

**2016-2017
ANNUAL REPORT**

GENERAL FUND EXPENDITURE PERFORMANCE

The General Fund expenditure performance for 2016-2017 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
2016-2017 GENERAL FUND EXPENDITURE SUMMARY
COMPARISON OF BUDGET TO ACTUAL
(In \$000s)**

Category	2016-2017 Modified Budget*	2016-2017 Actual**	Variance	% Variance
Personal Services	\$ 738,567	\$ 729,913	\$ (8,654)	(1.2%)
Non-Personal/Equipment/Other ¹	146,500	135,728	(10,772)	(7.4%)
City-Wide Expenses	255,666	217,142	(38,524)	(15.1%)
Capital Contributions	82,850	49,301	(33,549)	(40.5%)
Transfers	28,068	28,068	-	0.0%
Reserves	150,734	-	(150,734)	(100.0%)
TOTAL GENERAL FUND	\$ 1,402,385	\$ 1,160,152	\$ (242,233)	(17.3%)

* 2016-2017 appropriations as modified by Council through June 30, 2017, and 2015-2016 carryover encumbrances.

** Actual 2016-2017 expenses plus encumbrances.

As shown in Table B, General Fund expenditures and encumbrances through June 30, 2017 of \$1.16 billion were \$242.2 million below (17.3%) the modified budget total of \$1.4 billion. Approximately 62.2% of this savings was generated from unspent reserves (\$150.7 million), with the remaining savings generated from expenditure appropriations. Total 2016-2017 expenditures and encumbrances were \$49.6 million (4.5%) above the June 2016 level of \$1.11 billion. This increase is due to higher Personal Services (\$37.7 million), Non-Personal/Equipment/Other (\$6.5 million), Capital Contributions (\$11.0 million), and Transfers (\$918,000), partially offset by lower City-Wide Expenses (\$6.5 million).

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

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As shown in Table C, the actual General Fund expenditures of \$1.16 billion were approximately \$26.0 million (2.2%) below the estimate used in the development of the 2017-2018 Adopted Budget. A portion of these savings (\$3.8 million) was carried over to 2017-2018 with the accompanying revenue for grant or reimbursement-related projects and programs. Clean-up actions of \$15.6 million are recommended in this report to reconcile the Development Fee Programs for 2017-2018 (\$2.8 million) and to adjust various rebudget amounts and reflect clean-up adjustments (\$12.8 million). After accounting for these technical actions, the remaining General Fund expenditures savings totaled \$6.7 million, or 0.5% of the modified budget.

**TABLE C
2016-2017 EXPENDITURE ESTIMATE TO ACTUAL VARIANCES
(In \$000s)**

	2016-2017 Estimate	2016-2017 Actual	\$ Variance	% Variance
Expenditures	\$ 1,186,181	\$ 1,160,152	\$ (26,029)	(2.2%)

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 \$7.7 million in additional fund balance is available from higher net revenues (\$1.06 million), net expenditure savings (\$6.68 million), and higher than estimated liquidation of prior year encumbrances (\$1.26 million), partially offset by a lower 2016-2017 Beginning Fund Balance (\$1.3 million). 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 rebudget adjustments that were brought forward in the 2017-2018 Adopted Budget.

Personal Services expenditures of \$729.9 million ended the year \$8.7 million (1.2%) below budgeted levels (\$738.6 million), but \$37.7 million (5.4%) above 2015-2016 expenditure levels (\$692.2 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 2016-2017 were in the following departments: Fire (\$2.0 million); Police (\$1.8 million); and Planning, Building and Code Enforcement (\$1.1 million); Library (\$891,000); and Information Technology (\$628,000).

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Overview

General Fund Non-Personal/Equipment/Other expenditures and encumbrances ended the year at \$135.7 million, generating savings of approximately \$10.8 million (7.4%) from the budgeted level. The majority of savings in this category was generated by the following departments: Police (\$2.4 million); Information Technology (\$1.7 million), and Planning, Building & Code Enforcement (\$1.6 million, including the Development Fee Programs). The Mayor and City Council appropriations also ended the year \$2.7 million below the modified budget. In the 2017-2018 Adopted Budget, \$7.5 million in expected 2016-2017 savings were rebudgeted to 2017-2018. Additional rebudget adjustments totaling \$1.7 million are recommended in this report and, if approved, would result in net savings of \$1.6 million from the budgeted level.

