

2013-2014

OPERATING BUDGET



**MAYOR'S MARCH
BUDGET MESSAGE**



Memorandum

TO: CITY COUNCIL

FROM: Mayor Chuck Reed

**SUBJECT: MARCH BUDGET MESSAGE
FOR FISCAL YEAR 2013-2014**

DATE: March 8, 2013

Approved:

Chuck Reed

Date:

3/8/13

RECOMMENDATION

I recommend that the City Council direct the City Manager to submit a proposed budget for Fiscal Year 2013-2014 that is balanced and guided by the policy direction and framework of priorities outlined in the Mayor's March Budget Message.

CAUTIOUS OPTIMISM AFTER AVERTING DISASTER

As we move toward the adoption of the budget in June, we can be cautiously optimistic and plan for continued improvement in our fiscal condition. This year we are fortunate to be making spending decisions instead of cutting decisions, but we must be careful and avoid repeating past mistakes as we restore services.

Only two years ago, our General Fund shortfall was \$115 million, which would have been enough to push us into service-level insolvency if we failed to act. To avert disaster, the City Council took bold budget actions, which included 10% cuts in total compensation for all City employees, outsourcing work, and pension and healthcare reforms.

As a result of these painful but necessary actions, we were able to balance our Fiscal Year 2012-2013 budget without layoffs or service reductions, open four libraries and a community center, and turn on 900 street lights; and we can now plan for a Fiscal Year 2013-2014 budget that will:

- Avoid cutting services for the second year in a row,
- Increase some services in critical areas, and
- Restore some pay to help retain our most experienced employees.

We are not going to have enough funding to immediately restore all of the services that were cut in recent years, and we cannot yet afford to restore the entire 10% pay cuts that our employees have taken. We must be cautious with the limited funds we have available, rebuilding reserves and spending in ways that will not add to future deficits.

Our top priority must be public safety, and there are things we can do this year to restore capacity in the Police and Fire Departments.

- Recruit, hire, and train new officers more quickly, by expanding our academies and hiring ahead,
- Move more officers back onto the street through civilianization,
- Use data analytics to deploy our existing officers more effectively,
- Open the new South San José Police Substation
- Implement the new field reporting/police records management system, and
- Continue funding the firefighters originally hired with an expiring Federal Staffing and Adequate Fire and Emergency Response (SAFER) grant.

We can also help to retain veteran officers - as well as employees in other critical, hard-to-fill or hard-to-retain positions, like public safety dispatchers, and water pollution control plant operators - by using some of our limited funds to reward experience and superior performance with targeted pay increases and one-time bonuses.

Since the City Manager's Five-Year General Fund Forecast assumes approximately \$20 million in savings from retirement reforms which are the subject of ongoing litigation, we should not initiate many of these actions until after we get a favorable ruling from the court. We also need to be prepared for the \$13.7 million projected deficit in 2014-2015.

As we achieve more of the savings from pension reform and potential new revenues in the years ahead, we'll be able to restore even more services and consider across-the-board pay raises. But until then, we must be cautious and prudent with the limited funds we have available, and ensure they are spent on our City's most pressing needs.

San José's Improving Fiscal Condition

From Fiscal Year 2002-2003 to Fiscal Year 2011-2012, San José experienced ten straight years of budget shortfalls that forced us to continually cut core City services and eliminate approximately 2,000 jobs from our City workforce.

The largest single driver of these deficits was skyrocketing retirement costs, which jumped from \$73 million in 2001-2012 to \$245 million in 2011-2012 and squeezed out funding for basic City operations. For example, we have hundreds fewer officers today even though we increased the Police Department budget by nearly \$100 million.

However, by taking bold and difficult actions, we have been able to bring our expenses under control and are in a position to adopt a second consecutive budget without service cuts or layoffs. According to the Forecast, the elements of the Fiscal Reform Plan that we've implemented to date are savings us \$59.5 million per year in the General Fund, which translates to \$81 million per year in overall savings (all funds).

In addition, we're seeing the rate-of-growth in our retirement costs slowing down. This year in the General Fund, we paid \$65.6 million less than we had originally projected, and our projection for Fiscal Year 2015-2016 has been reduced by approximately \$100 million (all funds).

