

**2013-2014**

**ANNUAL**

**REPORT**

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**T**RANSMITTAL

**M**EMORANDUM



**TO:** HONORABLE MAYOR AND  
CITY COUNCIL

**FROM:** Edward K. Shikada

**SUBJECT:** 2013-2014 ANNUAL REPORT

**DATE:** September 30, 2014

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## **RECOMMENDATION**

It is recommended that the City Council:

- (a) Accept the 2013-2014 City Manager's Annual Report of the Finances of the City of San José in compliance with City Charter Section 701 (F).
- (b) Adopt Appropriation Ordinance and Funding Sources Resolution amendments in various operating and capital funds to implement the 2013-2014 Annual Report recommendations, including appropriate technical adjustments, as detailed in Section IV. Recommended Budget Adjustments and Clean-Up/Rebudget Actions.
- (c) Approve the shift of 1.0 Senior Executive Analyst from the Office of Economic Development to the Planning, Building and Code Enforcement Department and reallocate this position to a Principal Planner, as detailed in Section IV. Recommended Budget Adjustments and Clean-Up/Rebudget Actions.

## **OUTCOME**

In accordance with Section 701 (F) of the San José City Charter, the 2013-2014 Annual Report describes the financial status of the City at the end of the 2013-2014 fiscal year. As specified in the City Charter, the focus of the City Manager's Annual Report is a comparison of actual revenue collections and expenditures to projections and appropriations included in the City's budget. This will provide the City Council with the information necessary to review the financial performance of all City funds. In addition, this report provides a comparison of the actual 2013-2014 Ending Fund Balance for each fund to the estimate used in the development of the 2014-2015 Adopted Budget as well as information on the status of the year-end reserve levels for each of the City's budgeted funds.

Approval of the recommended budget actions will implement required fund balance reconciliations as well as necessary rebudget and clean-up adjustments based on the final 2013-2014 financial performance (unaudited). The document also includes actions that are necessary to revise the 2014-2015 budget to align budgeted revenue and expenditures with the most current information, correct technical problems, recognize new or adjust existing grant, reimbursement or fee activity revenues and expenditures, fund a limited number of urgent fiscal/program needs in the General Fund, and reflect changes in project and program allocations based on revised cost estimates as well as establish a limited number of new projects and programs in special and capital funds.

**EXECUTIVE SUMMARY**

The Administration proactively managed the City's over 110 budgeted funds in 2013-2014. Budget actions were brought forward during the year to ensure that revenues and expenditures remained in alignment with actual performance. Through this careful management, the various City funds generally ended the year with revenues close to the budgeted estimates and expenditures below the budgeted allocations.

With strategic financial reform, moderate increases in revenue from a stronger economy, and the very careful management of expenses, the City's budget continued to stabilize in 2013-2014. As a result, the City was not faced with the challenge of closing a massive shortfall as was required every year, but one, over the past 11 years. With the improved forecast, the 2013-2014 Adopted Budget provided for limited service enhancements and infrastructure improvements, avoided service cuts, and allowed for small increases in employee compensation. The budget also included specific reductions in areas where service delivery efficiencies and cost savings could be obtained with no service level impacts. The strengthening of the local economy was demonstrated by new highs in development-related and hotel-related tax receipts that will allow for future capital reinvestment in the City's transportation network and cultural facilities. Moving forward, the City will continue its efforts to rebuild services with the resources available to better meet the needs of the community.

In the General Fund, both the revenues and expenditures ended the year very close to budgeted expectations. At the end of 2013-2014, there was \$17.6 million (0.7% of the 2013-2014 Modified Budget total sources and uses) in additional General Fund 2013-2014 Ending Fund Balance above the level assumed in the development of the 2014-2015 Adopted Budget. These funds are recommended to be allocated in the 2013-2014 Annual Report as shown below.

**PROPOSED 2014-2015 GENERAL FUND ADJUSTMENTS (\$000s)**

<b>2013-2014 Ending Fund Balance</b>	<b>\$ 17,559</b>
<b>Early Rebudgets Previously Approved by City Council</b>	<b>\$ (596)</b>
<b>Additional 2013-2014 Ending Fund Balance for Annual Report</b>	<b>\$ 16,963</b>
<b>Clean-Up Actions</b>	
Development Fee Programs Reconciliation	(3,993)
Rebudgets/Clean-Up Adjustments	(4,622)
<b>Sub-total Clean-Up Actions</b>	<b>\$ (8,615)</b>
<b>Fund Balance Available After Clean-up Actions</b>	<b>\$ 8,348</b>
<b>Recommended Budget Adjustments</b>	
Required Technical/Rebalancing Actions	(6,156)
Grants/Reimbursements/Fee Activities (\$3.7 million in net-zero adjustments)	0
Urgent Fiscal/Program Needs	(2,192)
<b>Sub-total Recommended Budget Adjustments</b>	<b>\$ (8,348)</b>
<b>* Remaining Balance After Clean-ups/Recommended Adjustments</b>	<b>\$ 0</b>

## **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

## **EXECUTIVE SUMMARY**

preliminary estimate of costs that could be awarded; a tentative hearing date to determine the amount of potential fees has been set for November 6, 2014.

As we move forward, the Administration will continue to monitor and report on the City's financial performance through Bi-Monthly Financial Reports and the Mid-Year Budget Review. The financial results of 2013-2014 will also be factored into the development of the 2016-2020 General Fund Five-Year Forecast that will be released in February 2015.

## **BACKGROUND**

Each year the City issues the Annual Report at the end of September, three months after the close of the fiscal year, as required by the City Charter. Following is a description of the various sections of the Annual Report document.

- **Transmittal Memorandum** – This section provides an overall summary of the 2013-2014 Annual Report.
- **Section I: Financial Performance Summary (All Funds)** – This section provides a comparison of the 2013-2014 budget to actual revenues received and expenditures incurred by fund as well as a discussion of revenue and/or expenditure variances of 5% or greater to the budget. This section also provides a comparison of the year-end actual 2013-2014 Ending Fund Balance by fund to the 2013-2014 Ending Fund Balance/2014-2015 Beginning Fund Balance estimate used in the development of the 2014-2015 Adopted Budget. In addition, a listing of the Earmarked and Contingency Reserves that were available at the end of 2013-2014 by fund is included.
- **Section II: General Fund Financial Performance** – This section provides a summary of the General Fund performance in 2013-2014, including the following: Results of Operations in the General Fund; Revenue Performance; and Expenditure Performance.
- **Section III: Selected Special/Capital Funds Financial Performance** – This section provides financial information on the 2013-2014 year-end performance for selected special and capital funds that represent major City operations. It includes a discussion of variances between actual and budgeted revenues and expenditures as well as a comparison between the actual ending fund balance and the fund balance estimated for 2013-2014 in the development of the 2014-2015 Adopted Budget.
- **Section IV: Recommended Budget Adjustments and Clean-Up/Rebudget Actions** – This section provides a description of the recommended budget adjustments and clean-up actions for City Council consideration. The proposed actions generally fall into three categories: (1) adjustments to the 2014-2015 Beginning Fund Balance amounts in various funds, including the General Fund, based on the final reconciliation of 2013-2014; (2) upward and downward adjustments to the rebudget figures to ensure the appropriate amount of unexpended funds are carried over to 2014-2015 to complete projects; and (3) actions based on more recent

## **BACKGROUND**

information that are necessary to revise the 2014-2015 budget to align budgeted revenue and expenditures with the most current information, correct technical problems, recognize new or adjust grant, reimbursement or fee activity revenues and expenditures, fund a limited number of urgent fiscal/program needs in the General Fund, and reflect changes in project and program allocations based on revised cost estimates as well as establish a limited number of new projects and programs in special and capital funds.

- **Section V: Financial Statements** – This section provides the financial results (unaudited), prepared by the Finance Department, for all budgeted fund groups for 2013-2014. It should be noted that audited financial results will be released later in the fall as part of the 2014 Comprehensive Annual Financial Report (CAFR) for Fiscal Year Ended June 30, 2014. Final fund balance reconciliations to the CAFR will be conducted for all funds and, while very few adjustments are typically necessary, any final adjustments will be brought forward for City Council consideration as part of the 2014-2015 Mid-Year Budget Review.
- **Section VI: Appendix** – This section includes the “2013-2014 Fire Department Vacancy and Absence Rates and Their Impact on Overtime” Information Memorandum. This report is prepared annually by the Fire Department in response to the City Auditor’s April 2001 “Audit of the City of San Jose Fire Department’s Overtime Expenditures”. Through 2011-2012, this report was presented to the Public Safety, Finance, and Strategic Support Committee (PSFSS). 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.

## **ANALYSIS**

This Analysis section includes the following:

- an overview of the economic environment;
- a discussion of the 2013-2014 budget performance of all City funds;
- a discussion of the 2013-2014 budget performance for the General Fund;
- a discussion of the components of the 2013-2014 General Fund ending fund balance;
- an analysis of the impact of the General Fund performance on the 2014-2015 Adopted Budget; and
- a discussion of the 2013-2014 budget performance of selected special and capital funds.

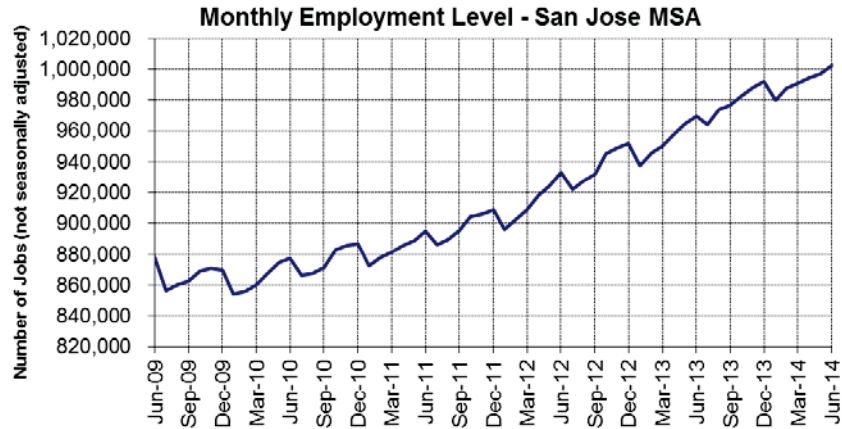
<b>Economic Environment</b>
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When the 2013-2014 Adopted Budget was developed, economic growth was expected to continue in 2013-2014. This assumption has proven true, with continued improvement in economic indicators and actual revenue performance during 2013-2014. Employment indicators, residential and industrial permit activity, median single-family home prices and days on market have all improved.

