



COUNCIL AGENDA: 11/10/2020
FILE: 20-1388
ITEM: 8.5

Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Rachel VanderVeen
Jim Shannon

SUBJECT: SEE BELOW

DATE: October 29, 2020

Approved

Date

10/29/2020

**SUBJECT: PROPOSED FY 2020/2021 MEASURE E REAL PROPERTY TRANSFER
TAX SPENDING PLAN**

RECOMMENDATION

- (a) Accept the staff report and approve the included FY 2020-2021 Measure E Property Tax Revenue Spending Plan.
- (b) Adopt the following Appropriation Ordinance Amendments in the General Fund:
 - (1) Decrease the Measure E – 10% Homelessness Prevention Reserve by \$2,850,000;
 - (2) Increase the Measure E – 45% Extremely Low Income Reserve by \$115,000; and
 - (3) Establish a Homelessness Prevention City-Wide appropriation to the Housing Department in the amount of \$2,735,000.

OUTCOME

Approval of the spending plan for Measure E Property Tax Revenue included as **Attachment A** to this memo will provide \$30 million to building affordable housing and address the City's homelessness crisis. The voter-approved real property tax is a general purpose tax that may be used for any City purpose; however, City Council Policy 1-18 provides a spending allocation plan to direct the proceeds towards affordable housing and homelessness prevention. Voter approval of the measure included a community oversight committee to provide oversight of the expenditure of the tax revenues. The City Council identified the Housing and Community Development Commission (HCDC) as the designated Oversight Committee. HCDC affirmed that the spending plan outlined in this memorandum is consistent with the approved allocation plan.

BACKGROUND

On December 3, 2019, City Council approved a resolution to include a measure (Measure E) for a new general fund real property transfer tax, to appear on the special municipal election to be consolidated with the statewide primary election on March 3, 2020. This new tax is imposed on property transfers \$2 million or more. Revenues generated by the Measure E provide funding for general City services, including affordable housing for seniors, veterans, disabled, and low-income families, and helping residents who are homeless move into shelters or permanent housing. Measure E requires the establishment of a Community Oversight Committee, the Housing and Community Development Commission.

The summary of past City Council actions can be found in **Table 1** in accordance with the adoption of Measure E.

Table 1: Summary of Past City Council Actions on Measure E

Date of Meeting	City Council Action
<u>December 3, 2019</u>	<ul style="list-style-type: none"> • Adopted the Resolution to place a real property transfer tax measure on the March 3, 2020 ballot. • Adopted resolution of the real property transfer tax (Transfer Tax), exempting transfers under \$2 million and taxing transfers of \$2 million or more at one of the applicable rates applied to the full value of the consideration paid for the transferred property as follows: <ol style="list-style-type: none"> 1) Under \$2.0 million – Exempt; 2) \$2.0 million to \$5.0 million – 0.75% of the transferred property value; 3) \$5,000,000.01 million to \$10.0 million – 1.0% of the transferred property value; and 4) Over \$10.0 million – 1.5% of the transferred property value. 2) Directed the City Attorney to prepare an Impartial Analysis of the measure.
<u>December 10, 2019</u>	<ul style="list-style-type: none"> • Discussed spending priorities for the Potential General Fund Revenue from Transfer Tax and recommendations from the Rules and Open Government Committee of amending Council Policy 1-18, allocation of funds to be spent on affordable housing and homelessness. • Directed to establish an oversight committee. • Prioritized a spending plan on affordable housing, for seniors, veterans, disabled, and low-income families and help homeless residents move into shelters/permanent housing.

<u>March 3, 2020</u>	<ul style="list-style-type: none">• San José voters approved the Transfer Tax with over 53% support, adding a new chapter 4.59 to the San José Municipal Code. This new tax went into effect on July 1, 2020. The revenue estimate for 2020-2021 is \$30 million given the uncertainty of the economic environment. For reference, the tax would have raised approximately \$70 million if it was in effect in 2017-2018.
<u>Mayor's March 6, 2020 Budget Message</u>	<ul style="list-style-type: none">• Mayor proposed to direct the allocation of Measure E revenues according to the Council-approved percentage set-asides.• Additional direction for prioritizing the following developments and programs: Bridge Housing Communities (BHC) or Tiny Homes, SJ Bridge Employment, Homeless Student Housing, Homeless Prevention, Accessory Dwelling Units Loan Program, Navigation Center.
<u>June 5, 2020 Manager's Budget Addendum #19</u>	<ul style="list-style-type: none">• Manager's Budget Addendum #19 amended City Council Policy 1-18 adding Section 22 regarding Measure E by incorporating the spending allocations, describing the approach to estimate revenue, clarifying the types of work that would qualify for the 5% allocation for Administration, and describing the process to change the funding allocation and states that any changes to the allocation of funds requires:<ul style="list-style-type: none">(1) A 60-day notice of the proposed effective date of the allocation change and at least two public hearings prior to City Council action on the allocation change, with a notice of each public hearing posted on the City's website at least 10 days in advance of the public hearing; and(2) A two-thirds vote of the City Council.
<u>June 23, 2020</u>	<ul style="list-style-type: none">• Adopted Resolution #79608, designating the City's Housing and Community Development Commission as the Real Property Transfer Tax Community Oversight Committee for Measure E and describing its responsibilities.

The City Council adopted an allocation plan for Measure E. The plan allocated up to 5% off the top of the total revenues to support administrative activities. The remaining revenues from Measure E will be allocated as described below in **Table 2**:

Table 2: Measure E Spending Priorities

Spending Priority	% of Transfer Tax Revenue
<i>Program Administration – up to 5% of total Transfer Tax revenues</i>	
Permanent supportive and affordable rental housing for extremely low-income households	45%
Affordable rental housing for low-income households	35%
Below market-rate for-sale housing and rental housing for moderate-income households	10%
Homelessness Prevention & Rental Solutions	10%
Total:	100%

The City Manager's 2020-2021 Proposed Operating Budget released on May 12, 2020 assumed Transfer Tax revenues of \$30 million and allocated the funding in accordance with the Mayor's March Budget Message for Fiscal Year 2020-2021, as approved by the City Council. The high-level spending plan as recommended in this memorandum is summarized in **Table 3**:

Table 3: Budget proposal using 2020-2021 Measure E Revenue

Proposed Budget Activities	Allocation of Funds
Program Administration	\$1,500,000
Permanent supportive and affordable rental housing for extremely low-income households	\$12,825,000
Affordable rental housing for low-income households	\$9,975,000
Below market-rate for-sale housing and rental housing for moderate income households	\$2,850,000
Homelessness Prevention & Rental Solutions	\$2,735,000
Homeless Student Housing	\$115,000
Total:	\$30,000,000

The Mayor's Budget Message included several specific items to be funded with the Measure E funding allocations. The table below summarizes these items **Table 4:**

Table 4: Measure E Spending Items included in the 2020-2021 Adopted Operating Budget

