City Council Agenda: 06-17-08
Item:

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: CITY COUNCIL

FROM: Mayor Chuck Reed

SUBJECT: **JUNE BUDGET MESSAGE FOR FISCAL YEAR 2008-2009**

DATE: June 6, 2008

Approved: Chuck Reed

Date: 6/6/08

RECOMMENDATION

I recommend that the City Council and Redevelopment Agency Board:

1. Approve the direction outlined in this memorandum for purposes of adopting a final budget for Fiscal Year 2008-2009.

2. Adopt a resolution authorizing the City Manager and Redevelopment Agency's Executive Director to negotiate and execute agreements for projects approved in the Mayor's Budget Message when amounts exceed the Manager's or Executive Director's existing contract authority.

3. Authorize the changes proposed in the following Manager's Budget Addenda and incorporate them in the adopted Budget, except in cases where the Addenda are superseded by the contents of this Budget Message.

MBA#	TITLE
2	HP Pavilion at San José Capital Budget Recommendations
3	2008-2009 Proposed Operating Budget, 2008-2009 Capital Budget and 2009-2013 Capital Improvement Program and 2008-2009 Proposed Fees and Charges Replacement Pages
4	Three-Year Structural Budget Deficit Elimination Plan - Top Priority Strategies
7	2008-2009 Proposed Fees and Charges Report Replacement Pages and Information Regarding Senior Animal Adoptions
9	Municipal Water System Cost Study
10	Municipal Code Provisions Related to Municipal Water System Reserve Funds

17	Amendments to the 2008-2009 Proposed Fees and Charges Report: Traffic Controller Fee
22	Eliminate the Proposed Landfill - All Other Non-Recycled Waste Fee from the 2008-2009 Proposed Operating Budget
31	2008-2009 Proposed Public Safety Fee Changes: Public Entertainment Fees
32	Amendments to the 2008-2009 Proposed Fees and Charges Report: Cardroom Fees
33	Unmet/Deferred Maintenance and Infrastructure Backlog Reserve Recommendations
34	Updated Information Regarding the 2008-2009 General Fund Property Tax Revenue Estimate
35	City Attorney's Office Budget Reduction Plan
37	Revolving Loan Fund
41	Recommended Amendments to the 2008-2009 Proposed Operating and Capital Budgets

INTRODUCTION

After six straight years of deficits, the City Council faces some of the toughest choices ever as we work to close another big gap between expenses and revenues, while protecting public safety (our Number 1 job) and staffing new parks, community centers, and libraries.

My Budget Message for the next fiscal year focuses on critical core services - public safety, economic development, and our crumbling neighborhood infrastructure.

As your Mayor, you have entrusted me with safeguarding the quality of life in this city. It is a privilege and honor to work in partnership with the City Council and our residents to address today's challenges and build a brighter future for our city.

San José elected us to tackle the tough challenges head-on. As we do, we must confront the difficult truth about our budget: We don't have enough revenues to do everything we want to do.

Our challenge is that every year our expenses go up faster than our revenues. And every year we cut services or delay projects to balance the budget.

To that end, we adopted a shared mission "to provide quality services, facilities, and opportunities that create, sustain and enhance a safe, livable and vibrant community for its diverse residents, businesses and visitors," and we set top priorities for our budget. This Budget Message and the City Manager's Proposed Budget reflect this shared mission.

For the seventh year in a row, we are confronted with an extremely difficult budget deficit. These budget problems may seem intractable, but with discipline and common sense, we can solve them. My pledge to you is that this administration will remain fiscally responsible and ensure the future health of our city.

Despite these challenges, we have many accomplishments to be proud of. Through my first year and a half in office we have:

- Added funding for 30 Police Officers.
- Provided $1 million in new funding for gang prevention and intervention programs through the Mayor's Gang Prevention Task Force (MGPTF).
- Started to build a new police substation.
- Unanimously adopted San José's Green Vision to improve our quality of life.
- Increased the public's access to information about the workings of city government by implementing the Reed Reforms.
- Improved the permitting process.
- Curbed the wholesale conversion of employment lands to residential uses.
- Created a healthy fiscal future for our city through successful passage of the Mayor's Budget Shortfall Advisory Group recommendations.
- Lead a successful regional effort to ensure that high speed rail runs directly from San José to Los Angeles.
- Transformed our international airport into a world-class facility and maintained customer satisfaction despite the difficulties produced by ongoing construction.
- Created a blueprint for the future by successfully launching the Envision 2040 General Plan process.
- Encouraged billions of dollars of new retail, industrial, commercial, and R&D in San José.

These accomplishments are exciting and we will continue to build on them to ensure the long-term success of San José. Residents deserve streets that are paved, parks and pools that are fully funded, and an economy that is reliable and thriving. I believe that with sound and focused decisions, we can avoid the devastating fate of cities like Vallejo and San Diego.

This Budget Message is our chance to shape the future of our city. With your help, I am confident that San José will continue to be an ideal city to live, work, and raise a family.

BACKGROUND

Article XII of the City Charter concerns Fiscal Administration. Section 1204 (b) states:

> *The Mayor shall deliver a budget message which shall include:*
>
> > *-- A statement of the fiscal priorities which the City should adopt for the ensuing year.*
> >
> > *-- Which Departments, Offices or Agencies the Mayor proposes to be expanded or to receive reduced budgeted allocations.*
> >
> > *-- Specific recommendations concerning any proposed additions to or deletions from the budget.*

Furthermore, Section 1205 requires the City Council to pass a balanced budget:

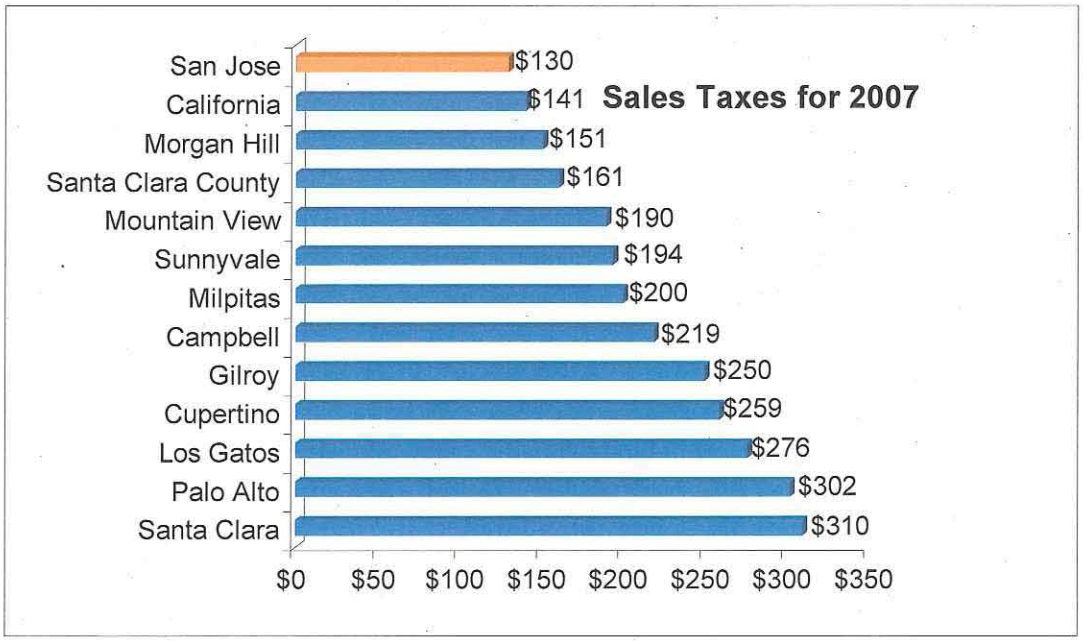
> *...The total of proposed expenditures shall not exceed the total of estimated income, estimated unencumbered balances of funds to be carried over from the preceding year and unencumbered available reserves.*

I deliver my Budget Message to you during a time when we are faced with a multi-million dollar deficit for the seventh year in a row. Despite our structural deficit, a situation where our expenditures continually outpace our revenues, we must deliver a balanced budget in accordance with the City Charter.

Just as there is no single magic bullet to fix our structural budget deficit, there are multiple reasons why the city is in this structural deficit situation. The dot-com bust, industrial land conversions, the use of one-time solutions to solve ongoing problems, growth in employee salaries and benefits, and retail leakage are just some of the many reasons why the city faces deficits year after year.

