

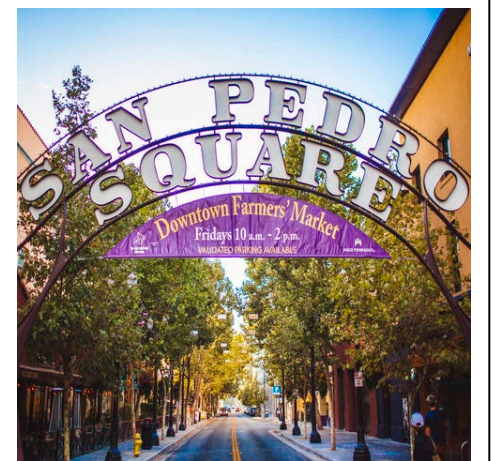
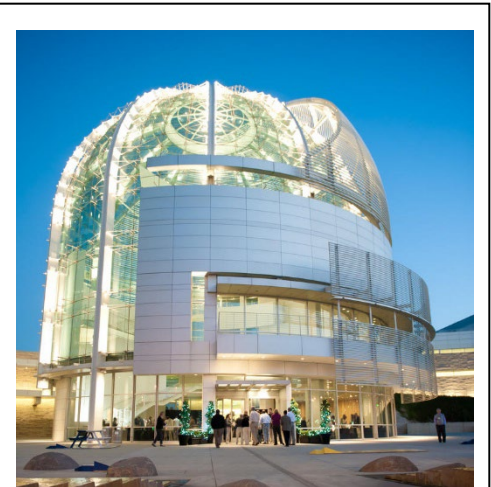
Honorable Mayor and City Council:

I am proud to present the 2023-2024 Adopted Operating Budget, a balanced budget that continues efforts to address the highest priority community and organizational needs, while appropriately positioning the City to weather forecasted future economic uncertainty. This budget followed the direction provided by the Mayor and City Council with their approval of the Mayor's March and June Budget Messages for Fiscal Year 2023-2024. It also considered other City Council and Administration priorities, recent community outreach and surveys, other departmental and organizational priorities, and forecasts for future revenues and expenditures.

The General Fund 2024-2028 Five-Year Forecast was used as the starting point in the development of the budget. For the General Fund, a revised surplus of \$35.3 million was projected for 2023-2024, followed by a shortfall of \$18.8 million in 2024-2025, with essentially no or very small incremental surpluses over the remaining three years of the Forecast. This limited resource availability significantly contrasts with the level of community service needs and the significant backlog of deferred infrastructure rehabilitation. In addition, the Forecast did not reflect the large number of services that have previously been funded on a one-time basis in the General Fund or American Rescue Plan (ARP) Fund for several years that many would think of as City Core Services. Including even a portion of these service demands would immediately turn the 2023-2024 projected budget surplus into a budget shortfall.

Keeping these considerations in mind, the Adopted Budget followed City Council direction to focus targeted spending on critical community services while also saving for the future. This budget took a multi-year approach that sets aside enough ongoing funding to fully address the ongoing General Fund shortfall projected in 2024-2025. It also maintained existing service levels, enhanced service delivery in limited areas, and invested in our infrastructure and technology. With limited resources, it is critical that the City continue to take an innovative approach to achieving our service delivery goals.

For the City's many other dedicated funds (e.g., Airport Funds, Integrated Waste Management Fund, San José Clean Energy Fund, Sanitary Sewer Funds) budget actions considered various service delivery and infrastructure needs balanced within the available resources of each fund. All budgeted service levels considered associated impacts to rate payers during the Adopted Operating Budget's preparation.



## 2023-2024 ADOPTED OPERATING BUDGET

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As guided by City Council's approval of the Mayor's March and June Budget Messages for Fiscal Year 2023-2024, this Adopted Budget prioritized and reallocated the City's limited General Fund and other fund resources for some of our most challenging issues – including increasing community safety, reducing unsheltered homelessness, cleaning up our neighborhoods, and attracting investments in jobs and housing – and also addressed select areas of urgent, important, and continuing work within other community services, strategic support services, and deferred infrastructure. A summary of the recommended key actions for these Investment Priorities is discussed later in this transmittal memorandum, with detailed budget actions, outlined by title and the section where they can be found, provided throughout the Adopted Operating Budget document.

Other summary information items that can easily be found in this transmittal memorandum include: Total Adopted Budget; General Fund Forecast; Adopted Budget Development Considerations; General Fund Budget Balancing Plan; and Fees and Charges Adjustments.

It is important to note that though this transmittal memorandum primarily discusses the incremental changes to the budget and new or reallocated funding to implement new or modify and enhance existing services levels, the 2023-2024 Adopted Operating Budget is a comprehensive document that contains budgetary and performance data for each City Service Area (CSA) and department, linking the expected service delivery environment to expected actions and outcomes, facilitated through the spending in dozens of Core Services and hundreds of Budget Programs.

Based on the hard work of City staff, this Adopted Operating Budget successfully and responsibly allocated ongoing funding to the priorities identified in the March and June Budget Messages, continued to make progress on bringing the General Fund into structural alignment with service level demands, and considered existing funding sources across the over 140 City funds. Each funding source was brought into balance to sustainably and responsibly continue City programming and services in accordance with City Council direction, priorities, and policies.

### Investment Priorities

The Mayor's March Budget Message approved by the City Council identified the following investment priorities:

- ✓ *Increasing Community Safety*
- ✓ *Reducing Unsheltered Homelessness*
- ✓ *Cleaning Up Our Neighborhoods*
- ✓ *Attracting Investment in Jobs and Housing*

Other investment priorities included select areas of urgent, important, and continuing work within other community services, strategic support services, and deferred infrastructure.

## 2023-2024 ADOPTED OPERATING BUDGET

### Total Adopted Budget

The 2023-2024 Adopted Budget totals \$6.1 billion for all City funds (General, Special, and Capital). This amount is \$107.5 million (1.8%) above the 2022-2023 Adopted Budget (Table 1 below).

| <b>2023-2024 Adopted Budget — All Funds<br/>(Table 1)</b> |                              |                              |                     |
|---|------------------------------|------------------------------|---------------------|
|   | <b>2022-2023<br/>Adopted</b> | <b>2023-2024<br/>Adopted</b> | <b>%<br/>Change</b> |
| General Fund  | \$ 1,916,689,476             | \$ 2,092,480,477             | 9.2%                |
| Special Funds   | 3,012,492,461                | 3,362,611,337                | 11.6%               |
| <Less: Operating Transfers>                               | (872,639,407)                | (940,383,884)                | 7.7%                |
| <b>Net Operating Funds</b>                                | <b>4,056,542,530</b>         | <b>4,514,707,930</b>         | <b>11.3%</b>        |
| Capital Funds   | 1,947,900,683                | 1,588,248,927                | (18.5%)             |
| <Less: Capital Transfers>                                 | (13,065,000)                 | (4,030,000)                  | (69.2%)             |
| <b>Net Capital Funds</b>                                  | <b>1,934,835,683</b>         | <b>1,584,218,927</b>         | <b>(18.1%)</b>      |
| <b>Total</b>  | <b>\$ 5,991,378,213</b>      | <b>\$ 6,098,926,857</b>      | <b>1.8%</b>         |

### Position Impacts

The Adopted Budget includes a net increase to the overall position count throughout the organization. The Base Budget included the elimination of 41 positions, as these positions were funded on a one-time basis only in the 2022-2023 Adopted Budget. Overall, the net level of staffing increases by 156 positions, from 6,884 full-time equivalent positions in the 2022-2023 Adopted Budget to 7,040 positions in the 2023-2024 Adopted Budget, as shown in Table 2 below.

| <b>Changes in Position Count (All Funds)<br/>from 2022-2023 Adopted to 2023-2024 Adopted Budget<br/>(Table 2)</b> |                        |
|---|------------------------|
| <b>2022-2023 Adopted Budget</b>   | <b>6,884 positions</b> |
| <i>2023-2024 Base Budget Changes</i>  | <i>(41) positions</i>  |
| <i>2023-2024 Adopted Budget Changes – General Fund</i>  | <i>141 positions</i>   |
| <i>2023-2024 Adopted Budget Changes – Other Funds</i>   | <i>56 positions</i>    |
| Total Net 2023-2024 Position Changes  | 156 positions          |
| <b>2023-2024 Adopted Budget</b>   | <b>7,040 positions</b> |

## 2023-2024 ADOPTED OPERATING BUDGET

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### General Fund Forecast

In February 2023, the Administration prepared the 2024-2028 Five-Year Forecast and Revenue Projections document to estimate the budget condition of the General Fund and selected Capital Funds over the next five years. The Forecast initially anticipated an ongoing surplus of \$29.9 million in 2023-2024. That surplus was then revised slightly upward to \$35.3 million due to a number of factors, including corrections to personal services costs within the Base Budget and minor revisions to several revenue categories.

Table 3 below displays the incremental General Fund surpluses and shortfalls estimated over the next five years. It is important to note that the shortfall anticipated in 2024-2025 assumes that the \$35.3 million surplus for 2023-2024 is fully allocated toward ongoing uses. Any portion of a surplus not fully allocated – or any shortfall not fully resolved – would be carried over to the following year.

**2024-2028 Revised General Fund Five-Year Forecast**  
**(\$ in millions)<sup>1</sup>**  
**(Table 3)**

|   | 2023-2024           | 2024-2025 | 2025-2026 | 2026-2027 | 2027-2028 | Five-Year Surplus/ (Shortfall) |
|---|---------------------|-----------|-----------|-----------|-----------|--------------------------------|
| <b>Incremental Surplus/ (Shortfall)</b> | \$35.3 <sup>2</sup> | (\$18.8)  | (\$0.1)   | \$9.4     | \$0.1     | \$25.9                         |

<sup>1</sup> Does not include 1) costs associated with services funded on a one-time basis in 2022-2023; 2) costs associated with unmet/deferred infrastructure and maintenance needs; and 3) one-time revenue sources or expenditure needs.

<sup>2</sup> This figure was revised from the \$29.9 million surplus as presented in the February 2023 Forecast as a result of continued analysis of projected revenues and expenditures.

As described previously and in greater detail in the 2024-2028 Five-Year Forecast<sup>1</sup>, the projected surpluses omitted significant expenditure levels in 2022-2023 funded by either one-time resources in the General Fund, or funded through external sources such as the ARP Fund. A clear example is the Beautify San José Consolidated Model, which was created early in the pandemic and kick-started with one-time funding from the Coronavirus Relief Fund and the ARP Fund to provide homeless encampment trash collection, abatement, illegal dumping response, and other blight reduction activities. The 2022-2023 Adopted Operating Budget fully funded the Beautify San José positions on an ongoing basis, but all contractual services funding continued to be one-time funded. As a result, the \$35.3 million omits the over \$8 million of costs for basic contractual services of trash collection and abatement work that is effectively viewed by the community as baseline Core Services.

In anticipation of weaker economic conditions in the coming months, City Council's approval of the Mayor's March Budget Message directed the establishment of a 2024-2025 Future Deficit Reserve. The Adopted Operating Budget fully met this direction, leaving \$18.8 million unspent on an ongoing basis. This prudent approach positions the City to better weather the uncertain budgetary future in the face of a possible recession, eliminates the currently-projected shortfall in 2024-2025, and significantly lessens the likelihood of future service reductions in 2024-2025.

