



2014-2015

OPERATING BUDGET

**CITY MANAGER'S
2014-2015
BUDGET MESSAGE**

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May 1, 2014

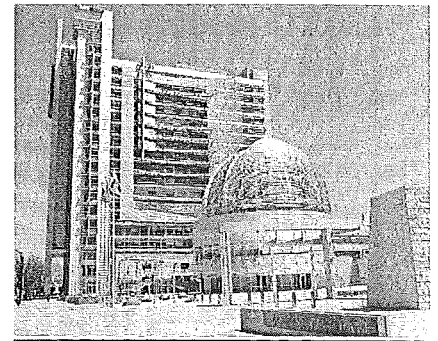
Honorable Mayor and City Council:

In the first year as your new City Manager, I am proud to present a balanced budget that builds on the progress we have achieved over the past two years to recover from a very difficult period of severe shortfalls and sacrifices. The City Manager's 2014-2015 Proposed Operating Budget continues our commitment to the restoration of services where possible, as well as to our multi-year approach for ensuring fiscal stability by setting aside a reserve to address the small General Fund shortfall we project in 2015-2016.

The City's budget continues to stabilize with revenues and expenditures in very close alignment, and thanks to prudent planning, we did not face the challenge of closing a massive annual shortfall as we had to do for more than a decade. The combination of strategic fiscal reform, moderate increases in revenues from a stronger economy and voter approved initiatives, reductions in services, and very careful management of expenses has resulted in a degree of financial stability. This stability remains very fragile, however; although the Proposed Budget is balanced, the forecast is essentially flat over the next five years. We anticipate a series of shortfalls or thin surpluses in the General Fund that will vary by less than one percent each year. In other words, we must keep our belts tightened, be very careful about increasing costs, and remain committed to fiscal sustainability.

This Proposed Budget, therefore, continues to hold the line with a limited number of new proposals in strategically important areas. It avoids service cuts and allows for incremental increases in employee compensation in a phased effort to restore pay cuts made in prior years. The Proposed Budget also includes service delivery efficiencies and cost savings that can be obtained while maintaining service levels.

Despite this hard-won stability, the City will continue to face a long-term "service level deficit." Unless there is a significant new source of revenue, resources are not expected to grow over the next several years to a point that will allow the City to fully restore services to prior levels. We will continue to have significant budgetary challenges and uncertainties facing us, and this means that we likely will continue to fall short of community expectations. This is especially



Community Budget Meetings

May 1 – May 29

Budget Decision Milestones

May 7-15

City Council Study Sessions on 2014-2015 Proposed Budgets

May 13/June 9

Public Hearings on the 2014-2015 Proposed Budgets and Fees and Charges

May 30

2014-2015 Mayor's June Budget Message Released

June 10

City Council Review and Approval of the 2014-2015 Mayor's June Budget Message

June 17

Adoption of the 2014-2015 Capital and Operating Budgets, 2015-2019 Capital Improvement Program, and the 2014-2015 Fees and Charges

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true in critical priority areas such as police, where we have a significant need to increase authorized staffing levels in order to improve patrol response times and investigative services with the goal of lowering the City's crime rate. In fire and emergency response, response times will continue to be hampered by daily engine company brownouts due to the loss of minimum staffing overtime from budget reductions a few years ago. Branch library hours continue to remain limited to four days per week; maintenance will not be sufficient to prevent further deterioration of neighborhood streets; and community centers will continue to offer limited services. I know I speak for our entire organization in expressing extreme frustration with this service level deficit.

General Fund Budget Remains Stable

Over the next five years, very small surpluses and shortfalls are projected annually as shown in Table 1 below. These variances represent less than 1% of the projected General Fund budget (revenues and expenditures). As with any forecast, these variances could easily change in either direction in response to the economy, changes in projected expenditures, particularly in salary levels and retirement costs, or other factors beyond the City's control. The Administration will continue our ongoing evaluation of financial trends and other changes that could affect the City's financial situation. As mentioned previously, this Proposed Budget also continues a two-year approach for balancing projected shortfalls as directed by the Mayor and Council, and we have set aside \$4.2 million in one-time funds for this purpose.

2015-2019 General Fund Forecast					
Incremental Surplus/(Shortfall) (\$ in millions)¹					
(Table 1)					
	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
Incremental Surplus/(Shortfall)	\$1.1 ²	(\$4.2 M)	\$0.4 M	(\$6.5 M)	(\$1.7 M)
% of Annual Budget	0.1%	(0.2%)	0.02%	(0.3%)	(0.1%)

¹ Does not incorporate impacts associated with elements of the Fiscal Reform Plan that are not yet implemented; costs associated with fully funding the annual required contributions for police retiree healthcare; costs associated with services funded on a one-time basis in 2013-2014; costs associated with restoration of key services (police, fire, libraries, community centers, and street maintenance) to January 1, 2011 levels; costs associated with a Police Staffing Restoration Strategy (to increase the number of budgeted sworn officers from 1,109 to 1,250 positions) that will be brought forward for City Council consideration as a Manager's Budget Addendum later in the 2014-2015 budget process; costs associated with unmet/deferred infrastructure and maintenance needs; or one-time revenues/expenses. The Forecast also does not factor in the potential impact associated with the sunsetting of the Library Parcel Tax in 2015, which is budgeted in a special fund.

² This figure excludes the Development Fee Programs and was revised from the \$1.5 million shortfall presented in the February 2014 Forecast as a result of the continued analysis and updating of projected revenues and expenditures. With a surplus of \$1.4 million in the Development Fee Programs, the General Fund surplus addressed in the 2014-2015 Proposed Budget totals \$2.5 million.

Targeted Approach to Address Priority Community and Organizational Needs and Maintain Budget Stability

The Proposed Budget balances many competing community and organizational needs and maintains the City's strong commitment to budget stability. Consistent with the Mayor's March Budget Message for Fiscal Year 2014-2015, as approved by the City Council, and other City Council

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priorities, major actions recommended in the Proposed Operating Budget, across all funds, will accomplish the following:

- Keeping Our Community Safe - Investments in services and programs, as well as infrastructure improvements, that address broad public safety needs;
- Investing in Our Future – Investments to support growth and development in the City, address the most urgent capital infrastructure and maintenance needs, and ensure continued fiscal stability; and
- Effectively Delivering Services – Investments that support innovation and more efficient service delivery as well as actions that generate cost savings and provide or generate additional revenue.

Key City Service Area Initiatives

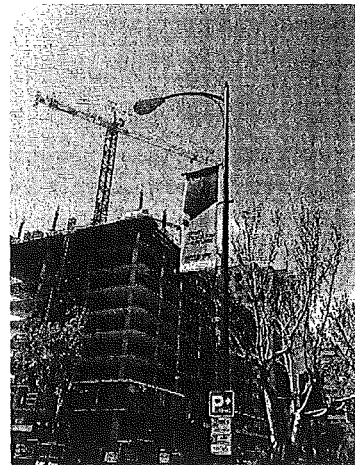
Although most of this budget message describes changes and new proposals that address incremental improvements, it is important to keep in mind that most of the City's budget is allocated to delivering basic services, year after year. In the context of a nearly one-billion-dollar General Fund budget, and a nearly two-billion-dollar operating budget, only a small percentage is allocated to new proposals. The overwhelming majority of the City's limited resources are dedicated to the daily effort to serve and protect our community and the people of San José.

