

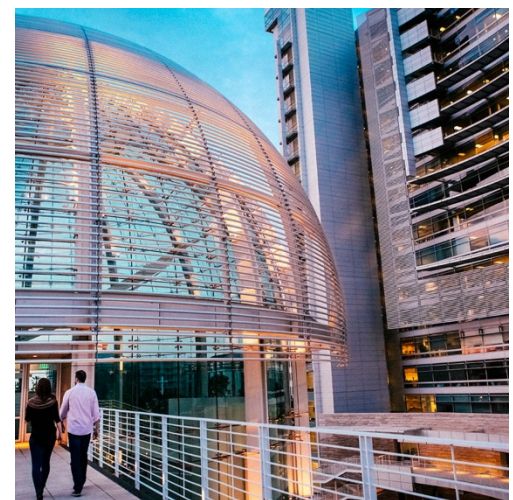
November 4, 2020

Honorable Mayor and City Council:

The 2020-2021 Adopted Operating Budget puts forward a responsible allocation of resources during a time of tremendous change and anxiety for our community and workforce. The arrival of COVID-19 has upended lives, caused pain and tragedy, and has required extraordinary efforts of us all to limit the pandemic's reach. As a result, the necessary shelter-in-place restrictions to slow the virus' spread has severely impacted day-to-day economic activity. The longest economic expansion in U.S. history abruptly ended and the recession we knew was eventually coming is now here. Businesses have shuttered and the unemployment rate spiked. And even though suppression efforts have yielded successes and some business activities have resumed, we know that the virus is still present, and that restrictions related to social distancing – in some form – will be necessary for an extended period.

During this time we have also seen the strength of our community and our City organization. As difficult as the shelter-in-place has been, our collective effort has flattened the curve and given our health care community the space necessary to effectively care for those most at risk. The City has leaned into this crisis, taking a leadership role within the region to provide shelter for the medically vulnerable homeless population, and coordinating a vast array of government, non-profit, and private sector partners to provide food and necessities to those medically and economically impacted by the pandemic.

The willingness of our community and City workforce to meet these challenges head-on exemplifies a resiliency that will be needed for the foreseeable future. We took proactive steps early on in the pandemic to understand its economic fallout, address budgetary shortfalls in 2019-2020, and completely revamped the 2020-2021 budget development process to ensure early and measured action in response to the shortfall. Though issued at the beginning stages of the pandemic when the term "social distancing" was still a new concept, the Mayor's March Budget Message for Fiscal Year 2020-2021, as approved by the City Council, appropriately identified the emergent budgetary risk and focused on fiscal resilience as one of the key drivers for the 2020-2021 Adopted Operating Budget.



2020-2021 ADOPTED OPERATING BUDGET MESSAGE

The direction provided by the Mayor and City Council and quick action by our workforce produced an Adopted Budget that addressed a General Fund shortfall of \$77.6 million. Driven by an overall estimated revenue decline of 9% from last year's revenue collections – levels well exceeding the “Great Recession” and “Dotcom Bust” – this shortfall was responsibly addressed with a combination of ongoing and one-time budget balancing actions. These actions, while mindful of community impacts and City Council priorities, result in measurable service level reductions. As an attachment to this transmittal memorandum (Attachment D), a second package of budget reductions was developed as a contingency plan should economic conditions further deteriorate. Fortunately, based on analysis of final 2019-2020 performance, current economic conditions and revenue tracking, the contingency package is not anticipated to be needed in 2020-2021.

Budget Balancing Considerations

The Mayor's March Budget Message for Fiscal Year 2020-2021, as approved by the City Council, identified three tiers of funding: Tier 1 - Fiscal Resilience, Tier 2 – Affordable Housing and Homelessness Solutions Funded by Measure E, and Tier 3 – Contingent Expenditures. While the 2020-2021 Adopted Operating Budget was as responsive as possible to the March Budget Message, resource constraints due to COVID-19 made full alignment impossible. The spirit of Tier 1 is met by the payoff of debt related to the Los Lagos Golf Course and the streetlight LED conversion project, and reserve levels were carefully managed to lessen service impacts in 2020-2021 while still preserving resources should revenues fall further than expected, and to help with anticipated shortfalls in 2021-2022. In accordance with Tier 2, all proceeds anticipated from Measure E – the ballot measure approved by the voters in March 2020 that applies a general purpose tax on the transfer of real property – were allocated for homeless prevention and affordable housing purposes. As prudently considered in the March Message, the Tier 3 allocations were contingent upon significant improvement in economic conditions, which unfortunately did not come to pass. Attachment B to this transmittal memorandum identifies which one-time allocations from the March Message were funded within the City's constrained budgetary environment.

While overall economic conditions did not significantly improve, additional one-time funding was identified later in the budget process, including the allocation of resources from federal and state emergency funding to assist with the City's COVID-19 pandemic response. This one-time and emergency funding was allocated through the City Council's approval of the Mayor's June Budget Message for Fiscal Year 2020-2021, which targeted investments toward Equity and Racial Justice; Economic Resilience, Recovery, and Rebirth; Public Safety; Community and Neighborhood Engagement; and Cultural Vitality.

Under normal circumstances, the City is diligent to ensure that ongoing expenditure levels are matched by ongoing revenues. However, due to the sudden onset of the pandemic, uncertainty of revenue projections, and compressed timeframe in which to produce a budget, the 2020-2021 Adopted Operating Budget used a mix of ongoing and one-time solutions to balance the budget, with approximately 67% of the shortfall solved on an ongoing basis. This approach ensured that the City took responsible and meaningful action to address what will likely be several years of budgetary shortfalls as the economy works its way out of the recession and returns to pre-crisis levels, while limiting the reduction of service levels until a more accurate economic picture is known.

Budget Balancing Considerations (Cont'd.)

More specifically, the approach to resolving the General Fund shortfall involved a mix of ongoing and one-time solutions, mindful of:

1. The need for ongoing service reductions driven by a significantly weakened economic environment, even after social distancing restrictions are lifted;
2. City Council and community priorities with the understanding that service reductions can have disproportionate impacts within our community;
3. The fact that we are powered by people and minimizing layoffs limits the impact to both the organization and the community; and
4. The uncertainty of the medium to long-term impacts of COVID-19 and the corresponding need to preserve core service delivery.

Contingency Plan. The Administration also considered the possibility that conditions may worsen further and that revenue shortfalls could be significantly greater than estimated. A contingency package of budget reduction proposals is attached to this transmittal memorandum describing additional actions that could be brought forward later, if necessary, to address an even larger shortfall; though, as previously discussed, the Administration does not now anticipate that these actions will be necessary for 2020-2021.

Other City Funds. In addition to the actions necessary to balance the General Fund, a number of other City funds and operations adversely affected by COVID-19, including the Airport, the San José McEnergy Convention Center and other cultural facilities operated by Team San Jose, several funds that receive Transient Occupancy Tax (TOT) revenue, and the Development Fee Program, a cost-recovery program to regulate private development and construction activity. As described later in this transmittal memorandum, actions in the Adopted Budget acknowledge significantly reduced revenue levels in these funds that are resolved through a mix of reduced service levels and utilization of reserves previously set aside to help manage through economic downturns.

Employee Engagement. Throughout the process of developing the 2020-2021 Adopted Operating Budget, I have committed to sharing information with and listening to our workforce. Prior to the release of the Proposed Budget in May, with the City Manager's Office leadership team, I held four virtual town hall meetings via Zoom with 1,285 employees in attendance to discuss both the COVID-19 public health emergency and its impact on the 2020-2021 budget. During these sessions we answered over 180 questions and we received a number of ideas from our employees on how to generate potential budgetary savings. These ideas were in addition to the employee budget suggestions that we received through online submittals directly to the Budget Office. An information memorandum was issued that included 17 of the 48 employee suggestions that the Administration was given permission to share publicly. While some suggestions were subject to meet and confer and extended beyond the budget development timeline, several suggestions were incorporated into this Adopted Budget, and are described in Manager's Budget Addendum #30, *Employee Suggestion Program*¹.

