

II. GENERAL FUND BUDGET PERFORMANCE

GENERAL FUND EXPENDITURE PERFORMANCE

The General Fund expenditure performance for 2021-2022 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

TABLE B
2021-2022 GENERAL FUND EXPENDITURE SUMMARY
COMPARISON OF BUDGET TO ACTUAL

Category	2021-2022 Modified Budget*	2021-2022 Actual**	Variance	% Variance
Personal Services	\$ 941,307,360	\$ 926,148,001	\$ (15,159,359)	(1.6%)
Non-Personal/Equipment/Other ¹	195,922,660	175,737,451	(20,185,209)	(10.3%)
City-Wide Expenses	515,993,175	417,653,313	(98,339,862)	(19.1%)
Capital Contributions	103,401,202	56,817,288	(46,583,914)	(45.1%)
Transfers	30,393,345	30,393,345	0	0.0%
Reserves	373,813,264	0	(373,813,264)	(100.0%)
TOTAL GENERAL FUND	\$ 2,160,831,006	\$ 1,606,749,398	\$ (554,081,608)	(25.6%)

* 2021-2022 appropriations as modified by Council through June 30, 2022, and 2020-2021 carryover encumbrances.

** Actual 2021-2022 expenses plus encumbrances.

As shown in Table B, General Fund expenditures and encumbrances through June 30, 2022 of \$1.6 billion were \$554.1 million, or 25.6%, below the modified budget total of \$2.2 billion. Approximately 67% of this savings was generated from unspent reserves (\$373.8 million), with the remaining savings generated from expenditure appropriations. Total 2021-2022 expenditures and encumbrances were \$173.3 million, or 12.1%, above the 2020-2021 level of \$1.4 billion. This variance is due to higher City-Wide Expenses (\$143.4 million), Personal Services (\$54.4 million), Non-Personal/Equipment/Other (\$24.0 million), and Capital Contributions (\$1.9 million), partially offset by lower Transfers (\$50.4 million).

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

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As shown in Table C, the actual General Fund expenditures of \$1.6 billion were approximately \$48.2 million (2.9%) below the estimate used in the development of the 2022-2023 Adopted Budget. A portion of these savings (\$8.7 million) was carried over to 2022-2023 with the accompanying revenue for grant or reimbursement-related projects and programs, bringing the variance down to \$39.5 million. In addition, actions totaling \$23.6 million are recommended in this report to reflect clean-up adjustments. After accounting for these technical actions, the remaining General Fund expenditures savings totaled \$15.9 million, or 0.7% of the 2021-2022 Modified Budget.

TABLE C
2021-2022 EXPENDITURE ESTIMATE TO ACTUAL VARIANCES

	2021-2022 Estimate	2021-2022 Actual	\$ Variance	% Variance
Expenditures	\$1,654,976,943	\$1,606,749,398	\$(48,227,545)	(2.9%)

These net expenditure savings, when combined with the net variance associated with the General Fund revenues and higher than anticipated liquidation of prior year encumbrances, represent the additional ending fund balance that is available for allocation in 2022-2023. Specifically, as discussed earlier in this report, in 2022-2023, a total of \$33.7 million in additional fund balance is available, which is comprised of higher than estimated revenues of \$17.7 million, net expenditure savings of \$15.9 million, and higher than estimated liquidation of prior year encumbrances (\$111,752). Recommendations on the allocation of these additional funds are provided elsewhere in this report.

Following is a review of the General Fund expenditure categories, including a discussion of variances to the modified budget as well as a comparison to the prior year.

Personal Services expenditures of \$926.1 million ended the year \$15.2 million (1.6%) below budgeted levels, but \$54.4 million (6.2%) above the 2020-2021 expenditure levels of \$871.8 million. Expenditures in both years ended the year below the budget primarily as the result of position vacancy savings throughout the organization. Departments with the highest variances in 2021-2022 include the following: Police Department (\$3.4 million); Parks, Recreation and Neighborhood Services Department (\$3.1 million); Fire Department (\$1.6 million); Planning, Building and Code Enforcement Department (\$1.6 million); Information Technology Department (\$1.3 million), and City Manager's Office (\$1.3 million).

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Non-Personal/Equipment/Other expenditures of \$175.7 million ended the year \$20.2 million (10.3%) below budgeted levels, but \$24.0 million (15.8%) above the 2020-2021 expenditure level of \$151.7 million. The departments with the largest Non-Personal/Equipment/Other variances included: Police Department (\$5.0 million); Parks, Recreation and Neighborhood Services Department (\$3.6 million, including Fee Activities); Information Technology Department (\$2.1 million); City Manager's Office (\$1.7 million); and Finance Department (\$1.0 million). The Mayor and City Council appropriations also ended the year \$3.7 million below the modified budget. The majority of the Non-Personal/Equipment/Other savings were rebudgeted to 2021-2022 as part of the 2022-2023 Adopted Budget (\$9.6 million) or are recommended to be rebudgeted in the Annual Report (\$3.8 million), resulting in net savings of \$10.6 million.

