



**2016-2017**

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**OPERATING BUDGET**

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

## General Fund Balancing Strategy Detail

### 2016-2017 Adopted Operating Budget

#### INTRODUCTION

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

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

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

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

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

The increase in uses of \$50.2 million in 2016-2017 included additional funding for the following: service level enhancements (\$14.6 million); a number of critical unmet/deferred infrastructure and maintenance needs (\$10.9 million); continuation of 2015-2016 one-time funded services (\$9.1 million); earmarked reserves (\$7.5 million); development fee program as well as other fee, grants and reimbursements (\$5.7 million); funding for the 2017-2018 Future Deficit Reserve (\$4.1 million); and other increases (\$1.8 million). These increases are partially offset by savings realized from the use of reserves that had been established for specific purposes (\$2.7 million) that were included in the

## General Fund Balancing Strategy Detail 2016-2017 Adopted Operating Budget

### INTRODUCTION

February Forecast and miscellaneous cost reductions/service delivery efficiencies/funding shifts to other funds (\$1.1 million). The result of these actions was a balanced 2016-2017 General Fund Proposed Budget of \$1.1 billion.

From the release of the Proposed Budget to the final adoption of the budget, additional revisions totaling \$181.1 million occurred. The largest component of the increase was the rebudget of 2015-2016 funds (\$141.8 million) that were carried forward to 2016-2017 to complete various projects. The Adopted Budget was balanced with 100% ongoing actions.

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

**Table I**  
**2016-2017 ADOPTED OPERATING BUDGET**  
**Forecast To Adopted Budget Reconciliation (in \$000s)**

	Total Sources	Total Uses	(Shortfall)/ Surplus
<b>February Base Budget Forecast</b>	<b>\$ 1,046,159</b>	<b>\$ 1,040,502</b>	<b>\$ 5,657</b>
Forecast Revisions	773	(505)	1,278
<b>Revised Base Budget Forecast (no fee impact)</b>	<b>\$ 1,046,932</b>	<b>\$ 1,039,997</b>	<b>\$ 6,935</b>
Proposed Revisions	43,251	50,186	(6,935)
<b>2016-2017 Proposed Budget</b>	<b>\$ 1,090,183</b>	<b>\$ 1,090,183</b>	<b>\$ 0</b>
Adopted Revisions	181,105	181,105	0
<b>2016-2017 Adopted Budget</b>	<b>\$ 1,271,288</b>	<b>\$ 1,271,288</b>	<b>\$ 0</b>

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### 2016-2017 Adopted Operating Budget

#### REVISED BASE BUDGET FORECAST

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

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

<b>Sources</b>	<b>Revision</b>
Sales Tax	\$ 500
Departmental Charges	454
Business Taxes	350
Other Revenue	300
Revenue from the State of California	178
Revenue from Federal Government	88
Transfers and Reimbursements	(912)
Licenses and Permits	(185)
<b>Net Change in Sources</b>	<b>\$ 773</b>
<b>Uses</b>	<b>Revision</b>
Non-Personal/Equipment and City-Wide Expenses	\$ 298
PBCE Neighborhood Cleanup Shift to Integrated Waste Management Fund	(786)
Position and Fund Realignments	(17)
<b>Net Change in Uses</b>	<b>\$ (505)</b>
<b>Total Change (Shortfall)/Surplus</b>	<b>\$ 1,278</b>

## General Fund Balancing Strategy Detail

### 2016-2017 Adopted Operating Budget

#### REVISED BASE BUDGET FORECAST

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

##### *Sales Tax*

- An increase of \$500,000 to the General Sales Tax revenue estimate (\$194.2 million to \$194.7 million) reflects higher than anticipated collections for the second quarter of 2015-2016, providing a higher base starting point for 2016-2017 anticipated growth.

