

May 12, 2020

Honorable Mayor and City Council:

I present the 2020-2021 Proposed Operating Budget during a time of tremendous change and anxiety for our community and workforce. The arrival of COVID-19 has upended lives, caused pain and tragedy, and has required extraordinary efforts of us all to limit the pandemic's reach. As a result, the necessary shelter-in-place restrictions to slow the virus' spread has severely impacted day-to-day economic activity. The longest economic expansion in U.S. history has abruptly ended and the recession we knew was eventually coming is now here. Businesses have shuttered and the unemployment rate is spiking. And even though suppression efforts have yielded early successes, we know that the virus is still present, and that restrictions related to social distancing – in some form – will be necessary for an extended period.

During this time we have also seen the strength of our community and our City organization. As difficult as the shelter-in-place has been, our collective effort has flattened the curve and given our health care community the space necessary to effectively care for those most at risk. The City has leaned into this crisis, taking a leadership role within the region to provide shelter for the medically vulnerable homeless population, and coordinating a vast array of government, non-profit, and private sector partners to provide food and necessities to those medically and economically impacted by the pandemic.

The willingness of our community and City workforce to meet these challenges head-on exemplifies a resiliency that will be needed for the foreseeable future. We have taken proactive steps throughout the pandemic to understand its likely economic fallout, address the anticipated budgetary shortfalls in 2019-2020, and completely revamped the 2020-2021 budget development process to ensure early and measured action in response to the deficit. Though issued at the beginning stages of the pandemic when the term “social distancing” was still a new concept, the Mayor's March Budget Message for Fiscal Year 2020-2021, as approved by the City Council, appropriately identified the emergent budgetary risk and focused on fiscal resilience as one of the key drivers for the 2020-2021 Proposed Operating Budget.



Community Budget Meetings

May 13: 6:00pm – 8:00pm

May 16: 10:00am – 12:00pm

May 18: 6:00pm – 8:00pm

May 20: 6:00pm – 8:00pm

Budget Decision Milestones

May 14 -15

City Council Study Sessions

May 21/June 15

Public Hearings on 2020-2021 Proposed Budgets and Fees & Charges

June 8

2020-2021 Mayor's June Budget Message Released

June 16

Council Review/Approval of the 2020-2021 Mayor's June Budget Message

June 23

Adoption of the 2020-2021 Capital and Operating Budgets, 2021-2025 CIP, and the 2020-2021 Fees & Charges

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The direction provided by the Mayor and City Council and quick action by our workforce have produced a Proposed Budget that addresses an anticipated General Fund shortfall of \$71.6 million. Driven by an overall estimated revenue decline of 9% from last year's revenue collections – levels well exceeding the “Great Recession” and “Dotcom Bust” – this shortfall is responsibly addressed with a combination of ongoing and one-time budget balancing recommendations. These recommendations, while mindful of community impacts and City Council priorities, will result in measurable service level reductions. As an attachment to this transmittal memorandum (Attachment C), a second package of budget reductions has been developed as a contingency plan should economic conditions further deteriorate. Those reductions would result in even greater service impacts and would only be brought forward for City Council consideration in early fall if needed.

Budget Balancing Considerations

The Mayor's March Budget Message for Fiscal Year 2020-2021, as approved by the City Council, identified three tiers of funding: Tier 1 - Fiscal Resilience, Tier 2 – Affordable Housing and Homelessness Solutions Funded by Measure E, and Tier 3 – Contingent Expenditures. While the 2020-2021 Proposed Operating Budget attempts to be as responsive as possible to the March Budget Message, resource constraints due to COVID-19 make full alignment impossible. The spirit of Tier 1 is met by the payoff of debt related to the Los Lagos Golf Course and the streetlight LED conversion project, and reserve levels have been carefully managed to lessen service impacts in 2020-2021 while still preserving resources should revenues fall further than expected, and to help with anticipated shortfalls in 2021-2022. In accordance with Tier 2, all proceeds anticipated from Measure E – the ballot measure approved by the voters in March 2020 that applies a general purpose tax on the transfer of real property – are allocated for homeless prevention and affordable housing purposes. As prudently considered in the March Message, the Tier 3 allocations were contingent upon significant improvement in economic conditions, which has unfortunately not come to pass. Attachment B to this transmittal memorandum identifies which one-time allocations are recommended to be funded within the City's constrained budgetary environment.

Under normal circumstances, the City is diligent to ensure that estimated ongoing expenditure levels are matched by ongoing revenues. However, due to the sudden onset of the pandemic, the uncertainty of revenue projections, and the compressed timeframe in which to produce a budget, the 2020-2021 Proposed Operating Budget uses a mix of ongoing and one-time solutions to balance the budget, with over 70% of the shortfall solved on an ongoing basis. This approach ensures that the City takes responsible and meaningful action to address what will likely be several years of budgetary shortfalls as the economy works its way out of the recession and returns to pre-crisis levels, while limiting the reduction of service levels until a more accurate economic picture is known.