**ANALYSIS**

**Economic Environment**

The June 2014 employment level in the San José – Sunnyvale – Santa Clara Metropolitan Statistical Area (MSA) of 1.0 million was 3.5% above the June 2013 level of 969,600. This employment level exceeds the most recent peak of 991,900 in December 2013, and is well above the pre-recession peak of 930,500 experienced in December 2007.



The unemployment rate in the San José metropolitan area continued to improve in 2013-2014, dropping from 7.3% in June 2013 to 5.5% in June 2014. These rates remain well below the double digit levels that had been experienced in recent years. The June 2014 unemployment rate in this region is less than the unadjusted rate for the State (7.3%) and the nation (6.3%).

**Unemployment Rate (Unadjusted)**

	<b>June 2013</b>	<b>May 2014</b>	<b>June 2014</b>
SJ Metropolitan Statistical Area*	7.3%	5.3%	5.5%
State of California	9.2%	7.1%	7.3%
United States	7.8%	6.1%	6.3%

\* San Benito and Santa Clara Counties  
 Source: California Employment Development

Construction activity was strong in 2013-2014, with total fiscal year end valuation of \$1.7 billion, a 77% increase from the prior year of \$1.0 billion and a decade-plus high. The strongest increase in performance was in the commercial permit activity, with construction valuation of \$398.5 million, which was up 89% from the prior year valuation level of \$211.2 million. This growth was due primarily to the issuance of building permits for Samsung Semiconductor in August and October 2013. The 4,724 permits for new residential units issued through June 2014 was above the prior year level of 2,702 by 75%, due largely to a high number of permits issued in December 2013 for two downtown high rises and two developments at the Hitachi Site. The total valuation of industrial permits issued of \$457.4 million was 85% above the prior year valuation of \$247.1 million. Overall, this construction activity drives the revenue collection in several construction tax categories and is an indicator of future activity for several other categories, such as the storm and sanitary sewer system fees.

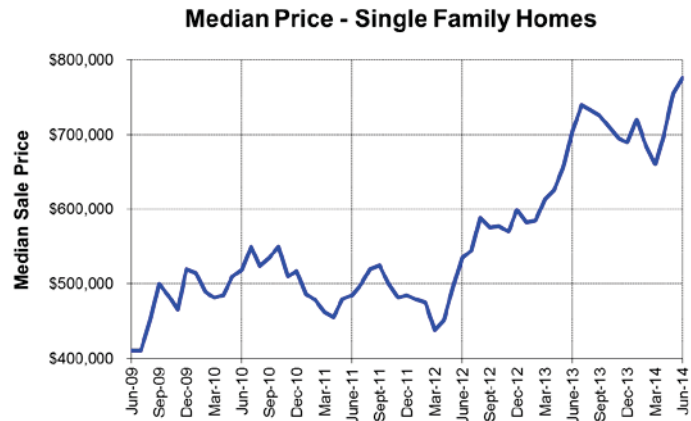
The housing market also continued to improve in 2013-2014. The median price for single family homes increased in value, with a median home price in June 2014 of \$795,400, up 8.6% from the June 2013 price of \$732,500. In addition, the amount of time it takes to sell a home (single-



## ANALYSIS

### **Economic Environment**

family and multi-family dwelling units) has decreased in the past year from 22 days in June 2013 to 20 days in June 2014, a 9.1% decrease. The June 2014 figure reflects a new low compared to the prior low in June 2013. The number of home sales (single-family and multi-family dwelling units), however, has decreased over the past year (-3.3%) from 8,091 sales in 2012-2013 to 7,824 sales in 2013-2014.



### **2013-2014 Budget Performance (All Funds)**

As shown in Section I of this document, City revenues (excluding Beginning Fund Balance) totaled \$2.37 billion in 2013-2014, which was 1.1% (\$25.5 million) below the budgeted estimate of \$2.39 billion. In several funds, grants and expenditure-related reimbursements were not received in 2013-2014 and are now expected to be received in 2014-2015.

In 2013-2014, expenditures (excluding Reserves and Ending Fund Balance) totaled \$2.44 billion, which was \$472.4 million (16.2%) below the modified budget of \$2.9 billion. Unexpended capital funds accounted for 58.9% (\$278.1 million) of the expenditure variance with \$423.4 million of the \$701.5 million modified budget expended. The majority of the unexpended capital funds were rebudgeted to 2014-2015 in the 2014-2015 Adopted Budget and additional funds are recommended to be rebudgeted in this document.

At the end of 2013-2014, the Earmarked and Contingency Reserves for all City funds totaled \$663.6 million, which represented 17.4% of the total modified budget for the City of \$3.8 billion (including Contributions, Loans and Transfers). In the General Fund, Reserves totaled \$182.8 million. All of the General Fund Reserves were rebudgeted to 2014-2015 or assumed as savings or used in the development of the 2014-2015 Adopted Budget.

The financial performance in 2013-2014 is used as the starting point for 2014-2015. The collective 2013-2014 Ending Fund Balances for all City funds totaled \$1.44 billion, which was \$142.3 million above the 2013-2014 Ending Fund Balance estimates of \$1.30 billion used in the development of the 2014-2015 Adopted Budget. After adjusting for additional rebudgets of \$41.4 million recommended in this document, the adjusted 2013-2014 Ending Fund Balance variance for all funds drops to \$100.9 million. The adjusted fund balance variance totaled \$8.3 million in the General Fund, \$49.8 million in the special funds, and \$42.8 million in the capital funds.

**ANALYSIS**

**2013-2014 General Fund Budget Performance**

The City's General Fund ended the 2013-2014 fiscal year within budgeted levels. As shown in the chart below, the General Fund Ending Fund Balance of \$270.6 million was \$17.6 million (0.7% of the 2013-2014 Modified Budget total sources and uses) above the fund balance estimate assumed when the 2014-2015 Adopted Budget was developed. The following table summarizes the General Fund performance in 2013-2014, comparing the actual results to the modified budget and the estimates used to develop the 2014-2015 Adopted Budget.

**Table 1**  
**General Fund Year-End Status**  
**For the Year Ended June 30, 2014**  
 (\$000s)

<b>Sources</b>	<b>2013-2014 Modified Budget</b>	<b>2013-2014 Year-end Estimate</b>	<b>2013-2014 Budgetary Basis Actual</b>	<b>Actual to Budget Variance</b>	<b>Actual to Estimate Variance</b>
<i>Beginning Fund Balance*</i>	215,181	215,181	215,181	-	-
<i>Carryover Encumbrances</i>	18,181	18,181	18,181	-	-
<i>Liquidation of Carry- over Encumbrances</i>	-	2,000	1,469	1,469	(531)
<i>Revenue*</i>	1,008,770	1,008,770	1,008,010	(760)	(760)
<b>Totals</b>	<b>1,242,132</b>	<b>1,244,132</b>	<b>1,242,841</b>	<b>709</b>	<b>(1,291)</b>
<b>Uses</b>					
<i>Expenditures*</i>	1,034,475	966,174	947,332	(87,143)	(18,842)
<i>Transfers</i>	24,890	24,890	24,882	(8)	(8)
<i>Reserves</i>	182,767	-	-	(182,767)	-
<b>Totals</b>	<b>1,242,132</b>	<b>991,064</b>	<b>972,214</b>	<b>(269,918)</b>	<b>(18,850)</b>
<i>Ending Fund Balance</i>	-	253,068	270,627	270,627	17,559

\* The General Fund incorporates the Police Department Seized Asset Fund.

In 2013-2014, General Fund revenues of \$1.0 billion ended the year \$760,000 (0.1%) below both the modified budget and the estimate used to develop the 2014-2015 Adopted Budget. Other funding sources included the liquidation of prior year carryover encumbrances totaling \$1.5 million, which fell \$531,000 below the estimate of \$2.0 million used to develop the 2014-2015 Adopted Budget. General Fund expenditures and transfers of \$972.2 million were \$87.2 million (8.2%) below the modified budget of \$1.0 billion and \$18.9 million (1.9%) below the estimate used to develop the 2014-2015 Adopted Budget. In addition, reserves of \$182.8 million remained unexpended at year-end.

When comparing the actual revenue and expenditure performance to the estimates used to develop the 2014-2015 Adopted Budget, a portion of these variances is related to various grants and reimbursements that were not received in 2013-2014, but are expected to be received in 2014-2015. A total of \$3.1 million of grant and reimbursement revenues and expenditures were

## ANALYSIS

### **2013-2014 General Fund Budget Performance**

rebudgeted to 2014-2015 in the 2014-2015 Adopted Budget. This resulted in lower actual revenues and expenditures in 2013-2014, with no net impact to the General Fund. After factoring out the lower revenues and expenditures associated with these grants and reimbursements, the revenue variance to the estimate was a surplus of \$2.3 million (0.2%) and the expenditures variance totaled \$15.8 million (1.5%, excluding reserves), and a \$531,000 shortfall from the liquidation of carryover encumbrances when compared to year-end estimated levels. Further adjustments to these figures are necessary to account for the recommended rebudget and clean-up actions in the Annual Report.

In this Annual Report document, budget actions are recommended to distribute the additional fund balance of \$17.0 million, excluding an adjustment to account for the previous City Council approved early rebudget of \$600,000. Per City Council Policy 1-18, when determining the proposed distribution of these funds, the first priority is to complete clean-up actions associated with the final reconciliation of 2013-2014. Recommended clean-up actions of a net \$8.6 million primarily reflect a downward adjustment of \$4.0 million to reconcile the actual performance of the Development Fee Programs for 2013-2014. After accounting for these actions, and \$4.6 million in required expenditure rebudgets and other cleanup adjustments to close-out 2013-2014, \$8.3 million (0.3%) in additional ending fund balance is available. Once understated revenues and overstated expenditure savings due primarily to various grants and reimbursements have been factored out, this additional fund balance of \$8.3 million was generated from excess revenues of \$7.5 million (0.7%), net expenditure savings of \$1.4 million (0.1%), slightly offset by lower than estimated liquidation of prior year encumbrances (\$531,000).

