Council Agenda: June 20, 2006
Item: 9.5

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: City Council

FROM: Ron Gonzales, Mayor

SUBJECT: Mayor's June Budget Message For Fiscal Year 2006-2007

DATE: June 16, 2006

Approved:

Date:

RECOMMENDATION

I recommend that the City Council:

1. Approve the direction to Council Appointees contained in this memorandum to the extent legally possible for purposes of adopting a final budget for fiscal year 2006-2007.

2. Authorize the City Manager and Redevelopment Director to negotiate and execute any specific contracts resulting from this direction.

3. Direct the Manager, once labor negotiations are completed, to return to the City Council for discussion, review and approval of further budget actions that may be required by unanticipated compensation costs.

4. Authorize the changes in the following Manager's Budget Addenda to be incorporated in the Adopted Budget, except to the extent any are superseded by the contents of this Budget Message.

MBA #	Title
4	2006-2007 Proposed Fees and Charges Report Replacement Pages
5	Employee Services Budget Proposal Substitution
14	HNVF Advisory Committee Funding Recommendations
22	Industrial Tool Installation Program
25	Transportation Maintenance Backlog Reduction Strategy
26	Red Light Running Reduction Efforts

30 Fire and Hazardous Materials-Multiple or Repeat Offenders
33 Columbus Park Horseshoe Court Project
37 City Hall Event Staffing Structure
41 Environmental Services Department Reorganization Implementation
43 Expanding Strong Neighborhoods Citywide
46 HP Pavilion at San José Capital Budget Recommendations
50 Recommended Amendments to the 2006-2007 Proposed Operating and Capital Budgets

INTRODUCTION

In accordance with Section 1204 of the San José City Charter, I present my fiscal year 2006-2007 Budget Message for consideration by the City Council and the public. This is my last June Message as Mayor of our great city. I am proud of what we have been able to accomplish together to make San José a great place to live, work and play.

Over the last four years, we have continued to meet difficult budget challenges and provide excellent quality services. In response to the continuing economic slowdown, we have reduced the City's budget by $263 million since 2002 through prudent financial planning and management, balancing our budgets through streamlining, vacancy savings, program reductions, sensible use of reserves, and other creative solutions.

Despite the remarkable work by both the City Council and Administration to manage our budget over this extended period of reduced resources, we are again faced with another budget shortfall for FY 2006-2007. The projected shortfall this year is $34.89 million, and it threatens the City's ability to provide vital public services like public safety, crime prevention, and maintaining our streets, parks, and libraries. The shortfall also jeopardizes our economic and youth initiatives and limits our ability to stimulate the local economy. The Manager has done a good job of bringing forward a significant amount of ongoing reductions and revenues to overcome the current deficit, and avoiding one-time fixes that would create larger future deficits. The proposals contained herein combined with the proposals from the Manager solve 94.3% of the deficit using ongoing sources. This is a dramatically higher percentage than we have been able to accomplish in previous years and will have beneficial impacts on future budgets.

As we consider our responsibilities for the FY 2006-2007 budget and duty to the people of San José, we must do all we can to address current budget challenges and take steps necessary to bridge the deficit gap both now and anticipated in future years. As we heard in the beginning of May during our budget study sessions, the projected shortfall for FY 2007-2008 is $40.3 million. Decisions we make this year will affect the City Council's ability to determine future priorities and basic services.

While most negotiated salary increases have been approved this year, projected increases in personnel expenses is driven less by salary increases or higher employment numbers than by other factors. Two of these include rising healthcare and retirement costs. Anticipated retirement costs for the Federated System are projected to increase by 28.4% for FY 2006-2007. Benefit

costs continue to increase with a 16.5% increase in health insurance costs annualized for FY 2006-2007.

Redevelopment Agency revenue projections for the coming year are also uncertain again. The Council, sitting as the Redevelopment Agency Board, approved my recommendations this year to delay action on the proposed Redevelopment Capital Improvement Program and the City's Housing program until August, after the County Assessor has provided information on current year assessment rolls. This delay ensures that we have the most up-to-date information available to make decisions regarding our ability to support strong neighborhoods, affordable housing, job creation, and investments for future prosperity.

In March the City Council approved the Mayor's March Budget Message, which provided additional direction to the City Manager and the Executive Director for preparing their proposed operating and capital budgets. These actions included creative alternatives for reducing the current funding gap using new technologies, alternative service delivery methods, and further streamlining of the way we provide services to our residents and customers. A City Council study session was held earlier this spring that focused entirely on a review of new service delivery models as part of our overall strategy to reduce costs and maintain quality. Further, we must always remember that the land use decisions we make will have implications on our ability to deliver services because of their potential impact on revenues and expenses in the future.

A number of proposals are included in the City Manager's proposed budget for FY 2006-2007 that include the direction from the March message related to alternative service delivery. Through these tough times, we must continue to build on our past decisions to understand our budget challenges early, develop strategies that limit impacts to basic services, and take early steps to reduce costs. These steps will allow us to continue to build for the future and help ensure that we will have the resources needed for the services our residents expect and deserve.

BACKGROUND

The Mayor's June Budget Message is based on several sources. These include my annual State of the City address and previous addresses; input from the community and councilmembers; and budget strategies already approved by Council, including the direction in the March 2006 budget message. This June message outlines approaches to keep our commitments to maintain the quality of life for residents in our neighborhoods and regain and strengthen the economic prosperity that our city and region have enjoyed.

Summary of Accomplishments

Based on the recent Community Satisfaction Survey conducted in December 2005, it is clear that our residents are increasingly satisfied with living in San José today. A few highlights from this survey include:

- 79% of San José residents rate the quality of life as good or excellent. That is a 14% increase over results from 2000.

