



2020-2021 CAPITAL BUDGET

**2021-2025 CAPITAL
IMPROVEMENT PROGRAM**



**MAYOR'S MARCH
BUDGET MESSAGE**



Memorandum

TO: CITY COUNCIL

FROM: Mayor Sam Liccardo

**SUBJECT: MARCH BUDGET MESSAGE
FOR FISCAL YEAR 2020-2021**

DATE: March 6, 2020

Approved: 

Date: 3-6-20

RECOMMENDATION

Direct the City Manager to submit a balanced budget for Fiscal Year 2020-2021, 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 2020-2021 March Budget Message for consideration by the City Council, and the residents of San José. With Council approval, this initial framework provides the City Manager with direction to prepare proposals for the Council's budget deliberations in May, and to formulate the Fiscal Year 2020-2021 Proposed Budget.

OVERVIEW

The Novel Corona Virus Epidemic and the City Budget

The report of the third COVID-19-infected person in Santa Clara County on Friday, February 28, our shifted the trajectory of our community dramatically. The fact that the patient had contracted the virus locally made concrete the "not if, but when" warnings of the U.S. Centers for Disease Control. Another score of confirmed cases in the County have emerged since then, and the County's Public Health team's diligent efforts to trace contacts of the infected patients will likely yield several dozen—if not hundreds—more in the days ahead. More troublingly, the CDC's restrictive, inadequate testing protocols cannot possibly identify all of the clusters of infection, and a more proactive, rigorous testing regimen would dramatically enlarge that grim tally—perhaps at a rate more exponential than linear. Given the high estimates of both infection and mortality rates, we now live in a world requiring dramatic changes to our daily hygiene, work patterns, travel, and social engagement.

This new reality compels us to pivot. In evaluating our budgetary decisions, we should expect heavy headwinds in several key economic sectors—such as air travel—that will have direct

impacts on City revenues. The Organization of Economic Cooperation and Development (OECD) predicted Monday that the virus's spread has already jolted global economic growth by a half-percent downward, and it may stall GDP growth rates to 2009 levels. Recent shockwaves in financial markets have forced many economists to retract previously sanguine macroeconomic projections. It seems increasingly likely that we will see a recession this year, particularly as US consumers and employers feel reluctant to travel, to convene in public spaces, or spend their money.

These global phenomena have very local impacts. For example, public health concerns forced Facebook, Nvidia, and several other major conferences to cancel their San Jose McEnery Convention Center and hotel bookings, and more will likely follow. These cancellations, and similar responses to the epidemic, will sink City revenues in several categories, including sales and transient occupancy taxes (TOT), the latter of which had already been underperforming over the past six months.

Similarly, a continued deterioration of the stock market—which suffered its biggest weekly loss since the 2008 financial crisis—will undermine our retirement funds' ability to meet their expected rates of return. This will exacerbate the City's \$4 billion in unfunded liabilities in those accounts, forcing higher contribution rates in the years ahead. Although our Retirement Services Stakeholder Working Group has been underway for several months exploring strategies to mitigate the harm and risk from the seemingly chronic underperformance of our pension assets, we should not expect any short-term solutions to emerge to address the fiscal harm of recent market drops.

Budgeting in Turbulent Uncertainty: Three Tiers of Authorization

As we navigate this turbulence, we must make spending decisions mindful of the dramatic changes that our lives and economy may endure in the weeks ahead. Accordingly, I propose the following three-tiered framework for any spending authorized by Council in this budget message:

- **Tier I:** Fiscal Resilience
- **Tier II:** Affordable Housing and Homelessness Solutions Funded by Measure E
- **Tier III:** Contingent Expenditures

The first tier will consist of allocations that boost fiscal resilience. Saving, building reserves, paying down debt, and other mechanisms that reduce stress on the General Fund will best position us for any future downturn. They will also soften the landing in ways that will enable us to more quickly recover, and to restore fiscal health and City services in subsequent years.

Second, with the passage of Measure E, the Council has already allocated 100% of the measure's revenues to build affordable housing and address our homelessness crisis. To keep trust with our voters, and to address a housing crisis that will outlive the COVID-19, we must focus every dollar of Measure E revenue toward those objectives.

Every other expenditure authorized by this Budget Message should be contingently allocated, and ultimately approved in June only (a) if news substantially improves in the weeks ahead, or (b) if

there is a non-General Fund source for the expenditure. A more substantial outbreak—which seems very likely at this point—will force us to retrench, tighten our belts, and focus dollars on helping our community recover. By the time that I submit my June Budget Message, we will know much more that will enable us to either pull back these contingent expenditures, or to move forward.

Building Budgetary Resilience for the Next Half-Decade

In recent years, we have increasingly put dollars into reserves to prepare for a looming downturn, and we have paid down existing debts to reduce future strain to the General Fund. We have begun to see the benefits from this strategy, as evidenced by this year’s small surplus, and by a sustained balanced budget projected over the next half-decade.

That is, the City’s most recent base five-year General Fund forecast (See Table 1) shows, for the first time in two decades, a small net surplus over the next half-decade. Deficits and surpluses for individual years range from a negative \$11.1 million to a positive \$14 million balance:

Table 1 – 2021-2025 General Fund Forecast Incremental General Fund Surplus / (Shortfall) \$ in Millions

	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025
Base Case	\$0.5 M	(\$11.1 M)	\$14.0 M	(\$2.2 M)	\$1.0 M
Optimistic	\$13.4 M	\$7.4 M	\$30.1 M	\$11.3 M	\$16.7 M
Pessimistic	(\$13.1 M)	(\$19.8 M)	\$4.2 M	(\$12.1 M)	(\$6.6 M)
Recession	(\$38.3 M)	(\$53.7 M)	(\$19.4 M)	(\$33.7 M)	(\$32.9 M)

Source: 2021-2025 Five-Year Forecast and Revenue Projections for the General Fund

Critically, this forecast does not incorporate any assumptions reflecting the COVID-19 pandemic that is already underway. The base forecast depends upon assumptions that—knowing what we know today—seem plainly unrealistic, such as 4% growth in transient occupancy tax, and 3.64% growth in sales tax next year. Budget staff keenly included a more pessimistic scenario, yielding an aggregate five-year deficit of almost \$50 million, and a recessionary scenario that projects a deficit of more than \$170 million over the five years.

