

TO: SENIOR STAFF

FROM: Jennifer A. Maguire

**SUBJECT: 2022-2023 OPERATING BUDGET
DEVELOPMENT PLANNING**

DATE: December 20, 2021

PURPOSE

This memorandum provides preliminary direction to departments on developing budget submittals and employee communication plans for the 2022-2023 Proposed Operating Budget, which will be released to the City Council on May 2, 2022. Direction on the development of the 2022-2023 Proposed Capital Budget and 2023-2027 Capital Improvement Program has been released under separate cover. Please note that the Mayor's March Budget Message for Fiscal Year 2022-2023, as approved by the City Council, will provide more specific budget direction that will be incorporated into the 2022-2023 Proposed Budget.

BACKGROUND

The City's Budget Outlook

Over the past two years, the COVID-19 pandemic has significantly impacted our community, the services we provide, and our workforce. Throughout this time, we have leaned into the crisis by providing wide-ranging emergency response activities, as well as expanding and creating new services. All these activities took place within a very uncertain and challenging budgetary environment and without the influx of external funding – primarily through the federal government's Coronavirus Relief Fund and the American Rescue Plan Fund – much of this work would not have been possible. However, the external funding that enabled our pandemic response and recovery activities is not everlasting and will soon be all spent.

Fortunately, with the most significant economic impacts from the pandemic behind us, we expect to see improving revenues in many City funds, including the General Fund. A preliminary review of internal forecasts by Budget Office staff and projections by third parties indicate relatively strong revenue growth in the General Fund for the current fiscal year, with more moderate levels of growth anticipated in 2022-2023. In addition to the positive revenue news, due to the historically robust investment returns in 2020-2021 that exceeded 25%, future City contributions to the City's Federated and Police & Fire retirement systems are expected to decline. The combination of positive revenue growth and decreasing retirement costs is welcome news for the General Fund, especially since many of the response and recovery initiatives made necessary by the pandemic – and the large number of other priority programs currently funded on a one-time basis in 2021-2022 – will need to continue into 2022-2023 and

beyond, even if the external funding resources like the American Rescue Plan Fund are no longer available.

If we exclude consideration of the myriad of programs currently funded on a one-time basis in the General Fund (e.g., restoration of library branch hours in lower-resourced communities, Project Hope, and the Police Sworn Hire Ahead program, among many others) and City Roadmap response and recovery initiatives currently budgeted in the American Rescue Plan Fund (e.g., Beautify San José, San José Abierto, SOAR, small business recovery initiatives, and others), the General Fund tentatively appears balanced in 2022-2023, and continued improvement is likely in future years due to lower projected retirement costs. However, we know that many of these one-time funded community-serving programs are priorities for the City Council, community, and Administration; their elimination would cause negative service impacts that no one would want for our city. Therefore, from a practical perspective, when including these one-time funded critical programs that should likely instead be considered as ongoing and not removed from the Base Budget, the City faces a structural shortfall in the General Fund.

The economic outlook, while improved for much of the City's resources, is not as robust for operations related to the airport, convention and cultural facilities, and parking facilities. Further, we know many of our enterprise programs face cost increases that will impact rates and challenge our ability to deliver necessary, cost-effective services. These special fund resources will need to be carefully considered and managed as departments conduct their internal budgetary review.

2022-2023 GENERAL FUND BUDGET BALANCING STRATEGY

Because of the structural shortfall and the need to solidify and make permanent critical community-serving programs that are currently only funded on a one-time basis, the objective of the 2022-2023 budget development process is to bring the City's General Fund budget back into ongoing structural alignment over the next two to three years (both budgetarily and on a service basis). Since retirement contributions are projected to continue to decline beyond next fiscal year, it is expected that the City can again leverage a combination of ongoing and one-time funding to continue these important priorities in 2022-2023 and appropriately incorporate many of them in our ongoing funding commitments, as the ongoing condition of the General Fund is expected to further improve in 2023-2024.

While City Council approval of the Mayor's March Budget Message for Fiscal Year 2022-2023 will further clarify and prioritize the City's key objectives for the budget development process, the Administration's preliminary approach focuses on the following:

- Evaluate and recommend the continuation, where appropriate, of high-priority programs funded on a one-time time basis in 2021-2022 in the General Fund, with the expectation that a significant portion will be recommended for funding on an ongoing basis beginning in 2022-2023;

- Evaluate and recommend, where appropriate, the continuation of community and economic workstreams currently budgeted in the American Rescue Plan Fund, with the expectation that some workstreams will be recommended for ongoing funding in the General Fund, and some will be recommended to be again one-time funded within the American Rescue Plan Fund;
- Address a very small number of new initiatives to resolve limited gaps for City Roadmap items, and focus on a small handful of key policy priority areas, including public safety; and
- The restructuring and shifting of existing resources to better meet the City's ongoing service level objectives.

It is important to stress that our initial General Fund projections are still preliminary. The status of the pandemic continues to rapidly evolve, as may the economic conditions upon which the forecast is based. With the additional information that will become available over the next couple of months, all projections will be updated for the Five-Year General Fund Forecast scheduled for release at the end of February 2022.

