

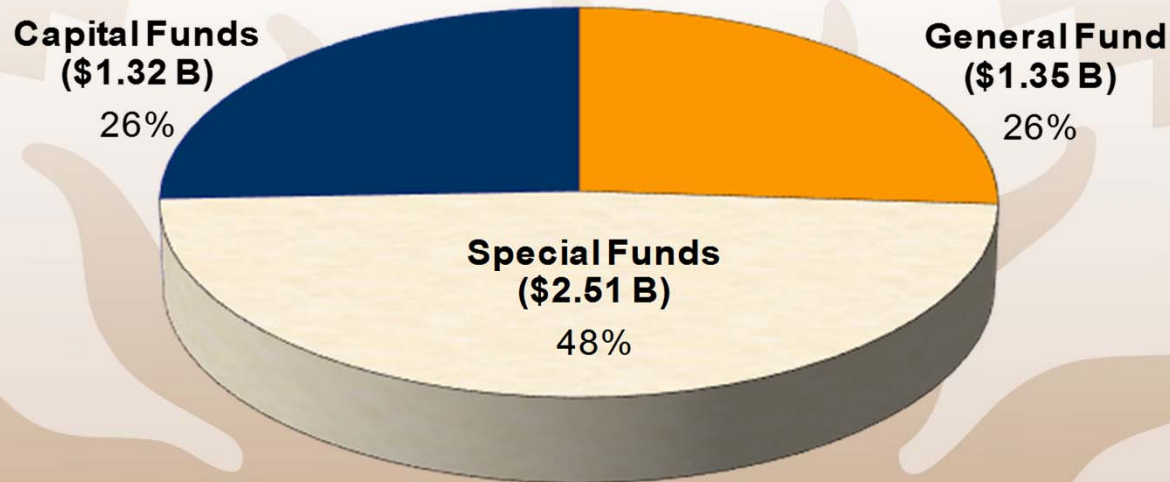
City of San José

2019-2020 Proposed Operating Budget Overview

May 8, 2019

City of San José Budget Overview

2019-2020 PROPOSED CITY BUDGET¹:	\$4.3 billion
TOTAL NUMBER OF FUNDS:	123
TOTAL NUMBER OF POSITIONS (FTE):	6,622



¹ An adjustment of \$879 million is necessary to arrive at the \$4.3 billion net 2019-2020 Proposed City Budget to avoid the double-counting of transfers, loans, and contributions between City funds.

2019-2020 Proposed Budget Overview

- Balanced all funds (General Fund, special and capital funds)
- General Fund projected surplus of \$5.1 million
- Ongoing surplus of \$4.7 million, plus one-time funding of \$10.9 million set aside to cover the projected 2020-2021 shortfall
- Investment priorities:
 - ✓ Saving
 - ✓ Public Safety
 - ✓ Confronting the High Cost of Housing and Living
 - ✓ Homelessness
 - ✓ Combatting Blight
 - ✓ Environment
- Positions are up 3.3%, from 6,413 to 6,622

2020-2024 General Fund Forecast

Revised Forecast with Proposed Actions

2020-2024 General Fund Forecast

Incremental General Fund Surplus/(Shortfalls)

	2019-20	2020-21	2021-22	2022-23	2023-24
February 2019 Incremental Surplus/(Shortfalls)	\$3.5 M	(\$15.6 M)	(\$13.7 M)	\$11.4 M	(\$1.7 M)
Proposed Budget Incremental Surplus/(Shortfalls)	\$5.1 M	(\$10.9 M)	(\$13.7 M)	\$11.4 M	(\$1.7 M)
% of Annual Budget (Expenditure Budget)	0.4%	(0.9%)	(1.0%)	0.9%	(0.1%)

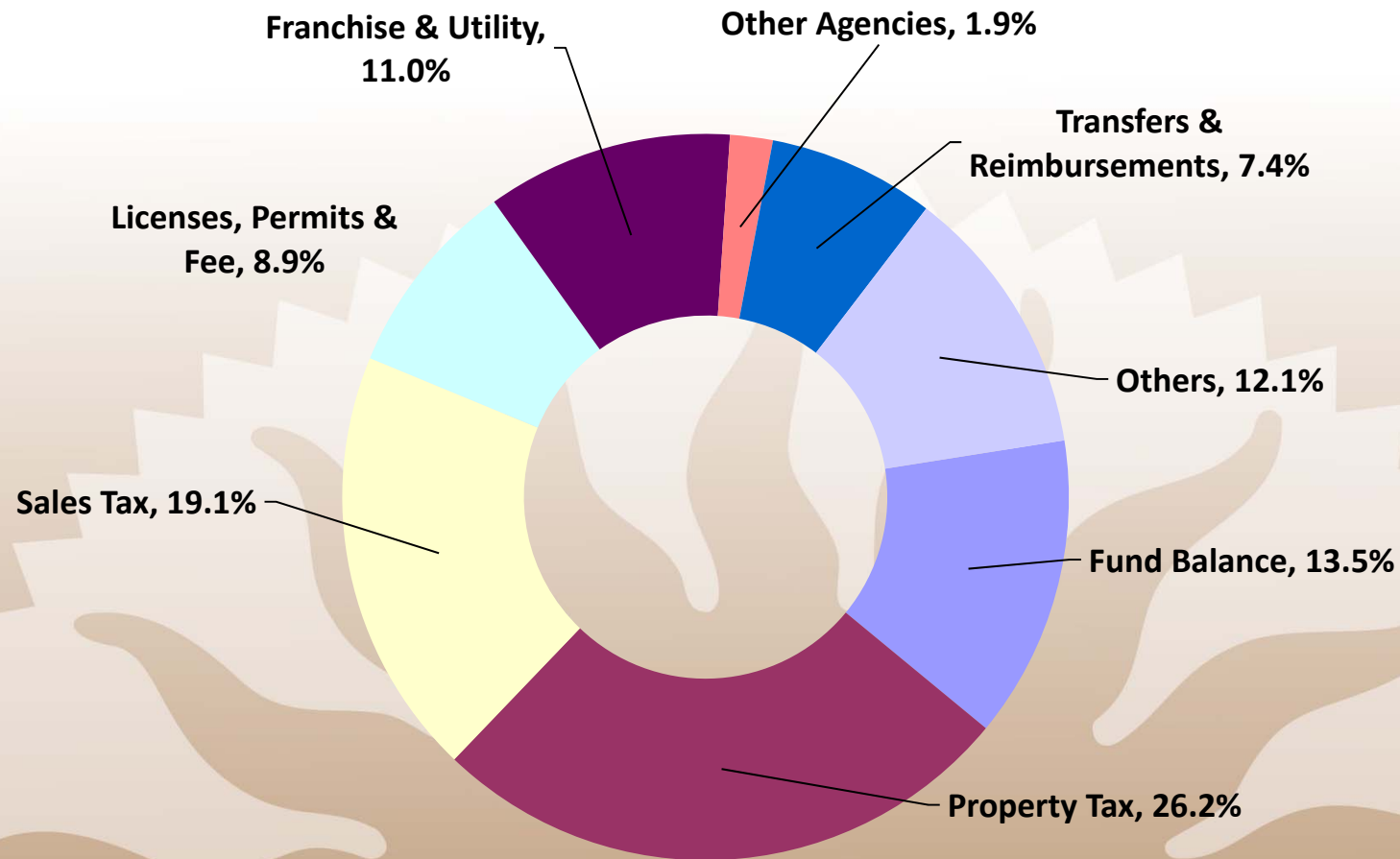
* 2019-2020 Forecast was revised from the \$3.5 million shortfall presented in the February 2019 Forecast based on continued analysis. No net impacts associated with the Development Fee Programs are included due to the cost-recovery nature of these programs.

Does not include:

- Costs associated with services funded on a one-time basis in 2018-2019
- Costs associated with unmet/deferred infrastructure and maintenance needs
- One-time revenues/expenses

