



# Memorandum

**TO:** City Council

**FROM:** Mayor Ron Gonzales

**SUBJECT:** March Budget Message  
For Fiscal Year 2003-2004

**DATE:** March 19, 2003

A handwritten signature in cursive script that reads "Ron Gonzales".

Approved

Date: March 19, 2003

## **INTRODUCTION**

Our projected deficit seriously threatens the City's ability to provide basic public services, jeopardizes our major initiatives, and limits our ability to stimulate the local economy. Although the situation is very serious, I am confident that we will rise to the challenge due to the leadership of the City Council, the support of our employees, and the participation from our community to find solutions.

As a result of the protracted and deepening recession, the City Administration announced in December that the City's General Fund would face a shortfall of approximately \$63 million next fiscal year. Since then, Governor Davis has proposed measures to address the state's budget crisis that would increase our General Fund shortfall to \$120 million if adopted.

Based on revenue and expenditure information since the Governor's budget proposal was announced, the City Manager has revised our own deficit projection upward to \$72.6 million. Coupled with the Governor's proposals, we are now looking at a potential General Fund deficit amounting to approximately \$130 million next fiscal year. To put that in perspective, last year all General Fund revenues totaled \$634 million; our projected deficit could be as much as 20 percent of last year's total revenues.

The Governor also proposed shifting redevelopment tax revenues away from local investments to replace statewide education funding. As proposed, this would terminate our Redevelopment Agency's ability to build affordable housing, make improvements in our neighborhoods, and stimulate our local economy.

In February, the Council approved budget strategies that focus on economic stimulus, cost reductions and strategic investments, while emphasizing the critical need to work closely with employees, the community, and the state to achieve solutions. Since then, I have met with the

Governor and legislative leaders to urge resolution of the state's budget crisis without crippling local government's ability to deliver the basic community services our residents depend on. I have also met with representatives of our City employee bargaining units to enlist their help in solving our own recession-driven deficit and we have begun a positive discussion on this matter.

With this March budget message, I recommend building on our strategy so that we can continue to provide vital services to our community, build strong neighborhoods, balance our budget, stimulate our economy, and to the extent possible, prevent the layoffs of our dedicated employees who diligently serve the people of San Jose.

### **RECOMMENDATION**

I recommend that the City Manager and Executive Director of the Redevelopment Agency be directed to submit balanced budgets to the City Council guided by the policy direction outlined in this document. They should focus on services and projects that can be reduced or eliminated, with minimal impact on the community, using a framework of priorities and demand for services. Proposals for budget reductions should be developed with a level of analysis that includes detailed data, justification, and outcomes for Council consideration.

I recommend that the City Council and Redevelopment Agency Board:

1. Approve the direction to Council Appointees contained in this memorandum in connection with the City Manager's Budget Request for purposes of developing proposed budgets for Fiscal Year 2003-04.
2. I have already frozen all wages for management staff within my office. I am pleased that senior management employees have also frozen all increases. These have been good signals to the organization that management intends to lead by example. I recommend that the Council approve with this action a similar freeze for employees in Council offices.
3. Direct all City boards and commissions to follow travel and meal restrictions that the Council adopted for all employees in February requiring Mayor's office approval that is the same approval process designated for Council Appointees.
4. Align the Manager's and Executive Director's proposed budgets with the budget strategies and priorities approved by Council in February. This memo incorporates by reference the details of the Mayor's February Budget Strategy.
5. Direct the Redevelopment Director to:
  - a) Prepare the five-year capital improvement budget based upon standard methods for projections of tax increment and bonding capacity with the best information available at the time regarding potential impacts from state redevelopment reallocations; and

- b) In anticipation of a state take-away of local Redevelopment funding, prepare for consideration in the proposed budget, a prioritized list of recommendations for deferring or deleting projects.

