

**2013-2014
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GENERAL FUND EXPENDITURE PERFORMANCE

The General Fund expenditure performance for 2013-2014 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

The following table details actual 2013-2014 General Fund expenditures as compared with the modified budget estimates:

**TABLE B
2013-2014 GENERAL FUND EXPENDITURE SUMMARY
COMPARISON OF BUDGET TO ACTUAL
(In \$000s)**

Category	Modified Budget*	Actual**	Variance	% Variance
Personal Services	\$ 613,612	\$ 604,436	\$ (9,176)	(1.5%)
Non-Personal/Equipment/Other	121,799	110,804	(10,995)	(9.0%)
City-Wide Expenses	266,610	224,597	(42,013)	(15.8%)
Capital Contributions	32,454	7,495	(24,959)	(76.9%)
Transfers	24,890	24,882	(8)	(0.0%)
Reserves	182,767	-	(182,767)	(100.0%)
TOTAL GENERAL FUND	\$ 1,242,132	\$ 972,214	\$ (269,918)	(21.7%)

* 2013-2014 appropriations as modified by Council through June 30, 2014, adjusted for the Ratification of Final Expenditures for 2013-2014 memorandum approved by the City Council September 9, 2014, plus 2012-2013 carryover encumbrances.

** Actual 2013-2014 expenses plus encumbrances.

General Fund expenditures and encumbrances through June 30, 2014 of \$972.2 million were \$269.9 million below (21.7%) the modified budget total of \$1.2 billion. Approximately 68% of this savings was generated from unspent reserves (\$182.8 million), with the remaining savings generated from expenditure appropriations. Total 2013-2014 expenditures and encumbrances were \$54.8 million (6.0%) above the June 2013 level of \$917.4 million. This increase is primarily due to higher Personal Services (\$34.6 million), City-Wide Expenses (\$14.0 million), and Non-Personal/Equipment/Other (\$10.7 million) costs, partially offset by lower Transfers (\$4.3 million) and Capital Contributions (\$106,000).

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As shown in Table C, the actual General Fund expenditures, transfers, and reserves of \$972.2 million were approximately \$18.9 million below (1.9%) the estimate used in the development of the 2014-2015 Adopted Budget. A portion of these savings (\$3.1 million) was carried over to 2014-2015 with the accompanying revenue for grant or reimbursement-related projects and programs. Clean-up expenditure actions of \$14.4 million are recommended in this document to reconcile the Development Fee Programs for 2013-2014 (\$1.3 million) and to adjust various rebudget amounts and clean up appropriations (\$13.1 million) including an early rebudget adjustment approved by the City Council August 2014 (\$596,000). After accounting for these technical adjustments, the remaining General Fund expenditures and transfer savings totaled \$1.4 million, or 0.1% of the modified budget (excluding reserves).

These net expenditure savings, when combined with net variances 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 2014-2015, a total of \$8.3 million in additional fund balance is available from net expenditure savings (\$1.4 million) and higher net funding sources (\$7.5 million) slightly offset by lower than estimated liquidation of prior year encumbrances (\$531,000). Recommendations on the allocation of these additional funds are provided elsewhere in this document.

**TABLE C
2013-2014 EXPENDITURE ESTIMATE TO ACTUAL VARIANCES
(In \$000s)**

Category	Estimate	Actual	Variance	% Variance
Expenditures	\$ 966,174	\$ 947,332	\$ (18,842)	(2.0%)
Transfers	24,890	24,882	(8)	(0.0%)
Reserves	-	-	-	100.0%
TOTAL	\$ 991,064	\$ 972,214	\$ (18,850)	(1.9%)

Following is a review of the General Fund expenditure categories, including a discussion of variances to the modified budget as well as the estimate used in the development of the 2014-2015 budget.

Personal Services expenditures of \$604.4 million ended the year \$9.2 million (1.5%) below the budgeted levels (\$613.6 million) and \$34.6 million (6.1%) above 2012-2013 expenditure levels (\$569.9 million). When compared to the budget, the personal services savings are at levels typically experienced in the recent past. Over the past decade, expenditure savings compared to budgeted levels have ranged from a high of 2.5% savings in 2006-2007 to a low of 0.8% savings in 2003-2004. The personal services savings were slightly higher than the level assumed when the 2013-2014 year-end clean-up adjustments were developed. This small variance is primarily the result of vacancy savings throughout the organization.

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The majority of personal services savings were generated by vacant positions primarily in the following departments: Police (\$3.8 million); Fire (\$1.6 million); Information Technology (\$450,000); and the City Attorney's Office (\$447,000). Of the \$9.2 million in personal services savings, \$1.9 million was rebudgeted to 2014-2015 as part of the Adopted Budget (including rebudgeted expenditures that were offset by revenue).

