



2015-2016

OPERATING BUDGET

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

General Fund Balancing Strategy Detail

2015-2016 Adopted Operating Budget

INTRODUCTION

This Attachment is intended to provide a more detailed summary of the key actions taken to balance the 2015-2016 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 2015, the Administration prepared formal projections for the 2015-2016 General Fund Budget as part of the *2015-2016 City Manager's Budget Request & 2016-2020 Five-Year Forecast and Revenue Projections* document that was presented to the City Council. The 2015-2016 “base-case” projections in that document estimated a 2015-2016 General Fund surplus of approximately \$8.6 million (no Development Fee Program impact was assumed given that the four fee programs are designed to be set at 100% cost-recovery levels). This surplus represented the difference between projected 2015-2016 General Fund resources and the expected cost of approved 2015-2016 Base Budget services in next year's terms, as well as several City Council “committed” augmentations (e.g., the costs of operating and maintaining new facilities previously approved to be built).

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 constituted the **Revised Base Budget Forecast** included in the Adopted Budget.

The revisions to the February Base Budget Forecast included a series of changes that produced an increase in General Fund sources and an increase in overall uses. These changes resulted in an increase of \$0.8 million to the estimated General Fund surplus, resulting in a \$9.4 million surplus (no Development Fee Program impact assumed). With the Development Fee Program impact included, the surplus grew modestly. 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 \$40.0 million), and uses (by \$49.4 million) from the Revised Base Budget Forecast, bringing the overall General Fund into balance for 2015-2016. The increase in sources of \$40.0 million includes several major components: a higher Beginning Fund Balance of \$29.4 million, of which \$27.1 million reflects the liquidation of various earmarked reserves for specific services; an increase in Revenue from the Federal Government of \$3.6 million; and other revenue changes of \$7.0 million.

The increase in uses of \$49.4 million included additional funding for the following: service level enhancements (\$24.0 million); earmarked reserves (\$12.8 million); continuation of 2014-2015 one-time funded services (\$7.7 million); development fee program as well as other fee, grants and reimbursements (\$6.5 million); a small number of critical unmet/deferred infrastructure and maintenance needs (\$3.9 million); and other increases (\$1.4 million). These increases are partially offset by savings realized from the use of reserves that had been established for specific purposes

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(\$6.9 million) that were included in the February Forecast. The result of these actions was a balanced 2015-2016 General Fund Proposed Budget of \$1.0 billion.

From the release of the Proposed Budget to the final adoption of the budget, additional revisions totaling \$180.9 million occurred. The largest component of the increase was the rebudget of 2014-2015 funds (\$159.7 million) that were carried forward to 2015-2016 to complete various projects. The Adopted Budget was balanced with 100% ongoing actions.

Table I below displays the overall projections for the 2015-2016 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, including both Forecast revisions and the development fee program impact. 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
2015-2016 ADOPTED OPERATING BUDGET
Forecast To Adopted Budget Reconciliation (in \$000s)

	Total Sources	Total Uses	(Shortfall)/ Surplus
February Base Budget Forecast	\$ 993,134	\$ 984,529	\$ 8,605
Forecast Revisions	1,391	607	784
Revised Base Budget Forecast (no fee impact)	994,525	985,136	9,389
Development Fee Program Impact	20	0	20
Revised Base Budget Forecast (with fee impact)	994,545	985,136	9,409
Proposed Revisions	39,982	49,391	(9,409)
2015-2016 Proposed Budget	1,034,527	1,034,527	0
Adopted Revisions	180,882	180,882	0
2015-2016 Adopted Budget	1,215,410	1,215,410	\$ 0

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REVISED BASE BUDGET FORECAST

As discussed previously, following the issuance of the February Base Budget Forecast, detailed analysis of the status of General Fund revenues and expenditures continued. Based on this review, the Proposed 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 \$9.4 million (with the Development Fee Program Impact), an increase of \$0.8 million from the \$8.6 million surplus in the February Base Budget Forecast (with no Development Fee Program impact assumed). Changes are detailed in Table II below.

