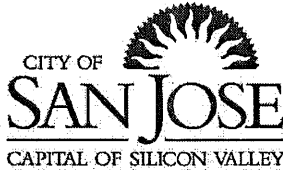


2011-2012

OPERATING BUDGET

**MAYOR'S JUNE
BUDGET MESSAGE**



Memorandum

TO: CITY COUNCIL

FROM: Mayor Chuck Reed

**SUBJECT: JUNE BUDGET MESSAGE FOR
FISCAL YEAR 2011-2012**

DATE: June 3, 2011

Approved:

Chuck Reed

Date:

6/3/11

RECOMMENDATION

I recommend that the City Council and Redevelopment Agency Board:

1. Approve the direction outlined in this memorandum for purposes of adopting a final budget for Fiscal Year 2011-2012.
2. Direct the City Manager and the Redevelopment Agency Executive Director to implement the steps outlined in this memorandum to prepare for closing the projected budget shortfall for Fiscal Year 2012-2013.
3. Adopt a resolution authorizing the City Manager and the Redevelopment Agency Executive Director to negotiate and execute agreements for projects approved in the Mayor's Budget Message when amounts exceed the City Manager's or Executive Director's existing contract authority.
4. 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following Manager's Budget Addenda and incorporate them in the Adopted Budget, except in cases where the Addenda are superseded by the contents of this Budget Message.

MBA# TITLE

- | | |
|----|---|
| 6 | Recommendation on the Proposed 2012-2016 Capital Improvement Program |
| 8 | Tier 2 Police Sworn Contingency Plan |
| 9 | Recommendation for the 2011-2012 Capital Budget for Sharks Ice at San Jose |
| 10 | HP Pavilion at San Jose Capital Budget Recommendation |
| 11 | 2012-2016 Proposed Capital Improvement Program - Water Pollution Control
Public Art Allocation |
| 13 | Planning Expedited Coordinated Review Fee |
| 16 | Arena Authority Funding |
| 17 | Office of the City Manager Staffing Reorganization |
| 19 | Mexican Heritage Plaza Funding |
| 20 | Solid Waste Enforcement Fee and Code Enforcement Staffing |
| 23 | Team San Jose 2011-2012 Performance Measures |

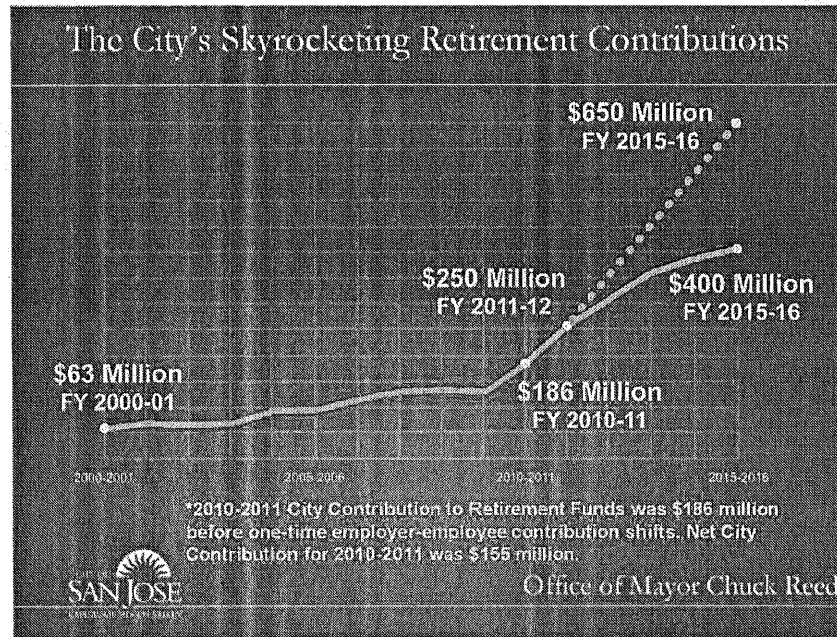
- 25 Incentive Program Exploration for Tenant Improvements of Existing Buildings
- 27 Bascom and Edenvale Community Center Reuse Update
- 30 Medical Marijuana
- 31 Fire Department Expedited Inspection Fee
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- 36 Legal Services - Environmental Services and Public Works Capital Projects
- 37 ESD Treatment Plant - Capital Limit Dated Positions
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- 40 2012-2016 Proposed Capital Improvement Program - Public Art Allocations in Various Programs
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INTRODUCTION

Over the last decade, San José has had 10 straight years of escalating budget shortfalls. Throughout this decade, our costs per employee have continued to go up - both in years when our revenues rose and when they shrank. Wages, healthcare costs, and other costs have increased over the past decade, while City services have been reduced.

The single biggest expense has been the growth in retirement costs. San José's unfunded liabilities for retirement benefits grew by billions of dollars, driving up the City's contributions to the retirement system by more than \$190 million since 2000 (\$63 million in 2000 to \$255 million in 2011).

Unfortunately, the huge increase to fund retirement costs to date is just beginning. Using the most optimistic assumptions, retirement costs, if left unchecked, will increase to \$400 million per year by 2016 - or almost 30% of the General Fund - and will continue to go up for another 10 or 15 years. Even greater increases in retirement costs are likely if actuarial assumptions, such as life expectancy, retirement ages, or rates of investment return, are modified by the retirement boards that are independent from the City and have fiduciary obligations to modernize assumptions and keep the plans solvent. That could cause retirement costs to jump to \$650 million per year by 2016.



Preparing to Close a \$100 Million Shortfall in 2012-2013

I want to thank our entire workforce for giving up ten percent in total compensation. I realize that it is a significant sacrifice for our employees, but it has allowed us to save hundreds of jobs and critical services throughout the community.

Last year we reduced our workforce by 800 positions, down to 4,200 General Fund employees. With this budget we have to cut another 600 positions, including police officers and fire fighters, dropping our General Fund staffing down to 3,600 positions.

Due primarily to another huge increase in retirement costs next year we expect at least a \$78 million shortfall. That number is highly likely to grow by \$20 million or more when the retirement boards consider the recommendations from their actuaries and set the retirement contribution rates for 2012-2013. As a result, a year from today we will be faced with cutting hundreds more jobs and once again cutting vital City services to close a \$100 million shortfall.

