

2015-2016

MID-YEAR
BUDGET
REVIEW



TRANSMITTAL
MEMORANDUM



Memorandum

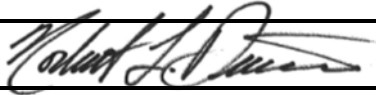
TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Jennifer A. Maguire

**SUBJECT: 2015-2016 MID-YEAR
BUDGET REVIEW REPORT**

DATE: January 29, 2016

Approved



Date 1/29/16

RECOMMENDATIONS

- A. Approval of the 2015-2016 Mid-Year Budget Review Report.
- B. Adoption of related Appropriation Ordinance and Funding Sources Resolution amendments in various funds as detailed in Section III (Recommended Budget Adjustments and Clean-Up Actions) of the 2015-2016 Mid-Year Budget Review Report.
- C. Approval of 1.0 Senior Deputy City Attorney III position in the City Attorney's Office.

OUTCOME

The Mid-Year Budget Review Report provides an assessment of the City's budget condition in the current fiscal year as compared to the 2015-2016 Modified Budget based on actual performance during the first six months of 2015-2016. Based on this analysis, budget revisions are recommended to: address projected revenue and expenditure variances; account for new or adjusted grants, reimbursements, or fees; fund a very limited number of urgent fiscal/program needs in the General Fund and a limited number of new projects in special and capital funds; and better position the City for the 2016-2017 budget process.

EXECUTIVE SUMMARY

The 2015-2016 Adopted Operating Budget continued the City's efforts to address the highest priority community and organizational needs while maintaining budget stability. The combination of past budget balancing actions, steady increases in revenues from a stronger economy, and very careful management of expenses has resulted in a degree of budget stability experienced for the past three years. The budget held the line with a limited number of new investments in strategically important areas, provided for some service restorations and investments in infrastructure, avoided service cuts, and continued to provide incremental increases in employee compensation in order to remain competitive as an employer in this challenging labor marketplace.

Budget actions in 2015-2016 focused on investments that:

- Ensure public safety services are safe, effective, and efficient;
- Address broader public safety needs;
- Meet basic community and organizational needs;
- Expand opportunities for residents and enhance experiences of residents/visitors;
- Support innovation and strategic partnerships as well as increase transparency and community input; and
- Better position the City moving forward.

The Administration is closely monitoring the City's budget to ensure that current year revenues and expenditures are meeting expectations, which is necessary to maintain budget stability and avoid service disruptions in any given year. Through the first half of the year, City funds are generally performing within expected 2015-2016 budgeted levels. There are a very few isolated instances where current year performance is not meeting budgeted estimates. Budget actions are recommended in this document to address those problems without any service impacts.

Mid-Year Budget Review Highlights

General Fund

- Based on current collection trends and information, existing General Fund revenues are anticipated to end the year approximately \$15-\$20 million above budgeted levels, the majority of which represents the expected receipt of one-time Sales Tax and Property Tax revenues. Overall, General Fund expenditures are tracking below anticipated levels and are expected to generate overall savings by year-end. Both the ongoing portion of the excess revenues and additional expenditure savings are necessary to assist in meeting the 2015-2016 ending fund balance estimate that will be used as an ongoing funding source in the Five-Year General Fund Forecast and the 2016-2017 Proposed Operating Budget. The one-time revenues will be also available as a funding source for one-time needs identified in the 2016-2017 Proposed Budget.
- A series of Mid-Year Budget Review actions are recommended based on actual performance through December and projected activity through the remainder of the year. Major actions include the following:
 - Address a very limited number of urgent fiscal/program needs with a net cost of \$263,000. This includes adding \$83,000 to the City Attorney's Office to add 1.0 Senior Deputy City Attorney III, \$130,000 to the Office of Economic Development to fund a Business Circle Lighting and Security project (\$80,000) and pre-development activities (\$50,000), and \$50,000 for costs associated with the Expedited Purified Water Program. In the Police Department, salary and benefit savings are recommended to be reallocated to: 1) establish a \$5.0 million Police Department Overtime Reserve for 2016-2017 that would be used to backfill for vacant sworn positions and maintain targeted enforcement of high crime activity through suppression cars as well as cover civilian staffing

vacancies, as needed; and 2) fund a consultant agreement (\$200,000) to perform a Police staffing efficiency study. To support Super Bowl 50, the recognition of additional Transient Occupancy Tax revenue is recommended to offset California Highway Patrol (CHP) Escort Services (\$86,000) and Fire Department Overtime (\$50,000).

- Implement required technical/rebalancing with a net impact of \$543,000. Notable actions include: increased funding to address higher costs associated with the Business Cooperation Program (\$140,000), the City’s banking services (\$118,000) and elections commission (\$50,000); a decrease to the Transfers and Reimbursements estimate to reflect lower than anticipated late fee revenue from the Water Utility Fund (\$225,000); the establishment of a transfer to the Water Utility Fund as part of a reconciliation of late fees that had been transferred to the General Fund in 2014-2015 (\$22,000); and a decrease in Super Bowl expenses for turf painting (\$12,000). In addition, this document recommends the reallocation of funds from personal services vacancy savings in the Information Technology Department (\$1.0 million) to cover temporary staffing and contractual services for high priority projects; the shift of Homeless Rapid Rehousing funds to cover higher than anticipated Homeless Response Team costs related to El Niño (\$200,000); the use of Police Department personal services savings to cover additional Police Department employee parking lot perimeter fencing construction costs (\$43,000) and limited detention study costs (\$41,000); the use of Parks, Recreation, and Neighborhood Services Department personal services savings to fund higher park restroom contract (\$84,000) and water (\$350,000) costs; the reallocation of funding from the Fiscal Reform Plan Implementation Reserve to fund Alternate Pension Reform Settlement legal counsel (\$250,000) and actuarial (\$135,000) costs; funding from City Council Districts budgets to partially fund the San José End of Watch Police Memorial (\$18,000); and the allocation of additional Transient Occupancy Tax revenue in the Cultural Facilities Capital Maintenance Reserve (\$2.3 million).
- Implement grants/reimbursements/fees adjustments totaling \$6.9 million with a net-zero impact on the General Fund. The largest adjustments include actions to recognize and appropriate funding to support the following: Building Development Fee Program (\$1.5 million), City Council District 2 Participatory Budgeting from Calpine settlement funds (\$1.0 million), Planning Development Fee Program (\$900,000), Parks, Recreation and Neighborhood Services Department Fee Activities (\$700,000), and Department of Transportation Sidewalk Repairs (\$600,000).
- Implement a variety of clean-up actions that result in total net savings of \$806,000, including the following: recognize savings (\$758,000) from the portion of Management Pay for Performance Program costs that were not required to be distributed to departments; allocate funding for salary and vehicle allowance increases for the Mayor and City Council as recommended by the Salary Setting Commission and approved by the City Council on January 26, 2016 (\$133,000); recognize additional interest earnings from various capital and special funds (\$187,000), and an adjustment for the Planning Development Fee Program Reserve (\$6,000). Other actions that correct errors or align revenues and/or expenditures among appropriations for previously approved budget actions are also included.

