

2012-2013

OPERATING BUDGET



**CITY MANAGER'S
2012-2013
BUDGET MESSAGE**

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October 17, 2012

Honorable Mayor and City Council:

With the adoption of the 2012-2013 Budget, the City's most basic needs are met in a fiscally responsible manner. The small General Fund surplus projected for 2012-2013, along with other approved budget actions, provide the capacity to address the most critical of the City's service delivery and infrastructure needs as well as set aside funds to address the projected General Fund shortfall in 2013-2014. This is welcomed news after a decade of budget shortfalls and painful decisions that have significantly reduced community services and the City's workforce. Although the 2012-2013 Adopted Budget has been balanced without the deep cuts faced in recent years, there is still a long way to go to achieve the fiscal stability that will allow the City to restore service levels and meet major community and organizational needs. While we still have significant work ahead, this Adopted Budget begins to stabilize and position the City for the future.

The 2012-2013 Adopted Budget allocated a \$9 million General Fund surplus, which is a significant change from where we were a year ago when the City had to solve a General Fund shortfall of \$115 million. The 2011-2012 Adopted Budget included widespread reductions in services and consequently reductions in employee positions and employee compensation to close this gap last year. Fortunately, with this Adopted Budget, we did not face further service cuts, instead reductions were limited to areas where alternative service delivery models can reduce costs and enhance service levels.

As directed by the City Council's approval of the Mayor's March Budget Message for 2012-2013, this Adopted Budget represents a two-year approach to balancing this year's budget and addressing the shortfall projected in 2013-2014 as shown in the table below. Therefore, this budget reserves the \$9.0 million projected surplus, along with \$13.5 million in one-time funds, to help us meet a projected \$22.5 million deficit the following year and to take another step toward fiscal stability.

Over the next five years, General Fund surpluses and shortfalls are projected annually as shown in Table 1 below.

2013-2017 General Fund Forecast Incremental Surplus/(Shortfall)* (\$ in Millions) (Table 1)				
2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
\$9.0	(\$22.5)	(\$1.3)	\$19.0	\$10.7

* Does not incorporate salary increases, with the exception of salary steps for eligible non-management employees and management performance pay; costs associated with fully funding the annual required contributions for police and fire retiree health care; impacts associated with the implementation of the Fiscal Reform Plan; costs associated with the restoration of key services funded on a one-time basis in 2011-2012; costs associated with unmet/deferred infrastructure and maintenance needs; or one-time revenues/expenses.



2012-2013 ADOPTED OPERATING BUDGET

The welcome news in this Adopted Budget is that we will be able to:

- Continue services that were funded on a one-time basis in 2011-2012;
- Finally open four libraries and one community center constructed with General Obligation bonds approved by San José voters in 2000;
- Begin to address some of the most immediate and critical of the City's unmet and/or deferred infrastructure needs;
- Address some essential operational and organizational needs to strengthen the organization, meet community expectations, or mitigate the potential risk of higher long-term costs;
- Fund a limited number of programs and initiatives as directed by the City Council; and
- Continue to implement new models for service delivery to improve efficiency, reduce costs, and/or enhance service levels.

The less welcome news is what this Adopted Budget does not include. We still do not have the financial capacity to restore key service levels in the Police, Fire, Library, and Parks, Recreation and Neighborhood Services Departments that we cut in recent years and then continue to sustain them long term. We are addressing only a small part of our significant backlog of infrastructure and maintenance needs. This budget does not include raises for our employees who have had to endure significant reductions in compensation over the past two years. We will continue to be understaffed in key areas, including support services that are critically important to assist our operating departments. Although this budget does set aside a reserve to address the projected shortfall in 2013-2014, it does not replenish any of the Economic Uncertainty Reserve that has been depleted nor increase the Contingency Reserve that would help position the City to weather the inevitable rainy days in the future.

Retirement costs, including both pension and retiree healthcare, remain a major cost factor in this budget. For 2012-2013, retirement costs are projected to be \$188 million in the General Fund, \$247 million in all funds. Compared to 2012-2013 levels, City retirement contributions for all funds are forecasted to grow about 22% by 2016-2017. Controlling the growth in retirement costs remains a critical priority for the City in order to achieve financial stability and ensure appropriate levels of service to the community. On June 5, 2012, the voters approved Measure B which amends the City Charter in order to modify the City's pension plans for existing and new employees. Currently, the Measure is under litigation in the courts. If implemented, the modifications to the pension benefit for existing employees would increase the employee share of the cost of the current level of pension benefits or create a new "opt-in" plan for current employees that would reduce both costs and benefits going forward. For non-sworn employees hired after October 1, 2012, a second tier pension benefit went into effect which will address the long-term financial sustainability of the City's retirement benefit. The Administration also has been in negotiations with the two public safety unions to establish a second tier pension benefit for newly hired sworn staff.

The long-term financial outlook for the City will continue to be a challenge. Despite the ongoing recovery of the Silicon Valley economy, the City's current revenue collections do not always keep pace due to the outdated structure of many of our revenues. San José, like many cities, relies heavily on Sales Tax and Property Tax receipts to support General Fund services. With sales tax, cities continue to lose ground with the shift to a service-based economy as those services are not taxed. With property taxes, Proposition 13 passed by the voters in 1978, limits the growth in receipts and constrains the ability of cities to increase them.

2012-2013 ADOPTED OPERATING BUDGET

Our two largest revenue sources, property and sales taxes, now account for almost half of our General Fund revenues and together would pay for only about 80% of our Police and Fire services. As an organization and a community, we must confront both facts – our costs are too high and our revenues too low. Without significant changes on both sides of the ledger, we will not be able to reach a level of fiscal stability that will allow the City to rebuild its organizational capacity and begin to restore service levels that our community expects and deserves.

In June 2011, with the adoption of the 2011-2012 budget that closed a \$115 million funding gap, the City Council also approved a Fiscal Reform Plan, a successor to the General Fund Structural Deficit Elimination Plan that was approved in 2008. The Fiscal Reform Plan presented a strategy to achieve long-term financial stability, restore key City services to the January 1, 2011 levels (police, fire, libraries, and community centers), and open facilities that have been recently completed or are under construction (see Exhibit 1 for Baseline Services as of January 1, 2011). This plan identified cost reduction strategies, primarily retirement related, and revenue strategies, primarily Sales Tax and Business Tax measures, that would generate additional resources to meet these goals. With the passage of Measure B and the establishment of a Tier 2 pension benefit for non-sworn employees, this cost reduction strategy is on a path of implementation.

BUDGET OVERVIEW

In the 2012-2013 Adopted Budget, the total net funding is \$2.8 billion for all City funds (General, Special, and Capital). This is \$67.0 million (2.4%) below the 2011-2012 Adopted Budget (Table 2 below). This decrease resulted from a decline in the Capital Funds due primarily to large reductions in the Airport Capital Program and the Convention Center Expansion and Renovation Project that were budgeted in 2011-2012, partially offset by a small increase in the Special Funds (4.3%) and an increase in the General Fund (6.6%) as discussed further in this message.

2012-2013 Adopted Budget — All Funds			
(Table 2)			
	2011–2012 Adopted	2012–2013 Adopted	% Change
General Fund	\$ 906,458,009	\$ 966,690,580	6.6%
Special Funds	1,411,266,941	1,472,249,982	4.3%
<Less: Operating Transfers>	(532,661,847)	(521,799,243)	(2.0%)
Net Operating Funds	1,785,063,103	1,917,141,319	7.4%
Capital Funds	1,064,883,461	863,721,527	(19.9%)
<Less: Capital Transfers>	(6,036,000)	(3,941,000)	(34.7%)
Net Capital Funds	1,058,847,461	859,780,527	(19.2%)
Total	\$ 2,843,910,564	\$ 2,776,921,846	(2.4%)

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Position Impacts

This Adopted Budget includes increases to staffing levels to support the opening of libraries and limited enhancements of critical services. At the same time, however, we have included reductions in other programs as we have identified alternative models for service delivery that are more cost-effective. Overall the level of staffing will increase by a net 95 positions, from 5,400 full time equivalent positions in the 2011-2012 Adopted Budget to 5,495 positions in the 2012-2013 Adopted Budget as shown in the chart below.

