

General Fund Balancing Strategy Detail

2024-2025 Proposed Operating Budget

INTRODUCTION

This attachment is intended to provide a more detailed summary of the key actions taken to balance the 2024-2025 Proposed General Fund Budget. Revisions to the February Base Budget Forecast, as well as the key elements of the strategy to bring the General Fund into balance in the Proposed Budget, are described.

In February 2024, the Administration prepared formal projections for the 2024-2025 Proposed General Fund Budget as part of the *2024-2025 City Manager's Budget Request & 2025-2029 Five-Year Forecast and Revenue Projections* document that was released to the City Council. In that document, the 2024-2025 February Base Budget Forecast projections estimated a 2024-2025 General Fund shortfall of approximately \$3.6 million. This shortfall represented the difference between projected 2024-2025 General Fund resources and the expected cost of approved 2024-2025 Base Budget services in next year's dollars, as well as several City Council "committed" additions (e.g., additional operating and maintenance costs for capital projects in the 2024-2025 Capital Improvement Program or for projects approved by the City Council during 2023-2024).

Subsequent to the release of the February Forecast and based on updated information, a number of revisions to both expenditures and revenue estimates were made, which constitutes the "Revised Base Budget Forecast" included in the Proposed Budget.

The revisions to the February Base Budget Forecast included a series of changes that revised the shortfall slightly downward due to a number of factors, including corrections to personal services costs within the Base Budget and minor revisions to several revenue categories. These changes resulted in the shortfall growing from \$3.6 million to \$4.5 million in 2024-2025. These adjustments to the February Base Budget Forecast are described in more detail later in this section.

The Proposed Budget contained a set of actions that increased both the General Fund sources (by \$29.1 million) and uses (by \$24.7 million) from the Revised Base Budget Forecast, bringing the overall General Fund into balance for 2024-2025. The increase in sources of \$29.1 million included several major components, including: grant revenue anticipated to be received from local, State, and federal agencies (\$18.0 million); excess revenue and expenditure savings from 2023-2024 that will be available for use in 2024-2025 (\$5.0 million); and other revenue changes (\$6.1 million). The increase in uses of \$24.7 million in 2024-2025 included additional funding for the following: continuation of 2023-2024 one-time funded services (\$19.3 million); service level enhancements (\$18.7 million); earmarked reserves (\$5.0 million); new infrastructure or equipment operations and maintenance (\$3.4 million); critical unmet/deferred infrastructure and maintenance needs (\$1.5 million); other fee programs, grants, and reimbursements (\$949,000).

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These increases were partially offset by savings realized from cost reductions, service delivery efficiencies, and funding shifts (\$949,000) and the use of reserves that had been established for specific purposes (\$4.0 million) that were included in the February Forecast. The result of these actions was a balanced 2024-2025 Proposed General Fund Budget of \$1.6 billion.

Table I below displays the overall projections for the 2024-2025 General Fund as they changed between the February Base Budget Forecast and the Proposed Budget. Table II summarizes the changes from the February Base Budget Forecast to the Revised Base Budget Forecast, excluding carryover for prior year encumbrances. The specific elements of the City Manager's Proposed Budget balancing strategy are summarized in Table III.

Table I
2024-2025 PROPOSED OPERATING BUDGET
Forecast to Proposed Budget Reconciliation (in \$000s)

	Total Sources	Total Uses	(Shortfall)/ Surplus
February Base Budget Forecast	\$ 1,628,215	\$ 1,631,803	(\$3,587)
Forecast Revisions	(42,220)	(41,356)	(864)
Revised Base Budget Forecast (no fee impact)	\$1,585,995	\$1,590,447	(\$4,452)
Proposed Revisions	29,133	24,682	4,452
2024-2025 Proposed Budget	\$1,615,128	\$1,615,128	\$0

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REVISED BASE BUDGET FORECAST

As discussed previously, following the issuance of the February Base Budget Forecast, detailed analysis of the status of General Fund revenues and expenditures continued. Based on this review, the Proposed Budget incorporated a series of changes to the February Base Budget Forecast estimates for both sources and uses to form a Revised Base Budget Forecast. These changes resulted in an increase of \$864,000 to the estimated General Fund shortfall, for a revised shortfall of \$4.5 million. Changes are detailed in Table II below.

