

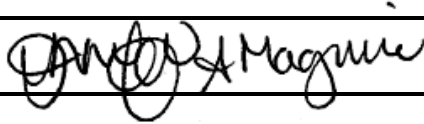
TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Jim Shannon

SUBJECT: 2022-2023 ANNUAL REPORT

DATE: September 29, 2023

Approved



Date

9/29/2023

RECOMMENDATION

It is recommended that the City Council:

- (a) Accept the 2022-2023 City Manager's Annual Report in compliance with City Charter Section 701 (F).
- (b) Adopt Appropriation Ordinance and Funding Sources Resolution amendments in various operating and capital funds to implement the 2022-2023 Annual Report recommendations, as detailed in Section IV (Recommended Budget Adjustments and Clean-Up/Rebudget Actions).

SUMMARY AND OUTCOME

In accordance with Section 701 (F) of the San José City Charter, the 2022-2023 Annual Report describes the financial status of the City at the end of the 2022-2023 fiscal year. As specified in the City Charter, the focus of the City Manager's Annual Report is a comparison of actual revenue collections and actual expenditures to projections and appropriations included in the City's budget, including an explanation of any material differences, and the amount of financial reserves in the City. In addition, this report provides a comparison of the actual 2022-2023 Ending Fund Balance for each fund to the estimates used in the development of the 2023-2024 Adopted Budget.

Approval of the recommended budget actions will implement required fund balance reconciliations and necessary rebudget and clean-up adjustments based on the final financial performance (unaudited) for 2022-2023. This report also includes actions that are necessary to: revise the 2023-2024 budget to align budgeted revenue and expenditures with the most current information; correct technical problems; recognize new or adjust existing grant, reimbursement, or fee activity revenues and expenditures; reflect changes in project and program allocations based on revised cost estimates; and establish a limited number of new projects and programs in special and capital funds.

EXECUTIVE SUMMARY

The Administration proactively managed 141 budgeted funds in 2022-2023. Budget actions were brought forward during the year to help ensure that revenues and expenditures remained in alignment with actual performance. Through this careful management, the various City funds generally ended the year with revenues close to the budgeted estimates and expenditures below the budgeted allocations.

With revenues increasing and projections provided by the Retirement Boards’ actuary that, at that time, anticipated the flattening or declining of retirement costs in the short and long-term, City Council’s approval of the 2022-2023 Adopted Budget occurred within the context of meaningfully improved budgetary position when compared to the pandemic years. However, as a number of key City programs had been previously funded on a one-time basis – often with support from the dwindling supply of resources from the American Rescue Plan Fund – from a practical perspective, the City faced a service level/structural shortfall. Accordingly, City Council’s approval of the Mayor’s March and June Budget Messages focused on the prioritization of key services, with significant and continued investments regarding Homelessness and Affordable Housing, Public Safety, Battling Blight, Climate and Seismic Resilience, Equitable Economic Recovery, and Fiscal Sustainability.

Due to careful forecasting, monitoring, and management throughout all City funds, overall 2022-2023 revenues and expenditures ended the year very close to budgeted expectations. For the General Fund, the Ending Fund Balance of \$629.6 million was \$9.7 million above the fund balance estimate assumed when the 2023-2024 Adopted Budget was developed and \$18.6 million after required clean-up/rebudget actions necessary to close out 2022-2023. The \$9.7 million variance represents 0.3% of the 2022-2023 Modified Budget for revenues and expenditures and the \$18.6 million represents a variance of 0.5%. These funds are recommended to be allocated in the 2022-2023 Annual Report, as shown in the table below.

Recommended 2023-2024 General Fund Adjustments (\$000s)

Additional 2022-2023 Ending Fund Balance	\$9,732
Clean-Up/Rebudget Actions	\$8,857
<hr/>	
Fund Balance Available After Clean-up/Rebudget Actions	\$18,589
Recommended Budget Adjustments	
Required Technical/Rebalancing Actions	(\$18,589)
Grants/Reimbursements/Fee Activities	(\$0)
(Sources = (\$3.0 million); Uses = (\$3.0 million))	
Total Recommended Budget Adjustments	(\$18,589)
<hr/>	
Remaining Fund Balance After Clean-up/Recommended Adjustments	\$0

EXECUTIVE SUMMARY

When bringing forward recommendations for the use of the additional 2022-2023 General Fund Ending Fund Balance, the Administration followed City Council Policy 1-18 and first considers clean-up/rebudget actions associated with the close-out of the 2022-2023 fiscal year to be essentially non-discretionary and the highest priority. These clean-up/rebudget actions resulted in a net increase to the Ending Fund Balance of \$8.9 million, bringing the total additional 2022-2023 Ending Fund Balance to \$18.6 million, and consist of: 1) the rebudgeting of prior year funding to 2023-2024 to complete various projects (net increase of \$10.2 million); and 2) technical adjustments to other revenues and expenditures (net decrease of \$1.3 million), which includes the proportional reduction to Measure E allocations resulting from actual Real Property Transfer Tax collections falling \$8.7 million short of the 2022-2023 budgeted estimate.

The revised General Fund Ending Fund Balance of \$18.6 million is recommended to fund various required technical and rebalancing actions (\$18.6 million), as well as actions associated with grants, reimbursements, and fee activities (net-zero revenue and expenditure adjustments of \$3.0 million). Notable one-time adjustments in these categories include: allocating \$15.0 million to Emergency Interim Housing Construction and Operation, consistent with City Council direction received with their approval of the Mayor's June Budget Message for Fiscal Year 2023-2024; increasing the Community and Economic Recovery Reserve by \$1.4 million (to \$11.5 million) to set aside savings from recovery workstreams/initiatives that are anticipated to be repurposed as part of a future City Council action to provide sufficient funding for the City's participation in the County of Santa Clara Isolation and Quarantine Program during the pandemic; increasing the Contingency Reserve by \$1.0 million (to \$50.0 million) to align funding with the 3% requirement in City Council Policy 1-18; increasing the Solid Waste Code Enforcement Program Reserve by \$680,000 to set aside the balance of 2022-2023 expenditure savings and additional revenues for future use by this fee-supported program support; increasing the City Attorney's Office Outside Litigation Reserve by \$510,000 (to \$1.0 million) to restore funding to needed levels; increasing the Unanticipated/Emergency Maintenance appropriation by \$400,000 to assess all of the elevators in the Civic Center and provide initial funding for as-needed repairs and maintenance of these aging assets; and, allocating additional funding of \$375,000 to the Public Works Department for immediate maintenance and repairs to specific City-owned properties, and address security concerns including the demolition of a vacant building located on Taylor Street.

This report also addresses immediate needs and circumstances in various special and capital funds, including actions within the Home Investment Partnership Program Fund, Inclusionary Fee Fund, and the Low and Moderate Income Housing Asset Fund to reallocate available funding for a Notification of Funding Availability (NOFA) expected to be issued by the end of October; reconciling adjustments in the Transient Occupancy Tax (TOT) Fund and Convention and Cultural Facilities Fund to reflect actual TOT revenues received in 2022-2023, which ended slightly below budgeted estimates; adjustments within the Airport Capital Program to reflect revised Federal grant and local match funding related to the Taxiway V project; allocations to begin work on a new Coyote Creek Trail segment from Roosevelt Park to Watson Park, and fire safety upgrades at Happy Hollow Park and Zoo within the Parks and Facilities Development Capital Program; the allocation of prior year interest earned from Measure T Bond proceeds into the reserve to help address likely cost escalations related to various Public Safety Measure T construction projects;

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tool for the Vision Zero program and to initiate a multi-year program to implement additional safety improvements near San José schools.

Recommended budget actions are summarized later in this message and described in *Section IV: Recommended Budget Adjustments and Clean-Up/Rebudget Actions*.

As the fiscal year progresses, the Administration will continue to monitor and report on the City's budgetary performance through Bi-Monthly Financial Reports that are agendaized four times a year for review by the Public Safety, Finance, and Strategic Support (PSFSS) Committee, and the Mid-Year Budget Review that is heard by the full City Council in February. The financial results of 2022-2023 will also be factored into the development of the 2024-2025 City Manager's Budget Request & 2025-2029 Five-Year Forecast and Revenue Projections document that will be released at the end of February 2024.

BACKGROUND

Each year the City issues the Annual Report at the end of September, three months after the close of the fiscal year, as required by the City Charter. Following is a description of the various sections of the Annual Report document.

- **Transmittal Memorandum** – This section provides an overall summary of the 2022-2023 Annual Report.
- **Section I: Budget Performance Summary (All Funds)** – This section provides a comparison of the 2022-2023 budget to actual revenues received and expenditures incurred by fund as well as an explanation of revenue and/or expenditure variances of 10% or greater to the budget. This section also provides a comparison of the year-end actual 2022-2023 Ending Fund Balance by fund to the 2022-2023 Ending Fund Balance/2023-2024 Beginning Fund Balance estimate used in the development of the 2023-2024 Adopted Budget. In addition, a listing of the Earmarked and Contingency Reserves that were available at the end of 2022-2023 by fund is included.
- **Section II: General Fund Budget Performance** – This section provides a summary of the General Fund budget performance in 2022-2023, including the following: Results of Operations in the General Fund, Revenue Performance, and Expenditure Performance.
- **Section III: Selected Special/Capital Funds Budget Performance** – This section provides financial information on the 2022-2023 year-end performance for selected special and capital funds that represent major City operations. It includes a discussion of variances between actual and budgeted revenues and expenditures as well as a comparison between the actual ending fund balance and the fund balance estimated for 2022-2023 in the development of the 2023-2024 Adopted Budget.

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- **Section IV: *Recommended Budget Adjustments and Clean-Up/Rebudget Actions*** – This section provides a description of the recommended budget adjustments and clean-up/rebudget actions for City Council consideration. The proposed actions fall into three categories: (1) adjustments to the 2023-2024 Beginning Fund Balance amounts in various funds, including the General Fund, based on the final reconciliation of 2022-2023; (2) upward and downward adjustments to previously rebudgeted sums to ensure the appropriate amount of unexpended funds are carried over to 2023-2024 to complete projects; and (3) actions based on more recent information that are necessary to revise the 2023-2024 budget to align budgeted revenue and expenditures with the most current information, correct technical problems, recognize new or adjust grant, reimbursement or fee activity revenues and expenditures, reflect changes in project and program allocations based on revised cost estimates, as well as establish a limited number of new projects and programs in special and capital funds.
- **Section V: *Financial Statements*** – This section provides the financial results (unaudited), prepared by the Finance Department, for all budgeted fund groups for 2022-2023. It should be noted that audited financial results will be released later in the fall as part of the 2023 Annual Comprehensive Financial Report for Fiscal Year Ended June 30, 2023. Final fund balance reconciliations to the Annual Comprehensive Financial Report will be conducted for all funds and, while few adjustments are typically necessary, any final adjustments will be brought forward for City Council consideration as part of the 2023-2024 Mid-Year Budget Review.

