

# Memorandum

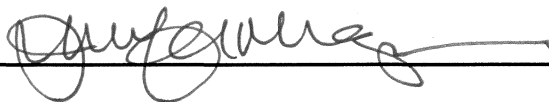
**TO:** HONORABLE MAYOR AND  
CITY COUNCIL

**FROM:** Jim Shannon

**SUBJECT:** SEE BELOW

**DATE:** September 17, 2019

Approved



Date

9-19-19

**SUBJECT: ADOPTION OF AN ORDINANCE RATIFYING FINAL EXPENDITURES  
IN VARIOUS APPROPRIATIONS FOR 2018-2019 AND ADOPTION OF  
THE ASSOCIATED APPROPRIATION ORDINANCE AND FUNDING  
SOURCES RESOLUTION AMENDMENTS IN 2018-2019**

## RECOMMENDATION

- (a) Adopt an ordinance ratifying final 2018-2019 expenditures in various appropriations as detailed in this report.
- (b) Adopt the following 2018-2019 Appropriation Ordinance amendments in the Airport Maintenance and Operation Fund:
  - (1) Increase the Airline Reserve Funds Distribution appropriation by \$13,943,476; and
  - (2) Decrease the Master Trust Agreement Reserve by \$13,943,476.
- (c) Adopt the following 2018-2019 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 \$8,357,873;
  - (2) Increase the Needs-Based Allocation Transfer to District 1 by \$639,149;
  - (3) Increase the Needs-Based Allocation Transfer to District 2 by \$427,974;
  - (4) Increase the Needs-Based Allocation Transfer to District 3 by \$331,339;
  - (5) Increase the Needs-Based Allocation Transfer to District 4 by \$329,786;
  - (6) Increase the Needs-Based Allocation Transfer to District 5 by \$609,237;
  - (7) Increase the Needs-Based Allocation Transfer to District 6 by \$594,920;
  - (8) Increase the Needs-Based Allocation Transfer to District 7 by \$701,766;
  - (9) Increase the Needs-Based Allocation Transfer to District 8 by \$539,167;
  - (10) Increase the Needs-Based Allocation Transfer to District 9 by \$505,426;
  - (11) Increase the Needs-Based Allocation Transfer to District 10 by \$305,498;
  - (12) Increase the Transfer to the Parks City-Wide Construction and Conveyance Tax Fund appropriation by \$2,491,630; and
  - (13) Increase the Transfer to the General Fund – Parks Eligible Maintenance Costs appropriation by \$881,981.

- (d) Adopt the following 2018-2019 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 \$16,938; and
  - (2) Increase the Transfer to the General Fund – Park Yards Operating and Maintenance Expenses appropriation by \$16,938.
- (e) Adopt the following 2018-2019 Appropriation Ordinance amendments in the Convention Center Facility District Revenue Fund:
- (1) Increase the Debt Service: Special Tax Bonds appropriation by \$313; and
  - (2) Decrease the Unrestricted Ending Fund Balance by \$313.
- (f) Adopt the following 2018-2019 Appropriation Ordinance amendments in the General Fund:
- (1) Increase the Storm Fees appropriation by \$63,117;
  - (2) Decrease the Sanitary Sewer Fees appropriation by \$22,266; and
  - (3) Decrease the Non-Personal/Equipment appropriation to the Environmental Services Department by \$40,851.

### **OUTCOME**

The recommended actions account for unanticipated appropriation over-expenditures that occurred at the end of 2018-2019 and allow the final financial accounting for 2018-2019 to be completed.

