



2014-2015 CAPITAL BUDGET

**2015-2019 CAPITAL
IMPROVEMENT PROGRAM**



**MAYOR'S JUNE
BUDGET MESSAGE**



Memorandum

TO: CITY COUNCIL

FROM: Mayor Chuck Reed

**SUBJECT: JUNE BUDGET MESSAGE FOR
FISCAL YEAR 2014-2015**

DATE: May 30, 2014

Approved:

Chuck Reed

Date:

5/30/14

RECOMMENDATION

I recommend that the City Council:

1. Approve the City Manager's Proposed Budget with the additional direction outlined in this memorandum for purposes of adopting a final budget for Fiscal Year 2014-2015.
2. Adopt a resolution authorizing the City Manager to negotiate and execute agreements for projects approved in the Mayor's Budget Message when amounts exceed the City Manager's existing contract authority provided that any required environmental review for the project has been completed.
3. Authorize the changes proposed in the following Manager's Budget Addenda and incorporate them in the Adopted Budget, except in cases where the Addenda are amended or superseded by the contents of this Budget Message.

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|---------|---|
| MBA #6 | Recommendation on the 2015-2019 Proposed Capital Improvement Program |
| MBA #8 | North San José Transportation Funding Strategy |
| MBA #10 | City Council Policies: Debt Management Policy and Operating Budget and Capital Improvement Program Policy |
| MBA #15 | Arena Authority Funding |
| MBA #17 | Fire Station 37 (Willow Glen): Analysis of Options |
| MBA #18 | Parking Meters, Rates, and Community Parking Districts |
| MBA #20 | TRANS Interest and Issuance Costs and Banking Services Adjustments |
| MBA #21 | Proposed 2014-2015 Transient Occupancy Tax Funded Arts and Cultural Development Grants |
| MBA #25 | Amendments to the 2014-2015 Proposed Fees and Charges Document |
| MBA #26 | Abandoned Shopping Cart Program |
| MBA #27 | Recommended Amendments to the 2014-2015 Proposed Operating and Capital Budgets |
| MBA #28 | Updates to the 2014-2015 Property Tax and General Fund Beginning Fund Balance Estimates |
| MBA #29 | Community Budget Meetings |

INTRODUCTION

As we enter the 2014-2015 Fiscal Year, we are grateful for the third year in a row, to be making modest improvements in services to our residents and taxpayers as crime rates are headed down and tax revenues are headed up.

We have worked hard and made many difficult decisions to reach this point.

San José General Fund Deficits



*Projections as of May 2014.

Sources: Fiscal Years 2002-03 through 2013-14: 9/3/2013 Presentation – City Council Study Session: City Service Restoration and Revenue Measures. Fiscal Years 2014-15 through 2018-19: FY 2014-2015 Proposed Operating Budget. Note: FY 2003-04 and FY 2004-05 includes State impact of \$10.8 million and \$11.4 million, respectively.

For Fiscal Years 2002-2003 through 2011-2012, the City faced a tremendous amount of red ink that resulted in cutting 2,000 positions from our workforce. When we adopted the Fiscal Reform Plan in 2011-2012, we turned the corner. But those reforms were difficult. They included reducing total compensation for all City employees by at least ten percent, outsourcing work, and obtaining voter approval for pension and retiree healthcare reforms.

Even though we are looking ahead to five years with a stable General Fund condition, the largest single factor during that decade of red ink – the huge increase in retirement costs – remains a threat to the City’s financial stability. Tier 1 retirement costs add over 80 percent of pay to public safety employee costs and over 70 percent of pay to non-public safety employee costs. Total costs for a top step Police Officer are nearly \$220,000 a year, based on 2013 data. For 2014-2015, these costs increase to \$240,000 annually for existing Police Officers at top step.

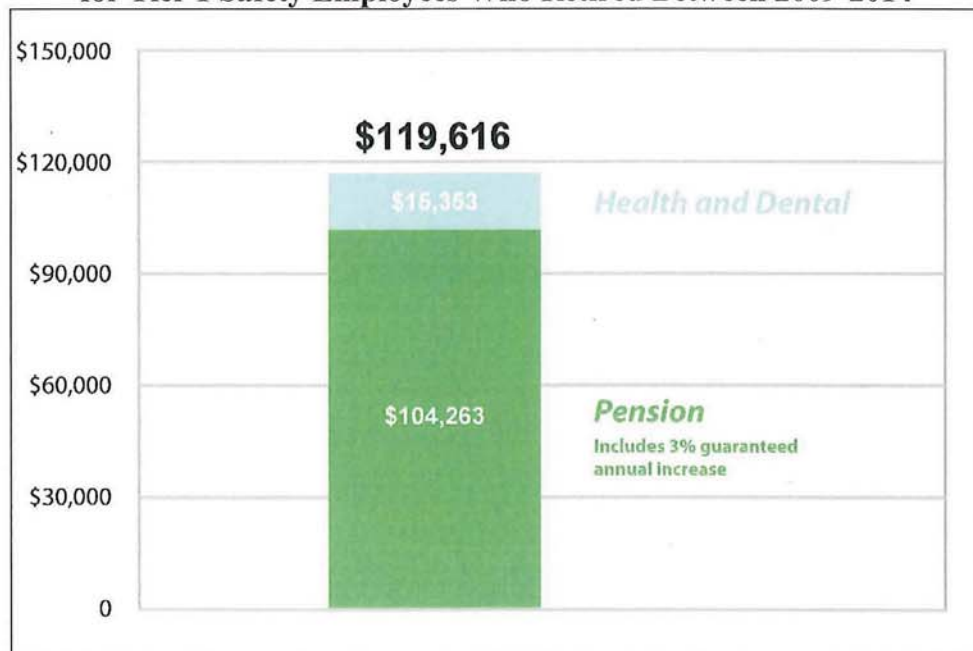
Employer Costs - San José Police Officers: Average Total Compensation and Benefits for Top Step Police Officers (Tier 1)



Source: Office of Employee Relations. Data is based on information for 2013 from the pay plan, SJPOA MOA, Police Benefit Fact Sheets, and Medical and Dental Plan Premiums, with the exception of average overtime which is actual data from 2013 W-2's and includes stand-by, callback, comp time payouts, and overtime. Overtime compensation is non-pensionable. POST is not the average POST pay received; it is the average of Basic POST (0%), Intermediate POST (5%), and Advanced POST (7.5%) multiplied by the top step of base pay.

The high costs are driven by the high level of retirement benefits. The average benefit for public safety retirements in the last five years is nearly \$120,000 a year.