In the City-Wide Expenses category, expenditures and encumbrances of \$217.1 million ended the year \$38.5 million below the budgeted level of \$255.7 million. Of this amount, \$29.1 million was assumed as savings in 2016-2017 and rebudgeted to 2017-2018, including \$3.0 million that was offset by revenue sources. Of the remaining balance of \$9.4 million, rebudget and clean-up adjustments totaling \$2.6 million are recommended in this report, and if approved, would result in net savings of \$6.8 million in this category, a 2.7% variance from the budgeted level.

In the Capital Contributions category, expenditures of \$49.3 million ended the year \$33.5 million below the budgeted level of \$82.8 million. A total of \$29.0 million was rebudgeted to 2017-2018 in the Adopted Budget, with a remaining savings amount available of \$4.6 million. Requested amount to rebudget for Annual Report is \$4.4 million to account for expected 2017-2018 expenditures, which would result in savings of \$220,000 in 2016-2017 to the General Fund.

The Transfers category expenditures of \$28.1 million ended the year at the budgeted amount.

The largest single category of remaining funding available in 2016-2017, as planned, is the Reserves category (\$150.7 million), including Earmarked Reserves (\$115.2 million) and the Contingency Reserve (\$35.5 million). The 2017-2018 Adopted Budget assumed that \$146.3 million would be available at year-end, with reserves either re-established in 2017-2018 or used as a funding source for the 2017-2018 Adopted Budget. The actual year-end balance was above the estimated fund balance level by approximately \$4.5 million. Net rebudget adjustments totaling \$4.0 million are recommended in this report, leaving a balance of \$475,000.

The Reserves category also includes the Contingency Reserve (\$35.5 million) that remained unspent at year-end.

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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 (\$865.6 million) represented 74.6% of the total 2016-2017 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 an overall savings of 2.2%, or \$19.4 million. Of this amount, \$8.0 million was rebudgeted in the 2017-2018 Adopted Budget; and additional clean-up actions of \$4.5 million are recommended in this report (including the Development Fee Programs reconciliation of \$2.8 million and other rebudget and clean-up adjustments), leaving a balance of \$6.9 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 \$9.2 million (47%) of the departmental savings. The other ten departments with more than 5% in savings accounted for the remaining 53% of the category savings and totaled \$10.2 million. In 2016-2017, the following six departments/offices had expenditure savings in excess of \$1 million: Police; Mayor and City Council; Planning, Building and Code Enforcement, Fire; Information Technology; and Library. 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 Mayor and City Council, Fire, Information Technology, and Planning, Building and Code Enforcement departments. The year-end status of expenditures for both the Police and Fire Departments is also summarized.

Non-departmental expenditures totaled \$294.5 million, or 25.4% of the total 2016-2017 General Fund expenditures. The unexpended balance at year-end totaled \$222.8 million; reserves of \$150.7 million represent the largest portion of the unexpended funds and were almost entirely carried over or used in the 2017-2018 Adopted Budget as planned. Excluding Reserves, a balance of \$72.1 million remained in this category at year-end. In the 2017-2018 Adopted Budget, \$58.1 million was rebudgeted in the City-Wide Expenses and Capital Contributions categories. Additional rebudget adjustments in these categories totaling \$6.9 million are recommended in the Annual Report, resulting in total unexpended funds of \$7.0 million.

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Review of General Fund Expenditure Performance

