City Council Agenda: 03-20-12
Item:

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: CITY COUNCIL

FROM: Mayor Chuck Reed

SUBJECT: **MARCH BUDGET MESSAGE FOR FISCAL YEAR 2012-2013**

DATE: March 9, 2012

Approved: Chuck Reed

Date: 3/9/12

RECOMMENDATION

I recommend that the City Council direct the City Manager to submit a proposed budget for Fiscal Year 2012-2013 that is balanced and guided by the policy direction and framework of priorities outlined in the Mayor's March Budget Message.

INTRODUCTION

I want to thank our City Manager and City employees for their hard work and personal sacrifices. Our employees are dedicated and work hard to deliver high quality services to the residents of San José. San José has one of the lowest ratios of employees per capita for any big city in the country and our employees continually do more with less.

Over the past ten years, San José has faced enormous fiscal challenges. As pension and healthcare costs skyrocketed, we drained money out of services and poured it into retirement benefits. We've eliminated thousands of jobs from our workforce, closed community centers, laid off police officers and fire fighters, watched our streets and infrastructure deteriorate, and cut many other core services in the community. This has had a devastating impact on our residents, our businesses and our employees.

Fortunately, our Fiscal Reform Plan is working. Because of a willingness to make some very difficult decisions, our City's fiscal situation has begun to improve. For example, the painful decision to eliminate hundreds of positions and reduce total compensation by 10% for all employees reduced our payroll costs by 24%, which slowed the rate of growth in retirement costs. We have also saved millions of dollars in annual operating costs by contracting out services and reorganizing departments.

In addition, we are beginning to see signs of economic recovery. While our two largest sources of General Fund revenues, sales tax and property tax, remain below pre-recession levels, we are expecting modest growth in the coming years.

As detailed in the chart below, after a decade of budget deficits, the City Manager is now projecting a $10 million surplus for the 2012-2013 Fiscal Year. This is good news and will allow us to minimize service impacts in the coming year, but we're not out of the woods yet. This is just a one-year reprieve before retirement costs continue to grow again.

2013-2017 General Fund Forecast
Incremental General Fund Surplus (Shortfall)

2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
$10.0 M	($22.5 M)	($1.3 M)	$19.0 M	$10.7 M

Ongoing Fiscal Challenges

The City is projecting a $22.5 million deficit in Fiscal Year 2013-2014. The primary reason for the shortfall in the second year of the Forecast is due to a $29.5 million increase in retirement expenses alone. As detailed in the chart below, during the Forecast period, General Fund retirement contributions will increase by $48.3 million to $233.9 million in 2016-2017. For all funds, the City retirement contribution will increase by $68.2 million to $314.0 million in 2016-2017. According to data presented to the City Council on February 13, 2012, the independent retirement boards' actuaries have predicted that the City's annual contributions will continue to increase for many more years after that.

2013-2017 CITY RETIREMENT CONTRIBUTION COSTS
AND BUDGETARY CITY RETIREMENT CONTRIBUTION RATES
($ in Millions and with Pre-Payment Discount)

Retirement Plan	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
Federated Ret. System – Pension	$44.3	$54.5	$58.1	$61.2	$61.1	$61.7
Fed. Ret. System – Retiree Healthcare	$10.9	$9.7	$20.8	$22.3	$23.1	$23.8
Federated Retirement Plan - Total	**$55.2**	**$64.2**	**$78.9**	**$83.5**	**$84.2**	**$85.5**
Budgetary Contribution Rates	*43.7%*	*50.5%*	*61.8%*	*65.2%*	*65.4%*	*66.2%*
Police Retirement Plan – Pension	$74.8	$66.8	$74.6	$79.9	$78.6	$79.2
Police Ret. Plan – Retiree Healthcare	$11.5	$10.5	$12.2	$13.4	$13.8	$14.3
Police Retirement Plan – Total	**$86.3**	**$77.3**	**$86.8**	**$93.3**	**$92.4**	**$93.5**
Budgetary Contribution Rates	*75.1%*	*65.7%*	*73.5%*	*78.9%*	*78.1%*	*78.8%*
Fire Retirement Plan – Pension	$46.0	$39.2	$43.6	$46.6	$45.9	$46.3
Fire Ret. Plan – Retiree Healthcare	$4.7	$4.4	$5.3	$6.4	$7.6	$8.1
Fire Retirement Plan - Total	**$50.7**	**$43.6**	**$48.9**	**$53.0**	**$53.5**	**$54.4**
Budgetary Contribution Rates	*74.0%*	*64.0%*	*71.3%*	*76.9%*	*77.2%*	*78.1%*
Other Retirement Costs	**$0.6**	**$0.5**	**$0.5**	**$0.5**	**$0.5**	**$0.5**
Total General Fund	**$192.8**	**$185.6**	**$215.1**	**$230.3**	**$230.6**	**$233.9**
Total All Funds	**$245.5**	**$245.8**	**$288.9**	**$308.4**	**$309.3**	**$314.0**