##### *Departmental Charges*

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

##### *Business Taxes*

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

##### *Other Revenue*

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

##### *Revenue from the State*

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

##### *Revenue from the Federal Government*

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

## General Fund Balancing Strategy Detail

### 2016-2017 Adopted Operating Budget

#### REVISED BASE BUDGET FORECAST

##### *Transfers and Reimbursements*

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

##### *Licenses and Permits*

- A decrease of \$179,000 to the Multiple Housing Occupancy Permits revenue estimate (from \$5.63 million to \$5.45 million) aligns program revenues to program costs to maintain 100% cost recovery levels.
- A net decrease of \$6,200 reflects the realignment of revenues for the Animal Care and Services licensing and permits (-\$5,800) and Auto Dismantler Permit (\$-400) based on 2015-2016 activity levels.

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

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

## General Fund Balancing Strategy Detail

### 2016-2017 Adopted Operating Budget

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

#### PROPOSED BUDGET BALANCING STRATEGY

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

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

## General Fund Balancing Strategy Detail

### 2016-2017 Adopted Operating Budget

#### PROPOSED BUDGET BALANCING STRATEGY

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

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

#### Source of Funds

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

#### Beginning Fund Balance

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

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

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<sup>1</sup> As part of the Proposition 57 State fiscal recovery funding mechanism (passed by the voters in March 2004), one-quarter cent of the City's one cent Bradley Burns sales tax has been temporarily suspended and replaced dollar-for-dollar with property tax revenue. This action, which went into effect on July 1, 2004, was to remain in effect until the State's bond obligations have been satisfied. The bonds were paid off and the Triple Flip ended in 2015-2016.



## General Fund Balancing Strategy Detail 2016-2017 Adopted Operating Budget

### PROPOSED BUDGET BALANCING STRATEGY

#### Source of Funds

##### Beginning Fund Balance

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

##### Departmental Charges

- An increase of \$1.9 million to the Parks, Recreation and Neighborhood Services Department Charges aligns revenues with estimated 2016-2017 activity levels. The increase primarily reflects a net increase of \$1.6 million in the fee activity program revenues that was required to add positions in the Proposed Budget to realign actual program FTE usage. Additional adjustments include: a \$236,000 increase in facility rental activities; a \$92,000 increase in Happy Hollow Park and Zoo revenues for increased activities and costs; and increase of \$40,000 for Viva Calle fees; and a one-time reduction of (\$30,000) in Alum Rock parking permits for a pilot parking program.
- An increase of \$45,000 in the Police Department fees and charges reflects various fee revisions to improve cost recovery levels.
- An increase of \$27,000 to the Transportation Department fees and charges reflects various fee revisions to maintain cost recovery levels.
- An increase of \$24,000 reflects revisions to the Abandoned Cart Program fee.
- An increase of \$8,000 aligns the Solid Waste Enforcement Fee program revenues to program costs to maintain 100% cost recovery levels.
- An increase of \$2,800 in the City Clerk's Office fees to reflect various revisions and maintain recovery levels.
- A decrease of (\$135,000) to the Library Department fees and charges reflect various fee and fine revisions.

##### Transfers and Reimbursements

- A one-time transfer of \$129,000 from various special and capital funds for the Human Resources/Payroll/Budget Systems upgrade to cover a portion of the additional \$500,000 added to the project in the 2016-2017 Proposed Budget for additional project contingency to help ensure the project remains on schedule and meets anticipated "go-live" dates.

