



# Memorandum

**TO:** HONORABLE MAYOR AND  
CITY COUNCIL

**FROM:** Margaret McCahan

**SUBJECT:** SEE BELOW

**DATE:** September 21, 2018

Approved

Date

9-21-2018

**SUBJECT: ADOPTION OF AN ORDINANCE RATIFYING FINAL EXPENDITURES IN VARIOUS APPROPRIATIONS FOR 2017-2018 AND ADOPTION OF THE ASSOCIATED APPROPRIATION ORDINANCE AND FUNDING SOURCES RESOLUTION AMENDMENTS IN 2017-2018**

## RECOMMENDATION

- (a) Adopt an ordinance ratifying final 2017-2018 expenditures in various appropriations as detailed in this report.
- (b) Adopt the following 2017-2018 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 \$3,897,021;
  - (2) Increase the Needs-Based Allocation Transfer to District 1 by \$295,409;
  - (3) Increase the Needs-Based Allocation Transfer to District 2 by \$192,246;
  - (4) Increase the Needs-Based Allocation Transfer to District 3 by \$147,111;
  - (5) Increase the Needs-Based Allocation Transfer to District 4 by \$143,395;
  - (6) Increase the Needs-Based Allocation Transfer to District 5 by \$276,778;
  - (7) Increase the Needs-Based Allocation Transfer to District 6 by \$264,374;
  - (8) Increase the Needs-Based Allocation Transfer to District 7 by \$309,509;
  - (9) Increase the Needs-Based Allocation Transfer to District 8 by \$212,945;
  - (10) Increase the Needs-Based Allocation Transfer to District 9 by \$231,575;
  - (11) Increase the Needs-Based Allocation Transfer to District 10 by \$132,570;
  - (12) Increase the Transfer to the Parks City-Wide Construction and Conveyance Tax Fund appropriation by \$1,102,956; and
  - (13) Increase the Transfer to the General Fund – Parks Eligible Maintenance Costs appropriation by \$588,153.

- (c) Adopt the following 2017-2018 Appropriation Ordinance amendments in the General Fund:
- (1) Increase the Workers' Compensation Claims – Other Departments appropriation by \$501,309;
  - (2) Increase the Workers' Compensation Claims – Police appropriation by \$199,265;
  - (3) Increase the Energy Services Company (ESCO) Debt Service appropriation by \$28,855;
  - (4) Decrease the Workers' Compensation Claims – Fire appropriation by \$206,000;
  - (5) Decrease the Workers' Compensation Claims – PRNS appropriation by \$50,000; and
  - (6) Decrease the Sick Leave Payment Upon Retirement appropriation by \$473,429.
- (d) Adopt the following 2017-2018 Appropriation Ordinance amendments in the Water Utility Fund:
- (1) Increase the Workers' Compensation Claims appropriation by \$84,424; and
  - (2) Decrease the Unrestricted Ending Fund Balance by \$84,424.
- (e) Adopt the following 2017-2018 Appropriation Ordinance amendments in the Convention Center Facility District Revenue Fund:
- (1) Increase the Debt Service: Exhibit Hall Commercial Paper appropriation by \$53,248;
  - (2) Increase the Debt Service: Commercial Paper appropriation by \$17,239; and
  - (3) Decrease the Unrestricted Ending Fund Balance by \$70,487.
- (f) Adopt the following 2017-2018 Appropriation Ordinance amendments in the Construction Tax and Property Conveyance Tax Fund: Service Yards Purpose:
- (1) Increase the Phase II Commercial Paper appropriation by \$21,842; and
  - (2) Decrease the Unrestricted Ending Fund Balance by \$21,842.
- (g) Adopt the following 2017-2018 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 \$10,628; and
  - (2) Increase the Transfer to the General Fund – Park Yards Operating and Maintenance Expenses appropriation by \$10,628.

## **OUTCOME**

The recommended actions account for unanticipated appropriation over-expenditures that occurred at the end of 2017-2018 and allow the final financial accounting for 2017-2018 to be completed.

## **BACKGROUND**

As part of the process of completing the 2017-2018 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 2017-2018 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 2018 for the 2017-2018 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 100 City funds. In 2017-2018, appropriations were exceeded in six City funds as described in Attachment A. The total amount for the six funds involved is \$4.8 million and includes the following:

- Transfer appropriations in the Construction Tax and Property Conveyance Tax Fund: Parks Purposes Central Fund (\$3,897,021);
- Expenditure appropriations in the General Fund (\$729,429);
- Expenditure appropriation in the Water Utility Fund (\$84,424);
- Expenditure appropriations in the Convention Center Facility District Revenue Fund (\$70,487);
- Expenditure appropriation in the Construction Tax and Property Conveyance Tax Fund: Service yards Purpose (\$21,842); and
- Transfer appropriation in the Construction Tax and Property Conveyance Tax Fund: Parks Maintenance Yards Purposes (\$10,628).