2019-2020 Proposed Budget

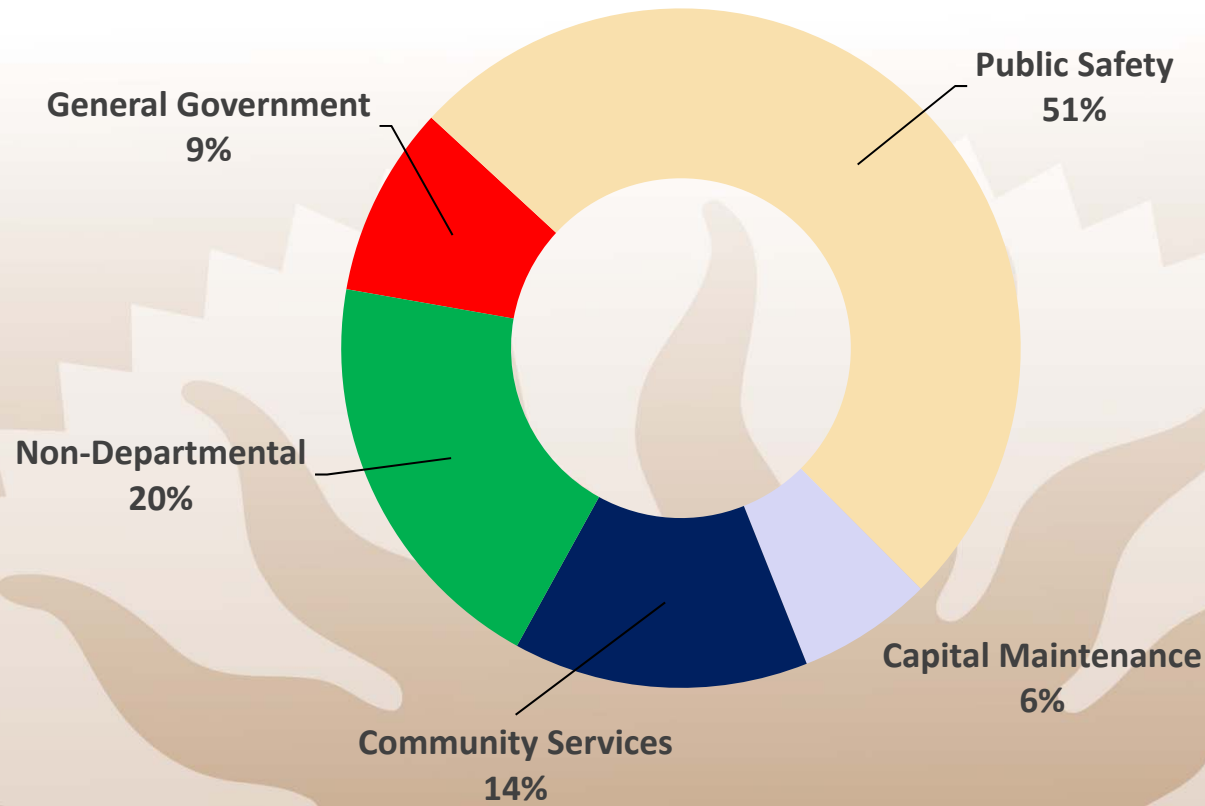
General Fund Sources



Total General Fund: \$1,352,457,998

2019-2020 Proposed Budget

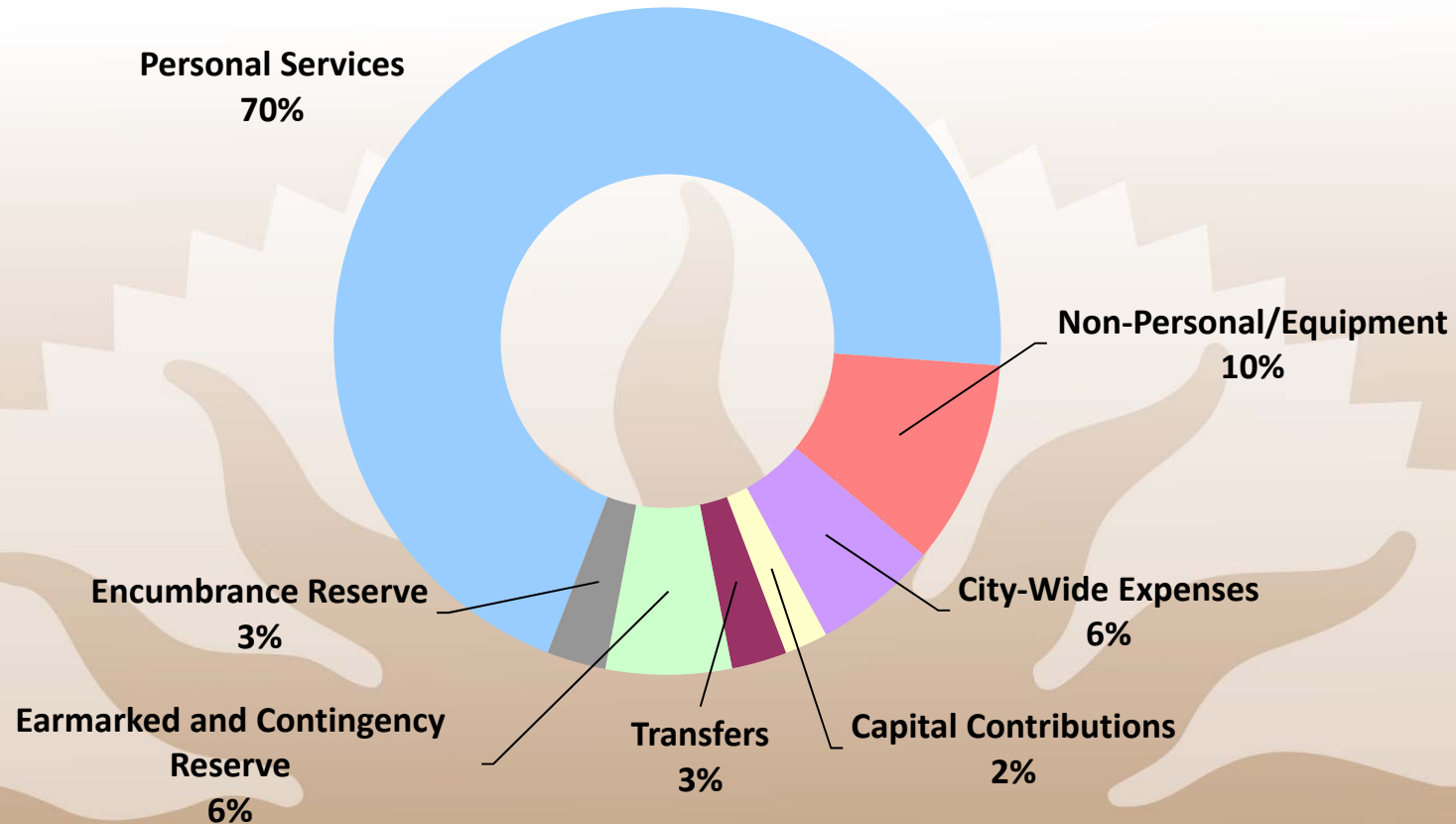
General Fund Uses



Total General Fund Uses: \$1,352,457,998

2019-2020 Proposed Budget

General Fund Uses by Category



Total General Fund Uses: \$1,352,457,998

2019-2020 Budget Balancing Strategy

General Fund

\$ in millions

	<u>2019-2020</u>	<u>Ongoing</u>
Total General Fund Surplus	\$ 5.1	\$ 5.1
Recommended Balancing Strategy		
– Changes in Sources	\$ 105.1	\$ 10.3
– Changes in Uses	(110.2)	(15.4)
Total Balancing Strategy	\$ (5.1)	\$ (5.1)

2019-2020 Budget Balancing Strategy

Changes in General Fund Sources

	\$ in millions	
	2019-2020	Ongoing
Beginning Fund Balance	78.8	0.2
2019-2020 Proposed Budget Planning/Future Deficit Reserves	50.0	0.0
2018-2019 Excess Revenue/Expenditure Savings	16.0	0.0
Hayes Mansion Property Sale	7.9	0.0
Development Fee Program Reserves	3.4	0.2
City Health Plan Restructuring Reserve	1.0	0.0
Other Revenue/Expenditure Savings/Reserve Liquidations	0.5	0.0
Grants/Reimbursements/Fees	8.5	7.5
Development Fee Program	3.6	3.7
Paramedic Program	1.2	1.2
UASI Grant – Office of Emergency Management	0.6	0.0
Other Fee Programs/Reimbursements/Grants	3.1	2.6
Other Revenue	14.6	0.1
SERAF Loan Repayment	10.2	0.0
Property Tax (\$4.0 M)/Other Revenues (\$0.4M)	4.4	0.1
Overhead from Other Funds	3.2	2.5
Total Change in Sources	105.1	10.3

2019-2020 Budget Balancing Strategy

Changes in General Fund Uses

	\$ in millions	
	<u>2019-2020</u>	<u>Ongoing</u>
Service Level Enhancements	\$ 26.1	\$ 5.4
Earmarked Reserves (e.g. Budget Stabilization, Essential Services)	26.1	1.4
Unmet/Deferred Technology, Infrastructure, and Maintenance	25.0	0.8
2018-2019 One-Time Funded Services	11.6	0.8
2020-2021 Future Deficit Reserve	10.9	4.7
Development Fee Programs	6.2	2.3
Cost Reductions/Service Delivery Efficiencies/Fund Shifts	5.1	(0.9)
Other Fee Programs/Grants/Reimbursements	0.7	0.8
New Infrastructure/Equipment Operations and Maintenance	0.3	0.1
Use of Reserves (e.g., Cultural Facilities, Committed Add.)	(1.8)	0.0
Total Change in Uses	\$ 110.2	\$ 15.4

Recommended Budget Actions

Saving

- 2020-2021 Future Deficit Reserve
- Budget Stabilization Reserve
- Essential Services Reserve
- Information Technology Sinking Fund
- Transfer to the Municipal Golf Course Fund (net \$4.5 million or pay down \$5.0 million in debt and reduce General Fund subsidy)

Recommended Budget Actions

Public Safety

- Police Sworn Hire Ahead for 2019-2020 and 2020-2021
- Police Recruitment and Background
- Downtown Foot Patrol Program
- School Safety and Education Program
- Police Public Records Request Staffing
- Police Use of Force Incidents Data Dashboard
- Police Data Crime Center Staffing
- Northern California Regional Intelligence Center Grant Staffing
- False Alarms Collections and Staffing
- FirstNet Emergency Communications Network

Recommended Budget Actions

Public Safety (Cont'd.)

- 9-1-1/3-1-1 Call Center
- Safe City Data Integration
- Fire Protection Systems Compliance Staffing
- Fire Emergency Medical Services Technology Staff and Equipment
- 2018 Measure T Staffing for Police and Fire Projects
- Fire Response Time Data Analysis
- Fire Public Information Office, Communications, and Facilities Reorganizations
- Office of Emergency Management Emergency Plans, Training, and Staffing

Recommended Budget Actions

Confronting High Cost of Housing and Living

- Child Care Workforce Development and Facilities Staffing
- Expedited Housing Development Staffing and Consultant Funding
- Affordable Housing Transactions Staffing
- Parcel Mapping Demonstration Project – GIS-based map to provide parcel-level data about opportunity sites for housing development
- Advance 11 affordable housing developments, totaling 1,144 new apartments, as part of the implementation of the \$100 million NOFA
- Begin construction on 754 affordable apartments
- Mixed-Income Housing – “The Missing Middle”
- Implement the 2019-2020 Annual Action Plan

Recommended Budget Actions

Homelessness

- Two Bridge Housing Communities Construction
- Safe Parking Security (at three community center sites)
- Time-Limited Subsidies and Supportive Services
- Ballot Measure Polling
- Transitional Jobs Program
- Cash for Trash
- Bridge Housing Communities Staffing
- Complete construction of 563 affordable apartments that will provide housing for 417 chronically homeless individuals

Recommended Budget Actions

Combatting Blight

- BeautifySJ Streets Landscape Maintenance Program
- Anti-Graffiti and Anti-Litter Programs
- Public Litter Can Expansion
- Illegal Dumping Rapid Response
- Proactive Legal Enforcement of Blighted and Nuisance Properties
- City-Wide Retail Attraction Program
- Downtown Pedestrian Quality of Life
- City-Wide Storefronts Activation Grants Program
- BeautifySJ Grants
- BeautifySJ Gap Analysis
- San José Streets Team Litter and Trash Removal
- Dumpster and Beautification Days

Recommended Budget Actions

Environment

- Climate Smart San José Plan Implementation
- Zero Waste Strategic Plan Revision and Climate Smart Addition
- Energy Team Staffing
- Community Energy Fuse Fellow
- Community Energy Data Analytics Stanford Fellows
- Community Energy Climate Corps Fellow
- Energy and Water Building Performance Ordinance Implementation

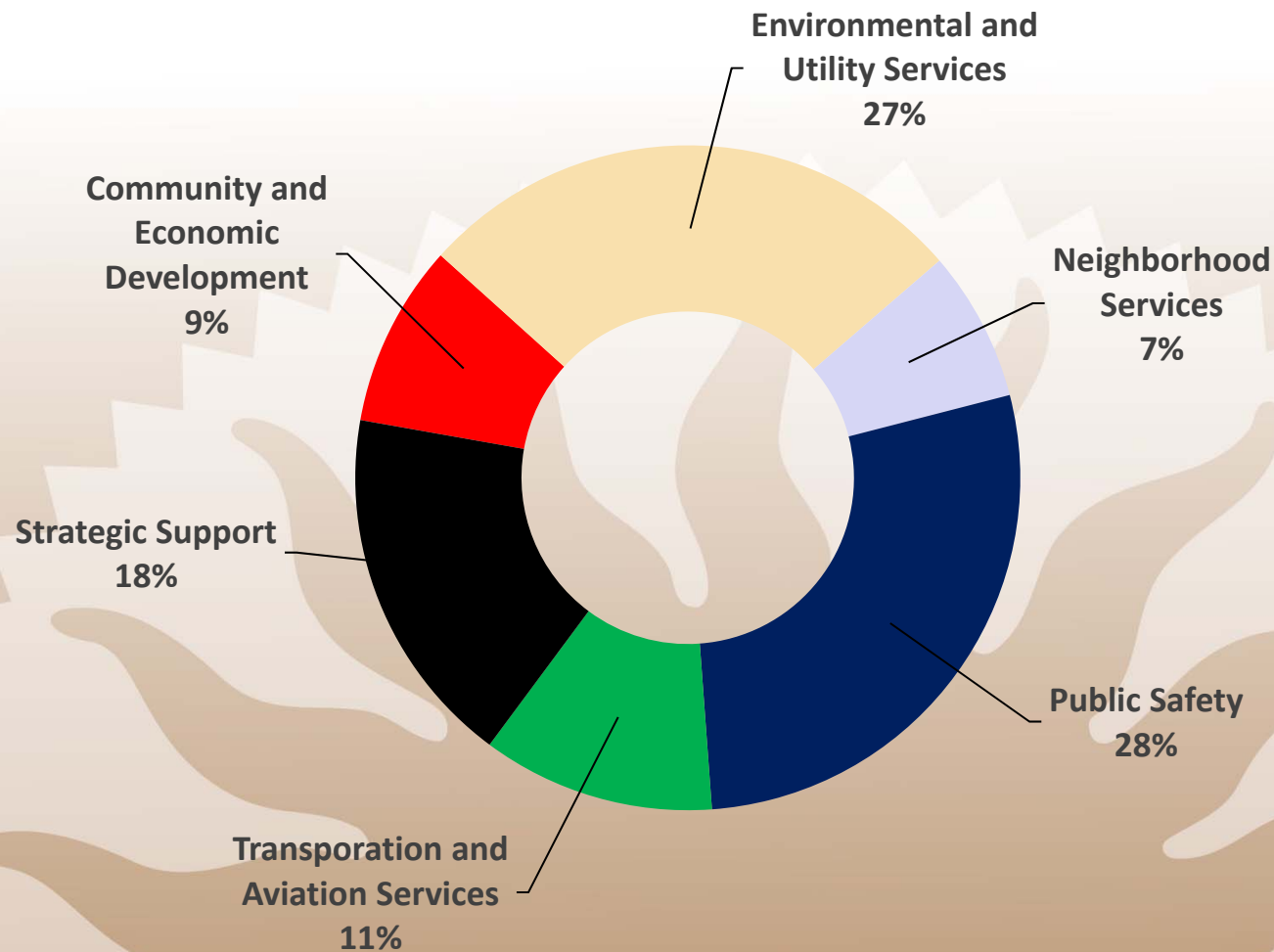
Recommended Budget Actions

Other Budget Actions

- Diridon Station Area Development Planning
- Census 2020 Staffing
- Sanitary Sewer Repairs
- Recycle Plus Community Outreach and Public Education
- Pest Management in Parks
- Public Life and Parks Activation – Viva CalleSJ and Viva Parks
- Project Hope Expansion
- Airport Terminal and Airfield Facilities Support
- Residential Streets Pavement Maintenance Staffing
- PCs and Operating Systems License Costs
- Cybersecurity Roadmap
- Public Works Development Staffing Plan – Measure T

2019-2020 Proposed Budget

Operating Budget by City Service Areas (All Funds)



