

**2011-2012  
MID-YEAR BUDGET REVIEW  
Section I**

**STATUS OF GENERAL FUND EXPENDITURES**

**Overview**

Overall, General Fund expenditures are tracking within anticipated levels and are expected to end the year with a small amount of savings. Various budget adjustments are recommended in this document to accomplish the following:

- recognize savings in departmental, City-Wide Expenses, and Reserves categories of \$8.5 million to partially fund the 2011-2012 Ending Fund Balance Reserve of \$12.0 million that was assumed in the development of the 2012-2013 Preliminary Forecast;
- to eliminate the Convention Center Lease payment of \$15.4 million that is no longer necessary as the San Jose Redevelopment

Agency (SJRA) will cover this cost in 2011-2012 (partially offset by a \$5.4 million reduction to the reimbursement from the SJRA), and allocate the net savings of \$10.0 million to the 2012-2013 Future Deficit Reserve;

- to address a limited number of urgent expenditure needs; and
- to address technical and to allocate grant, reimbursement, and/or fee related funds.

The following chart displays the year-to-date expenditures (excluding encumbrances) compared to the prior year, by category.

**2011-2012 General Fund Expenditures through December  
(\$ in Thousands)**

Category	Current Budget	Y.T.D. Actual	% of Budget	Prior Year % of Budget
Personal Services	581,042	279,013	48.0%	48.3%
Non-Personal/Equipment	86,127	27,645	32.1%	35.6%
Other Departmental	15,396	6,947	45.1%	39.7%
City-Wide Expenses	255,268	29,087	11.4%	21.4%
Capital Contributions	14,984	2,464	16.4%	17.7%
Transfers	29,910	29,418	98.4%	99.8%
Reserves	77,284	-	0.0%	0.0%
<b>Total</b>	<b>1,060,011</b>	<b>374,574</b>	<b>35.3%</b>	<b>39.1%</b>

General Fund expenditures through December totaled \$374.6 million, or 35.3% of the total 2011-2012 modified budget. This represents a decrease of \$29.7 million, or 7.4%, from the December 2010 level of \$404.3 million. Encumbrances totaling \$35.5 million were \$1.0 million (2.9%) above the December 2010 level of \$34.5 million. Expenditures and encumbrances through December of \$410.1

million constituted 41.7% of the total modified budget (excluding reserves) of \$982.7 million.

Departmental Expenditures

Departmental expenditures include Personal Services (salaries, other compensation, retirement, health, and other fringe benefit costs), Non-Personal/Equipment, and Other

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**Overview**

Departmental Expenditures

Departmental expenses. Personal Services costs represent the largest single expense category for the City. These costs accounted for 74.4% of the expenditures to date. Through December, Personal Services expenditures for all City departments totaled 48.0% of the current modified budget, which is consistent with the expectations at this point of the year. This expenditure level was just slightly below the 48.3% expended through December last year. Overall, Personal Services expenditures are tracking to end the year with a small amount of savings. As described in Section III of this document, budget actions are recommended to set aside a portion of these savings generated in the Police (\$1.0 million), Planning, Building and Code Enforcement (\$350,000), and Finance (\$200,000) Departments into the 2011-2012 Ending Fund Balance Reserve. In the City Attorney's Office, Personal Services expenditures are tracking to exceed the budgeted estimate as described below. Budget actions are recommended in Section III of this document to address this higher expenditure level.

Non-Personal/Equipment expenditures of \$27.6 million are also tracking within anticipated levels with 32.1% expended through December. In addition to the funds actually expended, \$14.8 million was encumbered, bringing the total amount of funding committed to \$42.4 million, or 49.2% of the budget. These expenditures are expected to remain within budget for all departments and savings are anticipated by year-end. As described in

Section III of this document, the Non-Personal/Equipment savings expected to be generated in the Police Department (\$1.0 million) and the Office of Economic Development (\$300,000) are recommended to be allocated to the 2011-2012 Ending Fund Balance Reserve.

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 \$6.9 million or 45.1% of the budget. With encumbrances, the total amount committed increases slightly to \$7.2 million, or 46.6% of the budget.

Non-Departmental Expenditures

Non-Departmental expenditures include City-Wide Expenses, Capital Contributions, Transfers, and Reserves.

