

October 21, 2016

Honorable Mayor and City Council:

The 2016-2017 Adopted Operating Budget is a balanced budget that continues our 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 2016-2017. It also considers other City Council priorities, recent community outreach and surveys, other departmental and organizational priorities, and forecasts for future revenues and expenditures.

As a starting point in the development of the 2016-2017 budget, the General Fund Five-Year Forecast was issued in February 2016. For the General Fund, revenues and expenditures were projected to remain in very close alignment over this five-year period, with variances of less than 1% annually. This is an extremely tight tolerance that constrains our ability to restore service levels as quickly as we would like, and it limits our ability to make long-term investments for maintenance and replacement of essential infrastructure. Given this outlook, this budget holds the line with a limited number of new additions in strategically important areas. It maintains existing service levels, while also providing limited enhancements to service delivery in priority areas, providing some investments in our infrastructure, and continuing to provide incremental increases in employee compensation in order to remain competitive as an employer in this challenging labor marketplace.

Although our budget outlook is relatively stable, it is not robust; the City continues to face a long-term "service level deficit." The lack of ongoing resources has not allowed the City to restore services to pre-recession levels. To help address some of the most critical needs, San José voters approved a local Sales Tax measure in June 2016. Priorities for the use of these funds include public safety services and other critical services, such as pothole repair, pavement maintenance and rapid rehousing of the homeless. This one-quarter cent sales tax measure will provide an estimated \$40 million annually, with \$30 million generated in the first year given the implementation date (October 2016) of the measure. The City will also continue, of



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course, 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.

Planning for 2016-2017 and the Future

An extensive budget process was undertaken to prepare the 2016-2017 Adopted Budget. It incorporates the City Council priorities identified through the March and June Budget Messages for Fiscal Year 2016-2017, strategic plans and strategies for particular focus areas in the City (e.g. Envision San José 2040 General Plan, San José Green Vision, Water Pollution Control Plant Master Plan), departmental input, and community input through an annual community budget survey, the Community Budget Priority Setting Session, and community budget meetings in each City Council District. The Adopted Budget also reflects the Budget Balancing Strategy Guidelines contained in the City Manager's Budget Request for Fiscal Year 2016-2017 that were adopted by the City Council as part of the approval of the Mayor's March Budget Message for Fiscal Year 2016-2017. The overarching goals of these guidelines are to continue operational and fiscal stability while delivering services to our community in a cost-effective manner. This includes keeping General Fund revenues and expenditures in balance while maintaining or adding resources, in limited cases, to continue programs funded on a one-time basis in 2015-2016, as appropriate, to address significant organizational or community risk, and/or to address key service restorations identified by the City Council as priorities. In addition, the Adopted 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.

In February 2016, the City Manager's Budget Request and 2017-2021 Five-Year Forecast and Revenue Projections for the General Fund and Capital Improvement Program was released (<http://www.sanjoseca.gov/index.aspx?nid=4950>) that served as the starting point in the development of the 2016-2017 Adopted Budget. It provided the financial outlook for the City and the General Fund over the next five years, which allows for a multi-year perspective for planning purposes.

Key City Service Area Priorities

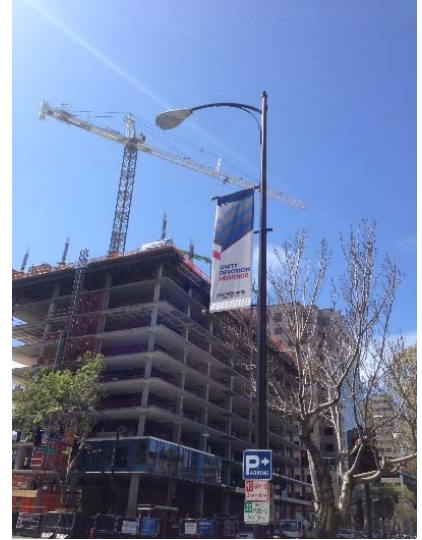
Although most of this budget message describes changes and approved budget actions that address incremental improvements, it is important to keep in mind that most of the City's budget is allocated to delivering basic services, year after year. In the context of a one-billion-dollar General Fund budget and a two-billion-dollar operating budget, only a small percentage is allocated to new proposals. 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, issues, and trends in these CSAs are briefly described below.

Key City Service Area Priorities

Community and Economic Development. 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, assist, recruit, and nurture businesses that can create jobs and expand the City's tax base to support essential public services.
- Support cultural vibrancy and economic vitality through community arts organizations, cultural facilities, and special events working with community partners to leverage City resources.
- Continue to implement the City's "Envision San José 2040 General Plan" and other plans through the creation of urban villages, active community partnerships, and ongoing relationships with neighborhoods and the development community.
- Further enhance the experience of customers interacting with the full range of Development Services by ensuring that staffing, systems, and standards are responsive and timely.
- Collaborate with *Destination: Home* and other community and government partners to advance toward the goal of ending chronic homelessness in San José and Santa Clara County through a regional strategic planning process, services, and investments.
- Implement a Rapid Rehousing Program that will provide supportive housing services in order to relocate people to safer, healthier, and sustainable conditions.



- ***Environmental and Utility Services.*** The San José Green Vision 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 in this CSA include:



- Oversee programs to collect, recycle, and dispose of solid waste to maximize diversion from landfills, minimize inefficient use of limited natural resources, and protect public health, safety, and the environment.
- Support critical utility systems, sustainable infrastructure, innovative energy initiatives, and conservation behaviors across the San Jose community through public education, public-private partnerships, and leadership through the City's Green Vision.

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Key City Service Area Priorities

- Promote the health of the San Francisco South Bay watershed, the waters of the Bay, and its tributaries through the collection, treatment, and management of wastewater and stormwater runoff through advanced wastewater treatment, litter and pollution prevention programs, and public education.

- **Neighborhood Services.** 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 in this CSA include:

- Operate a resourceful and efficient model of public library services to ensure public access to a wide range of materials, information, and technology through its system of branch libraries and the main Dr. Martin Luther King, Jr. (MLK) Library. The priority in the coming year will be continuing the success of the new model of libraries operating at six days a week, with the increased use of volunteers, staff, and technologies including a new mobile technology vehicle, one of the first of its kind. In 2016-2017, the Library will also expand educationally-focused services throughout the library system and implement a new business and career center at the MLK Library.



- Animal Care and Services will focus on health and safety services, such as calls related to aggressive and injured animals, and shelter services that continue to provide low-cost and free spay and neuter services and animal adoption service.

- Neighborhood clean-ups will continue to be available throughout the city to ensure convenient methods of reducing trash and illegal dumping.

- Parks, Recreation and Neighborhood Services (PRNS) will continue to use a multi-service delivery community center “hub” model that ensures that core services and recreation options remain available for residents of all ages throughout the community, along with services provided by community partners at 39 re-use sites. PRNS will also continue to support opportunities for outdoor leisure activities through the operation of several regional parks.



- PRNS will continue to support and operate the Mayor’s Gang Prevention Task Force Youth Intervention programs, services, and partnerships to improve neighborhood safety.

- Code Enforcement field inspection staff will continue to respond to Emergency and Priority complaints within 24 and 72 hours, respectively.

- **Public Safety.** 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:

Key City Service Area Priorities

- 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.

- ***Transportation and Aviation Services.*** 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.

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

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Key City Service Area Priorities

- Attract and retain well-qualified City employees, who can consistently provide efficient services through skill, innovation and creativity, and effective and competitive recruitment and selection processes.
- 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.
- 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.



Total Adopted Budget

In the 2016-2017 Adopted Budget, the total net funding is \$3.2 billion for all City funds (General, Special, and Capital). This is \$26.0 million (0.8%) above the 2015-2016 Adopted Budget (Table 2 below). This slight increase reflects growth in the Operating Funds (General Fund and Special Funds), partially offset by a decline in the Capital Funds. The drop in the Capital Budget is primarily due to the large construction projects being completed or nearing completion in the Sanitary Sewer System Program and the Water Pollution Control Program.

2016-2017 Adopted Budget — All Funds (Table 2)			
	2015–2016 Adopted	2016–2017 Adopted	% Change
General Fund	\$ 1,215,409,515	\$1,271,288,298	4.6%
Special Funds	1,603,506,240	1,735,677,755	8.2%
<Less: Operating Transfers>	(614,133,445)	(658,108,714)	7.2%
Net Operating Funds	2,204,782,310	2,348,857,339	6.5%
Capital Funds	996,722,294	878,413,605	(11.9%)
<Less: Capital Transfers>	(11,317,000)	(11,123,000)	(1.7%)
Net Capital Funds	985,405,294	867,290,605	(12.0%)
Total	\$ 3,190,187,604	\$ 3,216,147,944	0.8%

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Position Impacts

This Adopted Budget includes increases to staffing levels to support a variety of activities, such as the development fee programs, the Water Pollution Control Plant capital program, continuation of one-time activities funded in 2015-2016, and limited enhancements to other critical services. Overall, the level of staffing will increase by a net 214 positions (a total of 34 positions are one-time funded), from 5,945 full-time equivalent positions in the 2015-2016 Adopted Budget to 6,159 positions in the 2016-2017 Adopted Budget, as shown in Table 3 below. This 3.6% increase still leaves City staffing well below its peak of almost 7,500 positions in 2001-2002. Of the 214 positions added, almost half (100 positions) are supported by revenues, reimbursements or net-zero shifts.

Changes in Position Count (All Funds) from 2015-2016 Adopted to 2016-2017 Adopted Budget (Table 3)	
2015-2016 Adopted Budget	5,945 positions
2016-2017 Base Budget Changes	-13 positions
2016-2017 Adopted Budget Changes – General Fund	75 positions
2016-2017 Adopted Budget Changes – General Fund (offset by revenues, reimbursements, or net-zero shifts)	100 positions
2016-2017 Adopted Budget Changes – Other Funds	52 positions
Total Net Position Changes	214 positions
2016-2017 Adopted Budget	6,159 positions

Employee Compensation

As a service organization, City employees are critical in the delivery of quality services to our community. In order to maintain service level stability, it is very important that we retain and attract quality employees. In recognition of this important goal, the 2016-2017 Adopted Budget includes funding of \$25.3 million in the General Fund (\$33.5 million in all funds) for salary increases, as shown in Table 4 below.

2016-2017 Adopted Budget Funding for Salary Increases (Table 4)		
	General Fund	All Funds
General Wage Increases	\$ 21.0 M	\$ 27.2 M
Automatic Step Increases	2.0 M	2.5 M
Management Pay for Performance	1.5 M	3.0 M
Employee Market Competitiveness Reserve*	0.8 M	0.8 M
2016-2017 Salary Increases	\$ 25.3 M	\$ 33.5 M

* Funding set aside for Employee Market Competitiveness may be subject to meet and confer with the City's bargaining units.

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General Fund Budget

As described above the 2017-2021 Five-Year Forecast served as the starting point in balancing the 2016-2017 Adopted Budget. Over the next five years, a small surplus is projected in 2016-2017, followed by small shortfalls in the remaining four years. These variances represent less than 1% 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.