Approach to Equitable Service Delivery

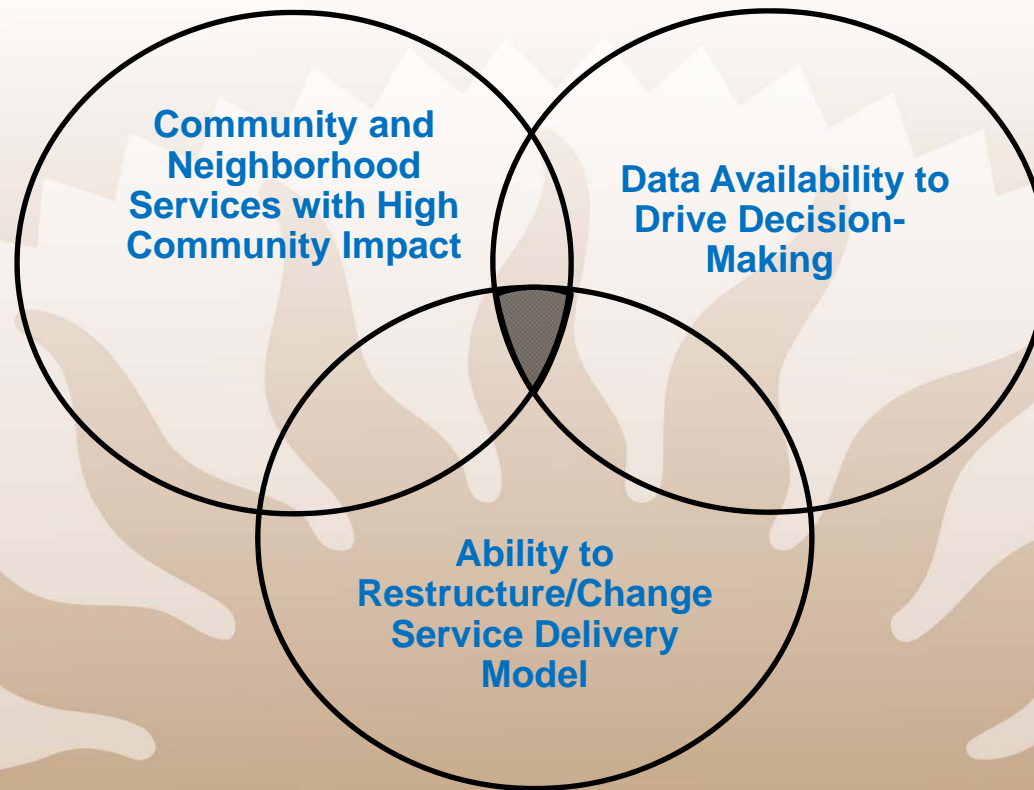
- Value diverse community and strive to serve every resident well
- Variety of service approaches used (proactive/reactive, fund-restricted services, infrastructure/ geography-based, needs-based, targeted services to high need and at-risk populations)
 - Proactive and Reactive (addressing hot spots, calls for service, responding to complaints)
 - Fund-restricted Services (special funds, capital funds)
 - Infrastructure/Geography-Based Services (age of assets, location of facilities)
 - Needs-Based/Targeted Services (gang intervention, education programs, youth and senior services, digital Inclusion, housing and homelessness services, employment services)

Approach to Equitable Service Delivery

- Joined the Government Alliance on Race and Equity (GARE) in 2018; framework and capacity building support
- Key GARE Strategies
 - Use racial equity framework
 - Build organizational capacity
 - Implement racial equity tools
 - Be data driven
 - Partner with other institutions and communities
 - Operate with urgency and accountability
- Work-in-progress
- This effort will take time to build internal capacity

Approach to Equitable Service Delivery

- CSAs – equity and outcomes review of selected neighborhood/community services



- Manager's Budget Addendum (strategy moving forward)

Recommended Budget Actions

Fee and Charges Adjustments

- **Utilities:**
 - Storm Sewer Service Fee: No increase
 - Sewer Service and Use Charge Fee: 3.0% increase
 - Recycle Plus Rates: 5.0% increase for both single-family and multi-family dwellings
 - Municipal Water System Rates: average 6.7% increase to cover increased operating costs (rates will vary by user)
- **Development Fee Programs:** fee increases of approximately 4% recommended
- **Other Fee Programs:** fee changes to generally maintain cost recovery

Next Steps

May 8th through 13th City Council Budget Study Sessions

May 9th through 21st Community Budget Meetings

May 14th/June 10th Public Budget Hearings

May 31st Mayor's June Budget Message Released

June 11th Council Review/Approval of Mayor's June Budget Message and Budget

June 18th Adoption of the 2019-2020 Budget and Fees and Charges

FY19/20 Economic Outlook

| May 8, 2019
| City of San Jose

SAN JOSE

Tale of 3 Economies



The Regional Economy: Jobs and Unemployment



The City Economy: Land and Revenues



The Other Economy: Opportunity

1. The Regional Economy

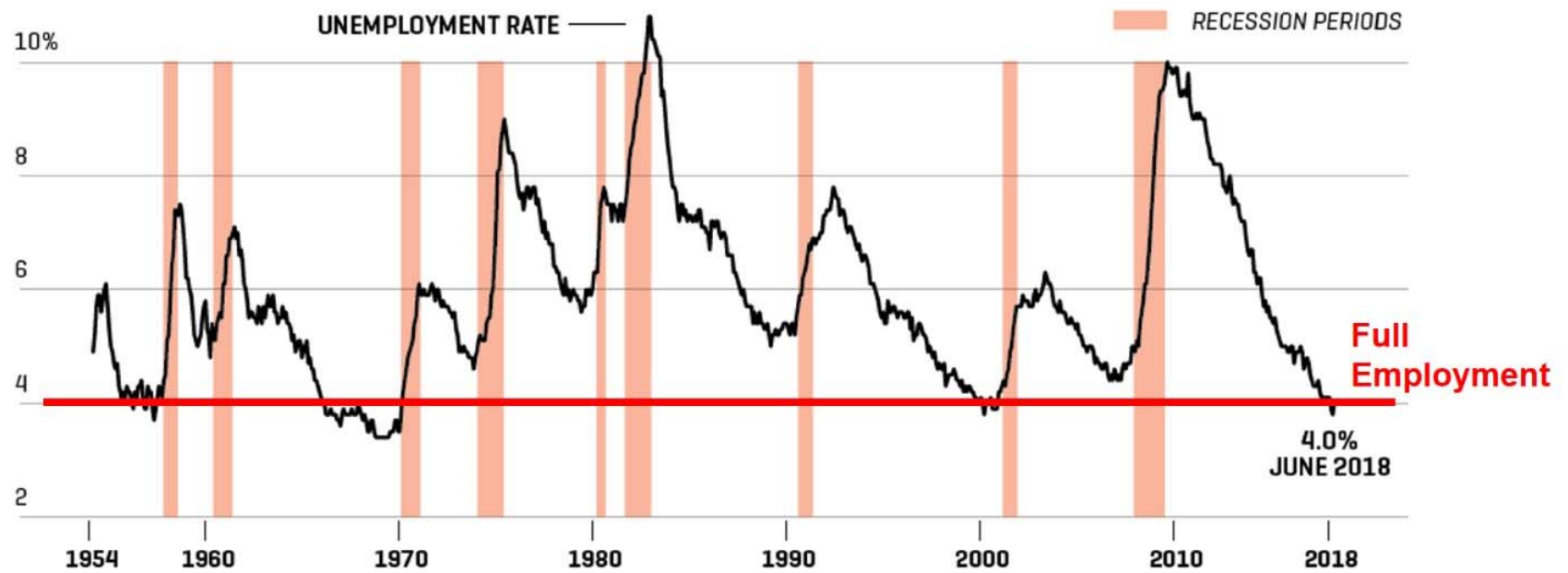


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Historic Cycle Lengths: Second Longest Cycle Since WWII

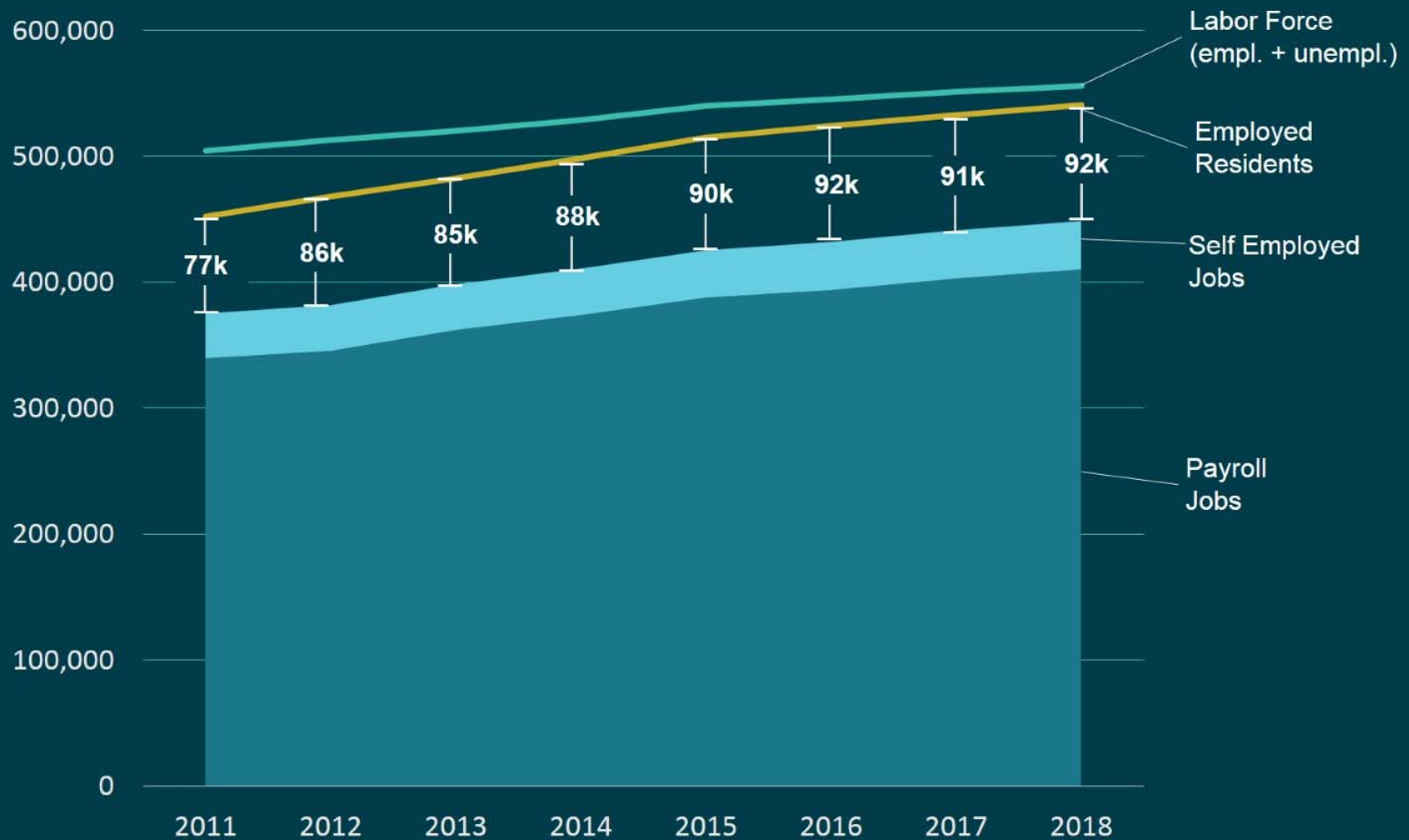
U.S. UNEMPLOYMENT

A trough in the unemployment rate has closely preceded every recession in the past 60 years. Of course, troughs can be identified only in retrospect, but history says further significant rate drops from today's lows seem unlikely.

