

2010-2011 ANNUAL REPORT

GENERAL FUND EXPENDITURE PERFORMANCE

The General Fund expenditure performance for 2010-2011 is discussed in detail in this section. This includes an overview of the General Fund expenditure performance, a discussion of significant departmental variances, and highlights of the non-departmental expenditures.

Overview

The following table details actual 2010-2011 General Fund expenditures as compared with the modified budget estimates:

TABLE B
2010-2011 GENERAL FUND EXPENDITURE SUMMARY
COMPARISON OF BUDGET TO ACTUAL
(In \$000s)

Category	Modified Budget*	Actual**	Variance	% Variance
Personal Services	\$ 601,738	\$ 591,413	\$ 10,325	1.7%
Non-Personal/Equipment/Other	99,819	90,939	8,880	8.9%
City-Wide Expenses	212,916	181,240	31,676	14.9%
Capital Contributions	14,140	8,839	5,301	37.5%
Transfers	28,539	28,534	5	0.0%
Reserves	88,117	-	88,117	100.0%
TOTAL GENERAL FUND	\$ 1,045,269	\$ 900,965	\$ 144,304	13.8%

* 2010-2011 appropriations as modified by Council through June 30, 2011, plus 2009-2010 carryover encumbrances

** Actual 2010-2011 expenses plus encumbrances

General Fund expenditures and encumbrances through June 30, 2011 of \$901.0 million were \$144.3 million below (down 13.8%) the modified budget total of \$1.0 billion. Approximately 60% of this savings was generated from unspent reserves (\$88.1 million), with the remaining savings generated from expenditure and transfer appropriations. Total 2010-2011 expenditures and encumbrances were up \$60.7 million (7.2%), from the June 2010 level of \$840.3 million. This increase, however, was due entirely to the budget actions to reflect the payment of the Tax Revenue Anticipation Notes (TRANS) of \$75.4 million in 2010-2011. Excluding this transaction, expenditures of \$825.6 million were 1.7% below the June 2010 level.

In addition to comparing actual expenditures to the modified budget and prior year actuals, it is important to compare actual expenditures to the estimates used in formulating the 2010-2011 Ending Fund Balance/2011-2012 Beginning Fund Balance estimate for the 2011-2012 Adopted Budget. This comparison is used to determine if any adjustments to the 2011-2012 Adopted Budget are necessary and to identify any additional fund balance for use in 2011-2012.

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Overview (Cont'd.)

As shown in Table C, the actual General Fund expenditures, transfers, and reserves of \$901.0 million were approximately \$27.9 million below (3.0%) the estimate used in the development of the 2011-2012 Adopted Budget. A portion of these savings (\$12.9 million) was carried over to 2011-2012 with the accompanying revenue for grant or reimbursement-related projects and programs. Clean-up expenditure adjustments of \$6.0 million are recommended in this document to reconcile the development fee programs for 2010-2011 (\$1.3 million) and to adjust various rebudget amounts (\$4.7 million). After accounting for these technical adjustments, the remaining General Fund expenditures, transfers, and reserves savings figure total \$9.1 million, or 1.0% of the estimate. These net expenditure savings, when combined with net variances associated with the General Fund revenues and the liquidation of prior year encumbrances, represent the additional beginning fund balance that is available for allocation. In 2011-2012, a total of \$8.1 million in additional beginning fund balance is available from net expenditure savings (\$9.1 million) and the liquidation of prior year encumbrances above the estimated level (\$0.2 million), partially offset by net lower funding sources (-\$1.2 million). Recommendations on the allocation of these additional funds are provided elsewhere in this document.

**TABLE C
2010-2011 EXPENDITURE ESTIMATE TO ACTUAL VARIANCES
(In \$000s)**

Category	Estimate	Actual	Variance	% Variance
Expenditures	\$ 900,054	\$ 872,431	\$ 27,622	3.1%
Transfers	28,539	28,534	5	0.0%
Reserves	304	-	304	100.0%
TOTAL	\$ 928,896	\$ 900,965	\$ 27,931	3.0%

Following is a review of the General Fund expenditure categories, including a discussion of variances to the modified budget as well as the estimate used in the development of the 2011-2012 budget.

Personal Services expenditures of \$591.4 million ended the year \$10.3 million (1.7%) below the budgeted level and \$9.8 million (1.6%) below 2009-2010 expenditure levels. The drop from 2009-2010 reflects the net impact of the elimination of approximately 10% of the positions funded by the General Fund and an increase in the cost per employee, particularly retirement and benefit costs. When compared to the budget, the personal services savings are within levels typically experienced. Over the past decade, expenditure savings compared to budgeted levels have ranged from a high of 2.5% savings in 2006-2007 to a low of 0.8% savings in 2003-2004. It is important to note, however, that this savings level is higher than the level assumed when the 2010-2011 year-end clean-up adjustments were developed.

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Overview (Cont'd.)

As described in the 2010-2011 Year-End Clean-Ups Memorandum that was approved by the City Council on June 21, 2011, several departmental personal services appropriations were augmented through net-zero appropriation adjustments to provide for an anticipated increase in retirement contributions resulting from the transition to the fixed-payment "retirement floor" methodology that was implemented in 2011-2012. As part of the transition to a full fiscal year fixed payment in 2011-2012, it was determined that one pay period of retirement costs was not included in the prepayment of retirement costs for 2010-2011 or the prepayment of retirement costs for 2011-2012. These costs, estimated at \$5.9 million in all funds and \$4.9 million in the General Fund, were intended to be accrued by the Finance Department in 2010-2011 and paid to the retirement funds as part of the July 1, 2011 retirement prepayment. Because it was subsequently discovered that this additional funding had actually been set-aside through the prior year accrual process, the appropriation increases were not needed. Therefore, General Fund personal services savings in the amount of \$4.9 million were realized city-wide.