As displayed in Table 5 on the following page, the 2016-2017 Adopted General Fund Budget Balancing Plan includes actions that allocate a \$6.9 million surplus as well as \$78 million of additional funding, which primarily consists of reserves and expenditure savings that are being carried over to 2016-2017 as well as the \$30 million from the local sales tax measure approved by the voters in June 2016. This table shows the matrix of balancing strategies and the dollars associated with each action. A complete discussion of the balancing strategies can be found in Attachment A and throughout the Adopted Budget. Attachment B also responds to the directives contained in the Mayor's March Budget Message for Fiscal Year 2016-2017 that was approved by the City Council on March 29, 2016. Adopted Budget actions that respond to City Auditor referrals requiring additional funding are described in Attachment C.

2016-2017 ADOPTED OPERATING BUDGET MESSAGE

General Fund Budget

2016-2017 Adopted Operating Budget General Fund Budget Balancing Plan (in 000's) (Table 5)		
	2016-2017	Ongoing
2016-2017 Base Budget General Fund Surplus	\$ 6,935	\$ 6,935
Balancing Strategy		
Additional Source of Funds		
Beginning Fund Balance:		
Sales Tax – State Triple Flip Wind Down	\$ 12,100	\$ 0
2016-2017 Police Department Overtime Reserve	5,000	0
Police Department Vacancy Savings	5,000	0
Property Tax – Educational Revenue Augmentation Fund Excess	4,600	0
Development Fee Reserves	3,892	2,635
Cultural Facilities Capital Maintenance Reserve	3,708	0
Police Department Staffing/Operations Reserve	1,596	0
Employee Market Competitiveness Reserve	1,250	0
Staffing for Adequate Fire and Emerg. Resp. (SAFER) Grant Reserve	676	0
Other Revenue/Expenditure Savings/Reserve Liquidations	3,658	0
Sales Tax	30,000	40,000
Grants/Reimbursements/Fees:		
Other Fee Programs/Reimbursements/Grants	3,163	668
PRNS Fees (e.g., Comm. Ctr. Rentals and Programs, HHPZ, Leininger)	1,918	2,015
Medical Marijuana	533	792
Library Fines and Fees	(135)	0
Other Revenue Changes:		
Property Tax	1,112	1,112
Transient Occupancy Tax	(869)	(869)
Overhead/Transfers from Other Funds	1,174	810
Subtotal Source of Funds	\$ 78,376	\$ 47,163
Additional Use of Funds		
Service Level Enhancements	\$ 30,053	\$ 17,869
Unmet/Deferred Technology, Infrastructure, and Maintenance	28,648	195
2015-2016 One-Time Funded Services	9,104	88
Earmarked Reserves (e.g., Budget Stabilization Reserve, Silicon Valley Regional Communication System, Fire Station 37 Construction Reserve)	10,386	0
2017-2018 Future Deficit Reserve	3,019	8,047
Development Fee Programs	3,431	2,301
Other Fee Programs/Grants/Reimbursements	4,417	2,261
New Infrastructure/Equipment Operations and Maintenance	1,787	2,160
Use of Reserves (e.g., Cultural Facilities, Committed Add., Def. Maint.)	(4,467)	(3,023)
Cost Reductions/Service Delivery Efficiencies/Fund Shifts	(1,067)	(575)
Subtotal Use of Funds	\$ 85,311	\$ 29,323
Total Balancing Strategy	\$ (6,935)	\$ 17,840
Remaining Balance	\$ 0	\$ 24,775

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

June 2016 Sales Tax Ballot Measure

In June 2016, voters in San José approved a local one-quarter cent sales tax measure that will be in effect for 15 years. With an October 2016 implementation date, this measure is projected to generate \$30 million in 2016-2017 and \$40 million on an ongoing basis.

In preparation for the potential passage of the measure, the City Council directed the Administration to bring forward a 2016-2017 Provisional Budget as a Manager's Budget Addendum during the budget process. This provisional budget (Manager's Budget Addendum #14) outlined the proposed use of \$30 million in additional revenue that is estimated to be received in 2016-2017 and was incorporated into the 2016-2017 Adopted Budget. This plan prioritized public safety services and other critical services, such as pothole repair, pavement maintenance and rapid rehousing of the homeless.

In 2016-2017, the \$30 million was allocated to the following:

- Maintain and repair major streets (\$17.7 million)
- Improve Police Response – Add Sworn Police Officers (effective in 2017-2018, \$0 in 2016-2017 and \$6.9 million ongoing)
- Improve response times to fire and medical emergencies (\$4.9 million)
- Improve fire response – Fire Station 37 construction and addition of squad unit (\$2.2 million)
- Reduce homelessness (\$2.0 million)
- Improve response to burglary and neighborhood crimes (\$1.5 million)
- Expand Police recruitment, hiring and retention efforts (\$1.5 million)
- Working smarter to reduce and solve crimes (\$210,000)

No budget allocation was included in 2016-2017 for the addition of 41.0 sworn Police positions as there will be a lag in hiring these new positions given the current number of sworn vacancies as well as the screening, testing and backgrounding time necessary to hire sworn personnel. It is anticipated that these positions would be added effective February 2018.

On an ongoing basis, the focus of the additional sales tax funding will be on improving public safety (e.g., additional police officers to improve emergency response times, reduce violent and non-violent crimes, and increase neighborhood patrols, as well as additional fire resources to improve fire and emergency medical response times); maintaining and repairing major streets (e.g., increase pavement maintenance funding for major streets to significantly slow the incidence of pothole formation and general pavement deterioration); and neighborhood services (e.g., additional resources for reducing homelessness, increasing youth and senior services, and other high priority neighborhood services such as blight eradication and gang prevention).

Focused Approach to Address Priority Community and Organizational Needs

The Adopted Budget balances many competing community and organizational needs and maintains the City's strong commitment to budget stability. Consistent with the Mayor's March and June Budget Messages for Fiscal Year 2016-2017, as approved by the City Council, as well as other City Council priorities, recent community outreach and surveys, and other departmental and organizational priorities, major actions approved in the Adopted Budget, across all funds, will focus on the following priority themes:

- ✓ **Save** (setting aside resources to ensure fiscal stability)
- ✓ **Invest and Innovate: Safety** (investments that address public safety needs)
- ✓ **Invest and Innovate: Economic Opportunity** (investments that expand opportunities for our residents and businesses)
- ✓ **Invest and Innovate: Our Future** (investments that better position the City moving forward)
- ✓ **Invest and Innovate: Our Community** (investments that support a vibrant community)
- ✓ **Invest in Making San José America's Most Innovative City:** (investments that support innovation and strategic partnerships as well as increase transparency and community input)

Those items that respond to direction in the Mayor's March and June Budget Messages for Fiscal Year 2016-2017, as approved by the City Council, are designated *Mayor's March Budget Message/ Mayor's June Budget Message* at the end of the description.

SAVE *(setting aside resources to ensure fiscal stability)*

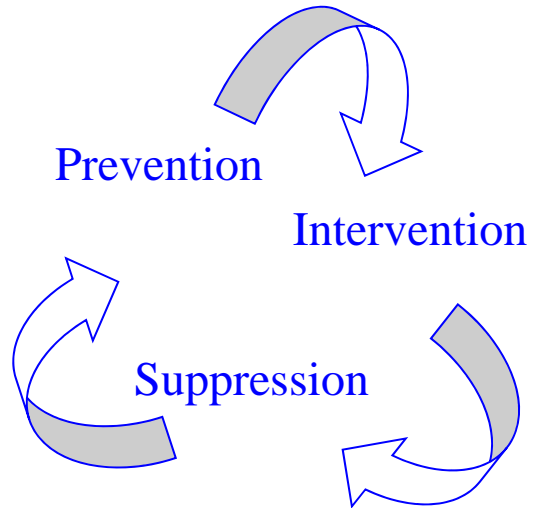
- **Budget Stabilization Reserve** – Adds \$6.3 million to the Budget Stabilization Reserve (to bring the total reserve to \$16.3 million) to provide budget stability when there are fluctuations that result in lower than projected revenues and/or higher than projected expenditures that cannot be re-balanced within existing budget resources in any given year. This reserve is intended to provide a buffer, or bridge funding, to protect against reducing service levels when these fluctuations occur. (Mayor's March and June Budget Messages)
- **2017-2018 Future Deficit Reserve** – Sets aside funding in a 2017-2018 Future Deficit reserve to fully solve the projected 2017-2018 General Fund shortfall projected in the 2017-2021 General Fund Five-Year Forecast. This reserve consists of a combination of one-time (\$3.0 million) and ongoing (\$8.0 million) funding. (Mayor's March Budget Message)
- **Contingency Reserve** – Adds \$1.0 million to the Contingency Reserve (to bring the total reserve to \$35.5 million) to ensure compliance with the 3% funding requirement for the 2016-2017 General Fund Budget.
- **Securing Future Savings in Pension and Retiree Healthcare Costs** – Adds one-time funding of \$55,000 for polling costs related to a November 2016 Ballot measure to implement the Alternative Pension Reform Settlement Framework Agreements recently negotiated with all bargaining units. (Mayor's March Budget Message)

Focused Approach to Address Priority Community and Organizational Needs

INVEST AND INNOVATE: Safety
(investments that address public safety needs)

Adding Front-Line Public Safety Resources

- **Police Overtime** – Increases the Police Department overtime budget by \$5.0 million (from \$12.5 million to \$17.5 million), offset by the use of a \$5.0 million Police Overtime Earmarked Reserve established as part of the 2015-2016 Mid-Year Budget Review. Although the Department is conducting police officer recruit academies to hire for the sworn vacancies, the Department is anticipated to begin 2016-2017 with approximately 190 sworn vacancies based on current attrition rates. It is anticipated that additional overtime funding will be needed to continue backfilling for vacant patrol positions, maintain targeted enforcement of high crime activity through suppression cars, conduct high profile investigations, and backfill for civilian vacancies as needed.



- **Sworn Police Officers** – Adds 41.0 sworn Police positions (1.0 Police Lieutenant, 7.0 Police Sergeants, and 33.0 Police Officers) effective February 2018, increasing the sworn staffing level from 1,109 to 1,150. These positions will augment the patrol and investigations functions, which will improve response times to calls for service, enhance proactive policing efforts, and improve clearance rates by investigating additional cases and increasing follow-up investigative efforts. Because there will be a one year delay in position hiring as the Police Department works to fill sworn vacancies, it is assumed that these positions will enter the February 2018 Police Academy.



- **Community Service Officer Program** – Adds 19.0 ongoing positions (14.0 Community Service Officer I/II, 4.0 Senior Community Service Officer, and 1.0 Supervising Community Services Officer). These positions are expected to enter the academy in March 2017 and be street ready in June 2017. The Community Service Officer Program will increase from 54 positions to 73 positions to handle low-priority calls for service, freeing time for sworn officers to respond to higher-priority calls for service and conduct proactive police work. The CSOs perform non-hazardous and non-emergency police functions, including field report writing, interviewing witnesses, conducting follow-up investigations, collecting evidence, photographing and fingerprinting at crime scenes, and other various tasks in support of the Patrol Division.