The City has structured its operations in "City Service Areas" (CSA) that encourage interdepartmental coordination of effort, resources, and goals. Although more detail about CSA priorities and goals are included in the overall budget document, key operational initiatives in these CSAs are briefly described here:

- **Public Safety:** Although Police and Fire services constitute the bulk of the City's investment in public safety, other departments and programs also contribute to the safety of the community. Among the key initiatives for basic service delivery in this CSA include:
 - Provide effective and timely police and fire services to high-priority calls for service from the community in order to protect the safety, health, and property of San José residents and businesses.
 - Enhance the use of data and analytics to increase the efficiency and effectiveness of police and fire staff, equipment, and systems to serve the community.
 - Invest in community preparation through crime prevention, emergency preparation, and fire prevention to reduce the risk to life, health, and property in partnership with neighborhoods and businesses.
 - Continue to focus on recruitment and retention of qualified police officers and firefighters to meet authorized staffing levels.
- **Neighborhood Services:** Libraries, parks and recreation, animal care and services, and code enforcement comprise this CSA, with the common goal of fostering healthy, vibrant, and secure neighborhoods. Among the key initiatives for basic service delivery in this CSA include:

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- Continue operating an efficient model of library services to ensure public access to a wide range of materials, information, and technology through its system of branch libraries. Although branch library hours have been cut back as a result of budget constraints in recent years, the San José Public Library continues to provide a wide range of creative and responsive services to meet community needs. Priorities in the coming year include increasing volunteer opportunities to enhance services and enhancing technology efficiencies to improve customer service.
- Animal Care and Services will focus on health and safety services, such as calls related to aggressive and injured animals, and shelter services that continue to provide low cost and free spay and neuter services and animal adoption service.
- Neighborhood clean-ups will continue to be available city-wide to ensure convenient methods to reduce trash and illegal dumping in concert with Parks, Recreation and Neighborhood Services (PRNS) and Code Enforcement.
- PRNS will continue to use a multi-service delivery community center “hub” model that ensures that core services and recreation options remain available for residents of all ages throughout the community, along with services provided by community partners at 42 re-use sites.
- ***Community and Economic Development:*** The goal of this CSA is to develop and strengthen the community’s economy; nurture a safe, attractive, and vital community; and encourage a broad range of housing options. Among the key initiatives for basic service delivery in this CSA include:
 - Engage, assist, recruit and nurture businesses within and outside of San José that can create jobs, expand the City’s tax base, and support essential public services.
 - Support cultural vibrancy and economic vitality through community arts organizations, cultural facilities, and special events working with a community partners to leverage City resources.
 - Continue to implement the City’s “Envision San José 2040” General Plan and other plans through the creation of urban villages, active community partnerships, and ongoing relationships with neighborhoods and the development community.
 - Further enhance the experience of customers dealing with the full range of Development Services by ensuring that staffing, systems, and standards are consistent and timely.
 - Partner with *Destination: Home*, a public-private partnership, to advance toward the goal of ending chronic homelessness in Santa Clara County through a regional strategic planning process. Implement a Rapid Rehousing Program that will provide supportive housing services in order to relocate people to safer, healthier, and sustainable conditions.

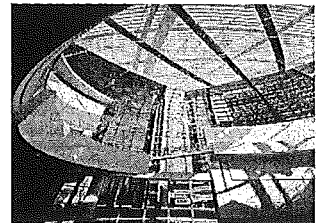


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- ***Transportation and Aviation Services:*** This CSA supports the planning, development, and operation of efficient transportation services that serve the people and economy of San José and Silicon Valley. Among the key initiatives for basic service delivery in this CSA include:
 - Operate Mineta San José International Airport in order to cost effectively meet the needs and expectations of the residents and businesses of Silicon Valley, develop additional air service to connect our community with priority destinations, and ensure that the Airport continues to meet all appropriate safety and security requirements.
 - Focus limited resources available for street and infrastructure maintenance on the highest priorities and facilities that have the greatest use and economic significance. Continue efforts to protect lives and property of San José residents through safety engineering and education.
 - Continue planning for future infrastructure needs to determine resource requirements, funding alternatives, and work in partnership with neighborhoods and the business community to achieve an appropriate balance of effort.

- ***Environmental and Utility Services:*** The San José Green Vision encompasses a wide range of services and projects related to water supply, water pollution control, recycling and waste management, and watershed protection in order to protect the environment and quality of life in the community. Among the key initiatives for basic service delivery in this CSA include:
 - Oversee programs to collect, recycle, and dispose of solid waste to maximize diversion from landfills and minimize inefficient use of limited natural resources.
 - Support sustainable infrastructure, systems, and behaviors throughout the community through public education, public-private partnerships, and leadership through the City's Green Vision.
 - Promote the health of the South Bay Watershed and the waters of San Francisco Bay and its tributaries through the collection, treatment, and management of wastewater and stormwater runoff, and through pollution prevention programs and public education.

- ***Strategic Support:*** The overall ability of the City to provide quality and effective services depends on strategic support services, such as information technology, human resources, capital improvement program management, and financial services, to ensure consistency and efficiency throughout all City departments. Among the key initiatives for basic service delivery in this CSA include:
 - Oversee the City's capital projects to ensure on-time and on-budget delivery of facilities that meet the needs of both the community and City staff.
 - Attract and retain well-qualified City employees, who can consistently provide efficient services through skill, innovation and creativity, through effective recruitment and selection processes.
 - Ensure that the City's finance and technology systems are protected, upgraded, and aligned with changing needs of government processes, community expectations, and City resources.



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Total Proposed Budget

In the 2014-2015 Proposed Budget, the total net funding is \$2.7 billion for all City funds (General, Special, and Capital). This is \$202.3 million (6.9%) below the 2013-2014 Adopted Budget (Table 2 below). The Proposed Budget, however, does not yet include funds that will be rebudgeted and added to the final Adopted Budget to complete multi-year projects. Once these rebudgets are included, it is anticipated that the 2014-2015 Adopted Budget will exceed the 2013-2014 Adopted Budget in all categories.

2014-2015 Proposed Budget — All Funds (Table 2)			
	2013-2014 Adopted	2014-2015 Proposed	% Change
General Fund	\$ 1,059,017,727	\$ 973,974,201	(8.0%)
Special Funds	1,521,147,826	1,534,221,665	0.9%
<Less: Operating Transfers>	(564,354,383)	(573,760,045)	1.7%
Net Operating Funds	2,015,811,170	1,934,435,821	(4.0%)
Capital Funds	905,255,760	790,109,526	(12.7%)
<Less: Capital Transfers>	(8,482,000)	(14,293,000)	68.5%
Net Capital Funds	896,773,760	775,816,526	(13.5%)
Total	\$ 2,912,584,930	\$ 2,710,252,347	(6.9%)

Position Impacts

This Proposed Budget includes increases to staffing levels to support the delivery of the City's capital program, development fee programs, police services, continuation of one-time activities funded in 2013-2014, and limited enhancements to other critical services. Overall, the level of staffing will increase by a net 91 positions, from 5,655 full time equivalent positions in the 2013-2014 Adopted Budget to 5,746 positions in the 2014-2015 Proposed Budget as shown in the Table 3 below. This 1.6% increase still leaves City staffing well below its peak of almost 7,500 positions in 2001-2002.

Changes in Position Count from 2013-2014 Adopted to 2014-2015 Proposed Budget (Table 3)	
2013-2014 Adopted Budget	5,655 positions
2014-2015 Base Budget Changes	-23 positions
2014-2015 Proposed Budget Changes	114 positions
Total Net Position Changes	91 positions
2014-2015 Proposed Budget	5,746 positions

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Employee Compensation

As a service organization, City employees are critical in the delivery of quality services to our community. In order to maintain service level stability, it is very important that we retain and attract quality employees. In recognition of this important goal, the 2014-2015 Proposed Budget includes funding of \$24.0 million in the General Fund (\$31.4 million in all funds) for compensation increases as shown in the Table 4 below.

2014-2015 Proposed Budget Funding for Compensation Increases (Table 4)		
	General Fund	All Funds
Employee Compensation Planning Reserve*	\$ 13.5 M	\$ 19.2 M
San Jose Police Officers' Association	7.0 M	7.0 M
Automatic Step Increases	1.7 M	2.0 M
Management Pay for Performance	1.3 M	2.7 M
Employee Market Competitiveness Reserve*	0.5 M	0.5 M
2014-2015 Compensation Increases	\$ 24.0 M	\$ 31.4 M

* The allocation of the Employee Compensation Planning Reserve and Employee Market Competitiveness Reserve is subject to negotiations with the City's bargaining units.

Balancing the Budget

As displayed in Table 5 on the following page, the 2014-2015 Proposed General Fund Budget Balancing Plan includes recommendations that address the overall \$2.5 million surplus, which includes a general surplus of \$1.1 combined with a \$1.4 million surplus for the cost-recovery Development Fee Programs. This table shows the matrix of balancing strategies and the dollars associated with each action. A complete discussion of the balancing strategies can be found in Attachment A and throughout the Proposed Budget. Attachment B also responds to the directives contained in the Mayor's March Budget Message for Fiscal Year 2014-2015 that was approved by the City Council. Proposed Budget actions that respond to City Auditor referrals is included in Attachment C.