6. Direct the City Manager to:

- a) Develop a proposed budget that is balanced based upon our current revenue expectations and expenditure reductions, assuming no impacts from the state budget.
- b) Develop a prioritized plan of specific budget reductions that should be implemented if and when any state budget impacts are certain. Regardless of the magnitude or timing of potential state impacts, we could then take steps immediately to further reduce our budget as needed without further review or delay.
- c) Reserve funds in the May 1 budget proposal that are adequate to fund each Appointee's office, with an across-the-board reduction for Appointees equal to the average reduction proposed for non-public safety departments.
- d) Maximize reductions to ongoing programs to help solve future deficits to the fullest extent possible.
- e) Recommend fee increases rather than program reductions where raising fees is determined to be legally possible without adverse program impacts and maximum efficiencies can be certified.
- f) Look actively for opportunities for sponsorships and underwriting agreements that could help support vital city services.
- g) Without delay, coordinate and aggressively pursue opportunities for the City (and Community based Organizations (CBO) with technical assistance from the City) to apply for grants to support programs in priority areas.
- h) Avoid budget cuts that would mean we lose grants or cannot leverage other resources.
- i) Move the majority of the funds in the Healthy Neighborhood Venture Fund ending fund balance and, to the extent possible, a majority of the uncommitted future HNVF funds into the General Fund to support the City's current education, health, anti-tobacco, and senior activities. However, we must preserve funding for multi-year commitments/contracts such as the Children's Health Initiative.
- j) Bring forward new revenue options for Council consideration.

## **BACKGROUND**

In accordance with Section 1204 of the San José City Charter, I present my FY 2003-04 Operating Budget Message for consideration by the City Council and the public. The Mayor's March Budget Message is based on several sources. These include my recent State of the City address and previous addresses; budget messages and commitments from the past four years; input from the community and Councilmembers over the past year; and the budget strategies approved by Council in February.

This memorandum is designed to give the Manager and Executive Director specific directions to prepare proposals for the Council's budget deliberations in May. The numbers and information in this document should be considered preliminary. More accurate and current information will be included in proposed budgets submitted by Council Appointees. Further Council discussion and additional public hearings will take place before the final budget is presented for adoption in June.

Despite the dire financial challenges we currently face, this budget message outlines approaches to keep our commitments to maintain and improve the quality of life for residents in our neighborhoods and regain economic prosperity our city and region have enjoyed.

The severe recession in Silicon Valley and California underscores the importance of our conservative budgeting over the past four years. We have been smart with taxpayer dollars, making good investments and good decisions to set aside reserves and hold the line on costs. This Council has been very prudent in approving any expansion of service during the good economic times. In fact, Attachment I shows a detailed analysis of the City's budget growth over the past four years as compared to the growth of our workforce. City of San Jose employee growth was well below funding level growth.

During this period, one of the strategies implemented to help secure the City's financial stability has been to first use any surplus funds realized at the end of a fiscal year to establish reserves to cover any projected shortfall in the following year based on the 5-Year Forecast. In the current fiscal year, \$10.9 million has been set aside to address the 2003-2004 budget deficit. In addition, once the economic downturn began impacting the City's revenues in 2001-2002, we established a \$15.8 million Reserve for Economic Uncertainty that has not yet been used. These reserves are in addition to the Contingency Reserve that is established at a level of 3% of the General Fund budget.

The City's excellent financial management is reflected in the high General Credit Ratings issued from the three major credit rating agencies: a rating of "AA+" from both Standard & Poor's and Fitch, and an "Aa1" rating from Moody's. These ratings make San Jose one of the highest rated large cities in California, demonstrating the City's strong creditworthiness.

In these challenging economic times, however, City Hall will have to continue to do more with less. As we seek greater efficiencies to reduce costs and maintain quality of services, we also

must focus on our highest priorities. Especially in this time of extremely limited resources, governing means choosing – and we will have to make some extremely tough choices this year.

Complicating our budget decisions is the looming uncertainty of the state budget crisis and its potential negative impacts on communities throughout California. Until the Legislature and Governor approve the state budget later this year, it is impossible to determine how much of an impact we will feel as a result of Sacramento's decisions. We should anticipate, however, that Sacramento will shift a large share of the state's budget balancing burden to cities and counties.