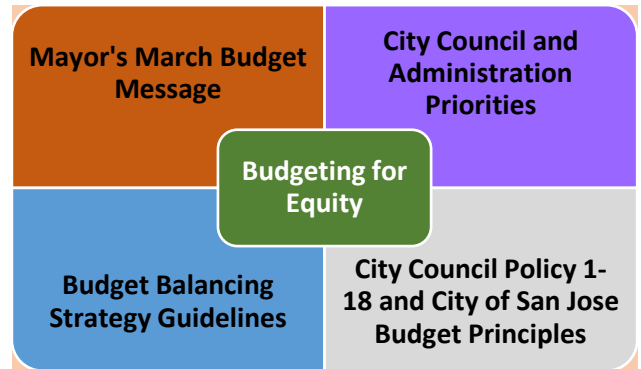
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<sup>1</sup> 2023-2024 City Manager's Budget Request and 2024-2028 Five-Year Forecast:  
<https://www.sanjoseca.gov/home/showpublisheddocument/95053/638133534549630000>



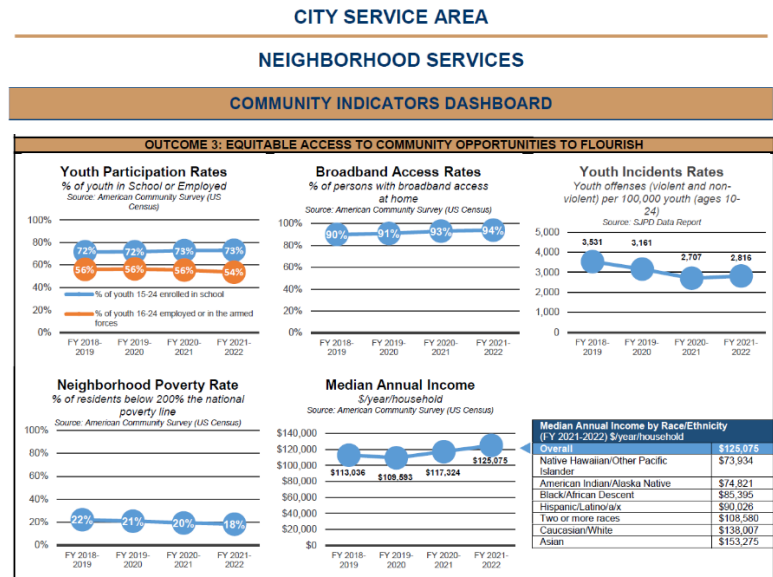
**Adopted Budget Development Considerations**

The Adopted Budget balanced many competing community and organizational needs while ensuring that the resources contained within all City funds remain in balance and thoughtfully deployed. While the budget development process was informed by a variety of factors, the inputs shown at right are the key drivers that provided the strategic approach for these needs.



The Mayor’s March Budget Message for Fiscal Year 2023-2024, as approved by the City Council, identified the main investment priorities for the budget process, and directed us to employ the Budget Balancing Strategy Guidelines that outlined a number of general approaches to use in the development of the budget. City Council Policy 1-18 and the City of San José Budget Principles further ensured that the Administration applied best budgetary practices and worked to align ongoing revenues with ongoing expenditures. Finally, the City Council identified new or revised service level needs to benefit the community, and the Administration identified areas for additional investment or reallocation to address organizational risks and service delivery gaps.

Grounding us during the budget deliberation process was the consideration of equity. Our collective obligation as public administrators is to always think about resource allocation in a structured way to help determine who is benefitted and who is burdened by budgetary action, or inaction. This includes both the allocation of existing resources within the Base Budget, and additional resources considered when developing the Adopted Budget. To deepen the City’s ability to understand the impact of services within different segments of the community, City Council’s approval of the 2022-2023 Adopted Operating Budget established resources to begin the revamp of the outcomes, strategic objectives, performance measures, and activity and workload highlights displayed in the Proposed and Adopted Budgets. To pilot this approach, the 2023-2024 Adopted Operating Budget includes revised metrics for the Neighborhood Services CSA, at both the CSA and Core Service level, as well as a “Community Indicators Dashboard” that aligns with the revised outcomes. The 2023-2024 Adopted Operating Budget also includes additional funding to build on the success of this pilot and re-imagine the metrics for the remaining CSAs and their associated Departments/Core Services, with three CSAs expected to be updated in 2023-2024.



## 2023-2024 ADOPTED OPERATING BUDGET

### General Fund Budget Balancing Plan

The 2023-2024 Adopted General Fund Budget Balancing Plan that allocated the \$35.3 million surplus forecasted for 2023-2024 is displayed in Table 4 below, which shows the matrix of balancing strategies and the dollars associated with each action. A discussion of the balancing strategies can be found in *Attachment A* to this message and is discussed in detail throughout the Adopted Budget. *Attachment B* provides the status of Mayor and City Council referrals approved as part of the Mayor's March Budget Message for Fiscal Year 2023-2024. *Attachment C* provides information regarding any actions included in the budget that specifically addressed a recommendation issued by the City Auditor.

| <b>2023-2024 Adopted Operating Budget<br/>General Fund Budget Balancing Plan (in 000's)<br/>(Table 4)</b>  |                    |                    |
|--|--------------------|--------------------|
|  | <b>2023-2024</b>   | <b>Ongoing</b>     |
| <b>2023-2024 General Fund Surplus</b>  | <b>\$ 35,263</b>   | <b>\$ 35,263</b>   |
| <b>Balancing Strategy</b>  |                    |                    |
| <b>Source of Funds</b>   |                    |                    |
| Beginning Fund Balance:  |                    |                    |
| 2022-2023 Excess Revenue/Expenditure Savings   | 35,000             | 0                  |
| Liquidation of Various Reserves:   |                    |                    |
| Uncommitted Measure E Reserves   | 17,478             | 0                  |
| Fire Station FF&E Reserve  | 3,800              | 0                  |
| 2023-2024 Recruitment Centralization Pilot Program Reserve   | 1,125              | 0                  |
| Solid Waste Code Enforcement Reserve   | 600                | 0                  |
| Climate and Seismic Resilience Planning Reserve  | 463                | 0                  |
| Grants/Reimbursements/Fees:  |                    |                    |
| CaliforniansForAll Youth Workforce Development (PRNS and OEDCA)  | 2,899              | 0                  |
| 280 Almaden Avenue Beautification (Public Works)   | 1,850              | 0                  |
| Commercial Solid Waste CPI Adjustment  | 1,017              | 1,017              |
| Other Fee Programs/Reimbursements/Grants   | 7,570              | 1,821              |
| Overhead Reimbursements/Transfers from Other Funds   | 1,607              | 1,678              |
| <b>Subtotal Source of Funds</b>  | <b>\$ 73,409</b>   | <b>\$ 4,516</b>    |
| <b>Use of Funds</b>  |                    |                    |
| Service Level Enhancements   | \$ 57,980          | \$ 10,387          |
| 2022-2023 Previously One-Time Funded Services  | 37,903             | 13,979             |
| Unmet/Deferred Technology, Infrastructure, and Maintenance   | 22,757             | 488                |
| Other Fee Programs/Grants/Reimbursements   | 10,262             | 90                 |
| New Facilities Operations and Maintenance  | 6,153              | 768                |
| Earmarked Reserves (Information Technology Sinking Fund, Animal Care and Services Foundation)  | 4,834              | 200                |
| 2024-2025 Future Deficit Reserve   | 0                  | 18,846             |
| Cost Reductions/Service Delivery Efficiencies/Funding Shifts   | (1,668)            | (1,889)            |
| Use of Reserves (Measure E, Committed Additions, Cultural Facilities, Deferred Infrastructure and Maintenance, Police Staffing, Police Equipment Sinking Fund) | (29,549)           | (3,090)            |
| <b>Subtotal Use of Funds</b>   | <b>\$ 108,672</b>  | <b>\$ 39,779</b>   |
| <b>Total Balancing Strategy</b>  | <b>\$ (35,263)</b> | <b>\$ (35,263)</b> |
| <b>Remaining Balance</b>   | <b>\$ 0</b>        | <b>\$ 0</b>        |

## 2023-2024 ADOPTED OPERATING BUDGET

### General Fund Budget Balancing Plan (Cont'd)

As reflected in Table 4 above and Table 5 below a total of \$108.7 million from the General Fund was allocated in 2023-2024, of which \$39.8 million was allocated on an ongoing basis. The large amount of General Fund resources available in 2023-2024 is primarily attributable to: 1) one-time resources associated with beginning fund balance or savings expected at the end of 2022-2023 that are carried forward to be used as a one-time funding source in 2023-2024 (\$35.0 million); 2) a portion of unspent Measure E Reserves that the City Council has not yet committed for a specific use that were available for reallocation to help reduce the number of unsheltered homeless residents in San José as directed by City Council's approval of the Mayor's March Budget Message for Fiscal Year 2023-2024 (\$17.5 million); and external grant resources to provide an array of community services, mostly on a one-time basis (\$12.3 million). As discussed in more detail below, with their approval of the Mayor's June Budget Message for Fiscal Year 2023-2024, the City Council directed the reallocation of \$12.3 million of uncommitted resources from affordable housing purposes to near-term efforts to reduce unsheltered homelessness.

While the process to develop the 2023-2024 Adopted Operating Budget spanned all City funds, Table 5 below provides a summary of the alignment of the actions included in the General Fund to the priorities identified in both the City Council-approved March Budget Message and other City Council and Administration priorities.

| <b>2023-2024 Adopted Budget Investment Priorities – General Fund<br/>(Table 5)</b> |   |   |
|--|---|---|
| <b>Investment Priority</b>   | <b>2023-2024<br/>General Fund<br/>Adjustments</b> | <b>Ongoing<br/>General Fund<br/>Adjustments</b> |
| Increasing Community Safety  | \$25.3 million                                    | \$6.1 million                                   |
| Reducing Unsheltered Homelessness<br>(Measure E)                                   | \$39.3 million                                    | \$0.5 million                                   |
| Cleaning Up Our Neighborhoods  | \$17.4 million                                    | \$8.9 million                                   |
| Attracting Investments in Jobs and Housing   | \$4.1 million                                     | \$0.2 million                                   |
| Other Community Services   | \$19.6 million                                    | \$4.3 million                                   |
| Strategic Support Services   | \$5.0 million                                     | \$3.2 million                                   |
| Deferred Infrastructure  | \$27.6 million                                    | \$0.9 million                                   |
| <b>Investment Priority Total</b>   | <b>\$138.3 million</b>                            | <b>\$24.1 million</b>                           |
| 2024-2025 Future Deficit Reserve   |   | \$18.8 million                                  |
| Use of Reserves  | (\$29.6 million)                                  | (\$3.1 million)                                 |
| <b>Total</b>   | <b>\$108.7 million</b>                            | <b>\$39.8 million</b>                           |

## 2023-2024 ADOPTED OPERATING BUDGET

### Investment Priorities

A discussion regarding some of the most impactful budget actions follows, including actions funded in various Special and Capital Funds, along with a listing of the title and section of the document that describes the various budget actions in more detail. The actions are grouped by their alignment with the investment priorities approved as part of the Mayor's March Budget Message for Fiscal Year 2023-2024.

#### *Increasing Community Safety*

Last year, City Council's approval of the 2022-2023 Adopted Operating Budget saw the most significant increase in Police Department staffing since the passage of the Measure B ¼-cent Sales Tax ballot measure in 2016, increasing budgeted sworn staffing levels by 20 positions – 16 to Field Patrol and 4 to the Mobile Crisis Assessment Team – and committing to add a minimum of 15 additional sworn and civilian personnel each year on an ongoing basis. Due to the continued need to accelerate the rebuilding of the Police Department, City Council's approval of the Mayor's March Budget Message for Fiscal Year 2023-2024 set a more aggressive target by doubling the added headcount in 2023-2024, from 15 to 30 positions.

The 2023-2024 Adopted Operating Budget met this direction by adding a total of 31 positions to the Police Department on an ongoing basis, of which 20 positions are sworn personnel. Due to existing sworn vacancy levels and the pace of new officers entering the recruit academies, the 20 sworn positions are budgeted to start in mid-2024-2025 and will be added to Field Patrol once the new staff complete their academy and field training requirements. To maximize the Department's ability to recruit new officers, the continuation of additional one-time recruiting and backgrounding resources, as well as one-time funding for a Police Department Sworn Backfill Reserve is included in the 2023-2024 Adopted Operating Budget. The Police Department Sworn Backfill Reserve will provide overtime funding as needed to ensure patrol services experience minimal disruption while sworn position vacancies are being filled. Further, following on the work from the Reimagining Public Safety Task Force and in accordance with the March Budget Message, one-time funding is allocated to develop a community-based approach to preventing and responding to domestic violence, which is focused on the idea that residents from all across our community can be empowered to take action to intervene.





### Investment Priorities (Cont'd)



As described in the 2023-2024 Adopted Capital Budget and 2024-2028 Adopted Capital Improvement Program, the next two years are expected to see a surge of activity as a number of projects funded from the \$650 million San José's Disaster Preparedness, Public Safety, and Infrastructure Bond Measure (Measure T) move from design and into construction. This includes the upcoming 911 Call Center Expansion and the new Fire Station 32. While Measure T pays for design and construction, the costs for furniture, fixtures and equipment are not eligible to be paid from general obligation bond revenue; as a result, a total of \$5.5 million from the General Fund and \$1.9 million from the Fire Construction and Conveyance Tax Fund (allocated in the 2023-2024 Adopted Capital Budget) must be allocated in 2023-2024. To ensure a sufficient span of control as the number of fire stations grow, and to improve the response of command staff to emergency incidents, the 2023-2024 Adopted Budget adds three additional Battalion Chiefs to add a sixth battalion to the Fire Department.

