

**2014-2015
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GENERAL FUND EXPENDITURE PERFORMANCE

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 (\$764.2 million) represented 69.8% of the total 2014-2015 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 97.0% of their budgets, generating an overall savings of 3.0%, or \$23.9 million. Of this savings amount, \$14.2 million was rebudgeted or assumed as savings in the development of the 2015-2016 Adopted Budget. The remaining savings of \$9.7 represents 1.2% of the departmental expenditures budget. Additional clean-up actions of \$5.7 million are recommended in this report (including the Development Fee Programs reconciliation of \$1.5 million and other rebudget and clean-up adjustments), resulting in net savings of \$4.0 million in departmental expenditures (0.5%).

Of the 19 City departments/offices, eleven had expenditure savings of less than 5.0%. These eleven departments, which included the Police and Fire Departments, generated \$8.2 million (71.7%) of the departmental savings. The other eight departments with more than 5% in savings accounted for the remaining 28.3% of the category savings and totaled \$3.2 million. In 2014-2015, the following three departments/offices had expenditure savings in excess of \$1 million: Police; Mayor and City Council; Fire; and Planning, Building and Code Enforcement. Those departments with General Fund expenditure variances over 5.0% are discussed in detail in the following section. The year-end status of expenditures for both the Police and Fire Departments is also summarized.

Non-departmental expenditures totaled \$330.4 million, or 30.2% of the total 2014-2015 General Fund expenditures. Reserves of \$192.3 million represent the largest portion of the unexpended funds and were carried over or used in the 2015-2016 Adopted Budget as planned. It is also important to note that almost all of savings in the City-Wide Expenses and Capital Contributions categories have also been, or are recommended in this report to be, rebudgeted to 2015-2016 for their originally intended uses.

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**TABLE D
TOTAL GENERAL FUND EXPENDITURES**

Departmental	2014-2015 Modified Budget	2014-2015 Expenditures	Variance	% Variance
City Attorney	\$ 13,786,281	\$ 13,497,316	\$ (288,965)	(2.1%)
City Auditor	2,303,095	2,128,502	(174,593)	(7.6%)
City Clerk	2,478,995	2,000,938	(478,057)	(19.3%)
City Manager	12,639,384	12,181,902	(457,482)	(3.6%)
Economic Development	4,344,861	3,997,854	(347,007)	(8.0%)
Environmental Services	724,529	287,125	(437,404)	(60.4%)
Finance	14,113,596	13,671,523	(442,073)	(3.1%)
Fire	182,472,336	179,906,717	(2,565,619)	(1.4%)
Housing	239,482	234,076	(5,406)	(2.3%)
Human Resources	7,084,671	6,123,232	(961,439)	(13.6%)
Independent Police Auditor	1,201,097	1,196,154	(4,943)	(0.4%)
Information Technology	17,314,990	15,312,723	(2,002,267)	(11.6%)
Library	27,796,636	27,637,294	(159,342)	(0.6%)
Mayor and City Council	11,637,899	8,865,288	(2,772,611)	(23.8%)
Parks, Recreation & Neighborhood Services	58,410,795	57,980,305	(430,490)	(0.7%)
Planning, Building & Code Enforcement	43,851,556	39,381,182	(4,470,374)	(10.2%)
Police	319,316,464	313,394,586	(5,921,878)	(1.9%)
Public Works	38,899,767	37,919,780	(979,987)	(2.5%)
Transportation	29,453,938	28,456,124	(997,814)	(3.4%)
Subtotal	788,070,372	764,172,621	(23,897,751)	(3.0%)
Non-Departmental				
City-Wide Expenses	298,923,546	264,173,523	\$ (34,750,023)	(11.6%)
Capital Contributions	60,834,569	29,469,722	\$ (31,364,847)	(51.6%)
Transfers	36,807,380	36,755,743	\$ (51,637)	(0.1%)
Earmarked Reserves	138,937,317		\$ (138,937,317)	(100.0%)
Contingency Reserve	33,600,000		\$ (33,600,000)	(100.0%)
Ending Fund Balance Reserve	19,750,000		\$ (19,750,000)	(100.0%)
Subtotal	588,852,812	330,398,988	\$ (258,453,824)	(43.9%)
TOTALS	\$ 1,376,923,184	\$ 1,094,571,609	\$ (282,351,575)	(20.5%)

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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.

