

September 19, 2017

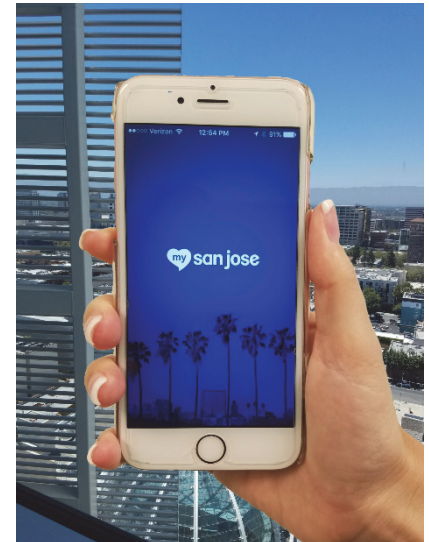
Honorable Mayor and City Council:

The 2017-2018 Adopted Operating Budget is a balanced budget that continues efforts to address the highest priority community and organizational needs while maintaining budget stability. This budget follows the direction provided by the Mayor and City Council with the adoption of the Mayor's March and June Budget Messages for Fiscal Year 2017-2018, incorporating the priorities and investments identified in those messages. It also considers other City Council priorities, recent community outreach and surveys, other departmental and organizational priorities, and forecasts for future revenues and expenditures.

The General Fund 2018-2022 Five-Year Forecast was used as the starting point in the development of the 2017-2018 Adopted Budget. For the General Fund, a shortfall of \$10.0 million was projected for 2017-2018 and was addressed in the Adopted Budget. This shortfall was followed by four years of additional incremental shortfalls, ranging from \$11.5 million to \$34.8 million annually. Given this challenging fiscal outlook for the City's budget and the potential risk of lower than forecasted economic growth rates, the City Council direction to focus on targeted, strategic spending as well as savings to address future shortfalls helps ensure the highest priority needs of the community are met in a fiscally responsible manner.

This budget takes a multi-year approach with one-time funding set aside in 2017-2018 to address a portion of the projected General Fund shortfall in 2018-2019. It also holds the line with a limited number of new additions in strategically important areas. It maintains existing service levels, enhances service delivery in limited areas, invests in our infrastructure, and avoids service cuts. The City will also continue to seek out innovative ways to efficiently deliver services with the available resources, and to pursue creative opportunities to work with other public and private organizations to leverage our limited resources and achieve 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.



2017-2018 ADOPTED OPERATING BUDGET MESSAGE

Total Adopted Budget

In the 2017-2018 Adopted Budget, the total net funding is \$3.5 billion for all City funds (General, Special, and Capital). This is \$288 million (9.0%) above the 2016-2017 Adopted Budget (Table 1 below). The increase reflects growth in both the Operating Funds (General Fund and Special Funds) and Capital Funds.

2017-2018 Adopted Budget — All Funds (Table 1)			
	2016-2017 Adopted	2017-2018 Adopted	% Change
General Fund	\$ 1,271,288,298	\$ 1,316,410,518	3.5%
Special Funds	1,735,677,755	1,869,765,688	7.7%
<Less: Operating Transfers>	(658,108,714)	(675,799,795)	2.7%
Net Operating Funds	2,348,857,339	2,510,376,411	6.9%
Capital Funds	878,413,605	1,002,738,910	14.2%
<Less: Capital Transfers>	(11,123,000)	(8,957,000)	(19.5%)
Net Capital Funds	867,290,605	993,781,910	12.7%
Total	\$ 3,216,147,944	\$ 3,504,158,321	9.0%

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 2016-2017, and limited enhancements to other critical services. Overall, the level of staffing will increase by a net 91 positions (a total of 48 positions are one-time funded), from 6,159 full-time equivalent positions in the 2016-2017 Adopted Budget to 6,250 positions in the 2017-2018 Adopted Budget, as shown in Table 2 below. This 1.5% increase still leaves City staffing well below its peak of almost 7,500 positions in 2001-2002.

Changes in Position Count (All Funds) from 2016-2017 Adopted to 2017-2018 Adopted Budget (Table 2)	
2016-2017 Adopted Budget	6,159 positions
2017-2018 Base Budget Changes	22 positions
2017-2018 Adopted Budget Changes – General Fund	(13 positions)
2017-2018 Adopted Budget Changes – General Fund (offset by revenues, reimbursements, or net-zero shifts)	39 positions
2017-2018 Adopted Budget Changes – Other Funds	43 positions
Total Net Position Changes	91 positions
2017-2018 Adopted Budget	6,250 positions

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Program-Level Budgeting

Complementing the City's performance-based core service-level budgeting, the 2017-2018 Adopted Budget introduces program-level budgeting that provides a lower level of detail under each of the City's core services. This move to program budgeting is in line with the direction provided in the Mayor's March Budget Message for Fiscal Year 2015-2016, as approved by the City Council, to incorporate this change with the implementation of a new budget system. Program budgeting is designed to provide more transparency, enhance decision making, and serve as a more effective tool for department staff to manage their budgets.

Following are specific goals and outcomes associated with program-level budgeting.

- ✓ Allows the City Council and the public to "lift the hood" and have a more in-depth knowledge of how City resources are used.
- ✓ Aligns the budget with how departments manage their resources.
- ✓ Provides program managers with tools to manage their budgets and understand the resources associated with particular programs.
- ✓ Allows decision makers to have a clearer understanding of the base level of services offered by the City and the resources allocated to delivering those programs. Currently, this information is provided only at the core service level.

To develop these programs, departments underwent an extensive analysis with the City Manager's Budget Office. Through a collaborative process, departments developed departmental program maps, evaluated existing core services, and restructured the financial management system to align the account codes to the new programs. It is anticipated that these programs will be refined over the next few budget cycles.

The programs for each department are summarized in the Department Budget Summary, Dollars by Program in the City Departments section of this document. A complete mapping of the programs to core services, city service areas, and departments can be found in the Budget Guide section of this document.

General Fund Budget Forecast

In February 2017, the Administration released the 2018-2022 Five-Year Forecast to project the condition of the General Fund and selected Capital Funds over the next five years. During this period, relatively small General Fund shortfalls are projected each year as shown in Table 3 below. These variances represent 0.5% - 1.5% of the projected General Fund budget (revenues and expenditures). As with any forecast, these variances could easily change in either direction in response to the economy, 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 financial situation. The shortfall projected for 2017-2018 was addressed in the 2017-2018 Adopted Budget.

General Fund Budget Forecast

2018-2022 General Fund Forecast Incremental Surplus/(Shortfall) (\$ in millions)¹ (Table 3)					
	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022
Incremental Surplus/(Shortfall)	(\$10.0 M) ²	(\$35.2 M) ³	(\$11.5 M)	(\$17.4 M)	(\$12.8 M)
% of Annual Budget (Revenues and Expenditures)	(0.6%)	(1.5%)	(0.5%)	(0.7%)	(0.5%)

- ¹ Does not include 1) costs associated with services that were funded on a one-time basis in 2016-2017; 2) costs associated with unmet/deferred infrastructure and maintenance needs; and 3) one-time revenue sources or expenditure needs. It should also be noted that no net impacts associated with the Development Fee Programs are included due to the cost-recovery nature of these programs.
- ² This figure was revised from the \$12.4 million shortfall presented in the February 2017 Forecast as a result of continued analysis of projected revenues and expenditures. The shortfall amount was addressed in the 2017-2018 Adopted Budget.
- ³ This figure was revised from the \$34.8 million shortfall presented in the February 2017 Forecast due to final actions required to balance the 2017-2018 Adopted Budget.

