Heat & Power $0.9 million (5.3%) under spending – YTD savings are based on a straight-line budget; however staff expects to exceed budget in this category at year end by nearly $0.9 million (2.5%) due to a projected rate increase.
- Annual Service Payment tracking at budget– YTD revenue transfers to the General Fund have been made based on the budget amount. The Airport, however, is expected to end the year $1.1 million (4.2%) higher than the budget in this category due to parking revenues, car rental sales and Wi-Fi service revenues which are projected to exceed budget.
- Public Safety $1.9 million (6.9%) under spending – Police Bureau vacancies are the primary driver of YTD savings. Year-end savings of $3.4 million (6.0%) are anticipated due mainly to personnel savings in the Police Bureau.
- Facilities Maintenance $0.2 million (9.7%) over spending – Spending in this category is not constant throughout the year. Varied timing of payments resulted in Q2 variance; however staff expects to be at budget in this category by year end.
- GASB 45 Retiree Health Benefits to be determined– This category of expense is determined at year-end, cannot be tracked during the year, and is shown at budget.

EXPENDITURE FORECAST ANALYSIS

At the division level, the second quarter expense data reflects delays in filling vacant positions, resulting in personnel savings, debt service savings due to refunding bonds and lower than budgeted variable interest rates, under spending due to delays in vendor selection