

CITY COUNCIL STUDY SESSION CITY'S BUDGET PROJECTIONS AND PRIORITIES

AGENDA

1. Current Economic Outlook
2. Current Budget Condition
3. Strategies to Resolve Current Budget Condition
4. Council Budget Discussion
5. Public Comments

CITY COUNCIL STUDY SESSION
CITY'S BUDGET PROJECTIONS AND PRIORITIES

CURRENT
ECONOMIC OUTLOOK

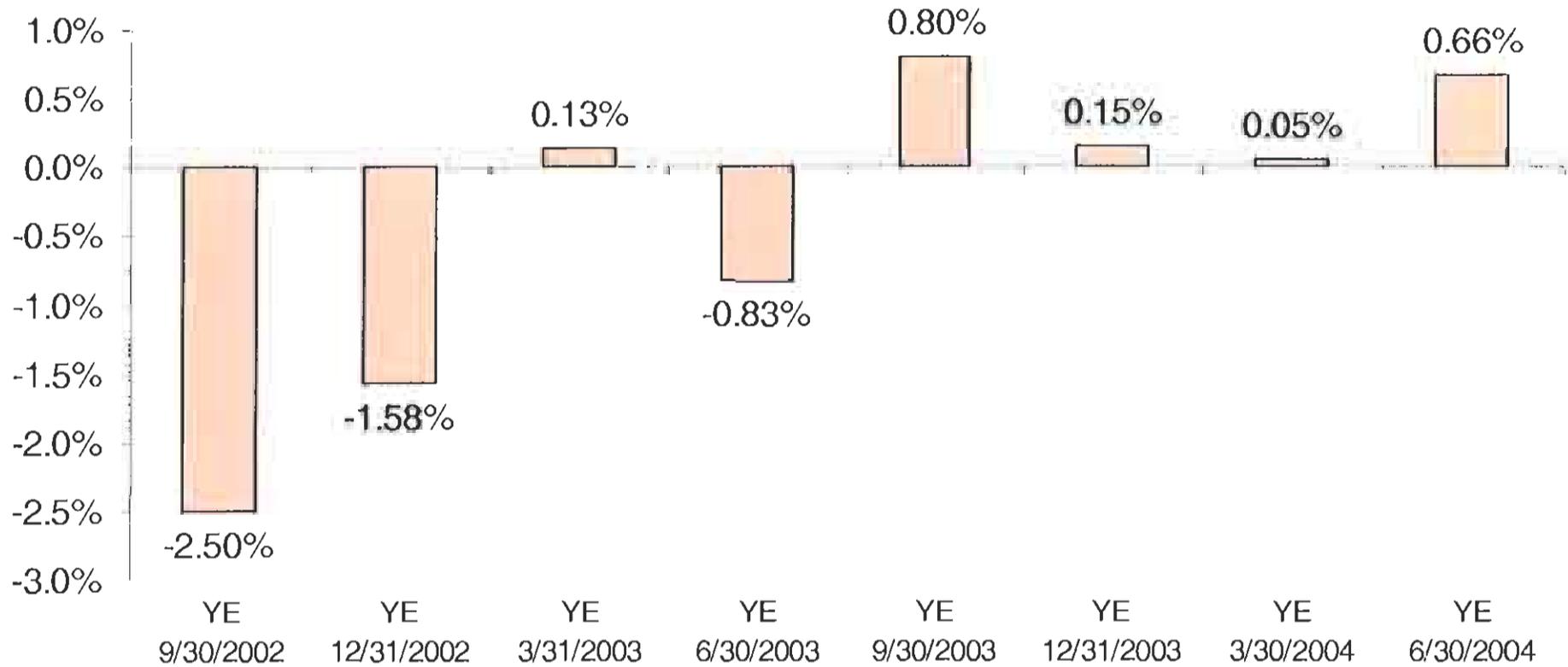
OVERALL STORY

I. More Signs of Economic Vitality,
But Job Growth Remains Elusive.

II. Expect Very Slow Job Recovery,
But Plan for Long-Term Growth.

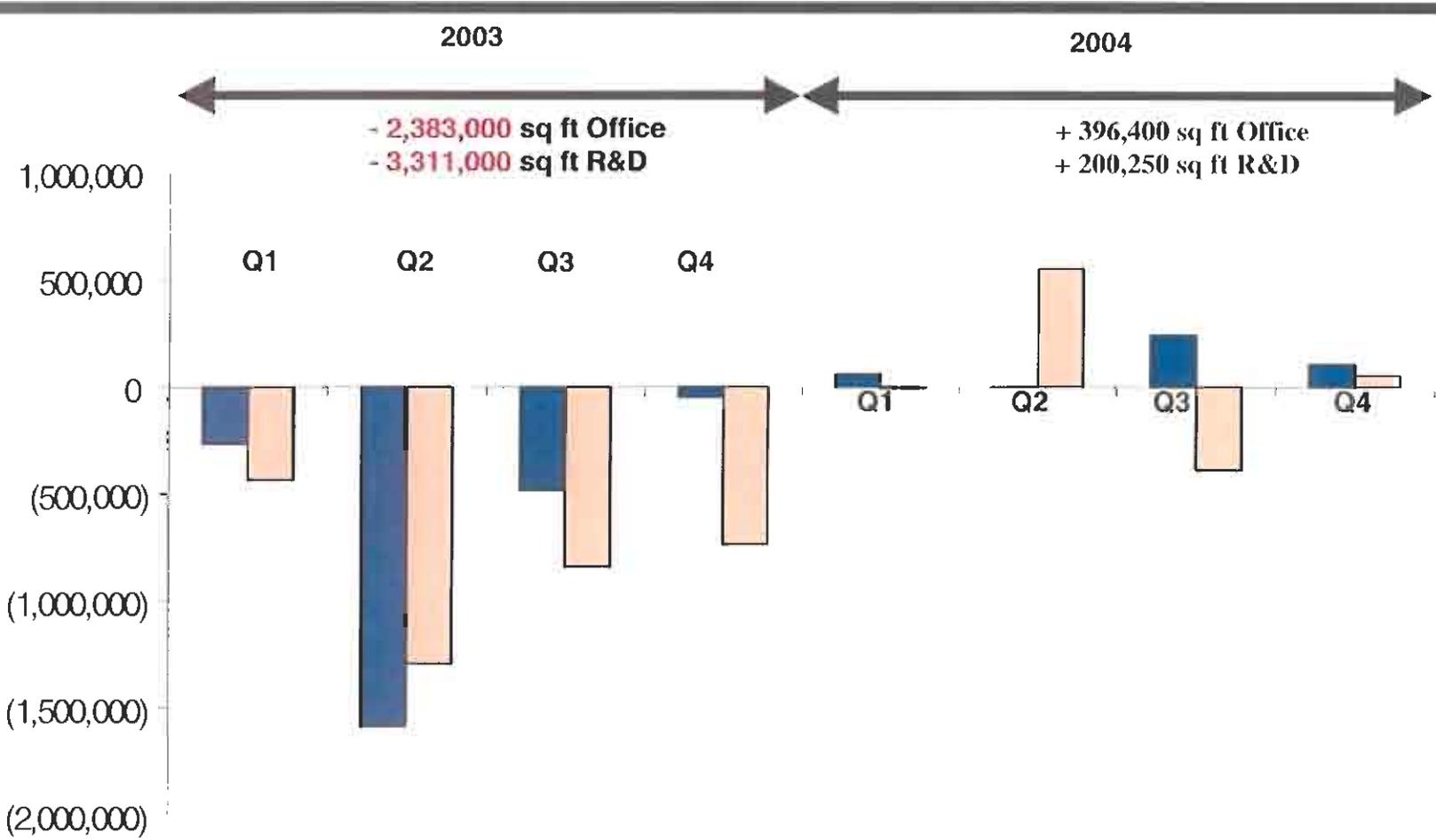
I. More Signs of Economic Vitality, But Job Growth Remains Elusive