Additionally, San José lags behind other cities in the County in sales tax. For every resident, on solely an economic basis, San José receives $130 in sales tax. In comparison, Sunnyvale receives $194 per resident, Mountain View receives $190, Milpitas receives $200, and Santa Clara receives $310.

The following graph illustrates the challenges we face.



To the average resident, a simple remedy would be increased economic development. We're working hard to correct this imbalance. We've stopped the wholesale conversion of employment

lands to housing. We are attracting retail stores and corporate offices. We're bringing new green tech companies to San José.

But economic development takes time and by itself won't solve our budget shortfalls. To close a $25 million budget gap, the city would need to build either five additional malls like Valley Fair or four additional auto rows.

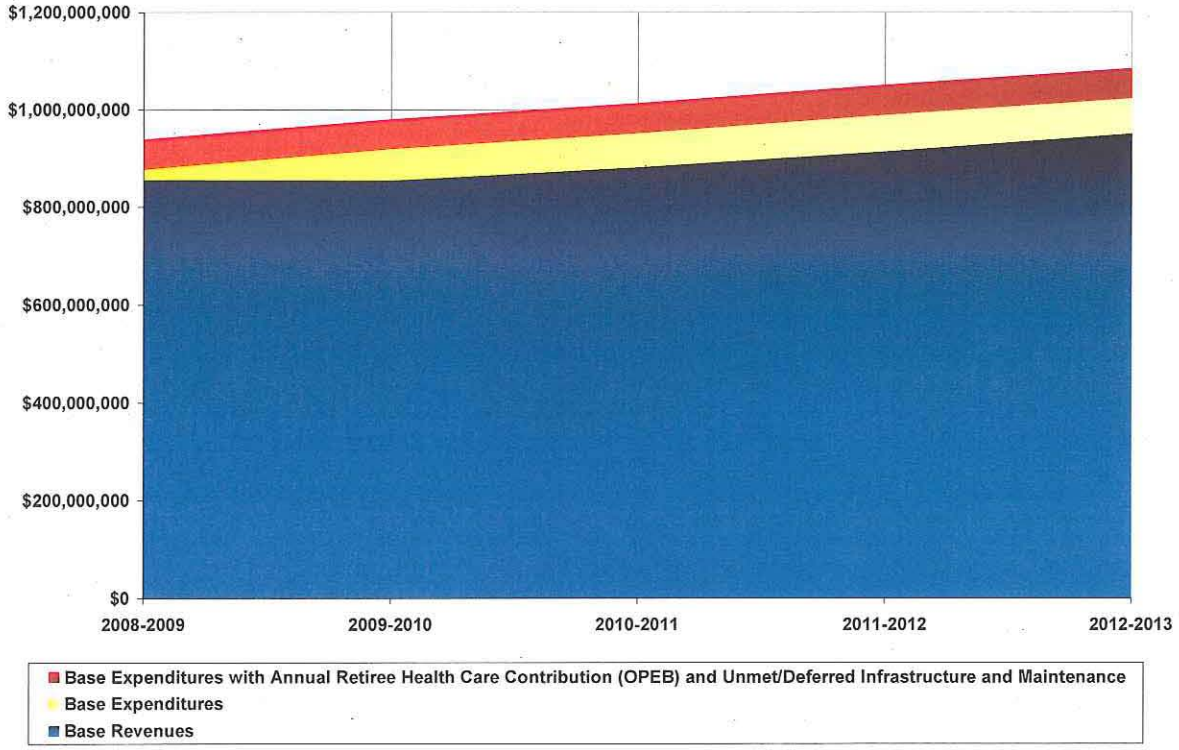
Solving the structural deficit isn't simple. However, with intelligent choices, it is possible. Other cities have solved their budget problems with layoffs and salary cuts. We won't have to if we slow the growth of our expenses, reduce costs, and grow our revenues through economic development. We can use technology to increase efficiencies, pursue public-private partnerships, and focus on core services.

This Budget Message proposes a balanced budget for next year, makes progress toward solving our long term budget problems, and reflects the priorities voiced by our residents through our community budget process.

Our Challenge

As the following chart shows, we face significant challenges in the years ahead. Even with the significant budget deficits of the past decades, our spending has gone up faster than our revenues.

2009-2013 General Fund Forecast



This year's deficit is $29.64 million. This deficit is composed of $23.36 million in service expenditures that we do not have resources to pay for and a shortfall in General Fund cost recovery development fee programs that equals $6.28 million. City Council policy requires that the development programs recover 100% of the costs of development review and inspection.

The cost of the structural deficit over the next three years is $115 million. This amount includes the annual budget deficit projected in each of the coming fiscal years and two other items: annual funding to meet the commitments the city has made to our employees to cover health care benefits for retirees and annual funding for investments in infrastructure like neighborhood streets, parks, and community centers that we have been deferring or ignoring for years.

Due to Governmental Accounting Standards Board (GASB) Statements 43 and 45, the City of San José is now required to account for our future obligations for retiree health care. To ensure adequate resources to meet the commitments the city has made for health care for retired employees, the General Fund should contribute $21.6 million in the General Fund alone each year for the next thirty years.

The City Council cannot ignore this obligation without endangering the future fiscal health of the city. These commitments are as important to our employees as our commitment to the pension fund, and we currently pre-fund the retirement funds to ensure that we can keep our commitments in the future without negatively impacting services to our residents.
Second is the ongoing deferred maintenance and infrastructure need of $40.2 million. However, it is critical to note that this number does not allow us to meet our deferred maintenance and infrastructure backlog, only to address future needs which will develop if current budget trends continue. We also have a backlog in the General Fund of over $500 million for repairs and other work to fill potholes, fix our streets, and get our buildings, parks, and pools back into good condition. If we include sewers, storm drains and other infrastructure that is funded by enterprise funds, the city has *nearly $1 billion* in one-time unmet/deferred infrastructure and maintenance needs.

The structural deficit also does not include the San José Police Department Five-Year Staffing Plan. Fully funding this plan requires an annual ongoing amount over $120 million. This sum amounts to roughly 15% of the General Fund.

Finding Solutions

San José cannot become a great city unless we eliminate our structural budget deficit.

The City Council and our community understand that without implementing immediate strategies to solve the structural deficit, the city would be forced to balance the budget solely by cutting services.

Last year, we started the bold and tough work of tackling our long-term deficit challenges. In March, the City Council unanimously tasked the City Manager and her General Fund Structural Deficit Task Force to work with my newly appointed Mayor's Budget Shortfall Advisory Group (BSAG) The groups were tasked with reviewing the budget from top to bottom to find options

and alternatives to solve the General Fund structural deficit. Everything was on the table, and every option was to be considered.

The Budget Shortfall Advisory Group's recommendations, which were unanimously passed by the City Council, created a Stakeholders Group to review the advantages and concerns of the policy recommendations outlined in a report from consultant Management Partners. Additionally, the Budget Shortfall Advisory Group recommended that the City Manager solve the $115 million structural deficit over three years by setting planning targets for one-third of the needed funds to come from each of the following three areas: 1) Revenue Increases (including economic development), 2) Service Reductions, and 3) Cost Savings.

The Three-Year General Fund Strategic Plan Stakeholder Group has conducted four productive meetings to date. This group is composed equally of members from labor, employees, business, taxpayers, non-profits, and neighborhood leaders. I'd like to thank Councilmember Pete Constant for chairing the group, and all of the stakeholder members for their excellent insights and contributions so far into the process. The City Manager will release a report in November detailing all of the advantages and concerns of the potential strategies to address the structural deficit.

This work to solve the structural deficit followed the Council's unanimous decision to involve our residents more deeply in the budget process by approving Reed Reform Nos. 29 to 32 which outlined a new community based budget process. Outreach to constituents and stakeholders is a key component of both the work to address the structural budget deficit and the annual community budget process. Over the past year, key outreach has included:

- Input to the City Manager's task force from the City's Senior Staff, the City Labor Alliance, employees, and community and business groups (including city boards and commissions).
- An electronic survey on the structural deficit conducted October 26, 2007 to November 9, 2007. The survey generated 2,033 responses from employees and 656 responses from the community.
- The 2008 Community Budget Survey. The survey was conducted by Fairbank, Maslin, Maullin & Associates from January 7 to 13, 2008. More than 1,005 San José residents were asked about the quality of city services, the city budget, priorities for increases or cuts in city spending, attitudes toward budget-related policy issues, and a number of demographic questions that allowed analysis of survey results according to demographic and geographic subgroups.

