City Council Agenda: 3/22/05
Item: 10.1

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: City Council

FROM: Mayor Ron Gonzales

SUBJECT: March Budget Message for Fiscal Year 2005-06

DATE: March 16, 2005

Approved:

Date:

RECOMMENDATION

I recommend that the City Council direct the City Manager to submit a proposed balanced budget for Fiscal Year 2005-06 that is guided by the policy direction and framework of priorities outlined in this message and the City Manager's Budget Request. Proposals for budget reductions should be developed with a level of analysis that includes detailed data, justification, and outcomes for Council consideration later this spring.

INTRODUCTION

With severe service reductions and layoffs looking unavoidable, fiscal year 2005-06 will be the toughest budget cycle we have seen in San José. Only by working together in partnership with our community, will we meet these budget challenges and continue to provide the high level of services expected by our community.

The current projected budget shortfall seriously threatens the City's ability to provide basic public services, jeopardizes our major initiatives, and limits our ability to stimulate the local economy. Through prudent financial planning and management in recent years of economic difficulty, we have been able to balance our budgets with streamlining, vacancy savings, program reductions, reserves, and other creative solutions. However, the persistent local economic downturn and its negative impact on our revenues have required us to substantially reduce our reserves and vacancy pool. This makes our task for balancing our budget and protecting vital services for the coming year much more difficult.

At the special budget study session in January, the City Manager provided Council with preliminary General Fund budget deficit projections for FY 2005-06. Preliminary forecasts indicate that the San José General Fund, which supports essential public services including police, fire, parks, and libraries, may face a $57 million shortfall next year. Our situation is further complicated by the uncertainties of ongoing labor negotiations. The state budget

proposed by the Governor also is reflected in the projected shortfall and will continue to affect our ability to provide core services to our residents.

Our Redevelopment Agency also experienced a decline in revenue in the current fiscal year, and projections for the coming year are uncertain. The Council as the Redevelopment Agency Board approved my recommendations last year to delay action on the proposed Redevelopment CIP until August, after the County Assessor has provided information on current year assessment rolls.

Understanding our budget challenges early, developing strategies that limit impacts to basic services, taking early steps to reduce costs, and delaying action again on the Redevelopment Agency capital program will help ensure that we can continue to have resources available to support San José's core services, strong neighborhoods, affordable housing, and economic development.

BACKGROUND

In accordance with Section 1204 of the San José City Charter, I present my FY 2005-06 Operating 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 and previous addresses; previous budget messages; input from the community and Councilmembers; and the budget strategies already approved by Council.

The goal of this memorandum is for the Council to give the City Manager specific directions 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 proposed budgets submitted by the City Manager. Further Council discussion and additional public hearings will take place before the final budget is presented for adoption in June.

For the third year in a row, our actual projected revenues are lower than the year before. This contrasts with the recession in the 1990s when we saw the reduction in revenue growth, not the actual reduction in revenue collection. The severe recession in Silicon Valley and California underscores the importance of our conservative budgeting over the past several years. We have been smart with taxpayer dollars, making good investments and good decisions to set aside reserves and hold the line on costs. This Council also has been very prudent regarding any expansion of services during better economic times.

For the past two years salaries have been frozen and we have severely limited hiring to fill vacancies, therefore the projected increase in expenses is driven less by salary increases or higher employment numbers than by other factors. Anticipated retirement costs for the Federated System alone are $51 million ($27.5 million of which is in the General Fund), which is mainly the result of lower-than-expected performance of retirement funds and salary growth projected in the future. The actuary for the Police and Fire Retirement Board is predicting $50.7

million in retirement costs in the General Fund for 2006-07. This is coupled with an 11 percent increase in benefit costs to the General Fund resulting primarily from health insurance cost increases expected next year.

Complicating our budget decisions is the continuing severe state budget crisis and its potential negative impacts on communities throughout California. At least for now, the Governor's proposed state budget reflects the FY 2004-05 budget agreement that caps the $2.6 billion taken from local governments to help balance the state budget. Voters approved Proposition 1A in November that provides constitutional protection for local revenues and prevents greater state take-aways in the future. This measure already diverts $11.1 million from our City's General Fund to the State. The state budget, however, can adversely affect local governments in many ways, and we must always consider these uncertainties as long as the state remains in fiscal crisis.

In these challenging economic times, City Hall must continue to do more with less. As we reduce costs and maintain services, we also must focus on our highest priorities, especially in this time of extremely limited resources. Governing means choosing – and we will have to make some extremely tough choices this year.

