

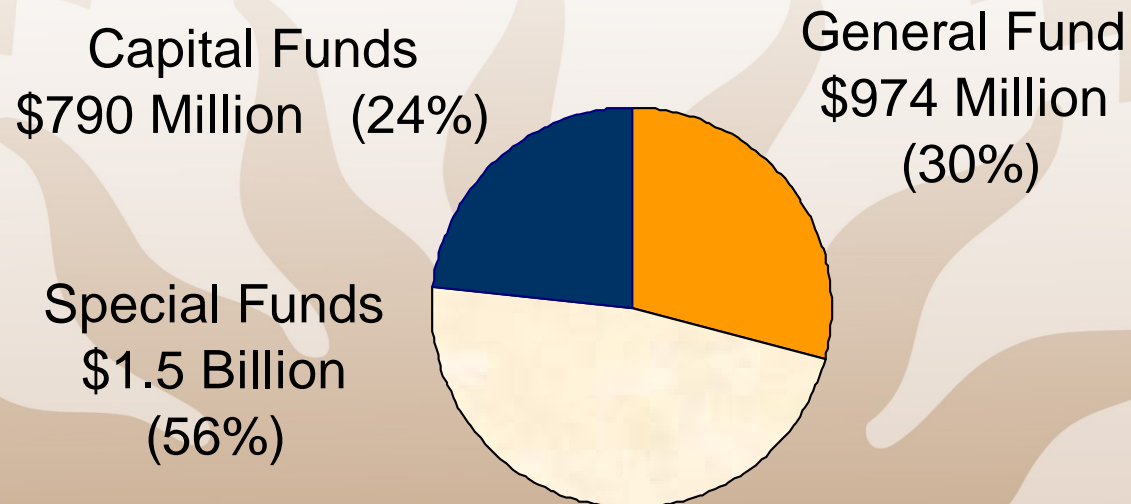
City of San José

2014-2015 Proposed Operating Budget Overview

May 7, 2014

City of San José Budget Overview

2014-2015 PROPOSED CITY BUDGET¹:	\$2.7 billion
TOTAL NUMBER OF FUNDS:	111
TOTAL NUMBER OF EMPLOYEES:	5,746



¹ An adjustment of \$588 million is necessary to arrive at the \$2.7 billion net 2014-2015 Proposed City Budget to avoid the double-counting of transfers, loans, and contributions between City funds.

2014-2015 Proposed Budget Overview

- General Fund projected surplus of \$2.5 million allocated
- All special and capital funds brought into balance
- Targeted investments in three categories:
 - Keeping Our Community Safe
 - Investing in Our Future
 - Effectively Delivering Services
- Employee compensation increases included in all funds to support modest pay increases
- Positions are up 1.6%, from 5,655 to 5,746
- Sales Tax Ballot Measure Spending Priorities Plan

2015-2019 General Fund Forecast

2015-2019 General Fund Forecast Incremental General Fund Surplus/(Shortfall)

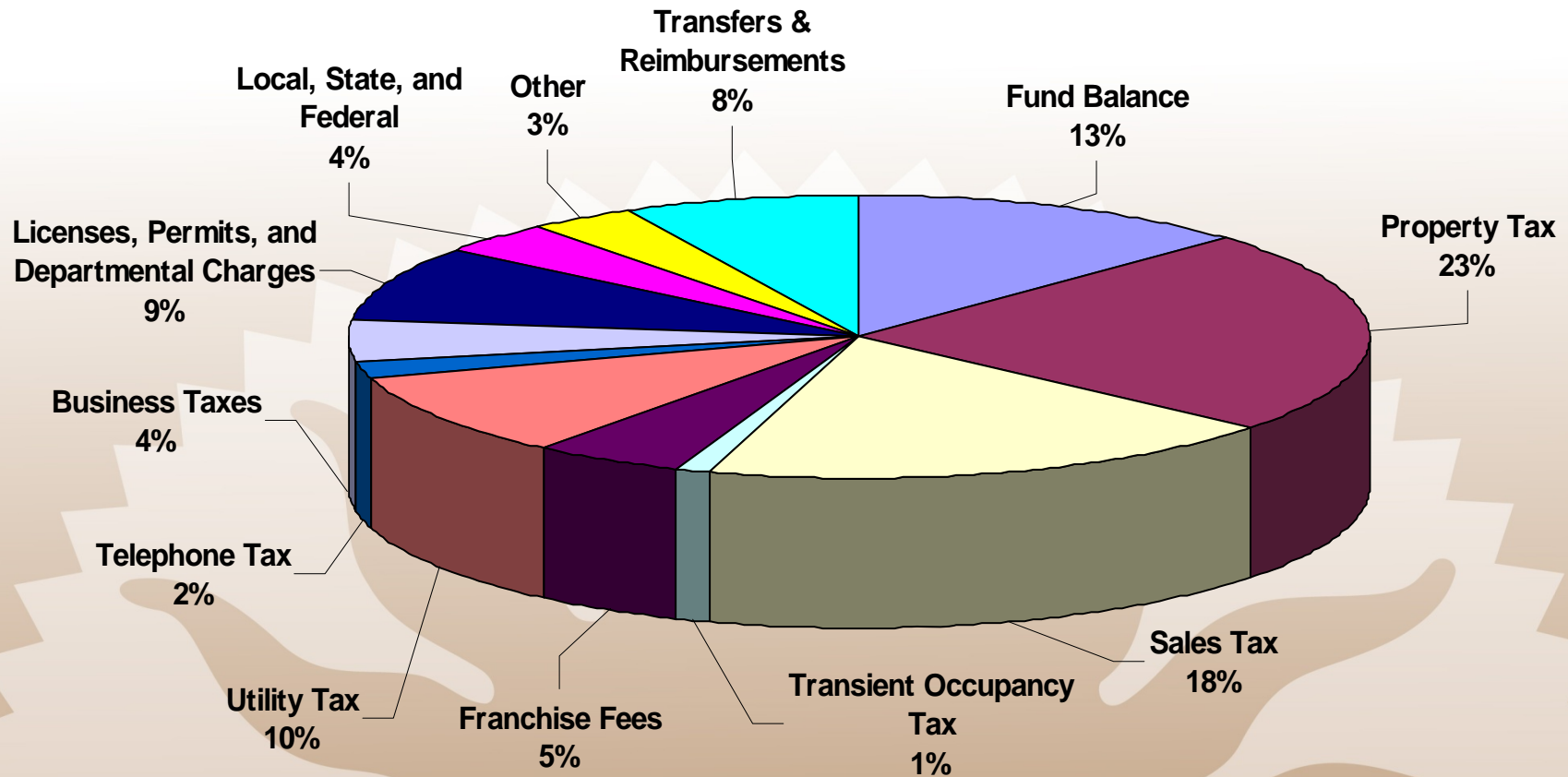
	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
Incremental Surplus/(Shortfall)	\$1.1 M*	(\$4.2 M)	\$0.4 M	(\$6.5 M)	(\$1.7 M)
% of Annual Budget	0.1%	(0.2%)	0.02%	(0.3%)	(0.1%)

* Excludes Development Fee Programs and was revised from the \$1.5 million shortfall presented in the February 2014 Forecast based on continued analysis. With a surplus of \$1.4 million in the Development Fee Programs, the General Fund surplus totals \$2.5 million for 2014-2015.