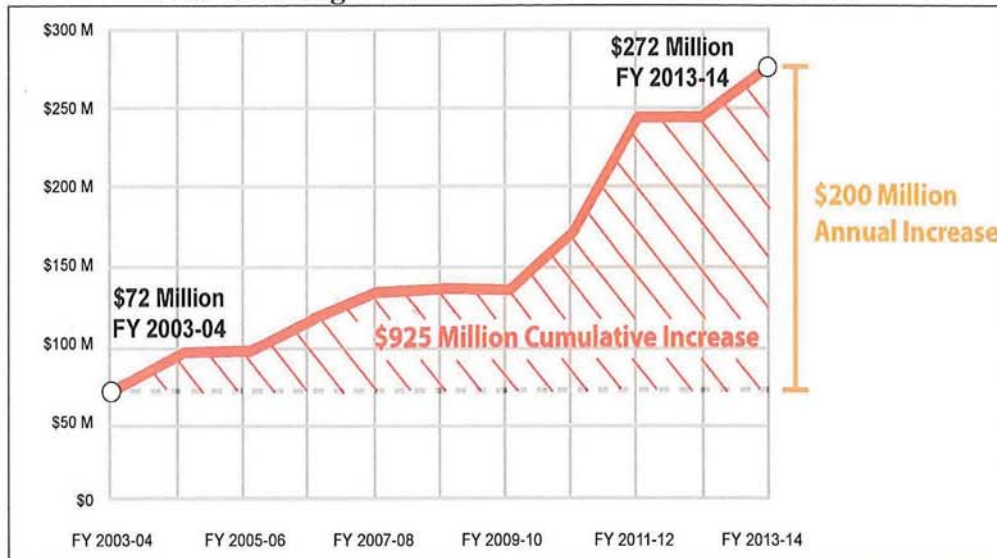
Public Safety Retirement Benefits: Average Pension and Health Care Benefits for Tier 1 Safety Employees Who Retired Between 2009-2014



Source: Office of Employee Relations. Includes approved retirements January 1, 2009 through March 31, 2014. Value of Retiree Health and Dental Benefits is taken from the City of San José Police and Fire Department Retirement Plan 2012-2013 Comprehensive Annual Financial Report; the average figure is for 2012 only, is per retiree and beneficiary, and includes single or family coverage.

Total retirement costs have increased by over \$200 million per year. The actuaries for the retirement boards tell us these costs will continue to grow for another decade. In 2014-2015, retirement costs are estimated to increase to \$308 million (up \$23.9 million in the General Fund and \$36.5 million all funds).

The Crushing Burden of Retirement Cost Increases



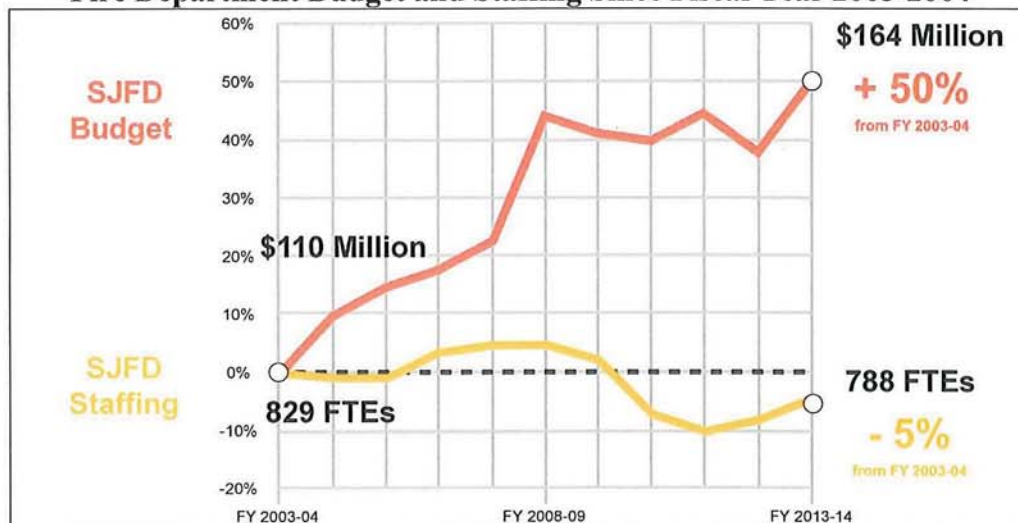
Sources: Retirement Systems Comprehensive Annual Financial Reports (FY 2004-04 through 2012-13); City of San José FY 2014-2015 Forecast.

*Figures note the employer's (the City's) share of retirement contributions. These costs do not include employee contributions.

Over the last decade, retirement cost increases resulted in staffing cuts in every City department, even though departmental budgets increased.

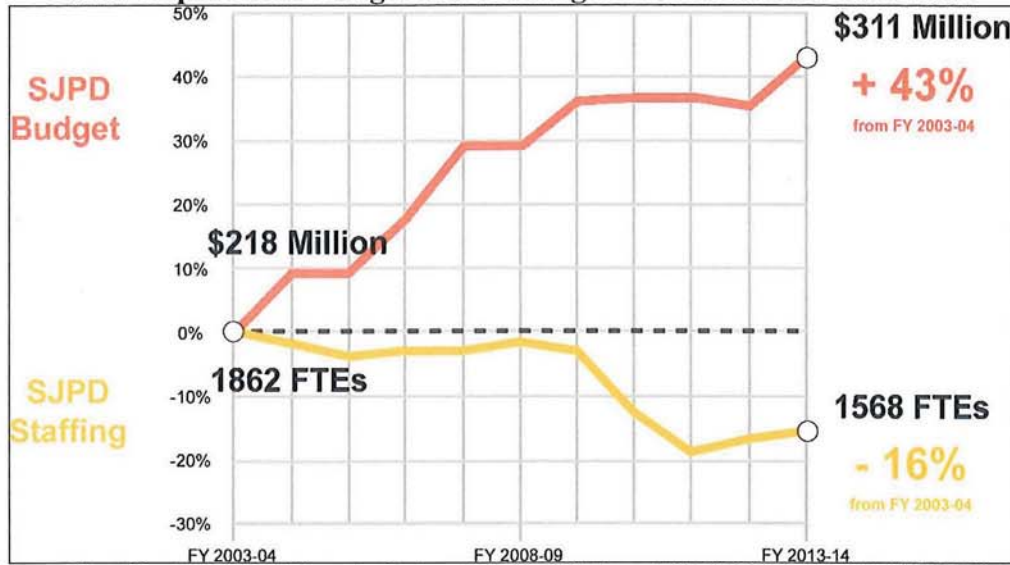
As illustrated in the next two charts, since 2003-2004 the Fire Department's budget has increased by \$54 million, yet staffing decreased by 41 full-time equivalent employees. The Police Department's budget experienced a similar trajectory – a \$93 million budget increase, yet staffing decreased by 294 full-time equivalent employees. This outcome is a result of growing employee costs, primarily driven by increases in retirement costs.

