



2016-2017

OPERATING BUDGET

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

General Fund Balancing Strategy Detail

2016-2017 Proposed Operating Budget

INTRODUCTION

This attachment is intended to provide a more detailed summary of the key actions taken to balance the 2016-2017 Proposed General Fund Budget. Revisions to the February Base Budget Forecast, as well as the key elements of the strategy to bring the General Fund into balance in the Adopted Budget are described.

In February 2016, the Administration prepared formal projections for the 2016-2017 General Fund Budget as part of the *2016-2017 City Manager's Budget Request & 2017-2021 Five-Year Forecast and Revenue Projections* document that was presented to the City Council. The 2016-2017 February Base Budget Forecast projections in that document estimated a 2016-2017 General Fund surplus of approximately \$5.7 million (no Development Fee Program impact was assumed given that the four fee programs are designed to be set at 100% cost-recovery levels and will use their corresponding Reserves as necessary to remain in balance). This surplus represented the difference between projected 2016-2017 General Fund resources and the expected cost of approved 2016-2017 Base Budget services in next year's dollars, as well as several City Council "committed" additions (e.g., additional operating and maintenance costs for capital projects in the 2016-2020 Capital Improvement Program or for projects approved by the City Council during 2015-2016).

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

The revisions to the February Base Budget Forecast included a series of changes that produced an increase in both overall General Fund sources and uses. These changes resulted in an increase of \$1.2 million to the estimated General Fund surplus, resulting in a \$6.9 million surplus (no Development Fee Program impact assumed). This is the amount that is addressed by the Proposed Budget balancing plan. These adjustments to the February Base Budget Forecast are described in more detail later in this section.

The Proposed Budget contains a set of recommended actions that increase both the General Fund sources (by \$43.3 million), and uses (by \$50.2 million) from the Revised Base Budget Forecast, bringing the overall General Fund into balance for 2016-2017. The increase in sources of \$43.3 million includes several major components: a higher Beginning Fund Balance of \$38.7 million, of which \$16.7 million reflects additional one-time Sales Tax and Property Tax revenue and \$15.0 million reflects the liquidation of various earmarked reserves for specific services; an increase in Grants, Reimbursements, and Fees of \$3.4 million; and other revenue changes of \$1.1 million.

The increase in uses of \$50.2 million in 2016-2017 includes additional funding for the following: service level enhancements (\$14.6 million); a number of critical unmet/deferred infrastructure and maintenance needs (\$10.9 million); continuation of 2015-2016 one-time funded services (\$9.1 million); earmarked reserves (\$7.5 million); development fee program as well as other fee, grants and reimbursements (\$5.7 million); funding for the 2017-2018 Future Deficit Reserve (\$4.1 million); and

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INTRODUCTION

other increases (\$1.8 million). These increases are partially offset by savings realized from the use of reserves that had been established for specific purposes (\$2.7 million) that were included in the February Forecast and miscellaneous cost reductions/service delivery efficiencies/funding shifts to other funds (\$1.1 million). The result of these actions is a balanced 2016-2017 General Fund Proposed Budget of \$1.1 billion.

Table I below displays the overall projections for the 2016-2017 General Fund as they changed between the February Base Budget Forecast and the Proposed Budget. Table II summarizes the changes from the February Base Budget Forecast to the Revised Base Budget Forecast. The specific elements of the City Manager's Proposed Budget balancing strategy are summarized in Table III.

Table I
2016-2017 PROPOSED OPERATING BUDGET
Forecast To Proposed Budget Reconciliation (in \$000s)

	Total Sources	Total Uses	(Shortfall)/ Surplus
February Base Budget Forecast	\$ 1,046,159	\$ 1,040,502	\$ 5,657
Forecast Revisions	773	(505)	1,278
Revised Base Budget Forecast (no fee impact)	1,046,932	1,039,997	6,935
Proposed Revisions	43,251	50,186	(6,935)
2016-2017 Proposed Budget	1,090,183	1,090,183	\$ 0

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REVISED BASE BUDGET FORECAST

As discussed previously, following the issuance of the February Base Budget Forecast, detailed analysis of the status of General Fund revenues and expenditures continued. Based on this review, the Proposed Budget incorporates a series of changes to the February Base Budget Forecast estimates for both sources and uses to form a Revised Base Budget Forecast. This Revised Base Budget Forecast results in a revised surplus estimate of \$6.9 million, an increase of \$1.2 million from the \$5.7 million surplus in the February Base Budget Forecast. Changes are detailed in Table II below.