for professional services contracts, and slow spending on materials and supplies and equipment maintenance. Forecast year-end figures are based on division expenditure plans, straight-line projection, and prior year expenditure patterns.

Expenditure Summary by Division
($000s)

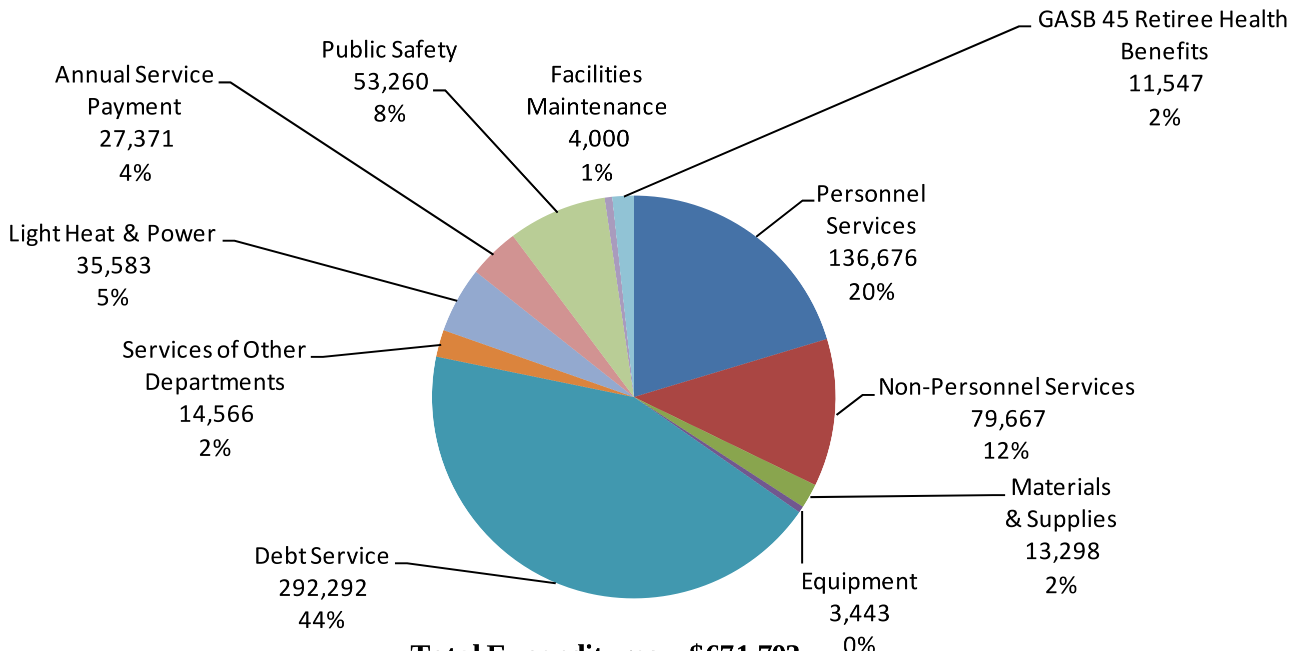
	FY 2009/10 Q2 YTD				FY 2009/10			
	Revised Budget	Actual & Accrual	(Better)/ Worse	Variance %	Revised Budget	Forecast	(Better)/ Worse	Variance %
Administration	18,020	13,614	(4,406)	(24.5%)	36,041	34,386	(1,655)	(4.6%)
Business & Finance	191,866	175,668	(16,198)	(8.4%)	383,732	360,100	(23,632)	(6.2%)
Communications & Marketing	3,686	2,649	(1,037)	(28.1%)	7,372	7,018	(354)	(4.8%)
Chief Operating Officer	1,855	1,705	(149)	(8.1%)	3,710	3,643	(67)	(1.8%)
Director’s Office	5,865	1,809	(4,056)	(69.2%)	11,731	7,421	(4,310)	(36.7%)
Facilities	66,764	63,431	(3,333)	(5.0%)	133,528	132,505	(1,023)	(0.8%)
Operations	25,889	22,661	(3,227)	(12.5%)	51,777	48,792	(2,985)	(5.8%)
Bureau of Design & Construction	1,625	987	(638)	(39.2%)	3,250	2,704	(546)	(16.8%)
Planning	2,340	1,145	(1,195)	(51.1%)	4,679	2,787	(1,893)	(40.4%)
Police	21,372	18,857	(2,515)	(11.8%)	42,743	39,176	(3,567)	(8.3%)
Fire	8,969	8,809	(160)	(1.8%)	17,938	17,625	(313)	(1.7%)
Facilities Maintenance	2,000	2,195	195	9.7%	4,000	4,000	-	0.0%
GASB 45 Retiree Health Benefits	5,774	-	(5,774)	-	11,547	11,547	-	-
Total Expense	**356,024**	**313,531**	**(42,493)**	**(11.9%)**	**712,047**	**671,703**	**(40,345)**	**(5.7%)**

