City Council Agenda: 3/20/07
Item: 9.1

Memorandum

Chuck Reed

TO: City Council

FROM: Mayor Chuck Reed

SUBJECT: **MARCH BUDGET MESSAGE FOR FISCAL YEAR 2007-08**

DATE: March 9, 2007

Approved:

Date:

RECOMMENDATION

I recommend that the City Council direct the City Manager to submit a proposed balanced budget for Fiscal Year 2007-08 that is guided by the policy direction and framework of priorities outlined in this message. Proposals for budget reductions should be developed with a level of analysis that includes detailed data, justification, and outcomes for City Council consideration later this spring.

BACKGROUND

In accordance with Section 1204 of the San José City Charter, I present my Fiscal Year 2007-08 Budget Message for consideration by the City Council and the public. The Mayor's March Budget Message is based on several sources. These include my recent State of the City address, community survey, input from the community and Councilmembers through priority setting sessions, and budget balancing strategy principles recommended in the City Manager's Budget Request and Five-Year Forecast document.

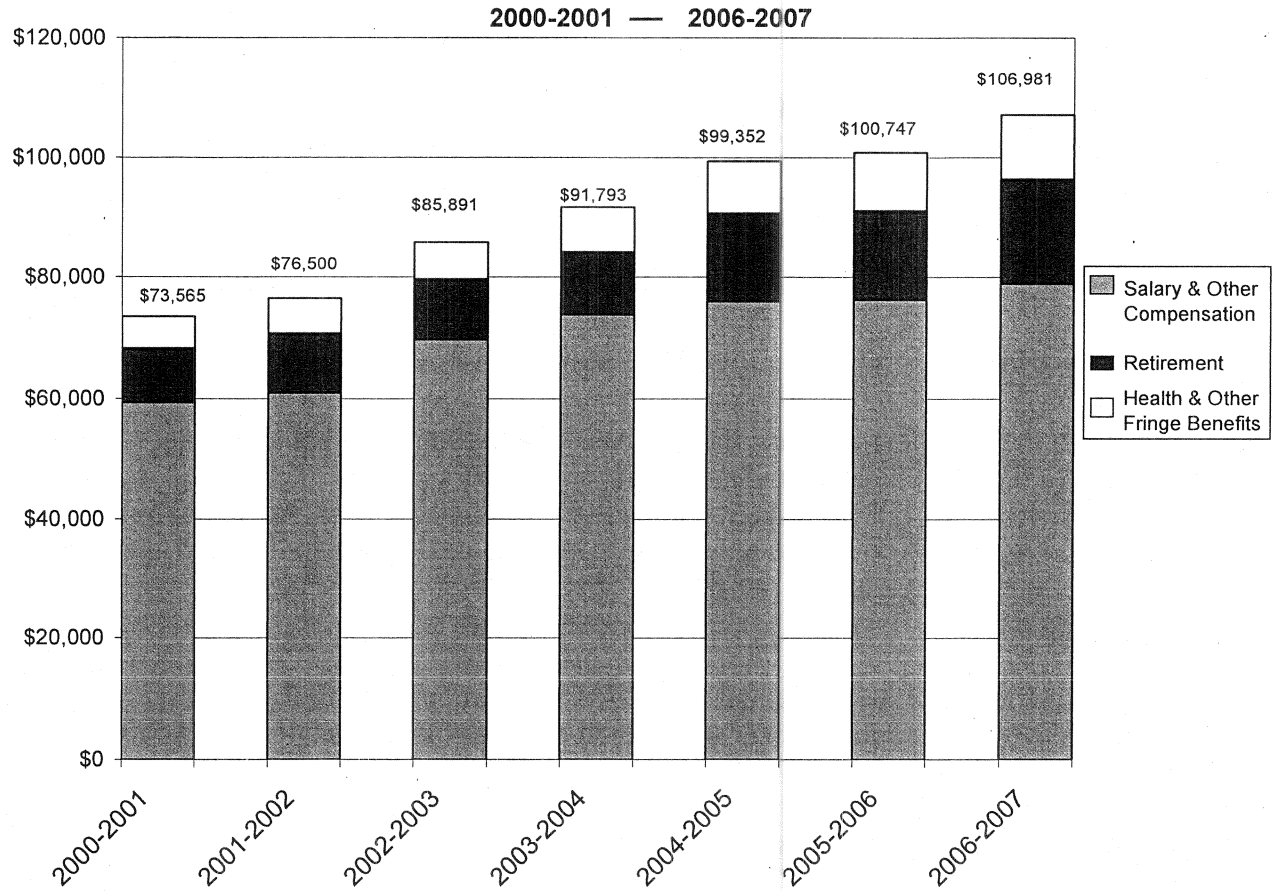
The goal of this memorandum is to provide an initial framework for the City Council to give the City Manager specific direction on March 20th to prepare proposals for the Council's budget deliberations in May. The information in this document should be considered preliminary. More accurate and current information will be included in the proposed budget submitted by the City Manager. Further City Council discussion and additional budget study sessions and public hearings will take place before the final budget is presented for adoption in June.

This year's Mid-Year Budget Report included some encouraging news about the City's economic situation, including revenues tracking generally at or above estimated levels and expenditures remaining within budgeted levels. However, our costs to provide services to our residents and businesses continue to escalate.

For several years, we have severely limited hiring to fill vacancies, thus reducing the size of our workforce. Salary increases are not alone in adding to our costs for services. Other factors include

rising healthcare and retirement costs. (See **Figure 1** below) Benefit costs continue to increase with next year's projection including a 12% increase in health insurance costs.