- 76% of San José residents are satisfied or very satisfied with the overall quality of City services. This rating continues to be much higher than other Bay Area cities including San Francisco (37%) or Oakland (30%).

- San José residents continue to feel safe in their neighborhoods, with a 90% rating.

These are impressive findings, especially in the context of the severe economic recession in Silicon Valley and its affect on our budget. We can take pride in our accomplishments over the last eight years, and we should be celebrating the achievements that have made San José a great city to live, work, and visit. The following is a brief overview of what we have done together:

Education:

- We helped over 500 San José public school teachers buy their first homes in our community.

- We helped San José children achieve by creating opportunities for their educational success through our expanded Smart Start program. We have already created 3,600 preschool spaces to ensure our youngest children enter school ready to learn.

- We made homework centers and after-school programs available for every public school in our city, providing 20,000 students every day a safe places to learn.

- The Safe School Campus Initiative continues to be a national model on how to keep our schools safe. Over the last few years, all San José high schools and middle schools have been trained in emergency procedures to ensure the safety of San José youth.

Strong Neighborhoods and Infrastructure Investments:

- Since 1999 the Redevelopment Agency has invested over $272 million dollars in our neighborhoods' priorities. At an average annual investment of almost $39 million, this is a fivefold increase for neighborhoods compared to the previous eight years. Together we completed over 120 SNI improvement projects that residents told us were most important to them, community gardens and centers, street repairs, streetlights, and street trees.

- With the support of the voters, San José is now able to move forward with long overdue improvements to Mineta San José Airport through the Airport Master Plan. The $1.5 billion project, funded principally by airport users, will create an airport that is competitive, comfortable, and convenient, and will contribute to our economic strength long into the future.

- The new San José City Hall is open in downtown where it belongs, providing long-term cost savings, improved public services, and economic stimulus to our downtown. The new building is reshaping the way the public and the City work together, and it has already become a landmark for our community.

- Voters approved $600 million in bonds to improve and expand our neighborhood libraries, parks, community centers, and fire stations. With more than 500 new neighborhood construction projects in the works planned or under way, San José is finally catching up on the necessary investments for strong neighborhoods for our residents in the future.

Safest Big City in America:

- Even through the worst recession in our city's history, over the past four years, we have maintained our status as the safest big city in America year after year. Our police and fire departments are among the best in the nation, and they work effectively with our residents to keep our community safe.

- San José continues its remarkably successful fight against litter and graffiti though our programs that have become a model for cities across the nation. Over the last seven years, our Anti-Graffiti efforts have arrested nearly 1000 graffiti criminals, reduced the number of tags by 99 percent, and wiped out approximately 10 million square feet of graffiti from our community.

Driving a Strong Economy:

- We have worked hard to keep our largest employers growing and expanding in San José, and Adobe, eBay and BEA Systems are among the major businesses committed to calling San José home.

- San José is ranked as one of the top four-bioscience cities in the nation, and with initiatives such as the San José BioCenter and our regional partnership with San Francisco, we will continue to play a leading role in the growing field of bioscience.

- Over the last few years, San José has added 240,000 square feet of retail to the downtown core, adding over 30 restaurants and retail businesses. Just outside of downtown, San José Market Center is now open, adding 360,000 square feet of much-needed retail space to serve residents in downtown and adjacent neighborhoods.

- The San José Grand Prix comes back for its second year in downtown, bringing an exciting event to our community that showcases our city to the world. Last year this event generated over $40 million in economic impact, and we can look forward to a new tradition that will increasingly aid our local businesses and provide entertainment in our region for many years ahead.

- We built the Dr. Martin Luther King, Jr. Library in partnership with San José State University, winning national recognition for our unique and creative partnership that has delivered excellent results for both the campus and our entire community. Over a million library patrons visited the new main library in its first year of operations.

- We have saved and renovated the historic Hotel Montgomery, the California and José theaters, transforming them into vibrant new places that have enriched the cultural life in downtown San José and contribute to it becoming a regional destination for visitors and residents.

- We creatively expanded the Convention Center with the new addition of South Hall that helps meet the needs of local businesses and keeps San José competitive for national meetings.

- Over the last eight years, we have seen six new high-rise office towers and hotels completed in the downtown.

- Since 2000, Silicon Valley Workforce Investment Network (SVWIN) has helped our region's families get back to work. During 04/05, over 120,000 people visited the three one-stop centers where they received job search and placement assistance, career counseling, resume building assistance and interviewing workshops. Job placement assistance through SVWIN includes over 1,686 adults assisted since 2000.

- We have undertaken intense and comprehensive planning efforts for Coyote Valley and North San José to guide the future of San José, ensure a stable economic foundation with enhanced competitiveness, and create both jobs and housing close together to achieve the benefits of smart growth.

Housing for Families at All Income Levels:

- San José has out-produced all other California cities in addressing the need to create affordable housing. We are on pace to have at least 10,397 affordable homes built or under construction in the eight years ending this December. Private investment in affordable housing has increased by 192% when compared to the decade before 1999.

- Our downtown skyline will be dramatically changed with nearly a dozen new high-rise residential towers that will add more than 2300 new homes to the more than 3000 already built over the past seven years. Our downtown housing production has increased tenfold over the past eight years compared with the previous 20 years.

- We have taken steps to increase housing production in San José to meet the growing need for our employers and their workforce to live in our community. We have streamlined permit processes, provided incentives for greater density in suitable locations, and listened to the development community for ideas for continuous improvement.

Making Government Work Better for the People of San José:

- Over the last eight years, we have converted our budget to be based on City Service Areas and focus on performance base budgeting.