The survey showed that residents are significantly more aware of the city's budget deficit: 53% believe the city will start its budget process with a deficit, compared with 35% of residents in 2007. Additionally, it revealed that many revenue enhancements such as fee or tax increases would face an uphill battle if placed on the ballot.

The second Neighborhood Priority Setting Session was held on January 19, 2008 at City Hall. More than 120 neighborhood association leaders participated in a discussion about the budget

challenges facing the city and options for addressing the structural deficit. The forum also allowed members to share ideas regarding service priorities.

- For the second year in a row, the City Council and city staff conducted a Priority Setting Session.

- My staff has led informational budget meetings in every Council District, working in partnership with the Councilmember and the City Manager's Office. These insightful meetings provided valuable information about the priorities that residents hold dear and reflect those values in these recommendations.

Priorities

The City Council reaffirmed the following five three-year goals during the priority setting session, reflecting input received from the community and stakeholders. These are (not in priority order):

- Regain our status as the safest big city in America.
- Eliminate the structural budget deficit.
- Reduce deferred maintenance and the infrastructure backlog and develop a strategy to improve the infrastructure.
- Increase economic vitality.
- Provide full funding for parks, pools, community centers and libraries, including maintenance, operation and development.

I am proud to say that all of the hard work and intelligent discussion about the city budget has helped create this Budget Message. I've listened to your ideas and priorities, which are reflected in this Message.

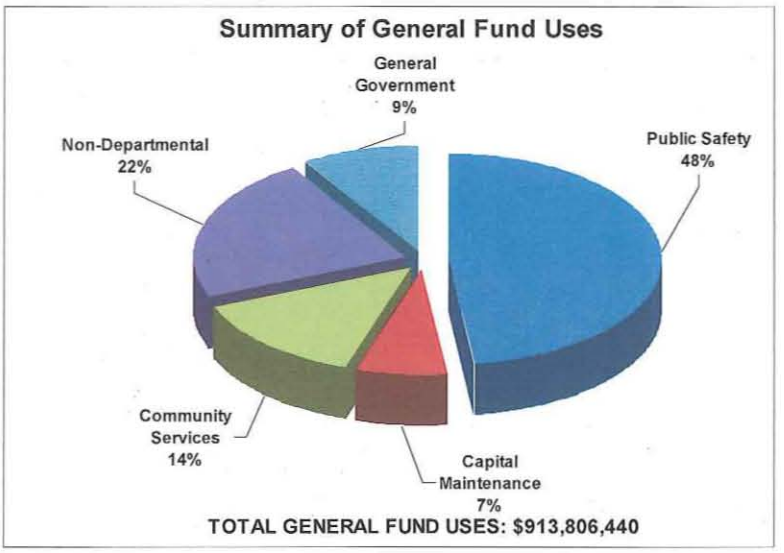
By working together, we can address these challenges. Residents, businesses, employees, nonprofits, and taxpayers, all can help solve our budget problems. We all have to work together. When we do, we will eliminate our structural budget deficit and build a strong and vibrant future for the City of San José.

INVESTMENT AND REDUCTION STRATEGIES

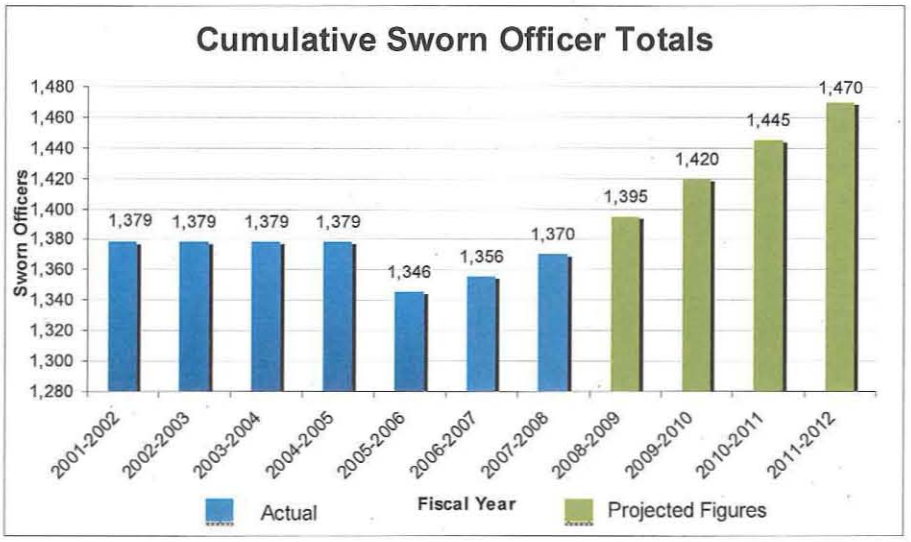
1. Protecting Our Neighborhoods

Public Safety is the top priority of our neighborhood residents and our City Council, and we demonstrate this priority by allocating 48% of our General Fund budget to Public Safety as detailed in the chart below. Despite our budget difficulties, spending on public safety has continually increased over the past decade. We must also understand that public safety extends beyond the Police and Fire Departments. Maintaining a safe and healthy city is also about the community services we provide, such as keeping our libraries and community centers open and

maintaining our parks. We dedicate 14% of our General Fund budget towards providing community services to our residents, and we must balance our needs in our public safety departments with other needs in our community. The Police Department has a staffing plan, but it would cost over $120 million per year. That's more than San José spends on libraries, parks, community centers, senior services, gang prevention, and street repairs combined.



Keeping a city safe is a challenge that all big cities are facing. There is not a one size fits all solution to crime and violence, but don't be mistaken, as our city grows, we should continue to grow our Police Department. To keep our residents safe and secure, we must make long-term plans to keep pace with our growing population. **I pledge to add at least 100 new officers to our Police Department by 2012.**



This pledge to add 100 new officers will increase the size of the department to new levels as detailed in this chart. For years the number of sworn officers in San José had remained stagnant, while our department budget grew 75%. This fiscal year, the Police Department will grow to 1,395 police offers and reach an all-time high. Under the leadership of this City Council, public safety is moving to the center of the policy agenda.

Maintaining a safe city involves more than adding officers, we need to continue our investment in preventing crime and helping at-risk youth to find alternatives to getting involved in gangs. I committed to reaching out to the residents of San José to hear first-hand what our neighborhoods need to ensure they feel safe, are prepared for emergencies, and are aware of the resources available to them. Since my March Budget Message, my office, in coordination with the City Manager, Parks, Recreation and Neighborhood Services (PRNS), and the Police Department have reached over 1,200 residents through the Mayor's Gang Prevention Task Force (MGPTF) Town Hall Meetings and Youth Focus Groups. These efforts were launched to solicit

community solutions to our community problem of gangs and youth violence. In my March Budget Message, I recommended, and the City Council unanimously accepted, the following:

i. Provide funding for 15 additional Police Officers.
ii. Add $1 million dollars in on-going funding for the Mayor's Gang Prevention Task Force.
iii. Designate $1 million in one-time funds for needed neighborhood improvements.
iv. Minimize reductions for critical police services in patrol, gang and violent crimes investigation, truancy abatement, and burglary suppression.
v. Maximize the use of civilian positions to increase the number of sworn officers in the field.
vi. Maintain funding for school crossing guards to the extent possible.
vii. Fully staff the Anti-Graffiti and Anti-Litter Programs.
viii. Develop a Pilot Role Model Program.

These items have been included in the City Manager's Proposed Budget. In Fiscal Year 2007-2008, we added an additional $1 million dollars in one-time funding for the MGPTF -- a 33% increase and the first increase the program has seen since 1999. This additional funding has allowed us to extend the hours at one community center per police division to target at-risk youth, resulting in 105 youth leaving the gang lifestyle. This funding was also used to provide a much-needed and much-deserved cost of living adjustment to the 23 Community Based Organizations that partner with the MGPTF. Through these critical services we have been able to see a 27% decrease in violent gang-related incidents from January to April when comparing our statistics from 2007 to those of 2008.