Proposal	Spending Category	Direction for City Manager	Status
Bridge Housing Communities (BHC) or "Tiny Homes" or "Cabins"	Homelessness Prevention and Rental Solutions	<ul style="list-style-type: none"> Report to Council in May with an update about (a) the lease-up of the Mabury BHC, (b) the status and well-being of its residents, and (c) the development of the second BHC site. Return to Council in September with the identification of two additional BHC sites, and to obtain Council approval to begin construction that will at least double our transitional housing capacity. 	<i>As a part of the City's COVID response, funding was identified to build three new Emergency Interim Housing Communities that will function as BHC sites after COVID. Due to the identification of other resources, this item is not included in the Measure E spending plan.</i>
Homelessness Prevention	Homelessness Prevention and Rental Solutions	<ul style="list-style-type: none"> Triple the City's current commitment of \$3 million to \$9 million. 	<i>Measure E spending plan includes \$2,735,000 million for Homelessness Prevention. Additional funding for rental assistance is provided in the Coronavirus Relief Fund.</i>
Homeless Students	Homelessness Prevention and Rental Solutions	<ul style="list-style-type: none"> Provide Bill Wilson Center up to \$55,000 in 2020-2021, and matching funds of up to \$60,000 over the following two years in support of this effort. 	<i>The year one allocation of \$55,000 and year two of \$60,000 is included in the Measure E spending plan.</i>
Accessory Dwelling Units Loan Program (ADUs)	Below market-rate for-sale housing and rental housing for moderate-income households	<ul style="list-style-type: none"> Return to Council by June with a proposal that will allocate the first \$5 million generated within the 10% moderate-income tranche of Measure E revenues for this program, with the requirement that rent restrictions remain on the units for an extended period of not 	<i>Included in the Measure E spending plan, limited to the allowed percentage of 10%, which is \$2,850,000 equivalent to the Year One amount of Moderate-Income funds. This</i>

Proposal	Spending Category	Direction for City Manager	Status
		less than 5 years or until the homeowner pays off the City loan.	<i>program has been put on hold due to COVID-19 priorities and the recent departure of the Executive Director of the Housing Trust Silicon Valley. It is anticipated, that capacity for this project will be available next year.</i>
SJ Bridge Employment	Homelessness Prevention and Rental Solutions	<ul style="list-style-type: none"> This initiative was to employ homeless residents to clean litter and trash in dozen of citywide “hot spots.” t 	<i>After further review, it was determined Measure E is not an eligible source for this program as it focuses on employment rather than housing.</i>
Navigation Center	Homelessness Prevention and Rental Solutions	<ul style="list-style-type: none"> Inform the Council, verbally at Council or through information memorandum, by May of the status of efforts to identify a site, and with specific options for the City move this important work forward. 	<i>On April 21, 2020, Council redirected HHAP funds earmarked for a Navigation Center instead to construct Emergency Interim Housing. This item is not included in the Measure E spending plan.</i>

ANALYSIS

The analysis will focus on requirements under Council Policy 1-18 for amending spending priorities for Measure E general fund revenues and the comments from the Housing and Community Development Commission as the Oversight Committee from the October 8, 2020 regular meeting.

A. Amendments to Spending Priorities ([City Council Policy 1-18, Section 22](#))

The City Council approved Operating Budget and Capital Improvement Program Policy (City Council Policy 1-18) which sets forth the guiding principles for the preparation and

administration of the Operating Budget and Capital Improvement Program. Upon approval of Measure E, the City Council updated City Council Policy 1-18 to add Section 22 (**Attachment B**) clarifying the intended use of general fund revenues raised from Measure E. Measure E is a general tax and the revenues derived from the tax are unrestricted, which means the City can use Measure E revenues for any governmental purpose. While these revenues are deposited in the General Fund and can be used for any governmental purpose, the City Council intended that the revenues be allocated towards addressing the affordable housing and homelessness crisis. The City's most urgent housing issues include, but are not limited to, homeless prevention and developing new affordable housing.

In order to make any amendments to the Measure E spending priorities, the City Council is required to have a two-thirds vote. In addition, the public would need to be informed of any proposed changes. Public notification requires a 60-day notice and at least two public hearings prior to the City Council taking action on any proposed changes to the annual spending plan that could shift any funding. These requirements are included in City Council Policy 1-18 to ensure the use of Measure E funds are consistent with the City Council's original intent for the funds.

The Housing and Community Development Commission, serving in its role as Oversight Committee, reviews the Measure E spending plan to ensure it is consistent with the allocation plan h and the guidelines in City Council Policy 1-18.

B. Measure E Spending Plan

The expected funds available are estimated to be \$30 million for 2020-2021. The estimated amount of transfer tax is based on the percentage allowed, as described in **Table 2**. Amounts allocated to each item in **Table 5** and **Attachment A**, the proposed spending plan from the real property transfer tax revenue, can decrease or increase proportionally based on actual transfer taxes collected. The non-italicized rows indicate the category as defined by the City Council. The italicized rows indicate the proposed items within the spending plan.

The Administration will reconcile the actual revenues received in the fiscal year as part of the City Manager's Annual Report, which is reviewed and approved by the City Council every October. Any excess or shortfall or revenue will be proportionally allocated between the City Council-approved spending priority allocations.

Table 5: Measure E Spending Plan for 2020-20

Spending Category / Item	%	Dollar Value
Remaining Funds Available & Allocations - \$28,500,000		
<i>The after administration funds are subtracted from the total amount collected.</i>		
1) Permanent supportive and affordable rental housing for extremely low-income households	45%	\$12,825,000
• Funding for land acquisition and new development of affordable housing		\$12,825,000
2) Affordable rental housing for low-income households	35%	\$9,975,000
• Funding for land acquisition and new development of new affordable housing		\$4,975,000
• Acquisition and rehabilitation of existing buildings for low-income households		\$5,000,000
3) Rental and for-sale housing for moderate-income households	10%	\$2,850,000
• ADU Program		\$2,850,000
4) Homelessness Prevention and Solutions	10%	\$2,850,000
• Homelessness Prevention		\$2,735,000
• Student Housing – FY 2020/21		\$55,000
• Student Housing – FY 2021/22		\$60,000
SUBTOTAL:	100%	\$28,500,000
Administration - \$1,500,000		
• 5% of the total revenue (\$30,000,000) collected		\$1,500,000
SUBTOTAL:	5%	\$1,500,000
TOTAL:		\$30,000,000

- Program Administration:** Consistent with the 5% limitation on administrative expenses, \$1,500,000 will be set aside for administrative costs related to the implementation of Measure E programs. In the 2020-2021 Adopted Operating Budget, the City has identified approximately \$620,000 of program administration costs, attributable to staff supporting in the Housing and Finance Departments, as well as the City Attorney's Office. Any savings from the Program Administration allocation will be proportionately reallocated to the other spending categories as part of the 2020-2021 Annual Report process.
- Permanent Supportive and Affordable Rental Housing for Extremely Low-Income Households:** Funding for extremely-low income households (\$12,825,000) will be used to finance the acquisition and/or development of new affordable housing for extremely low-income households and student housing programs. Of these funds, \$12,825,000 will be made available as a part of the upcoming Notice of Funding Availability or will be used by the Housing Department to acquire sites for future affordable housing development. The selected developments or sites will be limited to specific geographic areas until the Affordable Housing Siting Policy is completed, consistent with the

amended Affordable Housing Investment Plan. These areas include North San José, Diridon Station Area, Downtown, West San Carlos Urban Village, Berryessa Bay Area Rapid Transit (BART) Urban Village, and the Blossom Hill/Snell Avenue Urban Village. All funds will be spent consistent with the [Affordable Housing Investment Plan](#).