**TABLE D
TOTAL GENERAL FUND EXPENDITURES**

Departmental	2016-2017 Modified Budget	2016-2017 Expenditures	\$ Variance	% Variance
City Attorney	\$ 15,073,120	\$ 14,507,064	\$ (566,056)	(3.8%)
City Auditor	2,484,881	2,197,330	(287,551)	(11.6%)
City Clerk	2,759,287	2,297,648	(461,639)	(16.7%)
City Manager	14,870,435	14,678,761	(191,674)	(1.3%)
Economic Development	6,118,880	5,907,345	(211,535)	(3.5%)
Environmental Services	1,495,601	1,404,373	(91,228)	(6.1%)
Finance	16,324,621	15,395,392	(929,229)	(5.7%)
Fire	203,806,383	201,538,800	(2,267,583)	(1.1%)
Housing	693,401	651,198	(42,203)	(6.1%)
Human Resources	8,683,368	7,989,448	(693,920)	(8.0%)
Independent Police Auditor	1,289,791	1,205,783	(84,008)	(6.5%)
Information Technology	20,807,503	18,517,780	(2,289,723)	(11.0%)
Library	30,695,566	29,626,032	(1,069,534)	(3.5%)
Mayor and City Council	13,870,577	11,136,850	(2,733,727)	(19.7%)
Parks, Recreation & Neighborhood Services	70,688,676	70,551,925	(136,751)	(0.2%)
Planning, Building & Code Enforcement	51,086,227	48,453,343	(2,632,884)	(5.2%)
Police	350,198,857	345,923,704	(4,275,153)	(1.2%)
Public Works	43,731,173	43,440,253	(290,920)	(0.7%)
Transportation	30,389,035	30,217,288	(171,747)	(0.6%)
Subtotal	885,067,382	865,640,317	(19,427,065)	(2.2%)
Non-Departmental				
City-Wide Expenses	255,666,377	217,142,499	(38,523,878)	(15.1%)
Capital Contributions	82,849,714	49,300,719	(33,548,995)	(40.5%)
Transfers	28,067,710	28,067,710	-	0.0%
Earmarked Reserves	104,233,595	-	(104,233,595)	(100.0%)
Contingency Reserve	35,500,000	-	(35,500,000)	(100.0%)
Ending Fund Balance Reserve	11,000,000	-	(11,000,000)	(100.0%)
Subtotal	517,317,396	294,510,928	(222,806,468)	(43.1%)
TOTALS	\$ 1,402,384,778	\$ 1,160,151,245	\$ (242,233,533)	(17.3%)

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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*

On an overall basis, the Police Department expenditures totaled \$345.9 million, or 98.8% of its General Fund budget of \$350.2 million, including encumbrances, resulting in savings of \$4.3 million. Of this savings amount, \$1.2 million was anticipated at year-end and rebudgeted as part of the 2017-2018 Adopted Budget and an additional \$558,000 is recommended for rebudget as part of the Annual Report actions, resulting in a revised savings figure of \$2.6 million (0.7%).

Overtime expenditures of \$40.1 million were slightly above the modified budget by approximately \$81,000 (0.2%). During the year-end clean-up process for 2016-2017, an adjustment was made to reallocate savings from the Department’s salary and benefits to the overtime allocation. The overtime was primarily used to backfill vacant sworn and civilian positions, 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. An action is recommended in this report to increase the Department’s overtime funding in 2017-2018 by \$13.0 million (from \$17.3 million to \$30.3 million), funded by salary and benefits savings, to continue to backfill for vacant positions and continue the expanded targeted enforcement levels of high crime activity. This action will help ensure the Department has sufficient overtime resources in 2017-2018.

As of September 2017, the Department had 1,109 authorized sworn staff, of which 139 were vacant (12.4%) and 107 were in training (9.7%), leaving 863 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 789 street-ready sworn positions were available.

	2016-2017 (as of 9/9/2016)	2017-2018 (as of 9/8/2017)
Authorized Sworn Staffing	1,109	1,109
Vacancies	(194)	(139)
Filled Sworn Staffing	915	970
Field Training Officer/Recruits	(33)	(107)
Street-Ready Sworn Positions	882	863
Disability/Modified Duty/Other Leaves	(79)	(74)
Street-Ready Sworn Positions Available	803	789

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Discussion of Significant Departmental Variances and Other Issues

During 2016-2017, the Department had 34 recruits, 28 recruits, and 54 recruits in the October 2016, February 2017, and June 2017 Academies, respectively. In order to fill the vacant sworn positions and put more Police Officers back on patrol, the Department will continue to conduct three Police Recruit Academies in 2017-2018, with the next one beginning in October 2017. Each academy has the capacity to host up to 65 recruits, and the upcoming October 2017 academy is projected to start with similar numbers as the June 2017 Academy.

The compensatory time balance at the end of 2016-2017 for sworn personnel was 243,221 hours. This balance represents an 11.1% increase compared to the 2015-2016 total sworn compensatory time balance of 218,886 hours.

