



2019-2020

OPERATING BUDGET

**ATTACHMENT A -
GENERAL FUND
BALANCING
STRATEGY DETAIL**

General Fund Balancing Strategy Detail

2019-2020 Proposed Operating Budget

INTRODUCTION

This attachment is intended to provide a more detailed summary of the key actions taken to balance the 2019-2020 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 2019, the Administration prepared formal projections for the 2019-2020 Proposed General Fund Budget as part of the *2019-2020 City Manager's Budget Request & 2020-2024 Five-Year Forecast and Revenue Projections* document that was released to the City Council. In that document, the 2019-2020 February Base Budget Forecast projections estimated a 2019-2020 General Fund surplus of approximately \$3.5 million (no Development Fee Program impact was assumed given that the four fee programs are designed to be set at 100% cost-recovery levels and will use their corresponding Reserves as necessary to remain in balance). This surplus represented the difference between projected 2019-2020 General Fund resources and the expected cost of approved 2019-2020 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 2019-2023 Capital Improvement Program or for projects approved by the City Council during 2018-2019).

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 \$1.6 million to the estimated General Fund surplus, for a revised surplus of \$5.1 million. These adjustments to the February Base Budget Forecast are described in more detail later in this section.

The Proposed Budget contains a set of recommended actions that increase both the General Fund sources (by \$105.1 million), and uses (by \$110.2 million) from the Revised Base Budget Forecast, bringing the overall General Fund into balance for 2019-2020. The increase in sources of \$105.1 million includes several major components, including: liquidation of various earmarked reserves for specific purposes (\$55.0 million); a higher Beginning Fund Balance (\$23.8 million); SERAF loan repayment (\$10.2 million); increases to the development fee program and other fees, licenses and permits (\$5.2 million); increased Property Tax revenue (\$4.0 million); increases to transfers, overhead and reimbursement costs (\$3.6 million); and other revenue changes (\$3.3 million).

The increase in uses of \$110.2 million in 2019-2020 includes additional funding for the following: service level enhancements (\$26.2 million); funding for the 2019-2020 Future Deficit Reserve (\$10.9 million); earmarked reserves (\$26.1 million); critical unmet/deferred infrastructure and maintenance needs (\$25.0 million); continuation of 2018-2019 one-time funded services (\$11.6 million); development fee program as well as other fees, grants, and reimbursements (\$6.9 million); transfers

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INTRODUCTION

to other funds to primarily pay down debt service (\$5.1 million); and other positive changes (\$298,000).

These increases were partially offset by savings realized from the use of reserves that had been established for specific purposes (\$1.8 million) that were included in the February Forecast. The result of these actions was a balanced 2019-2020 Proposed General Fund Budget of \$1.3 billion.

Table I below displays the overall projections for the 2020-2024 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. The specific elements of the City Manager's Proposed Budget balancing strategy are summarized in Table III.

Table I
2019-2020 PROPOSED OPERATING BUDGET
Forecast To Proposed Budget Reconciliation (in \$000s)

	Total Sources	Total Uses	(Shortfall)/ Surplus
February Base Budget Forecast	\$ 1,246,205	\$ 1,242,751	\$3,454
Forecast Revisions	1,124	(528)	1,652
Revised Base Budget Forecast (no fee impact)	1,247,329	1,242,223	5,106
Proposed Revisions	105,129	110,235	(5,106)
2019-2020 Proposed Budget	1,352,458	1,352,458	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. This Revised Base Budget Forecast resulted in a revised surplus estimate of \$5.1 million, an increase of \$1.6 million from the \$3.5 million surplus in the February Base Budget Forecast. Changes are detailed in Table II below.

Table II
2019-2020 REVISED BASE BUDGET FORECAST
Summary of Changes (in \$000s)

Sources	Revision
Property Tax	\$ 2,000
Revenue from the State	800
Fines, Forfeitures and Penalties	600
Fees, Rates, and Charges	148
Utility Tax	75
Other Revenue	1
Franchise Fees	(1,200)
Transfers and Reimbursements	(667)
Licenses and Permits	(396)
Beginning Fund Balance	(237)
Net Change in Sources	\$ 1,124

Uses	Revision
Transfers to Other Funds	\$ 196
Earmarked Reserves	(786)
Position and Fund Realignments/Corrections	174
Non-Personal/Equipment and City-Wide Expenses	(112)
Net Change in Uses	\$ (528)

Total Change (Shortfall)/Surplus	\$ 1,652
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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 2019-2020 Budget.