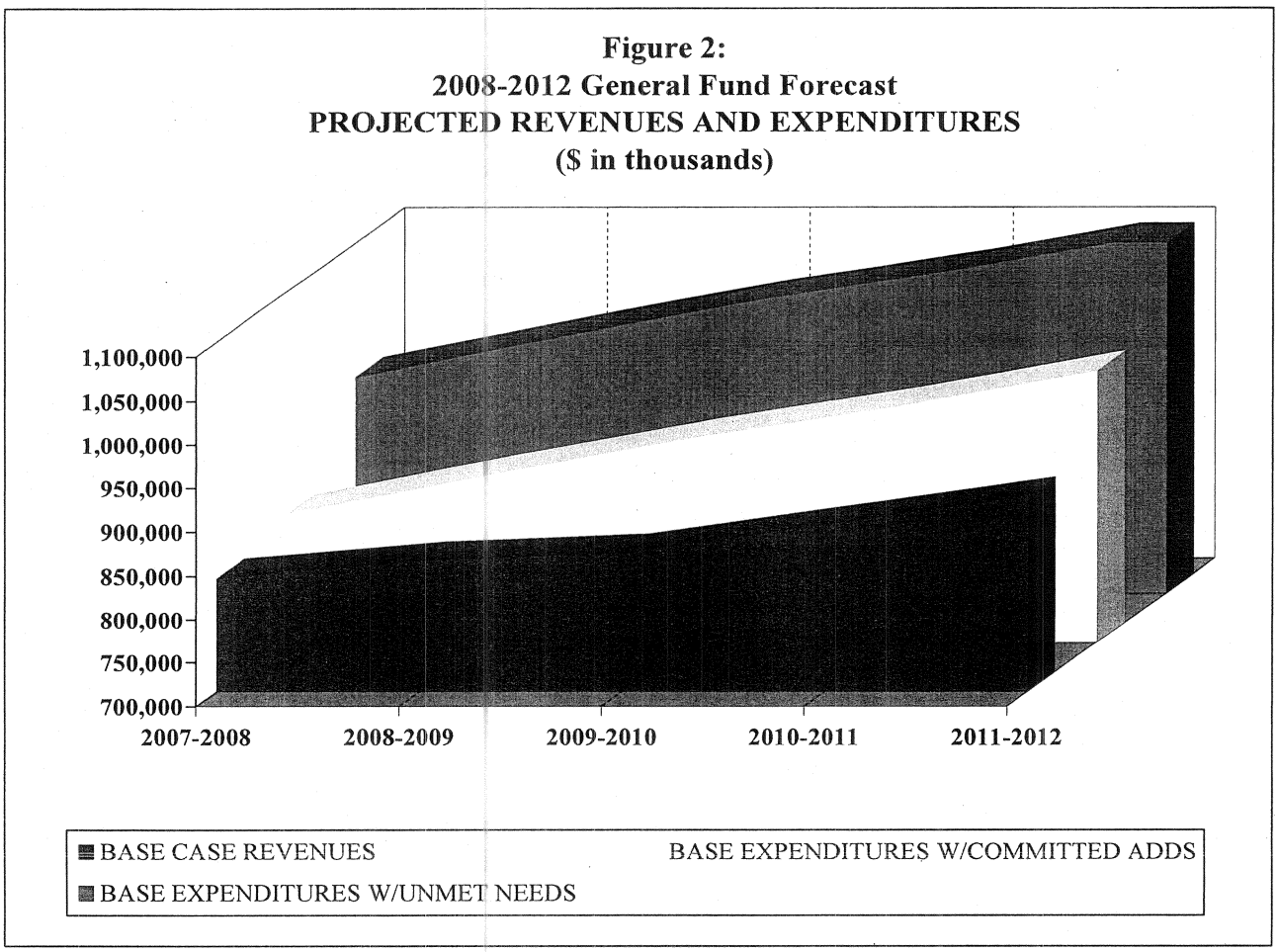
Figure 1: Average Employee Salary and Benefit Growth*



* Figures based on Adopted/Forecast Budgets and represent an approximate average cost due to partial year funding of some positions in each year.

The City of San José is in an extremely difficult financial situation. We are not unique in this regard. Many cities, counties and states across the nation face similar and even worse financial dilemmas. The simple reality is that we have a structural budget deficit, where ongoing expenses exceed revenues.

The structural deficit is not a new situation. As has been the case for the past five years, the projected growth in revenues is not expected to keep pace with the projected growth in expenditures in the Forecast Base Case, resulting in a persistent structural deficit in the General Fund. (See **Figure 2**) The deficit has grown due to lower revenues, inflation, and wage and benefit cost increases. Our budgets have been developed with the hopes that the economy would bounce back and revenues would once again boom. However, even if we benefit from an economic recovery, that will not be enough to eliminate our structural gap.



The focus of this Budget Message is to address the structural budget deficit. A clear distinction needs to be made between ongoing and one-time cost reductions and revenues. One-time options help balance a particular year's budget, but do not resolve the structural deficit. Ongoing cost reductions, balanced with reasonable assumptions of revenue generation, are the only means by which the structural deficit can be solved.

COMMUNITY BASED BUDGET

In these challenging economic times, we must continue to reduce costs and aim to maintain services. We also must focus on our highest priorities given our limited resources. Governing means choosing and we will have to make some tough choices again this year.

