

**City of San José**

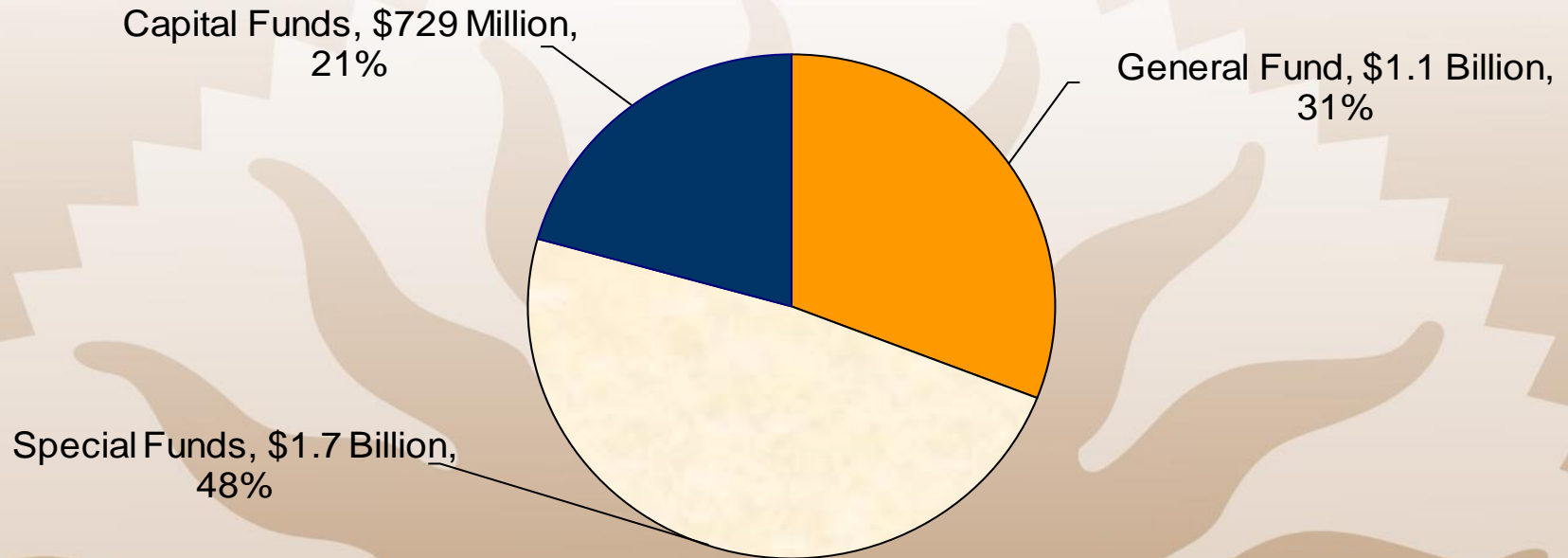
# **2016-2017 Proposed Operating Budget Overview**

**May 11, 2016**

# City of San José Budget Overview

<b>2016-2017 PROPOSED CITY BUDGET<sup>1</sup>:</b>	<b>\$2.9 billion</b>
<b>TOTAL NUMBER OF FUNDS:</b>	<b>111</b>
<b>TOTAL NUMBER OF POSITIONS (FTE):</b>	<b>6,099</b>

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<sup>1</sup> An adjustment of \$611 million is necessary to arrive at the \$2.9 billion net 2016-2017 Proposed City Budget to avoid the double-counting of transfers, loans, and contributions between City funds.

# 2016-2017 Proposed Budget Overview

- All funds (General Fund, special and capital funds) brought into balance
- General Fund projected surplus of \$6.9 million, along with one-time funds, allocated to close projected 2017-2018 shortfall; additional one-time funding available for other high priority needs in 2016-2017
- Targeted investments in:
  - Save (investments to ensure fiscal stability)
  - Invest and Innovate (investments in safety, economic opportunity, our future, and our community)
  - Invest in Making San Jose America's Most Innovative City (investments that support innovation and strategic partnerships and increase transparency and community input)
- Modest employee compensation increases included
- Positions are up 2.6%, from 5,945 to 6,099 (vast majority offset by revenues/reimbursements/net-zero shifts or added in special/capital funds)