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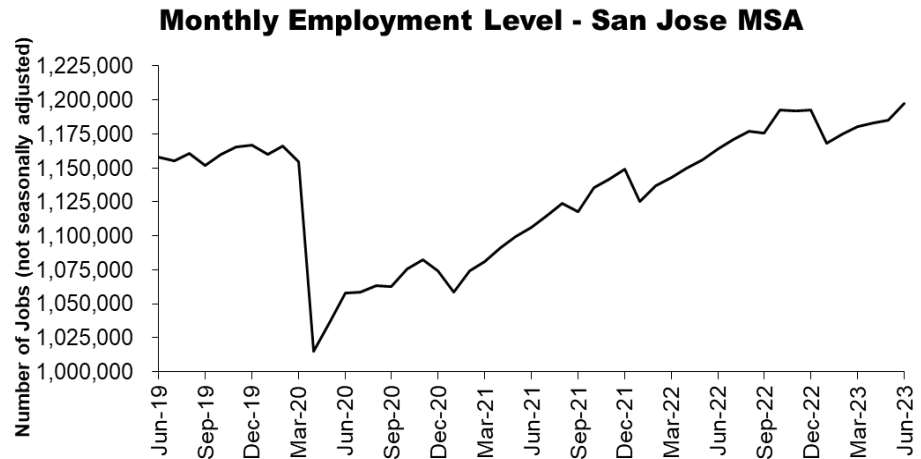
This Analysis section includes the following:

- an overview of the economic environment;
- a discussion of the 2022-2023 budget performance of all City funds;
- a discussion of the 2022-2023 budget performance for the General Fund;
- a discussion of the components of the 2022-2023 General Fund ending fund balance;
- an analysis of the impact of the General Fund performance on the 2023-2024 Adopted Budget; and
- a discussion of the 2022-2023 budget performance of selected special and capital funds.

Economic Environment

While Silicon Valley continues to show overall positive economic performance, several potential indicators of a future economic weakening have begun. These economic indicators include a slow-down in the local real estate market and raising unemployment rates. While employment figures continue to be relatively strong, layoffs, especially in the technology sector, have begun impacting unemployment rates.

The June 2023 employment level of 1.20 million in the San José-Sunnyvale-Santa Clara Metropolitan Statistical Area (San José MSA) grew by 32,900 jobs, or 2.8%, from the June 2022 level of 1.16 million. This increase included private education and health services adding 12,200 jobs; leisure and hospitality growing by 11,800 jobs; and professional and business services increasing by 3,400 jobs.¹



Unemployment Rate (Unadjusted)			
	June 2022	May 2023	June 2023**
San José Metropolitan Statistical Area*	2.7%	3.3%	3.7%
State of California	4.1%	4.5%	4.9%
United States	3.8%	3.4%	3.8%
* San Benito and Santa Clara Counties Source: California Employment Development Department.			
** June 2023 estimates are preliminary and may be updated.			

The local unemployment rate for June 2023 was 3.7%, which was higher than the May 2023 rate of 3.3% and the prior year unemployment rate of 2.7%. However, the June 2023 San José Metropolitan Statistical Area unemployment rate continued to be lower than the unadjusted unemployment rate for the State (4.9%) and the nation (3.8%).

Overall construction activity through June 2023 decreased 14.0% from prior-year levels, primarily due to activity for the commercial land use category experiencing a significant year-over-year decline. The 2022-2023 Adopted Budget was developed with the expectation that development activity would increase slightly from 2021-2022 development activity projections identified in the 2023-2027 Five-Year Forecast. Development activity has been on a downward trend since 2019-2020 and will continue to be closely monitored.

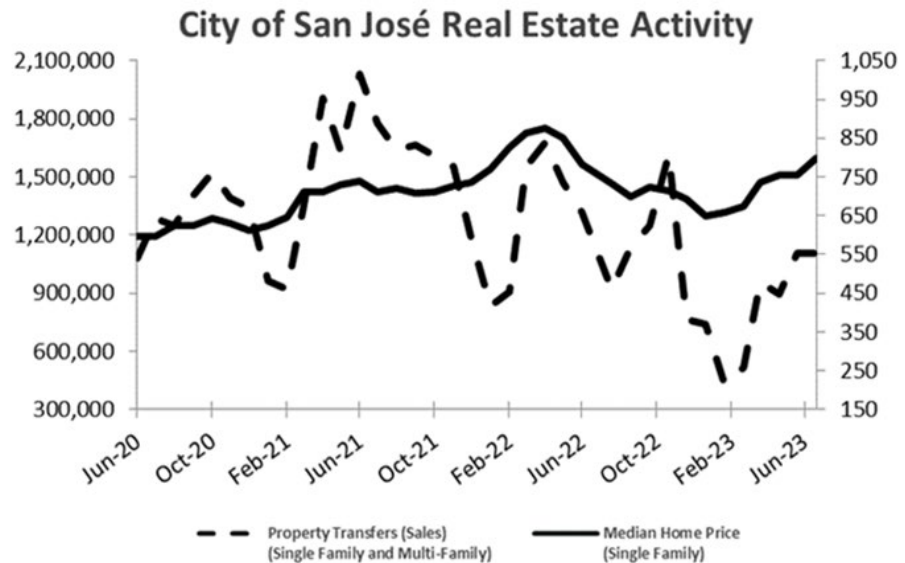
¹ State of California Employment Development: Labor Market Information Division Press Release, July 21, 2023

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Economic Environment

While construction activity and employment levels are still relatively strong, an area of concern is the continued weakening of the local real estate market. Beginning in mid-2020, the local real estate market was robust, posting record high median single home prices, and very strong sales activity with properties selling very quickly.

However, beginning in December 2021, property sales started to dip, with year-over-year transactions (from the same time period in the prior year) declining most months. Further, in order to combat high inflation rates, the Federal Reserve significantly raised interest rates over the past year and have indicated rates will remain elevated for an extended period of time. As interest rates increased, so did mortgage rates, which are expected to continue to negatively impact the number and price of property sales. According to data from the Santa Clara County Association of Realtors, in June 2023, the median single-family home price totaled \$1.60 million, which is 2.4% higher than the June 2022 price of \$1.56 million. This modest year-over-year increase followed seven consecutive months of year-over-year price drops. Homes are staying on the market for longer periods of time before selling; the average days-on-market for 2022-2023 totaled 24 days, which is significantly above the average of 14 days experienced in 2021-2022. In addition, property sales activity has declined for eight consecutive months. Overall, property sales declined 33.4% in 2022-2023 compared to 2021-2022.



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2022-2023 Budget Performance (All Funds)

As shown in Section I of this document, City revenues (excluding Beginning Fund Balances) totaled \$4.7 billion in 2022-2023, which was 10.0% (\$526.7 million) below the budgeted estimate of \$5.3 billion.

In 2022-2023, expenditures (excluding Reserves and Ending Fund Balances) totaled \$5.1 billion, which was \$1.4 billion (21.8%) below the modified budget of \$6.5 billion. At the end of 2022-2023, the Contingency and Earmarked Reserves for all City funds totaled \$940.5 million, which represented 11.6% of the total 2022-2023 Modified Budget of \$8.1 billion (including interfund transfers, loans, and contributions). In the General Fund, Reserves totaled \$341.9 million.

The financial performance in 2022-2023 is used as the starting point for 2023-2024. The collective 2022-2023 Ending Fund Balances for all City funds totaled \$2.43 billion, which was \$42.0 million above the 2022-2023 Ending Fund Balance estimates of \$2.39 billion used in the development of the 2023-2024 Adopted Budget. After adjusting for a total net negative rebudget of \$9.5 million recommended in this report, the adjusted 2022-2023 Ending Fund Balance variance for all funds increases to \$51.5 million, or 0.6% of the 2022-2023 Modified Budget. The adjusted fund balance variance totaled -\$451,000 in the General Fund, -\$6.3 million in the special funds, and \$58.2 million in the capital funds.

The City's General Fund ended the 2022-2023 fiscal year within budgeted levels. As shown in the chart below, the General Fund Ending Fund Balance of \$639.4 million was \$9.7 million (0.3% of the 2022-2023 Modified Budget for revenues and expenditures) above the fund balance estimate assumed when the 2023-2024 Adopted Budget was developed. The following table summarizes the General Fund performance in 2022-2023, comparing the actual results to the Modified Budget and the estimates used to develop the 2023-2024 Adopted Budget.

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2022-2023 General Fund Budget Performance

**Table 1
 General Fund Year-End Status
 For the Year Ended June 30, 2023
 (\$000s)**

Sources	2022-2023 Modified Budget	2022-2023 Year-end Estimate	2022-2023 Budgetary Basis Actual	Actual to Budget Variance	Actual to Estimate Variance
<i>Beginning Fund Balance</i>	558,987	558,987	558,987	-	-
<i>Carryover Encumbrances</i>	63,827	63,827	63,827	-	-
<i>Liquidation of Carry-over Encumbrances</i>	-	500	(10,474)	(10,474)	(10,974)
<i>Revenue</i>	1,698,822	1,698,757	1,703,747	4,925	4,990
Total Sources	2,321,636	2,322,071	2,316,087	(5,549)	(5,984)
Uses					
<i>Expenditures/Transfers</i>	1,979,716	1,692,444	1,676,728	(302,988)	(15,716)
<i>Reserves</i>	341,920	-	-	(341,920)	-
Total Uses	2,321,636	1,692,444	1,676,728	(644,908)	(15,716)
<i>Ending Fund Balance</i>	-	629,627	639,359	639,359	9,732

Note: In the chart above, the General Fund excludes the Emergency Reserve Fund and the Cash Reserve Fund, which are budgeted as separate funds and reflected separately in this document. In the 2022-2023 Annual Comprehensive Financial Report, the Emergency Reserve Fund and Cash Reserve Fund will be displayed as part of the General Fund to comply with GASB 54 reporting requirements.

