

2018-2019 MID-YEAR BUDGET REVIEW

STATUS OF GENERAL FUND EXPENDITURES

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General Fund expenditures through December totaled \$575.2 million, or 37.3% of the total 2018-2019 Modified Budget. This expenditure level represents a decrease of \$4.7 million, or less than 1%, from the December 2017 level of \$579.9 million. In addition, encumbrances through December totaled \$57.8 million, which are \$4.3 million (6.9%) below the December 2017 level of \$62.1 million. In total, expenditures and encumbrances through December totaled \$633.0 million, which constitutes 41.1% of the total Modified Budget (including reserves) of \$1.5 billion. When excluding reserves of \$157.4 million, expenditures and encumbrances through December constituted 45.7% of the total Modified Budget. The following chart displays the year-to-date expenditures (excluding encumbrances) compared to the prior year, by category.

2018-2019 General Fund Expenditures through December (\$ in Thousands)

Category	Current Budget	YTD Actual	% of Budget	Prior Year % of Budget
Departmental Expenditures				
Personal Services	\$ 854,483	\$ 393,562	46.1%	46.4%
Non-Personal/Equipment	139,720	43,244	31.0%	32.6%
Other Departmental	26,806	11,135	41.5%	42.4%
<i>Subtotal Departmental Expenditures</i>	<u>1,021,009</u>	<u>447,941</u>	<u>43.9%</u>	<u>44.4%</u>
Non-Departmental Expenditures				
City-Wide Expenses	\$ 268,098	\$ 121,866	45.5%	35.3%
Capital Contributions	56,116	3,739	6.7%	22.5%
Transfers	38,809	1,650	4.3%	100.0%
Reserves	157,351	0	0.0%	0.0%
<i>Subtotal Non-Departmental</i>	<u>520,374</u>	<u>127,255</u>	<u>24.5%</u>	<u>28.2%</u>
Total	\$ 1,541,383	\$ 575,196	37.3%	38.6%

Overall, General Fund expenditures are within anticipated levels and minimal savings of approximately \$4 million - \$6 million are anticipated by year-end to assist in meeting the projected 2018-2019 Ending Fund Balance estimate that will be used as a funding source in the Five-Year General Fund Forecast and the 2019-2020 Proposed Budget.

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Recommended Adjustments

As described below, expenditure adjustments totaling \$38.9 million are recommended in this document to accomplish the following actions: (1) implement required technical/rebalancing adjustments; (2) account for new grants, reimbursements, and fees; and (3) complete clean-up actions.

- Implement required technical and rebalancing actions (\$35.9 million). Significant actions include:
 - Establishing the 2018-2019 Ending Fund Balance Reserve in the amount of \$15 million from excess General Fund revenues projected this fiscal year. When developing the annual budget each year, it is assumed that a combination of excess revenues, expenditure savings, and the liquidation of carryover encumbrances will generate ending fund balance in the current year that will be available as a funding source for the upcoming year. In the 2019-2023 Five-Year Forecast issued in February 2018, it was assumed that \$20 million in fund balance would be available at the end of 2018-2019 for use in 2019-2020. The 2020-2024 Five-Year Forecast that will be issued at the end of February and the 2019-2020 Proposed Budget that will be issued on May 1, 2019 will incorporate fund balance as a funding source. This action sets aside a portion of the ending fund balance that is expected to be generated in 2018-2019. It is anticipated that additional actions will be brought forward at year-end to increase this reserve;
 - Establishing the 2019-2020 Proposed Budget Planning Reserve for \$14.4 million. The City received \$18.7 million in proceeds from the sale of properties previously owned by the Successor Agency to the Redevelopment Agency as well as a City-owned property that are recommended to be recognized in this report. A portion of the proceeds (\$14.4 million) is recommended to be set aside in a 2019-2020 Proposed Budget Planning Reserve, with the remaining balance (\$4.3 million) recommended to be transferred to the Convention Center Facility District Revenue Fund to account for the sale proceeds from the South Hall site. Recommendations for the use of this one-time reserve will be evaluated and brought forward as part of the 2019-2020 budget process;
 - Establishes a Transfer to the Convention Center Facility District (CCFD) Revenue Fund of \$4.3 million to allocate proceeds remitted from the Successor Agency to the Redevelopment Agency for the sale of the South Hall site to the City. As the CCFD Revenue Fund currently pays the debt service related to the South Hall purchase, these sale proceeds will be held in a debt service reserve pending finalization of a development and financing plan for the South Hall site;

