

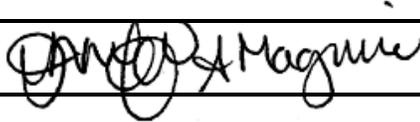
TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Jim Shannon

SUBJECT: 2023-2024 ANNUAL REPORT

DATE: September 30, 2024

Approved



Date

9/30/2024

RECOMMENDATION

It is recommended that the City Council:

- (a) Accept the 2023-2024 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 2023-2024 Annual Report recommendations, as detailed in Section IV (Recommended Budget Adjustments and Clean-Up/Rebudget Actions).
- (c) Approve the following position changes in the Information Technology Department:
 - (1) Delete 1.0 Enterprise Supervising Technology Analyst
 - (2) Delete 1.0 Enterprise Technology Manager
- (d) Approve the following position changes in the Library Department:
 - (1) Add 1.0 Program Manager
 - (2) Add 1.0 Senior Analyst
- (e) Approve the following position changes in the Public Works Department:
 - (1) Add 4.0 Animal Health Technician

SUMMARY AND OUTCOME

In accordance with Section 701 (F) of the San José City Charter, the 2023-2024 Annual Report describes the financial status of the City at the end of the 2023-2024 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 2023-2024 Ending Fund Balance for each fund to the estimates used in the development of the 2024-2025 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 2023-2024. This report also includes actions that are necessary to: revise the 2024-2025 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; fund two urgent fiscal/program needs in the General Fund; 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 139 budgeted funds in 2023-2024. 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.

Within the context of limited resource availability contrasted a sustained level of significant community needs and a large number of services previously been funded on a one-time basis that would impact community services if not continued, the City Council's approval of the Mayor's March and June Budget Messages for Fiscal Year 2023- 2024 prioritized the City's limited resources in 2023-2024 to help address some of our most challenging issues – including increasing community safety, reducing unsheltered homelessness, cleaning up our neighborhoods, and attracting investments in jobs and housing – and also invested in select areas of urgent, important, and continuing work within other community services, strategic support services, and deferred infrastructure.

Due to careful forecasting, monitoring, and management throughout all City funds, overall 2023-2024 revenues and expenditures ended the year very close to budgeted expectations. For the General Fund, the Ending Fund Balance of \$600.9 million was \$24.5 million above the fund balance estimate assumed when the 2024-2025 Adopted Budget was developed, but only \$2.4 million after accounting for required clean-up/rebudget adjustments that are necessary to close out 2023-2024. The \$24.5 million variance represents 0.6% of the 2023-2024 Modified Budget for revenues and expenditures and the \$2.4 million represents a variance of 0.05%. These funds are recommended to be allocated in the 2023-2024 Annual Report, as shown in the table below.

EXECUTIVE SUMMARY

Recommended 2024-2025 General Fund Adjustments (\$000s)

Additional 2023-2024 Ending Fund Balance	\$24,452
Clean-Up/Rebudget Actions	(\$22,061)
<hr/>	
Fund Balance Available After Clean-up/Rebudget Actions	\$2,391
Recommended Budget Adjustments	
Required Technical/Rebalancing Actions	(\$1,601)
Grants/Reimbursements/Fee Activities	(\$0)
(Sources = (\$3.3 million); Uses = (\$3.3 million))	
Urgent Fiscal/Program Needs	(\$790)
Total Recommended Budget Adjustments	(\$2,391)
<hr/>	
Remaining Fund Balance After Clean-up/Recommended Adjustments	\$0

When bringing forward recommendations for the use of the additional 2023-2024 General Fund Ending Fund Balance, the Administration followed City Council Policy 1-18 and first considered clean-up/rebudget actions associated with the close-out of the 2023-2024 fiscal year to be essentially non-discretionary and the highest priority. These clean-up/rebudget actions resulted in a net decrease to the Ending Fund Balance of \$22.1 million, bringing the total additional 2023-2024 Ending Fund Balance to \$2.4 million, and consist of: 1) the rebudgeting of prior year funding to 2024-2025 to complete various projects (net decrease of \$19.0 million); and 2) technical adjustments to other revenues and expenditures (net decrease of \$3.1 million), which include the reconciliation and transfer of the remaining balances of affordable housing and homelessness appropriations supported by Measure E revenues to the Real Property Transfer Tax Fund, which was established by the 2024-2025 Adopted Operating Budget.

The revised General Fund Ending Fund Balance of \$2.4 million is recommended to fund various required technical and rebalancing actions (\$1.6 million), actions associated with grants, reimbursements, and fee activities (net-zero revenue and expenditure adjustments of \$3.3 million), and two urgent fiscal and programmatic needs (\$790,000). Notable one-time adjustments in these categories include: increasing General Liability Claims appropriation to restore funding to address potential future claims (\$5.0 million); allocating the final installment of a \$4.8 million grant award from Valley Water that was received in 2023-2024 to the Coyote Creek Project Reaches 5-7 (Valley Water) appropriation (\$1.9 million); increasing the Contingency Reserve to reach the level of 3% of budgeted General Fund expenditures to remain in compliance with City Council Policy 1-18 (\$1.0 million); increasing the City Attorney’s Office Outside Litigation Reserve to restore funding to needed levels (\$500,000); adding 4.0 Animal Health Technician positions to enhance the surgical capacity of Animal Care and Services (ACS), primarily to increase the rate at which shelter intakes can be spayed or neutered and made ready for adoptions and an expansion of the Trap-Neuter-Return program as resources allow (\$440,000); increasing Unanticipated/Emergency Maintenance to support the repair and replacement of the dry fire suppression system at City Hall and fire suppression systems

at 4th Street Parking Garage and Employee Parking Garage (\$400,000); allocating funding for a temporary, 12-month position to coordinate the City's preparation and execution for the upcoming 2026 FIFA World Cup and Super Bowl LX events (\$350,000); allocating funding to conduct up to four surveys in advance of potential future ballot measures; decreasing funding for Elections and Ballot Measures (-\$2.25 million) to recognize savings from the absence of ballot measures for the November 2024 Election; eliminating the FEMA Non-Reimbursable Expenses Reserve (-\$2.0 million) in the General Fund to reestablish in the Emergency Reserve Fund; recognizing additional Transfers and Reimbursements revenue from the Emergency Reserve Fund (\$2.0 million) to return funding advanced from the General Fund for 2022-2023 flood response, and from the Water Utility Fund to transfer unrestricted late fee revenue (\$1.0 million); and, decreasing the Sick Leave Payments Upon Retirement Reserve to align funding with the decline of Tier 1 employees eligible to accrued sick leave payouts upon retirement (\$500,000).

This report also addresses immediate needs and circumstances in various special and capital funds, including actions within the: Real Property Transfer Tax Fund to formally allocate previously-authorized Measure E funding to support the development of the interim housing site at Cherry Avenue (\$6.0 million); Building Homes and Jobs Act Fund to recognize and allocate \$7.4 million from the Permanent Local Housing Allocation Grant, Round 3, for interim housing operations; Homeless Housing, Assistance, and Prevention Fund to recognize \$6.4 million from the Homeless Housing, Assistance, and Prevention Grant, Round 4, for interim housing construction and operations; Airport Capital Improvement Fund to recognize and appropriate grant funding for an environmental assessment related to the future Terminal B expansion (\$331,000); Building and Structure Construction Tax Fund to install median islands along Ocala Avenue (\$402,000); Convention and Cultural Affairs Capital Fund for various deferred maintenance projects at the City-owned theater facilities managed by Team San Jose (\$493,000); Fire Protection Construction and Conveyance Tax Fund for replacement of firefighter turnout gear (\$200,000); General Purpose Parking Capital Fund for additional parking capacity at the Milligan Lot around the SAP Center and for public art installations as part of the Garage Façade Improvements project (\$1.2 million); and Subdivision Park Trust Fund to increase funding to the St. James Park Phase I Reserve to align with a cost sharing agreement currently under development with the Levitt Foundation and the Friends of Levitt San Jose (\$538,000).

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 2023-2024 will also be factored into the development of the 2025-2026 City Manager's Budget Request & 2026-2030 Five-Year Forecast and Revenue Projections document that will be released at the end of February 2025.

