

2017-2018 MID-YEAR BUDGET REVIEW

STATUS OF GENERAL FUND EXPENDITURES

OVERVIEW

General Fund expenditures through December totaled \$579.9 million, or 38.6% of the total 2017-2018 Modified Budget. This represents an increase of \$63.6 million, or 12.3%, from the December 2016 level of \$516.3 million. Encumbrances totaling \$62.1 million were \$6.6 million (11.8%) above the December 2016 level of \$55.5 million. Expenditures and encumbrances through December of \$642.0 million constituted 42.8% of the total Modified Budget (including reserves) of \$1.5 billion; without reserves of \$142.3 million, expenditures and encumbrances constituted 47.2% of the total Modified Budget. The following chart displays the year-to-date expenditures (excluding encumbrances) compared to the prior year, by category.

2017-2018 General Fund Expenditures through December (\$ in Thousands)

Category	Current Budget	YTD Actual	% of Budget	Prior Year % of Budget
Departmental Expenditures				
Personal Services	\$ 808,894	\$ 375,616	46.4%	45.9%
Non-Personal/Equipment	131,818	42,907	32.6%	34.2%
Other Departmental	24,789	10,500	42.4%	46.4%
<i>Subtotal Departmental Expenditures</i>	<i>965,501</i>	<i>429,023</i>	<i>44.4%</i>	<i>44.3%</i>
Non-Departmental Expenditures				
City-Wide Expenses	\$ 291,157	\$ 102,709	35.3%	34.0%
Capital Contributions	69,972	15,733	22.5%	12.8%
Transfers	32,445	32,445	100.0%	100.0%
Reserves	142,317	0	0.0%	0.0%
<i>Subtotal Non-Departmental</i>	<i>535,891</i>	<i>150,887</i>	<i>28.2%</i>	<i>24.9%</i>
Total	\$ 1,501,392	\$ 579,910	38.6%	37.3%

Overall, General Fund expenditures are tracking within anticipated levels and minimal savings of approximately \$3 million - \$4 million are anticipated by year-end to assist in meeting the projected 2017-2018 Ending Fund Balance estimate that will be used as a funding source in the Five-Year General Fund Forecast and the 2018-2019 Proposed Budget.

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Recommended Adjustments

Various budget adjustments are recommended in this document to accomplish the following major urgent and required items:

- Address one urgent fiscal/program need – establishes an Advanced Funding for Voluntary Employee Beneficiary Association (VEBA) Plan appropriation to the Department of Human Resources in the amount of \$100,000 to provide a starting balance to cover estimated administrative costs and to allow the non-budgeted VEBA Fund to have time to build an appropriate reserve amount. The funding will be used for hiring staff, fiduciary insurance, consultant fees, and training for the VEBA committee members. The reimbursement from the VEBA Fund will be collected through excess revenue generated by a 0.17% administrative fee applied to the investment funds. The reimbursement from the VEBA Fund will be collected through Tier 2 employee contributions, a 0.17% administrative fee on participants, and investment/account maintenance fees. The VEBA Fund will pay back the \$100,000 original loan plus the interest generated from the investment pool within 18 months.
- Implement required technical and rebalancing actions, including:
 - Eliminating the Convention Center Lease Payments City-Wide Expenses appropriation of \$15.24 million, offset by the corresponding elimination of payment from the Successor Agency to the Redevelopment Agency (SARA), to reflect SARA bond refunding actions that took place in December 2017 in which the City is no longer the backstop to the remaining outstanding debt related to the Convention Center Expansion (2001);
 - Increasing the 2018-2019 Future Deficit Reserve by \$10.75 million, offset by a payment received from SARA, to reimburse the City's costs incurred to support SARA since the dissolution of the Redevelopment Agency;
 - Decreasing the Salaries and Benefits Reserve by \$1.8 million to recognize savings. As part of the 2017-2018 Adopted Budget, \$1.07 million was set aside for an anticipated increase of 7.5% to health premiums; however, the increase did not occur. Also included in the Reserve was \$775,000 that was set aside to provide funding for salary increases for specific job classifications where recruitment and retention issues are being experienced; however, these increased costs are expected to be absorbed within existing departmental budgets or covered by shifting resources among various appropriations at year-end;
 - Establishing the Self-Insured Medical Fund Reserve for \$1.65 million to address a potential negative fund balance in the Self-Insured Medical Fund through June 2018; and
 - Reallocating funding from the Workers' Compensation Claims – DOT (\$700,000), Workers' Compensation Claims – PRNS (\$400,000), and Workers' Compensation Claims – PW (\$250,000) appropriations to the Workers' Compensation Claims – Police (\$1.35 million) appropriation based on actual expenditure trends.