Focused Approach to Address Priority Community and Organizational Needs

- ***Working Smarter to Reduce and Solve Crimes*** – Adds 5.0 Crime and Intelligence Analyst positions to support the Field Patrol and Special Operations programs with an anticipated start date of January 2017. The Analysts will support Police Captains in analyzing and reporting on real time divisional crime trends through the daily use of the Department’s crime dashboard, crime mapping, and crime reporting software, allowing for consistency and continuity in this work even through command change. In concert with each Police Captain, the positions will also help develop comprehensive strategies and plans for issues such as violent crimes, gang incidents, quality of life, and property crimes, as well as liaison with other partners to promote crime reduction strategies.
- ***Downtown Police Foot Patrol Program*** – Increases the Police Department overtime budget by \$580,000 to continue the Downtown Foot Patrol program for an additional year. This program was implemented in 2013-2014 to enhance safety and security, support ongoing surveillance and apprehension projects, and allow specialized units such as the Downtown Services Unit to focus on high crime activity. This program will continue to deploy four Police Officers and one Police Sergeant on a 5 hours per day, 5 days per week schedule to address concerns that were raised from businesses and the public regarding safety levels downtown. as part of their regular required uniforms for sworn positions.
- ***Crossing Guards*** – Adds one-time funding of \$200,000 spread over a two-year period to add 2.25 School Crossing Guard Part-Time positions. The allocation of the crossing guards is to be based on intersections that score highest on the DOT’s criteria, but with specific emphasis on adding crossing guards at Steindorf Elementary and near O.S. Hubbard Elementary Schools. (Mayor’s June Budget Message)
- ***Medical Marijuana Control Division Staffing and CEQA Review*** – Adds 2.0 positions to the Police Department and establishes the Division of Medical Marijuana Control to coordinate regulatory efforts across multiple departments and agencies. These positions, along with existing positions in the Attorney’s Office, and Police, Finance, and the PBCE Departments will regulate the 16 registered collectives. Funding of \$250,000 is also added to support the California Environmental Quality Act (CEQA) review of medical marijuana growing facilities.
- ***Fire Engine 30 and 34 Restoration/Squad Unit Realignment*** – Adds 12.0 positions and reallocates existing staff to restore Fire Engines 30 and 34. Staff from two squad units (4 and 18) will be redistributed to staff one of the Engine companies. Fire Engines 30 and 34 will provide needed suppression and water supply capabilities as well as the necessary resources to respond to house fires, life threatening injuries and illnesses, and more complex emergency incidents.
- ***Fire Minimum Staffing Overtime to Improve Response Times*** – Restores ongoing overtime funding of \$2.4 million to maintain Fire Department sworn minimum staffing levels, which will prevent the “browning out” (placing out of service) of any fire companies when there are staff absences. With these additional front-line resources, response times for fire and medical emergencies will improve and provide more operational stability.



Focused Approach to Address Priority Community and Organizational Needs

- **Office of Emergency Services** – Adds 1.0 Senior Analyst ongoing and 1.0 Analyst through June 30, 2017 to support the Office of Emergency Services (OES) by providing financial and grant management. In addition, a one-time increase of \$411,000 will provide resources to support the OES and the Emergency Operations Center (EOC), including contractual services for a planning specialist to develop and coordinate the Emergency Operations Plan (EOP), multi-jurisdictional hazard mitigation plans, and the supporting Standard Operating Procedures and Field Operating Guides; replacement of primary equipment at the EOC; and contractual services for emergency planning and support for emergency training exercises.

Leveraging Technology and Investing in Infrastructure

- **Police Body Worn Camera Program** – Adds 3.0 ongoing positions and 2.0 temporary positions through June 30, 2017, and \$814,000 in non-personal/equipment funding to implement a Body Worn Camera Program. The Police Department plans phasing in the issuance of body cameras
- **Police Department AIR2 Helicopter Engine Replacement** – Provides one-time funding of \$535,000 in the State Drug Forfeiture Fund to overhaul the helicopter engine, which should extend the life of the existing helicopter by up to three years until funding is identified to purchase a new helicopter. (State Drug Forfeiture Fund)
- **Silicon Valley Regional Communications System Reserve** – Increases the Silicon Valley Regional Communications System (SVRCS) Reserve by \$1.4 million, which fully funds the City's portion of the infrastructure buildout for SVRCS of \$7.5 million. The City's total one-time need for SVRCS is \$24.6 million (\$7.5 million for the infrastructure buildout, \$14.6 million for new radios, and \$2.5 million for new dispatch consoles), with a total unfunded need of approximately \$4.3 million (\$2.0 million for radios and \$2.3 million for dispatch consoles).
- **Police Business Permit and Licensing System** – Provides one-time funding of \$500,000 to replace the Police Department's antiquated Business Permit and Licensing software to increase efficiency and accuracy for the Permit Unit's operation.
- **Master Address Database** – Adds 1.0 position through June 2018 and contractual services funding to implement a Master Address Database to be used city-wide. This database can improve fire and police response times, enable better use of data analytics to assess and improve service delivery, streamline staff work time, and improve the City's ability to become more innovative, as address information is a major backbone for these efforts. (Mayor's March Budget Message)
- **License Plate Readers** – Adds one-time funding of \$165,000 to purchase eight camera-based license plate readers, which will help locate and recover stolen vehicles, improving arrest rates for auto theft and other investigations. (Mayor's June Budget Message)



Police Intelligence Technology Enhancements – Provides ongoing funding of \$25,000 for the Police Department's Special Investigations Unit to invest in technology that will increase efficiency in location-based social media intelligence gathering in order to deter criminal activity. (Mayor's March Budget Message)

Focused Approach to Address Priority Community and Organizational Needs

- ***Gang Investigations Technology Enhancements*** – Adds one-time funding of \$21,000 for a bridge software program, creating efficiencies within the Police Department’s Gang Investigations Unit by reducing the current manual review process. This bridge software will electronically connect between the Police Department’s records management system and the statewide shared gang database to help identify possible gang-related entries. (Mayor’s March Budget Message)
- ***Civilian Leadership in the Police Department Bureau of Technical Services*** – Adds 1.0 Deputy Director position to the Police Department’s Bureau of Technical Services to assist in implementing data analytics tools to advance predictive policing strategies that will help reduce high-frequency and geographically focused crimes, such as burglary and drug-dealing. To provide capacity for the Assistant Police Chief, the existing Deputy Police Chief position assigned to the Bureau of Technical Services will be relocated to the Office of the Chief to oversee various units such as vice, gaming, and internal affairs. (Mayor’s March Budget Message)



- ***Using Technology to Improve Emergency Response*** – The 2016-2017 Adopted Capital Budget includes \$1.3 million for an Internet Protocol (IP)-based alert system for the Fire Department. IP-based alerting with text-to-speech broadcasts are expected to reduce emergency response times. The IP system allows the broadcast event to happen immediately upon the unit assignment with a less than one second delay. This system

has been effective in reducing response times by an average of 30 seconds per call during the first year of implementation for similar organizations. (Mayor’s March Budget Message)

- ***Emergency Vehicle Preemption Service***– Adds one-time funding of \$1,200,000 for emergency vehicle preemption service at all signalized intersections to help improve response times to fire and medical emergencies. This project will allow for the integration of the Transportation Department’s traffic management control system and the automated vehicle location feature that exists in the Fire Department’s Computer Aided Dispatch (CAD) System, combined with minor software updates. The completion of this integration and future additional funding will allow for further response time improvements through the ability to add routing capability for fire apparatus (e.g., to avoid traffic congestion or road closures due to construction).
- ***Fire Station 37 Construction Reserve*** – establishes a Fire Station Construction Reserve of \$960,000 in the General Fund. These funds are a down payment on the preliminary additional estimated total amount of \$5.5 million needed to supplement General Obligation Bond funding of \$4.5 million to construct Fire Station 37 in Willow Glen and to purchase the necessary furniture, fixtures, equipment, and fire engine for the new station. This is the remaining project to be funded by the Public Safety Bond Program (Measure O, 2002). With a design and construction period of approximately three years, the earliest this fire station would be operational is 2019-2020. Funding for the Fire Station’s remaining one-time construction and equipment costs of at least \$4.5 million as well as the ongoing operating and maintenance costs of approximately \$3.7 million will be required to be identified in future budgets.

2016-2017 ADOPTED OPERATING BUDGET MESSAGE

Focused Approach to Address Priority Community and Organizational Needs

- ***Emergency Mass Warning*** – Adds one-time funding of \$127,000 for a portable mass warning siren/speaker system/alert system, and \$42,000 to conduct a Mass Warning Study and Pilot Program. (Mayor’s June Budget Message)
- ***Traffic Safety in Every Council District*** – Adds \$1.0 million (General Fund/Construction Excise Tax Fund) to create a city-wide program for traffic safety and calming, allocating \$100,000 to each Council District. (Mayor’s June Budget Message)
- ***Reducing Crime and Illegal Dumping with Better Lighting*** – Adds one-time funding for improved lighting to combat violence, auto burglaries, and illegal dumping. Lighting will be added at the Alma Community Center (\$38,000), Sebastian Borello Drive (\$160,000), and the end of Chynoweth Avenue (\$28,000). Also adds funding of \$141,000 to incorporate the Capitol Expressway and Jackson Avenue underpasses in Phase I of the citywide underpass mural project called Neighborhood Gateway Gallery. (Mayor’s June Budget Message)



Investing in Community Programs that Improve Public Safety

- ***Emergency Preparedness*** – Adds one-time funding of \$130,000 to reinstate the Community Emergency Response Team (CERT) training program. (Mayor’s June Budget Message)
- ***Cadillac Neighborhood Pilot Program*** – Adds one-time funding of \$209,000 to support an 18-month program in the Cadillac neighborhood analogous to “Project Crackdown” of the 1990s that uses principles of community partnership, neighborhood empowerment, and coordination of a broad range of City services to address the problems of gangs, drugs and neighborhood blight. (Mayor’s June Budget Message)
- ***Park Ranger Program*** – Adds 1.0 ongoing Park Ranger position to provide a roving presence in parks with high criminal activity. (Mayor’s June Budget Message)
- ***Alum Rock Youth Center*** – Adds one-time funding of \$50,000 to expand after-school hours at the Alum Rock Youth Center. The area immediately surrounding this center has been identified as a “gang hotspot”. (Mayor’s June Budget Message)
- ***Anti-Human Trafficking Program*** – Adds ongoing funding of \$50,000 to continue support for the South Bay Coalition to End Human Trafficking coordinator contract.
- ***Crime Prevention Meeting Space*** – Adds one-time funding of \$10,000 to offset rental costs for City and non-City facilities in order to support neighborhoods that do not have or cannot afford a location to host Neighborhood Watch meetings. (Mayor’s March Budget Message)
- ***Domestic Violence Prevention Program*** – Adds \$15,000 to fund events that bring awareness and support to domestic violence prevention and support programs in the City. This funding will augment services provided by the Police Department Family Violence Unit and includes support for the Domestic Violence Conference and other prevention and awareness events and activities.