General Fund Non-Personal/Equipment/Other¹ expenditures and encumbrances ended the year at \$110.8 million, generating savings of approximately \$11.0 million (9.0%) from the budgeted level. The majority of savings in this category was generated by the following departments: Mayor and City Council (\$3.0 million); Police (\$2.7 million – vehicle maintenance and operations); Information Technology (\$1.4 million – training, network equipment/security upgrades, and software); Planning, Building and Code Enforcement (\$1.6 million, or \$1.1 million excluding the Development Fee Programs). Of the \$11.0 million in savings, \$5.4 million was rebudgeted to 2014-2015 in the Adopted Budget.

After adjusting for rebudgets, clean-ups, and expenditure savings assumed in the 2014-2015 Adopted Budget, including net-zero adjustments between revenues and expenditures, departmental expenditures resulted in net savings of \$4.5 million. Rebudget and cleanup actions of \$4.1 million are recommended in this report (including \$1.3 million of Development Fee Program savings) and result in net savings of \$279,000 in departmental charges (0.04%).

In the City-Wide Expenses category, expenditures and encumbrances of \$224.6 million ended the year \$42.0 million below the budgeted level of \$266.6 million. Of this amount, \$32.6 million was assumed as savings in 2013-2014 and rebudgeted to 2014-2015 or assumed as a funding source in the 2014-2015 Adopted Budget, including \$2.4 million that was offset by revenue sources. Of the remaining balance of \$9.4 million, rebudget and clean-up adjustments totaling \$8.3 million are recommended in this document, and would result in net savings of \$1.1 million in this category, a 0.4% variance from the budgeted level.

In the Capital Contributions category, expenditures of \$7.5 million ended the year \$25.0 million below the budgeted level of \$32.5 million. Of this amount, \$23.1 million was assumed as savings in 2013-2014 and rebudgeted to 2014-2015 in the Adopted Budget. An additional \$1.9 million is recommended to be rebudgeted in this document or was approved by the City Council in August 2014 as an early rebudget (\$596,000). With these rebudgets, the adjusted Capital Contributions savings totaled \$38,000 (0.1%) at year-end.

The Transfers category expenditures of \$24.9 million fell below budgeted amounts by \$7,000 at year end.

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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Overview

The largest single category of remaining funding available in 2013-2014, as planned, is the Reserves category (\$182.8 million). The 2014-2015 Adopted Budget assumed that the entire \$182.8 million balance would be available at year-end to be carried over to 2014-2015, with reserves either re-established or used as a funding source as part of the 2014-2015 Adopted Budget. Of this amount, \$129.8 million represented Earmarked Reserves, the largest of which were the Development Fee Program Reserves (\$47.8 million); 2014-2015 Future Deficit Reserve (\$18.1 million); Workers' Compensation/General Liability Catastrophic Reserve (\$15.0 million); Budget Stabilization Reserve (\$10.0 million); Successor Agency City Legal Obligations Reserve (\$8.0 million); Salaries and Benefits Reserve (\$5.0 million); Police Department Overtime Reserve (\$4.0 million); and Retiree Health Care Solutions Reserve (\$3.9 million). The remainder of the Reserves category is comprised of the Contingency Reserve (\$31.0 million) and the 2013-2014 Ending Fund Balance Reserve (\$22.0 million).

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 (\$715.2 million) represented 73.6% of the total 2013-2014 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 97.3% of their budgets, generating overall savings of 2.7%, or \$20.2 million.

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 \$11.0 million (54.6%) of the departmental savings. The remaining nine departments with more than 5% in savings of \$9.1 million reflect the remaining 45.4% of the departmental savings. In 2013-2014, the following five departments/offices had expenditure savings in excess of \$1 million: Police; Mayor and City Council; Fire; Planning, Building and Code Enforcement; and Information Technology. 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 \$257.0 million, or 26.4% of the total 2013-2014 General Fund expenditures. Once adjusted to exclude reserves, 79.3% of the modified budget was expended in this category. Reserves of \$182.8 million represent the largest portion of the unexpended funds and were carried over or used in the 2014-2015 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 document to be, rebudgeted to 2014-2015 for their originally intended uses.

