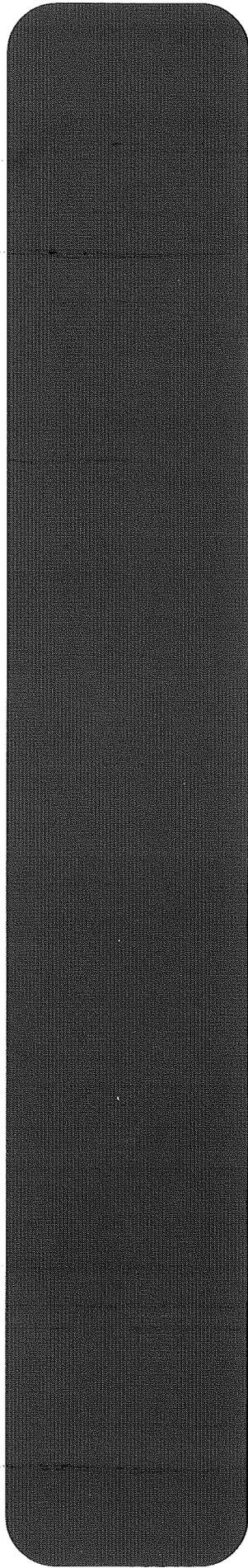


2014-2015

OPERATING BUDGET

APPENDICES



2014-2015

OPERATING BUDGET



**MAYOR'S MARCH
BUDGET MESSAGE**



Memorandum

TO: CITY COUNCIL

FROM: Mayor Chuck Reed

**SUBJECT: MARCH BUDGET MESSAGE
FOR FISCAL YEAR 2014-2015**

DATE: March 6, 2014

Approved:

Chuck Reed

Date:

3/6/14

RECOMMENDATION

I recommend that the City Council direct the City Manager to submit a proposed budget for Fiscal Year 2014-2015 that is balanced and guided by the policy direction and framework of priorities outlined in the Mayor's March Budget Message.

LOOKING AHEAD WITH CAUTIOUS OPTIMISM

As a result of many difficult decisions over the past few years to implement fiscal reforms, combined with improving economic conditions, the City's budget has generally stabilized, albeit at service levels that remain inadequate.

Three years ago, our General Fund shortfall was \$115 million, which would have been enough to push the City into service-delivery insolvency had we failed to act. To avert disaster, the City Council took bold budget actions, which included reducing total compensation for all City employees by 10 percent, outsourcing work, and getting voter approval for pension and retiree healthcare reforms.

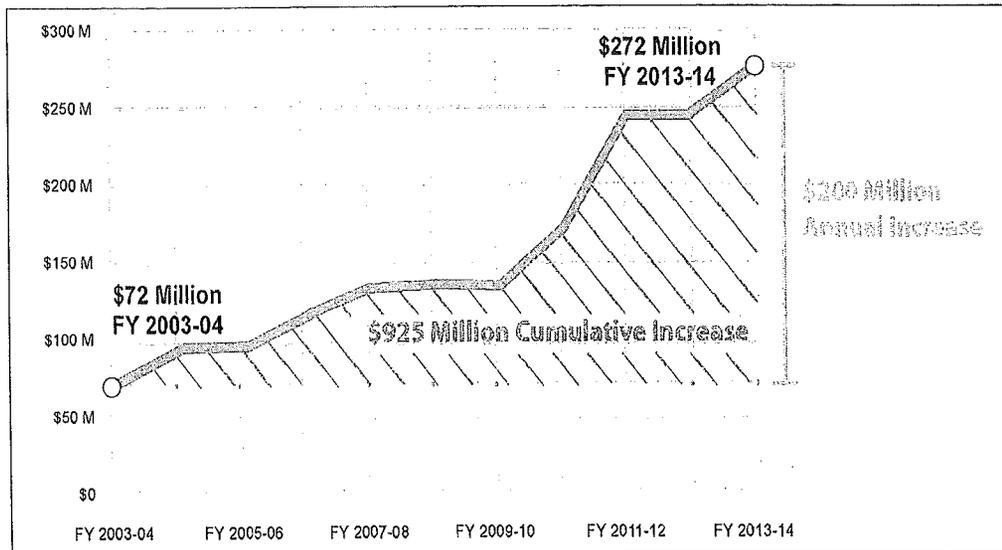
Even though retirement costs continue to rise, we were able to slow the rate of growth from what was projected, with significant savings.