- **Affordable Rental Housing for Low-Income Households:** Funding for extremely-low income households (\$9,975,000) will be divided into two categories. Funding in the amount of \$4,975,000 will be used to finance the acquisition and/or development of new affordable housing for low-income households. These funds will also be made available as a part of the upcoming Notice of Funding Availability. Additionally, \$5,000,000 in funding will be made available for acquisition and rehabilitation of existing housing and restricted to low-income households in the future.
- **Rental and for-sale housing for moderate-income households:** On June 26, 2020, the City Council recommended a proposal that will allocate the first \$5 million generated from Measure E to be put towards Accessory Dwelling Units Loan Program (ADUs) within the 10% moderate-income tranche of Measure E revenues for this program. In Year 1, there is \$2,850,000 available for development of an ADU program. This program is currently on hold due to COVID-19 priorities and the recent departure of the Executive Director of the Housing Trust Silicon Valley. These funds will accumulate in Year 1, providing additional resources to be allocated in the Year 2 Measure E spending plan.
- **Homelessness Prevention and Solutions:** The \$2,850,000 for homelessness prevention and rental solutions portion will be broken into two items. The City has made funding homelessness prevention a priority for the use of these funds. The \$2,735,000 funds will be used to fund the homelessness prevention program managed by Destination:Home. Funding will be used to provide financial assistance and support to primarily at-risk families. In addition, consistent with the Mayor's Budget Message, \$55,000 for the first year and \$60,000 for the second year will be granted to the Bill Wilson Center for the homeless student housing program. In partnership with San José State University and Airbnb, Bill Wilson Center will provide temporary housing to college students experiencing homelessness.

C. Comments from HCDC as the Oversight Committee: On [October 8, 2020](#), HCDC as the Oversight Committee affirmed that the proposed spending plan is consistent with the City Council allocation plan. However, HCDC expressed concern that given that current pandemic and the potential widespread evictions facing low-income renters in early 2021, the Council should consider a contingency plan if no state or federal solution is identified to provide stability for renters in the coming year. If additional funding was identified to address this problem, the original staff recommendation would remain in place. HCDC also recommended that additional program activities be identified to address moderate-income housing needs. HCDC recommended the following reallocation plan:

Reallocate Funds for Rent Relief: HCDC recommended reallocating up to 20% of yearly revenue funds for rent relief and utility payments paid directly to rental provider and utility

companies to prevent homelessness. To the extent that the City Council does not think this recommendation is consistent with the spending priorities, that the Commission recommends that the City Council amend the priorities. The reallocation of funds for rent relief were directed to come out of the Permanent Supportive and Affordable Housing for Extremely Low-income Households and the Affordable Rental Housing for Low-Income Households categories proportionally and move these funds to the Homelessness Prevention and Solutions category.

Explore Alternative Moderate Income Programs: Replace the "ADU Program" with a "Program to be developed by housing staff and reviewed by HCDC to address a rental and for sale program for moderate income households."

Rent relief would come out of the Homeless Prevention 10% allocation. Because the amount recommended by HCDC exceeds the 10% allocation as approved by the City Council, the process to amend the allocations as described earlier in this memo would need to be followed. The HCDC advised that the reallocation be taken from the two categories Permanent Supportive and Affordable Rental Housing for Extremely Low-Income Household and Affordable Rental Housing for Low-Income Households categories proportionately. The changes would include:

- **Administration:** No change.
- **Permanent supportive and affordable rental housing for extremely low-income household:** Decreasing percentage from 45% to 32% by reallocating \$3,600,000 to rent relief.
- **Affordable rental housing for low-income households** Decreasing percentage from 35% to 27% by reallocating \$2,400,000 to rent relief.
- **Rental and for-sale housing for moderate-income households:** Removing ADU program to replace with new moderate income program for the same 10% of \$2,850,000.
- **Homelessness Prevention and Solutions:** Increase the total amount for this category by \$6,000,000 resulting in an increase of the allocation from 10% to 30%.

Attachment C provides an analysis of the changes as recommended by HCDC and its impact on each of the income categories.

CONCLUSION

The City's new real property transfer tax (Measure E) is imposed on property transfers \$2 million and over, and General Fund revenues generated will fund City services, including affordable housing for seniors, veterans, disabled, and low-income families, and helping homeless residents move into shelters/permanent housing. Staff is recommending the spending plan that is consistent with City Council's established priorities.

As the measure requires a Community Oversight Committee, the Housing and Community Development Commission (HCDC) provided feedback on the Council approved Measure E revenue spending priorities during their discussion at the HCDC meeting on October 8, 2020. HCDC affirmed that the proposed spending plan is consistent with the Council approved

allocation plan. However, Commissioners were concerned about the impact of the COVID-19 pandemic on the community and made recommendations to reallocate funds to provide rental assistance to prevent homelessness during this critical time. HCDC's Revised Spending Plan (**Attachment C**) is provided as a policy alternative that would dedicate an additional \$6 million in rental assistance providing stability to households potentially facing eviction, which is beyond the City Council's priorities of dedicating 10% of the spending plan to homeless prevention. If the Council elects to support the policy alternative, staff would need to follow the reallocation process.

EVALUATION AND FOLLOW-UP

In its role as the Community Oversight Committee, HCDC will review at the annual expenditure report to ensure it is consistent with the approved spending plan. Future spending plans will also be reviewed by the HCDC and approved by the City Council annually.

CLIMATE SMART SAN JOSE

The recommendation in this memo does not affect Climate Smart San José energy, water, or mobility goals.

POLICY ALTERNATIVE

Alternative #1: Adopt the Oversight Committee (HCDC)'s Revised FY 20/21 Spending Plan (Attachment C)

Pros: Incorporates feedback from the Oversight Committee to allocate more funding for rental assistance to prevent homelessness

Cons: Inconsistent with the City Council's approved spending priorities

Reason for not recommending: Triggers a 60-day review process consistent with Policy 1-18, Section 22 and require an additional City Council meeting and two-thirds vote to approve amendments.

If the City Council accepts HCDC's policy alternative, this action will shift funding from the initial categories established by the City Council. These requirements are included in City Council Policy 1-18 to ensure the use of Measure E funds are consistent with the initial City Council direction. The tentative timeline below would account for the proposed amendments in **Table 7:**

Table 7: Timeline if City Council Approves Amendments to Measure E Spending Priorities

Tentative Timeline	Dates
City Council initiates the procedure to approve proposed amendments by a two-thirds vote	<ul style="list-style-type: none"> • November 10, 2020
Minimum 60-day notice to public of the proposed amendments from November 10, 2020 Meeting	<ul style="list-style-type: none"> • January 9, 2021
Two Public Hearings Prior to Council taking Action	<ul style="list-style-type: none"> • <i>Proposed date:</i> December 2020 • <i>Proposed date:</i> January 14, 2021 – HCDC Regular Meeting
Subsequent City Council meeting to take action on proposed changes	<ul style="list-style-type: none"> • After January 9, 2021 • <i>Proposed date:</i> January 19, 2021

PUBLIC OUTREACH

The proposed spending plan for Measure E Real Property Transfer Tax was heard on October 8, 2020 at the Housing and Community Development Commission regular meeting as the Oversight Committee and posted on HCDC's website for public review.

COORDINATION

This memorandum was coordinated with the Finance Department and the City Attorney's Office.

