

May 1, 2018

Honorable Mayor and City Council:

The 2018-2019 Proposed Operating Budget is a balanced budget that continues efforts to address the highest priority community and organizational needs while maintaining budget stability. This budget follows the direction provided by the Mayor and City Council with the adoption of the Mayor's March Budget Message for Fiscal Year 2018-2019, incorporating the priorities and investments identified in that document. It also considers other City Council priorities, other departmental and organizational priorities, and forecasts for future revenues and expenditures.

The 2019-2023 Five-Year Forecast was used as the starting point in the development of the budget. For the General Fund, a revised shortfall of \$4.3 million was projected for 2018-2019, and has been addressed in this Proposed Budget. This small shortfall is followed by three years of additional incremental shortfalls, ranging from \$8.9 million to \$15.5 million through 2021-2022, and a surplus of \$10.8 million in 2022-2023, the last year of the Forecast. With projected shortfall and surplus figures of less than 1% of General Fund revenues and expenditures, the City's budget is in fairly stable position. However, there is limited capacity to expand much needed services and address the significant backlog of deferred infrastructure and maintenance needs.

Given the availability of one-time funding and the modest funding made available in this budget, the Proposed Budget follows City Council direction to focus on targeted, strategic spending as well as saving for the future. This budget takes a multi-year approach with one-time funding set aside in 2018-2019 to address the projected General Fund shortfall in 2019-2020. It also maintains existing service levels, enhances service delivery in limited areas, and invests in our infrastructure and technology. With limited resources, it is critical that the City continue to innovate and leverage resources to achieve our service delivery goals.

For the City's many other dedicated funds (e.g., Airport Funds, Housing Funds, Sanitary Sewer Funds, Water Utility Funds), budget actions address various service delivery and infrastructure needs balanced within the available resources for each fund. Any associated impacts on rate payers were also taken into consideration when developing the Proposed Budget.



Community Budget Meetings

- May 10:** Pearl Branch Library, 6-8 pm
- May 14:** Environmental Innovation Center, 6-8 pm
- May 17:** Bascom Community Center, 6-8 pm
- May 21:** Mt. Pleasant High School 6-8 pm
- May 23:** Seven Trees Community Center, 6-8 pm

Budget Decision Milestones

- May 9-14**
City Council Study Sessions on 2018-2019 Proposed Budgets
- May 15/June 11**
Public Hearings on the 2018-2019 Proposed Budgets and Fees and Charges
- June 1**
2018-2019 Mayor's June Budget Message Released
- June 12**
City Council Review and Approval of the 2018-2019 Mayor's June Budget Message
- June 19**
Adoption of the 2018-2019 Capital and Operating Budgets, 2019-2023 Capital Improvement Program, and the 2018-2019 Fees and Charges

Opportunities and Challenges

The City has extraordinary opportunity to shape the future of our community. We can create a more vibrant urban downtown and dynamic public spaces, build out the infrastructure to meet our future needs, help our most vulnerable residents, and further our environmental stewardship. The City will see a major transformation over the next decade with the largest regional transportation projects in the City's history that can fundamentally change the way our residents move around the City, the next phase of the Airport expansion, the implementation of San Jose Clean Energy, the major rehabilitation of the Water Pollution Control Plant, improvements in broadband and other digital connections, the transformation of the Downtown, and the creation of housing.

These opportunities come with serious challenges to provide the organizational bandwidth and financial resources to implement these major initiatives while continuing to address the pressing everyday needs of the City. To focus on these interdepartmental efforts that will span multiple years, the Administration has identified seven enterprise priorities, including: Emergency Management and Preparedness; Building the San José of Tomorrow – Private – Development Services; The Future of Downtown; Smart and Sustainable City: 21st Century Infrastructure, Education and Our Youth; Creating Housing and Preventing Homelessness; Strategic Fiscal Positioning and Resource Deployment; and Powered by People.

The 2018-2019 Proposed Budget includes investments across multiple City funds that support these long-term, major initiatives. These initiatives are also in alignment with the investment priorities identified in the Mayor's March Budget Message for Fiscal Year 2018-2019, as approved by the City Council:

- ✓ Homelessness and Housing
- ✓ Public Safety
- ✓ Environment
- ✓ Innovation and Technology
- ✓ Education and Our Youth
- ✓ Community Engagement
- ✓ Saving and Improving Fiscal Sustainability

The Proposed Operating Budget incorporates budget actions to focus on these investment priorities with funding identified to address the direction in the Mayor's March Budget Message as summarized in Attachment B to this message.

Total Proposed Budget

In the 2018-2019 Proposed Budget, the total net funding is \$3.5 billion for all City funds (General, Special, and Capital). This is \$47.2 million (1.4%) below the 2017-2018 Adopted Budget (Table 1 below). The Proposed Budget, however, does not yet include funds that will be rebudgeted and added to the final 2018-2019 Adopted Budget to complete multi-year projects. Once these rebudgets are included, it is anticipated that the 2018-2019 Adopted Budget will exceed the 2017-2018 Adopted Budget.

