

**2019-2020**

**ANNUAL**

**REPORT**

---

**T**RANSMITTAL

**M**EMORANDUM

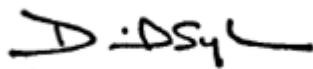
**TO:** HONORABLE MAYOR AND  
CITY COUNCIL

**FROM:** Jim Shannon

**SUBJECT:** 2019-2020 ANNUAL REPORT

**DATE:** September 30, 2020

Approved



Date

09/30/2020

## **RECOMMENDATION**

It is recommended that the City Council:

- (a) Accept the 2019-2020 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 2019-2020 Annual Report recommendations, as detailed in Section IV (Recommended Budget Adjustments and Clean-Up/Rebudget Actions).
- (c) Approve the following position additions in the City Manager's Office for the Office of Racial Equity that are currently funded in the 2020-2021 Adopted Operating Budget:
  - (1) Add 1.0 Director of City Manager's Office;
  - (2) Add 1.0 Assistant to the City Manager;
  - (3) Add 1.0 Senior Executive Analyst; and
  - (4) Add 1.0 Staff Specialist.

## **OUTCOME**

In accordance with Section 701 (F) of the San José City Charter, the 2019-2020 Annual Report describes the financial status of the City at the end of the 2019-2020 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 expenditures to projections and appropriations included in the City's budget.

The 2019-2020 Annual Report will provide the City Council with the information necessary to review the financial performance of all City funds. In addition, this report provides a comparison of the actual 2019-2020 Ending Fund Balance for each fund to the estimates used in the development of the 2020-2021 Adopted Budget as well as information on the status of the year-end reserve levels for each of the City's budgeted funds.

## **OUTCOME**

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 2019-2020. This report also includes actions that are necessary to: revise the 2020-2021 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; establish four positions for the Office of Racial Equity that are currently funded in the 2020-2021 Adopted Operating Budget; 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 130 budgeted funds in 2019-2020. Budget actions were brought forward during the year to 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.

The 2019-2020 Adopted Budget followed City Council direction to focus on targeted, strategic spending, as well as saving for the future, which included preserving most of the ongoing forecasted General Fund surplus of \$5.1 million in anticipation of a deficit in 2020-2021 and allocating \$10.0 million to the Budget Stabilization Reserve. Actions taken in the 2018-2019 Annual Report added an additional \$5.0 million to the Budget Stabilization Reserve, bringing the new total reserve amount to \$32 million. These actions proved prescient as the City's near-term and long-term budgetary outlook was dramatically impacted by the COVID-19 pandemic and associated public health orders to prevent the spread of the disease. On April 28, 2020, the City Council approved a number of actions to resolve a forecasted General Fund revenue shortfall of \$45 million as a result of the COVID-19 pandemic. While the 2019-2020 shortfall was resolved through expenditure reductions and other offsetting revenue actions without tapping the Budget Stabilization Reserve, \$11.0 million of the reserve was used to balance the General Fund in 2020-2021, bringing the reserve total down to \$21.0 million late in the fiscal year.

Due to careful forecasting, monitoring, and management, 2019-2020 revenues and expenditures ended the year very close to budgeted expectations. The 2019-2020 General Fund Ending Fund Balance of \$400.3 million exceeded the estimate of \$346.3 million used in the development of the 2020-2021 Adopted Budget by \$53.9 million. This variance represents 3.3% of the 2019-2020 Modified Budget. These funds are recommended to be allocated in the 2019-2020 Annual Report, as shown in the table below.

**EXECUTIVE SUMMARY**

**Recommended 2020-2021 General Fund Adjustments (\$000s)**

<b>Additional 2019-2020 Ending Fund Balance</b>	<b>\$53,948</b>
<b>Clean-Up Actions</b>	
Development Fee Programs Reconciliation	(16,446)
Other Rebudgets/Clean-Up Adjustments	(9,112)
<b>Total Clean-Up Actions</b>	<b>(\$25,558)</b>
<b>Fund Balance Available After Clean-up Actions</b>	<b>\$28,390</b>
<b>Recommended Budget Adjustments</b>	
Required Technical/Rebalancing Actions	(14,390)
Grants/Reimbursements/Fee Activities (Sources = \$2.2M; Uses = \$2.2M)	0
<b>Total Recommended Budget Adjustments</b>	<b>(\$14,390)</b>
<b>Remaining Fund Balance After Clean-ups/Recommended Adjustments</b>	<b>\$14,000</b>
<b>Distribution of Remaining Fund Balance Per City Council Policy I-18</b>	
Budget Stabilization Reserve	(\$14,000)
<b>Total Fund Balance Distributed Per Council Policy I-18</b>	<b>(\$14,000)</b>

When bringing forward recommendations for the use of the additional 2019-2020 General Fund Ending Fund Balance, the Administration follows City Council Policy 1-18 and first considers clean-up actions associated with the close-out of the 2019-2020 fiscal year to be essentially non-discretionary and the highest priority. These clean-up actions result in a net decrease to the available fund balance of \$25.6 million and consist of changes to the Development Fee Programs Reserves to reconcile actual 2019-2020 revenue and expenditure performance (fund balance decrease of \$16.4 million) and the rebudgeting of amounts carried over to 2020-2021 to complete projects and technical adjustments to other revenues and expenditures (net fund balance decrease of \$9.1 million).

The remaining fund balance of \$28.4 million is recommended to fund various required technical and rebalancing actions (\$14.4 million), and actions associated with grant and fee activities (net-zero expenditure adjustments of \$2.2 million). Notable adjustments in these categories include: a net decrease to the Business Taxes revenue estimate of \$7.0 million to account for the continued negative impact of public health orders on cardroom operations (-\$8.5 million) and a positive adjustment to the Disposal Facility Tax revenue estimate to align the budget with revised activity estimates (\$1.5 million); a decrease to the Fines, Forfeitures and Penalties revenue estimate of \$6.0 million to account for significantly decreased park citation activity resulting from the pandemic; a net negative impact to the General Fund of \$2.1 million due to the purchase of fewer City parcels by federal Housing funds for affordable housing than originally anticipated; the allocation of \$1.1 million to a reserve to recognize previous option payments by Google related to their intended purchase of SAP Center Lots A/B/C; and the re-purposing of \$800,000 from Police Department savings in 2019-2020 to support the Police Reform Work Plan that has been directed by the City Council.

## **EXECUTIVE SUMMARY**

After these clean-ups and recommended budget adjustments, the remaining fund balance of \$14.0 million is recommended to be distributed in accordance with City Council Policy 1-18 to restore and increase the Budget Stabilization Reserve from \$21.0 million to \$35.0 million. As the City Council is aware, due to the sudden onset of the COVID-19 pandemic late in the budget development process and corresponding uncertainty regarding the economic impacts from the pandemic, the 2020-2021 General Fund balancing strategy used one-time funding of \$25.7 million to achieve a balanced budget (\$11.0 million from the Budget Stabilization Reserve). This means that the City would start 2021-2022 with a General Fund shortfall of \$25.7 million before accounting for any other expenditure increases due to labor, retirement, or other costs, or changes to revenue estimates from current levels. Replenishing the Budget Stabilization Reserve is critical for the City's ability to respond to further revenue or expenditure uncertainty in 2020-2021 and beyond. Although the City has a policy to balance ongoing costs with ongoing revenues, use of the reserve may again be necessary to partially buffer potential service reductions the City may need to contemplate when balancing the General Fund for 2021-2022.

This report also addresses immediate needs and circumstances in various special and capital funds, including lowering the revenue estimate in the General Purpose Parking Fund to align revenue projections with lower anticipated parking garage and meter activity levels, allocating funding in the Low and Moderate Income Housing Asset Fund to purchase City properties for affordable housing, aligning a number of Airport capital projects to anticipated grant amounts from the Federal Aviation Administration, allocating funding to complete the Thompson Creek trail segment between Quimby Road to Aborn Court, and initiating several safety improvement projects in the Traffic Capital Program. All 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 and Strategic Support City Council Committee, and the Mid-Year Budget Review that is heard by the full City Council in February. The financial results of 2019-2020 will also be factored into the development of the 2022-2026 General Fund Five-Year Forecast that will be released in February 2021.

## **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 2019-2020 Annual Report.

## **BACKGROUND**

- **Section I: Budget Performance Summary (All Funds)** – This section provides a comparison of the 2019-2020 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 2019-2020 Ending Fund Balance by fund to the 2019-2020 Ending Fund Balance/2020-2021 Beginning Fund Balance estimate used in the development of the 2020-2021 Adopted Budget. In addition, a listing of the Earmarked and Contingency Reserves that were available at the end of 2019-2020 by fund is included.
- **Section II: General Fund Budget Performance** – This section provides a summary of the General Fund budget performance in 2019-2020, 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 2019-2020 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 2019-2020 in the development of the 2020-2021 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 actions for City Council consideration. The proposed actions fall into three categories: (1) adjustments to the 2020-2021 Beginning Fund Balance amounts in various funds, including the General Fund, based on the final reconciliation of 2019-2020; (2) upward and downward adjustments to previously rebudgeted sums to ensure the appropriate amount of unexpended funds are carried over to 2020-2021 to complete projects; and (3) actions based on more recent information that are necessary to revise the 2020-2021 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 one-time urgent fiscal/program need in the General Fund, and reflect changes in project and program allocations based on revised cost estimates as well as establish a limited number of new projects and programs in special and capital funds.
- **Section V: Financial Statements** – This section provides the financial results (unaudited), prepared by the Finance Department, for all budgeted fund groups for 2019-2020. It should be noted that audited financial results will be released later in the fall as part of the 2020 Comprehensive Annual Financial Report (CAFR) for Fiscal Year Ended June 30, 2020. Final fund balance reconciliations to the CAFR 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 2020-2021 Mid-Year Budget Review.

