CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

General Fund Structural Deficit Elimination Plan

Office of the City Manager

November 2008

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SUBMITTED BY

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CITY MANAGER

EXECUTIVE SUMMARY

As the City Council and community understand, the City of San José faces a structural budget deficit in the General Fund that must be corrected. In fact, elimination of the structural deficit was identified by the City Council in 2007 as one of its top priorities. Success in addressing this problem will take several years, however, and will require purposeful actions on the part of the City Council and the Administration, with the support of the community. This ***General Fund Structural Deficit Elimination Plan (Plan)*** lays out a roadmap for our City's future, but the road will not be easy, and reaching our destination will take discipline and perseverance.

Beginning in 2001-2002, the City recognized that revenues were not keeping pace with expenditures and began taking steps to cut costs. Since then the City has eliminated more than 350 positions and closed more than $450.0M in deficits. Yet our problem endures. Our latest forecast shows a gap between ongoing revenues and expenditures of approximately $60.0M in 2009-2010 that grows to almost $77.0M over the next five years. When the City's unmet/deferred infrastructure and maintenance needs are considered in that total, the structural budget deficit is estimated to be $106.3M by 2013-2014. And it is quite possible that this budget gap will become even larger given the worsening fiscal crisis at the state and national level and in the global economy.

It is clear that we are not simply in a cyclical downturn. The resources and staffing levels that we once enjoyed are not going to be available again in the foreseeable future. Like so many other municipalities, the City of San José has entered an era of seriously constrained resources. This means that we have a real and urgent need to make difficult choices so that the City lives within its means. These choices will require re-evaluating the role of City government as a provider of services and identifying the specific services that are the City's core, or basic, services. We must determine the service levels tax payers are willing to fund and the price they are willing to pay through taxes and fees. We must keep the cost of doing the City's business down through cost controls, improved service delivery methods, and strategic investments in technology and employee training and development.

It is not easy to deliver the message that we cannot afford everything we are doing now. But our responsibility as stewards of public resources requires that we clearly state the problem and identify what we can do about it. This Plan does just that. It describes the fundamental problem we need to solve and suggests the steps we recommend the City Council take to ensure fiscal and organizational stability for the future. It is important to acknowledge the stakeholders from the community and staff who provided valuable insights and suggestions to produce expenditure savings and increase revenues. A number of their suggestions are contained in this Plan.

The Plan is a policy guide and an operational blueprint for actions that, if taken, can achieve fiscal stability and organizational sustainability. There are no simple solutions. Rather, a combination of actions during the next five years will enable the City to eliminate the structural budget gap. The reality that there are no "easy fixes" also makes it essential that everyone be part of the solution. Since there are no "other parties" that can or will solve this problem, it is up to us collectively – the Mayor and Council, the City Management Team, employees, and the community – to understand and then reduce expenditures, raise revenues, change service delivery methods, or a combination of all of these.

This Plan contains 13 strategies that together can be used to eliminate the structural budget deficit. The strategies result from a year long process of gathering ideas from the City staff, the larger community and best practices in local government. The City has conducted extensive stakeholder outreach including a five month process of discussing specific strategies with a diverse group of community stakeholders. With feedback from City employees and the San José community, we are proposing, through this Plan, that the previous three-year schedule for eliminating the structural budget deficit be changed to five years. Many of the strategies will need further outreach in order to be further developed and agreed upon before they can be properly implemented. The Plan indicates the fiscal year in which each strategy is proposed to be implemented in one form or another with beneficial fiscal impact on the General Fund.

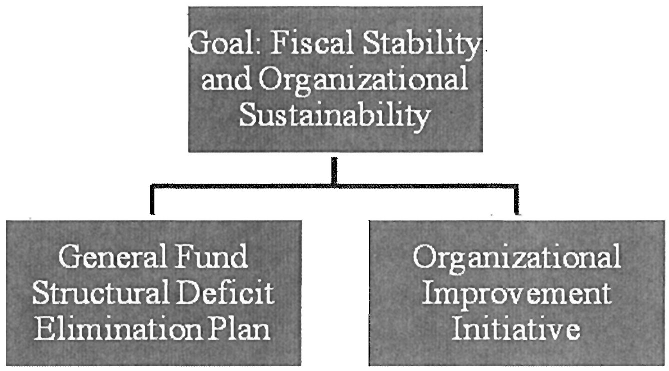
The timing of the various strategies can be modified, depending on the Council's policy preferences, implementation complexity and other factors. Additionally, some strategies may be determined to be unacceptable by the Council, in which case those strategies will be dropped from further staff analysis and effort. We caution, however, that the order of magnitude of the structural budget deficit will require that most of the strategies in this plan be implemented. If they are not, or substitute strategies are not identified, we will fail to achieve the fiscal stability and organizational sustainability we seek.

Complementing this Plan is an organizational improvement initiative which is a multi-year effort to create an organization that is more focused, productive, nimble and effective. It aims to simplify processes that add little value or create inefficiencies, to empower employees in meaningful ways to make productivity improvements, to provide a safe environment for employees to try new ways of doing things that can save time or money, to improve the budget process to reduce the amount of time spent producing it, to use technology to save time and improve customer service, and to manage workload in realistic ways.

As we face the likely prospect of losing positions, it is critical that we refashion the organization to ensure that our remaining employees are able to do their work in a positive environment. That means when we cut back on the number of employees, we also must be clear about what work can no longer be performed. It means finding ways to reduce paperwork and nonessential tasks to free up capacity of employees for high value work. It means making choices between the things that help us achieve high priority outcomes and those that fall into the "nice to do" category. Since we cannot "do it all" we must become more disciplined about how people in the organization spend their time. As we transform out organization, it is essential that we continue to invest in technology, and employee training and development.

Additionally, as the organization becomes smaller, it will become more important that we attract and retain top talent. The challenges facing the City require bright, capable people to do the work. Our organization must be a place where people feel productive and get satisfaction from their jobs. Our experience in reducing budgets over the years is that when we eliminate positions, the work rarely goes away. There is a limit to our capacity to absorb tasks, and we have more than reached that point in many parts of our organization.

Together, this Plan and the organizational improvement effort can provide the foundation for achieving the goal of fiscal stability and organizational sustainability. The base level work being done in the organizational improvement effort will help free capacity by cutting through bureaucracy and finding efficiencies. This Plan will enable us to bring ongoing revenues and expenditures into alignment within five years.



Summary of Strategies

The strategies contained in this Plan are difficult and no doubt each will face objections from some quarter. However, these strategies – or ones similarly difficult – are the only choices left if we are to seriously address the goal of eliminating the General Fund structural deficit. During the past seven years, we have made many cuts. We have eliminated positions, aggressively cut costs, analyzed costs to shift those that are appropriate from the General Fund, and conservatively estimated our revenues to ensure we are not over-promising our ability to provide services. We have been mindful to manage service reductions in a way that has been acceptable given our recent community satisfaction survey results.

The 13 strategies fall into three separate categories:

- Cost Savings Strategies
- Revenue Strategies
- Service Reductions/Eliminations Strategies

Council initially directed the Administration to create a Plan which eliminates the budget deficit through a balance of strategies. Approximately one-third of the deficit was to be eliminated through cost savings strategies, one-third through revenue strategies, and one-third through service reductions/eliminations. In the Plan, each strategy's value is shown as a range over five years and the total value would exceed the budget deficit. The strategies, if fully implemented, represent 22% cost savings, 17-29% revenue increases, and 48-56% service reductions/eliminations of the total value of the strategies. More aggressive actions in the cost savings and revenue strategy categories would obviously offset deeper service reductions or eliminations.

As we developed this Plan, we carefully evaluated the level of savings or revenue generation that could reasonably be expected to be achieved during the five year period of the Plan. We found that the strategies for cost savings and/or revenue generation fall below that one-third threshold due to practical factors involved in the specific strategies. As a result, this Plan places significant emphasis on service reduction/elimination strategies, especially in 2009-2010 and into 2010-2011. Strategies involving cost reductions and revenue increases require longer term implementation, with benefits to the General Fund to be realized in later fiscal years.

It is assumed that this Plan will be implemented over five years and with that in mind we have created an initial implementation schedule that lists the strategies to be implemented in each of the years. This schedule will, no doubt, be modified throughout the five-year timeframe as new options are identified or as new factors arise that affect the schedule or to the extent that one-time solutions are used to balance the budget in any given year. The intent is for this initial schedule to guide the work that staff will do in conducting appropriate analysis, stakeholder outreach, policy level discussions with the City Council, and other steps to fully implement changes.

We will continue to regularly update financial projections to monitor whether there are improvements or further declines in our revenue. Those updated projections will inform our recommendations to the City Council in terms of moving strategies forward or recommending modifications. Thus, this Plan is a "living" document, intended to serve as a clear guide, but flexible enough to adapt to changing conditions.

The estimated financial effect of each strategy and the total for each fiscal year provided in the table below is preliminary. A more precise estimate of the impact on revenues and expenditures will be developed as the specific strategy is pursued and as variables affecting the financial results are determined. The following table is intended to provide a reasonable estimate of the order of magnitude of benefit to the General Fund of each of the strategies.

Strategy	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	Total
Cost Savings Strategies						
1. Optimization and service delivery model reviews	$0.5M	$1.8M	$2.7M	$3.9M	$5.2M	$14.1M
2. Increase SJRDA support to General Fund	$1.0M	$1.0M	$1.0M	$1.0M	$1.0M	$5.0M
3. Shift Healthy Neighborhood Venture Fund funding to General Fund	--	$1.2M	$0.2M	$0.1M	$0.2M	$1.7M

Strategy	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	Total
4. Reduce rate of increase in personnel costs	$1.0M	$3.7M	$3.7M	$3.7M	$3.7M	$15.8M
Cost Savings Strategies Subtotal	***$2.5M***	***$7.7M***	***$7.6M***	***$8.7M***	***$10.1M***	***$36.6M***
Revenue Strategies						
5. Formalize, implement a rigorous asset management program	--	$1.0M	$1.0-4.0M	$1.0-4.0M	$1.0-4.0M	$4.0-13.0M
6. Ensure current fees fully cover all City costs and institute new fees where appropriate	$2.0M	$2.0M	$2.0M	$2.0M	$2.0M	$10.0M
7. Actively pursue and promote economic development opportunities	--	$1.0M	$1.0-2.0M	$1.0-2.0M	$1.0-2.0M	$4.0-$7.0M
8. Restructure Business Tax rates to modernize and reflect current business profile	--	$1.0-7.5M	$1.0-7.5M	--	--	$2.0-15.0M
9. Implement Landscape and Lighting District	--	$1.3-1.5M	$1.2-1.5M	--	--	$2.5-3.0M
10. Increase revenues from visitors who benefit from General Fund Services*	--	*$2.6-4.5M*	*$2.6-4.5M*	--	--	*$5.2-9.0M*
11. Increase Conveyance Tax*	--	--	--	*$5.7M*	*$5.7M*	*$11.4M*
12. Increase Card Room Tax, number of card room tables and/or tax on card room "banks"*	--	--	--	*$2.0-8.4M*	*$2.0-8.4M*	*$4.0-16.8M*
Revenue Strategies Subtotal	***$2.0M***	***$6.3-13.0M***	***$6.2-17.0M***	***$4.0-8.0M***	***$4.0-8.0M***	***$22.5-48.0M***
Service Reductions/Eliminations Strategies						
13. Service Reductions/ Eliminations	$60.5M	$12.2-18.9M	--	--	--	$72.7-79.4M
Service Reductions/ Eliminations Strategies Subtotal	***$60.5M***	***$12.2-18.9M***	--	--	--	***$72.7-79.4M***
ALL STRATEGIES TOTAL	**$65.0M**	**$26.2-39.6M**	**$13.8-24.6M**	**$12.7-16.7M**	**$14.1-18.1M**	**$131.8-164.0M**
General Fund Structural	$(65.0M)	$(32.9M)	$(6.0M)	$(2.3M)	$(0.1M)	$(106.3M)

Strategy	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	Total
Deficit Projections						

** Alternative strategy options; these strategies are not reflected in total.*

Actions Needed

To implement the majority of the strategies in this Plan and solve the structural budget deficit, the City must make steady and meaningful progress each year. Delay will only exacerbate the problem. Each of us has a role in achieving financial stability and organizational sustainability for the City of San José. The key roles are identified below:

- **City Council**
    - Review and discuss the *General Fund Structural Deficit Elimination Plan* and identify any proposed strategies that are not supported by the Council as well as any additional strategies that should be included
    - Adopt the Plan (with any necessary amendments) as a policy guide and direct staff to begin implementation
    - Identify new alternatives to increase revenues and reduce General Fund expenditures for discussion with Senior Staff and stakeholders
    - Communicate the depth of the City's structural budget deficit to community members and other stakeholders to help change expectations about service levels, cost increases, fee levels and other factors affecting the financial health of the City
    - Refrain from asking City staff to undertake additional initiatives that distract from delivering core services and achieving priority strategies
    - Ensure that San José plays a leadership role in reforming the State of California's local finance system that has stripped local control and taken local government revenues away from cities
    - Support the organizational improvement initiative to create a more flexible and productive organization

- **City Manager and Senior Staff**
    - Provide facilitative leadership to Council, community and employees to make the difficult changes that the structural deficit requires
    - Initiate and carry out analyses for each of the strategies; reallocate staff time to provide capacity for analyses
    - Develop and apply best practices to ensure organizational improvement, efficiency, and effectiveness
    - Initiate discussions with stakeholders about the strategies
    - Update financial forecasts and provide revised projections to the Council, employees and other stakeholders

- Identify and discuss new alternatives to increase revenues and reduce General Fund expenditures with the Council and stakeholders
- Provide regular updates to the City Council about progress on the Plan

- **Employees**
  - Participate in discussions about strategies intended to reduce employee costs
  - Understand the financial outlook and causes of the structural budget deficit
  - Identify new alternatives to increase revenues and reduce General Fund expenditures
  - Participate in the organizational improvement initiative

- **Community Groups**
  - Understand the financial outlook and causes of the structural budget deficit and help reframe expectations
  - Participate in discussions about implementation of the strategies

- **Residents**
  - Understand the financial outlook, causes of the structural budget deficit, and what services the City can provide and at what price
  - Provide constructive feedback about expectations and suggestions for achieving fiscal stability

This ***General Fund Structural Deficit Elimination Plan*** has been created to achieve fiscal stability and organizational sustainability. The decisions will be difficult and many of the impacts will be painful. However, the goal is a City that provides services it can afford with cost structures and business practices that are prudent for the long term. The Plan will be updated and modified based on new forecasts, analysis of strategies, and decisions made by the City Council. Ultimately, this Plan will help the City be better than it is now – informed by an understanding of what we want tempered by what we can afford. By engaging people who care about this community and this City government, we believe we can create a stronger organization for the future.

COORDINATION

This Plan has been coordinated with the San Jose Redevelopment Agency, Office of the City Attorney, Office of the City Auditor, as well as with most City Departments.

RECOMMENDATIONS

As part of the review and discussion of this report, it is recommended that the City Council:

1. Review and discuss the *General Fund Structural Deficit Elimination Plan* and identify any proposed strategies that are not supported by the Council as well as any additional strategies that should be included.
2. Incorporate the General Fund Structural Deficit Elimination Plan into the planning efforts for the 2009-2010 budget process and consider this plan for approval as part of the Mayor's 2009-2010 March Budget Message.
3. Provide direction to the Administration as part of the Mayor's 2009-2010 March Budget Message to amend the City's Budget Policies related to the distribution of General Fund ending fund balance available at the end of each fiscal year and the distribution of proceeds from the sale of surplus property.

   A) *General Fund Ending Fund Balance Distribution (Budget Policy A.4 – Fund Balance)*: Currently, 50% of General Fund ending fund balance available at the end of the fiscal year is dedicated to deferred street maintenance and repair projects. It is recommended that this use be expanded to include the backlog of other unmet/deferred infrastructure and maintenance needs in the areas of: 1) transportation; 2) technology infrastructure and software upgrades; 3) fleet replacement; and 4) building facilities.

   B) *Sale of Surplus Property Proceeds Distribution (Budget Policy A.3d – Economic Uncertainty Reserve)*: Currently, proceeds from the sale of surplus property are allocated to the Economic Uncertainty Reserve, excluding those that have been designated for specific project funding as of October 1, 2004. It is recommended that the potential uses of the sale proceeds be expanded to include the backlog of unmet/deferred infrastructure and maintenance needs, asset management program costs, and to pay down any General Fund debt at the recommendation of the City Manager and approval by the City Council.

BACKGROUND

In October 2007, the Mayor convened a panel of citizens with experience in local government services along with Councilmembers Constant and Nguyen to serve as his Budget Shortfall Advisory Group (BSAG). The Mayor's BSAG was tasked with developing a three-year financial strategic plan to address the City's General Fund structural deficit. In the 2007-2008 Mayor's March Budget Message, the Administration was directed to work with the Mayor in support of the BSAG. To provide assistance in this effort, I formed a technical team, the City Manager's General Fund Structural Deficit Task Force and defined a process through which Management Partners, a national consulting firm specializing in local government, worked with staff, the BSAG and other stakeholders to provide independent advice about possible solutions.

The process of developing strategies to eliminate the structural deficit included significant consultation with the City Manager's General Fund Structural Deficit Task Force and the BSAG. Between October and November 2007, five focus group sessions were held. The first focus group session, held early in the process, was an opportunity for all stakeholders to suggest ideas to eliminate the structural budget deficit. The subsequent four focus groups provided opportunities for stakeholders to express "advantages" and "concerns" about strategies. The four groups consisted of (1) City Senior Staff, (2) City Labor Alliance, (3) City Employees, and (4) Community and Business representatives including City Boards and Commissions. In addition, in October 2007 two online surveys, one for City employees and one for the community, were conducted to generate new ideas and to obtain reaction to some strategies under consideration at the time. The surveys combined elicited 2,033 responses from City employees and 650 from the community.

Through this process, over 320 suggested strategies were identified and screened against more refined qualification/disqualification criteria. This screening process resulted in 194 of the 320 suggested strategies qualifying for a further level of analysis. Of the 106 strategies that did not qualify, many were good ideas but could not realistically be implemented within a three year timeframe.

Following a series of meetings with the City Manager's General Fund Structural Deficit Task Force, Management Partners created a list of 21 top strategies and their estimated fiscal impacts for City Council consideration to eliminate the deficit within three years. In addition, a series of Budget Principles were recommended to be adopted to help prevent the City from again developing a structural deficit. The combined initial work of the City Manager's Task Force and Management Partners resulted in a set of strategies to eliminate the General Fund deficit. The list of strategies was then grouped into three discrete categories:

> **Revenue Strategies:** Strategies for increasing revenues, including economic development
>
> **Cost Savings Strategies:** Strategies to reduce costs through service delivery model changes, expenditure controls and expenditure shifts

Service Reductions/Eliminations Strategies: Strategies that reduce or eliminate current services to save costs.

The final Management Partners report and recommendations to the Administration was transmitted to the City Council in January 2008.

In the 2008-2009 Mayor's March Budget Message, the Mayor recommended and the Council approved, addition of a recommendation by the BSAG to allocate one-third of the total amount of the deficit as a planning target to be achieved over three years to each of three categories listed above. The 2008-2009 Mayor's March Budget Message also directed the Administration, in consultation with the San José Redevelopment Agency Executive Director, to begin immediate work on strategies with timing urgency or opportunity to implement and then create a Plan by November 2008 to eliminate the structural budget deficit. The 2008-2009 Mayor's March Budget Message also directed the Administration and San José Redevelopment Agency Executive Director to work with the Mayor to conduct outreach to stakeholders as part of the process for developing the Plan. The outreach included a series of meetings with a Stakeholder Group comprised of members who may be impacted by revenue increases, cost savings, and service reductions to give them opportunity to comment on strategies and suggest alternatives.

On March 25, 2008, the Administration created an internal working group, called the Core Team, to begin the analysis needed for urgent recommendations. As part of this process the Core Team identified Urgent Strategies for immediate consideration. These strategies were described in an addendum to the 2008-2009 budget, Manager's Budget Addendum (MBA) #4 dated May 9, 2008. The Mayor and City Council discussed the MBA at a Budget Study Session on May 16, 2008. Strategies with a timing urgency included those that would require voter approval and could be considered for the November 2008 ballot. Priority was also given to strategies with an immediate opportunity to implement and maximize benefits.

