

**2009-2010
MID-YEAR BUDGET REVIEW
Section I**

STATUS OF GENERAL FUND EXPENDITURES

Overview

Overall, General Fund expenditures are tracking within anticipated levels and are expected to end the year within budget. Various budget adjustments are recommended in this document to shift funding between appropriations to ensure departments remain within overall budgeted allocations, to recognize savings in programs and projects to add funding to address

three urgent/fiscal program needs, to allocate reserve funds, and to allocate grant, reimbursement, and/or fee related funds.

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

**2009-2010 General Fund Expenditures through December
(\$ in Thousands)**

Category	Current Budget	Y.T.D. Actual	% of Budget	Prior Year % of Budget
Personal Services	606,570	297,451	49.0%	45.1%
Non-Personal/Equipment	93,344	31,174	33.4%	34.6%
Other Departmental	14,091	5,771	41.0%	39.6%
City-Wide Expenses	119,114	40,923	34.4%	34.2%
Capital Contributions	38,687	5,867	15.2%	13.1%
Transfers	24,312	23,593	97.0%	91.7%
Reserves	79,405	-	0.0%	0.0%
Total	975,523	404,779	41.5%	37.9%

General Fund expenditures through December totaled \$404.8 million, or 41.5% of the total 2009-2010 modified budget. This represents a decrease of \$8.1 million, or 2.0%, from the December 2008 level of \$412.9 million. Encumbrances totaling \$38.6 million were also \$15.5 million (28.7%) below the December 2008 level of \$54.1 million. Expenditures and encumbrances through December of \$443.4 million constituted 49.5% of the total modified budget (excluding reserves) of \$896.1 million.

This was generally consistent with the 48.1% experienced last year at this time.

It should be noted that tight budget control measures for discretionary spending continue to be adhered to for all departments and City Council Appointees. Controls continue in the areas of position hiring, reallocations and add/deletes, as well as for expenditures for travel, meals, consultants, technology, marketing, vehicles, office and space renovations and overtime.

**2009-2010
MID-YEAR BUDGET REVIEW
Section I**

**STATUS OF GENERAL FUND EXPENDITURES
(CONT'D.)**

Overview (Cont'd.)

Departmental Expenditures

Personal Services costs represent the largest single expense category for the City. These costs accounted for 73.5% of the expenditures to date. Through December, Personal Services expenditures for all City departments totaled 49.0% of the current modified budget, which is consistent with the expectations at this point of the year. This expenditure level was above the 45.1% expended through December last year primarily due to differences in the number of pay periods reflected through December.

While overall Personal Services expenditures are tracking on target, there are a number of departments that are experiencing higher than budgeted personal services expenditures. This is primarily due to: 1) the employment placement process where employees at higher salary levels were placed into vacant positions budgeted at a lower level or into positions previously held by lower step employees, and 2) the historically low number of vacant positions in the organization (as of January 17, 2010, there were 217 positions vacant city-wide; 118 positions in the General Fund, excluding sworn personnel and development fee-supported positions). A certain level of vacancies is assumed in the development of the budget for each department and if there are insufficient vacancies to meet this budgeted vacancy factor, departments may over-expend their Personal Services appropriations.

Impacted departments have prepared Vacancy Savings Plans to outline how these additional costs will be absorbed through savings from

normal employee turnover, overtime controls, and/or identifying potential offsets through Non-Personal/Equipment and other appropriation savings. Recommended budget actions associated with implementing these plans are described in Section III of this document. Additional funding may still need to be distributed to some departments by the end of the fiscal year to prevent appropriation overruns. As part of the 2008-2009 Annual Report budget actions, City Council approved an increase to the Vacancy/Filled Position Elimination Impacts Reserve from \$316,000 to \$1.0 million to address this potential cost. Through proactive cost management, the Administration will attempt to retain as much of this \$1.0 million as possible for potential use in the 2010-2011 budget process.

Non-Personal/Equipment expenditures of \$31.2 million are also tracking within anticipated levels with 33.4% expended through December. In addition to the funds actually expended, \$17.6 million was encumbered, bringing the total amount of funding committed to \$48.8 million, or 52.3% of the budget. These expenditures are expected to remain within budget for all departments.

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 \$5.8 million or 41.0% of the budget. With encumbrances, the total amount committed increases slightly to \$6.0 million, or 42.8% of the budget. These

**2009-2010
MID-YEAR BUDGET REVIEW
Section I**

**STATUS OF GENERAL FUND EXPENDITURES
(CONT'D.)**

Overview (Cont'd.)

expenditures are also expected to remain within budget.

Non-Departmental Expenditures

Through December, 34.4% of the City-Wide Expenses budget of \$119.1 million was expended. With encumbrances, the total amount of funding committed was 44.7% of the budget.

