

**2017-2018
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GENERAL FUND EXPENDITURE PERFORMANCE

The General Fund expenditure performance for 2017-2018 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
2017-2018 GENERAL FUND EXPENDITURE SUMMARY
COMPARISON OF BUDGET TO ACTUAL**

Category	2017-2018 Modified Budget*	2017-2018 Actual**	Variance	% Variance
Personal Services	\$ 814,841,275	\$ 807,240,325	\$ (7,600,950)	(0.9%)
Non-Personal/Equipment/Other ¹	157,124,983	143,131,745	(13,993,238)	(8.9%)
City-Wide Expenses	328,485,387	305,844,450	(22,640,937)	(6.9%)
Capital Contributions	69,924,284	47,456,696	(22,467,588)	(32.1%)
Transfers	34,346,596	34,346,596	0	0.0%
Reserves	178,294,727	0	(178,294,727)	(100.0%)
TOTAL GENERAL FUND	\$ 1,583,017,252	\$ 1,338,019,812	\$ (244,997,440)	(15.5%)

* 2017-2018 appropriations as modified by Council through June 30, 2018, and 2016-2017 carryover encumbrances.

** Actual 2017-2018 expenses plus encumbrances.

As shown in Table B, General Fund expenditures and encumbrances through June 30, 2018 of \$1.34 billion were \$245.0 million, or 15.5%, below the modified budget total of \$1.58 billion. Approximately 73% of this savings was generated from unspent reserves (\$178.3 million), with the remaining savings generated from expenditure appropriations. Total 2017-2018 expenditures and encumbrances were \$177.9 million, or 15.3%, above the 2016-2017 level of \$1.16 billion. This increase is due to higher Personal Services (\$77.3 million), City-Wide Expenses (\$88.7 million), Non-Personal/Equipment/Other (\$7.4 million), and Transfers (\$6.3 million), partially offset by lower Capital Contributions (\$1.8 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 \$1.3 billion were approximately \$18.9 million (1.4%) below the estimate used in the development of the 2018-2019 Adopted Budget. A portion of these savings (\$3.7 million) was carried over to 2018-2019 with the accompanying revenue for grant or reimbursement-related projects and programs, bringing the variance down to \$15.2 million. Clean-up actions of \$2.8 million are recommended in this report to reconcile the Development Fee Programs for 2018-2019 (\$2.5 million) and to adjust various rebudget amounts and reflect clean-up adjustments (\$0.3 million). After accounting for these technical actions, the remaining General Fund expenditures savings totaled \$12.4 million, or 0.8% of the modified budget.

**TABLE C
2017-2018 EXPENDITURE ESTIMATE TO ACTUAL VARIANCES**

	2017-2018 Estimate	2017-2018 Actual	\$ Variance	% Variance
Expenditures	\$1,356,882,172	\$1,338,019,812	\$(18,862,188)	(1.4%)

These net expenditure savings, when combined with the net variance associated with the General Fund revenues and a small shortfall in the liquidation of prior year encumbrances, represent the additional ending fund balance that is available for allocation. Specifically, as discussed earlier in this report, in 2017-2018, a total of \$10.4 million in additional fund balance is available, which is comprised of net expenditure savings of \$12.4 million (0.9%) and higher than estimated liquidation of prior year encumbrances of \$317,000, partially offset by lower revenues of \$2.4 million (-0.2%). 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 \$807.2 million ended the year \$7.6 million (0.9%) below budgeted levels (\$814.8 million), but \$77.3 million (10.6%) above the 2016-2017 expenditure levels of \$729.9 million. Expenditures in both years ended the year below the budget primarily as the result of position vacancy savings throughout the organization, the highest of which in 2017-2018 were in the following departments: Fire (\$927,000); Information Technology (\$884,000); and Transportation (\$809,000). Though the Police Department ended the year \$871,000 below budget, a year-end increase of \$6.0 million was approved to ensure the budget was not over-expended.

