

General Fund Balancing Strategy Detail

2020-2021 Proposed Operating Budget

INTRODUCTION

This attachment is intended to provide a more detailed summary of the key actions taken to balance the 2020-2021 Proposed General Fund Budget. Revisions to the February Base Budget Forecast, as well as the key elements of the strategy to bring the General Fund into balance in the Proposed Budget, are described.

In February 2020, the Administration prepared formal projections for the 2020-2021 Proposed General Fund Budget as part of the *2020-2024 City Manager's Budget Request & 2021-2025 Five-Year Forecast and Revenue Projections* document that was released to the City Council. In that document, the 2020-2021 February Base Budget Forecast projections estimated a small 2020-2021 General Fund surplus of approximately \$0.5 million. This surplus represented the difference between projected 2020-2021 General Fund resources and the expected cost of approved 2020-2021 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 2020-2024 Capital Improvement Program or for projects approved by the City Council during 2019-2020).

Subsequent to the release of the February Forecast and as a result of the COVID-19 pandemic and the resulting shelter-in-place mandate, 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 produced a deficit in the overall General Fund sources and uses. These changes resulted in a decrease of \$72.1 million to the estimated General Fund surplus, for a revised deficit of \$71.6 million. These adjustments to the February Base Budget Forecast are listed later in this section.

The Proposed Budget contains a set of recommended actions that increase both the General Fund sources (by \$106.3 million), and uses (by \$34.7 million) from the Revised Base Budget Forecast, bringing the overall General Fund into balance for 2020-2021. The increase in sources of \$106.3 million includes several major components, including: liquidation of various earmarked reserves for specific purposes (\$16.6 million); Real Property Transfer Tax (Measure E) (\$30.0 million); City Hall Lease-Revenue Bonds Refunding (\$26.0 million), annualization of the Revenue Capture Agreement (\$22.0 million); Sale of Surplus Properties for Future Affordable Housing Developments (\$11.1 million); reduction of interest earnings (\$2.6 million); and other revenue changes (\$3.2 million).

The increase in uses of \$34.7 million in 2020-2021 includes additional funding for the following: Measure E Allocation (\$30.0 million); service level enhancements (\$1.7 million); funding for the 2021-2022 Future Deficit Reserve (\$11.1 million); earmarked reserves (\$1.5 million); critical unmet/deferred infrastructure and maintenance needs (\$5.4 million); continuation of 2019-2020 one-time funded services (\$6.5 million); and other positive changes (\$870,000).

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These increases were partially offset by savings realized from cost reductions, service delivery efficiencies, and funding shifts (\$20.9 million) and the use of reserves that had been established for specific purposes (\$1.4 million) that were included in the February Forecast. The result of these actions was a balanced 2020-2021 Proposed General Fund Budget of \$1.3 billion.

Table I below displays the overall projections for the 2020-2021 General Fund as they changed between the February Base Budget Forecast and the Proposed Budget. Table II summarizes the changes from the February Base Budget Forecast to the Revised Base Budget Forecast. The specific elements of the City Manager's Proposed Budget balancing strategy are summarized in Table III.

Table I
2020-2021 PROPOSED OPERATING BUDGET
Forecast To Proposed Budget Reconciliation (in \$000s)

	Total Sources	Total Uses	(Shortfall)/ Surplus
February Base Budget Forecast	\$ 1,290,746	\$ 1,290,202	\$544
Forecast Revisions	(78,598)	(6,476)	(72,122)
Revised Base Budget Forecast (no fee impact)	1,212,148	1,283,726	(71,578)
Proposed Revisions	106,300	34,722	71,578
2020-2021 Proposed Budget	1,318,448	1,318,448	0

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REVISED BASE BUDGET FORECAST

As discussed previously, following the issuance of the February Base Budget Forecast, detailed analysis of the status of General Fund revenues and expenditures continued. Based on this review, the Proposed Budget incorporated a series of changes to the February Base Budget Forecast estimates for both sources and uses to form a Revised Base Budget Forecast. This Revised Base Budget Forecast resulted in a deficit of \$71.6 million, a decrease of \$72.1 million from the \$0.5 million surplus in the February Base Budget Forecast. Changes are detailed in Table II below.