The following strategies were discussed by the Core Team and Stakeholder Group and were categorized as **Urgent Strategies**.

- Increase Conveyance Tax and/or shift Construction Tax and Conveyance Tax funding from capital projects to operations and maintenance (O&M)
- Increase revenues from visitors who benefit from General Fund services by: (a) increasing Transient Occupancy Tax (TOT) to the market rate charged by other municipalities and shift the revenues to the General Fund; (b) establish a parking tax on City and SJRDA owned lots; or (c) establish a vehicle rental tax
- Modernize Utility Users Tax (UUT) and consider increase to bring into alignment with other large cities
- Utilize financial strategies that have positive net present value
- Implement an Asset Management Program
- Implement an employee suggestion and process streamlining program
- Ensure current fees fully cover all City costs
- Implement citywide lighting district

- Restructure Business Tax to modernize and reflect current business profile
- Increase sales tax to provide increased General Fund revenues
- Increase the existing 13% Business Tax on card rooms and/or increase the maximum number of tables

The last strategy relating to card rooms surfaced as a result of discussions with the Stakeholder Group.

On May 16, 2008, as part of the annual Budget Study Sessions, the Mayor and City Council discussed the Urgent Strategies listed above, as well a May 9, 2008 memo to Council in which the Administration recommended further analysis and polling for select Urgent Strategies. At the May 16th meeting, the Mayor and City Council gave the Administration direction to move forward with polling and to report back.

On June 19, 2008, the City Council held a Special Meeting during which it discussed a memo from the City Manager and SJRDA Executive Director dated June 13, 2008. The memo summarized the research conducted on potential ballot measures including outreach, polling results and fiscal impacts. The memo recommended the City further develop the following strategies for approval to be placed on the November 2008 ballot:

- Increase the existing 13% Business Tax on card rooms
- Modernize the Telephone Users portion of the Utility Users Tax and include, as taxable, revenues from out of state calls and emerging technologies
- Increase the Conveyance Tax rate, typically paid upon the purchase of real estate, from $3.30 to $4.95 per $1,000 of property value (a 50% increase), continue to require at least 64% of construction and conveyance taxes to be allocated for parks while allowing their use for maintenance, subject to existing annual audits
- Establish a Parking Tax on City-owned and Redevelopment Agency-owned lots
- Establish a Communications Tax (to replace the existing Emergency Communication System Support [ECSS] fee)

The results of the survey of likely voters and other outreach efforts, including input from the Stakeholder Group, led the Administration to recommend further study of the three revenue sources: (1) replace ECSS fee with Communications Tax, (2) modernize Telephone Users portion of the Utility Users Tax, and (3) an increase in the Business Tax for card rooms. The Council directed staff to conduct further research on these three proposed ballot measures.

Recommended Ballot Measures: As a result of the research conducted, the Administration provided a memo dated July 22, 2008, containing a summary of analysis and recommendations. The City Manager recommended the Council adopt the following measures to be placed on the November 2008 ballot:

- A measure entitled the "Reduction of Tax Rate and Modernization of Telecommunications Users Tax" to reduce the tax from 5% to 4.75% and broaden its application.
- A measure entitled "Reduction and Replacement of 9-1-1 Fee" to impose a reduced tax of $1.57 per telephone line, with a proportionally reduced amount for trunk lines.
- A measure entitled "The San José Vital City Services Preservation Measure" to increase the existing business tax on card room revenues from 13% to 18%.

On August 4, 2008, the Council adopted resolutions to place the measure, "Reduction of Tax Rate and Modernization of Telecommunications Users Tax" with a change of rates from 4.75% to 4.5% and the measure, "Reduction and Replacement of 9-1-1 Fee," amended to $1.57 per line, on the November 2008 ballot. The Council did not approve placing any changes to the card room taxes on the 2008 ballot. On November 4, 2008, the two ballot measures were approved by the voters.

STAKEHOLDER GROUP

The 2008-2009 Mayor's March Budget Message contained direction to the Administration and Redevelopment Agency Executive Director to conduct further outreach to the community through a series of stakeholder meetings. The 2008-2009 Mayor's March Budget Message outlined a six month schedule for stakeholders to provide input about advantages and concerns of various strategies to address the structural budget deficit. Input from the stakeholders was intended to help inform the recommendations of the Administration and Executive Director presented in this report.

On March 27, 2008 the Council appointed 23 people to a Stakeholder Group. Members represented labor, City employees, businesses, non-profits, taxpayers and neighborhoods. The Stakeholder Group met a total of 11 times between April 21 and September 22, 2008 and was chaired by Councilmember Constant. The first three meetings were focused on the review of Urgent Strategies in preparation for Manager's Budget Addendum (MBA) #4. After the release of MBA #4 on May 9, 2008, members of the Stakeholder Group were given the opportunity to propose and discuss new ideas and strategies to eliminate the budget deficit. The Stakeholder Group also reviewed the remaining strategies proposed in the January 2008 report through a series of City presentations and feedback in the form of advantages and concerns.

The Stakeholder Group discussed 59 strategies to eliminate the deficit. Five of the strategies considered by the Stakeholder Group have already advanced to the next level and are currently in the development or implementation phase, and two of the strategies were considered by voters in the November 2008 election. In general, the Stakeholder signaled to the City their support in pursuing the development of nearly one-third (19 of 59) of the strategies discussed.

Additionally, the Stakeholder Group began discussion of the need to identify the City's highest priority services and outcomes, as well as alternative ways to achieve priorities and deliver services with the expectation that service reductions will continue to occur. To assist in this discussion, the Administration is proposing a draft analytical framework for service reductions/eliminations as part of the Plan and for City Council discussion at the December 5, 2008 Study Session on the General Fund Structural Deficit Elimination Plan.

Attachment A is a summary of the strategies discussed by the Stakeholder Group. Synopses of all the meetings, and the presentations given by staff, along with other supporting materials are available at www.sanJoséca.gov/StakeholderGroup08.asp.

UPDATED GENERAL FUND STRUCTURAL DEFICIT TOTAL

In February 2007, the Mayor, City Council, Council Appointees and Senior Management Staff participated in a strategic planning session to set City objectives for the next three years. One of the goals established was to eliminate the General Fund structural deficit over the next three years. Since that time, extensive work efforts have been underway to define the problem, identify possible strategies to address the structural deficit, and to develop a plan incorporating those strategies.

The General Fund structural deficit, which is currently projected at $106M, is composed of three components:

1. A deficit due to the fact that operational costs (mainly personnel costs and the operation and maintenance costs for new facilities coming on line) are rising faster than operational revenues;
2. A deficit in the funded status of the retiree health plan; and
3. An infrastructure and maintenance backlog (mostly street maintenance) keyed to the City's inability to completely fund replacement and renewal projects.

The structural deficit is the result of persistent deficits in the General Fund dating from what is commonly referred to as the "dot-com bust," the recession of 2001. Since that time, the City has had to close budget gaps by generating revenues and reducing costs in each annual budget process. The General Fund structural deficit was originally calculated at $137M based on the 2009-2013 Preliminary General Fund Forecast that was developed in November 2007. This figure was presented in the Management Partner's *City of San José – Development of Strategies to Address the City's General Fund Structural Budget Deficit* report released in January 2008. The projected structural deficit has since been revised to reflect budget actions included in the 2008-2009 Adopted Budget, updated costs for retiree health care costs and unmet/deferred infrastructure and maintenance needs, the current economic environment that has significantly impacted the City's projected revenues, and the results of the November 2008 election.

The following table shows the estimated structural deficit over the next five years.

General Fund Structural Deficit Projection (November 2008)
($ in Millions)

	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	Total
Projected Base Shortfall (Nov 2008 Forecast)*	($59.1)	($27.0)	($0.1)	$3.6	$5.8	($76.8)
Unmet/Deferred Infrastructure & Maintenance Needs**	($5.9)	($5.9)	($5.9)	($5.9)	($5.9)	($29.5)
Total Incremental Deficit	($65.0)	($32.9)	($6.0)	($2.3)	($0.1)	($106.3)
Total Cumulative Deficit	($65.0)	($97.9)	($103.9)	($106.2)	($106.3)	($106.3)

* Includes Retiree Healthcare (GASB 43/45) General Fund costs of $7.0 million in 2009-2010, $4.1 million in 2010-2011, $3.9 million in 2011-2012, $3.6 million in 2012-2013, $3.6 million in 2013-2014 annualizing to $22.2 million after five years

**Does not include $14.7 million for sidewalk, curb/gutter and tree maintenance which are property owner responsibility or $11.5 million for infrastructure needs where non-General Fund sources could provide funding, if available. Assumes backlog of one-time needs of $456.9 million in the General Fund ($825.1 million all funds) are addressed.

The $106.3M total is a cumulative figure over the five years and the total assumes the City will close the structural deficit entirely with ongoing solutions in every component each fiscal year. The cumulative deficit line in the table outlines the potential carryover of the shortfall if the gap is not closed on an annual basis.

Given the continued fiscal difficulties that lie ahead, the Administration has already acted to prepare for the additional difficult decisions that are forthcoming and minimize, to the extent possible, layoffs in the coming year. In addition to the ongoing hiring freeze and the minimization of discretionary spending, direction has been given to the Departments to develop 2008-2009 Cost/Position Management Plans which if successfully implemented would achieve between $9.0-10.0M in cumulative General Fund savings.

Under the Cost/Position Management Plans, Fire and Police departments have a 1.0% reduction goal and all other departments have a 3.0% goal. The purpose of these expenditure reduction goals are to:

- Generate additional 2008-2009 fund balance in the General Fund as a means to begin to offset the projected 2009-2010 budget shortfall;
- Preserve position vacancies to provide as much redeployment flexibility as possible and minimize, to the extent possible, employee layoffs in the coming year; and
- Serve as an additional safety value for current year impacts yet unforeseen or unknown.

In the January 2008 report on the General Fund structural budget deficit, the total projected deficit was $137 million. As part of the 2008-2009 Mayor's March Budget Message, direction was given by the Mayor and City Council to the Administration and Executive Director of the

Redevelopment Agency to report back to the City Council in November 2008 with a Plan to address the City's structural budget deficit by the 2011-2012 Budget. The expectation was that the deficit must be addressed with structural fixes rather than using one-time revenues or other temporary measures relying on the assumption that the growing economy would eventually balance the budget.

Since the January 2008 report, the anticipated General Fund structural deficit has dropped to $106 million based on a preliminary 2010-2014 General Fund Forecast that was released under separate cover. During the intervening months, the following factors have impacted the structural budget deficit figure: the 2008-2009 Adopted Budget; the November 2008 Election; revised costs for retiree health care and unmet/deferred infrastructure and maintenance needs; and an updated General Fund Forecast that reflects the revenue impacts from the deteriorating economy as well as updated expenditure assumptions.

Changes to the General Fund Structural Deficit

	$ in Millions
January 2008 Structural Budget Deficit Total	**$137.2**
Changes to the Structural Deficit	
2008-2009 Adopted Budget Actions	($20.8)
November 2008 Election	($20.0)
Revised Unmet/Deferred Infrastructure and Maintenance Estimate	($10.7)
Revised Retiree Healthcare Estimate	$2.1
Preliminary 2010-2014 Forecast/General Economic Environment	$18.5
Total Changes to the Structural Deficit	**($30.9)**
November 2008 Structural Deficit	**$106.3**

A discussion of these factors follows:

2008-2009 Adopted Budget Actions: The budget actions approved as part of the 2008-2009 Adopted Budget balanced the General Fund budget for that year and reduced the structural budget deficit by $20.8M. Ongoing solutions were used to close 86% of the General Fund budget gap with one-time budget actions approved to address the remaining shortfall. A combination of strategies made up the $20.8M ongoing reduction to the General Fund structural deficit. These strategies included the following: cost savings (service delivery model changes and expenditure controls) of $9.9M (48%); revenue strategies of $5.5M (26%); and service reductions of $5.4M (26%).

November 2008 Election: Two ballot measures with fiscal impacts were approved in the November 2008 election. These measures are expected to reduce the General Fund structural budget deficit by $20.0M.

- ***Communications Tax*** – A Communications Tax was approved to replace the existing Emergency Communication System Support (ECSS) Fee. The new tax, which is expected to generate $21.6M annually, was established at a rate that is 10.0% below the current ECSS Fee. Because the ECSS Fee was scheduled to sunset at the end of the 2008-2009 fiscal year, the prior structural budget deficit figure had not included revenue from this source. The November 2008 structural deficit figure now includes this funding source.

- ***Telephone Utility Tax*** – The Telephone Utility Tax was reduced by 10.0% and was modernized to include revenue from out-of-state calls and emerging technologies. It is anticipated that these actions will result in a net reduction in revenue of approximately $1.6M. The approved changes were also necessary to avoid any potential legal challenges with this tax.

Revised Cost Estimates for Unmet/Deferred Infrastructure and Maintenance Needs: The estimated cost for Unmet/Deferred Infrastructure and Maintenance Needs included in the General Fund structural deficit calculation has been revised downwards from $40.2M to the $29.5M. This decrease resulted primarily from a change in methodology used to calculate these needs, partially offset by revisions to the cost estimates based on additional analysis performed during the past year. The revised figure now excludes the annual capital infrastructure needs for which property owners are currently responsible, including sidewalk, tree, and curb/gutter maintenance ($14.7M). After further review of annual capital infrastructure needs, additional changes include increases to transportation infrastructure needs ($3.7M), building facilities maintenance ($200,000), and technology software ($500,000), partially offset by a decrease to fleet replacement ($400,000) needs.

Revised Cost Estimates for Retiree Healthcare: The estimated cost for the General Fund share of retiree healthcare, which has been incorporated in the base Preliminary 2010-2014 General Fund Forecast, increased by $2.1M. The increase resulted from an update to the original GASB 43/45 valuation that was completed with retirement plan data as of June 30, 2006. In addition, the new calculation now incorporates part of the cost of pre-funding the implicit subsidy. The implicit subsidy is a term used to describe the extra value that is provided to the retiree healthcare benefit by pooling retirees (and their dependents) with active employees (and their dependents). Generally, retirees use healthcare benefits at a higher rate than younger, active employees. If pre-Medicare retiree healthcare was priced separately from active employees, the rate for retiree healthcare would be higher and, conversely, the cost for active employee healthcare would be lower. Since both retirees and active employees are pooled together when healthcare insurance is procured, the cost of pre-Medicare retiree healthcare results in a "below-market" rate. This difference between what it would cost to provide healthcare to retirees as a standalone group versus including them with active employees is called the implicit subsidy.

Preliminary 2010-2014 General Fund Forecast/General Economic Environment: In November 2008, the Preliminary 2010-2014 General Fund Forecast was released with updated revenue and expenditure growth assumptions. Due to the significant deterioration of the economy, downward adjustments to the economically sensitive revenue estimates were incorporated into the latest forecast. The negative adjustments to the various revenue categories were partially offset by improvements to the expenditure forecast. These factors resulted in a net increase to the General Fund Structural Deficit of $18.5M. Following is a summary of the major revenue and expenditure changes incorporated into the Forecast:

- ***Revenue Adjustments:*** When the 2009-2013 General Fund Forecast and the 2008-2009 Adopted Budget were developed, it was assumed that economic performance would be very weak through 2008-2009 driven by sharp declines in the housing market, faltering financial markets, and rising energy prices. The current crisis in the financial markets and the associated impacts, however, were not assumed. Based on these recent developments, the economic outlook is appreciably worse and the local and national recessions that are now anticipated are expected to significantly impact revenue collections in both 2008-2009 and 2009-2010.

  Economically sensitive revenues account for approximately one-half of the General Fund revenue sources. In the 2010-2014 Preliminary General Fund Forecast, these revenue estimates are significantly lower than those presented in the 2009-2013 General Fund Forecast released in February 2008. The City's largest General Fund revenues, Property Tax and Sales Tax, are major contributors to the lower revenue estimates. These two revenue sources alone account for over $22.0M in lower revenue projections for 2009-2010 when compared to the February 2008 Forecast. The 2009-2010 Beginning Fund Balance estimate is also significantly lower than previously anticipated based on the assumption that revenue collections in 2008-2009 will not be strong enough to generate additional fund balance for use in 2009-2010. Other revenue categories that are expected to be impacted by the economic environment include interest earnings, Transient Occupancy Tax, and Motor Vehicle In-Lieu collections.

- ***Expenditure Adjustments:*** Revisions to the expenditure estimates in the Preliminary 2010-2014 General Fund Forecast resulted in reduced funding needs. Revisions to the forecasted expenditure levels include a lower rate of growth in personal services due to reduced general salary increases in 2009-2010 to reflect recent negotiations with employee groups; additional savings from the pre-funding of the City's contribution for retirement costs; and the presumption of no cost-of-living salary increases for any employees in the last three years of the Forecast. Offsetting these expenditure savings is the inclusion of 75 new police officer positions by 2011-2012 (25 police officers added annually during the first three years of the forecast); the inclusion of maintenance and operating costs for Edenvale Community Center; the requirement of an additional fire apparatus and staffing for Fire Station 37; and Workers' Compensation Claims increasing for medical, and temporary and permanent disability payments.

Revised General Fund Structural Deficit Elimination Plan Timeline

Under the original General Fund Structural Deficit Elimination Plan timeline, the structural deficit was supposed to be closed by fiscal year 2011-2012. It is recommended that this time frame for closing the General Fund structural deficit be extended through the next five-year time period to 2013-2014. The change is recommended in light of the current state of the economy, the greater unknowns regarding the future economic outlook, and the severity of the service reductions that would be necessary to close the structural deficit over the next two years.

BUDGET BALANCING PRINCIPLES AND GUIDELINES

In the 2008-2009 Adopted Budget, the City Council adopted a series of Budget Principles and Budget Balancing Strategy Guidelines to provide direction for how the structural budget deficit can be eliminated. These Principles and Guidelines were developed with the recognition that the City continues to face a significant budget shortfall. The City's charter requires that the City balance its budget each year. The obvious and less painful cuts (the "low hanging fruit") are long gone. There are formidable challenges to reaching structural balance and thereby, long-term financial stability. Reaching and maintaining a structural balance must be done in the context of a multi-year budget horizon.

So that future actions to balance the budget are considered in light of important budget principles, the Budget Principles are again listed below. The Principles begin with the foundation of supporting the mission of the City of San José, which is "to provide quality services, facilities and opportunities that create, sustain and enhance a safe, livable and vibrant community for its diverse residents, businesses and visitors."

<u>City of San José Budget Principles</u>

1.) **Structurally Balanced Budget:** The annual budget for the General Fund shall be structurally balanced throughout the budget process. A structurally balanced budget means ongoing revenues and ongoing expenditures are in balance each year of the five-year budget projection. Ongoing revenues shall equal or exceed ongoing expenditures in both the Proposed and Adopted Budgets. If a structural imbalance occurs, a plan shall be developed and implemented to bring the budget back into structural balance. The plan to restore balance may include general objectives as opposed to using specific budget proposals in the forecast out years.

2.) **Proposed Budget Revisions:** The annual General Fund Proposed Budget balancing plan shall be presented and discussed in context of the five-year forecast. Any revisions to the Proposed Budget shall include an analysis of the impact on the forecast out years. If a revision(s) creates a negative impact on the forecast, a funding plan shall be developed and approved to offset the impact.

3.) **Use of One-Time Resources:** Once the General Fund budget is brought into structural balance, one-time resources (e.g., revenue spikes, budget savings, sale of property, and similar nonrecurring revenue) shall not be used for current or new ongoing operating expenses. Examples of appropriate uses of one-time resources include: rebuilding the Economic Uncertainty Reserve, early retirement of debt, making capital expenditures without significant operating and maintenance costs, and other nonrecurring expenditures. One time funding for ongoing operating expenses to maintain valuable existing programs may be approved by a majority vote of the Council.

4.) **Budget Requests During the Year:** New program, service or staff requests during the year that are unbudgeted shall be considered in light of the City's General Fund Unfunded Initiatives/Programs List and include a spending offset at the time of the request (if costs are known) or before final approval, so that the request has a net-zero effect on the budget.

5.) **Reserves:** All City Funds shall maintain an adequate reserve level and/or ending fund balance as determined annually (as appropriate) for each fund. For the General Fund, a contingency reserve amount, which is a minimum of 3% of the operating budget, shall be maintained. Any use of the General Fund Contingency Reserve would require a two-thirds vote of approval by the City Council. On an annual basis, specific reserve funds shall be reviewed to determine if they hold greater amounts of funds than are necessary to respond to reasonable calculations of risk. Excess reserve funds may be used for one-time expenses.