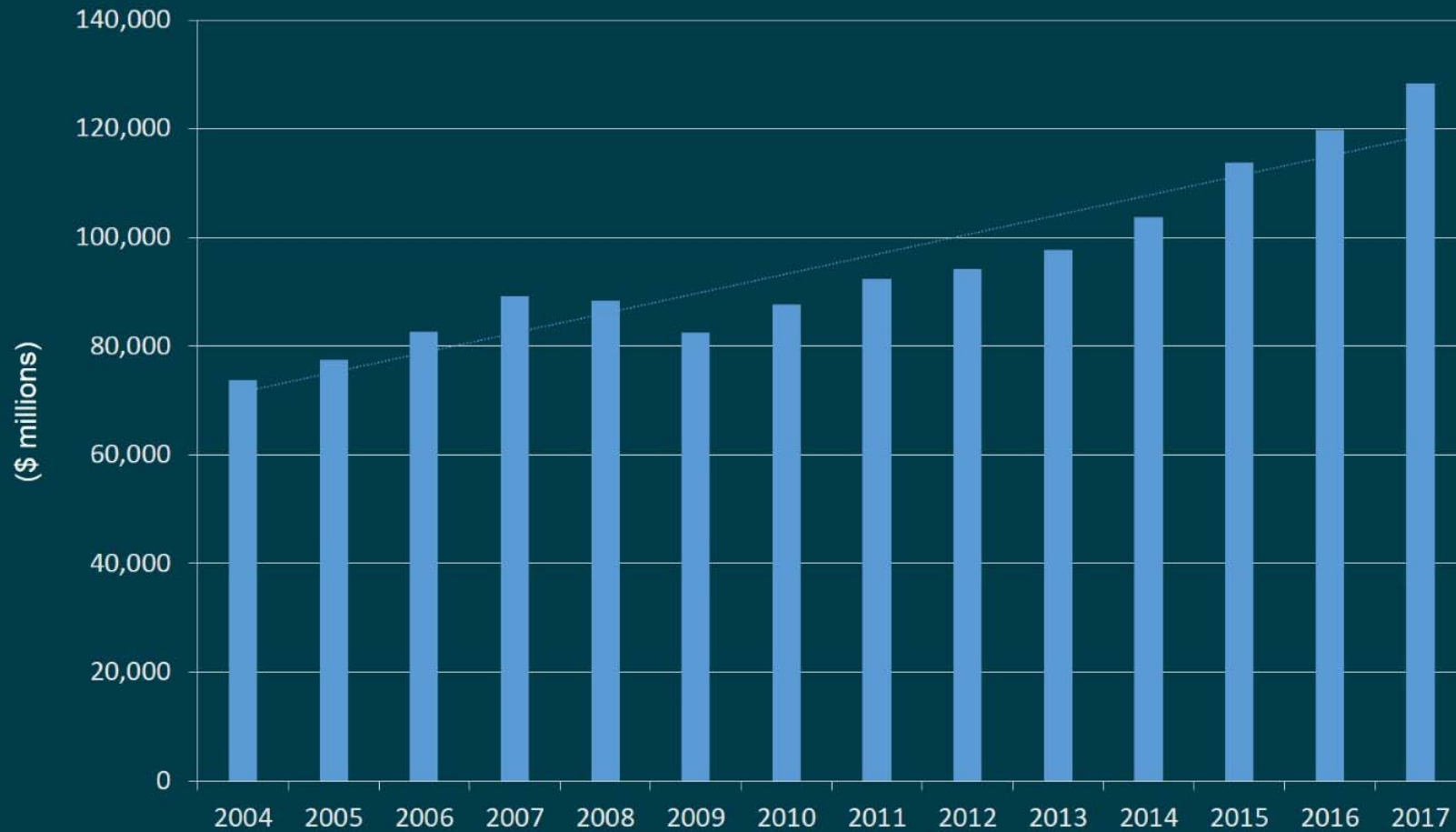


SOURCES: BUREAU OF LABOR STATISTICS (SEASONALLY ADJUSTED); NBER

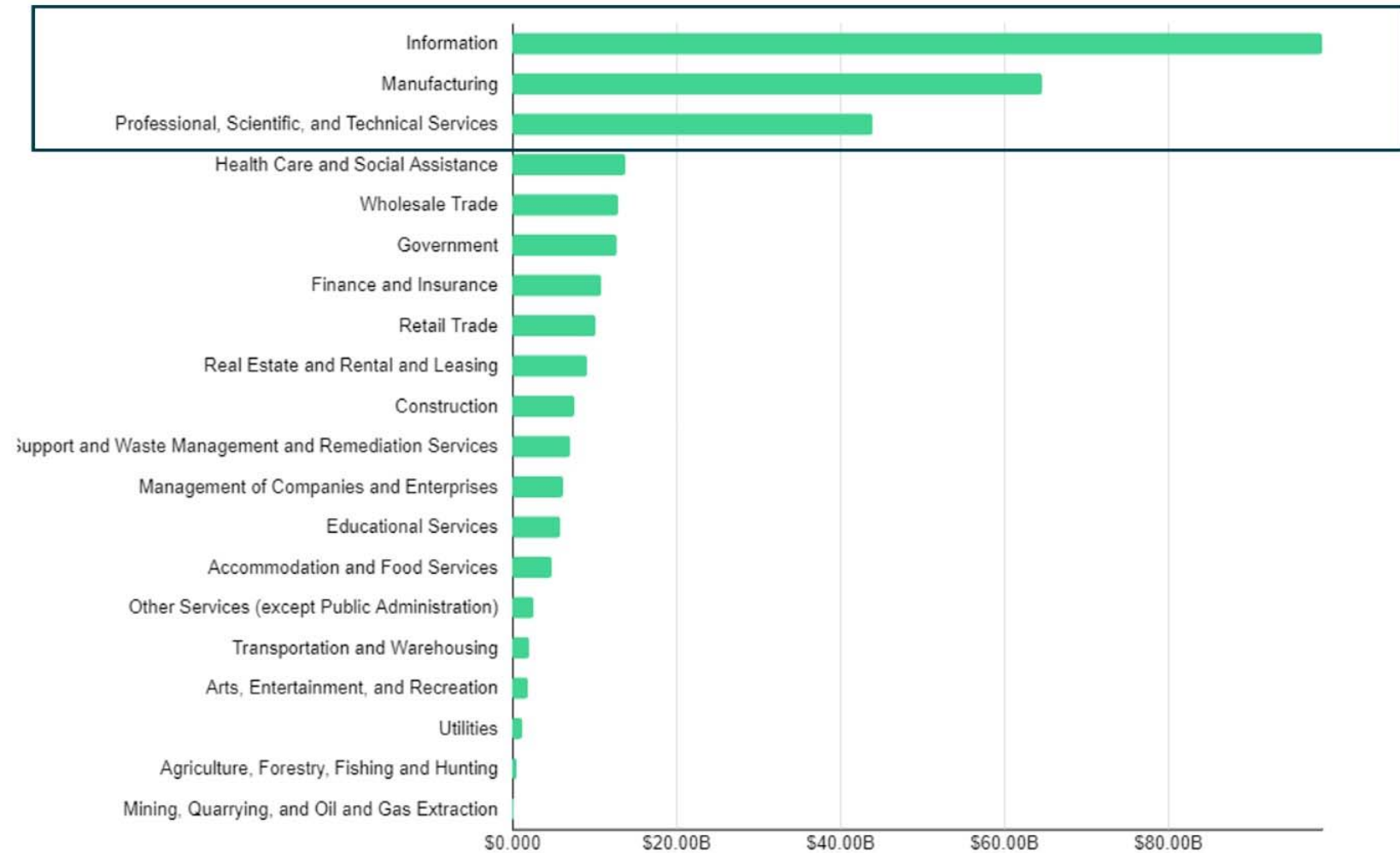
Job Growth Remains Strong into 2019 but City Continues to add More Employed Residents than Jobs



Fastest GDP Growth per Capita in US

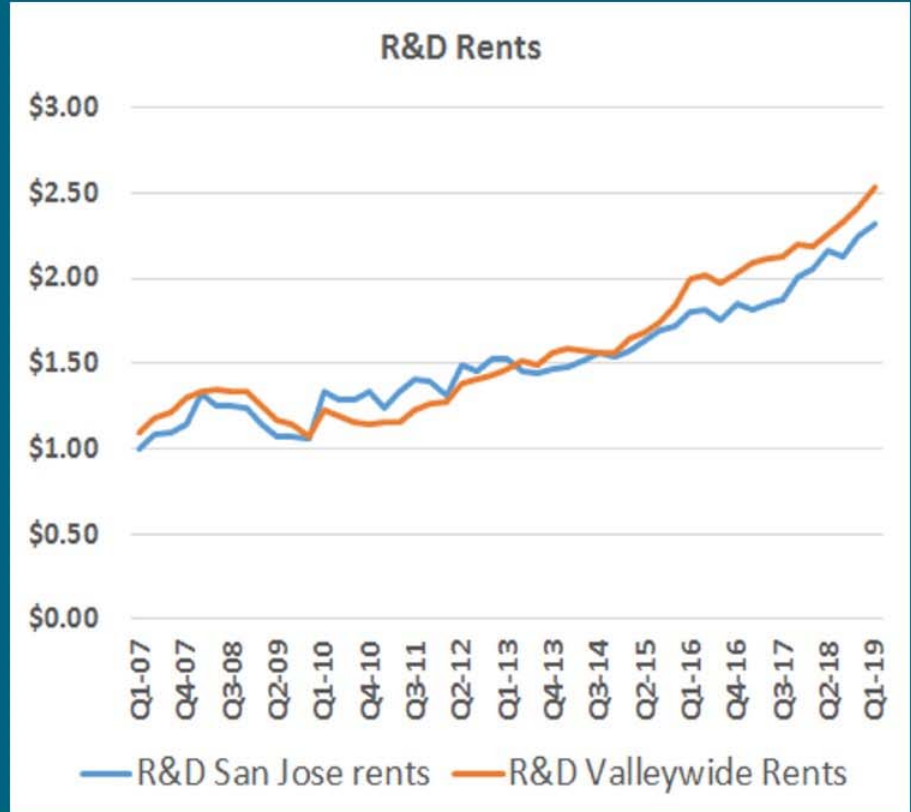
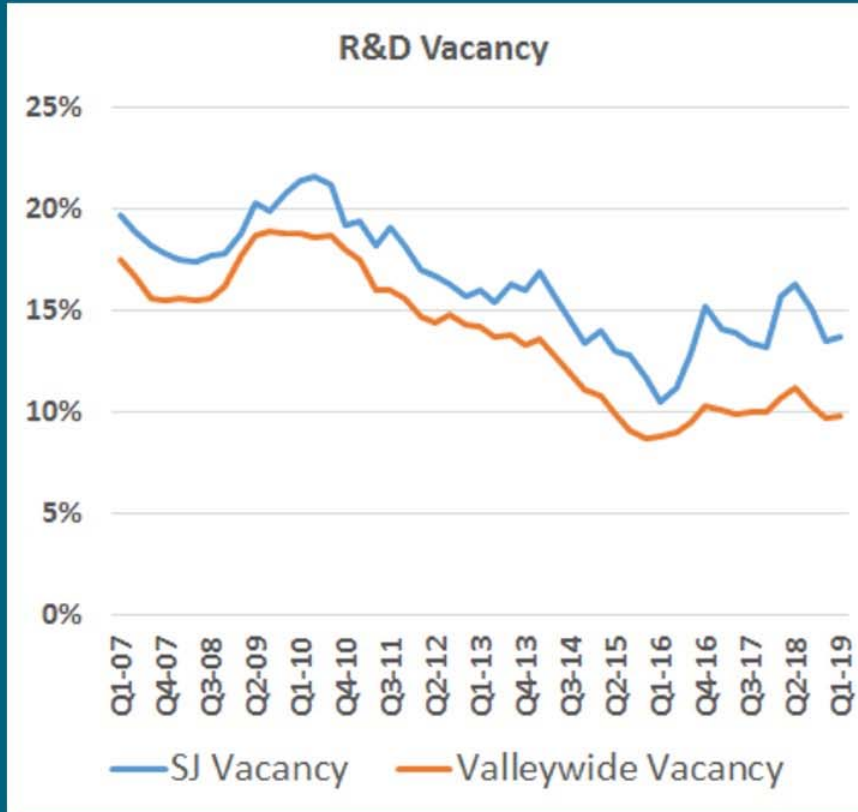