Please note, this memorandum is authored by the Deputy Director of Housing because the recommended Measure E spending plan includes an allocation for homeless prevention that creates a potential funding opportunity for Destination: Home. Jacky Morales-Ferrand, the Director of Housing, serves as a board member for Destination: Home and therefore has a conflict to make this recommendation to the City Council.

COMMISSION RECOMMENDATION/INPUT

In June 2020, the City Council adopted Resolution 79608 designating HCDC to serve as the community Oversight Committee for the general fund revenues generated by Measure E. Consistent with the resolution, HCDC's role is to review and provide comments to the City Council on the Measure E Transfer Tax spending plan, any amendments to the plan, and provide recommendations to City Council prior to their approval. HCDC reviewed the Measure E spending plan on [October 8, 2020](#), and their comments as the Oversight Committee have been included in this memorandum. The HCDC recommends approval (8-2-1; Del Buono and Duong absent; Quinn abstain; Tran absent).

COST SUMMARY/IMPLICATIONS

Of the \$30.0 million allocated from Measure E that is included in the 2020-2021 Adopted Operating Budget, \$1.5 million is allocated to the Measure E – Program Administration City-Wide Expenses appropriation and \$115,00 is allocated to the Measure E – Homeless Student Housing City-Wide Expenses appropriation to grant to the Bill Wilson Center for the homeless student housing program.

The remaining \$28.4 million has been placed in separate reserves for each spending category (e.g. Measure E – 45% Extremely Low Income Reserve, Measure E – 35% Low Income Reserve, etc.), as several years of funding will be necessary to generate sufficient project funding for most of the categories. However, because funding is necessary now to provide for rental assistance, this memorandum includes appropriation adjustment actions to move the \$2,735,000 from the Measure E – 10% Homelessness Prevention Reserve to a new Homelessness Prevention City-Wide Expenses appropriation.

In addition, because the 2020-2021 Adopted Operating Budget inadvertently allocated the \$115,000 for Homeless Student Housing from the Measure E – 45% Extremely Low Income Reserve instead of the Measure E – 10% Homelessness Prevention Reserve, actions are also included in this memorandum to restore the \$115,000 to the 45% reserve allocation.

BUDGET REFERENCE

The table below identifies the fund and appropriations to fund the action recommended as part of this memo.

Fund #	Appn #	Appn. Name	Total Appn.	Amt. for Action	2020-2021 Proposed Operating Budget Page*	Last Budget Action (Date, Ord. No.)
001	8598	Measure E – 10% Homelessness Prevention Reserve	\$2,850,000	(\$2,850,000)	VIII – 46	06/23/20 Ord. No. 30437
001	8597	Measure E – 45% Extremely Low Income Reserve	\$12,710,000	\$115,000	VIII – 46	06/23/20 Ord. No. 30437
001	New	Homelessness Prevention	\$0	\$2,735,000	N/A	N/A

* The Adopted Operating Budget was approved on June 16, 2020 and adopted on June 23, 2020 by the City Council.

HONORABLE MAYOR AND CITY COUNCIL

October 29, 2020

Subject: Proposed Spending Plan for Real Property Transfer Tax

Page 14

CEQA

Not a Project, File No. PP17-010, City Organizational and Administrative Activities resulting in no changes to the physical environment.

/s/

RACHEL VANDERVEEN
Deputy Director of Housing



JIM SHANNON
Budget Director

For questions, please contact Rachel VanderVeen at (408) 535-8231.

ATTACHMENTS:

Attachment A: Measure E Spending Plan for 2020-2021

Attachment B: City Council Policy 1-18

Attachment C: Oversight Committee (HCDC)'s Revised Spending Plan

ATTACHMENT A

Measure E Spending Plan for 2020-2021

Spending Category / Item	%	Dollar Value
Remaining Funds Available & Allocations]		
<i>For programs after administration funds are subtracted from the total amount collected. This is the amount that the following allocations apply to.</i>		
1) Permanent supportive and affordable rental housing for extremely low-income households	45%	\$12,825,000
• Funding for land acquisition and new development of affordable housing		\$12,825,000
2) Affordable rental housing for low-income households	35%	\$9,975,000
• Funding for land acquisition and new development of new affordable housing		\$4,975,000
• Acquisition and rehabilitation of existing buildings for low-income households		\$5,000,000
3) Rental and for-sale housing for moderate-income households	10%	\$2,850,000
• ADU Program		\$2,850,000
4) Homelessness Prevention and Solutions	10%	\$2,850,000
• Homelessness Prevention		\$2,735,000
• Student Housing FY 2020/21		\$55,000
• Student Housing FY 2021/22		\$60,000
SUBTOTAL:	100%	\$28,500,000
Administration		
• 5% of the total revenue (\$30,000,000) collected		\$1,500,000
SUBTOTAL:	5%	\$1,500,000
TOTAL:		\$30,000,000

*City of San José, California***COUNCIL POLICY**

TITLE	OPERATING BUDGET AND CAPITAL IMPROVEMENT PROGRAM POLICY	PAGE	1 of 14	POLICY NUMBER	1-18
EFFECTIVE DATE	October 24, 2004	REVISED DATE	June 16, 2020		
APPROVED BY COUNCIL ACTION Revised 3/20/2007; 10/21/2008, Item 3.4(c), Res. No. 74627; 10/20/2009, Item 3.4(c), Res. No. 75134; 12/15/2009, Item 2.15(a), Res. No. 75229; 6/17/2010, Item 3.13(f), Res. No. 75444; 06/11/13, Item 3.9(c), Res. No. 76664, 6/10/14, Item 3.6(e), Res. No. 77021; 12/16/14, Item 2.21, Resolution No. 77252; 06/09/15, Item 3.8(c), Resolution No. 77383; 6/11/2019, 3.7(c), Resolution No. 79139; 9/10/2019, 3.4(c), Resolution No. 79230; 6/16/2020, Item 3.5(c), Resolution No. 79581.					

PURPOSE

It is the purpose of this policy to set forth the guiding principles for the preparation and administration of the Operating Budget and Capital Improvement Program. This policy also includes the guiding principles on General Fund budget reserves and the ending fund balance in order to maintain our current level of budget performance, subject to the requirements of the San José City Charter and the San José Municipal Code. This Policy provides for general guiding principles and is not intended to supersede specific policies and procedures adopted by the City Council.

POLICY

The Operating and Capital Budgets and the Capital Improvement Program are prepared and administered in accordance with several sources of policy direction.

1. The City Charter requires that the budgets be balanced, include a complete financial plan for all City funds, and meet certain legal deadlines for submittal.
2. The City Council has established budget policies. These policies include guidelines, standards, and requirements for preparation and monitoring of both the Operating and Capital Budgets. The complete text of the adopted budget policies follows.
3. The budgets are developed in accordance with the Mayor's budget priorities and direction as approved by the City Council in March and June of each year.
4. Recommendations of special studies by Council-appointed task forces, boards, commissions, and committees may be considered upon the direction of the City Council.
5. Public input is considered throughout the process, with scheduled public hearings at key Council decision points.

TITLE	OPERATING BUDGET AND CAPITAL IMPROVEMENT PROGRAM POLICY	PAGE	POLICY NUMBER
		2 of 14	1-18

OPERATING BUDGET

1. General

The budget should be a performance, financing, and spending plan agreed to by the Mayor, City Council, City Manager, and other Council Appointees. It should contain information and data regarding expected revenues and resources (inputs), expected expenditures, and expected performance (outcomes). During the fiscal year, actual experience (revenues, expenditures, and performance) will be periodically measured against the plan.