Table II
2016-2017 REVISED BASE BUDGET FORECAST
Summary of Changes (in \$000s)

Sources	Revision
Sales Tax	\$ 500
Departmental Charges	454
Business Taxes	350
Other Revenue	300
Revenue from the State of California	178
Revenue from Federal Government	88
Overhead Adjustments	(912)
Licenses and Permits	(185)
Net Change in Sources	\$ 773

Uses	Revision
Non-Personal/Equipment and City-Wide Expenses	\$ 298
PBCE Neighborhood Cleanup Shift to Integrated Waste Management Fund	(786)
Position and Fund Realignments	(17)
Net Change in Uses	\$ (505)

Total Change (Shortfall)/Surplus	\$ 1,278
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REVISED BASE BUDGET FORECAST

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

Sales Tax

- An increase of \$500,000 to the General Sales Tax revenue estimate (\$194.2 million to \$194.7 million) reflects higher than anticipated collections for the second quarter of 2015-2016, providing a higher base starting point for which to apply next year's anticipated growth.

Departmental Charges

- An increase of \$270,000 aligns the Solid Waste Enforcement Fee program revenues to program costs to program maintain 100% cost recovery levels.
- An increase of \$124,000 to the Parks, Recreation and Neighborhood Services Departmental Charges aligns revenues with estimated 2016-2017 activity levels at the Happy Hollow Park and Zoo.
- An increase of \$60,000 to the Department of Transportation fees and charges to reflect fee revisions based on estimated 2016-2017 activity levels.

Business Taxes

- An increase of \$200,000 to the estimate for Disposal Facility Tax (\$12.0 million to \$12.2 million) adjusts the current collection trends experienced in 2015-2016, which has seen increased activity from neighboring agencies dumping in San José landfills, consistent with 2014-2015 actual collections.
- An increase of \$150,000 to the estimate for General Business Taxes (\$11.5 million to \$11.7 million) adjusts for current collection trends experienced in 2015-2016.

Other Revenue

- An increase of \$250,000 to the estimate for Senate Bill 90 reimbursements (\$500,000 to \$750,000) adjusts for current collection trends experienced in 2015-2016.
- An increase of \$50,000 reflects an increase in incentive payments from the City's procurement credit card (P-card) vendor.

Revenue from the State

- An increase of \$150,000 to the estimate for Tobacco Settlement (\$8.75 million to \$8.90 million) adjusts for current collection trends experienced in 2015-2016.
- An increase of \$28,000 recognizes a one-time grant from the California Department Conservation Sustainability Commission.

Revenue from the Federal Government

- An increase of \$88,000 recognizes a one-time grant received from the Metropolitan Transportation Commission.

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REVISED BASE BUDGET FORECAST

Licenses and Permits

- A decrease of \$179,000 to the Multiple Housing Occupancy Permits revenue estimate (from \$5.63 million to \$5.45 million) aligns program revenues to program costs to maintain 100% cost recovery levels.
- A net decrease of \$6,200 reflects the realignment of revenues for the Animal Care and Services licensing and permits (-\$5,800) and Auto Dismantler Permit (\$-400) based on current activity levels.

Transfers and Reimbursements

- A net decrease of \$912,000 reflects updated overhead reimbursements from capital funds and operating funds based on the Revised Base Budget Forecast and final 2016-2017 overhead rates as approved by the Finance Department.