QUARTERLY SALES TAX TURNS POSITIVE



But, Business-to-Business fell below Retail for the first time in 10 years

REAL ESTATE ABSORPTION TURNS POSITIVE FOR 2004

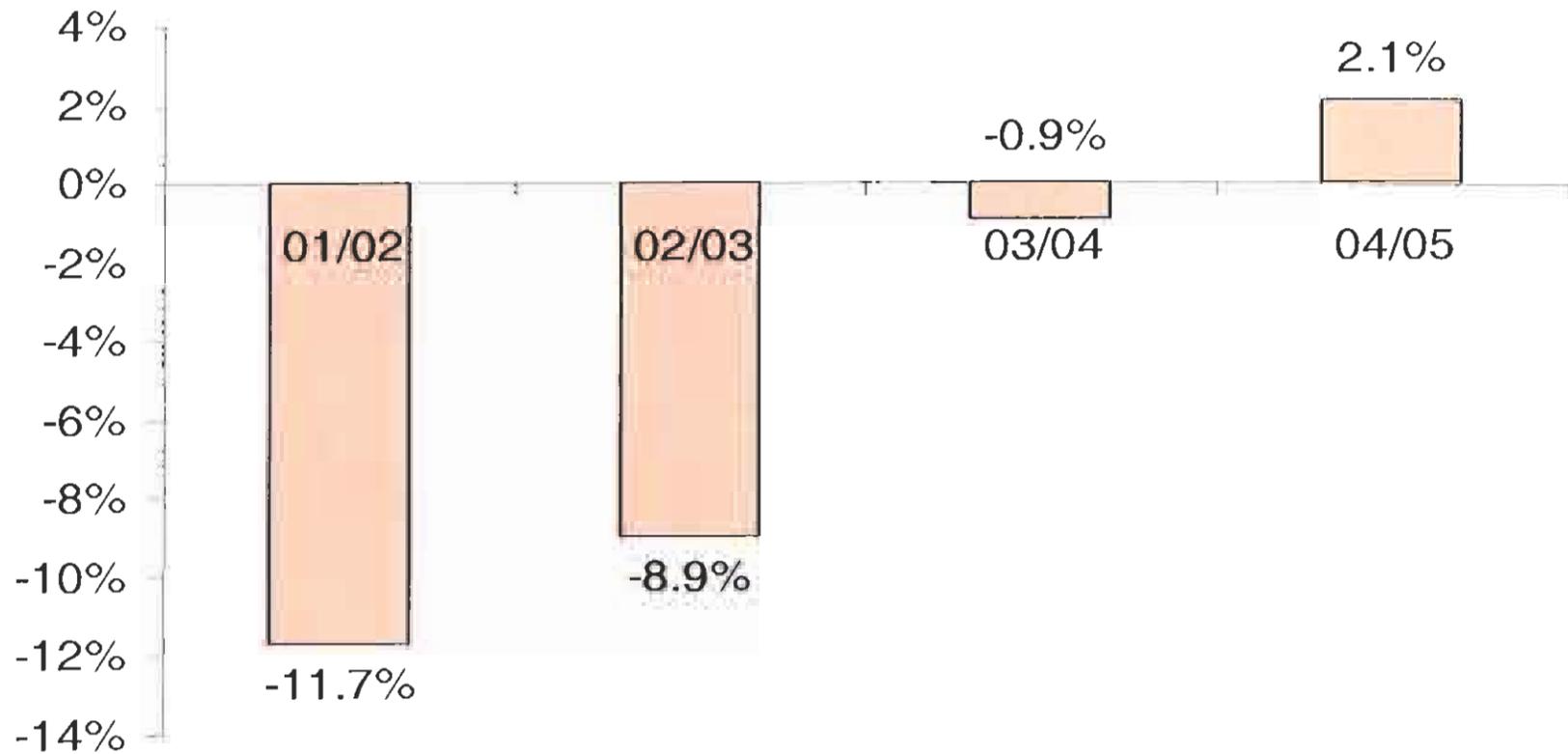


- 2,383,000 sq ft Office
- 3,311,000 sq ft R&D