Balancing the General Fund Budget

As displayed in Table 4 on the following page, the 2017-2018 Adopted General Fund Budget Balancing Plan includes the approved actions that address a \$10.0 million shortfall in 2017-2018. Of this amount, \$9.6 million is solved with ongoing solutions, leaving an ongoing shortfall of \$416,000. With a multi-year approach, the 2017-2018 Adopted Budget sets aside \$9.2 million in a 2018-2019 Future Deficit Reserve to address a portion of the shortfall projected in that year. When the 2017-2018 Proposed Budget was developed, it was assumed that additional one-time and ongoing funding would be available as a result of the anticipated sale of the Hayes Mansion. At that time, \$15.0 million was earmarked for the 2018-2019 Future Deficit Reserve and \$5.0 million was available ongoing to address the 2018-2019 shortfall. However, with the sale not going forward at this time, the amount set aside in the 2018-2019 Future Deficit Reserve was reduced to \$9.2 million. With no ongoing funding unallocated in 2017-2018 to carry over to next year, the shortfall for 2018-2019 is now forecasted to total \$35.2 million as a result of these final actions.

Table 4 shows the matrix of balancing strategies and the dollars associated with each action. A complete discussion of the balancing strategies can be found in Attachment A and throughout the Adopted Budget. Attachment B also responds to the directives contained in the Mayor’s March Budget Message for Fiscal Year 2017-2018 that was approved by the City Council on March 28, 2017. Adopted Budget actions that respond to City Auditor recommendations requiring additional funding are described in Attachment C.

As discussed previously, in preparing the 2017-2018 Adopted Operating Budget, the Administration followed the direction provided in the Mayor’s March and June Budget Messages for Fiscal Year 2017-2018 as approved by the City Council, incorporating the priorities and investments identified in that message. It also considers other City Council priorities, recent community outreach and surveys, other 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 2017-2018 that were adopted by the City Council as part of the approval of the Mayor’s March Budget Message for Fiscal Year 2017-2018. Also, the Adopted

2017-2018 ADOPTED OPERATING BUDGET MESSAGE

Balancing the General Fund Budget

Budget was informed by the City Council-approved Guiding Principles for Restoring City Service Levels and the City-Council approved City of San José Budget Principles. These guidelines and principles are included in Exhibit 1 to this message.

2017-2018 Adopted Operating Budget General Fund Budget Balancing Plan (in 000's) (Table 4)		
	2017-2018	Ongoing
2017-2018 General Fund Shortfall	\$ (10,002)	\$ (10,002)
Balancing Strategy		
Source of Funds		
Beginning Fund Balance:		
Homeless Rapid Rehousing/Tiny Homes Rebudget	\$ 2,300	\$ 0
Cultural Facilities Capital Maintenance Reserve	1,975	0
Police Department Vacancy Savings	1,600	0
2017-2018 Future Deficit Reserve	1,419	0
Fire Station 37 Construction Rebudget	960	0
Other Revenue/Expenditure Savings/Rebudgets/Reserve Liquidations	4,364	0
Grants/Reimbursements/Fees		
Development Fee Programs	9,647	9,796
PRNS Fees (e.g. HHPZ, Lake Cunningham Bike Park)	1,291	1,338
Senior Nutrition Program	1,597	0
Other Non-Development Licenses and Permits	1,315	1,299
Other Fee Programs/Reimbursements/Grants	1,349	315
Other Revenue		
PERS Levy Litigation Settlement	12,900	0
Overhead Reimbursements/Transfers from Other Funds	2,371	1,100
Subtotal Source of Funds	\$ 43,088	\$ 13,848
Use of Funds		
2018-2019 Future Deficit Reserve	\$ 9,150	\$ 0
Development Fee Programs	9,505	9,203
Service Level Enhancements	12,437	4,374
2016-2017 One-Time Funded Services	6,523	535
Other Fee Programs/Grants/Reimbursements	4,978	2,458
Unmet/Deferred Technology, Infrastructure, and Maintenance	6,380	225
Earmarked Reserves (e.g. Essential Services, Air Service, etc.)	3,826	450
New Infrastructure/Equipment Operations and Maintenance	402	454
Cost Reductions/Service Delivery Efficiencies/Fund Shifts	(6,851)	(495)
Use of Reserves (e.g. Cultural Facilities, Committed Add., Deferred Maint.)	(13,264)	(12,942)
Subtotal Use of Funds	\$ 33,086	\$ 4,262
Total Balancing Strategy	\$ 10,002	\$ 9,586
Remaining Balance	\$ 0	(\$ 416)

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 \$1.3 billion General Fund budget and a \$2.5 billion total operating budget, only a small percentage is allocated to new actions. The overwhelming majority of the City’s limited resources are dedicated to the daily effort to serve and protect our community and the people of San José.

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

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

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



Key City Service Area Priorities

- 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.

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

- Operate and maintain the City's utilities – storm sewer, sanitary sewer, Plant, potable water, and recycled water – reliably and efficiently.
- Make strategic investments to increase service levels and maintenance activity on the City's Sanitary Sewer Collection System to reduce the number and mitigate the impacts of sanitary sewer overflows.
- Continue to invest in capacity and condition assessments for the sanitary sewer collection system to reduce sanitary sewer overflows and support economic development and build-out of the General Plan.
- Continue to meet NPDES wastewater and stormwater permit compliance.
- Implement the strategies outlined in the Clean Waterways, Healthy City: Long-Term Trash Load Reduction Plan in order to achieve the trash load reduction goals specified in the Stormwater Permit.
- Develop a Green Infrastructure Plan to effectively guide the City and development through the implementation of green infrastructure on private and public lands.
- Continue to partner with other agencies and pursue grants to promote energy efficiency and clean, renewable energy in the community and support pollution prevention programming.
- Continue to implement solid waste reduction programs to achieve Zero Waste by 2022.
- Create recycling infrastructure jobs in San José and support public/private partnerships through the processing of an additional thirty percent of the single-family garbage stream beginning in July 2017; this addresses the remaining single-family homes in the City.



Key City Service Area Priorities

- Increase awareness of proper disposal of bulky items through the expanded and unlimited large item collections included in residential garbage service rates.
- Implement a multi-departmental outreach and education effort to enhance neighborhood engagement as part of the City's efforts to combat illegal dumping, graffiti, litter, and other forms of neighborhood blight.
- Develop and implement the San José Environmental Sustainability Plan focused on energy, water, and mobility.
- Implement the San Jose Clean Energy Program with the establishment of the new Community Energy Department in 2017-2018.
- Implement reliability improvement projects to ensure optimum operation of existing South Bay Water Recycling Program infrastructure.

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

Cultivating healthy and resilient neighborhoods throughout San José:

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



Supporting engaged and informed residents:

- 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.
- 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.

Key City Service Area Priorities

Activating a thriving community:

- Provide clean, safe, and accessible parks, trails, and open space for the public to enjoy.
- 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 an affordable, sustainable, conservation-centered outdoor amusement park for families with children at Happy Hollow Park & Zoo.



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

- Offer inviting and well-maintained 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.

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:

- Provide effective and timely police and fire response to high-priority calls for service from the community in order to protect the safety, health, and property of San José residents and businesses.
- Enhance the use of data and analytics to increase the efficiency and effectiveness of police and fire staff, equipment, and systems to serve the community.



- Focus on community preparation through crime prevention, emergency preparation, and fire prevention to reduce the risk to life, health, and property in partnership with neighborhoods and businesses.
 - Focus on the recruitment and retention of qualified police officers and firefighters to meet authorized staffing levels.
- Continue to provide civilian oversight of the Police misconduct complaint process to ensure its fairness, thoroughness, and objectivity.

Key City Service Area Priorities

- Continue dialogue with the County of Santa Clara on delivery of Emergency Medical Service (EMS); conduct both a medical emergency transportation and Regional Fire and EMS Communications Center feasibility study and, if viable, develop implementation plans.
- Manage all-hazards response and recovery efforts through a multi-agency coordination system that includes the City's Emergency Operations Center.
- 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.
- Complete all State mandated and high risk building inspections.
- Implement the Fire Department Strategic Plan (Vision 2023 Plan).

