



# Memorandum

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**TO:** SENIOR STAFF

**FROM:** Jennifer A. Maguire

**SUBJECT: 2023-2024 OPERATING BUDGET  
DEVELOPMENT PLANNING**

**DATE:** December 19, 2022

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## **PURPOSE**

This memorandum provides preliminary direction to departments on developing budget submittals and employee communication plans for the 2023-2024 Proposed Operating Budget, which will be released to the City Council on May 1, 2023. Direction on the development of the 2023-2024 Proposed Capital Budget and 2024-2028 Capital Improvement Program has been released under separate cover. Please note that the Mayor's March Budget Message for Fiscal Year 2023-2024, as approved by the City Council, will provide more specific budget direction that will be incorporated into the 2023-2024 Proposed Budget.

## **BACKGROUND**

### **The City's Budget Outlook**

Since the end of 2020-2021 and the beginning of 2021-2022, many of the City's revenues that were impacted by the COVID-19 pandemic have either fully rebounded or significantly improved. Airport activity surged in 2021-2022 and strong growth continues in 2022-2023; hotel stays and cultural events are strengthening, parking and meter revenues have posted year-over-year gains, and employment figures now exceed pre-pandemic levels – all examples of the recent economic growth experienced in San José. The recent increase to City revenues occurred at the same time that investment returns from the City's two retirement systems yielded significant gains in 2020-2021 that led to lower contributions from the City in 2022-2023 as a result of actuarial projections that were revised downward. The combination of increasing revenues and decreasing retirement costs over a multi-year period resulted in the projection of small incremental surpluses in the General Fund as included in each year of the 2023-2027 Five-Year Forecast that was released in February 2022.

Though many General Fund revenues have continued to perform strongly through the early months of 2022-2023, the likelihood of weaker economic conditions in the coming months and the increased cost impacts from low investment returns in 2021-2022 that impact City retirement contributions in 2023-2024 have negatively impacted the City's budgetary outlook in the General Fund. The preliminary General Fund forecast anticipates that revenue growth will slow in the

second half of 2022-2023; this lower revenue growth is expected to continue through 2024-2025 while costs continue to rise. Therefore, based on an early comparison of projected revenues and costs, a small General Fund surplus is currently anticipated for 2023-2024 which is expected to be followed by a small General Fund shortfall in 2024-2025. Essentially, over a two-year period, the General Fund remains very constrained and within a close margin. Adding to our challenge, this forecast does not include a number of important programs currently funded on a one-time basis in the General Fund and American Rescue Plan Fund – each at approximately \$15 million – that have been past priorities for the City Council, community, and Administration; their immediate elimination would cause negative service impacts that most would not want for our City. Therefore, from a practical perspective, when considering both the future weakening of economic conditions and the fact that these one-time funded programs are not included as ongoing items in our budget, the City likely faces a sizeable structural shortfall in the General Fund over the next few years and that is without the consideration of other funding priorities.

The economic outlook, while difficult for the General Fund, is likely to also have impacts across the City's Special and Capital Funds. We know many of our enterprise programs face cost increases that impact rates and challenge our ability to deliver necessary, cost-effective services. These Special and Capital Fund resources need to be carefully considered and managed as departments conduct their internal budgetary review.

### **2023-2024 GENERAL FUND BUDGET BALANCING STRATEGY**

The continued challenge of a structural imbalance in the General Fund is compounded by the expectations of our community – according to survey results included in the City Auditor's Annual Report on City Services that will be heard by the City Council in January 2023 – to make significant improvements in the areas of preventing, mitigating, and ending homelessness; affordable housing production; public safety; and beautification.

While City Council approval of the Mayor's March Budget Message for Fiscal Year 2023-2024 will further clarify and prioritize the City's key objectives for the budget development process, the Administration needs to be positioned to propose realistic recommendations to help meet community expectations. Though the Administration is not approaching this as a "reduction" year, the City needs to seriously evaluate existing services that could or should be reduced/eliminated to meet the highest priorities of the community, City Council, and departments. It is also anticipated that a portion of the small surplus preliminarily projected in 2023-2024 remains unspent – providing a partial buffer to the shortfall preliminarily projected in 2024-2025. The preliminary General Fund balancing strategy incorporates the following elements:

- Departments must comprehensively evaluate their highest priority objectives and risks, and offer actions that reallocate resources from the least influential contributors to the strongest contributors to achieving the identified objectives/risk mitigation;

- Evaluate and recommend, where appropriate, the continuation of high-priority programs funded on a one-time time basis in 2022-2023 in the General Fund and the American Rescue Plan Fund, with the expectation that a reallocation of resources may be necessary to focus on these priorities;
- Allocate new resources to a very small handful of key policy priority areas and organizational risk factors; and
- Consider how the reallocation of existing resources or limited allocation of new resources impacts racial equity within our community.

