

May 4, 2022

Honorable Mayor and City Council:

I am proud to present the 2022-2023 Proposed Operating Budget, a budget that is both focused on the highest needs of our community and works to identify sustainable ongoing funding for programs and services previously funded on a one-time basis that are important to the community and the organization. This budget follows the direction provided by the Mayor and City Council with the adoption of the Mayor’s March Budget Message for Fiscal Year 2022-2023, considers other City Council and Administration priorities, and addresses key areas of organizational risk.

The 2023-2027 Five-Year Forecast provided the starting point for this budget, which shows a more positive outlook than all of us expected at the pandemic’s onset. For the General Fund, a revised surplus of \$30.1 million is projected for 2022-2023, which is fully allocated in this Proposed Budget, followed by additional small incremental surpluses through 2026-2027 ranging from \$22.7 million to \$28.9 million. While it is the combination of growing revenues and decreasing retirement contributions that drives these surpluses, the figures are very modest as a percentage of the General Fund – from 1.6% to 2.0% of forecasted General Fund expenditures – and do not reflect the continuation of the significant surge of spending on community and economic recovery initiatives over the past two years made possible by external funding such as the Coronavirus Aid, Relief, and Economic Security (CARES) Act and the American Rescue Plan (ARP) Act. The forecasted surpluses also do not reflect the large number of services that have previously been funded on a one-time basis in the General Fund for a number of years that many would think of as base budget services.

Based on City Council’s direction by their approval of the Mayor’s March Budget Message, the Administration’s approach to the Proposed Budget is to ensure investments are made to advance key objectives and to prioritize the continuation of vital community services previously funded on a one-time basis, such as the Beautify San José Consolidated Model, the Downtown and High-Needs Neighborhoods Police Foot Patrol, and the continuation of restored hours for library branches serving lower-resourced neighborhoods.

For the City’s many other dedicated funds (e.g. Airport Funds, Integrated Waste Management Fund, Sanitary Sewer Funds) budget actions address various service delivery and infrastructure needs balanced within the available resources of each fund. All recommended service levels consider associated impacts to rate payers when developing the Proposed Budget.

Community Budget Meetings



May 11 **6pm – 8pm**
Camden Community Center
3369 Union Ave, San José
[Zoom Link](#)

May 21 **10am – 12pm**
Tully Library
880 Tully Rd, San José
[Zoom Link](#)

May 23 **6pm – 8pm**
Mexican Heritage Plaza
1700 Alum Rock Ave, San José
[Zoom Link](#)

Budget Decision Milestones

May 11 -16
City Council Study Sessions

May 17/June 13
Public Hearings on 2022-2023
Proposed Budgets and Fees &
Charges

June 6
2022-2023 Mayor’s June Budget
Message Released

June 14
Council Review/Approval of the
2022-2023 Mayor’s June Budget
Message

June 21
Adoption of the 2022-2023 Capital
and Operating Budgets, 2023-2027
CIP, and the 2022-2023 Fees &
Charges

The Challenge of Maintaining Existing Service Levels

Though the pandemic upended daily life and changed the way many organizations operate, I am proud to lead a city that kept prioritizing the needs of the community under extraordinary conditions, innovating new methods to provide services and leading in ways no one else expected, but so many needed. We aggressively pursued and rapidly deployed external resources made possible by the Federal government (CARES, ARP, FEMA, etc.) and significant allocations from the State of California (e.g. Homeless Housing, Assistance and Prevention) to focus pandemic response and recovery efforts to support our most vulnerable.

Among a host of other actions, the City stood up a model to coordinate and fund food services to vulnerable residents; worked both directly and with partners to shelter homeless residents; constructed and operated emergency interim housing communities; and created the Beautify San José Consolidated Model to serve as the primary City arm to manage homeless encampment trash collection services, abatements, and illegal dumping.

External funding was also leveraged to reimburse eligible City costs and backfill for lost revenue resulting from the pandemic. These actions allowed the City to fund a number of important community services in the General Fund on a one-time basis totaling in excess of \$20 million in 2021-2022, including the Police Sworn Hire Ahead Program, the restoration of hours for branch libraries serving lower-resourced communities, Parks Rehabilitation Strike Team, and Project Hope expansion.

This maximized leveraging of external resources was absolutely appropriate given the overwhelming challenges the pandemic posed to our community and organization, but it had the impact of masking what is, in effect, a long-term service level deficit. Since all of the one-time funding will be spent in the near future, the forecasted ongoing revenues will not be sufficient to maintain this expanded service level on an ongoing basis, which many would believe to be critical for our community's recovery.

The City Council's approval of the Mayor's March Budget Message for Fiscal Year 2022-2023 acknowledged this challenge, giving direction to focus the Administration's efforts around the key areas listed in the above sidebar, along with the task of evaluating which of the existing one-time services should be maintained, were feasible.

Based on the hard work of City staff, this Proposed Budget is successful in allocating ongoing funding to a significant number of these services previously funded on a one-time basis, strategically putting our budget in more of a structural balance, and makes a limited number of other important investments in alignment with the March Message investment priorities. The 2022-2023 Proposed Budget takes a critical look at existing funding sources across the over 135 City funds, including the relatively large amounts of one-time funding in the General Fund due to the surge of pent-up economic activity in the pandemic's aftermath, and the remaining resources in the ARP Fund. Each funding source is brought into balance to sustainably continue City programming and services in accordance with City Council direction, priorities, and policies.

Investment Priorities

The Mayor's March Budget Message approved by the City Council identified the following investment priorities:

- ✓ *Homelessness and Affordable Housing*
- ✓ *Public Safety*
- ✓ *Battling Blight*
- ✓ *Climate and Seismic Resilience*
- ✓ *Equitable Economic Recovery*
- ✓ *Fiscal Sustainability*

2022-2023 PROPOSED OPERATING BUDGET MESSAGE

Total Proposed Budget

The 2022-2023 Proposed Budget totals \$5.3 billion for all City funds (General, Special, and Capital). This amount is \$212.7 million (4.2%) above the 2021-2022 Adopted Budget (Table 1 below) and is primarily attributable to a higher level of resources in the San José Clean Energy Fund, planned bond issuances in the San José-Santa Clara Treatment Plant Capital Fund, remaining funding provided in the ARP Fund, and higher General Fund resources. The Proposed Budget, however, does not yet include funds that will be rebudgeted and added to the final 2022-2023 Adopted Budget to complete multi-year projects. Once these rebudgets are included, the total amount of the budget will increase.

2022-2023 Proposed Budget — All Funds (Table 1)			
	2021-2022 Adopted	2022-2023 Proposed	% Change
General Fund	\$ 1,586,737,216	\$ 1,508,211,649	(4.9%)
Special Funds	2,755,411,520	2,957,545,515	7.3%
<Less: Operating Transfers>	(787,269,130)	(789,904,687)	0.3%
Net Operating Funds	3,554,879,606	3,675,852,477	3.4%
Capital Funds	1,569,724,897	1,667,727,476	6.2%
<Less: Capital Transfers>	(5,259,000)	(11,565,000)	119.9%
Net Capital Funds	1,564,465,897	1,656,162,476	5.9%
Total	\$ 5,119,345,503	\$ 5,332,014,953	4.2%

Position Impacts

The Proposed Budget includes a net increase to the overall position count throughout the organization. The Base Budget includes the elimination of 62 positions, as these positions were funded on a one-time basis only in the 2021-2022 Adopted Budget. Of the 270 positions added as part of the Proposed Budget, it is important to note that approximately 60% were previously funded on a one-time basis, either formally budgeted or were otherwise temporarily funded, that are recommended to continue into 2022-2023. Overall, the net level of staffing increases by 208 positions, from 6,647 full-time equivalent positions in the 2021-2022 Adopted Budget to 6,855 positions in the 2022-2023 Proposed Budget, as shown in Table 2 below.

