2015-2016 Capital Budget

2016-2020 Capital Improvement Program

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Mayor's March Budget Message

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: CITY COUNCIL

FROM: Mayor Sam Liccardo

SUBJECT: **MARCH BUDGET MESSAGE FOR FISCAL YEAR 2015-2016**

DATE: March 16, 2015

Approved: Date: 3-16-15

RECOMMENDATION

I recommend that the City Council direct the City Manager to submit a proposed budget for Fiscal Year 2015-2016 that is balanced and guided by the policy direction and framework of priorities outlined in the Mayor's March Budget Message.

OVERVIEW

In good times or bad, politics typically reward those who take the short view. The tyranny of election cycles injects a myopia into political decision-making, particularly during budget season. Even when decision-makers possess the best of intentions, we face a political landscape that favors the urgent and expedient over decisions to save or invest for the next generation. While we present solutions for the pressing issues of today, we must consider their impact on the future.

With this Budget Message, we give primacy to the urgent concerns of many residents for improved safety. Nonetheless, with a new Council, and with a stabilizing fiscal landscape, we also have an opportunity to take a breath, and consider a longer-term vision for our City. This Message reflects a predisposition to the long view, with strategic investment in the most important asset of our city's future: our children. Through this Budget Message, I seek my colleagues' support for a strategy that will double-down on our kids, through targeted investments in our libraries, afterschool programs, teen jobs, and gang prevention. Second, I seek to focus our policy direction on those critical pieces of our infrastructure - our water supply, BART, and our roads - that will enable San José to thrive in the decades ahead.

INTRODUCTION

In accordance with Section 1204 of the San José City Charter, I present my Fiscal Year 2015-2016 March Budget Message for consideration by the City Council and residents of San José. I've based this Mayor's March Budget Message on several sources: input from the community, suggestions

from my fellow Councilmembers, information from staff, ideas presented in my book, *Smarter City, Safer Government*, and past Council-approved direction, such as the Fiscal Reform Plan. The goal of this memorandum is to provide an initial framework for the City Council to give the City Manager specific direction on March 24, 2015 to prepare proposals for the Council's budget deliberations in May, to formulate the Fiscal Year 2015-2016 Proposed Budget.

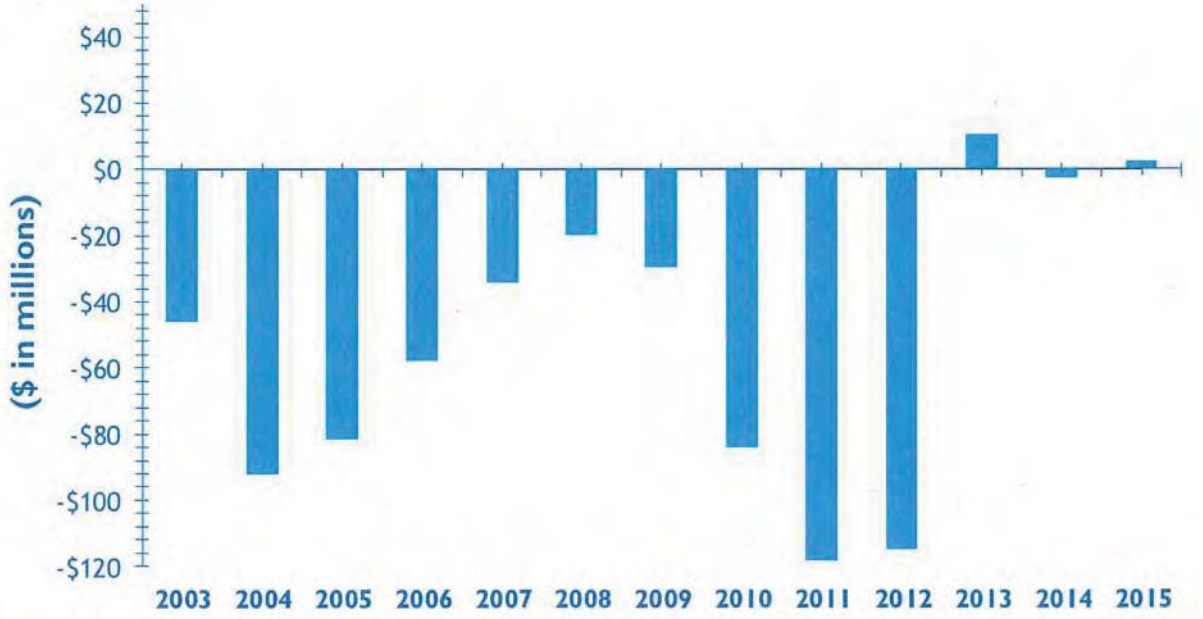
Much more substantial Council discussion and community input will take place before the Council considers the final budget for adoption in June 2015.

RENEWING OUR CITY

The Past

The City of San José has weathered difficult times in the past dozen years, with a decade of General Fund budget shortfalls driven by two deep recessions and an unsustainable cost structure that created chronic annual deficits. Since 2003, the City balanced $670 million in shortfalls (Figure 1). In 2010, 2011 and 2012 deficits accounted for nearly half that total ($318 million). To address these shortfalls, the City significantly enhanced outreach to the community, seeking input in the development of budget balancing strategies that would require difficult choices. This resulted in the development of the General Fund Structural Budget Deficit Elimination Plan in 2008 and the Fiscal Reform Plan in 2011. These two plans identified three major strategies to eliminate the City's chronic deficits: Cost-Savings, Revenues, and Service Reduction and Eliminations.

Figure 1 – General Fund Cumulative Shortfalls Balanced ($670 million)



Source: Presentation by City Manager's Budget Office at January 2015 Study Session. "General Fund Structural Budget Deficit History & Service Restoration Priorities and Strategies."

The severe shortfalls ended only after 1) layoffs and hiring freezes slashed the City's workforce by one-quarter, 2) our employees stepped up to accept the sacrifice of steep cuts in compensation, 3) severe cuts in basic City services, and 4) the voters' approval of Measure B in June 2012, enabling more than $25 million in annual General Fund savings as a result of pension and healthcare benefit reforms. Each of these very painful actions remains in the recent memory of our workforce and our residents.

Restoring the Focus on our Future

Of all the pain felt by our City's stakeholders in recent years, it was the price paid by our City's future that was most overlooked. The necessary focus on immediate necessities required elimination of programs for youth, investments in infrastructure, and basic maintenance. With the stabilization of the budget, we now have an opportunity to expand our view, and invest again in the future. By approving this Budget Message, Council will place a priority on restoring investments in afterschool programs, libraries, jobs for at-risk teens, and critical pieces of our infrastructure - our roads, BART, and our water supply - that will enable San José to thrive in the decade ahead.

A Stable, but Fragile Outlook

This year, we have the good fortune of making spending decisions, rather than budgetary reductions. We must remain fiscally prudent, however, and avoid repeating past mistakes as we restore services. As a result of the improving economy and recent fiscal reforms, City revenues and expenditures have come in closer alignment. The margins appear very thin, however, and the City cannot weather a decrease in revenues or undertake substantial new expenditures without substantial cuts elsewhere.