Within City-Wide Expenses, the Community and Economic Development and Strategic Support City Service Area categories represent the largest portion of funding. For the first six months of the year, these two categories are 66.8% and 26.8% committed, respectively. The expenditure tracking for these City-Wide allocations can vary significantly depending on payment schedules and the timing of projects. 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 2010-2011 to complete projects in progress.

General Liability Claims, a component of City-Wide Expenses - Strategic Support category, is tracking below budgeted levels during the first six months of the year. Year-to-date, only 5.0% of the appropriation has been expended or encumbered; however, expenditures in this category are traditionally difficult to predict, given the nature of litigation. The City Manager's Budget Office and the City

Attorney's Office will continue to monitor this appropriation as the year progresses.

Through December, the Sick Leave Payments Upon Retirement allocation of \$10.7 million was only 27.3% expended. Expenditures, however, are expected to increase significantly in the second half of the year based on increases in the number of sworn personnel retirements. The status of this appropriation will need to be monitored carefully for the remainder of the year to ensure expenditures stay within approved levels.

The remaining City-Wide Expenses categories, Environmental and Utility Services, Public Safety, Neighborhood Services, and Transportation and Aviation Services, tracked at 46.2%, 45.4%, 56.8%, and 41.9% committed, respectively, through December. It is anticipated that these expenditure categories will end the year within budgeted levels.

The Workers' Compensation Claims appropriations, which are spread across several of the City-Wide Expenses categories, total \$16.0 million. For the first half of the year, expenditures and encumbrances of \$7.6 million tracked at the anticipated level, with 47.8% of the appropriation expended or encumbered. It is currently anticipated that expenditures will end the year very close to the budgeted level. This allocation will be carefully monitored through the remainder of the year to determine if any adjustments are necessary.

Downward budget adjustments are recommended in the following City-Wide

**2009-2010
MID-YEAR BUDGET REVIEW
Section I**

**STATUS OF GENERAL FUND EXPENDITURES
(CONT'D.)**

Overview (Cont'd.)

Non-Departmental Expenditures (Cont'd.)

Expenses appropriations to recognize anticipated savings for General Fund budget re-balancing actions and to provide funding for new urgent fiscal/program needs: Parking Citations/Jail Courthouse Fees (-\$250,000); Parking Citations Processing (-\$139,000); San Jose BEST (-\$50,000); and Enterprise Content Management (-\$103,000 – part of the Information Technology Department's Vacancy Savings Plan).

Upward budget adjustments are recommended in the following City-Wide Expenses appropriations to technically correct existing appropriations to address new urgent fiscal/program needs: Watson Park Settlement (\$1.7 million – reallocated from a capital project); IAFF Binding Interest Arbitration (\$400,000); False Claims Act Litigation Settlement (\$367,000 – offset by revenue); City Staff Relocations from Old Dr. Martin Luther King, Jr. Library (\$267,000); Labor/Employee Relations Consultant funding (\$250,000); and Workers' Compensation State License (\$234,000). There are also a number of adjustments to recognize new grant, reimbursement, and/or fee activity funding. All of the City-Wide Expenses adjustments are described in Section III of this document.

Through December, General Fund Capital expenditures totaled \$5.9 million and encumbrances totaled \$8.4 million, bringing the amount committed to \$14.3 million, or 37.0% of the budget. It is anticipated that the majority of the budgeted amount will be expended or

rebudgeted to 2010-2011 to complete various capital projects. However, there are two recommendations in this document that would reduce these allocations. A \$2.3 million reduction to Watson Site Clean-Up and Restoration project is recommended to realize a portion of the General Fund savings (\$512,000) that resulted from lower than anticipated construction bids and to reallocate project funding (\$1,746,000) to a City-Wide Expenses Watson Park Settlement allocation for potential legal, monitoring, and remediation costs related to Terrace Drive properties adjacent to Watson Park and for monitoring at Watson Park. A reduction of \$120,000 to the City Hall Outstanding Needs project is also recommended to reallocate funding for a portion of the costs necessary to allow City staff to relocate from the old Dr. Martin Luther King, Jr. Library as recommended in this report. These transactions are described in Section III of this document.

The Transfers category of \$24.3 million is 97.0% expended through December as anticipated. Almost all of the transfers are processed at the beginning of the year.

There are no expenditures in the Reserves category because expenditures can not be charged directly to a reserve. As part of the General Fund budget balancing actions and to provide funding to address new urgent fiscal/program needs, the following adjustments to Earmarked Reserves are recommended: a \$4.5 million reduction to the Economic Uncertainty Reserve (from \$10.0 million to \$5.5 million); a \$500,000 reduction to the Fuel Reserve (from \$750,000 to \$250,000); and a

**2009-2010
MID-YEAR BUDGET REVIEW
Section I**

**STATUS OF GENERAL FUND EXPENDITURES
(CONT'D.)**

Overview (Cont'd.)