More specifically, the approach to resolving the General Fund shortfall involves a mix of ongoing and one-time solutions, mindful of:

1. The need for ongoing service reductions driven by a significantly weakened economic environment, even after shelter-in-place restrictions are lifted;
2. City Council and community priorities with the understanding that service reductions can have disproportionate impacts within our community;
3. The fact that we are powered by people and minimizing layoffs limits the impact to both the organization and the community; and

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Budget Balancing Considerations

4. The uncertainty of the medium to long-term impacts of COVID-19 and the corresponding need to preserve core service delivery.

Contingency Plan. The Administration has also considered the possibility that conditions may worsen further and that revenue shortfalls could be significantly greater than currently estimated. As discussed earlier, a contingency package of budget reduction proposals is attached to this transmittal memorandum describing additional actions that may be brought forward later, if necessary, to address an even larger shortfall. It is important to note that future City Council action would be necessary to enact these reductions, but the organization should be prepared to take these steps to ensure that the City's budget remains in balance.

Other City Funds. In addition to the actions necessary to balance the General Fund, a number of other City funds and operations are adversely affected by COVID-19, including the Airport, the San José McEnery Convention Center and other cultural facilities operated by Team San Jose, several funds that receive Transient Occupancy Tax (TOT) revenue, and the Development Fee Program, a cost-recovery program to regulate private development and construction activity. As described later in this transmittal memorandum, recommendations included in the Proposed Budget acknowledge significantly reduced revenue levels in these funds that are resolved through a mix of reduced service levels and utilization of reserves previously set aside to help manage through economic downturns.

Employee Engagement. Throughout the process of developing the 2020-2021 Proposed Operating Budget, I have committed to sharing information with and listening to our workforce. During the last two weeks, with the City Manager's Office leadership team, I held four virtual town hall meetings via Zoom with 1,285 employees in attendance to discuss both the COVID-19 public health emergency and its impact on the 2020-2021 budget. During these sessions we answered over 180 questions and we received a number of ideas from our employees on how to generate potential budgetary savings. These ideas were in addition to the employee budget suggestions that we received through online submittals directly to the Budget Office. An information memorandum was recently issued that included 17 of the 48 employee suggestions that the Administration was given permission to share publicly. While some suggestions would be subject to meet and confer and extend beyond the current timeline for budget development, several suggestions are incorporated into this Proposed Budget. A Manager's Budget Addendum will be issued later during the budget process outlining those employee suggestions that were included.

COVID-19 Response. It is important to note that this budget does not include costs associated with the City's response efforts to the COVID-19 pandemic, as both the nature of the response and the guidance for how eligible federal and state funding can be used to offset those costs are still evolving. In addition, this budget does not assume the reimbursement of any lost revenue, though the City will continue its strong advocacy efforts toward this goal.

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Total Proposed Budget

In the 2020-2021 Proposed Budget, the total net funding is \$4.1 billion for all City funds (General, Special, and Capital). This is \$523.6 million (11.2%) below the 2019-2020 Adopted Budget (Table 1 below). This decrease primarily reflects the loss of revenue anticipated across all City resources as a result of the COVID-19 pandemic. The Proposed Budget, however, does not yet include funds that will be rebudgeted and added to the final 2020-2021 Adopted Budget to complete multi-year projects. Once these rebudgets are included, the General Fund will draw somewhat closer to 2019-2020 levels, as well the Special and Capital Funds.

2020-2021 Proposed Budget — All Funds (Table 1)			
	2019-2020 Adopted	2020-2021 Proposed	% Change
General Fund	\$ 1,510,135,437	\$ 1,318,447,965	(12.7%)
Special Funds	2,532,532,607	2,527,196,317	(0.2%)
<Less: Operating Transfers>	(894,663,225)	(759,038,291)	(15.2%)
Net Operating Funds	3,148,004,819	3,086,605,991	(2.0%)
Capital Funds	1,520,183,753	1,055,062,934	(30.6%)
<Less: Capital Transfers>	(7,024,000)	(4,095,000)	(41.7%)
Net Capital Funds	1,513,159,753	1,050,967,934	(30.5%)
Total	\$ 4,661,164,572	\$ 4,137,573,925	(11.2%)

Position Impacts

The Proposed Budget includes decreases to position levels throughout the organization. While layoffs are not anticipated as part of this budget primarily due to the number of vacant positions in the organization, those positions funded on a one-time basis in 2019-2020 that are not renewed in 2020-2021, along with the net elimination of positions in 2020-2021 to support a variety of activities, will result in employees who have rights to either 1) remain in their classification, but move to another position; 2) move to another position in a lower classification; or 3) be redeployed to a different position within the organization. The remaining employees who had positions that were scheduled to end on June 30 and do not have rights to other permanent City positions will no longer be employed. Overall, the level of staffing will decrease by a net 103 positions, from 6,647 full-time equivalent positions in the 2019-2020 Adopted Budget to 6,544 positions in the 2020-2021 Proposed Budget, as shown in Table 2 below.