- San José has expanded the number of city services and amount of information available online. All City Council meetings and committee meetings now are web cast on the Internet, providing both live and archival access conveniently to the public.

- Our Customer Service Call Center makes City Hall accessible 24 hours a day, 7 days a week and is a clearinghouse for information on all City services.

- Comprehensive reforms have made San José a leader among California cities for providing broader disclosure of lobbyist activities, campaign and election finance, and access to public records.

These achievements demonstrate San José's strong commitment to achieve our community's goals by solving current financial challenges through conservative fiscal management and by providing effective leadership to stimulate our economy and protect vital services.

Fortunately there are finally good signs that our local economy is beginning to turn around. Companies are beginning to hire, and people are getting back to work. The unemployment rate for Silicon Valley declined to 4.8% in March 2006, below the state unemployment rate of 5% and 4.8% for the nation during the same period. Compared to our local unemployment rate of over 10% five years ago, this is good news; however, in terms of job creation, we still have much room for improvement, as San José-area employment grew by only 0.8% from March 2005 to March 2006.

This year's Mid-Year Budget Report included encouraging news about our economic situation and projected tax revenues, including anticipated growth in both property tax (28% increase) and sales tax generation (6.5% growth), both of which exceed earlier projections. The Transient Occupancy Tax is also projected to grow by nearly 18%. These signs of economic recovery are important to our future outlook, but our costs to provide services to our residents and businesses continue to grow. As we look to next year's budget and future projections, we therefore need to continue our focus on strategic investments that will help secure our city's future.

Ending Fund Balance

Among the successful strategies we have used to help secure the City's financial stability in recent years has been to first use any surplus funds at the end of each fiscal year to establish reserves to cover any projected shortfall in the following year based on the Five-Year Forecast.

In this document, I recommend continuing the Council policy to encumber any additional Ending Fund Balance (EFB) beyond those funds in the proposed budget to help balance the budget for the following fiscal year. Our first priority must continue to be reserving adequate funds from the EFB to address projected deficits to avoid drastic reductions and cuts. Projections for

FY 2007-2008 show our deficit shortfall continuing in future years. We must continue to prepare now to preserve our future financial stability.

Because I am recommending use of some of the Economic Uncertainty Reserve (EUR) ($722,335) to balance current priorities, I further recommend that additional funds from the EFB be placed in the Economic Uncertainty Reserve if the EFB exceeds next year's projected deficit. Additionally, other unanticipated funds that may become available during the year should be used to bring the EUR back up to a reasonable level.

As with previous years, our prudent approach to save for future deficits has helped keep our strong AA+ bond rating. This rating is the highest of any major California city and has translated directly into taxpayer savings by keeping interest rates low when borrowing or refinancing money.

State Budget Challenges and Bond Measures

In addition to a more stable local economic environment, the state budget for the upcoming year also looks more promising than it has in recent years. The Governor's May Revised Budget includes proposals that could benefit San José that staff is still reviewing for possible impacts on our capital and operating budgets for FY 2006-2007. We are also seeing the benefit of voter-approved Proposition 1A from November 2004 that provided constitutional protection for local revenues and prevents state revenue take-aways in the future. For FY 2006-2007, we will see the return of an annual $11 million revenue stream to the San José General Fund that had been diverted to the state for two years.

On May 5, 2006, the California Legislature approved an infrastructure bond package to support state education, housing, emergency preparedness and transportation initiatives. Overall, if California voters approve these bond measures in November 2006, San José likely will benefit from these state investments. Staff is still in the process of reviewing the impacts and benefits of these initiatives as they relate to San José priorities.

INVESTMENT AND REDUCTION STRATEGIES

With this message I continue to focus on the six core priorities for San José that I have outlined in previous budget messages and have been endorsed by Council actions and through our Council committee structure:

1. Building Strong Neighborhoods
2. Remaining the Safest Big City in America
3. Helping All Children Achieve
4. Building Better Transportation
5. Driving a Strong Economy
6. Making Government Work Better

This framework has served us well, and we should continue to use it to deliver the services that our residents consider most important. We have reviewed all programs, including proposals for base budget, investments, and reductions, to ensure that we are making progress to achieve these priorities.

Guiding Principles for Budget and Financial Management

During this difficult economic period, each budget decision must be measured against several critical factors. Among the principles that I have used to prepare these budget recommendations are:

- Make sure that service reductions result in the least harm to residents and businesses.
- Continue the City's high standards of fiscal integrity.
- Reduce impacts as much as possible to our employees.
- Support economic recovery and job creation.
- Preserve our options for the future as much as possible.
- Respect community and neighborhood priorities.
- Minimize adverse impacts on essential public services.
- Meet legal commitments and requirements.
- Promote innovation among employees and the community for creative problem solving and identification of new resources.
- Leverage resources as much as possible.
- Encourage and support community partnerships, engagement, and greater self-sufficiency.
- Support volunteerism as much a possible to improve quality of services.