As noted in the March Budget Message, any discussion of increasing community safety needs to extend to our streets. Within the Traffic Capital section of the 2023-2024 Adopted Capital Budget and 2024-2028 Adopted Capital Improvement Program, \$151.9 million is programmed for key safety improvement projects over a five-year period, primarily leveraging Federal and State grant funding. The 2023-2024 Adopted Operating Budget also adds two permanent positions in the Transportation Department focused on obtaining additional grant funding for traffic safety projects and for evaluating the effectiveness of Vision Zero priority safety corridor improvement projects.



A listing of these and other notable budget actions within this category is provided below:

Police Department Sworn Backfill Reserve (\$5.0 million)/General Fund Capital, Transfers, Reserves

911 Call Center Expansion – Fixtures, Furniture, and Equipment (\$3.7 million)/General Fund Capital, Transfers, and Reserves

Fire Station 32 – Fixtures, Furniture, and Equipment (\$1.8 million)/ General Fund Capital, Transfers, and Reserves

Firefighter/Paramedic Lateral Recruiting Academy (\$1.6 million)/Fire

Police Department Sworn and Non-Sworn Recruiting and Backgrounding (\$1.3 million)/Police

Police Field Patrol Staffing (\$1.1million)/Police  
Fire Battalion Staffing (\$1.2 million)/Fire

City Facilities Security Enhancements (\$1.0 million)/ General Fund Capital, Transfers, Reserves

Community Services Officer Downtown Ambassador (\$907,000)/Police

## 2023-2024 ADOPTED OPERATING BUDGET

### Investment Priorities (Cont'd)

Happy Hollow, Emma Prusch, Lake  
Cunningham Security Staffing  
(\$660,000)/PRNS

Library Security Staffing and Contractual  
Services Expansion (\$616,000)/Library

Crime and Intelligence Data Center  
Expansion (\$563,000)/Police

Community-Based Violence Solutions  
(\$400,000)/City-Wide Expenses

Psychiatric Emergency Response Team  
(\$180,000)/Police

Grants and Data-Based Transportation  
Evaluation Staffing (\$160,000)/  
Transportation

Vision Zero Priority Safety Corridors Project  
Evaluation Staffing (\$120,000)/  
Transportation

Improving Criminal Justice Program  
(\$120,000)/Police

### Reducing Unsheltered Homelessness

Even before the pandemic in 2020, the City has leaned into the role in helping to prevent, manage, and end homelessness. While no one government agency can address this humanitarian crisis alone, it is critical to maximize the ability of the City's limited resources to help address our most vulnerable populations.

Accordingly, the City Council has given direction to meet aggressive goals in the near term to address unsheltered homelessness. The 2022-2023 Adopted Operating Budget allocated a total of \$40.0 million from the General Fund (\$21.5 million) and the ARP Fund (\$18.5 million) to kick-start the development of 1,000 Emergency Interim Housing (EIH) sites and seed funding for their future operating and maintenance costs. City Council's approval of the 2022-2023 Adopted Budget also designated the inclusion, as Committed Additions to future Five-Year General Fund Forecasts, the costs to operate and maintain the existing and future inventory of Bridge Housing Communities, EIH sites, and converted hotels and motels to shelter unhoused community members in San José. More simply put, if Federal, State, and other external resources are not sufficient to operate these facilities, future ongoing General Fund allocations will be committed to close the gap.



While staff is currently leveraging City, Federal, and State resources to develop and maintain EIH sites, open safe parking sites, and provide outreach and support services to unsheltered residents, an additional infusion of resources are needed to meet the aggressive goals set by the Mayor and City Council.

### Investment Priorities (Cont'd)

Approved by the voters in March 2020, Measure E enacted a Real Property Transfer Tax, a general purpose tax that is received in the General Fund whose revenues can be used for any governmental purpose. However, City Council Policy 1-18, Section 22 designates specific uses for the funding. After allocating 5% of the revenues for program administration, the remaining revenue is allocated for affordable housing development (75%), homeless support programs, shelter construction, and operations (15%), and homelessness prevention, gender-based violence programs, legal services, and rental assistance (10%).



The City Council's approval of the March Budget Message directed the Administration "to explore the use of uncommitted Measure E resources for reallocation to homeless prevention, support and management investments...[including] allocating sufficient resources and funding to create new capacity to move at least 1,000 people who are currently living in the most environmentally-destructive and unsafe encampments into safer alternatives by the end of the calendar year."

Table 6 below presents the most current feasible timeline to achieving the goal of moving 1,000 people into newly created, City-funded safe alternatives for people who are experiencing homelessness and are unsheltered<sup>2</sup> in San José. While the Administration continues to quickly advance work to achieve the aspirational objectives of the City Council, meeting the original timeline of December 31, 2023 is no longer feasible due to issues such as the timing of land access from private and governmental land owners, additional site analysis and outreach as required by the City Council, and the shifting of the most appropriate opportunity for unsheltered residents in Coyote Creek from Rapid Rehousing to Permanent Supportive Housing. However, as shown below, when extending the timeline to the end of the 2023-2024 fiscal year, the Administration anticipates that net new placements may still achieve the 1,000-person goal, depending on external factors, including the capacity of our State and regional partners that control access to a number of interim housing sites under development.

The figures in Table 6 are in addition to ongoing efforts to increase permanent housing. This urgent effort recognizes that people suffering on the streets need safe, secure options as soon as possible, which will improve community well-being overall.

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<sup>2</sup> A person is homeless and unsheltered if they lack a fixed, regular, and adequate nighttime residence, which is a primary nighttime residence that is a public or private place not meant for human habitation, such as parks, creeks, or in RVs or cars not parked in designated legal spots.

## 2023-2024 ADOPTED OPERATING BUDGET

### Investment Priorities (Cont'd)

| <b>Path to Move 1,000 Unsheltered Individuals into Safe Opportunities*<br/>(Table 6)</b> |  |                                  |  |                                  |   |                                  |
|--|--|----------------------------------|--|----------------------------------|---|----------------------------------|
|  | <b>Jan 1 – Dec 31, 2023<br/>(As of May 2023)</b> |                                  | <b>Jan 1 – Dec 31, 2023<br/>(As of October 2023)</b> |                                  | <b>Jan 1 – June 30, 2024<br/>(As of October 2023)</b> |                                  |
| <b>Opportunity*</b>  | <b>New<br/>Units</b>                             | <b>Individuals<br/>Supported</b> | <b>New<br/>Units</b>                                 | <b>Individuals<br/>Supported</b> | <b>New<br/>Units</b>                                  | <b>Individuals<br/>Supported</b> |
| <b>Permanent Supportive Housing</b>  | 150  | 150                              | 27   | 27                               | 153   | 153                              |
| <b>Emergency Interim Housing</b>   | 96   | 96                               | 96   | 96                               | 171   | 246                              |
| <b>State Small Homes Initiative</b>  | 200  | 200                              | 0  | 0                                | 200   | 200                              |
| <b>Valley Transportation Agency Safe Parking</b>   | 42   | 59                               | 42   | 59                               | 42  | 59                               |
| <b>Arena Hotel</b>   | 89   | 99                               | 89   | 114                              | 89  | 114                              |
| <b>Rapid Rehousing</b>   | 150  | 175                              | 0  | 0                                | 0   | 0                                |
| <b>Other RV/car parking initiatives</b>  | 92   | 128                              | 0  | 0                                | 92  | 128                              |
| <b>Total</b>   | <b>819</b>                                       | <b>907</b>                       | <b>254</b>   | <b>296</b>                       | <b>747</b>  | <b>900</b>                       |

\*The Administration is also pursuing an opportunity to potentially site an additional 100 emergency cabins to the total above, depending upon site location and logistics.

City Council Policy 1-18 requires that any change to the percentages of Measure E spending allocations requires two public hearings and a two-thirds vote of the City Council. The public hearings for the Measure E reallocation occurred as part of the Proposed Budget hearings on May 16, 2023 and June 12, 2023. Guided by the City Council's initial direction with their approval of the Mayor's March Budget Message for Fiscal Year 2023-2024 to reallocate a substantial amount of uncommitted affordable housing resources on a one-time basis to help reduce unsheltered homelessness, the Proposed Budget had included a reallocation of \$53.1 million (50% of the available uncommitted affordable housing funding) – \$38.0 million related to homelessness prevention and support and \$15.1 million to a Measure E Revenue Stabilization Reserve to provide capacity to absorb a likely revenue shortfall anticipated in 2022-2023 resulting from the real estate market's poor performance, which would ensure that other Measure E funding commitments stay intact.

Subsequent to the public hearings and after additional City Council deliberation, with their approval of the Mayor's June Budget Message for Fiscal Year 2023-2024 and the formal adoption of the one-time changes to Measure E allocations for 2023-2024, the City Council instead directed the reallocation of \$12.3 million (12%) of uncommitted resources from affordable housing purposes to near-term efforts to reduce unsheltered homelessness. The City Council gave further direction to set aside up to \$15.0 million over a two-year period any available General Fund Ending Fund Balance as part of the City Manager's Annual Report for interim shelters and other homeless support programs. Accordingly, \$15.0 million of General Fund Ending Fund Balance was available in 2022-2023 and allocated for EIH construction and operation as part of the 2022-2023 Annual Report approved by the City Council at their meeting on October 17, 2023.



## 2023-2024 ADOPTED OPERATING BUDGET

### Investment Priorities (Cont'd)

A complete listing of the Measure E 2023-2024 Adopted Budget spending priorities is contained in *Attachment D* to this transmittal memorandum.

A listing of the budget actions within this category is provided below:

Measure E – Homeless Response and Outreach Contractual Services and Staffing (\$4.5 million)/City-Wide Expenses

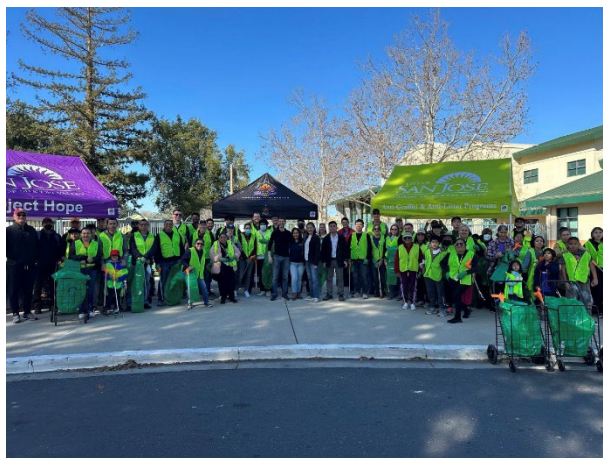
Measure E – Housing Homeless Response Staff (Program Admin, \$2.5 million)/City-Wide Expenses

Measure E – Interim Housing Site Identification and Development Staffing (\$2.0 million)/ City-Wide Expenses

Measure E – Homelessness Coordination Team (\$1.9 million)/City-Wide Expenses

### Cleaning Up Our Neighborhoods

Along with stepped-up efforts to prevent and address homelessness, the City has made substantial investments of budgetary and organizational resources to address issues of blight, illegal dumping, trash collection at homeless encampments, and abatement activities. The 2021-2022 Adopted Operating Budget leveraged one-time ARP funding to formally establish the Beautify San José Consolidated Model in the Parks, Recreation and Neighborhood Services Department. City Council's approval of the 2022-2023 Adopted Operating Budget permanently funded the positions that provided the then existing service level, though all of the contractual services for the program were still funded on a one-time basis.



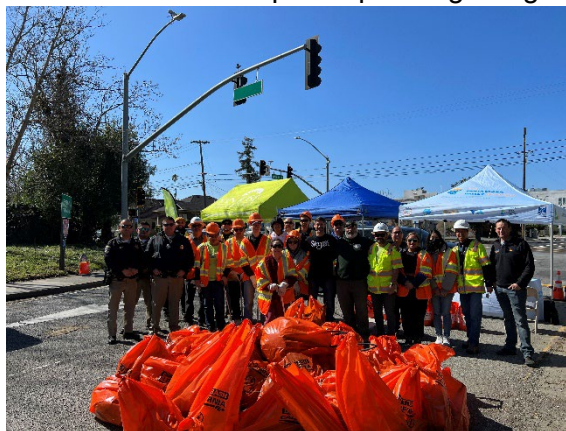
As directed by City Council's approval of the Mayor's March Budget Message for Fiscal Year 2023-2024, the Adopted Budget allocated significant levels of ongoing non-personal/equipment funding to make a substantial inroad to ensuring that the baseline level of contractual services for trash pickup, setback and encampment abatement work, Cash for Trash, trash disposal fees, and interagency work is included in the General Fund on an ongoing basis, as well as an ongoing increase to non-profit partners that perform creek cleanups (\$8.1 million). As the level of need currently surpasses the baseline service level, the Adopted Budget also responded to the March Budget Message direction by allocating additional one-time funding of \$4.2 million to pilot new or expanded services, including: establishing two teams to pick-up trash at encampments located along waterways; a team focused on reducing blight and encampments at a number of City gateways; a "Beautify Your Block" program to leverage the volunteer capacity of neighborhood groups and associations to clean neighborhoods most impacted by blight; and increasing the Cash for Trash Program by 200 participants, from 500 to 700.