6.) **Debt Issuance:** The City shall not issue long-term (over one year) General Fund debt to support ongoing operating costs unless such debt issuance achieves net operating cost savings and such savings are verified by appropriate independent analysis. All General Fund debt issuances shall identify the method of repayment (or have a dedicated revenue source).

7.) **Employee Compensation:** Negotiations for employee compensation shall focus on the cost of total compensation (e.g., salary, step increases, benefit cost increases) while considering the City's fiscal condition, revenue growth, and changes in the Consumer Price Index (cost of living expenses experienced by employees).

8.) **Capital Improvement Projects:** Capital Improvement Projects shall not proceed for projects with annual operating and maintenance costs exceeding $100,000 in the General Fund without City Council certification that funding will be made available in the applicable year of the cost impact. Certification shall demonstrate that funding for the entire cost of the project, including the operations and maintenance costs, will not require a decrease in existing basic neighborhood services.

9.) **Fees and Charges:** Fee increases shall be utilized, where possible, to assure that fee program operating costs are fully covered by fee revenue and explore opportunities to establish new fees for services where appropriate.

10.) **Grants:** City staff shall seek out, apply for and effectively administer federal, State and other grants that address the City's priorities and policy objectives and provide a positive benefit to the City. Before any grant is pursued, staff shall provide a detailed pro-forma that addresses the immediate and long-term costs and benefits to the City. One-time operating grant revenues shall not be used to begin or support the costs of ongoing programs with the exception of pilot projects to determine their suitability for long-term funding.

11.) **General Plan:** The General Plan shall be used as a primary long-term fiscal planning tool. The General Plan contains goals for land use, transportation, capital investments, and service delivery based on a specific capacity for new workers and residents. Recommendations to create new development capacity beyond the existing General Plan shall be analyzed to ensure that capital improvements and operating and maintenance costs are within the financial capacity of the City.

12.) **Performance Measures:** All requests for City Service Area/departmental funding shall include performance measurement data so that funding requests can be reviewed and approved in light of service level outcomes to the community and organization.

13.) **Fire Station Closure, Sale or Relocation:** The inclusion of the closure, sale or relocation of a fire station as part of the City Budget is prohibited without prior assessment, community outreach, and City Council approval on the matter.

The 2008-2009 Adopted Budget outlined the following Budget Balancing Strategy Guidelines that were approved by Council as part of the 2008-2009 Mayor's March Budget Message:

<u>Budget Balancing Strategy Guidelines:</u>

1.) Develop a budget that balances the City's delivery of essential services to the community, including building strong neighborhoods and supporting economic growth, with the resources available.

2.) Resolve the projected budget deficit with ongoing revenue and expenditure solutions to ensure no negative impact on future budgets. Use one-time funding sources only to address one-time funding needs to maintain the City's high standards of fiscal integrity and financial management.

3.) Use fee increases, where possible, to assure that operating costs are fully covered by fee revenue and explore opportunities to establish new fees for services where appropriate.

4.) Explore expanding and/or re-directing existing revenue sources and/or adding new revenue sources (i.e. special assessments, ordinance revisions, bond measures) for addressing both the structural deficit and unfunded needs, such as infrastructure maintenance backlog or the unfunded liability associated with post-employment health benefits.

5.) Focus on protecting vital core City services for both the short- and long-term. Analyze all existing services and target service reductions or eliminations in those areas that are least essential.

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

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

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

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

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

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

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

The strategies discussed and recommended in this Plan are a model to achieve a balanced budget over the next five years. Every strategy is linked to a Budget Principle and is in alignment with the Budget Guidelines.

PROPOSED STRATEGIES - POSITIONING FOR THE FUTURE

The following section outlines strategies that are a result of a process which began in the late summer of 2007. The City conducted extensive outreach to collect ideas from the San José community and City employees, retained the professional assistance of Management Partners, conducted analysis for both revenue generation/cost savings and implementation, and engaged community stakeholders to provide feedback. The extensive process has brought the Administration to consider the following strategies for implementation in specific fiscal years:

I. Cost Savings Strategies

II. Revenue Strategies

III. Service Reductions/Eliminations Strategies

The table below highlights the potential cost savings/revenue by strategy category and fiscal year.

Strategy Type	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	Total Strategy Five-Year Total
Cost Savings Strategies	$2.5M	$7.7M	$7.6M	$8.7M	$10.1M	$36.6M
Revenue Strategies	$2.0M	$6.3-13.0M	$6.2-17.0M	$4.0-8.0M	$4.0-8.0M	$22.5-48.0M
Service Reductions/ Eliminations	$60.5M	$12.2-18.9M	$0.0M	$0.0M	$0.0M	$72.7-79.4M
Total	$65.0M	$26.2-39.6M	$13.8-24.6M	$12.7-16.7M	$14.1-18.1M	$131.8-$164.0M

The following sections describe the strategy options to eliminate the structural budget deficit by discussing each strategy in detail and proposing timelines for implementation.

General Fund Structural Deficit Elimination Plan Net Impact of Strategies on General Fund (in 2008 dollars)*						
COST SAVINGS STRATEGIES **Fiscal Year:**	**2009-2010**	**2010-2011**	**2011-2012**	**2012-2013**	**2013-2014**	**Total**
1. Optimization and Service Delivery Model Reviews: Review service delivery models through strategies below: a. Business process redesign (through employee involvement and empowerment) b. Use of technology to achieve efficiencies c. Competitive sourcing d. Streamlining e. Third-party program auditing f. Charter agencies g. Employee engagement and suggestion program h. Use of public safety civilian positions i. Modify minimum Fire staffing policies where appropriate based on Fire Strategic Plan *(Budget Balancing Guideline #7, 8, 10)*	**$0.5M**	**$1.8M**	**$2.7M**	**$3.9M**	**$5.2M**	**$14.1M**
2. Increase San Jose Redevelopment Agency (SJRDA) support to General Fund Example ideas where SJRDA could fund projects which General Fund would otherwise support: a. Prioritize SJRDA Capital Funding for Economic Development Activities b. Retrofit to smart lights in SJRDA areas c. Modernize parking meters in SJRDA areas d. Shift additional economic development, code enforcement activities in SJRDA areas *(Budget Balancing Guideline #4, 7)*	**$1.0M**	**$1.0M**	**$1.0M**	**$1.0M**	**$1.0M**	**$5.0M**
3. Shift Healthy Neighborhood Venture Fund Funding to General Fund: Assumes $10M annual funding remains; shifts forecasted increases of tobacco settlement funds *(Budget Balancing Guideline #4, 7)*	—	**$1.2M**	**$0.2M**	**$0.1M**	**$0.2M**	**$1.7M**

General Fund Structural Deficit Elimination Plan Net Impact of Strategies on General Fund (in 2008 dollars)*						
COST SAVINGS STRATEGIES **Fiscal Year:**	**2009-2010**	**2010-2011**	**2011-2012**	**2012-2013**	**2013-2014**	**Total**
4. Reduce Rate of Increase in Personnel Costs: Reduce personnel costs annually through strategies below and/or ideas developed from negotiations: a. Increase time, amount and method to reach maximum compensation b. Implement sick leave payment modifications upon retirement c. Implement a two-tier retirement benefit d. Revise workers' compensation program e. Implement workers' compensation offset for public safety f. Revise overtime eligibility policies g. Implement Healthcare insurance provider cost containment h. Reduce entry level compensation for positions for which the City receives many qualified applicants i. Implement health care plan modifications j. Modify binding interest arbitration *(Budget Balancing Guideline #12)*	**$1.0M**	**$3.7M**	**$3.7M**	**$3.7M**	**$3.7M**	**$15.8M**
COST SAVINGS STRATEGIES SUB-TOTAL	**$2.5M**	**$7.7M**	**$7.6M**	**$8.7M**	**$10.1M**	**$36.6M**

**Does not include one-time implementation costs*

General Fund Structural Deficit Elimination Plan Net Impact of Strategies on General Fund (in 2008 dollars)*						
REVENUE STRATEGIES Fiscal Year:	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	Total
5. Formalize and Implement a Rigorous Asset Management Program *(Budget Balancing Guideline #4)*	—	$1.0M	$1.0–4.0M	$1.0–4.0M	$1.0–4.0M	$4.0–13.0M
6. Ensure Current Fees Fully Cover All City Costs and Institute New Fees where Appropriate: Develop new fees and bring existing fees to full cost recovery where appropriate Examples include: a. Advance planning fee b. Parking fees c. Entertainment Zone Policing Plan d. Parks, Recreation and Neighborhood Services fee structure e. Existing fee increases *(Budget Balancing Guideline #3)*	$2.0M	$2.0M	$2.0M	$2.0M	$2.0M	$10.0M
7. Actively Pursue and Promote Economic Development Opportunities Examples include: a. Expansions of Santana Row and Valley Fair b. New car dealerships c. Business cooperative program d. Preparing retail development sites *(Budget Balancing Guideline #1, 4)*	—	$1.0M	$1.0–2.0M	$1.0–2.0M	$1.0–2.0M	$4.0–7.0M
8. Restructure Business Tax Rates to Modernize and Reflect Current Business Profile** Examples include: a. Modernize rates by indexing to current consumer price index (CPI) and raising maximums b. Restructure business tax formula *(Budget Balancing Guideline #4)*	—	$1.0–7.5M	$1.0–7.5M	—	—	$2.0–15.0M

General Fund Structural Deficit Elimination Plan Net Impact of Strategies on General Fund (in 2008 dollars)*						
REVENUE STRATEGIES **Fiscal Year:**	**2009-2010**	**2010-2011**	**2011-2012**	**2012-2013**	**2013-2014**	**Total**
9. **Implement Landscape and Lighting District**** Explore various landscape and lighting district options to cover costs related to the City's transportation infrastructure assets and operations *(Budget Balancing Guideline #4)*	—	**$1.3-1.5M**	**$1.2-1.5M**	—	—	**$2.5-3.0M**
Library Parcel Tax Renewal** *Not a new strategy but will impact future ballot decisions; sunsets in 2014*						

General Fund Structural Deficit Elimination Plan Net Impact of Strategies on General Fund (in 2008 dollars)*						
OTHER REVENUE STRATEGIES *(not included in subtotal below)*						
Fiscal Year:	**2009-2010**	**2010-2011**	**2011-2012**	**2012-2013**	**2013-2014**	**Total**
10. Increase Revenues from Visitors Who Benefit from General Fund Services** a. Parking lot tax of 10% on City and SJRDA owned lots b. Parking lot tax of 10% on all public and private lots *(Budget Balancing Guideline #4)*	—	*a) $2.6M* *b) $4.5M*	*a) $2.6M* *b) $4.5M*	—	—	*$5.2-9.0M*
11. Increase Conveyance Tax and/or Shift Construction and Conveyance Tax Funding from Capital Projects to Operations and Maintenance** Increase by 50%; with a shift of up to 40% of parks allocation to park maintenance and maintaining current allocation (Budget Balancing Guideline #9)	—	—	—	*$5.7M*	*$5.7M*	*$11.4M*
12. Increase Card Room Tax, Number of Tables and/or Tax on Card Room Bank Groups** a. Increase Card Room tax from 13% to 18% b. Increase number of tables per card room by nine and increase the tax to 18% c. Levy 18% Tax Card Room Bank Groups *(Budget Balancing Guideline #9)*	—	—	—	*$2.0-8.4M*	*$2.0-8.4M*	*$4.0-16.8M*
REVENUE STRATEGIES SUB-TOTAL	**$2.0M**	**$6.3-13.0M**	**$6.2-17.0M**	**$4.0-8.0M**	**$4.0-8.0M**	**$22.5-48.0M**

**Does not include one-time implementation costs*

***Requires voter approval; Landscape and Lighting District is mail-in ballot of property owners*

General Fund Structural Deficit Elimination Plan Net Impact of Strategies on General Fund (in 2008 dollars)*						
SERVICE REDUCTIONS/ELIMINATIONS STRATEGIES						
Fiscal Year:	**2009-2010**	**2010-2011**	**2011-2012**	**2012-2013**	**2013-2014**	**Total**
13. Service Reductions/Eliminations Service reductions and eliminations will be accomplished on an annual basis through the budget process which considers the goals of the City Council, and involves an outreach process within the City organization and in the community. In addition, the City will utilize the Analytical Framework for Service Reductions/Eliminations, when finalized, as discussed in this Plan. (Budget Balancing Guideline #1, 5)	**$60.5M**	**$12.2-18.9M**	—	—	—	**$72.7-79.4M**
SERVICES REDUCTIONS/ELIMINATIONS STRATEGIES SUB-TOTAL	**$60.5M**	**$12.2-18.9M**	**$0.0M**	**$0.0M**	**$0.0M**	**$72.7-79.4M**
All Strategies TOTAL	**$65.0M**	**$26.2-39.6M**	**$13.8-24.6M**	**$12.7-16.7M**	**$14.1-18.1M**	**$131.8-164.0M**
General Fund Structural Deficit Incremental Projections	**$(65.0M)**	**$(32.9M)**	**$ (6.0M)**	**$ (2.3M)**	**$(0.1M)**	**$(106.3M)**
General Fund Structural Deficit Cumulative Total	**$(65.0M)**	**$(97.9M)**	**$(103.9M)**	**$(106.2M)**	**$(106.3M)**	**$(106.3M)**

**Does not include one-time implementation costs*

Category I: Cost Savings Strategies

The following table provides a summary of four methods of achieving cost savings to the General Fund.

Summary of Cost Savings Strategies				
Cost Savings Strategy	**Cumulative Net Cost Savings***	**Milestone Dates**	**Implementation Costs**	**Timeline to Implement**
1. Optimization and Service Delivery Model Reviews	$14.1M	Annual Budget Approval	$450-$650K annually	Varies
2. Increase SJRDA support to General Fund	$5.0M	Annual Budget Approval	Not applicable	City Manager's Proposed Budget/SJRDA Proposed Budget
3. Shift Healthy Neighborhood Venture Fund (HNVF) Funding to General Fund	$1.7M	Annual Budget Approval	Not applicable	City Manager's Proposed Budget
4. Reduce Rate of Increase in Personnel Costs	$15.8M	Varies by bargaining unit or by other factors	$50K one-time costs for specialized consultant services	Varies by bargaining unit or by other factors

**Does not include one-time implementation costs*

Each of the cost savings strategies is described below.

Strategy 1: Optimization and Service Delivery Model Reviews

Cumulative Net Cost Savings*	Milestone Dates	Implementation Costs	Timeline to Implement
$14.1M annually	Annual Budget Approval	$450-$650K annually	Varies

**Does not include one-time implementation costs*

Service optimization is an umbrella term for many types of organizational change which address both capacity building and cost savings. Specific tools in optimization include business process redesign through employee involvement and empowerment, using technology to achieve efficiency, competitive sourcing, streamlining, third-party program auditing, and charter agencies. It includes reviewing service delivery models for programs and services to assess if other models are more effective and efficient in delivering the services and producing the results that the San José community wants and deserves.

Following the direction of the Mayor in his 2008-2009 March Budget Message, service delivery model changes are being pursued. In the 2008-2009 Adopted Operating Budget, the City Council approved $350,000 for optimization studies and service delivery model change reviews. Scheduled for study and review are opportunities for civilianization in the Police and Fire Departments; delivery of the school crossing guard program; and a review of in-classroom programs such as Challenges and Choices.

The City of Long Beach underwent an optimization of code enforcement activities and found, with organizational changes, a net positive impact of $1.0-2.0M was possible. On a much larger scale, the General Accountability Office (GAO) is a well recognized expert in audits, performance reviews and optimization studies for the federal government. In its 2009 Budget Request to Congress, the GAO cites a $94 savings for every $1 spent on GAO projects. At the State level, the State of Washington's Auditor reports savings of $27 for every $1 invested for the State. Based on potential for savings experienced in other organizations and municipalities and yet considering the limited experience in optimization which the City possesses, a more conservative estimate of $6 to $10 in cost savings for every $1 invested is appropriate for the City.

As previously stated, in 2008-2009 the City has invested $350,000 for optimization. These funds have been not entirely allocated so the estimated savings the City can expect is $0.5M in 2009-2010 largely as a result of initial transitions to increased utilization of civilian positions in public safety. If the City increases its investment by $100,000 each year, the City's savings from investment will grow as employees become more skilled in identifying more profitable opportunities for optimization. By 2013-2014, with an investment of $650,000 for optimization, the City can likely realize $5.2M in savings

a) **Business Process Redesign:** Often known by the acronym BPR, this is a management tool aiming at improvements by means of elevating the efficiency and effectiveness of the processes that exist within and across organizations. The key to BPR is for organizations to look at their business processes from a design perspective and determine how they can best construct these processes to improve how they conduct business. Investments in technology to automate procedures or to aggregate data to develop "expert" systems that can result in self-service approaches are often part of BPR efforts.

   The process has been in continuous development and utilization since the early 1990s. A key part of most BPR efforts is a partnership between knowledgeable consultants and business staff to revisit how things are currently done and how the work could be streamlined. General Electric Corporation accomplished numerous BPR successes utilizing an approach called a G.E. Work-Out, where management identified problem areas which needed to be changed in order to remain competitive (often using benchmarking data) and then challenges line staff to develop solutions. In a classic G.E. Work-Out, staff worked with outside consultants for two or three days to fashion solutions and then presented management with a plan for implementation of a solution to the problem identified.

   In a complex organization such as the City of San José, there are dozens of processes and service delivery systems that can benefit from a BPR approach. From the handling of police records to the processing of building permits the City has numerous opportunities to use this tool. Employee input in connection with the budget deficit reduction project has resulted in many suggestions about existing procedures that could be redesigned. Employees are closest to the work processes and the customers they serve. Their involvement is key to successful BPR.

b) **Use of Technology to Achieve Efficiencies:** The Information Technology (IT) Department is examining ways to streamline and optimize the City's IT infrastructure with a goal of reducing costs to maintain and operate internal City technology. There are several specific areas of internal IT infrastructure that can first be examined for optimization including:

- Desktop standardization;
- Voice over Internet Protocol (VoIP) for remote City locations; and
- Server consolidation.

Several other IT projects for optimization have been indentified such as the Police Department records management system, but the projects are expected to require five to seven years of work and investment before significant results are seen.

The analysis of fiscal impact and implementation feasibility of those projects are in early stages. It is clear that IT projects will require an initial investment to produce a Return on Investment (ROI) but initial analysis indicates an investment in IT infrastructure would produce strong results for the City and should be considered for optimization study as a part of this Plan.

c) **Competitive Sourcing:** One approach suggested by Management Partners in its January 2008 report to achieve optimization and improve service delivery models is through competitive sourcing. The concept of competitive sourcing is an umbrella term for a variety of service delivery models including traditional outsourcing, managed competition, privatization, private-public partnerships, and government franchising. Examples of competitive sourcing are found throughout government entities but do have mixed results. The lessons learned are important areas for success in any competitive sourcing model. The San Diego Institute for Policy Research reviewed over 100 studies of competitive sourcing and established the following keys to success:

- **Trained Procurement Staff:** Staff must be properly trained in contracting best practices and, in particular, how to build service level standards into agreements and monitor provider performance.
- **Centralized Managed Competition Unit:** The City should develop an expert team of procurement and competition officials to guide other departments in developing their managed competition initiatives.
- **Performance Measures:** It is crucial that the City identify good performance measures to fairly compare competing bids and accurately evaluate provider performance after the contract is awarded.
- **Reliable Cost Comparisons:** The City must establish formal guidelines for cost comparisons to make sure that all costs are included in the unit cost of providing services so that an apples-to-apples comparison of competing bidders may be made.
- **Implementing Performance-Based Contracts:** Performance-based contracts should be used as much as possible to place the emphasis on obtaining the results the City wants achieved, rather than focusing merely on inputs and trying to dictate precisely how the service should be performed. Performance standards should be included in contracts and tied to compensation through financial incentives.

- **Vigilant Monitoring and Evaluation:** Regular monitoring and performance evaluations are essential to ensure accountability and transparency, and that City's management and the service provider are on the same page.
- **Employee Communication and Relations:** Managed competition may encounter opposition from public employee unions. The current San José policy provides extensive communication opportunities so that employees and their representatives are appropriately involved in the managed competition process.