The additional General Fund balance of \$8.3 million (0.3%) available for distribution is recommended to be allocated to address various required technical and rebalancing actions (\$6.1 million), and two recommended urgent fiscal/program needs (\$2.2 million), which are described later in this transmittal memorandum.

To identify revenue and expenditure trends, the actual 2013-2014 revenues and expenditures are compared to the prior year. Table 2 below compares the City's financial performance in 2013-2014 with the financial performance of the prior year.

**ANALYSIS**

**2013-2014 General Fund Budget Performance**

**Table 2  
 General Fund  
 Comparison of Year-End Actuals with Prior Year  
 (\$000s)**

	<b>2012-2013 Actuals</b>	<b>2013-2014 Actuals</b>	<b>Change</b>	<b>% Change</b>
<b>Source of Funds</b>				
Beginning Fund Balance	188,723	234,831	46,108	24.4%
Revenues	943,839	1,008,010	64,171	6.8%
<b>Total Source of Funds</b>	<b>1,132,562</b>	<b>1,242,841</b>	<b>110,279</b>	<b>9.7%</b>
<b>Use of Funds</b>				
Personal Services	569,877	604,436	34,559	6.1%
Non-Personal/Equipment/Other	100,128	110,804	10,676	10.7%
City-Wide Expenses	210,613	224,597	13,984	6.6%
Capital Projects	7,601	7,495	(106)	-1.4%
Transfers	29,162	24,882	(4,280)	-14.7%
Reserves	-	-	-	N/A
<b>Total Use of Funds</b>	<b>917,381</b>	<b>972,214</b>	<b>54,833</b>	<b>6.0%</b>

As shown in Table 2, 2013-2014 General Fund revenues of \$1.0 billion represent an increase of 6.8% from the 2012-2013 collection level of \$943.8 million. The categories that experienced the largest increases included: Property Tax, Sales Tax, Transient Occupancy Tax, Licenses and Permits, Revenue from Local Agencies, Other Revenues, and Departmental Charges categories. The largest declines from the prior year were experienced in the Use of Money and Property, Revenue from the State of California, and Revenue from the Federal Government categories.

General Fund expenditures of \$972.2 million in 2013-2014 were 6.0% above (\$54.8 million) prior year expenditure levels 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 lower Capital Projects expenditures (\$106,000).

A detailed discussion of the General Fund revenue and expenditure performance is provided in Section I of this document.

**2013-2014 General Fund Ending Fund Balance**

The current budgeting practice of the City is to use the projected level of fund balance expected to remain in the General Fund at the end of any fiscal year as a funding source for the following year. The Ending Fund Balance estimate always contains two components: the portion of the fund balance that needs to be rebudgeted for completing projects or retaining reserves, and the

**ANALYSIS**

**2013-2014 General Fund Ending Fund Balance**

portion which is undesignated and available as a general funding source in the coming year. In the 2014-2015 Adopted Budget, a total fund balance estimate of \$253.1 million was included as a funding source. As discussed earlier, the 2013-2014 General Fund Ending Fund Balance of \$270.6 million was \$17.6 million above this estimate.

The components of the 2013-2014 General Fund Ending Fund Balance include additional funding sources, expenditure/transfer savings, and unexpended reserves as described below:

**2013-2014 General Fund  
 Ending Fund Balance Components**

<b>Fund Balance Component</b>	<b>\$ Amount (\$ in 000s)</b>
Additional Funding Sources	\$ 709
Expenditure/Transfer Savings	87,151
Unexpended Reserves	182,767
<b>TOTAL</b>	<b>\$ 270,627</b>

The total Sources of Funds ended the year \$709,000 above the modified budget as a result of lower revenues (\$760,000), which were partially offset by the liquidation of carryover encumbrances (\$1.5 million). Additional rebudget and clean-up actions are recommended in the Annual Report, resulting in an adjusted revenue surplus of \$7.5 million (0.7%) from the modified budget. Major adjustments include the rebudget of \$7.8 million in financing proceeds in relation to the Energy and Utility Conservation Measures Program partially offset by the allocation of \$2.7 million of additional Development Fee Program revenues to the Development Fee Program Reserves.

For the Uses of Funds, expenditure and transfer savings totaled \$87.2 million, while unexpended reserves totaled \$182.8 million, representing the largest component of the 2013-2014 Ending Fund Balance. Of the \$87.2 million in expenditure/transfer savings, almost 80% of these savings (\$71.4 million) was assumed as savings in the development of the 2014-2015 budget or rebudgeted to 2014-2015 to complete projects. Based on actual 2013-2014 expenditures, additional rebudget and clean-up adjustments totaling \$14.4 million are recommended in this report. After accounting for these adjustments, net expenditure/transfer savings totaled \$1.4 million at year-end, or 0.1% of the modified budget for these expenditures.

General Fund Reserves, totaling \$182.8 million at the end of 2013-2014, include three categories: Earmarked Reserves (\$129.8 million) established to address specific needs per City Council direction; the Ending Fund Balance Reserve (\$22.0 million) established during 2013-2014 from excess revenues and expenditure savings that are programmed for use in the 2014-2015 Adopted Budget; and the Contingency Reserve (\$31.0 million) set at a minimum of 3% of expenditures per City Council policy. The entire \$182.8 million in Reserves was approved for

## ANALYSIS

### **2013-2014 General Fund Ending Fund Balance**

rebudget or assumed as a source of funding in the development of the 2014-2015 Adopted Budget. Following is additional information regarding the three reserve categories.

- ***Earmarked Reserves (\$129.8 million)*** – At the end of 2013-2014, the most significant reserves included the following: 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 used as a funding source in the 2014-2015 Adopted Budget.
- ***Ending Fund Balance Reserve (\$22.0 million)*** – 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 a majority portion of the 2013-2014 ending fund balance was available for use as assumed in the development of the 2014-2015 Adopted Budget, funding of \$22.0 million was proactively set aside during 2013-2014.
- ***Contingency Reserve (\$31.0 million)*** – The City Council has established a budget policy of maintaining a minimum 3% Contingency Reserve in the General Fund. At the end of 2013-2014, the 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 order to comply with the Council Policy of maintaining a minimum 3% Contingency Reserve in the General Fund based on the final 2014-2015 Adopted Budget. 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.

### **Impacts on the 2014-2015 General Fund Budget**

As discussed above, it was assumed that \$253.1 million would remain at the end of 2013-2014 and would be carried over to 2014-2015 as Beginning Fund Balance as part of the adoption of the 2014-2015 General Fund Budget. These funds, which were expected to be generated from unexpended reserves, unexpended funds that were rebudgeted to 2014-2015, expenditure savings

## **ANALYSIS**

### **Impacts on the 2014-2015 General Fund Budget**

and the liquidation of carryover encumbrances, were programmed for use in the 2014-2015 Adopted Budget. The actual General Fund Ending Fund Balance was above the estimate used in the 2014-2015 Adopted Budget by \$17.6 million, due to excess revenues and additional expenditure savings.

The following chart details the recommended uses of the \$17.6 million additional fund balance as well as other budget adjustments that are recommended as part of this report. After factoring out the previous City Council approved early rebudget of \$600,000, recommended clean-up actions will result in a decrease to the available fund balance of \$8.6 million, reflecting a downward adjustment of \$4.0 million to reconcile the actual performance of the Development Fee Programs in 2013-2014 as well as a net downward adjustment of \$4.6 million to account for additional rebudget and clean-up actions to close-out 2013-2014. Once these adjustments have been accounted for, the net available fund balance available for allocation totals \$8.3 million. This additional fund balance is proposed to be allocated to address required technical/rebalancing needs as well as urgent fiscal/program needs in the current year.



**ANALYSIS**

**Impacts on the 2014-2015 General Fund Budget**

**PROPOSED 2014-2015 GENERAL FUND ADJUSTMENTS (\$000s)**

<b>Additional 2013-2014 Ending Fund Balance</b>	<b>\$ 17,559</b>
<b>Early Rebudgets Previously Approved by City Council (August 26, 2014)</b>	<b>(596)</b>
<b>Additional 2013-2014 Ending Fund Balance for Annual Report</b>	<b>\$ 16,963</b>
<b>Clean-Up Actions</b>	
Development Fee Programs Reconciliation	(3,993)
Rebudgets/Clean-Up Adjustments	(4,622)
<b>Sub-total Clean-Up Actions</b>	<b>(8,615)</b>
<b>Fund Balance Available After Clean-Up Actions</b>	<b>\$ 8,348</b>
<b>Recommended Budget Adjustments</b>	
<b>Required Technical/Rebalancing Actions</b>	
- Silicon Valley Regional Communications System Reserve	(3,130)
- Police Department Staffing Reserve	(3,000)
- Commercial Solid Waste and Recyclables Collection Franchise Fee Refund	(502)
- Transfer to the Municipal Golf Fund (Subsidy)	(300)
- Contingency Reserve	(200)
- Police Administration Building Security Upgrades	(100)
- PBCE Non-Personal/Equipment (AMANDA Licenses)	(60)
- Transfer to the City Hall Debt Service Fund (Interest Earnings Shortfall)	(40)
- Finance Non-Personal/Equipment (Investment Program Subscription)	(24)
- Other Adjustments	(8)
- Police Department Overtime (\$7.0M from Salaries and Benefits to Overtime)	0
- Retire. Cont. Recon. (\$2.3M Depts to Ret. Health. Res./\$2.8M Fire Dept. from Res.)	0
- Salary Program (\$1.4M from Reserve to Depts)	0
- Office of Emergency Services Grant Reconciliation Reserve	500
- Transfer from Convention and Cultural Affairs Fund (AMT Payment 2009-2015)	274
- PBCE Personal Services (CA Sustainable Communities Grant)	221
- Arena Community Fund	80
- Reduced Work Week/Voluntary Furlough Savings (\$150,000 from Depts. to Reserve)	75
- Air Service Incentive Program Res./Transfers and Reimbursements (Overhead)	58
<b>Sub-total Required Technical/Rebalancing Actions</b>	<b>\$ (6,156)</b>
<b>Grants/Reimbursements/Fee Activities</b> (\$3.7 million in net-zero adjustments)	<b>\$ 0</b>
<b>Urgent Fiscal/Program Needs</b>	
- Fiscal Reform Plan Implementation Reserve	(2,000)
- Hammer Theater Center Operations and Maintenance	(192)
<b>Sub-total Urgent Fiscal/Program Needs</b>	<b>\$ (2,192)</b>
<b>Total Recommended Budget Adjustments</b>	<b>\$ (8,348)</b>
<b>Remaining Balance After Recommended Adjustments</b>	<b>\$ 0</b>



## ANALYSIS

### **Impacts on the 2014-2015 General Fund Budget**

Following is a summary of the recommended actions. These adjustments are described in more detail in *Section IV. Recommended Budget Adjustments and Clean-Up/Rebudget Actions* of this report.

