



# Memorandum

**TO:** HONORABLE MAYOR  
AND CITY COUNCIL

**FROM:** Toni J. Taber, CMC  
City Clerk

**SUBJECT:** BUDGET IN TRANSITION YEARS

**DATE:** March 2, 2018

This memo is being brought forward in response to the memorandum submitted by Councilmember Rocha regarding Council budgets in transition years (attached).

Prior to 2014, the Council District base budget was split 50/50 with any rebudget amounts staying with the outgoing Councilmember. Additionally, Councilmember salary and benefits, the Council Administrative Assistant salary and benefits, and other staff benefits were charged to Council General and not to the individual districts, which lowered the amount budgeted per District.

In 2011-2012, a year in which there was an election for Districts 2, 4, 6, 8, and 10, the base budget for Council was \$262,000 with an additional \$10,000 for constituent outreach. During the transition year, the Office of the City Clerk divided the combined base budget of \$272,000 and prepared two budget spreadsheets, one for the outgoing Councilmember and one for the incoming. The incoming Councilmember had \$141,000 to spend for the first half of their first year. Meanwhile the outgoing Councilmember had their full rebudget to use towards salaries, grants, and approved purchases.

The Council budgets for 2011-12 are below.

|             | TOTAL         | Outgoing CM   | Incoming CM   |
|-------------|---------------|---------------|---------------|
| District 1  | \$ 242,576.00 |               |               |
| District 2  | \$ 327,595.00 | \$ 186,595.00 | \$ 141,000.00 |
| District 3  | \$ 308,821.00 |               |               |
| District 4  | \$ 331,426.00 | \$ 190,426.00 | \$ 141,000.00 |
| District 5  | \$ 348,140.00 |               |               |
| District 6  | \$ 326,211.00 | \$ 185,211.00 | \$ 141,000.00 |
| District 7  | \$ 356,746.00 |               |               |
| District 8  | \$ 280,851.00 | \$ 139,851.00 | \$ 141,000.00 |
| District 9  | \$ 331,397.00 |               |               |
| District 10 | \$ 350,957.00 | \$ 209,957.00 | \$ 141,000.00 |

The next transition year was 2014-2015 in which there was an election for Districts 1, 3, 5, 7, 9, and the Mayor. In this case, Council General was reduced with each Council District receiving a larger amount to pay for Councilmember salaries and benefits, administrative assistant salary and

## HONORABLE MAYOR AND CITY COUNCIL

March 2, 2018

**Subject: Transition Year Budgets**

Page 2 of 5

benefits and other benefits previously paid by Council General. The base budget was \$701,634 per Council district plus any rebudget. The actual amounts received are below:

| FY 2014-15  | TOTAL         | Outgoing CM   | Incoming CM   |
|-------------|---------------|---------------|---------------|
| District 1  | \$ 750,966.00 | \$ 375,483.00 | \$ 375,483.00 |
| District 2  | \$ 757,446.00 |               |               |
| District 3  | \$ 704,732.00 | \$ 352,366.00 | \$ 352,366.00 |
| District 4  | \$ 710,949.00 |               |               |
| District 5  | \$ 731,949.00 | \$ 365,974.00 | \$ 365,975.00 |
| District 6  | \$ 773,623.00 |               |               |
| District 7  | \$ 759,949.00 | \$ 379,974.00 | \$ 379,975.00 |
| District 8  | \$ 777,497.00 |               |               |
| District 9  | \$ 859,420.00 | \$ 429,710.00 | \$ 429,710.00 |
| District 10 | \$ 780,983.00 |               |               |

The second election year after the new Transition Year policy was FY 2016-17. The base budget was \$721,420 per Council district plus any rebudget. The actual amounts received are below:

| FY 2016-17  | TOTAL          | Outgoing CM  | Incoming CM  |
|-------------|----------------|--------------|--------------|
| District 1  | \$844,920.00   |              |              |
| District 2  | \$855,420.00   | \$427,710.00 | \$427,710.00 |
| District 3  | \$816,620.00   |              |              |
| District 4  | \$877,020.00   | \$438,510.00 | \$438,510.00 |
| District 5  | \$981,720.00   |              |              |
| District 6  | \$764,420.00   | \$382,210.00 | \$382,210.00 |
| District 7  | \$761,420.00   |              |              |
| District 8  | \$900,420.00   | \$450,210.00 | \$450,210.00 |
| District 9  | \$1,035,920.00 |              |              |
| District 10 | \$767,420.00   |              |              |