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

- A net increase of \$298,000 reflects non-personal/equipment and City-Wide Expenses adjustments. This includes increases for the Police Department non-personal/equipment for sexual assaults testing (\$109,000) and support for domestic violence (\$18,000); Parks, Recreation and Neighborhood Services Department non-personal/equipment for graffiti abatement (\$75,000); various City Manager's Office non-personal/equipment adjustments (\$68,000) primarily for Outreach and Communication; and Information Technology Department non-personal/equipment for software maintenance agreements (\$38,000). These increases are offset by a reduction to Environmental Services Department non-personal/equipment for city facilities garbage costs (-\$10,000). In addition, the reallocation of banking services costs from City-Wide Expenses to Parks, Recreation and Neighborhood Services Department non-personal/equipment (\$100,000) is included to better align these costs with the services provided by the department.
- A decrease of \$786,000 to reflect the shift of neighborhood cleanup staffing from the General Fund to the Integrated Waste Management Fund. It has been determined that these costs are appropriate to be funded from this fund.
- A net decrease of \$17,000 reflects various position and fund realignments, including the reallocation of funding for positions to better align with work currently performed, and various funding corrections/adjustments based on updated information. In addition, the net-zero reallocation of the Management Pay for Performance Program from department budgets to the Salaries and Benefits Reserve (\$1.5 million) is included.

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As summarized in Table III, the Administration's budget balancing strategy allocated a \$6.9 million General Fund surplus, which resulted in a balanced 2016-2017 General Fund Proposed Budget totaling \$1.1 billion.

PROPOSED BUDGET BALANCING STRATEGY

Table III
2016-2017 PROPOSED OPERATING BUDGET
General Fund Balancing Strategy (in \$000s)

	2016-2017	Ongoing
2016-2017 General Fund Surplus	\$ 6,935	\$ 6,935
Balance Strategy		
Source of Funds		
Beginning Fund Balance:		
Sales Tax – State Triple Flip Wind Down	\$ 12,100	\$ 0
2016-2017 Police Department Overtime Reserve	5,000	0
Police Department Vacancy Savings	5,000	0
Property Tax – Educational Revenue Augmentation Fund Excess	4,600	0
Development Fee Program Reserves	3,892	2,635
Cultural Facilities Capital Maintenance Reserve	3,708	0
Police Department Staffing/Operations Reserve	1,596	0
Employee Market Competitiveness Reserve	1,250	0
Staffing for Adequate Fire and Emerg. Resp. (SAFER) Grant Res	676	0
Other Revenue/Expenditure Savings/Reserve Liquidations	910	0
Grants/Reimbursements/Fees		
PRNS Fees (e.g., Comm. Ctr. Rentals and Progs. HHPZ, Leininger)	1,918	2,015
Medical Marijuana Regulatory Program	533	792
Library Fines and Fees	(135)	0
Other Fee Programs/Reimbursements/Grants	1,065	494
Overhead Reimbursements/Transfers from Other Funds	1,138	698
Subtotal Source of Funds	\$ 43,251	\$ 6,634
Use of Funds		
Service Level Enhancements	\$ 13,785	\$ 2,258
Unmet/Deferred Technology, Infrastructure, and Maintenance	10,948	195
2015-2016 One-Time Funded Services	9,104	88
Earmarked Reserves (e.g., Budget, Essential Services, SVRCS)	8,426	200
2017-2018 Future Deficit Reserve	4,131	6,935
Development Fee Programs	3,331	2,201
Other Fee Programs/Grants/Reimbursements	2,405	2,261
New Infrastructure/Equipment Operations and Maintenance	1,787	2,160
Use of Reserves (e.g., Cultural Facilities, Committed Add., Def. Maint.)	(2,664)	(2,154)
Cost Reductions/Service Delivery Efficiencies/Fund Shifts	(1,067)	(575)
Subtotal Use of Funds	\$ 50,186	\$ 13,569
Total Balancing Strategy	\$ (6,935)	\$ (6,935)
Remaining Balance	\$ 0	\$ 0

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PROPOSED BUDGET BALANCING STRATEGY

Specific City Council direction regarding the preparation of the Proposed Budget was provided in the Mayor's March Budget Message for Fiscal Year 2016-2017, as approved by the City Council (see Appendices Section of this document). The details of the specific direction of that Message and the corresponding responses contained in this budget are provided in Attachment B following this section in the City Manager's Message. Attachment C contains information regarding the status of City Auditor recommendations with funding impacts.