Changes in Position Count from 2011-2012 Adopted to 2012-2013 Adopted Budget (Table 3)	
2011-2012 Adopted Budget	5,400 positions
2012-2013 Base Budget Changes	9 positions
2012-2013 Adopted Budget Changes	86 positions
Total Net Position Changes	95 positions
2012-2013 Adopted Budget	5,495 positions

Even with the 2% increase in staffing levels, the City's overall workforce has been reduced over the past decade to a level not seen in over 20 years, when the City's population was about 25% smaller than it is today.

Balancing the Budget

As displayed in Table 4, the 2012-2013 Adopted General Fund Budget Balancing Plan contains a series of budget actions that allocate a \$9.0 million General Fund surplus as well as the \$1.4 million surplus for the cost-recovery Development Fee Programs. A complete discussion of the balancing strategies and the dollars associated with each action can be found in Attachment A to this message and throughout the Adopted Budget document. This Adopted Budget also responds to the Mayor and City Council directives (see Attachment B for a summary of referrals and the Administration's responses) and a description of responses to City Auditor recommendations with funding impacts (see Attachment C).

2012-2013 ADOPTED OPERATING BUDGET

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2012-2013 Adopted Operating Budget General Fund Budget Balancing Plan (in 000s) (Table 4)		
	2012-2013	Ongoing
2012-2013 General Fund Surplus	\$ 8,986	\$ 8,986
Development Fee Program Impact	1,401	1,401
Revised Base Budget Forecast	\$ 10,387	\$ 10,387
Balancing Strategy		
Source of Funds		
Available Fund Balance:		
2012-2013 Future Deficit Reserve Elimination	\$ 21,947	\$ 0
Additional 2011-2012 Ending Fund Balance	10,075	0
Development Fee Reserves	2,908	2,644
Transfers and Reimbursements from Other Funds	2,086	379
Fee Changes/Activity Level Adjustments		
Parks, Recreation and Neigh. Svcs. Fees/Activity Levels	1,373	1,494
Other Fees/Activity Levels	383	904
New Grants and Reimbursements	1,313	0
Miscellaneous Revenue Changes	(1,893)	146
Overhead Reimbursements	(938)	(1,179)
Subtotal Additional Resources	\$ 37,254	\$ 4,388
Use of Funds		
2013-2014 Future Deficit Reserve	\$ 22,500	\$ 9,000
Miscellaneous Additions	10,817	2,113
Unmet/Deferred Infrastructure and Maintenance	9,625	1,275
Development Fee Programs	3,936	3,601
One-Time 2011-2012 Funded Services	3,539	2,346
Fiber Optics Loan Repayment	2,200	(50)
New Facilities Operations and Maintenance	2,064	3,951
New Grants and Reimbursements	1,313	0
Other Fee Programs	279	320
Non-Personal/Equipment and City-Wide Expenses	0	(906)
Use of Reserves	(6,576)	(4,624)
Position Changes/Other Personal-Related Savings	(1,967)	(2,168)
Funding Shifts to Other Funds	(89)	(84)
Funding Changes	\$ 47,641	\$ 14,774
Total Balancing Strategy	\$ (10,387)	\$ (10,386)
Remaining Balance	\$ 0	\$ 1

The preparation of the 2012-2013 Adopted Operating Budget was guided by a set of budget balancing strategy guidelines contained in the City Manager's Budget Request and adopted by the City Council as part of the approval of the Mayor's March Budget Message. In addition to the Budget Balancing Strategy Guidelines, the Guiding Principles for Restoring City Service Levels that were presented in the February 2012 Five-Year General Fund Forecast were also used. These principles provide a solid framework to help the City determine not only the appropriate service levels and most cost-effective method for service delivery, but also the critical areas for investment needs. When considering any additions to the budget, it is also important to consider the overall

BUDGET OVERVIEW

San José Budget Principles that were initially developed as part of the General Fund Structural Deficit Elimination Plan. These principles were approved as part of City Council's approval of the Mayor's March Budget Message for Fiscal Year 2008-2009, and subsequently amended on September 9, 2008. These principles provide clear support for maintaining the financial discipline crucial to a large organization like the City of San José. These guidelines and principles are included as Exhibits 2 through 4 at the end of this budget message.

BUDGET STRATEGIES

In this overview of the key strategies contained in the Adopted Budget, I will focus on several themes rather than summarize each City Service Area as we have done in the past. Detailed information about budget actions and performance outcomes is included in the CSA and the Departments sections. Examples of budget actions that illustrate these themes are listed below.

1. Continue services funded on a one-time basis in 2011-2012

The following services were either (1) scheduled for elimination in the 2011-2012 Proposed Budget, but were restored on a one-time basis in the 2011-2012 Adopted Budget; or (2) added as a new initiative or program enhancement on a one-time basis in 2011-2012. With the exception of the Medical Marijuana Program, all services continue with ongoing funding in the Adopted Budget.

- **Police Field Patrol.** This action restores funding for 3 Police Officer positions in Field Patrol to maintain current staffing and service levels as approved as part of the 2011-2012 Adopted Operating Budget.
- **Park Ranger Staffing.** This action continues to provide two ranger positions for additional support on City trails, Guadalupe River Park and Lake Cunningham, and other high need areas.
- **Safe School Campus Initiative at Middle Schools.** This initiative, which continues four positions, is a partnership between the Parks Recreation and Neighborhood Service Department, school districts, and the Police Department to create safer schools and communities by addressing youth-related violence through prevention and intervention efforts, especially in high-gang-impacted areas.
- **Police School Safety Unit – Crossing Guards.** This action provides 181 crossing guards to cover 112 intersections that meet a safety index score of 52, which maintains a higher coverage level than the minimum safety index score of 120.
- **Police Horse Mounted Unit.** Funding for the Police Horse Mounted Unit will be restored to maintain the unit under the current service delivery model.

BUDGET STRATEGIES

- **Lake Cunningham Skate Park.** Although the Skate Park was scheduled for closure in September 2011 as part of approved budget reductions, funding for operations for the remainder of 2011-2012 was secured with the support of City Council Offices, donations, and revenue generated by the facility. Based on the current activity levels and support, this 100% cost-recovery program will continue in 2012-2013.
- **Creek Encampment Clean-Ups.** This action continues overtime funding to the Police Department from the Integrated Waste Management Fund for assistance with creek encampment clean-ups and trash removal.
- **Ordinance Planner.** This action adds a Planner position to update and modify City ordinances, such as recurring farmers markets on private property, plug-in requirements for parking garages, specials events ordinance, urban village zoning district, and mobile vending.
- **Vacant/Neglected Buildings Enforcement.** This action adds a Code Enforcement Inspector that will be responsible for investigating and enforcing violations associated with neglected vacant properties.
- **Medical Marijuana Program Staffing.** This action continues 7.5 positions (Finance, Code Enforcement, Police, Attorney's Office, and City Manager's Office) on a one-time basis to support the Medical Marijuana Program at a cost of \$1.2 million. The Medical Marijuana Program will be reevaluated as part of the 2013-2014 budget as related federal, state, and local legal issues evolve.

2. Open four libraries and one community center

This Adopted Budget includes funding to open the Seven Trees, Bascom, Educational Park, and Calabazas branch libraries that were constructed with general obligation bonds approved by the voters in 2000. It should be noted that the Bascom Community Center that is adjacent to the Bascom branch library was opened in June 2012 with a new staffing model. Under this model, a variety of programs for youth and adults are being provided by both City staff and community-based organizations. The ongoing cost will be a net \$308,000.

