



2018-2019

OPERATING BUDGET

**MAYOR'S MARCH
BUDGET MESSAGE**



Memorandum

TO: CITY COUNCIL

FROM: Mayor Sam Liccardo

**SUBJECT: MARCH BUDGET MESSAGE
FOR FISCAL YEAR 2018-2019**

DATE: March 9, 2018

Approved:

Date:

3-9-18

RECOMMENDATION

Direct the City Manager to submit a proposed budget for Fiscal Year 2018-2019 that is balanced and guided by the policy direction and framework of priorities outlined in this March Budget Message.

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In accordance with Section 1204 of the San José City Charter, I present my Fiscal Year 2018-2019 March Budget Message for consideration by the City Council and residents of San José. With Council approval, this initial framework provides the City Manager direction to prepare proposals for the Council's budget deliberations in May and June, and to formulate the Fiscal Year 2018-2019 Proposed Budget.

This proposed Budget Message recognizes the need to continue tightening the City's fiscal belt, committing millions of dollars to reserves to maintain services in anticipation of projected shortfalls. We have many urgent needs, however, and so I also propose that we make strategic investments to improve public safety, house our homeless, expand opportunities for at-risk youth and low-income families, and other key priorities.

OVERVIEW

The 2018-2019 fiscal outlook remains challenging. After a preliminary analysis of General Fund revenues and expenditures for next fiscal year, a General Fund shortfall of \$7.3 million is projected. This projection and the deficits forecast for following years necessitates a cautious approach to the upcoming budget cycle.

With this Budget Message, we focus on our residents' highest priorities: improving public safety, expanding affordable housing, confronting homelessness, and restoring essential City services. With a looming deficit and a fragile financial future, however, we must consider new investments cautiously, with a predisposition to the long view.

This Budget Message does contain some targeted, one-time investments, however, including several one-time funded programs from last year. Each of these limited investments employs the power of ‘leverage’ – coupling the City’s dollars with other resources from the private sector, philanthropy, volunteer energy, and the like – to enable our scarce public dollars to have greater impact. For example, I propose modest investments in BeautifySJ that can leverage the power of volunteers, enabling cost-effective clean-ups that also builds community in our neighborhoods.

Through this Budget Message, I seek my colleagues’ support for a strategy of prudent cost savings and strategic investment.

FULFILLING OUR COMMITMENT TO RESIDENTS TO REBUILD SERVICES

Following a difficult decade in which our City endured the Great Recession and ongoing budget deficits totaling \$680 million, we have made substantial progress in rebuilding key services.

In Fiscal Year 2015-2016, the City Council began adding firefighters, restoring library hours to six days a week, and enhancing several critical programs for gang prevention, homeless rehousing, and illegal dumping. In addition, the Council took measures to increase police compensation to retain and attract more officers. Furthermore, the City budget allowed this Council to shore up critical programs for residents such as the Homeless Rapid Rehousing Program, Homeless Encampment Response Team, San José BEST Program and Safe Summer Initiative, and Illegal Dumping Team.

With the passage of Measure B, a quarter cent sales tax, in June 2016, the City Council made significant service restorations, allocating new revenue to:

- Maintained and Repaired Major Streets – One-time funding of \$17.7 million expanded street pavement maintenance for major streets. Since that time, we led in the formulation, fundraising, and advocacy for passage of the VTA county-wide measure, and lobbying for passage of SB1 under Senator Jim Beall’s leadership, which collectively can provide approximately \$36 million in street repavement funding.
- Added Police Officers - As Police sworn vacancies continue to drop with the success of recent academies, ongoing funding of \$7.7 million will add 41 police officers to our current budgetary cap of 1,109 beginning in June 2019.
- Improved Response Times to Fire and Medical Emergencies – Ongoing funding of \$4.9 million restored all ‘browned out’ fire stations and added two-person ‘squad’ cars dedicated to emergency medical response. In addition, \$1.2 million of one-time funding provided emergency vehicle preemption service to enable faster emergency response.
- Fire Station 37 – Funding of \$1.0 million provided a down-payment for the future construction of a long-needed Fire Station 37 in Willow Glen, where emergency response times have lagged due to the lack of proximate service.
- Improved Response to Burglary and Neighborhood Crimes – An allocation of \$1.53 million added 19 new Community Service Officers (CSOs) to improve response to and evidence-collection at burglaries and other property crimes.

