CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: City Council

FROM: Mayor Ron Gonzales

SUBJECT: Mayor's March Budget Message for Fiscal Year 2006-2007

DATE: March 17, 2006

Approved: Ron Gonzales

Date: 3/17/2006

RECOMMENDATION

I recommend that the City Council direct the City Manager to submit a proposed balanced budget for Fiscal Year 2006-2007 that will be guided by the policy direction and framework of priorities outlined in the final March Message that will be considered for approval on March 21st. Proposals for budget reductions or augmentations should be developed with a level of analysis that includes performance measure and anticipated outcomes for Council consideration later this spring.

INTRODUCTION

As we approach the March Budget Message there are several key decisions that must be made prior to proceeding with detailed budget proposals. These key decisions include areas such as broad policy priority setting, use of one time versus ongoing funds to address the deficit and the relationship between public safety and non-public safety reductions as we move forward. With Council's emphasis on providing more input in this budget cycle, it is important that input on these broad areas be received before I develop and release specific proposals at the City Service Area level. This document focuses on broader policy level issues and the key decision areas mentioned above. The Council's first opportunity to discuss and provide input on these issues will be at the council meeting on March 7th.

Following the discussion at the March 7 Council meeting, I will release a more detailed Budget Message later in the week with proposals at the City Service Area level in accordance with direction provided by the Council.

This more detailed Mayor's March Budget Message will be the basis for our discussion at the March 16 study session. After the study session, I will release an addendum to the Budget Message based on the direction provided by Council on March 16. The Message will be considered for final approval at the March 21 Council meeting.

We are again faced with a budget shortfall for FY 2006-2007. Over the last four years, together we have continued to meet budget challenges and provide the excellent quality services expected by our community. In response to the continued economic slowdown, we have reduced the City's budget by $263 million since 2002 through prudent financial planning and management, balancing our budgets through streamlining, vacancy savings, program reductions, sensible use of reserves, and other creative solutions.

As we prepare for the FY 2006-2007 budget process, we must do all we can to address current budget challenges, but also prepare for future budget deficits and take necessary steps to bridge the gap both now and in future years. The current projected budget shortfall threatens the City's ability to provide basic public services, jeopardizes our major initiatives, and limits our ability to stimulate the local economy. Current economic indicators suggest that the persistent local economic situation still has yet to fully recover and its impact on our revenues will require us to make tough choices and continue to think creatively about how we deliver services to our community. Recommendations are included in this budget message to incorporate alternative service delivery model ideas discussed in January that may help us find ways to deliver more or better services for less.

Preliminary forecasts suggested that the General Fund, which supports essential public services including police, fire, parks, youth services and libraries, might face a $76 million shortfall next year. Our situation has improved and new indications suggest that the General Fund will face a $36 million shortfall.

Understanding our budget challenges early, developing strategies that limit impacts to basic services, taking early steps to reduce costs, finding new ways to provide basic services to the community 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 to the community and support strong neighborhoods, affordable housing initiatives, and economic development solutions.

This message is divided into several sections to facilitate the discussion scheduled for the March 7th City Council meeting and the March 16th City Council study session. I recommend at this time that there are several key decisions that the Council will need to make to provide final guidance to the Manager for budget preparations. The key decision areas are:

1. General Budget Recommendations
2. Mayor and Council Policy Priorities
3. Use of one-time versus ongoing funding solutions to overcome the projected deficit
4. City Service Area reductions
5. Redevelopment Agency and Department of Housing budget timeline

BACKGROUND

In accordance with Section 1204 of the San José City Charter, I present my FY 2006-07 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 budget strategies already approved by the Council.

The goal of this memorandum is to provide an initial framework for the Council to give the City Manager specific directions on March 21st 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 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 anticipated growth in both property tax and sales tax generation, both of which exceed earlier projections. However, our costs to provide services to our residents and businesses continue to escalate.

For several years salaries have been frozen and we have severely limited hiring to fill vacancies reducing the size of our workforce. While negotiated salary increases have been approved this year, projected increase in expenses is driven less by salary increases or higher employment numbers than by other factors. Two of these factors include rising healthcare and retirement costs. Anticipated retirement costs for the Federated System are projected to increase by 28% for FY 2006-2007. Benefit costs continue to increase with next year's projections including a 16% increase in health insurance costs. This includes the recent contract agreements with employee groups to share the burden of these rising costs.

At this time, the State budget situation looks favorable in terms of local impacts. Voters approved Proposition 1A that provides constitutional protection for local revenues and prevents greater state take-aways in the future. This measure diverted $11.1 million from our City's General Fund to the State last year. For FY 2006-2007, we will anticipate a restoration of this $11.1 million and project no additional takeaways at this time.

In these still challenging economic times, we must continue to reduce costs and aim to maintain services, and 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 tough choices again 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. Budget policy decisions set the stage for how we deliver services and establish what priority programs and services the city will provide to the community. We have an opportunity this year to change the way we do business through Alternative Service Delivery model strategies. I look forward to this important effort.