# 2017-2021 General Fund Forecast

## 2017-2021 General Fund Forecast Incremental General Fund Surplus/(Shortfall)

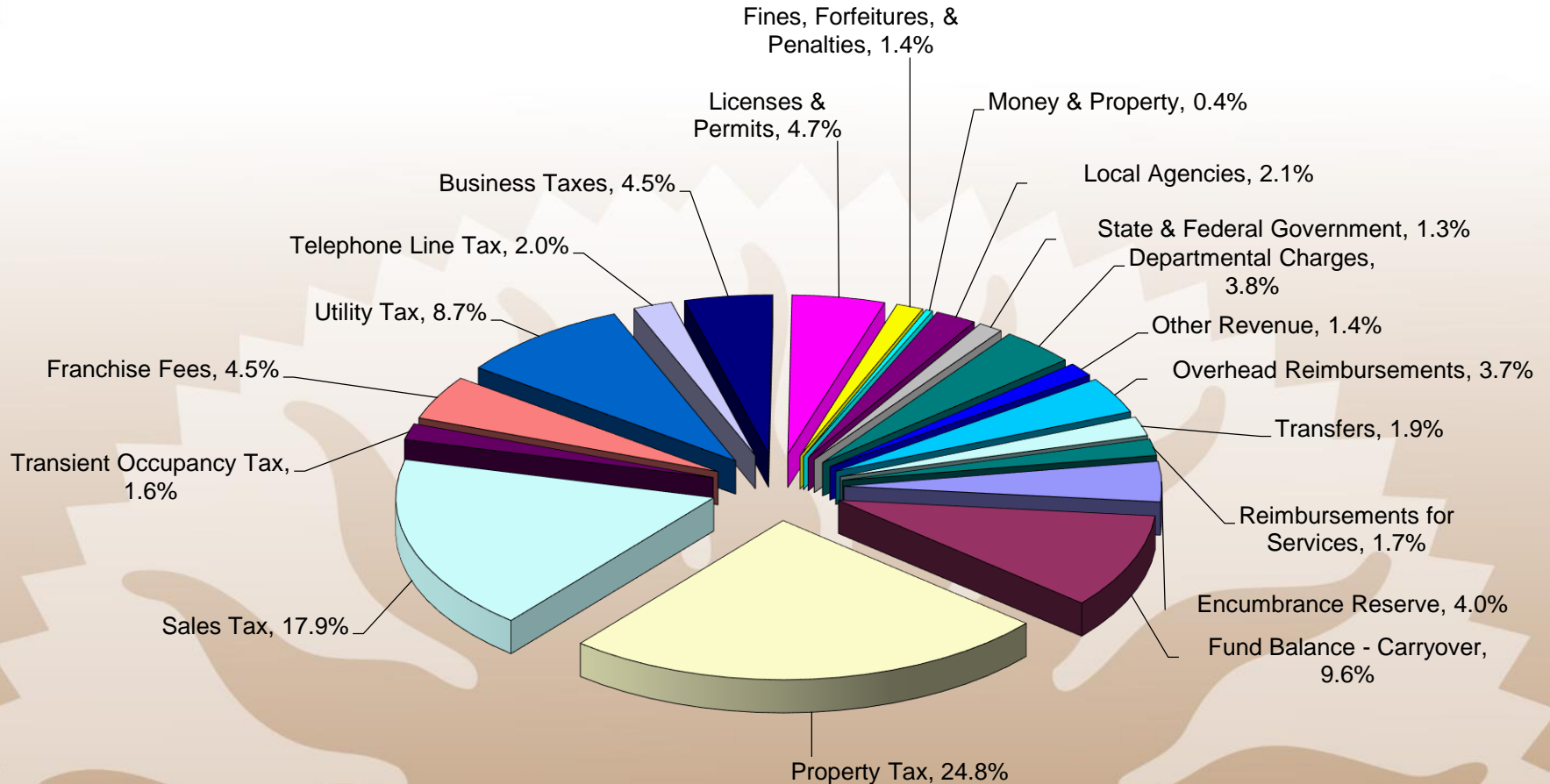
	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
Incremental Surplus/(Shortfall)	\$6.9 M*	(\$11.1 M)	(\$15.8 M)	(\$4.2 M)	(\$4.8 M)
% of Annual Budget	0.3%	(0.5%)	(0.7%)	(0.2%)	(0.2%)

\* Excludes Development Fee Programs and was revised from the \$5.7 million surplus presented in the February 2016 Forecast based on continued analysis. With no surplus in the Development Fee Programs, the General Fund surplus addressed in the 2016-2017 Proposed Budget remains at \$6.9 million.

### Does not include:

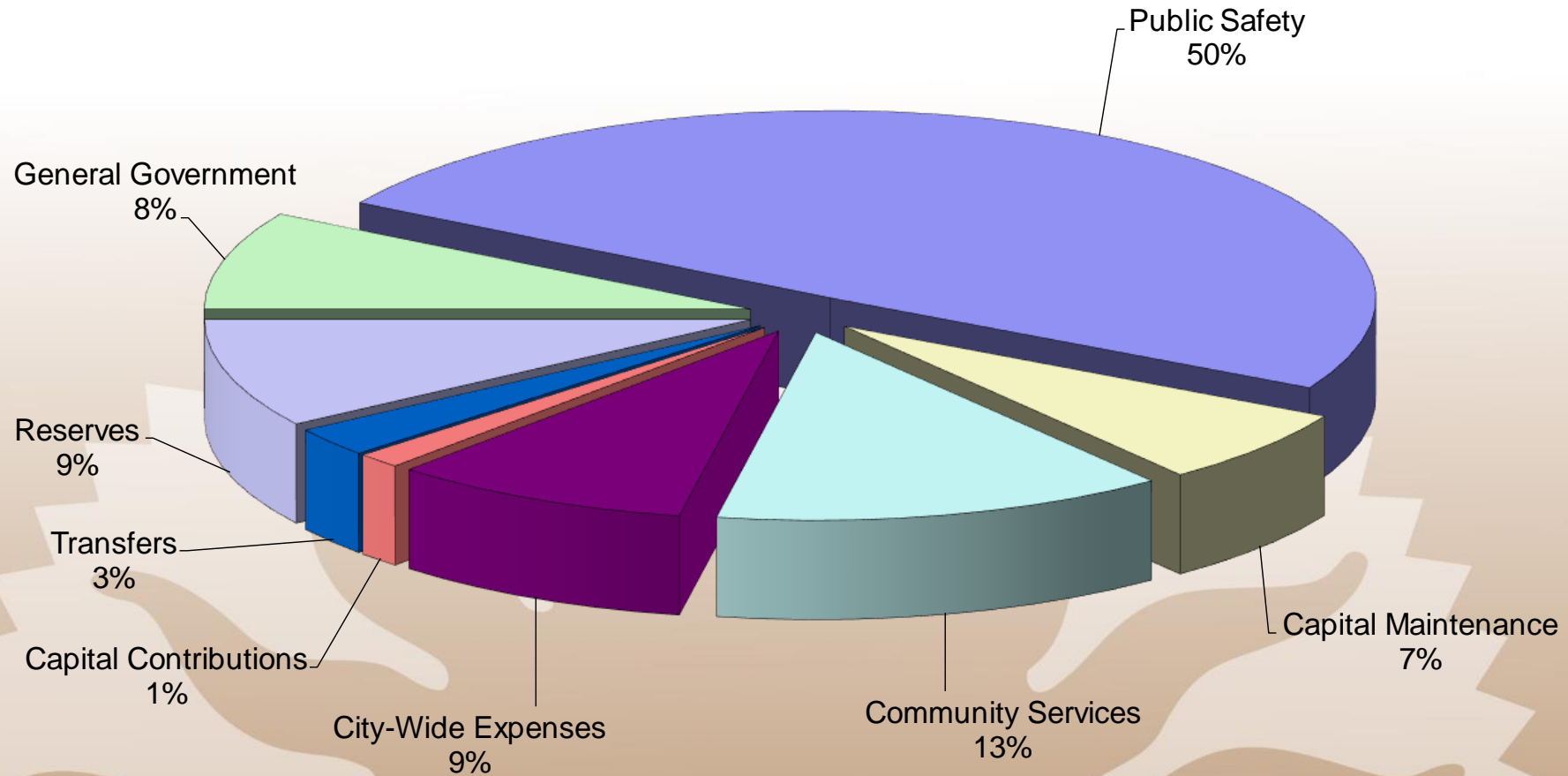
- Impacts associated with any new revenue measures
- Implementation of the alternative pension reform settlement framework agreements
- Costs associated with services funded on a one-time basis in 2015-2016
- Costs associated with the restoration of key services to January 2011 levels
- Costs for a Police Staffing Restoration Strategy to increase sworn positions from 1,109 to 1,250
- Costs associated with unmet/deferred infrastructure and maintenance needs
- One-time revenues/expenses