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Review of General Fund Expenditure Performance

**TABLE D
TOTAL GENERAL FUND EXPENDITURES**

Departmental	2013-2014 Modified Budget	2013-2014 Expenditures	Variance	% Variance
City Attorney	\$ 12,670,232	\$ 12,218,038	\$ (452,194)	(3.6%)
City Auditor	2,117,490	1,918,901	(198,589)	(9.4%)
City Clerk	2,343,182	1,945,621	(397,561)	(17.0%)
City Manager	10,672,933	10,262,898	(410,035)	(3.8%)
Economic Development	4,226,721	4,143,232	(83,489)	(2.0%)
Environmental Services	1,026,895	722,659	(304,236)	(29.6%)
Finance	13,020,277	12,351,923	(668,354)	(5.1%)
Fire	164,951,852	162,966,577	(1,985,275)	(1.2%)
Housing	242,430	175,120	(67,310)	(27.8%)
Human Resources	6,160,909	5,444,281	(716,628)	(11.6%)
Independent Police Auditor	1,121,907	1,114,743	(7,164)	(0.6%)
Information Technology	15,819,662	13,944,160	(1,875,502)	(11.9%)
Library	26,294,231	26,008,514	(285,717)	(1.1%)
Mayor and City Council	11,548,383	8,562,949	(2,985,434)	(25.9%)
Parks, Recreation & Neighborhood Services	52,719,382	52,217,071	(502,311)	(1.0%)
Planning, Building & Code Enforcement	36,444,775	34,510,640	(1,934,135)	(5.3%)
Police	310,658,779	304,131,358	(6,527,421)	(2.1%)
Public Works	35,954,215	35,722,852	(231,363)	(0.6%)
Transportation	27,416,236	26,878,292	(537,944)	(2.0%)
Subtotal	735,410,491	715,239,829	(20,170,662)	(2.7%)
<hr/>				
Non-Departmental				
City-Wide Expenses	266,610,576	224,597,215	(42,013,361)	(15.8%)
Capital Contributions	32,454,472	7,494,798	(24,959,674)	(76.9%)
Transfers	24,889,553	24,882,289	(7,264)	(0.0%)
Earmarked Reserves	129,766,590	-	(129,766,590)	(100.0%)
Contingency Reserve	31,000,000	-	(31,000,000)	(100.0%)
Ending Fund Balance Reserve	22,000,000	-	(22,000,000)	(100.0%)
Subtotal	506,721,191	256,974,302	(249,746,889)	(49.3%)
TOTALS	\$ 1,242,131,682	\$ 972,214,131	\$ (269,917,551)	(21.7%)

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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 2013-2014 expenditures of \$1.9 million, the Office of the City Auditor expended 90.6% of its \$2.1 million General Fund budget, including encumbrances, with resulting savings of \$199,000. The majority of this variance is related to personal services expenditures, which were 8.3% (\$168,000) below the modified budget as a result of a vacant Program Performance Auditor position. Non-personal/equipment expenditures ended the year 36.7% (\$30,000) below budgeted levels due to lower than estimated expenditures in areas such as computer data processing, equipment and vehicle rentals, and professional and consultant services.

- *City Clerk*

With 2013-2014 expenditures of \$1.9 million, the Office of the City Clerk expended 83.0% of its \$2.3 million General Fund budget, including encumbrances, with resulting savings of \$398,000. The majority of this variance is related to non-personal/equipment expenditures, which were 46.2% (\$248,000) below the modified budget levels of \$537,000. The majority of these savings was realized in professional and consultant services due to a delay in procuring and implementing an Electronic Document Management System (EDMS) to act as a self-service file storage system that was scheduled to occur in 2013-2014. As part of the 2013-2014 Adopted Budget, savings of \$308,000 between both Personal Services and Non-Personal/Equipment appropriations were anticipated and rebudgeted for consulting services complete EDMS procurement and implementation.

- *Environmental Services*

The Environmental Services Department expended \$723,000 (70.4%) of its \$1.0 million General Fund budget, including encumbrances, with resulting savings of \$304,000. Personal services expenditures were 28.7% (\$121,000) below budgeted levels. Of this balance, \$96,000 was rebudgeted in the 2014-2015 Adopted Budget to pay for Silicon Valley Energy Watch Program staffing. The Silicon Valley Energy Watch Program focuses on promoting energy efficiency through activities that include outreach and education, training, and local government policy coordination. A rebudget of an additional \$21,985 for Silicon Valley Energy Watch activities is recommended as part of this document due to lower than anticipated actual 2013-2014 expenditures.

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Discussion of Significant Departmental Variances and Other Issues

Environmental Services

The Department's non-personal/equipment expenditures ended the year 30.2% (\$184,000) below the modified budget. Of this balance, \$169,000 was rebudgeted in the 2014-2015 Adopted Budget to pay for Silicon Valley Energy Watch activities. A negative rebudget of \$9,979 for Silicon Valley Energy Watch activities is recommended as part of this document due to higher than anticipated actual 2013-2014 expenditures.