It is important to stress that our initial General Fund projections are still preliminary. Economic conditions are in transition, making definitive revenue forecasts extremely difficult. The additional information that will become available in the next couple of months will provide a more solid foundation upon which to revisit all projections for the Five-Year General Fund Forecast scheduled for release at the end of February 2023.

## **2023-2024 BUDGET PROPOSAL SUBMITTALS**

### **Budget Proposal Considerations**

As appropriate, the package of budget proposal submittals from departments must consider the reallocation of General Fund resources to achieve city-wide and departmental priority service and/or risk mitigation objectives; the continuation of programs previously funded on a one-time basis in the General Fund and workstreams currently funded with American Rescue Plan Fund; 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.

***Individual proposals should fall under one of the following categories listed below as described in Attachment A –***

- Reallocation/Net-Zero Shift of Ongoing General Fund Resources (required, see Attachment A for additional instruction).
- Proposals that Address Specific City Council Direction, Significant Community/Organizational Risks, and One-Time Needs.
- Revenue Proposals (Verifiable and Implementable).

***Other Information to be Provided as described in Attachment A and Attachment B –***

- Vacancy Analysis (Attachment A).
- Equity Considerations in Developing Budget Proposals (Attachment B).
- Alternative Service Delivery Evaluations - Preliminary Business Cases (Attachment A).

As described in more detail in **Attachment A** (2023-2024 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. Importantly, the reallocation of resources may need to cross departmental jurisdiction depending upon the identified priorities and level of investment included in the City Council's approval of the Mayor's March Budget Message. As such, internal coordination within CSAs will be extremely important.

Please note that the suite 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 2023-2024 DRAFT Budget Balancing Strategy Guidelines which have been adjusted somewhat from those approved by the City Council as part of the Mayor's March Budget Message for Fiscal Year 2022-2023, as well as the City of San José Budget Principles; both of which are also included in **Attachment A**.

### **Transmittal Memorandum**

A transmittal memorandum to the Budget Office from an individual department or jointly prepared by the CSA is due on **January 27, 2023**, and should contain the following elements:

- A high-level summary of the department's budget development strategies that discusses how proposals are prioritized and highlights how the department evaluated the potential reallocation of internal resources to achieve priority objectives, including the potential discontinuation of existing ongoing services in order to prioritize the continuation of higher-priority services currently funded on a one-time basis in the General Fund or American Rescue Plan Fund;
- A status update on positions that have been vacant for six months or longer;
- The completed Budget for Equity worksheet (submitted via [this link](#) to Microsoft Forms); 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 2023-2024 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 form<sup>1</sup> 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 2023-2024 Proposed Budget allows the Administration to bring forward a balanced budget in over 135 funds that cover a wide variety of City services. While many of the City's revenue streams have significantly improved since the pandemic, we are likely entering a period of weaker economic conditions that will negatively impact the General Fund, especially beginning in 2024-2025. This limited resource availability contrasts with community expectations that the City continue to make significant strides in addressing issues related to homelessness, public safety, and beautification, as well as the fact that the City still has a number of critical programs previously funded on a one-time basis in the General Fund and the American Rescue Plan Fund that should be evaluated for continuation. It is critical that we use the budget proposal process to structurally realign and focus 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.

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

SENIOR STAFF  
December 19, 2022  
Subject: **2023-2024 Operating Budget Development Planning**  
Page 6

If you have any questions about the 2023-2024 budget process, please contact Jim Shannon, Budget Director. As with any budget development process, this effort takes careful evaluation, tough conversations, and mutual trust that we are giving our best effort on behalf of the community and our employees. Thank you in advance for your thorough and thoughtful work on developing your departmental budget proposals.

A handwritten signature in black ink, appearing to read "Jennifer A. Maguire". The signature is stylized and cursive.

Jennifer A. Maguire  
City Manager

cc: Executive Staff  
Council Appointees

Attachment A: 2023-2024 Operating Budget Submittals  
Attachment B: Budgeting for Equity Worksheet

## **2023-2024 OPERATING BUDGET SUBMITTALS**

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The 2023-2024 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. A high-level summary of the department budget development strategies that discusses how proposals are prioritized and highlights how the department evaluated the potential reallocation of internal resources to achieve City-wide and department priority objectives, including the potential discontinuation of existing ongoing services in order to prioritize the continuation of higher-priority services currently funded on a one-time basis in the General Fund or American Rescue Plan Fund
2. A status update on positions that have been vacant for six months or longer
3. Budgeting for Equity worksheet (see Attachment B)
4. Budget proposal summary from Hyperion listing included proposals
5. Budget proposal details entered into Hyperion
6. Preliminary Business Cases for Alternative Service Delivery Models (if applicable)
7. Certification from the Director that all proposals are entered into the Hyperion budgeting database

