



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Jim Shannon

**SUBJECT: 2022-2023 REVISED GENERAL
FUND REVENUE ESTIMATES
AND RECOMMENDED
EXPENDITURE ALLOCATIONS**

DATE: June 5, 2022

Approved

Date: 6/5/22

RECOMMENDATION

1. Approve following recommended adjustments to the 2022-2023 Proposed Operating Budget for the General Fund:
 - a. Increase the Beginning Fund Balance estimate by \$6,000,000;
 - b. Increase the Sales Tax revenue estimate by \$6,000,000 (\$6,000,000 ongoing);
 - c. Increase the Budget Stabilization Reserve by \$5,000,000;
 - d. Increase the Essential Services Reserve by \$3,900,000 (\$1,900,000 ongoing);
 - e. Increase the Salaries and Benefits Reserve by \$2,400,000 (\$2,400,000 ongoing);
 - f. Increase the Police Department's Non-Personal/Equipment budget by \$350,000 (\$350,000 ongoing); and
 - g. Establish a City Initiatives Roadmap: Outcomes, Equity Indicators, + Performance Management City-Wide Expenses appropriation in the amount of \$350,000.

2. Extend the following positions in the Parks, Recreation and Neighborhood Services Department that are currently limit-dated to June 30, 2023 and budgeted in the American Rescue Plan Fund for 2022-2023 to be made permanent effective July 1, 2023 and funded in the General Fund for 2023-2024:
 - a. 1.0 Analyst II
 - b. 1.0 Community Services Supervisor
 - c. 1.0 Community Coordinator
 - d. 2.0 Community Activity Worker
 - e. 6.0 Maintenance Worker II

BACKGROUND

Since the release of the 2022-2023 Proposed Operating Budget on May 4, 2022, the Administration has continued to evaluate revenues and expenditure estimates in all funds to determine if any adjustments should be brought forward for City Council consideration. Each year, the Administration uses the last two weeks of May to conduct a final review of every revenue estimate and expenditure appropriation in the General Fund. In most years, this review does not lead to significant adjustments to the General Fund's overall budgetary position, as often increases in one category may partially offset decreases in another. However, the most recent review indicates that both additional revenues, notably Sales Tax, and additional expenditure savings will be realized by year-end. Because the additional revenue and expenditure savings are above the levels already assumed in the 2022-2023 Proposed Budget, there is additional Beginning Fund Balance that is available to spend on a one-time basis in 2022-2023, as well as additional Sales Tax that is available to spend on an ongoing basis beginning in 2022-2023.

ANALYSIS

The table below summarizes the recommended adjustments included in this memorandum. A description of each action follows.

	2022-2023	Ongoing
Source		
Beginning Fund Balance	\$ 6,000,000	\$0
Sales Tax	6,000,000	6,000,000
Total Source	12,000,000	6,000,000
Use		
Budget Stabilization Reserve	5,000,000	0
Salaries and Benefits Reserve	2,400,000	2,400,000
Sexual Assault Forensic Exams	350,000	350,000
City Initiatives Roadmap: Outcomes, Equity Indicators, + Performance Management	350,000	0
Beautify San José Consolidated Model – Permanent Extension of Positions in the General Fund Effective July 1, 2023	0	1,350,000
Essential Services Reserve	3,900,000	1,900,000
Total Use	12,000,000	6,000,000
Amount Unspent/(Overage)	\$0	\$0

Beginning Fund Balance (\$6.0 million, one-time) – An upward adjustment to the Beginning Fund Balance estimate is recommended to reflect the latest analysis of estimated year-end 2021-2022 General Fund performance (\$6.0 million) which is above the levels already assumed in the 2022-2023 Proposed Budget. The largest factor driving the increased funding level is additional Sales Tax revenues (see discussion below), though other revenue categories are also seeing slightly higher collections, including Property Tax and Electric Utility Tax. A review of General Fund expenditure allocations also indicates higher levels of savings than previously estimated, primarily from vacant positions and capital project savings.

