



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Jim Shannon

SUBJECT: SEE BELOW

DATE: September 14, 2021

Approved

Date

9/17/2021

SUBJECT: ADOPTION OF AN ORDINANCE RATIFYING FINAL EXPENDITURES IN VARIOUS APPROPRIATIONS FOR 2020-2021 AND ADOPTION OF THE ASSOCIATED APPROPRIATION ORDINANCE AND FUNDING SOURCES RESOLUTION AMENDMENTS IN 2020-2021

RECOMMENDATION

- (a) Adopt an ordinance ratifying final 2020-2021 expenditures in various appropriations as detailed in this report.
- (b) Adopt the following 2020-2021 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 \$8,402,134;
 - (2) Increase the Needs-Based Allocation Transfer to District 1 by \$697,964;
 - (3) Increase the Needs-Based Allocation Transfer to District 2 by \$317,548;
 - (4) Increase the Needs-Based Allocation Transfer to District 3 by \$288,942;
 - (5) Increase the Needs-Based Allocation Transfer to District 4 by \$236,387;
 - (6) Increase the Needs-Based Allocation Transfer to District 5 by \$731,115;
 - (7) Increase the Needs-Based Allocation Transfer to District 6 by \$657,715;
 - (8) Increase the Needs-Based Allocation Transfer to District 7 by \$649,290;
 - (9) Increase the Needs-Based Allocation Transfer to District 8 by \$463,018;
 - (10) Increase the Needs-Based Allocation Transfer to District 9 by \$505,483
 - (11) Increase the Needs-Based Allocation Transfer to District 10 by \$212,549;
 - (12) Increase the Transfer to the Parks City-Wide Construction and Conveyance Tax Fund appropriation by \$2,381,503; and
 - (13) Increase the Transfer to the General Fund – Parks Eligible Maintenance Costs appropriation by \$1,260,620.

- (c) Adopt the following 2020-2021 Appropriation Ordinance and Funding Sources Resolution amendments in the Water Utility Fund:
- (1) Increase the Non-Personal/Equipment appropriation to the Environmental Services Department by \$942,422;
 - (2) Increase the Fees, Rates, and Charges estimate by \$549,628; and
 - (3) Decrease the Unrestricted Ending Fund Balance by \$392,794.
- (d) Adopt the following 2020-2021 Appropriation Ordinance and Funding Sources Resolution amendments in the General Fund:
- (1) Increase the Revenue from the State of California estimate by \$631,901;
 - (2) Increase the Personal Services appropriation to the Fire Department by \$648,168;
 - (3) Increase the Personal Services appropriation to the Independent Police Auditor by \$41,498;
 - (4) Decrease the Personal Services appropriation to the Information Technology Department by \$57,765;
 - (5) Increase the Workers' Compensation Claims – Fire appropriation by \$99,093;
 - (6) Decrease the Workers' Compensation Claims – Police appropriation by \$99,093;
 - (7) Increase the Workers' Compensation Claims – PRNS appropriation by \$17,924;
 - (8) Decrease the Workers' Compensation Claims – Other Departments appropriation by \$17,924;
 - (9) Increase the PEG - CreaTV appropriation by \$5,771; and
 - (10) Decrease the City Dues/Memberships appropriation by \$5,771.
- (e) Adopt the following 2020-2021 Appropriation Ordinance and Funding Sources Resolution amendments in the 1943 Gas Tax Maintenance and Construction Fund:
- (1) Increase the Gas Tax estimate by \$752,178; and
 - (2) Increase the Transfer to the General Fund for Street Maintenance by \$752,178.
- (f) Adopt the following 2020-2021 Appropriation Ordinance and Funding Sources Resolution amendments in the 1990 Gas Tax Maintenance and Construction Fund:
- (1) Increase the Gas Tax estimate by \$218,068; and
 - (2) Increase the Transfer to the General Fund for Street Maintenance by \$218,068.
- (g) Adopt the following 2020-2021 Appropriation Ordinance and Funding Sources Resolution amendments in the South Bay Water Recycling Operating Fund:
- (1) Increase the SCVWD – Advanced Water Treatment appropriation by \$196,433;
 - (2) Increase the Fees, Rates, and Charges estimate by \$162,433 and
 - (3) Decrease the Non-Personal/Equipment appropriation to the Environmental Services Department by \$34,000.
- (h) Adopt the following 2020-2021 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 \$23,637; and
 - (2) Increase the Transfer to the General Fund – Park Yards Operating and Maintenance Expenses appropriation by \$23,637.

- (i) Adopt the following 2020-2021 Appropriation Ordinance amendments in the Housing Trust Fund:
 - (1) Increase the Overhead appropriation by \$1,554; and
 - (2) Decrease the Unrestricted Ending Fund Balance by \$1,554.