1. Building Strong Neighborhoods

Over the last several years we have made real progress to view the City's role through the eyes of our residents who see direct impact of services from their doorsteps and driveways. Together, the City and residents have celebrated many achievements and made real progress to improve neighborhoods. We must continue to strive to make San José a place we all are proud to call home.

a. **Strong Neighborhoods City Wide**: I proposed in my State of the City taking our successful SNI decision-making model citywide. I also proposed setting aside a fund that could be used by neighborhoods to address their priority needs. MBA #43 suggests using these funds to pay for start up staffing costs related to this endeavor. While I am supportive of this effort I recommend that the Council direct the Manager that in future years funding for staffing this endeavor must come out of the General Fund to maintain maximum funding possible to address neighborhood capital needs.

b. **Community Center Re-use Strategy:** Direct the Manager to solicit input during the community center re-use outreach meetings from child care providers that want to be considered for reusing community centers as Smart Start centers if no service providers

are available to continue other programs. This direction would also include 2006-2007 budget actions the Council took on June 6th related to re-use.

c. **Neighborhood Leadership Training:** Incorporate in the current "SNI Citywide" process, opportunities to provide leadership training to empower and motivate residents of our neighborhoods. This effort will be especially important for existing SNI areas where the ongoing renewal of leadership is needed as a normal attrition occurs with neighborhood organizations.

d. **Community Action and Pride Grants:** As an expansion of MBA #18, direct the Manager to look at alternatives to strengthen the educational component of the City's CAP grant use policy by offering training to grantees as part of the award. This should complement monitoring of the use of grants by the fiscal agent.

e. **Addressing the Gaps in Aging Services:** I recommend fully funding the Senior Nutrition Program that is currently recommended for 88% of their HNVF Cycle 6 Award. Councilmember Chirco brought forward a good compromise to achieve full funding for the Senior Nutrition Program in the face of difficult choices. This funding change would allow for an ongoing partial funding source for the Senior Nutrition Program.

f. **Staffing at Almaden and Camden Community Centers:** I recommend increasing staffing at the Almaden and Camden Community Centers as requested by Councilmembers Pyle and Chirco to allow for more hours of programming and services. Some costs could be offset with additional revenue generated by fees from increased activity.

g. **Camden Center Marketing**: The Camden Community Center can improve its outreach and marketing with one-time funds from the Council District 9 office budget to help ensure a reliable return on the investment for increased staffing.

h. **Vietnamese-American Community Center Design and Master Plan Amendment:** The proposed Vietnamese-American Community Center will address the social, cultural, educational and recreational needs of our growing Vietnamese population as well as serve the general community. Through Councilmember Nguyen's leadership, $1 million has already been reserved to fund a portion of the center's construction costs. I recommend the allocation of $300,000 for the costs for amending the Kelley Park Master Plan and beginning the design of the center, with funds coming equally from the Citywide and District 7 Construction and Conveyance Tax Fund. I also recommend that the additional $200,000 needed to complete the design be reserved in the Agency capital budget, bringing the City's investment to a total of $1.5 million. The center will be built and operated by a non-profit organization, and there will be substantial private fundraising to complete its construction. Our early commitment of public funds will make it easier for community fundraising efforts to be successful.

i. **Young People's Theater:** I recommend allowing the Young People's Theater program to set 75% as their cost-recovery level for the coming year. Councilmembers Chirco and

Yeager have both diligently worked to assist the Young People's Theater in its transition to full-cost recovery, but it was unable to achieve 100% cost recovery this past fiscal year because of City fee increases and other factors. This change will allow the theater more flexibility to continue its outstanding programming, support its progress to self-sufficiency, and encourage strong volunteer support from parents.

j. **PAL Stadium Maintenance:** I recommend 3.0 FTE positions to maintain PAL Stadium. This recommendation will ensure that PAL Stadium remains a safe and quality site for youth recreation during FY 06-07. The San José Police Activities League is San José's largest provider of after-school services for children and youth, with over 10,000 young people from all over San José participating in PAL programs.

k. **Pilot Neighborhood for Neighborhood Investment Fund:** I recommend that staff pursue including the Silver Leaf neighborhood in District 2 as a pilot neighborhood as we develop the process for expanding the SNI model of active engagement by residents in neighborhood priority planning across the city.

l. **City Volunteer Background Checks:** I recommend a one-time allocation of $10,000 to implement a City-funded background check program for volunteers who work with at-risk or vulnerable residents, such as seniors and youth. I thank the Senior Citizens Commission for contributing this proposal.

m. **Older Adult Resource Services Program (OARS) Outreach:** We must continue to increase outreach and marketing for the recently improved OARS program. A priority should be given to reaching seniors not already served by the City.

2. Safest Big City in America

San José continues to be the Safest Big City in America year after year. Regardless of our budget situation, the safety of our residents and businesses must remain our first priority. We must continue to support frontline police officers and fire fighters to ensure fast response times and invest in effective prevention efforts so San José residents both are safe and feel safe in their neighborhoods.

a. **Hire Ten Additional Police Officers and Initiate a Staffing Plan:** Direct the Manager to present to the Council within 120 days a Police Department five-year staffing plan that provides a clear picture of the department's needs and reflects projections of retirements, community growth and demographic trends, efficiencies from alternative service delivery models, and other factors including previous audit reports. The Manager is also directed to proceed with hiring 10 additional FTEs in advance of completing the staffing plan to meet already identified priorities including downtown safety, such as cruising enforcement and curfew abatement, and school safety.

b. **School Safety Liaison Unit:** I recommend that we continue to increase the City's support for protecting the safety of our children at local schools, and as directed above, additional officers will be focused on school safety.

c. **Cruising Abatement Program:** As directed above additional officers will be focused on cruising abatement. I recommend that we further direct the Manager to work with Downtown businesses to explore cruising restrictions that balance business needs to make it easy for visitors to reach and visit the downtown.

d. **Curfew Enforcement Downtown:** As directed above additional officers will be focused on downtown curfew enforcement. I recommend that we further direct the Manager to link this curfew effort to current services that support at-risk youth in the community through programs offered through Santa Clara County and the Mayor's Gang Prevention Task Force.

e. **After-Hours Downtown Safety**: Direct the Manager to evaluate our current approach for after-hours protection for downtown residents, visitors, and businesses in the Entertainment Zone; review best practices from other communities on managing bar closings, staffing strategies, funding opportunities, and partnerships with downtown merchants; and identify recommendations for potential policy and operational changes.