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Position Impacts

Changes in Position Count (All Funds) from 2019-2020 Adopted to 2020-2021 Proposed Budget (Table 2)	
2019-2020 Adopted Budget	6,647 positions
2020-2021 Base Budget Changes	(88) positions
2020-2021 Proposed Budget Changes – General Fund	(40) positions
2020-2021 Proposed Budget Changes – Other Funds	25 positions
Total Net Position Changes	(103) positions
2020-2021 Proposed Budget	6,544 positions

General Fund Forecast – Challenging Times Now and in the Future

In February 2020, the Administration prepared the 2021-2025 Five-Year Forecast and Revenue Projections document to estimate the condition of the General Fund and selected Capital Funds over the next five years. While preparing the Five-Year Forecast in early February, most economic signs indicated that 2020-2021 would continue to have slow, but steady growth, resulting in a small General Fund surplus of \$0.5 million. However, during the last week of February, as that publication was being finalized, the initial impacts of COVID-19 were just beginning to be felt. As stated in the 2021-2025 Five-Year Forecast’s transmittal memorandum, the economic repercussions of COVID-19 would continue to be monitored and any resulting budgetary impacts would be incorporated as part of the 2020-2021 Proposed Budget process. The table below displays the various General Fund operating margins included in the February Forecast depending on varying levels of assumed economic conditions.

**General Fund Operating Margins (Table 3)
(Base, Optimistic, Pessimistic, and Recession Cases)**

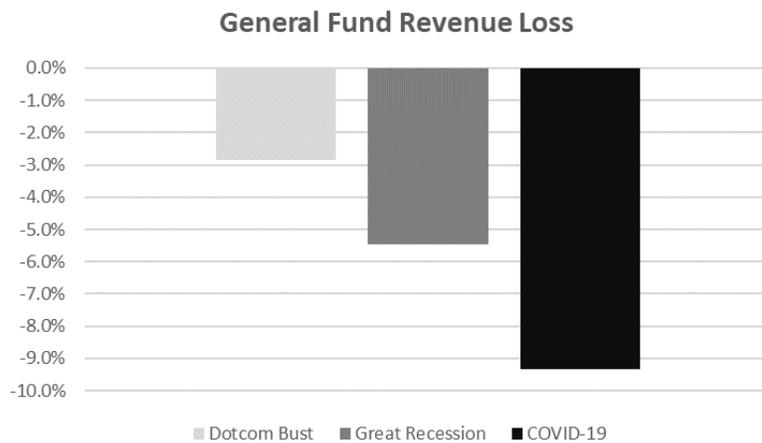
	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025	Five-Year Surplus/ (Shortfall)
Base Case	\$0.5 M	(\$11.1 M)	\$14.0 M	(\$2.2 M)	\$ 1.0 M	\$2.2 M
Optimistic Case	\$13.4 M	\$7.3 M	\$30.1 M	\$11.3 M	\$16.7 M	\$78.8 M
Pessimistic Case	(\$13.1 M)	(\$19.8 M)	\$4.2 M	(\$12.1 M)	(\$6.6 M)	(\$47.4 M)
Recession Case	(\$38.3 M)	(\$53.7 M)	(\$19.4 M)	(\$33.7 M)	(\$32.9 M)	(\$178.0 M)

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It is clear from all accounts that the recession has already begun, and in a severe fashion. The Recession Case shown above would have had a significant detrimental impact on City service levels over a five-year period. Unfortunately, conditions currently forecasted for 2020-2021 indicate a situation considerably worse for that year alone.

At the City Council meeting on April 7th, the Administration presented a preliminary revision to the General Fund forecast, estimating revenue shortfalls of approximately \$65 million. With continued study of the situation and evaluation of additional data, that revenue shortfall has been revised to a total decrease of \$78.6 million. With additional downward adjustments to Base Budget expenditures of \$6.5 million, the originally forecasted General Fund surplus for 2020-2021 of \$0.5 million has been revised to an overall shortfall of \$71.6 million.