The openings of the Seven Trees and the Bascom branches have been deferred since 2010-2011, and now are scheduled to open in early 2013. The openings of the Educational Park and Calabazas branches have been deferred since 2011-2012 and are now scheduled to open late spring 2013. Together, the cost for all four branches in 2012-2013 will be a net \$1.1 million, and the ongoing cost will be a net \$2.9 million, which includes the addition of 34.75 positions. Consistent with existing branch libraries, the new branches will be open four days a week (33-34 hours per week).

3. Begin to address the most immediate and critical of the City's unmet and/or deferred infrastructure needs

A wide range of one-time and ongoing funding actions address critical replacement, repair, and maintenance at City facilities and for infrastructure. These efforts are necessary to reduce potential risk of failure, damage, or higher costs in the future.

BUDGET STRATEGIES

- **Street Trees Maintenance.** This action provides \$500,000 for the structural pruning of approximately 5,000 of the 10,000 City-owned trees in median islands and roadside properties in need of pruning. This one-time investment will greatly reduce the potential for disease, limb failure, and damage, as well as improve the effectiveness of the street sweeping program.
- **Raised Reflective Markers and Arterial Street Striping.** There is a backlog of faded roadway markings and striping totaling \$3.4 million. This one-time addition of \$500,000 will improve safety on priority arterials through the replacement of the raised pavement markers and repainting of the most critical arterial road striping and markings.
- **Vehicle Detection Sensors.** This action provides one-time funding of \$250,000 for the replacement of damaged vehicle detection loops (sensors) at traffic signals and associated pavement repairs to improve traffic safety and reduce intersection delays.
- **School Radar Speed Display Sign Replacement.** The City's 51 radar speed display signs are an effective means of encouraging motorists to travel at a safe speed in school zones. This action provides one-time funding of \$250,000 to replace 20 fixed radar speed display signs that are malfunctioning and require multiple visits by electrical staff to reprogram and maintain. Newer signs will enable staff to program them remotely, provide for remote assessments of current operational status of the signs, and allow for remote collection of speed data.
- **Convention Center Kitchen and HVAC System.** This action provides \$10 million from the Convention and Cultural Affairs Fund (funded through the issuance of commercial paper) to fund HVAC repairs and a kitchen remodel at the Convention Center as part of the expansion/renovation project currently underway. These expenses are not covered in the project budget as the need for these improvements was identified after the project began.
- **Cultural Facilities Capital Maintenance Cost Sharing.** This action provides ongoing funding of \$139,000 for cultural facilities capital maintenance as part of a cost sharing agreement with the Tech Museum of Innovation and Children's Discovery Museum. These funds are funded through a reduction in the operating subsidy and an equal match from the Convention and Cultural Affairs Fund.
- **Water Pollution Control Treatment Plant Repairs and Maintenance.** This action provides one-time funding of \$2 million in 2012-2013 for the replacement and maintenance of facilities at the Water Pollution Control Plant, and \$500,000 in ongoing costs.
- **Sanitary Sewer Overflow Mitigation.** The City is facing increasing regulatory attention for sanitary sewer overflows (SSOs), with City rates exceeding statewide averages (8.1 vs. 6.1 incidents per 100 miles). Approximately 200 SSOs occur annually. Measures to reduce SSOs include the addition of 4.0 positions and non-personal/equipment costs of \$1.9 million in 2012-2013 and \$970,000 ongoing.

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- **Police Communications Emergency Uninterruptible Power Supply.** The Uninterruptible Power Supply (UPS) at the Police Communications Building has reached the end of its serviceable life and requires replacement. Funding of \$1.2 million remains for the second phase of improvements, but the estimated cost for Phase II is \$3.7 million. Additional funding of \$2.5 million is included to fully fund Phase II.
- **Deferred Facility Infrastructure and Maintenance.** One-time funding of \$1.8 million increases the level of critical basic preventative maintenance at City facilities from 38% to 80% for HVAC, plumbing, lighting, energy management systems, roofing, generators, and emergency fire alert systems (80% is standard). Ongoing funding of \$500,000 will allow preventative maintenance to continue at a 40-50% level.
- **Police Administration Building/Emergency Communications Center Backup Generator Replacements.** This action adds \$500,000 to replace the backup generators at the Police Administration Building and Fire Station 29, which is the backup location for the Emergency Communications Center. At 18 years old, the current generators have exceeded the useful life of 15 years and are in need of replacement.
- **Police Administration Building Critical Repairs/Maintenance.** This action adds \$500,000 (\$300,000 Capital Budget/\$200,000 Operating Budget) to address critical repair needs at the Police Administration Building. These include restroom renovations to prevent the occurrence of mold; replacement of secured corridor doors; replacement of ceiling tiles that have water damage or are missing; and repair, replacement and maintenance of lighting.
- **Technology Infrastructure and Maintenance.** This action adds funding of \$1.3 million in 2012-2013 (\$475,000 ongoing) for contractual services to help address a portion of the City's technical infrastructure backlog. Projects include: Financial Management System business requirements mapping; hosted email; annual audits for compliance with the payment card industry standards; general data security; and centralized software deployment to ensure all users receive software and licensing updates efficiently.
- **Business Tax System.** This action provides additional funding of \$1.5 million in 2012-2013 to replace the City's Business Tax System. The current Business Tax System is integrated into the City's Integrated Billing System used for utility billing. The current billing system will no longer be supported by the vendor after 2015 and must be replaced. A new Business Tax System is needed to manage over 75,000 active annual Business Tax accounts generating approximately \$11 million annually. Ongoing funding of \$300,000 will fund system licenses and maintenance.

4. Begin to address essential operational and organizational needs

The Adopted Budget allocates funding to address specific needs to strengthen the organization, meet community expectations, or mitigate the potential risk of higher long-term costs. Examples include the following:

BUDGET STRATEGIES

- **2013-2014 Future Deficit Reserve.** A 2013-2014 Future Deficit Reserve of \$22.5 million to address the projected shortfall for 2013-2014 that was presented in the 2013-2017 General Fund Five-Year Forecast is included to provide for budget stability over the next two years.
- **Police Targeted Enforcement.** This action increases the overtime budget in the Police Department by \$500,000 to provide targeted enforcement of high crime activity, specifically gangs, prostitution, and graffiti.
- **Park Landscape Irrigation.** This action includes \$400,000 ongoing funding to restore approximately 70% of the reduction to the water budget implemented in the 2011-2012 Adopted Budget to maintain the landscaping in parks. The additional funding allows for more frequent irrigation of the park areas with high volume play and activity to help keep high-use turf facilities green.
- **Park Rangers.** This action adds 2.74 part-time Park Ranger positions to address public safety in regional parks and an increased need for patrol and enforcement due to significant homeless issues and general safety concerns.
- **Fair Swim Center Summer Program.** Because the current vendor is no longer able to offer this seasonal aquatics program at the Fair Swim Center, one-time funding for the Summer 2012 Swim Program is included.
- **Development Fee Programs.** Additional resources are included in the development fee programs (Building, Planning, Public Works, and Fire) to ensure increasing demands can be met within expected service delivery timeframes. No fee increases are necessary in order to meet the increased development services activities.
- **Economic Development/Incentive Fund.** Establishes a one-time allocation for economic development support and incentives in the amount of \$750,000.
- **Street Sweeping Signage.** Installs 40 street miles of additional parking restrictions in support of residential street sweeping.
- **Strategic Support Staffing.** Additional staffing is provided to ensure basic support services are at minimum levels needed for overall City service delivery. These additions include staffing for employment services, special accounting, information technology help desk needs, and retirement services operational and accounting support as well as staffing in the City Attorney's Office and the City Clerk's Office.

BUDGET STRATEGIES

5. Fund a limited number of programs and initiatives

The Adopted Budget includes funding for a limited number of programs and initiatives.

