



## **Mayor Chuck Reed's 2014 State of the City Address**

**February 20, 2014**

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Good evening. Welcome everyone.

Alex, thanks for flying all the way across the country to make the introduction. I owe you a beer and some pizza. Thanks also to my daughter Kim for the video appearance. She could not be here in person because my son-in-law is home for a short visit before he returns to Afghanistan.

I also want to recognize my wife, Paula, and my sister, Sandy, who are with us tonight. Paula, thank you for your love and support. Compared to your job, mine seems easy.

Thanks to our emcees, Michael and Karolyn. We've got great leadership at Team San Jose managing our new and expanded San Jose McEnery Convention Center!

Congratulations to all of our honorees this evening: the community volunteers and city employees who were just recognized. Thank you for everything you do to make San José a great place to live, work and raise a family. Let's give them another round of applause.

Pastor Danny Sanchez, thank you for your words of encouragement and for your inspirational leadership with the Mayor's Gang Prevention Task Force Faith Initiative.

To all of the elected officials who have joined us: thank you for your service. Please stand and be recognized.

I want to thank our former City Manager, Debra Figone, who just retired, for her 44 years of public service, and to welcome Ed Shikada to his first State of the City as our City Manager. Their leadership in difficult times has been amazing.

And I'd like to extend a big thank you to the members of my staff. Wherever you are, please stand. You have helped me enormously. I couldn't have done it without you.

### ***Standing on the Shoulders of Giants***

This is my eighth annual State of the City speech and I've noticed that we tend to think of Mayoral terms in 4 and 8 year intervals. But as I reflect on my seven years as Mayor, and I consider the work still to be done in the years ahead, it is clear that we should think in much longer time frames.

Several of my predecessors are here tonight: Ron Gonzales, Susan Hammer, and Tom McEnery. Please stand. Thank you for your leadership.

Much of what we have accomplished over the past 7 years has been possible because we have been "standing on the shoulders of giants," as Sir Isaac Newton once said about scientific progress. We are seeing projects come to completion and benefitting from the actions of our predecessors, and much of what we have started will be carried out by the next Mayor and Council and will benefit future generations.

Consider this building. The Convention Center was built during Tom McEnery's term as Mayor, as part of his downtown revitalization initiative, which he is still working on with the wonderful San Pedro Square Market. For years, we've known we needed to expand and upgrade our Convention Center but we didn't have a way to pay for it.

It took some great staff work, but we figured out how to do it without risk to the General Fund. Our San Jose hoteliers stepped up and approved a special tax on their operations. Bill Sherry and our Public Works team made sure it came in on-time and on-budget.

Now all of us can help by booking events that bring visitors to fill our hotels and restaurants.

When those visitors come to town, they can fly into our state-of-the-art airport where you can avoid the fog and depart on time.

It was an honor to be the Mayor who cut the ribbon on the new terminal in 2010, but the hard work started long before that. In 1940, Mayor Ernie Renzel found the land, negotiated the price, and then championed a ballot measure to pay for it. And every mayor since then has worked to make our airport one of the best in the country.

In recent years, we've had some great successes adding new carriers – thank you, ANA and Virgin America – and adding flights from Alaska, Southwest, and Delta. We will also soon break ground for Signature Aviation and Google aircraft on the Westside. But to ensure the airport continues to grow so it pays for itself, we have to add more flights and keep costs under control.

Other long-term transportation projects are also well underway. In January, crews poured concrete for the platforms at the Berryessa BART station. Mayor Gonzales and Carl Guardino from the Silicon Valley Leadership Group secured passage of the first sales tax in 2000 for capital funding. Then in 2008, business and labor joined together to get operational funding through another sales tax measure. (Thank you again, Carl.)

I'm proud that I and many of my Council colleagues were a part of that campaign, but our work isn't done. The next Mayor and Council will need to finish the job and connect BART to Downtown!

Another ribbon the next Mayor will get to cut will be for the San Jose Earthquakes' stadium. This stadium is being paid for with private dollars and I want to thank Lew and Keith Wolff, John Fischer and the Earthquakes for making this investment in San Jose. Of course, it would not have been possible without a great fan base. Thank you Soccer Silicon Valley for leading the way. (Don Gagliardi and Colin McCarthy – congratulations!)