Table II
2020-2021 REVISED BASE BUDGET FORECAST
Summary of Changes (in \$000s)

Sources	Revision
Sales Tax	\$ (47,200)
Business Taxes	(7,000)
Property Tax	(5,800)
Transient Occupancy Tax	(5,800)
Fees, Rates, and Charges	(3,254)
Transfers and Reimbursements	(2,540)
Franchise Fees	(2,402)
Other Revenues	(1,102)
Fines, Forfeitures and Penalties	(900)
Utility Tax	(600)
Beginning Fund Balance	(2,000)
Net Change in Sources	\$ (78,598)

Uses	Revision
Transfers to Other Funds	\$ (2,000)
Position and Fund Realignments/Corrections	(3,876)
Non-Personal/Equipment and City-Wide Expenses	(599)
Net Change in Uses	\$ (6,475)

Total Change (Shortfall)/Surplus	\$ (72,122)
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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 2020-2021 Budget.

Category	\$ Change	Description
Revenue from Local Agencies	\$ 40,000	Increase of \$40,000 reflects an increase of revenue anticipated to be received from Santa Clara County for the Central Fire District payment.
Sales Tax	(47,200,000)	Decrease of \$47.2 million as a result of the COVID-19 pandemic (from \$267.7 million to \$220.5 million). The revised 2020-2021 revenue reflects a 6.0% decline from the 2019-2020 estimated receipts (excluding the Revenue Capture Agreement) and a 16.3% decline from 2018-2019 actual collections.
Business Taxes	(7,000,000)	Decrease of \$7.0 million as a result of the COVID-19 pandemic (from \$77.9 million to \$70.9 million). The revised 2020-2021 revenue reflects a slight (0.7%) increase from 2019-2020 estimated receipts due to the timing of General Business Tax receipts. However, 2020-2021 revenue reflects a 5.3% decline from 2018-2019 actual collections.
Property Tax	(5,800,000)	Net decrease of \$5.8 million primarily as a result of the COVID-19 pandemic (from \$376.3 million to \$370.5 million). The revised 2020-2021 revenue reflects a 0.8% increase from 2019-2020 estimated revenue and 12.2% increase from 2018-2019 actual collections. This net decrease is due to lower anticipated Educational Revenue Augmentation Fund (ERAF) revenue (\$4.5 million) and Unsecured Property Tax revenue (\$2.3 million), partially offset by slightly higher general Secured Property Tax revenue (\$1.0 million).
Transient Occupancy Tax	(5,800,000)	Net decrease of \$5.8 million as a result of the COVID-19 pandemic (from \$20.8 million to \$15.0 million). The revised 2020-2021 revenue reflects an 11.1% increase from the 2019-2020 estimated revenue, but a 27.0% decline from 2018-2019 actual collections.

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REVISED BASE BUDGET FORECAST

Source of Funds

Category	\$ Change	Description
Transfers and Reimbursements	\$(2,539,922)	Net decrease of \$2.5 million reflects updated overhead reimbursements from capital and operating funds based on the final 2020-2021 base budget and overhead rates (\$233,000), lower transfers to the General Fund (-\$773,000) and decreased Gas Tax revenue (-\$2.0 million).
Franchise Fees	(2,402,000)	Net decrease of \$2.4 million primarily reflects updated information received in April 2020, which reduces the 2020-2021 estimates for Electric Franchise Fees by \$2.4 million (from \$22.4 million to \$20.0 million).
Beginning Fund Balance	(2,000,000)	Net decrease of \$2.0 million reflects a lower transfer to the new Development Program Fee Funds in 2020-2021, as a result of less funding anticipated to be available after the end of 2019-2020 due to adjusted costs in the respective fee programs.
Fines, Forfeitures, and Penalties	(900,000)	Net decrease of \$900,000 to parking fine citations (\$700,000; from \$12.7 million to \$12.0 million) and business tax penalties (\$200,000; from \$1.2 million to \$1.0 million) as a result of the COVID-19 pandemic.
Utility Tax	(600,000)	Net decrease of \$600,000 as a result of the COVID-19 pandemic (from \$96.4 million to \$95.8 million). The revised 2020-2021 revenue reflects a 0.3% decrease from the 2019-2020 estimated revenue and a 3.5% decline from 2018-2019 actual collections.
Licenses and Permits	(442,000)	Decrease of \$442,000 aligns revenues with anticipated activity levels for Fire Dept Non-Development Fee Program permits.
Revenue from the State	(400,000)	Decrease of \$400,000 reflects updated information from the State of California regarding Tobacco Settlement funds.
Use of Money and Property	(300,000)	Decrease aligns the interest earning revenue with updated projection levels. Less revenue is anticipated in 2020-2021 due to declining interest rates coupled with lower cash flow projections.
Total	<u>\$(78,597,747)</u>	

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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 2020-2021 Budget.