In order to succeed, we must show the way by demonstrating our willingness to set priorities, make the difficult choices and stand with our City staff as we meet this challenge together.

GENERAL BUDGET RECOMMENDATIONS

1. As in the past, all proposals for 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 on-going budget challenges we continue to face, 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 help create jobs.

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

    d. 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.

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

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

    g. 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.

    h. 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. 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.

c. Avoid budget cuts that would mean the City loses grants or cannot leverage other resources.

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

e. 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.

f. Identify new proposed additions (e.g., new fire station personnel) within a CSA's department proposal, rather than only including it in the base budget.

g. 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 use of existing staff. We must not be bound by traditional models of service delivery in anything we do.

h. The Manager is directed to institute a policy that treats card room revenues as ongoing revenue if the future budget forecasts anticipates a deficit and converts to one-time revenue if a surplus is projected.

MAYOR AND CITY COUNCIL PRIORITY SETTING FOR FY 2006-2007

Councilmembers Campos and Williams had made an excellent recommendation that the Council take the time to have a more in-depth conversation about our priorities. I recommend that the City Council discuss in March the six core priorities that I have outlined in State of the City addresses and that have been endorsed by previous Council actions and the reorganization of our Council committee structure. After our discussion in March, I recommend that at the beginning of the May Study Sessions the Council participate in a facilitated review of the business plans and major strategies of each CSA (i.e. Economic Development Strategy) to confirm that we concur with current business plan priorities or provide input for revisions. These priorities are:

- **Building Stronger Neighborhoods (Committee chaired by Councilmember Chirco):** 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.

- **Remaining the Safest Big City in America (Committee of the Whole chaired by Mayor Gonzales):** For the fifth year in a row, 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.

- **Helping All Children Achieve (Committee chaired by Councilmember Yeager):** Even in difficult budget times, we must strive to strengthen the role of city government in improving student achievement so that every child in San José can have the opportunity to succeed.

- **Building Better Transportation (Committee chaired by Councilmember Campos):** 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.

- **Driving a Strong Economy (Committee chaired by Councilmember Williams):** 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.

- **Making Government Work Better (Committee chaired by Councilmember Reed):** We must continue to make San José a user-friendly city that delivers high quality services to residents and businesses with the greatest efficiency.

USE OF ONE-TIME VERSUS ONGOING REVENUES FOR BALANCING THE BUDGET

Over the past seven years, the City Council has shown tremendous fiscal restraint when considering the use of one-time fixes to deal with ongoing budget problems. Our fiscal prudence is evident with the formation of our policies dedicating the Ending Fund Balance to future deficit reduction and the creation of the Economic Uncertainty Reserve and the Future Deficit Reserve. Historically, the City's practice has been to use a mix of one-time and ongoing sources of revenues and reductions to balance the budget.

There are three options for consideration during this year's budget cycle related to this issue:

1. Utilize only ongoing reductions to address this year's budget deficit.
2. Utilize all available one-time funds to balance the budget.
3. Use a mix of both sources as we have in the past.

I recommend that for 2006-07 we direct the Manager to follow option #3 and utilize a mix of one-time funds and ongoing funds to balance the budget. I would also recommend that we leave to the Manager the discretion to recommend the exact ratio between one-time and on-going funds.

We must recognize as we proceed that two factors should be taken into consideration as the Manager attempts to find the right balance between one time and ongoing resources. First and

foremost, by cutting a cumulative $263 million from our budget since 2002, we have severely reduced the City's ability to provide the quality services that our residents and businesses deserve. We have reduced resources again and again asking our employees to do more with less for too long. I argue that we run the risk of stretching employees beyond their capacity and seeing the quality of our services reduced below an acceptable level.

Secondly, local economic indicators show signs of a recovery that is beginning to benefit the City. My experience has been that government lags two to three years behind the economy in both downturns and upswings. Understanding this served us well when the decline began and this Council wisely began to set aside reserves to deal with the downward trend that was sure to follow. We did this even though our revenue streams had not yet been impacted by the general economic downturn. We have now seen sales tax and other revenue sources begin to recover.

CSA REDUCTIONS

Over the last few years, non-public safety departments and programs have been severely impacted as a result of limiting reductions to public safety services. The Council has historically provided direction that public safety programs are to be reduced at a lesser rate than non-public safety programs. The actual percentage of reductions for CSA's depends on the Council decision relating to the use of one-time versus ongoing funding to reduce the deficit. There are three options for determining the reductions for City Service Areas:

1. All CSA's have identical percentage reductions.
2. The Public Safety CSA has no reduction and non-public safety CSA's bear the weight of all reductions.
3. The Public Safety CSA has a minimal reduction target (0-2%) and the remainder of the CSA's must implement the percentage reduction target necessary to overcome the projected deficit.

Table 1 provides an example of the implications for each of the three options. Scenario #1 assumes the entire deficit is made up of reductions. Scenario #2 assumes that only $25.9 million of the deficit is made up of reductions and the remainder comes from new revenue or other one-time sources.