Such cuts are unacceptable, but they can be avoided if we get control of our rising expenses and overhaul the way San José provides services. The City Council's action on May 24th in approving the Fiscal Reform Plan gives us the road map to get there, but most of the savings from retirement reforms are unlikely to be achieved in time to help us in 2012-2013, leaving us with a limited menu of options to close a \$100 million gap in 2012-2013 without cutting services:

- Asset sales and other one-time funds (\$25 million)
- Fiscal reforms: SRBR, sick leave, workers compensation, vacation (\$16 million in 2012 per the Fiscal Reform Plan)
- Tax increases (\$36 million per the Fiscal Reform Plan)

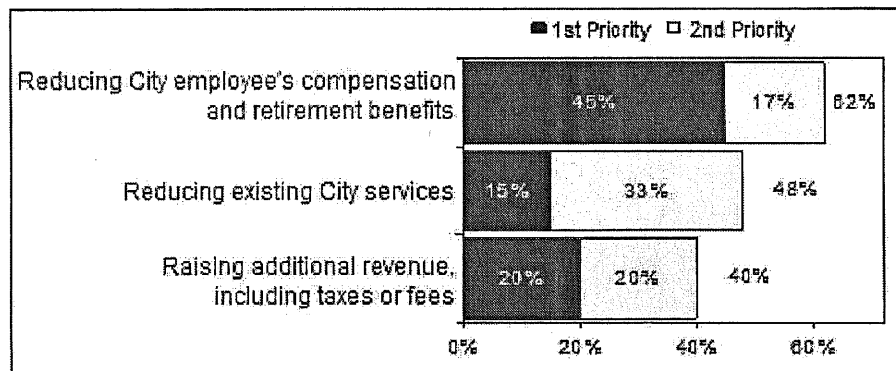
- Contract out additional services (\$20 million)
- Increase employees cost share for unfunded pension liabilities (\$20 million in 2012-2013 for employees without contracts)
- Fiscal reforms: overtime and retiree healthcare (\$15 million per Fiscal Reform Plan in 2013-2014, could be accelerated)

In order to prepare for the 2012-2013 budget and allow potential savings to be considered by the City Council as part of the March 2012-2013 Budget Message, I recommend we direct the staff to accelerate the process for asset sales and accelerate the analysis of contracting out opportunities in addition to the other recommendations in this Message. In combination with the implementation of the Fiscal Reform Plan and the other recommendations in this Message, we could avert the need to cut services in 2012-2013.

BACKGROUND

Community Budget Survey

Since taking office in 2007, we have worked closely with neighborhoods and residents to obtain their input throughout the budget process each year. This year, we surveyed more than 900 residents about their budget priorities survey and held meetings at which hundreds of residents gave input on service priorities and different budget scenarios. Residents were asked to indicate which strategies the City should pursue. The chart below summarizes residents' preferred approach to balancing the budget.



Residents were also asked their thoughts on potential reductions in this year's budget. A majority of respondents found it "somewhat" or "completely" acceptable to make the following potential reductions in spending:

- Reducing public information desk hours at the police station. (74%)
- Reducing the number of days or hours that community centers are open. (67%)
- Deferring the opening of the newly constructed South San José Police Substation. (65%)
- Reducing the number of park rangers for the City's regional parks. (63%)
- Reducing money the City gives non-profits and charities to support their services. (63%)
- Reducing the number of days that libraries are open. (61%)

Neighborhood Association and Youth Commission Priority Setting Session

At the Fifth Annual Neighborhood Association and Youth Commission Priority Setting Session, more than 100 residents spent 3.5 hours prioritizing City services. Participants were comprised of members of the city's neighborhood associations, Neighborhood Commission, and Youth Commission.

Residents reached general consensus to support proposals related to public safety, quality of life, and services that residents could not do on their own. Proposals with low support were those considered to have other funding possibilities (such as donations from corporations or local businesses and philanthropic or government grants) or those that residents thought could be addressed with volunteers.

Residents were reluctant to cut police and fire resources, but were willing to look at efficiencies. For example, residents did not want to eliminate any more fire engines, but they were willing to reduce staffing on fire trucks from five to four personnel. Services that affected quality of life and services which citizens could not do on their own were top priorities for residents. Residents prioritized code enforcement, pavement maintenance, libraries, community centers, and anti-graffiti staffing.

2011 Community Budget Meeting Summary

Community budget meetings were held in each Council District to provide residents with an opportunity to learn about and discuss the budget. An estimated 800 people attended to speak directly to and share their thoughts with the Mayor, their Councilmember, and City officials.

Most of the questions centered on pension reform. Residents wanted to better understand the pension problem and ways it might be fixed.

Residents' concerns also focused on quality of life issues. Throughout the City, residents stated that libraries, community centers, and school liaisons should not be cut from the budget. Participants were interested in outsourcing City jobs, but had frequent questions about the potential outsourcing of graffiti abatement and whether volunteer programs for graffiti abatement would continue if the program was contracted out. Residents asked if volunteer programs could be expanded to other areas such as school crossing guards and library staffing.

Attendees also shared numerous ideas for cutting costs, including making City facilities more energy efficient, cutting the number of City vehicles, and reducing crossing guards. Participants also suggested revenue enhancements such as placing a tax-increase measure on the ballot and/or increasing certain City fees. A few attendees suggested increased audits of City government to find more efficiencies and costs savings.

INVESTMENT AND REDUCTION STRATEGIES

1. Neighborhood Services and Public Safety

- a. **Maximize Police Officers on the Streets:** A significant priority should be that the Police Department staffing model continues to evolve and emphasizes maximizing the number of

police officers on the streets and in the neighborhoods. This is especially important given the magnitude of reductions that will be implemented in 2011-2012, and critically important as the Police Department prepares for 2012-2013 and the continued escalation in personnel and retirement costs.

The City Manager is directed to issue a plan by no later than January 2012 to the City Council, through the Public Safety, Finance and Strategic Support Committee. The plan should analyze and discuss the current state of the Police Department, review the significant organizational changes already implemented and discuss their effect, and state how additional strategies will be implemented that achieve the goals of maximizing the number of officers on the streets and covering the increase in department personnel costs. The plan shall consider, at minimum, management strategies such as span of control, unit consolidations, use of collateral assignments for specialized units, command staff reorganization, and use of reserve officers and potential use of community service officers. It shall also explore cost recovery for services provided to other jurisdictions and more strategic use of regional taskforces that may reduce our operating costs.