In hearing from our community, it is clear that there is still more that can be done to ensure the safety of our residents. Even in tough budget times, we must make every effort to keep our residents safe. We don't have enough money to do everything we want, but we need to spend more money on public safety. I recommend the following be incorporated into the Fiscal Year 2008-2009 budget to move forward both our long-term goals and immediate needs for public safety:

a. **Growing our Police Department:** We must continue to strategically add sworn and civilian staffing to the Police Department to maximize patrolling of our most violent Policing Divisions. Direct the City Manager to add funding for an additional 10 sworn positions, bringing the total for new officers for FY 2008-2009 to 25. Should the City Council approve my recommendations, police staffing will be increased by funding for 40 additional sworn officers since FY 2006-2007. Our new substation will help by putting officers closer to the neighborhoods and making the department more efficient, but we can continue to do more. We added a new traffic enforcement team that will join patrol of our neighborhoods in January 2009 and also aide us in helping to keep our residents safe. We need more civilian support to help our beat officers, so we can make better use of the officers we have. (First year: $661,865; On-going: $1,154,164).

b. **Proactive Public Safety Recruitment and Training Efforts:** We know that simply adding officers is not enough. We need to increase our recruiting efforts to make sure we are able to hire the positions we authorize and we need to review what is necessary to make our recruitment efforts both successful and competitive. The Police and Fire Chiefs

should have adequate resources available to ensure sufficient outreach to a diverse range of potential candidates can be completed. Direct the City Manager to bring forward a Human Resources Department analysis to the Public Safety, Finance and Strategic Support Committee in early fall of 2008.

We know that the Police Department will be faced with a large number of retirees in the upcoming years. Before we are faced with this issue, we must devote time and attention to developing a Recruitment and Training Strategy. This strategy should build upon the success we have seen this year by seeking applicants from out of state. It should also explore ways that we can accelerate the training process through changes in methodology or available resources. I recommend that $75,000 in one-time General Fund money that remains from the Downtown Soft Close Pilot Program be re-budgeted to implement this strategy.

c. **Downtown Nightlife:** Direct the City Manager and Redevelopment Agency Executive Director to work with operators of nightlife businesses in the Downtown to create a funding mechanism and staffing scope of services for a new Downtown Nightlife Staffing Model that would improve the nighttime experience Downtown while reducing the reliance upon the General Fund for nighttime policing costs.

   The goal would be to improve the downtown atmosphere where residents, businesses, customers, and police coexist while maximizing cost recovery without compromising public safety or damaging economic viability. This should be brought before the City Council in September for consideration.

d. **Proactive Code Enforcement in the Downtown:** Direct the City Manager and the Redevelopment Agency Executive Director to implement a proactive approach to Code Enforcement, in coordination with the Police and Fire Departments, to ensure that nightclubs and bars are in compliance with existing Conditional Use Permit requirements. They should also respond to potential public nuisance complaints from businesses and nearby residents. The Department of Planning, Building and Code Enforcement and Redevelopment Agency staff should conduct an outreach and education program for property and business owners. A report on these enhanced efforts should be brought to the September 18, 2008 meeting of the Public Safety, Finance and Strategic Support Committee. I recommend that $86,000 in one-time money be allocated from the Redevelopment Agency. This funding should expand the program to perform the tasks outlined in MBA # 15, with proactive inspections being monthly instead of quarterly.

e. **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 should continue to evaluate the feasibility of implementing cost-effective programs that are in place in other jurisdictions, explore alternative funding sources such as state and federal grants, and work with the Schools/City Collaborative to come up with a solution to ensure the safety of our children. In addition, the City Manager is directed to evaluate which of our middle school intersections could be adequately secured with the installation of pedestrian activated crosswalks and to bring this back as part of the Mid-Year Budget Review. This

will ensure currently unstaffed intersections and the middle school program are reinstated. (BD #5, 25, 36 $313,096)

f. **Crime Prevention and Intervention:** We must maintain our crime prevention and intervention programs through the Police Department and Parks, Recreation and Neighborhood Services (PRNS) in order to prevent youth violence and to intervene in gang incidents. To ensure we are maximizing our resources and achieving our shared goal of reclaiming our youth, we must continually hold these programs to high performance measures and continue to explore where there may be possible duplication of services.

   Direct the City Manager to reinstate $185,027 in one-time funding for four Crime Prevention Specialist positions to maintain the Challenges and Choices Program. The City Manager, with collaboration from the Police Department and PRNS, is directed to bring performance measures and a description of the program to the Public Safety, Finance and Strategic Support Committee on September 18, 2008. (BD# 5, 19, 26 $185,027)

g. **Civil Gang Injunctions:** As we increase our prevention and intervention efforts, we must not allow our suppression efforts to decrease. As a community we must send a clear message that gangs and violence will not be tolerated in our neighborhoods. Direct the City Attorney to partner closely with the MGPTF to ensure we are fully utilizing this option for protecting our residents.

h. **Enhance our Truancy Abatement Programs:** This year we added greater emphasis to our efforts to combat truancy. This has required a great deal of collaboration with many stakeholders in the County, school districts, and the County Office of Education. We are currently in the process of developing a system to further enhance our abilities to track youth who are not in schools. Direct the City Manager to allocate $50,000 in General Fund one-time funding to PRNS for San José BEST to administer this program.

i. **Continue to Combat Graffiti**: PRNS has launched a joint effort with the County's Department of Probation through the MGPTF Interagency Collaboration Subcommittee to revamp our efforts to combat graffiti. As we continue these efforts, we must look for ways to enhance the number of Juvenile Offenders that go through our Anti-Graffiti program. Direct the City Manager to continue to bring forward innovative strategies, such as those in MBA #18 to address this city-wide problem and reduce graffiti in our City by 50% during the next fiscal year.

j. **Pilot a Summer Safety Initiative**: As our schools begin to let out for the summer, it is vital that we provide all youth with recreation opportunities. These programs must be inclusive of all youth and address prevention, intervention, and suppression. Typically, it is our low-risk youth who participate in our city's summer activities. This pilot would allow for our MGPTF staff to outreach to both gang-impacted and gang-involved youth. Programs, such as our extended hours at community centers, will be expanded or created to specifically target this under-served population.

This is a critical time for our community based organizations, both those that are BEST funded and those that are not, to make a significant impact on our youth. I recommend that we allocate $242,804 in General Fund one-time funding to PRNS for San José BEST's MGPTF Emergency Reserve to administer the Initiative immediately.

The program would be initiated through mini-grants that are awarded by a simplified RFP Process. The pilot would run from July 1 - September 30, 2008. Some elements that the program could entail are:

- Redeployment of our Safe School Campus Initiative (SSCI) staff to our parks and community centers located in Hot Spots.
- An increased level of street outreach.
- Block Parties co-sponsored by our local faith-based communities that will include the City of San José's Mobile Recreation Unit, SSCI staff, and the Police Department's Crime Prevention Services. This funding will allow for at least one event to take place in a Hot Spot in each Council District.
- Greater collaboration between MGPTF and the Police Department to provide information on Crime Prevention at National Night Out events city-wide.
- Sports tournaments and youth outings.
- Extended hours programming at community centers in Hot Spots.

The City Manger and the City Attorney should collaborate with my office and PRNS to ensure that this program can be off to a swift and successful start. Staff is directed to provide an update on these efforts at the MGPTF Policy Team meeting on June 27, 2008.

For this program to be successful, we must come together as a city and make it a priority to keep our youth active and keep our kids safe this summer. We must utilize all of our shared resources as a community.

k. **Fire Stations 6 and 37**: Direct the City Manager to reallocate $800,000 from the General Fund Future Capital Projects (FF&E) reserve to a separate General Fund Fire Station 37 allocation to complete Fire Station 37 and ensure the construction schedule remains on track. In addition, the City Manager is directed to reexamine the decision to proceed with the sale of Fire Station 6 upon award of a construction contract for Fire Station 37. The reexamination to proceed with the sale of Fire Station 6 should be done in accordance with any Asset Management policies in effect at that time.

l. **Maximize Efforts of Community Policing:** To ensure we are fully utilizing our community policing efforts, we must evaluate the effectiveness of our Community Policing Centers. We must review our current and proposed operations with their actual outcomes and look at how much money is being spent on these centers and how many officers are needed to staff them. We should consider if the goals of community policing would be more adequately served by changing our strategy to incorporate existing community centers instead of separate centers. We must also consider whether we might make our crime prevention services more accessible to the community by relocating them

to community centers. I recommend that the City Manager bring this analysis to the Public Safety, Finance and Strategic Support Committee on December 18, 2008 for consideration.

m. **Pilot a Community Responsibility Council and Develop a Transition Center:** For the first time this year, we have a representative from the County Board of Supervisors sitting on the MGPTF. We now have District Attorney Dolores Carr taking an active role in the Task Force. Their active engagement has enhanced our collaborative efforts. Collectively, we have identified a need to develop and implement community justice models, including a pilot Community Responsibility Council (CRC) program and development of a Transition Center aimed at redirecting first time offenders, in order to:

- Fill a gap in services for low-level youthful offenders.
- Provide a more timely response to youth cited and released.
- Partner with community members in community justice.
- Prevent further saturation of youthful offenders in the juvenile justice system.

