

General Fund Balancing Strategy Detail

2020-2021 Adopted Operating Budget

INTRODUCTION

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

In February 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 public health orders, 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 contained a set of actions that increased 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 included 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); funding for the 2021-2022 Future Deficit Reserve (\$11.1 million), continuation of 2019-2020 one-time funded services (\$6.5 million); critical unmet/deferred infrastructure and maintenance needs (\$5.4 million); service level enhancements (\$1.7 million); earmarked reserves (\$1.5 million); and other positive changes (\$870,000).

General Fund Balancing Strategy Detail

2020-2021 Adopted Operating Budget

INTRODUCTION

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.

From the release of the Proposed Budget to the final adoption of the budget, additional revisions totaling \$229.2 million occurred. The largest component of the increase was the rebudget of 2019-2020 funds (\$165.6 million) that were carried forward to 2020-2021 to complete various projects.

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

Table I
2020-2021 ADOPTED OPERATING BUDGET
Forecast to Adopted 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
Adopted Revisions	229,241	229,241	0
2020-2021 Adopted Budget	1,547,689	1,547,689	0

General Fund Balancing Strategy Detail

2020-2021 Adopted Operating Budget

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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General Fund Balancing Strategy Detail

2020-2021 Adopted Operating Budget

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.

<u>Category</u>	<u>\$ Change</u>	<u>Description</u>
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.

General Fund Balancing Strategy Detail

2020-2021 Adopted Operating Budget

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>	

General Fund Balancing Strategy Detail

2020-2021 Adopted Operating Budget

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

General Fund Balancing Strategy Detail

2020-2021 Adopted Operating Budget

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)	

General Fund Balancing Strategy Detail

2020-2021 Adopted Operating Budget

PROPOSED BUDGET BALANCING STRATEGY

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

	2020-2021	Ongoing
2020-2021 General Fund Surplus	\$ (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)

General Fund Balancing Strategy Detail

2020-2021 Adopted Operating Budget

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 D 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 was brought forward, bringing the 2020-2021 Proposed Budget estimate to \$1.32 billion. The components of this change included 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.

General Fund Balancing Strategy Detail

2020-2021 Adopted Operating Budget

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	

General Fund Balancing Strategy Detail

2020-2021 Adopted Operating Budget

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 was brought forward, 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.

ADOPTED BUDGET BALANCING STRATEGY

The final phase of the 2020-2021 budget process commenced following the issuance of the City Manager's Proposed Budget and consisted of the following major steps: City Council Budget Study Sessions on the Proposed Budget; formal public input through the Public Hearings process; issuance by the Administration of recommended revisions to the Proposed Budget (in the form of formal Manager's Budget Addenda); issuance by the City Council of recommended revisions to the Proposed Budget (in the form of Budget Documents submitted to the Mayor's Office); issuance of the Mayor's June Budget Message memorandum that included recommended revisions to the Proposed Budget and incorporated feedback from the City Council and the Administration; and approval by the City Council of the Mayor's June Budget Message and final Adopted Budget. In addition, four virtual community budget meetings were held.

Summarized in Table IV by general category are the additional changes introduced by Manager's Budget Addenda or the Mayor's June Budget Message. (The full text of the Message is included as an Appendix to this document.) Those additional changes in funding sources and uses totaled \$229.2 million in 2020-2021.

General Fund Balancing Strategy Detail

2020-2021 Adopted Operating Budget

Table IV
2020-2021 ADOPTED OPERATING BUDGET
General Fund Funding Requirements and Balancing Strategy (in \$000s)

	2020-2021	Ongoing
Remaining Balance from Proposed Budget (from Table III)	\$ 0	\$ (19,659)
Balancing Strategy		
Source of Funds		
Fund Balance to Support 2019-2020 Projects/Balancing Strategy	\$ 224,577	\$ 0
Revenue-Related Rebudgets to Support 2020-2021 Projects	5,749	0
New Grants/Revenue-Supported Expenditures	4,915	2,246
Other Revenue Changes	(6,000)	(6,000)
Subtotal Source of Funds	\$ 229,241	\$ (3,754)
Use of Funds		
Rebudgeted 2019-2020 Projects	\$ 165,595	\$ 0
Earmarked Reserves (2020-2021 Continuity of Operations, 2021-2022 Sworn Hire Ahead Program, Fire SAFER Grant)	35,587	0
Service Level Enhancements	21,644	0
New Grants/Reimbursements/Revenue-Supported Expenditures	5,635	2,246
Unmet/Deferred Technology, Infrastructure, and Maintenance	5,510	0
Revenue-Related Rebudgets to Support 2019-2020 Projects	5,066	0
Cost Reductions/Service Delivery Efficiencies/Fund Shifts	2,954	0
Use of Reserves (2020-2021 Continuity of Operations, Budget Stabilization, Cultural Facilities Capital Maintenance)	(12,750)	0
Subtotal Use of Funds	\$ 229,241	\$ 2,246
Total Balancing Strategy	\$ 0	\$ (6,000)
Remaining Balance	\$ 0	\$ (25,659)

ADOPTED BUDGET BALANCING STRATEGY

Source of Funds

As part of the City Council-approved revisions to the Proposed Budget, a total of \$229.2 million in additional resources were approved to be used as part of the Adopted Budget strategy. The major elements of these revisions are described below.

