



# Memorandum

**TO:** HONORABLE MAYOR  
AND CITY COUNCIL

**FROM:** Jim Shannon

**SUBJECT:** SEE BELOW

**DATE:** September 21, 2020

Approved

Date

9/24/2020

**SUBJECT: ADOPTION OF AN ORDINANCE RATIFYING FINAL EXPENDITURES IN VARIOUS APPROPRIATIONS FOR 2019-2020 AND ADOPTION OF THE ASSOCIATED APPROPRIATION ORDINANCE AND FUNDING SOURCES RESOLUTION AMENDMENTS IN 2019-2020**

## **RECOMMENDATION**

- (a) Adopt an ordinance ratifying final 2019-2020 expenditures in various appropriations as detailed in this report.
- (b) Adopt the following 2019-2020 Appropriation Ordinance and Funding Sources Resolution amendments in the Construction Tax and Property Conveyance Tax Fund: Parks Purposes Central Fund:
  - (1) Increase the Construction and Conveyance Tax estimate by \$5,478,216;
  - (2) Increase the Needs-Based Allocation Transfer to District 1 by \$245,271;
  - (3) Increase the Needs-Based Allocation Transfer to District 2 by \$161,401;
  - (4) Increase the Needs-Based Allocation Transfer to District 3 by \$113,621;
  - (5) Increase the Needs-Based Allocation Transfer to District 4 by \$125,469;
  - (6) Increase the Needs-Based Allocation Transfer to District 5 by \$218,838;
  - (7) Increase the Needs-Based Allocation Transfer to District 6 by \$203,610;
  - (8) Increase the Needs-Based Allocation Transfer to District 7 by \$239,184;
  - (9) Increase the Needs-Based Allocation Transfer to District 8 by \$180,009;
  - (10) Increase the Needs-Based Allocation Transfer to District 9 by \$183,937
  - (11) Increase the Needs-Based Allocation Transfer to District 10 by \$110,851;
  - (12) Increase the Transfer to the Parks City-Wide Construction and Conveyance Tax Fund appropriation by \$3,224,093; and
  - (13) Increase the Transfer to the General Fund – Parks Eligible Maintenance Costs appropriation by \$471,932.

- (c) Adopt the following 2019-2020 Appropriation Ordinance amendments in the South Bay Water Recycling Operating Fund:
- (1) Increase the SCVWD – Advanced Water Treatment appropriation by \$2,420,618;
  - (2) Decrease the Personal Services appropriation to the Environmental Services Department by \$700,000; and
  - (3) Decrease the Unrestricted Ending Fund Balance by \$1,720,618.
- (d) Adopt the following 2019-2020 Appropriation Ordinance amendments in the General Fund:
- (1) Increase the Workers’ Compensation Claims – Fire appropriation by \$722,661;
  - (2) Increase the Workers’ Compensation Claims – Police appropriation by \$451,320;
  - (3) Decrease the Workers’ Compensation Claims – Other Departments appropriation by \$518,676;
  - (4) Decrease the Workers’ Compensation Claims – PRNS appropriation by \$179,172;
  - (5) Decrease the Workers’ Compensation Claims – Transportation appropriation by \$102,583;
  - (6) Decrease the Workers’ Compensation Claims – Public Works appropriation by \$71,282;
  - (7) Increase the Personal Services appropriation to the Planning, Building and Code Enforcement Department by \$368,629; and
  - (8) Decrease the Personal Services appropriation to the Parks, Recreation and Neighborhood Services Department by \$670,897.
- (e) Adopt the following 2019-2020 Appropriation Ordinance and Funding Sources Resolution amendments in the Emergency Reserve Fund:
- (1) Decrease the estimate for Revenue from Federal Government by \$5,000,000;
  - (2) Increase the COVID-19 Emergency Response appropriation by \$749,895;
  - (3) Decrease the Transfer to the General Fund appropriation by \$5,404,704; and
  - (4) Decrease the Ending Fund Balance by \$345,191.
- (f) Adopt the following 2019-2020 Appropriation Ordinance and Funding Sources Resolution amendments in the Construction Tax and Property Conveyance Tax Fund: Parks Maintenance Yards Purposes:
- (1) Increase the Construction and Conveyance Tax estimate by \$8,649; and
  - (2) Increase the Transfer to the General Fund – Park Yards Operating and Maintenance Expenses appropriation by \$8,649.
- (g) Adopt the following 2019-2020 Appropriation Ordinance amendments in the Convention Center Facility District Revenue Fund:
- (1) Increase the Debt Service: Special Tax Bonds appropriation by \$538; and
  - (2) Decrease the Unrestricted Ending Fund Balance by \$538.

## **OUTCOME**

The recommended actions account for unanticipated appropriation over-expenditures that occurred at the end of 2019-2020 and allow the final financial accounting for 2019-2020 to be completed.

