MANAGER'S BUDGET ADDENDUM #29

CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Margaret McCahan

SUBJECT: POTENTIAL BUDGET BALANCING STRATEGIES FOR FISCAL YEAR 2020-2021

DATE: May 28, 2019

Approved D. DSyL Date 5/29/19

BACKGROUND

In the Mayor's March Budget Message for Fiscal Year 2019-2020, as approved by the City Council, the Administration was directed to return to Council with proactive options for ongoing cost savings and efficiencies that would address the remaining ongoing deficit of $12.4 million, as was assumed at the time the March Message was published.

ANALYSIS

This memorandum provides an overview of the broad strategies the Administration plans to deploy during the 2020-2021 budget development process. As each year brings a unique suite of economic conditions, community priorities, and organizational challenges and opportunities that influence both the General Fund Forecast and budget balancing strategy for that year, specific actions are not recommended at this time. However, even if the relatively small General Fund deficit currently anticipated for 2020-2021 (now estimated at $10.9 million) turns into a small surplus, the Administration's approach to maximize the use of General Fund resources will remain the same.

Strategies with No Impact to Services

Each year the Administration evaluates cost reduction strategies that can be accomplished without diminishing service delivery. These actions vary depending upon circumstances unique to that year, but general fall into the following categories:

1. Refunding of existing debt. Some of the most impactful actions in recent years has been the refunding (i.e. refinancing) of outstanding debt that impacts the General Fund. For example, the refunding of Successor Agency-related debt in December 2017 significantly reduced the debt obligations of that agency, thereby increasing the flow of property tax receipts to the

City (SARA Residual Property Tax receipts estimated at $16 million in 2019-2020). Several years prior, the debt related to the construction of City Hall was refunded, which provided lower debt service in future years and significant year one savings that was re-purposed to pay down a portion of debt related to the Hayes Mansion. The Finance Department plans to begin work on the refunding of the remaining portion of City Hall bonds eligible for refunding after the July 2019 issuance of the Measure T general obligation bonds. Should work on the City Hall debt refunding move forward, any ongoing savings, which would be modest, will be considered into the development of the 2020-2021 General Fund Forecast. For reference, the General Fund will contribute $21.4 million for City Hall debt service in 2019-2020.

2. Payoff or paydown of existing debt. As was the case in the 2019-2020 Proposed Operating Budget and as directed in the March Budget Message, one-time resources are considered to pay down existing debt to yield future ongoing savings. With the payoff of debt related to the Rancho Del Pueblo Golf Course in 2019-2020, remaining debt paid exclusively by the General Fund is limited to the Los Lagos Golf Course ($13.5 million) and energy conservation improvements ($21.0 million) for a total annual debt service payment amount of approximately $4.5 million. Future efforts to accelerate debt paydown will likely focus on Los Lagos, which would allow for a more flexible use of that property and a more favorable operations agreement with the operator.

3. Identification of new revenue streams. In limited circumstances the City can increase revenues through the adjustments of fines, fees, and charges. The Administration annually evaluates the cost recovery levels of various fees and charges, making recommendations to increase cost recovery where the actions align with City Council priorities, and evaluates the feasibility of adjusting certain fines where appropriate. As an example, the 2019-2020 Proposed Operating Budget assumes increased revenue of $500,000 from false alarm fines as the Police Department is now responding to these false alarm calls. Any major changes to revenues would require the City Council to bring forward actions for voter approval.

4. Redeployment of existing resources. The departments evaluate their existing service delivery models annually to determine if a service or function can be maintained while achieving cost savings by redeployment or reallocation of resources. Examples include civilianization of certain sworn positions in the Fire and Police Departments related to administrative functions, combinations of added and deleted positions to reorganize a work group, and evaluating the mix of in-house staff and contractual support to deliver services.

5. Allocation of one-time resources to the Budget Stabilization Reserve. As described in Manager's Budget Addendum #25, General Fund Reserve Target Levels, increasing the City's reserve will be an important component in mitigating the effects of the next economic downturn. The City should look for opportunities to allocate a portion of one-time resources to continue building these reserves from the current level of 6.5% of operating expenditures to the City Council-approved target of 10%.

6. Reserving ongoing funds to address future year deficits. Should economic conditions change such that the anticipated 2020-2021 deficit turns into a moderate surplus, the City could continue the approach directed in the Mach Budget Message for 2019-2020 to again set aside a portion of that unspent ongoing surplus to reduce the following year's deficit, if anticipated. This helps to modestly insulate the City from larger cuts that might have otherwise been necessary.

Strategies Negatively Impacting Services

Should next year's deficit remain at the $10.9 million level or higher, the Administration may also need to employ reduction strategies that negatively impact service delivery. In increasing order of service level reduction magnitude, these strategies would include elimination of certain long-vacant positions; targeted reductions to services with the least impact to the community; and broader reductions to staffing and contractual services if warranted. Depending on the size of the deficit and the level of reductions necessary to balance the budget ongoing, the Administration may recommend – as it has in previous economic downturns – a drawdown of the Budget Stabilization Reserve (currently at $27.0 million in 2019-2020) to help bridge the gap into the following year.

COORDINATION

This memorandum has been coordinated with the Finance Department.

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