Changes in Retirement Cost Projections (all funds)

	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>
February 2011 Projections*	\$310.5M	\$360.2M	\$388.9M	\$400.7M
2012-2013 Retirement Contributions Budget**	\$245.9M			
February 2013 Projections**		\$275.8M	\$295.1M	\$301.6M
Difference from Original Cost Projection	-\$64.6M	-\$84.4M	-\$93.8M	-\$99.1M

Major Factors in the Change in Projections: In 2011, the City experienced a 24% reduction in payroll due to the 10% pay cuts and elimination of positions. Starting in 2013, the City will realize savings from the elimination of the SRBR (13th or bonus check) and retiree healthcare plan design changes. These savings were partially offset by changes in the economic and demographic assumptions.

Note: These projections do not take into account other elements of Measure B that have not yet been implemented. These elements - which include additional contributions or an optional lower-cost plan for current employees, and a lower-cost plan for all new employees - will generate significant additional savings.

*Source: February 14, 2011 Budget Study Session Presentation (Note: does not include prepayment discount)

**Source: City Manager's General Fund Five-Year Forecast (2/28/2013)

Even with these substantial savings, the actuaries for the two independent retirement boards are projecting significant increases in retirement costs for at least another decade. Those costs will exceed 25% of the General Fund by 2017-2018 unless we implement the additional employee contributions and lower-cost pension option for our current employees, and get all new employees into the Tier II plan, as approved in Measure B.

While our outlook is much brighter than just a few years ago, we have to remain extremely careful with how we spend our limited funds. We can't make the same mistakes we made in the past that led us to the brink of insolvency. We must remain focused on our ultimate goal of restoring the most critical City services.

RESTORING SERVICES AND RETAINING EXPERIENCED EMPLOYEES

Given the improvement in our City's fiscal condition, I am pleased to recommend some actions in this Budget Message that will help improve and enhance some core services, starting with public safety. While there are many more services that need additional funding, these actions address our most pressing needs and reflect input gathered during our Community Based Budget Process as detailed in Attachment A.

We also need to acknowledge that we have lost some valuable City employees due to the 10% pay cuts and retirement reforms adopted in recent years. So, as we restore services, we need to take steps to help retain experienced and talented employees, starting with critical and hard-to-fill positions.

The City Manager's Five-Year General Fund Forecast includes a recommendation to create an Employee Compensation Planning Reserve of \$11.1 million, which would allow us to restore some of the 10% pay cuts that our employees have taken. However, without offsetting cost reductions, this action would push us into a deficit next year. We should strive to restore some

of the 10% pay cuts our employees have taken, but the only way we will be able to increase employee compensation from ongoing revenues without cutting services, is by implementing the retirement reforms that are being challenged by the City employee unions.

The City Manager is directed to identify potential ongoing budget balancing solutions that will allow us to restore the services identified in this Budget Message and establish an Employee Compensation Planning Reserve without reducing General Fund services.

The City Manager is also directed to use the 2013-2014 Budget Balancing Strategy Guidelines as detailed in Attachment B to help balance next year's budget, with the following addition to Guideline 11: Compensation increases included in the budget will be quantified and identified in separate categories: Automatic step increases required by existing contracts; Management pay for performance; and Employee Compensation Planning Reserve.

THREATS TO THE FISCAL STABILITY

Despite the tremendous progress that we have made, there are still a number of obstacles that we must overcome to achieve long-term fiscal stability and restore services to our community.

Retirement Reform Litigation

The various elements of Measure B and other reforms will generate significant General Fund savings:

- Supplemental Retirement Benefit Reserve (SRBR) elimination -- \$13.4 million
- Lowest cost plan healthcare changes effective 2012-2013 -- \$6.5 million (Federated only)
- Employee contribution increases -- \$48 million over four years
- New tier benefits for new employees will increase savings annually

Unfortunately, these savings are subject to litigation by our employee unions.

The General Fund Forecast includes approximately \$20 million of General Fund savings from the SRBR elimination and lowest cost healthcare plan changes. The matters are set for trial in the Superior Court on June 17, 2013. The City Manager is directed to prepare a list of \$20 million of proposed ongoing and/or one-time expenditures that will not be implemented until at least 60 days after a favorable verdict is received.