The City's Manager's 2016-2020 Five-Year Forecast shows promising news with a small surplus of $8.6 million projected for Fiscal Year 2015-2016 (Table 1). In the remaining years of the Forecast, a small General Fund shortfall and small surpluses are projected, ranging from (-$1.4) million to $5.8 million annually. As mentioned above, these margins are thin when put into context of the size of the projected General Fund. The $8.6 million surplus for Fiscal Year 2015-2016 represents less than 1% of the total budget (revenues and expenditures).

Table 1 - 2016-2020 General Fund Forecast
Incremental General Fund Surplus / (Shortfall) and % to Total Budget $ in Millions

2015-2016	2016-2017	2017-2018	2018-2019	2019-2020
$8.6 M	$5.2 M	$0.3 M	($1.4 M)	$5.8 M
0.5%	0.3%	0.02%	-0.1%	0.3%

Source: 2016-2020 Five-Year Forecast and Revenue Projections for the GF and Capital Improvement Program.

While the Forecast appears reassuring, it does not incorporate several key elements necessary to our shared ambitions of rebuilding our City, including:

1. Impacts associated with implementation of the remaining elements of the Fiscal Reform Plan (e.g., cost savings and/or additional revenue);

2. Costs associated with fully funding the annual contributions for retiree healthcare;
3. Costs associated with services that were funded on a one-time basis in 2014-2015, such as the Homeless Rapid Rehousing Program, Homeless Response Team, Downtown Foot Patrol, San José BEST Program and Safe Summer Initiative, and Illegal Dumping Rapid Response Program.
4. Costs associated with the restoration of key services (police, fire, libraries, community centers, and street maintenance) to January 1, 2011 levels;
5. Costs associated with a Police Staffing Restoration Strategy (increasing the number of budgeted sworn officers from 1,109 to 1,250); and
6. Costs associated with unmet/deferred infrastructure and maintenance needs.

In other words, by merely "staying the course," we can balance the budget, but our residents will continue to suffer with substandard services diminished by the cuts of the past. To renew San José, we need to strategically align our decision-making to restore services.

To ensure stability to our community as we begin to restore services we must first solidify essential services on life support. As mentioned above in #3, in 2014-2015 the City has provided a number of essential services with one-time funding over the last three years. These include the Homeless Rapid Rehousing Program, Homeless Encampment Response Team, Downtown Foot Patrol, San José BEST Program and Safe Summer Initiative, and Illegal Dumping Rapid Response Program. These resources are vital as we continue to rebuild City services, therefore, the City Manager is directed to prioritize converting funding from one-time to ongoing to the extent possible.

Negotiations Framework for Service Restoration

The City's Fiscal Reform Plan, as approved by the City Council in 2011, established a goal to restore a small number of basic city services—police, fire, community centers, and libraries-- to the levels of January 1, 2011. In addition, the City Council also adopted a Police Sworn Staffing Restoration Strategy as part of the Adopted FY 2014-2015 Budget, which only modestly increases the police staffing target above the levels of January 1, 2011, to a total of 1,250 police officers. In setting a Proposed Negotiations Framework for service restoration in January 2015 - used to spur settlement negotiations with our unions - the Council added street maintenance as a "core" city service, as reflected below.

Table 2 – Ongoing Funding Needs

January 1, 2011 Service Levels	$37 M
Police Sworn Staffing Restoration Strategy (12 additional above 2011 levels to reach 1,250)	$2 M
Street Maintenance	$44 M
TOTAL GENERAL FUND	**$83 M**

Source: Presentation by City Manager's Budget Office at January 2015 Study Session. "General Fund Structural Budget Deficit History & Service Restoration Priorities and Strategies."

In correspondence with the City, some employee bargaining units have criticized this $83 million figure as "inflated," because the prior Council's 2011 fiscal reform strategy did not include street maintenance. The Council decided in January of 2015 to include street maintenance as part of the service restoration strategy because of the dire condition of our roads, our residents' widespread dissatisfaction with that condition, and because of the rapidly escalating cost of our ongoing neglect of roadway maintenance (which now exceeds $500 million). During a January 2015 study session, City staff presented that Council would need to spend an additional $44 million annually to maintain the current pavement condition of "fair" (PCI 63) across the entire 2,400 mile street network, and that figure was incorporated within the funding strategy.

There is a larger issue underlying the debate over what is (or is not) a fair "target" for service restoration. As with any budget, each decision reflects a values-based judgment about the City's most important priorities. Those decisions are ultimately political questions, far from "settled" in any technical or scientific sense. In this case, Council has chosen a very small number of basic City services to restore: police, fire, community centers, libraries, and streets. Before jumping to any conclusions about what is *included* in this Service Restoration Strategy, one should carefully consider just a few of the reduced services that were *excluded* from this list, which might also be easily be deemed "basic" services:

- neighborhood traffic calming
- school crossing guards
- graffiti abatement
- affordable housing funding
- homework centers
- code enforcement
- long-term planning
- park rangers
- public pools and swim instruction
- streetlight repair
- animal services
- small business assistance
- maintenance and cleaning of city buildings
- IT infrastructure and maintenance
- Healthy Neighborhood Venture Fund grants for service providers for youth and seniors
- parks maintenance
- senior and youth programming
- homeless assistance from federal and state sources, such as HOME and CDBG
- Strong Neighborhoods Initiative funding (RDA)
- neighborhood business districts support (RDA)
- median island and roadside maintenance
- subsidizing tree trimming
- full funding of city reserves,

...and, perhaps most importantly:

- **all police, fire, and other core services that suffered reductions *prior to* January 1, 2011**

When one considers that the contemplated $83 million target for annual service restorations does *not* include any of the items listed above, it becomes apparent that Council has set - at best - a very modest goal. If Council so chose, it could certainly include any and all of these services, and we'd collectively face a much higher fiscal hurdle to bound.

While representing a modest restoration of services, $83 million hardly comes at a modest cost, and the City needs a strategy for making difficult decisions to restore even this minimal level of

services. As approved by Council in January as part of our Negotiations Framework, a proposed set of solutions includes the following:

Table 3 – Proposed Solutions to Address $83 Million in Funding

2016 ¼ Cent Sales Tax (w/potential sunset after 9 to 15 years)	$38 M
City Share for Street Repair from 2016 VTA Sales Tax Measure	$10 M
Retiree Healthcare Cost Savings	$5 M
Institute Disability Workers' Compensation Offset	$3 M
Police Tier 2 Savings *(Reduced from Prior Estimate of $3 Million)*	$2 M
Proposed Other Solutions Subtotal	**$58 M**
Targeted Additional Savings for Pension Negotiations	$25 M
Total Proposed Solutions	**$83 M**

