

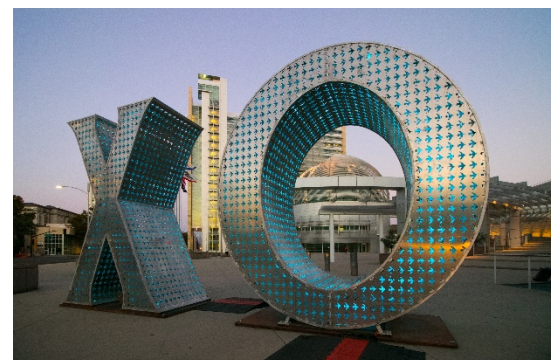
Honorable Mayor and City Council:

I am pleased to present the 2019-2020 Adopted Operating Budget, 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 and June Budget Messages for Fiscal Year 2019-2020. It also considers other City Council priorities, organizational priorities, and forecasts for future revenues and expenditures.

The 2020-2024 Five-Year Forecast was used as the starting point in the development of the budget. For the General Fund, a revised surplus of \$5.1 million was projected for 2019-2020, and has been addressed in this Adopted Budget. Small shortfalls ranging from \$1.7 million to \$15.6 million and one surplus of \$11.4 million in 2022-2023 are projected for the remaining four years of the Forecast. With minimal projected shortfall and surplus figures, the City's budget is in a fairly stable position. However, there is limited capacity to expand much needed services to our community and fully address the backlog of the City's deferred infrastructure and maintenance needs. With the passage of the \$650 million San José Public Safety and Infrastructure General Obligation bond measure in November 2018, however, there is a significant amount of resources to address some of the City's most critical infrastructure needs. The 2019-2020 Adopted Budget begins the delivery of these improvements.

The Adopted 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 a combination of ongoing and one-time funding set aside in 2019-2020 to address the projected General Fund shortfall in 2020-2021. It also increases the Budget Stabilization Reserve, pays down debt, 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 Adopted Budget.



Positioning the City for the Future

The City will be undertaking major efforts over the next decade that will reshape our City. This includes the largest regional transportation projects in the City's history that can fundamentally change the way our residents move around the City, the transformation of the Downtown, the next phase of the Airport expansion, the continued major rehabilitation of the Water Pollution Control Plant, improvements in broadband and other digital connections, Climate Smart efforts to reduce greenhouse emissions, and the creation of housing. This period of transformation is occurring at the same time the City continues to confront challenges in meeting its service demands and addressing infrastructure needs, as well as saving for the future to avoid service disruptions.

This Adopted Budget continues to balance the efforts to further major initiatives with the work to address the pressing everyday needs of the City. To focus the organization to meet these needs and to work on major, multi-year interdepartmental efforts, the Administration has been supporting eight City Manager enterprise priorities to align key elements of Council priorities and department work plans, including: Emergency Management and Preparedness; Creating Housing and Preventing Homelessness; Safe, Vibrant, and Inclusive Neighborhoods and Public Life; The Future of Downtown; Building the San José of Tomorrow – Private Development Services; Smart, Sustainable and Reliable City: 21st Century Infrastructure; Strategic Fiscal Positioning and Resource Deployment; and Powered by People.

The 2019-2020 Adopted 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 and June Budget Messages for Fiscal Year 2019-2020, as approved by the City Council, including 1) Saving; 2) Public Safety; 3) Confronting the High Cost of Housing and Living; 4) Homelessness; 5) Combatting Blight; and 6) Environment.

As included in the June Budget Message, this budget also highlights the City's work to understand the intersection of race and equity within our community and the delivery of City services. Resources are allocated to support the work of the Government Alliance for Race and Equity (GARE) cohort of City staff that is building this capacity within the organization, and a number of budget allocations identified in the June Budget Message will be implemented with the use of an equity screen.

The availability of one-time funding in 2019-2020, primarily generated from the sale of various properties in 2018-2019, has provided extra capacity to address the priorities outlined in the Mayor's March Budget Message. This funding is being used strategically to better position the City moving forward by setting aside funding in reserves as well as addressing some of the City's highest priority infrastructure and service delivery needs. The small surplus for 2019-2020 also helps better position the City moving forward as the majority of this funding is allocated to one-time items as directed in the Mayor's March and June Budget Messages, which will reduce the projected shortfall in 2020-2021 from \$15.6 million to \$10.9 million.

Investment Priorities

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

- ✓ *Saving*
- ✓ *Public Safety*
- ✓ *Confronting the High Cost of Housing and Living*
- ✓ *Homelessness*
- ✓ *Combatting Blight*
- ✓ *Environment*

2019-2020 ADOPTED OPERATING BUDGET MESSAGE

Total Adopted Budget

In the 2019-2020 Adopted Budget, the total net funding is \$4.7 billion for all City funds (General, Special, and Capital). This is \$932.9 million (25.0%) above the 2018-2019 Adopted Budget (Table 1 below). The increase reflects growth in the all funds.

2019-2020 Adopted Budget — All Funds (Table 1)			
	2018-2019 Adopted	2019-2020 Adopted	% Change
General Fund	\$ 1,373,674,973	\$ 1,510,135,437	9.9%
Special Funds	2,192,605,483	2,532,532,607	15.5%
<Less: Operating Transfers>	(817,275,571)	(894,663,225)	9.5%
Net Operating Funds	2,749,004,885	3,148,004,819	14.5%
Capital Funds	988,008,507	1,520,183,753	53.9%
<Less: Capital Transfers>	(8,777,000)	(7,024,000)	(20.0%)
Net Capital Funds	979,231,507	1,513,159,753	54.5%
Total	\$ 3,728,236,392	\$ 4,661,164,572	25.0%

Position Impacts

The Adopted 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 2018-2019, and limited enhancements to other critical services. Overall, the level of staffing will increase by a net 234 positions (a total of 87 positions are one-time funded), from 6,413 full-time equivalent positions in the 2018-2019 Adopted Budget to 6,647 positions in the 2019-2020 Adopted Budget, as shown in Table 2 below. This 3.6% increase still leaves City staffing well below its peak of almost 7,500 positions in 2001-2002 and well below the average for large cities.

Changes in Position Count (All Funds) from 2018-2019 Adopted to 2019-2020 Adopted Budget (Table 2)	
2018-2019 Adopted Budget	6,413 positions
2019-2020 Base Budget Changes	(74) positions
2019-2020 Adopted Budget Changes – General Fund	130 positions
2019-2020 Adopted Budget Changes – General Fund (offset by revenues, reimbursements, or net-zero shifts)	56 positions
2019-2020 Adopted Budget Changes – Other Funds	122 positions
Total Net Position Changes	234 positions
2019-2020 Adopted Budget	6,647 positions

2019-2020 ADOPTED OPERATING BUDGET MESSAGE

General Fund Forecast

In February 2019, the Administration prepared the 2020-2024 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 surpluses are projected each year as shown in Table 3. These variances represent -1.2% - 0.9% of the projected General Fund budget (based on 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 surplus projected for 2019-2020 has been allocated in this 2019-2020 Adopted Budget, primarily on a one-time basis. The remaining unallocated surplus on an ongoing basis (\$4.7 million) has been applied toward the following year’s deficit, decreasing the 2020-2021 projected deficit from \$15.6 million to \$10.9 million.

2020-2024 General Fund Forecast					
Incremental Surplus/(Shortfall) (\$ in millions)¹					
(Table 3)					
	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
Incremental Surplus/(Shortfall)	\$5.1 M ²	(\$10.9 M) ²	(\$13.7 M)	\$11.4 M	(\$1.7 M)
% of Annual Budget (Based on expenditures)	0.4%	(0.9%)	(1.0%)	0.9%	(0.1%)

¹ Does not include 1) costs associated with services that were funded on a one-time basis in 2018-2019; 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 These figures were revised from the \$3.5 million surplus and \$15.6 million deficit in 2019-2020 and 2020-2021, respectively, as presented in the February 2019 Forecast. The figure for 2019-2020 was revised as a result of continued analysis of projected revenues and expenditures; the 2020-2021 figure was revised downward to account for the \$4.7 million of unallocated ongoing surplus in 2019-2020.

Balancing the General Fund Budget

As displayed in Table 4 on the following page, the 2019-2020 Adopted General Fund Budget Balancing Plan includes actions to allocate the \$5.1 million surplus in 2019-2020. 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 to this message and throughout the Adopted Budget. Attachment B also responds to the directives contained in the Mayor’s March Budget Message for Fiscal Year 2019-2020 that was approved by the City Council on March 19, 2019. Adopted Budget actions that respond to City Auditor recommendations requiring additional funding are described in Attachment C.