The community survey and City Council and Neighborhood Priority Setting Sessions help steer us in making the right decisions. Funding programs considered to be a low priority by the community must be seriously questioned. The residents of San José deserve solutions that are based on long-term perspective, not one-time fixes. Our City Manager's Budget Office estimates that the gap between spending and revenue will only grow in the next years, resulting in a cumulative $76 million dollar shortfall over the next three years.

With regard to reducing costs, the problem is that 50.3% of the City's Base 2007-2008 General Fund budget is allocated to police and fire services. We must remain cognizant of this and that the community ranks these services as very important. However, we must also recognize that many non-public safety services are important and some are partially offset by their own revenue sources. Reducing these services could result in a corresponding reduction in revenue and will not serve to solve the structural budget deficit. Therefore, it is not practical to eliminate the budget deficit solely by cutting non-public safety budgets. Given that the deficit is projected to be in excess of $16.2 million next fiscal year, cutting this much out of non-safety programs and services could not be done without wholesale elimination of many programs and services.

The Community Based Budgeting process and the steps we are taking go beyond addressing the fiscal challenges facing the City of San José. They also provide a blueprint for future government-community interactions and decision-making, working toward the following fundamental objectives:

Trust
Restoring trust between the City's government and the community it serves is an essential element of Community Based Budgeting. The belief is reflected in the inclusive nature of the process, which invited all sectors of the community to join the dialogue about the City's budget challenges and solicited input into priorities and solutions. The continued dialogue over the next several years will reinforce the trust built over the last several months.

Transparency
Transparency reveals the complex decision-making processes and strategies required to deliver services to a city of over 950,000 residents. The challenges the City faces will require readily accessible information and ideas from varied sources. With informed community input and continued fiscal discipline, the City will be able to increase its effectiveness in managing limited public resources.

Responsiveness
This Budget Message is built upon the community's needs and priorities. While it is impossible to be responsive to all individual interests, we've taken into consideration the input of the community through the Community Based Budgeting process and any proposed additions or proposed reductions will be in line with the community's priorities.

City Sustainability
This Budget Message maintains a long-term perspective for San José's sustained fiscal health, by continuing investments in our core service areas critical to the City's future: infrastructure, economic development, and public safety, while providing opportunities for our neighborhoods. Further, this message will maintain the City's credibility within the financial community, demonstrating our response to cost and revenue fluctuations while maintaining a full service city.

Our review of goals and priorities is to identify areas where the City can redefine the way it does business, and focus limited resources where they are needed most. The guiding principle behind the Priority Setting Sessions, New Initiatives and Unfunded Programs and community survey, uphold

the best interest of the community, first and foremost, putting everything on the table for consideration and evaluation.

RESULTS OF COMMUNITY OUTREACH PROCESS

Neighborhood Association Meeting Results

The Neighborhood Priority Setting Session was held on January 20th, 2007 at City Hall. The meeting provided an opportunity for neighborhood association leaders to hear about budget challenges facing the City. The forum also allowed members to share ideas regarding service priorities. The meeting was attended by over 100 participants that concluded with five 3-year goals.

The five goals are (not in priority order):

1. Increase the number of jobs in San José.
2. Improve proactive code enforcement.
3. Provide full funding for parks, pools, community centers and libraries, including maintenance operations and development.
4. Improve community policing in the neighborhoods.
5. Improve general fund revenue.

Community Survey Results

Fairbank, Maslin, Maullin & Associates conducted a telephone survey of San José residents on behalf of the City to explore residents' perceptions of City services and their policy and funding priorities. The community survey was conducted between January 17 and 21 using a random-digit dial method to reach a random and representative sample of 450 San José residents. The survey was translated and conducted in Spanish and Vietnamese as well as English. It included questions exploring residents' rating of the quality of City services, residents' perception of the city budget, residents' priorities for increases or cuts in City spending, and residents' attitudes toward budget-related policy issues.

The survey results show that a majority of residents believe the City is spending the right amount of money on key services that were included in the survey. If additional money was available, the survey respondents would prefer that those dollars be dedicated to police services, as well as road maintenance, repair, and improvements. A majority of surveyed residents indicate an unwillingness to make significant cuts in funding in any one area in order to augment services in another area.

Council Priority Setting Session

On February 20th, 2007 the City Council, Council Appointees and Senior Management Staff participated in an all day retreat to develop and discuss the City's three-year goals. Below is a summary of the key outcomes of the session:

Mission Statement:

The group engaged in a lengthy discussion on the development of a mission statement for the City of San José. The following was the final product:

> ***The Mission of the City of San José is to provide quality services, facilities and opportunities that create, sustain and enhance, a safe, livable and vibrant community for its diverse residents, businesses and visitors.***

Three-Year Goals: The group went through an intense process and arrived at the following three-year goals:

1. Maintain our status as the safest big city in America.
2. Eliminate the structural budget deficit.
3. Reduce deferred maintenance and the infrastructure backlog and develop a strategy to improve the infrastructure.
4. Increase economic vitality.
5. Provide full funding for parks, pools, community centers and libraries, including maintenance operation and development.

New Initiative and Unfunded Programs Session

In order to provide context to the many unmet demands on City resources, on February 22, 2007 the Administration prepared a list of the most significant new and unfunded initiatives currently identified as high priority needs (**Figure 3**) as well as re-issued a previously prepared list of unmet/deferred infrastructure and maintenance needs (**Figure 4**). In addition, staff compiled a list of the major General Fund reductions experienced over the last five years. When considering the impact of current unfunded needs and the cumulative impacts of prior year reductions, the potential demands on the organization are staggering (**Figure 5**).