# 2016-2017 Proposed Budget – General Fund Funding Sources



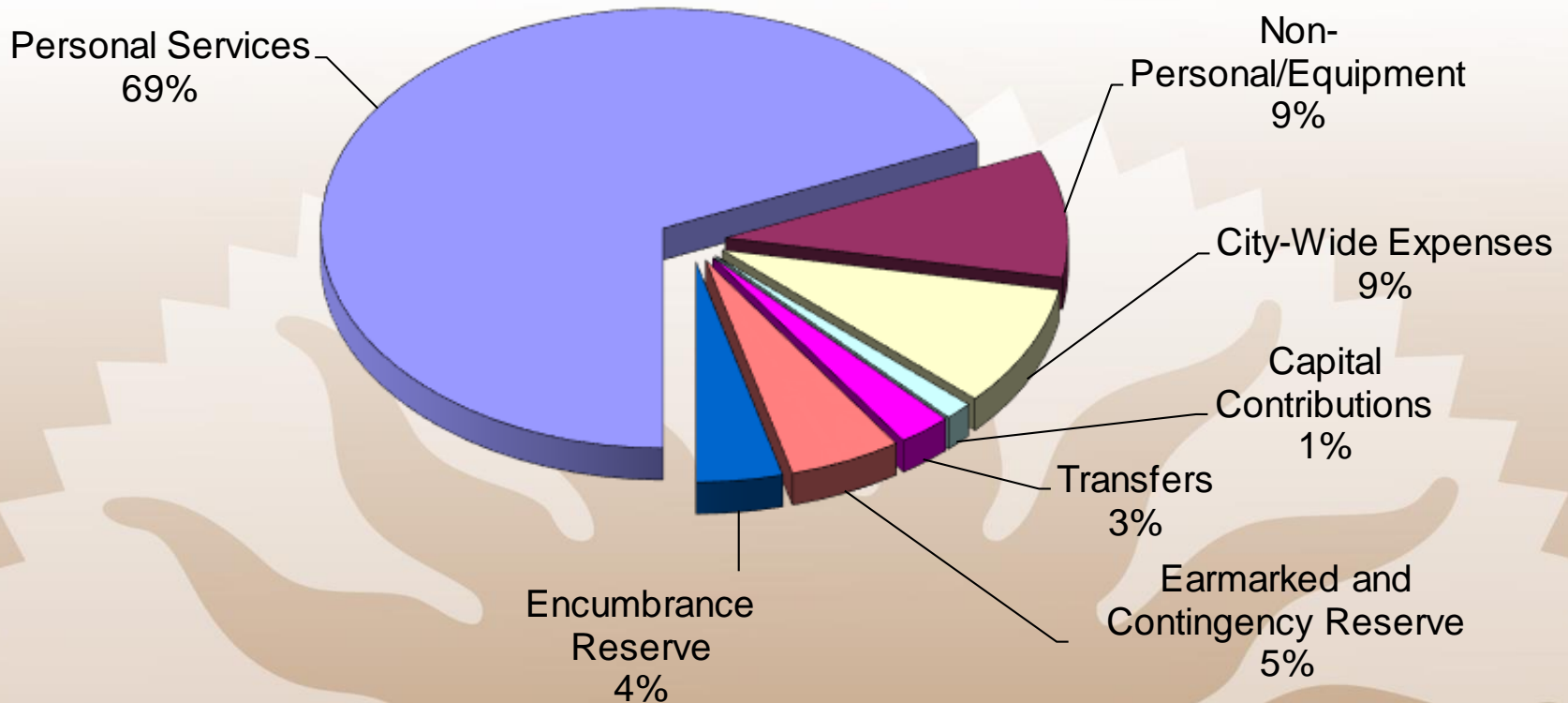
**TOTAL GENERAL FUND SOURCES: \$1,090,183,333**

# 2016-2017 Proposed Budget – General Fund Uses



TOTAL GENERAL FUND USES \$1,090,183,333

# 2016-2017 Proposed Budget – General Fund Uses by Category



TOTAL GENERAL FUND USES \$1,090,183,333

# 2016-2017 Budget Balancing Strategy

## General Framework and Policy Direction

- Mayor's March Budget Message as approved by the City Council (March 2016)
- Budget Balancing Strategy Guidelines contained in the City Manager's Budget Request (Five-Year Forecast) as approved by the City Council (March 2016)
- Guiding Principles for Restoring City Service Levels as approved by the City Council (March 2012)
- City of San José Budget Principles as approved by the City Council (September 2008)



# 2016-2017 Budget Balancing Strategy

## General Fund

	<u>2016-2017</u>	<u>Ongoing</u>
<b>Total General Fund Surplus</b>	<b>\$ 6.9 M</b>	<b>\$ 6.9 M</b>
<b>Recommended Balancing Strategy</b>		
– Changes in Sources	\$ 43.3 M	\$ 6.6 M
– Changes in Uses	<u>50.2 M</u>	<u>13.5 M</u>
<b>Total Balancing Strategy</b>	<b>\$ (6.9 M)</b>	<b>\$ (6.9 M)</b>
<b>Remaining Balance</b>	<b>\$ 0.0 M</b>	<b>\$ 0.0 M</b>