Non-Departmental Expenditures (Cont'd.)

\$400,000 reduction to the Salary and Benefit Reserve. No budget action is recommended to

reduce the Contingency Reserve (\$30.7 million).

Discussion of Selected General Fund Departments

Expenditure Status (\$ in thousands)

<u>Department</u>	2009-2010 <u>Budget</u>	Y.T.D. <u>Actual</u>	Prior YTD <u>Actual</u>
Fire	\$154,661	\$73,790	72,807

Overall, expenditures for the Fire Department were tracking within budgeted estimates through December, with 47.7% expended. Personal Services expenditures through December tracked slightly below budgeted levels with \$70.4 million (47.9% compared to the par of 49.0%).

Personal Services expenditures, for full-time salary, overtime and benefits, tracked slightly below anticipated levels due to the timing of budgeted activities. Two Firefighter Recruit academies are budgeted for 2009-2010. The current October 2009 Academy (with 28 Firefighter EMT Recruits) is expected to complete training in February 2010. Although a second Firefighter Recruit academy is budgeted to occur in the spring, the Fire Department would like to replace that academy with two additional Fire Engineer academies to expedite filling Fire Engineer vacancies and to reduce and/or eliminate overstaffing in the Firefighter rank. The cost for these two academies total less

than a Firefighter Recruit academy. Overtime expenditures through December were \$5.3 million (41.0% compared to the par of 49.0%) and tracked below estimated levels due to changes implemented by the Fire Department Administration to reduce overtime usage. Factoring in these anticipated expenditures and overtime activities that will occur after this reporting period, the Fire Department currently anticipates ending the year within the budgeted personal services allocation.

The Fire Department's Non-Personal/Equipment budget of \$7.5 million was 59.8% expended or encumbered through December. The Department anticipates ending the year within the budgeted allocation for both the Personal Services and Non-Personal/Equipment.

Through December, the Fire Department was staffed with a sufficient number of paramedic positions. There are 218 filled paramedic

**2009-2010
MID-YEAR BUDGET REVIEW
Section I**

**STATUS OF GENERAL FUND EXPENDITURES
(CONT'D.)**

Discussion of Selected General Fund Departments (Cont'd.)

Fire Department (Cont'd.)

positions (169 front-line Firefighters Paramedics, 5 Supervisors, and 44 Support Paramedics) compared to the 157 front-line Firefighter Paramedics that are necessary to fully staff all apparatus. Of the 30 Firefighters from the April 2009 Academy (who graduated

in August 2009), 15 have completed the Paramedic accreditation process. The remaining 15 Firefighters are expected to complete the process before June 2010. The Department expects to maintain the target staffing level of 157 front-line Firefighter Paramedics for at least the remainder of the year.

Expenditure Status (\$ in thousands)

<u>Department</u>	<u>2009-2010 Budget</u>	<u>Y.T.D. Actual</u>	<u>Prior YTD Actual</u>
Police	\$296,799	\$140,354	\$125,008

On an overall basis, Police Department expenditures are currently tracking within estimated levels. Personal Services expenditures of \$133.6 million tracked very close to anticipated levels (48.9% compared to the par of 49.0%). The Department has 1,374 authorized sworn staff and graduated 22 Police recruits from the July 2009 Academy, with the officers anticipated to be street-ready in April 2010. Primarily due to a severe, almost \$100 million, budget shortfall projected for 2010-2011, and because current year expenditures are tracking close to estimated levels, the Administration decided to postpone the January 2010 Police Academy (Information memorandum dated January 14, 2010). The Academy, planned for 34 recruits, will be delayed to April or July 2010 in order to minimize any potential lay-offs of sworn personnel resulting from the 2010-2011 budget process.

Overtime expenditures of \$6.6 million through December tracked above anticipated levels with 58.7% expended. The higher overtime expenditure level was due, in part, to automated payouts for staff with compensatory time over Fair Labor Standards Act (FLSA) levels (240 hours for non-sworn and 480 hours for sworn personnel) that were implemented at the beginning of 2008-2009. These payments totaled \$1.2 million through December. Discussion of the sworn compensatory time balance is below. In addition, requirements for staffing the "high" security threat level, or "Orange Alert" advisory, issued by the federal Department of Homeland Security at the Airport also contributed to higher overtime expenditure levels. Overtime expenditures through December related to the increased security threat level totaled \$519,000, with additional overtime of approximately \$504,000 projected through year-end. Accordingly, an increase of \$1,023,000 to the Department's Personal

**2009-2010
MID-YEAR BUDGET REVIEW
Section I**

**STATUS OF GENERAL FUND EXPENDITURES
(CONT'D.)**

Discussion of Selected General Fund Departments (Cont'd.)

