



2018-2019

OPERATING BUDGET

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

General Fund Balancing Strategy Detail

2018-2019 Adopted Operating Budget

INTRODUCTION

This attachment is intended to provide a more detailed summary of the key actions taken to balance the 2018-2019 Adopted General Fund Budget. Revisions to the February Base Budget Forecast, as well as the key elements of the strategy to bring the General Fund into balance in the Adopted Budget, are described.

In February 2018, the Administration prepared formal projections for the 2018-2019 General Fund Budget as part of the *2018-2019 City Manager's Budget Request & 2019-2023 Five-Year Forecast and Revenue Projections* document that was released to the City Council. In that document, the 2018-2019 February Base Budget Forecast projections estimated a 2018-2019 General Fund shortfall of approximately \$7.3 million (no Development Fee Program impact was assumed given that the four fee programs are designed to be set at 100% cost-recovery levels and will use their corresponding Reserves as necessary to remain in balance). This shortfall represented the difference between projected 2018-2019 General Fund resources and the expected cost of approved 2018-2019 Base Budget services in next year's dollars, as well as several City Council "committed" additions (e.g., additional operating and maintenance costs for capital projects in the 2018-2022 Capital Improvement Program or for projects approved by the City Council during 2017-2018).

Subsequent to the release of the February Forecast and based on updated information, a number of revisions to both expenditures and revenue estimates were made, which constitutes the "Revised Base Budget Forecast" included in the Adopted Budget.

The revisions to the February Base Budget Forecast included a series of changes that produced an increase in overall General Fund sources and uses. These changes resulted in a decrease of \$3.0 million to the estimated General Fund shortfall, for a revised shortfall of \$4.3 million. This is the amount that was addressed by the Proposed Budget balancing plan. These adjustments to the February Base Budget Forecast are described in more detail later in this section.

The Proposed Budget contained a set of recommended actions that increased both the General Fund sources (by \$52.0 million), and uses (by \$47.7 million) from the Revised Base Budget Forecast, bringing the overall General Fund into balance for 2018-2019. The increase in sources of \$52.0 million includes several major components, including: liquidation of various earmarked reserves for specific purposes (\$27.8 million); a higher Beginning Fund Balance (\$9.4 million); increases to the development fee program and other fees, licenses and permits (\$7.3 million); increases to transfers, overhead and reimbursement costs (\$2.0 million); grants from other government agencies (\$1.4 million); and other revenue changes (\$4.1 million).

The increase in uses of \$47.7 million in 2018-2019 included additional funding for the following: service level enhancements (\$16.1 million); funding for the 2019-2020 Future Deficit Reserve (\$15.5 million); earmarked reserves (\$7.7 million); continuation of 2017-2018 one-time funded services (\$6.7 million); a number of critical unmet/deferred infrastructure and maintenance needs

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(\$3.9 million); development fee program as well as other fees, grants, and reimbursements (\$2.7 million); and other net additions (\$619,000).

These increases were partially offset by savings realized from the use of reserves that had been established for specific purposes (\$1.8 million) that were included in the February Forecast and miscellaneous cost reductions/service delivery efficiencies/funding shifts to other funds (\$3.7 million). The result of these actions was a balanced 2018-2019 Proposed General Fund Budget of \$1.2 billion.

From the release of the Proposed Budget to the final adoption of the budget, additional revisions totaling \$145.7 million occurred. The largest component of the increase was the rebudget of 2017-2018 funds (\$130.9 million) that were carried forward to 2018-2019 to complete various projects.

Table I below displays the overall projections for the 2018-2019 General Fund as they changed between the February Base Budget Forecast and the Adopted Budget. Table II summarizes the changes from the February Base Budget Forecast to the Revised Base Budget Forecast. The specific elements of the City Manager's Proposed Budget balancing strategy are summarized in Table III, and final changes from the Proposed Budget to the Adopted Budget are summarized in Table IV.

Table I
2018-2019 ADOPTED OPERATING BUDGET
Forecast To Adopted Budget Reconciliation (in \$000s)

	Total Sources	Total Uses	(Shortfall)/ Surplus
February Base Budget Forecast	\$ 1,170,551	\$ 1,177,844	(\$ 7,293)
Forecast Revisions	5,366	2,383	2,983
Revised Base Budget Forecast (no fee impact)	1,175,917	1,180,227	(4,310)
Proposed Revisions	52,027	47,717	4,310
2018-2019 Proposed Budget	1,227,944	1,227,944	0
Adopted Revisions	145,731	145,731	0
2018-2019 Adopted Budget	\$ 1,373,675	\$ 1,373,675	\$ 0

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REVISED BASE BUDGET FORECAST

As discussed previously, following the issuance of the February Base Budget Forecast, detailed analysis of the status of General Fund revenues and expenditures continued. Based on this review, the Adopted Budget incorporated a series of changes to the February Base Budget Forecast estimates for both sources and uses to form a Revised Base Budget Forecast. This Revised Base Budget Forecast resulted in a revised shortfall estimate of \$4.3 million, a decrease of \$3.0 million from the \$7.3 million shortfall in the February Base Budget Forecast. Changes are detailed in Table II below.