Current state budget proposals represent an inequitable double financial hit for cities and counties that have already been suffering the effects of drastically reduced revenues because of the recession. The City of San José already has an approximate 10 to 12 percent General Fund shortfall as a result of the recession alone, and we have taken responsible steps over the past two years to keep our local budget balanced. State proposals to take additional funding away from cities compounds our deficit and would increase the shortfall to nearly 20 percent of our General Fund. This approach by the state is neither fair nor sensible, for it also neglects the essential role that local governments play in the economic recovery that will return prosperity to California.

In this light, San Jose must do all that we can to make a positive impact on the local economy through our public projects, services, and activities. Private industry is the fundamental generator of jobs in Silicon Valley, and job creation will be essential for economic recovery. It is our responsibility to help make it easier for business to thrive, grow, and create prosperity for our residents. We must cut red tape and streamline where possible.

The City itself can help stimulate our local economy and the creation of local jobs. With the recent passage of Measure A, voter-approved capital improvement programs within the City and the Valley Transportation Authority now total almost \$9 billion.<sup>1</sup> Our planned investments in a broad range of community improvements, infrastructure, and neighborhoods represent a major opportunity to strategically direct hundreds of millions of dollars for a substantial local economic impact as well as providing real long-term benefits to our residents and neighborhoods. As Council directed in February, these projects will be scheduled to create the greatest immediate economic stimulus and minimum increase in short-term operating costs.

It is very likely that the unfortunate and severe combination of the current recession and the state's unfair taking of local resources will also force us to make service and workforce reductions in San José in order to balance our own budget for the coming year.

We should consider layoffs as a last resort. As we consider these difficult choices, we must remember that we're talking about people and their families – not just numbers on a budget ledger. Our decisions will affect the lives of real people, whether they are city workers or the families they serve in our community. Where avoidable, we should not contribute to the

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<sup>1</sup> Measure A 2000 (BART and other VTA transportation improvements) = \$7 billion; Measure O 2000 (libraries) = \$212 million; Measure P 2000 (parks) = \$228 million, Measure O 2002 (police and fire facilities) = \$159 million; Measure A 2003(Airport) = \$1.3 billion.

continued downward spiral of the economy by increasing unemployment. These jobs keep people working and supporting local businesses.

We must therefore consider all possibilities to reduce our costs as much as we can in every area of our operations while protecting our core services. We must consider the prudent reallocation of all the City's resources and funds so that we can achieve this goal. In addition, we must look for opportunities to innovate and restructure in order to reduce costs, deliver better services to our residents, and save jobs.

Finally, it is necessary for the Mayor and City Council to lead by example. I ask each Councilmember for recommendations on spending reductions, current-year savings proposals, and other ideas to help reduce the deficit, both from our individual office budgets and from City operations in general. We must show the way and stand by our City staff as we meet this challenge together. Although Mayor and Council office budgets are small compared to the overall General Fund, our cooperation to reduce expenditures can add up enough to save a vital project or an employee's job.

Our fiscal restraint over the past four years has proven beneficial to the city's long-term financial outlook. Our restraint is why we as a City are not facing the daunting deficits in the current fiscal year that many other cities throughout the state now face.

### **General Direction**

As in the past, all proposals for either budget reductions or augmentations should be measured against the following criteria:

- Impact on essential public services
- Adherence to Council-approved priorities
- Relative importance to operational efficiency
- Effect on fiscal integrity and flexibility
- Economic impact and jobs

Because of the extraordinary challenge we face, I reemphasize the following general principles approved by Council in February and in past budget actions as we consider our direction to staff for preparing budgets for both the current and next fiscal year:

1. We must work together with our employee bargaining units to find ways to limit the number of employee layoffs.
2. We must focus on protecting our vital core city services for both the short- and long-term.
3. We must be willing to explore new revenue sources.
4. We must strategically focus on using our limited resources to stimulate our local economy and job creation.