A slowdown seemed likely anyway. Well before recent news of the local spread of COVID-19, a UCLA Anderson Forecast from December of 2019 already predicted a slowing California economy¹. Of the economists surveyed by the National Association for Business Economics, about 74% predicted that a recession would occur in the next 21 months.²

¹ “December 2019 Economic Outlook”, UCLA Anderson School of Management, December 2019.

² Greene, Megan, Jankowski, Patrick, Simonson, Ken, “Most NABE Economists Expect Recession by the End of 2021; Express Overwhelming Support for Federal Reserve Independence”, August 2019.

Given the very uncertain extent of COVID-19 infection, we should prepare for the worst. The troubled state of financial markets and declining macroeconomic indicators compel us to double-down on our budgetary resilience strategy, by building reserves and reducing our long-term debt obligations. Accordingly, through this Budget Message, I again seek my colleagues' support for our adopted principles of budgetary resilience:

1. **LONG-TERM SAVING:** prepare for economic volatility by building reserves and paying down debt to free ongoing resources;
2. **AVOID ONGOING GENERAL FUND OBLIGATIONS:** when a downturn appears likely, limit General Fund spending to one-time expenditures not requiring ongoing commitments, or else find ongoing, stable sources outside of the General Fund;
3. **FOCUS ON HIGHEST PRIORITIES:** invest in our residents' priorities that have the greatest impacts on the quality of life in our community; and
4. **LEVERAGE OTHER RESOURCES:** focus on ways to maximize the use external resources, including private-public partnerships, philanthropy, and volunteer energy.

Restoring City Services

Following a difficult decade punctuated by the Great Recession, we have made substantial strides in restoring core City services every year since my first Budget Message, with a particular emphasis on public safety, road repair, and library services.

In our first Budget Message in Fiscal Year 2015-2016, we added firefighters, restored library hours to six days a week, enhanced gang prevention, accelerated homeless rehousing, and expanded illegal dumping response. We then prepared and secured voter support for two 2016 ballot measures — a one-quarter cent sales tax (Measure B) in June and a modernization of the City's business tax (Measure G) in November—that together boosted revenues approximately \$60 million annually. Since that 2016 Measure B primarily emphasized public safety in its ballot argument and campaign literature, we focused those dollars on critical police and fire needs. That year, we added 41 authorized sworn police officers, restored all "browned out" fire stations, added two-person "squad" cars to boost emergency medical response, invested in emergency vehicle signal preemption technology, doubled our community service officer team, improved property crime response, expanded crime analysis capability at SJPd, and allocated \$4 million to provide "rapid response" housing for homeless residents.

We've also made significant progress in improving our infrastructure. Contrary to the claims of a few poorly-informed critics, the Council committed \$17.7 million in revenues from 2016 Measure B for street repaving. Since that time, the City's Measure T, VTA's Measure B, and the legislative approval of SB1 have provided a steady funding source for street repaving. Accordingly, we have shifted the City's 2016 Measure B funding to public safety. Nonetheless, the City repaved nearly 290 miles of streets in 2019—the most in a quarter-century.

Other infrastructure projects have also seen overdue investment. The voters' approval of Measure T has enabled us to build new fire stations, with Station 37 in final design, Station 20 in planning, and site identification underway for stations in Districts 3 and 7. We're well along with a \$1.4 billion upgrade of the wastewater plant, we've just completed a vital flood pump in Alviso, we've expanded our airport by 6 gates (with more likely to follow), and we hope to soon be underway on a new police training facility.

For their dedication to providing the best, most professional service to our residents, I have deep gratitude to our hardworking City workforce, who have weathered many years of growing workloads without commensurate growth in staffing or technology investment. I am also grateful to my City Council colleagues for their continued budgetary discipline, and for their focus on restoring our residents' most valued services.

DIRECTION

Accordingly, the City Manager is directed to present a Proposed Budget that allocates funding in a manner that aligns with the following recommendations:

Tier I: Fiscal Resilience

Eliminating Debts: We have made considerable progress in reducing citywide debt obligations in recent years. These efforts provide multiple benefits: reducing future annual debt service obligations, freeing ongoing dollars to restore services, bolstering the City's solid credit rating, reducing bond financing costs, and liberating City-owned parcels from cumbersome restrictions imposed by financing covenants. Last year, for example, we began to pay off our golf course debt, resulting in \$700,000 dollars in ongoing annual savings.

This year, we have the benefit of nearly \$25 million in one-time funds from the Finance team's excellent work on refunding of City Hall debt. The City Manager is directed to use the bulk of this one-time funding—approximately \$19 million—to pay the remaining debt balances on both the Los Lagos Golf Course and the LED streetlight conversion contract (aka, ESCO Master Lease Agreement). Combined, these actions will inure to the benefit of City taxpayers about \$4 million annually, which will surely improve critical services in the years ahead.

Reserves: Reserves soften the blow of our Valley's inevitable economic downturns. In my prior March Budget Message, I directed the City Manager to establish reserve strategies that protect recently restored services, and we have much work to do to reach those targets. Although existing City Council policy calls for a general purpose reserve of 10%, we know that it would require an extraordinary cuts of existing services to reach that level, so we have established an intermediate baseline amount of 6.5%. I propose that we provide additional buffers against our imminent headwinds with the following allocations:

- **Future Deficit Reserve:** The City Manager's General Fund Forecast (released this week) indicates a deficit of \$11.1 million in 2021-2022, and nearly \$40 million in a recessionary scenario next fiscal year. The City Manager is directed to allocate \$11.1 million to address the projected shortfall in 2021-2022 on a one-time basis. The City Manager is further

directed to return to Council with a Manager's Budget Addendum identifying proactive strategies that will address an anticipated larger gap, including consideration of cost saving efficiencies and reduction strategies.