## **BACKGROUND**

As part of the process of completing the 2019-2020 fiscal year-end audit, final expenditures and encumbrances recorded by the Finance Department have been compared to the budget to determine whether the expenditures were within appropriation levels approved by the City Council. In this report, City Council approval is requested for a small number of appropriation increases necessitated because final 2019-2020 expenditure totals exceeded final modified appropriation levels.

## **ANALYSIS**

As part of the year-end closing process, certain expenses not previously anticipated are recorded and cause appropriations to be exceeded. Under the City's current practice, appropriation increases necessary to fund those expenses require City Council ratification action. The Administration makes every effort to limit the number of instances where after-the-fact ratification of over-expenditures must occur. As has been the practice in the past, year-end budget adjustments were prepared and brought to City Council by the City Manager's Budget Office in June 2020 for the 2019-2020 fiscal year. A number of potential overruns were avoided as a result of the actions taken in that document.

The Administration manages approximately 1,500 appropriations allocated to over 120 City funds. In 2019-2020, appropriations were exceeded in six City funds as described in Attachment A. The total amount of the expenditure overage for the six funds involved is \$10.2 million. A reduction to the budgeted revenue estimate of \$5.0 million and corresponding expenditure adjustments within the Emergency Reserve Fund are also recommended. Impacted appropriations include the following:

- Transfer appropriations in the Construction Tax and Property Conveyance Tax Fund: Parks Purposes Central Fund (\$5,478,216) and the Construction Tax and Property Conveyance Tax Fund: Parks Maintenance Yards Purposes (\$8,649) that allocates excess Construction and Conveyance Tax receipts in accordance with the City Council-approved distribution formula;
- Expenditure appropriations in the South Bay Water Recycling Operating Fund related to the agreement-obligated payment to the Santa Clara Valley Water District for the operation of the Advanced Water Treatment Facility (\$2,420,618);
- Expenditure appropriations in the General Fund related to Workers' Compensation Claims (Police Department and Fire Department) and Personal Services - Planning, Building, and Code Enforcement Department (\$1,542,610);

- In the Emergency Reserve Fund, COVID-19 Emergency Response appropriation related to expenses for food distribution services incurred during 2019-2020 and accrued during fiscal year close processes (\$749,895), and the Transfer to the General fund appropriation that is reduced by \$5.4 million to prevent the fund from ending the year in an overall negative position due to a revenue decrease of \$5.0 million; and
- Expenditure appropriations in the Convention Center Facility District Revenue Fund related to a debt service payment (\$538).

### **CONCLUSION**

At the close of 2019-2020 a small number of appropriations exceeded their budget by year-end. Approval of this memorandum will allow for the ratification of these final 2019-2020 expenditures, which are further described in Attachment A.

### **EVALUATION AND FOLLOW-UP**

The ratification of exceeded appropriations will be incorporated into the City's Comprehensive Annual Financial Report for 2019-2020.

### **CLIMATE SMART SAN JOSE**

The recommendation in this memo has no effect on Climate Smart San José energy, water, or mobility goals.

### **PUBLIC OUTREACH**

This memorandum will be posted on the City's website for the September 28, 2020 City Council Agenda.

### **COORDINATION**

This memorandum was coordinated with the Finance Department.

### **COMMISSION RECOMMENDATION/INPUT**

No commission recommendation or input is associated with this action.

**FISCAL/POLICY ALIGNMENT**


The recommended budget actions align with the City's budget policy that dictates that the City will maintain the fiscal integrity of its operating, debt service, and capital improvement budgets.

**COST SUMMARY/IMPLICATIONS**

As discussed in the memorandum, additional revenue, expenditure savings, or Ending Fund Balance is available to offset the exceeded appropriations for 2019-2020.

**CEQA**


Not a Project, File No. PP17-004, Government Funding Mechanism or Fiscal Activity with no commitment to a specific project which may result in a potentially significant physical impact on the environment.

  
JIM SHANNON  
Budget Director

I hereby certify that there was available for appropriation in the following funds in fiscal year 2019-2020 moneys in excess of those heretofore appropriated therefrom, said excess being at least the amounts as set forth below:

Construction Tax and Property Conveyance Tax Fund: \$5,478,216  
Parks Purposes Central Fund

Construction Tax and Property Conveyance Tax Fund: \$8,649  
Parks Maintenance Yards Purposes

  
JIM SHANNON  
Budget Director

For questions, please contact Jim Shannon, Budget Director, at (408) 535-8142.