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 Mineta San José International Airport in order to cost-effectively meet the needs and expectations of the residents and businesses of Silicon Valley, develop additional air service to connect our community with priority destinations, and ensure that the Airport continues to meet all appropriate safety and security requirements.
- Focus limited resources available for street and infrastructure maintenance on the highest priorities and facilities that have the greatest use and economic significance, and continue to seek additional resources through grants and partnerships.
- Continue efforts to protect lives and property of San José residents through safety engineering and education.
- Continue planning for future infrastructure needs to determine resource requirements, funding alternatives, and work in partnership with neighborhoods and the business community to achieve an appropriate balance of effort.



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:

- Deliver a wide range of financial services including: providing compensation and payments to City employees and vendors in a timely and accurate manner; producing legally required, compliance, and regulatory information and financial reports; managing multi-billion dollar debt and investment portfolios; managing accounts receivable and accounts payable for the City; ensuring a high degree of tax and revenue collection compliance through audits and reviews; and procuring goods and services pursuant to City Policies and Initiatives to support City operations in an open and competitive process.
- Attract and retain well-qualified City employees through effective and competitive recruitment and selection processes.
- Provide workers' compensation and employee safety services.
- Manage the City's benefits program.
- Ensure that the City's finance and technology systems are protected, upgraded, and aligned with the changing needs of government processes, community expectations, and City resources. Re-platform the City on current technologies that will sustain operations and innovation efforts, while also achieving better cost-to-performance city-wide.
- Address growing risks of cybercrime and cyber disasters and build ability to resume critical enterprise systems quickly should a disaster occur.
- Move Information Technology initiatives forward: achieve the San José Smart City Vision and Innovation and Technology Strategic Plan; provide a foundation for data enabled civic innovations through Open Data Communities Architecture and focus on business process automations to automate and accelerate decision-making city-wide; and build capacities to successfully execute IT initiatives and provide project management processes and training.
- Provide exceptional deskside and mobile support services to City employees. Be the primary point of contact for residents, City utilities customers, businesses, and employees through the Customer Contact Center.
- Oversee the City's capital projects to ensure on-time and on-budget delivery of facilities that meet the needs of both the community and City staff.
- Continue to maintain the City's buildings and other infrastructure to ensure a safe environment for the community and employees and maximize the functionality of the City's assets.
- "Greening" the City facilities and the City fleet.



2017-2018 ADOPTED OPERATING BUDGET MESSAGE

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 Message for Fiscal Year 2017-2018, as approved by the City Council, major actions included in the Adopted Operating Budget, across all funds, will focus on the following investment priorities:

- ✓ Public Safety and Disaster Preparedness
- ✓ Flood Recovery
- ✓ Investments that Produce Long-Term Savings, Revenues, and Efficiencies
- ✓ Investments that Leverage External Sources of Funding
- ✓ Investments Leveraging Community Energy and Volunteerism: #Beautify SJ
- ✓ Saving and Improving Fiscal Resiliency

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

Public Safety and Disaster Preparedness

Public safety remains a top priority of the City with approximately one-half of the General Fund dedicated to these services. Investments in this area continue to make progress in various public safety initiatives and police recruiting and hiring. Given the City's recent experience with the floods in February 2017, the 2017-2018 Adopted Budget targets investments to better prepare the City moving forward.

- Terminal and Safety Management Staffing (\$193,000)/Airport Department
- Disaster Cost Recovery Manual Update (\$100,000)/Finance Department
- Fire Non-Development Fee Program (Fire Prevention Inspection) (\$281,000)/Fire Department
- Office of Emergency Services Disaster Preparedness (\$265,000)/Fire Department
- Water Rescue (\$179,000)/Fire Department, Public Safety Capital Program
- Emergency Medical Services Service Delivery Model Analytical Support (\$150,000)/Fire Department
- Community Emergency Response Team Training Program (\$130,000)/Fire Department
- Emergency Medical Services Response Time Improvement Technology Staffing (\$109,000)/Fire Department
- Office of Emergency Services Analytical Staffing (\$83,000)/Fire Department
- Cybersecurity Office (\$478,000)/Information Technology Department
- Project Hope Program (\$108,000)/Parks, Recreation and Neighborhood Services Department
- Building Code Compliance Staffing (\$137,000)/Planning, Building, and Code Enforcement Department
- Massage Parlor Permit Enforcement Staffing (\$120,000)/Planning, Building, and Code Enforcement Department

Focused Approach to Address Priority Community and Organizational Needs

- Silicon Valley Regional Communication System Dispatch Consoles (\$4.0 million)/Public Works Department, Communications Capital Program
- Downtown Police Foot Patrol Program (\$500,000)/Police Department
- Police Department Recruiting Program (\$325,000 and net-zero shift of \$100,000)/Police Department
- Medical Marijuana Transport Tracking Devices (\$69,000)/Police Department
- Automated External Defibrillators (50 Patrol Cars) (\$40,000)/Police Department
- Police Department Backgrounding Temporary Staffing (\$0, net-zero shift of \$900,000)/Police Department
- Suspend Temporary Street Closure Permit Fees (Fourth of July) (reduce fees \$10,000)/Police Department, General Fund Revenue Estimates
- Walk n' Roll Staffing (\$271,000)/Transportation Department
- Pedestrian Safety and Neighborhood Traffic Calming Staffing (\$142,000)/Transportation Department
- Copper Wire Theft Staffing (\$83,000)/Transportation Department
- Hedding Complete Street and Safety Project (\$50,000)/Transportation Department, Traffic Capital Program
- Radar Signs/Foxworthy Avenue (\$30,000)/Transportation Department
- Pomona Avenue and Cottage Grove Safety Improvements (\$20,000)/Transportation Department, Traffic Capital Program

Flood Recovery

Several City Departments were instrumental in providing flood response assistance to our community, from the first responders who ensured that all residents were safely evacuated, to the staff that provided assistance in the weeks following the flood to provide shelter, remove debris, and assess damage, to those that are addressing long-term needs and issues. The 2017-2018 Adopted Budget includes investments in this area and staff will continue to address the many community, policy, and coordination issues that have arisen in the aftermath of the flood.

- City Damages and Costs (Capital funding addresses some of the most immediate needs)/Various Capital Programs
- Unfair Business Practices Legal Staffing (\$200,000)/Office of the City Attorney
- 2017 Flood-Building Permit and Inspection Fee Waivers (\$200,000)/City-Wide Expenses
- Coyote Creek Vegetation Removal (\$150,000)/City-Wide Expenses
- Rock Springs Landlord Incentive Program (\$300,000)/Housing Department
- Flood-Related Parks Capital Projects Manager (\$133,000)/Parks, Recreation and Neighborhood Services Department

Focused Approach to Address Priority Community and Organizational Needs

Investments that Produce Long-Term Savings, Revenues, and Efficiencies

Using almost any metric, the City is a lean organization with departments delivering services with less resources than other large cities of similar size as well as our neighboring communities. In this challenging fiscal landscape, the City will continue to evaluate operations to pursue better ways to deliver services to meet community needs as well as target investments that can generate long-term savings or potential revenues. This includes investing in our infrastructure given the escalation of costs as maintenance is deferred. The following actions are included in the 2017-2018 Adopted Budget:

- Remote Gate Shuttle Service (\$1.1 million)/Airport Department
- Airport Business Development Division Staffing (\$131,000)/Airport Department
- Planning Division Legal Transactions Staffing (\$106,000)/Office of the City Attorney
- Worker’s Compensation Legal Analyst Staffing (\$104,000)/Office of the City Attorney
- Planning and Environmental Services Legal Staffing (\$90,000)/Office of the City Attorney
- City Manager’s Budget Office Information Systems Staffing and Hyperion Budget System Phase II Implementation (\$476,000)/Office of the City Manager
- Business Development and Economic Strategy Activities (\$200,000)/City Manager-Office of Economic Development
- San José Regional Transportation Hub Project (\$1.2 million)/City-Wide Expenses, Planning, Building and Code Enforcement Department, Public Works Department, Transportation Department
- Storefront Activation Grant Program (\$250,000)/City-Wide Expenses
- Talent Recruitment Initiative (\$200,000)/City-Wide Expenses
- Cultural Events and Festivals – Secondary Employment (\$150,000)/City-Wide Expenses
- Single Family Dwelling Waste Materials Processing -Phase IV (\$4.7 million)/Environmental Services Department
- South Bay Water Recycling System Infrastructure Improvements (\$2.4 million)/Environmental Services Department
- Finance Department Information Systems Staffing (\$103,000)/Finance Department
- Request for Proposal Software (\$60,000)/Finance Department
- Development Fee Programs (Building, Fire, Planning, and Public Works) (\$1.6 million)/Fire Department, Planning, Building and Code Enforcement Department, and Public Works Department
- Workers’ Compensation Program Temporary Staffing (\$331,000)/Human Resources Department
- Human Resources Department Information Systems Staffing (\$103,000)/Human Resources Department
- Technology Equipment Replacement to Converged or Hyper-Converged Infrastructure (\$1.1 million)/Information Technology Department
- Portfolio and Project Management Office (net savings \$223,000)/Information Technology Department
- Library Technical Services Unit Materials Processing (\$108,000)/Library Department

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Focused Approach to Address Priority Community and Organizational Needs

- Leisure and Recreation of City Kids (ROCK) Programs (\$512,000)/Parks, Recreation and Neighborhood Services Department
- Happy Hollow Park and Zoo Corporate Rentals and Animal Staffing (\$494,000)/Parks, Recreation and Neighborhood Services Department
- Business Permit Process Improvement Bootcamp (\$200,000)/Planning, Building and Code Enforcement Department
- Policy and Ordinance Support Staffing (\$150,000)/Planning, Building and Code Enforcement Department
- Cultural Facilities Rehabilitation and Maintenance (\$9.4 million)/Public Works Department, Municipal Improvements Capital Program
- City Facilities Infrastructure and Deferred Maintenance (\$1.7 million)/Public Works Department, Municipal Improvements Capital Program
- Street Pavement Maintenance (\$71.1 million)/Transportation Department, Traffic Capital Program
- Special Assessment District Landscape and Infrastructure Projects (\$2.0 million)/Transportation Department
- Residential Parking Pilot Program (\$119,000)/Transportation Department

Investments that Leverage External Sources of Funding

Oftentimes, partnerships with other agencies and organizations can help stretch a dollar to expand the impact of limited funds. In the public sector, this is particularly important, as not only can more get done with less, but such relationships build the community. Several actions in the 2017-2018 Adopted Budget aim to leverage such external assistance to provide more to the City, including:

- Office of Immigrant Affairs (\$325,000); includes \$75,000 to support partner organizations/Office of the City Manager
- Homeless Rapid Rehousing Rebudget/Tiny Homes Project (\$2.3 million)/City-Wide Expenses
- San Jose Works: Youth Job Initiative (\$1.5 million)/City-Wide Expenses
- San José Learns (\$1.0 million)/City-Wide Expenses
- San Jose Sports Authority (\$500,000)/City-Wide Expenses
- Japantown Creative Center for the Arts Transportation Improvements (\$400,000)/City-Wide Expenses
- SJ Promise (\$150,000)/City-Wide Expenses
- Cinequest Film and Virtual Reality Festival (\$100,000)/City-Wide Expenses and Earmarked Reserves
- Clean-Slate Tattoo Removal Program (\$100,000)/City-Wide Expenses
- Family College Success Center (\$50,000)/City-Wide Expenses
- Silicon Valley Talent Partnership (\$50,000)/City-Wide Expenses
- Homeless Rapid Rehousing Funding Shift (-\$4.0 million)/City-Wide Expenses

Focused Approach to Address Priority Community and Organizational Needs

- San Jose Environmental Sustainability Plan Implementation Staffing (\$282,000)/Environmental Services Department
- Hunger at Home Program (\$100,000)/Housing Department
- Mayoral Fellows (\$270,000)/Mayor and City Council Offices
- Senior Nutrition Program (\$1.6 million, County funded)/Parks, Recreation and Neighborhood Services Department
- Placemaking and Parks Activation (\$774,000, partially revenue offset)/Parks, Recreation and Neighborhood Services Department
- Santee Late Night Gym (\$9,700)/Parks, Recreation and Neighborhood Services Department
- Downtown Ice Rink Improvements (\$100,000)/Public Works Department, Municipal Improvements Capital Program

Investments Leveraging Community Energy and Volunteerism: #Beautify SJ

One of the more noticeable results of partnering with external organizations is the positive societal effect it creates, particularly as it relates to building momentum in communities. One such visible activity is beautifying our neighborhoods, especially in those areas that require it the most. #BeautifySJ will assist residents in this endeavor and allow our public spaces to become free of blight and improve the quality of life for all residents. Some investments that will leverage community energy and volunteerism include:

- District 2 and District 8 Park and Open Street Activation (\$250,000)/City-Wide Expenses
- Beautify SJ Grants (\$200,000)/City-Wide Expenses
- Beautify SJ – Single-Family Dwelling Junk Pick-Up (\$450,000)/Environmental Services Department
- Illegal Dumping Rapid Response Team Staffing (\$276,000)/Environmental Services Department
- Beautify SJ Days (\$180,000)/Environmental Services Department
- Customer Relationship Management Maintenance and Feature Additions (Neighborhood Dashboard) (\$80,000)/Information Technology Department
- Partners in Reading Adult Literacy Program (\$91,000)/Library Department
- Library Promotional Materials Translation Services (\$50,000)/Library Department
- Early Education Summer Bridge Program for Developing and Struggling Readers (\$32,000)/Library Department
- Participatory Budgeting (\$500,000)/Mayor and City Council Offices

2017-2018 ADOPTED OPERATING BUDGET MESSAGE

Focused Approach to Address Priority Community and Organizational Needs

- Neighborhood Parks Maintenance (\$610,000)/Parks, Recreation and Neighborhood Services Department
- Beautify SJ – Volunteer Activation and “Service Credits” (reduce fees \$5,000)/Parks, Recreation Neighborhood Services, General Fund Revenue Estimates

Saving and Improving Fiscal Resiliency

While future years may see deficits, the City’s path forward will be improved with a strategic focus on setting aside funds for those times when it is needed. The 2017-2018 Adopted Budget includes actions that will help the City remain resilient in tough times that may be ahead:

- 2018-2019 Future Deficit Reserve (\$9.2 million)/Earmarked Reserves
- Police Staffing/Operations Reserve Elimination (\$0 in 2017-2018; \$2.0 million in 2018-2019)/Earmarked Reserves
- Cultural Facilities Capital Maintenance Reserve (\$450,000)/Earmarked Reserves

Other Budget Actions

The 2017-2018 Adopted Budget also contains the following notable actions:

- Rental Rights and Referrals Program – Tenant Protection Ordinance and Ellis Act Ordinance Legal Staffing (\$139,000)/Office of the City Attorney
- Housing Production Program – Homeless Projects (\$155,000)/Housing Department
- Responsible Landlord Engagement Initiative (\$150,000)/Housing Department
- Rental Rights and Referrals Program – Tenant Protection Ordinance and Ellis Act Ordinance Housing Staffing (\$2,000)/Housing Department
- Greenhouse Gas Reduction Strategy (\$375,000)/Planning, Building and Code Enforcement Department

Other Budget Actions

Fees and Charges Adjustments

The 2017-2018 Adopted Budget includes a range of adjustments to fees and charges. No utility rate increase was brought forward for the Storm Sewer Service Charge, but an overall fee increase of 7.0% was approved for the Sewer Service and Use Charge to address increased operating costs and reserve contributions to support future financing of the Water Pollution Control Plant Capital Improvement Program. For Recycle Plus rates, a 3.5% increase was approved for single-family dwellings and a 4.5% increase was approved for multi-family dwellings. The Municipal Water System rates are programmed to increase 9.0% to cover increased operating costs.