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- Increasing the City Attorney’s Office Non-Personal/Equipment appropriation by \$700,000 to support litigation-related expenses. Outside litigation costs, including expenditures for specialized outside counsel, technical experts, and other consultants and expert witness services, are incurred most notably in civil rights, catastrophic injury, land use, and document-intensive cases. These costs are unpredictable and largely outside of the Office’s control, yet are essential to assist the Office with defending the City’s interests;
 - Increasing the Public Works Department Personal Services appropriation by \$425,000 and Non-Personal/Equipment appropriation by \$110,000 to address higher actual costs incurred by the Animal Care and Services Program. The increased cost is attributable to a higher target save rate, increasing from 85% in 2015 to 91%, and a corresponding increase in the overall length of time that an animal remains in the shelter. The ongoing effort to maintain the save rate at 91% has required sheltering for longer periods. Animals are sheltered for 10 days on average, but stays may increase up to 30 days to prep a “savable” adult cat for adoption. Additionally, the number of overall animal intakes has increased 6% over the same period, from approximately 16,000 to 17,000 intakes per year; and
 - Reallocating funding from the Workers’ Compensation Claims – Fire (\$750,000) and Workers’ Compensation Claims – DOT (\$250,000) appropriations to the Workers’ Compensation Claims – Police (\$1.0 million) appropriation based on actual expenditure trends for a net-zero impact.
- Appropriate additional grant, reimbursement, and/or fee related funds (\$2.5 million). Significant actions include:
 - Increasing the Fire Department Personal Services appropriation by \$507,000 and Non-Personal/Equipment appropriation by \$142,000, offset by a reimbursement from the State, for Strike Teams deployed to assist with the Carr and Camp Fires;
 - Increasing the Police Department Personal Services appropriation by \$312,000, offset by reimbursements from the Airport Maintenance and Operations Fund, to fund increased overtime costs at the Mineta San José International Airport;
 - Increasing the Parks, Recreation and Neighborhood Services Department Fee Activities appropriation by \$250,000, offset by a grant from the Santa Clara County, to provide scholarships for summer camps and classes for youth and scholarships for therapeutics participants; and

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- Establishing the Autumn Parkway Parcels Sale Proceeds Reserve for \$235,000, offset by sale proceeds, to allocate receipts from the sale of five small fragments along Autumn Parkway to fund a capital improvement project which will be identified and appropriated in the 2019-2020 Proposed Capital Budget process.
- Implement clean-up actions, such as adjustments that increase Personal Services appropriations, where needed, for Management Pay for Performance Program costs and to fund non-pensionable increases and general wage increases that was negotiated and agreed to by the City and four bargaining units (\$9.6 million), offset by the Salaries and Benefits Reserve; increase of \$363,000 to the Public Works Development Fee Program Reserve as a result of an updated reconciliation of the program for 2017-2018; rebudget \$46,000 of the Office of Economic Development Non-Personal/Equipment appropriation for the Council District #6 Public Art project; decrease Personal Services appropriations to reflect implementation of the Voluntary Furlough/Reduced Work Week Program in 2018-2019 (\$187,000), offset with an increase to the Salaries and Benefits Reserve; reallocate funds from Planning, Building and Code Enforcement Department's Personal Services and Non-Personal/Equipment appropriations to new Citywide Planning Fee Personal Services and Non-Personal/Equipment appropriations in order to separate the restricted funding; and reallocate funds between Personal Services and Non-Personal/Equipment appropriations to provide funding for temporary staffing resources.