## 2023-2024 ADOPTED OPERATING BUDGET

### Investment Priorities (Cont'd)

The 2023-2024 Adopted Budget recommends a total resource allocation – including the existing Base Budget and one-time funding allocated in 2022-2023 rebudgeted into 2023-2024 to complete one-time projects and equipment purchases – for Anti-Graffiti and Anti-Litter, Illegal Dumping, and Homeless Encampment Trash Collection and Abatement Services Budget Programs of approximately \$30 million and 90 positions. This is a significant increase above pre-pandemic levels of approximately \$7 million and 25 positions as included in the 2019-2020 Adopted Operating Budget.

Other investments in this category include the continuation of one-time funded positions in the Information Technology Department to support and enhance the San José 311 platform, additional one-time funding to procure and implement a homeless encampment management system, the permanent funding of automated public toilets in the Downtown (previously funded on a one-time basis for many years), and grant funding for the 280 Almaden Avenue Beautification Improvement Project.



A listing of these and other notable budget actions within this category is provided below:

Beautify San José Consolidated Model (\$12.3 million)/PRNS

280 Almaden Avenue Beautification Improvement Project (\$1.9 million)/General Fund Capital, Transfer, Reserves

Automated Public Toilets (\$438,000)/Transportation

San José 311 Program (\$500,000)/Information Technology

Homeless Encampment Management System (\$250,000)/ Information Technology

“Beautify Your Block” BSJ Grants (\$150,000)/PRNS

### *Attracting Investments in Jobs and Housing*

The long-term health of San José – in terms of quality of life for our residents and the ability of the City to deliver core services over the long-term – is contingent on our ability to attract and sustain economic activity. As directed in the March Budget Message, targeted investments are centered around planning and permitting to improve customer service outcomes and pre-planning work to better support current and future private development, facilitating future affordable housing development, as well as supporting economic activity through direct assistance programs and continued bolstering of cultural arts.

### Investment Priorities (Cont'd)

#### Enhancing the City's Capacity to Facilitate Private Development Activity

While current efforts are already underway to recruit and retain planning and permitting staff within the Planning, Building and Code Enforcement Department (PBCE) – including the Recruitment Centralization Pilot Program overseen by the Human Resources Department that, in part, assumes responsibility for all recruitment work within the Code Enforcement Division so that PBCE can focus on recruitment related to Development Services – PBCE is also undertaking a pilot reorganization to dedicate specific project managers for high-priority projects. Budget actions to enhance the capacity of PBCE to facilitate development activity include: adding front-line and managerial staff to the Permit Center to more effectively implement a blended model of supporting virtual appointments, in-person appointments, and customers without appointments; upgrading the web portal and back-end technology to provide better integration and transparency around the permit approval process; streamlining plan review and inspections for pre-approved designers and installers; and establishing a paid fellowship program with San José State University and other educational institutions to create a pipeline of future employees for Development Services.



#### Investments to Better Support Future Development Activity

In addition to staffing increases to build capacity to facilitate the planning and permitting process, the City will also undertake pre-planning work to help set the stage for future development activity. Such investments include continued funding for California Environmental Quality Act (CEQA) pre-clearance for market-ready urban villages, the re-zoning of properties to align with the Envision San José 2040 land use designations that will result in more clarity for property owners as they engage in future development work, and the preparation of guidelines and templates to improve the speed and consistency of environmental review in accordance with City Auditor recommendations<sup>3</sup>.

To facilitate the production and retention of affordable housing, permanent staffing in the Housing Department will support several major initiatives, including implementing strategic priorities from the Anti-Displacement Strategy and completing work on defining fair housing strategies under the Housing Element, and drafting and creating an Assessment of Fair Housing Plan for the Federal Housing and Urban Development Department that builds on the Housing Element. Ongoing consulting services will support technical and environmental review, appraisal services, underwriting, community engagement, and other predevelopment activities supporting future NOFAs. The 2023-2024 Adopted Operating Budget also fully funded the effort to change the General Plan's land use designation for the City's remaining 43 mobile home parks not included in previous funding allocations.

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<sup>3</sup> City Auditor Report 22-02, *Environmental Review for New Developments: Better Project Management and Reviewing Resources can Improve the CEQA Process*:

<https://www.sanjoseca.gov/home/showpublisheddocument/83400/637834607762098708>



### Investment Priorities (Cont'd)

#### Supporting Economic and Cultural Vibrancy

The pandemic has left its mark on the Downtown and on other commercial areas across San José. As market conditions have changed and will continue to shift as the local economic indicators have begun to weaken, additional leadership and staffing capacity will be critical to engage with the business community and coordinate across stakeholder groups. In accordance with the City Council-approved Mayor's March Budget Message direction, the 2023-2024 Adopted Operating Budget provided two additional staffing resources in the Office of Economic Development and Cultural Affairs with a focus on Downtown activation – including expanded marketing efforts, clean and safe quality of life initiatives, and the facilitation of a greater collective impact from various Downtown stakeholders – as well as additional support for business recruitment and retention city-wide.



While many of the City's revenues have recovered from the shock of the pandemic, hotel activity and associated Transient Occupancy Tax (TOT) revenues – though certainly improved with revenues tracking to exceed prior year levels by over 75% - have not yet returned to pre-pandemic levels. As a result, ARP Funds were used over the past two years to support the operations and maintenance of the Convention Center and cultural facilities managed by Team San Jose, and to support grants to cultural institutions and organizations. With the ARP Fund fully allocated, the 2023-2024 Adopted Operating Budget allocated \$1.0 million of General Fund resources to continue one-time bridge funding for cultural grants, though



at lower levels than the prior \$2.0 million allocation from the ARP Fund. Moreover, because all of the TOT proceeds allocated to Team San Jose are nearly completely dedicated to supporting Convention Center and cultural facilities operations, there is not money available for necessary capital rehabilitation at the City's cultural buildings. As a result, the 2023-2024 Adopted Operating Budget allocated \$12.1 million from the General Fund for critical capital improvements at cultural facilities, as discussed in the *Deferred Infrastructure* section below.



## 2023-2024 ADOPTED OPERATING BUDGET

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### Investment Priorities (Cont'd)

A listing of these and other notable budget actions within this category is provided below:

Small Business Recovery – Supplemental Arts + Cultural Funding (\$1.0 million)/City-Wide Expenses

Storefront Activation Grant Program (\$750,000)/City-Wide Expenses

Permit Center Team – Customer Service General Support Staffing (\$280,000)/ Planning, Building, and Code Enforcement

Downtown Management and Citywide Business Development Staffing (\$318,000)/ Office of Economic Development and Cultural Affairs

Market Ready Urban Villages (CEQA Pre-Clearance (\$300,000)/Planning, Building and Code Enforcement

Preapproved Vendors for Inspections (Best Prepared Installer) and Plan Review (Best Prepared Designer) (\$262,000)/ Planning, Building, and Code Enforcement

4<sup>th</sup> of July Celebration (\$250,000)/ City-Wide Expenses

Housing Pre-Development Consulting Services (\$250,000)/Housing

Mobile Home Park Protections (\$240,000)/ City-Wide Expenses

Housing Policy and Procedures Staffing (\$210,000)/Housing

Creating Helpful Incentives to Produce Semiconductors Act Facilitation (\$200,000)/ Office of Economic Development and Cultural Affairs

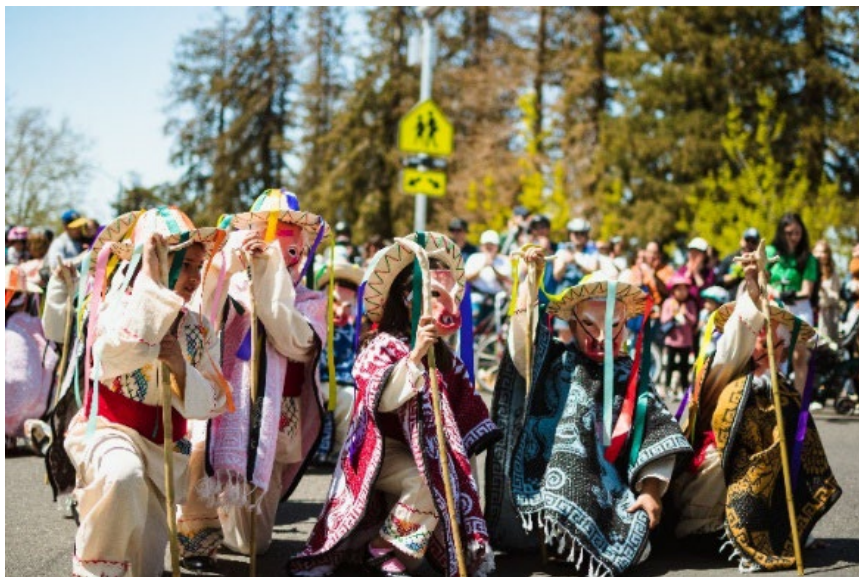
SJ Permits (Smart Guide) Software Upgrade (\$192,000)/ Planning, Building, and Code Enforcement

AMANDA – Geocortex Software Upgrade (\$150,000)/ Planning, Building, and Code Enforcement

Re-Zone Land Use Streamline Resources (\$117,000)/ Planning, Building, and Code Enforcement

Environmental Review Process Consultant Services (\$110,000)/ Planning, Building, and Code Enforcement

San José State University/City Downtown Co-Branding Pilot Campaign (\$100,000)/ City-Wide Expenses



### Investment Priorities (Cont'd)

#### Other Community Services

While the March Budget Message gave direction around key focus areas, it also provided direction to address select areas of urgent, important, and continuing work within other community services, strategic support services, and deferred infrastructure. As highlighted below, the Adopted Budget allocated a select number of prioritized investments across a range of services to address the most urgent areas of needs and mitigate organizational risk.

As discussed previously, one of the key objectives of the 2023-2024 Adopted Operating Budget is to evaluate the continuation services that have been supported by the ARP Fund over the last two years. As an example, the ARP Fund provided youth scholarship funding in the Parks, Recreation and Neighborhood Services Department of \$2.4 million in 2022-2023, which is estimated to provide over 3,000 unduplicated youth that qualifies for scholarships to cover 100% of recreational programming costs. Although sustaining this level of support was never committed, providing a higher level of ongoing support above pre-pandemic levels was an objective of this budget cycle. As a result, a General Fund contribution of \$1.0 million is recommended in 2023-2024, of which \$500,000 is continued on an ongoing basis. A similar approach was applied to the Digital Equity Program as administered by the Library Department, which received one-time transitional bridge step-down funding of \$1.5 million from the General Fund for hotspots and Chromebooks in 2023-2024, while previously one-time staff is made permanent to coordinate the transition of families to the Federal Affordable Connectivity Program that subsidizes device and internet plans.



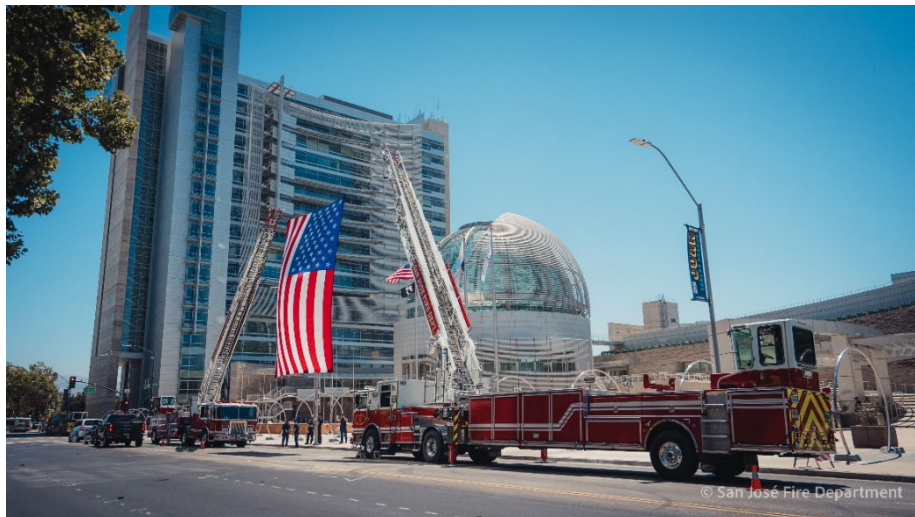
Investments are recommended to shore up operational gaps at the Animal Care and Services Center to support the large volume of animals entering the Center that need care and, ultimately, future homes. The Adopted Budget includes the establishment of a night shift, implementing 24 hours/7 days a week of care and services for animals at the shelter; staffing additions and contractual services that provide capacity to help assess and address animal behavior issues and improve adoption and rescue outcomes; a repair worker solely dedicated to the Center; and additional funding of \$500,000 for capital rehabilitation (*captured within the Deferred Infrastructure category*).