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 2023-2024 Annual Report.
- **Section I: Budget Performance Summary (All Funds)** – This section provides a comparison of the 2023-2024 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 2023-2024 Ending Fund Balance by fund to the 2023-2024 Ending Fund Balance/2024-2025 Beginning Fund Balance estimate used in the development of the 2024-2025 Adopted Budget. In addition, a listing of the Earmarked and Contingency Reserves that were available at the end of 2023-2024 by fund is included.
- **Section II: General Fund Budget Performance** – This section provides a summary of the General Fund budget performance in 2023-2024, 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 2023-2024 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 2023-2024 in the development of the 2024-2025 Adopted Budget.
- **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 2024-2025 Beginning Fund Balance amounts in various funds, including the General Fund, based on the final reconciliation of 2023-2024; (2) upward and downward adjustments to previously rebudgeted sums to ensure the appropriate amount of unexpended funds are carried over to 2024-2025 to complete projects; (3) actions based on more recent information that are necessary to revise the 2024-2025 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, fund two urgent fiscal/program needs in the General Fund, 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.

BACKGROUND

- **Section V: Financial Statements** – This section provides the financial results (unaudited), prepared by the Finance Department, for all budgeted fund groups for 2023-2024. It should be noted that audited financial results will be released later in the fall as part of the 2024 Annual Comprehensive Financial Report for Fiscal Year Ended June 30, 2024. 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 2024-2025 Mid-Year Budget Review.

ANALYSIS

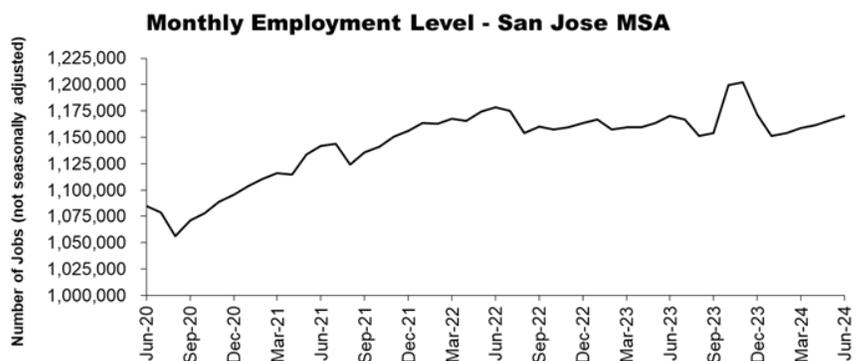
This Analysis section includes the following:

- an overview of the economic environment;
- a discussion of the 2023-2024 budget performance of all City funds;
- a discussion of the 2023-2024 budget performance for the General Fund;
- a discussion of the components of the 2023-2024 General Fund ending fund balance;
- an analysis of the impact of the General Fund performance on the 2024-2025 Adopted Budget; and
- a discussion of the 2023-2024 budget performance of selected special and capital funds.

Economic Environment

While Silicon Valley continues to show an overall positive economic performance, there are several areas that have shown signs of concern. Over the last year, layoff notices in the technology sector were consistently being publicized, indicating a slowdown in Silicon Valley's economy. In addition, due to interest rates consistently raising, transactions in the local real estate market have been sluggish.

The June 2024 employment level of 1.17 million in the San José-Sunnyvale-Santa Clara Metropolitan Statistical Area (San José MSA) grew by 3,000 jobs, or 0.3%, from the June 2023 level. This net increase includes private education and health services adding 10,100 jobs and professional and business services growing by 4,600 jobs.



ANALYSIS

Economic Environment

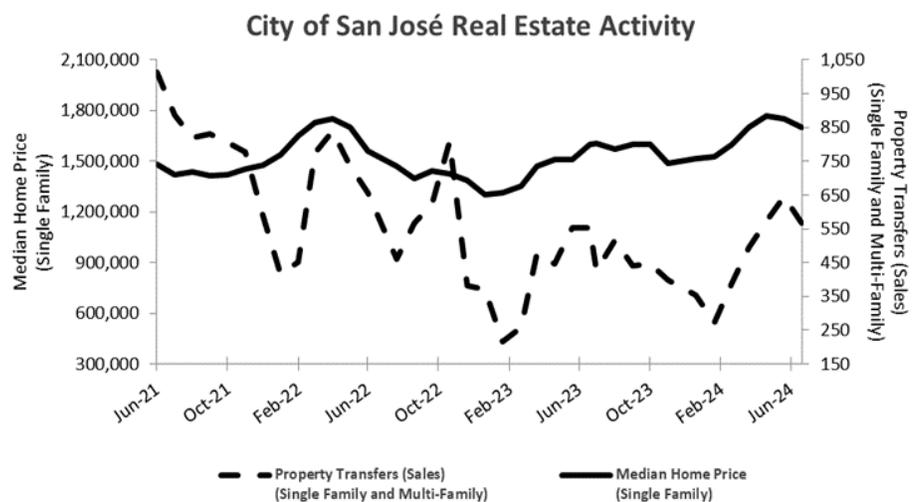
Contrarily, manufacturing decreased by 6,800 jobs and the information sector eliminated 6,800 jobs.¹

Unemployment Rate (Unadjusted)			
	June 2023	May 2024	June 2024**
San José Metropolitan Statistical Area*	3.7%	3.5%	4.1%
State of California	4.7%	4.6%	5.3%
United States	3.8%	3.7%	4.3%
* San Benito and Santa Clara Counties Source: California Employment Development Department. ** June 2024 estimates are preliminary and may be updated.			

The local unemployment rate for June 2024 was 4.1%, which is higher than the May 2024 rate of 3.5% and the prior year unemployment rate of 3.7%. It is important to note, however, in this region, the June 2024 unemployment rate is lower than the unadjusted unemployment rate for the State (5.3%) and the nation (4.3%).

Overall construction activity through June 2024 increased 21.7% from prior-year levels, primarily due to activity for the residential and industrial land use categories experiencing a significant year-over-year increase of 48.4% and 44.1%, respectively. The increase would be more prominent if it were not for the significant decrease in commercial construction, which decreased 9.3% from the prior year. Construction activity has slightly overperformed the activity projected by the Planning, Building and Code Enforcement Department in the 2025-2029 Five-Year Forecast, which was released in February 2024.

In 2023-2024, the local real estate market experienced moderate levels of growth. According to data from the Santa Clara County Association of Realtors, in June 2024, the median single-family home price totaled \$1.7 million, which is 6.3% above the June 2023 price of \$1.6 million. In addition, these more expensive homes are selling at a quicker rate. The average days-on-market for 2023-2024 totaled 19 days, while the average days in 2022-



¹ State of California Employment Development: Labor Market Information Division Press Release, July 19, 2024.

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Economic Environment

2023 totaled 24 days. Property sales, however, struggled in the first half of the fiscal year; declining almost 20% from the prior year's level. The second half of the fiscal year rebounded significantly, resulting in the 2023-2024 property sales averaging 460 sales per month, which is 3.3% lower than 2022-2023 sales of 476 per month.

2023-2024 Budget Performance (All Funds)

As shown in Section I of this document, City revenues (excluding Beginning Fund Balances) totaled \$4.2 billion in 2023-2024, which was 7.8% (\$358.1 million) below the budgeted estimate of \$4.6 billion.

In 2023-2024, expenditures (excluding Reserves and Ending Fund Balances) totaled \$4.8 billion, which was \$1.3 billion (20.9%) below the modified budget of \$6.1 billion. At the end of 2023-2024, the Contingency and Earmarked Reserves for all City funds totaled \$1.2 billion, which represented 15.4% of the total 2023-2024 Modified Budget of \$7.6 billion (including interfund transfers, loans, and contributions). In the General Fund, Reserves totaled \$340.0 million.

The financial performance in 2023-2024 is used as the starting point for 2024-2025. The collective 2023-2024 Ending Fund Balances for all City funds totaled \$2.25 billion, which was \$91.3 million above the 2023-2024 Ending Fund Balance estimates of \$2.16 billion used in the development of the 2024-2025 Adopted Budget. After adjusting for a total net negative rebudget of \$92.8 million recommended in this report, the adjusted 2023-2024 Ending Fund Balance variance for all funds increases to \$184.1 million, or 2.4% of the 2023-2024 Modified Budget. The adjusted fund balance variance totaled \$2.4 million in the General Fund, \$89.4 million in the special funds, and \$92.3 million in the capital funds.