Table II
2024-2025 REVISED BASE BUDGET FORECAST
Summary of Changes (in \$000s)

Sources	Revision
Beginning Fund Balance (Expenditure Savings)	\$ 4,044
Transfers and Reimbursements	2,685
Fees, Rates, and Charges	1,265
Other Revenue	1
Real Property Transfer Tax (Fund Shift)	(50,000)
Revenue from Local Agencies	(215)
Net Change in Sources	\$ (42,220)
Uses	Revision
Position and Fund Realignments/Corrections	\$ 4,967
Non-Personal/Equipment, City-Wide Expenses, Capital Contributions, Transfers	1,177
Earmarked Reserves Adjustments	(47,500)
Net Change in Uses	\$ (41,356)
Total Change (Shortfall)/Surplus	\$ (864)

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REVISED BASE BUDGET FORECAST

Source of Funds

A summary table is provided below for the revenue changes incorporated into the Revised Base Budget Forecast, which were used as the starting point in preparing the 2024-2025 Budget.

Category	\$ Change	Description
Beginning Fund Balance	\$ 4,043,944	Increase of \$4.0 million reflects savings from various Measure E appropriations that are not anticipated to be expended by the end of 2023-2024 and will be rebudgeted to 2024-2025 and then transferred to the Real Property Transfer Tax Fund.
Transfers and Reimbursements	2,685,313	Net increase of \$2.7 million reflects updated overhead reimbursements from capital and operating funds based on the final 2024-2025 base budget and overhead rates (\$1.9 million) and higher transfers and reimbursements to the General Fund (810,719).
Fees, Rates, and Charges	1,265,218	Increase of \$1.3 million aligns revenues with estimated base costs and activity levels for Miscellaneous fees (\$545,218), Parks, Recreation and Neighborhood Services Department fees (\$500,000), and Police Department fees (\$220,000).
Other Revenue	110	Increase of \$110 aligns revenues with the estimated base costs and activity levels for reimbursement revenue.
Real Property Transfer Tax	(50,000,000)	Decrease of \$50.0 million reflects the movement of the Real Property Transfer Tax revenue from the General Fund to the Real Property Transfer Tax Fund. The associated expenditures have also been transferred to the Real Property Transfer Tax Fund as part of the Revised General Fund Forecast.
Revenue from Local Agencies	(215,000)	Decrease of \$215,000 reflects a reduction of payments from other agencies for Animal Care Services as the Town of Los Gatos has opted to not renew their contract with the City of San José.
Total	(\$ 42,220,415)	

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REVISED BASE BUDGET FORECAST

Use of Funds

Provided below is a listing for all expenditure changes incorporated into the Revised Base Budget Forecast, which were used as the starting point in preparing the 2024-2025 Budget.

Category	\$ Change	Department
Personal Services Adjustments		
Salaries and Benefits Adjustments (Costing Correction)	\$6,541,001	Citywide
Mayor and Council Salary Adjustments	271,890	Mayor and City Council
Climate Smart Staffing Shifts	144,798	Environmental Services and Transportation
Fund Shift: Housing Department Staffing	9,008	Housing
Classification and Compensation Studies	(2,000,000)	Citywide
Non-Personal/Equipment Adjustments		
Transfer to the Real Property Transfer Tax Fund	4,043,944	Housing
Annualization: Vehicle Abatement Enhancement	300,000	Transportation
Annualization: Emergency Operations Center Facility Costs	132,000	Public Works and Information Technology
Certified Access Specialist Program - ADA Compliance	(10,797)	Finance
Vehicle Operations and Maintenance	(38,000)	Citywide
Transfer to the Communications Construction and Conveyance Tax Fund	(750,000)	Public Works
Fund Shift: Real Property Transfer Tax Fund	(50,000,000)	Citywide
Total	\$ (41,356,156)	