## General Fund Balancing Strategy Detail 2016-2017 Adopted Operating Budget

### PROPOSED BUDGET BALANCING STRATEGY

#### Source of Funds

##### Transfers and Reimbursements

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

##### Licenses and Permits

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

##### Revenue from the State of California

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

## General Fund Balancing Strategy Detail

### 2016-2017 Adopted Operating Budget

#### PROPOSED BUDGET BALANCING STRATEGY

##### Source of Funds

##### Revenue from the State of California

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

##### Revenue from the Federal Government

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

##### Other Revenue

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

##### Franchise Fees

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

## General Fund Balancing Strategy Detail

### 2016-2017 Adopted Operating Budget

#### PROPOSED BUDGET BALANCING STRATEGY

##### Use of Funds

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

##### *Service Level Enhancements*

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

##### *Unmet/Deferred Technology, Infrastructure, and Maintenance*

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

##### *2015-2016 One-Time Funded Services*

Funding of \$9.1 million was included to continue services that were funded on a one-time basis in the 2015-2016 Adopted Budget. This included funding for the Police Department overtime and downtown foot patrol (\$5.6 million), San José Works (\$1.5 million), Human Resources staffing (\$397,000), Sports Authority (\$350,000), Office of Immigrant Affairs (\$250,000), Economic Development Pre-Development Activities (\$200,000), business development and economic strategy activities (\$200,000), Manufacturing Jobs Initiative (\$200,000), and other programs (\$382,000).

## General Fund Balancing Strategy Detail 2016-2017 Adopted Operating Budget

### PROPOSED BUDGET BALANCING STRATEGY

#### Use of Funds

##### *Earmarked Reserves*

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

##### *2017-2018 Future Deficit Reserve*

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

##### *Development Fee Programs*

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

##### *Other Fee Programs/Grants/Reimbursements*

The actions in this category, totaling \$2.4 million, primarily included funding for the Parks, Recreation and Neighborhood Services Department (\$1.8 million) to reflect actual fee activity that was required to add positions in the Proposed Budget to realign actual program FTE usage; Planning, Building and Code Enforcement Department (\$417,000) for medical marijuana, code enforcement, and other fee activities; Police Department (\$222,000) for medical marijuana regulatory staffing; and Fire Department (\$57,000) to support non-development related fee activities. These additional resources are offset by fee, grant or reimbursement revenues.

##### *New Infrastructure/Equipment Operations and Maintenance*

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

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#### PROPOSED BUDGET BALANCING STRATEGY

##### Use of Funds

##### Use of Reserves

The Proposed Budget included the use or elimination of reserves (\$2.7 million) established in the February Forecast to cover additional costs to operate and maintain new technology or facilities that were scheduled to become operational in 2016-2017 (\$1.9 million), and a reserve (\$800,000) set aside in the February Forecast to fund critical capital maintenance or address urgent technology.

##### Cost Reductions/Service Delivery Efficiencies/Fund Shifts

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

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### 2016-2017 Adopted Operating Budget

#### **ADOPTED BUDGET BALANCING STRATEGY**

The final phase of the 2016-2017 budget process commenced following the issuance of the City Manager's Proposed Budget and consisted of the following major steps: City Council Budget Study Sessions on the Proposed Budget; formal public input through the Public Hearings process; issuance by the Administration of recommended revisions to the Proposed Budget (in the form of formal Manager's Budget Addenda); issuance by the City Council of recommended revisions to the Proposed Budget (in the form of Budget Documents submitted to the Mayor's Office); issuance of the Mayor's June Budget Message memorandum that included recommended revisions to the Proposed Budget and incorporated feedback from the City Council and the Administration; and approval by the City Council of the Mayor's June Budget Message and final Adopted Budget. In addition, community budget meetings were held in each of the ten City Council districts.

Summarized in Table IV by general category are the additional changes introduced by Manager's Budget Addenda or the Mayor's June Budget Message. (The full text of the Message is included as an Appendix to this document.) Those additional changes in funding sources and uses totaled \$181.1 million in 2016-2017.