A portion of these additional revenues and expenditure savings is needed to address required adjustments as part of the Approval of Various Budget Actions for Fiscal Year 2021-2022 memorandum – scheduled for release on June 10 and review by the City Council on June 21 – including the need to set aside additional funding in the FEMA Non-Reimbursable Expenses Reserve based on updated information received by the Administration on the potential eligibility of pandemic emergency response expenditures. After accounting for this and other required year-end adjustments, an additional \$6.0 million is expected to be available in 2021-2022 Ending Fund Balance, which can be carried forward to the 2022-2023 Beginning Fund Balance.

Sales Tax (\$6.0 million, ongoing) – Sales Tax is the second largest revenue category for the City of San José. At the start of the pandemic sales tax activity dropped; however, beginning in the 3rd quarter of 2020-2021, as pandemic restrictions began to ease and consumer spending habits shifted from non-taxable services to taxable goods, sales tax activity began to rapidly grow. Moving through 2021-2022, Sales Tax revenue has continued to hit double digit year-over-year growth, which is primarily attributable to strong economic activity coupled with the current inflationary environment. Based on the most recent information received, through the first three quarters of the fiscal year, plus anticipated receipts in the fourth quarter, Sales Tax revenue is anticipated to exceed the 2021-2022 year-end estimate used to develop the 2022-2023 Proposed Operating Budget by nearly \$10 million.

Given this anticipated level of growth in 2021-2022, an adjustment to the 2022-2023 Sales Tax estimate is warranted; however, the Administration is proceeding with some amount of caution as persistently high inflation rates, anticipated aggressive monetary policies by the Federal Reserve to slow inflation; and the continued conflict in Ukraine and corresponding impacts to fuel and energy markets could negatively impact economic activity and resulting Sales Tax receipts. With these considerations in mind, this memorandum includes an increase to the 2022-2023 Sales Tax budgeted estimate by \$6.0 million (ongoing), from \$325.0 million to \$331.0 million. This modified collection level reflects an overall growth of 2.5% from the revised estimated 2021-2022 year-end collection level. The Administration will continue to revisit this and other revenue estimates throughout the fiscal year and bring forward recommend modifications, as appropriate.

Budget Stabilization Reserve (\$5.0 million, one-time) – Consistent with the City’s strong approach to fiscal discipline, and previous direction received in the City Council-approved Mayor’s March Budget Message for Fiscal Year 2022-2023, this action would add \$5.0 million to the Budget Stabilization Reserve. When combined with the \$2.0 million addition included in

the 2022-2023 Proposed Budget and the \$46.5 million that will be recommended to be carried forward and rebudgeted into next fiscal year, the total reserve amount in 2022-2023 will total \$53.5 million. As discussed during the Budget Study Sessions, the Budget Stabilization Reserve is the City's primary backstop to protect City services from unexpected revenue decreases or higher expenditures that cannot be rebalanced within existing budgeted resources in any given year. The Budget Stabilization Reserve is one of three reserves that make up the City's General Purpose Reserves (the others being the Contingency Reserve at \$41.5 million and the General Liability/Workers' Compensation Catastrophic Reserve at \$15.0 million). City Council Policy 1-18 identifies a target level amount for the sum of the General Purposes Reserves to equal 10% of General Fund operating expenditures. With this action to increase the Budget Stabilization Reserve, the total General Purpose Reserves will represent approximately 7.7% of General Fund expenditures (an additional \$35 million would be required to meet the 10% target for 2022-2023).

Salaries and Benefits Reserve (\$2.4 million, ongoing) – The City recently reached agreement with a number of employee bargaining units for wage increases in 2022-2023 that are scheduled for City Council approval later in June 2022. While the 2022-2023 cost of the salary increases can be accommodated within existing budgeted levels, the increased costs would have eroded funds previously set aside for other actions. Further, the higher level of ongoing costs would have exceeded existing ongoing resources and would have required changing a service currently budgeted as ongoing to one-time. As additional ongoing revenues are now available, the Administration recommends allocating the full increased cost of the wage increases to the Salaries and Benefits Reserve, which will then be reallocated to departmental personal services budgets in accordance with approved bargaining agreements, as necessary, as part of a future budget process in 2022-2023.

