



# Memorandum

**TO:** CITY COUNCIL**FROM:** Mayor Chuck Reed**SUBJECT: MARCH BUDGET MESSAGE  
FOR FISCAL YEAR 2009-2010****DATE:** March 13, 2009

Approved:

Date:

3/13/09

## RECOMMENDATION

I recommend that the City Council direct the City Manager to submit a proposed balanced budget for Fiscal Year 2009-2010 that is guided by the policy direction and framework of priorities outlined in this Message. Proposals for budget reductions should be developed with a level of analysis that includes detailed data, justification, and outcomes for City Council consideration later this spring.

## INTRODUCTION

With the faltering global and national financial markets and economic conditions, San José is experiencing economic uncertainties in much the same way as communities throughout the country, as evidenced by increasing job losses, rising unemployment, plummeting home prices, escalating numbers of foreclosures, and growing commercial vacancy rates.

In 2008, a total of 11,000 jobs were lost in the San José Metropolitan Statistical Area, the largest decline since the high-tech bubble crash in the early part of the decade. Several high-tech companies have announced significant layoffs and more are expected in the upcoming months. The unemployment rate in the San José metropolitan area continues to increase with a rate of 9.4% in January 2009. This is up from 5.1% a year ago.

Real estate performance in Santa Clara County remains extremely weak, with drastic financial impacts on our residents. Median home values have plummeted from \$699,000 in December 2007 to \$452,000 in December 2008. Many residents are underwater, owing more on their mortgages than their homes are worth. In the last quarter of 2008, approximately 3,000 San José homeowners received a new foreclosure filing. At this point, 1.7% of the units in San José are in some state of foreclosure, from owners struggling to retain their homes to units that banks own and are attempting to sell. Additionally, construction on new housing units has virtually halted. In the past year, construction employment in the county has dropped by nearly 4,000 jobs. The news isn't any better on the commercial front. The vacancy rate for office space in San José increased over the past year by more than 60%, from 10.8% to 17.5%.

Both consumer and business spending are expected to be very weak in 2009. The record lows in consumer confidence, the declines in real estate values, the volatility in the stock market, and the credit crunch in the financial market are all factors that have and will continue to drive down spending.

Economists predict that severe economic recession will impact economic performance the remainder of the year, resulting in a significant drop-off in the city's economically sensitive revenues. San José must reconcile an estimated \$61 million base budget shortfall for the upcoming fiscal year and a base budget shortfall of \$36 million in 2010-2011. It is a daunting task, and one that will require sacrifice at every level. However, as difficult a situation as we are in, San José is fortunate to have avoided the dire circumstances confronting many other municipalities.

This past November, I proposed an Economic Stimulus Plan as part of the 2008-2009 Redevelopment Agency Capital Budget, focusing on investing our limited resources to encourage attraction of emerging technology companies to San José as well as generating General Fund and tax increment revenues to further our economic development and neighborhood revitalization plans. We must maintain this same focus for our city's budget, building on our existing strengths and taking a pragmatic approach to our long-term success. We need to focus on fueling the growth of jobs and revenues and on building infrastructure for the benefit of the entire city.

While our problems have been compounded by national trends, we cannot ignore the fact that our budget woes have existed for nearly a decade and will persist if we do not continue to implement fundamental changes towards how we operate. We need to avoid quick fix, short-term solutions that will exacerbate the situation in the future. It is only by making sound decisions towards economic growth and becoming more efficient that we will avoid being confronted with the same dilemma each year.

Resolving a \$61 million base budget shortfall is not an enviable task. We must continue to examine how we operate, reviewing every aspect of our budget. Unfortunately, many hard decisions will have to be made. Every city department will experience a strain on their operations and many city services will be reduced or eliminated. The City Council, City Manager, and Department Directors must conduct a candid review of our expenses, prioritizing our operations, and making uncomfortable decisions about our future. We must be willing to analyze and discuss all options and work collaboratively to find solutions that reflect the values and priorities of the people of San José.

Public safety will remain our top priority and our efforts must focus on keeping our neighborhoods safe and making sure that both violent and property crimes continue to decline in San José. We must take a long-term view in regards to crime prevention, maintaining our efforts to reach out to at-risk youth and help them realize alternatives to gang activity and other criminal behavior.

While service reductions will be felt by employees and residents alike, San José must continue to pursue the delivery of city services that preserve a high quality of life in our neighborhoods and provide the city with the resources to move forward. We must work together to ensure our residents can continue to enjoy properly maintained parks, libraries, and community centers.

San José has a progressive and entrepreneurial business community, and residents who take great pride in their neighborhoods. By joining together in a spirit of collaboration, we will find creative solutions to our problems and make solid investments for our future. Our residents have consistently proven themselves to be the most talented and creative workforce in the world. San José has the potential to help lead the region, the state, and the nation out of the current economic decline and we must be prepared to take advantage of economic development opportunities when they arise.

## **BACKGROUND**

In accordance with Section 1204 of the San José City Charter, I present my Fiscal Year 2009-2010 Budget Message for consideration by the City Council and the public. The Mayor's March Budget Message is based on several sources. These include my recent State of the City address, community survey, input from the community and Councilmembers through priority setting sessions, and the City Manager's Five-Year Forecast.

This Message will provide an initial framework for the City Council to give the City Manager direction to prepare proposals for the Council's budget deliberations in May. Further City Council discussion, additional budget study sessions, public hearings and community outreach will take place before the final budget is presented for adoption in June.

The focus of this Budget Message is to address the deficit while preserving essential services for our residents that reflect the priorities set by the City Council and our residents. In writing this Budget Message, I have reviewed the surveys, the ideas from residents and employees, and comments from my fellow Councilmembers to ensure this Message reflects the community's and the City Council's priorities and ideas while moving forward in eliminating our structural deficit. The following sections summarize the results of this year's community budget process and our efforts to eliminate the structural deficit.

### **Community Budgeting Process**

In 2007 the City Council unanimously approved several items related to the Reed Reforms which gave direction to "Change to a Community Based Budgeting Process." These reforms that the City Council unanimously approved are:

- Start the budget process with a survey of the public in early January.
- Hold a Conference on Priorities with neighborhood associations in late January.
- Have Council hearings in February to discuss priorities.
- Report the results in the Mayor's March Budget Message.

The guiding principle behind these processes is to help steer us in making the right decisions as we solve our structural deficit. The residents of San José deserve solutions that are based on long-term perspective, not one-time fixes. Funding programs considered to be a low priority or eliminating programs that are a high priority to the community must seriously be questioned to ensure that we uphold the best interest of the community, first and foremost, while putting everything on the table for consideration and evaluation. Governing means choosing and we will again have to make some tough choices this year.

## **1. Community Budget Survey Results**

We know from last year's survey that two-thirds of our residents prefer changing the way the city provides services to reduce costs over raising taxes or reducing services. According to this year's telephone survey:

- There was not clear consensus from residents on solving the deficit through additional revenue or reducing city services.
- A sizeable majority of voters indicated they would support a measure enacting a one-quarter cent sales tax.
- Residents are very supportive of selling non-essential city owned properties or renting outdoor advertising space on city-owned properties as a way of addressing the city's budget deficit.
- Residents were most willing to cut recreation and parks services and least willing to cut public safety services.
- More specifically, most respondents found it unacceptable to reduce funds related to police staffing, crime prevention programs, crossing guards, and street maintenance.
- Most respondents felt it to be "somewhat" or "completely" acceptable to reduce funds for city employee pay increases and benefits packages, library and pool availability, and maintenance of city buildings.

## **2. Neighborhood Association Priority Setting Session Results**

The Neighborhood Association Priority Setting Session was held on January 24, 2009 at City Hall. This year's meeting had a specific focus on creating ways to reconcile the \$60 - \$65 million structural budget deficit. The session was intended to determine neighborhood leaders' revenue and expenditure priorities.