If the accounting adjustment had occurred as anticipated, the General Fund personal services savings would have totaled approximately \$5.4 million and ended the year 0.9% below the budgeted level; this is consistent with 2009-2010 performance and is near the low end of the range of savings experienced over the past decade. The majority of Personal Services savings were generated by the following departments: Police (\$5.1 million); Fire (\$1.8 million); and Parks, Recreation and Neighborhood Services (\$796,000). After adjusting for the planned additional retirement costs, the remaining Personal Services savings of \$5.4 million in all departments were primarily generated from vacant positions, reflecting the impact of the hiring freeze which has been in place in some form since 2001.

General Fund Non-Personal/Equipment/Other¹ expenditures and encumbrances ended the year at \$90.9 million, generating savings from the budgeted level of approximately \$8.9 million (8.9%). The majority of savings in this category were generated by the Mayor and City Council (\$2.6 million) and by the following departments: Police (\$2.3 million); Information Technology (\$1.1 million); and Parks, Recreation and Neighborhood Services (\$477,000). Of the \$8.9 million in savings, \$8.4 million was assumed as savings in the development of the 2011-2012 budget or rebudgeted to 2011-2012 in the Adopted Budget and additional rebudget and clean-up adjustments of \$559,000 are recommended in this document, resulting in no net savings in this category.

After rebudget and clean-up adjustments, departmental expenditures (Personal Services and Non-Personal/Equipment/other) generated total savings of \$10.2 million. Of this amount, the \$1.3 million in departmental savings generated from the four Development Fee Programs

¹ The "Other" category expenditures are primarily comprised of budgets for the Mayor and City Council, Library Department grants program and the Parks, Recreation and Neighborhood Services fee activities program.

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Overview (Cont'd.)

(Building, Fire, Planning, and Public Works) is recommended to be allocated to the Development Fee Program Reserves in this document. After these reconciling adjustments, departmental savings totaled \$8.9 million in 2010-2011.

In the City-Wide Expenses category, expenditures of \$181.2 million ended the year \$31.7 million below the budgeted level. Of this amount, \$29.0 million was assumed as savings in the development of the 2011-2012 budget or rebudgeted to 2011-2012 in the Adopted Budget, leaving a net balance of \$2.7 million. Additional rebudget and clean-up adjustments totaling \$2.7 million are recommended in this document and would result in no net savings in this category.

In the Capital Contributions category, expenditures of \$8.8 million ended the year \$5.3 million below the budgeted level. Of this amount, \$4.0 million was assumed as savings in the development of the 2011-2012 budget or rebudgeted to 2011-2012 in the Adopted Budget. An additional \$1.2 million is recommended to be rebudgeted in this document. Factoring out these assumed savings and rebudgets, adjusted General Fund Capital savings totaled \$100,000 (0.4%) at year-end. In the Transfers category, expenditures of \$28.5 million fell below budgeted amounts by \$5,000 at year end.

The largest single category of remaining funding occurred, as planned, in the Reserves category (\$88.1 million). Of the \$88.1 million in Reserves, \$87.8 million was assumed in the development of the 2011-2012 budget or rebudgeted to 2011-2012 in the Adopted Budget. Additional rebudget and clean-up adjustments of \$201,000 are recommended in this document for the General Plan Update (\$172,000) and Fee Program Reserves for Planning and Public Works for a net change of (\$29,000). Factoring out these assumed savings and rebudgets, adjusted savings from the General Fund Reserves totaled approximately \$100,000, or 0.4%. Additional detailed discussion of the reserve status can be found later in this section of the document.

Review of General Fund Expenditure Performance

This section provides more detailed information on the departmental and non-departmental performance, including a discussion of significant variances.

Departmental costs (\$682.4 million) represented 75.7% of total 2010-2011 General Fund expenditures. As can be seen in Table D on the following page, all departments remained within their total budget allocation and expended a cumulative 97.3% of their budgets, generating overall savings of 2.7%, or \$19.2 million. Of the twenty City departments/offices, twelve had expenditure savings of less than 5%. These twelve departments, which included the Police and Fire Departments, generated \$12.6 million (65.6%) of the savings. Four departments had

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Review of General Fund Expenditure Performance (Cont'd.)

expenditure savings between 5% – 10% and generated \$2.8 million (14.6%) of the savings. The remaining four departments had expenditure savings over 10% and generated \$3.8 million (19.8%) of the savings.

In 2010-2011, the following six departments/offices had expenditure savings in excess of \$1 million: Fire; Information Technology; Mayor and City Council; Parks, Recreation and Neighborhood Services; Planning, Building and Code Enforcement; and Police. A portion of the savings in several of these departments/offices, however, was previously rebudgeted as part of the Adopted Budget and/or are being recommended to be rebudgeted as part of this document.

Those departments with General Fund expenditure variances over 5% are discussed in detail in the following section. In addition, the year-end status of expenditures for both the Police and Fire Departments are also summarized.

Non-departmental expenditures totaled \$218.6 million, or 24.3% of the total 2010-2011 General Fund expenditures. In this category, 85.5% of the amount budgeted (excluding reserves) was expended. The reserves represent the largest portion of the unexpended funds and are being carried over or used in 2011-2012 as planned. It is also important to note that almost all of savings in the City-Wide Expenses and Capital Contributions categories also have been or are recommended in this document to be rebudgeted to 2011-2012 for their originally intended uses.

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Review of General Fund Expenditure Performance (Cont'd.)