Table 1

Scenario #1 $35.9 million needed to solve deficit

Option	Public Safety percentage	Public Safety dollar amount	Non Public Safety percentage	Non Public Safety dollar amount
#1	7.1%	$22,564,000	7.1%	$13,333,600
#2	0.0%	$0	19.1%	$35,900,000
#3	2.5%	$7,938,000	14.9%	$27,962,000

Scenario #2 $25.9 million needed to solve deficit

Option	Public Safety percentage	Public Safety dollar amount	Non Public Safety percentage	Non Public Safety dollar amount
#1	5.1%	$16,280,999	5.1%	$9,619,001
#2	0.0%	$0	13.8%	$25,900,000
#3	2.0%	$6,351,000	10.4%	$19,549,000

I recommend to the Council that we direct the Manager to move forward using option #3. While I firmly believe public safety is our number one priority, we must acknowledge that this single CSA makes up a majority of our general fund expenditures. A small reduction will yield tremendous savings. No reductions in public safety would require cuts too deep in other important areas such as libraries and youth services. However, even with a small reduction to public safety it is important to point out that there should be no reductions to patrol services, our basic policing service and no layoffs of sworn officers.

REDEVELOPMENT AGENCY AND DEPARTMENT OF HOUSING CAPITAL BUDGET TIMELINES

Redevelopment is a critical catalyst for our economic development, affordable housing and SNI programs. Our Redevelopment Agency's revenue projection for the coming year is again uncertain due to potential actions that will be taken by the County Assessor's Office on Proposition 8 Assessment Appeals. The Council as the Redevelopment Agency Board approved my recommendations over the last two years to delay action on the proposed Redevelopment CIP until August, after the County Assessor has provided information on current year assessment rolls. This has allowed us to be as aggressive as possible with first year in our five-year expenditure plan because we are certain about our revenue stream. When we are investing in our economy it is critical to move as quickly as possible to provide immediate impact.

I recommend continuing deferral of the Redevelopment Agency budget discussion for FY 2006-07 with our usual budget provisions in June, which allow for ongoing spending to occur between July 1 and final budget adoption.

We must also continue to be aggressive with our expenditures in our housing program. Since redevelopment revenues primarily fund our program, I recommend that the Council consider moving the Department of Housing's capital budget to the August timeframe to coincide with Redevelopment Agency budget deliberations.

ALTERNATIVE SERVICE DELIVERY MODELS

The Council dedicated significant time in January to review Alternative Service Delivery Models. The purpose of the Council discussion was to examine ideas to alternatively deliver services the City already provides.

While I recommend that we continue to explore alternative delivery models, I am not recommending at this time we anticipate any savings in the coming year from any of these recommendations. We should continue to look for bold measures and I was tremendously pleased with the level of Council involvement on this topic at our March 7th Study Session. I previously proposed that we only explore ten Alternative Service Delivery recommendations. Input from the Council provided thoughtful, positive suggestions; however there was no consensus among the Council on which ten items to bring forward. Therefore, based upon Council input I recommend that only the following items move forward during the upcoming budget process. These proposals were identified by at least four Councilmembers as priorities.

38b – Improve grant management and community based organization oversight and create a process to evaluate how effective the City is in delivering services versus outside providers.

30b – Set realistic expectations and refine a priority setting process to more effectively manage workload.

22b – Reevaluate our service delivery for recreational and parks programs (including maintenance).

3 – Workforce Planning and Diversity.

9 – Establish a citywide Electronic Document Management Program.

This list should be viewed as a bare minimum for the Manager to explore. If he deems it appropriate he should bring forward other ideas in an effort to balance the budget and improve our service delivery to our residents and businesses.

Beginning with the January study session and this year's budget cycle, the Alternative Service Delivery Models effort should be an ongoing commitment to review, analyze and evaluate new models for both the short and long term. The Administration is directed to work with the Mayor's

office to ensure that these considerations are always a part of the City Council's annual budget process.

ASSET ALLOCATION STRATEGIES

As with previous budget messages, my budget recommendations are based on the six core priorities listed above. 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 on our six main priorities.

Finally, all proposals for reductions should 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 achieved real progress in this direction as the City and residents work together, investing 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. **Youth Employment:** We should strive to maintain the Work Experience Program and explore options for utilizing eligible youth workers as staff for community centers and/or other recreation services and programs. Evaluate strategies and partnerships to provide workforce preparation opportunities for youth who are not eligible for Workforce Investment Assistance programs.

b. **Koi Pond at the Japanese Friendship Garden:** The Japanese Friendship Garden is an important community asset. Direct the Manager to investigate alternative methods of service delivery to reduce costs for Koi pond maintenance service. It is important to insure that any alternative model must maintain the high level of quality of care, which we have today.

c. **Regional Park Recreation Programs:** If the Manager proposes to eliminate any regional park recreation programs such as the swim program or Lake Cunningham Marina, he should come forward with an analysis showing what fees would be necessary to reach full cost recovery and also explore opportunities where regional parks can utilize volunteers to report dangerous situations or potential park violations to appropriate City staff.