Approximately 80 participants from various neighborhood associations, along with city staff, were invited to play "City Manager for a Day" where the task of fixing the budget was turned into an activity with teams and cards. Each team created their own list of budget reductions and cuts to resolve the General Fund deficit, using flashcards from various city departments labeled with both cost reduction and revenue generating proposals. Participants were forced to face opposition, make their case, and arrive at a shared recommendation within their small group, very similar to the dynamic facing the City Manager, Mayor, and City Council.

Below is a summary of the outcomes of the Neighborhood Association Priority Setting Session.

- Strong interest in reducing city personnel costs, including expectation that the city consider tools being deployed by private and public sector employers: wage freezes, wage cuts, mandatory furloughs (effective pay cut), fewer vacation days, and layoffs.
- Strong openness to new revenue generation. Despite the difficult economy, participants did not shy away from the idea of new revenue generation. Eight of the 11 teams chose the city sales tax.
- A number of the tables provided budget solutions that exceeded the \$65 million deficit reduction target. A key factor in achieving this was the ¼ -cent sales tax proposal idea, worth \$35 million. The Budget Exercise would have been much more challenging without this card.
- Neighborhood leaders expressed strong interest in outsourcing, use of volunteers, and public-private partnership as strategies to retain services that might otherwise be significantly reduced or eliminated.

Additionally, cost-reduction proposals accepted by the majority of teams in the exercise include:

- Reduce Rate of Growth in Personnel Costs
- Reduce General Government (Strategic Support Services)
- Postpone Opening of Public Facilities Scheduled for Fiscal Year 2009-2010
- Eliminate Police Officer Response to Non-Injury Accidents
- Eliminate or Modify the School Crossing Guard Program
- Eliminate 1 Police Department Traffic Enforcement Unit
- Reduce Park Maintenance by 1 Day per Week
- Eliminate Streetscape Landscape Maintenance and Replanting

Revenue-generating proposals supported by the majority of teams in the exercise include:

- Require Downtown Night Club venues to Pay 50% of Police Overtime Costs
- Redirect Subsidy for Convention and Visitors Bureau Marketing
- Increase Parking/Traffic Citation Fines
- Lease City Assets
- Increase Library Materials Fines
- Charge Full Cost to Event Planners for Police to Coordinate and Staff Events (including On-Duty)
- Implement a ¼ -Cent Sales Tax
- Implement a Plastic Bag Fee
- Expand Parking Compliance and Meter Zones in the Arena/Diridon Area
- Assign to General Fund a % of Additional Future Funds Generated by Anti-Tobacco Settlement Revenues

- Double the Storm Sewer Service Fee from \$6 to \$12/month
- Charge a Fee to Entities that Store Hazardous Materials
- Restructure Existing Leases with Non-Profit Operators of City Facilities to Achieve Cost Recovery

### **3. Council Priority Setting/Budget Discussion Session**

At the City Council 2009-2010 Budget Discussion Session on February 17, the City Council had the opportunity to hear preliminary budget concepts, key themes and trends resulting from the information collected through the Community Telephone Survey and the Neighborhood Priority Setting Session, assumptions that staff is working with to solve the structural budget deficit, as well as impacts to services and or tradeoffs that may appear in the proposed budget.

Councilmembers were broken into groups of two and rotated through five group discussions with Senior Staff and Council Appointees on different City Service Area topics. The discussion provided the City Council an opportunity to discuss issues as a group and have questions answered by staff to help provide City Council with early information regarding the Fiscal Year 2009-2010 budget process and engage in meaningful discussion regarding preliminary concepts and assumptions in a less formal format.

### **GENERAL BUDGET GUIDELINES**

1. All proposals for either budget reductions or augmentations should be measured against the following criteria:
  - a. Impact on essential public services.
  - b. Adherence to Council-approved priorities.
  - c. Relative importance to operational efficiency.
  - d. Effect on fiscal integrity and flexibility.
  - e. Economic impact and jobs.
2. Because of the extraordinary challenge we face this year, I recommend that the City Council approve the general budget balancing strategy guidelines as proposed in the 2009-2010 City Manager's Budget Request and 2010-2014 Five-Year Forecast and Revenue Projections document, as we consider our direction to staff for preparing budgets for next fiscal year.
3. The City Manager shall:
  - a. Develop a proposed budget that is balanced based upon our current revenue expectations for the coming year.
  - b. Set aside funds in the May 1, 2009 Proposed Budget that are adequate to fund the Mayor/City Council Offices equal to the average City Council Appointee reduction. To

ensure overall strategic leadership and service delivery for the organization, the City Manager is directed to work with the Mayor's Budget Office to set aside funds for the City Council Appointee offices that are adequate to fund each office considering both the average non-public safety City Service Area (CSA) expenditure reduction and the impact of reductions on service delivery. The City Manager is further directed to work with the Mayor's Budget Office to explore the use of other funding sources to ensure delivery of essential services provided by Council Appointee offices and minimize cuts that would result in increased liability for the City and Agency.

- c. Maximize reductions to ongoing programs to help solve future deficits to the fullest extent possible and consider use of one-time funds in a fiscally responsible manner.
- d. Except as may be necessary in the public safety departments, personnel-related reductions should be ongoing cuts and not one-year freezes to better overcome future deficit projections.
- e. Immediately coordinate and aggressively pursue opportunities for the city (and community based organizations with technical assistance from the city) to apply for grants to support programs in priority areas.
- f. Avoid budget cuts that could mean the loss of grants or our ability to leverage other resources.
- g. With the exception of the Independent Police Auditor that should be displayed under the Public Safety CSA, include all other Council Appointees' budget reduction proposals under the Strategic Support CSA for the May 1 proposed budget and include them in Budget Study Session discussions during the Strategic Support CSA.
- h. Identify new proposed additions within a CSA's department proposal, rather than just including them within the base budget.
- i. Budget reductions applied to non-public safety CSA's should be applied at generally the same level to our partner community based organizations that receive General Fund support, with the goal of minimizing the impact on direct services to our residents and businesses.

## **Investment Strategies**

### **1. Community and Economic Development**

Retaining our position as the Capital of Silicon Valley will require us to be entrepreneurial and aggressive in our economic development pursuits in the coming months. Our limited funding resources should be geared towards retaining and attracting our driving industry corporations and to encourage and facilitate private sector investment in office, R&D, residential and retail sectors. By investing in innovation, San José and Silicon Valley technology companies can fuel that process and benefit our local and regional economy.

Despite the somber news discussed earlier in this Message, there are some promising indicators and signs of continued progress that positively impact our region. For example, the San José Metropolitan area leads the nation in patents filed. Furthermore, it is estimated that more than one-third of United States venture capital investment flows to the San José area. The area also houses R&D, manufacturing, and campus headquarters of the largest concentration of technology and Fortune 500 companies. Approximately 59% of all Bay Area exports are generated here in the Silicon Valley. This is good news and we must continue to provide the environment in which our people can be productive and our businesses successful.

San José also continues to lead the way in solving global problems through technological advances and is maintaining a competitive edge by creating jobs in clean energy, green transportation, and new technologies. Over the past year, more than 1,500 new clean tech jobs have been created in San José, helping to meet our Green Vision goals. Local colleges are retraining workers for green collar jobs in areas like solar installation and companies like Nanosolar and Solopower are generating manufacturing jobs in San José. With the support of our legislative leaders, we successfully obtained an eight-year extension of the Federal Clean Energy Tax Credit, providing stability to our local clean energy companies and incentives for residents and businesses to invest in clean energy of homes and businesses. Our resources are limited, but by investing in a focused strategic manner, we can help facilitate an economic resurgence.

