



# Memorandum

**TO:** CITY COUNCIL

**FROM:** Mayor Sam Liccardo

**SUBJECT: MARCH BUDGET MESSAGE  
FOR FISCAL YEAR 2017-2018**

**DATE:** March 17, 2017

Approved:

Date:

3-17-17

## RECOMMENDATION

Direct the City Manager to submit a balanced budget for Fiscal Year 2017-2018, guided by the policy direction and framework of priorities outlined in this March Budget Message.

\* \* \*

In accordance with Section 1204 of the San José City Charter, I present my Fiscal Year 2017-2018 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 to formulate the Fiscal Year 2017-2018 Proposed Budget.

I propose a budget that reflects our community's highest priorities and plans for a fiscally uncertain future. A cooling economy and growing uncertainty compound the challenges posed by projected deficits over the next half-decade. Given the economic and fiscal landscape, we must focus on sustaining recently-restored services; making strategically-targeted investments that leverage external resources; and saving dollars for the inevitable difficulties ahead.

## RESTORING SERVICES

Following a difficult decade characterized by the Great Recession and ongoing budget deficits totaling \$670 million, we have begun restoring key services. I thank my Council colleagues for their continued commitment to targeting our scarce resources on our residents' highest priorities.

In FY 2015-2016, the City Council began restoring services by adding firefighters, restoring library hours to six days a week, and enhancing several critical programs for gang prevention, homeless rehousing, and illegal dumping.

Last year, the City Council placed several key measures on the ballot, the passage of which have helped stabilize the City’s fiscal position and restore key services. Most notably, San José voters approved Measure F, the City’s Alternative Pension Settlement Framework, securing \$2.97 billion over the next 30 years (Table 1), including \$41.8 million in this year alone.

**Table 1 – Alternative Pension Settlement Savings**

	<b>Police &amp; Fire</b>	<b>Federated</b>
Tier 2 Savings	\$1,152 million	\$941 million
Retiree Healthcare	\$244 million	\$249.9 million
Eliminate “Bonus Checks”	\$270 million	\$120 million
<b>TOTALS</b>	<b>\$1.66 billion</b>	<b>\$1.31 billion</b>

Source: City Actuarial Reports, 2015

While these pension reform savings will continue to grow year-over-year, we know that retirement costs will also grow, due to factors beyond the Council’s control, including sub-standard market returns and changes in key assumptions. Fortunately, the voters also approved two additional revenue measures—a one-quarter cent sales tax (Measure B, June 2016 ballot) and modernization of the City’s business tax (Measure G, November 2016 ballot)—making it possible to preserve and restore services this year in the face of these rising costs.

With these new revenues, the City Council made significant service restorations during the 2016-2017 fiscal year, allocating new revenue to:

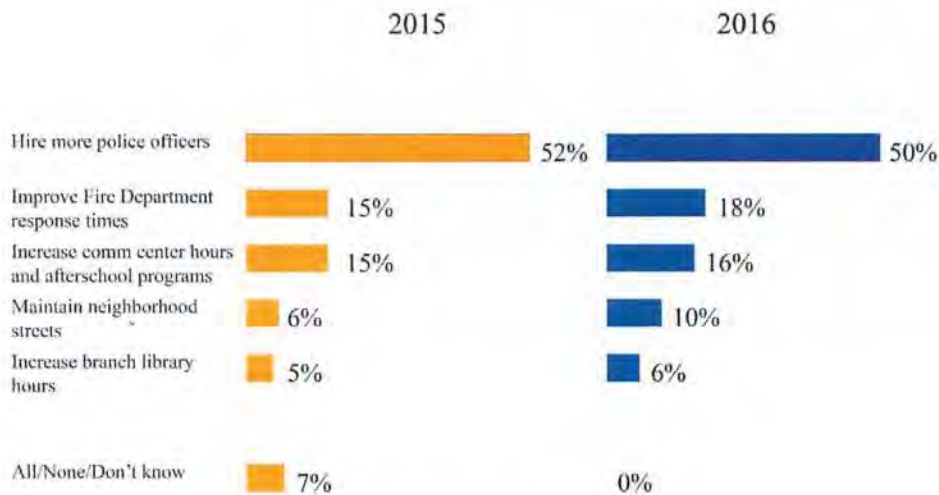
- Maintain and Repair Major Streets – One-time funding of \$17.7 million expanded street pavement maintenance for major streets.
- Improve Response Times to Fire and Medical Emergencies – Ongoing funding of \$3.65 million restored all “browned out” fire stations and added two-person “Squad” cars dedicated to emergency medical response. In addition, \$1.2 million of one-time funding was allocated to provide emergency vehicle preemption service to enable faster emergency response.
- Fire Station 37 – Funding of \$2.21 million provides a down-payment for the future construction of a long-needed Fire Station 37 in Willow Glen.
- Improve Response to Burglary and Neighborhood Crimes – An allocation of \$1.53 million adds 14 new Community Services Officers (CSOs) to improve response to and evidence-collection at burglaries and other property crimes.
- Expand Smarter Policing – Ongoing funding of \$420,000 adds 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.
- Reduce Homelessness – This ongoing \$4 million in funding doubled homeless rapid rehousing services and response.

We also worked together with the Silicon Valley Leadership Group and the Valley Transportation Authority to ensure passage of Measure B on the November 2016 ballot, which will enable another \$19 million in road repair and repaving in the next fiscal year.



Finally, in February, the City Council made significant investments in public safety by approving a new long-term wage agreement with our Police Officers Association. At a time when we have nearly 200 vacancies in SJPD—due in part to Tier I officer salary disparities that exceeded \$13,000 compared to cities like San Francisco and Oakland, and \$17,000 to Santa Clara County—this contract will enable the long-awaited rebuilding of SJPD. While making our officers’ compensation more competitive comes at a substantial cost, this contract focuses our taxpayer dollars on the overwhelmingly highest priority of our residents: hiring more police officers (Figure 1).

**Figure 1 – Resident’s Highest Priority Comparison**



Source: 2016 Community Budget Survey Results

This wage agreement, combined with the earlier resolution of the pension reform battles, has already boosted recruiting of high-quality candidates by roughly 50% over the prior two academy cycles. (Figure 2).

**Table 2 – San José Police Academy Status**

Academy Recruiting & Hiring	Academy 26 February 2016	Academy 27 June 2016	Academy 28 October 2016 (Start date 10/26/16)	Academy 29 Feb. 2017 (Start date 2/13/17)	Academy 30 June 2017 (Start date 6/15/17)
Applied	1893	1888	2822	2290	4017
Proceeded to Backgrounds	167	147	215	204	318
Hired	7	17	34*	29**	In Progress
Graduation Date	8/12/2016	12/2/2016	4/27/2017	8/11/2017	12/15/2017

\*37 offered, 3 declined

\*\*35 offered, 5 declined, 1 deferred to Academy 30

Source: February, 2017 Public Safety, Finance and Strategic Support Committee

I thank all of our hard-working City employees for their perseverance and dedication during a period in which we have strived to provide high-quality services with the most thinly-staffed City Hall of any major U.S. city. While City service levels lag what residents reasonably expect or deserve, we have made substantial improvements over the last two years.