- *City Auditor*

With expenditures of \$2.1 million, the Office of City Auditor expended 92.4% of its \$2.3 million General Fund budget, including encumbrances, resulting in savings of \$175,000. The majority of this variance is related to personal services expenditures, which were \$161,000 (7.3%) below modified budget as a result of position vacancy savings. Non-personal/equipment expenditures ended the year at 16.3% (\$13,000) below budgeted levels due to lower than estimated expenditures for computer data processing and equipment and vehicles rentals.

- *City Clerk*

With expenditures of \$2.0 million, the Office of City Clerk expended 80.7% of its \$2.5 million General Fund budget. The majority of this variance is related to personal services expenditures, which were \$168,000 (8.7%) below modified budget as a result of vacancy savings associated with position leave of absences. After adjusting for a rebudget of \$325,000 for the implementation of an Electronic Document Management System and encumbrances of \$26,000, the anticipated non-personal/equipment expenditure savings were within budgeted levels.

- *Environmental Services*

The Environmental Services Department (ESD) expended 39.6% of its \$725,000 General Fund budget, including encumbrances, with resulting savings of \$437,000. Personal services expenditures were 53.8% (\$213,000) below budgeted levels, due primarily to vacancy savings related to Silicon Valley Energy Watch Program (SVEW) staffing (\$215,000), partially offset by slightly higher expenses for Municipal Environmental Compliance. SVEW focuses on promoting energy efficiency through activities that include outreach and education, training, and local government policy coordination. Funding for SVEW activities was only budgeted in ESD through December 2014; beginning in January 2015, new Pacific Gas & Electric grant funding for this program was placed into a City-Wide appropriation to better represent activities coordinated through this program.

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Environmental Services

The Department's non-personal/equipment expenditures, including encumbrances, ended the year 68.3% (\$225,000) below the modified budget. Due to vacancies experienced in SVEW in 2014, program activities were unable to be completed, thereby generating non-personal/equipment cost savings (\$213,000).

- *Fire*

Overall, the Fire Department expended \$179.9 million (98.6%) of its 2014-2015 General Fund budget, including encumbrances, of \$182.5 million, resulting in savings of \$2.6 million. Of these savings, \$1.9 million was either rebudgeted to 2015-2016 (\$1.5 million) in the 2015-2016 Adopted Budget or as part of this report or is recommended to be reallocated to the Fire Development Fee Reserve (\$342,000), leaving \$704,000 in net savings.

The personal services appropriation of \$172.9 million was 98.8% expended, with savings of \$2.2 million that were primarily due to delay in recruitment efforts, which resulted in the rescheduling the 2014-2015 Recruit Academy to September 2015 and the rebudgeting of funds allocated for recruit salaries and benefits, as well as overtime costs related to this academy. As part of the 2015-2016 Adopted Budget, personal services savings of over \$1.2 million were anticipated and rebudgeted for special operations training and Fire Fighter and Fire Engineer academies.

Fire's overtime expenditures of \$8.1 million ended the year slightly below (\$421,000) the modified budget level of \$8.5 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 2014-2015 with a total of 170 filled Fire Fighter paramedic positions (163 front-line Fire Fighter paramedics, five supervisors, and two support) compared to the 132 front-line Fire Fighter 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.

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Fire

The Department's non-personal/equipment budget was 96.2% expended or encumbered, with year-end savings of \$362,000. Funding of \$153,000 was estimated to be available for targeted projects and was approved for rebudget in the 2015-2016 Adopted Budget to complete projects including Non-Development Fee Program study, special operations training, and Fire Fighter Recruit and Fire Engineer academies. An additional rebudget of \$150,000 is recommended in the Annual Report to complete purchases for the Office of Emergency Services Emergency Operations Center.

