

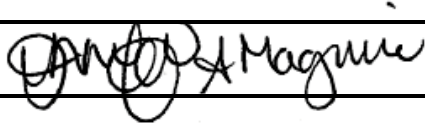
TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Jim Shannon

SUBJECT: 2024-2025 ANNUAL REPORT

DATE: September 30, 2025

Approved



Date

9/30/2025

RECOMMENDATION

It is recommended that the City Council:

- (a) Accept the 2024-2025 City Manager's Annual Report in compliance with City Charter Section 701 (F).
- (b) Adopt Appropriation Ordinance and Funding Sources Resolution amendments in various operating and capital funds to implement the 2024-2025 Annual Report recommendations, as detailed in Section IV (Recommended Budget Adjustments and Clean-Up/Rebudget Actions).
- (c) Approve the following position change in the City Manager's Office of Economic Development and Cultural Affairs:
 - (1) Delete 1.0 Senior Executive Analyst limit-dated through June 30, 2030
- (d) Approve the following position change in the Planning, Building, and Code Enforcement Department:
 - (1) Add 1.0 Development Officer limit-dated through June 30, 2030
- (e) Approve an ordinance amending Chapter 4.80 of Title 4 of the San Jose Municipal Code to:
 - (1) Add a new Part 92 to establish the VRF Measure B Pavement Maintenance Fund;
 - (2) Add a new Part 93 to establish the Interstate 280/Winchester Traffic Impact Fee Fund;
 - (3) Add a new Part 94 to establish the US-101/Oakland/Mabury Traffic Impact Fee Fund;
 - (4) Add a new Part 95 to establish the North San Jose Traffic Impact Fee Fund;
 - (5) Add a new Part 96 to establish the Evergreen East Hills Traffic Impact Fee Fund;
 - (6) Add a new Part 97 to establish the State Gas Tax Pavement Maintenance Fund; and
 - (7) Add a new Part 98 to establish the VTA Measure B Pavement Maintenance Fund.

SUMMARY AND OUTCOME

In accordance with Section 701 (F) of the San José City Charter, the 2024-2025 Annual Report describes the financial status of the City at the end of the 2024-2025 fiscal year. As specified in the City Charter, the focus of the City Manager's Annual Report is a comparison of actual revenue collections and actual expenditures to projections and appropriations included in the City's budget, including an explanation of any material differences, and the amount of financial reserves in the City. In addition, this report provides a comparison of the actual 2024-2025 Ending Fund Balance for each fund to the estimates used in the development of the 2025-2026 Adopted Budget.

Approval of the recommended budget actions will implement required fund balance reconciliations and necessary rebudget and clean-up adjustments based on the final financial performance (unaudited) for 2024-2025. This report also includes actions that are necessary to: revise the 2025-2026 budget to align budgeted revenue and expenditures with the most current information; correct technical problems; recognize new or adjust existing grant, reimbursement, or fee activity revenues and expenditures; reflect changes in project and program allocations based on revised cost estimates; and establish a limited number of new projects and programs in special and capital funds.

EXECUTIVE SUMMARY

The Administration proactively managed approximately 140 budgeted funds in 2024-2025. Budget actions were brought forward during the year to help ensure that revenues and expenditures remained in alignment with actual performance. Through this careful management, the various City funds generally ended the year with revenues close to the budgeted estimates and expenditures below the budgeted allocations.

With extremely limited resources in 2024-2025, the City faced a significant service level/structural shortfall due to continuing community needs, necessary investments to comply with State of California Stormwater Permit requirements, and a large number of services previously funded on a one-time basis that would impact community services if not continued. The City Council's approval of the Mayor's March and June Budget Messages for Fiscal Year 2024-2025 prioritized the City's limited resources in 2024-2025 to address the shortfall, meet regulatory requirements, and make targeted investments to continue work on some of our most challenging issues – including increasing community safety, reducing unsheltered homelessness, cleaning up our neighborhoods, and attracting investment in jobs and housing – and also invested in select areas of urgent, important, and continuing work within other community services, strategic support services, and deferred infrastructure.

Due to careful forecasting, monitoring, and management throughout all City funds, overall 2024-2025 revenues and expenditures ended the year very close to budgeted expectations.

For the General Fund, the Ending Fund Balance of \$378.2 million was \$21.9 million above the fund balance estimate assumed when the 2025-2026 Adopted Budget was developed, but only \$1.2 million above the estimate after accounting for required clean-up/rebudget adjustments that are necessary to close out 2024-2025.

The \$21.9 million variance represents 0.5% of the 2024-2025 Modified Budget for revenues and expenditures, and the \$1.2 million represents a variance of 0.03%. These funds are recommended to be allocated in the 2024-2025 Annual Report, as shown in the table below.

Recommended 2024-2025 General Fund Adjustments (\$000s)

Additional 2024-2025 Ending Fund Balance	\$21,861
Clean-Up/Rebudget Actions	(\$20,669)
<hr/>	
Fund Balance Available After Clean-up/Rebudget Actions	\$1,192
Recommended Budget Adjustments	
Required Technical/Rebalancing Actions	(\$1,192)
Grants/Reimbursements/Fee Activities	(\$0)
(Sources = (\$2.6 million); Uses = (\$2.6 million))	
Total Recommended Budget Adjustments	(\$1,192)
<hr/>	
Remaining Fund Balance After Clean-up/Recommended Adjustments	\$0

When bringing forward recommendations for the use of the additional 2024-2025 General Fund Ending Fund Balance, the Administration followed City Council Policy 1-18 and first considered clean-up/rebudget actions associated with the close-out of the 2024-2025 fiscal year to be essentially non-discretionary and the highest priority. These clean-up/rebudget actions resulted in a net decrease to the Ending Fund Balance of \$20.7 million, bringing the total additional 2024-2025 Ending Fund Balance to \$1.2 million, and consist of: 1) the rebudgeting of prior year funding to 2025-2026 to complete various projects (net decrease of \$7.2 million); and 2) technical adjustments to other revenues and expenditures (net decrease of \$13.5 million).

The revised General Fund Ending Fund Balance of \$1.2 million is recommended to fund various required technical and rebalancing actions (\$1.2 million) and actions associated with grants, reimbursements, and fee activities (net-zero revenue and expenditure adjustments of \$2.6 million). Notable one-time adjustments include: transferring to the Real Property Transfer Tax Fund prior year Measure E funding that was previously encumbered and liquidated in the General Fund, and is now available for Measure E spending priorities (\$2.1 million); establishing a Multiple Housing Fee Program Reserve to set aside program savings for future use (\$900,000); increasing funding for higher oversized vehicle tow operator costs and to align resources with the projected volume of tows (\$600,000); increasing funding for the Senior Nutrition Program to cover increased costs of cooked meals to seniors at community centers (\$266,000); increasing the City Attorney's Office Outside Litigation Reserve to restore funding for anticipated outside legal service costs (\$250,000); increasing funding for a Fire Department records

management system (\$247,000); purchasing two vehicles for Public Works Department maintenance staff added in the 2025-2026 Adopted Operating Budget to support the new Measure T-funded Fire Station 32 and Police Training Center facilities (\$220,000); allocating funding for City Hall maintenance and repairs (\$150,000); decreasing the transfer needed from the General Fund to the Emergency Reserve Fund as a result of higher than anticipated Federal Emergency Management Agency reimbursements to the City (-\$3.0 million), recognizing revenues from Valley Water to support 2.5 positions allocated to the Purified Water Program (\$728,000), and recognizing additional Transfers and Reimbursements revenue from the Real Property Transfer Tax Fund to reflect forecasted interest earnings (\$700,000).

This report also addresses immediate needs and circumstances in various special and capital funds, including actions within the: Low and Moderate Income Housing Asset Fund to recognize revenues and allocate to reserves for housing development and preservation (\$50.9 million); Real Property Transfer Tax Fund to repurpose unused affordable housing project loan funds to reimburse the Low and Moderate Income Housing Asset Fund for the purchase of the Vista Montana affordable housing project (\$22.9 million), and increase the loan commitment for the 525 North Capitol affordable housing project (\$5.0 million); Multi-Source Housing Fund for interim housing operations and outreach services (\$2.1 million); Airport Renewal and Replacement Fund to set aside funding for rehabilitation of existing capital assets (\$70.0 million); Building and Structure Construction Tax Fund to eliminate the Monterey Grade Separation project due to withdrawal of a grant by the United States Department of Transportation – Federal Railroad Administration (\$4.2 million); the Construction Excise Tax Fund to recognize funds from the Santa Clara Valley Transportation Authority (VTA) for pavement maintenance (\$1.0 million); and Subdivision Park Trust Fund to increase funding to the St. James Park Phase I Design project to complete phase I design by spring 2026 (\$1.0 million).

Technical actions are also included to reallocate a position from the City Manager's Office of Economic Development and Cultural Affairs to the Planning, Building and Code Enforcement Department to better support the Energy Customer Development Team funded by an agreement with Pacific Gas & Electric, and to create various new budgeted funds that were previously subaccounts within the Construction Excise Tax Fund to improve transparency, and financial and budgetary administration.

Recommended budget actions are summarized later in this message and described in *Section IV: Recommended Budget Adjustments and Clean-Up/Rebudget Actions*.