The key difference between competitive sourcing and traditional outsourcing is that competitive sourcing allows City employees to also bid for contracts. The City should support the internal City employee bids by providing training in optimization including business redesign, streamlining and other ways to achieve efficiencies. With this knowledge and support from the City to make changes, departments, divisions and other groups providing specific services can develop independent bids and submit responses to City-issued request for proposals (RFPs). The City entities are then considered along with private companies to provide the services.

Another competitive strategy to explore is a bid-to-goal program. Bid-to-Goal is a program originally developed by the City of San Diego as an optimization strategy to more cost-effectively implement of city services. This approach starts with a pair of consultants who know the service in question. One gives the city a "market price" for a service—what it could expect to pay if it contracted the service out to a private company—the other double-checks it for accuracy. The work unit that delivers the service then creates a labor-management team to figure out how to get their costs under that price. Once they have done so, they sign a memorandum of understanding with the city defining the results they will produce and the price. If they fail to deliver the results at that price, the city then evaluates whether the service should indeed be contracted out. Within the parameters of the program, employees continue to hold preferred status in performing the service, but are now held accountable to a precise "validated competitive standard," where performance is expected to be at least on par with that of comparable private sector service providers.

In 1997, the City adopted a Public Private Competition Policy for the City which allowed the City to put services out to bid to private entities and internal City providers. The intent was to create a competitive process between public and private entities to provide services to the community on behalf of the City. Since its adoption, the City has seldom used the system.

d) **Streamlining:** In the fall of 2008, an organizational improvement effort began an internal process of identifying opportunities for streamlining City processes. The effort intends to help the City identify areas where the City can improve its customer satisfaction, efficiency, performance and adaptability through organizational change and capacity building. Five internal teams have been formed and are underway towards this effort.

e) **Third Party Program Auditing:** The City of San José's Auditor's Office has conducted performance audits of City Departments since May 1985. Historically, the City Auditor's audits have produced \$8 in cost savings and revenues enhancements for each \$1 spent to conduct performance reviews. While not all audits produce cost savings or revenue enhancements, the audit's recommendations include areas to improve effectiveness of City services. The Auditor's Office is an example of third party auditing already in place within the City and can support citywide efforts towards optimization and service delivery model reviews.

f) **Charter Agencies:** The City may be able to achieve additional cost savings through the concept of Charter Agencies which would have responsibility for managing specific operations in the City organization with fewer rules but more accountability thus liberating them from traditional bureaucratic constraints that inhibit innovation and productivity. Under this approach, individual departments or divisions could apply to be Charter Agencies with the City Manager's Office. Performance Agreements that allow greater management control for the new Charter Agency would be agreed upon with the City Manager's Office. They would provide flexibility in the way business is conducted, and in return require tighter performance measures, lower budgets, and greater accountability of the Agency to the City Manager's Office.

g) **Employee Engagement and Suggestion Program:** Since the strategy was initially recommended in January 2007, the City discussed revitalizing a dormant employee suggestion program. Many employees, especially front line employees, have the opportunity to see ways in which their jobs can be done better, faster and cheaper. Streamlining job processes can enhance the customer service experience, produce cost savings for the City, and empowers the employee to make changes for the better of the organization. Beyond the actual cost savings, employee morale and citizen customer service experience are the strongest components of the strategy for the City. The newly revitalized program has received funding and has an initial framework.

h) **Use of Public Safety Civilian Positions:** A general trend in public safety organizations across the State and the country is to fully utilize the time and expertise of sworn officers by ensuring their work duties are in alignment with their training and expertise. To free up time of sworn police and firefighters, their departments can maximize the use of non-sworn or civilian staff for appropriate activities. Such activities may include building inspection and code enforcement for Fire and traffic collision reports and evidence room staff for Police.

At present, the Police Department makes use of non-sworn personnel. Fire has also taken steps to maximize firefighters' time and increase the use of non-sworn staff. However, when comparing the Police and Fire Departments with comparable cities, the City's own analysis (in a 1996 City audit) indicates the City has the potential to maximize sworn personnel time and save the City money by utilizing civilian positions on a regular basis.

The Mayor and City Council have placed an emphasis on increasing the number of sworn police officers for the City. In the 2008-2009 Adopted Operating Budget, the City added 25 police officers and the Council pledged to add another 75 officers over the next three years. The City will look to increase its police force in coming years while struggling with a structural budget deficit; therefore, it is imperative that the City fully maximize its current sworn officers in areas requiring their training and expertise, and not allocate their time to work that can be done by non-sworn staff at lower pay scales. The City has the opportunity to increase the number of sworn officers performing sworn patrol activities more efficiently by transitioning current sworn officers out of non-sworn activities. Therefore, existing targets for additional police officers should include moving officers currently performing activities that can be performed by civilian employees to functions requiring sworn officers. Examples of current sworn officer responsibilities that could be civilianized include recruiting and backgrounding, training, permits, gaming, Community Services Division and permits.

The 2008-2009 Mayor's March Budget Message directed the Administration to update an analysis to identify areas where civilian positions could aid sworn personnel and optimize efficiencies. Along with the Administration's own efforts, to evaluate greater use of non-sworn staff, the 2008-2009 City Auditor's Work Plan includes assessing the efficiency and effectiveness of current deployment of sworn versus non-sworn Police Department employees. The Auditor's scope should include an analysis of sworn officer time utilized for non-sworn activities to identify positions where highly trained police officers are under-utilized by performing non-sworn job responsibilities. For the purposes of the Plan, preliminary analysis indicates the City could fill between 10-15 new police officers by redeploying current officers performing non-sworn duties. Implementation of the strategy is subject to a meet and confer process with the appropriate bargaining groups.

i) **Modify minimum Fire staffing policies where appropriate based on Fire Strategic Plan:** The Fire Department is conducting a strategic planning process but as of this report, the Department has not completed it. The scope of the process includes identifying opportunities to streamline staffing schedules and consider alternative service delivery models which may give opportunity to control personnel expenditures in the future. Because the Strategic Plan is not complete, no further analysis has been completed on this strategy. Implementation of the strategy is subject to meet and confer with the appropriate bargaining group.

Stakeholder Group Discussion: The Stakeholder Group was presented with information about this strategy during its meetings. The Group voiced a number of advantages and concerns about the concept. Some members were quite strong in their support or opposition to the concept of competitive sourcing. In addition, the Group learned about the Employee Suggestion Program which they generally support. The program would capture the ability and knowledge of employees and would energize and empower employees in streamlining programs. The program should include timely response and allow employees to be involved in implementation. Finally, as labor strategies are subject to meet and confer, the increase in civilian positions for public safety and modification to minimum staff for the Fire Department were presented to the Group for informational purposes only. The Group did not discuss advantages and concerns of either labor strategy.

Strategy 2: Increase San Jose Redevelopment Agency (SJRDA) Support to General Fund

Cumulative Net Cost Savings*	Milestone Dates	Implementation Costs	Timeline to Implement
$5.0M	Annual Budget Approval	Not applicable	City Manager's Proposed Budget/SJRDA Proposed Budget

**Does not include one-time implementation costs*

The concept of SJRDA paying for services and projects funded by the General Fund where legally possible has remained as a strategy to help the structural budget deficit. In the 2008-2009 Adopted Budget, for example, the SJRDA has increased its payments to the City for eligible capital improvement projects. That funding will offset costs of eight of the 25 new police officer positions at cost of $358,000 in 2008-2009 based on a start date of January 2009 for the new officers. In addition, the eight police officer positions require approximately $1.0M a year in ongoing costs, increasing reimbursements for SJRDA for eligible capital improvement projects to $5M starting in 2009-2010.

The City and SJRDA will continue to examine opportunities for the SJRDA to pay for services and projects funded by the General Fund where legally permissible. State law prohibits SJRDA dollars from being spent on operating or maintenance of City facilities or for paying for City services unless they directly relate to a defined redevelopment purpose or activity. SJRDA can fund capital projects within project areas of the City if certain findings can be made by the SJRDA Board. These capital projects could have a benefit to the General Fund.

The following strategies are a few examples of potential projects where the SJRDA can assist the General Fund in funding subject to available SJRDA resources and eligibility. These strategies would require further development and analysis before implementation could be considered. The Administration and the SJRDA will continue to work together to ensure that any strategies that are brought forward are those that would be the most cost-effective for the City.

a) **Prioritize SJRDA Capital Funding for Economic Development Activities:** We recommend the SJRDA prioritize projects with sales tax generating potential that provide additional funds to the General Fund over projects that have relatively high operations and maintenance costs on the General Fund. In addition, there are planned capital improvement projects which are located in SJRDA project areas which are budgeted though the General Fund. A thorough analysis of potential projects with the SJRDA can identify projects which are in alignment with SJRDA priorities and, if shifted to SJRDA, would reduce a burden on the General Fund.

b) **Retrofit to Smart Lights in SJRDA Areas:** The City's electricity costs associated with street lights have dramatically increased with rising energy costs. At present the City has begun turning street lights off to curb costs. The Department of Transportation has begun researching Smart Light technology which uses less energy while providing better quality light. Conversion to Smart Light technology is currently being pilot tested elsewhere but no plan for citywide rollout has been established, largely because of capital costs associated with replacing light fixtures. Although better for the General Fund in the long term perspective, the short term capital costs are prohibitive. If the SJRDA Board can make the required findings the SJRDA could fund the capital portion of the costs in SJRDA project areas enhancing the lighting in the Project areas while at the same time the General Fund will benefit from lower energy costs.

c) **Modernize Parking Meters in SJRDA Areas:** Modernization of street parking meters in conjunction with streetscape improvements and other related redevelopment projects is another area where SJRDA capital investment could benefit an SJRDA project area and the General Fund. With new meters which accept credit cards, the City could reduce the maintenance of current meters and streamline increases in meter fees.

d) **Shift Additional Economic Development, Code Enforcement Activities in SJRDA Areas:** As stated above, the redevelopment law prohibits redevelopment funds from being used for city services unless the service is directly related to a redevelopment activity. Examples include planning services related to a redevelopment project or enhanced City services in redevelopment project areas that are required to eliminate blight, such as proactive code enforcement programs.

As stated above, analysis of programs should be conducted in conjunction with SJRDA to identify areas where both the SJRDA and the City can benefit. The SJRDA's annually funds City services both in its Operating Budget and in its Capital Budget, in the amount of $17.4M for 2008-2009. For the Operating Budget, a total of $7.2M in costs will be reimbursed by the SJRDA, including civil service positions, a portion of staff costs in the Office of Economic Development Department, Attorney's Office-General Counsel services cost, overhead and portions of the Mayor and Board's salaries. For the Capital Budget, a total of $10.2M will be reimbursed, examples of which include funding City improvements to help fund the San José BEST Program, Strong Neighborhoods Initiative (i.e., staff in the City Manager's Office and Attorney's Office, Code Enforcement, Driveway Team and Blight Busters), City Hall lease payments, Planning Services, Litigation Services, and Blight Abatement. In 2008-2009, the SJRDA will reimburse the City on a one-time basis for services such as enhanced graffiti abatement, Downtown Proactive Code Enforcement, Hot Spot Camera Implementation and Historic Resources Inventory Coordination.

For planning purposes, the Plan assumes the continuation of current funding levels and an annual increase of $1.0M in 2009-2010 for a total of $5.0M by 2013-2014 on an ongoing basis in Agency support. Specific funding will be established and recommended through the SJRDA budget process and through further discussions between the Administration and the SJRDA.

It should be acknowledged that the SJRDA is experiencing budget constraints itself. In the newly adopted State Budget, the State will be redirecting a total of $350.0M from redevelopment agencies statewide, and approximately $13.0M from the SJRDA. There are proposals pending in Sacramento to increase the ERAF to $400M and to make this cut permanent which would be an additional $15 to $16M annual impact to the SJRDA budget. Furthermore, the SJRDA is currently limited by a cap on the amount of tax increment it can collect under its existing redevelopment plans. This limit can only be amended if the City Council can make a finding that, among other things, significant blight remains in the redevelopment Project Areas. SJRDA staff is currently working on a proposed amendment, expected to be presented to Council in the Spring. If the facts needed to make the required findings cannot be established, the SJRDA will not have the ability to issue parity tax allocation bonds after next fiscal year.

Stakeholder Group Discussion: The SJRDA gave a presentation to the Stakeholder Group about SJRDA history, activities and future plans. The Group had an opportunity to ask questions but did not have a discussion about advantages or concerns regarding the strategy.

Strategy 3: Shift Healthy Neighborhoods Venture Fund (HNVF) Funding to General Fund

Cumulative Net Cost Savings	Milestone Dates	Implementation Costs	Time to Implement
$1.7M annually	Annual Budget Approval	Not applicable	City Manager's Proposed Budget

**Does not include one-time implementation costs*

Annual funds from Tobacco Settlement money are allocated to the City without any restrictions on their use from the State, but the City's use of those funds has been restricted by ordinance that can be changed by City Council action. In 2000, the City Council approved the creation of the Healthy Neighborhoods Venture Fund (HNVF) to fund a variety of community programs. The funds are provided in part to community organizations through annual grants for youth, senior, and tobacco cessation programs including senior transportation, medical and dental care for uninsured children and seniors, home work centers, and anti-tobacco education and outreach. At present, approximately 38% of the grants are awarded through a competitive process. The remaining funds are earmarked for predetermined priorities and for administration. The Mayor and City Council recently approved HNVF's implementation of the Results Based Accountability (RBA) model. RBA is designed to ensure that HNVF-funded programs are not only aligned with City priorities, but also demonstrate good performance while meeting community needs. The recently approved Healthy Neighborhoods Strategic Work Plan and Allocation Plan delineate the types of fundable services and the expected outcomes. The program will continue to allow City programs to apply in the competitive process for HNVF funds, which in turn could shift eligible General Fund services to HNVF so long as they align with the approved Strategic Work Plan.

The original strategy to shift all tobacco settlement money into the General Fund and eliminate the HNVF has been modified. At present, an increase in tobacco settlement money is expected from the state over the next several years. While maintaining a set $10.4M allocation of HNVF in alignment with the Healthy Neighborhoods Strategic Work Plan, the additional settlement monies could be directed to the General Fund. Current estimates indicate the General Fund would benefit with $0.1-1.2M annually beginning in 2010-2011. This lag in implementation is required to bring the HNVF fund balance to liquidity. The recently adopted HNVF Fund balance policy requires the 2009-2010 additional settlement monies be used to build up the reserve to an adequate balance to meet its own cash flow needs, thereby eliminating the need for annual inter-fund loans from the sewer or other funds.

Stakeholder Group Discussion: The Stakeholder Group had considerable interest in the original strategy to shift all HNVF funds but had differing points of view. They acknowledged that the General Fund deficit could be significantly reduced if these funds were applied to core municipal services, but they also recognized that some non-profits are better able to serve the population and use the funds as leverage for other program funding. Many of the services and agencies funded by the HNVF are also being cut by the County and the State. The current strategy of shifting additional funds to the General Fund was developed by the Healthy Neighborhoods Venture Fund Advisory Committee after the Stakeholder Group meetings and thus was not discussed with the Stakeholder Group.

Strategy 4: Reduce Rate of Increase in Personnel Costs

Estimated Net Cost Savings*	Milestone Dates	Implementation Costs	Time to Implement
$15.8M	Varies by bargaining unit or by other factors	$50K in one-time specialized consulting costs	Varies by bargaining unit or by other factors

**Does not include one-time implementation costs*

Personnel expenses, which include both base salary and benefits, account for approximately two-thirds of the General Fund expenditures. This is typical for municipalities since cities are in the business of providing services, requiring competent, trained employees. However, the mismatch between revenue and expenditures and the resulting structural budget deficit requires that the City identify ways in which to reduce personnel costs.

Specifically, the rate of increase in total compensation for City employees has been higher than growth in the local economy, and employee costs are escalating at a higher rate than the growth in General Fund revenues. From 2000-2001 to 2008-2009, base salary for City employees has grown 43.2% and benefits 123.5%. These figures represent budgeted costs, and the actual salary and benefit costs of individual employees vary. The figures do not include worker's compensation costs, or overtime.

Any real solution to the structural budget deficit must include reducing the rate of increase in personnel compensation, while maintaining the City's ability to recruit and retain talented employees. The January 2008 Management Partners report recommended seven strategies and sub-strategies regarding the rising cost of personnel expenses for the General Fund as listed below. Further development and implementation of the strategies depend on successful discussion between the City and the employee bargaining groups and result in changes to Memoranda of Agreement (MOAs) through a meet and confer process. Because the City continues to bargain in good faith, specific strategies are not part of the Plan. Instead we have included a list of ideas from which both the City and its employee bargaining units can consider as well as develop new ones as needed.

Although most of the strategies described below under "Strategies for Reducing Personnel Costs" may be subject to meet and confer with the City's bargaining units, the need to reduce personnel expenses does not disappear. As directed by Council, the City should consider overall cost savings as one-third of the budget elimination solution. As such, by estimating the total structural budget deficit and the role of personnel costs in the General Fund as a whole, the City needs to set a goal of realizing at least $15.9M in personnel cost savings in the next years. The savings represent 0.5% of salary and associated fringe costs combined with cost savings that may be achieved from negotiations with the City's health care providers as discussed later in this section. In 2009-2010, $1.0M in cost savings is estimated based achieving savings by examining the entry level salaries for positions which the City receives a high number of qualified candidates. The savings estimated may be limited by meet and confer requirements associated with most personnel strategies and the number of MOAs up for negotiation. In subsequent years, the City can estimate savings from renegotiated contracts with healthcare providers and a combination of other strategies outlined below.

The following table lists the bargaining groups which represent the employee labor groups and the terms of their current contracts. Implementation of competitive sourcing strategies is also dependent upon making changes to employee contracts.

BARGAINING GROUP	TERM
San José Police Officers Association (SJPOA)	March 1, 2004 - June 30, 2008
International Association of Firefighters (IAFF)	March 1, 2004 - June 30, 2009
International Union of Operating Engineers (OE #3)	Nov. 9, 2006 - April 17, 2009
Association of Maintenance Supervisory Personnel (AMSP)	Dec. 4, 2007 - June 27, 2009
Association of Engineers and Architects (AEA)	July 1, 2007 - June 30, 2009
Bldg., Mechanical & Elect. Inspectors (ABMEI)	Dec. 11, 2007 - Dec. 10, 2009
International Brotherhood of Electrical Workers (IBEW)	March 9, 2008 - March 6, 2010
City Association of Management Personnel (CAMP)	July 1, 2008 - June 30, 2010
Municipal Employees' Federation (MEF)	July 1, 2008 - June 30, 2011
Confidential Employees Organization (CEO)	Sept. 21, 2008 - Sept. 17, 2011

The following steps could be instituted to reduce personnel costs over time.

a) **Increase Time, Amount and Method to Reach Maximum Compensation:** At present, the City utilizes a traditional public sector salary schedule with five, 5% salary steps for most job classifications. The steps are intended to reward employees for good performance through merit increases. However, the steps have become virtually automatic for adequate performance, and the typical time it takes an employee to reach the top step is three and half years. During the time employees are moving from the first to the top step, they also receive any general salary increases negotiated by bargaining units. As a cost saving measure, the current three and half years to reach the top could be increased to five or six years, or even longer, the percentage amount between steps could be reduced and/or higher expectations for performance could be established beyond "acceptable" to "exceeds expectations" or similarly high expectations.

b) **Implement Sick Leave Payment Modifications Upon Retirement:** The strategy, originally recommended by Management Partners, addresses MOAs in which police and fire receive

100% payout of unused sick days and all other bargaining groups receive 75% of a maximum of 1200 hours at retirement. Although payouts of accrued sick days are common in municipal governments, the rise in personnel costs should lead the City to examine all ways to reduce future expenses. In addition, although a change may be of concern to employees closer to retirement, newer employees may not see the change in such a negative light.

c) **Implement a Two-Tier Retirement Benefit:** In 2008-2009, employee retirement contributions are projected to cost the City over $135M. The cost has increased 2 ½ times from the $54 million annual cost in 1996. Given this rate of increase, and forecasts that costs will continue to escalate rapidly, the City should examine an alternate retirement system for new employees while maintaining the current system for current employees. A two-tier retirement system is a cost savings strategy that may require meet and confer and would have a beneficial impact on the City in the future. Specifically, new employees would be offered a different type or level of retirement than that of current employees. Several private and public organizations have implemented two-tier systems with success. The City should continue its analysis of the strategy and examine possible models for implementation of revised retirement structures for new employees in the future.

d) **Revise Workers' Compensation Program:** In March of 2007, the City received a report from Arm Tech which listed approximately 11 specific strategies which, if implemented, would redesign the City's current workers' compensation system and produce strong cost savings. To date, the City has done the following to implement the consultant's recommendations to create a centralized risk management program with a single point of accountability:

- Assigned a Deputy Director of Human Resources as the Risk Manager to manage the centralized risk management program.
- Hired five additional Workers' Compensation Adjusters and one Safety Officer to proactively manage the caseload and to engage in reducing liability.
- Developed a Risk Management Policy, goals, and objectives, and established a Risk Management Planning Board to provide guidance to the risk management program.
- Developed a workers' compensation cost allocation proposal to increase accountability for cost at the department level. The proposal will be reviewed by the internal Risk Management Planning Board.
- Assessed the risk financing structure to find ways to reduce and/or transfer risks. The City has obtained a new insurance and risk control broker to assist with this effort.