In total, adjustments recommended in this document result in a net increase of \$38.9 million to General Fund expenditures. Additional information on these adjustments can be found in *Section III. Recommended Budget Adjustments and Clean-Up Actions* 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 68.4% of the total General Fund expenditures (excluding encumbrances) to date.

Through December, personal services expenditures for all City departments of \$393.6 million, or 46.1% of the current Modified Budget, is consistent with estimated levels of 46.0% at this point of the year. This expenditure level is slightly below the 46.4% expended through the same time period in the prior year. Overall, personal services expenditures are estimated to end the year with minimal savings. As of January 23, 2019, the City had 607 vacancies city-wide (all funds) compared to 644 vacancies in the prior year, representing a vacancy factor of approximately 9.5%.

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Non-personal/Equipment expenditures of \$43.2 million are below anticipated levels with 31.0% expended through December. This expenditure level is slightly lower than the 32.6% expended through December 2017. Encumbrances through December totaled \$28.1 million, which when combined with the non-personal/equipment expenditures, brings the total amount of funding committed to \$71.4 million, or 51.1% of the \$139.7 million budget. Overall, these expenditures are expected to remain within budget for all departments, with minimal savings generated by year-end.

The Other Departmental category includes the budget for the Mayor and City Council, as well as Parks, Recreation and Neighborhood Services Fee Activities. Through December, Other Departmental expenditures totaled \$11.1 million (41.5% expended) of the \$26.8 million budget through December. This expenditure level is slightly above the prior year level of \$10.5 million (42.4% expended) for the same time period. Expenditures in this category are expected to end the year within budgeted levels.

Following is a discussion of the Fire, Police, and Public Works Departments, as well as non-departmental expenditures.

Expenditure Status (\$ in thousands)			
<u>Department</u>	<u>2018-2019 Budget</u>	<u>YTD Actual</u>	<u>Prior YTD Actual</u>
Fire	\$222,982	\$107,883	\$103,209

Overall, Fire Department expenditures are slightly higher than estimated levels through December but are expected to end the year within budget. Personal services expenditures of \$101.6 million, or 47.8% of the Modified Budget, are slightly higher than the expected level of 46.0% at this point of the year, which is primarily due to overtime that was needed during fire season and hurricane season. The Fire Department's Non-Personal/Equipment budget of \$10.5 million was 59.5% expended or encumbered through December and is expected to end the year within budgeted levels. It should be also be noted that the Fire Department's Budget includes funding for the remainder of the current 2018-2019 Firefighter Recruit Academy and half of one Firefighter Recruit Academy that will complete in 2019-2020. The funding for the second half of the later academy will allocated in the 2019-2020 budget.

Through December, Personal Services expenditures are higher than expected due to higher overtime usage. Overtime expenditures of \$7.9 million represent 76.2% of the current year budget, while the prior year overtime expenditures through the same period totaled \$8.6 million. Overtime has primarily been used to backfill vacancies and absences in the line of duty positions (vacation, modified duty, sick, disability, and other absences) and for deployments. Strike Team resources were deployed earlier in the fiscal year to assist with several wild fires, including Mendocino Complex and Carr Fire. In addition,

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California Task Force 3 deployments were made for out of state emergency responses, including Hurricane Lane and Hurricane Olivia. This report includes recommendations to recognize funds received from the State of California for the Strike Team deployments in the amount of \$650,000, which consists of \$507,000 for overtime expenditures and \$143,000 for non-personal/equipment reimbursements. Reimbursement for Task Force 3 expenditures have been requested from the Federal Emergency Management Agency (FEMA) and will be brought forward for City Council consideration once received. Factoring in the reimbursement received from the State for Strike Team deployments, overtime expenditures are in line with projected estimates and are anticipated to end the year at budgeted levels.