d. **Expand the Adopt-a-Park Program:** Direct the Manager to explore expanding the Adopt-a-Park Program to regional parks, including grouping several organizations and individuals together to adopt these larger, more complex parks.

e. **Youth Intervention Services:** The Manager should put a high priority on intervention services. The Council approved Mayor's Gang Prevention Task Force Strategic Work Plan clearly highlights that intervention programs are a priority in reducing gang violence in the community. Based on Vice Mayor Chavez's comments, direct the Manager to provide the City Council during the coming year with a citywide evaluation of gang prevention services.

f. **Bringing Everyone's Strengths Together Funding:** The Manager and the Director should to bring forward budget proposals that assume BEST funding will remain at its current level.

g. **Neighborhood Park Restroom Closure:** Direct the City Manager to explore alternatives to avoid the closure of neighborhood park restrooms, including cleaning restrooms only on the days and times when the parks are utilized the most, encourage the City's adopt-a-park volunteers to adopt park restrooms, and install signage reminding users to keep the restrooms clean, and report vandalism.

h. **Building Strong Neighborhoods:** Direct the Manager to begin extension of the SNI model citywide to include all neighborhoods, with residents driving the planning of neighborhood priorities, and connect both the Building Strong Neighborhoods Committee and the SNI PAC to this planning effort. This will be a multi-year effort to apply a model of neighborhood empowerment where collaboration is the precedent and neighborhood priorities are built on funding already available for services. In response to Council questions, the intent of this direction is not to use existing SNI staff. Based on Councilmember Chirco's input, we revised the title above to reflect the vision of our neighborhoods to look beyond SNI and apply best practices citywide, to empower all neighborhoods. Further direct the Manager and Director, based on Councilmember LeZotte's feedback, to continue to perfect the existing SNI program model. In addition, based on Vice Mayor Chavez's clarification, the core goals of this effort are to expand the way we as a City interact with neighborhoods.

i. **Strong Neighborhoods Initiative Funding:** Renew our commitment to Strong Neighborhoods Initiative areas by developing a plan to invest an additional $100 million over the next five years to complete SNI area top ten priorities. In response to Council comments these funds should be set aside in the Director's proposed budget in August and the Council will have the opportunity during the budget process to weigh this expenditure against other potential expenditures.

j. **Neighborhood Improvement Reserve Fund:** Direct the Manager to hold $5 million for needed neighborhood improvements in a Neighborhood Improvement Reserve Fund. These funds will be held in reserve until the Building Strong Neighborhoods Committee can develop a process for allocation of funds that mirrors the SNI Neighborhood Advisory Committee priority setting approved by the Council. As was clarified at the Study Session in response to Council comments, these funds should be set aside in the Manager's proposed budget in May and the Council will have the opportunity during May and June to weigh this expenditure against reductions that are proposed.

k. **Programs for Seniors:** In the next ten years San José's senior population will grow to more than 20% of our city's population. It is important that we maintain senior

programming as a result. While the Manager should not propose any significant fee increases he should explore alternate funding sources for these programs including federal grant opportunities.

l. **Aging Services Strategic Plan Priorities:** Direct the City Manager to minimize reductions to programs that align with the top priorities of the Aging Services Strategic Plan. Also, review how the Older Adult Resource Program compares to other senior programs in terms of usage and unduplicated senior cases.

m. **CAP Grant Program:** No reductions to the CAP Grant program should be considered. During the budget process, the Manager should report back to the City Council, outlining a plan for increased monitoring of grant funds to ensure that they are used for the specified community event or program. It is further recommended that the Building Strong Neighborhoods Committee explore this program as a source and mechanism for the SNI citywide process.

n. **Anti-Graffiti/Anti-Litter Program:** The Anti-Graffiti/Anti-Litter Program is an extremely successful program that keeps our community strong, clean, and safe. The Manager should only look at reductions to this program as a last resort. Explore volunteer opportunities both in office administration and clean-up functions, including adopting neighborhoods with high rates of graffiti tagging.

o. **Abandoned Shopping Cart Program:** Direct the Manager to review the effectiveness of this program and return with a report prior to the May budget study sessions that would include an assessment of how grocery stores have been cooperating in this endeavor. Modifications to this program should include working with store providers to develop changes together.

p. **Community Center Hub Staffing and Program Reductions:** Direct the Manager to examine community centers with high usage if considering closing or reusing smaller community centers to ensure that those with highest usage will remain open. The Manager is also directed to explore using work experience program youth and community-based organizations to staff centers to reduce operation costs, in addition to exploring the use of volunteers as was suggested by Councilmember Williams at the March 7 Council meeting. Any community centers proposed for reduction or closure should be referred to the re-use strategy, based on Councilmember Campos' remarks.

q. **Healthy Neighborhoods Venture Fund:** The City must continue its practice of keeping the Healthy Neighborhoods Venture Fund as competitive a process as possible. The Manager should avoid shifting further City programs to HNVF without requiring these programs to compete in the grant process.

r. **Code Enforcement Strategies:** Direct the Manager to report back to the City Council on how the City's Code alternative enforcement strategy impacts neighborhoods. In response to Councilmember LeZotte's suggestion, following City Council's approval of actions related to illegal tree removal, the Manager is directed to split the incremental increased fine revenue to funding Our City Forest and supporting City Arborist technology needs.

s. **Household Hazardous Waste Program:** This program should be coordinated with OES and San José Prepared! to increase community awareness about this unique opportunity to limit hazardous waste products going to our landfills. The Pharmaceutical Drop-Off program is an important component of this program specifically for families with seniors.

