City Council Agenda: 03-22-11
Item:

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: CITY COUNCIL

FROM: Mayor Chuck Reed

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

DATE: March 11, 2011

Approved: Chuck Reed

Date: 3/11/11

The people of San José are weary of having City services cut to pay for increasing costs of active and retired employee pay and benefits. Our residents strongly prefer fiscal reforms to control costs over laying off police officers, closing fire stations and community centers, and slashing library hours. This is made clear from the results of the Community Budget Survey. With the overwhelming approval of Measures V and W, the voters have given us a mandate to take control of runaway costs and restore services.

The $105 million budget shortfall projected for next fiscal year is the latest chapter in our fiscal distress saga, but it is far from the end of the story. Over the next five years, the City Manager's Office predicts a cumulative shortfall of $183 million. In addition, $23 million of services funded with one-time money this year will terminate on June 30, 2011 (see Attachment A). The State of California's plan to eliminate Redevelopment Agencies will add at least $10 million to next year's shortfall.

The net result is that by Fiscal Year 2014-2015 we have to come up with $216 million of ongoing cost reductions or new revenues, or suffer enormous cuts in jobs and services.

General Fund Ongoing Funding Needs	
2011-12 – 2014-15 Base Budget Shortfall	$183 million
State Take/RDA Impacts	$10 million
2010-2011 One-Time Funding	$23 million
Total	**$216 million**

Our residents have shared with me their views on our priorities and they have been very clear that they do not want to see City service levels reduced, but do want retirement reforms and other concessions implemented. Left unaddressed, our City will pay hundreds of millions more for retirement costs at the expense of services to our residents. Our goal should be to achieve $216 million per year of cost reductions and/or new revenues for the General Fund that will allow us to restore services to the levels of January 1, 2011, as outlined later in this Message.

RECOMMENDATION

To restore services, I recommend the following:

1. Adopt the following **Fiscal Reform Guiding Principles** that will put us on the path to rebuild our police force, keep our fire stations open, maintain our streets, and keep our libraries and community centers open:

    a. The primary goal of these reforms is to save services, jobs, and ensure the solvency of the retirement fund.
    b. Service levels for Police, Fire, libraries, and community centers should be restored to services levels as of January 1, 2011.
    c. The City's annual cost for retirement benefits should be maintained at no more than the 2010-2011 cost.
    d. The City must continue to make the full retirement contribution each year as determined by the retirement boards.
    e. Retirement reforms for current employees should alter the future, unaccrued retirement benefits.
    f. Pension costs shall not be pushed onto future generations, and we will not borrow our way out of this problem.
    g. Any proposed hybrid or optional retirement programs must lower costs and preserve services.
    h. Weaknesses of the current defined benefit retirement plan must be addressed.
    i. The retirement age should be raised.
    j. Guaranteed annual increases in pension benefits should be eliminated.
    k. The rate of accrual for pension benefits should be lowered.
    l. Spiking of pension benefits should be prohibited, including lengthening the period used to calculate final average salary.
    m. Bonus payments for retirees should be eliminated, except for long term service retirees who fall below the poverty level.
    n. The maximum percentage of salary that retirement benefits are based on should be reduced.
    o. Unfunded retirement liabilities need to be addressed, including risk analysis and sharing of risk with employees.

2. Direct the City Manager to present recommendations on May 2, 2011 based on the above principles to achieve $216 million per year of cost reductions and/or new revenues for the General Fund that will allow us to restore services to the levels of January 1, 2011 and to open the libraries, community centers, and fire stations built or under construction, and the police substation within five years. Recommendations should include cost savings from:

    a. Reducing compensation for existing employees. (Potential Savings: $38 million)
    b. Avoiding increases in retirement costs beyond the amounts paid for this fiscal year. (Potential Savings: $167 million)
    c. Reforming workers' compensation and disability retirement systems. (Potential Savings: $12 million)

d. Reducing costs for sick leave payouts, vacation buybacks, and overtime pay. (Potential Savings: $15 million)
e. Modifying healthcare plans and cost sharing.
f. Organizational changes and efficiencies.

3. Direct the City Manager to submit a proposed budget for Fiscal Year 2011-2012 that is balanced and guided by the policy direction and framework of priorities outlined in this Message.

INTRODUCTION

Though some economists indicate that the economy is recovering, we would be hard-pressed to find many in San José who feel this is true, especially given the persistent and severe budget shortfalls we have experienced for the last decade, including the largest ever General Fund deficit of $118.5 million that was balanced in Fiscal Year 2010-2011. Significant service reductions were implemented this year, including cuts to our highest priority services such as police patrol and fire company staffing. In fact, the full impact of the 2010-2011 budget reductions will not be realized until July 2011, when more than 220 positions and $23.1 million in services (library hours, community centers, 70 police patrol positions, senior nutrition, a fire engine company, etc.), which were restored with one-time funds this year, will be eliminated.

According to the City Manager's Five-Year Forecast, next year we face a $105 million shortfall as detailed in the chart below. This shortfall does not include any potential impacts from the Redevelopment Agency or further increases in retirement benefit costs.

2012-2016 GENERAL FUND FIVE-YEAR FORECAST
BASE BUDGET SHORTFALL* ($ in Millions)

	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016
Projected Revenues	$797.9	$818.8	$846.6	$874.7	$899.1
Projected Expenditures	$903.3	$967.3	$1,020.2	$1,058.3	$1,082.8
Total Cumulative Shortfall	($105.4)	($148.5)	($173.6)	($183.6)	($183.7)
Total Incremental Shortfall	**($105.4)**	**($43.1)**	**($25.1)**	**($10.0)**	**($0.1)**

* Does not assume cost-of-living salary increases; additional impacts associated with the San Jose Redevelopment Agency; additional impacts from changes in actuarial assumptions and methodologies that may be approved by the Retirement Boards in future years that could substantially increase the City's required contributions or, conversely, that reduce the City's required contributions as a result of pension reform efforts that are currently underway; revenue from Marijuana Business Tax; unmet/deferred infrastructure and maintenance needs; or one-time revenues/expenses.