- *Finance*

With 2013-2014 expenditures of \$12.4 million, the Finance Department expended 94.9% of its General Fund budget of \$13.02 million, including encumbrances, with resulting savings of \$668,000. The majority of this variance (\$404,000) is related to non-personal/equipment expenditures, which were 19.2% below the budgeted levels of \$2.1 million. As part of the 2014-2015 Adopted Budget, \$155,000 was rebudgeted for the iNOVAH Cashiering and Payment Processing System implementation (\$105,000) and an upgrade or replacement to the cost allocation planning software program (\$50,000). As the implementation of iNOVAH has begun, it has become apparent that the system needs additional upgrades to interface with other critical systems within the City including, but not limited to AMANDA and the Business Tax System. An additional rebudget of \$45,000 is recommended as part of this document to provide adequate funding for those upgrades. A rebudget of \$50,000 is also recommended for a recruitment contract to help address the critical vacancies within the department.

- *Fire*

Overall, the Fire Department expended \$163.0 million (98.8%) of its 2013-2014 General Fund budget, including encumbrances, of \$165.0 million, resulting in savings of \$2.0 million. Of these savings, \$1.8 million was either rebudgeted to 2014-2015 (\$1.4 million) or is recommended to be reallocated to the Fire Development Fee Reserve (\$425,000), leaving \$146,000 in net savings.

The Personal Services appropriation of \$156.1 million was 98.9% expended, with savings of \$1.6 million (\$1.2 million in non-development fee programs, and \$432,000 in development fee programs) that were primarily due to a delay in recruitment efforts which resulted in rescheduling the 2013-2014 Recruit Academy to September 2014. As part of the 2014-2015 Adopted Budget, personal services savings of over \$1.0 million were anticipated and rebudgeted for hazardous materials training and Fire Fighter and Fire Engineer academies.

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Discussion of Significant Departmental Variances and Other Issues

Fire

Overtime expenditures of \$6.3 million ended the year slightly below (\$165,000) the modified budget level of \$6.5 million. A combination of full-time staff and overtime is used to address the Fire Department's minimum staffing requirements. The Fire Department managed and monitored daily absences and staffing to minimize both the impact of brown-outs to the community and overtime expenditures. The Department's report on annual vacancy and absence rates and their impact on overtime report for 2013-2014 has been included in the appendix of this document, with an analysis of the balance between relief personnel and the overtime allocation for minimum staffing. Previously, this report on annual vacancy and absence rates was presented separately to the Public Safety, Finance, and Strategic Support Council Committee. It should be noted that, in accordance with the City Council's approval of this same report in March 2010, the Fire Department has committed to limiting administrative assignments to the 33 sworn administrative positions authorized in 2009-2010 for overtime control purposes. At the end of 2013-2014, the number of sworn administrative staff in the Department was 30 positions which complies with their commitment.

The Fire Department ended 2013-2014 with enough Fire Fighter Paramedics to support the 132 front-line positions that were necessary to fully staff all apparatus. The Department does not anticipate any issues in maintaining the target staffing level of 132 front-line Fire Fighter Paramedics in 2014-2015.

The Department's non-personal/equipment budget was 96.1% expended or encumbered, with year-end savings of \$344,000 (\$343,000 in non-development fee programs and \$1,000 in the development fee program). Funding of \$343,000 was estimated to be available for targeted projects and was approved for rebudget in the 2014-2015 Adopted Budget to complete projects including electronic patient care reporting, special operations training, and Fire Fighter Recruit and Fire Engineer academies.

In reconciling the Fire Development Fee Program budget with year-end Personal Services expenditures, savings in the program of approximately \$590,000, including \$454,000 in personal services savings and \$136,000 in overhead savings, are recommended to be transferred to the Fire Development Fee Program Earmarked Reserve. Combined with higher than estimated revenue collections of \$27,000 and interest earnings of \$23,000, the total recommended increase to the Fire Fee Reserve based on the 2013-2014 reconciliation is \$640,000. When combined with additional recommended actions, the Fire Development Fee Program Earmarked Reserve will increase from \$6.4 million to \$7.1 million.

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Discussion of Significant Departmental Variances and Other Issues

- *Housing*

With 2013-2014 expenditures of \$175,000, the Housing Department expended 72.2% of its \$242,000 General Fund budget, including encumbrances, with resulting savings of \$67,000. The majority of this variance is related to personal services expenditures, which were \$59,000 (26.0%) lower than the budget level of \$227,000, primarily as a result of vacancy savings. Non-personal/equipment expenditures ended the year 55.2% (\$8,000) below budgeted levels due to lower than anticipated expenditures in professional and consultant services.