As the fiscal year progresses, the Administration will continue to monitor and report on the City's budgetary performance through Bi-Monthly Financial Reports and the Mid-Year Budget Review that is heard by the full City Council in February. The financial results of 2024-2025 will also be factored into the development of the 2026-2027 City Manager's Budget Request and 2027-2031 Five-Year Forecast and Revenue Projections document that will be released at the end of February 2026.

BACKGROUND

Each year the City issues the Annual Report at the end of September, three months after the close of the fiscal year, as required by the City Charter. Following is a description of the various sections of the Annual Report document.

- **Transmittal Memorandum** – This section provides an overall summary of the 2024-2025 Annual Report.
- **Section I: Budget Performance Summary (All Funds)** – This section provides a comparison of the 2024-2025 budget to actual revenues received and expenditures incurred by fund as well as an explanation of revenue and/or expenditure variances of 10% or greater to the budget. This section also provides a comparison of the year-end actual 2024-2025 Ending Fund Balance by fund to the 2024-2025 Ending Fund Balance/2025-2026 Beginning Fund Balance estimate used in the development of the 2025-2026 Adopted Budget. In addition, a listing of the Earmarked and Contingency Reserves that were available at the end of 2024-2025 by fund is included.
- **Section II: General Fund Budget Performance** – This section provides a summary of the General Fund budget performance in 2024-2025, including the following: Results of Operations in the General Fund, Revenue Performance, and Expenditure Performance.
- **Section III: Selected Special/Capital Funds Budget Performance** – This section provides financial information on the 2024-2025 year-end performance for selected special and capital funds that represent major City operations. It includes a discussion of variances between actual and budgeted revenues and expenditures as well as a comparison between the actual ending fund balance and the fund balance estimated for 2024-2025 in the development of the 2025-2026 Adopted Budget.
- **Section IV: Recommended Budget Adjustments and Clean-Up/Rebudget Actions** – This section provides a description of the recommended budget adjustments and clean-up/rebudget actions for City Council consideration. The proposed actions fall into three categories: (1) adjustments to the 2025-2026 Beginning Fund Balance amounts in various funds, including the General Fund, based on the final reconciliation (unaudited) of 2024-2025; (2) upward and downward adjustments to previously rebudgeted sums to ensure the appropriate amount of unexpended funds are carried over to 2025-2026 to complete projects; (3) actions that are necessary to revise the 2025-2026 budget to align budgeted revenue and expenditures with the most current information, correct technical problems, recognize new or adjust grant, reimbursement or fee activity revenues and expenditures, reflect changes in project and program allocations based on revised cost estimates, as well as establish a limited number of new projects and programs in special and capital funds.
- **Section V: Financial Statements** – This section provides the financial results (unaudited), prepared by the Finance Department, for all budgeted fund groups for 2024-2025. It should be noted that audited financial results will be released later in the fall as part of the 2025 Annual Comprehensive Financial Report for Fiscal Year Ended June 30, 2025. Final fund balance reconciliations to the Annual Comprehensive

Financial Report will be conducted for all funds and, while few adjustments are typically necessary, any final adjustments will be brought forward for City Council consideration as part of the 2025-2026 Mid-Year Budget Review.

ANALYSIS

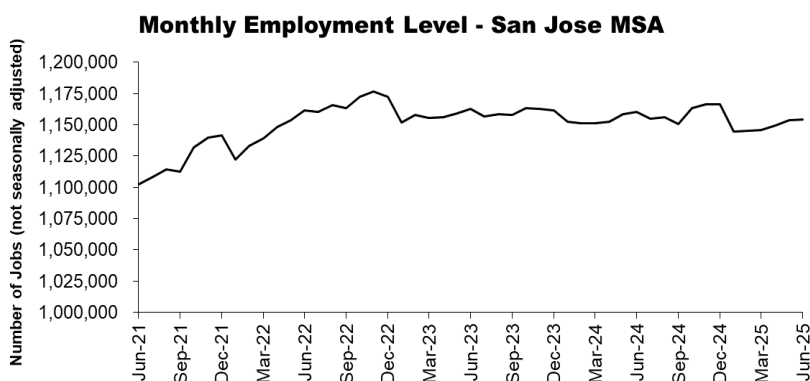
This Analysis section includes the following:

- an overview of the economic environment;
- a discussion of the 2024-2025 budget performance of all City funds;
- a discussion of the 2024-2025 budget performance for the General Fund;
- a discussion of the components of the 2024-2025 General Fund ending fund balance;
- an analysis of the impact of the General Fund performance on the 2025-2026 Adopted Budget; and
- a discussion of the 2024-2025 budget performance of selected special and capital funds.

Economic Environment

Silicon Valley's economy is growing very modestly and there are several areas of concern. While the unemployment rate has not significantly changed from prior year level and remains relatively low, job growth is effectively stagnant. Similarly, real estate sale prices remain flat, property transfers are declining, and homes are staying on the market for slightly longer. Finally, construction activity has witnessed declines in the residential and industrial categories, though the commercial sector, aided by data center projects, has grown compared to the prior year.

The June 2025 employment level of 1.15 million in the San José-Sunnyvale-Santa Clara Metropolitan Statistical Area (San José MSA) decreased by 6,000 jobs, or 0.5%, from the June 2024 level. The main driver of the overall year-over-year job losses was professional and business services, which dropped by 6,400 positions; manufacturing decreased by 3,900 jobs; and leisure and hospitality declined by 2,400 jobs. Conversely, private education and health services increased by 6,600 positions.¹



¹ State of California Employment Development: Labor Market Information Division Press Release, July 18, 2025.

Economic Environment (Cont'd.)

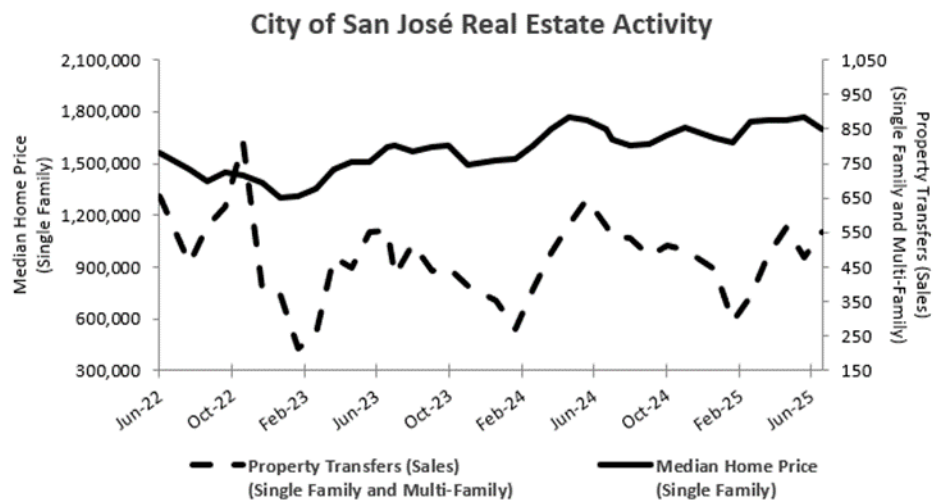
Unemployment Rate (Unadjusted)			
	June 2024	May 2025	June 2025**
San José Metropolitan Statistical Area*	4.4%	3.9%	4.7%
State of California	5.4%	5.0%	5.7%
United States	4.3%	4.0%	4.4%

* San Benito and Santa Clara Counties Source: California Employment Development Department.
 ** June 2025 estimates are preliminary and may be updated.

The local unemployment rate for June 2025 was 4.7%, which is higher than the May 2025 rate of 3.9% and the prior year unemployment rate of 4.4%. While the June 2025 San José Metropolitan Statistical Area unemployment rate continues to be lower than the unadjusted unemployment rate for the State (5.7%), it is slightly higher than the national rate of 4.4%.

Overall construction activity (valuation) through June 2025 increased 9.6% from prior-year levels, driven by commercial construction activity assisted by data center construction, and tempered by a decline in residential and industrial construction activity. The 2024-2025 Adopted Budget was developed assuming overall development activity would decrease slightly from 2023-2024 levels; however, construction activity modestly outperformed the projections included in the 2025-2029 Five-Year Forecast, which was released in February 2024.

According to data from the Santa Clara County Association of Realtors, the local real estate market has slightly struggled at the end of 2024-2025 with home prices stagnating, activity levels declining, and the homes staying on the market for a longer



period of time. In June 2025, property transfers decreased by 4.1% compared to the prior year. Further, the June 2025 median home price was \$1.7 million, which is consistent with the June 2024 price. Finally, the average days-on-market in June 2025 totaled 24 days, while the June 2024 average days-on-market totaled 16 days.

2024-2025 Budget Performance (All Funds)

As shown in Section I of this document, City revenues (excluding Beginning Fund Balances) totaled \$4.56 billion in 2024-2025, which was 7.4% (\$365.15 million) below the budgeted estimate of \$4.92 billion.