- **Budget Stabilization Reserve:** To provide budgetary resilience amid large fluctuations in revenues or expenditures, the City Manager is directed to review the current balance of this reserve and make contributions as necessary to maintain a protective level of funds. Specifically, to address what is almost certainly going to be a substantial shortfall, the City Manager is further directed to deposit into this fund all of the anticipated one-time revenues from the Revenue Capture Agreement between the City and eBay. The uncertain nature of these dollars—given their potential of being subject to dispute by other marketplace facilitators—make them a poor source for us to depend upon for provision of services at this early juncture.
- **Essential Services Reserve:** The City Manager is directed to set aside \$3 million in one-time funds that may be used to support 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. I invite budget documents from my colleagues, but with one proviso: requests for cost estimates to the City Manager's Budget Office have dramatically increased in recent years, exceeding 80 last year. I request that my Council colleagues be strategic with their cost requests, mindful of their impact on the workload of an overstretched City Budget Office staff.
- **Sinking Funds:** The City's historic failure to budget sinking funds for capital assets has resulted in chronic deferred maintenance backlogs, even after the passage of Measure T. The City Manager is directed to review the City's capital programs to ensure "sinking fund" policies exist to address future capital replacement and maintenance needs. The City Manager is further directed to consider how new funding sources for parks and recreation capital improvements—such as a parks bond or community financing district—can provide a set-aside for capital replacement and (if legally feasible) maintenance. The City Manager is further directed to review and augment our sinking fund to address our IT "tech debt," including last year's contribution of \$2 million, while considering future critical replacement and repair needs for our aging IT.

Tier II: Affordable Housing and Homelessness Solutions Funded by Measure E

Regardless of the outcome of this public health crisis, our community will continue to endure a homelessness and housing crisis. In our community survey, the paucity of quality, affordable housing remains the very lowest-rated characteristic of our City, with 82% of residents rating the availability as "poor." At last count, 6,097 San Jose residents are experiencing homelessness, and of these, 5,117 (84%) remain unsheltered.

Fortunately, in our March elections, the San Jose community showed its heart, approving Measure E to accelerate our efforts to build affordable housing and address our homelessness crisis. We thank the many community partners, led by SiliconValley@Home, who supported that effort. Measure E's passage enables us to finally secure an ongoing source of funding to build affordable

housing that will supplant the nearly \$40 million of annual affordable housing funding that San Jose lost through the demise of its Redevelopment Agency in 2012.

On December 10, 2019, the San Jose City Council adopted a spending plan (net of administrative costs not to exceed 5%) that prioritizes the revenues raised by the measure with the following allocation formula:

- 45% for rental housing construction and solutions for Extremely Low-Income households
- 35% for affordable rental housing and assistance for Low Income households
- 10% for below-market-rate for-sale housing and rental housing for Moderate Income households. These funds could provide forgivable loans for rent-restricted backyard homes, down-payment assistance, and other first-time homeownership opportunities.
- 10% for homelessness prevention and rental assistance solutions

The City Manager is directed to allocate Measure E revenues according to the Council-approved formulation, with the additional specific direction:

Bridge Housing Communities (BHC)/ “Tiny Homes”/“Cabins”: Last week’s successful grand opening of the City’s first BHC compelled Governor Gavin Newsom to remark, “this shouldn’t be merely a ‘pilot project’—this should be in every city.” Each of the forty tiny homes and cabins cost less than \$9,000 to build, not including site preparation and infrastructure, due to the work of Habitat for Humanity and other partners. This solution can work: our first resident, who moved in only weeks ago, has since found permanent housing with help from on-site supportive staff. The City Manager is directed to report to Council in May with an update about (a) the lease-up of the Mabury BHC, (b) the status and well-being of its residents, and (c) the development of the second BHC site. The City Manager is further directed to return to Council in September with the identification of two additional BHC sites, and to obtain Council approval to begin construction that will at least double our transitional housing capacity.

Homelessness Prevention: Two weeks ago, we announced the impressive progress we made in partnership with the County, Destination:Home, Sacred Heart Community Services, and a dozen other community-based organizations in preventing homelessness among 1,338 families facing imminent eviction in the prior two years. Relying upon an average grant of \$4,100 per household, we found that we could keep 92% of those families housed a year later. The program’s impact remains limited, however, by resources; it could serve only one-third of the residents seeking help. The City Manager is directed to triple the City’s current commitment of \$3 million to \$9 million. This funding will be particularly critical to address the disruptive impacts of economic shutdowns prompted by the spread of the coronavirus. In partnership with a consortium of non-profits led by Destination:Home, I recommend that the Council and City Manager work together to encourage other public and private organizations to match the City’s enhanced contribution dollar-for-dollar.

Homeless Students: In San Jose, the 2019 Homeless Youth Risk and Resiliency Survey found that 22% of the homeless respondents aged 18-25 are currently enrolled in college. The California Student Aid Commission reports that nearly one in three college students in California experience food and housing insecurity. In January, I joined Bill Wilson Center, San Jose State University,

and Airbnb to announce a first-of-its-kind pilot program to provide temporary housing to college students experiencing homelessness and housing insecurity, with Airbnb waiving all fees. To manage this process, Bill Wilson Center must create a Housing Expeditor Fellowship role responsible to coordinate and communicate with Airbnb, and to help identify housing opportunities for young homeless or at-risk adults. The City Manager is directed to provide Bill Wilson Center up to \$55,000 in 2020-2021, and matching funds of up to \$60,000 over the following two years in support of this effort, from the tranche of funds allocated to Extremely Low Income residents.