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PROPOSED BUDGET BALANCING STRATEGY

Table III
2024-2025 PROPOSED OPERATING BUDGET
General Fund Balancing Strategy (in \$000s)

	2024-2025	Ongoing
2024-2025 Revised General Fund Surplus	(\$ 4,452)	(\$ 4,452)
Balancing Strategy		
Source of Funds		
Beginning Fund Balance:		
2023-2024 Excess Revenue/Expenditure Savings	\$ 5,000	\$ 0
Unobligated Small Business Recovery Grant (C/O Encum. Liquidation)	1,326	0
Solid Waste Code Enforcement Reserve	680	0
Fund Balance to Support 2023-2024 Projects	648	0
Grants/Reimbursements/Fees:		
State Grant Funding (City's Interim Housing Portfolio)	16,000	0
Ambulance Transport and User Fee	1,700	1,700
Fees and Charges Changes	1,088	1,088
Rue Ferrari Emergency Interim Housing Site Expansion	1,000	0
Parking Citation Fines	800	800
Regulatory Compliance and Purified Water Program	580	565
Commercial Solid Waste CPI Adjustment	577	578
Cannabis Regulation Program Staffing	(901)	(901)
Other Fee Programs/Reimbursements/Grants	308	(147)
Accounts Receivable Amnesty Program	300	300
Construction Excise Tax Fund Transfer	300	300
Overhead Reimbursements	(273)	(237)
Subtotal Source of Funds	\$ 29,133	\$ 4,046
Use of Funds		
2023-2024 Previously One-Time Funded Services	\$ 19,360	\$ 7,294
Service Level Enhancements	18,699	15,277
Earmarked Reserves (Essential Services, Police Department Sworn Backfill Reserve)	5,000	0
New Infrastructure/Equipment Operations and Maintenance	3,372	909
Unmet/Deferred Technology, Infrastructure, and Maintenance	1,495	50
Other Fee Programs/Grants/Reimbursements	949	201
2025-2026 Future Deficit Reserve	0	20,000
Use of Reserves (Deferred Infrastructure and Maintenance, Police Equipment Replacement Sinking Fund, Fire Equipment Replacement Sinking Fund, New Parks and Recreation Facilities Operations and Maintenance, New Traffic Infrastructure Assets Operations and Maintenance, New Police Facilities Operations and Maintenance, New Fire Facilities Operations and Maintenance)	(3,967)	(909)
Cost Reductions/Service Delivery Efficiencies/Fund Shifts	(20,226)	(43,227)
Subtotal Use of Funds	\$ 24,682	\$ (406)
Total Balancing Strategy	\$ 4,452	\$ 4,452
Remaining Balance	\$ 0	\$ 0

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PROPOSED BUDGET BALANCING STRATEGY

Specific City Council direction regarding the preparation of the Proposed Budget was provided in the Mayor's March Budget Message for Fiscal Year 2024-2025, as approved by the City Council (see Appendices Section of this document). The details of the specific direction of that Message and the corresponding responses contained in this budget are provided in Attachment B following this section in the City Manager's Message. Attachment C contains information regarding the status of City Auditor recommendations with funding impacts.

Source of Funds

From the Revised Forecast of \$1.50 billion, a net increase of \$29.1 million to the General Fund revenue estimates is included in the Proposed Budget, bringing the 2024-2025 revenue estimate to \$1.53 billion (including fund balance). The components of this change include an increase to the estimate for the 2023-2024 Ending Fund Balance/2024-2025 Beginning Fund Balance (\$7.7 million) and an increase to various revenue categories (\$21.5 million). The revenue changes are summarized in the table below.