Finally, it is necessary for the Mayor and City Council to lead by example. I again ask each Councilmember for recommendations on spending reductions, current-year savings proposals, and other ideas to help reduce the deficit. We must show the way and stand with our City staff as we meet this challenge together.

SPECIFIC RECOMMENDATIONS

General

1. As in the past, 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 reemphasize the following general principles approved by Council in past budget actions as we consider our direction to staff for preparing budgets for both the current and next fiscal year:

    a. We must focus on protecting our vital core city services for both the short- and long-term.

    b. We must use our resources strategically to stimulate our local economy and job creation.

c. We must not enter into new commitments that we cannot fund.

d. We should continue to reduce vacant positions and redeploy staff as a response to our current budget deficit.

e. We must continue to streamline, innovate, and simplify our operations so that we can deliver services at a higher quality level, with better flexibility, at a lower cost.

f. We must be open to alternative ways to deliver services and reduce costs through appropriate community partnerships and public-private partnerships.

g. We must work together with our employee bargaining units to find ways to reduce costs that will limit the number of employee layoffs.

h. We must continue to move in the general direction of setting fees and charges that recover costs of service, but we also must include fee structures that charge higher fees to non San José residents to the extent legally possible.

i. Budget reductions applied to City departments should be applied at generally the same level to our partner community-based organizations that receive General Fund support, with the goal of minimizing the impact on direct services to our residents and businesses.

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, with an across-the-board reduction equal to the average reduction proposed for non-public safety departments.

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 (e.g., new fire station personnel) within a CSA's department proposal, rather than just including it within the base budget.

j. Use all of the remaining Economic Uncertainty Reserve. Many economic indicators point to revenue improvement next year. However, it would not be prudent to make severe cuts to services this year while we still maintain this fund. These reserve funds should be split equally between public safety and non-public safety allocations (excluding strategic support) to reduce the overall reductions that will be required to close the overall budget shortfall.

k. As we proceed on our decade of investment, we must move forward prudently. The Manager is directed to develop staffing plans with our first option being the utilization of existing staff. We must not be bound by traditional models of service delivery in anything we do.

ASSET ALLOCATION STRATEGIES

We must continue to focus on six core priorities for San José that I have outlined in State of the City addresses and that have been endorsed by Council actions and the reorganization of our Council committee structure. These are:

- Building Stronger Neighborhoods
- Remaining the Safest Big City in America
- Helping All Children Achieve
- Building Better Transportation
- Driving a Strong Economy
- Making Government Work Better

As we move forward with the budget process, we must always stay focused on the outcomes that are most important for our residents and businesses. I recommend that the City Manager and Redevelopment Agency Executive Director be directed to review all programs, including base budget, investment, and reduction proposals, to ensure that we are making real progress to achieve our six main priorities.

Finally, all proposals for reductions must specifically quantify the level of service to be provided, the impact on position reductions, and the potential cost savings.

1. Building Stronger Neighborhoods

We must continue to view our role through the eyes of our residents who see the direct impact of services from their driveways. Over the last several years we have made real progress in this direction as the City and residents have worked together to invest time, effort, and resources to improve neighborhoods and make San José a place we are all proud to call home. To move forward with this effort, the Manager is directed to implement the following recommendations:

a. **Parks Maintenance Partnerships**: Last year, the City Council directed the Manager to explore opportunities with businesses looking to commercialize small portions of open space within the City. Ideally, these partnerships can produce businesses in city parks that offer services/goods to neighborhood residents while at the same time maintaining the parkland that they occupy. During the budget process, the Manager shall report back on this effort.

b. **Park Maintenance Citywide:** Direct the City Manager to develop a strategy to provide a tiered level of maintenance for parks based on usage, while maintaining all parks at least at a specified minimum level citywide.

c. **CAP Grants Reduction:** Direct the City Manager to apply the standard reductions to other community-based organizations to Community Action and Pride Grants recipients as an alternative to suspending the program altogether. The City should fund projects that will help the City alleviate our parks maintenance shortfall. Other beautification projects can still be considered but given a lower priority.

d. **Cost-Benefit Analysis of Facility Closure Proposals:** Direct the City Manager to include a cost-benefit analysis when proposing the closure or reduction of hours for recreation facilities that receive revenue from parking, concessions, and rentals, such as the Lake Cunningham Marina.

e. **Parks Admission:** The Manager is directed to explore ways to install automated parking and admission machines at regional parks in order to reduce cost of operations and ensure full revenue collection.

