

# **CITY COUNCIL STUDY SESSION ON CITY'S BUDGET PROJECTIONS & PRIORITIES**

## **AGENDA**

**January 15, 2004**

**9:00 a.m. – 12:00 P.M.**

**Health Building**

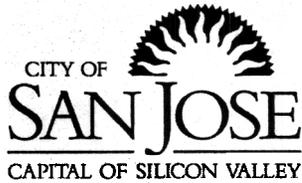
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- I. Current Budget Condition**
  
- II. Strategies to Resolve Current Budget Condition**
  
- III. Council Budget Discussion**

**NOTE: For questions, please contact Mark Linder, City Manager's Office at 277- 5657.**

To arrange an accommodation under the Americans with Disabilities Act to participate in this public meeting, please call 277-5657 (voice) or 998-5299 (TTY) at least 48 hours before the meeting.

January Budget Study Session,  
Thursday, January 15, 2004



# Memorandum

**TO:** City Council/Redevelopment Agency Board

**FROM:** Mayor Ron Gonzales

**SUBJECT:** Budget Study Session Discussion

**DATE:** January 13, 2004

Approved

Date

1/13/04

## INFORMATION

The following information has been prepared to assist members of the City Council/ Agency Board for the upcoming budget discussions on Thursday, January 15.

As we anticipated, the budget news for FY 2004-05 grows increasingly more challenging for San Jose. Projections already indicate that we face a major shortfall in the General Fund in the coming year, and state budget actions very likely will add to it. Similarly, the prolonged recession together with state budget proposals could have a severe impact on Redevelopment programs. With these fiscal difficulties ahead, we have no choice but to continue our efforts to proactively prepare for difficult budget decisions. Thursday's discussion will be the beginning of a series of budget discussions that will occur throughout the next twenty weeks leading to our decisions in June that will balance our budget once again.

These study sessions are the first opportunity to hear from the City Manager and the Acting Redevelopment Agency Executive Director about our fiscal situation and begin a broad discussion that will help me to develop strategies for the Mayor's March Budget Message. They also will provide an early view of how the Governor's recent budget recommendations could change our fiscal situation.

As a reminder, the City Council/Agency Board will not be taking action at Thursday's sessions. This is an early opportunity for input and discussion that has been moved up on our schedules because of the magnitude of our budget challenge this year. I will be developing a strategy in the days following the study session and may come back to the City Council for discussion and approval as early as two weeks.

### Budget Study Session Structure:

#### *1. City General Fund Discussion*

During the first part of Thursday, the Council will be provided a brief staff presentation. Following the presentation, Dr. Carol Nalbandian will facilitate the City Council discussion.

To help Councilmembers approach the discussion about the General Fund budget, suggest that we consider the following questions:

- What is your perspective on the economic climate? Will the economy improve soon or will it take another few years?
- What are your thoughts on possible revenue increases such as a rate increase for certain funds, a 9-1-1 fee, etc?
- What are your thoughts on possible expenditure reduction strategies?

How would you feel about suspending or deferring fiscal policies, such as those that affect Construction & Conveyance, Municipal Water shifts, Healthy Neighborhood Venture Fund, etc.?

What are your thoughts on delaying capital projects to save money today and defer the impending O&M costs?

What about the current fiscal year? Would it make sense to implement some of the reductions in this fiscal year to lessen the severity of impacts next year?

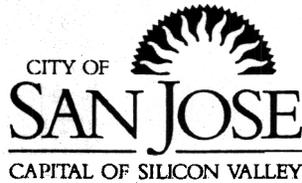
## *2. Redevelopment Agency Budget*

The second half of the day will focus on the Redevelopment Agency budget. Similar to the format of City General Fund discussion, the Agency Board will hear a brief staff overview of the Agency's financial situation. Following this overview, Dr. Nalbandian will again facilitate our discussion to help us focus our vision for the future use of Redevelopment resources.

Here are some questions to help us think about the second portion of the day:

- How do you feel about shifting how we spend Agency funds as we look at our four core areas (Private Development, Public Facilities, Neighborhoods, and Downtown)?
- Should we recognize other categories of service that we already provide, including educational support (ERAF) and health and social services (County Payments), in addition to our four core services?
- What are your thoughts about the current Agency efforts to generate tax increment? Should we focus more investment of RDA funds that would generate more tax increment?

What is your perspective on how RDA funds are allocated in neighborhoods, downtown, and industrial areas?



# Memorandum

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**TO:** HONORABLE MAYOR AND  
CITY COUNCIL

**FROM:** Del D. Borgsdorf

**SUBJECT:** January 15 Budget Study Session

**DATE:** January 13, 2004

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The City Council will be conducting a budget study session on January 15, 2004. The City's budget will be discussed from 9 a.m. – Noon and the Redevelopment Agency's budget will be discussed from 1 p.m. – 4 p.m. Dr. Carol Nalbandian will be facilitating both sessions. Dr. Nalbandian is from the University of Kansas and has extensive experience in facilitating city council budget discussions.

The study session will be conducted in Room 202 of the Health Building. Our goals for the session are to have a common understanding of the City's fiscal situation, have a common understanding of our approach to the situation and to provide the Council the opportunity to discuss both.

Attached is a copy of the current fiscal situation presentation. This will be presented at the beginning of the session.

  
Del D. Borgsdorf  
City Manager

**CITY COUNCIL STUDY SESSION  
CITY'S BUDGET PROJECTIONS AND PRIORITIES**

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**ATTACHMENT A**



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*Budget Study Session*

*January 15, 2004*

**CITY COUNCIL STUDY SESSION  
CITY'S BUDGET PROJECTIONS AND PRIORITIES**

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**AGENDA**

1. Current Budget Condition
2. Strategies to Resolve Current Budget Condition
3. Council Budget Discussion

# CURRENT BUDGET CONDITION

# CITY OF SAN JOSE BUDGET OVERVIEW

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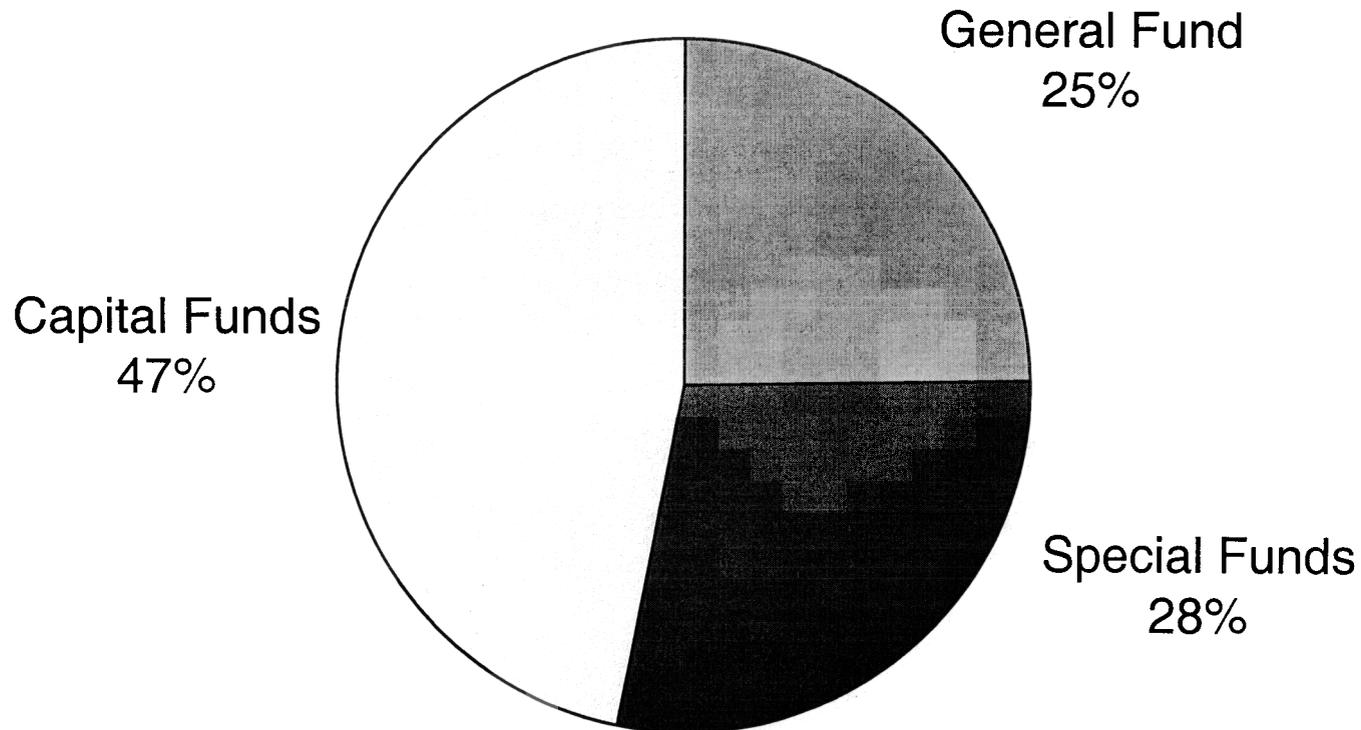
2003-2004 ADOPTED CITY BUDGET: \$2.86 billion

TOTAL NUMBER OF FUNDS: 109

TOTAL NUMBER OF EMPLOYEES: 7,213

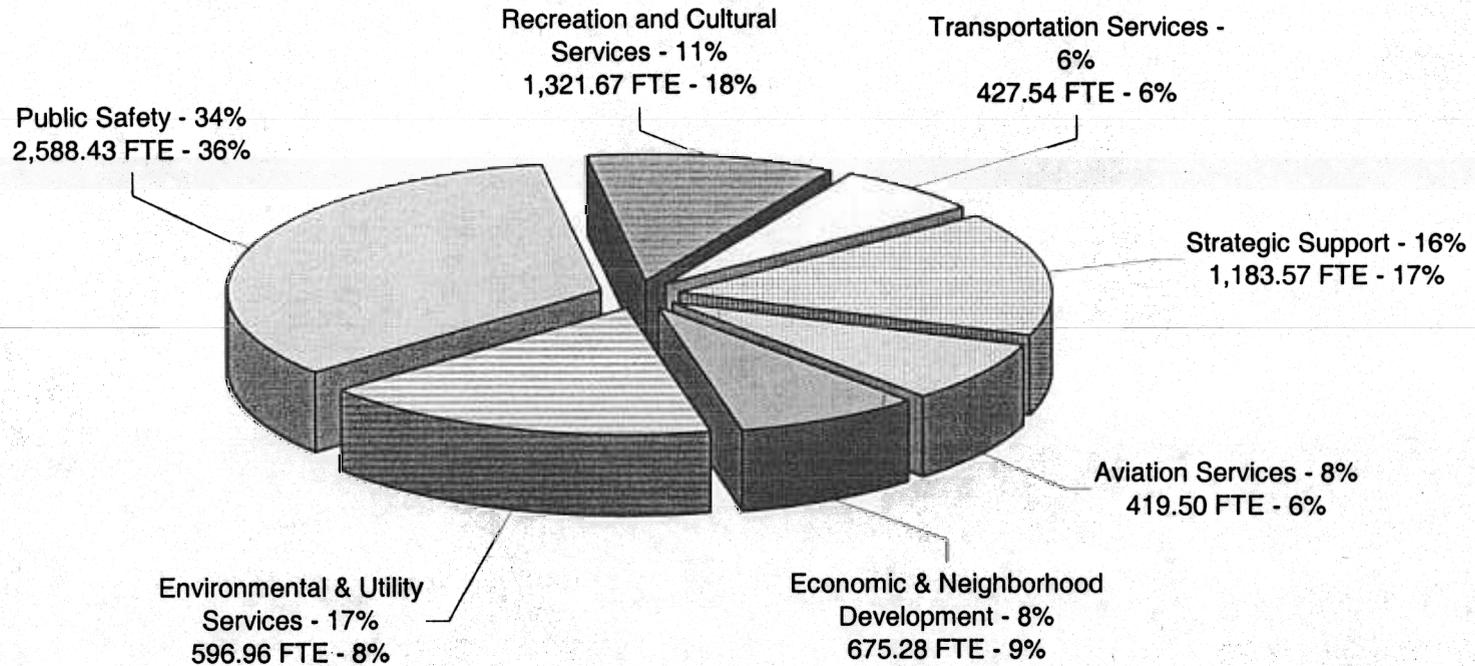
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## 2003-2004 ADOPTED BUDGET