- Administration $4.4 million (24.5%) under spending – Variance is due to delays in contract award or modification for systems consulting services, software licensing, and delayed equipment purchases within Information Technology and Telecommunications. Savings of $1.7 million (4.6%) is forecast at year end due to under spending on interdepartmental work orders with the Mayor’s Office of Economic and Workforce Development and DHR and from an anticipated delays resulting from Department of Technology review of all IT-related purchases.
- Business & Finance $16.2 million (8.4%) under spending – YTD savings is due to position vacancies, debt service savings and delays in spending on professional services contracts. Year-end savings of $23.6 million (6.2%) are forecast due mainly to debt service savings, under spending in personnel, equipment maintenance, interdepartmental work orders, and professional services.
- Communications and Marketing $1.0 million (28.1%) under spending – Contract development delays in Noise Abatement and Marketing & Communications were

the main contributors to YTD under spending. The year-end forecast is for $0.4 million (4.8%) in savings related to under spending in personnel and non-personnel services.

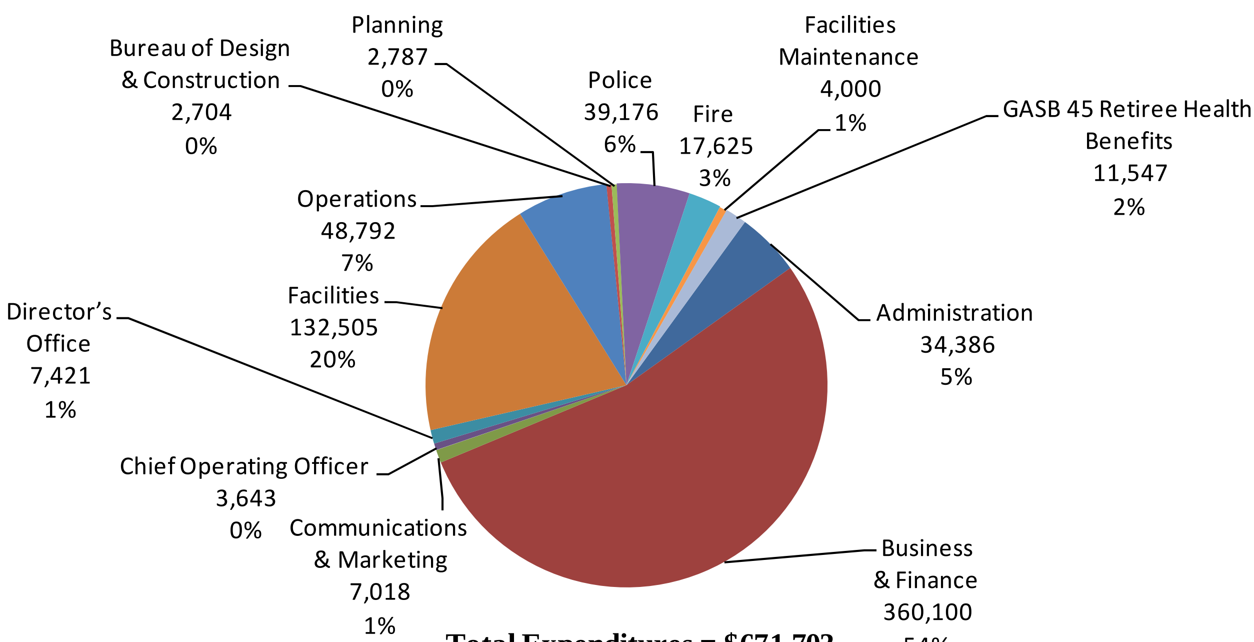
- Chief Operating Officer $0.1 million (8.1%) under spending – Variance resulted from personnel savings in the Deputy Director's office as well as from Museums' YTD under spending on materials & supplies and other current expenses. Year end savings of $0.1 million (1.8%) are expected in these same categories.
- Director's Office $4.1 million (69.2%) under spending – Variance is the result of Q2 budget savings in training, professional & specialized services, the interdepartmental work order with City Attorney, and judgments and claims. Savings of $4.3 million (36.7%) are anticipated at year end, mostly related to a judgment that was budgeted in Legal and will not be paid in the current fiscal year.
- Facilities $3.3 million (5.0%) under spending – Variance results from YTD delays in orders for materials and supplies as well as from YTD savings on equipment, building maintenance and light heat and power. Because of higher than budgeted personnel costs and an anticipated rate increase by the California PUC, staff is projecting year end savings of only $1.0 million (0.8%).
- Operations & Security $3.2 million (12.5%) under spending – Q2 savings resulted from YTD under spending on personnel, equipment maintenance services in AirTrain Operations and professional services savings in Terminal Management and Landside. Savings of nearly $3.0 million (5.8%) are forecast at year end from these categories.
- Bureau of Design & Construction $0.6 million (39.2%) under spending – Budget variance through Q2 was the result of under spending on professional services within Design & Construction. Year-end savings of $0.5 million (16.8%) are expected, primarily in personnel and professional services contracts.
- Planning $1.2 million (51.1%) under spending – Q2 savings resulted from delay in setup and payment of professional services contracts, as well as from position vacancies. Savings of $1.9 million or 40.4% are expected at year end in these same categories.
- Police Bureau $2.5 million (11.8%) under spending – Position vacancies are resulting in YTD savings and $3.6 million (8.3%) in savings are expected at year end, primarily in personnel.
- Fire Bureau $0.2 million (1.8%) under spending – Delayed purchase of vehicles, uniforms, rescue supplies and training resulted in overall savings through Q2. Savings of $0.3 million (1.7%) are expected in these categories at year end.

FY 2009/10 Forecast Expenditure by Category ($000s)