To that end, last December the City Council adopted my Economic Stimulus Plan for San José which focused our efforts towards:

- Developing and creating jobs.
- Encouraging private investment in commercial, residential and office Research and Development.
- Building and retrofitting our infrastructure.
- Leveraging existing programs and resources.

The recommendations below build upon and continue to move forward our economic development goals.

- a. **Baseball Stadium:** Encouraging the development of sporting teams, events, and facilities in San José has been an initiative of our Economic Development Strategy since November 2003. The City Manager and Redevelopment Agency Executive Director are directed to be ready to take advantage when and if an opportunity arises to attract the A's to relocate in San José. In that regard, the City Manager and Redevelopment Agency Executive Director are encouraged to:

- Build community support.
- Build support from Silicon Valley businesses and labor.
- Analyze the opportunities and challenges of developing the Park Avenue and Montgomery/Autumn Streets site as a location for a baseball stadium.

- b. **Soccer:** The soccer stadium development on the Airport West site, as well as the proposal for office and commercial use on the adjacent site, continue to be an attractive project to pursue for the public benefits it will accrue over the long term. The City Manager is directed to continue to proceed with the transaction and negotiate terms that reflect the spirit of the original proposal approved by the City Council giving due consideration to current economic realities and real estate market conditions.
- c. **Work2Future:** Work2Future helps businesses and individuals in meeting workforce demands and opportunities. It is anticipated that Work2Future will receive substantial funding through the American Recovery and Reinvestment Act to support adult and dislocated workers and the Youth Summer Employment Program. The City Manager is directed to identify opportunities to link the workforce development program, gang prevention programs, and the Green Vision.
- d. **Coordinated Marketing Effort:** Last year, the City Council directed the City Manager and Redevelopment Agency Executive Director to work with the Mayor's Public Information Officer to review marketing budgets and identify opportunities to improve collaboration and use resources most effectively.

In these tough times, San José must spend its existing marketing resources more efficiently. Over the next year, I recommend that the City Manager and Redevelopment Agency Executive Director continue to work in partnership with the Mayor's Public Information Officer to bring these disparate efforts together and coordinate marketing activities. This effort will measure the return on our investments, and pursue opportunities and new ideas to spur new investment and grow San José's identity as an innovator in emerging technologies, create vibrancy Downtown, encourage retail spending, and bring new business to the Airport. This effort should include regular reports to the Community and Economic Development Committee.

- e. **ConVis Marketing Funds:** The General Fund currently subsidizes marketing efforts for the Convention and Visitors Bureau. Given the current General Fund deficit the City Council should explore opportunities to reduce the subsidy and to use a portion of ConVis Marketing Funds to support our arts organizations and the General Fund. The City Manager is directed to work with the Convention and Visitors Bureau and the Arts Roundtable on a proposal for ConVis Marketing Funds to be used to support the General Fund and arts. We should maintain our original commitment to the Hotel Business Improvement District (HBID) and consideration should be given to the non-public safety CSA reduction. The City Manager is directed to include the ConVis marketing subsidy into our coordinated marketing review.
- f. **Downtown Summit Ideas:** The Downtown Summit hosted on February 19, 2009 resulted in the generation of innovative ideas for implementation in the downtown. The top three ideas were:
  - Developing a Coordinated Marketing Program.
  - Implementing a week-long live music festival in the SoFa District (Left Coast Live).

- **SoFa SoGood:** An idea to activate the SoFa District and create a more vibrant street life.

The City Manager and Redevelopment Agency Executive Director are directed to work with the stakeholders that have agreed to champion each of these efforts during the next year and create an active and vibrant downtown despite the recession and the budget shortfall.

- g. Mayor's Economic Stimulus Plan:** The City Manager and Redevelopment Agency Executive Director must collaborate closely and immediately to coordinate resources and work teams to achieve the goals of the top priorities of the November 25, 2008 Economic Stimulus Plan, which include:

- Conducting a Focused Corporate Retention and Attraction Outreach Campaign.
- Investing in Renewable Energy and Energy Efficiency.
- Downtown High Rise Residential Incentives.
- Increasing Retail Sales Activity.

- h. Asset Management:** The city is currently undergoing a rigorous asset Management review to include the sale of nonessential and underperforming city-owned properties, restructuring of existing leases with for-profit and non-profit operators of city facilities, and leasing of city infrastructure to private or other governmental operators. The City Manager is directed to include the Community Survey and Neighborhood Priority Setting Session as a guide and factor in prioritizing proposals to the City Council.

- i. Incubator Program:** The City Manager and Redevelopment Agency Executive Director must develop a plan to strengthen the incubator program to encourage innovation and new business formation, and pursue federal funding to expand the program.

- j. Affordable Housing, Home Foreclosure, and Homelessness Programs:** Direct the City Manager and Redevelopment Agency Executive Director to develop a plan to be more responsive to the current economic crisis and its impacts on affordable housing production, foreclosures, and ending homelessness. The Administration and the Agency should explore opportunities for funding programs that will improve our housing market locally and address issues citywide and most especially in impacted neighborhoods in Central San José, East San José and along the Monterey Corridor.

- k. Permitting Process:** Direct the City Manager to study and develop a program for automatic extensions of land use entitlements for a set and appropriate time period and continue to provide resources to the extent feasible to facilitate the high level of service provided through the Special Tenant Improvement Program and the Industrial Tools Installation Program.

## 2. Environmental and Utility Services

The city has long been a leader in environmental stewardship through its efforts to recycle waste, conserve water, reuse wastewater, and develop in a sustainable manner. It has successfully pioneered many environmental initiatives from recycled water and curbside recycling to establishing an urban growth boundary.

Recognizing the opportunity to seize a global opportunity and ensure San José's position as a model 21<sup>st</sup> Century city, the City Council in October 2007, adopted San José's Green Vision, a bold roadmap that is intended to model how innovation and environmental responsibility can strengthen economic opportunity and can, in fact, be vital catalysts for spurring prosperity.

The Green Vision lays out ten aggressive goals, listed and described below. By pursuing these goals, San José is moving towards inspiring new careers and industries, becoming more energy efficient, producing and using electricity from clean renewable sources, creating green buildings, diverting waste from landfills, creating greener street systems, expanding delivery of recycled water, and reducing greenhouse gas emissions.

- 1. Create 25,000 Clean Tech jobs as the World Center of Clean Tech Innovation**  
San José has doubled the number of Clean Tech jobs from 1,500 to more than 3,000.
- 2. Reduce per capita energy use by 50 percent**  
Energy efficiency improvements have been made to city facilities, yielding cost savings. In addition three fire stations, five community centers, and two libraries were approved for \$500,000 worth of Community Development Block Grant funds to install solar electric systems, and other green building measures.
- 3. Receive 100 percent of our electrical power from clean renewable sources**  
In the past year, we've seen significant investments in solar throughout San José, including Macy's (307 kW), eBay (650 kW), San José Unified School District (5 MW), Star Quality Concrete facility (410 kW), and Target (380 kW). San José was also named as a Solar America City by the Department of Energy, providing a \$200,000 grant.
- 4. Build or retrofit 50 million square feet of green buildings**  
A quarter of a million square feet have been LEED certified over the past year with more than 11 million square feet registered with the United States Green Building Council (USGBC) and are currently targeting various levels of LEED certification.
- 5. Divert 100 percent of the waste from our landfill and convert waste to energy**  
In October 2007, San José was recycling 62% of our garbage citywide. Recent improvements to recycling at apartments and condominiums have resulted in the highest performing program in the United States. Special events are exceeding 75% waste diverted from landfill which far exceeds any municipal program in California.

**6. Recycle or beneficially reuse 100 percent of our wastewater (100 million gallons per day)**

Recycled water average daily use has increased by 7.8% and is now 11 million gallons per day.