The newly created Risk Management program does not include the integration of Liability Claims Management, currently housed in the City Attorney's Office or the consolidation of all Safety Officers into this new centralized program. Risk Management is working closely with the Attorney's Office to reduce liabilities and exposures to the City. Other Safety Officers assigned to line Departments have entered into a partnership with Risk Management to develop and implement an annual work plan designed to reduce injuries and illnesses, and to promote a culture of safety in the departments. More formal internal structures will be developed to enhance risk management effectiveness.

e) **Implement Workers' Compensation Offset for Public Safety:** In the disability program for public safety employees, there is an overlap in benefits. If a sworn officer qualifies for workers' compensation temporary or permanent disability upon retirement, s/he will receive both disability payments and the standard pension payments. This is not the case with non-public safety City employees. Best practice research reveals most workers' compensation and disability programs provide adequate support and other municipalities do not extend both types of payments to public safety employees. The City would realize savings in pension costs by offsetting workers' compensation and disability payments.

f) **Revise Overtime Eligibility Policies***:* The overtime policy for several City positions is more generous than required by Federal Fair Labor Standards Act (FLSA) and results in sizeable overtime payouts. Several positions serve in a supervisory capacity; thus, under the FLSA, those positions are deemed exempt and not subject to overtime. The overtime policy also serves as a disincentive to employees to seek higher promotions because a step up would mean the elimination of overtime and it creates an inequity between those positions above who do not receive overtime but who also regularly work more than 40 hours a week.

g) **Implement Healthcare Insurance Provider Cost Containment:** The City releases requests for proposals (RFPs) every four years to health care insurance providers to renegotiate contracts for City employee health care. On a more frequent basis, the City should aggressively seek the most competitive insurance policies and rates while maintaining a desired level of coverage.

h) **Reduce Entry Level Compensation for Positions for which the City Receives Many Qualified Applicants:** The City has several positions that, when recruited for, receive numerous qualified applicants. The City should evaluate the entry level compensation of those positions in light of the number of qualified applicants and the market rate for similar positions in both the public and private sectors. If the City can maintain acceptable recruitment and retention with a lower entry level salary then it should consider reducing the salaries for such positions. The City can begin with a pilot program to evaluate results, make adjustments, and fully implement the strategy if it is deemed appropriate.

i) **Implement Health Care Plan Modifications:** The rise of health care costs for the City has been significant and is likely to continue to increase in the future, given the state of health care costs generally. Therefore, it is an important arena to target for cost control. The two specific strategies first proposed by Management Partners are revising the employee cost sharing formula and implementing a wellness program. In the 2008-2009 Adopted Budget, the City has funded an employee wellness program through contributions from the City's healthcare providers to be implemented. A Healthcare/Wellness Summit was held with Stakeholder to establish the framework for a Citywide Wellness program. Specific proposals are being developed for implementation.

j) **Modify Binding Interest Arbitration:** This strategy would not reduce current labor costs but, over time, could have that effect. Importantly, eliminating binding interest arbitration (which applies only to police and fire) would place accountability for decisions about wage and benefit increases with the governing body rather than an outside party without accountability for how those cost increases will be paid. This strategy has the potential of reducing the rate of growth in costs as new labor contracts are negotiated. Voter approval of a City Charter amendment would be required to eliminate binding interest arbitration.

In 1980, San José voters approved a City Charter amendment which requires binding interest arbitration in cases where the police and fire unions and City reach impasse in labor negotiations. With binding interest arbitration, a three-member Arbitration Board consisting of the following: (1) an arbitrator selected by agreement between the City and the public safety bargaining unit or selected by the process of striking names from a list of seven arbitrators provided by the State of California Conciliation Service; (2) an arbitrator selected by the City; and (3) an arbitrator selected by representatives of the public safety bargaining unit. The Arbitration Board reviews each side's final offer for settlement of each issue submitted to arbitration and can decide each issue by majority vote that is binding upon the parties. Thus, decisions on compensation for police and fire are ultimately outside of the control of elected policy makers, even though the policy makers must fund the increases. Since 1980, wages and benefits for those workers covered by binding arbitration provisions have escalated faster than other labor contracts and faster than the City's overall revenues and other expenditures are growing.

In addition to placing authority in the hands of an outside party who is not accountable to the people of San José, the binding interest arbitration process has intensified the adversarial nature of negotiations leading up to potential arbitration. Binding interest arbitration does not promote true compromise if the end results are a series of decisions made by an outside arbitrator. Jerilou Cossack, Chair of Arbitration Board, stated in a 2007 arbitration with the City and Fire union that *"whereas the collective bargaining process envisions compromise and encourages innovation, the interest arbitration process does neither. The parties in this dispute did not use the bargaining process to their advantage. There was precious little discussion between them about many of the proposals... there can be no meeting of the minds if there is no dialogue."*

Binding arbitration of this type to resolve contract issues is not the norm in California cities, where only approximately 25 cities have this requirement. The original argument for binding interest arbitration for police and fire was that it would provide a mechanism to prevent strikes by public safety employees. However, since adoption of binding interest arbitration by the voters in 1980, California state law has changed. In 1989, state law was enacted to prohibit strikes. Additionally, extensive protections and collective bargaining rights have been put in place to ensure that these employees are fairly treated. On a local level, the City of San José has a track record of consistently treating police and firefighters fairly. Police and fire employees receive fair pay and benefits, enjoy favorable work schedules, work with high quality equipment, receive excellent training and are valued and appreciated by the City organization and the community.

Elimination of binding interest arbitration would place accountability with the City Council for police and fire wages and benefits, as is the case with other City employees. Additionally, the length of time required to negotiate new agreements, come to impasse and then enter arbitration is not efficient for either party and can be reduced. There is also potential for creating collaboration instead of adversarial encounters during negotiating that would benefit the City, public safety unions and the community on the whole. The action to eliminate binding interest arbitration would require strong support from the City Council to place a measure on the ballot for voter approval of a Charter amendment.

An alternative to complete elimination of arbitration could be modifications to provide City Council authority or voter approval to make decisions on wages and benefits when a potential arbitration awards would cost the City significant additional funding. A ballot measure in Orange County passed on November 4, 2008 which makes proposed pension increases for County of Orange employees subject to voter approval. Measure J, as it was known, comfortably passed 75% in favor to 25% opposed. It is similar to an initiative in the City of San Diego in 2006 which passed with over 70% of the vote. Both approaches draw on the history of the County and City of San Francisco, which has had a charter provision requiring voter approval of pension benefit increases since 1932.

Stakeholder Group Discussion: City staff gave the Stakeholder Group two presentations about labor relations, the meet and confer process and other personnel cost-related information. The presentation did not review the specific strategies with the Stakeholder Group but provided background information about personnel costs, the laws that govern public sector labor relations in the State of California, and the process of meeting and conferring regarding wages, hours, and terms of employment. Stakeholders had an opportunity to ask questions but did not have a discussion of advantages and concerns primarily because of the City's meet and confer obligations. A two-tier retirement strategy was also to the Stakeholder Group but again no specifics were discussed.

Category II: Revenue Strategies

Eight revenue strategies have been identified and are listed in the following two tables. The first table represents revenue strategies which are recommended to be pursued in the given timeframe while the second table lists other options for revenues strategies available to the City.

Summary of Revenue Strategies				
Revenue Strategies	**Cumulative Net Revenue***	**Milestone Dates**	**Implementation Costs**	**Timeline to Implement**
5. *Formalize and Implement a Rigorous Asset Management Program*	$4.0-13.0M	Property sales, leases and maintenance agreements	Up to $500K, one-time	2009-2010 and subsequent years
6. *Ensure Current Fees Fully Cover All City Costs and Institute New Fees where Appropriate*	$10.0M	Annual Budget Approval	Varies	City Manager's Proposed Budget
7. *Actively Pursue and promote Economic Development Opportunities*	$4.0-7.0M	Varies	Not applicable	Fiscal Year 2010-2011 to Fiscal Year 2013-2014
8. *Restructure Business Tax Rates to Modernize and Reflect Current Business Profile*	a) Modernize/CPI: $13-$15M b) Restructure: $2-$8M	2009 – Outreach 2010– Ballot	Up to $565K onetime expenses for outreach and ballot	November 2010 ballot
9. *Implement Lighting and Landscaping District*	$2.5-3.0M	2009 – Study/ Outreach/Survey 2009 – Engineer's Report	$150-350K, one-time	2010 (mail ballot)
10. *Increase Revenues from Visitors Who Benefit from General Fund Services*	a) City/SJRDA Parking Lot Tax: $5.2M b) All Lots Parking Lot Tax: $9.0M	2009-Outreach 2009-Outreach	Up to $315K one-time expenses for outreach and ballot	Ballot TBD Ballot TBD
11. *Increase Conveyance Tax and/or Shift Construction and Conveyance Tax Funding from Capital Projects to Operations and Maintenance*	Up to $11.4M	2009-Outreach	Up to $315K one-time expenses for outreach and ballot	Ballot TBD
12. *Increase Card Room Tax, Number of Tables and/or Tax on Card Room Bank Groups*	a) 18% Tax: $4.0 M b) Table Increase: $7.2M c) Bank Tax: $4.0-5.6M	TBD	Up to $315K onetime expenses for outreach and ballot	Ballot TBD

**Does not include one-time implementation costs*

Each of the revenue strategies is described below.

Strategy 5: Formalize and Implement a Rigorous Asset Management Program

Cumulative Net Revenue*	Milestone Dates	Implementation Costs	Timeline to Implement
$4.0-13.0M	Property sales, leases and maintenance agreements	Up to $500K, one-time	2009-2010 and subsequent years

**Does not include one-time implementation costs*

After focused discussion around the development of a rigorous asset management program as a structural deficit elimination strategy began in February 2008, the term "asset management" has been used to refer to a variety of possible strategies, including:

- Sale of nonessential and underperforming City-owned properties
- Restructuring of existing leases with for-profit and non-profit operators of City facilities
- Lease of City infrastructure to private or other governmental operators

Based on a review of best practices of other agencies and prior experience in San José, staff is developing a set of recommendations for City Council consideration intended to institutionalize asset management as an ongoing business practice. The emerging recommendations are organized around the following goal:

Asset management should be a decision-making system to ensure that City properties are used in a manner that strategically and cost-effectively support core City services.

Through work to date on this effort, it has become clear that several key principles will need to be established in order for an asset management system to be effective. The principles are described below:

1. Establish a system for making property decisions

Making decisions on the sale or other long-term commitment of properties for revenue generating purposes is difficult. Neighbors and neighborhoods are likely to always prefer the continuation or establishment of neighborhood-serving uses such as parks. The Asset Management System must establish a clear and progressive process for making property decisions, recognizing that it may often be necessary to reconcile competing community values regarding property use and fiscal priorities. At the same time, this system should allow minor transactions to proceed quickly and efficiently.

2. Establish asset management as an ongoing business practice with flexibility to adjust to changing conditions

As organizational priorities and economic conditions change, asset management practices should also change. Asset management practices should enable the City to respond to time sensitive issues, as well as ensure periodic review of all City real estate assets and ensure that uses serve organizational priorities. This will require resource allocation to make asset management an institutional priority. City properties constitute a real estate portfolio and should be managed as one.

3. Asset management should enhance results of partnerships

Asset management is inseparable from public-private partnerships with non-profit, for-profit, and other governmental partners. Real estate can be a key asset to leverage the establishment and support the sustainability of partnerships in the provision of community services. Numerous examples are already in place, and Asset Management can provide a framework for enhancing the performance and consistency of these partnerships.

With these principles in mind, staff is developing options and recommendations for City Council consideration that can establish Asset Management as an organizational priority.

Reuse of Underutilized Properties: In order to move as quickly as possible within the City's existing real estate policy framework, staff is currently reviewing 44 under-utilized properties in parallel with developing recommendations for overall Asset Management.

On October 28, 2008, the City Council directed staff to conduct community outreach to solicit public input on alternative uses, leasing potential, and/or sale of these 44 underutilized City-owned properties with particular emphasis on identifying revenue generating and cost reducing options. These properties do not constitute a comprehensive list of under-utilized properties, but transactions on some of these properties could provide the revenue needed to make further progress on inventorying and effecting transactions on other legacy parcels.

Of the 44 properties, 13 sites are developable, and 22 are sites that are not independently developable (these sites are primarily remnants of land or property that are too restrictive to develop). Additionally, staff has already received direction to sell five of the 44 properties. An additional four properties were considered to be of high value and versatility as described below. Staff is proceeding with public outreach with these 44 properties as identified in the eight-step process for surplusing and selling City-owned property approved by the Council on May 13, 2008.

The four sites deemed to be of high value and versatility will follow a somewhat different process than the smaller sites. Those sites are (1) the former City Hall, (2) the E-lot, (3) Singleton landfill and (4) Story Road landfill; sale of these sites will follow a somewhat different process than the smaller sites. These properties offer more possibilities for both private development and City reuse and are also likely to garner significant community interest because of their size and the complexity of the issues that must be addressed. Staff will initiate focused community discussions on potential reuse of these property assets and may also circulate request for proposals to solicit interest in private or joint development.

With the exception of the four sites with high value, staff anticipates returning to Council with recommendations for the remaining 40 properties beginning in 90 to 120 days. The evaluation and decision-making on potential alternative uses for the four larger sites is likely to be more involved and take significantly longer than other under-utilized properties.

Staff estimates the value of the initial set of under-utilized properties to range from $114 to $137M, depending on the final uses of the properties, and in particular of the four high value properties. Translating this land value to potential revenue generation, however, is not currently possible because it is not clear at this time how many properties will be sold, how many will be retained and leased to generate ongoing revenue, and what the costs will be of environmental remediation. The current volatility of the real estate market may also impact the revenue potential and the timeline for sale of properties.

Given the current real estate market downturn and the times to assess and then sell surplus property, a realistic estimate of revenue generation in 2009-2010 would be approximately $1.0M ongoing, with average annual proceeds in subsequent years in the $1.0 – 4.0M range. It should be recognized that this revenue will vary year-to-year depending on whether it is generated by sales or leases. If generated by sales, the revenue will be one-time and will not provide an ongoing revenue stream.

While proceeding with public outreach on the properties and alternative reuse analysis on selected sites, staff is developing for Council consideration an Asset Management Report intended to help establish the policy framework for managing real property assets. Based on a review of best asset management practices of other municipalities, a number of policy choices can be made by Council in order to guide staff's follow-up work and recommendations for the disposition of each property.

First, the Council should consider an initial recommendation in this Plan to expand the allowed uses of proceeds from surplus property to include the backlog of unmet/deferred infrastructure and maintenance needs, asset management program costs, and to pay down any General Fund debt at the recommendation of the City Manager and approval by the City Council.

Among other policy choices are decisions related to the following questions:

1. Is the City prepared to undertake Asset Management as a one-time project organized around generating revenue from a handful of "high value" properties, or should Asset Management be developed as a sustained business strategy to improve performance?

2. How aggressively should the City pursue near-term revenue generation, weighed against less certain long-term needs and current uses that benefit a subset of the community?

3. To what extent should Asset Management be used to review and redefine relationships between the City and non-profit, for-profit, and other governmental organizations, given its potential to increase obligations of all parties?

4. How should property sale/lease decisions be made? Given the complexity of issues often involved with individual properties, is case-by-case hearing by the full City Council the most effective decision-making method, or would a committee, board, or commission be appropriate? Is weighing the associated issues consistent with the scope and composition of existing bodies?

A related issue which should be discussed under the topic of asset management is the use of one-time monies that may be derived from the City's efforts in this area. Under current policy monies derived from asset sales can be used only to fund the Economic Uncertainty Fund. This report makes several recommendations to adjust this policy to allow some other investment decisions.

One is to allow for the pre-payment of debt on existing properties when such prepayment would generate a net savings to the General Fund. The Finance Department has completed an analysis of all of the City's outstanding debt. The conclusion of this analysis is that it would be in the City's best financial interest to pre-pay debt on taxable bonds, and that redemption of variable-rate bonds would present prepayment opportunities in the next three years.

A portion of the debt the City owes on the Hayes Mansion refinancing best meets the criteria for early payment. Currently, the total outstanding debt related to the Hayes Mansion is $68.2 million, of which approximately $47.4 million is in the form of taxable variable-rate bonds. These bonds were issued in $100,000 denominations and can be redeemed on any business day. The annual debt service on these bonds projected for 2009-2010 is $4.0M.

If the City could pre-pay these bonds at the beginning of 2009-2010, assuming the bonds would otherwise pay an average all-in financing cost of 5.2%, the City would save an estimated $93,000 in average annual debt service over the subsequent sixteen years per $1M in principal redeemed.

The City could use this debt prepayment strategy to leverage the use of one-time monies to reduce debt service costs. Using this approach with respect to the Hayes Mansion debt would also aid the City in repositioning the City's investment in Hayes Mansion in a manner which could be consistent with selling this asset to a private entity for private or public / private operations.

Stakeholder Group Discussion: The Stakeholder Group expressed considerable interest in the asset management strategy being pursued, given that it could be implemented over time with short-term as well as long-term revenue benefits. There would be the potential for longer-term and more stable leases for non-profits and opportunity for public-private assistance and partnerships.

Strategy 6: Ensure Current Fees Fully Cover All City Costs and Institute New Fees Where Appropriate

Cumulative Net Revenue*	Milestone Dates	Implementation Costs	Timeline to Implement
$10.0M	Annual Budget Approval	Varies	City Manager's Proposed Budget

**Does not include one-time implementation costs*

The overall strategy of ensuring full cost recovery for current fees and the development of new fees when appropriate is not a static strategy. Although the City has aggressively pursued fees, there are areas of improvement and the need to seriously examine opportunities for fee increases and new fees on an annual basis. In the current 2008-2009 Budget, several fees were increased but are still below full cost recovery. Staff anticipates recommending further increases in following fiscal years to bring cost recovery levels closer to the 100% recovery rate.

a) **Advance Planning Fee:** An Advance Planning fee or surcharge is levied against new development and normally added to a building permit fee. The intent of the fee is to assist the City to recoup costs associated with General Plan update and other zoning changes as a result of new development. State law authorizes local governments to charge fees for services based on the estimated reasonable cost of providing the service for which the fee is charged. The Mitigation Fee Act was amended in 2003 to clarify that service fees may "include costs reasonably necessary to prepare and revise the plans and policies that a local agency is required to adopt before it can make any necessary findings and determinations." Because a General Plan update is a benefit for all citizens of the City, the fee or surcharge should only represent costs associated with the General Plan update which affect new development and can thus be recouped through building permits. It is estimated that the City could realize new revenue of at least $400,000 annually. Given the current economic outlook and in particular development activity, implementation and timing of a new fee for General Plan updates would need to be discussed with all stakeholders. It may, like some economic development activities, be an advantage to develop proposals and conduct public outreach now on the fee and be prepared to adopt the fee as development activity increases again.

b) **Parking Fees:** Another area where fee increases could result in significant revenue is parking meters. At present, the City's parking rates for on-street parking meters is on par with its peers but the number of on-street metered parking spaces is below. The City can immediately institute higher parking rates for existing on-street meters to support the General Fund. A 25% increase in meter rates for existing metered parking spaces would generate approximately $500,000 a year in revenue. The City can also pursue more metered spaces for longer term revenue. It should be recognized that new metered spaces do require capital investments for meter equipment and ongoing expenses for maintenance and monitoring. As discussed earlier, if installed in conjunction with streetscape improvements or other related redevelopment projects, there may be an opportunity for SJRDA to support the capital investment in modern parking meters which allow credit cards and would reduce the maintenance and monitoring costs associated with the current meter system.

c) **Entertainment Zone Policing Plan:** As referenced in the City Manager's MBA #4, the City should continue to pursue an Entertainment Zone Policing Plan for the downtown area. The Plan is already in place, but requires an update given changes in the downtown environment since the Plan was originally proposed by the Police Department in May of 2007 and needs to be fully implemented. It is documented that an area of the City's downtown requires an added level of police presence during prime times as a result of the active night life. The additional policing is a specific benefit to the downtown bars and clubs that cater to the nightlife, so a fee to cover the costs is appropriate. Based on the Police Department's initial analysis, it is estimated the City could recover $400,000 to $600,000 annually for police costs depending on staffing adjustments.

d) **Parks, Recreation and Neighborhood Services Fee Structure:** Parks, Recreation and Neighborhood Services (PRNS) Department is leading the way in changing its entire approach to assessing currently, below full cost recovery fees. Starting in August 2008, PRNS is addressing its current fee structure to address two Mayor and City Council top priority goals to provide full funding for parks, pools, community centers and libraries and to eliminate the structural budget deficit. The Department has found the current fees and charges system to be rigid with inequitable decision making and the unintended consequence of keeping program and service fees low in comparison to the true cost of providing services.

