

General Fund Balancing Strategy Detail

2025-2026 Proposed Operating Budget

INTRODUCTION

This attachment is intended to provide a more detailed summary of the key actions taken to balance the 2025-2026 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 2025, the Administration prepared formal projections for the 2025-2026 Proposed General Fund Budget as part of the *2025-2026 City Manager's Budget Request & 2026-2030 Five-Year Forecast and Revenue Projections* document that was released to the City Council. In that document, the 2025-2026 February Base Budget Forecast projections estimated a 2025-2026 General Fund shortfall of approximately \$45.7 million. This shortfall represented the difference between projected 2025-2026 General Fund resources and the expected cost of approved 2025-2026 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 2025-2026 Capital Improvement Program or for projects approved by the City Council during 2024-2025).

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 revised the shortfall slightly lower due to a number of factors, including corrections to personal services costs within the Base Budget and minor revisions to several revenue categories. These changes resulted in the shortfall decreasing from \$45.7 million to \$35.6 million in 2025-2026. 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 the General Fund sources (by \$35.1 million) and decreased uses (by \$557,000) from the Revised Base Budget Forecast, bringing the overall General Fund into balance for 2025-2026. The increase in sources of \$35.1 million included several major components, including: liquidation of various earmarked reserves (\$20.9 million); higher Cardroom Business Tax (\$5.0 million); and other revenue changes (\$9.2 million). The net decrease in uses (-\$557,000) included the following: investments toward unmet/deferred technology, infrastructure, and maintenance needs (\$20.5 million); service level enhancements (\$10.2 million); transfer to the Emergency Reserve Fund in the event of unreimbursed expenses from FEMA for COVID-19 response efforts (\$10.0 million); earmarked reserves (\$7.75 million); and, the continuation of 2024-2025 one-time funded services (\$5.9 million).

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These increases were offset by the reallocation of homeless sheltering and support costs from the General Fund to Measure E (-\$39.2 million); various cost reductions/service delivery efficiencies and fund shifts to bring the General Fund into structural alignment (-\$11.7 million); and the use of reserves (-\$7.1 million) that were included in the February Forecast. The result of these actions was a balanced 2025-2026 Proposed General Fund Budget of \$1.7 billion.

Table I below displays the overall projections for the 2025-2026 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
2025-2026 PROPOSED OPERATING BUDGET
Forecast to Proposed Budget Reconciliation (in \$000s)

	Total Sources	Total Uses	(Shortfall)/ Surplus
February Base Budget Forecast	\$ 1,638,558	\$ 1,684,224	\$(45,666)
Forecast Revisions	12,105	2,085	10,020
Revised Base Budget Forecast (no fee impact)	\$ 1,650,663	\$ 1,686,309	\$(35,646)
Proposed Revisions	\$ 35,089	\$ (557)	\$ 35,646
2025-2026 Proposed Budget	\$ 1,685,752	\$ 1,685,752	\$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 decrease of \$10.0 million to the estimated General Fund shortfall, for a revised shortfall of \$35.7 million. Changes are detailed in Table II below.

Table II
2025-2026 REVISED BASE BUDGET FORECAST
Summary of Changes (in \$000s)

Sources	Revision
Property Tax (ERAF)	\$ 9,500
Franchise Fees	2,500
Transfers and Reimbursements	566
Beginning Fund Balance (Expenditure Savings)	175
Use of Money and Property	100
Licenses and Permits	49
Fees, Rates, and Charges	(785)
Net Change in Sources	\$ 12,105

Uses	Revision
Position and Fund Realignments/ Corrections	\$ 1,754
Non-Personal/Equipment, City-Wide Expenses, Capital Contributions, Transfers to Other Funds	331
Net Change in Uses	\$ 2,085

Total Change (Shortfall)/Surplus	\$ 10,020
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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 2025-2026 Budget.

Category	\$ Change	Description
Property Tax	\$ 9,500,000	Increase of \$9.5 million as a result of a 2025-2026 revenue estimate being received from Santa Clara County for Educational Revenue Augmentation Funds (ERAF) that will result in an ongoing revenue increase.
Franchise Fees	2,500,000	Increase of \$2.5 million as a result of the 2024-2025 payment for Electric and Gas Franchise Fees being received from Pacific Gas and Electric in April 2025, which reflects 2024 calendar year activity. This payment amount was \$2.5 million above the estimated level; this higher funding level is anticipated to be received on an ongoing basis.
Transfers and Reimbursements	566,117	Increase of \$566,117 reflects higher transfers to the General Fund (\$520,441) and updated overhead reimbursements from capital and operating funds based on the final 2025-2026 base budget and overhead rates (\$45,676).
Beginning Fund Balance	175,000	Increase of \$175,000 reflects savings from the Customer Service Vision and Standards appropriation that is not anticipated to be expended by the end of 2024-2025 and will be rebudgeted to 2025-2026.
Use of Money and Property	100,000	Increase of \$100,000 reflects higher lease revenue anticipated in 2025-2026 for communications facilities.
Licenses and Permits	48,844	Increase of \$48,844 aligns revenues with estimated base costs and activity levels for the Fire Department Non-Development Fee Program.
Fees, Rates, and Charges	(784,980)	Decrease of \$784,980 aligns revenues with estimated base costs and activity levels for Miscellaneous fees (-\$714,831) and Transportation Department fees (-\$70,149).
Total	\$ 12,104,981	