Table II
2015-2016 REVISED BASE BUDGET FORECAST
Summary of Changes (in \$000s)
(Forecast Revisions combined with Development Fee Program Impact)

Sources	Revision
Departmental Charges	\$ 1,017
Transient Occupancy Tax	725
Beginning Fund Balance	481
Business Taxes	425
Transfers and Reimbursements	221
Franchise Fees	200
Telephone Tax	200
Other Revenue	40
Sales Taxes	(1,135)
Licenses and Permits	(572)
Utility Tax	(161)
Fines, Forfeiture and Penalties	(30)
Net Change in Sources	\$ 1,411

Uses	Revision
Cultural Facilities Capital Maint. Reserve	\$ 725
Parks, Recreation and Neighborhood Services Fee Activity Increase	628
Position and Fund Realignments	203
Non-Personal/Equipment and City-Wide Expenses Adjustments	197
FMC Debt Service Revision	(1,146)
Net Change in Uses	\$ 607

Total Change (Shortfall)/Surplus	\$ 804
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REVISED BASE BUDGET FORECAST

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

Departmental Charges

- An increase of \$1.0 million to the Parks, Recreation and Neighborhood Services Departmental Charges aligns revenues and estimated activity levels. The increase primarily reflects a net increase of \$975,000 in the fee activity program revenues, which now includes concession (\$20,000) and surcharge revenues (\$115,000) in addition to the increase of \$840,000 in fee activity. Additional adjustments include: a \$167,000 increase in Happy Hollow Park and Zoo revenues; a \$19,000 increase in facility rental activities; a \$5,000 increase in gym and fitness memberships; a \$5,000 increase in Lake Cunningham Skate Park revenues; and a \$4,000 increase in park permits partially offset by a \$15,000 decrease in Family Camp reservations revenue, and the reduction and reallocation of concession revenues (\$20,000) and surcharge revenues (\$133,500). These actions are partially offset by increases in base costs to deliver these programs and fee activities.
- An increase of \$20,000 in the Public Works Development Fee Program to ensure revenues and expenditures for the program align and reflect 100% cost recovery levels.
- A \$9,500 decrease reflects the realignment of revenues with base activity levels for the Animal Care and Services various departmental fees and charges, such as spay and neuter program, board and impound fees, and home quarantine fees.

Transient Occupancy Tax

- An increase of \$725,000 to the estimate for Transient Occupancy Tax (from \$14.0 million to \$14.7 million) based on the strong collection trend experienced in 2014-2015 and a 5% growth assumption for 2015-2016. A corresponding increase in the Cultural and Arts Facilities Capital Replacement and Maintenance Reserve is also included as a Base Budget adjustment per prior City Council direction.

Beginning Fund Balance

- An increase of \$481,000 to the Beginning Fund Balance assumes a partial liquidation of the Fire Development Fee Program Reserve. With the \$481,000 decrease in the Fire Development Fee Program 2015-2016 revenue estimate, the liquidation of the reserve is necessary to ensure the cost recovery fee program remains balanced.

Business Taxes

- An increase of \$425,000 to the estimate for Disposal Facility Tax (from \$11.5 million to \$11.9 million) based on the collection trend experienced in 2014-2015, which has seen increased activity from neighboring agencies dumping in San José landfills, consistent with 2013-2014 actual collections.

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Transfers and Reimbursements

- An increase of \$314,000 to the reimbursement from the Airport Maintenance and Operation Fund for police services to adjust for additional overtime hours above the level assumed in the 2016-2020 Five-Year General Fund Forecast. This increase is offset by a corresponding increase in the Police Department General Fund overtime funding.
- An increase of \$34,000 in the reimbursement for Deferred Compensation to adjust for an error in the 2016-2020 Five-Year General Fund Forecast and align reimbursement levels with base costs.
- An increase of \$23,000 to the transfer from the Convention and Cultural Affairs Fund to adjust for revisions in base personal services costs in the Office of Economic Development to more accurately align funding sources of staffing.
- A net decrease of \$149,000 to reflect updated overhead reimbursements from capital funds (\$80,000) and operating funds (\$69,000) based on final 2015-2016 base expenditures and final 2015-2016 overhead rates as provided by the Finance Department.

Franchise Fees

- An increase of \$200,000 (from \$9.7 million to \$9.9 million) in Cable Franchise Fees based on 2014-2015 collection trends. A corresponding adjustment to the Public Education and Government (PEG) Access funds is described in the Other Revenue section and City-Wide Expenses section of this document.

Telephone Line Tax

- An increase of \$200,000 (from \$20.8 million to \$21.0 million) based on 2014-2015 collection trends.

Other Revenue

- An increase of \$40,000 to reflect the increase in the Public, Educational, and Government (PEG) Access funds, which are based on the collection levels of Cable Franchise Fees as discussed above. Therefore, this increase reflects the higher collection levels anticipated in 2015-2016 based on 2014-2015 collection trends. This increase is offset by a corresponding increase in the City-Wide Expenses section for Public, Educational, and Government (PEG) Access Facilities – Capital and Government Access - Capital Expenditures expenditure allocations.