5. We must not enter into new commitments that we cannot fund.
6. We should continue to reduce vacant positions, redeploy staff, and as much as possible try to save positions that are currently filled as a response to our current budget deficit.
7. We must take advantage of the opportunities that come from the elimination of vacant positions and consolidation of functions to reengineer processes and restructure responsibilities to achieve greater efficiencies for short-term and long-term savings.
8. We must continue to streamline, innovate, and simplify our operations so that we can deliver services at a higher quality level, with better flexibility, at a lower cost.
9. We must be open to alternative ways to deliver services and reduce costs through appropriate community partnerships and public-private partnerships. In some cases, we may work with the private sector to achieve savings or improvements. In other cases, it may be more cost effective for the City to provide the service with our own workforce.
10. We must continue to move in the general direction of providing efficient services and setting fees and charges that recover costs of service, but we also must include fee structures that offer preference to San Jose residents to the extent legally possible. As it becomes necessary to increase fees to reduce our budget shortfall, our own residents should be impacted least.
11. Community-based organizations that are our partners for delivering vital services to residents also are facing similar difficult economic challenges. Budget reductions applied to City departments should be applied at generally the same level to our CBO partners who receive General Fund support, with the goal of minimizing the impact on direct services to our residents and businesses.

### **INVESTMENT/ASSET ALLOCATION STRATEGIES**

I continue to focus on six core priorities for San Jose that I have outlined in State of the City addresses and that have been endorsed by Council actions and the reorganization of our Council committee structure:

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

As we move forward with the budget process we must always stay focused on the outcomes that are most important for our residents and businesses. I recommend that the City Manager and

Redevelopment Agency Executive Director be directed to review all programs including base budget, investment, and reduction proposals to ensure that we are making real progress to achieve our six main priorities.

It is important that CSA's use this framework to ensure consistency in our deliberations. This framework emphasizes our desired approach to improve interdepartmental, collaborative, and results-oriented services. Redevelopment *and* City services should be considered as integral and mutually supportive of our overall priorities.

We should look for opportunities to fund as many programs with appropriate non-General Fund sources to the extent legally possible. This includes transferring General Fund program costs to other funds when the case can be made that they are a higher priority than other services funded by non-General Fund sources.

Finally, all proposals for reductions must specifically quantify the level of service to be provided, the impact on position reductions, and the potential cost savings.

### **1. Building Stronger Neighborhoods**

We must continue to view our role through the eyes of our residents who see the direct impact of services from their driveways. Over the last several years we have made real progress in this direction as the City and residents have worked together to invest time, effort, and resources to improve neighborhoods and make San Jose a place we are all proud to call home. To move forward with this effort, Appointees are directed to implement the following recommendations:

- a. Any proposals for reductions in hours of service at our libraries need to do so in the context of serving the largest number of users possible. For example, if we must reduce hours at branches, we should not just close on Saturdays because logistically that is the easiest. We must come up with creative scheduling proposals such as individual staff splitting days between two sites, or pairs of nearby libraries closing on different days so that reasonable public access is still available, etc.

We should minimize the impact on after-school programs and maintain hours that are most accessible to most of our customers. Evenings and Saturdays should not be reduced under any circumstances unless other evenings and Sunday are added for staff scheduling reasons.

- b. For programs such as adult sports, we should contact participants with proposals for possible fee increases that could cover costs before we propose deleting these programs.
- c. We should make every effort to continue to provide adequate maintenance to city facilities to minimize the serious long-term burden of deferred capital maintenance. It took many years to catch up with terrible maintenance backlogs from the serious budget challenges a decade ago. We should not repeat that mistake.

- d. To ensure that core services continue to be supported, we should make budget decisions without artificial bookkeeping barriers between funds where there are no legal restrictions.
- e. We must evaluate services delivered by community-based organizations and other governmental agencies by focusing on services delivered and outcomes desired. We must focus on the cost-effective results for residents and businesses that use the services we fund, rather than based on whether it is an internal or external agency that delivers the service.
- f. We should attempt to limit cuts in vital services such as Senior Nutrition, Youth Employment, and Youth Sports.
- g. The Manager is directed to reduce General Fund funding for community partner (including community-based organizations, non-government organizations, or other government agencies) where legally practical, by the same average percentage reduction as proposed for City departmental reductions. These reductions should be coupled with cost-of-living-adjustments (COLA) to the extent COLA's are implemented in departmental budgets providing for an offset, or net percentage being applied.