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Non-Personal/Equipment/Other expenditures of \$143.1 million ended the year \$14.0 million (8.9%) below budgeted levels (\$157.1 million), but \$7.4 million (5.5%) above the 2016-2017 expenditure level (\$135.7 million). The departments with the largest Non-Personal/Equipment/Other variances included: Planning, Building and Code Enforcement (\$3.4 million, including the Development Fee Programs), Information Technology (\$2.7 million), and the City Manager's Office (\$1.1 million). The Mayor and City Council appropriations also ended the year \$3.6 million below the modified budget. The majority of the Non-Personal/Equipment savings were rebudgeted to 2018-2019 as part of the 2018-2019 Adopted Budget (\$10.0 million) or are recommended to be rebudgeted in the Annual Report (\$1.1 million), resulting in net savings of \$2.9 million.

In the City-Wide Expenses category, expenditures and encumbrances of \$305.8 million ended the year \$22.6 million below the budgeted level of \$328.5 million. Of this amount, \$16.1 million was assumed as savings in 2017-2018 and rebudgeted to 2018-2019, including \$3.1 million that was offset by revenue sources. Of the remaining balance of \$6.6 million, rebudget adjustments totaling \$4.3 million are recommended in this report, and if approved, would result in net savings of \$2.3 million in this category, a 0.1% variance from the budgeted level. The 2017-2018 City-Wide Expenses were \$88.7 million above the 2016-2017 expenditure level of \$217.1 million. This higher expenditure level was primarily the result of higher Tax Revenue Anticipation Notes (TRANs) debt service payments (up \$50.9 million, offset by additional revenue of \$50 million), and FMC debt service payments (up \$36.3 million due to the sale of the property and the pay down of the debt).

In the Capital Contributions category, expenditures of \$47.5 million ended the year \$22.5 million below the budgeted level of \$69.9 million. A total of \$19.0 million was rebudgeted to 2018-2019 in the Adopted Budget, with a remaining savings amount available of \$3.5 million. As part of this report, additional rebudget adjustments totaling \$708,000 are recommended, reducing the Capital balance to \$2.8 million. This remaining balance is primarily attributed to two Public Works projects, the Police Communications Fire Protection System Upgrade (\$1.3 million) due to a re-scope of the project as new fire sprinklers are not required and the East Side Union High School District Community Wireless Network Project (\$1.3 million), which is not going forward due to lack of funding from the school district. The 2017-2018 expenditure level of \$47.5 million was slightly below the 2016-2017 level of \$49.3 million and reflects the budgeted capital projects.

The Transfers category expenditures of \$34.3 million ended the year at the budgeted amount.

The largest single category of remaining funding available in 2017-2018, as planned, is the Reserves category (\$178.3 million), including Earmarked Reserves (\$141.8 million) and the Contingency Reserve (\$36.5 million). The 2018-2019 Adopted Budget assumed that \$184.3 million would be available at year-end, with reserves either re-established in 2018-2019 or used as a funding source for the 2018-2019 Adopted Budget. However, this was the result of an over-rebudget of the Development Fee Program Reserves. To adjust for this over-rebudget, downward rebudget adjustments totaling \$6.0 million are recommended in this report. No reductions to the \$36.5 million Contingency Reserve occurred in 2017-2018.

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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 (\$950.4 million) represented 71% of the total 2017-2018 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 97.8% of their budgets, generating overall savings of 2.2%, or \$21.6 million. Of this amount, \$10.1 million was rebudgeted in the 2018-2019 Adopted Budget; and additional clean-up actions of \$5.5 million are recommended in this report (including the Development Fee Programs reconciliation of \$2.5 million and other rebudget and clean-up adjustments), leaving a balance of \$6.0 million. Of this balance amount, \$0.4 million was assumed as savings in the development of the 2017-2018 Ending Fund Balance estimate, resulting in a balance of \$5.6 million.