In addition, most of the legal work has to be handled by outside counsel because most of our City lawyers are members of an employee union and have a conflict of interest. While this constitutes an added expense for the City, it is vastly outweighed by the amount of savings we can realize from Measure B. The City Manager is directed to set aside sufficient funds in a reserve to pay for our outside counsel as may be necessary to defend the City's interests. The City Manager should use savings in the City Attorney's Office to help replenish this reserve.

Escalating Retiree Healthcare Costs

The changes made in plan design to reduce healthcare costs have reduced our retiree healthcare unfunded liabilities by nearly \$400 million (\$196 million in Police and Fire and \$200 million

Federated). This will save the General Fund \$6.5 million next year for the Federated System and millions more for the Police and Fire system once the phase-in to full-funding is complete.

Despite these significant savings, the cost of retiree healthcare is in excess of 20% of payroll and continues to climb. With the costs split between the City and our employees, the burden is becoming high and getting higher. Plan design change remains the primary tool available to control costs and we should seek changes to reduce the costs. The City Manager is directed to meet and confer with our bargaining units to develop plan design changes to be effective January 1, 2014 that will keep the costs of retiree healthcare at 17% of payroll or less.

Preparing for a Shortfall in Fiscal Year 2014-2015

As detailed in the chart below, the City Manager's Five-Year General Fund Forecast is projecting small deficits in four of the five years ahead. To prepare for Fiscal Year 2014-2015, the City Manager is directed to use one-time funds as a bridge to avoid service cuts next year until additional savings or revenues from the Fiscal Reform Plan are realized.

2014-2018 General Fund Five-Year Forecast
 (\$ in Millions)

	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
Projected Revenues	\$852.7	\$873.9	\$899.7	\$930.5	\$963.3
Projected Expenditures	\$858.2	\$893.1	\$916.8	\$952.4	\$991.2
Total Cumulative Surplus/(Shortfall)	(\$5.5)	(\$19.2)	(\$17.1)	(\$21.9)	(\$27.9)
Total Incremental Surplus/(Shortfall)	(\$5.5)	(\$13.7)	\$2.0	(\$4.7)	(\$6.0)

Note: Does not incorporate impacts associated with elements of the Fiscal Reform Plan that are not yet implemented; Tax Increment funding for the Successor Agency to the Redevelopment Agency, a public entity, regarding the outcome of litigation with the County of Santa Clara related to the PERS Levy; costs associated with fully funding the annual required contributions for police and fire retiree health care; costs associated with services funded on a one-time basis in 2012-2013; costs associated with restoration of key services to January 1, 2011 levels; costs associated with unmet/deferred infrastructure and maintenance needs; or one-time revenues/expenses.

Assumes that the Police and Fire Retirement Plan Board will approve the elimination of the Supplemental Retiree Benefit Reserve (SRBR) for the 2013-2014 City retirement contribution amount and rates; and includes an Employee Compensation Planning Reserve, which totals \$11.1 million in 2013-2014. Without that Reserve, a surplus of \$5.6 million is projected for 2013-2014, and surpluses would be generated in all years but 2014-2015.

SPENDING PRIORITIES

1. Community and Economic Development

- a. **Downtown and North San José Transportation Improvements:** In December 2012, the City Council approved a Development Agreement with the Irvine Company in which the developer agreed to a monetary contribution of \$3,000,000, in consideration of City Council approval of a modified design on a residential development at North First Street and River Oaks Place. The payment is due at the time that the first building permit is issued for Parcel 1 of the multi-phased development, anticipated to occur in the 2013-

2014 Fiscal Year. The City Manager is directed to allocate that \$3,000,000 contribution towards offsetting unfunded transportation improvements in Downtown and North San José.

- b. **Center for Employment Training (CET):** The Center for Employment Training serves thousands of San José residents through its job training programs. In 2008, the US Economic Development Administration awarded a Federal grant of \$3 million to CET to renovate its buildings. The Grant required a 40% local match. The Redevelopment Agency had agreed to provide funding in the amount of \$950,000, but that can no longer be achieved as a result of the dissolution of redevelopment agencies statewide. The Center for Employment Training is now seeking other partners to help finance the renovations. The City Manager is directed to allocate \$250,000 in one-time funding from the General Fund to help CET achieve the required local match.
- c. **City-Funded Marketing Efforts:** Four years ago, the City Council created the Communications Working Group (CWG) to review and coordinate the marketing efforts of groups who were receiving City and Redevelopment Agency funding to help promote San José for economic development and tourism purposes. These included Team San Jose, the San Jose Downtown Association, the former Redevelopment Agency, the Airport, the Office of Economic Development, and marketing consultants with which these departments contracted. As a result of this effort, these external partners and City departments now provide detailed plans on how they will be spending their allocation of the City's limited marketing dollars and the expected return-on-investment.