Does not include:

- Elements of the Fiscal Reform Plan that are not yet implemented
- Fully funding the annual required contributions for police retiree health care
- Services funded on a one-time basis in 2013-2014
- Restoration of key services to January 2011 levels
- Costs for a Police Staffing Restoration Strategy to increase sworn positions from 1,109 to 1,250
- Costs associated with unmet/deferred infrastructure and maintenance needs
- One-time revenues/expenses
- Potential impact with the sunseting of the Library Parcel Tax in 2015, which is budgeted in a special fund

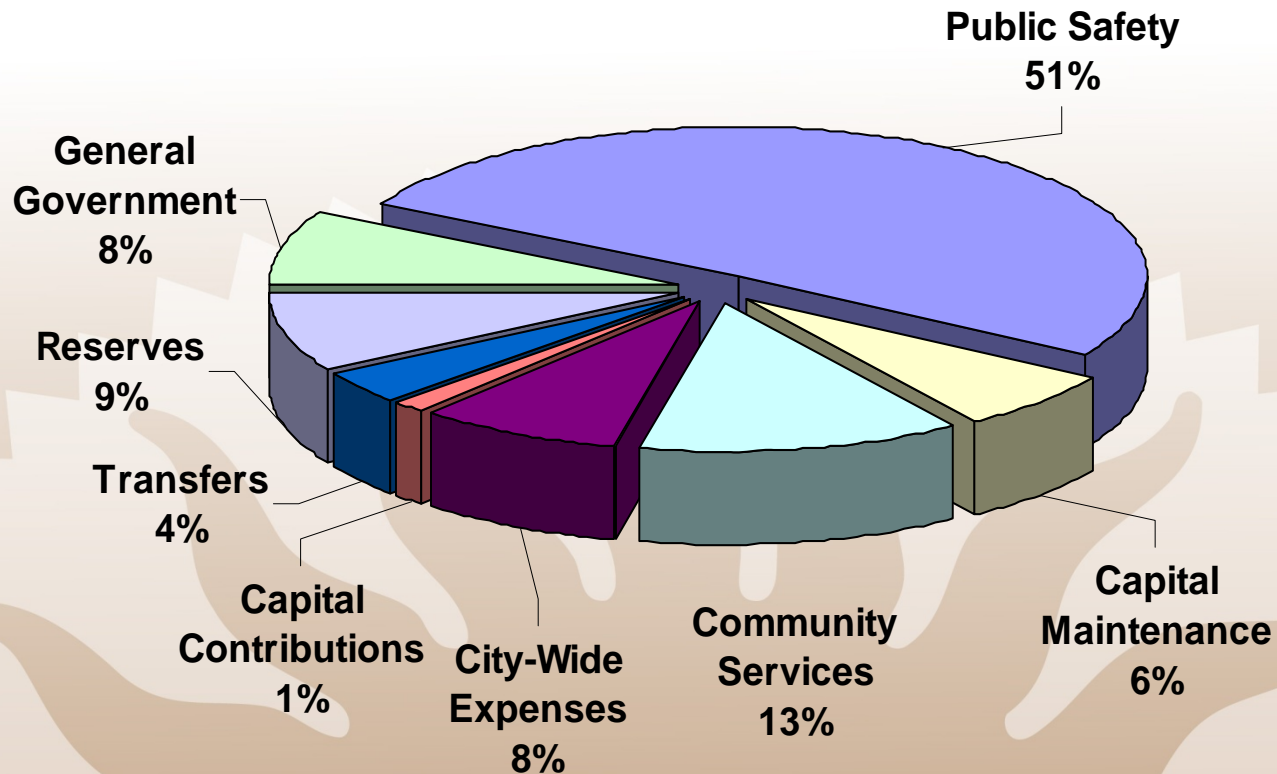
2014-2015 Proposed Budget – General Fund Funding Sources