Of the 19 City departments/offices, nine had expenditure savings of less than 5.0%. These nine departments, which included the Police and Fire Departments, generated \$7.2 million (33%) of the departmental savings. The other ten departments with more than 5% in savings accounted for the remaining 67% of the category savings and totaled \$14.4 million. In 2017-2018, the following eight departments/offices had expenditure savings in excess of \$1 million: City Manager; Fire; Information Technology; Mayor and City Council; Parks, Recreation and Neighborhood Services; Public Works; and Transportation. Those departments with General Fund expenditure variances of over 5.0% and \$1.0 million are discussed in detail in the following section, including: the City Manager's Office; the Information Technology Department; the Mayor and City Council Offices; and the Planning, Building, and Code Enforcement Department. The year-end status of expenditures for both the Police and Fire Departments is also summarized.

Non-Departmental expenditures totaled \$387.6 million, or 29% of the total 2017-2018 General Fund expenditures. The unexpended balance at year end totaled \$223.4 million; reserves of \$178.3 million represent the largest portion of unexpended funds and were almost entirely carried over or used in the 2018-2019 Adopted Budget as planned. Excluding reserves, a balance of \$45.1 million remained in this category at year-end. In the 2018-2019 Adopted Budget, \$35.1 million was rebudgeted in the City-Wide Expenses and Capital Contributions categories. Additional rebudget adjustments in these categories totaling \$5.0 million are recommended in the 2017-2018 Annual Report, resulting in total unexpended funds of \$5.1 million.

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Review of General Fund Expenditure Performance

**TABLE D
TOTAL GENERAL FUND EXPENDITURES**

Departmental	2017-2018 Modified Budget	2017-2018 Expenditures	\$ Variance	% Variance
City Attorney	\$ 16,608,241	\$ 16,414,529	\$ (193,712)	(1.2%)
City Auditor	2,432,846	2,308,656	(124,190)	(5.1%)
City Clerk	2,868,122	2,695,259	(172,863)	(6.0%)
City Manager	19,454,979	17,809,452	(1,645,527)	(8.5%)
Economic Development	6,333,739	5,862,917	(470,822)	(7.4%)
Environmental Services	3,162,914	2,903,133	(259,781)	(8.2%)
Finance	16,777,686	16,053,668	(724,018)	(4.3%)
Fire	220,097,351	218,611,068	(1,486,283)	(0.7%)
Housing	889,533	826,081	(63,452)	(7.1%)
Human Resources	9,022,590	9,004,103	(18,487)	(0.2%)
Independent Police Auditor	1,344,920	1,261,039	(83,881)	(6.2%)
Information Technology	22,675,089	18,930,767	(3,744,322)	(16.5%)
Library	32,489,423	32,057,609	(431,814)	(1.3%)
Mayor and City Council	14,641,532	11,091,070	(3,550,462)	(24.2%)
Parks, Recreation & Neighborhood Services	76,951,879	75,819,903	(1,131,976)	(1.5%)
Planning, Building & Code Enforcement	54,929,500	50,603,347	(4,326,153)	(7.9%)
Police	388,171,309	387,219,496	(951,813)	(0.2%)
Public Works	46,773,755	45,586,961	(1,186,794)	(2.5%)
Transportation	36,340,850	35,313,012	(1,027,838)	(2.8%)
Subtotal	971,966,258	950,372,070	(21,594,188)	(2.2%)
<hr/>				
Non-Departmental				
City-Wide Expenses	328,485,387	305,844,450	(22,640,937)	(6.9%)
Capital Contributions	69,924,284	47,456,696	(22,467,588)	(32.1%)
Transfers	34,346,596	34,346,596	-	0.0%
Earmarked Reserves	114,794,727	-	(114,794,727)	(100.0%)
Contingency Reserve	36,500,000	-	(36,500,000)	(100.0%)
Ending Fund Balance Reserve	27,000,000	-	(27,000,000)	(100.0%)
Subtotal	611,050,994	387,647,742	(223,403,252)	(36.6%)
TOTALS	\$ 1,583,017,252	\$ 1,338,019,812	\$ (244,997,440)	(15.5%)

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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, the Police Department expenditures totaled \$387.2 million, or 99.8% of its General Fund budget of \$388.2 million, including encumbrances, resulting in savings of \$952,000.

