

2015 - 2016 ANNUAL REPORT

GENERAL FUND EXPENDITURE PERFORMANCE

The General Fund expenditure performance for 2015-2016 is discussed in detail in this section. This includes an overview of the General Fund expenditure performance, a discussion of significant departmental variances, and highlights of the non-departmental expenditures.

Overview

TABLE B
2015-2016 GENERAL FUND EXPENDITURE SUMMARY
COMPARISON OF BUDGET TO ACTUAL
(In \$000s)

Category	2015-2016 Modified Budget*	2015-2016 Actual**	Variance	% Variance
Personal Services	\$ 704,875	\$ 692,220	\$ (12,655)	(1.8%)
Non-Personal/Equipment/Other ¹	140,715	129,244	(11,471)	(8.2%)
City-Wide Expenses	261,983	223,639	(38,344)	(14.6%)
Capital Contributions	67,703	38,308	(29,395)	(43.4%)
Transfers	27,150	27,150	-	0.0%
Reserves	165,059	-	(165,059)	(100.0%)
TOTAL GENERAL FUND	\$ 1,367,485	\$ 1,110,561	\$ (256,924)	(18.8%)

* 2015-2016 appropriations as modified by Council through June 30, 2016, and 2014-2015 carryover encumbrances.

** Actual 2015-2016 expenses plus encumbrances.

As shown in Table B, General Fund expenditures and encumbrances through June 30, 2016 of \$1.1 billion were \$256.9 million below (18.8%) the modified budget total of \$1.4 billion. Approximately 64.2% of this savings was generated from unspent reserves (\$165.1 million), with the remaining savings generated from expenditure appropriations. Total 2015-2016 expenditures and encumbrances were \$61.9 million (5.9%) above the June 2015 level of \$1.05 billion. This increase is due to higher Personal Services (\$43.1 million), Non-Personal/Equipment/Other (\$23.1 million), and Capital Contributions (\$8.8 million), partially offset by lower City-Wide Expenses (\$40.5 million) and Transfers (\$9.6 million) expenditures.

¹ The "Other" category expenditures are primarily comprised of budgets for the Mayor and City Council, Library Department grants program, and the Parks, Recreation and Neighborhood Services fee activities program.

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As shown in Table C, the actual General Fund expenditures of \$1.1 billion were approximately \$9.0 million below (0.8%) the estimate used in the development of the 2016-2017 Adopted Budget. A portion of these savings (\$4.3 million) was carried over to 2016-2017 with the accompanying revenue for grant or reimbursement-related projects and programs. Clean-up actions of \$2.5 million are recommended in this report to reconcile the Development Fee Programs for 2015-2016 (\$2.0 million) and to adjust various rebudget amounts and reflect clean-up adjustments (\$512,000). After accounting for these technical actions, the remaining General Fund expenditures and transfer savings totaled \$2.1 million, or 0.18% of the modified budget (excluding reserves).

**TABLE C
2015-2016 EXPENDITURE ESTIMATE TO ACTUAL VARIANCES
(In \$000s)**

	2015-2016 Estimate	2015-2016 Actual	\$ Variance	% Variance
Expenditures	\$ 1,119,527	\$ 1,110,561	\$ (8,966)	(0.8%)

These net expenditure savings, when combined with the net variance associated with the General Fund revenues and a small shortfall in the liquidation of prior year encumbrances, represent the additional ending fund balance that is available for allocation. Specifically, as discussed earlier in this report, in 2016-2017, a total of \$6.8 million in additional fund balance is available from higher net revenues (\$3.5 million), additional 2015-2016 Beginning Fund Balance (\$335,000), net expenditure savings (\$2.1 million), and higher than estimated liquidation of prior year encumbrances (\$869,000). Recommendations on the allocation of these additional funds are provided elsewhere in this report.

Following is a review of the General Fund expenditure categories, including a discussion of variances to the modified budget as well as a comparison to the rebudget adjustments that were brought forward in the 2016-2017 Adopted Budget.

Personal Services expenditures of \$692.2 million ended the year \$12.7 million (1.8%) below budgeted levels (\$704.9 million) but \$43.1 million (6.6%) above 2014-2015 expenditure levels (\$649.1 million). Expenditures in both years ended the year below the budget primarily as the result of position vacancy savings throughout the organization, the highest of which in 2015-2016 were in the following departments: Police (\$5.3 million); Fire (\$2.6 million); Planning, Building and Code Enforcement (\$1.1 million); Transportation (\$483,000); Human Resources (\$459,000); and City Attorney (\$423,000).

