

## General Fund Balancing Strategy Detail

### 2023-2024 Proposed Operating Budget

#### INTRODUCTION

This attachment is intended to provide a more detailed summary of the key actions taken to balance the 2023-2024 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 2023, the Administration prepared formal projections for the 2023-2024 Proposed General Fund Budget as part of the *2023-2024 City Manager's Budget Request & 2024-2028 Five-Year Forecast and Revenue Projections* document that was released to the City Council. In that document, the 2023-2024 February Base Budget Forecast projections estimated a 2023-2024 General Fund surplus of approximately \$29.9 million. This surplus represented the difference between projected 2023-2024 General Fund resources and the expected cost of approved 2023-2024 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 2023-2024 Capital Improvement Program or for projects approved by the City Council during 2022-2023).

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 an increase of \$5.3 million to the estimated General Fund surplus, for a revised surplus of \$35.3 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 \$103.5 million) from the Revised Base Budget Forecast, bringing the overall General Fund into balance for 2023-2024. The increase in sources of \$68.2 million included several major components, including: excess revenue and expenditure savings from 2022-2023 that will be available for use in 2023-2024 (\$35.0 million); and liquidation of various earmarked reserves for specific purposes (\$23.5 million). The increase in uses of \$103.5 million in 2023-2024 included additional funding for the following: service level enhancements (\$53.5 million); continuation of 2022-2023 one-time funded services (\$37.5 million); earmarked reserves (\$22.9 million); critical unmet/deferred infrastructure and maintenance needs (\$22.7 million); new facilities operations and maintenance (\$6.2 million); other fee programs, grants, and reimbursements (\$5.3 million); and cost reductions, service delivery efficiencies and fund shifts (-\$1.6 million).

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These increases were partially offset by savings realized from cost reductions, service delivery efficiencies, and funding shifts (\$1.6 million) and the use of reserves that had been established for specific purposes (\$43.0 million) that were included in the February Forecast. The result of these actions was a balanced 2023-2024 Proposed General Fund Budget of \$1.6 billion.

Table I below displays the overall projections for the 2023-2024 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**  
**2023-2024 PROPOSED OPERATING BUDGET**  
**Forecast to Proposed Budget Reconciliation (in \$000s)**

	Total Sources	Total Uses	(Shortfall)/ Surplus
<b>February Base Budget Forecast</b>	<b>\$ 1,517,482</b>	<b>\$ 1,487,557</b>	<b>\$29,925</b>
Forecast Revisions	(1,891)	(7,229)	5,338
<b>Revised Base Budget Forecast (no fee impact)</b>	<b>1,515,591</b>	<b>1,480,328</b>	<b>35,263</b>
<b>Proposed Revisions</b>	<b>68,206</b>	<b>103,469</b>	<b>(35,263)</b>
<b>2023-2024 Proposed Budget</b>	<b>1,583,797</b>	<b>1,583,797</b>	<b>0</b>

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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 an increase of \$5.3 million to the estimated General Fund surplus, for a revised surplus of \$35.3 million. Changes are detailed in Table II below.

**Table II**  
**2023-2024 REVISED BASE BUDGET FORECAST**  
**Summary of Changes (in \$000s)**

Sources	Revision
Property Tax	\$ 1,700
Beginning Fund Balance	352
Licenses and Permits	136
Revenue from Local Agencies	25
Other Revenue	(2)
Fines, Forfeitures, and Penalties	(50)
Fees, Rates, and Charges	(178)
Revenue from State of California	(900)
Transfers and Reimbursements	(2,974)
<b>Net Change in Sources</b>	<b>\$ (1,891)</b>

  

Uses	Revision
Position and Fund Realignment/Corrections	\$ (8,037)
Non-Personal/Equipment, City-Wide Expenses and Capital Contributions	(241)
Earmarked Reserves Adjustments	1,049
<b>Net Change in Uses</b>	<b>\$ (7,229)</b>

  

<b>Total Change (Shortfall)/Surplus</b>	<b>\$ 5,338</b>
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### 2023-2024 Proposed 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 2023-2024 Budget.

