

2020-2021 MID-YEAR BUDGET REVIEW

STATUS OF GENERAL FUND EXPENDITURES

OVERVIEW

General Fund expenditures through December totaled \$681.7 million, or 39.4% of the total 2020-2021 Modified Budget. This expenditure level represents an increase of \$124.7 million, or 22.4%, from the December 2019 level. This increase is primarily due to the TRANS Debt Service payment (\$53.1 million) that occurred in 2020-2021 (but did not occur in 2019-2020) and higher transfers (\$51.3 million) that were related to moving the development fee program out of the General Fund. In addition, encumbrances through December totaled \$67.1 million, which are \$9.4 million below the December 2019 level, which is primarily due to lower Capital Contribution encumbrances. In total, expenditures and encumbrances through December totaled \$748.8 million, which constitutes 43.3% of the total Modified Budget (including reserves) of \$1.7 billion. When excluding reserves of \$204.5 million, expenditures and encumbrances through December constituted 49.1% of the total Modified Budget. The following chart displays the year-to-date expenditures (excluding encumbrances) compared to the prior year, by category.

2020-2021 General Fund Expenditures through December (\$ in Thousands)

Category	Current Budget	YTD Actual	% of Budget	Prior Year % of Budget
Departmental Expenditures				
Personal Services	\$ 859,920	\$ 426,457	49.6%	46.3%
Non-Personal/Equipment	142,771	44,021	30.8%	30.3%
Other Departmental	28,685	8,266	28.8%	20.2%
<i>Subtotal Departmental Expenditures</i>	<u>1,031,376</u>	<u>478,744</u>	<u>46.4%</u>	<u>42.4%</u>
Non-Departmental Expenditures				
City-Wide Expenses	\$ 327,591	\$ 101,498	31.0%	24.5%
Capital Contributions	78,404	12,409	15.8%	9.1%
Transfers	89,050	89,049	100.0%	93.2%
Reserves	204,462	0	0.0%	0.0%
<i>Subtotal Non-Departmental</i>	<u>699,507</u>	<u>202,956</u>	<u>29.0%</u>	<u>16.4%</u>
Total	\$ 1,730,883	\$ 681,700	39.4%	34.6%

Overall, General Fund expenditures are within budgeted levels and savings of approximately \$3 million - \$5 million are anticipated by year-end; however, this savings is likely to grow as vacancy estimates are refined. The Administration also continues to align pandemic response spending with available external funding sources, and some of these funding sources have recently broadened eligibility requirements, which may allow the City to further recoup eligible costs associated with the pandemic. General Fund expenditure savings will assist in meeting the projected 2020-2021 Ending Fund Balance estimate that will be used as a funding source in the Five-Year General Fund Forecast and the 2021-2022 Proposed Budget. Expenditures savings will continue to be closely monitored over the coming months.

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Expenditure adjustments totaling \$6.7 million are recommended in this report to accomplish the following: (1) implement one urgent fiscal/program need; (2) implement required technical/rebalancing adjustments; (3) account for new grants, reimbursements, and fees; and (4) complete clean-up actions. Additional information on these adjustments can be found in *Section III. Recommended Budget Adjustments and Clean-Up Actions* of this document. The following discussion highlights major General Fund expenditure activities through December.

DEPARTMENTAL EXPENDITURES

Departmental expenditures include personal services (salaries, overtime, retirement, health, and other fringe benefit costs), non-personal/equipment, and other departmental expenses. Personal services costs represent the largest single General Fund expense category for the City. These costs accounted for 62.6% of the total General Fund expenditures (excluding encumbrances) to date.

Through December, personal services expenditures for all City departments of \$426.5 million, or 49.6% of the current Modified Budget, is slightly above the estimated levels of 49.06% at this point of the year. This expenditure level is also higher than the 46.3% expended through the same time period in the prior year. This difference is largely due to the timing of personal services costs attributable to pandemic response activities that were not yet transferred to the identified emergency relief funding source (such as the Coronavirus Relief Fund) prior to December 2020. Once these charges are moved, current year tracking is expected to closely align with estimated levels. Overall, personal services expenditures are currently tracking with minimal savings of \$3 - \$5 million; however, this savings is likely to grow as vacancy estimates are refined. As of January 29, 2021, the City had 667 vacancies city-wide (all funds) compared to 617 vacancies in the prior year, representing a vacancy factor of approximately 10.1%.