# 2016-2017 Budget Balancing Strategy

## Changes in General Fund Sources

	<u>2016-2017</u>	<u>Ongoing</u>
Beginning Fund Balance		
Sales Tax – State Triple Flip Wind Down	\$ 12.1 M	\$ 0
2016-2017 Police Overtime Reserve	5.0 M	0
Police Department Vacancy Savings	5.0 M	0
Property Tax – Educational Rev. Aug. Fund Excess	4.6 M	0
Development Fee Program Reserves	3.9 M	2.6 M
Cultural Facilities Capital Maintenance Reserve	3.7 M	0
Police Department Staffing/Operations Reserve	1.6 M	0
Employee Market Competitiveness Reserve	1.3 M	0
Staffing for SAFER Grant Reserve	0.7 M	0
Other Revenue/Reserve Liquidations/Savings	0.9 M	0
Grants/Reimbursements/Fees	3.4 M	3.1 M
Overhead/Transfers from Other Funds	<u>1.1 M</u>	<u>0.9 M</u>
<b>Total Change in Funding Sources</b>	<b>\$ 43.3 M</b>	<b>\$ 6.6 M</b>

# 2016-2017 Budget Balancing Strategy

## Changes in General Fund Uses

	<u>2016-2017</u>	<u>Ongoing</u>
Service Level Enhancements/Urgent Needs	\$ 13.8 M	\$ 2.2 M
Unmet/Deferred Infrastructure/Maintenance	10.9 M	0.2 M
2015-2016 One-Time Funded Services	9.1 M	0.1 M
Earmarked Reserves	8.4 M	0.2 M
2017-2018 Future Deficit Reserve	4.1 M	6.9 M
Development Fee Programs	3.3 M	2.2 M
Other Fee Programs/Grants/Reimbursements	2.4 M	2.3 M
New Facilities Operations and Maintenance	1.8 M	2.2 M
Use of Reserves	(2.6 M)	(2.2 M)
Cost Reductions/Fund Shifts	<u>(1.0 M)</u>	<u>(0.6 M)</u>
<b>Total Change in Funding Uses</b>	<b>\$50.2 M</b>	<b>\$13.5 M</b>

# Recommended Budget Actions

## Save

- 2017-2018 Future Deficit Reserve
- Budget Stabilization Reserve
- Contingency Reserve
- Securing Future Savings in Pension and Retiree Healthcare (polling costs)

# Recommended Budget Actions

## Invest and Innovate: Safety

- Police Overtime
- Downtown Police Foot Patrol Program
- Police Recruitment Services
- Police Body Worn Camera Program
- Police Department AIR2 Helicopter Engine Replacement
- Medical Marijuana Control Division Staffing and CEQA Review
- Police Department Bureau of Technical Services Civilian Leadership
- Police Business Permit and Licensing System
- Police Intelligence Technology Enhancements
- Gang Investigations Technology Enhancements
- Anti-Human Trafficking Program



# Recommended Budget Actions

## Invest and Innovate: Safety (Cont'd.)

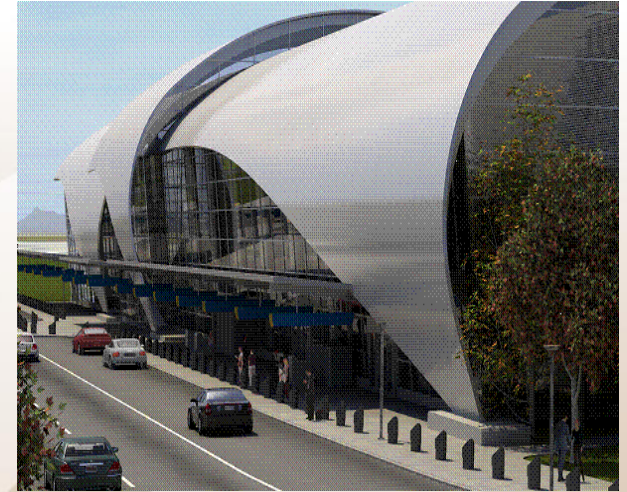
- Crime Prevention Meeting Space
- Domestic Violence Prevention Program
- Silicon Valley Regional Communications System Reserve
- Police Department Staffing/Operations Reserve
- Master Address Database
- San José Works
- Using Technology to Improve Emergency Response
- Fire Administrative Staffing Realignment
- Office of Emergency Services
- Fire Engine 30 and 34/Squad Car Realignment
- Fire Department Strategic Diversity Recruitment
- Fireworks



# Recommended Budget Actions

## Invest and Innovate: Economic Opportunity

- Opportunity Court
- Affordable Impact Fees
- Business Improvement District Creation
- Manufacturing Jobs Initiative
- Airport Attraction Program
- San José Sports Authority
- Diridon Station Area Planning



# Recommended Budget Actions

## Invest and Innovate: Economic Opportunity (Cont'd.)

- Economic Strategy Activation
- Economic Development Pre-Development Activities
- Policy and Ordinance Assistance
- Development Fee Programs:
  - Building Development Fee Program
  - Planning Development Fee Program
  - Public Works Development Fee Program
  - Fire Development Fee Program

