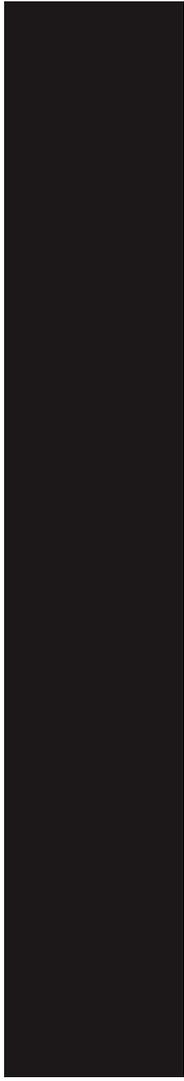


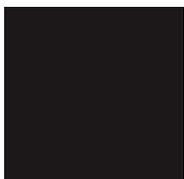


2017-2018

MID-YEAR
BUDGET
REVIEW



TRANSMITTAL
MEMORANDUM



Memorandum

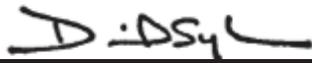
TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Margaret McCahan

**SUBJECT: 2017-2018 MID-YEAR
BUDGET REVIEW REPORT**

DATE: January 31, 2018

Approved



Date 1/31/18

RECOMMENDATIONS

- a) Approve the 2017-2018 Mid-Year Budget Review Report.
- b) Approve an ordinance:
 - 1) Amending Section 4.79.020 and adding a new Section 4.79.030 to Chapter 4.79 of Title 4 of the San José Municipal Code to establish the Library Parcel Tax Capital Fund and to make technical and clarifying changes;
 - 2) Amending Part 8 of Chapter 4.80 of Title 4 of the San José Municipal Code to add a new Section 4.80.430 to establish the Convention and Cultural Affairs Capital Fund and to make technical and clarifying changes;
 - 3) Amending Part 13 of Chapter 4.80 of Title 4 of the San José Municipal Code to amend Section 4.80.670 and add new Sections 4.80.680 and 4.80.690 to establish the General Purpose Parking Capital Fund and to make technical and clarifying changes; and
 - 4) Amending Part 3 of Chapter 14.32 of Title 14 of the San José Municipal Code to amend Section 14.32.300 and add new Sections 14.32.310 and 14.32.320 to establish the Convention Center Facility District Revenue Fund and the Convention Center Facility District Capital Fund and to make technical and clarifying changes.
- c) Adopt related Appropriation Ordinance and Funding Sources Resolution amendments in various funds as detailed in Section III (Recommended Budget Adjustments and Clean-Up Actions) of the 2017-2018 Mid-Year Budget Review Report. Amendments in the Library Parcel Tax Capital Fund, Convention and Cultural Affairs Capital Fund, General Purpose Parking Capital Fund, and Convention Center Facility District Capital Fund shall be effective on the dates on which the ordinances establishing the Library Parcel Tax Capital Fund, Convention and Cultural Affairs Capital Fund, General Purpose Parking Capital Fund, and Convention Center Facility District Capital Fund become effective.
- d) Approve the following revisions to the City Manager's Office staffing in 2017-2018: add 1.0 Deputy City Manager, add 1.0 Director, and delete 1.0 Senior Deputy City Manager.

- e) Accept a gift of \$1,000,000 from FCL Tech, Inc. into the Gift Trust Fund to support digital inclusion, work force development, and education programs.

OUTCOME

The Mid-Year Budget Review Report provides an assessment of the City's budget condition in the current fiscal year as compared to the 2017-2018 Modified Budget based on actual performance during the first six months of 2017-2018. Based on this analysis, budget revisions are recommended to: implement a number of technical and net-zero adjustments between revenue categories and expenditure appropriations; implement required technical/rebalancing actions to align already approved revenue estimates and expenditure budgets with the most current tracking information or reallocate funding among appropriations based on updated needs; account for new or adjusted grants, reimbursements, or fees; and fund one urgent fiscal/program need in the General Fund and a limited number of new projects in special and capital funds. Actions are also recommended to establish separate capital funds for those funds that currently include both capital and operating expenditures, such as the General Purpose Parking Fund. This message also includes an update on the Office of Emergency Management in response to City Council direction provided on August 8, 2017 (Office of Emergency Services Assessment and Recommendation Report, Item 3.7).

EXECUTIVE SUMMARY

The 2017-2018 Adopted Operating and Capital Budgets for the City of San José totaled \$3.5 billion. With this funding, the City continues to deliver a wide range of services to the City's residents and businesses. The Adopted Budget balanced many competing community and organizational needs while maintaining the City's strong commitment to budget stability. Budget actions in 2017-2018 focused on the following priority themes:

- *Public Safety and Disaster Preparedness*
- *Flood Recovery*
- *Investments that Produce Long-Term Savings, Revenues, and Efficiencies*
- *Investments that Leverage External Sources of Funding*
- *Investments Leveraging Community Energy and Volunteerism: #Beautify SJ*
- *Saving and Improving Fiscal Resiliency*

The Administration is closely monitoring the City's budget to ensure that current year revenues and expenditures are meeting expectations, which is necessary to maintain budget stability and avoid service disruptions in any given year. Through the first half of the year, City funds are generally performing within expected 2017-2018 budgeted levels, with a few selected funds outperforming anticipated projections and the City's Self-Insured Medical Fund not meeting expectations.

Mid-Year Budget Review Highlights

General Fund

- Based on current collection trends and information, General Fund revenues are anticipated to end the year approximately \$12 million above budgeted levels. Overall, General Fund expenditures are tracking slightly below anticipated levels and are expected to generate minimal savings by year-end of approximately \$3 million - \$4 million. The combination of excess revenues, expenditure savings, and the liquidation of prior year carryover encumbrances are expected to generate 2017-2018 Ending Fund Balance in the amount of \$17 million - \$20 million, which will be used as a funding source in the Five-Year General Fund Forecast and the 2018-2019 Proposed Budget.

- Several Mid-Year Budget Review actions are recommended based on actual performance through December and projected activity through the remainder of the year. Major actions include the following:
 - As an urgent fiscal/program need, a recommendation is included to establish an Advanced Funding for Voluntary Employee Beneficiary Association (VEBA) Plan appropriation in the amount of \$100,000 to provide a starting balance to cover estimated administrative costs and to allow the non-budgeted VEBA Fund to have time to build an appropriate reserve amount. The VEBA Fund will pay back the \$100,000 loan plus the interest generated from investment pool within 18 months.

 - Implement required technical/rebalancing actions that result in total net savings of \$1.0 million. Notable actions include eliminating the Convention Center Lease Payments appropriation (\$15.24 million, offset by eliminating a reimbursement from the Successor Agency to the Redevelopment Agency (SARA)) to reflect actions from the recent SARA bond refunding; increasing the 2018-2019 Future Deficit Reserve (\$10.75 million, offset by a reimbursement received from SARA) that is also available as a result of the recent bond refunding; establishing the Self-Insured Medical Fund Reserve (\$1.65 million) to address a potential negative fund balance in the Self-Insured Medical Fund through fiscal year 2017-2018; and decreasing the Salaries and Benefits Reserve (\$1.8 million), which represents funding previously set aside for an anticipated 7.5% increase to health premiums that did not occur and salary increases for specific job classifications where recruitment and retention issues are being experienced that can instead be absorbed within existing budgets. In addition, this document recommends the reallocation of funds between various Workers' Compensation Claims appropriations to reflect actual expenditure needs; an increase to the City Attorney's Office of \$300,000 for additional outside litigation costs; and funding for the Evergreen Senior Housing Ballot Initiative 9212 Report for Planning, Building and Code Enforcement (\$60,000, offset by vacancy savings), Public Works (\$60,000), and City Attorney's Office (\$50,000).

 - Implement grants/reimbursements/fees adjustments totaling \$3.5 million with a net-zero impact on the General Fund. The largest adjustments include actions to recognize and appropriate funding to support the following: City Manager's Office to support the

Broadband and Digital Inclusion Strategy (\$1.0 million), Public Works Development Fee Program for temporary staffing to support the Broadband and Digital Inclusion Strategy (\$850,000), Fire Department reimbursements for Strike Team deployment (\$824,000), and Police Department grants (\$450,000).