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- Appropriate additional grant, reimbursement, and/or fee related funds (\$3.5 million), including, but not limited to:
 - Establishing a Broadband and Digital Inclusion Strategy City-Wide Expenses appropriation of \$1.0 million, offset by a reimbursement from a private broadband provider, for temporary staffing costs to implement recommendations made by the City Council during its November 13, 2017 Special Meeting for the Broadband and Digital Inclusion Strategy;
 - Establishing a Public Works Development Fee Program – Small Cell Permitting Reserve of \$450,000, increasing the Public Works Development Fee Program – Personal Services appropriation by \$390,000, and increasing the Public Works Development Fee Program – Non-Personal/Equipment appropriation by \$10,000, offset by anticipated Utility Development Fees associated with a significant increase in small cell utility permits, for temporary staffing costs and equipment needs for the Broadband and Digital Inclusion Strategy;
 - Increasing the Fire Department Personal Services appropriation by \$824,000, offset by a reimbursement from the State, for Strike Teams deployed to assist with fires and disaster problems at 15 sites in 12 counties; and
 - Establishing the Northern California Regional Intelligence Center – Police 2017 City-Wide Expenses appropriation of \$242,000, offset by a grant from the Federal Government, to improve the region’s ability to detect, prevent, investigate, and respond to criminal and terrorist activity.
- Implement clean-up actions, such as adjustments that increase Personal Services appropriations, where needed, for Management Pay for Performance Program costs and to fund a 3.0% salary increase that was negotiated and agreed to by the City and two bargaining units, and Appointees (\$1.5 million), offset by the Salaries and Benefits Reserve; rebudget \$498,000 for the Cultural Facilities Capital Maintenance Reserve; decrease Personal Services appropriations to reflect implementation of the Voluntary Furlough/Reduced Work Week Program in 2017-2018 (\$200,000), offset with an increase to the Salaries and Benefits Reserve; and reallocate funds between Personal Services and Non-Personal/Equipment appropriations to provide funding for temporary staffing resources.

In total, adjustments recommended in this document result in a net increase of \$915,000 to General Fund expenditures. Additional information on these adjustments can be found in *Section III. Recommended Budget Adjustments and Clean-Up Actions* of this document. The following discussion highlights major General Fund expenditure activities through December.

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DEPARTMENTAL EXPENDITURES

Departmental expenditures include personal services (salaries, overtime, retirement, health, and other fringe benefit costs), non-personal/equipment, and other departmental expenses. Personal services costs represent the largest single General Fund expense category for the City. These costs accounted for 64.8% of the total General Fund expenditures (excluding encumbrances) to date.

Through December, personal services expenditures for all City departments totaled 46.4% of the current Modified Budget, which is consistent with expectations at this point of the year. This expenditure level is above the 45.9% expended through December last year. Overall, personal services expenditures are tracking to end the year with minimal savings. As of January 24, 2018, the City had 644 vacancies city-wide (all funds) compared to 797 vacancies in the prior year, representing a vacancy factor of approximately 10%. As described in Section III of this document, a reallocation of Personal Services appropriation savings to the Non-Personal/Equipment appropriation in the Finance Department is recommended to reflect the use of temporary staffing or contractual services until vacancies are filled. In addition, budget actions are recommended to reallocate salary and benefit savings to overtime for the Fire Department.

Non-personal/equipment expenditures of \$42.9 million are tracking below anticipated levels with 32.6% expended through December. This expenditure level is below the 34.2% expended through December 2016. In addition to expenditures, \$26.5 million was encumbered, bringing the total amount of funding committed to \$69.4 million, or 52.6% of the \$131.8 million budget. Overall, these expenditures are expected to remain within budget for all departments, with minimal savings generated by year-end.

The Other Departmental category includes the budget for the Mayor and City Council, Library Grants, and Parks, Recreation and Neighborhood Services Fee Activities. Other Departmental expenditures totaled \$10.5 million (42.4%) of the \$24.8 million budget through December, slightly below prior year levels of \$10.6 million (46.4%) through December 2016. Expenditures in this category are expected to remain within budget.

