

General Fund Balancing Strategy Detail 2021-2022 Proposed Operating Budget

INTRODUCTION

This attachment is intended to provide a more detailed summary of the key actions taken to balance the 2021-2022 Proposed General Fund Budget. Revisions to the February Base Budget Forecast, as well as the key elements of the strategy to bring the General Fund into balance in the Proposed Budget, are described.

In February 2021, the Administration prepared formal projections for the 2021-2022 Proposed General Fund Budget as part of the *2021-2022 City Manager's Budget Request & 2022-2026 Five-Year Forecast and Revenue Projections* document that was released to the City Council. In that document, the 2021-2022 February Base Budget Forecast projections estimated a 2021-2022 General Fund shortfall of approximately \$48.1 million. This shortfall represented the difference between projected 2021-2022 General Fund resources and the expected cost of approved 2021-2022 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 2021-2025 Capital Improvement Program or for projects approved by the City Council during 2020-2021).

Subsequent to the release of the February Forecast and based on updated information, a number of revisions to both expenditures and revenue estimates were made, which constitutes the "Revised Base Budget Forecast" included in the Proposed Budget.

The revisions to the February Base Budget Forecast included a series of changes that produced an increase in overall General Fund sources and uses. These changes resulted in a reduction of \$9.8 million to the estimated General Fund shortfall, for a revised shortfall of \$38.3 million. These adjustments to the February Base Budget Forecast are described in more detail later in this section.

The Proposed Budget contained a set of actions that increased both the General Fund sources (by \$68.2 million), and uses (by \$29.9 million) from the Revised Base Budget Forecast, bringing the overall General Fund into balance for 2021-2022. The increase in sources of \$68.2 million included several major components, including: receipt of American Rescue Funds in 2020-2021 that will be available for use in 2021-2022 (\$45.0 million), liquidation of various earmarked reserves for specific purposes (\$13.2 million); excess revenue and expenditure savings from 2020-2021 that will be available for use in 2021-2022 (\$6.0 million); and other revenue changes (\$4.0 million).

The increase in uses of \$29.9 million in 2021-2022 includes additional funding for the following: critical unmet/deferred infrastructure and maintenance needs (\$18.9 million); continuation of 2020-2021 one-time funded services (\$8.7 million); earmarked reserves (\$7.2 million); new facilities operations and maintenance (\$3.1 million); service level enhancements (\$3.0 million); and other positive changes (\$1.0 million).

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These increases were partially offset by savings realized from cost reductions, service delivery efficiencies, and funding shifts (\$7.2 million) and the use of reserves that had been established for specific purposes (\$4.7 million) that were included in the February Forecast. The result of these actions was a balanced 2021-2022 Proposed General Fund Budget of \$1.3 billion.

Table I below displays the overall projections for the 2021-2022 General Fund as they changed between the February Base Budget Forecast and the Proposed Budget. Table II summarizes the changes from the February Base Budget Forecast to the Revised Base Budget Forecast, excluding carryover for prior year encumbrances. The specific elements of the City Manager's Proposed Budget balancing strategy are summarized in Table III.

Table I
2021-2022 PROPOSED OPERATING BUDGET
Forecast to Proposed Budget Reconciliation (in \$000s)

	Total Sources	Total Uses	(Shortfall)/ Surplus
February Base Budget Forecast	\$ 1,220,634	\$ 1,268,731	(\$48,097)
Forecast Revisions	9,963	155	9,808
Revised Base Budget Forecast (no fee impact)	1,230,597	1,268,886	(38,289)
Proposed Revisions	68,182	29,893	38,289
2021-2022 Proposed Budget	1,298,779	1,298,779	0

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REVISED BASE BUDGET FORECAST

As discussed previously, following the issuance of the February Base Budget Forecast, detailed analysis of the status of General Fund revenues and expenditures continued. Based on this review, the Proposed Budget incorporated a series of changes to the February Base Budget Forecast estimates for both sources and uses to form a Revised Base Budget Forecast. These changes resulted in a reduction of \$9.8 million to the estimated General Fund shortfall, for a revised shortfall of \$38.3 million. Changes are detailed in Table II below.

Table II
2021-2022 REVISED BASE BUDGET FORECAST
Summary of Changes (in \$000s)

Sources	Revision
Property Tax (ERAF receipts)	\$ 9,400
Licenses and Permits	402
Other Revenue	122
Fees, Rates, and Charges	111
Revenue from Local Agencies	20
Transfers and Reimbursements	(92)
Net Change in Sources	\$ 9,963

Uses	Revision
Transfers to Other Funds	\$ 270
Position and Fund Realignments/Corrections	156
Non-Personal/Equipment and City-Wide Expenses	(271)
Net Change in Uses	\$ 155

Total Change (Shortfall)/Surplus	\$ 9,808
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REVISED BASE BUDGET FORECAST

Source of Funds

A summary table is provided below for the revenue changes incorporated into the Revised Base Budget Forecast, which were used as the starting point in preparing the 2021-2022 Budget.