Special/Capital Funds

- Most of the revenues and expenditures in the City's special and capital funds are generally performing within expected levels through December. Budget adjustments are recommended in several cases to adjust for revised revenue and cost estimates, to address critical current year funding needs, and to recognize various grants and reimbursements. Some of the major recommended adjustments are highlighted below.
- Recommendations are included to defer the final sale of General Obligation Bonds approved by San José voters for the Library (\$212 million authorized in 2000) and Neighborhood Security (\$159 million authorized in 2002). The amounts recommended for deferral to 2016-2017 include \$5.9 million in the Library Capital Program and \$3.3 million in the Public Safety Capital Program. In addition, this report includes a recommendation to increase the revenue estimate by \$1.3 million in the Public Safety Capital Program to recognize proceeds from a settlement associated with the design of the South San José Police Substation. This payment is partially offset by an increase to the South San José Police Substation appropriation by \$130,000 to provide funding for work conducted by a consultant related to the settlement of the Substation litigation.
- In the Integrated Waste Management Fund, several actions are recommended that would increase the ending fund balance by \$7.9 million. The largest source for this increase is the additional net revenue of \$7.2 million, consisting of higher Lien Related Charges (\$4.2 million) and Recycle Plus Collection Charges (\$3.4 million), offset by decreased grant revenues of \$400,000 related to lower than anticipated bids for the installation of a photovoltaic system at the San José Environmental Innovation Center (EIC). Correspondingly, recommended budget actions to adjust several expenditure appropriations will result in a net savings of approximately \$600,000, which are primarily driven by a reduction of \$800,000 due to the lower bids for the referenced photovoltaic system. The additional fund balance will be factored into the development of the 2016-2017 Proposed Budget.
- In the Transient Occupancy Tax (TOT) Fund, a recommendation is included to increase the revenue estimate by \$3.4 million (from \$22.1 million to \$25.5 million), reflecting growth of approximately 15% from 2014-2015 collection levels. The additional revenue will be placed into a reserve that will be allocated as part of the 2016-2017 budget process to Cultural Arts Development, to the Convention and Visitors' Bureau, and to the Convention and Cultural Affairs Fund. It is important to note that due to the large number of visitors staying in San José hotels during Game Week, an additional minimum amount of \$810,000 in TOT revenue (\$1.35 million combined in the General Fund and TOT Fund) resulting from Super Bowl 50 is expected above the \$3.4 million cited above. Elsewhere in this report, the Administration recommends recognizing \$136,000 of the \$540,000 received in the General Fund to offset Police and Fire costs attributable to the increased visitors during game week. TOT receipts will continue to be monitored over the coming months and additional adjustments will be brought forward later in the fiscal year, once the positive revenue benefits from Super Bowl 50 are fully realized.

Looking forward, the Administration is scheduled to release the 2017-2021 General Fund Five-Year Forecast on February 29, 2016, and the 2016-2017 Proposed Capital and Operating Budgets on April 22, 2016 and May 2, 2016, respectively. Analysis from this Mid-Year Budget Review will be factored into both the Forecast and Proposed Budgets, as appropriate.

BACKGROUND

The annual Adopted Budget is a financial plan predicated on the best information available at the time it is prepared. As with any budget, however, changing conditions create the need to modify the original plan. Through its budget policies, the City Council has designated mid-year as the appropriate time to perform a comprehensive review of the current year's budget, and the Mid-Year Budget Review as the appropriate vehicle for consideration of any revisions to the budget. This Mid-Year Budget Review Report complies with that policy. It contains a comprehensive review of the status of the City's 2015-2016 Operating and Capital Budgets.

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

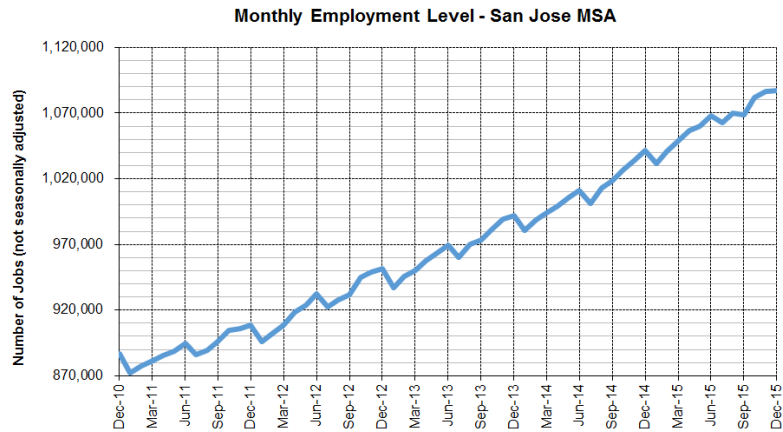
- **Transmittal Memorandum** – An overall summary of the contents of the Mid-Year Budget Review Report.
- **Section I: General Fund Status Report** – A review of the General Fund revenues and expenditures through Mid-Year.
- **Section II: Selected Special/Capital Funds Status Report** – A review of selected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

ANALYSIS

The Analysis section includes the following: an overview of the current economic environment; a discussion of General Fund performance through December; a summary of recommended General Fund budget adjustments included in the Mid-Year Budget Review Report; a status report on selected special and capital funds; and the status of a City Council referral related to a Housing Rehabilitation Program to incentivize landlords to participate in housing voucher or coupon programs.

ECONOMIC ENVIRONMENT

The Silicon Valley continues to show solid economic performance with a number of the economic indicators showing improvement from the same period a year ago. Most local economic indicators, including employment, local construction, and real estate activity measures, show sustained economic strength. National economic indicators, including consumer confidence, also demonstrate an economy that continues to grow at a moderate pace.



Unemployment Rate (Unadjusted)

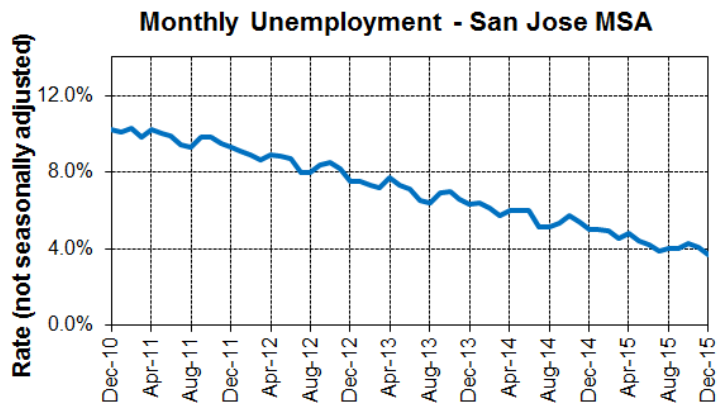
	Dec. 2014	Nov. 2015	Dec. 2015**
San José Metropolitan Statistical Area*	4.5%	3.9%	3.8%
State of California	6.8%	5.7%	5.8%
United States	5.4%	4.8%	4.8%

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

The December 2015 employment level in the San José-Sunnyvale-Santa Clara Metropolitan Statistical Area (San José MSA) of 1.09 million was 4.4% above the December 2014 level of 1.04 million. Between December 2014 and December 2015, 46,100 job were added. This includes 17,200 jobs in professional and business services, marking its 68th consecutive monthly gain on a year-

over-year basis, as well as 8,600 jobs in private educational and health services, and 7,200 information jobs.¹

As noted in The Beacon Employment Report, for all of 2015, monthly job growth in California average 38,280 jobs per month. “This is right in-line with the state’s average monthly job gains from 2012 to 2014,” said Beacon Economics’ Founding Partner Christopher Thornberg.²



¹ State of California Employment Development Department Labor Market Information Division Press Release, January 22, 2016

² Beacon Economics, Employment Report, January 2016

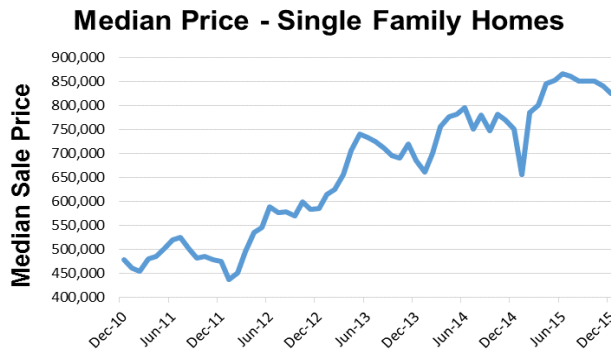
The unemployment rates at the local, State, and national levels remain low. In December 2015, the unemployment rate for the San José Metropolitan Statistical Area of 3.8% represents a slight decrease from the November 2015 rate of 3.9%, but is solidly below the 4.5% rate experienced a year ago. In this region, the December 2015 unemployment rate is less than the unadjusted unemployment rate for the State (5.8%) and the nation, which has a current unadjusted unemployment rate of 4.8%.