SJ Bridge Employment: We created SJ Bridge to employ homeless residents to clean litter and trash in dozens of citywide “hot spots,” under the management and case support of two local nonprofits. In December of 2019, the program employed 19 homeless individuals and opened applications for 20 more. Previously, 20 more people had already transitioned to full-time employment. The City Manager is directed to report to Council during the Budget Process on both the efficacy of the cleaning crews in combatting blight, and in the efficacy of the program in enabling clients to reclaim a path to self-sufficiency. The City Manager is directed to continue the program for another year and expand the program to ensure sufficient transitional jobs and work crews to routinely clean Guadalupe River Park and St. James Park, in addition to their current routes. The City Manager is directed to explore non-General Fund potential future sources of funding, with support from the Mayor’s Office.

Backyard Homes: We have succeeded in dramatically boosting our community’s adoption of backyard homes (aka, accessory dwelling units, or ADU’s). Our combination of fee waivers, streamlining, one-stop permitting, and liberalization of size constraints enabled approvals of 415 backyard home permits last year, a number greater than the prior five years’ *combined*. The quantity of this housing should not be overlooked—for a single year, the number of San Jose’s ADU permits roughly equaled the housing production—of *all kinds*— for the entire city of Palo Alto over the *four-year period* from 2014 to 2018³. It also exceeded the aggregate four-year production of all housing in both Cupertino and Los Gatos—*combined*⁴. The great obstacle to scaling this production of naturally affordable housing for many homeowners appears to be financing, particularly for homeowners without sufficient equity in their homes.

Council has expressed interest in exploring the provision of forgivable loans for homeowners willing to agree to rent restrictions on their backyard homes. The City Manager is directed to return to Council by June with a proposal that will allocate the first \$5 million generated within the 10% moderate-income tranche of Measure E revenues for this program, with the requirement that rent restrictions remain on the units for an extended period of time—of not less than 5 years— or until the homeowner pays off the City loan.

Navigation Center: Last year’s Budget Message calls for the siting, development, and construction of a Navigation Center, to provide our unsheltered homeless residents connection to shelter and services and the path forward to coming in from the cold of living on the streets. The City Manager is directed to inform the Council, verbally at Council or through information memorandum, by May of the status of efforts to identify a site, and with specific options for the City move this important work forward.

³ SV@Home, <https://siliconvalleyathome.org/resources/#palo-alto>, March 2020.

⁴ SV@Home, <https://siliconvalleyathome.org/resources/#los-gatos>, March 2020.

Tier III: Contingent Expenditures

Should the spread of COVID-19 subside, and our economy stabilizes, then we can refocus on restoring key City services, as outlined below. The City Manager is directed to prepare the 2020-2021 Proposed Budget mindful that the funding priorities and programs described below may not be funded should the economy significantly contract. Those items funded by sources other than the General Fund are generally less susceptible to economic swings and can be incorporated into the budget as the relevant funding source allows.

A. PUBLIC SAFETY

Our first priority, and that of our residents, is public safety. In last year's annual community survey, the "overall feeling of safety" ranked highest among resident priorities, as "essential" or "very important" by more than 90% of residents. Through our budget, we have consistently prioritized public safety, allocating more than 60% of the departmental General Fund expenditures to Police and Fire. Nonetheless, pressing needs remain unmet.

Police Staffing: As of late January, the Police Department had 1,149 filled sworn officers, with 1,151 officers authorized for the year. Due to our two-year investment in the Hire-Ahead Program last year, three Police Recruit Academies were conducted in 2019-2020 yielding 145 recruits. Due to our tremendous turnaround in recruiting, hiring, and retaining officers in recent years—adding more than 200 officers net of retirements since the passage of Measure F in 2016—SJPD will soon reach its 1,151 budget cap, and still remain the most thinly-staffed major-city police department in the nation.

The City Manager is directed to add 20 sworn officers to the current budget authorization of 1,151, with an emphasis on expanding in such units as Street Crimes, sexual assaults (SEIU) and domestic violence (DV) investigations, and the traffic enforcement unit (TEU). The Five-Year Forecast should be adjusted to reflect this investment. To help support the hiring of the sworn staff, I recommend that the City Manager apply for a federal COPS Hiring Program grant. If awarded, this grant will help provide substantial one-time funding, and mitigate the General Fund impact over multiple years.

Improving Deployment Efficiency: SJPD has not revised its geographic district boundaries—essential for efficient and effective allocation of patrol officers—in nearly two decades, during a period in which the City has grown by more than 200,000 residents. The City Manager is directed to allocate one-time funding of \$350,000 to the Police Department to support the redistricting effort.

Downtown Foot Patrol: Growing concern over the safety of residents, workers, and visitors in our Downtown compels the need for walking patrol. Since I first urged this expenditure several years ago, Council has repeatedly approved the funding for a walking beat downtown, but the Department has had difficulties in persuading officers to volunteer to fill those overtime slots. As recruits transition from the Academy to field training to patrol this year, the Chief will have additional capacity to deploy walking patrols downtown. The City Manager is directed to fund the \$600,000 Downtown Foot Patrol Program with ongoing dollars, but only upon the addition of this

beat as a routinely-assigned, non-voluntary shift in the next fiscal year. The City Manager is further directed to engage with discussions with the County Sheriff, under contract with the VTA, to offer a visible presence for the benefit of transit riders along the light rail and Santa Clara Street bus corridors, and to further report to the PSFSS Committee outcomes of prior years' spending on Downtown Foot Patrol, and to discuss plans to get officers on walking beats Downtown.

Fire Station 37: Staffing for Adequate Fire and Emergency Response (SAFER) grants provide funding directly to local fire departments to boost the numbers of trained firefighters in their communities. We have used SAFER grants in the past to rebuild our Fire Department from the days of browned-out stations during the Great Recession. With the addition of new stations, we should again commit a City "match" to ensure we can secure these grants to offset early years of funding. The City Manager is directed to do so, with the addition of any ongoing expenditures in the Five-Year projection to account for the future staffing of Fire Station 37.