Focused Approach to Address Priority Community and Organizational Needs

- ***Fireworks: Enforcement and Safer Alternatives*** – Adds one-time funding from the Transient Occupancy Tax (TOT) Cultural Facilities Reserve to continue the Independence Day Celebration Grant program. In addition, the Administrative Citation Schedule of Fines for Certain Violations of the San José Municipal Code, Section 17.12 was amended on April 12, 2015 for fire violations, including use of illegal fireworks. This amendment lowers the fine from \$500 to \$350 for the first violation, increases the fine from \$700 to \$750 for the second violation, and maintains the \$1,000 fine for subsequent violations within a 12-month period. These amounts are consistent with civil fines for fireworks violations in the County of Santa Clara. (Mayor’s March Budget Message)
- ***San José Works*** – Adds one-time funding of \$1.5 million to continue the San José Works youth initiative effort, which focuses on strengthening the City’s partnerships, such as those through the Mayor’s Gang Prevention Task Force, to identify, recruit, train, and place at-risk youth in jobs. This initiative targets youth in gang and crime hot spots and offers economic opportunity for the City’s young residents. (Mayor’s March Budget Message)

Supporting Public Safety Efforts

- ***Police Recruitment, Hiring and Retention Efforts*** – Adds one-time funding of \$1.5 million to establish a Police Recruitment, Hiring, and Retention Efforts appropriation. This funding will be used toward recruiting and hiring new and lateral police officers to the San José Police Department as well as retention efforts of existing sworn staff. In addition, continues one-time funding in the Police Department of \$325,000 for recruiting for sworn and civilian vacancies, bringing total departmental funding to \$425,000. This funding will be used to attend job fairs and recruiting events; conduct targeted radio, print, and social media marketing; and outreach in publications, community colleges, and military agencies. (Mayor’s March Budget Message and MBA #14)
- ***Fire Department Strategic Diversity Recruitment*** – Adds one-time funding of \$20,000 for temporary staff to assist the Fire Department with increasing diversity in their recruitment efforts.
- ***Police Department Staffing/Operations Reserve*** – Allocates \$2.0 million of the existing Police Department Staffing/Operations Reserve (\$2.5 million) to fund additions that support Police Department staffing and operations, including the Downtown Foot Patrol (\$580,000), Police Business Permit and Licensing System (\$500,000), expanded Police Recruiting program (\$325,000), 18-month pilot program in the gang-impacted Cadillac Neighborhood (\$209,000), license plate readers (\$165,000), Municipal Garage Lighting (\$85,000), Anti-Human Trafficking Program (\$50,000), Gang Investigations and Intelligence Technology Enhancements (\$46,000), and Crime Prevention Program Meeting Space (\$10,000).

Focused Approach to Address Priority Community and Organizational Needs

INVEST AND INNOVATE: Economic Opportunity *(investments that expand opportunities for our residents and businesses)*

Supporting the Business Community

- ***Business Improvement District Creation*** – Adds one-time funding of \$100,000 to provide grants or offset costs to support Business Improvement District (BID) formation. A BID provides a vehicle for small property and business owners to make collective contributions to the maintenance, development, and promotion of their commercial areas. Recently, various business associations and commercial areas, such as along Alum Rock Avenue, have expressed interest in creating a BID, yet are concerned regarding the expense of the administrative process. This funding will provide assistance to entities interested in creating a BID in their areas. (Mayor’s March Budget Message)
- ***Manufacturing Jobs Initiative*** – Adds one-time funding of \$200,000 to continue the Manufacturing Jobs Initiative to incentivize the retrofit of older, vacant industrial buildings by covering the cost of permit approvals. This will provide funds to offset the City’s permitting costs and taxes associated with manufacturing production facilities on a first-come, first-served basis for tenant improvement projects of 25,000 square feet or more. This initiative began in 2015-2016, and the funding was able to support four businesses (Space Systems Loral, Hansen Medical, Bentek, and Four In One Co.). It is anticipated that the continued funding will be able to support two to five projects in 2016-2017. The initiative seeks to expand middle-income job opportunities for residents lacking a college or other advanced degree. (Mayor’s March Budget Message)
- ***Airport Attraction Program*** – Adds one-time funding of \$425,000 to establish an International Air Service Destination Marketing Program. In order for Norman Y. Mineta San José International Airport (SJC) to sustain its growth, the City and Team San Jose will be partnering to launch a two-year program to promote San José in key foreign markets and to build brand awareness with the intent to gain a larger share of the global travel market. The funding for the second year of the program is set aside in the 2017-2018 Airport Attraction Program Reserve (Mayor’s March Budget Message/MBA #6)
- ***Development Fee Programs*** – Adds resources, including approximately 20 positions, to support the development fee programs (Building, Planning, Public Works, Fire) with no general fee increases necessary to meet service delivery demands. Resources will be added to improve customer service and cycle times for the Permit Center, address plan review workload and peak staffing needs; improve development program webpages and education materials; support recruitment and employee retention efforts; and provide necessary equipment and technology, such as vehicles and Plan Grid software for inspectors. Resources are also added to ensure the successful implementation of the new integrated permit system, including project management services and positions to lead the technical aspects of designing and testing the new system and backfill the subject-matter experts in Development Services to keep up with the ongoing workload.



Focused Approach to Address Priority Community and Organizational Needs

- ***San Jose Sports Authority*** – Adds one-time funding of \$350,000 to the annual funding for the San Jose Sports Authority (SJSA), increasing funding from \$348,200 to \$698,200. To drive additional economic opportunities, the majority of the funding (\$250,000) will go toward attracting an increased number of major sporting events, such as the Major League Soccer All-Star Game, College Football Championship, Figure Skating Championship, WWE/WrestleMania Bid, Amgen Tour of California Bid, and Rugby World Cup. The remaining funds (\$100,000) provide the third and final payment for the Women’s Gymnastics Olympic Trials that SJSA committed to the U.S. Olympic Gymnastics Federation to bring the 2016 Women’s Gymnastics Olympic Trials to San José (held July 8-10, 2016). (Mayor’s March Budget Message)

Positioning the City Moving Forward

- ***Diridon Station Area Planning*** – Adds one-time funding of \$351,500 to continue the coordination and development of the Diridon Station Area Plan, as approved by the City Council on June 17, 2014. Of this amount, \$140,000 is from the General Purpose Parking Fund and \$211,500 is from a California High Speed Rail Authority (CHSRA) grant from the \$600,000 total grant award from the CHSRA in 2015-2016. (Mayor’s March Budget Message)
- ***Economic Strategy Activation*** – Adds one-time funding of \$200,000 to perform economic development functions that were previously performed by the San Jose Redevelopment Agency. This funding will support the City’s business attraction, retention, and expansion efforts through marketing communications, business outreach, retail market analysis, and small business support.
- ***Economic Development Pre-Development Activities*** – Adds one-time funding of \$200,000 for Economic Development pre-development activities. These funds are used to cover a variety of consultant services, studies, and analyses, including appraisals and pro-forma analyses, economic and fiscal analysis, and property management related costs. The funding is anticipated be allocated to the following projects: Zanker/237 Property (\$75,000); Parkside Hall Development (\$25,000); Singleton Development (\$25,000). A remaining balance of \$75,000 will be available for unanticipated projects that may arise during the year.
- ***Policy and Ordinance Assistance*** – Adds one-time funding of \$250,000 for contractual assistance to help research and draft proposed changes to land use regulations in the San José Municipal Code and land use policy documents in order to facilitate the implementation of action items identified in the Envision San José 2040 General Plan and economic development. The funds will help in drafting proposed code and policy changes, such as those identified in the work program of the General Plan’s Housing Element, phases of the Council-adopted Sign Code Update strategy and various Council-directed priorities, including electronic billboards, super graphics signs, downtown sign district, and an urban agriculture ordinance.

Expanding Opportunities to Residents and Community

- ***Opportunity Court*** – The Housing Trust Fund includes \$250,000 of one-time funding to continue to provide homeless services, including case management through the Opportunity Court program. (Mayor’s March Budget Message)

Focused Approach to Address Priority Community and Organizational Needs

- ***Affordable Housing Impact Fees*** – Adds 1.0 Development Officer position in the Low and Moderate Income Housing Asset Fund to support the Multi-Family Affordable Housing Impact Fee Program. The Adopted Budget also includes the shift of funding for 1.0 Development Officer position from the Low and Moderate Income Housing Asset Fund to the Multi-Source Housing Fund to support the Affordable Housing Impact Fee Program. On November 18, 2014, the City Council adopted a resolution that established an Affordable Housing Impact Fee on new market-rate rental housing development of three or more units, which was recently upheld by the Supreme Court. This program is expected to grow to approximately \$20 million annually by 2020. (Mayor’s March Budget Message)
- ***Homeless Rapid Rehousing*** – Adds ongoing funding of \$2.0 million to double homeless rapid rehousing services, supported by the voter-approved sales tax measure. There is a significant demand for homeless services to address the needs of one of the City’s most vulnerable populations. This action will bring total ongoing rapid rehousing funding to \$4 million annually.

INVEST AND INNOVATE: Our Future (investments that better position the City moving forward)

- ***Children’s Health Fluoridation*** – Provides one-time funding of \$250,000 to the Health Trust to assist with securing an additional \$4 million from the State of California for fluoridation efforts in East San José. The Health Trust has spearheaded a public-private fundraising effort, securing \$6 million in funding from Santa Clara County, FIRST 5 Santa Clara County, and its own funds to advance fluoridation in East San José in cooperation with the water retailer. While the United States Center for Disease Control ranks fluoridation as one of the ten most impactful public health achievements in the last century, San José remains the largest U.S. city not completely served with fluoridated water, impacting the dental health of children. (Mayor’s March Budget Message)
- ***Community Choice Aggregation Study*** – Adds funding of \$300,000 for a technical study to determine the feasibility of launching a Community Choice Aggregation (CCA) in San José, in an effort to achieve the City’s renewable energy goals under the Green Vision. (A Community Choice Aggregation is a State-adopted policy that allows local governments to aggregate electricity in order to offer alternative energy supplies.) This study will include information regarding economic viability, an analysis of energy load data and customer base, whether the CCA could provide electricity rates that are competitive with the incumbent utility, governance models, renewable energy scenarios, and employment impact analysis, among other areas of analysis. (Mayor’s March Budget Message)
- ***Regional Rail Planning*** – Adds 1.0 position to provide transportation and environmental planning, and design coordination related to the increased regional rail projects. The position will coordinate the City’s involvement in the planning and construction of the Bay Area Rapid Transit (BART) rail from Berryessa Station through Downtown San José, California High Speed Rail from the Central Valley to Diridon Station, the electrification of Caltrain (2020), Caltrain Modification Phase 2 (2024), and the Blended System of Caltrain and High Speed Rail (2025). These regional projects involve a large degree of coordination with the other agencies and engineering expertise.

Focused Approach to Address Priority Community and Organizational Needs

- ***Family College Success Center*** – Adds one-time funding of \$75,000 in the form of a matching grant to the Hispanic Foundation of Silicon Valley to implement the Family College Success Center. This program is designed to boost high school graduation rates and improve college readiness among low-income students. (Mayor’s March Budget Message)
- ***Single Family Dwelling Waste Materials Processing (Phase III)*** – Provides ongoing funding of \$4.0 million for the sorting and processing of waste materials collected from single-family residences, commonly referred to as “back-end processing”, prior to landfill conveyance, with the goals of significantly increasing the amount of materials recycled and diverting waste sent to the landfills. The third phase of this effort will implement this service in an additional 30% of the city, increasing the residences served from 40% to 70%, and will cover single-family residences in the east and north portions of San José. The overall city-wide waste diversion from single-family residences (not including yard trimmings) would increase from 29%, as it was prior to implementing any back-end processing phases, to 60% by the end of 2016-2017. The cost will be partially offset by an anticipated \$1.4 million reduction in disposal costs.