Equity. Throughout the pandemic, the City has prioritized its response activities to assist those most vulnerable, both from a public health and economic perspective. This approach will continue into 2022-2023 as we deliberately pose questions of equity by asking who benefits, who might bear any adverse impacts of budgeting decision-making, and if that can be mitigated. The Office of Racial Equity and the Budget Office have revised the Budgeting for Equity worksheet, described below, to help guide departments' internal discussion on budget adjustments impacting service delivery. Explicit considerations of racial and economic equity will inform and drive the 2022-2023 Proposed Budget development process.

City Roadmap. The City Council-approved 2021-2022 City Roadmap identifies the most important programs, strategies, and policies to drive service improvements. Though the 2022-2023 City Roadmap is still under development and will be brought forward for City Council approval in early 2022, several the existing initiatives are likely to continue into the following fiscal year. As a result, departments are expected to ensure that their budget submittal package provides sufficient resources to complete the identified roadmap items as necessary, primarily through the reallocation of existing resources.

2022-2023 BUDGET PROPOSAL SUBMITTALS

Budget Proposal Considerations

The package of budget proposal submittals from departments must consider the continuation of programs previously funded on a one-time basis in the General Fund and workstreams currently funded with American Rescue Plan Fund resources; reflect a thoughtful evaluation of departmental services, including key performance measures that assess the effectiveness – or limited effectiveness – of a service; and fully consider implementation feasibility that incorporates place-based and equity-focused strategies, as appropriate. Individual proposals should fall under one of the following categories listed below.

- **Consideration of 2021-2022 one-time items.** Certain programs and services in the 2021-2022 Adopted Budget were included on a one-time basis, but have been funded on this one-time basis for a number of years due to their high priority to the City Council, community, and Administration and the lack of ongoing funds. There may also have been new programs funded in 2021-2022 on a one-time basis that should continue into 2022-2023, if resources allow. Departments are expected review these items currently funded on a one-time basis to evaluate how some of these programs should be structured to continue into 2022-2023, and beyond, based on their performance levels. While not an exhaustive list, for reference, many of these items are shown in **Attachment A**.
- **Consideration of workstreams currently funded by the American Rescue Plan Fund.** The pandemic made immediate and, in some cases, lasting impacts on our community and organization. To respond, the City took advantage of the significant external funding sources to provide critical pandemic response and recovery programs. Even as the immediate impacts from the pandemic recede, the underlying need to provide these services may remain. Departments should assess their respective workstreams (the 2021-2022 current allocation is shown in **Attachment B**) to determine if they should continue, the time period (one-time or ongoing), and at what service level. Prior to submitting a budget proposal, please contact the Budget Director to discuss your preliminary evaluation and approach.
- **Revenue proposals.** Proposals for new revenue sources may be considered but must include an implementable plan with estimates that can be certified by both the Department Director and the Budget Director. Departments should also seek to improve cost-recovery levels if feasible, balanced against service delivery implications and impacts on fee and rate payers whereby a cost-recovery structure may be lower in certain circumstances.
- **Net-zero shifts.** Departments are encouraged to recommend the realigning or shifting of resources with a net-zero General Fund impact in order to better meet department objectives, implement City Roadmap initiatives, take advantage of operational efficiencies, and discontinue underperforming programs. As many departments have significant ongoing budgets to enable program delivery, reallocations of those resources are expected to be proposed to adjust to changing conditions, shore up problematic areas, or confront new challenges. Departments should also carefully review the performance and effectiveness of their programs; poorly performing programs should be viewed as candidates for elimination, which would then allow those resources to be redeployed to enhance the effectiveness of other programs.
- **Address a very limited number of high priority ongoing needs.** In a handful of cases, it may be necessary to bring forward proposals that are not fully offset by reductions in other areas. These proposals should address specific prior direction from the City Council or the City Manager's Office and be discussed in advance with the Budget Director.

- **Prioritize and limit one-time addition proposals.** As only a modest amount of one-time funding will be available, proposals seeking to leverage one-time funding should generally be limited to the following: 1) addressing critical unmet or deferred infrastructure/maintenance needs; and 2) enhancing efficiency/effectiveness through technology, equipment, or other one-time investments, such as grant-matching.
- **Balance proposals with forecasted resources in Special and Capital Funds.** Carefully review service levels in areas resourced by the City's various Special and Capital Funds. Any proposed actions should thoughtfully address any new or expanded service demands and assess the cumulative impact of the proposed actions in the context of available reserves and the revenue outlook for the fund's respective revenue sources. Proposals should clearly identify any impacts to fees or rates. Fee and rate increases should be minimized, to the extent possible, to ensure the City's fees and rates are competitive with neighboring jurisdictions. For those programs that allocate resources city-wide, work on enhancing or further developing a practice of place-based and equity-focused strategies to allocate these resources.