# SUMMARY OF TOTAL OPERATIONS By City Service Area (All Funds)

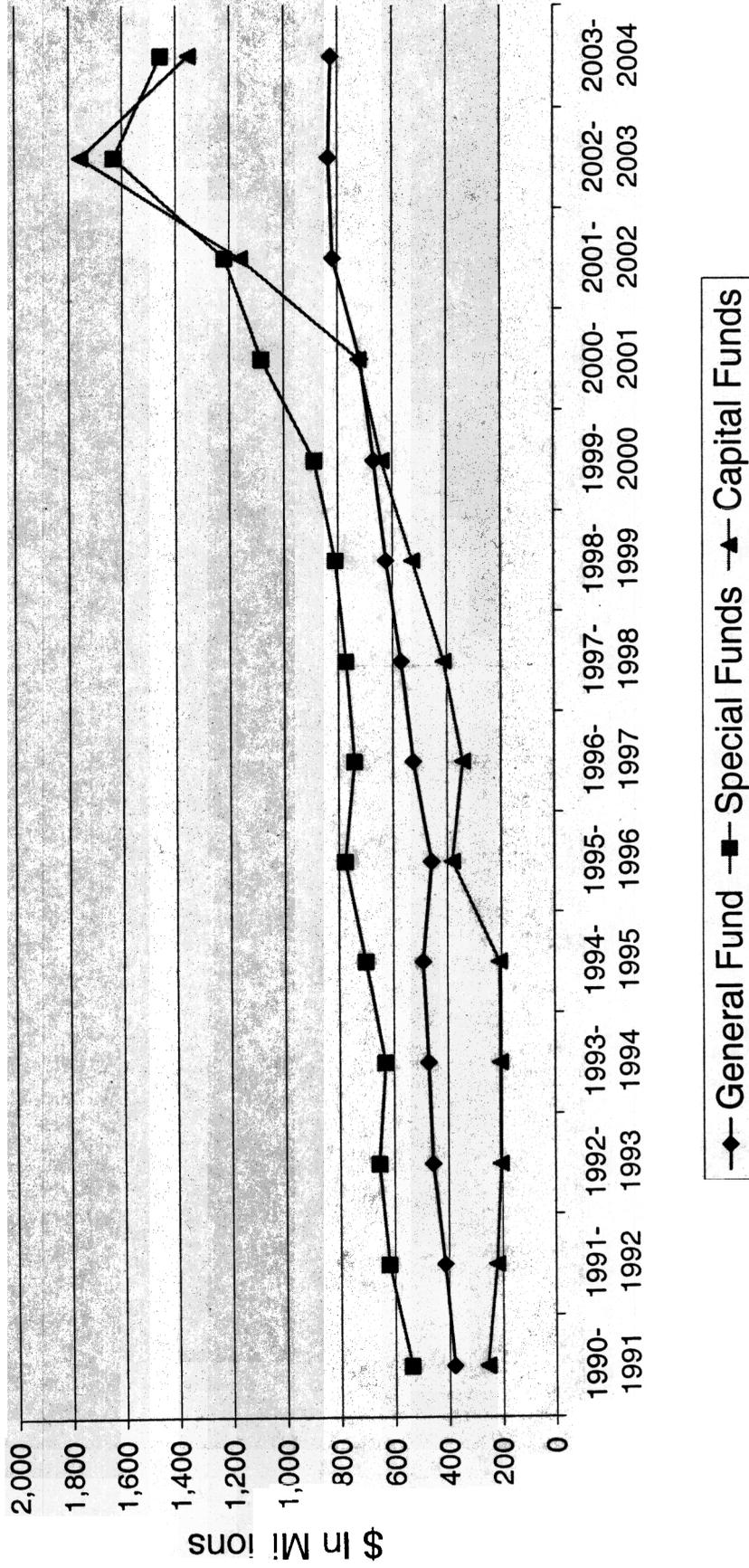
## 2003-2004 Adopted Operating Budget



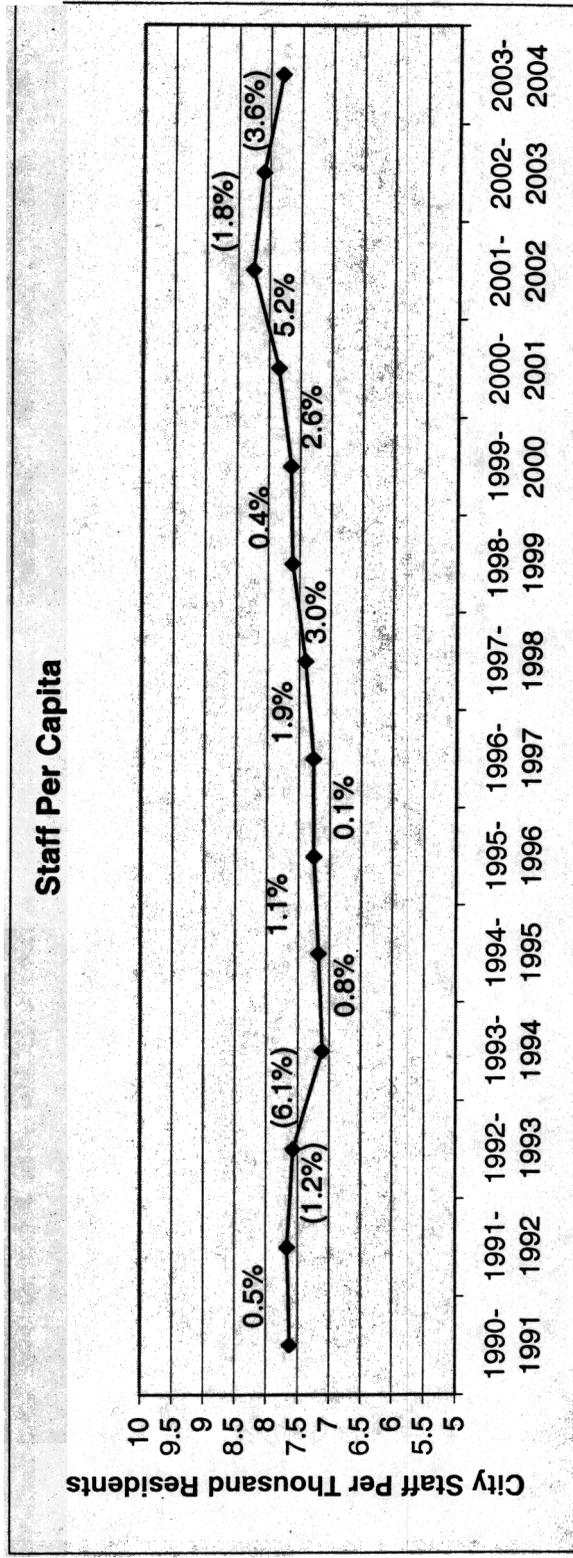
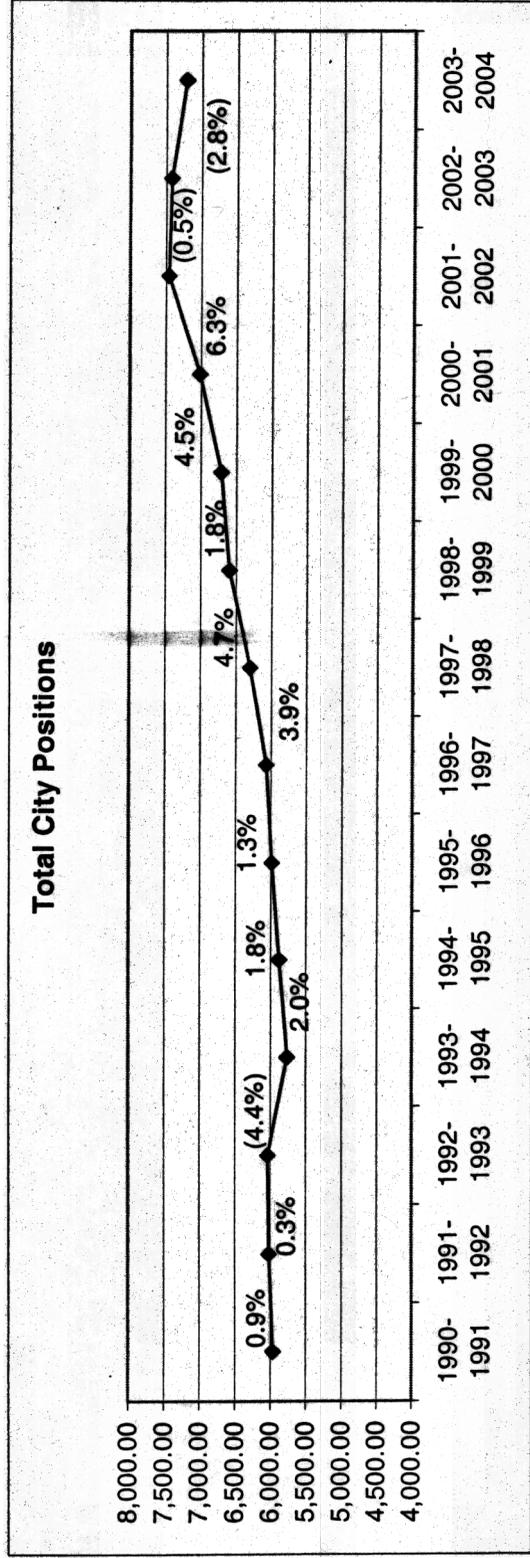
**TOTAL OPERATIONS \$940,252,846**  
**TOTAL POSITIONS (FTE) 7,212.95**

# ADOPTED BUDGET HISTORY 1990-1991 through 2003-2004

## Total Adopted Budget By Fund Type



# TOTAL STAFFING AND PER CAPITA COMPARISON

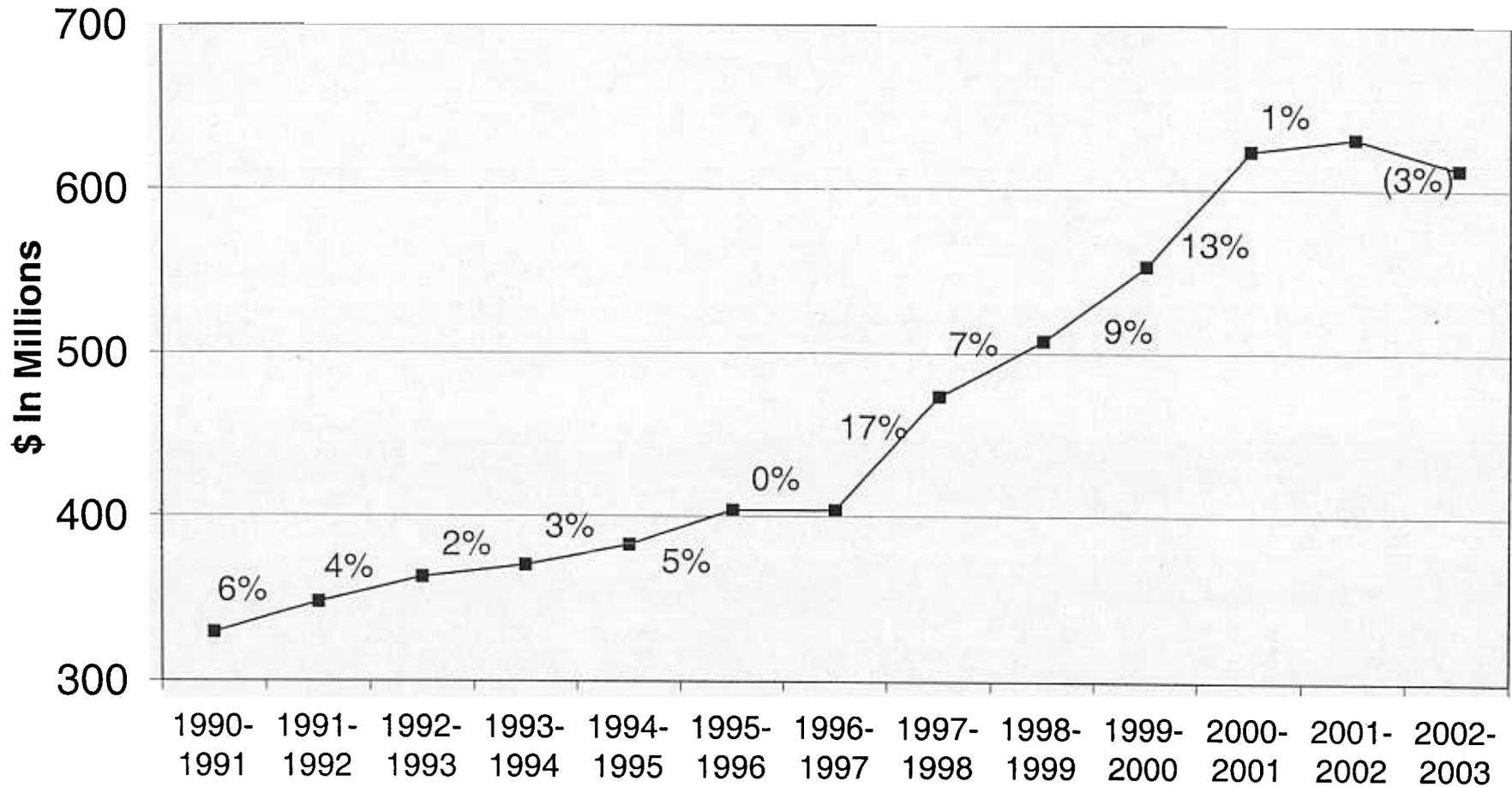


**CITY COUNCIL STUDY SESSION  
CITY'S BUDGET PROJECTIONS AND PRIORITIES**

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# **GENERAL FUND**

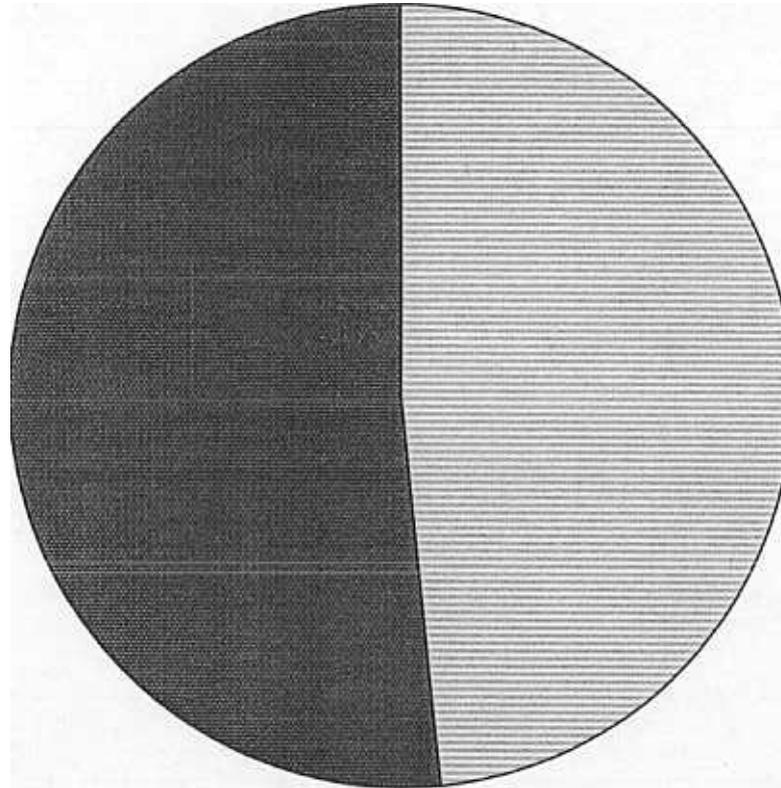
# GENERAL FUND REVENUES (ADJUSTED) 1990-1991 through 2002-2003 (Actuals)