¹ [MBA #30: https://www.sanjoseca.gov/home/showdocument?id=59600](https://www.sanjoseca.gov/home/showdocument?id=59600)

2020-2021 ADOPTED OPERATING BUDGET MESSAGE

Budget Balancing Considerations (Cont'd.)

COVID-19 Response. This budget also incorporates the external funding and resource allocation costs associated with the City's response efforts to the COVID-19 pandemic, including federal funding provided by the CARES Act. Though this budget did not assume that the federal government would provide funding to address lost revenue, the City continues its strong advocacy efforts toward this goal.

Total Adopted Budget

The 2020-2021 Adopted Budget totals \$4.8 billion for all City funds (General, Special, and Capital). This amount is \$124.7 million (2.7%) above the 2019-2020 Adopted Budget (Table 1 below), and is primarily attributable to emergency relief funding from the federal CARES Act and a higher beginning fund balance in the General Fund to continue projects and programs in 2020-2021 that are already in process, offset by lower levels of Capital Fund resources.

2020-2021 Adopted Budget — All Funds (Table 1)			
	2019-2020 Adopted	2020-2021 Adopted	% Change
General Fund	\$ 1,510,135,437	\$ 1,547,689,229	2.5%
Special Funds	2,532,532,607	2,644,236,028	4.4%
<Less: Operating Transfers>	(894,663,225)	(808,424,841)	(-9.6%)
Net Operating Funds	3,148,004,819	3,383,500,416	7.5%
Capital Funds	1,520,183,753	1,406,431,266	(-7.5%)
<Less: Capital Transfers>	(7,024,000)	(4,095,000)	(41.7%)
Net Capital Funds	1,513,159,753	1,402,336,266	(-7.3%)
Total	\$ 4,661,164,572	\$ 4,785,836,682	2.7%

Position Impacts

The Adopted Budget includes decreases to position levels throughout the organization. While layoffs did not occur as part of this budget primarily due to the number of vacant positions in the organization, those positions funded on a one-time basis in 2019-2020 that were not renewed in 2020-2021 and those positions eliminated as part of the budget process resulted in employees who had rights to either: 1) remain in their classification, but move to another position; 2) move to another position in a lower classification; or 3) be redeployed to a different position within the organization. The remaining employees who had positions that were scheduled to end on June 30 and did not have rights to other permanent City positions are longer employed. Overall, the level of staffing decreased by a net 55 positions, from 6,647 full-time equivalent positions in the 2019-2020 Adopted Budget to 6,592 positions in the 2020-2021 Adopted Budget, as shown in Table 2 below.

2020-2021 ADOPTED OPERATING BUDGET MESSAGE

Position Impacts (Cont'd.)

Changes in Position Count (All Funds) from 2019-2020 Adopted to 2020-2021 Adopted Budget (Table 2)	
2019-2020 Adopted Budget	6,647 positions
2020-2021 Base Budget Changes	(88) positions
2020-2021 Adopted Budget Changes – General Fund	(3) positions
2020-2021 Adopted Budget Changes – Other Funds	36 positions
Total Net Position Changes	(55) positions
2020-2021 Adopted Budget	6,592 positions

General Fund Forecast – Challenging Times Now and in the Future

In February 2020, the Administration prepared the 2021-2025 Five-Year Forecast and Revenue Projections document to estimate the condition of the General Fund and selected Capital Funds over the next five years. While preparing the Five-Year Forecast in early February, most economic signs indicated that 2020-2021 would continue to have slow, but steady growth, resulting in a small General Fund surplus of \$0.5 million. However, during the last week of February, as that publication was being finalized, the initial impacts of COVID-19 were just beginning to be felt. As stated in the 2021-2025 Five-Year Forecast’s transmittal memorandum, the economic repercussions of COVID-19 would continue to be monitored and any resulting budgetary impacts would be incorporated as part of the 2020-2021 Adopted Budget process. The table below displays the various General Fund operating margins included in the February Forecast depending on varying levels of assumed economic conditions.

**General Fund Operating Margins from the 2021-2025 Five-Year Forecast (Table 3)
(Base, Optimistic, Pessimistic, and Recession Cases)**

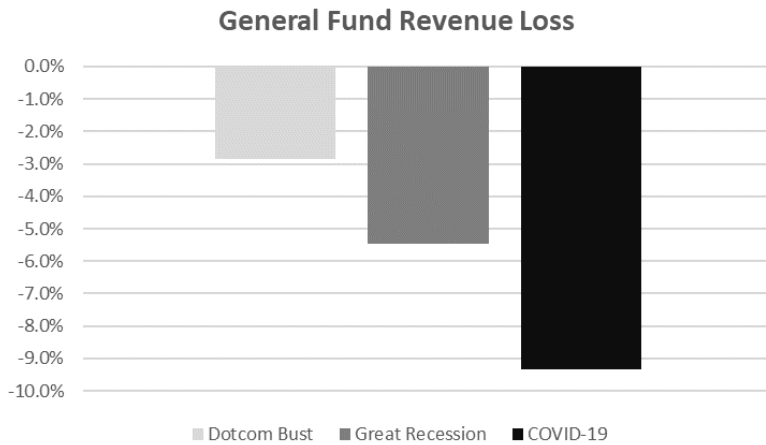
	2020- 2021	2021- 2022	2022- 2023	2023- 2024	2024- 2025	Five-Year Surplus/ (Shortfall)
Base Case	\$0.5 M	(\$11.1 M)	\$14.0 M	(\$2.2 M)	\$ 1.0 M	\$2.2 M
Optimistic Case	\$13.4 M	\$7.3 M	\$30.1 M	\$11.3 M	\$16.7 M	\$78.8 M
Pessimistic Case	(\$13.1 M)	(\$19.8 M)	\$4.2 M	(\$12.1 M)	(\$6.6 M)	(\$47.4 M)
Recession Case	(\$38.3 M)	(\$53.7 M)	(\$19.4 M)	(\$33.7 M)	(\$32.9 M)	(\$178.0 M)

General Fund Forecast – Challenging Times Now and in the Future (Cont’d.)

It is clear from all accounts that the COVID-19 pandemic caused the United States economy to enter a recession, and in a severe fashion. The Recession Case shown above would have had a significant detrimental impact on City service levels over a five-year period. Unfortunately, conditions currently forecasted for 2020-2021 indicate a situation considerably worse for that year alone.

At the City Council meeting on April 7th, the Administration presented a preliminary revision to the General Fund forecast, estimating revenue shortfalls of approximately \$65 million for 2020-2021. With continued study of the situation and evaluation of additional data, that revenue shortfall was revised to a total decrease of \$84.6 million, including a further \$6.0 million reduction to Transient Occupancy Tax receipts that was adjusted after release of the Proposed Budget document². With additional downward adjustments to Base Budget expenditures of \$6.5 million, the originally forecasted General Fund surplus for 2020-2021 of \$0.5 million was revised to an overall shortfall of \$77.6 million.