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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 2025-2026 Budget.

Category	\$ Change	Department
Personal Services		
- Retirement Prefunding	\$1,100,000	Citywide
- Airport Reimbursement for Police Services	381,265	Police
- Mayor and City Council Salary Increases	58,722	Mayor and City Council
- Other Miscellaneous Personal Services Adjustments	214,082	Citywide
Non-Personal/Equipment		
- Tow Services for Oversized Vehicles	\$200,000	Police
- Cloud-based Server Services	14,000	Transportation
- City Attorney Software Licensing	5,000	City Attorney
- SJSU Operating Agreement Adjustment	(173,399)	Library
- Vehicle Operations and Maintenance	(72,150)	Citywide
- Guadalupe River Park Conservancy Contractual Agreement	(46,603)	Parks, Recreation and Neighborhood Services
- Utilities (Electricity)	(10,000)	Citywide
City-Wide Expenses		
- Customer Service Vision and Standards (Early Rebudget)	\$175,000	City Manager
- San José BEST and Safe Summer Initiative Programs (Youth Empowerment Alliance - Database)	68,286	Parks, Recreation and Neighborhood Services
Transfers to Other Funds		
- City Hall Debt Service Fund	\$170,738	City Manager
Total	\$ 2,084,941	

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PROPOSED BUDGET BALANCING STRATEGY

**Table III
2025-2026 PROPOSED OPERATING BUDGET
General Fund Balancing Strategy (in \$000s)**

	2025-2026	Ongoing
2025-2026 Revised General Fund Surplus/(Shortfall)	(\$ 35,646)	(\$ 35,646)
Balancing Strategy		
Source of Funds		
Beginning Fund Balance:		
Community and Economic Recovery Reserve	\$ 11,500	\$ 0
Budget Stabilization Reserve	7,000	0
Information Technology Sinking Fund Reserve	2,360	0
Other Beginning Fund Balance Adjustments	1,755	0
Grants/Reimbursements/Fees:		
Cardroom Business Tax	5,000	0
First Responder Fee Program	2,000	4,000
Energy Customer Development Team	520	520
San Jose Public Library Foundation Grants	439	456
Commercial Solid Waste CPI Adjustment	431	431
Fire Non-Development Fee Program Adjustments	430	430
Police Department Fee Adjustments	393	393
Other Fee Adjustments	330	330
Coyote Creek and Guadalupe River Trail Patrol	325	0
Parking Citation Scofflaw Program	300	300
Public Art Staffing Continuation	200	200
Citywide Sports Fields Staffing	181	181
Action Sports Park Service Delivery Change	0	(135)
Business Tax Amnesty Program	1,575	1,575
Overhead Reimbursements	350	364
Subtotal Source of Funds	\$ 35,089	\$ 9,045
Use of Funds		
2026-2027 Future Deficit Reserve	\$ 0	\$ 27,000
Unmet/Deferred Technology, Infrastructure, and Maintenance	20,526	864
Transfer to the Emergency Reserve Fund (FEMA Non-Reimbursable Expenses)	10,000	0
Service Level Enhancements	10,201	3,613
Earmarked Reserves	7,750	1,400
Previously One-Time Funded Services (from 2024-2025)	5,924	2,486
Other Fee Programs/Grants/Reimbursements	1,504	1,610
New Infrastructure/Equipment Operations and Maintenance	1,467	6,318
Measure E Reallocation	(39,188)	(42,750)
Cost Reductions/Service Delivery Efficiencies/Fund Shifts	(11,668)	(14,948)
Use of Reserves	(7,073)	(12,194)
Subtotal Use of Funds	\$ (557)	\$ (26,601)
Total Balancing Strategy	\$ 35,646	\$ 35,646
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 2025-2026, 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 \$1.55 billion, a net increase of \$35.1 million to the General Fund revenue estimates is included in the Proposed Budget, bringing the 2025-2026 revenue estimate to \$1.59 billion (including fund balance). The components of this change include an increase to the estimate for the 2024-2025 Ending Fund Balance/2025-2026 Beginning Fund Balance (\$22.6 million) and an increase to various revenue categories (\$12.5 million). The revenue changes are summarized in the table below.