The Adopted Budget includes initial funding of \$4.0 million to implement the City Manager's Customer Service Vision and Standards initiative, which will drive a three-year transformation of the customer service experience for San José residents, businesses, and guests, as approved by the City Council on March 7, 2023. The first year will focus on cultural change, training, process re-engineering, initial centralized governance, technology planning and pilot implementation of a centralized customer relationship management system, and the pursuit of short-term quick wins to build momentum. The second year of the project will front-load the effort to integrate the customer relationship management system with appropriate departmental systems and migrate appropriate data to deliver a city-wide 360-degree view of San José customers. The third year will sustain the program to complete implementation as soon as possible. Funding for the second and third year of the project will be evaluated in future budget cycles.

### Investment Priorities (Cont'd)

Numerous investments within various restricted funds are included in the Adopted Budget to address service level gaps, optimize or improve existing services, or address new challenges, as sampled below:

- With airport passenger levels and flights continuing to improve, recommendations are included for modest staffing increases within the Airport Department, including positions to address maintenance needs and provide capacity for the management of regulatory compliance and advance the Airport's Sustainability Management and the City's Climate Smart San José Plan.
- The Integrated Waste Management Fund managed by the Environmental Services Department allocated funding for additional staffing and contractual services to reduce single-family dwelling recycling contamination, as customer rates are impacted by the contamination of recyclable materials.
- Overseen by the Environmental Services Department in partnership with the Public Works Department, resources within the Sewer Service and Use Charge Fund, the Storm Sewer Operating Fund, and the General Fund are allocated to take initial steps to form the Sanitary and Storm Sewer collection systems as discreet City utilities. As the City faces challenges such as deferred maintenance backlog, increasing regulatory compliance requirements, future population growth, and emerging effects of climate change, additional investments will be needed to manage and rehabilitate these systems over the long term.
- To address the growing regulatory and legislative complexity over the energy industry in recent years, additional staffing within the Community Energy Department, and funded from the San José Clean Energy Fund, will ensure timely and accurate preparation of emissions analyses, utility tariff analyses, resource reliability assessments and other regulatory requirements from the California Public Utilities Commission, California Energy Commission, California Air Resources Board, and California Independent System Operator.
- Resources within the Traffic Capital Program continue and make permanent two positions in the Transportation Department to support traffic signal safety improvement projects, including proactive development of a signal warrant/modification prioritization program, systemwide deployment of traffic signal safety and mobility tools such as accessible pedestrian signals and retroreflective signal head backplates, mitigation of recurring signal infrastructure knockdowns, and rehabilitation of aging and deficient infrastructure.





## 2023-2024 ADOPTED OPERATING BUDGET

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### Investment Priorities (Cont'd)

A listing of these and other notable budget actions within this category is provided below:

Customer Service Vision and Standards (\$4.0 million)/City-Wide Expenses

CaliforniansForAll Youth Workforce Program – Climate Change Pathway (\$2.8 million)/City-Wide Expenses

Digital Equity Program (\$1.8 million)/Library

Animal Care and Services Staffing – Night Shift, Customer Service, Medical Services, and Facilities (\$1.4 million)/Public Works

Biosolids Management Strategy Support (\$1.2 million)/Environmental Services

Recycling Contamination Reduction (\$840,000)/Environmental Services

Storm and Sanitary Sewer Infrastructure and Regulatory Investment Needs (\$812,000)/Environmental Services

Youth Scholarship Funding (\$1.0 million)/PRNS

San José Clean Energy Regulatory Compliance, Policy, and Legislative Affairs Staffing (\$575,000)/Community Energy

Child and Youth Services Programming Staffing (\$529,000)/PRNS

Airport Facilities and Environmental Divisions Staffing (\$407,000)/Airport

San José Clean Energy Risk Management and Contract Staffing (\$433,000)/Community Energy

Traffic Signal Safety Staffing (\$434,000)/Transportation

City Council and Committee Meeting Interpretation Services (\$400,000)/Office of the City Clerk

Climate Smart San José Contractual Services (\$400,000)/Environmental Services

Transportation Local Project Delivery Staffing (\$192,000)/Transportation

Starbird and Berryessa Youth Center Out of School Programming (\$267,000)/PRNS

Aquatics Program (\$187,000)/PRNS

Disability Community Engagement and Service Evaluation (\$180,000)/Office of the City Manager

Gun Violence Restraining Order Staffing (\$162,000)/Office of the City Attorney

Safety Officer Staffing (\$150,000)/PRNS

Animal Care and Services Foundation Reserve (\$100,000)/General Fund Capital, Transfers, Reserves

### *Strategic Support Services, Deferred Infrastructure, 2024-2025 Future Deficit Reserve, and Use of Reserves*

#### **Strategic Support Services**

All City services – from emergency response, to street sweeping, to branch library services, to recreational services, to pavement maintenance, to airport operations, and others – rely on the day-to-day work of the Core Services within our Strategic Support departments. As the Mayor and City Council and Administration regularly acknowledge the need for and importance of strategic support functions, several investments were included in this category.



### **Investment Priorities (Cont'd)**

The largest series of investments for Strategic Support is in the Human Resources Department, as the City continues its focus on recruiting, hiring, and retaining the talented workforce necessary to provide high-quality services to our community. A number of services funded on a one-time basis are made permanent and expanded, including hiring pipeline development, compensation and classification evaluations, and employee training and development. In addition, the Recruitment Centralization Pilot that consolidates within the Human Resources Department the recruiting and hiring functions of Housing, Parks, Recreation and Neighborhood Services, and PBCE's Code Enforcement Division will continue in 2023-2024. To lead these efforts and help drive cross-department improvements in recruitment and retention, the Adopted Budget includes the restoration of a Deputy Director position to the Human Resources Department, the only City department that does not have a Deputy Director position (Deputy Directors in the Human Resources Department were eliminated as a budget reduction strategy to manage through the impacts of the Great Recession).

Actions in the Finance Department continues and makes permanent a portion of the Disaster Recovery and Grants Management team established during the onset of the pandemic to track and appropriately document expenditures, as well as develop the necessary expertise to both maximize cost recovery and pass future audits related to the hundreds of millions of dollars of Federal and State sources to address the pandemic's impacts. As this work will continue for a number of years, and as a centralized role for grant tracking expertise in the City was previously lacking, the Recovery and Grants Management team will continue into 2023-2024 and beyond.

### ***Deferred Infrastructure***

The 2023-2024 Adopted Capital Budget and 2024-2028 Capital Improvement Program describes in detail the revenues and costs associated with maintaining the City's public works infrastructure and assets. However, as available resources are not sufficient to fully maintain all City assets, the backlog of deferred infrastructure maintenance totals \$1.7 billion, with an additional \$91.5 million needed annually to maintain the City's infrastructure in a sustained functional condition. Though many of these assets have support from dedicated and restricted funding sources, many do not, or the dedicated revenue streams are insufficient. In either case, the capital maintenance and replacement of those assets becomes the responsibility of the General Fund. As discussed previously, due to lower levels of TOT proceeds that would otherwise be available to support capital rehabilitation of City-owned cultural facilities, a sizable General Fund allocation of \$12.2 million in 2023-2024 supports the critical and urgent capital improvements at the cultural facilities shown in the table below. A portion of this cost is offset using the Cultural Facilities Capital Maintenance Reserve.

## 2023-2024 ADOPTED OPERATING BUDGET

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### *Deferred Infrastructure (Cont'd.)*

| <b>Cultural Facilities Capital Rehabilitation (General Fund)<br/>(Table 7)</b>   |                       |
|--|-----------------------|
| <b>Approved Investments</b>  | <b>Amount</b>         |
| Center for the Performing Arts – Chiller, Cooling Tower, and Boilers Replacement | \$7.6 million         |
| San José Museum of Art – Cooling Tower Replacement                               | \$2.9 million         |
| The Tech Interactive – Chiller and Cooling Tower Replacement                     | \$1.2 million         |
| Children’s Discovery Museum – Curb and Walkway Rehabilitation                    | \$0.4 million         |
| Other Cultural Facilities  | \$0.1 million         |
| <b>Total Cultural Facilities Capital Rehabilitation Projects</b>                 | <b>\$12.2 million</b> |

### **2024-2025 Future Deficit Reserve**

As directed by the City Council’s approval of the Mayor’s March Budget Message, this budget takes into consideration the General Fund shortfall anticipated in 2024-2025 and implements the ongoing allocation of \$18.8 million to the 2024-2025 Future Deficit Reserve. By fully addressing the anticipated 2024-2025 shortfall now, the City significantly lessens the likelihood of future service reductions in 2024-2025 should economic conditions further weaken.

### **Use of Reserves**

The 2024-2028 Five-Year Forecast included several reserves set aside for specific uses, and then actions are recommended in the Adopted Budget to liquidate (or spend) those reserves as a corresponding offset to the planned budgeted expense. The largest action in this category results in the elimination of the Measure E – 15% Homeless Support Programs Reserve (\$19.7 million) to reallocate eligible funding to support the homeless-related spending categories included in the City Council’s approval of Measure E allocations as shown in Attachment D, including the Measure E – Interim Housing Construction and Operations Reserve (\$13.1 million), Interim Housing Maintenance (\$5.0 million), and the annual lease of the Berryessa Road supportive parking site (\$1.5 million).

Other significant reserve liquidations included in the Adopted Budget includes the Police Staffing Reserve to offset the cost of 15 of the 31 Police Department positions recommended on an ongoing basis in the 2023-2024 Adopted Operating Budget (\$2.4 million); a reserve set aside to help offset the cost to replace or maintain deferred infrastructure (\$2.0 million); the Cultural Facilities Capital Reserve established on an ongoing basis to help pay for rehabilitation of the City-owned cultural facilities (\$1.0 million); the Police Equipment Replacement Sinking Fund Reserve to pay for a limited amount of deferred technology and equipment replacements in the Police Department (\$1.0 million), and a number of reserves established to pay for the costs of new capital facilities coming online in 2023-2024 that need to be maintained and operated (\$690,000).

## 2023-2024 ADOPTED OPERATING BUDGET

### Use of Reserves (Cont'd.)

A listing of these and other notable budget actions within this category is provided below:

IT Sinking Fund Reserve (\$4.5 million)/  
General Fund Capital, Transfers, Reserves

Transfer to the Vehicle Maintenance and  
Operations Fund (Fleet Replacement, \$4.0  
million)/General Fund Capital, Transfers,  
Reserves

Windows 11 Upgrade, Equipment and  
Resources (\$3.2 million)/Information  
Technology

Disaster Recovery and Grants Management  
Staffing (\$1.3 million)/Finance

Recruitment Centralization Pilot Program  
(\$1.0 million)/Human Resources

Animal Care and Services – Various  
Improvements (\$500,000)/ General Fund  
Capital, Transfers, Reserves

Pipeline Development Staffing  
(\$479,000)/Human Resources

Employee Training and Development Staffing  
(\$407,000)/Human Resources

Classification and Compensation Staffing  
(\$356,000)/Human Resources

Executive Staffing – Recruitment and  
Retention (\$298,000)/Human Resources

Assistant City Auditor Staffing  
(\$203,000)/Office of the City Auditor

Transactional Associate Attorney Staffing  
(\$148,000)/Office of the City Attorney

### Fees and Charges Adjustments

The 2023-2024 Adopted Budget included a range of adjustments to fees and charges to provide the resources necessary to pay for operating and capital improvement expenses. For utility rates, no rate increase was included for the Storm Sewer Service Charge or the Sewer Service and Use Charge for 2023-2024. The Municipal Water Utility System included an average rate increase of approximately 14% for 2023-2024, and for Recycle Plus rates, a 4.0% increase is included for single-family dwellings and 2.0% increase is included for multi-family dwellings.