INVEST AND INNOVATE: Our Community (investments that support a vibrant community)

Neighborhood Beautification Efforts

- ***Illegal Dumping Rapid Response Program*** – Realigns existing funding (\$150,000 in city-wide funding from PBCE to ESD) and personnel (2.0 Maintenance Worker II positions from DOT to ESD) and adds funding (\$300,000 one-time and \$100,000 ongoing) and personnel (1.0 Supervising Environmental Services Specialist position) to form an enhanced and more concerted response to illegal dumping. The Supervising Environmental Services Specialist will work across the City organization on strategies to focus and coordinate illegal dumping-related activities. The Maintenance Workers will respond to illegal dumping complaints from the public, provide illegal dumping coordination services for waste that cannot be removed by hauler trucks or waste that cannot go to the landfill, address the cleanup of larger dump sites, and oversee labor from the County’s judicial community service programs. The additional one-time (\$300,000) and ongoing (\$100,000) funds will expand the initial illegal dumping hot spot focus areas to cover the rest of the City for at least three years, increasing from approximately 13 square miles that were covered in the pilot program; continue complaint-driven responses as needed; and consolidate other illegal dumping activities, such as contractor street sweeping and neighborhood clean-up coordination. These activities are part of a larger city-wide effort to help reduce illegal dumping.
- ***Neighborhood-Led Beautification Days*** – Adds one-time funding of \$180,000 to expand neighborhood clean-ups by providing for up to six neighborhood-led beautification days for each of the City’s ten Council Districts in 2016-2017. The events would be staffed by Council District staff and neighborhood groups, rather than City departmental staff. Such beautification days enable San José residents to dispose of unwanted items, but also have a broader impact in providing an important tool to deter illegal dumping, reduce criminal activity associated with signs of disorder, and otherwise enhance the quality of life for many struggling neighborhoods. This enhancement will bolster the current city-wide Neighborhood Clean-Up program that rotates through all neighborhoods once every three years. (Mayor’s March Budget Message)

Focused Approach to Address Priority Community and Organizational Needs

- ***Neighborhood Blight Eradication*** – Adds one-time funding of \$430,400 for a pilot program to provide work experience opportunities for homeless individuals by addressing litter and illegal dumping in highly affected neighborhoods. The funding will support a team of 15 workers, two supervisors, vouchers, supplies and administrative costs and will provide clean-up five days per week. This pilot will fully fund the placed-based neighborhoods (Mayfair, Santee, and Five-Wounds/Brookwood Terrace), continue the work on Monterey Highway, and expand the program into the Canoas Garden/Evans Lane area, and potentially other priority areas. (Mayor’s March and June Budget Messages)
- ***PRNS Volunteer Coordinator***– Adds 1.0 ongoing Volunteer Coordinator position in the PRNS Department to expand PRNS volunteer opportunities (e.g., Adopt-A-Park Program and Graffiti Eradication Program) and transition towards a more centralized volunteer program city-wide. (Mayor’s June Budget Message)
- ***Expanded Code Enforcement of Top Apartment Violators*** – Adds 1.0 Code Enforcement Inspector through June 2017 to expand enforcement of the top twelve violators of the City’s code enforcement laws. (Mayor’s June Budget Message)
- ***Increased Street Sweeping***– Adds one-time funding of \$136,000 to add street sweeping signage to improve street cleaning and reduce water pollution in our creeks and Bay. (Mayor’s June Budget Message)
- ***City Tree Maintenance Program*** – Adds one-time funding of \$100,000 for enhanced maintenance of City-owned trees to address pedestrian and traffic safety concerns. (Mayor’s June Budget Message)
- ***Clean Creeks, Habitat Restoration, and Water Quality Improvements*** – Adds funding of \$200,000 annually for a minimum of five years to establish support for non-profit organizations in the community to reduce trash in the City’s waterways, support regulatory compliance, and foster community engagement towards clean creeks and healthy community. More specifically, this program will include expanded regular volunteer creek cleanup activities; public engagement, education and outreach; and research that promotes improved understanding of local area conditions, such as sources of pollutants/trash, to guide more effective solutions in the community. This support of non-profit organizations will also support the City’s current Trash Plan and help achieve compliance with the trash provisions of the Stormwater Municipal Regional Permit, as well as mitigate past environmental harms.

Investing in Community Programs and Enhancing Services

- ***Vietnamese-American Community Center*** – Adds funding of \$576,000 to support the initial operations for the Vietnamese-American Community Center at the Shirakawa Community Center in 2016-2017 (\$205,000, 4.0 positions), to support tenant improvements to support the interim center at the Shirakawa Community Center (\$71,000), and to support planning efforts and to specifically help launch private fundraising for the development of a Vietnamese-American Community Center (\$300,000). Once completed, the Vietnamese-American Community Center will serve as a public gathering space for events, civic dialogue, and for provision of services and information in the Vietnamese language. This project is supported by existing funds in the 2015-2016 Cultural Facilities Capital Maintenance Reserve, per City Council direction and the General Fund. (Mayor’s March and June Budget Messages)

Focused Approach to Address Priority Community and Organizational Needs



- **Placemaking: Viva CalleSJ and ¡Viva Parks!** – Adds one-time funding of \$330,000 to continue activation efforts with Viva CalleSJ, ¡Viva Parks!, and Plaza de Cesar Chavez events through October 2016. This program will also be expanded to include activation of Chris Hotts Park. Viva CalleSJ is a free recreational program that closes approximately six miles of scenic San José streets and brings people and the community together to walk, bike, skate, play, and explore the City. ¡Viva Parks! events are safe and fun for the community and approximately 24

events will be held throughout the summer at various parks in East San José. PRNS will also coordinate daily activation at Plaza de Cesar Chavez that will draw participants during early morning, lunch, and dinner times. This program is supported by existing funds in the 2015-2016 Cultural Facilities Capital Maintenance Reserve, per City Council direction. (Mayor’s March and June Budget Messages)

- **Regional Parks-Monday Opening** – Adds a net 2.5 positions to open regional parks on Mondays, including Almaden Lake, Alum Rock, Emma Prusch Farm, and Overfelt Gardens Parks. As a budget balancing action in 2009-2010, those parks were closed on Mondays, which was traditionally the slowest day of the week. The 2015-2016 Adopted Budget provided one-time funding to re-open Almaden Lake Park and adjacent trails on Mondays. Ongoing funding will allow residents and users of these regional parks access seven days per week.

- **PRNS Fee Activity Program** – Adds new positions and reallocates existing resources to support a variety of programs funded by the existing Fee Activity Programs, offset by fee revenue. This includes the allocation of \$500,000 for the City-wide Scholarship Program to promote affordable access to recreation programs and camps.



- **Gardner Community Center** – Adds one-time personal services and non-personal/equipment funding through December 2016 to continue youth services at Gardner Community Center. This center is in the Community Center Reuse Program but currently does not have a youth and teen provider. Based on community needs, this addition will allow the PRNS Department more time to secure a reuse operator that will provide youth continued access to safe and supervised activities. By the end of December 2016, PRNS will report to Council with a status update.

- **Family Camp Experience for Low Income Families** – Provides ongoing funding of \$25,000 towards the Family Camp Campership Program, which provides a discount to low-moderate income families. Family Camp provides a unique, accessible, and all-inclusive Yosemite wilderness experience for families, and great summer job experiences for local San José youth and young adults.

Focused Approach to Address Priority Community and Organizational Needs

- **Senior Programming** – Adds ongoing 1.0 Recreation Program Specialist position dedicated to senior services at the Alma, Mayfair, Roosevelt, Seven Trees, and Southside Community Centers. This position will address various health and social service needs of the senior population for one day a week at each of the centers. (Mayor’s June Budget Message)
- **Library Programs** – Adds 5.33 positions to support the new San José Public Library Works Center, increased and enhanced Early Education programming, continued Library educational partnerships, and new programming at the MLK Library Teen Center.
- **Library Fines and Fees** – Reduces personal services and non-personal/equipment funding by \$135,000 on a one-time basis to offset a projected loss of Library fines and fees revenue of \$135,000. Library fines and fees were adjusted as follows: reduce the Overdue Materials Fine from \$0.50 per day/\$20 maximum per item to \$0.25 per day/\$5 maximum per item; eliminate the Held Materials Fine of \$3; and reduce the handling fee from \$20 to \$10 for Damaged Materials and Lost Materials and Equipment.
- **Homeless Encampment Service Coordination and Bio Waste** – Adds one-time funding of \$180,000 to add 1.0 position through June 30, 2017, to coordinate encampment clean-ups and to secure contractual services for the disposal of bio waste. (Mayor’s June Budget Message)
- **Office of Immigrant Affairs** – Adds one-time funding of \$250,000 to support the Office of Immigrant Affairs in the City Manager’s Office. This funding will be used for translation and interpretation services; customer service training, including cultural competency; civic engagement; and will also cover any staffing or additional resources needed.



Investing in Infrastructure and Community Facilities



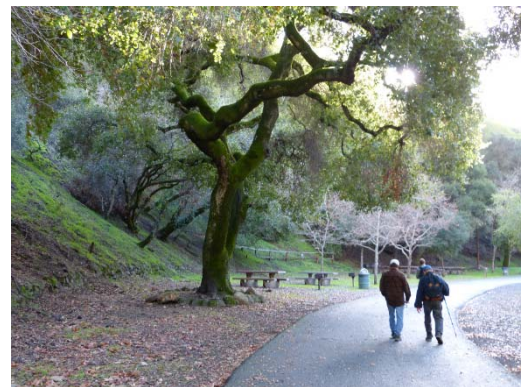
- **Pavement Maintenance Program** – Adds funding of \$17.7 million to increase Pavement Maintenance funding for major streets in San José to significantly slow the incidence of pothole formation and general pavement deterioration. With this funding, the total amount allocated to pavement maintenance in 2016-2017 will be \$30.6 million (up from \$12.9 million), which is sufficient to fund the annual need for pothole repairs and all major streets in the City at the City Council goal of a pavement condition index of 70 (good).

- **Downtown Parking Garage** – Adds one-time funding of \$2.0 million in the General Purpose Parking

Fund to fund the evaluation, planning and development of an additional parking garage to serve the cultural facilities in the greater Downtown, with priority given to the Diridon Station Area. (Mayor’s March and June Budget Messages)

Focused Approach to Address Priority Community and Organizational Needs

- ***Cultural Facilities Capital Maintenance*** – Transient Occupancy Tax receipts continue to experience strong growth. As directed in the Mayor’s March Budget Message for Fiscal Year 2014-2015, as approved by the City Council, the growth in General Fund Transient Occupancy Tax receipts over the 2013-2014 actual collection level are set to be set aside in a Cultural and Arts Facilities Capital Replacement and Maintenance Reserve to support capital rehabilitation at City-owned cultural and arts facilities. In this budget, a total of \$845,000 from this reserve is allocated to address the following capital needs: History San José (\$350,000) - replace a ramp and an elevator lift at the Fallon house and replace the fire and intrusion alarm at the Pacific Hotel; Tech Museum of Innovation (\$250,000) – replace an old control module that is linked to the HVAC system; Hammer Theatre Center (\$200,000) – upgrade the HVAC system, electrical, and lighting systems; Mexican Heritage Plaza (\$25,000) – Building Roof Repairs; and Children’s Discovery Museum (\$20,000) – replace the skylight (roof window) due to leaks that developed as a result of age. In addition to/or apart from this reserve, several capital improvement projects funded by other dedicated sources for cultural facilities are included in the 2017-2021 Adopted Capital Improvement Program, including: San José Civic Auditorium HVAC Rehabilitation (\$4.4 million); Convention Center Concourse Furniture Replacement (\$500,000); Convention Center Ballroom A Carpet Replacement (\$450,000); Rehab/Repairs – Structures (\$450,000); Rehab/Repairs – Electrical (\$260,000); Rehab/Repairs – Mechanical (\$250,000); Rehab/Repairs – Miscellaneous (\$195,000); and Rehab/Repairs – Unanticipated (\$100,000).
- ***San José Stage Company Publicly-Owned Theater Site*** – Adds \$1.0 million to help secure a permanent, publicly-owned site for the San José Stage Company. The site, formerly owned by the Redevelopment Agency faces the threat of sale, under the requirements of the Successor Agency to the Redevelopment Agency (SARA) and the California Department of Finance. San José Stage Company plans to potentially partner with the City to finance the acquisition and redevelopment of the parcel in order to keep this arts facility in the community. This project is supported by existing funds in the 2015-2016 Cultural Facilities Capital Maintenance Reserve, per City Council direction. (Mayor’s March Budget Message)
- ***Parks Rehabilitation Strike Team*** – Creates a Parks Rehabilitation Strike Team (7.75 limit-dated positions), which will be funded by the Subdivision Park Trust Fund, as part of a three-year program that will address deferred maintenance and infrastructure backlog issues at parks and recreation facilities. The Parks Rehabilitation Strike Team will concentrate on rehabilitating parks, upgrading irrigation systems, and turf management at sports fields and open spaces that are located within the nexus requirement associated with the use of fees paid by developers.
- ***Family-Friendly City Facilities*** – Adds funding of \$110,000 to equip Happy Hollow Park & Zoo and the Children’s Discovery Museum with private rooms, making each of these locations more family-friendly. This project is offset by a reduction to the Cultural Facilities Capital Maintenance Reserve. (Mayor’s June Budget Message)



