



2017-2018

OPERATING BUDGET

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

General Fund Balancing Strategy Detail

2017-2018 Adopted Operating Budget

INTRODUCTION

This attachment is intended to provide a more detailed summary of the key actions taken to balance the 2017-2018 Adopted 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 2017, the Administration prepared formal projections for the 2017-2018 General Fund Budget as part of the *2017-2018 City Manager's Budget Request & 2018-2022 Five-Year Forecast and Revenue Projections* document that was released to the City Council. The 2017-2018 February Base Budget Forecast projections in that document estimated a 2017-2018 General Fund shortfall of approximately \$12.4 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 shortfall represented the difference between projected 2017-2018 General Fund resources and the expected cost of approved 2017-2018 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 2017-2021 Capital Improvement Program or for projects approved by the City Council during 2016-2017).

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 Adopted Budget.

The revisions to the February Base Budget Forecast included a series of changes that produced an increase in overall General Fund sources and a reduction in uses. These changes resulted in a decrease of \$2.4 million to the estimated General Fund shortfall, resulting in a \$10.0 million shortfall. This is the amount that was 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 contained a set of recommended actions that increased both the General Fund sources (by \$41.3 million), and uses (by \$31.3 million) from the Revised Base Budget Forecast, bringing the overall General Fund into balance for 2017-2018. The increase in sources of \$41.3 million includes several major components: a higher Beginning Fund Balance (\$10.7 million), the liquidation of various earmarked reserves for specific services (\$3.8 million); the receipt of PERS levy settlement proceeds from the County of Santa Clara (\$12.9 million); increases to the development fee program and other miscellaneous fees and permits (\$12.4 million); grants from other government agencies (\$2.5 million); and other revenue changes (\$2.8 million).

The increase in uses of \$31.3 million in 2017-2018 included additional funding for the following: service level enhancements (\$6.2 million); a number of critical unmet/deferred infrastructure and maintenance needs (\$8.5 million); continuation of 2016-2017 one-time funded services (\$6.5 million); earmarked reserves (\$3.8 million); development fee program as well as other fees, grants,

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and reimbursements (\$14.4 million); funding for the 2018-2019 Future Deficit Reserve (\$15.0 million); and other increases (\$400,000).

These increases were partially offset by savings realized from the use of reserves that had been established for specific purposes (\$8.1 million) that were included in the February Forecast and miscellaneous cost reductions/service delivery efficiencies/funding shifts to other funds (\$15.4 million). The result of these actions was a balanced 2017-2018 General Fund Proposed Budget of \$1.2 billion.

From the release of the Proposed Budget to the final adoption of the budget, additional revisions totaling \$142.7 million occurred. The largest component of the increase was the rebudget of 2016-2017 funds (\$136.5 million) that were carried forward to 2017-2018 to complete various projects. The Adopted Budget was substantially balanced with almost all ongoing actions, and approximately \$416,000 resolved with one-time solutions.

Table I below displays the overall projections for the 2017-2018 General Fund as they changed between the February Base Budget Forecast and the Adopted 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, and final changes from the Proposed Budget to the Adopted Budget are summarized in Table IV.

Table I
2017-2018 ADOPTED OPERATING BUDGET
Forecast To Adopted Budget Reconciliation (in \$000s)

	Total Sources	Total Uses	(Shortfall)/ Surplus
February Base Budget Forecast	\$ 1,131,095	\$ 1,143,507	(\$ 12,412)
Forecast Revisions	1,292	(1,118)	(2,410)
Revised Base Budget Forecast (no fee impact)	1,132,387	1,142,389	(10,002)
Proposed Revisions	41,298	31,296	10,002
2017-2018 Proposed Budget	1,173,685	1,173,685	0
Adopted Revisions	142,725	142,725	0
2017-2018 Adopted Budget	\$ 1,316,410	\$ 1,316,410	\$ 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 Adopted Budget incorporated 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 resulted in a revised shortfall estimate of \$10.0 million, a decrease of \$2.4 million from the \$12.4 million shortfall in the February Base Budget Forecast. Changes are detailed in Table II below.

Table II
2017-2018 REVISED BASE BUDGET FORECAST
Summary of Changes (in \$000s)

Sources	Revision
Licenses and Permits	\$ 850
Fines, Forfeitures, and Penalties	515
Revenue from the State	425
Use of Money/Property	400
Transfers and Reimbursements	502
Business Taxes	300
Franchise Fees	50
Other Revenue	40
Fees, Rates, and Charges	(210)
Property Tax	(725)
Beginning Fund Balance	(855)
Net Change in Sources	\$ 1,292

Uses	Revision
Personal Services – Health Premiums Expenses	\$ (633)
Non-Personal/Equipment and City-Wide Expenses	(295)
Position and Fund Realignments/Corrections	(190)
Net Change in Uses	\$ (1,118)

Total Change (Shortfall)/Surplus	\$ 2,410
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REVISED BASE BUDGET FORECAST

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

Licenses and Permits

- An increase of \$789,000 to the Fire Permits revenue estimate, including an increase to the Fire Development fees (\$589,000) and the Non-Development fees (\$200,000) based on collection trends experienced in 2016-2017.
- An increase of \$61,000 to Other Licenses and Permits based on collection trends experienced in 2016-2017.