Source: 2011-2012 Modified Budget; Cheiron Letters dated February 8, 2012 and February 21, 2012 with applied pre-payment discount

It is also important to note that according to actuaries for the independent retirement plans, we are not yet fully funding our retiree healthcare contributions. Our unfunded liability went up by over $247 million in 2011 and our two plans currently have $1.9 billion in unfunded liabilities.[1] The City and employees are still in the phase-in period for paying the full annual retiree

[1] Cheiron's June 30, 2011 OPEB Valuations: March 1, 2012 Presentation to the Police and Fire Retirement Board (http://www.sjretirement.com/uploads/PF/3_2itemPFMar12.pdf see p.6) & January 19, 2012 Presentation to the Federated Employees Retirement Board (http://www.sjretirement.com/uploads/FED/4_1itemFedJan12.pdf see p. 4)

healthcare contribution. Once the phase-in is complete, we will see dramatic increases in retiree healthcare costs.

According to the chart above, taken from the Manager's Five-Year Forecast (p17,) the City's retiree healthcare contributions to the Federated Plan (out of the General Fund) are expected to double once the phase-in ends for that plan in Fiscal Year 2013-2014. The cost implications of completing the phase-in period for the Police/Fire Plan are not yet known and have not been factored into the projections above - but we should be prepared for a similar impact. These looming cost increases underscore the need to establish a lower cost retiree healthcare plan.

Unfortunately, the City's actual retirement costs could grow even higher if there is another recession (and the retirement funds' investments lose money or stay flat) or if the independent retirement boards adopt more realistic assumptions. The retirement boards have been advised by their actuaries and their professional staff to lower their assumed rate of return. According to data provided by the boards' actuaries, reducing the assumed rate of return from 7.5% to 7.25% would drive our retirement costs up by $20 million per year.[2]

In addition, we are facing a number of additional fiscal challenges that are not reflected in the City's official Five-Year Forecast, most notably:

- The City is underfunding its annual road and infrastructure maintenance needs by approximately $105 million. There is also a backlog of one-time infrastructure needs totaling $474 million in the General Fund ($754 million in all funds).

- Vital services remain well below the needs of our community. The City Manager has estimated that it would cost $33 million per year to restore most of the critical services to January 2011 levels, which was the goal set in the Fiscal Reform Plan adopted by the City Council. However, I believe that this is only the *minimum* level of service that we should provide our residents, and it would cost many millions of dollars more to restore services to the levels that our residents expect.

Acknowledging all of these ongoing fiscal challenges is necessary to have a full understanding of the City's fiscal situation. It is our responsibility to confront these problems now so that they do not place an even larger burden on our children and grandchildren.

Balancing Fiscal Year 2012-2013 and Preparing for Fiscal Year 2013-2014

With a small surplus in Fiscal Year 2012-2013, next year is not expected to be a year of painful service reductions. However, we must continue to pursue cost reduction strategies and more efficient ways to provide City services while evaluating operations to better deliver services.