**7. Adopt a General Plan with measurable standards for sustainable development**

The General Plan Task Force has been formed and is currently working towards a new plan.

**8. Ensure that 100 percent of public fleet vehicles run on alternative fuels**

San José's fleet consisted of 2700 vehicles and equipment, 972 of which operate on alternative fuels. The city has transitioned from Biodiesel B10 to B20 and is now exploring a partnership with various auto manufacturers on an all-electric vehicle demonstration.

**9. Plant 100,000 new trees and replace 100 percent of our streetlights with smart, energy neutral lighting**

A strong partner with the city, local non-profit Our City Forest has planted 2,023 trees in San José over the past 12 months. Staff is testing energy efficient and long-lasting adaptive LED lighting technology to traditional sodium vapor lighting as part of our Green Mobility Showcase on East Santa Clara Street.

**10. Create 100 miles of interconnected trails**

San José has increased the number of trails from 40 miles to 50.78 miles.

To continue our environmental leadership, I recommend the following:

**a. Green Vision:** To ensure the continued success of the Green Vision, the City Manager is directed to budget funds to projects that are the most closely aligned to the following three priorities:

1. **Savings Created:** The city's projected rate of ongoing expenditures has exceeded its projected ongoing revenues for the past eight years. Thus, it is imperative that Green Vision expenditures create long term savings.
2. **Private Investment Generated:** The ability to leverage private investment through the Green Vision is wise economic development. Through collaboration, the city can further catalyze the growth of the clean tech industry.
3. **Measurable Advancement Toward Goals:** All investments should contribute to the city's ability to achieve its stated Green Vision goals. However, preference should be given to projects that measurably create the greatest amount of advancement towards the goals of the Green Vision.

- b. Energy Efficiency & Conservation Block Grants:** As part of the American Recovery and Reinvestment Act, the City of San José is in line to receive Energy Efficiency & Conservation Block Grants. The City Manager is directed to apply the funding towards Solar America City projects, and LED streetlights both of which have long-term implications for saving general fund revenues. The City Manager is further directed to explore working with PG&E and the Public Utilities Commission to modify the rate plan to allow for reduced electrical use benefits.
- c. Stimulus Funds:** The City Manager is directed to apply for any discretionary funds awarded through the federal economic stimulus that will help advance our Green Vision goals. Discretionary funding should be pursued for the following uses:
1. Solar panel clean energy and fuel cell installation at city-owned facilities. The short-term installation costs will be recouped through the long-term General Fund savings of reduced energy expenditures.
  2. Weatherization funds for low-income neighborhoods.
  3. Green collar job training opportunities.
  4. Smart Grid/Energy Improvement Districts (EID).
- d. Environmental Fee:** While the city should seek to recover costs of environmental impacts of business practices, any new proposed fee increases should be very carefully scrutinized to ensure Proposition 218 compliance. The City Manager is directed to work closely with the City Attorney's Office regarding proposed environmental fees.
- e. Smart Grid/Energy Improvement Districts (EID):** The city should do all it can to harness the exciting potential of renewable power as an energy source. One possibility is a renewable energy zone connecting major facilities in collaboration with third parties. This zone would monitor, manage and control electrical power and thermal energy distribution, utilizing local generation resources, using the grid power. The power it delivers is affordable, reliable, and sustainable. An EID can also insulate key electric power consumers from "grid stress" through local, onsite power generation. The City Manager is directed to explore the creation of renewable energy zones in downtown, at the airport, and in North San José. The City Manager is also directed to report to the Transportation and Environment Committee quarterly, beginning next fiscal year.

### 3. Protecting and Investing in our Neighborhoods

Keeping a city safe is a challenge that all big cities are facing but there is not a one size fits all solution to crime and violence. It's no question that we need to add officers, but we also need to combine this with creative solutions to get the best use of the officers we have now and ensure they are patrolling our neighborhoods.

For years the number of sworn officers has remained stagnant, while the department budget grew by 75%. We are making progress towards our goal of adding 100 new officers to our Police Department by 2012 and to date have authorized the addition of 40 officers.

However, maintaining a safe city involves more than adding officers. We must continue our investment in preventing crime and helping at-risk youth in finding alternatives to gang involvement. Through our efforts we have seen gang violence decrease by over 20% over the past year. My office, in coordination with the City Manager, the Department of Parks, Recreation and Neighborhood Services (PRNS), and the Police Department, launched a comprehensive doctrine expressed in *Action Collaboration Transformation*; the MGPTF Strategic Work Plan, to combat gang issues. I am proud to recommend the continued RDA funding of the Mayor's Gang Prevention Task Force (MGPTF) for Fiscal Year 2009-2010.

In hearing from our community, it is clear that there is still more that can be done to ensure the safety of our residents. This year, the inaugural Safe Summer Initiative was a tremendous success. In total, 7,424 youth participated in 435 different activities funded through this Initiative. During the summer of 2008, there was a 31% decrease in overall gang crimes from the previous season. Under the guidance of the Community Engagement Subcommittee, the Task Force hosted our First Annual Crime and Gang Prevention Summit where they provided training to over 300 community leaders and concerned residents. These are the community policing efforts we must continue to support even in tough budget times. We must make every effort to keep our residents safe, and although we don't have enough money to do everything we want, we need to continue spending on public safety. I recommend the following be incorporated into the Fiscal Year 2009-2010 budget to move forward with both our long-term goals and our immediate needs for public safety:

- a. **Growing our Police Department:** We must continue to strategically add staffing to the Police Department to maximize the number of officers patrolling our neighborhoods. This year our goal is to add 25 more officers. An opportunity for additional officers could come from the American Recovery and Reinvestment Act funding. Our first priority for public safety stimulus is additional officers. Additional opportunities to increase our patrol staff exist through increased civilianization and potential redeployment of officers from the airport. The City Manager is directed to move forward with these efforts and continue to pursue grant opportunities to move forward the City Council's goal of adding 100 officers to our force by 2012.
- b. **Proactive Public Safety Recruitment and Training Efforts:** Last June, the City Council directed the City Manager to bring forward a Human Resources Department analysis to the Public Safety, Finance and Strategic Support Committee by the fall of 2008. The analysis was to focus on the review of recruitment efforts, ensuring that these efforts are both successful and competitive. The Police and Fire Chiefs should have adequate resources available to ensure that sufficient outreach to a diverse range of potential candidates can be completed. The findings presented at the September 18, 2008 Committee meeting showed productive results from our efforts of out-of-state recruitment attempts and marketing programs. In January 2009, nine officers joined the Academy as a result of our marketing campaign in New York. We must identify ways to

increase recruitment of laterals or those who have been laid off from other jurisdictions. I recommend we continue solidifying the Recruitment and Training Strategy and recommend that the City Manager allocate \$75,000 towards the re-implementation of this program.

- c. **Fire Station 16:** Several interior and exterior improvements have been identified at Fire Station 16. Prior funding has helped with some of these improvements but more needs to be done. The City Manager is directed to allocate \$50,000 to complete the station improvements.
- d. **False Alarm Administrative Citation Program:** The current false alarm ordinance does not deter false alarms, nor does it near cost recovery for Police and Fire response. Direct the City Manager to return to City Council with next steps on how to increase the effectiveness and cost recovery of these fines. Implementation of these fines should be included in this fiscal year's budget.
- e. **Automated Field Reporting/Records Management System (AFR/RMS):** With outdated technology in place, the Police Department faces challenges in using data to its fullest potential in solving crimes and improving performance. The Department is required to submit numerous reports to Council annually. This, in addition to the requirements for case submissions to court, mandatory audit and crime statistics reporting, and the public's right to obtain information, make compliance difficult because data is not centrally managed or available in "real-time." An Automated Field Reporting System (AFR) provides real-time data entry of crime information and eliminates many of the current repetitive data entry needs. Coupled with a comprehensive Records Management System (RMS) the Department will become more efficient in solving crimes, managing data and cases, analyzing crime trends, meeting reporting requirements, and responding to public requests for information.