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## ADOPTED BUDGET BALANCING STRATEGY

**Table IV**  
**2016-2017 ADOPTED OPERATING BUDGET**  
**General Fund Funding Requirements and Balancing Strategy (in \$000s)**

	2016-2017	Ongoing
<b>Remaining Balance from Proposed Budget (from Table III)</b>	<b>\$ 0</b>	<b>\$ 0</b>
<b>Balancing Strategy</b>		
<b>Source of Funds</b>		
Fund Balance to Support 2015-2016 Projects/Balancing Strategy	\$ 144,400	\$ 124
Sales Tax	30,000	40,000
Revenue-Related Rebudgets to Support 2015-2016 Projects	4,329	0
New Grants/Revenue-Supported Expenditures	2,098	50
Other Revenue Changes	<u>278</u>	<u>355</u>
<b>Subtotal Source of Funds</b>	<b>\$ 181,105</b>	<b>\$ 40,529</b>
<b>Use of Funds</b>		
Rebudgeted 2015-2016 Projects	\$ 141,652	\$ 0
Unmet/Deferred Technology, Infrastructure, and Maintenance	17,700	0
Service Level Enhancements	16,269	15,611
Revenue-Related Rebudgets to Support 2015-2016 Projects	4,329	0
New Grants/Reimbursements/Revenue-Supported Expenditures	2,011	0
Earmarked Reserves (Budget Stabilization, Essential Services, Fire Station 37 Construction)	1,960	(200)
Development Fee Programs	99	100
Use of Reserves (Cultural Facilities Capital Maintenance, Committed Additions, Deferred Maintenance)	(1,803)	(869)
2017-2018 Future Deficit Reserve	<u>(1,112)</u>	<u>1,112</u>
<b>Subtotal Use of Funds</b>	<b>\$ 181,105</b>	<b>\$ 15,754</b>
<b>Total Balancing Strategy</b>	<b>\$ 0</b>	<b>\$ 24,775</b>
<b>Remaining Balance</b>	<b>\$ 0</b>	<b>\$ 24,775</b>



## General Fund Balancing Strategy Detail

### 2016-2017 Adopted Operating Budget

#### ADOPTED BUDGET BALANCING STRATEGY

##### Source of Funds

As part of the City Council-approved revisions to the Proposed Budget, a total of \$181.1 million in additional resources were approved to be used as part of the Adopted Budget strategy. The major elements of these revisions are described below.

##### *Fund Balance to Support 2015-2016 Rebudgeted Projects/Balancing Strategy*

The unrestricted portion of the 2015-2016 Ending/2016-2017 Beginning Fund Balance estimate was adjusted upward by an additional \$144.4 million to primarily reflect the 2015-2016 funding, which was estimated to be available to be carried over to 2016-2017 to complete previously approved projects (\$141.8 million). Of this amount, \$560,000 was rebudgeted from the Cultural Facilities Capital Maintenance Earmarked Reserve for other purposes including: City Hall Rotunda Lighting (\$350,000), Family-Friendly City Facilities (\$110,000), and Downtown Ice Rink Improvements (\$100,000). In addition, \$100,000 was rebudgeted from the Mayor and City Council offices for other purposes including: Mayor's Office rebudget for Mayor Innovation Fellows Program (\$50,000), Council General rebudget for City-Wide Dues/memberships (\$25,000), and Council General rebudget for Upgrades to the 18<sup>th</sup> Floor Conference Rooms and Public Access (\$25,000). The fund balance estimate was also increased by \$2.5 million to reflect additional 2015-2016 excess revenues and expenditure savings based on the latest analysis of actual 2015-2016 performance.

##### *Sales Tax*

The Adopted Budget included a revenue increase of \$30.0 million, reflecting additional anticipated revenues to be received in 2016-2017 from a one-quarter percent sales tax measure that was approved by the voters in June 2016. The change in sales tax will be effective October 2016. Beginning 2017-2018, the local sales tax measure is projected to generate \$40.0 million annually.

##### *Revenue-Related Rebudgets to Support 2015-2016 Projects*

The Adopted Budget included grant and reimbursement-related revenue totaling \$4.3 million that was rebudgeted from 2015-2016 to complete the associated projects in 2016-2017. These revenue-related rebudgets were spread among a number of revenue categories (Local Agencies, State Government and Federal Government, and Other Revenue) and were offset by expenditure rebudgets. Expenditure appropriations for these actions were also included in the Adopted Budget.