- **San José Downtown Association.** This action provides additional one-time funding of \$190,000 from the General Purpose Parking Fund to supplement support for the Downtown Association at the same level as in 2011-2012 when it received funding from the San José Redevelopment Agency.
- **San José BEST.** A one-time increase of \$2 million to the San José Best Program brings total funding to \$4.6 million for 2012-2013, including a 2013-2014 San José BEST program earmarked reserve of \$500,000, and continues the City's strong support of gang prevention, intervention and suppression programs for youth through the efforts of the Mayor's Gang Prevention Task Force. This funding increase is made available by continuing the strategy of deferring the opening of the South San José Police Substation, which, once opened, will cost \$2.5 million annually to operate. The opening of the substation will be reconsidered during next year's budget process.
- **Senior Services and Wellness Program.** This action continues and permanently reallocates Healthy Neighborhood Venture Fund funding of \$400,000 to the Senior Wellness Program that was approved on a one-time basis in 2011-2012; continues 2.0 Recreation Program Specialist positions to support the Alma and Gardener Community Centers with a Senior Nutrition program; adds \$200,000 one-time for dedicated senior services; and adds 1.0 Recreation Program Specialist (\$86,000) serving as a Mobility Manager to oversee funding of \$225,000 (\$50,000 ongoing) for senior transportation services.
- **Christmas in the Park.** City funding of \$129,000 is included to support the transition of Christmas in the Park from a City-supported event to a program operated by the Christmas in the Park Foundation. The City funding consists of a \$75,000 grant funded by the Transient Occupancy Tax Cultural Development allocation; a \$24,000 grant from the Office of Cultural Affairs Festivals, Parades, and Celebrations; and a \$30,000 marketing sponsorship from the Environmental Services Department.
- **Small Business Ambassador.** This action adds one position for the Small Business Ambassador Program serving as the point of contact for small businesses for development services permitting processes.
- **Fiber Optics Loan Repayment.** The outstanding loan amount of \$2.3 million will be repaid to the Sewage Treatment Connection Fee Fund. The loan from 1996 in the amount of \$5.2 million to the General Fund was used to fund a fiber optics conduit network.
- **Envision San José 2040 General Plan Implementation.** Resources are provided in order to accelerate the implementation of the Envision San José 2040 General Plan and facilitate economic development by completing environmental review, adding protected intersections, and completing plans for Urban Villages and other strategic areas.

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- **Community Action and Pride (CAP) Grant Program.** The remaining funds of \$110,000 from the CAP program will be reallocated to continue the program for 2012-2013.
- **La Raza Study.** The City will continue to provide one-time matching funds of \$50,000 with Santa Clara County for the facilitation of the Harvard Study Consensus Process. This was convened by the La Raza Roundtable to create transformative multi-system change aimed at eliminating disproportionate Latino representation in the criminal justice, juvenile justice, and child welfare systems serving San José.

6. Continue implementing new models for service delivery to improve efficiency, reduce costs, and/or enhance service levels

Compared to the past two years, this Adopted Budget does not include widespread reductions in services or staffing levels. However, we continue to identify opportunities to implement new models for delivering services to the community or providing organizational support that will cause position impacts in specific programs. The Administration continues to work toward minimizing potential layoffs by taking advantage of vacancies and appropriate redeployment of employees. The following list contains examples of changes in service delivery models that will improve efficiency, reduce costs, and/or enhance service levels.

- **Parks Landscape Maintenance Team-Based Model.** As a pilot, this new model realigns landscape maintenance staff into larger teams to provide comprehensive servicing of an entire park in one visit rather than multiple smaller teams making several different visits. At an additional ongoing cost of \$36,000, this new model is expected to increase the average level of routine maintenance in the parks system.
- **Pavement Maintenance Strategy.** Eliminates pavement preventative maintenance on local/neighborhood streets and shifts this funding to focus on maintenance of the 400 miles of the priority network of major streets that carry 87% of traffic. This action eliminates 11 positions as arterial streets are maintained contractually. Neighborhood street maintenance will be deferred indefinitely, but corrective maintenance such as potholes will still be addressed.
- **Graffiti Abatement Program Efficiencies.** This action increases funding to the current graffiti abatement contract at no net cost to the Anti-Graffiti Program. Costs are offset by the elimination of a Maintenance Worker position and dedicated funding for the Sentencing Alternative Program (SAP) for graffiti abatement services. An additional 331,000 square feet of graffiti can be eradicated with this change, resulting in an approximate nine-fold increase of graffiti abated at the same cost.
- **Police Officer Recruit Academy Staffing.** The Police Department has established a partnership with the South Bay Public Safety Training Consortium to provide a POST-certified Police Officer Recruit Academy. The department will have access to all South Bay academies throughout the Bay Area, which also allows for ongoing recruiting of self-sponsored cadets. This action continues the elimination of 3.0 Police Officer positions previously assigned to recruit academies, reducing annual costs by \$473,000.

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- **Police Sworn Position Civilianization.** With the reconfiguration of the Permits Unit and the Bureau of Administration, three new civilian staff will assume administrative responsibilities currently performed by sworn personnel.
- **Airport Curbside Management Service Delivery Model Change.** The new model contracts out curbside management services at the Airport and eliminates 20 Parking and Traffic Control Officer positions. The new service delivery model will reduce the Airport's net ongoing costs by approximately \$1.0 million. The change will be phased in over a six-month period to reduce training and productivity impacts to the Parking Enforcement Unit in the Transportation Department.
- **Convention Facilities Staffing.** A new staffing model will provide greater flexibility in scheduling, address the variable nature of activity at the Convention Facilities, and provide savings to the Convention and Cultural Affairs Fund.

Limited Fee Impacts

There are a limited number of fee increases in the 2012-2013 Adopted Budget. No rate increases are included for the Sewer Service and Use Charge, Storm Sewer Service Fee, and Recycle Plus rates in 2012-2013. The Municipal Water System rates increased by approximately 9.5% due to the higher cost of wholesale water purchases.

In the four Development Fee Programs (Building, Fire, Planning, and Public Works), no 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. There are adjustments to various departmental fees and some new fees, particularly in the Parks, Recreation and Neighborhood Services Department area, to maintain or improve cost-recovery levels.

Redevelopment Agency and the Successor Agency to the Redevelopment Agency

Effective February 1, 2012, all redevelopment agencies in California were dissolved pursuant to AB X1 26 approved by the California Legislature in 2011. As specified in the legislation, Successor Agencies are charged with winding down redevelopment operations and oversee the process of dissolution. On January 24, 2012, the City Council determined that it would serve as the Successor Agency to the former Redevelopment Agency.

For 2012-2013, a \$16.9 million deficit was projected due to insufficient property tax increment to ensure payment of certain obligations of the former Agency that the City is also contractually obligated to pay ("City Supported Agency Obligations"). The projected deficit included administrative costs which were reduced by \$500,000 in the Adopted Budget (bringing the deficit to \$16.4 million), reflecting the continuing wind-down efforts of the Successor Agency. The use of City funds was approved to address the projected deficit and ensure adequate funding for these City Supported Agency Obligations, including \$11.0 million from the General Fund, \$3.4 million from the General Purpose Parking Fund, and \$2.0 million from the Community Development Block Grant Fund.

BUDGET STRATEGIES

The process of dissolving the former Redevelopment Agency is very complex and the Administration continues to navigate through the ambiguities of the law. The situation will continue to evolve and may still result in additional impacts in 2012-2013 as well as in future budgets. We will provide regular updates regarding the ongoing transition efforts to the City Council and the Oversight Board of the Successor Agency during the course of the coming year.

It should be noted that the outstanding obligations to the City from the Successor Agency to the former Redevelopment Agency total \$100.7 million. Further detail on these obligations is provided in the Summary Information section of this document.