In 2024-2025, expenditures (excluding Reserves and Ending Fund Balances) totaled \$5.15 billion, which was \$1.17 billion (18.5%) below the modified budget of \$6.32 billion. At the end of 2024-2025, the Contingency and Earmarked Reserves for all City funds totaled \$1.17 billion, which represented 14.9% of the total 2024-2025 Modified Budget of \$7.86 billion (including interfund transfers, loans, and contributions). In the General Fund, Reserves totaled \$259.63 million.

The financial performance in 2024-2025 is used as the starting point for 2025-2026. The collective 2024-2025 Ending Fund Balances for all City funds totaled \$2.07 billion, which was \$243.11 million above the 2024-2025 Ending Fund Balance estimates of \$1.83 billion used in the development of the 2025-2026 Adopted Budget.

After adjusting for a total net rebudget of \$12.36 million recommended in this report, the adjusted 2024-2025 Ending Fund Balance variance for all funds decreases to \$230.75 million, or 2.9% of the 2024-2025 Modified Budget. The adjusted fund balance variance totaled \$1.19 million in the General Fund, \$82.07 million in the Special Funds, and \$147.49 million in the Capital Funds.

2024-2025 General Fund Budget Performance

The City's General Fund ended 2024-2025 within budgeted levels. As shown in the chart below, the General Fund Ending Fund Balance of \$378.2 million was \$21.9 million (0.5% of the 2024-2025 Modified Budget for revenues and expenditures) above the fund balance estimate assumed when the 2025-2026 Adopted Budget was developed. The following table summarizes the General Fund performance in 2024-2025, comparing the actual results to the Modified Budget and the estimates used to develop the 2025-2026 Adopted Budget.

2024-2025 General Fund Budget Performance (Cont'd.)

**Table 1
 General Fund Year-End Status
 For the Year Ended June 30, 2025
 (\$000s)**

Sources	2024-2025 Modified Budget	2024-2025 Year-end Estimate	2024-2025 Budgetary Basis Actual	Actual to Budget Variance	Actual to Estimate Variance
<i>Beginning Fund Balance</i>	600,933	600,933	600,933	-	-
<i>Carryover Encumbrances</i>	80,976	80,976	80,976	-	-
<i>Liquidation of Carry- over Encumbrances</i>	-	1,250	16,596	16,596	15,346
<i>Revenue</i>	1,509,363	1,500,849	1,474,947	(34,416)	(25,902)
Total Sources	2,191,272	2,184,008	2,173,452	(17,820)	(10,556)
Uses					
<i>Expenditures/Transfers</i>	1,931,644	1,827,129	1,795,280	(136,364)	(31,849)
<i>Reserves</i>	259,628	568	-	(259,628)	(568)
Total Uses	2,191,272	1,827,697	1,795,280	(395,992)	(32,417)
<i>Ending Fund Balance</i>	-	356,311	378,172	378,172	21,861

Note: In the chart above, the General Fund excludes the Real Property Transfer Tax Fund, Emergency Reserve Fund, and the Cash Reserve Fund, which are budgeted as separate funds and reflected separately in this document. In the 2024-2025 Annual Comprehensive Financial Report, the Cash Reserve Fund, Emergency Reserve Fund, and Real Property Transfer Tax Fund will be displayed as part of the General Fund to comply with GASB 54 reporting requirements.

In 2024-2025, total revenue in the General Fund was \$1.5 billion, which was \$34.4 million (2.3%) below the 2024-2025 Modified Budget, and \$25.9 million (1.7%) below the estimate used to develop the 2025-2026 Adopted Budget. The 2024-2025 Liquidation of Carry-over Encumbrances totaled \$16.6 million, which was \$15.3 million above the estimate used in the development of the 2025-2026 Adopted Budget.

The significant liquidation of encumbrances is partially due to an encumbrance audit performed in 2024-2025. However, several encumbrances that were liquidated are still needed for Housing Department projects, therefore \$5.3 million will be reallocated to the projects in 2025-2026 as part of the technical clean-up actions included in this report. In total, of the \$16.6 million in overall encumbrance liquidations, only \$11.3 million is available in 2025-2026, which is \$10.0 million over the estimate.

General Fund expenditures/transfers of \$1.8 billion were \$396.0 million (18.1%) below the 2024-2025 Modified Budget level of \$2.2 billion and \$32.4 million (1.8%) below the estimate used to develop the 2025-2026 Adopted Budget. Of these amounts, Personal Services expenditures of \$1.1 billion ended the year \$3.8 million (0.3%) below budgeted levels and Non-Personal/Equipment/Other expenditures and encumbrances of \$230.5 million ended the year \$27.8 million (10.8%) below budgeted levels. Budgeted reserves of \$259.6 million remained unexpended at year-end as expected.

2024-2025 General Fund Budget Performance (Cont'd.)

Table 2
General Fund
Comparison of Year-End Actuals with Prior Year
(\$000s)

	2023-2024	2024-2025	Change	% Change
	Actuals	Actuals		
Source of Funds				
Beginning Fund Balance	639,359	600,933	(38,426)	-6.0%
Revenues	1,450,460	1,474,947	24,487	1.7%
Total Source of Funds	2,089,818	2,075,880	(13,939)	-0.7%
Use of Funds				
Personal Services	1,043,471	1,115,520	72,049	6.9%
Non-Personal/Equipment/Other	217,304	230,489	13,185	6.1%
City-Wide Expenses	234,322	165,943	(68,379)	-29.2%
Capital Contributions	47,792	94,192	46,400	97.1%
Transfers	30,472	189,136	158,664	520.7%
Reserves	-	-	-	N/A
Total Use of Funds	1,573,361	1,795,280	221,919	14.1%

As shown in Table 2, 2024-2025 General Fund revenues (excluding Beginning Fund Balance, which varies depending on the level of unspent funds carried into the following year) of \$1.5 billion represents a slight increase of 1.7% (\$24.5 million) from the 2023-2024 collection level. This year-over-year increase is primarily due to higher 2024-2025 collections for Property Tax (\$24.8 million), Revenue from the State of California (\$11.9 million), Utility Tax (\$10.1 million), and Transfers and Reimbursements (\$9.9 million).

These revenues experienced year-over-year growth due to several factors including the local real estate market positively impacting Property Tax receipts, the timing of when State grants were received, higher utility rates driving up Utility Tax collections, and higher overhead reimbursements from both operating and capital funds. Partially offsetting the higher receipts in these categories was the removal of Real Property Transfer Tax collections (\$50.7 million), as beginning in 2024-2025 Real Property Transfer Tax collections were received and allocated in the Real Property Transfer Tax Fund.

General Fund expenditures of \$1.8 billion in 2024-2025 were 14.1% (\$221.9 million) above prior year expenditure levels of \$1.6 billion. This increase is mostly attributable to higher Transfers (\$158.7 million), which was primarily related to transferring the unexpended Real Property Transfer Tax allocations from the General Fund to the Real Property Transfer Tax Fund (\$160.5 million). The remaining year-over-year variance is due to higher Personal Services (\$72.0 million), Capital Contributions (\$46.4 million), and Non-Personal/Equipment/Other (\$13.2 million), partially offset by lower City-Wide Expenses (\$68.4 million).

A detailed discussion of the General Fund revenue and expenditure performance is provided in Section II of this document.

2024-2025 General Fund Ending Fund Balance

The current budgeting practice of the City is to use the projected level of fund balance expected to remain in the General Fund at the end of any fiscal year as a funding source for the following year. The Ending Fund Balance estimate always contains two components: the portion of the fund balance that is rebudgeted for completing projects or retaining reserves, and the portion which is undesignated and available as a general funding source in the coming year. In the 2025-2026 Adopted Budget, an Ending Fund Balance estimate of \$356.3 million was included as a funding source. As discussed earlier, the actual 2024-2025 General Fund Ending Fund Balance of \$378.2 million was \$21.9 million above the Adopted Budget estimate.

The components of the 2024-2025 General Fund Ending Fund Balance include a net total of additional funding sources, expenditure/transfer savings, and unexpended reserves as described below:

**2024-2025 General Fund
 Ending Fund Balance Components**

Fund Balance Component	\$ Amount (\$ in 000s)
Funding Sources	\$ (17,820)
Expenditure/Transfer Savings	136,364
Unexpended Reserves	259,628
TOTAL	\$ 378,172

The total Funding Sources component ended the year \$17.8 million below the Modified Budget as a result of lower revenues (\$34.4 million), partially offset by higher liquidation of carry-over encumbrances (\$16.6 million). For the Expenditure/Transfer Savings component, expenditure and transfer savings totaled \$136.4 million, while the Unexpended Reserves component totaled \$259.6 million, representing the largest component of the 2024-2025 Ending Fund Balance.

As mentioned, revenue was \$34.4 million lower than estimated, which was primarily due to various grants not being received in 2024-2025. A significant portion of this grant revenue was rebudgeted as part of the 2025-2026 Adopted Budget (\$18.4 million) or are recommended to be rebudgeted as part of this report (\$10.6 million). Of the \$136.4 million in expenditure/transfer savings, a majority was rebudgeted in the 2025-2026 Adopted Budget (\$85.5 million) or assumed as savings as part of the development of the 2024-2025 Ending Fund Balance/2025-2026 Beginning Fund Balance (\$28.9 million). Additional savings of \$19.8 million is recommended for rebudget or technical clean-up as part of this report.