## **2. Safest Big City in America**

San Jose is the safest big city in America, and San Jose residents feel safe in their neighborhoods. Additionally, our city now claims the title as one of the most prepared cities for disasters. Regardless of our budget situation, the safety of our residents and businesses must remain our first priority. Appointees are directed to implement the following recommendations:

- a. We should look at all opportunities for cost savings through consolidating services and related functions. The Administration is directed to look at the feasibility of consolidating all dispatch services so that dispatchers are cross-trained to respond to any 9-1-1 call. This is especially timely as we move forward with planning for the new bond-funded dispatch center. Cross training, which has proven invaluable in our inspection services, could provide excellent efficiencies in our dispatch systems for workload distribution and improved response time and flexibility to meet critical emergencies.
- b. Direct the Administration to respond to the Fire Department paramedic overtime staffing problems through the budget process.
- c. As costs increase for community groups and businesses, we must look at ways to reduce the costs we pass onto the public. To this end, we should evaluate our ability to reduce the supervisory and administrative staff associated with the police Secondary Employment Unit.
- d. We have three excellent youth intervention programs: TABS, SAVE, and SHARP. We should evaluate combining them into one overall youth intervention program that could

deliver the same services and reduce administrative overhead or duplication of effort. We also should be able to reduce truancy abatement and curfew services that are no longer necessary due to aggressive enforcement in past years and other alternatives.

- e. We must consolidate project management for the Neighborhood Security Bond Projects into a single person or a single outside contractor with the goal of delivering projects on time and on budget. We should explore cost savings related to coordination of all bond project management.
- f. We should explore opportunities to move or eliminate other vacant Records Division positions as a benefit of the new computer-aided dispatch system coming on line soon and the mobile police computers recently purchased. Among the goals of the new CAD system and these computers are reducing redundant reporting and paperwork and improving efficiency, which should allow redeployment of positions.
- g. We should identify school safety programs that overlap or are duplicative in order to eliminate redundant services, focus our resources to address safety in our schools, and minimize reductions in vital services.
- h. We should attempt to minimize reductions in investigative work in our most vital and sensitive areas, such as homicide and gang-related cases.

### **3. Helping All Children Achieve**

Even in difficult budget times we must strive to strengthen the role of city government for improving student achievement so that every child in San Jose can have the opportunity to succeed. Appointees are directed to implement the following recommendations:

- a. As directed in the Mayor's Budget Message in March 2002, the Manager is directed to complete an analysis of the City's current after-school programs and identify strategies in the 2003-2004 Manager's budget proposal for a more effective, cost efficient, and consolidated citywide after-school program that will reduce costs and achieve our top priority outcomes.
- b. The Director is directed to explore opportunities to continue to move forward with Smart Start San Jose and the Childcare Initiative at the earliest possible moment. We should not allow inactivity and political stalemates in Sacramento to hinder our commitment to help pre-kindergarten children be prepared to enter school ready to learn.

### **4. Building Better Transportation**

Creating a transportation system that provides safe and efficient access for residents and businesses, enhances our neighborhood streets, and preserves our street infrastructure in the face

of a serious deficit is a challenge. We must continue to find creative solutions to provide transportation infrastructure and services despite these difficult budget times. Appointees are directed to implement the following recommendations:

- a. The Manager is directed to seek opportunities to streamline process for collecting citation revenues to reduce costs or improve efficiency.
- b. We should look for opportunities to reduce administrative and administrative support positions to focus resources on direct service delivery.
- c. We must identify a prudent balance between preventive maintenance and corrective maintenance services for minor or emergency repairs. The Administration should identify a strategic approach to resurfacing San José street pavement based on clear criteria and priorities. The goal of this strategy is to allow us to extend street resurfacing cycles, retain some capability for immediate high-priority resurfacing projects, and prevent major future costs of resurfacing. As we explore extending the maintenance cycle for residential streets, arterials and collectors, we should make every effort to maintain cycle times as frequent as possible.
- d. Street maintenance services such as contracted slurry seal preparation and the minor construction program should be brought back in-house if we can have greater productivity at the same cost or the same productivity at lower cost.
- e. We should consider transferring funds from the Traffic Capital Improvement Program to the General Fund to the extent legally feasible. The goal of this shift is to prevent significant reductions in core transportation services in the following areas: street pavement, central and business district cleaning, street trees and landscapes, traffic signals/sign marking, street lighting, neighborhood traffic engineering, employee training and safety, and fiscal management.
- f. The Environmental Services CSA and the Transportation CSA need to coordinate their efforts regarding parking citations in neighborhoods that have opted for permit-parking areas and those that will have additional enforcement for street sweeping.