2018 Gross Regional Product is dominated by tech sectors:



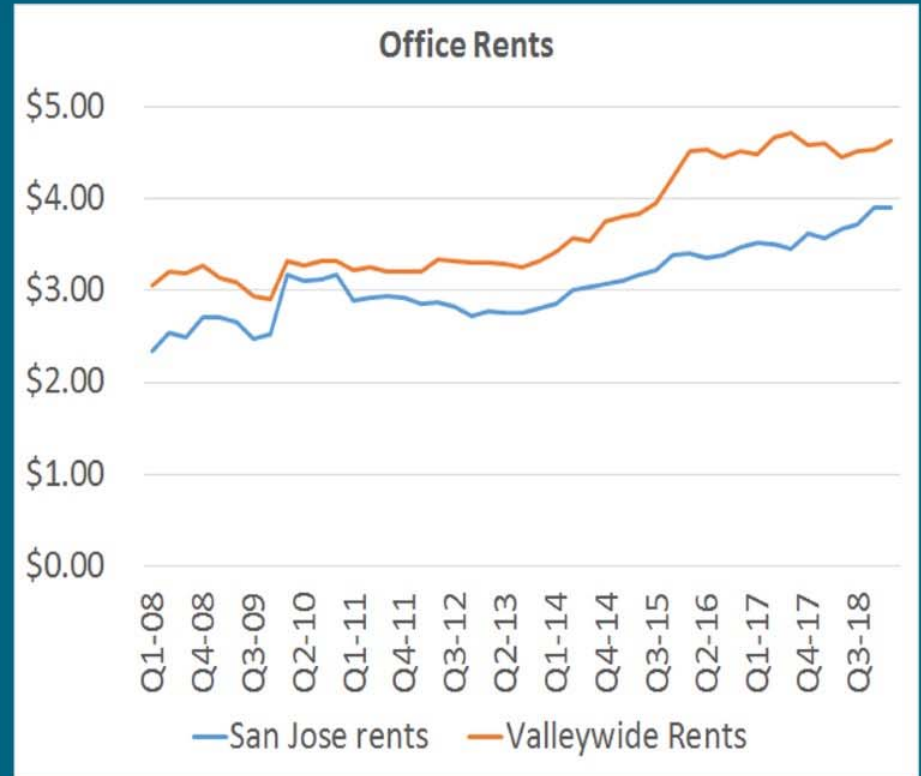
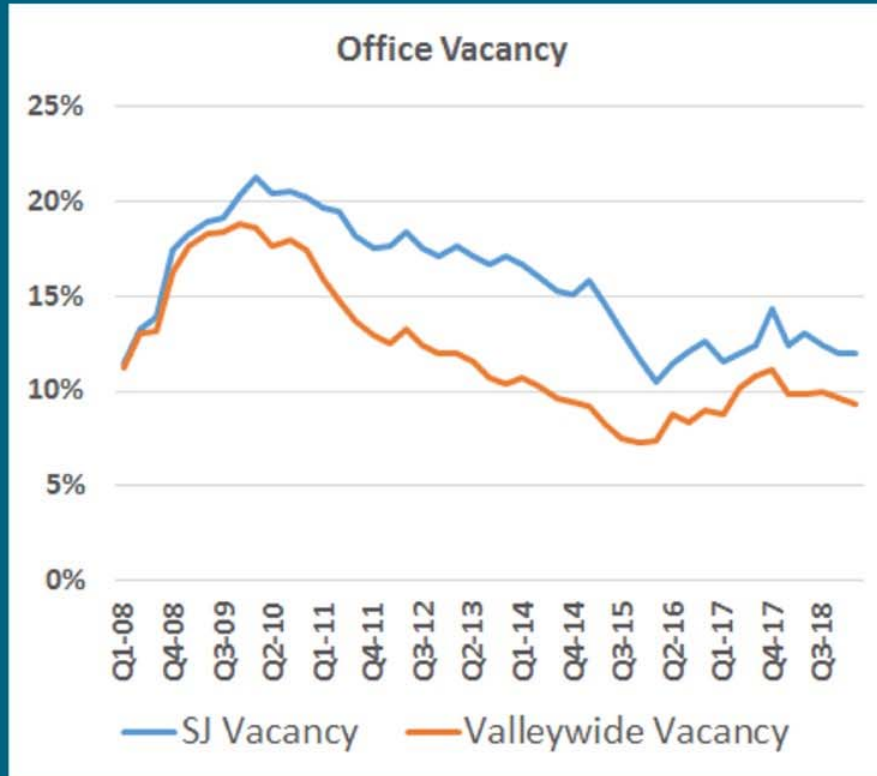
R&D rents still rising toward Valleywide levels

Total Building Base: 46.9M SF



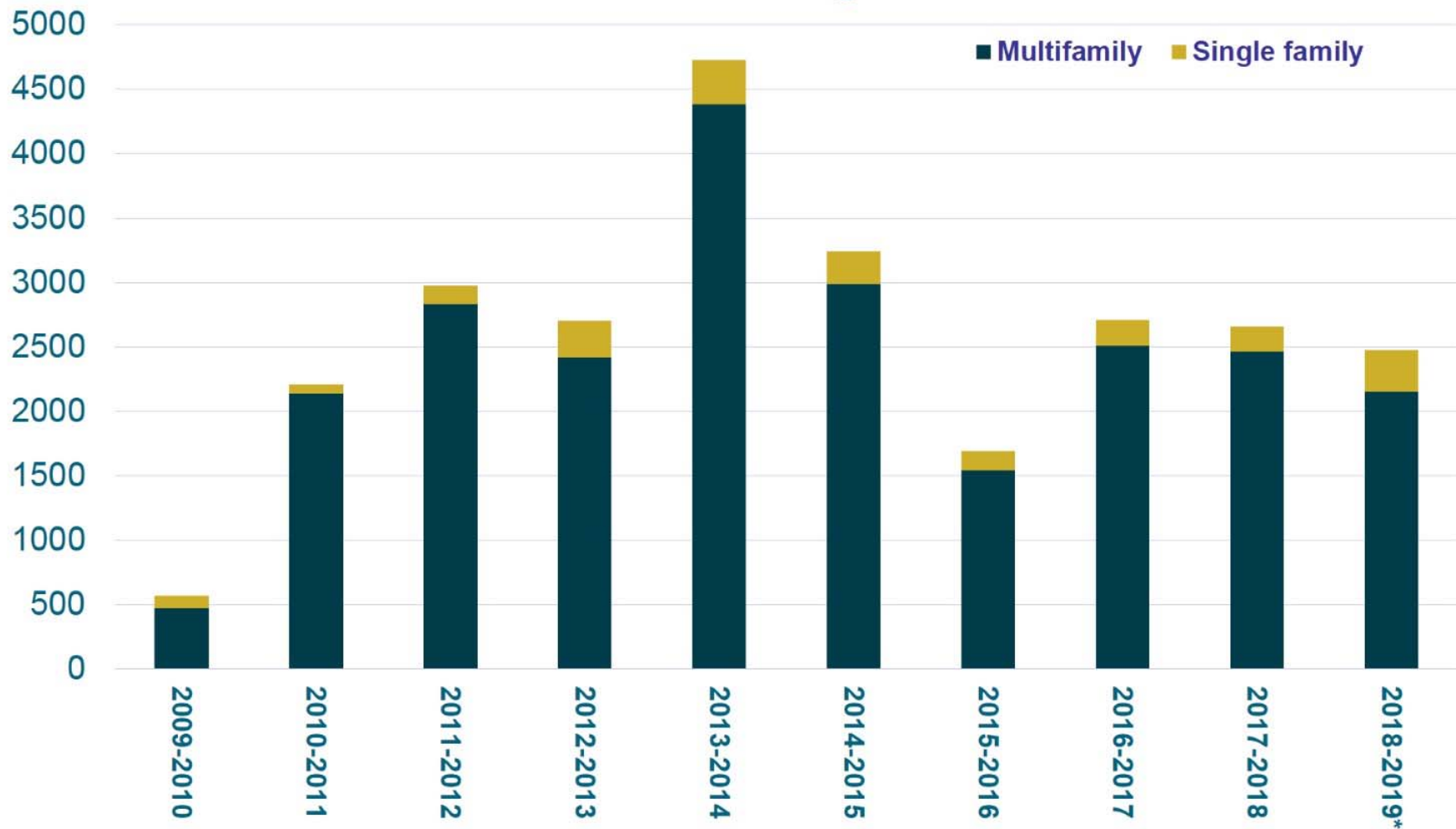
Office Market: Slow and Steady

Total Building Base: 26.8M SF



Housing Production Remains Constrained Due to Cost

Residential Building Permits Issued



San Jose still carries cost advantages...



1 SF of office space will cost you...

- \$7.46 in Mountain View
- \$7.08 in Palo Alto
- \$6.47 in Sunnyvale
- \$4.04 in Santa Clara
- **\$3.91 in San Jose**



1 SF of apartment space will cost you...

- \$3.69 in Mountain View
- \$4.22 in Palo Alto
- \$3.43 in Sunnyvale
- \$3.24 in Santa Clara
- **\$2.94 in San Jose**

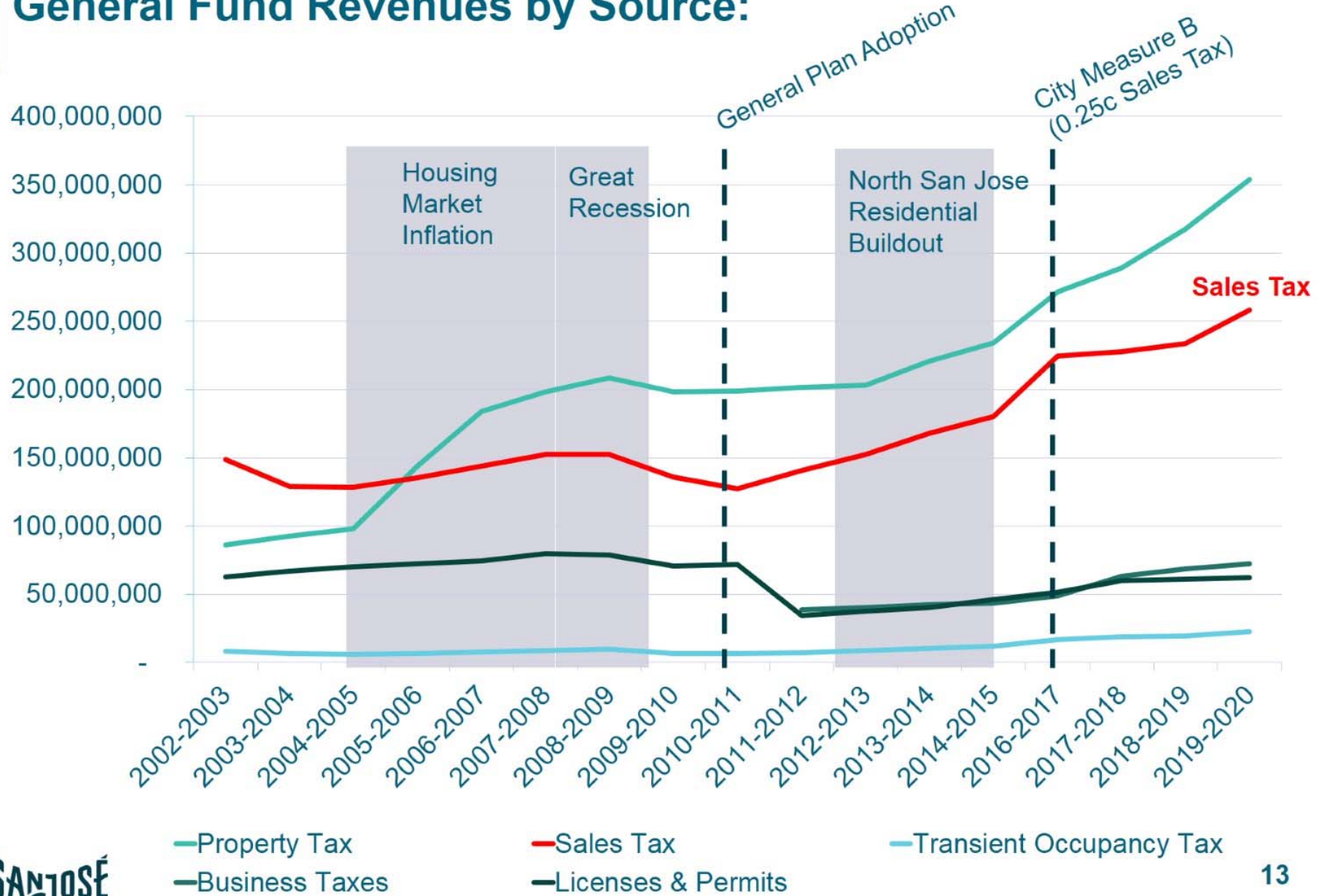
...and development disadvantages.

An aerial photograph of San José, Costa Rica, showing a dense urban landscape with a river winding through it. The image is in a dark, monochromatic blue-grey tone. Overlaid on the image is the text '2. The City Economy' in a large, white, sans-serif font.