Overall, the average sworn vacancy rate of 3.9% is approximately 0.6% lower than the vacancy rate experienced this time last year; and vacancies continue to exceed the budgeted rate of 2.5%. The first 2018-2019 Firefighter Recruit Academy, which began in November 2018, consists of 24 Firefighter Recruits and will reduce the number of sworn vacancies from 44 to 20. The second 2018-2019 Firefighter Recruit Academy, which will begin in May 2019, is anticipated to have 24 Firefighter Recruits.

In accordance with the City Council’s approval of a March 2010 report on annual vacancy and absence rates, the Fire Department has committed to limiting administrative assignments for sworn administrative personnel for overtime control purposes. As of the end of December, of the 32 current authorized staffing level, the Fire Department had 32 sworn personnel on administrative assignments.

Expenditure Status (\$ in thousands)

<u>Department</u>	<u>2018-2019 Budget</u>	<u>YTD Actual</u>	<u>Prior YTD Actual</u>
Police	\$415,404	\$191,391	\$181,130

Overall, the Police Department’s expenditures are within estimated levels through December, but higher planned expenditures in the second half of the fiscal year are expected to result in a potential overage. Personal services expenditures of \$177.1 million (45.96% of the Modified Budget) are slightly below the expected levels of 46.03% at this point in the year, however, expenditures are projected to exceed the budget by year-end due to additional recruit academies and special events. The overtime budget was increased by \$4.0 million (from \$19.6 million to \$23.6 million) as part of the 2017-2018 Annual Report, which was approved by the City Council on October 16, 2018. After this adjustment, overtime expenditures continue above the estimated level, with expenditures totaling \$17.2 million, representing 72.9% of the Modified Budget. The Police Department’s Non-Personal/Equipment budget of \$30.1 million was 47.5% expended or encumbered through December and is expected to end the year within budgeted levels.

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Based on early projections, personal services expenditures are estimated to exceed the budget by approximately \$4.0 million by year-end, which represents approximately 1.5% of the personal services budget. This takes into account many factors, such as anticipated recruit academies, special events, projected attrition, and overtime trends, that are subject to change. The potential overage is primarily attributed to additional overtime costs to backfill for sworn positions while recruits are in training, overtime payouts for sworn personnel that have reached the compensatory time limit, and the School Safety Program (crossing guards) costs. The Police Department has worked diligently to fill vacancies in both sworn and civilian positions. Vacancy savings have been used to pay for Police Academy Recruits as well as to backfill positions in Patrol. However, as the Department fills vacancies, these savings have decreased. While the goal is to fill the vacancies and eliminate the need to backfill positions, new recruits are in academy training and field training for 10-12 months. Until the new recruits are street-ready and are solo beat officers in Patrol, the department continues to backfill these positions, incurring overtime. The vacancies over the last several years have also contributed to the build-up of compensatory time balances for sworn personnel. There is a limit of 480 hours of compensatory time balances after which sworn personnel are paid in overtime for any additional hours worked. Currently, 268 sworn personnel are at the 480-hour limit. For the School Safety Program, a portion of personal services expenses are attributable to a higher level of School Crossing Guard deployment where the amount of crossing guards deployed is higher than currently budgeted. An increase of \$385,000 to the School Safety Program budget is recommended elsewhere in this report to adjust for the higher amount of crossing guards deployed.

Overtime consists of overtime expenditures and compensatory time. The Memorandum of Agreement (MOA) 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 2018 was 277,218 hours for sworn personnel. This represents an increase of 24,816 hours or 9.8% compared to the December 2017 balance of 252,402. For the 268 sworn personnel at the compensatory balance limit of 480 hours, all overtime worked by these employees is paid overtime. The Department is enforcing compensatory time reduction by requiring all sworn staff, outside of the Bureau of Field Patrol (BFO), to reduce compensatory time balances by the end of the calendar year or submit a request for an extension, per the MOA. Due to staffing levels needed to respond to calls for service, BFO is currently exempted until such time the Department reaches full street-ready sworn staffing (sworn who are fully trained and able to work as solo beat officers).