In the four Development Fee Programs (Building, Fire, Planning, and Public Works), fee adjustments were approved to align program revenues with costs, maintain works-in-progress earmarked reserves, and enhance service levels, where appropriate. In December 2016, the City Council accepted the *City of San José Development Services Cost Recovery Analysis, Process Improvements, Calculation of Unearned Revenues, and Refund Processing Report* which served as a basis for the fee changes that were brought forward. Other upward and downward adjustments to various other departmental fee programs were also approved to at least maintain, or improve, City Council-approved cost recovery rates. All fee changes are described in the 2017-2018 Fees and Charges document that was released under separate cover.

Capital Budget Overview

The 2017-2018 Adopted Capital budget and 2018-2022 Adopted Capital Improvement Program (CIP) is published as a separate document. The City's 2017-2018 Adopted Capital Budget totals \$1.0 billion and the 2018-2022 Adopted CIP totals \$3.3 billion. The 2017-2018 Adopted Capital Budget reflects a 14.0% increase from the 2016-2017 Adopted Capital Budget of \$878.4 million, and from a five-year perspective, the 2018-2022 Adopted CIP is 35.3% higher than the \$2.4 billion 2017-2021 Adopted CIP.

Directed by the Envision San José 2040 General Plan (General Plan), this CIP maintains critical investments to sustain, enhance, and develop a wide array of public infrastructure to improve system reliability, enhance recreational experiences, advance public safety, and ensure that San José is well-positioned for further economic growth and opportunity. Accordingly, the 2018-2022 CIP allocates significant resources to upgrade and revitalize the Water Pollution Control Plant (San José-Santa Clara Regional Wastewater Facility); invests in and sets aside funding for the rehabilitation and enhancement of a variety of park assets and recreational facilities; triples the investment in the pavement maintenance program; and continues the renovation of the City's outstanding cultural facilities.

Even with strong emphasis placed on rehabilitation and renewal, the City continues to lack the resources required to fully maintain its infrastructure portfolio. The persistent gap between optimal levels of capital investment and available resources, including grants and revenues from other agencies, results in a growing backlog of unmet/deferred infrastructure needs. For example, the Status Report on Deferred Infrastructure Maintenance Backlog, accepted by the City Council on March 14, 2017, identifies a \$1.51 billion backlog of unmet/deferred infrastructure needs with an ongoing investment

2017-2018 ADOPTED OPERATING BUDGET MESSAGE

Capital Budget Overview

need of approximately \$144 million annually to maintain and prevent further degradation of the City’s infrastructure. Nowhere is this gap between need and funding more apparent than in the City’s pavement maintenance with a backlog of \$584.4 million in unmet/deferred maintenance needs. However, with the recent passage of the California transportation bill SB1 and the Valley Transportation Authority (VTA) 2016 Measure B, there is a significant increase in funding allocated towards pavement maintenance. These larger funding levels for pavement maintenance in this Adopted CIP ranging from \$71 million to \$50 million annually to provide sufficient funding to address pothole repairs and pressing pavement priorities (ongoing maintenance of the Major Street Network). Additionally, this funding will also allow for limited maintenance to occur on the City’s local and neighborhood streets for the first time since 2012. At the same time, the City’s pavement maintenance funding continues to fall short of the annual ongoing investment of \$109 million that is required to maintain an overall “good” condition. Investments in this CIP also address emergency preparedness and flood-related needs, such as parks infrastructure repairs and flood protection improvements at the Water Pollution Control Plant.

Capital Program 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 2017-2021 Adopted CIP with the 2018-2022 Adopted CIP for each CSA. As discussed earlier, the 2018-2022 Adopted CIP is 35% higher than the 2017-2021 Adopted CIP. The increase from the prior CIP is primarily due to large construction projects in the Water Pollution Control Program (Environmental and Utility Services CSA) and increase in the pavement maintenance program (Transportation and Aviation Services).

2017-2021 Adopted CIP and 2018-2022 Adopted CIP Comparison (By City Service Area)

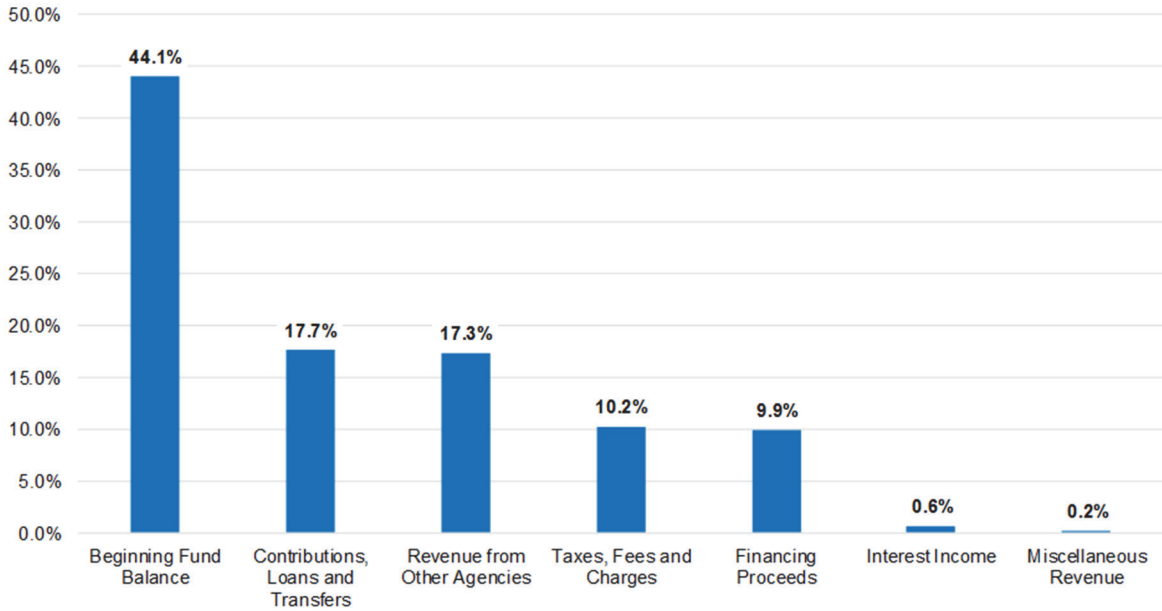
City Service Area	2017-2021 Adopted CIP	2018-2022 Adopted CIP	% Change
Community and Economic Development	\$ 14,143,086	\$ 14,888,423	5.3%
Environmental and Utility Services	1,280,222,906	1,822,504,911	42.4%
Neighborhood Services	373,607,994	359,132,030	(3.9%)
Public Safety	60,768,993	55,371,422	(8.9%)
Transportation and Aviation Services	614,214,230	969,815,713	57.9%
Strategic Support	98,638,396	81,647,612	(17.2%)
Total	\$ 2,441,595,605	\$ 3,303,360,110	35.3%