Category	\$ Change	Description
Property Tax	\$ 1,700,000	Increase of \$1.7 million reflects updated information received in April 2022 from the County of Santa Clara regarding Successor Agency to the Redevelopment Agency Property Tax revenue.
Beginning Fund Balance	\$ 351,447	Increase of \$351,447 to reflect the liquidation of three reserves; Vehicle Abatement Program Enhancements Reserve (\$177,000) and East San Jose Small Business Corridor Staffing Reserve (\$174,447). These reserves are being liquidated as the staffing associated with the programs were added in the respective departments 2023-2024 Base Budget.
Licenses and Permits	136,408	Net increase of \$136,408 aligns revenues with estimated base costs and activity levels for Planning, Building and Code Enforcement Department, Police Department, Public Works Department, and Transportation Department permits.
Revenue from Local Agencies	25,000	Increase of \$25,000 reflects an updated estimate for payments from other agencies for Animal Care services.
Other Revenue	(1,720)	Net decrease of \$1,720 aligns revenues with the estimated base costs and activity levels for Transportation Department revenues.
Fines, Forfeitures, and Penalties	(50,000)	Decrease of \$50,000 aligns revenues with estimated base costs and activity levels for Public Works Department fines.
Fees, Rates, and Charges	(177,821)	Net decrease of \$177,821 aligns revenues with estimated base costs and activity levels for Miscellaneous fees (-\$179,611), and Transportation Department fees (\$1,790).
Revenue from the State of California	(900,000)	Net decrease of \$900,000 reflects updated information from the State of California regarding Tobacco Settlement funds (-\$1.1 million) and Vehicle License Fee revenue (\$200,000).
Transfers and Reimbursements	(2,974,020)	Net decrease of \$3.0 million reflects updated overhead reimbursements from capital and operating funds based on the final 2023-2024 Base Budget and overhead rates (-\$2.8 million) and lower transfers and reimbursements to the General Fund (-\$191,837).
<b>Total</b>	<b>(\$ 1,890,706)</b>	

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### 2023-2024 Proposed 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 2023-2024 Budget.

Category	\$ Change	Department
<b>Personal Services Adjustments</b>		
Salaries and Benefits Adjustments (Vacancy Factor)	\$(7,662,690)	Citywide
Aiport Support Services (Overtime)	423,053	Police
City Manager's Office Position Change	27,417	City Manager
Human Resources Position Change	4,527	Human Resources
Fund Shift: Planning, Building, and Code Enforcement	(52,598)	Planning, Building, and Code Enforcement
Fund Shift: Fire Department	(27,908)	Fire
<b>Non-Personal/Equipment Adjustments</b>		
Traffic Signal Knockdown Repair	50,000	Transportation
Aiport Support Services	39,914	Police
Vehicle Operations & Maintenance	(331,212)	Citywide
<b>Earmarked Reserves</b>		
Vehicle Abatement Enhancement Program Reserve	300,000	Transportation
<b>Total</b>	<b>\$ (7,229,497)</b>	

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#### PROPOSED BUDGET BALANCING STRATEGY

Table III  
2023-2024 PROPOSED OPERATING BUDGET  
General Fund Balancing Strategy (in \$000s)

	2023-2024	Ongoing
<b>2023-2024 Revised General Fund Surplus</b>	<b>\$ 35,263</b>	<b>\$ 35,263</b>
<b>Balancing Strategy</b>		
<b>Source of Funds</b>		
Beginning Fund Balance:		
2022-2023 Excess Revenue/Expenditure Savings	\$ 35,000	\$ 0
Uncommitted Measure E Reserves	17,478	0
Fire Station FF&E Reserve	3,800	0
2023-2024 Recruitment Centralization Pilot Program Reserve	1,125	0
Solid Waste Code Enforcement Reserve	600	0
Climate and Seismic Resilience Planning Reserve	463	0
Grants/Reimbursements/Fees:		
CaliforniansForAll Youth Workforce Development Grant	2,899	0
280 Almaden Avenue Beautification Grant	1,850	0
Commercial Solid Waste CPI Adjustment	1,017	1,017
Other Fee Programs/Reimbursements/Grants	2,567	1,821
Overhead Reimbursements	1,407	1,678
<b>Subtotal Source of Funds</b>	<b>\$ 68,206</b>	<b>\$ 4,516</b>
<b>Use of Funds</b>		
Service Level Enhancements	\$ 53,464	\$ 10,387
2022-2023 Previously One-Time Funded Services	37,517	13,979
Earmarked Reserves (Measure E Revenue Stabilization, Information Technology Sinking Fund, Essential Services, Animal Care and Services Foundation)	22,877	200
Unmet/Deferred Technology, Infrastructure, and Maintenance	22,692	488
New Facilities Operations and Maintenance	6,153	768
Other Fee Programs/Grants/Reimbursements	5,339	90
2024-2025 Future Deficit Reserve	0	18,846
Cost Reductions/Service Delivery Efficiencies/Fund Shifts	(1,608)	(1,889)
Use of Reserves (Measure E, Committed Additions, Cultural Facilities, Deferred Infrastructure and Maintenance, Police Staffing, Police Equipment Sinking Fund)	(42,965)	(3,090)
<b>Subtotal Use of Funds</b>	<b>\$ 103,469</b>	<b>\$ 39,779</b>
<b>Total Balancing Strategy</b>	<b>\$ (35,263)</b>	<b>\$ (35,263)</b>
<b>Remaining Balance</b>	<b>\$ 0</b>	<b>\$ 0</b>

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### 2023-2024 Proposed 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 2023-2024, 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 Forecast of \$1.52 billion, a net increase of \$68.2 million to the General Fund revenue estimates are included in the Proposed Budget, bringing the 2023-2024 revenue estimate to \$1.58 billion (including fund balance and encumbrance reserve). The components of this change include an increase to the estimate for 2022-2023 Ending Fund Balance/2023-2024 Beginning Fund Balance (\$58.5 million) and an increase to various revenue categories (\$9.7 million). The revenue changes are summarized in the table below.