As sworn vacant positions become sworn street-ready positions, overtime hours may decrease, which is anticipated to reduce the projected year-end personal services overage. The Police Department will also work to control expenditures to minimize any potential overage. This budget will be closely monitored throughout the year to determine if any adjustments are necessary.

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Marking an end to the long period of high levels of sworn vacancies, most sworn vacancies are currently filled. Please note that the authorized staffing level of 1,110 does not yet include the 41 sworn positions added in the 2018-2019 Adopted Budget effective June 2019. While the sworn positions are filled, there is still a significant gap between filled positions and working street-ready positions.

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

	2018-2019 (as of 12/21/18)	2017-2018 (as of 12/29/17)
Authorized Sworn Staffing	1,110	1,109
Vacancies	(12)	(102)
Filled Sworn Staffing	1,098	1,007
Field Training Officer/Recruits	(129)	(113)
Street-Ready Sworn Positions Available	969	894
Disability/Modified Duty/Other Leaves	(73)	(82)
Street-Ready Sworn Positions Working	896	812

To continue filling vacant positions, the Department will conduct three Police Recruit Academies in 2018-2019, including the October 2018 Academy that began with 50 new Recruits and academies that will begin February 2019 and June 2019. The February 2019 Academy is projected to start with 50-65 recruits depending on lateral hires and re-hires, and the June 2019 Academy is projected to start with 50-60 recruits. These recruits will fill the 41 new positions added effective June 2019 and will offset retirements anticipated later in the year; the actual numbers may vary based on actual attrition.

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DISCUSSION OF SELECTED GENERAL FUND DEPARTMENTS

Expenditure Status (\$ in thousands)

<u>Department</u>	<u>2018-2019 Budget</u>	<u>YTD Actual</u>	<u>Prior YTD Actual</u>
Public Works	\$46,367	\$21,695	\$22,569

Overall, Public Works Department expenditures are tracking above estimated levels through December due to higher personal services costs. Personal services expenditures of \$15.3 million, or 47.5% of the Modified Budget, are higher than the expected level of 46.0% at this point of the year. The Public Works Department’s Non-Personal/Equipment budget of \$14.2 million was 45.1% expended or encumbered through December 2018 and is expected to end the year within budgeted levels.

Personal Services expenditures in the Public Works Department are tracking above expected levels, which is attributable to a combination of higher than anticipated overtime, part-time employee, and retirement expenditures, partially offset by lower full-time employee expenditures. Retirement costs are impacted when vacant positions that are budgeted at the Tier II level are actually filled with existing City employees who are classified as Tier I. Part-time and overtime costs at the San José Animal Care Center have increased as a result of the ongoing effort to maintain the save rate (currently 91%), and the increase in animal intakes, including a cate intake increase of approximately 2,000 per year above previous years. A recommendation is included in this report to increase the Public Works Department’s Personal Services appropriation by \$425,000 for part-time staffing needs at the Animal Care Center and the Public Works Non-Personal/Equipment allocation by \$110,000 for custodial services at the Animal Care Center. In addition, the Public Works Department will decrease overtime and part-time expenditures and will shift focus to Capital-funded projects, as appropriate. If savings are realized in the Non-Personal/Equipment allocation, and the Department continues to exceed estimated levels in the Personal Services budget, a recommendation may be brought forward later in the budget process to reallocate the savings from the Non-Personal/Equipment appropriation to the Personal Services budget.

A review of the Public Works Department’s budget will be completed for the 2019-2020 budget process to determine if any additional ongoing adjustments are necessary to better align the department’s budget with existing service levels.