**Private Sector Construction Activity
 (Valuation in \$ Millions)**

	July-Dec. 2014	July-Dec. 2015	% Increase/ (Decrease)
Residential	\$ 363.3	\$ 245.0	(32.6%)
Commercial	\$ 130.7	\$ 137.9	5.5%
Industrial	\$ 138.2	\$173.0	25.2%

Local construction activity remains relatively strong through December; however, it is tracking below prior year levels, driven primarily by a significant drop in the residential sector. Residential permits for new dwelling units through December totaled 1,028 versus 2,249 last year. Correspondingly, the valuation of new residential construction also decreased significantly (\$187.1 million in 2015-2016 vs. \$302.1 million in 2014-2015), paired with a smaller decrease for alteration activity (\$57.9 million in 2015-2016 vs \$61.2 million in 2014-2015). Combined residential valuation of \$245.0 million through December is 32.6% below the prior year level of \$363.3 million. Although residential activity is significantly lower than the prior year, it is anticipated activity will strengthen in the 3rd and 4th quarters of this fiscal year. In December, construction began on a new 315 unit apartment building on West San Carlos Street north of I-280 west of Highway 87.

Overall commercial valuation through December is above the 2014-2015 level (\$137.9 million in 2015-2016 vs \$130.7 million in 2014-2015). New commercial construction and alteration activity are both up compared to prior year levels. Industrial construction valuation through December is 25.2% above the 2014-2015 level (\$173.0 million in 2015-2016 vs. \$138.2 million 2014-2015). Notable industrial new construction in 2015-2016 includes three cold shell manufacturing buildings with a combined 563,000 square feet on Disk Drive north of Highway 237, and a 23,000 square foot assembly building at the Ebay campus on East Hamilton Avenue.



Performance in the housing market continues to be strong, with rising sale prices coupled with a high number of property transfers. The median single-family home price was \$825,000 in December 2015, an increase of 10.0% from the median home price of \$750,000 in December 2014. In addition, the December 2015 number of property transfers totaled 681, an increase of 11.1% when compared

to the 613 sales that occurred in December 2014. The number of listings of new single-family and multi-family dwellings on the market has increased approximately 7.3%, from 300 listings in December 2014 to 322 listings in December 2015.

The leading consumer confidence indicator, the Conference Board's *Consumer Confidence Survey*, reports that consumer confidence of 98.1 in January is up from December's 96.3 (in 1985 it was at 100). In general, consumers' expectations of overall economic conditions was relatively flat in January. Consumers were modestly more positive in their assessment of the job market, with the proportion claiming jobs are "hard to get" decreasing from 24.5% to 23.4% and those stating jobs are "plentiful" decreasing from 24.2% to 22.8% in the last month.³

According to Lynn Franco, Director of Economic Indicators at The Conference Board, "Consumer confidence improved slightly in January, following an increase in December. Consumers' assessment of current conditions held steady, while their expectations for the next six months improved moderately. For now, consumers do not foresee the volatility in financial markets as having a negative impact on the economy."⁴

The December 2015 UCLA Anderson Forecast anticipates that ongoing U.S. job growth and expected wage increases will drive consumption in 2016, leading to the first year of greater than 3.0% growth in real Gross Domestic Product (GDP) since 2005. For California, they forecast total employment growth of 2.6% for 2015, 2.1% for 2016, and 1.4% for 2017; wage growth is estimated to be 4.3% in 2015, 3.4% in 2016, and 3.2% in 2017. These estimates are partially driven by data showing increased port activity, large numbers of international airline travelers, a shallow upward trend in statewide sales taxes, and continued growth in residential construction.⁵

Economic conditions will continue to be closely monitored and factored into the 2017-2021 General Fund Five-Year Forecast, scheduled to be released on February 29, 2016, and the upcoming releases of both the Proposed Capital and Operating Budgets, scheduled to be released on April 22, 2016 and May 2, 2016, respectively.

GENERAL FUND PERFORMANCE

General Fund revenues and transfers through December totaled \$423.9 million, or 41.6% of the budgeted estimate. Based on current collection trends and information, existing revenues are tracking to end the year approximately \$15 - \$20 million above budgeted levels (variance of approximately 1.5% - 2.0% when excluding the Beginning Fund Balance), the majority of which represents the expected receipt of one-time Sales Tax and Property Tax revenues that will be factored into the 2016-2017 budget process. Through December, the majority of revenues tracked at or above budgeted collections, including: Property Tax, Sales Tax, Transient Occupancy Tax, Business Taxes, Revenue from Local and Federal Agencies and Other Revenue. Other categories are tracking close to the budgeted estimates, including Telephone Line Tax, Franchise Fees, Licenses and Permits, Revenue from the State of California, and Departmental Charges.

In this document, an overall net increase of \$9.3 million to the General Fund revenue estimates is recommended. This is primarily due to the recognition of grants, reimbursements, and/or fee

³ The Conference Board, Consumer Confidence Survey, January 26, 2016

⁴ Ibid.

⁵ UCLA Anderson Forecast December 2015.

related funds (\$6.9 million) as well as a small number of required technical/rebalancing actions to increase revenue estimates by a net \$2.1 million to bring estimates in line with revised projections for Transient Occupancy Tax (\$2.3 million) and the transfer from the Water Utility Fund due to a lower collection of late fees (-\$225,000). The revenue estimates for this year will continue to be updated and refined as part of the upcoming Five-Year Forecast and Proposed Budget process and will be reported through the release of the Bi-Monthly Financial Reports.

General Fund expenditures through December totaled \$527.0 million, or 39.6% of the total 2015-2016 Modified Budget. This represents an increase of \$44.2 million, or 9.2%, from the December 2014 level of \$482.8 million. Encumbrances totaling \$51.7 million were \$15.8 million (23.4%) below the December 2014 level of \$67.4 million. Expenditures and encumbrances through December of \$578.7 million constituted 43.5% of the total Modified Budget (including reserves) of \$1.3 billion; without reserves of \$131.9 million, expenditures and encumbrances constituted 48.3% of the total Modified Budget. Overall, General Fund expenditures are tracking somewhat below anticipated levels and are expected to end the year with savings. Both the ongoing excess revenues and additional expenditure savings are necessary to assist in meeting the 2015-2016 ending fund balance estimate that will be used as a funding source in the Five-Year General Fund Forecast and the 2016-2017 Proposed Budget.

There are a limited number of budget adjustments recommended to address urgent fiscal or program needs. Other technical/rebalancing actions, clean-up actions, and net-zero grants, reimbursements are also recommended in this report. As with revenues, General Fund expenditure adjustments result in a net increase of \$9.3 million.

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

RECOMMENDED GENERAL FUND BUDGET ADJUSTMENTS

As previously stated, the budget actions recommended in the Mid-Year Budget Review result in a net increase of \$9.3 million to General Fund revenues and expenditures. The recommended Mid-Year Budget Review actions accomplish the following: 1) fund a very limited number of urgent fiscal or program needs; 2) implement required technical/rebalancing adjustments; 3) recognize various revenue-supported grants, reimbursements, and fee adjustments; and 4) implement clean-up actions.

The chart on the following page summarizes these recommended adjustments.