- (j) Adopt the following 2020-2021 Appropriation Ordinance amendments in the Sewer Service and Use Charge Fund:
 - (1) Increase the Workers' Compensation Claims appropriation to the Human Resources Department by \$558; and
 - (2) Decrease the Unrestricted Ending Fund Balance by \$558.

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 2020-2021 to be completed.

BACKGROUND

As part of the process of completing the 2020-2021 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 2020-2021 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 2021 for the 2020-2021 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 130 City funds. In 2020-2021, appropriations were exceeded in nine City funds as described in Attachment A. The total amount for the nine funds involved is \$11.3 million. This amount is primarily driven by higher than anticipated revenues of \$9.4 million generated from Construction and Conveyance Tax collections (\$8.4 million) and State Gas Tax proceeds (\$970,000) that are required to be transferred to various Construction and Conveyance Tax Funds and the General Fund, respectively. The exceeded appropriations are listed below.

- Transfer appropriations in the Construction Tax and Property Conveyance Tax Fund: Parks Purposes Central Fund (\$8,402,134) and the Construction Tax and Property Conveyance Tax Fund: Parks Maintenance Yards Purposes (\$23,637) that allocates excess Construction and Conveyance Tax receipts in accordance with the City Council-approved distribution formula;
- Expenditure appropriations in the Water Utility Fund related to a Non-Personal/Equipment appropriation for the Environmental Services Department (\$942,422);
- Expenditure appropriations in the General Fund related to Personal Services appropriations (Fire Department and Independent Police Auditor), Workers' Compensation Claims (Fire Department and Parks, Recreation and Neighborhood Services Department), and the PEG – CreaTV appropriation (\$812,454);
- Transfer appropriations in the 1943 Gas Tax Maintenance and Construction Fund (\$752,178) and the 1990 Gas Tax Maintenance and Construction Fund (\$218,068);
- 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 (\$196,433);
- Expenditure appropriations in the Housing Trust Fund related to overhead reimbursements (\$1,554); and
- Expenditure appropriations in the Sewer Service and Use Charge Fund related Workers' Compensation Claims for the Human Resources Department (\$558).

CONCLUSION

At the close of 2020-2021 a small number of appropriations exceeded their budget by year-end. Approval of this memorandum will allow for the ratification of these final 2020-2021 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 2020-2021.

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, 2021 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

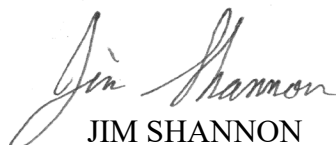
The recommended budget actions align with the City's budget policy that dictates that the City will maintain the fiscal integrity of its operating, debt service, and capital improvement budgets.

COST SUMMARY/IMPLICATIONS

As discussed in the memorandum, additional revenue, expenditure savings, or Ending Fund Balance is available to offset the exceeded appropriations for 2020-2021.

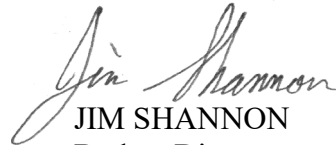
CEQA

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 2020-2021 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: Parks Purposes Central Fund	\$8,402,134
Water Utility Fund	\$549,628
General Fund	\$631,901
1943 Gas Tax Maintenance and Construction Fund	\$752,178
1990 Gas Tax Maintenance and Construction Fund	\$218,068
South Bay Water Recycling Fund	\$162,433
Construction Tax and Property Conveyance Tax Fund: Parks Maintenance Yards Purposes	\$23,637


JIM SHANNON
Budget Director

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

Attachment A: 2020-2021 Ratification Descriptions

2020-2021 RATIFICATION DESCRIPTIONS**Construction Tax and Property Conveyance Tax Fund: Parks Purposes Central Fund** \$8,402,134

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 is 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.

Water Utility Fund \$942,422

An adjustment is necessary in the Water Utility Operating Fund to account for an over-expenditure in the Non-Personal/Equipment appropriation (\$942,422) due to an increase in water consumption by Municipal Water System (MWS) customers in Quarter 4 of the fiscal year. This appropriation, which was budgeted at \$37.2 million, ended the year with a negative balance based on the requirement to accrue a substantial payment to MWS wholesalers for the purchase of wholesale water driven by increased customer consumption. The two recommended offsetting adjustments to this over-expenditure are an increase to the estimate for Fees, Rates, and Charges of \$549,628 and a decrease to the Unrestricted Ending Fund Balance in the Water Utility Operating Fund of \$392,794.

General Fund \$812,454

An adjustment is necessary in the General Fund to account for over-expenditures related to five appropriations; Personal Services – Fire Department (\$648,168), Workers' Compensation Claims – Fire (\$99,093), Personal Services – Independent Police Auditor (\$41,498), Workers' Compensation Claims – PRNS (\$17,924), and PEG-CreaTV (\$5,771).