Category	\$ Change	Description
Beginning Fund Balance	\$ 58,465,956	Net increase of \$58.5 million reflects: the liquidation of various reserves (\$23.5 million), which includes various Measure E Reserves (\$17.5 million), Fire Station FF&E Reserve (\$3.8 million), 2023-2024 Recruitment Centralization Pilot Program Reserve (\$1.1 million), Solid Waste Code Enforcement Reserve (\$600,000), and Climate and Seismic Resilience Planning Reserve (\$463,000); and fund balance from additional revenue and expenditure savings that is anticipated to be received in 2022-2023 and be available for use in 2023-2024 (\$35.0 million).
Revenue from the State of California	4,911,658	Increase of \$4.9 million reflects three new State grants; the CaliforniansForAll Youth Workforce Development Program (\$2.9 million), 280 Almaden Avenue Beautification Improvement Project (\$1.85 million), and Regional Early Action Planning (REAP) Program (\$163,154).
Transfers and Reimbursements	1,406,609	Net increase of \$1.4 million reflects additional overhead from the budget actions that change the staffing levels funded by special and capital funds.
Licenses and Permits	1,558,653	Net increase of \$1.6 million reflects various license and permit changes to align revenues with estimated activity levels, reflect fee revisions, and maintain cost recovery levels for the Planning, Building, and Code Enforcement Department (\$943,364), Fire Department (\$610,000), Police Department (\$5,269), and Finance Department (\$20).

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#### PROPOSED BUDGET BALANCING STRATEGY

##### Source of Funds

Category	\$	Change	Description
Franchise Fees	\$	1,016,615	Increase of \$1.0 million reflects an increase in the Commercial Solid Waste fees by 7.8% based on cost changes including a Consumer Price Index adjustment.
Revenue from Federal Government		403,000	Increase of \$403,000 reflects a grant from the Urban Areas Security Initiative (UASI) for the Office of Emergency Management.
Fees, Rates, and Charges		231,773	Net increase of \$231,773 reflects various fee changes to align revenues with estimated activity levels, reflect fee revisions, and maintain cost recovery levels for Miscellaneous fee revenue (\$236,834), Parks, Recreation and Neighborhood Services department fee revenue (\$101,901), Police Department fee revenue (\$168), and Transportation Department fee revenue (-\$107,130).
Other Revenue		211,623	Net increase of \$180,000 reflects a grant from Destination Home Silicon Valley (\$180,000) and reflects various fee changes to align revenues with estimated activity levels, reflect fee revisions, and maintain cost recovery levels for the Transportation Department (\$31,623).
<b>Total</b>		<b>\$ 68,205,887</b>	

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### 2023-2024 Proposed Operating Budget

#### PROPOSED BUDGET BALANCING STRATEGY

##### Use of Funds

From the Revised Base Budget Forecast of \$1.48 billion, a net increase of \$103.5 million to the General Fund expenditures was brought forward, bringing the 2023-2024 Proposed Budget Use of Funds estimate to \$1.58 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.

<u>Category</u>	<u>\$ Change</u>	<u>Description</u>
Service Level Enhancements	53,463,859	Total funding of \$53.5 million is included in the Proposed Budget for service level enhancements. The largest investments in this category include: Measure E - Emergency Interim Housing Construction and Operations (\$18.9 million); Measure E - Homeless Response and Outreach (\$7.0 million); Measure E - 10% Homeless Prevention and Rental Assistance Reserve (\$4.8 million); Executive Leadership/City Management - Customer Service Vision and Standards (\$4.0 million); Measure E - SJ Bridge (\$3.5 million); Measure E - Interim Housing Site Development Staffing (\$2.0 million); Office of Administration, Policy, and Intergovernmental Relations - Measure E - Homelessness Coordination Team (\$1.9 million); Fire Battalion Staffing (\$1.2 million); Field Patrol Staffing (\$1.1 million); and Community Service Officer Downtown Ambassador Staffing (\$907,233). Other service level enhancements are described in the Department and City-Wide sections of this document.
2022-2023 Previously One-Time Funded Services	\$37,516,861	Funding is included to continue services that were funded on a one-time basis in the 2022-2023 Adopted Budget, including programs funded by the American Rescue Plan Act in accordance with the Community and Economic Recovery spending plan. The largest investments in this category include the: Beautify San José (\$12.3 million); Police Sworn Backfill Reserve (\$5.0 million); Data Equity Program (\$1.8 million); Firefighter/Paramedic Lateral Recruiting Academy (\$1.6 million); Sworn and Non-Sworn Recruiting and Backgrounding (\$1.3 million); Disaster Recovery and Grants Management Staffing (\$1.3 million); and Recruitment Centralization Pilot Program (\$1.0 million). Other previously one-time funded services are described in the Department and City-Wide sections of this document.