In 2022-2023, total revenue in the General Fund was \$1.7 billion, which was within 0.2%, or \$4.9 million, of the 2022-2023 Modified Budget, and \$5.0 million (0.2%) above the estimate used to develop the 2023-2024 Adopted Budget. The 2022-2023 Liquidation of Carry-over Encumbrances was -\$10.5 million due to a transfer of encumbrances from the American Rescue Plan Fund to the General Fund, which was completely offset by an equal transfer from the American Rescue Plan Fund to the General Fund, for a net-zero impact to the General Fund. Due to Federal debt ceiling negotiations between the President and the U.S. Congress that had the potential to claw back any unobligated American Rescue Plan funding, on May 25, 2023, the City Council approved the reallocation of funding with the American Rescue Plan Fund and the General Fund to ensure the completion of community and economic recovery activities previously authorized by the City Council².

General Fund expenditures/transfers of \$1.7 billion were \$303.0 million (13.1%) below the 2022-2023 Modified Budget level of \$2.0 billion and \$15.7 million (0.9%) below the estimate used to develop the 2023-2024 Adopted Budget. Budgeted reserves of \$341.9 million remained unexpended at year-end as expected.

² <https://sanjose.legistar.com/LegislationDetail.aspx?ID=6227829&GUID=662E2D26-84BF-417C-97A7-BB74B536A69B>

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2022-2023 General Fund Budget Performance

**Table 2
 General Fund
 Comparison of Year-End Actuals with Prior Year
 (\$000s)**

	2021-2022 Actuals	2022-2023 Actuals	Change	% Change
Source of Funds				
Beginning Fund Balance	369,180	558,987	189,807	51.4%
Revenues	1,739,529	1,703,747	(35,782)	-2.1%
Total Source of Funds	2,108,709	2,262,734	154,025	7.3%
Use of Funds				
Personal Services	926,148	887,825	(38,323)	-4.1%
Non-Personal/Equipment/Other	175,738	194,847	19,109	10.9%
City-Wide Expenses	417,653	518,580	100,927	24.2%
Capital Contributions	56,817	37,665	(19,152)	-33.7%
Transfers	30,393	37,811	7,418	24.4%
Reserves	-	-	-	N/A
Total Use of Funds	1,606,749	1,676,728	69,979	4.4%

As shown in Table 2, 2022-2023 General Fund revenues (excluding Beginning Fund Balance, which varies depending on the level of unspent funds carried into the following year) of \$1.70 billion represents a decrease of 2.1% (\$35.8 million) from the 2021-2022 collection level of \$1.74 billion. Lower 2022-2023 revenues were received from Real Property Transfer Tax (-\$53.7 million), which reflects a more constrained real estate market in 2022-2023 compared to 2021-2022; Transfers from Other Funds dropped by \$37.3 million, which is primarily due to the American Rescue Plan Fund transfer to the General Fund totaling \$53.8 million in 2021-2022 and \$16.0 million in 2022-2023; and Other Revenue dropped by \$38.0 million primarily due to Lease Revenue Bond proceeds of \$15.0 million being received in 2021-2022, higher Tax and Revenue Anticipation Notes (TRANS) revenue being issued in 2021-2022 (\$10.0 million), and larger grant revenue being received in 2021-2022 (\$8.8 million). Partially offsetting the lower receipts in these categories were year-over-year increases for Property Tax (\$34.9 million), Utility Tax (\$20.7 million), and Sales Tax (\$20.3 million). These revenues experienced year-over year growth due to several factors including strong economic activity and higher utility rates.

General Fund expenditures of \$1.7 billion in 2022-2023 were 4.4% (\$70.0 million) above prior year expenditure levels of \$1.6 billion. This increase is due to higher City-Wide Expenses (\$101.0 million), Non-Personal/Equipment/Other (\$19.1 million), and Transfers (\$7.4 million), partially offset by lower Personal Services (\$38.3 million) and Capital Contributions (\$19.2 million).

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2022-2023 General Fund Budget Performance

The reduction in Personal Services expenditures is primarily attributable to the reallocation of \$87.9 million of Police Department Personal Services costs from the General Fund to the American Rescue Plan Fund resulting from the previously described City Council action on May 25, 2023. It is important to note that the reallocation of Police Department expenses was accompanied by an equal shift of community and economic recovery project from the American Rescue Plan Fund to the General Fund – the total available budget for the Police Department and the various community and economic recovery workstreams remained unchanged.

A detailed discussion of the General Fund revenue and expenditure performance is provided in Section II of this document.

2022-2023 General Fund Ending Fund Balance

The current budgeting practice of the City is to use the projected level of fund balance expected to remain in the General Fund at the end of any fiscal year as a funding source for the following year. The Ending Fund Balance estimate always contains two components: the portion of the fund balance that is rebudgeted for completing projects or retaining reserves; and the portion which is undesignated and available as a general funding source in the coming year. In the 2023-2024 Adopted Budget, a total Ending Fund Balance estimate of \$629.6 million was included as a funding source. As discussed earlier, the actual 2022-2023 General Fund Ending Fund Balance of \$639.4 million was \$9.7 million above the Adopted Budget estimate.

The components of the 2022-2023 General Fund Ending Fund Balance include a net total of additional funding sources, expenditure/transfer savings, and unexpended reserves as described below:

**2022-2023 General Fund
 Ending Fund Balance Components**

Fund Balance Component	\$ Amount (\$ in 000s)
Funding Sources	\$ (5,550)
Expenditure/Transfer Savings	302,989
Unexpended Reserves	341,920
TOTAL	\$ 639,359

The total Funding Sources component ended the year \$5.6 million below the Modified Budget as a result of higher revenues (\$4.9 million), offset by a negative liquidation of carry-over encumbrances (-\$10.5 million) that is related to a transfer of encumbrances from the American Rescue Plan Fund to the General Fund, which was completely offset by an equal transfer from the American Rescue Plan Fund to the General Fund. For the Expenditure/Transfer Savings component, expenditure and transfer savings totaled \$303.0 million, while Unexpended Reserves component totaled \$341.9 million, representing the largest component of the 2022-2023 Ending Fund Balance.

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2022-2023 General Fund Ending Fund Balance

Of the \$303.0 million in expenditure/transfer savings, a majority was rebudgeted in the 2023-2024 Adopted Budget (\$265.2 million) or assumed as savings as part of the development of the 2022-2023 Ending Fund Balance/2023-2024 Beginning Fund Balance (\$27.2 million). Additional savings of \$4.7 million is recommended for rebudget or technical clean-up as part of this report.

General Fund Unexpended Reserves, totaling \$341.9 million at the end of 2022-2023, were anticipated and include three categories: Earmarked Reserves (\$268.2 million) established to address specific programmatic needs per City Council direction; Ending Fund Balance Reserve (\$27.7 million) established to help ensure sufficient fund balance would be available at the end of 2022-2023 to meet the budgeted estimate used for the development of the 2023-2024 Adopted Budget, and the Contingency Reserve (\$46.0 million) set at a minimum of 3% of General Fund operating expenditures per City Council policy.

As discussed above, it was estimated and assumed that \$629.6 million would remain in the General Fund at the end of 2022-2023 and would be carried over to 2023-2024 as Beginning Fund Balance as part of the adoption of the 2022-2023 Budget. These funds, which were expected to be generated from additional revenue, liquidation of carryover encumbrances, expenditure savings, unexpended funds that were rebudgeted to 2023-2024 to complete projects, and unexpended reserves, were programmed for use in the 2023-2024 Adopted Budget. As also previously discussed, the actual General Fund Ending Fund Balance was above the estimate used in the 2023-2024 Adopted Budget by \$9.7 million due to revenue and expenditure savings that were slightly above June 30, 2023 levels.

The following chart details the recommended uses of the \$9.7 million of additional fund balance, as well as other budget adjustments that are proposed as part of this report. Recommended clean-up/rebudget actions increases the available fund balance by \$8.9 million to \$18.6 million, or 0.5% of the 2022-2023 Modified Budget for revenues and expenditures. This additional fund balance is proposed to be allocated to address required technical/rebalancing needs.

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Impacts on the 2023-2024 General Fund Budget

RECOMMENDED 2023-2024 GENERAL FUND ADJUSTMENTS (\$000s)	
	(\$ in 000s)
2022-2023 Additional Fund Balance	\$9,732
• Clean-Up/Rebudget Actions.....	\$8,857
Revenue Rebudgets/Clean-Ups	\$12,747
City-Wide Expenses/Transfers/Reserves	(\$937)
General Fund Capital	(\$1,499)
Departmental	(\$1,453)
Fund Balance Available After Clean-up/Rebudget Actions	\$18,589
• Recommended Budget Adjustments	(\$18,589)
Required Technical/Rebalancing Actions	
Emergency Interim Housing Construction and Operation	(\$15,000)
Community and Economic Recovery Reserve	(\$1,350)
Contingency Reserve	(\$1,000)
Solid Waste Code Enforcement Program Reserve	(\$680)
City Attorney’s Office Outside Litigation Reserve	(\$510)
Unanticipated/Emergency Maintenance (Civic Center Elevator Repairs and Assessment)	(\$400)
Public Works Non-Personal/Equipment (City-Owned Property Management and Maintenance)	(\$375)
PBCE Non-Personal/Equipment (Pleasant Hills Golf Course)	(\$250)
Local Sales Tax – Transfer to the Airport Revenue Fund (Jet Fuel)	(\$200)
PRNS Non-Personal/Equipment (Vehicle Cost Escalation)	(\$200)
Police Non-Personal/Equipment (Police Department Badging System Upgrade)	(\$150)
San José Museum of Art Cooling Tower Replacement	(\$150)
Fire Training Center Relocation	(\$125)
BeautifySJ and Encampment Waste Pick Up – BeautifySJ Consolidated Model	(\$120)
Police Personal Services (Child Forensic Interviewer)	(\$113)
City Attorney Non-Personal/Equipment (Outside Counsel)	(\$100)
Sports Authority (2023 U.S. Gymnastics Championships)	(\$100)
BeautifySJ Grants	(\$100)
Transfers and Reimbursements (Transfer from American Rescue Plan Fund)	\$2,244
Revenue from Local Agencies (Berryessa Union School District – Expanded Learning Opportunities Programs Grant)	\$270
Other Net Adjustments	(\$181)
Subtotal Required Technical/Rebalancing Actions	(\$18,589)
Grants/Reimbursements/Fees (Sources = (\$3.0 million); Uses = (\$3.0 million))	\$0
Remaining Fund Balance	\$0

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Impacts on the 2023-2024 General Fund Budget

A summary of the significant adjustments by category is included below. More detail is provided in *Section IV: Recommended Budget Adjustments and Clean-Up/Rebudget Actions*.