**2015-2016 MID-YEAR BUDGET REVIEW
 RECOMMENDED GENERAL FUND BUDGET ACTIONS**

BUDGET CATEGORY	Use of Funds (\$ in Millions)	Source of Funds (\$ in Millions)
Urgent Fiscal/Program Needs		
City Attorney's Office (Add 1.0 Senior Deputy City Attorney III)	\$0.083	
Business Circle Lighting and Security (OED Non-Personal/Equipment)	0.080	
Economic Development Pre-Development Activities	0.050	
Expedited Purified Water Program	0.050	
Police Department (Staffing Efficiency Study/2016-2017 Overtime Reserve)	0.000	
Super Bowl 50 (CHP Escort/Fire Overtime)/Transient Occupancy Tax	0.136	\$0.136
Total Urgent Fiscal/Program Needs	\$0.399	\$0.136
Required Technical/Rebalancing Actions		
Business Incentive – Cooperation Program/Administration	\$0.140	
Banking Services	0.118	
Elections Commission	0.050	
Late Fee Recon./Transfers and Reimb. (Water Utility Fd – Late Fees)	0.022	(\$0.225)
Super Bowl 50 (Turf Painting)	(0.012)	
Cultural Facilities Capital Maint. Reserve/Transient Occupancy Tax	2.300	2.300
Other Net-Zero Expenditure Adjustments	0.000	
Total Required Technical/Rebalancing Actions	\$2.618	\$2.075
Grants/Reimbursements/Fees		
Various Grants/Reimbursements/Fee Adjustments	\$6.921	\$6.921
Clean-Up Actions		
Management Pay for Performance Program	(\$0.758)	
Salary Program (Mayor and Council)	0.133	
Transfers and Reimb. (Interest Earnings from Capital/Special Funds)		\$0.187
Benefits Program (Health Programs)	0.000	
Other Net Clean-Up Adjustments	0.006	
Various Net-Zero Adjustments	0.000	0.000
Total Clean-Up Actions	(\$0.619)	\$0.187
Total Recommended Adjustments	\$9.319	\$9.319

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

URGENT FISCAL/PROGRAM NEEDS

- **City Attorney's Office – Add 1.0 Senior Deputy City Attorney III (\$83,000):** Adds 1.0 Senior Deputy City Attorney III position and increases the City Attorney's Office Personal Services appropriation by \$83,000 to provide ongoing legal services related to campaign

guidance for candidates, election rules, and ethics issues, as well as legal support for demonstration projects with the private/non-profit sector and other civic innovation matters. On September 23, 2015, the Rules Committee accepted a report from the City Attorney that recommended a mid-year budget action be brought forward to request additional staffing for this new workload. The annualized cost for this position is estimated at \$215,000 and, if approved, will be incorporated into the 2016-2017 Base Budget.

- ***Business Circle Lighting and Security (\$80,000):*** Adds funding of \$80,000 to address potential nuisance activity at Business Circle, located at the southwest corner of Stevens Creek Blvd. and S. Bascom Ave. Work is being done on the property following inquiries from the District Attorney's Office. Bollards have been installed on the City-owned alleyway to prevent vehicular access from the alleyway to Business Circle and old, unused phone booths have been removed. The increased funding is recommended to provide one-time reimbursements to resident businesses for the installation of lighting fixtures to illuminate the back alley (\$49,000) and to hire security to patrol the area, including the City-owned parcel on the southwest corner of Stevens Creek Blvd. and S. Bascom Ave., at night for the next six months (\$31,000). It should be noted that the City owns the alleyway and the vacant building and parcel on the corner. Staff has taken steps to sell this corner parcel for future condominium development; closing is anticipated to occur this spring.
- ***Economic Development Pre-Development Activities (\$50,000):*** Adds Economic Development Pre-Development Activities funding of \$50,000 (from \$128,000 to \$178,000) to fund land studies, environmental studies, and survey work in preparation for development of the land adjacent to Highway 237 (Buffer Lands) in accordance with the San José-Santa Clara Water Pollution Control Plant Master Plan adopted by the City Council on November 19, 2013. The sooner the work can begin, the more quickly it can be determined if the property has potential to generate additional revenues for the City.
- ***Expedited Purified Water Program (\$50,000):*** Establishes an Expedited Purified Water Program budget of \$50,000 to fund the City's collaboration with the Santa Clara Valley Water District, based on the City Council's approval of the Mayor's March Budget Message for Fiscal Year 2015-2016 that directed staff to take proactive steps to address long-term water needs. This funding will allow staff from the Environmental Services Department, City Attorney's Office, and the Finance Department to continue with a Private Activity analysis to assess the use of wastewater effluent for a potential Expedited Purified Water Program, which would purify and reuse the effluent to ensure the City maintains a reliable drinking water supply. This effort is essential to ensure that the use of wastewater effluent for this program does not compromise existing debt or jeopardize the City's ability to secure cost-effective financing for capital improvements at the Water Pollution Control Plant.
- ***Police Department Net-Zero Shifts (Overtime Reserve/Staffing Efficiency Study) (\$0):*** The following net-zero shifts in Police Department funding are recommended:
 - *2016-2017 Police Department Overtime Reserve (\$5,000,000)/Police Department Personal Services (-\$5,000,000)* – Decreases the Police Department Personal Services appropriation by \$5.0 million and reallocates these funds to establish a 2016-2017 Police Department Overtime Reserve. Currently, the Department has over 200 vacancies, both

sworn and civilian staff. As of January 5, 2016, authorized sworn staffing levels totaled 1,109, of which 907 were filled. Although the Department is conducting regular police officer recruit academies to hire for sworn vacancies and continues to review strategies to improve the rate of sworn hiring and training, the Department is anticipated to begin 2016-2017 with approximately 170 sworn vacancies based on current attrition rates and is tracking to have approximately \$9-10 million in current-year personal services savings by year-end. No service level impact is expected with this action.

- *Police Department Non-Personal/Equipment (Staffing Efficiency Study) (\$200,000)/Police Department Personal Services (-\$200,000)* – Adds \$200,000 for a consultant agreement to perform a comprehensive staffing and deployment review. With an anticipated completion date of winter 2016-2017, this study will review the Police Department's patrol and investigations service models, sworn and community service officer staffing deployment models, potential alternative staffing models, and call prioritization methods. The purpose of this study will be to make recommendations on best practice service delivery models in order to gain staffing efficiencies, which would improve emergency response times, investigative services, and community policing efforts. Based on a recent Request for Information, the approximate cost of this study is expected to be \$200,000. Police Department Personal Services savings are available to offset this cost.
- ***Super Bowl 50 (CHP Escort Services/Fire Overtime) (\$136,000)/Transient Occupancy Tax (\$136,000):*** The following public safety services to support Super Bowl 50 are recommended, offset by an increase in the Transient Occupancy Tax revenue estimate:
 - *CHP Escort Services (\$86,000)* – Increases the Police Department Non-Personal/Equipment appropriation by \$86,000 for anticipated services by the California Highway Patrol (CHP) on behalf of the City for Super Bowl 50 as described in a recent Information Memorandum to the City Council. San José is the official host site of the National Football Conference (NFC) Champion Team and Super Bowl Opening Night at the SAP Center on February 1, 2016. Part of San José's responsibilities as the host for the NFC Team is to provide escort and traffic control services for the following travel events: between Mineta San José International Airport and San Jose Marriott Hotel; between the host hotel and practice site each day; between the host hotel and Opening Night at the SAP Center; and between the host hotel and Levi's Stadium on Game Day. In order to meet these requirements, the CHP will perform these services on behalf of the City.
 - *Fire Overtime (\$50,000)* – Increases the Fire Department's Personal Services appropriation by \$50,000 for additional overtime costs associated with Super Bowl 50 as described in a recent Information Memorandum to the City Council. Additional staffing resources will be assigned to effectively address an anticipated increase in emergency and medical calls for service, especially in Downtown, as well as to be prepared for potential hazardous incidents. This includes the deployment of an additional engine company and two squad units for three days leading up to the Super Bowl as well as for Game Day. In addition, a dedicated Hazardous Incident Team will be assigned for two days during Game Week.