Changes in Position Count (All Funds) from 2020-2021 Adopted to 2021-2022 Adopted Budget (Table 2)	
2021-2022 Adopted Budget	6,647 positions
<i>2022-2023 Base Budget Changes</i>	<i>(62) positions</i>
<i>2022-2023 Proposed Budget Changes – General Fund</i>	<i>218 positions</i>
<i>2022-2023 Proposed Budget Changes – Other Funds</i>	<i>52 positions</i>
Total Net 2022-2023 Position Changes	208 positions
2022-2023 Proposed Budget	6,855 positions

2022-2023 PROPOSED OPERATING BUDGET MESSAGE

General Fund Forecast – Positive News, but Challenges Remain

In February 2022, the Administration prepared the 2023-2027 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 surplus of \$27.7 million in 2022-2023. That surplus has since been revised to \$30.1 million due to a number of factors, including revised estimates for Sales Tax proceeds and overhead reimbursements, and corrections to Base Budget expenditures.

Table 3 below displays the incremental General Fund surplus over the next five years. It is important to note that the surpluses in the outyears assume that the \$30.1 million surplus for 2022-2023 is fully allocated toward ongoing uses. Any portion of the surplus not fully allocated gets carried over the following year. Over the five-year forecast horizon, the cumulative General Fund surplus is forecasted at \$131.2 million.

Table 3. 2023-2027 Revised General Fund Five-Year Forecast
(\$ in millions)¹

	2022-2023	2023-2024	2024-2025	2025-2026	2023-2027	Five-Year Surplus/ (Shortfall)
Incremental Surplus/ (Shortfall)	\$30.1 ²	\$26.0	\$23.5	\$22.7	\$28.9	\$131.2

¹ Does not include 1) costs associated with services funded on a one-time basis in 2021-2022; 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 \$27.7 million surplus as presented in the February 2022 Forecast as a result of continued analysis of projected revenues and expenditures.

As described previously and in greater detail in the 2023-2027 Five-Year Forecast¹, the projected surpluses omit significant expenditure levels in 2021-2022 funded by either one-time resources in the General Fund, or funded through external sources such as the ARP Fund. If many of these services were to cease in 2022-2023, the community would view such as action as a budget cut, and therefore service reduction. From a practical perspective, the City still faces a service level/structural shortfall. The clearest example is the Beautify San José Consolidated Model. Created early in the pandemic and kick-started with CARES Act resources in 2020-2021, the program to provide homeless encampment trash collection, abatement, illegal dumping response, and other blight reduction activities was formalized in the 2021-2022 Adopted Operating Budget. However, given the unusual and immediate circumstances of the pandemic, this ongoing program expansion was funded almost entirely by one-time resources in the ARP Fund, with a 2021-2022 Modified Budget of \$14.0 million. If the Beautify San José program were to transition fully to the General Fund on an ongoing basis in 2022-2023 without any additional analysis, the \$30.1 million surplus would be effectively reduced by \$14.0 million to \$16.1 million. Similar examples can be found in numerous areas of the City’s budget.

The General Fund Balancing Strategy, summarized below in Table 4, prioritizes the allocation of the projected surplus to primarily ensure the ongoing funding of a number of activities currently funded on a one-time basis. While additional work is required in future budget cycles, the 2022-2023 Proposed Operating Budget makes meaningful strides to better align ongoing service level expectations with ongoing resource levels, thus bringing the budget into closer structural alignment.

¹ 2022-2023 City Manager’s Budget Request and 2023-2027 Five-Year Forecast:
<https://www.sanjoseca.gov/home/showpublisheddocument/82635/637817119151470000>

2022-2023 PROPOSED OPERATING BUDGET MESSAGE

General Fund Budget Balancing Plan

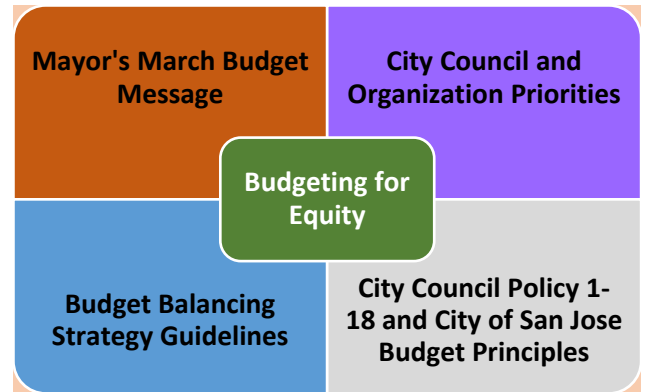
As displayed in Table 4 below, the 2022-2023 Proposed General Fund Budget Balancing Plan includes actions to allocate the \$30.1 million surplus forecasted for 2022-2023. This table shows the matrix of balancing strategies and the dollars associated with each action. A discussion of the balancing strategies can be found in *Attachment A* to this message and is discussed in detail throughout the Proposed Budget. *Attachment B* provides the status of Mayor and City Council referrals approved as part of the Mayor’s March Budget Message for Fiscal Year 2022-2023. *Attachment C* provides information regarding any budget proposals recommended in the budget that specifically address a recommendation issued by the City Auditor.

2022-2023 Proposed Operating Budget General Fund Budget Balancing Plan (in 000's) (Table 4)		
	2022-2023	Ongoing
2022-2023 General Fund Surplus	\$ 30,090	\$ 30,090
Balancing Strategy		
Source of Funds		
Beginning Fund Balance:		
2022-2023 Future Deficit Reserve	\$ 28,300	\$ 0
2021-2022 Excess Revenue/Expenditure Savings	25,000	0
Sick Leave Payments Upon Retirement Reserve	2,000	0
Pest and Turf Management Reserve	1,000	0
Other Reserve Liquidations	1,805	0
Grants/Reimbursements/Fees:		
CaliforniansForAll Youth Workforce Development Grant	9,166	0
Commercial Solid Waste CPI Adjustment	583	583
UASI Grant – Office of Emergency Management	471	0
Other Fee Programs/Reimbursements/Grants	(287)	(473)
Other Revenue:		
Transfer from the American Rescue Plan Fund	3,310	0
Transfer from the General Purpose Parking Fund (SJ Downtown)	100	0
Overhead Reimbursements/Transfers from Other Funds	1,518	1,582
Subtotal Source of Funds	\$ 72,966	\$ 1,692
Use of Funds		
2021-2022 Previously One-Time Funded Services	\$ 41,079	\$ 23,891
Service Level Enhancements	40,884	8,718
Other Fee Programs/Grants/Reimbursements	10,026	153
Unmet/Deferred Technology, Infrastructure, and Maintenance	6,766	84
Earmarked Reserves (Essential Services, Budget Stabilization, Vehicle Abatement)	5,300	300
New Facilities Operations and Maintenance	3,236	1,713
Cost Reductions/Service Delivery Efficiencies/Funding Shifts	(129)	(96)
Use of Reserves (Committed Additions, Cultural Facilities, Deferred Maintenance)	(4,107)	(2,981)
Subtotal Use of Funds	\$ 103,056	\$ 31,782
Total Balancing Strategy	\$ (30,090)	\$ (30,090)
Remaining Balance	\$ 0	\$ 0

Prioritizing Community and Organizational Needs

The Proposed 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 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 2022-2023, 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 that outline a number of general approaches to use in the development of the budget. City Council Policy 1-18 and City of San Jose Budget Principles further ensure that the Administration applies best budgetary practices and work to align ongoing revenues with ongoing expenditures. Finally, the constantly shifting service delivery environment requires new or modified approaches to how resources should be allocated. Throughout the year, the City Council identify new or revised service level needs to benefit the community, and departments identify areas for additional investment or reallocation to address organizational risks and service delivery gaps.