#### **Clean-Up Actions (-\$8.6 Million)**

- **Development Fee Programs Reconciliation (-\$3.99 million)** – Consistent with the budget policy enacted several years ago, year-end reconciliations of the revenues and expenditures in the Development Fee Programs are conducted to determine if revenues exceeded or fell below costs. To meet the commitment to the development community that all development fees will be used solely to support development fee activities, any excess revenues and interest earnings above actual costs are placed in Development Fee Program Reserves. Based on 2013-2014 results, \$3.99 million is recommended to be added to the Development Program Fee Reserves (Building, Fire, Planning, and Public Works), preserving any net savings between revenues and expenditures in these programs.
- **Rebudgets/Clean-Up Adjustments (-\$4.62 million)** – A series of adjustments are recommended to complete existing projects in 2014-2015 and to reflect any necessary technical budget adjustments. The Annual Report is the point in the budget process where action is required to rebudget unexpended funds from the prior year that were not anticipated when the Adopted Budget was approved, but are required to complete a project in the current year. Also recommended are actions that actually reduce previous rebudgets to reflect instances where expenditures, for which rebudgets were approved, actually occurred in 2013-2014, therefore, the funds are not available for rebudget to 2014-2015. Other technical adjustments include the reconciliation of restricted program funding (e.g. Wellness Program, Public, Education, and Government Access activities) and the repayment of previous contributions for Leland sports fields to the Council District 10 Construction and Conveyance Tax Fund.

#### **Recommended Budget Adjustments (-\$8.3 million)**

A number of General Fund budget adjustments are recommended to address current year funding needs that have emerged since the 2014-2015 budget was approved or to correct 2014-2015 budget amounts. These adjustments total \$8.3 million and can be classified under three categories: 1) Required Technical/Rebalancing Actions with a net General Fund cost of \$6.1 million; 2) Grants/Reimbursement/Fee Activities that include a series of net-zero adjustments totaling \$3.7 million; and 3) Urgent Fiscal/Program Needs with a net cost of \$2.2 million. A summary of these adjustments include:

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### Impacts on the 2014-2015 General Fund Budget

- **Required Technical/Rebalancing Actions (\$-6.16 million)**

- This action establishes a *Silicon Valley Regional Communications System Reserve* in the amount of \$3.1 million. As directed in the Mayor's June Budget Message for Fiscal Year 2014-2015, as approved by the City Council, the remaining unbudgeted fund balance after necessary appropriation adjustment actions to rebudget funds, correct errors, or reflect updated cost information have been accounted for in the fund balance reconciliation shall be allocated to the City's share of the Silicon Valley Regional Communications System. This need is estimated to be \$13.9 million to build the System and \$13.0 million to purchase new radios, of which approximately \$3.0 million for the radios has been funded in 2014-2015. (-\$3.1 million)
- This action increases the *Police Department Staffing Reserve* in the amount of \$3.0 million, 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. Police Department personal services savings totaled \$3.8 million in 2013-2014, of which \$0.8 million is recommended for rebudget to address Police overtime needs as part of this document with the remaining savings of \$3.0 million recommended to be placed in this reserve. (-\$3.0 million)
- This action establishes a *Commercial Solid Waste and Recyclables Collection Franchise Fee Refund* appropriation to the Environmental Services Department in the amount of \$502,000 to provide a refund to Republic Services, a primary hauler for garbage services in the City, due to an overpayment of funds in 2011-2012. In late 2011 and early 2012, Republic Services acquired accounts from three other companies providing services within the San José commercial solid waste marketplace. Due to the complexity of some services being billed in arrears and the differing times between service start dates and when those accounts were entered into their system, Republic Services had inadvertently remitted to the City additional monies that had already been paid by the acquired companies. In October 2013, all parties were satisfied that Republic Services had, in fact, overpaid the City in the amount specified, and that this money should be refunded. (-\$0.5 million)
- This action increases the *Transfer to the Municipal Golf Course Fund* from the General Fund in the amount of \$300,000, from \$1.6 million to \$1.9 million. The General Fund subsidy level will remain slightly below the 2013-2014 level of \$2.0 million. When the 2014-2015 Adopted Budget was developed, it was assumed that activity would remain at approximately the estimated 2013-2014 levels. However, actual performance in 2013-

## ANALYSIS

### **Impacts on the 2014-2015 General Fund Budget**

2014 fell below expectations with slightly lower revenues. In addition, while the actual 2013-2014 expenditures were close to the estimates assumed in the development of the 2014-2015 Adopted Budget, the Adopted Budget did not assume a timing difference that resulted in lower 2013-2014 expenditures and higher 2014-2015 expenditures. To account for actual performance in this fund, this action recommends an increase of the transfer from the General Fund to the Municipal Golf Course Fund to ensure sufficient fund balance remains in this Fund. This action, combined with additional recommended adjustments to the Municipal Golf Course Fund, will bring the 2014-2015 Ending Fund Balance in that Fund to approximately \$400,000. (-\$0.3 million)

- Per City Council Policy I-18, Operating Budget and Capital Improvement Program Policy, the General Fund **Contingency Reserve** is to be set at a minimum of 3% of the operating budget. This action increases the Contingency Reserve by \$200,000 from \$32.5 million to \$32.7 million to ensure compliance with the 3% funding requirement for the 2014-2015 Adopted Budget. (-\$0.2 million)
- This action increases the **Police Administration Building Security Upgrades** appropriation by \$100,000 to provide funding to address higher than anticipated project costs. This project includes the installation of card readers and associated infrastructure, including wiring, control system, and door hardware to the exterior and interior doors, allowing for a secure system and is expected to be completed in spring 2015. (-\$0.1 million)
- This action increases the **Planning, Building and Code Enforcement Department's Non-Personal/Equipment** appropriation by \$60,500 for its share of the purchase of 140 user licenses for the city-wide Development Services permitting system (AMANDA). The total cost of the additional licenses is \$215,500 (\$180,000 for licenses and \$39,500 for associated maintenance costs), which will be funded primarily by the Development Services partners. This allocation, however, funds the licenses for the Code Enforcement Fee Programs that use the AMANDA system. (The additional license costs funded by the Development Fee Programs are incorporated into the Grant/Reimbursements/Fee Activities category). When AMANDA was upgraded to Version 6 in July 2014, the concurrent use of the system was limited to 60 license holders. Due to an inadvertent error in budgeting for the number of license holders, the need for concurrent users is actually at 200. The additional licenses will allow staff to use the system without being denied access or timed out, resulting in the loss of works-in-progress, delays in completing work, and the inability to meet service levels expected by the public. The ongoing maintenance costs will be considered as part of the development of the 2015-2016 budget. (-\$60,500)

## ANALYSIS

### **Impacts on the 2014-2015 General Fund Budget**

- This action increases the *Transfer to the City Hall Debt Service Fund* from the General Fund by \$40,000 (from \$17.70 million to \$17.74 million). In 2013-2014, the actual interest earnings in the City Hall Debt Service Fund were lower than the estimate assumed in the development of the 2014-2015 Adopted Operating Budget, resulting in a lower than estimated beginning fund balance in 2014-2015. This recommended action will ensure that the City Hall Debt Service Fund will not end the year with a negative ending fund balance. These additional contributions from the General Fund will be factored into the calculations for 2015-2016 allocations that spread the debt across almost all City funds. (-\$40,000)
- This action increases the *Finance Department Non-Personal/Equipment* appropriation by \$24,000 to reflect a cost increase for an investment program subscription effective July 1, 2014 for a total cost of \$60,000. SunGard Advanced Portfolio System 2 (APS 2) is an investment accounting and portfolio management solution that provides accounting with securities tracking, regulatory compliance, report writer and full import/export capability. SunGard is essential for investment operations; however, due to its limitations and high fees, the department will prepare a Request for Proposal in January 2015, and anticipates a new multi-year contract at a potentially lower annual cost in 2015-2016. (-\$24,000)
- *Other Adjustments* include net-zero adjustments for Hammer Theater Operations and Maintenance (\$77,000 reduction to revenues and expenditures), allocation of San José BEST and Safe Summer Initiative – Parent Project funds (\$7,000), and several City Council special event sponsorship adjustments (\$1,000) as described in *Section IV. Recommended Budget Adjustments and Clean-Up/Rebudget Actions*. (-\$8,000)
- This net-zero action reallocates \$7.0 million in anticipated 2014-2015 vacancy savings from the salary and benefits line items to the *Police Department Overtime* line item in the Police Department Personal Services appropriation. This action, when combined with a rebudget action of \$800,000 recommended elsewhere in this document, increases the Police Department's sworn and non-sworn overtime funding in 2014-2015 by \$7.8 million (from \$17.1 million to \$24.9 million) which is approximately equivalent to the overtime expenditures in 2013-2014, with an adjustment for the recent sworn and non-sworn salary increases. This funding will primarily be used to continue to backfill for vacant sworn and civilian positions and continue the expanded targeted enforcement levels of high crime activity. As approved as part of the 2014-2015 Adopted Budget, \$4.0 million in one-time overtime funding was added to the base overtime budget level of \$12.0 million, and additional funding was expected to be needed as the Police Department works through filling sworn and non-sworn vacancies. (\$0)

## ANALYSIS

### **Impacts on the 2014-2015 General Fund Budget**

- A ***Retirement Contributions Reconciliation*** was completed for both the Federated System and the Police and Fire Retirement Plan in order 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, no additional funds are required to meet the retirement payments. However, the net-zero reallocation of \$2.8 million 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 are budgeted at \$236 million in the General Fund and \$306 million in all funds for 2014-2015 (factoring in the Retiree Healthcare Solutions Reserve adjustments described below).