Fund Balance to Support 2019-2020 Rebudgeted Projects/Balancing Strategy

The unrestricted portion of the 2019-2020 Ending/2020-2021 Beginning Fund Balance estimate was adjusted upward by an additional \$224.6 million, which primarily reflected 2019-2020 funding which was estimated to be available to be carried over (rebudgeted) to 2020-2021 to complete previously approved projects (\$161.6 million) as identified in Manager's Budget Addendum #32. In addition, \$4.0 million was included in the June Budget Message for Fiscal Year 2020-2021 to reflect rebudgets for the Mayor and City Council offices.

General Fund Balancing Strategy Detail

2020-2021 Adopted Operating Budget

ADOPTED BUDGET BALANCING STRATEGY

Source of Funds

The fund balance estimate was also increased by \$59.7 million primarily to reflect one-time funding estimated in 2019-2020, which restored one-time expenses in 2020-2021 of high importance to serving the needs of the community (especially services supporting communities of concern) as identified in Manager's Budget Addendum #3 and the Approval of Various Budget Actions for Fiscal Year 2019-2020 (\$53.2 million). In addition, the fund balance estimate was increased by \$6.5 million, which reflects the liquidation of various Development Fee Program Reserves (\$5.9 million) and to reflect 2019-2020 expenditure savings (\$618,000).

Revenue-Related Rebudgets to Support 2019-2020 Projects

The Adopted Budget included grant and reimbursement-related revenue totaling \$5.7 million that was rebudgeted from 2019-2020 to complete the associated projects in 2020-2021. These revenue-related rebudgets were spread among several revenue categories, including Revenue from the State of California, Revenue from the Federal Government, and Other Revenue. The approved revenue rebudgets were offset by expenditure appropriation rebudgets, which were also included in the Adopted Budget.

New Grants/Revenue-Supported Expenditures

The Adopted Budget included \$4.9 million in new grant/reimbursement/fee revenue adjustments. The approved adjustments were reflected in several revenue categories, including Fines, Forfeitures and Penalties, Revenue from the Federal Government, Revenue from Local Agencies, Revenue from the State of California, and Other Revenue.

Other Revenue Changes

The Adopted Budget included a decrease of \$6.0 million in the Transient Occupancy Tax revenue estimate. This decrease reflects anticipated impacts of the COVID-19 pandemic and reflects a 33.3% decrease from the revised 2019-2020 estimate of \$13.5 million and a 56.2% decline from 2018-2019 actual collections. As a result, the General Fund shortfall increased from \$71.6 million to \$77.6 million. The increased shortfall was offset by use of the Budget Stabilization Reserve.

General Fund Balancing Strategy Detail

2020-2021 Adopted Operating Budget

ADOPTED BUDGET BALANCING STRATEGY

Use of Funds

As part of the City Council-approved revisions to the Proposed Budget, a total of \$229.2 million in General Fund expenditure changes were approved. In addition, 37.13 positions were added in the General Fund, 20.51 of which are associated with the delayed implementation of library branch hours reductions until 2021-2022. Listings of all the approved budget modifications are described in detail in the CSA and departmental sections of this Adopted Budget document as well as summarized in Manager's Budget Addendum #32.

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

Rebudgeted 2019-2020 Projects

Additional expenditures totaling \$165.6 million were included in the Adopted Budget to fund the completion of programs and projects authorized in the prior year. The rebudgeted funds were offset by additional 2019-2020 Ending/2020-2021 Beginning Fund Balance.

Earmarked Reserves

The Essential Services Reserve was liquidated in the amount of \$2.0 million to offset investments described in the Mayor's June Budget Message for Fiscal Year 2020-2021. The Adopted Budget additionally includes \$25.0 million to set aside funds in the 2020-2021 Continuity of Operations Reserve to support the continued operation of basic City services and emergency response activities through 2020-2021 should conditions differ from the current expected impacts of COVID-19. Other set asides include \$7.0 million to continue the Police Department's Sworn Hire Ahead Program in 2021-2022, and \$1.2 million in the Fire SAFER Grant Reserve to support the City's share of potential grant funding for firefighter personnel upon successful grant application.