Table II
2018-2019 REVISED BASE BUDGET FORECAST
Summary of Changes (in \$000s)

Sources	Revision
Transfers and Reimbursements	\$ 2,875
Sales Tax	1,400
Fees, Rates, and Charges	1,203
Licenses and Permits	680
Revenue from the State	430
Revenue from Local Agencies	309
Use of Money/Property	53
Other Revenue	32
Beginning Fund Balance	(1,616)
Net Change in Sources	\$ 5,366

Uses	Revision
Transfers to Other Funds	\$ 1,897
Personal Services – Salaries and Benefits	1,020
Position and Fund Realignment/Corrections	(297)
Non-Personal/Equipment and City-Wide Expenses	(237)
Net Change in Uses	\$ 2,383

Total Change (Shortfall)/Surplus	\$ 2,983
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Following is a description of the Revised Base Budget Forecast changes in General Fund sources:

Transfers and Reimbursements

- A net increase of \$2.9 million to reflect updated overhead reimbursements from capital funds and operating funds based on the final 2018-2019 base budget and final 2018-2019 overhead rates as approved by the Finance Department.
- A net decrease of \$27,000 to the Transfers category to reflect a decrease in the reimbursement from Airport funds for services provided by the Police and Fire Department based on the final reconciliation of the costs to provide these services.

Sales Tax

- An increase of \$1.4 million to the Sales Tax revenue estimate, including a \$1.2 million increase to the Local Sales Tax category (from \$41.8 million to \$43.0 million) and a \$200,000 increase to the General Sales Tax (from \$184.1 million to \$184.3 million), based on collection trends experienced in 2017-2018.

Fees, Rates, and Charges

- An increase of \$1.0 million to the Public Works Department Fees, Rates, and Charges revenue estimate (from \$10.7 million to \$11.7 million) aligns revenues with estimated base activity levels. This increase reflects a \$500,000 adjustment to the Utility Fee Program (from \$3.5 million to \$4.0 million) and \$500,000 in the Development Services Fee Program (from \$7.2 million to \$7.7 million).
- An increase of \$400,000 to the Planning Fees revenue estimate (from \$6.1 million to \$6.5 million) aligns revenues with estimated base activity levels.
- A net increase of \$29,000 to the Transportation Department Fees, Rates, and Charges revenue estimate (from \$1.65 million to \$1.68 million) aligns revenues with estimated base activity levels.
- A net decrease of \$226,000 to the Miscellaneous Fees, Rates, and Charges category for the following adjustments: an increase of \$36,000 to several administrative and collection fees in the Finance Department aligns revenues with estimated base activity levels; a net increase of \$32,000 to various Animal Care and Services fees such as Adoption Fees, Board and Impound Fees, and Owner Surrender Fees aligns revenues with estimated base activity levels; a decrease of \$237,000 to the Building Code Compliance revenue reflects a technical adjustment to shift the revenue for this program from the Fees, Rates, and Charges category to the Licenses and Permits category, and a decrease of \$57,000 to the Solid Waste Enforcement Fee (from \$2.2 million to \$2.1 million) reflects the final 2018-2019 overhead rates as approved by the Finance Department.

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Source of Funds

Licenses and Permits

- An increase of \$306,000 to the Fire Permits category for Non-Development Fees (from \$4.9 million to \$5.2 million) to reflect higher collection trends experienced in 2017-2018.
- A net increase of \$374,000 to the Other Licenses and Permits category for the following adjustments: an increase of \$237,000 reflects a technical adjustment to shift the Building Code Compliance revenue from Fees, Rates, and Charges category to the Licenses and Permits category; an increase of \$145,000 to Cannabis licenses and permits based on updated base activity levels; a net increase of \$700 to the Handbill Permits and Miscellaneous Licenses and Permits revenues in the Finance Department aligns revenues with estimated base activity levels; and a net decrease of \$9,000 to various Animal Care and Services licenses and permits such as Animal Licensing and Animal/Fowl Permits aligns revenues with estimated base activity levels.

Revenue from the State

- An increase of \$400,000 to the Auto Theft reimbursement estimate (from \$300,000 to \$700,000) based on actual collection trends in this category.
- An increase of \$30,000 to reflect the CalRecycle Local Enforcement Agency Grant revenue that was not included in the Forecast, but is anticipated to be received in 2018-2019.

Revenue from Local Agencies

- An increase of \$309,000 to reflect reimbursement from the County of Santa Clara County to support staffing and programs at Grace Therapeutic Art and Wellness Program at Northside Community Center.

Use of Money/Property

- An increase of \$53,000 to reflect increased revenue for lease of City-owned spaces to reflect higher collection trends experienced in 2017-2018.

Other Revenue

- An increase of \$32,000 to the Other Revenue category for the following adjustments: an increase of \$18,000 reflects Habitat Conservation reimbursement revenue that was not included in the Forecast, but is anticipated to be received in 2018-2019; an increase of \$11,000 for new subdivision traffic control signage and pavement markings revenue reflects higher collection trends experienced in 2017-2018; and an increase of \$4,000 for Finance Department revenue for non-sufficient fund fees aligns revenues with estimated base activity levels.

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Source of Funds

Beginning Fund Balance

- A net decrease of \$1.6 million to the Beginning Fund Balance estimate reflects a net lower carryover amount of the Development Fee Program Reserves (Building Development Fee Program Reserve reduction of \$893,000; Planning Development Fee Program Reserve reduction of \$567,000; Fire Development Fee Program Reserve reduction of \$358,000; and Public Works Development Fee Program Reserve increase of \$194,000) that is necessary to bridge the gap between 2018-2019 base revenues and expenditures. The Development Fee Programs are assumed to be 100% cost recovery.
- An increase of \$8,000 to reflect anticipated increased salary costs related to the San José Environmental Sustainability Program. Funding that has been set aside in a reserve in 2017-2018 will be liquidated for associated staff costs in 2018-2019.