- Implement a variety of clean-up actions that result in a total net cost of \$909,000, including a decrease in the General Fund fund balance (\$597,000), a rebudget of funds for the Cultural Facilities Capital Maintenance Reserve (\$498,000), and a net decrease of \$185,000 to the Salaries and Benefits Reserve after the reallocation of funds to several department Personal Services appropriations associated with the Salary Program. Other net-zero impact actions that correct errors or align revenues and/or expenditures among appropriations for previously approved budget actions are also included.

Special/Capital Funds

- With the exception of the Self-Insured Medical Fund, most of the revenues and expenditures in the City’s special and capital funds are generally performing within expected levels through December. Budget adjustments are recommended in several funds to adjust for revised revenue and cost estimates, to address critical current year funding needs, and to recognize various grants and reimbursements. Some of the highlights and major recommended adjustments are described below.
 - A recommendation is included in this report to address a potential negative fund balance in the Self-Insured Medical Fund through fiscal year 2017-2018. With lower projected revenues and higher expenditures, the Ending Fund Balance for 2017-2018 is currently projected to be negative \$1.65 million. This figure, however, will be updated once additional claims payment information is known. Given the negative status of this fund and the likely negative impact continuing next fiscal year, the Administration is actively analyzing all potential options to address the revenue and expenditure imbalance. To address the potential financial impact in 2017-2018, a \$1.65 million Self-Insured Medical Fund Reserve is recommended in the General Fund. If no corrective actions are taken, it is anticipated that this fund would continue to have a negative fund balance in 2018-2019 up to an estimated additional \$2.5 million - \$3.0 million through December 2018.
 - Several recommendations are included in this report to address the Housing Department’s operations. Three notable actions include an increase for the Tenant Based Rental Assistance (TBRA) Program for Rental Subsidies for homeless households in the amount of \$700,000, continued funding for the Santee Neighborhood Community Services and Legal Support (\$125,000) through the end of 2017-2018, and the addition of funding for Homeless Meal Services (\$187,000) to fund the “Open Doors 2020” pilot program that will offer food services at the African American Community Center as an alternative to providing meals at St. James Park. Outside funding is being sought to match this contribution to support the program.
 - The Building and Structure Construction Tax and the Construction Excise Tax revenues, the two largest construction-related revenues, are tracking to exceed their Adopted Budget year-end estimates. It is currently anticipated the Building and Structure Construction Tax

will total \$22.5 million by year-end (\$4.5 million above the Adopted Budget estimate) and the Construction Excise Tax Fund will total \$30 million by year-end (\$6.0 million above the Adopted Budget estimate). Though budget adjustments are not recommended in this report, these updated revenue estimates will be factored into the development of the 2018-2019 Proposed Capital Budget.

- In the Construction Excise Tax Fund, recommendations are included to recognize North San José Traffic Impact Fees (\$5.7 million) and allocate funding to the corresponding reserve, recognize grant funding from the One Bay Area Grant 2 (OBAG2) program for the Downtown San José Mobility, Streetscape and Public Life Plan project, and increase Revenue from Local Agencies by \$525,000 based on higher than anticipated Pavement Maintenance – Measure B receipts from vehicle registration fees. Additional funding is also recommended for the 880/Charcot appropriation (\$3.7 million) to advance project design and provide staff support for the project, and to establish the San José Regional Transportation Hub project of \$500,000 to provide the City’s share of funding responsibility for a Cooperation Agreement with partner agencies (VTA, Caltrain, and High Speed Rail) to engage consultants for the development of the San José Diridon Integrated Station Concept Plan.
- In the General Purpose Parking Fund, several recommendations resulting from the SARA bond refunding are recommended, including: recognize \$6.3 million from SARA as reimbursement for prior advances for debt service associated with the parking garage at Fourth and San Fernando Streets, eliminate the corresponding 4th/San Fernando Reserve (\$2.9 million) and Debt Service Payments Reserve (\$3.4 million) which are no longer required due to the refunding of SARA bonds, and increase the ending fund balance by \$12.6 million. Recommendations regarding the use of the ending fund balance will be brought forward as part of the development of the 2018-2019 Proposed Budget.
- Several recommendations are included in the various Airport funds, including: a reallocation of \$20.8 million from the Future Budgets/Capital Reserve to the Airline Agreement Reserve to correctly align the funds with the appropriate reserves; reallocation of \$586,000 of various project savings to the Terminal B Gates 29 & 30 project to fund the additional costs due to the accelerated project schedule; and reallocation of \$417,000 from the Airfield Geometric Implementation project to the Advanced Planning project to ensure adequate funding to complete an airport height study as directed by the City Council as part of the approval of the Mayor’s June Budget Message for Fiscal Year 2017-2018.
- Several actions are recommended in the Convention and Cultural Affairs Fund. To improve transparency and align budgetary processes with the implementation of the City’s new budget system, capital project funding is transferred to the newly created Convention and Cultural Affairs Capital Fund. Additionally, this report recommends the following: increasing the Convention Center Restrooms project (\$1.2 million), establishing a Convention Center Staff/Kitchen Dining Area project (\$300,000), and establishing the McCabe Hall Roof Repairs project (\$50,000).

Looking forward, the Administration is scheduled to release the 2019-2023 General Fund Five-Year Forecast on February 28, 2018, and the 2018-2019 Proposed Capital and Operating Budgets on April 23, 2018 and May 1, 2018 respectively. Analysis from this Mid-Year Budget Review will be factored into both the Forecast and Proposed Budgets, as appropriate.

BACKGROUND

The annual Adopted Budget is a financial plan predicated on the best information available at the time it is prepared. As with any budget, however, changing conditions create the need to modify the original plan. Through its budget policies, the City Council has designated mid-year as the appropriate time to perform a comprehensive review of the current year's budget, and the Mid-Year Budget Review as the appropriate vehicle for consideration of any revisions to the budget. This Mid-Year Budget Review Report complies with that policy. It contains a comprehensive review of the status of the City's 2017-2018 Operating and Capital Budgets as modified through December 2017.

The Mid-Year Budget Review Report includes the following sections:

- **Transmittal Memorandum** – An overall summary of the contents of the Mid-Year Budget Review Report.
- **Section I: General Fund Status Report** – A review of the General Fund revenues and expenditures through Mid-Year.
- **Section II: Selected Special/Capital Funds Status Report** – A review of selected special and capital funds that have revenue and/or expenditure variances from the Modified Budget or other issues of interest.
- **Section III: Recommended Budget Adjustments and Clean-up Actions** – The Recommended Budget Adjustments detail the proposed budget augmentations/reductions in the General Fund and special/capital funds. The Clean-up Actions detail the technical appropriation and revenue estimate adjustments for the General Fund and special/capital funds.
- **Section IV: Appendix** – This section includes the financial results, prepared by the Finance Department, for all budgeted fund groups for the first six months of the year.

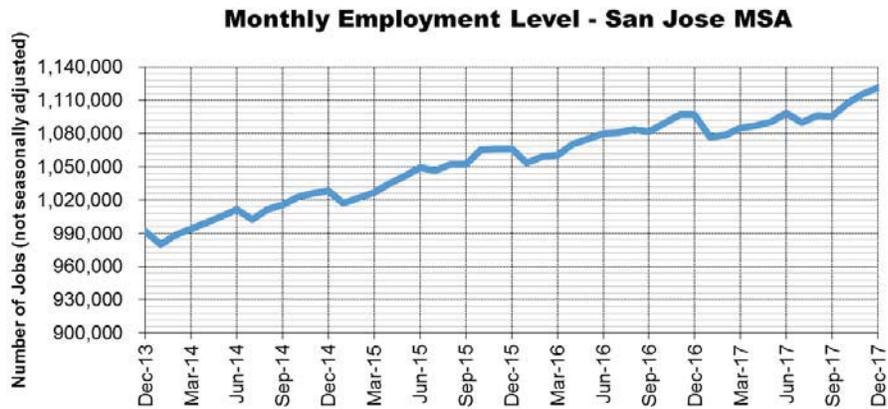
ANALYSIS

The Analysis section includes the following: an overview of the current economic environment; a discussion of General Fund performance through December; a summary of recommended General Fund budget adjustments included in the Mid-Year Budget Review Report; and a status report on selected special and capital funds.

ECONOMIC ENVIRONMENT

The Silicon Valley continues to show positive economic performance, but some economic indicators are starting to moderate from the extremely strong growth experienced in recent years.