---

[2] This figure is based on data provided by Cheiron, the independent retirement boards' actuaries, during the October 20, 2011 presentation to the Federated City Employees' Retirement System Board (http://www.sjretirement.com/uploads/FED/4_1itemFedOct11.pdf#page=10; see page 9 of the presentation / page 10 of the PDF) and a November 3, 2011 presentation to the Police and Fire Retirement Board at its November 3, 2011 Meeting (http://www.sjretirement.com/uploads/PF/2_1itemPFNov11.pdf#page=10; see page 9 of the presentation / page 10 of the PDF)

Given the projected shortfall in the second year (2013-2014) of the Forecast of $22.5 million, the City Manager is directed to use the $10 million surplus and $12.5 million future deficit reserves as one-time bridge funding to avoid direct service cuts until the savings are realized from the pension reform ballot measure and the other Fiscal Reforms. The City Manager is directed to prioritize remaining one-time funds on the restoration of critical infrastructure and maintenance needs and the pay down of expired debt.

We must be restrained in the temptation to add back direct services with ongoing impacts. However, in some areas of our organization the cuts have been too severe. The City Manager is directed to review operational needs within the City that pose risk and consider funding these critical needs. Funding to support these needs should come out of savings achieved through operational efficiencies and other ongoing reductions.

Moving forward in developing next year's budget, challenges remain in achieving long-term fiscal stability and in maintaining the City's service level goals. With that in mind, the City Manager is directed to use the Budget Balancing Strategy Guidelines as detailed in Attachment A to help balance next year's budget.

Restoring Services

The City Council already took a significant step forward in restoring services when it approved placing a pension reform ballot measure before the voters during the upcoming June election. But we must continue implementing the other elements of our City's Fiscal Reform Plan. This includes:

- Implementing a lower cost medical plan that will reduce healthcare costs for both the City and employees (appx. $13.9 million in General Fund savings)
- Ending sick leave cash-outs (appx. $6.2 million in General Fund savings)
- Eliminating overtime pay for management employees exempt under the Fair Labor Standards Act (appx. $1.2 million in General Fund savings)

Although necessary, few of these decisions will be easy, but if we continue to address our City's fiscal problems head on, we will finally be able to eliminate our structural budget deficit, halt the decline in jobs and begin to restore services.

As we get closer to eliminating our deficit, we can now begin the discussion of how to restore services. Moving forward with the implementation of the Fiscal Reform Plan, the City Manager is directed to use the principles listed in Attachment B as a guide towards the restoration of services.

BACKGROUND

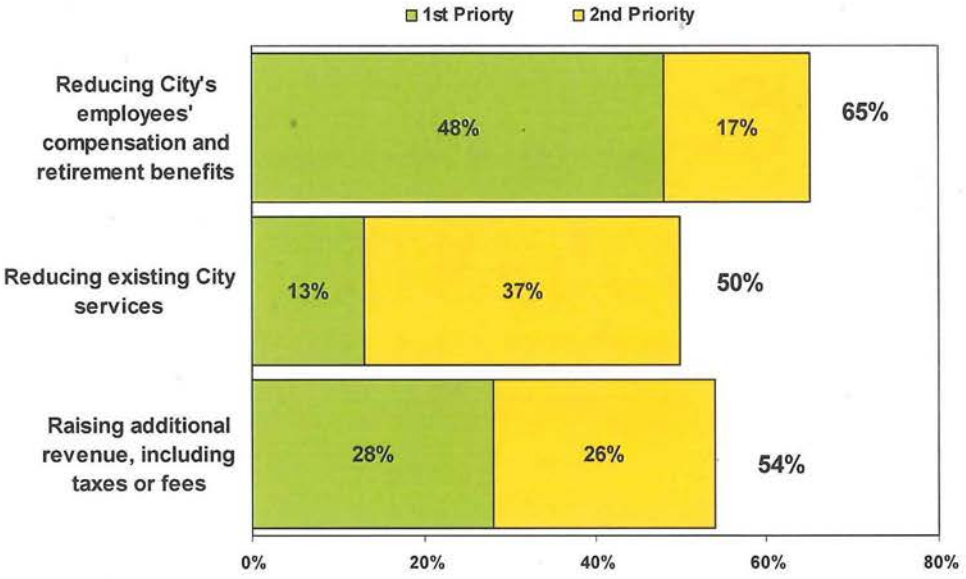
Community Budget Survey

My staff has been working closely with neighborhoods and residents to obtain their input throughout the budget process. In January 2012 a budget priority survey of more than 900

residents was conducted, and residents were able to give their input on their budget priorities and many different budget questions.