Personal Services expenditures totaled \$361.2 million, or 99.8% of the \$362.1 million budget. However, during the 2017-2018 year-end clean-up process, the Personal Services budget was increased by \$6.0 million to address a projected overage. A portion of this adjustment was funded by reallocating savings from the Department’s Non-Personal/Equipment appropriation (\$1.95 million). Overtime expenditures of \$43.7 million were slightly below the adjusted budget of \$44.5 million by \$736,000. Departmental overtime was used to backfill vacant sworn and civilian positions, backfill positions in training, support targeted enforcement of high crime activity through suppression cars, specifically related to gang enforcement, prostitution, graffiti, and high profile investigations, and to support the Downtown Foot Patrol Unit. In 2017-2018, the Police Department worked diligently to fill vacancies in both sworn and civilian positions, resulting in the placement of 168 recruits in three Recruit Academies. Vacancy savings have been used to backfill positions in Patrol in recent years. However, as the Department has filled vacancies, these savings have decreased. While the goal is to fill vacancies and eliminate the need to backfill positions, recruits are in academy and field training for 10-12 months and are not available to respond to calls for service. Because overtime was used to staff Patrol while the recruits were in training, without the associated vacancy savings, a budget adjustment was necessary to ensure the department remained within budget. Other expenditure areas also contributed to the higher personal services costs, such as the School Crossing Guard Program.

As of September 2018, the Department had 1,110 authorized sworn staff, of which 38 were vacant (3.4%) and 116 were in training (10.5%), leaving 956 street ready sworn positions (this includes sworn employees on disability/modified duty/other leaves) as shown in the chart below. When sworn employees on Disability/Modified Duty/Other Leaves are excluded, the total of 881 sworn positions were actually available.

	2017-2018 (as of 9/21/2017)	2018-2019 (as of 9/21/2018)
Authorized sworn staffing	1,109	1,110
Vacancies	(143)	(38)
Filed Sworn Staffing	966	1,072
Field Training Officer/Recruits	(85)	(116)
Street-Ready Sworn Positions	881	956
Disability/Modified Duty/Other Leaves	(71)	(75)
Street-Ready Sworn Positions Available	810	881

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Discussion of Significant Departmental Variances and Other Issues

During 2017-2018, the Department had 54 recruits, 57 recruits, and 57 recruits in the June 2017, October 2017, and February 2018 Academies, respectively. In order to fill the vacant sworn positions and put more Police Officers back on patrol, the Department is planning to conduct three Police Recruit Academies in 2018-2019, with one conducted in late June 2018 with 58 recruits, and with the next one beginning in October 2018 with an estimated 50 recruits.

The compensatory time balance at the end of 2017-2018 for sworn personnel was 261,223 hours. This balance represents a 7.4% increase compared to the 2016-2017 total sworn compensatory time balance of 243,221 hours. The primary reason for this increase in total compensatory time is due to the vacancies and the reliance on overtime to backfill critical positions.

A total of \$26.0 million (99.7%) of the Department's Non-Personal/Equipment budget was expended or encumbered, with savings of \$81,000 after the reallocation of \$1.95 million to partially offset the year end increase to the Personal Services budget.

Fire Department

Overall, the Fire Department expended \$218.6 million (99.3%) of its 2017-2018 General Fund budget, including encumbrances, resulting in savings of \$1.5 million. Of this savings, a total of \$190,000 was rebudgeted as part of the 2018-2019 Adopted Budget, leaving savings of \$1.3 million. Additional rebudgets totaling \$221,000 are recommended in this report. In addition, the Personal Services and Non-Personal/Equipment savings of \$343,000 attributed to the Development Fee Program are recommended to be allocated to the Fire Development Fee Program Reserve.

Personal Services expenditures totaled \$209.8 million, or 99.6% of the \$210.7 million budget. The savings of \$927,000 were primarily due to the delay of the Firefighter recruit academy, which started in the fall of 2017 and was completed in March 2018, resulting in 22 new sworn staff.

The Fire Department's overtime expenditures of \$17.1 million ended the year 0.9% (\$155,000) below the modified budget level of \$17.2 million. A combination of full-time staff and overtime was used to address the Fire Department's minimum staffing requirements. The Fire Department monitored daily absences and staffing to manage overtime expenditures.