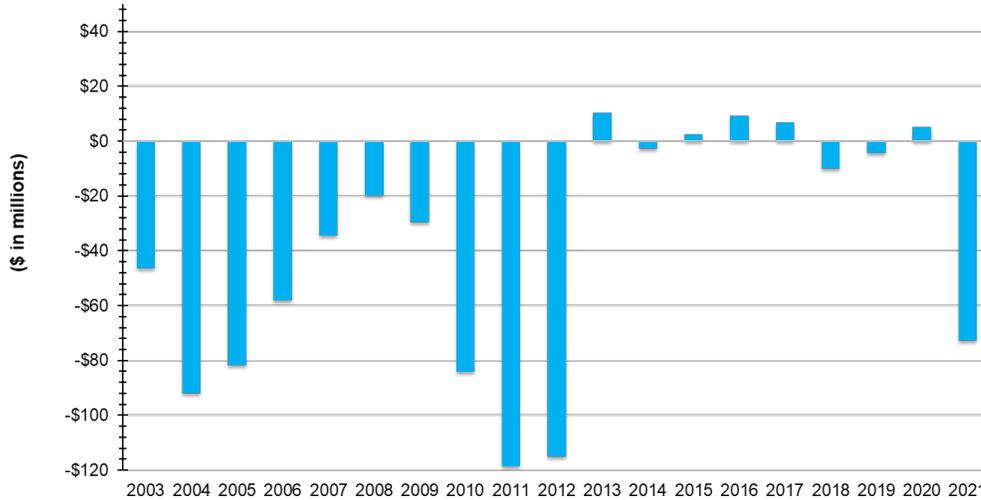
Led by deep year-over-year reductions in Sales Tax, Business Taxes, and Transient Occupancy Tax (TOT), combined with shortfalls in Utility Taxes and Franchise Fees, and reduced growth rates for Property Tax proceeds, General Fund revenues are forecast to drop 9% compared to 2018-2019 actuals. This magnitude is substantially higher than the decreases experienced during the Great



Recession and Dotcom Bust. Though the exact depth or length of this recession is not known – especially when considering the need for some levels of social distancing to continue for an extended period of time – we can assume that the after effects of the pandemic will linger and that the City will likely struggle with General Fund shortfalls over the next several years. As shown in the chart below, the City did not emerge from a decade of deficits until 2012-2013, and has never experienced a significant surplus during the recently ended economic expansion despite years of implementing structural deficit elimination plans. Now at the start of a new recession, the City will need to be prepared to make the difficult decisions necessary to balance the 2020-2021 budget and ensure a structurally balanced budget in future years as the economic impact becomes clearer.

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General Fund Shortfalls and Surpluses 2002-2003 to 2020-2021



Balancing the General Fund Budget

As displayed in Table 4 on the following page, the 2020-2021 Proposed General Fund Budget Balancing Plan includes actions to resolve the \$71.6 million shortfall forecast for 2020-2021. This table shows the matrix of balancing strategies and the dollars associated with each action. A discussion of the balancing strategies can be found in Attachment A to this message and throughout the Proposed Budget. In addition to the balancing approach described earlier in this message in response to the dramatic revenue shortfalls caused by the pandemic, the Administration is also guided by the Budget Balancing Strategy Guidelines contained in the City Manager’s Budget Request for Fiscal Year 2020-2021 that were adopted by the City Council as part of the approval of the Mayor’s March Budget Message for Fiscal Year 2020-2021, and by the City Council-approved City of San José Budget Principles; these guidelines and principles are included in Exhibit 1 to this message.

Of the \$71.6 million shortfall in the General Fund, \$51.9 million (70%) is resolved on an ongoing basis. The remaining shortfall of \$19.7 million (or 30%) is solved using one-time funds. Though in a normal budgeting cycle the City would strive to keep estimated ongoing revenues and expenditures in balance, given the extraordinary and sudden nature of the economic decline and a compressed timeline for budget development, the prudent use of one-time bridge funding into 2021-2022 is our recommended approach to address our current situation.

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2020-2021 Proposed Operating Budget General Fund Budget Balancing Plan (in 000's) (Table 4)		
	2020-2021	Ongoing
2020-2021 General Fund Deficit	\$ (71,578)	\$ (71,578)
Balancing Strategy		
Source of Funds		
Beginning Fund Balance:		
2020-2021 Future Deficit Reserve	\$ 10,894	\$ 0
Budget Stabilization Reserve	5,000	0
Other Reserve Liquidations	671	0
Grants/Reimbursements/Fees		
Google-Diridon Station Development and Planning	1,272	0
UASI Grant – Office of Emergency Management	641	0
Merchant Card Transaction Fee	415	800
PRNS Fee Rev (Summer Swim, Family Camp, Comm Centers, HHPZ Corp)	(1,875)	(150)
Library Juvenile Fines	(175)	(175)
Viva CalleSJ and Viva Parks Placemaking	(144)	0
Other Fee Programs/Reimbursements/Grants	1,451	1,311
Other Revenue		
Real Property Transfer Tax (Measure E)	30,000	30,000
City Hall Lease-Revenue Bonds Refunding	26,000	0
Sales Tax (Revenue Capture Agreement Annualization)	22,000	22,000
Sale of Surplus Property (Future Affordable Housing Developments)	11,100	0
Communications Facilities Property Rentals	300	300
Interest Earnings (Pre-funding of City Retirement Contributions)	(2,573)	(2,573)
Overhead Reimbursements/Transfers from Other Funds	1,323	860
Subtotal Source of Funds	\$ 106,300	\$ 52,373
Use of Funds		
Measure E Allocation (Homelessness Prevention and Affordable Housing)	\$ 30,000	\$ 30,000
2021-2022 Future Deficit Reserve	11,076	0
2019-2020 One-Time Funded Services	6,454	591
Unmet/Deferred Technology, Infrastructure, and Maintenance	5,407	0
Service Level Enhancements	1,699	731
Earmarked Reserves (Essential Services, and Litigation Reserve)	1,500	0
Other Fee Programs/Grants/Reimbursements	745	(25)
New Infrastructure/Equipment Operations and Maintenance	125	214
Use of Reserves (Deferred Maintenance, Committed Additions)	(1,375)	(214)
Cost Reductions/Service Delivery Efficiencies/Funding Shifts	(20,909)	(30,843)
Subtotal Use of Funds	\$ 34,722	\$ 454
Total Balancing Strategy	\$ 71,578	\$ 51,919
Remaining Balance	\$ 0	\$ (19,659)