As a result of these painful but necessary actions, we balanced our last two budgets without layoffs or service reductions, opened four libraries and a community center, turned on streetlights, retained 49 firefighters, hired Community Service Officers, and restored some pay to our employees. We can now plan for a Fiscal Year 2014-2015 budget without service cuts or layoffs.

We can be cautiously optimistic and plan for continued improvement of our fiscal condition, and modest improvements in services and restoration of pay. However, even with this positive news, we continue to face numerous threats to our fiscal stability, such as the litigation over pension reform and retirement costs that continue to grow year-over-year. In 2014-2015, retirement costs

are estimated to increase to \$308 million (up \$23.9 million in the General Fund and \$36.5 million all funds) and will absorb almost all of our increased revenues.

The Crushing Burden of Retirement Cost Increases



Sources: Retirement Systems Comprehensive Annual Financial Reports (FY 2004-04 through 2012-13); City of San José FY 2014-2015 Forecast
 *Figures denote the employer's (the City's) share of retirement contributions. These costs do not include employee contributions.

The Fiscal Year 2014-2015 budget will reflect savings from Measure B. Since voter approval of Measure B, we have achieved ongoing savings of \$20 million General Fund through the elimination of bonus pension checks and changes to retiree healthcare plans. We are also getting savings from having lower-cost retirement benefits for new employees. Those savings started small, but are growing rapidly as new workers are hired, and are now millions of dollars a year.

Absent the influx of new revenue, or significant additional savings from cost savings measures, the five-year forecast shows that we will have small deficits over the next five years. This is why we must be prudent with the funds we have available, avoid spending in ways that will add to future deficits, and focus our spending on the highest priorities of our community.

**2015-2019 General Fund Forecast
 Incremental General Fund Surplus / (Shortfall)**

2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
(\$1.5M)	(\$4.2M)	\$0.4M	(\$6.5M)	(\$1.7M)

Source: 2015-2019 Five-Year Forecast and Revenue Projections for the GF and Capital Improvement Program
 Note: Does not incorporate impacts associated with elements of the Fiscal Reform Plan that are not yet implemented; costs associated with fully funding the ARC for police retiree healthcare; costs for services funded on a one-time basis in 2013-2014; costs associated with restoration of key services to January 1, 2011 levels; costs associated with a Police Staffing Restoration Strategy that will be brought forward as a MBA in the 2014-2015 budget process; costs associated with unmet/deferred infrastructure and maintenance needs; or one-time revenues/expenses. Also does not factor in the potential impact associated with the Library Parcel Tax sunset in 2015 or any net impacts associated with Development Fee Programs due to the cost-recovery nature of those programs.

We have engaged our residents and taxpayers in the budget process and they have identified their highest priorities through the community survey and the neighborhood association priority session.

The survey found that the highest priorities for our residents and taxpayers are:

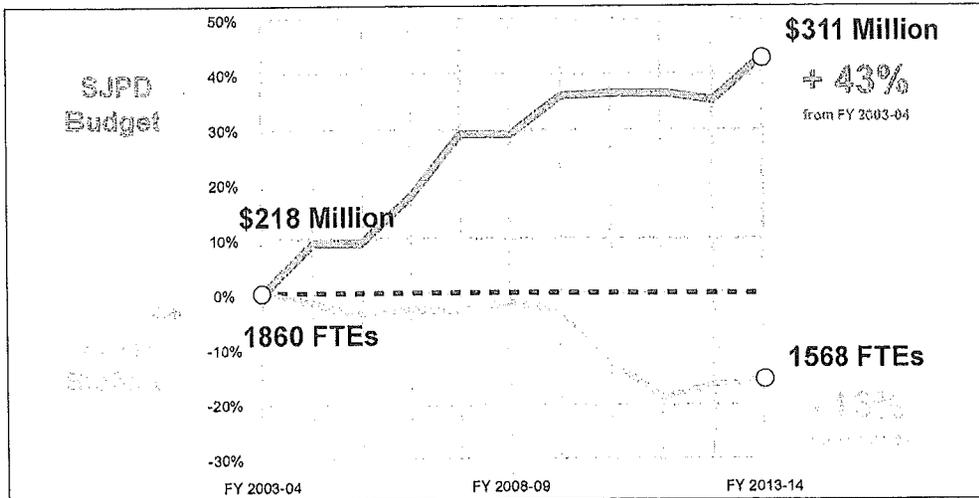
- Improve police and fire response times for emergencies.
- Reduce both violent crimes and property crimes.
- Step up gang prevention, intervention, and suppression.
- Stop the deterioration of our streets.
- Create more jobs and increase tax revenues.