Category	\$ Change	Department
Personal Services Adjustments		
Salaries and Benefits Reserve	\$(4,000,000)	Citywide
Personal Services Savings	(2,420,387)	Citywide
Federated Retirement Costs (Administration Expense)	2,544,000	Citywide
Non-Personal/Equipment Adjustments		
Public Life and Parks Activation	(635,000)	PRNS
Updated Database Environment Licensing	(260,000)	Information Technology
Workers Compensation State License	(200,000)	Human Resources
Non-Personal/Equipment (Versaterm)	(115,061)	Police
Non-Personal/Equipment Savings	(73,689)	Fire
Cloud Services (Microsoft)	(60,000)	Information Technology
Business Incentive - Business Cooperation Program Administration	(56,000)	Economic Development
Business Incentive - Business Cooperation Program	(51,000)	Economic Development
Cloud Services (Azure)	(50,000)	Information Technology
Re-architecting and Re-procurement of Network Perimeter	(50,000)	Information Technology
Senior Nutrition Program	(40,000)	PRNS
Revenue Management Lien Fees	(40,000)	Finance
Tape Backups	(38,000)	Information Technology
Non-required Software for Server Administration	(30,000)	Information Technology
Online Storage Requests (Oracle)	(17,500)	Information Technology
City Facilities Solid Waste	(11,773)	Environmental Services
City Dues/Memberships	(5,000)	Clerk
Civil Service Commission	(4,000)	Clerk
Electronic Document Management System Maintenance	(3,300)	Clerk
Alum Rock Counseling Ctr, Inc (Crisis Intervention Program for Youth)	404	Police
Truancy Abatement and Burglary Suppression (TABS) counseling	1,397	Police
YWCA (Domestic Violence)	2,696	Police

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Category	\$ Change	Department
Non-Personal/Equipment Adjustments		
Our City Forest	9,351	Transportation
My San Jose Application Support	14,400	Information Technology
Electronic Time Clocks (HHPZ, Family Camp, and EOC)	43,000	Information Technology
Microsoft Support Services	110,000	Information Technology
City-wide Retail Attraction Program	200,000	Economic Development
Parks Rehabilitation Strike and Capital Infrastructure Team	760,000	PRNS
Transfers to Other Funds		
Public Works Development Fee Program Fund	(2,500,000)	Public Works
Citywide Planning Fee Program Fund	500,000	PBCE
Total	\$ (6,475,462)	

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PROPOSED BUDGET BALANCING STRATEGY

Table III
2020-2021 PROPOSED OPERATING BUDGET
General Fund Balancing Strategy (in \$000s)

	2020-2021	Ongoing
2020-2021 General Fund Deficit	\$ (71,578)	\$ (71,578)
Balancing Strategy		
Source of Funds		
Beginning Fund Balance:		
2020-2021 Future Deficit Reserve	\$ 10,894	\$ 0
Budget Stabilization Reserve	5,000	0
Other Reserve Liquidations	671	0
Grants/Reimbursements/Fees		
Google-Diridon Station Development and Planning	1,272	0
UASI Grant – Office of Emergency Management	641	0
Merchant Card Transaction Fee	415	800
PRNS Fee Rev (Summer Swim, Family Camp, Comm Centers, HHPZ Corpl)	(1,875)	(150)
Library Juvenile Fines	(175)	(175)
Viva CalleSJ and Viva Parks Placemaking	(144)	0
Other Fee Programs/Reimbursements/Grants	1,451	1,311
Other Revenue		
Real Property Transfer Tax (Measure E)	30,000	30,000
City Hall Lease-Revenue Bonds Refunding	26,000	0
Sales Tax (Revenue Capture Agreement Annualization)	22,000	22,000
Sale of Surplus Property (Future Affordable Housing Developments)	11,100	0
Communications Facilities Property Rentals	300	300
Interest Earnings (Pre-funding of City Retirement Contributions)	(2,573)	(2,573)
Overhead Reimbursements/Transfers from Other Funds	1,323	860
Subtotal Source of Funds	\$ 106,300	\$ 52,373
Use of Funds		
Measure E Allocation (Homelessness Prevention and Affordable Housing)	\$ 30,000	\$ 30,000
2021-2022 Future Deficit Reserve	11,076	0
2019-2020 One-Time Funded Services	6,454	591
Unmet/Deferred Technology, Infrastructure, and Maintenance	5,407	0
Service Level Enhancements	1,699	731
Earmarked Reserves (Essential Services, and Litigation Reserve)	1,500	0
Other Fee Programs/Grants/Reimbursements	745	(25)
New Infrastructure/Equipment Operations and Maintenance	125	214
Use of Reserves (Deferred Maintenance, Committed Additions)	(1,375)	(214)
Cost Reductions/Service Delivery Efficiencies/Fund Shifts	(20,909)	(30,843)
Subtotal Use of Funds	\$ 34,722	\$ 454
Total Balancing Strategy	\$	\$ 51,919
Remaining Balance	\$ 0	\$ (19,659)

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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 2020-2021, 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 a package of contingency proposals that the City Council may consider for action later in the fiscal year if budgetary conditions worsen.