In addition, in September 2014, agreements were reached with all employee groups representing employees in the Federated City Employees' Retirement System (including Unit 99) to extend, until June 21, 2015, the phase-in to fully fund the annual required contribution for retiree healthcare benefits. These agreements are scheduled to be heard by the City Council on October 7, 2014. One-time savings of \$3.9 million in all funds (\$2.3 million in the General Fund, bringing the reserve balance from \$3.9 million to \$6.2 million) is recommended to be allocated to Retiree Healthcare Solutions Earmarked Reserves across many funds in the City, as appropriate. These funds have been set aside to be used as needed for future retiree healthcare costs. (\$0)

- The 2014-2015 ***Salary Program*** includes net-zero adjustments to various departments and funds to reflect a 3.0% salary increase that was negotiated and agreed to by the City and five bargaining units (Association of Building, Mechanical & Electrical Inspectors (ABMEI), Association of Engineers and Architects (AEA), Association of Maintenance Supervisory Personnel (AMSP), City Association of Management Personnel (CAMP), and the International Brotherhood of Electrical Workers (IBEW), effective June 22, 2014. As part of the development of the 2014-2015 Adopted Budget, Employee Compensation Planning Earmarked Reserves were established in anticipation of modest salary adjustments in 2014-2015. With a net-zero impact, the actions reflected in this report increase funding to the various affected departmental budgets and reduce Employee Compensation Planning Earmarked Reserves across all affected funds, accordingly. The Salary Program adjustments contained in this report total \$1.4 million in the General Fund and \$2.8 million in all funds. It should be noted that the 2014-2015 Adopted Budget incorporated these adjustments for the following: four bargaining units, including Municipal Employees' Federation (MEF), Confidential Employees' Organization (CEO), Association of Legal Professional of San Jose (ALP), and the International Union of Operating Engineers, Local No. 3 (OE#3); employees in Unit 99; and Council Appointees. Due to timing constraints, the adjustments for an additional five bargaining unit are being brought forward as part of this report. (\$0)



## ANALYSIS

### **Impacts on the 2014-2015 General Fund Budget**

- This action eliminates the *Office of Emergency Services Grant Reconciliation Reserve* of \$500,000 in the General Fund. This reserve was established in the 2014-2015 Adopted Budget to ensure that funding would be available to offset any repayments that may be required when the final Urban Area Security Initiative (UASI) grant reconciliation was completed. A reconciliation has been completed for the UASI grants from 2009-2012 and, working with representatives of the federal government, it has been determined that no ineligible expenses were charged to the grants. (\$500,000)
- This action increases *Transfer and Reimbursements* revenue estimate by \$273,682. Team San Jose collects \$1 for every ticket sold for a Broadway San Jose show and then remits these payments to the City for the repayment of a past loan made to the American Musical Theater (AMT) in the amount of \$1 million. A year-end reconciliation has identified a total of \$213,682 that has been deposited in the Convention and Cultural Affairs Fund (Fund 536) since 2009. In 2014-2015, these funds are recommended to be transferred to the General Fund, the originating funding source of the AMT loan. In addition, \$60,000 is recommended to be transferred to account for anticipated ticket sales in 2014-2015. Corresponding actions in Fund 536 are included in this report. (\$274,000)
- This action decreases the *Planning, Building and Code Enforcement Department's Personal Services* appropriation by \$221,000 to reflect the portion of staff costs in the 2014-2015 Adopted Budget that will now be funded by the State of California Department of Conservation Sustainable Communities Planning Grant. The Sustainable Communities Planning Grant was awarded to the City of San José for Urban Village Master Plan and Zoning Revisions for East Santa Clara Street and Alum Rock Avenue. The total amount of the grant award is \$635,594, which will fund staff (\$331,334) and non-personal/equipment costs (\$304,260). This project, which will cross two fiscal years, is scheduled for completion in December 2015. As part of this report, a separate action is recommended to appropriate the 2014-2015 grant funding (\$424,000). The remaining grant funding of \$211,594 will be included as part of the development of the 2015-2016 budget. (\$221,000)
- This action reduces the *Arena Community Fund* appropriation to the City Clerk's Office by \$80,000 (from \$330,000 to \$250,000) to correct an inadvertent calculation error made during the development of the 2014-2015 Adopted Budget. The \$250,000 is distributed equally in the amount of \$25,000 to each Council District and is restricted for the exclusive use towards educational, recreational, and cultural purposes per the City's contract with San José Arena Management and SAP Global Marketing, Inc. (\$80,000)
- Adjustments to various departments' Personal Services appropriations reflect implementation of the Voluntary Furlough/Reduced Work Week Program in 2014-2015. Savings in the General Fund (\$225,000) will be generated from employees voluntarily

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### **Impacts on the 2014-2015 General Fund Budget**

taking unpaid time off (up to 45 hours) without the loss of accrued benefits (vacation, sick leave, and seniority) or reducing their weekly scheduled hours by as much as eight hours per week during the year. Savings of \$150,000 were assumed in the development of the 2014-2015 Adopted Budget and this amount was temporarily funded from the General Fund Salaries and Benefits Earmarked Reserve. The actions reflected in this report remove the actual savings from the departmental budgets and appropriately restore the funding to the Salaries and Benefits Earmarked Reserve (\$150,000). The remaining savings of \$75,000 are recommended to offset other budget actions in this report. (\$75,000)

- This action eliminates the *Air Service Incentive Program Reserve* of \$1.0 million as well as reduces the *Overhead Reimbursement* from the Airport Maintenance and Operation Fund to the General Fund by \$941,736. The Municipally-Funded Air Service Incentive Program, a provision in the Airline-Airport Lease and Operating Agreements that was approved by the City Council in March 2007, requires that should the percentage growth in annual enplanements at the Airport exceed the growth in annual enplanements nationwide, the City shall reduce the amount of its indirect overhead expenses in the following fiscal year by a corresponding percentage. In 2012-2013, passenger enplanements exceeded the Federal Aviation Administration's (FAA) national enplanement growth by 2.7% and a downward adjustment to the Airport Maintenance and Operation Fund overhead reimbursement of \$420,000 was included in the 2012-2013 Annual Report. In 2013-2014, the percentage growth in annual enplanements at the Airport was 6.7%, which exceeded the FAA's projection of 0.8% for national enplanement growth. In order to comply with the provision of the Agreements, the overhead reimbursement from the Airport Maintenance and Operation Fund will be reduced by 5.9 percentage points (from the Adopted Budget overhead rate of 23.8% to 17.9%), or \$941,736, in 2014-2015. In anticipation of this reduction, the 2014-2015 Adopted Budget included a \$1.0 million Air Service Incentive Program Reserve to offset the projected loss in overhead revenue. Because the actual overhead reduction was slightly below the estimate incorporated into the 2014-2015 Adopted Budget, this action results in net savings of \$58,264. (\$58,000)

- **Grants/Reimbursements/Fee Activities (\$0)**

- A series of net-zero adjustments totaling \$3.7 million are recommended to reflect new or updated revenues and expenditures for *Grants, Reimbursements and/or Fee Activities* for the following Departments: City Manager's Office (\$2.1 million), Parks, Recreation and Neighborhood Services (\$680,000), Planning, Building, and Code Enforcement (\$600,000), Office of Economic Development (\$196,000), Fire (\$193,000), Police (\$46,000), Library (\$96,000), Mayor and City Council (\$29,000), and Human Resources (-\$200,000). These adjustments are described in *Section IV. Recommended Budget Adjustments and Clean-Up/Rebudget Actions*.

## ANALYSIS

### Impacts on the 2014-2015 General Fund Budget

- **Urgent Fiscal/Program Needs (-\$2.20 million)**

- This action increases the *Fiscal Reform Plan Implementation Reserve* by \$2.0 million (from \$680,000 to \$2.7 million) based upon a tentative decision on fee motions brought by the Plaintiffs in the Measure B litigation. Motions to recover attorneys' fees were brought by AFSCME, San Jose Police Officers' Association (POA), and Retirees and the Judge has indicated in her tentative decision that they have met the threshold considerations to support a fee award. Working with the City Attorney's Office, the \$2.0 million represents a very preliminary estimate of costs that could be awarded. The judge has tentatively set a hearing to determine the amount of potential fees for November 6, 2014. Final resolution on this matter will be brought forward to the City Council at a later date. (-\$2.0 million)
- This action increases the *Hammer Theater Center Operations and Maintenance* appropriation to the Office of Economic Development in the amount of \$192,000. The total available funding for the Hammer Theater Center Operations and Maintenance for 2014-2015 will be \$400,000 after accounting for this adjustment, as well as the Required Technical/Rebalancing action that reduces revenue and funding by \$77,000. The total funding of \$400,000 allows the City to pay ongoing costs such as basic ongoing building maintenance services (\$140,000), utility bills (\$85,000), and private night-time security patrols (\$25,000), as well as one-time costs associated with the San Jose Repertory bankruptcy that includes a variety of minor facility and lighting repairs (\$60,000), the purchase of critical theater production-related equipment (\$60,000), and a thorough cleaning of the facility (\$30,000). (-\$192,000)

### 2013-2014 Selected Special/Capital Funds Budget Performance

#### **Airport Operating Funds**

The Airport served 9.06 million passengers in 2013-2014, which was an overall increase of 6.8% from 2012-2013. Moreover, the percentage growth in annual enplanements at the Airport in 2013-2014 was 6.7%, which exceeded the Federal Aviation Administration's projection of 0.8% for national enplanement growth for 2013-2014. This increase in passenger enplanements triggered the activation of the Municipally-Funded Air Service Incentive Program, a provision in the Airline-Airport Lease and Operating Agreements that was approved by the City Council in March 2007. Under this provision, if the percentage growth in annual enplanements at the Airport exceeds the forecasted growth in annual enplanements nationwide, the City shall reduce the amount of its indirect overhead expenses in the following fiscal year by a corresponding percentage. Budget actions are recommended in this report to reduce the 2014-2015 overhead reimbursement from the Airport Maintenance and Operation Fund to the General Fund by



**ANALYSIS**

**2013-2014 Selected Special/Capital Funds Budget Performance**

\$942,000 to reflect a reduction of the overhead rate by 5.9 percentage points (from the Adopted overhead rate of 23.8% to 17.9%) and return those funds to the airlines. Passenger growth in 2014-2015 is anticipated to increase by 2.0% over the 2013-2014 estimate of 8.91 million passengers. Additional airport activity categories that demonstrated growth in 2013-2014 as compared to 2012-2013 include parking exits, pounds of mail/freight/cargo, traffic operations, gallons of aviation fuel sold, taxicab operations, and landed weights.