Capital Program Funding Sources

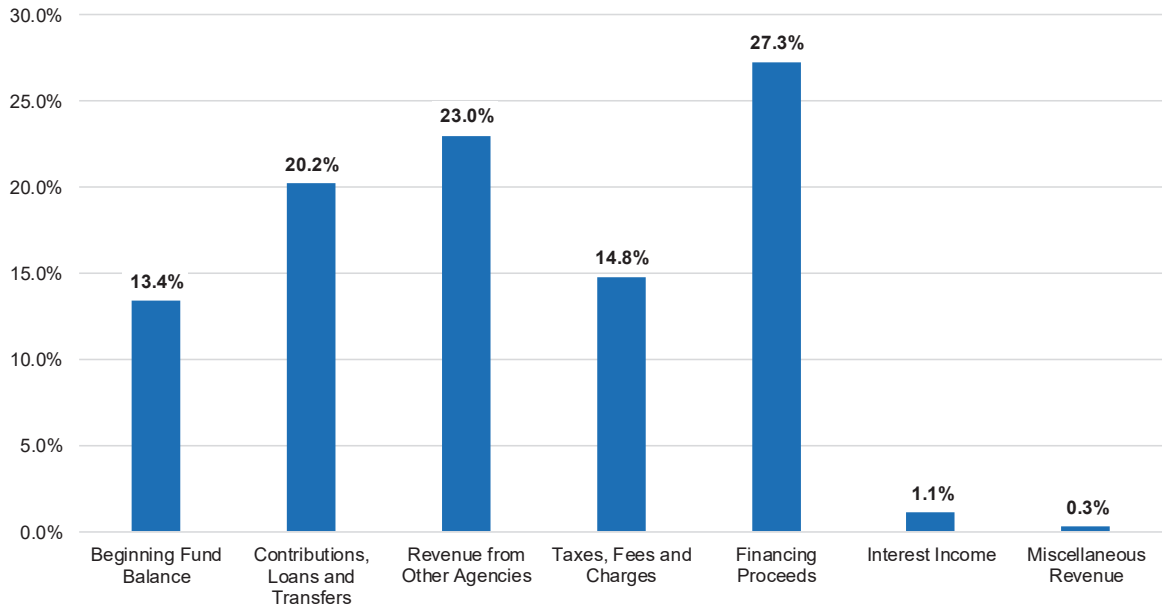
The Capital Program is supported by a variety of funding sources as shown in the graphs below that depict both the 2017-2018 and five-year CIP funding.

Capital Budget Overview

**2017-2018 Adopted Capital Budget
Source of Funds (\$1.0 billion)**



**2018-2022 Adopted Capital Budget
Source of Funds (\$3.3 billion)**



2017-2018 ADOPTED OPERATING BUDGET MESSAGE

Capital Budget Overview

The Beginning Fund Balances in the 2018-2022 CIP total \$441.9 million, representing 44.0% of the 2017-2018 Adopted Capital Budget and 13.4% of the 2018-2022 CIP. The Parks and Community Facilities Development Capital Program has Beginning Fund Balances totaling \$134.2 million, accounting for 30.2% of the total Beginning Fund Balances. The Traffic Capital Program accounts for 26.9% (\$119.4 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 Water Pollution Control (\$57.2 million), Sanitary Sewer System (\$52.2 million), and Airport (\$24.2 million). All three programs include a large number of projects whose delivery will result in lower Ending Fund Balances by the end of the CIP.

The 2018-2022 Adopted CIP includes revenues of \$900.3 million from the issuance of debt. The Water Pollution Control Capital Program accounts for \$891.0 million from both commercial paper (\$455.0 million) and bond proceeds (\$436.0 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 Library (\$5.9 million) and Public Safety (\$3.3 million) Capital Programs incorporate the final bond issuances for the two General Obligation Bond programs, scheduled to be issued in 2017-2018.

Contributions, Loans and Transfers from Other Funds total \$596.7 million. The largest transfers of funds are from the Sewer Service and Use Charge Fund to the Water Pollution Control Capital Program (\$220.0 million) and the Sanitary Sewer System Capital Program (\$160.0 million).

The Revenue from Other Agencies category totals \$760.1 million and is comprised of contributions from other agencies that use the Water Pollution Control Plant (WPCP) (\$318.9 million) and the Sanitary Sewer System (\$9.65 million); federal (\$189.6 million) and State (\$110.3 million) grants and allocations; Valley Transportation Authority funding that is mostly derived from a county-wide sales tax measure allocated toward pavement maintenance (\$130.7 million); and other agency contributions (\$950,000). Overall, estimated revenues from these sources reflect an increase of \$329.1 million (76.4%) from the 2017-2021 Adopted CIP, mainly due to a significant increase in State and Valley Transportation Authority funding for pavement maintenance.

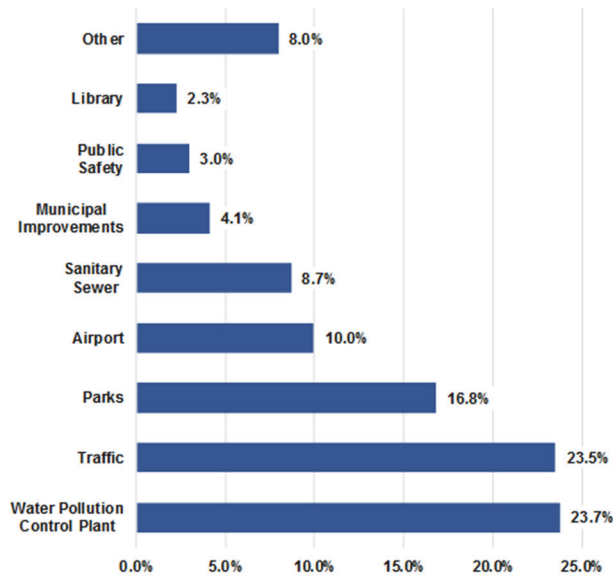
The 2018-2022 Adopted CIP includes an estimate of \$487.7 million in the Taxes, Fees and Charges category, an increase of \$157.2 million from the estimated level in the 2017-2021 Adopted CIP. This increase is due to shifting Passenger Facility Charge Proceeds to this category from Miscellaneous Revenue (\$120.4 million) and a higher revenue estimate from construction taxes levied on private development activity (\$34.0 million).

Capital Budget Overview

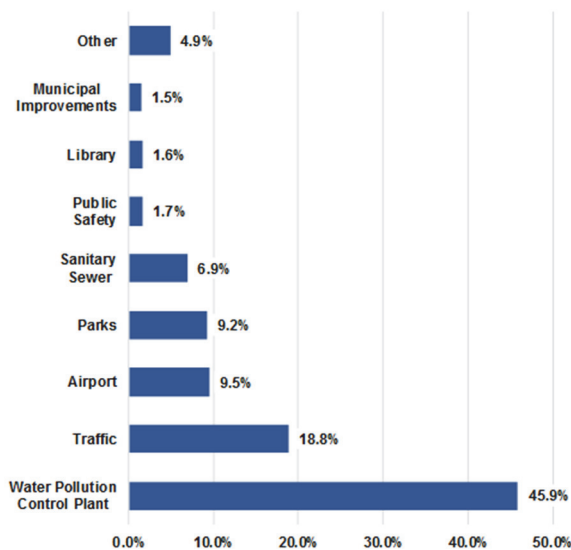
Capital Program Investments

The CIP consists of 14 capital programs. The following charts depict the uses of funds by capital program and percentage of funding for the 2017-2018 Capital Budget and the 2018-2022 Capital Improvement Program. Major projects to be completed over the next five years are highlighted in the sidebar.