Following is a description of the Revised Base Budget Forecast changes in General Fund uses:

- An increase of \$1.9 million for Transfers to the Community Facilities Revenue Fund to fund the increased subsidy for Hayes Mansion (\$1.4 million), Airport Maintenance and Operations Fund to reflect the transfer of revenues for jet fuel sales tax (\$300,000), City Hall Debt Service Fund to reflect the revised contribution from the General Fund (\$155,000), Downtown Property and Business Improvement District Fund to account for increased assessments on the City-owned property and a cost of living adjustment for contractual services (\$42,000), and Business Improvement District Fund to account for increased assessments on the City-owned property within the district (\$683).
- An increase of \$1.0 million to the Salaries and Benefits Reserve for projected additional costs related to potential issues with the overtime calculation under the Fair Labor Standards Act (FLSA) (\$650,000) and adjustments related to life insurance costs that were inadvertently omitted from the February Forecast (\$370,000).
- A net decrease of \$297,000 in personal services to reflect position and funding realignments to better align with work currently performed and various other funding corrections/adjustments based on updated information.
- A net decrease of \$237,000 reflects non-personal/equipment, City-Wide Expenses, and General Fund Capital adjustments: increases non-personal/equipment funding to the Parks, Recreation and Neighborhood Services Department for anti-graffiti services at the Berryessa BART Station (\$86,400), the Information Technology Department for open data portal services (\$70,000), the Transportation Department for technology licenses (\$19,800); increases in City-Wide Expenses for the maintenance and operations costs associated with the 4th Street Garage Banquet Facility

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(\$50,000) and Tree Planting and Trimming costs (\$9,000); and decreases to reflect revised costs to the General Fund Capital Fire Apparatus Replacement appropriation (\$250,000), the Human Resources Department's non-personal/equipment funding (\$218,000) for workers' compensation administration, and the City-Wide Expenses for the 1970, 1980, 1990 COLA Federated, Police & Fire Retirees appropriation (\$4,000).

As summarized in Table III, the Administration's budget balancing strategy resolved a \$4.3 million (with the Development Fee Program Impact) General Fund shortfall and resulted in a balanced 2018-2019 Proposed General Fund Budget totaling \$1.2 billion.

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PROPOSED BUDGET BALANCING STRATEGY

Table III
2018-2019 PROPOSED OPERATING BUDGET
General Fund Balancing Strategy (in \$000s)

	2018-2019	Ongoing
2018-2019 General Fund Shortfall	\$ (4,310)	\$ (4,310)
Balancing Strategy		
Source of Funds		
Beginning Fund Balance:		
2018-2019 Future Deficit Reserve	\$ 20,250	\$ 0
Successor Agency to RDA – Refunding Property Tax	9,350	0
Retiree Healthcare Solutions Reserve	4,320	0
Airport West (FMC) Debt Service	2,450	0
Cultural Facilities Capital Maintenance Reserve	1,025	0
Other Revenue/Expenditure Savings/Rebudgets/Reserve Liquidations	(234)	(3,517)
Grants/Reimbursements/Fees		
Development Fee Programs	4,844	5,301
Diridon Station Area Planning and Development Reimbursement	1,330	0
Placemaking and Parks Activation Grants	520	0
Other Fee Programs/Reimbursements/Grants	4,121	3,660
Other Revenue		
City of San José Business Tax Amnesty Program	1,500	1,200
Parking Fines	700	700
Other Revenues	744	691
Overhead Reimbursements/Transfers from Other Funds	1,106	995
Subtotal Source of Funds	\$ 52,026	\$ 9,030
Use of Funds		
Service Level Enhancements	\$ 16,067	\$ 3,138
2019-2020 Future Deficit Reserve	15,500	0
Earmarked Reserves (e.g. City Health Care Restruct., Essential Services, etc.)	7,700	0
2017-2018 One-Time Funded Services	6,736	2,831
Unmet/Deferred Technology, Infrastructure, and Maintenance	3,933	93
Development Fee Programs	2,571	1,358
New Infrastructure/Equipment Operations and Maintenance	619	1,573
Other Fee Programs/Grants/Reimbursements	130	0
Use of Reserves (e.g. Cultural Facilities, Committed Add., Deferred Maint.)	(1,869)	(1,068)
Cost Reductions/Service Delivery Efficiencies/Fund Shifts	(3,671)	(3,205)
Subtotal Use of Funds	\$ 47,716	\$ 4,720
Total Balancing Strategy	\$ 4,310	\$ 4,310
Remaining Balance	\$ 0	\$ 0

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Specific City Council direction regarding the preparation of the Proposed Budget was provided in the Mayor's March Budget Message for Fiscal Year 2018-2019, as approved by the City Council (see Appendices Section of this document). The details of the specific direction of that Message and the corresponding responses contained in this budget are provided in Attachment B following this section in the City Manager's Message. Attachment C contains information regarding the status of City Auditor recommendations with funding impacts.

Following is a brief discussion of the key elements of the budget balancing actions that were included in the Proposed Budget.

Source of Funds

From the Revised Forecast of \$1.18 billion, a net increase of \$52.0 million to the General Fund revenue estimates was brought forward, bringing the 2018-2019 Proposed Budget revenue estimate to \$1.23 billion. The components of this increase included an increase to the estimate for 2017-2018 Ending Fund Balance/2018-2019 Beginning Fund Balance (\$37.2 million) and an increase to various revenue categories (\$14.8 million).