To ensure continued transparency and accountability, the City Manager is directed to require any group or City department that receives City funds to market San José for economic development campaigns, to annually submit a proposed marketing plan, itemized budget and performance metrics, as well as results from the previous year's marketing efforts. These documents should be submitted for review by the City Manager (or designee) and Public Information Officer (in accordance with the City Charter) during the development of the proposed operating budget and be made available to the Mayor and City Council after the proposed budget is released.

2. Public Safety and Neighborhood Services

- a. **Accelerating Public Safety Recruitment, Hiring and Training:** Hiring more police officers and increasing staffing in the Fire Department remain a top priority of the City Council and the community. We must continue looking at ways to accelerate our efforts to recruit, hire and train public safety personnel, and ensure that the Police and Fire Chiefs have adequate resources to conduct outreach to a diverse range of candidates. The City Manager is directed to determine what additional steps can be taken to increase the rate of hiring and training of new public safety officers. Among the strategies that should be explored are "hiring ahead" of police officers to reduce the impact of vacancies, options for expanding the size/frequency of our academies, such as exploring the use of regional academies, and possibly reinstating the satellite Field Training Officer program to handle larger groups of hires.

- b. One-Time Bonuses:** In light of the increasing rate of departures in the Police Department, we need to explore all ideas to help with retention. One idea is offering one-time bonuses in the form of retention bonuses and signing incentives for laterals. The City Manager should consider this as a strategy.
- c. Overtime:** Some of our one-time funding should be used to increase the number of eligible overtime hours that our employees are paid (i.e. police officers are limited to six hours per pay period, with the rest available as compensation time). Increased use of overtime is only a stop-gap staffing measure, but we can allow our employees to take home more overtime pay by temporarily increasing the limit. The City Council approved a reserve of \$4 million for 2013-2014 overtime needs as part of the 2012-2013 Mid-Year Budget Review. The City Manager is directed to ensure that these funds are primarily used for patrol and investigation services, as well as critical non-sworn positions such as dispatchers. The City Manager is also directed to explore the use of overtime to ensure officers are able to use vacation hours during summer months.
- d. Continue to Fund Public Safety Positions Funded with Expiring Federal Grants:** Our Fire Department and Police Department staffing has been enhanced over the last couple of years with funding from Federal SAFER and Community Oriented Policing Services (COPS) grants. We appreciate the help from the Federal Government, but the grants were only for short durations. Since public safety is our highest priority, we should continue to fund those positions after the grants expire. The City Manager, consistent with the 2013-2014 Forecast, is directed to include funding in the amount of \$8 million in the 2013-2014 budget to retain the firefighter positions funded with the SAFER 2010 grant.
- e. Gang Prevention Funding and Safe Summer Initiative:** Gang prevention efforts were a priority for our residents and our neighborhood associations during our community based budgeting process. The City Manager is directed to allocate \$3.5 million in one-time funding to support a two-year funding strategy for San José BEST and the Safe Summer Initiative.
- f. Crossing Guards:** The safety of our school children remains a top priority for San José residents, as well as the City Council. During meetings with Superintendents at the Schools/City Collaborative, the Superintendents stated that this was the most important service the City provides for the schools. The City Manager is directed to maintain funding to the elementary and middle school crossing guard program.
- g. South San José Police Substation:** A significant way to improve services to South San José residents is to open the South San José Police Substation which was delayed due to budget constraints. Given the City's improved financial outlook, it is now appropriate to begin planning to open the substation in 2014, which will help the Police Department to improve response times to the residents furthest from their headquarters and increase the time that our police officers spend on patrol instead of commuting back and forth to their downtown headquarters. The City Manager is directed to identify funds to proceed with the opening of the substation.