Fines, Forfeitures, and Penalties

- An increase to several fines and forfeitures revenues, including \$200,000 to Parking Fines (\$11.0 million to \$11.2 million), \$75,000 to Citation Fines (\$175,000 to \$250,000), and \$30,000 to Animal Services Field Citations (\$90,000 to \$120,000), based on collection trends experienced in 2016-2017.
- An increase of \$200,000 to Business Tax Penalties (\$1.0 million to \$1.2 million) and \$10,000 to Fire Safety Delinquency Penalties (\$120,000 to \$130,000), based on collection trends experienced in 2016-2017.

Revenue from the State

- An increase of \$425,000 to reflect Other State Revenue funding that was unaccounted for in the 2017-2018 Forecast due to a calculation error.

Use of Money/Property

- An increase of \$200,000 to the interest earnings estimate (\$2.0 million to \$2.2 million) based on collection trends experienced in 2016-2017, coupled with higher interest rate assumptions in 2017-2018.
- An increase of \$200,000 to the Subrogation Recovery estimate (\$300,000 to \$500,000) based on 2016-2017 collection trends as well as historical performance in this category.

Transfers and Reimbursements

- A net increase of \$185,000 to reflect updated overhead reimbursements from capital funds and operating funds based on the final 2017-2018 base budget and final 2017-2018 overhead rates as approved by the Finance Department.

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REVISED BASE BUDGET FORECAST

Source of Funds

Transfers and Reimbursements (Cont'd.)

- A net increase of \$312,000 to the Transfers category to reflect an increase in the reimbursement from Airport funds for services provided by the Police and Fire Department and an increase of \$5,000 to the reimbursement from the Maintenance Assessment District Funds.

Business Taxes

- An increase of \$300,000 to the estimate for the Marijuana Tax (\$9.05 million to \$9.35 million) based on 2016-2017 collection trends.

Franchise Fees

- An increase of \$50,000 adjusts the City Generated Tow revenue (from \$950,000 to \$1.0 million) based on 2016-2017 collection trends.

Other Revenue

- An increase of \$140,000 to reflect an increase in projected incentive payments from the City's banking services vendor (\$100,000), procurement credit card (P-card) vendor (\$25,000) and office supplies vendor (\$15,000).
- A decrease of \$100,000 eliminates the revenue estimate from the sale of surplus vehicles due to City Council direction to donate these vehicles to Coyote Creek Flood victims.

Fees, Rates, and Charges

- A decrease of \$155,000 to the Parks, Recreation and Neighborhood Services Departmental Charges estimate (from \$20.62 million to \$20.46 million) aligns revenues with estimated base activity levels. This reflects a revised reconciliation of the Happy Hollow Park and Zoo.
- A decrease of \$55,000 to the Library Departmental Charges to reflect the anticipated 2017-2018 collection and activity levels.

Property Tax

- A decrease of \$725,000 to the Unsecured Property Tax estimate (\$14.5 million to \$13.8 million) to reflect lower than anticipated collections in 2016-2017. This resulted in a lower base starting point for 2017-2018 anticipated growth of 3%.

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REVISED BASE BUDGET FORECAST

Source of Funds

Beginning Fund Balance

- A decrease of \$854,000 to the Beginning Fund Balance estimate reflects a lower carryover amount of the Development Fee Program Reserves (Fire: reduction of \$530,000; Public Works: reduction of \$187,000; Planning: reduction of \$135,000; Building: reduction of \$2,000) necessary to bridge the gap between 2017-2018 base revenues and expenditures. The Development Fee Programs are assumed to be 100% cost recovery.