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

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DISCUSSION OF SELECTED GENERAL FUND DEPARTMENTS

Expenditure Status (\$ in thousands)			
<u>Department</u>	2017-2018 Budget	YTD Actual	Prior YTD Actual
Fire	\$218,880	\$103,209	\$95,674

Overall, Fire Department expenditures are tracking within estimated levels after factoring in the mid-year budget actions recommended in this report. Through December, Personal Services expenditures total \$97.9 million, or 46.8% of the Personal Services budget of \$209.2 million. This expenditure level is slightly higher than the expected level (46.4%) at this point of the year. The Fire Department’s Non-Personal/Equipment budget of \$9.6 million was 55.5% expended or encumbered through December 2017 and are anticipated to end the year within budgeted levels.

Through December, Personal Services expenditures are higher than expected due to higher overtime usage. Overtime expenditures of \$8.6 million represent 89.1% of the current year budget, while the prior year overtime expenditures through the same period totaled \$7.0 million. Overtime was leveraged to deploy Strike Team and California Task Force 3 resources for events such as Hurricane Harvey, Hurricane Irma, the Detwiler fire, and the Tubbs fire. This report includes recommendations to recognize funds received from the State of California for the Task Force Deployments in the amount of \$824,000. Reimbursement for expenditures have been requested from the Federal Emergency Management Agency (FEMA) and will be brought forward for City Council consideration once received. In addition, this report includes a recommendation to recognize funds received from the Airport Department for associated overtime costs. Factoring in the reimbursement received from the State and the Airport Department, overtime expenditures continue to be higher than anticipated due to backfilling vacancies and absences in line duty positions. To alleviate the remaining projected overtime budget shortfall, this report includes a recommendation to reallocate \$5.3 million from salary and benefits savings to the overtime budget (\$5.0 million for emergency services and \$270,000 to support the Fire Development Fee Program). If approved, all overtime recommendations included in this report will increase the department’s overtime budget from \$9.76 million to \$16.0 million.

Absences and vacancies in line positions are staffed with relief personnel and/or off-duty personnel who are brought back on overtime to backfill vacant line positions. Excluding recent fire fighter recruits, in December 2017, the department had a 7% vacancy rate for sworn positions, compared to 6% in 2016. Overall, the average vacancy rate of 6.9% is higher than the vacancy rate of 5.8% at this time last year and the budgeted rate of 2.8%. The 2017-2018 Firefighter Recruit Academy consisting of 23 Firefighter Recruits started on November 6, 2017. This Academy is expected to be completed by the end of March 2018, reducing the number of vacancies of sworn staff from 51 to 28 and bringing the vacancy rate down to 4.0%.

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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 October, of the 32 current authorized staffing level, the Fire Department had 30 sworn personnel on administrative assignments.

Expenditure Status (\$ in thousands)			
<u>Department</u>	<u>2017-2018 Budget</u>	<u>YTD Actual</u>	<u>Prior YTD Actual</u>
Police	\$384,270	\$181,130	\$160,307

Overall, the Police Department’s expenditures are slightly above estimated levels through December. Personal services expenditures of \$167.2 million, or 47.0% of the Modified Budget, are slightly higher than the expected levels of 46.4% at this point in the year. The overtime budget was increased from \$17.3 million to \$30.3 million as part of the Annual Report, which was approved by the City Council on October 17, 2017. After this adjustment, overtime expenditures continue to track well above the budgeted level. Through December, overtime expenditures totaled \$21.1 million, representing 69.7% of the Modified Budget of \$30.3 million.

Based on current overtime trends, and taking into account several academies that will occur in 2017-2018, personal services expenditures are tracking to exceed the budget by year-end. To address this potential overage, the Police Department implemented various control procedures, including capping overtime pay per pay period, increasing review of overtime usage per unit, enhancing recruitment efforts, and reallocating sworn staff to maximize levels in Patrol. The Department also issued overtime reduction targets to each Bureau Chief. Overtime expenditures, as well as the overall Personal Services appropriation, will continue to be closely monitored to ensure the Department stays within their budget.

Overtime consists of overtime expenditures and compensatory time. The Memorandum of Agreement with the Police Officer’s Association (POA) limits how much overtime can be earned for pay versus compensatory time. The compensatory time balance at the end of December 2017 was 252,402 hours for sworn personnel. This represents an increase of 24,252 hours, or 10.6% compared to the December 2016 balance of 228,150. The Police Department released an internal memorandum reporting on the high level of compensatory time and has directed sworn staff to decrease their balances to 240 hours or less by December 31, 2017, as required by the Memorandum of Agreement with the POA. This reduction in the compensatory balance for sworn staff is expected to alleviate the one-time payout expenses the Department has been incurring for staff with more than 480 compensatory hours. In addition, as sworn vacancies are filled, overtime hours that are used to backfill vacancies will decrease.