Balancing the General Fund Budget – Equity Considerations

Though an in-depth equity analysis of each proposal during the process of balancing the budget was not possible given limited capacity, the Administration was sensitive to the service impacts associated with potential budget actions. For purposes of considering impacts, the 2020-2021 Proposed Operating Budget General Fund budget proposals are grouped into the following categories:

- ***COVID-19 Impacted Services*** – proposals that directly relate to the social distancing or other requirements necessary to combat the pandemic that will impact the community services;
- ***Other Direct Service Impacts*** – other proposals that have a direct impact on the community through service reductions or, in very limited instances, service enhancements;
- ***Strategic Support Impacts*** – proposals that do not have a direct impact on community services, but impacts support functions that help enable service delivery; and
- ***Proposals with No Impact*** – a limited number of proposals that reduce costs with no or only a very minor service impact.

As described in an information memorandum released on May 8, 2020, a Manager’s Budget Addendum will be issued later in the budget process on the results of a “sprint” equity review that will provide more information on the grouping of proposals by the above categories, as well as a general assessment of equity impact.

As a demonstration of the Administration’s efforts to limit service reductions, it is important to highlight that recommendations categorized as “Proposals with No Impact” play a substantial role in resolving the General Fund shortfall of \$71.6 million. Combined with actions to recognize additional Sales Tax revenue, these no-impact strategies resolve nearly \$40 million, or 55%, of the ongoing estimated shortfall. The most significant recommendations that are not isolated to one CSA are highlighted next; the remaining actions are contained within the proposal actions summarized by CSA below, and within the budget document.

Sales Tax – Revenue Capture Agreement Annualization (Additional revenue of \$22.0 million).

As described in the memorandum approved at the City Council meeting on April 28, 2020 to resolve the estimated General Fund shortfall for 2019-2020, the proceeds from the Revenue Capture Agreement with eBay are anticipated to yield ongoing sales tax revenues for the City. The amount estimated in 2020-2021 is \$22 million. More information regarding Sales Tax and other General Fund revenue estimates are discussed in the *General Fund Revenue Estimates* section of this document.

Pre-Funding of City Retirement Contributions (Net savings of \$7.4 million).

Actions are included to facilitate prepayment of the City’s retirement costs for both the Tier 1 pension costs and the Unfunded Actuarial Liability in the Federated City Employees’ Retirement System Plan and the Police and Fire Department Retirement Plan. Prepayment was a standard practice for the City until Fiscal Year 2019-2020, when market conditions were no longer favorable. However, with market conditions changing once again, the City and Retirement Boards are both receptive to pre-payment strategies. By the City making annual prepayments of its employer contributions to the Retirement Plans in lieu of biweekly contributions, this will generate approximately \$13.9 million in savings in all

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funds, \$11.4 million in the General Fund. In the General Fund, these savings will be offset by an estimated \$2.6 million loss in interest earnings and \$1.4 million in short-term borrowing costs (TRANS debt service), resulting in a total net savings of \$7.4 million.

Pay Down Debt (Savings of \$4.2 million). As described in the Mayor's March Budget Message for Fiscal Year 2020-2021, the City will leverage the refunding of lease revenue bonds related to the construction of City Hall to yield one-time funds of \$26 million that will pay off the remaining debt associated with the LED streetlight conversion project (\$10.6 million) and the Los Lagos Golf Course (\$7.9 million). The elimination of these debt obligations, along with the lower debt service anticipated for the new City Hall lease-revenue bonds, is anticipated to yield a total ongoing savings of \$4.2 million.

Fuel Savings (Savings of \$940,000). Fuel savings are recognized through an updated forecast of oil and fuel prices impacted by global and regional economic conditions, resulting in city-wide savings of \$1.24 million, of which \$940,000 is in the General Fund.

Other Budgetary Considerations

The City has structured its operations into "City Service Areas" (CSAs) that encourage interdepartmental coordination of efforts, resources, and goals to provide the array of services funded by the City's \$4.1 billion budget. A breakdown of these services is displayed by core service and program within each department summary section of this budget, giving context to how much both core services and programs cost and how many positions are assigned to each program. Before highlighting a number of proposals by CSA below, several important budgetary issues are addressed in the Proposed Budget document that do not directly relate to resolving the General Fund shortfall.