- Expanded Smarter Policing – Ongoing funding of \$420,000 added 5 crime and intelligence analyst positions to improve the use of data to enable predictive and proactive policing, and to support the body-worn camera program.
- Reduced Homelessness – Increase ongoing funding from \$2 million to \$4 million, doubling homeless rapid rehousing services and response.

In Fiscal Year 2017-2018, with a still-stabilizing budget, we focused our budgetary attention on the long-suffering aesthetics of the City, as budget cuts took their toll over a decade of underfunded maintenance and repair. We invested in adding staff to improve maintenance of our neighborhood parks, and launched BeautifySJ to combat the growing trash, graffiti, and other blight in our City.

For three years, the City Council has made difficult decisions and stayed the course to restore services, eliminate inefficiencies, increase revenues, and fulfill commitments to residents. I thank my Council colleagues for their sound approach, as we work to ensure more stable program delivery for a community that has suffered through years of sharp reductions in services.

Our Fiscal Outlook

As I indicated in last year’s Budget Message, and as reflected in the new General Fund Forecast (Table X), we face challenging years ahead. More than ever, we need a prudent and strategic approach to spending.

**Table X - 2019-2023 General Fund Forecast
Incremental General Fund Surplus / (Shortfall) \$ in Millions**

2018-2019	2019-2020	2020-2021	2021-2022	2022-2023
(\$7.3 M)	(\$15.5 M)	(\$8.9 M)	(\$10.5 M)	\$10.8 M

Source: 2019-2023 Five-Year Forecast and Revenue Projections for the GF and Capital Improvement Program

Staying the Course

Fiscal Year 2018-2019 presents a challenge for Council’s commitment to restoring resident service. We must close the \$7.3 million deficit by controlling spending and achieving cost savings wherever possible. We also keep an eye to future deficits by saving in our budget stabilization reserves. Fortunately, the deficits projected in the latest Forecast remain manageable in the context of the overall size of our General Fund, and we have multiple cost-saving strategies underway that should allow us to close these gaps without significant service cuts.

Community Engagement

Our residents prioritize the very services we’ve focused on restoring, as illustrated in the survey completed for the one-quarter cent sales tax increase in June 2016 (Table X).

Table X – Resident Spending Priorities

	Priority	Support
1	Improving police response to violent crimes and property crimes, such as burglary	80%
2	Improving emergency medical response	73%
3	Improving response times to fires	72%
4	Improving 9-1-1 response times	72%
5	Equipping police with modern technology to help fight crime	67%
6	Reducing homelessness	67%
7	Maintaining the long-term financial stability of the City	67%
8	Maintaining and repairing major streets	66%
9	Improving the City’s emergency preparedness	63%
10	Creating more jobs through economic development	62%
11	Expanding programs to reduce problems associated with homelessness	60%
12	Improving services to seniors	60%
13	Increasing affordable housing for low-income families	59%
14	Improving safety for drivers, bicyclists, and pedestrians	58%
15	Increasing afterschool programs	55%
16	Installing sidewalk and curb ramps to ensure access for people with disabilities	55%
17	Maintaining and improving neighborhood parks and trails	44%
18	Increasing community center hours	31%

Source: City of San José Finance Measure Survey, November 2016.

This year, the Mayor’s Office continued to utilize new means to engage the community in prioritizing budgetary needs, through online use of ‘Balancing Act’ software to allow us to see how hundreds of residents would allocate dollars within our constrained budget. We conducted a similar exercise at the February Community Budget Priority-Setting event, and through more traditional community meetings. The results of these efforts largely corroborate these survey results of Table X, and align with the actions taken by Council.

INVESTMENT PRIORITIES

As we look to the future, the investments urged by this Budget Message can be categorized in seven key areas:

1. Homelessness & Housing
2. Public Safety
3. Environment
4. Innovation & Technology
5. Education and Our Youth
6. Community Engagement
7. Saving and Fiscal Sustainability

HOMELESSNESS & HOUSING

Homelessness: Approximately 4,300 residents must find refuge in our shelters, creeks, parks, and freeway underpasses each night, exacting an unfathomable human toll. We've taken many important, but still insufficient, steps in recent years to lighten this burden. For example, our 'All the Way Home' campaign, launched in partnership with Destination:Home, the Housing Authority, many non-profits, and the County, will soon announce that it has housed its 1,000th homeless veteran. We've demonstrated that by working together, we can align resources to gain traction on a human problem that has vexed every West Coast city.

