

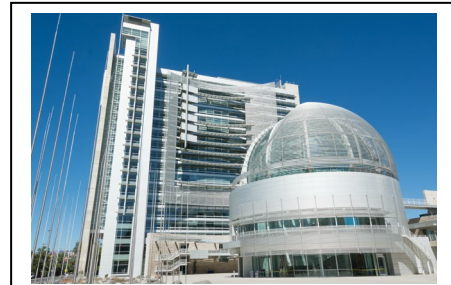
October 26, 2021

Honorable Mayor and City Council:

The 2021-2022 Adopted Operating Budget reflects the changes to our community since the pandemic's onset in early 2020, and the changes that still need to take place. COVID-19 is still with us, but signs that the pandemic is relenting are plentiful. Case counts continue to drop while vaccinations continue to grow. Like the rest of the region, San José is starting to shake off the pandemic's worst effects; however, for many in our community, the road to recovery will be long and we will need to assist each other to help achieve a full and equitable recovery.

The City's budgetary outlook has undergone similar changes. In April and May of 2020, we collectively took swift action to address the anticipated revenue impacts in both 2019-2020 and 2020-2021, and prioritized emergency relief funding to assisting our most vulnerable communities. Over the past year, employment levels, which plummeted during the pandemic's initial onset, have since been gaining ground and growth is expected to continue as the economy reopens. Real estate and development activity also took an initial dip, but have generally remained strong over the past year. While we have hopefully weathered the worst of the pandemic's revenue impacts and expect a meaningful economic recovery in the coming fiscal year, this budget strategically addresses the anticipated General Fund shortfall in 2021-2022 and acknowledges the need to address a structural imbalance in the coming years.

The actions included in this budget, which comprise significant allocations of American Rescue Plan funding, reflect the City of San José's continued commitment to community and economic recovery. As directed by the City Council-approved Mayor's March Budget Message for Fiscal Year 2021-2022, the majority of the \$223 million of American Rescue Plan funding allocated to the City from the federal government is programmed to be spent directly on pandemic response, relief, and recovery activities. A portion of this federal funding is also used to help close the \$38.3 million General Fund shortfall in 2021-2022 and targeted investments are made to replace or rehabilitate deferred infrastructure and continue critical community programs. For the City's many other dedicated funds (e.g., Airport Funds, Housing Funds, Sanitary Sewer Funds, Water Utility Funds), budget actions address various service delivery and infrastructure needs within the available resources for each fund.



Transitioning to Recovery and Looking Ahead

The San José community and the City organization underwent tremendous change this past year. The lingering pandemic impacted almost every facet of service delivery – both those directly facing the community and internal strategic support functions. I am extremely proud of and grateful to our workforce for rising, again and again, to the challenges of maintaining day-to-day services to the extent possible and supporting the Emergency Operations Center, which included as many as 750 employees at the height of the pandemic.



As we have mostly transitioned from emergency response and support into community and economic recovery, we have also realigned and re-balanced the City's service delivery objectives. Guided by the Mayor's March Budget Message and the City Roadmap – both of which were approved by the City Council and provided clear direction on the City's funding priorities – the 2021-2022 Adopted Budget addresses the General Fund shortfall and makes a limited number of key investments to shore up service gaps, and brings all of the City's other funds into balance. The budget also incorporates the engagement and discussion with the City Council that resulted in an initial allocation to support community and economic recovery. Attachment D contains all pandemic response and community and economic recovery workstreams funded with resources from the American Rescue Plan and the Emergency Reserve Fund, which primarily consists of activities eligible for reimbursement from the Federal Emergency Management Agency. Aligned with the City Roadmap, this suite of workstreams was arrived at by focusing on our most vulnerable members of our community and through explicit consideration of equity as described in Manager's Budget Addendum (MBA) #16, *Community and Economic Recovery Budget*, which is included as an appendix to this document.

Though the significant resources provided by the American Rescue Plan and other federal and State legislation provide a surge of one-time money for urgent investments and spending, the City still faces a structural imbalance in the General Fund, and several other Special Funds have been severely impacted by the pandemic – including funds reliant upon hotel taxes and parking revenues. While the Adopted Budget reallocates the resources necessary to put the Special Funds on more solid footing, only 15% of the ongoing shortfall in the General Fund is resolved on an ongoing basis.

Resolving only this modest portion of the General Fund shortfall is deliberate. Putting forth additional cost-cutting actions would have exceeded the “belt-tightening” directed in the Mayor's March Budget Message in a way that would more adversely impact community-facing services, including those that serve our most vulnerable communities. This relatively small reduction to the ongoing shortfall is appropriate given the economically uncertain environment, the large amount of resources available from the American Rescue Plan, and the need to preserve services that benefit our most vulnerable residents. However, this approach means that a significant portion of the ongoing shortfall will need to be addressed in the near future. Maintaining fiscal resiliency is foundational to ensuring equitable service delivery for the community, and the City has long been guided by sound budgeting principles to ensure a budget that aligns ongoing expenditures with ongoing revenues¹. As we emerge from the pandemic with a focus on our community's recovery, we will also need to focus on bringing the City's General Fund budget back into structural balance over the next year.

¹ See Exhibit 1 to this message, “City of San José Budget Principles #1: Structurally Balanced Budget” and [City Council Policy 1-18, Section 2: Fiscal Integrity](#)

2021-2022 ADOPTED OPERATING BUDGET MESSAGE

Total Adopted Budget

The 2021-2022 Adopted Budget totals \$5.1 billion for all City funds (General, Special, and Capital). This amount is \$333.5 million (7.0%) above the 2020-2021 Adopted Budget (Table 1 below) and is primarily attributable to the second issuance of Measure T general obligation bonds, resources from the American Rescue Plan Fund, and slightly higher General Fund resources.

2021-2022 Adopted Budget — All Funds (Table 1)			
	2020-2021 Adopted	2021-2022 Adopted	% Change
General Fund	\$ 1,547,689,229	\$ 1,586,737,216	2.5%
Special Funds	2,644,236,028	2,755,411,520	4.2%
<Less: Operating Transfers>	(808,424,841)	(787,269,130)	(2.6%)
Net Operating Funds	3,383,500,416	3,554,879,606	5.1%
Capital Funds	1,406,431,266	1,569,724,897	11.6%
<Less: Capital Transfers>	(4,095,000)	(5,259,000)	28.4%
Net Capital Funds	1,402,336,266	1,564,465,897	11.6%
Total	\$ 4,785,836,682	\$ 5,119,345,503	7.0%

Position Impacts

The Adopted Budget includes a net increase to the overall position count throughout the organization. The Base Budget includes the elimination of 99 positions as these positions were funded on a one-time basis only in the 2020-2021 Adopted Budget. Of the 154 positions added as part of the Adopted Budget in the General Fund and other Funds, a third of the increase is associated with the ongoing establishment of the consolidated Beautify San José Program (BeautifySJ, 26 positions), the restoration of hours on a one-time basis for Branch Libraries serving lower-resourced neighborhoods (16 positions), and the funding of the San José Abierto/Placemaking and Activation program (13 positions). Other additions include reestablishing some of the positions that were funded on a one-time basis last year. Overall, the level of staffing increases a net 55 positions, from 6,592 full-time equivalent positions in the 2020-2021 Adopted Budget to 6,647 positions in the 2021-2022 Adopted Budget, as shown in Table 2 below.

Changes in Position Count (All Funds) from 2020-2021 Adopted to 2021-2022 Adopted Budget (Table 2)	
2020-2021 Adopted Budget	6,592 positions
2021-2022 Base Budget Changes	(99) positions
2021-2022 Adopted Budget Changes – General Fund	69 positions
2021-2022 Adopted Budget Changes – Other Funds	85 positions
Total Net Position Changes	55 positions
2021-2022 Adopted Budget	6,647 positions

Balancing the General Fund Budget – An Ongoing Shortfall Remains

2021-2022 ADOPTED OPERATING BUDGET MESSAGE

In February 2021, the Administration prepared the 2022-2026 Five-Year Forecast and Revenue Projections document to estimate the budget condition of the General Fund and selected Capital Funds over the next five years. The Forecast anticipated an ongoing shortfall of \$48.1 million in 2021-2022. That shortfall was revised to \$38.3 million, primarily due to higher than initially estimated Property Tax proceeds related to the Educational Revenue Augmentation Fund (ERAF) based on updated information provided by the State of California and the County of Santa Clara.² While an improvement, a \$38.3 million ongoing shortfall represents a significant challenge to resolve.