2018-2019 PROPOSED OPERATING BUDGET MESSAGE

Total Proposed Budget

2018-2019 Proposed Budget — All Funds (Table 1)			
	2017-2018 Adopted	2018-2019 Proposed	% Change
General Fund	\$ 1,316,410,518	\$ 1,227,943,240	(6.7%)
Special Funds	1,869,765,688	2,131,933,930	14.0%
<Less: Operating Transfers>	(675,799,795)	(675,614,841)	(0.03%)
Net Operating Funds	2,510,376,411	2,684,262,329	6.9%
Capital Funds	1,002,738,910	781,485,007	(22.1%)
<Less: Capital Transfers>	(8,957,000)	(8,777,000)	(2.0%)
Net Capital Funds	993,781,910	772,708,007	(22.3%)
Total	\$ 3,504,158,321	\$ 3,456,970,336	(1.4%)

Position Impacts

The Proposed Budget includes modest increases to staffing levels to support a variety of activities, such as the development fee programs, capital programs, continuation of one-time activities funded in 2017-2018, and limited enhancements to other critical services. Overall, the level of staffing will increase by a net 142 positions (a total of 37.5 positions are one-time funded), from 6,250 full-time equivalent positions in the 2017-2018 Adopted Budget to 6,392 positions in the 2018-2019 Proposed Budget, as shown in Table 2 below. This 2.3% increase still leaves City staffing well below its peak of almost 7,500 positions in 2001-2002.

Changes in Position Count (All Funds) from 2017-2018 Adopted to 2018-2019 Proposed Budget (Table 2)	
2017-2018 Adopted Budget	6,250 positions
2018-2019 Base Budget Changes	26 positions
2018-2019 Proposed Budget Changes – General Fund	30 positions
2018-2019 Proposed Budget Changes – General Fund (offset by revenues, reimbursements, or net-zero shifts)	41 positions
2018-2019 Proposed Budget Changes – Other Funds	45 positions
Total Net Position Changes	142 positions
2018-2019 Proposed Budget	6,392 positions

2018-2019 PROPOSED OPERATING BUDGET MESSAGE

General Fund Forecast

In February 2018, the Administration prepared the 2019-2023 Five-Year Forecast to project the condition of the General Fund and selected Capital Funds over the next five years. During this period, small General Fund shortfalls and one surplus are projected each year as shown in Table 3. These variances represent -0.7% - 0.4% of the projected General Fund budget (revenues and expenditures).

As with any forecast, these variances could easily change in either direction in response to the economy and resulting revenue collections, changes in projected expenditures, particularly in salary levels and retirement costs, or other factors beyond the City’s control. The Administration will continue to evaluate financial trends and other changes that could affect the City’s budget situation and report to the City Council regularly. The shortfall projected for 2018-2019 has been addressed in this 2018-2019 Proposed Budget.

2019-2023 General Fund Forecast Incremental Surplus/(Shortfall) (\$ in millions) ¹ (Table 3)					
	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023
Incremental Surplus/(Shortfall)	(\$4.3 M) ²	(\$15.5 M)	(\$8.9 M)	(\$10.5 M)	\$10.8 M
% of Annual Budget (Revenues and Expenditures)	(0.2%)	(0.7%)	(0.4%)	(0.4%)	0.4%

¹ Does not include 1) costs associated with services that were funded on a one-time basis in 2017-2018; 2) costs associated with unmet/deferred infrastructure and maintenance needs; and 3) one-time revenue sources or expenditure needs. It should also be noted that no net impacts associated with the Development Fee Programs are included due to the cost-recovery nature of these programs.

² This figure was revised from the \$7.3 million shortfall presented in the February 2018 Forecast as a result of continued analysis of projected revenues and expenditures. The shortfall amount has been addressed in the 2018-2019 Proposed Budget.

Balancing the General Fund Budget

As displayed in Table 4 on the following page, the 2018-2019 Proposed General Fund Budget Balancing Plan includes recommended actions to address the \$4.3 million shortfall in 2018-2019. This table shows the matrix of balancing strategies and the dollars associated with each action. A complete discussion of the balancing strategies can be found in Attachment A and throughout the Proposed Budget. Attachment B, as described above, also responds to the directives contained in the Mayor’s March Budget Message for Fiscal Year 2018-2019 that was approved by the City Council on March 20, 2018. Proposed Budget actions that respond to City Auditor recommendations requiring additional funding are described in Attachment C.

In preparing the 2018-2019 Proposed Operating Budget, the Administration followed the direction provided in the Mayor’s March Budget Messages for Fiscal Year 2018-2019 and considered other City Council priorities, departmental and organizational priorities, and forecasts for future revenues and expenditures. In addition, the Administration followed the Budget Balancing Strategy Guidelines contained in the City Manager’s Budget Request for Fiscal Year 2018-2019 that were adopted by the City Council as part of the approval of the Mayor’s March Budget Message for Fiscal Year 2018-2019.

2018-2019 PROPOSED OPERATING BUDGET MESSAGE

Balancing the General Fund Budget

The Proposed Budget was also informed by the City Council-approved City of San José Budget Principles. These guidelines and principles are included in Exhibit 1 to this message.