Overall, the survey reaffirms previous years' results that residents favor reducing employee compensation and benefits rather than reducing City services or raising additional revenue. Residents also favor budget balancing strategies that result in minor or no service reductions. Residents also seem to be more open than in previous years in supporting a revenue measure.

Preferred Approach to Balancing the Budget



Support for Various Cost Saving Proposals

The following proposals for cost savings were overwhelmingly supported by residents surveyed.

- Selling one of three City-owned golf courses (85%)
- Consolidating City Boards and Commissions (83%)
- Selling surplus City property (80%)
- Suspending the one percent Capital Improvement Project budget set aside for public art until the City eliminates the backlog of unfinished infrastructure projects (77%)

Support for Specific Revenue Generating Proposals

Survey respondents were asked to provide their opinions about several different options for generating revenue for the City. Specifically, they were asked about six potential finance measures requiring voter approval: three that would directly raise new revenue, one that would maintain existing revenue by extending the existing City library parcel tax, and two that would reallocate existing revenue sources. Only three of the measures, a one-quarter/one-half percent sales tax, adjusting the City's Business Tax rate, and a reallocation of hotel tax revenue from cultural arts to fund essential services appear to have enough public support to consider.

- One-quarter/one-half percent sales tax (65%)
- Adjusting the City's business tax rate (66%)
- A reallocation of hotel tax revenue (70%)
- A continuation/reduction and continuation of the current rate of the library parcel tax (60%)
- A reallocation of construction and conveyance tax (54%)
- A $95 parcel tax to fund City infrastructure services (51%)

Neighborhood Association and Youth Commission Priority Setting Session

At the Sixth Annual Neighborhood Association and Youth Commission Priority Setting Session, 87 residents prioritized City services. Participants were comprised of members of neighborhood associations, neighborhood commissions, and the Youth Commission.

Each exercise took place at a table with 7-9 residents along with two volunteers from Innovation Games. Participants were given two lists of programs with a limited amount of "funds." The first list consisted of proposals for service enhancements and the second list consisted of ideas for cost saving/revenue proposals. Participants could receive more funds to purchase neighborhood services if the team *unanimously* decided to approve a cost saving/revenue idea. The exercise was designed to determine what programs were held in the highest regard by residents.

Results

It was clear from the exercise that gang prevention and other forms of "non-police" intervention to increase safety and livability of the City were top priorities. Residents also showed a strong desire to increase revenues (raise taxes) to improve pavement conditions. It is important to note that those teams that enacted a sales tax spent significantly less money on funding proposals than was available, with an average of $12 million of unspent funds. This is a clear indication that these participants favor a prudent and measured approach to budgeting and spending.

Funding Proposals – The top proposals for funding were gang prevention efforts, general code enforcement, restoring the park ranger program, neighborhood and school traffic safety, and increasing library hours. As we begin to restore services after the Fiscal Reforms are implemented, these proposals must be given a high priority.

Cost Saving/Revenue Ideas – The top cost saving ideas were eliminating overtime for management positions, workers compensation, and disability retirement reform. The top revenue generating proposals were a ¼ cent sales tax and the business tax adjustment.

The full report from the Sixth Annual Neighborhood Association and Youth Commission Priority Setting Session can be found at:
http://www.sanjoseca.gov/mayor/goals/budget/PDF/2012_2013PrioritySettingSessionResults.pdf

INVESTMENT STRATEGIES

While our fiscal situation has improved, we must take a prudent approach to this year's budget and start planning for the $22.5 million deficit projected in Fiscal Year 2013-2014. We also need to be aware that this figure could rise, given the volatility in the economy and the uncertainty in many other revenue and cost factors. As a result, we should consider setting aside much of our ongoing surplus revenues and future deficit reserve.

However, we do have an opportunity to strategically invest some of these funds on a one-time basis in Fiscal Year 2012-2013. This approach would allow us to address some critical needs now, while ensuring that funds remain available to help address our future projected shortfall. These kinds of one-time investments include paying down debt and repairing critical infrastructure with a high-risk or high-cost of failure. These one-time investments can also serve as bridge funding while we pursue fiscal reforms that will allow us to maintain these programs and restore additional services on an ongoing basis.