I wish we had such good news on the baseball front, but the Commissioner has refused to let us take the field.

Both Susan Hammer and Ron Gonzales worked hard to attract a Major League Baseball team to San Jose. The A's are ready to invest over \$400 million in a privately-financed, privately-operated ball park that will generate millions of dollars in tax revenues and nearly a thousand jobs. But Major League Baseball has put a big red X on our city. That's wrong and that's why we sued them.

We learned today that the Ninth Circuit has agreed to expedite our hearing and we hope to have a legal decision this summer. I am looking forward to watching the next Mayor throw the first pitch for the San Jose A's!

Thankfully, not everything moves at the speed of the Commissioner. And not everything important we do involves bricks and mortar.

## *Laying the Foundation for a Strong Future*

Some policies and practices we implemented over the past seven years have fundamentally changed the way things were done for decades in San Jose and laid the foundation for a strong future.

When I came into office I promised you, the people of San Jose, to make government honest, open, and fiscally responsible. Since then, the City Council has approved more than 90 ethical and open government reforms. We created a community based budgeting process. We posted information on the web before decisions were made, so you could participate in the debate. No more springing deals on the public at the last minute. No more policy by surprise.

Many of these reforms were done as pilot policies. Now it is time to put sunshine into the Municipal Code by enacting an open government ordinance before the end of the year.

During my first term, we also adopted San Jose's Green Vision, a bold plan to improve the economy and protect the environment.

We've made great strides capturing clean-tech jobs and piloting new technologies, like the world's first ChargePoint station and the nation's first organics-to-biogas facility. We led the region with municipal power purchase agreements and installed 4.5 megawatts of solar power on city facilities. We will soon install 20,000 LED streetlights paid for with savings from energy conservation.

Our Green Vision has shown that it is possible to save money, protect the environment and stimulate economic growth all at the same time – and it has put San Jose on the path to be the world center of clean-tech innovation.

Another way we are maintaining our role as the Capital of Silicon Valley is through our economic development strategy that focuses on driving industries that generate jobs and produce revenues for the city.

After the capital markets crashed in 2008, we needed to take bold steps to get our economy moving again. So we developed a plan to attract big investments in San Jose by reducing red tape, cutting taxes, cutting fees, and “working at the speed of business” on major projects. (Thank you, San Jose Silicon Valley Chamber of Commerce and NAIOP Silicon Valley for your help.)

Our plan has paid off big-time. Since 2010, over \$3 billion worth of major projects have been built or have started construction in San Jose, including the Samsung America headquarters, high-rise residential towers in Downtown, 9000 high-density residential units in North and South San Jose, Cisco parking garages, the Earthquakes stadium, retail centers, and many R&D building makeovers. And there's more than a billion dollars of major projects still in the permitting pipeline.

In addition, Brocade, Maxim, and Ericsson have located new headquarters in San Jose, and IBM, Adobe, eBay, and PayPal continue to invest here and grow here along with hundreds of other driving industry companies.

Silicon Valley CEOs and project developers tell us all the time that our development services team delivers great service in a timely manner. Our permitting and inspecting staffs are doing a great job. Many of them are probably still at work. Yes, they do work nights and weekends. Thank you.

Also, thank you, Mayor Ron James for making sure we have plenty of land to develop. Thank you, Mayors Norman Mineta and Janet Gray Hayes, for setting aside North San Jose for industrial development. Thank you, Tom McEnery, for making downtown a desirable place to invest. Thank you, Susan Hammer, for recruiting Adobe and Cisco to San Jose. Thank you, Ron Gonzales, for helping eBay and PayPal stay here and grow here.

We stand on the shoulders of these Mayors and that is why the San Jose metro area has led the state and the country in job growth the past couple of years.

But we can't rest on our laurels. The whole world wants to be the Capital of Silicon Valley. We have to continue to "work at the speed of business." And we must continue to support our driving industries, like we are doing by bringing a satellite U.S. Patent and Trademark Office to San Jose City Hall. Thank you Carl Guardino and the Silicon Valley Leadership Group, Representative Zoe Lofgren, San Jose State University President Mo Quayomi, and the many others who joined our partnership to make this happen.