2018-2019 Proposed Operating Budget General Fund Budget Balancing Plan (in 000's) (Table 4)		
	2018-2019	Ongoing
2018-2019 General Fund Shortfall	\$ (4,310)	\$ (4,310)
Balancing Strategy		
Source of Funds		
Beginning Fund Balance:		
2018-2019 Future Deficit Reserve	\$ 20,250	\$ 0
Successor Agency to the RDA (SARA) Refunding Property Tax	9,350	0
Retiree Healthcare Solutions Reserve	4,320	0
Airport West (FMC) Debt Service	2,450	0
Cultural Facilities Capital Maintenance Reserve	1,025	0
Other Revenue/Expenditure Savings/Rebudgets/Reserve Liquidations	(234)	(3,517)
Grants/Reimbursements/Fees		
Development Fee Programs	4,844	5,301
Diridon Station Area Planning and Development Reimbursement	1,330	0
Placemaking and Parks Activation Grants	520	0
Other Fee Programs/Reimbursements/Grants	4,121	3,660
Other Revenue		
City of San José Business Tax Amnesty Program	1,500	1,200
Parking Fines	700	700
Other Revenues	744	691
Overhead Reimbursements/Transfers from Other Funds	1,106	995
Subtotal Source of Funds	\$ 52,026	\$ 9,030
Use of Funds		
2019-2020 Future Deficit Reserve	\$ 15,500	\$ 0
Service Level Enhancements	16,067	3,138
Earmarked Reserves (e.g. City Health Care Restruct., Essential Services, etc.)	7,700	0
2017-2018 One-Time Funded Services	6,736	2,831
Unmet/Deferred Technology, Infrastructure, and Maintenance	3,933	93
Development Fee Programs	2,571	1,358
New Infrastructure/Equipment Operations and Maintenance	619	1,573
Other Fee Programs/Grants/Reimbursements	130	0
Use of Reserves (e.g. Cultural Facilities, Committed Add., Deferred Maint.)	(1,869)	(1,068)
Cost Reductions/Service Delivery Efficiencies/Fund Shifts	(3,671)	(3,205)
Subtotal Use of Funds	\$ 47,716	\$ 4,720
Total Balancing Strategy	\$ 4,310	\$ 4,310
Remaining Balance	\$ 0	\$ 0

Detailed information regarding budget actions and associated performance results is included in the sections for specific City Service Areas, City Departments/Council Appointees, and City-Wide.

Key City Service Area Priorities

Although most of this budget message describes changes and new actions that address incremental improvements, it is important to keep in mind that most of the City's budget is allocated to delivering basic services, year after year. In the context of a \$1.2 billion General Fund budget and a \$3.5 billion total City budget, only a small percentage is allocated to new actions. The overwhelming majority of the City's limited resources are dedicated to the daily effort to serve and protect our community and the people of San José.

The City has structured its operations in "City Service Areas" (CSAs) that encourage interdepartmental coordination of efforts, resources, and goals. Although more detail about CSA priorities and goals are included in the overall budget document, key operational priorities, services and initiatives in these CSAs are briefly described here:

Community and Economic Development CSA: The goal of this CSA is to develop and strengthen the community's economy; nurture a safe, attractive, and vital community; and encourage a broad range of housing options. The key priorities in this CSA include:

- Engage driving industry and revenue-generating companies to help facilitate their retention and growth in San José.
- Support the start-up and growth of new businesses.
- Promote San José as the premier destination for scaling companies, highlighting advantages in cost, lifestyle, and business climate.
- Increase jobs in the City of San José through widespread recruitment efforts.
- Manage and implement economic development branding to communicate the advantages of living and working in San José.
- Continue to provide high quality land-use development and permitting services for all customers.
- Continue to manage the City's real estate assets.
- Continue to invest in development process improvements in coordination with stakeholders to improve speed, consistency, predictability, and customer experience.
- Ensure that the City speaks with "one voice" on development issues while improving the speed, consistency, and predictability of the development review process.
- Continue to offer re-employment services to residents and businesses through work2future.
- Support the provision of a range of quality arts, cultural, sports, and entertainment offerings that appeal to San José's diverse community.
- Identify strategies to fund affordable and permanent supportive housing, transportation, and Urban Village infrastructure needs.
- Identify strategies to increase production of moderate-income housing.



Key City Service Area Priorities

Community and Economic Development CSA

- Ensure that residents have a diverse range of housing options by increasing housing opportunities for people of all income levels, ages, abilities, and household types.
- Increase housing and services opportunities for the City's homeless residents, including those living in encampments.
- Continue to develop and implement policies, procedures, strategies, and tactics that will enhance the economic and social viability and vitality of downtown San Jose for continued growth and development.
- Champion the City's public life strategy for the well-being of its residents.



Environmental and Utility Services CSA: This CSA encompasses a range of services and projects related to waste and recycling management; water supply management including administering clean drinking water, recycled water, watershed protection, and wastewater treatment; and energy initiatives to protect the environment and quality of life in the community. The key priorities and services in this CSA include:

- Operate and maintain the City's utilities – storm sewer, sanitary sewer, Plant, potable water, San José Clean Energy, and recycled water reliably and efficiently.
- Make strategic investments to increase service levels and maintenance activity on the City's Sanitary Sewer Collection System in order to reduce the number and mitigate the impacts of SSOs.
- Continue to invest in capacity and condition assessments for the sanitary sewer collection system to reduce SSOs and support economic development and build-out of the General Plan.
- Continue to meet NPDES wastewater and stormwater permit compliance.



- Implement the strategies outlined in the Clean Waterways, Healthy City: Long-Term Trash Load Reduction Plan in order to achieve the trash load reduction goals specified in the Stormwater Permit.
- Develop a Green Infrastructure Plan to effectively guide the City and development through the implementation of green infrastructure on private and public lands.

Key City Service Area Priorities

Environmental and Utility Services CSA

- Implement reliability improvement projects to ensure optimum operation of existing South Bay Water Recycling Program infrastructure.
- Advance community awareness of the Council-approved Climate Smart San José Plan; partner with other agencies, and pursue grants to promote energy efficiency, building electrification, and clean, renewable energy in the community.
- Continue to implement solid waste reduction programs in support of Citywide zero waste goals.