CAPITAL BUDGET OVERVIEW

With the 2012-2013 Adopted Capital Budget and the 2013-2017 Adopted Capital Improvement Program (CIP), the City enters a period of reduced, albeit still significant, capital investments following the *Decade of Investment*, which transformed much of the City's public infrastructure. Major improvements have been completed in the City's libraries, parks, community centers, and public safety facilities, primarily as a result of voter-approved bond measures that will have funded a total of \$599 million for these facilities. Additionally, with the opening of Terminal B, the renovations of Terminal A, and the new consolidated rental car facility at the Norman Y. Mineta San José International Airport, the City recently transformed the gateway to Silicon Valley into the nation's most modern air passenger facility that meets the needs of both customers and airlines and takes full advantage of current technologies.

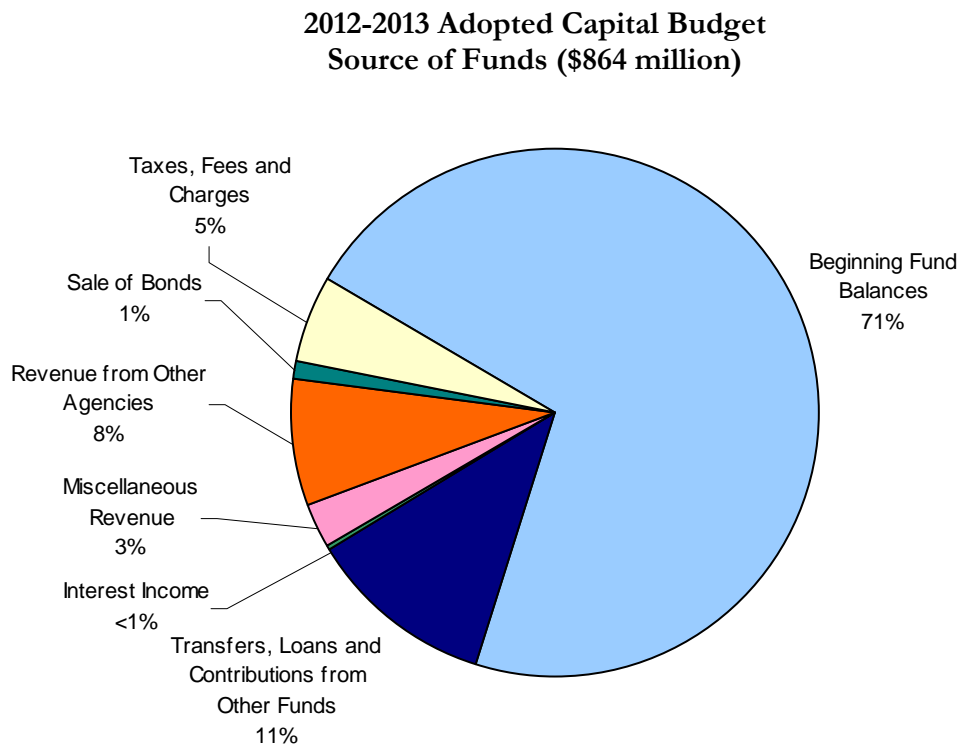
With the completion of these major capital improvements, the City's capital investments planned over the next five years are well below levels experienced in recent years, but remain significant, with a 2012-2013 Adopted Capital Budget of \$864 million and a 2013-2017 Adopted CIP of \$1.7 billion. Lower revenue sources, coupled with the completion of projects, have resulted in significantly lower carryover fund balances estimated to be available as a funding source for capital projects over the next five years. The 2012-2013 Adopted Capital Budget reflects a decrease of 19% from the 2011-2012 Adopted Capital Budget of \$1.1 billion. From a five-year perspective, the 2013-2017 Adopted CIP is 13% lower than the 2012-2016 Adopted CIP of \$1.9 billion.

In preparing the CIP, the Administration focused the City's limited resources on the sustainability of City facilities by addressing the most immediate needs of the City's infrastructure and prioritized funding for upgrades, expansions, and renovations with positive operation and maintenance impacts. Where possible, grants and funding from other agencies will be leveraged to stretch City funds. Alternative funding sources will also be pursued to address the increasingly critical unmet/deferred infrastructure needs, particularly in the local street infrastructure. As reported to the Transportation and Environment Committee on April 2, 2012, the deferred maintenance and infrastructure backlog totals approximately \$811 million in unfunded costs. Recognizing this looming need, this CIP includes targeted investments in areas where funding is available such as the water pollution control plant, transportation, airport, sanitary sewer, and storm sewer infrastructure. The investments are designed to renovate and replace aging facilities, add capacity to meet economic development and future growth, and to ensure continued safe and efficient infrastructure and facility operations while meeting new and more stringent regulatory requirements and spurring construction in the local economy.

2012-2013 ADOPTED OPERATING BUDGET

CAPITAL PROGRAM FUNDING SOURCES

As depicted in the pie chart below, Beginning Fund Balances account for 71%, or \$616 million, of the total Source of Funds in the 2012-2013 Adopted Capital Budget, due primarily to funds being rebudgeted from the last fiscal year to complete projects. Contributions, Loans and Transfers from Other Funds and Revenue from Other Agencies categories comprise 11% and 8%, respectively, of the total source of funding.



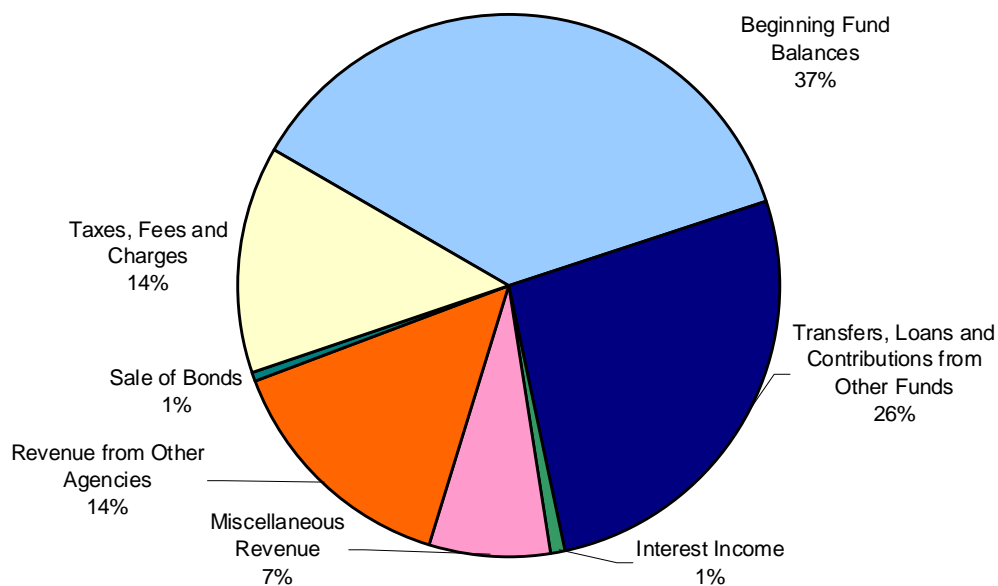
The 2013-2017 Adopted CIP is supported by a combination of funding sources totaling \$1.7 billion as shown in the following chart. The Beginning Fund Balances in the various funds of \$616 million account for approximately 37% of the funding. There is a large Beginning Fund Balance in the Airport Capital Program (\$179 million), which mainly reflects the Airport's Commercial Paper capacity. The Parks and Community Facilities Development Capital Program has a total of \$139 million in the Beginning Fund Balances (e.g., \$68 million in the Park Trust Fund, \$36 million in the various Parks Construction and Conveyance (C&C) Tax funds, and \$34 million in the Parks and Recreation Bond Projects Fund). A majority of these Parks funds are in reserves pending final scope of projects and locations or pending future funding becoming available within the nexus of a planned facility. Although both the San José/Santa Clara Water Pollution Control Plant (WPCP) and the Sanitary Sewer Capital Programs have \$105 million and \$75 million in their respective Beginning Fund Balances, in accordance with the respective master plans, the aging infrastructure needs to be rehabilitated or replaced or sewer capacity needs to be enhanced in response to increased demand that, by the end of the CIP, \$8.2 million and \$6.2 million is estimated to remain in the respective Ending Fund Balances. The remaining Beginning Fund Balances in the 2013-2017 Adopted CIP primarily reflect planned carryover funding for projects expected to be initiated or

CAPITAL PROGRAM FUNDING SOURCES

completed in the next five years. As a substantial number of capital projects are scheduled to be completed over the next five years, a corresponding reduction to the Beginning Fund Balances will occur.