<u>Category</u>	<u>\$ Change</u>	<u>Description</u>
Beginning Fund Balance	\$ 2,615,000	Increase of \$22.6 million reflects: the liquidation of various reserves (\$20.9 million), including the Community and Economic Recovery Reserve (\$11.5 million), Budget Stabilization Reserve (\$7.0 million), and Information Technology Sinking Fund Reserve (\$2.4 million); fund balance from expenditure savings that is anticipated to be received in 2024-2025 and be available for use in 2025-2026 (\$898,000); the liquidation of carry-over encumbrances (\$750,000); and rebudget of 2024-2025 funds for expenditure-related items (\$107,000).
Business Tax	5,000,000	Increase of \$5.0 million reflects higher anticipated Cardroom Tax revenue in 2025-2026 as the result of a delay in potential new cardroom regulations that may negatively impact revenue collections. It was previously anticipated the new regulations may become effective in March 2026, however, the potential change in regulations has been delayed to at least June 2026.

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PROPOSED BUDGET BALANCING STRATEGY

Source of Funds

<u>Category</u>	<u>\$ Change</u>	<u>Description</u>
Fees, Rates, and Charges	2,825,210	Net increase of \$2.8 million reflects various fee changes to align revenues with estimated activity levels, reflect fee revisions, and maintain cost recovery levels for Miscellaneous fee revenue (\$2.6 million), Parks, Recreation, and Neighborhood Services Department fee revenue (\$181,247), Transportation Department fee revenue (\$21,406), and Police Department fee revenue (\$17,739).
Other Revenue	2,537,989	Increase of \$2.5 million reflects revenue anticipated to be received from the Business Tax Amnesty Program that will be conducted by the Finance Department (\$1.6 million); grant funding for City Energy Development (\$520,197) and San Jose Public Library Funds (\$439,000); and reflects various fee changes to align revenues with estimated activity levels, reflect fee revisions, and maintain cost recovery levels for the Transportation Department (\$3,792).
Revenue from Local Agencies	525,000	Increase of \$525,000 reflects three new local agency grants and reimbursements that are anticipated to be received in 2025-2026. Revenue includes funding from Santa Clara County for the County Public Art Program (\$200,000), Coyote Creek Trail Patrol (\$162,500), and Guadalupe River Trail Patrol (\$162,500).

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PROPOSED BUDGET BALANCING STRATEGY

Source of Funds

Category	\$ Change	Description
Licenses and Permits	505,555	Net increase of \$505,555 reflects various license and permit changes to align revenues with estimated activity levels, reflect fee revisions, and maintain cost recovery levels for the Fire Development (\$430,000), Police Department (\$374,938), other licenses and permits (\$7,332), and Multi-Housing Permits (-\$306,715).
Franchise Fees	430,631	Increase of \$430,631 reflects a Commercial Solid Waste fees increase of 2.95% based on cost changes including a Consumer Price Index adjustment.
Transfers and Reimbursements	349,725	Net increase of \$349,725 reflects increased overhead from budget actions that change the staffing levels funded by special and capital funds.
Fines, Forfeitures and Penalties	300,000	Increase of \$300,000 reflects the implementation of a scofflaw program to encourage the payment of unpaid parking citations and to facilitate greater compliance with parking regulations.
Total	\$ 35,089,110	

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PROPOSED BUDGET BALANCING STRATEGY

Use of Funds

From the Revised Base Budget Forecast of \$1.69 billion, a net decrease of \$0.6 million to the General Fund expenditures was brought forward, bringing the 2025-2026 Proposed Budget Use of Funds estimate to \$1.685 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	\$20,525,952	To address a portion of the backlog for unmet and deferred technology, infrastructure and maintenance needs, funding of \$20.5 million is included in the 2025-2026 Proposed Budget for the City's most urgent repairs needs, including, among others, the: Police Department Mobile Data Computer Replacement (\$5.1 million), 9-1-1 Dispatch Backup Generator Replacements project (\$5.0 million), Police Training Center Fixtures, Furniture, and Equipment (\$3.0 million), and Information Technology Department Hyperconverged Infrastructure Refresh (\$2.0 million). These and additional investments are described in more detail in the respective department sections of this document.
Transfer to the Emergency Reserve Fund (FEMA Non- Reimbursable Expenses)	10,000,000	A one-time transfer of \$10.0 million from the General Fund to the Emergency Reserve Fund to increase the FEMA Non-Reimbursable Expenses Reserve, providing a buffer against potential FEMA reimbursement denials.
Service Level Enhancements	10,200,083	Total funding of \$10.2 million is included in the Proposed Budget for service level enhancements. The largest investments in this category include: 2026 Sporting Events - Police Department (\$3.0 million); Police Department Neighborhood Qualify of Life Unit (\$2.1 million); 2026 Sporting Events (\$1.5 million); CEQA Process Improvement (\$532,000); Real Time Intelligence Center Technologies (\$485,000); and Cybersecurity Staffing and Services (\$469,000). Other service level enhancements are described in the Department and City-Wide sections of this document.