Neighborhood Services CSA: Libraries, parks and recreation, animal care and services, and code enforcement comprise this CSA, with the common goal of fostering healthy, vibrant, engaged, and secure neighborhoods. The key priorities and services in this CSA include:

Cultivating healthy and resilient neighborhoods throughout San José:

- Provide safe and healthy opportunities for young children, youth, teens, seniors, and persons with disabilities.
- Ensure the continuance of quality neighborhood livability and community strengthening through graffiti and litter abatement, education, and enforcement.
- Combat gang activity through the Mayor's Gang Prevention Task Force, youth intervention services, and school-based collaborations.
- Provide responsive inspection services to ensure safe and sanitary housing, quality neighborhoods and business districts for the residents of San José.
- Provide animal licensing, rabies vaccination compliance, and animal control to the community.
- Provide housing and care for stray animals, outreach regarding responsible animal ownership, increase grant funding, and continue operation of a low cost public spay/neuter clinic.



Supporting engaged and informed residents:

- Support the city-wide Education and Digital Literacy Strategy to align City resources and programs to increase educational outcomes for student participants; and manage quality standards, assessment, evaluation of programs, and coordinate partnerships with schools, school districts, and non-traditional school networks to ensure that City resources are aligned to maximize student achievement.
- Foster lifelong learning through programming focused on early education, love of reading, literacy assistance, and access to information and digital resources.
- Enhance applied skill building opportunities through public makerspace and STEAM learning programs.

Key City Service Area Priorities

Neighborhood Services CSA

Supporting engaged and informed residents: (Cont'd.)

- Provide access to information and opportunities for residents to pursue work and career advancement by seeking employment, educational attainment, support for their small business, or skill development.
- Build capacity of community-based organizations by developing collaborations that support residents' needs.
- Support community engagement and investment through volunteer opportunities, special events, and festivals.

Activating a thriving community:

- Provide clean, safe, and accessible parks, trails, and open space for the public to enjoy.
- Provide an affordable, sustainable, conservation-centered outdoor amusement park for families with children at Happy Hollow Park & Zoo.
- Provide facilities for recreational opportunities such as sports fields for youth and adult leagues; walking and hiking trails for outdoor enthusiasts; parks for avid skateboarders and bikers; playgrounds for toddlers and youth; and lakes, dog parks, and community garden plots for all to enjoy.

Stewarding well-managed, effective, and sustainable shared assets:

- Offer inviting and well-maintained library and safe library and community center buildings that serve as comfortable community gathering points.
- Expand the number of productive partnerships to maintain quality service levels while minimizing the impact to the General Fund.
- Increase financial sustainability of PRNS by balancing fees and access.
- Provide infrastructure assets that are sustainable, both environmentally and financially.

Public Safety CSA. Although Police and Fire services constitute the bulk of the City's investment in public safety, other departments and programs also contribute to the safety of the community. The key priorities in this CSA include:

- Continue to maintain the safety of residents throughout the City by keeping crime rates down, reducing and investigating crimes, continuing to attract businesses, and maintaining a vibrant, safe community for the residents.
- Continue to provide quality Police response to Priority One and Priority Two calls for service and visible patrol throughout the City.
- Continue efforts to deter gang problems.



Key City Service Area Priorities

Public Safety CSA

- Continue to provide effective and timely response for major incidents.
- Maximize the capacity of annual Police Recruit Academies through enhanced recruiting and backgrounding resources to fill all authorized sworn positions.
- Continue to provide civilian oversight of the Police misconduct complaint process to ensure its fairness, thoroughness, and objectivity.
- Continue providing high-quality fire suppression, rescue, emergency medical, and other related public assistance services.
- Continue dialogue with the County of Santa Clara on delivery of Emergency Medical Services.
- Continue to provide effective and timely responses for all emergencies.
- Initiate steps towards implementation of closest unit dispatch capability and function for Fire.
- Provide a common framework to protect the City from all hazards based on national standards for emergency management, homeland security, continuity, and critical infrastructure protection programs.
- Sustain and restore the City's critical and essential services through continuity of government and operations programs. Manage all-hazards response and recovery efforts through a multi-agency coordination system that includes the City's EOC.
- Continue current efforts to provide first responders and fire prevention inspectors with mobile data access and reporting.
- Advance strategies toward improved regional interagency cooperation.
- Ensure fire safety inspections and development services keep pace with increasing service demands to support the safety as well as economic development of San José.

Transportation and Aviation Services CSA: This CSA supports the planning, development, and operation of efficient transportation services that serve the people and economy of San José and Silicon Valley. The key priorities in this CSA include:

- Drive airline growth by increasing direct services to under-served markets and providing infrastructure to meet demands.
- Continue to be innovative by leveraging technology and reimagining the customer's airport experience
- Fund the airport's future by increasing non-airline revenues, developing innovative funding solutions, and maintaining a competitive cost per enplaned passenger.
- Reinvent the Airport Department organization to continue finding better ways to deliver services and be organized to deliver success.



Key City Service Area Priorities

Transportation and Aviation Services CSA

- Provide safe streets for all modes of travel.
- Strive for a balanced transportation and convenient mobility.
- Maintain quality transportation infrastructure and neighborhoods.
- Continue to be innovative and use technology to advance transportation priorities.
- Have engaged, productive, and creative people and teams.