Of course, the biggest fundamental change, and the most difficult, was confronting our structural budget deficit.

Take yourself back to 2007, when this event was in the old convention center. Many of you were there. You remember we were suffering from our sixth straight year of budget deficits. Red ink was projected for years to come, and that was **before** the Great Recession.

Even though our revenues were growing, they could not keep up with our skyrocketing expenses. The biggest increases were for employee retirement benefits, driven by retroactive increases and big raises given out with “irrational exuberance” (to quote Alan Greenspan) when times were good.

The consequences of these short-sighted decisions, and the \$200 million increase in annual retirement costs, were devastating. We were forced to cut services year-after-year. We raised taxes and fees. Every city employee took at least a 10 percent pay cut. And staffing in every department was cut to the bone.

Faced with the prospect of sliding into service-delivery insolvency, my Council colleagues and I resolved to deal with our structural problems and put our City back onto a sustainable path. We developed new service delivery models, created organizational efficiencies, reformed binding arbitration, phased out sick-leave buyback, and got voter approval for a comprehensive set of pension reforms.

Unfortunately, but not unexpectedly, our pension reforms have been subjected to litigation. Yet, it’s important to remember that we are already getting big savings from Measure B.

We are already saving more than \$20 million per year from the elimination of bonus pension checks and changes to retiree healthcare plans. We are also getting savings from having lower-cost retirement benefits for new employees. Those savings started small, but are growing rapidly as new workers are hired. All of these provisions were upheld by the trial court, and over time, are worth hundreds of millions of dollars.

These ongoing savings helped us avoid service cuts this year and vastly outweigh the one-time costs of defending our pension reforms in court. Once the legal case is resolved, we will get additional savings that will allow San Jose to restore more services.

I want to thank my Council colleagues for having the fortitude to take on these daunting fiscal challenges. We refused to kick the can down the road as has been done in many other cities. We refused to go the way of Vallejo, Stockton, and San Bernardino.

I also want to acknowledge how difficult it has been for our dedicated employees. We heard about a few key accomplishments tonight by our Pride of San Jose honorees, but I want everyone to know that these are just a few examples of the great work done by city employees every day. Let’s show them our appreciation.

Times have been tough, but we have turned the corner and are slowly beginning to restore services. We are training new police recruits and hiring community service officers. We were able to keep 49 fire fighters who had been paid for with federal grants that expired. We opened four new neighborhood libraries that sat vacant for years. We turned streetlights back on.

We've also begun to restore pay to our police officers and other city employees. We know that we've lost a lot of good people because of the pay cuts – often to cities that are wealthier or haven't yet felt the impact of their unfunded pension liabilities. It will take time to restore pay to the levels we want (and our employees deserve), but this is an important step in keeping a quality workforce.

### **Priorities for the Future**

Although our resources remain limited, we will continue to make progress in 2014. In my final 10 months in office, my top priority will be improving public safety and the quality of life for our residents.

Here's what we will do:

**We will restore services in our police department.** As the state reduces the prison population, property crimes are rising and we need more capacity to respond. To do that, we will slow down the loss of experienced officers, recruit and hire more new officers, and expand the use of community service officers. Resolving the uncertainties about disability retirements will help.

**We also will improve fire department response times.** 94% of the emergency calls to the Fire Department are medical, and our staffing model needs to better reflect that reality.

There are things we can do right now by using existing resources more effectively, such as expanding our use of two-person squad vehicles and exploring the use of motorcycle paramedics, as has been done in other cities.

Another option is to follow the rest of the fire departments in the county who deploy three firefighters on an engine. That staffing change alone would allow us to open all our fire stations, eliminate our brownouts, and improve response times in medical emergencies.

**We will reduce homelessness this year.** Through our Destination Home collaborative, we know that it's more cost effective to provide housing and services to the homeless, rather than to treat them at Valley Medical Center or in jail. We budgeted extra funds this year for an aggressive effort to reduce homelessness, and we will carry it out with the help of our allies at the Water District and Santa Clara County. (Thank you, President of the Board Mike Wasserman.)