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Use of Funds

Category	\$ Change	Description
Earmarked Reserves	7,750,000	One-time Earmarked Reserves, totaling \$7.75 million, include the following: Police Department Sworn Backfill Reserve (\$5.0 million), Essential Services Reserve (\$1.25 million), and Oversized Lived-In Vehicle Enforcement Reserve (\$1.0 million). The 2025-2026 Proposed Budget planning provides for the allocation of \$27.0 million of ongoing funding in 2026-2027 to be set aside for the 2026-2027 Future Deficit Reserve.
2024-2025 Previously One-Time Funded Services	5,923,997	Funding is included to continue services that were funded on a one-time basis in the 2024-2025 Budget. The largest investments in this category include the: Coyote and Guadalupe River Trail Patrol (\$650,000); Business Outreach and Development Staffing (\$525,000); Storefront Activation Grant Program (\$350,000); Equity Through Data Lead (\$302,000); and San José 311 Program Support and Staffing (\$302,000). Other previously one-time funded services are described in the Department and City-Wide sections of this document.
Other Fee Programs, Grants, and Reimbursements	1,504,444	The actions in this category are partially offset by revenue from fees, grants, or reimbursements and include: Energy Customer Development Team (\$520,000); Citywide Sports Field Staffing (\$181,000); and College and Career Pathways and Workforce Development Staffing (-\$225,000).

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Use of Funds

Category	\$ Change	Description
New Infrastructure / Equipment Operations and Maintenance	1,467,000	The Proposed Budget includes \$673,000 to support a single company at Fire Station 32, \$383,000 for operations and maintenance costs associated with Measure T funded projects, \$252,000 for the Police Training Center, and \$143,000 for new traffic infrastructure assets.
Measure E Reallocation	(39,187,500)	Actions in this category reallocate funding for homeless sheltering and support from the General Fund to the Real Property Transfer Tax Fund, supported by Measure E revenues, in response to City Council direction. Notable actions include: Interim Housing Construction and Operation (-\$25.0 million); Beautify San José Encampment Management Services (-\$6.7 million); Homeless Rapid Rehousing (-\$4.0 million); and, Outreach, Sanitation, and Other Support Services (-\$3.5 million).
Cost Reductions/Service Delivery Efficiencies/Fund Shifts from Other Funds	(11,668,254)	Net decrease of \$11.7 million primarily resulting from efficiencies and other cost saving measures, including: Police Unstaffed Unit Reduction (-\$1.3 million); Hybrid Community Center Drop-In Program Reduction (-\$841,000); transfer to the Communications Construction and Conveyance Tax Fund (-\$200,000); Unanticipated/Emergency Repair and Maintenance (-\$200,000); and Office of Equality Assurance Staffing (-\$198,000). The Proposed Budget also includes reductions scheduled to take effect in 2026-2027 to allow for sufficient transition time of impacted customers/service providers and employees such as the Police Substation Activation Deferral (-\$1.0 million). These and additional cost reductions are described in more detail in the respective department sections of this document.

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Use of Funds

<u>Category</u>	<u>\$ Change</u>	<u>Description</u>
Use of Reserves	(7,073,000)	The Proposed Budget includes the use of the Deferred Infrastructure and Maintenance Reserve (-\$2.0 million); New Fire Facilities Operations and Maintenance Reserve (-\$1.6 million); Cultural Facilities Capital Maintenance Reserve (-\$1.25 million); Police Equipment Replacement Sinking Fund Reserve (-\$985,000); New Police Facilities Operations and Maintenance Reserve (-\$605,000); Information Technology Sinking Fund Reserve (-\$300,000); Fire Equipment Replacement Sinking Fund Reserve (-\$200,000); New Traffic Infrastructure Assets Operations and Maintenance Reserve (-\$143,000); and, New Parks and Recreation Facilities Operations and Maintenance Reserve (-\$16,000).
Total	\$ (557,278)	