According to the City Manager's Budget Office, the 2010-2011 third quarter Sales Tax receipt should be available within two weeks. If actual receipts are above estimated levels, the City Manager is directed to immediately bring forward a Manager's Budget Addendum to fund as many additional Police Patrol Officers as possible as part of 2011-2012 budget adoption consideration.

- b. **Staffing for Adequate Fire and Emergency Response (SAFER) Grant:** During these challenging budget times, the City should seriously evaluate every opportunity to leverage grant funding to support critical public safety services. Through a \$15 million grant award from the Federal Emergency Management Agency (FEMA) and Department of Homeland Security (DHS), the City has an opportunity to restore 49 firefighter positions in Fiscal Year 2011-2012. This would allow the City to fund the 5th engine company subject for elimination on July 1, staff an additional engine or truck company, preserve the engine company stationed at the Airport, and add 7 relief firefighter positions. While the grant award does carry certain conditions, FEMA has provided the City with significant accommodations and flexibility to help minimize the risk of accepting the award. The City Manager is directed to accept the *Staffing for Adequate Fire and Emergency Response (SAFER)* grant award and implement the budget amendments outlined in MBA #45.
- c. **Library Branch Hours Restoration:** From Bond measures to library parcel taxes, San José residents have voted to support their branch libraries. The proposed budget reduced library service to three days per week. This level of service would adversely affect thousands of residents. I recommend that we restore services to our branch libraries to 4 days per week as Councilmembers Herrera and Rocha have recommended. In bleak economic times, libraries see a significant increase in usage, which makes them an essential service for our residents. The City Manager is directed to allocate net \$3,634,000 to restore a day of branch library service to the Library Department. Funding for these hours should come from other savings identified in this Message and from \$1,000,000 in the Library Parcel Tax Unallocated Reserve.

- d. **Senior Nutrition and Wellness:** 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 being isolated. Together with the many social services that support this program, seniors are able to live more active and independent lives. The City, in collaboration with the Senior Nutrition Task Force, has accepted a recommendation that will maintain senior nutrition services at the 13 current City sites for 2011-2012 at a level of \$550,000. This program will be offered under a new model in 2011-2012 with support from the City, County of Santa Clara, and community-based organizations. Several Councilmembers have requested additional funds to continue wellness programs for CBO and City operations. The City Manager is directed to allocate \$400,000 from the remaining HNVF Competitive Fund to fund senior wellness.

Further, Vice Mayor Nguyen and Councilmember Liccardo have requested that the City ensure that every City-owned center with a Senior Nutrition program also has City staff support and coordination to provide socialization services to seniors, as well as to coordinate volunteers, non-profit providers' schedules, and keep close communication with neighborhood groups. The City Manager is directed to fund 2 full-time Recreation Specialists from savings identified in the Message.

- e. **Fire Apparatus Replacement:** Maintaining adequate funding for replacement of Fire Apparatus is necessary to preserve the safety and effectiveness of Fire Rescue and Medical Services throughout the City. After further review, it was determined that one of the Fire Apparatus scheduled for replacement will benefit Community Development Block Grant (CDBG) eligible areas. Therefore, the City Manager is directed to use \$550,000 of CDBG funds for the purchase of one Fire Engine and reduce the General Fund Fire Apparatus Replacement appropriation to fund other costs identified in this Message.
- f. **Downtown Nightlife:** Direct the City Manager and City Attorney to continue to develop an ordinance to amend Title 6 - Public Entertainment Ordinance to authorize a change in the fee methodology for the Public Entertainment Business Permit charged to public entertainment businesses and parking lot owners operating in the Downtown Entertainment Zone to include costs related to police enforcement of the Public Entertainment Permit Ordinance. This should be brought to the Community and Economic Development Committee in the fall and be in place in time to generate funds for the 2012-2103 budget.

In 2009, the City Council approved a new Entertainment Zone Policing Model (EZPM) and Cost-Sharing Model; however the cost-sharing model has not yet been implemented for a variety of reasons. The new EZPM has been in effect for two years, already saving nearly \$300,000 annually. Savings have been realized by increased business commitments to funding additional private security, increased collaboration between the City and nightlife businesses, and increased server training for all nightlife business employees. The EZPM has had a successful start and has been well received by downtown residents, businesses, and visitors.

- g. **Foreclosure Fines:** San José currently has a zero tolerance approach for lenders that do not keep their foreclosed homes up to code. This approach means banks are cited for the first violation and fined if the problems are not immediately rectified. The Code Enforcement Officer positions reinstated in this Message will allow for the Department of

Planning, Building and Code Enforcement to be proactive in identifying and fining lenders that allow foreclosed properties to become blighted. The City Manager is directed to continue these efforts with the additional Code Enforcement Officers that are added in this Message.

- h. **Downtown College Prep:** The City Manager is directed to extend the current Downtown College Prep loan repayment approved in Fiscal Year 1999-2000 for an additional two years. 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. The City Manager is further directed to review opportunities through incentives to encourage development of an eastside campus.
- i. **Downtown Holiday Events Funding:** Christmas in the Park and Downtown Ice bring more than half million people to the Downtown each year, creating a total economic impact of \$15.8 million. Both events lost City and Redevelopment Agency funding of more than \$300,000. Councilmember Liccardo and I are currently working to raise private-sector funds for these events, and both the Downtown Association and the Christmas in the Park Board have engaged in private fundraising. Both all-volunteer boards need additional time to “ramp up” to be able to sustain the new service models. The City Manager is directed to allocate \$100,000 to support these events. \$25,000 should come from the General Purpose Parking Fund and \$75,000 should come from the Integrated Waste Management Fund to support these Zero-Waste events and educate the community on reducing waste.
- j. **Park Rangers:** Park Rangers are key to helping keep our regional parks safe and clean. Councilmembers Liccardo, Herrera and Pyle have identified a need and have requested additional support for our Trails, Guadalupe River Park, and Lake Cunningham. The City Manager is directed to add two additional Park Rangers (\$185,000) to be funded from savings identified in this Message. The Park Rangers will retain the flexibility to deploy throughout our park and trail system with an emphasis on the parks and trails identified by these Councilmembers.
- k. **Lake Cunningham Skate Park and Marina:** The Lake Cunningham Skate Park and Marina provide valuable recreation opportunities to the residents of District 8. Users of these facilities understand the need for budget reductions and are pursuing private fundraising efforts to support the Skate Park and Marina. Councilmember Herrera has requested one-time funding to allow services at the Lake Cunningham Skate Park and Marina to temporarily continue until the fall to give the supporters an opportunity to fundraise during the summer peak season. The City Manager is directed to allocate \$117,500 to support these efforts from cost savings identified in this Message.
- l. **Anti-Graffiti:** Contracting out Graffiti Abatement provides the City with an opportunity to have an enhanced level of service at a reduced cost. We will save approximately \$613,000 with this proposal. In addition, all graffiti will be eradicated within 24 hours, digital photos will be taken before and after the graffiti is cleaned up to help support law enforcement efforts, exact paint matching will be provided for eradications, and residents will receive real time communications. By retaining 3.75 City positions, the Department of

