

General Fund Balancing Strategy Detail 2024-2025 Adopted Operating Budget

INTRODUCTION

This attachment is intended to provide a more detailed summary of the key actions taken to balance the 2024-2025 Adopted 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 Adopted 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 upward 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 (\$19.4 million); service level enhancements (\$18.7 million); earmarked reserves (\$5.0 million); new infrastructure or equipment operations and maintenance (\$3.4 million); and critical unmet/deferred infrastructure and maintenance needs (\$1.5 million).

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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.

From the release of the Proposed Budget to the final adoption of the budget, additional revisions totaling \$515.0 million occurred. The largest component of the increase was the rebudget of 2023-2024 funds (\$504.7 million) that were carried forward to 2024-2025 to complete various projects.

Table I below displays the overall projections for the 2024-2025 General Fund as they changed between the February Base Budget Forecast and the Adopted 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, and final changes from the Proposed Budget to the Adopted Budget are summarized in Table IV.

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

	Total Sources	Total Uses	(Shortfall)/ Surplus
February Base Budget Forecast	\$ 1,628,215	\$ 1,631,803	(\$3,587)
Forecast Revision	(42,220)	(41,356)	(864)
Revised Base Budget Forecast (no fee impact)	\$1,585,995	\$1,590,447	(\$4,452)
Proposed Revision	29,133	24,682	4,452
2024-2025 Proposed Budget	\$1,615,128	\$1,615,128	\$0
Adopted Revision	514,999	514,999	0
2024-2025 Adopted Budget	\$2,130,127	\$2,130,127	\$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 Adopted 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.

<u>Category</u>	<u>\$ Change</u>	<u>Department</u>
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 \$1.59 billion, a net increase of \$29.1 million to the General Fund revenue estimates was included in the Proposed Budget, bringing the 2024-2025 revenue estimate to \$1.61 billion (including fund balance). The components of this change included an increase to the estimate for the 2023-2024 Ending Fund Balance/2024-2025 Beginning Fund Balance (\$7.6 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).

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PROPOSED BUDGET BALANCING STRATEGY

Source of Funds

Category	\$ Change	Description
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).
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 \$1.59 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 \$1.61 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.

<u>Category</u>	<u>\$ Change</u>	<u>Description</u>
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 (\$1.8 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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PROPOSED BUDGET BALANCING STRATEGY

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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PROPOSED BUDGET BALANCING STRATEGY

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	

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ADOPTED BUDGET BALANCING STRATEGY

The final phase of the 2024-2025 budget process commenced following the issuance of the City Manager's Proposed Budget and consisted of the following major steps: City Council Budget Study Sessions on the Proposed Budget; formal public input through the Public Hearings process; issuance by the Administration of recommended revisions to the Proposed Budget (in the form of formal Manager's Budget Addenda); issuance by the City Council of recommended revisions to the Proposed Budget (in the form of Budget Documents submitted to the Mayor's Office); issuance of the Mayor's June Budget Message memorandum that included recommended revisions to the Proposed Budget and incorporated feedback from the City Council and the Administration; and approval by the City Council of the Mayor's June Budget Message and final Adopted Budget. In addition, numerous hybrid community budget meetings were held at locations throughout the city.

Summarized in Table IV by general category are the additional changes introduced by Manager's Budget Addenda or the Mayor's June Budget Message and subsequent modification and approval by the City Council. (The full text of the Message is included as an Appendix to this document.) Those additional changes in funding sources and uses totaled \$515.0 million in 2024-2025.

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**Table IV
2024-2025 ADOPTED OPERATING BUDGET
General Fund Funding Requirements and Balancing Strategy (in \$000s)**

	2024-2025	Ongoing
Remaining Balance from Proposed Budget (from Table III)	\$ 0	\$ 0
Balancing Strategy		
Source of Funds		
Fund Balance to Support 2023-2024 Projects/Balancing Strategy	\$ 479,609	\$ 0
Revenue-Related Rebudgets to Support 2023-2024 Projects	25,076	0
Other Revenue Changes	11,200	11,000
New Grants/Revenue-Supported Expenditures	(886)	754
Subtotal Source of Funds	\$ 514,999	\$ 11,754
Use of Funds		
Rebudgets to Support 2023-2024 Projects	\$ 504,686	\$ 0
New Grants/Reimbursements/Revenue-Supported Expenditures	9,406	0
Service Level Enhancements	2,321	10,399
2023-2024 Previously One-Time Funded Services	490	0
Unmet/Deferred Technology, Infrastructure, and Maintenance	252	90
2025-2026 Future Deficit Reserve	0	(20,000)
Cost Reductions/Service Delivery Efficiencies/Fund Shifts	(156)	22,919
Use of Reserves (Essential Services Reserve)	(2,000)	0
Subtotal Use of Funds	\$ 514,999	\$ 13,408
Total Balancing Strategy	\$ 0	(\$ 1,654)
Remaining Balance	\$ 0	(\$ 1,654)