At the eighth Annual Neighborhood Association and Youth Commission Priority Setting Session, nearly 100 residents participated in an exercise where they were given 24 hypothetical funding proposals and the revenue expected from a proposed $\frac{1}{4}$ cent or $\frac{1}{2}$ cent sales tax and were asked to purchase the items that were most important to them. Regardless of the available budget, public safety, gang prevention, and crime prevention were the top concerns. Participants also routinely explained their choices in terms of “systems thinking,” such as the influence of roads on public safety and the impact of park rangers on police.

As in past years, our budget should be built around the priorities and values of our residents and taxpayers. It is clear that the community wants us to not burden future generations and keep our eyes on the long-term goal: a future in which San José is fiscally strong and can afford to provide the service levels that our residents expect and deserve.

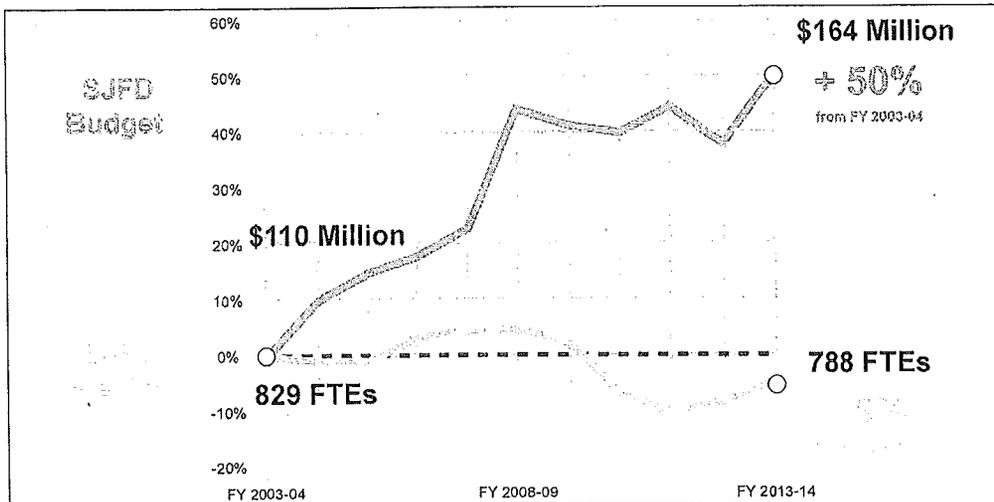
Our top priority should be improving public safety and the quality of life for our residents. Unfortunately, as illustrated in the following charts, over the past ten years the Police and Fire Department budgets have increased but the number of police officers and firefighters has decreased. This is due primarily to rising retirement costs which have consumed the departments’ budgets.

Police Department Budget and Staffing Since Fiscal Year 2003-2004



Sources: City of San José Adopted Operating Budgets, FY 2003-2004 through FY 2012-2013; FY 2013-2014 Modified Operating Budget

Fire Department Budget and Staffing Since Fiscal Year 2003-2004



Sources: City of San José Adopted Operating Budgets, FY 2003-2004 through FY 2012-2013; FY 2013-2014 Modified Operating Budget

In 2014-2015 and following years, additional funding for the police and fire department will continue to be consumed by large increases in retirement costs. Funding for pay raises for police officers approved by the Council also will be included in the Police Department budget. Paying for these costs will take most of our available funds; but, even with limited resources, there are steps we can take to improve service levels by both the Police and Fire Departments:

1. Funding for recruiting and training new police officers should be set at the level necessary to achieve the maximum number of academies and the maximum number of recruits so that we can reach authorized strength as soon as possible and then start implementing the Police Staffing Restoration Plan.

2. Civilians should be hired to handle police-related duties that do not require peace officer training and skills in such areas as burglary investigations.
3. Police officers and firefighters who are injured and want to work while recovering should be allowed to temporarily fill positions they are capable of handling.
4. Police retiree rehiring should be implemented to fill in as many positions as possible until we reach authorized strength.
5. Uncertainty around disability retirement can be eliminated and provisions can be made to ensure that anyone who is injured in the line of duty and cannot perform their prior position either retires on a disability or obtains a different job in their department.
6. Use of reserve officers can be expanded, as has been done in other cities.
7. Staffing levels for fire apparatus can be modified to allow addition of more advanced life support units to improve response times for medical emergencies.