Recreation and Neighborhood Services will continue its programs that provide opportunities for community involvement/volunteer coordination and enforcement. The City Manager is directed to adopt MBA #39 and allocate the additional savings to fund other additions contained in this Message.

m. **Airport Police Services:** In May 2010, the City Council approved the Airport's Competitive Strategic Plan, which included direction to evaluate alternative methods of delivering services that could reduce the Airport's cost per enplaned passenger, including consideration of more cost-effective methods for providing law enforcement services at the Airport. The Airport received nine proposals for contract law enforcement services and an evaluation panel representing City staff, the airlines, and other airports evaluated and scored the proposals, and found the Santa Clara Sheriff's Office as the proposal to be most advantageous to the City. The Sheriff's proposal costs \$4.4 million annually, which is a reduction from the 2011-2012 Proposed Budget annualized San José Police Department cost of \$5.4 million. By January 31, 2012, the remaining staffing in the Airport Police Division is scheduled to be eliminated. The City Manager is directed to consider a hybrid security system at the airport that could utilize some San José police officers. Specifically, the proposal should analyze whether or not a hybrid system could mitigate any challenges in coordination and be brought to the Public Safety, Finance and Strategic Support Committee. Additionally, any savings generated from the passage of potential fiscal reforms on the November ballot should be considered to keep Airport security under the San José Police Department. (BD# 44 Constant)

n. **Regional Public Safety Communications:** San José has a long history of support for improvements to the communications systems for police, fire, and other first responders. Whether it is the possibility of a major earthquake or other natural disaster, or the potential of an attack on Silicon Valley's vital high-technology, defense, and economic infrastructure, our region has long been at risk.

Since late 2010, representatives from many of the 10 Bay Area counties and a number of cities have worked together to develop a Joint Powers Authority (JPA) to govern the "Bay Area Regional Interoperable Communications System (BayRICS)." BayRICS would be poised to provide governance and structure at the regional level when this moves forward. I recommend funding for participation in the BayRICS JPA and for part-time staffing support to continue work with the City Manager and Mayor's Office on this program through December. The City Manager is directed to allocate \$74,000 towards these efforts from savings identified in this Message.

o. **Code Enforcement:** The proposed budget eliminates three General Code Enforcement Inspectors. Should this happen, the City's ability to respond and assist with neighborhood quality-of-life complaints will be severely compromised. In addition to the Code Enforcement Officer add outlined as part of MBA #20, the City Manager is directed to reinstate another General Code Enforcement Inspectors at a cost of \$116,000 to ensure timely response to neighborhood quality complaints and proactive code enforcement services are continued. Funding should come from other savings identified in this Message.

- p. **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 and is their Number One priority. The City Manager has recommended savings of \$353,000 by eliminating low priority intersections. Transportation Index studies and traffic counts don't always tell the full story about safety at intersections. The City Manager is directed to allocate \$75,000 to staff additional priority intersections. The City Administration should work with and seek input from Council Offices and Schools on potential locations.

- q. **La Raza Study:** La Raza Roundtable is in their second year of addressing the problems involving the overrepresentation of Latinos in the Criminal Justice, Juvenile Justice and Juvenile Dependency Systems within the City of San José. Since the beginning of their efforts, the Police Department has reviewed and changed their tow policy, the District Attorney's Office has reviewed and is considering changes to their policy on prosecuting unlicensed drivers, school superintendants are re-evaluating their zero tolerance policies around student discipline, and Juvenile Probation is in the process of evaluating their practices regarding violations of probation. The City Manager is directed to allocate \$50,000 from savings identified in this Message to continue these efforts and match funding from Santa Clara County.

- r. **Safe Schools Campus Initiative (SSCI):** The Safe Schools Campus Initiative Program is a partnership between the City, School Districts, Police Department, and County Probation and addresses youth related violence at schools as part of the Mayor's Gang Prevention Task Force. The proposed SSCI program reductions will result in the elimination of this program at middle schools. The City Manager is directed to allocate \$302,424 to restore this service.

- s. **Chaplaincy Program:** The San José Police Department Chaplaincy Program involves more than 20 volunteer chaplains and citizens who provide support services to police officers, their families, and citizens in times of need. Services include crisis counseling, and support for events such as graduations, trainings, and funerals. The City Manager is directed to appropriate \$20,000 for this program.

2. Community and Economic Development Services

- a. **Santa Clara Valley Habitat Conservation Plan:** At the March 3, 2011 Study Session, several concerns were raised regarding the scale and the costs and modest benefits of the proposed Plan. As it is currently written, the proposed Plan puts San José in a position of competitive disadvantage with cities of the Silicon Valley that are not part of the Plan. The City Manager is directed to suspend support and funding for the Plan after the EIR is certified, and until such time as the costs and benefits are reassessed and an effort to develop a more regional Plan is achieved.