Sexual Assault Forensic Exams (\$350,000, ongoing) – A Sexual Assault Forensic Exam (SAFE) is a medical forensic exam intended to collect and preserve evidence of a sexual assault, a key element of investigations into sexual assaults conducted by the Police Department's Sexual Assault Investigations Unit. SAFEs are performed by Santa Clara Valley Medical Center personnel. Currently, the Department authorizes reimbursement to the County for the cost of SAFEs provided to survivors who have suffered a sexual assault within the past ten days. On a case-by-case basis, the Department can also authorize reimbursement for exams conducted outside of the ten-day window. On November 5, 2021, the Public Safety, Finance and Strategic Support Committee and the County of Santa Clara's Children, Seniors and Families Committee held a joint meeting on the topic of gender-based violence and child sexual abuse prevention and services. Pursuant to ongoing discussions with the County, the Administration recommends allocating \$350,000 on an ongoing basis for the provision of SAFEs to any survivor who desires to receive one, whether or not they suffered a sexual assault within the past ten days. The County is also setting aside additional funding for this purpose. By joining the County in funding SAFEs for all survivors who desire one, the City ensures that survivors of sexual assault receive the best possible care. Staff is continuing to coordinate with the County on a protocol and funding arrangement for providing these exams. Allocating \$350,000 now ensures that the City is prepared to finalize and implement a plan in coordination with the County in 2022-2023.

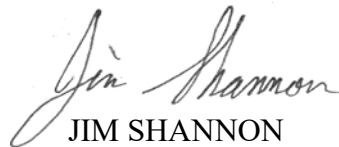
City Initiatives Roadmap: Outcomes, Equity Indicators, + Performance Management

(\$350,000, one-time) – This allocation sets aside funding of \$350,000 for the City Manager’s Office of Administration, Policy, and Intergovernmental Relations to provide temporary Senior Executive Analyst (SEA) and consultant support, as needed, to advance work on the “Outcomes, Equity Indicators, and Performance Management” initiative from the 2022-2023 City Initiatives Roadmap. This dedicated funding will allow focused resources to coordinate across all City departments and offices, including the City Manager’s Budget Office, City Manager’s Office of Racial Equity, and City Auditor’s Office, to define, refresh, and/or manage the outcomes, equity indicators, and performance measures within and across the City Initiatives Roadmap, City Service Areas, and Core Services over the next year.

Beautify San José Consolidated Model (\$0 in 2022-2023, \$1,350,000 starting in 2023-2024) –

This action makes permanent 11.0 positions in the Parks, Recreation, and Neighborhood Services Department effective July 30, 2023, that were originally approved on a limit-dated basis through June 30, 2023 as part of City Council action on November 30, 2021¹ to: 1) create a new team focused on blight and encampments near waterways and highways, with corresponding coordination with Caltrans, Union Pacific Railroad, Valley Water and other intergovernmental partners (1.0 Community Services Supervisor, 1.0 Analyst, 1.0 Community Coordinator, 2.0 Community Activity Worker, and 2.0 Maintenance Worker positions); and 2) create an illegal dumping strike team to proactively address high priority areas not being reported for illegal dumping and to lower response times for reported complaints (4.0 Maintenance Worker positions). The City Council action allocated resources to pay for these positions in the American Rescue Plan (ARP) Fund through June 30, 2023. The recommended action in this memorandum would make these positions permanent and fully fund the positions in the General Fund on an ongoing basis starting in 2023-2024. With this action, the full staffing complement of the Beautify San José program would be funded on an ongoing basis.

Essential Services Reserve (\$3.9 million in 2022-2023, \$1.9 million ongoing) – The remaining additional resources balance of \$3.9 million (\$1.9 million ongoing) is recommended to be allocated to the Essential Services Reserve to support other services that are of essential importance to residents. When added to the existing \$3.0 million allocated in the 2022-2023 Proposed Operating Budget, the total Essential Services Reserve increases to \$6.9 million, of which \$1.9 million is available for ongoing services.



JIM SHANNON
Budget Director

¹ City Council Meeting on November 20, 2021, Item 3.6:

<https://sanjose.legistar.com/View.ashx?M=F&ID=10109042&GUID=AAFF9429-139F-428E-8EE2-C4C99154C6C2>