Fire Department Budget and Staffing Since Fiscal Year 2003-2004



Sources: City of San José Adopted Operating Budgets, FY 2003-2004 through FY 2012-2013; FY 2013-2014 Modified Operating Budget.

Police Department Budget and Staffing Since Fiscal Year 2003-2004



Sources: City of San José Adopted Operating Budgets, FY 2003-2004 through FY 2012-2013; FY 2013-2014 Modified Operating Budget.

The City has made progress in controlling these costs. The Fiscal Year 2014-2015 budget will reflect major savings from Measure B. Next year we will have ongoing savings of over \$25 million in the General Fund (over \$30 million all funds) through the elimination of bonus pension checks, changes to retiree healthcare plans, and from having lower-cost retirement benefits for new employees. These savings will continue to grow as new workers are hired.

We are also working smarter. We figured out ways to deliver services more efficiently and more effectively so that we can get better service from within existing budgets. Most notably, and in the past year, even though the Police Department is not at full authorized staffing, we saw a decrease in Part 1 crimes (which include assault and theft). Property crimes were down by 12 percent the first four months of this year compared to last year. These decreases are attributable to the hard work of the men and women of the Department in cooperation with our residents and businesses. We should continue to expect all of our departments to work at being more effective at delivering services given our fiscal constraints. For instance, our Fire Department is currently figuring out how to improve response time performance within existing resources and met the County contract standard in April of this year.

All of these efforts allowed us to maintain service levels and make targeted improvements in Fiscal Years 2012-2013 and 2013-2014, including:

- ✓ retaining 76 Firefighters and 19 Police Officers who were previously paid with federal grant funding that expired;
- ✓ adding 21 Community Service Officers, three Park Rangers, and three Crime Prevention Staff;
- ✓ restoring some pay for some of our employees;
- ✓ recruiting for Police Officers;
- ✓ opening four libraries and one community center;
- ✓ continuing one-time funding for homelessness and gang prevention, intervention, and suppression; and
- ✓ turning on 900 street lights.

With a relatively flat budget over the next five years, albeit with small deficits in three of those years, we can continue in this pattern. We will continue to be prudent with the funds we have available, avoid spending in ways that will create future deficits, and focus spending on the highest priorities of our community.

We also need to be mindful that the General Fund forecast presumes voter approval to continue for another 25 years the parcel tax that provides \$8 million annually (or 22 percent) of the San José Public Library System's operating budget. Should the voters reject Measure B this June, we will face difficult budget decisions as our Library Department budget will have an \$8 million shortfall effective July 1, 2015.

As we look ahead to next year, the good news is that tax revenues are increasing year-over-year. Sales Tax, Property Tax, and Utility Tax are up by \$28 million total from this year; these three sources combined represent almost 60 percent of General Fund Revenues in the 2014-2015 Proposed Budget. But most of these revenues are going to be spent to cover increased retirement costs and for compensation increases for employees (up \$38 million total from this year). The remaining new revenues, when combined with other cost savings, rebudgets, and reductions, allow us to make additional targeted service improvements in 2014-2015, including:

- ✓ adding seven Community Service Officers, seven Park Rangers, three Code Enforcement Inspectors, and two Crime Prevention Staff;
- ✓ increasing efforts to recruit Police Officers;
- ✓ adding a third Police Academy;
- ✓ continuing one-time funding for homelessness and gang prevention, intervention, and suppression; and
- ✓ allocating an additional \$16 million one-time for pavement maintenance (Construction Excise Tax Fund).

The additional \$16 million in one-time funding for pavement maintenance is good news. Our community survey and Neighborhood Association Priority Setting Session identified stopping the deteriorating of our streets as one of the top priorities. When the \$16 million is combined with the amount we already planned to spend and federal funds we will receive, we have enough funding for the first time in over a decade (\$48 million) to prevent the average condition of our streets from deteriorating further.

However, the City faces a substantial unfunded Deferred Maintenance and Infrastructure Backlog. The current backlog totals roughly \$1.05 billion, with an additional \$175.7 million needed annually in order to meet maintenance costs associated with normal wear and tear and maintain the City's infrastructure. Of the \$1.05 billion backlog, the largest need is \$587 million for transportation infrastructure, of which \$434 million is for deferred pavement maintenance. The remaining major categories of the unfunded infrastructure backlog include: building facilities; parks, pools and open space; sanitary sewer; and airport.

The City's Deferred Maintenance and Infrastructure Backlog was first compiled in 2007, the midpoint of the decade of red ink. At that time, the backlog was estimated at \$915 million with an ongoing unfunded need of \$45 million. It is a testament to the hard work and resourcefulness of City staff, and their ability to stretch and leverage each available dollar, that the total backlog has only grown by \$135 million in the ensuing years. Yet, with a total of \$1.05 billion unfunded and the annual need now catalogued at \$175.7 million, the Deferred Maintenance and Infrastructure

Backlog will continue to present a serious budget and operational challenge for the City for the foreseeable future.

POTENTIAL TAX MEASURES

One option for restoring additional services is through a local tax measure. During my term, San José voters have approved four revenue measures and a fifth one is on the ballot June 3. I remain open to going to the voters again when the conditions are right. Recent discussions have centered around two options:

- *A General City Sales Tax Increase:* Recent polls have put support for a general sales tax increase over the 50% threshold. However, the margin remains extremely tentative and history has shown that sales tax measures will lose ground unless there is an active and well-funded campaign supporting it. As a point of reference, \$750,000 was spent in support of Santa Clara County's 2012 sales tax increase and \$1.5 million was spent to pass VTA's 2008 sales tax increase.

There is no such coalition of support for a city sales tax measure. My own conversations with potential donors have revealed very little appetite for helping organize or fund a sales tax measure campaign. And despite repeated calls for any interested party to step forward, none of our public employee unions or traditional sales tax supporters has made even the slightest commitment to help mount an effective campaign.

- *A Countywide Sales Tax Increase:* The Silicon Valley Leadership Group (SVLG) has expressed its interest in sponsoring a countywide sales tax measure on the November ballot to fund critical transportation needs. SVLG has indicated that the measure would direct a portion of new revenues to each respective city for street maintenance and repairs, which would generate about \$10 million a year for San José.

SVLG's polling shows a very strong margin of support for such a measure. SVLG also has pledged to raise the money needed to support a robust political campaign and has a proven record of successful ballot measures.

Right now, it appears that our best chance for new revenue is through a countywide transportation measure. The City Council could also advance a sales tax measure in November, but the presence of two sales tax increases on the same ballot could doom both measures and leave the City without any new revenues.