2. Safest Big City in America

For the fifth year in a row, San José is the safest big city in America, and we must strive to make sure 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. **Emergency Communication System Support Fee:** If the Manager brings forward a proposal to extend the ECSS fee, he should include analysis of stakeholder input that Council directed be sought with its initial approval of this fee. The Manager should review the minutes from the previous Council action to identify specific stakeholders, which were mentioned and insure that those groups have been included in our outreach. He should also provide the Council with an analysis of what additional budget reductions he recommends if the Council were not to extend the fee.

b. **Public Safety Grant Writing:** Last year, the Council approved direction to the Manager to evaluate whether one department can better handle all grant administration for Police, Fire, and Emergency Services. Direct the 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 this unit receive no reductions to ensure that these essential services continue at current levels. The Manager should however look for opportunities to redeploy existing resources to areas of higher need.

d. ***Gang and Violent Crimes Investigations***: The Manager should minimize reductions in investigative work in critical public safety areas such as homicide and gang-related cases. Direct the Manager to assess gang-related incidents and return with an analysis and trends during the budget study sessions.

e. **Sexual Predator (290) Registration Team:** Monitoring sexual predators is critical to maintaining the safety of our residents. We should limit proposed reductions to this team in light of the actions approved in early 2006 to improve and strengthen our Megan's Law program. Based on Councilmember Pyle's thoughtful suggestion, direct the Manager to work with our State representatives to strengthen collaboration on this important public safety problem.

f. **School Safety and Crime Prevention Programs:** Last budget cycle, there were a number of proposed reductions to crime prevention programs. Crime prevention programs enable

law enforcement to prevent crimes from occurring in our community and at local schools, through education and creating positive police interaction with youth. Councilmember LeZotte brought up a good point at the March 7 Council meeting about the importance of these programs. If the Manager brings back a proposal to make any reductions in this area, he is directed to submit an analysis of the potential impact of cutting programs on preventing and fighting crime in the community.

g. **Neighborhood Watch:** Explore opportunities to expand Neighborhood Watch through the SNI program and the use of volunteers.

h. **Fire and Hazardous Materials Violators:** Direct the Manager to explore the possibility of raising fees for multiple or repeat violators of Fire and Hazardous material safety laws.

i. **Public Safety Capital Bond Program:** Proposed changes related to the budget for Measure O implementation in the proposed budget should be identified in a separate Manager's Budget Addendum.

j. **Public Safety Technology Advancements**: The Manager is directed to explore technology opportunities that would support non-sworn services and functions to streamline work and create efficiencies in both the Fire and Police Departments.

k. **Preparing Our Community for a Disaster:** San José Prepared!, Neighborhood Watch and the Strong Neighborhoods Initiative support strong neighborhoods by linking neighbors together, educating them on ways to prepare for an emergency and empowering leaders in the community. Last year, the Council approved direction to link these programs to increase outreach to the community and provide important resources to ensure that neighborhoods citywide are prepared for an emergency. Direct the Manager to return with a detailed report, which includes how many new neighborhoods have been trained through San José Prepared! and how many have signed up for training for the coming year.

l. **San José Prepared! Expansion:** Direct the Manager to bring forward a budget proposal to expand San José Prepared! to new neighborhoods throughout the city. This expansion should include a plan to create new neighborhood teams and to expand the number of families trained through an abbreviated training program. The Manager should submit a report prior to the budget study sessions that identifies where there are currently gaps within the city's neighborhood. The goal should be to train all neighborhoods in three years.

m. **Police Department Staffing:** Records and photo lab support staff are critical to the overall public safety functions of the department. The Manager should explore new service models, including cross-training staff to address the department's needs as resources continue to focus on core service delivery.

n. **Police Reports and Records Request Fees:** Explore opportunities to charge fees or increase current fees for processing reports and requests for records functions within the Police Department.

o. ***Public Safety Retirements and Employment Issues:*** *Both Fire and Police* Departments expect to see a large number of retirements over the next several years. The Manager is directed to submit a hiring plan to address sworn officer and firefighter attrition needs for the next five years. The plan should include the number of academies needed and costs associated to address retirements.