A total of \$24.4 million (90.9%) of the Department's Non-Personal/Equipment budget was expended or encumbered, with savings of \$2.4 million. Police computer and data processing (\$1.5 million) savings contributed a significant portion of the overall non-personal/equipment savings. As part of the 2017-2018 Adopted Budget, non-personal/equipment savings of approximately \$1.2 million were anticipated and rebudgeted for the Police Business Permit and Licensing System project (\$500,000); Body Worn Camera Contingency (\$396,000); Community Service Officer Program (\$151,250); Intergraph Upgrade project (\$75,000); and Computer Aided Dispatch Business Intelligence project (\$40,000). Included in this report are recommended rebudgets for fixed surveillance cameras (\$250,000); Police Officer academy and training costs (\$230,000); and funding remaining in the Body Worn Camera Contingency (\$83,000).

- *Fire*

Overall, the Fire Department expended \$201.6 million (98.9%) of its 2016-2017 General Fund budget, including encumbrances, resulting in savings of \$2.2 million. Of these savings, \$49,000 of Non-Personal is recommended to be rebudgeted and \$123,000 is to be reallocated to the Fire Development Fee Reserve as part of this report. Additionally, \$730,000 was rebudgeted as part of the 2017-2018 Adopted Budget, leaving \$1.3 million in net savings.

Personal Services expenditures totaled \$192.3 million, or 99.0% of the \$194.3 million budget. The savings of \$2.0 million were primarily due to the addition of 26 new line staff positions in 2016-2017 that were vacant for much of the year. The Department began a recruit academy in April 2017 and placed 22 recruits in line positions in August 2017. By June 2016, the Department had 673 filled sworn positions with 32 sworn vacancies.

Fire's Overtime expenditures of \$15.0 million ended the year below (\$125,000) the modified budget level of \$15.1 million. A combination of full-time staff and overtime was used to address the Fire Department's minimum staffing requirements. A 2016-2017 budget action resulted in the restoration of \$2.4 million in overtime to eliminate "brownout" overtime cost control practices. 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 2016-2017 with a total of 164 filled Firefighter paramedic positions (149 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 \$9.3 million, or 97.2% of the \$9.54 million budget, generating year-end savings of \$271,000. A portion of this amount (\$22,000) represents the Non-Personal/Equipment savings in the Fire Development Fee Program and is recommended to be reallocated to the Fire Department Fee Reserve as part of this report. Of the remaining amount (\$249,000) in Non-Personal/Equipment savings, \$200,000 was rebudgeted to 2017-2018 as part of the 2017-2018 Adopted Budget, and the balance (\$49,000) 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.

Total absence hours in 2016-2017 of 351,210 rose by approximately 6% from 329,958 in 2015-2016. This increase was largely due to growth in disability hours (from 77,006 in 2015-2016 to 105,259 in 2016-2017), and was partially offset by a decrease in modified duty, vacation, and other hours (from 187,589 in 2015-2016 to 177,601 in 2016-2017). Vacancy hours also increased significantly from 51,856 in 2015-2016 (2.8% vacancy rate) to 110,992 in 2016-2017 (5.7% vacancy rate) due to the addition of 26 new line staff positions associated with the SAFER grant (12 positions) and the restoration of Engines 30 and 34 staffing (14 positions) to improve service levels. In 2016-2017, the combined absence and vacancy rate was 23.5%, requiring 462,202 hours of backfill. Because backfill hours are covered by a combination of available relief staffing and overtime, staff will continue its analysis of absences, relief staffing, and overtime usage to ensure the proper alignment and usage of resources.

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Discussion of Significant Departmental Variances and Other Issues

- *Information Technology*

With expenditures of \$18.5 million, including encumbrances, the Information Technology Department (ITD) expended 89.0% of its \$20.8 million General Fund budget, with savings of \$2.3 million. Personal services expenditure savings of \$628,000 were due primarily to six positions purposely held vacant for staffing realignment effective in 2017-2018 as well as other vacancies throughout the department. With the elimination of the positions and creation of Enterprise Information Technology series classifications, which helps address recruitment and retention issues, the department has been successful in significantly resolving the issue with vacancies. ITD has consequently improved its vacancy rate from 21.8%, as of July 1, 2016, to 12.8%, as of July 1, 2017. Non-personal/equipment expenditures were 16.8% (\$1.7 million) below budgeted levels, including encumbrances, due to project delays. Of the \$1.7 million remaining balance, \$445,000 was rebudgeted in the 2017-2018 Adopted Budget for Direct Fiber Connectivity to Cloud Services, Network Infrastructure Upgrades, Professional Services, and Secondary Data Center Buildout. An additional \$70,000 is recommended to be rebudgeted in the Annual Report to support the Customer Relationship Management (CRM) solution, resulting in net savings of \$1.2 million.