In preparing the 2019-2020 Adopted Operating Budget, the Administration followed the direction provided in the Mayor’s March and June Budget Messages for Fiscal Year 2019-2020 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 2019-2020 that were adopted by the City Council as part of the approval of the Mayor’s March Budget Message for Fiscal Year 2019-2020.

2019-2020 ADOPTED OPERATING BUDGET MESSAGE

Balancing the General Fund Budget

The Adopted 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.

2019-2020 Adopted Operating Budget General Fund Budget Balancing Plan (in 000's) (Table 4)		
	2019-2020	Ongoing
2019-2020 General Fund Surplus	\$ 5,106	\$ 5,106
Balancing Strategy		
Source of Funds		
Beginning Fund Balance		
2019-2020 Proposed Budget Planning Reserve	\$ 34,522	\$ 0
2018-2019 Excess Revenue/Expenditure Savings	24,969	0
2019-2020 Future Deficit Reserve	15,500	0
Hayes Mansion Property Sale	7,865	0
Development Fee Program Reserves	3,471	201
City Health Plan Restructuring Reserve	970	0
Other Revenue/Expenditure Savings/Rebudgets/Reserve	498	0
Grants/Reimbursements/Fees		
Development Fee Programs	3,641	3,680
Paramedic Program	1,170	1,170
UASI Grant – Office of Emergency Management	576	0
Other Fee Programs/Reimbursements/Grants	10,627	3,776
Other Revenue		
SERAF Loan Repayment	10,200	0
Property Tax	4,000	0
Other Revenues	408	121
Overhead Reimbursements/Transfers from Other Funds	3,555	2,684
Subtotal Source of Funds	\$ 121,972	\$ 11,632
Use of Funds		
Service Level Enhancements	\$ 42,961	\$ 6,602
Unmet/Deferred Technology, Infrastructure, and Maintenance	26,291	813
Earmarked Reserves (e.g. Budget Stabilization, Essential Services)	24,070	1,723
2018-2019 One-Time Funded Services	11,835	862
2020-2021 Future Deficit Reserve	10,894	4,751
Cost Reductions/Service Delivery Efficiencies/Fund Shifts	6,710	(782)
Development Fee Programs	6,164	2,287
Other Fee Programs/Grants/Reimbursements	740	781
New Infrastructure/Equipment Operations and Maintenance	298	98
Use of Reserves (e.g. Cultural Facilities, Committed Add., Deferred Maint.)	(2,885)	(397)
Subtotal Use of Funds	\$ 127,078	\$ 16,738
Total Balancing Strategy	\$ 5,106	\$ 5,106
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.

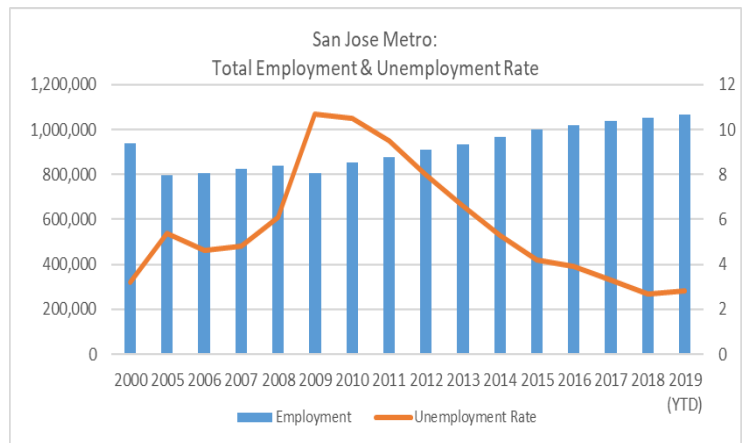
Key City Service Area Priorities

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 \$1.5 billion General Fund budget and a \$4.7 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 into “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.
- Provide program level support, permitting/inspection services, and process improvement/project streamlining necessary to support the City’s efforts to fulfill the City’s Smart City Vision, which includes the Broadband and Digital Inclusion Strategy.

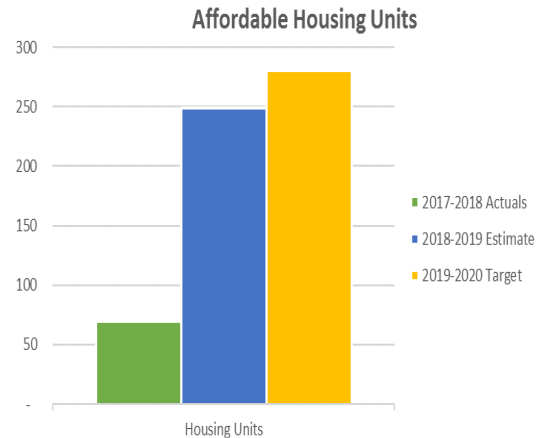


- Continue to manage the City’s real estate assets.
- Continue to invest in development process improvements in coordination with stakeholders to improve speed, consistency, predictability, and customer experience.
- Ensure that the City speaks with “one voice” on development issues while improving the speed, consistency, and predictability of the development review process.
- Continue to offer re-employment services to residents and businesses through work2future.

Key City Service Area Priorities

Community and Economic Development CSA (Cont'd)

- 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.
- 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 José 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:



- **Utility Infrastructure Management** – Build, operate, and maintain the City’s wastewater, storm water, recycled water, and potable water utility infrastructure to ensure system reliability and public health and safety.
- **Pollution Prevention, Water Quality, and Habitat Protection** – Promote the health of the environment and South Bay Watershed through collection, treatment, and management of wastewater and storm water runoff.
- **Solid Waste Diversion** – Oversee programs to collect, recycle, and dispose of solid waste to maximize diversion from landfills and protect public health, safety, and the environment.
- **Illegal Dumping Response** – Enhance the City’s illegal dumping response and prevention efforts to increase efficiency and effectiveness of city-wide clean-up efforts and protect environmental health.

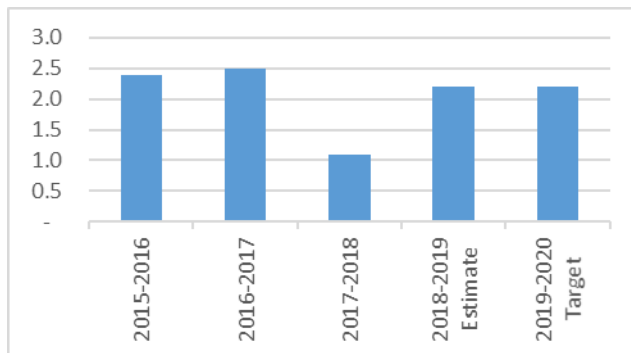
Key City Service Area Priorities

Environmental and Utility Services CSA (Cont'd)

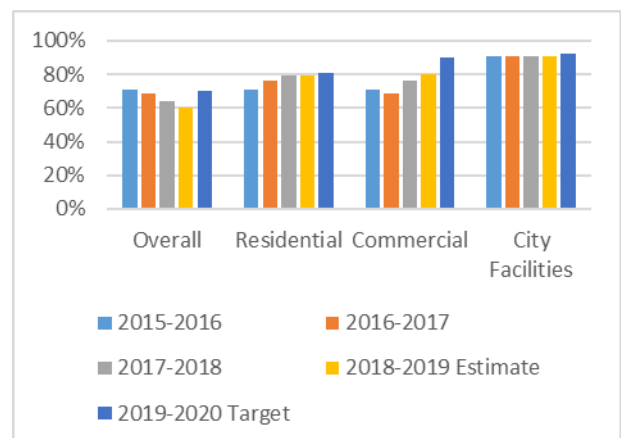
- **Promote Climate Action in the Community** – Provide leadership on climate action through policy, measures, or programs that reduces greenhouse gases and ensure a long-term water supply. Support environmentally sustainable practices throughout the community through education, public-private partnerships, and the implementation of the Climate Smart San José plan.
- **San José Clean Energy** – Implement and operate full operations of the San José Clean Energy program, including the final phase for residential solar customers scheduled to launch in February 2020.
- **Renewable and Greenhouse Gas Free Resources** – Provide cost effective electric generation rates by procuring cleaner electric supplies and offer customers at least one power mix option at ten percent or more renewables than PG&E and offer at least one power mix option that is 100% greenhouse gas free.
- **Renewable Energy, Electrification, and Energy Efficiency Programs** – Develop San José specific renewable energy, electrification, and energy efficiency programs that maintain and expand utility programs for low-income customers, drive further greenhouse gas reduction, and support local renewable energy projects.
- **Customer Service** – Explore the efficient use of technology while providing excellent customer service to City residents and businesses.