We shouldn't jeopardize the strong prospect of reaping new transportation revenues in order to pursue a city measure that would start in an extremely vulnerable position. If the countywide proposal moves forward, we should defer placing a city measure on the ballot at this time.

But since we do not yet know what action the County or VTA might take, we should continue exploring our options.

The City Manager is directed to: (1) continue discussions with SVLG regarding how a countywide measure could be crafted to best address the City's most pressing transportation needs; and (2) agendize a discussion of potential city revenue measures during the City Council's June 17 meeting.

The June 17 discussion should include alternative revenue measures that have been of interest to Councilmembers (i.e. dedicated tax for public safety, marijuana tax increase). Staff should also provide an update on the potential countywide sales tax measure, including: (1) the proposed breakdown of revenues, including the City's estimated share; and (2) the status of the County's or VTA's deliberations on whether to place the measure on the November ballot.

Consistent with the March Budget Message, the 2014-2015 Proposed Budget includes one-time funding for potential ballot measure polling. In developing the polling survey, the City Manager is directed to: (1) gauge the impact of having multiple local tax measures on the November ballot and (2) gauge support for alternative revenue measure options, as may be directed by the City Council during the June 17 meeting.

SPENDING PROPOSALS

Our budget should be built around the priorities and values of our residents and taxpayers. Our top priority should be improving public safety and the quality of life for our residents. It is clear that the community wants us to not burden future generations and keep our eyes on the long-term goal: a future in which San José is fiscally strong and can afford to provide the service levels that our residents expect and deserve.

1. Public Safety and Neighborhood Services

a. Police Department Staffing and Prioritization of the Burglary Investigation Unit. As directed in the Police Staffing Restoration Strategy Memorandum dated August 28, 2013, and in the March Budget Message, MBAs #14 and #24 provide a four-year Police Staffing Strategy to reach a level of 1,250 officers and prioritization of the burglary investigation unit (burglary reduction efforts). As also approved in the March Budget Message, the City Manager is directed to prioritize the reestablishment of a burglary unit within the Police Department, drawing staff from positions that could be done by civilians, retiree rehires, and Community Service Officers. These staffing and service level restorations will require substantial new resources. Under one scenario, adding 36 sworn positions in 2015-2016 would cost an estimated \$5.1 million in that year; by 2018-2019, when all 141 sworn positions have been hired, the annualized cost is estimated at \$21.5 million. Finding funds for additional officers will be a challenge. We need to start setting money aside now. The City Manager is directed to create a Police Department Staffing Reserve and set aside funds annually, until all 141 positions have been funded on an ongoing basis, beginning with, but not limited to, the following three sources:

- \$10 million in 2014-2015 funds, of which \$500,000 is ongoing funding;
- Ongoing cost savings from new police officers who receive Tier 2 retirement benefits; and
- One-time savings within the Police Department from unfilled positions that are not rebudgeted for police overtime or other urgent needs.

For the ongoing cost savings from Tier 2 retirement benefits, beginning in 2015-2016, the City Manager is directed to use the 2014-2015 savings of \$2.3 million and increase that amount annually by the additional expected police sworn Tier 2 savings that are expected to grow by at least six percent per year, bringing the 2015-2016 figure to \$2.4 million. These funds can be used to help increase Police Department staffing through measures to

improve recruiting, hiring, training, and retention of police officers, to improve capacity of existing officers by relieving officers from duties that can be done by civilians or more efficiently through technology, to cover the costs of additional vehicles and equipment for additional officers, to provide improved burglary response, and to increase total staffing.

- b. Fire Department Response Time Performance.** As discussed at the May 9, 2014 City Council Study Session on Fire Emergency Medical Services, the Fire Department (Department) is continuing its efforts to improve overall fire and emergency medical services response time performance to the community. There have been immediate positive results – the Department met the County contract standard in April of this year. Additional budgetary resources are needed to support the Department’s efforts to improve response time performance.
- i. Fire Informational Technology Staffing.** The Department currently has six staff members to develop and maintain data analysis systems and provide support to Department administration and 33 fire stations. The March Budget Message directed the City Manager to explore the necessity of additional data analysis staffing related to Department response time performance. The City Manager’s Proposed 2014-2015 Operating and Capital Budgets include, respectively, a Senior Geographic Systems Specialist to assist with the data analytic needs within the Department, as well as \$220,000 in one-time consulting services funding for implementation of Computer-Aided Dispatch (CAD) system software in order to improve automation and accuracy of reporting. The Department only recently reached full staffing for its six authorized positions. Therefore, it is crucial that the new position be hired as quickly as possible to allow the staffing to operate at full capacity and enable a review of whether additional staffing is warranted to ensure continued progress. The City Manager is directed to complete the hiring of the new position as soon as is possible, to closely monitor the Department’s information technology staffing needs, and to report to the Public Safety, Finance, and Strategic Support Committee at its November 2014 meeting about the status of the Department’s information technology team and the need, if any, to make any further adjustments to the staffing levels as part of next year’s budget process.
- ii. Fire Department Organizational Review.** As detailed in MBA#17, the Department, in conjunction with the City Manager’s Office, is undertaking a comprehensive Department organizational review with an expected completion date of winter of 2015. This analysis will include: (1) reviewing staff workload and service outcomes achieved based upon the type of services delivered; (2) assessing the appropriateness of fire response time performance targets based upon the type of service call; (3) reviewing alternative service/staffing deployment options; (4) assessing apparatus types and locations throughout the City; and (5) exploring pre-emption systems to improve travel time performance. This analysis will provide crucial information to the Department, City Manager’s Office, and City Council as we continue to work collectively to improve overall fire and emergency medical services response time performance. Some of the costs of the analysis can be absorbed within the Department’s existing budget. However, to ensure both its comprehensiveness and its timely completion, the City Manager is directed to allocate \$150,000 in one-time funding (of the \$620,000 in one-time funds identified in MBA #17) to provide for the costs of the review.