1. Community and Economic Development

a. **Small Business Development Services Project Manager/Expediter:** The City Manager is directed to fund a position that serves as a single point of contact for small business development projects going through the development process and works with Development Services partners to accelerate permit processing schedules.

b. **Downtown Association:** The San Jose Downtown Association will continue to play an important role as the City's partner to activate and promote the Downtown. The City Manager is directed to allocate $260,000 in one-time funds from the Parking Fund to the San Jose Downtown Association. The scope of work will include services related to downtown business retention and recruitment, promotion, and event production. $40,000 in funding is available from TOT funds and an additional $20,000 in funding is available through the ESD grant program. This will ensure that the Downtown Association remains at the funding levels as the current year, which was a large reduction from the previous year.

c. **Arts and Cultural Institutions:** San José's cultural institutions and event producers provide significant economic benefit, attract regional participation, and raise significant of their funds from the private and philanthropic sectors. To support the growth of external funding, the City Manager is directed to provide the nonprofit operators of City-owned cultural facilities (San Jose Museum of Art, Children's Discovery Museum, San Jose Repertory Theatre, Mexican Heritage Plaza, and Tech Museum of Innovation) with operating funding equal to last year's allocation which was a reduction from prior years.

2. Public Safety and Neighborhood Services

a. **Library and Community Center Openings:** The City Manager is directed to begin the process of opening the closed community facilities. These include the Seven Trees, Bascom, Educational Park, and Calabazas Branch Libraries, and the Bascom Community Center. Opening these facilities has been a long priority for our community. If possible,

redirect existing current year resources to open the Bascom Community Center prior to July 1 to allow for as much summer programming opportunities as possible.

b. **Gang Prevention Funding and Safe Schools Campus Initiative:** The City Manager's Forecast includes $2.4 million in funding for the opening of the Police Substation. Gang prevention efforts were a priority for our residents and our neighborhood associations during our community budgeting process. The City Manager is directed to allocate $2 million for gang prevention programs, BEST funding, and the Safe Schools Campus Initiative by delaying the opening of the Police Substation. The remaining funds from delaying the opening of this facility should be used to help support one-time funded public safety items that are due to expire in June.

c. **Crossing Guards:** The safety of our school children remains a top priority for San José residents, as well as the City Council. During meetings with Superintendents at the Schools/City Collaborative, the Superintendents stated that this was the most important service the City provides for the schools. The City Manager is directed to maintain funding to the elementary and middle school crossing guard program.

d. **Children's Health Initiative:** The Anti-Tobacco Master Settlement Agreement funds have provided valuable funds to improve the quality of life of San José's youth and senior populations through the Healthy Neighborhoods Venture Fund (HNVF) program. The City Manager is directed to maintain funding for the Children's Health Initiative.

e. **Senior Services and Wellness/HNVF:** The Senior Nutrition Program provides healthy meals and social activity to San José's elderly residents. Through this program, seniors receive nutritious meals and social interaction that prevents them from being isolated. Together with the many social services that support this program, seniors are able to live more active and independent lives. Last year, the City in collaboration with the Senior Nutrition Task Force, maintained senior nutrition services at the 13 current City sites. The City Manager is directed to continue to support these efforts. The City Manager is also directed evaluate this program for potential improvements. To continue the strategy approved last year, ongoing funding of $400,000 should be allocated from the HNVF Competitive Fund.

   Earlier in the year during the Community Development and Block Grant (CDBG) discussion, the City Council set a target to allocate an additional $400,000 towards senior services. Approximately $200,000 will be allocated as part of a CDBG grant. The City Manager is directed to allocate an additional $200,000 in one-time funds to meet this target.

f. **Community Action and Pride (CAP) Grant Program:** The Community Action and Pride (CAP) grant program provides small grants to San José neighborhood groups to fund activities that result in cleaner, safer and more engaged communities. The CAP grant program stopped receiving ongoing General Fund budget allocations in the 2008-2009 Operating Budget.