I recommend allocating $150,000 in a one-time General Fund allocation to PRNS for San José BEST to match the County's earmark of $100,000 for this pilot program.

n. **MGPTF Year End Summit:** At our Town Hall Meetings, the community expressed a strong desire to increase our resources for parents. Under the leadership of Councilmember Nguyen and community member Cora Tomalinas, the Community Engagement Subcommittee of the MGPTF will develop a Year End Summit for parents and community groups to share best-practices. I recommend allocating $25,000 in one-time funding to PRNS for San José BEST.

o. **Implement Cameras in Hot Spots**: In other cities, portable cameras have been useful tools to help dismantle gangs, decrease gun and drug trafficking, and combat graffiti and traffic violations. I recommend that the City Manager and Redevelopment Agency Executive Director develop a plan to utilize cameras in our Strong Neighborhoods Initiative area's Hot Spots. I recommend the allocation of $84,000 in one-time Agency funding for this plan.

p. **Domestic Violence**: Our faith-based community and the MGPTF can be a valuable asset in reaching out to residents who want to break the cycle of violence. The City Manager is directed to ensure we are utilizing our faith-based community and the MGPTF to make our residents aware of the resources we have available and identify concrete examples of how all stakeholders can mutually support our efforts to eliminate domestic violence.

q. **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. The City Manager is directed to return to Council with next steps on how to increase the effectiveness and cost recovery of these fines.

r. **AFR/RMS System**: The management of data throughout the Police Department is challenging. They are 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 its data and case management, crime analysis, meeting reporting requirements, and response to public requests for information.

   Direct the City Manager to conduct an assessment of the reports the Police Department currently assembles and ways to speed up the process. These are reports that would be compiled with much less staff time if we had an AFR/ RMS system, but in the interim the Chief should develop a proposed timeline that would allow for all necessary reports to be completed.

s. **Student Guide to Police Practices:** This guide has been developed by the Independent Police Auditor (IPA) in collaboration with the San José Police Department and the City Manager's Office. The guide is used for outreach and guidance to youth throughout the city, and in particular to at-risk and gang-impacted youth. The City Manager and the Independent Police Auditor have recommended a re-budget in MBA #41 to help fund translation and printing of this guide.

t. **Children's Mobile Health Clinic:** I recommend one-time funding of $42,000 to the South Bay Children's Medical Center Mobile Health Clinic. Funds would help continue the critical medical services and immunization screenings at the clinics and the mobile clinic. (BD #23, $42,000)

u. **Kirk Community Center Minor Improvement Project:** The Kirk Community Center is a hub for community development activities, supporting neighborhoods, and providing services and support to strengthen the community. The Center is in need of $2.9 million in repairs. I recommend a one-time set-aside of $250,000, in addition to the $1.97 currently in reserves, to help fund this project.

v. **Tully Branch Library Sunday Hours:** In June 2008, the Seven Trees Library and Solari Community Center will be demolished in order for construction to begin on the new Seven Trees Community Center and Library. Construction is expected to last approximately two years. During this period the nearby residents will likely use Tully Branch Library heavily. To help with the additional library patrons at Tully Branch Library, I recommend the City Manager allocate $120,000 to provide Sunday hours at the Tully Branch Library for two years. (BD#16, $120,000)

w. **Community Translation/Interpretation and Meeting Spaces:** San José is a diverse City. As we make more information available to the public and increase our community engagement, we must ensure we are doing so in a variety of languages and settings.

Direct the City Manager and Redevelopment Agency Executive Director to evaluate what level of support they can offer to not only the Mayor and Council Offices, but city-wide to ensure adequate translation/interpretation services and meeting spaces for our residents. Allocate $50,000 in one-time General Fund money for these services.

x. **CAP Grants:** In the proposed budget, the CAP Grant program is funded for the next three fiscal years. Direct the City Manager to provide status on the CAP grants annually to the Neighborhood Services and Education Committee.

y. **Addition of Code Enforcement Inspector:** Weed and Seed is a federally funded program that covers Districts 5 and 8. This area is susceptible to becoming a safe harbor for illegal dumping and vehicle abatement. The City Manager is directed to fund $128,000 for the one-time General Fund addition of a Code Enforcement Inspector for the Weed and Seed area. (BD #40, $128,000)

2. Community and Economic Development

San José must remain the Capital of Silicon Valley, and Silicon Valley must remain the innovation center of the world. That will not happen without a collaborative effort to encourage and facilitate private sector investment.

Since the job loss and economic contraction of the dot-com bust, we have made great strides to invest in making San José's economy strong and vibrant. Our economic development strategy is working. Silicon Valley businesses, investors, and developers are making major investments in new projects in our city - more than $5 billion in the last 18 months in North San José, Edenvale, and Downtown alone. More than 6 million square feet of new office space is under construction, approved, or in the permit review process in North San José, along with nearly 9,000 housing units. In Downtown, 900 new high-rise housing and 300,000 square feet of office development is under construction.

We previously approved investing $10 million to renovate our historic Civic Auditorium to create a first-class, live music venue which will bring visitors to our hotels and restaurants. We are also moving forward with plans to expand and modernize our Convention Center to make it competitive.

The city can also help spur investment. First, we can make San José the best city in the Bay Area in which to create and grow a business. We must continue our efforts to make our permitting process easier and faster.

As we look long-term, one of our most important strategic initiatives is San José's Green Vision, which is our roadmap to become the world's center of innovation in clean green technologies with 25,000 Clean Tech jobs.

We can help grow business. San José's Green Vision, unanimously approved in October, is an ambitious plan to build the economy and protect the environment, with a key goal of creating 25,000 new Clean Tech jobs and growing local Clean Tech companies. Our retail strategy will

help close the leakage of sales tax dollars to other cities. Our BioCenter will expand to allow more bisoscience start-up companies to locate and grow in San José. We can proactively reach out to our existing corporations, encouraging our San José/Silicon Valley companies to stay here and grow here.

Every dollar that we invest in economic development must support and sustain economic expansion and promote strong growth in jobs, income, and revenue to San José. We must continue to pursue opportunities that encourage a vibrant economy; provide access to a diverse range of arts, cultural and entertainment offerings; increase the number of jobs; create and preserve healthy neighborhoods; and offer a diverse range of housing opportunities.

My goals for economic development are simple: We need to re-invest in our city and we need to make it easy to do business in San José. We need to ensure that San José is a competitive place to create, innovate, and grow a business. With strategic investments, San José can be the world's center of innovation for years to come.

Reinvesting in San José

Retail Strategy: We will continue our efforts to expand the retail base in San José to stem the leakage of retail dollars outside San José. The City Manager will initiate General Plan Amendments on appropriate retail opportunity sites by fall 2008 to position these sites for development.

Teach Here, Live Here Program: The City of San José in conjunction with the Silicon Valley Education Foundation created the Teach Here, Live Here (THLH) program to provide rental assistance to teachers in the City of San José. The THLH program is designed to assist San José's 19 school districts in addition to the County Office of Education, to recruit new teachers especially those in the disciplines of math, science, and special education. The THLH program provides grants to first time teachers to help them begin their careers in San José. The program also provides grants to established teachers who are moving to San José to continue their careers here. The City Manager is directed to allocate $100,000 from existing funds within the Low and Moderate Housing Program to support this program. This program will be administered and evaluated by the Housing Department.

San José Sports Authority: Due to budget reductions, the San José Sports Authority budget has been reduced by 20% since 2006-2007. The City Manager is directed to add a one-time allocation of $100,000 to the Sports Authority to approach the actual budgeted levels of two years ago.

Neighborhood of Distinction Concept: The Planning, Building and Code Enforcement Department is currently preparing a workload assessment to determine if they have the resources available to research a concept that would provide further protection to distinctive homes and residential neighborhoods in San José. Pending this information, the City Manager is directed to reserve an amount of $50,000 in the General Fund. (BD #41, $50,000)

Opening the Door for Business

Permit Process Improvements: We have made measurable improvements in our permitting process:

- If you want a permit to open a restaurant, it will only take 14 days.
- If you want a permit to install equipment in your factory, it will only take 4 days.
- If you want a permit for new tenant improvements in your office building, it will only take 1 day.
- If you want your building inspected, we will complete it within 24 hours.

However, even with our investments, there is always room for improvement. The City Manager is directed to identify opportunities for improvement areas, identify performance measures to track our progress, and provide quarterly reports to the Community and Economic Development Committee.