TOTAL GENERAL FUND SOURCES: \$973,974,201

Source: 2014-2015 Proposed Budget

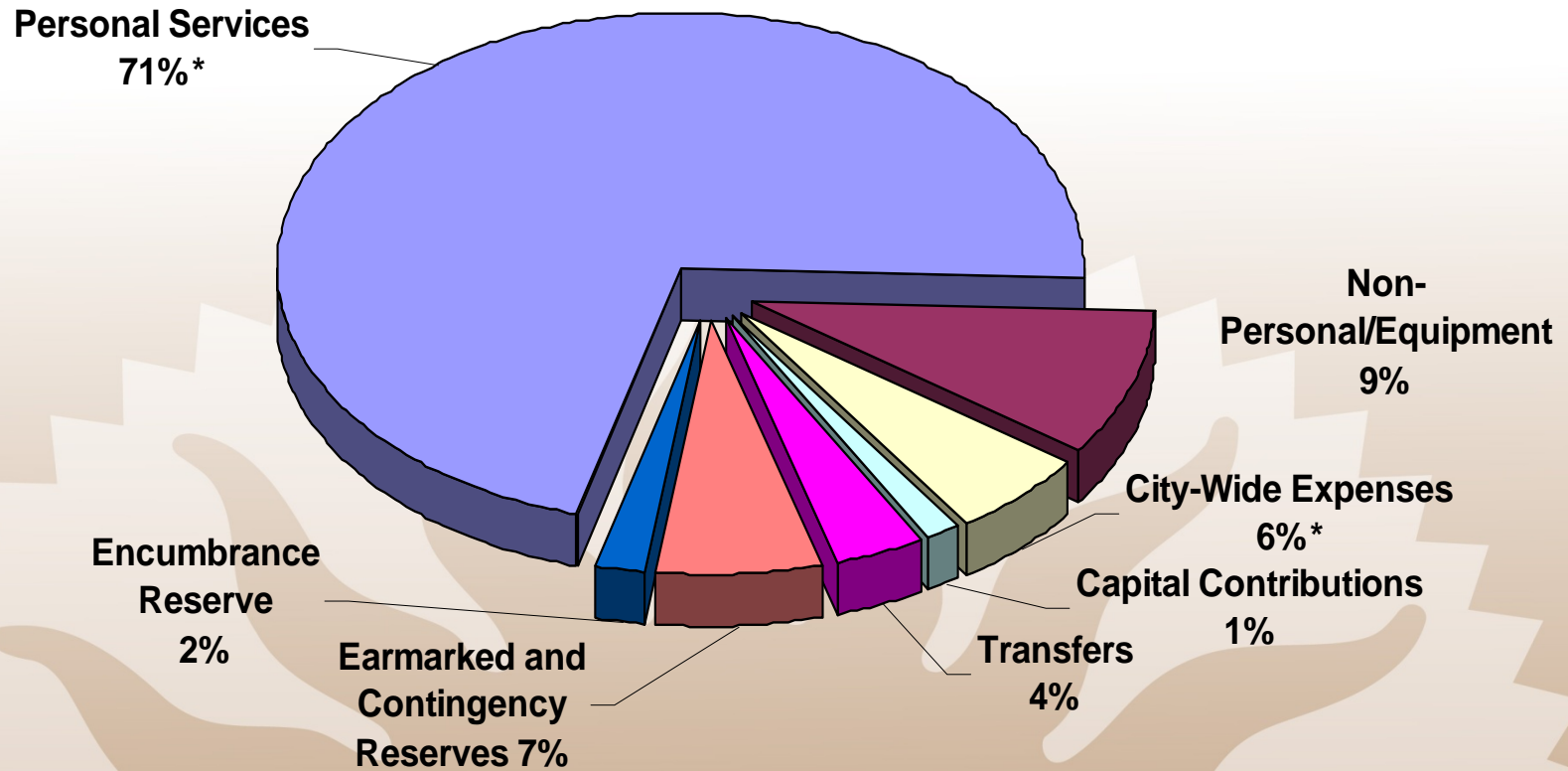
2014-2015 Proposed Budget – General Fund Uses



TOTAL GENERAL FUND USES \$973,974,201

Source: 2014-2015 Proposed Budget

2014-2015 Proposed Budget – General Fund Uses by Category



TOTAL GENERAL FUND USES \$973,974,201

* Although budgeted in City-Wide Expenses, Workers' Compensation Claims and Sick Leave Payments Upon Retirement are reflected in the Personal Services category as these are personnel-related costs.

Source: 2014-2015 Proposed Budget

2014-2015 Budget Balancing Strategy

General Framework and Policy Direction

- Mayor's March Budget Message as approved by the City Council (March 2014)
- Budget Balancing Strategy Guidelines contained in the City Manager's Budget Request as approved by the City Council (March 2014)
- Guiding Principles for Restoring City Service Levels as approved by the City Council (March 2012)
- City of San José Budget Principles as approved by the City Council (March/Sept. 2008)

2014-2015 Budget Balancing Strategy

General Fund

	<u>2014-2015</u>	<u>Ongoing</u>
General Fund Surplus	\$ 1.1 M	\$ 1.1 M
Development Fee Program Surplus	<u>1.4 M</u>	<u>1.4 M</u>
Total General Fund Surplus	\$ 2.5 M	\$ 2.5 M
Recommended Balancing Strategy		
– Changes in Sources	\$ 49.5 M	\$ 4.7 M
– Changes in Uses	<u>52.0 M</u>	<u>7.2 M</u>
Total Balancing Strategy	\$ (2.5 M)	\$ (2.5 M)
Remaining Balance	\$ 0.0 M	\$ 0.0 M

2014-2015 Budget Balancing Strategy

Changes in General Fund Sources

	<u>2014-2015</u>	<u>Ongoing</u>
Available Fund Balance		
2014-2015 Future Deficit Reserve	\$ 18.1 M	\$ 0
SARA City Legal Obligations Reserve	8.0 M	0
Homeless/San José BEST Reserves	5.0 M	0
Development Fee Program Reserves	4.2 M	3.1 M
Police Department Overtime Reserve	4.0 M	0
Various Other Reserve Eliminations	1.5 M	0
Additional 2013-2014 Ending Fund Balance	5.5 M	0
Grants/Reimbursements/Fees	0.5 M	0.1 M
Other Revenue Changes	0.8 M	0.2 M
Transfers and Reimbursements	<u>1.9 M</u>	<u>1.3 M</u>
Total Change in Funding Sources	\$ 49.5 M	\$ 4.7 M

2014-2015 Budget Balancing Strategy

Changes in General Fund Uses

	<u>2014-2015</u>	<u>Ongoing</u>
Service Level Enhancements	\$ 21.3 M	\$4.6 M
Earmarked/2015-16 Future Deficit Reserves	15.3 M	0.5 M
SERAF Former RDA/City Loan Repayment	10.2 M	0
Development and Other Fee Programs/Grants	5.3 M	3.9 M
Unmet/Deferred Infrastructure/Maintenance	2.6 M	0
2013-2014 One-Time Funded Services	2.0 M	1.0 M
Cost Reductions/Service Delivery Efficiencies	(3.7 M)	(2.5 M)
Use of Reserves	<u>(1.0 M)</u>	<u>(0.3 M)</u>
Total Change in Funding Uses	\$52.0 M	\$7.2 M

Recommended Budget Actions Keeping Our Community Safe

Continue Services for Another Year

- Homeless Rapid Rehousing (and 2015-2016 Earmarked Reserve)
- Homeless Response Team (and 2015-2016 Earmarked Reserve)
- San José BEST/Safe Summer Initiative Programs (and 2015-2016 Earmarked Reserve)
- Police Overtime
- Downtown Police Foot Patrol
- Police Recruitment Activities
- Anti-Human Trafficking Task Force

Recommended Budget Actions Keeping Our Community Safe

Additional Services

- Police Field Patrol Community Service Officers
- Third Police Officer Recruit Academy
- Crime Prevention Staffing
- Park Ranger Staffing
- Code Enforcement Staffing
- Illegal Dumping Rapid Response Pilot
- Multiple Housing Occupancy Permits Tier Program
- Overnight Security Patrol in City Parking Facilities (*special funds*)
- Pedestrian Traffic Safety (*capital funds*)

Recommended Budget Actions

Investing in Our Future

- United States Patent and Trademark Office at City Hall
- Development Fee Program Additions
- Urban Villages Implementation Staffing
- Preventative Maintenance Program Continuation
- Move Your Jobs to San José Communications
- Community Action & Pride Grants (and 2015-2016 Earmarked Reserve)
- 2015-2016 Future Deficit Reserve
- Essential Services Reserve