Focused Approach to Address Priority Community and Organizational Needs

- ***Animal Care and Services*** – Adds capital funding \$340,000 to improve separation of dogs and cats and sick and healthy animals in the public animal receiving area; remove and replace some landscaping to improve the appearance of the facility and address a rodent issue; and paint the main public adoption area as reflected in the Adopted Capital Budget. Funding of \$120,000 is also added to purchase an animal control vehicle and a mail inserter to support licensing efforts. In addition, per the Mayor’s June Budget Message, adds \$87,000 for mobile spay and neuter services.
- ***Downtown Ice Rink Improvements*** – Adds one-time funding of \$100,000 for repairs and upgrades of the ice rink. (Mayor’s June Budget Message)
- ***City Hall Rotunda Lighting*** – Adds one-time funding of \$350,000 to add permanent LED lighting at the City Hall Rotunda that can be changed to different colors and patterns and establish new private rental fees for the use of the lighting. (Mayor’s June Budget Message)

INVEST IN MAKING SAN JOSE AMERICA’S MOST INNOVATIVE CITY
(investments that support innovation and strategic partnerships as well as increase transparency and community input)

Working Smarter, Working with Our Community

- ***Leading Smart City Initiatives*** – Establishes a new Office of Innovation and Digital Strategy in the City Manager’s Office, including the addition of 1.0 Deputy City Manager and 1.0 Senior Executive Analyst, and reassignment of the existing Budget Office Data Analytics Team. The Office will provide oversight, coordination and implementation support for City innovation projects and programs and lead the Administration’s effort to support the Mayor and City Council in implementing the Smart Cities Vision. The team will serve as the primary point of contact for new ideas with corporate partners, facilitate the Administration’s Civic Innovation Cabinet, and assist staff in preparing and vetting concepts to meet both operational and innovation goals. As San José aims to lead as a smart city and ensure future-ready digital infrastructure for the entire community, one-time funding of \$250,000 is added to begin the process of developing an Information and Communications Technology Masterplan for the City government organization, as well as for the broader San José community. (Mayor’s March Budget Message)
- ***Mayor Innovation Fellows Program*** - Adds one-time funding of \$265,000 in the General Fund and the Library Parcel Tax to continue the Mayor Innovation Fellows Program. The City will partner with FUSE Corps in an effort to recruit top-level talent for this program. Innovation Fellows will focus on three key projects for the Library Department, Transportation Department, and the City Manager’s Office: 1) crafting an inclusive digital access strategy; 2) building transportation infrastructure for an era of rapid transformation; and 3) creating a workforce development hub at the Library. (Mayor’s June Budget Message)
- ***Silicon Valley Talent Partnership*** – Adds one-time funding of \$80,000 to continue work with the Silicon Valley Talent Partnership (SVTP). SVTP is a non-profit organization that engages private sector talent and innovation to solve public sector problems. The SVTP has worked with the City since 2012-2013 on various projects that have benefited both the City and the community.

Focused Approach to Address Priority Community and Organizational Needs

- ***Transportation Innovation Program Manager*** – Adds 1.0 Program Manager I in the Transportation Department to oversee the large demands resulting from technical innovation growth within the transportation industry, and will also serve as a key strategic partner with other departments as well as the point person from the Transportation Innovation Zone. Funding for this position would be provided by the Traffic Capital Program.
- ***Participatory Budgeting*** – Adds one-time funding to continue with the participatory budgeting program established in Council District 3 (\$250,000), establish a pilot participatory budget program in Council District 5 (\$100,000), and administer the participatory budget programs in Council Districts 3 and 5 (\$50,000). (Mayor’s June Budget Message)
- ***Public Outreach for Neighborhood Beautification Efforts*** – Adds one-time funding of \$50,000 to support an enhanced public outreach and education campaign on efforts to combat illegal dumping, graffiti, litter, and other forms of neighborhood blight to engage residents as partners in these efforts. (Mayor’s June Budget Message)

Infrastructure/Technology Improvements

- ***Human Resources/Payroll/Budget Systems*** – Adds one-time funding of \$500,000 for the Human Resources/Payroll/Budget Systems Upgrades project to increase the contingency to help ensure that complex technical issues are addressed, the project meets anticipated go-live dates, and the organization is adequately trained and supported after implementation.
- ***Remote Facilities Network Upgrades*** – Adds one-time funding of \$500,000 to perform network upgrades at the City’s remote facilities, including community centers. For those remote sites that provide wired and wireless access for public and private use, upgrading their network equipment to a single standardized platform significantly reduces the likelihood of security breaches and equipment failure, and reduces Information Technology support demands.
- ***Virtual Desktop Infrastructure and Windows Upgrades*** – Deletes 3.0 vacant Network Technician I/II/III positions and adds 2.0 Information Systems Analyst positions to more effectively support Virtual Desktop Infrastructure (VDI), the new organization-wide desktop management standard. One-time funding of \$500,000 is also added to upgrade operating system software to Windows 10, bringing consistency throughout the organization, and addressing compatibility and security vulnerabilities inherent in obsolete platforms.
- ***Secondary Data Center Buildout*** – Adds one-time funding of \$250,000 for additional network, power supply and cooling equipment to complete buildout of the City’s only redundant data center, which is housed at the Central Service Yard.

Other Budget Actions

- ***City-Owned Facilities – Capital Infrastructure Improvements*** – Includes new one-time funding for the City Hall HVAC Control System Replacement project (\$5.0 million) and key safety and reliability improvements that address a small portion of the deferred maintenance and infrastructure backlog of municipal buildings, such as Arc Flash Hazard Analysis, City-Wide Building Assessments, City Hall and Employee Garage Security Upgrades, City Hall Audio Visual Upgrade, San José Municipal Stadium Improvements, and Municipal Garage LED Lighting Upgrade as reflected in the 2016-2017 Adopted Capital Budget.

Focused Approach to Address Priority Community and Organizational Needs

- ***Human Resources Assistant Director*** – With the complex issues facing the Human Resources Department, from employment services to workers’ compensation to benefits management, adds 1.0 Assistant Director position in order to provide support in the planning, organization, and overall direction in the operations of the department.
- ***Workers’ Compensation Claims Administration Backlog*** – Provides one-time funding of \$393,000 to increase the third party administrator contract for Workers’ Compensation Claims Administration Services (\$300,000) and to continue one-time funding of \$93,000 for the equivalent of 1.0 Workers’ Compensation Claims Adjuster position. Temporary contractual and staffing resources to alleviate the backlog will enable the Workers’ Compensation Program to close outstanding cases and bring the caseload per City claims adjuster closer to industry standards.
- ***Employment Services Division Job Class Specification Updates*** – Continues one-time funding of \$100,000 to continue the review and update of critical job class specifications to address recommendations from the Employee Hiring Audit that was issued last year. It is anticipated that approximately 70 revised job specifications will be completed in 2015-2016; however, there are still over 300 job specifications that will remain to be updated. This funding (combined with an anticipated rebudget) will enable the update of approximately 70 job specifications in 2016-2017.
- ***Employment Services Division Recruitment Staffing*** – Continues one-time funding for 2.0 positions through June 2017 to increase the hiring capacity across the City. These positions will help fill vacancies as there are currently approximately 10%-12% of City positions vacant.
- ***Legal Transactions Staffing*** – Continues one-time funding for 1.0 Legal Analyst II through June 2017, to provide vital assistance to the City’s attorneys supporting the Planning Division of the Planning, Building and Code Enforcement Department. Additionally, adds one-time funding for temporary attorney services (\$90,000) to provide training to less experienced attorneys; provide legal services to Planning based on the increased workload in the Planning area; and provide overflow assistance for general transactional assignments. The temporary attorney support will also provide legal support to address Environmental Services issues in regards to the application process for a State Revolving Fund Loan from the California Water Resources Control Board to fund improvements at the Water Pollution Control Plant and provide legal assistance for negotiations on amendments to the Master Agreement for Wastewater Treatment Between City of San José, City of Santa Clara, and Tributary Agencies. The temporary attorney support will also assist with Municipal Water System rate modeling and drought-related issues.

Fees and Charges Adjustments

The 2016-2017 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 fund increase of 5.5% 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 the Recycle Plus rates, a 2.5% increase was approved for multi-family dwellings, while no change was brought forward for single-family dwellings. In the 2016-2017 Adopted Budget, Municipal Water System rates were programmed to increase 2.0% to cover increased operating costs. An additional 1.0% increase was approved on June 14, 2016 to address increased personal services costs. It should be noted that staff anticipates returning to City Council no later than fall 2016 with additional recommendations related to water rates, due to the need to further track

Focused Approach to Address Priority Community and Organizational Needs

ongoing water conservation and its effects on changes in water usage as well as on the sources of wholesale water.

In the four Development Fee Programs (Building, Fire, Planning, and Public Works), no general fee increases are needed to maintain cost recovery. The existing revenue streams in those programs along with the use of portions of the Development Fee Program Reserves are sufficient to support additional staffing to meet service demands and improve customer service in these areas without fee increases. Other upward and downward adjustments to various fees were approved to maintain the City's cost recovery.

Capital Budget Overview

The 2016-2017 Adopted Capital Budget and 2017-2021 Adopted Capital Improvement Program (CIP) is published as a separate document. The City's 2016-2017 Adopted Capital Budget totals \$878.4 million and the 2017-2021 Adopted CIP totals \$2.4 billion. The 2016-2017 Adopted Capital Budget reflects a 11.9% decrease from the 2015-2016 Adopted Capital Budget of \$996.7 million, and from a five-year perspective, the 2017-2021 Adopted CIP is 5.2% lower than the 2016-2020 Adopted CIP.