Sign Ordinance: We will redirect existing resources within the Planning, Building and Code Enforcement Department to make this a top priority and provide a revised workplan, with the goal of amending the Sign Ordinance before the end of the year, and present it to the Community and Economic Development Committee in August. Regular reports to the Community and Economic Development Committee will be expected throughout the year.

BusinessOwnerSpace.com: There is currently $200,000 included in the budget for BusinessOwnerSpace.com to provide funding for continued development, maintenance, and enhancement of the website. While the website provides a valuable tool for business, I recommend that funding be reduced by $100,000 to provide fund additions and reinstatements in this Budget Message.

Proactive Outreach to Business

Retention/Outreach Program: Retaining existing businesses in San José is a priority. The City Manager and Redevelopment Agency Executive Director are directed to develop a business appreciation campaign. The City Manager and Redevelopment Agency Executive Director should also work with the Council Offices to target 300 meetings with driving industry and business support industry CEOs in 2008-2009.

Industrial Development and Retail Strategy Development: The Proposed budget includes one-time funding for two Economic Development Officer positions to support industrial development and to implement the retail strategy. These positions should be merged into one position with on-going funding. The on-going funding costs will be partially offset by changing the proposed Downtown Coordinator from on-going to one-time.

3. Environment

Last year, the City Council joined me in developing a bold and comprehensive strategy to protect the environment and stimulate the economy. Through the Green Vision, San José will show the

world that becoming more energy efficient, producing and using electricity from clean renewable sources, creating green buildings, diverting waste from landfills, creating greener street systems, delivering recycled water, and reducing greenhouse gas emissions isn't just good for the environment but is fiscally responsible. This vision includes 10 ambitious goals that will serve as a roadmap to an economically and environmentally sustainable future for our city.

The City Council can be proud of its record of environmental leadership and unanimous adoption of the Green Vision last year. Within 15 years, the City of San José in tandem with its residents and businesses will:

- Create 25,000 Clean Tech jobs as the World Center of Clean Tech Innovation.
- Reduce per capita energy by 50 percent.
- Receive 100 percent of our electrical power from clean renewable sources.
- Build or retrofit 50 million square feet of green buildings.
- Divert 100 percent of the waste from our landfill and convert waste to energy.
- Recycle or beneficially reuse 100 percent of our wastewater (100 million gallons per day).
- Adopt a General Plan with measurable standards for sustainable development.
- Ensure that 100 percent of public fleet vehicles run on alternative fuels.
- Plant 100,000 new trees and replace 100 percent of our streetlights with smart, zero emission lighting.
- Create 100 miles of interconnected trails.

By implementing our Green Vision, San José will continue to be an environmental leader by providing thoughtful programs and policies. Additionally, our utilities are a key component of city services that should be reliable and affordable. To achieve our goals, I recommend the following:

a. **Green Vision:** The Proposed Budget contains a one-time General Fund allocation of $1.4 million to support the Green Vision goals. As we evaluate investments in the Green Vision, our priority should be to make investments that either will generate significant returns, such as through energy savings or where there is great potential for long-term success. My recommendations reduce the need for funding from $1.4 million to $900,000; savings from my recommended changes will be used to fund other recommendations in this Message. Due to reductions in funding, the City Manager shall be given flexibility in shifting funds with the community outreach and education, green materials testing for trails and infrastructure and the implementation/coordination of Green Vision across city operations appropriations. My specific recommendations regarding Green Vision investments are below:

    - **Energy Efficiency Projects for City Hall and City Facilities:** By making multiple small investments in energy efficiency projects, we expect to recoup our costs within two to four years and save significantly in annual energy costs. Such projects will result in net savings to the General Fund. Initial projects include improvements to the City Hall Heating Ventilation and Air Conditioning (HVAC) system and controls so

the equipment operates more efficiently. An initial one-time investment of $80,000 to improve the City Hall HVAC system and controls will generate an ongoing savings of more than $20,000 per year. Additional projects to reduce energy usage at city facilities will include improved lighting, heating and cooling systems, and control systems. In addition to the ongoing cost-savings, this proposal will advance Goal #2: *Reduce per capita energy use by 50%.* I recommend $275,000 be allocated for these efforts.

- **Department of Energy (DOE) Solar America City Matching Grant:** This investment provides a local match to an award of direct financial and technical assistance from the DOE to create a Solar City "Road Map," that would outline a broader, communitywide strategy to implement Green Vision Goal #3: *Receive 100% of our electrical power from clean renewable sources*. The matched funds will enable the city to work with stakeholders to develop criteria for implementing renewable energy projects, allowing the city to better prioritize resources to achieve policy and economic objectives. This work is key to developing San José's Solar City Plan, which may include pilot programs for financing or providing incentives to those implementing solar projects and educational outreach about solar alternatives. The city's match will leverage $200,000 of support from the Department of Energy and technical assistance of substantial value. I recommend $100,000 be allocated to this program.

- **Urban Forest Tree Planting Program:** This proposal will provide a portion of the matching funds to accept two CalFire Grants. Street trees cut energy costs for residents and businesses, increase property values, and help offset unhealthy emissions. These grants will expand San José's Urban Forest by developing Best Management Practices and furthering creation of an inventory of City Street Trees. This Green Vision investment proposal will fund a staff position for 18 months to help coordinate the interdepartmental effort to inventory trees and identify Best Management Practices. Remaining funds will be used to plant and maintain new trees throughout the city through the efforts of Our City Forest, helping improve neighborhoods and helping residents save on energy costs. This investment will leverage $219,000 of grant money from CalFire and advance Goal #9: *Plant 100,000 new trees and replace 100% of our streetlights with smart, zero-emission lighting.* I recommend $150,000 be allocated to this program.

- **Low-Income Units Energy Audits and Upgrade Incentive Program:** This proposed pilot program would target low-income residents, who traditionally have not participated in energy efficiency programs, to upgrade to more efficient household appliances and weatherize their homes. If this pilot program proves successful, additional funding to continue and expand it may be available through Energy Watch Partnerships, or grants from state or federal agencies. The energy efficiency investments typically can be recouped in two to three years and can provide substantial savings from high energy bills for residents. This proposal will

advance Goal #2: *Reduce per capita energy use by 50%.* I recommend $150,000 be allocated to this program.

- **Green Building Policy Implementation/Staff Training:** This proposal is critical to the transformation of city operations to support the Green Vision Goal #4: *Creating 50 million square feet of Green Buildings*. Investments will be made within three key areas: Staff Education, Stakeholder Outreach, and Policy Development. This proposal will provide funds for the additional staff education and a portion of the outreach required to effectively implement this goal. Funding for outreach will include developing a Guide to Building Green in San José (explaining the policy and supporting resources), portable displays, and minimal advertising to ensure the development community is well aware of the requirements and incentives available. I recommend $75,000 be allocated to this program.

- **Community Outreach and Engagement:** Achieving the ten Green Vision goals will require the awareness and participation of the entire San José community, including residents, businesses, civic organizations, and schools. Engaging people from across the community and encouraging participation and behavior change presents the greatest challenge for the city staff, but also the greatest opportunity to advance the 10 goals. Initial investment in outreach and community engagement will advance key priorities for the Green Vision including generating economic activity, reducing operating expenses, adopting sustainable practices, and improving the quality of life across the community. I recommend $50,000 be allocated to this program.

- **Green Materials Testing for Trails and Infrastructure:** This proposal includes a proactive/prospective analysis of "green" construction materials and products, such as pervious pavement, low-cement concrete, recycled asphalt, and energy efficient streetlights, for use in the City's Capital Improvement Program (CIP). Such projects have potential to save costs and create innovative solutions to existing environmental challenges. This proposal will advance Goal #9: *Plant 100,000 new trees and will replace 100% of our streetlights with smart, zero-emission lighting*, as well as Goal #10: *Create 100 miles of interconnected trails*. I recommend $50,000 be allocated to this program.