Category	\$ Change	Description
Property Tax	\$ 9,400,000	Increase of \$9.4 million as a result of a revised 2020-2021 revenue estimate being received from the State of California and Santa Clara County for Educational Revenue Augmentation Fund (ERAF) that will result in an ongoing revenue increase.
Licenses and Permits	402,447	Net increase of \$402,447 aligns revenues with estimated base costs and activity levels for Police Department permits (\$402,242), Planning Building and Code Enforcement permits (\$9,051), Transportation Department permits (\$4,272), Finance Department permits (-\$2,118), and Public Works Department permits (-\$11,000).
Other Revenue	122,394	Increase of \$122,394 aligns revenues with the estimated base costs and activity levels for Transportation Department revenues (\$84,590) and the reimbursement for the Investment Program (\$37,804).
Fees, Rates, and Charges	110,709	Net increase of \$110,709 aligns revenues with estimated base costs and activity levels for Police Department fees (\$174,226), Miscellaneous fees (\$32,793), and Transportation Department fees (-\$96,310).
Revenue from Local Agencies	19,490	Net increase of \$19,490 aligns revenues with the anticipated reimbursement from Santa Clara County for City costs associated with the Child Advocacy Center.
Transfers and Reimbursements	(91,900)	Net decrease of \$91,900 reflects updated overhead reimbursements from capital and operating funds based on the final 2021-2022 base budget and overhead rates (\$522,930), offset by lower transfers and reimbursements to the General Fund (-\$614,830).
Total	\$ 9,963,140	

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REVISED BASE BUDGET FORECAST

Use of Funds

Provided below is a listing for all expenditure changes incorporated into the Revised Base Budget Forecast, which were used as the starting point in preparing the 2021-2022 Budget.

Category	\$ Change	Department
Personal Services Adjustments		
Net Departmental Fund Shifts	\$134,740	Citywide
Non-Personal/Equipment Adjustments		
Fund Shift: Verizon Charges	\$21,000	Transportation
Deferred Compensation	4,611	Human Resources
Software/Information Systems: Microsoft Enterprise Agreement	(218,000)	Information Technology
Contract Services: City Facilities Waste Collection	(40,902)	Environmental Services
Voluntary Employees' Beneficiary Association	(1,809)	Human Resources
City-Wide Expenses		
City Dues/Memberships	\$(14,800)	City Clerk
Transfers to Other Funds		
Vehicle Operations and Maintenance	147,000	Public Works
City Hall Debt Service Fund	122,928	City Manager
Total	\$ 154,768	

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PROPOSED BUDGET BALANCING STRATEGY

**Table III
2021-2022 PROPOSED OPERATING BUDGET
General Fund Balancing Strategy (in \$000s)**

	2021-2022	Ongoing
2021-2022 Revised General Fund Shortfall	\$ (38,289)	\$ (38,289)
Balancing Strategy		
Source of Funds		
Beginning Fund Balance:		
American Rescue Plan Revenue Loss Reimbursement	\$ 45,000	\$ 0
2020-2021 Future Deficit Reserve	11,076	0
2020-2021 Excess Revenue/Expenditure Savings	6,000	0
Other Reserve Liquidations	2,115	0
Grants/Reimbursements/Fees		
UASI Grant – Office of Emergency Management	603	0
Fire Department Non-Development Fee Changes	454	454
PRNS Fee Revenue (Family Camp Suspension)	(177)	0
Other Fee Programs/Reimbursements/Grants	1,262	1,009
Other Revenue		
Office of Equality Assurance Labor Compliance	150	150
Transfer from the Integrated Waste Management Fund (CDDD)	(150)	0
Overhead Reimbursements	1,849	1,524
Subtotal Source of Funds	\$ 68,182	\$ 3,137
Use of Funds		
Unmet/Deferred Technology, Infrastructure, and Maintenance	\$ 18,899	\$ 0
2020-2021 Previously One-Time Funded Services	8,664	1,189
Earmarked Reserves (Essential Services, IT Sinking Fund, Police Redistrict)	7,150	0
New Facilities Operations and Maintenance	3,055	4,849
Service Level Enhancements	3,009	954
Other Fee Programs/Grants/Reimbursements	991	226
Development Fee Programs	12	4
Cost Reductions/Service Delivery Efficiencies/Fund Shifts	(7,232)	(5,930)
Use of Reserves (Committed Additions, Cultural Facilities, Deferred Maint.)	(4,655)	(4,860)
Subtotal Use of Funds	\$ 29,893	\$ (3,568)
Total Balancing Strategy	\$ 38,289	\$ 6,705
Remaining Balance	\$ 0	\$ (31,584)