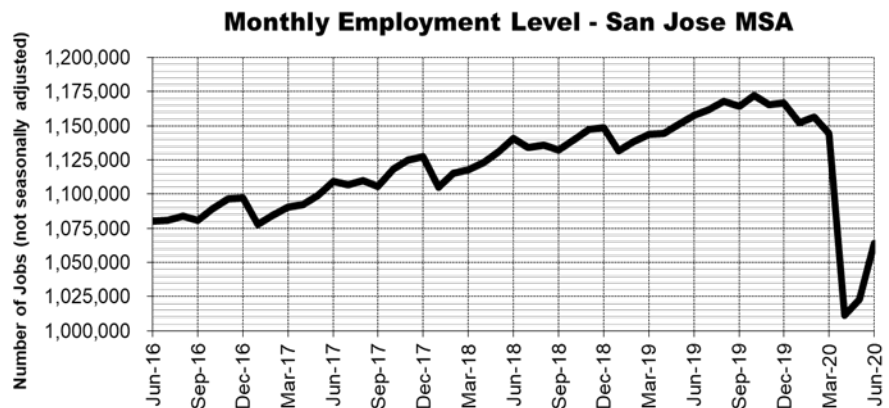
## ANALYSIS

This Analysis section includes the following:

- an overview of the economic environment;
- a discussion of the 2019-2020 budget performance of all City funds;
- a discussion of the 2019-2020 budget performance for the General Fund;
- a discussion of the components of the 2019-2020 General Fund ending fund balance;
- an analysis of the impact of the General Fund performance on the 2020-2021 Adopted Budget; and
- a discussion of the 2019-2020 budget performance of selected special and capital funds.

### **Economic Environment**

The City of San José had been experiencing strong economic growth coupled with low unemployment levels for over a decade. However, the shelter-in-place mandate issued in March 2020 had an immediate impact to daily economic activity that will be felt at least through 2020-2021, and likely much longer.



California’s employment was negatively impacted in March as a result of the widespread halt in economic activity. Employment levels declined further in April as the State continued to be under strict shelter-in-place orders; however, as mandates slightly eased in May and June, employment figures began to grow. Moving forward, due to the resurgence of the virus, California has re-implemented many business closures, which will likely negatively impact future employment levels. Taner Osman, Research Manager at Beacon Economics and the UC Riverside Center for Forecasting, stated “Despite June’s strong numbers, we’re unlikely to see the labor market’s recovery continue at such a pace. The number of jobs added will likely represent the high mark until the virus in the state is contained. The strongest job gains were seen in Leisure and Hospitality, and these are the very sectors that will be hit the hardest by health-mandated business closures.”<sup>1</sup>

Prior to the COVID-19 pandemic, the unemployment rate for the San José-Sunnyvale-Santa Clara Metropolitan Statistical Area (San José MSA) had not exceeded 3.0% since August 2017. Further, between September 2017 and February 2020 the average local unemployment rate totaled 2.6%,

<sup>1</sup> Beacon Economics, Beacon Employment Report, July 17, 2020

**ANALYSIS**

**Economic Environment**

which is considered full employment. However, as can be seen on the chart below, once the shelter-in-place mandate began, unemployment rates began to immediately rise, with the local rate hitting 12.0% in April 2020 before declining in May and June 2020.

Unemployment Rate (Unadjusted)					
	Feb. 2020	March 2020	April 2020	May 2020	June 2020**
San Jose Metropolitan Statistical Area*	2.7%	3.5%	12.0%	11.3%	10.8%
State of California	4.3%	5.8%	16.2%	16.0%	15.1%
United States	3.8%	4.5%	14.4%	13.0%	11.2%

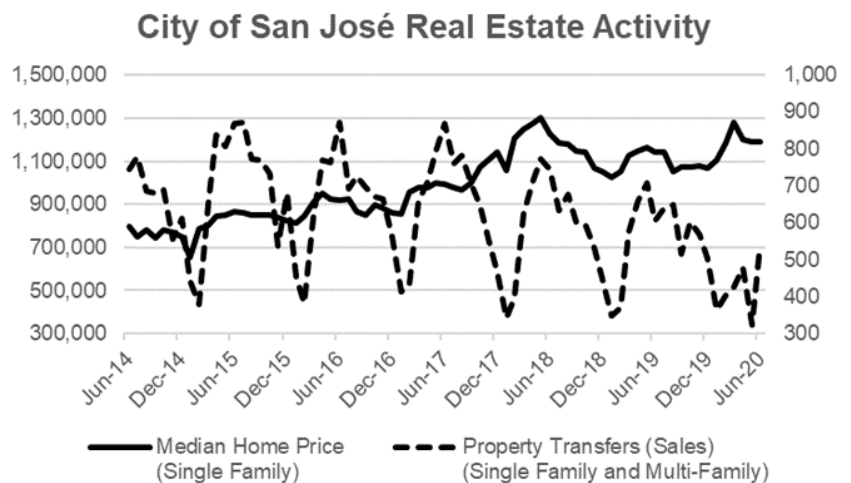
\* San Benito and Santa Clara Counties Source: California Employment Development Department.  
 \*\* June 2020 estimates are preliminary and may be updated.

After topping at 12.0% in April, the local unemployment rate dropped in both May (11.3%) and June (10.8%). It is important to note though that although local unemployment figures have significantly risen since the shelter-in-place mandate began, the rates continue to be much lower than the

State and the national levels.

Due to strong commercial activity that occurred before the shelter-in-place mandate began in March 2020, coupled with an extremely high level of industrial activity in July 2019, overall construction activity through June 2020 has increased from prior year levels. The total valuation of projects submitted in 2019-2020 was \$1.79 billion, 2.7% above the \$1.74 billion valuation of projects that were received in 2018-2019. The number of new residential dwelling units permits issued in 2019-2020 totaled 1,954, which was 33.3% below the prior year level of 2,985 permits issued. Residential valuation ended the year below the estimate while the valuations for the Commercial and Industrial land use categories ended the year above estimates.

From spring 2012 through fall 2018, the median sale price for homes had consistently experienced year-over-year growth. Beginning in October 2018, however, Santa Clara County experienced a slow down in the local real estate market, with median sale prices dropping, the average days on market increasing, and the number of sales decreasing. This slowdown lasted for about 12 months, until the real estate market began stabilizing, with median home prices and property sales once again growing compared to prior year levels.





## **ANALYSIS**

### **Economic Environment**

Real estate activity is anticipated to significantly decline over the next year. During the shelter-in-place order, there is anticipated to be little movement in the real estate market; and as restrictions are lifted it is anticipated that the real estate market will be sluggish due to higher unemployment coupled with lower anticipated consumer confidence. Real estate data from the Santa Clara County Association of Realtors show that the number of property transfers (sales) have experienced year-over-year decreases (from the same time period in the prior year) ranging from 10%-54%. In June 2020 there were a total of 542 property transfers for all residences, which represents a 10.4% decline from June 2019. Although property transfers have been declining since the pandemic began, the median single family home price has continued to grow. From March 2020 through June 2020 year-over-year increases have ranged from 3%-14% when compared to the same time period in the prior year. As of June 2020, the median single family home price totaled \$1.19 million, which represents a 4.1% increase from the June 2019 price of \$1.15 million.

### **2019-2020 Budget Performance (All Funds)**

As shown in Section I of this document, City revenues (excluding Beginning Fund Balances) totaled \$4.0 billion in 2019-2020, which was 8.1% (\$357.2 million) below the budgeted estimate of \$4.4 billion.

In 2019-2020, expenditures (excluding Reserves and Ending Fund Balances) totaled \$4.1 billion, which was \$950.4 million (18.7%) below the modified budget of \$5.1 billion. At the end of 2019-2020, the Contingency and Earmarked Reserves for all City funds totaled \$1.1 billion, which represented 16.6% of the total 2019-2020 Modified Budget of \$6.5 billion (including interfund transfers, loans, and contributions). In the General Fund, Reserves totaled \$268.6 million.

The financial performance in 2019-2020 is used as the starting point for 2019-2020. The collective 2019-2020 Ending Fund Balances for all City funds totaled \$1.87 billion, which was \$34.7 million above the 2019-2020 Ending Fund Balance estimates of \$1.83 billion used in the development of the 2020-2021 Adopted Budget. After adjusting for a total net negative rebudget of \$61.4 million recommended in this report, the adjusted 2019-2020 Ending Fund Balance variance for all funds increases to \$96.1 million, or 1.5% of the 2019-2020 Modified Budget. The adjusted fund balance variance totaled \$45.4 million in the General Fund, \$25.9 million in the special funds, and \$24.8 million in the capital funds.

The City's General Fund ended the 2019-2020 fiscal year within budgeted levels. As shown in the chart below, the General Fund Ending Fund Balance of \$400.3 million was \$53.9 million (3.4% of the 2019-2020 Modified Budget) above the fund balance estimate assumed when the 2020-2021 Adopted Budget was developed. The following table summarizes the General Fund performance in 2019-2020, comparing the actual results to the modified budget and the estimates used to develop the 2020-2021 Adopted Budget.