Category	\$ Change	Description
Property Tax	\$ 2,000,000	Net increase of \$2.0 million reflects updated information provided by Santa Clara County in March 2019. As a result, the Excess Education Revenue Augmentation Fund (ERAF) estimate increased by \$2.0 million (from \$13.8 million to \$15.8 million).
Revenue from the State	800,000	Net increase of \$800,000 reflects updated information from the State of California regarding Tobacco Settlement funds (increase of \$1.2 million; from \$9.4 million to \$10.6 million) and Abandoned Vehicle revenue (decrease of \$400,000; from \$800,000 to \$400,000).
Fines, Forfeitures and Penalties	600,000	Increase of \$600,000 to parking citation revenue (from \$11.1 million to \$11.7 million) reflects higher 2018-2019 collections that are anticipated to continue in 2019-2020.
Fees, Rates, and Charges	148,605	Net increase of \$148,605 aligns revenues with estimated base activity levels in departmental fee revenues.
Utility Tax	75,000	Increase of \$75,000 to Telephone Utility Tax revenue (from \$13.4 million to \$13.5 million) reflects higher 2018-2019 collections that are anticipated to continue in 2019-2020.
Other Revenue	1,411	Net increase of \$1,411 reflects higher 2018-2019 collection trends that are anticipated to continue in 2019-2020.
Franchise Fees	(1,200,000)	Decrease of \$1.2 million reflects updated information received in April 2019, which reduces the 2019-2020 estimates for Electric Franchise Fees by \$900,000 (from \$23.3 million to \$22.4 million) and Gas Franchise Fees by \$300,000 (from \$5.3 million to \$5.0 million).
Transfers and Reimbursements	(667,278)	Net decrease of \$667,278 reflects updated overhead reimbursements from capital and operating funds based on the final 2019-2020 base budget and overhead rates (-\$805,639), partially offset by increased transfers and reimbursements to the General Fund (\$138,361).

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REVISED BASE BUDGET FORECAST

Source of Funds

Category	\$ Change	Description
Licenses and Permits	(395,990)	Net decrease of \$395,990 to Licenses and Permit aligns revenues with estimated base costs and activity levels for the Cannabis Regulation Program, multiple housing permits, animal care licensing, and various Police permits.
Beginning Fund Balance	(237,186)	Net decrease of \$237,186 reflects a net lower carryover amount of the Development Fee Program Reserves, which is necessary to bridge the gap between 2019-2020 base revenues and expenditures.
Total	\$ 1,124,562	

Use of Funds

A summary table is provided below for the expenditure changes incorporated into the Revised Base Budget Forecast, which were used as the starting point in preparing the 2019-2020 Budget.

Category	\$ Change	Description
Transfers to Other Funds	\$ 196,343	Net increase of \$196,343 to Transfer to Other Funds to align amounts with the revised contribution from the General Fund to the City Hall Debt Service Fund (increase of \$212,582) and the Downtown Property and Business Improvement District Fund (decrease of \$16,239).
Earmarked Reserves	(786,000)	Net decrease of \$786,000 to reflect a reduction of \$886,000 to the Salaries and Benefits Reserve primarily to account for the lower amount of funding necessary to transition to the blended retirement rate, implemented as part of the 2019-2020 Budget, for the Mayor/City Council budgets as well as an increase of \$100,000 to the Cultural Facilities Capital Maintenance Reserve.
Position and Fund Realignments/Corrections	174,356	Net increase of \$174,356 to reflect position and funding realignments to better align with work currently performed and various other funding corrections/adjustments based on updated information.

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REVISED BASE BUDGET FORECAST

Use of Funds

<u>Category</u>	<u>\$ Change</u>	<u>Description</u>
Non-Personal/Equipment and City-Wide Expenses	(112,565)	Net decrease of \$112,565 reflects non-personal/equipment and City-Wide Expenses adjustments: decreases to the non-personal/equipment funding to Information Technology Department to account for lower licensing and maintenance contracts (\$260,000); Parks, Recreation and Neighborhood Services (PRNS) Department for vehicle maintenance and operations (\$4,000); Transportation Department for signal operations and maintenance (\$3,700); Human Resources Department for deferred compensation costs (\$1,171); and decreases in City-Wide Expenses for Energy Services Company debt service (\$80,568) and City-Wide Contractual Street Tree Planting (\$19,960). These decreases are partially offset by increases to the following: increases non-personal/equipment funding to the Human Resources Department for the Workers' Compensation Third Party Administrator contract (\$100,000); PRNS Department for video storage at Happy Hollow Park and Zoo (\$60,000); Transportation Department for tow signs, tree pruning contractual services, and shared micro-mobility program (\$37,500); Planning, Building and Code Enforcement Department for development services imaging and data processing contractual services (\$25,190); Human Resources Department for an audit contract (\$526); and increases in City-Wide Expenses for the Property Leases (\$33,168) and Arena Authority (\$450).
Total	\$ (527,866)	