Grounding us during the budget deliberation process is explicit consideration of equity. Our collective obligation is to think about resource allocation in a structured way to help determine who is benefitted and who is burdened by budgetary action, or inaction. Considerations of equity have deeply influenced past resource allocations from CARES Act, ARP, FEMA, and other external funding sources. As a major focus of the Proposed Budget is the continuation of services in 2022-2023 and beyond – where appropriate and feasible – that are funded on a one-time basis in 2021-2022, equity continues to play a leading role in the development of the budget balancing strategy across all funds and particularly in the General Fund and ARP Fund. Moreover, departments continue to deepen their approach on equity-focused analyses through the use of Budgeting for Equity Worksheets and a pilot project to re-imagine key community indicators and performance measures for community-facing Core Services in an effort to better understand the impact of City services on our community at a disaggregated level. A Manager’s Budget Addendum will be released later in May to provide more information on the embedding of equity as part of the budget development process, particularly regarding the lessons learned on a pilot project that represents the first year of a three-year effort to leverage the City’s performance measurement process to improve equity outcomes for our community.

While the process to develop the 2022-2023 Proposed Operating Budget spans all City funds, the Table 5 below provides a summary of the alignment of the proposals recommended in the General Fund and the ARP Fund to the priorities identified in the City Council-approved March Budget Message. It is important to note that the Administration recommends the allocation of the remaining available ARP Fund resources in this budget document. Though additional clean-up actions are expected as part of the Budget’s final adoption to recognize any savings from current year allocations and rebudget them into 2022-2023, or to slightly re-adjust between existing allocations to ensure that previously directed work is completed, those actions are not anticipated to involve significant programmatic changes that are best decided during the deliberation of the Proposed Budget. More detailed information on the ARP Fund allocations can be found in *Attachment D* to this message.

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Prioritizing Community and Organizational Needs (Cont'd)

2022-2023 Proposed Budget Investment Priorities General Fund and American Rescue Plan Fund* (Table 5)				
Investment Priority	2022-2023 General Fund Adjustments	2022-2023 American Rescue Plan Fund Adjustments	2022-2023 Combined Adjustments Total	Ongoing Adjustments (General Fund)
Homelessness and Affordable Housing	\$23.3 million	\$21.8 million	\$45.1 million	\$0.4 million
Equitable Economic Recovery	\$14.0 million	\$28.2 million	\$42.2 million	\$4.3 million
Public Safety	\$23.0 million		\$23.0 million	\$7.6 million
Battling Blight	\$8.8 million	\$7.0 million	\$15.8 million	\$8.3 million
Climate and Seismic Resilience	\$14.2 million		\$14.2 million	\$5.3 million
Fiscal Sustainability	\$5.4 million		\$5.4 million	\$0.2 million
Strategic Support**	\$5.5 million	\$2.3 million	\$7.8 million	\$3.2 million
Other Community Services**	\$6.2 million		\$6.2 million	\$5.6 million
Deferred Infrastructure**	\$6.8 million		\$6.8 million	\$0.0 million
Use of Reserves**	(\$4.1 million)		(\$4.1 million)	(\$3.0 million)
Total	\$103.1 million	\$59.3 million	\$162.4 million	\$31.8 million

* While only the General Fund and ARP Fund are shown in this table, other Special and Capital Funds may also contribute funding to these Investment Priorities.

** Although not explicitly identified as a standalone Investment Priority, these allocations are consistent with the City Council-approved 2022-2023 Budget Balancing Strategy Guidelines and provide context to the remaining allocated amounts

Approximately \$162.4 million from the General Fund and ARP Fund is available to be spent in 2022-2023. The final column's total of \$31.8 million only consists of ongoing General Fund resources, since the ARP Fund is recommended to be fully allocated in 2022-2023. The large amount of General Fund resources available in 2022-2023 (\$103.1 million) is primarily attributable the significant amount of one-time resources associated with beginning fund balance (\$58.1 million) or savings expected at the end of 2021-2022 that can be carried forward to be used as a one-time funding source in 2022-2023. After removing one-time sources, only \$31.8 million is available for allocation on an ongoing basis.

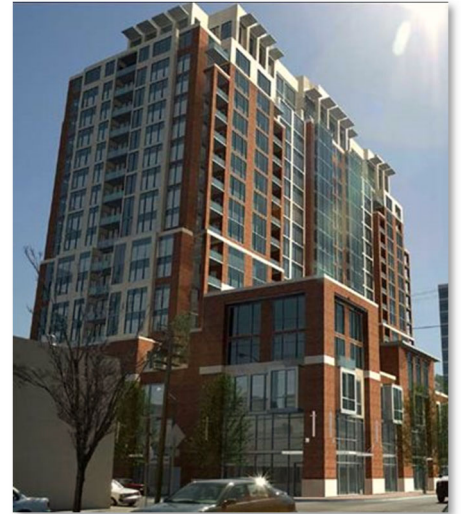
It is important to note that, of the ongoing allocations totaling \$31.8 million, \$24.0 million was previously funded on a one-time basis in 2021-2022. This point is worth emphasizing: even though the 2022-2023 Proposed Budget allocates over \$30 million of ongoing General Fund resources, approximately 75% of that amount continues services that are currently being provided in some form in 2021-2022. As a result, the City Council and community should not expect dramatically different service levels with the approval of this budget.

A discussion regarding some of the most impactful budget actions follows, including actions funded in various Special and Capital Funds, 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 approved as part of the Mayor's March Budget Message for Fiscal Year 2022-2023.

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

Homelessness and Affordable Housing

There is no greater challenge to local governments – both short-term and long-term – than the issues of preventing and mitigating homelessness, and the corresponding need to increase the production of affordable housing. The issues transect multiple Federal, State and local laws, and multiple independent agencies, each with their own elected governing boards. While the issue is too big for any one agency to solve on its own – collective action and coordination remain essential – the community and City Council have made clear that the City must continue to play a leading role.



The largest recommended budget adjustment in the 2022-2023 Proposed Budget is the combined allocation of \$40.0 million of one-time funding from the General Fund (\$21.5 million) and the ARP Fund (\$18.5 million) to kick-start the development of additional Emergency Interim Housing sites and seed funding for their future operations and maintenance costs. In accordance with the Mayor's March Budget Message for Fiscal Year 2022-2023, this recommended allocation of \$40.0 million, when combined with Federal, State, and Measure E Real Property Transfer Tax revenues², will help meet the identified goal of having 1,000 pandemic-era housing beds under development by the end of the calendar year. As these new units will need to be treated like other City facilities with ongoing operations and maintenance costs, a Manager's Budget Addendum will be released later in May to describe in greater detail how the ongoing operations and maintenance costs of these facilities will be factored into future Five-Year General Fund Forecasts.

In parallel with the efforts to support the unhoused community, work continues on a number of fronts to increase the overall supply of housing. A Notice of Funding Availability for \$150 million for development of affordable housing was issued by the Housing Department in December 2021, with nearly half of these funds supplied by Measure E revenues. After receiving a strong response from developers, staff is recommending moving forward with conditional awards for 11 developments, totaling 1,288 new affordable housing units, in May 2022 that are anticipated to be brought forward to the City Council for formal funding commitments over the next year. Separately, 30 new affordable housing developments have submitted preliminary applications for more than 3,000 new affordable apartments. To help facilitate this and other development-related work, the Proposed Budget recommends resources for the Housing and Planning, Building and Code Enforcement (PBCE) Departments, the Office of Economic Development and Cultural Affairs, and City Attorney's Office to help with permit intake, environmental review, and project facilitation. Based on the continued surge of interest and applications for Accessory Dwelling Units (ADU), the ADU Ally program that was previously funded on a one-time basis, is recommended for ongoing funding and expansion.