Overall, revenue performance exceeded budget by \$4.6 million (3.8%). Airline Rates and Charges (combined total of landing fees and terminal rents) and all other operating categories, excluding transfers,



ended the year at \$124.6 million, which was \$4.6 million above the budget of \$120.0 million. Parking and Roadways revenue was above the budgeted estimate by \$3.3 million (8.0%) due to increased parking revenue and rental car concession fees associated with increased passenger activity. Airfield Area revenue was \$485,000 (15.8%) above budgeted estimate due to increased in-flight kitchen tenants.

The Airport Customer Facility and Transportation Fee Fund and Airport Maintenance and Operational Fund had a combined year-end expenditure savings of \$9.7 million (10.8%) compared to the budgeted levels of \$90.0 million, most of which were contemplated and incorporated into the development of the 2014-2015 Adopted Budget and airline rates and charges. The \$2.5 million in personal services savings was the result of position vacancies experienced during the year. The non-personal/equipment expenditure savings of \$2.5 million resulted from adhering to strict cost controls, prioritizing needs, deferring purchases, and implementing alternate or lower cost products or sources, such as the transition to cashier-less parking lot operations, lower Letter of Credit fees for the Commercial Paper Program, and lower costs associated with the new shuttle bus operator agreement.

These savings resulted in a lower than anticipated transfer from the Airport Revenue Fund to the Airport Maintenance and Operating Fund and incrementally higher year-end fund balance in the Airport Revenue Fund. The additional fund balance in the Airport Revenue Fund will contribute towards managing the 2014-2015 Adopted Budget and the development of the 2015-2016 budget.

## **ANALYSIS**

### **2013-2014 Selected Special/Capital Funds Budget Performance**

#### **Convention and Cultural Affairs Fund**

The Convention and Cultural Affairs Fund accounts for Team San Jose's (TSJ) operation of the City's Convention Center and other cultural facilities. In 2013-2014, revenues totaling \$47.0 million were generated from operating revenues from the City's convention facilities (\$28.5 million) as managed by Team San Jose, issuing of commercial paper (\$10.0 million), transfers from the Transient Occupancy Tax (TOT) Fund (\$8.5 million), and miscellaneous revenues and interest earnings (\$87,000). The 2013-2014 revenues slightly exceeded the budget estimate by \$336,000 (0.7%) primarily due to the better than expected performance of Team San Jose operating revenues (\$340,000). Expenditures of \$48.3 million were primarily attributed to costs associated with operations and maintenance of the Convention Center and cultural facilities (\$32.0 million); expenses directed toward the Convention Center Expansion/Renovation project (\$10.7 million); fixtures, furnishings and equipment (FF&E) to complete the expanded and remodeled Convention Center (\$715,000); a Transfer to the General Fund (\$1.2 million) for Team San Jose contract oversight, City overhead, cultural facility cost-sharing, and Mexican Heritage Plaza support; and a variety of various capital repairs and replacements (\$579,000). Total expenditures were \$2.1 million (4.1%) below the modified budget.

Actions included in this report recommend rebudgeting \$458,000 of miscellaneous capital rehabilitation efforts improvement projects underway at the Convention Center, Center for the Performing Arts, and the Civic Auditorium. Recommended additions to the budget include the following: \$405,000 for additional work encountered during the upgrade of the audio system that was required as the result of the expansion and renovation of the Convention Center (\$205,000) and the completion of WiFi installation throughout the cultural facilities (\$200,000); an increase of \$300,000 to the Capital Reserve, which increases this reserve to \$2.4 million; the transfer of \$274,000 to the General Fund to account for revenue of \$1 per each Broadway San Jose ticket sold since 2009 (\$214,000), and continues in 2014-2015 (\$60,000), that was collected by TSJ and deposited into the Convention and Cultural Affairs Fund for the repayment of the \$1.0 million loan from the General Fund to the American Musical Theater (AMT); and an increase of \$150,000 to the Team San Jose Incentive Fee to fund the anticipated adjustment to this fee based on the unaudited results regarding the achievement of 2013-2014 performance measures which would generate the maximum incentive fee of \$350,000.

It should be noted that the Convention Center Facilities District Revenue (CCFD) Fund ended 2013-2014 with an ending fund balance of \$4.1 million. As a result of these excess proceeds, and after ensuring that all bond covenants have been met to fully fund mandated reserves designed to protect against an economic downturn, it is anticipated that commercial paper debt service related to the Convention Center Expansion/Renovation project will continue to be paid from the CCFD Fund, \$1.7 million annually, for the foreseeable future. Therefore, in future years, funding set aside in the Convention and Cultural Affairs Fund for that purpose can be applied toward capital repairs and improvements at the facilities managed by Team San Jose, as approved by the City Council.

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**2013-2014 Selected Special/Capital Funds Budget Performance**

**Transient Occupancy Tax Fund**

Transient Occupancy Tax (TOT) revenues totaled \$17.9 million, the highest amount ever recorded. This collection level exceeded the 2013-2014 Modified Budget by \$100,000, and the 2013-2014 estimate by \$670,000, and represents an increase of \$2.7 million (18%) from 2012-2013. For the 14 largest hotels, the average room rate increased from \$139 to \$154, while the occupancy rate increased from 66.6% to 70.7%. When the 2014-2015 Adopted Budget was developed, growth of 5% over the estimated 2013-2014 receipts was assumed. Because TOT receipts in 2013-2014 were higher than estimated, growth of only 1% (excluding compliance revenue) is needed in 2014-2015 to meet the budget estimate. While an upward adjustment to the 2014-2015 revenue estimate will likely be possible because of the 2013-2014 performance, staff recommends monitoring actual collections in 2014-2015 to determine the level of year-over-year growth that can be achieved from this significantly higher base revenue collection level. Budget actions will be brought forward later in 2014-2015, as appropriate.

As part of the reconciliation of year-end actual TOT receipts to projections used in the development of the 2014-2015 Adopted Budget, this report recommends allocating the additional \$670,000 in 2014-2015 to the following categories according to the City Council approved distribution formula: Cultural Development (\$167,500), Convention and Visitor’s Bureau (\$167,500), and Transfer to the Convention and Cultural Affairs Fund (\$335,000).

**Capital Fund Major Revenues**

A number of taxes and fees levied on construction and property resale (conveyance) activity provide a large source of revenue to the City’s Capital program. As reported in Bi-Monthly Financial Reports, 2013-2014 collections in nearly all major capital revenue categories were expected to exceed budgeted estimates. The chart below provides a comparison of estimated to actual collections for these types of revenues, as well as a discussion of the three largest revenue sources.

**Construction-Related Capital Program Revenues Comparison  
 (\$ in Thousands)**

	<b>2013-2014 Estimate*</b>	<b>2013-2014 Actuals</b>	<b>% Variance</b>
Construction and Conveyance Tax	\$37,000	\$35,491	(4.1%)
Building and Structure Construction Tax	\$21,000	\$22,465	7.0%
Construction Excise Tax	\$26,000	\$29,250	12.5%
Municipal Water System Fees	\$150	\$198	32.0%
Residential Construction Tax	\$325	\$468	44.0%
Sanitary Sewer Connection Fee	\$1,800	\$1,600	(11.1%)
Storm Drainage Connection Fee	\$150	\$137	(8.7%)

\* Revenue estimate used in the development of the 2014-2015 Adopted Capital Budget.

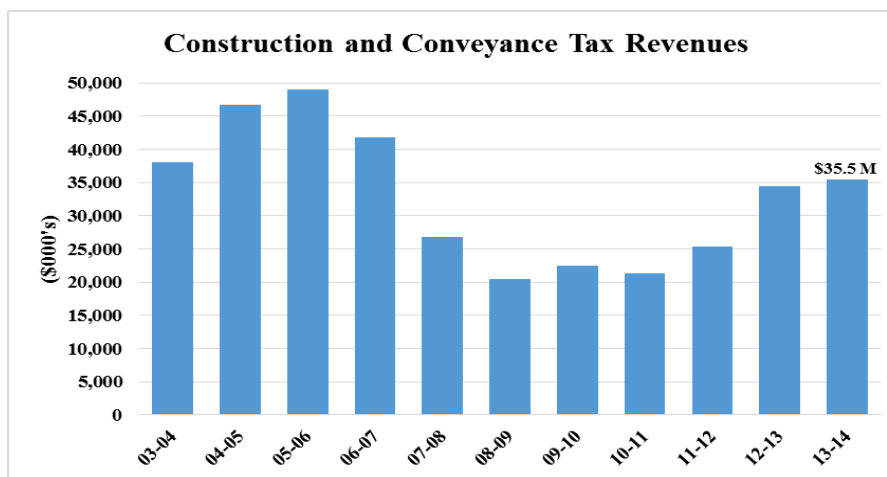
## ANALYSIS

### 2013-2014 Selected Special/Capital Funds Budget Performance

- **Construction and Conveyance Tax**

Real estate activity (primarily housing re-sales) determines the collection level of one of the major capital revenue sources, the Construction & Conveyance (C&C) Tax. Approximately 99% of C&C Tax is derived from a tax imposed upon each transfer of real property, with the remaining 1% generated from a construction tax levied on most types of construction. C&C Tax revenues, which are a significant source of funds for the Parks and Community Facilities Development, Library, Fire, Service Yards, and Communications capital programs, totaled \$35.5 million in 2013-2014. This collection level was 6% (\$2.0 million) above the budget estimate of \$33.5 million, but \$1.5 million below the estimate of \$37.0 million that was assumed in the development of the 2014-2015 Adopted Capital Budget. This collection represents a slight increase of 3.2% (\$1.1 million) from 2012-2013 collections of \$34.4 million.

The following graph displays the collection history of Construction and Conveyance Tax receipts.