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NON-DEPARTMENTAL EXPENDITURES

Non-Departmental Expenditures include City-Wide Expenses, Capital Contributions, Transfers, and Reserves. Through December, expenditures (excluding encumbrances) totaled \$127.3 million, or 24.5% of the Modified Budget of \$520.4 million

Through December, City-Wide Expenses totaled \$121.9 million, or 45.5% of the Modified Budget of \$268.1 million. When expenditures (\$121.9 million) and encumbrances of \$14.5 million are combined, the total amount of funding committed (\$136.3 million) represents 50.9% of the modified budget. Overall, City-Wide expenditures are estimated to end the year slightly below budgeted levels.

2018-2019 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	\$ 24,816	\$ 7,826	31.5%	\$ 8,080	20.9%
Environmental & Utility Services	2,726	1,164	42.7%	1,042	30.7%
Neighborhood Services	11,456	3,971	34.7%	3,447	29.9%
Public Safety	24,813	11,055	44.6%	10,968	50.0%
Transportation & Aviation Services	3,608	1,087	30.1%	564	15.7%
Strategic Support	200,679	96,763	48.2%	78,607	37.1%
TOTAL	268,098	121,866	45.5%	102,708	35.3%

City-Wide expenditures can vary significantly from year-to-year depending on payment schedules, project timing, and changes to a program's structure. The largest City Service Area (CSA) included in the City-Wide Expenses section is the Strategic Support CSA, which has a 2018-2019 Modified Budget of \$200.7 million. The Strategic Support CSA budget includes the allocation for the **Tax and Revenue Anticipation Notes (TRANS)** Debt Service payment, which has a budget of \$152.1 million, of which \$86.6 million was expended through December (56.9% of the budget). Beginning in 2010-2011, the City has had to issue TRANS annually for cash flow purposes due to the pre-payment of the City's retirement contributions.

Adjustments to City-Wide Expenses appropriations are recommended in this report to align the budget with the year-end expenditure projections. Additional details on these actions can be found in *Section III. Recommended Budget Adjustments and Clean-Up Actions* of this 2018-2019 Mid-Year Budget Review.

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Key actions recommended in this report include:

- Establishing a Commercial Development Impact Study appropriation to the Office of Economic Development in City-Wide in the amount of \$150,000 to fund a study of a commercial impact fee, which will be based on research to determine the effect commercial development has on the demand for affordable housing, and the effects this fee could have on the financial feasibility of various types of commercial development;
- Establishing a Climate Smart San José Plan Implementation appropriation to the Environmental Services Department (ESD) in the amount of \$150,000 to provide initial staff support to leverage the resources provided by the \$2.5 million Bloomberg American Cities Climate Challenge (ACCC) grant award that will help implement key efforts included in the Climate Smart San José plan;
- Establishing a Small Business Anti-Displacement Research and Legal Advice appropriation to the Office of Economic Development in the amount of \$100,000 to fund a consultant who will study any potential displacement impacts from the Google development on residents and small businesses; this consultant will also support the development of an interactive map tool;
- Establishing a Census 2020 appropriation to the Office of Economic Development in the amount of \$100,000 to fund the staff work necessary to prepare for and conduct the 2020 Census. Funding from the State of California's Local Update of Census Addresses Incentive Fund is also recommended to be recognized to offset this cost;
- Increasing the Fair Labor Standards Act (FLSA) System Configuration appropriation by \$75,000 to funding technical consulting services to address identified FLSA issues discovered during the recent Human Resources/Payroll Budget Systems upgrade project;
- Establishing a Health Care Incentive appropriation to the Human Resources Department in the amount of \$30,000, offset by a reduction to the City Health Plan Restructuring Reserve, to fund the new City-approved medical incentive program. Under this program, new employees who sign up for the Sutter Medical Plan will receive a one-time \$500 bonus; and
- Decreasing the Property Assess Clean Energy (PACE) Program City-Wide Expenses appropriation by \$57,000 to shift this unspent balance to ESD's Personal Services and Non-Personal/Equipment appropriations to support the Energy and Water Building Performance Program. This new program will use utility data collection and benchmarking to enhance and ensure energy and water efficiency throughout the City.

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In total, adjustments recommended in this report result in a net increase of \$1.2 million to City-Wide Expenses. Additional information on these adjustments can be found in Section III of this report.