In the City-Wide Expenses category, expenditures and encumbrances of \$417.7 million ended the year \$98.3 million below the budgeted level of \$516.0 million. Of this amount, \$78.3 million was rebudgeted in the 2022-2023 Adopted Budget (including \$8.2 million that was offset by revenue sources); an early rebudget of \$475,000 was approved by the City Council on August 30, 2022; and additional rebudgets of \$15.4 million are recommended in this report, leaving a balance of \$4.2 million. Of this balance amount, \$2.5 million was assumed as savings in the development of the 2021-2022 Ending Fund Balance/2022-2023 Beginning Fund Balance estimate, resulting in a balance of \$1.7 million. The 2021-2022 City-Wide Expenses were \$143.4 million above the 2020-2021 expenditure level of \$274.2 million, which is primarily due to the Tax and Revenue Anticipation Notes (TRANS) Debt Service payment that totaled \$285.0 million in 2021-2022 compared to \$130.0 million in 2020-2021.

In the Capital Contributions category, expenditures of \$56.8 million ended the year \$46.6 million below the budgeted level of \$103.4 million. A total of \$39.9 million was rebudgeted to 2022-2023 in the Adopted Budget, with a remaining savings amount available of \$6.7 million. As part of this report, additional rebudget adjustments totaling \$3.3 million are recommended, reducing the Capital balance to \$3.4 million. The 2021-2022 expenditure level of \$56.8 million was \$1.9 million above the 2020-2021 level of \$54.9 million.

The Transfers category expenditures of \$30.4 million ended the year at the budgeted amount.

The largest single category of remaining funding available in 2021-2022, as planned, is the Reserves category (\$373.8 million), including Earmarked Reserves (\$295.3 million), the 2021-2022 Ending Fund Balance Reserve (\$38.0 million), and the Contingency Reserve (\$40.5 million). No reductions to the \$40.5 million Contingency Reserve occurred in 2021-2022.

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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 expenditures (\$1.1 billion) represented almost 70% of the total 2021-2022 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 96.9% of their budgets, generating overall savings of \$35.3 million (3.1%). Of this amount, \$10.8 million was rebudgeted in the 2022-2023 Adopted Budget; and additional rebudgets and clean-up adjustments of \$3.3 million are recommended in this report, leaving a balance of \$21.2 million. Of this balance amount, \$10.5 million was assumed as savings in the development of the 2021-2022 Ending Fund Balance/2022-2023 Beginning Fund Balance estimate, resulting in a balance of \$10.7 million.

Of the 19 City departments/offices, 15 had expenditure savings of less than \$1.0 million or 10.0% of their budget. The remaining four departments/offices had expenditure savings in excess of \$1 million and 10% of their budget in 2021-2022, and included the following: City Manager; Information Technology; Mayor and City Council; and Planning, Building and Code Enforcement. Those departments with General Fund expenditure variances of over 10.0% and \$1.0 million are discussed in detail in the following section. In addition, the year-end status of expenditures for both the Police and Fire Departments is also summarized.

Non-Departmental expenditures totaled \$504.9 million, or approximately 31% of the total 2021-2022 General Fund expenditures. The unexpended balance at year-end totaled \$518.7 million; reserves of \$373.8 million represent the largest portion of unexpended funds and were almost entirely carried over or used in the 2022-2023 Adopted Budget as planned. Excluding reserves, the unexpended non-departmental balance at year-end totaled \$144.9 million. As discussed previously, rebudgets for City-Wide Expenses and Capital Contributions categories totaling \$118.2 million were included in the 2022-2023 Adopted Budget, \$475,000 was rebudgeted on August 30, 2022, savings of \$2.5 million was assumed in the development of the 2021-2022 Ending Fund Balance/2022-2023 Beginning Fund Balance estimate, and \$18.7 million in rebudget and clean-up adjustments are recommended in this report.

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Review of General Fund Expenditure Performance