Led by deep year-over-year reductions in Sales Tax, Business Taxes, and Transient Occupancy Tax (TOT), combined with shortfalls in Utility Taxes and Franchise Fees, and reduced growth rates for Property Tax proceeds, General Fund revenues were forecast to drop 9% compared to 2018-2019 actuals. This magnitude is substantially higher than the decreases experienced during

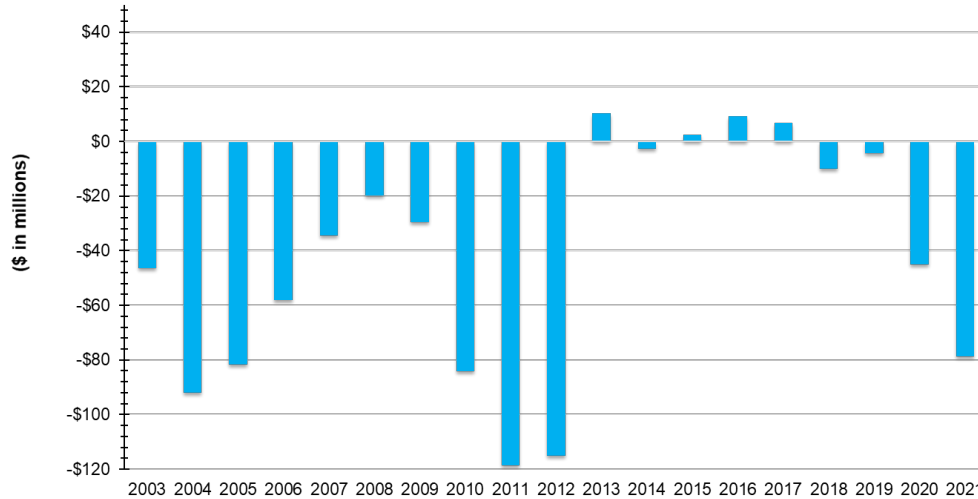


the Great Recession and Dotcom Bust. Though the exact depth or length of this recession is not known – especially when considering the need for some levels of social distancing to continue for an extended period of time – we can assume that the after effects of the pandemic will linger and that the City will likely struggle with General Fund shortfalls over the next several years. As shown in the chart below, the City did not emerge from a decade of deficits until 2012-2013, and has never experienced a significant surplus during the recently ended economic expansion despite years of implementing structural deficit elimination plans. Now in a time of severe economic uncertainty, the City made the difficult decisions necessary to balance the 2020-2021 budget and must be prepared to do so again in subsequent years to ensure a structurally balanced budget as the economic impact continues to unfold.

² [Manager’s Budget Addendum #4, General Fund Revenue Assumptions and Transient Occupancy Tax Amendments](#)

General Fund Forecast – Challenging Times Now and in the Future (Cont’d.)

**General Fund Shortfalls and Surpluses
2002-2003 to 2020-2021**



Balancing the General Fund Budget

As displayed in Table 4 on the following page, the 2020-2021 Adopted General Fund Budget Balancing Plan included actions to resolve the \$77.6 million shortfall forecasted for 2020-2021, which included the original \$71.6 million and a subsequent \$6.0 million reduction to the Transient Occupancy Tax estimate³ revised after release of the Proposed Budget. This table shows the matrix of balancing strategies and the dollars associated with each action. A discussion of the balancing strategies can be found in Attachment A to this message and throughout the Adopted Budget. In addition to the balancing approach described earlier in this message in response to the dramatic revenue shortfalls caused by the pandemic, the Administration was also guided by the Budget Balancing Strategy Guidelines contained in the City Manager’s Budget Request for Fiscal Year 2020-2021 that were adopted by the City Council as part of the approval of the Mayor’s March Budget Message for Fiscal Year 2020-2021, and by the City Council-approved City of San José Budget Principles; these guidelines and principles are included in Exhibit 1 to this message.

Of the \$77.6 million shortfall in the General Fund, \$51.9 million (67%) was resolved on an ongoing basis. The remaining shortfall of \$25.7 million (27%) was solved using one-time funds. Though in a normal budgeting cycle the City would strive to keep estimated ongoing revenues and expenditures in balance, given the extraordinary and sudden nature of the economic decline and a compressed timeline for budget development, the prudent use of one-time bridge funding into 2021-2022 appropriately addressed the City’s emergent budgetary challenges.

³ [Manager’s Budget Addendum #4, General Fund Revenue Assumptions and Transient Occupancy Tax Amendments](#)

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Balancing the General Fund Budget (Cont'd.)

2020-2021 Adopted Operating Budget General Fund Budget Balancing Plan (in 000's) (Table 4)		
	2020-2021	Ongoing
2020-2021 General Fund Shortfall⁴	\$ (77,578)	\$ (77,578)
Balancing Strategy		
Source of Funds		
Beginning Fund Balance:		
2019-2020 Excess Revenue/Expenditure Savings	\$ 53,768	\$ 0
2020-2021 Future Deficit Reserve	10,894	0
Budget Stabilization Reserve	5,000	0
Other Reserve Liquidations	6,553	0
Grants/Reimbursements/Fees		
Berryessa BART Station	2,246	2,246
Senior Nutrition Program	1,960	0
Google-Diridon Station Development and Planning	1,272	0
PRNS Fee Revenue	(1,875)	(150)
Library Juvenile Fines	(175)	(175)
Other Fee Programs/Reimbursements/Grants	3,072	2,111
Other Revenue		
Real Property Transfer Tax (Measure E)	30,000	30,000
City Hall Lease-Revenue Bonds Refunding	26,000	0
Sales Tax (Revenue Capture Agreement Annualization)	22,000	22,000
Sale of Surplus Property (Future Affordable Housing)	11,100	0
Communications Facilities Property Rentals	300	300
Interest Earnings (Pre-funding of City Retirement Contributions)	(2,573)	(2,573)
Overhead Reimbursements/Transfers from Other Funds	1,323	860
Subtotal Source of Funds	\$ 170,865	\$ 54,619
Use of Funds		
Measure E Allocation (Homelessness Prevention and Affordable	\$ 30,000	\$ 30,000
2021-2022 Future Deficit Reserve	11,076	0
2019-2020 One-Time Funded Services	6,454	591
Unmet/Deferred Technology, Infrastructure, and Maintenance	10,917	0
Service Level Enhancements	23,343	731
Earmarked Reserves (Essential Services, and Litigation Reserve)	37,087	0
Other Fee Programs/Grants/Reimbursements	6,365	2,221
New Infrastructure/Equipment Operations and Maintenance	125	214
Use of Reserves (Deferred Maintenance, Committed Additions)	(14,125)	(214)
Cost Reductions/Service Delivery Efficiencies/Funding Shifts	(17,955)	(30,843)
Subtotal Use of Funds	\$ 93,287	\$ 2,700
Total Balancing Strategy	\$ 77,578	\$ 51,919
Remaining Balance	\$ 0	\$ (25,659)

⁴ Subsequent to the release of the 2020-2021 Proposed Budget, the revenue estimate for Transient Occupancy Tax receipts was lowered by \$6.0 million. While this adjustment occurred after the setting of Base Budget revenue levels, the revenue reduction resulted in an ongoing impact to the General Fund, increasing the shortfall from \$71.6 million to \$77.6 million.

Balancing the General Fund Budget – Equity Considerations

Though an in-depth equity analysis of each proposal during the process of balancing the budget was not possible given limited capacity, the Administration was sensitive to the service impacts associated with potential budget actions and issued Manager’s Budget Addendum #2, *Equity Review of the 2020-2021 Proposed Operating Budget*⁵, that described the approach to advancing racial equity considerations in the budget process and provided details on the “sprint” equity review of budget proposals, as well as a general assessment of equity impact.

For purposes of considering impacts, the 2020-2021 Adopted Operating Budget General Fund budget actions were grouped into the following categories:

- **COVID-19 Impacted Services** – actions that directly related to the social distancing or other requirements necessary to combat the pandemic that will impact the community services;
- **Other Direct Service Impacts** – other actions that directly impacted the community through service reductions or, in very limited instances, service enhancements;
- **Strategic Support Impacts** – actions that did not have a direct impact on community services, but impacted support functions that help enable service delivery; and
- **Proposals with No Impact** – a limited number of actions that reduced costs with no or only a very minor service impact.