Direct the City Manager to pursue grants and other funding, establish the best method to obtain and use these systems, and continue the pursuit of this technology by assessing the reports provided by the Police Department from the June 2008 budget direction.

- f. **Sworn Police Retirees Perform Administrative Duties:** Direct the City Manager to explore benefits of hiring retired sworn officers to perform administrative police work, including but not limited to, background checks, report filing and booking/processing. This should be included in the Public Safety, Finance and Strategic Support Committee agenda within 60 days.
- g. **San José Municipal Stadium:** This facility is home to both the San José State University baseball club and San José Giants baseball franchise. Completed in the early 1940s, the stadium is currently undergoing \$600,000 in needed renovations. This funding helps address some but not all immediate needs. The City Manager and Redevelopment Agency Executive Director are directed to identify and prioritize needed facility improvements for consideration in future budgets.

- h. PRNS Cost Recovery:** Cost recovery rates for large municipality Parks and Recreation Departments commonly range between 25% and 40%, compared to the City of San José at approximately 10%. The City Manager is encouraged to continue the transformation of PRNS toward a more financially sustainable pricing and revenue model in order to preserve existing services. The City Manager is further directed to work through the Safe Summer Initiative to ensure recreation opportunities for the underserved youth population.
- i. Community Centers:** The City Manager should explore expanding the hours and days of access at high usage community center sites that offer the broadest range of services, which have the best chance of making significant revenue contributions at the most efficient operating costs, and is further directed to develop a resource plan to account for increased wear and tear and staffing at high usage sites. In addition, the City Manager should explore models which would allow the smaller less used satellite community and neighborhood centers to remain open only on an as-needed basis for events like neighborhood association meetings.
- j. Downtown College Prep:** Since 2000, Downtown College Prep has enrolled underachieving students who will be the first in their families to go to college. It provides a vital service to the City of San José in that it prepares its graduates to not only enroll, but thrive at four-year universities. The City Manager is directed to work with Downtown College Prep to increase educational opportunities for our most disadvantaged youth.
- k. Crossing Guards:** The safety of our school children remains a top priority for San José residents as well as the City Council. The City Manager is directed to provide sufficient funding to maintain the crossing guard program. Currently, a private consulting firm is conducting an independent evaluation of the School Crossing Guard Program including alternatives for effective service delivery and opportunities to reduce costs. The City Manager is further directed to continue to evaluate the feasibility of implementing cost-effective programs that are in place in other jurisdictions, explore alternate funding sources such as state and federal grants, and work with the Schools/City Collaborative to come up with solutions to ensure the safety of our children. In addition, I recommend the City Manager evaluate the installation of pedestrian activated crosswalks at un-staffed middle school intersections and consider expanding the use of trained volunteers to perform crossing guard duties.
- l. Neighborhood Improvement Reserve Fund:** Direct the City Manager to hold \$1 million in one-time funds for needed improvements in a reserve fund. These funds will be held in reserve for City Council recommended improvements during the Budget Document process in May.

#### 4. Transportation and Aviation Services

In the area of transportation, San José is moving ahead with dramatic changes.

- We led a successful regional effort to make sure that the High Speed Rail line will go directly from San José to Los Angeles.
- The voters passed Measure B to help bring BART into San José.
- We secured funding through the California Transportation Commission to allow a full citywide build-out of a “state of the art” traffic management system.
- Construction is near completion on a new rental car garage and is underway on improvements to Terminals A and B.
- We were successful in securing \$18.1 million in grant funding for partial funding of the Explosive Detection System (EDS).

To continue to provide the community with safe, secure, and efficient surface and air transportation, I recommend the following:

- a. **Street Maintenance:** Last year, the city was able to add an additional \$9.8 million on-going in funds for street maintenance allocated by state voters. However, the city was still short \$8 million from fully-funding our total annual maintenance obligation. This year, the Construction Excise Tax, which funds much of our street maintenance, is underperforming due to the national economic recession. However, the City will be receiving \$12.7 million for pavement maintenance from the American Recovery and Reinvestment Act. The City Manager shall use Recovery funds and explore opportunities with the Construction Excise Tax to maximize our street maintenance and repair levels.
- b. **Increase Revenue at Norman Y. Mineta San José International Airport:** The Terminal Area Improvement Program is nearing its successful completion, creating a safe, secure, and customer friendly airport. The Consolidated Rental Car Facility is scheduled to be completed in 2010. Unfortunately, the aviation industry continues to struggle. The City Manager is directed to explore innovative opportunities for additional flights and revenue for the airport and its customers.
- c. **Airport People Mover:** An automated transit network linking Caltrain, Terminal B, VTA Light Rail and a future BART station is an exciting concept that would create a useful link of our major transportation systems. Using an Automated Transit Network will give us an efficient, demand-responsive public transit network with automated non-stop service available twenty-four hours a day. The City Manager is directed to continue to explore public private partnerships to assist in funding this emerging technology.
- d. **Parking Citations:** Direct the City Manager to explore raising parking citations on those violations that impact safety and the environment and on those that have not been adjusted for the cost of doing business over the last several years. The City Manager should also explore installation of on-street parking controls with variable rate structures in the Caltrain Diridon-Arena area.

## 5. Strategic Support

San José must continue to be a city that delivers top quality service on a daily basis. We must effectively develop, manage and safeguard the city's fiscal, physical, technological, and human resources to enable and enhance the delivery of city services and projects. I recommend the following:

- a. **Budget Outreach Meetings:** San José residents have experienced the impacts of the structural deficit first-hand. We must continue to have a dialogue with the community if we are to solve our current budget shortfall. The City Manager is directed to work with the Mayor's Office and Councilmembers to conduct neighborhood meetings in each Council District to discuss the budget and to discuss possible solutions for our structural deficit.
- b. **Service Delivery Efficiencies:** Direct the City Manager to review service delivery models to achieve further efficiencies, including streamlining and program auditing.
- c. **New Public Facilities:** Many capital projects that are scheduled to come online next year will negatively impact our General Fund. Direct the City Manager to review upcoming capital projects and bring forward recommendations, and the criteria used for those recommendations, for delaying start of construction or postponing opening facilities to achieve savings in our General Fund.
- d. **Existing Leases and Lease City Assets:** Direct the City Manager to review leases with non-profits that operate city facilities. The City Manager is also directed to review city assets and explore opportunities to lease these assets.
- e. **Economic Stimulus Funds Compliance Review:** There will be many complex requirements for use of the American Recovery and Reinvestment Act funds. The City Manager is directed to set aside appropriate funding from the Economic Stimulus funds for the City Auditor, City Attorney, and Finance Department to properly review and monitor these funds to ensure compliance with Federal requirements and guidelines.
- f. **Community Based Organization (CBO) Partnerships:** The City of San José recognizes the value of working through CBO partners for the delivery of strategic services. To deliver these services it is important that our CBO partners are financially healthy, accountable, and receive as appropriate, technical support. The City Manager is directed to have the Partnership for Strategic Civic Engagement report their work on CBO oversight to the Rules and Open Government Committee within 90 days.
- g. **Essential Services Preservation Fund:** Set aside \$500,000 of one-time funds that may be used for the purpose of supporting services that are of essential importance to the residents but do not fall under protected funding sources. Services deemed essential by the City Council may be maintained with the use of one-time funds.
- h. **Healthy Neighborhoods Venture Fund (HNVF) Program:** Unanticipated settlement funds will allow for the HNVF Program to resolve cash flow issues in the HNVF so the

annual loan from the General Fund will no longer be required. The City Manager is directed to expedite the General Fund Deficit Elimination Plan strategy of appropriating any additional increment tobacco settlement monies that may be received into the General Fund. Approximately \$1 million may be available to be transferred to the General Fund on an on-going basis.