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PROPOSED BUDGET BALANCING STRATEGY

Specific City Council direction regarding the preparation of the Proposed Budget was provided in the Mayor's March Budget Message for Fiscal Year 2021-2022, as approved by the City Council (see Appendices Section of this document). The details of the specific direction of that Message and the corresponding responses contained in this budget are provided in Attachment B following this section in the City Manager's Message. Attachment C contains information regarding the status of City Auditor recommendations with funding impacts.

Source of Funds

From the Revised Base Budget Forecast of \$1.23 billion, a net increase of \$68.2 million to the General Fund revenue estimates are included in the Proposed Budget, bringing the 2021-2022 revenue estimate to \$1.30 billion (including fund balance). The components of this change include an increase to the estimate for 2020-2021 Ending Fund Balance/2021-2022 Beginning Fund Balance (\$64.2 million) and an increase to various revenue categories (\$4.0 million). The revenue changes are summarized in the table below.

Category	\$ Change	Description
Beginning Fund Balance	\$64,190,436	Net increase of \$64.2 million reflects: receipt of American Rescue Plan revenue in 2020-2021 that will be available for use in 2021-2022 (\$45.0 million) the liquidation of various reserves (\$13.2 million), the largest of which include the 2021-2022 Future Deficit Reserve (\$11.1 million) and the Business Tax Billing System Replacement Reserve (\$1.3 million); and fund balance from additional revenue and expenditure savings that is anticipated to be received in 2020-2021 and be available for use in 2021-2022 (\$6.0 million).
Transfers and Reimbursements	1,698,608	Net increase of \$1.7 million reflects the increase of overhead from the budget actions that change the staffing levels funded by special and capital funds (\$1.85 million), partially offset by a lower transfer from the Integrated Waste Management Fund (-\$150,000).
Licenses and Permits	1,087,395	Increase of \$1.1 million reflects various license and permit changes to the Fire Permits (\$454,291) and Other Licenses and Permits (\$633,104) categories to align revenues with estimated activity levels, reflect fee revisions, and maintain cost recovery levels.

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PROPOSED BUDGET BALANCING STRATEGY

Source of Funds

Category	\$ Change	Description
Revenue from Federal Government	736,395	Increase of \$736,395 to recognize Urban Areas Security Initiative (UASI) grant revenue (\$603,395), which will be allocated to the Office of Emergency Management and to recognize Northern California Regional Intelligence Center (NCRIC) grant revenue (\$133,000), which will be allocated to the Police Department.
Other Revenue	171,308	Increase of \$171,308 recognizes additional revenue related to labor compliance minimum wage enforcement for other jurisdictions (\$150,000), grant revenue related to placemaking and activation (\$19,774), and various Transportation Department fee changes to align revenues with estimated activity levels (\$1,534).
Franchise Fees	150,652	Increase of \$150,652 reflects an increase in the Commercial Solid Waste fees by 1.23% based on the change in the Consumer Price Index.
Fees, Rates, and Charges	\$ 146,636	Net increase of \$146,636 reflects various fee changes in 2021-2022 to align revenues with estimated activity levels, reflect fee revisions, and maintain cost recovery levels for Transportation Department fee revenue (\$160,040), Police Department fee revenue (\$84,033), and miscellaneous fee revenue (\$79,563). These fee increases are partially offset by a reduction to the Parks, Recreation and Neighborhood Services Department fee revenue related to Family Camp not being operational in summer 2021 (\$-177,000).
Total	\$68,181,430	

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PROPOSED BUDGET BALANCING STRATEGY

Use of Funds

From the Revised Base Budget Forecast of \$1.27 billion, a net increase of \$29.9 million to the General Fund expenditures is recommended, bringing the 2021-2022 Proposed Budget Use of Funds estimate to \$1.30 billion. A listing of the Proposed Budget modifications is provided by specific categories in Table III and briefly discussed in the following table. Further detail is incorporated into the CSA and departmental sections of this document.