**TABLE D
TOTAL GENERAL FUND EXPENDITURES**

Departmental	2010-2011 Modified Budget	2010-2011 Expenditures	Variance	% Variance
City Attorney	\$ 11,865,510	\$ 11,647,538	\$ (217,973)	(1.8%)
City Auditor	1,909,531	1,782,279	(127,252)	(6.7%)
City Clerk	4,016,859	3,948,764	(68,095)	(1.7%)
City Manager	11,006,846	10,792,571	(214,275)	(1.9%)
Economic Development	3,065,214	2,983,638	(81,576)	(2.7%)
Environmental Services	717,096	559,089	(158,007)	(22.0%)
Finance	11,532,651	11,257,707	(274,945)	(2.4%)
Fire	155,145,446	153,111,556	(2,033,891)	(1.3%)
General Services	25,990,564	25,566,685	(423,879)	(1.6%)
Human Resources	7,260,689	7,067,614	(193,075)	(2.7%)
Independent Police Auditor	871,455	826,282	(45,173)	(5.2%)
Information Technology	16,034,891	14,765,331	(1,269,560)	(7.9%)
Library	25,357,867	25,032,852	(325,016)	(1.3%)
Mayor and City Council	10,252,253	7,602,259	(2,649,994)	(25.8%)
Parks, Recreation & Neighborhood Services	57,386,755	56,113,791	(1,272,964)	(2.2%)
Planning, Building & Code Enforcement	25,610,445	24,204,442	(1,406,003)	(5.5%)
Police	297,828,043	290,397,052	(7,430,991)	(2.5%)
Public Works	5,225,684	4,517,934	(707,750)	(13.5%)
Redevelopment Agency	1,550,393	1,284,425	(265,968)	(17.2%)
Transportation	28,928,068	28,890,383	(37,685)	(0.1%)
Subtotal	701,556,260	682,352,191	(19,204,069)	(2.7%)
Non-Departmental				
City-Wide Expenses	212,916,323	181,239,760	(31,676,564)	(14.9%)
Capital Contributions	14,140,385	8,839,195	(5,301,190)	(37.5%)
Transfers	28,538,763	28,534,164	(4,599)	(0.0%)
Earmarked Reserves	45,877,253	-	(45,877,253)	(100.0%)
Contingency Reserve	29,309,000	-	(29,309,000)	(100.0%)
Ending Fund Balance	12,931,000	-	(12,931,000)	(100.0%)
Subtotal	343,712,724	218,613,118	(125,099,606)	(36.4%)
TOTALS	\$ 1,045,268,984	\$ 900,965,309	\$ (144,303,675)	(13.8%)

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Discussion of Significant Departmental Variances and Other Issues

Following is a discussion of those departments with significant variances and a summary of the performance in the City's two largest General Fund departments, Police and Fire.

- *City Auditor*

The Office of the City Auditor expended 93.3% of its General Fund appropriation with resulting savings of \$127,000. The majority of this variance is related to personal services expenditures, which were 5.4% below (\$98,000) the modified budget as a result of salary savings due to two of the Office's 15 (13.3%) budgeted positions being vacant for approximately half of 2010-2011. Non-Personal/Equipment expenditures ended the year 39.2% below (\$29,000) budgeted levels. The majority of these savings was realized in contractual services, as all performance audits in 2010-2011 were completed with in-house resources, rather than partially through the use of outside contracts.

- *Environmental Services*

The Environmental Services Department expended 78.0% of its modified budget of \$717,000 with resulting savings of \$158,000. Personal Services expenditures were 26.6% (\$89,000) below budgeted levels. Of this balance, \$49,000 was rebudgeted in the 2011-2012 Adopted Budget to pay for Silicon Valley Energy Watch Program staffing. The Silicon Valley Energy Watch Program focuses on promoting energy efficiency through activities that include outreach and education, training, and local government policy coordination. This document recommends reversing \$10,000 of this rebudget, as grant-related personal services expenditures in 2010-2011 exceeded the estimate generated at the time the 2011-2012 Budget was adopted. After these adjustments, the net Personal Services savings totals approximately \$50,000.

The Department's Non-Personal/Equipment expenditures ended the year 18.1% (\$69,000) below the modified budget. Of this balance, \$25,000 was rebudgeted in the 2011-2012 Adopted Budget to pay for Silicon Valley Energy Watch activities. An additional rebudget of \$27,000 for Silicon Valley Energy Watch activities is recommended as part of this document. After these adjustments, the net Non-Personal/Equipment savings totals approximately \$17,000. These primarily represent savings in the Municipal Environmental Compliance and Green Building programs, partially offset by unbudgeted expenditures associated with the Bright Green Day event.

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Discussion of Significant Departmental Variances and Other Issues (Cont'd.)

- *Fire*

At the end of 2010-2011, the Fire Department had expended or encumbered 98.7% of its total modified budget of \$155.1 million, resulting in savings of \$2.0 million. Of this savings, \$230,000 is either allocated for rebudgets or required to be reallocated to the Fire Fee Reserve, leaving \$1.8 million in net savings.

The Personal Services appropriation of \$148.2 million was 98.8% expended, with savings of \$1.7 million, primarily due to lower overtime expenditures as well as vacancies in the Development Fee Program. In reconciling the Development Fee Program budget with year-end Personal Services expenditures, savings in the Program of approximately \$152,000 are recommended to be transferred to the Fire Fee Reserve which includes \$137,000 in Personal Services savings and \$15,000 in overhead savings. Reallocating this amount to the Fire Fee Reserve would result in savings of \$1.6 million in this appropriation. As discussed in the Overview section of *General Fund Expenditure Performance*, several departmental personal services appropriations were augmented through net-zero appropriation adjustments to provide for an anticipated increase in retirement contributions at the end of 2010-2011. These expenditures in the Fire Department were projected at \$1.4 million. It was subsequently discovered that this additional funding had actually been set-aside through the prior year accrual process; as a result, personal services expenditures savings were higher than anticipated.

Fire's overtime expenditures of \$10.0 million ended the year below the modified budget level of \$11.5 million. The \$1.5 million in overtime savings along with the \$958,000 in retirement savings was partially offset by \$690,000 in higher than budgeted costs for salaries and other fringe benefits. A combination of full-time staff and overtime is used to address the Fire Department's minimum staffing requirements. Overtime savings were a result of minimum staffing levels being maintained without the use of overtime. The Fire Department is expected to bring its 2010-2011 annual overtime report to the Public Safety, Finance, and Strategic Support Council Committee by January 2012. The overtime report will include an analysis of the balance between relief personnel and the overtime allocation for minimum staffing.

The Fire Department ended 2010-2011 with a total of 166 filled paramedics (153 front-line, 5 Supervisors, and 8 support) compared to the 139 front-line Firefighter Paramedics that are necessary to fully staff all apparatus. The Department projects it will have no issues maintaining the target staffing level of 139 front-line Firefighter Paramedics in 2011-2012. As part of the City Council's approval of Department Absence and Vacancy Rates (March

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2010), it should be noted that the number of sworn administrative staff in the Department at year-end was 30, which is within the authorized number of 34.