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##### Use of Funds

Category	\$ Change	Description
Earmarked Reserves	22,876,668	One-time Earmarked Reserves, totaling \$22.9 million, including the following: Measure E Revenue Stabilization Reserve (\$15.1 million); Information Technology Sinking Fund Reserve (\$4.5 million); Essential Services Reserve (\$3.0 million); 2024-2025 City-wide Business Development Staffing Reserve (\$173,712); and, Animal Care and Services Foundation Reserve (\$100,000). In addition, 2023-2024 Proposed Budget planning provides for the allocation of \$18.8 million of ongoing funding in 2024-2025 for the 2024-2025 Future Deficit Reserve.
Unmet/Deferred Technology, Infrastructure, and Maintenance	22,692,063	To address a portion of the backlog for unmet and deferred technology, infrastructure and maintenance needs, funding of \$22.7 million is included in the 2023-2024 Proposed Budget for the City's most urgent repairs needs, including, among others, the: Center for Performing Arts Chiller, Cooling Tower, and Boilers Replacement (\$7.6 million); Transfer to the Vehicle Maintenance and Operations Fund (\$4.0 million); San José Museum of Art Cooling Tower Replacement (\$2.85 million); Windows 11 Upgrade, Equipment, and Resources (\$2.8 million); The Tech Interactive Chiller and Cooling Tower Replacement (\$1.2 million); Police Records Management System Virtual Machine Server Replacement (\$650,000); Animal Care and Services - Various Improvements (\$500,000); and Fleet Shop Improvements (\$500,000). These and additional investments are described in more detail in the respective department sections of this document.
New Facilities Operations and Maintenance	6,152,695	The Proposed Budget includes \$3.7 million for furniture, fixtures, and equipment for the 911 Call Center, \$1.8 million for furniture, fixtures, and equipment for Fire Station 32, \$460,695 to operate and maintain new Measure T facilities, \$169,000 to maintain new transportation infrastructure, and \$58,000 to operate and maintain new parks and recreation facilities.

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##### Use of Funds

Category	\$ Change	Description
Other Fee Programs, Grants, and Reimbursements	\$5,339,321	The actions in this category are partially offset by revenue from fees, grants, or reimbursements and include: CaliforniansForAll Youth Workforce Program - Climate Change Pathway (\$2.9 million); 280 Almaden Ave Beautification Improvement Project (\$1.85 million); Destination: Home Silicon Valley Staffing (\$180,000); Regional Early Action Planning Grant (\$163,154); and, Northern California Regional Intelligence Center (\$158,195).
Cost Reductions/Service Delivery Efficiencies/Fund Shifts from Other Funds	\$(1,607,414)	Net decrease of \$1.6 million primarily resulting from efficiencies and other cost saving measures, including the: realignment of Emergency Medical Services Field Coordinator staffing (-\$1.2 million); the addition of 1.0 Account Clerk and deletion of 1.98 part-time Recreation Leader positions in the Parks, Recreation, and Neighborhood Services Department to provide support for its Accounts Payable team (-\$155,000); and lower costs for the City's Mobile Device Management (MDM) platform managed by the Information Technology Department, achieved through renegotiation (-\$76,000). These and additional cost reductions are described in more detail in the respective department sections of this document.
Use of Reserves	(42,965,000)	The Proposed Budget includes the use of the Measure E – 40% Extremely Low-Income Households Reserve (-\$19.0 million); Measure E – 30% Low-Income Households Reserve (-\$14.3 million); Police Staffing Reserve (-\$2.4 million); Measure E – 5% Moderate-Income Households Reserve (-\$2.4 million); Deferred Infrastructure and Maintenance Reserve (-\$2.0 million); Cultural Facilities Capital Maintenance Reserve (-\$1.25 million); Police Equipment Sinking Fund Reserve (-\$1.0 million); and reserves to cover additional costs to operate and maintain new facilities that are scheduled to become operational in 2023-2024 (-\$690,000).
<b>Total</b>	<b>\$ 103,469,053</b>	

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