



# Memorandum

**TO:** HONORABLE MAYOR  
AND CITY COUNCIL

**FROM:** Jennifer A. Maguire

**SUBJECT:** 2013-2014 ANNUAL REPORT

**DATE:** October 6, 2014

Approved

Date

10/7/14

## SUPPLEMENTAL

### REASON FOR SUPPLEMENTAL

The attachments to this supplemental memorandum replace two pages in the recently released 2013-2014 Annual Report that have been slightly revised to correct for minor errors.

Page 3 of the Transmittal Memorandum is revised to reflect the correct breakdown of higher revenues, net expenditure savings, and liquidation of prior year encumbrances that yield the ending funding balance variance of \$8.3 million. This breakdown was correctly displayed elsewhere in the report, but the final changes were not incorporated into the Executive Summary.

Page IV-2 of the Recommended Budget Adjustments and Clean-Up Actions is revised to correct for rounding errors in the display of the 2014-2015 retirement costs referenced on that page's final sentence.

JENNIFER A. MAGUIRE  
Deputy City Manager / Budget Director

For questions please contact Jim Shannon, Deputy Budget Director, at (408) 535-4852.

Attachments

## **EXECUTIVE SUMMARY**

When bringing forward recommendations for the use of the additional 2013-2014 Ending Fund Balance, the Administration considers clean-up actions associated with the close-out of the 2013-2014 fiscal year to be essentially non-discretionary and as the highest priority. These clean-up actions result in a net decrease to the available fund balance of \$8.6 million and are broken down into two categories: changes to the Development Fee Programs reserves to reconcile actual 2013-2014 performance (-\$4.0 million); and adjustments to rebudget amounts that were carried over to 2014-2015 to complete projects and technical adjustments to other revenue and expenditure line items (\$4.6 million). It should be noted that an additional early rebudget action of \$600,000 was previously approved by the City Council on August 26, 2014. After accounting for those clean-up actions, the additional General Fund 2013-2014 Ending Fund Balance was within \$8.3 million (0.3%) of the 2013-2014 Modified Budget (sources and uses). This fund balance was generated from slightly higher revenues (\$7.5 million) and net expenditure savings (\$1.4 million), partially offset by lower than estimated liquidation of prior year encumbrances (\$531,000). The remaining General Fund balance of \$8.3 million is recommended to fund various required technical/rebalancing actions (\$6.1 million) and two recommended actions to address urgent fiscal/program (\$2.2 million). The largest adjustments include the establishment of a Silicon Valley Regional Communications System Reserve (\$3.1 million) and an increase to the Police Department Staffing Reserve (\$3.0 million) to reflect City Council direction as part of their approval of the Mayor's June Budget Message for Fiscal Year 2014-2015, and an increase to the Fiscal Reform Plan Implementation Reserve (\$2.0 million). In addition, \$3.7 million in net-zero adjustments to various grants, reimbursements and fee activities are also included.

The required technical/rebalancing actions include the allocation of \$3.1 million to a new earmarked reserve for the Silicon Valley Regional Communication System (SVRCS). This represents the remaining fund balance that was available after accounting for all other necessary adjustments. Per the Operating Budget and Capital Improvement Program City Council Policy (1-18), any additional fund balance after the necessary clean-up adjustments is to be allocated 50% to unmet/deferred infrastructure and maintenance needs and 50% to offset any projected deficit for the following year. Since an Earmarked Reserve was established in the 2014-2015 Adopted Budget to address the projected shortfall of \$2.4 million in 2015-2016, the funds that would have been allocated to this purpose are to be distributed to a Budget Stabilization Reserve, unmet/deferred infrastructure needs, and/or other urgent one-time funding needs. Consistent with this policy, the Mayor's June Budget Message for Fiscal Year 2014-2015, as approved by the City Council, directed the Administration to allocate the remaining fund balance to the Silicon Valley Regional Communication System (SVRCS) as this system is considered a significant unmet/deferred infrastructure need. The required technical/rebalancing actions also include a \$3.0 million allocation to the Police Department Staffing Reserve. This action is also consistent with the City Council's approval of the Mayor's June Budget Message for Fiscal Year 2014-2015 as it sets aside in reserve one-time savings from unfilled positions within the Police Department that are not rebudgeted for police overtime or other urgent needs to support the restoration of Police staffing. The Urgent Fiscal/Program Needs category includes the addition of \$2.0 million to the Fiscal Reform Plan Implementation Reserve based on a tentative decision on fee motions brought by the plaintiffs in the Measure B litigation. This represents a very

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**IV. RECOMMENDED BUDGET ADJUSTMENTS AND CLEAN-UP ACTIONS**

**Clean-Up Actions**

**General Fund & Special/Capital Funds**

This section consists of clean-up actions for the General Fund and Special/Capital Funds. The following types of adjustments are included:

**Fund Balance Reconciliations** – These actions revise the Beginning Fund Balance estimates in the 2014-2015 budget for all funds where the actual (unaudited) 2013-2014 Ending Fund Balance/2014-2015 Beginning Fund Balance differed from the budgeted amount.

**Development Fee Program Reconciliations** – These actions adjust appropriations based on actual (unaudited) Development Fee Program reconciliations. In the four Development Fee Programs (Building, Fire, Planning, and Public Works), these actions adjust fee reserves to reflect the policy of preserving all expenditure savings and/or capturing any revenue excess/shortfalls and related interest earnings resulting from year-end program reconciliations.

**Rebudgets** – These actions revise various appropriations to rebudget funds to complete prior year projects. Downward adjustments to previously approved rebudget actions are included if actual year-end revenues or expenditures were higher than anticipated, while upward adjustments are included if actual year-end revenues or expenditures were lower than anticipated.

**Retirement Contributions Reconciliation** – Due to the change in methodology (2011-2012) for paying the City’s annual required contribution to a minimum amount or the amount generated by a rate, a Retirement Contributions Reconciliation was completed for both the Federated City Employees’ Retirement System and the Police and Fire Department Retirement Plan. This reconciliation is completed annually and included as part of this document to ensure that all City funds contain the correct contribution amounts for 2014-2015. Based on the final City contribution amounts as determined by the two retirement boards in May 2014 and the actions incorporated into the 2014-2015 Adopted Budget, no additional funds are required to meet the retirement payments. However, the net-zero reallocation of retirement funding set aside as part of the Employee Compensation Planning Reserve for potential pay increases for the International Association of Firefighters, Local 230 is recommended to be allocated to the Fire Department to cover annual required retirement contributions. In total, retirement costs for 2014-2015 are budgeted at \$235 million in the General Fund and \$305 million in all funds (factoring in the Retiree Healthcare Solutions Reserve adjustments described below).