**TABLE D
TOTAL GENERAL FUND EXPENDITURES**

Departmental	2021-2022 Modified Budget	2021-2022 Expenditures	\$ Variance	% Variance
City Attorney	\$ 19,167,105	\$ 19,203,316	\$ 36,211	0.2%
City Auditor	2,511,157	2,261,471	(249,686)	(9.9%)
City Clerk	3,482,317	3,475,006	(7,311)	(0.2%)
City Manager	23,624,005	20,699,550	(2,924,455)	(12.4%)
Community Energy	300,000	-	(300,000)	(100.0%)
Economic Development	6,564,219	6,127,924	(436,295)	(6.6%)
Environmental Services	3,654,411	3,163,554	(490,857)	(13.4%)
Finance	21,588,214	20,313,862	(1,274,352)	(5.9%)
Fire	271,569,064	269,091,701	(2,477,363)	(0.9%)
Housing	673,605	568,700	(104,905)	(15.6%)
Human Resources	11,507,304	11,030,605	(476,699)	(4.1%)
Independent Police Auditor	1,739,464	1,499,771	(239,693)	(13.8%)
Information Technology	29,220,173	25,806,673	(3,413,500)	(11.7%)
Library	40,982,909	40,074,147	(908,762)	(2.2%)
Mayor and City Council	19,253,515	15,560,864	(3,692,651)	(19.2%)
Parks, Recreation & Neighborhood Services	90,544,167	83,860,648	(6,683,519)	(7.4%)
Planning, Building & Code Enforcement	16,452,268	14,294,347	(2,157,921)	(13.1%)
Police	494,585,974	486,209,322	(8,376,652)	(1.7%)
Public Works	41,046,738	40,624,544	(422,194)	(1.0%)
Transportation	38,763,411	38,019,447	(743,964)	(1.9%)
Subtotal	1,137,230,020	1,101,885,452	(35,344,568)	(3.1%)
<hr/> Non-Departmental <hr/>				
City-Wide Expenses	515,993,175	417,653,313	(98,339,862)	(19.1%)
Capital Contributions	103,401,202	56,817,288	(46,583,914)	(45.1%)
Transfers	30,393,345	30,393,345	-	0.0%
Earmarked Reserves	295,313,264	-	(295,313,264)	(100.0%)
Contingency Reserve	40,500,000	-	(40,500,000)	(100.0%)
Ending Fund Balance Reserve	38,000,000	-	(38,000,000)	(100.0%)
Subtotal	1,023,600,986	504,863,946	(518,737,040)	(50.7%)
TOTALS	\$ 2,160,831,006	\$ 1,606,749,398	\$ (554,081,608)	(25.6%)

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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.

Police Department

On an overall basis, Police Department expenditures totaled \$486.2 million, or 98.3% of its General Fund budget of \$494.6 million, including encumbrances, resulting in savings of \$8.4 million. Of this savings, \$2.2 million was rebudgeted as part of the 2022-2023 Adopted Budget.

Personal Services expenditures totaled \$453.5 million (99.3% expended) with a savings of \$2.7 million after accounting for rebudgets, which closely aligned to year-end estimates and budget actions to increase Personal Services funding by \$4.0 million. Prior to these adjustments, Personal Services expenditures were estimated to exceed budgeted levels by approximately 1%, primarily due to elevated overtime usage and payouts.

The Department continued to experience elevated sworn overtime usage and payouts during 2021-2022 with expenditures of \$45.9 million accounting for 94.1% of the Police Department's 2021-2022 Modified Budget for overtime of \$48.7 million. Prior to a \$17.0 million realignment of regular salary and benefit savings to overtime and the \$4.0 million increase to the Personal Services budget in the 2021-2022 Year-End Report, overtime expenditures had exceeded the original Adopted Budget level of \$24.0 million. Overtime expenditures were 3.2% over 2020-2021 levels, which can be partially attributed to a slight increase in overtime usage and higher compensation levels. Overtime hours in 2021-2022 increased by approximately 1% over the previous year (2020-2021), from 497,862 to 502,726. The elevated overtime usage is attributable to backfilling of vacant street-ready sworn positions with existing staff.

A total of \$32.7 million (86.8%) of the Department's Non-Personal/Equipment budget (including encumbrances) was expended, generating savings of \$5.0 million. Excluding the remaining balances for centrally-determined details (\$3.5 million), which include electricity, gas, and water utilities, as well as vehicle operations, maintenance and replacement, the Police Department ended the year with approximately \$1.5 million, or 3.9%, of its Non-Personal/Equipment appropriation remaining, with the entirety of this balance rebudgeted as part of the Adopted Budget for activities continuing into 2022-2023. As part of the Annual Report, additional rebudget adjustments, primarily associated with delayed vehicle and equipment procurement, totaling \$3.2 million are recommended, bringing the Non-Personal/Equipment savings to \$225,000.

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Overtime consists of both 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 Police Department continues to diligently work to fill vacancies in both sworn and civilian positions, using vacancy savings and the \$7.0 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, the normal duration for the academy and field training is approximately 10-12 months, requiring overtime to backfill vacancies in patrol until the new recruits are ready to serve as solo beat officers. Effective vacancy levels, which includes vacancies, field training officers, academy recruits and sworn personnel on disability, modified, or other leaves, reduce the amount of street-ready sworn officers available and is the most significant contributing factor to overtime usage. The effective vacancy rate was 16.7% as of July 1, 2022. Historically, the effective vacancy rate has averaged 19.9% (based on the 5-year period between 2016-2017 and 2020-2021), resulting in the buildup 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.

In accordance with the POA MOA, 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. On November 22, 2021, the Chief issued an order to reduce compensatory time balances for any sworn staff member who believes they will not be able to take the excess time off before the end of the calendar year. This order requires sworn staff to submit a plan to their immediate supervisor, consistent with MOA section 13.6.5.1, by December 1, 2021, excluding sworn staff assigned to Patrol. Each plan needed to outline how a sworn staff member will reduce their compensatory time by March 31, 2022. These changes are intended to reduce the number of officers reaching the 480-hour limit, which would thereby reduce future overtime expenditures. The plans have been implemented, but due to the needs of the department (staffing, workload, and specific assignments), there has been limited flexibility in allowing staff to take time off; however, the department has seen a large majority of individuals taking at least a portion of their excess time off, which has contributed to a reduction in comp time hours across the department as shown in the table below. 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.