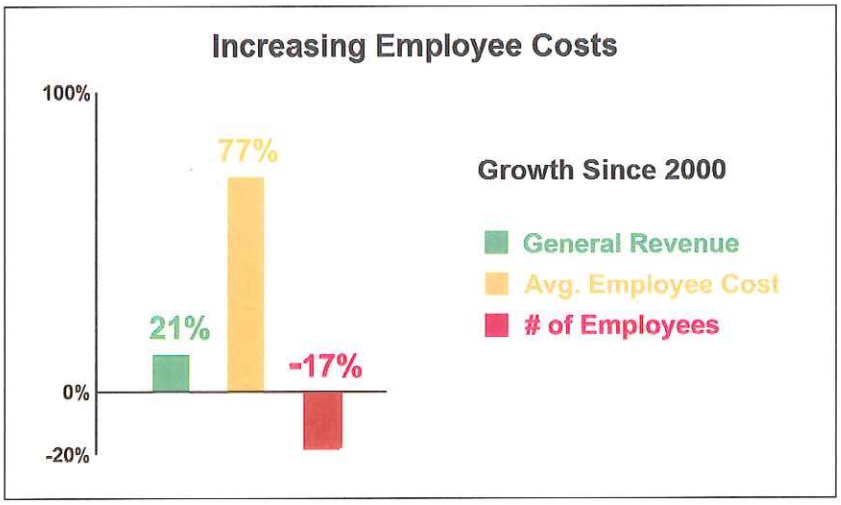
Sadly, next year is going to be another year in which we will be forced to reduce service levels to the public. Reduced services to the community are going to be part of each department's budget proposals. Once again, these budget deliberations will be an exercise in pragmatically using resources to fund mandates and critical needs before funding wants and luxuries.

Impacts of the Budget on our Workforce and Services

Since 2000, the City has eliminated 1,614 total positions, trying whenever possible to cut vacant positions to minimize the impact that layoffs bring to our employees and their families. The City Manager gave the City Council notice that we may be facing a net elimination of up to 1,200 positions, including those restored in last year's budget as one-time restorations and absent employee concessions.

Unfortunately, we are understaffed and have no room to trim. San José has one of the lowest ratios of employees per capita for any big city in the country. Our problem isn't having too many employees. We need more patrol officers, more library hours, and more fire stations. Our problem is that we can't afford them.

The service reductions of the past decade coupled with ongoing increases in employee costs have angered our residents. They recognize that cutting services to pay for increases is a formula for disaster.



A key strategy to balancing this year's budget will be the need for concessions. These concessions will affect every City employee, in every department and every job classification. Through wage and benefit concessions, we can reduce our employee costs and minimize layoffs when unemployment is at a near-record high.

Last year, we reduced our work force by 800 positions and demoted or laid off more then 150 employees, including 49 firefighters. Thankfully, a quarter of our workforce, including our senior management and City Councilmembers, took a 10% reduction in total compensation, which allowed us to save services and the jobs of many valued employees. Our police officers gave up 4% for one year and saved the jobs of 70 police officers for one year.

This year, it's going to take more. Recognizing the need for continued concessions to help save some services, at the November 18, 2010 Special City Council Meeting, the Council approved continuing the prior direction from March 2010: to achieve a 10% reduction in total compensation for 2010-2011 with modifications that the entire 10% be an ongoing reduction in

total compensation; roll back any general wage increases received in 2010-2011; include the City Auditor's recommendations for healthcare cost containment; and achieve reform in the areas of sick leave payout, compensation structure (eliminate automatic step increases, modify step structure, and modify overtime eligibility), and retirement. In addition, the City Council has approved achieving workers' compensation reforms.

The total General Fund savings from concessions is estimated to be $38 million, which is not enough to cover next year's $105 million shortfall. Even if all concessions are achieved, it will not be enough to avoid layoffs. As of the release of this Message, the City has reached a tentative agreement with the firefighters for 10% concessions. This is great but 10% concessions alone will still not be enough to avoid layoffs in the Fire Department. Staff continues to negotiate with the 10 other bargaining groups. I cannot stress how important it is that all of our bargaining groups share in the sacrifice. This is especially true for public safety as their retirement and pension costs are major drivers of the $110 million shortfall.

In my discussion with the city labor leaders, there is a clear concern that any and all concessions would be used to buy back public safety services. To the extent possible, the City Manager is directed to use public safety concessions toward maintaining public safety services. Non-public safety concessions should be used to save non-public safety services. The City Manager is further directed to include concessions in the balancing strategy for the 2011-2012 budget and provide alternatives should concessions not be achieved.

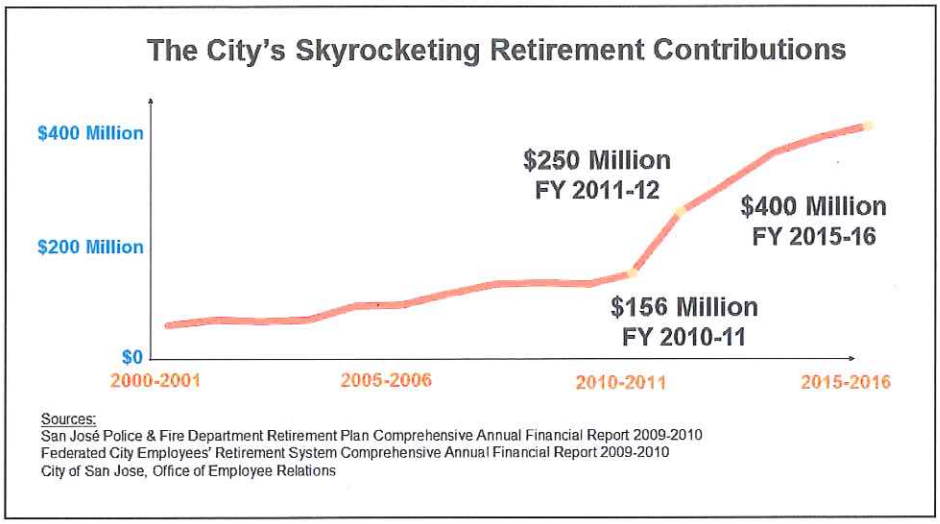
Pension Reform

The compensation concessions that we have achieved and continue to seek for this fiscal year will benefit the City and help save jobs and services. But we have even greater problems that loom ahead.