Controlling costs and making more effective use of our resources will allow us to avoid cutting services and instead modestly improve services. However, to improve services significantly, we will need new revenues, which is an important element of our Fiscal Reform Plan.

In order to prepare for the possibility of additional revenues from a sales tax measure, the budget should include funding priorities that are contingent upon approval by the voters of a ¼ cent and ½ cent sales tax increase. These priorities should be consistent with those identified in the community survey as detailed on page 3 of this Message. In the 2014-2015 budget, these priorities should be listed in a separate section so they can be readily identified, as we did last year with the contingency planning for the Measure B litigation.

SPENDING PRIORITIES

1. Public Safety and Neighborhood Services

- a. **Police Staffing Restoration Strategy:** On September 3, 2013, the City Council directed the City Manager to present for City Council consideration a four-year Police Staffing Restoration Strategy to reach a level of 1,250 officers. The Strategy included: (1) filling current vacancies; (2) restoring wages by at least ten percent within four years; and (3) adding 141 new sworn positions, as well as consideration of funding sources necessary and identification of any shortfall that would require a voter-approved revenue measure to address. On December 10, 2013, the City Council approved a Memorandum of Agreement with the San José Police Officers Association that, among others, restores the ten percent pay reduction over a two and a half year period. Also since the adoption of the Strategy, the City has begun to realize savings from Tier 2 retirement benefits for new police officers effective August 2013. As part of the 2014-2015 budget process, the City Manager is directed to present the City Council with a MBA that provides a four-year Police Staffing Restoration Strategy.
- b. **Burglary Unit:** In 2012, sworn staff was reallocated to patrol from special operational and investigative units, including the Burglary Investigation Unit, in an effort to maximize patrol resources and maintain response for Priority One calls for service. With fewer resources in investigations, the number of cases investigated has declined and an

increase in the number of cases “operationally closed due to lack of investigative resources.” 2013-2014 MBA #6 Residential Burglary Reduction Efforts outlined a plan to address the increase in residential burglaries. Yet, as the state reduces the prison population, property crimes are rising and we need more capacity to respond. As part of the Police Staffing Restoration Strategy discussed above, the City Manager is directed to prioritize the reestablishment of a Burglary Unit within the Police Department, drawing staff from positions that could be done by civilians, retiree rehires, and Community Service Officers.

- c. **Police Department Community Service Officers:** The 2013-2014 Adopted Budget included the addition of 21 Community Service Officers (CSOs) to perform a wide variety of non-sworn technical and administrative support services with a heavy emphasis on patrol-related support. The hiring process for this first cohort of CSOs is nearing completion. However, in the interim, the Police Department returned to a four division model; this results in an uneven distribution of CSOs. Further, there is a need to expand the use of CSOs beyond the minimum level provided currently. The City Manager is directed to explore adding funding for a minimum of seven additional CSO positions and to identify additional opportunities to improve service by adding more CSO positions in the future.
- d. **Use of Police Reserves:** The Police Reserve is a volunteer organization that provides emergency callback to the Police Department on a 24-hour basis. When on duty they are classified as Police Officers with full powers of arrest whose authority extends to any place in the State. The Reserve Police Officers have the same duties and responsibilities as regular officers. The 2013-2014 March Budget Message directed the City Manager to fully engage the use of police reserves. The City Manager is directed to present to the Public Safety, Finance, and Strategic Support Committee at its April 17, 2014 meeting, a report on the current use of Police Reserves.
- e. **Police Department Overtime Reserve:** The 2013-2014 Mid-Year Budget Review established a \$4 million Police Department Overtime Reserve for 2014-2015 that is funded by departmental vacancy-related savings. This funding is needed in 2014-2015 to continue backfilling for vacant patrol positions and maintain targeted enforcement of high crime activity through suppression cars. The overtime funding is also available to cover civilian staffing vacancies, as needed. This item is related to the Police Staffing Restoration Strategy discussed above. The City Manager is directed to allocate this Reserve to the Police Department as part of the 2014-2015 proposed budget.
- f. **Eliminating Uncertainty About Disability Retirements:** In 2012, the voters overwhelmingly approved Charter changes to reform our disability retirement system. These reforms were based on the recommendations of the City Auditor and will help curb abuses that have led to 2/3 of our firefighters and 1/3 of our police officers retiring on disability. Uncertainties surrounding disability retirements have since arisen that must be resolved. On January 8, 2014, the Rules and Open Government Committee directed staff to, starting with the Police Department, develop an ordinance for City Council consideration to provide a job for employees who: (1) are injured in the line of duty; (2) cannot do the work they did before the injury; (3) are not yet eligible for a service