p. **Crossing Guard Deployment:** If the Manager proposes any reductions to school crossing guards, he should first research volunteer solutions to keep our children safe walking to and from school. Further, his recommendation should explore identifying the most dangerous areas for pedestrians in our city and maintaining qualified crossing guards in those areas. In response to the Vice Mayor Chavez's suggestion, the Manager should work with our local school districts to share the costs of providing this essential program. As the Manager examines different models to provide this service, he should include a review of Councilmember Campos' successful crossing guard pilot program that partnered schools *and neighborhood volunteers.*

q. **Cruising Abatement Program:** Cruising in downtown continues to be a problem for both law enforcement and downtown businesses. Direct the Manager to review alternative options to address this problem and report back to the Council.

r. **Entertainment Zone, Downtown Bar and Restaurant Business Improvement District:** To support public safety in the Downtown, direct the Manager to meet with stakeholders like the San José Restaurant and Entertainment Association and discuss the feasibility of creating a Downtown Bar and Restaurant Business Improvement District to address the lack of funds available to continue to address the rising safety needs in the downtown. As new retail stores and restaurants move into the downtown, the City needs a plan that balances the need for a police presence in the downtown with downtown's continuing evolution. Further direct the Manager to explore alternative ways to support public safety downtown.

s. **Hazardous Incident Team:** Direct the Manager to look at opportunities to fund Hazardous Incident Team personnel through grant funds or the realignment of other departmental resources.

t. ***Domestic Violence Training:*** *Domestic violence and child abuse are crimes often not* reported or reported after it is too late to assist children and families in trouble. Direct the Manager to examine ways to cross-train investigators assigned to different units to assist with these types of crimes in the community. As a result of comments provided by Vice Mayor Chavez, the Manager should look for opportunities to use outside experts to train City staff and the community on identifying these types of crimes.

u. **Domestic Violence Crime Prevention:** Direct the Manager to complete an analysis of crimes over the last few years related to domestic violence and child abuse, expand funding for domestic violence awareness and prevention in the community to increase our efforts, and report back to the Council. Thanks to feedback from both Vice Mayor Chavez and Councilmember Campos, the Manager is directed to ensure that the Domestic Violence Coordinator in the City Manager's Office is focused on domestic violence issues in the community.

v. **Fire Department Budget and Priority Needs Assessment:** Direct the Manager to provide City staff, outside the Fire Department that can assist with aligning budget goals and priorities, to complete a needs assessment.

3. Helping All Children Achieve

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

a. **"Go Green" Program for Schools:** Direct the Manager to commit Integrated Waste Management Fund resources to the "Go Green" Program to establish school recycling programs that promote environmental stewardship.

b. **Staffing for School Presentations**: Direct the Manager to examine ways that Environmental Services, Fire, Emergency Services and Police departments can coordinate to save staff preparation time with school presentations.

c. **Truancy Program**: Truancy has a direct link to increased crime and gang involvement. Direct the Manager to minimize reductions to these vital services provided in partnership with San José schools. We must assist our partners in school districts to utilize the most effective tools known to help limit truancy. With our school districts, we should explore methods to expand using models that include parent accountability.

d. **Proposition 49 and After-School Program Funding:** Direct the Manager to develop a specific strategy to secure funding from Proposition 49 that could be allocated to Level 2 after-school programs and report back on this strategy through a Manager's Budget Addendum.

e. **Prusch Plant Science Center, Summer Camp and Farm Tours:** Schools use the Center frequently to meet state agricultural education requirements. The Manager is directed to explore raising fees for students and using Youth Experience Workers for park maintenance as an alternative to closing the Center.

f. **Quality Childcare for San José Children:** Direct the Manager and Director to revise the Child Care Strategic Plan with strategies that would create 4,000 additional Smart Start spaces in San José over the next five years. The Strategic Plan should be updated with input from the Early Care and Education Commission along with childcare and preschool partners in San José.

g. **High School Dropout Rates**: Direct the Manager to work with the Mayor's Office to collaborate with local school districts on a plan to cut high school dropout rates by half over the next five years and commit resources to help achieve that goal. Based on comments made by Vice Mayor Chavez, this plan should connect to San José Police Department and City efforts focused on truancy abatement.

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. **Airport Audit Program:** Direct the Manager to review any changes to the Airport Audit program for savings that could be generated as a result of the audit service and review opportunities for the Auditor's Office to handle these services.

b. **Airport Maintenance Services:** Direct the Manager to review the impact of reductions to airport maintenance on the current level of preventative maintenance.

c. **Sidewalk Grant Program:** The Manager should minimize reductions of the sidewalk grant program and explore grant opportunities to partially fund these repairs.

d. **NASCOP**: NASCOP is an important safety component to keep San José streets safe for pedestrians and drivers. This program also assists police officers in monitoring community streets, and this program should only be if necessary.

e. **Traffic Capital Improvement Program**: The Department of Transportation CIP is already under-funded for street maintenance and other services needed to keep our city streets safe. As was suggested at the March 7 Council meeting by Councilmembers Campos and Reed, we try to minimize transfers from Traffic Capital funds to fund programs within the General Fund.

f. **Red Light Runner Program**: Direct the Manager to assess the effectiveness of the 200 installed red light running indicators and countdown signals to determine if further traffic safety enhancements are needed, such as cameras. The assessment should include: statistics on the frequency of red light running occurring in the City; the potential workload impacts on the Transportation and Police Departments resulting from camera usage; state requirements to implement a red light running system; all known costs related to the use of cameras; experiences of other cities using a red light running system, particularly in California; and a review of the different types of technologies and operating contracts currently in use in other cities to determine the most cost-effective approach.