- *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 80.3% of their total General Fund budget of \$13.9 million, resulting in savings of \$2.7 million at year-end. Of this amount, \$1.8 million of the savings was realized in the City Council Offices, \$941,000 was realized in the Mayor's Office, and \$2,000 was in Council General as outlined below:

2016-2017 Actual Expenditure Performance

	2016-2017 Modified Budget	2016-2017 Actuals	Variance
Council District 1	\$ 878,735	\$ 710,015	\$ 168,720
Council District 2	818,213	772,496	45,717
Council District 3	815,445	709,776	105,669
Council District 4	911,810	639,879	271,931
Council District 5	1,055,223	641,259	413,964
Council District 6	857,175	727,400	129,775
Council District 7	815,927	768,477	47,450
Council District 8	948,350	689,788	258,562
Council District 9	1,090,079	761,359	328,720
Council District 10	797,201	777,316	19,885
Mayor's Office	4,802,004	3,860,750	941,254
Council General	80,415	78,337	2,078
Total	\$ 13,870,577	\$11,136,850	\$ 2,733,727

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In the 2017-2018 Adopted Budget, anticipated 2016-2017 savings of \$2.4 million (\$1.5 million in the City Council Offices, \$891,000 in the Mayor's Office, and \$1,000 in Council General) were rebudgeted. Of this rebudget amount, \$33,000 was committed for other uses from various City Council Offices as part of the 2017-2018 Adopted Budget. Actual year-end savings, however, exceeded these estimates; additional rebudget actions totaling a \$285,000 are recommended in this report to align the Mayor's Office and City Council Offices with year-end balances.

- *Planning, Building and Code Enforcement*

With expenditures of \$48.5 million, the Planning, Building and Code Enforcement Department (PBCE) expended 94.8% of its \$51.1 million budget, ending the year with unexpended funds of \$2.6 million. After accounting for the rebudgets of \$1.1 million included in the 2017-2018 Adopted Operating Budget and this report, the department ended 2016-2017 with net savings of \$1.5 million. This included Development Fee Program savings of \$1.2 million and Non-Development Fee Program savings of \$338,000. Personal services expenditures were 2.4% below budgeted levels (\$1.0 million) and non-personal/equipment expenditures were 6.1% below budgeted levels (\$510,000).

Total personal services savings of \$1.0 million resulted from vacant positions in the Multiple Housing and Solid Waste Code Fee Programs (Non-Development Fee Programs) with \$308,000 of the savings and in the Development Fee Programs (Planning, Building, Fire, and Public Works) with \$716,000 of the savings. The 2016-2017 Annual Report includes a recommendation to rebudget \$36,000 for temporary analytical staff funding related to the integrated permit system implementation and this report recommends the addition of \$150,000 (from savings) for Multiple Housing Program temporary staffing needs.

Net non-personal/equipment expenditure savings of \$510,000 (\$30,000 in Non-Development Fee Programs, \$325,000 in Building Development Fee Program, \$66,000 in Fire Development Fee Program, \$53,000 in Planning Development Fee Program, and \$36,000 in Public Works Development Fee Program) were primarily due to savings in consultant and information technology services. As part of the 2017-2018 Adopted Budget, non-personal/equipment unexpended funds of \$1.03 million in the Non-Development Fee Programs were anticipated and rebudgeted to continue the update of the North San José Area Development Policy and Environmental Impact Report (EIR), replace four Code Enforcement Fee Program vehicles, conduct urban village master planning, update the Downtown EIR, provide programming services for the migration of the Code Enforcement permitting system (CES) into the upgraded Development Fee Program permitting system (AMANDA), provide assistance in recommending changes to planning-related policies and ordinances, conduct California Environmental Quality Act review for Medical Marijuana growing facilities, and complete workspace improvements. In addition, \$33,000 of unexpended funds in the Development Fee Programs were rebudgeted as part of the 2017-2018 Adopted Budget to provide ongoing materials and training for building code changes that took place in 2016 and update documents in the Planning library to digital files.