In preparing the 2014-2015 Proposed Operating Budget, the Administration followed the Budget Balancing Strategy Guidelines contained in the City Manager's Budget Request for Fiscal Year 2014-2015 as amended and adopted by the City Council as part of the approval of the Mayor's March Budget Message for Fiscal Year 2014-2015. Also, the Proposed Budget was informed by the City Council-approved Guiding Principles for Restoring City Service Levels and the City-Council approved City of San José Budget Principles. These guidelines and principles are included in Exhibit 1 to this message. Discussed later in this budget message, following the City Council's direction as part of the approval of the Mayor's March Budget Message, a Sales Tax Ballot Measure Spending Priorities list has also been included as Exhibit 2 to this message.

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2014-2015 Proposed Operating Budget General Fund Budget Balancing Plan (in 000's) (Table 5)		
	2014-2015	Ongoing
2014-2015 General Fund Surplus	\$ 1,058	\$ 1,058
Development Fee Program Impact	1,394	1,394
Revised Base Budget Forecast	\$ 2,452	\$ 2,452
Balancing Strategy		
Source of Funds		
Available Fund Balance:		
2014-2015 Future Deficit Reserve	\$ 18,112	\$ 0
Successor Agency City Legal Obligations Reserve	8,000	0
Development Fee Program Reserves	4,232	3,120
Police Department Overtime Reserve	4,000	0
Homeless Rapid Rehousing/Homeless Response Team Res.	3,500	0
San José BEST and Safe Summer Initiative Reserve	1,500	0
Various Other Reserve Eliminations	1,458	0
Additional 2013-2014 Ending Fund Balance	5,500	0
Grants/Reimbursements/Fees:		
Multiple Housing Fee Program Restructure	885	885
Parks, Recreation and Neighborhood Services Fees/Activity	429	220
Development Fee Program Fees (Building and Public Works)	(546)	(546)
Other Fee Programs/Reimbursements	(253)	(422)
Other Revenue Changes:		
2010 COPS Grant Hiring Program Extension	600	0
Miscellaneous Other Revenue	196	223
Transfers and Reimbursements:		
Overhead Reimbursements	1,158	1,038
Transfers from Other Funds	727	250
Subtotal Source of Funds	\$ 49,498	\$ 4,768
Use of Funds		
Service Level Enhancements	\$ 21,306	\$ 4,584
Earmarked Reserves (e.g., Homeless Services, Essential Services, San José BEST/Safe Summer Initiative, Air Service Incentive Program, HR/Payroll, Business Tax, Contingency, Fiscal Reform)	11,070	500
SERAF Former Redevelopment Agency/City Loans Repayment	10,200	0
Development Fee Programs	4,457	3,268
2015-2016 Future Deficit Reserve	4,200	0
Unmet/Deferred Infrastructure and Maintenance	2,620	0
2013-2014 One-Time Funded Services	1,989	1,039
Other Fee Programs/Grants	880	634
Cost Reductions/Service Delivery Efficiencies	(3,768)	(2,538)
Use of Reserves (Committed Additions/Deferred Infrastructure)	(1,004)	(267)
Subtotal Use of Funds	\$ 51,950	\$ 7,220
Total Balancing Strategy	\$ (2,542)	\$ (2,542)
Remaining Balance	\$ 0	\$ 0

Detailed information regarding budget proposals and associated performance results is included in the sections for specific City Service Areas and departments.

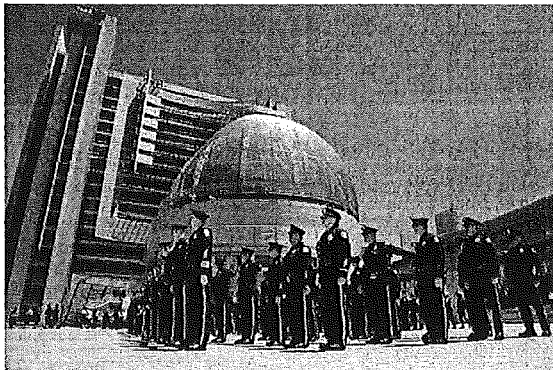
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Strategic Investments with Limited Resources

With the continued stabilization of the City's budget, we have identified a limited amount of funding for targeted investments to meet community needs. Following is a discussion of some of the recommended major budget actions for this purpose.

Keeping Our Community Safe: Investments in services and programs, as well as infrastructure improvements, that address broad public safety needs

- **Police Field Patrol Community Service Officers** – Adds 7.0 Community Service Officer (CSO) positions and associated academy funding and vehicles to the Police Department. This will bring the current CSO staffing level to 28.0 positions, which will be deployed on a Monday through Friday, eight-hour day schedule. Under this model, each of the four Police Divisions will be assigned 7.0 CSOs, which are anticipated to start their training in July 2014 and be street-ready in September 2014. This action will enhance the Department's ability to handle low priority calls, freeing up time for sworn officers to respond to calls for service and conduct proactive police work.
- **Downtown Police Foot Patrol** – Increases Police Department overtime funding by \$525,000 to continue the Downtown Foot Patrol program, which was recently approved by the City Council as part of the 2013-2014 Mid-Year Budget Review to enhance safety and security, support ongoing surveillance and apprehension efforts, and allow specialized units to focus on high crime activity. A total of 4.0 Police Officers and 1.0 Police Sergeant will be deployed on a five hours per day five days per week schedule to address concerns that were raised from businesses and the public regarding safety levels downtown.

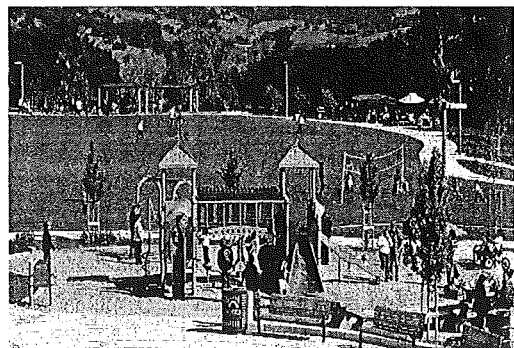


- **Third Police Officer Recruit Academy** – To accelerate the hiring and training of sworn staff, adds funding to the Police Department to annually conduct three recruit academies, rather than the current level of two, which will be made possible with the proposed repurpose of the South San José Police Substation. The Department is planning for three smaller academies (30 recruits) in 2014-2015 (estimated October 2014, February 2015, and June 2015).
- **Crime Prevention Staffing** – Adds 1.0 Crime Prevention Specialists (CPS) and 1.0 Analyst II to increase community outreach, disseminate crime prevention information to City residents through presentations, and respond to residents' concerns about crime. The Crime Prevention Unit currently has 7.0 CPS to cover the four Police Patrol Divisions. The additional 1.0 CPS position will allow the Crime Prevention Unit to provide each of the four Patrol Divisions with 2.0 CPS positions. The CPS currently report to a Police Sergeant and their respective Patrol Captains, but the addition of an Analyst II will allow the CPS to report solely to a civilian supervisor, which will free up sworn staff for Patrol functions.
- **Anti-Human Trafficking** – To continue services currently being provided through a State grant through June 2014 and to avoid any interruption in services, this action adds funding to the

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Police Department for overtime costs (\$100,000) related to anti-human trafficking activities and consultant services (\$50,000) for victims such as shelter, intensive care management, crisis intervention, and mental health treatment. It is anticipated that federal and State grant funding will be available for this program in 2014-2015 and the City will apply for grants to augment this program to help address regional needs related to this issue.

- ***Homeless Rapid Rehousing*** – In the 2013-2014 Adopted Budget, \$2.0 million was added to support a new Rapid Rehousing program in 2013-2014 and \$2.0 million was set aside in a reserve to continue this program in 2014-2015. As directed in the 2014-2015 Mayor's March Budget Message, as approved by the City Council, an additional reserve of \$2.0 million is recommended to maintain this program through 2015-2016. The primary purpose of the rapid rehousing effort is to engage in transitionally homeless individuals from targeted encampments with a history of sustained San José residency and provide them with supportive services and rental subsidies to successfully assist them in their transition from homelessness to permanent housing. Funds in 2014-2015 will be focused on providing housing vouchers (\$1.2 million), case management and job development services (\$650,000) to eligible transitionally homeless individuals capable of long-term economic self sufficiency, and an emergency flex fund (\$150,000).
- ***Homeless Response Team*** – In the 2013-2014 Adopted Budget, \$1.67 million (\$1.5 million in the General Fund) was added to support a new Homeless Response Team in 2013-2014 and \$1.5 million was set aside in a reserve to continue this program in 2014-2015. As directed in the 2014-2015 Mayor's March Budget Message, as approved by the City Council, an additional reserve of \$1.5 million is recommended to maintain this program through 2015-2016. This program will provide the City with a stronger infrastructure for addressing homelessness, including the response relating to encampments and the concerns of community members and businesses regarding individuals living in encampments. This funding will also allow staff to respond to the needs of encampment occupants, public safety and health concerns of neighborhoods, and any environmental damage caused by encampments. This action continues four Park Ranger positions (two funded by the Santa Clara Water District) and one Community Coordinator, and adds a Senior Development Officer in the Housing Department for overall support and coordination of the Homeless Response Team and a Development Officer to support the program funded by the Housing Funds.
- ***San Jose BEST and Safe Summer Initiative Programs*** – In the 2013-2014 Adopted Budget, additional funding of \$1.5 million was added to support this program in 2013-2014 and an additional \$1.5 million was set aside in a reserve to continue this level of service in 2014-2015. As directed in the 2014-2015 Mayor's March Budget Message, as approved by the City Council, an additional reserve of \$1.5 million is recommended to maintain the current level of funding for this program (\$4.6 million) through 2015-2016. This funding will be used to continue the City's strong support of gang prevention, intervention and suppression programs for youth through the collaborative efforts of the Mayor's Gang Prevention Task Force.