Non-Personal/Equipment expenditures of \$44.0 million are below anticipated levels with 30.8% expended through December. This expenditure level is slightly higher than the 30.3% expended through December 2019. Encumbrances through December totaled \$35.4 million, which when combined with the non-personal/equipment expenditures, brings the total amount of funding committed to \$79.4 million, or 55.6% of the \$142.8 million budget. Overall, these expenditures are expected to remain within budget for all departments, with minimal savings generated by year-end.

The Other Departmental category includes the budget for the Mayor and City Council and Parks, Recreation and Neighborhood Services Fee Activities. Through December, Other Departmental expenditures totaled \$8.3 million, which represents 28.8% expended of the \$28.7 million budget through December. This expenditure level is above the 20.2% expended through December 2019. Expenditures in this category are expected to end the year within budgeted levels. Further, this report includes a recommendation to reduce the Fee Activities appropriation by \$4.0 million, from \$9.9 million to \$5.9 million due to lower levels of activity resulting from the pandemic.

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Following is a discussion of the Fire and Police Departments, as well as non-departmental expenditures.

DISCUSSION OF SELECTED GENERAL FUND DEPARTMENTS

Expenditure Status (\$ in Thousands)			
<u>Department</u>	<u>2020-2021 Budget</u>	<u>YTD Actual</u>	<u>Prior YTD Actual</u>
Fire	\$235,463	\$124,699	\$243,453

The Fire Department’s budget totals \$235.5 million, which is comprised of \$225.1 million in Personal Services and \$10.3 million in Non-Personal/Equipment expenditures. Overall, Fire Department expenditures are performing above estimated levels through December. Personal Services expenditures totaled \$119.8 million, or 53.23% of the Modified Budget. Personal Services expenditures totaling \$8.96 million have been identified as eligible to be expended in the COVID Relief Fund. After factoring out these expenditures, Personal Services expenditures total \$110.8 million, or 49.25% of the Modified Budget. This expenditure level is slightly above the estimated level at this point of the year of 49.06%. The higher than estimated expenditures are primarily due to costs incurred from mutual aid, Strike Team, and Task Force 3 deployments, for which the City is expected to be reimbursed from the State of California and Federal Emergency Management Agency (FEMA) later this fiscal year. The Fire Department’s Personal Services appropriation will continue to be carefully monitored to ensure overall expenditures remain within approved levels.

Overtime has primarily been used to backfill vacancies and absences of the line duty positions (vacation, modified duty, sick, disability, and other absences) and for deployments. Mutual Aid and Strike Team resources (150 sworn personnel) were deployed to assist with 19 wildland fires across California from July through December, including the August Complex (Glenn, Lake, Mendocino, Tehama, Trinity and Shasta Counties), Creek Fire (Fresno and Madera Counties), CZU Lightning Complex (San Mateo and Santa Cruz Counties), El Dorado Fire (San Bernardino County), Glass Fire (Napa and Sonoma Counties), LNU Lightning Complex (Colusa, Lake, Napa, Solano and Yolo Counties), and the SCU Lightning Complex (Alameda, Contra Costa, Merced, San Joaquin, Santa Clara, and Stanislaus Counties). In addition, California Task Force 3 deployments were made for out of State emergency responses, including Cyclone Laura in Louisiana, and local emergency response in Butte County for the North Complex. This report includes recommendations to recognize funds received from the State of California for the Strike Team deployments in the amount of \$206,276, which consists of \$182,263 for overtime expenditures and \$24,013 for non-personal/equipment reimbursements. Reimbursement for Task Force 3 expenditures have been requested from the State of California and FEMA and will be brought forward for City Council consideration once received. Factoring in the reimbursement received from the State for Strike Team deployments, overtime expenditures are in line with projected estimates and are anticipated to end the year at budgeted levels. In addition, the Fire Department’s Non-Personal/Equipment budget of

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\$10.3 million was 47.11% expended or encumbered through December 2020 and is expected to end the year within budgeted levels.

Overall, the average sworn vacancy rate of 4.24% through December 2020 is slightly higher than the rate of 3.81% experienced this time last year, and above the budgeted rate of 2.5%. The second full Firefighter Recruit Academy for 2019-2020 began in March 2020 and concluded on August 7, 2020, with 22 graduates. The next fire fighter academy is anticipated to begin in April 2021.

In accordance with the City Council’s approval of a March 2010 report on annual vacancy and absence rates, the Fire Department has committed to limiting administrative assignments for sworn administrative personnel for overtime control purposes. As of the end of December, at the current authorized staffing level of 31, the Fire Department had 25 sworn personnel on administrative assignments.