- b. **Sign Ordinance Planner:** The comprehensive update of San José's 1992 Sign Ordinance is a work in progress. Several amendments have been approved by City Council. At the February 2011 Budget Priority Study Session, the Sign Code update was ranked as a top priority by the City Council. The City Manager is directed to add 1.0 FTE Planner at a cost

of \$129,000 to work exclusively on the revision to the Sign Ordinance and complete the revision for City Council review in fall/winter 2011, and then on other ordinances of highest priority to the City Council.

- c. **1% Public Art Fund:** City ordinance guiding the 1% public art requirement for City capital improvement projects excludes the cost of rehabilitation or maintenance, seismic retrofits, site remediation, acquisition or installation of equipment, and environmental review. Public art funds should be prioritized for projects that are integrated into the City's long-term planning initiatives and are located in regional destinations, high-traffic transportation corridors, pedestrian areas, and community-gathering places. The City Manager and City Attorney are directed to review and report back to the City Council before funds are spent for art at the Water Pollution Control Plant to ensure that all such spending complies with the Ordinance. Also, the Public Safety, Finance and Strategic Support Committee should annually review funds appropriated for art before the dollars are spent.
- d. **Other Cost Saving Opportunities:** Potential additional savings exist in the following line items. The City Manager is directed to reduce the General Fund Public Art Maintenance and Cultural Affairs non-personal/equipment funding by \$100,000, liquidate the remaining \$135,000 Arts Relocation balance in the Transient Occupancy Tax Fund and redirect \$50,000 towards Public Art Maintenance in the Transient Occupancy Tax Fund, reduce the General Fund Convention and Visitors Bureau Marketing Budget by \$100,000, reduce the Mayor's Education Programs by \$136,000, reduce the Mayor and City Council Travel by \$25,000, reduce the Green Vision 2010-2011 rebudget by \$171,000, reduce the Energy Efficiency Program by \$100,000, and reduce unemployment insurance funding by \$960,000 through the restoration of positions in this Message.
- e. **Team San Jose:** The City Manager is directed to work with Team San José on a plan to achieve 10% total compensation reductions for Team San José employees.

3. Strategic Support

- a. **Boards and Commissions:** Potential savings can be achieved by reducing funding allocated to City boards and commissions. The City Manager is directed to reduce the following appropriations to generate \$50,000 in savings to fund reinstatements identified in this Message.
 - Reduce the Elections Commission funding by \$30,000
 - Reduce the Civil Service Commission funding by \$6,000
 - Reduce the Planning Commission funding by \$14,000

The City Clerk is further directed to work with the Rules Committee to review all commissions for opportunities to achieve savings through consolidation or elimination. This should be brought to the Rules Committee during the fall.

- b. **Retirement Reform Election:** There may be a need for an election this November to deal with Retirement Reform. A retirement reform election later this year may have a reduced cost due to the likely possibility of being on the same ballot as a possible statewide election

on revenue measures. The cost for a stand alone election is estimated to be \$3.4 million. The City Manager is directed to allocate funding for a potential November election from savings identified in this Message and utilize \$600,000 from funding already allocated to support 2011-12 elections for a net cost of \$2.8 million. Any savings from election costs being lower than anticipated should be directed to the 2012-2103 Future Deficit Elimination Reserve.

- c. **City Attorney's Office:** To assist the City Attorney's Office in meeting their staffing needs, I recommend the City Attorney and other City Council Appointees identify areas where legal services can be modified to meet budgeted staffing levels and report to the Rules and Open Government Committee in January. These efficiencies and modified duties will be detailed in the 2012-2013 March Budget Message. The City Attorney's Office should also bring to the Rules and Open Government Committee a discussion of workload priorities. Further for this current year, the following staffing additions are recommended.
 - i. **Environmental Services and Public Works Capital Projects:** The City Manager is directed to restore 1.0 Senior Deputy City Attorney and 1.0 Legal Analyst to support the 5-year Water Pollution Control Plan Capital Improvement Program and the 5-Year Sanitary Sewer Capital Improvement Program. These programs will support this funding.
 - ii. **Medicinal Marijuana Tax:** The City Manager is directed to restore from the medical marijuana tax revenue 1.0 Senior Deputy City Attorney, .5 Deputy City Attorney, 1.0 Legal Analyst, and .5 Legal Administrative Assistant. Potential legal challenges related to the Medical Marijuana Regulatory Program are unknown at this time. As these positions are funded through a general tax, they can and should be used to assist in offsetting other Attorney's Office reductions.
 - iii. **Redevelopment Agency Support:** The Redevelopment Agency Executive Director is directed to fund and the City Manager is directed to restore 2.0 Senior Deputy City Attorneys, 1.0 Legal Analyst, and 1.0 Legal Administrative Assistant.
 - iv. **Fiscal Reforms Funding for Outside Legal Counsel:** Outside legal counsel is required for work on the fiscal reforms. The City Manager is directed to allocate \$150,000 for this. This funding should come from the Mayor's Office rebudget funds.
 - v. **Workers Compensation Staffing:** To provide additional support so that workers compensation service may be performed, the City Manager is directed to fund \$170,000 to restore .5 Deputy City Attorney and .5 Legal Administrative Assistant.
- d. **City Clerk's Office:** The 2011-2012 budget proposes transferring some current Redevelopment Agency administrative functions to the Office of the City Clerk. These include agendas, minutes, records, human resources, and payroll and benefits. To assist with these duties, the City Manager is directed to add an Analyst II position (\$133,700) to the City Clerk's Office which will be funded through the RDA support services fund. To further minimize costs in the City Clerk's Office, the City Manager is directed to replace

the current Staff Specialist position with an Account Clerk II position which would better match current assignments and save an additional \$25,000.