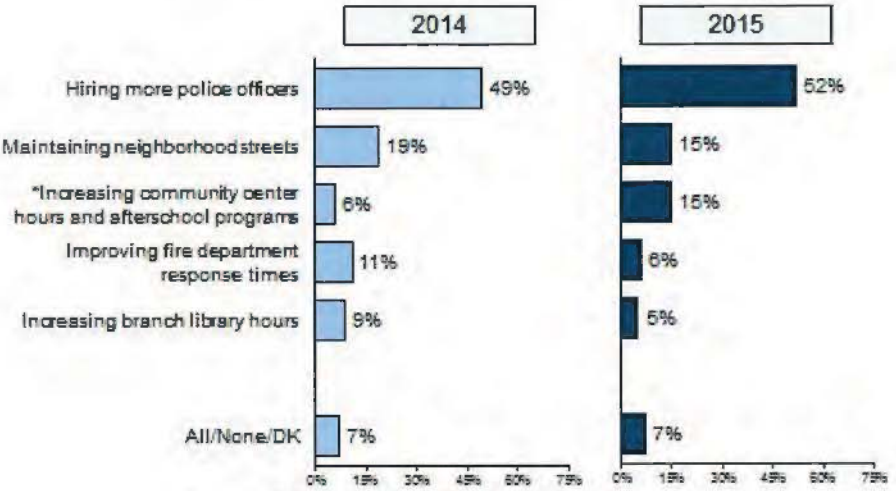
If we are serious about restoring even this modest level of services, then we must continue to make the challenging decisions to enable those solutions, including additional savings through negotiation, and new tax revenues. No numbers are "set in stone;" rather, working together with our employees, businesses, and residents, we can find additional savings in one category that can reduce the needed savings in another, for example. We must all resolve to commit to the fundamental goal, however: *restoring services for our residents.*

Community Engagement

Consistent with past practices, we have again engaged our residents in the budget planning process for FY 2015-2016. The City commissioned a Community Budget Survey, and also held the 9th Annual Neighborhood Association & Youth Commission Priority Setting Session.

Fairbank, Maslin, Maullin, Metz & Associates conducted the telephone survey of San José residents on behalf of the City to explore residents' perceptions of the economy, City budget, and funding priorities. The survey was conducted between February 21, 2015 and March 1, 2015 with a random sample of 1,002 San José residents. The survey was conducted in English, Spanish, and Vietnamese. The survey results show residents feel modestly better about the local economy, but more pessimistic about public safety. Overall, residents feel hiring more police officers should be the City's top priority spending category, and generally view spending on programs to reduce crime as critically important. As with previous surveys the City Survey asked what the City's highest priority should be if funding were available. However, for the 2015 Community Budget Survey, "afterschool programs" was added to "Increasing community center hours." Based on the Figure 2 below, the addition of "afterschool programs" raises this priority from last to second. This clearly demonstrates that residents see the need and value in investing in our children and future.

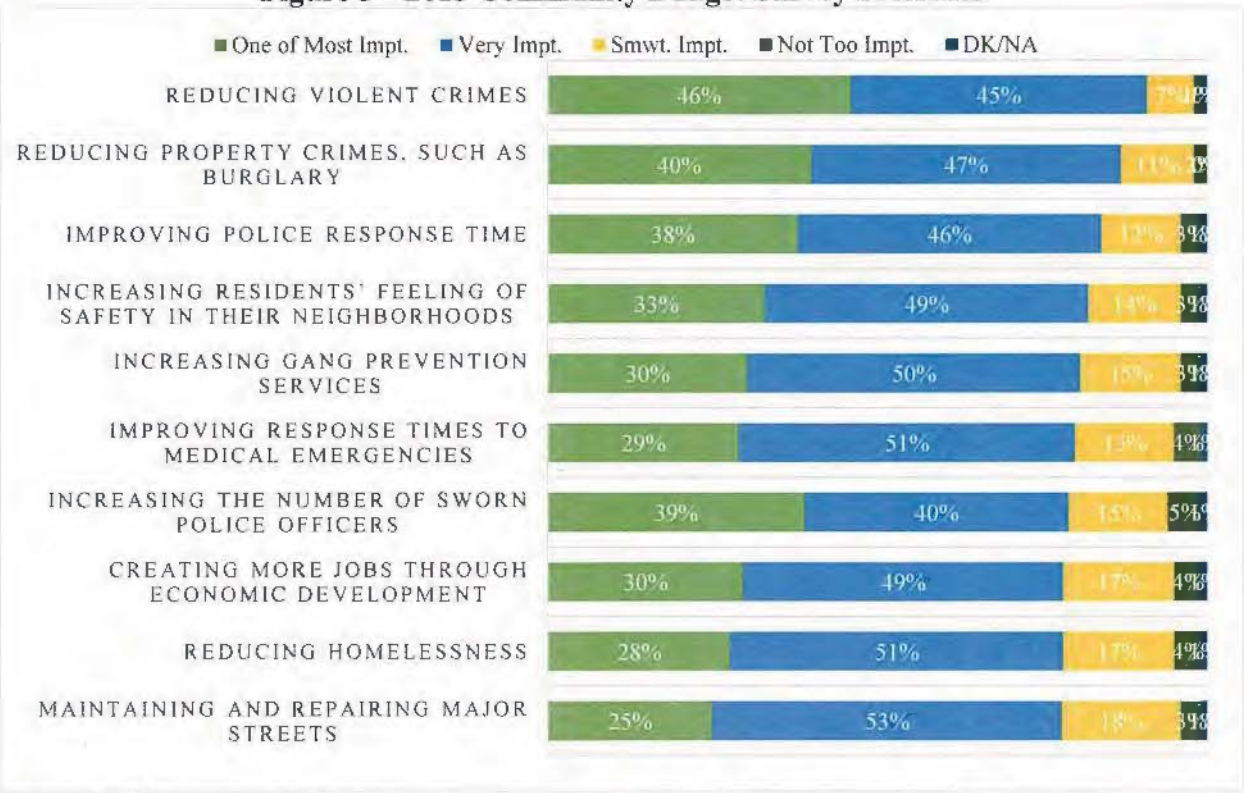
Figure 2 – City's Highest Priority Comparison



Source: 2015 Community Budget Survey Results.
* 2015 Survey included "afterschool programs."

Other specific service priorities, illustrated in Figure 3, from the survey were crime reducing strategies, job creation through economic development, reducing homelessness, and street maintenance.

Figure 3 – 2015 Community Budget Survey Priorities



Source: 2015 Community Budget Survey Results.

On March 7, 2015, I hosted the 9th Annual Neighborhood Association & Youth Commission Priority Setting Session. Over 100 participants attended, reflecting youth and neighborhood leaders from every district in the City. As part of the priority-setting exercise, participants were asked to assume the budget was balanced and services were set at their current levels, but were given an extra $100 to spend on a list of over 35 services. Table 4 below outlines the top priorities:

Table 4 - 9th Annual Neighborhood Association & Youth Commission Priority Setting Session Results

	Funding Option	Amount	Participants
1.	Expand Incentives for Employers to Move and Grow in San José	$480.20	35
2.	Increase Job Opportunities for Teens & Young Adults in High Crime Areas	$417.00	47
3.	Gang Prevention Programs and Services	$412.00	46
4.	Provide Affordable Housing for Homeless	$411.25	37
5.	Expand Afterschool Programs for Youth	$400.20	41
6.	Repave, Repair and Fill Potholes on Neighborhood Streets	$392.50	37
7.	Repave, Repair and Fill Potholes on Major Streets	$365.50	39
8.	Add Community Service Officers to the Police Department	$333.00	30
9.	Increase Branch Library Hours	$313.50	43
10.	Improve Support for Small Business	$231.20	31

Source: 9th Annual Neighborhood Association & Youth Commission Priority Setting Session, March 7, 2015.