Number of Sanitary Sewer Overflows per 100 Miles of Sanitary Sewer Lines



% of Waste Diverted from Landfills



Key City Service Area Priorities

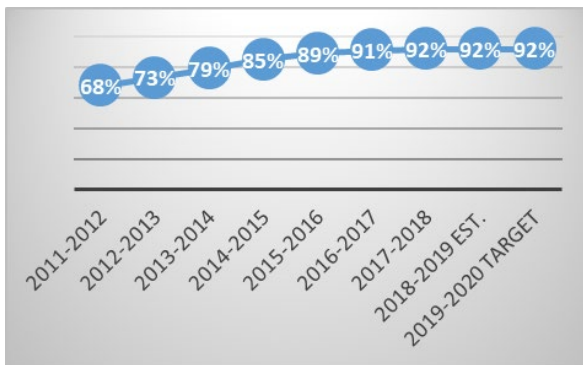
Neighborhood Services CSA: Libraries, parks and recreation, animal care and services, and code enforcement comprise this CSA. The CSA’s shared service goals are: cultivating healthy and resilient neighborhoods throughout San José; supporting engaged and informed residents; activating a thriving community; and stewarding well-managed, effective, and sustainable shared assets.

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 services to prevent and address homelessness including shelter with dignity for unhoused individuals and families.

Animal Care Center Live Release Rate



- 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 Science, Technology, Engineering, the Arts, and Mathematics (STEAM) learning programs.



Key City Service Area Priorities

Neighborhood Services CSA (Cont'd)

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:



- Offer residents activated streets and parks through placemaking and public life activities and opportunities
- 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.
- 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.
- Foster awareness of community services in all community centers, including reuse facilities.

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 the Parks, Recreation and Neighborhood Services Department by balancing fees and access.
- Provide infrastructure assets that are sustainable, both environmentally and financially.

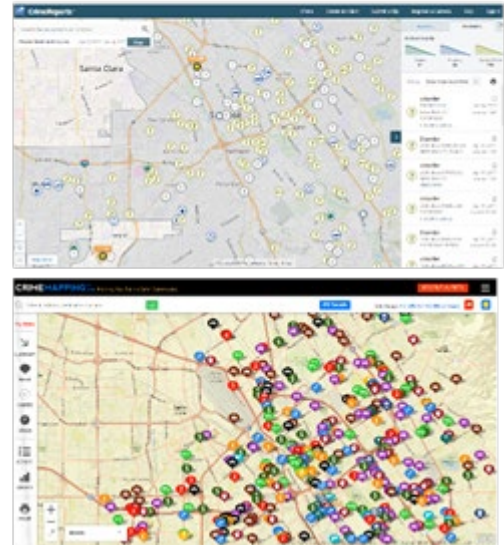


Key City Service Area Priorities

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 (Life Threatening) and Priority Two (Crimes in Progress or Just Occurred) calls for service and visible patrol throughout the City.
- Continue efforts to deter gang problems.
- Continue to provide effective and timely response for major incidents.

CrimeReports.com and CrimeMapping.com Online Portals

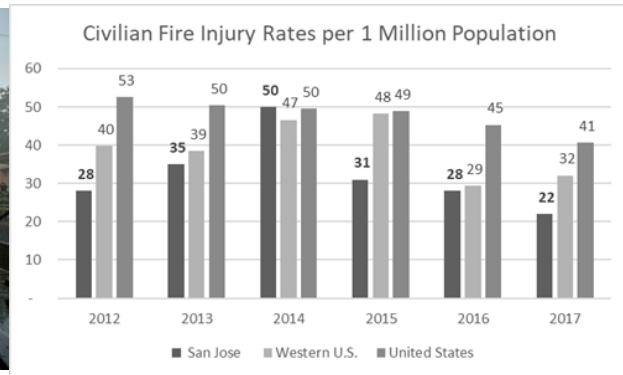


- Maximize the capacity of annual Police Recruit Academies through enhanced recruiting and backgrounding resources to fill all authorized sworn positions.
- Continue to provide civilian oversight of the police misconduct complaint process to ensure its fairness, thoroughness, and objectivity.
- Continue 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.
- Continue to advance response time improvement initiatives including leveraging technology, data analytics, and regional cooperation.
- 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.



Key City Service Area Priorities

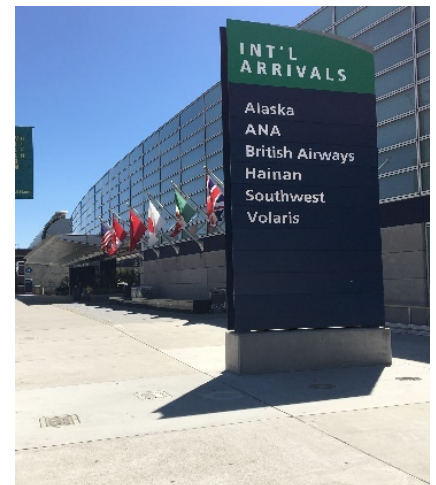
Public Safety CSA (Cont'd)



- Be prepared to 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 Emergency Operations Center (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 and economic development of San José.

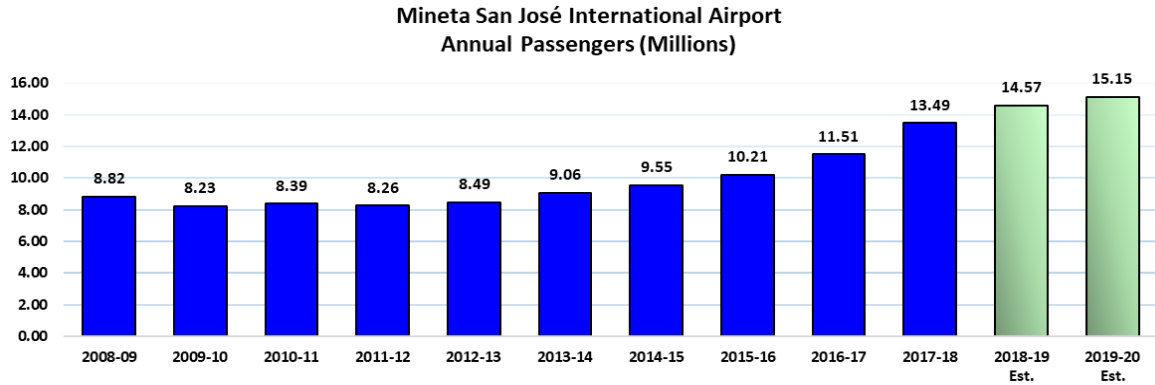
Transportation and Aviation Services CSA: This CSA supports the planning, development, and operation of efficient transportation services that serve the people and economy of San José and Silicon Valley. The key priorities in this CSA include:

- Operate the Norman Y. Mineta San José International Airport in a safe and efficient manner. Maintain and improve security, safety, and regulatory compliance for air service operations.
- Increase direct service to underserved markets and provide infrastructure to meet demands. Retain and grow passenger levels; develop and support air service to meet the needs of the Silicon Valley market in order to promote a strong economy and enhance community vitality.
- Increase non-airline revenues, develop innovative funding solutions, and maintain a competitive cost per enplaned passenger.

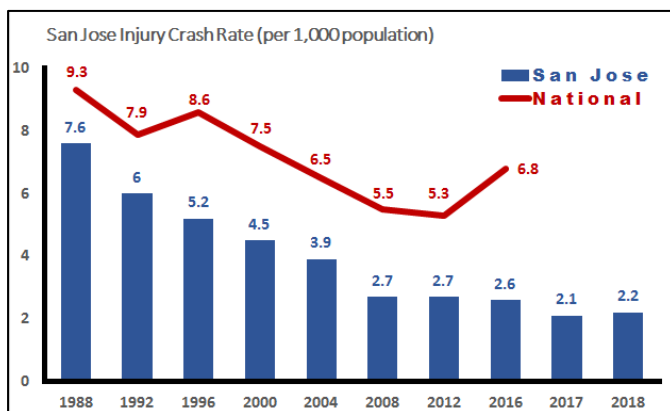


Key City Service Area Priorities

Transportation and Aviation Services CSA (Cont'd)



- Deliver positive, reliable, and convenient air traveler services and amenities while preserving Airport assets and facilities through cost effective maintenance and operations.
- Operate the Airport as a good neighbor and ensure environmental stewardship of resources.
- Continue to support regional transportation projects. With an expected investment of over \$10 billion during the next decade, the transformation and expansion of the regional transportation system represents the largest public infrastructure investment in the City’s history. Individual elements of the regional transportation system are in various stages of project planning, including BART Phase II, California High Speed Rail, Caltrain Modernization, and the expanded Diridon Station.
- Plan, build, and encourage use of multi-modal transportation options supporting economic development and the Envision San José 2040 General Plan.
- Provide a safe transportation system for the traveling public through effective engineering, education, enforcement, and technology.