Clean-Up/Rebudget Actions (\$8.9 million)

A series of adjustments are recommended to complete existing projects continuing into 2023-2024 and to reflect any necessary technical budget adjustments or reconciliation actions. The Annual Report is the point in the budget process where action is required to rebudget unexpended funds from the prior year that were not anticipated when the Adopted Budget was approved, but are required to complete a project or program in the current year. The largest rebudget actions are for the following appropriations: Government Access – Capital Expenditures (-\$1.9 million); Digital Inclusion Program (-\$1.8 million); Google Community Benefits – Community Stabilization (-\$1.7 million); Measure E – Project Homekey 2.0 (40% ELI) (-\$725,000); Fire Apparatus Replacement (-\$549,000); Office of Equality Assurance Labor Compliance System (-\$530,000); Food and Necessities (-\$500,000); Workers’ Compensation Claims – Fire (Rebudget savings from Workers’ Compensation – Fire and Worker’s Compensation – Police, -\$500,000); and Child and Youth Services – PRNS (Programs Experiences and Scholarships, -\$362,000).

Actions are also recommended that reduce previous rebudgets to reflect instances where expenditures for which rebudgets were approved for incorporation into the Adopted Budget exceeded estimates for 2022-2023; therefore, the funds are not available for rebudget to 2023-2024. The largest actions include Emergency Housing – Emergency Housing Construction and Operation (\$7.0 million), BeautifySJ Consolidated Model (\$2.8 million), Digital Equity – Device Access (\$1.3 million), and Small Business Recovery – Supplemental Economic Development Associate Capacity Building (\$1.0 million).

Further, actions are recommended to rebudget revenues that were anticipated but, not received in 2022-2023, including grant funding to reimburse the City for commitments made in 2022-2023, the largest of which include: Revenue from State of California for the CaliforniansForAll Youth Workforce Program (\$11.1 million); Revenue from Federal Government (Urban Areas Security Initiative – Police 2021, \$700,000); and, Other Revenue (Knight Foundation – Internet of Things, \$375,000).

Other technical adjustments include net-zero shifts between departments and appropriations, as well as the reconciliation of restricted funding for multiple programs. (e.g., Tree Mitigation, Licenses and Permits (Cardroom Fee Reconciliation), Certified Access Specialist Program, and Government Access – Capital Expenditures). These actions also include reconciliation adjustments to increase the Contingency Reserve to account for funding allocated during the 2023-2024 Proposed Budget process and funding rebudgeted as part of the Adopted Budget process, and to various Measure E allocations to account for the \$8.7 million shortfall of Real Property Transfer Tax revenues in 2022-2023 and various technical adjustments to align expenditure and reserve appropriations in accordance with prior City Council direction.

ANALYSIS

Impacts on the 2023-2024 General Fund Budget

Recommended Budget Adjustments (-\$18.6 million)

A number of General Fund budget adjustments, with a total net cost of \$18.6 million are recommended and can be classified under two categories: 1) Required Technical/Rebalancing Actions (net cost of \$18.6 million) that align already approved revenue estimates and expenditure budgets with the most current tracking information, reallocate funding among appropriations based on updated needs, correct technical problems or insufficient allocations included in the 2023-2024 Adopted Budget, or comply with actions previously authorized by the City Council; and, 2) Grants/Reimbursement/Fee Activities (net zero expenditure increase of \$3.0 million) actions that recognize new or adjust grants, reimbursements, or fee activity revenues, and adjust the appropriations for these purposes as necessary.

Notable actions under each category are outlined below.

- **Required Technical/Rebalancing Actions (-\$18.6 million)**
 - ***Emergency Interim Housing Construction and Operation*** – as previously directed by the City Council, increases the Emergency Interim Housing Construction and Operation appropriation by \$15.0 million, from \$14.5 million to \$29.5 million, to supplement current year and future year resources for the development, design, construction, and operation of interim housing sites. As part of their approval of the Mayor’s June Budget Message for Fiscal Year 2023-2024 and the 2023-2024 Adopted Operating Budget, the City Council directed the allocation of up to \$15.0 million from the General Fund Ending Fund Balance over two years for interim shelter and other homeless support program costs if additional funding was available. Given the availability of Ending Fund Balance in this report; the continued prioritization of the City Council and community to address unsheltered homelessness; that the City continues to move forward with interim housing development at Rue Ferrari, Cerrone, Cherry, as well as a cost-benefit analysis of Via Del Oro scheduled for City Council consideration at their meeting on October 17, 2023; and the significant resource needs for these critical programs³, this action allocates the full \$15.0 million to support the near-term development and operating costs of interim housing. (-\$15.0 million)

³ Please see Manager’s Budget Addendum #19, *Updated Interim Housing and Budgetary Forecast*: <https://www.sanjoseca.gov/home/showpublisheddocument/98310/63820631374720000>

ANALYSIS

Impacts on the 2023-2024 General Fund Budget

- ***Community and Economic Recovery Reserve*** – increases the Community and Economic Recovery Reserve by \$1.35 million, from \$10.15 million to \$11.5 million, to support recovery workstreams and initiatives. This reserve was originally established with City Council’s approval of the 2021-2022 Mid-Year Budget Review to capture savings from previously authorized community and economic recovery efforts in response to the pandemic so that these savings could be reinvested for their potential continuation. This increase of \$1.35 million is a result of additional savings from recovery initiatives that were shifted from the American Rescue Plan Fund to the General Fund as part of Item 3.1, as approved by the City Council at its May 25, 2023 Special Meeting. This revised funding level is anticipated to provide sufficient funding for the City’s potential financial commitment toward the Isolation and Quarantine program managed by the County of Santa Clara, which is anticipated to be brought before the City Council later in the fiscal year. (-\$1.35 million)

- ***Contingency Reserve*** – increases the Contingency Reserve by \$1.0 million in accordance with Council Policy 1-18 which provides for the maintenance of a minimum 3% Contingency Reserve in the General Fund to meet unexpected circumstances arising from financial and/or public emergencies that require immediate funding that cannot be met by any other means. The current Contingency Reserve level of \$47.0 million was calculated against Base Budget expenditures and an assumed amount of funding that was rebudgeted at fiscal year-end. This action adjusts the Contingency Reserve to account for the remaining balances recommended to be rebudgeted as part of the 2022-2023 Annual Report. In addition, a separate Clean-Up reconciling action included elsewhere in this report increases the Contingency Reserve by \$2.0 million to account for the final funding allocated during the 2023-2024 Proposed Budget process and funding rebudgeted as part of the Adopted Budget process. The combined actions will bring the Contingency Reserve to \$50.0 million. It is important to note, however, that if this Contingency Reserve is ever needed, it is only sufficient to cover General Fund payroll expenditures for approximately two weeks in the event of an emergency. (-\$1.0 million)

- ***Solid Waste Code Enforcement Program Reserve*** – establishes the Solid Waste Code Enforcement Program Reserve in the amount of \$680,000. The Solid Waste Code Enforcement Program is a full cost recovery program funded through fees, and the program ended 2022-2023 with a combination of expenditure savings and additional revenues totaling \$680,000. This funding will be set aside for future use by the Solid Waste Code Enforcement Program. (-\$680,000)

ANALYSIS

Impacts on the 2023-2024 General Fund Budget

- ***City Attorney's Office Outside Litigation Reserve*** – increases the City Attorney's Office Outside Litigation Reserve by \$510,000, from \$490,000 to \$1.0 million, to restore funding to needed levels following the reallocation of resources to the City Attorney's Office during 2022-2023 for outside legal services. (-\$510,000)

- ***Unanticipated/Emergency Maintenance (Civic Center Elevator Repairs and Assessment)*** – increases the Unanticipated/Emergency Maintenance appropriation by \$400,000, from \$1.3 million to \$1.7 million, to fund an assessment of all the elevators in the Civic Center and initial funding for as needed repairs and maintenance of the elevators. Due to the aged elevator system infrastructure at the Civic Center and recent reliability issues, there is a need to update and modernize controls equipment and infrastructure for the elevators within the facility. The current system infrastructure is consistently experiencing issues, with users stuck in cabs for periods of time, and other units being offline for longer periods, with some out-of-service for more than one year. This funding will set aside dedicated funding for an assessment necessary to develop a scope for a future major renovation project and to start repairs and maintenance, which will help run operations smoothly in the Civic Center. (-\$400,000)

- ***Public Works Non-Personal/Equipment (City-Owned Property Management and Maintenance)*** – increases the Public Works Department's Non-Personal/Equipment appropriation by \$375,000 to provide the resources necessary to address urgent maintenance needs to various City-owned properties. Funding will be used to demolish a vacant building located on Taylor Street and for immediate repairs and security needs prior to the demolition of the building (\$175,000). The vacant property should be demolished for safety and cost-effective reasons since trespassers have been vandalizing the property and/or lighting fires inside for heating and cooking. Funding is also needed to address unanticipated property maintenance, including replacing the HVAC system at 3Below and changing the fire control panel and building management system at 88 S. 4th Street prior to new tenants moving in (\$200,000). Currently addressed on a one-off basis, the Public Works Department, the Office of Economic Development and Cultural Affairs, and the City Manager's Budget Office will coordinate to develop an ongoing budget allocation for property management and maintenance needs as part of the 2024-2025 Base Budget. (-\$375,000)