- c. Police Department Bilingual Pay.** MBA # 27 recommends approval of amendments to the 2014-2015 Proposed Operating and Capital Budgets and includes numerous budget adjustments and clean-up/rebudget actions. Included is a rebudget of \$225,000 for increases in bilingual pay and education expense reimbursement for Police Officers that have been previously authorized by the City Council. Both items are subject to meet and confer with the Police Officer's Association. Multiple negotiation sessions have been held but no agreement has been reached and the City's offers have not been presented for a vote of the membership. The City Manager is directed to ensure that sufficient funds to cover the City's offers are rebudgeted for these purposes.
- d. School Crossing Guards.** The safety of our school children remains a top priority for San José residents, as well as the City Council. Our School/City Collaborative participants have identified crossing guards as the most important program that the City does for our schools. Accordingly, the City's budget has provided funding for Adult Crossing Guards at designated intersections throughout the City. The Department of Transportation (DOT) continually studies intersections for potential placement of adult crossing guards based upon requests from schools. DOT is scheduled to complete crossing guard studies at 16 intersections by the end of 2013-2014 and anticipates that some of these intersections will meet the Safety Index threshold of 120 for placement of an adult crossing guard(s). For staffed intersections, the Police Department determines the number of guards that are required based primarily upon traffic patterns and roadway geometry; some intersections may only require one guard, with others requiring two or three guards. The City Manager is directed to allocate \$127,000 in ongoing funding to add 3.3 FTE school crossing guards, which is sufficient to provide adult crossing guard(s) at roughly ten additional intersections. The City Manager is also directed to report to the Public Safety, Finance, and Strategic Support Committee as DOT completes further studies of additional intersections to ensure the City Council is kept informed of programmatic needs for Adult Crossing Guards. (BD #12, #34, #50 Khamis, Rocha, Campos)
- e. Park Rangers/Safe Cam Program.** Park Rangers serve a vital public safety function in our parks to preserve and maintain the ability of our residents to enjoy a family friendly environment. Increased staffing to this public safety resource will help our community enjoy our parks and reap the health benefits of outdoor physical activity. The City Manager is directed to provide ongoing funding of \$380,000 for three additional Park Rangers to patrol our seven regional Parks, city-wide parks, and neighborhood parks. The City Manager is also directed to pursue and identify funding to install motion sensor trail cameras in City parks to decrease crime and drug activity. (BD #6, #21, #22, #28, and #48 Nguyen, Herrera, Chu, Campos)
- f. Parks and Community Facilities Development.** Council District 1 has experienced difficulties in identifying parkland due to the level of build-out in that part of the City. But there may be an opportunity to acquire land for a park in District 1. Detailed cost and funding information about this possibility was not available in time for inclusion in this Message. The City Manager is directed to continue to explore all options for acquiring this land, including potential funding and financing options, and report to the City Council as part of its consideration of the 2013-2014 City Manager's Annual Report in fall 2014.

- g. Silicon Valley Regional Communications System.** The Silicon Valley Regional Interoperability Authority (SVRIA) is leading the effort to implement the technologies needed to allow first responders to easily communicate across agencies. The project, currently known as the Silicon Valley Regional Communications System (SVRCS), includes a significant upfront investment to build the system and purchase new radios. San José's portion is estimated to be \$13.9 million and \$13.0 million, respectively. There are also anticipated annual operation and maintenance costs; the City's share of those costs is estimated at \$1.8 million. Currently, the City pays annual operation and maintenance fees to the SVRIA, estimated at \$617,000 in 2014-2015 (and would be included in the annual \$1.8 million needed once the SVRCS is built out). Funding for the costs for the SVRCS could be accommodated in the potential countywide sales tax measure in November 2014. However, since this measure and its components, as well as its placement on the ballot, are not yet finalized, identifying the one-time funding necessary for the City's portion of the SVRCS remains a priority. Therefore, consistent with Provision 4 of Council Policy 1-18, which pertains to Fund Balance, the City Manager is directed to prioritize funding the City's portion of the SVRCS and allocate any remaining unbudgeted fund balance for that purpose, after any necessary corrections, cleanups, and/or rebudgets, until the SVRCS is funded. Further, and with regard to the 2013-2014 Fiscal Year, should any excess fund balance be identified above and beyond that assumed in the development of the 2014-2015 Budget, the City Manager is directed to allocate those funds to the City's SVRCS costs. (BD #19 Constant)
- h. Medical Marijuana Enforcement.** The City Council will continue its consideration of amendments to Title 20 and Title 6 to establish Medical Marijuana Regulations at the June 3, 2014, City Council meeting. The City Council's eventual action on that issue will likely necessitate corresponding budget actions to establish a full cost recovery fee-supported enforcement structure, including, at a minimum, support for the Police Department and the Planning, Building and Code Enforcement Department. However, given that the City Council will act to adopt the 2014-2015 Operating Budget on June 17, 2014, the timing of any budget-related action(s) on Medical Marijuana enforcement will have to follow that date and instead will likely occur at a Council meeting in August 2014 and as part of next year's budget process. The City Manager is directed to include sufficient funding and staffing to allow for robust enforcement of restrictions on marijuana growing operations in residential areas. To fund the staffing resources needed until the transition to the fee supported enforcement structure is complete, and to build upon existing enforcement staffing, the City Manager is directed to allocate on a temporary limit dated basis through June 30, 2015, \$75,000 for 1.0 Code Inspector and \$125,000 for 1.0 Deputy City Attorney. The City Manager is also directed to allocate \$100,000 in one-time funding for Police Department overtime for these purposes. (BD #52 Campos)
- i. Aquatics Program.** The Parks, Recreation and Neighborhood Services Department offers an Aquatics Program at City pools, including during the summer months. At the Mayfair Pool, there is a gap between the end of the pool season and the start of the school year. Operating the Mayfair Pool during those additional days would be consistent with the current Recreation Swim Program and provide a needed service to the community. The City Manager is directed to allocate \$7,900 in ongoing funding to provide additional days for the City aquatics programs at Mayfair Pool. (BD #55 Campos)

- j. **Mayor's Gang Prevention Task Force.** Gang prevention efforts have been identified as a top priority for our residents and neighborhood associations during our community budgeting process. The City Manager is directed to allocate an additional \$1 million in one-time funding for gang prevention programs including: BEST funding; addressing issues related to females in gangs; and a pilot program for after school homework assistance/academic programming for youth. (BD #8, #23, #44, #57 Nguyen, Herrera, Rocha, Campos)

