

# City of Lodi

## Budget and Fiscal Policies



Adopted by the Lodi City Council  
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# City of Lodi Budget and Fiscal Policies

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## **1. Purpose**

The City's primary financial objective is to maintain the fiscal stability of the organization. The purpose of this policy is to establish guidelines for budget development, administration, and management as well as outline the City's fiscal policies in regard to cost recovery of various programs, target reserve levels in all funds and funding mechanisms for various programs.

## **2. Budget Development**

The budget will reflect the goals and priorities of the Council each year and make the best use of available funding within those goals and priorities. While goals and priorities may change from year to year, some basic tenets will apply to all budgets. Those tenets are reflected below.

- A. The General Fund budget will be balanced each year, without the use of reserves. Current year revenues will support current year expenditures.
- B. One-time revenue will be used to fund one-time expenditures or be placed in reserves. One-time revenue will not be used to fund on-going operations.
- C. Annual budgetary savings will be used to fund one-time expenditures or be placed in reserves.
- D. Funding for the Vehicle Replacement Fund shall be based upon annual depreciation schedules for vehicles and amounts will be reflected in departmental budgets.
- E. Funding for the Other Post-Employment Benefits (OPEB) Fund shall be no less than the Actuarial Required Contribution shown in the actuarial report and charged to each fund based upon ratio of current full-time positions. All reserves in the Benefits Fund category in excess of 25% of estimated annual costs for benefits in this fund shall be budgeted for investment in the City's OPEB trust fund.
- F. Funding for CalPERS pension costs are as follows. Current year Normal Cost will be budgeted in each fund based on the estimated cost for employees in that fund. Current year Unfunded Accrued Liability (UAL) payments will be budgeted within each fund based on each fund's share of employees within each class (Safety or Miscellaneous). For purposes of allocating UAL, employees funded by Measure L will be allocated to the General Fund. The City will budget for the monthly payment of the UAL but will make the annual UAL payment to

recognize the approximately 3.6% savings offered by CalPERS on this option. The ~~Deputy~~ City Manager will then use the UAL savings to make Additional Discretionary Payments (ADP) to CalPERS to further reduce the City's UAL.

- G. Funding for the Information Technology (IT) Replacement Fund shall be based upon the replacement cycle for equipment contained in the fund.
- H. Budgetary allotments for OPEB, Pension Stabilization and IT Replacement shall be reflected in the Non-Departmental Organization Unit for all General Fund units.
  - a. Special Revenue, Enterprise and Internal Service funds will reflect budgetary allotments for these items within their respective funds.
- I. Fixed Assets
  - a. Capital purchases of \$10,000 or more, with a three-year ~~or longer~~ useful life, will be capitalized.
  - b. Infrastructure additions or new construction of \$10,000 or more will be capitalized.
  - c. Vehicle purchases of any amount will be capitalized and useful lives will be determined based upon the Government Finance Officers Association Best Practices guidelines.
  - d. Straight-line depreciation will be used for all depreciable assets.
- J. Library
  - a. The Library is primarily funded through a transfer from the General Fund. Council will set the level of funding each year based upon available General Fund revenue.
- K. Parks, Recreation and Cultural Services (PRCS)
  - a. Recreation and Community Center Programs
    - i. The goal is to recover, on average, 40% of program costs from participants. Individual programs may be fully self-supporting while other programs may have a nominal cost recovery ratio.
  - b. General Fund Transfer

- i. The General Fund Transfer shall be determined by Council each year. The intent of the General Fund Transfer is to cover the costs associated with Parks Maintenance, PRCS administration, Debt Service and Hutchins Street Square Maintenance.

L. Community Development

- a. The Community Development Department should primarily be self-supporting through fee revenue.
- b. A General Fund Transfer, determined by Council each year, will be designed to support the value of the general information function that the department provides and support at least one-half of the costs associated with a Youth Outreach function designed to divert youth involvement in gang activities.

M. Enterprise Funds

- a. Enterprise funds will set fees and rates at levels that meet operating, debt service, capital and reserve needs.

N. Internal Service Funds

- a. Internal Service funds will set rates and charges at levels that will ensure full recovery of costs each year.