- *Human Resources*

With expenditures and encumbrances of \$5.4 million, the Human Resources Department expended 88.4% of its \$6.2 million General Fund budget, including encumbrances, with resulting savings of \$717,000. Personal services expenditures were 10.3% (\$416,000) below modified budget levels due to vacancy savings throughout the department, including management positions that have since been filled. As part of the 2014-2015 Adopted Budget, \$170,000 was rebudgeted to provide funding for temporary staffing to assist the Employment Services Division in addressing the high vacancy rates across the City.

Non-personal/equipment expenditures ended the year 14.2% (\$301,000) below the budgeted level of \$2.1 million. As part of the 2014-2015 Adopted Budget, \$350,000 was rebudgeted to provide funding for actions that were unable to be implemented in 2013-2014 due to vacancies, including hiring temporary staffing to work through a backlog of workers' compensation claims (\$100,000), conducting a workers' compensation audit (\$100,000), increasing visibility for city employment through recruitment advertising and attending job fairs (\$75,000), conducting a hiring process review (\$50,000), and replacing failing technology in the department (\$25,000). Since insufficient funding is available for all of the previously approved rebudgets, it is recommended as part of this document that the previously approved hiring process review rebudget (\$50,000) be eliminated. Funding is no longer needed as the City Auditor's Office will be conducting an audit of the hiring process as included in its approved 2014-2015 Workplan.

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Discussion of Significant Departmental Variances and Other Issues

- *Information Technology*

With expenditures of \$13.9 million, the Information Technology Department (ITD) expended 88.1% of its \$15.8 million General Fund budget, including encumbrances, with savings of \$1.9 million. Personal services expenditures were 6.0% (\$450,000) below modified budget levels as a result of vacancy savings throughout the department.

Non-personal/equipment expenditures were 17.1% (\$1.4 million) below budgeted levels, due to project delays. Of the \$1.4 million remaining balance, \$975,000 was rebudgeted in the 2014-2015 Adopted Budget for the Microsoft Office Upgrade, Network Equipment Upgrades, and Security Upgrades. This document recommends an additional rebudget of \$400,000 for software centralization and related Windows server licensing.

- *Mayor and City Council*

With total expenditures of \$8.6 million, the Mayor's Office, the City Council Offices, and Council General expended 74.2% of their total General Fund budget of \$11.5 million, including encumbrances, resulting in savings of \$3.0 million at year-end. Of this amount, \$491,000 of the savings was realized in the Mayor's Office, \$583,000 was in the City Council Offices, and \$1.9 million was in Council General as outlined below:

2013-2014 Actual Expenditure Performance

	2013-2014 Modified Budget	2013-2014 Actuals	Variance
Council District 1	\$ 257,903	\$ 231,000	\$ 26,903
Council District 2	294,573	252,270	42,303
Council District 3	260,790	260,790	0
Council District 4	264,034	247,851	16,183
Council District 5	343,898	328,371	15,527
Council District 6	317,346	246,719	70,627
Council District 7	373,465	314,299	59,166
Council District 8	359,587	275,553	84,034
Council District 9	412,837	242,442	170,395
Council District 10	323,195	225,090	98,105
Mayor's Office	2,002,492	1,511,801	490,691
Council General	6,338,264	4,426,763	1,911,502
Total	\$ 11,548,384	\$ 8,562,949	\$ 2,985,435

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Mayor and City Council

In the 2014-2015 Adopted Budget, anticipated 2013-2014 savings of \$889,000 (\$564,000 in the City Council Offices, \$225,000 in the Mayor's Office, and \$100,000 in Council General) were rebudgeted. Although the ongoing Council General allocation has been eliminated to increase spending transparency, the \$100,000 rebudget will provide one year of transition costs. An additional \$1.9 million was committed for other uses from Council General as part of the 2014-2015 Adopted Budget. Actual year-end savings, however, exceeded these estimates. As a result, a net increase of \$285,000, primarily in the Mayor's Office, to the rebudgeted amount of \$889,000 is recommended in this document to align the City Council Offices' year-end balances, taking into account total prior rebudgeted funds as approved by the City Council as part of the Mayor's June Budget Message for Fiscal Year 2014-2015.

- *Planning, Building and Code Enforcement*

With expenditures of \$34.5 million, the Planning, Building and Code Enforcement Department (PBCE) expended 94.7% of its General Fund budget, with resulting savings of \$1.9 million. Personal services expenditures were 1.1% below budgeted levels (\$321,000) and non-personal/equipment expenditures were 27.6% below budgeted levels (\$1.6 million).

Total Personal Services savings of \$321,000 resulted from vacant positions in Long Range Planning and Community Code Enforcement (\$180,000) and in the Development Fee Programs (\$141,000) for Planning, Building, Fire, and Public Works. As part of the 2014-2015 Adopted Budget, personal services savings of \$113,000 were anticipated and rebudgeted for staff support for the continued implementation of the Envision San José 2040 General Plan (General Plan) and community planning work related to air quality management in partnership with the Bay Area Air Quality Management District. After this rebudget, the net personal services savings total \$208,000, or 0.7% of the modified budget.