- *Human Resources*

With 2014-2015 expenditures and encumbrances of \$6.1 million, the Human Resources Department expended 86.4% of its \$7.1 million General Fund budget, including encumbrances, resulting in savings of \$961,000. Personal services expenditures were 11.1% (\$482,000) below the modified budget level of \$4.4 million due to position vacancy savings throughout the department. As part of the 2015-2016 Adopted Budget, \$154,000 was rebudgeted to provide funding for temporary staffing to assist the Employment Services Division in addressing the high vacancy rates across the City. Additionally, \$110,000 of personal services savings was rebudgeted and reallocated for the Human Resources/Payroll/Budget Systems Upgrade project. This report includes a recommendation to rebudget \$75,000 to continue temporary services to assist with recruitment efforts.

Non-personal/equipment expenditures ended the year 17.5% (\$479,000) below the modified budget level of \$2.7 million. As part of the 2015-2016 Adopted Budget, \$100,000 was rebudgeted to provide resources necessary to continue the City's use of LinkedIn as a supplemental recruitment tool for hard-to-fill positions. An additional rebudget of \$70,000 is recommended as part of this report to provide funding for a career fair to be held this year, as well as for bilingual testing services and Workers' Compensation software purchases that were unable to be completed in 2014-2015.

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Discussion of Significant Departmental Variances and Other Issues

- *Information Technology*

With expenditures of \$15.3 million, the Information Technology Department (ITD) expended 88.4% of its \$17.3 million General Fund budget, including encumbrances, with savings of \$2.0 million. Anticipated personal services expenditure savings were \$998,000 due to vacancies throughout the department; however, clean-up actions were included in 2014-2015 Year-End Clean-Up memorandum totaling \$831,000 that shifted the majority of these funds to non-personal/equipment, leaving a balance of 3.2% (\$244,000). ITD continues to experience widespread vacancies due to difficulties with recruiting for technical positions. The vacancy rate at year-end was 34% and the current vacancy rate is approximately 39% within technical classifications.

Non-personal/equipment expenditures were 18.4% (\$1.8 million) below budgeted levels, due to project delays. Of the \$1.8 million remaining balance, \$1.7 million was rebudgeted in the 2015-2016 Adopted Budget for Customer Support, Critical Application Infrastructure Upgrades, Critical Network Equipment Upgrades, Office 365 Employee Training, and SharePoint Application Development.

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- *Mayor and City Council*

With total expenditures of \$8.9 million, the Mayor’s Office, the City Council Offices, and Council General expended 76.2% of their total General Fund budget of \$11.6 million, including encumbrances, resulting in savings of \$2.8 million at year-end. Of this amount, \$1.7 million of the savings was realized in the City Council Offices, \$969,000 was realized in the Mayor’s Office, and \$72,000 was in Council General as outlined below:

2014-2015 Actual Expenditure Performance

	2014-2015 Modified Budget	2014-2015 Actuals	Variance
Council District 1	\$ 724,381	\$ 581,873	\$ 142,508
Council District 2	751,585	599,481	152,104
Council District 3	696,079	617,877	78,202
Council District 4	714,437	582,092	132,345
Council District 5	713,680	552,446	161,234
Council District 6	786,738	497,221	289,517
Council District 7	793,416	684,459	108,957
Council District 8	811,811	631,511	180,300
Council District 9	870,056	563,286	306,770
Council District 10	800,334	620,330	180,004
Mayor's Office	3,849,064	2,880,286	968,778
Council General	126,318	54,427	71,892
Total	\$ 11,637,899	\$ 8,865,290	\$ 2,772,609

In the 2015-2016 Adopted Budget, anticipated 2014-2015 savings of \$2.1 million (\$1.4 million in the City Council Offices, \$625,000 in the Mayor’s Office, and \$82,000 in Council General) were rebudgeted. An additional \$300,000 was committed for other uses from the Mayor’s Office and various City Council Offices as part of the 2015-2016 Adopted Budget. Actual net year-end savings, however, exceeded these estimates. As a result, a net increase of \$409,000 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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- *Planning, Building and Code Enforcement*

The Planning, Building and Code Enforcement Department (PBCE) expended 95.3% of its General Fund budget, after accounting for the rebudgets included in the 2015-2016 Adopted Operating Budget, resulting in net savings of \$2.1 million. This included Development Fee Program savings of \$933,000 and Non-Development Fee Program savings of \$1.1 million. Personal services expenditures were 3.5% below budgeted levels (\$1.2 million) and non-personal/equipment expenditures were 10.1% below budgeted levels (\$829,000).