Sales Tax

- A decrease of \$1.1 million to the General Sales Tax revenue estimate (from \$183.0 million to \$181.9 million) to reflect lower than anticipated collections for the second quarter of 2014-2015 (2.4% actual growth compared to estimated 4.0% growth) and the ongoing implications of reducing the remaining two quarters of 2014-2015 growth from 4.0% to 3.5% to reflect this lower trend.

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REVISED BASE BUDGET FORECAST

Licenses and Permits

- A \$91,000 increase reflects the realignment of revenues with base activity levels for the Animal Care and Services licensing and permits.
- A decrease of \$481,000 to the Fire Permits revenue estimate (development-related revenues down from \$6.9 million to \$6.4 million) to reflect the anticipated 2015-2016 collection and activity levels. To remain 100% cost recovery in 2015-2016, this action is offset by a corresponding increase in the estimate for Beginning Fund Balance to reflect the anticipated liquidation of a portion of the Fire Development Fee Program Reserve.
- A decrease of \$182,000 in revenue to reflect a revised calculation for the Medical Marijuana Annual Operating Fee.

Utility Tax

- A net decrease of \$161,000 (\$94.0 million to \$93.8 million) reflecting a decrease to the estimate for Electricity Utility Taxes (\$250,000, from \$44.0 million to \$43.8 million), Water Utility Taxes (\$100,000, from \$11.7 million to \$11.6 million), partially offset by an increase to the estimate for Telephone Utility Taxes (\$189,000, from \$29.4 million to \$29.6 million) based on 2014-2015 collection trends.

Fines, Forfeitures and Penalties

- A \$25,000 increase in administrative remedies for Code Enforcement activities reflect revised base activity levels which have shown an increased focus on collections.
- A \$55,000 decrease reflects the realignment of revenues with base activity levels for the Animal Control Services field and license citations.

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REVISED BASE BUDGET FORECAST

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

- An increase of \$725,000 to the Cultural Facilities Capital Maintenance Earmarked Reserve is included to reflect revised Transient Occupancy Tax revenue estimates. The growth in the General Fund portion of the Transient Occupancy Tax revenue above the 2013-2014 base year is set aside for cultural and arts facilities capital replacement maintenance, per prior City Council direction.
- An increase of \$628,000 to the Parks, Recreation and Neighborhood Services Department's Fee Activity allocation based on actual collection levels. This increase is offset by additional fee revenue.
- A net increase of \$203,000 reflects various position and fund realignments, including the reallocation of funding for positions to better align with work currently performed, position transactions approved through the add/delete process, and various funding corrections/adjustments based on updated information.
- A net increase of \$197,000 reflects non-personal/equipment and City-Wide Expenses adjustments. This includes increases for the Police Department Staffing/Operations Earmarked Reserve to correct an error in the Base Budget (\$552,200), Department of Transportation non-personal/equipment based on further analysis of ESCO operations and maintenance savings (\$330,000), offset by reductions in the Air Service Incentive Program Reserve based on current passenger growth projections (\$600,000) and other net Base Budget reductions (\$85,000).
- A reduction to the FMC Debt Service payment (\$1.1 million) is included based on updated information.

PROPOSED BUDGET BALANCING STRATEGY

As summarized in Table III, the Administration's budget balancing strategy allocated a \$9.4 million (with the Development Fee Program Impact) General Fund surplus, which resulted in a balanced 2015-2016 General Fund Proposed Budget totaling \$1.0 billion.

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PROPOSED BUDGET BALANCING STRATEGY

Table III
2015-2016 PROPOSED OPERATING BUDGET
General Fund Balancing Strategy (in \$000s)