2024-2025 General Fund Ending Fund Balance (Cont'd.)

General Fund Unexpended Reserves, totaling \$259.6 million at the end of 2024-2025, were anticipated and include two categories: Earmarked Reserves (\$206.6 million) established to address specific programmatic needs per City Council direction; and the Contingency Reserve (\$53.0 million) set at a minimum of 3% of General Fund operating expenditures per City Council policy.

As discussed above, it was estimated and assumed that \$356.3 million would remain in the General Fund at the end of 2024-2025 and would be carried over to 2025-2026 as Beginning Fund Balance as part of the adoption of the 2025-2026 Budget. These funds, which were expected to be generated from additional revenue, liquidation of carryover encumbrances, expenditure savings, unexpended funds that were rebudgeted to 2025-2026 to complete projects, and unexpended reserves, were programmed for use in the 2025-2026 Adopted Budget. As also previously discussed, the actual General Fund Ending Fund Balance was above the estimate used in the 2025-2026 Adopted Budget by \$21.9 million due to slightly greater than anticipated expenditure savings, partially offset by lower revenue.

The following chart details the recommended uses of the \$21.9 million of additional fund balance, as well as other budget adjustments that are proposed as part of this report. Recommended clean-up/rebudget actions decreases the available fund balance by \$20.7 million to \$1.2 million, or 0.03% of the 2024-2025 Modified Budget for revenues and expenditures. This additional fund balance is proposed to be allocated to address required technical/rebalancing needs.

Impacts on the 2025-2026 General Fund Budget

RECOMMENDED 2025-2026 GENERAL FUND ADJUSTMENTS (\$000s)

	<u>(\$ in 000s)</u>
2024-2025 Additional Fund Balance	\$21,862
• Clean-Up/Rebudget Actions	(\$20,669)
Revenue Rebudgets/Clean-Ups	\$12,443
City-Wide Expenses/Transfers/Reserves	(\$26,962)
General Fund Capital	(\$3,549)
Departmental	(\$2,601)
Fund Balance Available After Clean-up/Rebudget Actions	\$1,192
• Recommended Budget Adjustments	(\$1,192)
Required Technical/Rebalancing Actions	
Transfer to the Real Property Transfer Tax Fund	(\$2,139)
Multiple Housing Fee Program Reserve	(\$900)
Police Department Non-Personal/Equipment (Oversized Vehicle Tow Service)	(\$600)
Senior Nutrition Program	(\$266)
City Attorney's Office Outside Litigation Reserve	(\$250)
Fire Department Non-Personal/Equipment (Records Management System)	(\$247)
Public Works Department Non-Personal/Equipment (Measure T Facilities Vehicle Purchase)	(\$220)
City Hall Maintenance and Repairs	(\$150)
Police Department Non-Personal/Equipment/Revenue from State of California (9-1-1 Call Processing Phone System Maintenance)	(\$141)
Information Technology Department Non-Personal/Equipment (Windows 10 Extended Support)	(\$136)
Police Department Personal Services/Licenses and Permits (Cardroom Regulation Program)	(\$131)
Transfer to the Gift Trust Fund (Library - General Gifts)	(\$125)
Transfer to the Emergency Reserve Fund	\$3,000
Revenue from Local Agencies (Purified Water Program)	\$728
Transfers and Reimbursements (Transfer from Real Property Transfer Tax Fund – Interest Income)	\$700
Personal Services/Revenue from Local Agencies (VTA Board Coordination)	\$114
Other Net Adjustments	(\$431)
Subtotal Required Technical/Rebalancing Actions	(\$1,192)
Grants/Reimbursements/Fees	\$0
(Sources = (\$2.6 million); Uses = (\$2.6 million))	
Remaining Fund Balance	\$0

Impacts on the 2025-2026 General Fund Budget

A summary of the significant adjustments by category is included below. More detail is provided in *Section IV: Recommended Budget Adjustments and Clean-Up/Rebudget Actions*.

Clean-Up/Rebudget Actions (-\$20.7 million)

A series of adjustments are recommended to complete existing projects continuing into 2025-2026 and to reflect any necessary technical budget adjustments or reconciliation actions. The Annual Report is the point in the budget process where action is required to rebudget unexpended funds from the prior year that were not anticipated when the Adopted Budget was approved, but are required to complete a project or program in the current year. Actions are also recommended that reduce previous rebudgets to reflect instances where expenditures for which rebudgets were approved for incorporation into the Adopted Budget exceeded estimates for 2024-2025; therefore, the funds are not available for rebudget to 2025-2026. Further, actions are recommended to rebudget revenues that were anticipated, but not received in 2024-2025.

The largest net rebudget actions are related to the timing of revenues anticipated from the State of California for activities undertaken in 2024-2025 and continuing into 2025-2026, including the: Interim Housing - Cerone (\$3.6 million) and Interim Housing - Cherry (\$2.6 million) projects, and grant-funded CaliforniansforAll Youth Workforce Program initiatives (\$3.2 million). Other notable rebudgets include: Elections and Ballot Measures (\$2.5 million); Government Access – Capital Expenditures (-\$1.9 million); General Liability Claims (-\$1.7 million); Digital Inclusion Program (-\$1.5 million); Certified Access Specialist Program (-\$1.4 million); Coyote Creek Project Reaches 5-7 (Valley Water) (-\$1.4 million); Fire Apparatus Replacement (-\$1.1 million); and Emmanuel House Shelter (-\$1.0 million).

Other technical adjustments include net-zero shifts between departments and appropriations, as well as the reconciliation of restricted funding for multiple programs (e.g. Artificial Turf Capital Replacement Reserve, Certified Access Specialist Program, Contractual Street Tree Planting, and Government Access – Capital Expenditures). Adjustments are also included to re-establish various appropriations for which prior year encumbrances were liquidated in 2024-2025 as part of the city-wide review process in response to the City Auditor’s Report 24-04, “Encumbrances: Departments Should Regularly Review All Encumbrances to Ensure Timely Liquidation.” In these instances, continued funding is required to support similar purposes previously authorized by City Council, including Interim Housing Construction and Operation (\$3.0 million) and Homeless Rapid Rehousing (\$2.3 million). A technical action is also necessary to re-establish the Testing, Tracing and Isolation appropriation (\$10.0 million), which had carried forward a negative expense related to a prior year commitment related to pandemic era expenses. Additional technical adjustments are included to align expenditure and reserve appropriations in accordance with prior City Council direction.

Impacts on the 2025-2026 General Fund Budget

Recommended Budget Adjustments (-\$1.2 million)

A number of General Fund budget adjustments, with a total net cost of \$1.2 million are recommended and can be classified under two categories: 1) Required Technical/Rebalancing Actions (net cost of \$1.2 million) that align already approved revenue estimates and expenditure budgets with the most current tracking information, reallocate funding among appropriations based on updated needs, correct technical problems or insufficient allocations included in the 2025-2026 Adopted Budget, or comply with actions previously authorized by the City Council; and, 2) Grants/Reimbursement/Fee Activities (net zero expenditure increase of \$2.6 million) actions that recognize new grants or adjust grants, reimbursements, or fee activity revenues, and adjust the appropriations for these purposes, as necessary.

Notable actions under each category are outlined below.

- **Required Technical/Rebalancing Actions (-\$1.2 million)**

- ***Transfer to the Real Property Transfer Tax Fund*** – re-establishes a Transfer to Real Property Transfer Tax Fund in the amount of \$2.1 million to transfer Real Property Transfer Tax (Measure E) funding from the General Fund. This transfer reflects the liquidation of prior-year encumbrances associated with contracts previously supported by Measure E funding in the General Fund, prior to the establishment of the Real Property Transfer Tax Fund, for affordable housing development and homelessness prevention or support services. (-\$2.1 million)
- ***Multiple Housing Fee Program Reserve*** – establishes the Multiple Housing Program Reserve in the amount of \$900,000. The Multiple Housing Fee Program is a full cost recovery program funded through fees, and the program ended 2024-2025 with expenditure savings and additional revenues. This funding will be set aside for future use by the Multiple Housing Fee Program. (-\$900,000)
- ***Police Department Non-Personal/Equipment (Oversized Vehicle Tow Service)*** – increases the Police Department's Non-Personal/Equipment appropriation by \$600,000 to fund a higher negotiated unit cost for the towing and disposal of oversized vehicles as well as increasing the overall towing capacity. Due to the volume of tows – including the removal and disposal of 79 unsafe recreational vehicles from Columbus Park – and increased costs for the towing and disposal of recreational vehicles, the City Council will consider Item 2.14 at their meeting September 30, 2025, to increase the total compensation to the tow contractor and to increase the amount per tow from \$2,000 to \$3,200, among other contract amendments. (-\$600,000)