The December 2017 employment level in the San José-Sunnyvale-Santa Clara Metropolitan Statistical Area (San José MSA) of 1.12 million was 2.2% higher than the December 2016 level of 1.10 million. Between December 2016 and December 2017, 23,900 jobs were added. This includes 9,100 jobs in private educational and health services (predominantly within health care and social assistance), and 7,700 jobs in leisure and hospitality services, marking the 88th consecutive monthly gain on a year-over-year basis.¹



As noted in the January 2018 Beacon Employment Report, however, while California continued to have year-over-year employment growth in 2017 (2.1%), this growth has begun to moderate with the employment growth in 2017 being the lowest level since 2011. Robert Kleinhenz, Executive Director of Research at Beacon Economics and the UC Riverside School of Business Center for Economic Forecasting, stated “Payroll growth in California accelerated in the final months of 2017, giving the state a strong finish for the year. Job gains and overall economic growth were constrained throughout this year, however, by limited expansion of the labor force, which is something that is likely to continue in 2018.”²

Unemployment Rate (Unadjusted)

	Dec. 2016	Nov. 2017	Dec. 2017**
San José Metropolitan Statistical Area*	3.4%	2.7%	2.7%
State of California	5.0%	4.0%	4.2%
United States	4.5%	3.9%	3.9%

* San Benito and Santa Clara Counties
 ** Preliminary Estimate
 Source: California Employment Development Department

In December 2017 the unemployment rates at the local, State, and national levels continued to drop from prior year levels. In December 2017, the unemployment rate for the San José Metropolitan Statistical Area was 2.7%, which

¹ State of California Employment Development Department Labor Market Information Division Press Release, January 19, 2018

² Beacon Economics, Employment Report, January 2018

is consistent with the November 2017 rate, and is below the 3.4% rate experienced a year ago. In this region, the December 2017 unemployment rate continues to be lower than the unadjusted unemployment rate for the State (4.2%) and the nation (3.9%).

Local construction activity remains very strong through December and is tracking well above prior year levels. Residential permits for new dwelling units through December totaled 1,809, versus

Private Sector Construction Activity
(Valuation in \$ Millions)

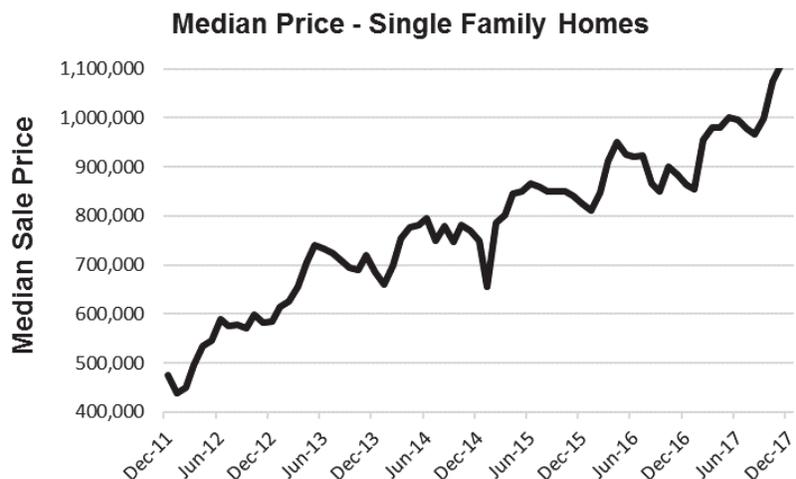
	July-Dec. 2016	July-Dec. 2017	% Increase/ (Decrease)
Residential	\$ 328.1	\$ 394.1	20.1%
Commercial	\$ 394.5	\$ 406.3	3.0%
Industrial	\$ 275.5	\$ 291.9	6.0%

1,424 in the prior year. Correspondingly, the valuation of new residential construction and alteration activity are both up compared to prior year levels. Combined residential valuation of \$394.1 million through December is 20.1% above the prior year level of \$328.1 million. Significant residential projects through December 2017 included permits issued for a 105-unit apartment building over Podium Garage (located near the

intersection of South First Street and East Reed Street), five permits issued for a total of 35 condominiums that are part of a Planned Development permit allowing up to 162 attached single-family units (located near the San José Flea Market), three of seven approved condominium buildings totaling 21 units (located near the intersection of N. King Road and Dobbin Drive), the Reserve, which consists of two apartment buildings (369 units and 267 units) and a 376,000 square foot podium garage (located on S. Winchester Boulevard), and the balance of a 19-story, 260-unit apartment building (located on the corner of W. San Carlos Street and S. 3rd Street).

Overall commercial valuation through December is 3% above the 2016-2017 level (\$406.3 million in 2017-2018 vs \$394.5 million in 2016-2017). New commercial construction increased slightly (\$291.7 in 2017-2018 vs. \$272.8 in 2016-2017) while alteration activity decreased slightly (\$114.7 in 2017-2018 vs. \$121.7 in 2016-2017).

Industrial construction valuation through December is 6.0% above the 2016-2017 level (\$291.9 million in 2017-2018 vs. \$275.5 million in 2016-2017). Notable industrial new construction in 2017-2018 included permits for a new car dealership totaling 279,485 square feet (located on Capital Expressway, west of Highway 87), a garage and 320,000 square foot mixed use building for the Santana Row Expansion Lot 9 (located on Olsen Drive), and a 209,000 square foot light industrial building (located on Ridder Park Drive, east of highway 880).



The local real estate market continues to experience strong growth in home prices compared to prior year levels. The median single-family home price in December 2017 of \$1.14 million is up 32.1% from the December 2016 price of \$863,000. The December 2017 level represents the highest single family median home price in the City of San José's history. It is also taking significantly less time to sell these homes, with the average days-on-market for single-family and multi-family dwellings in December 2017 totaling 16 days, a 52.2% drop from the 34 days experienced in December 2016. Also of interest is the continued tightening of inventory available in the housing market. The average number of new listings in the first half of 2017-2018 totaled 681, which is 13.2% below the average number of new listings recorded in the same time period of the prior fiscal year. While the median home price has risen and the length of time to sell these more expensive homes has decreased, the number of property transfers (sales) has dropped. The number of property transfers in December 2017 totaled 467, which represents a 16.8% drop from the 561 transfers that occurred in December 2016.

The leading consumer confidence indicator, the Conference Board's *Consumer Confidence Survey*, reports that consumer confidence of 122.1 in December dropped from November's 128.6 (in 1985 it was at 100). Consumers' short-term outlook significantly declined in December. Those expecting business conditions to improve over the next six months decreased from 23.1% to 20.2%, in addition, those expecting business conditions to worsen increased from 6.7% to 9.2%.³ According to Lynn Franco, Director of Economic Indicators at The Conference Board, "Consumer confidence retreated in December after reaching a 17-year high in November. The decline in confidence was fueled by a somewhat less optimistic outlook for business and job prospects in the coming months. Consumers' assessment of current conditions, however, improved moderately. Despite the decline in confidence, consumers' expectations remain at historically strong levels, suggesting economic growth will continue well into 2018."⁴

Economic conditions will continue to be closely monitored and factored into the 2019-2023 General Fund Five-Year Forecast, scheduled to be released on February 28, 2018, and the upcoming releases of both the Proposed Capital and Operating Budgets, scheduled to be released on April 23, 2018 and May 1, 2018, respectively.

GENERAL FUND PERFORMANCE

General Fund revenues and transfers through December totaled \$574.6 million, or 47.5% of the budgeted estimate. Based on current collection trends and information, existing revenues are anticipated to end the year approximately \$12 million above budgeted levels (variance of approximately 1.0% when excluding the Beginning Fund Balance). The primary drivers of this additional revenue are higher than estimated Property Taxes, Sales Tax, Business Taxes, Utility Taxes, Use of Money and Property, and Other Revenue. Overall, development-related revenues in the General Fund are generally on pace to meet budgeted levels. However, Planning revenues are expected to fall well below estimated levels. General Fund expenditures are tracking within anticipated levels and minimal savings of approximately \$3 million - \$4 million are anticipated by

³ The Conference Board, Consumer Confidence Survey, December 2017

⁴ The Conference Board, Consumer Confidence Survey, December 2017

year-end. The combination of the additional revenues, expenditure savings, and the liquidation of carryover encumbrances is expected to total \$17 million-\$20 million, which will be used as a funding source in the Five-Year General Fund Forecast and the 2018-2019 Proposed Budget.