	2015-2016	Ongoing
2015-2016 General Fund Surplus	\$ 9,389	\$ 9,389
Development Fee Program Impact	20	20
Revised Base Budget Forecast	\$ 9,409	\$ 9,409
Source of Funds		
Beginning Fund Balance:		
Police Department Staffing/Operations Reserve	\$ 6,960	\$ 0
Police Department Overtime Reserve	5,000	0
Homeless Rapid Rehousing/Homeless Response Team Reserves	3,500	0
Police Sworn Hire Ahead Reserve	3,000	0
Development Fee Reserves	2,518	1,989
2015-2016 Future Deficit Reserve	2,400	0
SJ BEST & Safe Summer Initiative	1,500	0
2014-2015 Paramedic Program Revenues	1,500	0
Cultural Facilities Capital Maintenance Reserve	1,110	0
Various Reserve Liquidations	1,158	0
Additional Excess Revenue/Expenditure Savings	793	0
Grants/Reimbursements/Fees		
Transportation Fees & Charges (Parking Citations, Sidewalks, Trees)	1,213	1,213
Other Fee Programs/Reimbursements/Grants	709	1,460
Other Revenue Changes:		
USPTO – Tenant Improvements	3,434	0
Sales Tax (2014-2015 Triple Flip True-Up)	2,200	0
2015-2016 Paramedic Program (Annex B – Category A)	450	0
Miscellaneous Other Revenue	715	659
Overhead/Transfers from Other Funds	1,822	924
Subtotal Source of Funds	\$ 39,982	\$ 6,245
Use of Funds		
Service Level Enhancements	\$ 24,008	\$ 6,774
Earmarked Reserves (e.g., SAFER 2014, Essential Services, Silicon Valley Regional Com. Sys., Salaries & Benefits, Long Range Planning)	12,760	0
2014-2015 One-Time Funded Services	7,730	7,202
Other Fee Programs/Grants/Reimbursements	4,437	780
Unmet/Deferred Tech., Infrastructure, and Maintenance	3,885	0
Development Fee Programs	2,043	1,704
Fund Shifts from Other Funds/Other	893	730
New Facilities Operations and Maintenance	537	1,424
Use of Reserves (Committed Additions/Police Dept. Staffing/Operations)	(6,902)	(2,960)
Subtotal Use of Funds	\$ 49,391	\$ 15,654
Total Balancing Strategy	\$ (9,409)	\$ (9,409)
Remaining Balance	\$ 0	\$ 0

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PROPOSED BUDGET BALANCING STRATEGY

As summarized in Table III and discussed below, the Administration's budget balancing strategy allocated a \$9.4 million (with the Development Fee Program Impact) General Fund surplus, resulting in a balanced 2015-2016 General Fund Proposed Budget totaling \$1.0 billion.

Specific City Council direction regarding the preparation of the Proposed Budget was provided in the Mayor's March Budget Message for Fiscal Year 2015-2016, as approved by the City Council (see Appendices Section of this document). The details of the specific direction of that Message and the corresponding responses contained in this budget are provided in Attachment B following this section in the City Manager's Message. Attachment C contains information regarding the status of City Auditor recommendations with funding impacts.

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

Source of Funds

From the Revised Forecast of \$953.8 million, a net increase of \$40.0 million to the General Fund revenue estimates was recommended, bringing the 2015-2016 Proposed Budget revenue estimate to \$993.7 million. The components of this increase include an increase to the estimate for 2014-2015 Ending Fund Balance/2015-2016 Beginning Fund Balance (\$29.4 million) and an increase to various revenue categories (\$10.6 million).

Beginning Fund Balance

An increase of \$29.4 million from the Revised Forecast was included, bringing the estimated 2015-2016 Beginning Fund Balance from \$62.7 million to \$92.2 million. This increase primarily reflects the liquidation of various Earmarked Reserves but also the availability of a small amount of additional 2014-2015 ending fund balance as outlined below:

- Liquidation of various reserves, including: Police Department/Operating Staffing Reserve (\$7.0 million), Police Department Overtime Reserve (\$5.0 million), Police Sworn Hire Ahead Reserve (\$3.0 million), Development Fee Program Reserves (\$2.5 million), 2015-2016 Future Deficit Reserve (\$2.4 million), 2015-2016 Homeless Rapid Rehousing Reserve (\$2.0 million), 2015-2016 Homeless Response Team Reserve (\$1.5 million), 2015-2016 San José BEST and Safe Summer Initiative Programs Reserve (\$1.5 million), Cultural Facilities Capital Maintenance Reserve (\$1.1 million), General Plan Update Reserve (\$413,000), 2015-2016 Children's Health Initiative (\$275,000), Fuel Usage Reserve (\$250,000), 2015-2016 Evergreen Branch Library Saturday Hours Reserve (\$120,000), and 2015-2016 Community Action Pride Grants Reserve (\$100,000).

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PROPOSED BUDGET BALANCING STRATEGY

Source of Funds

Beginning Fund Balance

- Additional anticipated fund balance of \$2.3 million, primarily from increased expectations for additional revenue in 2014-2015 that will be available for use in 2015-2016. The majority of this additional funding is due to the expected receipt of \$1.5 million owed to the City from the County for the Paramedic Program, from April 2013 through 2014-2015, excluding two payments authorized by the County Board of Supervisors paid to the City by Rural Metro, for Annex B, Category A – EMS Resource Management funding. These funds will be received in 2014-2015 and therefore are recognized as additional 2015-2016 Beginning Fund Balance. In addition, both excess revenues and expenditure savings of \$530,000 associated with the Solid Waste Fee Program, and expenditure savings of \$63,000 associated with the Office of Emergency Services City-Wide Expenses appropriation are anticipated.