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

- A net decrease of \$229,000 reflects non-personal/equipment, Transfers, and City-Wide Expenses adjustments: decreases to various departments for a reduction in costs for vehicle maintenance and operations (\$319,000); non-personal/equipment budget to offset increased expenditures from position changes (\$28,000), deferred compensation expenditures (\$1,000), and a net reduction in City-Wide Expenses (\$3,000) for Storm Fees and Property Leases. These decreases are offset by increases to Information Technology Department's non-personal/equipment for a software maintenance agreement for the Business License Tax System (\$22,000), to the Office of Economic Development to reflect a funding shift for property leases from City-Wide Expenses to the departmental budget (\$18,000), increased costs for Police services at the Airport (\$2,000), and an increase to the Transfer to the City Hall Debt Service Fund for the General Fund's share of debt service payments (\$80,000).
- A net decrease of \$190,000 reflects further refinement of personnel data imported into the budgeting software used to forecast salaries and benefits, position and funding realignments to better align with work currently performed, and various other funding corrections/adjustments based on updated information.
- A net decrease of \$67,000 to the Salaries and Benefits Reserve reflects an increase of \$775,000 for adjustments to salaries for employee competitiveness that was inadvertently left out of the February Forecast, offset by the following reductions: \$633,000 to reflect the revised assumed rate for health premium increases, \$200,000 to recognize estimated savings from the reduced workweek/furlough program, and \$8,000 to reflect revised amounts for management pay for performance and cost of living adjustment increases.

As summarized in Table III, the Administration's budget balancing strategy resolved a \$10.0 million (with the Development Fee Program Impact) General Fund shortfall and resulted in a balanced 2017-2018 General Fund Proposed Budget totaling \$1.2 billion.

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PROPOSED BUDGET BALANCING STRATEGY

Table III
2017-2018 PROPOSED OPERATING BUDGET
General Fund Balancing Strategy (in \$000s)

	2017-2018	Ongoing
2017-2018 General Fund Shortfall	\$ (10,002)	\$ (10,002)
Balance 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 Rev./Expenditure Savings/Rebudgets/Reserve Liquidations	2,401	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	
Overhead Reimbursements/Transfers from Other Funds	2,544	1,116
Subtotal Source of Funds	\$ 41,298	\$ 13,864
Use of Funds		
2018-2019 Future Deficit Reserve	\$ 15,000	\$ 0
Development Fee Programs	9,430	9,203
Service Level Enhancements	6,845	1,561
2016-2017 One-Time Funded Services	6,523	535
Other Fee Programs/Grants/Reimbursements	4,978	2,458
Unmet/Deferred Technology, Infrastructure, and Maintenance	4,455	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	(12,083)	(6,067)
Use of Reserves (e.g., Cultural Facilities, Committed Add., Def. Maint.)	(8,080)	(9,942)
Subtotal Use of Funds	\$ 31,296	\$ (1,123)
Total Balancing Strategy	\$ 10,002	\$ 14,987
Remaining Balance	\$ 0	\$ 4,985

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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 2017-2018, 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 \$1.132 billion, a net increase of \$41.3 million to the General Fund revenue estimates was brought forward, bringing the 2017-2018 Proposed Budget revenue estimate to \$1.174 billion. The components of this increase included an increase to the estimate for 2016-2017 Ending Fund Balance/2017-2018 Beginning Fund Balance (\$10.7 million) and an increase to various revenue categories (\$30.6 million).

Beginning Fund Balance

- An increase of \$10.7 million from the Revised Forecast was included, bringing the estimated 2017-2018 Beginning Fund Balance from \$68.6 million to \$79.2 million to reflect the following:
 - Liquidation of various reserves totaling \$3.8 million, including the Cultural Facilities Capital Maintenance Reserve (\$1.975 million), 2017-2018 Future Deficit Reserve (\$1.4 million), and General Plan Update Reserve (\$375,000).
 - Additional anticipated fund balance of \$1.6 million generated from personal services savings that are projected in the Police Department due to vacancy savings.
 - Rebudget of funds for expenditure-related items in the amount of \$5.3 million that are not anticipated to occur until 2017-2018, including Homeless Rapid Rehousing/Tiny Homes (\$2.3 million), Fire Station 37 Reserve (\$960,000), Technology Equipment Replacement to Converged or Hyper-Converged Infrastructure (\$610,000), Urban Area Security Initiative Grant – Police 2016/Dispatch Consoles (\$570,000), San José Environmental Sustainability Plan Implementation Staffing (\$306,030), Talent Recruitment Initiative (\$200,000), Historic Preservation (\$100,000), Mayor's Gang Prevention Task Force Clean Slate Program (\$100,000), Human Resources Non-Personal/Equipment – Workers' Compensation Claims contract (\$90,000), and Aquatics Program (\$50,000).

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PROPOSED BUDGET BALANCING STRATEGY

Source of Funds

Other Revenue

- A one-time increase of \$12.9 million due to the Successor Agency to the Redevelopment Agency prevailing in litigation against Santa Clara County (County) regarding the withholding of the PERS and Water District levies by the County. As a result, the litigation should allow for some repayment of City funds advanced to pay for certain Successor Agency enforceable obligations. The Proposed Budget includes the full funding of \$12.9 million as revenue to the General Fund, however, \$6.3 million is eligible to be returned to the General Purpose Parking Fund.
- A one-time increase of \$10,000 to reflect funding from the Youth Connections Foundation to support Viva CalleSJ, Viva Parks!, and Plaza de Cesar Chavez placemaking events.