f. **Anti Graffiti and Anti Litter:** Anti-Graffiti and Litter Programs that make our community stronger, cleaner, and safer in partnership with volunteers should not be reduced.

g. **Library Staffing:** Direct the Manager to implement Sunday service at all branches. During a brief pilot last year, customer usage on Sundays rapidly climbed to even higher than any other day of the week. Further, we must look toward a service delivery model where we may have a reduced level of service while libraries are open. The Library's research indicates that over 2/3 of users come primarily to check out and return materials. It would be better to maintain as many hours as possible to provide check-out/return

services than it would to maintain 100% staffing for fewer hours per week. We should reduce service hours one weekend day and one weekday to lessen the impact on users who have different schedule needs. The reduced service days could be alternated at adjoining branches so that customers would still have a full service option at a nearby facility. Reduced service hours should be scheduled such that they either are an entire business day or are during hours that have the lowest customer usage/need (i.e. not during after school hours). Further, the Manager should look at the length of day of operation to avoid overlap of shifts as much as possible.

2. Safest Big City in America

San José is the safest big city in America, and our residents feel safe in their neighborhoods. Additionally, for several years now, our city continues to be recognized as one of the cities best prepared for disasters. Regardless of our budget situation, the safety of our residents and businesses must remain our first priority. Appointees are directed to implement the following recommendations:

a. **Bureau of Fire Prevention**: Direct the Manager to consistently apply re-inspection fees and impose increasing penalties for facilities that continue to have chronic fire safety problems.

b. **Public Safety Grant Writing:** Last year, the Council approved direction to the City Manager to evaluate whether one department can better handle all grant administration for Police, Fire, and Emergency Services. Direct the City Manager to report back during the budget process on this consolidation, with a review of anticipated performance measures.

c. **Patrol Staff Reductions**: The most essential core service of the Police Department is patrol services. I recommend that any reductions to this unit be implemented only as a last resort to ensure that these essential services continue at current levels as much as possible. If the Manager does recommend patrol reductions, he must submit an analysis of the potential impact on response times and alternative reductions in the department for Council's consideration.

d. **Gang and Violent Crimes Investigations**: The City Manager should minimize reductions in investigative work in critical public safety areas such as homicide and gang-related cases.

e. **Fire Prevention Services:** The Manager shall make reductions in the fire prevention division and requiring fire companies to pick up the program needs that are required by state law.

f. **Water Pollution Control Plant Emergency Response Plan:** The City Manager shall implement the emergency response plan developed by the Environmental Services

Department, in partnership with the Fire Department and the Office of Emergency Services, and eliminate duplicated services provided by both Fire and Environmental Services staff.

g. **Safety at Construction Projects:** Revise the policy requiring police officers to monitor traffic at street construction projects. Officers should only be required at a construction site when at least 75 percent of their time is actually needed to physically direct traffic.

h. **Fire Department Personnel Tracking Technology:** Implement technology systems that can better analyze Fire Department level-of-service and safety implications when there are personnel reductions or other changes in resources, technology, or the community.

i. **Bomb Squad Reductions:** Our bomb squad-staffing model needs to continue to look for opportunities to cross-trained squad personnel to perform other functions when they are not directly involved in bomb-related duties or training.

j. **Fire Haz-Mat Unit:** Similar to the Bomb Squad, the members of the Haz Mat unit must perform other functions when they are not directly involved in hazardous materials duties or training.

k. **Public Safety Communications Services:** We must streamline services and eliminate duplications between the Fire and Police Departments wherever there is an opportunity to reduce costs and improve efficiency. The Manager is therefore directed to immediately implement cross training for fire and police communications personnel that will lead to the elimination of duplicate services and greater efficiencies.

l. **Sexual Predator (290) Registration Team:** Monitoring of sexual predators is a service that is critical to maintain the safety of our residents. We should increase the City's partnership with the Probation Department to provide for the most efficient and non-duplicative staffing possible.

m. **Public Safety Capital Bond Program.** No changes should be made to the budget for Measure O implementation in the proposed budget released on May 1st. If the Manager proposes any line item changes, those must be brought forward in a Manager's Budget Addendum.

n. **Crossing Guard Reductions:** The City Manager is directed to research solutions developed in other jurisdictions in order to develop cost-effective ways to keep our children safe walking to and from school.

o. **Fire Response on State Roads:** The Manager and Attorney are directed to develop a fee program to charge the State of California, to the extent legally feasible, for our local public safety personnel responding to calls on state roads. The state provides highway police services through the California Highway Patrol. Since there are no state "fire" services for highways, the state relies entirely upon local resources without

reimbursement to the City. If necessary, we should work to develop legislation to make this possible.

p. **Airport Security for Gates and Roadways:** Direct the City Manager to review the current threat-level response plan that evaluates the security needs for Airport gates and roadways. An evaluation of training needs should be included for airport staff to respond to code red and orange response levels.