In the Development Fee Programs, fee adjustments of approximately 7% were included for the Building Fee Program, 5% for Planning Fee Program, 7.5% for the Public Works Program, and 10% for the Fire Program to align program revenues with costs, maintain work-in-progress reserves, and enhance service levels where appropriate. In the Citywide Planning Program, an approximate 5% increase was included. Other upward and downward adjustments to various other departmental fee programs are included to generally maintain City Council-approved cost recovery rates. The fee changes are described in the 2023-2024 Proposed Fees and Charges document.



**Keyla Salazar Memorial Mural, Mayfair  
Community Center 2022, Artist Jessica Sabogal**

## 2023-2024 ADOPTED OPERATING BUDGET

### Capital Budget Overview

Presented as a separate document, the 2023-2024 Adopted Capital Budget of \$1.6 billion reflects an 18.5% decrease from the 2022-2023 Adopted Capital Budget of \$1.9 billion. Over a five-year period, the 2024-2028 Adopted CIP totals \$3.6 billion, a 3.4% decrease from the 2023-2027 Adopted CIP of \$3.7 billion.

While the Administration remains focused on leveraging external State and federal resources to supplement project funding, several of the City's key local revenues dedicated to the CIP have declined or remained stagnant in the face of increasing operational and rehabilitation needs. In particular, Construction and Conveyance (C&C) Tax revenues – primarily generated by private property sales – are estimated at \$40.0 million in 2023-2024, or 38% below the prior year collection of \$64.5 million, and are only forecasted to rise slightly to \$45.0 million beginning in 2025-2026. This decline in revenue from previous years has reduced available funding for capital infrastructure needs in the Parks and Community Facilities Development (P&CFD), Library, Service Yards, Fire, Communications, and Park Yards Capital Programs.

The resources available to the Storm Sewer Capital Program also continue to decline as the Storm Sewer Service and Use Charge fee rate has remained flat for over a decade while costs have continued to increase; therefore, identifying a more sustainable funding source is an urgent priority for the CIP. As a result of this need, the 2023-2024 Adopted Operating Budget includes additional resources to identify and evaluate funding strategies for the storm sewer system, including long-term financing and new revenue sources.

### Capital Program by City Service Area

Each of the 14 capital programs is aligned to one of six CSAs. The chart below compares the 2023-2027 Adopted CIP with the 2024-2028 Adopted CIP for each CSA. As discussed earlier, the 2024-2028 Adopted CIP is 3.4% lower than the 2023-2027 Adopted CIP.

#### 2024-2028 Adopted CIP compared to 2023-2027 Adopted CIP (By City Service Area)

| City Service Area                    | 2023-2027<br>Adopted CIP | 2024-2028<br>Adopted CIP | %<br>Change   |
|--------------------------------------|--------------------------|--------------------------|---------------|
| Community and Economic Development   | \$19,871,984             | \$22,892,571             | 15.2%         |
| Environmental and Utility Services   | 1,432,875,852            | 1,283,177,714            | (10.4%)       |
| Neighborhood Services                | 473,729,372              | 441,212,316              | (6.9%)        |
| Public Safety                        | 181,405,123              | 193,374,651              | 6.6%          |
| Transportation and Aviation Services | 1,483,337,215            | 1,540,620,506            | 3.9%          |
| Strategic Support                    | 124,058,097              | 108,670,219              | (12.4%)       |
| <b>Total</b>                         | <b>\$3,715,277,643</b>   | <b>\$3,589,947,977</b>   | <b>(3.4%)</b> |

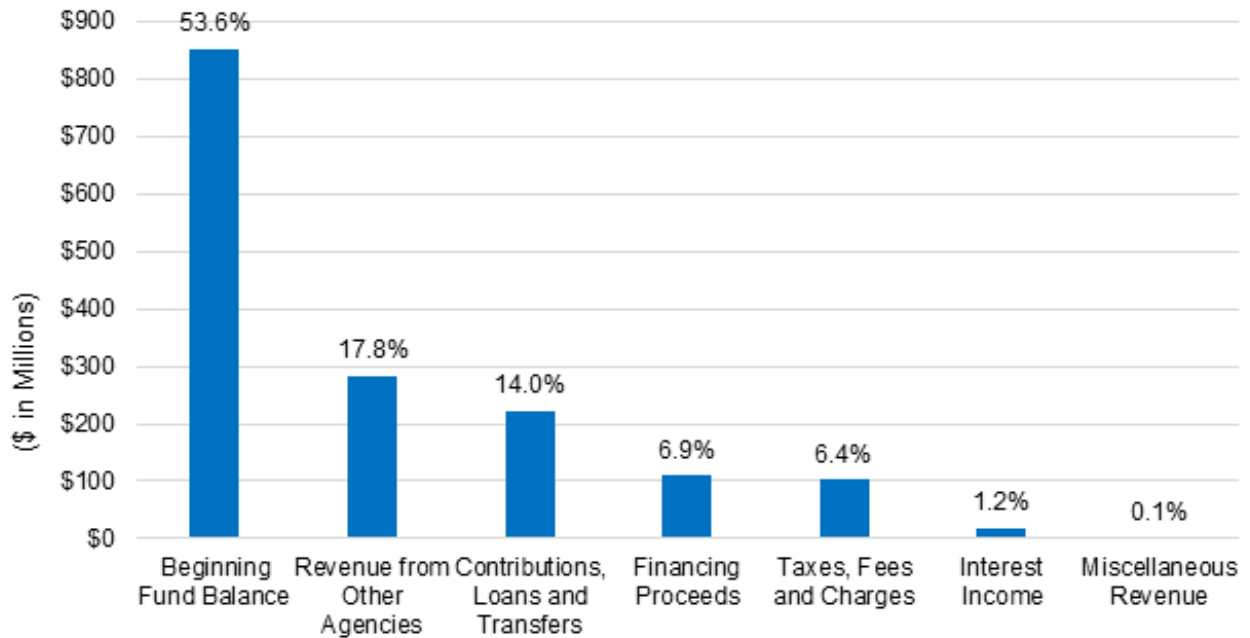


## 2023-2024 ADOPTED OPERATING BUDGET

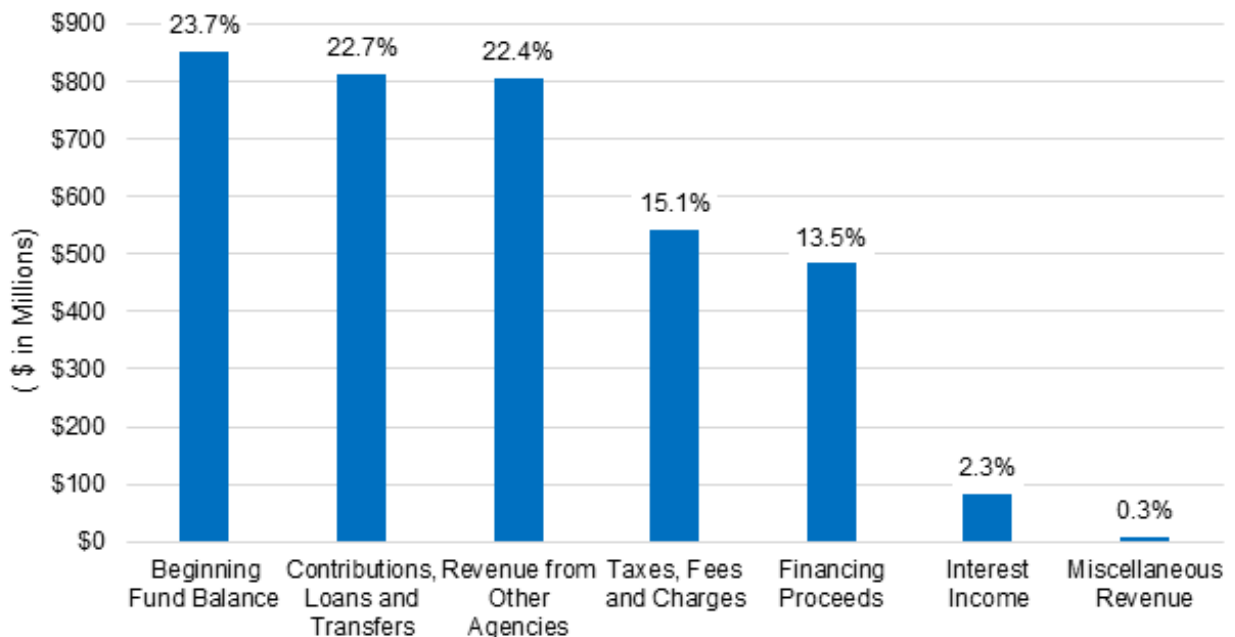
### Capital Program Funding Sources

The City's Capital Programs are supported by a variety of funding sources as shown in the graphs below that depict both the 2023-2024 and five-year CIP funding. A discussion of the five-year CIP funding sources follows.

**2023-2024 Adopted Capital Budget  
Source of Funds (\$1.6 billion)**



**2024-2028 Adopted Capital Budget  
Source of Funds (\$3.6 billion)**



## 2023-2024 ADOPTED OPERATING BUDGET

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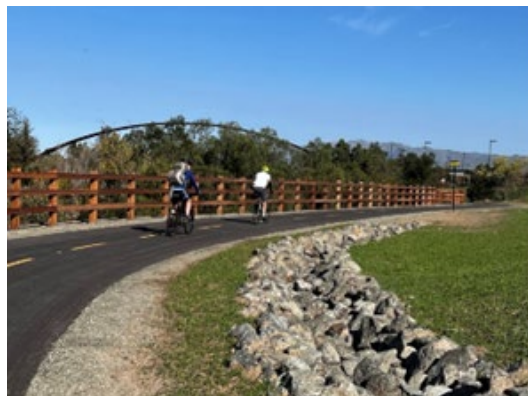
### **Capital Program Funding Sources**

The Beginning Fund Balances in the 2024-2028 Adopted CIP total \$851.4 million, representing 23.7% of the 2024-2028 Adopted CIP. The Traffic Capital Program has the largest Beginning Fund Balance of \$180.2 million, followed by the P&CFD Capital Program (\$177.6 million), the Public Safety Capital Program (\$112.6 million), and the Water Pollution Control Capital Program (\$103.5 million). The large balances represent a significant amount of carryover project funding that will be spent over the next five years, with much of the funding reserved pending the determination of a final scope for projects, final project locations, and/or availability of additional resources in the future.

Contributions, Loans and Transfers total \$814.1 million in this CIP and accounts for 22.7% of the 2024-2028 Adopted CIP. The largest transfers of funds are from the Sewer Service and Use Charge Fund to the Water Pollution Control Capital Program (\$276.9 million) and the Sanitary Sewer System Capital Program (\$175.0 million). Examples of other transfers from operating funds to support capital projects in various capital funds include \$159.0 million from the Airport Surplus Revenue Fund to the Airport Renewal and Replacement Fund and \$44.0 million from the Water Utility Fund to the Water Utility Capital Fund. Contributions, Loans and Transfers from the General Fund in this CIP for capital projects totals \$100.3 million, up \$14.4 million from the last CIP of \$85.9 million, with \$65.0 million budgeted in 2023-2024.

Revenue from Other Agencies category totals \$804.8 million, 22.4% of the 2024-2028 Adopted CIP, and is comprised of contributions from federal (\$223.7 million) grants and allocations, State (\$217.1 million), other agencies that use the Water Pollution Control Plant (\$208.5 million); and revenue from local agencies (\$155.5 million) which derives most of its funding from the Valley Transportation Authority to supplement pavement maintenance (\$137.6 million).

The Taxes, Fees, and Charges category includes an estimate of \$543.3 million, representing 15.1% of the 2024-2028 Adopted CIP. This estimate is relatively similar to the \$545.1 million included in the 2023-2027 Adopted CIP as the decline of C&C revenues is offset by an increase in Airport Passenger Facility Charge Proceeds. Most of this revenue category is comprised of the C&C Tax (\$215.0 million, down \$15.0 million), Airport Passenger Facility Charge (PFC) proceeds (\$145.5 million, up \$15.5 million), Building and Structure Construction Tax (\$95.0 million) and Construction Excise Tax (\$82.0 million).