Non-personal/equipment expenditure savings of \$1.6 million (\$1.1 million in non-development related PBCE programs, \$459,000 in Building Development Fee Program, \$31,000 in Public Works Development Fee Program, \$28,000 in Fire Development Fee Program, and \$13,000 in Planning Development Fee Program) were primarily due to project delays and savings in contractual staffing services. As part of the 2014-2015 Adopted Budget, non-personal/equipment savings of \$712,000 in the non-development related PBCE programs were anticipated and rebudgeted to continue the implementation of the General Plan, to replace seven Code Enforcement vehicles, to provide programming services to begin the migration of the Code Enforcement permitting system (CES) into the Development Fee Program permitting system (AMANDA), and to purchase computers and monitors to accommodate necessary

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Discussion of Significant Departmental Variances and Other Issues

Planning, Building and Code Enforcement

technology upgrades. Other non-personal/equipment savings achieved (\$531,000) were mostly in the Building Development Fee Program, primarily as a result of savings in contractual services and data processing. After rebudgets, the net non-personal/equipment expenditure savings total \$901,000, or 15.4% of the modified budget.

Overall, the Development Fee Programs had total savings of \$671,000 and the non-development related PBCE programs had total savings of \$1.3 million. After adjusting for anticipated savings which were rebudgeted to 2014-2015 as part of the 2014-2015 Adopted Budget, savings of \$819,000 remained (\$148,000 non-development; \$671,000 development). Actions included in this report that take into consideration a combination of expenditure savings, higher than anticipated revenues, and recommended funding increases for peak staffing agreements and the purchase of additional licenses for the Development services Development Services permitting system will result in a net increase to the Building Development Fee Program Reserve of \$2.4 million, from \$21.7 million to \$24.1 million, and a net increase to the Planning Development Fee Program Reserve of \$78,000, from \$1.71 million to \$1.79 million.

- *Police*

On an overall basis, the Police Department expenditures totaled \$304.1 million, or 97.9% of its General Fund budget of \$310.7 million, including encumbrances, resulting in savings of \$6.5 million. Of these savings, \$1.1 million was anticipated and rebudgeted as part of the 2014-2015 Adopted Budget. Approximately \$3.8 million of the remaining savings was in the Personal Services budget. Actions are recommended to rebudget \$800,000 of these savings to overtime in 2014-2015 and allocate the remaining savings of \$3.0 million to the Police Department Staffing Reserve, bringing the reserve total from \$10.0 million to \$13.0 million. As directed by the Mayor's June Budget Message for Fiscal Year 2014-2015, 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 Reserve until staffing levels reach 1,250 officers.

Overtime expenditures of \$23.5 million were only \$11,200 above (.05%) the modified budget. 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 new Downtown Foot Patrol Unit. Two actions are recommended in this report to increase the Department's overtime funding in 2014-2015 by \$7.8 million (from \$17.1 million to \$24.9

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Discussion of Significant Departmental Variances and Other Issues

Police

million) to continue to backfill for vacant positions and continue the expanded targeted enforcement levels of high crime activity. Due to the anticipation of continued vacant sworn and civilian positions, the associated salary and benefits savings in 2014-2015 (\$7.0 million) are recommended to be reallocated from the personal services salary and benefits line items to the overtime line item. In addition, \$800,000 is recommended to be rebudgeted for overtime expenditures from 2013-2014 personal services savings. These actions will help ensure the Department has sufficient overtime resources in 2014-2015.

As of September 2014, the Department had 1,109 authorized sworn staff, of which 102 were vacant (9.2%) and 62 were in training (5.6%), leaving 945 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, a total of 878 street ready sworn positions were actually available. This compares to 924 positions one year ago.

Police Department Sworn Staffing	2013-2014 (as of 9/5/2013)	2014-2015 (as of 9/4/2014)
Authorized Sworn Staffing	1,109	1,109
Vacancies	(70)	(102)
Filled Sworn Staffing	1,039	1,007
Field Training Officer/Recruits	(44)	(62)
Street-Ready Sworn Positions	995	945
Disability/Modified Duty/Other Leaves	(71)	(67)
Street-Ready Sworn Positions Available	924	878

During 2013-2014, the Department graduated 83 cadets from two Police Recruit Academies. Of this amount, 51 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 2014-2015 with the next one beginning in October 2014. Each academy has the capacity to host up to 45 recruits; however, the upcoming October academy is expected to start with 25 recruits.