² See: *Proposed Changes to the Spending Priorities and Percentage Allocations of Measure E Real Property Transfer Taxes*, April 19, 2022: <https://sanjose.legistar.com/LegislationDetail.aspx?ID=5554396&GUID=10457FCC-14E4-47BF-B470-27A1F4DA0CC2&Options=&Search=>

2022-2023 PROPOSED 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:

- Emergency Interim Housing Construction and Operations (\$40.0 million)/City-Wide Expenses and Attachment D
- San José Bridge Program (\$3.0 million)/Attachment D
- Planning Development Fee Program CEQA Review Staffing (\$498,000)/City Attorney's Office & PBCE
- Urban Village Planning (\$400,000) /PBCE
- Drug treatment and Mental Health Services Partnerships (\$500,000)/City-Wide Expenses
- Automatic Public Toilets (\$410,000)/City-Wide Expenses
- Accessory Dwelling Unit Ally Program Staffing (\$312,000)/PBCE
- Downtown Homeless and Mental Health Response and Support (\$300,000)/Attachment D
- Underwriting and Financial Consulting for Affordable Housing Projects (\$250,000)/Housing
- Housing Preservation and Production Staffing (\$237,000) /Housing
- Homeless Response Team and BeautifySJ Coordination Staffing (\$207,000)/Housing
- Yes in God's Backyard (\$200,000)/ PBCE
- Destination Home: Silicon Valley Staffing (\$179,000)/PBCE
- Housing Catalyst Team Staffing (\$164,000)/Office of Economic Development and Cultural Affairs



Equitable Economic Recovery

From the early onset of the pandemic, the City has been focused on supporting our most vulnerable communities, including coordinating food delivery to residents in need, sheltering our unhoused community, coordinating and assisting in the delivery of rental relief programs, providing direct outreach and assistance to the small business community, providing free afterschool programming, and deploying thousands of WiFi hotspot and connectivity devices so children can access a broadband connection while attending school remotely. For these programs, and others, we have provided an equity-focused, place-based approach to achieve more equitable outcomes for deeply impacted communities that were already disadvantaged prior to the pandemic's onset.

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

Though the most egregious impacts of the pandemic are hopefully behind us, our continued recovery efforts must still be grounded in equitable practices. We must also continue the work to embed the application of racial equity considerations into day-to-day service delivery to understand and modify, where appropriate, how services are delivered. Unfortunately, the unprecedented surge of one-time resources provided to the City in response to the pandemic are dwindling and difficult choices need to be made.



The most difficult transition is the need for the City to step back from its leadership role in providing food and necessities distribution. To allow the County of Santa Clara to focus as much of its attention as possible on health care services, prevention, and ultimately vaccination, at the County's request during the pandemic's early days, the City took on the role of coordinating and funding food and necessities access to residents and families across the County. Leveraging the tremendous dedication and resourcefulness of our partners, the City stood up an organization that is expected to deliver over 225 million meals from the beginning of the pandemic through June 2022 at an estimated cost of \$87 million. Though the need is still significant, the responsibility for the provision of these social services must return to the County, especially as the City's limited external funding resources are expended. While the Administration is continuing discussions with the County to provide leadership in this space, an allocation of \$4.8 million from the ARP Fund provides transition funding for the food partners from July through September 2022. A separate one-time allocation of \$500,000 in the General Fund will cover any permitting or other City fee costs for partners and other non-profit food providers to expand operations in San José.

Other investments continue at similar or increased levels where the City has historically been a key funding provider. While a number of General Fund revenue categories have rebounded strongly from the immediate impacts of the pandemic, hotel and convention-related activity has been slower to recover, along with the associated revenues from the Transient Occupancy Tax, which support cultural arts grants, the Convention and Visitors Bureau, and the operations of the San José McEnery Convention Center and other facilities managed by Team San José. As a result, continued support from the ARP Fund is recommended to supplement cultural grant funding and arts-led outdoor activations, as well as to ensure a positive ending fund balance within the Convention and Cultural Affairs Fund.

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

Other key one-time investments to promote an equitable recovery include the allocation of \$10.5 million from the ARP Fund for Child and Youth Services – previously dedicated by the City Council for this purpose at its meeting on November 30, 2021 – to be spent over a multi-year period, as approved by the City Council at their meeting on April 26, 2022; the leveraging of the CaliforniansForAll Youth Workforce grant to continue the Learning Resilience Corps; the allocation of \$2.0 million from the ARP Fund to serve as a funding source for potential COVID-19 Recovery Taskforce recommendations that are anticipated to be issued before the end of the



calendar year; and additional engagement with the community to support vaccination and COVID-19 protective measures and potential continuation of the pilot Promotores Model anticipated to launch by June 2022. Ongoing investments include the permanent establishment of the Viva Calle and Viva Parks program in the General Fund supporting 100 Viva Parks events and 3 Viva Calle events each year, a program previously been funded on one-time basis for many years prior to the pandemic.

Underlying the specific investments for community-serving and community-building programs, the City continues its work to explicitly embed equity in day-to-day activities and future planning. This has necessarily been an ongoing and iterative process throughout the organization. Though the Office of Racial Equity was formally established with the 2020-2021 Adopted Budget and this team provides leadership support and coordination on a wide range of issues and projects, it is the responsibility of each City department to incorporate equity-based analysis into their Core Services. To supplement this ongoing work and the mandatory racial equity training that all City staff (with the exception of Police Department sworn staff that are on an altered schedule) will complete by June 2022 (and be required to refresh every two years), the Proposed Budget includes racial equity staffing resources in the following departments: Library, Parks, Recreation and Neighborhood Services (PRNS); PBCE; Police, and Transportation. With the exception of the permanent extension of the previously one-time funded position in Library that also manages Family Learning Center staff, the other positions are one-time funded to accelerate the establishment of equity-focused strategic planning, policies and practices, and indicators that will enable the continuation of equity efforts in these departments beyond next fiscal year.

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:

- Continued Child and Youth Services (\$10.5 million)/ Attachment D
- Continued Food Services and Food Distribution Resilience Corps (\$4.8 million)/Attachment D
- Support to the Convention and Cultural Affairs Fund (\$4.0 million)/ Attachment D
- Placemaking/Viva Calle and Viva Parks (\$3.4 million)/PRNS and Attachment D
- CaliforniansForAll Youth Workforce Program – Learning Resilience Corps (\$3.2 million)
- Supplemental Arts and Cultural Grant Funding (\$2.0 million)/ Attachment D
- COVID-19 Recovery Taskforce (\$2.0 million)/Attachment D
- Digital Equity and Device Access (\$1.1 million)/Attachment D
- School of Arts and Culture Expansion (\$1.0 million)/ City-Wide Expenses
- Racial Equity Staffing (\$903,000)/Library, PBCE, PRNS, Police, Transportation
- Community Engagement (\$700,000)/ Attachment D
- Coyote Valley Monterey Corridor Study (\$575,000)/City-Wide Expenses
- Cannabis Equity Program (\$500,000)/City-Wide Expenses
- San José Al Fresco (\$400,000)/Attachment D
- Storefront Activation Grant Program (\$500,000)/City-Wide Expenses
- Child and Youth Services – Family, Friends, and Neighbors (\$500,000)/City-Wide Expenses
- Non-Profit Food Provider Permitting Costs (\$500,000)/City-Wide Expenses
- San José Aspires Administrative Support (\$450,000)/Attachment D
- City of San José Disparity Study (\$400,000)/City-Wide Expenses

Public Safety

Public safety has always been and will continue to be a top priority for San José. Though the impact to City services from chronic General Fund shortfalls and constrained budgets experienced over the last twenty years did not exempt police and fire services, the City has consistently worked to prioritize limited service restoration and funding allocations to achieve the highest positive impact possible.