- h. Gun Task Force:** Statewide, there are an estimated 19,170 registered gun owners prohibited from possessing firearms, based on the most recent Department of Justice list. There are more than 40,000 weapons associated to those gun owners, including 1,641 assault weapons. In our County, the Department of Justice reported 534 registered gun owners who are prohibited from possessing firearms and there are more than 1,200 weapons associated to those gun owners, including 51 assault weapons. The City Manager is directed to confer with the District Attorney and the Sheriff about development of a regional Gun Task Force to confiscate those weapons, and provide a cost estimate in the budget process.
- i. Residential Burglaries:** Residential burglaries and other property crimes have been on the rise in San José and around the state. These increases may be tied to the State's prison realignment plans which allow qualified inmates to be released early. We need to do everything we can to ensure our residents are safe. The City Manager is directed to review and report back with a plan and the resources needed to deal with the increase in residential burglaries.
- j. Community Service Officers/Use of Police Reserves:** To ensure that San José continues to be one of the safest large cities in the country, we need to find ways to keep police officers on the streets. Civilianization and the use of police reserves is one way to put officers on the streets if recruiting falls short of our needs. Three years ago, an audit was completed to review the possibilities of civilianization opportunities in the Police Department. While I am pleased that some efforts have been made, more needs to be done to implement the City Auditor's recommendations. Staff should seek to increase the number of positions allowed for civilianization in the Memorandum of Agreement with the San José Police Officers Association (SJPOA), consider how Community Service Officers might be used in the future, as well as meet and confer with the SJPOA regarding this provision. The City Manager is directed to aggressively pursue those additional opportunities. The City Manager is also directed to fully engage the use of police reserves.
- k. Homeless Encampments:** Solving issues related to homelessness must be a high priority. The City Manager is directed to return during the 2013-2014 budget process with a funding recommendation and strategy to support homeless outreach services, creek clean-ups, and permanent housing.
- l. Medical Marijuana Tax:** With the adoption of Measure U in November 2010, more than 78% of voters approved a tax rate of up to 10% to preserve essential City services such as police, fire, emergency response, street maintenance, pothole repair, parks, libraries, and youth and senior programs. The City Attorney is directed to bring to the City Council an ordinance amendment for an increase of the Marijuana Business Tax from 7% of gross receipts to the maximum allowable amount of 10% of gross receipts as approved by the voters under Measure U. This should be done before the adoption of the budget.

- m. **La Raza Study:** For years, we have seen Latinos disproportionately represented in our criminal justice, juvenile justice, and child welfare systems. With many different causes and factors involved, this problem has long been considered impossible to solve. Yet, through the leadership of La Raza Roundtable, and the Harvard Study Consensus Process, we now have a broad collaborative effort that cuts across different agencies and levels of government to address the various pieces of the problem. The City Manager is directed to continue to support these efforts next year.
- n. **Children's Health Initiative:** The City of San José provides \$2.1 million annually in funding to the Children's Health Initiative. With the County's recent passage of a sales tax increase, the County is in a stronger financial position to fund many of its programs. The President of the Santa Clara County Board of Supervisors has indicated a willingness to discuss funding this program. The City Manager is directed to begin negotiations on a three year phase-out of the City's funding for the Children's Health Initiative.
- o. **Aquatics Programs:** Last year, one-time funding was provided to continue aquatics programs at Fair Swim Center and Silver Creek High School. In order to continue operations this summer, the City Manager is directed to continue one-time funding for these programs.
- p. **Senior Services and Wellness Program and Senior Transportation Services:** The Senior Nutrition Program provides healthy meals and social activity to San José's elderly residents. Through this program, seniors receive nutritious meals and social interaction that prevents them from feeling isolated. Together with the many social services that support this program, seniors are able to live more active and independent lives. Last year, the City maintained senior nutrition services at the 14 current City sites and continued transportation services. The City Manager is directed to continue to support these efforts on a one-time basis and maintain current funding levels for the program. The City Manager is also directed to evaluate this program for potential improvements to ensure that the highest quality meals are provided.
- q. **Card Room Administration:** Over the years, there have been many issues with the Police Department's licensing and permitting process for cardroom owners and employees. Issues have included the speed of processing work permits, to permit requirements. This process has long been in need of a redesign. The City Manager is directed to consider moving the Division of Gaming from the Police Department to another City department or office, as originally recommended when the Division was created. If there is a need for law enforcement, the Gaming Division can call upon the Police Department as needed. The City Manager should also consult with the City Auditor on best ways to implement outstanding audit recommendations.
- r. **Downtown College Prep (DCP):** Downtown College Prep opened as a charter high school in 1999 with a City startup loan of \$600,000. The school has garnered national recognition for its high program standards and exemplary levels of achievement by its students, and 95% of all Downtown College Prep graduates have been admitted to four year colleges. Recently, Downtown College Prep opened DCP Alum Rock Middle School serving grades 6-8. The school is the highest performing new middle school in