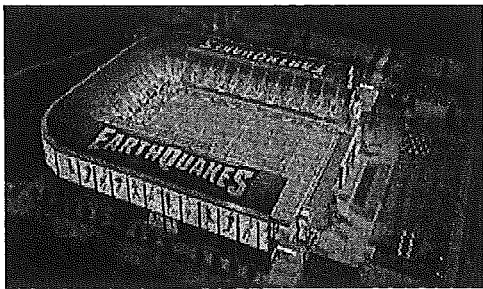
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- ***Park Rangers*** – Adds 1.0 Senior Park Ranger and 3.0 Park Ranger positions in the Parks, Recreation and Neighborhood Services Department. Two Park Rangers will provide targeted patrol of the Downtown core parks, including Guadalupe River Park and Gardens, Plaza de Cesar Chavez, and St. James Park. One additional Park Ranger will patrol the Los Gatos Creek Trail as well as other San José trail systems, and will be deployed to neighborhood park hot spots as needed, such as DeAnza, Paul Moore, Plata Arroyo and Shady Oaks parks. The newly added Senior Park Ranger will provide coordination and supervision of the overall Park Ranger Program.
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- ***Code Enforcement Staffing*** – Adds 3.0 Code Enforcement Inspector positions in the Planning, Building, and Code Enforcement Department for inspection services to address all routine complaints city-wide. Currently, there are 2.44 positions dedicated to General Code Enforcement, which are inspections that are not restricted by any type of complaint and/or any area of the City. This will reduce the time to open a case from the initial day of complaint from 21 days to 14 days and the average number of days to close out a case from 90 days to 30 days.
 - ***Illegal Dumping Rapid Response Pilot*** – Adds one-time funding, \$150,000 from General Fund and \$100,000 from the Community Development Block Grant (CDBG) Fund, in the Planning, Building and Code Enforcement Department to address illegal dumping activities. The \$150,000 from the General Fund will provide for an external consultant to help identify best practices and provide recommendations to address illegal dumping in the City; the installation of deterrent infrastructure, such as fencing, bollards, and signage in "hot spots"; and additional rapid response pick-ups and clean-ups in neighborhoods throughout San José as needed. The CDBG funds will provide \$50,000 for outreach and \$50,000 for additional clean-ups in targeted neighborhoods. (General Fund/Special Funds)
 - ***Overnight Security Patrol in City Parking Facilities*** – Provides funding to the Transportation Department for overnight security patrol during weekdays to address property crime and homeless issues in the City-owned and operated parking facilities within the Downtown core (Convention Center, Market/San Pedro, Third, Fourth and San Fernando). This additional contractual security personnel will provide overnight weekday security that will allow for 24 hour/7 day security coverage in the parking facilities. (Special Funds)
 - ***Pedestrian and Traffic Safety*** – Emphasizing the importance of safety within the City's transportation network, significant grant and local funding in the 2014-2015 Proposed Capital Budget is targeted toward a variety of safety-related projects, including Pedestrian Oriented Traffic Signals (\$3.0 million), Streetlight Wire Replacement (\$2.6 million), Safety – Pedestrian Improvements (\$1.4 million), and Neighborhood Traffic Calming (\$750,000). (Capital Funds)

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Investing in Our Future: *Investments to support growth and development in the City, address the most urgent capital and infrastructure and maintenance needs, and ensure continued fiscal stability*

- **United States Patent and Trademark Office at City Hall** – Supports the establishment of the new Silicon Valley Satellite Office of the US Patent and Trademark Office in City Hall. One-time funding of \$4.5 million will relocate City offices to make space so that the USPTO can move into the City Hall Wing mid-2015. Costs will be recovered through USPTO lease payments over the next five years.
- **Urban Villages Planning** – Support the implementation of Urban Village Master Plans as outlined in the “Envision San José 2040” General Plan by adding resources in several departments (Planning, Building and Code Enforcement, Transportation, Parks, Recreation and Neighborhood Services, and Public Works). Supplemental staff will engage residents, property owners, and the development community in order to achieve long-term social, economic, and environmental goals of the General Plan. (General Fund/Special Funds/Capital Funds)

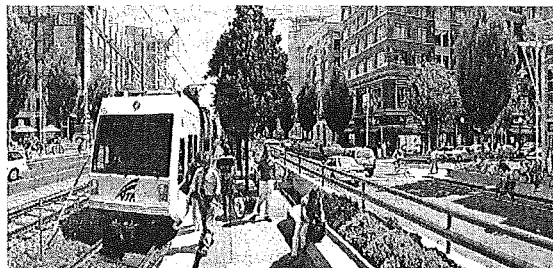


- **Development Fee Programs** – Adds approximately 29 positions and non-personal/equipment funding to the Fire, Planning, Building and Code Enforcement, and Public Works Departments to support the Development Fee Programs. These additions will increase capacity needed to meet the sharply growing demand for services caused by strong San José development activity.
- **Move Your Jobs to San José Communications** – As directed in the 2014-2015 Mayor's March Budget Message as approved by the City Council, allocates one-time funding of \$100,000 for a communications campaign targeted at Silicon Valley driving industry companies seeking location and/expansion space with a target launch date of July 1, 2014.
- **Preventative Maintenance Program** – Adds \$1.3 million (\$800,000 ongoing) to extend the current Public Works Department Preventative Maintenance Program (funded since 2012-2013 at \$1.8 million), which will allow the overall preventive maintenance of City facilities to be maintained at the industry standard of 80% for work orders pertaining to HVAC, plumbing, lighting, energy management systems, roofing, generators, and emergency fire alert systems (60-65% ongoing).
- **Community Action and Pride (CAP) Grants** – In the 2013-2014 Adopted Budget, \$100,000 was added to support CAP grants in 2013-2014 and \$100,000 was set aside in a reserve to continue this program in 2014-2015. An additional reserve of \$100,000 is recommended to maintain this program through 2015-2016. This program provides small grants to San José neighborhood groups to fund activities and projects that result in cleaner, safer, and more engaged communities.
- **2015-2016 Future Deficit Reserve** – Establishes a 2015-2016 Future Deficit Reserve of \$4.2 million to address the projected shortfall for 2015-2016 that was presented in the 2015-2019

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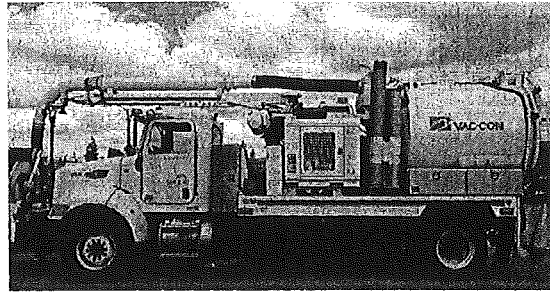
General Fund Five-Year Forecast. This Reserve will provide for budget stability over the next two years.