Fire Station 20/ARFF: By committing \$4.6 million of its own funding, the City has the opportunity to leverage much greater FAA investment in expanding the reconstruction of the Airport Rescue and Firefighting Facility (ARFF), aka Fire Station 20, to include off-airport operations that will improve emergency response capability. We could accomplish this improvement without additional ongoing operational costs by shifting an existing squad medical response unit from Fire Station 5, which would improve coverage and response. The City Manager can evaluate the addition of an engine company in the future, but in the meantime, the City Manager is directed to identify additional funding in Measure T or other capital sources to move forward with this expansion of Fire Station 20. Due to the FAA's March 31st deadline for the City's commitment to the project, the City Manager is directed to comply with that schedule and allow full funding to allow off airport operations. He is further directed to reimburse the Measure T program as part of future budget cycles from the Fire Construction and Conveyance Tax Fund, the General Fund, or other eligible sources.

Gun Violence: Ordinance Completion and Support of Recovery of Public Subsidy for Guns: In 2018, Council directed the City Attorney to draft an ordinance to reduce "straw purchases" of guns—such as the one used to kill the son of San Jose resident Sara Huff-Bacarato in 2019—through regulations that would require greater accountability of stores and clearer identification of buyers. Due to workload challenges in the City Attorney's Office, that ordinance has not yet been completed. Additionally, the Mayor's Office has secured approximately a half-million dollars in grants and in-kind assistance for research and analysis from various foundations, a legal center, and the County of Santa Clara to determine how taxpayers can recover the public costs resulting from gun violence and harm, such as the \$2 million annually incurred in County emergency response costs. The City Manager is directed to allocate one-time funding over the next two years—to support research, implementation, and legal analysis to evaluate and—with Council approval—implement these measures.

Traffic Safety and Automated Speed Warnings: Sixty people lost their lives on our streets in traffic collisions in 2019, a figure that has grown nearly 60% over the past ten years. Speed makes all the difference: a pedestrian has a 90 percent chance of dying in a collision with a vehicle moving at 40 mph, but a 90 percent chance of surviving at a collision speed of 20 mph. More than 40 percent of the City's fatalities and 33 percent of our severe injuries occur on only 3 percent of the

City's roads, comprising 17 Priority Safety Corridors (PSCs). Finding a way to reduce speeds on these corridors will dramatically improve safety.

The City has unsuccessfully sought legislation to authorize enforcement speed limits through automated speed detectors. We have not explored, however, the implementation of automated speed warnings. Behavioral research suggests that the mere awareness of official monitoring of driver behavior and warnings related to noncompliance⁵—even without explicit enforcement—can “nudge” subjects into greater compliance. For example, one National Highway Traffic Safety Administration study in Maryland utilized warnings that provided “encouraging” results in “producing statistically significant” reductions in speeding⁶. Similarly, in the UK, the West Midlands police department effectively reduced speeding by utilizing warning letters that explained the importance of speed limits with positive effect⁷.

California law prohibits automated speed enforcement, but it does not explicitly prohibit a city from using automated means to monitor speeds and warn motorists. I recommend that the City Manager explore a program that sends warning letters to registered owners of speeding vehicles that identify the date and time of the violation, and provide messaging targeted to alter behavior (eg., “we are increasing speed enforcement on that road due to increasing complaints by your neighbors,” or “we are aware of your failure to comply with the posted speed limit on that street, which has a high rate of injury accidents, including one that has left a neighbor of yours in the hospital.”). The cost of administration of the program may be recoverable, resulting in no ongoing impacts to the General Fund. I recommend that the City Manager and City Attorney assess the cost and legal feasibility of this approach, and, if legally feasible, present (in this budget year) for Council approval the capital cost of installing automated speed detectors along at least five pilot PSC corridors.

Traffic Safety and Street Improvements: In my last June Budget Message, I directed the City Manager to allocate \$300,000 for street safety projects in ten locations citywide. Nine months into the current fiscal year, I have just learned that the Department has not expended these funds, which is unacceptable. The City Manager is directed to designate these funds and an additional \$1.7 million in traffic capital funding (\$2.0 million total) for traffic calming, traffic mitigation, and safety-enhancing improvement projects in targeted neighborhoods and/or major roads. The City Manager should communicate to Council verbally or through an Information Memorandum to identify the funded projects, utilizing on a data-driven approach that focuses on investments that can most substantially reduce the risk of harm to pedestrians and cyclists.

B. ACCELERATING AFFORDABLE HOUSING PRODUCTION

Development Services Action Team: The current alignment of City departments responsible for various decisions relating to development services (Planning and Building, Fire, Public Works, and occasionally, Environmental Services, Parks, Transportation, and Housing) leaves project-

⁵ “Taming Traffic Tension with Behavioral Science”, Association of Psychological Science, March 2020.

⁶ De Leonardis, D., Huey, R., and Robinson, E., “Investigation of the Use and Feasibility of Speed Warning Systems”, National Highway Traffic Safety Administration: Office of Behavioral Safety Research, May 2014.

⁷ The Behavioural Insights Team, “Making Our Roads Safer - The 2017 Nudge Awards: Nudge for Good”, Behave!, June 2017.

critical decisions subject to several different department heads. Coordination and oversight of all of those departments' decisions remains a challenge, in part because no single person has the sole responsibility for timely delivery of EIR's, planning approvals, building permits, fire inspections, and certificates of occupancy. Effective change management and consistent trouble-shooting requires having one person who wakes up each morning focused on development services, and having the responsibility and authority to direct changes that will improve organizational performance and customer service. More than a decade ago, the City of Sacramento addressed these challenges by assigning oversight over all of development services to a single person at the Deputy City Manager level. The City has some experience and success standing up cross-departmental development teams with the Capital Improvement Program Action Team of a decade ago. The City Manager is directed to create a Development Services Action Team to drive the transformation of the development process and delivery of priority projects, led by a newly-created Deputy City Manager position. That Deputy's portfolio must consist solely of the work of change management, trouble-shooting, and meeting clear outcome-focused metrics across all of the development services departments. To the extent recommended by the City Attorney, the City Manager should use development services fees to fund this position for two years.