While differences emerge from the priorities of the Community Budget Survey, the results from the March 7 meeting drew ample similarities with regard to the emphasis on job creation, crime reduction, addressing homelessness, and improving street maintenance.

In addition to articulating their City service priorities, attendees at the Priority Setting Session participated in three facilitated discussions around engagement in the budget process, "lifting the hood" on the City budget, and participatory budgeting. We will continue to work with these stakeholders and other community leaders over the next several months to further develop possible new initiatives or changes to our current processes. A clear theme emerged from these discussions, however: participants want more transparency and data on program spending so they can more effectively engage their neighbors and City Hall on budgetary priorities.

As we look to the future, the investments urged by this Budget Message can be categorized as:

1. Improving Safety Through Investments in Police and Fire Operations
2. A Safer, Smarter San José
3. Broadening Prosperity and Opportunity
4. Restoring Services
5. Engaging the Community
6. Boosting Vitality
7. Our Future

INVESTMENT PRIORITIES

1. Improving Safety Through Investments in Police and Fire Operations

a. **Resolve Measure B with Employees:** Improving our retention and hiring of police officers critically depends on our ability to settle our ongoing litigation over retirement benefits reform. The City is currently working with the San José Police Officers' Association (POA) to set negotiating meeting dates. I appreciate the POA's leadership and willingness to return to the negotiating table, and I look forward to collectively address our shared goals. The City Manager, per the Council – approved direction, is to continue making global settlement of our outstanding disputes a top priority.

b. **Police Department Staffing:** The Fiscal Year 2014-2015 Mid-Year Budget established a $5 million Police Department Overtime Reserve for Fiscal Year 2015-2016 that was funded by departmental vacancy-related savings. In Fiscal Year 2015-2016 the funding will be necessary to continue to pay for overtime officers to backfill vacancies and maintain targeted enforcement of high-crime activity with suppression cars as well as fill behind civilian vacancies. To address ongoing staffing needs, the City Council approved the Police Staffing Restoration Strategy with the goal to increase sworn staffing from 1,109 to 1,250. To support this effort, one-time funding of $13 million has been set aside in a Police Department Staffing Reserve and an additional $4,000,000 of ongoing funding is expected to be available for FY 2015-2016.

   The City Manager is directed to allocate this overtime reserve in 2015-2016 to address immediate staffing needs. We are encouraged by the willingness of the POA to negotiate, and hope this will enable the City to provide long-proposed enhancements and inducements that can support staffing restoration. The City Manager is directed to allocate funding from the one-time Police Department Staffing Reserve or additional Police Department one-time vacancy savings to the Police Department as part of the 2015-2016 Proposed Budget, aligning one-time funding with one-time needs. In addition, the City Manager is directed to continue allocation of funds for further recruiting activities to increase sworn police officers for the City.

c. **Police Protection Resources and Effectiveness:** The City needs to invest resources to protect the existing workforce, and provide better tools for our police to do their jobs more effectively and safely. The City Manager should fund ballistic panels, plates, vests and other measures sought by the Police Chief to protect our officers. In addition, the City Manager is directed to fund new Mobile Digital Communications devices to outfit the Police Department's remaining 250 patrol cars lacking those devices.

d. **Community Service Officers:** The 2013-2014 Adopted Budget included 21 Community Service Officers (CSOs) and the 2014-2015 Adopted Budget included an additional seven CSOs to perform a wide variety of non-sworn and administrative support services with a heavy emphasis on patrol-related support. CSOs have already proved valuable in responding to resident concerns, and to allow our sworn police officers to focus their scarce time on the City's most urgent public safety needs. The

City Manager is directed to add 26 CSOs this year, nearly doubling our current force. The City Manager is further directed to expedite hiring and identify additional opportunities for CSOs to improve public safety, such as with truancy abatement.

e. **Upgrading 911:** The California Emergency Services (CalOES) manages the replacement of 9-1-1 phone systems throughout California. Funding generated from a 9-1-1 service fee from each phone bill is placed in a State Emergency Telephone Number Account and allocated to jurisdictions on five-year cycles. The City of San José is expected to receive an estimated $1.4 million to replace its outdated system and implement newer technology that will enable the 9-1-1 Center to be prepared for Next Generation 9-1-1 requirements. Next Generation 9-1-1 is an internet protocol based system that will allow digital information (e.g., voice, photos, videos, text messages) to be received from the public. The City Manager is directed to allocate one-time funds to fully implement the 9-1-1 system replacement to improve emergency response technology.

f. **Police Data Analytics:** We've seen that the deployment of analytics software has reduced high-frequency, geographically-focused crimes like burglary and drug-dealing in other cities. San José should invest in this tool to enable us to better deploy our scarce officers to anticipated crime hot spots. Although our Police Department has implemented a CompStat data management system, and launched the IMPACT Program, newer tools such as PredPol can enable more advanced predictive policing strategies that other cities have used successfully. The City Manager is directed to allocate ongoing funding to further explore and implement those tools that can enable SJPD to best allocate the scarce time of its officers.

g. **Anti-Human Trafficking:** A grant from the State of California, combined with County and City funding, had previously enabled the San José Police Department and partner agencies to work together to address regional needs related to anti-human trafficking efforts. As part of the FY 2015-2016 Proposed Budget, the City Manager is directed to submit a Manager's Budget Addendum to: (1) inform the Council about how the money has been used in the recent past to combat this very serious crime, and (2) detail the scope of work for the San José Police Department or other departments if Council is to continue one-time funding. Based upon this information, additional allocation is likely to follow with Council direction in June.

h. **Body-Worn Cameras:** In 2012, I joined our Independent Police Auditor, Judge LaDoris Cordell, in publicly proposing that the San José Police Department take advantage of U.S. Department of Justice funding to use body-worn cameras on patrol officers. Last year, Councilmembers Ash Kalra, Don Rocha, and Pete Constant also filed a memorandum, urging us to move forward. Upon the resolution of the meet-and-confer process, the City Manager is directed to identify grant funding or one-time funds to implement body-worn cameras.

i. **Boosting Firefighter Staffing:** On March 3, 2015, the City Council adopted a resolution authorizing the City Manager to apply for federal grant funding to restore 14 firefighter positions eliminated in prior years. Although the Staffing for Adequate Fire

and Emergency Response (SAFER) Grant would provide funding for a portion of the firefighters' salaries and benefits, the City must commit to match the grant with $1.95 million in funding in this fiscal year and next. The City Manager is directed to allocate this funding for Fiscal Year 2015-2016 and Fiscal Year 2016-2017.

j. **Emergency Medical Response and Transport:** Through the duration of Santa Clara County's contract with Rural Metro, the company has declared bankruptcy, failed to obtain proper CPR certifications for employees, lost permits to transfer patients between medical facilities, and continued subpar response times for many communities. Under the current contract, the San José Fire Department provides the "first response" to emergency medical calls, and often provides patient stabilization and treatment until the ambulance arrives. As other cities have demonstrated, these redundant efforts - emergency medical response and patient transport - can be consolidated to a single provider. By taking on both the responsibilities and the revenues for patient transport, it could be possible for the San José Fire Department to improve response times, patient success, and conserve public resources. We have a limited window of time within which to evaluate this option, given the nature of Rural Metro's contract with the County, and the City's contract with the County. The City Manager is directed to work with other local public safety agencies to craft a Feasibility Study of our Fire Department's assumption of patient transport within San José, and report the findings to the Public Safety, Finance and Strategic Support Committee before fall 2015 in line with the timeline for the County's EMS RFP process.

k. **Emergency Response and Technology:** The Fire Chief has identified key deployment software as a critical path to improving emergency response for the Fire Department. The City Manager is directed to report back to the City Council as part of the FY 2015-2016 Proposed Budget on the status of implementing the software and any one-time funding necessary to ensure full deployment by summer 2015.