- **Essential Services Reserve** – Establishes a one-time Essential Services Reserve of \$2.0 million to fund additional services that are of importance to the community. These funds will be allocated by the City Council later in the 2014-2015 Budget process.
- **Water Pollution Control Plant (also known as the San José/Santa Clara Regional Wastewater Facility) CIP Delivery** – A top priority is to ensure the necessary program management, engineering, and technical support resources for planning and implementation of the Water Pollution Control Plant (Plant) CIP are available. Following City Council approval of the Plant Master Plan (PMP) in November 2013, Environmental Services and Public Works departmental staff engaged in a project validation process to confirm project needs, validate project assumptions, and evaluate the potential for packaging approximately 120 discrete projects to most effectively deliver the program. With program management support from MWH Americas, the project validation effort was completed in February 2014 and identified 32 construction projects and 10 programmatic studies that will be initiated over the next ten years. These projects translate into \$1.4 billion in investment, with the majority being expended within the next decade. With the addition of several positions in 2014-2015, the City is proactively planning for the delivery of critical Plant CIP projects identified through the PMP and project validation process. (Special Funds/Capital Funds)
- **North San José Growth** – As North San José continues to grow, several key transportation projects are scheduled to move forward in 2014-2015 funded by traffic impact fees, including the Montague Expressway Improvements Phase 2 project (\$12.0 million) that will widen Montague Expressway from six to eight lanes from Lick Mill Boulevard to First Street and River Oaks Parkway to Trade Zone Boulevard, and the design and development for improvements at the Route 101/Zanker intersection (\$1.8 million). In addition, the City is setting aside Building and Structure Construction Tax revenue into the Downtown and North San José Transportation Improvements Reserve (\$10.0 million in 2014-2015 another \$6.0 million in 2015-2016). Setting aside this local funding will help provide a buffer in the event that regional funding does not provide sufficient resources for the completion of the Phase I transportation improvements identified in the North San José Area Development Policy. (Capital Funds)
- **Other Capital Infrastructure Improvements** – Due to the increased development activity, the corresponding rise in construction taxes allows for more pavement maintenance investment; a new infusion of funds in the amount of \$16.0 million is programmed for 2014-2015, which will provide for the repaving and sealing of a portion of the major streets outside the Priority Street Network. Other important capital investments include the replacement of two chillers and re-roofing the portico at the Children's Discovery Museum (\$950,000) and garage and parking lot repairs to the Police Administration Building/Police Communications Center (\$500,000) (Capital Funds/General Fund)



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- ***Sanitary Sewer, Storm Sewer, Water Pollution Control Plant, and Municipal Water System Fleet Replacement*** – Adds ongoing and one-time funding to replace aging and outdated vehicles that support the Sanitary Sewer, Storm Sewer, Water Pollution Control Plant, and Municipal Water System Programs. (Special Funds)



- ***Enhanced Street Sweeping Parking Prohibition Program*** – The ability to achieve and maintain clean streets throughout the City improves quality of life and assists in environmental compliance. The City provides street sweeping services to the approximate 3,000 curb miles of residential streets once a month through contractual services. To enhance the City's current program that prohibits parking on street sweeping days in specific areas, adds funding to install up to 40 curb miles of prohibitive parking signs on residential streets that experience high parking impacts.
- ***Municipal Water Conservation and Strategic Planning*** – Adds funding to the Environmental Services Department to support conservation efforts for customers in the Water Utility System through the provision of rebates. A position is also added for water supply master planning and reliability efforts. (Special Funds)
- ***Airport Efforts to Expand Market Share*** – Continues Airport Department funding of \$500,000 added on a one-time basis in 2013-2014 to support marketing efforts focused on successful launches of new air service at Mineta San José International Airport (SJC) and adds \$175,000 for advertising and marketing services. New airline service as well as existing airline service will be advertised with the goal of increasing the Bay Area market share. These funds will also support printing and advertising targeted at passengers. In addition, adds \$175,000 for consultant services that will support the current air service recruitment efforts at SJC. (Special Funds)


Effectively Delivering Services: Investments that support innovation and more effective service delivery as well as actions that generate cost savings and provide or generate additional revenue

As was the case over the last two years, this Proposed Budget generally maintains current levels of services and staffing. However, the City continues to pursue opportunities to use technology more effectively and to identify service delivery efficiencies. A number of cost reduction and revenue strategies are also incorporated into the Proposed Budget.

- **Technology Investments:** There are a number of budget actions to improve the City's use of technology.
 - ***Human Resources/Payroll System and Business Tax System Replacements*** – Continues the effort to replace these information management systems by setting aside an additional \$1.0 million for the Human Resources/Payroll System (bringing expected funding to \$3.4 million in 2014-2015) and an additional \$850,000 for the Business Tax System (bringing expected funding to \$2.7 million in 2014-2015). These major, complex and long-

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term projects will improve the effectiveness and efficiency of critical systems and add functionality that has not been possible with outdated systems.

- ***Open Data Initiative*** – Adds an Open Data Architect to the Information Technology Department to link the City’s current open data platform to legacy databases. A growing trend throughout the public sector is for transparency through open data initiatives. These initiatives highlight accountability by providing the public access to the same data sets used by the Administration to make decisions. This position will work with departments to identify data sources that impact the San José community and connect those sources of information with the City’s open data platform.
 - ***Information Technology Infrastructure Needs and Training*** – Adds \$500,000 to support the virtualization of desktop infrastructure to centrally store software, including operating systems and applications, and adds \$400,000 to purchase ten servers and an on-premise storage solution to house critical applications, such as the Financial Management System, the Human Resources/Payroll System, and AMANDA, that currently reside on the Storage Area Network (SAN) that has reached the end of its useful life. Adds \$100,000 for staff training in support of new technologies.
 - ***Technical Business Analyst*** – Adds a Technical Business Analyst to the Information Technology Department to analyze business processes and business requirements for departments and make recommendations for solutions and/or business process reengineering that will enhance productivity and efficiency by leveraging investments the City has already made in platforms, such as Microsoft Office 365.
 - ***Fire Department Information Technology Staffing*** – As directed in the Mayor’s March Budget Message for Fiscal Year 2014-2015, as approved by the City Council, a Senior Geographic Systems Specialist is added to the Fire Department to assist with the data analytic needs within the Fire Department. This position will also assist in the implementation of Computer-Aided Dispatch system software in order to improve automation (\$220,000 is also allocated in the Public Safety Capital Program) and accuracy of response time reporting.
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- ***Service Delivery Efficiencies:*** The following list contains examples of changes in service delivery models that are designed to improve efficiency, reduce costs, and enhance service levels.
 - ***Police Overtime*** – Allocates \$4.0 million from the 2014-2015 Police Department Overtime Earmarked Reserve, approved as part of the 2013-2014 Mid-Year Review. Although the Department is conducting recruit academies to hire for sworn vacancies, the Department is anticipated to begin 2014-2015 with at least 75-85 sworn vacancies. As an interim strategy to meet service delivery needs until the Department is staffed at authorized levels, the overtime funding will be used in 2014-2015 to continue backfilling for vacant patrol positions while they are being hired and trained, maintain targeted enforcement of high crime activity through suppression cars, conduct high profile investigations, and backfill for civilian vacancies as needed.

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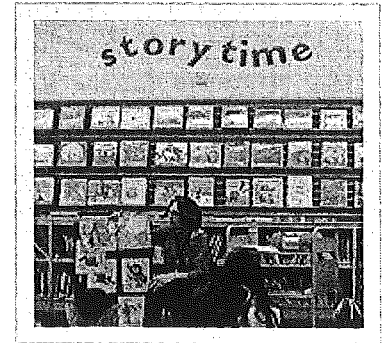
- ***South San José Police Substation Repurpose*** – As the full activation of the South San José Police Substation is included in the 2014-2015 Base Budget, cost savings are realized by repurposing the Substation (effective October 2014) to: 1) provide a facility for an additional Police Recruit Academy, 2) allow the relocation of the Training Unit, 3) serve as the alternative Public Safety Answering Point (PSAP), 4) house the Community Service Officers (CSOs), and 4) and facilitate Police Department fleet needs. Overall, General Fund costs will be reduced by \$1.7 million to operate this facility, including the elimination of 9.0 vacant Police Property Specialists which were originally intended to staff Central Supply on a 24/7 basis. Once the Police Department's sworn staffing levels have stabilized, a recommendation to fund additional police services from this facility will be brought forward for City Council consideration, as appropriate.
- ***Civic Innovation Staffing*** – As directed in the Mayor's March Budget Message for Fiscal Year 2014-2015, as approved by the City Council, adds a Senior Executive Analyst to manage skills-based volunteers for the City of San José through the Silicon Valley Talent Partnership. This program will foster relationships between the City and the community in order to effectively leverage resources and maximize the City's ability to use skilled volunteers in various capacities throughout the City.
- ***Integrated Billing System Transition*** – On September 17, 2013, the City Council approved the transition of the garbage and recycling billing from the current bi-monthly in-house billing to the Santa Clara County property tax roll, effective July 2015. As part of that transition, the elimination of 7.0 vacant positions assigned to the Information Technology Department Customer Contact Center is recommended along with staffing realignments in the Environmental Services Department. (Special Funds)
- ***Water Pollution Control Plant (Plant) – Plant Attendant Staffing*** – The Environmental Services Department continues to experience challenges in hiring for journey level positions in a variety of professional trade groups—Mechanic, Operator, Instrument Control Technicians, and Heavy Equipment Operator. Funding for 9.0 Plant Attendant positions will create additional points of entry into all of these positions, expand the pool of qualified candidates for existing Plant Operator Trainee, Mechanic-In-Training, Instrument Control Technician, and Heavy Equipment Operator positions. These changes will be offset by the elimination of two Assistant Heavy Equipment Operators and one Maintenance Worker position. The additional Plant Attendant positions will also support knowledge retention as journey level staff transfer their knowledge to entry level personnel. (Special Funds)
- ***Sorting of Residential Solid Waste*** – To support the City's efforts in achieving the Green Vision goal of diverting 100% of waste from landfills by 2022, adds funding to the Environmental Services Department to implement an initial phase of a residential conversion program whereby all waste materials collected from single-family residences are sorted and processed by the contractor prior to landfill conveyance. The goal of this program, commonly referred to as “back-end processing”, would be to significantly increase