3. Helping All Children Achieve

Even in difficult budget times, we must strive to strengthen the role of city government for improving student achievement so that every child in San José can have the opportunity to succeed. Appointees are directed to implement the following recommendations:

a. **Intervention, After-school, and Summer Drop-in Program Fees:** Direct the City Manager to complete an analysis on impacts to our after-school programs if fees were implemented, including the risks associated with initiating a fee for Level 3 sites only and how this fee proposal would impact state and federal grant requirements.

b. **Teacher Programs:** Any reduction proposals for teacher programs should be coordinated with the Mayor's Office.

c. **Youth Programs**: Youth programs that focus on school safety and gang prevention should be maintained at levels that ensure safety for both the public and the youth that participate in them.

d. **New Early Care and Education Spaces:** The Manager is directed to work with community partners to create 2,000 new high quality pre-school spaces over the next five years in order to address the growing need for child care and learning readiness in our community.

e. **San José Education Foundation:** Work with the Mayor's Office to engage our education, community, and business leaders to support the creation of a citywide foundation that will ensure that San José can speak with one voice when it comes to the future of our children and the quality of their education.

f. **Truancy Program Reductions**: Truancy has a direct link to increased crime and gang involvement. Direct the City Manager to minimize reductions to these vital services provided in partnership with San José schools. We must provide every means possible to have our partners in School Districts utilize the most effective tools known to help limit truancy. We should explore methods with our School Districts to expand usage of models that include parent accountability.

4. Building Better Transportation

We must continue to support a transportation system that provides safe and efficient access for residents and businesses, enhances our neighborhoods, and preserves our street infrastructure despite difficult budget times. Appointees are directed to implement the following recommendations.

a. **State Highway Maintenance Activities:** Clarify the agreement between the State of California and the City regarding shared maintenance and costs associated with state roadways and on/off ramps.

b. **Street Lane Marking Review Fees:** The Manager shall provide examples of how a new proposed fee would be assessed for striping and marking services.

c. **Traffic Capital Improvement Program Reallocation:** The Manager shall re-evaluate the strategic funding allocation for the Traffic CIP, review opportunities for private development for the Oakland Road and Berryessa Road projects, evaluate if the current plan will fully address the traffic congestion caused by light rail traffic signals on Capital Expressway, define the project planning for the Mabury Interchange, and determine the leverage capability of the PG&E 20A grants for utility undergrounding.

d. **Street Light Technology:** Last year, the City Council directed the review of new streetlight technology to save General Fund dollars. Direct the City Manager to report back to the City Council regarding the timeline for this research to be completed and how it might affect streetlight implementation.

e. **LED Lights Savings:** Direct the City Manager to report back with an analysis of the cost savings associated with investing CIP funds to retrofit traffic signal lamps with LED technology.

f. **Downtown/East Valley Transit Corridor**: Define the City's costs associated with preliminary engineering for the VTA Downtown/East Valley project and report back during the budget process.

g. **Streetlight Electricity Reductions:** Along with potential cost savings, evaluate the public safety and traffic safety impacts of turning off some streetlights along major arterial roads.

h. **Red Light Runners:** Install new equipment at 50 high-risk intersections to help catch red-light violators.

i. **Pedestrian Safety with Countdown Signals/Lighted Crosswalks:** Install countdown signals at 50 busy intersections to let pedestrians know how much time they have to cross, and flashing lights and lighted crosswalks at critical locations that will slow down drivers and show walkers where to cross safely.

5. Driving a Strong Economy

We continue to make San José the best place in America to do business, work, and live. We are the statewide leader for creating housing affordable for residents at all income levels. Despite the current recession, we have maintained a remarkably broad industrial base. Our downtown and neighborhoods offer a full range of exciting entertainment, cultural, and shopping opportunities.