- *Transient Occupancy Tax (\$136,000)* – An increase to the Transient Occupancy Tax (TOT) revenue estimate of \$136,000 is recommended to offset the Police Department cost associated with coverage of CHP escort services for the NFL teams (\$86,000) and Fire Department overtime costs (\$50,000) for Super Bowl 50. Due to the large number of visitors staying in San José hotels during Game Week, an additional minimum amount of \$540,000 (\$1.35 million combined in the General Fund and TOT Fund) in TOT revenue resulting from Super Bowl 50 is expected. Because the additional City costs related to Super Bowl 50 are attributable to the increased visitors during Game Week, it is recommended that \$136,000 of the TOT revenue associated with that event be used to offset the Police and Fire costs described above.

REQUIRED TECHNICAL/REBALANCING ACTIONS

- ***Business Incentive - Business Cooperation Program (\$70,000) and Business Incentive - Business Cooperation Program Administration (\$70,000)***: Increases the Business Incentive - Business Cooperation Program budget by \$70,000 (from \$40,000 to \$110,000) and the Business Incentive - Business Cooperation Program Administration budget by \$70,000 (from \$40,000 to \$110,000) to account for additional participants in the Business Cooperation Program. This program allows participating companies to receive a rebate of up to 30% on a portion of the Use Tax (a component of Sales Tax) they have designated with the California State Board of Equalization to be allocated to San José rather than distributed as part of the County and State pools for Sales and Use Tax. Additional participants have recently been added to the program, which has resulted in the need to increase the allocations for the incentives to the businesses (20-30% of net revenues) and the administration of the program by Municipal Revenue Advisors (20% of net revenues). These costs will be offset by an increase in Sales Tax revenue in 2015-2016. Adjustments to the Sales Tax revenue category will be brought forward at year-end based on the overall performance in that category, as appropriate.
- ***Banking Services (\$118,000)***: Increases the Banking Services budget by \$118,000 (from \$1.7 million to \$1.8 million), due primarily to higher than anticipated costs associated with merchant card fees. This reflects both a higher than projected number of customers using credit cards to pay the City for business transactions and a slight increase in pricing per transaction under a new contract.
- ***Elections Commission (\$50,000)***: Increases the Elections Commission budget by \$50,000 (from \$70,000 to \$120,000) for the independent and neutral evaluator selected by the San José Ethics Commission, to review and investigate complaints that are filed with the Commission alleging violations of the Ethics Ordinance in Title 12 of the Municipal Code. With investigations related to complaints from the previous special election continuing into this year, funding is needed for the additional investigation work completed by the evaluator, and to provide resources for the upcoming June election. Section 12.04.080 of the Municipal Code states that the City Council shall appropriate the funds necessary for the evaluator.

- ***Transfer to the Water Utility Fund (Late Fee Reconciliation) (\$22,000)***: Establishes a Transfer to the Water Utility Fund in the amount of \$21,604 to reimburse the fund for excess late fee revenues transferred to the General Fund in 2014-2015. Late Fee revenues in the Water Utility Fund are an unrestricted source of income for the City, and are therefore transferred each year to the General Fund. The 2014-2015 Late Fee revenues in the Water Utility Fund were \$253,396, while the Transfer to the General Fund remained at the budgeted level of \$275,000. This transfer is generally reconciled prior to the fiscal year-end close; however, this reconciliation was inadvertently missed in 2014-2015.
- ***Transfers and Reimbursements (Transfer from the Water Utility Fund – Late Fees) (\$225,000)***: Decreases the Transfer from the Water Utility Fund by \$225,000 to reflect a reduction in anticipated late fees in the Water Utility Fund (from \$275,000 to \$50,000). Late Fee revenues in the Water Utility Fund are an unrestricted source of income for the City, and are therefore transferred each year to the General Fund. Due to a suspension of Water Utility System Late Fees for the first two months of 2015-2016, combined with technical problems associated with the utility's new Customer Information System billing software, no late fees are expected to be collected until March 2016, significantly reducing this revenue stream. Corresponding adjustments are also recommended in the Water Utility Fund.
- ***Super Bowl 50 - Turf Painting (-\$12,000)***: Decreases the Transportation Department Non-Personal/Equipment appropriation by \$12,000 because the planned turf painting, which had been budgeted as part of the 2014-2015 Annual Report actions, no longer needs to take place in preparation for events and visitors in the Downtown area for Super Bowl 50. Winter rainfall levels have been sufficient to provide green grass along South Almaden Boulevard and Park Avenue through the weekend of the Super Bowl.
- ***Cultural Facilities Capital Maintenance Reserve (\$2,300,000)/Transient Occupancy Tax (\$2,300,000)***: Increases the Cultural Facilities Capital Maintenance Reserve and the estimate for Transient Occupancy Tax in the amount of \$2.3 million. Per City Council direction approved as part of the Mayor's March Budget Message for Fiscal Year 2014-2015, the growth in Transient Occupancy Tax (TOT) revenues above the established 2013-2014 base level is to be allocated for capital maintenance of the City's cultural facilities. Based on current collection trends and anticipated activity through the end of the fiscal year, TOT receipts in the General Fund are expected to exceed the budgeted estimates by \$2.3 million. Per City Council direction as described above, this amount is recommended for allocation to the Cultural Facilities Capital Maintenance Reserve. It is important to note that due to the large number of visitors staying in San José hotels during Game Week, an additional minimum amount of \$540,000 (\$1.35 million combined in the General Fund and TOT Fund) resulting from Super Bowl 50 is expected above the \$2.3 million. As discussed above, a separate action would recognize a portion of this additional revenue (\$136,000 of the \$540,000) to offset Police and Fire costs attributable to the increased visitors during game week as a separate action. TOT receipts will continue to be monitored over the coming months and additional adjustments will be brought forward later in the fiscal year, once the positive revenue benefits from Super Bowl 50 are fully realized.

- ***Other Net Expenditure Adjustments (\$0)***: Includes a number of net-zero adjustments to align already approved revenue estimates and expenditure budgets with the most current tracking information, or reallocate funding among appropriations based on updated needs.
 - *Homeless Rapid Rehousing (-\$200,000)/Homeless Response Team (\$200,000)*: Shifts \$200,000 from the Homeless Rapid Rehousing budget to the Homeless Response Team to address anticipated expenditures associated with additional encampment cleanups and case worker outreach to at-risk homeless populations during El Niño. The Homeless Rapid Rehousing appropriation has sufficient funding to accommodate this shift without impacting service delivery in 2015-2016.
 - *Information Technology Department Personal Services (-\$1,000,000)/Non-Personal/Equipment (\$1,000,000)*: Increases the Information Technology Department (IT) Non-Personal/Equipment and decreases the Personal Services appropriation by \$1.0 million. IT is experiencing a 37% vacancy rate in technical classifications with overall Personal Services savings of \$1.5 - \$2.0 million expected by year-end. This funding reallocates a portion of the savings to the IT Non-Personal/Equipment appropriation to enable the department to continue to use temporary staffing agencies and outside vendors to address immediate critical projects while the department continues to make progress on its recruiting efforts.
 - *Police Department Projects (\$84,000)/Police Personal Services (-\$84,000)*: Decrease the Police Department Personal Services budget by \$84,000 to provide additional funding to address increased project costs for the Police Administration Building Employee Parking Lot Perimeter Fencing (\$43,000) and for a consultant agreement to analyze and interpret the data collected from the Police Department on limited detentions that are documented when officers curb-sit individuals (\$41,000). There are sufficient vacancy savings to accommodate the reduction in the Personal Services appropriation with no impacts to current services levels.
 - *Police Personal Services (Shift \$8.0 million from Salaries and Benefits to Overtime)* - Reallocates \$8.0 million in anticipated 2015-2016 vacancy savings from the salary and benefits line items to the overtime line item, bringing the total overtime from \$27.3 million to \$35.3 million in the Police Department Personal Services appropriation. This adjustment will bring the overtime budget in line with projected expenditures. Similar to past practice, it is anticipated that this additional overtime funding will primarily be used to continue to backfill for vacant sworn and civilian positions, and will continue the targeted enforcement and alleviation of high crime activity, such as human trafficking, graffiti, gang suppression, and high profile investigations.
 - *San José End of Watch Police Memorial (Retitled from Police Memorial) (\$18,000)/Council District Budgets (-\$18,000)* - Increases the San José End of Watch Police Memorial appropriation by \$18,000 (from \$75,000 to \$93,000) and decreases Council District budgets to reflect funding reallocated from each City Council District to support the San José End of Watch Police Memorial to memorialize San José Police Department officers who have made the ultimate sacrifice serving the residents of the San José. An initial contribution of \$75,000 was allocated from the Mayor's Office as part of the 2015-2016 Adopted Budget, as approved by City Council, to establish the San José

End of Watch Police Memorial budget. Further increases to this project will be brought forward at a later date to recognize fundraising efforts from the Police Officers Association and the Police Foundation. An information memorandum on the San José End of Watch Police Memorial project was released on December 17, 2015. A status update on the project is expected to be brought back to the City Council in spring 2016.