Finally, focus groups have been created in each Bureau of the department. These groups have started meeting to discuss solutions around workload and overtime issues and will bring recommendations to be considered by the Police Chief's Office and City Manager's Budget Office. These actions, as well as the other recommendations included in the *Police Staffing, Expenditures, and Workload* audit report are intended to address, slow, and reverse the growth of overtime and compensatory time use. Progress toward the development and implementation of these recommendations has been slowed by other emergent priorities; however, this process remains a priority for the Police Department.

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The City Auditor's March 2021 *Police Staffing, Expenditures, and Workload* audit report included several recommendations to increase the number of compensatory time-related data that should be included in the Mid-Year Budget Review, Bi-Monthly Financial Reports, and Annual Report. The table below summarizes this data. While compensatory time usage and balances remain high, it is important to note that the Police Department has made meaningful progress in many of these categories when compared to the prior year. This progress can be seen in the short-term, as the department reported a sworn compensatory time balance liability of 356,155 hours through June 2021, which has now been reduced to 353,242 as of June 2022.

	June 2021	June 2022	% Change from 2021 to 2022	% Change from 2020 to 2021
# of Sworn Personnel at 480-hour limit	449	435	(3.1%)	6.4%
# of Sworn Personnel between 240 and 480 hours	275	294	6.9%	5.4%
Sworn Compensatory Time Balance Liability (hours)	356,155	353,242	(0.8%)	6.1%
Sworn Compensatory Time Balance Liability (\$)	\$27.1 M	\$27.0 M	(0.2%)	14.0%
YTD Overtime Expenses for Staff at 480-hour limit (\$)	\$17.0M	\$16.4M	(3.0%)	14.3%

The table below provides a summary of sworn staffing vacancies and street-ready officers. There are currently two active academies, February 2022 (19 recruits expecting to graduate in September 2022) and the June 2022 (25 recruits). The June 2021 academy graduated on January 23, 2022 with 25 officers and the October 2021 academy graduated on June 10, 2022 with 26 officers. As of July 1, 2022, of the 1,153 authorized sworn staff, 87 were in training (7.5%) and 93 were on disability/modified duty/other leaves (8.1%).

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	2020-2021 (as of 06/25/2021)	2021-2022 (as of 07/01/2022)
Authorized Sworn Positions	1,159	1,153
(Vacancies)/Overstaff	1	(13)
Filled Sworn Positions¹	1,160	1,140
Field Training Officer/Recruits	(150)	(87)
Street-Ready Sworn Officers Available	1,010	1,053
Disability/Modified Duty/Other Leaves	(76)	(93)
Street-Ready Sworn Officers Working	934²	961

¹ Filled sworn positions and authorized sworn positions may vary due to vacancies or the approval of over-strength (temporary) positions. The Police Department has special authority under the City's Sworn Hire Ahead Program to overstaff sworn positions to get a head start on training recruits due to retirement and other separation.

² Total "Street Ready Sworn Officers Working" was erroneously reported as 1,009 in the 2020-2021 Annual Report.

The table below further identifies the length of time that sworn officers have been on leave status, as of July 1, 2022. Although the department makes every effort to support the health and well-being of all staff members, as well as the safe resumption of duties as quickly as possible, the particularly physical and dangerous nature of the work performed by sworn officers results in a higher potential for injury. Of the total sworn officers on leave status, 10 have been on leave for more than one year with most of these sworn officers on modified duty (7). More than half of the sworn officers (64) have been on leave status for less than three months. Over the last five years, between 2016-2017 and 2020-2021, the number of sworn officers on leave ranged from a high of 112 to a low of 51. During this time, the average number of sworn officers on leave was approximately 73 with a standard deviation of approximately eight sworn officers. The current number of sworn officers on leave (93) is higher than the historical average (73) and outside the normal range of variability seen over the last 5 years. The higher-than-average amount of sworn officers on leave can partially be attributed to COVID-19 related leaves and injuries taking longer to recover from.

Length of Leave Status (as of 7/1/2022)					
Type of Leave	0-3 Months	3-6 Months	6-12 Months	1 Year +	Total
Disability	27	1	6	3	37
Modified Duty	14	4	2	7	27
Other	23	2	3	1	29
Total	64	7	11	10	93

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Fire Department

Overall, the Fire Department expended \$269.1 million (99.1%) of its 2021-2022 General Fund Budget, resulting in savings of \$2.5 million, of which \$283,000 was rebudgeted during the development of the 2022-2023 Adopted Operating Budget. The Fire Department's Personal Services appropriation of \$257.1 million accounted for the majority (\$1.6 million, 65.1%) of these savings, ending the year according to expectation with total expenditures of \$255.4 million, or 99.4% of the 2021-2022 Modified Budget. The Fire Department's Non-Personal/Equipment budget of \$14.5 million was 94.0% expended or encumbered through the end of the fiscal year.