As described in more detail in **Attachment C** (2022-2023 Operating Budget Submittals), budget proposals should be made at the program (decision-making) level and prioritized at the departmental level. However, these proposals shall be set in the City Service Area (CSA) context, as individual departmental actions impact the ability to achieve overall CSA priorities. Please note that the complement of budget proposals that will be brought forward for City Council consideration will be based on a thorough evaluation of all the proposals submitted, plus others that may arise from direction provided in the Mayor's March Budget Message, Budget Office analysis, and/or employee and community engagement efforts. As always, the final budget proposals submitted to the City Council for consideration are the City Manager's recommendations based on your best advice and the vetting and deliberation that will occur through our internal process. Submissions should consider the 2022-2023 DRAFT Budget Balancing Strategy Guidelines which are largely consistent with those approved by the City Council as part of the Mayor's March Budget Message for Fiscal Year 2021-2022 as well as the City of San José Budget Principles; both of which are also included in **Attachment C**.

Equity Considerations in Developing Budget Proposals

Departments are directed to intentionally embed equity as a strategy for the development of their budget proposal package and the planned use of existing resources for next year. To assist with this process, the Office of Racial Equity and the Budget Office continue to refine the Budgeting for Equity worksheet that builds on the equity review and analysis performed last year. Whereas last year departments were asked to analyze how their overall proposal submittal package and resource allocation impedes or furthers equity, this year departments are directed to analyze how specific proposals and resource allocation impedes or advances equity of a *community-serving Core Service*. For Strategic Support CSA departments, please select a *Core Service* of your choosing based on the budget proposals you are recommending for 2022-2023. For those departments collaborating with the Office of Racial Equity to take a deeper dive on performance measures within a *Core Service* using a results-based accountability framework, use that same

Core Service for the Budgeting for Equity worksheet. The exercise of completing the Budgeting for Equity worksheet assesses the impacts of budget decisions for people of color and low-income communities by identifying potential burdens of budget reductions or benefits of reallocations from existing resources or very limited additions. Departments should identify which data indicators were used to inform the proposals and what data should be collected moving forward to inform future budget decisions and to monitor progress.

As we continue the work of embedding equity considerations in our service delivery and budgetary decision-making processes, we know that the results will be imperfect; however, we need to continue challenging ourselves to grow in this area, and ensure that we continue to be thoughtful and intentional about advancing equity. The Budgeting for Equity worksheet and accompanying instructions and resources are included as **Attachment D**. In addition, departments are highly encouraged to [schedule time](#) with the Office of Racial Equity team for general questions and consultations from January 3 through January 26.

Transmittal Memorandum

A transmittal memorandum to the Budget Office from an individual department or jointly prepared by the CSA is due on **January 27, 2022** and should contain the following elements:

- A high-level summary of the department budget development strategies that includes a discussion of how proposals are prioritized – including how the department evaluated the continuation of previously one-time funded programs and American Rescue Plan-funded workstreams – and how the proposal package aligns with the City Roadmap;
- The completed Budget for Equity worksheet; and
- Certification from the Director that all proposals are entered into the Hyperion budgeting database.

EMPLOYEE COMMUNICATION/ENGAGEMENT

Each Department Director is expected to communicate with his/her employees regarding the 2022-2023 budget process and actively seek input and engage employees in budget proposal development. No formal synopsis of your departmental employee communication/engagement plan is required to be submitted to the City Manager's Office; however, Department Directors are expected to ensure that employees:

- are well-informed in a timely fashion and understand the budget issues facing their department and the City;
- have a structured opportunity to bring forward ideas that reduce costs, generate additional revenue, or improve service delivery; and
- have a mechanism to get information/questions answered.

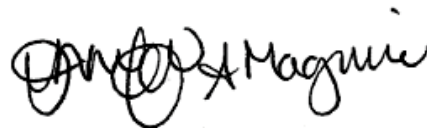
In addition to the departmental employee communication processes and the ongoing Employee Suggestion Program, the City Manager's Office will have a mechanism to receive employee input

on development of the budget. As was the case last year, a form¹ can be accessed on the Budget Office intranet site where employees can submit their ideas directly to the City Manager's Budget Office. While the goal is to have employees work with their departments on budget submittal ideas, this option provides an alternative for employees, particularly for those ideas that are city-wide in nature. It is very important that our employees know that their work, as well as their feedback in the budget process, are valued.

CONCLUSION

The development of the 2022-2023 Proposed Budget allows the Administration to bring forward a balanced budget in over 135 funds that cover a wide variety of City services. While the City's overall budget condition has improved, including the General Fund, we still face a structural shortfall when considering the need to continue many of the critical programs that have been previously funded on a one-time basis and those community and economic recovery workstreams that are primarily budgeted within the American Rescue Plan Fund. It is critical that we use the budget proposal process to structurally realign ongoing service delivery expectations with available ongoing resources in a strategic manner to ensure that we can continue to support our most important work efforts and our most vulnerable populations.

If you have any questions about the 2022-2023 budget process, please contact Jim Shannon, Budget Director. Thank you in advance for your thorough and thoughtful work on developing your departmental budget proposals.