Recommended Budget Actions

Investing in Our Future

- Airport Marketing (*Special Funds*)
- Water Pollution Control Plant CIP Delivery (*Special/Capital Funds*)
- Sanitary/Storm/Water/Plant Fleet Replacement (*Special Funds*)
- Street Sweeping Parking Prohibition Signs (*Special Funds*)
- Water Conservation and Strategic Planning (*Special Funds*)
- North San José Growth (*Capital Funds*)
- Unmet/Deferred Infrastructure/Maintenance (*General/Capital Funds*)
(e.g., Children's Discovery Museum, Police Buildings, Pavement Maintenance)

Recommended Budget Actions Effectively Delivering Services

Technology Investments

- HR/Payroll System & Business Tax System Replacements
- Open Data Initiative Staffing and Tool Set
- Information Technology Infrastructure Needs and Training
- Technical Business Analyst
- Fire Department Information Technology Staffing

Service Delivery Efficiencies

- South San José Substation Repurpose
- Civic Innovation Staffing
- Integrated Billing System Transition (*Special Funds*)
- Water Pollution Control Plant – Plant Attendant Staffing (*Special Funds*)
- Residential Solid Waste Sorting (*Special Funds*)

Recommended Budget Actions

Other Budget Actions

- Former Redevelopment Agency SERAF Loan Repayment
 - Sewage Treatment Plan Connection Fee Fund (\$5.1 M)
 - Subdivision Park Trust Fund (\$3.1 M)
 - Ice Centre Revenue Fund (\$2.0 M)
- Municipally Funded Air Service Incentive Program Reserve
 - Provision of the Airline-Airport Lease and Operating Agreements that requires the City to reduce its overhead expenses to the Airport due to growth in 2013-2014 SJC annual enplanements that is expected to exceed the nationwide average (est. \$1.0 million/\$500,000 ongoing)

Recommended Budget Actions

Limited Fee Impacts

- **Utilities:**
 - Sewer Service and Use Charge Fee: No increase
 - Storm Sewer Service Fee: No increase
 - Recycle Plus Rates: 3% increase for single-family; 5% for multi-family
 - Municipal Water System Rates: 11% estimate increase primarily due to the higher cost for wholesale water
- **Development Fee Programs:** Targeted fee reductions in Building and Public Works primarily aimed at residential customers due to streamlined service opportunities.
- **Other Fee Programs:** Fee changes to generally maintain or improve cost recovery

Sales Tax Ballot Measure Spending Priorities

Service Priorities	¼ Cent Sales Tax	½ Cent Sales Tax
Improve Public Safety (Target of 50%)		
<i>Improve Police Response Times, Reduce Crime, & Increase Patrols</i>	\$13.0 M*	\$27.0 M*
<i>Improve Response Times for Fire and Medical Emergencies</i>	\$2.5 M	\$5.5 M
<i>Gang Prevention</i>	\$1.5 M*	\$1.5 M*
Public Safety Sub-Total	\$17.0 M	\$34.0 M
Repair and Maintain Streets (Target of 30%)		
<i>Street Repair and Maintenance</i>	\$10.0 M	\$20.0 M
Expand Economic Development and Neighborhood Services (Target of 20%)		
<i>Reduce Homelessness</i>	\$3.5 M*	\$5.5 M*
<i>Create Jobs Through Economic Development</i>	\$1.0 M	\$2.0 M
<i>Enhance Branch Library Hours</i>	\$2.5 M	\$4.5 M
<i>Expand Community Centers Hours of Service</i>	\$0 M	\$2.0 M
Neighborhood Services and Economic Development Sub-Total	\$7.0 M	\$14.0 M
Source: City Manager's Budget Message, Exhibit 2	TOTAL	\$68.0 M

*Reallocate revenue through 2015-2016 to street repair and maintenance (\$22 - \$40 million)

Looking Forward

- Budget continues to be relatively stable and allows for targeted investments to address our most critical needs
- However, San José is still experiencing a “service level deficit”; absent new revenues, services will remain well below what the community deserves and expects from the City
- The City maintains financial discipline and its commitment to innovate, partner, and engage the community to focus on reducing costs, enhancing service quality and strengthening our economic foundation