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

Source of Funds

From the Revised Forecast of \$1.047 billion, a net increase of \$43.2 million to the General Fund revenue estimates are recommended, bringing the 2016-2017 Proposed Budget revenue estimate to \$1.1 billion. The components of this increase include an increase to the estimate for 2015-2016 Ending Fund Balance/2016-2017 Beginning Fund Balance (\$38.7 million) and an increase to various revenue categories (\$4.5 million).

Beginning Fund Balance

An increase of \$38.7 million from the Revised Forecast is included bringing the estimated 2016-2017 Beginning Fund Balance from \$65.8 million to \$104.6 million to reflect the following:

- Additional anticipated fund balance of \$22.4 million from increased expectations for additional revenue and expenditure savings in 2015-2016 that will be available for use in 2016-2017 including: One-time Sales Tax payment of \$12.1 million as a result of the wind-down of the "Triple Flip"¹, \$5.0 million in personal services savings that will be realized in the Police Department due to continued departmental vacancies, additional Property Tax of \$4.6 million for the distribution of excess 2014-2015 Education Revenue Augmentation Fund (ERAF) funds that are anticipated in 2015-2016, and \$750,000 in other miscellaneous departmental vacancy savings.
- Liquidation of various reserves totaling \$16.3 million including: \$5.0 million 2016-2017 Police Department Overtime Reserve, \$3.9 million Development Fee Program Reserves, \$3.7 million Cultural Facilities Capital Maintenance Reserve, \$1.6 million Police Department Staffing/Operations Reserve, \$1.3 million Employee Market Competitiveness Reserve, \$676,000 Staffing for Adequate Fire and Emergency Response (SAFER) 2014 Grant Reserve, \$110,000

¹ As part of the Proposition 57 State fiscal recovery funding mechanism (passed by the voters in march 2004), one-quarter cent of the City's one cent Bradley Burns sales tax has been temporarily suspended and replaced dollar-for-dollar with property tax revenue. This action, which went into effect on July 1, 2004, remains in effect until the State's bond obligations have been satisfied.

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PROPOSED BUDGET BALANCING STRATEGY

Source of Funds

Beginning Fund Balance

2016-2017 Long Range Planning Project Staffing Reserve, and \$50,000 Retiree Healthcare Solutions Reserve.

Departmental Charges

- An increase of \$1.9 million to the Parks, Recreation and Neighborhood Services Department Charges aligns revenues with estimated 2016-2017 activity levels. The increase primarily reflects a net increase of \$1.6 million in the fee activity program revenues that was required to add positions in the Proposed Budget to realign actual program FTE usage. Additional adjustments include: a \$236,000 increase in facility rental activities; a \$92,000 increase in Happy Hollow Park and Zoo revenues for increased activities and costs; and increase of \$40,000 for Viva Calle fees; and a one-time reduction of (\$30,000) in Alum Rock parking permits for a pilot parking program.
- An increase of \$45,000 in the Police Department fees and charges reflects various fee revisions to improve cost recovery costs.
- An increase of \$27,000 to the Transportation Department fees and charges reflects various fee revisions to maintain 100% cost recovery levels.
- An increase of \$24,000 aligns the Abandoned Cart Program Fee revenues to program costs to maintain 100% cost recovery levels.
- An increase of \$8,000 aligns the Solid Waste Enforcement Fee program revenues to program costs to maintain 100% cost recovery levels.
- An increase of \$2,800 in the City Clerk's Office fees to program costs to maintain 100% cost recovery levels.
- A decrease of (\$132,000) to the Library Department fees and charges reflect various fee and fine revisions as recommended in this budget.