Beginning Fund Balance

- An increase of \$37.2 million from the Revised Forecast is included, bringing the estimated 2018-2019 Beginning Fund Balance from \$64.0 million to \$101.2 million. This increase included the following:
 - Liquidation of various reserves totaling \$27.8 million, including the 2018-2019 Future Deficit Reserve (\$20.3 million), Retiree Healthcare Reserve (\$4.3 million), Cultural Facilities Capital Maintenance Reserve (\$1.0 million), Sick Leave Payments Upon Retirement Reserve (\$1.0 million), Public Works Development Fee Program Reserve (\$450,000), Building Development Fee Program Reserve (\$544,000), and the Fire Development Fee Program Reserve (\$189,000).
 - Additional anticipated fund balance of \$9.6 million from additional revenue that is anticipated to be received in 2017-2018 and be available for use in 2018-2019. Of this amount, \$9.35 million is anticipated to be received in 2017-2018 from Santa Clara County related to residual property tax revenue as a result of the Successor Agency to the Redevelopment Agency (SARA) bond refunding that occurred in December 2017. In addition, \$250,000 is anticipated to be received from the Federal Emergency Management Agency (FEMA) for reimbursement costs associated with the 2017 Coyote Creek Flood.

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Source of Funds

Beginning Fund Balance (Cont'd.)

- Expenditure Savings of \$2.6 million is anticipated in 2017-2018 and be available for use in 2018-2019. With the recent sale of the Airport West (FMC) property, net sale proceeds of \$625,000 and debt service savings of \$1.8 million are available for use in 2018-2019. Additionally, grant funding of \$100,000 for the Citywide Open Data Environment and Architecture has been received in 2017-2018, but the expenditure funding is not needed until 2018-2019. Therefore, the funding will be carried over as 2018-2019 Beginning Fund Balance and appropriated accordingly.
- Rebudget of funds for the San José Works expenditure-related item in the amount of \$500,000, which is not anticipated to occur until 2018-2019.
- A reduction of \$3.3 million to reflect the use of less Development Fee Program reserves than assumed in the 2018-2019 Forecast. The 2018-2019 Budget includes several fee increases, resulting in less reserve funding being needed for Public Works Development Fee Program (\$1.2 million) and the Planning Development Fee Program (\$2.1 million) to bring these fee programs to 100% cost recovery. The Planning Development Fee Program Reserve restoration (\$2.1 million) reflects increases in fee revenue of \$2.5 million, partially offset by expenditure increases totaling \$392,000.

Fees, Rates, and Charges

- An increase of \$2.6 million in the Public Works Development Fee Program (from \$11.7 million to \$14.3 million), which is primarily due to the following: fee increases to bring ongoing revenues and expenditures into closer alignment with less reliance on the Development Fee Program Reserves (\$1.2 million); increased activity for small cell utility permits that is anticipated as a result of the implementation of the City's Broadband and Digital Inclusion Strategy (\$1.2 million); and a reallocation of resources to support the Development Fee Program (\$213,000).
- An increase of \$2.5 million in the Planning Development Fee Program (from \$6.5 million to \$9.0 million) to bring ongoing revenues and expenditures into closer alignment with less reliance on the Development Fee Program Reserves. The additional revenue is generated by average fee increases of 34% and a restructuring of the tree permits.
- An increase of \$577,000 in other Department Charges categories aligns revenues with estimated activity levels, reflects fee revisions, and maintains cost recovery levels. Changes included in the Proposed Budget include Parks, Recreation and Neighborhood Services Department Fees and Charges (\$297,000; from \$21.7 million to \$22.0 million), Police Department Fees and Charges (\$138,000; from \$1.2 million to \$1.4 million), Miscellaneous Fees and Charges (\$112,000; from \$3.5 million to \$3.7 million), and Transportation Department Fees and Charges (\$30,000; from \$1.68 million to \$1.71 million).

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Source of Funds

Transfers and Reimbursements

- An increase of \$638,000 to reimburse the General Fund for 4.0 Fire Fighters added to support Aircraft Rescue and Fire Fighting Services (ARFF) at the Mineta San José International Airport, the cost of which is partially offset by a reduction in overtime.
- An increase of \$194,000 to reimburse the General Fund for the cost of 1.5 positions added in the Human Resources Department to support the Voluntary Employee Beneficiary Association (VEBA) program, which will be reimbursed by the VEBA Fund.
- As directed in the Mayor's March Budget Message for Fiscal Year 2018-2019, the 2018-2019 Budget includes a one-time transfer of \$100,000 from the General Purpose Parking Fund to support capital infrastructure improvements at the Downtown Ice Rink.
- A net increase of \$1.1 million in anticipated overhead reimbursements to reflect the impact of various budget actions included in the 2018-2019 Budget that change the staffing levels funded by special funds and capital funds.

Licenses and Permits

- An increase of \$1.1 million to reflect increased Code Enforcement Fees to align anticipated costs with revenues. This figure includes fee adjustments that increases the revenue estimate by \$967,000 in the Multiple Housing Code Fee Program.
- A net increase of \$629,000 to align anticipated costs and revenues for the Cannabis Regulation Program and other various Police permits (\$365,000), to reflect an increase in Animal Care and Services revenue associated with the \$5.00 increase for cat and dog licenses (\$260,000), and minor changes to Department of Transportation permits (\$6,000) and Finance Department permits (-\$2,000).

Other Revenue

- An increase of \$1.3 million to reflect revenue anticipated to be received in 2018-2019 from Google, in accordance with the Service Reimbursement Agreement that was approved by the City Council on February 13, 2018. This funding is allocated to the Diridon Station Area Development Planning budget for planning support and civic engagement in the Diridon Station Area.

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Source of Funds

Other Revenue (Cont'd.)