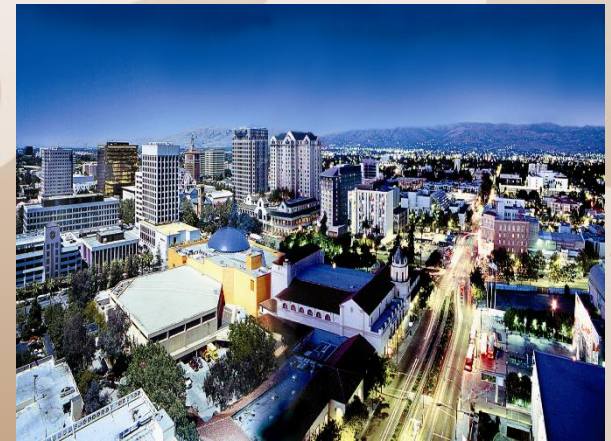




# Recommended Budget Actions

## Invest and Innovate: Our Future

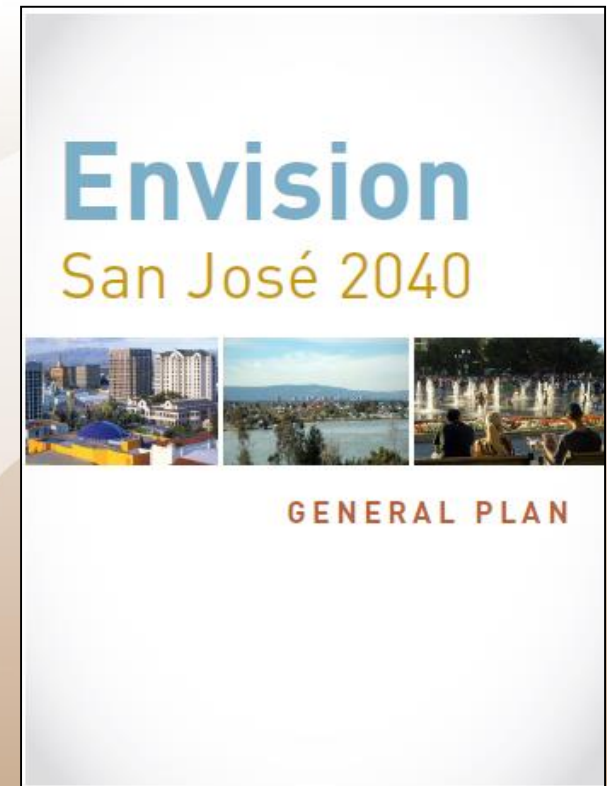
- Children's Health Fluoridation
- Community Choice Aggregation Study
- Family College Success Center
- Single Family Dwelling Waste Materials Processing (Phase III)



# Recommended Budget Actions

## Invest and Innovate: Our Community

- Illegal Dumping Rapid Response Program
- Large Item Collections
- Neighborhood-Led Beautification Days
- Neighborhood Blight Eradication (work experience for homeless individuals)
- Clean Creeks/Healthy Communities
- Cultural Facilities Capital Maintenance
- San José Stage Company Publically Owned Theater Site
- Vietnamese-American Community Center
- Placemaking: Viva CalleSJ and ¡VivaParks!
- Parks Rehabilitation Strike Team



# Recommended Budget Actions

## Invest and Innovate: Our Community (Cont'd.)

- Regional Parks – Monday Opening
- Family Camp Experience for Low Income Families
- Library Programs
- Library Fines and Fees Decrease
- PRNS Fee Activity Program
- Gardner Community Center
- Animal Care and Services
- Downtown Parking Garage
- Office of Immigrant Affairs
- Essential Services Reserve



# Recommended Budget Actions

## Invest in Making San José America's Most Innovative City

- Office of Innovation and Digital Strategy
- Transportation Innovation Program Manager
- Integrated Permit System
- Human Resources/Payroll/Budget Systems
- Secondary Data Center Buildout
- Virtual Desktop Infrastructure and Windows Upgrades
- Remote Facilities Network Upgrades
- Silicon Valley Talent Partnership

# Recommended Budget Actions

## Other Budget Actions

- City-Owned Facilities – Capital Infrastructure Improvements
- Human Resources Assistant Director
- Workers' Compensation Claims Administration Backlog
- Employment Services Division Job Class Specification Updates
- Employment Services Division Recruitment Staffing
- Legal Transactions Staffing
- Successor Agency City Subsidy Reduction (Administrative Support)

# Recommended Budget Actions

## Fee and Charges Adjustments

- **Utilities:**
  - Storm Sewer Service Fee: No increase
  - Sewer Service and Use Charge Fee: 5.5% increase
  - Recycle Plus Rates: 2.5% increase for multi-family dwellings
  - Municipal Water System Rates: 2.0% increase due to increased operating costs; further adjustments may be required during 2016-2017 (e.g., water usage, sources of wholesale water)
- **Development Fee Programs:** No general fee increases
- **Other Fee Programs:** Fee changes to generally maintain cost recovery

# Looking Forward

- Budget expected to be relatively stable over the next few years, but is vulnerable to an economic downturn
- “Service level deficit”: Absent new revenues, services will remain well below what the community deserves and expects from the City
- Sales Tax ballot measure before the voters on June 7<sup>th</sup>: 2016-2017 Provisional Budget and Ongoing Spending Priorities Plan will be brought forward as part of a Manager’s Budget Addendum
- City will continue its commitment to fiscal discipline, innovation, partnership, and community engagement to maximize resources and rebuild services

# Next Steps

- May 2<sup>nd</sup> through 26<sup>th</sup> Community Budget Meetings
- May 11<sup>th</sup> through 16<sup>th</sup> City Council Budget Study Sessions
- May 17<sup>th</sup>/June 13<sup>th</sup> Public Budget Hearings
- June 3<sup>rd</sup> Mayor's June Budget Message Released
- June 14<sup>th</sup> Council Review/Approval of Mayor's June Budget Message and Budget
- June 21<sup>st</sup> Adoption of the 2016-2017 Budget and Fees and Charges