In this document, an overall net increase of \$915,000 to the General Fund Sources is recommended. This is primarily due to the recognition of grants, reimbursements, and/or fee related funds (\$3.5 million), partially offset by required technical and rebalancing actions (net decrease of \$2.0 million) that adjust revenue estimates in limited areas to bring them in line with revised year-end projections and by a reduction to the Beginning Fund Balance based on the final ending fund balance reconciliation for 2016-2017 (-\$597,000).

Required technical and rebalancing actions include: recognizing funding from the Successor Agency to the Redevelopment Agency (SARA) to reimburse the General Fund for past administrative costs (\$10.75 million) that was made available as a result of the SARA debt refunding completed in December 2017; eliminating the Convention Center Lease Payment (\$15.2 million) revenue estimate, offset by a corresponding elimination of the Convention Center Lease Payments expenditure appropriation also as part of the SARA debt refunding actions; and recognizing reimbursement funding of \$1.5 million from Santa Clara County for Emergency Medical Services (Paramedic Program). The revenue estimates for this year will continue to be updated and refined as part of the upcoming Five-Year Forecast and Proposed Budget process and will be reported through the release of the Bi-Monthly Financial Reports that are reviewed by the Public Safety, Finance, and Strategic Support Council Committee.

General Fund expenditures through December totaled \$579.9 million, or 38.6% of the total 2017-2018 Modified Budget. This represents an increase of \$63.6 million, or 12.3%, from the December 2016 level of \$516.3 million. Encumbrances totaling \$62.1 million were \$6.6 million (11.8%) above the December 2016 level of \$55.5 million. Expenditures and encumbrances through December of \$642.0 million constituted 42.8% of the total Modified Budget (including reserves) of \$1.5 billion; without reserves of \$142.3 million, expenditures and encumbrances constituted 47.2% of the total Modified Budget.

There is one budget adjustment recommended to address an urgent fiscal/program need. Other required technical/rebalancing actions, net-zero grants/reimbursements/fee adjustments, and clean-up actions are also recommended in this report. As with revenues, General Fund expenditure adjustments result in a net increase of \$915,000.

The revenue and expenditure adjustments are summarized below and described in more detail in Section III, Recommended Budget Adjustments and Clean-Up Actions of this report. A more detailed discussion of both the General Fund revenue and expenditure performance is also provided in Section I of this report.

RECOMMENDED GENERAL FUND BUDGET ADJUSTMENTS

As previously stated, the budget actions recommended in the Mid-Year Budget Review result in a net increase of \$915,000 to General Fund revenues and expenditures. The recommended Mid-Year Budget Review actions accomplish the following: 1) address one urgent fiscal/program need; 2) implement required technical/rebalancing adjustments; 3) recognize various revenue-supported grants, reimbursements, and fee adjustments; and 4) implement clean-up actions.

The chart below summarizes these recommended adjustments.

**2017-2018 MID-YEAR BUDGET REVIEW
 RECOMMENDED GENERAL FUND BUDGET ACTIONS**

BUDGET CATEGORY	Use of Funds (\$ in Millions)	Source of Funds (\$ in Millions)
Urgent Fiscal/Program Needs		
Advanced Funding for Voluntary Employees Beneficiary Association (VEBA) Plan	\$0.100	
Total Urgent Fiscal/Program Needs	\$0.100	\$0.000
Required Technical/Rebalancing Actions		
2018-2019 Future Deficit Reserve/Revenue from Local Agencies (SARA Enforceable Obligations Reimbursements)	\$10.750	\$10.750
Self-Insured Medical Fund Reserve	1.650	
Fire Department Aircraft Rescue and Fire Fighting Services	0.328	0.328
City Attorney's Office (Outside Litigation Costs)	0.300	
Workers' Compensation State License	0.267	
Transportation Department (Our City Forest)	0.175	
Parks, Recreation and Neighborhood Services Department (Vietnamese-American Community Center Temporary Staffing)	0.115	
Evergreen Senior Housing Ballot Initiative 9212 Report (City Attorney's Office and Public Works)	0.110	
City Manager's Office Staffing	0.100	
Fair Labor Standards Act System Configuration (partially offset by a decrease to Human Resources/Payroll Budget Systems Upgrades)	0.092	
Convention Center Lease Payments/Revenue from Local Agencies (payment from SARA)	(15.240)	(15.240)
Salaries and Benefits Reserve (Health Savings and Employee Market Competitiveness Savings)	(1.846)	
Fire Emergency Medical Services (Paramedic) Reimbursement		1.500
Transfer from Parks Construction and Conveyance Tax Funds (Parks Maintenance)		0.587
Other Miscellaneous Adjustments	0.199	0.085
Other Net-Zero Expenditure Adjustments	0.000	0.000
Total Required Technical/Rebalancing Actions	(\$3.000)	(\$1.990)
Grants/Reimbursements/Fees		
Various Grants/Reimbursements/Fee Adjustments	\$3.502	\$3.502
Clean-Up Actions		
Beginning Fund Balance		(\$0.597)
Cultural Facilities Capital Maintenance Reserve Rebudget	\$0.498	
Salary Program	(0.185)	
Various Net-Zero Adjustments	0.000	0.000
Total Clean-Up Actions	\$0.313	(\$0.597)
Total Recommended Adjustments	\$0.915	\$0.915

Following is a brief description of the General Fund revenue and expenditure adjustments recommended in this report. Additional information on these adjustments is provided in Section III, Recommended Budget Adjustments and Clean-Up Actions, of this report.

URGENT FISCAL/PROGRAM NEEDS

- ***Advanced Funding for Voluntary Employee Beneficiary Association (VEBA) Plan (\$100,000):*** Establishes funding of \$100,000 for the Advanced Funding for Voluntary Employee Beneficiary Association (VEBA) Plan City-Wide Expenses appropriation to provide a starting balance to cover estimated administrative costs and to allow the non-budgeted VEBA Fund to have time to build an appropriate reserve amount. The funding will be used for hiring staff, fiduciary insurance, consultant fees, and training for the VEBA committee members. The reimbursement from the VEBA Fund will be collected through excess revenue generated by a 0.17% administrative fee applied to the investment funds. The investment fund balance will consist of Tier 2 employee contributions as well as Tier 1 contributions and Tier 1 transfers from the retirement trust (pending IRS approval). The VEBA Fund will pay back the \$100,000 original loan plus the interest generated from the investment pool within 18 months, or approximately August 2019.

REQUIRED TECHNICAL/REBALANCING ACTIONS

- ***2018-2019 Future Deficit Reserve/Revenue from Local Agencies (\$10.75 million):*** Increases the 2018-2019 Future Deficit Reserve (from \$9.5 million to \$20.25 million), offset by a payment from SARA to reimburse the City for enforceable obligations. While this one-time funding does not address any ongoing shortfall for 2018-2019, it provides an important safety valve that can provide bridge funding for ongoing solutions that may take longer to implement, funding for one-time urgent service needs, and/or a set aside for budget stabilization needs in the future to address revenue and/or expenditure fluctuations.
- ***Self-Insured Medical Fund Reserve (\$1.65 million):*** Establishes an earmarked reserve to address the projected negative fund balance in the Self-Insured Medical Fund through June 2018. With the decrease in revenues resulting from the loss of participants during open enrollment coupled with an increase in expenditures due to higher projected claim costs, the fund is projected to end the year with a deficit of \$1.65 million. This reserve would be allocated to the Self-Insured Medical Fund at the end of the fiscal year, as necessary.
- ***Fire Department Aircraft Rescue and Fire Fighting Services/Transfers and Reimbursements (\$328,000):*** Increases Personal Services and Non-Personal/Equipment appropriations to fund increased overtime costs and associated training expenditures for firefighters that perform Aircraft Rescue and Fire Fighting Services at the Mineta San José. These actions better align expenditures with expected airport activity levels. A corresponding transfer from the Airport Maintenance and Operations Fund will offset this increase.
- ***City Attorney's Office Non-Personal/Equipment (\$300,000):*** Increases the City Attorney's Office Non-Personal/Equipment appropriation to account for higher than budgeted contractual services expenditures due to increased outside litigation costs, including services for specialized outside counsel, technical experts, court reporters, and other consultant and expert witness services.