- A one-time increase of \$200,000 to reflect anticipated revenue from the escheatment of unclaimed property due to the disposition of unclaimed funds and stale-dated checks.
- A one-time increase of \$10,000 to reflect funding to support Viva CalleSJ and ¡Viva Parks! placemaking events. The 2018-2019 Budget includes funding totaling \$520,500 for Viva CalleSJ and ¡Viva Parks!, which is reflected in Revenue from the State of California (\$221,500), Revenue from Local Agencies (\$289,000), and Other Revenue (\$10,000).
- A net decrease of \$3,000 for Finance fee revenue (\$2,000) and Transportation fee revenue (-\$5,000) to align revenues with estimated costs in 2018-2019.

Business Taxes

- An increase of \$1.5 million to the General Business Tax revenue estimate (from \$24.2 million to \$25.7 million) to reflect anticipated revenue to be generated as a result of the Business Tax Amnesty Program. This new program waives penalties, providing an incentive for businesses to register with the City and comply with the newly modernized business tax rates and structures.

Fines, Forfeitures, and Penalties

- An increase of \$700,000 to the Parking Fines revenue estimate (from \$10.4 million to \$11.1 million) reflects the expansion of the Vehicle Abatement Service Pilot program, which would provide additional staffing to conduct all first visits for vehicle service requests, enabling Parking and Traffic Control Officers to focus on parking enforcement and vehicle abatement follow-up. In addition, higher Parking Fines revenue is anticipated as a result of the addition of analytical and operational support to the Transportation Operations and Parking Services Section that will be used to identify efficiencies, focusing on vehicle abatement, Indigent Persons Payment Plan requirements, deployment of Parking Compliance Unit staff, citation issuance and collection, and revenue forecasting.

Revenue from State of California

- A one-time increase of \$368,000 to reflect grant funding from the Metropolitan Transportation Commission for urban village planning. The concept of urban villages was established in the Envision San José 2040 General Plan that was adopted in 2011. The policy intends to create a framework that directs sustainable job and housing growth within walkable and bike-friendly areas that have good access to transit and other infrastructure and facilities.

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Source of Funds

Revenue from State of California (Cont'd.)

- A one-time increase of \$221,500 to reflect funding to support Viva CalleSJ and ¡Viva Parks! placemaking events. The 2018-2019 Budget includes funding totaling \$520,500 for Viva CalleSJ and ¡Viva Parks!, which is reflected in Revenue from the State of California (\$221,500), Revenue from Local Agencies (\$289,000), and Other Revenue (\$10,000).
- An increase of \$100,000 to reflect increased Auto Theft Reimbursement revenue (from \$700,000 to \$800,000) in 2018-2019. Increased funding of \$100,000 is included in the 2018-2019 Budget to provide equipment to support the Regional Auto Theft Task Force, including trackers and surveillance equipment.

Revenue from Federal Government

- A one-time increase of \$425,000 to reflect Urban Areas Security Initiative (UASI) grant funding, which will be allocated to the Office of Emergency Management (OEM). This funding will be offset by the creation of limit dated positions in OEM, which will assist in strategic planning and development efforts and manage recruitment in the projected phased growth of OEM.

Revenue from Local Agencies

- A one-time increase of \$289,000 to reflect funding from the County of Santa Clara (\$145,000) and the Valley Transportation Authority (\$144,000) to support Viva CalleSJ and ¡Viva Parks! placemaking events. The 2018-2019 Budget includes funding totaling \$520,500 for Viva CalleSJ and ¡Viva Parks!, which is reflected in Revenue from the State of California (\$221,500), Revenue from Local Agencies (\$289,000), and Other Revenue (\$10,000).

Franchise Fees

- An increase of \$245,000 reflects an increase in the Commercial Solid Waste (CSW) fees by 2.13% based on the change in the consumer price index (CPI). In October 2010, the City Council amended the CSW fee to charge franchises based on geographic collection districts rather than volume. The fee structure started with a base of \$5.0 million per year for each of the two geographic collection districts plus a supplemental fee of \$1.0 million for the right to conduct CSW services in both the North District and South District. The revised structure is subject to an annual increase based on the percentage change in the annual CPI rate during the prior two calendar years.

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Transient Occupancy Tax

- An increase of \$100,000 reflects higher Transient Occupancy Tax revenues anticipated to be received in 2018-2019. During the College Football Playoff (CFP) National Championship that will take place in January 2019, thousands of visitors are anticipated in Downtown San José, which will significantly increase hotel occupancy rates. As a result, the estimate for General Fund TOT receipts was increased from \$19.6 million to \$19.7 million in 2018-2019.

Use of Funds

From the Revised Base Budget Forecast of \$1.13 billion, a net increase of \$47.7 million to the General Fund expenditures was brought forward, bringing the 2018-2019 Proposed Budget Use of Funds estimate to \$1.18 billion. A listing of the Proposed Budget modifications is provided by specific categories in Table III and briefly discussed in the following pages. Further detail is incorporated into the CSA and departmental sections of this document.

Service Level Enhancements

Total funding of \$16.1 million was included in the Proposed Budget for service level enhancements. The largest investments included a transfer to the Self-Insured Medical Fund to address a projected negative fund balance (\$3.0 million), Diridon Station Area Planning and Development (\$1.6 million, partially offset by a reimbursement agreement of \$1.3 million), My San José 2.0 (\$1.5 million), Office of Emergency Management Staffing (\$1.2 million), police overtime funding to staff the NCAA College Football Championship and the NHL All-Star Weekend special events (\$1.0 million), City Hall Security (\$636,000), and Citywide Open Data Environment and Architecture (\$600,000). Other service level enhancements are included and described in the Department and City-Wide Sections of this document.