##### *New Grants/Reimbursements/Revenue-Supported Expenditures*

The Adopted Budget included \$2.1 million in new grant/reimbursement/fee revenue. These grants and reimbursements were reflected in Revenue from Local Agencies, Revenue from the State of California, and Revenue from the Federal Government revenue categories.

## General Fund Balancing Strategy Detail 2016-2017 Adopted Operating Budget

### ADOPTED BUDGET BALANCING STRATEGY

#### Source of Funds

##### *Other Revenue Changes*

The Adopted Budget included a revenue increase of \$243,000 based on updated information. Below is a summary of the revenue adjustments:

- An ongoing increase of \$1.1 million to the Property Tax revenue estimate to reflect an upward adjustment to the Secured Property Tax and the SB813 Property Tax categories.
- An ongoing decrease of \$869,000 to the Transient Occupancy Tax revenue estimate (from \$17.8 million to \$17.0 million) reflects lower anticipated collections in 2015-2016, which results in a lower base starting point for 2016-2017 anticipated growth. The action is offset by a reduction to the Cultural Facilities Capital Maintenance Reserve.

##### *Transfers and Reimbursements*

- A net one-time increase of \$35,000 in anticipated overhead reimbursements to reflect the impact of various budget actions in the 2016-2017 Budget that change the staffing levels funded by special and capital funds.

#### Use of Funds

As part of the City Council-approved revisions to the Proposed Budget, a total of \$181.1 million in General Fund expenditure changes were approved. These actions include the net addition of approximately 60 positions across all City funds. Listings of all the approved budget modifications are described in detail in the CSA and departmental sections of this Adopted Budget document.

The major elements of these revisions are described below.

## General Fund Balancing Strategy Detail

### 2016-2017 Adopted Operating Budget

#### ADOPTED BUDGET BALANCING STRATEGY

##### Use of Funds

##### *Rebudgeted 2015-2016 Projects*

Additional expenditures totaling \$141.7 million were included in the Adopted Budget to fund the completion of programs and projects authorized in the prior year. The rebudgeted funds were offset by additional 2015-2016 Ending/2016-2017 Beginning Fund Balance.

##### *Unmet/Deferred Technology, Infrastructure, and Maintenance*

The Adopted Budget included expenditures totaling \$17.7 million to fund increased pavement maintenance on major streets to significantly slow the incidence of pothole formation and general pavement deterioration.

##### *Service Level Enhancements*

Additional expenditures totaling \$16.3 million were included in the Adopted Budget for service level enhancements. The largest investments included funding described in the Mayor's June Budget Message for Fiscal Year 2016-2017 to: Improve Response Times to Fire and Medical Services (\$4.9 million); Homeless Rapid Rehousing (\$2.0 million); Improve Response to Burglary and Neighborhood Crimes (\$1.5 million); Expand Police Recruitment, Hiring, and Retention Efforts (\$1.5 million); Pedestrian Safety and Traffic Calming (\$750,000); International Air Service Destination Marketing Program (\$425,000); Participatory Budgeting (\$400,000); City Hall Rotunda Lighting (\$350,000); Vietnamese-American Community Center (\$316,600); Working Smarter to Reduce and Solve Crimes (\$210,000); Cadillac Neighborhood (\$209,000); Intergovernmental Relations (\$200,000); LED Streetlights (\$188,000); Homeless Encampment Service Coordination and Bio Waste (\$180,000); Mayor Innovation Fellows Program (\$176,800); License Plate Readers (\$165,000); Emergency Preparedness (\$130,000); Portable Emergency Mass Warning System (\$127,000); Access to Pools and Swim Lessons (\$116,000); Volunteer Coordination (\$116,000); Dirty Dozen (\$111,000); Family-Friendly City Facilities (\$110,000); Downtown Ice Rink Improvements (\$100,000); Neighborhood Blight Eradication (\$100,000); School Crossing Guards (\$100,000); and Tree Maintenance (\$100,000).