the State of California. To provide Downtown College Prep with incentives to open new campuses and keep the Downtown College Prep Alum Rock campus open and thriving, the City Manager is directed to forgive \$200,000 of the original loan for each year the Downtown College Prep Alum Rock campus stays open.

3. Strategic Support

- a. **Litigation with the County:** A hearing is scheduled in April in the Superior Court on the City's dispute with Santa Clara County over the County's withholding of \$7.5 million annually from redevelopment tax increment to fund the County employees retirement plan (the PERS levy) and water district costs. If the City prevails, additional General Fund revenues will be available on an ongoing basis to fund priority programs. The City Manager is directed to use this funding to help resolve the General Fund structural deficit and/or identify and provide ongoing funding for priority programs such as senior services and wellness, senior transportation, and homeless programs which are currently funded on a one-time basis.
- b. **Pay Increases:** Pay increases should be targeted to help retain our most experienced employees. By increasing the pay at "top step," senior employees would get a raise, rewarding them for their experience and encouraging them to stay (60% of the officers who resigned from the Police Department last year were at "top step"). Less tenured employees would still get their scheduled step increase and have a higher "top step" to look forward to in the future. The City Manager is directed to pursue this strategy.
- c. **Essential Services Reserve:** The City Manager is directed to set aside \$2 million of one-time funds that may be used for the purpose of supporting services that are of essential importance to our residents. Services deemed essential by the City Council may be funded with the use of these one-time funds.
- d. **Review of One-Time Funded Services from 2012-2013:** The City Manager is directed to review one-time funded services that were included in the 2012-2013 Adopted Budget for continuation again in Fiscal Year 2013-2014, where appropriate.
- e. **City's Debt Refinancing:** As the City's Finance Department pursues refinancing of City Hall debt to reduce financial risk, the City Manager is directed to develop a policy where one-time savings from debt restructurings and refundings could be used to further reduce the City's financial risk and create ongoing savings from reducing principal on these bonds.
- f. **Council General Phase Out:** Both Mayor and City Council Office budgets incur costs that are charged to other appropriations, including Mayor and Councilmember salary and benefits costs, and administrative costs. The City Manager is directed to work with the Mayor's Office to reallocate costs from Council General to the individual City Council Office budgets. This should be done as part of the 2014-2015 Base Budget process.
- g. **City Council Office Budgets:** In prior years, incoming Councilmembers have not been left with enough funding in their office budget to complete the Fiscal Year. This has

been primarily due to vacation payouts and spending by their predecessors. The City Clerk is directed to present to the City Council by the end of the Fiscal Year, a policy to ensure that in the years in which the Mayor or Councilmember leave office due to elections or term limits, a separate appropriation is created for the incoming Councilmember. The separate appropriation would be an even split of both the base and rebudgets and includes all funds controlled by the Council Office.

- h. Street Tree Maintenance Costs:** To reduce costs, in 2008-2009 the City contracted out tree maintenance and began billing property owners for contractual street tree maintenance. Recently, the State Department of Industrial Relations informed the City that the classifications being used for tree trimming no longer applies and a general classification should be used. This decision results in much higher costs to the program. As a result, reliable tree companies have stopped working for the City, and the City Administration has been forced to consider a \$1 million plus budget proposal to cover the higher costs.

The City Manager is directed to set local prevailing wage rates for tree maintenance as soon as is practicable and, when feasible, return to the City Council with the associated changes to the prevailing wage policy. The City Manager is authorized to extend and increase current tree maintenance purchase order limits until a new Request for Proposals process with locally set prevailing wages, has been completed and new agreements have been awarded by the City Council.