retirement; and (4) do not qualify for a disability retirement. In addition, staff was directed to provide cost estimates for the City to provide matching funds to obtain long term disability insurance for employees who do not qualify for a disability retirement, but incur long term reductions in compensation as the result of being injured in the line of duty. Staff was directed to first engage with our bargaining units as may be necessary to develop the ordinance and consult with the retirement boards as required. In the upcoming budget process, the City Manager is directed to provide estimates of the costs to fund the jobs and pay supplement/insurance. The City Manager is also directed to fund on an ongoing basis a Human Resources (HR) position assigned to the Police Department to manage its HR needs, including assisting employees with disability retirement issues, and create a single point of contact to serve as a resource for employees with HR-related questions.

- g. Fire Department Response Times:** The majority of the emergency calls to the Fire Department are medical and our staffing model needs to better reflect that reality. We need to use existing resources more effectively, such as expanding the use of two-person squad vehicles and testing the use of motorcycle paramedics, as has been done in other states. If necessary, we should also follow the rest of the fire departments in the County, who deploy three firefighters on an engine. That staffing change alone will allow us to open all of our fire stations, eliminate the brownouts, and improve response times in medical emergencies. The City Manager is directed to explore implementing changes to staffing models and deployment, and bring that analysis before the City Council for its consideration, before the City Council considers any staffing increases for sworn positions. The City Manager is also directed to explore the necessity of additional staffing in order to undertake data analysis.
- h. Fire Station 37 (Willow Glen):** Fire Station 37 is the final station scheduled for construction as part of the Public Safety Bond Program (Measure O; 2002). Due primarily to the unexpectedly high cost of construction during much of the Measure O program, the decision to rebuild instead of remodel Fire Station 2 (which resulted in a net cost increase of approximately \$4.1 million), and the recent uptick in bid prices expected for Fire Station 21, the Administration anticipates that only \$2.0 million in Measure O funds will remain after the completion of Fire Station 21. This amount leaves the Fire Station 37 project over \$5.0 million short of the funds needed to complete the project. Prior to 2008-2009, it was assumed that Fire Station 37 would be a relocation of Fire Station 6 (also located in Willow Glen), including staffing. Proceeds from the sale of Fire Station 6 were to be used to fund Furniture, Fixtures, and Equipment for newly constructed fire stations. In 2008, the City Council removed the sale of Fire Station 6 (including reallocation of staff) from the Budget. 2013-2014 MBA #31 placed the construction of Fire Station 37 "on hold" pending evaluation of the following options on costs and operational impact to Fire and Paramedic emergency response: (1) Build Fire Station 37 and close Fire Station 6; (2) Build Fire Station 37 and keep Fire Station 6 open; and (3) Do not build Fire Station 37 and remodel Fire Station 6. Due to other urgent priorities, the Administration indicates that this analysis will not be completed in time to be included in the 2014-2015 Proposed Operating and Capital Budgets. The City Manager is therefore directed to bring forward a MBA with a recommendation, including any operating and/or capital budget impacts, as part of the 2014-2015 budget process.

- i. **La Raza Roundtable Consensus Process:** 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 and the Harvard Study Consensus Process, we 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 continue to support these efforts next year.
- j. **Gang Prevention and Intervention Efforts:** Gang prevention and intervention efforts continue to be a priority for our residents and neighborhood associations during our community budgeting process. The City has a proven track record of impactful programs that support these goals through a variety of efforts, including the San Jose Bringing Everyone's Strengths Together (BEST)/Safe Summer Initiative Programs, the Mayor's Gang Prevention Task Force, and the Safe Schools Campus Initiative. The 2013-2014 budget previously set aside an additional \$1.5 million in one-time funding to support these efforts, bringing the total funding for these programs to \$4.6 million in 2014-2015. The City Manager is directed to allocate an additional \$1.5 million in one-time funding for Fiscal Year 2015-2016 to support the Mayor's Gang Prevention Task Force, Safe School Campus Initiative, and the Safe Summer Initiative to keep the available funding at the same level for another year.
- k. **Truancy Abatement/Burglary Suppression (TABS) Programs:** Truancy has a direct link to increased crime and gang involvement. The TABS program was created with two goals: (1) reduce the number of daytime burglaries in the City; and (2) reduce truancy. Past experience has shown that many daytime burglaries are committed by juvenile suspects, many of whom are cutting school. The City Manager is directed to review and continue funding the TABS programs.
- l. **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.