Through December, City-Wide Expenses totaled \$29.1 million, or 11.4% of the modified budget of \$255.3 million. With encumbrances, the total amount of funding committed was 18.3% of the budget.

Within City-Wide Expenses, the Strategic Support City Service Area (CSA) category represents the largest portion of funding with \$178.0 million. In part, this is due to the inclusion in this category of the \$125.6 million principal and interest repayment appropriation for the Tax and Revenue Anticipation Notes (TRANS) issued for cash flow purposes. For the first six months of the year, the Strategic Support CSA category is 8.2% committed

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(27.0% committed excluding the TRANs appropriation). The expenditure tracking for these Strategic Support allocations can vary significantly depending on payment schedules and the timing of projects. In some instances, the appropriations will not be fully expended by year-end because of the multi-year nature of some larger projects. As needed, recommendations will likely be brought forward at the end of the year to rebudget any savings to 2012-2013 to complete projects in progress.

The TRANs was issued in July 2011 for a substantially lower amount than budgeted (\$100.4 million principal and interest) with repayment anticipated to occur on February 1, 2012. A recommendation to reduce the TRANs Debt Service appropriation by \$25.3 million (partially offset by a \$25.0 million reduction in revenue) is recommended in this report. The net savings of \$250,000 is recommended to be reallocated to the 2011-2012 Ending Fund Balance Reserve.

The General Liability Claims appropriation, a component of City-Wide Expenses - Strategic Support category, is 33.3% expended or encumbered through December. However, expenditures in this category are traditionally difficult to predict, given the nature of litigation. It should be noted that the litigation exposure far exceeds the amount in this appropriation and the corresponding reserve combined. The City Manager's Budget Office and the City

Attorney's Office will continue to monitor this appropriation as the year progresses.

Through December, the Sick Leave Payments Upon Retirement allocation of \$11.5 million was 13.9% expended. Expenditures are expected to remain below budgeted levels during the second half of the year and end the year with approximately \$2.3 million to \$3.0 million in savings based on the timing and payment of actual and projected retirements through the remainder of the fiscal year. A budget action is recommended to reduce this appropriation by \$2.3 million and reallocate those funds to the 2011-2012 Ending Fund Balance Reserve.

In addition, actions related to elections and ballot measures funding are recommended as part of this report. As part of the 2011-2012 Mayor's June Budget Message, the City Council allocated \$3.4 million for a potential Retirement Reform ballot measure to be considered by the voters in March 2012. On December 6, 2011, the City Council instead approved placing the Retirement Reform measure on the June 5, 2012 ballot for voter consideration at a significant reduction in costs. Therefore, this report includes a recommendation to re-allocate the \$3.4 million previously approved in the Retirement Reform Election appropriation towards a new consolidated Election and Ballot Measure appropriation, which will include funding for the June Retirement Reform ballot measure as well as other election costs (\$1.3 million). The remaining funding is

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*Non-Departmental Expenditures*

recommended to establish a new Fiscal Reform Plan Implementation Reserve (\$2.1 million) to fund future ballot measures, polling, studies, and/or potential litigation related to the implementation of the City Council approved Fiscal Reform Plan.

The Community and Economic Development CSA category is 24.7% committed through December. The largest appropriation in this category is the Convention Center Lease Payments appropriation (\$15.4 million), which accounts for debt service payments. In 2011-2012, \$5.4 million in reimbursement from the SJRA was budgeted to offset a portion of this expenditure. In 2011-2012, the SJRA will now fund the Convention Center debt service payments directly as SJRA funding is available to cover this SJRA obligation. Therefore, a recommendation to reduce the appropriation by \$15.4 million (partially offset by a \$5.4 million reduction in revenue) is included in this report. The net savings of \$10.0 million is recommended to be reallocated to the 2012-2013 Future Deficit Reserve.

The remaining City-Wide Expenses categories, Environmental and Utility Services, Public Safety, Neighborhood Services, and Transportation and Aviation Services, tracked at 46.9%, 46.8%, 69.6%, and 41.3% committed, respectively, through December. It is anticipated that these expenditure categories will end the year within budgeted levels.