ANALYSIS

Impacts on the 2023-2024 General Fund Budget

- ***PBCE Non-Personal/Equipment (Pleasant Hills Golf Course)*** – increases the Planning, Building, and Code Enforcement’s (PBCE) Non-Personal/Equipment appropriation by \$250,000 to fund consultant services in the City-led community engagement process for the proposed redevelopment of the former Pleasant Hills Golf Course property. On April 25, 2023, City Council approved and directed the Administration to begin a City-led process of community engagement on the potential development of the former Pleasant Hills Golf Course property concurrent with consideration of a potential development application by summer 2024. This action will provide funds for a consultant to augment and assist with this process given the extensive work needed within the stipulated timeline. This work entails community engagement; developing a Guiding Principles document for the City Council; and updating the CEQA, General Plan, and Zoning application review process, which requires significant staff and consultant involvement. The consultant will collaborate with community-based partners in an attempt to reach all elements of the community and also retain a subconsultant to assist in assessing multimodal transportation improvements. (-\$250,000)
- ***Local Sales Tax – Transfer to the Airport Revenue Fund (Jet Fuel)*** – increases the Transfer from the General Fund to the Airport Revenue Fund for the estimated Jet Fuel Local Sales Tax from July 2023 to June 2024 by \$200,000, from \$400,000 to \$600,000. Per Federation Aviation Administration (FAA) policy, Sales Tax revenue related to jet fuel sales that are located at Airport properties must be returned to the Airport. This FAA policy applies to sales tax that went into effect after December 31, 1987. Given this timeframe, the City of San José's General Sales Tax is exempt from this regulation as it was in effect before December 31, 1987; however, the Local Sales Tax effective October 2016, must follow the FAA policy. In 2022-2023 jet fuel related local sales tax collections totaled approximately \$600,000; therefore, this action increases the estimated 2023-2024 transfer to align the revenue with prior year activity levels. (-\$200,000)
- ***PRNS Non-Personal/Equipment (Vehicle Cost Escalation)*** – Increases the Parks, Recreation and Neighborhood Services Department’s (PRNS) Non-Personal/Equipment appropriation by \$200,000 to fund estimated increased costs due to supply chain issues and inflationary factors for nine new vehicles for Beautify San José that were previously budgeted and will be ordered in 2023-2024. (-\$200,000)
- ***Police Non-Personal/Equipment (Police Department Badging System Upgrade)*** – increases the Police Department’s Non-Personal/Equipment appropriation by \$150,000 to fund the replacement of the access control badging system at the Police Administration Building and Police and Communications buildings. The outdated system no longer complies with the Department of Justice requirements, prompting a replacement. With a total replacement cost \$250,000, the Police Department currently has the ability to absorb a portion of the costs (\$100,000), leaving a funding shortfall of \$150,000 that is resolved with the recommended action. (-\$150,000)

ANALYSIS

Impacts on the 2023-2024 General Fund Budget

- ***San José Museum of Art Cooling Tower Replacement*** – increases the San Jose Museum of Art Cooling Tower Replacement appropriation by \$150,000, from \$2.85 million to \$3.0 million, to fund immediate repairs and temporary cooling and humidity equipment until the replacement of the new cooling tower is completed. The cooling tower has been breached due to old age and deterioration, already causing the water content to leak. While full replacement of the cooling tower is in process to be bid, awarded, and completed, this additional funding will provide for an interim solution until the larger project moves forward. (-\$150,000)
- ***Fire Training Center Relocation*** – increases the Fire Training Center Relocation appropriation by \$125,000, from \$1.375 million to \$1.5 million, to offset higher than expected close out expenses. This project is scheduled to be fully completed by June 2024 with a full beneficial use in October 2023. (-\$125,000)
- ***BeautifySJ and Encampment Waste Pick Up – BeautifySJ Consolidated Model*** – Increases the BeautifySJ and Encampment Waste Pick Up – BeautifySJ Consolidated Model appropriation by \$120,000 to fund additional support from the San José Police Department for BeautifySJ abatement activities. The amount budgeted for Police Department support for abatement activities in 2023-2024 is \$250,000; however, a total of \$580,000 was expended in 2022-2023. Increasing the existing budget by approximately 50% is anticipated to help provide the additional capacity needed to assist with abatement work. The presence and support of Police Officers ensure a safe environment by providing a visible deterrent and protection from disruption at the encampments when signs need to be posted of an upcoming abatement or an area that needs to be abated. (-\$120,000)
- ***Police Personal Services (Child Forensic Interviewer)*** – increases the Police Department’s Personal Services appropriation by \$112,719 to support the hiring of child forensic interviewers for the Children’s Advocacy Center (CAC). The CAC supports families and children who are victims of sexual assault. The child forensic interviewers provide critical services in support of the CAC by conducting interviews and mandatory peer reviews of interviews conducted by detectives within the Department. The City of San José and the County of Santa Clara executed and entered a reimbursement agreement for \$260,000 for services between July 1, 2023 and June 30, 2024, where the City provides staffing for a part-time Child Forensic Interviewer with costs for the position to be reimbursed by the County. As part of the development of the 2023-2024 Base Budget, the revenues were recognized and budgeted; however, the corresponding increase to the Personal Services appropriation was inadvertently omitted. This action corrects the oversight and aligns the expense with the revenue budget. (-\$113,000)

ANALYSIS

Impacts on the 2023-2024 General Fund Budget

- ***City Attorney Non-Personal/Equipment (Outside Counsel)*** – increases the Office of the City Attorney’s Non-Personal/Equipment appropriation by \$100,000, as the existing budget is insufficient to provide the necessary level funding for specialized expertise and services that are expected to be provided by contracted outside counsel. (-\$100,000)

- ***Sports Authority (2023 U.S. Gymnastics Championships)*** – increases the Sports Authority City-Wide Expenses appropriation by \$100,000, from \$678,236 to \$778,236, to address a funding shortfall for San Jose Sports Authority host requirements related to the 2023 USA Gymnastics (USAG) Championships bid fee of \$250,000. As part of the 2023-2024 Adopted Budget, \$150,000 was allocated for the USAG Championships; however, the Sports Authority’s requested contribution from the City was insufficient, leaving a funding shortfall of \$100,000. This action will provide the full funding necessary for the bid fee. The USAG championships was broadcast live by NBC from August 24-27, with primetime nationwide coverage on Friday, Saturday, and Sunday providing visibility for San José and enhancing its image as a destination city. Approximately 2,500 members of the USA Gymnastics community were estimated to attend the national congress and trade show at the San Jose McEnery Convention Center, yielding economic benefits by stimulating downtown business activity and creating jobs for area hotels, restaurants, bars, transportation, and especially event venues (both the SAP Center and San Jose McEnery Convention Center). Visit San Jose estimated an economic impact for the 2023 USAG Championships of approximately \$7.81 million, with 4,189 total room nights, and event guest spending that yielded an approximate return of \$31 for every \$1 dollar invested by the City. (-\$100,000)

- ***BeautifySJ Grants*** – increases the BeautifySJ Grants City-Wide Expenses appropriation in the amount of \$99,924. The BeautifySJ Grant Program funds small grants to Neighborhood Associations District Leadership groups, Emerging Neighborhood groups, Property Owner/Tenant associations, and community partner groups to implement beautification projects and neighborhood building events. Near the end of 2022-2023, PRNS received \$99,924 in unused funds from 46 groups. The unused funds will be allocated back to this program, which can then be granted to other groups for beautification projects. (-\$100,000)

ANALYSIS

Impacts on the 2023-2024 General Fund Budget

- ***Transfers and Reimbursements (Transfer from American Rescue Plan Fund)*** – increases the revenue estimate for Transfers and Reimbursements to recognize a transfer of \$2.2 million from the American Rescue Plan Fund, reflecting the remaining balance in the fund due to accumulated interest earnings and liquidated encumbrances, to support workstreams previously funded by the American Rescue Plan Fund and shifted to the General Fund in 2022-2023. This amount serves as a contribution to the \$15.0 million allocated for Emergency Interim Housing Construction and Operation as described above. (\$2.2 million)

- ***Revenue from Local Agencies (Berryessa Union School District – Expanded Learning Opportunities Programs Grant)*** – increases the estimate for Revenue from Local Agencies in the amount of \$269,675 to recognize the 2023-2024 allocation of the Expanded Learning Opportunities Program (ELOP) agreement with Berryessa Union School District (BUSD). Through the ELOP agreement, BUSD provides registration fees to the City for specific students to attend the after-school program R.O.C.K. at select elementary schools in the Berryessa Union School District. The original contract totaled \$273,000, of which \$3,925 was used in 2022-2023. This action budgets the remainder of the award to 2023-2024. (\$270,000)

- ***Business Tax (Net-Zero Adjustments)*** – aligns the 2023-2024 budgeted estimate for the General Business Tax and Cardroom Tax with the anticipated collection levels. Due to higher than anticipated 2022-2023 General Business Tax collections, the 2023-2024 receipts can drop by 8% to meet the budgeted estimate of \$27.5 million. As 2023-2024 General Business Tax receipts are not anticipated to drop, a recommendation is included to increase the 2023-2024 estimate by \$2.0 million (from \$27.5 million to \$29.5 million). Offsetting this adjustment is an action to decrease the Cardroom Tax budgeted estimate by \$2.0 million, from \$32.0 million to \$30.0 million. This action is recommended to align the 2023-2024 budgeted estimate with the 2022-2023 collection level. (\$0)