Impacts on the 2025-2026 General Fund Budget

- **Senior Nutrition Program** – increases the Senior Nutrition Program City-Wide Expenses appropriation by \$265,731, from \$3.3 million to \$3.6 million. Since June 2018, Parks, Recreation and Neighborhood Services, in partnership with the County of Santa Clara, has contracted with a vendor to provide cooked meals to seniors at community centers throughout San José in support of the Senior Nutrition Program. The County reimburses the City a portion of the total contract cost to provide meals (\$2.03 million), which was allocated in the 2025-2026 Adopted Operating Budget. The contract to provide the meals has been finalized and the cost of the program is \$265,731 higher than what was assumed in the development of the 2025-2026 budget due to vendor cost increases per meal provided. County reimbursement rates, however, did not increase correspondingly; therefore, in order to maintain the program at the current level, the full burden of increased costs falls to the City. With this action, funding is provided to operate the entire program at an estimated cost of \$3.6 million, partially offset by the County's contribution of \$2.03 million. (-\$266,000)
- **City Attorney's Office Outside Litigation Reserve** – increases the City Attorney's Office Outside Litigation Reserve by \$250,000, from \$750,000 to \$1.0 million, to restore funding to an adequate level for anticipated outside legal services costs. (-\$250,000)
- **Fire Department Non-Personal/Equipment (Records Management System)** – increases the Fire Department's Non-Personal/Equipment appropriation by \$246,600 to provide funding for the replacement of the Department's records management system. The current records management system has reached the end of its useful life and is no longer supported. Initial funding of \$53,000 was appropriated as part of the 2021-2022 Annual Report for this project; however, the bid came in at \$299,600, inclusive of implementation costs. The replacement system will streamline the collection, management, and reporting of fire, medical, and other incident response data. In addition to handling fire prevention invoices, permits, inspections, and related information, the new platform will also support resource and equipment management across the agency. (-\$247,000)

Impacts on the 2025-2026 General Fund Budget

- **Public Works Department Non-Personal/Equipment (Measure T Facilities Vehicle Purchase)** – increases the Public Works Department's Non-Personal/Equipment appropriation by \$220,000 to purchase vehicles (two full sized pickup trucks) for the Facilities Maintenance Division. The 2025-2026 Adopted Operating Budget added 2.0 Senior Facility Repair Worker positions, effective April 1, 2026 to support Measure T funded facilities that will come online in spring 2026, including Fire Station 32 and the Police Training Center. These vehicles, inadvertently omitted from the 2025-2026 Adopted Operating Budget, will serve as essential work platforms, enabling staff to transport tools, materials, and safety equipment to a wide range of facilities across San José. With a high volume of projects and service needs, and the varying proximities of sites, transportation is critical to provide timely delivery of base-level trade services. (-\$220,000)
- **City Hall Maintenance and Repairs** – establishes the City Hall Maintenance and Repairs appropriation in the amount of \$150,000. This funding will provide for minor restoration work for the exterior of the City Hall campus, such as power washing, window washing, graffiti removal, painting, and repair of broken fixtures. While minor repair work and debris removal has been completed as past incidents have occurred, funding for more extensive exterior restoration at City Hall was last allocated in the 2022-2023 Adopted Capital Budget. (-\$150,000)
- **Police Department Non-Personal/Equipment/Revenue from State of California (9-1-1 Call Processing Phone System Maintenance)** – increases the Police Department's Non- Personal/Equipment appropriation by \$299,500 and the estimate for Revenue from the State of California by \$158,639 for 9-1-1 call processing phone system maintenance. The phone system is a critical system that requires 24/7 availability for both Fire and Police communications and the maintenance support will help mitigate any system failures and ensure a proper and functional system. In previous years, the California Governor's Office of Emergency Services (Cal OES) has fully paid for the maintenance services; however, effective 2025-2026, Cal OES will no longer fully support the cost of maintenance services and will shift a portion of the financial responsibility to local agencies. Cities must pay the full amount of the maintenance services and will be reimbursed for a portion of the costs. (-\$141,000)

Impacts on the 2025-2026 General Fund Budget

- **Information Technology Department Non-Personal/Equipment (Windows 10 Extended Support)** – increases the Information Technology's Non-Personal/Equipment appropriation by \$136,000 to provide extended Windows 10 support services for devices in the Police Department and Fire Department. Because of the need for consistent device uptime with expected high-intensity activities through calendar year 2026, delays have been experienced in upgrading devices to Windows 11. Due to the delays, an extension for support services is needed for legacy Windows 10 systems, as provided by an external vendor. After calendar year 2026, the Windows 11 upgrade effort will resume and will modernize the affected devices to the supported standard. (-\$136,000)
- **Police Department Personal Services/Licenses and Permits (Cardroom Regulation Program)** – decreases the Police Department's Personal Services appropriation by \$310,043 and the corresponding revenue estimate for License and Permits by \$440,640 due to changes in the Cardroom Regulation Program. On August 19, 2025, the City Council approved the reduction to the Cardroom Regulation Fee for each cardroom by \$220,320, from \$1,077,536 to \$857,216, for a total revenue reduction of \$440,640. The fee reduction is driven by the deletion of 1.0 Senior Auditor and 1.0 Staff Specialist positions in the Police Department's Office of Gaming Control (approved at the August 19, 2025 City Council meeting) totaling \$310,043 and an additional revenue loss of \$130,597, which corresponds to the overhead costs assigned to the two positions. (-\$131,000)
- **Transfer to the Gift Trust Fund (Library - General Gifts)** – establishes a Transfer to the Gift Trust Fund in the amount of \$124,643. Donations and gifts for various library branch locations received by the San José Public Library Foundation were incorrectly deposited in the General Fund rather than in the Gift Trust Fund. Corresponding actions in the Gift Trust Fund to recognize this transfer and increase the Library-General Gifts appropriation are also recommended in this report. (-\$125,000)
- **Transfer to the Emergency Reserve Fund** – decreases the Transfer to the Emergency Reserve Fund by \$3.0 million, from \$10.0 million to \$7.0 million. The transfer was originally included in the 2025-2026 Adopted Budget to enable an increase to the FEMA (Federal Emergency Management Agency) Non-Reimbursable Expenses Reserve, intended as a safeguard in the event that a significant portion of the approximately \$30 million in FEMA reimbursements for pandemic-related expenses was denied. Because actual reimbursements in 2025-2026 exceeded initial expectations, the General Fund contribution to this reserve can be reduced. (\$3.0 million)

Impacts on the 2025-2026 General Fund Budget

- **Revenue from Local Agencies (Purified Water Program)** – increases the estimate for Revenue from Local Agencies by \$727,698 to recognize funding that was inadvertently omitted during the development of the 2025-2026 Adopted Operating Budget. Since 2024-2025, Valley Water provides ongoing funding for 2.5 positions in the Environmental Services Department’s Purified Water Program, including 1.0 Senior Environmental Program Manager, 1.0 Supervising Environmental Services Specialist, and 0.5 Deputy Director position, to support a comprehensive water conservation program spanning all water-related utilities operated by the City. This team interfaces with Valley Water in the pursuit of a variety of projects and activities within the "One Water" strategy, including the implementation of water conservation programs, and the coordination and development of plans for a substantial water recycling project for the production of potable water from wastewater effluent. (\$728,000)
- **Transfers and Reimbursements (Transfer from Real Property Transfer Tax Fund – Interest Income)** – increases the revenue estimate for Transfers and Reimbursements by \$700,000, from \$145.9 million to \$146.6 million. The 2025-2026 Adopted Operating Budget estimate for the Transfer from the Real Property Transfer Tax Fund - Interest Income was built on the assumption that 2024-2025 collections would total \$1.3 million and remain flat in 2025-2026. However, due to higher than anticipated collections at the end of 2024-2025, collections ended the year at approximately \$2.2 million. Therefore, this report includes a recommendation to increase the 2025-2026 budgeted estimate by \$700,000 to align the budgeted estimate more closely with the prior year collection level. (\$700,000)
- **Personal Services/Revenue from Local Agencies (VTA Board Coordination)** – increases the Transportation Department’s Personal Services appropriation by \$263,000 and increases the estimate for Revenue from Local Agencies by \$377,424. Funding from the Valley Transpiration Authority (VTA) will provide temporary staffing to support the City’s federal, State, and regional transportation policy and legislative efforts, and to perform work related to policy efforts with the Metropolitan Transportation Commission, the VTA, California Transportation Commission, and other associated State and federal advocacy efforts. In September 2025, the City Council approved an agreement with the VTA which provides reimbursement to the City for staff costs incurred as part of this coordination effort. The agreement is retroactively effective from February 2025 and extends until December 2026, with a not to exceed amount of \$526,000. The Transportation Department incurred reimbursable expenses for the temporary staffing in 2024-2025 of \$114,424 and expects to invoice an additional \$263,000 in 2025-2026. As a result, the Transportation Department anticipates reimbursements totaling \$377,424 in 2025-2026. (\$114,000)

Impacts on the 2025-2026 General Fund Budget

- **Other Remaining Adjustments** – Remaining actions include technical corrections or reallocations, and other smaller adjustments (-\$431,000). Notable actions include:
 - o increasing the respective City Council District appropriations to allocate sponsorship revenue received in 2024-2025 (-\$83,000);
 - o increasing the Police Department’s Non-Personal/Equipment appropriation to support the City’s share of costs for the South Bay Information Sharing System (-\$76,000);
 - o increasing the Fire Department’s Non-Personal/Equipment appropriation for the replacement of dual-chambered auto-injector kits (-\$75,000);
 - o increasing the Fire Department’s Non-Personal/Equipment appropriation to support continued maintenance and preventative care services for previously acquired emergency medical services devices (-\$66,000);
 - o increasing the Fire Department’s Non-Personal/Equipment appropriation to replace Automated External Defibrillators (-\$60,000);
 - o increasing the Arena Public Safety City-Wide Expenses appropriation (retitled from Arena Peddler Mitigation Program) to reimburse the San José Sharks for the purchase and deployment of security cameras as required by the recently approved agreement (-\$50,000);
 - o increasing the budget for Council District 8 to address the additional costs for a last-minute drone show for the 4th of July Celebration at Lake Cunningham (\$-30,000); and
 - o establishing the Business Improvement District Creation City-Wide Expenses appropriation to complete the formation of The Alameda Community Benefit Improvement District (-\$20,000).