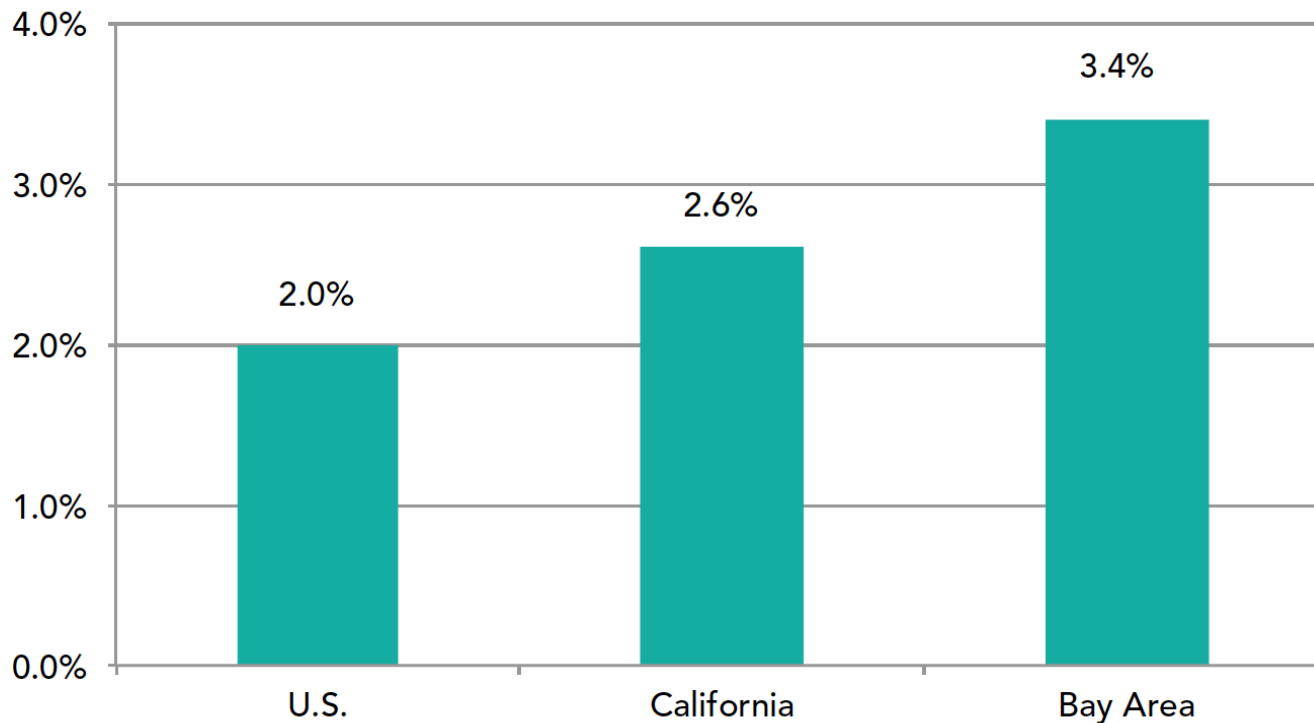


# FY16/17 Economic Forecast: Cautious optimism for year ahead

- **Jobs and Unemployment**
- **GDP and Consumer Spending**
- **Permits and Vacancy**
- **Important Sectors Locally**

# US labor market remains solid; state and regional growth even stronger

## Job Growth March 15—March 16

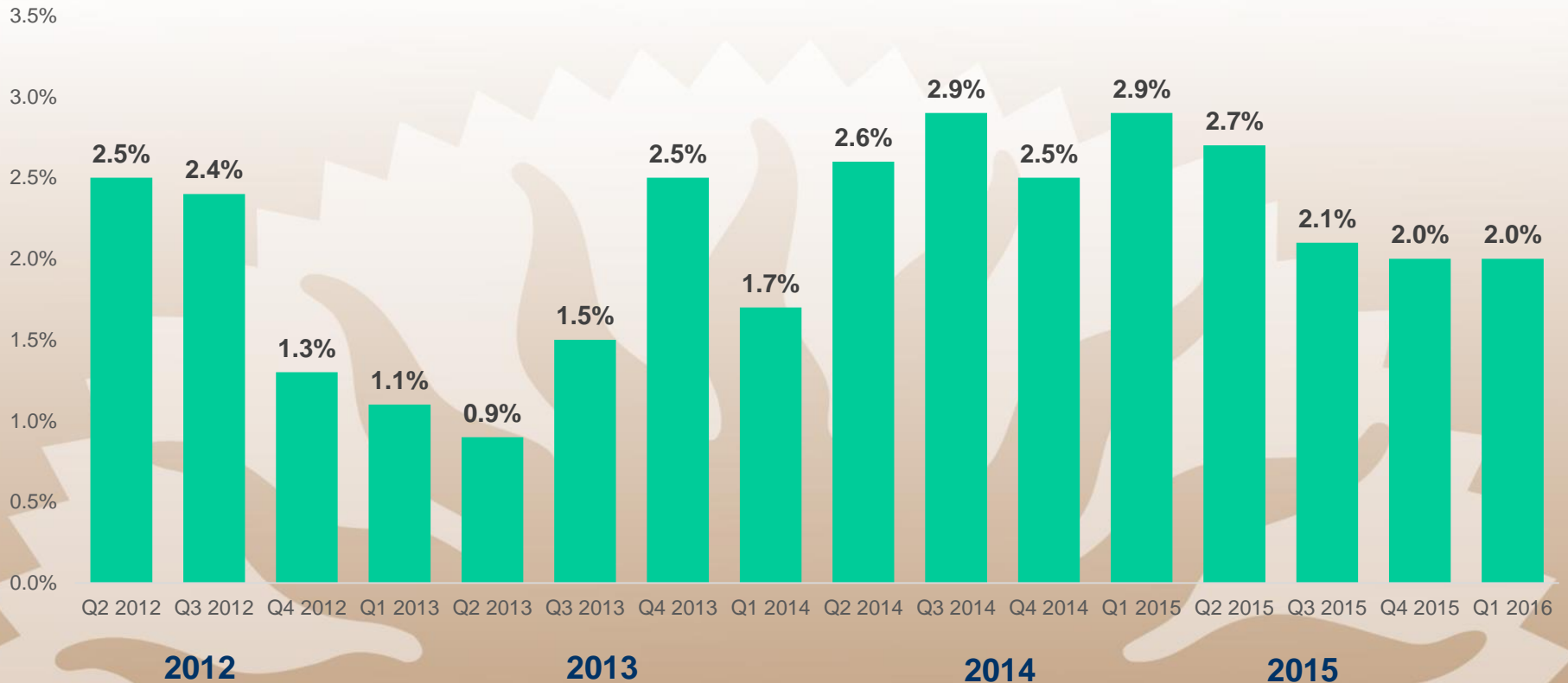


Source: State of California Employment Development Department.

Analysis: Stephen Levy, Director of the Center for Continuing Study of the California Economy; Bay Area Council Economic Institute.