As displayed in Table III on the following page, the 2019-2020 Proposed General Fund Budget Balancing Plan includes actions to allocate the \$5.1 million surplus in 2019-2020. This table shows the matrix of balancing strategies and the dollars associated with each action.

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PROPOSED BUDGET BALANCING STRATEGY

Table III
2019-2020 PROPOSED OPERATING BUDGET
General Fund Balancing Strategy (in \$000s)

	2019-2020	Ongoing
2019-2020 General Fund Surplus	\$ 5,106	\$ 5,106
Balancing Strategy		
Source of Funds		
Beginning Fund Balance:		
2019-2020 Proposed Budget Planning Reserve	\$ 34,522	\$ 0
2018-2019 Excess Revenue/Expenditure Savings	16,000	0
2019-2020 Future Deficit Reserve	15,500	0
Hayes Mansion Property Sale	7,865	0
Development Fee Program Reserves	3,471	201
City Health Plan Restructuring Reserve	970	0
Other Revenue/Expenditure Savings/Rebudgets/Reserve Liquidations	495	0
Grants/Reimbursements/Fees		
Development Fee Programs	3,641	3,680
Paramedic Program	1,170	1,170
UASI Grant – Office of Emergency Management	576	0
Other Fee Programs/Reimbursements/Grants	3,106	2,609
Other Revenue		
SERAF Loan Repayment	10,200	0
Property Tax	4,000	0
Other Revenues	408	121
Overhead Reimbursements/Transfers from Other Funds	3,205	2,544
Subtotal Source of Funds	\$ 105,129	\$ 10,325
Use of Funds		
Service Level Enhancements	\$ 26,149	\$ 5,383
Earmarked Reserves (e.g. Budget Stabilization, Essential Services, etc.)	26,064	1,412
Unmet/Deferred Technology, Infrastructure, and Maintenance	25,041	813
2018-2019 One-Time Funded Services	11,570	862
2020-2021 Future Deficit Reserve	10,894	4,751
Development Fee Programs	6,164	2,287
Cost Reductions/Service Delivery Efficiencies/Fund Shifts	5,092	(870)
Other Fee Programs/Grants/Reimbursements	739	781
New Infrastructure/Equipment Operations and Maintenance	298	98
Use of Reserves (e.g. Deferred Maint., Cultural Facilities, Committed Add.)	(1,776)	(86)
Subtotal Use of Funds	\$ 110,235	\$ 15,431
Total Balancing Strategy	\$ 5,106	\$ 5,106
Remaining Balance	\$ 0	\$ 0

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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 2019-2020, 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 \$1.25 billion, a net increase of \$105.1 million to the General Fund revenue estimates are recommended, bringing the 2019-2020 Proposed Budget estimate to \$1.35 billion. The components of this change includes an increase to the estimate for 2018-2019 Ending Fund Balance/2019-2020 Beginning Fund Balance (\$78.8 million) and increases to various revenue categories (\$26.2 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
Beginning Fund Balance	\$78,823,411	Net increase of \$78.8 million reflects: the liquidation of various reserves (\$55.0 million); fund balance from additional revenue and expenditure savings that is anticipated to be received in 2018-2019 and be available for use in 2019-2020 (\$16.0 million); and net sale proceeds realized from the sale of the Hayes Mansion (\$7.86 million).
Other Revenue	10,591,130	Increase of \$10.6 million primarily reflects the repayment of outstanding Supplemental Education Revenue Augmentation Fund (SERAF) loans that is anticipated to occur in 2019-2020 (\$10.2 million). Additional revenue anticipated as a result of recommendations that increase Unclaimed Property Escheatment (\$175,000), Debt Program Cost Reimbursements (\$160,000), VivaCalleSJ (\$30,000), Diridon Station Development and Planning (\$20,000), and Transportation Department and Finance Department fee revenue (\$6,130).
Property Tax	4,000,000	Increase of \$4.0 million reflects higher Excess Education Revenue Augmentation Fund (ERAF) funds anticipated to be received in 2019-2020. The 2019-2020 ERAF estimate included in the Forecast totaled \$15.8 million. However, updated information was provided by Santa Clara County in March 2019, which included a preliminary 2019-2020 ERAF estimate of \$19.8 million.