The Workers' Compensation Claims appropriations, which are spread across several of the City-Wide Expenses categories, total \$18.8 million. For the first half of the year, expenditures and encumbrances of \$7.3 million tracked at lower than anticipated levels. It is currently anticipated that expenditures will end the year at least \$1.0 million below budgeted levels. Included in this report is a recommendation to reduce Worker's Compensation appropriations by \$1.0 million (\$500,000 from Police and \$500,000 from Fire). This expenditure saving is recommended to be reallocated to the 2011-2012 Ending Fund Balance Reserve.

To address new and urgent fiscal and program needs, upward budget adjustments are recommended in the following City-Wide Expenses appropriations: Labor/Employee Relations Consultant Funding (\$400,000), Property Tax Administration Fee (\$540,000), and Retirement Actuarial Services (\$50,000).

Adjustments including downward Budget adjustments reflecting anticipated savings or funding that is no longer needed include: Medical Marijuana Program Administration (-\$148,000), Northern California Regional Intelligence Center (NCRIC) Super Urban Area Security Initiative-Police (-\$42,121), and Year 5 San José After School District Contracts (-\$20,593).

In addition, a number of City-Wide Expenses appropriation increases are recommended to recognize grant activity funding. These expenditure increases are offset by corresponding increases in grant revenue.

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*Non-Departmental Expenditures*

Additional details on all these transactions (urgent needs, downward adjustments, and grants) can be found in Section III of this document.

Through December, General Fund Capital expenditures totaled \$2.5 million and encumbrances totaled \$2.9 million, bringing the amount committed to \$5.4 million, or 35.9% of the budget.

Included in this report is a recommended adjustment in the Municipal Improvements Capital Program, an increase to the Unanticipated/ Emergency Maintenance appropriation (\$400,000) bringing the budget to \$650,000. Public Works facility management continues to experience high levels of unanticipated failures in large systems and additional funding is needed to address the most severe issues, including: replacement of the boiler tubes at City Hall to ensure proper heating, replacement of stolen lightning rods on the City Hall roof, replacement of damaged exterior lighting at City Hall due to vandalism, removal and replacement of the pavers around City Hall, and funding for future unexpected failures.

Overall, once adjusted for the action recommended in this report, General Fund Capital expenditures are expected to end the year close to budgeted levels and no savings are anticipated at this time.

The Transfers category of \$29.9 million is 98.4% expended through December as anticipated. Almost all of the transfers are processed at the beginning of the year.

There are no expenditures in the Reserves budget of \$77.3 million because expenditures cannot be charged directly to a reserve. Mid-Year Budget Review actions are recommended to eliminate the Filled Position Elimination Reserve (\$700,000) and reduce the Salaries and Benefits Reserve (\$1.2 million) and reallocate those funds to the 2011-2012 Ending Fund Balance Reserve as described in Section III of this Report.

Actions are also recommended to establish a Fiscal Reform Plan Implementation Reserve of \$2.1 million, as described earlier in this section. The funding for this action is available through the recommended elimination of the Retirement Reform Election appropriation (\$3.4 million). Additional details on this action and use of the reserve can be found in Section III of this document.

In total, it is recommended that \$8.5 million in expenditure savings and an additional \$3.5 million in excess revenues be allocated to establish a \$12.0 million 2011-2012 Ending Fund Balance Reserve. These actions set aside and secure the expenditure savings and excess revenues assumed to be available in 2011-2012 and used as a funding source for 2012-2013 as projected in the 2012-2013 Preliminary General Fund Forecast. Proactively establishing this Reserve helps ensure the necessary savings are

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Non-Departmental Expenditures

available by year-end to meet the forecasted expenditure savings figure.

No budget action is recommended to reduce the Contingency Reserve (\$29.3 million).

**Discussion of Selected General Fund Departments**

**Expenditure Status (\$ in thousands)**

<u>Department</u>	<u>2011-2012 Budget</u>	<u>Y.T.D. Actual</u>	<u>Prior YTD Actual</u>
<b>Attorney's Office</b>	\$10,898	\$5,378	\$5,569

Overall, expenditures for the City Attorney's Office are tracking above budgeted estimates through December, with 49.3% expended. Personal Services expenditures through December of \$5.2 million (52.4% of budget compared to the par of 48.5%) are tracking to exceed the budget by approximately \$440,000. Non-Personal/Equipment expenditures totaled \$150,000 through December, or 21.9% of the \$686,456 budget. With encumbrances, 41.6% of the Non-Personal/Equipment appropriation was expended or encumbered through December. Expenditures in this category are expected to end the year within the budgeted allocation.