Fire Department's Annual Vacancy and Absence Rates and Their Impact on Overtime

Since the release of a 2001 Overtime Audit, information has been provided on the Fire Department's annual vacancy and absence rates and their impact on overtime usage. Through 2011-2012, this information was reported to the Public Safety, Finance and Strategic Support (PSFSS) Committee. The Administration's recommendation to incorporate the Fire Department's annual vacancy and absence rates and their impact on overtime into the Annual Report was approved by the PSFSS Committee on March 21, 2013.

Overall, the average sworn vacancy rate of 5.84% through June 2022 is higher than the vacancy rate of 3.68% experienced this time last year, and above the budgeted rate of 2.5%. Firefighter Recruit Academy 21-02 was completed in April 2022 with 19 graduates. In June 2022, Firefighter Recruit Academy 22-01 began and is scheduled to be completed in November 2022 with 13 graduates. Concurrently, Firefighter Recruit Academy 22-02 started in September 2022 with 13 recruits and is targeted for graduation in February 2023.

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 June, of the 30 current authorized staffing level, the Fire Department had 30 sworn personnel on administrative assignments.

Overtime funding and relief staffing levels are reviewed annually to ensure they are appropriately measured, funded, and managed for sworn minimum staffing requirements. Understanding absence and vacancy rates is important as absence rates are a major personal services cost driver and the associated impact on overtime requires close departmental management.

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During 2021-2022, overtime was primarily used to backfill vacancies and absences of line duty positions (vacation, modified duty, sick, disability, and other absences) and for deployments. Mutual Aid and Strike Team resources were deployed to assist with 14 wildland fires across California. Reimbursements from the State of California for deployments were received in the amount of \$7.5 million. Additional reimbursements (\$15,180) were received from the Federal Emergency Management Agency for Task Force 3 Trainings.

In 2021-2022, the Department maintained 190 daily minimum line positions to staff all fire companies at 34 operating fire stations. Daily absences and/or vacant positions are backfilled by available relief personnel or off-duty personnel are called in to work (on overtime). Maintaining this daily minimum staffing level optimized operational effectiveness and was in conformance with the Memorandum of Agreement between the City of San José and International Association of Firefighters (IAFF), Local 230.

Total absence hours of 420,001 in 2021-2022 increased by approximately 9.6% from 383,071 in 2020-2021.

City Manager

With 2021-2022 expenditures of \$20.7 million, including encumbrances, the City Manager's Office expended 87.6% of their \$23.6 million General Fund budget, resulting in savings of \$2.9 million. Personal services expenditures were 93.6% expended with savings of \$1.2 million, which is primarily attributable to several vacancies in the Office of Racial Equity (ORE) and Office of Emergency Management (OEM). Of the personal services savings, \$200,000 was rebudgeted as part of the 2022-2023 Adopted Budget for Data Equity staffing. This funding was subsequently reallocated to the Information Technology Department as part of a restructuring effort. No adjustments related to Personal Services appropriation are recommended in this report.

Non-personal/equipment expenditures ended the year 65.9% or \$1.7 million below the budgeted level of \$5.1 million, including encumbrances. A large portion of the non-personal/equipment savings (\$1.4 million) was rebudgeted as part of the 2022-2023 Adopted Budget for projects currently underway in ORE, OEM, and the Office of Administration, Policy, and Intergovernmental Relations. A total of \$155,000 of non-personal/equipment savings is recommended to be rebudgeted as part of this report to continue Project SV CARES (Silicon Valley Corporations for Afghan Refugee and Evacuee Support) in the amount of \$75,000, a project funded through a grant from the Open Society Foundation and managed by ORE, and funding of \$80,000 to support One Team, Cityline, and Data Privacy projects in the Office of Communications.

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Information Technology

Information Technology Department (ITD) expenditures, including encumbrances, totaled \$25.8 million in 2021-2022. This expenditure level is \$3.4 million, or 11.7%, below the budgeted level of \$29.2 million. Personal services expenditure savings (including fee activity) totaled \$1.3 million in 2021-2022, which was primarily due to vacancies throughout the department. At the end of 2021-2022, there were 20 vacant positions (19.4% vacancy rate). Non-personal/equipment expenditures and encumbrances totaling \$10.9 million ended the year \$2.1 million below the budgeted level; the savings was the result of non-essential spending, including technology projects, training, upgrades, contractor work, and replenishing inventories. A portion of these savings (\$970,000) were rebudgeted as part of the 2022-2023 Adopted Budget for the Cybersecurity Roadmap and IT Project Management of Business Tax System. After accounting for the rebudgets captured in the 2022-2023 Adopted Budget, remaining non-personal/equipment savings totaled \$1.1million.