The second largest funding source in the Adopted CIP is Contributions, Loans and Transfers from Other Funds (26% or \$445 million of the funding for the Adopted CIP) such as revenue from storm and sanitary operating funds which are supported by utility user fees. The Taxes, Fees and Charges category is the next largest category with 15% or \$244 million of the total funding in the CIP. The three major funding sources in this category are C&C Tax, Construction Excise, and Building and Structure Construction Taxes, which serve as the major revenue sources for Parks and Traffic Capital projects. The Revenue from Other Agencies category which includes mostly federal, State, and local grants as well as revenue from the Water Pollution Control Plant User Agencies comprises 14% or \$229 million of the funding source for 2013-2017.

**2013-2017 Adopted Capital Improvement Program
Source of Funds (\$1.7 billion)**



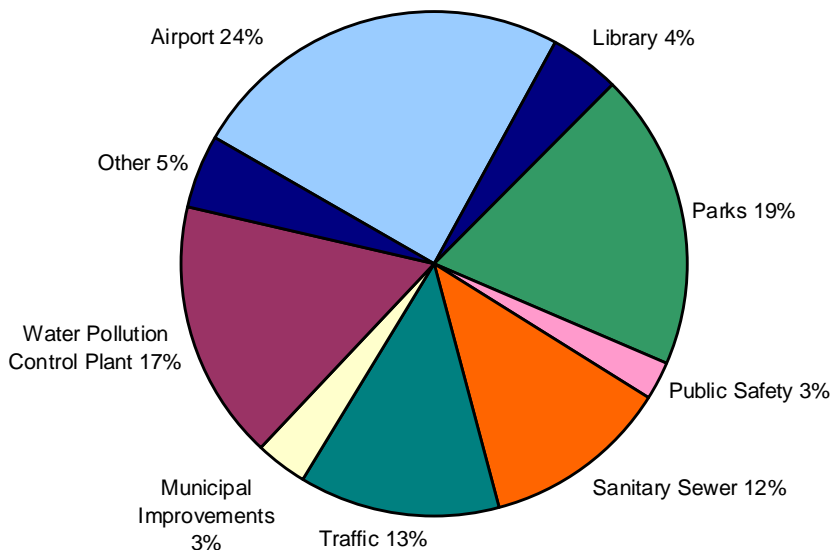
A more detailed discussion of the CIP revenues can be found in the Summary Information section of the 2012-2013 Adopted Capital Budget and 2013-2017 Capital Improvement Program that is published separately.

2012-2013 ADOPTED OPERATING BUDGET

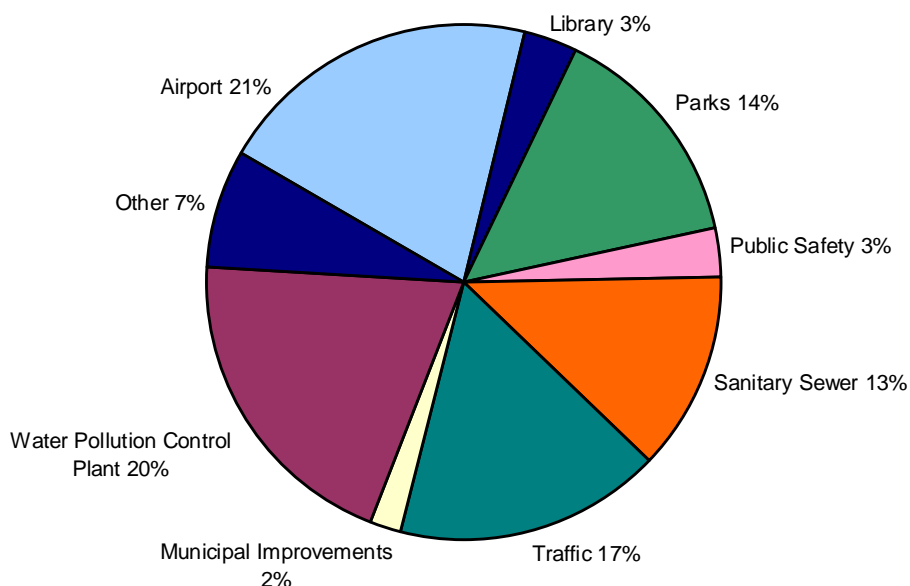
CAPITAL PROGRAM INVESTMENTS

The CIP is composed of 14 capital programs. The following pie charts depict the funding uses by capital program and percentage of funding for the 2012-2013 Adopted Capital Budget and the 2013-2017 Adopted Capital Improvement Program with major projects to be completed over the next five years highlighted in the sidebar on the right.

**2012-2013 Adopted Capital Budget
Use of Funds (\$864 million)**



**2013-2017 Adopted Capital Improvement Program
Use of Funds (\$1.7 billion)**



Major Projects to be Completed Over the Next Five Years

2012-2013 Projects

Branch Library Efficiency Projects
Convention Center Expansion and Renovation Project
Diridon Area Parking and Multi-Modal Improvements
Police Communications Emergency Uninterrupted Power Supply
Solari Park Sports Field Conversion

2013-2014 Projects

30" Old Bayshore Sewer Pipe Rehabilitation
Allen at Steinbeck School Soccer Field
Commodore Children's Park
Del Monte Park
Roberto Antontio Balermينو Park
West Evergreen Park
Fire Station 21 – Relocation (White Road)
Transportation Incident Management Center
Pavement Maintenance – State Route Relinquishment
Stevens Creek Boulevard Sanitary Sewer Improvement

2014-2015 Projects

60" Brick Interceptor Replacement of the Sanitary Sewer System, Phase VIA and VIB
Autumn Street Extension
Bollinger Road – Blaney Avenue Sanitary Sewer Improvement
Fourth Major Interceptor Rehabilitation of the Sanitary Sewer System, Phase IIB/IIIB
Headworks No. 1 Repair & Rehabilitation at the Water Pollution Control Plant
Rincon Avenue – Virginia Avenue Sanitary Sewer Improvement
Southeast Branch Library
Penitencia Creek Trail Reach IB (Noble Avenue to Dorel Drive)
Willow Glen-Guadalupe Storm Sewer System, Phase III

2015-2016 Projects

New Pipeline connection for the Biological Nutrients Removal (BNR) 1 & BNR 2
Digester Rehabilitation at the Water Pollution Control Plant
SBWR System Reliability and Infrastructure Replacement
Taxiway W Improvements

2016-2017 Projects

Airport Rescue and Fire Fighting Facility
BART Design, Policy, Planning and Construction Support
Fourth Major Interceptor Rehabilitation of the Sanitary Sewer System, Phase VIIA

CAPITAL PROGRAM INVESTMENTS

In the 2013-2017 CIP, capital program investments fund infrastructure improvements throughout the City including: airport, community centers, libraries, municipal water systems, public safety facilities, parks, sanitary and storm sewer systems, transportation systems, and the WPCP.

The Airport Capital Program with a budget of \$345.7 million is the largest component or 21% of the City's CIP. The 2013-2017 Adopted Airport Capital Program reflects a shift in focus from the many projects comprising the Terminal Area Improvement Program (TAIP) to the maintenance and preservation of Airport infrastructure. Airport staff is evaluating the legally allowable uses for unspent bond proceeds associated with the TAIP projects, which may include the completion of projects that were deferred from the original TAIP program due to funding issues during the construction phase of the program, or paying down debt. Examples of some of the deferred projects that are not programmed in the CIP at this time include a common use lounge, Terminal A/A+ space refurbishment, building system upgrades, Terminal A bag system ceiling protection, and completion of the northeast area (formerly the rental car fueling and wash site). In the northeast area, needs include a fuel truck maintenance facility, shuttle bus staging and storage, a taxi staging building, and adjacent employee parking. The remaining unspent bond proceeds are anticipated to be used to stabilize the Cost per Enplaned Passenger for the next five years.