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General Fund Non-Personal/Equipment/Other expenditures and encumbrances ended the year at \$129.2 million, generating savings of approximately \$11.5 million (8.2%) from the budgeted level. The majority of savings in this category was generated by the following departments: Mayor and City Council (\$3.3 million); Police (\$2.3 million); Planning, Building, and Code Enforcement (\$2.3 million, or \$1.4 million excluding the Development Fee Programs), and Information Technology (\$912,000). Of the \$11.5 million in savings, \$7.6 million was rebudgeted to 2016-2017 (including rebudgeted expenditures that were offset by revenue) in the Adopted Budget. Additional rebudget adjustments totaling \$1.5 million are recommended in this report and, if approved, could result in net savings of \$2.4 million from the budgeted level.

In the City-Wide Expenses category, expenditures and encumbrances of \$223.6 million ended the year \$38.3 million below the budgeted level of \$262.0 million. Of this amount, \$25.2 million was assumed as savings in 2015-2016 and rebudgeted to 2016-2017 or assumed as a funding source in the 2016-2017 Adopted Budget, including \$4.1 million that was offset by revenue sources. Of the remaining balance of \$13.2 million, rebudget and clean-up adjustments totaling \$6.6 million are recommended in this report, and if approved, would result in net savings of \$6.5 million in this category, a 2.5% variance from the budgeted level.

In the Capital Contributions category, expenditures of \$38.3 million ended the year \$29.4 million below the budgeted level of \$67.7 million. A total of \$36.1 million was rebudgeted to 2016-2017 in the Adopted Budget, which exceeded the savings amount available by \$6.7 million. Downward adjustments of \$8.1 million to the Capital Contributions rebudgets are recommended in this report to account for the higher than anticipated expenditures at the end of 2015-2016, which would result in net savings of \$1.4 million.

The Transfers category expenditures of \$27.15 million ended the year at the budgeted amount.

The largest single category of remaining funding available in 2015-2016, as planned, is the Reserves category (\$165.1 million), including Earmarked Reserves and the Contingency Reserve. The 2016-2017 Adopted Budget assumed that \$164.3 million would be available at year-end, with reserves either re-established in 2016-2017 or used as a funding source for the 2016-2017 Adopted Budget. The actual year-end balance was above the estimated fund balance level by approximately \$725,000. A rebudget adjustment of \$300,000 is recommended in this report, leaving a balance of \$425,000.

Of the \$130.6 million in Earmarked Reserves, the largest reserves as of June 30, 2016 were the 2015-2016 Ending Fund Balance Reserve (\$25.5 million), Building Development Fee Program Reserve (\$24.4 million), Workers' Compensation/General Liability Catastrophic Reserve (\$15.0 million), Budget Stabilization Reserve (\$10.0 million), Salaries and Benefits Reserve (\$6.9

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Overview

million), Fire Development Fee Program Reserve (\$6.4 million); Retiree Healthcare Solutions Reserve (\$6.1 million); Sick Leave Payments Upon Retirement Reserve (\$6.0 million); and Public Works Development Fee Program Reserve (\$5.5 million).

The Reserves category also includes the Contingency Reserve (\$34.5 million) that remained unspent at year-end.

Review of General Fund Expenditure Performance

This section provides more detailed information on the departmental and non-departmental performance, including a discussion of significant variances.

Departmental expenditures (\$821.5 million) represented 74.0% of the total 2015-2016 General Fund expenditures. As can be seen in Table D on the following page, all departments remained within their total budget allocation and expended a cumulative 97.1% of their budgets, generating an overall savings of 2.9%, or \$24.1 million. Of this savings amount, \$8.1 million was rebudgeted in the 2016-2017 Adopted Budget; additional clean-up actions of \$3.6 million are recommended in this report (including the Development Fee Programs reconciliation of \$2.0 million and other rebudget and clean-up adjustments).

Of the 19 City departments/offices, ten had expenditure savings of less than 5.0%. These ten departments, which included the Police and Fire Departments, generated \$13.27 million (55%) of the departmental savings. The other nine departments with more than 5% in savings accounted for the remaining 45% of the category savings and totaled \$10.85 million. In 2015-2016, the following six departments/offices had expenditure savings in excess of \$1 million: Police; Planning, Building and Code Enforcement, Mayor and City Council; Fire; Information Technology, and the Office of Economic Development. Those departments with General Fund expenditure variances of over 5.0% and \$1.0 million are discussed in detail in the following section including the Office of Economic Development, Mayor and City Council, Fire, Information Technology, and Police departments. The year-end status of expenditures for both the Police and Fire Departments is also summarized.

Non-departmental expenditures totaled \$289.1 million, or 26.0% of the total 2015-2016 General Fund expenditures. The unexpended balance at year-end totaled \$232.8 million; reserves of \$165.1 million represent the largest portion of the unexpended funds and were almost entirely carried over or used in the 2016-2017 Adopted Budget as planned. Excluding Reserves a balance of \$67.7 million remained at year-end. In the 2016-2017 Adopted Budget, \$61.2 million was rebudgeted in the City-Wide Expenses and Capital Contributions categories. Net downward rebudget adjustments in this category totaling \$1.5 million are recommended in the Annual Report, resulting in total unexpended funds of \$3.0 million.