As a demonstration of the Administration’s efforts to limit service reductions, it is important to highlight that actions categorized as “no impact” played a substantial role in resolving the General Fund shortfall of \$77.6 million. Combined with actions to recognize additional Sales Tax revenue, these no-impact strategies resolved nearly \$40 million, or 52%, of the ongoing estimated shortfall. The most significant recommendations that are not isolated to one City Service Area (CSA) are highlighted next; the remaining actions are contained within the actions summarized by CSA below, and within the budget document.

Sales Tax – Revenue Capture Agreement Annualization (Additional revenue of \$22.0 million). As described in the memorandum approved at the City Council meeting on April 28, 2020 to resolve the estimated General Fund shortfall for 2019-2020, the proceeds from the Revenue Capture Agreement with eBay are anticipated to yield ongoing sales tax revenues for the City. The amount estimated in 2020-2021 is \$22 million. More information regarding Sales Tax and other General Fund revenue estimates are discussed in the *General Fund Revenue Estimates* section of this document.

Pre-Funding of City Retirement Contributions (Net savings of \$7.4 million). Actions were included to facilitate prepayment of the City’s retirement costs for both the Tier 1 pension costs and the Unfunded Actuarial Liability in the Federated City Employees’ Retirement System Plan and the Police and Fire Department Retirement Plan. Prepayment was a standard practice for the City until Fiscal Year 2019-2020, when market conditions were no longer favorable. However, with market conditions changing once again, the City and Retirement Boards were both receptive

Balancing the General Fund Budget – Equity Considerations (Cont’d.)

⁵ MBA #2: <https://www.sanjoseca.gov/home/showdocument?id=58618>

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to pre-payment strategies. By the City making annual prepayments of its employer contributions to the Retirement Plans in lieu of biweekly contributions, approximately \$13.9 million in savings in all funds, \$11.4 million in the General Fund, are expected to be generated. In the General Fund, these savings are offset by an estimated \$2.6 million loss in interest earnings and \$1.4 million in short-term borrowing costs (TRANS debt service), resulting in a total net savings of \$7.4 million.

Pay Down Debt (Savings of \$4.2 million). As described in the Mayor's March Budget Message for Fiscal Year 2020-2021, the City leveraged the refunding of lease revenue bonds related to the construction of City Hall to yield one-time funds of \$26 million that will pay off the remaining debt associated with the LED streetlight conversion project (\$10.6 million) and the Los Lagos Golf Course (\$7.9 million). The elimination of these debt obligations, along with the lower debt service for the new City Hall lease-revenue bonds, was anticipated to yield a total ongoing savings of \$4.2 million.

Fuel Savings (Savings of \$940,000). Fuel savings were recognized through an updated forecast of oil and fuel prices impacted by global and regional economic conditions, resulting in city-wide savings of \$1.24 million, of which \$940,000 is in the General Fund.

Other Budgetary Considerations

The City has structured its operations into CSAs that encourage interdepartmental coordination of efforts, resources, and goals to provide the array of services funded by the City's \$4.8 billion budget. A breakdown of these services is displayed by core service and program within each department summary section of this budget, giving context to how much both core services and programs cost and how many positions are assigned to each program. Before highlighting a number of actions by CSA below, several important budgetary issues are addressed in the Adopted Budget document that do not directly relate to resolving the General Fund shortfall.

Measure E and Affordable Housing. Most notable among the additions for 2020-2021 is the infusion of real property transfer tax revenues from Measure E, estimated at \$30 million. Though available for any governmental purpose, in accordance with previous City Council direction, these revenues were targeted toward supporting homelessness prevention efforts and affordable housing development. The incorporation of Manager's Budget Addendum #19, *Amending City Council Policy 1-18 to Include Measure E Allocations*⁶, into the City Council-approved Mayor's June Budget Message for Fiscal Year 2020-2021 modified City Council Policy 1-18 to embed the allocation of Measure E revenues for homelessness prevention and affordable housing into future budget development processes. In addition to Measure E resources, critical work also continues in the leveraging of federal housing dollars to further the development of affordable housing, including the allocation of \$11.1 million from federal sources to acquire surplus City property as sites for future affordable housing. This funding provided a one-time revenue source for the General Fund in 2020-2021.

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Other Budgetary Considerations (Cont'd.)

Development Fee Programs. Reflective of the anticipated economic climate, activity levels in the four Development Fee Programs are expected to decline 30% from previous estimates. Similar to the General Fund revenue estimates, activity will be closely monitored and revenue estimates adjusted as necessary, but the elimination of vacant positions and use of reserves were included in this document to make sure these programs remain in balance. It is the Administration's intent to always maintain appropriate levels of support for the private development community, while still ensuring that these programs within the Planning, Building and Code Enforcement (PBCE), Public Works, and Fire Departments remain cost recovery without additional support from the General Fund.

Airport Operations. Passenger traffic at the Norman Y. Mineta San José International Airport has also seen severe impacts due to the pandemic. A number of vacant positions were eliminated in the 2020-2021 Adopted Budget as the Airport looks to contain costs and work collaboratively with Airport tenants to manage through the negative economic impacts to achieve long-term stability.

Special Funds Impacted by Hotel and Convention Activity. In connection with the pandemic and steep drop in leisure and business travel, revenues associated with hotel taxes and convention activities, including the Transient Occupancy Tax Fund, the Convention Center and Cultural Affairs Fund, and the Convention Center Facilities District Revenue Fund are experiencing significant revenue losses. As shown in the Source and Use of Funds Statements section of the budget document, these losses have been mitigated through the reduction of expenses and use of reserves originally established to help buffer economic impacts. However, as social distancing restrictions are expected to continue through 2020-2021, and the level of conventions and special event activity at facilities managed by Team San Jose are expected to remain low, the City will need to carefully monitor revenues and expenses throughout the year to further adjust as necessary.

Key Budget Proposals by City Service Area

A listing of key budget actions, both reductions and additions across all City funds, comprising the 2020-2021 Adopted Operating Budget are listed below by CSA, with a reference to the specific section of the document that describes the action in more detail.

2020-2021 ADOPTED OPERATING BUDGET MESSAGE

Key Budget Actions by City Service Area (Cont'd.)

Community and Economic Development

- Diridon Station Area Development Planning (\$1.4 million, reimbursement agreement)/**City-Wide Expenses**
- Policy Program Staffing (\$397,000)/**Housing**
- Affordable Housing Transactions Staffing (\$356,000)/**Housing**
- Business Outreach and Policy Development (\$250,000)/**Economic Development**
- Blight Busters (\$150,000)/**City-Wide Expenses**
- Accessory Dwelling Unit (ADU) Ally Program Staffing (\$147,000)/**PBCE**
- CommUniverCity Program (\$53,000)/**City-Wide Expenses**
- Planning and Building Development Fee Program Staffing Reduction (-\$913,000)/**PBCE**
- Economic Development Staffing Reduction (-\$521,000)/**Economic Development**
- Rapid Rehousing Funding Shift to the Multi-Source Housing Fund (-\$265,000 in the General Fund)/**Housing**
- City-wide Retail Attraction Program (-\$100,000)/**City-Wide Expenses**

Environmental and Utility Services

- Regional Wastewater Facility Radio Systems Upgrade (\$1.7 million)/**Environmental Services**
- Regional Wastewater Facility Cogeneration Engine Facility Maintenance (\$1.3 million)/**Environmental Services**
- Biosolids Management Transition Planning and Implementation (\$800,000)/**Environmental Services**
- San José Municipal Water System Emergency Response Preparation (\$750,000)/**Environmental Services**
- Community Energy Staffing (\$712,000)/**Community Energy**
- Energy Resiliency Strategic Planning (\$550,000)/**Community Energy**
- Climate Smart San José Plan Implementation (\$600,000)/**City-Wide Expenses**
- Information Technology Staffing Support (\$182,000)/**Transportation**