As of June 30, 2009, the City's pension liability is $5.4 billion (the total amount of pension benefits the City must pay to both current employees and retirees over their lifespan). However, due to investment losses, retroactive benefit increases, and overly optimistic actuarial assumptions, the City does not have enough in the two retirement funds to meet its obligations and has an unfunded pension liability of $2 billion based on the market valuation of the assets. The City also has an estimated $1.4 billion in unfunded liabilities as a result of Other Post Employment Benefits (OPEB) such as retiree health insurance. To put it simply, the money coming in is not going to be nearly enough to keep up with the money that will need to go out for the planned retirements.

As a result, employee costs are projected to continue to grow. Next year this growth is driven largely by retirement costs, which will increase by more than $100 million (from $156 million to $256 million). Over the next five years, retirement and healthcare costs will increase from $256 million to $400 million per year. Also, the Federated and Police and Fire Retirement Boards are continuing to review actuarial assumptions and methodologies. If the boards continue to make changes in actuarial assumptions and methodologies, contribution payments to the two retirement systems will increase above anticipated amounts.

Although the annual required contribution to our retirement plans is staggering, we must continue to pay the City's full contribution as determined by the retirement boards. We cannot simply fail to pay the bill. We must, however, find ways to lower the costs for retirement benefits in a way that actually reduces the cost of the benefits for both taxpayers and employees and does not push the problem off to future generations.



Our residents have shared with me their views and priorities and they have been very clear that they do not want to see City service levels reduced. Retirement reform must be achieved in a way that is fair to our employees, as well as the taxpayers of this City. Left unaddressed, our City will pay hundreds of millions more into retirement costs at the expense of services to our residents.

Recognizing this, on January 25, 2011, the City Council approved recommendations on a second-tier retirement program and directed the City Manager to seek a pension and retiree healthcare plan for new employees that reduces the City's contributions to the retirement plans (with a goal of keeping the City's and employee's combined contributions to 12.4% of salary) and splits the costs of unfunded liabilities equally between the City and employees.

Focusing on future employees isn't enough to solve our pension problems. As stated in a recent report *"Public Pension for Retirement Security"* by the Little Hoover Commission, an independent state oversight agency appointed by the Governor and the Legislature:

> *"The situation is dire, and the menu of proposed changes that include increasing contributions and introducing a second tier of benefits for new employees will not be enough to reduce unfunded liabilities to manageable levels, particularly county and city pension plans. The only way to manage the growing size of California governments' growing liabilities is to address the cost of future, unearned benefits to current employees, which at current levels is unsustainable."*

Each component of the pension plan has an impact on the overall cost of the system. The major drivers of the City's pension costs are:

- Age at which members are eligible to receive retirement benefits (50 for Police and Fire and 55 for Federated),
- Each plan's guaranteed annual 3% cost-of-living adjustments, and
- The formula for calculating annual pension benefits/payments.

Other cost drivers with varying degrees of impact include the determination of final average salary using the highest year, joint and survivor benefits, the maximum pension levels (90% for Police and Fire and 75% for Federated), the plans' reciprocity provisions, and the Supplemental Retiree Benefit Reserve.

To deal with these cost drivers, we need to alter the benefit levels for current employees, as well as current retirees. Both of these groups should be willing to get engaged in these reform efforts because there is a price to pay for inaction: more salary reductions, more layoffs, and unsustainable plans that could be unable to pay benefits.

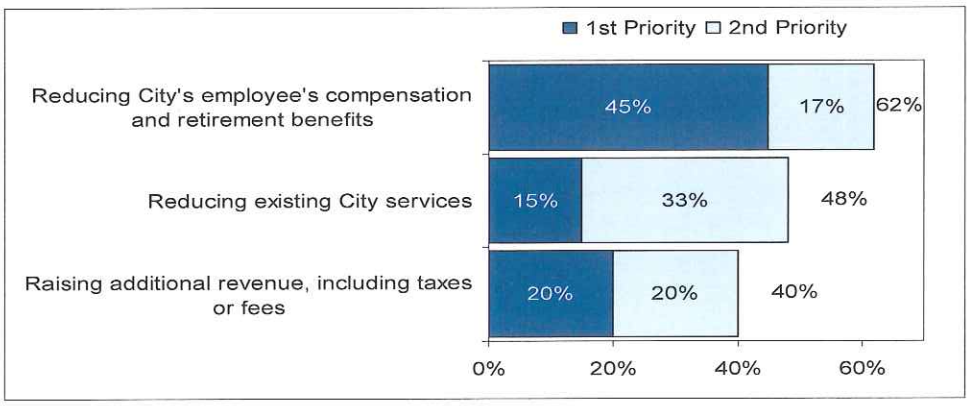
The stakes are too high to continue fiddling around the edges of fiscal reform. If we are not serious about fiscal reforms, the voters will likely define the reforms for us. The Fiscal Reform Guiding Principles, and the recommendations to eliminate the $216 million five-year shortfall as detailed on page 2, will put us on a path to rebuild our police force, keep our fire stations open, maintain our streets, and keep our libraries and community centers open.

BACKGROUND

Community Budget Survey

My office has been working closely with neighborhoods and residents to obtain their input throughout the budget process. A budget priorities survey of more than 900 residents was conducted, and residents were able to give their input on their budget priorities and many different budget questions.