Strategic Support CSA: The overall ability of the City to provide quality and effective services depends on strategic support services, such as, finance, human resources, information technology, and public works, to ensure consistency and efficiency throughout all City departments. The key priorities and services in this CSA include:

- Provide compensation and payments to City employees and vendors in a timely and accurate manner.
- Produce legally required, compliance, and regulatory information and financial reports.
- Manage multi-billion dollar debt and investment portfolios.
- Collect and deposit accounts receivables due to the City, including delinquent accounts.
- Bill and collect City utilities service fees for storm, sanitary, water, solid waste, and Business Tax.
- Ensure a high degree of tax and revenue collection compliance through audits and reviews.
- Procure goods and services pursuant to City Policies and Initiatives to support City operations in an open and competitive process.
- Provide workers' compensation and safety services and City-wide employment services.
- Manage the City's benefits program.
- Achieve the San José Smart City Vision and Innovation and Technology Strategic Plans approved by the City Council.
- Provide exceptional desktide and mobile support services to City employees to help them to provide superior municipal services to the community.
- Address growing risks of cybercrime and cyberdisasters; build capacity to resume critical operations quickly.
- Serve as the primary point of contact for residents, utilities customers, businesses, and employees through the Customer Contact Center and IT Help Desk; provide an exceptionally positive customer experience through customer service standards, multi-language support, and the My San José CRM technologies and integrations with departments.
- Re-platform the city onto current technologies that will sustain operations and innovation efforts, while also achieving better cost-to-performance metrics.



Key City Service Area Priorities

Strategic Support CSA

- Provide a foundation for data enabled civic innovations through Open Data Communities Architecture and focus on business process automations to accelerate and facilitate organization-wide decision-making.
- Maintain City-owned facilities and equipment to ensure public and employee safety and maximize the functionality of the City's assets.
- "Greening" the City facilities and the City fleet.
- Manage the City's space needs and the use of City-owned properties.
- Provide quality capital project delivery.
- Ensure consistent and transparent construction procurement services.

Focused Approach to Address Priority Community and Organizational Needs

The Proposed Budget balances many competing community and organizational needs and maintains the City's strong commitment to budget stability. Consistent with the Mayor's March Message for Fiscal Year 2018-2019, as approved by the City Council, major actions included in the Proposed Operating Budget, across all funds, will focus on the following investment priorities:

- ✓ Homelessness and Housing
- ✓ Public Safety
- ✓ Environment
- ✓ Innovation and Technology
- ✓ Education and Our Youth
- ✓ Community Engagement
- ✓ Saving and Improving Fiscal Sustainability

Following is a listing of some of the most significant budget actions in the Proposed Operating Budget organized by these priority themes.

Homelessness and Housing

Thousands of San José residents must find refuge in shelters, creeks, parks, and freeway underpasses each night. While permanent supporting housing is a top priority, it will take years to build and open. There is an immediate need for interim strategies to house more of the homeless residents. The Bay Area housing crisis affects residents across the income spectrum, making it imperative that the development of new housing is accelerated. Actions included in the 2018-2019 Proposed Budget related to homelessness and broader housing issues include:

- *Affordable Housing Transactions (\$182,000)/Housing Department*
- *Homeless Services Staffing (\$0; Homeless Rapid Rehousing appropriation)/Housing Department*
- *Homelessness and Housing (\$3.0 million)/Housing Department*

Focused Approach to Address Priority Community and Organizational Needs

Homelessness and Housing

- *Housing Department Public Outreach Program (\$356,000)/Housing Department*
- *Rental Rights and Referrals Program (\$964,000)/Housing Department and Attorney's Office*
- *Project Hope Program (\$311,000)/Parks, Recreation and Neighborhood Services Department*
- *Housing Development Planning Staffing (\$248,000)/Planning, Building and Code Enforcement Department*
- *Urban Village Planning Staffing (\$315,000)/Planning, Building and Code Enforcement Department*
- *African American Community Services Agency Upgrades (\$250,000)/Public Works Department*

Public Safety

Public safety remains a top priority of the City with approximately one-half of the General Fund dedicated to these services. The 2018-2019 Proposed Budget continues to increase resources related to important public safety services. Budget actions included in the Proposed Budget include:

- *Aircraft Rescue and Firefighting (ARFF) – Permanent Staffing Solution (Index D) (\$34,000)/Fire Department*
- *Fire Department Management Reorganization (\$31,000)/Fire Department*
- *Gas Detection Monitor Calibration Services (\$20,000)/Fire Department*
- *Domestic Violence (\$150,000)/Housing Department*
- *Library Security Staffing (\$109,000)/Library Department*
- *Office of Emergency Management Staffing (\$1.2 million)/Office of the City Manager*
- *St. James Park Security (\$180,000)/Parks, Recreation and Neighborhood Services Department*
- *Cannabis Regulation Staffing (\$297,000)/Police Department*
- *Downtown Foot Patrol Program (\$600,000)/Police Department*
- *NCAA College Football and National Hockey League All Star Weekend Special Event Coverage (\$1.0 million)/Police Department*
- *Northern California Regional Intelligence Center Grant Staffing (\$130,000)/Police Department*
- *Police Department Recruiting and Backgrounding (\$825,000)/Police Department*
- *Regional Auto Theft Task Force (\$100,000)/Police Department*
- *School Crossing Guard Program (\$80,000)/Police Department*
- *City Hall Security (\$636,000)/Police Department, Public Works Department*

Focused Approach to Address Priority Community and Organizational Needs

Environment

Climate Smart San José is a bold plan to reduce greenhouse gas emissions related to energy and mobility (transportation and land use) and ensure a long-term water supply. It aims not only to reduce the City's carbon footprint, but also to improve quality of life for those who live and work in San José. In order to continue the mission of Climate Smart San José as well as other environmentally important issues, the following actions are included in the 2018-2019 Proposed Budget:

- *Biosolids Management Program Staffing (\$141,000)/Environmental Services Department*
- *Climate Smart (\$100,000)/Environmental Services Department*
- *Water Supply and Conservation Staffing (-\$14,000)/Environmental Services Department*
- *Community Energy Financial Support Staffing (\$118,000)/Finance Department*
- *Environmental Review Planning Staffing (\$125,000)/Planning, Building and Code Enforcement Department*
- *Contract Vehicle Abatement Services (\$553,000)/Transportation Department*
- *Street Sweeping Inspection/Contract Management (\$171,000)/Transportation Department*
- *Trash Capture Device Maintenance (\$603,000)/Transportation Department*

Innovation and Technology

It is essential that the City continues to invest in technology that will improve service delivery, efficiency, and the user experience of San José residents. In many cases, one-time investments of software, process redesign, or hardware can yield many years of ongoing savings. Several actions in the 2018-2019 Proposed Budget aim to leverage technology as well as continue the Smart City Vision, including:

- *My San José 2.0 (\$1.5 million)/City Manager's Office*
- *Office of Innovation Staffing (\$400,000)/City Manager's Office*
- *City-Wide Open Data Environment and Architecture (\$600,000)/City-Wide Expenses*
- *Payroll Technical Support (\$282,000)/Finance Department, Information Technology Department*
- *Revenue Results Software Phase II Implementation (\$20,000)/Finance Department, Housing Department*
- *Integrated Permit System Staffing (\$902,000)/Fire Department, Planning, Building and Code Enforcement Department*
- *City Portfolio-Product-Projects Office (\$150,000)/Information Technology Department*
- *Parks Irrigation Technology/Irrigation Technology Update (\$28,000)/Information Technology Department, Parks, Recreation and Neighborhood Services Department*
- *Timeclocks Modernization Pilot Program (\$50,000)/Information Technology Department*

Focused Approach to Address Priority Community and Organizational Needs

Innovation and Technology

- *Innovation Roadmap - Privacy and Data Security, Community Wi-Fi, and Safe City Strategy (\$300,000)/Office of the City Manager*
- *Communications Installation Staffing (\$187,000)/Police Department, Public Works Department*
- *ESRI Database Enterprise Agreement (\$200,000)/Public Works Department*
- *Master Addressing Database (\$272,000)/Public Works Department*
- *Utility Development Fee Program – Small Cell Staffing (\$1.4 million)/Public Works Department*
- *Sanitary Sewer Video Inspection (\$293,000)/Transportation Department*

Education and Our Youth

The income gap in Silicon Valley continues to increase, which stems from a broader opportunity gap among children. Offering free extended learning programs to low-income families who cannot afford fee-based alternatives, improves future prospects for the City's youth. In addition, investing in pathways to employment for at-risk youth can broaden opportunities for many teens who struggle. The 2018-2019 Proposed Budget includes several actions that continue the desire to educate San José youth and place them on the best path of success, including:

- *Instruction Programming Services Staffing (\$95,000)/Library Department*
- *San José Learns 3.0 (\$1.0 million)/Library Department*
- *Summer Learning (\$250,000)/Library Department*
- *San José Works 4.0 (\$1.5 million)/Office of Economic Development*
- *Service Year (\$300,000)/Office of Economic Development*
- *Mayor's Gang Prevention Task Force Staffing (\$0; reduces the allocation for Capacity Building)/Parks, Recreation and Neighborhood Services Department*
- *Recreation Program Scholarships (\$100,000; offset by fee revenue)/Parks, Recreation, and Neighborhood Services Department*
- *Walk n' Roll Staffing (\$306,000)/Transportation Department*

Focused Approach to Address Priority Community and Organizational Needs

Community Engagement

Coupling the City's limited dollars with other resources from the private sector, philanthropy, volunteer energy enables the scarce public dollars to have a greater impact. By making modest investments, the City can leverage the power of volunteers, enabling cost-effective clean-ups that also builds community in neighborhoods. The 2018-2019 Proposed Budget includes several actions that will continue to collaborate and engage the community, including:

- *Anti-Litter Staffing (\$160,000)/Parks, Recreation and Neighborhood Services Department*
- *Area Transportation Development Planning (\$133,000)/Transportation Department*
- *Aquatics Program (\$203,000)/Parks, Recreation and Neighborhood Services Department*
- *BeautifySJ Grants (\$200,000)/Parks, Recreation and Neighborhood Services Department*
- *College Football Playoff National Championship (\$100,000)/Office of Economic Development*
- *Ethnic and Minority-Led Small Business Grant Program (\$50,000)/Public Works Department*
- *Outdoor Special Events Coordinator (\$110,000)/Office of Economic Development*
- *Placemaking and Parks Activation (\$824,000)/Parks, Recreation and Neighborhood Services Department*
- *San José Streets Team Litter and Trash Removal (\$135,000)/Housing Department*
- *Silicon Valley Talent Partnership (\$50,000)/Office of Economic Development*
- *Sports Authority Event Support (\$350,000)/Office of Economic Development*
- *Vietnamese American Community Center (\$262,000)/Parks, Recreation and Neighborhood Services Department*

Saving and Improving Fiscal Sustainability

The City is a lean organization with departments delivering services with limited resources. In this challenging fiscal landscape, the City will continue to evaluate operations to pursue better ways to deliver services to meet community needs as well as target investments that can generate long-term savings or potential revenues. This includes investing in our infrastructure, including roads, parks, buildings, and other facilities, which has been wearing down. The following actions are included in the 2018-2019 Proposed Budget:

- *Airport Concessions Consultant and Bond Feasibility Study (\$236,000)/ Airport Department*
- *Capital Delivery Program and Business Development Support (\$305,000)/ Airport Department*
- *Workers' Compensation Litigation Support Staffing (\$101,000)/ City Attorney's Office*
- *Ballot Measure Polling (\$75,000)/ City Manager's Office*

Focused Approach to Address Priority Community and Organizational Needs

Saving and Improving Fiscal Sustainability

- *Diridon Station Area Planning and Development (\$1.6 million)/Office of Economic Development*
- *Flood-Related Parks Capital Projects Staffing (\$221,000)/Parks, Recreation, and Neighborhood Services Department*
- *New Parks and Recreation Facilities Maintenance and Operations (\$0; offset by an Earmarked Reserve of \$216,000)/Parks, Recreation and Neighborhood Services Department*
- *City Hall Network Operations Center – Electrical Switch Replacement (\$1.5 million)/Public Works Department*
- *Children’s Discovery Museum HVAC Replacements (\$500,000)/Public Works Department*
- *Hammer Theater Center Carpet Replacement/HVAC Controls (\$375,000)/Public Works Department*
- *Police Administration Building Elevator Replacement (\$600,000)/Public Works Department*
- *San José Museum of Art HVAC Controls Upgrades (\$300,000)/Public Works Department*

Other Budget Actions

The 2018-2019 Proposed Budget also contains the following notable actions:

- *Baykeeper Consent Decree Compliance Program (\$100,000)/Environmental Services Department*
- *Business Tax Amnesty Program (\$305,000 cost/\$1.5 million in revenue)/Finance Department*
- *FMC Debt Service (-\$2.9 million)/Finance Department*
- *City Health Plan Restructuring Reserve (\$3.0 million)/Human Resources Department*
- *Employment Services Temporary Staffing Continuation (\$200,000)/Human Resources Department*
- *Talent Development Initiative (\$350,000)/Human Resources Department*
- *Workers’ Compensation Program Temporary Staffing (\$401,000)/Human Resources Department*
- *Transfer to the Self-Insured Medical Fund (\$3.0 million)/Human Resources Department*
- *Business Outreach and Support Services (\$200,000)/Office of Economic Development*
- *Economic Development Pre-Development Activities (\$150,000)/Office of Economic Development*
- *Downtown Ice Capital Infrastructure Investment (\$100,000)/Office of Economic Development*
- *Pension Administration System Implementation Staffing (\$280,000)/Office of Retirement Services*
- *Policy and Ordinance Support (\$150,000)/Planning, Building and Code Enforcement Department*
- *Decommissioning of Horses Stables (-\$272,000)/Police Department*
- *Public Works Department Staffing Plan (\$681,000)/Public Works Department*
- *Special Assessment District Landscape and Infrastructure Projects (\$635,000)/Transportation Department*

Fees and Charges Adjustments

The 2018-2019 Proposed Budget includes a range of adjustments to fees and charges. No utility rate increase was brought forward for the Storm Sewer Service Charge, but an overall fee increase of 3.0% is proposed for the Sewer Service and Use Charge to address increased operating costs and reserve contributions to support future financing of the Water Pollution Control Plant Capital Improvement Program. For Recycle Plus rates, a 3.0% increase is recommended for single-family dwellings and a 2.0% increase is recommended for multi-family dwellings. The Municipal Water System rates are programmed to increase 5.6% to cover increased operating costs.

In the Development Fee Programs, fee adjustments are recommended to align program revenues with costs, maintain works-in-progress earmarked reserves, and enhance service levels, where appropriate. In December 2016, the City Council accepted the *City of San José Development Services Cost Recovery Analysis, Process Improvements, Calculation of Unearned Revenues, and Refund Processing Report* which served as a basis for the first year of fee changes implemented in 2017-2018. The 2018-2019 Proposed Budget includes recommendations for a second implementation phase which will bring Development Fee programs closer to 100% cost recovery without as much reliance on the Development Fee Program Reserves. Other upward and downward adjustments to various other departmental fee programs are also recommended to at least maintain, or improve, City Council-approved cost recovery rates. All fee changes are described in the 2018-2019 Fees and Charges document that is released under separate cover.

Capital Budget Overview

Presented as a separate document, the City's 2018-2019 Proposed Capital Budget totals \$781.5 million and the 2019-2023 Proposed CIP totals \$3.1 billion. The 2018-2019 Proposed Capital Budget reflects a 22.1% decrease from the 2017-2018 Adopted Capital Budget of \$1.0 billion, and from a five-year perspective, the 2019-2023 Proposed CIP is 6.0% lower than the \$3.3 billion 2018-2022 Adopted CIP. Once funds to complete existing projects are rebudgeted from 2017-2018 to 2018-2019 as part of the Adopted Capital Budget process, funding in the 2019-2023 CIP is expected to be close to the 2018-2022 Adopted CIP level.

Directed by the Envision San José 2040 General Plan (General Plan), the CIP maintains critical investments to sustain, enhance, and develop a wide array of public infrastructure to improve system reliability, enhance recreational experiences, advance public safety, and ensure that San José is well-positioned for further economic growth and opportunity. Accordingly, the CIP allocates significant resources to upgrade and revitalize the Water Pollution Control Plant (San José-Santa Clara Regional Wastewater Facility); continues the investment in the pavement maintenance program; invests in and sets aside funding for the rehabilitation and enhancement of a variety of park assets and recreational facilities; and continues the renovation of the City's outstanding cultural facilities. Grant resources are leveraged to implement projects throughout the CIP, including Airport projects and local multimodal transportation projects. Grant funds also support major regional projects, including the BART Phase II, High Speed Rail, and Diridon Station. In addition, investments in this CIP address emergency preparedness and flood-related needs, such as parks infrastructure repairs and flood protection improvements.