**General Fund Structural Deficit Elimination Plan**

At the direction of the City Council, the City Manager released the General Fund Structural Deficit Elimination Plan in November 2008. The Plan outlined specific strategies and timelines to eliminate the structural budget deficit over a five year timeframe ending in fiscal year 2013-2014. The Plan serves as a policy guide and operational blueprint to assist the City Administration and the City Council in closing the structural budget deficit while maintaining organizational sustainability. It offers the City Council and the administration options to meet the fiscal needs of the city within each fiscal year. As conditions change in the greater economy and within the San José community, the Plan also can adapt to reach the end goal of closing the general fund structural budget deficit.

The Plan has been updated to reflect revised five-year revenue and expenditure projections as outlined in the 2010-2014 General Fund Forecast. Based on these revised projections, the General Fund structural deficit is expected to total almost \$116 million over the next five years.

**2010-2014 General Fund Structural Deficit Projection (February 2009)**  
 (\$ in Millions)

	2009-2010	2010-2011	2011-2012*	2012-2013*	2013-2014*	Total
Projected Base Shortfall (Feb 2009 Forecast)**	(\$61.2)	(\$36.7)	(\$4.9)	\$6.5	\$10.1	(\$86.2)
Unmet/Deferred Infrastructure & Maintenance Needs***	(\$5.9)	(\$5.9)	(\$5.9)	(\$5.9)	(\$5.9)	(\$29.5)
Total Incremental Deficit	(\$67.1)	(\$42.6)	(\$10.8)	\$0.6	\$4.2	(\$115.7)
Total Cumulative Deficit	(\$67.1)	(\$109.7)	(\$120.5)	(\$119.9)	(\$115.7)	(\$115.7)

\* Funding for cost-of-living salary increases not factored into the last three years of the Forecast. These increases are being treated as a resource allocation policy decision.  
 \*\* Includes City's share of General Fund annual required contribution for retiree health care benefits and committed additions previously agreed upon by Council, such as addition of 25 officers annually through 2011-12 and operating and maintenance funding for capital projects coming on line.  
 \*\*\* Does not address one-time needs of \$457 million in the General Fund (\$825 million all funds).

Since the release of the Plan in November, the City has been actively refining strategies and taking steps to implement those slated in specific years. All strategies outlined are still under consideration by the Administration. The table below highlights the updated potential cost savings/revenue by strategy category and fiscal year.

Strategy Type	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	Five-Year Total
Cost Savings Strategies	\$2.5M	\$7.7M	\$7.6M	\$8.7M	\$10.1M	\$36.6M
Revenue Strategies	\$3.3M	\$6.3-12.0M	\$6.2-16.0M	\$4.0-8.0M	\$4.0-8.0M	\$23.8-47.3M
Service Reductions/ Eliminations	\$61.3M	\$22.9-29.6M	\$9.4M	\$0.0M	\$0.0M	\$93.6-100.3M
Total	\$67.1M	\$36.9-49.3M	\$23.2-33.0M	\$12.7-16.7M	\$14.1-18.1M	\$154.0-184.2M

The General Fund Structural Deficit Elimination Plan is a working and evolving blueprint. Although no strategies have been dropped from consideration, many new ideas have been proposed and considered. The Plan will continue to evolve as strategies are fully developed. Through budget balancing ideas submitted by city departments and residents, several new ideas have emerged and are currently under study by the City Manager. Direction and discussion of other proposed ideas are discussed below.

- a. **Layoff and Service Reduction Alternatives:** In dealing with our shortfalls, layoffs and service reductions over the next few years could be the most extensive the city has seen in years. I thank our employees for their ideas and suggestions thus far. We need to continue to work together to preserve services and minimize layoffs and help minimize the impacts of a very difficult year to the public. The City Manager is directed to continue discussions with our employees on creative alternatives and solutions to avoiding layoffs and service reductions.
- b. **Sales Tax:** One proposal considered during the Telephone Survey and the Neighborhood Association and Youth Commission Priority Setting Session, was a local sales tax to be used for general operations. Considerable support was expressed among the phone survey and neighborhood association leaders for pursuing a tax. It is estimated that a one-half percent increase would generate \$68 million; while a one-quarter percent increase would generate \$34 million. However, the City Council and administration should consider that the recent passage of the State budget included a sales tax increase of 1%, bringing the Santa Clara County rate to 9.25%. The City Manager should conduct additional analysis, such as another poll on a lower tax increase or a sunset clause, before including the sales tax in any future years of the Plan.

- c. Construction Excise Tax and Building and Structure Construction Tax:** The Construction Excise Tax is assessed on the construction, alteration, repair or improvement of any building or structure. The Building and Structure Construction Tax is imposed upon the construction, repair or improvement of any building or structure where a building permit is required. The Municipal Code stipulates the calculation on valuation tables published by the International Conference of Building Officials (ICBO). The ICBO last published a table in 1997 and the International Code Council (ICC) is now the industry standard and publishes updated building valuation tables. Based on current projections, it is estimated that updating the valuation tables would generate \$3 million to \$3.7 million annually for general fund uses and traffic capital program activity. The City Manager is directed to review this proposal for possible consideration in 2009-2010.
- d. Disposal Facility Tax:** This strategy could both raise the Disposal Facility Tax (DFT) rate to partially adjust for the consumer price index (CPI) and broaden it by removing most "cover material" exemptions that have been added over time. By ordinance, the city established the DFT in 1987 and revised the tax to its current rate of \$13 per ton. The flat rate structure has not been adjusted with the CPI. The City Manager and City Attorney are directed to review this proposal for possible inclusion in a future proposal.
- e. Employee Suggestion Program:** The Employee Suggestion Program encourages city employees to develop and submit proposals for the improvement of city operations. The strategy ideas produced by city employees are often times an integral starting point for a leading edge program in the City of San José. A program like this can generate up to \$1 million in annual savings and raise employee morale, while fostering a commitment to continuous improvement. Through the Beyond Budget Cuts Program the City Manager and city employees have been developing an Employee Suggestion Program. The City Manager is directed to bring forward a program for City Council consideration in June 2009 and include funding in the upcoming proposed budget to support this program.
- f. Restructure Business Tax:** A full restructuring of the business tax is a proposal from the General Fund Structural Deficit Elimination Plan. The stakeholder group expressed an interest in looking at a potential restructure of the tax in the future. The group felt that first the city must thoroughly examine its policies and procedures, streamline and improve those that are burdensome to business, and make improvements before going to the voters for approval. The City Manager is directed to continue to work with stakeholders to improve our processes before considering going to the voters for approval of a business tax increase.
- g. RDA Support of General Fund:** The RDA already funds many capital projects and services. Through the Project Services Memorandum process, the Agency also contracts with city departments, such as Public Works to complete eligible capital projects. While the Agency itself has an adopted Capital Budget and is experiencing budget constraints, there are opportunities to do more projects both within and adjacent to Redevelopment Project Areas, such as LED lighting projects and on-street parking controls, which will not adversely impact existing Agency programs. The City Manager and Redevelopment Agency Executive Director are directed to explore the potential of other city projects that

could be eligible for RDA funds, giving consideration to the RDA budget constraints and limitations under state law. Our goal should be to maximize opportunities for RDA support of capital projects and services with \$1-2 million at a minimum as our goal.