Preferred Approach to Balancing the Budget



Spending and Reduction Priorities

A majority of respondents found the following potential reductions in public safety spending "somewhat" or "completely" acceptable to cut:

- Reducing public information desk hours at the police station. (74%)
- Deferring the opening of the newly constructed South San José Police Substation. (65%)
- Eliminating responses to non-injury accidents and other low-priority calls. (60%)

A majority of respondents found the following potential reductions in neighborhood services spending "somewhat" or "completely" acceptable to cut:

- Reducing the number of days or hours that community centers are open. (67%)
- Reducing the number of park rangers for the City's regional parks. (63%)
- Reducing money the City gives non-profits and charities to support their services. (63%)
- Reducing the number of days that libraries are open. (61%)
- Reducing maintenance and upkeep of parks. (60%)
- Reducing adult and family literacy and learning programs. (60%)

Neighborhood Association and Youth Commission Priority Setting Session

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

Ten residents (distributed from different parts of the City) sat at a table with two trained facilitators. Participants were given two lists of programs and a limited amount of "funds." The first list consisted of community programs such as branch library hours that participants could purchase with funds given to them at the beginning of the game. The second list consisted of public safety programs and new community facilities. Participants could receive more funds to purchase neighborhood services if they *unanimously* decided to reduce public safety funding or delay the opening of new facilities. The exercise was designed to determine what programs were held in the highest regard by residents.

Results

There was general consensus on supporting proposals related to public safety, quality of life, and services that citizens could not do on their own. Proposals with low support were those considered to have other funding possibilities (corporations, local businesses, grants) or those that players thought could be addressed with volunteers.

Public Safety – Residents were reluctant to cut police and fire resources, but were willing to look at efficiencies. For example, residents did not want to eliminate any more fire engines, but they were willing to reduce staffing on fire trucks from five to four personnel.

Neighborhood Services – Services that affected quality of life and services which citizens could not do on their own were top priorities for residents. Residents prioritized code enforcement, pavement maintenance, and anti-graffiti staffing. In terms of dollars distributed by tables, branch libraries, hub community centers, and pavement maintenance received the most bids.

The full report from the 5th Annual Neighborhood and Youth Commission Priority Setting Session can be found at http://www.sanjoseca.gov/mayor/.

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. I recommend that the City Council approve the general budget-balancing strategy guidelines from the proposed 2010-2011 City Manager's Budget Request and 2011-2015 Five-Year Forecast and Revenue Projections document, as amended by this document.

3. The City Manager shall:

    a. Develop a proposed budget that is balanced based upon our current revenue expectations.
    b. Maximize reductions to ongoing programs to help solve future deficits to the fullest extent possible, and consider use of one-time funds when prudent.
    c. Reductions that are personnel-related should primarily be ongoing cuts and not one-year freezes to better overcome future deficit projections.
    d. Avoid meeting reduction targets by shifting costs and expenditures to departments or appropriations.
    e. Initiate discussions with employee groups regarding any proposals that will be included in the proposed budget that may be subject to meet and confer.

4. To ensure overall strategic leadership and service delivery for the organization, the Mayor's Budget Office will work with the City Council Appointee offices to bring forward proposals that are equal to half the average non-public safety CSA, exclusive of any RDA impacts. For smaller appointee offices, appropriate funding should remain to perform mandated functions.

5. Mayor and City Council reductions will be equal to half the average non-public safety CSA.

INVESTMENT STRATEGIES

1. Community and Economic Development

Much of San José's recent success can be attributed to a very focused effort to implement our Economic Development Strategy by aggressively pursuing initiatives to regain jobs and revenue as the national economy recovers, and to create an outstanding business and living environment that competes with the world's best cities.

Our focus on initiatives to generate jobs and revenue and to provide development services at the speed of business are paying off. Last year, we put our STI/ITI Program teams at full strength; created an express line to improve service levels to small businesses; authorized a Development Services Project Manager position to facilitate permitting efforts; invested Redevelopment tax increment dollars and City Catalyst Fund dollars in companies like Intermolecular, Ultratech, Maxim and SunPower; and through aggressive and entrepreneurial efforts of staff in several City departments and the Redevelopment Agency, facilitated the efforts of the Irvine Company and Fairfield Residential to pull building permits for more than 1,600 units of residential development in North San José, which have generated over $24 million in City fees and taxes.

If we are serious about capturing the growth that an economic recovery promises, and in light of the fact that the City may no longer have Redevelopment funds to invest in business development programs if the Governor's proposal to eliminate Redevelopment is approved, we have to make some changes to the costs that we ask our businesses to incur. A comparison of development fees and taxes for a 10,000-square foot commercial tenant improvement is detailed below and shows the disparity between San José's costs and those of other cities in the Silicon Valley.

City	Service Fees	Taxes	Total Fees/Taxes
San José	$11,208	$8,215	$19,423
San Mateo	$16,284	$ 108	$16,392
Palo Alto	$14,731	$ 113	$14,844
Gilroy	$13,749	$ 40	$13,789
Sunnyvale	$ 9,148	$2,268	$11,416
San Carlos	$10,803	$ 170	$10,973
Morgan Hill	$ 4,238	$ 25	$ 4,263

Our best efforts in expediting and streamlining the permit process may be for naught if our total costs are considered to be a deterrent to businesses that are considering expansions and relocations into existing buildings in the next 18-24 months. Businesses that are moving into existing buildings in San José are not creating new impacts or needing new infrastructure.

Therefore, this year I am proposing that we focus our efforts on reducing significant costs on the fees and taxes side and to continue the successful efforts of the past to streamline the service delivery side.

a. **Development Impact Fee and Tax Structure:** The City Manager is directed to review costs assigned to private development such as impact fees, taxes, and city-wide costs. Study the best practices of other cities in the region. The City Manager is also directed to develop a structure that makes San José more competitive with surrounding communities for those business sectors that will generate revenues and return to City Council in fall 2011 with a strategy to reduce indirect costs and taxes.

b. **Process Improvements:** The City Manager is directed to identify potential overlaps in the development process by leveraging the successes of the STI/ITI and other coordinated services, in which staff has broader responsibility in the review and approval. Focus should be on reducing the increased costs that small projects incur when they must work with multiple staff or obtain permits despite a limited scope of work.

c. **Incentive Program:** The City Manager is directed to explore implementation in July 2011 of an 18-month Incentive Program for R&D, office, retail, and light industrial/manufacturing uses, where construction-related taxes are waived for tenant improvements of existing buildings. This analysis should be brought forward for Council consideration as an MBA in May.