The City will prepare and annually refine written goals and policies to guide the preparation of financing, spending, and performance plans for the City budget. Proposed budgets will comply with the adopted budget policies and Council priorities.

The City uses a performance-based budget. The core service is the lowest level in the organization for which budgets are prepared. Each core service budget will include financing and spending plans. Each core service will also propose an annual performance plan. The plan must identify ongoing performance targets and corresponding indicators, which measure performance. The plan should also include specific performance targets, which will have results during the budget year. All performance at the core service level must be consistent with the mission statements at the department level and the outcomes of the City Service Area at the City level, meeting the performance as well as budget goals and policies established by the Mayor and City Council.

Department and program managers will not exceed the Council-approved appropriations in any fund. Appropriations for departmental operations are approved by the City Council in two categories: Personal Services and Non-Personal/Equipment. These appropriations are shown in the departmental budgets. In addition, appropriations are approved for Capital Projects, Citywide projects, and other targeted functions with special and capital funds. The City Council may approve modifications to these appropriations throughout the year as warranted by revenue collections and activity demands.

2. Fiscal Integrity

The City will maintain the fiscal integrity of its operating, debt service, and capital improvement budgets, which provide services and maintain public facilities, streets, and utilities.

Ongoing operating program costs will not exceed the amount of ongoing revenue to finance those costs. Interfund loans will not be used as a funding mechanism to address ongoing gaps between revenues and costs. If a new program is added on an ongoing basis, an ongoing revenue source will be identified to fund the program costs. Any available carryover balance will only be used to offset one-time costs.

TITLE	OPERATING BUDGET AND CAPITAL IMPROVEMENT PROGRAM POLICY	PAGE	POLICY NUMBER
		3 of 14	1-18

3. Contingency Funds or Accounts

Several different contingency funds or accounts are established:

a) General Purpose Reserves

Within the General Fund, unrestricted reserves shall be set aside as a safety net for general city operations. Currently, the Contingency Reserve, Budget Stabilization Reserve, and Workers' Compensation/General Liability Catastrophic Reserve are available for general purposes. The combined funding goal for these reserves in the aggregate shall be 10 percent of General Fund Operating Budget expenditures. Within capital and special funds, reserves may be set aside as a safety net for city operations pertaining to the respective fund or to provide stability for customer rates when there are fluctuations to revenue and expenditures.

- 1) Contingency Reserve – Within the General Fund, a contingency reserve, which is a minimum of 3% of the General Fund operating budget, is established. The purpose of this reserve is to meet unexpected circumstances arising from financial and/or public emergencies that require immediate funding that cannot be met by any other means. Any use of the General Fund Contingency Reserve shall require two-thirds vote of approval by the City Council. The Contingency Reserve shall be budgeted at a minimum of 3 percent of the General Fund operating budget in the annual Adopted Budget. This allocation will include replenishment of any amounts expended or appropriated to another fund during the previous year.

Appropriate levels of contingency funds will be determined and maintained in the capital and special funds as part of the City Council's adoption of the annual Capital Budget or the Operating Budget, as applicable.

- 2) Budget Stabilization Reserve - Within the General Fund, a Budget Stabilization Reserve may be maintained at a level as determined by the City Council to be adequate. The purpose of this reserve is to provide budget stability when there are fluctuations that result in lower than projected revenues and/or higher than projected expenditures that cannot be re-balanced within existing budget resources in any given year. This reserve is intended to provide a buffer, or bridge funding, to protect against reducing service levels when these fluctuations occur. Any use of the General Fund Budget Stabilization reserve shall require majority vote by the City Council through the adoption of the Operating Budget or by appropriation action during the fiscal year. The City Council will set the reserve amount annually as part of the City Council's adoption of the Operating Budget. The replenishment or use of this reserve shall be incorporated into the annual Adopted Operating Budget as resources are available to replenish and/or increase this reserve, or as funds are needed to address a budget shortfall.

Appropriate levels of Budget Stabilization Reserve funds will be determined and maintained in the capital and special funds, as applicable.

TITLE	OPERATING BUDGET AND CAPITAL IMPROVEMENT PROGRAM POLICY	PAGE 4 of 14	POLICY NUMBER 1-18
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- 3) Workers' Compensation/General Liability Catastrophic Reserve –Within the General Fund, a Workers' Compensation/General Liability Catastrophic Reserve may be maintained at a level as determined by the City Council to be adequate. The purpose of this reserve is to provide funding for potential workers' compensation or general liability claims that exceed the budgeted amounts as the City, for the most part, is self-insured. Any use of the General Fund Workers' Compensation/General Liability Catastrophic Reserve shall require majority vote by the City Council through the adoption of the Operating Budget or by appropriation action during the fiscal year. The City Council will set the reserve amount annually as part of the City Council's adoption of the Operating Budget. The replenishment of this reserve shall be incorporated into the annual Adopted Operating Budget as resources are available to replenish and/or increase this reserve.

Appropriate levels of Workers' Compensation and/or General Liability Catastrophic Reserves will be determined and maintained in the capital and special funds, as applicable.

b) Cash Reserve Fund

An adequate revolving fund (Cash Reserve Fund 002), as mandated by the City Charter, shall be determined and maintained at an adequate level as determined by the City Council. The purpose of this reserve fund is for the payment of any authorized expenditures of the City for any fiscal year in anticipation of and before the collection of taxes and other revenues of the City for such fiscal year.

c) Emergency Reserve Fund

An adequate emergency reserve fund (Emergency Reserve Fund 406), as mandated by the City Charter, shall be determined and maintained at an adequate level as determined by the City Council. The purpose of this reserve fund is to meet any public emergency involving or threatening the lives, property, or welfare of the people of the City or property of the City.

4. Fund Balance

The appropriation of carryover fund balances must be approved judiciously. This should ensure that ongoing expenditures will be budgeted only to the extent that proven revenue streams exist.

In the annual budget, and in subsequent reports, there will be a presentation on fund balances and their anticipated uses.

- a) The first increment of any General Fund "Ending Fund Balance" identified in the City Manager's Annual Report shall be allocated to offset any projected deficit for the following fiscal year, after necessary appropriation adjustment actions to re-budget funds, correct errors, or reflect updated cost information have been accounted for in the fund balance reconciliation.

TITLE	OPERATING BUDGET AND CAPITAL IMPROVEMENT PROGRAM POLICY	PAGE 5 of 14	POLICY NUMBER 1-18
--------------	--	------------------------	------------------------------

- b) After setting aside funding to address the projected deficit for the following year, the remaining funds shall be allocated for the following uses:
 - 1) Budget Stabilization Reserve and/or Contingency Reserve.
 - 2) Unmet/deferred infrastructure and maintenance needs.
 - 3) Other one-time urgent funding needs.
- c) Annual surplus funds shall not be used for ongoing expenditures, unless those expenditures can be accommodated in Year Two and possibly Year Three of the five-year financial forecast. Any available carryover balance should only be used to offset one-time costs or to increase revenues.

5. Mid-Year Adjustments

Mid-year budget adjustments recommended by Council committees, task forces, or the full Council, should be referred to the Mid-Year Budget Review or the annual budget process for consideration along with other competing budgets needs and priorities. In general, ongoing budget changes should be dealt with during the annual budget process while one-time budget changes may be considered during either the Mid-Year Budget Review or during the annual budget process.