Grants/Reimbursements/Fees

A \$1.9 million increase to the revenue estimates reflected the following adjustments:

- A net increase of \$1.2 million in various Department of Transportation Fees & Charges and Parking Citations including:
 - An increase of \$700,000 in parking citations revenue reflects increases to approximately 26 parking citation fines by an amount between \$5 and \$10. Parking fines were last increased between \$2 and \$22 in 2011.
 - An increase of \$494,000 to the Transportation Department fees and charges to reflect anticipated changes in activity levels and various fee revisions to maintain cost recovery levels. This primarily reflects an increase of \$304,000 in the Sidewalk Administration Fees and is offset by the addition of 2.0 Associate Construction Inspector positions to address an increasing sidewalk repair workload due to higher service requests. Additional fees are adjusted to better align revenues with current costs, the largest of which are various increases to Signal Design/Review (\$141,000).
- An increase of \$265,000 (\$582,000 ongoing) to the Parks, Recreation and Neighborhood Services Departmental Charges estimate reflects the following: increased rentals revenue at the 54 community centers (\$81,000); new parking revenues collected at Kelley Park as the result of re-opening the K4 parking lot (\$53,000); revenue associated with two animal exhibits, acquisition of new animals, and a new ride expected to come online in 2015 at Happy Hollow Park and Zoo (\$52,000); new park permit revenues resulting from the amendment to the Community Special Events Ordinance adopted on June 17, 2014, whereby permits can now be issued to for-profit events (\$41,000); revenue associated with expanding programming efforts at Alum Rock Park by offering leisure and outdoor recreation classes year round (\$30,000); and increased activity at the Lake Cunningham Skate Park (\$8,000).

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Source of Funds

Grants/Reimbursements/Fees

- An increase of \$262,000 to the Library Department fines reflecting both the expansion of services to six days a week as well as the opening of the new Village Square Branch Library (\$285,000 ongoing).
- A one-time increase of \$118,500 associated with the 2014 Urban Areas Security Initiative – Fire grant in order to partially fund 1.0 Senior Analyst position that will continue to support the Office of Emergency Services.
- A net increase of \$63,000 to reflect changes in various fee and cost levels in other fee programs, including the following: increases in the Fire Non-Development Fees (\$83,000), Animal Care and Services (\$55,000), Code Enforcement Fees (\$23,000), Public Works Development Fees (\$15,000), and Clerk’s Office (\$8,000), partially offset by decreases in the Medical Marijuana Regulatory Program (\$77,000) and the Police Department (\$43,000).

Other Revenue Changes

Miscellaneous revenue changes resulted in a net increase of \$6.8 million and included the following adjustments:

- A one-time increase of \$3.4 million reflects reimbursement from the federal government for the completion of tenant improvements for the United States Patent and Trademark Office. This is offset by an increase in the United States Patent and Trademark Office – Tenant Improvements capital budget allocation.
- A one-time increase of \$2.2 million to the General Sales Tax category recognizes the anticipated one-time Sales Tax Triple Flip true-up payment anticipated for 2014-2015. Collection levels in 2014-2015 are expected to be higher than those assumed by the State Board of Equalization in the determination of the 2014-2015 triple-flip payment. The one-time true-up payment will be received in 2015-2016.
- A one-time increase of \$450,000 reflects the anticipated payment from the County of Santa Clara for the Fire Paramedic Program – EMS Resource Management. In the second amendment to the 9-1-1 Emergency Medical Services Provider Agreement between the City of San José and the County of Santa Clara (approved by the City Council and the County Board of Supervisors in December 2014), the County agreed to pay the City for Category A – EMS Resource Management funding through the end of the term (December 2015) of this amended agreement.

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Source of Funds

Other Revenue Changes

- An increase of \$500,000 to the estimate for Sidewalk Repairs reflects the anticipated increase in reimbursements from property owners for contractual sidewalk repairs performed by the City on behalf of the property owners as a result of the expanded Sidewalk Repair Program. This increase in revenue is offset by a corresponding expenditure increase in the City-Wide Expenses allocation for this purpose.
- An increase of \$77,000 reflects an increase in the Commercial Solid Waste (CSW) fees by 0.69% based on the projected 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 is \$5.0 million per year for each of 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 CPI rate during the prior two calendar years.
- An increase of \$76,000 in blight penalty and interest revenue and subrogation revenue, which offsets a corresponding addition of 1.0 Investigator Collector I and associated non-personal/equipment funding to facilitate more timely collection of delinquent accounts receivables.
- A one-time increase of \$48,000 reflects the lease of the City's suite at SAP Center (formerly HP Pavilion) at San José for eight San José Sharks home games in 2015-2016. This increase is offset by a corresponding increase to the City-Wide Expenses Arena Authority budget in the 2015-2016 Operating Budget.