**2017-2018 Capital Budget
Use of Funds (\$1.0 billion)**



**2018-2022 Capital Improvement Program
Use of Funds (\$3.3 billion)**



Major Projects to be Completed Over the Next Five Years

2017-2018 Projects

30" Old Bayshore Supplement
 Alum Rock Avenue and 31st Street Park Phase II
 Arcadia Softball Facility
 Branham and Snell Street Improvements
 Bridge Libraries
 Butcher Park Playlot Renovation
 City Hall Network Operations Center Main Switchboard Replacement
 Del Monte Park Expansion Phase II
 Del Monte Park Improvements
 East San Jose Bike/Pedestrian Transit Connection (OBAG)
 Emergency Vehicle Preemption Service
 Fire Station Alert System
 Gumdrop Drive Main Replacement
 Hathaway Park Renovation
 Iris Chang Park Development
 Montague Expressway Improvements Phase 2
 Rincon South Park Development
 Silicon Valley Regional Communications System – Dispatch Consoles
 Tamien Park Development Phase II
 TRAIL: Coyote Creek (Story Road to Selma Olinder Park)
 TRAIL: Lower Silver Creek Reach 4/5A (Alum Rock Avenue to Highway 680)
 TRAIL: Three Creeks (Lonus Street to Guadalupe River)

2018-2019 Projects

60" Brick Interceptor, Phase VIA and VIB
 Aircraft Rescue and Fire Fighting Facility
 Airport Noise and Operations Monitoring System Replacement
 Alviso Storm Pump Station
 Branham Park Improvements
 Fire Facilities Remediation
 Fowler Pump Station Replacement
 Large Trash Capture Devices

2019-2020 Projects

Digester and Thickener Facilities Upgrade
 Electronic Airport Layout Plan
 Fourth Major Interceptor, Phase VIIA
 Senter Road Pedestrian Safety Improvements
 Treatment Plant Distributed Control System

2020-2021 Projects

Airfield Geometric Implementation
 Bollinger Road – Moorpark Avenue – Williams Road Sanitary Sewer Improvements

2021-2022 Projects

Digested Sludge Dewatering Facility
 Headworks Improvements
 Terminal B Ramp Rehabilitation

Capital Budget Overview

In the 2018-2022 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 45.9% of the 2018-2022 Adopted CIP, the WPCP CIP is the largest capital program. A total of \$1.51 billion will be directed to renovate and upgrade the WPCP infrastructure to ensure capacity and reliability of treatment plant processes. This work is guided by the Plant Master Plan (PMP) and includes anticipated commercial paper proceeds (\$455.0 million) and bond issuances (\$436.0 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. The 2018-2022 Adopted CIP includes a 7.0% rate increase for the Sewer Service and Use Charge Fund for 2017-2018, with rate increases of 4.0% up to 7.0% in the out-years. These rates will be reassessed at a later time once a more detailed implementation plan and financing strategy are identified. The next five to ten years will see significant investment at the WPCP based on the PMP, resulting in revitalized infrastructure to meet current and future customer demands, meet future environmental regulatory standards, and reduce odor impacts to the surrounding community.

The Traffic Capital Program is the second largest program, or 18.8% of this CIP, with a budget of \$621.6 million. Of this amount, \$294.2 million (or 47%) is allocated to pavement maintenance and is broken down as follows: \$71.1 million in 2017-2018, \$71.5 million in 2018-2019, \$51.3 million in 2019-2020, and \$50.2 million in 2020-2021 and 2021-2022. The sources of this funding include revenues from City Construction Excise Taxes, 2016 VTA Measure B funds, State route relinquishment funds, State Gas Tax revenues, including those due to the recent passage of the Road Repair and Accountability Act (SB1 Beall), and Federal Grants. On an annual ongoing basis, funding for pavement maintenance is projected at \$50.2 million. This level of ongoing funding is sufficient to fully fund pothole repairs, necessary program management activities, and the ongoing maintenance of the Major Street Network. The 2017-2018 funding, however, does also allow for limited maintenance to occur on the City's local and neighborhood streets for the first time since 2012. At the same time, the City's pavement maintenance funding continues to fall short of the annual ongoing investment of \$108.8 million that is required to maintain an overall "good" condition with a PCI rating of 70. An investment of \$75.0 million annually would be needed on an ongoing basis to maintain the entire pavement network at its current condition rating of PCI 62 without additional decline.

The Adopted CIP includes investments targeted towards supporting the Vision Zero San José (VZSJ) transportation safety initiative, which was adopted by City Council in May 2015, by funding approximately \$106.9 million in traffic safety and local multi-modal improvements. To the extent possible, the CIP will prioritize delivery of traffic safety projects on the priority safety corridors identified in the VZSJ plan as having the highest incidence of traffic fatalities and severe injuries. A significant portion of these projects is supported by grant funds.

Capital Budget Overview

The North San José Transportation Plan, adopted in 2005, identifies traffic infrastructure investments of over \$500 million to facilitate future growth and development of North San José. These improvements were originally envisioned to be primarily funded from traffic impact fees levied on developers and contributions from the San Jose Redevelopment Agency (SJRA). The lowering of impact fees to entice commercial/job-oriented development into North San José and the loss of SJRA has created a large traffic infrastructure funding gap and made plan implementation more reliant on local City revenues and regional grant funding. As approved as part of the Mayor's June Budget Message for Fiscal Year 2014-2015, Manager's Budget Addendum #8 described a new funding strategy, dedicating future Building and Structure Construction Tax revenues (estimated to exceed \$32 million as development proceeds) and future Business Cooperation Program revenues generated from new development in North San José to be held in reserve for North San José transportation projects. This strategy has resulted in the collection of \$2.2 million in Building and Structure Construction Tax allocated to the North San José New Development Reserve. The 2018-2022 Adopted CIP also includes a North San José Transportation Improvements Reserve of \$8.0 million, of which \$2.0 million may be allocated towards the cost of interchange improvements at US 101/Oakland Road and at US 101/Mabury Road, and the remaining funding will be allocated in the future for other North San José transportation improvements.

The level of regional transportation system planning and construction occurring in the City of San José has reached historic levels. The effective delivery of the major projects over the next decade is essential to the economic and mobility needs of our community, and to support the growth anticipated in the General Plan. Currently under construction is the BART Phase I project into North San José and the Santa Clara Alum Rock Bus Rapid Transit project connecting East San José to Downtown and the Diridon Transportation Center. Numerous regional projects are in various stages of conceptual planning and environmental clearance including BART Phase II, California High Speed Rail, Caltrain Modernization, and the Diridon Transportation Center, in addition to numerous highway interchange and overcrossing improvements that support the City's Area Development Policies.

Additionally, the Parks and Community Facilities Development Program is working to develop the scope of work and funding plan to repair the damage sustained at 65 parks city-wide, due to intense storms during the winter of 2016-2017 that produced flood events and structural damage. The estimated value of park and trail repairs is \$15-\$18 million. Given available revenue, returning these parks to full operational condition requires a two-part funding strategy – scoping, estimating and designing flood related projects with available funding (\$1.9 million), and financing construction of the final projects identified and approved through a loan with a structured repayment plan, using Construction and Conveyance Tax (C&C Tax) fund balance for debt service. The City will seek reimbursement from the Federal Emergency Management Agency (FEMA), the California Office of Emergency Services (CalOES), and the City's insurance provider (AIG) for all eligible expenses.

Capital Budget Overview

Other Capital Program Highlights

Unmet Infrastructure/Maintenance Needs

As presented in a report to the City Council on October 1, 2007, insufficient funding has created a structural deficit between the funding available and the resources necessary to maintain the overall condition of the City infrastructure. This includes the City's buildings, parks, traffic (streets, traffic lights, signs, and streetlights), utility, and technology infrastructure. The figures in this report are updated annually, and the most recent report was reviewed by the Transportation and Environment Committee on February 6, 2017 and approved by the City Council on March 14, 2017 (latest report is included as an Appendix to the Adopted Capital Budget). In this most recent report, the infrastructure backlog totaled \$1.51 billion across the City. Assuming this one-time backlog could be met, an ongoing annual investment of approximately \$144 million would also be needed to maintain and prevent further degradation of the City's infrastructure. The CIP, as well as investments included in the 2017-2018 Adopted Operating Budget, allocate limited resources to the most immediate and critical deferred infrastructure needs.