Category	\$ Change	Description
Revenue from the State of California	\$ 16,000,000	Increase of \$16.0 million reflects new grant funding that is anticipated to be received in 2024-2025 from the State of California to support the City's Interim Housing Portfolio.
Beginning Fund Balance	7,653,198	Increase of \$7.7 million reflects various adjustments, including: fund balance from additional revenue and expenditure savings that is anticipated to be received in 2023-2024 and be available for use in 2024-2025 (\$5.0 million); the liquidation of carry-over encumbrances (\$1.3 million); the liquidation of the Solid Waste Code Enforcement Reserve (\$680,000); and the rebudget of funds for expenditure-related items that are not anticipated to occur until 2024-2025 (\$647,830).
Revenue from Federal Government	1,384,000	Increase of \$1.4 million reflects two new federal grants that are anticipated to be received in 2024-2025, including Transportation, Housing and Urban Development funding for the Rue Ferrari Emergency Interim Housing Site Expansion (\$1.0 million) and Clean Creeks, Healthy Watersheds program (\$384,000).
Fees, Rates, and Charges	934,727	Net increase of \$934,727 reflects various fee changes to align revenues with estimated activity levels, reflect fee revisions, and maintain cost recovery levels for Miscellaneous fee revenue (\$1.0 million), Transportation Department fee revenue (\$80,273), Police Department fee revenue (\$15,963), and Parks, Recreation, and Neighborhood Services department fee revenue (-\$174,917).

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PROPOSED BUDGET BALANCING STRATEGY

Source of Funds

Category	\$ Change	Description
Licenses and Permits	\$ 864,899	Net increase of \$864,899 reflects various license and permit changes to align revenues with estimated activity levels, reflect fee revisions, and maintain cost recovery levels for the Fire Department (\$469,700) and other licenses and permits (\$395,199).
Fines, Forfeitures, and Penalties	800,000	Increase of \$800,000 reflects a revision to the parking fines program that will result in increased revenue generation.
Revenue from Local Agencies	580,381	Increase of \$580,381 reflects a new local agency reimbursement from Valley Water for the Regulatory Compliance and Purified Water program.
Franchise Fees	577,624	Increase of \$577,624 reflects an increase in the Commercial Solid Waste fees by 4.1% based on cost changes including a Consumer Price Index adjustment.
Other Revenue	311,810	Increase of \$311,810 reflects revenue anticipated to be received from the Accounts Receivable Amnesty Program that will be conducted by the Finance Department (\$300,000), and reflects various fee changes to align revenues with estimated activity levels, reflect fee revisions, and maintain cost recovery levels for the Transportation Department (\$11,810).
Transfers and Reimbursements	26,811	Net increase of \$26,811 reflects a transfer from the Construction Excise Tax Fund to the General Fund (\$300,000) and reduced overhead from budget actions that change the staffing levels funded by special and capital funds (-\$273,189).
Total	\$ 29,133,450	

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PROPOSED BUDGET BALANCING STRATEGY

Use of Funds

From the Revised Base Budget Forecast of \$1.51 billion, a net increase of \$24.7 million to the General Fund expenditures was brought forward, bringing the 2024-2025 Proposed Budget Use of Funds estimate to \$1.53 billion. A listing of the Proposed Budget modifications is provided by specific categories in Table III and briefly discussed in the following table. Further detail is incorporated into the CSA and departmental sections of this document.

Category	\$ Change	Description
2023-2024 Previously One-Time Funded Services	\$19,359,921	Funding is included to continue services that were funded on a one-time basis in the 2023-2024 Adopted Budget, including programs originally funded by the American Rescue Plan Act in accordance with the Community and Economic Recovery spending plan. The largest investments in this category include the: Beautify San José (\$5.9 million); Customer Service Vision and Standards (\$3.0 million); Deterrents Installation and Maintenance for Beautify San José Stormwater Permit Implementation (\$1.0 million); and Police Sworn and Non-Sworn Background (\$902,312). Other previously one-time funded services are described in the Department and City-Wide sections of this document.
Service Level Enhancements	18,699,046	Total funding of \$18.7 million is included in the Proposed Budget for service level enhancements. The largest investments in this category include: Waterways and Encampment Management (\$4.7 million) Mitigating Impacts to Neighborhood (\$1.7 million) for Beautify San José Stormwater Permit Implementation; Oversized Vehicle Regulation Reserve (\$1.5 million); and Encampment Trash Team for Beautify San José Continuation and Expansion (\$1.4 million). Other service level enhancements are described in the Department and City-Wide sections of this document.