Transfers and Reimbursements

- A one-time transfer of \$150,000 from various special and capital funds for the Human Resources/Payroll/Budget Systems upgrade to cover a portion of the additional \$500,000 added

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PROPOSED BUDGET BALANCING STRATEGY

Source of Funds

Transfers and Reimbursements

to the project in the 2016-2017 Proposed Budget for additional project contingency to help ensure the project remains on schedule and meets anticipated “go-live” dates.

- A one-time transfer of \$140,000 from the General Purpose Parking Fund to continue the coordination and development of the Diridon Station Area Plan, as approved by the City Council on June 17, 2014.
- A net increase of \$848,000 (\$698,000 ongoing) in anticipated overhead reimbursements reflecting the impact of various budget actions in the 2016-2017 Proposed Budget that change the staffing levels funded by special and capital funds.

Licenses and Permits

- An increase of \$533,000 aligns the Medical Marijuana program revenues to program costs to maintain 100% cost recovery levels beginning January 1, 2017.
- An increase of \$185,000 reflects adjustments to the three-tier program for Multiple Housing Occupancy Permits and slightly increased costs associated with the addition of mobile devices for Inspectors.
- An increase of \$130,000 to the Police Department permits reflects various fee revisions to improve cost recovery levels.
- An increase of \$57,000 aligns Fire non-development permits revenues to program costs to maintain 100% cost recovery levels.
- An increase of \$30,000 adjusts various Code Fees to maintain 100% cost recovery.
- An increase of \$4,000 adjusts the Transportation Department Taxi Stand fee to maintain 100% cost recovery.

Revenue from the State of California

- A one-time increase of \$212,000 reflects the estimated reimbursement from the California High Speed Rail to continue the coordination and development of the Diridon Station Area Plan.

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PROPOSED BUDGET BALANCING STRATEGY

Source of Funds

Revenue from the State of California

- A one-time increase of \$72,000 reflects the estimated reimbursement from the Strategic Growth Council for urban village master planning and zoning revisions for East Santa Clara Street and Alum Rock Avenue.

Revenue from the Federal Government

- A one-time increase of \$228,000 reflects the estimated reimbursement from the Metropolitan Transportation Commission to develop plans for several urban villages.

Other Revenue

- An increase of \$18,000 for the estimated reimbursement from the Christmas in the Park Foundations for part-time City staff hours to transport props to and from the City warehouse.
- A decrease of \$1,900 for Department of Transportation new subdivision traffic control signs and pavement markings revenues reflects fee adjustments to maintain 100% cost recovery levels.

Franchise Fees

- An increase of \$13,000 reflects an increase in the Commercial Solid Waste (CSW) fees by 0.12% based on the projected change in the consumer price index (CPI). In October 2010, the City Council amended the CSW fee to charge franchises based on geographic collection districts rather than volume. The fee structure started with a base of \$5.0 million per year for each of the two geographic collection districts plus a supplemental fee of \$1.0 million for the right to conduct CSW services in both the North District and South District. The revised structure is subject to an annual increase based on the percentage change in the annual CPI rate during the prior two calendar years.

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PROPOSED BUDGET BALANCING STRATEGY

Use of Funds

From the Revised Base Budget Forecast of \$1.04 Billion, a net increase of \$50.2 million to the General Fund expenditures are recommended, bringing the 2016-2017 Proposed Budget Use of Funds estimate to \$1.1 billion. A listing of the Proposed Budget modifications is provided by specific categories in Table III and briefly discussed in the following pages. Further detail is incorporated into the CSA and departmental sections of this document.

Service Level Enhancements

Total funding of \$13.8 million is included in the Proposed Budget for service level enhancements. The largest investments include funding for General Liability Claims (\$5.0 million), San José Stage Company (\$1.0 million), Office of Emergency Services (\$696,000), Civic Innovation (\$652,000) and a Master Address Database (\$607,000). Other service level enhancements are included and described in the Department Section of this document.