Total personal services savings of \$1.2 million resulted from vacant positions in the Development Fee Programs (Planning, Building, Fire, and Public Works) with \$828,000 of the savings and in Long Range Planning and Community Code Enforcement (Non-Development Fee Programs) with \$324,000 million of the savings. Personal services savings of \$530,000 were anticipated in the Solid Waste Fee Program and therefore used to lower the fee for that program in 2015-2016.

Non-personal/equipment expenditure savings of \$829,000 (\$300,000 in Non-Development Fee Programs, \$324,000 in Building Development Fee Program, \$134,000 in Fire Development Fee Program, \$57,000 in Planning Development Fee Program, and \$15,000 in Public Works Development Fee Program) were primarily due to project delays and savings in contractual staffing services. As part of the 2015-2016 Adopted Budget, non-personal/equipment funds of \$1.1 million in the Non-Development Fee Programs were rebudgeted to continue the implementation of the Envision San José 2040 General Plan, replace seven Code Enforcement Fee Program vehicles, provide programming services to begin the migration of the Code Enforcement permitting system (CES) into the Development Fee Program permitting system (AMANDA), and complete the office space remodel. In addition, \$781,000 was rebudgeted in the Development Fee Programs as part of the 2015-2016 Adopted Budget. These funds will continue implementation of the Geographic Information System project and complete the office space remodel. As described in *Section IV. Recommended Budget Adjustments and Clean-Up Actions* of this report, budget actions are recommended to add \$750,000 for peak staffing agreements for plan review and inspection services.

In the Building Development Fee Program, expenditure savings are offset by lower than estimated 2014-2015 revenues, a negative rebudget adjustment, and the proposed addition of resources for peak staffing (\$750,000), resulting in a decrease to the Building Development Fee Program Reserve of \$1.1 million, from \$22.29 million to \$21.14 million. In Planning Development Fee Program, expenditure savings and excess revenues in 2014-2015 result in an increase to the Planning Development Fee Program Reserve of \$423,000, from \$1.26 million to \$1.69 million.

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- *Police*

On an overall basis, the Police Department expenditures totaled \$313.4 million, or 98.1% of its General Fund budget of \$319.3 million, including encumbrances, resulting in savings of \$5.9 million. Of these savings, \$1.0 million was anticipated and rebudgeted as part of the 2015-2016 Adopted Budget. Approximately \$3.0 million of the savings was in the personal services budget. An action is recommended in this report to allocate \$3.0 million of the personal services savings to the Police Department Staffing/Operations Reserve, bringing the reserve total from \$2.3 million to \$5.3 million. As directed in 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. In addition, \$2.5 million is recommended to be allocated from the Police Department Staffing/Operations Reserve to purchase public safety radios that are necessary to ensure the Patrol and Special Operations Officers are able to connect to the Silicon Valley Regional Communications System to ensure interoperability with neighboring agencies for Super Bowl 50 held during the week of January 31, 2016. This increase, along with the already budgeted funds of \$500,000 in the Communications C&C Tax Fund, will allow for the purchase of 500 radios for the Police Department to ensure officers are able to connect to the Silicon Valley Regional Communications System. With this recommended action, the Police Department Staffing/Operations Reserve will total \$2.8 million.

Overtime expenditures of \$29.6 million were above the modified budget by \$4.6 million (18.4%). 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 support the Downtown Foot Patrol Unit. An action is recommended in this report to increase the Department's overtime funding in 2015-2016 by \$8.5 million (from \$18.8 million to \$27.3 million) to continue to backfill for vacant positions and continue the expanded targeted enforcement levels of high crime activity as well as provide resources for various activities associated with the upcoming Super Bowl 50 in conjunction with the City of Santa Clara. Due to the anticipation of continued vacant sworn and civilian positions, the associated salary and benefits savings in 2015-2016 (\$8.5 million) are recommended to be reallocated from the personal services salary and benefits line items to the overtime line item. These actions will help ensure the Department has sufficient overtime resources in 2015-2016.