Next Steps

through May 29th

Community Budget Meetings

May 7th through 14th

City Council Budget Study Sessions

May 13th/June 9th

Public Budget Hearings

May 30th

Mayor's June Budget Message Released

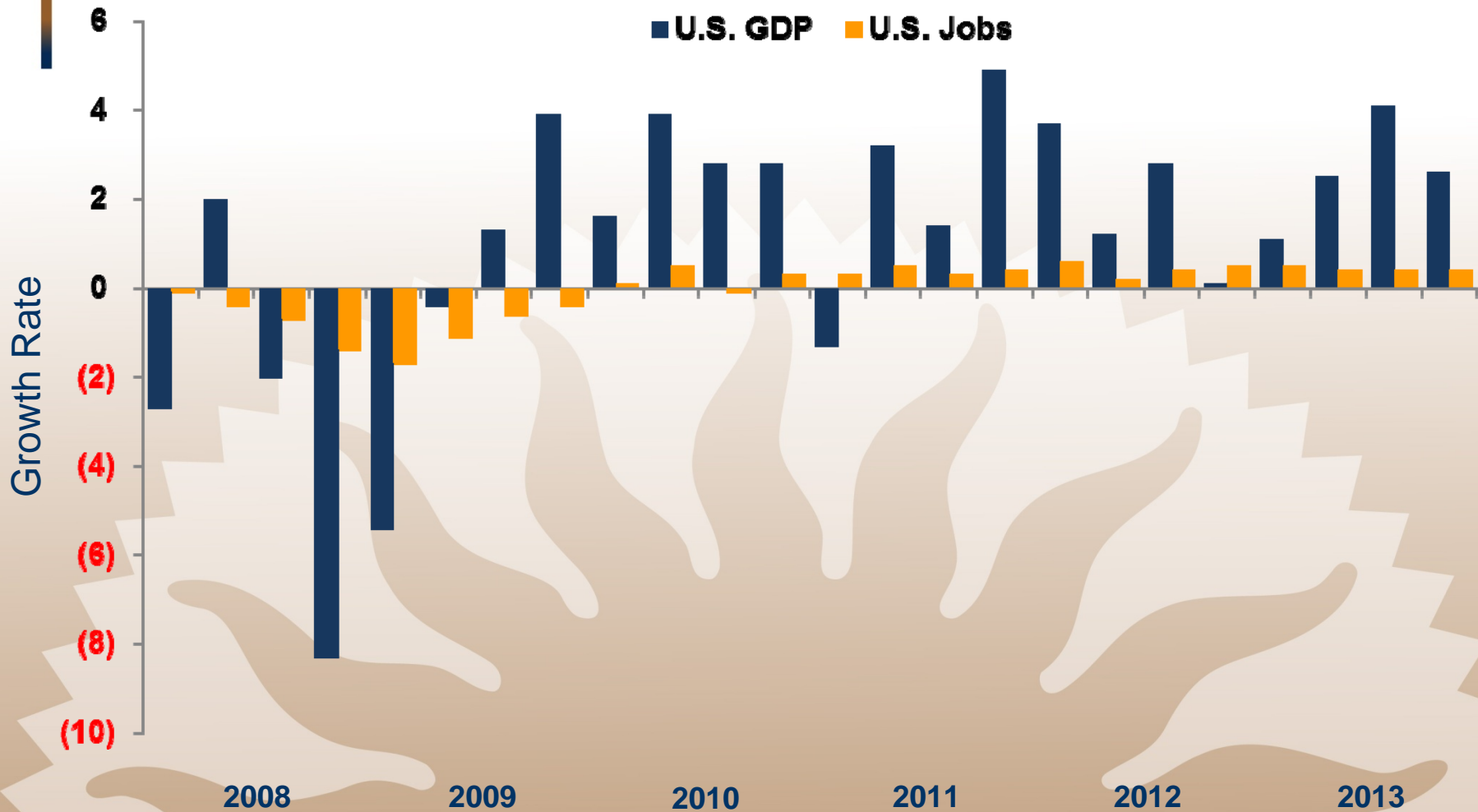
June 10th

Council Review/Approval of Mayor's June Budget Message

June 17th

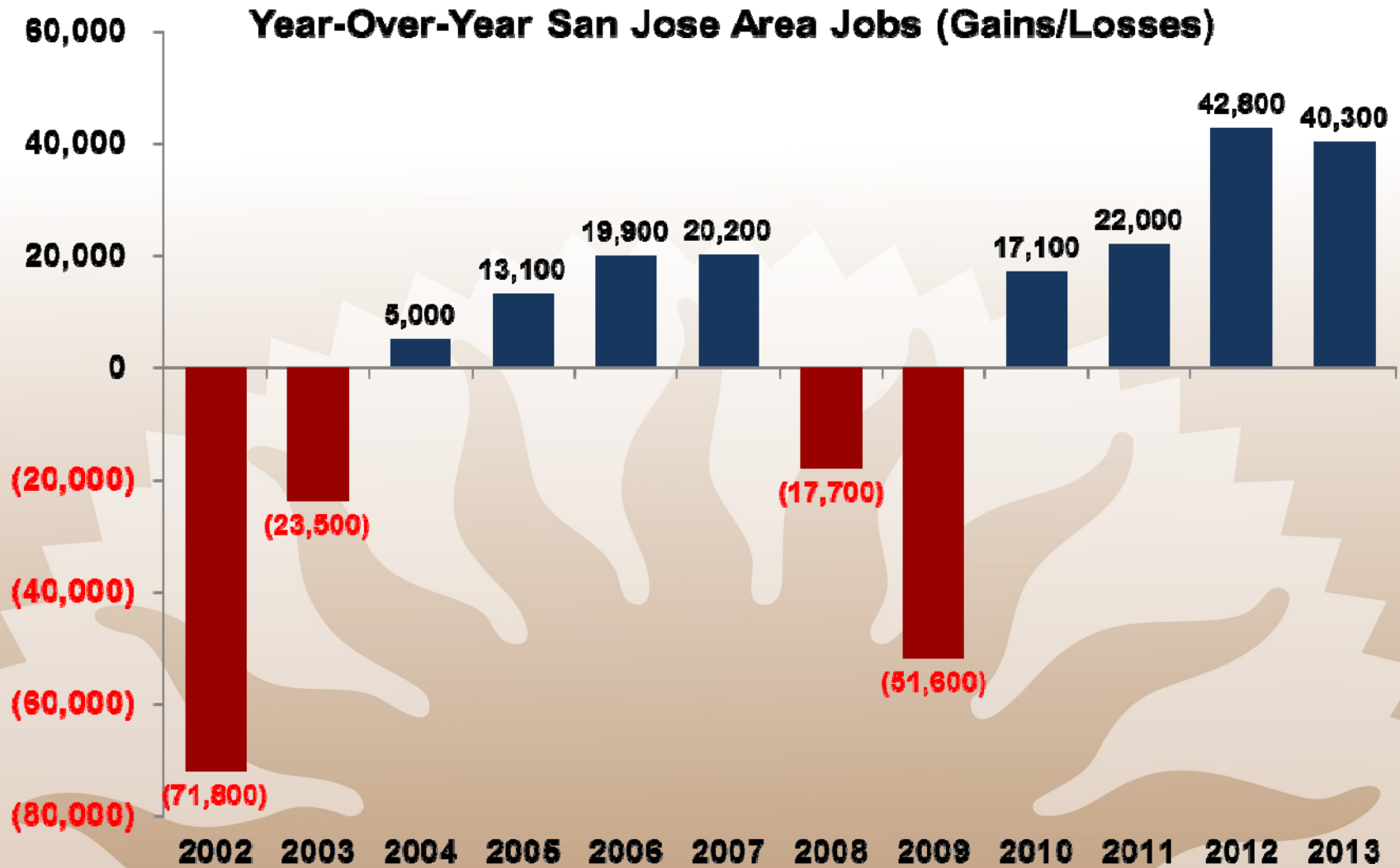
Adoption of the 2014-2015 Budget and Fees and Charges

GDP Growth Outpacing Weak Job Growth



Source: Bureau of Economic Analysis (BEA)