f. **Downtown Safety Initiative:** As downtown San José continues to grow with new restaurants and retail businesses, we will continue our efforts to ensure public safety in the heart of our city. One opportunity reported to the City Council earlier this year is the installation of observation cameras in the Transit Mall, with costs to be shared between the City and VTA. The City currently has funding for two cameras. The Manager is directed to move forward with an implementation plan in order achieve safety benefits for our residents, visitors, businesses and their employees as quickly as practical.

g. **Downtown Loitering Ordinance:** Direct the Manger to enforce the existing Loitering Ordinance for the downtown as an enforcement tools for officers working to reduce crime and drug trafficking.

h. **Pandemic Flu Planning:** Direct the Manager to work with the County to plan for the possibility of an outbreak of a flu pandemic. The Manager is directed further to match contributions from other cities in Santa Clara County up to a total of $143,000 to support the preparation of our communities and increase coordination with our regional partners. The resources for this direction should come from funds left from the Hurricane Katrina allocation approved last September to assist with local assistance.

i. **San José Prepared! Online Learning:** Direct the Manager to explore the costs associated with improving the Office of Emergency Services website to encourage online learning courses for *San José Prepared!* to help our community prepare for a disaster. The Manager is further directed to consider online courses already available through local community colleges and universities and other agencies that may have similar course

requirements to help us achieve our goals for preparing more residents and neighborhoods for emergencies.

j. **San José Prepared!**: Direct the Manager to link training efforts at the Neighborhood Development Center with opportunities to increase neighborhoods trained through *San José Prepared!*

k. **Domestic Violence Outreach Funding:** Direct the Manager to work with the Domestic Violence Task Force chairs to create a competitive grant process within 60 days for using the $500,000 already allocated for domestic violence reduction programs. Our goal is to increase service levels to victims, support individual and family counseling, legal advocacy and early youth intervention services in our community. The Manager should also work with San José schools to increase their awareness of programs available to youth.

l. **Public Safety Bond Projects:** The Public Safety Bond Program is entering an active period of awarding projects. However, a number of projects are not scheduled to be awarded until after 2006-2007, including the South Police Substation. To ensure that the projects awarded towards the end of the Bond Program have sufficient funding available, direct the Manager to retain funding in the Public Safety Bond Contingency Reserve for those projects.

m. **Fire Department SUV Pilot Program:** Direct the Manager to explore the use of SUVs for emergency medical response at the same time that we reevaluate the fire apparatus plan. SUVs could provide a lower-cost solution for meeting our goals for level of service for emergency medical response.

n. **Police Administrative Staffing:** Direct the Manager to restore funding for two police crime data specialists working in the Crime Analysis Unit. This unit provides the essential analytical data for the Police Department to better respond to crime trends and the changing nature of our community's safety needs.

o. **Independent Police Auditor Outreach:** Direct the Independent Police Auditor to work in partnership with the private sector to structure her outreach plan to target those members of our community who need her services the most, including at-risk youth.

p. **Truancy Abatement Burglary Suppression:** Truancy by young people is linked to criminal behavior, including gang involvement, increased burglaries, and other crimes, and high school dropout rates rising. The TABS program works with San José schools to keep youth in school and off the streets, and deters disconnected youth from moving toward a life of crime. Direct the Manager to restore the overtime portion of the program to keep both TAB centers open and operational. Further direct the Manager to restore counseling services for TABS.

q. **Emergency Communication System Support Fee Review:** The Manager has recommended extending the ECSS fee for ten years. I recommend that the Council direct

the Manager to bring this fee back for review after FY 08/09. If during that period the Manager projects a budget surplus, this fee should be brought forward for discussion of suspension.

3. Helping All Children Achieve

Even in difficult budget times, we can strengthen the role of city government as an effective community partner with education to help improve student achievement. Our goal remains that every child in San José can have the opportunity to succeed.

a. **Fully Fund Crossing Guards:** I recommend an additional $34,515 for the placement of crossing guards at the few remaining warranted intersections that meet the City's criteria and have not been previously funded. The absence of crossing guards appears to be more an issue of our ability to hire staff than the availability of funding. For this reason I recommend that we direct the Manager to explore a recruitment model where more outreach is done to school principals based upon our successful homework center model. By seeking assistance from school principals, we might be able achieve our safety goals more efficiently and avoid the backlog in hiring that we currently experience.

b. **Education Program Grants:** In April the City Clerk's Office brought to my attention two appropriations under the general direction of the Mayor's Office that were created under Mayor Hammer's administration, but have not been active since 1998. These appropriations are for the College Motivation Program and the At-Risk Girls/Women Initiative. In May the Department of Parks, Recreation, and Neighborhood Services also informed me that there was approximately $20,000 left in the Excellence in Education program budget, a project that was discontinued in 2002.

   I recommend that the City Council reallocate the following carryover funds to other programs as recommended below:

   1. **College Motivation Program.** This program was created during Mayor Hammer's administration to provide high-risk youth with college mentors and motivational pre-college workshops. Since 1999, this account has not been allocated to new programming, and the available amount is now $17,561. I recommend these funds be granted to the Latino College Preparatory Academy for student scholarships to the National Hispanic University.

   2. **At-Risk Girls/Women Initiative:** This program existed under Mayor Hammer's administration for two years. The account has not been allocated to new programming since then and currently amounts to $3,904. I recommend the Council approve granting these funds to the "Go Girl Go!" program of Bay Area Women's Sports Initiative. This program encourages teen girls to get physically active and adopt a healthy lifestyle, and it supports self-esteem, self-respect and self-confidence for girls. My office has been providing space and administrative support to BAWSI

for the past year, and these additional funds will allow more San José girls to participate in a great program.