# GENERAL FUND REVENUES BY ECONOMIC TYPE

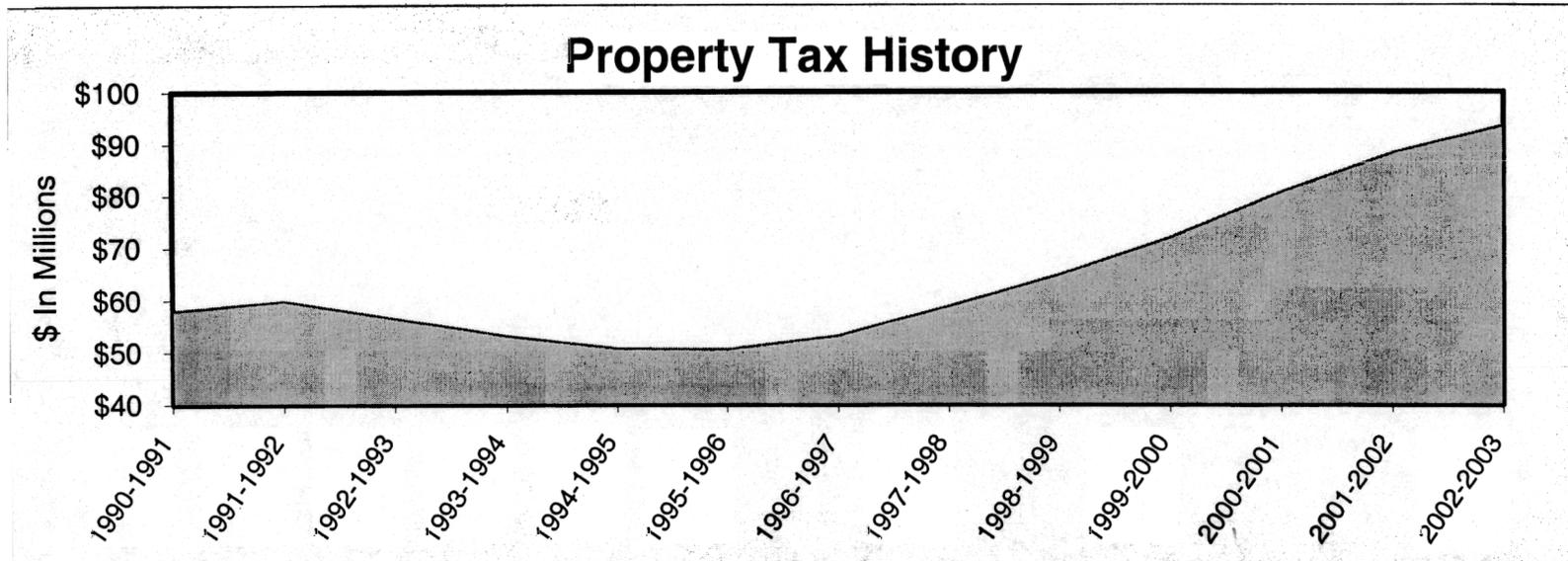
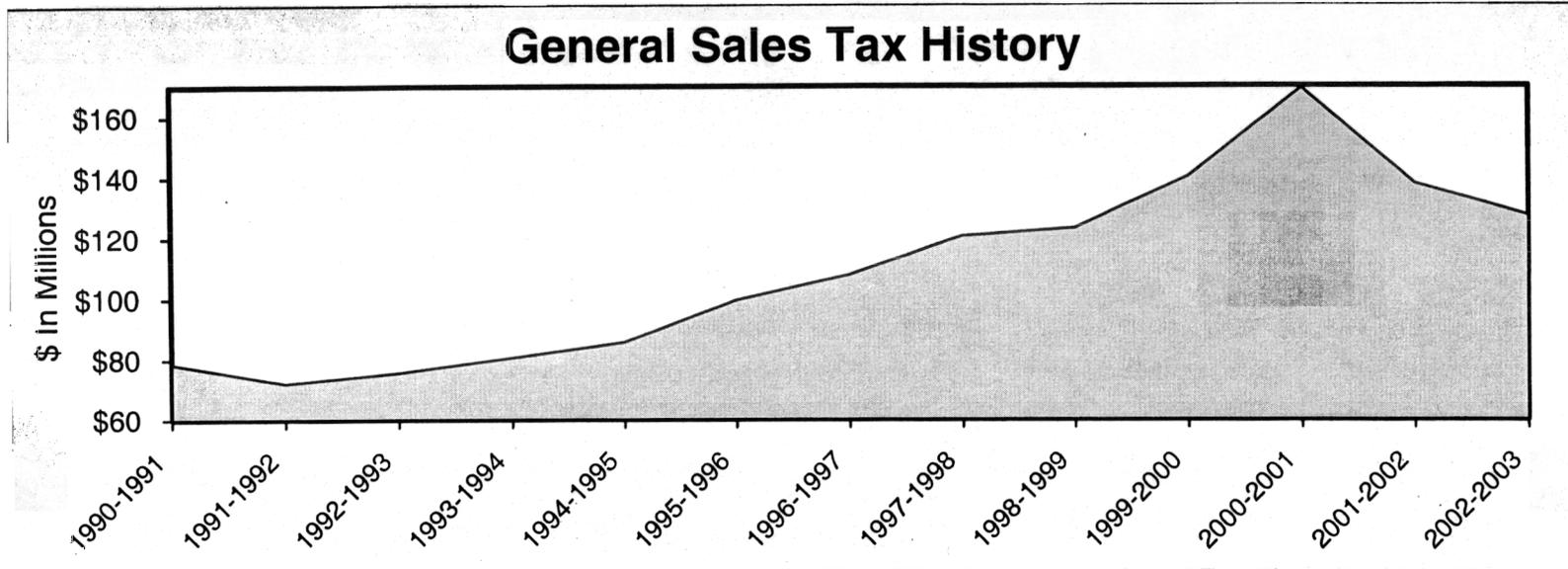
## 2003-2004 Adopted Budget

**Indirect/No  
Economic  
Relationship**  
(e.g., Utility Tax,  
Franchise Fees,  
Transfers and  
Reimbursements)  
51.7%

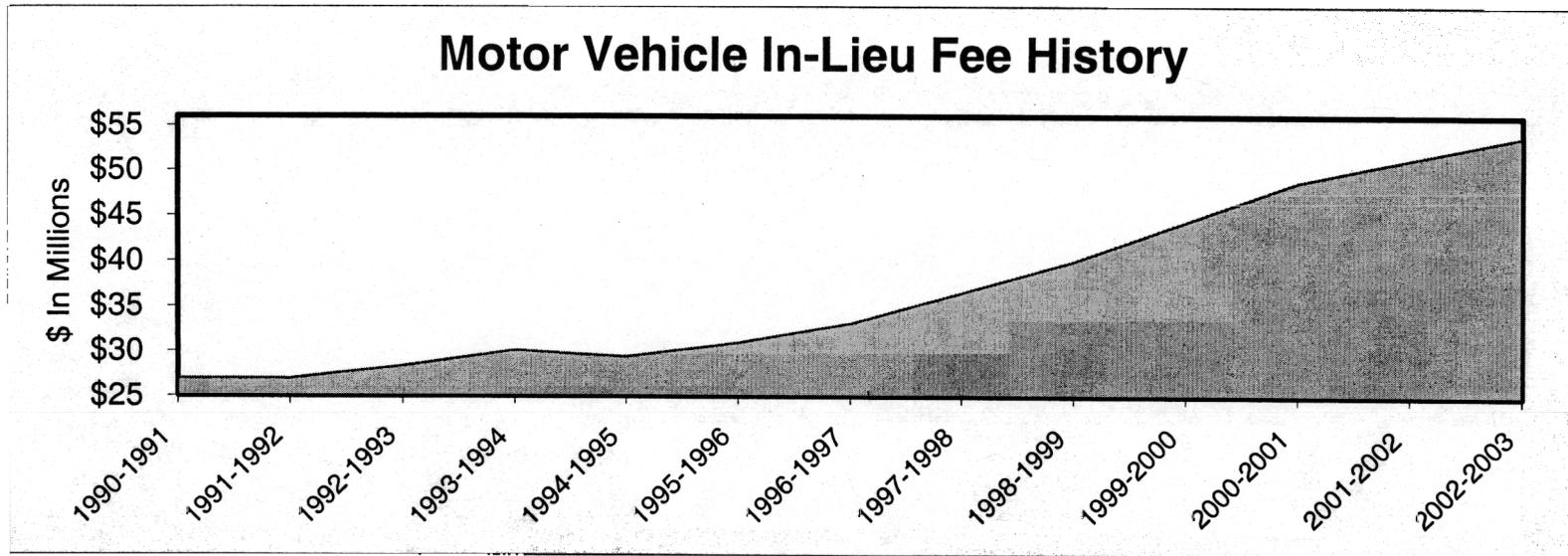
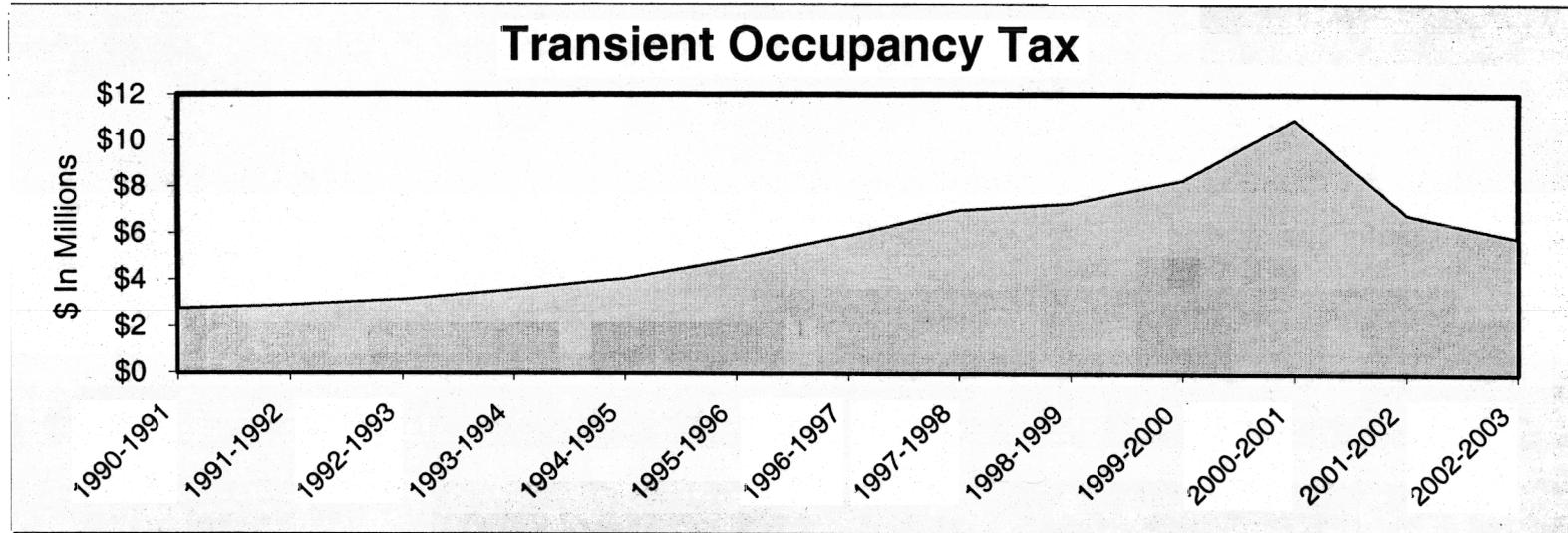