Table 3 below displays the incremental General Fund surplus and shortfall over the next five years. It is important to note that the surpluses in the outyears are only achieved if the \$38.3 million shortfall in 2021-2022 is fully resolved with ongoing solutions. Any portion of the shortfall resolved with one-time funds gets carried over the following year. Over the five-year forecast horizon, the General Fund shortfall is forecasted at \$28.5 million.

Table 3. 2022-2026 Revised General Fund Five-Year Forecast
(\$ in millions)¹

	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026	Five-Year Surplus/ (Shortfall)
Incremental Surplus/ (Shortfall)	(\$38.3)²	\$3.3	\$0.2	\$4.4	\$1.9	(\$28.5)

¹ Does not include 1) costs associated with services that were funded on a one-time basis in 2020-2021; 2) costs associated with unmet/deferred infrastructure and maintenance needs; and 3) one-time revenue sources or expenditure needs.

² This figure was revised from the \$48.1 million shortfall as presented in the February 2021 Forecast as a result of continued analysis of projected revenues and expenditures.

As described in the General Fund Balancing Strategy (Table 4), the 2021-2022 Adopted Operating Budget uses \$45.0 million from American Rescue Plan funds to resolve the 2021-2022 shortfall for this year and pay for high-priority one-time projects and programs in the General Fund. However, because the Balancing Strategy only includes \$6.7 million in ongoing solutions, one-time solutions of \$31.6 million are still required to balance the budget, which will need to be addressed in 2022-2023. In accordance with the City's budget policies and principles, the Administration will engage the City Council during the next budget development cycle to bring the General Fund back into structural alignment once the pandemic is mostly behind us and the economic picture becomes clearer.

² Please see General Fund Revenue Estimates for a more information regarding the estimation of Property Tax proceeds.

2021-2022 ADOPTED OPERATING BUDGET MESSAGE

General Fund Budget Balancing Plan

As displayed in Table 4 below, the 2021-2022 Adopted General Fund Budget Balancing Plan includes actions to resolve the \$38.3 million shortfall forecasted for 2021-2022. 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 is discussed in detail throughout the Adopted Budget.

2021-2022 Adopted Operating Budget General Fund Budget Balancing Plan (in 000's) (Table 4)		
	2021-2022	Ongoing
2021-2022 General Fund Shortfall	\$ (38,283)	\$ (38,283)
Balancing Strategy		
Source of Funds		
Beginning Fund Balance:		
2020-2021 Excess Revenue/Expenditure Savings	\$ 11,340	\$ 0
2021-2022 Future Deficit Reserve	11,076	0
Business Tax Billing System Replacement Reserve	1,305	0
Other Reserve Liquidations	810	0
Grants/Reimbursements/Fees		
Urban Area Security Initiative Grant (Office of Emergency Management)	603	0
Fire Department Non-Development Fee Changes	454	454
Family Camp Suspension	(177)	0
Other Fee Programs/Reimbursements/Grants	4,598	1,009
Other Revenue		
Transfer from the American Rescue Plan Fund	45,000	0
Office of Equality Assurance – Labor Compliance	150	150
Transfer from the Integrated Waste Management Fund (CDDD)	(150)	0
Overhead Reimbursements/Transfers from Other Funds	1,864	1,539
Subtotal Source of Funds	\$ 76,873	\$ 3,152
Use of Funds		
Service Level Enhancements	\$ 30,939	\$ 17,284
Unmet/Deferred Technology, Infrastructure, and Maintenance	19,699	0
2020-2021 Previously One-Time Funded Services	8,664	1,189
Earmarked Reserves (Essential Services, IT Sinking Fund, PD Redistricting)	7,150	0
Other Fee Programs/Grants/Reimbursements	4,375	230
New Facilities Operations and Maintenance	3,055	4,849
Cost Reductions/Service Delivery Efficiencies/Funding Shifts	(7,243)	(5,941)
Use of Reserves (Salaries & Benefits, Committed Additions, Deferred Maint.)	(28,049)	(21,164)
Subtotal Use of Funds	\$ 38,590	\$ (3,553)
Total Balancing Strategy	\$ 8,283	\$ 6,705
Remaining Balance	\$ 0	\$ (31,578)

Focused Approach to Prioritize Community and Organizational Needs

The Adopted Budget balances many competing community and organizational needs while ensuring that the resources of all City funds remain in balance and thoughtfully deployed.

While the budget development process is informed by a variety of factors, the five inputs shown at right are the key drivers that provide the strategic approach to prioritize community and organizational needs.



*The Mayor's March Budget Message for Fiscal Year 2021-2022*³, as approved by the City Council, identifies the main investment priorities for the budget process, and directs the City Manager to employ the *Budget Balancing Strategy Guidelines*⁴ that outline a number of general approaches to use in the development of the budget. *City Council Policy 1-18*⁵ and *City of San Jose Budget Principles*⁴ further ensures that the Administration apply best budgetary practices and work to align ongoing revenues with ongoing expenditures. New to the 2021-2022 Adopted Operating Budget is the *City Roadmap*⁴. Approved by the City Council on March 15, 2021, this tool is a prioritized list of the City's most important policies, strategies, and projects to implement critical community and organizational change initiatives.

At the heart of the budget development process are considerations of equity. While the City has always carefully considered community impacts – especially when recommending service reductions – we have become more intentional in taking into account equity when considering potential budget actions. As an example, when budget proposals are considered, in addition to assessing service and performance impacts, we also ask the question of “who benefits and who is burdened?”, and deliberately explore opportunities to lessen adverse impacts where feasible. However, we still have substantial work ahead to make sure that equity considerations translate into positive action. In particular, as equity work becomes more embedded in departmental day-to-day decision-making, budget allocation requests are not just viewed through an equity screen, but the equity analysis process itself drives the initial development of the request. As a formal initial step in this development, City departments and offices used a Budgeting for Equity worksheet to inform their budget proposal process. Manager's Budget Addendum (MBA) #21⁶ discusses this process and what was learned in greater detail; the City is committed to improving upon this effort and toolset during the development of future budgets.

A discussion regarding some of the most impactful budget actions follow, along with a listing of the section of the document that describes the various actions in more detail. The actions are grouped by their alignment with the investment priorities of the Mayor's March Budget Message:

- Supporting an Equitable Recovery for a “Better Normal”
- Back to Basics: a Cleaner, Safer San José
- Accelerating Solutions to Homelessness and the Affordable Housing Crisis
- Fiscal Resilience and Our Future

³ Mayor's March Budget Message: <https://sanjose.legistar.com/LegislationDetail.aspx?ID=4812654&GUID=0776CD9C-508F-4289-A7FF-F2E16E0FC8D5&Options=&Search=>

⁴ Please see Exhibit 2 to this memorandum.

⁵ City Council Policy 1-18: <https://www.sanjoseca.gov/Home/ShowDocument?id=50375>

⁶ MBA #21 – *Budgeting for Equity*: <https://www.sanjoseca.gov/home/showpublisheddocument/73584/637583852262870000>

Focused Approach to Prioritize Community and Organizational Needs (Cont'd)

Supporting an Equitable Recovery for a "Better Normal"

When the COVID-19 pandemic first appeared, the City swiftly responded by standing up a robust and responsive Emergency Operations Center with a primary focus of supporting at-risk communities and populations, including funding and coordinating food and necessities distribution, providing homeless support and sheltering services, and funding and coordinating local assistance for individuals, families, small businesses, and non-profits. As the City and community begin the transition to recovery, an equitable allocation of existing and external resources remains a foundational principle.



As an equity cornerstone, the Adopted Operating Budget makes permanent the Office of Racial Equity that was funded on a one-time basis in 2020-2021. This Office will advance a city-wide racial equity framework to examine and improve San José's internal policies, programs, and practices to eradicate structural and/or institutional racism that may exist in our City government and ultimately improve outcomes for Black, Indigenous, and People of Color (which includes, but is not limited to, Latino/a/x and Asian and Pacific Islander).

The City Council's approval of the Mayor's March Budget Message directed the establishment, continuation, and/or expansion of a number of programs to invest in those hardest hit by the pandemic—the largest being the establishment of the Resilience Corps with a goal of quickly employing 400 young adults residing in high-poverty and high-unemployment neighborhoods within key programs such as logistical support at vaccination and testing centers, food and necessities distribution, tutoring and child care services, watershed protection and wildfire safety, small business support through digital marketing promotion and activation, and disaster resilience and preparedness.

Other Mayor's Message items to equitably build back better include the extension of San José Al Fresco, programs to invest in small businesses and local manufacturing, continuing the drive toward digital inclusion, and leveraging resources to improve educational opportunities. These and other programs funded through American Rescue Plan resources are listed in Attachment D to this message and discussed at greater length in MBA #16, *Community and Economic Recovery Budget*, included as an appendix to this budget document.