Unmet/Deferred Technology, Infrastructure and Maintenance

To address a small portion of the backlog for unmet and deferred infrastructure and maintenance needs, funding of \$10.9 million is included in the Proposed Budget for the City's most urgent repair needs and includes the following: City Hall HVAC Controls (\$5.0 million), cultural facilities capital maintenance (\$845,000), Animal Shelter improvements (\$460,000) and other municipal facilities improvements (\$1.9 million); Information Technology Department infrastructure (\$1.6 million) for network, server, fiber connectivity, and Windows 10 desktop upgrades; Finance Department FMS and Human Resources/Payroll/Budget Systems upgrades (\$560,000); and Police Department technology enhancements (\$546,000).

2015-2016 One-Time Funded Services

Funding was included to continue services that were funded on a one-time basis in the 2015-2016 Adopted Budget. This includes funding for the Police Department overtime and downtown foot patrol (\$5.6 million), San José Works (\$1.5 million), Human Resources staffing (\$397,000), Sports Authority (\$350,000), Office of Immigrant Affairs (\$250,000), Economic Development pre-development activities (\$200,000), business development and economic strategy (\$200,000), manufacturing jobs initiative (\$200,000), and other programs (\$382,000).

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PROPOSED BUDGET BALANCING STRATEGY

Use of Funds

Earmarked Reserves

One-time Earmarked Reserves, totaling \$8.4 million is included in the Proposed Budget. This includes funding for the following: Essential Services Reserve (\$2.5 million), Budget Stabilization Reserve (\$2.5 million), Silicon Valley Regional Communications System Reserve (\$1.4 million), Contingency Reserve (\$1.0 million), Airport Attraction Reserve (\$850,000), and Intergovernmental Relations Reserve (\$200,000).

2017-2018 Future Deficit Reserve

This action establishes the 2017-2018 Future Deficit Reserve of \$4.1 million (and \$6.9 million ongoing). The 2017-2021 General Fund Forecast that was issued in February 2016 projected an ongoing \$11.1 million shortfall for 2017-2018. This reserve is recommended to be set aside to address this shortfall.

Development Fee Programs

The Proposed Budget includes approximately 18 positions and \$3.3 million of new resources in the Development Fee Programs (Building, Planning, Public Works, and Fire) to meet increased development services activities as described in detail in the Community and Economic Development City Service Area and respective department sections.

Other Fee Programs/Grants/Reimbursements

The actions in this category primarily includes funding for the Parks, Recreation and Neighborhood Services Department (\$1.8 million) to reflect actual fee activity that was required to add positions in the Proposed Budget to realign actual program FTE usage, Planning, Building and Code Enforcement Department (\$417,000) for medical marijuana, code enforcement, and other fee activities, Police Department (\$222,000) for medical marijuana regulatory staffing, and Fire Department (\$57,000) to support non-development related fee activities. These additional resources are offset by fee, grant or reimbursement revenues.

New Infrastructure/Equipment Operations and Maintenance

The Proposed Budget includes \$1.8 million to fund Police Department Body Worn Camera Program (\$1.2 million), new parks and recreation facilities (\$354,000), transportation infrastructure (\$199,000), and Library Department Mobile Maker[Space]ship Vehicle operations and maintenance (\$11,000).

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PROPOSED BUDGET BALANCING STRATEGY

Use of Funds

Use of Reserves

The Proposed Budget includes the use or elimination of reserves established in the February Forecast to cover additional costs to operate and maintain new technology or facilities that are scheduled to become operational in 2016-2017 (\$1.9 million), and a reserve (\$800,000) set aside in the February Forecast to fund critical capital maintenance or address urgent technology.

Cost Reductions/Service Delivery Efficiencies/Fund Shifts

Savings in this category (\$1.1 million) primarily include the shift of City Attorney's Office staffing for Municipal Water System litigation (\$401,000), reduction of Successor Agency City subsidy (\$175,000) and a funding shift of resources in the Parks, Recreation and Neighborhood Services Department (\$150,000).

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