Jennifer A. Maguire
City Manager

cc: Executive Staff
Council Appointees

Attachment A: 2021-2022 One-Time Funded Items
Attachment B: 2021-2022 American Rescue Plan Fund – Response and Recovery Workstreams
Attachment C: 2022-2023 Operating Budget Submittals
Attachment D: Budgeting for Equity Worksheet

¹ <http://www.sjcity.net/FormCenter/Budget-16/Employee-Ideas-for-Balancing-the-Budget-80>

2021-2022 One-Time Funded Items

(not an exhaustive list and excludes capital expenses, reserves, and most rebudgets)

Department	Proposal/Program/Workstream	Estimated Cost
City Attorney	Proactive Legal Enforcement of Blighted and Nuisance Properties	242,000
City Attorney	Santee Neighborhood Injunction Support	159,000
City Attorney	Worker's Compensation Litigation Support Staffing	150,000
City Attorney	City Attorney Support for Public Safety Initiatives	90,000
City Clerk	Commission Interpretation Services	80,000
City Manager's Office	Urban Areas Security Initiative Grant Staffing	678,000
City Manager's Office	Language Access Coordination	200,000
City Manager's Office	Disability Community Engagement and Service Evaluation	150,000
City-Wide	Climate Smart San José Plan Implementation	500,000
City-Wide	Learning and Development Roadmap	500,000
City-Wide	Park Strip Tree Planting	210,000
City-Wide	Blight Busters	150,000
City-Wide	Friends from Meals on Wheels	130,000
City-Wide	Citywide Tree Inventory Study	120,000
City-Wide	Eastridge/Tully Business Association	100,000
City-Wide	Economic Development Pre-Development Activities	100,000
City-Wide	First 5 Santa Clara County	100,000
City-Wide	Weavers' Gift Ohlone Sculpture Restoration	86,000
City-Wide	Behavior Change Campaign and Beautification	83,000
City-Wide	School of Arts & Culture at Mexican Heritage Plaza - Avenida de Altares	75,000
City-Wide	Alum Rock Park 150th Anniversary	73,100
City-Wide	Hispanic Foundation of Silicon Valley	50,000
City-Wide	The Trash Punx	50,000
City-Wide	BeautifySJ Dumpster Days	38,500
City-Wide	Ujima Adult and Family Services	35,000
City-Wide	San Jose Parks Foundation Rebate Program	20,000
City-Wide	Story Road Corridor Banner Installation	12,000
City-Wide	10,000 Degrees	10,000
City-Wide	San Jose Downtown Association	5,000
Housing	Affordable Housing Portfolio Management Staffing (Blighted Properties/RLEI)	173,000
Housing	Safe RV Parking	20,000
Housing	Catalyze SV	5,000
Information Technology	San José 311 Enhancements	750,000
Library	Library Branch Hours and Operations for Lower Resourced Communities	675,000
OEDCA	Silicon Valley Leadership Group	20,000
OEDCA	Coronado Avenue Street Closure Pilot	9,300
PBCE	Accessory Dwelling Unit Ally Staffing	151,000
Police	Sworn Hire Ahead	7,000,000
Police	Foot Patrol in Downtown and High Needs Neighborhoods	750,000

2021-2022 One-Time Funded Items

(not an exhaustive list and excludes capital expenses, reserves, and most rebudgets)

Department	Proposal/Program/Workstream	Estimated Cost
Police	Community Service Officers	700,000
Police	Police Public Records Team Staffing	560,000
Police	Traffic Safety and Illegal Sideshows	500,000
Police	Police Redistricting	350,000
Police	Police Backgrounding Services	300,000
Police	Domestic Violence - High Risk Response Team	120,000
Police	Child Forensic Interviewer	38,000
Police	Fireworks Enforcement	35,000
Police	Nextdoor Solutions to Domestic Violence)	30,000
PRNS	Parks Rehabilitation Strike and Capital Infrastructure Team	785,000
PRNS	Project Hope	515,000
PRNS	Neighborhood Center Partner Program	388,000
PRNS	Police Activities League Facilities Support	328,000
PRNS	Berryessa Youth Center Afterschool Programming	130,000
PRNS	Starbird Youth Center Afterschool Programming	130,000
PRNS	Welch Park and Eastridge Recreation	121,000
PRNS	Volunteer Management	113,000
PRNS	Overfelt High School Summer Recreation	100,000
PRNS	Alviso Community Garden	78,900
PRNS	City-Owned Electric Leaf Blower Pilot	33,600
PRNS	Fee Activities (Recreational Swim)	10,700
Public Works	City of San José Disparity Study	50,000
Transportation	Beautify San Jose Landscape Maintenance Program	1,000,000
Transportation	Our City Forest	225,000
Transportation	Parking Compliance Special Operations	20,700
TOTAL		20,411,800