2019-2020 Future Deficit Reserve

This action established the 2019-2020 Future Deficit Reserve of \$15.5 million to fully address the anticipated 2019-2020 General Fund shortfall as projected in the 2019-2023 General Fund Forecast.

Earmarked Reserves

One-time Earmarked Reserves, totaling \$7.7 million, were included in the Proposed Budget. This included funding for the following: City Health Plan Restructuring Reserve (\$3.0 million); Essential Services Reserve (\$2.5 million); and Salaries and Benefits Reserve (\$2.2 million).

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Use of Funds

2017-2018 One-Time Funded Services

Funding is included to continue services that were funded on a one-time basis in the 2017-2018 Adopted Budget. This primarily includes funding for San José Works (\$1.5 million), San José Learns (\$1.0 million), Police Department recruitment efforts (\$825,000), Police Department Downtown Foot Patrol Program (\$600,000), Workers' Compensation Program Temporary Staffing (\$401,000), Sports Authority (\$350,000), Project Hope Program (\$311,000), Vietnamese American Community Center (\$262,000), Baykeeper Consent Decree Compliance Program (\$168,000), Policy and Ordinance support (\$150,000), Economic Development Pre-Development Activities (\$150,000), and San Jose Streets Team Litter and Trash Removal (\$135,000).

Unmet/Deferred Technology, Infrastructure and Maintenance

To address a small portion of the backlog for unmet and deferred infrastructure and maintenance needs, funding of \$3.9 million is included in the 2018-2019 Proposed Budget for the City's most urgent repair needs, including: City Hall Network Operations Center – Electrical Switch Board Replacement (\$1.5 million); Police Communications Center Elevator Retrofit (\$600,000); Children's Discovery Museum HVAC (\$500,000); improvements to Hammer Theatre Center (\$375,000); San José Museum of Art HVAC (\$300,000); infrastructure upgrades at the African American Community Services Agency (\$250,000); ESRI Database Enterprise Agreement (\$200,000); Miscellaneous Cultural Facility Repairs (\$200,000); History San José – Automatic Parking Lot Gate (\$50,000); Mexican Heritage Plaza Concrete Repair (\$50,000); and non-personal/equipment funding to activate the Calsense smart controllers and purchase smart phones for parks maintenance staff to implement irrigation technology (\$82,000, offset by estimated water savings of \$173,000).

Development Fee Programs

The Proposed Budget included approximately 14 positions and \$2.6 million of new resources in the Development Fee Programs (Building, Planning, Public Works, and Fire) for small cell permitting to support the City's Broadband and Digital Inclusion Strategy and to continue to support the implementation of the Integrated Permitting System as described in detail in the Community and Economic Development City Service Area and respective department sections.

New Infrastructure/Equipment Operations and Maintenance

The Proposed Budget included 9 positions and \$619,000 to operate and maintain new parks and recreation facilities (\$597,000) and new transportation infrastructure (\$22,000).

General Fund Balancing Strategy Detail

2018-2019 Adopted Operating Budget

PROPOSED BUDGET BALANCING STRATEGY

Use of Funds

Other Fee Programs/Grants/Reimbursements

The actions in this category are offset by revenue from fees, grants, or reimbursements and included Placemaking and Parks Activation (\$824,000, partially offset by \$520,500 in grant funding), staff support for Urban Village Planning (\$315,000, fully offset by grant funding), and temporary police staffing for the Northern California Regional Intelligence Center (\$130,000, partially offset by grant funding).

Use of Reserves

The Proposed Budget included the use of the Cultural Facilities Capital Maintenance Reserve (\$450,000) that was set aside for 2018-2019 in the February Forecast for infrastructure improvements and repairs at the City's cultural facilities. Other reserves established in the February Forecast that were eliminated as planned in the Proposed Budget included a reserve to cover additional costs to operate and maintain new technology or facilities that are scheduled to become operational in 2018-2019 (\$619,000) and a reserve to fund critical capital maintenance or address urgent technology (\$800,000).

Cost Reductions/Service Delivery Efficiencies/Fund Shifts

Savings in this category (\$3.7 million) primarily includes the elimination of the FMC Debt Service (Airport West) payment (\$2.9 million), elimination of funding for one-half of the second of two Firefighter Recruit Academy (\$523,500), decommissioning of the horse stables that once supported the Horse Mounted Unit (\$272,000), funding shift from the General Fund to Special Funds for legal staffing for Municipal Water Litigation (\$101,000), and anticipated printing savings from the implementation of a city-wide print management solution (\$55,000).

General Fund Balancing Strategy Detail

2018-2019 Adopted Operating Budget

ADOPTED BUDGET BALANCING STRATEGY

The final phase of the 2018-2019 budget process commenced following the issuance of the City Manager's Proposed Budget and consisted of the following major steps: City Council Budget Study Sessions on the Proposed Budget; formal public input through the Public Hearings process; issuance by the Administration of recommended revisions to the Proposed Budget (in the form of formal Manager's Budget Addenda); issuance by the City Council of recommended revisions to the Proposed Budget (in the form of Budget Documents submitted to the Mayor's Office); issuance of the Mayor's June Budget Message memorandum that included recommended revisions to the Proposed Budget and incorporated feedback from the City Council and the Administration; and approval by the City Council of the Mayor's June Budget Message and final Adopted Budget. In addition, five community budget meetings were held at locations throughout the city.

Summarized in Table IV by general category are the additional changes introduced by Manager's Budget Addenda or the Mayor's June Budget Message. (The full text of the Message is included as an Appendix to this document.) Those additional changes in funding sources and uses totaled \$145.7 million in 2018-2019.