**3. Budget Administration and Adjustment**

The City Council is ultimately responsible to the public for the delivery and conduct of City services and facilities. Accordingly, the Council appropriates funds to ensure the delivery of services at the levels and in the priority established by Council. The legal level of budgetary control is at the fund level.

A. City Manager

The City Manager, as the chief administrative officer, provides staff with general direction in the development and formulation of the City Manager's budget recommendations to Council. This includes: evaluating and assessing current and anticipated issues facing the City; determining the demand for services and facilities; identifying the concerns of the citizenry; assessing the current and projected financial condition of the City; and determining the final staffing recommendations.

B. ~~Administrative Deputy City Manager/Internal~~ Services Director

The ~~Administrative Deputy City Manager/Internal~~ Services Director, as the chief financial officer, is responsible for budget development and day-to-day administration of adopted budgets. This includes: developing and issuing the budget instructions and calendar; advising the City Manager on budget policies and issues, including the recommended level of funding for each department within the General Fund; reviewing budget requests to ensure they are complete and accurate; preparing the preliminary budget recommendations for review by the City Manager; and publishing the approved budget, Capital Improvement Plan, and Budget in Brief documents.

C. Department Directors

Department directors are responsible for preparing their operating and capital budget requests in accordance with the City's budget instructions and managing their respective departments within their approved budget allotments.

D. Failure to Adopt a Budget

If the City fails to adopt the budget by July 1, the City Council may elect one of the following courses of action until passage of a budget and appropriation of funds: (1) Provide the City Manager with Continuing Resolution Authority to allow continued services at expenditure levels not greater than those in the prior year budget; or (2) Require staff to obtain prior approval for any expenditure (payment) of City funds.

E. Public Record

The budget document will be available on-line at the City's website ([www.lodi.gov](http://www.lodi.gov)). Hard copies will be available for public review at the Lodi Public Library, City Hall and the Carnegie Forum.

F. Budget Adjustments

- a. City Council approval is required for any increase in total appropriations within any individual fund. All budget adjustments that increase one fund's total appropriations, including net zero budget adjustments, must have City Council approval.
- b. The City Manager ~~and Deputy City Manager~~ has the authority to adjust appropriations within a fund, so long as total appropriations within the fund do not increase. This includes adjustments between departments within a fund.

- c. Department directors have the authority to adjust appropriations within their department, so long as total appropriations within the department within the fund do not increase.

#### **4. Appropriation Limit**

The Council will annually adopt a resolution establishing its appropriation limit calculated in accordance with Article XIII B of the Constitution of the State of California, Section 7900 of the State of California Government Code, and any other voter-approved amendments or State legislation that affect the City's appropriation limit.

#### **5. Components of Fund Balance**

- A. Governmental Accounting Standards Board Statement Number 54 – Fund Balance Reporting and Governmental Fund Type Definitions outlines the requirements to report fund balance for governmental funds in specific classifications which create a hierarchy primarily based upon the extent to which a City is bound to constraints on the specific purposes for which the funds can be spent. Fund Balance consists of the following five categories:
  - i. Non-spendable fund balance: amounts that cannot be spent because they are either (a) not in a spendable form (e.g., inventories or pre-paid) or (b) legally or contractually required to be maintained intact (e.g., endowment).
  - ii. Restricted fund balance: amounts that can only be spent for the specific purposes stipulated by external resource providers either constitutionally or through enabling legislation (e.g., grants, gas tax, impact fees).
  - iii. Committed fund balance: amounts that can be used for the specific purposes determined by formal action of the government's highest level of decision-making authority. Committed fund balance can be changed only by the government taking the same formal action that initially created the commitment. (e.g., Council approved catastrophic or economic reserves).
  - iv. Assigned fund balance: amounts that are intended to be used by the government for specific purposes. Intent can be established by either the governing body or delegated to a City official.
  - v. Unassigned fund balance: the remaining amount of fund balance after all other fund balance classifications are accounted for and can be either positive or negative. Positive unassigned fund balance is available for any purpose.