## **EVALUATION AND FOLLOW-UP**

The ratification of exceeded appropriations will be incorporated into the City's Comprehensive Annual Financial Report for 2017-2018.

**PUBLIC OUTREACH**

This memorandum will be posted on the City's website for the October 2, 2018, City Council Agenda.

**COORDINATION**

This memorandum was coordinated with the Finance Department.

**COMMISSION RECOMMENDATION/INPUT**

This memorandum does not have any board or commission input.

**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 2017-2018.

**CEQA**

Not a Project, File No. PP10-067 (b), Appropriation Ordinance.

  
MARGARET MCCAHAN  
Budget Director

For questions, please contact Margaret McCahan, Budget Director, at (408) 535-8142.

Attachment A: 2017-2018 Ratification Descriptions

HONORABLE MAYOR AND CITY COUNCIL

September 21, 2018

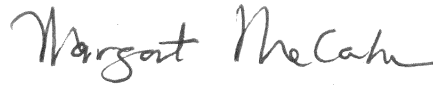
**Subject: Ratification of Final 2017-2018 Expenditures in Various Appropriations**

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I hereby certify that there was available for appropriation in the following funds in fiscal year 2017-2018 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:	\$3,897,021
Parks Purposes Central Fund	

Construction Tax and Property Conveyance Tax Fund:	\$10,628
Parks Maintenance Yards Purposes	



MARGARET MCCAHAN

Budget Director

**2017-2018 RATIFICATION DESCRIPTIONS****Construction Tax and Property Conveyance Tax Fund: Parks Purposes Central Fund** \$3,897,021

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.

**General Fund** \$729,429

Adjustments are necessary in the General Fund to account for over-expenditures in three appropriations, including the Workers' Compensation Claims – Other Departments appropriation (\$501,309), Workers' Compensation Claims – Police appropriation (\$199,265) and the Energy Services Company (ESCO) Debt Service appropriation (\$28,855). The workers' compensation claims overages reflect the close out of cases and actual year-end performance, which can be difficult to project. These overages are partially offset by savings in the Workers' Compensation – Fire (\$206,000) and the Workers' Compensation – PRNS (\$50,000) appropriations. In addition, the ESCO Debt Service appropriation of \$2.9 million was slightly exceeded based on the final accounting of the ESCO debt costs for 2017-2018. The remaining negative balance of \$473,429 is recommended to be offset with a decrease to the Sick Leave Payments Upon Retirement appropriation, which ended the year with a positive balance.

**Water Utility Fund** \$84,424

An adjustment is necessary in the Water Utility Fund to account for an over-expenditure in the Workers' Compensation Claims appropriation. Higher activity in June 2018 resulted in this overage. The offsetting adjustment to the expenditure increase is a decrease to the Unrestricted Ending Fund Balance in the Water Utility Fund.

**2017-2018 RATIFICATION DESCRIPTIONS****Convention Center Facility District Revenue Fund**

\$70,487

An adjustment is necessary in the Convention Center Facility District Revenue Fund to account for an over-expenditure in the Debt Service: Exhibit Hall Commercial Paper appropriation (\$53,248) and Debt Service: Commercial Paper appropriation (\$17,239). These appropriations, which were budgeted at \$2.5 million and \$1.4 million, ended the year with negative balances based on the final accounting of debt costs for 2017-2018. The offsetting adjustment to the expenditure increases is a decrease to the Unrestricted Ending Fund Balance in the Convention Center Facility District Revenue Fund.

**Construction Tax and Property Conveyance Tax Fund: Service Yards Purpose**

\$21,842

An adjustment is necessary in the Construction Tax and Property Conveyance Tax Fund: Service Yards Purpose Fund to account for an over-expenditure in the Phase II Commercial Paper appropriation. The \$0.9 million appropriation was slightly exceeded based on the final accounting of the debt costs for 2017-2018. The offsetting adjustment to the expenditure increase is a decrease to the Unrestricted Ending Fund Balance in the Service Yards Construction and Conveyance Tax Fund.

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

\$10,628

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.

**TOTAL****\$4,813,831**