Mayor and City Council

With total expenditures and encumbrances of \$15.6 million, the Mayor's Office, the City Council Offices, and Council General expended 80.8% of their total General Fund budgets of \$19.3 million, resulting in savings of \$3.7 million at year-end. Of the total savings, \$3.3 million was realized in the City Council Offices, \$405,000 was realized in the Mayor's Office, and \$1,600 was realized in Council General as outlined on the following page:

2021-2022 Actual Expenditure Performance

	2021-2022 Modified Budget	2021-2022 Actuals	Variance
Council District 1	\$ 1,395,912	\$ 1,081,381	\$ 314,531
Council District 2	1,002,805	948,093	\$ 54,712
Council District 3	1,034,026	959,209	\$ 74,817
Council District 4	1,626,377	919,813	\$ 706,564
Council District 5	1,456,075	1,081,593	\$ 374,482
Council District 6	1,460,812	1,064,913	\$ 395,899
Council District 7	1,326,696	1,002,895	\$ 323,801
Council District 8	1,060,946	919,897	\$ 141,049
Council District 9	1,436,194	898,737	\$ 537,457
Council District 10	1,166,630	803,794	\$ 362,836
Mayor's Office	6,227,371	5,822,446	\$ 404,925
Council General	59,670	58,095	\$ 1,575
	\$ 19,253,514	\$ 15,560,866	\$ 3,692,658

In the 2022-2023 Adopted Budget, anticipated 2021-2022 savings of \$3.3 million (\$3.3 million in the City Council Offices and \$25,000 in the Mayor's Office) were rebudgeted. Actual year-end savings, however, exceeded these estimates. Based on year-end performance, additional rebudgets totaling \$372,000 are recommended in this report.

II. GENERAL FUND BUDGET PERFORMANCE

GENERAL FUND EXPENDITURE PERFORMANCE

Discussion of Significant Departmental Variances and Other Issues

Planning, Building and Code Enforcement

The Planning, Building and Code Enforcement Department (PBCE) ended the year at \$14.3 million expended, which is \$2.2 million below the 2021-2022 Modified Budget level of \$16.5 million. After accounting for rebudgets included in the 2022-2023 Adopted Operating Budget (\$490,600), the resulting net variance for the department totals \$1.7 million. Personal Services expenditures in 2021-2022 totaled \$12.8 million, which represents 88.9% of the 2021-2022 Modified Budget level of \$14.4 million. This savings is primarily the result of vacant Code Enforcement Inspector positions in the Multiple Housing and Solid Waste Code Enforcement Programs. During 2021-2022, PBCE experienced an average vacancy rate of approximately 20% as the Department continued to face challenges to attract and retain qualified candidates. The Non-Personal/Equipment 2021-2022 expenditures totaled \$1.5 million, which is \$560,800 below the 2021-2022 Modified Budget of \$2.1 million. Approximately \$490,600 was anticipated and rebudgeted as part of the 2022-2023 Adopted Budget, bringing the variance down to \$70,200. This Non-Personal/Equipment savings is primarily due to policy and program work that was delayed due to the County of Santa Clara’s public health orders in response to the COVID-19 pandemic. The remaining savings is due, in part, to contractual services, software license and maintenance, and consultant services.

Highlights of Non-Departmental Expenditures and Variances

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

TABLE E
2021-2022 NON-DEPARTMENTAL GENERAL FUND EXPENDITURES
(In \$000s)

Category	2021-2022 Modified Budget	2021-2022 Actual	Variance	% Variance
City-Wide Expenses	\$ 515,993,175	\$ 417,653,313	\$ (98,339,862)	(19.1%)
Capital Contributions	103,401,202	56,817,288	(46,583,914)	(45.1%)
Transfers	30,393,345	30,393,345	-	0.0%
Earmarked Reserves	295,313,264	-	(295,313,264)	(100.0%)
Contingency Reserve	40,500,000	-	(40,500,000)	(100.0%)
Ending Fund Balance Reserve	38,000,000	-	(38,000,000)	(100.0%)
TOTAL	\$ 1,023,600,986	\$ 504,863,946	\$ (518,737,040)	(50.7%)

II. GENERAL FUND BUDGET PERFORMANCE

GENERAL FUND EXPENDITURE PERFORMANCE

Highlights of Non-Departmental Expenditures and Variances

City-Wide Expenses

The City-Wide Expenses category consists of funding that is related to more than one department or that is not directly associated with a department's ongoing operations. Committed expenditures in this category totaled \$417.7 million, or 81% of the 2021-2022 Modified Budget, resulting in savings of \$98.3 million. Of this amount, \$78.3 million was rebudgeted in the 2022-2023 Adopted Budget (including \$8.2 million that was offset by revenue sources); an early rebudget of \$475,000 was approved by the City Council on August 30, 2022; and additional rebudgets of \$15.4 million are recommended in this report, leaving a balance of \$4.2 million. Of this balance amount, \$2.5 million was assumed as savings in the development of the 2021-2022 Ending Fund Balance/2022-2023 Beginning Fund Balance estimate, resulting in a balance of \$1.7 million.