If we apply Councilmember's Rocha's formula to 2016, (base budget/2, enough rebudget added to Incoming CM budget to cover any potential vacation payouts, and with remaining rebudget added to outgoing Councilmember budget) we would get the following budget numbers. It's important to note that in our current budget projections, we project a 75% payout of vacation pay, instead of 100%, as approximately 25% of the employees may move to another District or City Department or be retained by the incoming Councilmember, so there would be no payout. The numbers below project 100% of vacation payout to account for outstanding P-card and other purchases.

## HONORABLE MAYOR AND CITY COUNCIL

March 2, 2018

**Subject: Transition Year Budgets**

Page 3 of 5

| 2016-17<br>Rocha | Base Budget  | Rebudget     | Vacation<br>Payout | Outgoing<br>CM | Incoming<br>CM |
|------------------|--------------|--------------|--------------------|----------------|----------------|
| District 1       | \$721,420.00 | \$123,500.00 | \$12,346.16        | \$471,863.84   | \$373,056.16   |
| District 2       | \$721,420.00 | \$134,000.00 | \$21,169.95        | \$473,540.05   | \$381,879.95   |
| District 3       | \$721,420.00 | \$95,200.00  | \$22,704.47        | \$433,205.53   | \$383,414.47   |
| District 4       | \$721,420.00 | \$155,600.00 | \$10,908.23        | \$505,401.77   | \$371,618.23   |
| District 5       | \$721,420.00 | \$260,300.00 | \$11,251.91        | \$609,758.09   | \$371,961.91   |
| District 6       | \$721,420.00 | \$43,000.00  | \$7,241.74         | \$396,468.26   | \$367,951.74   |
| District 7       | \$721,420.00 | \$40,000.00  | \$24,795.68        | \$375,914.32   | \$385,505.68   |
| District 8       | \$721,420.00 | \$179,000.00 | \$13,967.38        | \$525,742.62   | \$374,677.38   |
| District 9       | \$721,420.00 | \$314,500.00 | \$16,974.10        | \$658,235.90   | \$377,684.10   |
| District 10      | \$721,420.00 | \$46,000.00  | \$24,031.79        | \$382,678.21   | \$384,741.79   |

If we apply Mayor Liccardo's Formula to 2016, we would get the following budget numbers. The formula proposed by Mayor Liccardo is  $\text{Base Budget}/2 + (\text{Rebudget}-\text{Vacation Payout})/2$  for Outgoing Councilmembers and  $\text{Base Budget}/2 + \text{Vacation Payout} + (\text{Rebudget}-\text{Vacation Payout})/2$ .

| 2016-17<br>Liccardo | Base Budget  | Rebudget     | Vacation<br>Payout | Outgoing<br>CM | Incoming<br>CM |
|---------------------|--------------|--------------|--------------------|----------------|----------------|
| District 1          | \$721,420.00 | \$123,500.00 | \$12,346.16        | \$416,286.92   | \$428,633.08   |
| District 2          | \$721,420.00 | \$134,000.00 | \$21,169.95        | \$417,125.03   | \$438,294.98   |
| District 3          | \$721,420.00 | \$95,200.00  | \$22,704.47        | \$396,957.77   | \$419,662.24   |
| District 4          | \$721,420.00 | \$155,600.00 | \$10,908.23        | \$433,055.89   | \$443,964.12   |
| District 5          | \$721,420.00 | \$260,300.00 | \$11,251.91        | \$485,234.05   | \$496,485.96   |
| District 6          | \$721,420.00 | \$43,000.00  | \$7,241.74         | \$378,589.13   | \$385,830.87   |
| District 7          | \$721,420.00 | \$40,000.00  | \$24,795.68        | \$368,312.16   | \$393,107.84   |

|             |              |              |             |              |              |
|-------------|--------------|--------------|-------------|--------------|--------------|
| District 8  | \$721,420.00 | \$179,000.00 | \$13,967.38 | \$443,226.31 | \$457,193.69 |
| District 9  | \$721,420.00 | \$314,500.00 | \$16,974.10 | \$509,472.95 | \$526,447.05 |
| District 10 | \$721,420.00 | \$46,000.00  | \$24,031.79 | \$371,694.11 | \$395,725.90 |