Personal Services expenditures are tracking to end the year approximately \$440,000 above budgeted levels due to expenditures related to budget actions approved in 2011-2012 that the City Attorney's Office is not able to implement.

The 2011-2012 Adopted Operating Budget assumed City Attorney Office staff members

would participate in the Reduced Work Week/Voluntary Furlough program, generating savings of \$260,000 to the General Fund. Due to significantly less staff members (only three people) participating in the program than originally anticipated, the savings to the General Fund is now estimated to total only \$5,000. In addition, the 2011-2012 Adopted Operating Budget included the addition of 2.0 positions (1.0 Senior Deputy City Attorney and 1.0 Legal Analyst II) to support the Water Pollution Control Plant and Sanitary Sewer System Capital Programs. Due to less legal services being required for the Capital projects than originally anticipated, the Capital charges are projected to only total \$257,000, which is \$90,000 less than what was previously assumed. The Municipal Solar Grant Program also has less legal services required than estimated. The 2011-2012 Adopted Operating Budget assumed \$64,000 would be used for legal services related to the Recovery Act – Energy Efficient and Conservation Block Grant; however, the current estimate is \$8,000, which is \$56,000 less than

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**Discussion of Selected General Fund Departments**

Attorney's Office

what was included in the Adopted Budget. Finally, the current workload associated with the False Claims Act Litigation has also not occurred at the levels assumed and included in the 2011-2012 Adopted Budget (\$38,000).

The City Attorney's Office plans to carefully monitor and prioritize non-personal/equipment expenditures to achieve savings of \$125,000, which is recommended to be reallocated to the City Attorney's Office Personal Services appropriation in this report. Combined with the

reallocation of non-personal/equipment funding, the City Attorney's Office expects additional vacancy savings of at least \$115,000 to be realized by year end, narrowing the gap between the budget and the estimated expenditures to \$200,000. As described in Section III of this report, an increase of \$200,000 to the City Attorney's Office Personal Services appropriation is recommended, thereby bringing the estimated General Fund expenditures for the Department in line with their budget. The City Attorney's Office will continue to closely monitor and control overall expenditures to minimize or prevent any potential overage.

**Expenditure Status (\$ in thousands)**

<u>Department</u>	2011-2012 <u>Budget</u>	Y.T.D. <u>Actual</u>	Prior YTD <u>Actual</u>
<b>Fire</b>	\$156,165	\$73,871	\$75,265

Overall, expenditures for the Fire Department were tracking slightly lower than budgeted estimates through December, with 47.3% expended. Personal Services expenditures through December tracked lower than budgeted levels with \$71.2 million expended (47.9% compared to the par of 48.5%). The Fire Department's Non-Personal/Equipment budget of \$7.5 million was 48.2% expended or encumbered through December and is expected to end the year within the budgeted allocation.

Although expenditure levels are tracking slightly below budgeted estimates primarily due to the later timing of SAFER-funded academies,

overtime expenditures of \$1.7 million are tracking slightly above estimated levels (49.8% compared to the par of 48.5%) through December due, in part, to higher than anticipated absence rates assumed when the 2011-2012 Budget was developed. The Fire Department will continue to implement overtime control measures and monitor minimum staffing on a daily basis. The Budget Office along with the Fire Department will continue to monitor activity to ensure the department remains within its Personal Services appropriation. Based on the timing of the Firefighter Recruit Academies, year-end adjustments may be necessary to recognize

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Fire Department

Personal Services savings and reduce the SAFER grant revenue that supported these costs.

Through December, the Fire Department was staffed with 164 filled Firefighter Paramedic positions (151 front-line Firefighter Paramedics, 5 Supervisor Paramedics, and 8 Support Paramedics) compared to the 139 front-line

Firefighter Paramedics that are necessary to fully staff all apparatus. The Department projects it will have no issues maintaining the target staffing level of 139 front-line Firefighter Paramedics.

As part of the City Council's approval of Department absence and vacancy rates (March 2010), it should be noted that the number of sworn administrative staff in the Department through December was within the authorized number of 31.