**THE FUTURE**

As I indicated in last year’s Budget Message, and as reflected in the new General Fund Forecast (Table 3), we face challenging years ahead. More than ever, we need a prudent and strategic approach to spending.

**Table 3 - 2018-2022 General Fund Forecast  
 Incremental General Fund Surplus / (Shortfall) \$ in Millions**

2017-2018	2018-2019	2019-2020	2020-2021	2021-2022
(\$12.4 M)	(\$34.8 M)	(\$11.5 M)	(\$17.4 M)	(\$12.8 M)

Source: 2018-2021 Five-Year Forecast and Revenue Projections for the GF and Capital Improvement Program.

Even these sobering numbers mask more serious fiscal realities. These projections do not fully account for the City’s long-term burdens, including \$3.8 billion in unfunded liabilities for retirement benefits, and \$1.51 billion in deferred infrastructure maintenance. While we annually pay off a portion of the unfunded retirement debt according to an amortized schedule, current trends indicate that the ARC will increase in future years. If we similarly paid an annual bill to amortize the unfunded needs in infrastructure repair, we would need to allocate an additional \$144 million annually over the next decade. The City’s Forecast has never included that cost, but its presence must inform our budgetary decision making.

San José does not suffer uniquely, however. Other California cities appear to face far worse in their forecasts, as seen in the region’s next two largest cities (Table 4).

**Table 4 - 2018-2022 General Fund Forecast City Comparison**

	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022
<b>Oakland</b>	(\$30.63 M)	(\$36.75 M)	(\$46.77 M)	(\$65.34 M)	(\$70.49 M)
<b>San Francisco</b>	(\$119 M)	(\$234.4 M)	(\$584.7 M)	(\$713.4 M)	(\$848.4 M)

Source: City of Oakland Five-Year Forecast, 2017-2018 – 2021-2022; City and County of San Francisco Five-Year Financial Plan, 2017-2018 – 2021-2022

Two primary forces appear to drive these fiscal realities. First, tax revenue growth projections have slowed sharply, as many economists see the economy tighten. In San José, performance of two economically sensitive revenue sources, Sales Tax and Construction and Conveyance Taxes, have already begun to decline. Second, as market returns lag, municipal and state pension boards



increasingly adopt more sober investment return assumptions for their retirement funds, which increase costs in the short-term.

One should distinguish the cause of these retirement cost increases with those vexing public pension funds a decade ago. In San José, skyrocketing costs in the prior run-up resulted from irresponsible decisions to boost retirement benefits—often retroactively—without any means to pay for those new costs. Retirement boards long endorsed rosy assumptions that hid the magnitude of those costs from taxpayers. Today in San José, we have seen the opposite: a reduction in new benefits—including the elimination of retiree healthcare benefits—while San José’s retirement boards and the City swallow the hard medicine of more realistic return assumptions. We can take solace in the fact that the decisions to pay more today will actually save our taxpayers—particularly our children and grandchildren—from a mountain of debt in the long-run.

Fortunately, the deficits projected in the latest Forecast remain relatively small when compared to the overall size of our General Fund, and we have multiple cost-saving strategies underway (and not yet reflected in the Forecast) that should allow us to close these gaps without significant service cuts in the year ahead. This includes:

- Hayes Mansion: The pending sale of this property in the coming months will relieve the City’s General Fund of an annual debt service burden of \$3.5 million.
- Bond Re-Financing: By refinancing and consolidating RDA debt this summer, the City can accelerate tax revenues that come through the “waterfall” to taxing entities like the City of San José.
- Judgement Against HUD – Allocate \$8 million of the \$36.3 million judgement award for Rapid Rehousing Program over two years, alleviating the General Fund of this obligation.

While these strategies should make it possible to avoid service cuts this year, our challenging fiscal position will require us to constrain spending, and focus on modest, strategic investments.

### **TARGETED, STRATEGIC SPENDING**

Given the challenging fiscal outlook, we should begin with a focus on the highest priorities of the residents we serve. Polling amounts to a time-honored, though imperfect, means of discerning public preferences. The City conducted a telephone survey for the one-quarter cent sales tax increase in June 2016, revealing public safety dominates our resident’s highest priorities (Table 5).

**Table 5 – 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%
5	Reducing homelessness	67%
5	Maintaining the long-term financial stability of the City	67%
8	Maintaining and repairing major streets	66%
9	Improve the City’s emergency preparedness	63%
10	Creating more jobs through economic development	62%
11	Expanding programs to reduce problems associated with homelessness	60%
11	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%
15	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 2015.

We also have sought to discern community priorities through more innovative means, such as our “live results” surveys at January’s Community Budget Priority-Setting event, and through more traditional community meetings. anecdotal conversations. The results of all of these efforts largely corroborate these survey results of Table 5, and they align with the actions taken by Council last year in allocating new revenue toward our residents’ most urgent needs: public safety, street repair, and homelessness.

As the February floods too-painfully remind us, disaster preparedness and response appears closely intertwined with public safety. While our Housing team works tirelessly to help hundreds of our families to get back on their feet, we must commit to do whatever we reasonably can to support their efforts, and we must ensure that this does not happen again.

When we consider priorities beyond these obvious items—public safety, flood recovery, and disaster preparedness—our scarce dollars appear scarcer still. Thin budgets do not diminish the reasonable expectations of our residents for better services and broader economic opportunity. We must become more resourceful in identifying alternative means to accomplish what the limited resources and staff of City Hall cannot do alone.

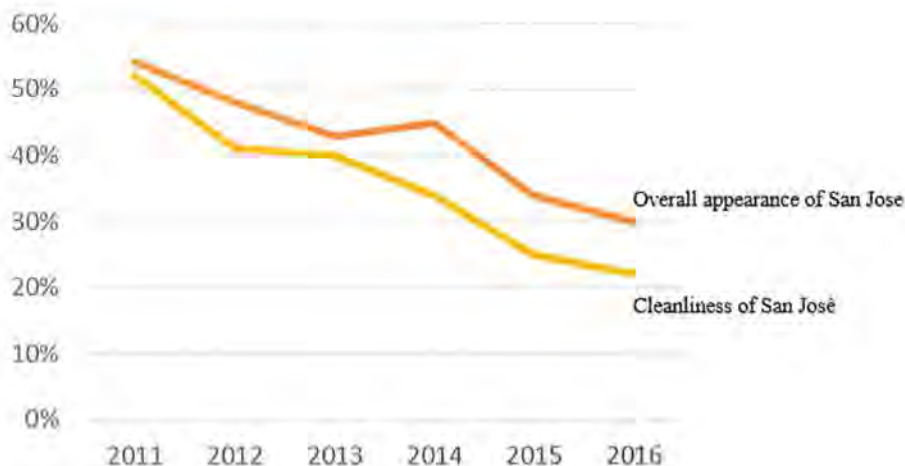
A fiscally-minded approach focuses our spending on two strategies for service restoration: first, we should identify expenditures that can improve the City’s cost-effectiveness or service



efficiency in the long run. Second, we should identify means to leverage external resources that can expand the impact of modest City investments. This latter approach requires partnerships, particularly where partners' resources—whether private contributions, volunteer energy, or state and federal grants—might provide a “force multiplier” for City staff and dollars.