## **6. Fund Balance Policies**

### **A. Committing Fund Balance**

- i. The City Council is the City's highest level of decision making authority and the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution or ordinance approved by the City Council at a City Council meeting. For reporting purposes, the resolution or ordinance approving, modifying or rescinding a fund balance commitment must be approved prior to the last day of the fiscal year for which the commitment is to be reported. The amount of the commitment may be determined in a subsequent period.

### **B. Assigning Fund Balance**

- i. The City Council retains the authority to assign fund balance.

### **C. Hierarchy of Fund Balance Use**

- i. When multiple categories of fund balance are available for expenditure, the City will spend the most restrictive funds first before moving down to the next category with available funds in the following order:
  1. Restricted
  2. Committed
  3. Assigned
  4. Unassigned.

## **7. General Fund Reserves**

Maintaining reserves in the General Fund is critical to the successful and stable short- and long-term operations of the City. Adequate reserves in the General Fund ensure that the City is able to respond to emergencies and continue providing services to the citizens of Lodi. Adequate reserves also ensure that the City will have sufficient funds available to meet its operating, capital and debt service obligations.

### **A. Catastrophic Reserve**

- i. A Catastrophic Reserve is established within the General Fund. This reserve is established to maintain the ability of the City to meet operational expenses during times of declared emergency or major catastrophe.

1. It is recognized that during a time of emergency, the City will need to expend more resources than normal operations dictate to meet the community's need. In addition to an increased level of expenditure, the tax base of the City may be impaired after a major catastrophic event.
- ii. The amount of the Catastrophic Reserve shall be a minimum of 8% of annual General Fund revenues, including Operating Transfers.
- iii. The Catastrophic Reserve shall be exclusive of all other reserve amounts.
- iv. Council may draw on the Catastrophic Reserve only upon declaration of an emergency pursuant to the Lodi Municipal Code.
- v. If the Catastrophic Reserve falls below 8% of annual General Fund revenue, including Operating Transfers, the City Manager shall prepare a plan within three months of Council approval of the [Annual Comprehensive Annual Comprehensive](#) Financial Report ([ACCAFR](#)) to restore the reserve balance to the 8% level within 12 months.
- vi. The Catastrophic Reserve is not intended for normal unanticipated expenditures and shall be funded before all other committed General Fund reserves.

#### B. Economic Reserve

- i. An Economic Reserve is established within the General Fund. This reserve is established to maintain the City's economic viability and to meet seasonal cash flow needs.
  1. It is recognized that economic cycles can cause significant fluctuations in the revenue streams of the City and the recovery from down cycles can be prolonged and affect service levels to the community dramatically. The Economic Reserve is intended to assist the City in maintaining service levels while revenues recover from a down economic cycle.
- ii. The amount of the Economic Reserve shall be a minimum of 8% of annual General Fund revenues, including Operating Transfers.
- iii. The Economic Reserve shall be exclusive of all other reserve amounts.
- iv. Council may draw on the Economic Reserve only upon adoption of a resolution of the City Council.

- v. If the Economic Reserve falls below 8% of annual General Fund revenue, including Operating Transfers, the City Manager shall prepare a plan within three months of Council approval of the ~~Comprehensive~~ Annual Comprehensive Financial Report (ACCAFR) to restore the reserve balance to the 8% level within 12 months.
  - vi. The Economic Reserve is not intended to be used to encourage development through the expansion of infrastructure to undeveloped areas of the City and shall be funded once the General Fund Catastrophic Reserve is fully funded.
- C. Should there be a lower fund balance presented in the proposed Budget, the City Manager shall first recommend use of Pension Stabilization Funds to offset Unfunded Accrued Liability (UAL) costs in the Fiscal year. The Administrative Services Director~~Deputy City Manager~~ shall first pay all UAL costs with current year resources and shall only draw on the PSF in the final month of the Fiscal Year if in his/her opinion it is still estimated a draw is needed to meet the 16% total fund balance requirement.

## 8. Measure L Fund Reserves

As a general-purpose revenue, maintaining healthy reserves in the Measure L fund is critical for the same reasons as in the General Fund. Adequate reserves ensure that the City will continue to be able to provide Lodi citizens the services funded by Measure L in the long term. The Measure L Fund shall maintain the same 8% Catastrophic and 8% Economic Reserves as outlined under Section 7 A. and Section 7 B. above. Measure L Funds shall not be subject to the City's Pension Stabilization Policy. By allocating UAL in the method described in Section 1 F. above, the General Fund will cover any UAL costs attributable to the employees funded by Measure L.