- ***Workers' Compensation State License (\$267,000)***: Increases the appropriation due to higher than anticipated costs from the State of California for the Workers' Compensation State Licenses fees. The increased costs reflect a general rate increase as well as a San José-specific increase due primarily to the higher level of lost time experienced by City of San José employees.
- ***Transportation Department - Our City Forest (\$175,000)***: Increases the Non-Personal/Equipment appropriation for the lease payments of office space for Our City Forest. The City has historically provided office space at City-owned facilities to Our City Forest. However, due to the deteriorating condition of the current facility and the lack of City-owned alternatives, leasing of commercial space through June 2019 is recommended, at which time the space needs of Our City Forest will be reevaluated.
- ***Parks, Recreation and Neighborhood Services – Vietnamese-American Community Center Temporary Staffing (\$115,000)***: Increases the Personal Services appropriation and extends the temporary positions through June 30, 2018 to support operations for the Vietnamese-American Community Center at the Shirakawa Community Center. The positions were originally funded only through December 2017 with the expectation that an alternative operator would be identified for the remainder of the fiscal year. As this search has not been successful, the City will continue as the lead operator, continue to work to find a new provider and transition this center to a reuse model, and partner with non-profits to deliver services to the Vietnamese-American community.
- ***Evergreen Senior Housing Ballot Initiative 9212 Report (\$110,000)***: To support the development of the 9212 Report for the Evergreen Senior Home Initiative as directed by the City Council on October 17, 2017, increases the Public Works Non-Personal/Equipment appropriation by \$60,000 to fund consultant costs related to the Traffic Impact Analysis and the City Attorney's Office Non-Personal/Equipment appropriation by \$50,000 to fund CEQA-related legal services. The 9212 Report analyzes fiscal, environmental, and traffic data to evaluate the potential impact of the Evergreen Senior Homes Initiative on the City of San José and compares that impact to the City's Envision 2040 General Plan.
- ***City Manager's Office Staffing (\$100,000)***: Increases the Personal Services appropriation to reflect the net impact of the addition of 1.0 Deputy City Manager and 1.0 Director and the deletion of 1.0 Senior Deputy City Manager. With the approval of the Mayor's June Budget for Fiscal Year 2017-2018, the City Manager was charged with reviewing the City Manager's Office staffing levels and capacity against current Council priorities and future work plans. These staffing changes will allow the City Manager's Office to increase its ability to manage across the City's broad service delivery network and provide a greater level of responsiveness to City Council initiatives.
- ***Fair Labor Standards Act System Configuration (\$200,000)/Human Resources/Payroll Budget Systems Upgrade (-\$108,000)***: Establishes the Fair Labor Standards Act (FLSA) System Configuration appropriation for \$200,000, partially offset by a decrease to the Human Resources/Payroll Budget Systems Upgrade of \$108,000, to fund a consultant to program and

test services to address FLSA issues within the Human Resources/Payroll Budget Systems and to ensure the system's functional specifications will properly meet FLSA rules and guidelines.

- ***Convention Center Lease Payments/Revenue from Local Agencies (-\$15.24 million):*** Eliminates the Convention Center Lease Payments City-Wide Expenses appropriation, offset by the elimination of the associated reimbursement from the SARA. With the SARA bond refunding actions that took place in December 2017, the City is no longer the backstop to the remaining outstanding debt related to the Convention Center Expansion.
- ***Salaries and Benefits Reserve (-\$1.8 million):*** Decreases the Salaries and Benefits Reserve to recognize savings and use as a funding source in this report. As part of the 2017-2018 Adopted Budget, \$1.07 million was set aside for an anticipated increase of 7.5% to health premiums; however, the increase did not occur. Also included in the Reserve was \$775,000 that was set aside to provide funding for salary increases for specific job classifications where recruitment and retention issues are being experienced; however, these increased costs are expected to be absorbed within existing departmental budgets or covered by shifting resources among various appropriations at year-end.
- ***Fire Emergency Medical Services (Paramedic Program) Reimbursement (\$1.5 million):*** Recognizes reimbursement of \$1.5 million from the County of Santa Clara for paramedic services provided in the Santa Clara County Exclusive Operating Area. This covers all the reimbursement associated with equipment for 2017-2018 (\$1.3 million) and the first quarter 2017-2018 Paramedic services provided based on actual performance (\$224,000).
- ***Transfer from the Parks Construction and Conveyance (C&C) Tax Funds (\$587,000):*** Increases the reimbursement from the Parks C&C Tax Funds for parks maintenance based on the higher actual C&C collections in 2017-2018. Per previous City Council direction, 15% of the Parks C&C Tax revenues may be transferred to the General Fund for operating and maintenance costs.
- ***Other Miscellaneous Adjustments (\$199,000)/Business Taxes Revenue (\$85,000):*** Includes several miscellaneous actions to adjust budget with projected expenditure levels.
 - ***Business Tax Outreach Efforts (\$85,000):*** Increases Finance Department Non-Personal/Equipment appropriation, offset by increased business tax revenues, to provide educational outreach efforts related to the new Business Tax rates.
 - ***Environmental Services Personal Services (\$74,000):*** Increases Environmental Services Department Personal Services appropriation to cover a portion of existing Municipal Water System staff costs that support city-wide activities, such as water conservation programs, local and regional water supply planning and coordination, and water rates in the City of San José.

- *Transfer to the San José Municipal Stadium Capital Fund (\$31,000)*: Establishes a transfer to the San José Municipal Stadium Capital Fund to provide funding for reimbursements to the Baseball Acquisition Company for capital improvements made at the Municipal Stadium in 2014-2015 for the San José Giants.
- *Storm Fees (\$10,000)*: Increases the appropriation to reflect higher than budgeted costs.
- ***Other Net Expenditure Adjustments (\$0)***: Includes a number of net-zero adjustments to align already approved revenue estimates and expenditure budgets with the most current tracking information, or reallocate funding among appropriations based on updated needs.
 - *Workers’ Compensation Claims - Transportation (-\$700,000), Workers’ Compensation Claims – Parks, Recreation and Neighborhood Services (PRNS) (-\$400,000), Workers’ Compensation Claims – Public Works (-\$250,000), Workers’ Compensation Claims - Police (\$1.35 million)*: Reallocates \$1.35 million between several Worker’s Compensation Claims appropriations to reflect actual expenditure trends.
 - *Planning, Building and Code Enforcement Department (PBCE) Personal Services (-\$60,000)/PBCE Non-Personal/Equipment (\$60,000)*: Shifts funding of \$60,000 in anticipated 2017-2018 vacancy savings from the Personal Services appropriation to the Non-Personal/Equipment appropriation to support CEQA-related planning services in development of the 9212 Report for the Evergreen Senior Home Initiative as directed by the City Council on October 17, 2017.

GRANTS/REIMBURSEMENTS/FEES

- A series of revenue-supported adjustments totaling \$3.5 million (with a net-zero impact on the General Fund) are recommended to reflect new or updated revenues and expenditures for grants, reimbursements, and/or fee activities. The largest adjustments include actions to recognize and appropriate funding to support the following: City Manager’s Office to support the Broadband and Digital Inclusion Strategy (\$1.0 million), Public Works Development Fee Program for temporary staffing to support the Broadband and Digital Inclusion Strategy (\$850,000), Fire Department reimbursements for Strike Team deployment (\$824,000), and Police Department grants (\$450,000).

CLEAN-UP ACTIONS

- ***Fund Balance Reconciliation (-\$597,000)***: Reduces the 2017-2018 General Fund Beginning Fund Balance based on the final reconciliation to the 2016-2017 Comprehensive Annual Financial Report (CAFR).
- ***Rebudget (\$498,000)***: One rebudget is recommended to the Cultural Facilities Capital Maintenance Reserve. This rebudget should have been incorporated into the 2016-2017 Annual Report.