- **Implementation/Coordination of Green Vision across City Operations:** While dozens of staff throughout the city are working towards achieving the Green Vision goals and projects through numerous new and existing activities, implementation will be expedited through greater staff coordination, project facilitation, progress monitoring, and tracking of accomplishments and achievements. Dedicating limited resources to coordination and implementation will accelerate the staff's ability to achieve early 'low-hanging fruit' successes, lead by example, coordinate/collaborate more effectively, and advance all ten Green Vision goals. I recommend $50,000 be allocated to this program.

b. **Expansion of Encampment Cleanups along Creeks:** Millions of tons of trash and debris end up in our nation's rivers and streams every year. This is glaringly evidenced in the large amounts of trash and debris left by homeless encampments along San José's Guadalupe River and Coyote Creek. Restoring and preserving our local watersheds is imperative to achieving our City's Green Vision and maintaining the health and livability of our community. I recommend an additional $76,000, with $3,000 coming from Housing funds, be allocated to increase the number of annual encampment cleanups from 10 to 14. (BD #30, $73,000)

4. Transportation and Aviation Services

Long term city transportation plans are moving ahead with dramatic changes:

- We led a successful regional effort to make sure that the California High Speed Rail line will go directly from San José to Los Angeles.
- We have procured additional state and federal funding to bring BART into San José.
- Through the California Transportation Commission, we have acquired additional state funding for major freeway improvements and dramatically improved commutes for our residents.
- Construction is underway at the airport with a new Terminal B and new rental car garage and major improvements to Terminal A.

However, when it comes to transportation we also must focus on, and have a plan to deal with, the basics that affect the lives of all of our residents. Worn down roads, potholes, malfunctioning traffic signals, and burned out streetlights belong to all of us. They impact the quality of our everyday lives and affect the way that we view our neighborhoods. A poorly maintained neighborhood impacts crime, property values, and economic development. With our current maintenance backlog, we are in a vicious cycle. However, it is unlikely that there will be an opportunity to invest or fully address the $453.9 million backlog or $28.7 million annual shortfall with a single strategy in a short period of time. Over the next three years, here is my plan to keep San José moving:

- As the following chart shows, even in these tight economic times, we have managed in this budget to increase service levels of an essential service, which is our street maintenance and repair. The biggest consequence to the city budget when we under-fund our infrastructure maintenance is that costs to maintain our pavement escalate dramatically. This is caused by two primary factors: 1) if not adequately maintained, pavement conditions rapidly decline after about 15 years of life, and 2) the costs to rehabilitate pavement is approximately **five times** more expensive once it has dropped below good condition. Investing an additional **$10 million per year into pavement maintenance** (increasing the annual funding from $24 million to the needed level of $34 million) can prevent the overall condition of our roads from deteriorating further. While this problem can't be solved this year, our plans in solving our structural deficit include the necessary funding to begin addressing this backlog within the next three years.

- Traffic signs and roadway markings protect motorists and pedestrians. If we fail to adequately maintain these devices, the results can be potentially disastrous. I propose investing an additional **$150,000 this year into traffic signs, roadway markings, and streetlight maintenance.** This could significantly improve service levels in these areas and will have a major positive impact on vehicle and pedestrian safety. This funding will allow improved levels of preventative maintenance to be performed on the city's traffic signs and roadway markings. My three-year goal is to bring more than 90% of our assets into good condition over time. Nearly all (85%) streetlight outages would be repaired within seven days, even during winter months when streetlight problems are most apparent and of greatest concern to the public.

- Traffic signals impact both safety and travel efficiency. When problems arise, a quick response from technicians is critical to eliminate potentially dangerous situations. We need to invest **$15 million in one-time projects to rehabilitate the aging traffic signal equipment,** addressing reliability issues and allowing the city to utilize the latest signal timing, coordination, and communications technology that are available for optimizing traffic flow. This will improve commutes, improving our air quality, and making our neighborhoods safer. The Traffic Light Synchronization Program funded through a $15 million grant from the California Transportation Commission will allow for a full citywide build-out of a "state-of the art" traffic management system.

The key elements funded by the grant are:

- Installation of thirty-six miles of fiber-optic signal communication lines to currently underserved areas in North San José, Berryessa, East San José, Evergreen, Edenvale, Willow Glen, Cambrian, and West San José.
- Upgrading of 785 traffic signals with new controllers and software.
- Interconnection of the entire city signal system to the central Traffic Management Center.
- Expansion and update of synchronization and signal timing plans for all city signals.
- Addition of 141 traffic surveillance cameras at traffic congestion "hot spots" to allow for real-time traffic monitoring and signal adjustment (including freeway interchange locations).
- Expansion of advanced traffic management systems beyond current system coverage (at Downtown, Arena, and Airport) to key business districts at Stevens Creek/Winchester (Valley Fair/Santana Row), Blossom Hill/Santa Teresa (Oakridge), Tully Road (Eastridge), Story/McLaughlin and Story/King.

The City Manager is directed, upon receipt of funding, to implement this project immediately.

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

a. **Commitment to Measure A Projects:** In November 2000, the voters of Santa Clara County approved Measure A with a 71 percent majority. Measure A calls for a half cent increase in the sales tax dedicated to a specific list of transportation projects included in the ballot language. Collection of the sales tax for Measure A commenced in April of 2006. The transportation projects identified in Measure A include:

- Extending BART to San José, Santa Clara and Milpitas.
- Providing a People Mover connection from San José International Airport to BART, Caltrain and the VTA Light Rail.
- Establishing a Bus Rapid Transit Program to improve bus service in major bus corridors.
- Expanding and electrifying Caltrain.
- Extending Light Rail from Downtown San José to the East Valley.

The City of San José must continue to maintain its commitment to all Measure A programs. In addition, we must actively pursue partnerships and seek new revenues through public-private partnerships and joint development opportunities. San José must also make near-term investments to ready projects with the highest transportation benefit and cost effectiveness.

b. **Airport West Property:** Proceeds from the Airport West sale may not be available until the end of the year. I recommend that any proposed uses for those funds be deferred until Mid-Year Budget Review.

c. **Neighborhood Traffic Calming Studies:** Currently, there is a backlog of requests for traffic calming studies. The City Manager is directed to allocate $200,000 from the Neighborhood Improvement Reserve to provide funding for the completion of data collection and studies for priority traffic calming requests. (BD #32, $200,000)

d. **Radar Speed Display Trailers for Neighborhoods:** Typical traffic calming installments that permanently and physically alter traffic flow require studies, time-intensive planning, and affect only one intersection or street. Radar speed display trailers do not involve many of the obstacles confronting permanent installations and can advance traffic calming efforts in multiple areas per year. The City Manager is directed to allocate $120,000 from the Neighborhood Improvement Reserve for the one-time purchase of ten radar speed display trailers. (BD #33, $120,000)

e. **Highway 87 Downtown Gateway Cleanup:** In recent years, Caltrans budgets have been reduced to a point where roadside cleaning efforts are 40% less then previously budgeted. I am proposing $25,000 in one-time money be combined with $25,000 in PBID funds to be used for cleanup of the Highway 87 corridor north from Highway 280 through the downtown to the airport. This would require PBID Board approval and determination that the project is within the PBID jurisdiction.

f. **United Service Organization:** The non-profit United Service Organization supports United States troops by providing in-transit care while traveling through the Mineta International Airport. USO currently operates out of a doublewide trailer near Terminal A but will likely lease space in the new North Concourse Facility in 2009. The current furnishings at the USO center are dilapidated. The City Manager is directed to work with USO to allocate $35,000 from the Airport Maintenance and Operations Fund for the USO Airport Center Furnishings. (BD#27, $35,000)

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.

a. **Council General Carry-Over:** Staffing shortages and vacancies have resulted in a larger than average carryover in the Council General Fund. I recommend that this funding be reduced by $300,000 to fund additions and reinstatements in this Budget Message.

b. **City Clerk Staffing:** The City Clerk's Office is perhaps one of the most integral links between city government and the public. The existing and proposed open government reforms will have a significant impact on the City Clerk's Office. The proposed budget

includes eliminating an Administrative Manager in the City Clerk's Office. This position provides administrative support for the Mayor and Council Offices. I recommend a one-time allocation of $136,049 to reinstate the 1.0 FTE Administrative Manager in the City Clerk's Office.

c. **Paid Leave for Organ Donors:** Currently city employees who volunteer to serve as organ donors or provide volunteer efforts for life saving medical procedures must use sick leave or personal time off when they are absent from their jobs. The City Manager is directed to report back to the City Council with the cost and process for granting paid leave for city employees who serve as organ donors or volunteer for other life saving medical procedures.

d. **City Attorney's Office:** During the next year, the City Attorney is directed to work on streamlining processes and enhancing the use of technology to improve operational efficiencies. The City Attorney is further directed to work with the other City Council Appointees to report back on areas where legal services can be modified so the City Attorney's Office can control the workload to meet budgeted staffing levels.

e. **City Council Offices:** In prior years, incoming Councilmembers have not been left with enough funding in their office budget to complete the fiscal year. This has been primarily due to vacation payouts and spending by their predecessors. The City Clerk is directed to present to the City Council a process to ensure that in the year in which the Mayor or a Councilmember may leave office due to elections or term limits a separate appropriation is created for the incoming Councilmember. The City Clerk will also report back on efforts to ensure that vacation for outgoing Councilmembers staff is encumbered.

f. **Budget Policy Changes:**

i. In the 2008-2009 Proposed Operating Budget (p. V-2) the City Manager recommended a budget policy change to address a recommendation included in the *Audit of the Management of the City's Tax-Exempt Bond Program and Use of Interfund Loans to Provide Financing for Capital Bond Projects* that was aimed at ensuring that short-term loans from restricted funds are not used to address ongoing structural budget problems. The revisions are identified below in bold, italics and strikethrough:

A.2 Fiscal Integrity

The city will maintain the fiscal integrity of its operating, debt service, and capital improvement budgets, which provide services and maintain public facilities, streets, and utilities.