**ANALYSIS**

**2019-2020 General Fund Budget Performance**

**Table 1**  
**General Fund Year-End Status For**  
**the Year Ended June 30, 2020**  
 (\$000s)

<b>Sources</b>	<b>2019-2020 Modified Budget</b>	<b>2019-2020 Year-end Estimate</b>	<b>2019-2020 Budgetary Basis Actual</b>	<b>Actual to Budget Variance</b>	<b>Actual to Estimate Variance</b>
<i>Beginning Fund Balance</i>	364,813	364,813	364,813	-	-
<i>Carryover Encumbrances</i>	44,189	44,189	44,189	-	-
<i>Liquidation of Carry- over Encumbrances</i>	-	1,000	2,366	2,366	1,366
<i>Revenue</i>	1,201,968	1,201,266	1,204,729	2,761	3,463
<b>Total Sources</b>	<b>1,610,970</b>	<b>1,611,268</b>	<b>1,616,097</b>	<b>5,127</b>	<b>4,829</b>
<b>Uses</b>					
<i>Expenditures/Transfers</i>	1,342,335	1,264,932	1,215,813	(126,522)	(49,119)
<i>Reserves</i>	268,635	-	-	(268,635)	-
<b>Total Uses</b>	<b>1,610,970</b>	<b>1,264,932</b>	<b>1,215,813</b>	<b>(395,157)</b>	<b>(49,119)</b>
<i>Ending Fund Balance</i>	-	346,336	400,284	400,284	53,948

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 2019-2020 Comprehensive Financial Report (CAFR), 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 2019-2020, total revenue in the General Fund was \$1.2 billion, which was within 0.3%, or \$5.1 million, of the 2019-2020 Modified Budget, and \$4.8 million (0.3%) above the estimate used to develop the 2020-2021 Adopted Budget. The liquidation of prior year carryover encumbrances totaled \$2.4 million, which was above the \$1.0 million estimate.

General Fund expenditures/transfers of \$1.2 billion were \$126.5 million (9.4%) below the 2019-2020 Modified Budget level of \$1.3 billion and \$49.1 million (3.9%) below the estimate used to develop the 2020-2021 Adopted Budget. Budgeted reserves of \$268.6 million remained unexpended at year-end as expected.

**ANALYSIS**

**2019-2020 General Fund Budget Performance**

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

	<b>2018-2019</b>	<b>2019-2020</b>		
	<b>Actuals</b>	<b>Actuals</b>	<b>Change</b>	<b>% Change</b>
<b>Source of Funds</b>				
Beginning Fund Balance	249,953	364,813	114,860	46.0%
Revenues	1,394,877	1,204,729	(190,148)	-13.6%
<b>Total Source of Funds</b>	<b>1,644,830</b>	<b>1,569,542</b>	<b>(75,288)</b>	<b>-4.6%</b>
<b>Use of Funds</b>				
Personal Services	842,867	860,637	17,770	2.1%
Non-Personal/Equipment/Other	151,095	157,609	6,514	4.3%
City-Wide Expenses	240,080	95,007	(145,073)	-60.4%
Capital Contributions	36,611	53,593	16,982	46.4%
Transfers	47,832	48,967	1,135	2.4%
Reserves	-	-	-	N/A
<b>Total Use of Funds</b>	<b>1,318,485</b>	<b>1,215,813</b>	<b>(102,672)</b>	<b>-7.8%</b>

As shown in Table 2, 2019-2020 General Fund revenues (excluding Beginning Fund Balance) of \$1.2 billion represent a decrease of 13.6% from the 2018-2019 collection level of \$1.4 billion. This decrease is primarily attributable to the City not borrowing proceeds from the Tax and Revenue Anticipation Notes (TRANs) in 2019-2020, which were previously issued for cash flow purposes to facilitate the annual prefunding of employer retirement contributions for pension benefits. Excluding the TRANs proceeds in 2018-2019, revenue in 2019-2020 decreased approximately \$40.1 million, or 3.2% from the prior year. Several revenue categories experienced growth in 2019-2020 compared to the prior year, including Property Tax, Use of Money/Property, and Revenue from the State. However, these increases were more than offset by declines in other categories, including Sales Tax, Transient Occupancy Tax, Business Tax, and Fines, Forfeitures, and Penalties. As a result of the COVID-19 pandemic and the necessary response to protect community health and safety, economic activity was severely restricted beginning in March 2020, which had a corresponding impact to General Fund revenue performance for the remainder of 2019-2020.

General Fund expenditures of \$1.2 billion in 2019-2020 were 7.8% (\$102.7 million) below prior year expenditure levels of \$1.3 billion. This decrease is due to lower City-Wide Expenses (\$145.1 million, much of which is attributed to TRANs debt service), partially offset by higher Personal Services (\$17.8 million), Capital Contributions (\$17.0 million), Non-Personal/Equipment/Other (\$6.5 million), and Transfers (\$1.1 million).

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

**ANALYSIS**

**2019-2020 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 2020-2021 Adopted Budget, a total fund balance estimate of \$346.3 million was included as a funding source. As discussed earlier, the actual 2019-2020 General Fund Ending Fund Balance of \$400.3 million was \$53.9 million above this estimate.

The components of the 2019-2020 General Fund Ending Fund Balance include additional funding sources, expenditure/transfer savings, and unexpended reserves as described below:

**2019-2020 General Fund  
 Ending Fund Balance Components**

<b>Fund Balance Component</b>	<b>\$ Amount (\$ in 000s)</b>
Additional Funding Sources	5,127
Expenditure/Transfer Savings	126,522
Unexpended Reserves	268,635
<b>TOTAL</b>	<b>\$ 400,284</b>

The total Sources of Funds ended the year \$5.1 million above the modified budget as a result of higher revenues (\$2.7 million) and liquidation of carryover encumbrances (\$2.4 million). For the Uses of Funds, expenditure and transfer savings totaled \$126.5 million, while unexpended reserves totaled \$268.6 million, representing the largest component of the 2019-2020 Ending Fund Balance. Of the \$126.5 million in expenditure savings, a majority was rebudgeted in the 2020-2021 Adopted Budget (\$80.6 million) with additional funding being recommended for rebudget as part of this report (\$8.6 million).

General Fund Reserves, totaling \$268.6 million at the end of 2019-2020, include three categories: Earmarked Reserves (\$154.8 million) established to address specific needs per City Council direction; Ending Fund Balance Reserve (\$73.9 million) established to help ensure sufficient fund balance would be available at the end of 2019-2020 to meet the budgeted estimate used for the development of the 2020-2021 Adopted Budget, and the Contingency Reserve (\$40.0 million) set at a minimum of 3% of expenditures per City Council policy.

**ANALYSIS**

**2019-2020 General Fund Ending Fund Balance**

As discussed above, it was assumed that \$346.3 million would remain in the General Fund at the end of 2019-2020 and would be carried over to 2020-2021 as Beginning Fund Balance as part of the adoption of the 2020-2021 Budget. These funds, which were expected to be generated from unexpended reserves, unexpended funds that were rebudgeted to 2020-2021, additional revenue, expenditure savings, and the liquidation of carryover encumbrances, were programmed for use in the 2020-2021 Adopted Budget. The actual General Fund Ending Fund Balance was above the estimate used in the 2020-2021 Adopted Budget by \$53.9 million due to excess revenues and additional expenditure savings, of which nearly half (47%) is recommended to be rebudgeted or otherwise adjusted through clean-up actions and program reconciliations as part of this report.

The following chart details the recommended uses of the \$53.9 million additional fund balance as well as other budget adjustments that are recommended as part of this report. Recommended clean-up actions will result in a decrease to the available fund balance of \$25.6 million, reflecting a downward adjustment of \$16.4 million to reconcile the actual performance of the Development Fee Programs in 2019-2020, as well as a net downward adjustment of \$9.1 million to account for additional rebudget and clean-up actions to close-out 2019-2020. Once these adjustments have been accounted for, the net available fund balance available for allocation totals \$28.4 million. This additional fund balance is proposed to be allocated to address required technical/rebalancing needs of \$14.4 million, with the remaining \$14.0 million placed in the Budget Stabilization Reserve in accordance with City Council Policy 1-18.