The focus on ensuring equity also extends to budgetary considerations for the operation of the City's neighborhood branch libraries. In response to the large ongoing shortfall during the previous budget cycle, actions in the 2020-2021 Adopted Operating Budget reduced hours at all branches and the Martin Luther King, Jr. Library by four hours per week effective July 1, 2021.

Focused Approach to Prioritize Community and Organizational Needs (Cont'd)

While the Library Department continues to develop a revised service delivery model that leverages additional technology enhancements and facility improvements (such as self-service lockers) that allow the partial restoration of the reduced hours with lower staffing levels on an ongoing basis, the pandemic has slowed that model's development and rollout.

As a bridge strategy, the Adopted Budget includes an equity-focused approach to restoring branch operating hours on a one-time basis in 2021-2022 that provides greater access to families and community members who experience barriers to access library services. The Library Department identified 13 branches serving under-resourced communities based on data such as library gate count, computer usage, Wi-Fi usage, hotspot circulation, housing and homelessness, access to basic knowledge and information technology, and inclusiveness; as well as transportation routes, and census data related to the population by age and poverty and income levels. This equity index also included the City's Digital Inclusion Priority Index and the Santa Clara County Public Health COVID-19 transmission data. In addition, the Adopted Budget provides one-time funding to establish Family Learning Centers at Edenvale and Educational Park. A description of the methodology to develop the equity index is described in MBA #21, *Budgeting for Equity*⁷.



A listing of these and other notable budget actions within this category is provided below:

- Resilience Corps (\$15.9 million) /Attachment D
- Digital Inclusion and Data Equity (\$3.8 million)/Attachment D
- San José Small Business and Manufacturing Recovery Initiative (\$1.0 million)/Attachment D
- Office of Racial Equity (\$967,000)/City Manager's Office
- Library Branch Hours and Operations for Lower Resourced Communities (\$900,000)/Library
- San José Al Fresco (\$700,000)/Attachment D
- San José Aspires Administrative Support (\$538,000)/Attachment D
- Summer Learning Loss and SJ Learns (\$500,000)/Attachment D
- Energy Saving Retrofits (\$500,000)/Attachment D
- Storefront Activation Program (\$200,000)/Attachment D
- Language Access Coordination (\$200,000)/City Manager's Office
- Disability Community Engagement and Service Evaluation (\$150,000)/City Manager's Office
- Racial Equity Action Plan (\$100,000) /Housing

⁷ MBA #21 – Budgeting for Equity: <https://www.sanjoseca.gov/home/showpublisheddocument/73584/637583852262870000>

Focused Approach to Prioritize Community and Organizational Needs (Cont'd)

Back to Basics: a Cleaner, Safer San José

The impacts of the pandemic have also heightened the importance that San José be a clean, safe, and welcoming environment for community members and visitors. The Adopted Budget leverages external funding to help achieve this outcome.



Artist: Jet Martinez; Capitol Park Mural, 2020

The most significant investment of additional ongoing resources in the Adopted Budget is the permanent expansion of BeautifySJ. BeautifySJ operations grew dramatically in the summer of 2020 as the City worked to mitigate increases in litter and illegal dumping, instituted a major trash collection program at a number of large homeless encampments, and coordinated with inter-agency partners such as Caltrans to address blight conditions outside the City's direct control. Initially developed and deployed from the Emergency Operations Center, as directed by the City Council-approved Mayor's March

Budget Message, the Adopted Budget transitions BeautifySJ to the Parks, Recreation, and Neighborhood Services Department (PRNS). While there will continue to be coordination with other City Departments such as Housing and Transportation, PRNS will serve as the single manager for BeautifySJ, consolidating the Removing and Preventing Illegal Dumping (RAPID) team from the Environmental Services Department and homeless encampment management and abatement activities from the Housing Department, as well as anti-graffiti and anti-litter activities, Cash for Trash, neighborhood beautification grants, dumpster days, and other related work efforts. For 2021-2022, the San José Bridge Employment Program will transition from PRNS to the Housing Department to broaden the scope of work and ensure additional wrap around services such as transitional housing, job training, and connections to social service programs are provided to program participants.

This significant expansion of BeautifySJ requires additional funding of \$11.0 million in 2021-2022. The Adopted Budget allocates resources from the American Rescue Plan to fund the \$11.0 million expansion in 2021-2022 and potentially for another two years, if other funding commitments allow. Once external funding is depleted, the ongoing cost will be paid by the General Fund and included in future five-year forecasts, as appropriate.

Federal funding will also be used for a range of one-time investments in safety, blight reduction, and neighborhood activation, including expanding the Services Outreach Assistance and Resources (SOAR) Program from 16 to 26 homeless encampment sites; focused maintenance and stewardship of Guadalupe River Park and Coyote Creek; and the San José Abierto placemaking and events program that expands Viva Parks from a summer program to a year-round, city-wide program producing over 100 events, funds four Viva CalleSJ events, and produces festivals to engage local artists and arts organizations.

2021-2022 ADOPTED OPERATING BUDGET MESSAGE

Focused Approach to Prioritize Community and Organizational Needs (Cont'd)

A listing of these and other notable budget actions within this category is provided below:

- BeautifySJ Consolidated Model (\$11.0 million)/PRNS and Attachment D
- Placemaking/San José Abierto Program (\$4.2 million)/PRNS and Attachment D
- New Public Safety Facilities M&O (\$2.0 million, Fire Stations 37 and 20)/Fire
- Guadalupe River Park & Coyote Creek Clean-Up (\$1.4 million) /Attachment D
- Beautify San José Street Landscape Maintenance Program (\$1.0 million)/Transportation
- Vehicle Abatement Program – Proactive Patrol and Complaint Response (\$450,000)/Attachment D
- Downtown Automated Public Toilets (\$400,000)/Attachment D
- Foot Patrol in Downtown and High Needs Neighborhoods (\$750,000)/Police
- San José 311 Enhancements (\$750,000)/Information Technology
- Traffic Safety and Illegal Sideshows (\$500,000)/Police
- Project Hope (\$500,000)/PRNS
- SJ Bridge Public Restrooms (\$300,000)/Attachment D
- Welch Park and Eastridge Recreation (\$121,000)/PRNS
- BeautifySJ Grants (\$100,000)/Attachment D

Accelerating Solutions to Homelessness and the Affordable Housing Crisis

The significant influx of federal and State funding throughout the pandemic has allowed the City to provide a broader range of services to our unhoused community, including the construction and operation of interim and emergency housing sites. The Mayor's March Budget Message and other actions described in the Adopted Budget continue this investment.

The City has a total of seven interim and emergency housing sites and hotels. The budget identifies the gap funding necessary to construct the eighth site (E Lot), and to operate all sites through 2022-2023. While the Housing Department previously secured funding to operate the seven existing sites through 2021-2022, American Rescue Plan funding or another alternative source will be required to fund all eight in 2022-2023. In the meantime, the City will work to identify funding sources to continue operations into the future.

Focused Approach to Prioritize Community and Organizational Needs (Cont'd)

Interest in the construction of accessory dwelling units (ADUs) continues to surge, as the City processed 26 times the number of ADU applications in 2020 as it did in 2015, and ADUs represented 38% of all the housing permits pulled in 2020. To meet this demand, the Adopted Budget includes staffing in the Building Development Services program to support expedited review of ADU permit applications and the one-time continuation of the ADU Ally position in the General Fund to serve as the City's main point of contact and help streamline review processes for ADU applications, and conduct data tracking and analysis to ensure the successful continuity of the program.



A listing of these and other notable budget actions within this category is provided below:

- Hotel Sheltering Operation and Services (\$4.0 million) /Attachment D
- South Hall Demobilization and Housing Assistance Center (\$3.6 million)/Attachment D
- Eviction Help Center (\$3.1 million)/ Attachment D
- Homeless Services Outreach Assistance and Resources (SOAR) Program (\$3.0 million) /Attachment D
- Emergency Interim Housing Site Identification and Construction (\$2.5 million)/Attachment D
- Accessory Dwelling Unit Staffing (\$658,000)/PBCE
- Homeless Response and Coordination Staffing (\$400,000)/Housing
- Policy Studies and Consulting Services (\$280,000)/Housing
- Pre-Development Consulting Services (\$275,000)/Housing
- Affordable Housing Portfolio Management Staffing (\$173,000)/Housing
- Housing Catalyst Staffing (\$167,000) /Office of Economic Development and Cultural Affairs
- YIGBY Land Use Policy Development (\$75,000) /Attachment D

Focused Approach to Prioritize Community and Organizational Needs (Cont'd)

Fiscal Resilience and Our Future

The focus of the Adopted Budget is to support an equitable community and economic recovery. At the same time we must ensure the fiscal resilience of the City as an organization. This is why, even with a significant influx of one-time resources, the Adopted Budget includes a 15% ongoing reduction to resolve the ongoing General Fund shortfall. This commitment to budgetary discipline is also why strategic use of American Rescue Plan monies should ensure potential future year funding to mitigate the ongoing shortfall carried over into 2022-2023, and why the Administration will need to engage the City Council during the next budget development cycle to bring the General Fund back into alignment on an ongoing basis once the pandemic is mostly behind us and the economic picture becomes clearer.