To illustrate the overall effect on the Council Districts between the three methods, see the numbers below:

| 2016-17<br>Method<br>Comparison | Current Method |              | Rocha Method |              | Liccardo Method |              |
|---------------------------------|----------------|--------------|--------------|--------------|-----------------|--------------|
|                                 | Outgoing       | Incoming     | Outgoing     | Incoming     | Outgoing        | Incoming     |
| District 1                      | \$422,460.00   | \$422,460.00 | \$471,863.84 | \$373,056.16 | \$416,286.92    | \$428,633.08 |
| District 2                      | \$427,710.00   | \$427,710.00 | \$473,540.05 | \$381,879.95 | \$417,125.03    | \$438,294.98 |
| District 3                      | \$408,310.00   | \$408,310.00 | \$433,205.53 | \$383,414.47 | \$396,957.77    | \$419,662.24 |
| District 4                      | \$438,510.00   | \$438,510.00 | \$505,401.77 | \$371,618.23 | \$433,055.89    | \$443,964.12 |
| District 5                      | \$490,860.00   | \$490,860.00 | \$609,758.09 | \$371,961.91 | \$485,234.05    | \$496,485.96 |
| District 6                      | \$382,210.00   | \$382,210.00 | \$396,468.26 | \$367,951.74 | \$378,589.13    | \$385,830.87 |
| District 7                      | \$380,710.00   | \$380,710.00 | \$375,914.32 | \$385,505.68 | \$368,312.16    | \$393,107.84 |
| District 8                      | \$450,210.00   | \$450,210.00 | \$525,742.62 | \$374,677.38 | \$443,226.31    | \$457,193.69 |
| District 9                      | \$517,960.00   | \$517,960.00 | \$658,235.90 | \$377,684.10 | \$509,472.95    | \$526,447.05 |
| District 10                     | \$383,710.00   | \$383,710.00 | \$382,678.21 | \$384,741.79 | \$371,694.11    | \$395,725.90 |

It is important to understand that the vacation payouts are our best estimates. Vacation hours used or not used can alter the projection.

The Office of the City Clerk has reviewed the three methods and determined that the impact to staff could be significant for both proposed methods. We would need to project out the vacation payouts in March of the outgoing year for the proposed budget hearings in May, which may not be very accurate if people are hired from other City departments or districts during the ensuing year. The most significant impact would be determined if the expenditures are charged to two separate appropriations or if only one appropriation is used to record actual expenditures for each District. If the actual expenditures are charged to two separate appropriations, City Clerk staff would need to spend several hours changing the accounting structure in the City's financial


March 2, 2018

**Subject: Transition Year Budgets**

Page 5 of 5

management system for every accounting item (non-personnel categories as well as personnel) at the mid year (December). In 2014-15, this transition took about 80 hours of staff time to change the accounting codes between the separate appropriations. In 2016-2017, separate appropriations were established in the Adopted Budget (the regular Council District appropriation and a January – June appropriation). However, in January 2017, the funds appropriated for the incoming Councilmembers were shifted to the regular Council District appropriations. This approach accomplished two goals: the outgoing Councilmembers did not have access to funds allocated for the incoming Councilmembers through December, and the existing accounting codes used in the City's financial management system could still be used for the District, which saved significant staff time. Another option would be to have a single appropriation for each District and the City Clerk's Office would track the expenditures between the outgoing and incoming Councilmembers.

After reviewing the data, the Office of the City Clerk has not seen significant instances of overspending by outgoing Councilmembers. In addition to meeting with the incoming councilmembers in December, to review their beginning budget and transitional needs, the Clerk proposes meeting again with incoming Councilmembers in March of their first year to do a thorough review of their budget so they can see what expenses may have hit the budgets after January and how rebudgets may have covered those expenses. These expenses may include vacation payout, final compensation of separated employees, outstanding p-card charges, grants, outstanding invoices and inter-department charges. The Office of the City Clerk would also welcome sitting down with current Councilmembers to review their budgets from the same time period.

A handwritten signature in black ink, appearing to read "Toni J. Taber", with a long horizontal flourish extending to the right.

Toni J. Taber, CMC  
City Clerk

For questions please contact Toni Taber, City Clerk, at (408) 535-1270.