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ADOPTED BUDGET BALANCING STRATEGY

Source of Funds

As part of the City Council-approved revisions to the Proposed Budget, a total of \$515.0 million in additional resources were approved to be used as part of the Adopted Budget strategy. The major elements of these revisions are described below.

Fund Balance to Support 2023-2024 Rebudgeted Projects/Balancing Strategy

The unrestricted portion of the 2023-2024 Ending Fund Balance/2024-2025 Beginning Fund Balance estimate was adjusted upward by \$479.6 million, which primarily reflected 2023-2024 funding which was estimated to be carried over (rebudgeted) to 2024-2025 to complete previously approved projects (\$476.9 million), as identified in Manager's Budget Addendum #29. In addition, \$2.7 million was included in the Mayor's June Budget Message for Fiscal Year 2024-2025 to reflect rebudgets for the Mayor and City Council offices.

Revenue-Related Rebudgets to Support 2023-2024 Projects

The Adopted Budget included grant and reimbursement-related revenue totaling \$25.1 million that was rebudgeted from 2023-2024 to complete the associated projects in 2024-2025. These revenue-related rebudgets were spread among several revenue categories, including Other Revenue, Revenue from the Federal Government, and Revenue from the State of California. The approved revenue rebudgets were offset by expenditure appropriation rebudgets, which were also included in the Adopted Budget.

Other Revenue Changes

The Adopted Budget included an increase of \$11.2 million to reflect higher Property Tax revenue, higher Sales Tax revenue, and a transfer from the General Purpose Parking Fund to the General Fund for Downtown Ice.

New Grants/Revenue-Supported Expenditures

The Adopted Budget included a net negative adjustment of \$886,000 for grant/reimbursement/fee revenue. The approved adjustments were reflected in several revenue categories, including Fees, Rates, and Charges, Licenses and Permits, Other Revenue, Revenue from the Federal Government, Revenue from Local Agencies, and Revenue from the State of California.

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ADOPTED BUDGET BALANCING STRATEGY

Use of Funds

As part of the City Council-approved revisions to the Proposed Budget, a total of \$515.0 million in General Fund expenditure changes were approved. In addition, 8.45 positions were added in the General Fund. Listings of all the approved budget modifications are described in detail in the CSA and departmental sections of this Adopted Budget document as well as summarized in Manager's Budget Addendum #33.

The major elements of the General Fund revisions are described below.

Rebudgeted 2023-2024 Projects

Additional expenditures totaling \$504.7 million were included in the Adopted Budget to fund the completion of programs and projects authorized in the prior year. The rebudgeted funds were offset by additional 2023-2024 Ending Fund Balance/2024-2025 Beginning Fund Balance.

New Grants/Reimbursements/Revenue-Supported Expenditures

Expenditure changes related to new grant or reimbursement activity totaled \$9.4 million. These grant and reimbursement expenditures were offset by additional revenue.

Service Level Enhancements

Additional expenditures totaling \$2.3 million were included in the Adopted Budget for service level enhancements. The largest of these allocations included:

- \$1.4 million for Oversized Vehicle Regulation Pilot Program
- \$450,000 for Trusted Response Urgent Support Team
- \$200,000 for School of Arts and Culture - La Avenida Cultural District
- \$200,000 for San José Shared Arts Center
- \$200,000 for Municipal Electric Utility Service Exploration
- \$150,000 for Clean Gateways Pilot Program - Phase 2

Additional adjustments of \$100,000 or less in value are further detailed within the City Department and City-Wide Expenses sections of this document.

While the Proposed Budget, in alignment with City Council direction with their approval of the Mayor's March Budget Message for Fiscal Year 2024-2025, included a two-year strategy for the reallocation of Measure E resources, City Council's approval of the Mayor's June Budget Message for Fiscal Year 2024-2025 eliminated the second-year

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reallocation. With that action, the second-year and ongoing commitments for implementation of the City's Storm Water Permit totaling \$10.1 million – consisting of Safe or Alternative Sleeping Sites (\$5.0 million), Outreach, Sanitation, and Other Services (\$3.5 million), and a Recreational Vehicle Pollution Prevention Program (\$1.65 million) – will be borne by the General Fund and are reflected within the ongoing column of this category.