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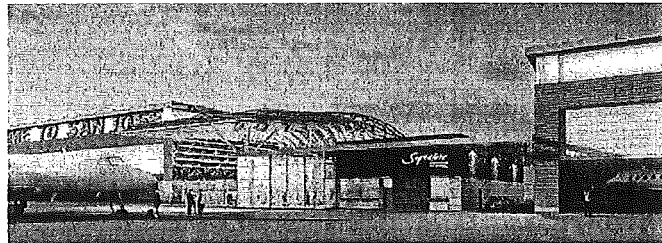
the amount of materials recycled and the overall diversion rate of waste sent to landfills. Funding in 2014-2015 will support the initial phase of this residential conversion program and consists of a single service area comprising roughly 20% of the City's total single-family residences. Environmental Services Department staff estimates an increase in diversion rate from 60% to 80%, which would position this service area to achieve one of the highest recycling rates in the country. The end goal is to strategically add hauler districts over the next seven years to include all residences. (Special Funds)

- **Cost Reductions/Revenue Strategies:** The Proposed Budget incorporates a limited number of cost reductions as well as includes additional funding sources.
 - **Available Fund Balance** – Additional Fund Balance of \$46.3 million in the General Fund would primarily be generated from the elimination or reduction to various reserves (\$40.8 million) as well as excess revenues and expenditure savings in 2013-2014 (\$5.5 million). The majority of the reserves include the liquidation of the 2014-2015 Future Deficit Reserve (\$18.1 million), Successor Agency City Legal Obligation Reserve to repay a portion of the Former Redevelopment Agency SERAF Loan (\$8.0 million), various Development Fee Program Reserves (\$4.2 million), Police Overtime Reserve (\$4.0 million), and various reserves set aside in 2013-2014 to fund specific services (\$5.65 million). Additional excess revenue and expenditure savings of \$5.5 million reflects additional Sales Tax receipts (\$1.8 million) which reflected growth of 7.9% compared to the budgeted growth of 3.5% in the second quarter of 2013-2014 and additional Solid Waste Fees (\$600,000) above budgeted estimates, expenditure savings in the City's 2013-2014 General Fund Successor Agency City Legal Obligations Subsidy reflecting the most current projected cash flow, (\$1.5 million), higher than budgeted vacancy rates throughout the City, and City-Wide Expenses savings such as workers' compensation claims costs.
 - **Transfer to the Community Facilities Revenue Fund** – Decreases the 2014-2015 Debt/Operating subsidy to Dolce, the operator of the Hayes Mansion Facility by \$900,000, as a result of lower than anticipated interest rates on the variable rate debt for Hayes Center - Phase III debt service and letter of credit fee reductions in 2013-2014 resulting from the recent debt refunding. The savings in 2014-2015 and subsequent years were captured in the 2015-2019 General Fund Forecast.
 - **Inactive Special Assessment Districts** – Recognizes \$750,000 in revenue to be transferred from expired special assessment districts. In 2008-2009, Finance Department staff completed an analysis of 50 expired special assessment districts with remaining cash balances. Based on that review, in accordance with State law, the availability of surplus funds was announced to be claimed by current and former property owners. With the statute of limitations, any unclaimed funds may be transferred to the General Fund. The initial deadline to claim a portion of the surplus funds was in March 2012, after which time unclaimed funds of \$1.2 million were transferred to the General Fund. The next and final deadline to claim these funds is in May 2014. It is expected that approximately \$750,000 will remain unclaimed and be available for transfer to the General Fund in 2014-2015.



2014-2015 PROPOSED OPERATING BUDGET MESSAGE

- **Successor Agency City Legal Obligations** – Decreases the \$2.0 million General Fund subsidy to the Successor Agency by \$700,000, to \$1.3 million, for 2014-2015 based on an updated review of financial cash flow of funds.
- **Other Budget Actions:** The Proposed Budget incorporates a number of budget actions to address City obligations or meet other service delivery needs.
 - **Former Redevelopment Agency SERAF Loan Repayment** – Establishes three transfer appropriations totaling \$10.2 million to the following funds: Sewage Treatment Plant Connection Fee Fund (\$5.1 million); Subdivision Park Trust Fund (\$3.1 million); and Ice Centre Revenue Fund (\$2.0 million), partially offset by additional 2014-2015 Beginning Fund Balance of \$9.5 million. These transfers allocate sufficient funding to complete the payment of the May 2010 Supplemental Educational Revenue Augmentation Fund (SERAF) Loan (\$10.0 million principal, estimated \$200,000 interest) due June 30, 2015. These loans were completed in order for the former Redevelopment Agency to make the State mandated payments to the SERAF. These transfers are offset by the liquidation of the Successor Agency City Legal Obligations Reserve (\$8.0 million) and estimated 2013-2014 expenditure savings as a result of a lower anticipated General Fund net subsidy (\$1.5 million) to the Successor Agency to the Redevelopment Agency. In addition, the reduction of the 2014-2015 estimated General Fund subsidy will fully offset these payments. It is important to note that loans such as these may be deemed an enforceable obligation of the Successor Agency contingent upon requirements as outlined in AB 1484 with repayment anticipated in later years. The administration continues to work through these requirements; however, this action satisfies the amounts due to these special funds and realigns the loan between the City and Successor Agency between the City's General Fund and the Successor Agency.
 - **Air Service Incentive Program Reserve** – The Municipally Funded Air Service Incentive Program, a provision of the Airline-Airport Lease and Operating Agreements approved by the City Council in March 2007, requires that should the percentage growth in annual enplanements at the Airport exceed the growth in annual enplanements nationwide, the City shall reduce the amount of its indirect overhead expenses in the following fiscal year by a corresponding percentage. Based on activity levels in 2013-2014, it is anticipated that the enplanements at the airport will exceed the Federal Aviation Administration's projection of 0.8% for national enplanement growth in 2013-2014 by at least 6.4 basis points (total 7.2 basis points). Therefore, a reduction to the 2014-2015 overhead payment from the Airport to the General Fund is anticipated in 2014-2015. To account for this adjustment, the establishment of a \$1.0 million reserve is recommended, which allows for a reduction in the overhead rate of approximately 6.4 basis points. The reconciliation of actual 2013-2014 performance will occur as part of the 2013-2014 Annual Report. On an ongoing basis, \$500,000 is set aside for this purpose.



2014-2015 PROPOSED OPERATING BUDGET MESSAGE

Limited Fee Impacts

There are a limited number of fee increases in the 2014-2015 Proposed Budget. No rate increases are recommended for the Sewer Service and Use Charge and the Storm Sewer Service Charge. The Recycle Plus rates are recommended to increase 3% for single-family dwellings (SFD) to fund sorting of garbage to collect recycling to help achieve a 65% diversion rate in the SFD sector, and an increase of 5% for multi-family dwellings (MFD) to fund the large item collection program. Although not yet final, the Municipal Water System rates are estimated to increase by 11% due to the higher cost of wholesale water purchases and higher operating costs.