2021-2022 American Rescue Plan Fund - Response and Recovery Workstreams

City Roadmap Initiative and Workstream	2021-2022 Revised Budget
<i>BeautifySJ and Encampment Waste Pick-up</i>	19,265,000
BeautifySJ Consolidated Model	14,000,000
BeautifySJ Grants	100,000
Downtown Automated Public Toilets	400,000
Dumpster Days	315,000
San José Bridge Program	4,000,000
Vehicle Abatement Program, Proactive Patrol and Complaint Response	450,000
<i>Community Engagement, Communications, and COVID-19 Recovery Taskforce</i>	2,000,000
Community Engagement	500,000
COVID-19 Recovery Taskforce	500,000
Emergency Public Information	1,000,000
<i>Child and Youth Services</i>	3,838,000
Child and Youth Success	500,000
Continued Child and Youth Services (was Childcare Learning Pods)	1,800,000
Family, Friend and Neighborhood Program	500,000
San José Aspires Administrative Support	538,000
San José Learns	500,000
<i>Digital Equity</i>	5,320,000
Community WiFi	2,250,000
Data Equity Lead	200,000
Device Access	2,120,000
Digital Equity Communications, Outreach & Education	750,000
<i>Emergency Housing</i>	4,000,000
Emergency Housing Construction and Operation	4,000,000
<i>Food and Necessities Distribution</i>	14,812,771
Continued Food Services	14,812,771
<i>Housing Stabilization</i>	10,650,000
Eviction Help Center	3,100,000
Hotel Sheltering Operations and Services	4,000,000
South Hall Demobilization and Housing Assistance Center	3,550,000
<i>Sheltering and Enhanced Encampment Services</i>	4,200,000
Homeless Services Outreach Assistance + Resources (SOAR) Program	3,000,000
Downtown Homeless Mental Health Response and Support	1,200,000
<i>Reemployment and Workforce Development</i>	17,750,000
Environment Resilience Corps	3,760,000
Food Distribution Resilience Corps	10,100,000
Guadalupe River Park + Coyote Creek Clean-up Resilience Corps	1,400,000
Learning Resilience Corps	1,370,000
Small Business Resilience Corps	1,120,000

2021-2022 American Rescue Plan Fund - Response and Recovery Workstreams

	2021-2022 Revised Budget
City Roadmap Initiative and Workstream	
<i>Recovery Foundation and Drive to Digital</i>	<i>7,469,000</i>
Audio Visual Upgrades to Chambers and Committee Rooms	1,131,000
Effective Teams	850,000
Contract Processing and Support (City Clerk)	100,000
Hybrid Workplace	1,000,000
Omnichannel Strategy, Process Engineering, and Service Delivery Automation (San Jose 311)	460,000
OneCity Workplace	400,000
Recovery Management, Coordination and Compliance	3,300,000
Safe Workplace	228,000
<i>Small Business Recovery</i>	<i>14,737,000</i>
San José Abierto	3,712,000
San Jose Abierto - Council District Outdoor Activation	440,000
Downtown Outdoor Activities Marketing Campaign	200,000
Downtown Pedestrian Quality of Life + Streetscape Improvements	100,000
Quetzal Gardens Operations	75,000
San José Al Fresco	850,000
Shop Local Hub to Support Neighborhood Business Districts	100,000
Small Business + Manufacturing Recovery Initiative	1,000,000
Small Business Displacement Index Study	60,000
Small Business District Outreach (Spanish + Vietnamese)	300,000
Small Business Grants	2,750,000
Small Business Technical Assistance Revamp	125,000
Storefront Activation Grants	200,000
Supplemental Business Development Communications	300,000
Supplemental Arts and Cultural Grant Funding	2,000,000
Supplemental Economic Development Association Capacity Building	1,000,000
Supplemental Legal Assistance for Tenant	150,000
Support Festival Programming	200,000
Underwrite Creation of New Property Business Improvement Districts	1,000,000
Virtual Accelerator Program for New Businesses	175,000
<i>Other</i>	<i>825,000</i>
Energy Saving Retrofits	500,000
YIGBY Land Use Policy Development	75,000
License Plate Readers	250,000
TOTAL	\$ 104,866,771

2022-2023 OPERATING BUDGET SUBMITTALS

The 2022-2023 budget submittals are to include a high-level summary of the budget development strategies for each department as well as the individual budget proposals to implement those strategies. The components of the department budget submittals are as follows:

1. Overview of the department budget development strategy that includes a discussion of how proposals are prioritized – including how the department evaluated the continuation of previously one-time funded programs and American Rescue Plan-funded workstreams – and how the proposal package aligns with the City Roadmap
2. Budgeting for Equity worksheet that is included as a separate attachment
3. Budget proposal summary from Hyperion listing included proposals
4. Budget proposal details entered into Hyperion
5. Preliminary Business Cases for Alternative Service Delivery Models (if applicable)

Following is a description of each of these areas:

Overview of the Budget Development Strategy

Each department is to provide a Budget Development Strategy Overview memorandum that provides the big picture discussion of the approaches used to develop budget recommendations, including how performance measures drove the development process, the consideration of previously one-time funded items and American Rescue Plan-funded workstreams, and how the Budgeting for Equity worksheet informed the proposal development process within the selected community or employee-serving Core Service. Although this memorandum is specific to individual departments, the overview should still include the necessary context for review of the individual budget proposals within the broader priorities of the City Service Area (CSA), and also address the following:

- Core budget development strategies (Department/CSA priorities; categorization of budget proposals; CSA and Department-level proposal ranking/prioritization);
- How equity was imbedded as a strategy for the development of their budget proposals and the planned use of existing resources for next year;
- Alignment with the City Roadmap (as applicable);
- How the use of performance data influenced proposal development and how the proposals, if implemented, will impact performance measures going forward;
- Major proposed efficiencies or changes to current service delivery models that reduce the cost of providing existing or reconfigured services (identify any cost components with efficiency items);
- General Fund cost savings/revenue generation proposals consistent with direction;
- Any departmental restructuring proposals;
- Any City policy changes needed to implement/facilitate budget proposals under consideration;
- Any long-term opportunities (budget changes that would take longer than one year to implement); and,
- Estimated impacts to rate payers, as applicable.

2022-2023 OPERATING BUDGET SUBMITTALS

Budget Proposal Summary

The Budget Proposal Summary is a report generated from the Hyperion Budget Proposal Database that lists the name and dollar value of the budget proposals. Please include this report with the departmental submittal.

Budget Proposals

Enter budget proposals into the Hyperion Budget Proposal Database. While a hard copy of the budget proposals is not required with the transmittal memorandum, the memorandum does need to contain certification from the Department Director that all proposals are entered and complete. Following are budget proposal guidelines:

General Guidelines

- Proposals are to be developed at a program level that can be discussed and implemented.
- Proposals must clearly describe the proposed action and the expected service delivery impacts, particularly for people of color and low-income communities.
- Proposals must provide applicable performance measure data.
- Proposals must be verifiable and implementable.
- Proposals must be coordinated with impacted departments.
- Proposals that reduce General Fund costs/increase revenues should be ongoing to the extent possible.
- Proposals in other funds should be factored in the source and use statements for those funds to determine if the changes can be supported.
- Proposals will, in most cases, be effective July 1, 2022 (new position additions will initially be costed with an effective date of September 1, 2022, but will be subject to change based on recruitment timelines).
- For any new positions that will reside in City Hall, adequate space must be identified as part of the proposal.
- Proposals should minimize any rate payer increases, balancing the short-term and long-term program and capital needs with the cost to various rate payers.

Reduction or Net-Neutral Proposals

- Proposals that result in a net General Fund reduction will help address the General Fund shortfall, as well as create capacity to address high priority community and organizational needs.
- Consider Council direction related to organizational priorities and the City Roadmap when developing proposals.
- Program-level budgets should be evaluated to determine if there are opportunities to shift resources or reconfigure operations to close service delivery gaps, address truly significant community or organizational risks, and/or respond to City Council direction. Proposals recommending new or additional ongoing General Fund resources will need to be offset with expenditure reductions or verifiable revenue increases elsewhere. Proposals without a corresponding offset will not be considered unless it was previously funded on a one-

2022-2023 OPERATING BUDGET SUBMITTALS

time basis in 2021-2022 or is a workstream within the American Rescue Plan Fund, addresses a specific City Council priority, was previously directed by the City Manager's Office, and has been discussed with the Budget Director.

Revenue Proposals (Verifiable and Implementable)

- Proposals should include an implementable plan with revenue estimates that are certifiable by both the Department Director and the Budget Director.
- Fees that are not fully cost-recovery should be evaluated to be increased to improve cost-recovery levels.
- When possible, new revenue ideas should be piloted during 2021-2022 to demonstrate feasibility and allow for maximum collections in 2022-2023.

Proposals that Address Specific City Council Direction, Significant Community/Organizational Risks, and One-Time Needs

- One-time proposals should generally be limited to the following: 1) addressing critical unmet or deferred infrastructure/maintenance needs; 2) enhancing efficiency/effectiveness through technology, equipment, or other one-time investments, such as grant-matching; 3) continuing high-priority programs funded on a one-time basis in 2021-2022; 4) accelerating the pay down of existing debt obligations; and/or 5) funding needs for non-bond eligible furniture, fixtures, and equipment associated with the continued implementation of Measure T.
- In a very limited number of cases, General Fund addition proposals may be brought forward without an offset. These proposals should typically address a specific City Council direction and/or consider the applicability of ongoing funding for certain actions funded on a one-time basis in 2021-2022 and the community and economic recovery workstreams currently budgeted in the American Rescue Plan Fund. If you believe that you have a General Fund proposal that falls under the category of not requiring an offsetting action, please discuss with the Budget Director before proceeding with the proposal.

Please take into consideration Mayor and City Council policy priorities associated with the department/CSA that we know at this time, the City Manager's enterprise priorities, as well as the City Manager's 2022-2023 Proposed Budget Balancing Strategy Guidelines (Draft) found within this attachment. These guidelines are fairly consistent to those approved by the City Council as part of the Mayor's March Budget Message for Fiscal Year 2021-2022. The City of San José Budget Principles, approved in 2008, are also included after the Budget Balancing Strategy Guidelines to provide additional context for developing the budget.