FIGURE 3:
NEW AND UNFUNDED INITIATIVES/PROGRAMS

UNFUNDED INITIATIVE/PROGRAM	ESTIMATED COST
1. GASB 43/45	$98,000,000
2. Police Staffing Plan	20,200,000*
3. General Obligation Bond Projects	18,200,000
4. Watson Park	7,900,000
5. City-wide Aquatics Plan	7,400,000
6. Trees-Maintenance and Enforcement	3,850,000
7. Open Government Initiatives/Reed Reforms	2,000,000
8. Network Operations Center Back-Up Cooling	1,300,000
9. Night Shift Custodial Services at City Hall	1,200,000
10. Shopping Center Improvement Pilot Program	1,200,000
11. General Plan Update	820,000
12. Mexican Heritage Plaza	700,000
13. Small Business Bonding Program	250,000
TOTAL	**$163,020,000**

* This total represents a first year cost of a five year proposed implementation plan. After year 5, the proposed cost is $121,000,000 per year.

FIGURE 4:
UNMET/DEFERRED INFRASTRUCTURE AND MAINTENANCE NEEDS

INFRASTRUCTURE/MAINTENANCE AREA	ESTIMATED COST
General Fund Needs	
1. Transportation Infrastructure	$391,514,000
2. Information Technology Infrastructure	3,978,000
3. Vehicle/Equipment Replacement	3,025,000
4. General Services Maintenance	1,166,000
Subtotal of General Fund Needs	**$399,683,000**
Potential Use of Other Funds to Partially Fund	
1. Parks Facilities	$29,664,000
2. General Services Maintenance	11,670,000
3. Convention Center and Cultural Facilities	4,290,000
Subtotal Potential Other Funding Sources	**$45,624,000**
TOTAL	**$445,307,000**

* It should be noted that this analysis does not include the numerous other unmet/deferred infrastructure needs that exist in the City's various Special Fund programs (e.g., Airport, Water Pollution Control Plant, Sanitary and Storm Sewer Systems, Municipal Water System).

FIGURE 5:
CUMULATIVE IMPACT OF GENERAL FUND BUDGET SHORTFALL, UNMET NEEDS AND RECENT MAJOR BUDGET REDUCTIONS

	Funding Impact
2007-2008 February General Fund Shortfall	$16,209,000
New and Unfunded General Fund Initiatives/Programs	163,020,000
Unmet/Deferred Infrastructure and Maintenance Needs	445,307,000
Major General Fund Reductions (2002-2003 – 2006-2007)	69,249,000
TOTAL	$693,785,000

As the preceding data shows, it is clear that all of our needs cannot be met. Consequently, this leaves us with the difficult task ahead to jointly decide how to allocate scarce resources.

RECOMMENDATIONS

While it is impossible to capture every resident's ideas in the Budget Message, I have reviewed the surveys and Council comments and have made a sincere effort to ensure this Budget Message reflects the community's and the City Council's priorities and ideas.

General

1. All proposals for either budget reductions or augmentations should be measured against the following criteria:

    a. Impact on essential public services.
    b. Adherence to Council-approved priorities.
    c. Relative importance to operational efficiency.
    d. Effect on fiscal integrity and flexibility.
    e. Economic impact and jobs.

2. Because of the extraordinary challenge we face this year, I recommend that the City Council approve the following general budget balancing strategy principles as proposed in the 2007-2008 City Manager's Budget Request and 2008-2012 Five-Year Forecast and Revenue Projections document, as we consider our direction to staff for preparing budgets for both the current and next fiscal year:

    a. Balance the City's ability and capacity to provide essential services to the community, support economic growth, build strong neighborhoods, and stabilize the City's budget.

    b. Mitigate to the extent possible direct service reductions by utilizing a combination of ongoing expenditure reductions and increases or retention of ongoing revenue sources, coupled with one-time expenditure cuts, one-time revenues, and/or a portion of the reserves

designated for budget balancing purposes, while continuing the City's high standards of fiscal integrity and financial management.

c. In addition to strategies that achieve efficiencies and appropriate cost savings, utilize fee increases to assure that operating costs are fully covered by fee revenue and explore opportunities to establish new fees for services where appropriate.

d. Focus on protecting vital core City services for both the short- and long-term. Analyze all existing services and focus service reductions first in those areas that are least essential.

e. Defer consideration of any new program commitments and initiatives or program expansions, unless those program commitments stimulate the local economy, job creation, new revenues and/or are funded through redeployment of existing resources.

f. Consider alternative service delivery mechanisms (e.g., appropriate community partnerships, public-private partnerships, working with other jurisdictions, outsourcing/insourcing services delivered by City staff, etc.) to ensure no service overlap, reduce and/or share costs, and use our resources more efficiently and effectively.

g. Focus on improving employee productivity and continuously improving business practices, including streamlining, innovating, and simplifying City operations (e.g., using technology) so that services can be delivered at a higher quality level, with better flexibility, and lower cost.

h. Use the General Plan as a primary long-term fiscal planning tool and link ability to provide City services to development policy decisions.

i. Explore expanding and/or re-directing existing revenue sources and/or adding new revenue sources (i.e., special assessments, ordinance revisions, bond measures) for the long term.

j. Continue to make community and employee involvement a priority for budget balancing idea development.

k. Make every effort to eliminate vacant positions, rather than filled positions, to limit the number of employee layoffs. As programs are reduced or eliminated, ensure that program management and administration are reduced accordingly.

l. Explore personal services cost savings, subject to the meet and confer process where applicable, by 1) considering further incorporation of total compensation bargaining concepts into the meet and confer process and focusing on all personal services cost changes (e.g., step increases, benefit cost increases, 2) civilianizing more sworn positions, 3) exploring alternate benefit structures for new employees, and 4) changing employee/retiree health care benefit plan designs.