2. Community and Economic Development Services

- a. **San Jose Sports Authority Major Events Fund.** The San Jose Sports Authority has been instrumental in securing major sporting events in San José, including the NCAA men's Basketball Championships and the 2012 U.S. Figure Skating Championships, as well as San José being one of the finalist cities considered for the 2012 U.S. Olympic Trials in Gymnastics. Securing first class sporting events, as well as ensuring their eventual success, requires that the Sports Authority be adequately funded. The 2012 events necessitated cumulative City support of roughly \$300,000 provided over several fiscal years. The Sports Authority is currently working to secure the 2016 Olympic Trials. To support this effort, and provide an initial partial payment of the total \$300,000 that is needed to secure the 2016 Olympic Trials for the City, the City Manager is directed to allocate \$100,000 in one-time funding to the San Jose Sports Authority Major Events Fund.
- b. **Downtown Streets Monterey Road Pilot Program.** The City Manager is directed to provide \$68,300 in one-time funding to expand the successful Downtown Streets Team program on a one year pilot program basis to Monterey Road (from Alma Avenue to Curtner Avenue and Umbarger Road South to Senter Road) removing debris, reporting code violations, covering/preventing graffiti, and providing general blight removal services. (BD #7 Nguyen)
- c. **Student Achievement.** The City has historically worked as part of a broad coalition of educators, business leaders, and community organizations to address achievement gap issues for public school students in San José. Prior Budget Messages have directed the City Manager to support these efforts and continually seek ways to engage and collaborate with local schools to improve educational outcomes. The East Side Alliance is currently working to address student achievement issues and improve educational outcomes consistent with the work of the larger coalition. The City Manager is directed to support these efforts next year with a focus on aligning City resources, such as library reading and after school programs and community center programs, with the work of the East Side Alliance.
- d. **Responsible Landlord Engagement Initiative (RLEI).** Historically, renters in certain neighborhoods have experienced difficulties with their landlords providing essential services, such as eliminating blight and overflowing garbage bins. Years of budget deficits that reduced City police and code enforcement staff further exacerbated the problem. However, the situation has recently shown improvement due to the work of the Neighborhood Housing Services of Silicon Valley and the United Neighborhoods of Santa Clara County with various government entities and private groups to act as a third party to get blighted areas cleaned up. The RLEI program improves the conditions of properties by encouraging and motivating property owners and investors to commit to manage their

properties responsibly. The City Manager is directed to allocate \$25,000 in one-time funding to support this program. (BD #14 Khamis)

- e. **Creating Jobs and Increasing Tax Revenues.** The Silicon Valley continues to drive not only the California economy but leads the nation in innovation, entrepreneurship, and job growth. We've experienced sustained economic growth, business expansion and reinvestment, job growth, strong real estate occupancy gains, new construction, and renovation of office/R&D and manufacturing facilities in the last couple of years. Every effort must continue to be made to preserve our employment lands in the Downtown, North San José, Edenvale, Monterey Corridor, and the International Business Park for driving industry companies large and small, whose success will in turn, generate growth in our business support and people-serving industries. States throughout the US and countries around the world want our companies to move R&D and manufacturing facilities to those locales and offer substantial incentives to do so. Our community survey and Neighborhood Association Priority Setting Session identified creating jobs and increasing tax revenues through economic development as one of the top priorities. The City Manager is directed to allocate \$1 million in one-time funding to the Economic Development/Incentive Fund to support the location of new companies in San José that will generate at least 100 jobs in manufacturing and generate revenues for City services and infrastructure investments.

3. Transportation and Environment

- a. **Pavement Maintenance.** In the past decade, a lack of sufficient funding has resulted in deferred maintenance and a decline in the condition of the City's infrastructure, particularly our roads. As detailed earlier in this Message, of the City's current \$1.05 billion Deferred Maintenance and Infrastructure Backlog, the largest need is \$587 million for transportation infrastructure, of which \$434 million is for deferred pavement maintenance. The Construction Excise Tax is imposed upon construction, alteration, repair, or improvement of any building or structure that is for residential or commercial purposes or is associated with a mobile home. Per City Council policy, the proceeds have traditionally been dedicated primarily to the Traffic Capital Improvement Plan. The 2014-2015 Capital Budget allocates additional Construction Excise Tax revenues (over the levels projected in the 2014-2018 CIP) to pavement maintenance. Should those Construction Excise Tax revenues exceed projections in any year from those assumed in the 2015-2019 CIP, at a minimum and given the need to prioritize pavement maintenance, the City Manager is directed to allocate those revenues to pavement maintenance.
- b. **Downtown and North San José Transportation Improvements Reserve.** The March Budget Message directed the City Manager to maximize the use of the additional revenues received in the Building and Construction Tax Fund and the Construction Excise Tax Fund in the 2013-2014 Fiscal Year to address unfunded transportation infrastructure commitments in Downtown and North San José. Additionally, the March Budget Message identified a total of \$5.6 million in funding (\$3.0 million from the Irvine Company's Riverview Project and \$2.6 million from Schmidt CS Seufferlein's Century Court Project) directed to be used for transportation purposes, which were repeated from the March and June 2013-2014 Budget Messages, respectively. The Proposed 2015-2019 CIP includes a \$16 million reserve for Downtown and North San José Transportation Improvements. MBA #8 details a strategy to address an estimated \$50 million funding shortfall for the North San José Area Development Policy Phase I transportation improvements. Part of

this strategy includes allocating \$8 million of the \$16 million Reserve for North San José as part of the Traffic Capital Program (2015-2019 CIP). The City Manager is directed to allocate the remaining \$8 million in the Reserve to a separate reserve for the Autumn Parkway Project (north of Santa Clara Street). With the \$7 million separately budgeted for land acquisition costs for the Autumn Parkway Project, the \$8 million held in reserve translates to the City being just \$500,000 short of the total funding needed to complete construction of this critical project Downtown. With regard to the \$2.6 million related to the Century Court project, the City Manager and City Attorney are directed to draft an amendment to the ordinance approving the Development Agreement to utilize these funds for transportation needs as directed in prior Budget Messages.

- c. **Pedestrian Safety.** The City funds a variety of projects and programs that improve the operational efficiency and safety of the City's transportation network, such as for enhanced pedestrian crossings on major roadways to access neighborhood schools, parks, community centers, and nearby transit stops. Depending on the roadway and traffic conditions present, safety enhancements can include such minor improvements as upgrading flashing beacons at pedestrian crossings. The City Manager is directed to allocate \$45,000 in one-time Construction Excise Tax funding for this type of minor pedestrian safety improvement on Lincoln Avenue. (BD #4 Oliverio)

- d. **Parking Meters, Rates, and Community Parking Districts (MBA #18).** MBA #18 identifies \$700,000 in increased Parking Meter Revenues in the 2014-2015 Operating Budget and recommends establishing two reserves, for the Diridon and Downtown areas, respectively, both in the amount of \$350,000. MBA #18 also estimates the ongoing net revenues that the Smart Meters combined with the rate adjustment will generate once the capital investment to install the meters has been recovered. The MBA projects it will take approximately two years to recover the capital investment. The City Manager is directed to name the Diridon Area Reserve the "SAP Center Area Parking Reserve" and restrict expenditures from that Reserve for priority parking projects in the SAP Center Area, such as a new parking structure in partnership with the SAP Center. The City Manager is further directed to allocate, once the capital investment from the Smart Meters is recovered, any net new revenues from the Smart Meters after the 4th and San Fernando Street Garage debt service obligation has been met, and after the Smart Parking Meter System Costs have been accounted for, on a 50-50 split basis to the SAP Center Area Parking Reserve and the Downtown Parking Investment Reserve.