Service Level Enhancements

Additional expenditures totaling \$21.6 million were included in the Adopted Budget for service level enhancements, including partial reinstatement of planned outlays that were omitted during development of the Proposed Budget due to funding availability. The largest allocations included: \$6.75 million to continue the Police Department's Sworn Hire Ahead Program for 2020-2021 (funds are also reserved for 2021-2022); additional funding of \$4.3 million (\$4.5 million total) to replace all mobile data computers in police vehicles; and, \$2.5 million to advance Digital Divide initiatives to expand digital access for low-income families in key geographic areas. Other notable enhancements included:

General Fund Balancing Strategy Detail 2020-2021 Adopted Operating Budget

ADOPTED BUDGET BALANCING STRATEGY

Use of Funds

- \$1.0 million in overtime funding for foot patrol in high-need neighborhoods and the downtown area;
- \$900,000 to establish the Office of Racial Equity;
- \$700,000 to continue 5.0 Community Service Officer positions through 2021-2022;
- \$500,000 to reinstate 1.0 Librarian, 1.5 Librarian I/II PT, 2.0 Library Clerk PT, 8.0 Library Page PT, and 15.31 Library Aide PT, and delay the previously planned four hour per week reduction in library branch hours to 2021-2022;
- \$410,000 for 1.0 Senior Maintenance Worker, 1.0 Analyst II, and 1.0 Community Coordinator for 2020-2021 to support the Neighborhood Center Partner Program;
- \$350,000 to conduct a comprehensive analysis for the redistricting of Police districts;
- \$336,000 for the activation of outdoor parks;
- \$300,000 to develop an information technology master plan for the Fire Department;
- \$250,000 to support the Children’s Musical Theater San Jose;
- \$205,000 to support the opening of the Bascom Community Center;
- \$200,000 for infrastructure safety compliance project costs associated with Cherry Flat Dam;
- \$189,000 for the San José Al Fresco Activation effort to promote outdoor business;
- \$150,000 for contract services to complete a Police Use of Force Review; and,
- \$150,000 for an Independent After Action Incident Report.

Additional adjustments, less than \$150,000 in value, are further detailed within the City Department and City-Wide Expenses sections of this document.

New Grants/Reimbursements/Revenue-Supported Expenditures

Expenditure changes related to new grant or reimbursement activity totaled \$5.6 million. These grant and reimbursement expenditures were offset by additional revenue.

Unmet/Deferred Technology, Infrastructure, and Maintenance

The Adopted Budget included expenditures totaling \$5.5 million to allocate funding for deferred infrastructure and maintenance projects, including the: Tech Interactive Fire Alarm System (\$2.4 million); Children’s Discovery Museum Elevator System (\$800,000); Unanticipated/Emergency Maintenance (\$500,000); Animal Care Center and Services – Various Improvements (\$450,000); Hammer Theatre Center Improvements (\$350,000); History San José High-Priority Capital Improvements (\$300,000); EV Charging Stations for Police Hybrid-Electric Vehicles (\$210,000); South Yard Fence Replacement (\$200,000); Remote Sensing Equipment for Generators (\$150,000); History San Jose ADA Compliance (\$100,000); and, Mexican Heritage Plaza Patio (\$50,000).

General Fund Balancing Strategy Detail

2020-2021 Adopted Operating Budget

ADOPTED BUDGET BALANCING STRATEGY

Use of Funds

Revenue Related Rebudgets to Support 2019-2020 Projects

The Adopted Budget included grant and reimbursement-related expenditures totaling \$5.1 million that were rebudgeted from 2019-2020 to complete the associated projects in 2020-2021. These expenditure adjustments were offset by revenue rebudgets.

Cost Reductions/Service Delivery Efficiencies/Fund Shifts

The Adopted Budget included additional reconciling transfers of \$6.0 million to the respective Development Fee Program special funds, effective for 2020-2021, and an additional transfer of \$140,000 to the Vehicle Operations and Maintenance Fund to offset a prior recommended reduction. Reductions to Police Department overtime funding, totaling \$1.8 million, to support multiple community engagement and police reform initiatives, and the Office of Racial Equality; and, Parks, Recreation and Neighborhood Services Non-Personal/Equipment funding of approximately \$841,000 for Senior Nutrition Programs is shifted to a new City-Wide appropriation for the City's share of program costs.

Use of Reserves

The Adopted Budget includes decreases of \$12.75 million to the following reserves: Budget Stabilization Reserve (\$6.0 million) to offset a projected Transient Occupancy Tax revenue shortfall; Cultural Facilities Capital Maintenance Reserve (\$3.9 million) to support priority capital improvements to various cultural facilities in 2020-2021; 2020-2021 Continuity of Operations Reserve (\$650,000), which was subsequently restored to support the continued operation of City services and emergency response activities; and, Salaries and Benefits Reserve (\$200,000) to offset necessary technical adjustments.

Future Implications

Actions in this budget did not fully address the 2020-2021 shortfall (as shown in Table IV) on an ongoing basis. However, the 2020-2021 Adopted Budget includes the establishment of a one-time 2021-2022 Future Deficit Reserve of \$11.1 million to partially address the revised projected shortfall for that year. Ongoing balancing actions will, however, be necessary to fully address this projected 2021-2022 shortfall. All of the assumptions used to develop this projection will be revisited in the development of the 2022-2026 Five-Year General Fund Forecast that informs the adoption of a balanced budget in 2021-2022.