To address a portion of the ongoing General Fund shortfall, the Adopted Budget contains a number of ongoing cost reduction strategies that leverage the elimination of vacant positions – including civilianization actions to eliminate vacant sworn positions in both the Fire and Police Departments, moderate reductions to non-personal/equipment spending, and appropriately shift spending within eligible funding sources. Though they do further limit the City's capacity, these expenditure reductions are not anticipated to result in significant service reductions, nor do they result in

employee layoffs. The additional expenditure reductions considered in the development of the Adopted Budget would have resulted in more substantial community impacts that were otherwise avoided due to the availability of American Rescue Plan funding.

Table 5 below shows how using \$31.6 million in one-time funding to partially address the estimated shortfall in 2021-2022 impacts the incremental surplus projection in 2022-2023. The shortfall preliminarily forecasted for 2022-2023 is now estimated at \$28.3 million, as opposed to the \$3.3 million surplus included in Table 3 as part of the 2022-2026 Revised General Fund Five-Year Forecast.

Focused Approach to Prioritize Community and Organizational Needs (Cont'd)

**Table 5. Impact of One-Time Solutions to the Ongoing Incremental Surplus/(Shortfall)
(\$ in millions)**

	2022-2023	2023-2024	2024-2025	2025-2026
Incremental Surplus/ (Shortfall)	\$3.3	\$0.2	\$4.4	\$1.9
Remaining Ongoing Shortfall from 2021-2022	(\$31.6)			
Revised Incremental Surplus/(Shortfall)	(\$28.3)			

The Mayor’s March Budget Message gave direction to allocate at least \$80 million in funding from the American Rescue Plan into a reserve to address future budgetary shortfalls and to provide resources to fund community and economic recovery efforts over a multi-year period. Though U.S. Treasury Department regulations do not allow American Rescue Plan funding to be allocated to a reserve, a total of \$78.4 million remains unallocated in the Adopted Budget. Of this amount, the Adopted Budget assumes that \$28.3 million may need to be used to address the preliminarily forecasted General Fund shortfall for 2022-2023, leaving a remaining \$50.1 million available to fund additional or expanded recovery efforts later in 2021-2022, or in a subsequent year.



Artist: Samuel Rodriguez; from the Holding the Moment Exhibition, 2020

In addition to resolving the 2021-2022 General Fund shortfall, the Adopted Budget also allocates \$2.5 million from the American Rescue Plan to ensure that the Convention and Cultural Affairs Fund remains in balance. With the severe decline in business and leisure hotel stays and the virtual cessation of events at the Convention Center and other cultural and event venues since the pandemic’s onset, and the expected slower recovery in this economic sector, Transient Occupancy Tax receipts will not be sufficient to help offset the cost of operating the Convention Center and other cultural facilities. A transfer of \$2.5 million from the American Rescue Plan Fund will prevent a negative balance in the Convention and Cultural Affairs Fund.

Finally, fiscal resilience is also linked to the investment in basic infrastructure rehabilitation and equipment replacement. Each year, the City makes General Fund budgetary allocations to address a small portion of the deferred maintenance and infrastructure backlog to ensure the continued provision of basic City services and continued operation of City facilities. The Adopted Budget includes several urgent and strategic investments in core services such as radio replacements, replacement of the business tax system, rehabilitation of the Singleton gas flare and collection system, and rehabilitation of City-owned cultural facilities and Police Administration Building. Not only are these one-time expenditures necessary to continue core City operations, they also lessen what would otherwise be increased future maintenance and operating costs.

2021-2022 ADOPTED OPERATING BUDGET MESSAGE

Focused Approach to Prioritize Community and Organizational Needs (Cont'd)

A listing of these and other notable budget actions are listed below:

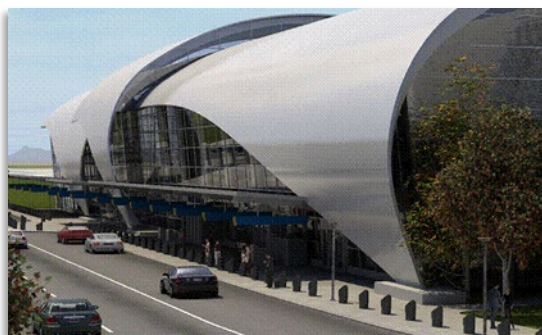
- Transfer to the Communications Construction and Conveyance Tax Fund (Radio Replacement, \$5.25 million)/ General Fund Capital, Transfers, and Reserves
- Self-Contained Breathing Apparatus Equipment Replacement (\$3.0 million)/Fire
- Transfer to the Public Safety and Infrastructure Bond Fund (Fire Station 20, \$2.3 million)/General Fund Capital, Transfers, and Reserves
- Closed Landfill Compliance (\$2.3 million)/General Fund Capital, Transfers, and Reserves
- Information Technology Sinking Fund Reserve (\$2.0 million)/ General Fund Capital, Transfers, and Reserves
- Cultural Facilities Rehabilitation Projects (\$907,000)/ General Fund Capital, Transfers, and Reserves
- Police Administration Building Boiler and Chiller Replacement (\$525,000)/ General Fund Capital, Transfers, and Reserves
- Pension Obligation Bonds Consulting Services Reserve (\$200,000)/ General Fund Capital, Transfers, and Reserves
- Development Services Imaging and Call Center Staffing (-\$1.2 million)/PBCE
- Overtime Usage (-\$660,000)/Fire
- Fee Activities Program Expenditure Reduction (-\$525,000)/PRNS
- Reprographics Contractual Services Savings (-\$462,000)/All Depts
- Workplace Safety Staffing (-\$300,000)/Fire
- Bureau of Field Operations Administration Staffing (-\$248,000) /Police
- Emergency Medical Services Staffing (-\$245,000)/Fire
- Office of Civic Innovation – Management Staffing (-\$244,000) /City Manager’s Office
- Electrical Maintenance Staffing (-\$228,000)/Public Works
- Facilities Preventative Maintenance (-\$214,000)/Public Works
- Community Center Operations Support (-\$226,000)/PRNS
- Crime Evidence and Warehouse Unit Staffing (-\$198,000) /Police

Focused Approach to Prioritize Community and Organizational Needs (Cont'd)

Other Budget Actions

This City provides a full range of diverse services from airports to zoos, many funded from dedicated and restricted revenue streams. As highlighted below, the 2021-2022 Adopted Budget seeks to ensure that City services are effectively resourced within available funding levels to meet community expectations, as well as the goals and objectives of the Mayor and City Council.

Airport Resilience. Though passenger traffic at the Norman Y. Mineta San José International Airport has been severely impacted by the pandemic, the Airport remains well-positioned for recovery as the economy rebounds. In addition to reducing costs in the 2020-2021 Adopted Budget and prudently using prior rounds of federal Coronavirus Aid, Relief, and Economic Security Act money to partially offset revenue losses, the recent 2021 refunding of Airport Revenue Bonds has yielded significant savings, including debt service savings in 2021-2022 of \$48.3 million and \$188.2 million over the life of the bonds. Associated with this refunding, the Airport was the first airport in the nation to have its Standard & Poor's (S&P) bond rating outlook changed from Negative to Stable. All three bond ratings from S&P (A-), Moody's (A2), and Fitch (A) remained unchanged.



Associated with this refunding, the Airport was the first airport in the nation to have its Standard & Poor's (S&P) bond rating outlook changed from Negative to Stable. All three bond ratings from S&P (A-), Moody's (A2), and Fitch (A) remained unchanged.