Additionally, several net-zero actions reallocate funding from the:

- o Transportation Department’s Non-Personal/Equipment appropriation to the Police Department’s Personal Services appropriation for temporary staffing to assist with monitoring the red- light running program (net-zero adjustment of \$211,000);
- o City Manager’s Office of Economic Development and Cultural Affairs to the Planning, Building and Code Enforcement Department to reflect the deletion of 1.0 Senior Executive Analyst position and addition of 1.0 Development Officer under Planning, Building and Code Enforcement, limited to June 30, 2030, to better support the Energy Customer Development Team (net-zero adjustment of \$186,000);
- o San José Museum of Art Cooling Tower Replacement project to the San Jose Museum of Art Improvements project to reallocate savings for minor improvements and maintenance projects at the facility (net-zero adjustment of \$150,000); and,
- o Environmental Services Department’s Non-Personal/Equipment appropriation to a new City-Wide Expenses appropriation for the Purified Water Program (net-zero adjustment of \$111,000).

- **Grants/Reimbursements/Fees (Net-Zero)**

- A series of adjustments – net increase in revenues of \$2.6 million, offset by a net expenditure increase of \$2.6 million – are recommended to recognize new and updated revenues and expenditures for **Grants, Reimbursements, and/or Fees**, primarily for the following departments: Public Works Department (net-zero adjustments of \$836,000); Fire Department (net-zero adjustments of \$691,000); Library Department (net-zero adjustments of \$374,000); Police Department (net-zero adjustments of \$235,000); Environmental Services Department (net-zero adjustments of \$210,000); and, Information Technology Department (net-zero adjustments of \$150,000). These adjustments are further described in *Section IV. Recommended Budget Adjustments and Clean-Up/Rebudget Actions*.

2024-2025 Selected Special/Capital Funds Budget Performance
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Airport Operating Funds

The Airport served 11.4 million passengers in 2024-2025, which was a decrease of 4.7% from 2023-2024. Passenger traffic saw a small decrease as broader economic uncertainty is influencing airline operational decisions, leading some carriers to reduce flights, consolidate routes, or defer planned expansions. For 2025-2026, passenger levels are projected to decline slightly by 0.7% from 2024-2025 to 11.3 million passengers.



2024-2025 Selected Special/Capital Funds Budget Performance (Cont'd.)

The different airport activity categories had a mixed performance when compared to 2023-2024. Parking exits (-8.6%), mail/freight/cargo pounds (-6.4%), landed weights (-2.5%), and traffic operations (-1.0%) all declined, which were partially offset by growth in gallons of aviation fuel sold (22.8%) and ground transportation trips (3.7%).

In 2024-2025, revenue performance ended the year \$12.9 million (5.3%) above the budgeted estimate. Airline Rates and Charges (combined total of landing fees and terminal rents) and all other operating categories, excluding transfers and grant funding, ended the year at \$241.2 million, which was \$12.9 million (5.6%) above the budgeted estimate of \$228.4 million. The positive variance was driven by higher revenues in Terminal Concessions, General Aviation/Miscellaneous, Terminal Rentals, Landing Fees, Airfield, and Petroleum, partially offset by lower-than-budgeted Parking and Roadway revenues.

The Airport Customer Facility and Transportation Fee Fund realized year-end expenditure savings of \$174,000 (1.0%), while the Airport Maintenance and Operation Fund reported savings of \$12.9 million (8.0%) compared to the budgeted level of \$162.0 million. These savings were primarily due to lower non-personal/equipment expenditures (\$9.5 million), reflecting reduced costs for custodial services, customs and border protection, shuttle bus operations, and parking services. In addition, \$3.8 million in savings resulted from an overestimation of the net remaining revenue share that, by agreement, would need to be returned to the airlines. This moderately conservative estimate is intentional, as it helps avoid a year-end transfer that could otherwise exceed the appropriation.

San José Clean Energy Fund

The San José Clean Energy Fund, managed by the Energy Department, facilitates the delivery of the San José Clean Energy (SJCE) program. Total Energy Sales of \$445.9 million were below prior year levels of \$471.3 million primarily due to moderating rates and generally flat energy demand. Cost of Energy expenditures, including encumbrances, ended the year at \$430.0 million, slightly above prior year levels of \$426.6 million. SJCE maintains an investment-grade credit rating, indicating a strong and stable financial outlook. Nonetheless, the high volatility of market prices, changes in the regulatory environment, and PG&E's Power Charge Indifference Adjustment (PCIA) fees remain risk factors. The City Council's Financial Reserve Policy authorizes an Operations Reserve of at least 180 days of operating costs – currently at \$234.0 million – and a Rate Stabilization Reserve that defers ratepayer revenue to be recognized in a future year to offset expenditures and ensure customer rates remain competitive and affordable, which was increased from \$50.0 million to \$106.0 million with the deferral of \$56.0 million at fiscal year-end. Staff anticipates leveraging the Rate Stabilization Reserve in 2025-2026 to offset anticipated rate increases later in the fiscal year due to an anticipated increase in the PCIA.

2024-2025 Selected Special/Capital Funds Budget Performance (Cont'd.)

Capital Fund Major Revenues

A number of taxes and fees levied on construction and property resale (conveyance) activity provide a large source of revenue to the City’s Capital program. The 2024-2025 actual collections in these capital revenue categories ended the year below budgeted estimates. The chart below provides a comparison of estimated revenues to actual revenues, and a discussion of the three largest revenue sources follows.

**Real Estate and Construction-Related Capital Program Revenues Comparison
 (\$ in Thousands)**

	2024-2025 Estimate*	2024-2025 Actuals	% Variance
Construction and Conveyance Tax	\$43,000	\$39,008	(9%)
Building and Structure Construction Tax	\$20,000	\$20,469	2%
Construction Excise Tax	\$15,000	\$14,215	(5%)
Municipal Water System Fees	\$120	\$443	269%
Residential Construction Tax	\$200	\$142	(29%)
Sanitary Sewer Connection Fee	\$500	\$476	(5%)
Storm Drainage Connection Fee	\$180	\$233	29%
	\$79,000	\$74,986	(5.1%)

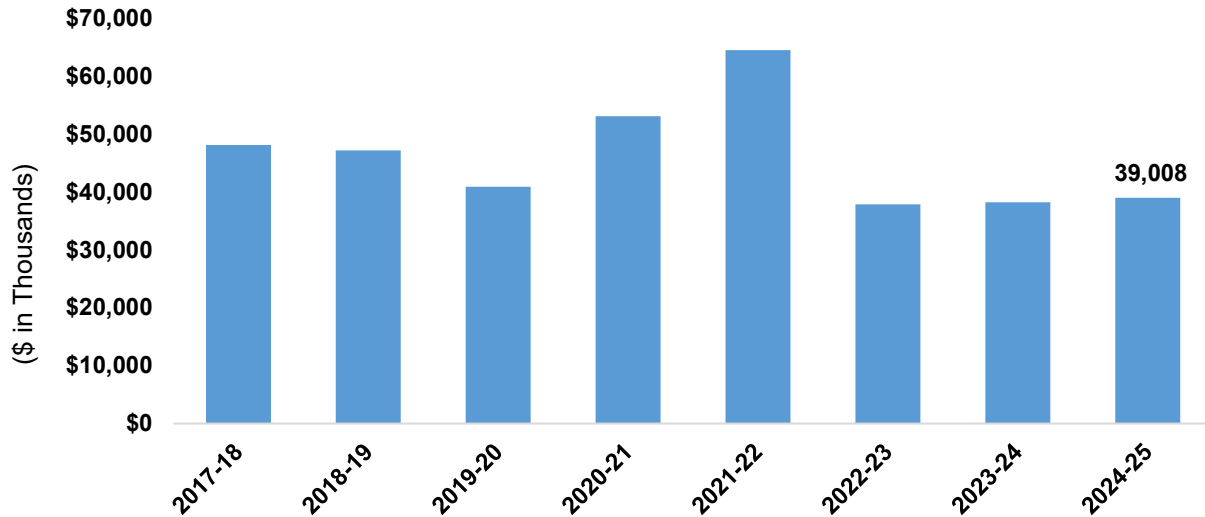
* Revenue estimate used in the development of the 2025-2026 Adopted Capital Budget.