2023-2024 Previously One-Time Funded Services

The Adopted Budget includes funding to continue services that were funded on a one-time basis in the 2023-2024 Adopted Budget for Office of Economic Development and Cultural Affairs to continue two Fourth of July fireworks events and add a third one at Lake Cunningham (\$300,000); for San José Downtown Association to continue the production of Downtown Ice and support Downtown Champions marketing team (\$290,000); for Climate Smart San José to continue education and preparation efforts of electrification goals (\$100,000); and for reallocation of budget from Climate and Seismic Resilience Planning to Municipal Electric Service Exploration (-\$200,000).

Unmet/Deferred Technology, Infrastructure, and Maintenance

The Adopted Budget included \$252,000 to allocate funding for deferred infrastructure, and maintenance projects, such as conducting a design and safety study for Monterey Road in Coyote Valley, and various traffic and pedestrian improvements throughout the City.

2025-2026 Future Deficit Reserve

The Adopted Budget included the elimination of the 2025-2026 Future Deficit Reserve by \$20.0 million that was established in the Proposed Budget to partially offset the reversal of Measure E reallocations included in the Proposed Budget. While the Proposed Budget, in alignment with City Council direction with their approval of the Mayor's March Budget Message for Fiscal Year 2024-2025, included a two-year strategy for the reallocation of Measure E resources, City Council's approval of the Mayor's June Budget Message for Fiscal Year 2024-2025 eliminated the second-year reallocation. With that action, the second-year and ongoing commitments for interim housing construction and operations of \$11.5 million and implementation of the City's Storm Water Permit totaling \$10.1 million – consisting of Safe or Alternative Sleeping Sites (\$5.0 million), Outreach, Sanitation, and Other Services (\$3.5 million), and a Recreational Vehicle Pollution Prevention Program (\$1.65 million) – will be borne by the General Fund. As a result, the General Fund shortfall projected for 2025-2026 increased by \$1.65 million.

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Cost Reductions/Service Delivery Efficiencies/Fund Shifts

The Adopted Budget included cost reductions and inter-fund or inter-departmental shifts to align resources with program administration and intended uses. These include restoring funding for Community Center Fitness Centers initially proposed as a cost reduction (\$397,000), restoring funding for the Placemaking Program (Viva CalleSJ and Viva Parks) initially proposed as a cost reduction (\$337,000); reducing staff and non-personal/equipment funding for the Cannabis Regulation Program to align with a reduction in Program fees (\$361,000); reducing funding for a fourth Encampment Trash Management team on a one-time basis in 2024-2025 (\$230,000); reducing Enterprise Resource Planning System staff funding on a one-time basis to offset the restoration of funding to support community center fitness rooms (\$219,000); reducing funding on a one-time basis in 2024-2025 for a Neighborhood Economic Grants project from \$200,000 to \$136,914 that will improve blighted sites and attract business and jobs in lower resourced areas (\$63,000); and shifting funding for the City's online grant management system, Webgrants, from Office of Economic Development and Cultural Affairs to the Finance Department (\$17,000).

While the Proposed Budget, in alignment with City Council direction with their approval of the Mayor's March Budget Message for Fiscal Year 2024-2025, included a two-year strategy for the reallocation of Measure E resources, City Council's approval of the Mayor's June Budget Message for Fiscal Year 2024-2025 eliminated the second-year reallocation. With that action, the Adopted Budget restores the \$22.5 million previously anticipated to be borne by Measure E funds in 2025-2026 – and previously shown as a cost reduction within this category – of which \$11.5 million is offset by the liquidation of the 2025-2026 Future Deficit Reserve and \$11.0 million is offset by the recognition of additional Sales Tax (\$8.0 million) and Property Tax (\$3.0 million) revenues.

Use of Reserves

The Adopted Budget includes a net decrease of \$2.0 million to the Use of Reserves category, reducing the Essential Services Reserve, that primarily reflects the revised direction provided by the City Council in their discussion and approval of the Mayor's June Budget Message for Fiscal Year 2024-2025.

Details of reserve adjustments can be found in the General Fund Capital, Transfers, Reserves section of this document.