Transfers and Reimbursements

A one-time transfer of \$940,000 from various special and capital funds for the Human Resources (HR)/Payroll/Budget Systems upgrades. The partial reimbursement from the development fee programs and the various special and capital funds allows the distribution of costs across all of the funds that will benefit from these systems. Previously, the cost of the existing HR/Payroll Upgrade project was spread among the City's various funds. The new Budget System project, however, had been budgeted in the General Fund only. The approved reimbursements will distribute the costs to the other funds for the existing Budget System project as well as the cost increase for the now combined HR/Payroll/Budget Systems Upgrade project budgeted in 2015-2016, as described in the *City-Wide Expenses* section of this document.

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PROPOSED BUDGET BALANCING STRATEGY

Transfers and Reimbursements

A net increase of \$881,000 (\$924,000 ongoing) in anticipated overhead reimbursements to reflect the impact of various budget actions in the 2015-2016 Budget that change the staffing levels funded by special and capital funds.

Use of Funds

From the Revised Base Budget Forecast of \$985.1 million, a net increase of \$49.4 million to the General Fund expenditures was recommended, bringing the 2015-2016 Proposed Budget Use of Funds estimate to \$1.0 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 \$24.0 million was included in the Proposed Budget for service level enhancements. The largest investments include funding for Police overtime (\$5.0 million), additional Community Service Officer staffing in the Police Department (\$2.7 million), San José Learn (\$2.0 million), Police Field Patrol technology (\$1.3 million), San José Works (\$1.0 million), HR/Payroll/Budget Systems Implementation (\$882,000), North San José Development Policy and EIR Update (\$640,000), and Permit Center Break Room and Restroom Renovation (\$570,000).

Earmarked Reserves

One-time Earmarked Reserves, totaling \$12.8 million was included in the Proposed Budget. This included funding for the following: Essential Services Reserve (\$6.2 million), Silicon Valley Regional Communications System Reserve (\$3.0 million), Staffing for Adequate Fire and Emergency Response 2014 Grant Reserve (\$1.9 million), Salaries and Benefits Reserve (\$1.5 million), and 2016-2017 Long Range Planning Project Staffing Reserve (\$110,000).

2014-2015 One-Time Funded Services

Funding was included to continue services that were funded on a one-time basis in the 2014-2015 Adopted Budget. This includes funding for the Homeless Response Team and Rapid Rehousing Programs (\$3.5 million), San José BEST and Safe Summer Initiative Programs (\$1.5 million in City-Wide Expenses and \$1.0 million in Earmarked Reserves), continuation of the Police Downtown Foot Patrol Program (\$560,000), Public Works Department Preventative Maintenance (\$500,000), Police Central ID Staffing (\$263,000), Illegal Dumping Rapid Response (\$150,000), Community Action and Pride Grants (\$100,000), and other programs (\$157,000).

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Use of Funds

Other Fee Programs/Grants/Reimbursements

The actions in this category included funding for the United States Patent and Trademark Office tenant improvements (\$3.4 million), Department of Transportation sidewalk and tree inspection and repair activities (\$751,000), Office of Emergency Services staffing (\$181,000) and Parks, Recreation and Neighborhood Services fee activities (\$71,000).

Unmet/Deferred Infrastructure and Maintenance

To address a very small portion of the backlog for unmet and deferred infrastructure and maintenance needs, funding of \$3.9 million was included in the Proposed Budget for the City's most urgent repair needs and included the following: fire alarm, security, and water proofing improvements at the Animal Care Center (\$1.0 million), City Hall audio and visual upgrades and chiller media replacement (\$750,000), roof replacement and employee parking lot perimeter fencing at the Police Administration Building (\$650,000), Children's Discovery Museum fencing (\$350,000), ARC flash hazard analysis (\$350,000), Mexican Heritage Plaza Building Management System upgrade (\$300,000), various improvements at the Tech Museum (\$230,000), Museum of Art roof replacement and capital maintenance (\$200,000) and History San José capital maintenance (\$30,000).

Development Fee Programs

The Proposed Budget included approximately 14 positions and \$2.0 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.

Fund Shifts from Other Funds/Other

Funding in this category (\$893,000) primarily included the shift of City facilities solid waste collection contract and disposal costs (\$765,000) from Integrated Waste Management Fund late fee funding to the General Fund. As a result of the transition of single family waste billing to the County property tax roll, late fees will no longer be available as a funding source for these activities.