The program intends to create a consistent pricing policy to ensure equity of access to all residents in the City. It will establish policies which clearly define which programs should be subsidized and at what level, and which programs should be full cost recovery. PRNS expects to implement the fee increases over a period of years after establishing actual cost to provide service. The end goal will be for a significantly higher portion of PRNS activities to be supported by user fees.

e) **Existing Fee Increases:** The average revenue increase for existing fees in the last three fiscal years is $1.0M. The number can be used to estimate increases of revenue for existing fees in coming fiscal years as well. The revenue from existing fees plus additional fees as outlined above would bring approximately $2.0M annually depending on the timing of new fees being implemented.

Stakeholder Group Discussion: The Stakeholder Group expressed significant interest in the issue of full cost recovery for fees, but expressed strong, differing points of view. Major concerns were that increasing fees could be a deterrent to business development and hinder the City's ability to attract jobs and increase sales tax. However, they did recognize that fees enable the City to provide a higher level of service.

Strategy 7: Actively Pursue and Promote Economic Development Opportunities

Cumulative Net Revenues*	Milestone Dates	Implementation Costs	Timeline to Implement
$4.0-7.0M	Varies	Not applicable	2010-2011 to 2013-2014

**Does not include one-time implementation costs*

a) **Expansion of Santana Row and Valley Fair**

b) **New car dealerships**

c) **Business cooperative program**

d) **Preparing retail development sites**

Economic development strategies were not part of the initial Top Priority Strategies included in the January 2008 report because the three year timeline for implementation could not be reasonably met. The report did include the topic as an ongoing and long term strategy for the City. As directed in the 2008-2009 Mayor's March Budget Message, economic development is to be considered a revenue strategy.

The initial report analysis indicated that the City lags behind its geographic neighbors in sales tax revenue per capita. The lower revenue is the result of the City's prior focus on housing over job creation and creating a sales tax base. As addressed in the section of this Plan regarding local government finance in California, most cities rely on the revenue generated from sales tax dollars since property tax revenues are restricted.

As a result of the City's current economic development strategy adopted in 2003, economic development focus has shifted to a diversified approach of business development for job creation and sales tax generation with the housing mix which can support the development. The shift is evidenced below and is a partial list of economic development activities currently underway in the City.

Projects in building/planning process:	
• Beshoff Infiniti	• Brocade expansion
• Capitol Honda expansion	• Borgata Recycling
Projects in progress/project breaking ground:	
• Santana Row expansion	• Critchfield Mechanical
• SmartCar of San José	• SVTC Technologies
• Solopower	• Westfield Valley Fair expansion
• Stion Corporation	
Projects recently completed:	
• Nanosolar	
Project recently proposed:	
• Tesla Motors	

In October 2007, the City Council adopted a Retail Strategy that articulated that the best way to speed retail development, and thereby generate jobs and revenues, is to help ensure that appropriate sites are identified and that barriers to timely development are removed as much as possible. These barriers include amending the General Plan and zoning designations and creating the necessary Environmental Impact Reports. Staff has identified potential retail development sites that have the potential to generate substantial City revenues and it is anticipated that the cost of preparing the sites will be significantly less than the projected revenues.

The most recent example of the efforts of the Office of Economic Development (OED) is the approval of an MOU with Tesla Motors for a proposed $250 million new facility at Zanker Road and Highway 237 in North San José. If the project is approved, it would bring 1,000 new jobs to the San José economy and generate 700 construction jobs.

Other examples of successful projects include The Plant and Market Center shopping centers. Both projects took two years from plan submittal to opening the first stores. Similarly, Costco located at Automation Parkway and Beshoff Mercedes took two years from plan submittal to opening their operations. These timelines do not include preliminary discussions with staff or the decision-making timeline by the companies and/or the developers. Economic development projects often take three to five years to realize and to begin generating revenue that benefits government services. San José faces challenges in the current economic climate, as do other cities. However, the economic development strategic plan adopted in 2003 outlines measures designed to increase San José's competitiveness. Among the most critical is streamlining the permitting process to provide predictability and timely review and issuance of permits. Other critical elements of the plan are the focus on downtown reinvestment, convention center expansion, increasing neighborhood retail services and the "buy local" campaign. Economic development activities are key to the continued economic success of the City. The realignment of efforts to a diversified strategy for the City will help it, over the long run; create a better balance of job creation, tax revenue generation and necessary housing to support the economy. As a result of economic activities, the City can conservatively estimate new revenues of $1.0M annually.

Stakeholder Group Discussion: The Stakeholder Group felt that economic development strategies were in place to target businesses that produce General Fund revenues and expressed interest in pursuing strategies that would adopt a "Santana Row" retail strategy that places retail outlets on the city's periphery where they are most likely to attract purchases from residents of nearby jurisdictions. They also expressed interest in the City allowing additional hotels on the periphery of the city to increase TOT revenues. However, they acknowledged that the "Santana Row" and hotel strategies would not have an impact on the General Fund within three years but could have a significant long-term impact. Coordinating City economic development programs with San José State University to maximize benefits from the University's capacities as a research center and as a major contributor to the region's skilled workforce was also supported but is a longer-term strategy and would not generate significant revenues within the next few years.

The group had mixed opinions on whether to establish an Economic Development Advisory Committee to solicit and evaluate development proposals from community organizations, businesses and the public at-large, and to design programs that encourage the growth of small businesses. Small businesses represent 80% of the local economy but the proposed strategy would not have an immediate impact. There was discussion about the cumulative costs of licenses, permits and other costs and whether faster processing of permits and licenses would be more attractive than lower costs.

There was considerable interest but differing points of view on proposals to directing the City's economic development strategy to emphasize the generation of high quality jobs with good wages and benefits, to expand the City's Living Wage policy to include additional firms and to modify the enforcement of the City's prevailing wage regulations to target contracts in which violations are more likely to occur while reducing resources focused on contracts such as Project Labor Agreements which have their own alternative enforcement programs. These were seen as values issues, not just dollars and, with living wage, people would not require programs such as subsidized health care. However, expansion of the living wage policies to businesses getting subsidies would have an impact on business generation and living wage requirements may reduce the number of jobs in the community. Furthermore, the living wage adds to the City's cost of doing business.

Stakeholder discussions about expanding sales tax to services noted that existing State laws address the strategy and that the issue should be looked at from the perspective of the City's Legislative Priorities.

Strategy 8: Restructure Business Tax Rates to Modernize and Reflect Current Business Profile

Cumulative Net Revenue*	Milestone Dates	Implementation Costs	Timeline to Implement
c) Modernize/CPI: $13-$15M d) Restructure: $2-$8M	2009 – Outreach 2010– Ballot	Up to $565K onetime expenses for outreach and ballot	November 2010 ballot

**Does not include one-time implementation costs*

As outlined in MBA #4, the strategy was further refined and analyzed to develop two options:

a) **Modernize rates by indexing to current consumer price index (CPI) and raising maximums:** The original tax adopted in 1984 did not include an automatic adjustment for inflation. Over time revenue from the Business Tax has eroded as a result. By applying the CPI since 1984, the minimum would increase from $150 for up to eight employees to $300 for the same number of employees. In addition, the current maximum business tax would rise from $25,000 to $50,000. The increased revenue would represent an additional $13.0 to $15.0M annually.

b) **Restructure business tax formula:** A full restructuring of the business tax to reflect the current economy of the City which has dramatically changed since 1984. Several approaches were considered, including flat rate by industry, employee grouping by sector, flat rate per employee and gross receipts/net income. Initially, analysis reveals that restructuring, depending on the method used, would generate $2.0 to $8.0M annually in tax revenue.

As stated in the May 2008 MBA #4, the strategy was not recommended to move forward with the November 2008 ballot. The strategy requires additional study and significant outreach to the business community before being put to the voters. The additional analysis and outreach should continue with a goal of consideration for the November 2010 ballot.

Stakeholder Group Discussion: The Stakeholder Group expressed no interest in restructuring a business tax for the November 2008 ballot, expressing a concern for increasing the tax in a down economy, the potentially regressive nature of an across-the-board increase, and the cost of the tax in comparison to neighboring cities. The Stakeholder Group did, however, express an interest in looking at a potential restructuring of the tax for a future ballot measure, after extensive outreach to businesses. The Group also expressed an interest in the City thoroughly examining its policies and procedures which could be burdensome to business and making improvements before going to voters for approval of a business tax increase.

Strategy 9: Implement Landscape and Lighting District

Cumulative Net Revenue*	Milestone Dates	Implementation Costs	Timeline to Implement
$2.5-3.0M	2009 – Study/ Outreach/Survey 2009 – Engineer's Report	$150-350K, one-time	2010 (mail ballot)

**Does not include one-time implementation costs*

It does not appear to be feasible to implement this strategy as originally proposed to reduce the portion of the structural deficit related to transportation infrastructure. The original recommendation regarding a Landscape and Lighting District (LLD) for the City of San José has changed as additional analysis has occurred and as services related to landscaping, lighting and tree maintenance have been further reduced. A variety of different approaches, discussed below, will be necessary across the different asset categories, and each approach has significant challenges and varying timelines.

Under Proposition 218, as recently interpreted by the California Supreme Court in the Santa Clara Open Space Authority case, the extent to which analysis on each individual parcel must occur greatly impacts the City's ability to implement a LLD, and certainly necessitates more time and money than was originally anticipated in order to complete the analytical review necessary to establish specific and proportional special benefit for most of the asset categories being considered, given that the City currently has approximately 240,000 individual parcels.

The City has initiated preliminary review for the following infrastructure assets: median island and City-maintained street back-up landscaping; street lighting; street pavement; and street trees and sidewalks. Based on this preliminary analysis, staff recommends that the following options be considered:

1.) Expand the network of Maintenance Assessment Districts (MADs) and/or Community Facilities Districts (CFDs) throughout the City to address median island and street back-up landscape maintenance needs on a more localized basis.

The City currently owns and maintains various medians and other landscaped areas within the public right-of-way (ROW). Historically, the General Fund has absorbed all of the maintenance costs for these areas, except where MADs and CFDs have been established. MADs require a general/special benefit analysis and less than a 50% protest in a weighted property-owner protest ballot. CFDs do not require a special benefit analysis or proportional assessment, and the City has flexibility in the types of services provided and the establishment of the tax formula. It requires two-thirds registered voter approval. Currently, the City has 13 MADs and 6 CFDs that provide a variety of infrastructure maintenance services. The choice of MAD or CFD will depend on the amount of support that exists in each potential district.

The property owners in the MADs have voted to pay an assessment for the maintenance of median island and other public landscaping that is of a higher standard than the rest of the City. Pursuant to Proposition 218 requirements, the property owners can only be assessed for services that provide a special benefit to their property. In these Districts the City's General Fund continues to pay an amount equal to the basic level of service, and the property owners are assessed for difference. This allocation is how the City allocates the costs between benefits to the general public of basic landscaping, and the special benefits to the adjacent property owners of enhanced landscaping.

The intent of expanding the network of MADs and CFDs would be to, as much as possible, establish a higher standard level of landscape maintenance service throughout the City over time by offering property owners in close proximity to median islands and back-ups the option of paying for enhanced landscape maintenance. Depending on the level of support, additional MADs or CFDs could possibly be established through ballots in 2010, with funding streams realized in January 2011. If 100% successful, the City could realize an estimated ongoing structural deficit reduction of approximately \$2.5-3.0M annually by utilizing this strategy. In order to implement this strategy, funding in the range of approximately \$150,000-300,000 in one-time funding will be necessary in order to complete the required Engineer's Report(s) and perform the public opinion research and outreach. It is important to note that any reduction to the structural deficit realized through this strategy will not occur all at once, and the amount of the reduction is wholly dependent on the number of districts that are successfully formed.

2.) Explore funding mechanisms that could provide capital funding for an upgrade of the City's streetlighting system and reduce the General Fund cost for streetlight energy.

DOT is analyzing funding strategies associated with the cost to the General Fund for energy used in the operation of the City's streetlight network. These strategies require an investment in new technology that would upgrade the streetlight system using energy-efficient intelligent lighting, which would reduce energy consumption and the resulting expense of streetlight operation. In order to do this, the City would need to identify and secure a capital funding source for the purchase and installation of the new equipment. There are a number of potential sources for this capital investment, including the Redevelopment Agency, grant funding, a special tax (requiring 2/3 registered voter approval), or an improvement district requiring property owner approval to provide capital funding for the streetlight upgrades.

Once the system upgrade funding source is determined, a funding mechanism would need to be established to cover the ongoing energy and maintenance costs. The special tax referenced above could also be used to fund ongoing streetlight maintenance, but it is likely to be difficult to reach the required level of voter support. Another option to consider is a maintenance district to fund the special benefit portion of the electricity and maintenance costs associated with streetlights. As with any maintenance district, a general/special benefit analysis and proportional assessment methodology would need to be developed to ensure that property owners would only be assessed for that portion of special benefit that directly affects their property. Given the nature of street lighting, this would be a difficult task.

The City expends approximately $3.7M for electricity and $1.5M for streetlight maintenance operations each year and there is an ongoing annual maintenance funding shortfall of approximately $200,000. These annual expenditures and the ongoing shortfall could be reduced by implementing one or more of the strategies described above. However, it is unclear to what degree at this time.

The City has been pursuing clean technologies in lighting with pilot tests this fiscal year, and continues to track the progress being made by lighting and communications manufacturers to produce more energy-efficient lighting alternatives. An effort to increase public awareness of the benefits associated with intelligent lighting along with public opinion research should be initiated to determine the level of support throughout the community for a capital investment to upgrade the streetlight system using energy-efficient intelligent lighting that continues our interest in protecting the dark skies.

3.) Explore the potential for establishing an assessment district or a property-related user fee for pavement maintenance.

An assessment district for pavement could potentially be considered to address a portion of the annual ongoing shortfall in pavement maintenance. The same requirements of establishing special benefit and proportional assessment would be needed. Some potential bases for special benefit to individual properties include improved ingress and egress, improved aesthetics, improved local access for emergency vehicles, and improved drainage. Further study would be needed to determine whether or not this approach would be feasible in San José and, if so, the amount of revenue that could be generated for street maintenance through this mechanism.

4.) Continue to generate data necessary to evaluate the feasibility of a benefit assessment district to fund tree and sidewalk maintenance.

As of the 2008-2009 Adopted Budget and per the San José Municipal Code, full responsibility for street tree maintenance and sidewalk repair services rests with the adjacent property owner. Unfortunately, much of the needed tree and sidewalk maintenance in the public right-of-way is not occurring, and the condition of these assets continues to decline. Since a significant amount of sidewalk maintenance can be attributed to damage caused by tree roots, the maintenance of these two assets could be linked together in an assessment district proposal, which could provide property owners with a package of services including structural pruning for street trees, planting/establishing new street trees, and addressing repairs to sidewalks caused by tree root damage. Although the City would like to consider a benefit assessment district as an option that could provide these services to property owners, the requirements of Proposition 218 make it difficult to determine general and special benefit and a practical methodology for proportional assessment for these two asset categories. Special benefit would most likely need to be equated to the number and type of trees and missing tree sites adjacent to each property, along with the area of sidewalk adjacent to each property.

In order to determine special benefit and an assessment methodology, a complete street tree and sidewalk inventory must be completed, and data would need to be generated defining optimal pruning cycles for the different species and sizes of trees, along with anticipated sidewalk damage caused by the different types of trees. In order to generate a complete inventory of tree and sidewalk assets, an investment of $300,000-500,000 would be required and could be implemented over a three to five year period, assuming that the City continues to receive additional matching grants from the State of California. The timeline could be accelerated to one to two years, but the cost would climb to $600,000-$1.0M. This is a costly endeavor, both in time and money, and will not result in a reduction to the structural deficit or a benefit to budget balancing strategies, since both of these assets are currently the responsibility of the property owner and are not currently defined as part of the structural deficit, but may be an attractive solution to streamline services to affected property owners. It would also result in a more desirable and consistent quality in the urban forest and sidewalk systems.

5.) Determine if there is a feasible way to combine two or more of the above elements into a consolidated assessment district approach.

It may be possible, with further analysis, to define a district approach that consolidates multiple strategies into a package of services that increases the likelihood of public support and ultimate approval. Although sidewalk and tree maintenance is the responsibility of the adjacent property owner and is not currently funded through the General Fund, many San José residents still perceive these assets to be the responsibility of the City, and their inclusion may positively impact the outcome of a district ballot. It might be feasible to design a Citywide district that provides a mix of services designed to improve the overall urban landscape of the City, support sustainability efforts and positively impact the environment and livability of our City. Any Citywide approach presents significant challenges, including the creation of comprehensive and accurate inventories, engineering and outreach costs, determination of special benefit and proportional assessment methodologies, and varying timelines for accomplishing all of this for individual asset categories.

Stakeholder Group Discussion: The Stakeholder Group discussed the concept of an LLD for landscaping maintenance. The other approaches discussed above were developed by staff not until after the Stakeholder meetings were completed.

Strategy 10: Increase Revenues from Visitors Who Benefit from General Fund Services

Cumulative Net Revenue*	Milestone Dates	Implementation Costs	Timeline to Implement
c) City/SJRDA Parking Lot Tax: $5.2M	2009-Outreach	Up to $315K one-time expenses for outreach and ballot	Ballot TBD
d) All Lots Parking Lot Tax: $9.0M	2009-Outreach		Ballot TBD

**Does not include one-time implementation costs*

a) **Parking Lot Tax of 10% on City and SJRDA owned lots (including the airport)**

b) **Parking Lot Tax of 10% on all public and private lots**

As outlined in MBA #4, the original strategy to increase the TOT rate to raise revenues from visitors who use general services in the City was reconsidered in light of the current negotiations with local hotels owners in support of convention center renovations. Both a parking tax and a vehicle rental tax were analyzed for fiscal impact and legality. A 10% parking tax for City and SJRDA owned parking lots is estimated to bring the City approximately $5.2M annually and if expanded to include all lots, private and public, is estimated at $9.0M annually. A tax on rental vehicles has been deemed not feasible, as it would likely be subject to a legal challenge by the rental car industry.

The MBA recommended and the City Council approved surveying likely voters on proposed language for the strategy of a parking tax on City and SJRDA owned lots and also on all parking lots in the City. As stated in a June 13, 2008 memo to Council, "Proposed Fiscal Ballot Measures," from the City Manager and SJRDA Executive Director, the strategy was surveyed, discussed with Stakeholders and ultimately not recommended to Council for placement on the November 2008 ballot. The memo cited marginal voter support and an anticipated crowded November ballot as reasons not to recommend it further. In longer term consideration, the City can continue research and outreach on the issue, and if needed, again propose the strategy to Council for placement on the November 2010 ballot.