*Coyote Creek Trail near Happy Hollow  
Park and Zoo Bent Bridge*

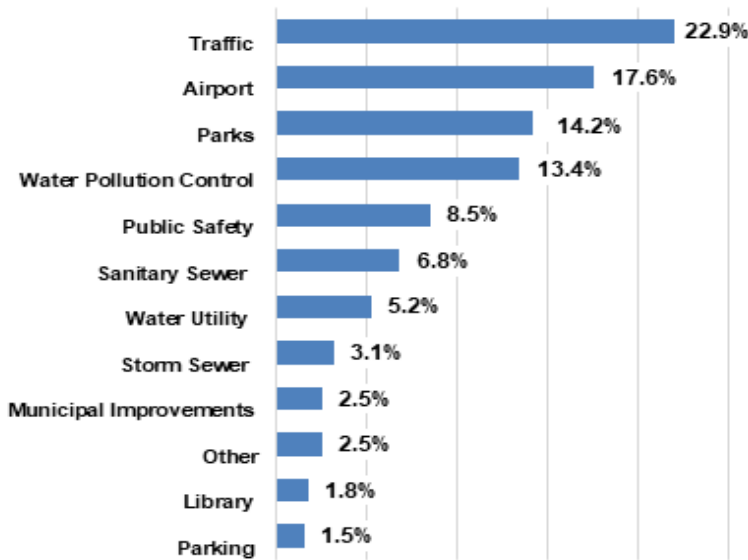
Finally, \$483.5 million is anticipated to be received from Financing Proceeds, representing 13.5% of the 2024-2028 Adopted CIP. Measure T bond proceeds totaling \$209.6 million will be issued in 2024-2025 for projects in the Traffic (\$159.0 million), Public Safety (\$28.9 million), Storm Sewer (\$15.7 million), and P&CFD (\$6.0 million) Capital Programs. The Water Pollution Control Capital Program accounts for \$190.0 million of Wastewater Revenue Notes that will be used for the implementation of capital improvement projects included in the City Council-approved Plant Master Plan that responds to aging infrastructure, future regulations, population growth, and treatment technology improvements. Commercial paper is expected to be issued for the Water Resources Administration and Operations Facility and Advanced Metering Infrastructure Improvements projects within the Water Utility Capital Program (\$51.0 million), to fund a portion of the construction costs for the Facilities Division Relocation project in the Airport Capital Program (\$29.2 million), and for remediation projects related to the 2017 flood event in the Parks and Community Facilities Development Capital Program (\$3.7 million).

## 2023-2024 ADOPTED OPERATING BUDGET

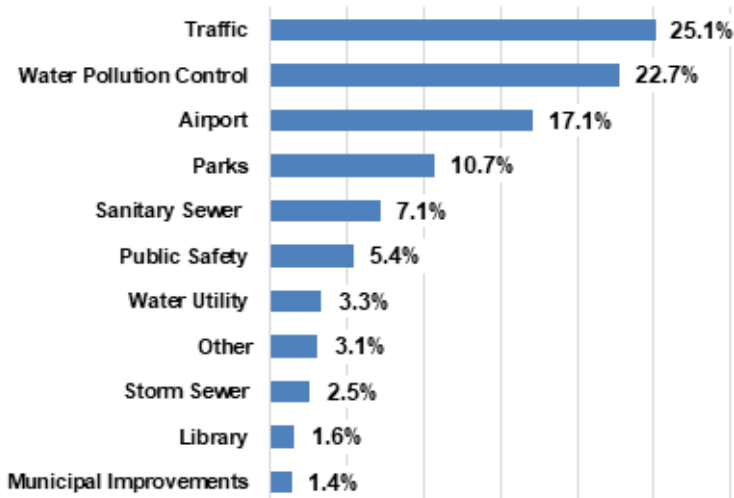
### Capital Program Investments

The CIP consists of 14 capital programs. The following chart depicts the uses of funds by capital program and percentage of funding for the 2023-2024 Adopted Capital Budget and the 2024-2028 Adopted CIP. Major projects to be completed over the next five years are highlighted in the sidebar.

#### 2023-2024 Adopted Capital Budget Use of Funds (\$1.6 billion)



#### 2024-2028 Adopted CIP Use of Funds (\$3.6 billion)



#### Major Projects to be Completed Over the Next Five Years

##### 2023-2024 Projects

- Willow-Keyes Complete Street Improvements
- Large Trash Capture Devices
- Balbach Street Transportation Improvements
- San José Museum of Art Cooling Tower Replacement
- Aircraft Waste Disposal and Fuel Service Relocation
- City Facilities Security Enhancements
- Central Service Yard – Water Main Replacement

##### 2024-2025 Projects

- Blossom Hill Road and Leigh Avenue Sanitary Sewer Improvement
- Julian Street and St. James Couplet Conversion
- Better Bikeways San Fernando
- Airport Perimeter Fence Line Upgrades
- Measure T – Community/Emergency Centers
- Measure T – Fire Stations 32 and 36
- Measure T – Police Training Center
- Measure T – Storm Drain Improvements at Charcot Avenue
- North 1st St. Sanitary Sewer Improvements
- Hanchett Park Development
- Police Athletic League Stadium Electrical Improvements
- Spartan Keyes Area Park Development
- TRAIL: Coyote Creek (Story to Tully)
- Center for Performing Arts Chiller, Cooling Tower, and Boilers Replacement
- Central Service Yard – Bldg. F Expansion

##### 2025-2026 Projects

- Advanced Metering Infrastructure Implementation
- Plantwide Security Systems Upgrade
- Vision Zero: East San José Safety Improvements for Senter Road
- Terminal B Ramp Rehabilitation
- Building Forward Library Infrastructure Grant

##### 2026-2027 Projects

- Terminal A Ramp Rehabilitation
- Terminal A Baggage Claim Carousels
- Evergreen Reliability Well
- Measure T – Clean Water Projects
- North San José Improvement – 101/Zanker
- Route 87/Capitol Expressway Interchange Improvements

##### 2027-2028 Projects

- Airport Biometric Access Control
- Nitrification Clarifier Rehabilitation
- Airfield Configuration Updates

## 2023-2024 ADOPTED OPERATING BUDGET

### MEASURE T GENERAL OBLIGATION BOND

In November 2018, San José voters approved the Measure T Bond Measure, which will provide up to \$650 million in General Obligation bonds for a wide variety of infrastructure needs, with at least \$300 million to be contributed to road rehabilitation over the course of the bond measure. Those priorities are reflected in this CIP, with \$359.1 million allocated over the next five years, including expenditures totaling \$228.8 million budgeted in 2023-2024.

#### Public Safety and Infrastructure Bond Fund (Projected Expenditures in 2024-2028 Adopted CIP)

| Program                                 | 2023-2024            | 2024-2025           | 2025-2026           | 2026-2027           | 2027-2028 | 5-Year Total         |
|---|----------------------|---------------------|---------------------|---------------------|-----------|----------------------|
| <b>Traffic</b>                          |                      |                     |                     |                     |           |                      |
| Bridges                                 | \$8,000,000          | \$4,000,000         |                     |                     |           | \$12,000,000         |
| Pavement Maintenance                    | \$37,651,000         | \$37,500,000        | \$37,500,000        | \$37,500,000        |           | \$150,151,000        |
| LED Streetlight Conversion              | \$5,036,827          | \$3,138,000         |                     |                     |           | \$8,174,827          |
| Admin – Traffic                         | \$29,000             |                     |                     |                     |           | \$29,000             |
| Admin Reserve – Traffic                 | \$64,000             |                     |                     |                     |           | \$64,000             |
| <b>Total Traffic</b>                    | <b>\$50,780,827</b>  | <b>\$44,638,000</b> | <b>\$37,500,000</b> | <b>\$37,500,000</b> |           | <b>\$170,418,827</b> |
| <b>Public Safety</b>                    |                      |                     |                     |                     |           |                      |
| Emergency Operations Center Relocation  | \$2,500,000          |                     |                     |                     |           | \$2,500,000          |
| Fire Station 8 Relocation               | \$12,014,000         | \$388,000           |                     |                     |           | \$12,402,000         |
| Fire Station 23 Relocation              | \$3,013,000          | \$1,000,000         |                     |                     |           | \$4,013,000          |
| Fire Station 37                         | \$50,000             |                     |                     |                     |           | \$50,000             |
| New Fire Station 32                     | \$12,867,000         | \$371,000           |                     |                     |           | \$13,238,000         |
| New Fire Station 36                     | \$17,136,000         | \$386,000           |                     |                     |           | \$17,522,000         |
| Police Training Center Relocation       | \$46,034,000         | \$385,000           |                     |                     |           | \$46,419,000         |
| Police Air Support Unit Hangar          | \$14,625,000         |                     |                     |                     |           | \$14,625,000         |
| 911 Call Center Upgrades                | \$5,174,000          |                     |                     |                     |           | \$5,174,000          |
| Police Administration Building Upgrades | \$5,785,870          |                     |                     |                     |           | \$5,785,870          |
| Public Safety Reserves                  | \$6,950,000          |                     |                     |                     |           | \$6,950,000          |
| Public Art - Pub Safety                 | \$970,000            | \$22,000            |                     |                     |           | \$992,000            |
| Admin WC - Public Safety                | \$318,030            |                     |                     |                     |           | \$318,030            |
| Admin Reserve - Public Safety           | \$1,082,000          |                     |                     |                     |           | \$1,082,000          |
| <b>Total Public Safety</b>              | <b>\$128,518,900</b> | <b>\$2,552,000</b>  |                     |                     |           | <b>\$131,070,900</b> |
| <b>Storm Sewer</b>                      |                      |                     |                     |                     |           |                      |
| Storm Drain Improvements at Charcot Ave | \$23,335,000         | \$1,492,000         |                     |                     |           | \$24,827,000         |
| Clean Water Projects                    | \$17,201,739         | \$3,961,000         | \$495,000           | \$495,000           |           | \$22,152,739         |
| Public Art – Storm Sewer                | \$189,000            | \$40,000            | \$5,000             | \$5,000             |           | \$239,000            |
| Admin – Storm Sewer                     | \$143,000            |                     |                     |                     |           | \$143,000            |
| Admin Reserve – Storm Sewer             | \$382,000            |                     |                     |                     |           | \$382,000            |
| <b>Total Storm Sewer</b>                | <b>\$41,250,739</b>  | <b>\$5,493,000</b>  | <b>\$500,000</b>    | <b>\$500,000</b>    |           | <b>\$47,743,739</b>  |



## 2023-2024 ADOPTED OPERATING BUDGET

### MEASURE T GENERAL OBLIGATION BOND

| Program                                       | 2023-2024            | 2024-2025           | 2025-2026           | 2026-2027           | 2027-2028  | 5-Year Total         |
|---|----------------------|---------------------|---------------------|---------------------|------------|----------------------|
| <b>Municipal Improvements</b>                 |                      |                     |                     |                     |            |                      |
| City Facilities LED Lighting                  | \$415,000            |                     |                     |                     |            | \$415,000            |
| <b>Total Municipal Improvements</b>           | \$415,000            | \$0                 | \$0                 | \$0                 |            | \$415,000            |
| <b>Parks &amp; Community Facilities</b>       |                      |                     |                     |                     |            |                      |
| Community Centers/Emergency Shelters          | \$7,709,977          | \$1,515,000         |                     |                     |            | \$9,224,977          |
| Public Art – Parks                            | \$74,000             | \$15,000            |                     |                     |            | \$89,000             |
| Admin – Parks                                 | \$30,000             | \$29,000            |                     |                     |            | \$59,000             |
| Admin Reserve Parks                           | \$65,000             | \$8,000             |                     |                     |            | \$73,000             |
| <b>Total Parks &amp; Community Facilities</b> | \$7,878,977          | \$1,567,000         |                     |                     |            | \$9,445,977          |
| <b>Total Expenditures</b>                     | <b>\$228,844,443</b> | <b>\$54,250,000</b> | <b>\$38,000,000</b> | <b>\$38,000,000</b> | <b>\$0</b> | <b>\$359,094,443</b> |

As the Measure T program matures and as improvements are further scoped and designed, the exact cost and phasing of the projects will continue to shift in the coming years. Work in 2023-2024 will focus on continuing with design or construction for multiple projects, such as new and relocated fire stations and the Police Training Center Relocation. It is important to note that as construction costs continue to rise and as designs are refined, the City may experience funding gaps for projects scheduled to be completed in the out-years of the CIP. The Administration may need to identify alternative project scopes or funding strategies should existing resources prove insufficient. The Administration will continue to provide updates on the Measure T program as funding and priority needs are reevaluated.



**Fire Station 20**

### Operating Budget Impacts

This CIP continues to balance the delivery of capital programs with the limited resources available to operate and maintain existing and newly constructed facilities. The Administration also pursues strategies to ensure the most cost-effective operation of City facilities, including installing capital improvements that reduce costs, such as energy efficient lighting and traffic signals.