Renewable Energy and Energy Resilience. In February 2019, the Community Energy Department launched San José Clean Energy (SJCE), supplying residents and businesses with cost competitive electricity with higher renewable content than PG&E. As SJCE continues to grow, the Adopted Budget adds staffing to ensure prudent financial management practices, improve capacity to engage in the regulatory and legislative process to ensure the long-term financial stability, develop and manage the implementation of community energy efficiency programs that align with Climate Smart San José strategies to reduce energy use and accelerate the deployment of greener technology, and outreach to customers on the promotion of programs that will help low-income and disadvantaged communities reduce their energy bills and benefit from clean energy technologies. The Adopted Budget also continues the City's efforts to explore, develop, coordinate, and deliver a comprehensive package of strategies and programs to improve energy resiliency at critical City-owned and community facilities, and areas of new development for residents and businesses.



Focused Approach to Prioritize Community and Organizational Needs (Cont'd)



Maintaining Critical Utility Infrastructure. While much of the investment necessary to rehabilitate and maintain the unseen or unnoticed infrastructure essential for day-to-day activities – such as potable and recycled water distribution, sanitary sewer conveyance, and wastewater treatment – is described in the Adopted Capital Budget, increased investment in operating expenditures are also required. The 2021-2022 Adopted Operating Budget includes funding allocations for deferred maintenance projects for the South Bay Water Recycling System,

increased funding for chemical supplies and staffing additions and realignments to appropriately support the Regional Wastewater Facility, and for the purchase of specialized vehicles to ensure timely repairs for the sanitary sewer collection system.

Traffic Safety and Parking Operations. The City continues to emphasize the importance of safety for all modes of transportation. Leveraging funds from the Traffic Capital Program, the Adopted Budget adds ongoing staffing resources to implement Vision Zero, Quickbuild, and other investments to advance safety for pedestrians, bicycles, and vehicles on the City's transportation network. While the City has not seen a significant drop-off in the revenues that fund the Traffic Capital Program, including construction taxes related to private development activity, revenues generated by the City's parking garages and meters have fallen dramatically and will likely be slow to recover. Due to the lower revenue collections, the General Purpose Parking Fund cannot support the same level of services in previous years; and as a result, the Adopted Budget includes funding for services such as Downtown Automated Public Toilets and Vehicle Abatement from American Rescue Plan funds, and transferring funds back into the Parking Operating Fund that were previously allocated for capital rehabilitation of parking system infrastructure.



Focused Approach to Prioritize Community and Organizational Needs (Cont'd)



Artist: Jesse Hernandez; Title: Aztec Underpass, 2021

The Importance of Art and Artists. While revenue from the Transient Occupancy Tax, the City's main source of revenue supporting cultural arts, has fallen to unprecedentedly low levels, the need for art to be intertwined into public life has never been more important. Along with the allocation of \$2.0 million from the American Rescue Plan to partially offset the impact to artists and arts organizations, the Administration will be making organizational changes that elevate the prominence of cultural arts within

the City Manager's Office. With this budget, the Office of Economic Development will now be titled the Office of Economic Development and Cultural Affairs, and several staffing realignments and changes will occur over the next several months to reflect the influence that arts programming has on the City's economic and cultural development.

The 2021-2022 Adopted Operating Budget contains a number of other notable actions not previously discussed that are listed below grouped by City Service Area.

Community and Economic Development

- Environmental Review Staffing (\$658,000)/PBCE
- Economic Development Pre-Development Activities (\$100,000)/City-Wide Expenses

Environmental and Utility Services

- South Bay Water Recycling System Maintenance and Operations (\$3.5 million)/ Environmental Services
- Regional Wastewater Facility Chemical Supplies (\$1.5 million)/ Environmental Services

- Solid Waste Enforcement and Compliance Staffing (\$982,000)/ Environmental Services
- Sanitary Sewer Maintenance Equipment (\$625,000)/ Transportation
- Climate Smart San José Plan Implementation (\$500,000)/ City-Wide Expenses

Neighborhood Services

- Police Activities League Facilities Support (\$328,000)/PRNS
- Fiscal and Employee Services Support Staffing (\$242,000)/PRNS
- Volunteer Management (\$113,000) /PRNS

2021-2022 ADOPTED OPERATING BUDGET MESSAGE

Focused Approach to Prioritize Community and Organizational Needs (Cont'd)

Transportation and Aviation

- Pavement Markings Staffing (\$332,000)/Transportation
- Airport Closed Circuit Television Storage (\$350,000)/Airport
- Our City Forest (\$225,000) /Transportation

Strategic Support

- Learning and Development Roadmap (\$500,000)/City-Wide Expenses
- Cost Allocation Plan Review (\$302,000)/Finance

- Digital Privacy Staffing (\$212,000)
- Commercial Paper Program Fees (\$175,000)/City-Wide Expenses
- Office of Equality Assurance Labor Compliance Staffing (\$163,000)/Public Works
- Community Emergency Response Training Program (\$161,000)/City Manager's Office
- Emergency Operations Staffing (\$157,000)/Public Works

Fees and Charges Adjustments

The 2021-2021 Adopted Budget includes a range of adjustments to fees and charges to provide the resources necessary to pay for operating and capital improvement expenses. No utility rate increase is included for the Storm Sewer Service Charge or the Sewer Service and Use Charge. The Municipal Water Utility System assumes a revenue increase of 9.0% for 2021-2022. For Recycle Plus rates, a 17.0% increase is approved for single-family dwellings and 7.0% increase is approved for multi-family dwellings.

In the Development Fee Programs, fee adjustments of approximately 3% are approved for the Planning, Citywide Planning, and Building Fee Programs, 4% for the Public Works Program, and 8% for the Fire Program, to align program revenues with costs, maintain works-in-progress reserves, and enhance service levels where appropriate. Other upward and downward adjustments to various other departmental fee programs are included to generally maintain City Council-approved cost recovery rates. The fee changes are described in the 2021-2022 Adopted Fees and Charges document that was released under separate cover.

2021-2022 ADOPTED OPERATING BUDGET MESSAGE

Capital Budget Overview

Presented as a separate document, the City's 2021-2022 Adopted Capital Budget totals \$1.6 billion and the 2022-2026 Adopted Capital Improvement Plan (CIP) totals \$3.8 billion. The 2021-2022 Adopted Capital Budget represents an 11.6% increase from the 2020-2021 Adopted Capital Budget of \$1.4 billion and, from a five-year perspective, a 5.1% increase above the 2021-2025 Adopted CIP of \$3.7 billion.

While capital-related revenues have stabilized and are beginning to recover from the worst of the pandemic's impacts, available resources remain limited, particularly within the Airport and Parking Capital Programs, which have seen significant declines in passenger and parking activity, respectively, when compared to recent years. Though not related to the pandemic, the Storm Sewer Capital Program also faces significant funding declines as the storm sewer service charge fee rate has remained flat over the past decade. Identifying a more sustainable funding source will be a top priority for the CIP in the next three years.



Economy Lot 1 Parking Garage under construction

Even before the onset of the pandemic, the City lacked sufficient resources to fully maintain and fund its entire infrastructure portfolio. The Status Report on Deferred Infrastructure Maintenance Backlog, presented to the Transportation and Environment Committee on March 1, 2021, identifies an infrastructure backlog of approximately \$1.7 billion, with an additional \$92.8 million needed annually to maintain the City's infrastructure in a sustained functional condition. Though the existing backlog of \$1.7 billion is expected to decrease as Measure T projects are fully implemented—including \$300 million for street pavement maintenance—the City must continue to search for additional resources and leverage grant opportunities to ensure San José's public assets are appropriately maintained.

2021-2022 ADOPTED OPERATING BUDGET MESSAGE

Capital Budget Overview (Cont'd)

Capital Program by City Service Area

Each of the 14 capital programs is aligned to one of the six City Service Areas (CSAs). Table 6 below compares the 2022-2026 Adopted CIP with the 2021-2025 Adopted CIP for each CSA.