The City's General Fund ended 2023-2024 within budgeted levels. As shown in the chart below, the General Fund Ending Fund Balance of \$600.9 million was \$24.5 million (0.6% of the 2023-2024 Modified Budget for revenues and expenditures) above the fund balance estimate assumed when the 2024-2025 Adopted Budget was developed. The following table summarizes the General Fund performance in 2023-2024, comparing the actual results to the Modified Budget and the estimates used to develop the 2024-2025 Adopted Budget.

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2023-2024 General Fund Budget Performance

**Table 1
 General Fund Year-End Status
 For the Year Ended June 30, 2024
 (\$000s)**

Sources	2023-2024 Modified Budget	2023-2024 Year-end Estimate	2023-2024 Budgetary Basis Actual	Actual to Budget Variance	Actual to Estimate Variance
<i>Beginning Fund Balance</i>	639,359	639,359	639,359	-	-
<i>Carryover Encumbrances</i>	80,902	80,902	80,902	-	-
<i>Liquidation of Carry-over Encumbrances</i>	-	1,825	3,572	3,572	1,747
<i>Revenue</i>	1,484,405	1,474,054	1,450,459	(33,946)	(23,595)
<i>Total Sources</i>	<u>2,204,666</u>	<u>2,196,140</u>	<u>2,174,292</u>	<u>(30,374)</u>	<u>(21,848)</u>
Uses					
<i>Expenditures/Transfers</i>	1,864,647	1,619,726	1,573,360	(291,287)	(46,366)
<i>Reserves</i>	340,019	(66)	-	(340,019)	66
<i>Total Uses</i>	<u>2,204,666</u>	<u>1,619,660</u>	<u>1,573,360</u>	<u>(631,306)</u>	<u>(46,300)</u>
<i>Ending Fund Balance</i>	-	576,480	600,932	600,932	24,452

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 2023-2024 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 2023-2024, total revenue in the General Fund was \$1.45 billion, which was 2.3% below, or \$33.9 million, the 2023-2024 Modified Budget, and \$23.6 million (1.6%) below the estimate used to develop the 2024-2025 Adopted Budget. The 2023-2024 Liquidation of Carry-over Encumbrances totaled \$3.6 million.

General Fund expenditures/transfers of \$1.6 billion were \$291.3 million (15.6%) below the 2023-2024 Modified Budget level of \$1.9 billion and \$46.4 million (2.9%) below the estimate used to develop the 2024-2025 Adopted Budget. Budgeted reserves of \$340.0 million remained unexpended at year-end as expected.

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2023-2024 General Fund Budget Performance

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

	2022-2023 Actuals	2023-2024 Actuals	Change	% Change
Source of Funds				
Beginning Fund Balance	558,987	639,359	80,372	14.4%
Revenues	1,703,747	1,450,459	(253,288)	-14.9%
Total Source of Funds	2,262,734	2,089,818	(172,916)	-7.6%
Use of Funds				
Personal Services	887,825	1,043,471	155,646	17.5%
Non-Personal/Equipment/Other	194,847	217,304	22,457	11.5%
City-Wide Expenses	518,580	234,322	(284,258)	-54.8%
Capital Contributions	37,665	47,792	10,127	26.9%
Transfers	37,811	30,472	(7,339)	-19.4%
Reserves	-	-	-	N/A
Total Use of Funds	1,676,728	1,573,361	(103,367)	-6.2%

As shown in Table 2, 2023-2024 General Fund revenues (excluding Beginning Fund Balance, which varies depending on the level of unspent funds carried into the following year) of \$1.5 billion represents a decrease of 14.9% (\$253.3 million) from the 2022-2023 collection level of \$1.7 billion. This year-over-year decline is primarily due to Tax and Revenue Anticipation Notes (TRANs) revenue not being received in 2023-2024, while revenue (and an offsetting City-Wide Expenditures allocation) of \$275.0 million were allocated in 2022-2023. Additionally, Sales Tax revenue experienced a year-over-year drop of \$10.1 million due to a slowing economy and the Transfers and Reimbursements category declined \$7.2 million. Partially offsetting the lower receipts in these categories were year-over-year increases for Property Tax (\$24.7 million) and Franchise Fees (\$7.7 million), and Revenue from the State of California (\$7.5 million). These revenues experienced year-over year growth due to several factors, including a strong local real estate market positively impacting Property Tax collections, PG&E changing the methodology for Franchise Fees remittance that resulted in a one-time decrease of payments in 2022-2023, and the timing of when State grants are received.

General Fund expenditures of \$1.6 billion in 2023-2024 were 6.2% (\$103.4 million) below prior year expenditure levels of \$1.7 billion. This decrease is due to lower City-Wide Expenses (\$284.3 million) which is primarily due to the TRANs allocation totaling \$275.0 million in 2022-2023 not being allocated in revenue or expenditures in 2023-2024. Partially offsetting the lower City-Wide Expenses are higher expenditures for Personal

ANALYSIS

2023-2024 General Fund Budget Performance

Services (\$155.6 million), Non-Personal/Equipment/Other (\$22.5 million), and Capital Contributions (\$10.1 million).

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

2023-2024 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 2024-2025 Adopted Budget, an Ending Fund Balance estimate of \$576.5 million was included as a funding source. As discussed earlier, the actual 2023-2024 General Fund Ending Fund Balance of \$600.9 million was \$24.5 million above the Adopted Budget estimate.

The components of the 2023-2024 General Fund Ending Fund Balance include a net total of additional funding sources, expenditure/transfer savings, and unexpended reserves as described below:

2023-2024 General Fund Ending Fund Balance Components

Fund Balance Component	\$ Amount (\$ in 000s)
Funding Sources	\$ (30,373)
Expenditure/Transfer Savings	291,287
Unexpended Reserves	340,019
TOTAL	\$ 600,933

The total Funding Sources component ended the year \$30.4 million below the Modified Budget as a result of lower revenues (\$33.9 million), partially offset by higher liquidation of carry-over encumbrances (\$3.6 million). For the Expenditure/Transfer Savings component, expenditure and transfer savings totaled \$291.3 million, while Unexpended Reserves component totaled \$340.0 million, representing the largest component of the 2023-2024 Ending Fund Balance.

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2023-2024 General Fund Ending Fund Balance

As mentioned, revenue was \$33.9 million lower than estimated, which was primarily due to various grants not being received in 2023-2024. A significant portion of this grant revenue (\$28.0 million) was rebudgeted as part of the 2024-2025 Adopted Budget (\$25.1 million) or are recommended to be rebudgeted as part of this report (\$2.9 million). Of the \$291.3 million in expenditure/transfer savings, a majority was rebudgeted in the 2024-2025 Adopted Budget (\$234.1 million) or assumed as savings as part of the development of the 2023-2024 Ending Fund Balance/2024-2025 Beginning Fund Balance (\$25.5 million). Additional savings of \$25.0 million is recommended for rebudget or technical clean-up as part of this report.

General Fund Unexpended Reserves, totaling \$340.0 million at the end of 2023-2024, were anticipated and include three categories: Earmarked Reserves (\$276.4 million) established to address specific programmatic needs per City Council direction; Ending Fund Balance Reserve (\$13.6 million) established to help ensure sufficient fund balance would be available at the end of 2023-2024 to meet the budgeted estimate used for the development of the 2024-2025 Adopted Budget, and the Contingency Reserve (\$50.0 million) set at a minimum of 3% of General Fund operating expenditures per City Council policy, which is recommended for revision as discussed later in this report.

As discussed above, it was estimated and assumed that \$576.5 million would remain in the General Fund at the end of 2023-2024 and would be carried over to 2024-2025 as Beginning Fund Balance as part of the adoption of the 2024-2025 Budget. These funds, which were expected to be generated from additional revenue, liquidation of carryover encumbrances, expenditure savings, unexpended funds that were rebudgeted to 2024-2025 to complete projects, and unexpended reserves, were programmed for use in the 2024-2025 Adopted Budget. As also previously discussed, the actual General Fund Ending Fund Balance was above the estimate used in the 2024-2025 Adopted Budget by \$24.5 million due to slightly greater than anticipated expenditure savings, partially offset by lower revenue.

The following chart details the recommended uses of the \$24.5 million of additional fund balance, as well as other budget adjustments that are proposed as part of this report. Recommended clean-up/rebudget actions decreases the available fund balance by \$22.1 million to \$2.4 million, or 0.05% of the 2023-2024 Modified Budget for revenues and expenditures. This additional fund balance is proposed to be allocated to address required technical/rebalancing needs and two urgent fiscal/program needs.