- e. **Cost Control Measures:** In light of the severe financial challenges facing the City since 2001, I want to stress the importance of continuing to adhere to tight cost control measures. These actions are necessary to ensure the overall fiscal health of the General Fund as well as other funds. All City Council Appointees are directed to closely scrutinize all spending to determine if those expenditures are absolutely necessary. Cost control categories currently in place that should continue and be strengthened to the extent possible include:

- Hiring Freeze Exemptions/Position Reallocations
- Overtime Expenditures
- Consultant Expenditures
- Marketing Expenditures
- Meal Expenditures/Reimbursements
- Office and Space Renovations
- Technology Expenditures
- Travel that Requires an Overnight Stay or an Airplane Trip
- Vehicle Purchase/Replacement

4. Transportation and Environment

- a. **Environmental Services Department Review:** During the Budget Study Sessions, Councilmember Chu raised concerns about staffing levels in the Environmental Services Department. The City Auditor is directed to add a staffing and management audit of ESD to her workplan for 2011-2012 with special focus on how ratepayer funds are used (i.e. Sewer, Storm Sewer, Water Utility, and Recycle Plus). Budgetary decisions in these funds have a consequence for and responsibility to the ratepayers. This audit should also include reviewing the Water Pollution Control Plant rehabilitation project for opportunities to reduce the cost of the project, expediting the project, and creating savings for rate payers. Further, the City Manager is directed to work with a Treatment Plant Advisory Committee (TPAC) subcommittee which includes technical staff of TPAC members, to extensively review the Water Pollution Control Plant rehabilitation.

5. Redevelopment Agency

The Redevelopment Agency has been impacted by actions in Sacramento, the deep local recession, and the drop in assessed values that have significantly threatened the Agency's ability to operate. With significantly reduced staffing and funding capacity, the Agency must focus time and resources on generating jobs and tax increment and meeting our existing obligations. If the State decides to terminate redevelopment agencies, the City Council will have to reconsider how this critical work gets accomplished.

- a. **Redevelopment Agency Budget Principles:** These are extraordinary times for the Redevelopment Agency. To help ensure the Agency's future fiscal health, I am proposing the Agency Board adopt the following Budget Principles.
- Develop budgets in accordance with the Agency Board's approved budget priorities.

- Conduct and report to the Agency Board semi-annual reviews of the Agency's budget, debts, cash flows and impacts on prospective capital and operating budgets.
 - Annually review and report to the Agency Board sources and uses of funds projections and assumptions.
 - Consistent with applicable federal and state laws and guidelines, prohibit use of tax increment revenues for non-redevelopment operating expenses including building and infrastructure maintenance and non-redevelopment related costs such as staff and other costs not directly or indirectly attributed to redevelopment activities and programs.
 - One-time resources should be used to pay down long-term debt, establish and/or increase Agency reserves for economic development, or fund capital related programs and projects.
 - Discuss issues of concern jointly with the City on a regular basis and bring these issues to the City Council's attention as appropriate. Operating expenses should be funded through tax increment or other ongoing revenues.
 - Focus Redevelopment budgets on eliminating blight through job creation, retention/attraction of jobs, and projects/programs that generate tax increment.
 - Implement reserve policies including:
 - Establish and maintain an economic uncertainty reserve at a minimum of three percent of annual tax increment revenues.
 - Review reserve funds annually to determine they are at appropriate levels.
 - Set a priority for long-term debt to finance redevelopment projects.
 - Before issuing additional long-term debt, determine that actual and projected annual revenues are sufficient to fund the Agency's existing senior, junior and subordinate annual debt payment obligations.
- b. **Redevelopment Agency Employees:** The Agency Board has already approved a policy of two weeks severance for every year of service with a maximum of 26 weeks for prior Agency employees. In the event that the Governor's proposal to eliminate Redevelopment is successful, I recommend that the Agency's employees have the same severance consideration. Also, the Executive Director is directed to implement 10% ongoing total compensation reductions for Agency employees.
- c. **Center for Employment Training (CET):** CET provides thousands of San José residents with crucial job training skills ranging from culinary arts to solar panel installation. In 2008, the Executive Director of CET applied for a \$3 million federal grant under the assumption of additional funding from the Redevelopment Agency. However, due to the financial difficulties of the Agency, the money was never budgeted nor submitted for Board approval. In September of last year, CET received word that they had obtained the federal grant. Without the Redevelopment Agency matching funds, CET will likely lose \$3 million in federal funding that will serve needy residents and blighted neighborhoods, as well as an \$800,000 commitment from Sun Microsystems. There is currently funding in the Economic Uncertainty Reserve to assist with potential impacts from JP Morgan or lower than projected assessments. The Redevelopment Agency Executive Director is directed to allocate funding to CET should adequate funds remain in this reserve once the impacts from JP Morgan and this year's assessments are known. (\$950,000, BD #51)
- d. **Washington Area Strong Neighborhood Improvements:** The elimination of neglected infrastructure at the Alma Senior/Youth Center will remove a source of blight that has

attracted drug use and criminal activity. In addition, over 6,000 hours of volunteer time from Santa Clara University will be secured to assist residents in planning and implementing beautification/blight removal activities and programs to improve the quality of life in the neighborhood. Volunteers will aid in facilitating various activities such as neighborhood clean-ups, anti-graffiti and litter projects, energy efficiency events, and community engagement through surveys, planning workshops, and services and outreach projects. The Redevelopment Agency has funded \$90,000 for this project. The City Manager is directed to appropriate this money as part of the Administration's June 21, 2011 year-end clean ups memorandum. (RDA \$90,000)

- e. **Calle Willow Business Improvements:** Funding for the Calle Willow Business District Banner Installation and Beautification Project will provide for the continuation of the Banner program. This project includes the relocation and installation of signs and new overhead street name signs; the installation, replacement, and repair of new banners; and the restriping of existing street markings. These improvements establish an environment that promotes community and economic development by marketing the Neighborhood Business Districts and ensuring an aesthetically pleasing environment. The Redevelopment Agency has funded \$20,542 for this project. The City Manager is directed to appropriate this money as part of the Administration's June 21, 2011 year-end clean ups memorandum. (RDA \$20,542)
- f. **RDA Support Funding:** The RDA Budget includes \$250,000 for City support services and \$100,000 for rent. The City Manager is directed to accept those funds and use them to fund reinstatements included in this Message.