### **BACKGROUND**

As part of the process of completing the 2018-2019 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 2018-2019 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 2019 for the 2018-2019 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 2018-2019, appropriations were exceeded in five City funds as described in Attachment A. The total amount for the five funds involved is \$22.4 million and includes the following:

- Expenditure appropriations in the Airport Maintenance and Operation Fund that reconcile net remaining revenues due to the airlines under the new 2019 Airline-Airport Lease and Operating Agreement (\$13,943,476);
- Transfer appropriations in the Construction Tax and Property Conveyance Tax Fund: Parks Purposes Central Fund (\$8,357,873) and the Construction Tax and Property Conveyance Tax Fund: Parks Maintenance Yards Purposes (\$16,938) that allocates excess Construction and Conveyance Tax receipts in accordance with the City Council-approved distribution formula;
- Expenditure appropriations in the Convention Center Facility District Revenue Fund related to a debt service payment (\$313); and
- Expenditure appropriations in the General Fund (\$63,117) related to Storm Sewer fee payments.

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

The ratification of exceeded appropriations will be incorporated into the City's Comprehensive Annual Financial Report for 2018-2019.

#### **PUBLIC OUTREACH**

This memorandum will be posted on the City's website for the October 1, 2019 City Council Agenda.

#### **COORDINATION**

This memorandum was coordinated with the Airport Department and 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.

September 17, 2019

Subject: Ratification of Final 2018-2019 Expenditures in Various Appropriations

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**COST SUMMARY/IMPLICATIONS**

As discussed in the memorandum, additional revenue, expenditure savings, or Ending Fund Balance is available to offset the exceeded appropriations for 2018-2019.

**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

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

Attachment A: 2018-2019 Ratification Descriptions

I hereby certify that there was available for appropriation in the following funds in fiscal year 2018-2019 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:	\$8,357,873
Parks Purposes Central Fund	

Construction Tax and Property Conveyance Tax Fund:	\$16,938
Parks Maintenance Yards Purposes	



JIM SHANNON  
Budget Director

**2018-2019 RATIFICATION DESCRIPTIONS****Airport Maintenance and Operation Fund****\$13,943,476**

An adjustment in the Airport Maintenance and Operation Fund is necessary to ensure that the amount of net remaining revenue due to the airlines in 2018-2019 of \$13,943,476 is recorded as an expense in 2018-2019, in compliance with the 2019 Airline-Airport Lease and Operating Agreement. In the 2019 Agreement, any net remaining revenue calculated under the final year of the 2007 Airline-Airport Lease Operating Agreement will be issued back to the airlines. In the 2007 Agreement, net remaining revenue was “rolled forward” and applied to the future year revenue requirement. In the 2019 Agreement, net remaining revenue will be paid to the signatory airlines in proportionate share of their enplaned passengers to total enplaned passengers. To start the 2019 Agreement without any “rolled forward” remaining revenue, the Airport and the airlines both agreed to distribute the balance of the net remaining revenue calculated at the end of 2018-2019. For the future periods of this Agreement, Airport will estimate any payment due to the airlines and will bring forward to City Council in June a recommendation for a year-end budget adjustment, as necessary.

**Construction Tax and Property Conveyance Tax Fund: Parks Purposes Central Fund****\$8,357,873**

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.

**Construction Tax and Property Conveyance Tax Fund: Parks Maintenance Yards Purposes****\$16,938**

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.

**2018-2019 RATIFICATION DESCRIPTIONS**

The funding allocated for the ratification action is offset by the additional Construction and Conveyance Tax Fund revenue.

**Convention Center Facility District Revenue Fund****\$313**

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 (\$313). 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 2018-2019. The offsetting adjustment to this over-expenditure is a decrease to the Unrestricted Ending Fund Balance in the Convention Center Facility District Revenue Fund.

**General Fund****\$63,117**

Adjustments are necessary in the General Fund to account for over-expenditures in the Storm Fees appropriation (\$63,117). The Storm Fees overage reflects the differential between estimates regarding Storm Sewer Fees charged to City facilities and the actual costs of Storm Sewer Fees over the course of the fiscal year, which were difficult to project. This overage is offset partially by savings in the Sanitary Sewer Fees appropriation (\$22,266) and partially by savings in the Non-Personal/Equipment appropriation to the Environmental Services Department (\$40,851).

**TOTAL      \$22,381,717**