2. Community and Economic Development Services

- a. **United States Patent and Trademark Office:** Later this spring, it is expected that a lease agreement with the United States Patent and Trademark Office for the use of the City Hall Wing will be brought before the City Council for consideration. The 2013-2014 Mid-Year Budget Review increased the Public Works Unfunded Projects appropriation by \$200,000 to fund the planning activities associated with the development of this lease agreement, including for programming, space planning, and procurement of a design-build contractor to reconstruct office space in the Wing, as well as the space in the Tower (to accommodate the City operations displaced from the Wing). The lease agreement is expected to include a cost sharing component for the capital costs of the project. The City Manager is directed to further evaluate and identify the one-time funding necessary in 2014-2015 for the construction of this project. In undertaking this

evaluation, the City Manager is directed to consolidate operations and otherwise maximize operational efficiencies to ensure the relocation of displaced City services to the Tower is completed in the most cost effective manner as possible. The City Manager is directed to present the recommended plan to the City Council as part of the 2014-2015 budget process.

- b. Downtown and North San José Transportation Improvements:** Consistent with prior Council direction, the \$3 million received from the Irvine Company for a residential development at North First Street and River Oaks Place was allocated towards offsetting unfunded transportation improvements in Downtown and North San José. Another \$2.6 million is expected from Schmidt CS Seufferlein et al for the Century Court high-rise residential development in North San José. Even with these infusions, a substantial outstanding balance of transportation infrastructure improvement commitments that were made by the former Redevelopment Agency in Downtown and North San José remain unfunded. The City Manager is directed to maximize the use of the additional revenues received in the Building and Structure Construction Tax Fund and Construction Tax Excise Fund in the current year to address the unfunded transportation infrastructure commitments in Downtown and North San José, while also addressing the other high priority transportation issue - Street Maintenance, Repair, and Safety (see next item).
- c. Street Maintenance, Repair, and Safety:** In the past decade, the lack of sufficient funding has resulted in deferred maintenance and a decline in the condition of the City's infrastructure, particularly our roads. Ten years ago, the overall quality of City streets was considered "good;" today they are considered "fair." Ten years ago, six percent of neighborhood streets were considered "poor;" today, 25 percent are considered "poor" and that is expected to increase to 50 percent by 2020. The adopted Council Policy is to allocate funding for the 400-mile priority street network (main roads that are most heavily used by San José residents and provide access to major job centers and residential areas throughout the City). This policy recognizes that approximately 1,600 miles of local/residential roads would have their maintenance deferred. While road maintenance has suffered, the rise of traffic-related accidents is also a serious cause for concern. At this time, revenues are tracking above projections in the Building and Structure Construction Tax Fund and Construction Tax Excise Fund, providing a limited but important opportunity to address the City's street maintenance, repair, and safety needs. The City Manager is directed to maximize the use of the additional revenues received in the Building and Structure Construction Tax Fund and Construction Tax Excise Fund in the current year to address street maintenance for local/residential and priority street network of main roads, and repair and invest in road safety improvements, while also addressing the other high priority transportation issue - Downtown and North San José Transportation Improvements (see prior item).
- d. Ending Homelessness:** The 2013-2014 Adopted Budget added funding of \$7 million in General Fund one-time funds over a two-year period to address concerns about the homeless and homeless encampments, and explore long-term strategies to address these issues including: homeless outreach services; creek clean-ups; and permanent housing. Of that total and over the two-year period, \$3 million was allocated for the Homeless Response Team, with the remaining funding of \$4 million allocated to the Homeless

Rapid Rehousing Plan strategy. The City Manager is directed to allocate \$3.5 million in one-time funding for these purposes in Fiscal Year 2015-2016 to continue the strategy for another year.