- **Construction and Conveyance Tax**

Real estate activity (primarily housing re-sales) determines the collection level of one of the major capital revenue sources, the Construction and Conveyance (C&C) Tax. Approximately 99% of C&C Tax is derived from a tax imposed upon each transfer of real property, with the remaining 1% generated from a construction tax levied on most types of construction. C&C Tax revenues, which are a significant source of funds for the Parks and Community Facilities Development, Library, Fire, Service Yards, and Communications capital programs, totaled \$39.0 million in 2024-2025. This collection level is \$4.0 million below the estimated collection level. In 2025-2026, C&C Tax revenue is budgeted at \$47.0 million, which would now require year-over-year growth of over 20%. Given the volatile nature of the C&C Tax, receipts will be closely monitored with budget adjustments brought forward later in the budget process, if deemed necessary. The following graph displays the history of C&C Tax receipts.

2024-2025 Selected Special/Capital Funds Budget Performance (Cont'd.)

Construction and Conveyance Tax Revenues

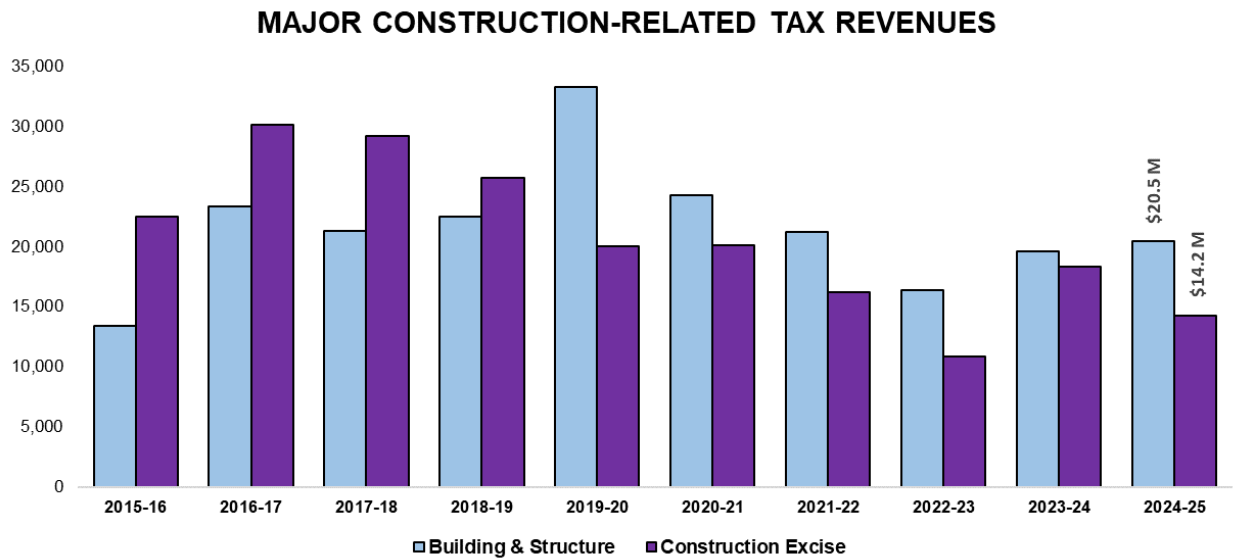


- **Building and Structure Construction Tax and the Construction Excise Tax**

The Building and Structure Construction Tax and the Construction Excise Tax are major sources of funding for the Traffic Capital Program. Year-end collections in the Building and Structure Construction Tax category totaled \$20.5 million in 2024-2025. This collection level was 20.4% (\$3.5 million) above the Modified Budget estimate of \$17.0 million, 2.3% (\$469,000) above the \$20.0 million estimate used to develop the 2025-2026 Adopted Capital Budget, and \$843,000 more than the \$19.6 million received in 2023-2024. Year-end collections in the Construction Excise Tax category totaled \$14.2 million in 2024-2025. This collection level was 11.2% (\$1.8 million) below the Modified Budget estimate of \$16.0 million, 5.2% (\$785,000) below the \$15.0 million used to develop the 2025-2026 Adopted Capital Budget, and 22.5% (\$4.1 million) below 2023-2024 collections of \$18.4 million.

The graph below displays the collection history of both the Building and Structure Construction Tax and Construction Excise Tax receipts. Tax collections track closely to permit valuation activity. In 2024-2025 overall permit valuations increased slightly from the prior year, though still below historical highs in 2019-2020. In 2024-2025, building project valuations for residential and industrial categories decreased by 33.6% and 25.4%, respectively, compared to the prior year. However, the project valuations for the commercial category increased significantly, ending the year 89.1% higher than 2023-2024. The status of these taxes will be closely monitored throughout 2025-2026 to determine if future budget actions are necessary to revise the revenue estimates.

2024-2025 Selected Special/Capital Funds Budget Performance (Cont'd.)



Special and Capital Funds Budget Adjustments

A number of budget adjustments for both special and capital funds are included in this report, including recognition of grants, net-zero transfers/reallocations, new allocations for a small number of high priority projects and programs, and required fund rebalancing activity. Highlights of significant actions within these funds are described below.

Several actions are included within Housing Funds to continue the City’s housing production and preservation goals, as well as to provide services for residents experiencing homelessness. After taking into account the actions to close out the fiscal year and other adjustments included in this report, a total of \$50.9 million is allocated to the Housing Projects Reserve to support future affordable housing efforts within the Low and Moderate Income Housing Asset Fund, facilitated in part by a transfer of \$22.9 million of Measure E funds from the Real Property Transfer Tax to reimburse for land acquisition costs for the Vista Montana project.

Within the Real Property Transfer Tax Fund, actions are included to reflect savings of \$24.9 million from the withdrawal of a City loan for the Lupina affordable housing project that will now be funded by the County to allow these resources to be repositioned to support other affordable housing developments, and increasing by \$5.0 million the funding commitment for the 525 North Capitol Avenue affordable housing project. Lastly, combined funding of \$3.6 million will support continued homeless outreach and support services through the Targeted Outreach and Engagement Program (TOEP) within the Multi-Source Housing Fund (\$2.1 million), the Homeless Housing, Assistance, and Prevention Fund (\$800,000), and the Housing Trust (\$700,000).

2024-2025 Selected Special/Capital Funds Budget Performance (Cont'd.)

In the Airport Renewal and Replacement Fund, recommended adjustments include establishing the Future Capital Rehabilitation Reserve at \$70.0 million to set aside funding for capital rehabilitation improvements at the Airport. Given the uncertainty with both passenger level growth and the City's ability to continue receiving FAA grant awards, the Airport is planning to defer large capital projects such as the Belly Freight Facility and the Terminal A and B Ramp Rehabilitation projects outside of the Five-Year Capital Improvement Plan (CIP) horizon and use available resources to focus on rehabilitation of existing capital assets. The Airport will present a plan for rehabilitation priorities as part of the 2026-2027 Proposed Capital Budget Mid-Biennial Update.

In the Building and Structure Construction Tax Fund, actions include elimination of the \$4.2 million Monterey Grade Separation project. In August 2025, the Transportation Department received notification that the United States Department of Transportation – Federal Railroad Administration (DOT FRA) withdrew its selection of the City's Southern San José Grade Separations (Monterey Road) Project for DOT FRA funding. The project was funded by a \$7.5 million Consolidated Rail Infrastructure and Safety Improvements federal grant and local match of \$2.5 million. The project provided funding for the preliminary engineering and environmental clearance to grade separate three at-grade crossings on the Union Pacific Railroad Corridor (Skyway Drive, Branham Lane, and Chynoweth Avenue). The \$4,175,000 reflects the estimated project costs for 2025-2026 as included in the 2026-2030 Adopted Traffic CIP.

In the Construction Excise Tax Fund, actions include elimination of the \$500,000 Bikeshare to La Plaza project. In May 2025, the Transportation Department received notification that the United States Environmental Protection Agency (EPA) terminated the \$1.0 million Environmental Justice Government-to-Government grant awarded to the City of San José to expand the bikeshare program and connect the Mayfair neighborhood in East San José with the rest of San José's bikeshare network. The project was fully funded by the grant. The \$500,000 reflects the estimated project costs for 2025-2026 as included in the 2026-2030 Adopted Traffic CIP.

In the Subdivision Park Trust Fund, a \$1.0 million increase to the St. James Park Design project, from \$834,000 to \$1.8 million, is recommended to ensure completion of the Phase I design for a splash pad and WiFi installation by spring 2026.

Finally, the rebudget of unexpended funds for projects and programs extending into 2025-2026 is recommended in this report. Details of these adjustments can be found in Section IV of this report.

STATUS ON CITY COUNCIL REFERRALS

As part of City Council's approval of the Mayor's June Budget Message for Fiscal Year 2025-2026, should additional funding become available, the City Council directed the City Manager to bring forward recommendations for City Council consideration as part of the 2024-2025 Annual Report, the 2025-2026 Mid-Year Budget Review, or other appropriate time, to increase funding for immigration services and emergency support for undocumented residents. Given the lack of available funding, this report does not recommend additional funding above the \$1.0 million already included in the 2025-2026 Adopted Operating Budget for strengthening legal services, expanding outreach, education, and prevention, and enhancing emergency response.