An obvious opportunity for this leverage lies in our battles against blight, where we already have volunteers, corporate sponsorships, and partners like Downtown Streets Team, Our City Forest, and the San José Conservation Corps at work. We have seen fast-rising concern among our residents regarding the physical appearance of our City, particularly along prominent stretches of freeways, in our parks, and along key neighborhood business districts (Figure 2).

**Figure 2 - % of Respondents Rating Element as “Excellent” or “Good”**



Source: City Auditor's “Annual Report on City Services FY 2015-2016”

Fortunately, we have more partnership-building opportunities in this space. To take advantage of those opportunities, we have launched #BeautifySJ: an effort to convene and align community resources toward the beautification of our City.

To help prioritize spending within #BeautifySJ, we've engaged our neighborhood leaders with a “zero-based” budgeting exercise, because we simply don't have many new dollars to invest. Our community-based experts—many of whom invest hundreds of hours in cleaning graffiti and trash—have helped to identify the most impactful City programs to combat neighborhood blight. We've illustrated the results of that convening in Appendix A.

While residents proposed increasing current year spending levels for anti-litter, street and median beautification, illegal-dumping and code enforcement, they also advocated that the City better engage them and their neighbors in beautifying our City, through such efforts as neighborhood clean-ups and park activation. I've outlined fourteen of these ideas in Appendix B. Several of these recommendations provide the basis for specific elements of the #BeautifySJ initiative.

Finally, as we prepare for choppy waters ahead, we need to focus on strategies to save, and to improve our fiscal resiliency for a recession. We can do that by building on our reserves, refinancing higher-cost debt, and reducing our unfunded liabilities.

For the aforementioned reasons, I focus my budgetary recommendations in the following categories:

1. Public Safety & Disaster Preparedness
2. Flood Recovery
3. Investments that Produce Long-Term Savings, Revenues, and Efficiencies
4. Investments that Leverage External Sources of Funding
5. Investments Leveraging Community Energy and Volunteerism: #BeautifySJ
6. Saving & Improving Fiscal Resiliency

## **INVESTMENT PRIORITIES**

### **1. Public Safety & Disaster Preparedness**

- a. **Rock Springs Flood Protection:** We've recently learned that as long ago as the early 1970's, the Santa Clara Valley Water District (SCVWD) identified the particular vulnerabilities of the Rock Springs neighborhood to flooding. More than forty years later, in October 2016, the SCVWD published a study entitled, "Coyote Creek at Rock Springs Flood Protection Project – Problem Definition and Conceptual Alternatives Report." The report identifies alternatives for proposed Water District flood protection improvements at Rock Springs. While the report does not discuss temporary flood protection alternatives, we should explore with the Water District whether information in the report adequately informs the construction of a temporary flood barrier to address this urgent need. This flood-prone neighborhood deserves our immediate attention. The City Manager is directed to further analyze the report and coordinate with SCVWD, and with potential partners, such as the San José Conservation Corps.
- b. **Improved Flood Warning:** In its May 2013 5-year Flood Protection Plan, the Water District included among its list of projects "C2. Emergency Response Upgrades," consisting of an "automated flood warning system" that "uses real-time rainfall data to predict streamflows and potential flood risk...[and] efficiently disseminate[s] information to emergency responders and the public using the web, texting, auto-calls, and other technologies." It appears that the project, at an estimated cost of \$3.3 million, has not yet been implemented by the Water District, and was not planned to be completed within the 2013-18 window. Last year, the Mayor's Office—in collaboration with Microsoft, the U.S. Patent and Trademark Office, and the Silicon Valley Community Foundation—launched "Unleash Your Geek," identifying urban challenges that "citizen solvers" could help tackle, leveraging the talents of our innovative community. Our effort has met with strong enthusiasm and participation—particularly among San José State University's students. Publicly available data regarding Anderson Reservoir and Coyote Reservoir levels, Coyote Creek stream flows



and stage levels, and (with the benefit of recent experience and forthright communication from the Water District) more accurate assessments of channel capacity could, if made available on an open data portal, enable the creation of a better predictive tool. The City Manager is directed to work with the Mayor's Office to launch an "Unleash Your Geek" challenge, or alternatively, to explore an effort with the Silicon Valley Talent Partnership to enable better predictive tools that will trigger warnings for our residents.

- c. **Emergency Preparedness Training:** As part of my FY 2016-2017 June Budget Message, Council unanimously approved restoration of the Community Emergency Response Team (CERT) training program, offering a cost-effective means of "crowdsourcing" emergency readiness, offering monthly trainings to residents in English, Spanish and Vietnamese. To date, these trainings have not yet begun. With the recent hiring of a new Director of the Office of Emergency Services (OES), the City Manager is directed to take necessary actions this year to offer this training to residents. In addition, the City Manager is directed to analyze and coordinate with San José Fire Fighters Local 230 the feasibility of San José fire fighters offering CERT instruction, and include modest one-time expenses in the budget. The City Manager is directed to develop a Manager's Budget Addendum outlining current efforts, including recommendations for expansion of the CERT, and should seek grant funding for these efforts in collaboration with the Mayor's Office of Strategic Partnerships.
- d. **Emergency Communication and Mass Warning:** The FY 2016-2017 June Budget Message included direction and funding to improve communication during a disaster, in two ways. First, the Budget Message called for the launch of a pilot program deploying a portable mass siren/speaker system. This equipment has not yet been purchased. Second, the City Manager was directed to assess the feasibility of connecting every fire station to high-speed fiber internet, to enable residents a means during most disasters to communicate with their families, find emergency resources, and learn of additional hazards. With a new OES Director, we have an opportunity to reassess priorities and vulnerabilities in the wake of the Coyote Creek Flood. The City Manager is directed to prioritize the purchase of any OES one-time necessary investments for emergency communication and warning if approved as part of the final FY 2017-2018 Operating Budget. Lastly, the City Manager is directed to update the Council through an Informational Memorandum, on the progress of the prior direction.
- e. **Emergency First-Responder Notification:** In the event of a disaster, current San José Fire Department policy relies on mutual aid resources, such as emergency callback procedures and recalling off-duty personnel to return to service, which have not been used in decades. Through our recent contract with IAFF Local 230, the City implemented a residence proximity requirement on all new fire fighters, to better ensure their availability for major emergencies. The City Manager is directed to update its emergency call-back procedures, including communications and deployment.
- f. **Emergency Preparedness and First Responders:** During the Coyote Creek Flood, San José fire fighters evacuated more than 350 residents by boat. San José's topography means it will continue to flood in the future. Currently, the crews at Fire

Station 34 comprise the only trained in boat rescue in the entire County. The City Manager is directed to increase rescue boat capability and additional training for more fire fighters in flood-prone areas, and seek funding opportunities from external partners, including FEMA, the County, and SCVWD.