**Direct Economic  
Relationship**  
(eg., Property Tax,  
Sales Tax,  
Motor Vehicle In-Lieu  
Fees)  
48.3%

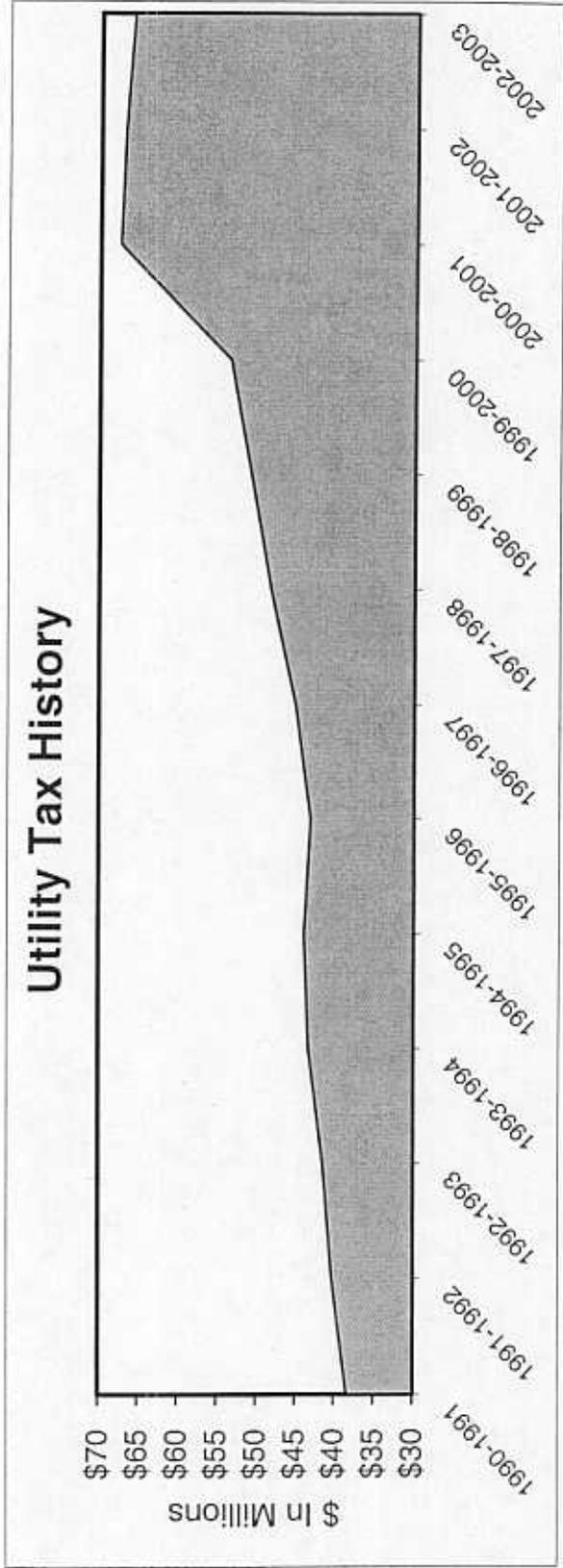
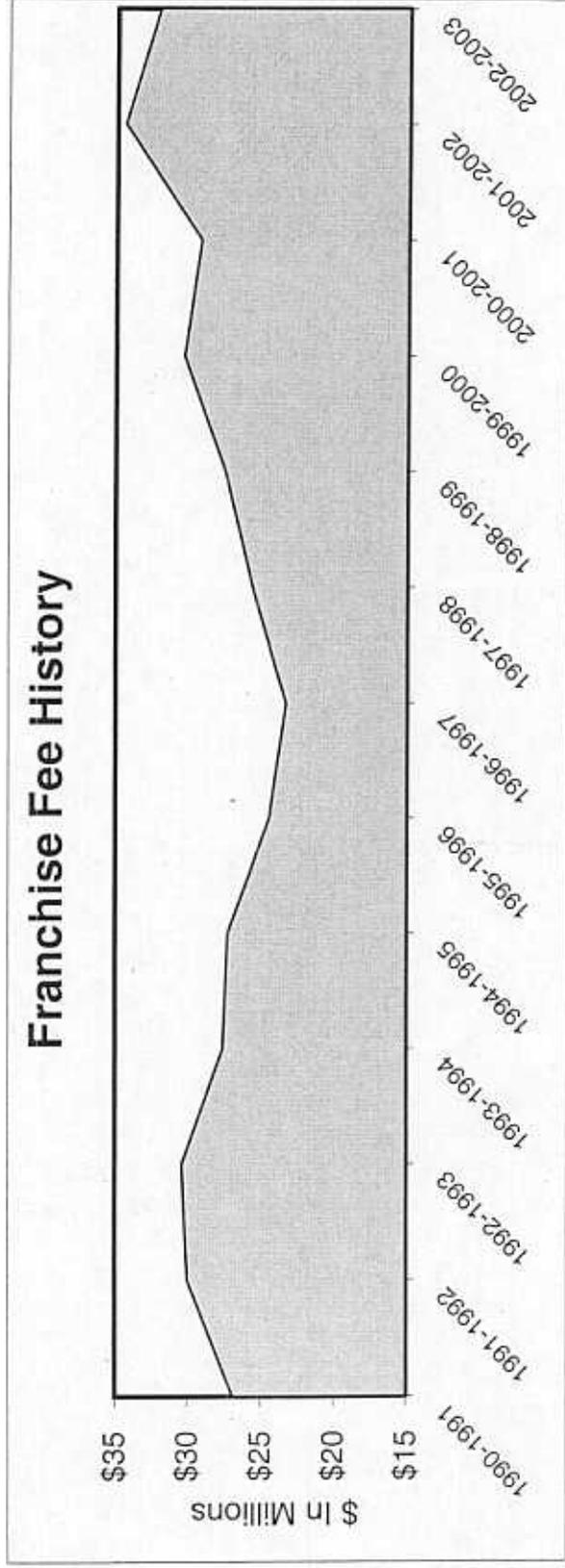
# GENERAL FUND SALES TAX AND PROPERTY TAX HISTORY