**Expenditure Status (\$ in thousands)**

<u>Department</u>	<u>2011-2012 Budget</u>	<u>Y.T.D. Actual</u>	<u>Prior YTD Actual</u>
<b>Police</b>	\$301,860	\$137,392	\$139,091

On an overall basis, Police Department expenditures are tracking slightly below estimated levels. Personal Services expenditures of \$130.9 million tracked under anticipated levels (47.4% compared to the par of 48.5%). It should be noted that as sworn police positions became vacant during the first half of the year, the Police Department, through coordination with the Budget Office, reinstated recently laid off Police Officers. As of January 1, 2012, the sworn reinstatement list was exhausted. Overtime expenditures of \$4.4 million through December tracked under anticipated levels with 46.4% expended; however, a number of overtime adjustments will be booked in January, and it is projected this will cause overtime spending to remain slightly

higher than the par level. The Department manages overtime usage through various reporting requirements and pre-approval processes in order to readily identify mandatory versus discretionary usage. The process has improved overtime tracking and in general, has helped reduce overall use of overtime. However, in recent months there has been an increase in high profile cases and events that has required the use of overtime, thus overtime usage is tracking slightly higher this year compared to 2010-2011. In addition to monitoring overall overtime usage, the Department limits how much overtime can be earned for pay versus compensatory time. The compensatory time balance at the end of December 2011 was 165,613 hours for sworn

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Police Department

personnel. This represents an increase of 1,220 hours (0.7%) from the October 2011 balance of 164,393, but a 27,736 hour decrease (14.3%) compared to the December 2010 balance of 193,349.

Recommendations in the Mid-Year Budget Review include \$16,000 in upward adjustments to the Personal Services appropriation to allow the Department to participate in a task force funded by the federal government to prevent narcotics trafficking (\$13,000), as well as a task force to prevent high technology crimes (\$3,000). In addition to these upward adjustments, downward adjustments of \$1,259,000 to the Personal Services appropriation (0.09% of the current budget) are recommended. The largest adjustment is a decrease of \$1.0 million to account for savings realized due to the number of vacancies in the Department. The current year savings are recommended to be allocated to the 2011-2012 Ending Fund Balance Reserve. It should be noted that to fill sworn vacancies and ensure full staffing in 2012-2013, the Department plans to hire lateral transfers from other law enforcement agencies and conduct a July Recruit Academy. In order to maximize the potential of obtaining highly qualified candidates for the Recruit Academy, Non-Personal/Equipment funding of \$150,000 is recommended in this document for contractual backgrounding services to ensure expedited review and targeted marketing and outreach in publications. A decrease of

\$249,000 is recommended as part of the overall rebalancing of the Medical Marijuana Program. This document also includes the realignment of costs (\$10,000) to the Police Department Non-Personal/Equipment appropriation to continue the Horse Mounted Unit through June 2012.

The Budget Office and Police Department will continue to closely monitor Personal Services to ensure expenditures are within appropriated levels by year-end.

A total of \$10.1 million (39.2%) 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 \$7.0 million, or 60.4% of the non-centrally-determined appropriation available for the second half of 2011-2012.

Recommendations in the Mid-Year Budget Review include \$212,000 in upward adjustments to the Non-Personal/Equipment appropriation for backgrounding and marketing costs related to the Police Officer Recruit Academy (\$150,000) as described above, upgrades to the 9-1-1 Communications Center funded by the State (\$52,000), and the realignment of costs (\$10,000) from the Police Department Personal Services appropriation to continue the Horse Mounted Unit through June 2012. In addition to these upward adjustments, downward adjustments of \$1,120,000 to the Non-Personal/Equipment appropriation are

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**Discussion of Selected General Fund Departments**

*Police Department*

recommended. The largest adjustment is a \$1.0 million reduction to reflect savings anticipated from lower vehicle replacement costs (\$800,000) as a result of fewer Police vehicles meeting the required replacement criteria for mileage and age, and lower gas and electricity costs (\$200,000) than previously anticipated. These savings are recommended to be allocated to the 2011-2012 Ending Fund Balance Reserve. A \$100,000 reduction is recommended to reallocate facilities maintenance/custodial

funding to the Public Works Department. Funding is also no longer needed to support the Cal-Gang System (\$20,000) as originally assumed in the 2010-2011 Annual Report. The Budget Office and the Department will monitor expenditures closely to ensure expenditures are within appropriated levels by year-end.

**Contingency Reserve**

The General Fund Contingency Reserve remains at \$29.3 million through December, with no revisions through the first six months of the fiscal year.

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