~~As a new revenue stream beginning April 1, 2019, Measure L will take time to build up a reserve to comply with this policy. Initially, the fund balance will be built to the full 16% combined fund balance over a three-year timeframe beginning with the FY 2019/20 budget and ending with FY 2021/22. Budgets from FY 2019/20 through FY 2021/22 shall include approximately 5.33% of revenue as a deliberate set aside to fund these reserve categories.~~

## 9. Special Revenue Fund Reserves

Maintaining reserves in the City's Special Revenue Funds is also critical to the successful and stable short- and long-term operations of the City. Adequate reserves in the Special Revenue Funds, where appropriate, ensure that the City is able to carry out the purpose of

the special revenue fund and ensure compliance with underlying laws and contractual provisions associated with the funds. Additionally, bond rating agencies often evaluate a City's General Fund financial resilience by looking at reserves that may be drawn from Special Revenue funds to help support General Fund activities.

A. Library

- i. Since the Library is primarily funded by a General Fund transfer, there is no need to duplicate reserves associated with the transfer amount within the Library Fund.
- ii. Reserves within the Library Fund should be maintained at a minimum level of 16% of annual Non-General Fund Transfer revenue.

B. Parks, Recreation and Cultural Services (PRCS)

- i. Since a significant portion of PRCS revenue comes from a General Fund transfer, there is no need to duplicate reserves associated with the transfer amount within the PRCS fund.
- ii. Reserves within the PRCS Fund should be maintained at a minimum level of 16% of annual Non-General Fund Transfer revenue.

C. Community Development

- i. The Community Development Fund is primarily self-supporting from fee revenue associated with development activities. The activities and financing of this fund are subject to wide fluctuations based upon the state of the development economy. Many of the fees assessed are collected ahead of services being provided. In the event of an economic downturn, the fund will have collected fees for services that have not yet been provided. As such, it is prudent to carry a large reserve to recognize that the reserve represents services that have not yet been provided.
- ii. Reserves within the Community Development Fund should be maintained at a minimum level of 50% of annual operating expenses, including transfers.

D. Vehicle Replacement

- i. It is the City Council's goal to maintain reserves in the Vehicle Replacement equal to the accumulated depreciation of the vehicles in the fund.

1. The City Manager's proposed budget will recommend fully funding vehicle replacement funds equal to the annual straight-line depreciation of all vehicles in the fund.
2. Should Council elect not to fund the straight-line annual depreciation in the budget, the Administrative Services Director ~~Deputy City Manager~~ will report on the short fall in the fund within the budget document.
3. It is recognized that a shortfall currently exists and fully funding only one year of straight-line depreciation will result in a continued under-funding of vehicle replacements until the current vehicle stock is replaced.

#### E. Information Technology Replacement

- i. It is the City Council's goal to maintain reserves in the Information Technology Replacement fund equal to the accumulated depreciation of the equipment in the fund.
  1. The City Manager's proposed budget will recommend fully funding the Information Technology Replacement fund equal to the annual straight-line depreciation of all equipment in the fund.
  2. Should Council elect not to fund the straight-line annual depreciation in the budget, the Administrative Services Director ~~Deputy City Manager~~ will report on the shortfall in the fund within the budget document.
  3. It is recognized that a shortfall currently exists and fully funding only one year of straight-line depreciation will result in a continued under funding of Information Technology Equipment replacements until the current equipment stock is replaced.

#### F. Other Special Revenue Funds

- i. All reserve balances in the following fund categories are restricted by the terms of the individual funds within the fund category:
  1. Streets
  2. Transportation Development Act
  3. Community Development Block Grant

4. Debt Service
5. Public Safety Special Revenue
6. General Fund Capital Outlay
7. Parks Capital Outlay
8. Vehicle and Equipment Replacement

## **10. Enterprise Fund Reserves**

Maintaining reserves in the City's Enterprise Funds is also critical to the successful and stable short- and long-term operations of the City. Adequate reserves in the Enterprise Funds ensures that the City is able to carry out the purpose of the fund and ensures compliance with underlying laws and contractual provisions associated with the funds. Among other metrics, bond rating agencies review compliance with reserve policies in determining credit ratings.