Building on the efforts of the last several years and guided by the Envision San José 2040 General Plan (General Plan), this CIP continues targeted investments to maintain, rehabilitate, and rejuvenate a wide array of public infrastructure to improve system reliability, enhance recreational experiences, advance public safety, and ensure that San José remains well-positioned for further economic growth and opportunity. Accordingly, this CIP allocates significant resources to upgrade and revitalize the Water Pollution Control Plant (San José-Santa Clara Regional Wastewater Facility) and rehabilitate the sanitary sewer collection system; invests in and sets aside funding for the rehabilitation and enhancement of a variety of park assets and recreational facilities; reseals and resurfaces pavement; constructs a wide array of bike and pedestrian, traffic safety, and multi-modal improvement projects; and renovates a number 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. Nowhere is this gap more apparent than the City's local street network, especially considering recent reductions to the City's State Gas Tax allocation. The Status Report on Deferred Infrastructure Maintenance Backlog accepted by the City Council on February 9, 2016 identifies a backlog of unmet/deferred infrastructure needs for pavement maintenance that has grown from \$250.0 million to \$521.5 million since 2010. The City, however, has made some investments towards addressing the shortfall. Recent strategies include direction from the Council-approved Mayor's June Budget Message for Fiscal Year 2014-2015 to allocate any additional Construction Excise Tax revenues towards pavement maintenance and the identification of pavement maintenance as a major funding priority for the June 2016 local sales tax measure. In 2016-2017, \$17.7 million from the local sales tax revenue is allocated to pavement maintenance. With this allocation and the other street maintenance funding in the CIP, the City will be able to address the annual need for pothole repairs and maintenance of all major streets in the City on a one-time basis in 2016-2017. This, however, does not address the significant pavement maintenance backlog or the full annual need for all City streets.

2016-2017 ADOPTED OPERATING BUDGET MESSAGE

Capital Budget Overview

Capital Program by City Service Area

Each of the 14 capital programs is aligned to one of the six CSAs. Table 6 compares the 2016-2020 Adopted CIP with the 2017-2021 Adopted CIP for each CSA. As described above, the 2017-2021 Adopted CIP is 5.2% lower than the 2016-2020 Adopted CIP. This drop is primarily due to large construction projects being completed or nearing completion in the Sanitary Sewer System Program and Water Pollution Control Program (Environmental and Utility Services CSA).

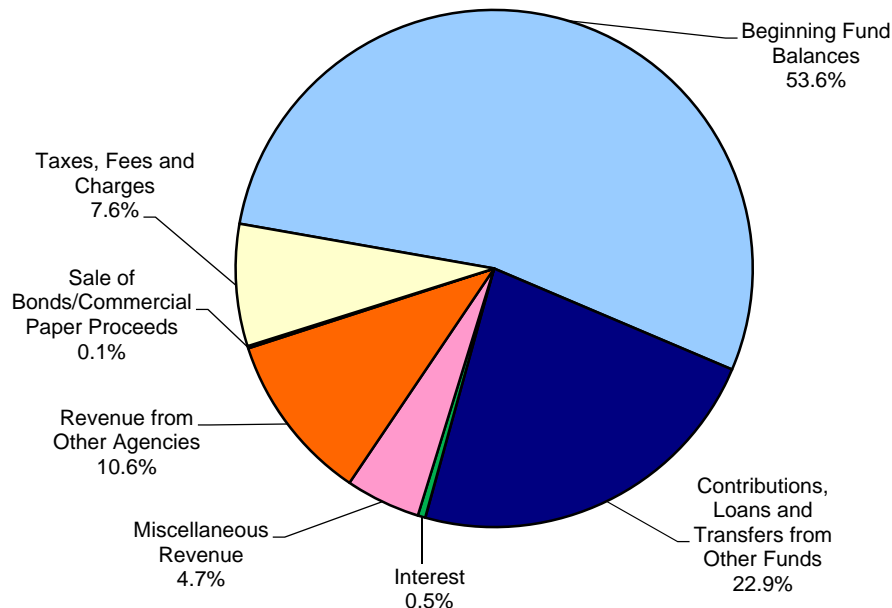
2016-2020 Adopted CIP and 2017-2021 Adopted CIP Comparison (By City Service Area)
(Table 6)

City Service Area	2016-2020 Adopted CIP	2017-2021 Adopted CIP	% Change
Community and Economic Development	\$ 11,533,381	\$ 14,143,086	22.6%
Environmental and Utility Services	1,401,460,070	1,280,222,906	(8.7%)
Neighborhood Services	375,983,902	373,607,994	(0.6%)
Public Safety	55,887,812	60,768,993	8.7%
Transportation and Aviation Services	635,319,868	614,214,230	(3.3%)
Strategic Support	94,304,261	98,638,396	4.6%
Total	\$ 2,574,489,294	\$ 2,441,595,605	(5.2%)

Capital Program Funding Sources

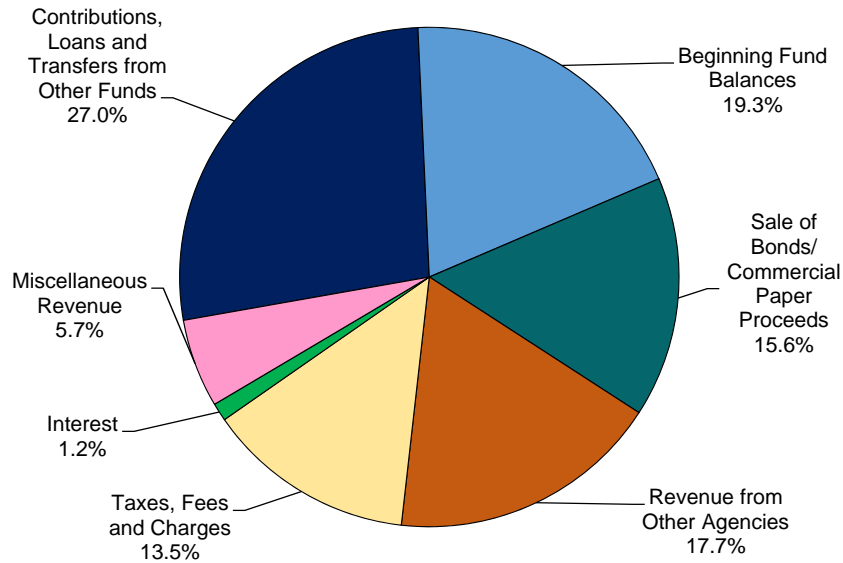
The Capital Program is supported by a variety of funding sources as shown in the following pie charts that depict both the 2016-2017 and five-year CIP funding.

**2016-2017 Adopted Capital Budget
Source of Funds (\$878.4 million)**



Capital Budget Overview

**2017-2021 Adopted Capital Improvement Program
Source of Funds (\$2.4 billion)**



The Beginning Fund Balance category is a major funding source at \$470.9 million, representing 53.6% of the 2016-2017 Source of Funds and 19.3% of the five-year CIP funding. Beginning Fund Balances primarily reflect planned carryover funding for projects expected to be initiated or completed in the next five years. The Parks and Community Facilities Development Capital Program has Beginning Fund Balances totaling \$141.8 million, accounting for 30.1% of the total Beginning Fund Balances. A majority of the funds are reserved pending determination of final scope, location, or funding of projects. Other programs with significant Beginning Fund Balances include Traffic (\$91.9 million), Water Pollution Control Program (\$63.2 million), Airport (\$61.6 million), and Sanitary Sewer System (\$52.5 million). With a substantial number of capital projects scheduled to be completed over the next five years, the total Ending Fund Balance in 2020-2021 is estimated to fall to \$48.4 million.

Contributions, Loans, and Transfers from Other Funds is the largest revenue category with 22.9% of the 2016-2017 funding (\$201.2 million) and 27.0% of the CIP funding (\$660.4 million). Over the five-year period, this funding stream includes the transfer of revenue from sanitary, storm, and water operating funds that are supported by utility user fees (\$432.7 million) and the technical transaction to distribute Construction and Conveyance (C&C) taxes allocated to the Parks and Community Facilities Program from the Parks C&C Central Fund to each of the C&C Council District Funds and the Parks City-Wide Fund (\$50.7 million).

Commercial Paper Proceeds of \$1.2 million, programmed only in 2016-2017 for meter replacements in the Water Utility Capital Program and none in the remaining years of the CIP, represents less than one percent of the total funding sources. Although no Sale of Bonds is programmed in 2016-2017, this revenue category increases to 15.6% (\$379.2 million) of the total five-year CIP. The anticipated bond sales primarily support the Water Pollution Control Program (\$370.0 million) due to the large capital improvement program identified by the Plant Master Plan. These figures, however, are likely

2016-2017 ADOPTED OPERATING BUDGET MESSAGE

Capital Budget Overview

to change as the financing for the major renovation of this facility is refined The Revenue from Other Agencies category, which includes mostly federal, State, and local grants as well as revenue from other agencies that use the Water Pollution Control Plant, comprises 10.6% of the 2016-2017 funding (\$92.7 million) and 17.7% (\$430.9 million) of the five-year CIP. With the expected expansion of the Water Pollution Control Plant, the contributions from user agencies are expected to increase significantly and are currently projected to total \$288.4 million over the five-year period. These figures may also change as low cost funding from the Clean Water State Revolving Fund for all eligible projects is pursued and/or user agencies determine their preferred funding mechanism for the Plant improvements.

The Taxes, Fees and Charges category accounts for 7.6% (\$67.1 million) of the funding in 2016-2017 and 13.5% (\$330.5 million) of the total funding in the CIP. The three largest funding sources in this category are Construction and Conveyance (C&C), Construction Excise, and Building and Structure Construction Taxes, which serve as the major revenue sources for Parks and Traffic Capital projects. The projections for each of these taxes are slightly higher than the estimates used in the 2016-2020 Adopted CIP primarily to reflect the projected continued level of development activity.

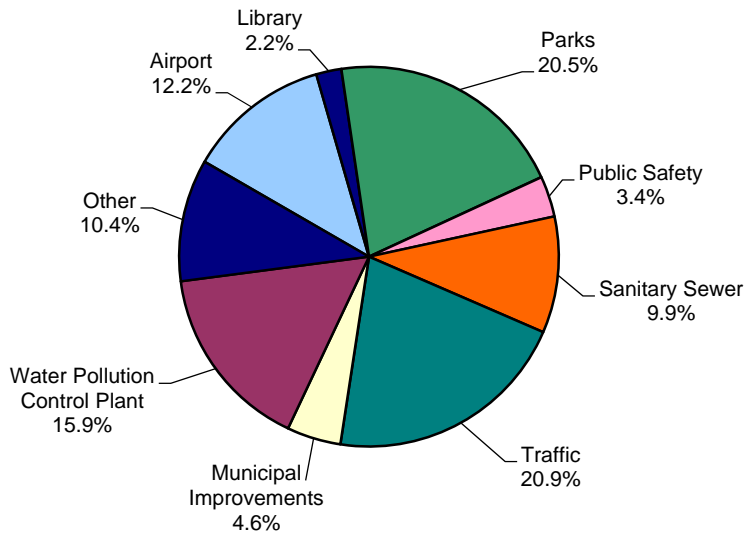
A more detailed discussion of revenues can be found in the Summary Information section of the 2016-2017 Adopted Capital Budget and 2017-2021 Capital Improvement Program.