The WPCP is the next largest capital program or 20% of the 2013-2017 Adopted CIP. A total of \$339.2 million is allocated in this program to renovate and upgrade the WPCP infrastructure and to ensure capacity and reliability of treatment plant processes. After a three-year process initiated in 2008, the preferred option of the Plant Master Plan was approved by the City Council on April 19, 2011, with the direction to prepare an environmental impact report scheduled for completion by spring 2013. The Plant Master Plan will guide the Plant's capital improvement program and land use changes over the next 30 years. This CIP document includes projects in support of the approved Master Plan with a "packaged approach" to minimize disruptions to the Plant operations during construction, minimize the risk of National Pollutant Discharge Elimination System (NPDES) permit violations, meet the Plant's goals of being a good neighbor, and manage rate impacts to San José, Santa Clara, and the tributary agencies. The Master Plan includes technical recommendations as well as a draft recommended land use alternative.



Aerial View of the Water Pollution Control Plant

The Master Plan also addresses future regulatory requirements and expected capacity, as well as an overhaul of the entire solids treatment process. At the project level, the Master Plan recommends the implementation of more than one hundred capital improvement projects over a 30-year period, with the most immediate rehabilitation projects to occur within the first 15 years.

2012-2013 ADOPTED OPERATING BUDGET

CAPITAL PROGRAM INVESTMENTS

The Traffic Capital Budget is the third largest program with a budget of \$278.5 million, or 17% of this CIP. Approximately \$109.0 million of the funding in the Traffic Capital Program is for maintenance and rehabilitation activities. Although the City provides approximately \$18.8 million for pavement maintenance, the majority of pavement maintenance within the City is funded by outside funding sources, such as the State gas tax (\$36.0 million), Measure B vehicle registration fees (\$25 million), and federal funds (\$29.7 million). Due to additional Construction Excise Tax revenue available to this program, the annual allocation for pavement maintenance funded with City resources has been increased from \$1 million to \$3 million annually, or a total increase of \$10 million, over the CIP. Even with these additional resources, the funding level for pavement maintenance is still insufficient. As discussed in the Unmet Infrastructure/Maintenance Needs section of this message, a March report presented to the City Council on pavement conditions in San José identified an annual need of \$100 million to achieve an overall “good” street condition. With an average annual funding allocation of \$20.3 million over the CIP, this leaves an average annual shortfall of approximately \$80 million. In addition, the estimated backlog of deferred pavement maintenance has increased from \$271 million to \$293 million over the last year. If the backlog grows at the same rate as it has in the past, it is estimated that it will escalate to \$860 million by the year 2020.

CAPITAL PROGRAM OVERVIEW BY CITY SERVICE AREA

Each of the 14 capital programs continue to be aligned to one of the six City Service Areas (CSAs). The chart below compares the 2012-2016 Adopted CIP with the 2013-2017 Adopted CIP for each CSA. As discussed earlier, the 2013-2017 Adopted CIP reflects a decrease of 13% from the 2012-2016 Adopted CIP due to several large projects completing or nearing completion; therefore a significant portion of funding is anticipated to be expended or encumbered in 2011-2012, including the Convention Center Expansion and Renovation project in the Strategic Support CSA; the Consolidated Rental Car Garage Facility and the public parking improvements in the Transportation and Aviation Services CSA; and Newhall Neighborhood Park and West Home Street Land Acquisition in the Neighborhood Services CSA. There is a significant decrease in funding in the Environmental and Utility Services CSA due to a reprioritization of projects and a change in strategy for the implementation of the Water Pollution Control Plant Master Plan recommendations to a packaged approach.

2012-2016 Adopted CIP and 2013-2017 Adopted CIP Comparison (By City Service Area)

City Service Area	2012-2016 Adopted CIP	2013-2017 Adopted CIP	% Change
Community and Economic Development	\$ 7,197,291	\$ 8,111,211	13%
Environmental and Utility Services	694,436,718	617,829,291	(11%)
Neighborhood Services	297,280,218	297,775,233	(0%)
Public Safety	51,917,710	50,722,291	(2%)
Transportation and Aviation Services	715,372,973	630,850,886	(12%)
Strategic Support	154,138,051	73,462,615	(52%)
Total	\$ 1,920,342,961	\$ 1,678,751,527	(13%)

OTHER CAPITAL PROGRAM HIGHLIGHTS

Unmet Infrastructure/Maintenance Needs

As presented in a report to the City Council on October 1, 2007 insufficient funding has created a gap between the funding available and the resources necessary to maintain the overall condition of City infrastructure. This includes the City's buildings, parks, and technology, traffic (streets, traffic lights, signs, and streetlights), and utility infrastructure. The recent deep recession and slow economic recovery has exacerbated this funding gap and increased the backlog of deferred maintenance and infrastructure rehabilitation needs. The figures in this report are updated annually and were reported to the City Council on April 24, 2012 http://www.sanjoseca.gov/clerk/Agenda/20120424/20120424_0403.pdf with an approximate \$811 million backlog across the City. Assuming this one-time backlog could be met, an ongoing annual investment of \$127 million would be needed to maintain and prevent degradation of the infrastructure for which the City is responsible. Further analysis and refinement of these figures would be required before funding to address these unfunded needs would be recommended to the City Council. This CIP as well approved investments in the 2012-2013 Adopted Operating Budget allocate limited resources to the most immediate deferred infrastructure needs.

Operating Budget Impacts

This CIP attempts to balance the delivery of capital programs with the limited resources to operate and maintain existing and newly-constructed facilities. Over the past several years, strategies were implemented to defer or reduce operating and maintenance costs, with a particular focus on the General Fund. These efforts have included deferring the completion date for capital projects, using alternative staffing models, reducing the size of some facilities, developing joint library and community center facilities, entering into agreements with developers to initially maintain facilities, and installing capital improvements that would reduce costs, such as energy efficient traffic signals.

In March 2008, the City Council approved Budget Principle #8 that states 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 project, including operating and maintenance costs, will not require a decrease in existing basic neighborhood services." In addition, all capital improvement projects with new General Fund operating and maintenance costs will be detailed in the Five-Year General Fund Forecast and formally certified as part of the annual CIP.

There are four capital projects in the CIP that were previously approved for certification by the City Council (Fire Station 37 (Willow Glen), South San José Police Substation, Southeast Branch Library and the Vietnamese Heritage Garden) with net operating and maintenance costs exceeding \$100,000 annually. By 2016-2017, the annualized impact on the General Fund to operate and maintain these four facilities is projected to be \$6.0 million. With the exception of the Vietnamese Heritage Garden, these facilities are all related to the voter-approved General Obligation bonds for Library and Public Safety facilities and the related operating and maintenance costs for all these facilities were included in the 2013-2017 Five-Year General Fund Forecast that was released in February 2012. These costs will be evaluated on an annual basis until the facilities open to the public.

2012-2013 ADOPTED OPERATING BUDGET

OTHER CAPITAL PROGRAM HIGHLIGHTS

The costs and staffing necessary to operate and maintain these facilities may change as further analysis on the operational needs or alternative service delivery methods at each facility are conducted as part of the annual budget process. Notably, further analysis will be required to determine the actual staffing of Fire Station 37 as it relates to Fire Station 6 prior to the award of the construction contract for Fire Station 37.