NEXT STEPS

The results of the 2024-2025 Annual Report will provide an updated starting point for monitoring 2025-2026 financial performance, with actual revenue and expenditure trends factored into the analysis of the General Fund and numerous special and capital funds. Information on the City's budget for 2025-2026 will be provided in the Bi-Monthly Financial Reports that are distributed to the PSFSS Committee or released to the City Council as an Information Memorandum, and the 2025-2026 Mid-Year Budget Review.

The 2024-2025 Annual Report results will also be factored into the 2026-2027 budget development process. The General Fund Five-Year Forecast is scheduled to be released in late February 2026. The 2026-2027 Proposed Operating Budget and the 2026-2027 Proposed Capital Budget Mid-Biennial Update are scheduled to be released by May 1, 2026.

COORDINATION

The City Manager's Budget Office coordinated with the Finance Department on the reconciliation of the City's funds and coordinated with all City Departments and City Council Appointees, as applicable, on recommended budget adjustments that are brought forward in this document.

PUBLIC OUTREACH

This document will be posted on the City's Council Agenda website for the October 21, 2025 City Council meeting.

COMMISSION RECOMMENDATION AND INPUT

No commission recommendation or input is associated with this action.

CEQA

Not a Project, File No. PP17-009, Staff Reports, Assessments, Annual Reports, and Informational Memos that involve no approval of any City actions, and File No. PP17-004, Government Funding Mechanism of Fiscal Activity with no commitment to a specific project which may result in a potentially physical impact on the environment.

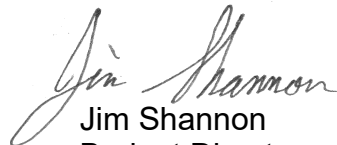
PUBLIC SUBSIDY REPORTING

This item does not include a public subsidy as defined in section 53083 or 53083.1 of the California Government Code or the City's Open Government Resolution.

CONCLUSION

Through careful fiscal management, overall revenues for the various City funds ended the year close to estimated levels and expenditures were below budgeted allocations. As a result of rigorous forecasting, monitoring, and management throughout all City funds, 2024-2025 revenues and expenditures ended the year very close to budgeted expectations. In the General Fund, the additional fund balance at the end of 2024-2025, after considering clean-up/rebudget actions, totaled \$1.2 million (0.03% of the Modified Budget for revenues and expenditures). Along with a number of net-zero adjustments related to grants, reimbursements and fees, recommendations are included in this report to fully allocate these funds to meet prior City Council direction.

The Administration will continue to monitor and report on the City's budget performance through the Bi-Monthly Financial Reports and the Mid-Year Budget Review. The financial results of 2024-2025, as well as the actual performance in 2025-2026, will be factored into the development of the 2026-2027 budget. The 2027-2031 General Fund Five-Year Forecast will be released at the end of February 2026 for budget planning purposes.


Jim Shannon
Budget Director

CERTIFICATION OF FUNDS

I hereby certify that there will be available for appropriation in the designated funds and in the amounts as listed below in fiscal year 2025-2026 monies in excess of those heretofore appropriated therefrom:

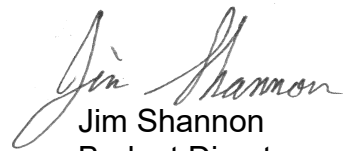
General Fund	\$38,404,789
Airport Capital Improvement Fund	\$7,219,784
Airport Customer Facility and Transportation Fee Fund	\$1,180,989
Airport Renewal and Replacement Fund	\$67,843,549
Airport Revenue Fund	\$1,628,722
Branch Libraries Bond Projects Fund	\$167,913
Building and Structure Construction Tax Fund	\$19,758,970
Building Homes and Jobs Act Fund	\$707,656
Business Improvement District Fund	\$1,196,130
Cash Reserve Fund	\$32
Citywide Planning Fee Program Fund	\$905,195
City Hall Debt Service Fund	\$298,295
Community Development Block Grant Fund	\$4,074,206
Community Facilities District Fund #8	\$192,621
Community Facilities District Fund #11	\$29,801
Community Facilities District Fund #12	\$24,512
Community Facilities District Fund #13	\$12,059
Community Facilities District Fund #14	\$98,862
Community Facilities District Fund #15	\$53,881
Community Facilities District Fund #16	\$10,917
Community Facilities District Fund #17	\$14,555
Construction and Conveyance Tax – Communications	\$283,894
Construction and Conveyance Tax – Council District 1	\$135,047
Construction and Conveyance Tax – Council District 2	\$155,004
Construction and Conveyance Tax – Council District 3	\$217,348
Construction and Conveyance Tax – Council District 4	\$2,590,046
Construction and Conveyance Tax – Council District 5	\$1,612,735
Construction and Conveyance Tax – Council District 6	\$431,604
Construction and Conveyance Tax – Council District 8	\$397,544
Construction and Conveyance Tax – Council District 9	\$384,798
Construction and Conveyance Tax – Fire	\$296,281
Construction and Conveyance Tax – Parks Central	\$945,153
Construction and Conveyance Tax – Parks City-wide	\$3,174,316
Construction and Conveyance Tax – Parks Yards	\$238,385
Construction and Conveyance Tax – Service Yards	\$268,723

CERTIFICATION OF FUNDS

Contingent Lien District Fund	\$48,531
Convention and Cultural Affairs Capital Fund	\$80,999
Convention and Cultural Affairs Fund	\$1,207,820
Convention Center Facility District Capital Fund	\$684,912
Convention Center Facilities District Revenue Fund	\$973,087
Economic Development Administration Loan Fund	\$116
Edward Byrne Memorial Justice Assistance Grant Trust Fund	\$11,769
Emma Prusch Fund	\$4,966
Evergreen Benefit Assessment District Fund	\$214,871
Evergreen Creek Assessment District Fund	\$145,751
Evergreen East Hills Traffic Impact Fee Fund	\$8,155,956
Fire Development Fee Program Fund	\$420,468
General Purpose Parking Capital Fund	\$3,553,848
General Purpose Parking Fund	\$1,071,311
Gift Trust Fund	\$3,518,569
Home Investment Partnership Program Trust Fund	\$2,278,991
Housing Trust Fund	\$1,116,232
Interstate 280/Winchester Traffic Impact Fee Fund	\$1,407,438
Ice Centre Revenue Fund	\$317,796
Inclusionary Fee Fund	\$16,310,000
Integrated Waste Management Fund	\$3,444,906
Lake Cunningham Fund	\$52,141
Library Parcel Tax Capital Fund	\$148,766
Library Parcel Tax Fund	\$586,637
Low and Moderate Income Housing Asset Fund	\$66,203,080
Maintenance District Fund #1	\$67,821
Maintenance District Fund #11	\$17,816
Maintenance District Fund #18	\$8,920
Maintenance District Fund #19	\$5,868
Maintenance District Fund #20	\$15,123
Major Collectors and Arterials Fund	\$3,162
Major Facilities Fund	\$775,782
Measure T Public Safety and Infrastructure Bond Fund	\$13,147,115
Multi-Source Housing Fund	\$20,808,640
Municipal Golf Course Fund	\$229,814
North San Jose Traffic Impact Fee Fund	\$43,813,146
Parks and Recreation Bond Projects Fund	\$725,236
Planning Development Fee Program Fund	\$1,797,394
Public Works Development Fee Program Fund	\$4,555,926
Public Works Program Support Fund	\$1,595,296

CERTIFICATION OF FUNDS

Public Works Small Cell Permitting Fee Program Fund	\$646,859
Real Property Transfer Tax Fund	\$7,903,905
Rental Stabilization Program Fee Fund	\$1,520,779
Residential Construction Tax Contribution Fund	\$316,384
US-101/Oakland/Mabury Traffic Impact Fee Fund	\$20,196,980
San José Arena Capital Reserve Fund	\$2,884,658
San José Clean Energy Operating Fund	\$9,280,443
San José-Santa Clara Treatment Plant Capital Fund	\$12,621,411
San José-Santa Clara Treatment Plant Income Fund	\$143,189
San José-Santa Clara Treatment Plant Operating Fund	\$5,755,379
Sanitary Sewer Connection Fee Fund	\$153,736
Sewer Service and Use Charge Capital Improvement Fund	\$8,034,272
Sewer Service and Use Charge Fund	\$1,989,502
Shea Homes Advance Assessment District Fund	\$18,886
Silicon Valley Bridge Assessment District Fund	\$19,240
Silver Creek Assessment District Fund	\$14,680
South Bay Water Recycling Capital Fund	\$47,098
South Bay Water Recycling Operating Fund	\$3,788,079
St. James Park Management District Fund	\$97,485
State Gas Tax Pavement Maintenance Fund	\$51,460,037
Storm Drainage Fee Fund	\$51,298
Storm Sewer Capital Fund	\$7,499,330
Subdivision Park Trust Fund	\$3,492,555
Supplemental Law Enforcement Services Fund	\$42,630
Transient Occupancy Tax Fund	\$1,934,189
Underground Utility Fund	\$3,809,125
VRF Measure B Pavement Maintenance Fund	\$10,814,525
VTA Measure B Pavement Maintenance Fund	\$38,560,694
Water Utility Capital Fund	\$11,139,189
Willow Glen Community Benefit Improvement District Fund	\$17,642
Workforce Development Fund	\$3,331,261


Jim Shannon
Budget Director