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Police

As of September 2015, the Department had 1,109 authorized sworn staff, of which 170 were vacant (15.3%) and 52 were in training (4.7%), leaving 887 street ready sworn positions (this includes sworn employees on disability/modified duty/other leaves) as shown in the chart below. When sworn employees on Disability/Modified Duty/Other Leaves are excluded, the total of 844 sworn positions were actually available.

	2014-2015 (as of 9/4/2014)	2015-2016 (as of 9/4/2015)
Authorized Sworn Staffing	1,109	1,109
Vacancies	(102)	(170)
Filled Sworn Staffing	1,007	939
Field Training Officer/Recruits	(62)	(52)
Street-Ready Sworn Positions	945	887
Disability/Modified Duty/Other Leaves	(67)	(43)
Street-Ready Sworn Positions Available	878	844

During 2014-2015, the Department graduated 39 cadets from two Police Recruit Academies. Of this amount, 30 still remain with the Department. In order to fill the vacant sworn positions and put more Police Officers back on patrol, the Department will conduct three Police Recruit Academies in 2015-2016 with the next one beginning in October 2015. Each academy has the capacity to host up to 45 recruits; however, the upcoming October academy will start with only 11 recruits.

A new memorandum of agreement with the San José Police Officer's Association (SJPOA), effective August 25, 2015, which increased sworn officer compensation 4% ongoing effective June 19, 2015 through a general wage increase; a one-time non-pensionable retention bonus split into two equal payments totaling 5% of an employee's base pay effective September 18, 2015 and December 11, 2015; and an ongoing 4% retention premium pay effective January 3, 2016, combined with the Alternative Pension Reform Settlement Framework agreement between the City and the SJPOA and San José Fire Fighters, International Association of Fire Fighters, Local 230, is anticipated to help retain officers and improve the City's sworn recruiting efforts, in an effort to reduce the Department's vacancies over the coming months and year.

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Discussion of Significant Departmental Variances and Other Issues

The compensatory time balance at the end of 2014-2015 for sworn personnel was 182,319 hours. This balance represents a 2.2% increase compared to the 2013-2014 total sworn compensatory time balance of 178,322 hours. The primary reason for this increase in total compensatory time is due to the increase in vacancies and the reliance on overtime to backfill critical positions.

A total of \$23.9 million (89.2%) of the Department's non-personal/equipment budget was expended or encumbered, with savings of \$2.9 million. Vehicle replacement (\$1.3 million), Police computer data processing (\$797,000), supplies and materials (\$639,000), vehicle maintenance and operations (\$480,000), and gas/electric (\$154,000) savings contributed a significant portion of the overall non-personal/equipment savings. As part of the 2015-2016 Adopted Operating Budget, non-personal/equipment savings of approximately \$1.1 million were anticipated and rebudgeted for Computer Aided Dispatch (CAD) system hardware replacement and network upgrade (\$467,000), fixed cameras (\$250,000), sworn unmarked vehicle replacements (\$150,000), and various other projects (\$200,000). Included in this report are recommended rebudgets for recruiting marketing to advertise for police recruits for upcoming police academies (\$150,000) and a South Bay Coalition to End Human Trafficking Coordinator (\$50,000).

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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
2014-2015
NON-DEPARTMENTAL GENERAL FUND EXPENDITURES
(In \$000s)**

Category	Modified Budget	Actual	Variance	% Variance
City-Wide Expenses	\$ 298,923	\$ 264,174	\$ (34,749)	(11.6%)
Capital Contributions	60,834	29,470	\$ (31,364)	(51.6%)
Transfers	36,807	36,756	\$ (51)	(0.1%)
Earmarked Reserves	138,937	-	\$ (138,937)	(100.0%)
Contingency Reserve	33,600	-	\$ (33,600)	(100.0%)
Ending Fund Balance Reserve	19,750	-	\$ (19,750)	(100.0%)
TOTAL	\$ 588,851	\$ 330,400	\$ (258,451)	(43.9%)

- *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. Expenditures in this category total \$264.2 million, or 88.4% of the modified budget, resulting in savings of \$34.7 million. As part of the 2015-2016 Adopted Budget, \$27.9 million was rebudgeted or assumed as savings, leaving an overall balance of \$6.8 million.