The Department's Non-Personal/Equipment budget was 96.0% expended or encumbered, with year-end savings of \$277,000. Of this savings, \$12,775 was estimated to be available for targeted projects and was approved for rebudget in the 2011-2012 Adopted Budget for recertification of Emergency Medical Technicians. The portion of Non-Personal/Equipment savings of approximately \$65,000 achieved by Fire's Development Fee Program is recommended to be allocated to the Fire Fee Reserve.

- *Independent Police Auditor*

Overall, the Independent Police Auditor's (IPA) Office expended 94.8% of its total modified budget of \$871,000 with savings of \$45,000 through year-end. Approximately \$42,000 of the savings was in Personal Services due to an IPA Analyst position being vacant for four months of 2010-2011.

The Office's Non-Personal/Equipment budget was 87.0% expended and encumbered, with savings of \$3,000. Savings in printing (\$2,000) and communications (\$1,000) generated Non-Personal/Equipment savings. A portion of the Non-Personal/Equipment savings, \$1,500, is recommended for rebudget in this document to print a revised fourth edition of the Student Guide to Police Practices. The Guide informs youth about their rights and responsibilities when interacting with the police, common crimes that involve youth, and how to avoid becoming victims of crime. The revised edition will contain new sections, an updated list of community resources, and will be available in English, Spanish, and Vietnamese.

- *Information Technology*

The Information Technology Department (ITD) expended 92.1% of its General Fund modified budget with year-end savings of \$1,270,000. Personal Services expenditures were 1.8% below modified budget levels (\$188,000) resulting primarily from vacancy savings due to employee retirements.

Non-Personal/Equipment expenditures were 19.6% or \$1.1 million below budgeted levels. This savings primarily represents project savings or project delays. Of the remaining balance, \$730,000 was rebudgeted in the 2011-2012 Adopted Operating Budget for the Converged Network (VoIP) Expansion project (\$600,000) and the PCI (Payment Card

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Discussion of Significant Departmental Variances and Other Issues (Cont'd.)

Industry) Compliance Audit project (\$130,000). This document recommends an additional rebudget of \$350,000 to augment the current city-wide electronic file system to meet current city-wide storage needs and transition to a modular architecture that would allow the City to quickly re-provision on premise storage as cloud offerings are evaluated for data security, cost effectiveness, and ease of management with limited staffing levels. After these adjustments, the net Non-Personal/Equipment savings total \$2,000.

- *Mayor and City Council*

Overall, the Mayor's Office, the City Council Offices, and Council General expended 74.2% of their total modified budget of \$10.3 million with savings of \$2.6 million at year-end. Of this amount, \$619,000 of the savings was in the Mayor's Office, \$1.0 million was in the City Council Offices, and \$1.0 million was in Council General as outlined below:

2010-2011 Actual Expenditure Performance

	2010-2011 Modified Budget	2010-2011 Actuals	Variance
Council District 1	\$ 280,205	\$ 259,019	\$ 21,186
Council District 2	374,181	209,579	164,602
Council District 3	290,381	234,150	56,231
Council District 4	366,291	228,683	137,608
Council District 5	340,693	221,982	118,711
Council District 6	365,390	230,132	135,258
Council District 7	342,089	252,155	89,934
Council District 8	321,042	273,857	47,185
Council District 9	334,353	249,034	85,319
Council District 10	384,588	235,976	148,612
Mayor's Office	1,996,669	1,377,321	619,348
Council General	4,856,372	3,830,372	1,026,000
	\$ 10,252,254	\$ 7,602,259	\$ 2,649,995

A portion of the savings, \$1.4 million (\$624,000 in the City Council Offices, \$442,000 in the Mayor's Office, and \$285,000 in Council General) was rebudgeted in the 2011-2012 Adopted Budget. A reduction to the rebudget amount of \$217,000 is recommended in this document in order to align the City Council Offices' year-end balances with rebudgets total and the \$1.4 million in savings that was used to fund other services throughout the City as

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Discussion of Significant Departmental Variances and Other Issues (Cont'd.)

described and approved by the City Council as part of the Mayor's June Budget Message for Fiscal Year 2011-2012. Below is a chart outlining the revised 2011-2012 budgets by office as recommended in this document:

2011-2012 Adopted Budget Modifications

	2011-2012 Adopted Budget	2010-2011 Constituent Outreach (Reconciliation)	2010-2011 Rebudget (Reconciliation)	2011-2012 Other Adjustments	2011-2012 Modified Budget
Council District 1	\$ 242,576	\$ 1,606	\$ 0	\$ 0	\$ 244,182
Council District 2	327,595	458	0	0	328,053
Council District 3	308,821	(641)	(9,373)	0	298,807
Council District 4	331,426	(8,585)	0	0	322,841
Council District 5	348,140	(2,443)	0	0	345,697
Council District 6	326,211	(4,490)	0	0	321,721
Council District 7	356,746	(1,534)	(17,202)	0	338,010
Council District 8	280,851	274	16,536	0	297,661
Council District 9	331,397	559	(4,061)	0	327,895
Council District 10	350,957	-2,693	0	0	348,264
Mayor's Office	1,769,977	22,885	0	0	1,792,862
Council General	5,344,127	0	(208,218)	(18,695)	5,117,214
	\$10,318,824	\$ 5,396	\$ (222,318)	\$ (18,695)	\$10,083,207

- *Planning, Building and Code Enforcement*

The Planning, Building and Code Enforcement Department (PBCE) expended 94.5% of its General Fund budget, with resulting savings of \$1.4 million. Personal services expenditures were 1.7% below budgeted levels (\$395,000) and non-personal/equipment expenditures were 39.8% below budgeted levels (\$1.0 million).