Attachment A: 2019-2020 Ratification Descriptions

**2019-2020 RATIFICATION DESCRIPTIONS****Construction Tax and Property Conveyance Tax Fund: Parks Purposes Central Fund** \$5,478,216

As a result of higher than anticipated revenues, a technical adjustment is necessary to account for over-expenditures that occurred in the Transfer appropriations in the Construction and Conveyance Tax Fund – Parks Purposes Central Fund that are allocated for parks and community facilities development. The Construction and Conveyance Tax revenue is received in the Construction and Conveyance Tax Fund – Parks Purposes Central Fund and then distributed to other various Parks-related Construction and Conveyance Tax Funds (i.e., City-Wide and Council District Funds) as well as the General Fund based on the City Council-approved distribution formula. Because Construction and Conveyance Tax Fund revenue ended the year above the estimated level, the transfer appropriations that were used to distribute this revenue to the other funds were also exceeded. Funding allocated for these ratification actions is offset by additional Parks Construction and Conveyance Tax Fund revenue.

**South Bay Water Recycling Operating Fund** \$2,420,618

An adjustment is necessary in the South Bay Water Recycling Operating Fund to account for an over-expenditure in the SCVWD – Advanced Water Treatment appropriation (\$2,420,618). This appropriation ended the year with a negative balance based on the requirement to accrue a substantial annual payment to the Santa Clara Valley Water District (District). The required payment per the agreement with the District is 58% of the difference between operating revenues and expenditures. Originally budgeted at \$1.0 million, the revised expenditure level of \$3.4 million was anticipated as part of the 2019-2020 clean-up actions, but was inadvertently omitted from the published memorandum. The two offsetting adjustments to this over-expenditure are 1) a decrease to the Personal Services appropriation to the Environmental Services Department of \$700,000 and 2) a decrease to the Unrestricted Ending Fund Balance in the South Bay Water Recycling Operating Fund of \$1,720,618.

**General Fund** \$1,542,610

An adjustment is necessary in the General Fund to account for over-expenditures related to three appropriations; Workers' Compensation Claims – Fire (\$722,661), Workers' Compensation Claims – Police (\$451,320), and Personal Services – Planning, Building and Code Enforcement (\$368,629).

Expenditures for Workers' Compensation claims exceeded projected levels due to technical issues, whereby a portion of the expenditures submitted by the City's third-party administrator were not initially processed, which was not discovered until fiscal year close. The Personal Services – Planning, Building and Code Enforcement appropriation ended the year with a negative balance due to a larger than anticipated amount of personal services costs in the General Fund resulting from the COVID-19 pandemic, including administrative leave that cannot be paid by the Development Fee Program. The offsetting adjustment to these over-expenditures is a decrease to other Workers' Compensation Claims appropriation in the General Fund by a combined \$871,713 and a decrease to the Personal

**2019-2020 RATIFICATION DESCRIPTIONS**

Services – Parks, Recreation and Neighborhood Services Department appropriation by \$670,897.

**Emergency Reserve Fund**

\$749,895

Adjustments are necessary in the Emergency Reserve Fund to account for an over-expenditure in the COVID-19 Emergency Response appropriation (\$749,895) and to account for reduced revenues that were otherwise anticipated to be received from the Federal Emergency Management Agency (FEMA). The COVID-19 Emergency Response appropriation, which was budgeted at \$6.0 million, ended the year with a negative balance due to higher than anticipated expenditures for FEMA-eligible food distribution services completed during 2019-2020 and accrued to properly attribute the expenses based on the dates incurred. Revenue from FEMA of \$5.0 million was previously anticipated in 2019-2020 for expedited applications for personal protective equipment and eligible food distribution activities, but now will not be received until 2020-2021.

To prevent the fund from ending the year in an overall negative position due to the revenue decrease of \$5.0 million and the over-expenditure of \$749,895, the ratification actions include decreasing the Transfer to the General Fund, which originally seeded the Emergency Reserve Fund with resources to respond to the COVID-19 pandemic, by \$5.4 million and decreasing the Ending Fund Balance by \$345,191.

**Construction Tax and Property Conveyance Tax Fund: Parks Maintenance Yards**

\$8,649

**Purposes**

As a result of higher than anticipated revenues, a technical adjustment is necessary to account for the over-expenditure that occurred in the Transfer appropriation in the Construction and Conveyance Tax Fund – Parks Maintenance Yards Fund. Based on the City Council-approved distribution formula, a total of 15% of the revenue received in the Construction and Conveyance Tax Fund – Parks Maintenance Yards Fund is transferred to the General Fund for park maintenance operating and maintenance costs. Because Construction and Conveyance Tax Fund revenue ended the year above the estimated level, the transfer appropriation that was used to distribute this revenue to the General Fund was also exceeded. The funding allocated for the ratification action is offset by the additional Construction and Conveyance Tax Fund revenue.

**Convention Center Facility District Revenue Fund**

\$538

An adjustment is necessary in the Convention Center Facility District Revenue Fund to account for an over-expenditure in the Debt Service: Special Tax Bonds appropriation (\$538). This appropriation, which was budgeted at \$8.2 million, ended the year with a negative balance based on the final debt service trustee reconciliation for 2019-2020. The offsetting adjustment to this over-expenditure is a decrease to the Unrestricted Ending Fund Balance in the Convention Center Facility District Revenue Fund.

**TOTAL****\$10,200,526**