The authority to make expenditures in accordance with a City Council-approved spending plan is only valid as long as revenue for the budgets is equal to or greater than estimated expenditures.

All appropriation amendments and revenue estimate changes will be reported in the monthly financial report.

6. Overhead Cost Allocation

All overhead costs shall be allocated to the appropriate program within the limits of local, State and federal laws. The City utilizes a two step method (double step down method) where costs are first allocated among the central service support programs to arrive at the total cost of the central service programs. These total costs are then allocated down in priority order to the departments and funds that are benefiting from their services. The allocating support program costs are charged to the associated departmental funding source and corresponding revenue is received by the General Fund.

7. Budget System

The City will maintain a budget control system to adhere to the budget.

There will be delivery of a Proposed Budget, in accordance with the Adopted Budget schedule, that accurately depicts the financial condition and goals of the City. This budget should be in a form that enables decision makers to set the direction and policy of the City.

TITLE	OPERATING BUDGET AND CAPITAL IMPROVEMENT PROGRAM POLICY	PAGE	POLICY NUMBER
		6 of 14	1-18

The Proposed Budget will illustrate the General Fund, special funds, and capital funds so that the entire resources of the City may be viewed comprehensively for decision-making. Decision-making for capital improvements will be coordinated with the operating budget to make effective use of the City's overall resources for operating and maintaining facilities.

The adoption of the annual appropriations ordinance will coincide with the adoption of the resolution setting forth the annual revenue estimates.

Budget detail shall contain line-item detail for the core service spending plan, a personnel summary report listing the types of positions for each department, and a corresponding core service performance plan. It shall also contain department and fund summaries for spending and personnel as well as a detailed financing plan for the core service.

8. Debt

The City Council adopted a Debt Management Policy (Council Policy 1-15) that establishes the following equally important objectives:

- a) Minimize debt service and issuance costs.
- b) Maintain access to cost-effective borrowing.
- c) Achieve the highest practical credit rating.
- d) Full and timely repayment of debt.
- e) Maintain full and complete financial disclosure and reporting.
- f) Ensure compliance with applicable State and Federal laws.

As described in Council Policy 1-15, prior to bringing forward a lease financing (financing the acquisition, construction, or improvement by the City of real property or equipment) to the City Council for approval, the Finance Department shall perform initial due diligence on the project to be financed. The due diligence will include identifying the revenue source for repayment, and performing a feasibility study to determine the volatility of the revenue and provide a sensitivity analysis on project revenue projections, including worst/best case scenarios and the impact on any repayment source identified as the backstop to the project revenues. In order to proceed with the preparation of the documents necessary for the lease financing, two-thirds majority approval by the City Council of the proposed plan of finance is required. When the lease financing is brought forward for City Council approval, the Finance Department will provide the City Council with an update to the due diligence report and any feasibility study. Approval of the lease financing will require two-thirds majority approval by the City Council. These provisions do not apply to a refunding of a lease financing transaction.

In order to reduce the principal on outstanding debt and minimize debt service costs, one-time savings generated from debt restructurings and refundings should be used to pay down the outstanding principal of other existing City debt, whenever possible, taking into consideration any fund restrictions.

TITLE	OPERATING BUDGET AND CAPITAL IMPROVEMENT PROGRAM POLICY	PAGE 7 of 14	POLICY NUMBER 1-18
--------------	--	------------------------	------------------------------

9. Self Insurance

The budget will provide for the adequate funding for the City's self-insurance programs.

10. Capital and Equipment Maintenance

The budget will provide for the adequate maintenance and orderly replacement of capital, plant, and equipment.

11. Retirement

The budget will provide for the adequate funding of all retirement systems.

12. Monthly Report

The Administration will prepare regular monthly reports comparing actual revenues and expenditures to budgeted amounts.

The budget will be produced so that it can be directly compared to the actual results of the fiscal year and presented in a timely monthly report.

All budget amendments, both for revenues and expenditures, will be noted in the monthly report.

13. Multi-Year Estimates

Each year the City will update expenditure and revenue projections for the next five years. Projections will include estimated maintenance and operating costs of future capital improvements that are included in the capital budget.

This budget data will be presented to elected officials in a form that will facilitate annual budget decisions, based on a multi-year strategic planning perspective.

14. Performance and Productivity

The City will integrate performance measurement and productivity indicators within the budget. Prior to implementation, performance objectives and service levels will be submitted for all new and existing programs established during the budget process. The selection of performance standards should be made on the basis of information reliability, relevance to current year budget change proposals, value to Mayor/Council decision making, and utility for program management

The City will promote the understanding that City employees are the most valuable resource of the City and that their understanding and involvement in the budget process is crucial to the City's continuing success on behalf of the community.

TITLE	OPERATING BUDGET AND CAPITAL IMPROVEMENT PROGRAM POLICY	PAGE 8 of 14	POLICY NUMBER 1-18
--------------	--	------------------------	------------------------------

The City will employ good management practices when planning for service delivery by including money in budget requests to pursue activities such as:

- a) office automation and computer applications that increase productivity;
- b) equipment modernization;
- c) work-flow simplification;
- d) risk management, exposure reduction, and employee safety;
- e) preventive maintenance;
- f) energy conservation;
- g) life-cycle costing in purchasing of equipment;
- h) lease-purchase options for high-cost equipment and purchases that reduce operating expenses;
- i) performance planning, reporting, and evaluation; and
- j) employee training.

The City will prepare and evaluate program performance plans that relate to financing and spending plans in the annual City budget.

15. *Public Involvement*

Public involvement shall be encouraged in the annual budget decision-making process through public hearings, public outreach and information, and informal meetings.

16. *“Distinguished Budget” Presentation*

The approved budget shall be submitted to the Government Finance Officers Association and the California State Municipal Finance Officers for consideration for professional awards and recognition for Distinguished Budget Presentation.

17. *Fees*

Fees shall be set to cover 100% of the cost of service delivery, unless such amount prevents residents from obtaining an essential service. Fees or service charges should not be established to generate money in excess of the costs of providing services.

Fees may be less than 100% if Council determines that other factors (e.g. market forces, competitive position, etc.) need to be recognized.

TITLE	OPERATING BUDGET AND CAPITAL IMPROVEMENT PROGRAM POLICY	PAGE	POLICY NUMBER
		9 of 14	1-18

18. *Non-profit Organizations*

Future funding decisions regarding non-profit organizations will be based on guidelines, policies and priorities determined by the Mayor/City Council and availability of funding based on spending priorities.

The City shall execute performance contracts with those agencies that receive City funding.

19. *Master Plans*

Master plans for specific service areas brought forward for Council consideration shall include options for capital and operating financing. Master plans shall be required to propose funding mechanisms for all recommendations.