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Discussion of Significant Departmental Variances and Other Issues

The Fire Department ended 2017-2018 with a total of 174 filled Firefighter paramedic positions (159 front-line Firefighter paramedics, five supervisors, and ten support) compared to the approximately 166 front-line Firefighter Paramedics that are necessary to fully staff all apparatus. The Department continues to monitor its Firefighter/Paramedic staffing levels and deploy resources to meet service needs.

Non-Personal/Equipment expenditures and encumbrances totaled \$8.8 million, or 94.0% of the \$9.4 million budget, generating year-end savings of \$560,000. A portion of this amount (\$73,000) represents the Non-Personal/Equipment savings in the Fire Development Fee Program. Of the Development Fee program savings, \$40,000 was rebudgeted as part of the 2018-2019 Adopted Budget and the balance is recommended to be reallocated to the Fire Department Fee Reserve as part of this report. Of the remaining amount of Non-Personal/Equipment savings, \$150,000 was rebudgeted to 2018-2019 as part of the 2018-2019 Adopted Budget, and \$20,000 is recommended to be rebudgeted in this report.

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

Since the release of a 2001 Overtime Audit, annual information is provided on the Fire Department's annual vacancy and absence rates and their impact on overtime. Through 2011-2012, this information was reported to the Public Safety, Finance and Strategic Support (PSFSS) Committee. At the PSFSS Committee meeting on March 21, 2013, 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. 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.

In 2017-2018, the Department maintained 184 daily minimum line positions to staff all companies at 33 operating fire stations. Daily absences and/or vacant positions are backfilled by available relief personnel or off-duty personnel are brought back 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 and San José Fire Fighters, IAFF Local 230.

Total absence hours of 333,368 in 2017-2018 fell by approximately 5% from 351,210 in 2016-2017. This decrease was due to declines in modified duty, disability, and miscellaneous other hours (from 157,268 in 2016-2017 to 128,862 in 2017-2018). The overall decrease was partially offset by an increase in vacation and sick leave hours (from 193,942 in 2016-2017 to 204,506 in 2017-2018). Vacancy hours decreased slightly from 110,992 in 2016-2017 (5.7% vacancy rate) to 104,832 in 2017-2018 (5.4% vacancy rate). In 2017-2018, the combined absence and vacancy rate was 22.6%, requiring 438,200 hours of backfill.

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City Manager

With total expenditures and encumbrances of \$17.8 million, the City Manager's Office expended 91.5% of the 2017-2018 Modified Budget of \$19.5 million, resulting in savings of \$1.6 million. Personal Services expenditures of \$14.3 million ended the year 3.9% below the budget of \$14.8 million, resulting in savings of \$582,000 due primarily to position vacancies. Non-Personal/Equipment expenditures of \$3.6 million ended the year 23.0% below the budget of \$4.6 million, resulting in savings of \$1.1 million. The majority of these savings (\$845,000) were anticipated and rebudgeted as part of the 2018-2019 Adopted Budget for outstanding projects in the Office of Emergency Management and Office of Immigrant Affairs. Additionally, this report includes a recommendation to rebudget \$110,000 of the remaining balance for projects that are extending into 2018-2019. Other actions recommended in this report include net-zero funding shifts between Personal Services and Non-Personal/Equipment appropriations to provide temporary staffing for the Office of Immigrant Affairs (\$153,000) and to support the Census 2020 project (\$140,000). In addition, the Housing Catalyst position added to the City Manager's Office as part of the Mayor's June Budget Message for 2018-2019 (\$150,000) is recommended to be shifted to the Office of Economic Development.