For the Police Department, the last significant restoration of sworn staffing occurred after passage of the Measure B 1/4-cent Sales Tax ballot measure, when the City added back 41 sworn positions in the 2017-2018 budget. Since that time there has been limited movement in the number of authorized sworn positions; the current level of 1,153 positions is 17% lower than the peak of 1,395 sworn positions in 2008-2009. As a result, the City has had to rely on overtime through grant funding and or one-time General Fund allocations to support limited initiatives in response to shifting community needs.

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

Based on City Council direction through their approval of the Mayor's March Budget Message for Fiscal Year 2022-2023, the Proposed Budget converts two previously one-time funded overtime allocations to ongoing permanent staffing: 16.0 Police Officer positions to permanently re-establish foot patrols for the Downtown and High Needs Neighborhoods, and 4.0 Police Officer positions for the Mobile Crisis Assessment Team to respond to community members experiencing a mental health crisis. It is the hope that these staffing additions are the beginning of a multiyear process to rebuild the Police Department to better meet the needs of our community. Additional analysis and recommendations regarding this strategy will be brought forward later in a Manager's Budget Addendum. The Proposed Budget also recommends the permanent restoration of 5.0 Community Service Officers that were added back on a one-time basis for two years in the 2020-2021 Adopted Budget.



The passage of Measure T enabled the relocation of existing and the construction of new fire stations to improve response times. As the new stations will require new fire companies, the sworn staffing in the Fire Department will increase over the coming years as new stations come online. The 2021-2022 Adopted Budget added 14.0 positions to staff new Fire Station 37; the cost of additional companies to operate new Fire Stations 32 and 36 are included in the 2023-2027 Five-Year General Fund Forecast and will be brought forward in future budget cycles. In the 2022-2023 Proposed Budget, additions to the Fire Department are recommended for improved employee services and workforce support, along with increased focus on obtaining well-qualified and diverse recruits for future academies. Further, the recommended

addition of 1.0 Arson Investigator position will help mitigate the heavy workload experienced by the existing three-person Arson Unit.

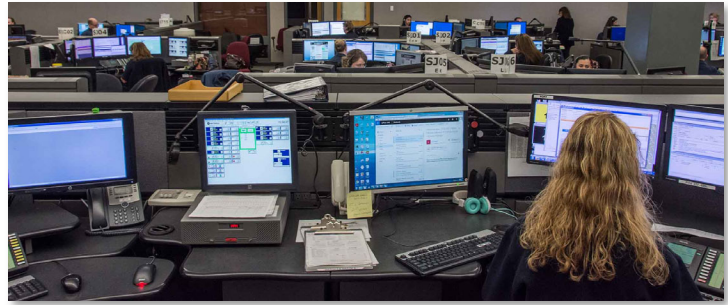
Public safety is also a driver for staffing considerations in the Transportation Department, which includes a recommendation make permanent previously temporary positions funded by the Traffic Capital Program. The Traffic Safety Team is focused on completing traffic safety grant projects and pilot projects to address illegal street racing and sideshows. Significant investments in traffic and pedestrian safety are discussed in greater detail within the Traffic Capital Program Overview in the 2022-2023 Proposed Capital Budget and 2023-2027 Proposed Capital Improvement Program.



2022-2023 PROPOSED OPERATING BUDGET MESSAGE

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

While the above investments allow for several important services previously funded on a one-time basis, many for a number of years, to now be funded ongoing in future budgets, several other critical programs must still continue on a one-time basis and will need to be reconsidered for permanent funding again in the next budget cycle. Those items include the Police Sworn Hire Ahead Program, Public Records Team Staffing (a combination of one-time and ongoing investments), Recruiting and Backgrounding, and the Coyote Creek and Guadalupe River Trail Patrol.



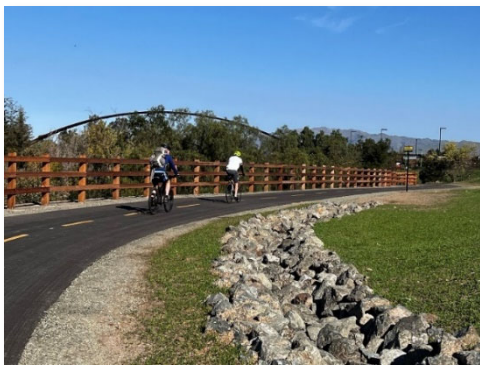
A listing of these and other notable budget actions within this category is provided below:

- Police Sworn Hire Ahead Program (\$7.5 million)/Police
- Foot Patrols in Downtown and High Needs Neighborhoods Staffing (\$3.7 million)/Police
- Emergency Operations Center and Equipment Room Fixtures, Furniture and Equipment (\$2.3 million)/ Information Technology
- Public Records Team Staffing (\$931,000)/Police
- Recruiting and Backgrounding (\$895,000)/Police
- Mobile Crisis Assessment Team Staffing (\$822,000)/Police
- Coyote Creek and Guadalupe River Trail Patrol (\$600,000)/Police
- Community Service Officer Staffing (\$615,000)/Police
- Traffic Safety Team Staffing (\$416,000)/Transportation
- Body Worn Camera Review (\$350,000)/City Attorney's Office
- Bureau of Fire Prevention Arson Unit Staffing (\$310,000)/Fire
- Employee Services Workforce Enhancement Staffing (\$303,000)/Fire
- Re-arresting Criminal Defendants (\$300,000)/Police
- Public Safety Initiatives Staffing (\$200,000)/City Attorney's Office
- Automated Speed Detection and Messaging (\$175,000)/City-Wide Expenses
- Domestic Violence High Risk Response Team (\$125,000)/Police
- Improving Criminal Justice Program (\$120,000)/Police
- Bureau of Investigations – Family Violence Unit Staffing (\$109,000)/Police
- Ambulance Services Evaluation (\$85,000)/Fire

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

Battling Blight

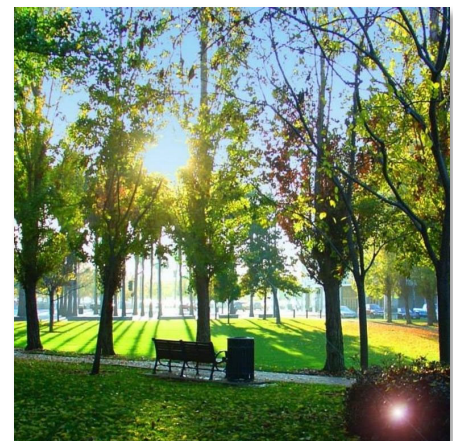
Addressing issues of blight, illegal dumping, and trash collection from homeless encampment sites continues to be a significant focus for the City, as it was for the 2021-2022 Adopted Operating Budget. In 2021-2022, the City leveraged ARP funding to formally establish the Beautify San José Consolidated Model in PRNS with a total of 34.25 positions in the Adopted Budget, and then added an additional 11.0 positions through City Council action on November 30, 2021. The City also leveraged ARP resources in 2021-2022 to continue the Vehicle Abatement program, that was previously funded in the General Purpose Parking Fund, the continuation and expansion of the Cash for Trash program, and the expansion of the Dumpster Days program.