+ 396,400 sq ft Office
+ 200,250 sq ft R&D

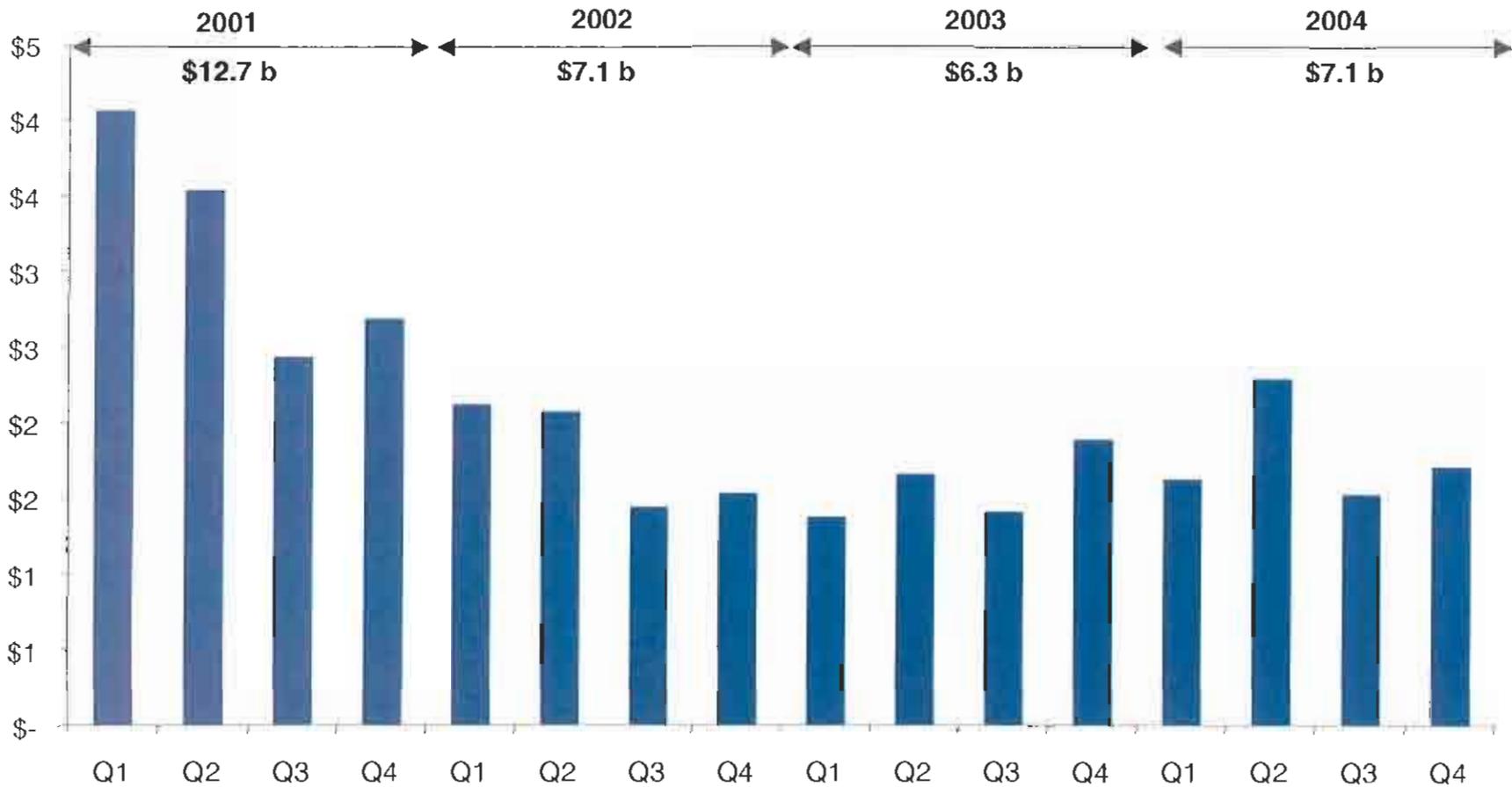
San Jose Net Absorption (sq ft)

ENPLANEMENTS ARE UP



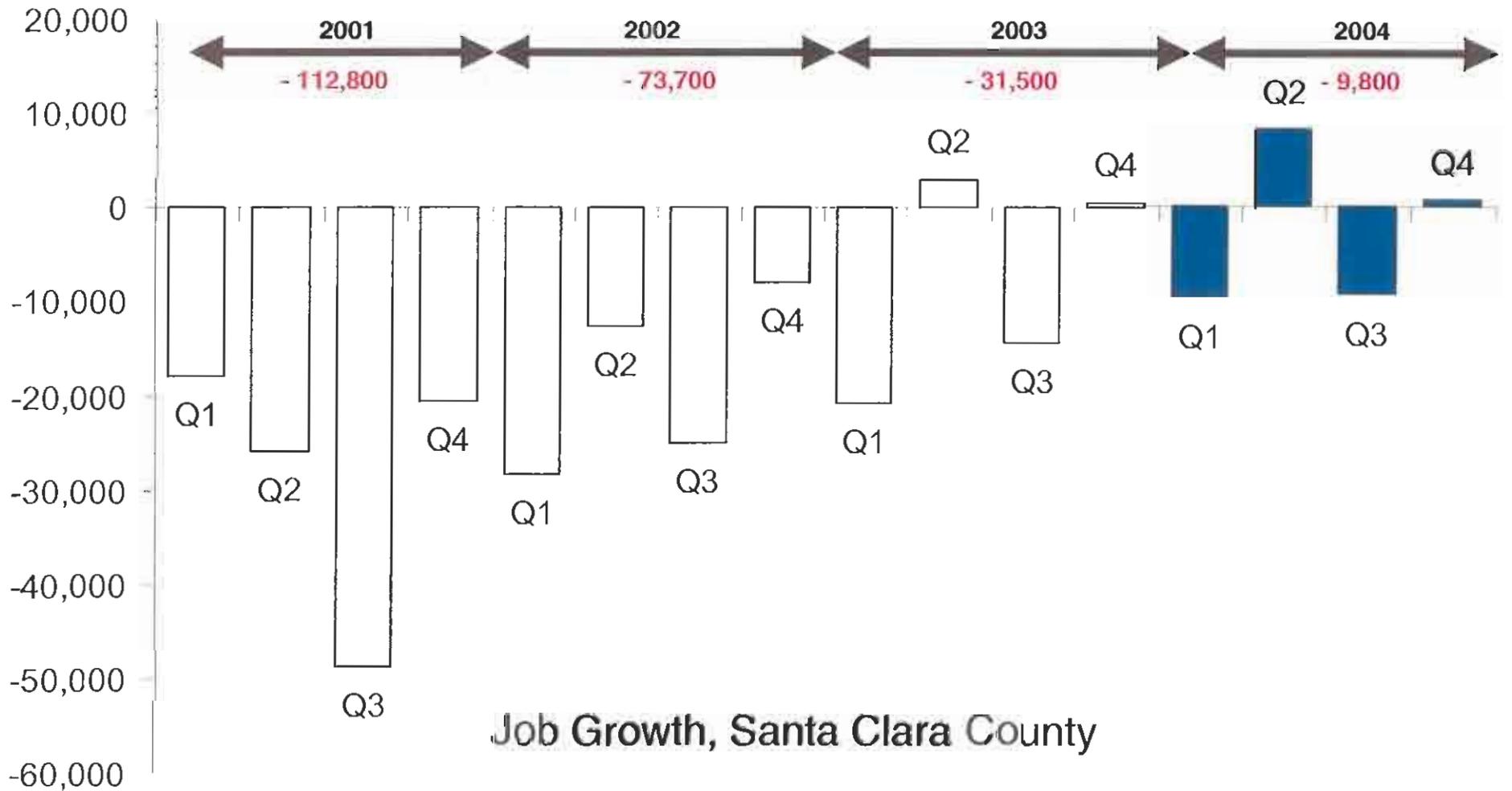
Change in Enplanements at San Jose International Airport
(Year to date change)