Personal services savings of \$226,000 were realized in the Building and Planning Fee Programs (Development Fee Programs), and savings of \$169,000 were realized in Community Code Enforcement and Planning Services (Non-Development Fee Programs). The savings were due to vacant positions resulting from a large amount of retirements. As part of the 2011-2012 Adopted Budget, anticipated personal services savings of \$18,500 were rebudgeted to 2011-2012 for staff support to work on the revised scope of work with the Bay Area Air Quality Management District.

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The majority of the non-personal/equipment expenditure savings were primarily in the Development Fee Programs (\$683,000). As part of the 2011-2012 Adopted Budget, Development Fee Program non-personal/equipment expenditure savings of \$372,500 were anticipated and rebudgeted for consulting services, a software upgrade, and hardware expenses as a result of the implementation of the Alfresco software (formerly the FileNet Upgrade), which will provide record retention capabilities to the City for the storage, retrieval, and maintenance of vital City-wide records. Other non-personal/equipment savings achieved (\$328,000) were non-fee related, such as deferring training and travel, consolidating software maintenance contracts, and reducing spending on office supplies.

Overall, the Development Fee Programs had total savings of \$909,000 and the Non-Development Fee Programs had total savings of \$497,000. The savings in the Development Fee Programs above the amounts already rebudgeted to 2011-2012 (\$518,000) are recommended in this document to be added to the Fee Reserves as part of the process to reconcile actual fee program expenditures and revenues for 2010-2011.

- *Police*

Overall, the Police Department expended 97.5% of its total modified budget of \$297.8 million with savings of \$7.4 million through year-end. Approximately \$5.1 million of the savings was in the Personal Services category with \$2.6 million in overtime savings, \$2.5 million in total salary and benefit savings. Overtime expenditures of \$9.7 million were 21.0% below the modified budget of \$12.3 million, mainly due to overtime controls implemented during 2009-2010, which have continued through 2010-2011. The overtime management process requires preapproval by a supervisor and additional timesheet coding is required to determine the type of usage in order to readily identify mandatory versus discretionary usage. This process has been useful in reducing discretionary overtime expenditures. As discussed in the Overview section of *General Fund Expenditure Performance*, several departmental personal services appropriations were augmented through net-zero appropriation adjustments to provide for an anticipated increase in retirement contributions at the end of 2010-2011. These expenditures in the Police Department were projected at \$2.4 million. It was subsequently discovered that this additional funding had actually been set-aside through the prior year accrual process; as a result, personal services expenditures savings were higher than anticipated.

As of June 2011, the Department had 1,268 authorized sworn staff of which 62 were vacant, and two were offset by a temporary Police Lieutenant and a temporary Police Officer (both funded through Super Urban Area Security Initiative (SUASI) grants), leaving a net of 60

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Discussion of Significant Departmental Variances and Other Issues (Cont'd.)

sworn vacancies in the Department. The number of sworn vacancies in the Department in 2010-2011 was higher than past years as there was no recruit academy held in 2010-2011. At the beginning of 2010-2011, 64 Police Officer and 1 Police Sergeant positions were reinstated on a one-time basis through June 30, 2011. In order to lay-off fewer sworn personnel at the end on 2010-2011, due to anticipated budget reductions, sworn positions were held vacant when an employee retired or left the Department. This higher vacancy level did generate salary and benefit savings; however, a portion of this savings was used to cover the vacation and compensatory time payouts for the separated employees which are reflected under full-time salaries.

The compensatory time balance at the end of 2010-2011, for sworn personnel, was 190,846 hours. This balance represented an 11.1% decrease compared to the 2009-2010 total sworn compensatory time balance of 214,781 hours. In accordance with the Memorandum of Agreement (MOA) with the Police Officers Association, sworn personnel are able to maintain 240 hours of compensatory time. Sworn personnel with compensatory time balances that exceed 240 hours at the end of the last pay-period of the calendar year are required to reduce those balances to within the 240-hour limit within 150 days. In addition to reducing the overall compensatory balance by 11.1%, the compensatory time balance in excess of the 240-hour threshold also decreased from 26,179 (spread among 329 sworn staff) to 15,516 hours (spread among 138 sworn staff). The overall reduction in compensatory time balance can be attributed to a number of factors including higher time off granted, higher than normal attrition rates (leading to compensatory time balances being paid out at the time of separation, which resulted in higher expenditures in full-time salaries), and additional overtime controls implemented during 2009-2010 and continued in 2010-2011.

The Department's Non-Personal/Equipment budget was 88.7% expended and encumbered, with savings of \$2.3 million. Police data processing services savings of \$1.6 million, supplies and materials savings of \$410,000, and contractual services savings of \$273,000, contributed to a significant portion of the overall Non-Personal/Equipment savings. The savings in data processing services is primarily the result of upgrades to the Automated Fingerprint Identification System (AFIS) (\$808,080) and the State of California to upgrade the Computer Aided Dispatch (CAD) System (\$402,000) which were scheduled in 2010-2011, but not completed. This funding was already rebudgeted in the 2011-2012 Adopted Operating Budget. The savings in supplies and materials is primarily a result of the cancellation of the Police Recruit Academies in 2010-2011, and the savings in contractual services is also a result of the cancelled Recruit Academies (no expenditures for background psychological screenings and polygraph testing for potential recruits) as well as fewer in-state prisoner transports than projected. A portion of the Non-Personal/Equipment savings

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Discussion of Significant Departmental Variances and Other Issues (Cont'd.)

(\$65,266 for the Child Interview Center) was also rebudgeted in the 2011-2012 Adopted Operating Budget. An additional \$383,335 in savings is recommended for rebudget in this document: \$280,000 for sworn safety equipment, \$62,500 for the Air Support Unit to overhaul the engine on the fixed wing and perform minor maintenance on the helicopter, \$20,835 to upgrade the CAD System (offset by revenue from the State of California), and \$20,000 to continue participation in the State run Cal-Gang Program.