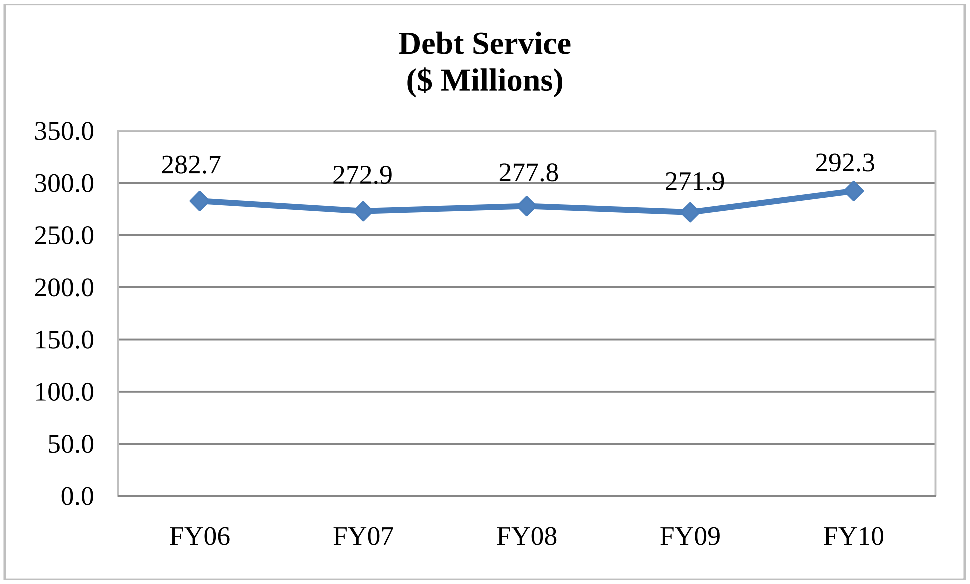
Total Expenditures = $671,703

FY 2009/10 Forecast Expenditure by Division ($000s)



Total Expenditures = $671,703

Debt Service:
Debt Service under spending of $10.4 million (6.6%) through Q2 was due to refundings and lower than budgeted variable interest rates. Additionally, $10.7 million of appropriation, which was carried forward from FY 2008/09, is not expected to be used this year. Debt Service expense for FY 09/10 is expected to be $292.3 million, or $20.4 million (7.5%) above FY 08/09 levels.



POTENTIAL OPPORTUNITIES & RISKS TO FORECAST

- Risk: Although personnel savings is forecast at year end, the Expense Control Committee has recently approved the hire of many vacant positions. These hires will drive additional personnel expense in FY 2009/10 and even further increase expense in FY 2010/11 when the cost is annualized.
- Risk: Although current projections indicate that there will be significant savings in Debt Service for FY 2009/10, the market may change. The projections will need to be updated throughout the year.
- Risk: The statement of work in one of the Airports' professional services contracts may need to be revised to include additional scope related to the addition of a booth to sell discounted BART tickets in information booth services. This may increase the cost of the contract beyond current projections by nearly $0.5 million.
- Risk: Although year-to-date spending on materials and supplies is significantly under the straight-line budget amount, spending in this category typically increases as the fiscal year progresses. This forecast assumes that materials and supplies expenditures will continue to increase at a rate similar to the previous fiscal year. If materials and supplies spending during the remainder of the year varies significantly from last year, actual year end expense may be much higher or lower than the current projection.
- Opportunity: The Airport has historically realized significant budgetary savings in the work order with the City Attorney. Budget staff has conservatively projected savings of $0.2 million in this work order for the current year as no YTD billings have been received. This estimate may change when the City Attorney's office submits its billings to date.

Distribution List

Airport Senior Staff
Business & Finance Team Leaders

Ed Lee – Chief Administrative Officer, City Hall	Kurt Forsgren – Standard & Poors
Ben Rosenfield – Office of the Controller	Kurt Krummenacker – Moody's Investor
Nadia Sesay – Office of the Controller	Mary Ellen Wriedt – Standard & Poors
Monique Zmuda – Office of the Controller	Robert Hannay – Standard & Poors
Leo Levenson – Office of the Controller	Seth Lehman – Fitch Ratings
Nadia Feeser – Office of the Controller	Judith D. Zimmerman, Wells Fargo Bank
Joe Nurisso – Office of the Controller	Anne Kupfer, Union Bank
Mabel Lew – Office of the Controller	Stephanie Lindborn, LBBW
Molly Stump – City Attorney	Gary Valente, LBBW
Alex Fedor – Airline Liaison Office	Peter Miller – PFM
Michelle Sweeney – Airline Liaison Office	Vincent McCarley – Backstrom McCarley
William M. Doyle – Orrick, Herrington & Sutcliffe	Ann Kleinsorg – AVK Consulting
Jackie Jennings – Lofton & Jennings	Tom Walsh – Jacobs Consultancy
John S. Tamagni – Castleton Partners LLC	Paul McKnight – Jacobs Consultancy