### A. Electric Utility

- i. The City Council separately adopts a reserve policy for the Electric Utility and reviews the components of the policy every three years. As part of the annual budget process, Council is apprised of the level of reserves desired under that policy.

### B. Water Utility

- i. The City Council has adopted a financial model for the Water Enterprise that incorporates a reserve target of 25% of Operating Expenses.
- ii. Additionally, all funds collected in relation to PCE/TCE rates or settlements are restricted to use solely for the mitigation and remediation of those pollutants.

### C. Wastewater Utility

- i. The City Council has adopted a financial model for the Wastewater Enterprise that incorporates a reserve target of 25% of Operating Expenses.

### D. Transit

- i. All reserve funds in the Transit Enterprise are restricted as to use solely for transit purposes.

## 11. Internal Service Fund Reserves

Maintaining reserves in the City's Internal Service Funds demonstrates fiscal accountability and financial prudence. Adequate reserves in the Internal Service Funds ensure that the City has set aside sufficient funds to meet the future obligations it has committed to provide to its employees. Additionally, bond rating agencies review these funds and look favorably upon entities that are funding the long-term liabilities represented in the City's Internal Service Funds.

### A. Benefits Fund

- i. Reserves equal to 25% of the estimated annual cost of all benefits paid for by this fund.
- ii. The ~~Deputy City Manager~~/Treasurer will invest all reserves in the fund, as reported in the prior fiscal year's Annual Comprehensive Financial Report (ACCAFR), in excess of 25% of the estimated annual cost of all benefits paid in a current fiscal year upon completion of the prior fiscal year's ACCAFR.

### B. General Liability Insurance and Worker's Compensation Funds

- i. Reserves, at a minimum, equal to the 90% confidence level shown in the annual actuarial report, should be held locally and invested along with the City's pooled cash portfolio.
- ii. Funding at the 90% confidence level will be recommended in each annual budget.
- iii. The Administrative Services Director~~Deputy City Manager~~ will review the status of the funds as of December 31 each year. If it is estimated that the full budget transfer is not needed to maintain the 90% confidence level in that year, he/she may reduce the budgeted transfer for that Fiscal Year for each fund prorated to each fund's budgeted contribution.

### C. Fleet Maintenance Fund

- i. Reserves equal to a minimum of 16% of Operating Expenses shall be held in the Fleet Maintenance Fund.

## 12. Capital Improvement Plan

The City is committed to ensuring that all of its assets are operated, maintained and replaced in a manner that is the most prudent method of maintaining the public stewardship of those assets. To that end, the City will prepare and update annually a Capital Improvement Plan (CIP) that encompasses those assets and looks out over a five-year lifespan. The first year of the five-year plan will be the current budget year. The Internal Services Department will be responsible for gathering the data for inclusion in the plan.

A. CIP Projects

- i. Construction projects that are expected to cost \$25,000 or more should be included in the CIP. Projects will be a combination of projects that repair, replace or enhance existing facilities and infrastructure and projects that expand or add to the City's existing fixed assets. Vehicles and equipment (rolling stock) are not to be included in the CIP.

B. CIP Appropriations

- i. Approval of the CIP estimates beyond the current year budget do not constitute appropriation of the funds necessary or designation of the funds necessary to complete the project. Unspent current year budget allocations will automatically carryforward until project completion with the exception of unencumbered budgets in annual maintenance programs within the CIP. Upon completion of a project, unspent budget is returned to the fund until appropriated by future City Council action. Employee labor costs do not carry forward.

C. Level of Budget Control

- i. Budget control for CIP projects will be at both the general ledger account level and the CIP project level. Budget allocated to one CIP project cannot be moved to another project within the CIP or to a non-CIP use without Council approval. Department Directors may transfer budget between line items within a project and fund as long as the total expenditure for the project or for the amount of the funding source specific to that project does not increase.