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Review of General Fund Expenditure Performance

**TABLE D
TOTAL GENERAL FUND EXPENDITURES**

Departmental	2015-2016 Modified Budget	2015-2016 Expenditures	\$ Variance	% Variance
City Attorney	\$ 14,479,605	\$ 14,054,180	\$ (425,425)	(2.9%)
City Auditor	2,269,889	1,985,541	(284,348)	(12.5%)
City Clerk	2,595,394	2,155,531	(439,863)	(16.9%)
City Manager	13,345,343	13,136,022	(209,321)	(1.6%)
Economic Development	5,514,681	4,484,407	(1,030,274)	(18.7%)
Environmental Services	966,264	871,198	(95,066)	(9.8%)
Finance	14,715,358	14,245,775	(469,583)	(3.2%)
Fire	193,084,998	190,196,700	(2,888,298)	(1.5%)
Housing	256,137	245,983	(10,154)	(4.0%)
Human Resources	7,798,422	6,940,172	(858,250)	(11.0%)
Independent Police Auditor	1,269,646	1,080,563	(189,083)	(14.9%)
Information Technology	19,575,232	18,326,380	(1,248,852)	(6.4%)
Library	30,044,285	29,821,075	(223,210)	(0.7%)
Mayor and City Council	13,029,501	9,708,193	(3,321,308)	(25.5%)
Parks, Recreation & Neighborhood Services	63,552,210	62,979,185	(573,025)	(0.9%)
Planning, Building & Code Enforcement	50,040,490	46,653,402	(3,387,088)	(6.8%)
Police	341,776,822	334,211,912	(7,564,910)	(2.2%)
Public Works	40,762,773	40,375,987	(386,786)	(0.9%)
Transportation	30,513,210	29,992,470	(520,740)	(1.7%)
Subtotal	845,590,260	821,464,676	(24,125,584)	(2.9%)
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Non-Departmental				
City-Wide Expenses	261,983,241	223,638,916	(38,344,325)	(14.6%)
Capital Contributions	67,703,210	38,308,050	(29,395,160)	(43.4%)
Transfers	27,149,755	27,149,755	-	0.0%
Earmarked Reserves	105,058,677		(105,058,677)	(100.0%)
Contingency Reserve	34,500,000		(34,500,000)	(100.0%)
Ending Fund Balance Reserve	25,500,000		(25,500,000)	(100.0%)
Subtotal	521,894,883	289,096,721	(232,798,162)	(44.6%)
TOTALS	\$ 1,367,485,143	\$ 1,110,561,397	\$ (256,923,746)	(18.8%)

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Discussion of Significant Departmental Variances and Other Issues

Following is a discussion of those departments with significant variances and a summary of the performance in the City's two largest General Fund departments, Police and Fire.

- *Police*

On an overall basis, the Police Department expenditures and encumbrances totaled \$334.2 million, or 97.8% of its General Fund budget of \$341.8 million, resulting in savings of \$7.56 million. Of this amount, \$6.5 million was anticipated in the development of the 2016-2017 Adopted Budget, including \$5.0 million assumed as savings and reprogrammed to address General Liability Claims, \$1.0 million allocated to the Police Department Staffing/Operations Reserve (bringing the reserve total from \$550,000 to \$1.6 million), and \$525,000 rebudgeted as part of the 2016-2017 Adopted Budget. An additional \$939,000 is recommended to be rebudgeted as part of this report, resulting in remaining savings of \$100,000 in the Non-Personal/Equipment appropriation. As directed by the Mayor's June Budget Message for Fiscal Year 2015-2016, as approved by the City Council, one-time savings within the Police Department from unfilled positions that are not rebudgeted for police overtime or other urgent needs shall be set aside in the Police Department Staffing/Operations Reserve until staffing levels reach 1,250 officers. As the 2016-2017 Adopted Budget allocated \$1.0 million in projected 2015-2016 savings from the Police Department to this reserve no additional Personal Services savings associated with vacant positions remained at year-end to add to this reserve.

Overtime expenditures of \$35.5 million were slightly above the modified budget by \$345,000 (1.0%). The overtime was primarily used to backfill vacant sworn and civilian positions, support targeted enforcement of high crime activity through suppression cars, specifically related to gang enforcement, prostitution, graffiti, and high profile investigations, and to support the Downtown Foot Patrol Unit. Due to the anticipation of continued vacant sworn and civilian positions and consistent with recent prior year actions, an action is recommended in this report to reallocate \$17.0 million from the personal services salary and benefits line items to the overtime line item, increasing the overtime budget from \$18.6 million to \$35.6 million. This budget is in line with actual 2015-2016 overtime levels and will allow the Police Department to continue to backfill for vacant positions and continue the expanded targeted enforcement levels of high crime activity to the extent possible. These actions will help ensure the Department has sufficient overtime resources in 2016-2017.