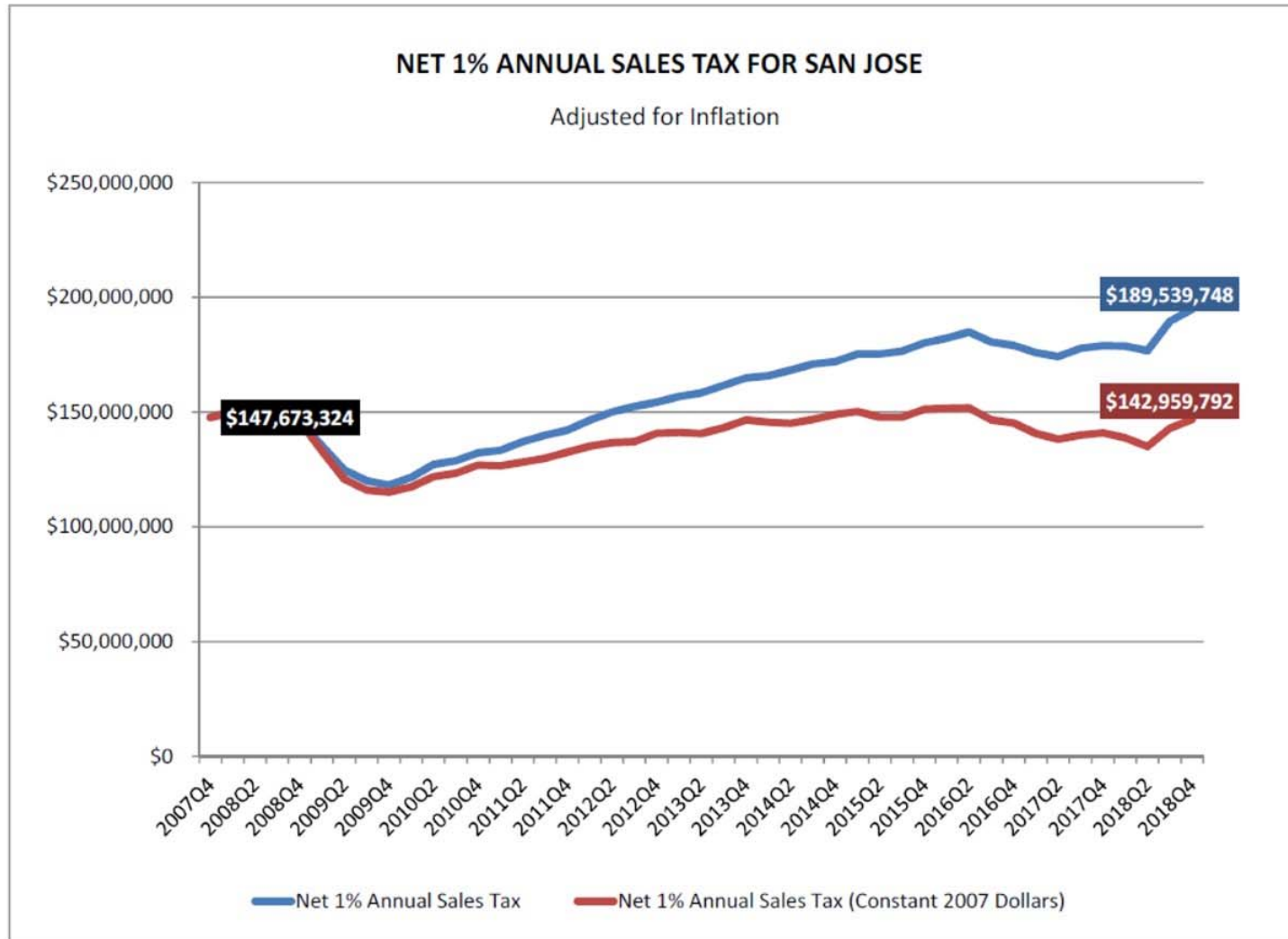
2. The City Economy

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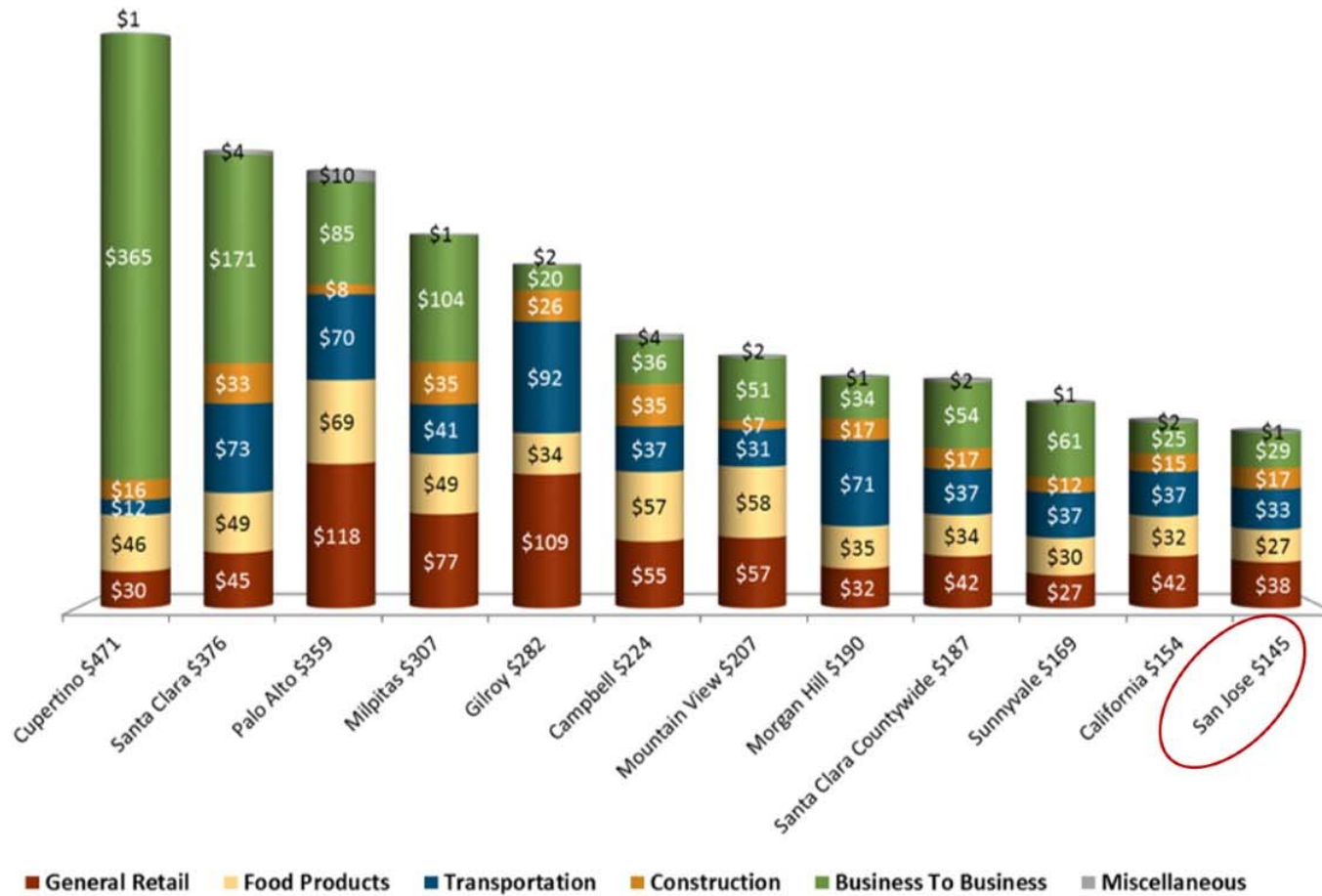
General Fund Revenues by Source:



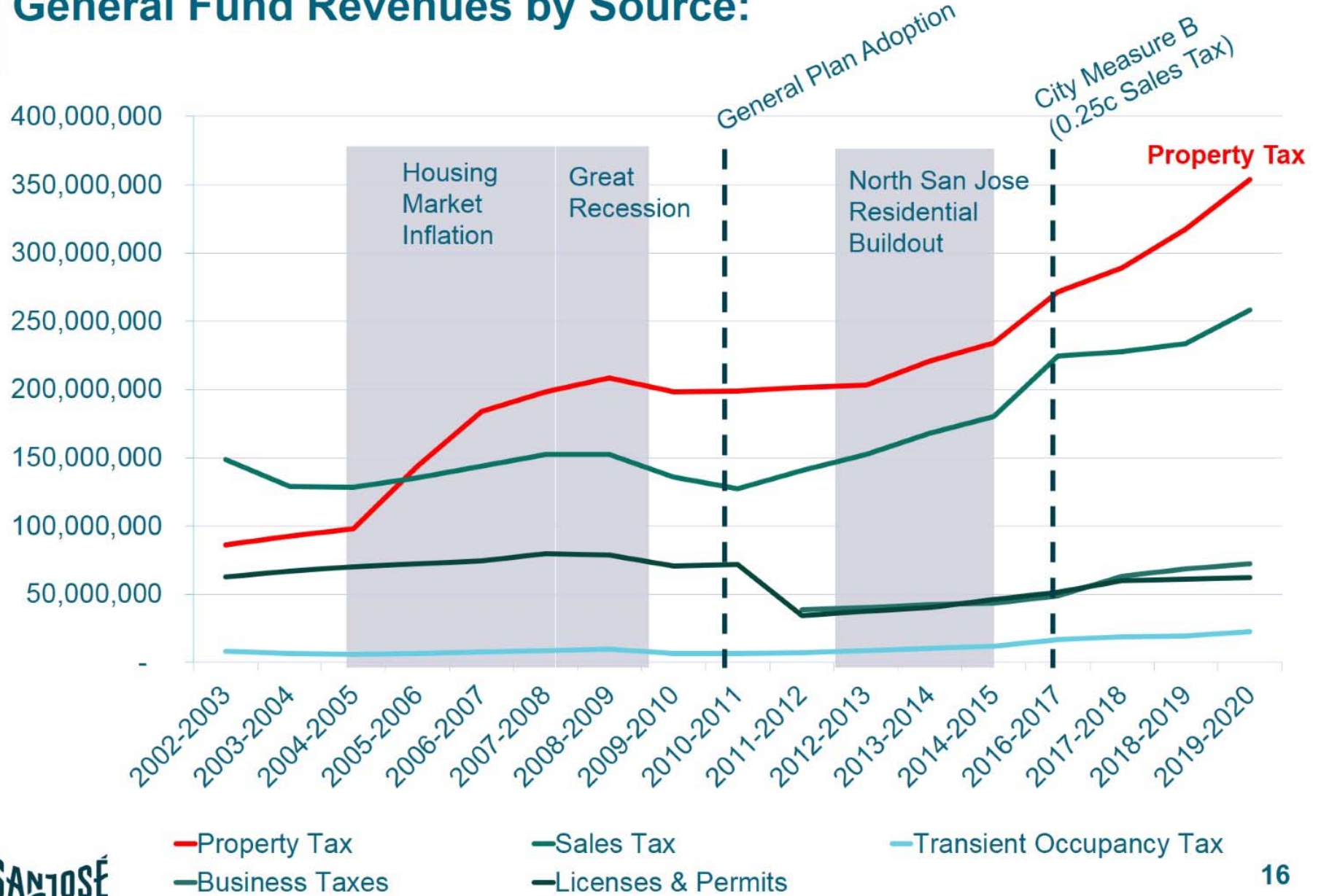
Net 1% Annual Sales Tax, San Jose



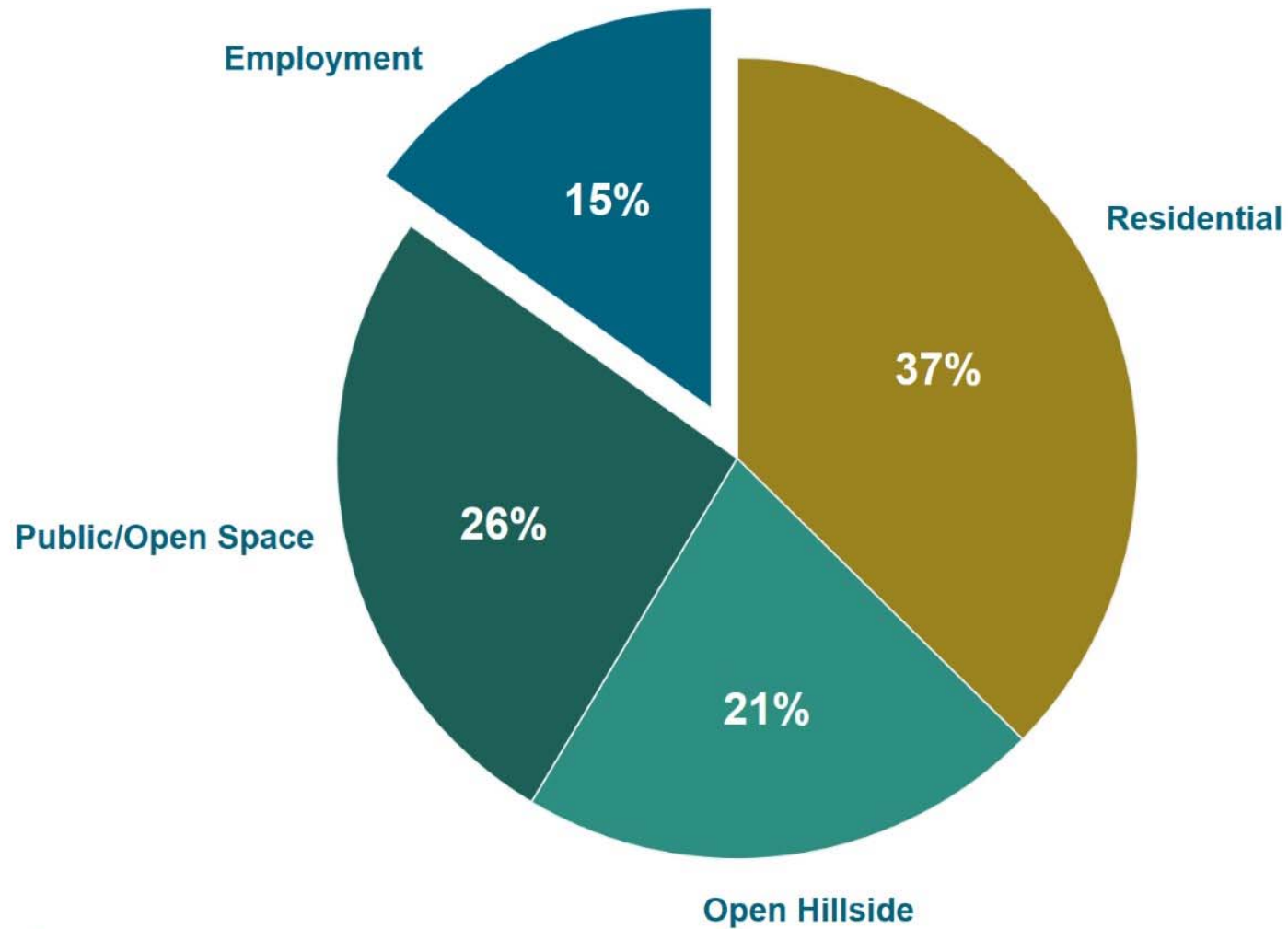
Sales Tax per Capita by City



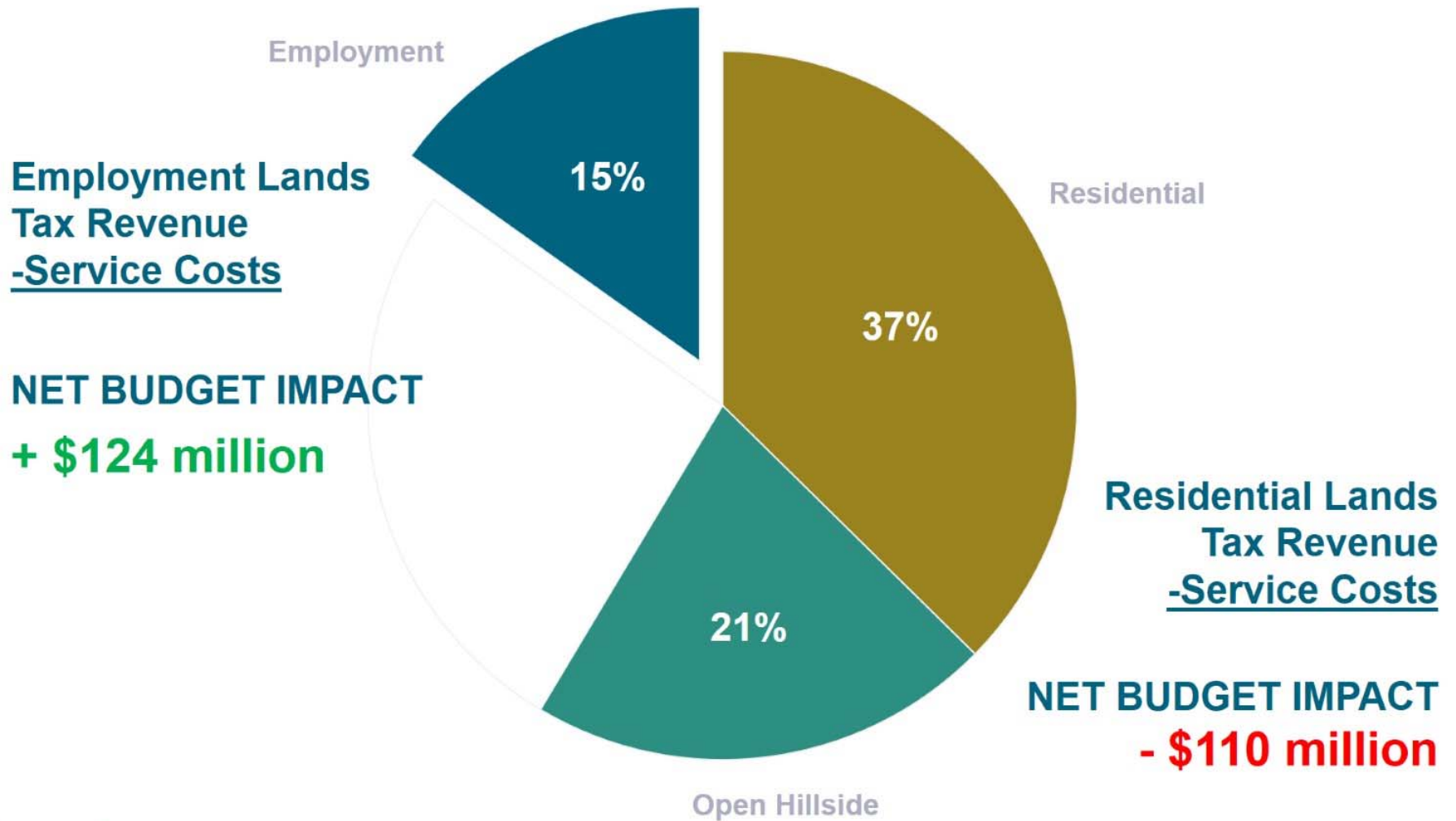
General Fund Revenues by Source:



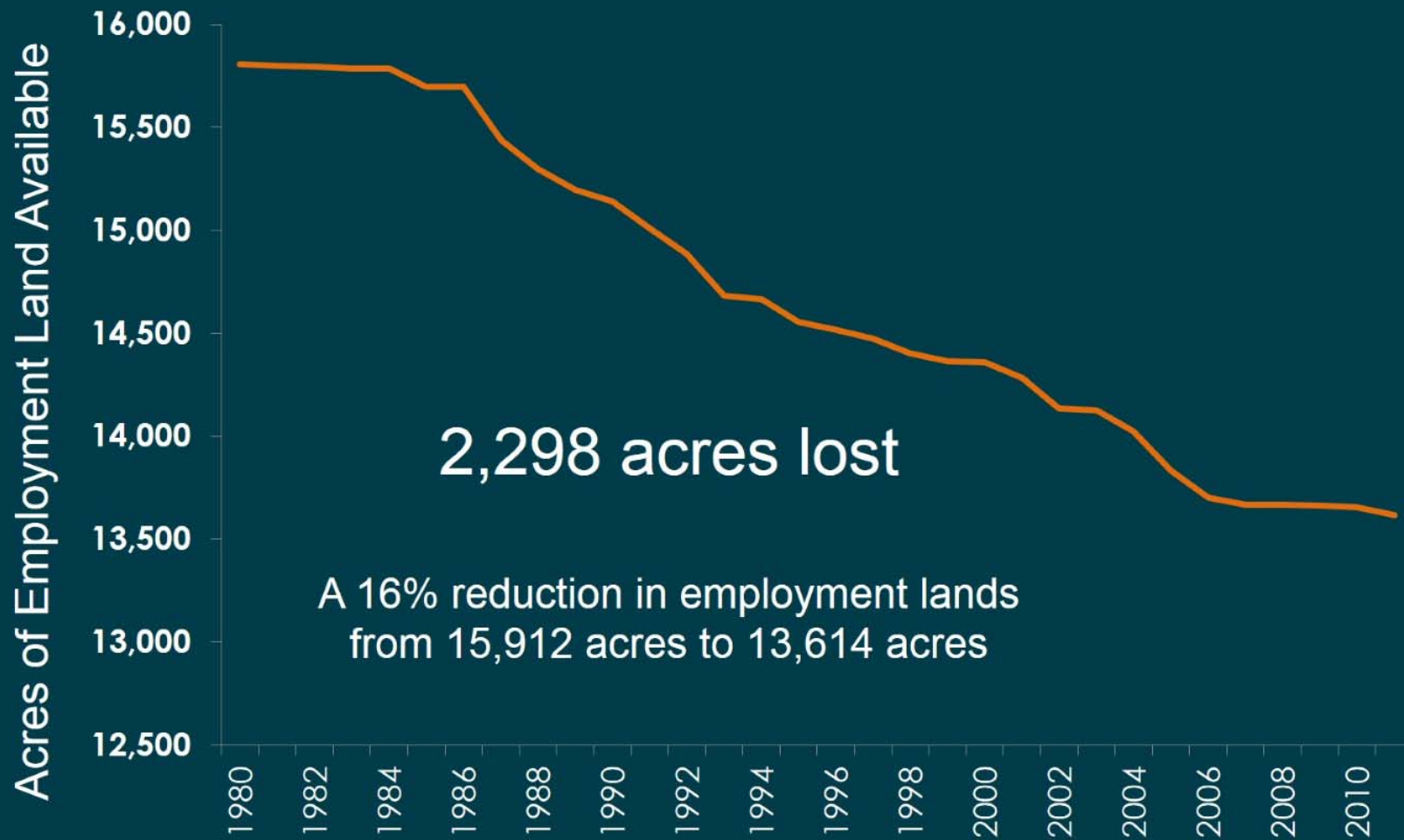
Incorporated City Land Area by Use



Incorporated City Land Area by Use



Employment Land Eliminated Through Conversions Since 1980: 2,298 acres

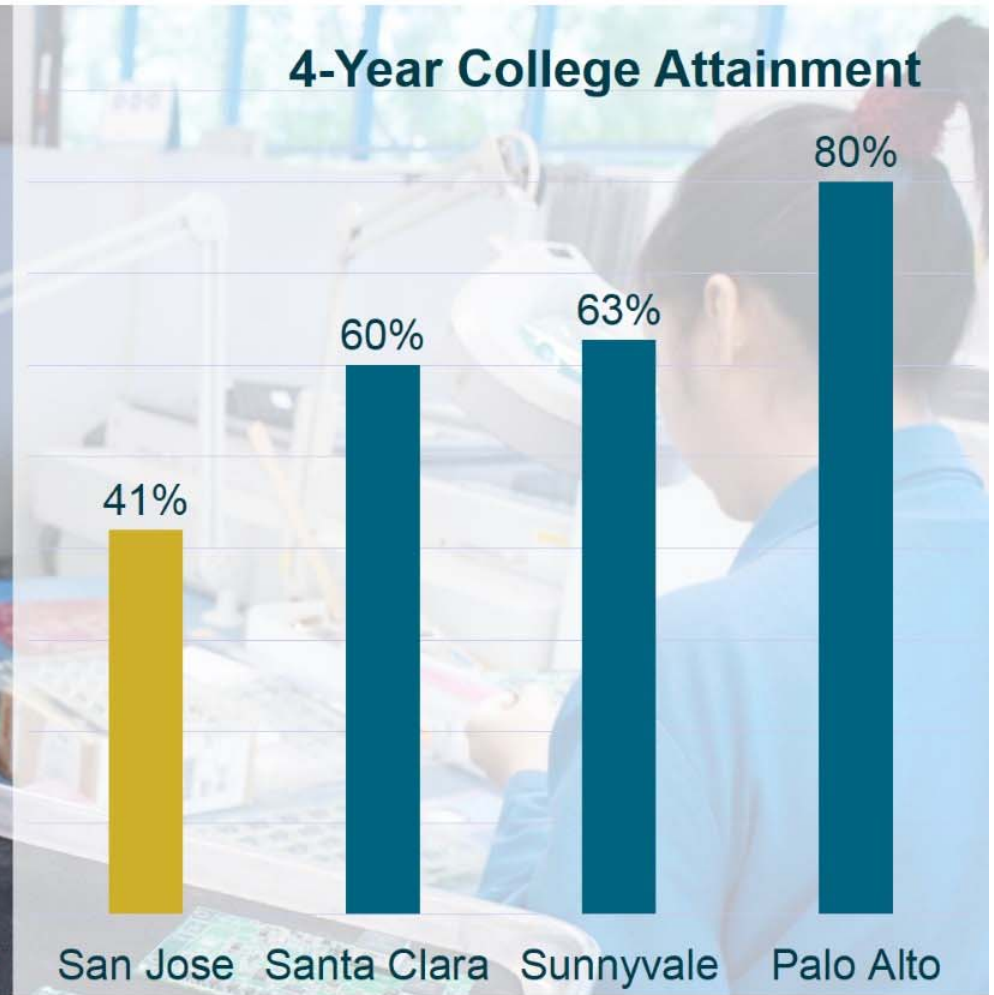
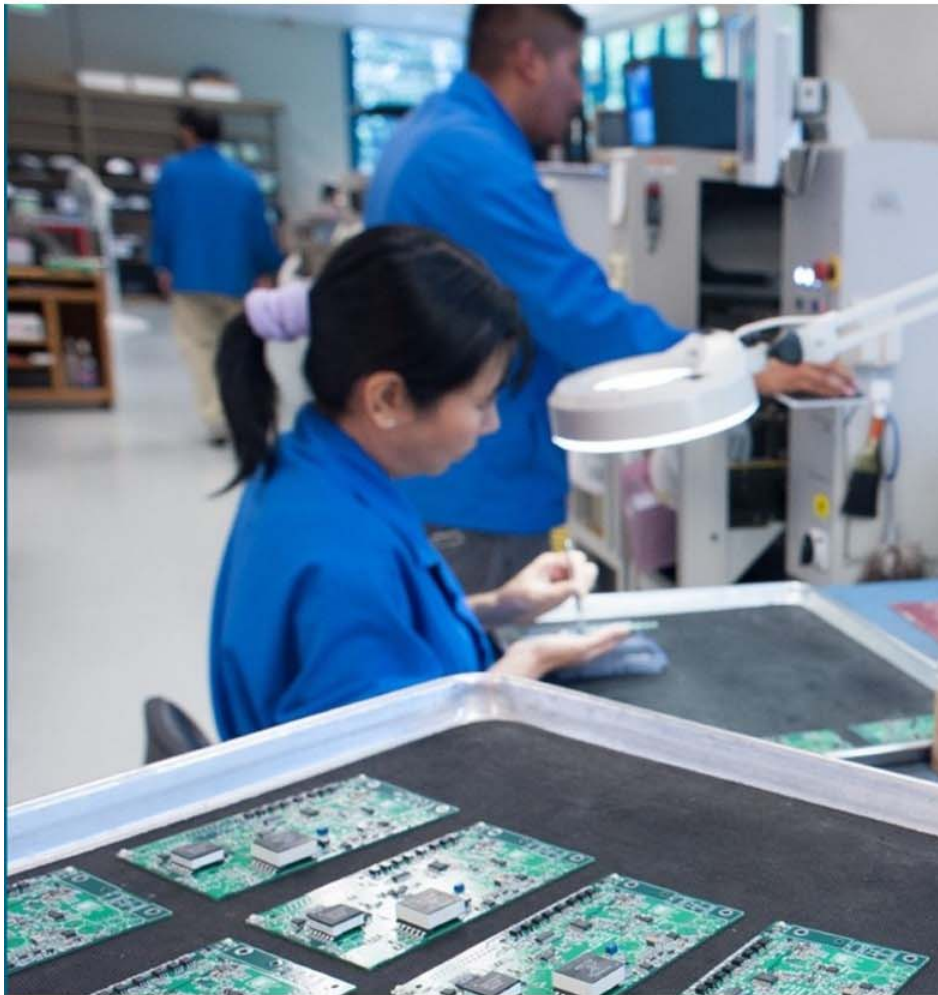


3. The Other Economy

A blue-tinted photograph of a city street. In the foreground, a trolley track runs diagonally across the frame. To the left of the track is a sidewalk with some trees and a small building. To the right is a grassy area and a road. In the background, there are several multi-story buildings and a hill in the distance. The overall scene is urban and somewhat desolate.