We have much more work to do, however, and the need remains enormous. While permanent supportive housing remains our top priority, hundreds of units of housing projects in our pipeline will take years to build and open, and we continue to need interim strategies to house more of our homeless residents. The City Manager is directed to evaluate all potential funding sources to add one-time funding of \$3 million for homeless solutions, particularly the measures Council has already prioritized, including bridge housing, hotel/motel acquisition, and safe parking. These one-time funds can potentially be leveraged by state funding, such as AB3171 and other homeless funding bills that have been introduced and are a high priority for the legislature this year. The City Manager is directed to leverage these funds wherever possible with other public or private dollars.

Housing: The Bay Area housing crisis affects residents across the income spectrum, making it imperative that we accelerate the development of new housing, particularly in those locations appropriate for high densities. In late 2017, I announced the ambition to build 25,000 homes in five years – a pace of development unseen in San José. In three key areas – North San José, Berryessa, and Downtown – the City can enable as many as 17,000 units constructed within walking distance of fixed-rail transit. A chokepoint for new development, however, remains in our understaffed Planning Department, where we critically need to expand capacity. The City Manager is directed to return through the budget process with a proposed scope of work and funding source for two Planners in the Planning Department focused on these geographic areas.

African American Community Services Agency: Over the past four decades, the African American Community Services Agency (AACSA) has made a positive impact on our City by

providing programs and services to youth, seniors, and the homeless. As the Agency prepares to expand the programs offered to our community by beginning the process of becoming a First 5 Center and a Homeless Services and Meals Center, the City Manager is directed to work with AACSA to identify and prioritize capital improvement upgrades that are required to make sure the building is up to code, setting aside \$250,000 for these improvements. Staff should return through the budget process with a proposed scope of work. The work should prioritize the capital improvements necessary, in conjunction with existing funding and matching funding, to help AACSA become a First 5 Center and a Meals Center for the City. Additionally, the City Manager should perform a preliminary analysis for long-term, mixed-use redevelopment of the site that includes space for AACSA-provided community services and housing, leveraging private dollars to deliver public benefit.

Project Hope: This popular and successful program leverages community partnerships combined with focused coordination of City services to address challenging issues like crime, poverty, and blight in neighborhoods. This program was originally set to expire, but it has seen success in neighborhoods like Cadillac, with the strong support of Councilmember Jones. Therefore, the City Manager is directed to continue one-time funding in the next fiscal year.

PUBLIC SAFETY

Domestic Violence: Vice-Mayor Magdalena Carrasco's leadership has daylighted the imperative to counter the troubling increase in domestic and family violence in our City. The recent February study session revealed the need to implement additional strategies around staffing, housing, outreach, and training.

The recent study session reiterated the need for additional options for housing families and victims of domestic and family violence. Only 59 emergency beds and 9 transitional beds are currently available to survivors of domestic and family violence. Advocates note that more than 2,100 victims were turned away from emergency shelter options in 2016 because of a lack of options. The City Manager is directed to utilize \$150,000 to implement a pilot program that will offer flexible options for the Housing Department and advocates to offer emergency housing and/or assistance for up to 100 additional families in need.

Additionally, the City Manager is directed to work with service providers and bring forth an analysis in the June budget process with additional recommendations to address increasing housing or shelter options of a more permanent nature through the anticipated Request for Proposals to be issued to affordable developers this year. The City Manager is further directed to assess the potential impact of other investments, such as staffing in the San José Police Department's Domestic Violence Unit, police officer training, and community outreach.

ENVIRONMENT

Climate Smart: There has been a great deal of interest expressed in our natural and working lands in San José, specifically in Evergreen and North Coyote Valley. Given our ambitious greenhouse-gas-reduction goals, we should better understand the value of the preservation of the lands. To that

end, the City Manager is directed to work with the State of California, the Santa Clara Valley Open Space Authority, and other funding partners to agree upon a defined scope and funding plan for a specially explicit analysis of our natural and working lands, as part of Climate Smart San José, Phase II. I hope that the analysis will provide useful data with respect to avoided vehicle-miles-travelled (VMT) and carbon sequestration value of those lands. This Phase II analysis can inform future updates of Climate Smart San José and future land use decisions. The City Manager should return through the budget process with a funding plan, scope of work, and timeline for this work, and should commit \$100,000 to this effort to match grants and other external sources.