6. Preparing for Fiscal Year 2012-2013

- a. **Future Deficit Reserve:** Based upon changes proposed in this Message, as part of the 2010-2011 Annual Report, the City Manager is directed to complete a final reconciliation to determine the impact on the City's annual retirement and unemployment contributions. Any additional funding should be set aside in a 2012-2013 Future Deficit Reserve in order to mitigate future impacts of the projected \$78 million shortfall for 2012-2013.
- b. **Suspend General Fund Ending Fund Balance Policy:** Our current General Fund Ending Fund Balance Policy provides that any excess fund balance shall be divided equally between unmet/deferred infrastructure and maintenance needs and a reserve to offset any projected deficit for the following fiscal year. Given next year's deficit is projected to be approximately \$78 million, I recommend that any excess ending fund balance that may be available after the close of the 2010-2011 fiscal year be allocated entirely to the 2012-2013 Future Deficit Reserve.
- c. **Strong Neighborhoods Initiative Funding:** The City has a wide range of proven tools that support and engage our communities: the Mayor's Gang Prevention Task Force, the Schools City/Collaborative, Community Development Block Grant programs, anti-graffiti programs, housing rehabilitation, rental rights, code enforcement, community policing, and the Strong Neighborhoods Initiative Program. However, this year and future years require deep cuts and fundamental change as we get back to providing basic services. There is an opportunity for SNI to become a non-profit partner of the City to deliver similar services at

reduced costs. The City Manager is directed to pursue this opportunity and complete this prior to the 2012-2013 budget process.

- d. **Survey:** Councilmembers have expressed interest in asking the voters about revenue-enhancement measures in addition to the proposed Fiscal Reforms. The City Manager is directed to work with the Mayor's Office to survey new revenue measures and the Fiscal Reforms. Revenue measures surveyed should focus on those that would maximize general fund revenues for the City and those with likelihood of passing based on prior surveys. The survey results should be included in the discussion regarding ballot measures and Fiscal Reforms in August.
- e. **Contracting Out Opportunities:** The City Manager should review and consider additional opportunities to contract out services to prepare for next year's budget deficit. This review should consider, at a minimum, Real Estate, Park Maintenance, Accounting/Payroll, Fleet Services, and Workers Compensation.
- f. **Old Fire Station #1:** The Redevelopment Agency has several asset sales planned for the upcoming Fiscal Year. Since 2000, Old Fire Station #1 has sat unused on the corner of Market and St. James Streets in Downtown San José. The Redevelopment Agency Executive Director is directed to accelerate the process for sale of this asset.
- g. **Lot E:** Lot E is situated at West Mission Street and North San Pedro Street near the headquarters of the San José Police Department. The United States General Services Administration is no longer interested in the site for a new courthouse. The City Manager is directed to accelerate the process for moving forward with the sale of this asset.
- h. **Rancho del Pueblo Golf Course:** The remaining debt service obligation for Rancho del Pueblo Golf Course is \$7,721,328 (with annual debt service ranging between \$450,000 and \$460,000 annually through 2027-2028). Through a consultant, staff determined the value of the Rancho del Pueblo Golf Course property to be just under \$20 million if allowed to fully develop. Staff is directed to complete outreach, accelerate this sale process, and bring the decision to City Council as soon as possible.
- i. **Community Development Block Grant:** In light of the City's current fiscal challenges and the federal budget reductions related to CDBG, the City Manager is directed to review the Community Development Block Grant (CDBG) Program and evaluate how the limited CDBG funds can best be directed in accordance with federal requirements to City priorities as determined by the Mayor and the City Council as part of the City's budget process. The City Manager should report back to the City Council through the Public Safety, Finance and Strategic Support Committee to review recommendations for the Fiscal Year 2012-2013 allocation of funds.
- j. **TOT Distribution:** Six Percent of the Hotel Tax is placed into a special fund for use on specified art, cultural, and convention purposes. We should ensure that this distribution is consistent with stakeholder and community priorities. The City Manager is directed to poll changing the use of these funds.

- k. **Arts Grants:** I recognize that a sluggish economy and the construction of the Convention Center may adversely affect TOT revenues in the coming years. Scarcer dollars in the TOT fund will necessitate that we focus arts dollars - particularly in the operations grants pool - where they will have the largest economic impact. The City Manager is directed, in consultation with our Arts Commission and arts stakeholders, to narrow the grant pool to ensure that we can award grants that will have a significant benefit to arts organizations that have the most substantial impact on our cultural landscape, and that bring the most economic benefit to San José.

- l. **Workers Compensation Reforms:** The Cost of the City's Workers' Compensation Program is higher than comparable California cities and counties. There is potentially \$10-12 million in savings related to workers compensation reform. In addition, the City Council has approved achieving workers' compensation reforms as recommended by the City Auditor. The City Manager shall accelerate consideration of changes including contracting the entire process to Santa Clara County, which has a much better record than we do. The City Manager shall present a workplan and strategy, followed by monthly progress reports for implementation by September to the Public Safety, Finance and Strategic Support Committee.

- m. **Prepare for Zero:** Given the extent of next year's budget deficit, organizations that receive grants and subsidies should be prepared to not receive funding in Fiscal Year 2012-2013.

7. Re-Budget Proposals

For Mayor and Council Offices, I recommend the following re-budgets subject to final verification of accounts by the City Clerk's Office. I also recommend that office re-budgets be capped at 1/3 of the Fiscal Year 2011-2012 proposed base budgets. These savings will assist funding programs identified in this Message. I am also recommending the Council General re-budget be reduced by \$750,000. Council District 1 has opted to forego their entire re-budget to help fund public safety initiatives.

	Constituent Outreach Re-budget	Office Re-budget	Revised Re-budget (Capped at 1/3)	Potential Savings
Mayor's Office	n/a	\$688,469	\$442,494	\$245,975
Council General	n/a	\$1,034,965	\$284,965	\$750,000
District 1	\$0	\$23,165	\$0	\$23,165
District 2	\$2,120	\$179,757	\$80,859	\$98,898
District 3	\$10,013	\$56,232	\$56,232	\$0
District 4	\$7,571	\$149,021	\$80,859	\$68,162
District 5	\$24,705	\$110,743	\$80,859	\$29,884
District 6	\$2,776	\$180,173	\$80,859	\$99,314
District 7	\$27,811	\$90,846	\$80,859	\$9,987
District 8	\$11,412	\$18,963	\$18,963	\$0
District 9	\$25,572	\$63,249	\$63,249	\$0
District 10	\$27,522	\$131,832	\$80,859	\$50,973
Total Savings				\$1,376,358

June Budget Message for Fiscal Year 2011-2012

June 3, 2011

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COORDINATION

This memorandum has been coordinated with the City Manager, City Attorney, and the Redevelopment Agency Executive Director.