D. Elements of the CIP

- i. Each project listed in the CIP will address the following items:
  - project description
  - project timeline

- anticipated funding sources
- estimated expenditures
- revenues and expenditures will be reflected by fiscal year over the five-year timespan of the CIP
- estimated annual ongoing operating and maintenance costs

### 13. Encumbrance Accounting

Encumbrances represent commitments to contracts not yet performed and orders not yet filled. They are used to control expenditure commitments for the year and to enhance cash management. Encumbrances do not represent expenditures for a period, only a commitment to expend resources. As a contract is completed, the budgetary encumbrance control accounts are liquidated or reduced and the actual expenditure is recorded.

#### A. Lapsing Appropriations

- i. All unencumbered funds lapse at the end of the Fiscal Year with the exception of Capital Projects funds. Funds encumbered on contracts will roll into the next year. The Administrative Services Director~~Deputy City Manager~~ shall review all contracts to determine what encumbered funds shall lapse due to contract completion.
- ii. Capital Projects – appropriated funds in the current fiscal year do not lapse until project completion or abandonment, whether encumbered or unencumbered.

### 14. Pension Stabilization Policy

This section replaces the policy adopted by Resolution 20~~26~~~~17~~-~~XXX~~~~219~~ and amends language and form for consistency with this policy. The policy is also updated and amended to factor in UAL funding for UAL costs attributable to positions funded by Measure L.

#### A. Pension Stabilization Funding

- i. The Treasurer is authorized to invest all fund balance in excess of 16% in the General Fund (Pension Stabilization Resources, or PSR), based on the City's Annual Comprehensive ~~Annual~~ Financial Report (ACCAFR) from the previous year in the City's Internal Revenue Code Section 115 Trust account with Public Agency Retirement Solutions (PARS); and with Council consent use PARS trust funds to make:
  - a. ADP to the Safety Plan of the City of Lodi held by CalPERS; or

- b. ADP to the Miscellaneous Plan of the City of Lodi held by CalPERS;

until such time that the combined Market Value of Assets at the two CalPERS Plans plus the Market Value of Assets in the PARS fund exceed ~~7080~~% of the combined “Entry Age Normal Accrued Liability” for both Safety and Miscellaneous or its most proximate equivalent as calculated by CalPERS in the annual Actuarial Reports.

B. Allocation of Pension Stabilization Reserve Funding

- i. PSR investments made under this policy shall be accounted for by source fund and be made from all source funds in equal proportions to the actual allocation of CalPERS combined normal cost plus UAL cost within the Fiscal Year of the most recently approved CAFR.
  - 1. The Measure L Fund shall not contribute to the Pension Stabilization Fund.
- ii. The base fund for determining the amount of proportional PSR for other funds shall be the City’s General Fund (Fund 100).
  - 1. If PSR for a particular fund is not adequate to cover the proportional requirement for that fund, the Treasurer shall prepare a report and recommendations to City Council to seek direction on PSR for that Fiscal Year.
- iii. Nothing in this policy shall allow the Treasurer to make PSR investments of any fund to have a projected year end fund balance below thresholds established in Section 7, 8, 9, 10, or 11 of this policy.
  - 1. If proportional PSR investments would cause the projected year end fund balance of any fund to fall below thresholds established in the Fiscal Policies, the Treasurer shall prepare a report and recommendations to City Council within the scope of this policy.

C. Budget Adjustments

- i. The City Manager is authorized to make any necessary budget adjustments to execute this policy in each Fiscal Year based on the calculated PSR.

D. Pension Stabilization Reporting & Distributions

- i. The Treasurer shall prepare and present the funded statuses of the City’s combined pension plans in the Annual Budget and the Mid-Year Budget report. If the value of Assets in the PARS fund exceed 70% of the combined liability, the City Manager may include a recommendation for disbursements from the PARS fund to offset qualified pension expenses as part of the Annual or Mid-Year Budget reports. No disbursements will be made without City Council approval.

## **15. Review and Update**

These policies will be in place for the 202~~31~~/~~242~~, ~~and~~ 202~~42~~/~~253~~, and 2025/26 fiscal years beginning with the FY 202~~31~~/~~242~~ budget. These policies will be reviewed and updated every two years in odd numbered years in conjunction with the approval of the annual budget. The next review cycle will be in conjunction with the FY 202~~62~~/~~274~~ budget.