Measure E and Affordable Housing. Most notable among the additions for 2020-2021 is the infusion of real property transfer tax revenues from Measure E, estimated at \$30 million. Though available for any governmental purpose, in accordance with previous City Council direction, these revenues are targeted toward supporting homelessness prevention efforts and affordable housing development. A Manager's Budget Addendum will be brought forward later in the budget process to update City Council Policy 1-18 with the Measure E spending allocations approved by the City Council on December 10, 2019. In addition to Measure E resources, critical work also continues in the leveraging of federal housing dollars to further the development of affordable housing, including the allocation of \$11.1 million from federal sources to acquire surplus City property as sites for future affordable housing. This funding provides a one-time revenue source for the General Fund in 2020-2021.

Development Fee Programs. Reflective of the anticipated economic climate, activity levels in the four Development Fee Programs are expected to decline 30% from previous estimates. Similar to the General Fund revenue estimates, activity will be closely monitored and revenue estimates adjusted as necessary, but the elimination of vacant positions and use of reserves are recommended in this document to make sure these programs remain in balance. It is the Administration's intent to maintain appropriate levels of support for the private development community, while still ensuring that these cost recovery programs within the Planning, Building and Code Enforcement (PBCE), Public Works, and Fire Departments remain cost recovery without additional support from the General Fund.

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Airport Operations. Passenger traffic at the Norman Y. Mineta San José International Airport has also seen severe impacts due to the pandemic. A number of vacant positions are eliminated in the 2020-2021 Proposed Budget as the Airport looks to contain costs and work collaboratively with Airport tenants to manage through the negative economic impacts to achieve long-term stability.

Special Funds Impacted by Hotel and Convention Activity. In connection with the pandemic and steep drop in leisure and business travel, revenues associated with hotel taxes and convention activities, including the Transient Occupancy Tax Fund, the Convention Center and Cultural Affairs Fund, and the Convention Center Facilities District Revenue Fund are estimated to experience significant revenue losses. As shown in the Source and Use of Funds Statements section of the budget document, these losses are mitigated through the reduction of expenses and use of reserves originally established to help buffer economic impacts. However, as social distancing restrictions are expected to continue into 2020-2021, and the level of conventions and special event activity at facilities managed by Team San Jose are expected to remain low, the City will need to carefully monitor revenues and expenses throughout the year to further adjust as necessary.

Recycle Plus and the Integrated Waste Management Fund. Contractual hauler costs and City costs attributable to the Recycle Plus collection program are currently forecast to require rate increases of 15% for Single-Family Dwellings and 7% for Multi-Family Dwellings. Although these rate increases are included in the Integrated Waste Management Fund Source and Use Statement, the Administration is working to identify means to achieve both lower costs and lower rate increases. A Manager's Budget Addendum will be released later in the budget process outlining a strategy to achieve lower rates for Fiscal Year 2020-2021.

Key Budget Proposals by City Service Area

A listing of key budget proposals, both reductions and additions across all City funds, comprising the 2020-2021 Proposed Operating Budget are listed below by CSA, with a reference to the specific section of the document that describes the proposal in more detail.

Key Budget Proposals by City Service Area

Community and Economic Development

- Diridon Station Area Development Planning (\$1.4 million, reimbursement agreement)/City-Wide Expenses
- Affordable Housing Transactions Staffing (\$356,000)/Housing
- Business Outreach and Policy Development (\$250,000)/Economic Development
- Responsible Landlord Engagement Initiative (\$205,000)/Housing
- City-wide Storefronts Activation Grant Program (\$200,000)/ City-Wide Expenses
- Blight Busters (\$150,000)/ City-Wide Expenses
- Accessory Dwelling Unit (ADU) Ally Program Staffing (\$147,000)/PBCE
- CommUniverCity Program (\$53,000)/City-Wide Expenses
- Rapid Rehousing Funding Shift to the Multi-Source Housing Fund (-\$2.0 million in the General Fund annually for two years)/City-Wide Expenses
- Planning and Building Development Fee Program Staffing Reduction (-\$800,000)/PBCE
- Economic Development Staffing Reduction (-\$521,000)/Economic Development

Environmental and Utility Services

- Regional Wastewater Facility Radio Systems Upgrade (\$1.7 million)/ Environmental Services
- Regional Wastewater Facility Cogeneration Engine Facility Maintenance (\$1.3 million)/ Environmental Services
- Biosolids Management Transition Planning and Implementation (\$800,000)/Environmental Services
- Commercial Solid Waste Outreach and Enforcement Staffing (\$794,000)/ Environmental Services
- Community Energy Staffing (\$712,000)/Community Energy
- Energy Resiliency Strategic Planning (\$550,000)/Community Energy
- Climate Smart San José Plan Implementation (\$500,000)/City-Wide Expenses
- Information Technology Staffing Support (\$182,000)/Transportation