General Fund Balancing Strategy Detail
2018-2019 Adopted Operating Budget

ADOPTED BUDGET BALANCING STRATEGY

Table IV
2018-2019 ADOPTED OPERATING BUDGET
General Fund Funding Requirements and Balancing Strategy (in \$000s)

	2018-2019	Ongoing
Remaining Balance from Proposed Budget (from Table III)	\$ 0	\$ 0
Balancing Strategy		
Source of Funds		
Fund Balance to Support 2017-2018 Projects/Balancing Strategy	\$132,445	\$ 0
Revenue-Related Rebudgets to Support 2018-2019 Projects	4,208	0
New Grants/Revenue-Supported Expenditures	8,662	2,712
Transfers and Reimbursements Changes	417	0
Subtotal Source of Funds	\$ 145,732	\$ 2,712
Use of Funds		
Rebudgeted 2017-2018 Projects	\$ 127,000	\$ 0
Service Level Enhancements	7,562	150
New Grants/Reimbursements/Revenue-Supported Expenditures	4,809	1,276
Unmet/Deferred Technology, Infrastructure, and Maintenance	4,700	0
Revenue-Related Rebudgets to Support 2017-2018 Projects	3,893	0
2017-2018 One-Time Funded Services	195	0
New Infrastructure/Equipment Operations and Maintenance	38	37
Use of Reserves (Salaries and Benefits, Cultural Facilities Capital Maintenance, General Plan Update)	(911)	(150)
Earmarked Reserves (Essential Services, Salaries and Benefits)	(1,554)	1,399
Subtotal Use of Funds	\$ 145,732	\$ 2,712
Total Balancing Strategy	\$ 0	\$ 2,712
Remaining Balance	\$ 0	\$ 0

General Fund Balancing Strategy Detail

2018-2019 Adopted Operating Budget

ADOPTED BUDGET BALANCING STRATEGY

Source of Funds

As part of the City Council-approved revisions to the Proposed Budget, a total of \$145.7 million in additional resources were approved to be used as part of the Adopted Budget strategy. The major elements of these revisions are described below.

Fund Balance to Support 2017-2018 Rebudgeted Projects/Balancing Strategy

The unrestricted portion of the 2017-2018 Ending/2018-2019 Beginning Fund Balance estimate was adjusted upward by an additional \$132.4 million, which primarily reflected 2017-2018 funding which was estimated to be available to be carried over (rebudgeted) to 2018-2019 to complete previously approved projects (\$124.3 million) as identified in Manager's Budget Addendum #29. In addition, \$2.9 million was included in the June Budget Message for Fiscal Year 2018-2019 to reflect rebudgets for the Mayor and City Council offices.

The fund balance estimate was also increased by \$5.2 million primarily to reflect additional 2017-2018 excess revenues based on an updated analysis of projected 2017-2018 performance (\$5.0 million) and a \$200,000 technical adjustment related to the Public Works Development Fee Program that reallocated funding from the Fees, Rates, and Charges revenue category to the Beginning Fund Balance.

Revenue-Related Rebudgets to Support 2017-2018 Projects

The Adopted Budget included grant and reimbursement-related revenue totaling \$4.2 million that was rebudgeted from 2017-2018 to complete the associated projects in 2018-2019. These revenue-related rebudgets were spread among a number of revenue categories, including Use of Money/Property, Revenue from Local Agencies, Revenue from the State of California, Revenue from the Federal Government, and Other Revenue. The approved revenue rebudgets were offset by expenditure appropriation rebudgets, which were also included in the Adopted Budget.

New Grants/Reimbursements/Revenue-Supported Expenditures

The Adopted Budget included \$8.7 million in new grant/reimbursement/fee revenue adjustments. The approved adjustments were reflected in several revenue categories, including Business Taxes, Licenses and Permits, Revenue from Local Agencies, Revenue from the State of California, Revenue from the Federal Government, Fees, Rates, and Charges, and Other Revenue.

General Fund Balancing Strategy Detail 2018-2019 Adopted Operating Budget

ADOPTED BUDGET BALANCING STRATEGY

Source of Funds

Transfers and Reimbursements Changes

The Adopted Budget included additional revenue of \$416,000 to the Transfers and Reimbursements revenue category based on updated information. Below is a summary of the revenue adjustments:

- A one-time increase of \$400,000 to reflect a transfer from the General Purpose Parking Fund to the General Fund to support storefront activation (\$200,000), San Jose Sports Authority (\$150,000), and street activation (\$50,000).
- A one-time increase of \$16,000 to reflect a transfer from the Airport Maintenance and Operation Fund to the General Fund for Police overtime staffing. Police staff support Airport staff who must conduct semi-annual Public Utilities Commission inspections at the Airport.

General Fund Balancing Strategy Detail 2018-2019 Adopted Operating Budget

ADOPTED BUDGET BALANCING STRATEGY

Use of Funds

As part of the City Council-approved revisions to the Proposed Budget, a total of \$145.7 million in General Fund expenditure changes were approved. In addition, 19.44 positions were added in the General Fund along with one position funded by the Library Parcel Tax Fund. Listings of all the approved budget modifications are described in detail in the CSA and departmental sections of this Adopted Budget document as well as summarized in Manager's Budget Addendum #30.

The major elements of the General Fund revisions are described below.

Rebudgeted 2017-2018 Projects

Additional expenditures totaling \$127.0 million were included in the Adopted Budget to fund the completion of programs and projects authorized in the prior year. The rebudgeted funds were offset by additional 2017-2018 Ending/2018-2019 Beginning Fund Balance.