### **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 in the General Fund and American Rescue Plan Fund, 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 General Fund and Special Fund 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 existing programs were evaluated for potential discontinuation in favor of higher priority City-wide and departmental objectives (see below);
- How equity was imbedded as a strategy for the development of their budget proposals and the planned use of existing resources for next year;
- 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 other departmental restructuring proposals;
- Any City policy changes needed to implement/facilitate budget proposals under consideration;

## 2023-2024 OPERATING BUDGET SUBMITTALS

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- Any long-term opportunities (budget changes that would take longer than one year to implement); and,
- Estimated impacts to rate payers, as applicable.

### **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 within the General Fund and Special Funds – and staffing proposals within Capital Funds – 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 Special and Capital 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, 2023 (new position additions will initially be costed with an effective date of September 1, 2023, 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.

#### ***Reallocation/Net-Zero Shift of Ongoing General Fund Resources***

The budget development strategy requires departments to recommend the reallocation of departmental General Fund resources from the least influential contributors to the strongest contributors to achieving City-wide and departmental priority service and/or risk mitigation objectives. Departments may use the following considerations when evaluating the basic attributes



## 2023-2024 OPERATING BUDGET SUBMITTALS

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of their existing suite of programs for potential discontinuation and reallocation:

- Mandated to Provide the Program – Programs that are mandated by the state or federal government should receive higher consideration compared to programs that are mandated solely by the City or have no regulatory mandate;
- Reliance on City to Provide the Service – Consider the program’s potential to be delivered by another entity (nonprofit, private business, or another government jurisdiction). Programs that can only be delivered by the San José City government should receive a higher consideration than programs where other entities are capable of delivering the service and assume program delivery;
- Impact of the Program on Racial Equity – Evaluate who would benefit and who would be burdened if the program remained or was eliminated, with higher consideration for programs that achieve or work towards racial equity;
- Changes in Demand for the Service – Programs demonstrating an increased demand for service over the past few years should have higher consideration compared to programs that show no growth in demand or have experienced a lower demand for service; and
- Cost Recovery of the Program – Evaluate the ability of a program to pay for itself through fees or other non-General Fund Revenue, as well as generate ongoing non-City revenue for core program costs, with higher consideration given to programs that can pay for themselves compared to programs with limited or no cost recovery component.

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

- 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 2022-2023 in the General Fund or American Rescue Plan Fund. If you believe that you have an ongoing General Fund proposal that falls under the category of not requiring an offsetting action, you must discuss with the Budget Director before proceeding with the proposal; else, the proposal will be rejected.
- 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 2022-2023; 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.

### ***Revenue Proposals (Verifiable and Implementable)***

- Proposals seeking to increase General Fund and Special Fund revenues should include an implementable plan with revenue estimates that are certifiable by both the Department Director and the Budget Director.

## **2023-2024 OPERATING BUDGET SUBMITTALS**

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- 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 2022-2023 to demonstrate feasibility and allow for maximum collections in 2023-2024.

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 2023-2024 Proposed Budget Balancing Strategy Guidelines (Draft) found within this attachment. These guidelines are slightly modified from those approved by the City Council as part of the Mayor's March Budget Message for Fiscal Year 2022-2023. 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.

### **Vacancy Analysis**

Effectively prioritizing service delivery also means effectively making use of existing budgeted positions, which is made more difficult given the organization-wide struggle to fill vacancies. Even with the excellent work by departments, led by the Human Resources Department, to invest in and improve processes and outcomes related to employee recruitment and retention, the City is still experiencing a double digit vacancy rate. To assist with the City Manager's Office decision-making process in developing the 2023-2024 Proposed Operating Budget, departments must provide the status of each position that has been vacant for longer than six months (e.g., actively recruited, backfilled by a temporary position, higher-class pay, etc.). The Budget Office will provide the vacancy list directly to your departmental fiscal teams.

### **Equity Considerations in Developing Budget Proposals**

Please refer to Attachment B for more information.

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 2023-2024 budget submittals are due on **January 27, 2023**. Please contact your Budget Office analyst with any questions.

**2023-2024 OPERATING BUDGET SUBMITTALS**

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**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 2023-2024 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](mailto:bryce.ball@sanjoseca.gov).