VENTURE FUNDING UP SLIGHTLY FOR YEAR



Venture Capital Investment in Silicon Valley
(billions)

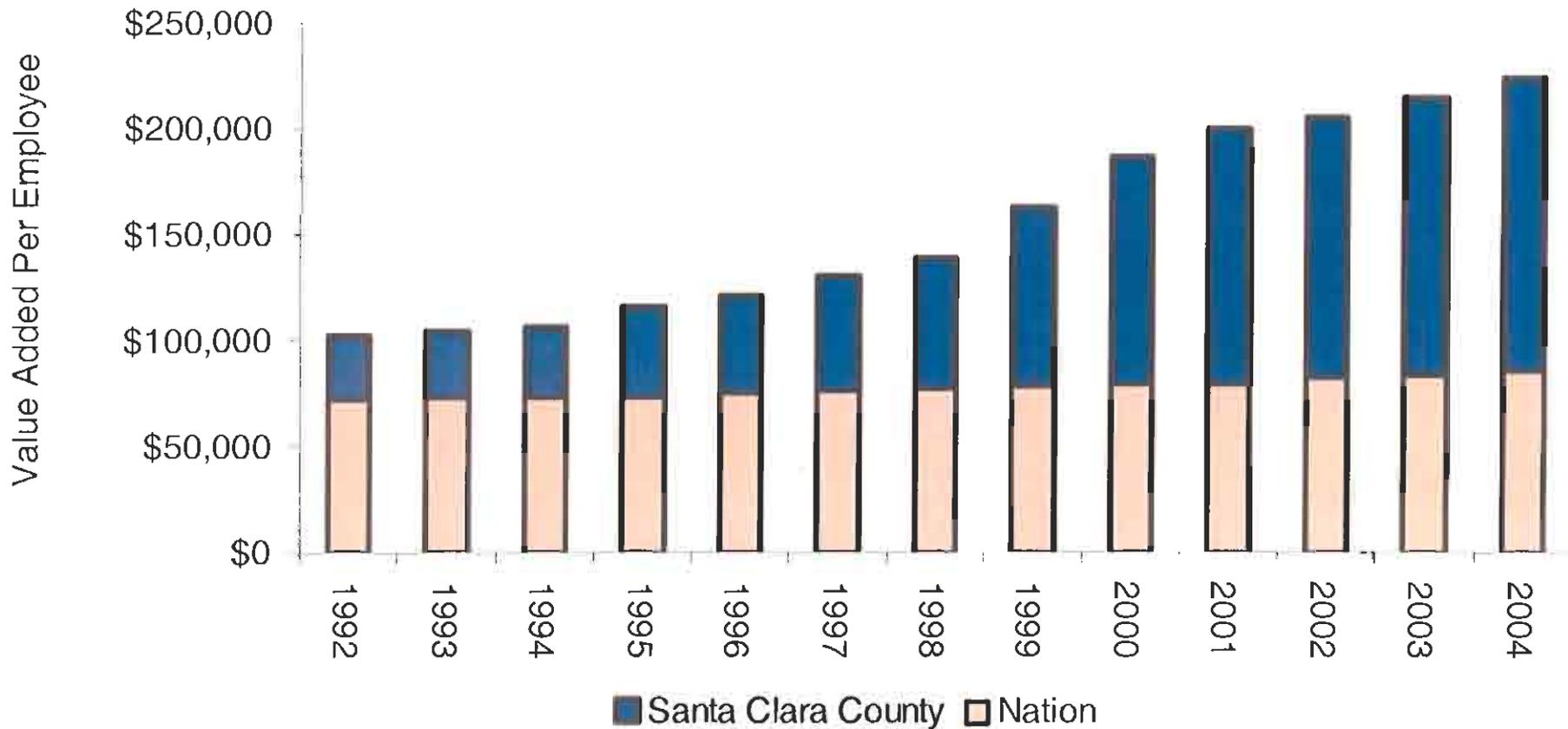
BUT JOB GROWTH REMAINS ELUSIVE



Job Growth, Santa Clara County

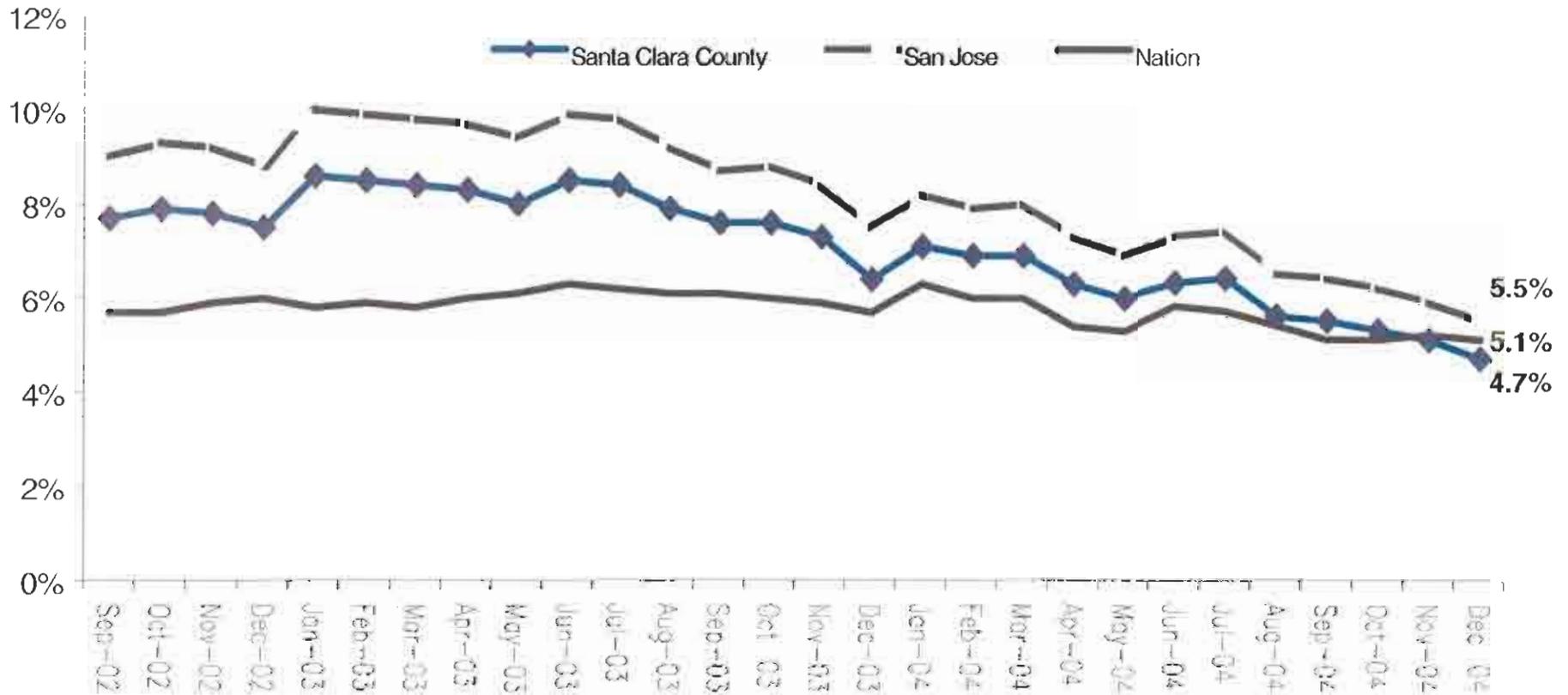