Information Technology

With expenditures of \$18.9 million, including encumbrances, the Information Technology Department (ITD) expended 83.5% of its \$22.7 million General Fund budget, with savings of \$3.7 million. Personal services expenditure savings (including fee activity) totaled \$1.0 million in 2017-2018, which was primarily due to vacancies throughout the department. The vacancy rate increased from 12.8%, as of July 1, 2017 to 17.8% as of June 30, 2018, with 14 vacant positions as of June 30 2018. Non-personal/equipment expenditures and encumbrances totaling \$7.4 million were 26.9%, or \$2.7 million, below the 2017-2018 Modified Budget due to project delays. A total of \$2.0 million of the Non-Personal/Equipment savings was rebudgeted in the 2018-2019 Adopted Budget. These projects, which were not completed in 2017-2018 but will occur in 2018-2019, include: Technology Equipment Replacement to Converged or Hyper-Converged Infrastructure; Network Infrastructure Modernization; Firewall Management; and maintenance and feature additions to the My San José application, the City's Customer Relationship Management system.

Mayor and City Council

With total expenditures and encumbrances of \$11.1 million, the Mayor's Office, the City Council Offices, and Council General expended 75.8% of their total General Fund budgets of \$14.6 million, resulting in savings of \$3.6 million at year-end. Of this expended amount, \$2.3 million was realized in the City Council Offices, \$1.2 million was realized in the Mayor's Office, and \$3,000 was realized in Council General as outlined below:

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Discussion of Significant Departmental Variances and Other Issues

2017-2018 Actual Expenditure Performance

	2017-2018 Modified Budget	2017-2018 Actuals	Variance
Council District 1	\$ 925,334	\$ 639,565	\$ 285,769
Council District 2	862,682	793,030	69,652
Council District 3	854,244	665,829	188,415
Council District 4	1,005,668	270,079	735,589
Council District 5	1,174,540	849,812	324,728
Council District 6	863,245	598,248	264,997
Council District 7	853,014	825,951	27,063
Council District 8	1,013,979	720,328	293,651
Council District 9	1,064,135	930,360	133,775
Council District 10	793,731	782,889	10,842
Mayor's Office	5,163,882	3,950,845	1,213,037
Council General	67,078	64,135	2,943
Total	\$ 14,641,532	\$11,091,071	\$ 3,550,461

In the 2018-2019 Adopted Budget, anticipated 2017-2018 savings of \$2.9 million (\$2.0 million in the City Council Offices, \$894,000 in the Mayor's Office, and \$1,000 in Council General) were rebudgeted. Actual year-end savings, however, exceeded these estimates. Based on year-end performance, additional rebudgets totaling \$606,000 are recommended in this document.

Planning, Building and Code Enforcement

The Planning, Building and Code Enforcement Department (PBCE) ended the year at \$50.6 million, which is \$4.3 million below the 2017-2018 Modified Budget level of \$54.9 million. After accounting for rebudgets included in the 2018-2019 Adopted Operating Budget (\$2.5 million), the resulting net variance for the department totals \$1.8 million.

Personal services savings in 2017-2018 totaled \$930,000, which represents 2.0% of the 2017-2018 Modified Budget level of \$45.7 million. After accounting for rebudgets included in the 2018-2019 Adopted Budget totaling \$153,000, the year-end variance is reduced to \$776,000 (1.7% of the budget). This savings is the result of vacant positions in Non-Development Fee Programs (Community Code Enforcement) and the Development Fee Programs (Planning, Building, Fire, and Public Works).

The Non-Personal/Equipment 2017-2018 expenditures totaled \$5.8 million, which is \$3.4 million below the 2017-2018 Modified Budget of \$9.2 million. A total of \$2.3 million was anticipated and rebudgeted as part of the 2018-2019 Adopted Budget, bringing the variance down to \$1.1 million. This non-personal/equipment savings is due, in part, to contractual staffing services savings.

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Discussion of Significant Departmental Variances and Other Issues

It is important to note that any excess revenues, interest earnings, and expenditures savings associated with the Planning and Building Development Fee Programs are set aside in the Development Fee Program Reserves. In this report, a net decrease of \$1.7 million to the Building Development Fee Program Reserve and a net decrease of \$67,000 to the Planning Development Fee Program Reserve are recommended to account for the additional revenue and expenditure savings.