## **5. Driving a Strong Economy**

We continue to make San Jose the best place in America to do business, work and live. San Jose is a statewide leader for creating housing affordable for all income levels. Despite the current recession, we have a remarkably broad and diverse industrial base. Our downtown and neighborhoods offer a full range of exciting, entertainment, cultural, and retail opportunities. Through prudent planning and a strong and effective economic development effort, the City can have a major impact on economic recovery that will address our budgetary challenges. Appointees are directed to implement the following recommendations:

- a. Art and cultural institutions are a vital part of our economy and quality of life. As we make budget cuts, reductions of City support to arts organizations should be of the same magnitude to the cuts we are asking City Departments to make when General Fund dollars are involved. The Manager is directed to communicate as quickly as possible with the arts community regarding the realistic availability of funds for next fiscal year.
- b. The Manager is directed to review our ability to stabilize arts funding by shifting groups to contractual services within the General Fund at a stable funding level with built in CPI adjustments. Also, a review should be done of partially funding such an endeavor by looking at our 2% public art program to evaluate the possibility of shifting some of the fund to supporting arts institutions in San Jose and creating a reserve fund to provide further stability and fund new organizations or new programs as they come forward.
- c. We should explore redeployment within the San José First Employment Program. Combining or coordinating services in this General Fund program with the Workforce Investment Network and possibly consolidating workforce development services under the WIN umbrella could lead to better service for people seeking jobs. Our business assistance programs also should include information on WIN services, as a resource for emerging businesses to meet their employment needs with local residents.
- d. We should shift funding for any proposed neighborhood cleanup program to non-General Fund sources to ensure that cleanups align with the Auditor's recommendations.
- e. While cost recovery continues to be a priority, feedback from the development community on proposed increases in fees for development services is incredibly important and must be taken into consideration before we approve them. The Administration is directed to continue to reach out to the development community as it develops proposals for fee increases.
- f. Reducing the customer service hours by Development Services would be a major inconvenience for the residents and businesses of San José and could adversely affect economic development and our competitiveness. The Manager is directed to find creative solutions for staff scheduling that will provide for maximum hours of operation desired by users, even if it means some delay of service during peak hours.
- g. The Manager and Director need to review the funding priorities within our housing programs to determine if we should alter the funding percentages between new housing production and existing housing improvements. Any recommendations for shifting funds should be reviewed as part of the budget process.

h. Convention Center

- Direct the Administration to come back with a strategic approach for budget reductions and General Fund savings that create greater efficiencies and better results for both the Conventions, Arts & Entertainment Department and the San Jose Conventions and Visitors Bureau. This strategy should include the consolidation of similar or overlapping functions in both agencies such as sales and marketing services.
- Direct the Administration to report back with opportunities to save costs and improve efficiencies at the Convention Center by revising the current operations structure.

i. Norman Y. Mineta San Jose International Airport

Mineta San José International Airport is an essential economic asset to our city and region, and it is also an important neighbor to our community's residents. We need to continue to enhance the airport's ability to support our economy and serve our residents while following through on our commitments to improve traffic accessibility. This is especially true since San José voters recently approved Measure A that will allow us to move forward with improvements for passenger convenience, security, and access. Measure A implementation will have a tremendously positive impact on our local economy by adding jobs for construction and making our airport more competitive in the region.