2. A Safer, Smarter San José

a. **Gang Prevention and Intervention Efforts:** The Mayor's Gang Prevention Task Force and many of its associated programs - San José Bringing Everyone's Strengths Together (BEST)/Safe Summer Initiative Grant Program and the Safe School Campus Initiative – have become a nationally recognized model for reducing violence and gang involvement among our youth. At a time of very thin police staffing, we need to double-down on our gang prevention efforts. In 2014-2015, one-time funding of $1.5 million was allocated to support these programs and an additional $1.5 million was set aside in reserve funds to use in 2015-2016 to continue funding at the same level of previous years. The City Manager is directed to fully fund these programs as ongoing commitments of the General Fund to the extent possible.

To further expand services, the City Council approved an additional one-time allocation of $1.0 million in 2014-2015 to fund three key gang prevention and intervention services comprised of: $300,000 for the Female Intervention Unit; $400,000 for capacity building activities which includes funding for Street Outreach,

the Late Night Gym Program, and the Community of Learning and; $300,000 for the Digital Arts Program located at three community centers in gang hot spots."

The City Manager is directed to return to Council with data demonstrating the efficacy of these programs, utilizing evidence-based practices in stemming gang recruitment and activity, and be prepared to allocate one-time funding to the programs with proven results.

b. **San José Works:** Despite our rapidly expanding economy, youth unemployment rates still exceed 20% in many San José neighborhoods. After SJPD conducted 108 arrests of burglaries in the South Division, the data revealed that juveniles comprise more than half of those arrestees. While truancy abatement efforts, as described above, can mitigate some of that crime, we know that (in the words of Fr. Greg Boyle), "nothing stops a bullet like a job." Multiple studies demonstrate that offering jobs to youth, especially at-risk youth, will help stabilize their lives, improve their self-confidence, and reduce the risk of gang involvement. The recently updated Mayor's Gang Prevention Task Force Workplan for 2015-2017, and the recently updated Youth Commission Workplan demonstrates strong community desire for an expanded youth jobs initiative. The City Manager is directed to allocate one-time funding of $1.02 million to create a two-year "San José Works: Youth Jobs" Initiative, seeding the first year of a "San José Works: Youth Jobs" Initiative. By demonstrating City commitment early (and with the County's $1 million contribution), we can leverage our public dollars to engage local employers in the initiative, and create a more sustainable model for continued impact and expansion. Already, The Home Depot, Bank of America, Lowe's, Target, and Microsoft have committed to participate in this effort. With our Mayor's Gang Prevention Task Force partners and work2future partners, we will identify, recruit, train and place at-risk youth from targeted gang hot spots and offer these young women and men a means to build a resume rather than a rap sheet.

c. **Safer Streets for San José:** In light of the spike in pedestrian deaths and serious injuries throughout our City we need to continually re-focus our commitment on making streets safer for pedestrians. Vice-Mayor Rose Herrera has called for a more proactive citywide approach to traffic calming program to address traffic safety concerns, with enough funding to allow each Council District to prioritize important projects. Over the last few years, the City has installed over 40 pedestrian crossing and traffic calming projects that make it safer for children, parents and seniors to cross busy streets and move about their neighborhoods. We will have retrofitted 24,000 of our 64,000 streetlights improving visibility on our streets at night and we are developing a plan to retrofit the remaining 40,000 lights.

To address the situation, the City Manager is directed to target future CIP investment to have the maximum impact on reducing injury crashes, with priority placed on pedestrian safety. The City Manager is further directed to allocate one-time funding from the Construction Excise Tax, or other appropriate funding sources, to allow for neighborhood traffic calming and pedestrian safety improvements in each Council District.

Lastly, the City Manager is further directed to use the Annual Transportation Safety Report to the Transportation and Environment Committee to report on current safety initiatives and how future investments in 2015-2016 and beyond will target gaps and identify potential improvements in the areas of education, engineering, and enforcement.

d. **LED Streetlights:** We've begun the replacement of 18,000 of our conventional streetlights with energy-efficient, brighter LEDs. With the issuance of a Request for Proposals, we seek to assess whether we can transform the entire City and its 40,000 remaining streetlights to improve neighborhood safety. The City Manager should return to the City Council in summer of 2015 with information about the status of that RFP, along with information regarding any one-time City funding needed to implement LED retrofits city-wide.

e. **Illegal Dumping Rapid Response Program**: Since the days of J.Q. Wilson, criminologists have recognized the impact of a neighborhood's signs of physical disorder – often described as broken windows theory – on the broader sense of safety. As the analogy goes, a single broken window, if left unrepaired, leads to an entire building of broken windows, which in turn creates a sense that "anything goes" in the neighborhood. Criminals will have reason to believe that drug dealing, prostitution, and increasingly more serious crime will be similarly tolerated in that neighborhood. As part of the FY 2014-2015 Adopted Budget, the City Council approved the Illegal Dumping Rapid Response Program that increased focus on abating illegal dumping by installing deterrent infrastructure and signage in hot spots, providing additional rapid pick-ups and neighborhood removals, increasing educational outreach, and identifying best practices to reduce illegal dumping. The City Manager is directed to continue this program and shift funding from one-time to ongoing for City service delivery to the extent possible.

3. **Restoring Basic City Services**

a. **Open Libraries 6 Days a Week:** In June 2014, 81% of San José residents approved an extension of the Library Parcel Tax, showing very strong support for the essential services that our libraries provide. This overwhelming mandate appears all the more remarkable in light of the severe cuts that our library system has suffered over the last half-decade, during which most branches closed all but four-and-a-half days per week, dramatically reducing patronage. We need to reward San José voters for their confidence. The City Manager is directed to open City libraries six days a week using a combination of reserves in the Library Parcel Tax Fund and the General Fund, starting with 20% of General Fund money in the first year, with a goal of phasing costs fully into the General Fund over a five-year period. To ensure a July 1, 2015 start date, the City Manager is directed to start the hiring process.

b. **Streets and Roads:** Over the last decade and a half, we have fallen far behind with the backlog of street repairs, due to chronic City budgetary shortfalls that compelled us to focus on only the most urgent of priorities. Increasingly, our roads have become among our most urgent priorities. The City Auditor just completed an

independent audit of the Department of Transportation's Pavement Maintenance Program, confirming that the Department spends its very limited resources both wisely and strategically, and that the City has chronically under-invested in basic street maintenance. We can no longer ignore this mounting peril: deferring our unfunded street infrastructure needs will cause our bill for capital replacement to balloon from $500 million today to almost $1 billion by 2020 and a staggering $1.8 billion by 2025. The City Manager is directed to move forward with long-discussed strategies for addressing street maintenance funding needs for City Council consideration for the 2016 election cycle, and to allocate one-time funding for ballot measure polling. That polling should test the viability of both a local bond measure and a sales tax increase for the June 2016 election, and multiple options should be tested and considered to maximize our opportunities to find a solution. Moreover, the City Manager is directed to continue the City's advocacy, in concert with my Council colleagues on the VTA Board, for a substantial City share for local roads from any potential VTA funding measure in November of 2016.

