

2010-2011

ANNUAL

REPORT

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

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Recommended Budget Adjustments

This section of the Annual Report summarizes recommended budget adjustments in all funds and is broken down by General Fund and Special/Capital Funds. This section consists of the following types of changes:

General Fund

Required Technical/Rebalancing Actions – These actions recommend current year adjustments to align budgeted revenue and expenditures with the most current information, or to correct technical problems in the 2011-2012 Adopted Budget. The following items are recommended: an increase to the estimate for Sales Tax (\$6.2 million); an increase to establish a 2012-2013 Future Deficit Reserve (\$5.7 million); a downward adjustment to the estimate for Property Tax (\$1.4 million); a decrease to the estimate for Revenue from the State of California for Motor Vehicle In-Lieu (\$700,000); a decrease to the estimate for Commercial Solid Waste Franchise Fees (\$400,000); an increase to establish a Transfer to the Police and Fire Retirement Fund for SB90 reimbursements from the State of California (\$275,000); a decrease to the estimate for Disposal Facility Tax (\$200,000); an increase to establish a Transfer to the Council District 10 Construction and Conveyance Tax Fund as a repayment for the addition of an enhanced concession/storage/bathroom facility at the Leland High School Sports Field (\$120,000); an increase to Parks, Recreation and Neighborhood Services Department's Personal Services appropriation for increased costs associated with a living wage increase (\$90,000); an increase to the Planning, Building and Code Enforcement Department's Non-Personal/Equipment appropriation to fund contractual services for the clean-ups on properties that are unsafe, dangerous, hazardous, or a nuisance (\$50,000); an increase to the Department of Transportation's Non-Personal/Equipment appropriation for emergency repairs to median islands, median island landscaping, and the irrigation system (\$35,000); and, finally, a net zero impact to reimburse funding to the Fire Apparatus Replacement capital improvement appropriation from the 2009 Urban Areas Security Initiative Grant – Fire city-wide appropriation.

Grants/Reimbursements/Fees – These actions recognize new or adjusted grant, reimbursement, or fee activity revenue and adjust the appropriations for these purposes as appropriate.

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Recommended Budget Adjustments

General Fund (Cont'd.)

Urgent Fiscal/Program Needs – These actions recommend current year adjustments to address urgent budget issues or to correct errors discovered in the 2011-2012 Adopted Budget. The following urgent program needs are recommended: increases to the Fire Department's Personal Services appropriation for minimum staffing overtime funding (\$760,000) and a third SAFER Grant Firefighter Academy (\$103,000); an increase to the Police Department's Personal Services and Non-Personal/Equipment appropriations to continue the Horse Mounted Unit through mid-February 2012 (\$102,000); an increase to establish a Habitat Conservation Plan Earmarked Reserve (\$100,000); and a net zero impact to provide funding for personal services and non-personal services expenditures related to the General Plan Update that was inadvertently left out during the development of the 2011-2012 Adopted Budget.

Special/Capital Funds

Special Fund Adjustments – These actions adjust revenue estimates based on updated collection information, recognize new grants and reimbursements, reflect changes in project and program allocations based on revised cost estimates, and establish a limited number of new projects and programs.

Capital Fund Adjustments – These actions adjust capital projects based on new and/or revised grants and reimbursements, cost estimates, and project timing; reallocate project funding to and from reserves; and establish a limited number of new projects to address current year needs.

Clean-Up Actions

General Fund & Special/Capital Funds

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

Fund Balance Reconciliations – These actions revise the Beginning Fund Balance estimates in the 2011-2012 budget for all funds where the actual (unaudited) 2010-2011 Ending Fund Balance/2011-2012 Beginning Fund Balance differed from the budgeted amount.

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General Fund & Special/Capital Funds (Cont'd.)

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

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

Retirement Contributions Reconciliation – Per direction from the City Council-approved Mayor's June Budget Message for Fiscal Year 2011-2012, any additional funding resulting from a complete retirement contributions reconciliation based on final actions approved as part of the 2011-2012 Adopted Budget were to be used to establish a 2012-2013 Future Deficit Reserve in the General Fund. Due to the fact that the City is now providing funding to the Federated City Employees' Retirement System and the Police and Fire Department Retirement System for 2011-2012 on a methodology that provides for a minimum annual required contribution amount that is paid for by all City funds with personal services allocations, a reconciliation and rebalancing was necessary in all affected funds. Based on this reconciliation, adjustments to decrease personal services or project appropriations will properly fund required retirement contributions, producing savings in all funds of \$5.5 million. As a result of these savings, \$4.31 million is available and recommended be allocated to the 2012-2013 Future Deficit Reserve in the General Fund. In all other funds, a total of \$1.19 million in savings is available and recommended to increase those funds' ending fund balances or reserves accordingly.

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General Fund & Special/Capital Funds (Cont'd.)

Unemployment Insurance Reconciliation – Per direction from the City Council-approved Mayor's June Budget Message for Fiscal Year 2011-2012, any additional funding resulting from a complete unemployment contributions reconciliation based on final actions approved as part of the 2011-2012 Adopted Budget were to be used to establish a 2012-2013 Future Deficit Reserve in the General Fund. Based on this reconciliation, technical adjustments to decrease appropriations across all City funds to appropriately align funding sources with projected unemployment insurance payments was required. Recommendations included in this document decrease personal services and project appropriations across all City funds, restore funding to the Salary and Benefits Reserve in the General Fund (\$1.67 million) as that reserve was temporarily used as a source of funds to restore General Fund services until this reconciliation could be completed, contribute \$1.65 million to a new 2012-2013 Future Deficit Reserve in the General Fund, and increase the ending fund balances or reserves in all other funds accordingly.