Expenditure Status (\$ in Thousands)

<u>Department</u>	<u>2020-2021 Budget</u>	<u>YTD Actual</u>	<u>Prior YTD Actual</u>
Police	\$453,709	\$226,867	\$453,321

Police Department expenditures are slightly above estimated levels through December; however, expenditures are expected to end the year at budgeted levels following the adjustments recommended in this report to allocate Management Pay for Performance Program (MPP) salary increases that were included in the Salaries and Benefits Reserve, and the final reconciliation of labor expenses in support of the COVID-19 pandemic response. Personal Services expenditures of \$208.0 million are tracking slightly higher than anticipated at this point of the year (49.39% expended, compared to the par level of 49.06%) due to a combination of factors that include: lower vacancy levels when combined with strong recruit academies, continued elevated levels of overtime usage, and the pending reclassification of eligible labor expenses to the Coronavirus Relief Fund. Use of the Hire Ahead program will need to be carefully monitored to ensure that personal services costs remain within budgeted levels. Year-to-date overtime expenditures of \$21.4 million account for 79.0% of the Police Department’s \$27.1 million budget (1.6% above prior year levels), which is driven higher by unplanned overtime in response to protests, responses to wildfires in summer 2020, preparations for demonstrations surrounding the contentious presidential election, and increases in investigative work. Final personal services costs incurred in support of COVID-19 pandemic response are also pending reallocation to the Coronavirus Relief Fund, for which the Police Department’s personal services budget was previously reduced as part of the rebalancing actions (Fiscal Recovery Update and Appropriation Actions to Continue the City’s COVID-19 Pandemic Response) approved by City Council on December 8, 2020. A total of \$18.9 million (57.9%) of the Department’s

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Non-Personal/Equipment budget (including encumbrances) has been expended or encumbered through December. Excluding the remaining balances for centrally-determined details, including electricity, gas, and vehicle operation and replacement, the Police Department has approximately \$4.9 million, or 26.46%, of its Non-Personal/Equipment appropriation available for the remainder of the fiscal year. As encumbrances account for 73.1% of the year-to-date activity through December, expenditures are still expected to end the year within budgeted levels.

The Police Department continues to diligently work to fill vacancies in both sworn and civilian positions, using vacancy savings and the \$6.75 million in one-time funding from the Sworn Hire Ahead Program to pay for Police Academy Recruits as well as to backfill patrol and investigative positions on overtime. While the goal is to fill vacancies and eliminate the need to backfill positions, academy and field training of new recruits takes 10-12 months, necessitating overtime to backfill until the new recruits are ready to serve as solo beat officers. Vacancy levels have also contributed to the build-up of compensatory time balances for sworn personnel, for which there is a limit of 480 hours after which sworn personnel are paid in overtime for any additional hours worked. As of December 2020, 445 sworn personnel had reached the 480-hour limit, an increase of 35.7% compared to 329 sworn personnel as of December 2019.

Overtime consists of overtime expenditures and compensatory time. The Memorandum of Agreement (MOA) with the Police Officer's Association (POA) limits how much overtime can be earned for pay versus compensatory time. The compensatory time balance at the end of December 2020 was 355,254 hours for sworn personnel. This represents an increase of 39,541 hours or 12.5% compared to the December 2019 balance of 277,218. As described above, 445 sworn personnel have reached the compensatory balance limit of 480 hours and all overtime worked by these employees are paid overtime.

The Police Department is enforcing compensatory time controls by requiring all sworn staff, outside of the Bureau of Field Operations (BFO), to reduce compensatory time balances by the end of the calendar year, or to submit a request for an extension, per the MOA. However, as compensatory time balances have continued to grow even though the number of street-ready sworn officers has also increased, the Police Department has implemented additional overtime and compensatory time approvals to slow, and eventually reduce, compensatory time balance growth, including revisions for BFO approvals to the extent possible.

The table below provides a summary of sworn staffing vacancies and street-ready officers. While the sworn positions are filled, there is still a significant gap between filled positions and street-ready officers, with the Hire Ahead program squarely aimed at closing this gap and mitigating expected vacancies due to retirements and other separations. Of the 1,159 authorized sworn staff, 102 were in training (8.8%) as of December 2020, leaving 1,049 street ready sworn positions available (this includes sworn employees on disability/modified duty/other leaves) as shown in the chart below. When sworn employees on disability/modified duty/other leaves are excluded, a total of 948 street-ready sworn officers were deployed.