227,800 jobs lost since 2000 peak

PRODUCTIVITY IS SURGING



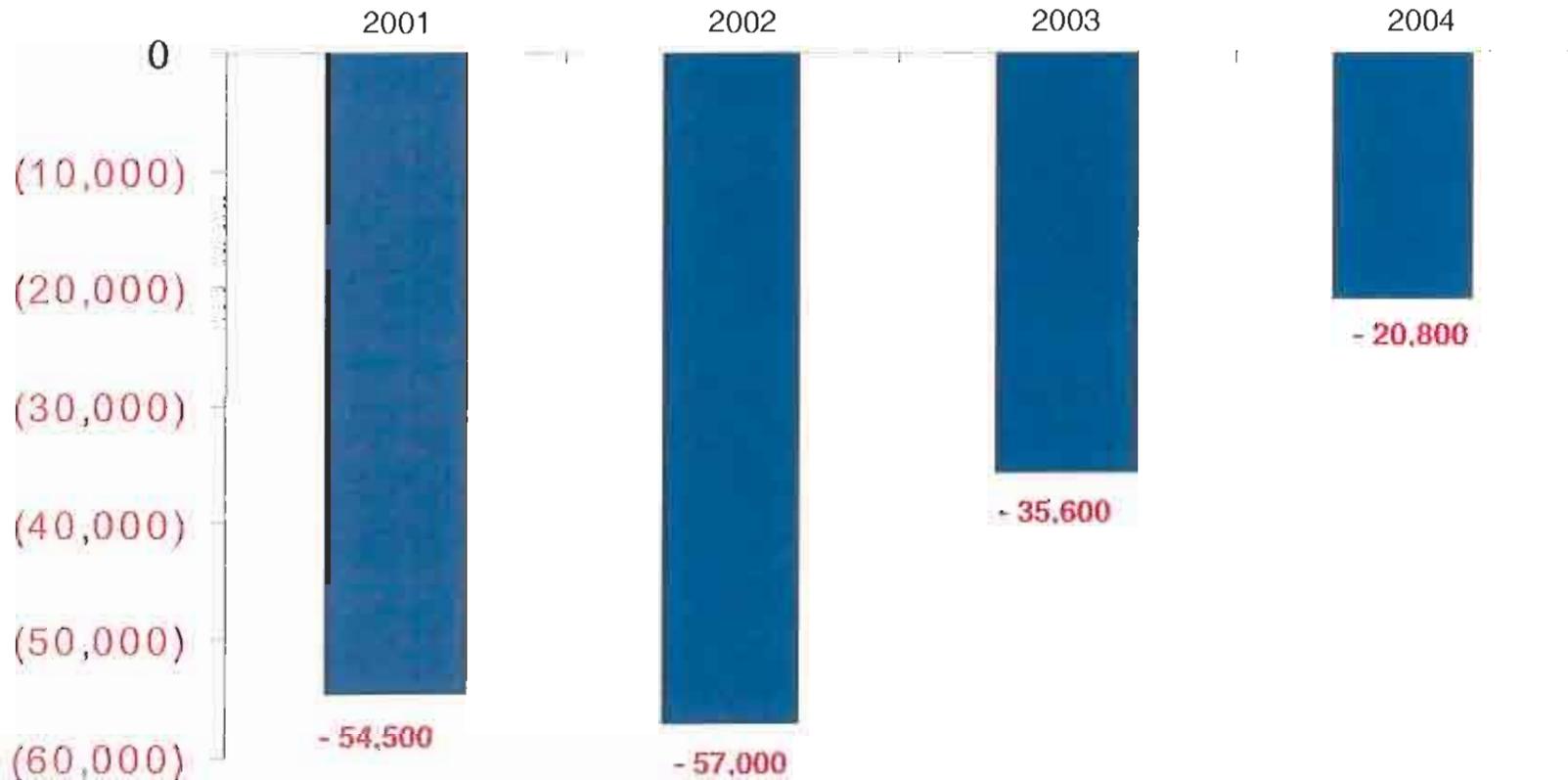
At \$222,400, Santa Clara County productivity is more than 2.5 times the nation

COUNTY UNEMPLOYMENT RATE FALLS BELOW THE NATION...