**ANALYSIS**

**Impacts on the 2020-2021 General Fund Budget**

<b>RECOMMENDED 2020-2021 GENERAL FUND ADJUSTMENTS (\$000s)</b>	
<b>Additional 2019-2020 Ending Fund Balance</b>	<b>\$53,948</b>
<b>Clean-Up Actions</b>	
Development Fee Program Reconciliation*	(\$16,446)
Rebudgets/Clean-Up Adjustments	(\$9,112)
<b>Subtotal: Clean-Up Actions</b>	<b>(\$25,558)</b>
<b>Fund Balance Available After Clean-Up Actions</b>	<b>\$28,390</b>
<b>Recommended Budget Adjustments</b>	
<b>Required Technical/Rebalancing Actions</b>	
Revenue Adjustment - Business Taxes (Cardroom Tax, Disposal Facility Tax)	(\$7,000)
Revenue Adjustment - Fines, Forfeitures, and Penalties (Parking Citations)	(\$6,000)
Revenue Adjustment - Other Revenue (Sale of Surplus Properties)/Fire Apparatus Replacement	(\$2,081)
Google Parking Lots Option Payment Reserve	(\$1,100)
Code Enforcement Permit System Reserve (Multiple Housing Code Enforcement Program)	(\$1,000)
Police Reforms Work Plan	(\$800)
FirstNet Implementation Reserve	(\$750)
Solid Waste Code Enforcement Program Reserve	(\$600)
City Attorney's Office Outside Litigation Reserve	(\$500)
Police Department Personal Services and Non-Personal/Equipment (Backgrounding and Recruiting)	(\$400)
Flood Emergency Response Plan	(\$285)
Guadalupe River Park Ranger Station Rehabilitation	(\$250)
Transportation Department Non-Personal/Equipment (Tow Operator Contract)	(\$250)
Information Technology Department Non-Personal/Equipment (Virtual Security Operations Center)	(\$220)
PBCE Non-Personal/Equipment (Solid Waste Code Enforcement Program - Vehicles and Tablets)	(\$213)
Police Department Non-Personal/Equipment (Sexual Assaults Training and Supportive Services)	(\$175)
City Manager's Office of Racial Equity Positions - 4.0 positions	\$0
Transfer to the City Hall Debt Service Fund (City Hall Debt Refunding)	\$2,821
Revenue Adjustment - Transfers and Reimbursements (From Emergency Reserve Fund)	\$4,585
Miscellaneous Adjustments	(\$172)
<b>Subtotal: Required Technical/Rebalancing Actions</b>	<b>(\$14,390)</b>
<b>Grants/Reimbursements</b> (Sources = \$2.2 M; Uses = \$2.2 M)	<b>\$0</b>
<b>Subtotal: Recommended Budget Adjustments</b>	<b>(\$14,390)</b>
<b>Remaining Fund Balance After Recommended Adjustments</b>	<b>\$14,000</b>
<b>Recommended Distribution of Remaining Fund Balance in Accordance with City Council Policy (I-18)*</b>	
Budget Stabilization Reserve*	(\$14,000)
<b>Total Recommended Fund Balance Distributed per City Council Policy I-18</b>	<b>(\$14,000)</b>
<b>Remaining Fund Balance After Recommended Adjustments</b>	<b>\$0</b>

\* These actions are reflected in the Recommended Budget Adjustments and Clean-Up/Rebudget Actions section of this report under Required Technical-Rebalancing Actions.

## ANALYSIS

### **Impacts on the 2020-2021 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 Actions (-\$25.6 million)**

- **Development Fee Programs Reconciliation (-\$16.4 million)** –Year-end reconciliations of the revenues and expenditures in the Development Fee Programs and Small Cell Permitting Fee Program are conducted to determine if revenues exceeded or fell below costs. These fee programs were previously budgeted in the General Fund as full cost recovery programs; however, effective for 2020-2021, the programs have been reallocated from the General Fund to individual special funds to improve transparency as well as financial and budgetary administration. To ensure that all development fees will be used solely to support development fee activities, any excess revenues and interest earnings above actual costs are allocated back to the programs. Based on 2019-2020 reconciliations, a net total of \$16.4 million is recommended to be transferred to the Development Fee (Building, Fire, Planning, and Public Works), Citywide Planning Fee, and Small Cell Permitting Programs.  
While these program reconciliations are categorized as Clean-Up Actions in this summary, the recommended adjustments are shown in the Required Technical-Rebalancing Actions section of this report for discussion, as the actions cross multiple funds. Please refer to the Required Technical-Rebalancing Actions section for additional detail on these actions.
- **Rebudgets/Clean-Up Adjustments (net -\$9.1 million)** – A series of adjustments are recommended to complete existing projects in 2020-2021 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 in the current year. The largest rebudget actions are for the following appropriations: City Hall Campus Expansion (\$1.2 million), Local Sales Tax – SJ Works – Youth Jobs Initiative (\$1.1 million), and for Revenue from Local Agencies for the East Side Union High School District Wireless Project (\$1.4 million). Also recommended are actions that reduce previous rebudgets to reflect instances where expenditures for which rebudgets were approved for incorporation into the Adopted Budget exceeded estimates for 2019-2020; therefore, the funds are not available for rebudget to 2020-2021. Other technical adjustments include net-zero corrections between Parks, Recreation and Neighborhood Services Fee Activities, Personal Service, and Non-Personal/Equipment appropriations; and, the reconciliation of restricted funding for multiple programs (e.g. 4<sup>th</sup> Street Garage Banquet Facility Maintenance and Operations, Artificial Turf Capital Replacement, Certified Access Specialist Program, Contractual Street Tree Planting, Digital Inclusion Program, Tree Mitigation, and Government Access activities).

## ANALYSIS

### **Impacts on the 2020-2021 General Fund Budget**

A number of General Fund budget adjustments, with a total net cost of \$14.4 million are recommended and can be classified under two categories: 1) Required Technical/Rebalancing Actions (net cost of \$14.4 million) that align already approved revenue estimates and expenditure budgets with the most current tracking information, reallocate funding among appropriations based on updated needs, to correct technical problems in the 2020-2021 Adopted Budget, or comply with actions previously authorized by the City Council; and 2) Grants/Reimbursement/Fee Activities actions (net zero) to recognize new or adjust grant, reimbursement, or fee activity revenue, and adjust the appropriations for these purposes as necessary.

Notable actions under each category are outlined below.

#### **Recommended Budget Adjustments (-\$14.4 million)**

- **Required Technical/Rebalancing Actions (-\$14.4 million)**
  - ***Revenue Adjustment – Business Taxes (Cardroom Tax, Disposal Facility Tax)*** – decreases the Business Taxes revenue estimate by a net of \$7.0 million, from \$70.9 million to \$63.9 million, to reflect lower anticipated Cardroom Business Tax collections (-\$8.5 million), partially offset by an increased Disposal Facility Tax (DFT) estimate (\$1.5 million). Due to the shelter-in-place mandate, cardrooms have been basically shuttered, but are working with the County to open with limited operations. Operations are anticipated to be impacted for the remainder of the fiscal year, which will result in lower revenue collections. This action decreases the Cardroom Business Tax estimate by \$8.5 million, from \$17.1 million to \$8.6 million. Partially offsetting this decline; however, is increased DFT revenue. DFT receipts ended 2019-2020 with collections totaling \$12.5 million, and receipts are now anticipated to remain flat in 2020-2021. Therefore, this action recommends increasing the 2020-2021 budgeted estimate by \$1.5 million (from \$11.1 million to \$12.6 million) to reflect the higher anticipated collection level. (-\$7.0 million)
  - ***Revenue Adjustment – Fines, Forfeitures, and Penalties (Parking Citations)*** – decreases the revenue estimate for Fines, Forfeitures, and Penalties by \$6.0 million for a reduction in parking citation revenue (from \$12.6 million to \$6.6 million) due to the current COVID-19 operating environment. The Transportation Department ceased issuing parking citations on March 17, 2020 and did not resume issuing parking citations until the middle of August 2020. Parking Compliance activities have been phased in thoughtfully, addressing and prioritizing potential health and safety concerns while remaining sensitive to the community's economic concerns, as well as public health order protocols. The majority of pre-COVID-19 citation issuance was related to violations pertaining to street sweeps, meters, and Residential Permit Parking areas. At this time, citations are only being issued for meter violations in the downtown core and safety-related violations citywide. Citations are not being issued for meter violations in the Japantown, Old Civic Center, or



## ANALYSIS

### **Impacts on the 2020-2021 General Fund Budget**

East Santa Clara area where meters are not active, and enforcement of other types of violations and activities are suspended to accommodate changes in the Parking Compliance Program staff that have been made in response to the COVID-19 pandemic. This activity will continue to be closely monitored and evaluated throughout the year. (-\$6.0 million)

- ***Revenue Adjustment – Other Revenue (Sale of Surplus Properties)/Fire Apparatus Replacement*** – decreases the estimate for Sale of Surplus Properties in the Other Revenue category by \$3.7 million to reflect the anticipated decrease in sale proceeds, and reduces the budget for Fire Apparatus Replacement in the General Fund by \$1.65 million to partially offset the revenue loss with no impact to the replacement program. As part of the General Fund budget balancing strategy that was included in the 2020-2021 Adopted Operating Budget, \$11.1 million of sale proceeds was assumed from the purchase of surplus City-owned properties by the Housing Department, using Low and Moderate Income Housing Asset Funds, for future sites for affordable housing development. However, since the adoption of the budget, it was discovered that one of the properties is not eligible for the intended use (\$2.0 million) and two of the other properties were purchased with restricted funding sources that must be returned to the Subdivision Park Trust Fund (\$86,000) and the Neighborhood Security Bond Fund (\$1.65 million). This action reflects the decreased revenues associated with one of the properties no longer moving forward and the portion of the sale proceeds that will be deposited in the respective Capital Funds. The revenue loss to the General Fund is partially offset by reallocating the \$1.65 million for eligible uses between the Neighborhood Security Bond Fund and the Construction Tax and Property Conveyance (C&C) Tax Fund: Fire Protection Purposes, that results in a net reduction of the General Fund contribution for Fire Apparatus Replacement by \$1.65 million without a net decrease to the replacement program. (-\$2.1 million)
  
- ***Google Parking Lots Option Payment Reserve*** – increases the Google Parking Lots Option Payment Reserve by \$1.1 million, from \$500,000 to \$1.6 million, to account for an option payment received in 2018-2019. On December 4, 2018, the City Council approved the sale of city-owned properties in the Diridon Station Area to Google for the development of the Diridon Station Area. On December 4, 2018, City Council also approved an Option Agreement with Google for the potential sale of SAP Center Lots A/B/C, located at 525 W. Santa Clara Street and 566 W. Julian Street, to Google should certain conditions be satisfied. The Option Agreement accounts for a potential of five Option payments; the first three are to be held and returned to Google should the sale not take place. If the sale does take place, the first three Option payments would be credited toward the purchase price.