Electric Vehicle Infrastructure: The City Manager is directed to develop an electric vehicle (EV) strategy to advance public and private charging infrastructure. The strategy should focus, in part, on fully exploring and leveraging opportunities for external funding – e.g., through PG&E, the Volkswagen settlement, the cap-and-trade program, and the Air Resources Board – to accelerate EV adoption, as well as access to EV shared mobility options, and return to Council with a proposed strategy in the fall of 2018, with specific numerical targets for public and private chargers.

INNOVATION & TECHNOLOGY

Smart City: It is essential that we continue to invest in technology that will improve service delivery, efficiency, and the user experience of our residents. In many cases, one-time investments of software, process redesign, or hardware can yield many years of ongoing savings. I recommend three key areas of investment:

- 1) **Data Integration:** Foundational to our Smart City Vision is the use of data. In light of the technology debt that we've inherited at City Hall, we need to invest resources to enable our siloed IT systems to speak to each other, or to ensure emergency responders have access to the right maps and tools to respond to residents after a natural disaster, or for managing daily performance. Developing a city-wide data strategy could result in over \$500K in savings per year just from reducing duplicative servers, not to mention the millions of dollars' worth of time savings for our staff dealing with inefficient processes. Focusing on the most pressing issues to our residents around public safety, housing, and traffic management, an integrated data strategy would have tremendous impact. For example, adopting an early use case for a robustly layered, GIS-based map that will allow housing developers, real estate professionals, and housing advocates to have accurate, parcel-level, and spatial data about opportunity sites for housing development could speed development of much needed housing in the city. Also, allowing departments to build push-button performance dashboards would both improve transparency and service delivery.
- 2) **My San José 2.0:** Similarly, developing version 2.0 of the 'My San José' app will make it easier for our residents to obtain a response from City Hall to their calls for service. We released the first version to considerable success: more than 20,000 active users, and 180,000 service requests in the first year alone. We have 'bugs' to work out, however, and the functionality remains limited to only six categories of requests. For example, today 20% of illegal dumping reports are not found by our crews; more efficient use of data better deploys crews in a manner that would save 150 hours of staff time per week or \$400,000

per year. By automating more categories of service requests, we could save an additional 100 hours per week of staff time, with improved resident satisfaction.

- 3) **Smart City Roadmap:** Finally, as we look toward the future and our goal of becoming the most innovative city in America by 2020, it is essential we continue to invest in our Smart City Roadmap of initiatives. The City Manager is directed to prioritize a few specific areas of the Roadmap for investment: data privacy and security, public safety initiatives, data visualizations, tools to ease the housing and homeless crises, and investments in community broadband. These areas appear critical in enabling us to grow as a Smart City.

The City Manager is directed to return through the budget process with a proposed timeline for implementation of the aforementioned Smart City priorities, cost, and funding plan for Council consideration.

EDUCATION AND OUR YOUTH

SJ Learns: Given the ever-increasing income gap in our Valley stems from a broader opportunity gap among our children. In 2015, we launched SJ Learns with the support of the City Council, local superintendents, and private foundations, to address the critical need for extended learning programs, at a time when a majority of San José's 3rd graders perform below grade level in the 3rd grade English Language Arts (ELA) California Standards Test (CST). This has proven to be a critical determinant of future success: children who do not read at grade level by this age are four times more likely to drop out of high school. The statistics appear equally dire in math and science. High-quality extended learning programs provide crucial academic support for struggling students, especially for students from low-income families who cannot afford fee-based alternatives. Nearly 5,000 at-risk K-3rd graders have no access to free, quality, and school-based afterschool programs. SJ Learns has demonstrated success with over 1,000 children. The City Manager is directed, to the extent possible, to continue funding for this program at its current level on an ongoing basis.

Summer Learning: Summer learning loss has big impacts on achievement: nine out of ten teachers report needing to spend up to three weeks re-teaching lessons when students return from summer break. These losses appear cumulative and highly correlated to family income. To combat this 'summer slide,' we can expand our SJ Learns' partnership with our schools to include summer learning programs. The City Manager is directed to allocate \$250,000 in one-time funding to summer learning programs through SJ Learns.