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 continues to pursue strategies to ensure the most cost effective operation of City facilities, such as entering into agreements with developers to initially maintain facilities, and installing capital improvements that would reduce costs, such as energy efficient 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. There are no projects in this CIP that require City Council certification due to the annual operating and maintenance impact of the facility exceeding \$100,000. The Arcadia Softball Complex, which was established prior to the adoption of Budget Principle #8 and therefore, does not need to be certified by the City Council, is now expected to come on-line 6 to 9 months later than originally scheduled and will not be operational in 2017-2018, but is expected to be operational in 2018-2019.

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).

2017-2018 ADOPTED OPERATING BUDGET MESSAGE

Capital Budget Overview

Projected Total New Operating and Maintenance Costs (Cumulative)

<u>Project Title</u>	2018-2019	2019-2020	2020-2021	2021-2022
Parks Facilities	\$ 365,000	\$ 1,068,000	\$ 1,189,000	\$ 1,264,000
Traffic Projects	26,000	23,000	23,000	23,000
General Fund Total	\$ 391,000	\$ 1,091,000	\$ 1,212,000	\$ 1,287,000
Water Pollution Control Plant (Special Fund)	82,000	1,584,000	1,647,000	1,711,000
All Funds Total	\$ 473,000	\$ 2,674,000	\$ 2,859,000	\$ 2,998,000

For the General Fund, these costs are estimated at \$391,000 in 2018-2019 and are anticipated to increase to \$1.3 million by 2021-2022. These figures do not include the funding needed in 2017-2018 to operate and maintain new facilities as these amounts have been incorporated into the 2017-2018 Adopted Operating Budget. A total of \$312,000 is allocated in 2017-2018 to operate and maintain several facilities including the Happy Hollow Park and Zoo (new animal exhibits and a new ride), Iris Chang Park, Santana Park, Communications Hill, Three Creeks Trail, and various transportation-related infrastructure. The noticeable increase in 2019-2020 is due to the full year operational cost of the Arcadia Softball Facility.

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 \$1.6 million starting in 2019-2020, largely due to completion of large projects such as the bulk of the Digester and Thickener Facilities Upgrade project. The estimated net operating impact of the digester and thickener facilities project may be adjusted in the future after additional analysis is performed to determine required staffing levels to operate and maintain the facilities. The estimate also assumes that all power and heating needs will be provided by the Cogeneration Facility, which is expected to come online in spring 2019.

Conclusion

This budget represents a continuing and concerted effort by the Mayor and City Council and the Administration to develop a balanced budget that prudently meets priority community goals, especially in light of the continuing constraints on our resources that underlies an ongoing service level deficit. Modest investments are included in this budget to continue and enhance programs to the community, address a limited number of urgent deferred infrastructure needs, work smarter through the implementation of technology, and prudently set aside funding in reserves to better position the City moving forward in alignment with direction provided in the Mayor's March and June Budget Messages for Fiscal Year 2017-2018, as approved by the City Council.

2017-2018 ADOPTED OPERATING BUDGET MESSAGE

Conclusion

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

Finally, I call attention to our remarkably dedicated and talented City staff who prepare this extraordinary budget document each year. We are extremely fortunate to have such talented and dedicated people, from the front lines of each department to the incredibly hard working staff in the City Manager's Budget Office. They represent the best in public service, and I continue to be inspired by their exemplary commitment to ensure that San José remains the best city it can be for our residents, businesses, visitors, and employees.

Respectfully Submitted,



Norberto Dueñas
City Manager

2017-2018 Adopted Operating Budget

2017-2018 Budget Balancing Strategy Guidelines

1. Develop a budget that balances the City's delivery of the most essential services to the community with the resources available.
2. Balance ongoing expenditure needs with ongoing revenues to maximize service delivery within existing resources, to ensure no negative impact on future budgets, and to maintain the City's high standards of fiscal integrity and financial management. To the extent possible, establish a Future Deficit Reserve in the General Fund to cover any projected budgetary shortfall in the following year as a stopgap measure.
3. Evaluate vacant positions to determine if any position changes should be brought forward to better meet departmental needs, with the goal of filling existing vacant positions before adding new net positions to the organization.
4. 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).
5. Explore alternative service delivery models (e.g., partnerships with non-profit, public, or private sector for out- or insourcing services) to ensure no service overlap, reduce and/or share costs, and use City resources more efficiently and effectively. The City Council Policy on Service Delivery Evaluation provides a decision-making framework for evaluating a variety of alternative service delivery models.
6. 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.
7. Explore redirecting and/or expanding existing revenue sources and/or adding new revenue sources.
8. 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.
9. Identify City policy changes that would enable/facilitate service delivery changes or other budget balancing strategies.
10. If ongoing resources are available, focus investments in the following areas: services included in the 2016-2017 budget on a one-time basis, as appropriate; and additions that address significant organizational or community risks.
11. If one-time resources are available, focus on investments that address the City's unmet or deferred infrastructure needs and/or leverage resources to or improve efficiency/effectiveness through technology and equipment or other one-time additions.
12. In addition to considering service restoration priorities previously identified by the City Council, take a holistic approach regarding the restoration of services. As outlined in the Guiding Principles for Restoring City Service Levels as approved by the City Council on March 20, 2012, allocate additional resources with the following goals in mind: ensure the fiscal soundness of the City; choose investments that achieve significant outcomes; and improve efficiency and effectiveness of service delivery. Using a multi-pronged approach to restoring direct services, take into consideration the following factors: adequate strategic support resources; adequate infrastructure; service delivery method to ensure efficient and effective operations; service delivery goals and current performance status; service sustainability; and staffing resources.
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: 2017-2018 City Manager's Budget Request & 2018-2022 Five-Year Forecast, as approved by the Mayor's March Budget Message for Fiscal Year 2017-2018.

2017-2018 Adopted Operating Budget

Guiding Principles for Restoring City Service Levels

Ensure the Fiscal Soundness of the City

1. Develop the General Fund budget to support the City's mission and use the City Council-approved Budget Principles to ensure the long term fiscal health of the City (*City of San José Budget Principles*)
2. Ensure services that are restored can be sustained over the long-run to avoid future service disruption (Use Five-Year General Fund Forecast as one tool)
3. If possible, defer adding new permanent positions until new retirement system is in place

Choose Investments that Achieve Significant Outcomes

4. Ensure restored services represent City Council priorities and the highest current need in the community
5. Balance investments among three categories:
 - Restoration of services (public safety and non-public safety services, including critical strategic support services)
 - Opening of new facilities
 - Maintenance of City infrastructure and assets
6. Prioritize baseline service level restorations using performance goals (*Service Restorations Previously Identified by City Council – January 1, 2011 Levels*)
7. Focus funding on areas where there is a high probability of success and/or high cost of failure
 - Focus funding on infrastructure needs where there is a significant increase in cost if maintenance is delayed (such as street maintenance)
 - Focus investments in technology that have the greater return on investment in terms of services to the public and employee productivity

Improve the Efficiency and Effectiveness of Service Delivery

8. Before restoring prior service methods, evaluate options to determine if alternative service delivery models would be more cost effective
9. Ensure strategic support and technology resources are capable of supporting direct service delivery and effective management of the organization
10. Prioritize organizational investments that maximize workforce productivity, efficiency, and effectiveness
11. Pursue opportunities and methods, including performance, to retain, attract, and recognize employees within resource constraints

Approved by the City Council on March 20, 2012

2017-2018 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.

2017-2018 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.