Key Budget Proposals by City Service Area

Neighborhood Services

- Transitional Jobs Program (SJ Bridge, \$700,000)/PRNS
- Project Hope Expansion (\$469,000)/PRNS
- Vietnamese-American Cultural Center (\$296,000)/PRNS
- Education and Digital Literacy Initiative (\$296,000)/Library
- Emergency Program Manager (\$179,000)/PRNS
- Beautify SJ Grants (\$100,000)/City-Wide Expenses
- Library Branch Hours Reduction (-\$1.5 million)/Library
- Community Center Cost Savings (-\$1.4 million)/PRNS
- Parks and Landscape Watering Reduction (-\$1.3 million)/PRNS
- Aquatics, Bascom Community Center, and Family Camp Suspension (-\$1.4 million)/PRNS
- Placemaking and Activation Elimination (\$-999,000)/PRNS

Public Safety

- Public Records Request Staffing (\$725,000)/Police
- Police and Fire Department Computer-Aided Dispatch Upgrade (\$685,000)/Police
- Urban Area Security Initiative Grant Staffing (\$641,000)/City Manager's Office
- Emergency Medical Service Equipment (LUCAS Devices, \$437,000)/Fire
- Special Victims Unit Staffing (\$390,000)/Police
- Emergency Medical Service Technology Staff (\$183,000)/Fire
- Sworn Hire Ahead Program (-\$7.2 million)/ Police
- Community Service Officer Staffing (-\$1.4 million)/Police
- Fire Apparatus Reorganization (-\$205,000)/Fire
- Bureau of Field Operations Admin Staffing (-\$118,000)/Fire

Key Budget Proposals by City Service Area

Transportation and Aviation

- Special Assessment District Landscape and Infrastructure Projects (\$790,000)/Transportation
- Contract Vehicle Abatement (\$712,000)/Transportation
- Beautify San José Landscape Maintenance Program (\$500,000)/Transportation
- Vision Zero Quick Build Project Delivery Team (\$354,000)/Transportation
- Airport Passenger Processing and Transportation (-\$1.6 million)/Airport
- Airport Business Development and Fiscal Administration (-\$1.3 million)/Airport
- Airport Airside and Terminal Operations (-\$1.0 million)/Airport
- Airport Building Maintenance (-\$917,000)/Airport
- Neighborhood Traffic Management Staffing (-\$355,000)/Transportation
- Streetlight Maintenance Staffing (-\$300,000)/Transportation

Strategic Support

- Police Phase 2 Elevator Modernization (\$2.2 million)/General Fund Capital Contributions
- Public Works Department CIP Staffing Plan (\$490,000)/Public Works
- Proactive Legal Enforcement of Blighted and Nuisance Properties (\$237,000)/City Attorney
- Capital Project Management System (CPMS) Upgrades (\$195,000)/Public Works
- Equity Education and Analysis Framework (\$100,000)/City Manager
- Talent Development Program (\$100,000)/Human Resources
- Mayor/City Council Office (-\$1.0 million)
- Unanticipated/Emergency Maintenance (-\$500,000)/General Fund Capital Contributions
- Office of Employee Relations Management and Analytical Staffing (-\$423,000)/City Manager
- City Attorney's Office Staffing (-\$336,000)
- Employee Health Services Staffing (-\$182,000)/Human Resources
- Cashiering Staffing (-\$139,000)/Finance
- Utility Billing Staffing (-\$129,000)/Finance
- City Hall HVAC Energy Savings (-\$120,000)/Public Works
- Program Performance Auditor Staffing (-\$125,000)/City Auditor
- City Clerk's Office Front Desk Staffing (-\$90,000)

2020-2021 PROPOSED OPERATING BUDGET MESSAGE

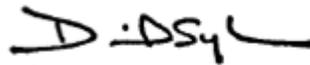
Conclusion

This 2020-2021 Proposed Budget reflects the continuing effort by the Mayor and City Council to have the City of San José engage in sound budget discipline and deliberate decision-making, even during these extraordinary circumstances. The recommendations included in this document take serious steps to address what we know will be a substantially weaker economic environment for the foreseeable future, while still mindful that much of the long-term impact from the pandemic is uncertain.

Though service impacts in 2020-2021 are real, this budget preserves many of the City's most critical functions and minimizes workforce impacts by leveraging available revenues, vacancies, and cost saving strategies to minimize more severe actions that would otherwise be necessary. However, should those additional actions become necessary, the Administration has prepared a contingency package of proposals represented in Attachment C that may be brought forward later in the fiscal year if economic conditions worsen further than anticipated. In advance of that possibility, now is also the time for the City to continue its long-standing commitment to innovation, partnership, and community engagement that can reduce costs and enhance quality, as well as an ongoing focus on strengthening our economic foundation once the region begins to recover.

Once again, I want to express appreciation for our extremely dedicated and talented staff who prepared this budget document. Though budget development is always a demanding task, in less than two months the City transformed its budget development process to resolve sudden and severe revenue shortfalls in both 2019-2020 and 2020-2021, an extraordinary accomplishment. These efforts represent an organization-wide focus, from the front lines of each department to the incredibly hard-working staff in the City Manager's Budget Office, and reflects the commitment our employees have for our residents, businesses, visitors, and each other.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "D. Sykes". The signature is stylized with a large initial "D" and a long horizontal stroke at the end.