##### *Revenue Related Rebudgets to Support 2015-2016 Projects*

The Adopted Budget included grant and reimbursement-related expenditures totaling \$4.3 million that were rebudgeted from 2015-2016 to complete the associated projects in 2016-2017. These expenditure adjustments were offset by revenue rebudgets.

## General Fund Balancing Strategy Detail

### 2016-2017 Adopted Operating Budget

#### ADOPTED BUDGET BALANCING STRATEGY

##### Use of Funds

##### *Earmarked Reserves*

From the Proposed to the Adopted Budget, the Other Reserves expenditure category was increased by a net \$2.0 million. The Budget Stabilization Reserve was increased by \$3.8 million (from \$2.5 million to \$6.3 million). The Adopted Budget included the establishment of a Fire Station 37 Construction Reserve (\$960,000), Grace Community Center Reserve (\$150,000), 2017-2018 School Crossing Guard Staffing Reserve (\$100,000), and the Program Gambling Reserve (\$75,000). The Essential Services Earmarked Reserve was increased by \$2.7 million (from \$2.5 million to \$5.2 million) and subsequently liquidated and allocated as part of the 2016-2017 budget process as anticipated. The Airport Attraction Program Reserve (\$425,000) and Intergovernmental Relations Reserve (\$200,000) were also liquidated and allocated as part of the 2016-2017 budget process.

##### *New Grants/Reimbursements/Revenue-Supported Expenditures*

Expenditure changes related to new grant or reimbursement activity totaled \$2.0 million. These grant and reimbursement expenditures, were offset by additional revenue.

##### *Development Fee Programs*

The Adopted Budget included one additional position and \$99,000 of new resources in the Development Fee Programs (Building and Planning) to expedite the process to fill vacancies in the Planning, Building and Code Enforcement Department to maintain the increased recruitment demands.

##### *Use of Reserves*

The Cultural Facilities Capital Maintenance Reserve was reduced by \$1.4 million (from \$5.9 million to \$4.5 million) to reflect a downward adjustment in projected Transient Occupancy Tax (TOT) receipts (\$869,000) and to offset investments described in the Mayor's June Budget Message for Fiscal Year 2016-2017 to fund the City Hall Rotunda Lighting (\$350,000), Family-Friendly City Facilities (\$110,000), and Downtown Ice Rink Improvements (\$100,000). The Police Department Staffing/Operations Reserve was decreased by \$374,000 (from \$1.9 million to \$1.6 million) to offset investments described in the Mayor's June Budget Message for Fiscal Year 2016-2017 including funding for the Cadillac Neighborhood (\$209,000) and License Plate Readers (\$165,000).

## General Fund Balancing Strategy Detail

### 2016-2017 Adopted Operating Budget

#### ADOPTED BUDGET BALANCING STRATEGY

##### Use of Funds

##### 2017-2018 Future Deficit Reserve

The Adopted Budget included a decrease of \$1.1 million (from \$4.1 million to \$3.0 million) to the 2017-2018 Future Deficit Reserve with a corresponding increase of \$1.1 million (from \$6.9 million to \$8.0 million) to the ongoing portion of the reserve. An additional \$1.1 million in ongoing resources were identified in the 2016-2017 Adopted Budget, but were not allocated to ongoing needs. These funds will be available for ongoing allocation in 2017-2018. By setting aside these unspent ongoing funds, the potential shortfall forecasted for 2017-2018 will thereby be reduced. It is important to note, however, this Future Deficit Reserve was developed without the assumption of additional revenue from the local sales tax measure approved by the voters in June 2016.

##### Future Implications

As shown in Table IV, the 2016-2017 Adopted Budget was balanced and on an ongoing basis, the actions in the Adopted Budget result in a surplus of \$24.8 million. Based in the 2017-2021 forecast, a deficit was projected for 2017-2018; however, the actions taken in this budget fully address this shortfall. All of the assumptions used to develop this projection, however, will be revisited in the development of the 2018-2022 Five-Year General Fund Forecast.