The compensatory time balance at the end of 2015-2016 for sworn personnel was 218,886 hours. This balance represents a 22.8% increase compared to the 2014-2015 total sworn compensatory time balance of 178,322 hours and only started increasing mid-year. As noted in the recently released City Auditor's Audit on Police overtime, several strategies will be employed to reduce compensatory time balances and limit future growth over the next year.

As of September 2016, the Department had 1,109 authorized sworn staff, of which 194 were vacant (17.5%) and 33 were in training (3.0%), leaving 882 street ready sworn positions (this includes sworn

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Discussion of Significant Departmental Variances and Other Issues

Police

employees on disability/modified duty/other leaves) as shown in the chart on the next page. When sworn employees on Disability/Modified Duty/Other Leaves are excluded, the total of 803 sworn positions were actually available.

	2015-2016 (as of 9/10/2015)	2016-2017 (as of 9/9/2016)
Authorized Sworn Staffing	1,109	1,109
Less Vacancies	(171)	(194)
Filed Net Sworn Staffing	938	915
Less Field Training Officer/Recruits	(52)	(33)
Street-Ready Sworn Positions	886	882
Less Disability/Modified Duty/Leave of Absence	(45)	(79)
Active Full Duty	841	803

During 2015-2016, the Department graduated 33 cadets from three Police Recruit Academies. In order to fill the vacant sworn positions and put more Police Officers back on patrol, the Department will continue to conduct three Police Recruit Academies in 2016-2017 with the next one beginning in October 2016. Each academy has the capacity to host up to 45 recruits, however, the upcoming October academy will start with 36 recruits, a significant improvement in the number of hires compared to recent academy experiences.

A total of \$27.4 million (92.4%) of the Department's Non-Personal/Equipment budget was expended or encumbered, with savings of \$2.3 million. Police supplies and materials (\$2.3 million) savings contributed a significant portion of the overall non-personal/equipment savings. As part of the 2016-2017 Adopted Budget, non-personal/equipment savings of approximately \$465,000 were anticipated and rebudgeted for Computer Aided Dispatch (CAD) Business Intelligence Enterprise software project (\$315,000), Police Video Unit contractual services (\$84,000), and specialized equipment and training and travel for specialized enforcement investigative narcotics-related activities (\$60,000). Included in this report are recommended rebudgets for Police Officer academy and training costs (\$273,000); fixed surveillance cameras (\$250,000), a Police staffing efficiency study (\$200,000); and equipment, supplies, and training for Community Services Officers academies (\$149,000).

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Discussion of Significant Departmental Variances and Other Issues

- *Fire*

Overall, the Fire Department expended \$190.2 million (98.5%) of its 2015-2016 General Fund budget, including encumbrances, resulting in savings of \$2.9 million. Of these savings, \$528,000 was either rebudgeted to 2016-2017 (\$189,000) as part of the 2016-2017 Adopted Budget or is recommended to be reallocated to the Fire Development Fee Reserve (\$339,000) as part of this report, leaving \$2.4 million in net savings.

Personal Services expenditures totaled \$180.7 million, or 98.6% of the \$183.4 million budget. The savings of \$2.7 million were primarily due to savings from Firefighter Recruit and Fire Engineer academies not conducted in 2015-2016. In 2015-2016, the Department received funding to support three recruit academies; however, the Department completed two recruit academies and filled 49 Firefighter positions. By June 2016, the Department had 672 filled sworn positions with 21 sworn vacancies. The Department conducted one of the two budgeted Fire Engineer Academies in 2015-2016 and rebudgeted funding for the other academy into 2016-2017 (three Fire Engineer Academies are planned for 2016-2017).

Fire's overtime expenditures of \$11.7 million ended the year slightly above (\$263,000) the modified budget level of \$11.4 million. A combination of full-time staff and overtime is used to address the Fire Department's minimum staffing requirements. The Fire Department monitored daily absences and staffing to minimize the impact of brown-outs to the community, while also managing overtime expenditures.

The Fire Department ended 2015-2016 with a total of 163 filled Firefighter paramedic positions (150 front-line Firefighter paramedics, five supervisors, and eight support) compared to the 138 front-line Firefighter Paramedics that are necessary to fully staff all apparatus. The Department continues to monitor its Firefighter/Paramedic staffing levels and deploy resources to meet service needs.