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
2017-2018 NON-DEPARTMENTAL GENERAL FUND EXPENDITURES
(In \$000s)**

Category	2017-2018 Modified Budget	2017-2018 Actual	Variance	% Variance
City-Wide Expenses	\$ 328,485,387	\$ 305,844,450	\$ (22,640,937)	(6.9%)
Capital Contributions	69,924,284	47,456,696	(22,467,588)	(32.1%)
Transfers	34,346,596	34,346,596	-	0.0%
Earmarked Reserves	114,794,727	-	(114,794,727)	(100.0%)
Contingency Reserve	36,500,000	-	(36,500,000)	(100.0%)
Ending Fund Balance Reserve	27,000,000	-	(27,000,000)	(100.0%)
TOTAL	\$ 611,050,994	\$ 387,647,742	\$ (223,403,252)	(36.6%)

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 \$305.8 million, or 93.1% of the 2017-2018 Modified Budget, resulting in savings of \$22.6 million. As part of the 2018-2019 Adopted Budget, \$16.1 million was rebudgeted to 2018-2019, including \$3.1 million that was offset by revenue sources. Of the remaining balance of \$6.6 million, rebudget and clean-up adjustments totaling \$4.3 million are recommended in this report, and if approved, would result in net savings of \$2.3 million in this category, a 0.1% variance from the budgeted level.

The major ongoing expenditures in the City-Wide Expenses category are detailed on the following page.

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Highlights of Non-Departmental Expenditures and Variances

- TRANs Debt Service payments of \$151.4 million were completed to repay a short-term note of \$150 million that was issued for cash flow purposes necessitated by the pre-funding of employer retirement contributions.
- FMC Debt Service payments of \$38.3 million were \$151,000, or 0.39%, below the 2017-2018 Modified Budget of \$38.4 million. The Adopted Budget estimate for FMC Debt Service Payments of \$2.2 million was increased to \$38.4 million primarily to reflect the sale of the Airport West (FMC) property that occurred in the first half of 2018. Proceeds from the sale were used to pay off the 2008F Bond series and eliminate the City's debt service payment obligation.
- Workers' Compensation Claims payments of \$21.2 million were \$423,000, or 2.0%, above the 2017-2018 Modified Budget of \$20.8 million. While Workers' Compensation Claims appropriations for Fire, PRNS, Public Works, and DOT ended the year with a cumulative savings of \$278,000, Workers' Compensation Claims payments to Police and Other Departments exceeded their appropriations by a total of \$701,000, for a net overage of \$423,000. An adjustment to ratify the Workers' Compensation Claims appropriations to Police Department and Other Departments will be brought forward for City Council consideration on October 2, 2018.
- General Liability Claims of \$17.4 million were \$2.0 million below the 2017-2018 Modified Budget of \$19.4 million and above 2016-2017 expenditures of \$10.6 million. An increase in claims was anticipated, therefore 2016-2017 savings in this appropriation of \$14.0 million were rebudgeted as part of the 2017-2018 Adopted Budget to address these potential claims. The remaining unspent balance of \$2.0 million is recommended to be rebudgeted in this report.
- Convention Center Lease Payments of \$13.6 million ended the year at the 2017-2018 modified budget level. The Convention Center Lease Payments expense was the largest of the City's contractually obligated Successor Agency to the Redevelopment Agency (SARA) obligations. The refunding of the SARA bonds, which were completed in December 2017, removed the City's obligation to pay Convention Center debt. This year marked the final year of Convention Center Lease Payments debt recorded in the General Fund.
- San José BEST and Safe Summer Initiative Programs expenditures of \$6.1 million were \$262,000, or 4.1% below the 2017-2018 Modified Budget of \$6.3 million. As part of the development of the 2018-2019 Adopted Budget, an estimated \$234,000 in savings was anticipated and rebudgeted. Additional year-end savings of \$28,000 are recommended for rebudget as part of this report.
- Sick Leave Payments Upon Retirement expenditures of \$4.1 million came in below budgeted levels by \$940,000, though remained flat with the 2016-2017 level of \$4.1 million.
- Expenditures for Homeless Rapid Rehousing of \$554,000 and the Homeless Response Team of \$2.2 million totaled \$2.8 million and ended the year \$2.1 million below budgeted levels across both appropriations. The savings of \$2.1 million were anticipated in the development of the Adopted Budget and were rebudgeted into 2018-2019.