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 in creating housing affordable for residents at all income levels. Despite the current recession, we maintained a remarkably broad industrial base. Our downtown and neighborhoods offer vibrant entertainment, cultural, and shopping opportunities.

Through prudent planning and with a strategic economic development effort, the City can have a 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. **Affordable Housing for All Families:** Direct the Manager to develop a five-year affordable housing development plan to add 1,200 affordable homes per year.

b. **Sports Initiative On-Going Funding:** Last year the Council approved the recommendation to set aside $250,000 for the Office of Economic Development to use to promote and attract sports events to San José. These funds have already brought significant return with the Tour of California and the Rock and Roll Marathon. I recommend that this funding be ongoing.

c. **Event Development Staffing**: Direct the Manager to review opportunities to link together marketing and event planning staff from all city departments, Team San Jose (Convention/Visitors Bureau), Sports Authority, etc. to address the need for resources with events in San José.

d. **Small Business Ambassador Program:** The Small Business Ambassador program is crucial to improving the development process for small businesses in San José and should operate at full capacity. Direct the Manager to report back to Council on how staff additions to the Building Fee program could be financed.

e. **San José Convention Center and Museum of Art Expansion:** Direct the Manager to work with the Convention and Visitors Bureau and the San José Museum of Art to support their innovative concept to jointly expand both the Convention Center and Museum facilities. The Manager should bring back a budget timeline and action plan for a hotel business district that partially funds the expansions in addition to any documentation necessary to move the project forward this year.

f. **Major League Baseball and Soccer:** Experiencing a Major League Baseball game is a dream I share with the people of San José. The Council has approved significant historic steps toward making that dream a reality by doing the required environmental work to potentially place the matter before voters in the future. Direct the Manager and Director to continue their work including discussing all possible opportunities and plans with key local stakeholders and interested parties, and coordinate community participation in the Environmental Impact Report process and land banking. As suggested by Vice Mayor Chavez, *further direct the Manager and the Director to continue their work related to Major* League Soccer.

g. **Website Improvements:** As the Capital of Silicon Valley, we should have the most customer-service oriented website of any municipality. Improvements to Office of Economic Development and Planning, Building and Code Enforcement websites should reflect both what we want to communicate to our customers and what items are accessed most often. Direct the Manager to explore a partnership with San José State University that incorporates students to draft and implement design changes and upgrades to the City's website as a class project.

h. **Comprehensive General Plan Update:** The time has come for a comprehensive review of the General Plan. This lengthy process will require tremendous community involvement and should be implemented once the next Mayor and Council take office in January 2007. I recommend that this City Council approve an additional $200,000, which will bring our total funds available to $600,000, so that if the next Mayor and City Council agree that it is time to initiate this process in January 2007, the funds are available.

i. **Growing Bioscience in San José**: Direct the Manager and Director to conduct an asset inventory of our local educational institutions and perform an economic analysis of bioscience and health sciences in Silicon Valley. An economic analysis will provide clarity for the City and our education partners about growth potential in these sectors including how and where to meet future demand. These sectors are an emerging economic driver and the Valley must be prepared to deliver the workforce needed to move innovation forward.

j. **Destination Event Marketing Funding:** Festivals that consistently score at the top of their grant pool, drive hotel room reservations, and have been holding their events in San José for over five years should have an opportunity to expand marketing efforts and bring additional visitors to San José. Direct the Manager to set aside $200,000 and develop a competitive grant-marketing fund for festivals in San José to compete to increase their marketing efforts in the Bay Area and beyond.

k. **Customer-Focused Building Services:** Review current customer service standards within the Building division and return to the City Council with a report highlighting how we assist members of the community through the building process whether they are professional contractors or homeowners with limited contracting experience.

l. **Walk of Fame:** In Silicon Valley, residents and businesses alike have struggled to show visitors the landscape and faces of Silicon Valley. A joint venture with the San José/Silicon Valley Chamber of Commerce and the San José Convention and Visitors Bureau offers a potential solution. Direct the City Manager and Director to draft a Request For Proposals to identify the organization or individual that can spearhead an effort to create a high-tech walk of fame in San José. I recommend setting aside $50,000 for planning and early capital campaign purposes.