Capital Budget Overview

Even with strong emphasis placed on rehabilitation and renewal, the City continues to lack the resources required to fully maintain its infrastructure portfolio. The persistent gap between optimal levels of capital investment and available resources, including grants and revenues from other agencies, results in a backlog of unmet/deferred infrastructure needs. The Status Report on Deferred Infrastructure Maintenance Backlog, accepted by the City Council on March 6, 2018, identifies a \$1.39 billion backlog of unmet/deferred infrastructure needs with an ongoing investment need of approximately \$112 million annually to maintain and prevent further degradation of the City's infrastructure. These figures reflect an improvement from the \$1.51 billion one-time backlog and \$144 million ongoing funding need reported in March 2017, due primarily to the reevaluation of the city's pavement condition; however, transportation infrastructure continues to be the largest unfunded need.

It is largely because of this gap between available funding and investment needs across a variety of public infrastructure assets that the Administration is – at the direction of City Council with their passage of the Mayor's March Budget Message for Fiscal Year 2018-2019 – exploring the feasibility of a bond measure to provide a new and substantial infusion of capital funding. A recommendation on potential measures will be brought forward for City Council consideration in May 2018.

Conclusion


This budget represents a continuing and concerted effort by the Mayor and City Council and the Administration to develop a balanced budget that prudently meets priority community goals, especially in light of the continuing constraints on our resources. Modest investments are included in this budget to continue and enhance programs to the community, address a limited number of urgent deferred infrastructure needs, work smarter through the implementation of technology, and prudently set aside funding in reserves to better position the City moving forward in alignment with direction provided in the Mayor's March Budget Message for Fiscal Year 2018-2019, as approved by the City Council.

Our continuing commitment to budget discipline and long-term fiscal sustainability remains essential to ensure that we stay on the right track. We all must remain mindful that our position can quickly reverse as a result of factors beyond our control, such as swings in the economy, actions by other levels of government, adverse court decisions, or increases in required contributions to the City's retirement funds. 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 innovation, partnership, and community engagement that can reduce costs and enhance quality as well as an ongoing focus on strengthening our economic foundation that can generate the revenues we need to restore and sustain vital public services over the long term.

2018-2019 PROPOSED OPERATING BUDGET MESSAGE

Finally, I call attention to the dedicated and talented City staff who prepare this budget document each year. This budget represents an organization-wide effort from the front lines of each department to the incredibly hard working staff in 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,

A handwritten signature in black ink, appearing to read "D. Sykes". The signature is stylized with a large initial "D" and a long horizontal stroke at the end.

David Sykes
City Manager

2018-2019 Proposed Operating Budget

2018-2019 Budget Balancing Strategy Guidelines

1. Develop a budget that balances the City's delivery of the most essential services to the community with the resources available.
2. 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. To the extent possible, establish a Future Deficit Reserve in the General Fund to cover any projected budgetary shortfall in the following year as a stopgap measure.
3. Focus on protecting vital core City services for both the short-and long-term. Analyze all existing services and target service reductions or eliminations in those areas that are least essential; limit, to the extent possible, service disruptions to the public.
4. When considering whether to scale back or completely eliminate a service, evaluate the impact to the community, the quality of the services to be delivered across the department, the ability of the department to manage the range of services, and alternative service provider options in the community.
5. When bringing forward any position reductions, make every effort to eliminate vacant positions rather than filled positions, if operationally feasible, to minimize the number of employees displaced by reductions with the goal of no significant employee impacts.
6. Evaluate program-level budgets and determine if there are opportunities to shift resources or reconfigure operations to close service delivery gaps, generate new revenues, address truly significant community or organizational risks, fund programs added on a one-time basis in 2017-2018, and/or respond to specific City Council direction and organizational risks.
7. Focus on business process redesign to improve employee productivity and the quality, flexibility, and cost-effectiveness of service delivery (e.g., streamlining, simplifying, reorganizing functions, and reallocating resources).
8. Explore alternative service delivery models (e.g., partnerships with non-profit, public, or private sector for out- or insourcing services) to ensure no service overlap, reduce and/or share costs, and use City resources more efficiently and effectively. The City Council Policy on Service Delivery Evaluation provides a decision-making framework for evaluating a variety of alternative service delivery models.
9. Identify City policy changes that would enable/facilitate service delivery changes or other budget balancing strategies.
10. 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.
11. Explore expanding existing revenue sources and/or adding new revenue sources.
12. Establish a fees, charges and rates structure designed to fully recover operating costs, while considering the impacts on fee and rate payers, and explore opportunities to establish new fees and charges for services, where appropriate.
13. Focus any available one-time resources on investments that 1) address the City's unmet or deferred infrastructure needs; 2) leverage resources to or improve efficiency/effectiveness through technology and equipment or other one-time additions; 3) continue high-priority programs funded on a one-time basis in 2017-2018 for which ongoing funding is not available; and/or 4) increase budget stabilization reserves to address any potential future budget uncertainty.
14. Engage employees in department budget proposal idea development.
15. 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.
16. Use the General Plan as a primary long-term fiscal planning tool and link ability to provide City services to development policy decisions.

Source: 2018-2019 City Manager's Budget Request & 2019-2023 Five-Year Forecast, as approved by the Mayor's March Budget Message for Fiscal Year 2018-2019.

2018-2019 Proposed Operating Budget

City of San José 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.

2018-2019 Proposed Operating Budget

City of San José Budget Principles

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.

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