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PROPOSED BUDGET BALANCING STRATEGY

Use of Funds

New Facilities Operations and Maintenance

The Proposed Budget included \$537,000 to fund the opening of the Village Square Branch Library, new parks and recreation facilities, transportation infrastructure, Fire Station 21, and the United States Patent Trademark Office.

Use of Reserves

The Proposed Budget included the use or elimination of the Police Department Staffing/Operations Reserve (\$3.7 million), Environmental Services Department Late Fee Reserve (\$1.8 million), reserves established in the February Forecast to cover additional costs to operate and maintain facilities that are scheduled to become operational in 2015-2016 (\$526,000), and the General Plan Update Review reserve to fund staff (\$76,000). In addition, the liquidation of a reserve (\$800,000) set aside in the February Forecast to fund critical capital maintenance or address urgent technology needs was included in the Proposed Budget.

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2015-2016 Adopted Operating Budget

ADOPTED BUDGET BALANCING STRATEGY

The final phase of the 2015-2016 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 \$180.9 million in 2015-2016.

Table IV
2015-2016 ADOPTED OPERATING BUDGET
General Fund Funding Requirements and Balancing Strategy (in \$000s)

	2015-2016	Ongoing
Remaining Balance from Proposed Budget (from Table III)	\$ 0	\$ 0
Balancing Strategy		
Source of Funds		
Fund Balance to Support 2014-2015 Projects/Balancing Strategy	\$ 160,655	\$ 0
Revenue-Related Rebudgets to Support 2014-2015 Projects	16,879	0
Other Revenue Changes	2,600	325
New Grants/Revenue-Supported Expenditures	<u>748</u>	<u>0</u>
Subtotal Source of Funds	\$ 180,882	\$ 325
Use of Funds		
Rebudgeted 2014-2015 Projects	\$ 158,055	\$ 0
Salary Program	21,995	18,881
Revenue-Related Rebudgets to Support 2014-2015 Projects	16,879	0
Service Level Enhancements	10,785	1,295
New Grants/Reimbursements/Revenue-Supported Expenditures	748	0
Use of Reserves (Salaries and Benefits)	(19,995)	(18,881)
Earmarked Reserves (Essential Services, Cultural Facilities Capital Maintenance, SJ BEST and Safe Summer Initiative)	<u>(7,585)</u>	<u>(1,000)</u>
Subtotal Use of Funds	\$ 180,882	\$ 295
Total Balancing Strategy	\$ 0	\$ 30
Remaining Balance	\$ 0	\$ 30

General Fund Balancing Strategy Detail 2015-2016 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 \$180.9 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 2014-2015 Rebudgeted Projects/Balancing Strategy

The unrestricted portion of the 2014-2015 Ending/2015-2016 Beginning Fund Balance estimate was adjusted upward by an additional \$160.7 million to primarily reflect the 2014-2015 funding which was estimated to be available to be carried over to 2015-2016 to complete previously approved projects (\$159.7 million). The fund balance estimate was also increased by \$1.0 million to reflect the liquidation of the Annual Required Contribution Reserve (\$1.0 million). Of this amount, \$300,000 was rebudgeted from the Mayor and Council Offices for other purposes including: Council District 4 rebudget for Alviso Park Masterplan (\$100,000), Mayor's Office rebudget for Police Memorial (\$75,000), Council District 10 rebudget for Almaden Lake Park (\$60,000), Mayor's Office rebudget for Alviso Park Master Plan (\$20,000), Council District 5 rebudget for District 5 Enhanced Beautification Days (\$18,000), Mayor's Office rebudget for Positive Coaching Alliance (\$15,000), and Mayor's Office rebudget for Youth Commission (\$12,000).

Revenue-Related Rebudgets to Support 2014-2015 Projects

The Adopted Budget included grant and reimbursement-related revenue totaling \$16.9 million that was rebudgeted from 2014-2015 to complete the associated projects in 2015-2016. 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.

Other Revenue Changes

The Adopted Budget included a revenue increase of \$2.6 million based on updated information. Below is a summary of the revenue adjustments:

- A one-time increase of \$2.0 million to the Property Tax revenue estimate for excess 2014-2015 Education Revenue Augmentation Fund (ERAF) funds that are anticipated to be received in 2015-2016.