Non-Personal/Equipment expenditures and encumbrances totaled \$9.45 million, or 97.2% of the \$9.72 million budget, generating year-end savings of \$272,000. A portion of this amount (\$71,000) represents the Non-Personal/Equipment savings in the Fire Development Fee Program and is recommended to be reallocated to the Fire Department Fee Reserve as part of this report, leaving \$201,000 in non-personal/equipment savings.

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Discussion of Significant Departmental Variances and Other Issues

Fire

Fire Department's Annual Vacancy and Absence Rates and Their Impact on Overtime

Since the release of a 2001 Overtime Audit, annual information is provided on the Fire Department's annual vacancy and absence rates and their impact on overtime. Through 2011-2012, this information was reported to the Public Safety, Finance and Strategic Support (PSFSS) Committee. At the PSFSS Committee meeting on March 21, 2013, the Administration's recommendation to incorporate the Fire Department's annual vacancy and absence rates and their impact on overtime into the Annual Report was approved. Overtime funding and relief staffing levels are reviewed annually to ensure they are appropriately measured, funded, and managed for sworn minimum staffing requirements. Understanding absence and vacancy rates is important as absence rates are a major personal services cost driver and the associated impact on overtime requires close departmental management.

The total absence hours in 2015-2016 of 329,958 dropped by approximately 6% from 350,015 in 2014-2015. This decrease in absence hours was largely due to a decrease in modified duty and sick leave hours (from 142,118 in 2014-2015 to 115,364 in 2015-2016). The decrease from prior year's levels of absence hours due to modified duty and sick leave utilization was partially offset by an increase in disability hours (from 68,922 in 2014-2015 to 77,006 in 2015-2016), resulting in an overall decrease in absence hours in 2015-2016. Vacancies also decreased from 71,792 hours in 2014-2015 (3.8% vacancy rate) to 51,856 hours in 2015-2016 (2.8% vacancy rate). In 2015-2016, the combined absence and vacancy rate was 20.5%, requiring 381,814 hours of backfill compared to 22.6% in 2014-2015, requiring 421,807 hours of backfill. Because backfill hours are covered by a combination of available relief staffing and overtime, staff will continue its analysis of absences, relief staffing, and overtime usage to ensure the proper alignment and usage of resources.

- *Information Technology*

With expenditures of \$18.3 million, the Information Technology Department (ITD) expended 93.6% of its \$19.6 million General Fund budget, including encumbrances, year-end savings of \$1.2 million were realized in the personal services (\$336,000) and non-personal/equipment (\$912,000) appropriations. In 2015-2016, personal services expenditures were tracking to end the year with over \$800,000 in savings due to vacancies throughout the department; however, clean-up actions were included in the 2015-2016 Year-End Clean-Up memorandum that shifted \$500,000 of these funds to non-personal/equipment for contractual staffing services to backfill for some of the vacant technical positions and the HR/Payroll/Budget Systems project. ITD continued to experience widespread vacancies during 2015-2016 due to difficulties with recruiting for technical positions. The overall vacancy rate for ITD at year-end was 22%; however, it should be noted, that a concerted effort to hire positions have resulted in recent positive news. As of September, the vacancy rate for ITD has significantly dropped to 18%.

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Information Technology

Non-personal/equipment expenditures were 8.5% (\$912,000) below budgeted levels, due to project delays. Of the \$912,000 remaining balance, \$600,000 was rebudgeted in the 2016-2017 Adopted Budget for Professional Services, Customer Relationship/Service Request Management, Office 365 Employee Training, and Network Infrastructure Upgrades.

- *Mayor and City Council*

With total expenditures and encumbrances of \$9.7 million, the Mayor’s Office, the City Council Offices, and Council General expended 76.7% of their total General Fund budget of \$12.6 million, resulting in savings of \$2.9 million at year-end. Of this amount, \$1.7 million of the savings was realized in the City Council Offices, \$1.2 million was realized in the Mayor’s Office, and \$65,000 was in Council General as outlined below:

2015-2016 Actual Expenditure Performance

	2015-2016 Modified Budget	2015-2016 Actuals	Variance
Council District 1	\$ 812,246	\$ 660,171	\$ 152,075
Council District 2	848,969	689,771	159,198
Council District 3	752,869	657,948	94,921
Council District 4	709,994	517,494	192,500
Council District 5	822,775	509,912	312,863
Council District 6	794,294	699,858	94,436
Council District 7	787,298	694,256	93,042
Council District 8	881,874	681,511	200,363
Council District 9	1,003,178	651,909	351,269
Council District 10	797,165	734,998	62,167
Mayor's Office	4,286,347	3,124,415	1,161,932
Council General	136,892	71,479	65,413
Total	\$ 12,633,901	\$ 9,693,722	\$ 2,940,179

In the 2016-2017 Adopted Budget, anticipated 2015-2016 savings of \$2.4 million (\$1.4 million in the City Council Offices, \$963,000 in the Mayor’s Office, and \$25,000 in Council General) were rebudgeted. An additional \$100,000 was committed for other uses from the Mayor’s Office and various City Council Offices as part of the 2016-2017 Adopted Budget. Actual net year-end savings, however, exceeded these estimates. As a result, a net increase of \$474,000 to the rebudget amount is recommended in this document to align the Mayor’s Office and City Council Offices with year-end balances.