d. **Special Tenant Improvement (STI)/Industrial Tool Installation (ITI) Program:** Last year, the City Council gave the City Manager direction to add capacity to the STI/ITI program by funding a second line of technical personnel in the Planning, Building, and Code Enforcement and Fire Departments. These services helped us operate at the speed of business by expediting the plan check review process and making it easier for businesses to move into their buildings. For the coming year, the City Manager is directed to continue supporting these successful programs to be funded through the development fee program.

e. **Development Services Project Manager:** For the 2010-2011 Fiscal Year, City Council funded a pilot program for a Development Services Project Manager/Expediter position. The Project Manager/Expediter serves as a single point of contact for key economic development projects going through the development process, and works with Development Services partners to accelerate permit processing schedules. The Project Manager/Expediter also identifies process improvements to reduce service overlaps and other inefficiencies. The City Manager is directed to continue funding for this position to be paid out of the development fee program.

f. **Operating Subsidies for Cultural Facilities:** The City Manager, in cooperation with the Arts Commission where appropriate, is directed to engage operators of City facilities, including Municipal Stadium, the Tech Museum of Innovation, Children's Discovery Museum, San José Museum of Art, San José Repertory Theatre, Mexican Heritage Plaza, and History San José to examine ways to reduce operating subsidies and support facility sustainability in order to reduce reliance on the General Fund.

g. **Cultural Activities Transition:** in cooperation with the Arts Commission where appropriate develop a plan for provision of City-owned cultural facilities, such as the

California Theatre, Montgomery Theater, and the Center for the Performing Arts, during underutilized weekday hours to support the re-designed Arts Express program benefiting our San José students.

2. Public Safety and Neighborhood Services

Public safety is the top priority of our neighborhood residents and our City Council, and San José demonstrates this priority by allocating more than half of our General Fund budget to public safety. Despite our budget difficulties, spending on public safety has continually increased over the past decade. There is no doubt that we need more police officers and firefighters. We just can't afford them without implementing fiscal reforms.

For years, the number of police officers and firefighters in San José remained flat while our public safety department budget grew. In the last decade, the Police Department budget grew by $108 million, but we have fewer police officers than we had 10 years ago.

This fiscal year, the costs for Police and Fire sworn employees will grow primarily as a result of growing public safety pensions and other personnel-related employee benefit costs. These costs are also the primary driver of this year's $105 million deficit.

	Police Sworn	**Fire Sworn**
Retirement Contributions Increases	$25.4 million	$18.4 million
Health and Other Fringe Increases (Health, Dental, Unemployment)	$1.9 million	$1.0 million
Salary Step Increases	$1.2 million	$0.6 million
Total	**$28.5 million**	**$20 million**

We are facing a dire economic situation; however we must maintain our commitment to keeping our residents safe. We must take a holistic approach toward public safety and be cautious in passing off rising public safety employee costs onto other departments. Libraries and community centers provide safe places and vital programs for our youth and seniors. These programs help create a high quality of life in our neighborhoods and help to prevent crime.

There's no doubt that public safety is our number one priority, but it is difficult to justify closing libraries and community centers to pay for rising public safety pensions. The decision to close these facilities is made even more difficult knowing that there are additional concessions beyond 10% wage reductions that we could explore.

Potential Savings	Police	Fire
10% Concessions	$14.9 million	$9.8 million
Eliminate Sick Leave Payouts	$3.0 million	$1.6 million
Eliminate Salary Step Increases	$1.2 million	$0.6 million
Eliminate Overtime for Sworn Management	$2.5 million	$3.1 million
Eliminate Premium Pays	$1.3 million	$0.5 million
Eliminate Sworn Department Vacancies	$5.2 million	$6.1 million
PD Span of Control Changes	$15-$33 million	-
Truck Staffing Modifications	-	$3.35 million
Total	**$43.1-$61.1 million**	**$25.05 million**

At our recent Neighborhood Priority Setting Session, close to 90% of neighborhood leaders' first priority for addressing the increasing public safety budget was to seek concessions rather than close the libraries and community centers or lay off police officers and firefighters.

I'd like to say San José won't lay off police officers or firefighters, but the growing pension and personnel costs are limiting our ability to grow our departments and are impacting the services we provide to the rest of the organization. I commend the firefighters taking a step forward with 10% concessions to help curb these growing costs. Their leadership will help save 65 jobs. But that's not all our firefighters have done. They are also working with the Fire Chief to develop structural changes and cost savings in the Fire Department. The Police Officers Association should do the same. It's important to note that even if 10% concessions are achieved, it will not be enough to avoid layoffs.

We will continue to provide our police officers and firefighters with the resources necessary to keep us one of the safest big cities in the nation. Our goal should be to maintain public safety budgets at their current ongoing funding levels and implement strategies to contain rising public safety costs through concessions or service delivery changes. We need to hold public safety accountable for their share of rising costs in their department and not pass them onto the rest of the organization. The City Manager is directed to ensure, to the extent possible, that public safety costs are solved with public safety-related proposals.

a. **Police Department Span of Control:** The City Manager may have to look at hundreds of reductions in the Police Department to balance this year's budget shortfall. Reductions of this magnitude will have an impact on our community. Retaining police officers on patrol is our priority. We should exhaust all other options in the Police Department before laying off patrol officers.

   We should begin by making a review of span of control a priority. Span of control refers to the number of employees per supervisor within the Police Department. As of November 2010, SJPD has an overall ratio of 1 sergeant to 4.5 officers, 1 lieutenant to 4.6 sergeants, and 1 captain to every 5.2 lieutenants. The cost of this level of supervision is estimated to be $54 million per year. With a shift to a higher span of control, those costs could range from $15 million to $33 million less than we spend now. The City Manager is directed to prioritize span of control strategies and include these savings in the Proposed Budget.

b. **Healthy Neighborhoods Venture Fund (HNVF)/Children's Health Initiative:** The Anti-Tobacco Master Settlement Agreement funds have provided valuable funds to improve the quality of life of San José's youth and senior populations through the HNVF program. To best preserve basic levels of core City programs and services for these vulnerable populations the City Manager is directed to maintain funding for the Children's Health Initiative. The City Manager is further directed to expand the use of the remaining HNVF program funds to include support for the BEST program, the Senior Nutrition program, and HNVF competitive grants.