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Highlights of Non-Departmental Expenditures and Variances

Capital Projects

In 2017-2018, the General Fund provided funding totaling \$69.9 million for capital projects. Of this amount, approximately \$22.5 million was unexpended at year-end. The projects with the largest unexpended balances included:

Capital Projects	Unexpended Funds (\$000s)
Fire Apparatus Replacement	\$ 5,363
City Hall HVAC Control System Replacement	4,454
Police Communications Fire Protection System Upgrade	1,426
East Side Union High School District Community Wireless Network Project	1,364
San Jose Stage Company	1,000
City Hall Waterproofing	915
Police Communications Emergency Uninterrupted Power Supply	758
Emergency Vehicle Preemption Service	541
Police Communications Center Elevator Retrofit	586
All Other Projects	6,064
Total Unexpended Capital Projects	\$ 22,468

Of the \$22.5 million unexpended at the end of 2017-2018, a total of \$19.0 million was rebudgeted to 2018-2019 in the Adopted Budget, leaving a balance of \$3.5 million. As part of the Annual Report, additional rebudget adjustments totaling \$708,000 are recommended, bringing the Capital savings to \$2.8 million. The remaining balance is primarily attributed to two Public Works projects, the Police Communications Fire Protection System Upgrade (\$1.3 million) due to a re-scope of the project as new fire sprinklers are not required and the East Side Union High School District Community Wireless Network Project (\$1.3 million), which is not going forward due to lack of funding from the school district.

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 \$34.3 million ended the year at budgeted levels.

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GENERAL FUND EXPENDITURE PERFORMANCE

Highlights of Non-Departmental Expenditures and Variances

Reserves

General Fund Reserve categories include Earmarked Reserves and the Contingency Reserve. On June 30, 2018, the total Reserve balance was \$178.3 million. The 2018-2019 Adopted Budget assumed that \$184.3 million would be available at year-end, with reserves either re-established in 2018-2019 or used as a funding source for the 2018-2019 Adopted Budget. However, this was the result of an over-rebudget of the Development Fee Program Reserves. To adjust for this over-rebudget, downward rebudget adjustments totaling \$6.0 million are recommended in this report.

Earmarked Reserves totaled \$141.8 million on June 30, 2018, the largest of which were the 2017-2018 Ending Fund Balance Reserve (\$27.0 million); Building Development Fee Program Reserve (\$22.4 million); 2018-2019 Future Deficit Reserve (\$20.3 million); Budget Stabilization Reserve (\$16.3 million); Workers Compensation/General Liability Catastrophic Reserve (\$15.0 million); Fire Development Fee Program (\$7.6 million); Sick Leave Payments Upon Retirement Reserve (\$6.0 million); Salaries and Benefits Reserve (\$5.3 million); Public Works Development Fee Program Reserve (\$5.3 million); Cultural Facilities Capital Maintenance Reserve (\$4.4 million); and Retiree Healthcare Solutions Reserve (\$4.3 million).

The 2017-2018 Ending Fund Balance Reserve of \$27.0 million was proactively set aside to help ensure sufficient fund balance would be available at the end of 2017-2018 to meet the budgeted estimate used in the development of the 2018-2019 Adopted Budget. Annually, as part of the development of the General Fund Forecast and Adopted Budget for the following year, a certain 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 2018-2019 Adopted Budget, it was assumed that \$32.6 million would be generated from these sources. The establishment of the 2017-2018 Ending Fund Balance Reserve set aside a portion of this funding, with the assumption that the remaining amount would be realized by year-end.

The Contingency Reserve totaled \$36.5 million and remained unspent during the year. As part of the development of the 2018-2019 Adopted Budget, the full Contingency Reserve was rebudgeted in order to comply with the Council Policy of maintaining a minimum 3% Contingency Reserve in the General Fund. As part of this report, an additional \$500,000 is recommended to comply with the 3% funding requirement and would bring the 2018-2019 Contingency Reserve to \$37.0 million. 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 a couple of weeks in the event of an emergency.

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Highlights of Non-Departmental Expenditures and Variances

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.