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Discussion of Significant Departmental Variances and Other Issues

A combination of expenditure savings, higher than anticipated revenues, interest earnings, and a recommended rebudget for temporary staff funding will result in a net increase to the Building Development Fee Program Reserve of \$2.2 million, from \$18.1 million to \$20.3 million. A net increase to the Planning Development Fee Program Reserve of \$394,000, from \$1.4 million to \$1.8 million, will also result from a combination of expenditure savings, interest earnings, and a recommended rebudget for temporary staff funding.

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
2016-2017 NON-DEPARTMENTAL GENERAL FUND EXPENDITURES
(In \$000s)**

Category	2016-2017 Modified Budget	2016-2017 Actual	Variance	% Variance
City-Wide Expenses	\$ 255,666	\$ 217,142	\$ (38,524)	(15.1%)
Capital Contributions	82,850	49,301	(33,549)	(40.5%)
Transfers	28,068	28,068	-	0.0%
Earmarked Reserves	104,234	-	(104,234)	(100.0%)
Contingency Reserve	35,500	-	(35,500)	(100.0%)
Ending Fund Balance Reserve	11,000	-	(11,000)	(100.0%)
TOTAL	\$ 517,318	\$ 294,511	\$ (222,807)	(43.1%)

- *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 \$217.1 million, or 84.9% of the modified budget, resulting in savings of \$38.5 million. As part of the 2017-2018 Adopted Budget, \$29.1 million was rebudgeted (including net-zero rebudgets), leaving a balance of \$9.4 million. Of that remaining balance, rebudget and cleanup adjustments totaling \$2.6 million are recommended in this report, and if approved, would result in net savings of \$6.8 million in this category, a 2.6% variance from the budgeted level.

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Highlights of Non-Departmental Expenditures and Variances

The major ongoing 2016-2017 expenditures in this category are listed below:

- TRANs Debt Service payment of \$100.5 million was completed to repay a short-term note of \$100 million that was issued for cash flow purposes necessitated by the pre-funding of employer retirement contributions.
- Workers' Compensation Claims payments of \$18.1 million were \$2.0 million, or 9.7%, below the 2016-2017 Modified Budget of \$20.0 million. Total expenditures were commensurate with 2015-2016 expenses of \$18.2 million.
- Convention Center Lease Payments of \$15.3 million ended the year at 2016-2017 budgeted levels. The Convention Center Lease Payments expense is the largest of the City's contractually obligated Successor Agency to the Redevelopment Agency (SARA) obligations. The City received full reimbursement of \$15.3 million from SARA to offset this cost.
- The Energy and Utility Conservation Measures Program (ESCO) project expenditures in 2016-2017 of \$8.0 million were \$555,000, or 6.5%, below the Modified Budget estimate of \$8.6 million and 21.0% below 2015-2016 expenditures of \$10.1 million. Estimated savings of \$150,000 were rebudgeted in the development of the 2017-2018 Adopted Budget, and the remaining savings of \$405,000 are recommended in this report to be rebudgeted in order to continue efforts to construct energy-efficient City projects.
- General Liability Claims of \$6.8 million were \$14.3 million below the 2016-2017 Modified Budget of \$21.1 million. Savings in this appropriation were anticipated and \$14.0 million was rebudgeted as part of the 2017-2018 Adopted Budget to address potential claims in 2017-2018. The remaining unspent balance of \$300,000 is recommended to be rebudgeted in this report.
- San José BEST and Safe Summer Initiative Programs expenditures of \$6.3 million were \$489,000, or 7.2% below the 2016-2017 Modified Budget of \$6.8 million. As part of the development of the 2017-2018 Adopted Budget, an estimated \$744,000 in savings was anticipated and rebudgeted. This report recommends a downward adjustment of \$255,000 to the 2017-2018 allocation, however, since expenditures that occurred in 2016-2017 were higher than anticipated.
- Expenditures for Homeless Rapid Rehousing of \$3.8 million and the Homeless Response Team of \$2.2 million totaled \$6.0 million and ended the year \$2.4 million below budgeted levels across both appropriations. Savings of \$2.3 million were anticipated in the development of the budget and were rebudgeted into 2017-2018. Additional year-end savings of \$124,000 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 \$863,000, though essentially remained flat with the 2015-2016 level of \$4.0 million.