3. The City Manager shall:

   a. Develop a proposed budget that is balanced based upon our current revenue expectations and expenditure reductions.

   b. Set aside funds in the May 1 budget proposal that are adequate to fund each Appointee's office and the Mayor/City Council Offices equal to the average non public safety expenditure reduction.

   c. Maximize reductions to ongoing programs to help solve future deficits to the fullest extent possible.

   d. Require that all reductions that are personnel-related be ongoing cuts and not one-year freezes to better overcome future deficit projections.

   e. Immediately coordinate and aggressively pursue opportunities for the City (and community-based organizations with technical assistance from the City) to apply for grants to support programs in priority areas.

   f. Avoid budget cuts that would mean we lose grants or cannot leverage other resources.

   g. Continue to include the Independent Police Auditor under the Public Safety CSA.

   h. Include all other Council Appointees' budget reduction proposals under the Strategic Support CSA for the May 1 budget release and include them in budget study session discussions during the Strategic Support CSA.

   i. Identify new proposed additions within a CSA's department proposal, rather than just including it within the base budget.

Investment Strategies

The CSAs integrate services provided in individual departments into the City's six key lines of business. For clarity and consistency with the budget document, the recommendations have been listed by their respective CSA.

1. Community and Economic Development CSA

San José must continue to be the best place in America to live, work, do business and raise a family. We must manage the growth and change of the City of San José in order to encourage a vital economy, ensure diverse range of arts, cultural and entertainment offerings, increase the number of jobs and create and preserve healthy neighborhoods. I recommend the following:

   a. **Permitting Process:** The Permitting process has been a problem that has plagued our city for years. It needs to be fixed this year. The City Manager is directed to set performance

measures for service and regularly report to the Community and Economic Development Committee.

b. **BioScience Initiative:** This sector is an emerging economic driver and the Valley must be prepared to move forward. There are 25 companies developing new products in our BioScience Incubator in Edenvale. The next step for these companies is manufacturing. Direct the City Manager and Executive Director to pursue, with possible federal funding, a pilot manufacturing facility that will allow these bioscience innovators to grow in San José so we do not have to outsource jobs.

c. **Convention Center and HP Pavilion:** These two buildings have brought in millions of people to spend money throughout the City and generate hotel tax, sales tax and parking revenues. These buildings are in need of capital investment to be brought back to first class status so they can generate more General Fund revenue. The City Manager, along with the Executive Director, is directed to return to the City Council with a funding strategy for improvements to the Convention Center and the Pavilion.

d. **Affordable Housing In-Lieu Fees:** Infill housing allows us to provide housing more efficiently. Our number one location for infill housing is downtown. We can help by allowing downtown residential developers to pay a fee for affordable housing instead of building the units themselves. The City Manager is directed to return to the City Council with options on implementing an affordable housing in-lieu program.

e. **1st ACT Silicon Valley and San José Downtown Association:** A great vision for a vibrant, creative downtown has been developed. The plan encourages iconic public art, outdoor meeting spaces, a wireless network, boutiques, cafes, clean streets, colorful signs, and street vendors. The City Manager and Executive Director are directed to report back to the City Council with a plan on implementation of the "small wonders" phase of the plan.

f. **Retail Strategy:** Improving retail revenue presents an opportunity for General Fund revenues. San José loses 20% of our sales tax revenues to other cities. The City Manager and Executive Director are directed to review our retail strategy and identify opportunities and resources needed to make it easier for major retailers to get through the approval process. The City Manager and Executive Director are also directed to present to the City Council potential sites for retail development.

g. **General Plan Update:** The City Manager is directed to include funding to update the General Plan in the proposed budget. Fiscal analysis needs to be a critical factor in the General Plan update and in all of our major land use decisions.

h. **Review of Underused Lands:** The City Manager is directed to pursue opportunities to make underused public land and buildings available for more productive uses that will generate income from the private sector.

i. **Property-Based Business Improvement Districts:** Leading to cleaner, greener and safer streets property owners along Lincoln Avenue and downtown are willing to help pay for cleaning sidewalks and streets. The City Manager is directed to help facilitate those efforts and develop a model that can be used in other business districts as well.

j. **Sign Ordinance:** Signs help our businesses thrive and succeed. The City Attorney working with the City Manager is directed to draft an ordinance for minor modifications to the industrial and commercial sign ordinance and present it to the City Council for action. The City Manager is also directed to develop the scope and a proposal for a rewrite of the sign ordinance and present it to the City Council.

k. **Early Consideration of Development Proposals:** The City Manager is directed to present to the City Council a process for early consideration of land use development proposals.

l. **High Rise Residential:** The City Manager is directed to develop incentives for high rise residential development and present to the City Council for action.

m. **Helping the Homeless:** There are residents of San José who are in desperate need of housing. The City Manager is directed to identify the steps and resources needed to develop additional extremely low income housing.

n. **Housing Trust Fund:** Direct the City Manager to work with the Executive Director of the Redevelopment Agency to recommend to the City Council how best to support a city investment of $250,000 for the Housing Trust Fund.

o. **Pilot Permit Holiday Program:** The Executive Director and City Manager are directed to bring to the City Council for consideration a Pilot Permit "Holiday" Program for downtown neighborhood business districts and small businesses with General Fund reimbursements coming from the RDA.