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Key Budget Actions by City Service Area (Cont'd)

Neighborhood Services

- Transitional Jobs Program (SJ Bridge, \$500,000)/**PRNS**
- Project Hope Expansion (\$469,000)/**PRNS**
- Outdoor Park Activation (\$336,000)/**PRNS**
- Vietnamese-American Cultural Center (\$296,000)/**PRNS**
- Education and Digital Literacy Initiative (\$296,000)/**Library**
- Beautify SJ Grants (\$100,000)/**City-Wide Expenses**
- Community Center Cost Savings (-\$1.4 million)/**PRNS**
- Parks and Landscape Watering Reduction (-\$1.3 million)/**PRNS**
- Aquatics, Bascom Community Center, and Family Camp Suspension (-\$1.2 million)/**PRNS**
- Placemaking and Activation Elimination (\$-999,000)/**PRNS**
- Library Branch Hours and Operations (\$-964,000)/**Library**

Public Safety

- Mobile Data Computer Replacements (\$4.5 million)/**Police**
- Berryessa BART Station Staffing (\$2.2 million)/**Police**
- Proactive Community Policing/Foot Patrol in High Need Neighborhoods (\$1.0 million)/**Police**
- Public Records Request Staffing (\$725,000)/**Police**
- Police and Fire Department Computer-Aided Dispatch Upgrade (\$685,000)/**Police**
- Urban Area Security Initiative Grant Staffing (\$641,000)/**City Manager's Office**
- Emergency Medical Service Equipment (LUCAS Devices, \$437,000)/**Fire**
- Special Victims Unit Staffing (\$390,000)/**Police**
- Police Department Overtime (-\$1.8 million)/**Police**
- Community Service Officer Staffing (-\$716,000)/**Police**
- Sworn Hire Ahead Program (-\$450,000)/**Police**
- Fire Apparatus Reorganization (-\$205,000)/**Fire**
- Bureau of Field Operations Admin Staffing (-\$118,000)/**Fire**

2020-2021 ADOPTED OPERATING BUDGET MESSAGE

Key Budget Actions by City Service Area (Cont'd.)

Transportation and Aviation

- Beautify San José Landscape Maintenance Program (\$1.0 million)/**Transportation**
- Special Assessment District Landscape and Infrastructure Projects (\$790,000)/**Transportation**
- Contract Vehicle Abatement (\$712,000)/**Transportation**
- Vision Zero Quick Build Project Delivery Team (\$354,000)/**Transportation**
- Airport Passenger Processing and Transportation (-\$1.6 million)/**Airport**
- Airport Business Development and Fiscal Administration (-\$1.3 million)/**Airport**
- Airport Airside and Terminal Operations (-\$1.0 million)/**Airport**
- Airport Building Maintenance (-\$917,000)/**Airport**
- Neighborhood Traffic Management Staffing (-\$355,000)/**Transportation**
- Streetlight Maintenance Staffing (-\$300,000)/**Transportation**

Strategic Support

- 2020-2021 Continuity of Operations Reserve (\$25.0 million)
- Police Phase 2 Elevator Modernization (\$2.2 million)/**General Fund Capital**
- Office of Racial Equity Staffing and Equity Education and Analysis Framework (\$1 million)/**City Manager**
- Public Works Department CIP Staffing Plan (\$490,000)/**Public Works**
- Proactive Legal Enforcement of Blighted and Nuisance Properties (\$237,000)/**City Attorney**
- Capital Project Management System Upgrades (\$195,000)/**Public Works**
- San José 3-1-1 Translation Call Handling Services (\$115,000)/**Information Technology**
- Talent Development Program (\$100,000)/**Human Resources**
- Mayor/City Council Office (-\$1.0 million)
- Unanticipated/Emergency Maintenance (-\$500,000)
- City Attorney's Office Staffing (-\$336,000)
- IoT Products-Projects Manager (-\$207,000)/**Information Technology**
- Employee Health Services Staffing (-\$182,000)/**Human Resources**
- Cashiering Staffing (-\$139,000)/**Finance**
- Utility Billing Staffing (-\$129,000)/**Finance**
- Program Performance Auditor Staffing (-\$125,000)/**City Auditor**
- City Hall HVAC Energy Savings (-\$120,000)/**Public Works**
- City Clerk's Office Front Desk Staffing (-\$90,000)

Capital Budget Overview

Presented as a separate document, the 2020-2021 Adopted Capital Budget totals \$1.4 billion and the 2021-2025 Adopted Capital Improvement Program (CIP) totals \$3.7 billion. The 2020-2021 Adopted Capital Budget reflects a 7.5% decrease from the 2019-2020 Adopted Capital Budget of \$1.5 billion, and from a five-year perspective, the 2021-2025 Adopted CIP reflects a 7.9% decrease over the 2020-2024 Adopted CIP of \$4.0 billion, a historically large CIP.

Though our community and organization are challenged by the impacts of COVID-19, the City's work to plan for the future and maintain public infrastructure continues. Even in this challenging environment, the Envision San José 2040 General Plan (General Plan) guided the CIP with a focus on the renovation, renewal, and expansion of critical public assets, ranging from the infrastructure that is integrated into daily life such as roadways and the sewer collection and treatment systems, to parks and sports fields that promote community health, to fire and police facilities that help keep our community safe, and to airport facilities to meet the long-term travel needs of our residents and businesses. While capital revenue allocation is often restricted to specific uses, considerations of equity within those allowable uses was an important factor in the development of the CIP. Many of the projects included in capital budget document resulted from the technical analysis necessary to identify new or deferred infrastructure rehabilitation needs, along with community and City Council conversations to help ensure that resources were allocated with an understanding of how communities will benefit or be impacted by a capital improvement. As always, this is an evolving process, but one that the Administration takes seriously and will become even more important as the region works to recover from the pandemic.

The budget was developed assuming economically sensitive City revenues would continue to be suppressed as public health orders and social distancing protocols resulted in reduced revenues or activity levels across several capital programs. Notable declines included reduced resources for parks and recreation facilities due to lower expected revenues from Construction and Conveyance taxes collected on real estate transactions, a lower level of transportation improvements due to reduced construction taxes collected from private development activity, and a lower level of capital investment at the Airport due to significantly reduced passenger activity levels. Other significant reductions over the five-year period were related to the timing of financing proceeds with no substantial changes to overall program objectives, including the Measure T – Disaster Preparedness, Public Safety, and Infrastructure Bond program – which issued its first round of bonds in 2019-2020 – and modifications to the timing of financing proceeds for improvements at the Water Pollution Control Plant.

Even before the onset of COVID-19, the City lacked sufficient resources to fully maintain and fund its entire infrastructure portfolio. The Status Report on Deferred Infrastructure Maintenance Backlog, accepted by the City Council on February 25, 2020, identified an infrastructure backlog of approximately \$1.6 billion, with an additional \$90.7 million needed annually to maintain the City's infrastructure in a sustained functional condition. Though the existing backlog of \$1.6 billion is expected to decrease as Measure T projects are fully implemented – including \$300 million for street paving – the City must continue to search for additional resources and leverage grant opportunities to ensure San José's public assets are appropriately maintained. Any physical improvements that may be necessary to modify City facilities to accommodate social distancing requirements in the near term are still under development. The City will seek to leverage federal funding sources to the extent practicable for such improvements.