ANALYSIS

Impacts on the 2023-2024 General Fund Budget

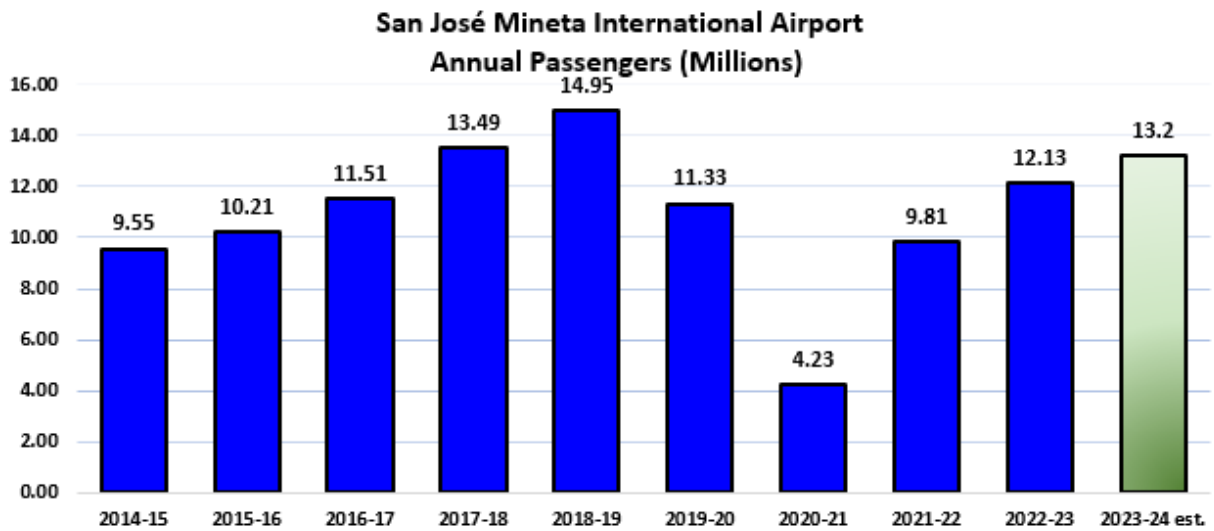
- ***Other Remaining Adjustments*** – Remaining actions include technical corrections or reallocations, and other smaller adjustments. Funding (\$500,000) is reallocated from the Measure E – Interim Housing Maintenance Reserve (15% HSP) to the Measure E – Interim Housing Maintenance (15% HSP) City-Wide Expenses appropriation to increase funding for the maintenance of interim housing sites; the revenue estimate for Transfers and Reimbursements is increased by \$100,000 – supplied by a transfer from the Ice Centre Revenue Fund and allocated to the Ice Centre Expansion Oversight Project appropriation to provide funding for the Public Works Department staff time required for plan review, inspection, and approval of reimbursement requests for the final projects related to the Ice Centre Expansion Project; and funding of \$50,000 is reallocated from the Storefront Activation Program to the Office of Economic Development and Cultural Affairs Non-Personal/Equipment appropriation to extend the Post Street Traffic Closure Pilot Program through June 30, 2024, as directed by the Rules and Open Government Committee at its August 30, 2023 meeting. Other notable minor actions increase departmental Non-Personal/Equipment funding for various activities, including: consulting services related to the County of Santa Clara request for proposal for ambulance transport services; additional contractual security services at the Civic Center; and, professional recruiting services to support an in-depth recruiting and marketing strategy for the vacant Independent Police Auditor position. (-\$181,000)
- **Grants/Reimbursements/Fees (Net-Zero)**
 - A series of adjustments – net increase in revenues of \$3.0 million, offset by a net expenditure increase of \$3.0 million – are recommended to recognize new and updated revenues and expenditures for ***Grants, Reimbursements, and/or Fees***, primarily for the following Departments: Office of the City Manager (net-zero adjustments of \$643,000); Parks, Recreation and Neighborhood Services Department (net-zero adjustments of \$576,000); Police Department (net-zero adjustments of \$513,000); Office of Economic Development and Cultural Affairs (net-zero adjustments of -\$488,000); Environmental Services Department (net-zero adjustments of \$384,000); Library Department (net-zero adjustments of \$338,000); and Fire Department (net-zero adjustments of \$15,000). These adjustments are further described in *Section IV. Recommended Budget Adjustments and Clean-Up/Rebudget Actions*.

ANALYSIS

2022-2023 Selected Special/Capital Funds Budget Performance

Airport Operating Funds

The Airport served 12.1 million passengers in 2022-2023, which was an increase of 23.6% from 2021-2022. Passenger traffic was strong in 2022-2023; monthly passenger volumes held steady at or over one million passengers eight months out of twelve. Passenger levels are expected to continue to recover gradually over the next several years. For 2023-2024, projections reflect an approximately 9% increase from 2022-2023 levels, or 13.2 million passengers.



All airport activity categories experienced increases from 2021-2022, including traffic operations, landed weights, gallons of aviation fuel sold, mail/freight/cargo pounds, and ground transportation trips. Overall, revenue performance exceeded the budgeted estimate by \$18.3 million (8.8%). Airline Rates and Charges (combined total of landing fees and terminal rents) and all other operating categories, excluding transfers and grant funding, ended the year at \$197.3 million, which was \$18.6 million (10.4%) above the budgeted estimate of \$178.7 million. The positive variance is distributed across Parking and Roadway, Terminal Concessions, General Aviation/Miscellaneous, and Airfield revenues, slightly offset by Terminal Rentals, Landing Fees, and Petroleum, which all finished the year slightly below the budget.

ANALYSIS

2022-2023 Selected Special/Capital Funds Budget Performance

Airport Operating Funds

The Airport Customer Facility and Transportation Fee Fund had year-end expenditure savings of \$468,000 (4.0%) and Airport Maintenance and Operation Fund had a year-end expenditure savings of \$36.7 million (23.6%) compared to budgeted levels of \$155.8 million. The savings were primarily from the variance of over-estimating the share of net remaining revenue that, by agreement, would need to be returned to the airlines (\$24.9 million) – which are conservatively estimated to avoid a year-end transfer that could potentially result in an exceeded appropriation – along with contractual services savings for custodial, shuttle bus and parking operations, and baggage handling system maintenance from reduced service levels that continue to restore as passenger levels increase (\$5.7 million), and personal services savings (\$2.5 million).

San José Clean Energy Fund

The San José Clean Energy Fund, managed by the Community Energy Department, facilitates the delivery of the San José Clean Energy (SJCE) program, which provides residents and businesses of San José with cleaner energy options than PG&E and access to energy efficiency community programs. Total Energy Sales ended the year at \$516.6 million, which is consistent with the modified budgeted estimate of \$516.5 million, and up 45.3% from prior year levels of \$355.5 million. Cost of Energy expenditures including encumbrances ended the year just 1.6% below the modified budget of \$390.4 million, at \$384.0 million.

In December 2022, City Council approved SJCE’s rate package for 2023 and its shift to a new cost-of-service rate setting model in place of setting rates at a fixed discount or premium to PG&E’s standard generation rates, inclusive of PG&E’s added fees. SJCE’s new rates began on January 1, 2023, and are 1-3% below PG&E rates, inclusive of the Power Charge Indifference Adjustment (PCIA) and Franchise Fee Surcharge, depending on customer class and usage. City Council approval also included the establishment of SJCE’s Financial Reserves Policy, which sets a goal to build and maintain at least 180 days of operating reserves to achieve financial resiliency and rate stability. Though still below the 180-day threshold of approximately \$240 million, the position of the SJCE Fund has improved, with a 2023-2024 estimated year-end reserve level of \$136.0 million.

PG&E’s PCIA fees are highly volatile and are a significant factor when setting SJCE rates each year. Lower PCIA fees combined with high market energy prices created a favorable environment for SJCE in 2022-2023, which is a marked improvement from the prior year when SJCE’s financials projected a cash flow shortage for which City Council authorized Commercial Paper Note issuance of up to \$95.0 million. SJCE drew a total of \$60.0 million of Commercial Paper notes in 2020-2021 and 2021-2022, combined, and paid back \$40.0 million in 2022-2023. The remaining \$20.0 million of Commercial Paper notes are anticipated to be paid off in 2023-2024.

ANALYSIS

2022-2023 Selected Special/Capital Funds Budget Performance

Capital Fund Major Revenues

A number of taxes and fees levied on construction and property resale (conveyance) activity provide a large source of revenue to the City’s Capital program. The 2022-2023 actual collections in these capital revenue categories ended the year below, or at best slightly above, budgeted estimates. The chart below provides a comparison of estimated revenues to actual revenues, and a discussion of the three largest revenue sources follows.

**Construction-Related Capital Program Revenues Comparison
 (\$ in Thousands)**

	2022-2023 Estimate*	2022-2023 Actuals	% Variance
Construction and Conveyance Tax	\$40,000	\$37,850	(8%)
Building and Structure Construction Tax	\$19,000	\$16,385	(14%)
Construction Excise Tax	\$14,000	\$10,882	(22%)
Municipal Water System Fees	\$75	\$82	10%
Residential Construction Tax	\$200	\$204	2%
Sanitary Sewer Connection Fee	\$500	\$508	2%
Storm Drainage Connection Fee	\$200	\$135	(32%)

* Revenue estimate used in the development of the 2023-2024 Adopted Capital Budget.

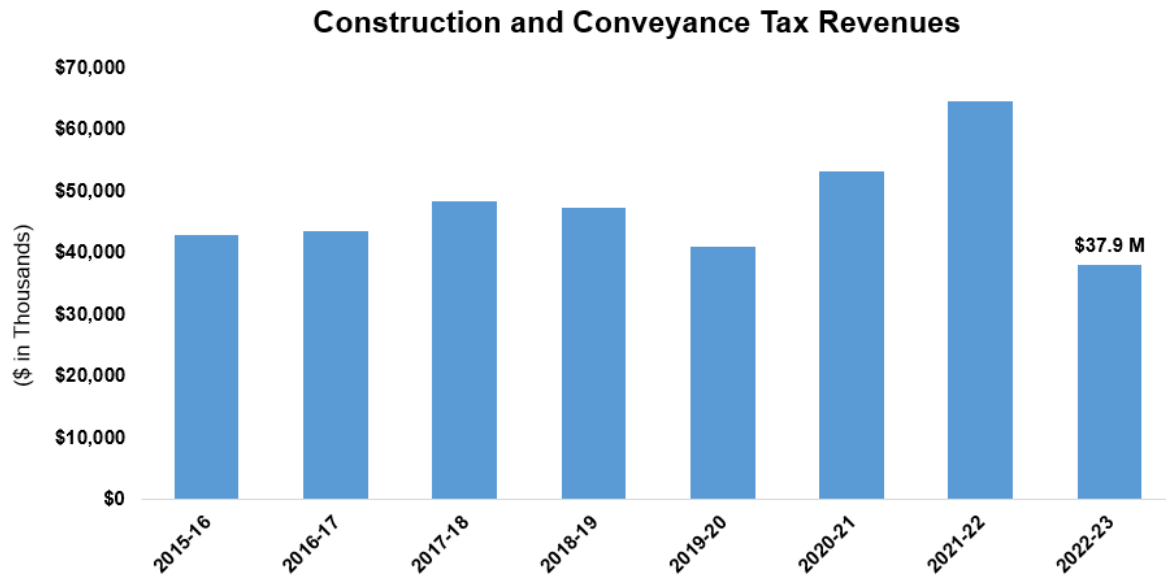
• **Construction and Conveyance Tax**

Real estate activity (primarily housing re-sales) determines the collection level of one of the major capital revenue sources, the Construction and Conveyance (C&C) Tax. Approximately 99% of C&C Tax is derived from a tax imposed upon each transfer of real property, with the remaining 1% generated from a construction tax levied on most types of construction. C&C Tax revenues, which are a significant source of funds for the Parks and Community Facilities Development, Library, Fire, Service Yards, and Communications capital programs, totaled \$37.9 million in 2022-2023. This collection level was \$2.1 million below the estimated collection level of \$40.0 million, and \$26.6 million (41.3%) lower than the historically high 2021-2022 receipts of \$64.5 million. In 2023-2024, C&C Tax revenue is budgeted at \$40.0 million, which would require a growth of \$2.1 million (5.7%) from the actual 2022-2023 collection level. Due to the volatile nature of the C&C Tax, actual receipts will be closely monitored in the first half of 2023-2024. The following graph displays the history of C&C Tax receipts.