c. **Gang Service Programs:** Our gang prevention efforts have had many successes since their inception. To help continue our gang prevention efforts with fewer resources, we have to look for opportunities to consolidate and be more efficient. The City Manager is directed to review the allocation of funds within the Mayor's Gang Prevention Task Force to seek possibilities for consolidation. We must also consider programs operated through SNI and the Police Department.

d. **SAFER Grant:** The City of San José applied for a 2010 Staffing for Adequate Fire and Emergency Response (SAFER) Grant from the Federal Emergency Management Agency (FEMA) to rehire laid-off firefighters. Funding through the SAFER Grant would allow the City to rehire the 49 firefighters laid off for the 2011-2012 budget year. Before deciding whether it's possible to accept the grant funds, the City must conduct an analysis of the costs associated with accepting the grant, as well as restrictions that are associated with acceptance of the grant, such as the no-layoff provision that could force us to pass the costs onto other City departments in 2011 and 2012. The City Manager is directed to expedite this review.

e. **Chaplaincy Program:** The San José Police Department Chaplaincy Program involves more than 20 volunteer chaplains who provide support services to police officers, their families, and citizens in times of need. Services include crisis counseling, and support for events such as graduations, trainings, and funerals. The City Manager is directed to work with the City Attorney to identify funding mechanisms to maintain the appropriate level of support.

f. **San José Conservation Corps:** The City of San José benefits from the services provided by this organization in that unemployed or at-risk youth are transitioned into the workforce through positions in the recycling industry or through working on environmental community projects, including graffiti removal and sidewalk repair. The City Manager is directed to create a base level of funding for the Conservation Corps through fee-for-service outsourcing arrangements to enable continued leveraging of State and Federal dollars for the delivery of the City services that have traditionally been performed by the Conservation Corps.

g. **Senior Nutrition:** The Senior Nutrition Program promotes healthy lifestyles and social activity to San José's elderly population. Through this program, senior participants receive nutritious meals and social interaction that prevents their isolation. When combined with the many services that support this program, seniors are enabled to live active and independent lives. Per Council-approved direction in the Fiscal Year 2010-

2011 process, the Senior Nutrition Task Force was formed to identify alternative service delivery models with the goal of maintaining senior nutrition services to San José's senior population. Working in collaboration with County staff, the Council on Aging, Silicon Valley Council of Non-Profits, the Health Trust, and other stakeholders, several recommended options for alternative service delivery were developed to provide nutrition services to our seniors with the same level of service at a savings of approximately $700,000 over the previous year's funding. The City Manager is directed to allocate up to $550,000 in the Fiscal Year 2011-2012 budget toward the Senior Nutrition Program. This funding is contingent on county support for the program.

h. **Crossing Guards:** The safety of our school children remains a top priority for San José residents, as well as the City Council. During meetings with superintendents at the Schools/City Collaborative, the superintendents stated that this was the most important service the City provides for the schools and is their number one priority. The City Manager is directed to minimize impacts to the elementary school crossing guard program. This includes the installation of pedestrian-activated crosswalks at unstaffed middle school intersections, use of trained volunteers, implementation of cost-effective programs that are in place in other jurisdictions, and exploration of alternate funding sources such as state and federal grants.

3. Transportation and Environment

a. **Parking Fund Review and Re-Purpose:** With the City facing its most severe fiscal crisis to date, we must ensure that all City resources are invested in the most beneficial manner for the community as a whole. To that end, the City Manager is directed to review the General Purpose Parking Fund to determine the best use of available resources within that Fund. Existing debt obligations require that the parking system be properly operated and maintained, and that all legally required reserves are adequately funded. However, further efforts to fund reserves for parking facility development should be placed on indefinite hold due to the fact that additional parking is not needed at this time, nor is it financially feasible for the City or Redevelopment Agency to support long-term debt for parking in the core of Downtown.

Available Parking Fund revenues and fund balances, beyond those needed to operate and maintain the parking system and fund required reserves, should be considered for allocation in the City Manager's Proposed Budget in the following ways:

- To help avoid additional priority General Fund service reductions.
- To ensure that Downtown transportation and public right-of-way infrastructure, including the Diridon Master Plan Area, is developed and maintained to support a vital Downtown economy and an efficient and balanced transportation system.

4. Strategic Support

a. **Workload Prioritization:** Due to the significant impact of position eliminations, staff capacity to take on many new projects is extremely limited. To help deal with reduced resources, we added a workload prioritization exercise between the City Council and

Senior Staff to the 2011-2012 budget process. City Council and staff discussed each of the 43 pending ordinances and referrals with the goal of prioritizing the Top 10 (Attachment B). Below are the Top 10 results of the prioritization exercise. The City Manager is directed to focus efforts on the Top 10 referrals.

Top 10 Ordinances and Major Referrals *(as prioritized at the 2/14/11 Study Session)*
Sign Code Major Update - Third Phase
Sign Code Update - 3 Year Pilot Program for Electronic/Digital Signs
Zoning Ordinance Quarterly Modifications
Off-Sale of Alcohol at Grocery Stores Streamlining
Zoning Standards - Main Street/Alum Rock
Medical Marijuana
Tree Removal Ordinance - Streamlining and Cost Recovery on Private Property)
Off-Sale of Alcohol Process Streamlining (Planning Commission recommendation to Council instead of mandatory detail)
San José Municipal Water System
Development Agreement Ordinance

b. **Asset Management:** The City is currently undergoing an 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. This program has been underperforming and not meeting anticipated revenues. It is important that the Asset Management Program make progress on key projects and revenue targets. The City Manager is directed to report back during the Mid-Year Budget Process on the status of the program.

c. **Sick Leave Payouts:** At the Neighborhood Association and Youth Commission Priority Setting Session, 87% of the participants felt that the City should change the policy of paying City employees for a portion of their unused sick leave. Memorandums of Agreement allow for police and fire staff to receive 100% payout of unused sick days at retirement; all other bargaining groups receive 75% of a maximum of 1,200 hours at retirement. The rise in personnel costs has led the City to examine all ways to reduce future expenses. The City Manager is directed to continue discussions with our employee groups on options to lower these costs, per current Council direction.