- *Parks, Recreation and Neighborhood Services Department Adjustments:* Increases the Non-Personal/Equipment budget by \$350,000 to offset higher than anticipated parks water costs (increase from \$3.4 million to \$3.8 million). While water usage is down approximately 27%, the approximate 40% increase in cost more than offsets the drop in usage. When the 2015-2016 Adopted Budget was developed, it was assumed that the decrease in water usage would roughly offset anticipated rate increases, but the exact rate increases were unknown at that time. An additional increase of \$84,000 is recommended to fund cost of living wage increases (2014-2015 and 2015-2016) and general contract increases for the park restrooms contract that were inadvertently not incorporated into the 2015-2016 Adopted Budget. These additions are recommended to be offset by a decrease to the Personal Services budget (\$434,000). There are sufficient vacancy savings to accommodate the reduction with no impacts to current service levels.
- *Fiscal Reform Plan Implementation Reserve (-\$385,000)/Fiscal Reform Plan Legal Counsel (\$250,000) and Actuarial Services (\$135,000):* Increases the City Manager's Office Non-Personal/Equipment appropriation by \$135,000 to fund actuarial services related to the Alternative Pension Reform Settlement Framework. Funding will provide actuarial analysis needed to complete the implementation of the alternate pension reform settlement framework agreement in coordination with the retirement boards' actuary. Funding will also provide for additional actuarial analysis which may be needed for labor negotiation items and matters related to the Federated and Police and Fire Retirement Systems. The Fiscal Reform Plan Outside Legal Counsel budget is recommended to be increased by \$250,000 for outside legal services needed to assist with the Quo Warranto/Ballot Measure Implementation Plan outlined in the Alternative Pension Reform Settlement Framework agreements with the City's employee groups. A decrease to the Fiscal Reform Plan Implementation Reserve of \$385,000 is recommended to offset these actions.
- *Fire Department Personal Services (\$0):* Shifts funding of \$4.0 million in anticipated 2015-2016 vacancy savings from the salary and benefits line items to the overtime line item, increasing the total overtime from \$6.8 million to \$10.8 million in the Fire Department. This adjustment will bring the budget in line with projected overtime expenditures and ensure that sufficient funding is available to maintain current minimum staffing levels. Overtime has been used to backfill vacancies and absences in line duty positions (vacation, strike team deployments, modified duty, sick leave, disability, and other absences).

GRANTS/REIMBURSEMENTS/FEES

- A series of revenue-supported adjustments totaling \$6.9 million (with a net-zero impact on the General Fund) are recommended to reflect new or updated revenues and expenditures for grants, reimbursements, and/or fee activities. The largest grants, reimbursements, and fees support the following:
 - *Development Fee Programs* - Recognizes additional Building Fee (\$1.5 million) and Planning Fee (\$900,000) revenue. A portion of these increases are recommended to fund peak staffing with the remaining balance allocated to reserves.
 - *Other Grants and Reimbursements* - Recognize additional grants, reimbursement and fees and allocate those funds to support the following: Parks, Recreation and Neighborhood Services Department grants and reimbursements (\$1,068,000), Transportation Department reimbursements (\$1,000,000), City Clerk – Council District 2 Participatory Budgeting (\$1,000,000), Fire Department reimbursements (\$430,000), Police Department grants and reimbursements (\$388,000), Planning, Building, and Code Enforcement Department grants (\$179,000), Office of Economic Development grants (\$167,000), Library grants (\$154,000), Public Works Department reimbursements (\$45,000), and Mayor and City Council sponsorship revenue (\$90,000).

CLEAN-UP ACTIONS

- ***Management Pay for Performance Program (-\$758,000):*** Increase various department Personal Services appropriations for Management Pay for Performance Program (MPP) costs where departmental budgets are not tracking to generate sufficient vacancy savings to absorb these additional costs (\$427,000 all funds; \$188,000 General Fund; \$249,000 Development Fee Programs). To offset these augmentations, this report includes recommendations to partially decrease the Salaries and Benefits Reserve allocation in the General Fund that was set aside for the Management Pay for Performance Program in the 2015-2016 Adopted Budget and reduce the Ending Fund Balances in the Special Funds as appropriate. Of the remaining amount available for the MPP Program in the General Fund, \$625,000 is recommended as a funding source to offset other actions in this report, \$133,000 is recommended to offset recently approved Mayor and City Council salary and vehicle allowance increases, and the remaining balance of \$77,000 will be used to assist in meeting the 2015-2016 ending fund balance estimate used as an ongoing funding source in the Five-Year General Fund Forecast.
- ***Salary Program (\$133,000):*** As recommended by the Salary Setting Commission, and approved by the City Council on January 26, 2016, salary and vehicle allowance increases for the Mayor and City Council, retroactive to July 1, 2015, are included. A reduction to the Salaries and Benefits Reserve is recommended to offset these actions.

- ***Transfers and Reimbursements - Interest Earnings (\$187,000)***: Increases the transfer of interest earnings from various Capital and Special Funds to the General Fund based on actual collection trends.
- ***Benefits Program (Health Program) (\$0)***: Increases to various department Personal Services appropriations are recommended to accommodate lowest cost health plan rate increases (3.82%), effective January 1, 2016, where departmental budgets are not tracking to generate sufficient vacancy savings to absorb these additional costs (\$229,000 in all funds; \$194,000 in the General Fund). To offset these augmentations, decreases to the Salaries and Benefits Reserve (\$177,000) and Development Fee Program Reserves (\$17,000) in the General Fund and reductions to Ending Fund Balances in the Special Funds are recommended. Because health rates were forecasted to increase 8% but actually increased only 3.82% and dental rates were anticipated to grow 25% but were flat, remaining savings in the Salaries and Benefits Reserve will be used to assist in meeting the 2015-2016 ending fund balance estimate used as an ongoing funding source in the Five-Year General Fund Forecast.
- ***Other Net Clean-Up Adjustments (\$6,000)***: Technical adjustments are recommended to reflect adjustments to the Planning Development Fee Program (\$6,000).
- ***Various Net-Zero Adjustments (\$0)***: To implement a variety of clean-up actions, a number of technical and net-zero adjustments are recommended, including the reallocation of funding between departmental expenditures, City-Wide Expenses, and revenue categories.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

A comprehensive review of the special and capital funds as well as all of the capital projects is conducted as part of the 2015-2016 Mid-Year Budget Review. The special and capital funds are generally tracking within estimated levels through December. Section II of this report contains the status of selected special and capital funds with issues of interest or variances.

Special Funds

Following is a summary of activity in selected special funds through December.