- g. Equipping Patrol Cars:** An Automated External Defibrillator (AED) is a lightweight, portable device that can deliver an electric shock through the chest to the heart, to restore a normal heart rhythm. At last year's Turkey Trot, an officer's alert response with an accessible AED saved the life of one participant suffering cardiac arrest. The City Manager is directed to allocate \$40,000 in one-time funding to equip 50 SJPD patrol cars to match similar commitments from the County of Santa Clara and the Health Trust, and to further seek additional matching funds to expand AED access.
- h. Emergency Medical Services Resources:** The City and County of Santa Clara continue to work together to improve emergency medical response in the City of San José, through a combination of service-delivery improvements and technology enhancements. Recent investments and dogged determination by the Fire Department have improved performance, but we still have work to do to more consistently exceed the 8-minute response standard at least 90 percent of the time. We have a rare opportunity to encourage the County to reconsider an EMS model that appears inefficient relative to the leading jurisdictions. The San José Fire Department needs more resources and analytical staff to best enable the SJFD to identify and advocate for the most promising delivery model, and the City Manager is directed to explore one-time funding in the Proposed Budget.

## 2. Flood Recovery

- a. Helping Residents Get Back on Their Feet:** Our fundraising efforts—which have topped \$6.3 million—say much about the generosity of more than 2,500 people who have come to the aid of our neighbors, to say nothing of the more than 4,000 volunteers who have done so. Yet these funds will not suffice to address the needs of our hundreds of displaced families. Although our residents will not qualify for FEMA aid, my recent conversations with senior officials at the Small Business Administration (SBA) and the California Office of Emergency Services have clarified that our residents may qualify for very low-interest loans of up to \$40,000 for renters who have lost vehicles, furniture, or other personal belongings, and up to \$200,000 for owners with homes needing structural repairs. Other programs also exist for landlords and small business owners. We must act with urgency, however: every one of our victimized families must apply for benefits within the 60 day-window after the Governor formally issues a disaster declaration—likely next week. The City Manager is directed to immediately deploy City personnel and culturally-competent non-profit partners—with Vietnamese and Spanish-speaking staff—to inform families of this opportunity, and to help them apply for these loans.
- b. Rebuilding our Community:** We are blessed to live in a community with organizations such as ReBuilding Together Silicon Valley, Habitat for Humanity, and Beautiful Day, which can leverage philanthropy and volunteer efforts to help low-



income home owners with free repairs. The City Manager is directed to partner with the Mayor's Office of Strategic Partnerships to seek external funding to support these efforts and report back to Council in fall 2017.

- c. **Community Resiliency:** The City of San José lacks a community resiliency plan aligning resources and information that will contain a disaster's disruption to everyday lives, and to better enable community members to recover. Some County officials have expressed interest in assisting in this work. Through our recently-hired Director for Office of Emergency Services, the City Manager is directed to work with partners, such as FEMA, ABAG, the County, and private partners to identify resources, in partnership with the Mayor's Office of Strategic Partnerships, to develop a San José Community Resiliency Plan. The City Manager is directed to report to the Public Safety, Finance, and Strategic Support Committee in fall 2017 with a status update.
- d. **City Damages and Costs:** Based on our Initial Damage Estimate, the City sustained approximately \$19 million in flood damages to city infrastructure, although this estimate will undergo further refinement in the months ahead. Assistance from the Federal Emergency Management Agency (FEMA) and State of California should provide financial relief assistance for reconstruction efforts, in addition to whatever the City can recover through catastrophic claim process with AIG, the City's insurance carrier. Pending reimbursements, the City Manager is directed to prioritize the use of Capital Funds, to the extent possible, in the reconstruction efforts of bridges, parks, public buildings, and streets damaged by the flooding.

### 3. Investments that Produce Long-Term Savings, Revenues, and Efficiencies

- a. **Street Pavement Maintenance:** Every dollar we invest today in preventative road maintenance will save \$4 to \$5 in future costs for road rehabilitation. Like most American cities, however, San José struggles to meet basic infrastructure needs. The pockmarked condition of our roads costs the average San José motorist more than \$800 annually in tire replacement, reduced fuel economy, and auto repairs. We have only begun to reverse the serious neglect of our infrastructure maintenance, increasing street paving miles each of the last two years. In FY 2016-2017, the Council committed \$34.8 million for the Pavement Maintenance Program, paving more than 109 miles, a substantial increase over any other year in the past decade and a half, with the exception of one-time American Recovery and Reinvestment Act (ARRA) funding. Nonetheless, it remains starkly insufficient; we would need to invest \$108.8 million annually for the next decade to maintain all of the City's 2,434 miles of City streets to a state of good repair. For that reason, I continue to work with Senator Jim Beall and the rest of our California delegation for the passage of SB 1 (Beall) or any similar measure that will restore state funding for roadway maintenance. Regardless of the outcome of that legislation, however, we should resolve to exceed the pavement mileage from last year's Pavement Maintenance Program by at least 80%, to repave 200 miles of streets and roads in FY 2017-2018. To achieve this goal, the City Manager is directed to allocate the portion of the Construction Excise Tax that exceeded revenue targets this year to street maintenance for FY 2017-2018. This action will raise FY 2017-2018 spending on road maintenance to more than \$50 million, and start repaving

neighborhood streets for the first time since 2012. In addition, the City Manager is directed to explore accelerating future one-time Federal allocations through the One Bay Area Grant program for pavement maintenance to FY 2018-2019, allowing the City to sustain the \$50 million funding level for a second year.