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The chart below outlines current authorized sworn staffing levels and the number of street-ready sworn positions available at work:

	2017-2018 (as of 12/29/17)	2016-2017 (as of 1/13/17)
Authorized Sworn Staffing	1,109	1,109
Vacancies	(102)	(184)
Filled Sworn Staffing	1,007	925
Field Training Officer/Recruits	(113)	(51)
Street-Ready Sworn Positions Available	894	874
Disability/Modified Duty/Other Leaves	(82)	(73)
Street-Ready Sworn Positions Working	812	801

In order to fill the vacant sworn positions and put more Police Officers back on patrol, the Department will conduct three Police Recruit Academies in 2017-2018, including one that began in October 2017, and additional academies to take place in February 2018 and June 2018. The October 2017 Academy currently has 53 recruits. Both the February and June 2018 Academies are anticipated to have 55 recruits each.

A total of \$13.9 million (49.1%) of the Department's Non-Personal/Equipment budget was expended or encumbered through December. Excluding the remaining balances for centrally-determined details, including electricity, gas, and vehicle operation and replacement, the Department has approximately \$6.6 million, or 39.2% of the non-centrally-determined appropriation available for the remainder of the fiscal year.

Expenditure Status (\$ in thousands)

<u>Department</u>	<u>2017-2018 Budget</u>	<u>YTD Actual</u>	<u>Prior YTD Actual</u>
Public Works	\$44,822	\$22,569	\$22,748

Overall, Public Works Department expenditures are tracking above estimated levels. Through December, Personal Services expenditures total \$15.6 million, or 49.9% of the Personal Services Modified Budget of \$31.4 million. This expenditure level is significantly higher than the expected level of 46.4%. The Public Works Department's Non-Personal/Equipment budget of \$13.5 million was 51.5% expended or

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DISCUSSION OF SELECTED GENERAL FUND DEPARTMENTS

encumbered through December 2017. It is currently anticipated the Non-Personal/Equipment budget will end the year within budgeted levels.

Personal Services expenditures in the Public Works Department are significantly higher than expected levels, which is attributable to a combination of higher than anticipated overtime, part-time employee, and retirement expenditures. Retirement costs are impacted when vacant positions that are budgeted at the Tier II level are actually filled with existing City employees who are classified as Tier I. If current expenditure trends continued through the remainder of the fiscal year, the Personal Services budget would be exceeded by approximately \$2 million. To alleviate the projected shortfall, the Public Works Department will decrease overtime and part-time expenditures and will shift focus to Capital-funded projects, as appropriate. In addition, if savings are projected in the Non-Personal/Equipment allocation, a recommendation may be brought forward later in the budget process to reallocate the savings to the Personal Services budget.

NON-DEPARTMENTAL EXPENDITURES

Non-Departmental Expenditures include City-Wide Expenses, Capital Contributions, Transfers, and Reserves. Through December, expenditures (excluding encumbrances) totaled \$150.9 million, or 28.2% of the Modified Budget of \$535.9 million

Through December, City-Wide Expenses totaled \$102.7 million, or 35.3% of the Modified Budget of \$291.2 million. When expenditures and encumbrances of \$18.3 million are combined, the total amount of funding committed (\$121.0 million) was 41.5% of the modified budget. In total, City-Wide expenditures are tracking to end the year slightly below budgeted levels.

2017-2018 City-Wide Expenses Expenditures by City Service Area

(\$ in Thousands)

City Service Area	Current Budget	YTD Actual	% of Budget	Prior Year Actual	Prior Year % of Budget
Community & Economic Development	\$ 38,614	\$ 8,080	20.9%	\$ 8,018	18.5%
Environmental & Utility Services	3,396	1,042	30.7%	729	16.9%
Neighborhood Services	11,511	3,447	29.9%	3,582	34.1%
Public Safety	21,946	10,968	50.0%	8,934	38.8%
Transportation & Aviation Services	3,603	564	15.7%	2,855	42.0%
Strategic Support	212,087	78,607	37.1%	62,891	37.4%
TOTAL	291,157	102,708	35.3%	87,009	34.0%

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The expenditure tracking for City-Wide Expenses can vary significantly from year to year depending on payment schedules, project timing, and changes to a program's structure, which accounts for the major difference in expenditures for the Transportation and Aviation Services City Service Area (CSA) in the chart above. As part of the 2017-2018 Base Budget, funding of \$3.0 million was shifted from City-Wide Expenses to the Transportation Department's Non-Personal/Equipment appropriation for the Parking Citations Processing (\$750,000) and Parking Citations/Jail Courthouse Fees (\$2.2 million) appropriations. Because of this shift, no expenditures were booked this year in City-Wide Expenses for parking citations program costs, while, through December of 2016-2017, a total of \$1.2 million had been booked in this category.