ANALYSIS

Impacts on the 2024-2025 General Fund Budget

RECOMMENDED 2024-2025 GENERAL FUND ADJUSTMENTS (\$000s)	
	(\$ in 000s)
2023-2024 Additional Fund Balance	\$24,452
• Clean-Up/Rebudget Actions	\$(22,061)
City-Wide Expenses/Transfers/Reserves	(\$27,541)
General Fund Capital	\$1,681
Departmental	\$885
Revenue Rebudgets/Clean-Ups	\$2,914
Fund Balance Available After Clean-up/Rebudget Actions	\$2,391
• Recommended Budget Adjustments	(\$2,391)
Required Technical/Rebalancing Actions	
General Liability Claims	(\$5,000)
Coyote Creek Project Reaches 5-7 (Valley Water)	(\$1,939)
Contingency Reserve	(\$1,000)
City Attorney's Office Outside Litigation Reserve	(\$500)
Unanticipated/Emergency Maintenance (Fire Suppression)	(\$400)
City Manager's Office Non-Personal/Equipment (Election Polling)	(\$250)
San José Public Library Foundation Grants	(\$193)
Public Works Department Non-Personal/Equipment (Airport Police Hangar Rental)	(\$120)
Elections and Ballot Measures	\$2,250
FEMA Non-Reimbursable Expenses Reserve	\$2,000
Transfers and Reimbursements (Transfer from Emergency Reserve Fund)	\$2,000
Transfers and Reimbursements (Transfer from Water Utility Fund)	\$1,000
Sick Leave Payments Upon Retirement Reserve	\$500
Other Revenue (Fire Incident Response Reimbursement)	\$278
Other Net Adjustments	(\$227)
Subtotal Required Technical/Rebalancing Actions	(\$1,601)
Grants/Reimbursements/Fees	\$0
(Sources = (\$3.3 million); Uses = (\$3.3 million))	
Urgent Fiscal/Program Needs	
Public Works Department Personal Services (Animal Care and Services - Adds 4.0 Animal Health Technician)	(\$440)
City Manager's Office Personal Services (Road to 2026 Executive Leadership)	(\$350)
Remaining Fund Balance	\$0

ANALYSIS

Impacts on the 2024-2025 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 (-\$22.1 million)

A series of adjustments are recommended to complete existing projects continuing into 2024-2025 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 related to Measure E-related affordable housing allocations, including Measure E – 30% Low-Income Households (-\$22.4 million) and Measure E – 40% Extremely Low-Income Households (-\$5.4 million). 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 2023-2024; therefore, the funds are not available for rebudget to 2024-2025. Further, actions are recommended to rebudget revenues that were anticipated but, not received in 2023-2024.

Other technical adjustments include net-zero shifts between departments and appropriations, as well as the reconciliation of restricted funding for multiple programs (e.g., Contractual Street Tree Planting, and Certified Access Specialist Program). These actions also include reconciling adjustments to various Measure E allocations to reflect actual 2023-2024 performance and transfer of any remaining balances to the Real Property Transfer Tax Fund, which was established with the 2024-2025 Adopted Operating Budget; and, other technical adjustments to align expenditure and reserve appropriations in accordance with prior City Council direction.

ANALYSIS

Impacts on the 2024-2025 General Fund Budget

Recommended Budget Adjustments (-\$2.4 million)

A number of General Fund budget adjustments, with a total net cost of \$2.4 million are recommended and can be classified under three categories: 1) Required Technical/Rebalancing Actions (net cost of \$1.6 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 2024-2025 Adopted Budget, or comply with actions previously authorized by the City Council; 2) Grants/Reimbursement/Fee Activities (net zero expenditure increase of \$3.3 million) actions that recognize new or adjust grants, reimbursements, or fee activity revenues, and adjust the appropriations for these purposes as necessary; and 3) Urgent Program/Fiscal Needs (net cost of \$790,000) for actions that the Administration has deemed are urgent and should not wait until the annual budget process, but require authorization from City Council.

Notable actions under each category are outlined below.

- **Required Technical/Rebalancing Actions (-\$1.6 million)**

- **General Liability Claims** – increases the General Liability Claims appropriation by \$5.0 million to restore funding following the reallocation of approximately \$4.7 million in 2023-2024 to offset increased workers' compensation claims costs incurred for new and settled claims. This action follows the recommendation in the Approval of Budget Actions for Fiscal Year 2023-2024 memorandum, approved by City Council on June 18, 2024, to restore funding for General Liability Claims as part of the 2023-2024 Annual Report. The City Manager and City Attorney will closely monitor potential claims and bring forward further adjustments to this appropriation, as necessary, as part of a future budget process. (-\$5.0 million)
- **Coyote Creek Project Reaches 5-7 (Valley Water)** – adds funding for the Coyote Creek Project Reaches 5-7 (Valley Water) City-Wide Expenses appropriation in the amount of \$1.9 million to allocate the final installment of a \$4.8 million grant award from Valley Water that was received in 2023-2024. Funding will be used to provide supportive services to individuals living along a nine-mile stretch of Coyote Creek between Montague Expressway and Tully Road, and to abate encampments within the work zone for the Coyote Creek Flood Management Measures and Coyote Creek Flood Protection Projects. (-\$1.9 million)

ANALYSIS

Impacts on the 2024-2025 General Fund Budget

- ***Contingency Reserve*** – increases the Contingency Reserve by \$1.0 million, from \$52.0 million to \$53.0 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 \$50.0 million was established in the 2023-2024 Base Budget, as the reserve is calculated against Base Budget expenditures and an assumed amount of funding that will be rebudgeted at fiscal year-end. This action adjusts the Contingency Reserve to account for the remaining balances rebudgeted as part of the 2023-2024 Annual Report. In addition, a separate action included as a technical adjustment elsewhere in this report further adjusts the Contingency Reserve by \$2.0 million to account for funding allocated during the 2024-2025 Proposed Budget process and estimated savings rebudgeted as part of the Adopted Budget process. The combined actions will bring the Contingency Reserve to \$53.0 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)
- ***City Attorney's Office Outside Litigation Reserve*** – increases the City Attorney's Office Outside Litigation Reserve by \$500,000, from \$250,000 to \$750,000, to restore funding to needed levels following the reallocation of funding to the City Attorney's Office during 2023-2024 for outside legal services costs. (-\$500,000)
- ***Unanticipated/Emergency Maintenance (Fire Suppression)*** – increases the Unanticipated/Emergency Maintenance Capital Improvements appropriation by \$400,000, from \$1.3 million to \$1.7 million. This funding supports the repair and replacement of the dry fire suppression system at City Hall and fire suppression systems at 4th Street Parking Garage and Employee Parking Garage. The existing dry fire suppression system, which uses chemical powder and gas instead of water, has reached the end of its operational life and is not functioning as designed, necessitating replacement to protect electrical systems. This action will support the removal of the existing system, programming, and testing of the new system, and replacement of critical components, including fire alarm control panels, power alarm distribution panels, fire alarm pull stations, smoke detectors, heat detectors, water flow alarm switches, water tamper switches, horns, strobes, annunciators, and the fire alarm communicator. The estimated construction completion date is June 2025. (-\$400,000)

ANALYSIS

Impacts on the 2024-2025 General Fund Budget

- ***City Manager's Office Non-Personal/Equipment (Elections Polling)*** – increases the City Manager's Office Non-Personal/Equipment appropriation by \$250,000 to support survey efforts led by the Office of Administration, Policy, and Intergovernmental Relations (API). As directed by the City Council, to advance the long-term overall health of the General Fund, staff will identify potential paths forward to generate additional revenue. This funding will enable API to conduct up to four surveys to assess public interest in City priorities, program enhancements, and potential funding initiatives. This action is offset by a corresponding reduction to the Elections and Ballot Measures City-Wide Expenses appropriation, as described elsewhere in this report. (-\$250,000)
- ***San José Public Library (SJPL) Foundation Grants*** – increases the SJPL Foundation Grants City-Wide Expenses appropriation by \$192,825, from \$250,000 to \$442,825, to allocate previously unbudgeted gifts and grant funding from the SJPL Foundation received in 2023-2024. Funding included in this action supports the WeeGrow Community Navigators program, Teen ARTrepreneur CSL Program, and the purchase of supplies and materials for library branches throughout the City. (-\$193,000)
- ***Public Works Department Non-Personal/Equipment (Airport Police Hangar Rental)*** – increases the Public Works Department's Non-Personal/Equipment appropriation by \$120,000 to fund land lease costs associated with the expansion land of the Police Air Support Hangar for 12 months. This action will fund costs that cannot be charged to the Public Safety and Infrastructure Bond Fund (Measure T) and were inadvertently missed in the development of project costs. The latest estimated construction completion date is May 2025. (-\$120,000)
- ***Elections and Ballot Measures*** – decreases the Elections and Ballot Measures City-Wide Expenses appropriation by \$2.25 million, from \$4.5 million to \$2.25 million, to recognize savings in the appropriation as a result of having no ballot measures for the November 2024 Election. A portion of these savings (\$250,000) is recommended to be reallocated to the Office of the City Manager's Non-Personal/Equipment appropriation to fund four surveys to assess public interest in City priorities, program enhancements, and potential funding initiatives as previously directed by the City Council. The remaining savings are recommended to offset the actions included in this report. (\$2.25 million)