## ANALYSIS

### **Impacts on the 2020-2021 General Fund Budget**

The \$1.1 million is the Option payment that was made by Google in 2018-2019, but was not properly recognized and allocated upon receipt. The payments will be held in a reserve until Google, San Jose Arena Management, and the City agree on an alternative parking arrangement for the SAP Center and a Parking Agreement Amendment is executed. (-\$1.1 million)

- ***Code Enforcement Permit System Reserve (Multiple Housing Code Enforcement Program)*** –increases the Code Enforcement Permit System Reserve appropriation by \$1 million, from \$908,000 to \$1.9 million, to set aside unspent fee revenue related to the Multiple Housing Code Enforcement Program from 2019-2020 for a future software upgrade of the City's Code Enforcement Permit System for the Multiple Housing Code Enforcement Program. (-\$1.0 million)
- ***Police Reforms Work Plan*** – repurposes Police Department expenditure savings from 2019-2020 to establish the Police Reforms Work Plan City-Wide appropriation to the City Manager’s Office in the amount of \$800,000. Funding will be used to focus on such efforts as: enhancing community engagement processes; providing less-than-lethal use of force options; developing various databases for police officer history and actions; and body-worn camera footage audits. Funding will also be provided for participation by the Police Department in the GARE Process/Racial Equity training and enable independent investigations of police misconduct. This preliminary budget will assist the Administration and Independent Police Auditor to move forward with additional police reforms outside of the funds previously allocated and will be refined as needed. (-\$800,000)
- ***FirstNet Implementation Reserve*** – establishes a reserve in the amount of \$750,000 to complete the implementation of the FirstNet Emergency Communications Network. Funding is anticipated to be needed for higher than expected costs for data plans and the associated taxes, fees, and surcharges; increased costs for FirstNet devices; reassessment of the number of devices and accessories necessary; and to offset savings that may not be realized such as buyback and activation credits. As the implementation continues and as the detailed cost spread among departments is finalized, the Administration will recommend allocating all or a portion of this reserve into an expenditure appropriation as part of a future budget process. (-\$750,000)
- ***Solid Waste Code Enforcement Program Reserve*** – establishes the Solid Waste Code Enforcement Program Reserve in the amount of \$600,000. The Solid Waste Code Enforcement Fee Program is a full cost recovery program funded through fees, and the program ended 2019-2020 with unspent fee revenue primarily resulting from expenditure savings totaling \$600,000 after rebudgets and necessary clean-up actions. This funding will be set aside in reserve for future use by the Solid Waste Code Enforcement Program. (-\$600,000)

## ANALYSIS

### **Impacts on the 2020-2021 General Fund Budget**

- ***City Attorney's Office Outside Litigation Reserve*** – increases the City Attorney's Office Outside Litigation Reserve by \$500,000, from \$500,000 to \$1.0 million, to set aside additional funding to support costs incurred for contracted outside litigation services, as needed by the City Attorney's Office for representation in active cases. Outside legal representation is secured in response to claims and lawsuits against the City, and when workload fluctuation and liability exposure warrants assistance. (-\$500,000)
- ***Police Department Personal Services and Non-Personal/Equipment (Backgrounding and Recruiting)*** – repurposes Police Department expenditure savings in 2019-2020 of \$400,000 to supplement backgrounding and recruiting efforts in 2020-2021 to maintain filled staffing levels. The 2019-2020 Adopted Operating Budget allocated one-time funding of \$825,000 for backgrounding (\$625,000) and recruiting (\$200,000) to ensure that academies and civilian positions were filled with qualified candidates. Due to budgetary constraints, one-time funding in the 2020-2021 Adopted Budget only included \$300,000 for backgrounding and no additional funding for recruiting. The recommended actions to repurpose 2019-2020 Police Department expenditures savings in this report to increase backgrounding (\$325,000) and recruiting (\$75,000) will enable the Police Department to better keep pace with past efforts to recruit and hire the highest level candidates for sworn positions through three planned Police Officer Recruit Academies, and to fill 9-1-1 Emergency Communications Center and other vital civilian vacancies within the Department. (-\$400,000)
- ***Flood Emergency Response Plan*** – establishes the Flood Emergency Response Plan City-Wide Expenses appropriation to the Finance Department in the amount of \$285,000 to draft and implement 20 Flood Emergency Response Plans (FERPs) at 20 City locations deemed to be in high and moderate hazard flood zones, per the recommendation of the City's property and casualty insurer. Four of the FERPs must be completed by October 1, 2020 for the City's insurer to provide a quote for flood insurance for the 2020-2021 insurance renewal period. In the absence of allocating one-time funding to complete these plans in 2020-2021, the City's ongoing annual insurance premiums would increase by an estimated \$160,000. The main components of the FERPs include site flood hazard, local facility and emergency contacts, flood mitigation plans, facility shutdown activities, and restoration of operation activities. (-\$285,000)
- ***Guadalupe River Park Ranger Station Rehabilitation*** – establishes a Guadalupe River Park Ranger Station Rehabilitation appropriation to the Parks, Recreation and Department Neighborhood Services Department in the amount of \$250,000 to fund the rehabilitation of the Park Ranger Station at the Arena Green that sustained significant fire damage during the civil unrest that occurred in June 2020. Additional actions are recommended in this report to allocate \$100,000 from the Park Trust Fund for additional security enhancements to prevent vandalism, for a total project budget of \$350,000. The City will coordinate with the Guadalupe River Park Conservancy, which operates the station as a visitor center and

**ANALYSIS**

**Impacts on the 2020-2021 General Fund Budget**

is pursuing philanthropic grants for future activation of the site, and other stakeholders as work proceeds on the design of the rehabilitation work. (-\$250,000)

- ***Transportation Department Non-Personal/Equipment (Tow Operator Contract)*** – increases the Transportation Department's Non-Personal/Equipment appropriation by \$250,000 to partially fund the Fourth Amendment to the City-Generated Tow Services Agreements, as approved by the City Council on June 30, 2020 to tow qualified vehicles that are deemed junk/low-value vehicles. Because of the City's response to the COVID-19 pandemic, the Parking Compliance Unit and Vehicle Abatement Programs were suspended, which resulted in a reduced volume of tow service requests that impacted the tow operators' finances, operations, and ability to provide service. In response to the impact to the tow operators due to the decreased level of activity, maximum compensation of \$150,000 was approved to provide payment to tow operators for towed junk vehicles from June 1, 2020 through September 30, 2020, with an option to extend the terms month-to-month through March 31, 2021. The General Fund will fund half of this compensation agreement (\$75,000), while the General Purpose Parking Fund will fund the remaining half within the Department's existing budget (\$75,000). In addition, this action will provide initial funding for the upcoming RFP and award of a technology/software platform and/or contract administration of the City's Tow Program (\$175,000) – which is critical to the continued performance of the program – while the Administration determines an alternative service delivery model for the Tow Program. (-\$250,000)
  
- ***Information Technology Department Non-Personal/Equipment (Virtual Security Operations Center)*** – increases the Information Technology Department's Non-Personal/Equipment appropriation by \$220,000 to fully fund the Virtual Security Operations Center. The Virtual Security Operations Center (VSOC) is a vital function of Cybersecurity that continuously monitors infrastructure and applications, thereby maximizing the City's ability to reduce the harm of malicious activity. In the event of an attack that manages to bypass the City's primary defenses, the VSOC immediately conducts incident response activities to identify, contain, eradicate, and return to normal operations. Initial funding of the VSOC was previously included with the establishment of the Cybersecurity Office within the Information Technology Department, but additional funding is needed to meet the City's requirements. Ongoing funding for the increased VSOC costs, including potential cost reduction offsets elsewhere, will be incorporated in the 2021-2022 Base Budget. (-\$220,000)

## ANALYSIS

### **Impacts on the 2020-2021 General Fund Budget**

- ***PBCE Non-Personal/Equipment (Solid Waste Code Enforcement Program - Vehicles and Tablets)*** – increases the Planning, Building, and Code Enforcement Department's Non-Personal/Equipment by \$213,000 for the replacement of old vehicles that have reached the end of their useful lives and purchase of new laptops and tablets to facilitate remote work and mobile inspections for the Solid Waste Code Enforcement Program. The resources for this equipment purchase are provided by fees that fund the Solid Waste Code Enforcement Program. (-\$213,000)
  
- ***Police Department Non-Personal/Equipment (Sexual Assaults Training and Supportive Services)*** – repurposes Police Department expenditure savings in 2019-2020 to increase the Police Department's Non-Personal/Equipment appropriation by \$175,000 to provide funding for Sexual Assaults Law Enforcement Training and Supportive Services, including resources for the Special Victims Unit (SVU) to provide Trauma-Informed Care training, equipment and materials to the Department, and educational outreach through the South Bay Human Trafficking Coalition. This action restores total funding of \$690,000 for Sexual Assaults Law Enforcement Training and Supportive Services, as \$175,000 was reallocated to partially address anticipated General Fund revenue shortfalls for 2019-2020. This action aligns with the direction provided by Councilmember Arenas' memorandum – approved by the City Council along with Item 3.3, Approval of Various Budget Actions for Fiscal Year 2019-2020, on June 23, 2020 – to prioritize any remaining General Fund balance identified in the 2019- 2020 Annual Report to restore the previously allocated funding. This allocation is consistent with the original intent of the Police Department's Sexual Assaults Workplan, as approved by City Council on April 28, 2020. (-\$175,000)
  