The costs associated with this combined service level in 2021-2022 is substantial at \$14.8 million, the bulk of which is the Beautify San José Consolidated Model. While these are ongoing services that the community expects to continue, the 2022-2023 Proposed Budget takes a phased approach to incorporating these costs in the budget on an ongoing basis. All of the Beautify San José Consolidated Model staffing authorized with the 2021-2022 Adopted Budget, the Cash for Trash program, and the expanded Dumpster Days is recommended to be funded from the General Fund on an

ongoing basis at a combined cost of \$4.7 million. An allocation of \$7.0 million from the ARP Fund, along with an estimated \$3.5 million in current year savings that is planned to be rebudgeted in 2022-2023, will fund the contractual and trash collections services, equipment, and supplies for the Beautify San José Consolidated Model in 2022-2023. This means that while we have taken significant steps to identify ongoing funding for this program in 2022-2023, additional actions will need to be taken during the 2023-2024 budget development process to fully secure ongoing resources for this critical community service.

As directed by the approval of the Mayor's March Budget Message for Fiscal Year 2022-2023, the Proposed Budget continues the Vehicle Abatement program on an ongoing basis and provides surge funding to spend over a two-year period for additional target enforcement in hotspot areas and small business corridors. Recognizing the intersectional nature of the problems from abandoned vehicles, the Administration is also working to reimagine elements of the program and take an integrated approach by bringing together the Transportation, Housing, PRNS, PBCE, and Information Technology Departments, along with potential community partners, to reimagine new workflows to further improve this program. An ongoing reserve for improvements to the Vehicle Abatement program is established with the Proposed Budget; the Administration anticipates bringing forward recommendations to specifically allocate this funding for the reimagined program in early 2022-2023.



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

Several other actions in this category also recommend the ongoing continuation of services previously funded on a one-time basis in 2021-2022, including the Beautify San José Landscape Maintenance program for various streetscapes managed by the Transportation Department, the permanent expansion of the Project Hope Program from six to nine sites, and City Attorney's Office staffing for proactive blight and nuisance enforcement.

Targeted ongoing resources within PBCE are also included to enhance enforcement resources, supervision and policy support for Code Enforcement. As previously directed by the City Council, ongoing funding is also recommended to provide the appropriate level of landscape and trail maintenance to Guadalupe River Park, which will need improved levels of maintenance from its current condition after the unhoused community currently on site are transitioned to an interim housing solution.

Finally, funding for the Responsible Landlord Engagement Initiative is recommended as Catholic Charities has resumed this program. Still funded on a one-time basis to ensure the new program remains an effective use of resources, matching funding from the State of California is expected to be received in the coming months.

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

- Beautify San José Consolidated Model (\$11.7 million) /PRNS and Attachment D
- Vehicle Abatement Program (\$1.2 million)/Transportation and General Fund Reserves
- Beautify San José Landscape Maintenance Program (\$1.1 million)/Transportation
- Project Hope (\$486,000)/PRNS
- Guadalupe River Park Maintenance (\$394,000)/PRNS
- Code Fee Programs Enforcement Staffing (\$334,000)/PBCE
- Proactive Legal Enforcement of Blighted and Nuisance Properties (\$250,000)/City Attorney's Office
- Responsible Landlord Engagement Initiative (\$200,000)/City-Wide Expenses
- Code Enforcement Policy and Program Support (\$121,000) /PBCE

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

Climate and Seismic Resilience

With a changing climate and a community becoming all too familiar with drought, flooding, fires, and power shut-offs, City Council's approval of the Mayor's March Budget Message for Fiscal Year 2022-2023 directs and accelerates more explicit investment to position San José to become more resilient to ever-shifting environmental conditions. The Proposed Budget responds to this direction by allocating resources for immediate impact now, and to yield benefits in the years to come.



Immediate impact allocations include the leveraging of previously awarded funding for the CaliforniansForAll Youth Workforce Program – Climate Change Pathway, which not only provides practical job experience for program participants, but provides tangible environmental benefits for our parks, trails, and watersheds through vegetation management, clean-up activities, and water conservation projects. State grant funding for this program continues into 2023-2024. Other immediate impact uses include one-time General Fund resources to mitigate fire risk in Alum Rock Park with the development and implementation of a vegetation management plan and a remotely controlled mower that can clear vegetation on steep hillsides.

Beginning now and yielding benefits for the future is the recommended establishment of a Community Forest Program that provides staffing and contractual resources to initiate a 12-year pruning cycle for all City street trees and trees within parks, along trails, and around civic facilities; funding for tree replacement plantings; and the planting and establishment of 1,000 street trees annually using an equity lens to inform planting locations. The initiation of a defined pruning cycle provides near-term benefits for improved tree health and urban forestry management, while the planting of new and replacement trees will yield future year benefits of increased shade canopy that will become more crucial with a warming planet. It is important to note that this is the only substantially new service recommended for ongoing General Fund resources in the 2022-2023 Proposed Budget.



Preliminary and technical scope development is needed now to position the City to access future Federal funding expected over the medium and long-term from the Infrastructure Investment and Jobs Act. As directed in the Mayor's March Message, the Proposed Budget creates a multi-departmental team led from the City Manager's Office, to drive results informed by equity considerations on key resilience objectives and major capital projects in the areas of drought resilience, sea level rise, microgrid development, urban forests, seismic safety, Coyote Valley open

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

space implementations, electrification, and rehabilitation of aging City infrastructure. This two-year effort will be overseen by a Deputy City Manager to coordinate the cross-department workstreams that will also tap into technical consulting resources and the expertise of a new position added to the Intergovernmental Relations Team prioritizing the access to Federal infrastructure sustainability and resilience funding. Though the short-term goal is to provide the focus and preliminary evaluation necessary to leverage Federal and State resources, beginning in 2024-2025, an ongoing commitment will be established in the General Fund to fund a Resilience Officer that will provide ongoing management of this program, though that position may reside outside the City Manager’s Office.

Finally, the small existing Climate Smart Implementation Team, previously primarily funded on a one-time basis and supplemented with grant resources, is recommended to be expanded and made permanent to meet the City Council-approved goal for San José to become carbon neutral by 2030. Continuing and making permanent 3.0 existing positions and adding a combined 6.0 additional positions in the Environmental Services Department and the Transportation Department, along with specialized consulting services, will focus near-term work on the decarbonization of existing buildings and electrification of the transportation infrastructure. Not only is it important to permanently expand the team to reach City Council objectives, establishing an ongoing team better positions the City to access the wide range of grant and technical assistance resources provided by the Federal and State government, and private philanthropic organizations, including the City’s selection by the U.S. Department of Energy to receive technical assistance through the Communities Local Energy Action Program to develop a community action plan to electrify buildings in East and Downtown San José and bring underrepresented communities into the clean energy workforce.

A listing of the budget actions within this category is provided below:

- CaliforniansForAll Youth Workforce Program – Climate Change Pathway (\$5.9 million)/City-Wide Expenses
- Community Forest Program (\$3.6 million)/PRNS and Transportation
- Climate Smart Program Implementation (\$2.1 million)/
- Environmental Services and Transportation
- Climate Resilience Planning and Development (\$1.7 million)/City-Wide Expenses
- Alum Rock Park Vegetation Management (\$458,000)/PRNS

Fiscal Sustainability

Even with the budgetary challenges experienced for many years prior to the pandemic, the City has maintained sound financial and budgetary management practices. The continued adherence to these practices and their underlying principles are regularly cited by bond rating agencies as a factor in San José’s strong credit ratings, which allows the City cost-effective access to borrowing instruments to finance the expansion of and improve the City’s capital assets or to refinance existing debt obligations that can yield one-time and ongoing savings. As a recent example, in April 2022, the Finance Department strategically leveraged the strength of the City’s strong General Fund credit rating to successfully refund the bonds pledged with special hotel taxes from the Convention Center Facilities District (CCFD) with lease-revenue bonds.