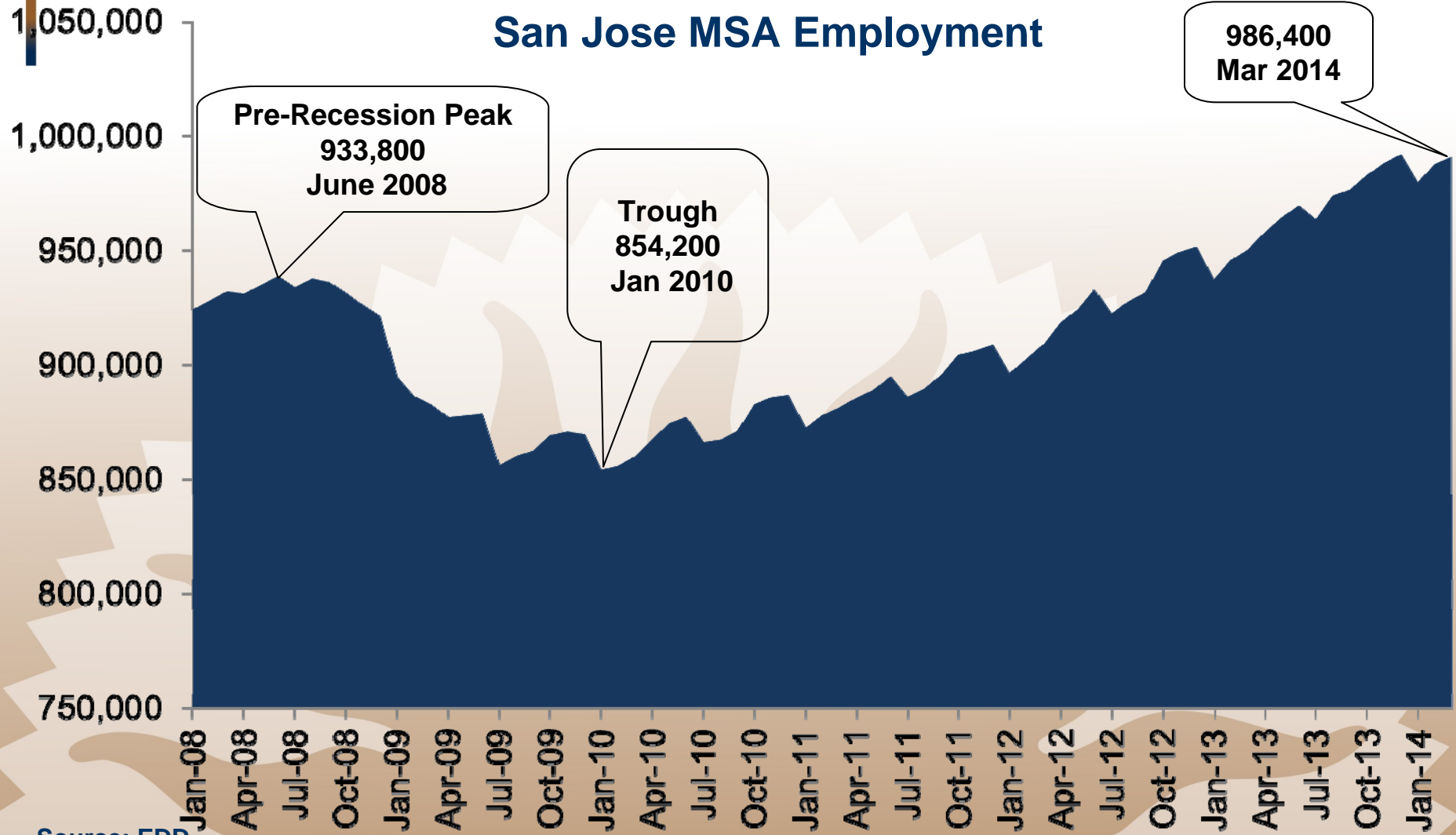
Leading the Nation in Metro Job Growth



Source: EDD

San Jose MSA Job Growth

Regained All Jobs Lost From Great Recession



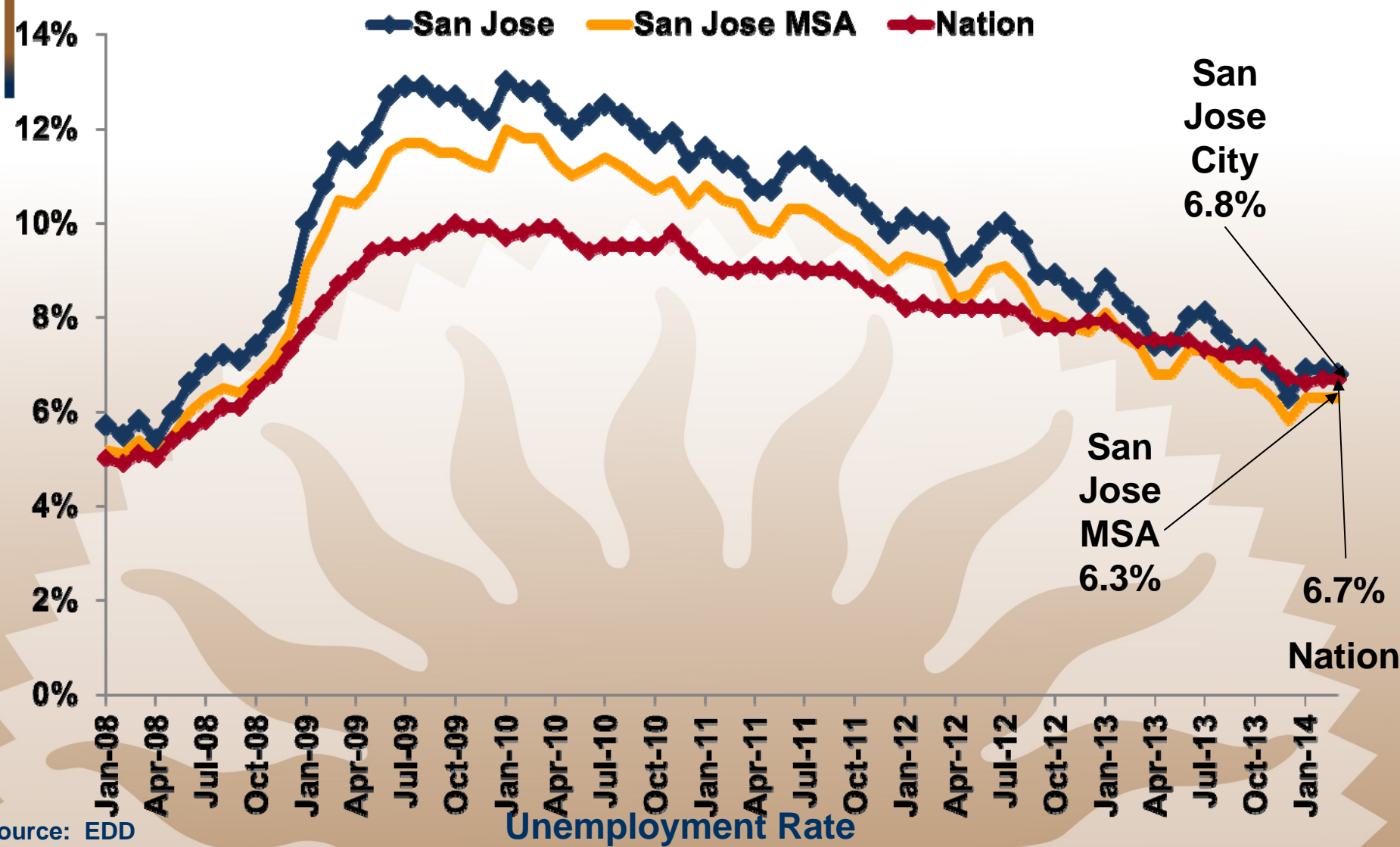
Source: EDD

All Industry Sectors Are Now Growing!