The Personal Services – Fire Department ended the year above budgeted levels due to under-collected retirement costs throughout the year for Fire Tier 1 employees, which amounted to approximately \$1.1 million in additional charges incurred at the end of the fiscal year and resulted in a total over-expenditure of \$648,168. The offsetting adjustments to the over-expenditure include a recognition of additional revenue from the State of California Office of Emergency Services in the amount of \$631,901 to reimburse the City for Fire Department Strike Team deployment under the California Fire Assistance Agreement. Recognition of this revenue brings the total Strike Team reimbursement for 2020-2021 to \$5.4 million. The remaining overage of \$16,267

2020-2021 RATIFICATION DESCRIPTIONS

is offset by a decrease to the Personal Services – Information Technology Department appropriation.

Expenditures for Workers’ Compensation claims in the Fire Department and the Parks, Recreation and Neighborhood Services Department exceeded projected levels due to one-time settlements to close out old claims and existing claims with medical costs. The offsetting adjustment to these over-expenditures is a decrease to other Workers’ Compensation Claims appropriations in the General Fund.

The Personal Services – Independent Police Auditor ended the year above budgeted levels due to higher than expected salary and benefits costs in the appropriation. The offsetting adjustment to the over-expenditure is a decrease to the Personal Services – Information Technology Department appropriation.

The PEG-CreaTV appropriation ended the year above budgeted levels due to an agreement with San Jose Community Media Access Corporation stating if 3% of franchise revenue is greater than \$240,000 the City must remit the difference to CreaTV by the end of the fiscal year. At the end of the fiscal year, the City owed CreaTV \$248,771; however, only \$243,000 was budgeted therefore causing an exceeded appropriation by \$5,771. The offsetting adjustment to the over-expenditure is a decrease to the City Dues/Memberships appropriation.

1943 Gas Tax Maintenance and Construction Fund

\$752,178

As a result of higher than anticipated revenues, a technical adjustment is necessary to account for the over-expenditures that occurred in the Transfer to the General Fund for Street Maintenance appropriation in the 1943 Gas Tax Maintenance and Construction Fund. Expenditures are to be used exclusively for the acquisition of real property or the construction, maintenance, or improvement of streets or highways, other than state highways. Through City Council resolution, the transfer of funds to the General Fund reimburses expenditures related to projects qualified to use special gas tax improvement funds such as traffic signal maintenance, street lighting maintenance, and signs and marking maintenance. The funding allocated for the ratification action is offset by the additional Gas Tax revenue from the State of California under the provisions of the Street and Highways code.

1990 Gas Tax Maintenance and Construction Fund

\$218,068

As a result of higher than anticipated revenues, a technical adjustment is necessary to account for the over-expenditures that occurred in the Transfer to the General Fund for Street Maintenance appropriation in the 1990 Gas Tax Maintenance and Construction Fund. Expenditures are to be used exclusively for the acquisition of real property or the construction, maintenance, or improvement of streets or highways, other than state highways. Through City Council resolution, the transfer of funds to the General Fund reimburses expenditures related to projects qualified to use special gas tax improvement funds such as traffic signal maintenance, street lighting maintenance, and signs and marking maintenance.

2020-2021 RATIFICATION DESCRIPTIONS

The funding allocated for the ratification action is offset by the additional Gas Tax revenue from the State of California under the provisions of the Street and Highways code.

South Bay Water Recycling Operating Fund

\$196,433

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 (\$196,433). This appropriation, which was budgeted at \$3.7 million, ended the year with a negative balance based on the requirement to accrue a larger annual payment to Valley Water (formerly the Santa Clara Valley Water District) than previously anticipated. This larger payment was due to both an increase in recycled water sales revenue and lower expenditures on infrastructure maintenance of the South Bay Water Recycling system within the Environmental Services Department’s Non-Personal/Equipment appropriation. Since the annual payment to Valley Water is related to both recycled water sales and operating expenditures at the facility, the higher revenue and lower level of expenditures results in a higher payment to Valley Water. The over-expenditure is offset by an increase to the estimate for Fees, Rates and Charges of \$162,433 and a decrease to the Environmental Services Department’s Non-Personal/Equipment appropriation of \$34,000.

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

\$23,637

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.

Housing Trust Fund

\$1,554

The Overhead appropriation in the Housing Trust Fund was slightly over-expended due to a higher level of personal services expenditures than assumed when the overhead budget was initially calculated. The adjustment to increase the appropriation to align with expenditures is offset by a corresponding reduction to the Unrestricted Ending Fund Balance.

2020-2021 RATIFICATION DESCRIPTIONS**Sewer Service and Use Charge Fund**

\$558

Expenditures for Workers' Compensation claims appropriation in the Sewer Service and Use Charge Fund slightly exceeded projected levels due to one-time settlements to close out old claims and existing claims with medical costs. The offsetting adjustment to these over-expenditures is a decrease to the Unrestricted Ending Fund balance.

TOTAL \$11,349,438