39,800 county residents, including 23,850 San Jose residents, are "officially" unemployed

...BECAUSE LABOR FORCE KEEPS DECLINING



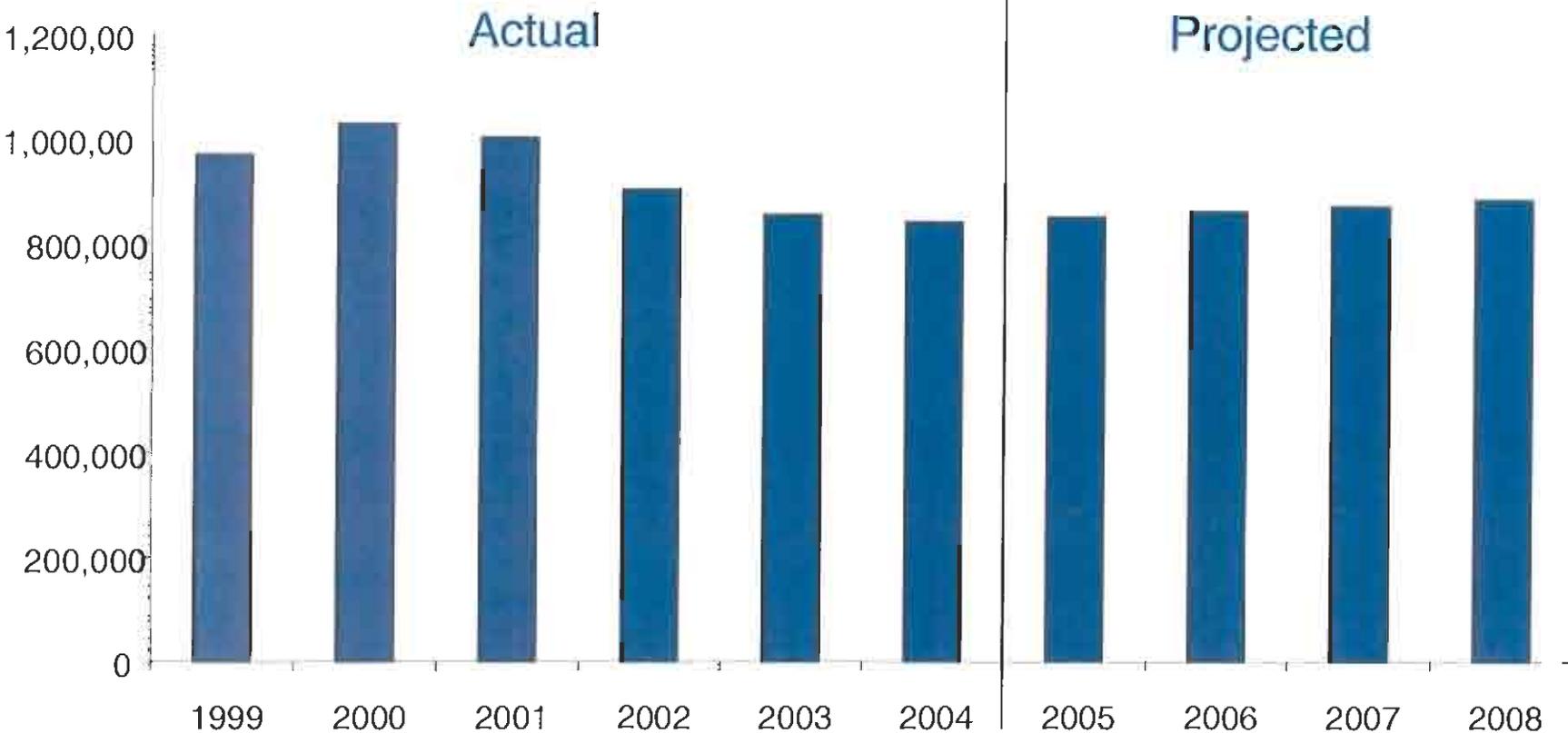
From Q1 2001 to Q4 2004, labor force in Santa Clara County declined by 167,900.

II. Expect Very Slow Job Recovery, But Plan for Long-Term Growth

SHORT-TERM OUTLOOK: VERY SLOW RECOVERY

- Continued divergence: U.S. & local economy
- Local job growth: About 1% (2005-2007), 2000 peak job level reached well after 2010
- Newer, smaller companies drive job recovery
- Challenge: manage local government “through the regional job recession”