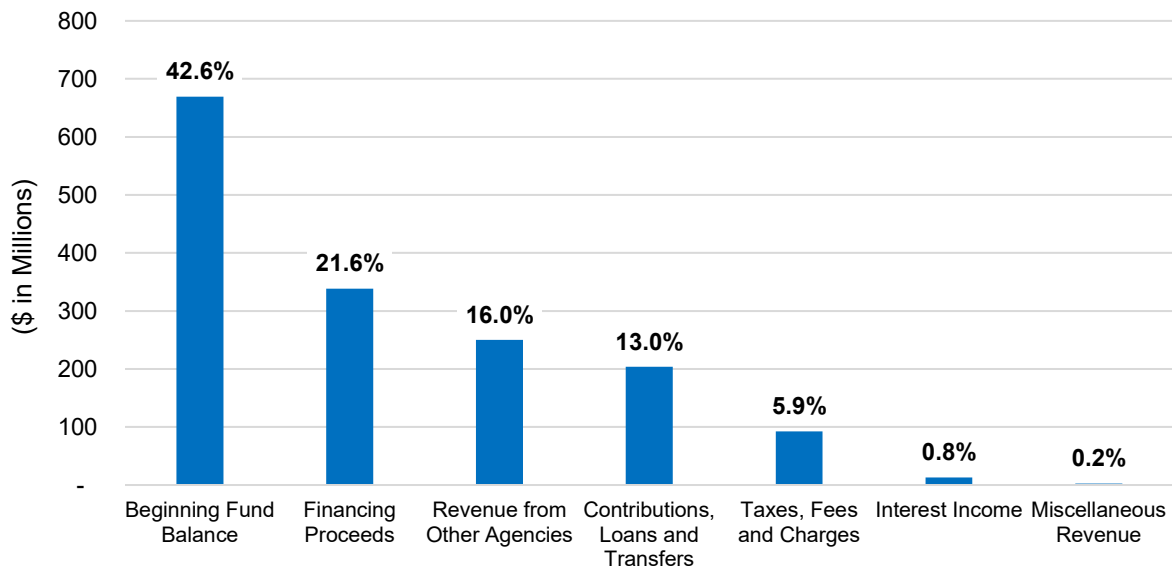
**Table 6. 2022-2026 Adopted CIP compared to 2021-2025 Adopted CIP
(By City Service Area)**

City Service Area	2021-2025 Adopted CIP	2022-2026 Adopted CIP	% Change
Community and Economic Development	\$19,690,939	\$20,437,096	3.8%
Environmental and Utility Services	1,583,241,094	1,602,190,080	1.2%
Neighborhood Services	363,752,584	400,802,001	10.2%
Public Safety	235,150,328	219,291,523	(6.7%)
Transportation and Aviation Services	1,356,623,777	1,431,462,019	5.5%
Strategic Support	96,161,444	165,248,548	71.8%
Total	\$ 3,654,620,166	\$3,839,431,267	5.1%

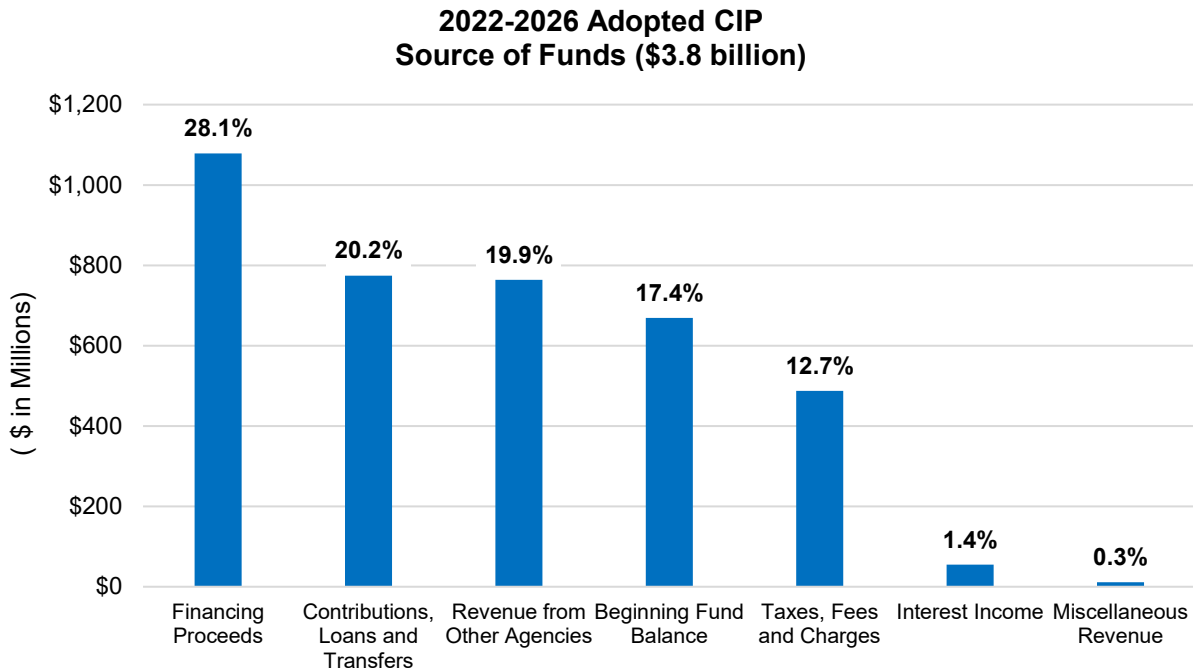
Capital Program Funding Sources

The Capital Program is supported by a variety of funding sources as shown in the graphs below that depict both the 2021-2022 and five-year funding.

**2021-2022 Adopted Capital Budget
Source of Funds (\$1.6 billion)**



Capital Budget Overview (Cont'd)



The 2022-2026 Adopted CIP includes revenues of \$1.1 billion from Financing Proceeds. The Water Pollution Control Capital Program accounts for \$659.8 million from bond proceeds (\$450.8 million) and revenue notes (\$209.0 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 (\$235.1 million), Public Safety (\$93.0 million), Storm Sewer (\$50.6 million), Parks (\$12.5 million), and Municipal Improvements (\$11.9 million) capital programs incorporate Measure T bond proceeds totaling \$403.1 million that will be issued throughout the CIP five-year period. The Parks and Community Facilities Development capital program accounts for \$8.3 million in commercial paper proceeds to address remediation projects related to the 2017 flood event. Finally, the Service Yards capital program includes \$7.6 million from bond proceeds for various facility improvement projects at the Central Service Yard.

Contributions, Loans and Transfers total \$774.4 million. The largest transfers of funds are from the Sewer Service and Use Charge Fund to the Water Pollution Control Capital Program (\$243.5 million) and to the Sanitary Sewer System Capital Program (\$175.0 million). The Transfer from the General Fund totals \$123.3 million for capital projects with no other dedicated funding source.

2021-2022 ADOPTED OPERATING BUDGET MESSAGE

Capital Budget Overview (Cont'd)

Revenue from Other Agencies category totals \$763.5 million and is comprised of contributions from other agencies that use the Water Pollution Control Plant (\$266.4 million); State (\$180.3 million) and federal (\$173.2 million) grants and allocations; and Revenue from Local Agencies (\$141.7 million) which derives most of its funding from the Valley Transportation Authority to fund pavement maintenance (\$124.5 million).

The Beginning Fund Balances in the 2022-2026 CIP total \$669.4 million, representing 17.4% of the 2022-2026 CIP. The Traffic Capital Program has a Beginning Fund Balance totaling \$200.8 million, representing a significant amount of carryover project funding that will be spent over the next five years. The Parks and Community Facilities Development Capital Program's Beginning Fund Balance is \$149.0 million, with a majority of the funds reserved pending determination of a final scope for projects, final project locations, and/or availability of future funding within a nexus of a project facility.

The 2022-2026 Adopted CIP includes an estimate of \$487.2 million in the Taxes, Fees and Charges category, a major increase when compared to the estimated level of \$375.7 million in the 2021-2025 Adopted CIP, but still well below the 2020-2024 Adopted CIP estimate of \$522.7 million from pre-COVID-19 pandemic levels. Most of this revenue category is comprised of the Construction and Conveyance (C&C) Tax (\$184.0 million), Building and Structure Construction Tax (\$96.0 million), Construction Excise Tax (\$86.0 million), and Airport Passenger Facility Charge (PFC) (\$114.9 million) proceeds. These four major revenue sources collectively account for almost all of the increases in this revenue category when compared to 2021-2025 Adopted CIP estimates.