ANALYSIS

Impacts on the 2024-2025 General Fund Budget

- ***FEMA Non-Reimbursable Expenses Reserve*** – eliminates the Federal Emergency Management Agency (FEMA) Non-Reimbursable Expenses Reserve in the amount of \$2.0 million. This reserve was originally established to provide a partial buffer should some of the \$30 million in expense claims submitted and under consideration by the FEMA for pandemic-related expenses incurred in the Emergency Reserve Fund not be reimbursed. Subsequent to the completion of year-end reconciliation activities, there are sufficient resources to establish this reserve in the Emergency Reserve Fund, thereby allowing this allocation in the General Fund to be liquidated to offset the other actions recommended in this report. (\$2.0 million)
- ***Transfers and Reimbursements (Transfer from Emergency Reserve Fund)*** – increases the revenue estimate for Transfers and Reimbursements by \$2.0 million. In 2022- 2023, atmospheric river weather events from December 2022 to early January 2023 necessitated a continuous emergency response and an evacuation order for unhoused persons living within or otherwise located along the banks of San José creeks and waterway. A transfer of \$5.0 million from the General Fund to the Emergency Reserve Fund was approved to ensure sufficient funding was available for staff to respond to the emergency, urgent repairs, and recovery efforts. Of the initial \$5.0 million transfer, approximately \$3.0 million was expended or is currently allocated to emergency response and recovery efforts. The remaining \$2.0 million is recommended to be transferred back to the General Fund with this action. (\$2.0 million)
- ***Transfers and Reimbursements (Transfer from Water Utility Fund)*** – increases the revenue estimate for Transfers and Reimbursements by \$1.0 million to reflect additional Late Fee revenue billed in prior years in the Water Utility Fund. Late Fee revenues in the Water Utility Fund are an unrestricted source of income for the City and are therefore routinely transferred to the General Fund. While a final reconciliation of prior year Late Fee revenues is still in process, including a determination of the amount deemed uncollectable, \$1.0 million is available for transfer now, which brings the total budgeted transfer for late fees in 2024-2025 to \$1.5 million. Any additional amounts will be brought forward as part of a future budget process. (\$1.0 million)
- ***Sick Leave Payments Upon Retirement Reserve*** – decreases the Sick Leave Payments Upon Retirement Reserve by \$500,000, from \$1.0 million to \$500,000. As the number of Tier 1 employees eligible for accrued sick leave payouts upon retirement continues to decline, the level of reserve capacity required for potential overages has also lessened. (\$500,000)

ANALYSIS

Impacts on the 2024-2025 General Fund Budget

- ***Other Revenue (Fire Incident Response Reimbursement)*** – increases the estimate for Other Revenue by \$278,000 to reflect legal settlement proceeds related to the Fire Department's response to an April 2022 fire incident at a Home Depot store, located at 120 Blossom Hill Road. While arson started the five-alarm fire that destroyed the structure, an investigation by the Bureau of Fire Prevention found multiple Fire Code violations that contributed to the severity of the incident. Proceeds awarded as part of the judgment will reimburse the City for costs incurred for fire containment and investigation to assess and enforce non-compliance penalties. (\$278,000)
- ***Other Remaining Adjustments*** – Remaining actions include technical corrections or reallocations, and other smaller adjustments. Funding is reallocated between: the Interim Housing Construction and Operation and Interim Housing – Cerone City-Wide Expenses appropriations (net-zero adjustments of \$9.5 million) to continue the development of the new interim housing site and recognize a portion (\$6.2 million) of a \$13.3 million grant from the State's Tiny Home Grant Program; the Homeless Rapid Rehousing and Emmanuel House Shelter City-Wide Expenses appropriations (net-zero adjustments of \$1.0 million) to shift funding from the Multi-Source Housing Fund to the General Fund and provide one-time funding for the Salvation Army's Emmanuel House redevelopment project; and, the Public Works Department Non-Personal/Equipment and Personal Services appropriations to fund a temporary Animal Shelter Coordinator position through June 30, 2025 (net-zero adjustments of \$80,000) to support adoption and rescue outcomes. Other notable actions include: recognizing and appropriating funding from the County of Santa Clara to support a Child Advocacy Center Coordinator; increasing the VTA Eastridge to BART Regional Connector Public Art City-Wide Expenses appropriation to appropriate additional funding received in 2023-2024 from the Santa Clara Valley Transportation Authority (VTA); recognizing and appropriating partial reimbursements from the County of Santa Clara for the Senior Nutrition Program to provide cooked meals to seniors at various community centers around San José, and aligning funding levels with new contract terms; increasing the Fire Department's Non-Personal/Equipment appropriation to address critical Aircraft Rescue and Fire Fighting (ARFF) training requirements for staff at Fire Station #20; to procure turnout gear for recruits participating in upcoming Firefighter academies; net-zero adjustments to formally reallocate staffing from the Information Technology Department to the Library Department to reflect the recent shift of the management of the Digital Inclusion Program; and, other minor adjustments. (-\$227,000)

ANALYSIS

Impacts on the 2024-2025 General Fund Budget

- **Grants/Reimbursements/Fees (Net-Zero)**

- A series of adjustments – net increase in revenues of \$3.3 million, offset by a net expenditure increase of \$3.3 million – are recommended to recognize new and updated revenues and expenditures for **Grants, Reimbursements, and/or Fees**, primarily for the following Departments: Environmental Services Department (net-zero adjustments of \$939,000); Parks, Recreation and Neighborhood Services Department (net-zero adjustments of \$710,000); Police Department (net-zero adjustments of \$625,000); Library Department (net-zero adjustments of \$308,000); City Clerk’s Office (net-zero adjustments of \$300,000); Planning, Building and Code Enforcement Department (net-zero adjustments of \$240,000); Fire Department (net-zero adjustments of \$123,000); Office of Economic Development and Cultural Affairs (net-zero adjustments of \$25,000); Office of the City Manager (net-zero adjustments of \$26,000). These adjustments are further described in *Section IV. Recommended Budget Adjustments and Clean-Up/Rebudget Actions*.

- **Urgent Fiscal/Program Needs (-\$790,000)**

- **Public Works Department Personal Services (Animal Care and Services - Adds 4.0 Animal Health Technician)** – increases the Public Works Department’s Personal Services appropriation by \$440,000 to fund the addition of 4.0 Animal Health Technician (AHT) positions. With shelter intakes in 2023-2024 18% higher than 2022-2023 and cat kennels at 137% of capacity in July and August 2024, additional urgent investments at the Animal Care and Services (ACS) Center are needed. This action will enhance the surgical capacity of Animal Care and Services (ACS), increasing the rate at which shelter intakes can be spayed or neutered and made ready for adoption, and increasing the capacity of surgeries for the Trap-Neuter-Return (TNR) program from two days to four days per week (40-45 surgeries per week to 80-100 surgeries per week) as resources allow. These additional AHT positions allows for the operation of two medical surgery teams simultaneously, while also maintaining other critical responsibilities such as intake examinations, vaccinations, daily treatments, veterinary support during examinations, and management of foster appointments.