# US GDP growth continuing but mixed signals ahead

Quarterly US GDP Growth Year-Over-Year

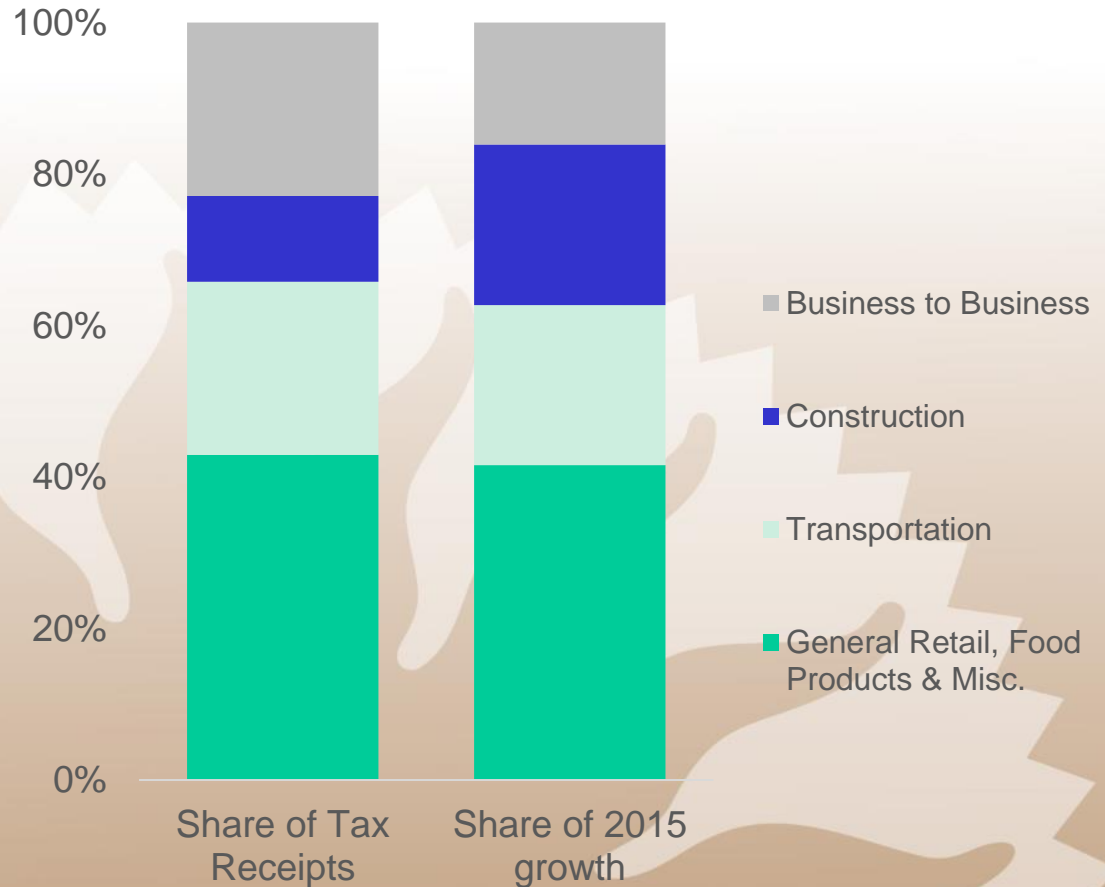


Source: Bureau of Economic Analysis (BEA)

# Local Sales Tax Grew 3.5% in 2015

**Total Local Receipts: \$153M\***

San Jose Sales Tax Receipts by Sector, 2015



Source: MuniServices and City of San Jose

\* This total does not include county and statewide tax pools.

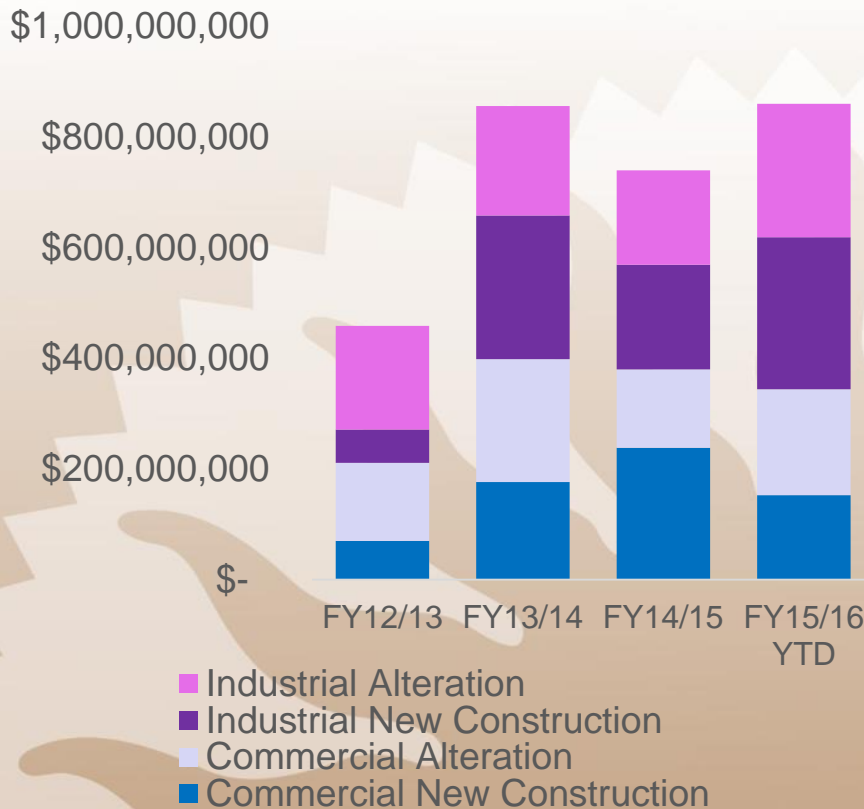
# Is the Silicon Valley growth engine slowing?

Among region's 150 largest public firms:

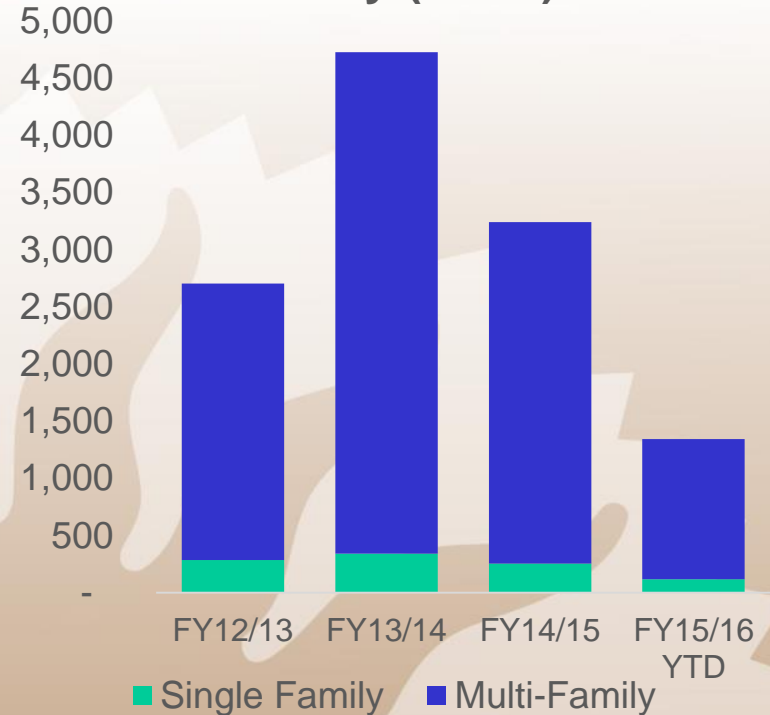
- **Combined profit rose 4.3% in 2015 from 2014, compared to 23% from 2013 to 2014**
- **Tech sector performance is still strong compared to other industries and the nation as a whole**
- **Slow down dominated by top 10 companies**
- **Corporate restructuring represents new opportunities**