- Provide a fully funded pavement maintenance program for the city’s major and residential streets.
- 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.

Key City Service Area Priorities

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 delinquent accounts receivables due to the City
- 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
- Explore further opportunities to maximize tax collections
- Procure goods and services pursuant to City policies and initiatives to support City operations in an open and competitive process
- Attract, hire and retain employees
- Facilitate employee engagement
- Promote safety and wellness
- Provide opportunities to develop skills and grown in a career with the nation's 10th largest City
- Achieve the San José Smart City Vision and Innovation and Technology Strategic Plans approved by the City Council
- Work with departments to manage cybersecurity risks and build resilience for critical City operations
- Provide exceptional deskside and mobile support services to City employees to aid them in providing superior municipal services to the community
- Serve as the valued point of contact for residents, utilities customers, businesses, and employees, through the Customer Contact Center, Information Technology Help Desk, and My San José platform
- Work with City departments to modernize technologies and processes in ways that sustain operations, innovate, and achieving better cost-to-performance
- Maintain City-owned facilities and equipment to ensure public and employee safety and maximize the functionality of the City's assets
- "Greening" the City's facilities and fleet
- Manage the City's space needs and the use of City-owned properties
- Provide quality capital project delivery
- Ensure consistent and transparent construction procurements
- Provide mail room services, recycling services, and records management services in support of City policies and City-wide operations

Focused Approach to Address Priority Community and Organizational Needs

The Adopted Budget balances many competing community and organizational needs and maintains the City's strong commitment to budget stability. Consistent with the Mayor's March and June Budget Messages for Fiscal Year 2019-2020, as approved by the City Council, major actions included in the Adopted Operating Budget, across all funds, will focus on the following investment priorities:

- ✓ Saving
- ✓ Public Safety
- ✓ Confronting the High Cost of Housing and Living
- ✓ Homelessness
- ✓ Combatting Blight
- ✓ Environment

Following is a listing of some of the most significant budget actions in the Adopted Operating Budget organized by these priority themes. Within each theme, the budget actions are listed by title with the section location in this budget document noted.

Saving

While the City's budget position has been stable for several years, there is limited capacity to address budget disruptions caused by major changes in the economic environment that impacts City revenues and/or large expenditure changes, such as increasing retirement costs. With the nation experiencing its longest economic expansion, it is prudent to plan for the inevitable economic downturn that will impact the City at some point in the future.

The following actions are included in the 2019-2020 Adopted Budget to better position the City moving forward:

- 2020-2021 Future Deficit Reserve (\$10.9 million) to address the remaining forecasted shortfall in 2020-2021/Earmarked Reserves
- Budget Stabilization Reserve (\$10.0 million), increases the reserve to \$27.0 million/Earmarked Reserves
- Information Technology Sinking Fund Reserve (\$2.0 million)/Earmarked Reserves
- Transfer to the Municipal Golf Course Fund (net \$5.7 million to pay down \$6.2 million in debt and reduce General Fund subsidy)/Transfers

Focused Approach to Address Priority Community and Organizational Needs

Public Safety

Public safety remains a top priority of the City with approximately one-half of the General Fund dedicated to these services. The 2019-2020 Adopted Budget continues to increase resources related to important public safety services. Budget actions included in the Adopted Budget include:

- Sworn Hire Ahead Program for 2019-2020 (\$7.0 million)/Police Department
- 2020-2021 Sworn Hire Ahead Program Reserve for 2020-2021 (\$7.2 million)/Earmarked Reserves
- Police Recruitment and Backgrounding Services (\$825,000)/Police Department
- Downtown Foot Patrol Program (\$600,000)/Police Department
- School Safety and Education Program - (\$437,000)/Police Department
- Data Crime Center Staffing (\$191,000)/Police Department
- Police Use of Force Incidents Data Dashboard (\$60,000)/Police Department
- Police Public Records Request Staffing (\$658,000)/Police Department
- Northern California Regional Intelligence Center Grant Staffing (\$167,000)/Police Department
- Proactive Community Policing/Foot Patrol in High Need Neighborhoods (\$750,000)/Police Department
- Sexual Assaults Law Enforcement Training and Supportive Services Reserve (\$690,000)/Earmarked Reserves
- 9-1-1/3-1-1 Call Center (\$381,000)/Police, Fire and Information Technology Departments
- False Alarms Collections and Staffing (\$124,000 – offset by revenue of \$500,000)/Police Department
- 2018 Measure T Bond Projects Manager (\$558,000)/Fire and Police Departments
- Fire Protection Systems Compliance Staffing (\$371,000)/Fire Department
- Fire Emergency Medical Services Technology Staff (\$176,000)/Fire Department
- Fire Response Time Data Analysis (\$170,000)/Fire Department
- Emergency Medical Services Equipment (\$100,000)/Fire Department
- Fire Public Information Office, Communications, and Facilities Reorganizations (\$228,000 savings)/Fire Department
- FirstNet Emergency Communications Network (\$1.0 million)/Office of the City Manager
- Office of Emergency Management Grant-Supported Staffing (\$626,000)/Office of the City Manager
- Office of Emergency Management Emergency Plans (\$550,000)/Office of the City Manager
- Office of Emergency Management Training (\$400,000)/Office of the City Manager
- Safe City Data Integration (\$300,000)/Office of the City Manager

Focused Approach to Address Priority Community and Organizational Needs

Confronting High Cost of Housing and Living

Like other cities in the Bay Area and State, the high cost of living, particularly housing costs, creates many challenges for our residents. The 2019-2020 Adopted Budget includes a number of investments to help address this challenge.

- Child Care Workforce Development and Facilities Staffing (\$257,000)/Planning, Building and Code Enforcement Department
- Child Care Workforce Development (\$250,000)/Library Department
- Expedited Housing Development Staffing and Consultant Funding (\$557,000)/Planning, Building and Code Enforcement Department
- Affordable Housing Transactions Staffing (\$190,000)/Housing Department
- Parcel Mapping Demonstration Project – GIS-based map to provide parcel-level data about opportunity sites for housing development (\$190,000)/City-Wide Expenses
- Advance 11 affordable housing developments, totaling 1,144 new apartments, as part of the implementation of the \$100 million Notice of Funding Availability/Housing Department
- Begin construction on 754 affordable apartments/Housing Department
- Implement the 2019-2020 Annual Action Plan authorizing the use of almost \$30 million in federal funds to increase and preserve affordable housing, respond to homelessness, strengthen neighborhoods, and promote fair housing/Housing Department
- Mixed-Income Housing – “The Missing Middle” (\$10.0 million – Inclusionary Fee Fund)/ Housing Department

Homelessness

Several actions included in the 2019-2020 Adopted Budget also relate to homelessness and broader housing issues, including:

- Use Homeless Emergency Aid Program (HEAP) funds to complete construction of two Bridge Housing Communities; fund three safe parking pilot programs; fund time-limited subsidies and supportive services for up to 250 individuals, youth, and families; enhance subsidies for transitional age youth; implement a motel voucher program to provide temporary housing for vulnerable populations, including families and survivors of domestic violence; and expand the homelessness prevention program.
- Ballot Measure Polling (\$150,000)/ City-Wide Expenses
- Transitional Jobs Program (\$865,000)/Parks, Recreation and Neighborhood Services Department
- Cash for Trash (\$50,000)/Parks, Recreation and Neighborhood Services Department
- Bridge Housing Communities Staffing (\$332,000 – Housing Funds)/Housing Department
- Complete construction on 563 affordable apartments that will provide housing for 417 chronically homeless individuals/Housing Department
- Homeless Roundtable and Proactive Engagement (\$200,000)/City-Wide Expenses

Focused Approach to Address Priority Community and Organizational Needs

Combating Blight

The Beautify SJ Initiative is a cross-departmental effort to address blight and improve the appearance of the City. Targeted investments in the 2019-2020 Adopted Budget support these beautification efforts.