- ***Airport Funds*** – Passenger activity levels at the Norman Y. Mineta San José Airport through the first six months of 2015-2016 showed an increase of 5.0% compared to the same period last fiscal year and exceeded the passenger growth projection of 2.0%. The Airport has announced new carriers and destinations to commence service in 2015-2016: Lufthansa German Airlines will offer five weekly flights to Frankfurt, Germany beginning in April 2016; British Airways will begin daily service to London Heathrow beginning May 2016; and Air Canada will begin service bringing twice-daily flights to Vancouver in May 2016. Along with the international destinations, domestic service announcements include Delta Airlines new twice-daily nonstop service to Las Vegas, Alaska Airlines non-stop service to Eugene, Oregon, and Southwest Airlines second flight to Dallas Love Field. Overall operating revenues through December 2015 totaled \$65.9 million, or 48.9% of the budgeted estimate, and are in line with expectations. While passenger activity and parking/rental car

revenue are exceeding estimates, other operating revenues are on target with budgeted levels. Airport expenditures are tracking below budgeted estimates at 44.4%, due to conservative spending.

- ***Convention and Cultural Facilities Fund*** – In accordance with the agreement with Team San Jose (TSJ) that manages the City’s Convention Center and other cultural facilities, revenues and expenditures generated by facility operations no longer flow through the Convention and Cultural Affairs Fund. Rather, the net operating subsidy to TSJ as well as TSJ incentive and management fees and other non-TSJ related expenses, such as capital investments and insurance costs, are reflected in the Convention and Cultural Affairs Fund. Through December, activity at Team San Jose remains strong with revenues of \$17.5 million compared to a target of \$12.9 million, and expenses of \$20.4 million compared to a target of \$17.5 million. If current trends continue, the operations subsidy provided to Team San Jose will end the year with savings of approximately \$1.3 million (30.4%) of the total \$4.3 million budgeted allocation. This report includes a recommendation to establish a Center for Performing Arts (CPA) Elevator Rehabilitation appropriation of \$250,000 to rehabilitate the elevator at the CPA, as recent mechanical troubles are significantly impacting the use of the facility.
- ***Integrated Waste Management Fund*** – Through December, revenues totaled \$108.6 million, or 87.2% of budget, and are expected to end the year approximately \$7.1 million above budgeted estimates. A majority of this increase is generated from the unanticipated placement of \$3.3 million in outstanding Single Family Dwelling (SFD) liens and \$900,000 in Recycle Plus (RP) Lien Administration Fees on the County’s Tax Roll as a one-time Special Assessment, which guarantees the revenue for the City. The other major factor contributing to the higher revenue is an additional \$3.4 million in unanticipated receipts for RP/SFD Garbage Collection Fees. However, due to lower than anticipated bids for the installation of a photovoltaic system at the San José Environmental Innovation Center (EIC), anticipated grant reimbursements from the federal Economic Development Administration are anticipated to be lower by \$400,000. In accordance with the lower than anticipated bids for the installation of a photovoltaic system at the EIC, a recommendation is included in this report to lower the project budget by \$800,000 to recognize these savings at the HHW Las Plumas Facility. The additional fund balance of \$7.9 million – resulting from the additional revenue, expenditure savings and other minor budget adjustments – will be factored into the development of the 2016-2017 Proposed Budget.
- ***Transient Occupancy Tax Fund*** – As described above, Transient Occupancy Tax (TOT) collections continue to be very strong. Collections received in the TOT Fund are on pace to reach \$25.5 million, an increase of \$3.4 million over the budget estimate of \$22.1 million. This reflects growth of approximately 15% over 2014-2015 collection levels. The additional revenue is recommended to be recognized as part of this report and placed into a reserve for allocation as part of the 2016-2017 budget process to Cultural Arts, to the Convention and Visitors’ Bureau, and to the Convention and Cultural Affairs Fund. The increase in TOT collections is driven by continued high levels of occupancy and increased average daily room rates. Through December, the average occupancy rate for the City’s 14 major hotels was 74.3%, a slight decrease from the 75.5% occupancy rate for the same period in 2014-2015;

however, room rates rose over the same period, from \$163.72 to \$182.24 (an 11.3% increase). The year-to-date average revenue-per-available room (RevPAR) metric of \$135.84 represents an increase of 9.7% from the prior year level.

It is important to note that due to the large number of visitors staying in San José hotels during Game Week, an additional minimum amount of \$810,000 in TOT revenue (\$1.35 million combined in the General Fund and TOT Fund) resulting from Super Bowl 50 is expected above the \$3.4 million cited above. Elsewhere in this report, the Administration recommends recognizing \$136,000 of the \$540,000 received in the General Fund to offset Police and Fire costs attributable to the increased visitors during Game Week. TOT receipts will continue to be monitored over the coming months and additional adjustments will be brought forward later in the fiscal year, once the positive revenue benefits from Super Bowl 50 are fully realized.

Capital Funds

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

Construction-Related Revenues

Private sector construction activity constitutes a significant source of tax revenues that are reinvested back into the City's transportation system infrastructure. As described in the "Economic Environment" section of this message, overall development activity in 2015-2016 is generally meeting expectations. Following is a discussion of the performance for Building and Structure Construction Tax and Construction Excise Tax, the two largest construction-related revenue sources, follows. These taxes are also an indicator of future activity for several other categories, such as the storm and sanitary sewer system fees.

- ***Building and Structure Construction Tax*** – Through December, tax receipts totaled \$7.6 million, representing 54.6% of the annual budgeted estimate of \$14.0 million. While slightly below prior year collections through the same period, Building and Structure Construction Tax receipts are on pace to exceed the budgeted estimate by at least \$1.0 million. However, due to the volatile nature of construction-related taxes, no adjustments to the budget are recommended at this time. This category will continue to be closely monitored and any significant variations may be brought forward later in the fiscal year and taken into account for the development of the 2016-2017 Proposed Capital Budget and 2017-2021 Capital Improvement Program.
- ***Construction Excise Tax*** – Through December, tax receipts totaled \$9.4 million, or 49.3% of the budget, and are on pace to meet the 2015-2016 Adopted Budget estimate of \$19.0 million. Similar to the Building and Structure Construction Tax, this category is on pace to exceed the budgeted estimate by \$1.0 million and will be closely monitored during the upcoming 2016-2017 budget process.

- ***Construction and Conveyance Taxes*** – Nearly 99% of the total Construction and Conveyance (C&C) Taxes are comprised of conveyance receipts, a tax based on the value of property transfers. When the 2015-2016 Adopted Budget was developed, it was assumed that C&C Tax receipts would total \$35 million in 2014-2015 and remain steady in 2015-2016. Collection levels, however, exceeded expectations last fiscal year and are continuing to perform stronger than initially anticipated through the first half of 2015-2016. As a result, 2015-2016 C&C Tax receipts are expected to reach \$38 million. Though budget adjustments are not recommended as part of this report, the \$38 million estimate for 2015-2016 will be used in the development of the 2016-2017 Proposed Capital Budget and 2017-2021 Capital Improvement Program. This revenue will continue to be monitored to determine if changes to the estimate may be necessary at a later date.