Adjustments to City-Wide Expenses appropriations are recommended in this report to align the budget with the year-end expenditure projections. Additional details on these actions can be found in *Section III. Recommended Budget Adjustments and Clean-Up Actions* of this 2017-2018 Mid-Year Budget Review.

Key actions recommended in this report include:

- Eliminating the Convention Center Lease Payments appropriation and corresponding Revenue from Local Agencies in the amount of \$15.2 million. As a result of the refunding of the SARA bonds, payment from the General Fund is not needed in 2017-2018 to subsidize the lease payment for the Convention Center;
- Establishing a new Broadband Strategy appropriation in the amount of \$1.0 million from funds received from a private broadband provider to be used to further the City's broadband strategy. This funding will facilitate information sharing with telecommunication companies interested in using City assets, such as streetlights and traffic signal poles, streamline the City's permitting process for the companies that wish to use City assets, and create or update City Council Policies to further the City's broadband strategy goals. Several departments will partner to ensure this program's success, including the Office of Civic Innovation, Public Works, and PBCE Departments;
- Establishing a new appropriation to the Finance Department to fund a consultant that will program the Human Resources/Payroll Budget Systems to correct configurations and specifications for the Fair Labor Standards Act (FLSA). This funding will ensure the new systems accurately meet FLSA rules and guidelines;

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- Establishing a new San José Creates and Connects appropriation and corresponding Other Revenue from the David and Lucile Packard Foundation in the amount of \$140,000 to support an initiative that was launched in 2016 to build awareness among the community of the value of creative expression as a means to foster meaningful connection; and
- Establishing an Advanced Funding for Voluntary Employees Beneficiary Association (VEBA) Plan appropriation to provide a starting balance to cover estimated administrative costs and to allow the non-budgeted VEBA Fund to have time to build an appropriate reserve amount. The funding will be used for hiring staff, fiduciary insurance, consultant fees, and training for the VEBA committee members. The reimbursement from the VEBA Fund will be collected through Tier 2 employee contributions, a 0.17% administrative fee on participants, and investment/account maintenance fees. The VEBA Fund will pay back the \$100,000 original loan plus the interest generated from the investment pool within 18 months.

In total, adjustments recommended in this report result in a net decrease of \$14.3 million to City-Wide Expenses. Additional information on these adjustments can be found in Section III of this report.

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

- In July 2017, the City issued \$150 million in Tax and Revenue Anticipation Notes (TRANs) for cash flow purposes. The \$151.4 million Tax and Revenue Anticipation Notes Debt Service appropriation is used for repayment of these TRANs, including issuance, principal, and interest costs; \$66.0 million, or approximately 44% of the budget, was expended through December. This appropriation constitutes the largest allocation in the Strategic Support CSA.
- Workers' Compensation Claims appropriations totaling \$20.5 million are budgeted in four of the six CSAs, with total expenditures of \$11.6 million through December 2017, or approximately 57% of the Modified Budget. This expenditure level is approximately 20% above the \$9.7 million expended through December 2016 while the budget of \$20.5 million is approximately 13% above the prior year actual expenditures of \$18.1 million. Overall, Workers' Compensation claim payments are currently tracking slightly above budget due, in part, to one-time payments to close out claims. Net-zero budget adjustments to specific City-Wide appropriations are recommended to redistribute funding based on projected need. The Police Department's appropriation is projected to exceed its budget of \$7.7 million by \$2.1 million, while the Parks, Recreation and Neighborhood Services (PRNS) and Department of Transportation (DOT)'s appropriations are anticipated to have approximately \$490,000 and \$795,000 of savings from their combined \$2.7 million budget. A portion of the savings from PRNS and DOT's Workers' Compensation Claims appropriation is recommended to be redistributed to the Workers' Compensation appropriation for the Police Department. Additional actions may be necessary at year-end.