Attorney Affordable Housing: Projects associated with the City's \$100 million affordable housing development through the NOFA grant process has stressed the capacity of the City Attorney's Office to keep up. The City Manager is directed to use one-time housing funds to add an Affordable Housing Attorney for a two-year period for legal research and review, help with housing grants, homelessness issues, and consultant contracts that will enable City staff to scale up expertise and protocols for greater affordable development activity in the years ahead.

Backyard Homes—ADU Allies: As the demand for backyard homes grows, a continued deployment of an ADU Ally Team will ensure success of the program. This successful effort was funded with one-time dollars, however, and requires our continued commitment. The City Manager is directed to allocate \$150,000 in one-time funding for an ADU Ally to continue outreach, homeowner workshops, and customer service. The City Manager is also directed to allocate sufficient resources from the appropriate Development Services Fee Program dedicated to the ADU program's need for engineering, building inspection, and permitting services.

Facilitating the Siting of Transitional and Permanent Housing Solutions: The siting of housing solutions for homeless residents has met with predictable resistance in our neighborhoods, often due to unresolved preexisting issues such as trash and illegal dumping, parking violations, and encampments. In response, the City Manager's Office piloted the implementation of enhanced services in areas adjacent to Overnight Warming Locations (OWLs) over the past year. These enhanced services have made neighborhoods more receptive of these interim uses. To scale this approach, I recommend the City Manager allocate funding to develop and deploy this program at future interim and permanent supportive housing sites within the City, after providing the Council with a report of the outcomes of our pilot efforts and with opportunity for input. The City Manager and City Attorney are further directed to return to Council this Spring with a set of recommendations about how and whether the City can provide a geographically-defined local preference for the housing of homeless individuals or low-income family in any new housing site.

C. EQUITY, DISPLACEMENT & ECONOMIC OPPORTUNITY

Equity Framework: The two recent Equity-related study sessions have explored—and demonstrated the importance of—the work underway within the City workforce in collaboration with the Government Alliance for Race and Equity (GARE). I recommend the City Manager allocate one-time funding for two years to develop a workplan that 1) integrates an equity framework into decision-making, and operationalizes this practice in our daily work, 2) creates a coordinated community engagement approaches that builds effective partnerships, 3) creates infrastructure to ensure the City has a data-driven approach, 4) sets aside resources for external consultants or facilitators to assist the City, where necessary, and 5) substantially expands language access capacity. I further recommend that the City Manager change the title of the Office of Immigrant Affairs to better reflect the expanded scope of its work on racial equity.

Equity and Budgeting: I recommend the City Manager issue a Manager’s Budget Addendum that outlines this year’s progress on implementing an equity screen to guide the distribution of resources for neighborhood services, as directed by Council through my June 2019-20 Budget Message, including specific description of the criteria used for resource allocation. I also recommend inclusion of a summary description of work undertaken by departments to incorporate an equity review and analysis in the City Manager’s current budget proposals.

Anti-Displacement Initiatives for Small Local Businesses:

- **Storefront Activation Program:** Dramatic changes in our national retail environment have persuaded national credit retailers to constrict their leasing activity. This dynamic provides some opportunity for locally-owned small business owners to find more affordable, visible locations, but they often need small business assistance programs to get started. The Storefront Activation Grant Program helps eliminate start-up barriers that will enable more small businesses to transform empty spaces to vibrant shops and restaurants. The City Manager is directed to allocate one-time funding of \$250,000 to continue this program, and to proactively communicate the availability of the program to less traditional storefront tenants, such as community-based non-profits, arts organizations, and day-care centers.
- **Neighborhood Business District (NBD) Grants:** As the City implements Urban Village plans and builds its anti-displacement strategy, many of the existing neighborhood business districts will require ongoing support to remain sustainable, long-term civic institutions. I recommend that the City Manager consolidate its NBD grants and allocate an additional \$10,000 in ongoing funding to increase the current grant program to \$60,000, with priority given to business districts providing services addressing small business and non-profit anti-displacement strategies.
- **Affordable Housing and Commercial Space:** Builders have expressed concerns about the City’s requirements in some business districts to build ground-floor commercial space within affordable housing projects. We appreciate their challenges in financing space that may not be eligible for tax credit or grant funding. However, effectively halting mixed-use development undermines many goals to which we have committed ourselves. At a time of tremendous displacement of our small local businesses and non-profits, we critically need

more commercial space for affordability and access. We also need more child care, employment opportunities, and neighborhood-serving services within walking distance for our low-income residents living in high-density buildings. We seek to create more walkable, mixed-use corridors to promote alternatives to the automobile, improve public health, add the “eyes on the street” for public safety, and reduce greenhouse-gas emissions. We also want better urban design, more vibrant streetscapes, and more engaging pedestrian-level activity in our development. All of these goals support a continued commitment to mixed-use development along our key transit corridors, neighborhood business districts, and in the Downtown. I recommend that we convene key partners in the Departments of Housing, Planning, and Economic Development, the County, Housing Authority, housing builders, and financing partners to explore and identify alternative sources of funding and new approaches to financing that would enable inclusion of ground-floor active uses for retail, restaurants, and neighborhood services such as child care, laundry, and gyms.

Education and Digital Literacy: On February 11, our City Council unanimously approved the San José Education Policy to articulate and institutionalize the City’s approach to education. San José’s future prosperity depends enormously on the educational success of our youth. Driven by the values of equity, opportunity, quality, and accountability, the Policy guides the City investment and focuses our efforts on improving outcomes for our children. As our Library Department assumes primary leadership and support responsibilities with PRNS and other departments, the City Manager should work to identify citywide resources that can be used to continue this work.

SJ Learns: Now in its fourth cycle, SJ Learns has provided more than 3,500 young students with extended-day learning in 16 high-need neighborhoods. This program leverages the expertise of our school districts and the resources of our business community; for example, last year’s commitment from Alaska Airlines dramatically expanded the program into the summer to counter summer learning loss. In the year ahead, we will identify opportunities to expand the program, and to work with our school district partners to identify innovations that will better serve our highest need youth. To support these efforts to improve outcomes for the youngest members of community, I recommend the City Manager allocate another \$300,000 in one-time funds to SJ Learns.