d. **Price Reductions from Private Vendors:** Similar to the direction last year, the City Manager, to the greatest extent possible, is directed to explore every opportunity to seek temporary price concessions with vendors, whether existing contracts are open or not.

e. **Deferral of Committed Additions:** Due to the budget deficit, the City Manager is directed to defer any avoidable committed additions in this year's budget. The deferrals should include the opening of any new facilities that would increase operating and maintenance costs.

f. **Earlier Effective Date for Filled Position Eliminations:** To maximize the dollar savings from position eliminations, the City Manager is directed to plan for an earlier effective date for filled position eliminations in 2011-2012. With the exception of employees represented by the POA, personnel impacted by budget reductions would no longer be employed as of June 26, 2011. Impacted POA employees would no longer be employees on July 1, 2011 due to a Memorandum of Agreement with the City on this issue. Last year, we implemented these reductions in August. An earlier effective date for filled positions would save millions, resulting in fewer services to be cut and fewer layoffs.

REDEVELOPMENT AGENCY

Over the past three decades, the San José Redevelopment Agency has invested more than $3.1 billion into revitalizing the Downtown and neighborhoods, strengthening the industrial areas, and creating affordable housing. Without the Agency, San José would be a drastically different place to live and work in. The Convention Center, downtown hotels, museums, HP Pavilion, high-rise housing, historic building preservation, community centers, and parks were developed with significant funding from the Redevelopment Agency.

In addition to its capital program, the Agency has long supported other government agencies. Since 2000-2001, the Agency has made payments to the City for services provided and debt service obligations in the amount of $278 million. Approximately $291 million was paid to the County for pass-through, delegated payments, settlement agreements, and administrative fees.

While the Agency has had an illustrious past, its future is uncertain. Three major factors are currently having a negative effect on Agency finances: reduced property values, the State of California, and long-term liabilities.

First, due to the weak real estate property values, tax increment revenue in the redevelopment area has plunged. On average, every 1% drop in revenue is equal to a loss of about $1.5 million to the Agency. During their last budget process, the Agency calculated a 2% drop in property tax for 2011-2012. According to some estimates, that drop could be far greater and result in millions of lost revenue in addition to the 8% drop experienced last year and the $2.5 million reduction in supplement assessments.

Second, the State of California has raided Redevelopment funds to solve its budget crisis. Last year, the Redevelopment Agency was forced to borrow from the City to pay the State of California $62 million SERAF payment, and they are scheduled to pay $13 million on May 10, 2011.

Unfortunately, the State is looking for ways to circumvent Proposition 22, which prohibited State raids of local revenues. The Governor's proposal is to simply eliminate Redevelopment Agencies altogether and take all RDA funds. This constitutionally questionable action would mark the end of the Agency. Every single dollar of tax increment is vital to the Agency.

Furthermore, the Agency has a total of $120 million in long-term obligations to the City of San José, including last year's $62 million SERAF loan. These long-term liabilities are scheduled to be paid back in out years, and the Governor's proposal would allow successor agencies to meet all previous obligations. However, any additional tax increment taken from the Agency next year would cast doubt on the ability of the Agency to pay off those City obligations in future years.

It is not surprising to hear that the State wants local money sent to Sacramento. The State has taken over $400 million in the last 12 years. The proposal to shut down Redevelopment Agencies will circumvent Proposition 22 and ignores the will of the voters.

While we are open to discussion of reforms at the state level, we should not stand by and let Sacramento and its well-organized special interests take any more vital funding from this area.

Based on what we know today, we should continue to work under the assumption that the Agency will remain intact. With the goal of protecting the viability of the Redevelopment Agency, I recommend the following:

1. **Support Litigation Efforts:** The ink on Proposition 22 isn't even dry and the State is trying to find another loophole to get around the will of the voters. We should actively support the League of Cities and the California Redevelopment Agency litigation efforts against the State.

2. **Continue our Lobbying Efforts:** Our lobbying efforts to save the Redevelopment Agency should continue aggressively. We also should continue our efforts to engage the business and development community, neighborhoods, and labor organizations to continue to promote the benefits of Redevelopment to our legislative delegation.

   I will also continue to work with the Big 10 Mayors to pressure and oppose the Governor's proposal to eliminate Redevelopment. I encourage our Councilmembers to continue to communicate with leaders in Sacramento to strongly advocate for Redevelopment. Our message should include keeping the door open on opportunities to reform Redevelopment and cost-saving alternatives for the State to consider, such as pension reform.

3. **Consider Withholding the State's $13 Million Payment:** The last installment on the previous state takeaway is due on May 10, 2011. I recommend we consider withholding this payment so long as the proposal to eliminate Redevelopment is on the table.

4. **Protect RDA Assets:** The Redevelopment Agency over the years has invested in numerous real estate assets downtown. Every effort should be made to ensure that the assets are used to accomplish Council priorities and programs identified in the Agency's Implementation Plan. Any assets transferred to the City should be used for the purpose of implementing Redevelopment plans and priorities and to pay down debt.

5. **Continue Valuable RDA Programs:** The Redevelopment Agency manages a number of valuable economic development programs that have generated strong returns on investments and leveraged private investment at a 7:1 ratio. The City Manager is directed to work with my office to develop a set of programs and a staffing plan to maintain programs that deliver a strong return on investment and leverage private investment like the Capital Equipment Program. This should be included in the 2011-2012 budget process.

6. **More Than Just Housing:** While continuing our robust affordable housing program should be advocated, it should not be the only goal. Other Council endorsed, high-priority economic development goals like job generation should continue to be promoted.

7. **Use State Initiatives as Leverage:** The State of California will be looking for support for a number of tax initiatives on the June ballot. I encourage my colleagues to oppose these measures so long as the proposal to end Redevelopment is active.

8. **Shield the General Fund from any Potential Impacts:** The Redevelopment Agency has annual obligations to the City that should continue to be met, such as the 4th Street Garage and Convention Center debt payments. The City Manager should zero out all Agency-reimbursed service funding.