CITY SOURCE AND USE OF FUNDS

GENERAL FUND

	2011-2012	Ongoing
SOURCE OF FUNDS		
MBA 20	\$ 69,687	\$ 69,687
MBA 30	2,786,424	2,907,786
MBA 36	88,200	88,200
MBA 38	19,600	19,600
MBA 43	9,105	9,105
7	300,000	300,000
12	450,000	450,000
15	250,000	250,000
15	100,000	100,000
8	36,250	
12	1,490,559	
12	1,376,358	
	\$ 6,976,183	\$ 4,194,378

USE OF FUNDS

MBA 41	\$ (54,000)	\$ (54,000)
7	2,934,000	3,934,000
7		(400,000)
7	400,000	
7	(550,000)	
8	185,000	
8	117,500	
MBA 39	(250,000)	(250,000)
9	74,000	
10	116,000	

SOURCE OF FUNDS

MBA 20	\$ 69,687	\$ 69,687
MBA 30	2,786,424	2,907,786
MBA 36	88,200	88,200
MBA 38	19,600	19,600
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7	400,000	
7	(550,000)	
8	185,000	
8	117,500	
MBA 39	(250,000)	(250,000)
9	74,000	
10	116,000	

CITY SOURCE AND USE OF FUNDS

		2011-2012	Ongoing
10	Crossing Guards: 10.0 School Crossing Guards PT	75,000	
10	La Raza Study	50,000	
10	Safe Schools Campus Initiative: 2.0 Youth Outreach Worker II, 2.0 Youth Outreach Worker I	302,424	
10	Sign Ordinance: 1.0 Planner	129,000	
10	Chaplaincy Program	20,000	
11	Mayor's Education Programs	(136,000)	(136,000)
11	Mayor/Council Travel	(25,000)	(25,000)
11	Green Vision Rebudget	(171,000)	
11	Energy Efficiency Rebudget	(100,000)	
11	Unemployment Insurance Savings	(960,000)	
11	Convention and Visitors Bureau Marketing	(100,000)	
11	Public Art Maintenance and Cultural Affairs Non-Personal/Equipment	(100,000)	(100,000)
11	Planning Commission Reduction	(14,000)	(50,000)
11	Elections Commission Reduction	(30,000)	(14,000)
11	Civil Service Commission Reduction	(6,000)	(30,000)
12	Retirement Reform Election	2,800,000	(6,000)
12	Redevelopment Agency Support Services: 2.0 Sr Deputy City Attorney, 1.0 Legal Analyst, 1.0 Legal Administrative Assistant	750,000	450,000
12	Workers Compensation Staffing 0.50 Deputy City Attorney, 0.50 Legal Admin. Asst	170,000	
12	Fiscal Reforms Funding for Outside Legal Counsel	150,000	
12	City Clerk's Office: 1.0 Analyst	133,700	133,700
12	City Clerk's Office: Add 1.0 Account Clerk II, Delete 1.0 Staff Specialist	(25,000)	(25,000)
12	Mayor/Council Office Rebudgets	1,490,559	
	Total General Fund Use of Funds	\$ 6,976,183	\$ 3,827,700
	2012-2013 Additional Funding	0	366,678

CITY SOURCE AND USE OF FUNDS

2011-2012 Ongoing

LIBRARY PARCEL TAX FUND

SOURCE OF FUNDS

7	No Change	0	
	Total Library Parcel Tax Fund Source of Funds	<u>0</u>	<u>0</u>

USE OF FUNDS

7	Library Services (personal services)	1,000,000	
7	Ending Fund Balance	(1,000,000)	
	Total Library Parcel Tax Fund Use of Funds	<u>0</u>	<u>0</u>

COMMUNITY DEVELOPMENT BLOCK GRANT FUND

SOURCE OF FUNDS

7	No Change	0	
	Total Community Development Block Fund Source of Funds	<u>0</u>	<u>0</u>

USE OF FUNDS

7	Fire Apparatus Replacement	550,000	
7	Ending Fund Balance	(550,000)	
	Total Community Development Block Fund Grant Fund Use of Funds	<u>0</u>	<u>0</u>

GENERAL PURPOSE PARKING FUND

SOURCE OF FUNDS

8	No Change	0	
	Total General Purpose Parking Fund Source of Funds	<u>0</u>	<u>0</u>

USE OF FUNDS

8	Downtown Holiday Events	25,000	
8	Ending Fund Balance	(25,000)	
	Total General Purpose Parking Fund Use of Funds	<u>0</u>	<u>0</u>

CITY SOURCE AND USE OF FUNDS

2011-2012 Ongoing

INTEGRATED WASTE MANAGEMENT FUND

SOURCE OF FUNDS

8	No Change	0	0
	Total Integrated Waste Management Fund Source of Funds	0	0

USE OF FUNDS

8	Downtown Holiday Events	75,000	
8	Ending Fund Balance	(75,000)	
	Total Integrated Waste Management Fund Use of Funds	0	0

TRANSIENT OCCUPANCY TAX FUND

SOURCE OF FUNDS

11	Beginning Fund Balance	50,000	
	Total Transient Occupancy Tax Fund Source of Funds	50,000	0

USE OF FUNDS

11	Public Art Maintenance and Cultural Affairs Non-Personal/Equipment	50,000	
	Total Transient Occupancy Tax Fund Use of Funds	50,000	0

SERVICES FOR REDEVELOPMENT CAPITAL PROJECTS FUND

SOURCE OF FUNDS

15	Beginning Fund Balance	110,542	
	Total Services for Redevelopment Capital Projects Fund Source of Funds	110,542	0

USE OF FUNDS

15	Washington Area Strong Neighborhood Improvements	90,000	
15	Calle Willow Business Improvements	20,542	
	Total Services for Redevelopment Capital Projects Fund Use of Funds	110,542	0

CITY SOURCE AND USE OF FUNDS

2011-2012 Ongoing

UNEMPLOYMENT INSURANCE FUND

SOURCE OF FUNDS

Earned Revenue	\$	(960,000)	
Total Unemployment Insurance Fund Source of Funds	\$	(960,000)	\$ 0

USE OF FUNDS

Payment of Claims		(960,000)	
Total Unemployment Insurance Fund Use of Funds	\$	(960,000)	\$ 0