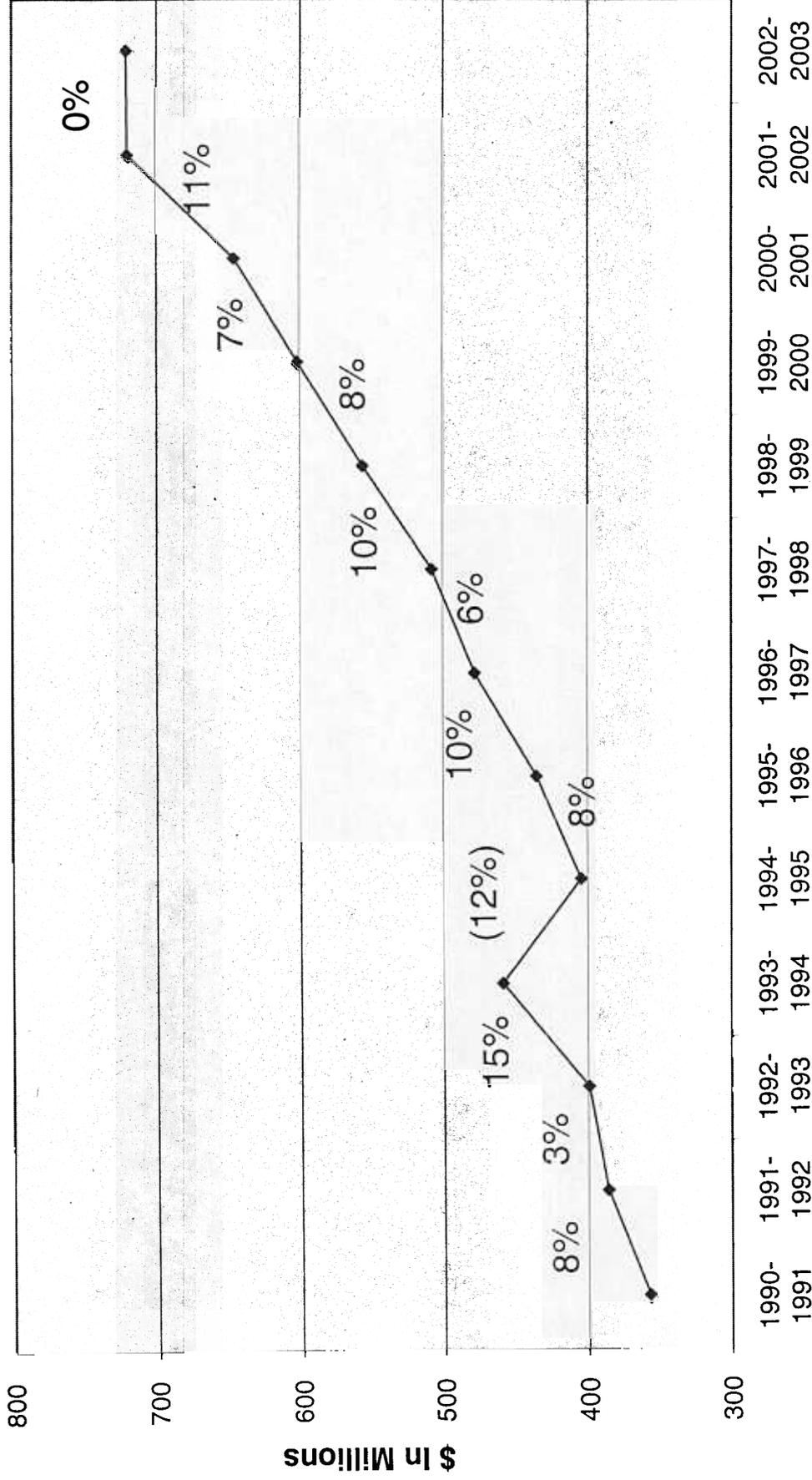
# GENERAL FUND TOT AND MOTOR VEHICLE IN-LIEU FEE HISTORY



# GENERAL FUND FRANCHISE FEE AND UTILITY TAX HISTORY

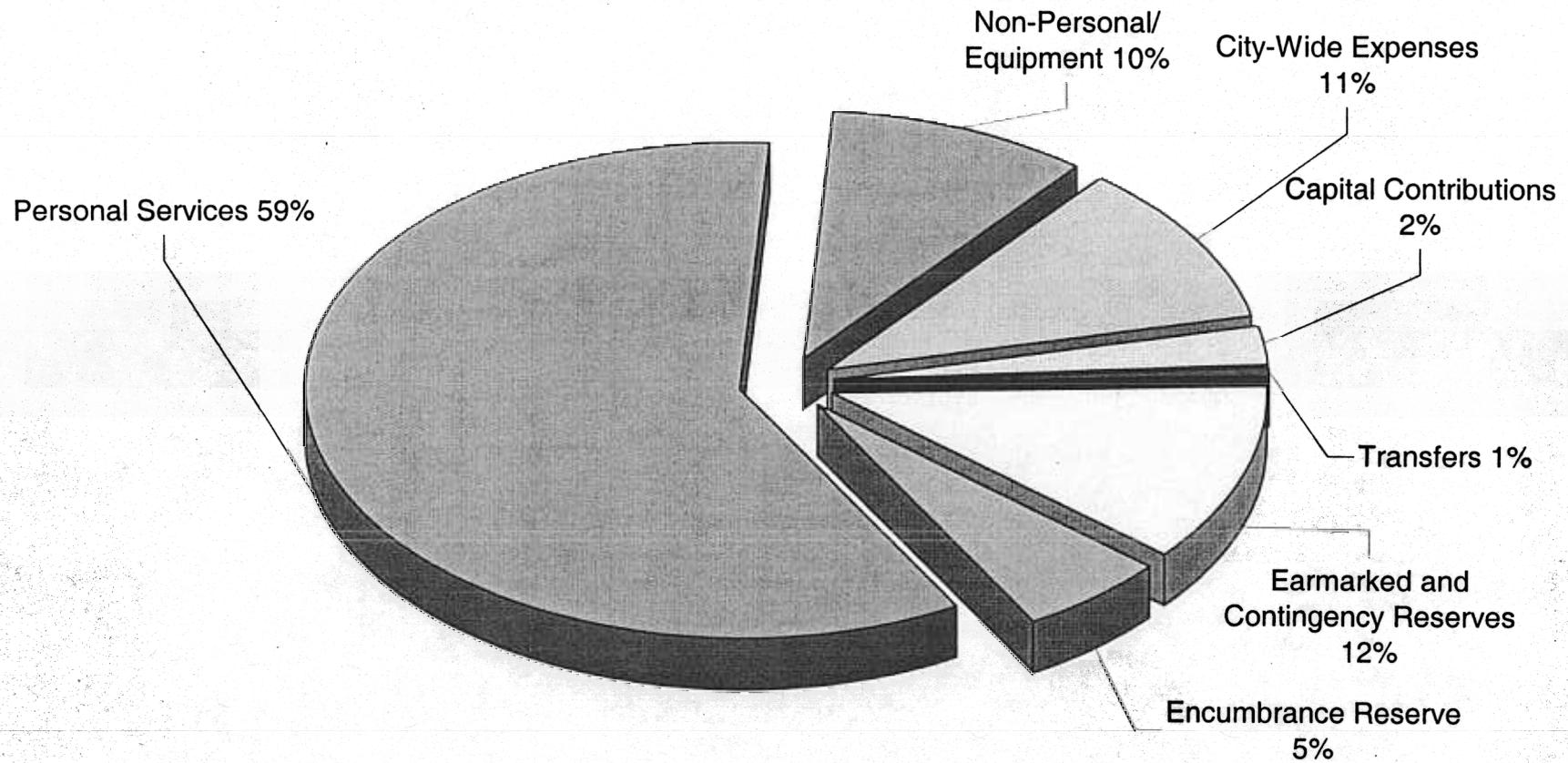


# GENERAL FUND EXPENDITURES 1990-1991 through 2002-2003 (Actuals)



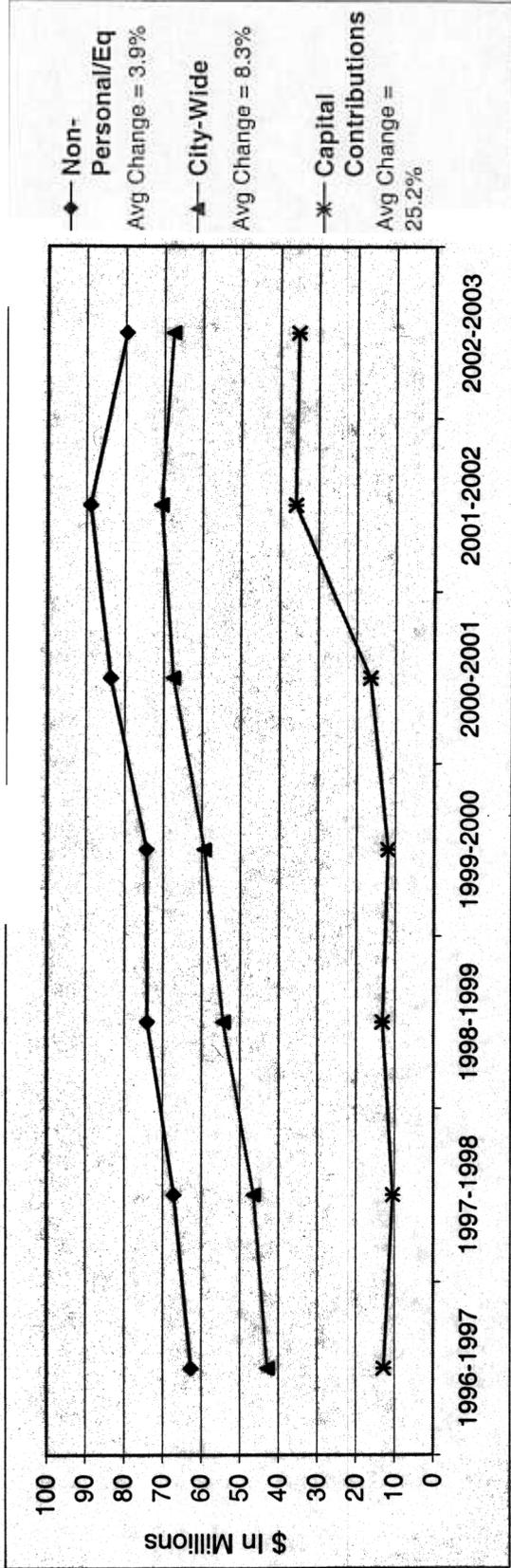
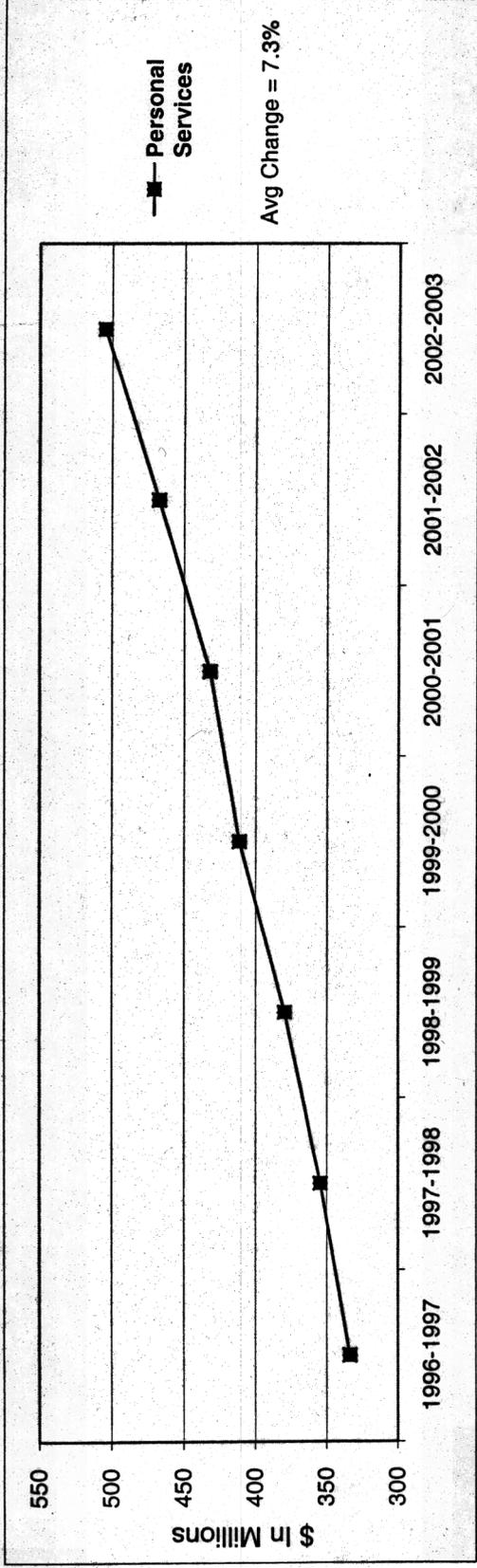
# SUMMARY OF GENERAL FUND USES BY CATEGORY

## 2003-2004 Adopted Budget



TOTAL GENERAL FUND USES \$824,235,522

# GENERAL FUND EXPENDITURES BY CATEGORY COMPARISON 1996-1997 through 2002-2003 (Actuals)



# MAJOR STATE BUDGET ACTIONS

## Impact on General Fund (1990-1991 through 2003-2004)

Description of Action	Annual Cost or Revenue Loss to the City	Cumulative Cost or Revenue Loss to the City
Allowed the County to charge cities for Property Tax collection	\$832,000	\$10,861,000
Diversion of Cigarette Tax	1,368,000	17,336,000
Allowed the County to charge cities for booking prisoners at County jails (Restored in 1999-2000)	0	28,602,000
Withdrew half of Vehicle Citation Fees (Restored in 1998-1999)	0	7,700,000
ERAF Property Tax Shift	28,306,000	221,306,000
Elimination of County's Animal Control Program (Program shifted to City in 1993-1994)	4,858,000	28,459,000
Proposition 172 – Public Safety Sales Tax	(4,794,000)	(43,295,000)
<b>TOTAL</b>	<b>\$30,570,000</b>	<b>\$270,969,000</b>

# 2005-2009 PRELIMINARY GENERAL FUND FORECAST

# 2004-2005 PRELIMINARY GENERAL FUND FORECAST SHORTFALL

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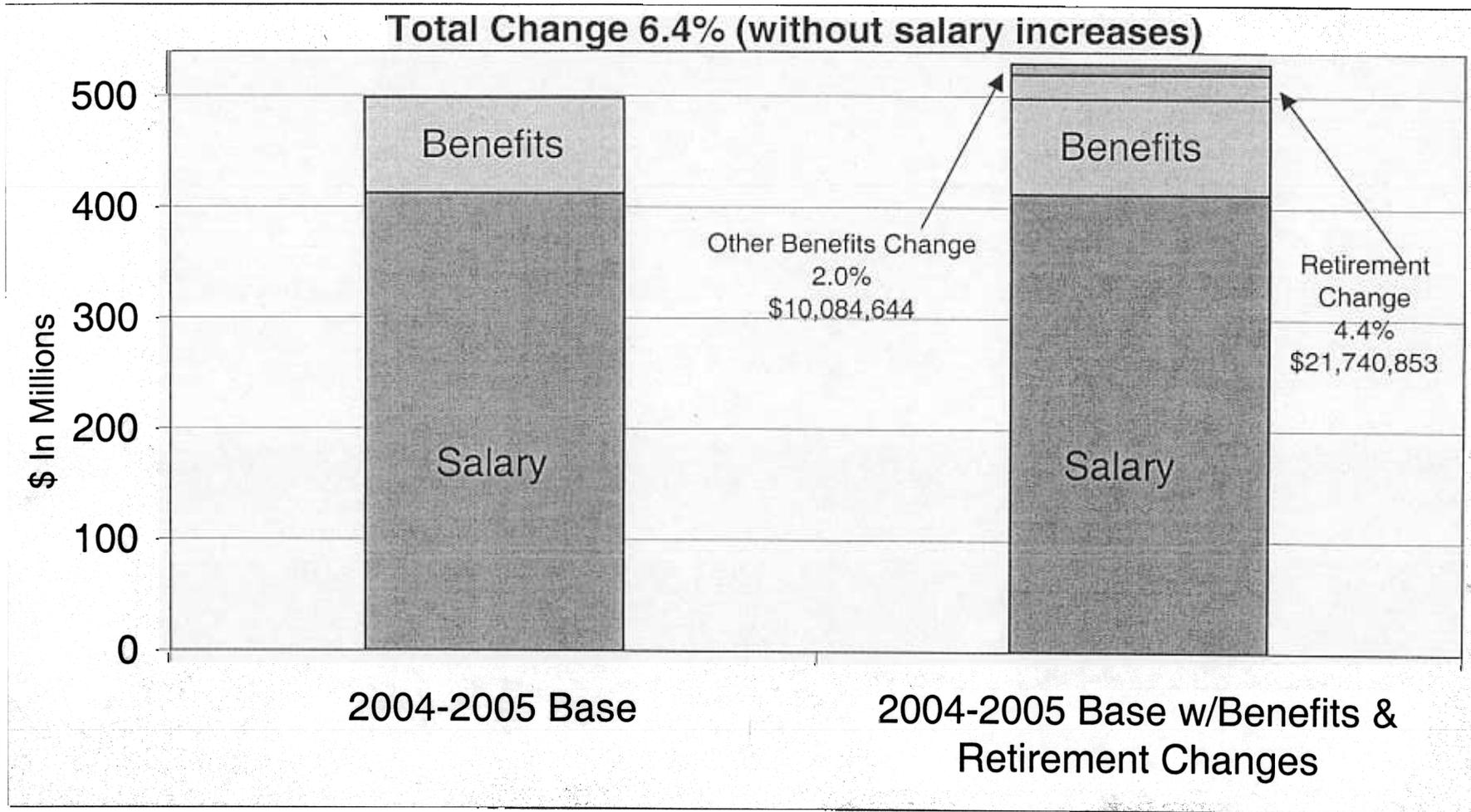
## Shortfall (\$ in Millions)

March 2003 Forecast	(\$ 26.64)
June 2003 (Remaining 2003-2004 Balance)	<u>( 28.60)</u>
<b>Subtotal Shortfall as of June 2003</b>	<b>(\$ 55.24)</b>
October 2003 Increment	<u>(\$ 29.80)</u>
<b>Subtotal Shortfall as of October 2003</b>	<b>(\$ 85.04)</b>
January 2004 Forecast	<u>\$ 9.03</u>
<b>TOTAL SHORTFALL</b>	<b>(\$76.01)</b>