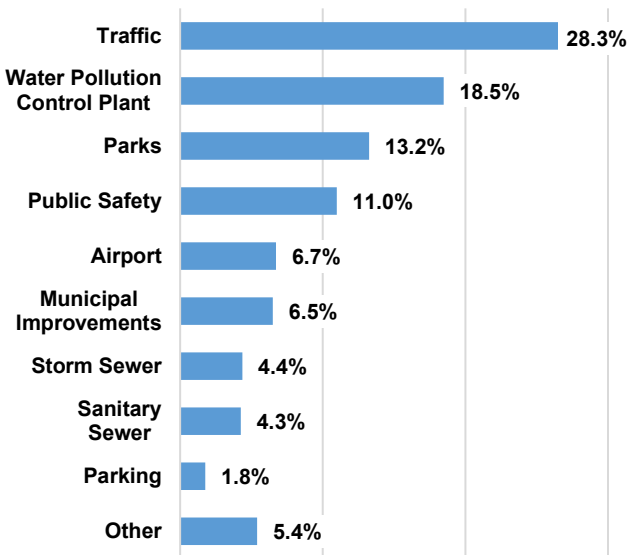
Upgraded Digester Facilities

Capital Budget Overview (Cont'd)

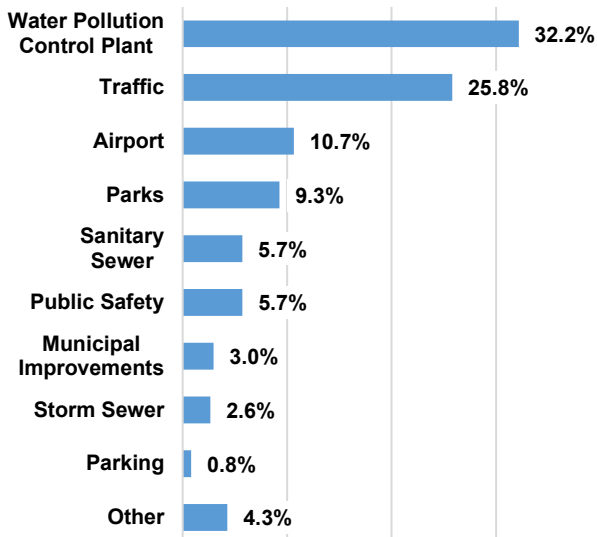
Capital Program Investments

The CIP consists of 14 capital programs. The following chart depicts the uses of funds by capital program and percentage of funding for the 2021-2022 Adopted Capital Budget and the 2022-2026 Adopted CIP. Major projects to be completed over the next five years are highlighted in the sidebar.

**2021-2022 Adopted Capital Budget
Use of Funds (\$1.6 billion)**



**2022-2026 Adopted CIP
Use of Funds (\$3.8 billion)**



Major Projects to be Completed Over the Next Five Years

2021-2022 Projects

- All-Inclusive Playground/Emma Prusch
- East San José Bike/Pedestrian Transit Conn.
- Measure T: New Fire Station 37
- Measure T: Fire Station 20 (ARFF)
- McKee Road Corridor Safety Improvements
- Penitencia Creek Dog Park
- Quimby/Fowler Creek Riparian Restoration
- Route 101/Trimble/De La Cruz Interchange

2022-2023 Projects

- Advanced Facility Control/Meter Replacmt.
- Aircraft Waste Disposal/Fuel Service Reloc.
- Balbach Street Transportation Improvements
- Better Bikeways San Fernando
- Fourth Major Interceptor, Phase VIIA
- Measure T: Emergency Operations Center Relocation
- New Headworks
- Plant Electrical Reliability
- Willow-Keyes Complete Streets

2023-2024 Projects

- Digested Sludge Dewatering Facility
- Measure T: Fire Station 8 Relocation
- Measure T: LED Streetlight Conversion
- Measure T: New Fire Station 32
- Measure T: Police Training Center Reloc.
- Measure T: Storm Drain Imp. Charcot Ave
- North San José Reliability Well

2024-2025 Projects

- Measure T: Fire Station 23 Relocation
- Measure T: Critical Infrastructure
- New Disinfection Facilities
- Terminal B Ramp Rehabilitation
- Technology Drive Sanitary Sewer Improve.
- Measure T: New Fire Station 36

2025-2026 Projects

- Copper to Fiber Conversion
- Nitrification Clarifier Rehabilitation
- Terminal A Ramp Rehabilitation
- TS2 Traffic Signal Cabinet Upgrades

2021-2022 ADOPTED OPERATING BUDGET MESSAGE

Capital Budget Overview (Cont'd)

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 to be contributed to road rehabilitation. Those priorities are reflected in this CIP, with \$461.4 million allocated over the next five years, including \$256.6 million budgeted in 2021-2022. Approximately \$147.8 million was expended in 2019-2020 and 2020-2021. Of the remaining \$39.6 million in ending fund balance, \$37.5 million will be allocated to the pavement maintenance project in 2026-2027.

Measure T Public Safety and Infrastructure Bond Fund (498) (Projected Expenditures in 2022-2026 CIP)

Program	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026	5-Year Total
Traffic						
Bridges	\$5,000,000	\$3,000,000	\$3,000,000	\$4,000,000		\$15,000,000
Pavement Maintenance	37,500,000	37,500,000	37,500,000	37,500,000	37,500,000	\$187,500,000
LED Streetlight Conversion	471,000	5,628,000	2,000,000			\$8,099,000
Admin – Traffic	21,000					\$21,000
Admin Reserve – Traffic	116,000					\$116,000
Total Traffic	\$43,108,000	\$46,128,000	\$42,500,000	\$41,500,000	\$37,500,000	\$210,736,000
Public Safety						
Fire Station 37	\$1,600,000					\$1,600,000
Fire Station 8 Relocation	2,874,000	9,408,000	387,000			12,669,000
Fire Station 23 Relocation	4,875,000	583,000	9,992,000	993,000		16,443,000
New Fire Station 32	2,095,000	9,268,000	386,000			11,749,000
New Fire Station 36	1,811,000	13,279,000	1,000,000	390,000		16,480,000
Fire Station 20 (ARFF)*	800,000					800,000
Emergency Operations Center Relocation	8,783,000	300,000				9,083,000
Police Training Center Relocation	4,643,000	25,766,000	389,000			30,798,000
Police Air Support Unit Hangar	1,464,000	8,400,000	100,000			9,964,000
911 Call Center Upgrades	663,000	1,978,000	198,000			2,839,000
PD Headquarters Upgrades	16,000	10,000				26,000
Public Safety Reserves	9,200,000		9,782,000			18,982,000
Public Art - Pub Safety	679,000	550,000	90,000	7,000		1,326,000
Admin WC - Public Safety	346,000	344,000	12,000			702,000
Admin Reserve - Public Safety	1,350,000	17,000				1,367,000
Total Public Safety	\$41,199,000	\$69,903,000	\$22,336,000	\$1,390,000		\$134,828,000
Storm Sewer						
Charcot Pump Station	\$24,634,000	\$2,077,000	\$15,000			\$26,726,000
Clean Water Projects	6,556,000	1,407,000	15,494,000			23,457,000
Public Art – Storm Sewer	313,000	33,000	158,000			504,000
Admin – Storm Sewer	107,000	110,000	33,000			250,000
Admin Reserve – Storm Sewer	122,000	391,000				513,000
Total Storm Sewer	\$31,732,000	\$4,018,000	\$15,700,000			\$51,450,000
Municipal Improvements						
Environmental Protection Projects	\$550,000	\$100,000	\$2,800,000			\$3,450,000
City Facilities LED Lighting	3,844,000					3,844,000
Critical Infrastructure			2,955,000	1,970,000		4,925,000
Admin – Muni Improvements	21,000	22,000				43,000
Admin Reserve – Muni Improvements	71,000	23,000				94,000
Total Municipal Improvements	\$4,486,000	\$145,000	\$5,755,000	\$1,970,000		\$12,356,000

2021-2022 ADOPTED OPERATING BUDGET MESSAGE

Capital Budget Overview (Cont'd)

Program	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026	5-Year Total
Parks & Community Facilities						
Community Centers/Emergency Shelters	\$958,000	\$5,358,000	\$4,839,000	\$981,000	\$6,000	\$12,142,000
Public Art – Parks	14,000	56,000	50,000	10,000		130,000
Admin – Parks	15,000	27,000	28,000	29,000		99,000
Admin Reserve Parks		26,000	55,000	8,000		89,000
Total Parks & Community Facilities	\$987,000	\$5,467,000	\$4,972,000	\$1,028,000	\$6,000	\$12,460,000
Total Expenditures	\$121,512,000	\$125,661,000	\$91,263,000	\$45,888,000	\$37,506,000	\$421,830,000
Ending Fund Balance	\$135,076,000	\$11,715,000	\$47,974,000	\$2,086,000	\$39,580,000	\$39,580,000
Total Uses	\$256,588,000	\$137,376,000	\$139,237,000	\$47,974,000	\$77,086,000	\$461,410,000

* Measure T Public Safety and Infrastructure Bond funds (\$4.6 million) have been used for the reconstruction and expansion of Fire Station 20, which was not part of the original list of projects identified to be funded through Measure T. The transfer of \$2.3 million from the General Fund is included in the 2021-22 Adopted Capital Budget to partially replenish funding for Fire Station 20. An additional \$2.3 million will need to be identified as part of future budget cycles from eligible funding sources.