Major Capital Program Expenditure Revisions

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

- ***Airport Capital Program*** – Recommendations are included to recognize \$6.8 million in additional Federal Aviation Administration grant funds, reallocate funding from an existing project to fund local share of matching funds, and provide funds for existing and new projects.
- ***Library Capital Program*** – A recommendation is included to increase the Transfer to the Branch Libraries Bond Projects Fund by \$1.4 million (from \$700,000 to \$2.1 million) from the Library C&C Tax Fund to accelerate payment of past expenditures that are ineligible for reimbursement from the bond trustee and partially offset the deferral of bond sale proceeds. In addition, as a result of the deferral of the bond sale proceeds in the Branch Libraries Bond Projects Fund from 2015-2016 to 2016-2017, the following actions are included: a decrease of \$5.9 million in bond sale proceeds, offset by decreases to Alviso Branch Reconfiguration (\$150,000), Bond Project Services Consultant (\$5,000), Branch Efficiency Projects (\$1.2 million), Library Bond Projects Contingency Reserve (\$2.5 million), Materials Handling Technology (\$400,000), and Miscellaneous Post Construction Costs (\$223,000).
- ***Public Safety Capital Program*** – A recommendation is included to decrease the revenue estimate for bond sale proceeds by \$3.3 million as a result of the deferral of the bond sale from 2015-2016 to 2016-2017. In addition, an increase in the revenue estimate of \$1.3 million is included to recognize funds received for a settlement associated with the design of the South San José Police Substation. This payment is partially offset by an increase to the South San José Police Substation appropriation by \$130,000 to provide funding for work conducted by a consultant related to the settlement of the litigation. As a result of all these actions, a net decrease of \$2.1 million to the Fire Station 37 (Willow Glen) Reserve is included. Funding to the reserve will be replenished as part of the 2016-2017 Proposed Capital Budget, which will include the bond sale in 2016-2017.
- ***Parks and Community Facilities Development Capital Program*** – A recommendation is included in this report to establish funding of \$300,000 for the Baypointe Park project in the

Subdivision Park Trust Fund to remove materials currently on the site and construct new amenities, including walking paths, gathering spaces, and activity areas. Additional funding of \$250,000 is included in the Council District 6 Construction and Conveyance (C&C) Tax Fund for the River Glen Neighborhood Center Replacement project for higher than initially anticipated design, construction, and inspection costs. Funding is also recommended to be allocated in the Subdivision Park Trust Fund for the Downtown Parks Activation project (\$150,000), which are the matching funds for the Knight Foundation grant to design and install new park uses to create dynamic and active public spaces at Plaza de César Chavez and St. James Park. This project will include purchasing and installing new outdoor patio furniture, decorative lighting, and stage prototyping. Finally, a recommendation is included in this report to decrease funding of \$85,000 in the Parks City-Wide C&C Tax Fund for the Super Bowl 50 – Strategic Capital Replacement and Maintenance Needs allocation. The 2014-2015 Annual Report included an allocation of \$150,000 to replace the existing turf at Plaza de César Chavez, which receives a heavy amount of foot traffic during Christmas in the Park. In previous years, the turf was re-seeded once Christmas in the Park concludes, however, this year there will not be enough time for the turf to be restored before visitors arrive for Super Bowl 50. However, when Christmas in the Park completed, it was determined that the entire turf did not need to be replaced, only certain sections, which resulted in project savings of \$85,000.

- ***Traffic Capital Program*** – Resulting from several issues such as staffing challenges, reallocating staffing resources to higher priority projects, delays in receiving Caltrans authorization, project scope changes and other delays that will result in several construction awards being delayed from 2015-2016 to summer 2016, later next fiscal year, or reprogrammed as part of the 2017-2021 Proposed Capital Improvement Program, this report includes recommendations that modify the timing of the Traffic Capital Program as approved in the 2015-2016 Adopted Capital Budget. Many of the projects recommended for deferral are grant funded and focused on improvements of pedestrian and bicycle facilities, including The Alameda “Beautiful Way” Phase 2, East San José Bike/Pedestrian Transit Connection, St. John Bike/Pedestrian Improvements, St. John Multimodal Improvements Phase 1, Park Avenue Multimodal Improvements, and several other bike/pedestrian improvement projects. In total, \$14.6 million in grant revenue is recommended to be reprogrammed into 2016-2017, along with \$12.6 million in expenditures. The timing and delivery of these projects and others in the Traffic Capital Program will be closely evaluated in the upcoming development of the 2016-2017 Proposed Capital Budget and 2017-2021 Capital Improvement Program. Other budget adjustment recommendations include the recognition and appropriation of \$766,144 to the Pavement Maintenance – Measure B project to reflect additional revenues received to seal and resurface streets in the City; additional funding of \$300,000 for the Downing Avenue Pedestrian and Bicycle Improvements project as a result of higher than anticipated staffing and construction costs; additional funding of \$226,000 for the Traffic Forecasting and Analysis appropriation to provide contractual services funding that was inadvertently omitted in the development of the 2015-2016 Adopted Capital Budget; an increase to the Transportation Demand Management project (\$400,000) to accelerate the project; and an increase to the Walk n’ Roll San José Phase 1 project (\$95,000) to fund the revised scope of the project due to a grant reimbursement issue.

COUNCIL REFERRALS

Housing Rehabilitation Program – On December 15, 2015, the City Council added the development of a housing rehabilitation program for landlords who participate in housing voucher or coupon programs targeting homeless to the Council priority list. Staff was directed to report back during the 2015-2016 Mid-Year Budget Review regarding the progress and program specifics for this initiative. Because the Housing Department has just recently hired a temporary staff person to develop this program, this information will not be available to be brought forward to the City Council until March.

PUBLIC OUTREACH/INTEREST

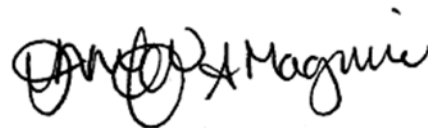
This report is posted on the City's website for the February 9, 2016 City Council meeting.

CONCLUSION

Through December, the City's over 100 operating and capital funds are generally performing within expected levels. The 2015-2016 Adopted Budget was built on the assumption that continued economic growth would be experienced in 2015-2016, and actual collection trends support this assumption.

As part of the Mid-Year Budget Review, budget adjustments are recommended in the General Fund and many special and capital funds to fund a very limited number of urgent fiscal/program needs, to bring projected revenues and expenditures into alignment based on performance through the first half of the fiscal year, to account for updated cost projections, to implement technical adjustments, and to recognize various grants, reimbursements, and fees. The adjustments brought forward in this report reflect our best estimate of the financial performance of the City's funds based on activity through the first half of the fiscal year.

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

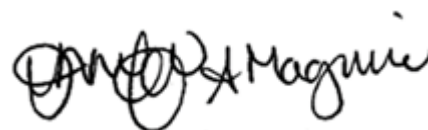


Jennifer A. Maguire
Senior Deputy City Manager/
Budget Director

Certification of Funds

I hereby certify that there will be available for appropriation in the designated funds and in the amounts as listed below in fiscal year 2015-2016 monies in excess of those heretofore appropriated therefrom:

Airport Capital Improvement Fund	6,776,000
Airport Maintenance and Operation Fund	499,168
Benefit Fund	325,000
Construction and Conveyance Tax Fund: Parks Purposes Central Fund	103,000
Construction and Conveyance Tax Fund: Communications Purposes	5,000
Construction and Conveyance Tax Fund: Fire Protection Purposes	20,000
Construction and Conveyance Tax Fund: Library Purposes	28,000
Construction and Conveyance Tax Fund: Park Yards Purposes	3,000
Construction and Conveyance Tax Fund: Service Yards Purposes	6,000
Convention Center Facilities District Revenue Fund	2,260,000
Economic Development Administration Loan Fund	75,693
Edward Byrne Memorial Justice Assistance Grant Trust Fund	328
Emergency Reserve Fund	4,000
Federal Drug Forfeiture Fund	14,380
General Fund	9,318,771
General Purpose Parking Fund	555,000
Gift Trust Fund	1,480
Home Investment Partnership Program Trust Fund	3,458,623
Integrated Waste Management Fund	7,200,000
Low and Moderate Income Housing Asset Fund	3,098,822
Major Collectors and Arterials Fund	167,000
Multi-Source Housing Fund	2,546,728
Residential Construction Tax Fund	5,000
San José/Santa Clara Treatment Plant Capital Fund	1
Storm Drainage Fee Fund	1,000
Storm Sewer Capital Fund	311,429
Subdivision Park Trust Fund	8,097,823
Supplemental Law Enforcement Services Fund	233,212
Transient Occupancy Tax Fund	3,440,000
Vehicle Maintenance and Operations Fund	12,000
Water Utility Capital Fund	30,000



Jennifer A. Maguire
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