- b. Residential Parking Pilot Program:** In February 2017, the Transportation and Environment Committee accepted a report from DOT on the pilot program aimed at addressing parking challenges in neighborhoods and proposed expanding the threshold criteria where new permit parking zones may be created based upon excessive local parking demand generated from within a neighborhood. The report and the anticipated establishment of new zones is expected to come before the City Council in May 2017. If the Council approves the new zones, implementation may begin in summer and fall of 2017. To manage zone implementation, support monitoring and program adjustments, and to assess and prioritize the need for continuation of the program, the City Manager is directed to continue the addition of one General Funded Associate Transportation Specialist position funded by the General Purpose Parking Fund in DOT for FY 2017-2018.
- c. Refinancing:** Last week, the Council approved the refinancing of approximately \$700 million in Airport Revenue Refunding bonds which will save the Airport an estimated \$40 million over the term of the bonds. More critically, work has begun to refinance more than \$1.8 billion of former redevelopment agency bonds—comprising 27 separate series of issuances—which will accelerate the payment of millions into City’s General Fund by clearing RDA bond debt. The Finance Department next expects to commence work on refinancing outstanding lease revenue bonds and General Obligation bonds, which will create additional General Fund savings. In light of rising interest rates, these money-saving, complex financings must remain the highest priority projects for the Finance Department, and the City Manager is directed to prioritize this work accordingly.
- d. Filling Vacancies Within Our Budget:** The most immediate way to improve service delivery lies in filling the City’s 850 vacant positions. The City launched a Talent Recruitment Initiative with a goal of hiring 300 people by April 2, 2017. If the City does not make significant progress towards this goal, the City Manager is directed to immediately bring forward any policy and structural changes to remedy this problem. In addition, the City Manager is directed to prioritize the hiring of vacant positions before recommending new General Fund funded positions in the FY 2017-2018 Proposed Budget.
- e. Business Permit Process Improvement Bootcamp:** Our permitting processes have taken positive steps in recent years. Last year, the City expanded the Small Business Ally program, and implemented on-line permit issuance for restaurants. We need to continue this work, with an eye to empowering line-level staff to identify and tackle small inefficiencies in a way that can deliver big results for small- and medium-sized businesses. The City Manager is directed to allocate \$200,000 funding from the General Purpose Parking Fund to develop a process-improvement bootcamp that provides immediate and continuous process improvements utilizing best practices from



Denver’s PEAK Academy and other design-thinking approaches. The City Manager is directed to update the Smart Cities and Service Improvements Committee in May 2017 during the “Development Services Process Improvements” item, and to specific clear targets for quantifiable process improvements, with a particular focus on reducing delay. The City Manager is further directed to prioritize filling PBCE vacancies in those positions that serve small business customers for such needs as tenant improvements and permits.

- f. **Storefront Activation:** Although San José achieved national attention when Biz2Credit ranked San José as the top U.S. metro in which to launch a small business, we know too well that small businesses struggle mightily against the high costs of our Valley. Small businesses—those with 20 or fewer employees—employ 15% of all San José workers, but with the dissolution of the Redevelopment Agency, the City of San José has had few resources to support small business services. Since that time, we have launched various programs to help small businesses, as noted in the previous paragraph, but perhaps the most popular has been the SJ Storefronts Initiative, to help small businesses activate vacant storefronts. The City Manager is directed to allocate \$250,000 one-time funding from the General Purpose Parking Fund to the SJ Storefronts Initiative. Given the source of funding, the City Manager should prioritize those businesses operating in business districts that generate parking fund revenues, but eligibility should remain open to businesses citywide.

#### 4. Investments that Leverage External Sources of Funding

- a. **SJ Promise:** SJ Promise provides a critical link in the college and career pathway paved by SJLearns and SJWorks, eliminating financial barriers to college for hundreds of our San José public students from low-income families. The City’s role—as with mayors in other cities with “Promise” initiatives—lies in convening funding and thought partners, coordinating among educational institutions, and expanding existing programs with fundraising. Already, our SJ Promise includes three community colleges—San José City, Evergreen Valley and West Valley—along with three key high school districts (East Side Union, San José Unified and Campbell Union) who deliver college readiness programs. Although SJ Promise consists of three distinct strategies—college readiness, college promise scholarships and college pathway partnerships—the City will focus its fiscal commitment on college pathways partnerships, involving work2future and our Library. We can leverage every dollar the City invests with \$11 from other funding partners, and this ratio continues to grow with additional fundraising. The City Manager is directed to allocate \$150,000 in one-time funding to SJ Promise.
- b. **Office of Immigrant Affairs:** In December of 2014, then-Vice Mayor Madison Nguyen, Councilmember Johnny Khamis, and I issued a memorandum calling for the creation of a formal City plan, and the identification of funding, to help DACA and DAPA-eligible residents apply for administrative relief, and to counter *notario* fraud. The following month, these efforts blossomed with the advocacy of additional colleagues like Councilmember Raul Peralez and Vice Mayor Magdalena Carrasco in the creation of the Office of Immigrant Affairs. That Office’s work has broadened to

include assisting immigrant-led small businesses, helping residents apply for citizenship, and other related objectives. The misguided policies of the current Administration bring new urgency to our task, threatening to separate thousands of San José families. In too many communities throughout the nation, fearful residents now decline to call 911 during emergencies, keep their kids home from school, and engage in other forms of harmful avoidance. We have the benefit of an effective network of community-based organizations that support our immigrant families, and a collaborative County that is contributing millions of its own resources, and we must continue to partner with them. Doing so requires committing our own ongoing resources that will ensure that our residents have the information they need to make good choices, to empower their families about their rights and their options. I direct the City Manager to make the previously one-time allocation of \$250,000 annual funding ongoing for the Office of Immigrant Affairs.

- c. **City's Sustainability Plan:** Environmental Services' effective collaboration with the business community and Pacific Gas & Electric has resulted in an award of \$1 million to fund ongoing sustainability efforts through PG&E's "Step Up, Power Down" program. Adding a Chief Sustainability Officer (CSO) and adequate support staff to oversee the implementation of the Environmental Sustainability Plan (ESP), slated for completion this year, will enable the City to move rapidly and to better position ourselves for external grants for implementation. The CSO will coordinate implementation of the ESP measures related to energy, water and mobility, and will lead the pursuit of partnerships, grants and other funding opportunities to advance the ESP. The City Manager is directed to utilize funding from the "Step Up, and Power Down" award to fund initial staffing and implementation costs. The City Manager is further directed to aggressively pursue other funding sources to minimize General Fund obligations for ESP implementation.
- d. **Preventing Family Homelessness:** The 2015 *Santa Clara County Homeless Census & Survey* estimates that, on any given night, there are 6,556 men, women, and children homeless on the streets of Santa Clara County. This includes 266 families. In 2016, cities and schools reported an increase in the number of families sleeping in their cars or at-risk of homelessness and studies repeatedly show that it costs far less for local governments to prevent homelessness than to sustain a family after they have become homeless. We have made tremendous gains in Santa Clara County in recent years developing a coordinated system of care for chronically homeless persons, but we lack a similarly coordinated county-wide system for preventing family homelessness. In last year's budget, Council allocated dollars to the Homeless Rapid Rehousing program that the Housing Department could not spend due to the insufficiency of available apartments. The City Manager is directed to rebudget \$750,000 of those unspent funds to work with Destination: Home and the County Office of Supportive Housing on a pilot program to expand families' ability to become quickly connected to homeless prevention services, streamline service delivery, and measure the collective impact of homelessness prevention.
- e. **Ending Veteran Homelessness:** We launched the "All the Way Home" campaign in late 2014, with the goal of ending veteran homelessness by Veterans Day 2018. Our



partnership with the County of Santa Clara, Housing Authority of County of Santa Clara and Destination: Home has produced excellent results in the first year, housing 590 veterans. We still have a hill to climb, and Congress and this Administration may make the hill steeper. The City Manager is directed to allocate one-time funding for Destination: Home as the campaign coordinator for a second year.