## 2023-2024 OPERATING BUDGET SUBMITTALS

### 2023-2024 DRAFT 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. Balance ongoing expenditures with ongoing revenues to maximize service delivery within existing resources, to ensure no negative impact on future budgets, and to maintain the City's high standards of fiscal integrity and financial management. As appropriate, establish a Future Deficit Reserve in the General Fund to cover any projected budgetary shortfall in the following year as a stopgap measure; and, maintain or increase the Budget Stabilization Reserve as a buffer against a further weakening of future economic conditions or unanticipated cost increases.
4. Evaluate program-level budgets and identify opportunities to shift resources or reconfigure operations from the least influential contributors to the strongest contributors of achieving City-wide and departmental priority service and/or risk mitigation objectives.
5. Prioritize limited resources to address truly significant community or organizational risks, critical services funded on a one-time basis in 2022-2023 in the General Fund or American Rescue Plan Fund, 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, 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 a very small number of high-priority programs funded on a one-time basis in 2022-2023 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.

## 2023-2024 OPERATING BUDGET SUBMITTALS

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### 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.

**2023-2024 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 – FY 2023-2024

### Overview

Budgeting is the annual decision-making process about resource allocation and, by extension, City priorities. The Budgeting for Equity (BfE) 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 confirmed that Black, Indigenous, Latin/o/a/x 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.

The BfE worksheet is an important step to integrate explicit considerations of equity into decisions in developing department budget submittals. 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. Keep in mind that while we lead with race and it is the 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.

The process of engaging in equity analysis is a transferrable skill that can be applied to other areas of department service delivery. To deepen departmental understanding and the value provided from completing the BfE Worksheet, departments were provided the BfE Worksheet and received training from the Office of Racial Equity on its completion in October 2022. With this additional time and training, directions for completing the BfE Worksheet is similar to last year: departments are directed to analyze how specific proposals and resource allocation impedes or advances equity within a **community-serving Core Service; Strategic Support CSA departments** will select a **Core Service** of their choosing based on the budget proposals you are recommending for 2023-2024. Those departments that have built up their skillsets and have capacity are encouraged to complete a BE Worksheet for more than one Core Service.

Additional training will be provided for next fiscal year to further improve departmental expertise and to help ensure that equity analysis is applied both deeply and broadly in the budget development process.

### Timeline and Submittal Process

- **Submit a completed Budgeting for Equity worksheet through Microsoft Forms ([click here](#)) by January 27, 2023**
- If you have any questions with this tool, please contact the Office of Racial Equity at [OfficeofRacialEquity@sanjoseca.gov](mailto:OfficeofRacialEquity@sanjoseca.gov)

## The Framework

The worksheet integrates racial equity principles in the budgeting process.

Racial Equity Principles in Budgeting for Equity	
<p><b>1. Focus on impact: Consider how the chosen core service area proposal impacts the well-being of internal and/or resident historically marginalized racial groups.</b></p> <p><b>2. Establish Accountability:</b> Use performance measures to assess progress - how much, how well, and the extent to which anyone is better off.</p>	<p><b>3. Leverage City Data (links provided below):</b> <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

- Choose one core service area or community-serving core service to center the worksheet
- 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 the Office of Racial Equity ([OfficeofRacialEquity@sanjoseca.gov](mailto:OfficeofRacialEquity@sanjoseca.gov)) in answering this tool's questions and consultation
- 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 available, 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](#)



## Frequently Asked Questions

### **How should departments use this worksheet to develop its budget proposal?**

Notably, the worksheet not only provides decision-makers with information on how budget decisions will impact equity goals and advance racial equity within their department, but the tool is also intended to guide budget development for the chosen core service. In this sense, the process of using the worksheet is equally as valuable as the information it yields. Ultimately, departments should select a core service and use this worksheet to develop budget proposals related to the chosen core service.

### **How will this information be used? Who is the audience?**

This worksheet aims to consider how budget decisions impact different communities across the City and how these decisions can advance racial equity. This tool includes a series of prompts that are intended to increase the consideration of racial equity in the development of budget proposals for the chosen core service in addition to providing decision-makers with information on how marginalized communities will be impacted by budget decisions.

The information will be reviewed by the Office of Racial Equity and the Budget Office. All worksheet responses will be scored on an equity advancement assessment with the purposes *to support a quantitative approach to standard setting, clarify expectations, and serve as a resource to acknowledge successes, identify growth areas, and monitor year over year improvement.*

The scores will be used by the Budget Office in their budget approval process.

### **How will departments receive feedback on the worksheet?**

Departments may receive general feedback from the Office of Racial Equity as they engage in office hours to complete the worksheet. Staff capacity precludes a formal report from being prepared. The Office of Racial Equity will be available for additional consultations and department will have the opportunity for engagement during the process and afterward. Others can connect with the Director for feedback.

### **What if I don't have disaggregated data?**

The Office of Racial Equity is aware that many Departments and programs do not have access to program disaggregated data. If there is additional support needed to identify data or think creatively to answer the worksheet prompts, please schedule office hours with the Office of Racial Equity and they are happy to serve as a strategic thought partner.

## 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. 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 FY 2023-2024 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.](#)