Licenses and Permits

- An increase of \$4.0 million to the Building Development Fee Program fees (from \$28.5 million to \$32.5 million) to bring ongoing revenues and expenditures into closer alignment with less reliance on the Building Development Fee Program Reserve.
- An increase of \$1.1 million in the Fire Development Fee Program (from \$7.5 million to \$8.6 million) reflects fee changes included in the Proposed Budget to bring ongoing revenues and expenditures into closer alignment with less reliance on the Fire Development Fee Program Reserve.
- An increase of \$541,000 to adjust various Police Department permits to maintain cost recovery levels.
- An increase of \$364,000 in Fire non-development permits to support the addition of 1.0 Fire Prevention Inspector and maintain 100% cost recovery level.
- A net increase of \$410,000 for other changes to licenses and permits, including building code enforcement and other Code Enforcement Fee programs (\$420,000) and temporary street closures (-\$10,000).

Fees, Rates, and Charges

- An increase of \$4.5 million in the Planning Development Fee Program (\$3.2 million) and Public Works Development Fee Program (\$1.3 million) to bring ongoing revenues and expenditures into closer alignment with less reliance on the Development Fee Program Reserves.

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PROPOSED BUDGET BALANCING STRATEGY

Source of Funds

Fees, Rates, and Charges (Cont'd.)

- An increase of \$1.3 million to the Parks, Recreation and Neighborhood Services (PRNS) Departmental Charges aligns revenues with estimated activity levels. The increase primarily reflects a net increase of \$512,000 in the Fee Activity program revenues. Additional adjustments include: a \$571,000 increase in Happy Hollow Park and Zoo revenues due primarily to corporate rentals; a \$117,000 increase in Lake Cunningham Skate Park revenue, \$91,000 in field reservations revenue; and -\$5,000 for PRNS special events permits (as directed in the Mayor's March Budget Message for Fiscal Year 2017-2018).
- An increase of \$123,000 to the Transportation Department fees and charges to reflect various fee revisions.
- An increase of \$64,000 to the Police Department fees and charges to reflect various fee revisions and maintain cost recovery levels.

Transfers and Reimbursements

- A one-time transfer of \$350,000 from the Council District 4 Construction and Conveyance (C&C) Tax Fund (Fund 381) to pay the remaining debt owed for the Berryessa Community Center. In past years, the debt service payment was made directly from the C&C Tax Fund. However, the remaining debt of \$350,000 is now expected to be paid off from proceeds from the sale of the Hayes Mansion. This action was to reimburse the General Fund for that payment. (Subsequent to the release of the Proposed Budget, the sale of the Hayes Mansion did not go forward and this action was reversed in the Adopted Budget).
- As directed in the Mayor's March Budget Message for Fiscal Year 2017-2018, the Proposed Budget included one-time transfers totaling \$668,513 from the General Purpose Parking Fund for the Residential Parking Pilot Program (\$118,513), Business Permit Process Improvement Bootcamp (\$200,000), Storefront Activation (\$250,000), and Downtown Ice Rink Improvements (\$100,000).
- Elimination of a transfer from the Community Facilities Revenue Fund that was included in the 2017-2018 Forecast to reimburse the General Fund for finance staffing and insurance costs to support the Hayes Mansion (\$160,715). With the expected sale of the Hayes Mansion, this transfer was expected to be no longer necessary.
- A net increase of \$1.7 million (\$1.3 million ongoing) in anticipated overhead reimbursements to reflect the impact of various budget actions in the 2017-2018 Budget that change the staffing levels funded by special funds and capital funds.

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PROPOSED BUDGET BALANCING STRATEGY

Source of Funds

Revenue from Local Agencies

- A one-time increase of \$1.6 million to reflect the County's portion of the Senior Nutrition Program costs. This funding from the County of Santa Clara Department of Aging and Adult Services covers two-thirds of the total cost of the program and will be used to reimburse the City's vendor for the cost of the meals for seniors at all 13 senior nutrition sites from July 2017 to June 2018.
- A one-time increase of \$175,000 to reflect grant revenue from the Metropolitan Transportation Commission for urban village planning (\$150,000) and funding from Santa Clara County to support Viva CalleSJ, ¡Viva Parks!, and Plaza de Cesar Chavez placemaking events (\$25,000).