D. BLIGHT & NEIGHBORHOOD QUALITY OF LIFE

BeautifySJ: BeautifySJ provides San Jose residents a much-needed respite from trash, graffiti, and blight, while boosting community pride by rallying residents to reclaim their public spaces with their neighbors. I propose the following changes to BeautifySJ:

- **Inter-Departmental Coordination:** BeautifySJ requires coordination across seven different departments and offices, involving at least 12 different beautification and quality-of-life-related initiatives. We routinely hear residents praise our hard-working City staff, but grouse about how services are delivered. A resident may use the MySanJose app to report graffiti and illegal dumping next to and in a park, but operating procedures result in different programs and different departments responding to the same geographic location. This ambiguity in ownership of service delivery frustrates our community and undermines our success. The City Manager is directed to explore consolidating the effort under a single

manager focused on ridding our City of blight. The City Manager is further directed to evaluate both one-time and ongoing beautification investments that allow for more effective blight-reduction strategies.

- **Interagency Coordination:** Similarly, a MySanJose app request for response to illegal dumping will require CalTrans to address dumping near a freeway off-ramp, the City to respond on a city street a few yards away, the Water District near a creek further away, Union Pacific along a railroad, and the VTA near a transit station. The MySanJose app will only provide satisfactory remedy for one of those five requests. Recent efforts to negotiate an MOU with Union Pacific may soon bear fruit, and the negotiation may provide a model for other interagency relationships. I recommend that the City Manager negotiate with other entities to facilitate City response to a blight complaint on another agency's land, but with compensation from that landowning agency.
- **BeautifySJ Sponsorships:** Several potential donors have expressed interest in sponsoring a portion of a program or event, but procurement rules prohibit sponsorship of large aspects of programs. Corporate contributions to the BeautifySJ program—whether to sponsor the Great American Litter Pick-Up or to fund BeautifySJ litter pick-up bags—should be easily (and happily) facilitated. I recommend that the City Manager authorize department directors to accept sponsorships and donations for BeautifySJ programming of departments operating within enterprise funds, and to do so without having to return to Council for approval.
- **BeautifySJ Grants Program:** More than 110 unduplicated neighborhood groups have received BeautifySJ grants since its inception—leveraging the power of volunteer energy and community pride. In the last seven months, the program has leveraged close to \$300,000 in in-kind/cash matches and about 14,000 volunteer hours at an estimated value of \$345,000. Over the past three years, residents have provided 34,000 hours of volunteer time. Neighborhoods continue to use grants to connect with their community members for neighborhood cleanups, tree plantings, mural-painting, and other ways that they can beautify their corner of San Jose. I direct the City Manager to allocate \$200,000 in one-time funding to the BeautifySJ Grant program to continue this momentum.
- **BeautifySJ Capital Needs:** The City Manager is further directed to allocate no more than \$400,000 to replace the leaf truck that is used by anti-litter staff for volunteer events and picking up illegal dumping, and to purchase two front-loading mini-tractors to utilize during clean-ups of dumping along creek trails and other tight spaces where traditional equipment cannot access.

Cash for Trash: We have recently launched an innovative program to pay unhoused residents for the trash they collect along creeks, roadways, and other areas near homeless encampments. A first-in-the-nation partnership with MasterCard has simplified payment processing, and other partnerships are planned. The City Manager is directed to monitor and measure the impact of the program in reducing visual blight and trash moving into waterways and storm drains. The City Manager is directed to use one-time funds of \$55,000 to continue this program into the next fiscal year, and to explore other sources of potential funding, including the City's sources and philanthropic contributions, to sustain the program.

E. COMMUNITY BUILDING, CULTURE, AND THE ARTS

City-Owned Cultural Facilities: As cultural facilities age, the list of deferred maintenance projects grows. In 2014, the City Council approved "capping" the revenue from the 4% of the Transient and Occupancy Tax (TOT) dedicated to the General Fund, with increment generated above that amount flowing to a new reserve needed for underfunded capital and maintenance of the City's cultural facilities. This set aside ended in 2017-18, and the City began an annual allocation of \$450,000 supplemented with additional one-time funds. In 2019-2020, the annual contribution increased from \$450,000 to \$850,000 and an additional one-time contribution of nearly \$6 million from the General Fund. However, this level of investment still leaves an average annual deficit of more than \$1 million over the next five years. The City Manager is directed to identify appropriate one-time sources of funds to increase the contribution in 2020-21 and evaluate a 5-year capital improvement program to identify and program funding to satisfy the current and future need. The City Manager should also explore re-instituting the previous increment funding approach, and further evaluate whether Team San Jose-operated City venues, such as the Center for Performing Arts, California Theater, and Montgomery Theater should be included within the fund, with supplemental annual contributions. The City Manager should report back to the Council through the budget process.

History San Jose: History San José operates several City-owned facilities, and preserves and enriches the cultural heritage of San Jose and the Santa Clara Valley through research, collections, partnerships, educational programs and events. The City Manager is directed to allocate \$300,000 in funds from the Cultural Facilities Capital Reserve to address high-priority capital improvements such as paving its dirt employee parking lot or replacing its perimeter fence.

St. James Park/Levitt Pavilion: The Levitt Foundation partners with cities and local organizations to transform public parks into vibrant destinations where free, live music brings people together and invigorates community life. The Friends of Levitt San Jose seeks to bring over 50 free, family-friendly concerts and performances each year to historic Saint James Park. Cost estimates of a Levitt Pavilion in the park have reached—*gasp*—\$21.6 million, including landscape, site work, reinforced lawns, green room, roof, glazing, and stage. Although Councilmember Raul Peralez has expressed a willingness to commit \$7.9 million of eligible District Three Parkland Dedication Ordinance/Park Impact Ordinance funding, and future developer fees may yield another \$5.5 million, the remaining gap for fundraising and funding exceeds \$8 million. The City Manager is directed to work with Chuck Toeniskoetter, the former CEO of TBI—who has volunteered his time to collaborate with the Friends of Levitt and convene a group of private sector experts to review the development and construction of the project, and to propose changes. Because this Pavilion will comprise the largest outdoor music venue in San Jose, and will serve the entire community, the City Manager is further directed to explore and propose the expenditure of citywide sources, such as the Construction and Conveyance Tax City-Wide Fund, for the construction of the Pavilion.