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- In the Strategic Support CSA, the General Liability Claims appropriation totals \$19.4 million, of which approximately 17.4% is expended or encumbered through December 2017, as compared to 6.0% expended or encumbered through December 2016. Claims expenditures can significantly vary from year to year.
- Also in the Strategic Support CSA, Sick Leave Payment Upon Retirement expenditures of \$1.1 million through December reflect 21.7% of the total 2017-2018 budget of \$5.0 million. Year-to-date expenditures for these payouts are below the prior year level of \$1.3 million through December 2016 (2016-2017 year-end expenditures totaled \$4.1 million, consistent with 2015-2016 year-end expenditures of \$4.0 million). Expenditures in this category are currently tracking to end the year at or below the budget. It is important to note, however, that the majority of expenditures in this appropriation typically occur in the second half of the year.
- In the Community and Economic Development CSA, the Homeless Rapid Rehousing and Homeless Response Team appropriations have expended or encumbered 16.1% and 71.4% of their respective budgets. These two appropriations provide funding for critical resources to address the City's ongoing efforts related to homelessness.
- In the Neighborhood Services CSA, the San José BEST and Safe Summer Initiative Programs appropriation has year-to-date expenditures of \$2.1 million with an additional \$2.3 million encumbered, reflecting 69.3% of the total budget of \$6.3 million committed. This appropriation supports gang prevention and intervention efforts across the City.

Through December, General Fund **Capital** expenditures total \$15.7 million and encumbrances total \$17.4 million, bringing the amount committed to \$33.1 million, or 47.3% of the \$70.0 million budget. Overall, minimal General Fund Capital expenditure savings are anticipated, as the rebudget of unspent funds to 2018-2019 will be recommended to complete projects. No budget actions are recommended for General Fund Capital projects in this report.

Transfers of \$32.4 million are 100% expended through December, as anticipated. All the transfers from the General Fund are processed at the beginning of the year and have been completed. A recommended transfer to the San Jose Municipal Stadium Capital Fund of \$31,299 is included in this report to fund prior year capital repairs made at the San Jose Municipal Stadium.

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There are no expenditures against the **Reserves** budget of \$105.8 million because expenditures cannot be charged directly to a reserve (to use Reserve funding, budget actions are necessary to move funding from a Reserve to an expenditure appropriation). The largest reserves include the Budget Stabilization Reserve (\$16.3 million), Development Fee Program Reserves (Building, \$20.3 million; Fire, \$8.0 million; Public Works, \$5.2 million, and Planning, \$1.8 million), Workers' Compensation/General Liability Catastrophic Reserve (\$15.0 million), 2018-2019 Future Deficit Reserve (\$9.5 million), Salaries and Benefits Reserve (\$8.7 million), Sick Leave Payments Upon Retirement Reserve (\$6.0 million), Retiree Healthcare Solutions Reserve (\$4.3 million), and Cultural Facilities Capital Maintenance Reserve (\$4.1 million).

Several budget actions are recommended in this report that impact General Fund Reserves. The major actions are described below.

- The Salaries and Benefits Reserve will have a net reduction (\$3.3 million) to reflect the following actions:
 - The liquidation of \$1.85 million to recognize savings. As part of the 2017-2018 Adopted Budget, \$1.07 million was set aside for an anticipated increase of 7.5% to health premiums; however, the increase did not occur. Also included in the Reserve was \$775,000 that was set aside to provide funding for salary increases for specific job classifications where recruitment and retention issues were being experienced; however, these increased costs are expected to be absorbed within existing departmental budgets or covered by shifting resources among various appropriations at year-end;
 - The liquidation of \$1.66 million for the management pay-for-performance program and salary increases that were negotiated and agreed to by the City and two bargaining units and the Appointees, which was set aside in the 2017-2018 Adopted Budget. This is offset by the distribution of \$1.2 million to those departments with insufficient vacancy savings to cover these increased costs, a return of \$291,000 to the Development Fee Program Earmarked Reserves for savings identified in those programs, and \$185,000 used as a balancing action in this report; and
 - An increase of \$200,000 to reflect the implementation of the Voluntary Furlough/Reduced Work Week Program in 2017-2018.
- A Self-Insured Medical Fund Reserve for \$1.65 million will be established to address a potential negative fund balance in the Self-Insured Medical Fund through June 2018.

No budget action is recommended for the Contingency Reserve, which currently totals \$36.5 million and complies with the City Council policy to set aside 3% of expenditures.

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