SJ Works: Investing in pathways to employment for at-risk youth can broaden opportunities for many teens who struggle against the Valley's widening economic gap, and can make San José safer. Teen training and job placement programs have the power to reach disconnected youth and create pathways to positive outcomes. Simultaneously, many employers indicate a desire to hire locally and train young adults, but don't have the staff to ensure that they're work-ready.

In 2015, we launched 'San José Works,' a summer program helping underserved teens land their first job, in partnership with Work2Future, the SVO, Bank of America, Citibank, and many private sector employers and sponsors. Since then, more than 3,000 young women and men have benefited from the program. The City Manager is directed to fund the San José Works initiative

on an ongoing basis, to the extent possible, to help another 1,000 kids build pathways toward a career. The Mayor's Office of Strategic Partnerships (OSP) will leverage that funding and the commitments already secured from corporate partners, school districts, foundations, and individuals.

Service Year: In an era of intense divisiveness, service and community engagement remain one of the few passions that unite our country. A 'service year' is a paid opportunity to develop real-world skills through hands-on service on issues such as education, disaster relief, public and social service capacity building, and many more. Service Year Alliance, a national organization supporting the service year sector, has partnered with San José to help to revitalize cities, uplift and educate children at risk, and empower communities struggling with poverty. In San José, we have sought to expand service year opportunities through AmeriCorps placements and paid fellowships. An investment in Service Year placements within our City, and among our community partners, can be a powerful pathway for youth to gain job skills, engage with our City, and improve our communities in need. The City Manager is directed to allocate \$300,000 in one-time funding to Service Year programs to support programs in the Library and Parks and Recreation Departments.

COMMUNITY ENGAGEMENT

Fourth of July City Celebrations and Fireworks: For several years, volunteers at the San Jose's Downtown Rotary have generously managed and supported the Independence Day celebrations in Downtown San José, to the delight of more than 75,000 residents who enjoy the free fireworks and related family-friendly events. Changes in requirements by the Federal Aviation Administration this year, however, have sent Rotary and City staff scrambling to find alternative sites for fireworks displays that will not undermine the FAA's mandate of safety for our nearby Airport. It has put the event in limbo, and the uncertainty over whether it would happen at all has left Rotary volunteers with no time to fundraise to support this year's event.

Given the long tradition and great popularity of the Downtown Independence Day celebration, we should commit to supporting the Rotary International Fourth of July Fireworks event this year. By building a bridge to the following year, Rotary can resume its lead role in sustaining the event, and it can continue as a Downtown tradition. The City Manager is directed to use one-time funding from the Transient Occupancy Tax Fund and/or Parking Fund to support the 2018 event, and to work with our Airport regarding a strategy to address safety concerns. John Aitken and team have graciously demonstrated a willingness to work with the airlines to alter flight schedules to accommodate the event safely.

Should funding come from the Transient Occupancy Tax Fund, the City Manager is also directed to reach out to partners in the arts community to consider how we might integrate Independence Day-themed cultural performances and art – such as music, spoken word, and murals – that might express our community's unique perspectives on what it means to be American in a city as diverse as San José.

BeautifySJ: In its first year, we've made great strides with the BeautifySJ program, enlisting more than 13,000 volunteers for community cleanups, engaging 18,000 residents using our new My San

José reporting app, engaging 71 neighborhood groups in volunteer-led beautification projects with \$300,000 in City grants, and successfully launching a free unlimited junk pickup service. I'm grateful for the cross-departmental leadership exhibited by Environmental Services Director Kerrie Romanow, Parks Director Angel Rios, and others.

Our neighborhood leaders – many of whom already invest hundreds of hours in improving our community – helped identify the most impactful City programs to combat neighborhood blight. We increased spending levels for anti-litter, street and median beautification, expanded our illegal dumping response team, strengthened code enforcement, added neighborhood-led dumpster days, and launched park activation and improvement projects.

Our Anti-litter program saw more than a 200% increase in program volunteer hours, and a doubling of the amount of trash and litter collected.