c. **Neighborhood Dashboard:** While we are on a path to modest service restorations, resources remain scarce, and we must make data-driven decisions to maximize those dollars. I propose the creation of a digital neighborhood dashboard that allows residents to readily report city issues, such as broken streetlights, graffiti, and abandoned vehicles, and to see the status of those requests through visual interface of a neighborhood map. In practice, this allows the City to have an up-to-date database of our residents' priorities and concerns enabling the City to make data-driven decisions about allocating scarce city resources. The ability for residents to also see these concerns expressed within their neighborhoods and throughout the city can provide a means to facilitate shared solutions, and to spur volunteer activation. This digital tool could also allow the City to share information with residents such as public safety, emergency preparedness, community center programing, local events, and much more. We should engage with those private sector partners that have expressed interest in partnering, such as NextDoor. The City Manager is directed to explore the creation of a neighborhood dashboard, and bring back through the budget process, a project scope and any necessary funding required.

4. Broadening Opportunity and Prosperity

a. **San José Learns:** A decade ago, our City provided funding for dozens of afterschool homework centers, a great legacy of Mayor Susan Hammer. Through the recession and budget cuts, we've largely dismantled the program, although some creative successor programs, such as those involving digital arts, are managed through partners with the Mayor's Gang Prevention Task Force and through the City's Parks, Recreation and Neighborhood Services Department. Our residents routinely tell us that afterschool programs are a very high priority. They recognize the critical need for extended learning for our kids, at a time when a majority of San José's 3rd graders perform below grade level in the 3rd grade English Language Arts (ELA) California Standards Test (CST), a critical determinant of future success. The statistics appear equally dire in math and science. Given the ever-increasing income gap in our Valley and the importance of an educated workforce to the health of our City's economy, we must find

ways to support our schools and to provide more opportunities for San José children. I am proposing a new model, one that leverages foundation, City, private sector, and school district resources to invest in our afterschool program infrastructure for academically-focused afterschool programs and summer programs for low-income children in grades K-5/6. The City Manager is directed to allocate one-time funding of $2 million, over two years, to launch a program supporting recommendations from our San José Learns Working Group. That group, which includes Councilmembers Don Rocha and Magdalena Carrasco, several superintendents, and foundation heads, is focused on building a model that will both boost achievement and scale sustainably. In addition, the City Manager is directed to include in its polling for the 2016 election cycle, consideration of an increase on the Medical Marijuana Tax to support these programs, among other City priorities.

b. **Manufacturing Jobs Initiative:** At a time when the gulf between rich and poor has widened, San José must take every opportunity to expand middle-income job opportunities for those lacking college or advanced degrees. In the last three years, we've seen a "reshoring" trend emerge in manufacturing, with companies moving high-paying fabrication and prototyping jobs back to the United States to exploit proximity to engineering, design, and product development operations. To better capture our share of these jobs, San José must focus on three essentials: sites, space and skills. The City Manager is directed to work with key stakeholders to assess how to best incentivize the retrofit of vacant, older industrial buildings, protect key potential manufacturing sites from conversion to other uses, improve manufacturers' ability to address their power needs, and bolster a pipeline for manufacturing-related skills and careers. The City Manager is also directed to identify potential funding sources for a modest amount of funding to cover permit fee waivers and accelerated permit approvals for the retrofit of older industrial buildings, as part of this initiative, and report back to the City Council through the budget process.

c. **Small Business Activation and Assistance**: During the Ninth Annual Neighborhood Association & Youth Commission Priority Setting Session participants prioritized small business support as very high. Since the dissolution of the Redevelopment Agency, the City of San José has had little resources to help our small businesses grow and expand. In FY 2014-2015, the Office of Economic Development launched the SJ Storefronts Initiative to help small businesses locating in vacant storefronts. The goal of the program was to activate vacant buildings and assist our new small businesses. For FY 2015-2016 the City Manager is directed to allocate $250,000 in one-time funding to continue a similar program.

The City's Small Business Ally program is a proven success and critical to assisting our largest job generators, small businesses. Expanding this program is critical to our small businesses. Already the program is able to assist Spanish-speaking small businesses; however, a large number of Vietnamese-speaking entrepreneurs also need assistance. Therefore, the City Manager is directed to bring options forward for City Council consideration, as a Manager's Budget Addendum, to expand the Small Business Ally program to support the efforts of expanding and immigrant-led small businesses in San José, utilizing one-time funding to the extent possible.

d. **Modernizing City Permitting:** The technology system supporting the City's permit and development approval process was installed more than 15 years ago. It does not support the kind of customer service, efficiency, and coordination that our employees and customers want to achieve and San José residents and businesses deserve. Through careful management of fee reserves, the City has accumulated sufficient funds to invest in a, modern, integrated permitting system. The City Manager is directed to issue an RFP for a new permitting system by the end of this fiscal year, and prioritize implementation of the system as the City's top technology deployment project.

e. **Homelessness:** We have approximately 294 homeless encampments in our City at last count, and we expect the recent homeless census to return results showing well more than 5,000 homeless in our city. Last month, the City Council endorsed Destination:Home's *Community Plan to End Homelessness*. This plan calls for creating 6,000 new housing opportunities, an enormous leap in investment to address our staggering need. Given our very limited resources and the increasing urgency of need, the City Manager is directed to focus on innovative approaches to rapidly re-house people to permanent or transitional housing, such as through micro-housing construction, motel conversion, and safe parking, as we continue to find longer-term solutions to funding permanent housing. The City Manager is directed to shift current one-time funding levels of $3.5 million to ongoing to the extent possible to support the Homeless Response Program and Homeless Rapid Re-Housing Team, and to these innovative efforts.

   Several private sector partners have emerged who have expressed an interest in philanthropic support for a "tiny home" or micro-housing project. The City Manager is directed to work with these prospective donors, and other key partners, such as Destination:Home, the County, and Water District, to identify sites for a pilot "tiny home" project that would serve as an accessible option within the next fiscal year. With a successful launch, we can learn lessons that will enable us to scale larger projects with broader impact.