- BeautifySJ Streets Landscape Maintenance Program (\$1.4 million – General Fund, Parking Fund, Storm Sewer Operating Fund)/Transportation Department
- Anti-Graffiti and Anti-Litter Programs – BeautifySJ (\$857,000)/Parks, Recreation and Neighborhood Services Department
- Public Litter Can Expansion (\$764,000 – Integrated Waste Management Fund)/Environmental Services Department
- Illegal Dumping Rapid Response Program (\$470,000)/Environmental Services Department
- Proactive Legal Enforcement of Blighted and Nuisance Properties (\$447,000 – two-year funding)/City Attorney’s Office
- Blight Busters Pilot Program (\$150,000)/City-Wide Expenses
- City-Wide Retail Attraction Program (\$375,000 – two-year funding)/City-Wide Expenses
- Downtown Pedestrian Quality of Life (\$250,000)/City-Wide Expenses
- City-Wide Storefronts Activation Grants Program (\$200,000 General Purpose Parking Fund)/City-Wide Expenses
- BeautifySJ Grants (\$200,000)/ City-Wide Expenses
- BeautifySJ Gap Analysis (\$165,000)/ City Manager’s Office
- San José Streets Team Litter and Trash Removal (\$135,000)/Housing Department
- Dumpster and Beautification Days (\$36,000)/Mayor and City Council
- Anti-Graffiti Murals (\$100,000)/Parks, Recreation and Neighborhood Services Department

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 2019-2020 Adopted Budget:

- Climate Smart San José Plan Implementation (\$700,000)/City-Wide Expenses
- Zero Waste Strategic Plan Revision and Climate Smart Addition (\$500,000)/Environmental Services Department
- Energy Team Staffing (\$167,000)/Public Works Department
- Community Energy FUSE Fellow (\$150,000)/Community Energy
- Community Energy Data Analytics Stanford Fellows (\$92,000)/Community Energy
- Community Energy Climate Corps Fellow (\$50,000)/Community Energy

Focused Approach to Address Priority Community and Organizational Needs

Other Budget Actions

The 2019-2020 Adopted Budget also contains the following notable actions grouped by CSA:

Community and Economic Development

- Diridon Station Area Development Planning (\$4.8 million)/City-Wide Expenses
- Census 2020 (\$625,000)/City-Wide Expenses
- San Jose Sports Authority (\$350,000)/City-Wide Expenses
- Development Services Staffing – including Integrated Permit System/Planning, Building, and Code Enforcement, Public Works, and Fire Departments

Environmental and Utility Services

- Sanitary Sewer Repairs (\$1.2 million)/Transportation Department
- Integrated Waste Management Waste Characterization Studies and Customer Satisfaction Surveys (\$982,000)/Environmental Services Department
- Recycle Plus Community Outreach and Public Education (\$766,000)/Environmental Services Department
- Digital Customer Platform for Recycle Plus Services (\$400,000)/Environmental Services Department

Neighborhood Services

- Senior Nutrition Program (\$1.7 million)/City-Wide Expenses
- Project Hope Expansion (\$1.2 million)/Parks, Recreation and Neighborhood Services
- Public Life and Parks Activation – Viva CalleSJ and Viva Parks (\$1.0 million, partially offset by revenue)/Parks, Recreation and Neighborhood Services
- Pest Management in Parks (\$760,000)/Parks, Recreation and Neighborhood Services
- Re-Use Program and Facilities Staffing (\$642,000)/Parks, Recreation and Neighborhood Services

- Re-Use Program and Facilities Staffing (\$642,000)/ Parks, Recreation and Neighborhood Services
- San José Learns (\$500,000)/City-Wide Expenses
- Aquatics Program (\$473,000)/Parks, Recreation and Neighborhood Services
- Education and Digital Literacy Initiative (\$411,000)/Library Department

Transportation and Aviation

- Airport Terminal and Airfield Facilities Support (\$1.3 million)/Airport
- Airport Marketing and Communications Division Staffing (\$300,000)/Airport
- Residential Streets Pavement Maintenance Staffing (\$1.7 million)/Transportation Department
- Traffic Safety Team (\$203,000) and Pedestrian Safety Program Staffing (\$200,000)/Transportation Department

Strategic Support

- PCs and Operating Systems License Costs (\$2.2 million)/Information Technology Department
- Public Works Department Staffing Plan – Measure T (\$1.7 million – Capital Funds)/Public Works Department
- Transfer to the Self-Insured Medical Fund (\$1.5 million)/General Fund Transfers
- Cybersecurity Roadmap (\$1.1 million)/Information Technology Department
- Talent Development Program (\$660,000 over two years)/Human Resources Department and Earmarked Reserves
- Digital Inclusion Fund Staffing (funded by small cell revenue)/City Manager’s Office
- Citywide Digital Services Strategy (\$300,000)/City-Wide Expenses
- Privacy Policy Development (\$300,000)/City Manager’s Office
- Equity Education and Analysis Framework (\$150,000)/City Manager’s Office

Fees and Charges Adjustments

The 2019-2020 Adopted Budget includes a range of adjustments to fees and charges. No utility rate increase is included for the Storm Sewer Service Charge, but an overall rate increase of 3.0% is included for the Sewer Service and Use Charge. For Recycle Plus rates, a 5.0% increase is included for both single-family and multi-family dwellings. The 2019-2020 Adopted Budget includes an overall revenue increase of 6.7% for the Municipal Water System to offset increased costs.

In the Development Fee Programs, fee adjustments of approximately 4% are included for the Planning, Building, and Fire Programs to align program revenues with costs, maintain works-in-progress earmarked reserves, and enhance service levels, where appropriate. Other upward and downward adjustments to various other departmental fee programs are included to generally maintain, or improve, City Council-approved cost recovery rates. The fee changes are described in the 2019-2020 Fees and Charges document that will be released under separate cover.

Capital Budget Overview

Presented as a separate document, the City's 2019-2020 Adopted Capital Budget totals \$1.5 billion and the 2020-2024 Adopted CIP totals \$4.0 billion. The 2019-2020 Adopted Capital Budget reflects a 53.9% increase from the 2018-2019 Adopted Capital Budget of \$988.0 million, and from a five-year perspective, the 2020-2024 Adopted CIP is 19.7% higher than the 2019-2023 Adopted CIP.

Guided by the Envision San José 2040 General Plan (General Plan), the CIP focuses on the renovation, renewal, and expansion of critical public assets, ranging from the infrastructure that is integrated into daily life such as roadways and the sewer collection and treatment systems, to parks and sports fields that promote community health, to fire and police facilities that helps keep our community safe, and to airport facilities to meet the travel needs of the community and further the City's economic growth. Over a five-year period, the 2020-2024 CIP totals \$4.0 billion, a 19.7% increase over the 2019-2023 Adopted CIP of \$3.3 billion, due in large part to San José residents passing the Measure T – Disaster Preparedness, Public Safety, and Infrastructure Bond. Approved in November 2018, the measure authorized the City to issue up to \$650 million in general obligation bonds for investments in city infrastructure, including upgrades to emergency and disaster response facilities, road reconstruction, flood protection, water quality protection, and improvements to other critical infrastructure. Those priorities are reflected in the CIP, with \$528 million allocated over the next five years.

In addition, the CIP continues to allocate significant resources to upgrade and revitalize the Water Pollution Control Plant (San José-Santa Clara Regional Wastewater Facility); meet growing passenger and activity levels at the Norman Y. Mineta International Airport by investing in airfield and terminal improvements, and increasing parking capacity; invest in the rehabilitation and enhancement of a variety of park assets and recreational facilities; and continue 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.

2019-2020 ADOPTED OPERATING BUDGET MESSAGE

Capital Budget Overview

Reflecting this activity, the City’s 2019-2020 Adopted Capital Budget totals \$1.5 billion and the 2020-2024 Adopted CIP totals \$4.0 billion. The 2019-2020 Adopted Capital Budget reflects a 53.9% increase from the 2018-2019 Adopted Capital Budget of \$988.0 million, and from a five-year perspective, the 2020-2024 Adopted CIP is 19.7% higher than the \$3.3 billion 2019-2023 Adopted CIP.