- i. Potential Ballot Measures:** At the March 5, 2013 City Council meeting, direction was given to conduct additional polling in September for potential ballot measures in 2014. The City Manager is directed to allocate appropriate funding to conduct polling. The City Manager will continue to work with the Mayor's Office on development of the poll.
- j. Public Data Initiative:** We continually look for ways to be open and transparent. Transparency encourages public participation, builds public trust, and promotes efficiency and effectiveness. An initiative currently in use by the Federal Government creates ways for the public to easily find, download, and use datasets. Creating a similar system for San José would deliver similar benefits to our City. The City Manager is directed to report back on principles, a workplan, and a budget for a San José Public Data Initiative.
- k. Employee Training and Leadership Development:** Over the past decade in order to save money, our capacity for training and developing the skills of our workforce has been reduced. The City Manager is directed to provide the City Council with a plan to restore some of that capacity and the cost to do so.
- l. Office of the City Clerk:** With a focus on the rapid delivery of quality services, an electronic document management system is needed in the Office of the City Clerk. This system will act as a self-service file storage system where City staff and members of the public can obtain documents such as Agendas, Minutes, Resolutions, Ordinances, and Contracts without requiring the assistance of staff. This system will offer a robust, searchable database of the large volume of documents created, maintained, and stored by

the Office of the City Clerk. The City Manager is directed to work with the City Clerk's Office to use savings within the City Clerk's current year appropriations to fund this system.

COORDINATION

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

Community Input on Budget Priorities

As in years past, the City has initiated extensive community outreach to gather input on potential budget strategies and priorities. As we consider how to use the limited amount of funding we have available, we should remain mindful of our constituents' top priorities.

Community Budget Survey

In January 2013, the City conducted a budget priority survey of more than 900 residents which touched on a number of different budget topics and issues.

One of the survey questions asked residents opinions about five potential areas for spending additional funding should funding become available - hiring more police officers, restoring pay for City employees who previously agreed to pay cuts, increasing library hours, increasing the size of the Fire Department, and increasing community center hours. The overwhelming highest priority was hiring more police officers.

Prioritization of Budget Enhancements if Funding is Available

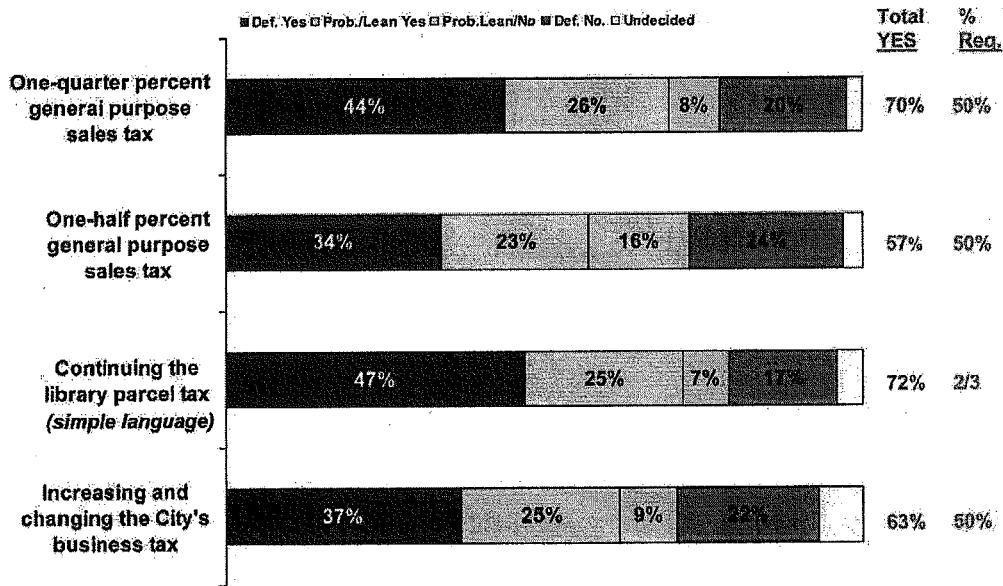
Potential Budget Enhancement	%		
	Highest Priority	Second Highest Priority	Total Selected
Hiring more police officers	50	19	69
Increasing the size of the fire department	8	32	40
Restoring pay for City employees who previously agreed to pay cuts	17	13	30
Increasing library hours	10	11	22
Increasing community center hours	5	11	16
All/None/Don't know	10	14	-

Respondents were also asked about potentially increasing City employee pay - specifically to police officers. They were asked if they would support or oppose increasing pay for experienced officers in order to encourage them to stay with the Department. Sixty-three percent supported the concept while 30% indicated they would oppose this. It is important to note that respondents, who indicated they would support increasing pay for experienced officers, preferred that these increases be funded through additional revenue rather than cutting services.