- f. AB 2176 Implementation – Tiny Homes:** The passage of AB 2176 brings a unique opportunity for San José to lead the nation in providing an innovative solution to homelessness, reducing the regulatory hurdles to constructing unconventional housing types. Last Spring, Council voted to ask the Housing Department to identify a site for this housing in each Council District. The City Manager is directed to accelerate work with Council Offices and the Neighborhoods Commission on site identification and community outreach meetings, and with the private sector in the visioning, design and construction of these unique structures, allocating savings from the FY 2016-2017 Housing Department budget for the design and implementation of the project.
- g. City Housing Authority Judgement Directed to Rapid Rehousing to Close Gap:** The FY 2016-2017 Adopted Budget included \$4 million in ongoing funding to the Rapid Rehousing Program to address homelessness. Since that time, the City’s Housing Authority has won a \$36.3 million judgment in its litigation against HUD, but that award remains restricted for housing programs. For both FY 2017-2018 and FY 2018-2019, the City Manager is directed to allocate \$4 million each year from the City Housing Authority fund to the City, thereby alleviating the General Fund of this expenditure.
- h. Gang Intervention and Clean Slate:** The Clean Slate Tattoo Removal Program has long provided an escape route for gang-affiliated young adults, a critical component of our gang intervention efforts. Dr. Jack Ackerman from Valley Medical Center and an incredible team of volunteers and youth intervention specialists sustain this program through their energy and goodwill, but they rely on outdated equipment for tattoo eradication. Current tattoo removal equipment requires clients to make multiple trips to the VMC, which results in higher rates of program “drop-outs” as patience and commitment wears thin over time. The City Manager is directed to allocate \$100,000 from the FY 2016-2017 San José BEST Reserve for this purpose, which will leverage another \$100,000 from the County and another \$100,000 from the Valley Medical Foundation for the purchase of new laser tattoo-removing equipment.
- i. San José Decides (Participatory Budgeting):** I would like to thank Councilmember Peralez and Vice Mayor Carrasco for accepting the challenge to launch participatory budgeting in their districts, partnering with my Budget Office to develop and implement #D3Decides and #D5Decides. As I proposed in the 2016-2017 March Budget Message, any Councilmember wishing to lead the effort within their own district may request up to \$200,000 within the Essential Services Reserve created by this Budget Message. The Mayor’s Budget Office will provide information, assistance, and facilitation in launching a community process to enable that District’s residents to identify their highest-priority projects for City funding during the 2017-2018 Fiscal Year. This year, in the spirit of #BeautifulSJ, we want to encourage districts to employ

criteria heavily weighted toward expenditures that leverage the “sweat equity” of community volunteers, matching funding, or other non-City matching resources.

- j. Cinequest:** Cinequest has become a San José treasure. This non-profit organization raises hundreds of thousands of dollars from sponsors each year to host a cinematic and virtual reality festival that brings more than 100,000 film aficionados into Downtown, and hundreds of artists from around the world. It has captured national acclaim, winning the USA Today's Reader's Choice for Film Festival of the Year. While other cities have attempted to woo Cinequest away, its leadership has committed to holding their film festival in Downtown San José in 2018 and 2019. However, the closure of Camera 12 has seriously undermined the logistics and budget of the event. To address this impact to their operational costs, the City Manager is directed to allocate \$100,000 from the TOT Cultural Facilities Reserve towards a grant over a two-year period (\$50,000 in FY 2017-2018 and \$50,000 in FY 2018-2019). The City Manager is further directed to return to Council before June 2017 with an analysis of the necessary rehabilitation of the aging, City-owned Camera 3 facility, and to prepare an estimated cost and schedule, utilizing funds in the TOT Cultural Facilities Reserve. The City Manager is further directed to implement capital improvements in Camera 3 to make that facility commercially viable and attractive within this calendar year.
- k. Japantown Creative Center for the Arts:** The Creative Center for the Arts (CCA) will provide permanent, affordable space for artists and arts groups in Japantown, supporting local creativity, arts programming, and serving as a focal point for festivals and community gatherings. SV Creates is leading a major campaign of \$30 million for construction, actively pursuing funding from private donors through the creation of an Asian Legacy Fund, recently received a \$1 million grant from the Packard Foundation and secured \$4 million from its equity partners. Nonetheless, the project's cost has increased due to the City's requirement that the CCA fund nearby street improvements. The City Manager is directed to allocate one-time funding from the TOT Cultural Facilities Reserve to fund these improvements, and to enable SV Creates to be able to truthfully tell prospective philanthropic investors that their dollars will not be diverted to needs beyond the CCA's construction.
- l. Downtown Ice Rink Improvements:** Downtown Ice, the iconic holiday ice rink at the Circle of Palms, continues to grow in popularity. The attraction has operated for 13 years and needs repairs. For the last two years, the City has committed one-time funding to match the San José Downtown Association's investment, to address long-needed capital upgrades that SJDA needs to keep the event viable and attractive. Since Downtown Ice brings hundreds of thousands of dollars in revenues to our Parking Fund annually, I direct the City Manager to allocate \$100,000 one-time funding from the General Purpose Parking Fund for repairs and upgrades of the ice rink.
- m. Easy Urbanism:** Our businesses, neighborhood leaders, and residents rightfully complain that the cost and regulatory burden of permits have inhibited their efforts to activate our parks, plazas, paseos, and public spaces for events, festivals, or even sidewalk dining. City staff remain under a mandate to ensure full cost-recovery for those permits, because we lack General Fund dollars to subsidize them. As PBCE



Director Harry Freitas recognizes, “Easy Urbanism” offers a path out of this dilemma, by forcing the City to ask “do we really need to regulate this at all?” By eliminating or easing permit requirements, we can avoid incurring costs borne by customers who share our mutual goals of creating more vibrant communities. Fortunately, external partners like the Knight Foundation want to help. The City Manager is directed to seek external funding for this work, and report to the Community and Economic Development Committee in fall 2017 with a status update and initial recommendations for public space activation citywide.