- h. Billboard Advertising:** One proposal considered and supported during the telephone survey and Neighborhood Session was an increase in billboard advertising in the city. This proposal could add at least \$4 million in additional revenue to the General Fund to continue and preserve vital programs. However, additional billboard advertising could change the character of our city. Before including this proposal in future years, the City Manager is directed to conduct business and community outreach.
- i. Additional Proposals:** The City's Structural Deficit Elimination Plan is an evolving document designed to be amended as ideas are implemented and new suggestions arrive. If approved by the City Council, my office and the City Manager's Office will conduct outreach to Council Districts over the next couple of months. The Community Budget-Working Group will also be proposing ideas for solving our structural budget deficit and we welcome their suggestions. The City Manager is directed to review and consider additional proposals from any ideas that may come from these efforts.

### **Redevelopment Agency**

The Redevelopment Agency continues to be a catalyst that stimulates:

- Economic Growth
- Job Creation
- Affordable Housing
- Neighborhood Improvements

The Agency's ability to operate depends on tax increment revenues from its project area assessments reported by the County Assessor in July 2009. In light of the Agency's need to fund its operations until the tax increment revenue base is known in July, I recommend the Agency prepare the Fiscal Year 2009-2010 Proposed Operating and Capital Budget and the proposed Fiscal Year 2009-2010 Capital/Program Budget and Fiscal Year 2010-12 Capital Improvement Program on August 31, 2009.

The August 31, 2009 budget would provide necessary funding for ongoing staff costs and contractual obligations to the City and County. The August 31, 2009 budget will: a. Update the Agency's future bonding capacity based on the 2009-2010 tax increment and projections for future growth, and b. Include ongoing expenditures for the Agency and contractual obligations related to the City and County in the source and use of funds summary.

## **CONCLUSION**

The overall goal of this Message is to direct Council Appointees to develop their budget recommendations that reflect the policy priorities of the Mayor and City Council. I have outlined a strategy that will balance our ability to continue to provide basic services to our community, help our economy, build strong neighborhoods, stabilize our budget, and as much as possible, prevent the layoffs of the dedicated employees who serve the people of San José. I urge approval by my colleagues.

## **COORDINATION**

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

## 2009-2010 Budget Balancing Strategy Guidelines

1. Develop a budget that balances the City's delivery of essential services to the community, including building strong neighborhoods and supporting economic growth, with the resources available.
2. Every effort should be made to resolve the projected budget deficit with ongoing revenue and expenditure solutions to ensure no negative impact on future budgets to maintain the City's high standards of fiscal integrity and financial management. One-time funding sources, however, may be used to mitigate the impact on the community or to provide time for service delivery optimization efforts.
3. Use fee increases to assure that operating costs are fully covered by fee revenue and explore opportunities to establish new fees for services, where appropriate.
4. Explore expanding and/or re-directing existing revenue sources and/or adding new revenue sources for addressing both the General Fund structural deficit and unfunded needs as outlined in the General Fund Structural Deficit Elimination Plan.
5. Focus on protecting vital core City services for both the short- and long-term. Analyze all existing services and target service reductions or eliminations in those areas that are least essential. To the extent possible, use the Analytical Framework for Service Reductions/Eliminations to assist in service delivery optimization opportunities or identify services that should be eliminated.
6. Defer any new program commitments and initiatives or program expansions, unless those program commitments stimulate the local economy, job creation, new revenues, have a significant return on investment for the General Fund, and/or are funded through redeployment of existing resources.
7. Explore alternative service delivery mechanisms (e.g., appropriate community partnerships, public-private partnerships, working with other jurisdictions, outsourcing/in sourcing services delivered by City staff, etc.) to ensure no service overlap, reduce and/or share costs, and use our resources more efficiently and effectively.
8. Focus on business process redesign to improve employee productivity and business practices, including streamlining, innovating, and simplifying City operations (e.g., using technology) through employee engagement and empowerment so that services can be delivered with quality, flexibility, and lower cost.
9. Use the General Plan as a primary long-term fiscal planning tool and link ability to provide City services to development policy decisions.
10. Continue to make community and employee engagement a priority for budget balancing idea development.
11. Assuming positions are in the right program, make every effort to eliminate vacant positions, rather than filled positions, to minimize the number of employee layoffs. As programs are reduced or eliminated, ensure that management and administration are reevaluated accordingly.
12. Explore personal services cost savings, subject to the meet and confer process where applicable, by 1) considering further incorporation of total compensation bargaining concepts into the meet and confer process and focusing on all personal services cost changes (e.g., salary step increases, benefit cost increases), 2) civilianizing more sworn positions, 3) exploring alternate benefit structures for new employees, and 4) changing employee/retiree health care benefit plan designs.

**GENERAL FUND STRUCTURAL DEFICIT  
ELIMINATION PLAN UPDATE**

<b>General Fund Structural Deficit Elimination Plan</b>							
<b>Net Impact of Strategies on General Fund*</b>							
<b>COST SAVINGS STRATEGIES</b>	<b>Fiscal Year:</b>	<b>2009-2010</b>	<b>2010-2011</b>	<b>2011-2012</b>	<b>2012-2013</b>	<b>2013-2014</b>	<b>Total</b>
<p><b>1. Optimization and Service Delivery Model Reviews</b></p> <p>Review service delivery models through example strategies below:</p> <ul style="list-style-type: none"> <li>a. Business process redesign (through employee involvement and empowerment)</li> <li>b. Use of technology to achieve efficiencies</li> <li>c. Insourcing/outourcing</li> <li>d. Streamlining</li> <li>e. Third-party program auditing</li> <li>f. Charter agencies (concept only)</li> <li>g. Employee engagement and suggestion program</li> <li>h. Use of public safety civilian positions</li> <li>i. Modify minimum Fire staffing policies where appropriate based on Fire Strategic Plan</li> </ul> <p align="right"><i>(Budget Balancing Guideline #7, 8, 10)</i></p>		<b>\$0.5M</b>	<b>\$1.8M</b>	<b>\$2.7M</b>	<b>\$3.9M</b>	<b>\$5.2M</b>	<b>\$14.1M</b>
<p><b>2. Increase San Jose Redevelopment Agency (SJRDA) support to General Fund</b></p> <p>Example ideas where SJRDA could fund projects which General Fund would otherwise support:</p> <ul style="list-style-type: none"> <li>a. Prioritize SJRDA Capital Funding for Economic Development Activities</li> <li>b. Retrofit to smart lights in SJRDA areas</li> <li>c. Modernize parking meters in SJRDA areas</li> <li>d. Shift additional economic development, code enforcement activities in SJRDA areas</li> </ul> <p align="right"><i>(Budget Balancing Guideline #4, 7)</i></p>		<b>\$1.0M</b>	<b>\$1.0M</b>	<b>\$1.0M</b>	<b>\$1.0M</b>	<b>\$1.0M</b>	<b>\$5.0M</b>

\* Does not include one-time implementation costs

**GENERAL FUND STRUCTURAL DEFICIT  
ELIMINATION PLAN UPDATE**

<b>General Fund Structural Deficit Elimination Plan</b>							
<b>Net Impact of Strategies on General Fund*</b>							
<b>COST SAVINGS STRATEGIES</b>	<b>Fiscal Year:</b>	<b>2009-2010</b>	<b>2010-2011</b>	<b>2011-2012</b>	<b>2012-2013</b>	<b>2013-2014</b>	<b>Total</b>
<b>3. Shift Healthy Neighborhood Venture Fund Funding to General Fund</b>  Assumes \$10M annual funding remains; shifts forecasted increases of tobacco settlement funds  <i>(Budget Balancing Guideline #4, 7)</i>		—	\$1.2M	\$0.2M	\$0.1M	\$0.2M	\$1.7M
<b>4. Reduce Rate of Increase in Personnel Costs</b>  Reduce personnel costs annually through strategies below and/or ideas developed from negotiations: <ul style="list-style-type: none"> <li>a. Increase time, amount and method to reach maximum compensation</li> <li>b. Implement sick leave payment modifications upon retirement</li> <li>c. Implement a two-tier retirement benefit</li> <li>d. Revise workers' compensation program</li> <li>e. Implement workers' compensation offset for public safety</li> <li>f. Revise overtime eligibility policies</li> <li>g. Implement healthcare insurance provider cost containment</li> <li>h. Reduce entry level compensation for positions for which the City receives many qualified applicants</li> <li>i. Implement health care plan modifications</li> <li>j. Modify binding interest arbitration**</li> </ul> <i>(Budget Balancing Guideline #12)</i>		\$1.0M	\$3.7M	\$3.7M	\$3.7M	\$3.7M	\$15.8M
<b>COST SAVINGS STRATEGIES SUB-TOTAL</b>		\$2.5M	\$7.7M	\$7.6M	\$8.7M	\$10.1M	\$36.6M