- While it may be feasible to have some reductions in capital maintenance, we must make sure they will not adversely affect major capital projects designed to improve security and the passenger experience and making the Airport a good neighbor such as our residential acoustical treatment program and outreach efforts.
- The Airport should evaluate elimination or reduction of contracts for infrastructure maintenance services, employee training, business development, and supplies.
- The Manager and Attorney are directed to look for reductions in outside contracts for Airport legal services. Given the potential importance of these issues, however, the Airport should retain some basic capability to address legal matters.
- The Manager is directed to seek opportunities to use City inspectors for the increasing level of inspections required at the Airport. With the current budget situation, we should look to our qualified inspectors working in the Building Department before using outside contractors if costs are the same or less.

j. Redevelopment Agency

Through the *Investing in Results* process, the Agency Board has reviewed the four Core Service Areas for the Redevelopment Agency. The four Redevelopment priority policy areas are:

- Promote and Implement **Neighborhood Improvement Strategies**
- Initiate and Facilitate **Public Facilities and Spaces**
- Enhance the Quality and Supply of the City's **Housing Stock**
- Initiate and Facilitate **Private Development**

The Agency Board previously confirmed my recommendation to shift the focus of our Redevelopment resources to neighborhood investments. The Board indicated its desire to have the first three policy areas receive roughly equal amounts of resources and the fourth receive a lower level of funding. I recommend that the Agency Board reaffirm this direction and direct the Director to develop a five-year capital improvement plan that achieves the desired balance of spending within the core service areas.

Although the outlook for Agency funding to accomplish these goals is currently uncertain because of the state budget crisis, we should continue to plan our capital program without consideration of potential impacts from state redevelopment reallocations. In anticipation of a state take-away of local redevelopment funding, however, we must be prepared to defer or delete projects based on clear priorities approved by the Board as part of the budget process.

We should continue to review policies and ordinances that may restrict smart, responsible development that stimulates the local economy. We might have outdated or no longer relevant ordinances that can be eliminated thereby facilitating construction or business operation.

## 6. Making Government Work Better

We must continue to make San Jose a user-friendly city that delivers high quality services to residents and businesses by striving for maximum efficiencies in how we perform our work. Appointees are directed to implement the following recommendations:

- a. We should explore a second "business tax amnesty" program. We must continue to be a desirable city to do business. The last amnesty program actually generated significant revenue to the City, allowed us to close the books on old accounts, and signaled our commitment to a positive partnership with the business community.
- b. The Manager is directed to further explore online purchasing to achieve cost savings and system efficiencies for obtaining goods and services.

- c. The Manager is directed to continue to explore shifting from the General Fund the funding for program services related to activities in enterprise funds and the Redevelopment Agency to those funds.
- d. The Manager is directed to restrict the conversion of fixed-term grant-funded programs to permanent programs unless they conform to explicit Council priorities. Often we receive grants for programs that Council approves because General Fund or enterprise funds are not used. Conversion of such programs should be clearly considered by Council as part of the budget process.
- e. The Manager and Attorney are directed to review all grant processes, after consulting with the County of Santa Clara regarding their recent overhaul of grant programs, to determine how to streamline our system to the maximum extent possible. There are great opportunities to reduce City costs and reduce costs to outside agencies that do business with the City.
- f. We must continue to plan for the future infrastructure needs of the City, and every effort should be made to look for low-cost ways to preserve our infrastructure.
- g. The Administration is directed to review all special funds to ensure that personnel costs paid through these funds are accurately aligned with the specialized work assigned.
- h. We should use the Customer Service Call Center to assist residents with Recycle Plus customer service questions and filter out billing issues from other questions in order to create efficiencies and better customer service.
- i. Proposed reductions to programs that help us meet OSHA requirements should be considered only if they do not directly affect the safety of our employees. We should maintain our ability to protect our employees and prevent hazardous conditions in the workplace.
- j. In order to retain the best and brightest employees, we must continue to be an employer that offers training and classes to help employees improve their skills and serve our residents better. We should evaluate whether training programs are in fact helping City staff become more effective and efficient to reduce costs and improve quality. Any proposals to reduce training should be analyzed to achieve this goal.
- k. At a time when we are trying to preserve employee jobs and reduce hiring, we should also reduce costs for employment recruiting and testing.
- l. The Manager is directed to look for opportunities to cross-train staff in the Call Center to provide a centralized intake and referral system for a broad range of City services, such as utility billing and 2-1-1 type services they are doing today, in order to improve customer service and reduce the need for departmental call support.