This recommended action is consistent with the increased level of investment the City has made in recent years to respond to sustained increase of shelter intakes and improve adoption outcomes. Further, the Administration is also exploring options to enable a broader expansion of the veterinary team to offer more opportunity for public spays and neuters. Any further expansion, however, will be subject to the availability of funding. The ongoing costs for the 4.0 Animal Health Technician positions will be incorporated into the development of the 2025-2026 Base Budget. (-\$440,000)

ANALYSIS

Impacts on the 2024-2025 General Fund Budget

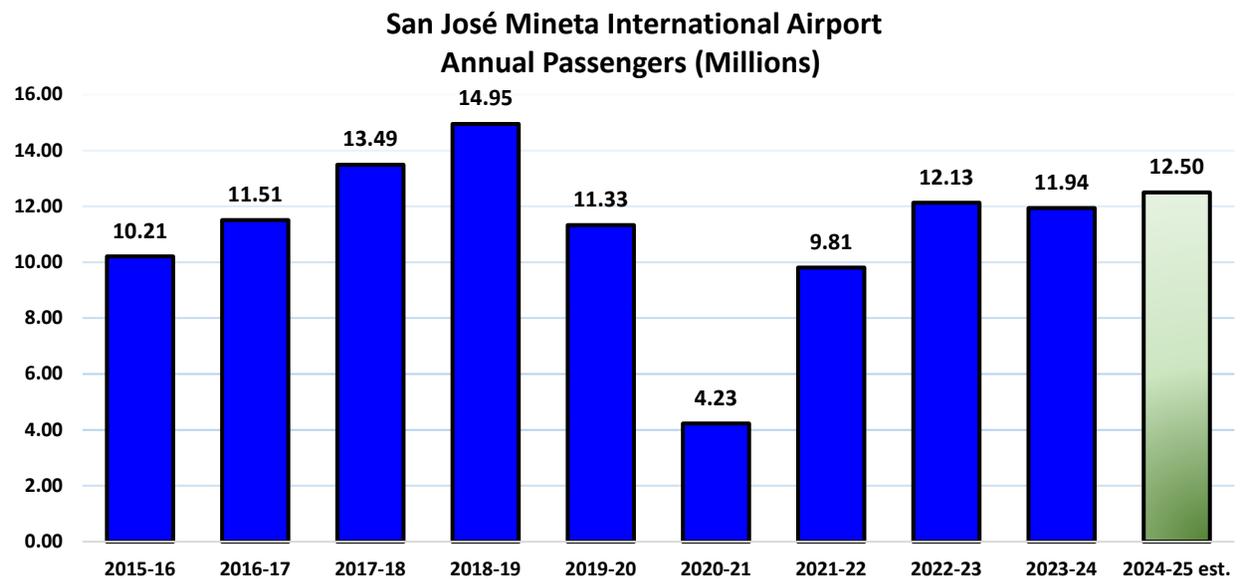
- ***Office of the City Manager Personal Services (Road to 2026 Executive Leadership)*** – increases the Office of the City Manager's Personal Services appropriation by \$350,000 to fund a temporary position for twelve months to oversee the coordination efforts related to the marquee sporting events taking place in 2026, including FIFA World Cup, Superbowl 60, and NCAA Men's West Regional Basketball Tournament. Consistent with City Council's direction, the Administration is undertaking a multi-departmental and multi-stakeholder effort to maximize the economic impact of these events occurring within and around San José. Given the limited timeline and broad potential scope of work – City policy amendments, marketing and communications, fundraising and sponsorships, event calendar development, the programming and coordination of near-time improvement projects – a short-term position will be required to drive these strategic initiatives. The Administration expects to onboard an experienced executive that can immediately engage across City departments and coordinate with external partners such as the Bay Area Host Committee, the Sports Authority, Sharks Sports and Entertainment, San Jose Earthquakes, Team San Jose, the Downtown Association, San José State University, and other key partners to execute on strategic initiatives that maximize the impact of these 2026 sporting events. As the Bay Area Host Committee is expected to be regionally focused, active City engagement will be critical to drive events and programming into San José. The Administration is committed to remaining nimble on this topic and will bring forward recommendations to shift strategies or recommend additional targeted funding allocations, as necessary. (-\$350,000)

ANALYSIS

2023-2024 Selected Special/Capital Funds Budget Performance

Airport Operating Funds

The Airport served 11.9 million passengers in 2023-2024, which was a slight decrease of 1.5% from 2022-2023. This is the first dip in passenger levels experienced since the start of the pandemic in 2020-2021. These levels are 20.1% below the pre-pandemic high of 14.9 million passengers served in 2018-2019. Still, passenger levels are expected to continue to recover gradually over the next several years. For 2024-2025, projections reflect an approximate 5% increase from 2023-2024 levels, or 12.5 million passengers.



Most airport activity categories experienced modest decreases from 2022-2023, including mail/freight/cargo pounds (-12.5%), gallons of aviation fuel sold (-6.4%), traffic operations (-6.1%), and landed weights (-5.4%), offset by growth in ground transportation trips (11.4%). In 2023-2024, revenue performance fell slightly below the budgeted estimate by \$6.9 million (-2.9%). 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 \$220.6 million, which was \$3.1 million (1.4%) above the budgeted estimate of \$217.5 million. The positive variance is distributed across Terminal Concessions, Terminal Rentals, and General Aviation/Miscellaneous revenues, offset by Landing Fees, Parking and Roadway, and Petroleum revenues, which all finished the year below the budgeted estimate.

ANALYSIS

2023-2024 Selected Special/Capital Funds Budget Performance

Airport Operating Funds

The Airport Customer Facility and Transportation Fee Fund had year-end expenditure savings of \$447,000 (2.5%) and Airport Maintenance and Operation Fund had a year-end expenditure savings of \$22.2 million (14.2%) compared to budgeted levels of \$156.3 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 (\$13.2 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 shuttle bus and parking operations, customs and border patrol services, and custodial services from reduced service levels that continue to restore as passenger levels increase (\$5.6 million).

San José Clean Energy Fund

The San José Clean Energy Fund, managed by the 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, including deferred revenue, ended the year at \$521.3 million, which is very slightly above the modified budgeted estimate of \$517.5 million, and in line with prior year levels of \$516.6 million. Cost of Energy expenditures including encumbrances ended the year at \$426.6 million, which is in line with the modified budget estimate.

In 2023-2024 SJCE completed its recovery from its prior cash flow shortage issue and paid back in full the remaining \$20.0 million of the \$60.0 million Commercial Paper notes previously authorized by City Council. SJCE also received its first investment-grade credit rating, indicating a strong and stable financial outlook for this Community Choice Aggregator. Nonetheless, the high volatility of market prices and PG&E's Power Charge Indifference Adjustment (PCIA) fees remain risk factors. The City Council approved a Financial Reserve Policy which authorizes an Operations and Maintenance Reserve that sets a goal to build and maintain at least 180 days of operating reserves to achieve financial resiliency, and a Rate Stabilization Reserve, which receives deferred rate payer revenues that can be recognized in a future year to offset expenditures and provides another avenue to ensure customer rates are competitive and affordable while also maintaining debt service coverage requirements and credit rating. In 2024-2025, the Operating Reserve is budgeted at \$219.0 million, which is the equivalent of approximately 168 days of coverage. A total of \$50.0 million was deferred from 2023-2024 revenue and placed in the Rate Stabilization Reserve.

ANALYSIS

2023-2024 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 2023-2024 actual collections in these capital revenue categories ended the year 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)

	2023-2024 Estimate*	2023-2024 Actuals	% Variance
Construction and Conveyance Tax	\$35,000	\$38,230	9%
Building and Structure Construction Tax	\$17,000	\$19,625	15%
Construction Excise Tax	\$15,000	\$18,353	22%
Municipal Water System Fees	\$35	\$64	83%
Residential Construction Tax	\$200	\$296	48%
Sanitary Sewer Connection Fee	\$500	\$494	(1%)
Storm Drainage Connection Fee	\$100	\$163	63%

* Revenue estimate used in the development of the 2024-2025 Adopted Capital Budget.