Revenue from State of California

- A one-time increase of \$528,000 to reflect grant funding from the Metropolitan Transportation Commission for urban village planning. The concept of urban villages was established in the Envision San José 2040 General Plan that was adopted in 2011. The policy intends to create a framework that directs sustainable job and housing growth within walkable and bike-friendly areas that have good access to transit and other infrastructure and facilities.
- A one-time increase of \$221,500 to reflect funding from the State of California to support Viva CalleSJ, ¡Viva Parks!, and Plaza de Cesar Chavez placemaking events.

Franchise Fees

- An increase of \$143,000 reflected an increase in the Commercial Solid Waste (CSW) fees by 1.26% based on the 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.

Fines, Forfeitures, and Penalties

- An increase of \$79,000 related to expansion of the Massage Parlor Permit and Regulation Program. As a result of increased regulation, additional fine revenue is anticipated in 2017-2018.

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PROPOSED BUDGET BALANCING STRATEGY

Use of Funds

From the Revised Base Budget Forecast of \$1.14 billion, a net increase of \$31.3 million to the General Fund expenditures was brought forward, bringing the 2017-2018 Proposed Budget Use of Funds estimate to \$1.17 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 \$6.8 million was included in the Proposed Budget for service level enhancements. The largest investments included funding for the Tiny Homes Project (\$2.3 million), Neighborhood Parks Maintenance (\$610,000), Placemaking and Parks Activation (\$494,000), Cybersecurity Office (\$478,000); Japantown Creative Center for the Arts Transportation Improvements (\$400,000), and Greenhouse Gas Reduction Strategy Update (\$375,000). San José Regional Transportation Hub Project (\$375,000), Storefront Activation Grant Program (\$250,000), and 2017 Flood – Building Permit and Inspection Fee Waivers (\$200,000). Other service level enhancements were 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 \$4.5 million was included in the Proposed Budget for the City's most urgent repair needs, including the following larger expenditures: Technology Equipment Replacement to Converged or Hyper-Converged Infrastructure (\$1.1 million); City Hall Network Operations Center Switch Board Replacement (\$500,000); improvements to Hammer Theatre Center (\$475,000); Police Administration Building Chiller and Boiler Replacement (\$400,000); Mexican Heritage Plaza HVAC (\$400,000); City Hall Audio/Visual Upgrade (\$375,000); and repairs and replacements at the African American Community Center (\$350,000).

2016-2017 One-Time Funded Services

Funding was included to continue services that were funded on a one-time basis in the 2016-2017 Adopted Budget. This included funding for San José Works: Youth Jobs Initiative (\$1.5 million), San José Learns (\$1.0 million), the Police Department Downtown Foot Patrol Program (\$500,000); Police Department recruitment efforts (\$325,000), Sports Authority (\$375,000), Workers' Compensation Program Temporary Staffing (\$331,000) Office of Emergency Services Disaster Preparedness (\$265,000), the Office of Immigrant Affairs (\$250,000), Talent Recruitment Initiative (\$200,000), BeautifySJ Grants (\$180,000), and other programs (\$1.1 million).

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PROPOSED BUDGET BALANCING STRATEGY

Use of Funds

Earmarked Reserves

One-time Earmarked Reserves, totaling \$3.8 million, was included in the Proposed Budget. This included funding for the following: Essential Services Reserve (\$2.0 million); Air Service Incentive Program Reserve (\$1.2 million); Cultural Facilities Capital Reserve (\$450,000); Project Hope Pilot Program Reserve (\$108,000); and Cinequest Film and Virtual Reality Festival Reserve (\$50,000).

2018-2019 Future Deficit Reserve

This action established the 2018-2019 Future Deficit Reserve of \$15.0 million. The 2018-2022 General Fund Forecast projected an ongoing \$34.8 million shortfall for 2018-2019. This reserve was set aside to help address a portion of this shortfall.

Development Fee Programs

The Proposed Budget included approximately 10 positions and \$9.4 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 totaled \$5.0 million were offset by revenue from fees and included services provided by Parks, Recreation and Neighborhood Services (\$1.1 million), code enforcement provided by the Planning, Building, Code Enforcement and Neighborhood Services Department (\$370,000), and fire prevention services provided by the Fire Department (\$281,000). Programs offset by grants and other reimbursements included the Senior Nutrition Program (\$1.6 million), the Urban Area Security Initiative Grant – Police 2016 (\$565,000), Urban Village Staffing (\$475,000), and San José Environmental Sustainability Plan Implementation Staffing (\$306,000).

New Infrastructure/Equipment Operations and Maintenance

The Proposed Budget included \$402,000 to operate and maintain new parks and recreation facilities (\$347,000) and new transportation infrastructure (\$55,000).