   Finally, private sector partners such as Ernst & Young, TiVO, and Wells Fargo have agreed to sponsor key entrances to the city, where they fund the efforts of San José Streets Team to engage homeless men and women to clean and beautify our "San José Gateways" by cleaning trash, removing dumped items, eliminating graffiti, and planting vegetation. The Streets Team participants receive housing, food vouchers, and job training in exchange for their work. The City Manager is directed to continue to work with San José Streets Team to leverage these private sector contributions to expand the "San José Gateways" initiative.

f. **Immigrant Affairs:** Between 118,000 and 180,000 undocumented residents in Santa Clara County could be eligible to receive administrative relief from deportation under President Obama's Executive Action. We all benefit with the successful implementation of administrative relief, enabling residents to avoid *notario* fraud, and ensuring that our residents can achieve to their full academic and professional potential. Working collaboratively with the County of Santa Clara, the Silicon Valley Community Foundation, SIREN, and other community-based organizations, we should

identify gaps in services and best understand how the City can play a role. The City Manager is directed to assess the City's appropriate role in administrative relief in support of the work being done by partner agencies and to report to Council with its findings. The City Manager shall allocate modest one-time funding to the highest-priority services, such as outreach, education, and legal services to support the immigrant community.

g. **Bridging the Digital Divide on the East Side:** Providing internet access to San José students during the school day, after school and at their homes is critical for continued improvement in the classroom. Under the leadership of East Side Unified High School District (ESUSD), Superintendent Chris Funk and Information Technology Director Vijay Sammetta, the City has engaged in a partnership to expand free internet access to families living near schools and city facilities, and we are grateful to Superintendent Funk's team for their willingness to collaborate with the City. The City Manager is directed to provide access to City assets to enable the placement of internet-enabling infrastructure throughout neighborhoods surrounding our East Side schools, community centers, and libraries, and to return to Council with an estimate of modest one-time funding if necessary to ensure implementation of this initiative by summer of 2015. The City Manager is further directed to report results of this collaboration to the Schools-City Collaborative to inform other district Superintendents of the opportunities and challenges of expanding this partnership city-wide.

5. Engaging the Community

a. **Innovation and Strategic Partnerships:** The City of San José continues to work at the confluence of government and private sector to bring much needed resources, expertise and energy to City programs that benefit residents and businesses. The ever changing role of local government will continue to be a priority for my Office and the City. In 2014-2015 the City Council approved funding for a civic innovation and strategic partnership position. This position will catalyze and facilitate partnerships among the City, nonprofits, philanthropy, and businesses, to share expertise and leverages resources and creatively solve problems. In collaboration with the City Manager's Office, this position will be located in the Mayor's Office. Therefore, the City Manager is directed to reallocate the ongoing funding in the City Manager's Office to the Mayor's Office as part of the Fiscal Year 2015-2016 Proposed Budget.

As part of the Fiscal Year 2012-2013 Budget, the City Council approved TalentBridge, now known as Silicon Valley Talent Partnership (SVTP). SVTP is a non-profit that engages private sector talent and innovation into program solving matters. Both the City and community have benefited from enhanced government operations and services developed though these partnerships. SVTP has worked with the City on a variety of projects including Web Permitting Portal, Library Summer Reading App, Youth Partnership Project, and San José Small Business Ignite. SVTP currently has a matching grant from the Knight Foundation and is fundraising to continue their important work. The City Manager is directed to allocate one-time funding of $80,000 for SVTP.

b. **Participatory Budget Pilot Program:** San José has a wealth of community leaders who deeply engage in improving their city through their volunteer energy. We often hear creative ideas from our neighborhood leaders and community advocates about how they can "do more with less," leveraging modest amounts of public dollars with volunteer sweat equity, grants from employers and foundations, and personal contributions. Participatory budgeting has become a proven means of democratizing civic governance in hundreds of cities globally. To better engage our community and leverage volunteerism to make our scarce public dollars more effective, I propose we launch a pilot project of participatory budgeting within one or more council districts that opt-in. Any councilmember wishing to lead the effort within their own district will take $250,000 of the $2.5 million Essential Services Reserve, with the expectation that they make no other claims or proposals on the General Fund through the FY 2015-2016 budget deliberation process. The Mayor's Office and City staff will provide information, assistance, and facilitation in launching a community process to enable that district's residents to identify their highest-priority projects for city funding during the 2015-2016 fiscal year. The Mayor's Office will provide more information on this Pilot Program prior to City Council discussion on the FY 2015-2016 Proposed Budget.

c. **Program-Based Budgeting Initiative:** The City's Performance-Based operating budget provides information at the City Service Area (CSA), department and core service levels, aligning each core service with performance measures. Over the last eight years, during outreach to our neighborhood leaders have indicated a desire to have more program-level budget information. At the March 7, 2015 Neighborhood Association and Youth Commission Budget Priority Setting Session, for example, residents said they desired more information to help form priorities. Today, residents and Council see only the incremental growth or reductions in each departments base budget, thus close to 99% of the City budget is largely unseen by the public because the information is not presented at a more detailed level. Therefore, the City Manager is directed to incorporate program-level budgeting with the implementation of a new budget system. This will increase city efficiencies and transparency and allow greater scrutiny of individual programs within each department. It will enable the public to "lift the hood" of the budget. The City Council will be able to better weigh the proposed budget changes in any given year against existing funding for each program.

6. Boosting Vitality

a. **St. James Park Revitalization:** Last year, the Department of Parks, Recreation and Neighborhood Services, along with the Office of Economic Development, partnered with the surrounding neighborhood, downtown businesses, and the Knight Foundation to produce "Summer in St. James." We can reclaim urban park spaces from persistent criminal activity through community-building, and healthy activities. The City Manager should continue to build on last summer's success by leveraging modest City funding to encourage continued commitment from partners such as Levitt Foundation, the Knight Foundation, and the County Public Health Department to create a thriving, safe public space this summer.

b. **Fourth of July City Celebrations and Fireworks:** Given the enormous popularity of the revival of Downtown's Independence Day celebration, the Rotary International Fourth of July Fireworks event should be supported. In addition, Councilmember Khamis launched an Independence Day celebration at Lake Almaden, with a small amount of public funds leveraging private funding. Both of these events, and many similar, sanctioned events bring the community together and also deter illegal fireworks. The City Manager is directed to use one-time funding to fund the creation of an Independence Day Celebration Grant program with up to $75,000 through Transient Occupancy Tax (TOT) funds comprised of cultural grant funds and with TOT funds managed by the Office of Cultural Affairs.

   In addition, the City Manager is directed to work with the Rotary Club of San José to ensure the City-managed private parking lot on Almaden Boulevard, which is required for the event, will be made available at no cost.

c. **Children's Discovery Museum Funding:** The City Council approved direction in the Mayor's March Budget Message for Fiscal Year 2014-2015 that capped the 4% of Transient Occupancy Tax (TOT) that flows to the City's General Fund at 2013-2014 levels. It dedicated any new growth in revenues from that 4% of the TOT forward for capital and maintenance of City-owned cultural facilities. This reserve is estimated to total $3.3 million in FY 2015-2016. The Children's Discovery Museum Board of Director and staff have privately raised money to complete a major capital improvement to the facility, so that it continues remain a favorite for hundreds of thousands of children every year. This project includes a sculptural fence that serves both an artistic and safety purpose. Adding this fence would increase the functionally to the Museum. The City Manager is directed to allocate up to $350,000 from this fund to finish this project. As directed, the City Manager will finalize priorities of other capital needs at our cultural facilities and bring them forward in the Fiscal Year 2015-2016 Proposed Capital Budget for the remaining funds available.