3. **Excellence in Education Program:** In 2001 and 2002 the Mayor's Office hosted an event to recognize extraordinary San José teachers who improved the quality of public education. Although this program was highly successful and well received, it was discontinued because of costs and approximately $23,000 remains in the account. I propose that these funds be used now for a City-hosted high school parent education conference this fall that has been proposed by parent groups interested in encouraging more parent engagement in the lives of high school students. The conference will allow parents to receive information on career and education opportunities for their children, and City staff can provide workshops about services such as after school programs and gang prevention efforts.

c. **Downtown College Prep Loan Repayment:** Direct the Manager to extend the current Downtown College Prep loan repayment approved in FY 1999-2000 for an additional five years. DCP was started as a charter high school in 1999 with a City startup loan of $600,000. DCP has been nationally recognized for its high program standards and successful student achievement, and 95% of all DCP graduates have been admitted to four-year colleges.

d. **High School Homework Centers:** Direct the Manager to work with the local California Student Opportunity and Access Program to identify ways to activate homework center programming that would inform students of college and career opportunities in San José.

4. Building Better Transportation

Creating a transportation system that provides safe and efficient access for residents and business, enhances our neighborhood streets, and preserves our infrastructure is a continuing priority for the City. Despite budget shortfalls caused by the persistent local recession, investing in transportation solutions remains critically important for our community's future.

a. **Monthly Parking For Local Business Travelers:** Direct the Manager to explore the possibility of providing a monthly parking program at the Airport for regular business travelers. The program could be modeled after FasTrak used for bridges and toll roads, which would allow travelers to open an account and possibly park close to either terminal. The Manager is further directed to work with our local airlines that have frequent "commuter" flights to develop this business-friendly opportunity and create a competitive advantage for San José.

b. **Customer Satisfaction Surveys:** In response to the lack of funding available to implement customer satisfaction surveys, direct the Manager to explore opportunities to conduct these important surveys in partnership with local university research programs, such as the San José State University Mineta Institute.

c. **Resurface Bailey Avenue:** I recommend resurfacing the portions of Bailey Avenue that are most in need of repair The condition of the westbound lanes of Bailey Avenue from 945 feet west of Santa Teresa Boulevard to the west end of the IBM Corporation site has gone from bad to worse in the past year, requiring immediate resurfacing work.

d. **Street Smarts Program:** Direct the Manager to consider the "Street Smarts" program as an ongoing program of the City. Street Smarts has established itself as a valuable traffic safety program that has contributed to the reduction of loss of life and injury from traffic accidents. This program continues to be an asset in the community to educate residents and create safer streets for residents, families, and children, and it has earned national recognition for its effectiveness.

5. Driving a Strong Economy

We must continue our efforts to make San José the best place in America to do business, work, and live. Through prudent planning and strong and effective economic development efforts, the City will have a major positive impact on economic recovery that will help address our budgetary challenges and create opportunities for our residents and businesses. We have made great progress in many areas, including becoming a statewide leader for affordable housing, securing a remarkably broad and diverse industrial base, and helping our downtown and neighborhoods offer a full range of exciting entertainment, cultural, and retail opportunities.

a. **Team San José Maintenance Reserve:** Direct the City Manager to establish a Maintenance Reserve with the first $500,000 from net TOT funds over the City contribution projected in the Manager's proposed budget. The fund should continue to grow as TOT revenue continues to increase beyond our projections. I further recommend liquidating the $750,000 that had been set aside for California Theatre start-up operations in the General Fund (MBA #51), to fund additions and reinstatements proposed in this Budget Message, as it appears that a General Fund operating subsidy is no longer needed.

b. **Veterans Day Parade:** I recommend funding an additional $12,000 to support the annual Veterans Day Parade organized by the United Veterans Council of Santa Clara County. This event was recommended for a $4,000 grant by a review panel. After Councilmember Reed raised this issue, my office discovered that the Veterans Day Parade rating would support a grant for more than what was originally recommended, as it was rated higher than other events, which received grant recommendations of greater amounts. The Administration and the evaluation committee are further directed to follow Council's overall policy that grant recommendations actually reflect the evaluations, criteria, and scoring resulting from our competitive funding processes.

c. **Downtown Older Building Leasing Guidelines:** Direct the Manager and Executive Director, working with the Development Services partners, to develop practical and clear guidelines for small businesses looking to lease space in older downtown buildings. These guidelines should provide detailed information about the challenges and

opportunities of moving into older spaces in the downtown, including necessary tenant improvements, fire and building code requirements, associated costs, approval processes, and other material that would help business owners make better-informed decisions about locating in downtown and aid their success.

d. **Industrial Tool Installation Program**: Direct the Manager, as part of MBA #22, to include outreach to local businesses to ensure they understand the opportunities of this business-incentive program.

e. **Sales Tax Revenue Enhancement:** Direct the Manager to focus staff efforts or hire an outside firm to enhance our ability to bring more sales tax back to the city through local companies dedicating sales tax revenue to San José. This is one answer in response to San José companies asking how they can assist the City.

f. **Payment of Sidewalk Café Permit Fee:** To encourage more downtown sidewalk cafés, the Manager is directed to work with the Director to have the RDA pay sidewalk café permit fees for the next year, up to a total amount of $10,000. The Manager is further directed to revisit the sidewalk café ordinance in the coming year to look for additional ways to increase the number of cafés through incentives and other opportunities.

g. **Bioscience Incentive Zone:** Direct the Manager and Director to study the concept of an incentive zone for the Edenvale Industrial area that would provide incentives for bioscience companies to locate in this park. Options to explore could include but not be limited to, suspension of city fees or taxes, installment plans for sewer connection fees, opportunities for lowering the cost of utilities and water, Federal EDA grants and Enterprise Zone designation.