Support for Specific Revenue Generating Proposals

Survey respondents were asked to provide their opinions about several different options for generating revenue for the City. Specifically, they were asked about seven potential finance measures requiring voter approval. Only four of the measures, a one-quarter or one-half percent sales tax, adjusting the City's Business Tax rate, and continuing the library parcel tax appear to have enough voter support to consider.

Voter Support for Potential Tax Measures



To view the complete budget priority survey results, visit:
<http://www.sanjoseca.gov/Archive.aspx?ADID=1576>

Neighborhood Association and Youth Commission Priority Setting Session

At the Seventh Annual Neighborhood Association and Youth Commission Priority Setting Session, 114 residents participated in an exercise where they prioritized funding for City services and weighed in on various cost-saving/revenue proposals.

- **Top Funding Priorities** - A top priority from the session was public safety, with gang prevention efforts, community services officers, and crime prevention specialists on the prevention side and additional police officers on the enforcement side, being purchased by nearly all 19 tables. Other high priority items included community center and library hours and the elimination of fire engine brownouts.
- **Top Cost Saving/Revenue Proposals** - The top cost saving proposals were eliminating overtime for management positions and reducing staffing in engine companies from four to three firefighters. Nearly every table agreed to at least one revenue generating proposal. The revenue generating proposals presented included a parcel tax for road repair, a ¼ cent sales tax, and a business tax increase.

The full report from the Seventh Annual Neighborhood Association and Youth Commission Priority Setting Session can be found at:
<http://www.sanjoseca.gov/DocumentCenter/View/3807>

2013-2014 Budget Balancing Strategy Guidelines

1. Develop a budget that balances the City's delivery of the most essential services to the community with the resources available.
2. Balance ongoing expenditure needs with ongoing revenues to ensure no negative impact on future budgets and to maintain the City's high standards of fiscal integrity and financial management.
3. Focus on business process redesign in light of the severe staff reductions experienced during the last several years in order to improve employee productivity and the quality, flexibility, and cost-effectiveness of service delivery (e.g., streamlining, simplifying, reorganizing functions, and reallocating resources).
4. Explore alternative service delivery models (e.g., partnerships with the non-profit, public, or private sector for out- or in-sourcing services) to ensure no service overlap, reduce and/or share costs, and use our resources more efficiently and effectively. The City Council Policy on Service Delivery Evaluation provides a decision-making framework for evaluating a variety of alternative service delivery models.
5. 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.
6. Explore redirecting and/or expanding existing revenue sources and/or adding new revenue sources.
7. Establish a fee structure to assure that operating costs are fully covered by fee revenue and explore opportunities to establish new fees for services, where appropriate.
8. Identify City policy changes that would enable/facilitate service delivery changes or other budget balancing strategies.
9. As additional resources become available, focus service restorations to meet the baseline January 1, 2011 service levels previously identified by the City Council in the areas of fire, police, library, community centers, street maintenance, and facility openings.
10. In addition to considering the service restorations to meet the baseline January 1, 2011 service levels, take a holistic approach regarding the restoration of services. As outlined in the Guiding Principles for Restoring City Service Levels, allocate additional resources with the following goals in mind: ensure the fiscal soundness of the City; choose investments that achieve significant outcomes; and improve efficiency and effectiveness of service delivery. Using a multi-pronged approach to restoring direct services, take into consideration the following factors: adequate strategic support resources; adequate infrastructure; service delivery method to ensure efficient and effective operations; service delivery goals and current performance status; service sustainability; and staffing resources.
11. Incorporate compensation adjustments in a fiscally responsible manner that does not result in a reduction or elimination of services in the General Fund.
12. Engage employees in department budget proposal idea development.
13. Use the General Plan as a primary long-term fiscal planning tool and link ability to provide City services to development policy decisions.
14. Continue a community-based budget process where the City's residents and businesses are educated and engaged, as well as have the opportunity to provide feedback regarding the City's annual budget.