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

These actions yielded a net-present value savings of \$18 million and allowed the City to refinance outstanding commercial paper debt for the convention center and to begin amortizing this debt for a lower level of ongoing debt service that can be fully afforded by the still recovering CCFD special taxes and not require any General Fund support. Finally, the financing structure allowed for the conversion of the outstanding variable rate commercial paper notes to be converted to fixed rate bonds thereby reducing the City's exposure to increased debt service in a rapidly rising interest rate environment.

Our collective ability to apply strong strategic fiscal positioning and resource deployment principles enabled the City to quickly pivot when the pandemic initially struck, rebalancing both the 2019-2020 and 2020-2021 budgets within a matter of weeks, and rapidly deploying CARES Act, ARP Act, and other Federal and State funding sources to support vulnerable communities. This rebalancing was necessary due to the relatively low General Fund reserve levels. Though City Council Policy 1-18 establishes a General Purpose Reserve target of 10% of General Fund operating expenditures based on best practices, the total reserve level at the start of the pandemic was 6.5%. Due to careful budgetary management and the allocation of excess fund balance during prior Annual Reports, these reserves now sit at a combined 7.4% of the 2021-2022 Modified Budget General Fund operating expenditures.

The primary component of General Purpose reserves, the Budget Stabilization Reserve, currently sits at \$46.5 million. Directed by the Mayor's March Budget Message to add to this reserve, only an additional \$2.0 million is recommended, inching the reserve up to a preliminarily estimated 7.5% by the time the 2022-2023 Adopted Operating Budget is approved and funds allocated in the current year are rebudgeted into 2022-2023. While the Administration would have preferred a higher contribution, the need to transition such a large amount of one-time funded community-focused services into the General Fund necessitated a smaller, though still meaningful, allocation. Once reserve levels grow to a healthier balance, the City becomes more resilient to economic shocks or other unforeseen expenditure impacts without immediately needing to reduce services.

Two other General Fund General Purpose reserves are counted toward the 10% Reserve target and include the Contingency Reserve and the Workers' Compensation/General Liability Catastrophic Reserve. The Contingency Reserve at \$41.0 million stands at 3% of General Fund expenditures per City Council policy, and the Workers' Compensation/General Liability Catastrophic Reserve totals \$15.0 million. Both reserves will be included in the budget as part of the rebudgeting process before final budget adoption.

In accordance with the March Message, the \$3.0 million Essential Services Reserve is available for allocation by the City Council for important community priorities later in the budget process. Ongoing funding is set aside for a Fellows Program to leverage the cost-effective talent of mid-career professionals, such as FUSE and Packard Foundation fellows, or those near the beginning of their career, such as the case with Urban fellows. With the establishment of a Donor Wall, the City provides a platform to better elevate the generous contributions received in the past that will also hopefully generate the philanthropic support of others in the future.

A listing of the notable budget actions within this category is provided below:

- Essential Services Reserve (\$3.0 million)/ General Fund Capital, Transfers, Reserves
- Budget Stabilization Reserve (\$2.0 million)/ General Fund Capital, Transfers, Reserves
- Fellows Program (\$200,000)/City-Wide Expenses
- Donor Wall (\$150,000)/City-Wide Expenses

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

Other Community Services, Strategic Support, Deferred Infrastructure, and Use of Reserves

While many of the proposed actions in the General Fund and ARP Fund center around the main priorities specified in the March Budget Message, various other adjustments are needed to continue the delivery of services expected by the community, especially since several essential programs were funded on a one-time basis in 2021-2022. In addition, adjustments are also included within a variety of restricted funding sources to effectively deliver the City's wide range of City services, from an airport to a zoo. As highlighted below, the Proposed 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 and the Administration.

Other Community Services

The Proposed Budget includes the permanent restoration of Library hours for branches serving lower resourced communities, adds ongoing staffing to adequately resource the Dr. Martin Luther King, Jr. Library, and increases security staffing. Though making the restored hours permanent for lower resourced communities is an important ongoing commitment of funding for disproportionately impacted communities, the further expansion of branch hours should remain a top priority for future budget cycles.



PRNS has had a significant number of its core programs previously funded on a one-time basis over the past few years. Many are made permanent in the Proposed Budget, including the Pest and Turf Management Team, Parks Rehabilitation Strike Team, Police Activities League Stadium Complex and Program Support, Neighborhood Center Partnership Program Support, Welch Park Recreation Services, and Volunteer Management Support.

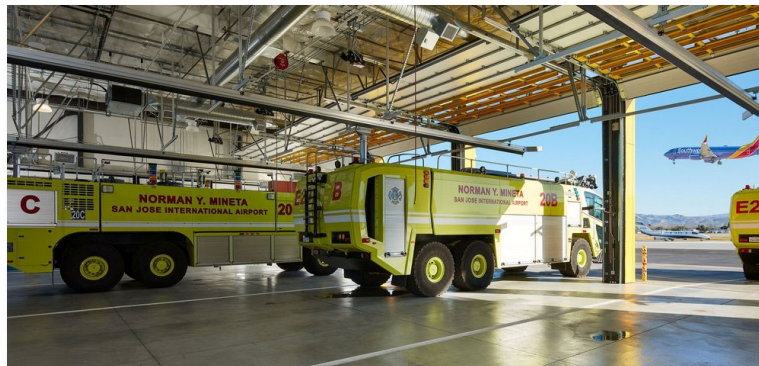


Targeted investments within the Public Works Department help to better distribute workload at the Animal Care Center and maintain quality animal care and high live release rates, including improving span of management control for veterinary staff as well as shelter and dispatch/field operations staff, and reallocates several part-time positions to full-time to provide a more sustained and predictable level of staffing for animal care and facilities operations.

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

Numerous investments within various restricted funds are recommended throughout the Proposed Budget to address service level gaps, optimize or improve existing services, or address new challenges, as sampled below:

- With airport passenger levels and flights continuing to rebound from the pandemic, recommendations are included to add back a portion of the Airport Department positions previously eliminated in the 2020-2021 Adopted Budget.
- The Integrated Waste Management Fund managed by the Environmental Services Department allocates funding to conduct additional customer engagement on how to properly recycle, as customer rates are impacted by the contamination of recyclable materials, and the bi-annual waste characterization study that assesses contamination levels, which is scheduled to occur later in 2022-2023.
- Staffing and street sweeping equipment are recommended in the Transportation Department, and funded by the Storm Sewer Operating Fund, to keep up with the growing inventory of protected bike lanes that require specialized street sweeping equipment to keep the lane and gutter clear of debris.
- Resources from the South Bay Water Recycling Operating Fund managed by the Environmental Services Department invest in infrastructure maintenance projects to facilitate the continued distribution of recycled water; and increased ongoing resources in the Water Pollution Control Plant Fund are required for materials and parts for instrumentation and mechanical maintenance at the Regional Wastewater Facility.



Strategic Support

All City services – from emergency response, to underground sewer line maintenance, to digital literacy, to recreational services, and to airport operations – rely on the day-to-day work of our strategic support departments and core services. As the Mayor and City Council regularly acknowledge the need for and importance of strategic support functions, several investments are included in this category.

Significant actions include a combination of ongoing and one-time staffing resources in the Human Resources Department to continue the City-wide focus on recruiting, retaining, and training the talented workforce necessary to provide high-quality services to our community. It is important to note that consideration of our existing vacancy levels and the extremely challenging labor market was a significant factor in developing the Proposed Budget. Not only was budget development constrained by existing resources and the number of services only funded on a one-time basis in 2021-2022, the Administration was also cognizant of the issue of adding new positions in addition to those that are already hard to fill, or keep filled. As directed by the Mayor's March Budget Message, a Manger's Budget Addendum will be provided later in the budget process describing the actions the Administration has taken to recruit, hire, and retain employees.