Even with the infusion of bond funding, the City still lacks the resources required to fully maintain and fund its entire infrastructure portfolio. The Status Report on Deferred Infrastructure Maintenance Backlog, accepted by the City Council on March 12, 2019, identifies an infrastructure backlog of approximately \$1.5 billion, with an additional \$86.9 million needed annually to maintain the City’s infrastructure in a sustained functional condition. Though the ongoing need is less than the \$111.9 million reported last year – and the existing backlog of \$1.5 billion is expected to decrease as Measure T funds are spent – the City must continue to search for additional resources to ensure San José’s public assets are appropriately maintained.

Capital Program Overview by City Service Area

Each of the 14 capital programs is aligned to one of the six City Service Areas (CSAs). The chart below compares the 2019-2023 Adopted CIP with the 2020-2024 Adopted CIP for each CSA.

2019-2023 Adopted CIP and 2020-2024 Adopted CIP Comparison (By City Service Area)

City Service Area	2019-2023 Adopted CIP	2020-2024 Adopted CIP	% Change
Community and Economic Development	\$14,141,408	\$17,933,291	26.8%
Environmental and Utility Services	1,648,406,311	1,749,983,976	6.2%
Neighborhood Services	398,453,924	414,693,795	4.1%
Public Safety	51,631,277	224,769,766	335.3%
Transportation and Aviation Services	1,120,446,981	1,381,177,037	23.3%
Strategic Support	80,713,828	178,965,176	121.7%
Total	\$ 3,313,793,729	\$ 3,967,523,541	19.7%

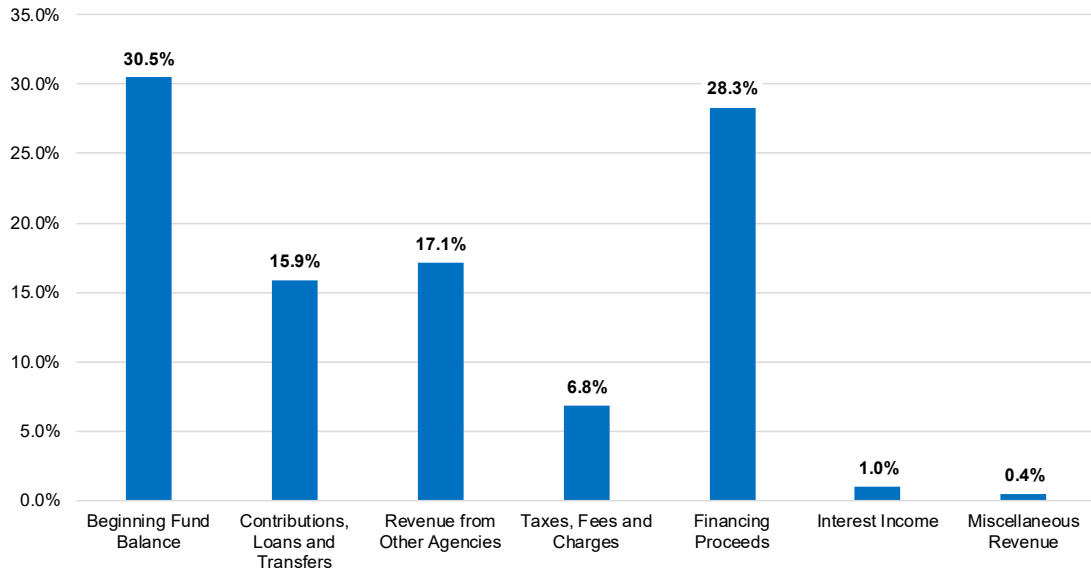
2019-2020 ADOPTED OPERATING BUDGET MESSAGE

Capital Budget Overview

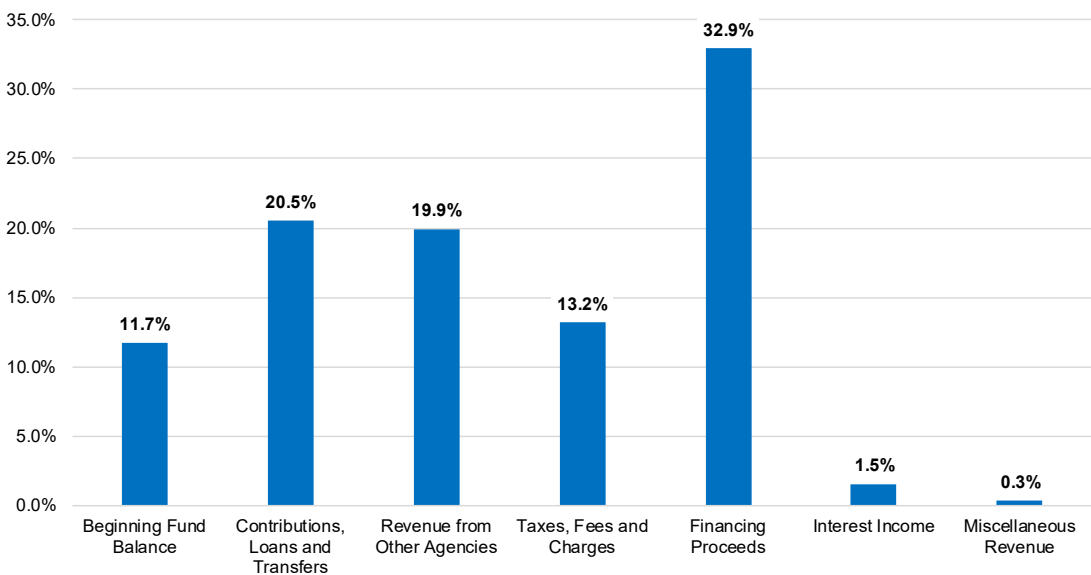
Capital Program Funding Sources

The Capital Program is supported by a variety of funding sources as shown in the graphs below that depict both the 2019-2020 and five-year CIP funding.

**2019-2020 Adopted Capital Budget
Source of Funds (\$1.5 billion)**



**2020-2024 Adopted Capital Budget
Source of Funds (\$4.0 billion)**



2019-2020 ADOPTED OPERATING BUDGET MESSAGE

Capital Budget Overview

The 2020-2024 Adopted CIP includes revenues of \$1.3 billion from the issuance of debt. The Water Pollution Control Capital Program accounts for \$725.0 million from both revenue notes (\$340.0 million) and bond proceeds (\$385.0 million) that will be used for the implementation of capital improvement projects recommended by the City Council-approved Plant Master Plan that responds to aging infrastructure, future regulations, population growth, and treatment technology improvements. The Traffic (\$258.0 million), Public Safety (\$175.0 million), Municipal Improvements (\$62.0 million), Storm Sewer (\$60.0 million), and Parks (\$13.0 million) capital programs incorporate the Measure T bond proceeds to be issued throughout the CIP five-year period. The Library (\$5.9 million) and Public Safety (\$3.3 million) capital programs incorporate the final bond issuances for their respective General Obligation Bond programs. Finally, the Parks and Community Facilities Development capital program accounts for \$3.5 million in commercial paper to address remediation projects related to the 2017 flood event.

The Revenue from Other Agencies category totals \$789.4 million and is comprised of contributions from other agencies that use the Water Pollution Control Plant (WPCP) (\$314.8 million) and the Sanitary Sewer System (\$8.9 million); Federal (\$192.5 million) and State (\$143.2 million) grants and allocations; and Revenue from Local Agencies (\$136.9 million) mostly allocated from the Valley Transportation Authority to fund pavement maintenance (\$127.0 million).

Contributions, Loans and Transfers total \$813.1 million. The largest transfers of funds are from the Sewer Service and Use Charge Fund to the Water Pollution Control Capital Program (\$252.3 million) and to the Sanitary Sewer System Capital Program (\$160.0 million). The Transfer from the General Fund totals \$81.2 million.

The 2020-2024 Adopted CIP includes an estimate of \$522.7 million in the Taxes, Fees and Charges category, a 2.7% increase when compared to the estimated level (\$508.8 million) in the 2019-2023 Adopted CIP. Most this revenue is comprised of Construction and Conveyance Tax (\$180.0 million), Airport Passenger Facility Charge proceeds (\$159.9 million), Construction Excise Tax (\$100.0 million), and Building and Structure Construction Tax (\$75.0 million).

The Beginning Fund Balances in the 2020-2024 CIP total \$463.4 million, representing 30.5% of the 2019-2020 Adopted Capital Budget and 11.6% of the 2020-2024 CIP. The Parks and Community Facilities Development Capital Program has a Beginning Fund Balance totaling \$142.0 million, accounting for 30.7% of the total Beginning Fund Balances. The Traffic Capital Program accounts for 24.9% (\$115.2 million) of the Beginning Fund Balances, representing a significant amount of carryover project costs that will be spent over the next five years. The other programs with significant Beginning Fund Balances include Airport (\$42.4 million) and Sanitary Sewer (\$15.5 million) Programs.