## 5. Investments Leveraging Community Energy & Volunteerism: #BeautifySJ

- a. **BeautifySJ:** Trash, litter and illegal dumping affect how people feel about our City, undermining their willingness to invest, live, shop, dine, play, or volunteer here. A citywide survey in November 2016 followed by a series of focus groups confirmed what we had been hearing anecdotally: first, people want the overall appearance of our city to improve, and second, San José residents want to feel more connected to their community. These convictions are mutually reinforcing. BeautifySJ will engage residents to help keep San José clean, expand partnerships for beautification efforts, and empower neighborhoods to take back their public spaces. The City Manager is directed to implement the following BeautifySJ efforts, utilizing non-General Fund sources to the greatest extent possible:

- Unlimited Free Junk Pick-Up: In keeping with Council’s February 14, 2017 direction, commence an unlimited free junk pick-up service by the fall of 2017 as part of efforts to continue to reduce illegal dumping, and include a simplified scheduling, and request process in English, Spanish, and Vietnamese.
- Trash Cans: The City Manager is directed to negotiate amendments to our hauler contracts to add 500 more routinely-serviced trash cans along public streets, especially along heavily traveled pedestrian corridors, parks, and litter “hot spots.” The City Manager is further directed to explore options for requiring additional trash cans for businesses with a high volume of “take-out” service when those establishments submit permits for expanded or new locations in the City.
- Smartphone Reporting App: As IT staff work to release a “My San José” app offering a more comprehensive reporting tool for residents who identify problems such as illegal dumping, graffiti, code violations, and abandoned vehicles, the City Manager is directed to incorporate user-experience testing to ensure that the app interface is user-friendly on iOS, MSDN, and Android platforms.
- Volunteers & Anti-Litter Program: The City Manager is directed to prioritize hiring the volunteer coordinator for Volunteer San José in PRNS, funded but never filled in last year’s FY 2016-2017 budget, to boost our clean-up efforts.
- Volunteer Activation and “Service Credits”: Resident volunteers should be able to enjoy the public places they help maintain free of charge. The City Manager is directed to develop a “service credit” program where neighborhood and school groups can volunteer in parks, community centers, and litter pick-up

events, in exchange for a “service credit” that allows groups free or reduced fees for community-building events at parks, community centers and street closure permits for block parties.

- Freeway Clean-up: Our advocacy and collaboration with CalTrans in recent months has paved the way for CalTrans to shift millions in additional freeway litter cleanup funding to Santa Clara County, engage in a \$3.7 million contract with the County Probation Department and San José Conservation Corps for supplemental cleaning, and renew an expired contract for graffiti abatement. The City Manager should report back to the Transportation & Environment Committee and the full Council regarding the status of these recent changes, with clear metrics to assess progress toward a cleaner San José.
- Tree-Planting in Median Islands, Park Strips, and Gateways: Residents have identified the appearance of median islands, park strips and city “gateways” as a concern. Our City Forest can play an integral role to improve the appearance of these areas with tree planting and native landscape conversions. In the FY 2016-2017 budget the Council allocated \$200,000 to an urban forest reserve. The City Manager is directed to allocate this one-time funding to Our City Forest to support BeautifySJ, over a two-year period.
- BeautifySJ Days: We should sustain funding for neighborhood-led Beautification Days, an initiative adopted by Council in the FY 2016-2017 budget. “BeautifySJ Days” funding will offer neighborhoods opportunities for targeted clean-ups, where residents determine the location and scope of the projects, leveraging volunteer energy that strengthens community. The City Manager is directed to continue funding for “BeautifySJ Days” at current levels.

**b. BeautifySJ Grants:** Community Action and Pride (CAP) grants support community-building efforts in neighborhoods, such as National Night Out events and block parties, but the \$300 to \$1,500 grant amounts do not suffice to enable more substantial community-led projects to fledge. Some community leaders concluded that the paperwork and compliance became more trouble than the grant was worth. To encourage beautification efforts, I propose we streamline the application process, broaden the scope of the program, recast it as the “BeautifySJ” grant program, and increase the per-neighborhood allotment to \$5,000 per “BeautifySJ” grant. The City Manager is directed to streamline the application process, and to modify grant guidelines so that neighborhoods can utilize the funds on beautification projects on the public right of way, and in public locations, such as parks. Projects can include murals, tree plantings, drought-tolerant landscaping, community garden/urban agriculture projects, National Night Out gatherings, and the like. The City Manager is directed to allocate \$200,000 in one-time funding, in addition to the ongoing allocation of \$100,000 already included in the base budget for yearly programming for CAP grants.

**c. Leveraging the Energy of Volunteers:** As we witnessed throughout our flood recovery efforts, well-coordinated volunteers can provide a force-multiplier for the efforts of a thinly-staffed City Hall. On April 11, 2016, upon hearing a report of the City Auditor, the City Council directed staff to streamline volunteer management by aligning volunteer agreements, consolidating department databases, and utilizing



neighborhood based-social media platforms to promote volunteer opportunities. Council further directed staff to report back to the Neighborhood Services and Education (NSE) Committee in early 2017, but this item does not appear on the 2017 NSE Committee Workplan. The City Manager is directed to schedule a status update on these efforts for the April 2017 NSE Committee meeting and cross-reference to City Council.

## 6. Saving & Improving Fiscal Resiliency

- a. **Future Deficit Reserve:** The City Manager's General Fund Five-Year Forecast projects deficits totaling \$88.9 million over the next five 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 2018-2019 Future Deficit Reserve and allocate one-time funding to help fill the \$34.8 million deficit forecast for FY 2018-2019 in the Proposed Budget or through a Manager's Budget Addendum.
- b. **Police Staffing Operations Reserve:** Prior Council direction for the creation of an operations reserve in the Police Department appears outdated, in light of our aggressive hiring program in SJPd, to which we have committed a substantial share of General Fund dollars. The City Manager is directed to eliminate this Reserve.
- c. **Manufacturing Job Initiative:** In 2015, we launched a manufacturing initiative—"Built In San José"—to attract and grow the City's manufacturing industry sector, specifically to expand middle-income job opportunities for residents lacking college degrees. Each year, the City has spent \$200,000 to offset City permit fees for new and expanding manufacturers, including Space Systems Loral, BenteK, Four In One, and Hansen Medical. This incentive has successfully served our City, but low industrial vacancy rates and scarce General Fund dollars compel the conclusion that this incentive has run its course. Should the Council elect to move forward with San José Clean Energy (Community Choice Aggregation), a more valuable incentive could emerge for manufacturers, that could provide electricity rate reductions to spur targeted job creation in this energy-intensive industry. Should Council approve San José Clean Energy, the City Manager is directed to develop policy options for Council consideration to spur economic development.
- d. **Convention Center Facilities District:** In 2009 San José hotels elected to assess themselves an additional 4% of Transient Occupancy Tax (TOT) for a Convention Center Facilities District (CCFD) to pay the bonds used for the recent Convention Center Renovation and Expansion. Since the creation of the CCFD, seven new hotels have opened in San José without paying that additional 4%, avoiding the roughly \$1.7 million in taxes that could have funded Convention Center improvements. Recently the City used commercial paper to upgrade the Convention Center ceiling, for example, obligations that could be covered by additional revenue in the CCFD. The City Manager and City Attorney are directed to develop a strategy to expand the existing CCFD to include new hotels, and if legally feasible, development agreements with

CCFD-supporting clauses should precede the issuance of permits for any additional hotels.