Some of the major 2014-2015 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 \$17.9 million were \$1.7 million, or 8.7%, below the 2014-2015 Modified Budget (\$19.6 million). Total expenditures were commensurate with 2013-2014 expenses of \$18.1 million. In 2013-2014 and 2014-2015, as part of a pilot program, the City used a Third-Party Administrator (TPA), Athens, for the administration and processing of approximately 50% of its workers' compensation claims.

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Highlights of Non-Departmental Expenditures and Variances

City-Wide Expenses

- Convention Center Lease Payments of \$15.3 million ended the year at 2014-2015 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 reimbursement from SARA to offset this cost in 2014-2015.
- General Liability Claims of \$6.4 million were \$6.9 million below the 2014-2015 Modified Budget (\$13.3 million). The \$6.9 million in savings from this appropriation were rebudgeted as part of the 2015-2016 Adopted Budget to provide funding for large pending claims that are anticipated to occur in 2015-2016.
- Sick Leave Payments Upon Retirement expenditures of \$5.6 million exceeded budgeted levels by \$565,000 and were \$2.7 million above the 2013-2014 level of \$2.9 million. As a result, recommendations have been brought forward for the October 6, 2015 City Council meeting to add funding to this appropriation, offset by savings in Workers' Compensation Claims, as part of the end of year ratification actions for over-expenditures. Approximately 200 eligible employees for this payment exceeded prior year levels and, as a result, the final expenditures were higher than the year-end estimated levels. The Sick Leave Payments Upon Retirement appropriation of \$5.0 million in 2015-2016 will be closely monitored and any necessary adjustments will be brought forward if necessary during the year.
- Expenditures for Homeless Rapid Rehousing (\$2.8 million) and the Homeless Response Team (\$1.9 million) totaled \$4.7 million and ended the year \$1.0 million below budget across both appropriations. As part of the development of the 2015-2016 Adopted Budget, an estimated \$2.3 million in savings was rebudgeted, and this document recommends a downward adjustment due to higher than anticipated expenses for Homeless Rapid Rehousing that occurred in 2014-2015 as well as a rebudget of the additional remaining balance of \$15,000 for the Homeless Response Team.

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. After accounting for actions approved in the 2014-2015 Adopted Budget and rebudgets recommended in this report, there are \$4.1 million in net savings in the City-Wide Expenses category.

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Highlights of Non-Departmental Expenditures and Variances

- *Capital Projects*

In 2014-2015, the General Fund provided funding totaling \$60.8 million for capital projects. Of this amount, approximately \$31.4 million was unexpended at year-end. The projects with the largest unexpended balances included:

Capital Projects	(\$000s)
Fire Apparatus Replacement	\$ 11,981
Airport West Property Caltrain Connection	5,973
Police Communications Emergency Uninterrupted Power Supply	3,520
Police Communications Fire Protection System Upgrade	2,858
City Hall Waterproofing	1,362
Police Communications Center Electrical System Upgrade	1,234
Children's Discovery Museum Chiller Replacements	652
Police Communications Center Elevator Retrofit	595
South San José Police Substation	593
All Other Projects	2,597
Total Unexpended Capital Projects	\$ 31,365

Rebudgets in the 2015-2016 Adopted Budget of \$33.7 million exceeded the 2014-2015 year-end savings of \$31.4 million. As a result, a net negative rebudget of \$2.3 million is recommended in this report. This is primarily due to costs related to the United States Patent and Trademark Office – Tenant Improvements project, which occurred in 2014-2015, as opposed to 2015-2016. After adjusting for these changes, the net savings in the General Fund Capital category was \$79,000.

- *Transfers*

In the Transfers category, expenditures of \$36.8 million fell below the budgeted amount by \$52,000 at year-end due to lower than budgeted transfers to the Business Improvement District Fund. The budget was developed using the estimated amount due, but the actual amount billed and paid was lower than the estimate.