The Budget Proposal Database is available now. Trainings and updated instructions will be available in early January; training invitations will be sent under separate cover. The 2022-2023 budget submittals are due on **January 27, 2022**. Please contact your Budget Office analyst with any questions.

2022-2023 OPERATING BUDGET SUBMITTALS

Alternative Service Delivery Evaluations - Preliminary Business Cases

City Council Policy 0-41 (Service Delivery Evaluation) provides the City's decision-making framework for evaluating service delivery. The Policy requires a business case analysis to be undertaken if a proposed service delivery change is expected to result in the addition, deletion, or reclassification of four or more full-time equivalent positions. The purpose of the business case analysis is to determine the feasibility of alternative service delivery as well as develop the Administration's recommendation to the City Council regarding the applicability of Council Policy 0-29 (Public-Private Competition Policy). As part of annual budget process, the Administration reviews other changes to service delivery which affect less than four full-time employees.

It is important to identify any budget proposals for service delivery model changes that are subject to the Service Delivery Evaluation Council Policy and to ensure that the appropriate business case analyses are completed, if needed, for the development of the 2022-2023 budget. The Budget Proposal Database includes a Service Delivery Evaluation check box to identify those proposals. For questions regarding the Service Delivery Evaluation process, please contact Bryce Ball, Operating Budget Coordinator, at bryce.ball@sanjoseca.gov.

2022-2023 OPERATING BUDGET SUBMITTALS

2022-2023 DRAFT 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. As the City remains committed to balancing ongoing expenditures with ongoing revenues over the long term to maintain the City's high standards of fiscal integrity and budget management, use a combination of ongoing and one-time solutions to achieve a structurally balanced budget over a two to three-year period that prioritizes the incorporation of items previously funded on a one-time basis in 2021-2022 and community and economic recovery workstreams currently budgeted within the American Rescue Plan Fund.
4. To the extent possible, maintain or increase General Fund reserve levels to help buffer against any unforeseen revenue decreases or expenditure increases, especially given the persistent nature of the COVID-19 pandemic and other economic uncertainties.
5. 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 programs added on a one-time basis in 2021-2022, 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.
6. 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).
7. 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.
8. 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.
9. 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.
10. Explore expanding existing revenue sources and/or adding new revenue sources.
11. 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.
12. Focus any available one-time resources on investments that 1) continue high-priority programs funded on a one-time basis in 2021-2022 for which ongoing funding is not available; 2) address the City's unmet or deferred infrastructure needs; 3) leverage resources to improve efficiency/effectiveness through technology and equipment or other one-time additions; 4) accelerate the pay down of existing debt obligations where applicable and appropriate; 5) increase budget stabilization reserves to address future budget uncertainty; and/or 6) funding needs for non-bond eligible furniture, fixtures, and equipment associated with the continued implementation of Measure T.
13. Engage employees in department and/or city-wide budget proposal idea development.
14. 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.
15. Use the General Plan as a primary long-term fiscal planning tool and link ability to provide City services to development policy decisions.

2022-2023 OPERATING BUDGET SUBMITTALS**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.

2022-2023 OPERATING BUDGET SUBMITTALS**City of San José Budget Principles****6) DEBT ISSUANCE**

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

7) EMPLOYEE COMPENSATION

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

8) CAPITAL IMPROVEMENT PROJECTS

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

9) FEES AND CHARGES

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

10) GRANTS

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

11) GENERAL PLAN

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

12) PERFORMANCE MEASURES

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

13) FIRE STATION CLOSURE, SALE OR RELOCATION

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

Budgeting for Equity - 2022

Overview

Budgeting is the annual decision-making process about resource allocation and, by extension, City priorities. The Budgeting for Equity worksheet is a general set of questions to guide departments in assessing the impact of budget requests on the advancement of equity and service levels to those most in need. As the coronavirus spiraled into a global pandemic, data shows that Black, Indigenous, Latinx and other people of color bear an unequal burden. Centering questions of racial equity in budgeting will help our city take a meaningful step towards improving the conditions of well-being for the people most impacted by structural racism, the pandemic, and as the economy recovers.

Departments are directed to intentionally embed equity as a strategy for the development of their budget proposal package and the planned use of existing resources for next year. To assist with this process, the Office of Racial Equity and the Budget Office continue to refine the Budgeting for Equity worksheet that builds on the equity review and analysis performed last year. Whereas last year departments were asked to analyze how their overall proposal submittal package and resource allocation impedes or furthers equity, this year departments are directed to analyze how specific proposals and resource allocation impedes or advances equity of a *community-serving Core Service*. For Strategic Support CSA departments, please select a Core Service of your choosing based on the budget proposals you are recommending for 2022-2023. For those departments collaborating with the Office of Racial Equity to take a deeper dive on performance measures within a *Core Service* using a results-based accountability framework, use that same *Core Service* for the Budgeting for Equity worksheet. The exercise of completing the Budgeting for Equity worksheet assesses the impacts of budget decisions for people of color and low-income communities by identifying potential burdens of budget reductions or benefits of reallocations from existing resources or very limited additions. Please keep in mind that while race is a predominant predictor for inequity in outcomes, other factors such as income level, gender, sexual orientation, disabilities, residential zip code, and language ability can also contribute to disparities. Departments should identify which data indicators were used to inform the proposals and what data should be collected moving forward to inform future budget decisions and to monitor progress.