In the four Development Fee Programs (Building, Fire, Planning, and Public Works), no general fee increases are needed to maintain cost recovery. The existing revenue streams in those programs along with the use of portions of the Development Fee Program Reserves are sufficient to support additional staffing to meet service demands and improve customer service in these areas without fee increases. In the Building and Public Works Development Fee Programs, targeted fee reductions are recommended to reduce fees primarily to residential customers where there are streamlined service opportunities.

Other upward and downward adjustments to various City fees are recommended to maintain the City's cost recovery as described in the 2014-2015 Proposed Fees and Charges document, which is released under separate cover.

Sales Tax Ballot Measure Priorities Spending Plan

The City has made extraordinary progress in cost containment through painful cuts to service levels, employee staffing levels, and employee compensation, as well as leading California and the nation in meaningful retirement reform. However, comparable steps have not been taken to increase revenues, although the City continues to aggressively and strategically seek economic development opportunities to strengthen the City's tax base in order to generate revenue over the long-term. Both the 2008 General Fund Structural Deficit Elimination Plan and the Fiscal Reform Plan approved in May 2011 identified new revenue as a key part of the City's long-term strategy to enable the City to rebuild its capacity and begin to restore service levels, but this budget does not assume any increase in local taxes.

As directed by the Mayor and City Council, the Administration has recently conducted community surveys that have shown sufficient public support for a potential sales tax increase this year. The City Council is currently scheduled in August to consider whether to place a measure on the November 2014 ballot. As part of the deliberation process for the consideration of a sales tax



measure, the Administration was directed in the City Council-approved Mayor's March Budget Message for Fiscal Year 2014-2015 to develop a Sales Tax Ballot Measure Spending Priorities list that identifies a potential spending plan should a Sales Tax measure be approved to be brought forward and passed by the voters in November 2014. It is estimated that between \$34 million and \$68 million would be generated annually from a potential measure, depending on whether a ¼ cent or ½ cent increase was approved. A sales tax measure approved in

2014-2015 PROPOSED OPERATING BUDGET MESSAGE

November 2014 would take effect in April 2015, and the Administration would bring forward specific budget proposals during 2014-2015, as appropriate. The Sales Tax Ballot Measure Spending Priorities is included as Exhibit 1 to this message and outlines the spending in the following three broad categories:

- Improve Public Safety (Target of 50% of the funding)
- Repair and Maintain Streets (Target of 30% of the funding)
- Expand Economic Development and Neighborhood Services (target of 20% of the funding)

CONCLUSION

This is my first opportunity to submit the Proposed Budget as your City Manager. Although I am proud that we are able to present a balanced budget that includes some modest restorations after the many sacrifices that we have made in recent years, I also must strongly emphasize that we are not at the level of financial stability that will allow us to meet the service expectations of our community and the needs of our organization. Our continuing commitment to prudent budget discipline and long-term fiscal sustainability remains essential, especially in combination with the current economic recovery, to ensure that we stay on the right track. We are mindful that our position can quickly reverse as a result of factors beyond our control, such as swings in the economy, actions by other levels of government, adverse court decisions, or increases in required contributions to the City's retirement funds.

Certainly we must continue the remarkable financial discipline and leadership exhibited by our elected officials, City management, and our outstanding employees. This also includes commitment to the innovation, partnership, and community engagement that can reduce costs and enhance quality as well as a focus on strengthening our economic foundation that can generate the revenues we need to restore vital public services over the long term.

However, in the short term, absent new revenues, our level of services will remain well below what our community deserves and expects from the City. One of the principal goals of the Fiscal Reform Plan issued in May 2011 was to restore key services to January 2011 levels, including police, fire, community centers, libraries, and street maintenance. Even when we achieve this goal for restoration, we will still be below the full levels of service that we were able to provide in the past. We also anticipate that the City will not have sufficient resources for all that we would like to do to address our growing backlog of deferred maintenance for streets and facilities; make strategic capital investments that support operational efficiency; and ensure that San José is a competitive employer that can attract and keep a highly skilled workforce to serve the people of our community. For these reasons, we will continue to assess the benefits of a potential revenue measure to bring to the voters this year that can be a bridge to a stronger position in the future.

2014-2015 PROPOSED OPERATING BUDGET MESSAGE

In closing, I must thank our remarkably dedicated and talented City staff who prepare this extraordinary budget document each year. We are extremely fortunate to have such talented and dedicated people, from the front lines of each department to the incredibly hard working City Manager's Budget Office. They represent the best in public service, and I continue to be inspired by their commitment to ensure that San José remains the best city it can be for our residents, businesses, visitors, and employees.



Edward K. Shikada
City Manager

2014-2015 Proposed Operating Budget

2014-2015 Budget Balancing Strategy Guidelines

1. Develop a budget that balances the City's delivery of the most essential services to the community with the resources available.
2. Balance ongoing expenditure needs with ongoing revenues to ensure no negative impact on future budgets and to maintain the City's high standards of fiscal integrity and financial management. Maintain adequate reserves to cover any budgetary shortfalls in the following year as a stopgap measure if necessary.
3. Focus on business process redesign in light of the severe staff reductions experienced during the last several years in order to improve employee productivity and the quality, flexibility, and cost-effectiveness of service delivery (e.g., streamlining, simplifying, reorganizing functions, and reallocating resources).
4. Explore alternative service delivery models (e.g., partnerships with the non-profit, public, or private sector for out- or in-sourcing services) to ensure no service overlap, reduce and/or share costs, and use our resources more efficiently and effectively. The City Council Policy on Service Delivery Evaluation provides a decision-making framework for evaluating a variety of alternative service delivery models.
5. Analyze non-personal/equipment/other costs, including contractual services, for cost savings opportunities. Contracts should be evaluated for their necessity to support City operations and to identify negotiation options to lower costs.
6. Explore redirecting and/or expanding existing revenue sources and/or adding new revenue sources.
7. Establish a fee structure to assure that operating costs are fully covered by fee revenue and explore opportunities to establish new fees for services, where appropriate.
8. Identify City policy changes that would enable/facilitate service delivery changes or other budget balancing strategies.
9. If additional resources become available, spending on increasing compensation and restoring services should be balanced.
10. Focus service restorations to meet the baseline January 1, 2011, service levels previously identified by the City Council in the areas of fire, police, library, community centers, and street maintenance.
11. In addition to considering service restorations to meet the baseline January 1, 2011 service levels, take a holistic approach regarding the restoration of services. As outlined in the Guiding Principles for Restoring City Service Levels as approved by the City Council on March 20, 2012, allocate additional resources with the following goals in mind: ensure the fiscal soundness of the City; choose investments that achieve significant outcomes; and improve efficiency and effectiveness of service delivery. Using a multi-pronged approach to restoring direct services, take into consideration the following factors: adequate strategic support resources; adequate infrastructure; service delivery method to ensure efficient and effective operations; service delivery goals and current performance status; service sustainability; and staffing resources.
12. Incorporate compensation adjustments in a fiscally responsible manner that does not result in a reduction or elimination of services in the General Fund.
13. Engage employees in department budget proposal idea development.
14. Use the General Plan as a primary long-term fiscal planning tool and link ability to provide City services to development policy decisions.
15. Continue a community-based budget process where the City's residents and businesses are educated and engaged, as well as have the opportunity to provide feedback regarding the City's annual budget.

2014-2015 Proposed Operating Budget

Guiding Principles for Restoring City Service Levels

Ensure the Fiscal Soundness of the City

1. Develop the General Fund budget to support the City's mission and use the City Council-approved Budget Principles to ensure the long term fiscal health of the City (*City of San José Budget Principles*)
2. Ensure services that are restored can be sustained over the long-run to avoid future service disruption (Use Five-Year General Fund Forecast as one tool)
3. If possible, defer adding new permanent positions until new retirement system is in place

Choose Investments that Achieve Significant Outcomes

4. Ensure restored services represent City Council priorities and the highest current need in the community
5. Balance investments among three categories:
 - Restoration of services (public safety and non-public safety services, including critical strategic support services)
 - Opening of new facilities
 - Maintenance of City infrastructure and assets
6. Prioritize baseline service level restorations using performance goals (*Service Restorations Previously Identified by City Council – January 1, 2011 Levels*)
7. Focus funding on areas where there is a high probability of success and/or high cost of failure
 - Focus funding on infrastructure needs where there is a significant increase in cost if maintenance is delayed (such as street maintenance)
 - Focus investments in technology that have the greater return on investment in terms of services to the public and employee productivity

Improve the Efficiency and Effectiveness of Service Delivery

8. Before restoring prior service methods, evaluate options to determine if alternative service delivery models would be more cost effective
9. Ensure strategic support and technology resources are capable of supporting direct service delivery and effective management of the organization
10. Prioritize organizational investments that maximize workforce productivity, efficiency, and effectiveness
11. Pursue opportunities and methods, including performance, to retain, attract, and recognize employees within resource constraints

2014-2015 Proposed Operating Budget**City of San José Budget Principles**

The Mission of the City of San José is to provide quality services, facilities and opportunities that create, sustain and enhance a safe, livable and vibrant community for its diverse residents, businesses and visitors. The General Fund Budget shall be constructed to support the Mission.

