



Memorandum

TO: CITY COUNCIL

FROM: Councilmember Matt Mahan

**SUBJECT: MAYOR'S BUDGET
MESSAGE FOR FISCAL
YEAR 2021-2022**

DATE: June 14, 2021

APPROVED:

RECOMMENDATION:

1. Adopt the recommendations set forth in the Mayor's June Budget Message for Fiscal Year 2021-2022.
2. Direct the City Manager to assess the following and return with recommended spending priorities in the fall (timed to coincide with Council direction pertaining to unspent American Rescue Plan (ARP) funds):
 - a. Councilmember Esparza's direction regarding fee and fine relief for residents, as outlined in her memo attached to item 3.8;
 - b. Potential one-time investments that would best help residents most impacted by COVID-19 get back on their feet economically, especially through sustainably increasing employment rates and incomes;
 - c. Potential one-time investments that would generate significant ongoing savings or efficiencies in the operation and maintenance of city services, enabling the City to reduce its structural deficit without defunding services for residents.
3. Direct the City Manager to study and prepare proposals for better aligning the City's annual budget planning process with measurable performance targets, including the level, quality and equitability of core city services, as described in the background below. Bring these proposals to City Council for direction this fall, perhaps during a Council Study Session, in time for Council direction to be incorporated on a trial basis in the 2022-2023 budget planning process.

BACKGROUND:

Thank you to Mayor Liccardo for articulating a clear and compelling vision for the upcoming fiscal year budget amidst great uncertainty and even greater need in our community. I strongly support the Mayor's four areas of focus, which were outlined in his March Budget Message,

unanimously approved by City Council, and incorporated into the City Manager's proposed Operating and Capital Budgets:

1. Equitable Recovery for a Better Normal
2. Back to Basics: Clean, Safe City
3. Homelessness and our Affordable Housing Crisis
4. Fiscal Resilience and our Future

I also believe that the Mayor's plan for spending ARP dollars—which includes learning more before allocating 100% of these precious one-time funds—is prudent. The proposed 2021-2022 budget devotes significant ARP funds to addressing an ongoing, or structural, deficit in addition to many new, one-time recovery initiatives. Let's learn from the range of new investments included in the proposed FY 2021-2022 budget, understand how other agencies are allocating their recovery funds, and see how our structural deficit is evolving before committing all of the funds at our disposal.

While we gather additional information, I am proposing that the City Manager conduct an analysis of potential future uses of ARP funds that would achieve one or both of the following goals: economically empowering residents who have been most impacted by COVID-19 and making city operations more efficient to prevent future service cuts that would impact all residents, and especially those who most rely on those services.

First, as a community, we have a moral responsibility to lift up our neighbors who have been, through no fault of their own, economically devastated by COVID-19. The pandemic has exacerbated existing inequities in San José by driving up unemployment in our lowest-income neighborhoods, reducing incomes for service workers who have managed to remain employed, and increasing debt burdens for many residents, especially in the form of back rent. These forces have pushed thousands of our neighbors to the brink of displacement and homelessness, and this economic crisis will long outlive the public health crisis we finally appear to be overcoming.

While a wide range of programs might meaningfully assist low-income residents, I believe that we will do the most good by focusing on investments that empower these residents to attain employment, increase incomes, reduce debt burdens and otherwise achieve economic self-sufficiency. In this spirit, I appreciated Councilmember Esparza's memo on item 3.8, which calls on the City Manager to explore reducing or eliminating city fees and fines that block access to opportunity and increase debt burdens for low-income residents. Given the one-time nature of ARP funds, we should invest them where they will have the most ongoing economic benefit for our low-income residents, which may range from job training and small business support to addressing learning loss.

Second, given the reality of our \$28M per year structural deficit and relentless cost escalation in the city's delivery of services, we should consider what investments in City operations might yield savings that allow us to do more with less over time. For example, new technologies and workflows frequently require upfront switching costs but have the potential to enable city employees to have greater impact for their time.

Utilities are another area in which service delivery costs have grown rapidly in recent years. Can we find one-time investments in capital, employee training or public education that might help contain the cost of utilities in the years ahead? We know, for example, that every 2% increase in

recycling contamination translates into an increase of approximately 1% in costs, which are directly passed on to ratepayers. The Environmental Services Department (ESD) has a range of ideas for reducing contamination and thereby saving ratepayers money, but even testing these strategies requires upfront investment.

Paying down debt, facilitating a transition to greater remote work, better maintaining city parks, roads and other physical assets, and many other potential uses for ARP funds may yield ongoing savings that would allow the City to deliver more value to all residents for a given level of expenditure. I suspect that city staff who are closest to service delivery will have many other and better ideas for how to reduce the cost of doing business as a city, and I hope the City Manager will solicit their input as we consider how to emerge from this crisis in a stronger position fiscally and operationally.

Finally, I am further proposing that the City Manager help Council understand how our budgeting process might better align the spending decisions we make each year with our goals. Our current budget documents include performance measures and, in many cases, performance targets. However, in practice, there appears to be little explicit connection between the annual spending we approve at Council and how staff plans to better achieve our top performance targets.

For example, “Key Budget Actions” for each City Service Area (CSA) are not explicitly linked to the performance target they are meant to support. These enumerated budget actions also do not estimate the impact of these actions on relevant performance targets. As far as I can tell, the Council does not weigh in directly on the value and priority of the performance measures highlighted in each CSA’s budget document, though I am hopeful that the recent City Roadmap process will be integrated with the performance targets outlined in the budget. In fact, my understanding is that staff is already beginning to work with certain city departments to establish Objectives and Key Results (OKRs) that reflect the priorities Council has adopted through the City Roadmap process.

To be sure, setting up city-level OKRs and budgeting against them is not a simple task. I would not expect to see the City completely realign how budget decisions are made over the course of a single year. However, I believe that we can take concrete steps toward better articulating which performance measures within a given CSA are most important and how a given budget action is meant to improve the City’s performance in those areas. Over time, I would hope that making these decisions and assumptions more explicit would improve our collective learning and enable us to make increasingly better decisions about how to spend our limited resources to maximize the public benefit.

If, for example, we continually fall short of our top performance target within a given CSA, the Council should be presented with analysis and options: Do we need to invest more? If so, where should we spend less? Do we need to invest differently? If so, how? Is this target a lower priority than we previously thought? What might be more important?

The City Manager can and should use the budget process to reflect back the Council’s—and by extension, the public’s—top priorities and explain how we are performing and what we are doing to improve outcomes for our community. I’m confident that a more explicit, performance-oriented budgeting process will enable us to do more to benefit all of our residents with our limited resources and build public trust in city government. Thank you for your consideration of these proposals.