



# Memorandum

**TO:** HONORABLE MAYOR  
AND CITY COUNCIL

**FROM:** Debra Figone

**SUBJECT:** SEE BELOW

**DATE:** October 3, 2013

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**SUBJECT: SUPPLEMENTAL MEMORANDUM FOR THE 2012-2013 ANNUAL REPORT**

## REASON FOR SUPPLEMENTAL MEMO

Subsequent to the release of the 2012-2013 Annual Report, on September 30, 2013, it was determined the current General Fund Contingency Reserve no longer meets Council Policy 1-18, Operating Budget and Capital Improvement Program Policy, that requires the amount to be a minimum of 3% of the operating budget. This memorandum amends the 2012-2013 Annual Report Section IV Recommended Budget Adjustments and Clean-up Actions to include the following additional appropriation ordinance actions in the General Fund: increase the Contingency Reserve in the amount of \$1,691,000; and decrease the 2014-2015 Future Deficit Reserve in the amount of \$1,691,000.

## BACKGROUND

City Council Policy 1-18, Operating Budget and Capital Improvement Program Policy, as originally approved by the City Council in 2004 and amended on June 11, 2013, states that:

For the General Fund, a contingency reserve, which is a minimum of 3% of the operating budget, is established. The purpose of this reserve is to meet unexpected circumstances arising from financial and/or public emergencies that require immediate funding that cannot be met by any other means. Any use of the General Fund Contingency Reserve shall require two-thirds vote of approval by the City Council. Appropriate levels of contingency funds will be determined and maintained in the capital and special funds.

## ANALYSIS

In order to ensure compliance with the City Council-approved policy, a Contingency Reserve amount equivalent to a minimum of 3.0% of the operating budget should be maintained.

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Subsequent to the release of the 2012-2013 Annual Report, it was determined that the 2013-2014 General Fund Adopted Operating Budget of \$1.0 billion (less the Contingency Reserve and carryover encumbrances) in combination with the \$17.0 million increase in the General Fund recommended in the 2012-2013 Annual Report results in an insufficiency in the current Contingency Reserve amount of \$29.3 million in order to meet this policy. Therefore this supplemental memorandum recommends adjusting Section IV of the 2012-2013 Annual Report to increase the Contingency Reserve by \$1,691,000, from \$29,309,000 to \$31,000,000 million, in 2013-2014 in order to remain in compliance with the City Council Policy. It should be noted that the revised reserve of \$31.0 million is only sufficient to cover General Fund payroll expenditures for less than two and a half weeks in the event of an emergency. This level of reserve continues to be a very low amount for a city the size of San Jose.

In order to offset this action, a \$1.7 million decrease in the 2014-2015 Future Deficit Reserve (from \$13,700,000 to \$12,009,000) is recommended. This reserve was set aside to resolve the 2013-2014 General Fund shortfall that was projected in the last Five-Year Forecast that was issued in February 2013. However, as discussed during the September 3, 2013 City Service Restorations and Revenue Measures City Council Study Session, due to information received in June 2013 regarding an improvement in property Tax collections, the 2014-2015 preliminary General Fund Forecast now projects an approximate \$11.0 million shortfall even if the \$20.0 million General Fund Contingency Plan is required to be implemented. Therefore, in order to offset the required increase in the Contingency Reserve, a decrease in the 2014-2015 Future Deficit Reserve is recommended with no impact expected to the 2014-2015 budget balancing per the forecast projections that are currently available.



DEBRA FIGONE  
City Manager

For questions please contact Jennifer A. Maguire, Budget Director, at (408) 535-8144.