A more detailed discussion of revenues can be found in the Summary Information section of the Adopted CIP.

2019-2020 ADOPTED OPERATING BUDGET MESSAGE

Capital Budget Overview

Measure T General Obligation Bond

In November 2018, San José voters approved Measure T, the Disaster Preparedness, Public Safety, and Infrastructure Bond Measure, which will provide up to \$650 million in General Obligation (GO) bonds for a wide variety of infrastructure needs, with at least \$300 million to be contributed to road rehabilitation. The table below shows the use of \$528 million of Measure T proceeds over the next five years, with the remaining amount for pavement maintenance and parks improvements expected to continue beyond the CIP period.

Measure T Public Safety and Infrastructure Bond Fund (498) (Projected Expenditures in 2020-2024 CIP)

Program	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024	5-Year Total
<u>Traffic</u>						
Bridges	\$2,000,000	\$8,000,000	\$3,000,000	\$3,000,000	\$4,000,000	\$20,000,000
Pavement Maintenance	37,500,000	37,500,000	37,500,000	37,500,000	37,500,000	187,500,000
LED Streetlight Conversion	5,000,000	6,000,000	2,000,000			13,000,000
Total Traffic	\$44,500,000	\$51,500,000	\$42,500,000	\$40,500,000	\$41,500,000	\$220,500,000
<u>Public Safety</u>						
Fire Station 37	\$6,180,000	\$500,000				\$6,680,000
Fire Station 8 Relocation	4,500,000	2,000,000	9,600,000	400,000		16,500,000
Fire Station 23 Relocation	4,500,000	2,000,000	9,600,000	400,000		16,500,000
New Fire Station 32	100,000	5,000,000	1,600,000	9,900,000	400,000	17,000,000
New Fire Station 36	100,000	5,000,000	1,600,000	9,900,000	400,000	17,000,000
Emergency Ops Ctr. Relocation	500,000	500,000	1,000,000	9,000,000	500,000	11,500,000
Police Training Ctr. Relocation	30,100,000	1,000,000	13,500,000	400,000		45,000,000
Police Air Support Unit Hangar	500,000	1,000,000	6,500,000	400,000		8,400,000
Program Reserve (Public Safety)	7,320,000		29,100,000			36,420,000
Total Public Safety	\$53,800,000	\$17,000,000	\$72,500,000	\$30,400,000	\$1,300,000	\$175,000,000
<u>Storm Sewer</u>						
Charcot Pump Station	\$1,600,000	\$6,600,000	\$600,000	\$24,700,000	\$1,500,000	\$35,000,000
Clean Water Projects	1,300,000	8,100,000	14,500,000	900,000	200,000	\$25,000,000
Total Storm Sewer	\$2,900,000	\$14,700,000	\$15,100,000	\$25,600,000	\$1,700,000	\$60,000,000
<u>Municipal Improvements</u>						
Environmental Protection Projects	\$50,000,000					\$50,000,000
City Facilities LED Lighting	3,000,000	2,000,000	2,000,000			7,000,000
Critical Infrastructure			2,000,000	3,000,000		5,000,000
Total Municipal Improvements	\$53,000,000	\$2,000,000	\$4,000,000	\$3,000,000		\$62,000,000
<u>Parks & Community Facilities</u>						
Community Centers/Emergency Shelters		\$500,000	\$1,000,000	\$3,500,000	\$5,500,000	\$10,500,000
Total Parks & Community Facilities		\$500,000	\$1,000,000	\$3,500,000	\$5,500,000	\$10,500,000
Total Measure T	\$154,200,000	\$85,700,000	\$135,100,000	\$103,000,000	\$50,000,000	\$528,000,000

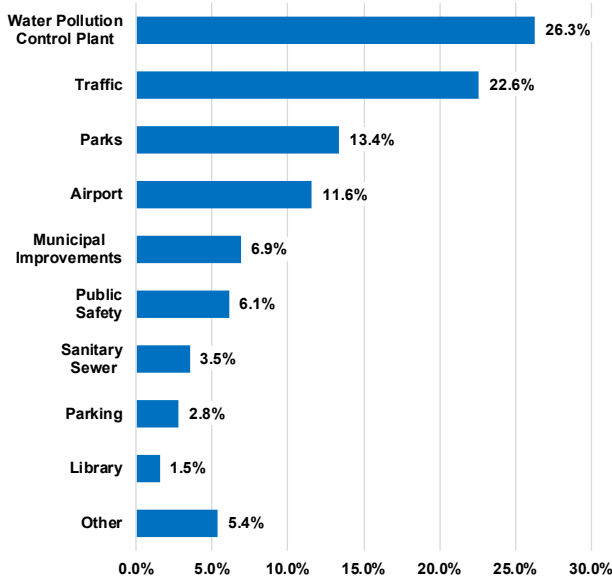
The amounts above reflect the investment levels and categories previously reported to and approved by the City Council. Though the Administration has moved quickly to begin work on the Measure T program, given its early stage of development, the exact cost and phasing of the projects may shift in the coming years. Work in 2019-2020 will focus on ensuring that the right staffing teams are in place to deliver this program, defining and refining project scopes, and acquiring property for sites such as the new and relocated fire stations, the Police Training Center, and open space for flood protection and mitigation. It is important to note that the Public Safety Program Reserve of \$36.4 million includes an upgraded 9-1-1 Call Center and Police Headquarter infrastructure needs, and provides a contingency for other projects. This reserve will be allocated as project scopes are further refined. The 2019-2020 Adopted Operating Budget includes staffing to deliver and coordinate the Measure T program, including direct project design, construction management, and inspection staffing of 21 full-time equivalent positions.

Capital Budget Overview

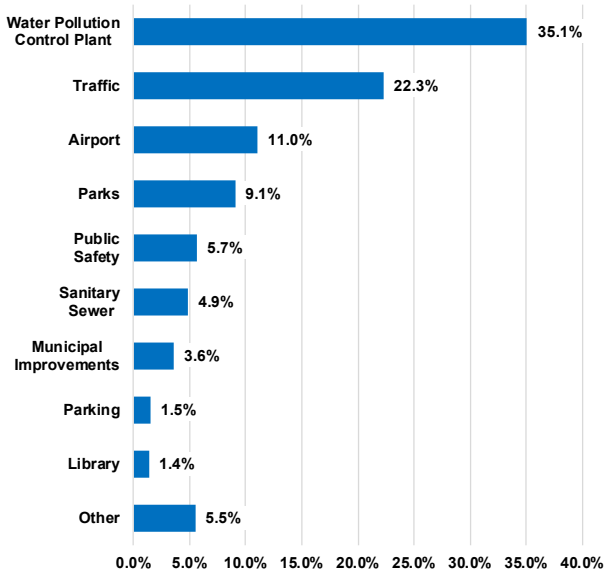
Capital Program Investments

The CIP consists of 14 capital programs. The following charts depict the uses of funds by capital program and percentage of funding for the 2019-2020 Capital Budget and the 2020-2024 Capital Improvement Program. Major projects to be completed over the next five years are highlighted in the sidebar.

**2019-2020 Capital Budget
Use of Funds (\$1.5 billion)**



**2020-2024 Capital Improvement Program
Use of Funds (\$4.0 billion)**



Major Projects to be Completed Over the Next Five Years

2019-2020 Projects

- Alviso Pump Station
- Arcadia Softball Facility
- Environmental Protection Projects
- Bridges (FY20-FY24)
- Street Repairs (FY20-FY24)
- Aircraft Rescue and Fire Fighting Facility
- Terminal A Baggage Claim Carousels
- PAB/PAC Phase I Elevator Modernization
- Tech Museum Improvements and Repairs
- 2017 Flood Event Projects
- Rotary Playgarden Phase II

2020-2021 Projects

- 60-inch Brick Interceptor, Ph. VIA & VIB
- Fire Facilities Remediation
- Terminal Accessibility Upgrades
- Trail: Coyote Creek (Story Rd. to Tully Rd.)
- Emma Prusch All-Inclusive Playground
- Plant: Energy Generation Improvements
- PAL Stadium Turf Replacement

2021-2022 Projects

- Fire Station 37
- Ramac Park Turf Replacement
- City Facilities LED Lighting
- Technology Dr. Sewer Improvements
- LED Streetlight Conversion

2022-2023 Projects

- Fire Station 8 Relocation
- Fire Station 23 Relocation
- Police Training Center Relocation
- Police Air Support Unit Hangar
- Plant: Digested Sludge Dewatering Facility
- Plant: New Headworks
- Terminal A Parking Garage Sprinkler System

2023-2024 Projects

- New Fire Station 32
- New Fire Station 36
- Emergency Operations Center Relocation
- Charcot Pump Station
- Clean Water Projects
- Stockton-Cinnabar & Stockton-Taylor Storm Drain System Improvement

Capital Budget Overview

Capital Program Investments

In the 2020-2024 Adopted CIP, capital program investments fund infrastructure improvements throughout the City including: airport, community centers, libraries, municipal water systems, public safety facilities, parks, sanitary and storm sewer systems, transportation systems, and the Water Pollution Control Plant (WPCP).