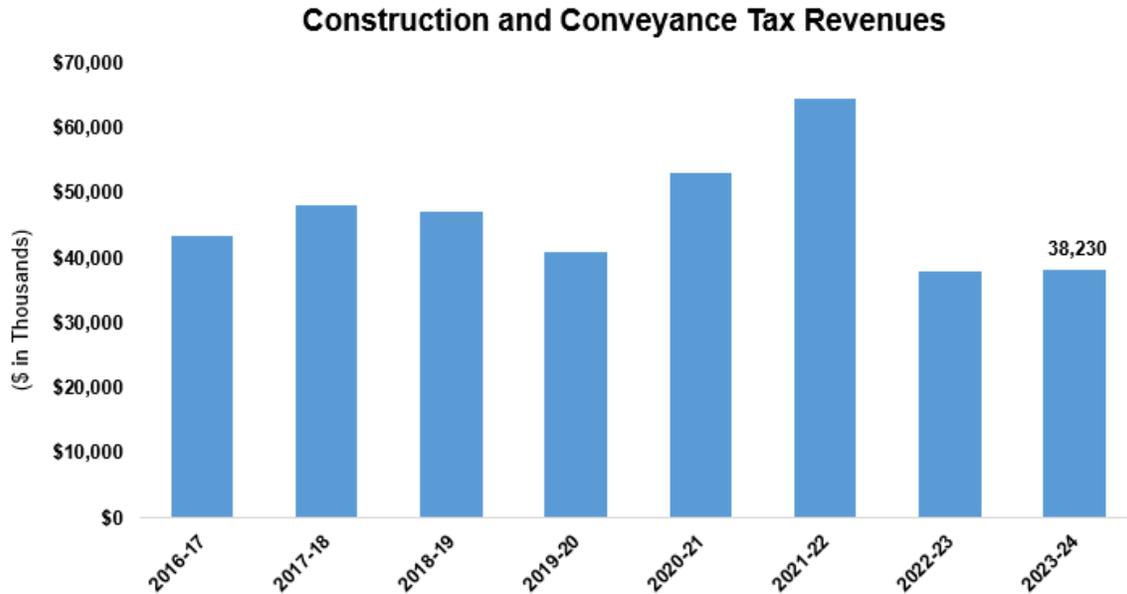
• **Construction and Conveyance Tax**

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 \$38.2 million in 2023-2024. This collection level is \$3.2 million above the estimated collection level of \$35.0 million. In 2024-2025, C&C Tax revenue is budgeted at \$40.0 million, which would require growth of almost 5% from the actual 2023-2024 collection level. Due to the volatile nature of the C&C Tax, receipts will be closely monitored with budget adjustments brought forward later in the budget process, if deemed necessary. The following graph displays the history of C&C Tax receipts.

ANALYSIS

2023-2024 Selected Special/Capital Funds Budget Performance

Capital Fund Major Revenues



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

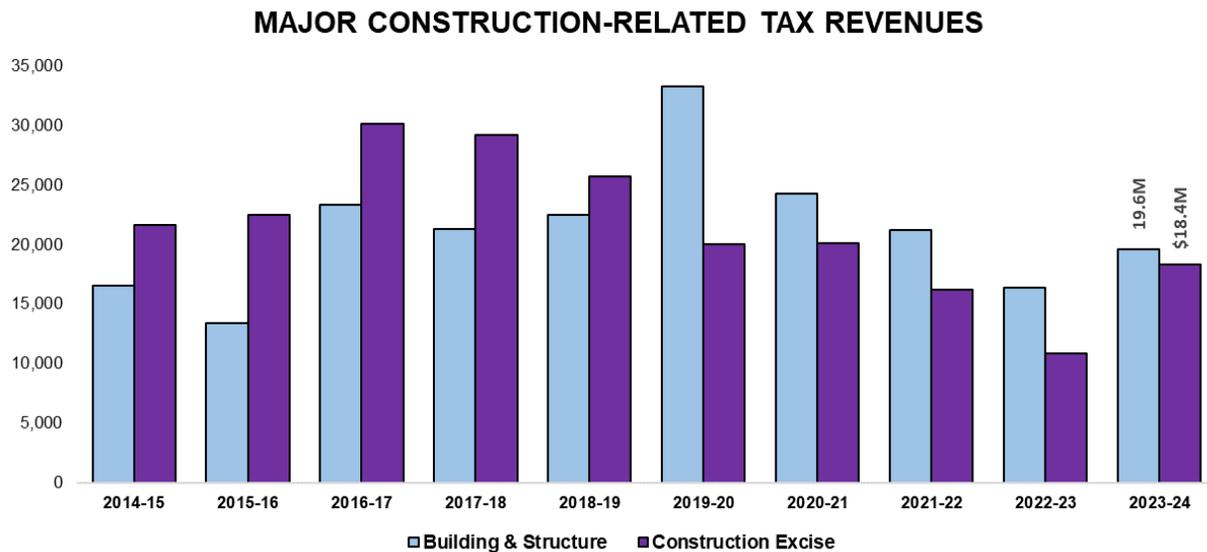
The Building and Structure Construction Tax and the Construction Excise Tax are major sources of funding for the Traffic Capital Program. Year-end collections in the Building and Structure Construction Tax category totaled \$19.6 million in 2023-2024. This collection level was 3.3% (\$625,000) above the Modified Budget estimate of \$19.0 million, 15.4% (\$2.6 million) above the \$17.0 million estimate used to develop the 2024-2025 Adopted Capital Budget; and \$3.2 million more than the \$16.4 million received in 2022-2023. Construction Excise Tax receipts for 2023-2024 totaled \$18.4 million: 22.4% (\$3.4 million) above the Modified Budget estimate of \$15.0 million that was used to develop the 2024-2025 Adopted Capital Budget and 68.7% (\$7.5 million) above 2022-2023 collections of \$10.9 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 permit valuation activity. In 2023-2024 overall permit valuations increased for the first time in four years since reaching nearly historical highs in 2019-2020. In 2023-2024, building project valuations for residential and industrial categories increased by 48.4% and 44.1%, respectively, over the prior year. However, the project valuations for the commercial category continued to drop, ending the year 9.3% lower than 2022-2023. The status of these taxes will be closely monitored throughout 2024-2025 to determine if future budget actions are necessary to revise the revenue estimates.

ANALYSIS

2023-2024 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 construction, and maintenance and operations of interim housing. In the Real Property Transfer Tax Fund (Measure E), a reallocation of \$6.0 million from the Interim Housing Construction and Operations appropriation to establish the Interim Housing – Cherry appropriation is recommended to support construction of a new emergency interim housing (EIH) site with the goal of opening by September 30, 2025. The Cherry Avenue EIH will consist of 12 single story modular buildings, each containing eight residential units, totaling 96 residential units. Other modular buildings include a one-story administrative building, a one-story laundry facility, security shack, and multiple storage units. Actions to appropriate an additional \$6.6 million of State funding to the project, as well as recognize a philanthropic contribution of \$2.4 million (for a total project budget of \$15.0 million) will be brought forward for City Council consideration in the coming months as part of the construction contract award. A total reallocation of \$2.5 million from the Measure E – 40% Extremely Low-Income Households Reserve is recommended to fund additional costs related to the Branham-Monterey Homekey project (\$1.5 million), Pacific Motor Inn project (\$967,000), and the 1860 Alum Rock Apartments project (\$15,000).

ANALYSIS

2023-2024 Selected Special/Capital Funds Budget Performance

Special and Capital Funds Budget Adjustments

In the Building Homes and Jobs Act Fund, a recommendation is included to recognize and appropriate \$7.4 million to reflect State funding for the Permanent Local Housing Allocation Program grant (Round 3 of funding) to support interim housing operations. Finally, in the Homeless Housing, Assistance, and Prevention Fund, a recommendation is included to recognize and appropriate \$6.4 million in State funding for the Homeless Housing, Assistance and Prevention Grant (Round 4 of funding) for interim housing.

In the Airport Capital Improvement Fund, recommended adjustments include establishing the Terminal B Environmental Study project to recognize and appropriate a \$331,000 grant award from the Federal Aviation Administration for an environmental assessment of the impacts of constructing the Terminal B expansion project.

In the Building and Structure Construction Tax Fund, actions include a \$402,000 increase to the Ocala Safety Improvements project, from \$100,000 to \$502,000, to fully appropriate a Highway Safety Improvement Program (HSIP) grant received from the State in spring 2024 for installation of median islands along Ocala Avenue.

In the Convention and Cultural Affairs Capital Fund, actions include targeted investments for various deferred maintenance projects at the City-owned theater facilities managed by Team San Jose totaling \$493,000, including replacement of counterweight line sets for stage rigging, interim chiller repairs, and replacement of house lighting system at the Center for Performing Arts (\$312,000); replacement of house incandescent bulbs with dimming light-emitting diode (LED) bulbs at the California Theatre (\$70,000); and replacement of the stage flooring at the Montgomery Theater (\$36,000).

In the Fire Protection C&C Fund, actions include a \$200,000 increase to the Personal Protective Equipment Program, from \$350,000 to \$505,000, to fund the replacement of 130 firefighters' turnout gear. A recent evaluation identified these turnouts as non-compliant with National Fire Protection Association standards, which mandate the retirement of turnouts that have exceeded their 10-year service life.