- ***Salary and Benefits Program (-\$185,000):*** Several actions are recommended to increase various department Personal Services appropriations to fund the 3.0% salary increase that was negotiated and agreed to by the City and two bargaining units (Confidential Employees' Organization (CEO) and Association of Legal Professional of San José (ALP)), and Appointees, effective June 18, 2017; and for Management Pay for Performance Program (MPP) costs. The negotiated bargaining unit agreements were reached after the adoption of the budget. Adjustments were included for those departments that are not able to absorb these additional costs (\$1,202,000 all funds and \$1,181,000 General Fund). In addition, \$291,000 is being returned to the Development Fee Program Reserves because the fee programs did not require the salary program distributions. To offset these augmentations totaling \$1.5 million, this document includes recommendations to partially decrease the Salaries and Benefits Reserve allocation in the General Fund that was set aside for these increases in the 2017-2018 Adopted Budget and reduce the Ending Fund Balances in the Special Funds as appropriate. After distributing Salary and Benefits Reserve funding to cover the additional costs, the remaining reserve funds in the General Fund total \$572,000. Of this amount, \$185,000 will be used as a balancing action in this document.
- ***Voluntary Furlough/Reduced Work Week Program (\$0):*** Adjustments to various departments' Personal Services appropriations reflect implementation of the Voluntary Furlough/Reduced Work Week Program in 2017-2018. Savings in the General Fund (\$200,000) will be generated from employees taking unpaid time off (up to 45 hours) without the loss of accrued benefits (vacation, sick leave, and seniority) or reducing their weekly scheduled hours by as much as eight hours per week during the year. Savings of \$200,000 were assumed in the development of the 2017-2018 Adopted Budget and temporarily funded from the General Fund Salaries and Benefits Reserve. The actions reflected in this document remove the actual savings from the departmental budgets and appropriately restore the funding to the Salaries and Benefits Reserve.
- ***Various Net-Zero Adjustments (\$0):*** To implement a variety of clean-up actions, several technical and net-zero adjustments are recommended, including the reallocation of funding between departmental expenditures, City-Wide Expenses, and revenue categories.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

A comprehensive review of the special and capital funds as well as the capital projects is conducted as part of the 2017-2018 Mid-Year Budget Review. With the exception of the Self-Insured Medical Fund, the special and capital funds are generally tracking within estimated levels through December. Section II of this report contains the status of selected special and capital funds with issues of interest or variances.

Special Funds

Airport Funds

Through December, the Norman Y. Mineta San José International Airport has enplaned and deplaned 6.7 million passengers, an increase of 16.8% compared to the same period last fiscal year, far exceeding growth projections of 3.0%. Calendar year 2017 ended with 1.7 million more passengers than calendar year 2016. Overall operating revenues through December 2017 totaled \$76.9 million and are in line with the benchmark at 49.5%. While airfield, parking and roadway, terminal concessions and general and non-aviation revenues are exceeding estimates, landing fees are in line with expectations and terminal rentals are slightly below budgeted levels. Expenditures (excluding encumbrances) are tracking below budgeted estimates at 43.0%, or \$41.4 million, due to conservative spending.

In calendar year 2017, the Airport's total airline seat capacity growth of 15.4% topped 2016's 12.5% increase. The Airport led the nation's Top 50 major airports in percentage of seat capacity growth for the 2016-2017 period and appears well positioned to achieve that status again in calendar year 2018. The number of airlines and nonstop destinations also has grown to 16 and 54, respectively, up from 10 airlines and 22 non-stop destinations in 2014. The continued extraordinary growth at the airport translates into jobs, economic growth and opportunities for the community, but also increases the demands on the staff, airfield and terminal facilities.

Several adjustments in the Airport Operating Funds are recommended in this report including establishing a \$1.0 million transfer from the Airport Revenue Fund to the Airport Capital Improvement Fund to offset the reduction to the Airport Capital Improvement Fund's ending fund balance, shifting approximately \$20.8 million from the Future Budgets/Capital Reserve to the Airline Agreement Reserve to correctly align the funds with the appropriate reserves, and increasing the Transfer to the General Fund for Aircraft Rescue and Fire Fighting Services by \$328,000 to cover the costs associated with overtime staffing and training at the Airport.

General Purpose Parking Fund

Several adjustments in the General Purpose Parking Fund are recommended as a result of the December 2017 Successor Agency to the Redevelopment Agency (SARA) bond refunding, including: recognizing \$6.3 million from SARA as reimbursement for prior advances for debt service associated with the parking garage at Fourth and San Fernando Streets, eliminating the corresponding 4th/San Fernando Reserve (\$2.9 million) and Debt Service Payments Reserve (\$3.4 million) which are no longer required, and increasing the ending fund balance by \$12.6 million to account for these actions. Additionally, this report recommends transferring funding from the San José Regional Transportation Hub – Programmatic Design Reserve (\$500,000) established as part of the 2016-2017 Annual Report to the Construction Excise Tax Fund to provide the City's share of funding responsibility for a Cooperation Agreement with partner agencies (VTA, Caltrain, and High Speed Rail) to engage consultants for the development of the San José Diridon Integrated Station Concept Plan. Other actions are also recommended to: transfer capital project funding to the newly created General Purpose Parking Capital Fund to improve transparency and align budgetary processes with the implementation of the City's new budget system, transfer additional

funding (\$26,000) to provide the local match for the Electric Vehicle Charging Stations Grant (Green Technologies and Innovation), and transfer \$20,000 of additional funding to increase the Capital Program and Public Works Department Support Service Costs appropriation for associated staffing costs.

Gift Trust Fund

In the Gift Trust Fund, there are two recommendations included in this document to recognize and appropriate gifts received from various donors. Facebook provided a \$1.0 million gift to the City to support the City of San José's Digital Inclusion, SJ Learns, SJ Works, SJ Promise, and Education Innovation Projects. The Library Department received gifts totaling \$125,000 from various donors, such as Friends of the Library groups and the San José Library Foundation to support programming and provide supplies at various library branches.

Housing Funds

Several recommendations are included in this report to address the Housing Department's operations. Two notable actions include an increase for the Tenant Based Rental Assistance (TBRA) Program for Rental Subsidies for homeless households in the amount of \$700,000, and the continued funding for the Santee Neighborhood Community Services and Legal Support (\$125,000) through the end of 2017-2018. The TBRA Program provides housing and case management for up to 100 chronically homeless individuals and families suffering from severe mental illness. The use of the program has grown as the City places a greater focus on improving homeless response. The funds will allow the Housing Department and the Rapid Rehousing Rental Subsidy Administrator, The Heath Trust, to continue providing the vouchers through the end of 2017-2018. In the Community Development Block Grant Fund, increased funding of \$125,000 is recommended for the Santee Neighborhood Community Services and Legal Support. As directed in the Mayor's June Budget Message for Fiscal Year 2015-2016 as approved by the City Council, the Housing Department allocated one time funds for the Santee Neighborhood Community Services and Legal Support to address substandard housing conditions. The program's legal services were launched in January 2017 and the neighborhood community services in April 2017. These one-time funds carried these services into 2017-2018 and the \$125,000 is recommended to continue these services to the end of 2017-2018. Funding of \$187,000 is recommended from the Multi-Source Housing Fund for Homeless Meal Services to fund the "Open Doors 2020" pilot program that will offer food services at the African American Community Center as an alternative to providing meals at St. James Park. Outside funding is being sought to match this contribution to support the program.

Self-Insured Medical Fund

The Self-Insured Medical Fund was established in January 2017 to account for the City-funded Preferred Provider Organization (PPO) plan. On June 21, 2016, the City Council authorized the City Manager to enter into an agreement with Blue Shield of California to provide a City-funded PPO medical insurance plan for employees, pre-65 retirees, and dependents. In 2016, the City issued an off-cycle RFP to identify a health care provider with rates competitive with Kaiser to create a more sustainable non-Kaiser option. Sutter Health Plus offered an HMO plan that could

compete with Kaiser but did not offer a PPO plan. Blue Shield would provide a City-funded PPO plan but would not offer a fully insured PPO plan. To retain a PPO and offer active employees and retirees options, the Administration recommended the City-funded PPO plan.

Through December 2017, revenues in the Self-Insured Medical Fund totaled \$7.2 million, or 52.8% of the budget, and were primarily generated from Reimbursements from Retirement Funds (\$5.6 million), Participant Contributions (\$792,000), and Reimbursements from City Funds (\$760,000). Revenues were tracking within estimated levels through December 2017; however, with the plan enrollment changes effective January 2018, revenues in the second half of the fiscal year are expected to fall below the budget of \$13.6 million by \$1.4 million (10%). During the most recent open enrollment period for the 2018 calendar year, enrollees in the plan declined 14.4%, including a 10.7% drop for active employees that account for 22.5% of the plan participants and a 15.4% drop for retirees that account for 77.5% of the plan participants. This loss far exceeded the estimated decline of 2% expected because of rate increases implemented effective January 2018.

Expenditures totaled \$6.2 million through December 2017, or 47.0% of the budget, and consisted primarily of Payment of Claims (\$5.5 million), Stop Loss Premium (\$428,000), and the Provider Administration Fee (\$152,000). It is anticipated that the total expenditures from the Self-Insured Medical Fund will end the fiscal year at approximately \$13.9 million, which is \$836,000 (6.4%) above the modified budget of \$13.1 million. The expenditure variance is due primarily to higher projected claims payments (\$12.7 million versus the budget of \$11.8 million) based on the actual claims payments (\$5.5 million) for the first six months of 2017-2018 (this represents approximately 5 months of claims due to the timing of payments).

