

Memorandum

TO: City Council/
Redevelopment Agency Board

FROM: Mayor Ron Gonzales

SUBJECT: 2003-2004 Mid-Year Budget Actions

DATE: February 12, 2004

Approved

Date

INTRODUCTION

Preliminary forecasts indicate that the San José General Fund (which supports essential public services including police, fire, parks, and libraries) may face a \$76 million shortfall next year due to the prolonged Silicon Valley recession. Our Redevelopment Agency has also experienced a decline in revenue projections in the current fiscal year. The state budget proposed by Governor Schwarzenegger could both increase the City's projected deficit next year and drastically degrade the Redevelopment Agency's fiscal outlook. Together, this would have a serious negative impact on programs and services that are critical to the residents and businesses of our community, including affordable housing, Strong Neighborhoods Initiative and other neighborhood services, and economic development.

During the special budget study sessions held on January 15, the Council heard from both the City Manager and the Redevelopment Agency Acting Executive Director about the current General Fund and Agency budget projections for FY 2004-2005. This provided the Council with an early opportunity for policy input on spending priorities to frame the development of budgets for the coming year.

I have stated numerous times that public safety must continue to be our highest priority for the General Fund. We also must do everything we can to balance our budget while minimizing service reductions for our residents. Although our focus must be on reductions in non-public safety areas of service, we also must do all we can to achieve greater efficiencies in our public safety departments.

We must also insure that our Redevelopment Agency can continue to provide resources to develop affordable housing, build strong neighborhoods, and foster job creation that are essential for long-term prosperity and quality of life. We must therefore continue to fight state actions that would take Redevelopment Agency resources away, and we must keep our focus on investments that generate growth in tax increment revenue to help us achieve our goals.

Based upon City Council input, this message outlines a budget strategy to make decisions now, not later, to close the projected deficit. The recommendations below provide specific direction to protect vital community services while closing the projected deficits caused by the continuing recession and the potential impacts associated with state budget actions proposed by the Governor.

RECOMMENDATION

Approve the 2003-2004 Mid Year Budget report with the following budget direction:

1. The Manager shall provide a list for approval within two weeks of 100 vacant non-uniform public safety positions in the General Fund to be deleted immediately to help save funds now while limiting service level impact.
2. The Manager shall bring forward budget reduction proposals for implementation within 30 days, rather than waiting for July 1. These include actions that would most likely be recommended for consideration later this year but could reduce more severe cuts later through early implementation. The Director has already taken actions for significant current year reductions to the operating budget of the Redevelopment Agency.
3. Use all of our Economic Uncertainty Reserve to reduce the projected General Fund deficit in the development of next year's budget if employee bargaining units agree to zero salary and benefit increases for one year by April 1, 2004.
4. Explore opportunities to accelerate the transfer of employees from General Fund services to Special Fund positions, where those transfers are likely to be proposed in next year's budget.
5. Continue with our current capital improvement plan that keeps money flowing to our economy. The Manager shall return with a plan that will defer actual operational openings of new facilities or will close existing facilities in exchange for opening new facilities that provide better service and lower costs.
6. The Manager shall explore use of the Workers Compensation Reserve to the fullest extent possible to fund employee training that could increase employee safety and reduce exposure to costs.
7. Although any fee increases must always be considered very carefully, we must look at opportunities now because of potentially long lead times for changes to take effect. The Manager and City Attorney shall start exploring the establishment of a new 9-1-1 fee, and work with neighboring jurisdictions including the County that are also moving in this direction, to determine if such a fee can be implemented in a compatible fashion throughout the region.

8. The Manager shall immediately revise the current year TOT distributions based on actual revenue received rather than on previous revenue projections.
9. The Manager shall explore employee health care options that can reduce costs to the City. For example, the City currently offers employee health care packages that include no or extremely low co-pay requirements, which contributes to the growing costs of benefits. We must do everything we can to control these costs.
10. Any reductions proposed in public safety departments shall be required to demonstrate that they will not be offset by costly overtime expenditures.
11. In conjunction with the Manager's Mid-Year Budget Report, approve all reductions in the Mayor and City Council office budgets by the same average percentage that is being implemented for non-public safety departments.
12. The Manager shall continue working closely with the County and other jurisdictions to provide services for our residents and businesses in the most efficient manner possible. We must make sure that we are not providing overlapping services with any other jurisdictions.
13. The Manager shall revisit our fee and fine structures to implement revisions that would charge non-residents a premium for our services and discourage "abusers" of services such as abandoned vehicle abatement.
14. The Director working with the City Attorney/General Counsel shall develop a timeline for the Redevelopment Agency Capital Budget that would allow the Agency Board to consider the CIP after the County Assessor has provided information on this year's assessment rolls.
15. The Director shall submit a one-year Redevelopment Agency Operating Budget (and related expenditures for City services) by May 1 to be discussed in conjunction with the City's General Fund budget process.
16. The Director shall develop the proposed Agency capital budget to increase the focus on tax increment generating investments. Our goal is to generate additional tax increment revenue to support our programs for strong neighborhoods, affordable housing, and economic development. We should aim strategically at making at least half of our redevelopment investments in programs that will lead to tax increment growth. This goal will not be immediately achievable, but can over time be attained.

BACKGROUND

This is the second year in a row where the City actually is collecting less revenue than in the previous year, unlike prior recessions that saw reductions in the growth of revenues rather than actual reductions. This is unprecedented in our recent history.

The goal of the direction outlined above for the General Fund, therefore, is to act now, realize savings today, and not wait until June to make budget decisions if we can lessen the impact on our core services next year. We must also continue to be conservative with our budget projections and ensure that we are responding immediately to the potential for additional reductions as a result of decisions made at the State level.

The personnel cost increases we face are not driven by projected salary increases or hiring. These major causes for increases include \$22 million in higher retirement costs, and the Police and Fire Retirement Board actuary is predicting another \$25 million increase in costs in 2006-2007. This is coupled with \$10 million in increased benefit costs, mainly health care, next year.

By restructuring our Redevelopment Agency budget process to correspond with the timing of accurate information related to tax increment revenue, we can have much more certainty when we move ahead with our capital improvement plan. This will require delaying our discussion of the Agency's capital expenditures until summer, but it enables us to avoid reopening the budget if the property assessments for redevelopment are lower than forecasted.

This will be our most challenging year for budget decisions that we have ever faced. We have been extremely prudent and conservative in our fiscal management during these recession years, which has allowed us so far to avoid making the most painful decisions about service priorities and the dedicated employees who serve the people of San José. But as the recession in Silicon Valley continues to last longer and be felt deeper than any economist could have predicted, and as the State of California continues to attack local government resources to help solve the monumental state fiscal crisis, we must make the very tough choices this year.

However, governing means choosing. So, I am confident that we can do this guided by the values we share with our community, our commitment to innovation and results, and our faith in the ability of this city to keep finding solutions that work.