20. *Office of the Mayor and City Council District Office Budgets in Transition Years*

For fiscal years in which the term of office of the Mayor or Councilmember(s) will expire and, as a result, the official may leave office due to election results or term limits (a "Transition Year"), two separate appropriations to maintain separate budget allocations for the outgoing and incoming elected officials shall be established. The total budget allocation will include: (a) office general budget; (b) constituent outreach budget; and (c) any carryover available from the prior fiscal year, from both office general and constituent outreach budgets. The first appropriation shall be for the July through December period for the Mayor and Councilmember(s) whose terms expire in December of that year, representing 50% of the total allocation. The second appropriation shall be for the January through June period for the newly elected Mayor and Councilmember(s), representing the remaining 50% of the total allocation. Outgoing Mayor and Councilmember(s) shall take into account the costs associated with any contracts entered into and all of their office's personnel costs, including leave balance payouts for their staff so as not to reduce the amount budgeted for the incoming official. Any remaining budget allocation at the conclusion of the first appropriation shall be reappropriated to the second appropriation for that specific office as part of the annual Mid-Year Budget Review process. Should an election result in no change in the office holder, as part of the Mid-Year Budget Review process, the second appropriation shall be combined into the first for continuity of operations.

21. *Interfund Loans*

Interfund loans are loans from one City fund to another City fund for a designated purpose. To ensure that all interfund loans are appropriate, properly documented, and not established to the detriment of the fund issuing the loan, the following interfund loan eligibility and documentation requirements are established.

- a) **Interfund Loan Eligibility Requirements**—Interfund loans may not be used to solve ongoing structural budget problems. Interfund loans must have an identified repayment source and date; include an interest component that equals the investment earnings the fund would have received had the loan not occurred; and be immediately due and payable if needed by the fund that provided the loan.

TITLE	OPERATING BUDGET AND CAPITAL IMPROVEMENT PROGRAM POLICY	PAGE 10 of 14	POLICY NUMBER 1-18
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- b) Interfund Loan Documentation Requirements- Loan amount, term, and repayment source will be identified any time a loan is recommended. Loans will be coordinated with the City Attorney's Office to ensure compliance with the Municipal Code and will be approved by the City Council. Payments made on outstanding loans shall be reflected in the Proposed and Adopted Budget and Annual Report, as applicable. A summary of all outstanding loans will also be included in the annual Proposed and Adopted Operating Budget and the Comprehensive Annual Financial Report (CAFR). The CAFR will also consistently include the loan term, rate of interest, and the interest amount due in its calculation of the total liability associated with the loan.

22. Real Property Transfer Tax Revenues

On March 3, 2020, the voters of San José passed Measure E to enact a new real property transfer tax ("Transfer Tax") on the transfer of certain real property in the City. The provisions of this section shall apply to the budgeting of Transfer Tax revenues. The Transfer Tax is a general tax and the revenues derived from the tax are unrestricted, which means the City can use the Transfer Tax revenues for any governmental purpose. While these revenues are deposited in the General Fund and can be used for any governmental purpose, the City Council intends for the revenues to be allocated towards addressing the homelessness crisis and the City's most urgent issues including, but not limited to, homeless prevention and developing new affordable housing. The approach for estimating and budgeting Transfer Tax revenues is described below.

- a) Estimating Revenue from the Transfer Tax – Due to the volatile nature of a real property transfer tax such as the Transfer Tax, the City will conservatively estimate revenue from the Transfer Tax as part of the Proposed Budget process. During the course of the fiscal year, revisions to the Transfer Tax revenue estimate may be recommended to the City Council to align with the pace of actual collections.
- b) Spending Allocations of Transfer Tax – The spending priorities for the Transfer Tax are listed below.
- 1) Up to 5% of the revenues may be allocated for the administration of funding related to increased workload resulting from more robust homeless prevention efforts and the creation of more affordable housing, including, but not limited to, financial, legal, or administrative and policy programmatic support.
 - 2) The remaining revenue is allocated as follows:
 - i. 10% for homelessness prevention and rental assistance;
 - ii. 45% for permanent supportive and affordable rental housing for extremely low-income (ELI) households earning less than 30% of area median income (AMI) as defined by the U.S. Department of Housing and Urban Development;
 - iii. 35% for affordable rental housing for 30% - 80% AMI households; and
 - iv. 10% for below market-rate for-sale housing and moderate-income rental housing up to and including 120% AMI, including but not limited to, rent-restricted

TITLE	OPERATING BUDGET AND CAPITAL IMPROVEMENT PROGRAM POLICY	PAGE	POLICY NUMBER
		11 of 14	1-18

Accessory Dwelling Units (ADU) forgivable loans, down payment assistance, and first-time homeownership opportunities for households up to 120% AMI.

- c) Modifications to Spending Allocation – Any revisions to the revenue estimate, as well as a reconciliation of year-end actuals to budgeted estimates, will be proportionally applied to the spending categories described above. Modifying the percentage allocations during the Proposed Budget process or during the year requires:
 - 1) A 60-day notice in advance of the effective date of the proposed allocation change posted on the City's website and at least two public hearings prior to City Council action on the proposed allocation change, with a notice of each public hearing posted on the City's website at least 10 days in advance of the public hearing; and
 - 2) A two-thirds vote of the City Council.

CAPITAL IMPROVEMENT PROGRAM

1. Fiscal Policies

- a) Capital project proposals should include complete, reliable, and attainable cost estimates. Based upon a thorough analysis of the project, project cost estimates for the Five-Year Capital Improvement Plan will vary in reliability depending upon whether they are to be undertaken in the first or fifth year of the Plan. Project estimates for the Five-Year Capital Improvement Plan should include the basis on which the project costs were prepared (conceptual design, master plan, etc.), and the relative reliability of those estimated costs.
- b) Capital project proposals should include a comprehensive resource plan. This plan should include the amount and type of resources required, and the funding and financing strategies to be employed. The specific fund and timing should be outlined. The plan should indicate resources needed to complete any given phase of a project in addition to the total project. The City Manager's Office is responsible and accountable for providing Council with an accurate, comprehensive resource plan.
- c) Changes in project estimates for the comprehensive resource plan shall be fully reported to the City Council for review and approval.
- d) Project proposals should indicate the project impact on the operating budget. Each project that is proposed in any year of the 5-year Capital Improvement Program shall have an estimate of the costs for furniture, fixtures, equipment, and technology and the annual operations and maintenance costs in the appropriate year of the Operating Budget or in the Five Year Forecast and Revenue Projections.
- e) During the Annual Capital Budget process for multi-year budgeted projects, the City Manager will provide the Council with more information regarding the project including the original budget, budget addendums, and the projected schedule in spreadsheet format.

TITLE	OPERATING BUDGET AND CAPITAL IMPROVEMENT PROGRAM POLICY	PAGE	POLICY NUMBER
		12 of 14	1-18

- f) At the time of award of the construction contract, each project shall include reasonable provision for contingencies.
- g) At the time of award of the construction contract, each project shall include reasonable provisions for furniture, fixtures, equipment, and technology that are separately identified in a line item or items in the construction budget and those costs shall be noted in the staff report to the Council.
- h) At the time of award of the construction contract, each project's estimated annual operating and maintenance costs shall be identified in the staff report to the Council and shall be included in the Operating Budget or in the Five Year Forecast and Revenue Projections for projects expected to be completed after the end of the budget year.
- i) The contingency amounts to be used for various types of projects are set forth in Section 27.04.050 of the San Jose Municipal Code.
- j) Project contingencies may, unless otherwise determined by the City Council, be used only as set forth in Chapter 27.30 of Title 27 of the San Jose Municipal Code.
- k) For budgeting purposes, project contingencies are a reasonable estimating tool. At the time of contract award, the project's budgeted appropriation, including contingency, will be replaced with a new appropriation equal to the approved project contract contingency developed in the manner described above.
- l) The City Administration shall seek ways of ensuring that administrative costs of carrying out the Capital Improvement Program are kept at appropriate levels.
- m) The Annual Capital Budget shall include only those projects that can reasonably be accomplished in the indicated timeframe. Multi-year budgeting of projects shall be used to ensure a reasonable timeframe for projecting costs. The detail sheet for each budgeted capital project should include a projected schedule.
- n) The status of all capital projects, and the entire Capital Budget, will be monitored by the Mayor/Council as part of the Mid-Year Budget Review. Large projects of crucial importance may be monitored on a more frequent basis as determined by the City Council.
- o) Capital projects that are not encumbered or completed during the fiscal year will be re-budgeted to the next fiscal year except as reported to and subsequently approved by the City Council. All re-budgeted capital projects should be so noted in the Proposed Capital Budget.