SLOW JOB RECOVERY IN NEAR-TERM

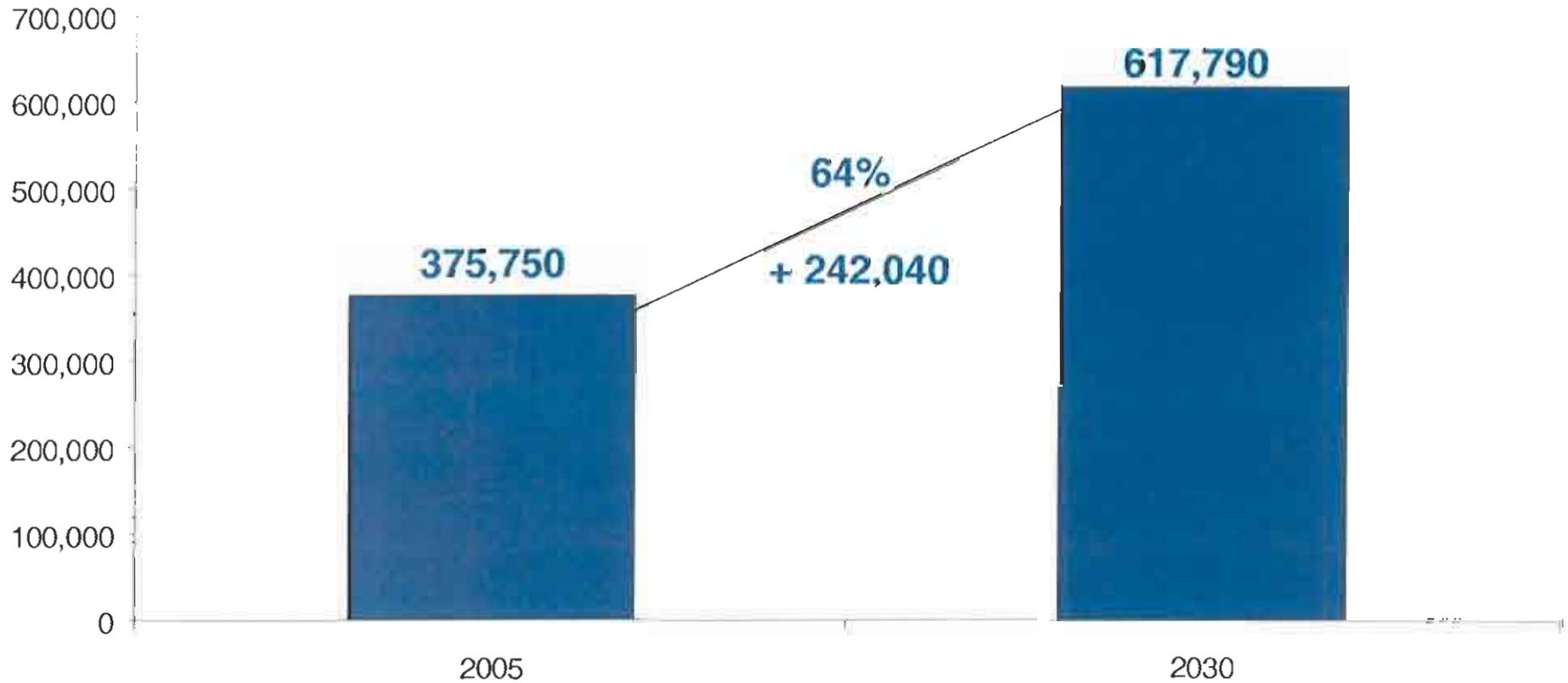


Santa Clara County Employment

Average annual job growth forecasted 05-08



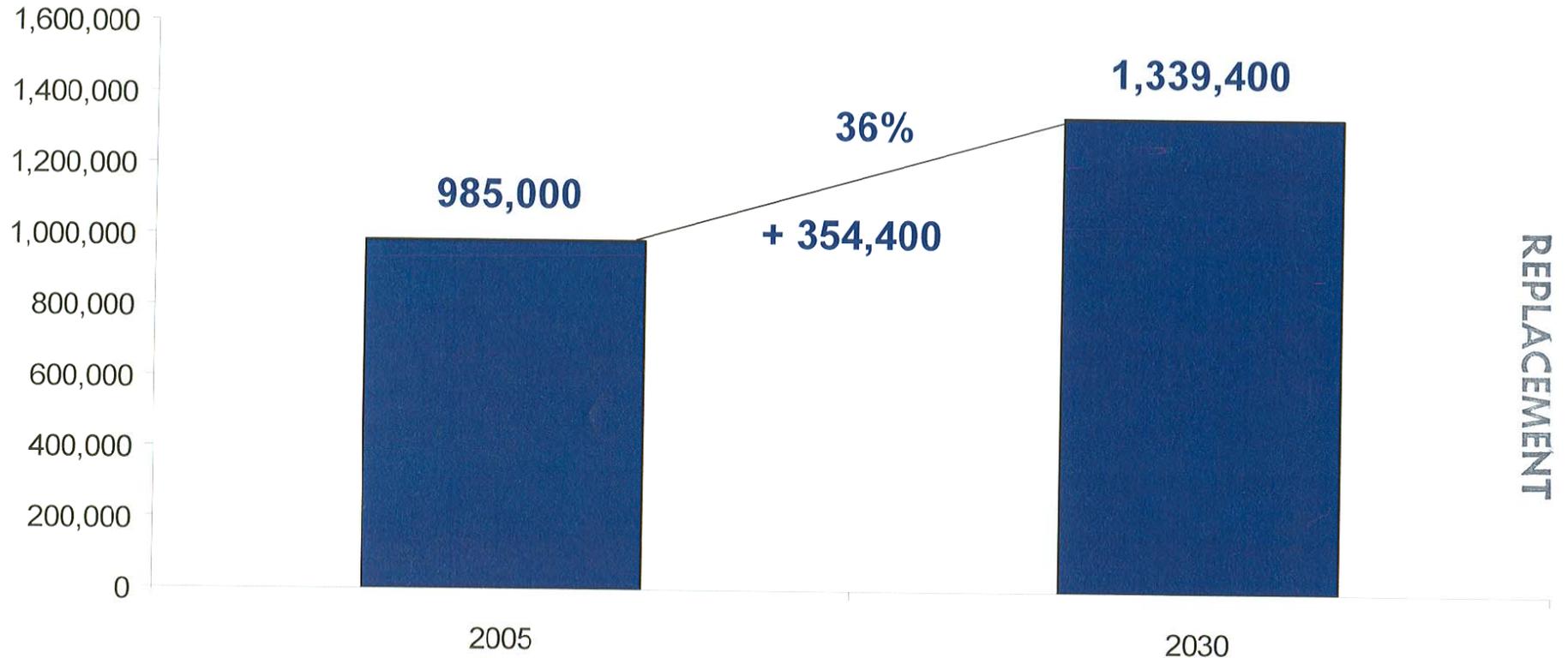
PLAN FOR LONG-TERM JOB INCREASE



ABAG Projected Jobs, San Jose SOI

*During this period, San Jose's share of **SCC** jobs is expected to increase from 42% to 46%.*

PLAN FOR LONG-TERM POPULATION GROWTH



ABAG Projected Population, San Jose SOI

During this period, San Jose's share of SCC population is expected to increase from 56% to 59%. SJ will capture two-thirds of SCC household growth. San Jose's absolute growth will far exceed any other Bay Area City.