The major ongoing expenditures in the City-Wide Expenses category are detailed below.

- Total Workers' Compensation Claims payments of \$24.2 million were \$280,000 below the 2021-2022 Modified Budget of \$24.5 million. Total payments were \$4.9 million above the prior year level of \$19.4 million. Workers' Compensation Claims appropriations for the Police Department exceeded the budgeted level by \$360,000. However, the remaining workers' compensation claims' appropriations for Fire, Parks, Recreation and Neighborhood Services, Public Works, Transportation, and other Departments ended the year within budgeted levels. A separate action to ratify the Police Department's Workers' Compensation Claims appropriation will be reviewed by the City Council on October 18, 2022 as part of the Adoption of an Ordinance Ratifying Final Expenditures in Various Appropriations for 2021-2022.
- San José BEST and Safe Summer Initiative Programs expenditures of \$6.2 million were \$1.1 million below the 2021-2022 Modified Budget of \$7.3 million, but were consistent with the 2020-2021 expenditure level. As part of the 2022-2023 Adopted Budget, an estimated \$556,000 in savings were rebudgeted from 2021-2022 to 2022-2023, with an additional \$316,000 recommended to be rebudgeted as part of this report. If the actions in this report are approved, the 2022-2023 Modified Budget for San José BEST and Safe Summer Initiative Programs would total \$7.3 million.
- Expenditures for Homeless Rapid Rehousing of \$2.8 million ended the year \$949,000 below the 2021-2022 Modified Budget of 3.8 million and \$1.1 million below the prior year expenditure level of \$3.9 million. As part of the 2022-2023 Adopted Budget, an estimated \$845,000 in savings were rebudgeted from 2021-2022 to 2022-2023, with an additional \$103,000 recommended to be rebudgeted as part of this report. If the actions in this report are approved, the 2022-2023 Modified Budget for Homeless Rapid Rehousing would total \$4.9 million.
- Sick Leave Payments Upon Retirement expenditures of \$3.4 million ended the year \$1.6 million below the annual allocation of \$5.0 million and \$525,000 below the prior year expenditure level of \$3.9 million.

II. GENERAL FUND BUDGET PERFORMANCE

GENERAL FUND EXPENDITURE PERFORMANCE

Highlights of Non-Departmental Expenditures and Variances

- Elections and Ballot Measures expenditures totaled \$3,000 in 2021-2022, which is significantly below the 2021-2022 Modified Budget of \$2.5 million and the 2020-2021 expenditure level of \$3.2 million. The 2021-2022 savings were anticipated due to delayed billing from the County of Santa Clara’s Registrar of Voters and rebudgeted as part of the 2022-2023 Adopted Budget, resulting in the 2022-2023 Adopted Budget totaling \$5.0 million.
- General Liability Claims payments of \$7.9 million were \$10.6 million below the 2021-2022 Modified Budget of \$18.5 million; however, they were \$6.0 million above the 2020-2021 expenditure level of \$2.0 million. As part of the 2022-2023 Adopted Budget, an estimated \$9.7 million in savings were rebudgeted from 2021-2022 to 2022-2023, with an additional \$900,000 recommended to be rebudgeted as part of this report. If the actions in this report are approved, the 2022-2023 Modified Budget for General Liability Claims payments would total \$16.6 million.

Capital Projects

In 2021-2022, the General Fund provided funding totaling \$103.4 million for capital projects. Of this amount, approximately \$46.6 million was unexpended at year-end. The projects with the largest unexpended balances included:

Capital Projects	Unexpended Funds (\$000s)
Fire Apparatus Replacement	\$ 8,535
Fire Training Center Relocation	5,589
The Tech Museum Controls Module Improvements	2,839
Police Athletic League Stadium Turf Replacement	2,832
Closed Landfill Compliance	2,455
Local Sales Tax – PAB/PAC Phase I Elevator Modernization	1,973
City Hall HVAC Control System Replacement	1,661
Emergency Power Generation for City Facilities	1,533
Tech Interactive Fire Alarm System	1,296
City Hall Campus Expansion	1,248
Audio Visual Upgrades to Chambers and Committee Rooms	1,131
Vehicle Prevention Program	930
City Hall Waterproofing	930
All Other Projects	13,632
Total Unexpended Capital Projects	46,584

Of the \$46.6 million unexpended at the end of 2021-2022, a total of \$39.9 million was rebudgeted to 2022-2023 in the Adopted Budget, leaving a balance of \$6.7 million. As part of the Annual Report, additional rebudget adjustments totaling \$3.3 million are recommended, bringing the Capital savings to \$3.4 million.

II. GENERAL FUND BUDGET PERFORMANCE

GENERAL FUND EXPENDITURE PERFORMANCE

Highlights of Non-Departmental Expenditures and Variances

The recommended upward and downward rebudget adjustments as well as augmentations for various appropriations are reflected in *Section IV – Recommended Budget Adjustments and Clean-Up/Rebudget Actions* of this document.

Transfers

In the Transfers category, expenditures of \$30.4 million ended the year at budgeted levels.