Armory Renovation: Rising rents threaten to displace our artists and cultural organizations, just as they have displaced our residents. SVCcreates supports a portfolio of more than 100 multicultural arts organizations and 150 artists in Santa Clara County, and has launched an effort to create a distributed network of space solutions for the arts. To date, they have invested \$3 million in shared space models for the arts that address the issue of dislocation of our creative community,

such as at the site on the corner of South 1st and San Carlos. The historic Armory building has recently been purchased by developer Urban Community, which has offered the building to SVCCreates as a potential space for artists and arts groups. CULTURESPACE will provide space for rehearsals, programming, classrooms, and offices for a consortium of multi-cultural arts groups, and will provide a music venue and event space for groups displaced by the sale of the Trianon Theater. These uses will require a renovation of the facility, which SVCCreates will fund through capital contributions. The City Manager is directed to identify capital funds up to \$250,000 for planning of this space to support the artist community. Given that traffic mitigation funds originally designed for this project appear to be no longer needed, the City Manager should consider this as a source, if appropriate.

Children's Musical Theater San Jose (CMT): After 22 years at the corner of Parkmoor and Meridian in District 6, a new school will displace CMT. Rather than folding up and moving to a new city, CMT leadership and its Board of Directors set out on to find space in San Jose, and will move down the street in September. At that site, CMT will bring rehearsal studios, administrative offices, and a set shop under one roof. CMT wants to continue serving the community; while enabling kids with financial barriers participate through its Community Access program, CMT will also help provide space for other arts organizations in its facility through subleases. CMT will provide up to ten (10) hours per week for weekday, daytime use of its 2,500 square foot “Studio A” space from February to May, and from August to November. CMT will work with the Director of the Office of Cultural Affairs to identify beneficial partners. The City Manager is directed to provide \$250,000 in one-time funds to CMT in the form of a Development Agreement to support its new space for calendar year 2020.

Vietnamese American Cultural Center: The City of San Jose 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 funding. In 2016, the 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 the feasibility to make this funding ongoing.

Rotary and Fireworks: Members of San Jose’s Downtown Rotary Club—such as Marianne and Carl Salas, and Jim Gardner— have generously and doggedly sustained the Independence Day Fireworks show in Downtown San Jose, enjoyed by many tens of thousands residents each year. As a sign of the times, the Downtown Rotary will have to purchase “active shooter” insurance to move forward with a fireworks show this year. I recommend that the City Manager identify this modest one-time funding necessary to defray the entire cost of insurance, and to work with Rotary and our Office of Cultural Affairs to identify ongoing funding for the purpose.

F. INNOVATION

Innovation Imperative: In recognition of San Jose’s chronic staffing shortfalls, in March 2016, the Council unanimously approved a plan to transform San José into the most innovative city in America by relaying on technology and data as a “force multiplier” for staff’s good work. We worked to secure several one-time grants to fill positions. The City Manager’s Office of Civic

Innovation and Digital Strategy is charged with improving the efficiency and effectiveness of City services, leading such efforts as the MySanJose App, business process automation, and data projects. The City Manager is directed to identify grant funding that can stabilize CiDS staffing for the coming fiscal year, and allocate sufficient ongoing resources to sustain at least three positions addressing high priority areas such as the digital inclusion program, privacy policy, small wonders, data analytics and digital transformation.

CONCLUSION

Prior One-Time Funded Items: The City Manager is directed to evaluate programs funded on a one-time basis in Fiscal Year 2019-2020 for continuation in Fiscal Year 2020-2021.

Budget Balancing Strategy Guidelines: In addition to the five principles I've articulated in this Budget Message, the City Manager is directed to use the familiar FY 2020-2021 Budget Balancing Strategy Guidelines as detailed in Appendix A to develop a balanced budget for the fiscal year ahead.

I respectfully request the support of my colleagues for this March Budget Message. This memorandum has been coordinated with the City Manager and City Attorney.

For more information on this memorandum, please contact Nicholas Almeida, Budget Director, at 408-535-4811.

ATTACHMENTS

Appendix A – FY 2020-2021 Budget Balancing Strategy Guidelines

APPENDIX A

2020-2021 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. Consider current needs in the context of long-term service delivery priorities.
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.
3. 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.
4. 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 2019-2020, and/or respond to City Council direction and organizational risks. Review existing vacancies for opportunities to reorganize work groups to realize cost savings or to achieve current service level demands through alternative means. Factor in performance measure data in the development of proposals.
5. 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).
6. 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.
7. Identify City policy changes that would enable/facilitate service delivery improvements or other budget balancing strategies to ensure equity and inclusion for how services are delivered.
8. 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.
9. Explore expanding existing revenue sources and/or adding new revenue sources.
10. Establish a fees, charges and rates structure designed to fully recover operating costs, while considering the impacts on fee and rate payers whereby a cost recovery structure may be lower in certain circumstances, and explore opportunities to establish new fees and charges for services, where appropriate.
11. 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 2019-2020 for which ongoing funding is not available; 4) accelerate the pay down of existing debt obligations; 5) increase budget stabilization reserves to address future budget uncertainty; and/or 6) funding needs for non-bond eligible furniture, fixtures, and equipment associated with the continued implementation of Measure T.
12. Engage employees in department and/or city-wide budget proposal idea development.
13. 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.
14. Use the General Plan as a primary long-term fiscal planning tool and link ability to provide City services to development policy decisions.