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GENERAL FUND EXPENDITURE PERFORMANCE

Highlights of Non-Departmental Expenditures and Variances

- *Capital Projects*

In 2016-2017, the General Fund provided funding totaling \$82.8 million for capital projects. Of this amount, approximately \$33.5 million was unexpended at year-end. The projects with the largest unexpended balances included:

Capital Projects	Unexpended Funds (\$000s)
Fire Apparatus Replacement	\$ 13,944
City Hall HVAC Control System Replacement	4,883
Police Communications Emergency Uninterrupted Power Supply	3,186
Police Communications Fire Protection System Upgrade	1,751
East Side Union High School District Community Wireless Network Project	1,073
San Jose Stage Company	1,000
City Hall Waterproofing	983
Emergency Vehicle Preemption Service	760
Police Communications Center Elevator Retrofit	595
All Other Projects	5,374
Total Unexpended Capital Projects	\$ 33,549

Rebudgets included in the 2017-2018 Adopted Budget carried over \$29.0 million to 2017-2018, with remaining savings available of \$4.6 million. An additional \$4.4 million is recommended to be rebudgeted in the Annual Report (primarily for Fire Apparatus Replacement), resulting in net savings in the General Fund Capital category of \$220,000. The largest savings were realized in the Closed Landfill Compliance (\$135,000), the Silicon Valley Regional Communications System - Infrastructure Payment (\$50,000), and the U.S. Patent and Trademark Office (USPTO) Tenant Improvement Project (\$29,000).

Included in this report are additional rebudgets, downward adjustments to those appropriations that did not generate the amount of savings required to support rebudgets already approved, and revenue-related increases. Augmentations for various appropriations are also recommended. Details of those appropriation adjustments are reflected in *Section IV – Recommended Budget Adjustments and Clean-Up/Rebudget Actions* of this document.

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GENERAL FUND EXPENDITURE PERFORMANCE

Highlights of Non-Departmental Expenditures and Variances

- *Transfers*

In the Transfers category, expenditures of \$28.1 million ended the year at budgeted levels.

- *Reserves*

General Fund Reserve categories include Earmarked Reserves and the Contingency Reserve. On June 30, 2017, the total Reserve balance was \$150.7 million. The 2017-2018 Adopted Budget assumed that \$146.3 million would be available at year-end, with reserves either re-established in 2017-2018 or used as a funding source for the 2017-2018 Adopted Budget. The actual year-end balance was above the estimated balance by approximately \$4.5 million. Net rebudget adjustments totaling \$4.0 million are recommended in this report, leaving a balance of \$475,000.

Earmarked Reserves totaled \$115.2 million on June 30, 2017, the largest of which were the Building Development Fee Program Reserve (\$22.4 million); Budget Stabilization Reserve (\$16.3 million); Workers Compensation/General Liability Catastrophic Reserve (\$15.0 million); 2016-2017 Ending Fund Balance Reserve (\$11.0 million), Fire Development Fee Program (\$7.3 million); Cultural Facilities Capital Maintenance Reserve (\$6.9 million); Retiree Healthcare Solutions Reserve (\$6.1 million); Sick Leave Payments Upon Retirement Reserve (\$6.0 million); Public Works Development Fee Program Reserve (\$5.5 million); and Salaries and Benefits Reserve (\$5.0 million).

The 2016-2017 Ending Fund Balance Reserve of \$11.0 million was proactively set aside to help ensure sufficient fund balance would be available at the end of 2016-2017 to meet the budgeted estimate used in the development of the 2017-2018 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 2017-2018 Adopted Budget, it was assumed that \$18.6 million would be generated from these sources. The establishment of the 2016-2017 Ending Fund Balance Reserve set aside a portion of this funding, with the assumption that the remaining amount would be realized by year-end primarily from expenditure savings and the liquidation of prior year carryover encumbrances.

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Highlights of Non-Departmental Expenditures and Variances

The Contingency Reserve totaled \$35.5 million and remained unspent during the year. As part of the 2017-2018 Adopted Budget, the full Contingency Reserve was rebudgeted and funding of \$500,000 was added (bringing the Reserve to \$36.0 million) 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 2017-2018 Contingency Reserve to \$36.5 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 approximately two and a half weeks in the event of an emergency.

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

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