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PROPOSED BUDGET BALANCING STRATEGY

Source of Funds

Category	\$ Change	Description
Transfers and Reimbursements	\$ 3,612,273	Net increase of \$3.6 million reflects the increase in overhead from the recommended budget actions that change the staffing levels funded by special and capital funds (\$3.2 million), a transfer from the General Purpose Parking Fund (\$450,000), and a reimbursement from the Voluntary Employee Beneficiary Association (VEBA) Fund (\$117,622), partially offset by a reduced transfer from the Integrated Waste Management Fund (\$160,000).
Fees, Rates, and Charges	3,174,954	Net increase of \$3.2 million reflects various fee changes recommended in the 2019-2020 Proposed Budget, including: an increase in the City-Wide Planning Fee (\$1.4 million) to implement the planned increase and an increase to Planning Fees (\$316,000) to bring ongoing revenues and expenditures into closer alignment with less reliance on the Development Fee Program Reserves; increased activity for small cell utility permits (\$422,218); and other Department Charges category changes that are recommended to align revenues with estimated activity levels, reflect fee revisions, and maintain cost recovery levels (\$1.1 million), the largest of which is reflected in Parks, Recreation, and Neighborhood Services (\$665,521).
Licenses and Permits	1,983,125	Net increase of \$2.0 million reflects various license and permit changes recommended in the 2019-2020 Proposed Budget, including: an increase in Building Permits (\$1.3 million) and Fire Permits (\$310,021) to bring ongoing revenues and expenditures into closer alignment with less reliance on the Development Fee Program Reserves; and other licenses and permits changes that are recommended to align revenues with estimated activity levels, reflect fee revisions, and maintain cost recovery levels (\$373,104).
Revenue from Local Agencies	1,381,500	Increase of \$1.4 million reflects receipts anticipated from Santa Clara County for paramedic services (Annex B, Category B (\$1.2 million) and funding to support Viva CalleSJ and ¡Viva Parks! placemaking events (\$211,500).

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PROPOSED BUDGET BALANCING STRATEGY

Source of Funds

Category	\$ Change	Description
Fines, Forfeitures and Penalties	\$ 700,000	Increase of \$700,000 to reflect the service delivery change for Police false alarms (\$500,000) and increased Other Penalties (\$200,000) related to a recommendation to pursue the City's backlog of delinquent accounts.
Revenue from Federal Government	576,000	Increase of \$576,000 to recognize Urban Areas Security Initiative (UASI) grant revenue, which will be allocated to the Office of Emergency Management
Franchise Fees	287,000	Increase of \$287,000 reflects an increase in the Commercial Solid Waste fees by 2.44% based on the change in the consumer price index.
Total	\$105,129,393	

Use of Funds

From the Revised Base Budget Forecast of \$1.24 billion, a net increase of \$110.2 million to the General Fund expenditures is recommended, bringing the 2018-2019 Proposed Budget Use of Funds estimate to \$1.35 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
Service Level Enhancements	\$26,149,054	Total funding of \$26.1 million is included in the Proposed Budget for service level enhancements. The largest investments include Police Sworn Hire Ahead Program (\$7.0 million), FirstNet Emergency Communications Network (\$1.0 million), Office of Emergency Management contractual services and training (\$950,000), Anti-Graffiti and Anti-Litter Programs (\$857,000), Pest Management (\$756,000), Police Department Public Records Request Staffing (\$658,000), Re-Use Program and Facilities Staffing (\$642,000), Transitional Jobs Program (\$600,000), Guadalupe River Park Improvements (\$550,000), and Project Hope Expansion (\$519,000). Other service level enhancements are included and described in the Department and City-Wide Sections of this document.