The combination of lower projected revenues and higher expenditures is expected to result in a negative Ending Fund Balance of \$1.65 million. The Administration is evaluating several potential actions to address the revenue and expenditure imbalance, all of which would require stakeholder engagement to assess cost, timeliness, impact to employees and retirees, and any associated risk. Ideas under consideration and being evaluated include:

- an off-cycle open enrollment to implement a rate increase;
- issuing an RFP for new plan options;
- renegotiating with the current provider to add a non-Medicare, fully insured PPO with an HMO;
- investigating a fully insured PPO option with Sutter Health Plus;
- investigating public sector multi-employer risk pools e.g. CalPERS, Joint Powers Authority (JPA), Trust;
- developing additional health in lieu options for retirees; and
- modifying our current City contribution strategy.

In addition, to address the potential financial impact in fiscal year 2017-2018, a \$1.65 million Self-Insured Medical Fund Reserve is recommended in the General Fund. A year-end budget will be brought forward to reallocate funding from the reserve, as necessary, based on the performance of the fund in the second half of the year. If no corrective actions are taken, it is anticipated that this

fund would continue to have a negative fund balance in 2018-2019 up to an estimated additional \$2.5 million - \$3.0 million through December 2018.

Establishment and Transfer of Funds to New Capital Funds

To improve transparency and better align budget processes with the deployment of the City's new budget system, this report recommends the establishment of partner funds for several existing funds – Convention and Cultural Affairs Fund, Convention Center Facilities District Revenue Fund, General Purpose Parking Fund, and Library Parcel Tax Fund – for which both operating and capital activities have historically been budgeted and jointly reported. Separating the corresponding capital project appropriations via transfer to the newly created funds – Convention and Cultural Affairs Capital Fund, Convention Center Facilities District Capital Fund, General Purpose Parking Capital Fund, and Library Parcel Tax Capital Fund – provides for greater visibility into the capital-specific activities funded by the associated revenue sources, and aligns budget reporting with fund administration. Accordingly, a series of adjustments are included in Section III, Recommended Budget Adjustments and Clean-Up Actions, of this report to accomplish these transfers and establish the new funds.

This action also codifies in the Municipal Code the Convention Center Facilities District Revenue Fund that has been previously established through the annual budget process (by adoption of the Appropriation Ordinance in June).

If the ordinance adding the new funds is approved for publication on February 13, 2018, with a second reading at the February 27, 2018 City Council Meeting, the new funds will go into effect on March 30, 2018. Although amendments to the Appropriation Ordinance and Funding Sources Resolution normally take effect immediately, in this instance, the proposed amendments to adjust and transfer corresponding funding from the Convention and Cultural Affairs Fund, Convention Center Facilities District Revenue Fund, General Purpose Parking Fund, and Library Parcel Tax Fund to the new funds will take effect on the effective date of the ordinance establishing the new funds.

Capital Funds

Following is a discussion of the major revenues that support the capital program and the major capital program expenditure revisions recommended in this report.

Construction-Related Revenues

Private sector construction activity constitutes a significant source of tax revenues that are reinvested back into the City's transportation system infrastructure. As described in the "Economic Environment" section of this message, overall development activity in 2017-2018 is significantly exceeding expectations. Following is a discussion of the performance for the Building and Structure Construction Tax, Construction Excise Tax, the two largest construction-related revenue sources. These taxes are also an indicator of future activity for several other categories, such as the storm and sanitary sewer system fees.

- ***Building and Structure Construction Tax*** – Through December, Building and Structure Construction Tax receipts totaled \$13.5 million, which is 74.8% of the 2017-2018 Adopted Budget estimate of \$18.0 million, reflecting higher than anticipated residential and commercial development permit activity. This collection level slightly exceeds prior year collections (\$121,000 or 0.9%) through December of \$13.3 million. Should the current level of permitting activity and corresponding collections continue, it is anticipated that tax receipts could exceed the budgeted estimate by \$4.5 million. Though budget adjustments are not recommended as part of this report, this revised estimate for 2017-2018 will be factored into the development of the 2018-2019 Proposed Capital Budget.
- ***Construction Excise Tax*** – Through December, Construction Excise Tax receipts totaled \$18.4 million, which is 76.5% of the 2017-2018 Adopted Budget estimate of \$24.0 million, reflecting higher than anticipated residential and commercial development permit activity. This collection level is slightly below prior year collections (\$153,000 or 0.8%) through December of \$18.5 million. Should the current level of permitting activity and corresponding collections continue, it is anticipated that tax receipts could exceed the budgeted estimate by \$6.0 million. Though budget adjustments are not recommended as part of this report, this revised estimate for 2017-2018 will be factored into the development of the 2018-2019 Proposed Capital Budget.

Construction and Conveyance Taxes

A total of 17 Construction and Conveyance (C&C) Tax Funds are budgeted throughout the Capital Budget. A majority of these funds (13) support the Parks and Community Facilities Development Capital Program, with the remaining four funds supporting the Public Safety Capital Program, Library Capital Program, Service Yards Capital Program, and Communications Capital Program.

Nearly 99% of the total C&C Taxes are comprised of conveyance receipts, a tax based on the value of property transfers. Based on historical trends and tracking at the time, the 2017-2018 Adopted Capital Budget was developed with the assumption that C&C Tax receipts would total \$38.0 million in 2016-2017 and dip slightly to \$36.0 million in 2017-2018. However, C&C taxes finished 2016-2017 exceptionally strong and reached \$43.3 million. As a result, the 2017-2018 Adopted Budget estimate allows for a 16.9% decline in tax revenue from the prior year.

Through December 2017, receipts of \$19.0 million are higher than the \$17.4 million that were received in the same time period in the prior year (9.4%) and Conveyance receipts received in January 2018 show additional increases (24.0%) when compared to January 2017 receipts. Overall, collections are up 11.7% through January 2018 when compared to the same period in 2016-2017. Based on this performance, a recommendation is included in this report to increase the 2017-2018 C&C Tax estimate from \$36.0 million to \$42.0 million. The \$6.0 million increase to the C&C Tax revenue estimate would be distributed in accordance with the City Council approved formula as follows: Parks C&C Tax allocation (\$3.84 million); Library C&C Tax allocation (\$853,000); Service Yards C&C Tax allocation (\$527,000); Fire C&C Tax allocation (\$504,000); Communications C&C Tax allocation (\$204,000); and Park Yards C&C Tax allocation (\$72,000). The additional revenue is recommended to be placed in each respective funds' Ending Fund Balance for future allocation. Actions to appropriate the additional C&C

revenues allocated to the C&C Parks City-Wide Fund to help support parks-related 2017 flood remediation projects will be brought forward via a separate City Council memorandum.

Major Capital Program Expenditure Revisions

A series of recommended Appropriation Ordinance and Funding Sources Resolution amendments to the Adopted Capital Budget are included in Section III of this report. Following is a summary of the most significant adjustments:

- ***Airport Capital Program*** – Recommendations are included to reallocate \$417,000 from the Airfield Geometric Implementation project to the Advanced Planning project in the Airport Renewal and Replacement Fund to ensure sufficient funding to complete the airport height study. Direction regarding this study was provided in the Mayor’s June Budget Message for Fiscal Year 2017-2018, as approved by the City Council. There are also actions recommended to shift savings from the Security Exit Doors (\$424,000), Perimeter Fence Line Upgrades (\$100,000), Southeast Ramp Reconstruction (\$42,000), and FIS Baggage System Upgrades (\$20,000) projects to the Terminal B Gates 29 & 30 project to cover costs of the acceleration of this project schedule to meet the demands of the increased flight and passenger activity.
- ***Public Safety Capital Program*** – A recommendation is included to establish an appropriation for the Public-Safety Answering Point (PSAP) Equipment (\$162,000). The new appropriation will fund for the purchase of Laptop Hardware for the alternate PSAP in place at the San José Police Department Training Center Substation. The alternate location will allow emergency call-taking services to continue in the event of a failure or other disruption at the primary PSAP.
- ***Parks and Community Facilities Development Capital Program*** – A recommendation is included to establish an appropriation for the San Tomas Neighborhood Center Improvements project (\$150,000). The scope of work will include replacing sections of the roof and gutters, repainting the building, repairing water damaged walls and doors, termite treatment, patio repairs and mold abatement. The Willow Glen Community Center Improvements project is being increased by \$100,000 to replace window blinds and window dressings in the main building at the Willow Glen Community Center. A recommendation is also included to establish the Park Avenue Schematic Design project (\$100,000) to support a schematic design for a future linear park in the median island area of Park Avenue from Market Street to Almaden Avenue. In addition, \$50,000 is allocated to the Happy Hollow Park and Zoo Improvements Project to install additional fencing around the grazing pen and night stalls that house the zoo’s animals.
- ***Storm Sewer Capital Program*** – A recommendation is included to increase the Green Infrastructure Improvements allocation by \$200,000, offset by an increase from the Storm Sewer Operating Fund to the Storm Sewer Capital Fund, to reflect capital costs associated with the current phase of the Baykeeper Settlement analysis and planning.