ANALYSIS

2022-2023 Selected Special/Capital Funds Budget Performance

Capital Fund Major Revenues



- **Building and Structure Construction Tax and the Construction Excise Tax**

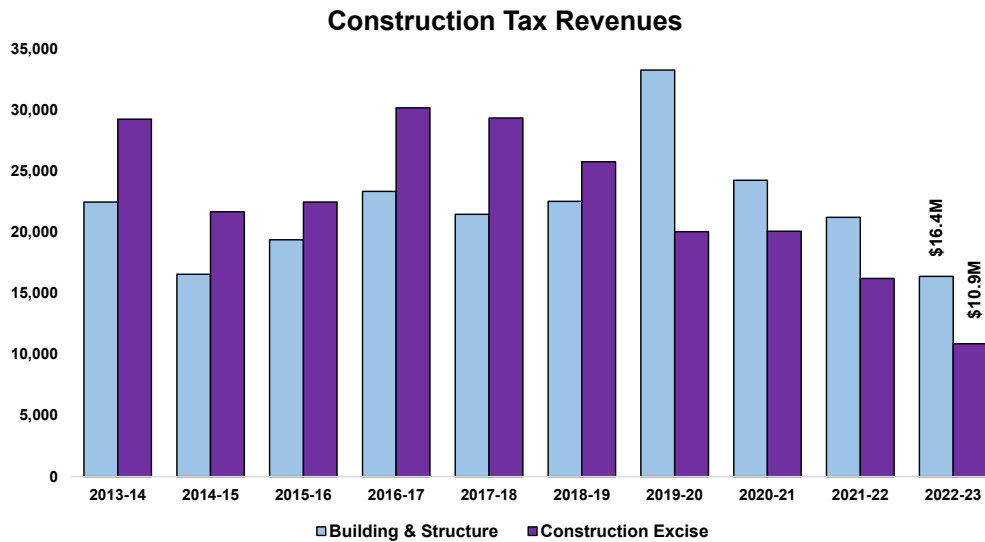
The Building and Structure Construction Tax and the Construction Excise Tax are major sources of funding for the Traffic Capital Program. Year-end collections in the Building and Structure Construction Tax category totaled \$16.4 million in 2022-2023. This collection level was 13.8% (\$2.6 million) below the Modified Budget estimate of \$19.0 million that was used to develop the 2023-2024 Adopted Capital Budget; furthermore, the collection level was \$4.8 million less than \$21.2 million received in 2021-2022. Construction Excise Tax receipts for 2022-2023 totaled \$10.9 million: 22.3% (\$3.1 million) below the Modified Budget estimate of \$14.0 million, 27.3% (\$4.1 million) below the \$15.0 million estimate used to develop the 2023-2024 Adopted Capital Budget, and 32.9% (\$5.3 million) below 2021-2022 collections of \$16.2 million.

The graph below displays the collection history of both the Building and Structure Construction Tax and Construction Excise Tax receipts. Tax collections track closely to valuation activity, and building project valuations have dropped each year over the last three years since nearly reaching historically high levels in 2019-2020. The status of these volatile taxes will be closely monitored throughout 2023-2024 to determine if future budget actions are necessary to revise the revenue estimates.

ANALYSIS

2022-2023 Selected Special/Capital Funds Budget Performance

Capital Fund Major Revenues



Special and Capital Funds Budget Adjustments

A number of budget adjustments for both special and capital funds are included in this report, including recognition of grants, net-zero transfers/reallocations, new allocations for a small number of high priority projects and programs, and required fund rebalancing activity. Highlights of significant actions within these funds are described below.

Several actions are included within Housing Funds to continue the City’s support of affordable housing projects and reduce homelessness. In the Inclusionary Fee Fund, a reallocation of \$10.0 million from the Missing Middle Affordable Housing Reserve to the Housing Project Reserve is recommended. Previously set aside as directed by City Council’s approval of the Mayor’s March Budget Message for Fiscal Year 2019-2020 to be paired with the State’s Middle Income Program, which provides long-term financing for new construction of multi-family housing projects restricting units up to 120% of area median income. However, after investigation, the program is not feasible to implement without an ongoing or dedicated source of funding, and has elements that conflict with the City’s bond policies. Of this amount \$6.5 million is allocated to the Housing Projects Reserve to support the upcoming affordable housing NOFA, with the remaining \$3.5 million allocated to the Committed Projects Reserve to support affordable housing developments in the pipeline. In the Low and Moderate Income Housing Asset Fund, a total amount of \$23.2 million is recommended to be set aside within the Housing Projects Reserve for the upcoming NOFA and to address any potential justified cost overruns for affordable housing projects currently in the pipeline, generated from \$13.0 million of savings and liquidation of prior year carry-over encumbrances in 2022-2023, and \$10.2 million reallocated from the Housing Loans and Grants

ANALYSIS

2022-2023 Selected Special/Capital Funds Budget Performance

Special and Capital Funds Budget Adjustments

appropriation related to a prior-year affordable housing project no longer moving forward (Algarve Development). Anticipated for release by the end of October, the NOFA will provide a more comprehensive inventory of funding sources, including other Housing Funds and resources from Measure E. Finally, in the Multi-Source Housing Fund, \$2.6 million of eligible fund balance is recommended to increase the Homeless Rapid Rehousing appropriation from \$4.7 million to \$7.3 million.

In the TOT Fund, actual 2022-2023 TOT revenues of \$22.35 million ended slightly below (\$149,000, or 0.7%) the Modified Budget estimate of \$22.5 million, resulting in minor reconciling decreases in accordance with the distribution formula outlined in the San José Municipal Code to allocate revenue received in the TOT Fund to support convention facilities operations (Transfer to the Convention and Cultural Affairs Fund), the San José Convention and Visitors Bureau, and Cultural Grants. However, a net increase of \$526,000 to the Cultural Grants Reserve is recommended, from \$2.5 million to \$3.0 million, inclusive of the proportional reduction of TOT revenue and savings from the Cultural Grants and Cultural Grants Administration appropriations. The Cultural Grants Reserve was re-established as part of the 2022-2023 Year-End Budget Adjustments and factored into the development of the 2023-2024 Adopted Budget by recognizing higher projected TOT revenues (\$6.0 million) for 2022-2023, given revenue performance through most of the fiscal year. This set aside is intended to serve as a buffer against future revenue fluctuations, enabling greater consistency for arts and cultural funding.

In the Airport Capital Program, actions are included to reduce the Airfield Configuration Updates project by a net of \$10.7 million to account for a reduction of \$16.0 million in the Airport Capital Improvement Fund (from \$32.6 million to \$16.6 million) to reflect the actual grant award from the Federal Aviation Administration for a portion of the Taxiway V project, and an increase of \$5.3 million in the Airport Renewal and Replacement Fund (from \$8.5 million to \$13.8 million) to support the continuation of Phases 1B and 1C, as well as expenses for related soil remediation, in 2023-2024. The City will reapply for grant funding in a future cycle and will adjust the timing of the project's completion to align with grant availability.

In the Parks and Community Facilities Development Capital Program, adjustments are recommended in various funds. The most significant adjustments include the establishment of the TRAIL: Coyote Creek Design (Roosevelt Park to Watson Park) project in the Subdivision Park Trust Fund in the amount of \$850,000, of which \$765,00 will be reimbursed by Valley Transportation Authority (VTA) Measure B funds; and the establishment of the Happy Hollow Park and Zoo Fire Panel Replacement project in the Parks City-Wide C&C Tax Fund for the necessary replacement of fire alarms and panels at Happy Hollow Park and Zoo.

ANALYSIS

2022-2023 Selected Special/Capital Funds Budget Performance

Special and Capital Funds Budget Adjustments

In the Public Safety Capital Program, actions are included to increase the Measure T – Program Reserve (Public Safety) by \$4.5 million (from \$5.3 million to \$9.8 million) in the Public Safety Infrastructure Bond Fund, capturing unallocated interest earnings from Measure T bond proceeds that can be set aside to address likely cost escalations related to the various Public Safety Measure T construction contracts are that anticipated to be awarded in 2023-2024. A full status report on the Measure T Program is scheduled for the City Council meeting on October 17, 2023.

In the Traffic Capital Program, pedestrian safety-related adjustments include allocating funding of \$1.0 million to the Vision Zero: Data Analytics Tool project in the Construction Excise Tax Fund (offset by a reduction to the Safety Program Reserve) to enhance and maintain a machine learning Vision Zero Data Analytic platform integrating more than 50 data pipelines and leveraging artificial intelligence functionalities to understand the relationship between the built environment and traffic fatalities, and support investment prioritization and decision-making. Another key pedestrian safety action in the Construction Excise Tax Fund is the reallocation of \$800,000 of VTA Measure B funding to establish the VTA Measure B 2016 Complete Street Project Improvements (Safe Routes to School) project to begin implementation of the School Safety Traffic Program. As described in Manager’s Budget Addendum #38, *Safe Routes to Schools*⁴, the Administration anticipated returning to the City Council early in 2023-2024 to allocate recently increased funding levels within the VTA Measure B program to initiate the first year of a multi-year project of assessing and implementing safety projects near San José schools. The recommended allocation in this report supports initial assessment work, as well as temporary engineering staffing that will be considered for permanent continuation as part of the 2024-2025 budget development process.

Finally, the rebudget of unexpended funds for projects and programs extending into 2023-2024 is recommended in this report. Details of these adjustments can be found in Section IV of this report.