Police Department (Cont'd.)

Services appropriation is recommended in this report, funded by a corresponding increase to the reimbursement to the General Fund from the Airport Maintenance and Operating Fund to offset this additional expenditure. It should be noted that in order to contain costs at the Airport, the Airport and Police Departments are in discussions with the Transportation Security Administration (TSA) to clarify the minimum number of personnel/hours required for Orange Alert staffing in order to reduce the amount of overtime needed for the remainder of the year and subsequently the transfer from the Airport Maintenance and Operating Fund. If overtime reductions can be implemented, additional budget actions to return unspent funding to the Airport will be brought forward by year-end.

The compensatory time balance at the end of December 2009 was 250,874 hours for sworn personnel. This represents a decrease of 26,115 hours (9.4%) from the November 2009 balance of 276,989, but a 7,901 hour increase (3.3%) compared to the December 2008 balance of 242,923. The decrease in sworn compensatory time balances during December 2009 compared to November 2009 is attributed to additional overtime controls put in place during 2009-2010. All overtime requires preapproval by a supervisor and is now tracked through the use of overtime codes to determine the type of usage in order to manage overtime levels. Continued active management of the overtime budget (for pay or compensatory time) is necessary to ensure overall Personal Services expenditures remain within budgeted levels.

In addition, due to severe financial constraints, the Airport was forced to reevaluate all service levels including Police services at the Airport. In order to reduce costs to the Airport Department, it is recommended that five sworn positions (one Police Captain, one Police Sergeant, and three Police Officers) be eliminated by the end of March 2010 to align with the Police sworn shift change. The incumbents will be redeployed to vacant positions elsewhere in the Department. The reduction of the Police Captain and the Administrative Police Sergeant positions will shift responsibilities to the Police Lieutenant assigned to the Airport and cause the Central Division Police Captain in the Bureau of Field Operations to oversee both the Airport and Central Division patrol. Administrative staffing demands which cannot be met by the Police Lieutenant will be assigned to the supervising Police Sergeants as needed. The elimination of the three Police Officer positions will reduce the day and swing shift patrol teams from seven to six Police Officers and maintain the midnight teams at three Police Officers. This will result in less flexibility to backfill for absences in sworn Airport personnel. This action will maintain required Transportation Security Administration Police staffing levels at the Airport. Collaborative efforts between the Police Department and the Airport Department resulted in this recommendation to reduce Police personnel at the Airport without compromising the safety of travelers, Airport staff, and sworn Police staff at the Airport. It should be noted that savings experienced in the General Fund as a result of this action will be

**2009-2010
MID-YEAR BUDGET REVIEW
Section I**

**STATUS OF GENERAL FUND EXPENDITURES
(CONT'D.)**

Discussion of Selected General Fund Departments (Cont'd.)

Police Department (Cont'd.)

entirely offset by the loss of reimbursement revenue from the Airport. A net loss of \$78,865 in General Fund overhead reimbursement from the Airport Department will occur in 2009-2010 and is recommended to be offset by other General Fund rebalancing actions included in this report.

As part of the City Council's approval of the Mayor's June Budget Message for Fiscal Year 2009-2010, the Administration was directed to accelerate the process of streamlining management functions within the Police Department to achieve savings of \$125,000 in 2009-2010 and \$250,000 in 2010-2011. In response to that direction, the Police Department has held a Deputy Chief position vacant since August 2009 to achieve \$125,000 in savings for 2009-2010. As of the March 2010 shift change, the Department will combine the Hi-Tech and Financial Crime Units. A recommendation is included in this report to eliminate the vacant Police Lieutenant position which oversaw the Hi-Tech Unit. In order to achieve the full \$250,000 in savings in 2010-2011 (approved in the 2009-2010 Adopted Budget), overtime funding of \$24,000 will also be eliminated from the Department as of July 1, 2010.

A total of \$10.4 million (44.1%) of the Department's Non-Personal/Equipment budget was expended or encumbered through December. Excluding the remaining balances for electricity, gas, and vehicle operation and replacement expenditures, the Department has

approximately \$4.9 million, or 49.4% of the Non-Personal/Equipment appropriation, available for the remainder of the fiscal year. The 2009-2010 Adopted Budget assumed a higher average price per gallon for fuel than has been experienced in the first six months of the year. Based on the projected fuel costs for the remainder of the year, funding in the Police Department's Non-Personal/Equipment (\$325,000) appropriation is recommended to be reduced. The City Manager's Budget Office and the Department will monitor expenditures closely to ensure expenditures are within appropriated levels by year-end.

Contingency Reserve

The General Fund Contingency Reserve remains at \$30.7 million through December, with no revisions through the first six months of the fiscal year.