\* Does not include one-time implementation costs

\*\*Requires voter approval

## GENERAL FUND STRUCTURAL DEFICIT ELIMINATION PLAN UPDATE

<b>General Fund Structural Deficit Elimination Plan</b>							
<b>Net Impact of Strategies on General Fund*</b>							
<b>REVENUE STRATEGIES</b>	<b>Fiscal Year:</b>	<b>2009-2010</b>	<b>2010-2011</b>	<b>2011-2012</b>	<b>2012-2013</b>	<b>2013-2014</b>	<b>Total</b>
<b>5. Formalize and Implement a Rigorous Asset Management Program</b> <i>(Budget Balancing Guideline #4)</i>		\$0.3M	\$1.0M	\$1.0-4.0M	\$1.0-4.0M	\$1.0-4.0M	\$4.3-13.3M
<b>6. Ensure Current Fees Fully Cover All City Costs and Institute New Fees where Appropriate</b> Develop new fees/fines and bring existing fees to full cost recovery where appropriate Examples include: a. Advance planning fee b. Parking fees/fines c. Entertainment Zone Policing Plan d. Parks, Recreation and Neighborhood Services fee structure e. Existing fee/fine increases <i>(Budget Balancing Guideline #3)</i>		\$3.0M	\$2.0M	\$2.0M	\$2.0M	\$2.0M	\$11.0M
<b>7. Actively Pursue and Promote Economic Development Opportunities</b> Examples include: a. Expansions of Santana Row and Valley Fair b. Business cooperative program c. Preparing retail development sites <i>(Budget Balancing Guideline #1, 4)</i>		—	\$1.0M	\$1.0-2.0M	\$1.0-2.0M	\$1.0-2.0M	\$4.0-7.0M
<b>8. Restructure Business Tax Rates to Modernize and Reflect Current Business Profile**</b> Examples include: a. Modernize rates by indexing to current consumer price index (CPI) and raising maximums b. Restructure business tax formula <i>(Budget Balancing Guideline #4)</i>		—	\$1.0-6.5M	\$1.0-6.5M	—	—	\$2.0-13.0M

\* Does not include one-time implementation costs

\*\*Requires voter approval

**GENERAL FUND STRUCTURAL DEFICIT  
ELIMINATION PLAN UPDATE**

<b>General Fund Structural Deficit Elimination Plan</b>							
<b>Net Impact of Strategies on General Fund*</b>							
<b>REVENUE STRATEGIES</b>	<b>Fiscal Year:</b>	<b>2009-2010</b>	<b>2010-2011</b>	<b>2011-2012</b>	<b>2012-2013</b>	<b>2013-2014</b>	<b>Total</b>
<b>9. Implement Landscape and Lighting District**</b> Explore various landscape and lighting district options to cover costs related to the City's transportation infrastructure assets and operations <i>(Budget Balancing Guideline #4)</i>		—	\$1.3-1.5M	\$1.2-1.5M	—	—	\$2.5-3.0M
<b>Library Parcel Tax Renewal**</b> <i>Not a new strategy but will impact future ballot decisions; sunsets in 2014</i>							

\* Does not include one-time implementation costs

\*\*Requires voter approval; Landscape and Lighting District is mail-in ballot of property owners

**GENERAL FUND STRUCTURAL DEFICIT  
ELIMINATION PLAN UPDATE**

**General Fund Structural Deficit Elimination Plan**

Net Impact of Strategies on General Fund\*

**OTHER REVENUE STRATEGIES** *(not included in subtotal below)*

Fiscal Year:	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	Total
<b>10. Increase Revenues from Visitors Who Benefit from General Fund Services**</b>  a. Parking lot tax of 10% on City and SJRDA owned lots b. Parking lot tax of 10% on all public and private lots <i>(Budget Balancing Guideline #4)</i>	—	a) \$2.6M b) \$4.5M	a) \$2.6M b) \$4.5M	—	—	\$5.2-9.0M
<b>11. Increase Conveyance Tax and/or Shift Construction and Conveyance Tax Funding from Capital Projects to Operations and Maintenance**</b>  Increase by 50%; with a shift of up to 40% of parks allocation to park maintenance and maintaining current allocation <i>(Budget Balancing Guideline #9)</i>	—	—	—	\$5.4M	\$5.4M	\$10.8M
<b>12. Increase Card Room Tax, Increase Number of Tables, and/or Levy Tax on Card Room Bank Groups**</b>  a. Increase Card Room tax from 13% to 18% b. Increase number of tables per card room by nine and increase the tax to 18% c. Levy 18% Tax Card Room Bank Groups <i>(Budget Balancing Guideline #9)</i>	—	—	—	\$2.0-8.4M	\$2.0-8.4M	\$4.0-16.8M
<b>REVENUE STRATEGIES SUB-TOTAL</b>	<b>\$3.3M</b>	<b>\$6.3-12.0M</b>	<b>\$6.2-16.0M</b>	<b>\$4.0-8.0M</b>	<b>\$4.0-8.0M</b>	<b>\$23.8-47.3M</b>

\* Does not include one-time implementation costs

\*\*Requires voter approval

**GENERAL FUND STRUCTURAL DEFICIT  
ELIMINATION PLAN UPDATE**

<b>General Fund Structural Deficit Elimination Plan</b>						
<b>Net Impact of Strategies on General Fund*</b>						
<b>SERVICE REDUCTIONS/ELIMINATIONS STRATEGIES</b>						
<b>Fiscal Year:</b>	<b>2009-2010</b>	<b>2010-2011</b>	<b>2011-2012</b>	<b>2012-2013</b>	<b>2013-2014</b>	<b>Total</b>
<b>13. Service Reductions/Eliminations</b>  Service reductions and eliminations will be accomplished on an annual basis through the budget process which considers the goals of the City Council, and involves an outreach process within the City organization and in the community. In addition, the City will utilize the Analytical Framework for Service Reductions/Eliminations, when finalized, as discussed in this Plan.  <i>(Budget Balancing Guideline #1, 5)</i>	\$61.3M	\$22.9-29.6M	\$9.4M	—	—	\$93.6-100.3M
<b>SERVICES REDUCTIONS/ELIMINATIONS STRATEGIES SUB-TOTAL</b>	\$61.3M	\$22.9-29.6M	\$9.4M	\$0.0M	\$0.0M	\$93.6-100.3M
<b>All Strategies TOTAL</b>	\$67.1M	\$36.9-49.3M	\$23.2-33.0M	\$12.7-16.7M	\$14.1-18.1M	\$154.0-184.2M
<b>General Fund Structural Deficit Incremental Projections</b>	\$ (67.1M)	\$ (42.6M)	\$ (10.8M)	\$ 0.6M	\$ 4.2M	\$ (115.7M)
<b>General Fund Structural Deficit Cumulative Total</b>	\$ (67.1M)	\$ (109.7M)	\$ (120.5M)	\$ (119.9M)	\$ (115.7M)	\$ (115.7M)

\*Does not include one-time implementation costs