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PROPOSED BUDGET BALANCING STRATEGY

Use of Funds

Use of Reserves

The Proposed Budget included the elimination of the Cultural Facilities Capital Maintenance Reserve (\$6.8 million) as a source of ongoing funding for a variety of City services. Other reserves established in the February Forecast that were eliminated as planned in the Proposed Budget included a reserve to cover additional costs to operate and maintain new technology or facilities that are scheduled to become operational in 2017-2018 (\$433,000), and a reserve to fund critical capital maintenance or address urgent technology (\$800,000).

Cost Reductions/Service Delivery Efficiencies/Fund Shifts

Savings in this category (\$12.1 million) primarily included shifting Homeless Rapid Rehousing funding from the General Fund to the Multi-Source Housing Fund (\$4.0 million); postponing the addition of 41.0 sworn police officers to June 2019 (\$3.8 million); the elimination of the transfer to the Community Facilities Revenue Fund (\$3.5 million) and a reduction in the transfer to the Municipal Golf Course Fund (\$2.1 million) as a result of the anticipated sale of Hayes Mansion (subsequent to the release of the Proposed Budget, the sale of the Hayes Mansion did not go forward and these transfers were restored in the Adopted Budget); the elimination of one fire fighter recruit academy (\$1.1 million); a transfer from the General Fund to the Communications Construction and Conveyance Tax Fund to acquire dispatch consoles needed for the Silicon Valley Regional Communications System (\$1.9 million), and a reallocation of an earmarked reserve from the General Fund to the Fire Construction and Conveyance Tax Fund for the future construction of Fire Station 37 (\$960,000).

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ADOPTED BUDGET BALANCING STRATEGY

The final phase of the 2017-2018 budget process commenced following the issuance of the City Manager's Proposed Budget and consisted of the following major steps: City Council Budget Study Sessions on the Proposed Budget; formal public input through the Public Hearings process; issuance by the Administration of recommended revisions to the Proposed Budget (in the form of formal Manager's Budget Addenda); issuance by the City Council of recommended revisions to the Proposed Budget (in the form of Budget Documents submitted to the Mayor's Office); issuance of the Mayor's June Budget Message memorandum that included recommended revisions to the Proposed Budget and incorporated feedback from the City Council and the Administration; and approval by the City Council of the Mayor's June Budget Message and final Adopted Budget. In addition, four community budget meetings were held at locations throughout the city.

Summarized in Table IV by general category are the additional changes introduced by Manager's Budget Addenda or the Mayor's June Budget Message. (The full text of the Message is included as an Appendix to this document.) Those additional changes in funding sources and uses totaled \$142.7 million in 2017-2018.

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ADOPTED BUDGET BALANCING STRATEGY

Table IV
2017-2018 ADOPTED OPERATING BUDGET
General Fund Funding Requirements and Balancing Strategy (in \$000s)

	2017-2018	Ongoing
Remaining Balance from Proposed Budget (from Table III)	\$ 0	\$ 4,985
Balancing Strategy		
Source of Funds		
Fund Balance to Support 2016-2017 Projects/Balancing Strategy	\$137,962	\$ 0
Revenue-Related Rebudgets to Support 2016-2017 Projects	3,842	0
New Grants/Revenue-Supported Expenditures	1,094	0
Transfers and Reimbursements Changes	<u>(173)</u>	<u>(16)</u>
Subtotal Source of Funds	\$ 142,725	\$ (16)
Use of Funds		
Rebudgeted 2016-2017 Projects	\$ 135,999	\$ 0
Service Level Enhancements	5,592	2,813
Cost Reductions/Service Delivery Efficiencies/Fund Shifts	5,232	5,572
Revenue-Related Rebudgets to Support 2016-2017 Projects	3,842	0
Unmet/Deferred Technology, Infrastructure, and Maintenance	1,925	0
New Grants/Reimbursements/Revenue-Supported Expenditures	1,094	0
Development Fee Program	75	0
2018-2019 Future Deficit Reserve	(5,850)	0
Use of Reserves (Alternative Pension Reform, Essential Services)	<u>(5,184)</u>	<u>(3,000)</u>
Subtotal Use of Funds	\$ 142,725	\$ 5,385
Total Balancing Strategy	\$ 0	\$ (5,401)
Remaining Balance	\$ 0	\$ (416)

General Fund Balancing Strategy Detail

2017-2018 Adopted Operating Budget

ADOPTED BUDGET BALANCING STRATEGY

Source of Funds

As part of the City Council-approved revisions to the Proposed Budget, a total of \$142.7 million in additional resources were approved to be used as part of the Adopted Budget strategy. The major elements of these revisions are described below.