Ongoing operating program costs will not exceed the amount of ongoing revenue to finance those costs. ***Interfund loans will not be used as a funding mechanism to address ongoing gaps between revenues and costs. If a new program is added on an ongoing basis, an ongoing revenue source will be identified to fund the program***

costs. ~~The ongoing revenue source will be identified along with new program costs.~~ Any available carryover balance will only be used to offset one-time costs.

I recommend that the City Council revise City Council Policy 1-18 entitled Operating Budget and Capital Improvement Program Policy to be consistent with this recommendation.

ii. I recommend an exception to the Budget Policies (City Council Policy 1-18, Section 4 – Fund Balance) that outline the use of any remaining Ending Fund Balance at the close of a fiscal year to allow the use of a portion of the fund balance to repay all or a portion of the outstanding Fiber Optics Development Fund Loan. Currently, any remaining fund balance after necessary budget actions is allocated 50% to street maintenance and 50% to offset any projected deficit for the following year. I recommend that the City Manager be given an exception, given projected financial conditions, that would allow up to 25% of the fund balance available at the end of the year to be allocated to repay the outstanding Fiber Optics Development Loan, with the remaining fund balance allocated 50% to street maintenance and at least 25% to offset any projected deficit in the next year. This exception is proposed given the necessity to repay this loan, which currently has a balance of $4.7 million due to the Sewage Treatment Connection Fee Fund by June 2011. This is the only loan that is a General Fund obligation without a fully funded repayment plan. The 2008-2009 Proposed Budget includes $50,000 in the General Fund to repay a portion this loan, which is well below the annual funding level necessary to pay off this loan. The potential use of fund balance to address this outstanding loan aligns with the general budget policy to align one-time funding sources with one-time costs.

g. **Sunshine Funding:** The current year's funding includes one-time funding of $300,000 for continued support for the Sunshine Reform Task Force. The funding is necessary for the Project Manager, support staff, administrative support for Agenda Services, and digital recording services. In further review with the City Manager's Office, this funding can be reduced by $65,000 and still meet the needs of the Task Force. I recommend the funding for the Sunshine Reform Task Force be reduced by $65,000 and used to fund the initiatives in this Message.

h. **Contingency Plan Budget Reductions:** Both labor negotiations and state actions can have a severe impact on our budget. Should state actions or labor negotiations negatively impact the city's budget, the City Manager is directed to bring back to the City Council the tier two reductions and other strategies for full review and discussion.

i. **410 Park Avenue Funds:** On May 20, 2008, City Council approved the sale of the city-owned property and building at 410 Park Avenue to Park Delmas Investors, LLC, in the amount of $450,000. I recommend that this $450,000 be allocated to the Economic Uncertainty Reserve per our Council Policy.

j. **Take-home Car Policy:** Direct the City Manager to re-evaluate the City's current Take-home Car Policy. Additional efforts should be taken to ensure that the Police Department's take-home cars are for officers who are on call and need to report directly to the scene if a crime occurs. Also, the City's policy should exert control over the maximum distances one can travel between work and home with city vehicles.

6. Redevelopment Agency

The Redevelopment Agency continues to be a catalyst that stimulates economic growth, job creation, affordable housing, and neighborhood improvements. The Agency's capacity to sustain and encourage economic growth depends on tax increment revenues from its project area assessments reported by the County Assessor in July 2008. The proposed FY 2008-09 Capital/Program Budget and FY 2008-09 Capital Improvement Program will be released on August 29, 2008.

As preparation of the Agency's budgets begins, we must remain cognizant of the Agency's limited access to revenues as a result of the tax increment cap. It is estimated that the Redevelopment Agency will reach its current financial cap of $7.5 billion by the year 2024, after which it can no longer collect tax increment. This will paralyze the Agency's ability to complete major initiatives currently under way, such as the Convention Center expansion, the SNI program, North San José improvements, and many others. The administration is currently exploring a plan amendment that would increase the cap to a level which will allow it to more accurately reflect the spending necessary to bring the project areas to their currently contemplated conclusion. It is anticipated that this amendment will be presented to the Board and City Council for approval in the fall, with potential approval by the end of this calendar year.

The May 1, 2008 budget provided necessary funding for ongoing staff costs and contractual commitments, such as leases and obligations to the City and County. The August 29, 2008 budget will update the Agency's future bonding capacity based on the growth in 2008-09 tax increment and projections for future growth. The Agency's bonding capacity will provide the funds for investment in the North San José expansion, downtown improvements and investment in the neighborhood project areas. These are my recommendations for inclusion in the Agency's budget:

a. **Agency Expenditure Plan:** In the development of the Agency's expenditure plan, the Executive Director is directed to the extent possible to incorporate projects and initiatives that are aligned with the following goals and objectives:

- Increase the number of jobs in San José.
- Increase economic vitality.

b. **Child Care Development:** The Executive Director is directed to review the number of quality child care facilities in San José and provide a funding recommendation in the August budget to help sustain our long-term commitment to help our residents become ready to learn.

7. Re-Budget Proposals

I recommend the following re-budgets subject to final verification of accounts by the City Clerk's Office for Mayor and Council Offices.

District 1	$ 26,840
District 2	177,105
District 3	36,292
District 4	111,293
District 5	120,649
District 6	68,262
District 7	108,049
District 8	37,245
District 9	152,198
District 10	103,822
Mayor	589,521
Council General	389,894

CONCLUSION

This Budget Message presents us choices. We can lead San José into a healthy fiscal state rather than maintain business as usual. Making tough choices is not easy, but neglecting to provide leadership is far worse. Through the community based budgeting process we know which services residents truly value. Together, we can implement community priorities, maintain core services, stimulate the city's economy, and reduce the possibility of future layoffs.

We should be proud of our many accomplishments over the past few years to make San José a great place to live, work, and raise a family. San José is a community that our residents are proud to call home. Despite the current economic challenges facing the region, state, and nation, I am confident we will continue to find solutions to achieve our community's goals and provide the quality services that our residents deserve.

COORDINATION

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

Attachment I
General Fund Adjustments

Use of Funds	
10 Additional Police Officers	$661,865
Public Safety Recruitment and Training Efforts	75,000
Truancy Abatement Program	50,000
MGPTF Pilot Summer Safety Initiative	242,804
Pilot a Community Responsibility Council and Development of a Transition Center	150,000
MGPTF Year End Summit	25,000
Kirk Community Center Minor Improvement Project	250,000
Children's Mobile Health Clinic	42,000
Neighborhood Traffic Calming Studies	200,000
Addition of Code Enforcement Inspector	128,000
Tully Branch Library Sunday Hours	120,000
City Clerk Staffing	136,049
Expansion of Encampment Cleanups Along Creeks	73,000
San José Sports Authority	100,000
Crime Prevention and Intervention	185,027
Crossing Guards	313,096
Radar Speed Display Trailers for Neighborhoods	120,000
Community Translation/Interpretation and Meeting Spaces	50,000
Neighborhood of Distinction Concept	50,000
Maintenance for Traffic Signs, Roadway Markings and Streetlights	150,000
Highway 87 Downtown Gateway Cleanup	25,000
Total	**$3,146,841**

Source of Funds	
Neighborhood Improvement Fund	$1,000,000
Green Vision Funding Adjustments	500,000
Council General	300,000
Sunshine Funding	65,000
Revised Property Tax Estimates	875,000
Public Safety Fee Changes	81,411
Industrial Development and Retail Strategy Development	118,430
BusinessOwnerSpace.com	100,000
Downtown Soft Close Pilot Program	107,000
Total	**$3,146,841**