Employment Growth Mar 2013 - Mar 2014



Local Unemployment Rate Inline with the Nation

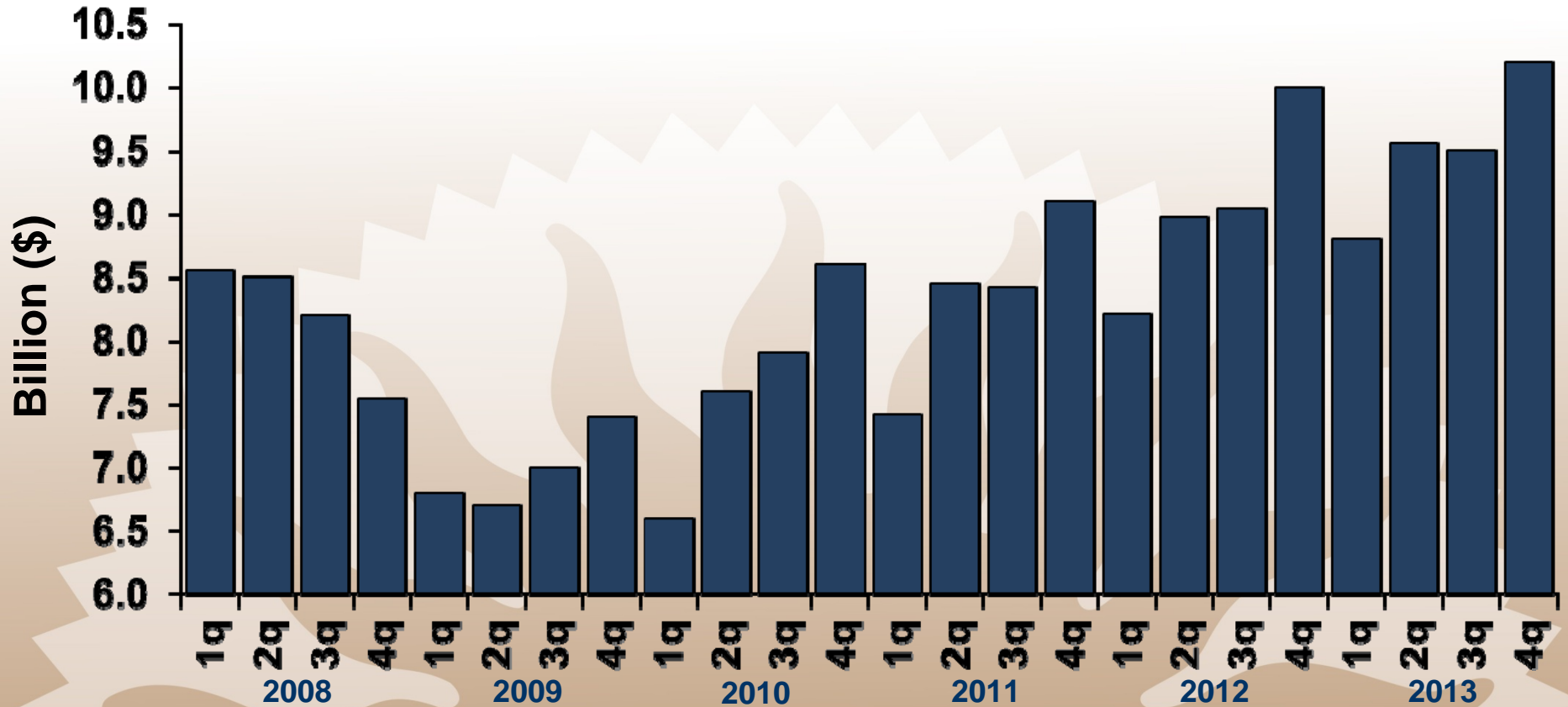


Source: EDD

Unemployment Rate

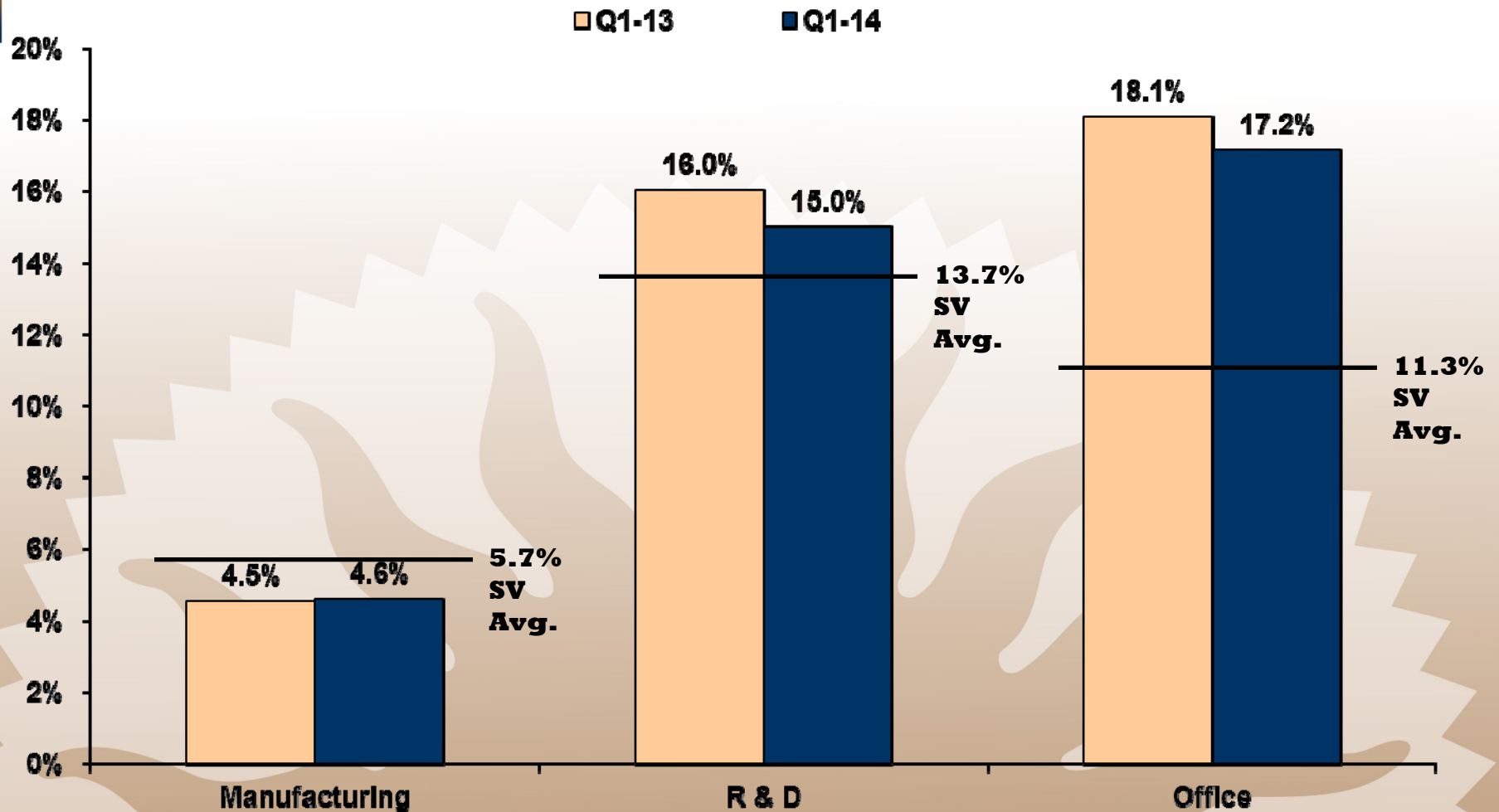
Consumer Sales Grew 5% in 2013

San Jose MSA Taxable Sales



Source: Board of Equalization & HdL Companies

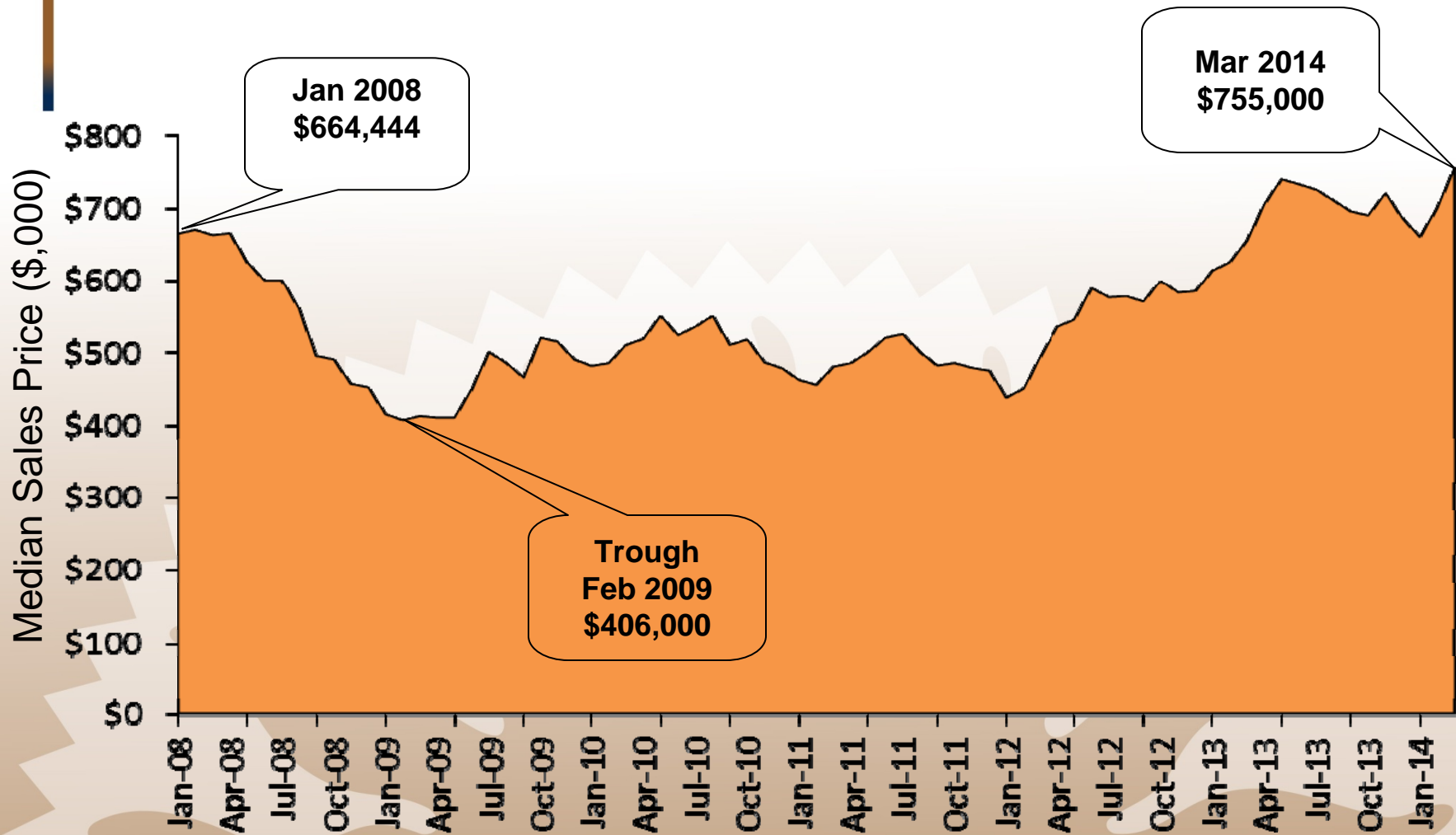
City's Manufacturing Vacancy Rate Below Valley Average; Office and R&D Remain High



Source: Cassidy/Turley Commercial

Vacancy Rates, San Jose

Home Prices Increase 15% Year-Over-Year



Source: SCCAOR

Single Family Homes Sales in San Jose

What Can We Expect?

Slow job recovery nationally (2014-2016)

- Credit markets continue to impact housing, construction as rates inch up
- Uncertainty surrounds the European and Asian economies

Valley jobs forecasted to grow 2-2.5% annually over next two years

Local Consumer sales expected to grow modestly between 3-4%

Both R&D and Office vacancy rates are expected to level off during 2014, as asking rates are rising and new inventory will be hitting the market in San Jose

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