- *Public Works*

The Public Works Department, which includes the Public Works Fee Program, expended 86.5% of its General Fund modified budget with resulting savings of \$708,000. Personal Services expenditures were 10.2% below budgeted levels (\$486,000). The majority of the Personal Services savings (\$401,000) was realized in the Fee Program, with the remaining savings of \$85,000 realized in the non-development fee areas. In June 2011, additional funding of \$300,000 was added to Personal Services to support increased costs for development activity in order to improve customer service delivery. The additional funding proved unnecessary as much of this anticipated workload is now expected to be carried forward to 2011-2012. Additional funding of \$312,000 for a temporary engineer position and reallocated capital-funded staff to the fee program in order to improve customer service delivery is recommended in this document. In particular, two significant projects in North San José, Sony and Fairfield Northpointe, are impacting Public Works' ability to achieve its agreed upon performance with developers of processing 85.0% of the plans within their processing cycle time. For 2010-2011, this was achieved 78.0% of the time for non-planning permit projects.

Non-Personal/Equipment expenditures and encumbrances were 46.6% below budgeted levels (\$222,000). Non-Fee Program expenditure savings of \$93,000 are the result of lower than anticipated vehicle maintenance and operations and machinery/equipment costs. Savings in the Fee Program of \$128,000 reflect lower than anticipated supplies/materials, training, dues and subscription, and communications costs.

Savings in the Public Works Fee Program results in a surplus of \$530,000. A portion of these savings (\$35,000) is recommended to be allocated to the Building Fee Program Reserve to pay for a portion of Public Works' share for the Development Fee Program Administrative Hub and the remainder (\$495,000) is recommended to be allocated to the Public Works Fee Program Reserve.

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- *Redevelopment Agency*

The Redevelopment Agency expended 82.8% of its General Fund modified budget with year-end savings of \$266,000 of which all savings were attributed to Personal Services expenditures. As a result of the continued uncertainty surrounding the Redevelopment Agency given current State legislation, savings were realized as a result of layoffs of staff in Spring 2011 as well as the retirement of staff in June 2011. It should be noted that a corresponding decrease in Revenue from Local Agencies was seen as these costs are 100% reimbursed by the Redevelopment Agency therefore having no impact on the Ending Fund Balance in the General Fund.

Highlights of Non-Departmental Expenditures and Variances

The non-departmental categories consist of City-Wide Expenses, Capital Contributions, Transfers, Earmarked Reserves, and the Contingency Reserve. An overview of the expenditure performance in these categories is provided below:

**TABLE E
2010-2011
NON-DEPARTMENTAL GENERAL FUND EXPENDITURES
(In \$000s)**

Category	Modified Budget	Actual	Variance	% Variance
City-Wide Expenses	\$ 212,916	\$ 181,240	\$ 31,676	14.9%
Capital Contributions	14,140	8,839	5,301	37.5%
Transfers	28,539	28,534	5	0.0%
Earmarked Reserves	45,877	-	45,877	100.0%
Contingency Reserve	29,309	-	29,309	100.0%
Ending Fund Balance Reserve	12,931	-	12,931	100.0%
TOTAL	\$ 343,712	\$ 218,613	\$ 125,099	36.4%

- *City-Wide Expenses*

Included in City-Wide Expenses is funding related to more than one department or that is not directly associated with ongoing departmental operations. In this category, a total of 85.1% of the General Fund was expended, resulting in a significant savings level of \$31.7 million. Of this amount, \$29.0 million was assumed as savings in the development of the 2011-2012

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Highlights of Non-Departmental Expenditures and Variances (Cont'd.)

budget or rebudgeted to 2011-2012 in the Adopted Budget, leaving a net balance of \$2.7 million.

The major 2010-2011 expenditures in this category included:

- TRANS Debt Service payment of \$75.4 million which was completed for cash flow purposes.
- City-wide General Fund Workers Compensation Claims payments of \$17.2 million which were \$586,000 below the 2010-2011 Modified Budget (\$17.8 million). Total expenditures are \$1.4 million or 8.8% higher than 2009-2010 actuals (\$15.8 million).
- Sick Leave Payments Upon Retirement of \$14.1 million ended the year at 2010-2011 budgeted levels but \$500,000 below 2009-2010 actual payments of \$14.6 million.
- Convention Center Lease Payment of \$15.0 million ended the year at 2010-2011 budgeted levels. In 2010-2011 all payments were offset by reimbursement from the San Jose Redevelopment Agency. Beginning in 2011-2012, only a partial payment of this annual payment will be reimbursed by the Redevelopment Agency.

Included in this report are additional rebudgets, downward adjustments to those appropriations that did not generate the amount of savings required to support rebudgets already approved, and revenue-related increases. Details of these appropriation adjustments are reflected in Section III of this document. After accounting for actions already approved in the 2011-2012 Adopted Budget and clean-up actions recommended in this document, there are no net savings in the City-Wide Expenses.

A discussion of the performance in each City Service Area program category is provided below.

Community and Economic Development – Included in this program is funding for various facility operating subsidies, lease payments, and economic development activities. The more significant expenditures in 2010-2011 included: Convention Center Lease Payments (\$15.0 million); Comprehensive General Plan Update (\$1.8 million); Technology Center Subsidy - Tech Museum (\$1.3 million); Economic Incentive Fund (\$1.0 million); History San José (\$825,000).

In 2010-2011, expenditures in this category totaled \$25.2 million and were \$2.4 million below the modified budget. Approved in the 2011-2012 Adopted Budget were \$1.7 million in rebudgets from 2010-2011 to 2011-2012 and planned project savings of which the largest included: Historic Preservation (\$597,000); Public Art in Private Development (\$522,000);

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Highlights of Non-Departmental Expenditures and Variances (Cont'd.)

Economic Development Pre-Development Activities (\$181,000); and 4th Street Garage Banquet Facility Maintenance and Operations (\$103,000).

Additional net adjustments are recommended as part of this report totaling \$460,000 and include, but are not limited to, additional unspent funds for Donna Bradford Improvement Project (\$294,000), 4th Street Garage Banquet Facility Maintenance and Operations (\$252,000), and Evergreen Innovation Corridor (\$10,000).

After accounting for all adjustments, this program category ended the year below budgeted levels with net savings totaling \$260,000. In addition, an augmentation of \$120,000 to the Comprehensive General Plan Update project is recommended in Section IV of this report.