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. **Position Vacancy Report:** As recommended by Councilmember Campos at the March 7 Council meeting, the Manager is directed to provide the Council with as detailed as possible report on the existing vacancies, sorted by City Service Area or department, during the budget deliberation process.

b. **Appointee Budgets:** Set aside funds in the May 1st and subsequent budgets that are adequate to fund each Appointee's office and the Mayor/City Council Offices, that includes an across-the-board reduction equal to the average reduction proposed for non-public safety departments with any additions included herein.

c. **Charter Review Funding:** I recommend that the City Council approve funding of $250,000 to be set aside so that the next Mayor and City Council have adequate resources to immediately initiate a Charter Review in January 2007, if they deem it appropriate.

d. **Vehicle Purchase Freeze:** Continue to freeze all vehicle purchases funded either through the general fund or special funds. Also, direct the Manager to review any freeze exemptions or fleet management program changes with the City Auditor to ensure that budget proposals align with previous Council-approved audit direction.

e. **Accounts Collections Efforts:** 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 through possible outsourcing to a company specializing in all debt collections.

f. **Employee Services Workforce Health Initiative:** Direct Manager to report back to the City Council during the budget study sessions on medical insurance expense reduction initiatives manage use and demand for services.

g. **Cost Recovery in Fees and Charges:** Direct the Manager to review all fee charges to ensure that we implement cost recovery fee changes where practical.

h. **Recovery Fee for Collection Agency Activities/Additional Collections of Delinquent Accounts:** Direct the Manager to impose a recovery fee on delinquent accounts and enhance the use of the contracted collection agency to increase collections.

i. **Property Insurance and Other Related Insurance Coverage:** Direct the Manager to complete a cost benefit analysis of any proposed elimination of property insurance and other related insurance coverage.

j. **City Supply Cost Savings Solutions:** Direct the Manager to examine which is more cost-effective: a new just-in-time contract or maintaining the current system of supplying the City through the Central Warehouse. In response to Councilmember Pyle's and Vice Mayor Chavez's input, direct the Manager to further explore cost savings opportunities related to group and volume buying with other local agencies and small businesses. Explore possible opportunities with California League of Cities similar to the Community College's statewide program.

k. **Citywide Workforce Planning:** Workforce planning is an important initiative for the City as a whole to better understand and prepare for the impact of retirements within the organization. Direct the Manager to include a budget proposal if needed related to this issue.

l. **Consultant Services for Strategic Support Development:** Direct the Manager to explore a citywide contract for consultant services on recruitment and training opportunities and coordinate this effort with any in-house workforce planning initiative.

m. **City Hall Event Policy:** Direct the Manager to implement a flexible staff structure, similar to the one utilized by Team San José, that limits the amount of fees outside groups are charged for event services at the City Hall meeting spaces. In addition, the Manager is directed to expand the current catering list to include additional caterers in the San José area with liability insurance.

n. **Sale of City-owned Property:** Direct the Manager to evaluate all City-owned land available for sale and return with a Manager's Budget Addendum with the details.

o. **Technology To Enhance Services:** Review technology investments citywide and move forward with projects that help the City to deliver cost effective and customer friendly services.

p. **City Hall Construction Surplus:** Soon we will be able to close out the final construction budget for City Hall. Preliminary estimates indicate that the project will come in under budget. I recommend that we direct the Manager to set aside 25% of any cost savings to create a building reserve fund which would pay for unanticipated building needs and 25% to pay down debt in the City to save us dollars over the long term on interest costs. I would recommend the remaining 50% be transferred to our Neighborhood Improvement Reserve Fund to fund our effort to take the SNI model citywide to the extent legally possible.

q. **Corporation Yard Land Sale Surplus:** The new corporation yard was financed with certain assumptions about the amount of money we would receive from the sale of the old corporation yard site. Preliminary estimates indicate that we will receive more for the land than originally anticipated. As the project moves forward we should insure that adequate funds are available to provide the community benefits that the new project in Japantown should include. The Manager should program any residual funds above the original estimate of land proceeds so that 50% goes to reduce debt in the City to save us dollars over the long term on interest costs and 50% goes to growing our Neighborhood Improvement Reserve Fund to fund our effort to take our SNI model city wide.

r. **Attorney and Clerk office staffing augment:** The City Clerk and City Attorney like all other non-public safety entities in the City have been decimated by budget cuts over the past several years. On top of these reductions the Clerk and Attorney have had to take on more and more responsibilities related to lobbyist registration and filings, Public Record Act requests and election related activities. I recommend the addition of two FTE's in the Clerk's Office and one FTE in the Attorney's Office to help offset this increased workload.

s. **City Auditor Technology Efficiencies:** Direct the Manager to include $40,000 in his proposed budget for the Auditor to purchase an electronic work paper system (what is an electronic work paper system?) to increase productivity and streamline audit functions. Also include ongoing funding for maintenance of the technology, estimated at $7,000 a year.

UPCOMING BUDGET PROCESS

As we develop the FY 2006-2007 budget in the face of continuing economic uncertainties, our principal goals must be to maintain our core services, plan for future budget deficits, 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 look forward to continued dialogue about my budget recommendations and urge approval by my colleagues.

COORDINATION

This memo has been coordinated with the City Manager, Redevelopment Agency Executive Director, City Auditor, and City Attorney.