Service Level Enhancements

Additional expenditures totaling \$7.6 million were included in the Adopted Budget for service level enhancements. The largest allocations included \$1.5 million as an initial investment in securing a permanent site for the San Jose Police Department training center, which will enable the move of the training function from the Police Substation and facilitate the deployment of officers from the South San José Police Substation as originally intended; a \$714,000 increase to the Tax and Revenue Anticipation Notes (TRANs) Debt Service budget to cover anticipated interest costs on the issuance of the TRANs debt, and \$650,000 to cover additional estimated costs related to the possible new insource or outsource model of workers' compensation claims administration in the Human Resources Department. The other significant enhancements are described in the Mayor's June Budget Message for Fiscal Year 2018-2019, including Homeless Housing Innovations (\$500,000); Police Activities League (\$270,000); Census 2020 (\$250,000); Italian-American History Museum (\$250,000); Welch Park Community Action (\$250,000); City Council Participatory Budgeting – Council District #01 (\$200,000); City Council Participatory Budgeting – Council District #03 (\$200,000); Storefront Activation (\$200,000); Domestic Violence High Risk Response Team (\$180,000); Responsible Landlord Engagement Initiative (\$155,000); Housing Development Catalyst (\$150,000); San José Data and Performance Project (\$150,000); Sexual Assault Education and Training (\$150,000); San Jose Sports Authority (\$150,000); Expedited Housing Development (\$144,000); Our City Forest (\$120,000); Downtown Streets Monterey Road Pilot Program (\$90,000); Accessible Pedestrian Signal (\$87,000); Residential Parking Permit Program (\$83,000); Senior Food Assistance – Council District #04 (\$75,000); Senior Food Assistance – Council District #07 (\$75,000); Senior Food Assistance – Council District #09 (\$75,000); and Equal Justice Works Fellow (\$65,000).

General Fund Balancing Strategy Detail 2018-2019 Adopted Operating Budget

ADOPTED BUDGET BALANCING STRATEGY

Use of Funds

New Grants/Reimbursements/Revenue-Supported Expenditures

Expenditure changes related to new grant or reimbursement activity totaled \$4.8 million. These grant and reimbursement expenditures were offset by additional revenue.

Unmet/Deferred Technology, Infrastructure, and Maintenance

The Adopted Budget included expenditures totaling \$4.7 million to allocate additional funding to the City Hall HVAC Control Replacement project to support higher than anticipated project costs (\$2.8 million), provide a General Fund contribution to the Pavement Maintenance Program (\$1.5 million), increase the transfer to the Communications Construction and Conveyance Tax Fund to partially fund the purchase of 210 portable radios for the Police Department before the anticipated December 2018 go-live of the Silicon Valley Regional Communications System (\$400,000), and provide for capital infrastructure improvements to the African American Community Services Agency (\$50,000).

Revenue Related Rebudgets to Support 2017-2018 Projects

The Adopted Budget included grant and reimbursement-related expenditures totaling \$3.9 million that were rebudgeted from 2017-2018 to complete the associated projects in 2018-2019. These expenditure adjustments were offset by revenue rebudgets.

2017-2018 One-Time Funded Services

The Adopted Budget included one-time funding of \$175,000 to continue two Park Ranger positions in Parks, Recreation and Neighborhood Services to support the Homeless Response Team, and one-time funding of \$20,000 to continue providing midnight basketball at the Alum Rock Youth Center.

New Infrastructure/Equipment Operations and Maintenance

The Adopted Budget included an increase of \$37,786 to the Parks, Recreation and Neighborhood Services Department Personal Services budget to true up the personal services costs related to new park facilities operations and maintenance.

General Fund Balancing Strategy Detail

2018-2019 Adopted Operating Budget

ADOPTED BUDGET BALANCING STRATEGY

Use of Funds

Use of Reserves

The Adopted Budget included the following actions: a decrease of \$510,709 to the Salaries and Benefits Reserve to offset increases to various departmental Personal Services budgets to fund a 3.0% salary increase that was negotiated and agreed by the City and the International Brotherhood of Electrical Workers (IBEW) bargaining unit, effective June 17, 2018, and a 5.0% non-pensionable increase that was negotiated and agreed by the City and two bargaining units (IBEW and Association of Legal Professionals), effective July 1, 2018; a decrease of \$250,000 to the Cultural Facilities Capital Maintenance Reserve to provide a funding match to the Italian-American History Museum to help fund the restoration of two historic structures; and a decrease of \$150,000 to the General Plan Update Reserve to fund a position in the Housing Catalyst Team.

Earmarked Reserves

The Essential Services Reserve was liquidated in the amount of \$2.5 million to offset investments described in the Mayor's June Budget Message for Fiscal Year 2018-2019. The Adopted Budget included an increase of \$850,000 to the Salaries and Benefits Reserve to set aside funds for the projected increased healthcare costs as a result of a higher health rate. In addition, an increase of \$95,895 to the General Plan Update Reserve is included to recognize the anticipated additional revenues from the revisions to the Citywide Planning Fee, as described in Manager's Budget Addendum #20.

Future Implications

Actions in this budget fully address the 2018-2019 shortfall (as shown in Table IV) on an ongoing basis. In addition, the 2018-2019 Adopted Budget includes the establishment of a one-time 2019-2020 Future Deficit Reserve of \$15.5 million to address the shortfall projected for that year in the 2019-2023 forecast. Ongoing balancing actions will, however, be necessary to fully address this projected 2019-2020 shortfall. All of the assumptions used to develop this projection will be revisited in the development of the 2020-2024 Five-Year General Fund Forecast that informs the adoption of a balanced budget in 2019-2020.

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