Change in Revenues	10.74
Change in Expenditures	<u>(19.77)</u>
	9.03

# 2004-2005 PRELIMINARY GENERAL FUND BASE BUDGET

## Personal Services Changes



# GOVERNOR'S PROPOSED BUDGET

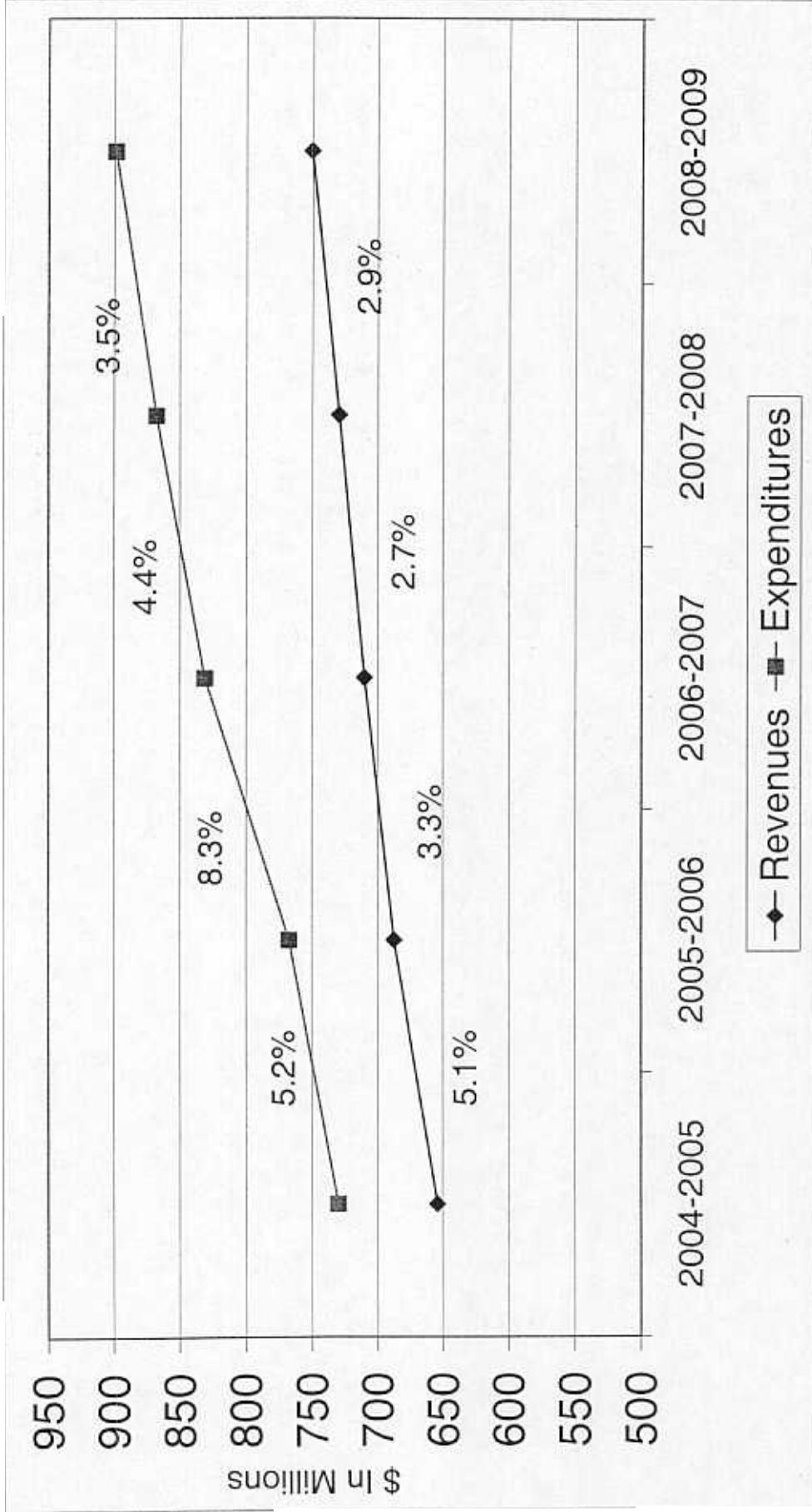
## Preliminary Evaluation of Potential General Fund Impact

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Description of Action	Annual Cost or Revenue Loss to the City
Additional ERAF Property Tax Shift	\$6,800,000
Allowed the County to charge cities for booking prisoners at County jails	2,500,000
<b>TOTAL</b>	<b>\$9,300,000</b>

# GENERAL FUND REVENUES AND EXPENDITURES

## Preliminary 2005-2009 Forecast



# 2004-2005 CITY SERVICE AREA REDUCTION TARGET APPROACH

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## 2004-2005 Preliminary Shortfall

October 2003 Forecast	\$ 85.0 M
Potential State Budget Impact	<u>35.0 M</u>
Total Preliminary Shortfall	\$120.0 M

## 2004-2005 Budget Balancing Planning Assumption

New Revenue/Use of Reserves (\$ 40.0 M)

**Remaining Shortfall Balance \$ 80.0 M**

# 2004-2005 CITY SERVICE AREA REDUCTION TARGETS

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## **CSA Reduction Targets\***

(Public Safety CSA = 10%, All Other CSAs = 20.4%)

Economic & Neighborhood Development	\$ 1,912,800
Environmental & Utility Services	533,539
Public Safety	35,207,660
Recreation & Cultural Services	19,470,046
Transportation Services	7,526,992
Strategic Support	9,486,523
Council Appointees	<u>5,862,440</u>
Total	\$ 80,000,000

\* Percentage of Adjusted 2004-2005 Preliminary Base Budget

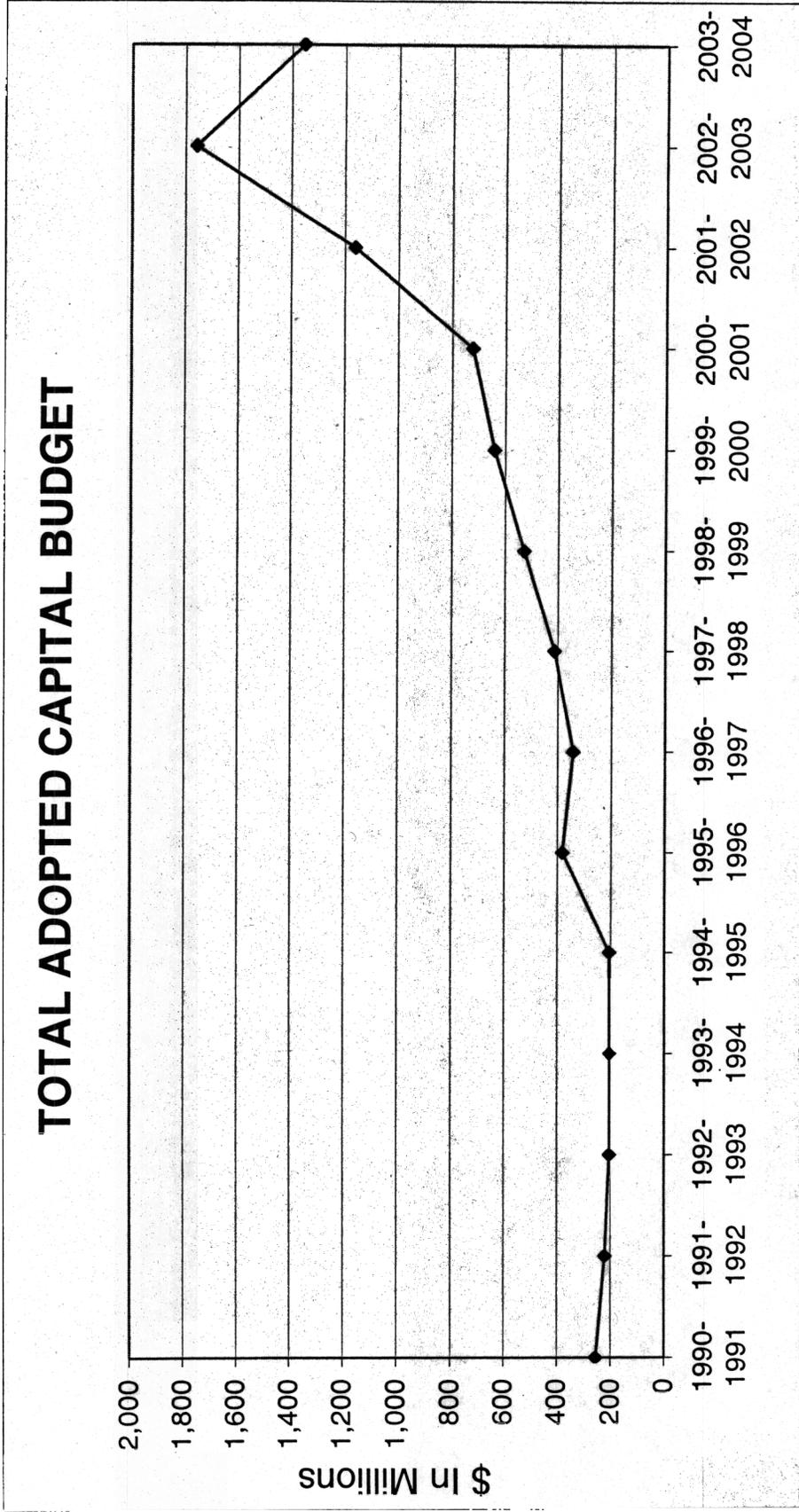
**CITY COUNCIL STUDY SESSION  
CITY'S BUDGET PROJECTIONS AND PRIORITIES**

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# OTHER FUNDS

# ADOPTED CAPITAL BUDGET HISTORY

## 1990-1991 through 2003-2004



# DECADE OF INVESTMENT

## Major Issues with the Capital Improvement Program

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- Ability to support operating and maintenance (O & M) costs of capital improvements
- One-time G.O Bond funding used to replace aging infrastructure for parks, libraries, and public safety facilities
- Revenue streams to support a number of the capital improvements (C & C taxes, Construction Excise Taxes) have not been sufficient to meet needs
- State actions have impacted revenues that support traffic capital improvements
- No long-term strategy to fund capital improvements for many city-owned facilities
- Rate increases will be needed to support increased level of capital investment in certain areas

# DECADE OF INVESTMENT

## Major Issues with the Capital Improvement Program

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### Ability to Support Operating and Maintenance (O & M) Costs of Capital Improvements

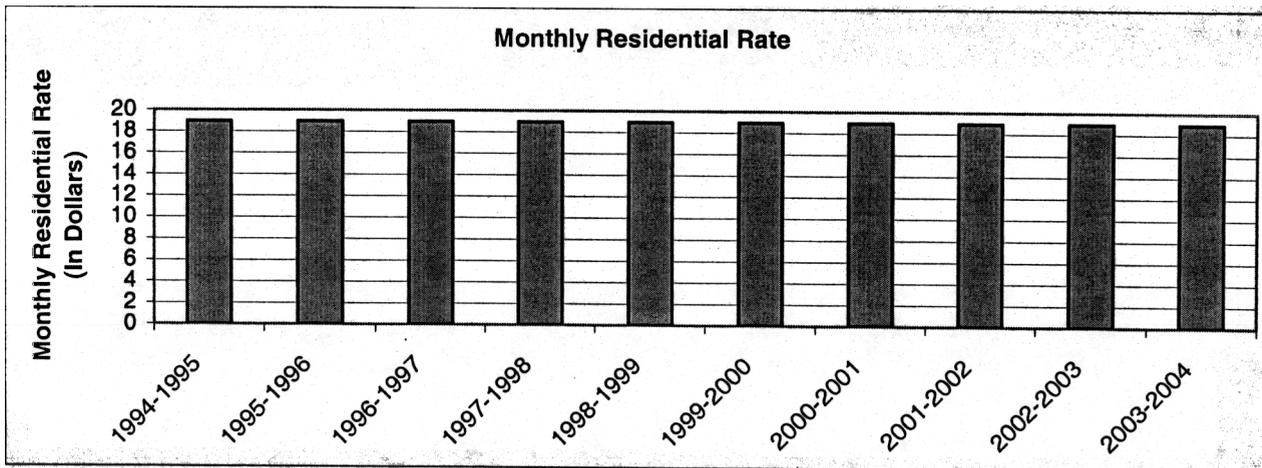
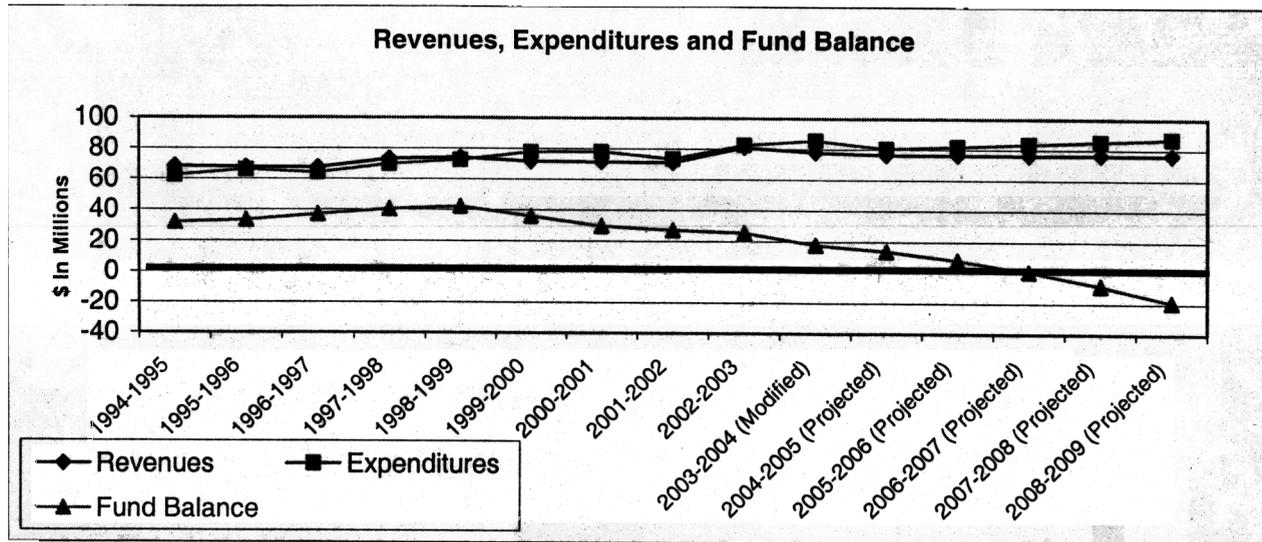
### Projected General Fund Operating and Maintenance Costs From New Capital Projects