Stakeholder Group Discussion: The Stakeholder Group expressed mixed opinions on increasing the hotel tax and parking tax. Concerns included the downtown hotels already creating a hotel taxing district dedicated to expansion of the convention center and that a parking tax would impact the downtown, while they recognized that a significant share of the revenues would be generated from the airport.

Strategy 11: Increase Conveyance Tax and/or Shift Construction and Conveyances Tax Funding from Capital Projects to Operations and Maintenance

Cumulative Net Revenue*	Milestone Dates	Implementation Costs	Timeline to Implement
Up to $11.4M	2009-Outreach	Up to $315K one-time expenses for outreach and ballot	Ballot TBD

**Does not include one-time implementation costs*

The Construction Tax is imposed on the construction of residential, commercial and industrial buildings. The Conveyance Tax is imposed on the transfer of real property and it is paid at the time of recording. Both taxes are special taxes because the revenues are designated for specific purposes.

When presented in MBA #4, the strategy had four options with four possible fiscal impacts. Based on further refinement and stakeholder input, staff chose to recommend that the Council consider placement of a measure on the November 2008 ballot to increase the Conveyance Tax by 50% and to shift 40% of tax revenues from the Conveyance and Construction Taxes allocated to parks for parks maintenance and to make no changes to other specified uses. At the time of recommendation, staff projected that the changes would increase revenues by $11.4M, increase

Park maintenance funding by approximately \$6.7M and increase revenues for the other specified uses by \$4.7M. The recent precipitous drop in real estate sales, however, indicates that revenues from the Construction and Conveyance Taxes will be significantly lower than prior estimates for several years into the future.

The City surveyed the strategy and outreach was conducted with the Santa Clara Association of Realtors and the Planning Commission/ Parks and Recreation Commission Joint Sub-Committee of Park Maintenance. The survey revealed that fewer than 46% of likely voters would support the measure. Because the Conveyance Tax is a special purpose tax, a two-thirds majority is needed to pass an increase in the tax. Therefore, it was not recommended for placement on the November 2008 ballot.

Given the current real estate market and the overall economy, an increase in a tax related to real estate may be difficult for the public to support. On the other hand, the Conveyance Tax triggers only when a property is sold and is not a regular occurrence for most residents of the City. Further outreach and refinement can be conducted if changes in the larger economy occur and the City continues to seek new revenue, an increase can be considered for the November 2010 ballot.

Stakeholder Group Discussion: The Stakeholder Group as a whole expressed interest in shifting revenues from the Construction and Conveyance Taxes from capital projects to operations and to raise the Conveyance Tax, but there was no interest in shifting all revenues to the General Fund. There was no interest in placing a measure on the November 2008 ballot to shift only the non-Parks allocation to the General Fund, but they felt it should be considered in the future.

Strategy 12: Increase Card Room Tax, Number of Tables and/or Tax on Card Room Bank Groups

Cumulative Net Revenue*	Milestone Dates	Implementation Costs	Timeline to Implement
d) 18% Tax: \$4.0 M e) Table Increase: \$7.2M f) Bank Tax: \$4.0-5.6M	TBD	Up to \$315K, onetime expenses for outreach and ballot	Ballot TBD

**Does not include one-time implementation costs*

Three options have been identified as methods of increasing revenue through the Card Room Tax:

a) **Increase Card Room Tax from 13% to 18%:** The idea to increase the tax or increase both the number of tables and the tax on card rooms came from the Stakeholder Group early in their meetings. There are two card rooms in the City that now pay a Card Room Tax of 13%. In the 2008-2009 Adopted Operating Budget, revenue was projected at \$12.0M from the tax.

If the tax was increased by 3% to 18%, the City would realize an additional $4.0M in tax revenue annually.

b) **Increase Number of Tables per Card Room by Nine and increase the Tax to 18%:** At present, a card room may have a maximum of 40 tables by City Ordinance. If the City, by a ballot measure, were to raise the number of tables by nine to a total of 49 per card club, and increase the tax, a total of $7.2M in new revenue would be estimated.

c) **Levy 18% Tax on Card Room Bank Groups:** In addition, each card room has third party providers of player proposition services. The providers, or "banks" are described by the State Gambling Control Commission (referred to as the Commission) as, "a business that provides services in and to a gambling establishment under any written, oral, or implied agreement with the gambling establishment, which services include play as a participant in any controlled game that has a rotating player-dealer position." At present, "banks" must register and be licensed with the Commission to operate in the State. There is an opportunity for the City to levy a similar tax placed on card rooms to the card room "banks." It would also require voter approval and if passed at 15%, the tax would generate $4M and at 18% would generate an additional $5.6M of tax revenue annually.

Stakeholder Group Discussion: The Stakeholder Group discussed combining an increase in the number of tables allowed with an increase in the tax as a "win-win" for the City and card room owners. The Stakeholder Group did not discuss a similar tax on card room "banks." The card room tax and table increase idea was reviewed by City staff for consideration on the November 2008 ballot. Two scenarios were polled in early June 2008. These included 1) a tax increase of 5% with no increase in the number of card room tables, and 2) a combined increase in the tax and in the number of card room tables. Poll results indicated strong support for an increase in the tax with decreased support for a scenario that considers an increase in the number of tables. At the August 4, 2008 City Council meeting, the Council decided not to place either strategy on the ballot for the November election. The tax on "banks" was neither polled nor submitted to Council for recommendation.

Category III: Service Reduction/Elimination Strategies

The direction of City Council is that a planning target of one-third of the structural deficit plan should come from service reductions/eliminations. To the extent that cost savings and revenue strategies are unable to account for two thirds of the Plan targets, service reductions/eliminations becomes the default strategy.

Strategy 13: Service Reductions/Eliminations Strategies

Cumulative Net Reductions/ Eliminations*	Milestone Dates	Implementation Costs	Timeline to Implement
$72.7-79.4M	Annual Budget Approval	Not applicable	City Manager's Proposed Budget

**Does not include one-time implementation costs*

As part of the 2008-2009 Adopted Budget, services were reduced or eliminated to help close the budget deficit gap for the fiscal year. The reduction or elimination of services and associated administrative costs were valued at $5.4M. A list of the major reduced and eliminated services can be found in the 2008-2009 Adopted Budget message from the City Manager. In addition, the message outlines contingency service reductions identified for the City. At the time of the release of the City Manager's budget message, a State Budget had not been passed and the City identified plans to balance its own budget if less State funding becomes available during the fiscal year. The total value of the contingency reductions was $1.9M in 2008-2009 and $2.3M in ongoing savings.

Service reductions in 2008-2009 represented 26% of the overall strategies the City used to assist in closing the structural budget deficit. As directed by the City Council, the City's service reductions should represent one-third of the overall effort to reduce the budget deficit. Service reductions and eliminations will be accomplished on an annual basis through the budget process. This process will also include an analysis of those expenditures for new items that have been considered as committed additions for budget purposes. Committed additions include expenditures to which the City is considered to be committed by prior Council action, such as the costs related to maintaining and operating new facilities and the addition of 75 new police officer positions over the next three years. These expenditures, which have been factored into the structural deficit projection, will have to be weighed against other service reductions that are necessary to balance the budget.

The budget process also considers the goals of the City Council, and involves an outreach process within the City organization and in the community. Several steps are taken to integrate community feedback into the budgeting process including the Annual Community Survey and the Neighborhood Association/Youth Commission Priority Setting Session In addition, the City will utilize the Analytical Framework for Service Reductions/Eliminations, when finalized, as discussed in this Plan.

During the Stakeholder Group meetings and subsequent internal City meetings, the City has begun a process by which "core" or priority services can be identified. The Stakeholder Group reviewed the legal requirements of cities, other municipal examples of priority service identification and the three dimensions of priority identification: (1) What services? (2) At what service level? and (3) How to provide services? The Stakeholder Group had a preliminary discussion about developing a framework for the City to identify priority services.

Current Service Categorization in Use: The City currently employs a model of service categorization that begins with the City's policy priorities as identified by the City Council. From the priorities, City services which help reach the priorities are categorized into City Service Areas (CSAs) with associated performance measures. Specific activities in each CSA are identified as either "core services" or "operational services" meaning the service delivers a result to the community or the service enables the result to be delivered. For example, a core service is the response to a 911 emergency call. A corresponding operational service would be the maintenance of vehicles which allow the emergency response to occur. The CSAs, "core services," and "operational services" have corresponding performance measures to measure outcomes. What the current City model does not address is whether the City should be providing a specific service to the community.

City of Austin, Texas Prioritization Criteria: In conducting best practice research on priority service identification, the City of Austin's criteria was discussed internally. The City of Austin, Texas has established a series of criteria which categorize services as one of the following: primary core services, secondary core services, or service enhancements. **Primary core services** generally include life and safety, services which meet regulatory mandates, long term avoidance of catastrophic harm, benefit a significant portion of the community, provide revenue that covers cost of service and are vital to the direct support of another primary core service. **Secondary core services** include those for which the loss of the activity would not have catastrophic harm for life and safety in the long term, supplementing services above regulatory mandated levels, are beneficial to community but is a core service to another entity, provide revenue but do not cover cost of service, and provide indirect support for primary core services. **Service enhancements** include all services that do not meet the criteria for the first and second categories. The City of Austin utilizes the categorization of services when considering service reductions. The City of San José considered utilizing the City of Austin's prioritization criteria but when applied to specific San José programs and services, the criteria did not meet the needs of the City from staff's perspective.

Analytical Framework for Service Reductions and Elimination: In mid-October 2008, a Senior Staff team, in conjunction with Management Partners, began to meet. The group has been tasked by the City Manager with creating an Analytical Framework to Address Service Reductions and Elimination. The intent of the Framework is to provide a consistent framework that the City can use to identify services which could be reduced or eliminated, to prioritize among competing demands and to develop meaningful data that can be used to improve or optimize service delivery.

The Framework will be used at the program level to illuminate opportunities for eliminating or reducing services and to channel programs to an appropriate optimization venue. Because the deficit reduction Plan is likely to unfold over a four or five year time horizon, application of the framework will be phased in and include Citywide trainings on its use. In 2009-2010 it has been proposed that Departments will prioritize programs to be analyzed with the Framework and the City Manager will identify other programs that could pilot the use of this program in 2009-2010.

The Framework is a set of questions which will help identify and segregate programs according to various attributes which have a bearing on relative priority. Questions are essentially designed to elicit facts and other evidence that can be used to logically evaluate what the City does by importance and measurable impact. By spending time to develop a relatively objective and rational evaluation tool, the changes recommended in the budget will have more internal consistency and a stronger analytical foundation. Policymakers will make the final decisions in which a community values perspective will likely play a role, however, the analytical framework is intended to provide a relatively empirical orientation and enhanced transparency in budget discussions.

Critical Assumptions and Principles of the Analytical Framework:

The basic model is intended to be flexible enough to be used on all City programs. However, there will probably be a slightly different variant used in evaluating support service programs. Important assumptions are as follows:

1. Status quo for a program is not an option. This means that either a program will be reduced or eliminated or it will be subject to some type of an optimization approach, the nature of which will be defined by the evaluation (e.g., competitive sourcing, business process redesign etc.).
2. There will be a series of primary "gatekeeper" questions as well as secondary (and probably tertiary) evaluative questions. The primary questions and the basic principle behind each are shown in the table below. Each question will need to be accompanied by instructions and examples.

Gatekeeper Questions

Gatekeeper Question	Principle
Is this a municipal service typically provided by California cities?	The City of San José may provide some services which are atypical and for that reason alone are ripe for further scrutiny. "Yes" answers proceed to further screening. "No" answers move to an evaluation process.
Is the City the primary provider of the service to the community?	This question is designed to identify services for which the City is not an exclusive provider to further evaluative analysis to document if the service is supplemental to another primary provider or if a competitive provider exists.
Does the entire population of the City benefit from the service?	This is designed to identify programs which serve some subset of the City population for further evaluation.

Gatekeeper Question	Principle
Is the service funded either in whole or in part by the General Fund?	This is designed to cull "revenue neutral" programs from further analysis and to identify possible candidates for user fee application.
Can the service level be reduced and still provide minimally acceptable service level?	This is the penultimate "gatekeeper" question preceding consideration of how to best optimize the service. It is designed to document what are minimally acceptable service levels, which must be specified in some empirical fashion.
What alternative service delivery approaches are applicable to this service which might reduce unit costs?	This is designed to channel programs into one of several optimization approaches.

Application of these questions will serve several purposes. It will provide a new cross-section for looking at City services (e.g., what services does the City deliver that benefit special need populations or which supplement another primary service provider), but the main value will be in directing the program into an appropriate evaluative framework for possible reduction or elimination or for an appropriate optimization.

The next level in the model is the evaluative level. The evaluative branches quickly become relatively complex and are best displayed on a flow chart. The results of further evaluation may move a program back to the "gate-keeper" level for further categorization or on to further levels of analysis.

The basic evaluative question and the principle behind each are shown on the table below. There will be additional questions below this level, but the general thrust of the evaluation is clear from the "main branch."

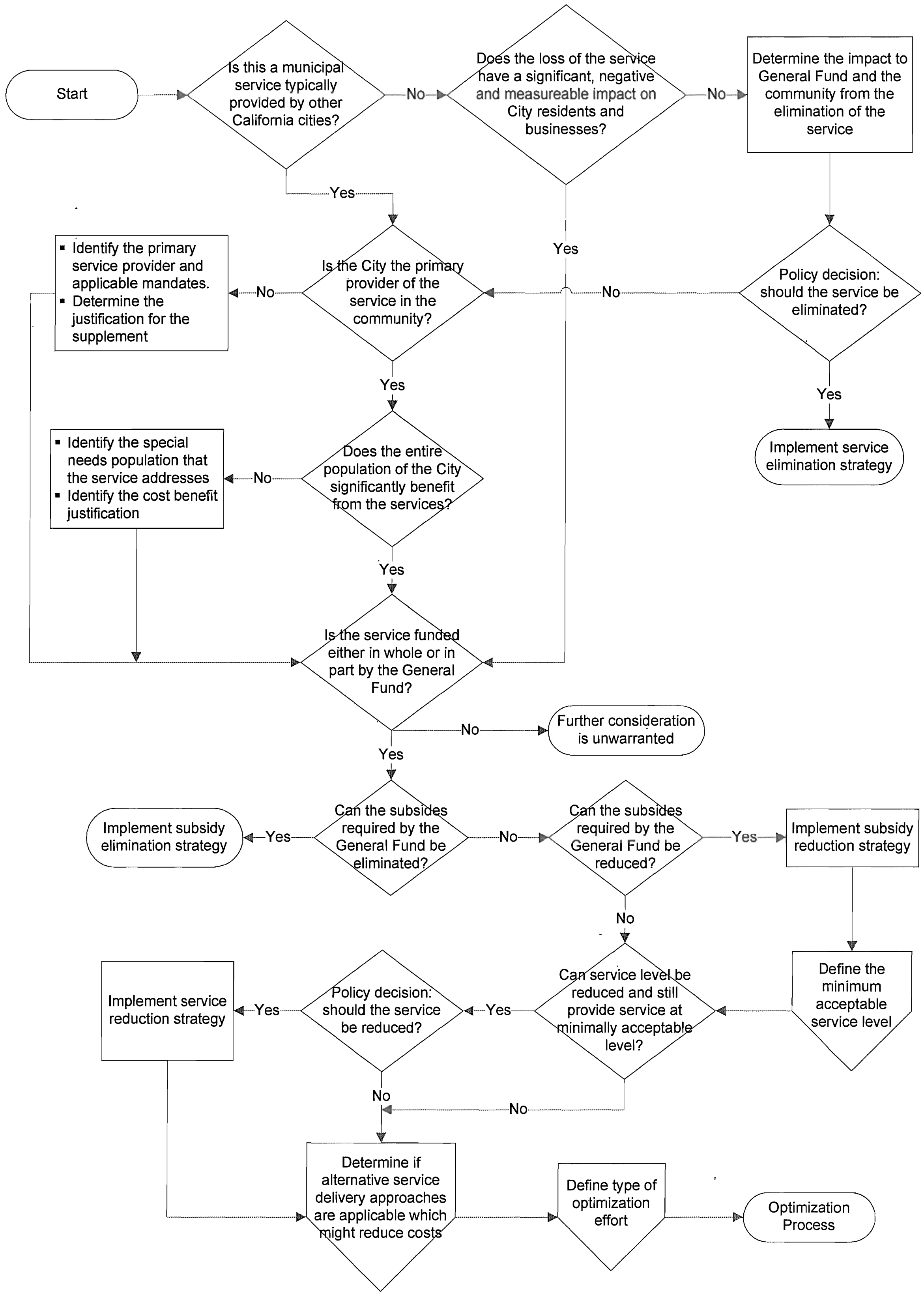
Evaluative Questions

Evaluative Question	Principle
Does loss of the service have a significant, negative and measurable impact on City residents or businesses?	Atypical services are directed to this evaluation. Positive responses go back into categorization. Negative responses become possible targets for service reductions.
Does the service supplement a primary service provider?	This is designed to cull services which are being provided as a supplement to a primary provider. The evaluative aspect is the identification of a service which the City is not obligated to provide and which may not be provided in other similar settings. Either a negative or positive response requires further (but different) analysis.

Evaluative Question	Principle
Does the service address a special needs population and have measurable benefits which exceed costs to the City?	This is used to evaluate services which do not benefit the City at large. The criterion is to help the City gauge its ROI versus that of the community or other government entity. In cases where the City's ROI is not positive, externalities should be present to justify the expenditure.
Can subsidies required by the General Fund to provide the service be reduced or eliminated?	This is an evaluative tool to be used on a subset of services for which a fee or other revenue may be collected. It is used to feed the City's annual fee updating process.

An internal working group of Senior Staff has begun meeting to refine and improve the Framework. The group has already identified a need to integrate the City Service Area (CSA) outcomes and performance measures, consider how Strategic Support CSA programs could be evaluated in the Framework, and how non-General Fund funded program and services can be integrated.

Draft Analytical Framework for General Fund Service Reductions and Eliminations



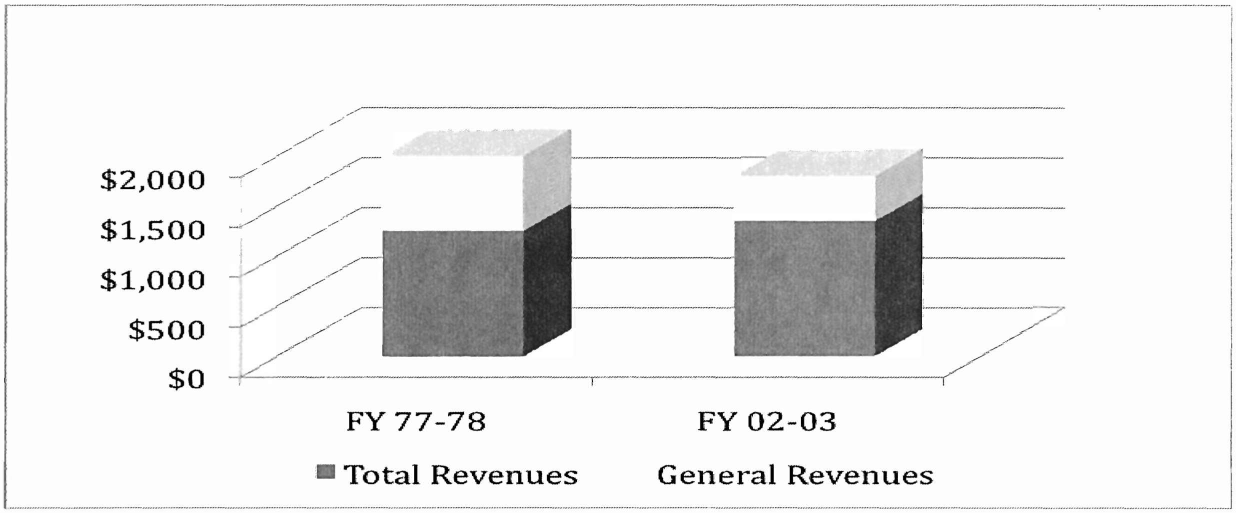
Local Government Finance Reform

As identified in the January 2008 Management Partner's report, *City of San José—Development of Strategies to Address the City's General Fund Structural Budget Deficit,* there is a longer range strategy that does not fall under the three-year or five-year timeframe for implementation, but should considered a longer term strategy. As one of the largest Cities in the State, the City should begin taking steps now to advocate for change in local government financing.