We are victims of our own success however: the thousands of new volunteers have stretched the capacity of Parks staff. With targeted investment, however, we can take advantage of the growing community passion that has supported our collective efforts to Beautify San José. The City Manager is directed to:

- **Dumpster and Beautification Days:** Continue the very popular and successful Council Office and neighborhood-led dumpster and beautification days so that each Council Office receives \$18,000 for neighborhood-led and Council Office supported beautification days, including but not limited to dumpster days, community clean-ups, sound wall beautification, and other community-identified projects that can promote a stronger sense of community pride and improve San José's aesthetics.
- **Anti-Litter Program Expansion:** Add one-time funding of \$125,000 to increase staffing by 2.0 FTEs to on-board additional Community Activity Workers to further support community clean-up efforts, especially on the weekends.
- **BeautifySJ Grants:** Combine one-time funding of \$200,000 with ongoing BeautifySJ grant funding of \$100,000 to further support projects in our neighborhoods. Staff should examine the existing grant contracts distributed to the 71 community grants as part of their mid-year reports, and extend the time of the current grant contracts and MOUs to groups that have started their projects by the current grant deadline. These grants have proven to be very popular, not merely for stimulating volunteer participation, but in spurring several neighborhoods to form (or reconvene long-dormant) neighborhood associations.
- **Median Island Landscape Maintenance:** Our Department of Transportation was very successful in making effective use of limited additional funding to provide for two years of increased maintenance along 50% of our median islands. Staff should examine how the performance of these efforts, and return with a recommendation for continuing or expanding this program in the 2019-2020 program year.

Vietnamese American Community Center: The City of San José has the largest Vietnamese population of any city outside of Vietnam, making up more than 10% of our population. Years

ago, the City made efforts to establish a Vietnamese American Culture Center, but efforts languished during the economic downturn and with the loss of Redevelopment. In 2016, Council established an interim Vietnamese American Community Center at the Shirakawa Center. Since opening, the community has embraced the Center, with larger events garnering over 1,000 attendees. The City Manager is directed to include funding to continue operations, and to bring forward a recommendation on whether additional funding is needed now that use has expanded to the entire building.

Downtown Ice Rink Improvements: Downtown Ice, the hugely popular and iconic holiday ice rink at the Circle of Palms, has operated for 14 years and needs repairs. The City has previously committed one-time funding to match the San Jose Downtown Association's investment, to address long needed capital upgrades to keep the event viable and attractive. Since Downtown Ice brings hundreds of thousands of dollars in revenues to our Parking Fund annually, the City Manager is directed to allocate \$100,000 in one-time funding from our Parking Fund for repairs and upgrades of the ice rink.

SAVING, FISCAL SUSTAINABILITY & GENERATIONAL EQUITY

Deferred Maintenance and Infrastructure Backlog: For many years, we've been wearing down the basic infrastructure of our City – our roads, parks, buildings, and other facilities – with the implicit expectation that our children will pay for our use. Shifting these large, billion-dollar burdens on the next generation undermines a fundamental precept of leadership: in the terms of the Iriquois' Great Binding Law, to make every decision mindful of its impact on the next seven generations.

The most recent report from staff indicates that the City continues to have an enormous deferred maintenance and infrastructure backlog for its roads, parks, and other City facilities, totaling some \$1.392 billion. While we've reduced that figure slightly in the last year, it still substantially exceeds the size of the City's entire General Fund. More worrying is the fact that this is, by all accounts, the 'best of times.' In any future downturn, we can expect funding for basic maintenance and replacement to shrivel, and the unfunded backlog will balloon.

Staff is directed to analyze options, and return to Council to discuss the following strategies that we must take to address our infrastructure needs:

- **Bond Measure:** Identify roughly \$300 million in critical capital needs that could comprise a bond measure that we could take before the voters in November of 2018. The effort should also include identifying new infrastructure, such as for Fire Station 37, a Charcot pump station, and a Police Academy training facility. Particular priority should be given to those capital investments – such as drip irrigation in our parks, or energy-efficient LED streetlights – that could reduce our ongoing costs. Staff should return with this report in May.
- **Private-Public Partnerships:** Where we can leverage private dollars to assist in eliminating large maintenance backlogs, evaluate how we might exploit those opportunities

in the near future. For example, a bond-funded rebuild of the Police Administrative Building (an aging building with \$12 million in deferred maintenance) might include structured parking that would enable the City to sell or lease Lot E for private development, paying for much of the new construction, and eliminating the maintenance debt from our books. Similarly, the Center for Performing Arts has \$50 million in unfunded capital needs, but investors have swirled around that site with the possibility of utilizing air rights above it or adjacent space and funding capital improvements in the building. Another energy service contract (ESCO) with a private provider could help reduce our ongoing energy costs.