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Discussion of Significant Departmental Variances and Other Issues

- *Office of Economic Development*

With expenditures and encumbrances of \$4.5 million, the Office of Economic Development (OED) expended 81.0% of its \$5.5 million General Fund budget, resulting in savings of \$1.0 million. Of this amount, personal services contributed \$473,000 to this variance, while non-personal/equipment savings contributed \$557,000. Personal services expenditures were lower than the budget (\$473,000, or 11.6%) due primarily to vacancies experienced by the department; throughout the year vacancies ranged from approximately 7% to 14%. Of the savings amount, \$13,000 was rebudgeted in the 2016-2017 Adopted Budget.

Non-personal/equipment expenditures came in lower than the budget by \$557,000 (38.7%) due primarily to various projects that were unable to be completed during 2015-2016. Vacancies in the department contributed to the delay of various contracts and projects, several of which were rebudgeted in the 2016-2017 Adopted Budget, including: Document Imaging and Records Management System (\$200,000), City Council District #06 Public Art Projects (\$139,000), and the Knight Foundation grant project (\$125,000). After accounting for all rebudgets, including those recommended in this report, the variance to the budget drops to \$18,000, or 1.3%.

- *Planning, Building and Code Enforcement*

The Planning, Building and Code Enforcement Department (PBCE) expended 93.2% of its General Fund budget after accounting for the rebudgets included in the 2016-2017 Adopted Operating Budget, resulting in net savings of \$1.8 million. This included Development Fee Program savings of \$624,000 and Non-Development Fee Program savings of \$1.2 million. Personal services expenditures were 2.6% below budgeted levels (\$1.1 million savings) and non-personal/equipment expenditures were 8.1% below budgeted levels (\$752,000 net savings including rebudgets).

Total personal services savings of \$1.1 million resulted from vacant positions in Community Code Enforcement (Non-Development Fee Programs) with \$841,000 of the savings and in the Development Fee Programs (Planning, Building, Fire, and Public Works) with \$221,000 of the savings.

Net non-personal/equipment expenditure savings of \$752,000 (\$349,000 in Non-Development Fee Programs, \$398,000 in Building Development Fee Program, \$5,000 in Public Works Development Fee Program, and no savings in both Planning and Public Works Development Fee Programs) were primarily due to savings in contractual staffing services. As part of the 2016-2017 Adopted Budget, non-personal/equipment unexpended funds of \$1.1 million in the Non-Development Fee Programs were anticipated and rebudgeted to continue the update of the North San José Area Development Policy and Environmental Impact Report (EIR), replace four Code Enforcement Fee Program vehicles, conduct urban village master planning, update the Downtown EIR, provide programming services for the migration of the Code Enforcement permitting system (CES) into the upgraded Development Fee

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Discussion of Significant Departmental Variances and Other Issues

Planning, Building and Code Enforcement

Program permitting system (AMANDA), conclude the four-year major review of the Envision San José 2040 General Plan, and complete workspace improvements. In addition, \$539,000 of unexpended funds in the Development Fee Programs were rebudgeted as part of the 2016-2017 Adopted Budget to continue the implementation of Geographic Information System project and completion of workspace improvements. However, a negative rebudget of \$17,800 for Development Fee Programs (Planning and Fire) are included in this report due to expenditures ending the year higher than anticipated.

A combination of expenditure savings, higher than anticipated revenues, increased costs for the Human Resources/Payroll/Budget Systems Upgrade project, and increased costs for compensation adjustments for the Building Inspector Combination classification in the Building Development Fee Program will result in a net increase to the Building Development Fee Program Reserve of \$1.1 million, from \$15.4 million to \$16.5 million. A net increase to the Planning Development Fee Program Reserve of \$454,000, from \$1.9 million to \$2.3 million, will also result from a combination of expenditure savings, higher than anticipated revenues, and a negative rebudget for the Workspace Improvement Project, offset by increased costs for the Human Resources/Payroll/Budget Systems Upgrade project.