   The program, which is administered under the direction of the City Administration, was able to hold onto funding that had remained in the program to fund grants over the years.

As a result of careful use and monitoring of funds, there remains savings of $110,000. The City Manager is directed to reallocate this funding to continue the program into next year.

g. **Counseling Services in the Police Department:** The San José Police Department's Chaplaincy Program has traditionally provided police officers, their families, and City residents with counseling services. More than 20 volunteer community chaplains, representing various faiths, offer counseling and support in departmental functions such as promotions, graduation ceremonies, and funeral arrangements. The City Manager is directed to allocate $20,000 to be used for counseling services to the Police Department and the community.

h. **Community Development Block Grant (CDBG)/Housing and Urban Development (HUD) 108 Loan:** As part of determining the financial state of the Successor Agency to the Redevelopment Agency, City staff projected future property tax increment revenues and analyzed the level of enforceable obligations for the Forecast period. Based on that analysis, it is projected that there will not be sufficient tax increment to pay all the enforceable obligations for the first four years of the Forecast period. Per an agreement between the Federal Department of Housing and Urban Development, if the Successor Agency is not able to make the loan repayment for the HUD Section 108 loan program, CDBG funds can be used to cover the obligation. The City Manager is directed to use CDBG funds to fulfill the debt service requirement if the Successor Agency cannot make the payment.

i. **Medical Marijuana Dispensaries:** In January 2011, our Finance Department estimated the number of marijuana dispensaries at more than 100. In February, direction was given to focus enforcement on the dispensaries causing the most problems and generating the most complaints. Last year roughly $1.2 million from the Marijuana Business Tax was allocated to maintain oversight over the closure of those establishments not registered with the City. Enforcement is a priority for City Council and funds should be used for enforcement but at the most cost effective level possible. Every dollar allocated for enforcement staff is a dollar that can be used for patrol or additional library hours. The City Manager is directed to review and report on the funding efforts from last year and bring forward a proposal that meets the needs of the marijuana enforcement program, at the lowest possible cost. These proposals should be one-time until there is more certainty related to the legislation.

j. **La Raza Study:** For years, we have seen Latinos disproportionately represented in our criminal justice, juvenile justice, and child welfare systems. With so many different causes and factors involved, this problem has long been considered impossible to solve. Yet, through the leadership of La Raza Roundtable, we now have a broad collaborative effort that cuts across different agencies and levels of government to address the various pieces of the problem. The City Manager is directed to allocate $50,000 towards this effort.

k. **Christmas in the Park:** Christmas in the Park (CITP) is a San José tradition, and a longstanding anchor of the City's Downtown for the Holidays attraction serving locals and visitors alike. Each year, the holiday event generates significant economic benefits

to the community, bringing in approximately $13.3 million in total visitor spending and generating critical economic activity for the restaurants, businesses, and attractions in the core downtown area. Over the past year and a half, Cultural Affairs staff has been working with the CITP board to transition the nonprofit from a City supported event to an independent organization responsible for producing the event, raising the funds, and managing their own staff. The last City funded position was eliminated in February. I recommend a one-time transition grant to be allocated from additional unexpected TOT revenues that were recognized at mid-year. Cultural Affairs funds are restricted and cannot be used for other purposes. Allocating these funds to Christmas in the Park will help minimize potential impacts to the General Fund.

l. **Fair Swim Center:** The City has been informed that the current vendor operating at Fair Swim Center will not continue to offer aquatics programs this summer. In order to continue operations this summer, the City Manager is directed to allocate $30,600 in one-time bridge funding while PRNS seeks a new vendor.

3. Transportation and Environment

a. **Street Maintenance and Repair:** The lack of sufficient funding has resulted in deferred maintenance and a decline in the condition of the City's infrastructure, particularly our roads. The 2,400 mile roadway network requires much larger investments of funding than is currently available to maintain and improve their condition. As a result, the Administration is recommending funding be allocated for use on a 400 mile priority street network of main roads that are most heavily used by San José residents and provide access to major job centers and residential areas throughout the City. By investing limited dollars on priority streets, those streets can continue to be well maintained and kept in good condition, avoiding the much higher costs of rehabilitation when maintenance gets deferred.