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PROPOSED BUDGET BALANCING STRATEGY

Use of Funds

Category	\$ Change	Description
Earmarked Reserves	\$26,064,268	One-time Earmarked Reserves, totaling \$26.1 million, are included in the Proposed Budget. This includes funding for the following: Budget Stabilization Reserve (\$10.0 million), 2020-2021 Police Sworn Hire Ahead Program (\$7.2 million), Essential Services Reserve (\$4.0 million), Information Technology Sinking Fund Reserve (\$2.0 million), second and third year of funding for Parks Rehabilitation Strike and Infrastructure Team Reserve (\$1.5 million), second year of funding for Pest Management (\$780,000), second year of funding for Proactive Legal Enforcement of Blighted and Nuisance Properties Reserve (\$226,768), Office of Equality Assurance Labor Compliance System Reserve (\$200,000), and second year of funding for the Citywide Retail Attraction Program Reserve (\$187,500).
Unmet/Deferred Technology, Infrastructure, and Maintenance	25,040,832	To address a portion of the backlog for unmet and deferred infrastructure and maintenance needs, funding of \$25.0 million is included in the 2019-2020 Proposed Budget for the City's most urgent repairs needs, including: The Tech Museum Controls Module Improvements (\$4.0 million), Police Administration Building/Police Communications Center Phase I Elevator Modernization (\$3.5 million), Police Activities League Stadium Turf Replacement (\$3.0 million), Ramac Park Turf Replacement (\$2.0 million, replacing PCs and upgrading operating systems licenses (\$1.8 million), The Tech Museum Tile Wall Evaluation and Repairs (\$1.4 million), Re-Use Facilities Capital Improvements (\$1.0 million), Cybersecurity Roadmap (\$1.1 million), City Hall Security Upgrades (\$750,000), Guadalupe River Park Improvements (\$550,000), Children's Discovery Museum Air Handler Unit Replacements (\$550,000), City Website and Intranet Implementation (\$550,000), and Happy Hollow Park and Zoo Exhibit Improvements (\$500,000).

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Use of Funds

Category	\$ Change	Description
2018-2019 One-Time Funded Services	11,570,059	Funding is included to continue services that were funded on a one-time basis in the 2018-2019 Adopted Budget. This primarily includes funding for Diridon Station Area Development Planning (\$1.1 million), Public Life and Parks Activation (\$1.0 million), Police Recruitment and Backgrounding Services (\$825,000), BeautifySJ Street Landscape Maintenance Program (\$764,000), Climate Smart San José Plan Implementation (\$700,000), Urban Area Security Initiative Grant Funded Positions (\$626,000), 2020 Census Outreach Support (\$625,000), and Downtown Foot Patrol Program (600,000).
2020-2021 Future Deficit Reserve	10,894,000	This action establishes the 2020-2021 Future Deficit Reserve of \$10.9 million to address the anticipated 2020-2021 General Fund shortfall on a one-time basis as projected in the 2020-2024 General Fund Forecast and revised based on actions recommended in the 2019-2020 Proposed Budget. Because the majority of the ongoing surplus identified in the Revised Forecast was used for one-time expenses, the ongoing unspent amount of \$4.8 million is available to reduce the projected shortfall in 2020-2021 from \$15.6 million to \$10.9 million.
Development Fee Programs	6,164,201	The Proposed Budget includes approximately 33 positions and \$6.2 million of new resources in the Development Fee Programs (Building, Planning, Public Works, and Fire) for planning services, development review, and continued support of the implementation of the Integrated Permitting System as described in detail in the Community and Economic Development City Service Area and respective department sections.
Cost Reductions/Service Delivery Efficiencies/Fund Shifts from Other Funds	5,092,003	Net increase of \$5.1 million is included primarily to transfer funds to the Municipal Golf Course Fund (\$4.5 million) to pay off \$5.0 million in debt for Rancho Del Pueblo Golf Course (\$3.4 million) and pay down debt for Los Lagos Golf Course (\$1.6 million), offset by a \$533,000 reduction to the transfer for debt service; and a transfer to the Self-Insured Medical Fund (\$1.5 million) to address a projected negative fund balance in 2019-2020.

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Use of Funds

Category	\$ Change	Description
Other Fee Programs/Grants/ Reimbursements	739,730	The actions in this category are offset by revenue from fees, grants, or reimbursements and include Fire Protection Systems Compliance Staffing (\$371,000), Recreation of City Kids (ROCK) Program (\$191,000), Energy and Water Building Performance Ordinance Implementation (\$120,000), and Happy Hollow Park and Zoo Staffing (\$58,000).
New Facilities Operations and Maintenance	297,674	The Proposed Budget includes \$297,674 to replace the turf at Smythe Sports Field (\$200,000) and to operate and maintenance new parks and recreation facilities (\$71,674) and new transportation infrastructure (\$26,000).
Use of Reserves	(1,776,000)	The Proposed Budget includes the use of the Deferred Infrastructure and Maintenance Reserve (\$1.0 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 2019-2020 (\$86,000).
Total	\$ 110,235,821	

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