The 2013-2014 tax receipts represent the highest collection level since the peak years of 2003-2004 through 2006-2007 (when annual collections exceeded \$38.0 million in each of those years, peaking at \$49.0 million in 2005-2006) as a result of

the recovering real estate market. Rising prices primarily drove the increased revenue, with the median price for San José single family homes jumping from \$732,500 to \$795,400 between June 2013 and June 2014, an increase of 8.6%. The June 2014 median home price for single family homes represents a record setting high. In addition, the amount of time it takes to sell a home (both single family and multi-family dwelling units) dropped slightly from 22 days in June 2013 to 20 days in June 2014. This benefit from the increase in home prices was partially offset by a 3.3% decrease in the number of property transfers for all types of residences between 2012-2013 and 2013-2014.

Though C&C Tax revenue exceeded the 2013-2014 Modified Budget of \$33.5 million, the reduced number of sales caused receipts to fall short of the \$37.0 estimate used in the development of the 2014-2015 Adopted Capital Budget. With a 2014-2015 Adopted Budget

**ANALYSIS**

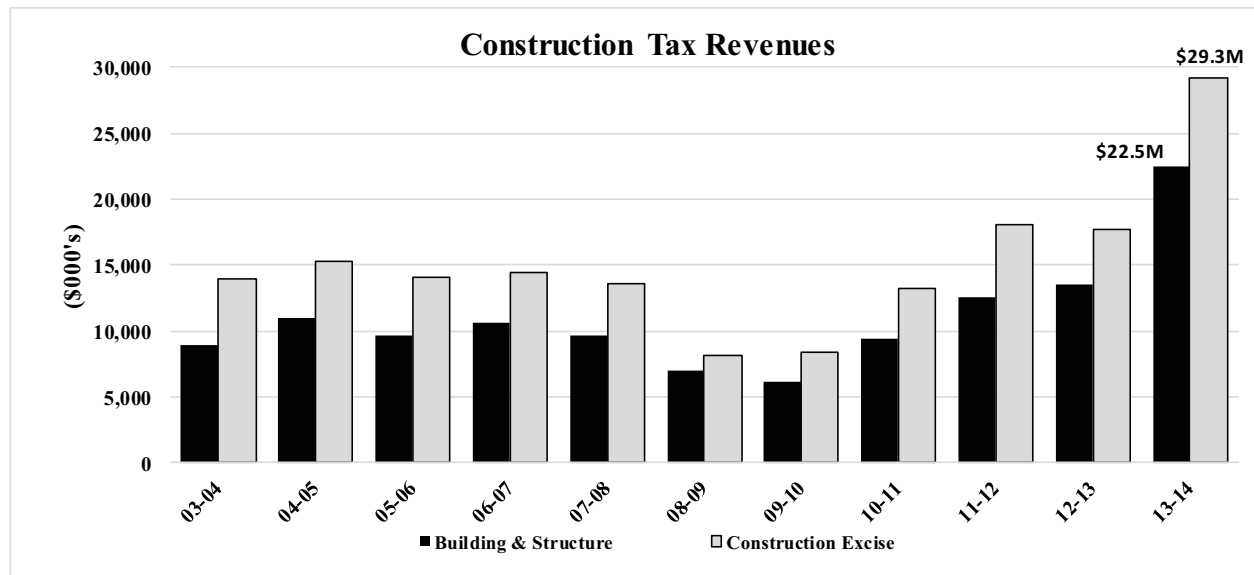
**2013-2014 Selected Special/Capital Funds Budget Performance**

C&C Tax revenue estimate of \$39.0 million, growth of almost 10% from actual 2013-2014 collections is needed to meet the estimate. Revenue receipts will be carefully monitored through the first half of the fiscal year to determine if this estimate needs to be adjusted downward based on current collection trends, with corresponding adjustments to fund balance and reserves as appropriate.

- **Building and Structure Construction Tax and the Construction Excise Tax**

The Building and Structure Construction Tax and the Construction Excise Tax are major sources of funding for the Traffic Capital Program. Year-end collections in the Building and Structure Construction Tax category totaled \$22.5 million in 2013-2014. This collection level was 7.0% (\$1.5 million) above the revenue estimate of \$21.0 million used to develop to the 2014-2015 Adopted Capital Budget, and represents a 63.1% (\$8.7 million) increase from 2012-2013 collections of \$13.8 million. Construction Excise Tax receipts for 2013-2014 totaled \$29.3 million, up 12.5% (\$3.3 million) over the revenue estimate of \$26.0 million used to develop the 2014-2015 Adopted Capital Budget, and represents a 64.0% (\$11.5 million) increase from 2012-2013 collections of \$17.8 million.

The graph below displays the collection history of both the Building and Structure and Construction Excise Tax receipts. These revenue sources have recovered from their 2009-2010 low, and 2013-2014 is the highest amount of combined receipts (\$51.7 million) since the last peak in 2000-2001 (not shown) with combined receipts of \$38.2 million. The strong revenue collections in both Building and Structure Construction Tax and Construction Excise Tax revenue are primarily attributable to new residential construction in the North San José area, Downtown, and at the former Hitachi site. Growing commercial and industrial activity were also a factor in strong Building and Structure Construction Tax receipts as a result of the construction of the San José Earthquakes Stadium and the Samsung Semiconductor headquarters in North San José.



## **ANALYSIS**

### **2013-2014 Selected Special/Capital Funds Budget Performance**

Compared to the stronger than anticipated revenue collections in 2013-2014, the 2014-2015 Adopted Budget estimate for the Building and Structure Construction Tax allows for a 24% decrease from actual 2013-2014 collections, and the estimate for the Construction Excise Tax now allows for a 28% decrease. Given the volatile nature of these taxes and the one-time nature of some of the projects in 2013-2014, the sustainability of this higher collection level will be monitored as the year progresses to determine if any adjustments are warranted.

#### **Airport Capital Funds**

In 2013-2014, the Airport Capital Program incurred expenditures and encumbrances of \$61.4 million. Over half of this amount is attributed to transfers to other funds for debt service and close-out of minor commercial paper debt funds (\$36.8 million). Major capital project spending included Terminal Area Improvement, Phase I (\$7.4 million); Taxiway W Improvements (\$6.0 million); Pavement Maintenance (\$1.2 million); and Federal Inspection Facility Sterile Corridor Extension (\$1.0 million).

#### **Library, Parks and Community Facilities, and Public Safety General Obligation Bond Funds**

In 2013-2014, a total of \$22.7 million was expended or encumbered in the Library (\$2.9 million), Parks and Community Facilities (\$12.9 million), and Public Safety (\$6.9 million) General Obligation Bond Funds.

In the Library Program, the projects with the largest expenditures and encumbrances in 2013-2014 included Southeast Branch Library (\$1.4 million) and Branch Efficiency Projects (\$613,000). The Southeast Branch, the last remaining bond funded branch library, is anticipated to open in winter 2016.

In the Parks and Community Facilities Program, there was only one project with significant 2013-2014 expenditure and encumbrances, the Soccer Complex – Coleman Soccer Fields (\$11.9 million). Design work is programmed in 2014-2015 for the Softball Complex, the final Parks and Recreation Bond project.

In the Public Safety Program, the Fire Station 21 – White Road project had expenditures and encumbrances of \$5.6 million which reflects the completion of the project's design work, and the project's construction is anticipated to be completed in 2015. Fire Station 37 – Willow Glen is the final Public Safety Bond Project; however, there currently is not sufficient funding to complete this project.

#### **Traffic Capital Funds**

In 2013-2014, a total of \$81.8 million was spent or encumbered for traffic capital projects. The projects with the largest expenditures and encumbrances included Pavement Maintenance



## **ANALYSIS**

### **2013-2014 Selected Special/Capital Funds Budget Performance**

projects funded with Federal, State, and City sources (\$39.1 million); The Alameda – A Plan for the Beautiful Way (\$4.7 million), ITS: Transportation Incident Management Center (\$3.7 million), American Disability Act Sidewalk Accessibility Program (\$2.1 million), Montague Expressway NSJ – County Settlement Agreement (\$2.0 million), Route 101/Mabury Road Design (\$1.8 million), and San Fernando Bikeway and Pedestrian Access (\$1.7 million).

### **San José/Santa Clara Treatment Plant, Sanitary Sewer, Storm Sewer and Water Utility Capital Funds**

Taken together, projects within the Environmental and Utility Services capital programs comprised a significant portion of the City's 2013-2014 capital-related expenditures and encumbrances at \$159.4 million: \$89.9 million related to the San José/Santa Clara Regional Wastewater Facility, \$54.2 million related to the Sanitary Sewer System, \$9.9 million related to the Storm Sewer System, and \$5.4 million related to the Water Utility System. The projects with the largest expenditures and encumbrances were within the Treatment Plant and the Sanitary Sewer System, and included the Energy Generation Improvements (\$18.4 million), Combined Heat and Power Equipment Repair and Rehabilitation (\$14.9 million), Digester and Thickener Facilities Upgrade (\$12.4 million), Sanitary Sewer Urgent Rehabilitation and Repair Projects (\$9.5 million), Sanitary Sewer Immediate Replacement and Diversion Projects (\$4.7 million), Revised South Bay Action Plan – SBWR Extension (\$4.5 million), Infrastructure – Sanitary Sewer Condition Assessment (\$4.2 million), Almaden Expressway Sanitary Sewer Improvements (\$4.0 million), and Spreckles Sanitary Sewer Force Main Supplement (\$3.6 million).

### **Special and Capital Funds Budget Adjustments**

Several budget adjustments for both special and capital funds are included in this document, including recognition of grants, net-zero transfers/reallocations, and new allocations for a small number of high priority projects and programs.

The most notable recommended adjustments are in the Traffic Capital Program. As part of the Mayor's June Budget Message for Fiscal Year 2014-2015, as approved by the City Council, any Construction Excise Tax revenues received above the estimates used to develop the 2014-2015 Adopted Capital Budget should be allocated towards pavement maintenance. As a result of strong tax receipts, an additional \$3.3 million was received and will be allocated towards sealing and resurfacing streets in the City's 400-mile Priority Street Network. This action will increase the 2014-2015 budget for city-funded pavement maintenance from \$20.0 million to \$23.3 million. Also, additional gas tax revenues of \$3.8 million were received from the State of California at the end of the 2013-2014, and included in this report are recommendations to appropriate these funds towards pavement maintenance, bringing the 2014-2015 allocation from \$8.8 million to \$12.6 million.