The 2012-2013 Adopted Operating Budget includes \$1.9 million to open and operate several facilities including the Bascom Community Center and Library, and the Calabazas, Educational Park, and Seven Trees Branch Libraries. In fall of 2012, the Administration will review the City's fiscal status to ensure the ability to support these new buildings ongoing. Additionally, the Adopted Operating Budget continues to defer the opening of the South San José Police Substation from September 2012 to September 2013 and to allocate \$2.0 million of the one-time savings of \$2,393,000 to the San José BEST Program for gang prevention. Of the remaining savings, \$184,000 is needed to maintain the vacant building (security, fencing, and landscape maintenance). These actions are presented and described further in this document.

As part of the City Council approval of the Mayor's June Budget Message, the City released the hold placed on new park developments for parks where the annual operating and maintenance costs are less than \$100,000. This allows the City to proceed with the development of 11 new parks. Of these, the funding for Antonio Balermino, Del Monte and West Evergreen Parks was approved so that the construction of these parks will start in 2012-2013; the remaining projects will enter the design and construction phase as soon as their funding has been secured and their planning phases have been completed. These projects include: Pellier Park, Montecito Vista Park, Noble Dog Park, River View Park, Martin Park, North San Pedro Park, Tamien Park, and Essex Park.

When completed, projects coming on-line during the five-year CIP or planned by other agencies (such as developers) can have a significant impact on the General Fund and other funds as new and expanded facilities require additional funding for operating and maintenance costs. These costs, which are summarized in Table A, are estimated at \$3.6 million in 2013-2014 and are projected to increase to \$7.3 million by 2016-2017. With the exception of WPCP projects, all costs listed on the following table would impact the General Fund.

**Table A - Projected Total New Operating and Maintenance Costs – All Funds
(Cumulative)**

Project Title	2013-2014	2014-2015	2015-2016	2016-2017
Fire Facilities	\$ 0	\$ 2,503,000	\$ 2,474,000	\$ 2,618,000
Library Facilities	0	0	630,000	698,000
Parks Facilities	89,000	149,000	196,000	395,000
Parks Facilities – Other Agencies ¹	0	0	3,000	6,000
Police Facilities	2,465,000	2,504,000	2,545,000	2,585,000
Traffic Projects	17,000	42,000	44,000	46,000
Water Pollution Control Plant	1,000,000	1,000,000	1,000,000	1,000,000
Total	\$ 3,571,000	\$ 6,198,000	\$ 6,892,000	\$ 7,348,000

¹ Projects being constructed by other agencies, but will be maintained by the City of San José

CONCLUSION

Although this Adopted Budget has been balanced without the need to resort to the painful decisions we faced last year, it is important to keep in mind that we still have a long way to go to achieve the fiscal stability that will allow us to restore service levels and meet major community and organizational needs. The fact that we had a slim surplus to allocate in 2012-2013 means that we can start to address some of these needs, but we must be mindful that this surplus could quickly swing to shortfalls again as a result of factors beyond our control. Changes in the rate of economic recovery, decisions made by the Governor and Legislature of California, and potential increases in the required contributions to the City's retirement funds all could change our financial position.

However, I am heartened that we did not have to solve yet another shortfall after ten years of increasingly difficult choices, and I am hopeful that we are on a good path back to sustainable financial stability. The goals of our Fiscal Reform Plan remain valid, and we must continue to seek ways to reduce costs through innovations, partnerships, efficiencies, and community support. Economic development must continue to be a priority for our community so that we can strengthen our economic foundations that generate the revenues we need to provide vital public services. And we must continue the budgetary and financial discipline that has served us well thus far.

Finally, I must again thank our remarkably dedicated and talented City staff – great people from the front lines of each department to the Budget Office in the City Manager's Office – who have worked so hard and spent long hours to prepare this Adopted Budget. They represent the best in public service, and I continue to be inspired by their commitment to ensure that San José remains a wonderful city for our residents and businesses.



Debra Figone
City Manager

APPENDIX C – BASELINE SERVICE LEVELS**BASELINE SERVICES AS OF JANUARY 1, 2011**

In May 2011, the City's Fiscal Reform Plan determined that the City's acceptable baseline for providing services would be measured by the level of services being provided by the City as of January 1, 2011.¹ Service level metrics were determined by using either actual data or the level approved in the 2010-2011 Adopted Budget. For example, response times for Fire and Police services are based on performance data whereas hours of operation for the Library or Neighborhood Services are based on the service levels approved as part of the 2010-2011 Adopted Budget. Additionally, in order for the City to support these baseline service levels, strategic support services will need to be funded at an adequate level.

FIRE DEPARTMENT

- 33 Fire Stations open;
- On average, City-wide, 82.6% of time, the initial responding fire unit arrives within 8 minutes after an emergency 9-1-1 call is received;
- On average, City-wide, 85.2% of time, the second response fire unit arrives within 10 minutes after an emergency 9-1-1 call is received.

POLICE

- On average, City-wide, average response time for Priority One police calls for service (present or imminent danger to life or major damage/loss of property) is 6.04 minutes;
- On average, City-wide, average response time for Priority Two police calls for service (injury or property damage or potential for either to occur) is 12.74 minutes;
- On average, overall, the clearance rate (number cleared / total cases) for Part 1 crimes is as follows: Homicide (65.00%), Rape (19.37%), Robbery (26.54%), Aggravated Assault (39.93%), Burglary (5.58%), Larceny (18.90%), and Vehicle Theft (8.85%).

¹ Depending on the service provided, the metrics reflect actual 2010 Calendar Year-End performance data (e.g., Fire and Police response times) or the service level as approved as part of the 2010-2011 Adopted Budget (e.g., Library Hours).

2012-2013 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.
3. Focus on protecting vital core City services for both the short- and long-term. Analyze existing service levels and focus on delivering those services that are most essential.
4. As outlined in the Principles for Restoring City Service Levels, 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.
5. Explore personal services cost savings, including overtime, subject to the meet and confer process where applicable. The Fiscal Reform Plan approved by the City Council with the adoption of the 2011-2012 budget outlined a number of cost reduction strategies, including several retirement-related reforms, that continue to be pursued.
6. 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.
7. Engage employees in department budget balancing idea development.
8. Focus on business process redesign in light of the severe staff reductions during the last three fiscal 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).
9. 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.
10. Identify City policy changes that would enable/facilitate service delivery changes or other budget balancing strategies.
11. Explore redirecting and/or expanding existing revenue sources and/or adding new revenue sources as outlined in the Fiscal Reform Plan.
12. 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.
13. Make every effort, if operationally feasible and needed for cost-effective service delivery, to eliminate vacant positions, rather than filled positions, to minimize the number of employee layoffs. As service levels change, ensure that management and administration are re-sized as appropriate.
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.

LIBRARY

- On average, 18 library branches are open 39 hours per week;
- On average, King Library (subject to future contractual arrangements with San José State University):
 - Hours open: 72 hours per week per academic semester; 58 hours per week otherwise;
 - Children's Room: 50 hours per week;
 - Third Floor General Collection and Reference Desks: 64 hours per week;
 - California Room: 20 hours per week;
 - Access Services: 72 hours per week;
 - Periodicals: 72 hours per week;
 - Second Floor Reference Desk: 72 hours per week.

PARK, RECREATION, AND NEIGHBORHOOD SERVICES

- On average, 10 Hub Community Centers are open 63 hours per week;
- On average, 9 Satellite Community Centers are open 40 hours per week;
- On average, 8 Neighborhood Centers are open for 15 hours of programming per week.

STREET MAINTENANCE

72 miles of residential and arterial streets resealed and 6 miles of residential and arterial streets resurfaced with various Capital and Grant funds (no General Fund allocation). Maintaining this street maintenance level will be contingent upon receiving commensurate levels of regional, state, and federal funds annually.

FACILITIES BUILT OR UNDER CONSTRUCTION / OPENING DEFERRED

- South San José Police Substation
- Bascom Community Center and Branch Library
- Calabazas Branch Library
- Educational Park Branch Library
- Seven Trees Branch Library

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 Jose 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 (*Fiscal and Service Level Emergency Report – Appendix C*)
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.

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.

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.

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