Through prudent planning and with a strategic economic development effort, the City can have a very positive impact on economic recovery that will help address our budget challenges and support long-term prosperity. Appointees are directed to implement the following recommendations:

a. **Outdoor Special Events:** Develop a performance measure matrix for the economic impact of major special events that considers sales tax generation, hotel bookings, restaurant sales, and other indicators to gauge the success of our efforts in this area.

b. **Augment Economic Development Programs**: Direct the City Manager to move forward with increasing the staffing for the Office of Economic Development to better support and increase revenue producing events and projects that will generate significant economic benefits for the City.

c. **Community-Based Organizations Funding:** Direct the City Manager to continue to streamline the grant process for community-based organizations in order to reduce the amount of CBO time required for their administration and increase their time for providing valuable services to San José residents.

d. **Long-Range Land Use Planning:** As San José develops more General Plan and long-range planning projects that are privately funded, the City Manager is directed during the budget process to report on where long-term planning resources should be most effectively focused to achieve the Council's goals.

e. **Restructure Arts Venture Fund**: Restructure the Arts Venture Fund so that the FY 2006-07 application process is simplified and easier for arts groups. Consideration should be given to relaxing requirements for matching funds and extending the application period until the funds for the year run out.

f. **Office of Cultural Affairs:** Direct the City Manager to merge the Office of Cultural Affairs into the Office of Economic Development to better streamline the economic development efforts currently led by OCA staff and to increase the flexibility of OED to identify and respond to opportunities.

g. **Affordable Housing:** The City Manager is directed to identify the steps and resources needed to reach the milestone of having a total of 10,000 affordable homes built or under construction in the period from January 1999 to December 2006.

h. **California Institute of Regenerative Medicine**: Council has already delegated authority to the Manager and Redevelopment Director to submit a proposal to locate the CIRM headquarters in San José. We must continue to make this critical effort a top priority for our successful long-term economic strategy.

i. **Major League Baseball:** Work with the Mayor's Office to submit a proposal to Major League Baseball to bring a team to San José.

j. **Job Training**: The Manager should explore job training consolidation measures that would reduce duplication of our internal and external training efforts.

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

6. Making Government Work Better

We must continue to make San José a user-friendly city that delivers high quality services to residents and businesses with the greatest efficiency. Appointees are directed to implement the following recommendations:

a. **Alternative Funding Strategies**: Direct the City Manager to explore all opportunities to shift funding for special programs from the General Fund as appropriate.

b. **Wireless Strategy:** Direct the City Manager to report back during the budget process with an update regarding the results and opportunities for our wireless strategy, including a comparison of wireless programs in other cities.

c. **Revenue Management:** Direct the City Manager to report back on the results of the City's strategy to collect on delinquent accounts, including ways to increase collection efforts.

d. **Worker's Compensation:** Direct the City Manager to work with our state and federal lobbyists to recommend changes in state and federal legislation to address worker's compensation issues, including cost reduction and benefit improvements.

e. **Telecommunications Contract Management:** Direct the City Manager to review the feasibility of all affected funds sharing the costs associated with the management of telecommunications contracts by Public Works. Currently program costs are funded

through an un-funded appropriation, but contract administration increases revenues to the General Fund, the airport operating fund and the municipal golf course fund.

f. **Vehicle Fleet Issues:** Direct the City Manager to review any fleet management program reductions with the City Auditor to ensure that budget proposals align with previous Council-approved audit direction.

g. **Duplication and Efficiencies:** The City Manager is directed to review all City functions provided by staff or by contract to determine where duplications can be eliminated and greater efficiencies can be achieved.

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 again 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 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 Council. I have outlined a strategy that will balance our ability to continue providing 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 memo has been coordinated with the City Manager, City Auditor, and City Attorney.

-----Original Message-----

From: Guerra, Joe
Sent: Monday, March 21, 2005 3:43 PM
To: Guerra, Joe; LeZotte, Linda; Williams, Forrest; Chavez, Cindy; Reed, Chuck; Campos, Nora; Yeager, Ken; Webb, Jim; Cortese, Dave; Chirco, Judy; Pyle, Nancy
Cc: Gonzales, Ron; #CityCouncil_PO; #MayorPO; Borgsdorf, Del; Doyle, Richard; Price, Lee; Silva, Gerald; Lisenbee, Larry
Subject: RE: Mayor's March Budget Message EDITING ERROR

Please note an editing error on Page 6 of the March Budget Message related to Library Sunday pilot program.

Our document originally said:
During a brief pilot last year customer, usage on Sunday rapidly climbed to **higher than other days of the week**.

The final version of the document said:
During a brief pilot last year, customer usage on Sundays rapidly climbed to even **higher than any other day of the week**.

The final version is incorrect due to my editing error. Sundays did not rise to higher than *any* other day of the week. Sundays did rise to higher than *other days* of the week.

I apologize for any confusion my error has caused.
Joe

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