# Strong industrial permit activity continues; slowing residential permit activity

## Commercial and Industrial Permit Activity (Valuation)



## Residential Permit Activity (Units)



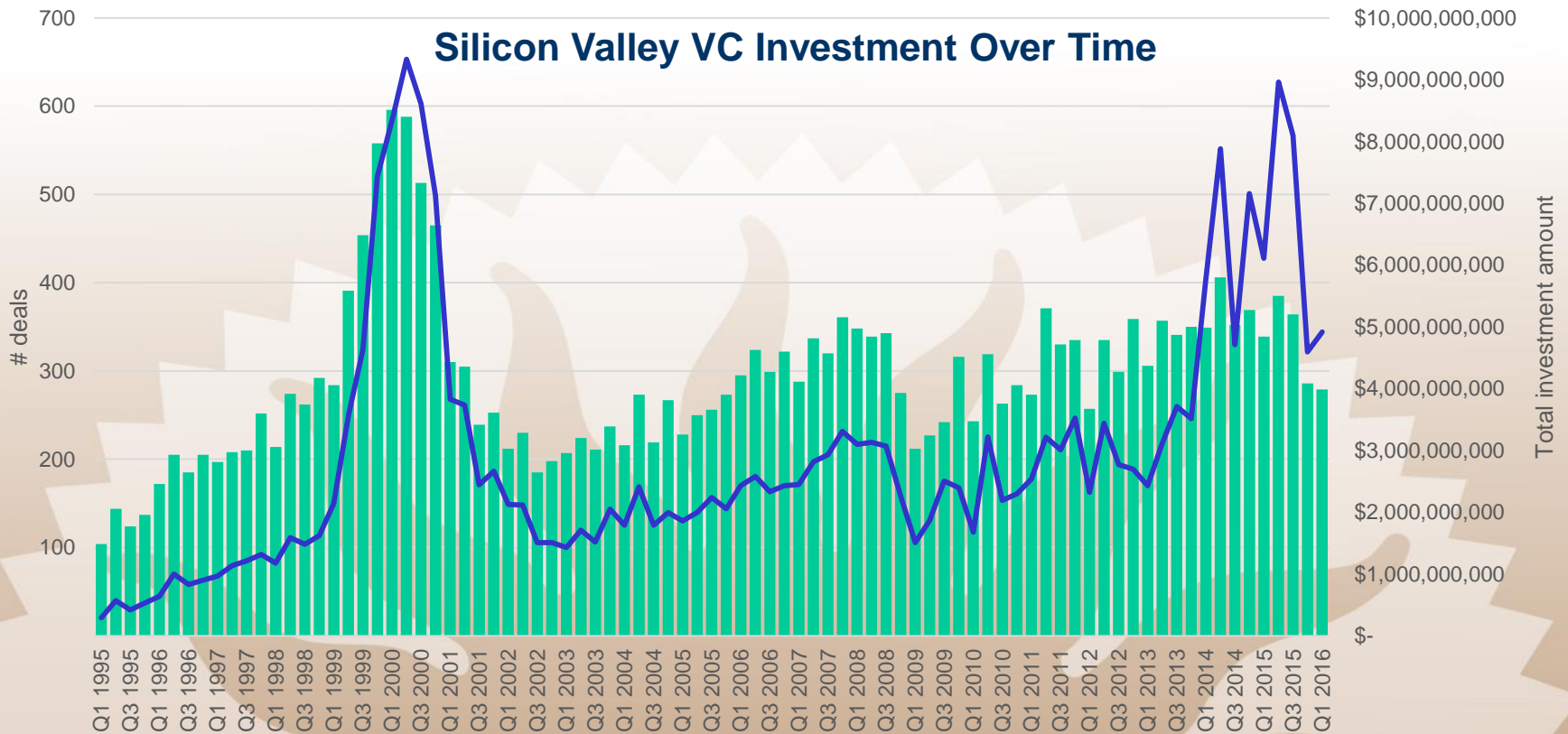
Source: Planning, Building and Code Enforcement

# Local Job Growth Across Most Sectors

Change in jobs, June 2015 compared to previous year



# If this is a Silicon Valley Tech Bubble, how will San Jose be affected?



Source: PWC/NVCA MoneyTree TM report

deals investment



# **Recap: Expect slower but continued growth in FY16/17**

## **Global and national uncertainty**

**Metro area job growth continuing; unemployment remaining below 5%**

**Consumer sales expected to lead GDP, positive effect on sales tax**

**Local leasing activity expected to drive down vacancy**

**Major tech corporations leading local growth in key employment areas**

# Coming Soon: Monitor San Jose's Economy Using Online Dashboard

## JOBS

### Total Jobs

397,831

as of June 2015

↑ 3.3%



see more ▾

### Unemployment Rate

4.2%

as of March 2016

↓ 1.0%



see more ▾

### Labor Force

552,300

as of March 2016

↑ 2.8%



see more ▾

## TALENT

### Population with Bachelor's Degree

40%

as of 2014

↑ 2.0%



see more ▾

### Foreign Born Population

40%

as of 2014

↑ 1.7%



### Tech Worker Residents

73,200

as of 2014

↑ 11,000



## REAL ESTATE

### Office Vacancy

9.1%

as of Q1 2016

↓ 3.9%



### R&D Vacancy

10.4%

as of Q1 2016

↓ 3.3%



### Industrial Vacancy

1.4%

as of Q1 2016

↓ 1.8%



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**May 11, 2016**