CAPITAL PROGRAM OVERVIEW BY CITY SERVICE AREA

Each of the 14 capital programs is aligned to one of the six CSAs. The chart below compares the 2020-2024 Adopted CIP with the 2021-2025 Adopted CIP for each CSA. As discussed earlier, the 2021-2025 Adopted CIP is 7.9% lower than the 2020-2024 Adopted CIP.

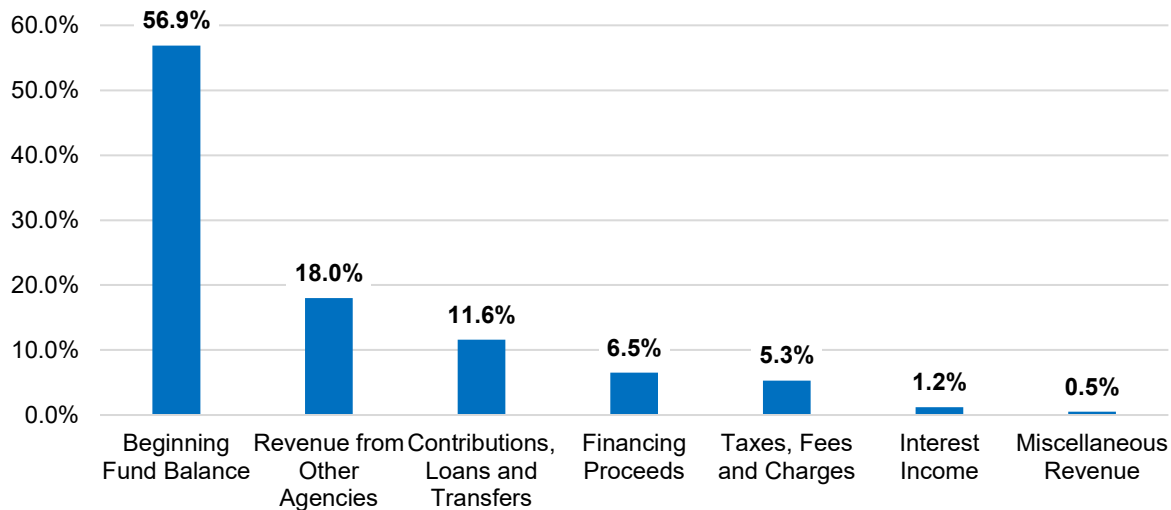
**2020-2024 Adopted CIP and 2021-2025 Adopted CIP Comparison
(By City Service Area)**

City Service Area	2020-2024 Adopted CIP	2021-2025 Adopted CIP	% Change
Community and Economic Development	\$17,933,291	\$19,690,939	9.8%
Environmental and Utility Services	1,749,983,976	1,583,241,094	(9.5%)
Neighborhood Services	414,693,795	363,752,584	(12.3%)
Public Safety	224,769,766	235,150,328	4.6%
Transportation and Aviation Services	1,381,177,037	1,356,623,777	(1.8%)
Strategic Support	178,965,176	96,161,444	(46.3%)
Total	\$ 3,967,523,041	\$ 3,654,620,166	(7.9%)

CAPITAL PROGRAM FUNDING SOURCES

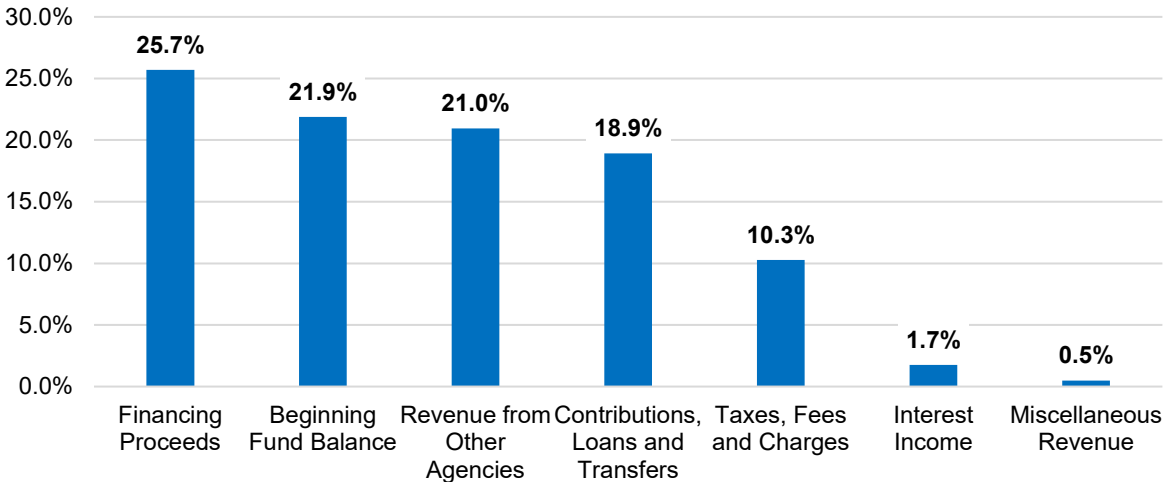
The Capital Program is supported by a variety of funding sources as shown in the graphs below that depict both the 2020-2021 and five-year CIP funding.

**2020-2021 Adopted Capital Budget
Source of Funds (\$1.4 billion)**



CAPITAL PROGRAM FUNDING SOURCES (Cont'd.)

**2021-2025 Adopted Capital Budget
Source of Funds (\$3.7 billion)**



The Beginning Fund Balances in the 2021-2025 CIP total \$800.1 million, representing 56.9% of the 2020-2021 Adopted Capital Budget and 21.9% of the 2021-2025 CIP. The Traffic Capital Program has a Beginning Fund Balance totaling \$260.9 million, representing a significant amount of carryover project costs that will be spent over the next five years. The Parks and Community Facilities Development Capital Program’s Beginning Fund Balance is \$132.5 million, with a majority of the funds reserved pending determination of final scope of projects and locations or availability of future funding within the nexus of a facility. Other programs with significant Beginning Fund Balances include the Water Pollution Control (\$115.2 million) and Public Safety (\$98.2 million) capital programs.

The 2021-2025 Adopted CIP includes revenues of \$939.5 million from Financing Proceeds. The Water Pollution Control Capital Program accounts for \$604.0 million from bond proceeds (\$385.0 million) and revenue notes (\$219.0 million) that will be used for the implementation of capital improvement projects recommended by the City Council-approved Plant Master Plan that responds to aging infrastructure, future regulations, population growth, and treatment technology improvements. The Traffic (\$162.0 million), Public Safety (\$96.0 million), Municipal Improvements (\$7.0 million), Storm Sewer (\$50.6 million), and Parks (\$12.5 million) capital programs incorporated the Measure T bond proceeds totaling \$328.1 million to be issued throughout the CIP five-year period. Finally, the Parks and Community Facilities Development capital program accounts for \$5.5 million in commercial paper to address remediation projects related to the 2017 flood event.

CAPITAL PROGRAM FUNDING SOURCES (Cont'd.)

Revenue from Other Agencies category totals \$766.0 million and is comprised of contributions from other agencies that use the Water Pollution Control Plant (\$241.7 million); federal (\$198.8 million) and State (\$178.5 million) grants and allocations; and Revenue from Local Agencies (\$147.1 million), which derives most of its funding from the Valley Transportation Authority to fund pavement maintenance (\$130.0 million).

Contributions, Loans and Transfers total \$691.9 million. The largest transfers of funds are from the Sewer Service and Use Charge Fund to the Water Pollution Control Capital Program (\$227.5 million) and to the Sanitary Sewer System Capital Program (\$160.0 million). The Transfer from the General Fund totals \$87.3 million for capital projects with no other funding source.