<u>Project Title</u>	<u>2004-2005</u>	<u>2005-2006</u>	<u>2006-2007</u>	<u>2007-2008</u>
Fire Facilities	\$	\$ 1,274,400	\$ 4,623,000	\$ 6,925,000
Library Facilities	110,000	626,000	2,370,000	2,428,000
Median Island Landscaping		1,000	1,000	1,000
Parks Facilities	461,000	1,695,000	3,180,000	5,793,000
Parks Facilities-Other	62,000	202,000	211,000	223,000
Agencies				
Police Facilities	24,000	43,000	396,000	742,000
Street Lighting	4,000	6,000	7,000	8,000
Traffic Signals	27,000	61,000	95,000	131,000
<b>Total</b>	<b>\$ 688,000</b>	<b>\$ 3,908,400</b>	<b>\$ 10,883,000</b>	<b>\$ 16,251,000</b>

Source: 2004-2008 Adopted CIP

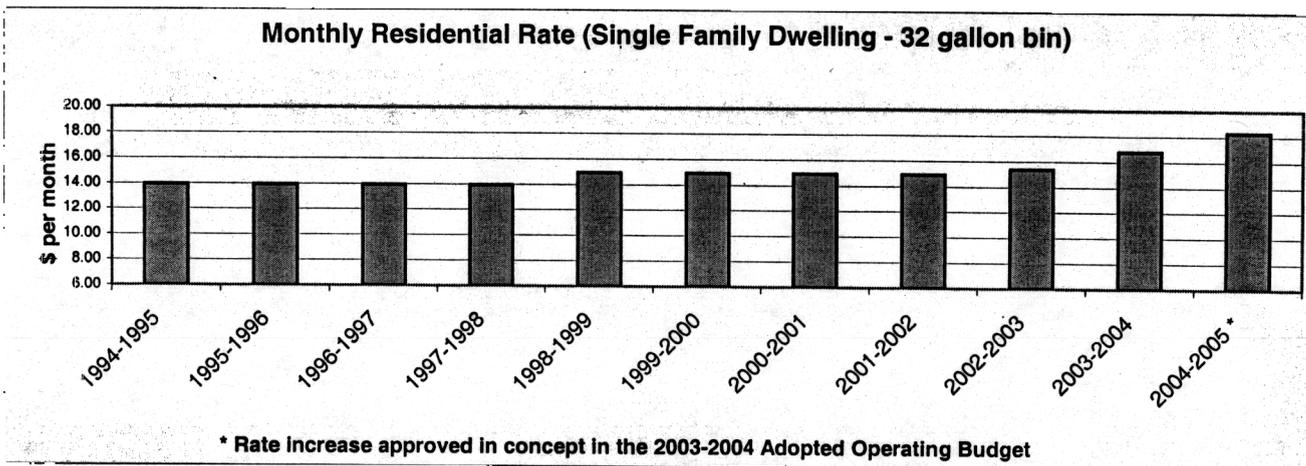
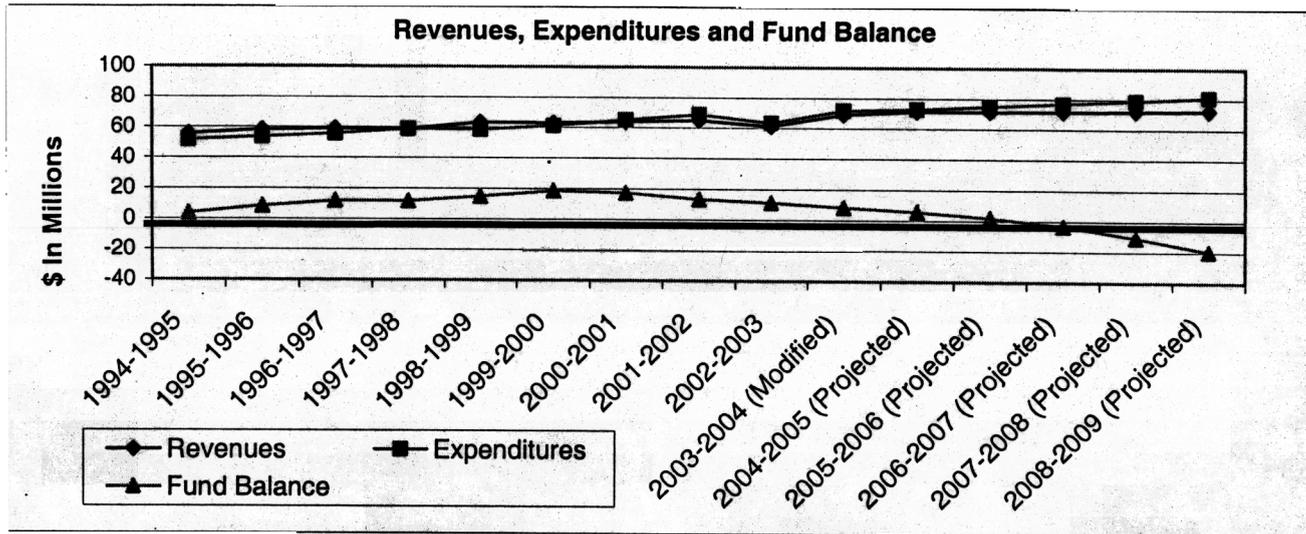
# SEWER SERVICE AND USE CHARGE FUND

## Revenues, Expenditures, Fund Balance and Rate History



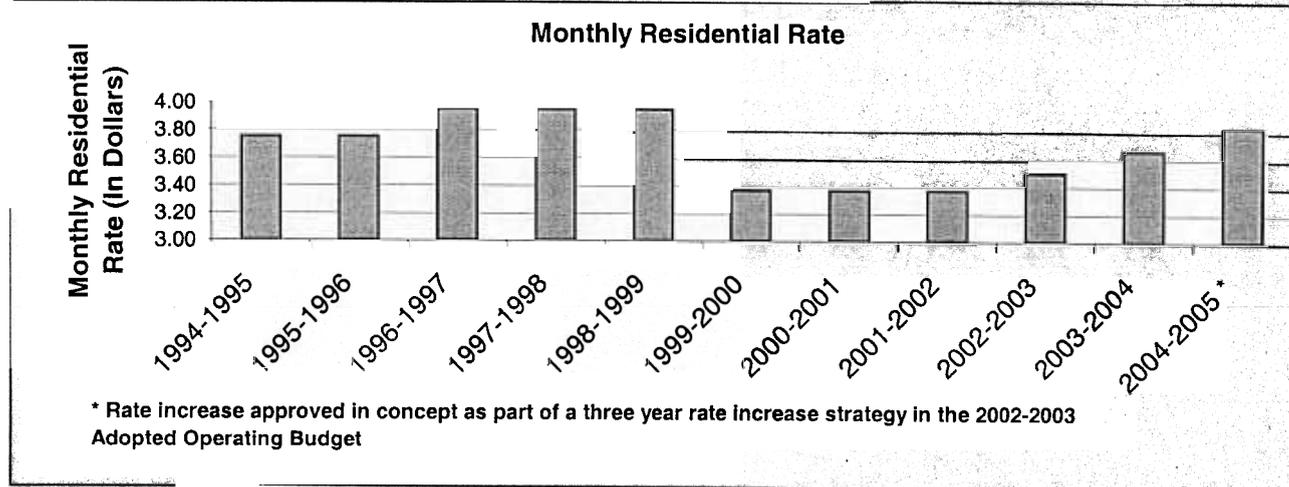
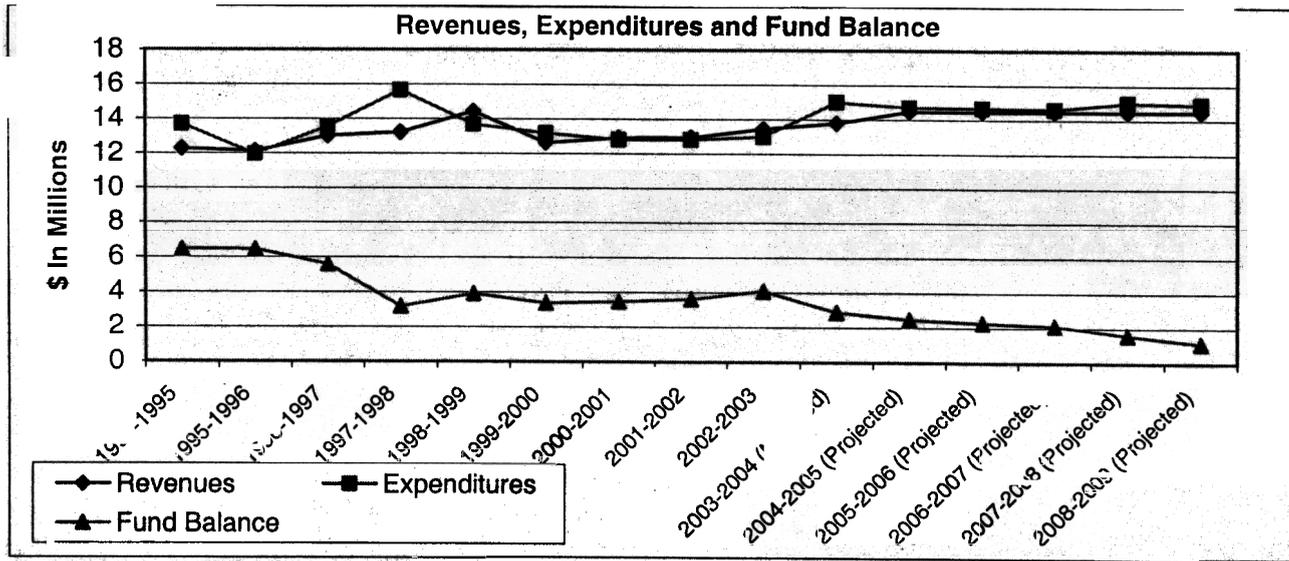
# INTEGRATED WASTE MANAGEMENT FUND