2. Capital Improvement Plan Policies

Public participation in the Capital Improvement Program is a priority concern for the City. Among the activities conducted to address this need are the following:

TITLE	OPERATING BUDGET AND CAPITAL IMPROVEMENT PROGRAM POLICY	PAGE 13 of 14	POLICY NUMBER 1-18
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- a) The Capital Improvement Plan shall be provided to the City Council in a timely manner as required by the City Charter to allow for Council members to review the proposal with constituents before it is considered for adoption.
- b) Council budget review study sessions on the Capital Improvement Plan shall be open to the public and advertised sufficiently in advance of the meetings to allow for public attendance.
- c) Prior to the adoption of the Capital Improvement Plan, the City Council shall hold noticed public hearings to provide an opportunity for residents to express their opinions on the proposed plan.
- d) The City Planning Commission shall review the proposed Capital Improvement Plan and provide their comments on its contents before the City Council considers the plan for final adoption.
- e) All projects included in the Capital Improvement Program shall be consistent with the City's General Plan and the City's Energy and Water Policies. The goals and policies within the General Plan relating to community development, housing, services and facilities, transportation, solid waste, aesthetic, cultural and recreational resources, natural resources, and hazards should be followed in the development of the Capital Improvement Plan. The General Plan service-level goals will be clearly stated in the Capital Improvement Program.
- f) Capital projects shall be financed to the greatest extent possible through user fees and benefit districts where the construction of the project results in direct benefit to users.
- g) The Council will annually review and establish criteria for measuring proposed capital improvement projects. Among the factors that will be considered for priority ranking are the following:
 - Projects that have a positive impact on the operating budget, such as reduced expenditures or increased revenues.
 - Projects that are programmed in the Five-Year Operating Budget Forecast.
 - Projects that can be completed or significantly advanced during the Five-Year Capital Improvement Plan.
 - Projects that can realistically be accomplished during the year they are scheduled.
 - Projects that implement prior Council-adopted reports and strategies.
- h) Projects that involve inter-governmental cooperation in planning and funding should be established by an agreement that sets forth the basic responsibilities of the parties involved.

3. Debt

TITLE	OPERATING BUDGET AND CAPITAL IMPROVEMENT PROGRAM POLICY	PAGE 14 of 14	POLICY NUMBER 1-18
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The City Council has adopted a Debt Management Policy (Council Policy 1-15) that establishes the following equally important objectives:

- a) Minimize debt service and issuance costs.
- b) Maintain access to cost-effective borrowing.
- c) Achieve the highest practical credit rating.
- d) Full and timely repayment of debt.
- e) Maintain full and complete financial disclosure and reporting.
- f) Ensure compliance with applicable state and federal laws.

As described in Council Policy 1-15, prior to bringing forward a lease financing (financing the acquisition, construction, or improvement by the City of real property or equipment) to the City Council for approval, the Finance Department shall perform initial due diligence on the project to be financed. The due diligence will include identifying the revenue source for repayment, and performing a feasibility study to determine the volatility of the revenue and provide a sensitivity analysis on project revenue projections, including worst/best case scenarios and the impact on any repayment source identified as the backstop to the project revenues. In order to proceed with the preparation of the documents necessary for the lease financing, two-thirds majority approval by the City Council of the proposed plan of finance is required. When the lease financing is brought forward for City Council approval, the Finance Department will provide the City Council with an update to the due diligence report and any feasibility study. Approval of the lease financing will require two-thirds majority approval by the City Council. These provisions do not apply to a refunding of a lease financing transaction.

In order to reduce the principal on outstanding debt and minimize debt service costs, one-time savings generated from debt restructurings and refundings should be used to pay down the outstanding principal of other existing City debt, whenever possible, taking into consideration any fund restrictions.

Comparison between Proposed and HCDC Revised Spending Plan

PROPOSED

Spending Category / Item	%	Dollar Value
ADMINISTRATION	5%	\$1,500,000
• 5% of the total revenue (\$30,000,000) collected		\$1,500,000
REMAINING FUNDS AVAILABLE & ALLOCATIONS <i>For programs after administration funds are subtracted from the total amount collected. This is the amount that the following allocations apply to.</i>		\$28,500,000
1) Permanent supportive and affordable rental housing for extremely low-income households	45%	\$12,825,000
• Funding for land acquisition and new development of affordable housing		\$12,825,000
3) Affordable rental housing for low-income households	35%	\$9,975,000
• Funding for land acquisition and new development of new affordable housing		\$4,975,000
• Acquisition and rehabilitation of existing buildings for low-income households		\$5,000,000
5) Rental and for-sale housing for moderate-income households	10%	\$2,850,000
• ADU Program		\$2,850,000

HCDC REVISED SPENDING PLAN

Spending Category / Item	%	Dollar Value
ADMINISTRATION	5%	\$1,500,000
• 5% of the total revenue (\$30,000,000) collected		\$1,500,000
REMAINING FUNDS AVAILABLE & ALLOCATIONS <i>For programs after administration funds are subtracted from the total amount collected. This is the amount that the following allocations apply to.</i>		\$28,500,000
2) Permanent supportive and affordable rental housing for extremely low-income households	32%	\$9,225,000
• Funding for land acquisition and new development of affordable housing		\$9,225,000
• <i>Reallocate \$3,600,000 to rent relief</i>		
4) Affordable rental housing for low-income households	27%	\$7,575,000
• Funding for land acquisition and new development of new affordable housing		\$3,775,000
• Acquisition and rehabilitation of existing buildings for low-income households		\$3,800,000
• <i>Reallocate \$2,400,000 to rent relief</i>		
6) Rental and for-sale housing for moderate-income households	10%	\$2,850,000
• <i>Remove ADU Program</i>		\$0

ATTACHMENT C

Comparison between Proposed and HCDC Revised Spending Plan

PROPOSED

Spending Category / Item	%	Dollar Value
7) Homelessness Prevention and Solutions	10%	\$2,850,000
• Homelessness Prevention		\$2,735,000
• Student Housing FY 2020/21		\$55,000
• Student Housing FY 2021/22		\$60,000
Total:		\$30,000,000

HCDC REVISED SPENDING PLAN

Spending Category / Item	%	Dollar Value
• <i>New moderate income program</i>		\$2,850,000
8) Homelessness Prevention and Solutions	31%	\$8,850,000
• Homelessness Prevention		\$2,735,000
• Student Housing FY 2020/21		\$55,000
• Student Housing FY 2021/22		\$60,000
• <i>Add \$6,000,000 for Rent Relief</i>		\$6,000,000
Total:		\$30,000,000