d. **San José Creates & Connects:** On February 20, 2015, members of the diverse arts community convened to discuss the findings of a new report entitled "Building Public Will for the Arts and Culture." In collaboration with the California Arts Council, San José was selected as the California Pilot for an effort to integrate the arts and creativity in the everyday lives of residents. San José Creates & Connects brings together our multicultural arts organizations to focus on funding forms of creative expressions – such as murals, art boxes, performance and artist-driven projects – as part of a community-wide effort towards neighborhood creative place-making and reinvigorating neighborhoods through the arts and culture. With a renewed focus on San José as a cultural epicenter, a strong public-private partnership with foundations and the Office of Cultural Affairs will ensure continued emphasis on the arts. The City Manager is directed to evaluate ongoing funding options within the City's Transient Occupancy Tax dedicated to the arts that can match the investment of $150,000 from possible foundation investments to initiate the San José Creates & Connects programs.

e. **Traffic Control for Outdoor Special Events:** Outdoor special events continue to be vital to the San José economy and community. With over 300 outdoor special events

annually, residents and visitors have a variety of opportunities. The City Manager is directed to adopt and codify the new outdoor special event traffic control model developed in coordination with the Police Department, Department of Transportation, and Office of Cultural Affairs. The outcome of the full adoption of this model is effective, affordable, reliable and safe traffic control for outdoor special events. This model should aim to reduce City service costs for event organizers. To fully implement this model, a range of staffing options and equipment purchases should be pursued.

7. Our Future

a. **BART to San José:** Broadening access to job opportunities depends on better transportation. This year, our VTA will complete the link between San José Bay Area's first rapid-transit system, first connecting East Side and Downtown, and expand it westward thereafter. Together, we must work with our partners and do everything in our power to find funds to build all four of San José proposed BART Stations: Berryessa, Alum Rock, Downtown, and Diridon. The City Manager is directed to engage with the Valley Transportation Authority and Metropolitan Transportation Commission to craft a funding strategy by December 2015 to build all four San José BART stations, prior to VTA's submittal of an application for a full funding grant agreement from the Federal Transportation Administration.

b. **Groundwater Recharge:** Over the last three years, our drought has only grown in severity. Despite repeated calls for conservation that include a 20% reduction in household usage, the county's groundwater storage was depleted by 80,000 acre feet (AF) in 2014. We need to take proactive steps today to address our long-term water needs. While we can't control the weather, we can better leverage the resources and technology we currently have, beginning with our extensive recycled water infrastructure and our recently-launched advanced purification treatment facility. Underground aquifers have long provided stable storage for our water, and we should proactively embark upon an effort to use highly-purified recycled water to "recharge" these aquifers. We currently recycle 15,700 acre feet per year, and with advanced purification, we could substantially boost the reliability our long-term potable water supplies by 35,000 acre-feet annually. The Board of the Santa Clara Valley Water District has already expressed strong interest in moving in this direction. The City Manager is directed to work with key stakeholders, including the Water District, the City of Santa Clara, San José Water Company, and Great Oaks Water Company, to return to Council with options for potentially accelerating deployment of an indirect potable reuse system in San José. Opportunities to allow private sector parties to assume the risk for such endeavors should be seriously considered.

8. Administrative

a. **Employee Suggestion program**: As noted by Councilmember Khamis, our employees are great sources of ideas that can both improve operations as well as create savings. The City previously piloted an e-ideas program, but unfortunately it was underutilized. We should re-envision the Employee Suggestion program, with concrete incentives and rewards to employees for innovative ideas. The City Manager has begun

work on this effort, and is directed to utilize the $25,000 in ongoing funding and any one-time program funding available (estimated at $190,000) to expedite the start-up of a new program, which should be launched no later than Fall 2015.

b. **Reestablish Council General:** In Fiscal Year 2014-2015, the City Council moved away from the Council General allocation and appropriated funds in each Council District and the Mayor's Office budget. For Fiscal Year 2015-2016, the City Manager is directed to create the Council General allocation with a narrow scope, in partnership with the City Clerk. This Fund should address shared costs for the Mayor and Council Offices.

c. **Budget Balancing Strategy Guidelines:** The City Manager is directed to use the 2015-2016 Budget Balancing Strategy Guidelines as detailed in Attachment A to develop a balanced budget for the next fiscal year.

d. **Essential Services Reserve:** The City Manager is directed to set aside $2.5 million in one-time funds that may be used for the purpose of supporting services that are of essential importance to our residents. Services deemed essential by the City Council may be funded with the use of these one-time funds, as well as the Participatory Budgeting Pilot Program.

COORDINATION

This memorandum has been coordinated with the City Manager and City Attorney.

For more information on this memorandum, please contact Lee Wilcox, Interim Budget Director, at 408-535-4814.

Attachment A

2015-2016 Budget Balancing Strategy Guidelines

1. Develop a budget that balances the City's delivery of the most essential services to the community with the resources available.
2. Balance ongoing expenditure needs with ongoing revenues to ensure no negative impact on future budgets and to maintain the City's high standards of fiscal integrity and financial management. Maintain adequate reserves to cover any budgetary shortfalls in the following year as a stopgap measure if necessary.
3. Focus on business process redesign in order to improve employee productivity and the quality, flexibility, and cost-effectiveness of service delivery (e.g., streamlining, simplifying, reorganizing functions, and reallocating resources).
4. Explore alternative service delivery models (e.g., partnerships with the non-profit, public, or private sector for out- or in-sourcing services) to ensure no service overlap, reduce and/or share costs, and use our resources more efficiently and effectively. The City Council Policy on Service Delivery Evaluation provides a decision-making framework for evaluating a variety of alternative service delivery models.
5. Analyze non-personal/equipment/other costs, including contractual services, for cost savings opportunities. Contracts should be evaluated for their necessity to support City operations and to identify negotiation options to lower costs.
6. Explore redirecting and/or expanding existing revenue sources and/or adding new revenue sources.
7. Establish a fee structure to assure that operating costs are fully covered by fee revenue and explore opportunities to establish new fees for services, where appropriate.
8. Identify City policy changes that would enable/facilitate service delivery changes or other budget balancing strategies.
9. If additional resources become available, spending on increasing compensation and restoring services should both be considered.
10. Focus service restorations the baseline January 1, 2011 service levels previously identified by the City Council in the areas of fire, police, library, community centers, and street maintenance, as well as the Policy Staffing Restoration Strategy.
11. In addition to considering service restorations previously identified by the City Council, take a holistic approach regarding the restoration of services. As outlined in the Guiding Principles for Restoring City Service Levels as approved by the City Council on March 20, 2012, allocate additional resources with the following goals in mind: ensure the fiscal soundness of the City; choose investments that achieve significant outcomes; and improve efficiency and effectiveness of service delivery. Using a multi-pronged approach to restoring direct services, take into consideration the following factors: adequate strategic support resources; adequate infrastructure; service delivery method to ensure efficient and effective operations; service delivery goals and current performance status; service sustainability; and staffing resources.
12. Incorporate compensation adjustments in a fiscally responsible manner that does not result in a reduction or elimination of services in the General Fund.
13. Engage employees in department budget proposal idea development.
14. Use the General Plan as a primary long-term fiscal planning tool and link ability to provide City services to development policy decisions.
15. Continue a community-based budget process where the City's residents and businesses are educated and engaged, as well as have the opportunity to provide feedback regarding the City's annual budget.