The compensatory time balance at the end of 2013-2014 for sworn personnel was 178,322 hours. This balance represents a 4.0% increase compared to the 2012-2013 total sworn compensatory time balance of 171,422 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.

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Discussion of Significant Departmental Variances and Other Issues

Police

A total of \$25.8 million (90.5%) of the Department's Non-Personal/Equipment budget was expended or encumbered, with savings of \$2.7 million. Police supplies and materials (\$693,000) and professional & consultant services (\$523,000) savings contributed a significant portion of the overall non-personal/equipment savings. As part of the 2014-2015 Adopted Budget, non-personal/equipment savings of approximately \$1.1 million were anticipated and rebudgeted for retrofits and vehicle Operations & Maintenance investments at the South San José Police Substation (\$326,000), sworn unmarked vehicle replacements (\$300,000), fixed cameras (\$250,000), and various other projects (\$195,000). Included in this report are recommended rebudgets for the replacement of wiring within the 9-1-1 call center (\$405,000); upgrades to the Computer Aided Dispatch (CAD) system (\$331,000); the South San José Police Substation 911 Alternate Public Safety Answering Point (\$185,000); Community Service Officer technology equipment (\$130,000); a South Bay Coalition to End Human Trafficking Coordinator (\$50,000); Police Chaplain expenses (\$20,000); and bulletproof vests (\$15,000).

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
2013-2014
NON-DEPARTMENTAL GENERAL FUND EXPENDITURES
(In \$000s)**

Category	Modified Budget	Actual	Variance	% Variance
City-Wide Expenses	\$ 266,610	\$ 224,597	\$ (42,013)	(15.8%)
Capital Contributions	32,454	7,495	(24,959)	(76.9%)
Transfers	24,890	24,882	(8)	(0.0%)
Earmarked Reserves	129,767	-	(129,767)	(100.0%)
Contingency Reserve	31,000	-	(31,000)	(100.0%)
Ending Fund Balance Reserve	22,000	-	(22,000)	(100.0%)
TOTAL	\$ 506,721	\$ 256,974	\$ (249,747)	(49.3%)

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GENERAL FUND EXPENDITURE PERFORMANCE

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. Expenditures in this category total \$224.6 million, or 84.2%, of the modified budget, resulting in savings of \$42.0 million. As part of the 2014-2015 Adopted Budget, \$32.6 million was rebudgeted or assumed as savings, leaving an overall balance of \$9.4 million. Included in the 2014-2015 Adopted Budget rebudgets were three actions that rebudgeted funding into Earmarked Reserves for Sick Leave Payments Upon Retirement (\$6.0 million, as discussed below), Human Resources/Payroll System Upgrade (\$2.4 million), and the Business Tax System Replacement (\$1.4 million).

Some of the major 2013-2014 expenditures in this category are listed below:

- TRANs Debt service payment of \$100.4 million was completed to repay a short-term note that was issued for cash flow purposes necessitated by the pre-funding of employer retirement contributions.
- Workers' Compensation Claims payments of \$18.1 million were \$1.0 million, or 5.4%, below the 2013-2014 Modified Budget (\$19.1 million). Total expenditures were commensurate with 2012-2013 expenses of \$18.1 million. In 2013-2014, as part of a pilot project, the City used a Third-Party Administrator (TPA), Athens, for the administration and processing of approximately 50% of its workers' compensation claims.
- Convention Center Lease Payments of \$15.3 million ended the year at 2013-2014 budgeted levels. The Convention Center Lease Payment is the largest of the City's contractually obligated Successor Agency to the Redevelopment Agency Obligations.
- General Liability Claims of \$11.2 million were \$6.9 million below the 2013-2014 Modified Budget (\$18.1 million), but \$3.7 million, or 49.5%, above 2012-2013 actual expenses. Savings from this appropriation were rebudgeted to provide funding for large pending claims. As part of the 2014-2015 Adopted Budget, expenditure savings of \$7.0 million were anticipated and rebudgeted, however, only \$6.9 million was available at the conclusion of 2013-2014. A downward adjustment is recommended elsewhere in this document to align that rebudget with available funding.
- Sick Leave Payments upon Retirement expenditures of \$2.9 million ended the year \$6.1 million below the 2013-2014 Modified Budget level (\$9.0 million) and \$1.0 million below the 2012-2013 actual payments of \$3.9 million. As discussed above, a portion of this savings (\$6.0 million) was rebudgeted to an Earmarked Reserve for 2014-2015 as part of the Adopted Budget to set aside funding for future expenditures for eligible employees occurring in 2014-2015 or subsequent years.