- ***City Manager's Office of Racial Equity Positions – 4.0 Positions*** –adds 1.0 Director, 1.0 Assistant to the City Manager, 1.0 Senior Executive Analyst, and 1.0 Staff Specialist positions in the City Manager's Office to staff the City Manager's Office of Racial Equity in alignment with the City Council's approval of the Mayor's June Budget Message for Fiscal Year 2020-2021 which established the Office of Racial Equity with one-time funding in 2020-2021 of \$1.0 million, of which \$750,000 was allocated for personal services and \$250,000 for non-personal/equipment uses. The Administration is in the process of hiring the Director prior to filling the other positions. Though the annual cost for all four positions is approximately \$950,000, vacancy savings resulting from recruitment processes will ensure that additional funding is not needed in 2020-2021. It is the Administration's intent to identify the ongoing funding necessary to make these positions permanent as part of the City Manager's 2021-2022 Proposed Operating Budget. (\$0)

## ANALYSIS

### **Impacts on the 2020-2021 General Fund Budget**

- ***Transfer to the City Hall Debt Service Fund (City Hall Debt Refunding)*** – decreases the Transfer to the City Hall Debt Service Fund by \$2.8 million, from \$18.2 million to \$15.4 million. At its meeting on August 25, 2020, the City Council and the City of San José Financing Authority approved the issuance of taxable lease revenue bonds, Series 2020A, that refunded all of the outstanding debt related to the original construction of City Hall and financed the full build-out of existing space within the 4th and San Fernando Garage. This action was initially anticipated to save \$800,000 in the General Fund, but due to the continued decline of interest rates for municipal debt, the General Fund will see additional savings of \$2.8 million. (\$2.8 million)
- ***Revenue Adjustment – Transfers and Reimbursements (From Emergency Reserve Fund)*** – increases the revenue estimate for Transfers and Reimbursements by \$4.6 million, from \$178.5 million to \$183.1 million, to reflect a reimbursement from the Emergency Reserve Fund to the General Fund for advances made during 2019-2020 to support the City's response to the COVID-19 public health emergency. The planned \$10.0 million reimbursement could not be completed in 2019-2020 due to the timing of reimbursements from the Federal Emergency Management Agency and outlays for personal protective equipment, janitorial goods and services. As these reimbursements are expected to be received in 2020-2021, the majority of previously transferred funds is recommended to be returned to the General Fund. (\$4.6 million)
- ***Miscellaneous Adjustments*** – Remaining actions include technical corrections or reallocations, and other smaller select adjustments. These include the reallocation of reserved funds for training and development and city health plan incentives for the respective initiatives in 2020-2021, the recognition of additional late fee revenue received in 2019-2020 from the Water Utility Fund, and the allocation of excess revenue from Urban Communities for Museum Place for the Diridon Station Area Development Planning Project (\$29,000). Additional actions provide for technical corrections to the distribution of pooled interest earnings among the General Fund and respective special and capital funds, and the reallocation of the Information Technology Development Fee Program – Shared Resources (Non-Personal/Equipment) appropriation from the General Fund to the respective Development Fee Program Funds. Further actions are also recommended to allocate donations received in the General Fund in 2019-2020 for Fire Station 26, and to increase funding to the Fire Department for the match requirement for the 2020 Assistance to Firefighter Grant Program, to replace non-compliant Class B Firefighting Foam, and to cover unanticipated fee increases for State Fire Training. (net -\$172,000)

## ANALYSIS

### **Impacts on the 2020-2021 General Fund Budget**

- **Grants/Reimbursements/Fees (\$0)**

- A series of adjustments - net revenues of \$2.2 million offset by net expenditures of \$2.2 million - are recommended to recognize new and updated revenues and expenditures for **Grants, Reimbursements, and/or Fees**, primarily for the following Departments: Office of Economic Development (net-zero expenditure adjustments of \$605,000); Police Department (net-zero expenditure adjustments of \$545,000); Parks, Recreation and Neighborhood Services Department (net-zero adjustments of \$532,000); and, the Library Department (net-zero adjustments of \$372,000). These adjustments are further described in *Section IV. Recommended Budget Adjustments and Clean-Up/Rebudget Actions*.

### **Recommended Distribution of Remaining Fund Balance per City Council Policy 1-18 (-\$14.0 million)**

Per Council Policy 1-18, Operating Budget and Capital Improvement Program Policy, after necessary appropriation adjustments to correct and update the current year budget, any remaining General Fund ending fund balance after the close of the fiscal year shall first be allocated to offset any projected deficit for the following fiscal year, with any excess allocated to: 1) the Budget Stabilization Reserve and/or Contingency Reserve; 2) Unmet/deferred infrastructure and maintenance needs; and, 3) Other one-time urgent funding needs.

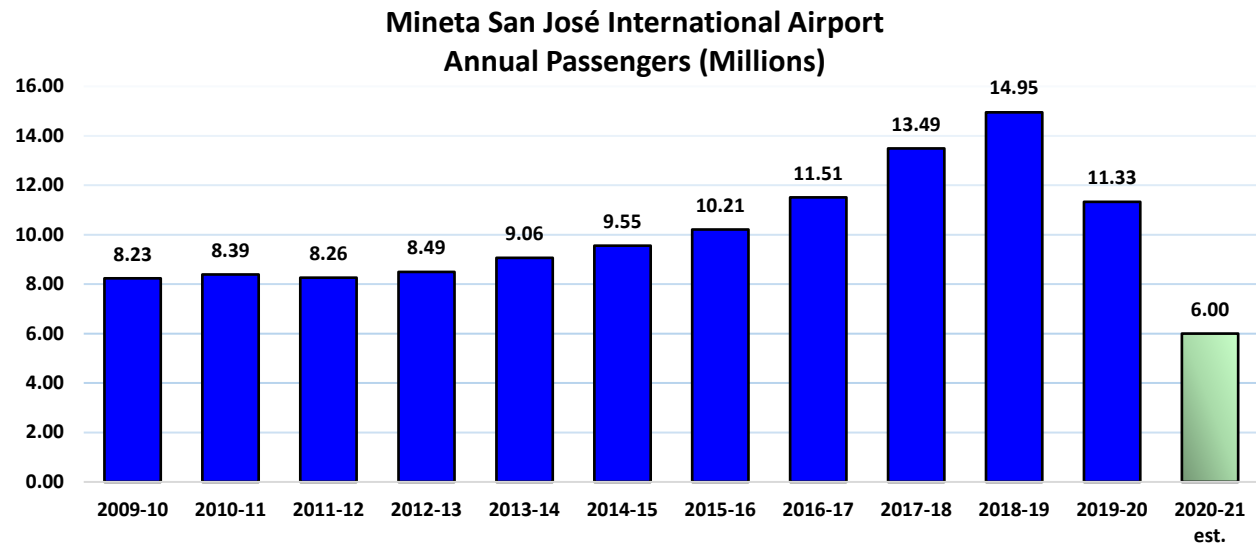
The most recent projected General Fund shortfall for 2021-2022 of \$11.1 million was developed in February 2020, prior to the widespread onset of the COVID-19 pandemic. While \$11.1 million is currently allocated in the 2021-2022 Future Deficit Reserve, a much larger shortfall is likely next year. The General Fund 2020-2021 Adopted Budget was balanced with one-time funding of \$25.7 million, of which \$11.0 million came from the Budget Stabilization Reserve. This means that the City would start 2021-2022 with a General Fund shortfall of \$25.7 million before accounting for any other expenditure changes due to labor, retirement, or other costs, or changes to revenue estimates from current levels. Due to the continued uncertainty of the economic and budgetary impacts of the COVID-19 pandemic in the current year and for the foreseeable future, the Administration recommends allocating all of the remaining \$14.0 million fund balance to the Budget Stabilization Reserve, increasing the reserve from \$21.0 million to \$35.0 million. Continuing the City's focus on fiscal resilience will be critical to mitigate the future service reductions that would be necessary to address a large General Fund shortfall is likely in 2021-2022. It is also important to note that, when combined with existing budgeted funds for the Contingency Reserve (\$40.0 million) and Workers Compensation / General Liability Catastrophic Reserve (\$15.0 million), the sum of General Purpose Reserves is 6.8% of General Fund operating expenditures; still short of the City Council Policy target of 10%.

**ANALYSIS**

**2019-2020 Selected Special/Capital Funds Budget Performance**

**Airport Operating Funds**

The Airport served 11.33 million passengers in 2019-2020, which was an overall decrease of 24.2% from 2018-2019. The worldwide outbreak of COVID-19 caused significant disruptions to domestic and international air travel. Passenger levels declined significantly from mid-March through June 2020. Passenger levels are anticipated to recover gradually over several years given the ongoing uncertainty surrounding the COVID-19 pandemic and resulting impact to the general economy. For 2020-2021, projections are approximately a 60% decrease from 2018-2019 or 6.0 million passengers.



All airport activity categories demonstrated declines as compared to last year, including traffic operations, landed weights, gallons of aviation fuel sold, and ground transportation trips.

Overall, revenue performance was below budget by \$34.7 million (16.2%). Airline Rates and Charges (combined total of landing fees and terminal rents) and all other operating categories, excluding transfers, ended the year at \$178.1 million, which was \$34.3 million below the budget of \$212.4 million. The negative variance is distributed across all revenue categories as all airport tenants and customers were impacted by the global pandemic. The Airport worked with tenants to implement rent deferrals and relief where possible to support the long-term relationships and minimize economic impacts to the companies and their staff in these tumultuous times. The partnership is important to continuing operations and service levels when passenger levels increase.