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	2019-2020 (as of 12/27/2019)	2020-2021 (as of 12/18/2020)
Authorized Sworn Positions	1,151	1,159
Vacancies	(19)	(8)
Filled Sworn Positions	1,132	1,151
Field Training Officer/Recruits	(138)	(102)
Street-Ready Sworn Officers Available	994	1,049
Disability/Modified Duty/Other Leaves	(90)	(101)
Street-Ready Sworn Officers Working	904	948

The Police Department has completed or began several academies over the past year, including June 2019 (53 recruits), October 2019 (49 recruits), February/June 2020 (55 recruits) and October 2020 (51 recruits). Due to the COVID-19 pandemic, the February 2020 Academy was temporarily suspended in March but resumed in late June. This academy is anticipated to graduate in February 2021 and the October 2020 academy is anticipated to graduate in May 2021. To fill the vacant sworn positions and put more Police Officers back on patrol, the Department will continue to conduct two additional Police Recruit Academies in 2020-2021, with the next beginning in February 2021 and then in June 2021, with an estimated 45 to 55 recruits per session.

NON-DEPARTMENTAL EXPENDITURES

Non-Departmental Expenditures include City-Wide Expenses, Capital Contributions, Transfers, and Reserves. Through December, expenditures (excluding encumbrances) totaled \$203.0 million, or 29.0% of the \$699.5 million budget (including the Earmarked and Contingency Reserves). When excluding the reserves, the expenditures through December represent 41.0% of the 2020-2021 Modified Budget.

Through December, City-Wide Expenses totaled \$101.5 million, or 31.0% of the 2020-2021 Modified Budget of \$327.6 million. This is a significant increase from the 2019-2020 total Modified Budget of \$135.8 million, the result of the reinstatement of funding for the Tax and Revenue Anticipation Notes (TRANs) Debt Service payments of \$131.5 million in 2020-2021, the largest expenditure in the Strategic Support CSA. Until its suspension last year, the City has issued TRANs annually since 2010-2011 for cash flow purposes to facilitate the pre-payment of the City's retirement contributions. Of the total allocation budgeted, \$53.1 million was expended through December (40.4%). When expenditures (\$101.5 million) and encumbrances of \$16.7 million are combined, the total amount of funding committed (\$118.2 million) represents 36.1% of the Modified Budget. Excluding TRANs Debt Service payments, overall City-Wide expenditures are 24.7% of the Modified Budget, which is in line with prior year levels and are estimated to end the year slightly below budgeted levels.

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NON-DEPARTMENTAL EXPENDITURES

**2020-2021 City-Wide Expenses
Expenditures by City Service Area
(\$ in Thousands)**

City Service Area	Current Budget	YTD Actual	% of Budget	Prior Year Actual	Prior Year % of Budget
Community & Economic Development	\$ 33,158	\$ 8,348	25.2%	\$ 9,240	26.5%
Environmental & Utility Services	2,393	1,284	53.7%	1,054	35.1%
Neighborhood Services	26,555	3,701	13.9%	3,414	27.2%
Public Safety	31,002	11,065	35.7%	8,448	34.7%
Transportation & Aviation Services	4,831	1,134	23.5%	1,214	32.3%
Strategic Support	229,652	75,966	33.1%	9,857	17.2%
TOTAL	327,591	101,498	31.0%	33,227	24.5%

Several adjustments to the City-Wide Expenses appropriations are recommended in this report to align the budget with the year-end expenditure projections. In total, adjustments recommended in this report result in a net increase of \$1.4 million to City-Wide Expenses. The significant actions are summarized in the Transmittal Memorandum and details all actions can be found in *Section III. Recommended Budget Adjustments and Clean-Up Actions* of this 2020-2021 Mid-Year Budget Review.

The following highlights key appropriations in City-Wide Expenses across the five different CSAs:

- Workers' Compensation Claims appropriations totaling \$18.4 million are budgeted in four of the six CSAs, with total expenditures of \$9.1 million through December 2020, or approximately 49.8% of the Modified Budget. This expenditure level is approximately 6.6% above the \$8.5 million expended through December 2019. This increase marks the first increase of Workers' Compensation Claims expenditure year over year since 2017-2018, which is resulting from COVID-19 related claims as well as some one-time settlement amounts paid out earlier in the year. Including adjustments recommended as part of this report to reallocate the budget between the various Workers' Compensation Claims appropriations, overall Workers' Compensation claim payments are projected to end the year within budgeted levels.
- A set of net-zero Workers' Compensation Claims budget adjustments are included to increase the Fire Department Workers' Compensation Claims allocation by \$500,000 and increase the Other Department Workers' Compensation Claims allocation by \$250,000 to align the budget with actual settlements and medical treatment costs. However, savings are projected in the Workers' Compensation Claims Public Works appropriation and the Workers' Compensation Claims Transportation appropriation. Actions to reduce each allocation by \$375,000 are recommended to be redistributed to offset the allocations that require increases.