Environmental and Utility Services – Funding for various environmental initiatives through policy development, program design, and reliable utility services are included in this program. Significant projects in 2010-2011 included: The Recovery Act Energy Efficiency and Conservation Block Grant (\$2.4 million); Recovery Act - Solar Market Transformation (\$661,000); and Storm Fees (\$254,000).

Expenditures in this program in 2010-2011 totaled \$4.1 million and were \$9.0 million below the modified budget. The 2011-2012 Adopted Budget incorporated rebudgets totaling \$9.0 million including but not limited to: Recovery Act – Energy Efficiency and Conservation Block Grant (\$6.5 million), City-Building Energy Projects Program (\$1.3 million), Recovery Act – Solar Market Transformation (\$354,000), Silicon Valley Energy Watch (SVEW) Innovator Pilots (\$247,000), and Recovery Act – Retrofit California Program (\$195,000).

Additional rebudget adjustments resulting in a net reduction of \$49,000 are recommended in this document based on actual 2010-2011 performance. The net reduction is reflective of downward adjustments to those appropriations that did not generate the amount of savings required to support rebudgets already approved as part of the 2011-2012 Adopted Budget. After adjusting for all rebudgets, net savings of \$2,000 remain in this category.

Neighborhood Services – Included in the Neighborhood Services program is funding for community activities, providing healthy neighborhoods, and providing access for learning opportunities. Major expenditures in 2010-2011 include but are not limited to: San José BEST (\$4.8 million); Children's Health Initiative (\$2.1 million); Healthy Neighborhood Venture Fund - Youth Services (\$1.6 million); Workers' Compensation Claims - PRNS (\$1.5 million); and Healthy Neighborhood Venture Fund - Senior Services (\$1.4 million).

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Highlights of Non-Departmental Expenditures and Variances (Cont'd.)

In 2010-2011, expenditures in this program totaled \$15.1 million and were \$654,000 below the modified budget. The 2011-2012 Adopted Budget included rebudgets totaling \$375,000, the largest of which were for the San José BEST program (\$140,000) and the Hoffman/Via Monte Neighborhood Youth Center (\$103,000).

Additional savings of \$236,000 are recommended to be rebudgeted in Section IV of this document for Workers' Compensation Claims – PRNS (\$225,000) and the San José BEST program (\$57,000). In addition, downward adjustments are recommended where actual year-end savings were lower than projected levels including: San José After School – Year 5 District Contracts (-\$35,000) and the 2008 Juvenile Justice and Delinquency Grant (-\$4,000). After accounting for all recommended adjustments, the Neighborhood Services CSA ended the year below budgeted levels with net savings totaling \$43,000.

Recommended augmentations of \$669,000 are included in Section IV of this report for the After School Education and Safety Program for 2011-2012 (\$608,000) and the Summer Youth Nutrition Program (\$61,000).

Public Safety – Included in this program are a number of grants and programs which continue to assist in providing prevention and emergency response services though it is primarily comprised of workers' compensation claims for the Fire and Police Departments (\$13.8 million, 49.5% of the 2010-2011 modified budget). Major 2010-2011 expenditures included: Workers' Compensation Claims – Police (\$7.9 million); Workers' Compensation Claims – Fire (\$5.9 million); 2009 Urban Area Security Initiative – Fire (\$1.7 million); 2009 Urban Area Security Initiative – Police (\$961,000); and Internet Crimes Against Children Continuation Grant (\$647,000).

Total expenditures of \$22.1 million were \$5.8 million below the modified budget. Rebudgets totaling \$5.4 million were approved in the 2011-2012 Adopted Budget including: Fire Self Contained Breathing Apparatus (\$2.2 million), Recovery Act – 2009 Internet Crimes Against Children Task Force (\$570,000), Automated Fingerprint Identification System (\$490,000), Cardiac Monitors/Defibrillators (\$440,000), and for the 2010 COPS Technology Program Grant projects (\$382,000).

Included in Section IV of this document are additional net rebudget adjustments totaling \$103,000 are recommended based on actual 2010-2011 performance. Major rebudgets include: Mobile Identification Services Project (\$137,000), Workers' Compensation Claims – Police (\$105,000), Recovery Act - 2009 Anti-Human Trafficking Task Force (\$66,000), Workers' Compensation Claims – Fire (\$63,000), and State Homeland Security Grant program (\$50,000). A number of appropriations did not generate as much savings as

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Highlights of Non-Departmental Expenditures and Variances (Cont'd.)

anticipated and downward adjustments are recommended including but not limited to: the Internet Crimes Against Children Continuation Grant (-\$103,000), the 2010 COPS Technology Program Grant (-\$87,000), and the 2009 Metropolitan Medical Response System (MMRS) Grant – Fire (-\$55,000).

After accounting for all rebudget adjustments recommended and approved, this program category ended the year with net savings totaling \$229,000.

Recommended augmentations for various projects and new grant cycles of two annual grants of \$320,000 are outlined in Section IV of this document: 2011-2012 Internet Crimes Against Children (ICAC) State Grant, the 2011-2012 Anti-Drug Abuse Grant, and the Silicon Valley Interoperability Project (\$75,000).

Transportation and Aviation Services – Included in this program is funding for surface infrastructure improvements and repairs ensuring transportation systems that support livability and processing fees for parking citations and courthouse fees. Major 2010-2011 expenditures in this category include: Parking Citations/Jail Courthouse Fees (\$2.3 million); Parking Citations Processing (\$974,000); Sidewalk Repairs (\$703,000), and Workers' Compensation Claims – Department of Transportation (\$500,000).

In 2010-2011, expenditures in this category totaled \$4.9 million and were \$278,000 below the modified budget. No rebudgets were approved in the 2011-2012 Adopted Budget though rebudget adjustments totaling \$141,000 are recommended in this report. Recommended rebudgets include Contractual Street Tree Planting (\$100,000) and Workers' Compensation Claims – Transportation (\$42,000). After accounting for these recommended rebudgets, this category ended the year with adjusted net savings of \$137,000.