The Administration has moved quickly to implement Measure T projects. As the program matures and as improvements are further scoped and designed, the exact cost and phasing of the projects will continue to shift in the coming years. Work in 2021-2022 will focus on continuing with design or construction for multiple projects, such as the new and relocation of existing fire stations, the Emergency Operations Center, and the Police Training Center. It is important to note that the Public Safety Program Reserve of \$19.0 million is allocated to provide a contingency for public safety projects. The CIP also 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 most recent bi-annual update to the City Council on the status of the Measure T program occurred in June 2021.



Artist rendering of Fire Station 37

2021-2022 ADOPTED OPERATING BUDGET MESSAGE

Capital Budget Overview (Cont'd)

Operating Budget Impacts

The CIP continues to balance the delivery of capital programs with the limited resources available to operate and maintain existing and newly-constructed facilities. The Administration also pursues strategies to ensure the most cost-effective operation of City facilities, including installing capital improvements that reduce costs, such as energy efficient lighting and traffic signals. The table below summarizes the additional annual resources required to operate and maintain new facilities coming on-line during the five-year CIP or planned by other agencies (such as developers).

Projected Total New Operating and Maintenance Costs (Cumulative)

Project Type	2022-2023	2023-2024	2024-2025	2025-2026
Parks Facilities	391,000	838,000	1,311,000	1,397,000
Public Safety Facilities	31,000	5,095,000	9,883,000	14,144,000
Traffic Projects	58,000	94,000	116,000	132,000
General Fund Total	480,000	6,027,000	11,310,000	15,673,000
Storm Sewer		163,000	173,000	183,000
Water Pollution Control Plant	2,213,000	10,478,000	14,996,000	15,446,000
Special Fund Total	2,213,000	10,641,000	15,169,000	15,629,000
All Funds Total	2,693,000	16,668,000	26,479,000	31,302,000

For the General Fund, these costs are estimated at \$480,000 in 2022-2023 and are anticipated to increase to \$15.7 million by 2025-2026. The majority of the costs are for Public Safety facilities, including new Fire Stations 32 and 36, as well as the new Police Training Center and the full activation of the South San José Police Substation.

In addition, the expanded infrastructure investment at the Water Pollution Control Plant will result in significant operating costs to the San José-Santa Clara Treatment Plant Operating Fund in the coming years. It is estimated that additional maintenance and operations costs will total \$2.2 million starting in 2022-2023, largely due to completion of large projects such as the Digester and Thickener Facilities Upgrade. In 2023-2024, the additional operating costs at the Plant are expected to increase to \$10.5 million, to \$15.0 million in 2024-2025 and \$15.4 million in 2025-2026, as the Digested Sludge Dewatering Facility is expected to come online and replace the existing sludge storage lagoons.

2021-2022 ADOPTED OPERATING BUDGET MESSAGE

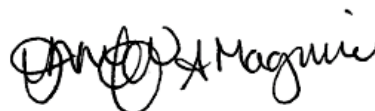
CONCLUSION

The 2021-2022 Adopted Budget is both a reflection of what we have collectively accomplished over the past year and the work we still have left to do. The City's quick action in the 2020-2021 Adopted Budget to anticipate and prepare for the pandemic's economic impact also effectively positioned the organization to leverage the significant influx of federal and State resources. Over the past year the City has gone to extraordinary lengths to help slow the spread of COVID-19, continue the operation of most City services under extremely challenging circumstances, and provide direct assistance to our most vulnerable populations.

As we transition from emergency response to community and economic recovery, considerations of equity continue to guide our decision-making and are reflected in the 2021-2022 Adopted Budget. All of the City's funds, including the General Fund, are brought into balance. While budget actions partially address the ongoing shortfall in the General Fund, community services will not be significantly impacted, and the strategic use of American Rescue Plan funds will prevent further reductions that would adversely impact vulnerable communities and fund critical programs to facilitate community recovery. Addressing the General Fund's ongoing structural shortfall will remain a priority for next year's budget development process, once the pandemic is mostly behind us and the economic picture becomes clearer.

I want to express appreciation for our extremely dedicated and talented staff who prepared this budget document. Over the past year, our City employees have demonstrated their commitment to providing the best possible service to the community and engaging in collaborative efforts to address new and extremely challenging problems. The Adopted Budget embodies this commitment – leveraging expertise from front line workers, to back-of-house strategic support staff, to the incredibly hard-working members of the City Manager's Budget Office that produced this document – and is a representative of the organization's efforts to achieve the best outcome possible for the San José community.

Respectfully Submitted,



Jennifer A. Maguire
City Manager

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2021-2022 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. Pose explicit questions of equity – including who benefits and who is burdened – when considering changes to City services to achieve a balanced budget.
3. While over the long term the City remains committed to balancing ongoing expenditures with ongoing revenues to maintain the City's high standards of fiscal integrity and financial management, given economic and public health uncertainty related to the COVID-19 pandemic, use a combination of ongoing and one-time solutions to resolve the General Fund shortfall in 2021-2022 that balances the need to resolve the ongoing shortfall against the community and organization impact of service level reductions in the short term.
4. Should additional Federal relief or stimulus funding become available to address the pandemic, allocate funding for response, recovery, and local assistance – with an emphasis on assisting our most vulnerable – and to help backfill lost revenue, as allowable under statutory restrictions and in context of other urgent needs.
5. To the extent possible, maintain or increase General Fund reserve levels to help address any unanticipated budgetary shortfall in the following year as a stopgap measure.
6. Evaluate program-level budgets and determine if there are opportunities to shift resources or reconfigure operations to mitigate service delivery impacts, meet the objectives of the City Roadmap, generate new revenues, address truly significant community or organizational risks, fund services added on a one-time basis in 2020-2021, 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 proposal development.
7. 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).
8. 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.
9. 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.
10. 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.
11. Explore expanding existing revenue sources and/or adding new revenue sources.
12. 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.
13. Focus any available one-time resources on investments that 1) continue high-priority programs funded on a one-time basis in 2020-2021 for which ongoing funding is not available; 2) address the City's unmet or deferred infrastructure needs; 3) leverage resources to or improve efficiency/effectiveness through technology and equipment or other one-time additions; 4) increase budget stabilization reserves to address future budget uncertainty; and/or 6) provide for funding needs for non-bond eligible furniture, fixtures, and equipment associated with the continued implementation of Measure T.
14. Engage employees in department and/or city-wide budget proposal idea development.
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.
16. Use the General Plan as a primary long-term fiscal planning tool and link ability to provide City services to development policy decisions.

2021-2022 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.

2021-2022 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.

Original City Council Approval 03/18/2008; Revised 09/09/08

San José City Roadmap | FY 2021-2022

Enterprise Priority
COVID-19 Pandemic: Community + Economic Recovery
Emergency Management + Preparedness
Creating Housing + Preventing Homelessness
Safe, Vibrant, + Inclusive Neighborhoods + Public Life
Building the San José of Tomorrow with a Downtown for Everyone
Smart, Sustainable, + Reliable City: 21 st Century Infrastructure

Project					
Housing Stabilization	Re-Employment + Workforce Development	Small Business Recovery	Food + Necessities Distribution	Digital Equity	Child Care
Vaccination Task Force					
Emergency Housing Construction + Operation	Sheltering + Enhanced Encampment Services				
Police Reforms Work Plan	San José 311 + Service Delivery	Encampment Waste Pick-Up BeautifySJ	Vision Zero Traffic Safety		
Align Zoning with General Plan	Development Services Transformation	Google Development	Major Real Estate Development Projects		
Pavement, Fire, EOC, Transit Capital Improvements	Regional Wastewater Facility Capital Improvements	Electrical Service for Major Development	Climate Smart American Cities Climate Challenge		

Strategy	
North San José Strategy	
Equity Strategy Development	Neighborhood Services Access Strategy
BART + High-Speed Rail Strategy	
Lowering PG&E Above Market Costs for Clean Energy	

Policy
Build Back Better + Recovery Task Force
Soft-Story Building Earthquake Retrofit Policy
Encampment Management + Safe Relocation Policy

Enterprise Priority Foundational
Strategic Fiscal Positioning + Resource Deployment
Powered by People

Project					
Federal + State Recovery Advocacy	Secure City Cybersecurity	Procurement Improvement	Pension Obligation Bond Analysis		
Continuity of City Services	Safe Workplace	Employee Health + Wellness	Drive to Digital	Effective Teams	

Strategy	
Budgeting for Equity	City Roadmap Budgeting, Accountability, + Performance
City Workforce Diversity + Skill Building	

Policy