The worksheet is a process and a product – i.e., the process of using these guided questions is as valuable as the information that it yields.

Timeline and Submittal Process

- Instructions, suggestions, and data resources, and the worksheet follows
- Submit a completed Budgeting for Equity worksheet along with other budget submittals to the Budget Office by January 27, 2022
- If you have any questions with this tool, please contact Dr. Andre Lockett in the Office of Racial Equity at andre.lockett@sanjoseca.gov

The Framework

The worksheet integrates racial equity principles in the budgeting process.

Racial Equity Principles in Budgeting for Equity	
<p>1. Focus on impact: Consider how the chosen <i>Core Service</i> impacts the well-being of internal and/or external historically marginalized racial groups.</p> <p>2. Establish Accountability: Use performance measures to assess progress - how much, how well, and the extent to which anyone is better off.</p>	<p>3. Leverage City Data (links provided below): <u>Disaggregate</u> and analyze existing data or gather evidence to support or guide your proposal package development. <i>Note: Qualitative data such as listening sessions, focus groups, trainings, etc. can also be leveraged. Qualitative data analyzed in conjunction with quantitative can provide a more in-depth analysis of impact.</i></p>

Budgeting for Equity Tool Instructions

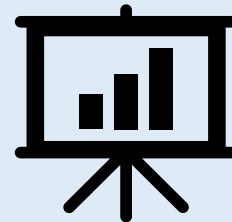
- For most departments, choose a community-serving *Core Service*; for Strategic Support CSA departments, select a Core Service of your choosing based on the budget proposals you are recommending for 2022-2023.
- The chosen *Core Service* should meet the following criteria: (a) have general understanding about racially disaggregated data, (b) have access to data to support answering the worksheet questions, and (c) have at least one staff member that is familiar with racial equity principles.
- Schedule time with Office of Racial Equity to discuss answers for this tool's questions and consultation: [Office of Racial Equity – Budgeting for Equity Hours \(Link\)](#)
- Review demographic data and use disaggregated data by race, income, and other indicators to inform your decisions.
- Be mindful of those who will benefit and those who will be burdened by your recommendations.
- All submitted worksheets should reflect an understanding of impact on communities of color.

Tips:

- ❑ When looking at the data you have at your disposal, for each measure: take note of which demographics are doing well, and which are not doing so well.
- ❑ Engage in strategic thinking around what the root cause could be for some demographics not doing as well as others. Think about how budgetary recommendations made during this process can support improving the experiences of the identified demographics not doing as well.
- ❑ Focus on progress and not perfection. Any effort to understand which demographics are benefiting and being burdened by your choices and taking actions to improve is better than taking no action at all.

Data Tools (Links)

- [San Jose Equity Atlas](#)
- [Demographic Explorer](#)
- [San Jose Neighborhood Demographics Map](#)
- [Language map](#)
- [Diversity in San Jose](#)
- [Equity Priority Communities](#)



Budgeting for Equity Worksheet

Department: Click here to enter text.

Department Contact: Click or tap here to enter text.

Reviewed/Approved by: Click or tap here to enter text. (Director Signature)

Date Click or tap to enter a date.

Equity Lens-Budgeting at a Glance

Questions 1 & 2:

- These questions provide an assessment of data that departments have at their disposal and asks how disaggregated data informed the proposal package.

Questions 3-5:

- These questions offer each department an opportunity to assess their specific budget development process for the chosen *Core Service* and consider potential benefits to communities of color and low-income communities.

Be Data Informed

1. How does disaggregated data and any of the corresponding analysis inform the proposal package? What was the source and type of data used to analyze and develop the proposal package?

Click or tap here to enter text.

2. Moving forward, what disaggregated data will you collect and track to help understand how outcomes will affect people of color or other vulnerable communities?

Click or tap here to enter text.

Assess Impact

3. What areas of the city or what demographics of people are benefiting the most from your Core Service's service reductions, reallocations, or additions? Is there a larger than average population of people of color and/or low-income communities in these areas?

Click or tap here to enter text.

4. What do you believe are the root causes or factors creating any racial or social inequities identified in the data?

Click or tap here to enter text.

5. What explicit steps will be taken in FY2022-2023 to focus existing resources to advance equity? (e.g., staffing allocation shifts for the purposes of advancing equity, diversity, and inclusion; equity groups or trainings that are happening in the Department; and/or programmatic commitments that are intended to reduce or eliminate disparities experienced by communities of color and low-income communities.)

Click or tap here to enter text.