In reviewing the City of San José's structural deficit, the City Manager's Core Team and the stakeholders recognized that attention needed to be paid to the State's system of local government finance that shapes the City's revenue structure and so many of the options available to the City. San José citizens as well as policy makers need to understand how the current system creates dysfunction and clouds accountability. The City's structural budget deficit is in part driven by the State's system, policies and laws regarding local government financing. Even more importantly, San José and other California cities need to play a leadership role in reforming a system that has stripped local control and taken local government revenues away from cities.

Thirty years after the passage of Proposition 13, California cities are critically handicapped in meeting the needs of their residents by the unintended consequences of that voter initiative. The landmark law placed limitations on the amount of property tax that could be levied and gave control of its distribution to the State. The drafters of Proposition 13 were primarily concerned with the former objective and no one foresaw the devastating impact of the latter provision. It has driven local government finance decisions ever since. The result is a dysfunctional and irrational state/local fiscal system which effectively deprives locally elected representatives and their constituents of the ability to be the architects of their own neighborhood and community futures. As a result, cities have lost the power at the local level to make critical decisions on the very public services that affect the health and well being of their neighborhoods and communities. In addition, the tax base that now supports local government includes an embedded fiscal incentive to grow sales tax resources as though this type of revenue is somehow better for the community than the property tax revenues associated with housing and jobs creating commercial developments.

The basic problem which has resulted is illustrated in the chart below. Cities now get less in total revenues (adjusted for inflation) than they did in 1977-1978, and a larger percentage of these dollars are restricted as to their use.



While this comparison is relatively dated, there have been no substantial net State subventions that have increased City discretionary revenues since this comparison was made. A major shift did occur in 2005 when property taxes were provided to local government in-lieu of reduced vehicle license fee tax revenues, but this caused no net positive impact for cities. The major driver behind the shift in revenues available to cities for general purposes has been the State Education Revenue Augmentation Fund (ERAF) transfers, which took discretionary property tax dollars for education, a state responsibility. The State give backs to mitigate the ERAF shifts have usually been directed to particular priorities, with two of the largest being the Citizen's Option For Public Safety (COPS) program for local government support of police and Proposition 172 revenues which can be used for public safety purposes. While these measures benefit local government they do diminish local government authority over spending priorities.

The fundamental problems with the current system of local government finance in California are remarkably well documented and accepted. The major problems are outlined below:

1. *Erosion of local control of revenue and transfer of control to State*
   - Voter initiatives starting with Proposition 13 have restricted local options and transferred power to Sacramento
   - Cities increasingly rely on sales tax revenues, applied to goods, not to services
2. *Property tax allocations are fragmented and outdated*
   - Allocation reflects decisions made in the 1970s and the State controls allocation of local revenue
   - Non-retail land uses may not generate enough local revenues to cover costs
   - Land use drives economic and fiscal decisions

3. *Fiscal structure cannot respond to economic and technical changes*
   - Sales tax not keeping pace with population and job growth in overall economy; no sales tax on services
   - Property taxes on commercial and industrial property are eroding
   - Legal and accounting mechanisms used to keep reassessment from occurring

Many comprehensive studies have proposed solutions to these problems which would make local government revenues more stable and return the control local government revenues to the local level. Unfortunately, finding consensus between the State and local government and even among the over 400 cities in California has proven impossible so far. Nevertheless, the Stakeholder Group as well as the Core Team believe that San José should embrace a broad array of the suggested solutions and that the City and other large California cities have an obligation to work together to reform the system. The reforms would give the City more tools and resources to help the City address its structural deficit, and also provide the City of San José (and all local governments) with a system that offers more balanced incentives when it comes to developing a diverse and balanced community.

The solutions suggested are listed below, beginning with three principles for State and local government finance reform.

City of San José Principles for State / Local Government Finance Reform

1. Return local government revenues to local control by reversing the Education Revenue Augmentation Fund (ERAF) shifts. This would be accomplished over time in annual installments when State revenues exceed the growth of the consumer price index.

2. Revise the allocation of sales tax from the current point of sale to another basis which takes into consideration the wide disparities in the existing allocation of sales tax that occurs between cities. This disparity has no sound public policy basis and creates a troublesome incentive for local government in making land use decisions.

3. Lower vote requirements for special purpose local taxes to majority unless higher threshold is provided in City charter

On October 30, 2008, Governor Schwarzenegger signed Governor's Executive Order S-12-06 that creates a bipartisan Commission on the 21st Century Economy to address the State's chronic budget problems. The Commission is to "re-examine and modernize the State's outdated revenue laws that contribute to our feast-or-famine state budget cycles." The Commission will suggest changes that will result in a revenue stream that is more stable and reflective of the state's economy. On or before April 15, 2009, the Commission shall provide a report to the Governor and Legislature with recommendations to achieve specified goals, including:

- Establish a 21st Century tax structure that fits with the State's 21st Century economy;
- Stabilize state revenues and reduce volatility;
- Promote the long-term economic prosperity of the State and its citizens;
- Improve the State's ability to successfully compete with other states and nations for jobs and investments;
- Reflect principles of sound tax policy including simplicity, competitiveness, efficiency, predictability, stability and ease of compliance and administration; and
- Ensure that tax structure is fair and equitable.

The City of San José should actively pursue how best to influence this process.

BUDGET TIMELINE AND CALENDER

The following table shows the key dates for the 2009-2010 Budget calendar:

Date	Milestone
December 5, 2008	Structural Deficit Elimination Plan Study Session
February 27, 2009	Five-Year Forecast and General Fund Structural Deficit Elimination Plan Update Released
March 12, 2009	Mayor's 2009-2010 March Budget Message Study Session
March 17, 2009	Mayor's 2009-2010 March Budget Message: Final Review/Approval by City Council
May 1, 2009	2009-2010 Proposed Operating Budget Released

The Budget Office begins its work to prepare a new budget in the Fall prior to the release of a proposed budget and individual Departments begin preparing their proposed budgets soon after that. In the current system, community and Council input is not collected until the beginning of the next calendar year. The result is that internal work and analysis has begun before the larger context of budget priorities is set. To both guide the internal work of the City and prevent duplicate work, the City should consider beginning the outreach process earlier for 2010-2011 budget preparation. The timeline for the annual telephone survey, Neighborhood Association/Youth Commission Priority Setting Session, and City Council/Senior Staff Priority Setting Session should perhaps be shifted to November 2009 instead of January/February 2010.

CHALLENGES TO REACHING A STRUCTURAL BALANCE

The process which has led to the development of this *General Fund Structural Deficit Elimination Plan* was created in order to deal with the particular challenges the City faces in addressing the structural deficit. After six years of engaging in an annual process to bring expenditures in line with revenues, last year, the City realized that a longer term, more strategic approach was necessary.

It is worthwhile to enumerate the challenges and how this effort has been developed to cope with them.

The root cause of the structural deficit is the fact that the cost of operating City General Fund programs is growing faster than the revenue base which supports them. All City services provide an important service to someone. Cutting existing programs is always unpopular in a community, especially when there are so many needs to be met and when other units of government such as the State and County are cutting funding for services. Ironically, individual and community needs are most acute when the overall economy is weak and City revenues are also down. Dealing with these facts is complicated by various environmental and budget process factors.

Several of the major issues complicating the budget balancing process are summarized below:

1. **The City's revenue and expenditure structures are both relatively inflexible and difficult to change.** On the revenue side, changes often require voter approval, a process which can easily take a year or longer. On the expenditure side, costs are largely driven by collective bargaining agreements, which can impact on both compensation and work rules and which require painstaking negotiations to change. Public safety contracts are also subject to mandatory binding arbitration, which can take up to a year, with unpredictable results.

2. **Difficult choices must be made between important and valuable services.** The City will need to choose between valuable services it provides to the community. In a strong local economy, the City has been able to provide a wide range of important services. With revenues no longer sufficient to support everything in the budget now, choices must be made about reducing funding in some cases and in other cases, entirely eliminating some programs. Through a process established in the Analytical Framework for Service Reductions and Eliminations, the City can evaluate all programs and services with the same criteria. It is important that the organization consistently use this framework and that an objective and empirical approach be taken to the evaluation of all services before applying the values perspective of the political process.

3. **The need to change is urgent, and a united approach will be needed to make the changes required.** The organization needs a sense of great urgency to create change now in order to solve the problem within five years. The Plan has been expanded through 2013-2014 but the first two years will be the greatest challenge to the City. The City has

taken immediate steps to instill cost savings. In addition, the City Manager may recommend use of one-time funds to smooth or bridge the deficit in the first years but such actions will only increase the need for new revenues, increased cost savings, or continuing service reductions after 2010-2011 through ballot measures in November 2010.

4. **Budget decisions are sometimes not made with a long term view point.** We need to take a longer term view for all budget decisions we make. Short term actions are sometimes chosen over long term financial sustainability. With every action taken we need to ask ourselves if it will make the budget deficit worse or improve our budget situation.

5. **New programs or spending are often initiated without consideration of long term costs.** For example, many new initiatives have been started with one time grant or other monies. Once those dollars are phased out, or when costs increase at a greater rate than the outside funding source, the General Fund has typically stepped in to cover program costs. On the other hand, minimal consideration is given to incurring short term costs that would result in lower long term expenditures or program demands.

In order to address these challenges, this Plan embodies new approaches aimed at constructively dealing with the challenges which exist.

First and foremost, this is a strategic approach. The strategies outlined in the Plan were developed by reaching out to many different stakeholders with different perspectives. The qualification criteria utilized to prioritize strategies was designed to reduce short term fixes, and encourage long term solutions. A clear framework, the City Budget Principles, as approved by the City Council, links the strategies to San José's public policy as articulated by the elected leaders of the City. Finally, the Plan is a multi-year plan which includes mechanisms for reviewing the totality of what the City does in an effort to maintain a clear focus on maintaining top priority services and optimizing the way these services are delivered.

ATTACHMENT A
Stakeholder Group
Categorization of Strategies to Eliminate the General Fund Structural Budget Deficit
April-September 2008

#	Date	Strategy	1	2	3	4	5	6	7	8
1	4/21/08	Utilize Financial Strategies that have positive Net Present Value (NPV) : Annual Prepayment of city's Pension Obligation	X							
2	4/21/08	Utilize Financial Strategies that have positive Net Present Value (NPV) : City to Issue Pension Obligation Bonds	X							
3	4/21/08	Formalize and Implement a Rigorous Asset Management Program	X							
4	4/21/08	Implement an Employee Suggestion and Process Streamlining Program	X							
5	4/21/08	Ensure current fees fully cover all costs			X					
6	4/28/08	Implement City-Wide Landscape And Lighting District Or Other Proposition 218 "Property-Related" Fees [*Considerable discussion about neighborhood-based districts rather than City-Wide. Needs further analysis of recent court decision*]	X					X?		
7	4/28/08	a) Shift Revenues from Construction and Conveyance Taxes from Capital Projects to Operations. b)Raise Conveyance Tax c) No increase-shift all revenues to General Fund d)No increase-Shift non-Parks allocations only. *[In relation to the November 2008 Ballot, should be considered in the future]*	X(a) X(b)	X(c) X(d)						
8	4/28/08	Increase Sales Tax to Provide Increased General Fund Revenues. *[In relation to the November 2008 Ballot, should be considered in the future.]*		X						

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9	5/5/08	a) Restructure Business Tax Rates to Modernize and Reflect Current Business Profile b) Restructure Business Tax Formula. [*In relation to the November 2008 Ballot, should be considered in the future.]*		X(b)		X(a)				
10	5/5/08	Increase Revenues From Visitors Who Benefit From General Fund Services: a) TOT Hotel Tax b)Establish Parking Tax c)Establish Vehicle Rental Tax. *[If state law permits, the vehicle rental tax strategy should be pursued. Potentially visit revising state law]*				X(a) X(b)		X(c)		
11	5/5/08	Modernize Utility Users Tax (UUT) and Consider Increase to Bring into Alignment with Other Large Cities [*Ballot measure to reduce the rate and update the Telephone Portion of UUT was included in the November 2008 Ballot*]	X							
12	6/2/08	Hire an outside auditor or use the City auditor to review the budget and make independent analyses and recommendations(similar to the Legislative Analyst's Office does for the State budget)	X							
13	6/2/08	a) Perform a special review of the projected fund balance b) Employ contingency budgeting (expenditure priorities if there is an excess balance.) If no excess balance occurs, the expenditures aren't approved. [*See Council Policy 1-18 Section 4]*				X(a)		X(b)		
14	6/2/08	Adopt a budget policy that no additions can be made to the existing City services or projects unless the City Council has made a finding in public session that the proposed addition is of greater importance than bringing basic services to a satisfactory level. Full funding of priority services.	X							

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15	6/2/08	a) Institute the use of benchmarking to ensure that the City is operating up to industry wide standards of effectiveness. b) Institute the use of benchmarking to establish performance targets for departments while providing staff at all levels with opportunities to suggest innovations to achieve specified objectives.	X(a) X(b)							
16	6/2/08	Join with other jurisdictions to leverage buying power and reduce costs for standard purchases.	X							
17	6/2/08	Allow funds currently earmarked for public art to be used for any arts infrastructure project in the city, such as the construction of performance or exhibit space.								X
18	6/2/08	Adopt open government proposals that allow residents to meaningfully participate in city decision-making. [*Mayor's Reed-Reforms Community Budgeting; Sunshine Reforms*]						X		
19	6/2/08	Defer approval of capital projects unless resources for necessary operations and maintenance have been identified. *[General Obligation Bonds should include funding for maintenance costs. If possible, pursue opportunity to change State Law]* See Budget Principles in Mayor's 2008-2009 March Budget Message	X					X		
20	6/2/08	Implement a two-year operating and project budgets cycle, like the City of Sunnyvale.	X							

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21	6/2/08	The City should perform a careful analysis of public subsidies for events (e.g. Grand Prix) or projects (e.g. new scoreboard for the arena) to ensure that there is an adequate return for the taxpayer's investment. *[Pilot Cost-Benefit Policy requires it- If it becomes permanent, Stakeholder Group strongly supports]*						X		
22	6/2/08	Establish a Technology Advisory Council through which Silicon Valley businesses suggest ways the City can use technology to improve efficiency.				X				
23	6/2/08	The City should establish fiscal plans that identify the timeline under which residents can expect relatively small scale improvements in services and infrastructure and the level of increased revenues that will be required before large scale expansions of infrastructure or services can be achieved. For example, what kind of new revenues would be needed to finance an addition of 300-400 new police officers?				X				
24	6/2/08	Spending reform implemented by the City to avoid future deficits.				X			X	
25	6/2/08	Place before the voters the option of creating a budget stabilization reserve, to be created out of one-time revenues or budget surpluses. No more than .5% of the General Fund per year shall be added to the reserve, and the reserve shall never exceed 1% of the General Fund. Proceeds from the fund shall only be used to retain City staff during cyclical budget downturns.				X				

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26	6/2/08	Evaluate the possibility of parcel taxes to be applied to Council Districts or even smaller parts of the city to pay for priorities chosen by the residents of those areas. This strategy could be used for services not suitable for assessment districts.				X				
27	6/2/08	Finance improvements on major roadways and arterials with developer fees, where improvements are made necessary by specific project; with RDA funds where improvements produce primary benefits to a Project Area; and with construction taxes. Offer residents the opportunity to finance additional improvements with General Obligation bonds.				X				
28	6/2/08	Include a provision in the City General Plan that all major Specific Plans such as Evergreen, Coyote Valley, etc. shall include mechanisms to ensure that the new development pays for associated new municipal infrastructure and that taxes and fees from the new development pay for the delivery of basic city services. The choice of funding mechanism can be tailored to the characteristics of the Specific Plan.			X					
29	6/2/08	Clarify the City's policy regarding the rezoning of industrial land for residential uses to indicate that "extraordinary benefit" means benefits to the City's General Fund.				X				
30	6/2/08	San Jose should implement land use policies and capital budget plans that enhance Smart Growth but do not burden the City's General Fund operating budget or cause reductions in city services.				X				

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31	6/23/08	Economic development strategies need to be targeted towards businesses that produce general fund revenues. *[See City's Economic Development Strategy- 15 Strategic Initiatives distributed on 8/18/08]*						X		
32	6/23/08	Adopt a "Santana Row" retail strategy that places retail outlets on the city's periphery where they are most likely to attract purchases from residents of nearby jurisdictions.	X						X	
33	6/23/08	Revise the city's hotel strategy to permit additional hotels on the periphery of the city in order to increase TOT revenues.	X						X	
34	6/23/08	Coordinate City economic development programs with San José State University to maximize benefits from the university's capacities as a research center and as a major contributor to training the region's skilled workforce.							X	
35	6/23/08	Establish an Economic Development Advisory Committee to solicit and evaluate economic development proposals from community organizations, businesses, and the public at large. **AND** Design programs that encourage the growth of small businesses, including strategies to assist such firms in securing city contracts. [*Stakeholder Group expresses interest in assisting the development of small businesses*]				X				

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36	6/23/08	a) Direct the city's economic development strategy to emphasize the generation of high-quality jobs with good wages and benefits. b) Expand the city's Living Wage policies to include additional firms, thereby increasing the number of self-sufficient households in San José neighborhoods. c) Modify the enforcement of the city's prevailing wage regulations to target contracts in which violations are more likely to occur while reducing resources focused on contracts such as Project Labor Agreements which have their own alternative enforcement mechanisms.			X					
37	6/23/08	Sales taxes should be expanded to services. As that occurs, the sales tax rate can be somewhat reduced. *[Sales tax set by State, should be looked at from City's Legislative Priorities perspective.]*						X		
38	6/23/08	Identify strategies that require state legislative approval and advocate for policy changes that will help address the structural deficit including strongly supporting state legislation or state initiatives to reform California's public finance system. [*Should be looked at from City's Legislative Priorities perspective.]*						X		

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39	6/23/08	When property has not been reassessed in 10 years, its assessed value shall be increased by 10% provided that the new value is not greater than market value and the new value is not greater than the cumulated 2% annual increase plus the rate of inflation over the 10 year period. [*Requires change to Proposition 13, should be looked at from City's Legislative Priorities perspective.]*						X		
40	6/23/08	Once every 6 years, local governments should be allowed to place a special tax before the voters that can be adopted by 50% of the voters plus one. [*Requires State Constitutional Amendment- Proposition 218] [Should be looked at from City's Legislative Priorities perspective.]*						X		
41	6/23/08	Public Safety parcel tax or a modification in the utility tax to cover inter-state and international phone calls. -Offer the voters the opportunity to significantly increase the size of the San José police force and meet critical needs in the fire department and other emergency services departments.			X					
42	6/23/08	Reinstate the program through which the RDA pays the park impact fees on affordable housing projects financed with RDA resources.			X					X
43	6/23/08	Whenever feasible, employ RDA resources in energy conservation and clean energy projects.						X		X

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44	6/23/08	Evaluate hiring a Grants Development professional the cost of which would be covered by the generation of new revenues.	X							X
45	6/23/08	Increase the Card Room business tax and increase the number of tables in a Card Room.	X							
46	7/7/08	Re-invest funds generated by energy conservation or other environmental programs that reduce costs into further efforts to improve environmental quality.							X	
47	7/7/08	Increase penalties for code enforcement violations and use fees to pay for additional personnel			X					
48	7/7/08	Examine the relationship between the Airport and the city to determine if there are ways to generate additional revenues to the General Fund				X				
49	7/7/08	Downtown Entertainment Zone Cost Recovery Strategy					X			
50	7/21/08	Performance Auditing					X			
51	7/21/08	Shift Healthy Neighborhood Venture Funds (HNVF) funds to the General Fund			X					
52	7/21/08	Implement Competitive Sourcing			X					

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53	8/4/08	Controlling the Largest Component of General Fund Cost Increases-Personnel Expenditures. [*Labor Relations Presentation]*					X			
54	8/4/08	Change prevailing wage applications for Service Contracts			X					
55	8/18/08	Economic Development Strategy *[Presentation]*					X			
56	8/18/08	Maximizing the Redevelopment Agency's Contribution to the General Fund *[Presentation]*					X			
57	9/8/08	Change California Local Government Finance System [*See 6/23 # 37- 40]*	X						X	
58	9/8/08	Identify Priority Municipal Services and Elements of a Potential Priority Setting Framework	X							
59	9/8/08	Consider Two-Tier Retirement Plan					X			

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