2. Environmental and Utility Services CSA

San José must be a leader in providing environmental leadership through policy development, program designs and reliable utility services. I recommend the following:

a. **Solar Power:** We can reduce our operating costs by installing solar power on city buildings such as the Tech. The City Manager and Executive Director are directed to explore opportunities for loans and grants to help pay for these capital improvements.

b. **Investing in Energy Efficiency:** The City Manager is directed to create a revolving fund so that energy conservation rebates can be reinvested into green building projects, or other energy efficient projects, to help decrease operating costs.

c. **Water Pollution Control Plant:** Our wastewater treatment plant is over 50 years old and much of it needs to be replaced and/or upgraded. When we rebuild the plant we need to make

it more efficient. We can and should recycle more water from the plant, find better uses of the biosolids from the plant, and generate sustainable energy at the plant to reduce its operating costs. The City Manager is directed to identify the steps and resources necessary to modernize the San José/Santa Clara Water Pollution Control Plant. Direction also includes identifying steps to find better uses of biosolids, reviewing alternatives to generate sustainable energy at the plant, and ways to reduce operating costs.

d. **Environmental Position:** Many private projects that the City Council approves require environmental mitigations as a condition of approval. To ensure that the mitigations on these projects are met, the City Manager is directed to assign staff and validate that these mitigations are in conformance with the prior approval process.

e. **Responsible Fleet Management:** San José should be a national leader with respect to how we manage our vehicle fleet. The transportation sector alone is responsible for about one-third of our nation's total production of carbon dioxide, the greenhouse gas that contributes most significantly to global warming. To that end, staff is directed to develop a specific fleet management policy with targets of acquisition. The policy will ensure that as vehicles are retired from our fleet, as a matter of course the City will procure vehicles responsibly.

f. **Green Building Policy Implementation:** The City has recently adopted a Green Building Policy that requires LEED Silver certification at a minimum with a goal of Gold or Platinum. The Policy also requires exploration of how we can encourage green building in the private sector. The City Manager shall appropriately staff the implementation of the Green Building Policy.

3. Neighborhood Services CSA

The quality of our lives depends on the quality of our neighborhoods. We must serve, foster, and strengthen our communities by providing access to lifelong learning, opportunities to enjoy life, ensuring a diverse range of housing opportunities and preserving healthy neighborhoods. I recommend the following:

a. **Watson Park:** There has been a City Council commitment and a community expectation to remediate Watson Park. The City Manager is directed to include funds for the next phase of remediation in the proposed budget. The City Manager and Executive Director should explore the use of RDA and grant funds for the project.

b. **Parks Maintenance Partnerships:** The City has companies and homeowners associations that want to help us maintain our parks. During the budget process, the City Manager is directed to report back on a strategy to allow private/public parks maintenance partnerships.

c. **Anti-Graffiti and Anti-Litter:** All residents of San José should be able to walk in neighborhoods that are clean and free of litter and graffiti. Anti-Graffiti and Anti-Litter Programs that make our community stronger, cleaner, and safer in partnership with volunteers should not be reduced. Cleaning up graffiti and litter is not enough. The City

Manager is directed to explore opportunities to build partnerships to continue our anti-litter and anti-graffiti efforts. Staff will also work in collaboration with the District Attorney and the County to reduce repeat offenders.

d. **State and Federal Grants:** State and Federal grants are available for park and trail projects. We need to make sure we spend money we have already received and apply for potential grants we are eligible to receive. The City Manager is directed to regularly report to the Neighborhood Services Committee on grant spending and applications.

e. **Aquatics Master Plan:** The City Manager is directed to follow the City Council's direction from the February 27th City Council meeting. This direction includes completing the repairs and providing sufficient staffing necessary to reopen Ryland, Alviso and Biebrach pools as soon as possible. The City Manager should also explore the feasibility of public/private partnerships to facilitate these repairs.

f. **Community Center Reuse and Operations:** The City Manager is directed to present to the City Council for action a budget proposal option on reuse of community centers.

g. **Parks Maintenance:** It is not too much for our residents to ask to keep our parks clean. The City Manager is directed to explore allocating remaining enhanced Park Maintenance Reserve Funds to restore basic functions for park maintenance.

h. **Code Enforcement:** Our residents have expressed a need for increased Code Enforcement presence on the weekends to address weekend violations such as illegal tree removals. Last year, Code Enforcement implemented a pilot program to provide limited inspection services on the weekend. The City Manager is directed to work within existing staff levels to continue and enhance this program.

i. **Strong Neighborhoods Initiatives:** Strong neighborhoods are vital for economic development. The Executive Director is directed to continue efforts in the Strong Neighborhoods Initiative areas and Neighborhood Business Districts to enhance neighborhoods and attract private investment.

j. **After-School Programs:** The City Manager is directed to report to the City Council on the transition of Proposition 49 funding to ensure no service level reductions on our after-school programs. The City Manager is also directed to work with the Mayor's Office through the City-School Collaborative to evaluate after-school programs in light of Proposition 49.