Capital Budget Overview

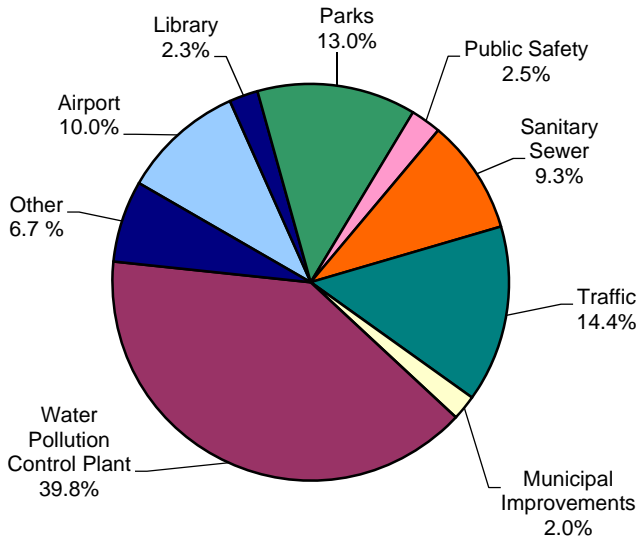
Capital Program Investments

The CIP consists of 14 capital programs. The following pie charts depict the uses of funds by capital program and percentage of funding for the 2016-2017 Capital Budget and the 2017-2021 Capital Improvement Program. Major projects to be completed over the next five years are highlighted in the sidebar.

**2016-2017 Capital Budget
Use of Funds (\$878.4 million)**



**2017-2021 Capital Improvement Program
Use of Funds (\$2.4 billion)**



Major Projects to be Completed Over the Next Five Years

2016-2017 Projects

Alviso Storm Pump Station
 Almaden/Vine Downtown Couplet (OBAG)
 Autumn Street Extension
 Cadwallader Reservoir Rehabilitation
 Chynoweth Avenue Green Street
 Emergency Vehicle Preemption Service
 Fire Station Alert System
 Iris Chang Park Development
 Lake Cunningham Bike Park
 Large Trash Capture Devices
 LED Garage Lighting Upgrade
 Martial-Cottle Community Garden
 Monterey – Riverside Relief Sanitary Sewer Improvements
 Overfelt Garden Improvements
 Park Avenue Multimodal Improvements
 Plata Arroyo Park Improvements
 Silver Leaf Park Renovation
 Water Meter Replacements
 San José Civic Auditorium HVAC Rehabilitation
 TRAIL: Penitencia Creek Reach 1B (Noble Avenue to Dorel Drive)
 TRAIL: Thompson Creek (Tully Rd-Quimby Rd)
 Trimble Road and Capewood Lane Sanitary Sewer Improvements

2017-2018 Projects

Airfield Geometric Implementation
 Branham and Snell Street Improvements
 Del Monte Park Expansion Phase II
 Fowler Creek Park Improvements
 Iron Salt Feed Station
 Rincon South Park Development
 The Alameda “Beautiful Way” Phase 2 (OBAG)
 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)
 Watson Park Improvements

2018-2019 Projects

60” Brick Interceptor, Phase VIA and VIB
 Butcher Park Playlot Renovation
 Energy Generation Improvements
 Hathaway Park Renovation
 Southeast Ramp Reconstruction
 Terminal A Baggage Claim Escalators

2019-2020 Projects

Airport Rescue and Fire Fighting Facility
 Fourth Major Interceptor, Phase VIIA
 Treatment Plant Distributed Control System

2020-2021 Projects

Bollinger Road – Moorpark Avenue – Williams Road Sanitary Sewer Improvements
 Headworks Improvements
 Perimeter Fence Line Upgrades (Airport)

Capital Budget Overview

In the 2017-2021 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 39.8% of the 2017-2021 Adopted CIP, the WPCP is the largest capital program. A total of \$970.5 million 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 bond issuances totaling \$370.0 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, with over \$1.0 billion to be invested in the near-term (the next ten years), to address future regulatory requirements, capacity needs, and an overhaul of the entire solids treatment process. In September 2013, the City Council approved a consultant agreement with MWH Americas, Inc. to assist and support the Environmental Services Department in developing and implementing such a large capital program. In February 2014, the MWH program team completed a detailed project validation process to critically evaluate project needs and priorities. Priorities for the near-term include continuing to pursue low-cost Clean Water State Revolving Funds, prioritizing and programming projects, and managing project risks and variables.

The 2017-2021 Adopted CIP includes a 5.5% rate increase for the Sewer Service and Use Charge Fund for 2016-2017, with rate increases of 5.5% up to 7% 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 Plant 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 14.4% of the CIP, with a budget of \$351.8 million. Of this amount, approximately \$88.3 million, or 25.1% of the Traffic Program is directed toward pavement maintenance activities. This funding level, however, is below the 2016-2020 Adopted CIP level of \$100.3 million primarily due to a decline in State Gas Tax revenues and the cessation of one-time funding from the federal government and General Fund. San José's street system consists of 2,432 miles of pavement and is rated overall in "fair" condition with a Pavement Condition Index (PCI) rating of 64. Additionally, due to insufficient funding for pavement maintenance, the backlog of deferred maintenance has grown from \$250 million in 2010 to \$521.5 million in 2016. The average annual funding in this CIP is approximately \$18.4 million, which is well below both the \$72.5 million needed annually to sustain the current "fair" condition and the \$100.4 million needed annually to bring the system to an overall "good" condition with a PCI rating of 70. An investment of \$18.5 million annually is needed to fund pavement system management, pothole repairs, and proper maintenance of the Priority Street Network. To fund the above and cover the proper maintenance of all the remaining major streets requires a total investment of \$30.6 million annually. In 2016-2017, the City will be able to meet this annual need for pothole repairs and all major streets in the City at the City Council goal of a pavement condition index of 70 (good) primarily as a

Capital Budget Overview

result of the one-time funding (\$17.7 million) from the General Fund allocated from the voter-approved 2016 sales tax ballot measure.

This 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 \$71.3 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.

The North San José Transportation Plan (Plan) adopted in 2005 identifies traffic infrastructure investments of over \$500 million to facilitate future growth and development of North San José. While 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 (estimated to be approximately \$7 million as development proceeds) to be held in reserve for North San José transportation projects. This strategy has resulted in the collection of \$1.7 million in Building and Structure Construction Tax allocated to the North San José New Development Reserve. The 2017-2021 Adopted CIP also includes a North San José Improvements Reserve of \$8.0 million, of which \$4.5 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.

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 1, 2016 and approved by the City Council on February 9, 2016 (latest report included as an Appendix to the Adopted Capital Budget). In this most recent report, the infrastructure backlog totaled \$1.08 billion across the City. Assuming this one-time backlog could be met, an ongoing annual investment of approximately \$174 million would also be needed to maintain and prevent further degradation of the City's infrastructure. The 2017-2021 CIP, as well as investments included in the 2016-2017 Adopted Operating Budget, allocate limited resources to the most immediate and critical deferred infrastructure needs.

2016-2017 ADOPTED OPERATING BUDGET MESSAGE

Capital Budget Overview

Operating Budget Impacts

The 2017-2021 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. Although the Arcadia Softball Complex is anticipated to open to the public in 2017-2018 with a partial year net operating and maintenance cost of \$435,000 (increasing to \$738,000 annually in 2018-2019), this project was established prior to the adoption of Budget Principle #8 and therefore, does not need to be certified by the City Council.

Table 7 summarizes the additional annual resources required to operate and maintain new facilities coming on-line during the five-year CIP or planned by other agencies (such as developers).

Projected Total New Operating and Maintenance Costs (Cumulative)
(Table 7)

<u>Project Title</u>	<u>2017-2018</u>	<u>2018-2019</u>	<u>2019-2020</u>	<u>2020-2021</u>
Parks Facilities	\$ 601,000	\$ 983,000	\$ 1,035,000	\$ 1,087,000
Parks Facilities-Other Agencies¹	0	20,000	20,000	21,000
Traffic Projects	57,000	112,000	115,000	118,000
General Fund Total	\$ 658,000	\$ 1,115,000	\$ 1,170,000	\$ 1,226,000
Municipal Improvements (Special Fund)	(150,000)	(300,000)	(300,000)	(300,000)
Water Pollution Control Plant (Special Fund)	988,000	1,009,000	2,529,000	2,611,000
All Funds Total	\$ 1,496,000	\$ 1,824,000	\$ 3,399,000	\$ 3,537,000

¹ Projects being constructed by other agencies, but will be maintained by the City of San José.

Capital Budget Overview

For the General Fund, these costs are estimated at \$658,000 in 2017-2018 and are anticipated to increase to \$1.2 million by 2020-2021. These figures do not include the funding needed in 2016-2017 to operate and maintain new facilities as these amounts have been incorporated into the 2016-2017 Adopted Operating Budget. A total of \$564,000 is allocated in 2016-2017 to operate and maintain several facilities including the Happy Hollow Park and Zoo (new animal exhibits and a new ride), Iris Chang Park, Penitencia Creek Trail (Lonus Street to Minnesota Avenue), Vietnamese Cultural Heritage Garden, and various transportation-related infrastructure.

In the Municipal Improvements Capital Program, the San José Civic Auditorium HVAC replacement project is expected to result in net operating and maintenance cost savings of approximately \$300,000 annually in the Convention and Cultural Affairs Fund.

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 \$988,000 starting in 2017-2018, largely due to chemical costs as a result of the Iron Salt Feed Station, and increase to \$2.5 million in 2019-2020 when the first phase of the digester and thickener facilities upgrades come on-line. 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. A more detailed analysis of current and future operating and maintenance costs related to the Cogeneration Facility is anticipated to be available in winter 2017 after completion of preliminary design services (i.e. basis of design, equipment selection, and operating modes).

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. This budget includes some modest investments 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 data analytics, 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 2016-2017, as approved by the City Council. This budget also allocates an additional \$30 million in sales tax revenue (\$40 million ongoing) that will be generated from sales tax measure approved by San Jose voters in June 2016. This revenue will help the City address critical needs, such as public safety and street maintenance.

Our continuing commitment to conservative 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

2016-2017 ADOPTED OPERATING BUDGET MESSAGE

Conclusion

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 comprehensive 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

2016-2017 Adopted Operating Budget**2016-2017 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 ensure no negative impact on future budgets and to maintain the City's high standards of fiscal integrity and financial management. To the extent possible, establish a Future Deficit Reserve in the General Fund to cover any projected budgetary shortfall in the following year as a stopgap measure.
3. Focus on business process redesign in order to improve employee productivity and the quality, flexibility, and cost-effectiveness of service delivery (e.g., streamlining, simplifying, reorganizing functions, and reallocating resources).
4. Explore alternative service delivery models (e.g., partnerships with the non-profit, public, or private sector for out- or in-sourcing services) to ensure no service overlap, reduce and/or share costs, and use our 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.
5. 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.
6. Explore redirecting and/or expanding existing revenue sources and/or adding new revenue sources.
7. Establish a fee structure to assure that operating costs are fully covered by fee revenue and explore opportunities to establish new fees for services, where appropriate.
8. Identify City policy changes that would enable/facilitate service delivery changes or other budget balancing strategies.
9. If ongoing revenues are available, focus investments in the following areas: services included in the 2015-2016 budget on a one-time basis, as appropriate; additions that address significant organizational or community risks; service restorations to the baseline January 1, 2011 service levels previously identified by the City Council in the areas of fire, police, community centers, and street maintenance; and/or additions consistent with the Police Staffing Restoration Strategy.
10. In addition to considering service restorations 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.
11. Engage employees in department budget proposal idea development.
12. 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.
13. Use the General Plan as a primary long-term fiscal planning tool and link ability to provide City services to development policy decisions.

2016-2017 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

2016-2017 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.

2016-2017 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.