6. Making Government Work Better

Through innovation, benchmarking with best practices, effective use of technology, training, and a commitment to continuous improvement, we can continue to make San José a city that efficiently delivers high quality services to residents and businesses, is open to new ideas and responsive to change, and provides the greatest value for the public's resources entrusted to us.

a. Fast Track Technology Applications for the Office of the City Clerk: Direct the Manager to roll over the $127,000 allocated to the City Clerk's Office for technology investments to improve services. Direct the City Clerk and the Chief Information Officer to return to the City Council in 45 days with a plan to purchase technology solutions within 60 days.

b. Budget Message Referral Tracking: Direct the City Manager to return to the Council in the fall with an update on Budget Message referrals to follow-up on these items and highlight a strategy to improve the tracking of referrals, through the Major Projects/Administrative Workload Matrix.

c. **Outside Evaluation for the Healthy Neighborhood Venture Fund**: Direct the City Manager to strengthen the evaluation of grant recipients for the HNVF grant process and work with the HNVF Advisory Committee to develop an outside assessment similar to the BEST model. This would provide additional data to the HNVF Committee for the annual evaluation of grant requests. I propose allocating $100,000 for this effort.

d. **Shift City Programs out of HNVF:** Direct the Manager to return to the Council in the coming year with a multi-year strategy to shift *City-delivered* services out of HNVF and back to the General Fund or other appropriate City fund. This would be coupled with an effort to identify existing CBO provided services, which receive General Fund support and assisting them in applying for HNVF funding.

e. **Alternative Service Delivery:** The Alternative Service Delivery Models effort is an ongoing City commitment to evaluate new short- and long-term approaches to improve quality and reduce costs of services. Direct the City Manager to examine alternative service delivery ideas at the start of each annual budget process and include alternative service delivery proposals in as many City Service Areas as feasible.

f. **Flu Shots Addition to Health Insurance Options:** Direct the City Manager to add on-site flu shots to a future Health Insurance RFP as an "add alternate" to the bid, and report back to the City Council after bids are received to better understand any costs associated with this option.

g. **Management Review Process for Requests for Proposals:** Direct the City Manager, City Attorney, and City Auditor to create a comprehensive management review process for RFPs that will strengthen and streamline our organizational review of RFPs generated by all departments and increase coordination among these three lead offices for proposal evaluation.

h. **Debt Collections Request for Proposals:** As we heard during the May budget study sessions, vendors and others owe the City at least $30 million in outstanding debt. Especially during tough budget times, we must do all we can to collect this debt to ensure that we have all resources available for vital public services. MBA #40 proposes that $750,000 to be used for temporary staffing and other measures to increase debt collection. As an alternative approach that avoids the need for up-front funding, the City Manager, City Attorney and City Auditor are directed to return to the City Council in 45 days with a Debt Collections RFP. This RFP should allow for outside companies to compete for one or more contracts to collect debt on behalf of the City (which may have different start dates depending upon existing contracts), with the goal to streamline or eliminate the multiple contracts currently managed through the Finance Department. It is also recommended that the collections contract be based on revenue recovered where the company would receive a percentage of the total amount of debt collected.

i. **Universities Mentorship Program:** As our workforce continues to change, we must continue to provide opportunities for lower-level employees to grow and move up in the

organization to fill critical leadership roles. Mentoring can help increase the competitiveness of employees looking for promotional opportunities. Direct the Manager to expand our current mentorship program by working with local universities to fill current gaps in the City's program.

j. **Business Tax Amnesty Program:** Direct the Manager to return to the City Council in 45 days with a plan to implement a Business Tax Amnesty program by September 30.

k. **2-1-1 Call Center:** Direct the Manager to work in partnership with the United Way Silicon Valley to incorporate critical City programs, like the Mayor's Gang Prevention Task Force services and others, into the knowledge base of 2-1-1 operators.

l. **General Services Purchasing, Replacement, and Loans of City Vehicles**: I recommend reducing the funding for non-public safety vehicle purchases by $250,000 to fund additions and reinstatements proposed in this Budget Message.

m. **City-Owned Property Database:** The proposed budget includes $310,000 for the development of a database of all City-owned properties. I recommend that this funding be cut in half to fund additions and reinstatements proposed in this Budget Message.

7. Re-budget Proposals

I recommend the following re-budgets, subject to final verification of accounts by the City Clerk's Office on behalf of Mayor and Council Offices. I further recommend that we place an ongoing cap on re-budgets of 50% of the base budget for Mayor and City Council budgets, continuing the practice we started last year.

District 1 Office Re-Budget	$78,335
District 2 Office Re-Budget	$123,425
District 3 Office Re-Budget	$16,597
District 4 Office Re-Budget	$500
District 5 Office Re-Budget	$76,744
District 6 Office Re-Budget	$45,887
District 7 Office Re-Budget	$42,792
District 8 Office Re-Budget	$21,651
District 9 Office Re-Budget	$125,000
District 10 Office Re-Budget	$91,691
Mayor's Office Re-Budget	$317,119
Council General Re-Budget	$208,656

8. Revised Business Plans and Performance Measures

We must continue to improve our performance measurement tools to provide the best possible information for policy makers to make budget decisions. The following changes and additions are recommended and are based on feedback provided by the Mayor and City Council during the first part of the budget study sessions in May.