Future Deficit Reserve: The City Manager's General Fund Forecast projects deficits totaling \$42 million over the next four years. Fiscal responsibility requires we take action to preserve newly restored services by reducing projected future deficits. To protect residents from the severe service cuts that have characterized the last two economic cycles, the City Manager is directed to establish a 2019-2020 Future Deficit Reserve, and fully fund it at the \$15.5 million level, sufficient to address our anticipated deficit.

Budget Balancing Strategy Guidelines: The City Manager is directed to use the 2018-2019 Budget Balancing Strategy Guidelines as detailed in Attachment A to develop a balanced budget for the next fiscal year.

Essential Services Reserve: The City Manager is directed to set aside \$2.5 million in one-time funds that may be used for the purpose of supporting services that are of essential importance to our residents. Services deemed essential by the City Council may be funded with the use of these one-time funds.

One-Time Funded Items: The City Manager is directed to evaluate programs funded on a one-time basis in 2017-2018 for continuation in 2018-2019, particularly school crossing guards, Downtown foot patrol, and San Jose Streets Team Litter and Trash Removal.

Council Appointees: To ensure overall strategic leadership and service delivery for the organization, the Mayor's Budget Office will work with the City Appointees and the Budget Office to bring forward cost-saving budget proposals while ensuring appropriate funding remains to perform mandated functions.

COORDINATION

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

For more information on this memorandum, please contact Ragan Henninger, Office of Mayor Liccardo, at 408-535-4800.

ATTACHMENT

Appendix A – 2018-2019 Budget Balancing Strategy Guidelines

2018-2019 Budget Balancing Strategy Guidelines

1. Develop a budget that balances the City's delivery of the most essential services to the community with the resources available.
2. Balance ongoing expenditures with ongoing revenues to maximize service delivery within existing resources, to ensure no negative impact on future budgets, and to maintain the City's high standards of fiscal integrity and financial management. To the extent possible, establish a Future Deficit Reserve in the General Fund to cover any projected budgetary shortfall in the following year as a stopgap measure.
3. 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; limit, to the extent possible, service disruptions to the public.
4. When considering whether to scale back or completely eliminate a service, evaluate the impact to the community, the quality of the services to be delivered across the department, the ability of the department to manage the range of services, and alternative service provider options in the community.
5. When bringing forward any position reductions, make every effort to eliminate vacant positions rather than filled positions, if operationally feasible, to minimize the number of employees displaced by reductions with the goal of no significant employee impacts.
6. Evaluate program-level budgets and determine if there are opportunities to shift resources or reconfigure operations to close service delivery gaps, generate new revenues, address truly significant community or organizational risks, fund programs added on a one-time basis in 2017-2018, and/or respond to specific City Council direction and organizational risks.
7. Focus on business process redesign to improve employee productivity and the quality, flexibility, and cost-effectiveness of service delivery (e.g., streamlining, simplifying, reorganizing functions, and reallocating resources).
8. Explore alternative service delivery models (e.g., partnerships with non-profit, public, or private sector for out- or insourcing services) to ensure no service overlap, reduce and/or share costs, and use City resources more efficiently and effectively. The City Council Policy on Service Delivery Evaluation provides a decision-making framework for evaluating a variety of alternative service delivery models.
9. Identify City policy changes that would enable/facilitate service delivery changes or other budget balancing strategies.
10. Analyze non-personal/equipment/other costs, including contractual services, for cost savings opportunities. Contracts should be evaluated for their necessity to support City operations and to identify negotiation options to lower costs.
11. Explore expanding existing revenue sources and/or adding new revenue sources.
12. Establish a fees, charges and rates structure designed to fully recover operating costs, while considering the impacts on fee and rate payers, and explore opportunities to establish new fees and charges for services, where appropriate.
13. Focus any available one-time resources on investments that 1) address the City's unmet or deferred infrastructure needs; 2) leverage resources to or improve efficiency/effectiveness through technology and equipment or other one-time additions; 3) continue high-priority programs funded on a one-time basis in 2017-2018 for which ongoing funding is not available; and/or 4) increase budget stabilization reserves to address any potential future budget uncertainty.
14. Engage employees in department budget proposal idea development.
15. Continue a community-based budget process where the City's residents and businesses are educated and engaged, as well as have the opportunity to provide feedback regarding the City's annual budget.
16. Use the General Plan as a primary long-term fiscal planning tool and link ability to provide City services to development policy decisions.

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