- e. **Essential Services Reserve:** The City Manager is directed to set aside \$2 million in one-time funds that may be used for the purpose of supporting services that are of essential importance to our residents. Services deemed essential by the City Council—as well as Participatory Budgeting Pilot Programs—may be funded with the use of these one-time funds.
- f. **Budget Balancing Strategy Guidelines:** The City Manager is directed to use the FY 2017-2018 Budget Balancing Strategy Guidelines as detailed in Appendix C to develop a balanced budget for the next fiscal year.

### COORDINATION

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

For more information on this memorandum, please contact Lee Wilcox, Budget Director, at 408-535-4814.

### ATTACHMENTS

- Appendix A – Zero-Based Budgeting Exercise, FY 2017-2018 Community Budget Priority Setting Session
- Appendix B – Resident Proposals: Zero-Based Budgeting Exercise, FY 2017-2018 Community Budget Priority Setting Session
- Appendix C – FY 2017-2018 Budget Balancing Strategy Guidelines



## Appendix A

### Zero-Based Budgeting Exercise, FY 2017-2018 Community Budget Priority Setting Session

City Program / Service	FY 2016-2017	Average of Resident Proposed FY 2017- 2018
Neighborhood Park Maintenance	\$10,300,000	\$9,610,000
Parks Water	\$4,900,000	\$3,573,405
Homeless Response Team / Encampment Abatement	\$2,000,000	\$3,444,516
Code Enforcement: Abatement Officers (General Code Enforcement)	\$2,300,000	\$2,620,000
Free Junk Pick-Up	\$2,500,000	\$2,181,667
Regional Park Maintenance	\$3,350,000	\$2,103,405
Streetlight Replacement	\$2,200,000	\$1,806,738
Streetscapes/Right-of-Way and Median Maintenance	\$2,900,000	\$1,693,405
Anti-Graffiti	\$1,500,000	\$1,571,071
LED Streetlight Conversions	\$1,050,000	\$1,353,405
Illegal Dumping	\$900,000	\$1,149,943
Parks Restroom / Custodial Services	\$850,000	\$1,086,071
"Pocket Park" Maintenance	\$600,000	\$886,738
Neighborhood Clean Ups - City Sponsored	\$850,000	\$813,405
Urban Forest: Tree Trimming	\$1,150,000	\$736,738
Park Activation	\$750,000	\$637,738
Code Enforcement: Civil Action Attorneys	\$800,000	\$617,738
Anti-Litter	\$300,000	\$550,556
Tree Maintenance	\$400,000	\$480,071
Urban Forest	\$400,000	\$480,071
Sidewalk Repairs	\$450,000	\$463,405
San Jose Creates and Connects	\$250,000	\$354,405
Park Volunteer Program (Adopt-A-Park/Adopt-A-Trail)	\$400,000	\$307,667
Sports Field Program	\$250,000	\$297,738
Weed Abatement	\$400,000	\$273,405
Business District Beautification	\$50,000	\$244,405
Plaza Activation and Maintenance	\$150,000	\$201,071
Community Action & Pride grants	\$100,000	\$184,405
Streetlight Installation/ Additions	\$0	\$166,738
San Jose Gateways	\$0	\$153,405
Adopt-A-Street	\$0	\$81,671
Adopt-A-Median	\$0	\$78,338

Source: Source: 2017-2018 Community Budget Priority Setting Session, January 28, 2017

## Appendix B

### Resident Proposals: Zero-Based Budgeting Exercise, FY 2017-2018 Community Budget Priority Setting Session

Resident Proposed Programs/Services	Average Proposed Expenditure*
Landscape Neglected Properties	\$5,000,000
Job Placement and Assistance for Homeless	\$3,000,000
Human Resource Vacancy Filling	\$1,250,000
Increase Fire & Fire Dispatcher	\$1,000,000
Sidewalk Repair	\$1,000,000
Rainy Day Reserve	\$800,000
Small Business Junk/Trash Credits	\$500,000
Pilot LED Streetlights	\$500,000
Small Business Dump Credits	\$250,000
Historic Prevention	\$250,000
Community Center	\$200,000
Creative "Open Space" for Graffiti	\$150,000
Sanctuary City	\$0
Streamline Trash/Blight Programs	\$0
Education for Pedestrian/Bicycle Safety	\$0

Source: Source: 2017-2018 Community Budget Priority Setting Session, February 20, 2016



**Appendix C**  
**FY 2017-2018 Budget Balancing Strategy Guidelines**

The FY 2017-2018 Budget Balancing Strategy Guidelines provide recommended direction on the general approaches to use in the development of the 2017-2018 Proposed Budget.

**FY 2017-2018 Budget Balancing Strategy Guidelines**

1. Develop a budget that balances the City's delivery of the most essential services to the community with the resources available.
2. Balance ongoing expenditure needs with ongoing revenues to 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. Evaluate vacant positions to determine if any position changes should be brought forward to better meet departmental needs, with the goal of filling existing vacant positions before adding new net positions to the organization.
4. Focus on business process redesign in order to improve employee productivity and the quality, flexibility, and cost-effectiveness of service delivery (e.g., streamlining, simplifying, reorganizing functions, and reallocating resources).
5. Explore alternative service delivery models (e.g., partnerships with non-profit, public, or private sector for out- or in-sourcing 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.
6. Analyze non-personal/equipment/other costs, including contractual services, for cost savings opportunities. Contracts should be evaluated for their necessity to support City operations and to identify negotiation options to lower costs.
7. Explore redirecting and/or expanding existing revenue sources and/or adding new revenue sources.
8. 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.
9. Identify City policy changes that would enable/facilitate service delivery changes or other budget balancing strategies.
10. If ongoing resources are available, focus investments in the following areas: services included in the 2016-2017 budget on a one-time basis, as appropriate; and additions that address significant organizational or community risks.
11. If one-time resources are available, focus on investments that address the City's unmet or deferred infrastructure needs and/or leverage resources to or improve efficiency/effectiveness through technology and equipment or other one-time additions.

12. In addition to considering service restoration priorities previously identified by the City Council, take a holistic approach regarding the restoration of services. As outlined in the Guiding Principles for Restoring City Service Levels as approved by the City Council on March 20, 2012, allocate additional resources with the following goals in mind: ensure the fiscal soundness of the City; choose investments that achieve significant outcomes; and improve efficiency and effectiveness of service delivery. Using a multi-pronged approach to restoring direct services, take into consideration the following factors: adequate strategic support resources; adequate infrastructure; service delivery method to ensure efficient and effective operations; service delivery goals and current performance status; service sustainability; and staffing resources.
13. Engage employees in department budget proposal idea development.
14. 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.
15. Use the General Plan as a primary long-term fiscal planning tool and link ability to provide City services to development policy decisions.

These guidelines are similar to those approved by the City Council as part of the Mayor's March Budget Message for Fiscal Year 2016-2017 with a couple of additions. Item #3 is added to focus on the need to fill existing vacant positions before adding net new positions to the City, and item #11 is included to describe the potential use of one-time resources.