Attachment: Memorandum from Councilmember Rocha dated February 1, 2018.



## Memorandum

**TO:** RULES AND OPEN GOVERNMENT  
COMMITTEE

**FROM:** Councilmember  
Donald Rocha

**SUBJECT:** COUNCIL POLICY 1-18

**DATE:** February 1, 2018

Approved

*Don Rocha*

Date

*2-1-18*

*plh*

### RECOMMENDATION

That the Rules Committee direct staff to bring forward an amendment to section 20 of Council Policy 1-18 for Council consideration that revises the method by which appropriations are established for Council Office budgets in the last six months of a councilmember's term. Currently, the policy requires that both the base budget and any available rollover be split evenly between two appropriations, one for the last six months of the expiring term, and the other for the first six months of the new term. Under this recommendation, staff would be directed to revise the policy to require that the rollover would be split such that there is sufficient funding in the first six months of the new term to pay for vacation payouts for outgoing staff members, plus any extra cushion as may be appropriate to meet other financial obligations of the outgoing councilmember, and that the remainder of the rollover would be allocated to the last six months of the expiring term. The base budget would continue to be split equally.

### ANALYSIS

Councilmembers who are terming out leave office at the end of the calendar year, which is halfway through the fiscal year. As a result, the departing Councilmember controls their office budget for the first six months of the fiscal year, and the incoming councilmember controls the budget for the last six months. In order to avoid the outgoing councilmember from overspending their budget and leaving the incoming councilmember with a reduced budget, the Council established a policy a few years ago requiring that council office budgets be split into two separate appropriations during a fiscal year when a councilmember is running for reelection or terming out.

The policy, contained in section 20 of Council Policy 1-18, requires that both the council office's base budget and any available rollover be split evenly between the two appropriations. It's obvious why the base budget would be split evenly. The rationale for splitting the rollover was that when council staff depart at the end of a councilmember's term, they are often owed a payout for their unused vacation. Allocating part of the rollover to the new councilmember helps ensure that enough funds are available to accommodate the payouts without eating into the base budget.

I support the methodology of establishing two separate appropriations to ensure that the incoming councilmember is not put at a disadvantage, but would like to suggest a minor amendment to the policy that would better achieve the policy's goal. Instead of splitting the rollover equally, I recommend splitting it such that there is sufficient funding in the first six months of the new term to pay for vacation payouts for the outgoing staff members of the previous councilmember, plus any extra cushion as may be appropriate to meet other financial obligations of the outgoing councilmember. For example, we could require an extra 10% cushion to ensure that enough funding would be available. The remainder of the rollover would be allocated to the last six months of the expiring term.

|                 | First Half of Fiscal Year                        | Second Half of Fiscal Year   |
|-----------------|--|--|
| Current Method  | 50% of Rollover                                  | 50% of Rollover  |
|                 | 50% of Base Budget                               | 50% of Base Budget   |
| Proposed Method | Any Rollover not needed for second half of year. | Enough Rollover to pay for vacation payouts, plus appropriate cushion to meet obligations of outgoing member |
|                 | 50% of Base Budget                               | 50% of Base Budget   |

The proposed method would have two benefits. First, if 50% of the outgoing councilmember's rollover wouldn't be enough to cover the entire vacation payout, the revised policy would take as much of the rollover as needed to ensure there were no negative impacts on the incoming councilmember's budget. Second, if vacation payouts could be accommodated with less than 50% of the rollover, it would ensure that the outgoing councilmember would have the opportunity to use rollover funds for special projects in their district in the last six months of their term. Currently, councilmembers have access to their full rollover up until the end of June of their final year, but then lose 50% of it beginning in July. The arrangement creates an incentive to spend down money by the end of June. If 50% of the rollover is not needed to meet vacation payout obligations, it isn't necessary to create an arbitrary June deadline to fund special projects with rollover funds.

In conclusion, I'd like to share why this matter has come to my attention. I have a substantial rollover that I've been spending on community projects over the past year.

I've accumulated this rollover through careful management of my budget, and would like to continue to spend this money for the community's benefit over my last year in office. I'm more than happy to set aside any funds that are needed to ensure that my successor is on sound fiscal footing when they enter office, but would appreciate the ability to spend any funds that are not needed for my successor for the community's benefit.