Highlights of Non-Departmental Expenditures and Variances

The non-departmental categories consist of City-Wide Expenses, Capital Contributions, Transfers, Earmarked Reserves, and the Contingency Reserve. An overview of the expenditure performance in these categories is provided below:

**TABLE E
2015-2016 NON-DEPARTMENTAL GENERAL FUND EXPENDITURES
(In \$000s)**

Category	2015-2016 Modified Budget	2015-2016 Actual	Variance	% Variance
City-Wide Expenses	\$ 261,983	\$ 223,639	\$ (38,344)	(14.6%)
Capital Contributions	67,703	38,308	(29,395)	(43.4%)
Transfers	27,150	27,150	-	0.0%
Earmarked Reserves	105,059	-	(105,059)	(100.0%)
Contingency Reserve	34,500	-	(34,500)	(100.0%)
Ending Fund Balance Reserve	25,500	-	(25,500)	(100.0%)
TOTAL	\$ 521,895	\$ 289,097	\$ (232,798)	(44.6%)

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Highlights of Non-Departmental Expenditures and Variances

- *City-Wide Expenses*

The City-Wide Expenses category consists of funding that is related to more than one department or that is not directly associated with a department's ongoing operations. Total committed expenditures in this category total \$223.6 million, or 85.4% of the modified budget, resulting in savings of \$38.3 million. As part of the 2016-2017 Adopted Budget, \$25.2 million was rebudgeted or assumed as savings, leaving an overall balance of \$13.2 million. Of the remaining balance of \$13.2 million, rebudget and cleanup adjustments totaling \$6.6 million are recommended in this report, and if approved, would result in net savings of \$6.5 million in this category, a 2.5% variance from the budgeted level.

The major ongoing 2015-2016 expenditures in this category are listed below:

- TRANs Debt service payment of \$100.3 million was completed to repay a short-term note of \$100 million that was issued for cash flow purposes necessitated by the pre-funding of employer retirement contributions.
- Workers' Compensation Claims payments of \$18.2 million were \$2.3 million, or 11.4%, below the 2015-2016 Modified Budget (\$20.5 million). Total expenditures were commensurate with 2014-2015 expenses of \$17.9 million.
- Convention Center Lease Payments of \$15.3 million ended the year at 2015-2016 budgeted levels. The Convention Center Lease Payment is the largest of the City's contractually obligated Successor Agency to the Redevelopment Agency obligations. The City received partial reimbursement of \$5.5 million in 2015-2016 from SARA to offset this cost. As described in the General Fund Revenues section of this report, when the 2015-2016 Adopted Budget was developed, it was assumed that SARA would reimburse the City for the full Convention Center Debt Service payment. However, as part of the 2014-2015 Annual Report actions approved by the City Council in October 2015, the reimbursement was reduced by \$9.8 million to \$5.5 million as a result of Senate Bill 107 that disallowed the mechanism allowing SARA to reimburse the City on an intra-year basis to pay this obligation.
- San Jose BEST/Safe Summer Initiative expenditures of \$5.9 million were \$693,000, or 10.4% below the 2015-2016 Modified Budget (\$6.7 million). As part of the development of the 2016-2017 Adopted Budget, an estimated \$793,000 in savings was rebudgeted, and this document recommends a downward adjustment due to higher than anticipated expenses for San Jose BEST that occurred in 2015-2016.
- General Liability Claims of \$4.4 million were \$5.5 million below the 2015-2016 Modified Budget (\$9.9 million). The \$5.5 million in savings from this appropriation were rebudgeted as part of the 2016-2017 Adopted Budget to address potential claims in 2016-2017.

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GENERAL FUND EXPENDITURE PERFORMANCE

Highlights of Non-Departmental Expenditures and Variances

City-Wide Expenses

- Sick Leave Payments Upon Retirement expenditures of \$4.0 million came in below budgeted levels by \$924,000 and were \$1.5 million below the 2014-2015 level of \$5.5 million.
- Expenditures for Homeless Rapid Rehousing (\$3.2 million) and the Homeless Response Team (\$1.9 million) totaled \$5.1 million and ended the year \$965,000 below budgeted levels across both appropriations. As part of the development of the 2016-2017 Adopted Budget, an estimated \$1.0 million in savings was rebudgeted, and this document recommends a downward adjustment due to higher than anticipated expenses for Homeless Response Team that occurred in 2015-2016 as well as a rebudget of the additional remaining balance of \$27,000 for the Homeless Rapid Rehousing.

Included in this report are additional rebudgets, downward adjustments to those appropriations that did not generate the amount of savings required to support rebudgets already approved, and revenue-related increases. Augmentations for various appropriations are also recommended. Details of those appropriation adjustments are reflected in *Section IV – Recommended Budget Adjustments and Clean-Up/Rebudget Actions* of this document.