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

Ongoing General Fund resources are also recommended to expand the Finance Department's procurement team by 20% and invest in facilitating technology enhancements to increase the City's capacity to timely acquire the supplies, equipment, and services that all departments require to perform their work. A recent third-party analysis identified a number of process and policy improvements that the City should undertake, including the identification of additional staffing to support the City's complex procurements. Given their strong supporting role in providing services, the Administration will continue to evaluate staffing levels within the procurement team as part of future budget development cycles.

A continued reevaluation and renewal of technology infrastructure is performed each budget cycle, and while resources are limited, several replacements are recommended in the Proposed Budget, including the replacement of the City's out-of-date intranet site with a OneCity Workplace collaborative platform that better suits a modern, hybrid workforce; the replacement of the existing recruitment and onboarding platform with a more user-friendly and functional workflow for applicants and City staff; the replacement of outdated debt management software; and the addition of a fixed assets module to the City's Financial Management System to allow for better implementation of financial reporting requirements.

Deferred Infrastructure

The 2022-2023 Proposed Capital Budget and 2023-2027 Capital Improvement Program describes in detail the revenues and costs associated with maintaining the City's public works infrastructure and assets. Though many of these assets have support from dedicated and restricted funding sources, many do not, or the dedicated revenue streams are insufficient. In either case, the capital maintenance and replacement of those assets becomes the responsibility of the General Fund. Even though the need is significant, given the other competing demands in this budget, only a very limited amount of General Fund resources are recommended for the replacement of deferred infrastructure, including \$2.5 million for various municipal facilities, \$2.0 million for the replacement of emergency radios for first responders that will no longer be supported after 2022-2023, and \$1.0 million for the rehabilitation of City-owned cultural facilities (offset by the reserve described below).

Use of Reserves

The 2023-2027 Five-Year Forecast included several reserves set aside for specific uses, and then actions are taken in the Proposed Budget to liquidate (or reduce) those reserves as a corresponding offset to the planned budgeted expense. The Proposed Budget liquidates the reserves established to help offset the cost to replace or maintain deferred infrastructure (\$2.0 million), the Cultural Facilities Capital Reserve established on an ongoing basis to help pay for rehabilitation of the City-owned cultural facilities (\$1.0 million), a number of reserves established to pay for the costs of new capital facilities coming online in 2022-2023 that need to be maintained and operated (\$1.0 million), and the use of the Measure E – 10% Homelessness Prevention and Rental Assistance Reserve to support the Bill Wilson Center Homeless Student Housing Program (\$115,000).

2022-2023 PROPOSED OPERATING BUDGET MESSAGE

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

A listing of the notable budget actions within this category is provided below:

- Transfer to the Communications Construction and Conveyance Tax Fund – Radio Replacement (\$2.0 million)/General Fund Capital, Transfers, Reserves
- South Bay Water Recycling Operational Improvements (\$1.7 million)/ESD
- Pest and Turf Management Team (\$1.1 million)/PRNS
- Library Branch Hours and Operations for Lower Resourced Communities (\$917,000)/ Library
- San José Municipal Stadium LED Lighting (\$800,000)/ General Fund Capital, Transfers, Reserves
- Recruitment and Retention Staffing (\$793,000)/Human Resources
- Animal Care and Services Staffing (\$669,000)/Public Works
- City Hall Carpet Replacement (\$650,000)/ General Fund Capital, Transfers, Reserves
- Parks Rehabilitation Strike Team (\$604,000)/PRNS
- Learning and Development Program (\$581,000)/Human Resources
- Procurement Improvement Staffing (\$552,000)/Finance
- Recovery Foundation and Drive to Digital – Hybrid Workplace (\$500,000)/City-Wide Expenses
- Recovery Foundation and Drive to Digital – OneCity Workplace (\$500,000)/City-Wide Expenses
- Recycle Right Direct Customer Outreach (\$480,000)/ESD
- Happy Hollow Park and Zoo Security (\$450,000)/PRNS
- Street Sweeping for Protected Bike Lanes (\$445,000)/Transportation
- Police Activities League (PAL) Stadium Complex and Program Support (\$337,000)/PRNS
- Martin Luther King, Jr. Library Hours and Operations (\$334,000)/Library
- Traffic Safety Team Staffing (\$338,000)/Transportation
- Upgrade Airport Electricity Service to Total Green (\$300,000)/Airport
- Debt Management Software Replacement (\$250,000)/Human Resources
- Recruiting and Onboarding Software Replacement (\$210,000)/Human Resources
- Library Security/Public Safety Supervision Staffing (\$210,000)/Library

Fees and Charges Adjustments

The 2022-2023 Proposed Budget includes a range of adjustments to fees and charges to provide the resources necessary to pay for operating and capital improvement expenses. For utility rates, no rate increase is included for the Storm Sewer Service Charge. The Sewer Service and Use Charge proposes a 9.0% aggregate increase for 2022-2023 and the Municipal Water Utility System assumes a revenue increase of 12.2% for 2022-2023. For Recycle Plus rates, an 8.0% increase is proposed for single-family dwellings and 4.0% increase is proposed for multi-family dwellings.



El Sueño de la Mariposa (The Dream of the Butterfly) – Morgan Bricca

In the Development Fee Programs, fee adjustments of approximately 6% are recommended for the 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. No fee adjustment is recommended for the Citywide Planning Program. 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 2022-2023 Proposed Fees and Charges document scheduled for release under separate cover.

CONCLUSION

The 2022-2023 Proposed Operating Budget focuses on the highest needs of our community and prioritizes the identification of sustainable ongoing funding, where feasible, for critical programs and services previously funded on a one-time basis. We acknowledge the pandemic's toll on our community and organization, and I remain proud of our collective resiliency throughout this difficult period and confident in the City's ability to meet the challenges that lie ahead.

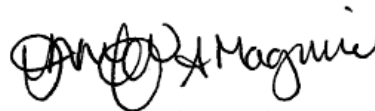
With a significantly improved General Fund position than anticipated during the pandemic's onset, and leveraging the remaining resources from the ARP Fund, the Proposed Budget reflects the continuing efforts by the Mayor, City Council, and Administration to make critical investments to further community and economic recovery efforts, while also formally incorporating a number of important community services as ongoing commitments that have previously been funded on a one-time basis. However, we still have work to do in future years as we still face an ongoing service deficit to our community. Many services reduced during the pandemic have not yet been restored on an ongoing basis, nor has the City made up for numerous years of addressing General Fund shortfalls. We also need to remain adaptable to changing economic conditions and responsive to new service delivery requirements. The City must continue our commitment to the sustainable, long-term, and equitable delivery of City services through careful revenue forecasting and budgeting across all City funds.

2022-2023 PROPOSED OPERATING BUDGET MESSAGE

CONCLUSION Cont'd.

I want to sincerely thank our extremely dedicated and talented staff who helped prepare this budget document. Our City employees consistently demonstrate their deep commitment to public service, a collaborative spirit, and technical expertise that underlies all that we do in the City of San José. The Proposed Budget reflects these attributes – embodied by front line workers, back-of-house strategic support staff, management staff, and the incredibly hard-working members of the City Manager's Budget Office that produced this document – and guides the organization's efforts to achieve the best outcome possible for our community.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Jennifer A. Maguire". The signature is fluid and cursive, with the first name being the most prominent.

Jennifer A. Maguire
City Manager

2022-2023 Budget Balancing Strategy Guidelines

1. As directed by the priorities identified in the City Council-approved Mayor's March Budget Message, 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 the General Fund 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 address any unanticipated budgetary shortfall in the following year as a stopgap measure.
5. Evaluate program-level budgets and determine if there are opportunities to shift resources or reconfigure operations to improve service delivery, 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 2021-2022, and/or respond to specific City Council direction. 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 or 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) provide for 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.

CITY OF SAN JOSE 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.

CITY OF SAN JOSE 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.