Accounting for 35.4% of the 2020-2024 Adopted CIP, the Plant CIP is the largest capital program. A total of \$1.39 billion will be directed to renovate and upgrade the Plant infrastructure to ensure capacity and reliability of treatment plant processes. This work is guided by the Plant Master Plan (PMP) and includes anticipated wastewater revenue note utilization (\$340.0 million) and bond issuances (\$385.0 million) over the next five years. The PMP recommends an estimated investment of approximately \$2.0 billion over a 30-year planning period to implement more than 114 capital improvement projects to perform long-term rehabilitation and modernization and address future regulatory requirements and capacity needs. Priorities for the near-term include obtaining short- and long-term financing for San José, continuing to prioritize and program projects, and managing project risks and variables.

The Traffic Capital Program is the second largest program, or 22.3% of the CIP, with a budget of \$883.2 million. The mission of the Traffic Capital Program is to implement a safe, efficient, and environmentally sensitive surface transportation system consistent with the goals and policies of the City's General Plan. The 2020-2024 Adopted CIP includes continued investment in street and pedestrian safety, pavement maintenance, and traffic management, while also leveraging grant resources to implement local multimodal projects and support the planning and delivery of major regional projects including BART Phase II, High Speed Rail, an expanded and redeveloped Diridon Station, Caltrain Modernization, and Highway Interchanges, as well as fulfilling the transportation-related economic development obligations of the former San José Redevelopment Agency (SJRA). Resources invested in the Traffic CIP also fund staff activities to ensure the projects are planned, funded, and delivered in a way that aligns with the City's interests.

Passage of the \$650 million Measure T – Disaster Preparedness, Public Safety, and Infrastructure Bond (Measure T Bond) in November 2018 will provide a significant influx of funding for traffic infrastructure. The ballot measure directed at least \$300 million to repave streets in the worst condition, of which \$220.5 million is allocated in the Adopted CIP, with the remaining amount to be allocated outside the five-year horizon. Additional Measure T funding for transportation infrastructure over the next five years includes \$20.0 million to leverage grant funding for the seismic retrofit of bridge overpasses and \$13.0 million for Light Emitting Diode (LED) streetlight conversion.

Additionally, the Parks and Community Facilities Development Program is continuing to focus to complete the capital projects that rehabilitate City parks and recreation facilities damaged by the January and February 2017 flood events. The CIP also incorporates Measure T Disaster Preparedness, Public Safety, and Infrastructure Bond funds to upgrade community centers to support emergency/disaster response. In addition, the CIP includes projects funded by Coleman Property

Capital Budget Overview

sale proceeds. On March 26, 2019, the City Council approved the Actions Related to the Use of Funds from Sale of the Coleman Avenue Property memorandum and directed the Administration to bring forward an option for using \$15 million of the unrestricted property sale proceeds to help address the unfunded parks maintenance backlog. In the 2019-2020 Adopted Budget, a total General Fund allocation of \$13.5 million from the Coleman property sale proceeds is recommended to address parks infrastructure needs, including \$10.5 million in the Adopted Capital Budget and \$3.0 million in the Adopted Operating Budget. The capital projects primarily focus on infrastructure backlog needs, including sports field turf replacements (\$5.7 million), playground and/or tot lot replacements throughout the City (\$1.65 million), re-use facility improvements (\$1.0 million), regional park improvements (\$500,000), trail improvements (\$550,000), other improvements (\$800,000), and the Parks Rehabilitation and Capital Infrastructure Strike Team (\$350,000). The \$3.0 million in the Adopted Operating Budget includes funding for pest management (\$836,000), reserved funding for the Parks Rehabilitation Strike and Capital Infrastructure Team for 2020-2021 (\$1.5 million) and funding to support the Re-Use Program (\$642,000). The remaining balance of \$1.5 million has been used to address other priority General Fund needs in the 2019-2020 Adopted Budget. Additional funding of \$4.7 million from the Coleman property sale proceeds were transferred to the Parks and Recreation Bond Projects Fund in 2018-2019 to be spent on bond-eligible projects based on an analysis from the City's bond counsel.

Operating Budget Impacts

The 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.

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 capital improvement projects with new General Fund operating and maintenance costs will be 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 Fire Station 37 (\$4.1 million), the Police Training Center (\$2.4 million), and the subsequent activation of the South San José Police Substation (\$3.0 million) will be brought forward for City Council certification as part of a future budget process, as these projects are expected to come online over the next five years. Annual costs for other Measure T projects will be brought forward as part of future budget processes once their scope has been refined.

2019-2020 ADOPTED OPERATING BUDGET MESSAGE

Capital Budget Overview

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 Title	2020-2021	2021-2022	2022-2023	2023-2024
Parks Facilities	\$743,000	\$ 1,110,000	\$ 1,410,000	\$ 1,598,000
Public Safety Facilities	2,685,000	7,380,000	9,661,000	9,951,000
Traffic Projects	75,000	117,000	148,000	170,000
General Fund Total	\$ 3,503,000	\$ 8,607,000	\$ 11,219,000	\$ 11,719,000
Water Pollution Control Plant (Special Fund)	1,283,000	2,214,000	10,238,000	14,633,000
All Funds Total	\$ 4,786,000	\$ 10,821,000	\$ 21,457,000	\$ 26,352,000

For the General Fund, these costs are estimated at \$3.5 million in 2020-2021 and are anticipated to increase to \$11.7 million by 2023-2024. These figures do not include the funding needed in 2019-2020 to operate and maintain new facilities as these amounts have been incorporated into the 2019-2020 Adopted Operating Budget. The Public Safety facilities include new Fire Station 37 and the Police Training Facility as well as the full activation of the Police Substation.

In addition, the expanded infrastructure investment at the Water Pollution Control Plant will result in significant operating costs in the coming years. It is estimated that additional maintenance and operations costs will total \$1.3 million starting in 2020-2021, largely due to completion of large projects such as the Digester and Thickener Facilities Upgrade project. In 2023-2024, the additional operating costs at the Plant are expected to increase to \$14.6 million as the Digested Sludge Dewatering Facility is expected to come online and replace the existing sludge storage lagoons.

Conclusion

This 2019-2020 Adopted Budget reflects the continuing effort by the Mayor, City Council, and the Administration to develop a balanced budget that meets priority community goals with the City's limited resources. Investments are included in this budget to continue and enhance programs to the community, focus resources to high-need areas, address 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 and June Budget Messages for Fiscal Year 2019-2020, as approved by the City Council.

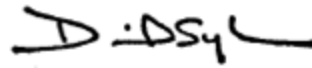
2019-2020 ADOPTED OPERATING BUDGET MESSAGE

Conclusion

Our continuing commitment to budget discipline and long-term fiscal sustainability remains essential as the City's 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.

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".

David Sykes
City Manager

2019-2020 Adopted Operating Budget

2019-2020 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. Consider current needs in the context of long-term service delivery priorities.
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.
3. 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.
4. 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.
5. 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 2018-2019, and/or respond to City Council direction and organizational risks. Factor in performance measure data in the development of proposals.
6. 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).
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 changes or other budget balancing strategies.
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, and explore opportunities to establish new fees and charges for services, where appropriate.
12. 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 2018-2019 for which ongoing funding is not available; and/or 4) increase budget stabilization reserves to address future budget uncertainty.
13. Engage employees in department 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.

Source: 2019-2020 City Manager's Budget Request & 2020-2024 Five-Year Forecast, as approved by the Mayor's March Budget Message for Fiscal Year 2019-2020.

2019-2020 Adopted 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.

2019-2020 Adopted 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.