Source of Funds

From the Revised Forecast of \$1.21 billion, a net increase of \$106.3 million to the General Fund revenue estimates are recommended, bringing the 2020-2021 Proposed Budget estimate to \$1.32 billion. The components of this change includes an increase to the estimate for 2019-2020 Ending Fund Balance/2020-2021 Beginning Fund Balance (\$16.6 million) and increases to various revenue categories (\$89.7 million). The proposed changes are summarized in the following table. Further detail is incorporated into the General Fund Revenue and departmental sections of this document.

Category	\$ Change	Description
Other Revenue	\$ 39,094,313	Increase of \$39.0 million primarily reflects the refunding of outstanding City Hall lease-revenue bonds (\$26.0 million) and the sale of five City-owned properties to the Housing Department (\$11.1 million).
Real Property Transfer Tax	30,000,000	Increase of \$30.0 million to reflect anticipated revenue related to the new Real Property Transfer Tax (Measure E), which becomes effective on July 1, 2020.
Sales Tax	22,000,000	Increase of \$22.0 million to reflect the annualization of General Sales Tax revenue anticipated to be received in 2020-2021 as a result of the Revenue Capture Agreement.
Beginning Fund Balance	16,565,768	Net increase of \$16.6 million reflects the liquidation of various reserves, the largest of which include the 2020-2021 Future Deficit Reserve (\$10.9 million) and the Budget Stabilization Reserve (\$5.0 million).
Transfers and Reimbursements	1,322,413	Net increase of \$1.3 million reflects the increase in overhead from the budget actions that change the staffing levels funded by special and capital funds.
Licenses and Permits	719,837	Increase of \$720,000 reflects various license and permit changes recommended to the Fire Permits (\$421,000) and Other Licenses and Permits (\$299,000) categories to align revenues with estimated activity levels, reflect fee revisions, and maintain cost recovery levels.

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PROPOSED BUDGET BALANCING STRATEGY

Source of Funds

<u>Category</u>	<u>\$ Change</u>	<u>Description</u>
Revenue from the Federal Government	\$ 640,709	Increase of \$641,000 to recognize Urban Areas Security Initiative (UASI) grant revenue, which will be allocated to the Office of Emergency Management.
Franchise Fees	202,096	Increase of \$202,000 reflects an increase in the Commercial Solid Waste fees by 1.81% based on the change in the Consumer Price Index.
Revenue from Use of Money and Property	(2,273,000)	Net decrease of \$2.3 million reflects reduced interest earning receipts as lower cash balances are anticipated in 2020-2021 as the City will return to pre-paying retirement contributions (\$2.6 million). This reduction is partially offset by higher anticipated communication facilities property rental revenue (\$300,000).
Fees, Rates, and Charges	\$(1,828,301)	Net decrease of \$1.8 million is primarily due to Parks, Recreation and Neighborhood Services Department Fees, Rates, and Charges reducing in 2020-2021 to reflect summer swim not occurring in summer 2020, Family Camp not being operational in 2020, community center hours and activities being greatly reduced, and the Corporate Rentals at Happy Hollow Park and Zoo being eliminated (-\$1.9 million). In addition, an ongoing reduction to the Library Department fee revenue (-\$175,000) is reflected for the elimination of youth library fines. These reductions are partially offset by various fee changes recommended in 2020-2021 to align revenues with estimated activity levels, reflect fee revisions, and maintain cost recovery levels (\$222,000).
Revenue from Local Agencies	(144,000)	Decrease of \$144,000 to reflect the elimination of funding from the County of Santa Clara for Viva CalleSJ and ¡Viva Parks! as these placemaking events will no longer be funded with City resources.
Total	\$ 106,299,835	

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PROPOSED BUDGET BALANCING STRATEGY

Use of Funds

From the Revised Base Budget Forecast of \$1.28 billion, a net increase of \$34.7 million to the General Fund expenditures is recommended, bringing the 2020-2021 Proposed Budget Use of Funds estimate to \$1.32 billion. A listing of the Proposed Budget modifications is provided by specific categories in Table III. Further detail is incorporated into the departmental and City-Wide sections of this document.