Fund Balance to Support 2016-2017 Rebudgeted Projects/Balancing Strategy

The unrestricted portion of the 2016-2017 Ending/2017-2018 Beginning Fund Balance estimate was adjusted upward by an additional \$138.0 million to primarily reflect 2016-2017 funding which was estimated to be available to be carried over to 2017-2018 to complete previously approved projects (\$135.9 million). In addition, \$1.05 million was rebudgeted from the Cultural Facilities Capital Maintenance Earmarked Reserve for other purposes including: Camera 3 Theater – Capital Infrastructure Improvement Plan (\$500,000); Children’s Discovery Museum (\$400,000); San José Sports Authority (\$125,000); and History San José (\$25,000). Also, \$33,400 was rebudgeted from the Mayor and City Council offices for other purposes including: Council District 9 rebudget for CommUniverCity (\$25,000); and Council District 5 rebudget for Mayfair Community Center (\$8,400).

The fund balance estimate was also increased by \$1.0 million to reflect additional 2016-2017 excess revenues and expenditure savings based on an updated analysis of projected 2016-2017 performance.

Revenue-Related Rebudgets to Support 2016-2017 Projects

The Adopted Budget included grant and reimbursement-related revenue totaling \$3.8 million that was rebudgeted from 2016-2017 to complete the associated projects in 2017-2018. These revenue-related rebudgets were spread among a number of revenue categories (Local Agencies, State Government, Federal Government, and Other Revenue) and were offset by expenditure rebudgets. Expenditure appropriations for these actions were also included in the Adopted Budget.

New Grants/Reimbursements/Revenue-Supported Expenditures

The Adopted Budget included \$1.1 million in new grant/reimbursement/fee revenue. These grants and reimbursements were reflected in Revenue from Local Agencies, Revenue from the State of California, Revenue from the Federal Government, and Other Revenue categories.

General Fund Balancing Strategy Detail

2017-2018 Adopted Operating Budget

ADOPTED BUDGET BALANCING STRATEGY

Source of Funds

Transfers and Reimbursements Changes

The Adopted Budget included a revenue decrease of \$173,405 to the Transfers and Reimbursements revenue category based on updated information. Below is a summary of the revenue adjustments:

- A one-time increase of \$150,000 to reflect a transfer from the General Purpose Parking Fund to the General Fund to support cultural events and festivals.
- A one-time net decrease of \$307,000 to the Transfers revenue estimate to reflect actions related to the Hayes Mansion. When the 2017-2018 Proposed Budget was developed, it was assumed the Hayes Mansion would be sold and a portion of the sale proceeds would be used to pay off the remaining debt owed for the Berryessa Community Center (\$350,000). In addition, it was assumed that the Council District 4 Construction and Conveyance (C&C) Tax Fund, which had been paying off the debt associated with the Berryessa Community Center, would transfer \$350,000 to the General Fund to complete its obligation associated with this community center. However, because the Hayes Mansion sale did not occur, the Transfer from the District 4 C&C Tax Fund was no longer necessary, and budget actions were also included in that fund to cover the 2017-2018 debt service for the Berryessa Community Center. In addition, the 2017-2018 Adopted Budget includes a one-time transfer of \$43,000 from the Community Facilities Revenue Fund related to support a bond administrator and insurance costs for the Hayes Mansion that had been removed from the Proposed Budget.
- An ongoing decrease of \$16,405 in anticipated overhead reimbursements to reflect the impact of the Finance Department Reorganization that is included in the 2017-2018 Adopted Budget.

General Fund Balancing Strategy Detail

2017-2018 Adopted Operating Budget

Use of Funds

As part of the City Council-approved revisions to the Proposed Budget, a total of \$142.7 million in General Fund expenditure changes were approved. In addition, 2.0 positions were added in the General Fund along with one position funded by the Construction Excise Tax Fund. Listings of all the approved budget modifications are described in detail in the CSA and departmental sections of this Adopted Budget document as well as summarized in Manager's Budget Addendum #27.

The major elements of the General Fund revisions are described below.

Rebudgeted 2016-2017 Projects

Additional expenditures totaling \$136.0 million were included in the Adopted Budget to fund the completion of programs and projects authorized in the prior year. The rebudgeted funds were offset by additional 2016-2017 Ending/2017-2018 Beginning Fund Balance.