- e. **Shuttle from Caltrain and BART Stations to North San José.** At meetings with North San José developers on February 3 and May 21 of this year, it was made clear that the need for connectivity to Caltrain and BART via a dedicated, free or partially subsidized shuttle service was important to attracting high tech companies and young engineers to North San José. Other business parks in Sunnyvale and Santa Clara have successfully implemented shuttles recently. A Caltrain ridership survey for 2014 shows that Caltrain ridership is booming as tech companies locate and expand closer to stops. However, North San José is not easily accessible from any Caltrain stations. Some companies located along the 237 and North First Street corridors finance their own shuttles to transport employees from the Santa Clara Caltrain and Fremont BART stations. The City should develop a pilot program in coordination with the VTA, Bay Area Air Quality Management District, developers, and corporations interested in jointly sponsoring a shuttle service to North San José. The City

Manager is directed to return to the City Council in September 2014 with an analysis and cost estimate on how to implement a shuttle service to begin in early 2015.

4. Strategic Support

- a. **Data Analytics Team.** As discussed earlier in this Message, the Fire Department is successfully using data analytics to improve response time performance. Separately, the Parks, Recreation and Neighborhood Services Department has undertaken a Business Intelligence Project to utilize data, analytics, and activity based costing to review services provided and determine ways to provide the most cost effective services and enhance existing services. These recent examples illustrate how using data and data analytics increases the effectiveness and efficiency of the decision-making process and improves outcomes. Opportunities exist to scale this work and expand the use of data analytics to other City departments. For instance, we could utilize predictive policing in the Police Department to reduce high-frequency, geographically-focused crimes like burglary and drug dealing. To increase the use of data analytics throughout City operations, as well as assesses the current analytic capacity in individual departments, the City Manager is directed to allocate \$195,000 (\$209,000 in ongoing funding) to provide a data analytics team consisting of 1.0 Senior Executive Analyst and 1.0 Analyst to allow the City Manager's Office to: (1) execute data analysis projects directly, independent from City departments; and (2) undertake a review of all City departments and their existing analytic capability. Through the independent projects, this team will develop best practices that can be utilized in guiding those departments needing improvement and support in the use of data analytics. (BD #59 Liccardo)
- b. **Open Data Initiative.** Open data initiatives highlight accountability by providing the public access to the same data sets used by the Administration to make decisions. The 2014-2015 Proposed Budget includes 1.0 Supervising Applications Analyst to provide a dedicated resource to serve as the City's Open Data Architect, as well as \$50,000 in one-time funding for the purchase of an open data tool set to integrate legacy systems. This dedication of resources, will provide the public with much better access to the performance of the City, increase transparency, and emphasize accountability. In addition, the City is currently in the procurement process for a new Operating/Capital Budget System. This advance, once implemented, is anticipated to have an open data component which will improve transparency and accountability. As part of these efforts, the City Manager is directed to explore whether the City should also subscribe to the OpenGov.com's web-based government financial transparency platform as part of the City's Open Data Initiative. (BD #11 Khamis)
- c. **Human Resources Contractual Services.** The Police Department currently conducts exit interviews for personnel resigning from the Department. This effort would be complemented by the addition of contractual services managed by the Human Resources Department to conduct interviews with current officers about what factors motivate them to stay with and succeed in the Department. This information would enhance the City's recruitment and retention efforts within the Department. Further, on an ongoing basis, these services could function as the exit lead for other departments. The City Manager is directed to add \$100,000 in ongoing funding for contractual services within the Human Resources Department for these purposes. (BD #20 Herrera)

- d. Recycled Water.** The City has successfully built, maintained and operated South Bay Water Recycling (SBWR), the largest recycled water system in California presently delivering over 14 million gallons a day. In Fiscal Year 2014-2015, SBWR will become the first recycled water system in the country to operate at cost recovery. In our current drought situation, SBWR can serve as a renewable resource to support our regional economic recovery. The City Manager is directed to continue working with the Santa Clara Valley Water District, as well as our water retailers, to expand recycled water deliveries.
- e. Regional Wastewater Facility.** The City has been successful in stemming the exodus of staff from the Regional Wastewater Facility by providing opportunities for staff to find a career path that will keep them working in critical functions. We need to build on these successes. The City Manager is directed to continue these efforts to retain and recruit staff for critical functions at the Regional Wastewater Facility.
- f. Office of the City Attorney Staffing.** The City Attorney requested \$180,000 in one-time funding to temporarily rehire two retirees to fill critical transition needs in two key operational areas: (1) complex litigation and (2) legal staffing for Planning, Administrative Hearings, and Environmental Services. Due to significant staff turnover in recent years, the rehired retirees would ensure continuity in litigation knowledge and skills and in transactional knowledge and skills, respectively. This is a one-time infusion of resources; the City Attorney has stated that his office will continue to develop an administrative advisory plan during the transition. The City Manager is directed to allocate \$180,000 in one-time funding for these purposes to the Office of the City Attorney. Further, the City Attorney has identified increased workload related to the implementation of Urban Villages, as the office provides legal support to the Planning Department. The City Manager is directed to provide \$220,000 to fund a Legal Analyst II position for two years on a temporary limit dated basis through June 30, 2016, to support this workload. Prior to the end of the two-year period, the City Manager is directed to assess whether the workload justifies this position and the funding on an ongoing basis.
- g. Lease Revenue Bond Financings.** MBA #10 recommends adoption of various amendments to Council Policies 1-15 and 1-18 related to debt management and the Operating Budget and Capital Improvement Program to reflect the City Council's January 28, 2014, action related to lease revenue bond financings. The January 28, 2014 action also directed staff to prepare an ordinance amending the Municipal Code to require two-thirds majority approval of lease revenue bond financings. MBA #10 states that the proposed amendment to the Municipal Code will be separately agendized. The City Manager is directed to agendize the ordinance for the June 10, 2014 City Council meeting to ensure its adoption concurrent with the City Council action to adopt the 2014-2015 Budget (including MBA #10).
- h. 2015-2016 Future Deficit Reserve:** Through the adjustments and modifications made in this Message, the projected General Fund deficit in 2015-2016 is \$2.4 million. The City Manager is directed to set aside the necessary one-time funding to cover that projected deficit in 2015-2016.

- i. **Funding Sources.** To fund many of the items included in this Message that have not been discussed, the City Manager is directed to use the \$2 million in the Essential Services Reserve in the 2014-2015 Proposed Budget and the funding identified in MBA #17 (additional Essential Services Reserve funding of \$620,000), MBA #20 (additional Essential Services Reserve funding of \$150,000), MBA #26 (additional Essential Services Reserve funding of \$26,100), and MBA #28 (additional Essential Services Reserve funding of \$11.6 million).