- m. Defer detailed decisions about Council Appointee budgets and Mayor/City Council budgets until our budget review process in May and June. This will allow us to evaluate potential reductions in services in the full context of reductions being proposed for all City departments. Further direct the Council Appointees to continue to work with the Mayor's Budget Office to develop specific reduction proposals that can be submitted to the Council by May 1 (including reductions in response to recommendation 6b in the Recommendation section of this memorandum).
- n. Vehicle Replacement
- The Administration is directed to freeze all vehicle replacements for the general fleet for FY 2002-2003 and FY 2003-2004. The Administration is further directed to not allow exemptions without the Manager's or the Manager Budget Director's personal approval. The Manager is directed to work with the Auditor to look for additional savings in the General Fund related to the City's purchasing strategy for the fleet.
  - The Administration is directed to shift all unencumbered funds in Fund 552 to the General Fund related to vehicle replacement, purchasing, and leasing. This includes the elimination of \$1.4 million for the acceleration of vehicle procurement, \$1 million from the ending fund balance, and all other funds available to shift to the General Fund.
  - The Administration should provide the Auditor with a final list of staff and position reductions and the number of vehicles assigned to them to ensure that these unused or underused vehicles are reviewed and potentially removed from the City's fleet. This review is recommended to take place as part of the audits of General Services to be completed in FY 2003-2004.
  - We should seek all opportunities to reduce costs and achieve greater efficiencies in fleet management, including eliminating, renting, leasing, or pooling vehicles.
  - The Administration is directed to work with the Auditor's office to identify criteria for underutilized vehicles and to develop alternative means to use these vehicles by either renting, leasing, pooling cars or using mileage reimbursement for the use of personal vehicles.
  - We should seek all opportunities to reduce costs and achieve greater efficiencies in our use of heavy utility vehicles, such as tractors or specialized equipment by renting them when needed, interdepartmental sharing, and/or removing them from the fleet.

### **UPCOMING BUDGET PROCESS**

It has been customary as part of the budget process for Councilmembers to make specific budget proposals to the Mayor that reflect district priorities or leverage resources that have been set aside for neighborhood investments and services.

This year we have a much different and difficult challenge, and our principal goal will be to maintain our core services, avoid layoffs, and stimulate our local economy as much as possible. Although we can hope that we will be able to set aside resources to help fund Councilmember budget requests, it is not realistic to expect it. Rather, this year, I am calling on my colleagues to actively seek proposals and ideas that will help us close our budget deficit by reducing costs, eliminating or deferring projects, or obtaining outside resources from grants and partners. The Manager is directed to provide to Councilmembers a schedule of when ideas would need to be received to accurately estimate the potential savings that would be achieved.

Despite the economic recession, it is important to remember we are still in business, and we are still serving the people of San Jose. For this reason, I recommend that we make every effort to identify potential funding and aggressively seek other resources that could allow us to consider some one-time investments in neighborhoods. This will be contingent, of course, on factors such as state budget decisions that could increase our deficit or the potential recovery of revenues that could reflect signs of recovery.

### **CONCLUSION**

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

### **COORDINATION**

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

Attachment I

General Fund and FTE comparative analysis of last four fiscal years.

General Fund* by Fiscal Year	In Millions
1999-00	\$529
2000-01	\$571
2001-02	\$662
2002-03	\$635

GF growth 99-00 to 02-03	\$ increase	% increase
	\$106	20.0%

FTE** by Fiscal Year	FTE
1999-00	6,711
2000-01	7,026
2001-02	7,453
2002-03	7,418

FTE Growth	99-00 to 02-03	% increase 99-00 to 02-03
All funds including growth of 177 in DPW, Housing and Airport (non general fund departments)	707	10.5%
Subtracting out DPW, Housing and Airport growth	530	7.9%

\* General Fund amount was determined by taking the total General Fund source statement and subtracting the fund balances carried forward from previous year.  
Source 2002-03 Adopted Budget page IV-2

\*\*FTE's are not separated into fund categories - these are all FTE's regardless of fund source.