2010-2011 Federated Retirement System Annual Required Contribution – Potential Additional Payment – In 2010-2011, the City fully paid the annual required contribution (ARC) to the Federated Retirement System using a 23.18% City Contribution Rate of pensionable payroll as requested by the Federated Retirement Board. The 23.18% City Contribution Rate was based on the Board's approved phased reduction of the interest earning assumption from 8.25% to 7.75% over 5 years. In September 2011, however, the Department of Retirement Services informed the Administration that the City did not in fact fully fund the ARC for 2010-2011, since the ARC should have been paid using a previously calculated 25.75% City Contribution Rate which was based on an earning assumption of 7.75%. Since the City fully paid the ARC as requested by the Board, the Administration is analyzing this new information and will seek clarification from the Federated Retirement Board whether the City should have paid the ARC using a 23.18% or 25.75% City Contribution Rate. Using the higher City Contribution Rate, the additional ARC amount based on actual pensionable payroll for 2010-2011 is estimated at \$8.046 million for all funds and \$4.387 million for the General Fund.

This report includes recommendations to set aside the additional potential ARC payment of \$8.046 million from all impacted funds to be transferred to the Federated Retirement Fund in the event that the Federated Retirement Board determines that the City should pay the higher amount as is now being indicated. It is recommended that the transfer from the General Fund of the additional ARC of \$4.387 million be funded through additional funding available in 2011-2012 as described elsewhere in this report. For all other funds, the transfers to the Federated Retirement Fund would be offset accordingly through a decrease in each fund's 2011-2012 Ending Fund Balance or project appropriations.

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If, however, it is determined that it is not necessary for the City to pay the additional ARC, it will be the Administration's intention to return to the City Council as part of the 2011-2012 Mid-Year Budget Review with a recommendation to allocate the set aside funds of \$4.387 million in the General Fund to the 2012-2013 Future Deficit Reserve and the remaining funds of \$3.659 million to each affected fund's ending fund balance as appropriate.

Technical Adjustments – These actions correct errors or align revenues and/or expenditures among appropriations and funds for previously approved budget actions:

- **Net-Zero Funding Transfers/Reallocations** – These actions include net-zero transfers between appropriations, funds and revenue categories, redistributing funding allocations.
- **Grants/Reimbursement Revisions** – These actions include revenue and expenditure appropriation adjustments to reflect updated grant awards, assessment activity, and/or reimbursements for previously approved projects.
- **Close-Out of Funds** – These actions include revenue and expenditure appropriation adjustments to reflect the final reconciliations to close out funds based on activity through the end of 2010-2011.
- **Other Adjustments**
 - **Beginning Fund Balance** – These technical adjustments adjust the Beginning Fund Balance to correct the 2010-2011 Beginning Fund Balance based on the reconciliation of the final 2009-2010 Comprehensive Annual Financial Report.
 - **Benefit Funds Adjustments for Service Restorations** – These technical adjustments increase appropriations in the Benefit and Life Insurance Funds to align the budget for benefit allocations with the service restorations approved by the City Council as part of the Mayor's June Budget Message for Fiscal Year 2011-2012 and final budget adoption. Due to the timing of the final budget approval in late June, all reconciling budget actions were not completed. Corresponding increases in transfers and participant contributions are recommended to offset these actions.

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- **Other Adjustments (Cont'd.)**
 - **Cardroom Regulation** – This technical adjustment reduces the Cardroom Regulation Fee revenue for 2011-2012 to credit the cardrooms for over collection in 2010-2011. As a result of a settlement between the City and the cardrooms, the annual revenue collected from the cardroom regulation fees and the cardroom work permit fees is required to be reconciled to the expenditures incurred by the City for cardroom regulation. In 2010-2011 the revenue collected from the cardrooms was greater than the City's expenditures by \$11,394.
 - **Energy Efficiency Program Implementation** – Per previous City Council direction, this technical adjustment allocates energy rebates received in 2010-2011, as well as the equivalent of first year energy savings from departmental non-personal/equipment appropriations, to a revolving energy efficiency City-Wide Expenses appropriation for future energy savings projects.
 - **Transient Occupancy Tax Fund Allocation Adjustments** – These technical adjustments redistribute higher than anticipated Transient Occupancy Tax (TOT) collections received in 2010-2011 according to the City Council approved distribution formula to the following three recipients: 1) Convention and Cultural Affairs Fund, 2) San José Convention and Visitors Bureau (CVB), and, 3) Cultural Development. The distributions, which total approximately \$872,000, are equal to the amount of TOT received above the 2010-2011 Modified Budget. A portion of this amount (\$589,000) was assumed in the development of the 2011-2012 Adopted Budget and placed in a Reserve for Future Distribution. The remaining \$283,000 represents 2010-2011 TOT collections above and beyond what was assumed in the 2011-2012 Adopted Operating Budget.