9. **Continue to Work with the County and JP Morgan on its Line of Credit:** Discussions should continue with the County and JP Morgan regarding Agency obligations.

10. **Present a Multiple Scenario Budget:** The Agency should submit its 2011-2012 Proposed Capital and Operating Budget on May 2, 2011. This budget should include plans to address various scenarios.

Because the future of the Redevelopment Agency is still unknown at this time, this portion of the Message may be amended as we learn more about developments at the State level.

COORDINATION

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

ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST (CONT'D.)

MAJOR SERVICE REDUCTIONS EFFECTIVE JULY 2011

Service	Positions	Savings
Police Patrol Staffing Reduction	(62.00)	($ 9,167,000)
Satellite/Neighborhood Centers Closure	(38.47)	(3,190,000)
One Fire Engine Company Elimination	(13.00)	(2,381,000)
Branch Library Hours Reduction (4-5 hours)	(21.67)	(1,789,000)
Senior Nutrition Program Elimination	(25.86)	(1,164,000)
Park Ranger Program Reduction	(8.98)	(752,000)
Sexual Assaults Investigation Unit Staffing Reduction	(3.00)	(581,000)
Dr. Martin Luther King, Jr. Library Service Reduction	(5.63)	(549,000)
City Attorney Staffing Reduction	(3.00)	(437,000)
PRNS Special Events Staffing Reduction	(6.67)	(425,000)
Police Horse Mounted Unit Elimination	(1.00)	(282,000)
Building Fee Program Reduction	(10.50)	(236,000)
General Code Enforcement Program Reduction	(2.00)	(229,000)
Strong Neighborhoods Initiative Staffing Reduction	(6.00)	(652,000)
Workers' Compensation Claims Staffing Reduction	(2.00)	(218,000)
Anti-Graffiti Program Reduction	(2.00)	(211,000)
Development Services Program Manager Elimination	(1.00)	(175,000)
Info. Tech. Business Application Mgmt Reduction	(1.00)	(136,000)
Arts Express (K-12 Arts) Program Elimination	(1.00)	(131,000)
STAND Gang Intervention Program Reduction	(1.63)	(125,000)
Special TI/ITI Development Program Reduction	(2.00)	(106,000)
Almaden Lake Park Aquatics Program Elimination	(3.22)	(70,000)
Lake Cunningham Marina Closure	(1.51)	(60,000)
Total	**(223.14)**	**($23,066,000)**

* Based on 2010-2011 costs excluding the impact of employee concessions; reflects net costs that factor in offsetting revenue (i.e., Building and Fire Fee Programs)

Attachment B

Significant Ordinances and Major Referrals
Results of Prioritization from 2/14/11 Study Session

Item No.	Name of Ordinance/Referral	Responses*	Item No.	Name of Ordinance/Referral	Responses*
1	Landscape Ordinance (Water Efficient) ***(PBCE, ESD)***	1	24	Medical Marijuana ***(CMO, CAO, PBCE)***	17
2	R-1 Residential Streamlining/Clean Up ***(PBCE)***	5	25	Development Agreement Ordinance ***(CAO)***	11
3	Santa Clara Valley Habitat Conservation Plan/Natural Comm. Conservation Plan ***(PBCE)***	3	26	Special Events Ordinance ***(CAO)***	4
4	Sign Code Major Update - Third Phase ***(PBCE)***	21	27	Towed Car Ordinance amendments to be consistent with VC 22658 ***(CAO)***	4
5	Sign Code Update - 3 year pilot program for electronic/digital signs ***(PBCE)***	21	28	Amendments to Title 16 for Gaming Control licensing and work permits ***(CAO)***	8
6	Zoning Ordinance Quarterly Modifications ***(PBCE)***	21	29	Condominium/Apartment Conversion Notice Ordinance ***(CAO)***	0
7	Bail Bonds Ordinance Analysis ***(PBCE)***	3	30	Gift Ordinance Cleanup ***(CAO)***	0
8	Conservation Area Ordinance Streamlining (Distinctive Neighborhoods) ***(PBCE)***	4	31	Independent Police Auditor - Clarifying IPA participation in review of officer involved shootings ***(CAO)***	2
9	Green Building Retrofit Ordinance ***(PBCE)***	2	32	Lobbyist Ordinance Amendment - communications with lobbyists ***(CAO)***	0
10	Lighting on Private Property Policy Changes ***(PBCE)***	1	33	Social Host Ordinance ***(CAO)***	6
11	Off-Sale of Alcohol at Grocery Stores streamlining ***(PBCE)***	19	34	San Jose Municipal Water System ***(CMO, OED)***	14
12	Off-Sale of Alcohol process streamlining (Planning Commission recommendation to Council instead of mandatory detail) ***(PBCE)***	14	35	City-County Collaboration ***(CMO)***	5
13	Retaining Walls, Fence Heights - Streamlining ***(PBCE, PW)***	1	36	Smoking in outdoor areas ***(CMO)***	4
14	San Jose Open for Business ***(PBCE, OED, CAO)***	8	37	Use of Force Task Force **(CMO)**	5
15	Tree Removal Ordinance - Streamlining and Cost Recovery On private property) ***(PBCE)***	15	38	Airport Concessions ***(Airport)***	6
16	Zoning Standards - Main Street/Alum Rock ***(PBCE)***	18	39	Parking - Metered parking in business districts and other citywide locations ***(DOT)***	1
17	City Landmark Criteria to Align with California Register ***(PBCE)***	1	40	Parking - Metered parking in the Civic Center and 1st/Younger areas ***(DOT)***	0
18	Multi-Family District Update ***(PBCE)***	1	41	Police Management Audit ***(PD)***	8
19	Noise Performance Standards update ***(PBCE)***	0	42	Taxicab Vehicle Operation Ordinance Amendment ***(PD)***	1
20	North San Jose Form Based Code ***(PBCE)***	4	43	Senior Commission Policy Update ***(Clerk)***	1
21	Payday Lending ***(PBCE, CMO)***	0			
22	Pipeline Projects ***(PBCE)***	5			
23	Transit Corridor Residential - Align Zoning Standards ***(PBCE)***	6			

*** Number of people indicating this item as a top ten priority**