**ANALYSIS**

**2019-2020 Selected Special/Capital Funds Budget Performance**

The Airport Customer Facility and Transportation Fee Fund had year-end expenditure savings of \$23,000 (0.1%) and Airport Maintenance and Operation Fund had a year-end expenditure savings of \$11.7 million (9.3%) compared to budgeted levels of \$125.7 million. The savings were primarily from personal services, \$2.5 million from position vacancies, and \$7.7 million in non-personal/equipment savings resulting from reduced service levels and other expenditure reduction strategies following the outbreak of COVID-19.

**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 2019-2020 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 for these types of revenues, and a discussion of the three largest revenue sources follows.

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

	<b>2019-2020 Estimate*</b>	<b>2019-2020 Actuals</b>	<b>% Variance</b>
Construction and Conveyance Tax	\$36,000	\$40,916	113%
Building and Structure Construction Tax	\$15,000	\$33,265	121%
Construction Excise Tax	\$20,000	\$20,051	0%
Municipal Water System Fees	\$75	\$237	216%
Residential Construction Tax	\$200	\$246	23%
Sanitary Sewer Connection Fee	\$700	\$777	11%
Storm Drainage Connection Fee	\$200	\$264	32%

\* Revenue estimate used in the development of the 2019-2020 Adopted Capital Budget.

• **Construction and Conveyance Tax**

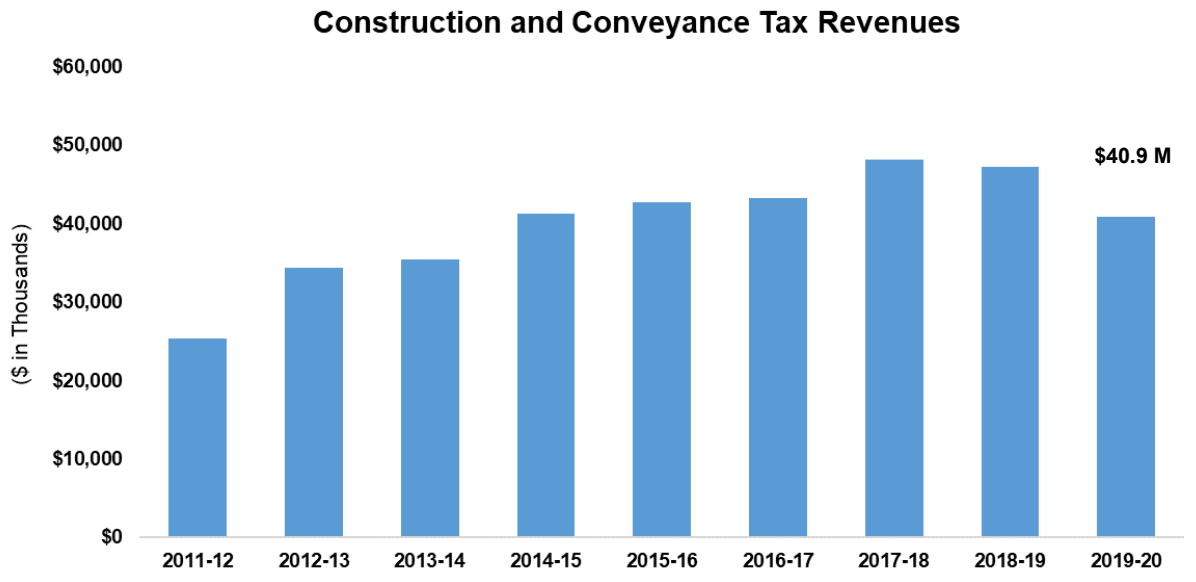
Real estate activity (primarily housing re-sales) determines the collection level of one of the major capital revenue sources, the Construction & Conveyance (C&C) Tax. Approximately 99% of C&C Tax is derived from a tax imposed upon each transfer of real property, with the remaining 1% generated from 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 \$40.9 million in 2019-2020. This collection level is \$4.9 million above the Modified Budget estimate of \$36.0 million and \$2.9 million above the estimated collection level of \$38.0 million. The 2019-2020 collection level dropped 13.3% (\$6.3 million) from 2018-2019 receipts of \$47.2 million. Due to uncertainty regarding the COVID-19 pandemic’s impact on the local real estate market, the 2020-2021 budget was reduced to \$30.0 million, which allows for a 27% drop from 2019-2020 actual collections. Collections in 2020-2021 will be closely

**ANALYSIS**

**2019-2020 Selected Special/Capital Funds Budget Performance**

monitored, and any necessary adjustment will be brought forward later in the fiscal year. The following graph displays the history of Construction and Conveyance (C&C) Tax receipts.

**Capital Fund Major Revenues**



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

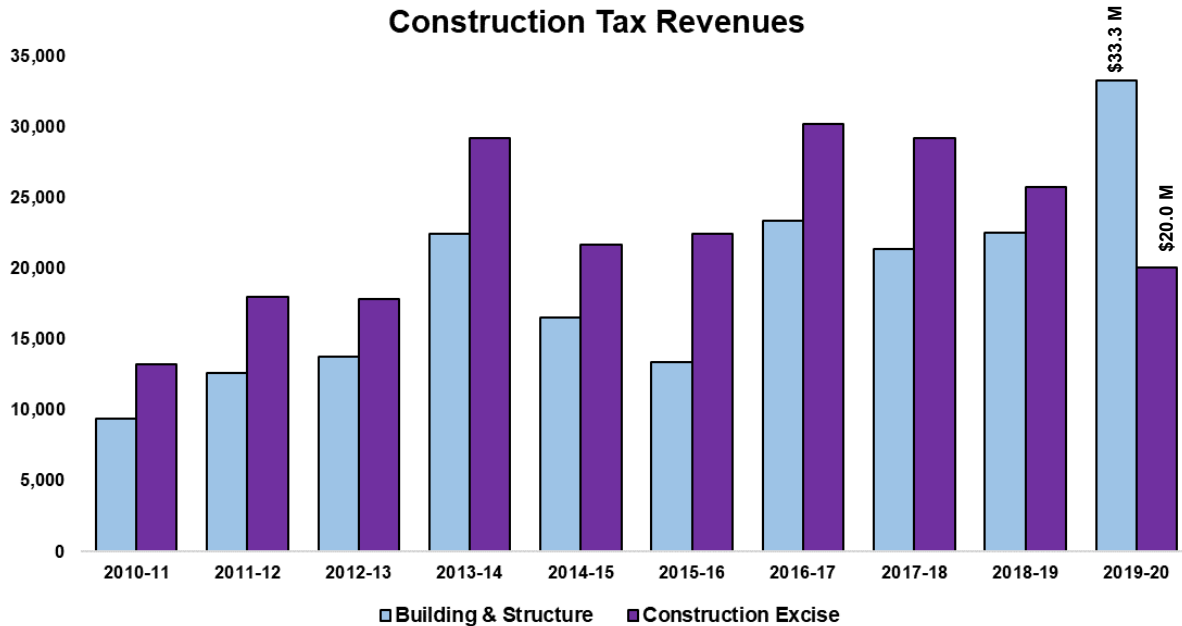
The Building and Structure Construction Tax and the Construction Excise Tax are major sources of funding for the Traffic Capital Program. Year-end collections in the Building and Structure Construction Tax category totaled \$33.3 million in 2019-2020. This collection level was 38.6% (\$9.3 million) above the modified budget estimate of \$24.0 million and \$4.3 million above the revenue estimate of \$29.0 million used to develop the 2020-2021 Adopted Capital Budget, representing a \$10.7 million higher collection level than the \$22.5 million received in 2018-2019. Construction Excise Tax receipts for 2019-2020 totaled \$20.0 million, 0.3% (\$51,000) above the modified budget estimate of \$20.0 million and \$1.1 million above the \$19.0 million used to develop the 2019-2020 Adopted Capital Budget, representing a 22.2% (\$5.7 million) decrease from 2018-2019 collections of \$25.8 million.

The graph below displays the collection history of both the Building and Structure Construction Tax and Construction Excise Tax receipts. Valuation activity in 2016-2017 surpassed the historically high levels of 2013-2014, setting a new peak, but have been declining since in the last couple of years. The status of these volatile taxes will be closely monitored throughout 2019-2020 to determine if budget actions are necessary to revise the revenue estimates.

**ANALYSIS**

**2019-2020 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.

Reflective of the continuing challenging operating environment during the COVID-19 pandemic, an action is included in the General Purpose Parking Fund to reduce the revenue estimate from parking garages and meters by \$5.0 million, from \$14.0 million to \$9.0 million, which lowers the total revenue estimate by over 50% when compared to 2018-2019 collection levels of \$19.0 million. This revenue loss is offset by operating expenditure reductions of \$2.5 million and a reallocation of resources in the General Purpose Parking Capital Fund to transfer funding back to the operating fund.

## **ANALYSIS**

### **2019-2020 Selected Special/Capital Funds Budget Performance**

#### **Special and Capital Funds Budget Adjustments**

In the Low and Moderate Income Housing Asset Fund, and an alignment with assumptions included in the 2020-2021 Adopted Operating Budget, an allocation of \$9.1 million is recommended to fund the purchase of four City-owned properties (West Community Policing Center, Old Fire Station #21, Bird and Fuller, and Park and Sonoma) for future affordable housing development projects. The sale proceeds will be deposited in the General Fund (\$7.369 million), Neighborhood Security Bond Fund (\$1.65 million), and Subdivision Park Trust Fund (\$86,000). An allocation is also recommended to increase the total project funding for Page Street Studios by \$1.1 million, from \$7.2 million to \$8.3 million, to resolve a funding gap created by the affordable housing developer not receiving Affordable Housing and Sustainable Communities grant funding as anticipated.