David Sykes
City Manager

2020-2021 Budget Balancing Strategy Guidelines

1. Develop a budget that balances the City's delivery of the most essential services to the community with the resources available. Consider current needs in the context of long-term service delivery priorities.
2. 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.
3. To the extent possible, establish a Future Deficit Reserve in the General Fund to cover any projected budgetary shortfall in the following year as a stopgap measure.
4. Evaluate program-level budgets and determine if there are opportunities to shift resources or reconfigure operations to close service delivery gaps, generate new revenues, address truly significant community or organizational risks, fund programs added on a one-time basis in 2019-2020, and/or respond to City Council direction and organizational risks. Review existing vacancies for opportunities to reorganize work groups to realize cost savings or to achieve current service level demands through alternative means. Factor in performance measure data in the development of proposals.
5. Focus on business process redesign to improve employee productivity and the quality, flexibility, and cost-effectiveness of service delivery (e.g., streamlining, simplifying, reorganizing functions, and reallocating resources).
6. 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.
7. 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.
8. 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.
9. Explore expanding existing revenue sources and/or adding new revenue sources.
10. 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.
11. Focus any available one-time resources on investments that 1) address the City's unmet or deferred infrastructure needs; 2) leverage resources to or improve efficiency/effectiveness through technology and equipment or other one-time additions; 3) continue high-priority programs funded on a one-time basis in 2019-2020 for which ongoing funding is not available; 4) accelerate the pay down of existing debt obligations; 5) increase budget stabilization reserves to address future budget uncertainty; and/or 6) funding needs for non-bond eligible furniture, fixtures, and equipment associated with the continued implementation of Measure T.
12. Engage employees in department and/or city-wide budget proposal idea development.
13. 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.
14. Use the General Plan as a primary long-term fiscal planning tool and link ability to provide City services to development policy decisions.

2020-2021 Proposed Operating Budget

City of San José Budget Principles

The Mission of the City of San José is to provide quality services, facilities and opportunities that create, sustain and enhance a safe, livable and vibrant community for its diverse residents, businesses and visitors. The General Fund Budget shall be constructed to support the Mission.

1) STRUCTURALLY BALANCED BUDGET

The annual budget for the General Fund shall be structurally balanced throughout the budget process. A structurally balanced budget means ongoing revenues and ongoing expenditures are in balance each year of the five-year budget projection. Ongoing revenues shall equal or exceed ongoing expenditures in both the Proposed and Adopted Budgets. If a structural imbalance occurs, a plan shall be developed and implemented to bring the budget back into structural balance. The plan to restore balance may include general objectives as opposed to using specific budget proposals in the forecast out years.

2) PROPOSED BUDGET REVISIONS

The annual General Fund Proposed Budget balancing plan shall be presented and discussed in context of the five-year forecast. Any revisions to the Proposed Budget shall include an analysis of the impact on the forecast out years. If a revision(s) creates a negative impact on the forecast, a funding plan shall be developed and approved to offset the impact.

3) USE OF ONE-TIME RESOURCES

Once the General Fund budget is brought into structural balance, one-time resources (e.g., revenue spikes, budget savings, sale of property, and similar nonrecurring revenue) shall not be used for current or new ongoing operating expenses. Examples of appropriate uses of one-time resources include rebuilding the Economic Uncertainty Reserve, early retirement of debt, capital expenditures without significant operating and maintenance costs, and other nonrecurring expenditures. One time funding for ongoing operating expenses to maintain valuable existing programs may be approved by a majority vote of the Council.

4) BUDGET REQUESTS DURING THE YEAR

New program, service or staff requests during the year that are unbudgeted shall be considered in light of the City's General Fund Unfunded Initiatives/Programs List and include a spending offset at the time of the request (if costs are known) or before final approval, so that the request has a net-zero effect on the budget.

5) RESERVES

All City Funds shall maintain an adequate reserve level and/or ending fund balance as determined annually as appropriate for each fund. For the General Fund, a contingency reserve amount, which is a minimum of 3% of the operating budget, shall be maintained. Any use of the General Fund Contingency Reserve would require a two-thirds vote of approval by the City Council. On an annual basis, specific reserve funds shall be reviewed to determine if they hold greater amounts of funds than are necessary to respond to reasonable calculations of risk. Excess reserve funds may be used for one-time expenses.

2020-2021 Proposed Operating Budget

City of San José Budget Principles

6) DEBT ISSUANCE

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

7) EMPLOYEE COMPENSATION

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

8) CAPITAL IMPROVEMENT PROJECTS

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

9) FEES AND CHARGES

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

10) GRANTS

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

11) GENERAL PLAN

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

12) PERFORMANCE MEASURES

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

13) FIRE STATION CLOSURE, SALE OR RELOCATION

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