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Use of Funds

Category	\$ Change	Description
Earmarked Reserves	\$5,000,000	One-time Earmarked Reserves, totaling \$5.0 million, include the following: Police Department Sworn Backfill Reserve (\$3.0 million) and the Essential Services Reserve (\$2.0 million). In addition, 2024-2025 Proposed Budget planning provides for the allocation of \$20.0 million of ongoing funding in 2025-2026 for the 2025-2026 Future Deficit Reserve.
New Infrastructure / Equipment Operations and Maintenance	3,372,000	The Proposed Budget includes \$2.3 million for Fire Station 32 furniture, fixtures, and equipment, \$325,000 for a new Police Department air support hangar fixtures, furniture and equipment, \$247,000 for new Parks and Recreation facilities operations and maintenance, \$205,000 for Fire Station 8 furniture, fixtures, and equipment, \$164,000 for new traffic infrastructure assets operations and maintenance, \$101,000 for new police facilities operations and maintenance, and \$60,000 for new fire facilities operations and maintenance.
Unmet/Deferred Technology, Infrastructure, and Maintenance	1,494,831	To address a portion of the backlog for unmet and deferred technology, infrastructure and maintenance needs, funding of \$1.5 million is included in the 2024-2025 Proposed Budget for the City's most urgent repairs needs, including, among others, the: Police Department Helicopter Camera Replacement (\$575,000), Police Department Equipment (\$417,331), Animal Care and Services – Various Improvements (\$250,000), and Fire Station Network Switches Replacement (\$150,000). These and additional investments are described in more detail in the respective department sections of this document.

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Use of Funds

Category	\$ Change	Description
Other Fee Programs, Grants, and Reimbursements	\$949,001	The actions in this category are partially offset by revenue from fees, grants, or reimbursements and include: Regulatory Compliance and Purified Water Program (\$580,381); Clean Creeks and Healthy Watersheds (\$384,000); Gardner Community Center Staffing (\$364,330), Non-Development Fee Program Realignment (\$362,090); Ambulance Transport and User Fee Program (\$156,470); Code Enforcement Multiple Housing Fee Program Staffing (\$99,499); and Cannabis Regulation Program Staffing (-\$997,769).
Use of Reserves	(3,967,000)	The Proposed Budget includes the use of the Deferred Infrastructure and Maintenance Reserve (\$2.0 million); Police Equipment Replacement Sinking Fund Reserve (\$1.0 million); Fire Equipment Replacement Sinking Fund Reserve (\$395,000); New Parks and Recreation Facilities Operations and Maintenance Reserve (\$247,000); New Traffic Infrastructure Assets Operations and Maintenance Reserve (\$164,000); New Police Facilities Operations and Maintenance Reserve (\$101,000); and New Fire Facilities Operations and Maintenance Reserve (\$60,000).
Cost Reductions/Service Delivery Efficiencies/Fund Shifts from Other Funds	(20,226,020)	Net decrease of \$20.2 million primarily resulting from efficiencies and other cost saving measures, including the: shift of Interim Housing Construction and Operation to Measure E funding (-\$8.0 million); Police Department Sworn Staffing (-\$2.1 million); Police Staffing Addition Reserve (-\$1.9 million); Vacant Position Eliminations (-\$1.3 million); and Community Service Officers Staffing (-\$1.3 million). These and additional cost reductions are described in more detail in the respective department sections of this document.
Total	\$ 24,681,779	