Category	\$ Change	Description
Unmet/Deferred Technology, Infrastructure, and Maintenance	\$18,899,000	To address a portion of the backlog for unmet and deferred infrastructure and maintenance needs, funding of \$18.9 million is included in the 2021-2022 Proposed Budget for the City's most urgent repairs needs, including: Transfer to the Communications Construction and Conveyance Tax Fund for SVRIA radio replacements (\$5.3 million); Business Tax System Replacement (\$4.1 million); Self-Contained Breathing Apparatus Equipment Replacement (\$3.0 million); Transfer to the Public Safety and Infrastructure Bond Fund (\$2.3 million) as reimbursement for advancing funding for the Fire Station 20 project; Singleton Gas Flare and Collection System (\$2.3 million); various improvements to cultural facilities (\$1.3 million); and, the Police Administration Boiler and Chiller Replacement (\$525,000).
2020-2021 Previously One-Time Funded Services	8,664,263	Funding is included to continue services that were funded on a one-time basis in the 2020-2021 Adopted Budget. This primarily includes funding for: Beautify San José Landscape Maintenance (\$1.0 million); Office of Racial Equity Staffing and Consulting Services (\$996,692); Police Public Records Team Staffing (\$849,103); Parks Rehabilitation Strike and Capital Infrastructure Team (\$750,000); Library Branch Hours and Operations for Lower-Resourced Communities (\$674,967); and, Project Hope (\$515,043).
Earmarked Reserves	7,150,000	One-time Earmarked Reserves, totaling \$7.2 million, including the following: Essential Services Reserve (\$3.0 million); Information Technology Sinking Fund Reserve (\$2.0 million); Police Redistricting Implementation Reserve (\$1.0 million); San José 311 Enhancements Reserve (\$750,000); Pension Obligation Bonds Consulting Services Reserve (\$200,000); and, Language Access Coordination Reserve (\$200,000).

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Category	\$ Change	Description
New Facilities Operations and Maintenance	3,055,000	The Proposed Budget includes \$1,996,000 for staffing, maintenance and operation of new Public Safety facilities, \$500,000 to relocate the Police evidence warehouse, \$384,000 to operate and maintain new parks and recreation facilities, and \$175,000 to maintain new transportation infrastructure.
Service Level Enhancements	3,008,335	Total funding of \$3.0 million is included in the Proposed Budget for service level enhancements. The largest investments in this category include: San José 311 Enhancements (\$750,000); Traffic Safety and Illegal Sideshows (\$500,000); Cost Allocation Plan Review (\$302,000); New Franchise Agreement Review (\$300,000); Digital Privacy Staffing (\$211,945); Asset Risk Control Staffing (\$186,861); Office of Equality Assurance Labor Compliance Staffing (\$162,542); and, Emergency Operations Staffing (\$157,191). Other service level enhancements are included and described in the Department and City-Wide Sections of this document.
Other Fee Programs/Grants/Reimbursements	991,006	The actions in this category are partially offset by revenue from fees, grants, or reimbursements and include: Office Emergency Management Staffing (UASI 2021); Commercial Paper Program Fees (\$175,000); Grants and Deployment Reimbursements Staffing (\$129,004), and the One-way Vehicle Permit Program (\$10,000).
Development Fee Programs	12,308	The Proposed Budget includes additional resources to the Fire Department, totaling \$12,308 in the General Fund, to update California Building and Fire Code Publications utilized by the Development and Non-Development Fee Programs as described in the Community and Economic Development City Service Area and respective department sections.

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PROPOSED BUDGET BALANCING STRATEGY

Use of Funds

<u>Category</u>	<u>\$ Change</u>	<u>Description</u>
Cost Reductions/Service Delivery Efficiencies/Fund Shifts from Other Funds	(7,232,325)	Net decrease of \$7.2 million primarily resulting from efficiencies and other cost saving measures to partially address the projected ongoing General Fund shortfall, including: reduced overtime usage by the Fire Department (\$660,000); lower anticipated costs for PRNS Fee Activities (\$525,000); Happy Hollow Park and Zoo Catering and Special Events (\$345,562) due to the impacts of COVID-19; civilianization of two sworn positions in the Bureau of Field Operations Administration Staffing (-\$247,567); and the shift of funding for Traffic Safety and Operations staff that support capital projects (\$525,000). These and additional cost reductions are described in more detail in the respective department sections of this document.
Use of Reserves	(4,665,000)	The Proposed Budget includes the use of the Deferred Infrastructure and Maintenance Reserve (\$1.25 million), Cultural Facilities Capital Maintenance Reserve (\$850,000), and reserves to cover additional costs to operate and maintain new facilities that are scheduled to become operational in 2021-2022 (\$3,421,000).
Total	\$ 29,892,587	

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