5. Rebudget Proposals

For Mayor and City Council Offices, I recommend the following rebudgets subject to final verification of accounts by the City Clerk’s Office. With the elimination of Council General, the City Manager is directed to allocate remaining Council General funds of \$1.9 million to fund items identified in the Message, leaving \$100,000 for transition costs.

| | Net Office Rebudget | Constituent Outreach Rebudget | Total Rebudget |
|--------------------------|------------------------|-------------------------------------|-------------------|
| Mayor’s Office* | \$55,000 | \$70,000 | \$225,000 |
| Council General** | 0 | 0 | \$100,000 |
| District 1* | \$47,432 | 0 | \$47,342 |
| District 2 | \$52,687 | 0 | \$52,687 |
| District 3* | 0 | 0 | \$0 |
| District 4 | \$6,000 | 0 | \$6,000 |
| District 5* | \$27,000 | 0 | \$27,000 |
| District 6 | \$70,000 | 0 | \$70,000 |
| District 7* | \$55,000 | 0 | \$55,000 |
| District 8 | \$72,943 | 0 | \$72,943 |
| District 9* | \$136,578 | \$19,000 | \$155,778 |
| District 10 | \$77,360 | 0 | \$77,360 |

*The Office of the Mayor and Council Districts 1, 3, 5, 7, and 9 rebudgets reflect the direction contained in the City Council approved Mayor’s March Budget Message for Fiscal Year 2013-2014 related to budgeting during election years. The rebudget amount will be halved to maintain separate budget allocations for the outgoing and incoming elected officials. The first appropriation will be for the July through December 2014 period for the Mayor and Councilmembers whose terms expire in December 2014 (50 percent of the total rebudget). The second appropriation will be for the January through June 2015 period for the newly elected Mayor and Councilmembers (50 percent of the total rebudget).

**For the 2014-2015 Budget, as directed by the Mayor’s March Budget Message for Fiscal Year 2014-2015, as approved by the City Council, the Council General allocation has been eliminated to increase spending transparency.

COORDINATION

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

CITY SOURCE AND USE OF FUNDS

| GENERAL FUND | | 2014-2015 | Ongoing |
|---|--|-------------------|------------------|
| SOURCE OF FUNDS | | | |
| MBA #17 | Beginning Fund Balance | 620,000 | 0 |
| MBA #26 | Departmental Charges | (26,100) | (26,100) |
| MBA #28 | Property Tax | 5,400,000 | 5,400,000 |
| MBA #28 | Beginning Fund Balance | 3,000,000 | 0 |
| Page 17 | Beginning Fund Balance: Mayor and City Council Rebudgets | 2,798,110 | 0 |
| Total General Fund Source of Funds | | 11,792,010 | 5,373,900 |
| USE OF FUNDS | | | |
| MBA #20 | TRANs Debt Service | (400,000) | (400,000) |
| MBA #20 | Banking Services | 250,000 | 250,000 |
| MBA #28 | 2015-2016 Future Deficit Reserve | (4,200,000) | 4,200,000 |
| MBA #28 | Contingency Reserve | 1,000,000 | 0 |
| Page 8 | Police Department Staffing Reserve | 10,000,000 | 500,000 |
| Page 9 | Fire Department Organizational Review | 150,000 | 0 |
| Page 10 | School Crossing Guards (3.0 School Crossing Guard PT) | 127,000 | 127,000 |
| Page 10 | Park Rangers/Safe Cam Program (3.0 Park Ranger FT) | 380,000 | 380,000 |
| Page 11 | Medical Marijuana Enforcement (1.0 Deputy City Attorney, 1.0 Code Enforcement Inspector limit-dated through June 30, 2015) | 300,000 | 0 |
| Page 11 | Aquatics Program (0.02 Swimming Pool Manager PT, 0.02 Assistant Swimming Pool Manager PT, 0.26 Lifeguard PT) | 7,900 | 7,900 |
| Page 11 | Mayor's Gang Prevention Task Force | 1,000,000 | 0 |
| Page 12 | San Jose Sports Authority Major Events Fund | 100,000 | 0 |
| Page 12 | Downtown Streets Monterey Road Pilot Program | 68,300 | 0 |
| Page 12 | Responsible Landlord Engagement Initiative | 25,000 | 0 |
| Page 13 | Creating Jobs and Increasing Tax Revenues | 1,000,000 | 0 |
| Page 15 | Data Analytics Team (1.0 Senior Executive Analyst, 1.0 Analyst II) | 195,000 | 209,000 |
| Page 15 | Human Resources Contractual Services | 100,000 | 100,000 |
| Page 16 | Office of the City Attorney Staffing (1.0 Legal Analyst II, limit-dated through June 30, 2016) | 400,000 | 0 |
| Page 16 | 2015-2016 Future Deficit Reserve | 2,400,000 | 0 |

| | | | |
|--|--|-------------------|------------------|
| Page 16 | Essential Services Reserve (Funding Sources) | (2,000,000) | 0 |
| Page 17 | Mayor's Office Rebudget | 224,700 | 0 |
| Page 17 | Council General | 100,000 | 0 |
| Page 17 | Council District 1 Rebudget | 47,342 | 0 |
| Page 17 | Council District 2 Rebudget | 52,687 | 0 |
| Page 17 | Council District 4 Rebudget | 6,000 | 0 |
| Page 17 | Council District 5 Rebudget | 27,000 | 0 |
| Page 17 | Council District 6 Rebudget | 70,000 | 0 |
| Page 17 | Council District 7 Rebudget | 55,000 | 0 |
| Page 17 | Council District 8 Rebudget | 72,943 | 0 |
| Page 17 | Council District 9 Rebudget | 155,778 | 0 |
| Page 17 | Council District 10 Rebudget | 77,360 | 0 |
| Total General Fund Use of Funds | | 11,792,010 | 5,373,900 |
| Additional Funding Available | | 0 | 0 |

| CONSTRUCTION EXCISE TAX FUND | | 2014-2015 | Ongoing |
|---|---|------------------|----------------|
| SOURCE OF FUNDS | | | |
| | NONE | 0 | 0 |
| Total Construction Excise Tax Fund Source of Funds | | 0 | 0 |
| USE OF FUNDS | | | |
| Page 13 | Reserve for Downtown and North San Jose Transportation Improvements | (6,000,000) | 0 |
| Page 13 | Reserve for Autumn Parkway | 6,000,000 | 0 |
| Page 14 | Pedestrian Safety | 45,000 | 0 |
| Page 14 | Ending Fund Balance | (45,000) | 0 |
| Total Construction Excise Tax Fund Use of Funds | | 0 | 0 |

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