Strategic Support – This program includes numerous funds to ensure the management and safeguard of the City's fiscal, physical, technological, and personnel resources are in place to effectively deliver City services and projects. Included in this category are funds for the issuance of the 2010 TRANs debt payment, insurance premiums, general liability claims, sick leave payouts, debt service payments, workers' compensation claims, and financial payments. In 2010-2011 major expenditures included: 2010 TRANs Debt Service payment (\$75.4 million) as discussed previously in this document; Sick Leave Payments upon retirement (\$14.1 million); General Liability Claims (\$5.6 million) as a result of a pending settlement on current cases; Property Tax Administration Fee (\$2.6 million); FMC Debt Service Payments (\$1.7 million); Public, Educational, and Government (PEG) Access Facilities – Capital (\$1.4 million); Banking Services (\$1.1 million); and Worker's Compensation Claims – Other (\$1.1 million).

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In 2010-2011 expenditures in this category totaled \$109.7 million and were \$13.5 million below the modified budget. Included in the 2011-2012 Adopted Budget was \$12.5 million in rebudgeted funds from 2010-2011 to 2011-2012. Included in this amount were significant rebudgets such as: General Liability Claims (\$7.8 million), Sick Leave Payments Upon Retirement (\$2.0 million), TRANs Debt Service (\$600,000), Labor/Employee Relations Consultant Funding (\$365,000) and False Claims Act Litigation Settlement (\$310,000).

In Section IV of this report, additional rebudgets totaling a net \$1.5 million are recommended including, but not limited to: Watson Park Settlement (\$1.4 million), Workers' Compensations Claims – Other Departments (\$213,000), Arts Stabilization Loan Fund (\$89,000), and City Manager Special Projects (\$61,000). As appropriate, where actual year-end savings were less than projected, downward adjustments are recommended in this report; the largest of these adjustments were for the General Liability Claims (\$400,000).

After accounting for all approved and recommended rebudget and clean-up adjustments, there were no net savings in this program category and expenditures anticipated will be \$269,000 higher than originally estimated. This is primarily the result of the reconciliation of the Public, Educational, and Government (PEG) Access Facilities which is offset by higher than anticipated revenue collections in 2010-2011.

- *Capital Projects*

In 2010-2011, the General Fund provided funding totaling \$14.1 million for capital projects. Of this amount, approximately \$5.3 million was unexpended at year-end. The projects with the largest unexpended balances included:

Capital Projects	(\$000s)
Building Facilities Maintenance Backlog*	\$ 1,783
Fire Apparatus Replacement	1,112
South San José Police Substation FF&E	889
Fire Station 37 (Willow Glen)	620
Arena Repairs	611
Maintenance Backlog – Neighborhood Appearance	101
All Other Projects	185
Total Unexpended Capital Projects	5,301

* 9-1-1 Uninterruptible Power Supply System, Police Communications Air Handling Units and Generator Controls, Police Special Operations Unit Mechanical System

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Highlights of Non-Departmental Expenditures and Variances (Cont'd.)

It should be noted, however, that rebudgets of \$4.0 million were included as part of the 2011-2012 Adopted Budget. An additional net total of \$1.2 million is recommended for rebudget and \$12,000 is recommended as a budget augmentation for the Fire Apparatus Replacement appropriation as part of this report. After adjusting for these two types of changes, the net savings in the General Fund Capital category was \$78,000. All Arena Repairs savings will be carried over to 2011-2012. As a General Fund budget balancing strategy in 2011-2012, the annual General Fund allocation of \$100,000 for Arena Repairs (maintenance and repair needs at HP Pavilion at San José) was suspended for two years (2011-2012 and 2012-2013) with the expectation that the remaining funds in 2010-2011 would be rebudgeted to 2011-2012 to cover repairs during the next two years.

- *Transfers*

In the Transfers category, expenditures of \$28.5 million fell below budgeted amounts by \$5,000 at year end.

- *Reserves*

General Fund Reserve categories include Earmarked Reserves, the Contingency Reserve, and the Ending Fund Balance Reserve. On June 30, 2011, the total Reserve balance was \$88.1 million.

Of this amount, \$45.9 million represented Earmarked Reserves, the largest of which were the Workers' Compensation/General Liability Reserve (\$10.0 million); Fee Supported – Building Reserve (\$7.7 million); Economic Uncertainty Reserve (\$5.0 million); Unemployment Insurance Reserve (\$5.0 million); Salaries and Benefits Reserve (\$4.3 million); Retiree Healthcare Reserve (\$2.6 million); and Fee Supported – Fire Reserve (\$2.4 million). Almost all of the Earmarked Reserves were approved for rebudget to 2011-2012 (\$28.5 million) as part of the Adopted Budget and appropriated as reserves, or were used as solutions to the 2010-2011 General Fund shortfall (\$17.1 million).

Funding for the Ending Fund Balance Reserve (\$12.9 million) was set aside as part of the 2010-2011 Mid-Year Budget Review (\$8.5 million) and as part of the 2010-2011 year-end clean-up actions (\$4.4 million) to account for additional revenues and expenditure savings expected to be generated in 2010-2011 for use in 2011-2012. The use of these funds was assumed in the development of the 2011-2012 Adopted Budget.

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Highlights of Non-Departmental Expenditures and Variances (Cont'd.)

At the end of the year, the General Fund Contingency Reserve balance was \$29.3 million. As part of the 2011-2012 Adopted Budget, the full Contingency Reserve was rebudgeted. No additional funding is necessary to be added to the Contingency Reserve in 2011-2012 in order to comply with the Council Policy of maintaining a 3% Contingency Reserve in the General Fund.

Recommended General Fund Expenditure Adjustments

Recommended expenditure adjustments and clean-up actions can be found in *Section IV – Recommended Budget Adjustments and Clean-Up Actions* of this document. Adjustments are in the following categories: Required Technical/Rebalancing Actions, Grants/Reimbursements/Fees, and Urgent Fiscal Needs and are described in detail in the General Fund Recommended Budget Adjustments Summary. In addition, clean-up actions can also be found in this section with a detailed description found in the introduction of that section.

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