4. Public Safety CSA

Maintaining the title of Safest Big City in America is clearly a priority for our community and the City Council. Responsiveness to this sentiment should be reflected in the Manager's Proposed Budget and is reflected in this Budget Message. I recommend the following:

a. **Include Funding for 15 Additional Police Officers:** Direct the City Manager to include in the proposed budget, funding for 15 additional police officers to help meet identified priorities such as a rise in property crimes and to improve community policing.

b. **Safest Big City in America:** The residents of San José and the City Council have made public safety a priority. The City Manager is directed to report to the City Council on any additional steps necessary for San José to maintain its title as Safest Big City in America.

c. **Truancy Abatement Programs and Crossing Guards:** Truancy Abatement Programs and Crossing Guard Programs which help protect our youth should not be reduced.

d. **Nightclubs:** Our police officers put in nearly a million dollars of overtime in the downtown entertainment zone every year. The nightclubs that create the requirement for overtime should pay for it. The City Manager is directed to report back to the City Council during the budget process on how this overtime could be assessed on the nightclubs.

e. **Fire Department Staff:** The City Manager is directed to review the 2000 San José Fire Department Strategic Plan and its response time data and provide the Public Safety Finance and Strategic Support Committee an analysis that will be a model used for future staffing needs and service delivery models.

f. **Heart Safe City:** A heart safe community participates in public access defibrillation programs. Through such programs, automated external defibrillators (AEDs) are placed in the hands of emergency medical service, fire and police personnel. AEDs also are made available in nursing homes, businesses, churches, golf courses, and schools - wherever people live, work and play. Immediate AED use can help save someone struck down by sudden cardiac arrest. The City Manager is directed to develop a plan to meet the criteria for San José to become a Heart Safe City and present it to the Public Safety Finance and Strategic Support Committee.

g. **Emergency Preparedness:** San José is proud to be the Safest Big City in America. However the ability to protect our citizens goes far beyond criminal activities. Therefore, the City Manager is directed to return to the Public Safety, Finance and Strategic Support Committee with a report on actions needed to ensure we train our neighborhoods, community groups and businesses in the City of San José to prepare and respond to a disaster.

5. Transportation and Aviation Services CSA

Transportation is an area of great concern and is important to all of us. We must provide the community with safe, secure, and efficient surface and air transportation systems that support San José's livability and economic vitality. I recommend the following:

a. **Airport West Property:** The City Manager is directed to review and report to the City Council on using the Airport West Property for another general aviation facility. Personal

property tax generated from aircraft stored at another general aviation facility could enhance our General Fund.

b. **San José Airport Flights:** The City Manager is directed to identify new and/or existing resources to increase the flights and departures of the San José Airport and present to the City Council for consideration.

c. **Street Maintenance and Repair:** One of the items at the top of our community's list of priorities is street maintenance and repair. We need to take a needed step to resolve some of the reasons our streets are in bad shape. Much of the reason is that the City no longer provides the funding needed to maintain our streets. Another reason is the damage caused by projects to repair and upgrade sewers, power, cable and other vital infrastructure. Often these projects tear up our streets and leave them in worse condition than they were in. Therefore, the City Manager is directed to review and strengthen our Restoration Guidelines to ensure that the agencies responsible for tearing up our streets return the pavement to as good or better condition than when the work began. I also recommend that we update our Fund Balance Policy to allocate a portion of any additional available fund balance to street maintenance projects.

   Under the revised policy, the first increment of any General Fund "Ending Fund Balance" identified in the Manager's Annual Report would be split 50% for deferred street maintenance and repair projects and 50% to offset any projected deficit for the following fiscal year, after necessary appropriation adjustment actions to rebudget funds, correct errors, or reflect updated cost information have been accounted for in the fund balance reconciliation. If the projected deficit is less than the amount allocated for this purpose, the remaining funds would be allocated to the second increment current policy uses of re-establishing the economic uncertainty reserve, unfunded capital needs for approved projects, FT&E for any capital projects that are funded with voter-approved bonds, and a City equipment sinking fund.

6. **Strategic Support CSA**

San José must continue to be a city that delivers top quality service on a daily basis. We must effectively develop, manage and safeguard the City's fiscal, physical, technological, and human resources to enable and enhance the delivery of city services and projects.

a. **Three-Year Financial Strategic Plan:** We recognize that it took several years to get to this point, and it will take a number of years to balance ongoing expenses and revenues. I will be forming a Budget Shortfall Advisory Group to help review the budget from top to bottom to find options and alternatives for the City Council to consider that will close the General Fund structural deficit. The Advisory Group will take a fresh look at what we do, with everything on the table. The Advisory Group will be tasked with developing a three-year financial strategic plan for addressing the City's structural deficit by the fall. The City Manager is directed to work with the Mayor in support of the Budget Shortfall Advisory Group.

b. **Full Disclosure Budget:** The City should move to a comprehensive process whereby every program, service, and budget that affects the General Fund and related funds are reviewed annually. The City should no longer assume the continuation of the cost structure and service delivery systems from the previous year will be continued into the next year. Instead, to the extent possible, current service and service level enhancements should be considered and prioritized as part of the budget process. This system will let residents and the City Council designate which services they most want included in a spending plan.

c. **Expand the City Auditor's Staff:** In consultation with the City Auditor's Office, we will recommend an augmentation of one to three positions to allow for more performance audits and a review of major contracts to review if we are overpaying for services or failing to collect revenue. History shows that the Auditor has returned $7 for every $1 in the city spent on Auditor staffing. The Mayor's Office will work with the Auditor's Office to bring forward a proposal.