## **ANALYSIS**

### **2013-2014 Selected Special/Capital Funds Budget Performance**

Also in the Traffic Capital Program, recommendations to allocate funding for two new high priority, safety-related projects, funded by the Building and Structure Construction Tax Fund, are included in this report. The McLaughlin Avenue Pedestrian/Bike Safety Enhancements project (\$534,000) will create a safe walking and biking environment on McLaughlin Avenue between Story Road and Capitol Expressway, including installing ADA ramps, flashing beacons with median island refuges, consolidation and upgrade of bus stops along the corridor, and installation of enhanced crosswalks to support pedestrian/bike safety. The Traffic Signal Installation at Douglas Street and Meridian Avenue project (\$450,000) will construct a new traffic signal for high priority road safety at this intersection and provide an East-West bicycle corridor connection.

Other notable capital adjustments, primarily in the Parks and Community Facilities Development Capital Program, include: the allocation of \$805,000 in the Council District #6 C&C Tax Fund for the TRAIL: Three Creeks (Lonus Street to Guadalupe River) Design project to prepare construction documents for the Three Creeks Trail from Lonus Street (Los Gatos Creek) to the Guadalupe River; the allocation of \$425,000 in the Council District #6 C&C Tax Fund for the TRAIL: Three Creeks Pedestrian Bridge EIR project, which provides funding to prepare an Environmental Impact Report on an existing pedestrian bridge near the Three Creeks Trail; and the additional funding of \$380,000 in the Parks City-Wide C&C Tax Fund to purchase and install a new ride at Happy Hollow Park and Zoo.

Finally, the rebudget of unexpended funds for projects and programs extending into 2014-2015 is recommended in this report. Details of these adjustments can be found in *Section IV. Recommended Budget Adjustments and Clean-Up/Rebudget Actions* of this report.

## **NEXT STEPS**

The results of the 2013-2014 Annual Report will provide an updated starting point for monitoring 2014-2015 financial performance. The revenue and expenditure trends will be factored into the analysis of the General Fund and the numerous special and capital funds. Information on the City's budget for 2014-2015 will be provided in Bi-Monthly Financial Reports and the 2014-2015 Mid-Year Budget Review. These reports will also provide information on the current economic environment and its impact on the City's revenue collections.

The 2013-2014 Annual Report results will also be factored into the 2015-2016 budget development process. The General Fund Five-Year Forecast is scheduled to be released in late February 2015. The 2015-2016 Proposed Capital and Operating Budgets are scheduled to be released in late April 2015 and May 1, 2015, respectively.



### **PUBLIC OUTREACH/INTEREST**

- ✓ **Criterion 1:** Requires Council action on the use of public funds equal to \$1 million or greater.
- ☐ **Criterion 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City.
- ☐ **Criterion 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach.

This memorandum meets Criterion 1 and will be posted on the City Council's Agenda website for the October 7, 2014, City Council meeting.

### **COORDINATION**

The City Manager's Budget Office coordinated with the Finance Department on the reconciliation of the City's funds and coordinated with all City Departments and City Council appointees, as applicable, on recommended budget adjustments that are brought forward in this document.

### **CONCLUSION**

Through careful fiscal management, the revenues for the various City funds ended the year close to the estimated levels and expenditures were below the budgeted allocations. When the 2013-2014 Adopted Budget was developed, it was assumed that economic growth would continue in 2013-2014. Economic indicators and actual revenue performance supported this general assumption, with a number of revenue categories, such as Property Tax, Transient Occupancy Tax, and development-related fees and taxes, experiencing strong growth. Other revenue categories, such as Construction and Conveyance Tax, have shown more modest improvement in 2013-2014.

In the General Fund, the additional fund balance at the end of 2013-2014 after considering clean-up adjustments totaled \$8.3 million. Recommendations are included in this report to allocate those funds to various required technical and rebalancing actions (\$6.1 million) and to address urgent fiscal/program needs (\$2.2 million). The largest actions include a \$3.1 allocation to establish an earmarked reserve for the Silicon Valley Regional Communication System, an increase of \$3.0 million to the Police Department Staffing Reserve (from \$10.0 million to \$13.0 million), and a \$2.0 million increase to the Fiscal Reform Plan Implementation Reserve (from \$680,000 to \$2.7 million).

**CONCLUSION**

The Administration will continue to monitor and report on the City's budget performance through Bi-Monthly Financial Reports and the Mid-Year Budget Review. The financial results of 2013-2014, as well as the actual performance in 2014-2015, will be factored into the development of the 2015-2016 budget. The 2016-2020 General Fund Five-Year Forecast will be released in February 2015 for budget planning purposes.

A handwritten signature in black ink, appearing to read 'E. Shikada', with a small dot at the end of the signature.

Edward K. Shikada  
City Manager

**CERTIFICATION OF FUNDS**

I hereby certify that there will be available for appropriation in the designated funds and in the amounts as listed below in fiscal year 2014-2015 monies in excess of those heretofore appropriated therefrom:

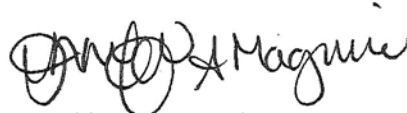
General Fund	\$28,270,338
Airport Capital Improvement Fund	\$824,333
Airport Customer Facility & Transportation Fee Fund	\$1,206,981
Airport Fiscal Agent Fund	\$140,331
Airport Passenger Facility Charge Fund	\$1,009,780
Airport Renewal & Replacement Fund	\$845,800
Airport Revenue Bond Improvement Fund	\$4,137,492
Airport Revenue Fund	\$1,876,233
Airport Surplus Revenue Fund	\$28,948
Benefit Fund	\$109,903
Building & Structure Construction Tax Fund	\$6,274,969
Branch Library Bond Project Fund	\$1,249,276
Business Improvement District Fund	\$418,832
Cash Reserve Fund	\$2
Civic Center Construction Fund	\$600
Community Development Block Grant Fund	\$2,961,580
Community Facilities Revenue Fund	\$908,279
Community Facilities District Fund #1	\$840
Community Facilities District Fund #2 and #3	\$596,902
Community Facilities District Fund #8	\$68,673
Community Facilities District Fund #11	\$20,511
Community Facilities District Fund #13	\$131,174
Community Facilities District Fund #14	\$26,052
Construction & Conveyance Tax – Central Fund	\$379,404
Construction & Conveyance Tax – Communications	\$329,760
Construction & Conveyance Tax – Fire	\$1,344,067
Construction & Conveyance Tax – Library	\$1,712,578
Construction & Conveyance Tax – Council District 1	\$156,556
Construction & Conveyance Tax – Council District 2	\$230,006
Construction & Conveyance Tax – Council District 3	\$59,887
Construction & Conveyance Tax – Council District 4	\$1,284,209
Construction & Conveyance Tax – Council District 9	\$45,128
Construction & Conveyance Tax – Council District 10	\$402,798
Construction & Conveyance Tax – City-Wide	\$992,582
Construction & Conveyance Tax – Parks Yards	\$65,811
Construction & Conveyance Tax – Service Yards	\$59,351
Construction Excise Tax Fund	\$17,174,106
Convention and Cultural Affairs Fund	\$1,613,379

**CERTIFICATION OF FUNDS**

Convention Center Facilities District Project Fund	\$262,259
Convention Center Facilities District Revenue Fund	\$1,687,569
Dental Insurance Fund	\$33,408
Economic Development Administration Loan Fund	\$2,629
Economic Development Enhancement Fund	\$126
Emma Prusch Memorial Park Fund	\$23,141
Federal Drug Forfeiture Fund	\$159,095
General Purpose Parking Fund	\$631,622
Gift Trust Fund	\$31,419
Housing Trust Fund	\$112,012
Integrated Waste Management Fund	\$1,861,069
Lake Cunningham Fund	\$78,290
Library Parcel Tax Fund	\$1,095,615
Life Insurance Fund	\$37,043
Low and Moderate Income Housing Asset Fund	\$13,491,519
Maintenance Assessment District Fund #1	\$76,519
Maintenance Assessment District Fund #2	\$11,614
Maintenance Assessment District Fund #5	\$37,543
Maintenance Assessment District Fund #8	\$47,410
Maintenance Assessment District Fund #9	\$13,090
Maintenance Assessment District Fund #11	\$22,750
Maintenance Assessment District Fund #13	\$25,667
Maintenance Assessment District Fund #15	\$555,791
Maintenance Assessment District Fund #18	\$10,780
Maintenance Assessment District Fund #19	\$44,940
Maintenance Assessment District Fund #20	\$32,449
Maintenance Assessment District Fund #21	\$94,008
Maintenance Assessment District Fund #22	\$32,085
Major Collectors and Arterials Fund	\$51,632
Multi-Source Housing Fund	\$13,410,923
Muni Water Major Facilities Fee Fund	\$34,120
Municipal Golf Course Fund	\$228,735
Public Works Program Support Fund	\$550,398
Residential Construction Tax Fund	\$324,193
San Jose Arena Capital Reserve Fund	\$262,166
San Jose Arena Enhancement Fund	\$2,787
Sanitary Sewer Connection Fee Fund	\$809,902
Sewer Service & Use Charge Fund	\$2,129,295
Sewer Service & Use Charge Capital Fund	\$7,898,859
SJ-SC Treatment Plant Capital Fund	\$17,017,562
SJ-SC Treatment Plant Operating Fund	\$4,368,504
SJ-SC Treatment Plant Income Fund	\$33

**CERTIFICATION OF FUNDS**

State Drug Forfeiture Fund	\$520,113
Storm Drainage Fee Fund	\$73,619
Storm Sewer Capital Fund	\$2,975,875
Storm Sewer Operating Fund	\$1,169,617
Subdivision Park Trust Fund	\$2,969,624
Supplemental Law Enforcement Services Fund	\$393,557
Transient Occupancy Tax Fund	\$2,741,462
Underground Utility Fund	\$579,643
Unemployment Insurance Fund	\$573,392
Vehicle Maintenance and Operations Fund	\$886,558
Water Utility Fund	\$2,018,469
Water Utility Capital Fund	\$720,537
Workforce Investment Act Fund	\$4,363,170



Jennifer A. Maguire  
Deputy City Manager / Budget Director

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