I recommend that the Council direct the Manager to include the following changes for business plan and performance measures for City Service Areas as part of the approved budget:

Community and Economic Development Services CSA

Revise the following Community and Economic Development CSA business plan and performance measures:

a. Under Key Strategic Goals and Objectives, "Leveraging Relationships" should be expanded to include other important community partnerships.

b. "Quality is measured by auditing random samples of completed projects to determine if the staff's work is thorough, complete and consistent." I recommend expanding this statement to include providing a short survey for all customers of the Building Services Department.

c. Include expansion of SNI and better communication under Key Strategic Goals and Objectives for this CSA.

Public Safety CSA

Make the following changes for the Public Safety CSA business plan and performance measures:

a. Under Key Strategic Goals and Objectives, highlight existing efforts on the Fire Department staffing plan driven by the Fire bond measure and add needs within the Fire Department for administration and inspection and the new Police Department staffing plan effort.

b. Include the Independent Police Auditor's business plan in the proposed budget under the Public Safety section to highlight goals, outcomes, and performance measures similar to other Council Appointees. The current budget does not provide enough opportunity for the IPA to highlight these critical components of the office.

c. Add the Mayor's Gang Prevention Task Force Strategic Plan under the Policy Framework.

d. Add training opportunities from the MGPTF programs in the business plan discussion regarding overall training available.

e. Add a measure to track the percentage of community teams trained in the *San José Prepared!* course. This will provide information on the extent and need for community emergency preparedness training, and help us keep in touch with these trained teams.

f. Add a measure to monitor and track ongoing emergency preparedness training of city staff.

g. Incorporate new service delivery models discussed at Council study sessions when looking to expand *San José Prepared!* Include a measure to track how we compare to other communities in maximizing the amount of attendees to classes and courses offered.

h. Include a measurement to highlight the Public Safety CSA priority for identifying, applying for, and achieving grants.

Neighborhood Services CSA

Make the following changes for the Neighborhood Services CSA business plan and performance measures:

a. Include Extremely-Low Income households in the "Provide Housing Opportunities for Low- and Moderate-Income Households" section of Outcome 4: Diverse Range of Housing Opportunities under Key Strategic Goals and Objectives.

b. Under Key Strategic Goals and Objectives, highlight youth services and leisure programs for seniors and persons with disabilities.

Transportation and Aviation Services CSA

Make the following changes to the Transportation and Aviation CSA business plan and performance measures:

a. Include a measurement to track the total amount of cargo expressed in dollar value.

b. Continue to focus on signage around the Diridon Station on the freeway and on our streets to increase visitor information to this important transportation hub.

Strategic Support CSA

Make the following changes to the Strategic Support CSA business plan and performance measures:

a. Add outcomes to all Council Appointees summary pages to provide consistency with business plans throughout the budget document.

b. Revise Council Appointee outcomes to be more concise and consistent with the other CSA outcomes and organize Key Strategic Goals and Objectives by outcome.

c. Revise Outcome 1: A High Performing Workforce that is committed to Exceeding Customer Expectations to include external and internal customers.

9. Reports Required

The Manager is directed to provide reports back to the City Council on the following issues:

a. Report on emergency preparedness and response training required for employees at the senior and executive staff level and the City's current staffing model for emergency situations.

b. Report on citywide parkland requirements, including the City's current standards for parkland and neighborhoods that are deficient.

c. Report in August on the California state infrastructure bond program impacts and benefits for San José and how these funds would be invested locally, including the $30 million for local streets so that our residents can learn more about this important opportunity.

d. Report on trends for gang-related incidents and gang violence in our community, with historical context and comparisons to other appropriate communities.

e. Report on efforts to expand ongoing outreach to the business community related to the budget process and budget impacts.

f. Report on the implications of GASB 45 and provide the Council with a framework for dealing with these new accounting requirements.

UPCOMING BUDGET PROCESS

As a reminder, this June Budget Message will be reviewed by the City Council on Monday, June 12, at a special study session. Feedback from the City Council will be incorporated into a revised budget message that will be re-released by Friday, June 16. City Council consideration of the revised Mayor's June Budget Message is scheduled for Tuesday, June 20, 2006. Attachment I provides a brief summary of recommendations contained herein which have specific General Fund implications in FY 06/07.

CONCLUSION

Our City's accomplishments in recent years have helped make San José a community that our residents are proud to call home and are satisfied with a high quality of life, despite the severe economic challenges we have faced in this period. The foundation that we have built with sustained conservative financial management, our innovative and dedicated City employees, and our valuable partnerships with our neighborhoods, schools, businesses, and other agencies will allow us to build for the future. I am confident we will continue to find solutions to achieve our community's goals and provide quality services that our residents deserve.

COORDINATION

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

Attachment I
General Fund Adjustments

Use of Funds

Aging Services Gaps	$86,089
Almaden Center Staffing	$106,395
Bailey Avenue Resurfacing	$211,000
Camden Staffing & Marketing	$136,395
Crossing Guard Additions	$34,515
HNVF Grantee Evaluations	$100,000
New Police Officers 10 FTE	$643,351
PAL Stadium Maintenance	$115,906
Pandemic Flu Matching Grant	$143,000
Police Crime Data Specialists	162,840
TABS & School Safety Unit	$294,094
Veteran's Parade Subsidy Increase	$12,000
Volunteer background checks	$10,000
Young People's Theater	$34,750
Total	$2,050,335

Source of Funds

California theater reserve	$750,000
City-owned property database	$155,000
D9 Office Re-Budget	$30,000
Unused Katrina relief funds	$143,000
Economic uncertainty reserve	$722,335
Vehicle purchases	$250,000
Increased fee activity	$40,000
	$2,050,335