- ***Traffic Capital Program*** – Recommendations are included to recognize North San José Traffic Impact Fees (\$5.7 million) and allocate funding to the corresponding reserve, recognize grant funding from the One Bay Area Grant 2 (OBAG2) program for the Downtown San José Mobility, Streetscape and Public Life Plan project, increase Revenue from Local Agencies by \$525,000 based on higher than anticipated Pavement Maintenance – Measure B receipts from vehicle registration fees, and to recognize a \$150,000 grant for a new Traffic Safety Education - Senter and Monterey Corridors project which the Vision Zero team will oversee to provide traffic safety education on the Senter and Monterey Corridors. Additional funding is also recommended for the 880/Charcot appropriation (\$3.7 million) to advance final design and provide staff support for the project, and to establish the San José Regional Transportation Hub project of \$500,000 to provide the City's share of funding responsibility for a Cooperation Agreement with partner agencies (VTA, Caltrain, and High Speed Rail) to engage consultants for the development of the San José Diridon Integrated Station Concept Plan.
- ***Municipal Improvements Capital Program*** – Using Convention Center-related funding, a recommendation is included to increase the Convention Center Restrooms Project in amount of \$1.2 million to complete the original scope of the project. When the project was originally awarded in fall 2017, the remaining eight un-renovated restrooms were excluded from the bid to stay within the project's original budget of \$2.4 million. However, given the relative health of Convention Center-related funding and the desire to quickly complete these remaining renovations, ensuring the completion of all 24 restrooms, a recommended budget increase is being brought forward now to expedite a new contract award. Additionally, a recommendation is also included to establish the Convention Center Staff/Kitchen Dining Area project appropriation for \$300,000 to renovate the existing kitchen and dining areas to provide additional capacity and address overflow situations during peak utilization of the Convention Center.

Office of Emergency Management Update

On August 8, 2017, the City Council accepted the Office of Emergency Services Assessment and Recommendation Report (Agenda Item 3.7) and directed staff to return as part of the Mid-Year Budget Review as well as the annual budget process to provide an update on the funding for the Priority One hires in the consultant report: Deputy Director, Emergency Operations Manager, Resilience Coordinator, Response & Recovery Coordinator, and CERT Program Coordinator. As part of the 2016-2017 Annual Report, \$250,000 was approved to fund resources to support and assist with executing the Emergency Management Work Plan. No recommendations to add permanent positions are included in this report as there is no ongoing funding identified to support these additions. As part of the 2018-2019 budget process, the addition of these positions will be analyzed and recommendations will be brought forward in context of the entire General Fund budget position and priorities.

As part of the August 8, 2017 direction, the Administration was also to report on the option to expand the scope of work of the City's existing contracted grant writer and efforts to secure funding from public and private grants and regional partnerships. As part of the follow-up process, it was determined that the contracted grant writer did not have the required capabilities and

experience to assume this expanded role. Staff, however, have been actively pursuing grant opportunities. To provide more resources to the Office of Emergency Management, the Mayor's Office assisted in the application for AmeriCorps and Vista Corps program funding. The first application occurred in fall and the second occurred in winter. However, the results did not provide the resources needed for the Office of Emergency Management (OEM).

As the application process occurred for FY 2018 Bay Area Urban Area Security Initiative (UASI) funds, the OEM staff worked with City Police and City Fire representatives to allocate additional funds for OEM. In a recent meeting of the Bay Area UASI Approval Authority, funds were approved for two additional staff for OEM. The official UASI budget is not yet final and depends on Department of Homeland Security funding, which typically occurs in November. This grant funding would be available next fiscal year. The Housing Department also recently submitted a letter of interest for a grant from the California Office of Emergency Services for the retrofit of soft story buildings (a multi-story building that has a weaker first floor than the floors above).

Staff continue to pursue additional funds from Emergency Management Program Grants, State Homeland Security Grant Program, and other competitive public and private grant sources.

PUBLIC OUTREACH/INTEREST

This report is posted on the City's website for the February 13, 2018 City Council meeting.

COORDINATION

This report was coordinated with the various City Departments and City Council Appointees.

COMMISSION RECOMMENDATION/INPUT

This report was not coordinated with any board or commission.

CONCLUSION

Through December, the City's over 100 operating and capital funds are generally performing within expected levels except for the Self-Insured Medical Fund. The 2017-2018 Adopted Budget was built on the assumption that continued economic growth would be experienced in 2017-2018, and actual collection trends support this assumption.

As part of the Mid-Year Budget Review, budget adjustments are recommended in the General Fund and special and capital funds to bring projected revenues and expenditures into alignment based on performance through the first half of the fiscal year, to account for updated cost projections, to implement technical adjustments, to recognize various grants, reimbursements, and fees, to add funding for a limited number of new projects, and to fund one urgent fiscal/program

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need in the General Fund. The adjustments brought forward in this report reflect the Administration's best estimate of the financial performance of the City's funds based on activity through the first half of the fiscal year.

The Administration will continue to closely monitor performance and provide status reports on the City's budget through the Bi-Monthly Financial Reports. These reports will highlight any significant developments as well as identify any potential budget actions necessary to ensure the City's funds remain in balance by year-end. Diligent monitoring, continued budgetary discipline, and timely actions are critical components to maintaining the City's fiscal health.



Margaret McCahan
Budget Director

Certification of Funds

I hereby certify that there will be available for appropriation in the designated funds and in the amounts as listed below in fiscal year 2017-2018 monies in excess of those heretofore appropriated therefrom:

Airport Revenue Fund	1,264,000
Benefit Fund	482,153
Community Development Block Grant Fund	1
Construction and Conveyance Tax Fund: City-Wide	1,088,000
Construction and Conveyance Tax Fund: Communications	204,000
Construction and Conveyance Tax Fund: Council District 1	291,000
Construction and Conveyance Tax Fund: Council District 2	191,000
Construction and Conveyance Tax Fund: Council District 3	146,000
Construction and Conveyance Tax Fund: Council District 4	142,000
Construction and Conveyance Tax Fund: Council District 5	273,000
Construction and Conveyance Tax Fund: Council District 6	260,000
Construction and Conveyance Tax Fund: Council District 7	305,000
Construction and Conveyance Tax Fund: Council District 8	209,000
Construction and Conveyance Tax Fund: Council District 9	227,000
Construction and Conveyance Tax Fund: Council District 10	132,000
Construction and Conveyance Tax Fund: Fire Protection Purposes	507,199
Construction and Conveyance Tax Fund: Library Purposes	853,000
Construction and Conveyance Tax Fund: Park Yards Purposes	72,000
Construction and Conveyance Tax Fund: Parks Purposes Central Fund	3,840,000
Construction Excise Tax Fund	8,408,174
Convention and Cultural Affairs Capital Fund	10,887,000
Convention Center Facilities District Revenue Capital Fund	4,095,000
Edward Byrne Memorial Justice Assistance Grant Trust Fund	757
General Fund	915,329
General Purpose Parking Capital Fund	18,015,000
General Purpose Parking Fund	10,466,496
Gift Trust Fund	1,125,092
Integrated Waste Management Fund	233,942
Library Parcel Tax Capital Fund	2,930,000
Major Collectors and Arterials Fund	24,332
Neighborhood Security Bond Fund	73,250
Public Works Program Support Fund	2,448
San José Municipal Stadium Capital Fund	31,299
San José-Santa Clara Treatment Plant Operating Fund	2
Sewer Service and Use Charge Fund	1
Storm Sewer Capital Fund	200,000
Subdivision Park Trust Fund	80,000
Supplemental Law Enforcement Services Fund	389,814



Margaret McCahan
Budget Director