
III. RECOMMENDED BUDGET ADJUSTMENTS AND CLEAN-UP ACTIONS

RECOMMENDED BUDGET ADJUSTMENTS

This section of the Mid-Year Budget Review describes recommended budget adjustments and is broken down by General Fund, Special Funds, and Capital Funds.

General Fund

Urgent Fiscal/Program Needs – These actions recommend additional funding to address urgent fiscal/program needs. These adjustments are being brought forward for City Council consideration as part of this report, rather than later through the annual budget process, because the Administration has deemed the need can or should not wait until later in the year.

Required Technical/Rebalancing Actions – These actions recommend adjustments to align already approved revenue estimates and expenditure budgets with the most current tracking information, or reallocate funding among appropriations based on updated needs. These actions also implement City Council direction.

Grants/Reimbursements/Fees – These actions, which have a net-zero impact, recognize new or adjusted grant, reimbursement, or fee activity revenue and adjust the appropriations for these purposes, as appropriate.

Special Funds

Special Fund Adjustments – These actions adjust revenue estimates based on current year collection information; recognize and appropriate revenues from new or adjusted grants, reimbursements, and fees; reallocate project funding from reserves; and/or establish a limited number of new projects and programs.

Capital Funds

Capital Fund Adjustments – These actions reflect changes in project and program allocations based on revised cost estimates and project timing; reallocate project funding from reserves; recognize and appropriate revenues from new or adjusted grants, reimbursements, and fees; and/or establish a limited number of new projects.

**III. RECOMMENDED BUDGET ADJUSTMENTS AND
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RECOMMENDED CLEAN-UP ACTIONS

General Fund & Special/Capital Funds

This section consists of clean-up actions for the General Fund & Special/Capital Funds. The following types of adjustments are included:

Fund Balance Reconciliations – Beginning Fund Balances in each budgeted fund are adjusted each year as part of the Annual Report process based on unaudited Annual Comprehensive Financial Report (ACFR) statements. For some funds, however, additional actions are included in the Mid-Year Budget Review to further revise Beginning Fund Balances based on a reconciliation to the final audited 2021-2022 ACFR.

Salary and Benefits Program – Several actions are recommended to increase various department Personal Services appropriations to fund the negotiated general wage increase for the Police Officers’ Association and International Association of Firefighters; for Management Pay for Performance Program implementation; and for health benefit increases. Adjustments were included for those departments that are not able to absorb these additional costs (\$15.0 million all funds; \$14.3 million General Fund). In addition, a Side Letter Agreement with the International Union of Operating Engineers, Local No. 3 was approved by the City and bargaining unit on May 17, 2022 to amend the City of San Jose Pay Plan to increase the annual salary range for the Maintenance Worker series which resulted in additional costs of \$826,000 all funds, \$41,000 General Fund in the departments that are not able to absorb these costs. Lastly, a Side Letter Agreement with the Municipal Employees’ Federation, AFSCME, Local 101 was approved by the City and bargaining unit on June 7, 2022 to amend the City of San Jose Pay Plan to increase the annual salary range for the Animal Care Attendant and Animal Health Technician classifications which resulted in additional costs of \$333,000 in the General Fund. The negotiated agreements were reached after the adoption of the budget. To offset these augmentations, this report includes recommendations to partially decrease the Salaries and Benefits Reserve allocation in the General Fund, and to reduce the Ending Fund Balances in the Special Funds as appropriate.

Transfer to the General Fund – Interest Earnings – These actions increase the Transfer to the General Fund – Interest Earnings allocations to reflect the increase of interest earned in 2022-2023 on cash balances across multiple City funds, which is required to properly allocate interest proceeds from higher than anticipated estimated earned income yield trends. As indicated in the Finance Department 2022-2023 First Quarter Investment Report (ending September 30, 2022), the earned interest yield for the City’s total investment portfolio for the first quarter ended as 1.619%, which was 0.508% higher than the previous quarter and 0.701% higher than a year ago. The 2022-2023 Adopted Budget estimated interest earning levels were set lower than what is currently being reflected in the Finance Department 2022-2023 First Quarter Public Safety Investment Report. As part of this report, actions are recommended to increase the General Fund from the impacted Special and Capital Funds to realign estimated interest earnings to current levels.

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General Fund & Special/Capital Funds

Transfer to the General Fund (TRANs Debt Service) – These actions reflect transfers from various Special and Capital Funds to the General Fund to fund the higher than anticipated interest costs related to the issuance of Tax Revenue Anticipation Notes (TRANs). Due to a rapidly evolving interest rate environment, the estimated interest costs associated with the TRANs issuance increased to \$7.5 million, up from the \$5.2 million anticipated in June 2022 and the early estimate set in February 2022 of \$1.5 million that was included in the 2022- 2023 General Fund Base Budget. When the City Council authorized the TRANs in June 2022, the Administration noted that any increased debt service interest cost would be spread to various Special and Capital Funds in proportion to each fund's share of retirement costs included in the 2022-2023 Adopted Budget. Consistent with this approach, the additional debt service interest cost of \$6.0 million is partially offset by transfers from Special and Capital Funds. The remaining \$4.5 million of additional debt service interest cost attributable to the General Fund is offset by the additional \$4.5 million of interest earnings described in this report.

Salary and Benefits to Overtime Reallocations – These actions reallocate savings in the salary and benefit line item in the Police Department (\$15.0 million) and Planning, Building and Code Enforcement Department's Building Development Fee Program (\$700,000), due primarily to vacancies, to the overtime line item in the Personal Services appropriation.

Rebudgets – These actions revise revenue and expenditure rebudgets of prior year funding based on 2021-2022 final year-end accounting adjustments.

Technical Adjustments –A variety of net-zero adjustments are recommended to reallocate funds to consolidate the appropriations for the Office of the Mayor, Council Districts #1, #3, #5, and #7 with the conclusion of the recent elections (\$5.0 million) and reallocate funding between respective Measure E reserves to align allocations with policy changes determined as retroactive for the 2021-2022 fiscal year. Additional net-zero adjustments correct errors or re-align revenues and/or expenditures among appropriations for previously approved budget actions.