Service Level Enhancements

Additional expenditures totaling \$5.6 million were included in the Adopted Budget for service level enhancements. The largest allocations included \$2.5 million in additional personal services costs across the City to implement the Alternative Pension Reform Measure (Measure F) as approved by the voters in November 2016, but were not yet reflected in retirement costs during the Proposed Budget Process. It is important to note that, as part of the 2018-2022 General Fund Five-Year Forecast, a \$3.0 million reserve was established in 2017-2018 to offset these anticipated costs. The other significant enhancements are described in the Mayor's June Budget Message for Fiscal Year 2017-2018, including Participatory Budgeting – D1/D3/D5 Decides (\$500,000); Viva Calle & Viva Parks (\$280,000); Mayoral Fellows (\$270,000); Park and Open Street Activation – D2/D8 (\$250,000); Homeless Response Team (\$175,000); Responsible Landlord Engagement Initiative (\$150,000); Health Trust Meals on Wheels – Senior Food Assistance (\$150,000); Cultural Events and Festivals – Secondary Employment (\$150,000); San Jose Animal Care and Services – Washer/Dryer Replacement (\$144,000); San Jose Streets Team (\$135,000); San Jose Sports Authority (\$125,000); Project Hope Program (\$108,000); Historic Preservation Guidelines Update (\$100,000); Hunger at Home (\$100,000); and Coyote Creek Vegetation Removal (\$100,000).

Cost Reductions/Service Delivery Efficiencies/Fund Shifts

Typically a category of anticipated expenditure savings, this category includes a net increase of \$5.2 million that primarily represents the reinstatement of the transfers to the Community Facilities Revenue Fund (\$3.5 million) and the Municipal Golf Course Fund (\$2.0 million), due to the termination of the purchase and sale agreement for Hayes Mansion. In the Proposed Budget, it was assumed that these transfers could be reduced based on the anticipated receipt of Hayes Mansion sale proceeds. Other items in this category include savings from the reorganization of the Finance

General Fund Balancing Strategy Detail 2017-2018 Adopted Operating Budget

ADOPTED BUDGET BALANCING STRATEGY

Use of Funds

Cost Reductions/Service Delivery Efficiencies/Fund Shifts (Cont'd.)

Department (\$78,000) and a variety of budget decreases in certain areas to fund increases in other areas (\$233,000).

Revenue Related Rebudgets to Support 2016-2017 Projects

The Adopted Budget included grant and reimbursement-related expenditures totaling \$3.8 million that were rebudgeted from 2016-2017 to complete the associated projects in 2017-2018. These expenditure adjustments were offset by revenue rebudgets.

Unmet/Deferred Technology, Infrastructure, and Maintenance

The Adopted Budget included expenditures totaling \$1.9 million to allocate additional funding to the Pavement Maintenance Program (\$1.0 million), renovate the Camera 3 Theater (\$500,000), assist in the completion of the Children's Discovery Museum Bill's Backyard project (\$400,000), and explore indoor programming for History San José (\$25,000).

New Grants/Reimbursements/Revenue-Supported Expenditures

Expenditure changes related to new grant or reimbursement activity totaled \$1.1 million. These grant and reimbursement expenditures were offset by additional revenue.

Development Fee Programs

The Adopted Budget included \$75,000 of new resources in the Development Fee Programs (Building) to provide mobile devices for building inspectors in the Planning, Building and Code Enforcement Department.

General Fund Balancing Strategy Detail

2017-2018 Adopted Operating Budget

ADOPTED BUDGET BALANCING STRATEGY

Use of Funds

2018-2019 Future Deficit Reserve

The Adopted Budget included a decrease of \$5.85 million (from \$15.0 million to \$9.15 million) to the 2018-2018 Future Deficit Reserve to offset the actions related to the termination of the Hayes Mansion purchase and sale agreement. These actions included an increase in the transfers to the Community Facilities Revenue Fund (\$3.5 million) and the Municipal Golf Course Fund (\$2.04 million), and a decrease to the Transfers and Reimbursements revenue estimate of \$307,000.

Use of Reserves

The Essential Services Reserves was liquidated in the amount of \$3.1 million to offset investments described in the Mayor's June Budget Message for Fiscal Year 2017-2018. The Alternative Pension Reform Measure (Measure F) Implementation Reserve was liquidated in the amount of \$3.0 million to offset the anticipated increases in retirement contribution costs with the passage of Measure F in November 2016. Other actions included the liquidation of the Project Hope Pilot Program Reserve (\$108,000) to fund the program in 2017-2018, and the reduction of the Building Development Fee Program reserve by \$75,000 for the purchase of mobile devices for inspectors.

Future Implications

As shown in Table IV, the 2017-2018 Adopted Budget was balanced as a result of the above actions. Due to the termination of the Hayes Mansion purchase and sale agreement late in the budget development process, the subsequent budget adjustments that could be made in a short period of time result in a very small ongoing deficit of \$416,000, which will slightly add to the 2018-2019 deficit of \$34.8 million projected in the 2018-2022 forecast. Though the 2018-2019 Future Deficit Reserve of \$9.2 million will partially address this shortfall, it is important to note that all of the assumptions used to develop this projection will be revisited in the development of the 2019-2023 Five-Year General Fund Forecast that informs the adoption of a balanced budget in 2018-2019.