## 2023-2024 ADOPTED OPERATING BUDGET

### Operating Budget Impacts (Cont'd.)

In March 2008, the City Council approved Budget Principle #8 that states capital improvement projects “shall not proceed for projects with annual operating and maintenance costs exceeding \$100,000 in the General Fund without City Council certification that funding will be made available in the applicable year of the cost impact. Certification shall demonstrate that funding for the entire project, including operating and maintenance costs, will not require a decrease in existing basic neighborhood services.”

In addition, all CIP projects with new General Fund operating and maintenance costs are detailed in the Five-Year General Fund Forecast and included as part of the annual CIP. Several of the Measure T projects will incur significant operating and maintenance costs in the future, including the new fire stations and the Police Training Center. The annual operating and maintenance costs for Columbus Park Soccer Fields, 911 Call Center Upgrades, River Oaks Regional Stormwater Capture Project, Fire Stations 8, 32, and 36, the Police Training Center Relocation, and the subsequent activation of the South San José Police Substation and Old Orchard Park will be brought forward for City Council certification at the time of construction contract award.

The table below summarizes the additional annual resources required to operate and maintain new facilities coming on-line during the five-year CIP or planned by other agencies (such as developers).

#### Projected Total New Operating and Maintenance Costs (Cumulative)

| Project Type                  | 2024-2025           | 2025-2026           | 2026-2027           | 2027-2028           |
|-------------------------------|---------------------|---------------------|---------------------|---------------------|
| Parks Facilities              | \$212,000           | \$1,738,000         | \$1,875,000         | \$2,063,000         |
| Public Safety Facilities      | 10,479,000          | 17,022,000          | 22,877,000          | 23,654,000          |
| Storm Sewer                   | 163,000             | 173,000             | 183,000             | 194,000             |
| Traffic Projects              | 55,000              | 117,000             | 162,000             | 176,000             |
| <b>General Fund Total</b>     | <b>10,909,000</b>   | <b>19,050,000</b>   | <b>25,097,000</b>   | <b>26,087,000</b>   |
| Water Pollution Control Plant |                     | 15,492,000          | 18,192,000          | 19,444,000          |
| <b>Special Fund Total</b>     |                     | <b>15,492,000</b>   | <b>18,192,000</b>   | <b>19,444,000</b>   |
| <b>All Funds Total</b>        | <b>\$10,909,000</b> | <b>\$34,542,000</b> | <b>\$43,289,000</b> | <b>\$45,531,000</b> |

For the General Fund, these costs are estimated at \$10.9 million in 2024-2025 and are anticipated to increase to \$26.1 million by 2027-2028. Most of the costs are for Public Safety facilities, including new Fire Stations 32 and 36, but also include Park Facilities, as well as Storm Sewer and Traffic projects. The operating and maintenance costs for the new Police Training Center and the full activation of the South San José Police Substation are also included in the cumulative costs, though the costs reflect an early look of the activation of both sites and could potentially be higher or lower depending on the operational plan and level of available resources.

## 2023-2024 ADOPTED OPERATING BUDGET

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### ***Operating Budget Impacts (Cont'd.)***

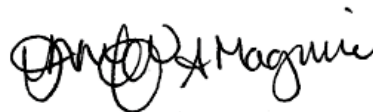
In addition, the expanded infrastructure investment at the Water Pollution Control Plant will result in significant operating costs to the San José-Santa Clara Treatment Plant Operating Fund in the coming years. It is estimated that additional maintenance and operations costs will total \$15.5 million starting in 2025-2026 due to the Digested Sludge Dewatering Facility that is expected to come online during that year to replace the existing sludge storage lagoons, and then increase to \$18.2 million in 2026-2027 and \$19.4 million in 2027-2028.

### **CONCLUSION**

The 2023-2024 Adopted Budget focuses on the highest community and organizational needs while appropriately preparing the City for likely weaker economic conditions in the coming year. As has been the City's long-standing practice, we must continue the remarkable financial discipline and leadership exhibited by our elected officials, City management, and our outstanding employees. This also includes a commitment to the principles of equity, partnership, and innovation that provides a strong foundation upon which to create, maintain, and strategically expand vital public services over the long term.

Finally, I want to call attention and express my gratitude to our extremely dedicated and talented staff who helped prepare this budget document. This budget represents an organization-wide effort from the front lines of each department, back-of-house strategic support staff, management staff, and the incredibly hard-working members of the City Manager's Budget Office, and it reflects our commitment to ensure that San José remains the best City it can be for our residents, businesses, visitors, and employees.

Respectfully Submitted,



Jennifer A. Maguire  
City Manager

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## 2023-2024 Budget Balancing Strategy Guidelines

1. As directed by the priorities identified in the City Council-approved Mayor's March Budget Message, develop a budget that balances the City's delivery of the most essential services to the community with the resources available. Consider current needs in the context of long-term service delivery priorities.
2. Pose explicit questions of equity – including who benefits and who is burdened – when considering changes to City services to achieve a balanced budget.
3. Balance ongoing expenditures with ongoing revenues to maximize service delivery within existing resources, to ensure no negative impact on future budgets, and to maintain the City's high standards of fiscal integrity and financial management. As appropriate, establish a Future Deficit Reserve in the General Fund to cover any projected budgetary shortfall in the following year as a stopgap measure; and, maintain or increase the Budget Stabilization Reserve as a buffer against a further weakening of future economic conditions or unanticipated cost increases.
4. Evaluate program-level budgets and identify opportunities to shift resources or reconfigure operations from the least influential contributors to the strongest contributors of achieving City-wide and departmental priority service and/or risk mitigation objectives.
5. Prioritize limited resources to address truly significant community or organizational risks, critical services funded on a one-time basis in 2022-2023 in the General Fund or American Rescue Plan Fund, and/or respond to specific City Council direction. Review existing vacancies for opportunities to reorganize work groups to realize cost savings or to achieve current service level demands through alternative means. Factor in performance measure data in proposal development.
6. Focus on business process redesign to improve employee productivity and the quality, flexibility, and cost-effectiveness of service delivery (e.g., streamlining, reorganizing functions, and reallocating resources).
7. Explore alternative service delivery models (e.g., partnerships with non-profit, public, or private sector for out-or in-sourcing services) to ensure no service overlap, reduce and/or share costs, and use City resources more efficiently and effectively.
8. Identify City policy changes that would enable/facilitate service delivery improvements or other budget balancing strategies to ensure equity and inclusion for how services are delivered.
9. Analyze non-personal/equipment/other costs, including contractual services, for cost savings opportunities. Contracts should be evaluated for their necessity to support City operations and to identify negotiation options to lower costs.
10. Explore expanding existing revenue sources and/or adding new revenue sources.
11. Establish a fees, charges and rates structure designed to fully recover operating costs, while considering the impacts on fee and rate payers whereby a cost recovery structure may be lower in certain circumstances, and explore opportunities to establish new fees and charges for services, where appropriate.
12. Focus any available one-time resources on investments that 1) continue a very small number of high-priority programs funded on a one-time basis in 2022-2023 for which ongoing funding is not available; 2) address the City's unmet or deferred infrastructure needs; 3) leverage resources to or improve efficiency/effectiveness through technology and equipment or other one-time additions; 4) accelerate the pay down of existing debt obligations where applicable and appropriate; 5) increase budget stabilization reserves to address future budget uncertainty; and/or 6) provide for funding needs for non-bond eligible furniture, fixtures, and equipment associated with the continued implementation of Measure T.
13. Engage employees in department and/or city-wide budget proposal idea development.
14. Continue a community-based budget process where the City's residents and businesses are educated and engaged, as well as have the opportunity to provide feedback regarding the City's annual budget.
15. Use the General Plan as a primary long-term fiscal planning tool and link ability to provide City services to development policy decisions.

# CITY OF SAN JOSE BUDGET PRINCIPLES

**The Mission of the City of San José is to provide quality services, facilities and opportunities that create, sustain and enhance a safe, livable and vibrant community for its diverse residents, businesses and visitors. The General Fund Budget shall be constructed to support the Mission.**

## **1) STRUCTURALLY BALANCED BUDGET**

The annual budget for the General Fund shall be structurally balanced throughout the budget process. A structurally balanced budget means ongoing revenues and ongoing expenditures are in balance each year of the five-year budget projection. Ongoing revenues shall equal or exceed ongoing expenditures in both the Proposed and Adopted Budgets. If a structural imbalance occurs, a plan shall be developed and implemented to bring the budget back into structural balance. The plan to restore balance may include general objectives as opposed to using specific budget proposals in the forecast out years.

## **2) PROPOSED BUDGET REVISIONS**

The annual General Fund Proposed Budget balancing plan shall be presented and discussed in context of the five-year forecast. Any revisions to the Proposed Budget shall include an analysis of the impact on the forecast out years. If a revision(s) creates a negative impact on the forecast, a funding plan shall be developed and approved to offset the impact.

## **3) USE OF ONE-TIME RESOURCES**

Once the General Fund budget is brought into structural balance, one-time resources (e.g., revenue spikes, budget savings, sale of property, and similar nonrecurring revenue) shall not be used for current or new ongoing operating expenses. Examples of appropriate uses of one-time resources include rebuilding the Economic Uncertainty Reserve, early retirement of debt, capital expenditures without significant operating and maintenance costs, and other nonrecurring expenditures. One time funding for ongoing operating expenses to maintain valuable existing programs may be approved by a majority vote of the Council.

## **4) BUDGET REQUESTS DURING THE YEAR**

New program, service or staff requests during the year that are unbudgeted shall be considered in light of the City's General Fund Unfunded Initiatives/Programs List and include a spending offset at the time of the request (if costs are known) or before final approval, so that the request has a net-zero effect on the budget.

## **5) RESERVES**

All City Funds shall maintain an adequate reserve level and/or ending fund balance as determined annually as appropriate for each fund. For the General Fund, a contingency reserve amount, which is a minimum of 3% of the operating budget, shall be maintained. Any use of the General Fund Contingency Reserve would require a two-thirds vote of approval by the City Council. On an annual basis, specific reserve funds shall be reviewed to determine if they hold greater amounts of funds than are necessary to respond to reasonable calculations of risk. Excess reserve funds may be used for one-time expenses.

# **CITY OF SAN JOSE BUDGET PRINCIPLES**

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## **6) DEBT ISSUANCE**

The City shall not issue long-term (over one year) General Fund debt to support ongoing operating costs (other than debt service) unless such debt issuance achieves net operating cost savings and such savings are verified by appropriate independent analysis. All General Fund debt issuances shall identify the method of repayment (or have a dedicated revenue source).

## **7) EMPLOYEE COMPENSATION**

Negotiations for employee compensation shall focus on the cost of total compensation (e.g., salary, step increases, benefit cost increases) while considering the City's fiscal condition, revenue growth, and changes in the Consumer Price Index (cost of living expenses experienced by employees.)

## **8) CAPITAL IMPROVEMENT PROJECTS**

Capital Improvement Projects shall not proceed for projects with annual operating and maintenance costs exceeding \$100,000 in the General Fund without City Council certification that funding will be made available in the applicable year of the cost impact. Certification shall demonstrate that funding for the entire cost of the project, including the operations and maintenance costs, will not require a decrease in existing basic neighborhood services.

## **9) FEES AND CHARGES**

Fee increases shall be utilized, where possible, to assure that fee program operating costs are fully covered by fee revenue and explore opportunities to establish new fees for services where appropriate.

## **10) GRANTS**

City staff shall seek out, apply for and effectively administer federal, State and other grants that address the City's priorities and policy objectives and provide a positive benefit to the City. Before any grant is pursued, staff shall provide a detailed pro-forma that addresses the immediate and long-term costs and benefits to the City. One-time operating grant revenues shall not be used to begin or support the costs of ongoing programs with the exception of pilot projects to determine their suitability for long-term funding.

## **11) GENERAL PLAN**

The General Plan shall be used as a primary long-term fiscal planning tool. The General Plan contains goals for land use, transportation, capital investments, and service delivery based on a specific capacity for new workers and residents. Recommendations to create new development capacity beyond the existing General Plan shall be analyzed to ensure that capital improvements and operating and maintenance costs are within the financial capacity of the City.

## **12) PERFORMANCE MEASURES**

All requests for City Service Area/departmental funding shall include performance measurement data so that funding requests can be reviewed and approved in light of service level outcomes to the community and organization.

## **13) FIRE STATION CLOSURE, SALE OR RELOCATION**

The inclusion of the closure, sale or relocation of a fire station as part of the City Budget is prohibited without prior assessment, community outreach, and City Council approval on the matter.