- e. **Cultural and Arts Facilities Capital Replacement and Maintenance Funding Plan:** As regional destinations, City-owned cultural facilities, including the San Jose Museum of Art, Tech Museum of Innovation, San Jose Repertory Theatre, History San Jose, School of Arts & Culture at Mexican Heritage Plaza, and Children's Discovery Museum, generate significant economic impact and downtown vibrancy. A number of significant and critical capital needs have arisen that pose challenges for these facilities and put the General Fund at risk. One-time funds provided in 2013-2014, while helpful, were insufficient to address all of the critical facility needs. By setting aside growth in the four percent of Transient Occupancy Tax (TOT) revenues that are allocated to the General Fund above the 2013-2014 base year, a strong first step will be made in securing a dedicated stream of annual funding for these facilities' deferred maintenance and capital replacement needs. In addition, to expand the TOT taxable base to increase overall TOT revenues, the Administration should explore applying the TOT to non-hotel lessors utilizing internet-transacted vacation rentals and creating a similar assessment for hotels constructed since the creation of the Convention Center Financing District. The City Manager is directed to allocate the growth in TOT revenues (over the 2013-2014 base level) to support City-owned cultural and art facilities' capital needs, including developing a project approval process through the Department of Public Works, as part of the development of the 2014-2015 budget. The City Manager and City Attorney are also directed to explore the viability of the two options to expand the TOT taxable base and report back to the City Council when the analysis is complete.
- f. **Convention Center Facilities District Revenue Fund:** The Convention Center Facilities District (CCFD) tax revenues are deposited into the Convention Center Facilities District Revenue Fund for Convention Center use. Due to revenues anticipated to exceed projections, the amount necessary to cover annual debt service payments and required reserves is estimated to be exceeded over the next several years. The City Manager is directed to transfer, on an annual basis and after it is actually realized, any additional funds in the CCFD to the Convention and Cultural Affairs Fund and use that funding for Convention Center debt expenses in that fund which will, in turn, free up funding for capital repairs and improvements to the facilities managed by Team San Jose, as appropriate. The facilities managed by Team San Jose include: the Civic Auditorium; Parkside Hall; Center for the Performing Arts; California Theatre; South Hall; and Montgomery Theatre. Before any transfer is made, the City Manager is directed to ensure that all bond covenants for the CCFD have been met, including full funding of the Debt Service Reserve and Revenue Stabilization Reserve, to protect against any economic downturn.
- g. **SJ2020:** About 40,000 San José students, nearly half of all public students tested, are not proficient in their grade level skills. About 2,300 middle and high school students drop out each year. These students are left with much fewer options and are more likely to be unemployed, rely on public assistance, and engage in criminal behavior. To address this problem, the City, the Santa Clara County Office of Education, educators, business

leaders, and community organizations have launched SJ2020 with the goal to eliminate the achievement gap in San José by the year 2020. The City Manager is directed to continue to support these efforts next year.

- h. Move Your Jobs to San José Communications:** As part of the 2014-2015 budget process, the City Manager is directed to provide a cost proposal for the City Council's consideration of a communications campaign directed at large and small Silicon Valley driving industry companies seeking location and/or expansion space. Developed in partnership with property owners who will help fund it, the campaign should: (1) promote premier entitled/vacant lands and recently renovated office/R&D buildings in North San José, Downtown, and Edenvale; (2) highlight San José's competitive advantages and City Council approved business incentives; and (3) be prepared for launch by July 1, 2014.
- i. Keeping Downtown Safe and Clean:** As the City budget suffered annual shortfalls and the Redevelopment Agency (RDA) suffered death, the San Jose Downtown Association has stepped up its efforts in cleaning, maintaining, promoting, and policing the downtown. The Downtown Association will continue to play an important role as the City's partner to activate and promote the Downtown. At a minimum, the City Manager is directed to make one-time funding which was provided the previous two years ongoing. The City Manager is further directed to review the cuts in City and RDA funding over the last decade and to determine if funding for some of the work being done by the San Jose Downtown Association should be included in the base budget to offset some of the expenses the Association incurs.
- j. SAP Center Renegotiation:** The current Operating Agreement with the San Jose Sharks for the management of the San Jose Arena expires on June 30, 2018. Operating agreements are complicated documents that require extensive staff work by various departments within the Administration, including the Office of Economic Development, as well as require securing consultants who can provide necessary outside expertise regarding industry information and trends. The City Manager is directed to allocate the necessary one-time funding to ensure the City is positioned for the renegotiation process.
- k. Diridon Area Community Parking District:** The Deferred Maintenance Infrastructure Backlog totals roughly \$900 million in unfunded costs, with an additional \$148 million needed annually in order to maintain the City's infrastructure in a sustained functional condition. Considering these unfunded needs, and the restriction these needs place on limited resources, we have to develop new funding sources for projects in the downtown and in the urban villages. A Community Parking District provides a funding opportunity for a future parking facility in the Diridon Area. The City Manager is directed to explore the use of a Community Parking District supported by revenues from new parking meters in the Diridon Area to support a new parking facility as part of the work on Community Parking Districts as previously directed by the City Council.