- *Capital Projects*

In 2015-2016, the General Fund provided funding totaling \$67.7 million for capital projects. Of this amount, approximately \$29.4 million was unexpended at year-end. The projects with the largest unexpended balances included:

Capital Projects	Unexpended Funds (\$000s)
Fire Apparatus Replacement	\$ 12,900
Police Communications Emergency Uninterrupted Power Supply	3,356
Police Communications Fire Protection System Upgrade	2,695
Police Communications Center Electrical System Upgrade	1,216
City Hall Waterproofing	1,189
Pavement Maintenance Program	856
United States Patent and Trademark Office – Tenant Improvements Project	710
Police Communications Center Elevator Retrofit	595
All Other Projects	5,878
Total Unexpended Capital Projects	\$ 29,395

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Highlights of Non-Departmental Expenditures and Variances

Capital Projects

Rebudgets included in the 2016-2017 Adopted Budget and an early rebudget approved in a separate Council memorandum carried over \$36.1 million to 2016-2017, which exceeds the 2015-2016 year-end savings of \$31.6 million. As a result, a net negative rebudget of \$8.1 million is recommended in the Annual Report. This is primarily due to costs related to the Pavement Maintenance Program and Fire Apparatus Replacement projects occurring in 2015-2016, as opposed to 2016-2017. After adjusting for these changes, the net savings in the General Fund Capital category was \$1.4 million, with the largest savings in the U.S. Patent and Trademark Office (USPTO) Tenant Improvement Project (\$510,000), the USPTO – City Staff Relocation Project (\$483,000), and the South San José Police Substation (\$261,000).

- *Transfers*

In the Transfers category, expenditures of \$27.1 million ended the year at budgeted levels.

An increase in Transfers of \$41,000 is recommended in this report and reflects a transfer to the Construction Tax and Property Conveyance Tax Fund: Parks Purposes Council District #10 due to a repayment for the Leland Sports Field. A description of this action can be found in *Section IV – Recommended Budget Adjustments and Clean-Up/Rebudget Actions*.

- *Reserves*

General Fund Reserve categories include Earmarked Reserves and the Contingency Reserve. On June 30, 2016, the total Reserve balance was \$165.1 million. The 2016-2017 Adopted Budget assumed that \$164.3 million would be available at year-end with reserves either re-established in 2016-2017 or used as a funding source for the 2016-2017 Adopted Budget. A rebudget adjustment for the Artificial Turf Capital Replacement Reserve (\$300,000) is also recommended in this report, with remaining savings of \$425,000 available to meet the fund balance estimate.

Earmarked Reserves totaled \$130.6 million on June 30, 2016, the largest of which were the 2015-2016 Ending Fund Balance Reserve (\$25.5 million), Building Development Fee Program Reserve (\$24.4 million); Workers Compensation/General Liability Catastrophic Reserve (\$15.0 million); Budget Stabilization Reserve (\$10.0 million); Salaries and Benefits Reserve (\$6.9 million); Fire Development Fee Program (\$6.4 million); Retiree Healthcare Solutions Reserve (\$6.1 million); Sick Leave Payments Upon Retirement Reserve (\$6.0 million); Public Works Development Fee Program Reserve (\$5.5 million); Cultural Facilities Capital Maintenance Reserve (\$5.0 million); and the 2016-2017 Police Department Overtime Reserve (\$5.0 million).

The 2015-2016 Ending Fund Balance Reserve of \$25.5 million was proactively set aside to help ensure sufficient fund balance would be available at the end of 2015-2016 to meet the budgeted estimate used

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Highlights of Non-Departmental Expenditures and Variances

Reserves

in the development of the 2016-2017 Adopted Budget. Annually, as part of the development of the General Fund Forecast and Adopted Budget for the following year, a certain amount of current year unrestricted ending fund balance is estimated to be available at the end of the year as a funding source for the following year's budget. This ending fund balance is expected to be generated from additional revenues above budgeted levels, expenditure savings, and the liquidation of carryover encumbrances during the year. In the 2016-2017 Adopted Budget, it was assumed that \$45.2 million would be generated from these sources. The establishment of the 2015-2016 Ending Fund Balance Reserve set aside a portion of this funding, with the assumption that the remaining amount would be realized by year-end primarily from expenditure savings and the liquidation of prior year carryover encumbrances.

The Contingency Reserve totaled \$34.5 million and remained unspent during the year. As part of the 2016-2017 Adopted Budget, the full Contingency Reserve was rebudgeted and additional funding of \$1.0 million was included in order to comply with the Council Policy of maintaining a minimum 3.0% Contingency Reserve in the General Fund. It is important to note, however, that if this Contingency Reserve is ever needed, it is only sufficient to cover General Fund payroll expenditures for approximately two and a half weeks in the event of an emergency.

Recommended expenditure adjustments and clean-up actions can be found in *Section IV – Recommended Budget Adjustments and Clean-Up/Rebudget Actions* of this report. Adjustments are in the following categories: Required Technical/Rebalancing Actions, Grants/Reimbursements/Fees, and Urgent Fiscal/Program Needs as described in detail in the General Fund Recommended Budget Adjustments Summary. In addition, clean-up actions can also be found in this section with a detailed description of recommended actions found in the introduction of that section.