   A recent report to the Transportation and Environment Committee identified a need of $100 million annually to properly maintain and improve the entire 2,400 mile street network, and available funding of $18 million. The funding is proposed to cover basic pothole patching and most of the maintenance and repair needed for the 400 mile priority network. The funding is $2 million short of what is needed to fully cover the maintenance of the priority network. The Administration is directed to prioritize funding from available capital and general sources to fully fund the priority network, and to evaluate whether any other funds can be allocated to cover the remaining 400 miles of the major street network and the associated $16 million needed. There is recognition that the 1,600 miles of local/residential roads would have maintenance deferred under this approach. The Administration is further directed to work with the Mayor's Office to explore and report back to the City Council in June on the feasibility of using General Obligation Bonds to rehabilitate streets in poor condition, with particular emphasis on those roads in our neighborhoods.

b. **Keeping San José Streets Safe for Pedestrians, Bicyclists, and Motorists:** Over the last two decades, San José has continually improved its street safety record and has an injury crash rate half the national average. A consistent focus and investment in engineering, education and enforcement over that period has contributed to the safety

record. Our efforts have been essential to keeping the community safe on the roads, and have the added benefit of reducing emergency responses by our Police and Fire Departments. However, recent budget balancing has limited investment in traffic safety devices and programs and has contributed to a leveling off, and in some cases slight increases in injury crashes along major streets for pedestrians, bicyclists, and seniors.

The Administration is directed to identify available traffic capital funds to invest in safety devices and programs targeted to the most sensitive areas such as: major roadway crossing points; locations where highly visible signage, markings, and devices will make pedestrians, bicyclists, and motorists more aware and alert; and cost effective education efforts targeted at the most vulnerable populations like seniors, children, and bicyclists.

c. **4th Street Garage Debt Service/Parking Fund:** Per the bond covenants for the 4th and San Fernando Street Parking Garage, revenues of both the Successor Agency and the General Purpose Parking Fund are pledged to make the loan repayment for the annual debt services of $3.4 million related to this facility. In the event the Successor Agency to the Redevelopment Agency has insufficient revenues to make the payment, the Administration is directed to allocate funds in the General Purpose Parking Fund for the debt service payment.

d. **Autumn Parkway Project:** The City's economic development strategy identifies development of the Diridon Station area as a priority strategic goal, to help ensure the City's long-term economic success. The Diridon Station area includes the HP Pavilion and a plan for developing a world-class entertainment, retail and office district. A key transportation investment to serve that area is the extension of Autumn Parkway from Coleman Avenue to the HP Pavilion. Getting the roadway constructed over the Union Pacific railroad tracks by 2013 is necessary to comply with Public Utilities Commission approvals for a new railroad crossing. This project was previously budgeted by the Redevelopment Agency prior to its elimination by the State. The Administration is directed to identify project money in the Capital CIP and to seek alternative funding for the Autumn Parkway project.

4. **Strategic Support**

a. **Essential Services Reserve:** The City Manager is directed to set aside $1 million of one-time funds that may be used for the purpose of supporting services that are of essential importance to our residents. Services deemed essential by the City Council may be funded with the use of these one-time funds.

b. **City Council Appointees:** To ensure overall strategic leadership and service delivery for the organization and ensure that services are stabilized, the Mayor's Budget Office will work with the City Council Appointees to bring forward a budget to maintain the same service level except where program changes may be warranted and one-time funding expires.

c. **Data Analytics Programs:** Analytics programs increase efficiency, create cross agency transparency, and enable innovations while reducing the cost of government. The City Manager is directed to work with the Mayor's Office to review the opportunity to use data analytics programs in San José starting with the Police Department.

d. **Outside Legal Assistance:** In the City Attorney's Office, all but five attorney positions are members of the Association of Legal Professionals. The City Manager is directed to work with the Mayor's Budget Office and the City Attorney on an appropriate level of ongoing funding to provide for outside legal counsel for labor negotiations, representation at the Retirement Boards, related Public Records Act requests, and on other matters as necessary.

e. **Review of One-Time Funded Services from 2011-2012:** The City Manager is directed to review one-time funded services that were included in the 2011-2012 Adopted Budget to determine reallocating resources to continue on an ongoing basis where appropriate.