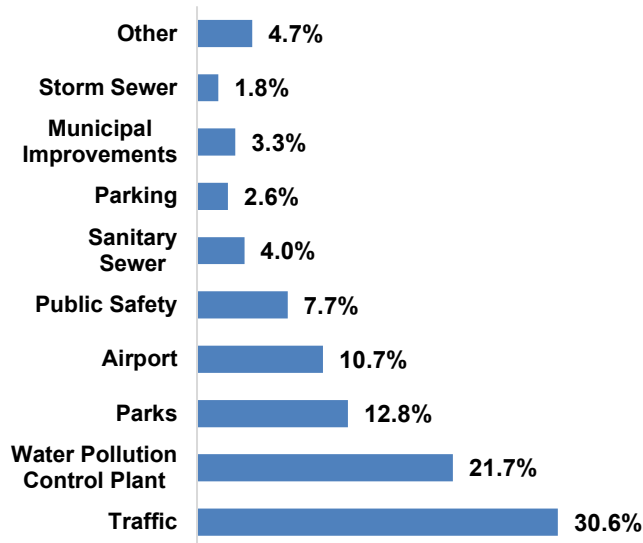
The 2021-2025 Adopted CIP includes an estimate of \$375.7 million in the Taxes, Fees and Charges category, a significant decline when compared to the estimated level of \$522.7 million in the 2020-2024 Adopted CIP. Most of this revenue category is comprised of Construction and Conveyance Tax (\$158.0 million), Airport Passenger Facility Charge proceeds (\$54.2 million), Building and Structure Construction Tax (\$79.0 million), and Construction Excise Tax (\$78.0 million). This budget reflects the economic impacts from the COVID-19 pandemic, with revenue from Airport Passenger Facility Charge forecasted to drop substantially from previous years. Set at \$4.50 per enplaned passenger, revenue estimates included in the CIP total \$54.2 million over the five-year period which is substantially lower compared to prior COVID-19 levels, with an estimated 66% drop below the previously budgeted estimate of \$159.9 million in the 2020-2024 CIP. The impact of the real estate slow-down beginning in March has had a negative impact on the Construction and Conveyance tax receipts and lower expected private development activity has negatively impact Construction Excise Tax receipts that provides funding to the Traffic Capital Program.

CAPITAL PROGRAM INVESTMENTS

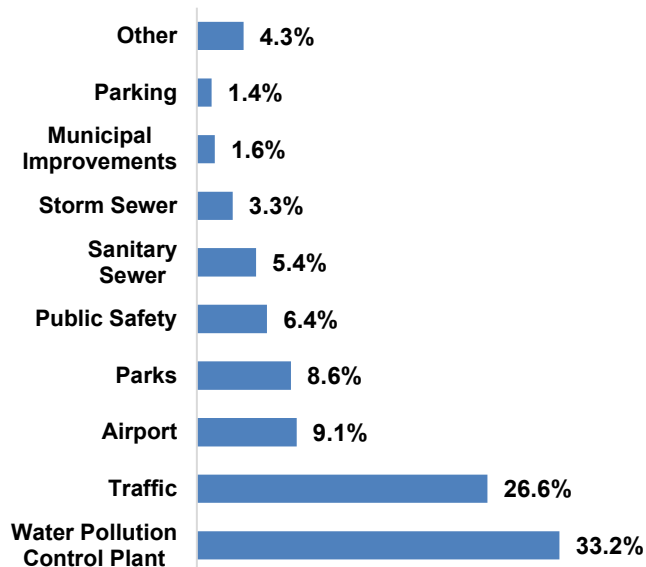
The CIP consists of 14 capital programs. The following chart depicts the uses of funds by capital program and percentage of funding for the 2020-2021 Capital Budget and the 2021-2025 Capital Improvement Program. Major projects to be completed over the next five years are highlighted in the sidebar.

CAPITAL PROGRAM INVESTMENTS (Cont'd.)

**2020-2021 Capital Budget
Use of Funds (\$1.4 billion)**



**2021-2025 Capital Improvement Program
Use of Funds (\$3.7 billion)**



Major Projects to be Completed Over the Next Five Years

2020-2021 Projects

- 60-inch Brick Interceptor, Ph. VIA & VIB
- All-Inclusive Playground/Lincoln Glen
- Airfield Electrical Circuit Rehabilitation
- Fowler Pump Station Replacement
- Plant: Energy Generation Improvements

2021-2022 Projects

- Aircraft Waste Disposal/Fuel Service Reloc.
- All-Inclusive Playground/Almaden Lake Park
- All-Inclusive Playground/Emma Prusch
- Coyote Creek Trail (Story Rd. to Tully Rd.)
- East San José Bike/Pedestrian Transit Conn.
- Measure T: Emergency Operations Center Relocation
- Measure T: New Fire Station 37
- Measure T: Fire Station 20 (ARFF)
- Plant Electrical Reliability
- Route 87/Narvaez Interchange Improv.

2022-2023 Projects

- Advanced Facility Control/Meter Replacmct
- Better Bikeways San Fernando
- Fourth Major Interceptor, Phase VIIA

2020-2021 ADOPTED OPERATING BUDGET MESSAGE

MEASURE T GENERAL OBLIGATION BOND

In November 2018, San José voters approved Measure T, the Disaster Preparedness, Public Safety, and Infrastructure Bond Measure, which will provide up to \$650 million in General Obligation (GO) bonds for a wide variety of infrastructure needs, with at least \$300 million directed toward road rehabilitation. Those priorities are reflected in this CIP, with \$501.4 million allocated over the next five years and \$168.8 million expected to be spent in 2020-2021. The remaining Measure T funds are for pavement maintenance and are expected to continue beyond the CIP period.

**Measure T Public Safety and Infrastructure Bond Fund (498)
(Projected Expenditures in 2021-2025 CIP)**

Program	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025	5-Year Total
Traffic						
Bridges	\$7,977,000	\$3,000,000	\$3,000,000	\$4,000,000		\$17,977,000
Pavement Maintenance	57,500,000	37,500,000	37,500,000	37,500,000	37,500,000	207,500,000
LED Streetlight Conversion	10,058,000	1,971,000				12,029,000
Admin – Traffic	21,000	21,000				42,000
Admin Reserve – Traffic	108,000	8,000				116,000
Total Traffic	\$75,664,000	\$42,500,000	\$40,500,000	\$41,500,000	\$37,500,000	\$237,664,000
Public Safety						
Fire Station 37	\$6,482,000					\$6,482,000
Fire Station 8 Relocation	6,242,000	9,379,000	391,000			16,012,000
Fire Station 23 Relocation	1,660,000	3,834,000	10,670,000	391,000		16,555,000
New Fire Station 32	6,238,000	9,360,000	390,000			15,988,000
New Fire Station 36	1,452,000	1,560,000	13,164,000	390,000		16,566,000
Fire Station 20*	4,486,000					4,486,000
Emergency Ops Ctr. Relocation	23,794,000					23,794,000
Police Training Ctr. Relocation	22,722,000	20,058,000	392,000			43,172,000
Police Air Support Unit Hangar	10,059,000					10,059,000
Public Safety Reserve	877,000	28,660,000				29,537,000
911 Call Center Upgrade	265,000					265,000
PD Headquarters Upgrade	20,000					20,000
Public Art – Public Safety	557,000	354,000	232,000	8,000		1,151,000
Admin – Public Safety	417,000	346,000	344,000	11,000		1,118,000
Admin Reserve – Public Safety	701,000	649,000	17,000			1,367,000
Total Public Safety	\$85,972,000	\$74,200,000	\$25,600,000	\$800,000		\$186,572,000
Storm Sewer						
Charcot Pump Station	\$1,364,000	\$585,000	\$24,086,000	\$1,561,000		\$27,596,000
Clean Water Projects	518,000	14,137,000	8,462,000	589,000		23,706,000
Public Art – Storm Sewer	26,000	149,000	251,000	17,000		443,000
Admin – Storm Sewer	29,000	107,000	110,000	33,000		279,000
Admin Reserve – Storm Sewer		122,000	391,000			513,000
Total Storm Sewer	\$1,937,000	\$15,100,000	\$33,300,000	\$2,200,000		\$52,537,000
Municipal Improvements						
Environmental Protection Projects	\$875,000					\$875,000
City Facilities LED Lighting	3,810,000	1,972,000				5,782,000
Critical Infrastructure		1,970,000	2,955,000			4,925,000
Admin – Muni Improvements	21,000	21,000	22,000			64,000
Admin Reserve – Muni Improvements	34,000	37,000	23,000			94,000
Total Municipal Improvements	\$4,740,000	\$4,000,000	\$3,000,000			\$11,740,000

2020-2021 ADOPTED OPERATING BUDGET MESSAGE

MEASURE T GENERAL OBLIGATION BOND (Cont'd.)