3. Strategic Support

- a. **Preventive Maintenance Program:** For the past two years, the City Council has approved \$1.8 million in funding, of which \$1.3 million was one-time, for a Preventive Maintenance Program (Program) which has allowed the overall preventive maintenance of City facilities to increase from 38 percent to the industry standard of 80 percent for Heating, Ventilation, and Air Conditioning (HVAC), plumbing, lighting, energy management systems, roofing, generators, and emergency fire alert systems. As a measure of its success, the Program is currently achieving over 90 percent of all City facilities' preventive maintenance needs. The Program continues to reduce the amount of corrective maintenance needed on City facilities and the program addresses some deferred infrastructure needs. As a result, the City Manager is directed to explore the continuation of the Program as part of the 2014-2015 budget process.
- b. **Review of One-Time Funded Services from 2013-2014:** The City Manager is directed to review one-time funded services that were included in the 2013-2014 Adopted Budget for continuation again in Fiscal Year 2014-2015, where appropriate. This review should also include any programs funded for two years using one-time funds that were included in the 2013-2014 Adopted Budget.
- c. **Essential Services Reserve:** The City Manager is directed to set aside \$2 million in one-time funds that may be used for the purpose of supporting services that are of essential importance to our residents. Services deemed essential by the City Council may be funded with the use of these one-time funds.
- d. **Civic Innovation Staffing:** Through the Silicon Valley Talent Partnership, the City has been able to access private sector talent and innovative problem solving to address issues where internal staffing or capacity has been lost after years of budget cuts. The City has also been able to utilize skilled volunteers in various capacities throughout the City operations. Both the City and community benefit from enhanced government operations and services developed through these partnerships. In order to not lose this momentum, the City Manager is directed to fund a Civic Innovation Position in the City Manager's Office on an ongoing basis to manage projects done with skills-based volunteers.
- e. **Google Fiber:** As announced on February 19, 2014, San José is one of 34 cities in nine metropolitan areas across the nation being considered for the expansion of Google Fiber. Google Fiber provides residential Internet connectivity at one gigabit per second, which is up to 100 times faster than the basic broadband speeds currently available in the United States. Google will announce by the end of the year which cities have been selected to move forward. Pursuit of this project involves working with Google during the planning and permitting phases. For instance, the City would need to: provide detailed, accurate maps of housing density, topography, geology, and existing infrastructure such as utility poles, conduit, and water, gas, and electricity lines; ascertain if the fiber can be installed on existing poles or conduits to avoid construction disruption; and review the permit process and its scalability for a project of this size which will result in as many as 100 times the usual number of permits. The City Manager is directed to explore what resources, including staffing, might be necessary to support the Google Fiber project. In

addition, and as a part of this analysis, the City Manager is directed to prepare a plan to streamline permitting while still maintaining full cost recovery for the project.

- f. **Council General Phase Out:** The 2013-2014 March Budget Message directed the City Manager to phase out the Council General budget item. This direction was provided to ensure truth-in-spending, as the use of the Council General budget item resulted in certain costs, such as for Mayor and Councilmember salaries and benefits, and administrative costs, being charged to other appropriations and not the individual office budgets. The 2014-2015 Base Budget will reflect the phase out of Council General to increase spending transparency. Going forward, the Council Office budgets should be set equally. Administrative costs should be set at the average cost of projected payroll.
- g. **Future Deficit Reserve:** In developing the 2014-2015 budget, the City Manager is directed to use a two-year approach to ensure that there is sufficient Future Deficit Reserves remaining in order to cover the projected General Fund deficit in 2015-2016 if necessary that year as a stopgap measure.
- h. **Potential Ballot Measures:** At the February 10, 2014, City Council Study Session on the 2014-2015 Budget, there was extensive discussion about placing a sales tax increase on the November 2014 ballot, including the need for additional polling. The City Manager is directed to allocate appropriate funding to conduct further polling and to continue to work with the Mayor's Office on the development of the polling.
- i. **Budget Balancing Strategy Guidelines:** The City Manager is directed to use the 2014-2015 Budget Balancing Strategy Guidelines as detailed in Attachment A to this March Budget Message Memorandum to develop a balanced budget for the next fiscal year.

COORDINATION

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

2014-2015 Budget Balancing Strategy Guidelines

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