⁴ <https://www.sanjoseca.gov/home/showpublisheddocument/98836/638211478066670000>

ANALYSIS

Updates on Direction from City Council's Approval of the June Budget Message for 2023-2024

Included in their action to approve the Mayor's June Budget Message for Fiscal Year 2023-2024, the City Council approved a memorandum from Councilmembers Davis, Torres, Ortiz, Batra, and Doan that directed the Administration to evaluate the following items for funding with resources from the Community Development Block Grant (CDBG) Fund or the General Fund Ending Fund Balance if not CDBG eligible, and return to the City Council with other any other potential funding opportunities: Hoffman Via Monte Safety Lighting (\$930,000); assisting the Vietnamese Heritage Community Garden by updating the master plan and conducting a funding feasibility study (\$450,000), development of a cultural district plan for the Alum Rock Arts District (\$100,000), and repairs to the African American Community Service Agency repairs (\$85,000).

After additional analysis, staff has concluded that the Hoffman Via Monte Safety Lighting project is eligible for CDBG funding as the location is within a CDBG low-income census tract and the funds would be spent to construct new or upgraded assets of community-wide benefit. Initial environmental clearance work is underway and is expected to occur over the next two years. No budget action is needed at this time, as any project costs can be charged to existing CDBG expenditure appropriations.

The other projects are not CDBG eligible. The requested expenditure for the Vietnamese Heritage Community Garden and Alum Rock Arts District do not result in physical infrastructure improvements. While the requested expenditure for the African American Community Service Agency would incur construction costs, the scope of work is classified as maintenance activity to existing assets that replaces like-for-like and does not result in substantively new or upgraded facility. As the remaining General Fund ending fund balance is fully spent based on prior City Council policy direction (including the \$15.0 million to reduce unsheltered homelessness), the Administration recommends that the City Council consider the prioritization of these items during the 2024-2025 budget development process.

NEXT STEPS

The results of the 2022-2023 Annual Report will provide an updated starting point for monitoring 2023-2024 financial performance, with actual revenue and expenditure trends factored into the analysis of the General Fund and numerous special and capital funds. Information on the City's budget for 2023-2024 will be provided in the Bi-Monthly Financial Reports that are heard at the PSFSS Committee and the 2023-2024 Mid-Year Budget Review.

The 2022-2023 Annual Report results will also be factored into the 2024-2025 budget development process. The General Fund Five-Year Forecast is scheduled to be released in late February 2024. The 2024-2025 Proposed Capital and Operating Budgets are scheduled to be released by May 1, 2024.

COORDINATION

The City Manager's Budget Office coordinated with the Finance Department on the reconciliation of the City's funds and coordinated with all City Departments and City Council Appointees, as applicable, on recommended budget adjustments that are brought forward in this document.

PUBLIC OUTREACH

This document will be posted on the City's Council Agenda website for the October 17, 2023, City Council meeting.

COMMISSION RECOMMENDATION AND INPUT

No commission recommendation or input is associated with this action.

CEQA

Not a Project, File No. PP17-009, Staff Reports, Assessments, Annual Reports, and Informational Memos that involve no approval of any City actions, and File No. PP17-004, Government Funding Mechanism of Fiscal Activity with no commitment to a specific project which may result in a potentially physical impact on the environment.

PUBLIC SUBSIDY REPORTING

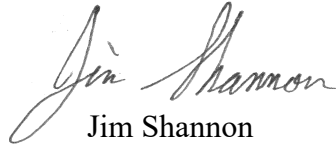
This item does not include a public subsidy as defined in section 53083 or 53083.1 of the California Government Code or the City's Open Government Resolution.

CONCLUSION

Through careful fiscal management, overall revenues for the various City funds ended the year close to estimated levels and expenditures were below budgeted allocations. The 2022-2023 Adopted Budget was approved within the context of a meaningfully improved budgetary position when compared to the pandemic years, which aligned with actual revenue and expenditure performance, as well as associated economic indicators. As a result of rigorous forecasting, monitoring, and management throughout all City funds, 2022-2023 revenues and expenditures ended the year very close to budgeted expectations. In the General Fund, the additional fund balance at the end of 2022-2023, after considering clean-up/rebudget actions, totaled \$18.6 million (0.5% of the Modified Budget for revenues and expenditures). Along with a number of net-zero adjustments related to grants, reimbursements and fees, recommendations are included in this report to fully allocate these funds to meet prior City Council direction.

CONCLUSION

The Administration will continue to monitor and report on the City's budget performance through the Bi-Monthly Financial Reports and the Mid-Year Budget Review. The financial results of 2022-2023, as well as the actual performance in 2023-2024, will be factored into the development of the 2024-2025 budget. The 2025-2029 General Fund Five-Year Forecast will be released at the end of February 2024 for budget planning purposes.

A handwritten signature in black ink that reads "Jim Shannon". The signature is written in a cursive style with a large, sweeping initial "J".

Jim Shannon
Budget Director

CERTIFICATION OF FUNDS

I hereby certify that there will be available for appropriation in the designated funds and in the amounts as listed below in fiscal year 2023-2024 monies in excess of those heretofore appropriated therefrom:

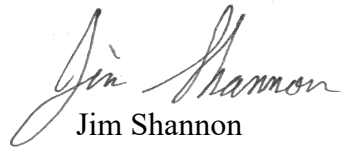
General Fund	\$30,075,362
Airport Customer Facility and Transportation Fee Fund	\$1,333,220
Airport Passenger Facility Charge Fund	\$2,205,818
Airport Renewal and Replacement Fund	\$5,374,994
Airport Surplus Revenue Fund	\$86,761
American Rescue Plan Fund	\$2,244,132
Benefits Funds - Dental Insurance Fund	\$1,007,614
Benefits Funds - Life Insurance Fund	\$19,519
Benefits Funds - Unemployment Insurance Fund	\$29,130
Branch Libraries Bond Projects Fund	\$537,974
Building and Structure Construction Tax Fund	\$9,498,829
Building Development Fee Program Fund	\$4,166,981
Business Improvement District Fund	\$840,844
Cash Reserve Fund	\$38
City Hall Debt Service Fund	\$223,091
Community Facilities District Fund #8	\$69,434
Community Facilities District Fund #11	\$47,032
Community Facilities District Fund #14	\$17,546
Community Facilities District Fund #15	\$12,343
Community Facilities Revenue Fund	\$2,675
Construction and Conveyance Tax - Communications	\$476,746
Construction and Conveyance Tax - Council District 1	\$138,197
Construction and Conveyance Tax - Council District 2	\$141,525
Construction and Conveyance Tax - Council District 3	\$361,403
Construction and Conveyance Tax - Council District 4	\$1,452,199
Construction and Conveyance Tax - Council District 5	\$481,341
Construction and Conveyance Tax - Council District 6	\$243,144
Construction and Conveyance Tax - Council District 7	\$686,345
Construction and Conveyance Tax - Council District 8	\$406,593
Construction and Conveyance Tax - Council District 9	\$82,704
Construction and Conveyance Tax - Council District 10	\$100,738
Construction and Conveyance Tax - Fire	\$716,315
Construction and Conveyance Tax - Library	\$266,659
Construction and Conveyance Tax - Parks Central	\$3,656,371
Construction and Conveyance Tax - Parks City-Wide	\$4,528,656

CERTIFICATION OF FUNDS

Construction and Conveyance Tax - Parks Yards	\$138,333
Construction and Conveyance Tax - Service Yards	\$122,935
Construction Excise Tax Fund	\$27,025,993
Contingent Lien District Fund	\$263,519
Convention and Cultural Affairs Capital Fund	\$142,890
Convention and Cultural Affairs Fund	\$1,427,577
Convention Center Facility District Capital Fund	\$14,411
Coronavirus Relief Fund	\$29,622
Economic Development Administration Loan Fund	\$37
Emergency Reserve Fund	\$2,670,699
Emma Prusch Fund	\$186,896
Federal Drug Forfeiture Fund	\$419,026
Fire Development Fee Program Fund	\$51,465
General Purpose Parking Capital Fund	\$11,643,107
General Purpose Parking Fund	\$225,012
Gift Trust Fund	\$2,647,074
Home Investment Partnership Program Trust Fund	\$3,080,883
Homeless Housing, Assistance, and Prevention Fund	\$1,617,707
Ice Centre Revenue Fund	\$2,786,954
Integrated Waste Management Fund	\$454,818
Lake Cunningham Fund	\$253,027
Library Parcel Tax Capital Fund	\$233,278
Library Parcel Tax Fund	\$444,694
Low and Moderate Income Housing Asset Fund	\$58,326,845
Maintenance District Fund #5	\$4,274
Maintenance District Fund #8	\$13,045
Maintenance District Fund #9	\$30,925
Maintenance District Fund #13	\$8,745
Maintenance District Fund #19	\$6,136
Maintenance District Fund #20	\$14,949
Maintenance District Fund #22	\$14,520
Major Collectors and Arterials Fund	\$61,895
Major Facilities Fund	\$60,130
Measure T Public Safety and Infrastructure Bond Fund	\$23,210,762
Municipal Golf Course Fund	\$158,451
Planning Development Fee Program Fund	\$47,824
Public Works Development Fee Program Fund	\$2,175,175
Public Works Small Cell Permitting Fee Program Fund	\$166,327
Rental Stabilization Program Fee Fund	\$782,483

CERTIFICATION OF FUNDS

Residential Construction Tax Contribution Fund	\$373,808
San José Arena Capital Reserve Fund	\$2,472,464
San José-Santa Clara Treatment Plant Capital Fund	\$619,269
San José-Santa Clara Treatment Plant Income Fund	\$187,821
San José-Santa Clara Treatment Plant Operating Fund	\$1,431,766
Sanitary Sewer Connection Fee Fund	\$237,586
Sewer Service and Use Charge Capital Improvement Fund	\$22,271,746
Sewer Service and Use Charge Fund	\$2,463,162
South Bay Water Recycling Capital Fund	\$58,703
St. James Park Management District Fund	\$94,739
State Drug Forfeiture Fund	\$100,383
Storm Drainage Fee Fund	\$85,148
Storm Sewer Capital Fund	\$12,864,161
Storm Sewer Operating Fund	\$1,215,096
Subdivision Park Trust Fund	\$8,866,757
Supplemental Law Enforcement Services Fund	\$341,347
Transient Occupancy Tax Fund	\$450,106
Underground Utility Fund	\$3,033,929
Vehicle Maintenance and Operations Fund	\$967,738
Water Utility Capital Fund	\$807,830
Water Utility Fund	\$1,309,604


Jim Shannon
Budget Director