SAN JOSÉ

San Jose's Workforce contains a diverse set of skill levels

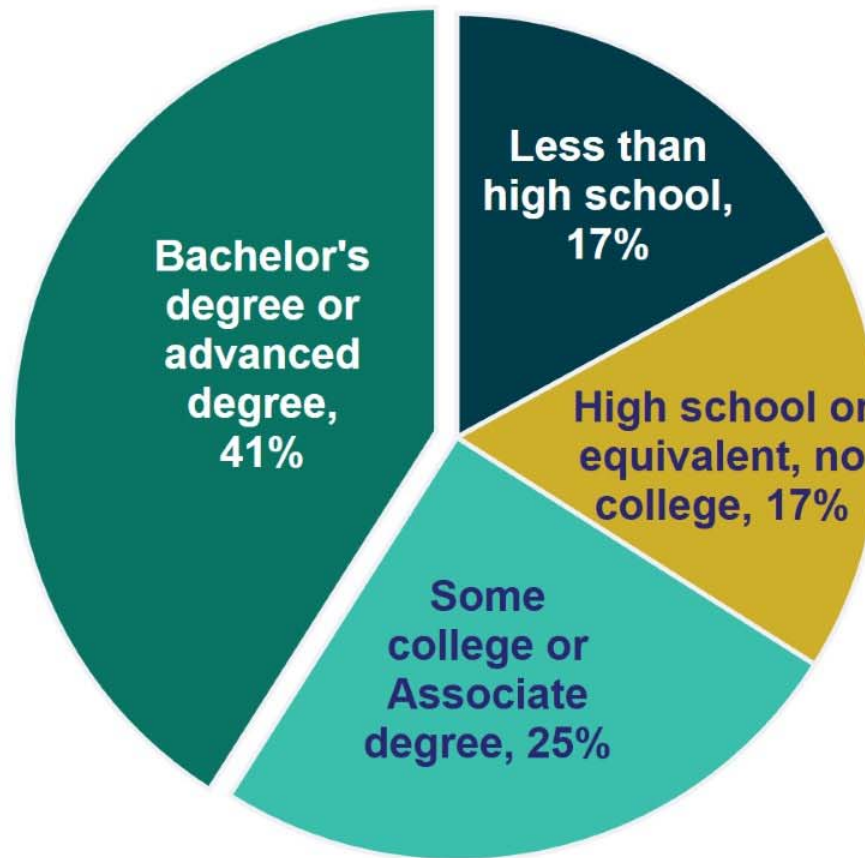


Providing a Balanced Economic Opportunity

Careers Typically Requiring College:

Healthcare
Practitioners and
Technical
Occupations:
\$51/hr

Computer and
Mathematical
Occupations:
\$59/hr



Careers Learned on the Job:

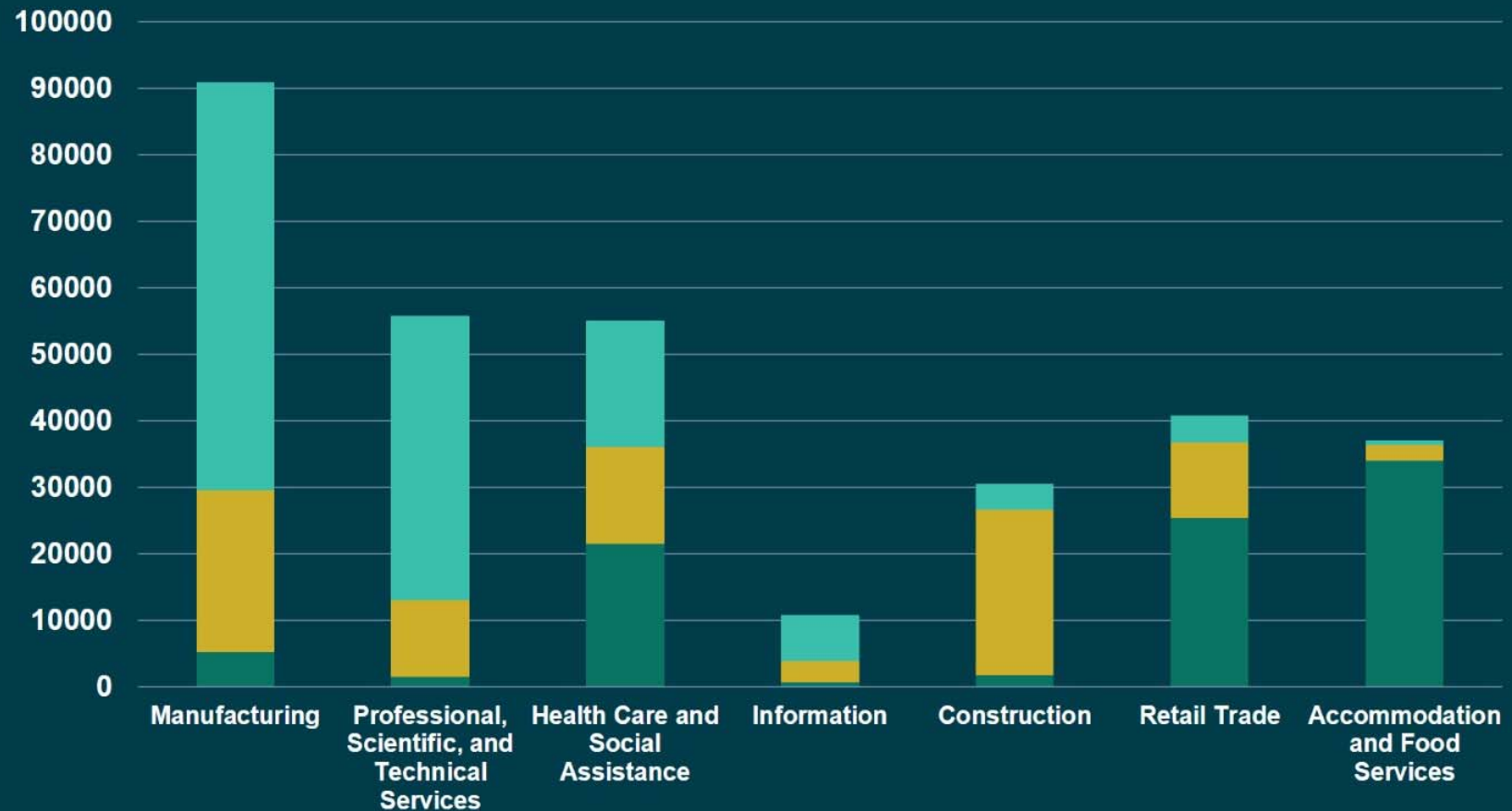
Production
Occupations:
\$19/hr

Construction
Occupations
\$30/hr

Middle-Income Jobs are a Significant Proportion of Local Jobs but are Losing Ground



San Jose has a Strong Base in Industries that Provide Middle Income Jobs



Average Effective Rents in San José and Incomes

1 Bedroom Apartment		Monthly Rents	Assumed Household Income	Equivalent Hourly Rate
	Class A	\$2,752	\$82,560	\$39.69
	Class B	\$2,383	\$71,490	\$34.37
	Class C	\$1,794	\$53,820	\$25.88

2019 Median Hourly Wages	High-Skill/ High-Wage	Mid-Skill/ Mid-Wage	Low-Skill/ Low-Wage
San Jose	\$54.13	\$25.62	\$13.33

4. What Next?

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FY19/20 Economic Forecast: Things to watch in the year ahead



Trade and Geopolitics



Jobs and Unemployment




GDP and Consumer Spending



Inflation and Interest Rates

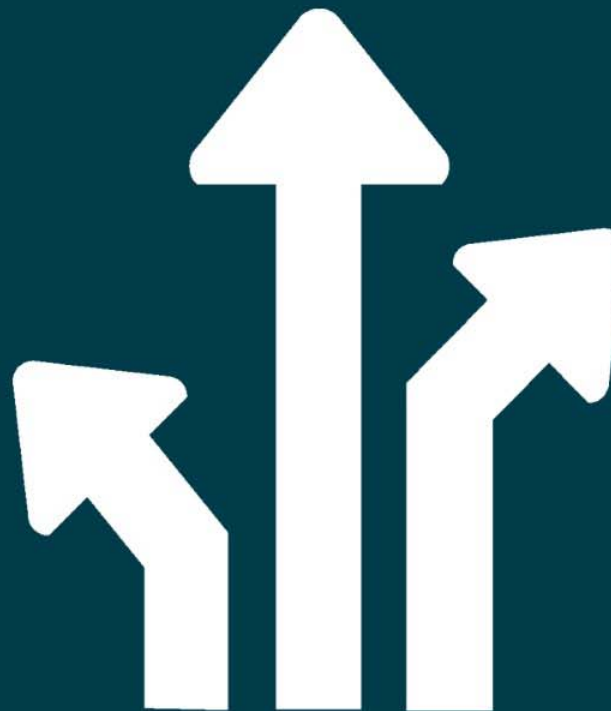
FY19/20 Economic Forecast: What we're hearing

-  **Established tech continues to shift south and east**
-  **Anecdotes about out-migration from the area**
-  **“Retail Apocalypse” seems to be a transition**
-  **High inequality and low mobility are becoming national issues**

| **Keeps Growing**

Resets

Stagnates



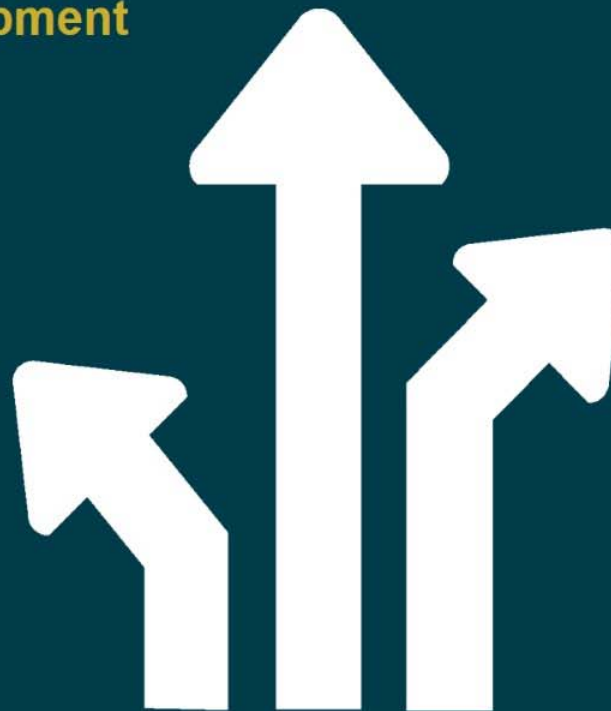
2020?

Keeps Growing:

- Declining availability of existing commercial real estate
- Construction costs continue to rise
- Increased pressure to produce commercial and residential development

Resets:

- Labor market resets
- Risk that low and middle skill jobs impacted greater than higher skilled
- Commercial vacancy increases



2020?

Stagnates:

- Business and living costs continue to rise
- Region loses ground to other technology centers with talent runway

Questions?

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