General Fund Balancing Strategy Detail 2015-2016 Adopted Operating Budget

ADOPTED BUDGET BALANCING STRATEGY

Source of Funds

- An ongoing increase of \$225,000 reflects an increase in the fines for parking in disabled and crosshatch spaces by an additional \$90, resulting in a total increase of \$100, from \$310 to (\$410).
- A one-time increase of \$175,000 reflects funding from the Santa Clara Water Valley District to fund 2.0 Park Rangers for the Homeless Response Team.
- An ongoing increase of \$100,000 to the Commercial Solid Waste Franchise Fee revenue estimate based on the approved CPI-based upward adjustment of 1.62%.
- A one-time increase of \$100,000 reflects a transfer from the General Purpose Parking Fund.

New Grants/Reimbursements/Revenue-Supported Expenditures

The Adopted Budget included \$748,000 in new grant/reimbursement/fee revenue. These grants and reimbursements were reflected in Revenue from the State and Revenue from the Federal Government revenue categories.

Use of Funds

As part of the City Council-approved revisions to the Proposed Budget, a total of \$180.9 million in General Fund expenditure changes were approved. These actions include the net addition of approximately 17.0 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.

Rebudgeted 2014-2015 Projects

Additional expenditures totaling \$158.1 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 2014-2015 Ending/2015-2016 Beginning Fund Balance.

Salary Program

Additional expenditures totaling \$22.0 million reflects funding for pay increase agreements with the City's bargaining units approved as part of this budget. Increases that were negotiated and agreed to by the City and 10 bargaining units, including Association of Building, Mechanical, and Electrical Inspectors (ABMEI), Association of Engineers and Architects (AEA), Association of Legal

General Fund Balancing Strategy Detail

2015-2016 Adopted Operating Budget

ADOPTED BUDGET BALANCING STRATEGY

Use of Funds

Professionals of San José (ALP), Association of Maintenance Supervisory Personnel (AMSP), City Association of Management Personnel (CAMP), Confidential Employees' Organization (CEO), International Association of Fire Fighters (IAFF), International Brotherhood of Electrical Workers (IBEW), International Union of Operating Engineers, Local #3 (OE3), and Municipal Employees' Federation (MEF), effective June 21, 2015. In addition, a salary increase is included for employees in Unit 99 and for Council Appointees. These salary increases were approved by the City Council on June 23, 2015 and were offset by a reduction to the Salaries and Benefits Reserve.

Revenue Related Rebudgets to Support 2014-2015 Projects

The Adopted Budget included grant and reimbursement-related expenditures totaling \$16.9 million that were rebudgeted from 2014-2015 to complete the associated projects in 2015-2016. These expenditure adjustments were offset by revenue rebudgets.

Service Level Enhancements

Additional expenditures totaling \$10.8 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 2015-2016 for the Pavement Maintenance Program (\$8.0 million), San José Best and Safe Summer Initiative Programs (\$500,000), East San José Youth Center Activation (\$214,000), Plaza de Cesar Chavez Canopy (\$210,000), Residential Parking Permit Program (\$195,000), History Park Safety and Security (\$175,000), San José Jobs Communication Campaign (\$125,000), Alviso Park Improvements (\$100,000), Family College Success Center (\$100,000), San José Downtown Association (\$100,000), City Council District 3 Participatory Budgeting Pilot (\$100,000), and Sports Authority (US Gymnastics Trial) (\$100,000).

New Grants/Reimbursements/Revenue-Supported Expenditures

Expenditure changes related to new grant or reimbursement activity totaled \$700,000. These grant and reimbursement expenditures, were offset by additional revenue.

Use of Reserves (Salaries and Benefits Reserve)

The Salaries and Benefits Reserve was reduced by a net \$20.0 million to offset the salary program included in this budget. From the Proposed to the Adopted Budget, this reserve was increased by \$2.0 million to address potential funding needs associated with labor negotiations and reduced by \$22.0 million to fund the salary program.

General Fund Balancing Strategy Detail

2015-2016 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 reduced by a net \$7.6 million. The Essential Services Earmarked Reserve was increased by \$1.6 million (from \$6.2 million to \$7.8 million) and was then completely liquidated as part of the 2015-2016 budget process. The San José BEST and Safe Summer Initiative Programs Earmarked Reserve (\$1.0 million) and Cultural Facilities Capital Maintenance Reserve (\$385,000) were also liquidated and allocated as part of the 2015-2016 budget process.

Future Implications

As shown in Table IV and mentioned previously, the 2015-2016 Adopted Budget was balanced with 100% ongoing solutions. On an ongoing basis, the actions in the Adopted Budget result in a small ongoing surplus of \$30,000. Based in the 2016-2020 forecast, a small surplus is projected from 2016-2017. **All of the assumptions used to develop this projection, however, will be revisited in the development of the 2017-2021 Five-Year General Fund Forecast.**