The following highlights key appropriations in City-Wide Expenses across the five different CSAs:

- In July 2018, the City issued \$150 million in Tax and Revenue Anticipation Notes (TRANs) for cash flow purposes. The \$152.1 million TRANs Debt Service appropriation is used for repayment of these TRANs, including issuance, principal, and interest costs; \$86.7 million, or approximately 57% of the budget, was expended through December. This appropriation constitutes the largest allocation in the Strategic Support CSA.
- Workers' Compensation Claims appropriations totaling \$20.1 million are budgeted in four of the six CSAs, with total expenditures of \$9.7 million through December 2018, or approximately 48.4% of the Modified Budget. This expenditure level is approximately 15.9% below the \$11.6 million expended through December 2017, yet consistent with the \$9.7 million expended through December 2016. The 2018-2019 budget of \$20.1 million is 5.1% below the prior year actual expenditures of \$21.2 million and 11.2% above the 2016-2017 actual expenditures of \$18.1 million. Overall, Workers' Compensation claim payments are currently tracking slightly below budget. Net-zero budget adjustments to specific City-Wide appropriations are recommended to redistribute funding based on projected need. The Police Department's appropriation is projected to exceed its budget of \$8.0 million by \$1.5 million, while the other departments including the Fire, Parks, Recreation and Neighborhood Services (PRNS), Department of Transportation (DOT), and other Departments' Workers' Compensation Claims appropriations are anticipated to have combined savings of approximately \$2.4 million budget. A portion of these savings (\$750,000 from the Fire Department allocation and \$250,000 from DOT allocation) are recommended to be redistributed to the Workers' Compensation appropriation for the Police Department. Additional actions may be necessary at year-end.
- In the Strategic Support CSA, the General Liability Claims appropriation totals \$7.0 million, of which approximately 33.6% is expended or encumbered through December 2018, as compared to 17.4% expended or encumbered of a budgeted estimate of \$19.4 million through December 2017. Claims expenditures can vary significantly from year to year.
- Also in the Strategic Support CSA, Sick Leave Payment Upon Retirement expenditures of \$1.1 million through December reflect 22.5% of the total 2018-2019 budget of \$5.0 million. Year-to-date expenditures for these payouts are consistent with prior year levels - \$1.1 million through December 2017 and \$1.3 million through December 2016. Year-end expenditures are anticipated to end the year at or below the budget, consistent with prior years, at \$4.1 million in 2017-2018 and 2016-2017. It is important to note, however, that the majority of expenditures in this appropriation typically occur in the second half of the year.

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- In the Community and Economic Development CSA, the Homeless Rapid Rehousing and Homeless Response Team appropriations have expended or encumbered 4.6% and 46.8% of their respective budgets. These two appropriations provide funding for critical resources to address the City's ongoing efforts related to homelessness.
- In the Neighborhood Services CSA, the San José BEST and Safe Summer Initiative Programs appropriation has year-to-date expenditures of \$1.5 million with an additional \$1.5 million encumbered, reflecting 47.3% of the total budget of \$6.5 million committed. This appropriation supports gang prevention and intervention efforts across the City.
- In the Public Safety CSA, a total of \$3.4 million of grant funding was added in 2018-2019 from the US Departments of Justice and Homeland Security, and the Federal Emergency Management Agency to support several Police, Fire, and Office of Emergency Management services and programs, including support to continue the crucial work underway to ensure the City's ability to be prepared for, respond to, and recover from potential incidents of terrorism and other hazards, the implementation of new programs, and the purchase of critical public safety equipment.

Through December, General Fund **Capital** expenditures total \$3.7 million and encumbrances total \$15.2 million, bringing the amount committed to \$18.9 million, or 33.7% of the \$56.1 million budget. Overall, minimal General Fund Capital expenditure savings are anticipated, as the rebudget of unspent funds to 2019-2020 will be recommended to complete projects. No budget actions are recommended for General Fund Capital projects in this report.