d. **Citistat/Compstat:** Quality of life is more than about good streets, trees and schools. It's also about how government serves you. And one basic question is how do we get the best service from City Hall? With Citistat, department heads report regularly with real data on budgets, overtime, contracts and customer service response times. Performance measures are set and then monitored with real time data. And that knowledge is going to help us deliver services faster and more efficiently. For cities like Baltimore, New York and Austin these programs have improved service, saved tax dollars and helped make government more accountable. The City Manager is directed to work with the Mayor's Office in reviewing the Citistat program for use in San José.

e. **Review of City-Owned Assets:** The City Manager is directed to review assets and facilities that require General Fund subsidy so the City Council can determine if they are performing as expected or if they should be reorganized, refinanced, sold, leased or closed.

f. **Labor Intensive Processes:** The City Manager is directed to evaluate opportunities to streamline, automate, or eliminate labor-intensive business processes and report results to the Public Safety Finance and Strategic Support Committee. Our employees have first-hand knowledge about how work can be handled more efficiently. The City Manager is directed to consider proposals by the City Labor Alliance on ways the City can operate more efficiently.

g. **City Council Directives:** The City Council has gone through an extensive exercise to focus on their priorities. There are hundreds of outstanding Council directives that may be outdated and no longer needed. The City Manager is directed to make recommendations on prioritizing and possibly eliminating old Council directives and report to the City Council.

h. **Labor Contracts:** The City Manager is directed to create a Labor Contracts Task Force to look at upcoming labor contracts and review those items inside the labor contracts that contribute to the structural deficit and present the outcomes and appropriate recommendations to the City Council.

i. **Cost Expenditures:** The City Manager is directed to identify all elements of General Fund cost expenditures that are growing faster than our projected revenues.

j. **Accounts Receivable Collections:** The City Manager is directed to evaluate the City's Accounts Receivable and develop a collections strategy and present the results to the Public Safety Finance and Strategic Support Committee.

k. **GASB 43/45:** Two recent Government Accounting Standards Board accounting statements require changes in accounting and external reporting associated with post employment benefits such as retiree health benefits. This unfunded liability has been projected to be $1.4 billion in current dollars. The City Manager is directed to bring back a list of options to begin addressing GASB 43/45 for the City Council to consider.

l. **Officeholder Accounts:** The City Manager is directed to provide funding in the event the City Council decides to eliminate officeholder accounts, which is an item currently being considered as part of the Council Reimbursement Policy revision.

m. **Elections Commission:** The City Manager is directed to work with the City Clerk to ensure that there is sufficient funding for the Elections Commission to complete referrals the Elections Commission has received from the City Council.

n. **Infrastructure Needs and Funding:** Fixing our infrastructure usually does not make headlines but it makes a difference in people's lives. The City Manager is directed to create a Two-Year Infrastructure Work Plan to identify prioritized needs and potential funding mechanisms and present these findings to the Transportation and Environment Committee. The City Manager is also directed to propose infrastructure condition standards and present them to the Transportation and Environment Committee.

o. **Business Tax Amnesty Program:** The City Manager is directed to develop and present to the City Council for action a Business Tax Amnesty Program as part of the development permitting process.

RDA BUDGET PROCESS

The Redevelopment Agency is the economic stimulus behind Vision North San José, job creation, affordable housing and neighborhood improvements. The Agency's capacity to create economic development depends on revenue from its project areas assessments reported by the County Assessor in July 2007. The Assessor began to increase assessments in the current fiscal year by 7% after declines totaling 24% in the previous three years. It is expected that the improving San José economy will spur the Assessor's continued restoration of more than $2 billion of redevelopment

area's assessed value. In light of the Agency's need to fund its operations until the tax increment revenue base is known in July, I recommend the Agency produce the FY 2007-08 Proposed Operating Budget on May 1, 2007, followed by the proposed FY 2007-08 Capital/Program Budget and FY 2008-09 Capital Improvement Program on August 31, 2007.

The May 1, 2007 budget would provide necessary funding for ongoing staff costs and contractual commitments, such as leases and obligations to the City and County. The August 31, 2007 budget will update the Agency's future bonding capacity based on the growth in 2007-08 tax increment and projections for future growth. The Agency's bonding capacity will provide the funds for investment in the North San José expansion, Downtown Improvements and investment in the neighborhood project areas.

UPCOMING BUDGET PROCESS

We have a very difficult challenge facing us as we develop this year's budget in the face of reduced revenues and continuing economic uncertainties. Our principal goals will be to maintain our core services, avoid layoffs, and stimulate our local economy as much as possible.

I call on my colleagues to actively seek proposals and ideas that will help us close our budget deficit by reducing costs, eliminating or deferring projects, or obtaining outside resources from grants and partners. The City Manager is directed to provide Councilmembers with a schedule for when their suggestions and ideas are needed in order for staff to accurately estimate the potential savings and impacts on services and the community.

CONCLUSION

The overall goal of this message is to direct Council Appointees to develop their budget recommendations that reflect the policy priorities of the Mayor and City Council. I have outlined a strategy that will balance our ability to continue to provide basic services to our community, help our economy, build strong neighborhoods, stabilize our budget, and as much as possible, prevent the layoffs of the dedicated employees who serve the people of San José. I urge approval by my colleagues.

COORDINATION

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