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GENERAL FUND EXPENDITURE PERFORMANCE

Highlights of Non-Departmental Expenditures and Variances

City-Wide Expenses

- Expenditures for Homeless Rapid Rehousing (\$888,000) and for the Homeless Response Team (\$1.5 million) totaled \$2.4 million and ended the year \$1.3 million below budget across both appropriations. As part of the development of the 2014-2015 Adopted Budget, an estimated \$1.1 million in savings for Homeless Rapid Rehousing was rebudgeted, this document recommends a slight downward adjustment due to higher than anticipated expenses, as well as rebudgeting the remaining balance of \$145,000 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 already approved in the 2013-2014 Adopted Budget and rebudgets recommended in this document, there are \$1.1 million in net savings in the City-Wide Expenses category.

- *Capital Projects*

In 2013-2014, the General Fund provided funding totaling \$32.5 million for capital projects. Of this amount, approximately \$25.0 million was unexpended at year-end. The projects with the largest unexpended balances included:

Capital Projects	(\$000s)
Fire Apparatus Replacement	\$ 8,468
Police Communications Uninterrupted Power Supply	3,571
Police Communications Fire Protection System Upgrade	2,989
Police Administration Building Chiller	2,253
Police Communications Center Electrical System Upgrade	1,590
City Hall Water Proofing	1,542
All Other Projects	4,546
Total Unexpended Capital Projects	24,959

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Highlights of Non-Departmental Expenditures and Variances

Capital Projects

Rebudgets of \$23.1 million were included as part of the 2013-2014 Adopted Budget; an additional \$1.9 million is recommended to be rebudgeted in this document or was approved by the City Council in August 2014 as an early rebudget (\$596,000). With these rebudgets, the adjusted Capital Contributions savings totaled \$38,000 (0.1%) at year-end.

- *Transfers*

In the Transfers category, expenditures of \$24.9 million fell below the budgeted amount by \$8,000 at year end due to lower than budgeted transfers to the Downtown Parking and 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.

A net increase in Transfers of \$425,000 recommended in this report reflects the impact of the increases in the Transfer to the Municipal Golf Course Fund (\$300,000), the transfer to the City Hall Debt Service Fund (\$40,000), and the Transfer to the Construction Tax and Property Conveyance Tax Fund: Parks Purposes Council District #10 – Leland Sports Field Repayment (\$85,000). A description of these actions can be found in *Section IV. Recommended Budget Adjustments and Clean-Up/Rebudget Actions*.

- *Reserves*

General Fund Reserve categories include Earmarked Reserves, the Contingency Reserve, and the Ending Fund Balance Reserve. On June 30, 2014, the total Reserve balance was \$182.8 million.

Of this amount, \$129.8 million represented Earmarked Reserves, the largest of which were the Development Fee Program Reserves (\$47.8 million); 2014-2015 Future Deficit Reserve (\$18.1 million); Workers' Compensation/General Liability Catastrophic Reserve (\$15.0 million); Budget Stabilization Reserve (\$10.0 million); Successor Agency City Legal Obligations Reserve (\$8.0 million); Salaries and Benefits Reserve (\$5.0 million); Police Department Overtime Reserve (\$4.0 million); and Retiree Healthcare Solutions Reserve (\$3.9 million). All of the Earmarked Reserves were either approved for rebudget or were used as a funding source in the 2014-2015 Adopted Budget.

The remainder of the Reserves category is comprised of the Contingency Reserve (\$31.0 million) and the 2013-2014 Ending Fund Balance Reserve (\$22.0 million).

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GENERAL FUND EXPENDITURE PERFORMANCE

Highlights of Non-Departmental Expenditures and Variances

Reserves

At the end of the year, the General Fund Contingency Reserve balance was \$31.0 million. As part of the 2014-2015 Adopted Budget, the full Contingency Reserve was rebudgeted and an additional \$1.5 million was allocated to bring the reserve to \$32.5 million. Funding of \$200,000 is recommended to be added to the Contingency Reserve (to bring the reserve to a total of \$32.7 million) in 2014-2015 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 enough 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.

Annually, as part of the General Fund Forecast and during the development of the Proposed 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. To ensure the 2013-2014 ending fund balance estimate of \$22.0 million was available for use as assumed in the development of the 2014-2015 Adopted Budget, this funding was proactively set aside during 2013-2014.

Included in this document are recommendations to increase Earmarked Reserves by a net \$8.6 million, of which some of the largest adjustment include: Silicon Valley Regional Communications System Reserve (\$3.1 million); Police Department Staffing Reserve (\$3.0 million); and Fiscal Reform Plan Implementation Reserve (\$2.0 million). Detailed descriptions of these actions can be found in *Section IV. Recommended Budget Adjustments and Clean-Up/Rebudget Actions*.

Recommended General Fund Expenditure Adjustments

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