Program	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025	5-Year Total
<u>Parks & Community Facilities</u>						
Community Centers/Emergency Shelters	\$464,000	\$975,000	\$3,413,000	\$5,363,000	\$2,389,000	\$12,604,000
Public Art – Parks	4,000	10,000	34,000	54,000	24,000	126,000
Admin – Parks	7,000	15,000	27,000	28,000	29,000	106,000
Admin Reserve Parks			26,000	55,000	8,000	89,000
Total Parks & Community Facilities	\$475,000	\$1,000,000	\$3,500,000	\$5,500,000	\$2,450,000	\$12,925,000
Total Expenditures	\$168,788,000	\$136,800,000	\$105,900,000	\$50,000,000	\$39,950,000	\$501,438,000
Ending Fund Balance		\$101,300,000		\$39,950,000		
Total Uses	\$168,788,000	\$238,100,000	\$105,900,000	\$89,950,000	\$39,950,000	\$501,438,000

* Measure T Public Safety and Infrastructure Bond funds used for the reconstruction and expansion of the Fire Station 20. Measure T is anticipated to be replenished for the cost of Fire Station 20 as part of future budget cycles from eligible funding sources.

The Administration moved quickly to begin work on the Measure T program; and given its early stage of development, the exact cost and phasing of the projects will continue to shift in the coming years. Work in 2020-2021 will focus on defining and refining project scopes and acquiring property for sites such as the new and relocated fire stations, the Emergency Operations Center, and the Police Training Center. It is important to note that the Public Safety Program Reserve of \$29.5 million includes funding for an upgraded 9-1-1 Call Center and Police Headquarter infrastructure needs and provides a contingency for public safety projects. This reserve will be allocated as project scopes are further refined. The CIP includes setting aside Measure T funding specifically for administration and public art. The Administration will continue to provide updates on the Measure T program as funding and priority needs are reevaluated. The next bi-annual update to the City Council on the status of the Measure T program is anticipated in December 2020.



Artist rendering of Fire Station 37

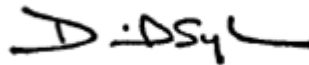
CONCLUSION

This 2020-2021 Adopted Budget reflects the continuing effort by the Mayor and City Council to have the City of San José engage in sound budget discipline and deliberate decision-making, even during these extraordinary circumstances. The budget actions included in this document take serious steps to address what we know will be a substantially weaker economic environment for the foreseeable future, while still mindful that much of the long-term impact from the pandemic is uncertain.

Though service impacts in 2020-2021 are real, this budget preserved many of the City's most critical functions and minimized workforce impacts by leveraging available revenues, vacancies, and cost saving strategies that minimize more severe actions that would have otherwise been necessary. However, should those additional actions become necessary, the Administration has prepared a contingency package of proposals presented in Attachment D that may be brought forward later in the fiscal year if economic conditions worsen further than anticipated. In advance of that possibility, now is also the time for the City to continue its long-standing commitment to innovation, partnership, and community engagement that can reduce costs and enhance quality, as well as an ongoing focus on strengthening our economic foundation once the region begins to recover.

Once again, I want to express appreciation for our extremely dedicated and talented staff who prepared this budget document. Though budget development is always a demanding task, in less than two months the City transformed its budget development process to resolve sudden and severe revenue shortfalls in both 2019-2020 and 2020-2021, an extraordinary accomplishment. These efforts represent an organization-wide focus, from the front lines of each department to the incredibly hard-working staff in the City Manager's Budget Office and reflects the commitment our employees have for our residents, businesses, visitors, and each other.

Respectfully Submitted,



David Sykes
City Manager

2020-2021 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. Consider current needs in the context of long-term service delivery priorities.
2. Balance ongoing expenditures with ongoing revenues to maximize service delivery within existing resources, to ensure no negative impact on future budgets, and to maintain the City's high standards of fiscal integrity and financial management.
3. To the extent possible, establish a Future Deficit Reserve in the General Fund to cover any projected budgetary shortfall in the following year as a stopgap measure.
4. Evaluate program-level budgets and determine if there are opportunities to shift resources or reconfigure operations to close service delivery gaps, generate new revenues, address truly significant community or organizational risks, fund programs added on a one-time basis in 2019-2020, and/or respond to City Council direction and organizational risks. Review existing vacancies for opportunities to reorganize work groups to realize cost savings or to achieve current service level demands through alternative means. Factor in performance measure data in the development of proposals.
5. Focus on business process redesign to improve employee productivity and the quality, flexibility, and cost-effectiveness of service delivery (e.g., streamlining, simplifying, reorganizing functions, and reallocating resources).
6. Explore alternative service delivery models (e.g., partnerships with non-profit, public, or private sector for out- or in-sourcing services) to ensure no service overlap, reduce and/or share costs, and use City resources more efficiently and effectively.
7. Identify City policy changes that would enable/facilitate service delivery improvements or other budget balancing strategies to ensure equity and inclusion for how services are delivered.
8. 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.
9. Explore expanding existing revenue sources and/or adding new revenue sources.
10. Establish a fees, charges and rates structure designed to fully recover operating costs, while considering the impacts on fee and rate payers whereby a cost recovery structure may be lower in certain circumstances, and explore opportunities to establish new fees and charges for services, where appropriate.
11. Focus any available one-time resources on investments that 1) address the City's unmet or deferred infrastructure needs; 2) leverage resources to or improve efficiency/effectiveness through technology and equipment or other one-time additions; 3) continue high-priority programs funded on a one-time basis in 2019-2020 for which ongoing funding is not available; 4) accelerate the pay down of existing debt obligations; 5) increase budget stabilization reserves to address future budget uncertainty; and/or 6) funding needs for non-bond eligible furniture, fixtures, and equipment associated with the continued implementation of Measure T.
12. Engage employees in department and/or city-wide budget proposal idea development.
13. 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.
14. Use the General Plan as a primary long-term fiscal planning tool and link ability to provide City services to development policy decisions.

2020-2021 Adopted Operating Budget

City of San José Budget Principles

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

1) STRUCTURALLY BALANCED BUDGET

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

2) PROPOSED BUDGET REVISIONS

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

3) USE OF ONE-TIME RESOURCES

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

4) BUDGET REQUESTS DURING THE YEAR

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

5) RESERVES

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

2020-2021 Adopted Operating Budget

City of San José Budget Principles

6) DEBT ISSUANCE

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

7) EMPLOYEE COMPENSATION

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

8) CAPITAL IMPROVEMENT PROJECTS

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

9) FEES AND CHARGES

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

10) GRANTS

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

11) GENERAL PLAN

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

12) PERFORMANCE MEASURES

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

13) FIRE STATION CLOSURE, SALE OR RELOCATION

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