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There are additional Workers' Compensation Claims appropriations for the Parks, Recreation and Neighborhood Services Department and the Police Department that do not require adjustments at this time; however, additional net-zero actions may be necessary at year-end.

- In the Strategic Support CSA, the General Liability Claims appropriation totals \$14.5 million, of which 6.9%, or \$1.0 million, is expended or encumbered through December 2020. This is an increase in spending year over year; total commitments through December 2019 were \$775,000, or 5.8% of the \$13.3 million budget. The amount and pace of claims-related expenditures can vary significantly from year to year.
- Also included in the Strategic Support CSA, the Energy Services Company (ESCO) Debt Service appropriation totals \$13.5 million, of which 96.0%, or \$13.0 million, is expended through December 2020. This year's significant expenditure was the result of one-time additional funding of \$10.6 million used to pay off the outstanding debt associated with the lease-purchase agreement for the LED streetlight conversion project.
- Sick Leave Payments Upon Retirement expenditures of \$1,034,000 through December – which is tracked in the Strategic Support CSA – reflect 20.7% of the total 2020-2021 budget estimate of \$5.0 million. Year-to-date expenditures for these payouts reflect a slight increase from the prior year levels of \$923,000 through December 2019, but consistent with the \$1.1 million expenditure through December 2018 and December 2017. It is important to note, however, that the majority of expenditures in this appropriation typically occur in the second half of the year. Year-end expenditures are anticipated be at or below the budgeted estimate of \$5.0 million.
- In the Community and Economic Development CSA, the Homeless Rapid Rehousing and Homeless Response Team appropriations have expended or encumbered 63.7% and 53.0% of their respective budgets, respectively. These two appropriations provide funding for critical resources to address the City's ongoing efforts related to homelessness.
- In the Neighborhood Services CSA, the San José BEST and Safe Summer Initiative Programs appropriation has year-to-date expenditures of \$1.4 million with an additional \$1.8 million encumbered for a total of \$3.2 million committed, reflecting 42.8% of the total budget of \$7.4 million. In comparison, this reflects a decrease from the prior year spending, of which \$3.5 million was expended or encumbered through December 2019 of a total budget of \$6.7 million. This appropriation supports gang prevention and intervention efforts across the City.

Through December, General Fund **Capital** expenditures (\$12.4 million) and encumbrances (\$15.0 million) total \$27.4 million, which represents 35.0% of the \$78.4 million budget. Overall, minimal General Fund Capital expenditure savings are anticipated, as the rebudget of unspent funds to 2021-2022 will be recommended to complete projects.

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Through December, **Transfers** have been fully executed, with expenditures totaling \$89.0 million, or 100% of the budget.

There are no expenditures against the **Earmarked Reserves** budget of \$164.5 million because expenditures cannot be charged directly to a reserve (to use Reserve funding, budget actions are necessary to move funding from a Reserve to an expenditure appropriation). The largest reserves include the: Budget Stabilization Reserve (\$35.0 million); Fire Training Center Replacement Reserve (\$24.8 million); Salaries and Benefits Reserve (\$24.4 million); Workers' Compensation/General Liability Catastrophic Reserve (\$15.0 million); Measure E – 45% Extremely Low Income Reserve (\$12.8 million); 2021-2022 Future Deficit Reserve (\$11.1 million); Measure E – 35% Low Income Reserve (\$10.0 million); 2021-2022 Police Sworn Hire Ahead Program Reserve (\$7.0 million); Sick Leave Payments Upon Retirement Reserve (\$4.0 million); and, Measure E – 10% Moderate Income Reserve (\$2.9 million).

Several budget actions are recommended in this report that impact General Fund Reserves, including: the allocation of \$10.0 million of additional Real Property Transfer Tax revenues in accordance with City Council Policy 1-18, Section 22 to support affordable housing and homelessness prevention; increasing the Google Parking Lots Option Payment reserve in the amount of \$1.1 million to set aside the 2020-2021 Option payment from Google; and, a net reduction of \$6.8 million to the Salaries and Benefits Reserve. These actions are summarized in the Transmittal Memorandum and all reserve actions are described in detail in *Section III. Recommended Budget Adjustments and Clean-Up Actions* of this document.

No budget action is recommended for the **Contingency Reserve**, which currently totals \$40.0 million and complies with the City Council policy to set aside 3% of expenditures.