In the General Purpose Parking Capital Fund, a \$700,000 increase to the Greater Downtown Parking Inventory project, from \$4.3 million to \$5.0 million, is recommended for hazardous materials remediation and additional electric vehicle chargers for the Milligan Parking Lot Project, and a \$450,000 increase to the Garage Façade Improvements project, from \$7.1 million to \$7.6 million, is recommended to address higher than anticipated project costs for construction and public art installation at the Market/San Pedro Garage.

ANALYSIS

2023-2024 Selected Special/Capital Funds Budget Performance

Special and Capital Funds Budget Adjustments

In the Subdivision Park Trust Fund, actions include increasing the St. James Park Phase I Reserve by \$538,000 from \$9.5 million to \$10.0 million. A cost sharing agreement under development with the Levitt Foundation and the Friends of Levitt San Jose for the revitalization of St. James Park would require the City to dedicate \$10.0 million for the future construction of the improvements. This budget action would allow the City to potentially move forward with the agreement.

Finally, the rebudget of unexpended funds for projects and programs extending into 2024-2025 is recommended in this report. Details of these adjustments can be found in Section IV of this report.

NEXT STEPS

The results of the 2023-2024 Annual Report will provide an updated starting point for monitoring 2024-2025 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 2024-2025 will be provided in the Bi-Monthly Financial Reports that are heard at the PSFSS Committee and the 2024-2025 Mid-Year Budget Review.

The 2023-2024 Annual Report results will also be factored into the 2025-2026 budget development process. The General Fund Five-Year Forecast is scheduled to be released in late February 2025. The 2025-2026 Proposed Capital and Operating Budgets are scheduled to be released by May 1, 2025.

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 22, 2024, 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.

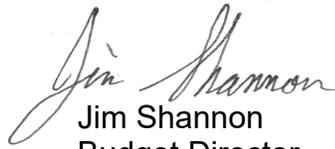
PUBLIC SUBSIDY REPORTING

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. As a result of rigorous forecasting, monitoring, and management throughout all City funds, 2023-2024 revenues and expenditures ended the year very close to budgeted expectations. In the General Fund, the additional fund balance at the end of 2023-2024, after considering clean-up/rebudget actions, totaled \$2.8 million (0.05% 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.

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 2023-2024, as well as the actual performance in 2024-2025, will be factored into the development of the 2025-2026 budget. The 2026-2030 General Fund Five-Year Forecast will be released at the end of February 2025 for budget planning purposes.


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 2024-2025 monies in excess of those heretofore appropriated therefrom:

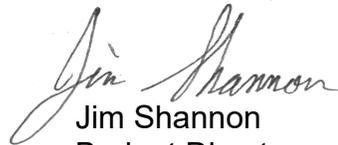
General Fund	\$42,473,856
Affordable Housing Impact Fee Fund	\$485,122
Airport Capital Improvement Fund	\$448,850
Airport Customer Facility and Transportation Fee Fund	\$540,585
Airport Renewal and Replacement Fund	\$7,133,260
Airport Revenue Bond Improvement Fund	\$484,416
Airport Revenue Fund	\$5,274,262
Benefits Funds - Life Insurance Fund	\$27,273
Benefits Funds - Unemployment Insurance Fund	\$58,030
Branch Libraries Bond Projects Fund	\$39,734
Building and Structure Construction Tax Fund	\$17,263,265
Building Development Fee Program Fund	\$3,479,675
Building Homes and Jobs Act Fund	\$7,821,324
Business Improvement District Fund	\$580,481
Cash Reserve Fund	\$24
Citywide Planning Fee Program Fund	\$390,961
City Hall Debt Service Fund	\$1,887,028
Community Facilities District Fund #2 & #3	\$129,091
Community Facilities District Fund #11	\$15,164
Community Facilities District Fund #13	\$6,484
Community Facilities District Fund #14	\$25,754
Community Facilities District Fund #15	\$42,783
Community Facilities District Fund #16	\$69,854
Construction and Conveyance Tax - Communications	\$319,986
Construction and Conveyance Tax - Council District 1	\$1,164,715
Construction and Conveyance Tax - Council District 2	\$322,653
Construction and Conveyance Tax - Council District 3	\$103,178
Construction and Conveyance Tax - Council District 4	\$87,581
Construction and Conveyance Tax - Council District 5	\$2,514,375
Construction and Conveyance Tax - Council District 6	\$429,030
Construction and Conveyance Tax - Council District 7	\$1,048,689
Construction and Conveyance Tax - Council District 8	\$627,134
Construction and Conveyance Tax - Council District 9	\$233,333
Construction and Conveyance Tax - Council District 10	\$162,011
Construction and Conveyance Tax - Fire	\$1,044,933
Construction and Conveyance Tax - Library	\$1,836,437

CERTIFICATION OF FUNDS

Construction and Conveyance Tax – Parks Central	\$3,024,863
Construction and Conveyance Tax – Parks City-Wide	\$1,910,768
Construction and Conveyance Tax – Parks Yards	\$105,334
Construction Excise Tax Fund	\$34,789,494
Contingent Lien District Fund	\$106,994
Convention and Cultural Affairs Capital Fund	\$351,665
Convention Center Facility District Capital Fund	\$659,837
Downtown Property and Business Improvement District Fund	\$68,248
Economic Development Administration Loan Fund	\$108
Emergency Reserve Fund	\$6,158,572
Emma Prusch Fund	\$14,883
Federal Drug Forfeiture Fund	\$90,140
Fire Development Fee Program Fund	\$531,508
General Purpose Parking Capital Fund	\$2,802,468
General Purpose Parking Fund	\$507,918
Gift Trust Fund	\$3,171,426
Housing Trust Fund	\$1,877,305
Inclusionary Fee Fund	\$3,343,771
Integrated Waste Management Fund	\$13,004,400
Lake Cunningham Fund	\$63,838
Library Parcel Tax Capital Fund	\$194,195
Library Parcel Tax Fund	\$1,559,924
Low and Moderate Income Housing Asset Fund	\$17,834,757
Maintenance District Fund #1	\$108,104
Maintenance District Fund #11	\$14,386
Maintenance District Fund #13	\$16,270
Maintenance District Fund #18	\$14,465
Maintenance District Fund #21	\$8,440
Maintenance District Fund #22	\$6,420
Major Collectors and Arterials Fund	\$31,154
Major Facilities Fund	\$204,305
Measure T Public Safety and Infrastructure Bond Fund	\$7,536,573
Multi-Source Housing Fund	\$28,099,421
Municipal Golf Course Fund	\$43,547
Parks and Recreation Bond Projects Fund	\$371,639
Planning Development Fee Program Fund	\$498,239
Public Works Development Fee Program Fund	\$1,706,641
Public Works Program Support Fund	\$522,192
Public Works Small Cell Permitting Fee Program Fund	\$455,579

CERTIFICATION OF FUNDS

Real Property Transfer Tax Fund	\$25,044,464
Rental Stabilization Program Fee Fund	\$496,055
Residential Construction Tax Contribution Fund	\$451,073
San José Arena Capital Reserve Fund	\$977,633
San Jose Opioid Response Fund	\$191,314
San José-Santa Clara Treatment Plant Capital Fund	\$22,810,160
San José-Santa Clara Treatment Plant Income Fund	\$200,786
San José-Santa Clara Treatment Plant Operating Fund	\$16,890,206
Sanitary Sewer Connection Fee Fund	\$1,146,761
Sewage Treatment Plant Connection Fee Fund	\$414,629
Sewer Service and Use Charge Capital Improvement Fund	\$7,793,994
Sewer Service and Use Charge Fund	\$7,506,395
South Bay Water Recycling Capital Fund	\$46,111
South Bay Water Recycling Operating Fund	\$1,045,698
St. James Park Management District Fund	\$114,793
State Drug Forfeiture Fund	\$512,513
Storm Drainage Fee Fund	\$55,601
Storm Sewer Capital Fund	\$706,468
Storm Sewer Operating Fund	\$1,452,053
Subdivision Park Trust Fund	\$18,168,387
Transient Occupancy Tax Fund	\$215,478
Underground Utility Fund	\$2,960,659
Water Utility Fund	\$2,350,483
Workforce Development Fund	\$2,308,411


Jim Shannon
Budget Director