COORDINATION

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

2012-2013 Budget Balancing Strategy Guidelines

1. Develop a budget that balances the City's delivery of the most essential services to the community with the resources available.
2. Balance ongoing expenditure needs with ongoing revenues to ensure no negative impact on future budgets and to maintain the City's high standards of fiscal integrity and financial management.
3. Focus on protecting vital core City services for both the short- and long-term. Analyze existing service levels and focus on delivering those services that are most essential.
4. As outlined in the Principles for Restoring City Service Levels, allocate additional resources with the following goals in mind: ensure the fiscal soundness of the City; choose investments that achieve significant outcomes; and improve efficiency and effectiveness of service delivery.
5. Explore personal services cost savings, including overtime, subject to the meet and confer process where applicable. The Fiscal Reform Plan approved by the City Council with the adoption of the 2011-2012 budget outlined a number of cost reduction strategies, including several retirement-related reforms, that continue to be pursued.
6. Analyze non-personal/equipment/other costs, including contractual services, for cost savings opportunities. Contracts should be evaluated for their necessity to support City operations and to identify negotiation options to lower costs.
7. Engage employees in department budget balancing idea development.
8. Focus on business process redesign in light of the severe staff reductions during the last three fiscal years in order to improve employee productivity and the quality, flexibility, and cost-effectiveness of service delivery (e.g., streamlining, simplifying, reorganizing functions, and reallocating resources).
9. Explore alternative service delivery models (e.g., partnerships with the non-profit, public, or private sector for out- or in-sourcing services) to ensure no service overlap, reduce and/or share costs, and use our resources more efficiently and effectively. The City Council Policy on Service Delivery Evaluation provides a decision-making framework for evaluating a variety of alternative service delivery models.
10. Identify City policy changes that would enable/facilitate service delivery changes or other budget balancing strategies.
11. Explore redirecting and/or expanding existing revenue sources and/or adding new revenue sources as outlined in the Fiscal Reform Plan.
12. Establish a fee structure to assure that operating costs are fully covered by fee revenue and explore opportunities to establish new fees for services, where appropriate.
13. Make every effort, if operationally feasible and needed for cost-effective service delivery, to eliminate vacant positions, rather than filled positions, to minimize the number of employee layoffs. As service levels change, ensure that management and administration are re-sized as appropriate.
14. Use the General Plan as a primary long-term fiscal planning tool and link ability to provide City services to development policy decisions.
15. Continue a community-based budget process where the City's residents and businesses are educated and engaged, as well as have the opportunity to provide feedback regarding the City's annual budget.

Ensure the Fiscal Soundness of the City

- Develop the General Fund budget to support the City's mission and use the City Council-approved Budget Balancing Strategy Guidelines (Attachment A) to ensure the long term fiscal health of the City.
- Ensure services that are restored can be sustained over the long-run to avoid future service disruption. (Use Five-Year General Fund Forecast as one tool.)
- If possible, defer adding new permanent positions until new retirement system is in place.

Choose Investments that Achieve Significant Outcomes

- Ensure restored services represent City Council priorities and the highest current need in the community.
- Balance investments among three categories:
  - Restoration of services (public safety and non-public safety services, including critical strategic support services).
  - Opening of new facilities.
  - Maintenance of City infrastructure and assets.

- Prioritize baseline service level restorations using performance goals.

- Focus funding on areas where there is a high probability of success and/or a high cost of failure.

  i. Focus funding on infrastructure needs where there is a significant increase in cost if maintenance is delayed (such as street maintenance).
  ii. Focus investments in technology that have the greater return on investment in terms of services to the public and employee productivity.

Improve the Efficiency and Effectiveness of Service Delivery

- Before restoring prior service methods, evaluate options to determine if alternative service delivery models would be more cost effective.
- Ensure strategic support and technology resources are capable of supporting direct service delivery and effective management of the organization.
- Prioritize organizational investments that maximize workforce productivity, efficiency, and effectiveness.
- Pursue opportunities and methods, including performance, to retain, attract, and recognize employees within resource constraints.