Reserves

General Fund Reserve categories include Earmarked Reserves (\$295.3), Ending Fund Balance Reserve (\$38.0 million), and the Contingency Reserve (\$40.5 million), which totaled \$373.8 million as of June 30, 2022. The 2022-2023 Adopted Budget assumed that \$372.1 million would be available at year-end, with reserves either re-established in 2022-2023 or used as a funding source for the 2022-2023 Adopted Budget.

Earmarked Reserves

Earmarked Reserves totaled \$333.3 million on June 30, 2022, the largest of which were the: Measure E - 40% Extremely Low Income Households Reserve (\$51.5 million); Budget Stabilization Reserve (\$46.5 million); Measure E - 30% Low-Income Households Reserve (\$38.6 million); 2021-2022 Ending Fund Balance Reserve (\$38.0 million); Revenue Loss Reserve (\$30.0 million); 2022-2023 Future Deficit Reserve (\$28.3 million); Measure E - 15% Homeless Support Programs Reserve (\$19.3 million); Workers Compensation / General Liability Catastrophic Reserve (\$15.0 million); Measure E - 10% Homeless Prevention and Rental Assistance Reserve (\$10.9 million); Salaries and Benefits Reserve (\$9.2 million); Community and Economic Recovery Reserve (\$8.8 million); Measure E - 5% Moderate-Income Households Reserve (\$6.4 million); FEMA Non-Reimbursable Expenses Reserve (\$5.0 million); Sick Leave Payments Upon Retirement Reserve (\$4.0 million); Information Technology Sinking Fund Reserve (\$3.7 million); Google Parking Lots Option Payment Reserve (\$2.7 million); Artificial Turf Capital Replacement Reserve (\$2.6 million); Berryessa Flea Market Vendor Business Transition Fund Reserve (\$2.5 million); and, the Code Enforcement Permit System Reserve (\$2.3 million). Most of these Earmarked Reserves were either rebudgeted or used as a funding source for development of the 2022-2023 Adopted Budget.

Ending Fund Balance Reserve

The 2021-2022 Ending Fund Balance Reserve of \$38.0 million was proactively set aside to help ensure sufficient fund balance would be available at the end of 2021-2022 to meet the budgeted estimate used for the development of the 2022-2023 Adopted Budget. Annually, as part of the development of the General Fund Forecast and Adopted Budget for the following year, a certain

II. GENERAL FUND BUDGET PERFORMANCE

GENERAL FUND EXPENDITURE PERFORMANCE

Highlights of Non-Departmental Expenditures and Variances

amount of current year unrestricted ending fund balance is estimated to be available at the end of the year as a funding source for the following year's budget. This ending fund balance is expected to be generated from additional revenues above budgeted levels, expenditure savings, and the liquidation of carryover encumbrances during the year. In the 2022-2023 Adopted Budget, it was assumed that \$55.5 million would be generated from these sources. The establishment of the 2021-2022 Ending Fund Balance Reserve at \$38.0 million set aside a portion of this funding, with the assumption that the remaining amount would be realized by year-end.

Contingency Reserve

The City Council has established a budget policy of maintaining a minimum 3% Contingency Reserve in the General Fund. At the end of 2021-2022, the Contingency Reserve totaled \$40.5 million and remained unspent during the year. As part of the development of the 2022-2023 Adopted Budget, the full Contingency Reserve was rebudgeted, and actions are included in this report to increase the reserve by \$5.0 million to ensure compliance with the Council Policy of maintaining a minimum 3% Contingency Reserve in the General Fund. It is important to note, however, that if this Contingency Reserve is ever needed, it is only sufficient to cover General Fund payroll expenditures for approximately two weeks in the event of an emergency.

Further reserve adjustments totaling a net increase of \$26.6 million are recommended in this report, including increasing or establishing the: Measure E – 40% Extremely Low-Income Households Reserve (\$15.1 million); Budget Stabilization Reserve (\$7.6 million); Fire Station and FF&E Reserve (\$3.8 million); Information Technology Sinking Fund Reserve (\$2.8 million); Measure E – 30% Low-Income Households Reserve (\$2.3 million); Community and Economic Recovery Reserve (\$1.4 million); Google Parking Lots Option Payment Reserve (\$1.1 million); Police Helicopter Engine Overhaul Reserve (\$700,000); Solid Waste Code Enforcement Program Reserve (\$600,000); and, Code Enforcement Permit System Reserve (\$450,000). Other smaller, select adjustments are also recommended to reserve funds for designated purposes. Additional adjustments are recommended to select Measure E reserves to reallocate funding (\$18.9 million) to corresponding programmatic allocations.

Recommended expenditure adjustments and clean-up actions can be found in *Section IV – Recommended Budget Adjustments and Clean-Up/Rebudget Actions* of this report. Adjustments are in the following categories: Required Technical/Rebalancing Actions, Grants/Reimbursements/Fees, and Urgent Fiscal/Program Needs as 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 of recommended actions found in the introduction of that section.

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