In the Airport Capital Program, actions are included in the Airport Capital Improvement Fund to reduce the revenue estimated from the Federal Government in the amount of \$17.5 million to reflect a reduction in grants that were anticipated to be received from the Federal Aviation Administration for the Airfield Electrical Circuit Rehabilitation and the Airfield Geometric Implementation projects. Corresponding decreases to both project budgets are recommended to align project funding with the revised level of grant funding. Funding in the amount of \$2.0 million is recommended in the Airport Renewal and Replacement Fund to establish the COVID-19 Mitigation Measures project to address various pandemic related mitigation measures at the Airport, including, but are not limited to, services to treat air flowing through ductwork, UV modules for handrails on escalators, and other technologies and equipment.

In the Parks and Facilities Development Capital Program, \$1.3 million is recommended to be added to the Trail: Thompson Creek (Quimby Road to Aborn Court) project from the Subdivision Park Trust Fund (\$834,000) and Council District 8 Construction and Conveyance Tax Fund (\$466,000) to finalize the design and enable construction of the Class I Bikeway Trail. It is important to note that these allocations are expected to be reimbursed by a Valley Transportation Authority – Measure B grant. Adjustments in the Traffic Capital Program include the appropriation of developer mitigation payments of \$668,000 for Quiet Zone improvements along the Vasona Corridor, and \$500,000 for the Avenues School Safety Improvements project for improvements to the rail crossings and roadway intersection of Race Street and Parkmoor Avenue.

Finally, the rebudget of unexpended funds for projects and programs extending into 2020-2021 is recommended in this report. Details of these adjustments can be found in Section IV of this report.

### **NEXT STEPS**

The results of the 2019-2020 Annual Report will provide an updated starting point for monitoring 2020-2021 financial performance, with the observed 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 2020-2021 will be provided in the Bi-Monthly Financial Reports and the 2020-2021 Mid-Year Budget Review.

The 2019-2020 Annual Report results will also be factored into the 2021-2022 budget development process. The General Fund Five-Year Forecast is scheduled to be released in late February 2021. The 2021-2022 Proposed Capital and Operating Budgets are scheduled to be released by May 1, 2020.

### **PUBLIC OUTREACH/INTEREST**

This document is posted on the City's website for the October 20, 2020, City Council agenda.

### **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.

### **COMMISSION RECOMMENDATION/INPUT**

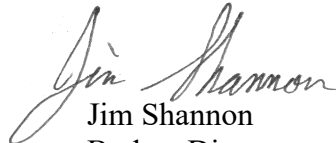
No commission recommendation or input is associated with this action.

### **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. When the 2019-2020 Adopted Budget was developed, it was assumed that economic moderate growth experienced over the last several years would continue. The arrival of COVID-19 radically changed economic and budgetary projections. As the City stood up its emergency operations center to respond to the pandemic and safely continue essential services, the Administration brought forward adjustments to the 2019-2020 budget to mitigate expected revenue losses and position the City to achieve a balanced budget for 2020-2021. In the General Fund, the additional fund balance at the end of 2019-2020 after considering clean-up adjustments totaled \$28.4 million. Along with a number of net-zero adjustments related to grants, reimbursements and fees, recommendations are included in this report to allocate \$14.4 million of the fund balance toward various required technical and rebalancing actions, and \$14.0 million to the Budget Stabilization Reserve in accordance with City Council Policy 1-18.

**CONCLUSION**

The Administration will continue to monitor and report on the City's budget performance through the Bi-Monthly Financial Reports and the Mid-Year Budget Review. The financial results of 2019-2020, as well as the actual performance in 2020-2021, will be factored into the development of the 2021-2022 budget. The 2022-2026 General Fund Five-Year Forecast will be released in February 2021 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 2020-2021 monies in excess of those heretofore appropriated therefrom:

General Fund	\$48,110,814
Airport Fiscal Agent Fund	\$6,560,758
Airport Renewal and Replacement Fund	\$8,272,617
Airport Revenue Bond Improvement Fund	\$381,853
Airport Surplus Revenue Fund	\$417,722
Benefits Funds - Benefit Fund	\$464,830
Benefit Funds – Dental Insurance Fund	\$2,207,859
Benefits Funds - Life Insurance Fund	\$8,217
Benefits Funds - Self-Insured Medical Fund	\$1,059,132
Benefit Funds – Unemployment Insurance Fund	\$811,047
Branch Libraries Bond Projects Fund	\$60,012
Building and Structure Construction Tax Fund	\$16,871,637
Building Development Fee Program Fund	\$9,330,412
Business Improvement District Fund	\$194,632
Cash Reserve Fund	\$26
Citywide Planning Fee Program Fund	\$1,509,637
Community Development Block Grant Fund	\$2,433,243
Community Facilities District Fund #1	\$22,649
Community Facilities District Fund #8	\$91,409
Community Facilities District Fund #11	\$6,451
Community Facilities District Fund #13	\$5,703
Community Facilities District Fund #14	\$154,513
Community Facilities Revenue Fund	\$230,195
Construction and Conveyance Tax – Communications	\$197,877
Construction and Conveyance Tax – Fire	\$749,267
Construction and Conveyance Tax – Council District 1	\$587,246
Construction and Conveyance Tax – Council District 2	\$212,473
Construction and Conveyance Tax – Council District 3	\$465,292
Construction and Conveyance Tax – Council District 4	\$1,856,619
Construction and Conveyance Tax – Council District 5	\$692,908
Construction and Conveyance Tax – Council District 6	\$801,643
Construction and Conveyance Tax – Council District 7	\$345,678
Construction and Conveyance Tax – Council District 8	\$707,982
Construction and Conveyance Tax – Council District 9	\$1,887,791

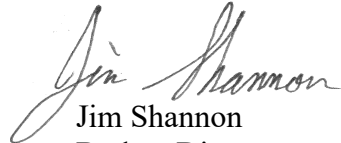
**CERTIFICATION OF FUNDS**

Construction and Conveyance Tax – Council District 10	\$284,418
Construction and Conveyance Tax - Library	\$1,129,082
Construction and Conveyance Tax – Parks City-Wide	\$5,042,296
Construction and Conveyance Tax – Parks Yards	\$193,254
Construction and Conveyance Tax – Service Yards	\$592,909
Construction Excise Tax Fund	\$15,707,681
Contingent Lien District Fund	\$1,028,462
Convention and Cultural Affairs Fund	\$1,763,869
Convention and Cultural Affairs Capital Fund	\$5,072,879
Convention Center Facilities District Revenue Fund	\$1,993,458
Economic Development Administration Loan Fund	\$109
Emma Prusch Fund	\$4,539
Federal Drug Forfeiture Fund	\$351
Fire Development Fee Program Fund	\$2,153,826
General Purpose Parking Capital Fund	\$2,178,913
Gift Trust Fund	\$1,870,414
Housing Trust Fund	\$425,932
Ice Centre Revenue Fund	\$2,141
Improvement District Fund	\$36,651
Inclusionary Fee Fund	\$2,068,676
Library Parcel Tax Fund	\$886,900
Library Parcel Tax Capital Fund	\$229,811
Low and Moderate Income Housing Asset Fund	\$15,318,942
Maintenance District Fund #1	\$61,326
Maintenance District Fund #2	\$6,495
Maintenance District Fund #19	\$20,060
Maintenance District Fund #21	\$2,188
Major Collectors and Arterials Fund	\$211,025
Major Facilities Fund	\$290,419
Municipal Golf Course Fund	\$761,418
Neighborhood Security Bond Fund	\$2,495,946
Planning Development Fee Program Fund	\$993,289
Public Works Development Fee Program Fund	\$3,632,355
Public Works Small Cell Permitting Fee Program	\$1,000,000
Rental Stabilization Program Fee Fund	\$1,135,304
Residential Construction Tax Contribution Fund	\$351,443
San José Arena Capital Reserve Fund	\$1,879,485
San José Clean Energy Operating Fund	\$7,635,617



**CERTIFICATION OF FUNDS**

San José-Santa Clara Treatment Plant Income Fund	\$65,802
San José-Santa Clara Treatment Plant Operating Fund	\$2,651,535
San José-Santa Clara Treatment Plant Capital Fund	\$6,249,512
Sanitary Sewer Connection Fee Fund	\$699,213
Sewer Service and Use Charge Fund	\$515,669
Sewer Service and Use Charge Capital Improvement Fund	\$22,021,703
South Bay Water Recycling Capital Fund	\$25,468
St. James Park Management District Fund	\$53,945
State Drug Forfeiture Fund	\$5,869
Storm Drainage Fee Fund	\$48,606
Storm Sewer Capital Fund	\$2,099,022
Storm Sewer Operating Fund	\$1,895,847
Subdivision Park Trust Fund	\$21,572,862
Supplemental Law Enforcement Services Fund	\$95,413
Transient Occupancy Tax Fund	\$1,915,774
Underground Utility Fund	\$1,449,334
Vehicle Maintenance and Operations Fund	\$722,261
Water Utility Capital Fund	\$1,072,610
Workforce Development Fund	\$320,867

  
Jim Shannon  
Budget Director