**We will also strengthen the City's partnerships with the community.** We know that collaboration is the key to solving many of our problems, and we need to build on our relationships with the County, non-profits, schools, faith leaders, and community volunteers. We will continue our work with the SJ2020 initiative, the La Raza Roundtable consensus project, and the Mayor's Gang Prevention Task Force to keep kids out of the pipeline to prison.

Through the Silicon Valley Talent Partnership, we will find creative ways to solve problems by drawing on the extraordinary skills of our residents and businesses.

And finally, before the end of the year, we will start the process to restore McDonnell Hall to the chapel where Cesar Chavez started organizing.

We've got a lot of big challenges ahead. Unfortunately, we don't have the resources to do as much as we want or need to do. Police and emergency response times have deteriorated. We have a \$900 million (and growing) backlog for repairs and maintenance to get our buildings, parks, pools and streets into good condition. Our libraries are only open four days a week – and the parcel tax that pays for almost 25 percent of the library budget is expiring next year.

In addition, much of our expected growth in revenues will be consumed by retirement costs that will continue to rise over the next decade as we pay off our \$3 billion in unfunded liabilities.

Controlling costs will allow us to avoid cutting services, but to improve services significantly we will need new revenues, which is an important element of our Fiscal Reform Plan.

During my time as Mayor, San Jose voters have approved tax measures four times. Thank you, voters. We appreciate your confidence.

We now have three potential routes for new revenues: Extending the library parcel tax, increasing the sales tax, or raising the marijuana tax.

The library tax shows solid community support, and we have a dedicated group of volunteers working to get it passed. They deserve our support, and the City Council should put the library measure on the June ballot.

The sales tax appears to have moderate public support, but so far, we do not have an organized coalition. In the next few months, we will evaluate whether the sales tax increase should go on the November ballot. As I said in last year's speech: I challenge all of you who want a sales tax increase to put together a broad coalition of support with the capacity and commitment to raise enough money to mount a successful campaign.



If the voters approve new taxes, we would see additional revenues midway through the next fiscal year. It's critical that we identify our spending priorities in the upcoming budget process so the voters will know how we would spend their money.

Public safety must be our top priority. As we prepare our budget, any new tax revenues should be used to:

- Improve police and fire response times for emergencies.
- Reduce both violent crimes and property crimes.
- Step up gang prevention, intervention and suppression
- Stop the deterioration of our streets.
- And create more jobs and tax revenues

As we look to the years ahead, we know that our fiscal situation is more stable. We've made the tough decisions necessary to avert a fiscal disaster during extremely difficult times. We've slowed down skyrocketing costs; we've captured economic growth; and we've laid the groundwork for a strong and sustainable future.

But regrettably, our fiscal challenges have not gone away and this is not a problem we can solve this year.

The next Mayor and the next City Council must stand on our shoulders and continue to courageously implement the policies we've put in place. Special interests will pressure you to give up on fiscal reforms and go back to cutting services, but you must consider the interests of the entire community. You must think long-term or risk pushing the city into service-delivery insolvency or worse.

The last seven years have been challenging and difficult, for our residents, our businesses, and our employees. But guiding us like the North Star has been a collective drive to be a great city.

As I've said many times before:

A city that is a beacon of peace and prosperity, that demonstrates what happens when people from around the world come together and focus on what they have in common;

A city that is the world's center of innovation, where cutting-edge companies create jobs, wealth, and products that improve the lives of people around the globe;

A city with great neighborhoods that are safe and provide a sense of community;

A city with great schools that make it possible for all children to achieve their potential, no matter their race, ethnicity, religion, or economic status;

A city that protects its environment, preserves its open spaces, and shows the world how to be sustainable, while continuing to provide jobs and housing for all of its people;

A city that is honest, open and fiscally sound;

A city for our children and grandchildren.

We all want San Jose to be a great city.

No matter where we live...

No matter where we work...

Regardless of our political viewpoints or personal circumstances...

We all want our city to be the best it can be.

You have my commitment. I will work with all of you to make sure our vision of a Great City becomes a reality. This vision has defined my agenda for the past 7 years and it will continue to do so until my last minute in office.

We've got ten months and eight days to go. Let's make every day count. Please join me to make San Jose a great city that we can all be proud of.

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