Transfers executed through December of \$1.7 million are significantly below the budgeted level of \$38.8 million, which is primarily due to a timing issue. It is anticipated all transfers will be completed by January 2019, with no variance to budget by year-end.

There are no expenditures against the **Reserves** budget of \$157.4 million because expenditures cannot be charged directly to a reserve (to use Reserve funding, budget actions are necessary to move funding from a Reserve to an expenditure appropriation). The largest reserves include the Development Fee Program Reserves (Building, \$20.7 million; Fire, \$7.3 million; Public Works, \$6.4 million; and Planning, \$1.0 million), Salaries and Benefits Reserve (\$19.0 million), Budget Stabilization Reserve (\$17.0 million), Local Sales Tax – 2019-2020 Future Deficit Reserve/2019-2020 Future Deficit Reserve (total of \$15.5 million), Workers' Compensation/General Liability Catastrophic Reserve (\$15.0 million), Sick Leave Payments Upon Retirement Reserve (\$5.0 million), Cultural Facilities Capital Maintenance Reserve (\$3.1 million), and City Health Plan Restructuring Reserve (\$3.0 million).

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NON-DEPARTMENTAL EXPENDITURES

Several budget actions are recommended in this report that impact General Fund Reserves. The major actions are described below.

- Establish a 2018-2019 Ending Fund Balance Reserve in the amount of \$15 million from excess General Fund revenues projected this fiscal year. When developing the annual budget each year, it is assumed that a combination of excess revenues, expenditure savings, and the liquidation of carryover encumbrances will generate ending fund balance in the current year that will be available as a funding source for the upcoming year. In the 2019-2023 Five-Year Forecast issued in February 2018, it was assumed that \$20 million in fund balance would be available at the end of 2018-2019 for use in 2019-2020. The 2020-2024 Five-Year Forecast that will be issued at the end of February and the 2019-2020 Proposed Budget that will be issued on May 1, 2019 will incorporate fund balance as a funding source. This action sets aside a portion of the ending fund balance that is expected to be generated in 2018-2019. It is anticipated that additional actions will be brought forward at year-end to increase this reserve.
- Establish a 2019-2020 Proposed Budget Planning Reserve for \$14.4 million. The City received \$18.7 million in proceeds from the sale of properties previously owned by the Successor Agency to the Redevelopment Agency as well as a City-owned property that are recommended to be recognized in this report. A portion of the proceeds (\$14.4 million) is recommended to be set aside in a 2019-2020 Proposed Budget Planning Reserve, with the remaining balance (\$4.3 million) recommended to be transferred to the Convention Center Facility District Revenue Fund to account for the sale proceeds from the South Hall site. Recommendations for the use of this one-time reserve will be evaluated and brought forward as part of the 2019-2020 budget process.
- A net reduction of \$9.8 million to the Salaries and Benefits Reserve to reflect the following actions:
 - A decrease of \$353,000 to account for savings in this reserve. As part of the 2018-2019 Adopted Budget, the Salaries and Benefits Reserve incorporated additional funding for life insurance costs as there was a potential discrepancy in the City’s budget system. After further investigation, the correct life insurance amounts were budgeted and these funds are no longer necessary. These savings are recommended to offset the actions recommended in this report.
 - A decrease of \$9.6 million for the management pay-for-performance program and salary increases that were negotiated and agreed to by the City and four bargaining units, which was set aside in the 2018-2019 Adopted Budget. This decrease is offset by the distribution of \$8.7 million to those departments with insufficient vacancy savings to cover these increased costs and a return of \$938,000 to the Development Fee Program Earmarked Reserves for savings identified in those programs.
 - An increase of \$187,000 to reflect the implementation of the Voluntary Furlough/Reduced Work Week Program in 2018-2019.

No budget action is recommended for the Contingency Reserve, which currently totals \$37.0 million and complies with the City Council policy to set aside 3% of expenditures.