## Revenues, Expenditures, Fund Balance and Rate History



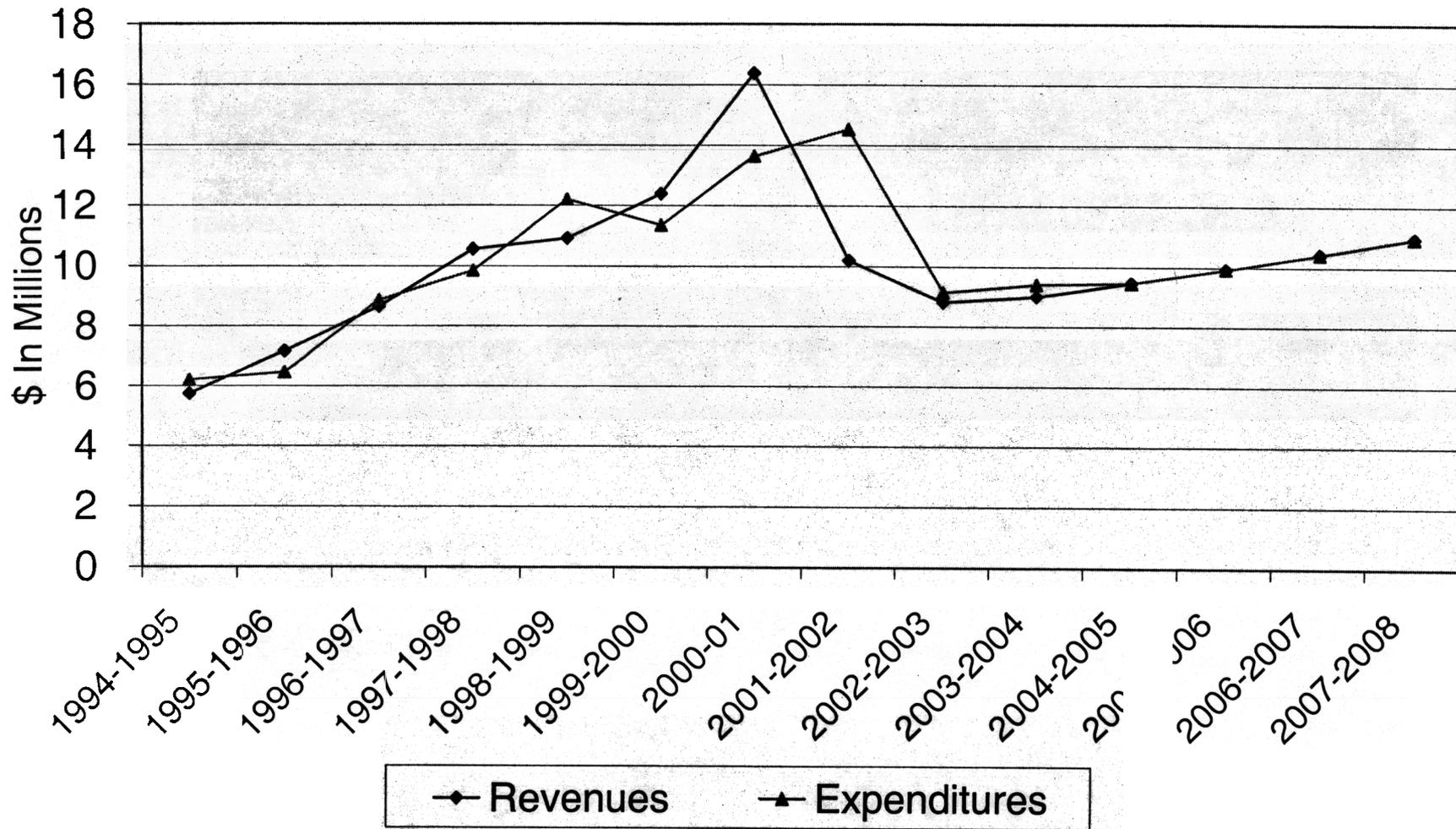
# STORM SEWER OPERATING FUND

## Revenues, Expenditures, Fund Balance and Rate History



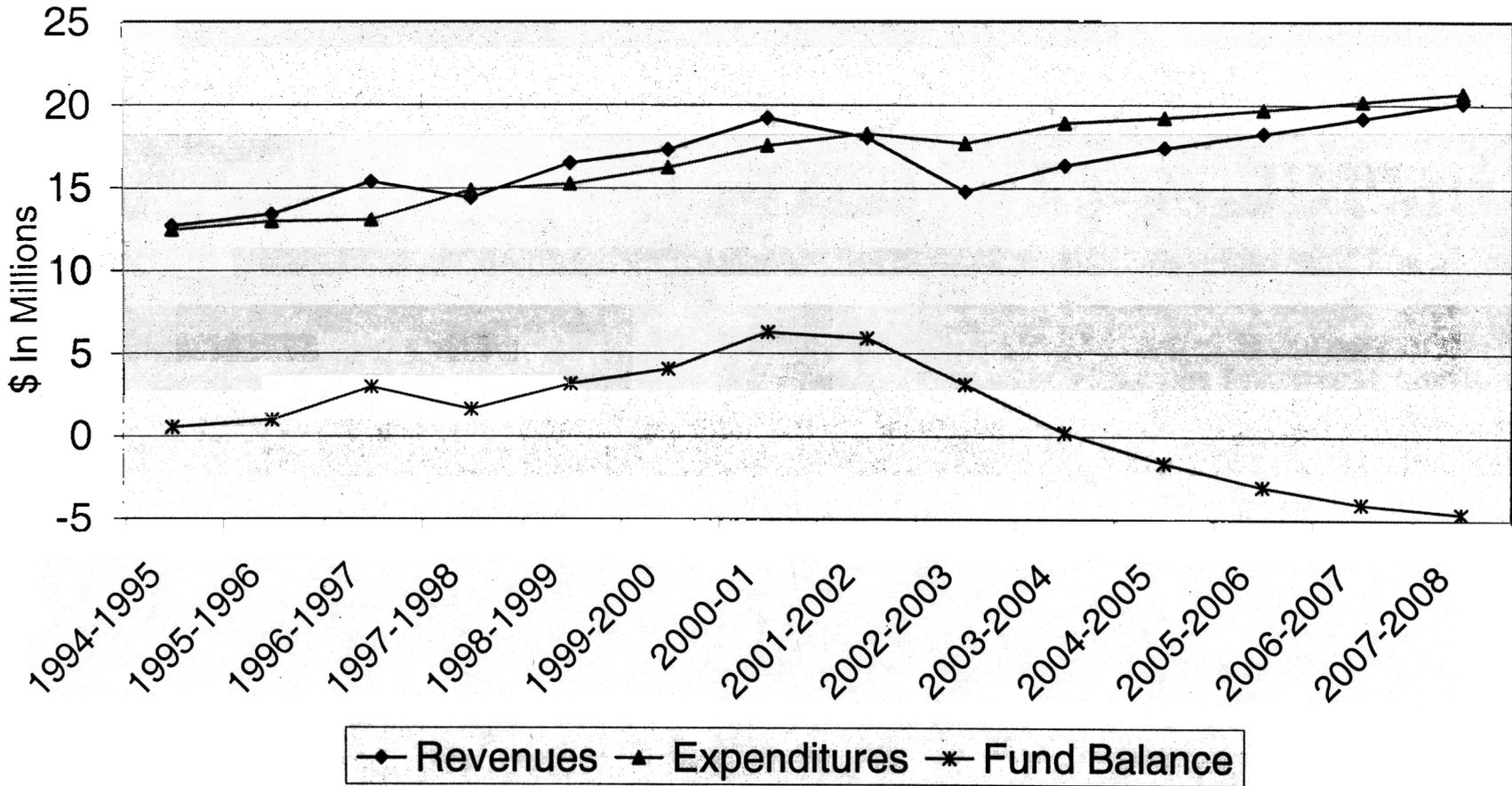
# TRANSIENT OCCUPANCY TAX FUND

## Revenues and Expenditures

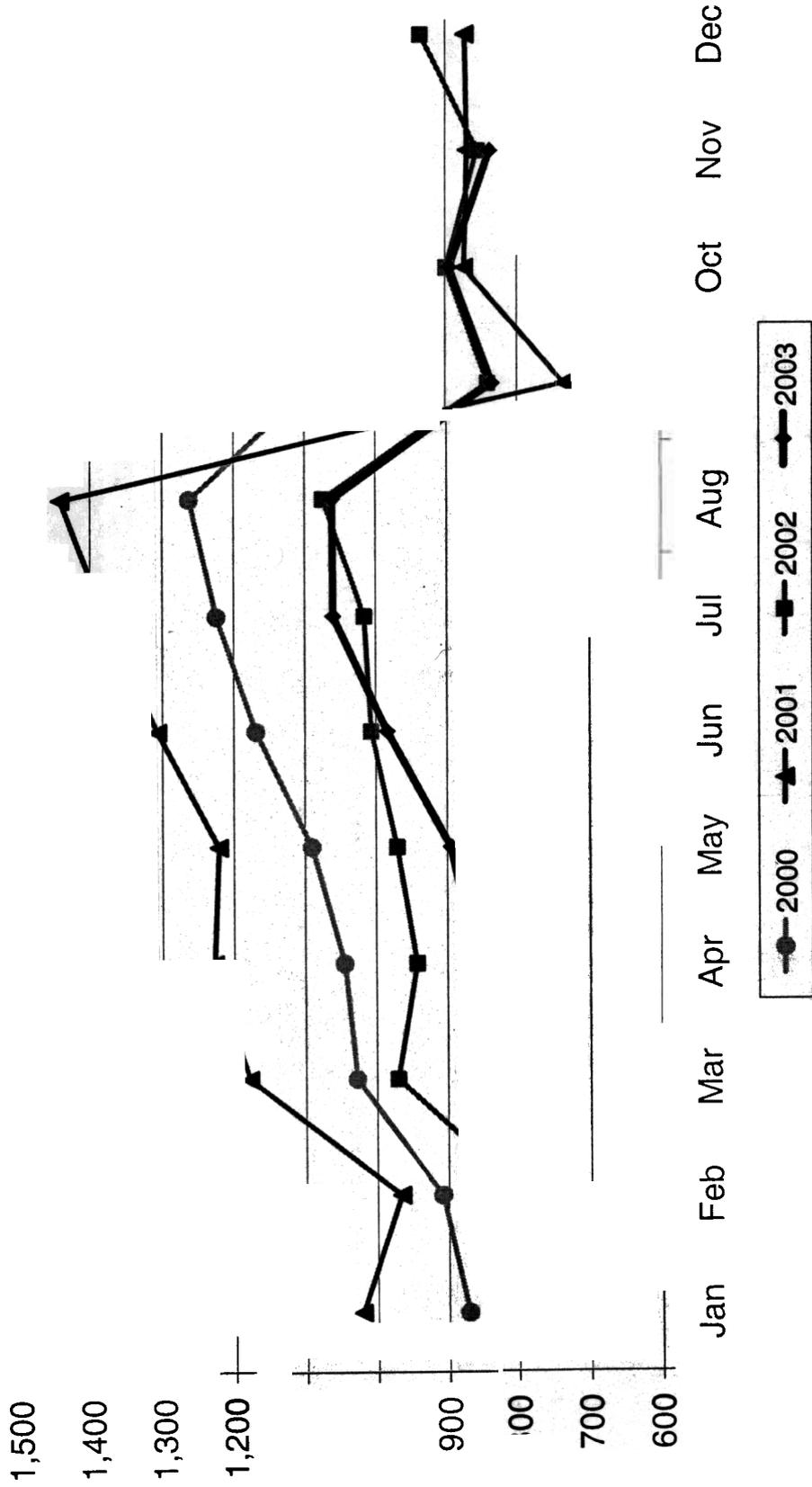


# CONVENTION AND CULTURAL AFFAIRS FUND

## Revenues, Expenditures and Fund Balance



# Mineta San Jose International Airport



Slide 33

January 15, 2004

## AVIATION CSA SITUATION AND OUTLOOK

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- Activity is still depressed – Currently at 1998-1999 levels (flat with last year)
- Revenues are flat, and are projected to remain flat through 2004-2005
- Expenses are increasing (labor and CPI increases)
- Cautiously optimistic about the timing of economic and aviation industry turnaround
- Preliminary 2004-2005 shortfall **\$21.1 Million**

**CITY COUNCIL STUDY SESSION  
CITY'S BUDGET PROJECTIONS AND PRIORITIES**

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**GENERAL FUND  
BUDGET BALANCING  
INFORMATION**

(For Use During Council Budget Discussion)

## 2004-2005 BUDGET BALANCING OPTIONS

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- Service Reductions  
(i.e., vacant/filled position elimination)
- Use of Reserves  
(i.e., 2004-2005 Future Deficit and Economic Uncertainty Reserves)
- New Revenue Sources  
(i.e., 911 Fee)
- Funding Shifts  
(i.e., HNVF, C&C Tax Funds, other Capital Funds)
- Deferring Capital Projects  
(i.e., capital projects with General Fund O&M impact)
- Negotiate Personal Services Cost Savings  
(i.e., mandatory unpaid furloughs)

## CURRENT VACANCIES BY EMPLOYEE GROUP (as of 1/6/04)

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<u>Employee Group</u>	<u>General Fund</u>	<u>Other Funds</u>	<u>Total</u>
ABMEI (97.00)	2.00	3.00	5.00
AEA (242.00)	6.15	23.85	30.00
AMSP (98.00)	5.50	8.50	14.00
CAMP (343.00)	7.40	21.60	29.00
CEO (225.50)	10.55	7.45	16.00
IAFF (714.00)	37.00	0.00	37.00
IBEW (88.00)	6.00	6.00	12.00
MEF (2,681.90)	172.00	70.43	242.43
OE#3 (874.14)	32.60	44.65	77.25
POA (1,377.00)	0.00	0.00	0.00
Exec. Mgmt. (Unit 99) (344.62)	11.40	21.60	33.00
Unrep. Non-Mgmt. (30.91)	<u>0.00</u>	<u>0.00</u>	0.00
	289.60	206.08	495.68

Annualized Costs/Savings

\$21.96M\* \$20.27M\* \$42.23M\*



\*Represents gross savings. Actual savings would be affected by backfill costs and/or revenue/fee reimbursements.

## CURRENT VACANCIES BY CITY SERVICE AREA (as of 1/6/04)

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<u>City Service Area</u>	<u>General Fund</u>	<u>Other Funds</u>	<u>Total</u>
Aviation Services (390.5)	0.00	33.00	33.00
Economic & Neighborhood Devel. (653.78)	24.85	21.81	46.66
Environmental & Utility Services (596.96)	0.13	60.17	60.30
Public Safety (2585.43)	66.92	0.00	66.92
Recreation & Cultural Services (1307.29)	140.37	14.1	154.47
Transportation Services (418.54)	16.25	12.95	29.20
Strategic Support (1163.57)	<u>41.08</u>	<u>64.05</u>	<u>105.13</u>
	289.60	206.08	495.68
 Annualized Costs/Savings	 \$21.96M*	 \$20.27M*	 \$42.23M*

\*Represents gross savings. Actual savings would be affected by backfill costs and/or revenue/fee reimbursements.

**POTENTIAL ONE-TIME GENERAL FUND OPTIONS  
FOR BALANCING BUDGET**

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Reserves

Contingency Reserve	\$ 22,866,675
Economic Uncertainty	15,810,000
Workers' Comp/General Liability	10,000,000
2004-2005 Future Deficit	7,340,042
FF&E for Capital Projects	6,846,718
E-Government Applications	<u>1,810,000</u>
Total	\$ 64,673,435

Other

Cardroom Revenue	\$ 6,250,000
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# POTENTIAL NEW GENERAL FUND REVENUES

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<b>Description of Revenue Alternative</b>	<b>Annual Revenue to the City</b>
Emergency Response Fee (911 Fee)	\$20-22 Million
Emergency Medical Service Fees and/or Subscriptions	\$9-10 Million
False Alarm Charges	\$1-2 Million
<b>TOTAL</b>	<b>\$30-34 Million</b>