1) STRUCTURALLY BALANCED BUDGET

The annual budget for the General Fund shall be structurally balanced throughout the budget process. A structurally balanced budget means ongoing revenues and ongoing expenditures are in balance each year of the five-year budget projection. Ongoing revenues shall equal or exceed ongoing expenditures in both the Proposed and Adopted Budgets. If a structural imbalance occurs, a plan shall be developed and implemented to bring the budget back into structural balance. The plan to restore balance may include general objectives as opposed to using specific budget proposals in the forecast out years.

2) PROPOSED BUDGET REVISIONS

The annual General Fund Proposed Budget balancing plan shall be presented and discussed in context of the five-year forecast. Any revisions to the Proposed Budget shall include an analysis of the impact on the forecast out years. If a revision(s) creates a negative impact on the forecast, a funding plan shall be developed and approved to offset the impact.

3) USE OF ONE-TIME RESOURCES

Once the General Fund budget is brought into structural balance, one-time resources (e.g., revenue spikes, budget savings, sale of property, and similar nonrecurring revenue) shall not be used for current or new ongoing operating expenses. Examples of appropriate uses of one-time resources include rebuilding the Economic Uncertainty Reserve, early retirement of debt, capital expenditures without significant operating and maintenance costs, and other nonrecurring expenditures. One time funding for ongoing operating expenses to maintain valuable existing programs may be approved by a majority vote of the Council.

4) BUDGET REQUESTS DURING THE YEAR

New program, service or staff requests during the year that are unbudgeted shall be considered in light of the City's General Fund Unfunded Initiatives/Programs List and include a spending offset at the time of the request (if costs are known) or before final approval, so that the request has a net-zero effect on the budget.

5) RESERVES

All City Funds shall maintain an adequate reserve level and/or ending fund balance as determined annually as appropriate for each fund. For the General Fund, a contingency reserve amount, which is a minimum of 3% of the operating budget, shall be maintained. Any use of the General Fund Contingency Reserve would require a two-thirds vote of approval by the City Council. On an annual basis, specific reserve funds shall be reviewed to determine if they hold greater amounts of funds than are necessary to respond to reasonable calculations of risk. Excess reserve funds may be used for one-time expenses.

2014-2015 Proposed Operating Budget**City of San José Budget Principles****6) DEBT ISSUANCE**

The City shall not issue long-term (over one year) General Fund debt to support ongoing operating costs (other than debt service) unless such debt issuance achieves net operating cost savings and such savings are verified by appropriate independent analysis. All General Fund debt issuances shall identify the method of repayment (or have a dedicated revenue source).

7) EMPLOYEE COMPENSATION

Negotiations for employee compensation shall focus on the cost of total compensation (e.g., salary, step increases, benefit cost increases) while considering the City's fiscal condition, revenue growth, and changes in the Consumer Price Index (cost of living expenses experienced by employees.)

8) CAPITAL IMPROVEMENT PROJECTS

Capital Improvement Projects shall not proceed for projects with annual operating and maintenance costs exceeding \$100,000 in the General Fund without City Council certification that funding will be made available in the applicable year of the cost impact. Certification shall demonstrate that funding for the entire cost of the project, including the operations and maintenance costs, will not require a decrease in existing basic neighborhood services.

9) FEES AND CHARGES

Fee increases shall be utilized, where possible, to assure that fee program operating costs are fully covered by fee revenue and explore opportunities to establish new fees for services where appropriate.

10) GRANTS

City staff shall seek out, apply for and effectively administer federal, State and other grants that address the City's priorities and policy objectives and provide a positive benefit to the City. Before any grant is pursued, staff shall provide a detailed pro-forma that addresses the immediate and long-term costs and benefits to the City. One-time operating grant revenues shall not be used to begin or support the costs of ongoing programs with the exception of pilot projects to determine their suitability for long-term funding.

11) GENERAL PLAN

The General Plan shall be used as a primary long-term fiscal planning tool. The General Plan contains goals for land use, transportation, capital investments, and service delivery based on a specific capacity for new workers and residents. Recommendations to create new development capacity beyond the existing General Plan shall be analyzed to ensure that capital improvements and operating and maintenance costs are within the financial capacity of the City.

12) PERFORMANCE MEASURES

All requests for City Service Area/departamental funding shall include performance measurement data so that funding requests can be reviewed and approved in light of service level outcomes to the community and organization.

13) FIRE STATION CLOSURE, SALE OR RELOCATION

The inclusion of the closure, sale or relocation of a fire station as part of the City Budget is prohibited without prior assessment, community outreach, and City Council approval on the matter.

EXHIBIT 2

2014-2015 Proposed Operating Budget

SALES TAX BALLOT MEASURE SPENDING PRIORITIES

As directed in the 2014-2015 Mayor's March Budget Message, as approved by the City Council, the Administration has developed a Sales Tax Ballot Measure Spending Priorities Plan. This is a potential spending plan that outlines priorities for using additional resources if the City Council places a sales tax measure on the November 2014 ballot and it is approved by the voters. A sales tax measure approved in November 2014 would take effect in April 2015, and the Administration would bring forward specific budget proposals during 2014-2015, accordingly.

Service Priorities	¼ Cent Sales Tax \$ Millions	½ Cent Sales Tax \$ Millions
Improve Public Safety (Target of 50%)		
Improve Police Response Times, Reduce Crime, and Increase Neighborhood Police Patrols Hire 65-130 additional sworn police officers and, at the higher funding level, provide funding for additional crime prevention resources.	\$13.0 M*	\$27.0 M*
Improve Response Times for Fire and Medical Emergencies Fund Fire overtime to avoid fire station brown-outs and, at the higher funding level, front-line resources to respond to calls for service.	\$2.5 M	\$5.5 M
Gang Prevention Extend the current level of support for gang prevention services through San José BEST/Safe Summer Initiative (bringing total ongoing funding to \$4.6 million).	\$1.5 M*	\$1.5 M*
Public Safety Sub-Total	\$17.0 M	\$34.0 M
Repair and Maintain Streets (Target of 30%)		
Street Repair and Maintenance Increase maintenance on major streets and, at the higher level, provide maintenance for some neighborhood streets to significantly slow the incidence of pothole formation and general pavement deterioration.	\$10.0 M	\$20.0 M
Expand Economic Development and Neighborhood Services (Target of 20%)		
Reduce Homelessness Provide ongoing support for homeless response and rapid rehousing services	\$3.5 M*	\$5.5 M*
Create Jobs Through Economic Development Expand economic development efforts to market the City, support small business, and attract private development to generate more local jobs.	\$1.0 M	\$2.0 M
Enhance Branch Library Hours Increase branch library operations from 4 days to 4.5 days per week, or, at the higher funding level, to 6 days per week	\$2.5 M	\$4.5M
Expand Community Centers Hours of Service At the higher funding level, increase hub community center hours from 59 to 63 hours per week and increase hours at high-need neighborhood community centers from approximately 20 hours to 45 hours per week.	\$0 M	\$2.0 M
Neighborhood Services and Economic Development Sub-Total	\$7.0 M	\$14.0 M
TOTAL	\$34.0 M	\$68.0 M

* The Spending Priorities Plan includes the addition of sworn police officers as the top priority. However, given the current number of sworn officer vacancies, it is anticipated that the ongoing funding allocated to this use will not be expended through 2015-2016. In addition, the investments in the gang prevention program (San Jose BEST/Safe Summer Initiative Programs) and the homeless services are already recommended to be funded on a one-time basis through 2015-2016 as part of the 2014-2015 Proposed Operating Budget. *Therefore, the City Manager recommends that revenues not immediately needed in the first 15 months for these purposes be allocated for street repair and maintenance to prevent further deterioration. This could result in a one-time catch up investment of \$22-\$40 million.*

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