An increase in Transfers of \$4,000 is recommended in this report and reflects an increase to the transfer to the Downtown and Business Improvement District Fund based on the final assessment rates for 2015-2016 (the General Fund pays the assessment for City-owned facilities. A description of this action can be found in *Section IV. Recommended Budget Adjustments and Clean-Up/Rebudget Actions*.

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Highlights of Non-Departmental Expenditures and Variances

- *Reserves*

General Fund Reserve categories include Earmarked Reserves, the Contingency Reserve, and the Ending Fund Balance Reserve. On June 30, 2015, the total Reserve balance was \$192.3 million. The 2015-2016 Adopted Budget assumed that \$192.5 million would be available at year-end with reserves either re-established in 2015-2016 or used as a funding source for the 2015-2016 Adopted Budget. This exceeded the estimated fund balance level by approximately \$216,000, due to an over-rebudget of Development Fee Program Reserves (\$211,000), the General Plan Update Reserve (\$413,000), and the Fiscal Reform Plan Implementation Reserve (\$150,000), offset by savings in the Employee Market Competitive Reserve (\$500,000), Salary and Benefit Reserve (\$51,000), and Wellness Program Reserve (\$7,700). Downward rebudget adjustments are recommended in this report to reconcile the over-rebudgeted reserve amounts.

Earmarked Reserves totaled \$138.9 million on June 30, 2015, the largest of which were the Building Development Fee Program Reserve (\$28.3 million); Police Department Staffing/Operations Reserve (\$18.0 million); Workers Compensation/General Liability Catastrophic Reserve (\$15.0 million); Budget Stabilization Reserve (\$10.0 million); Fire Development Fee Program Reserve (\$6.6 million); Retiree Healthcare Solutions Reserve (\$6.2 million); Sick Leave Payments Upon Retirement Reserve (\$6.0 million). Included in this report are recommendations to decrease Earmarked Reserves by a net \$498,000, of which some of the largest adjustments include: Building Development Fee Program Reserve (decrease of \$1.1 million); Air Service Incentive Program Reserve (decrease of \$400,000); General Plan Update Reserve (decrease of \$413,000); Cultural Facilities Capital Maintenance Reserve (increase of \$550,000); Police Department Staffing/Operations Reserve (net increase of \$500,000); and Salaries and Benefits Reserve (increase of \$150,000). Detailed descriptions of these actions can be found in *Section IV. Recommended Budget Adjustments and Clean-Up/Rebudget Actions*.

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GENERAL FUND EXPENDITURE PERFORMANCE

Recommended General Fund Expenditure Adjustments

Reserves

The remainder of the Reserves category is comprised of the Contingency Reserve (\$33.6 million) and the 2014-2015 Ending Fund Balance Reserve (\$19.8 million). At the end of 2014-2015, the General Fund Contingency Reserve balance was \$33.6 million. As part of the 2015-2016 Adopted Budget, the full Contingency Reserve was rebudgeted and additional funding of \$400,000 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. This level of reserve is a very low amount for a city the size of San José. Based on the Annual Report actions, an increase to the Contingency Reserve of \$500,000 (from \$34.0 million to \$34.5 million) is recommended in this report to maintain the 3.0% Contingency Reserve Policy.

The 2014-2015 Ending Fund Balance Reserve of \$19.8 million was proactively set aside to help ensure sufficient fund balance would be available at the end of 2014-2015 to meet the budgeted estimate used in the development of the 2015-2016 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 2015-2016 Adopted Budget, it was assumed that \$26.6 million would be generated from these sources. The establishment of the 2014-2015 Ending Fund Balance Reserve set aside the majority of this funding, with the assumption that the remaining amount would be realized by year-end from a combination of additional revenues, expenditure savings, and the liquidation of prior year carryover encumbrances.

Recommended expenditure adjustments and clean-up actions can be found in *Section IV. Recommended Budget Adjustments and Clean-Up Actions* of this report. Adjustments are in the following categories: Required Technical/Rebalancing Actions, Grants/Reimbursements/ Fees, and Urgent Fiscal/Program Needs are 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.

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