LONG-TERM CHALLENGES

- Retain edge in innovation & entrepreneurship
- Slowing inflow of “A+” talent to region
- Poor local education performance/reputation
- Potential North First Street obsolescence
- Growth of (non-taxable) IT services

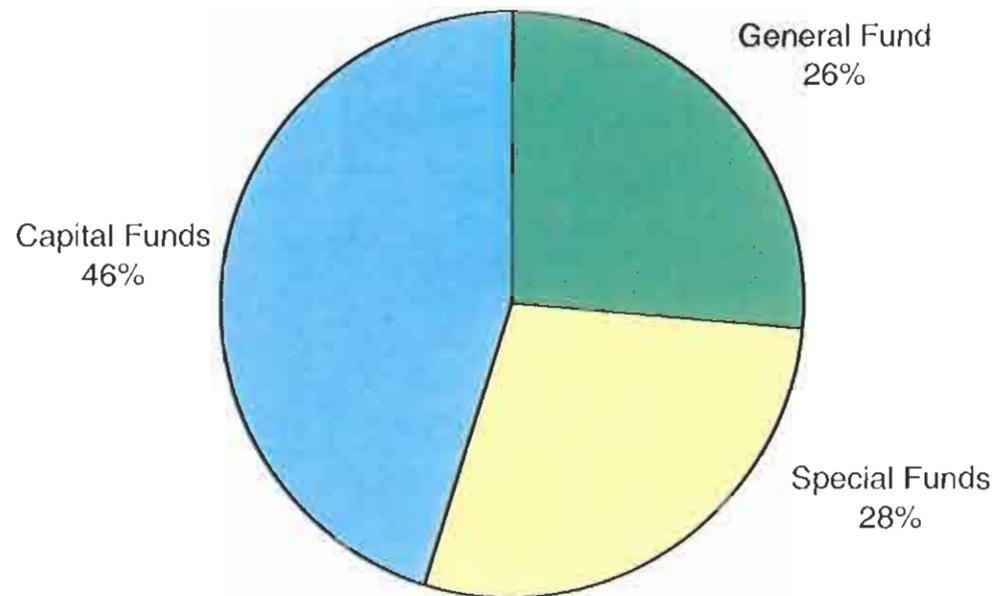
CITY COUNCIL STUDY SESSION
CITY'S BUDGET PROJECTIONS AND PRIORITIES

CURRENT BUDGET CONDITION

CITY OF SAN JOSE BUDGET OVERVIEW

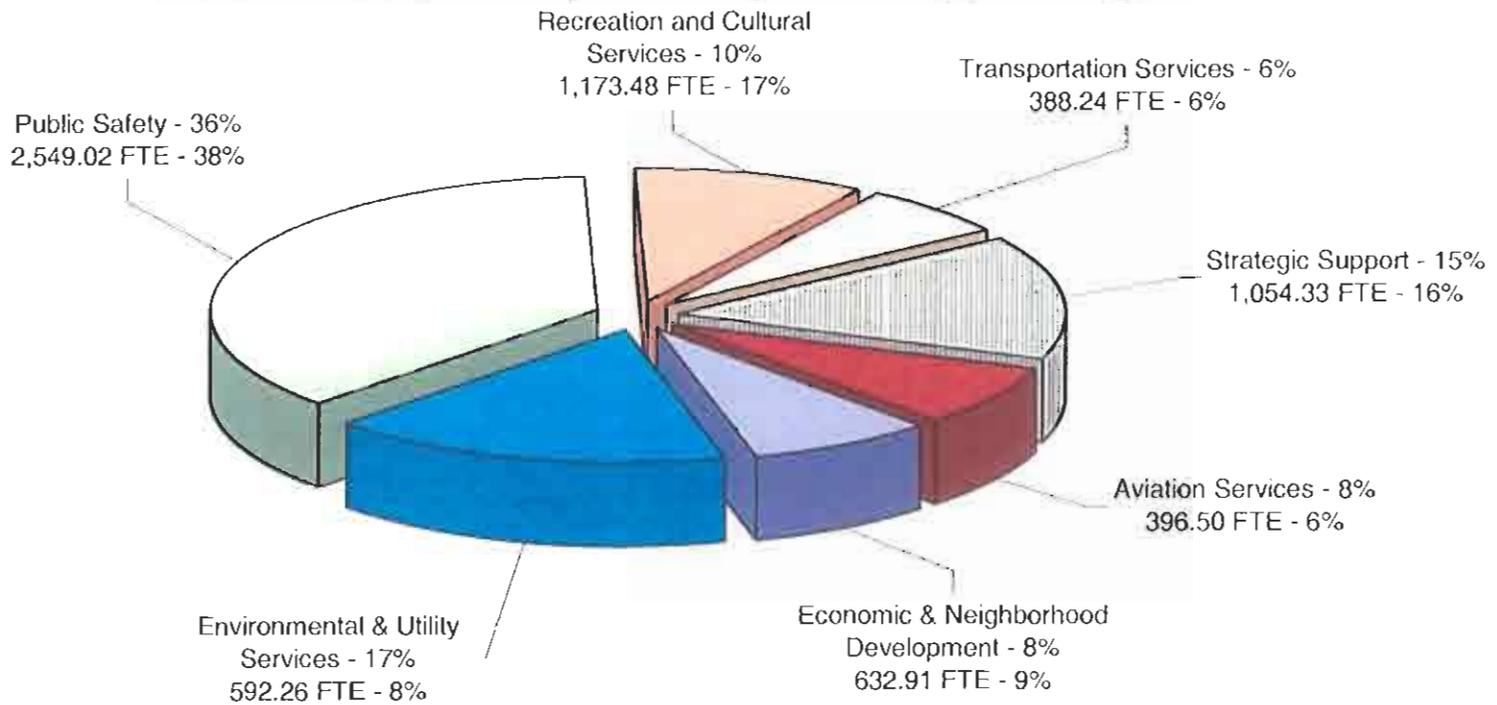
2004-2005 ADOPTED CITY BUDGET:	\$2.695 billion
TOTAL NUMBER OF FUNDS:	113
TOTAL NUMBER OF EMPLOYEES:	6,787

2004-2005 ADOPTED BUDGET



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

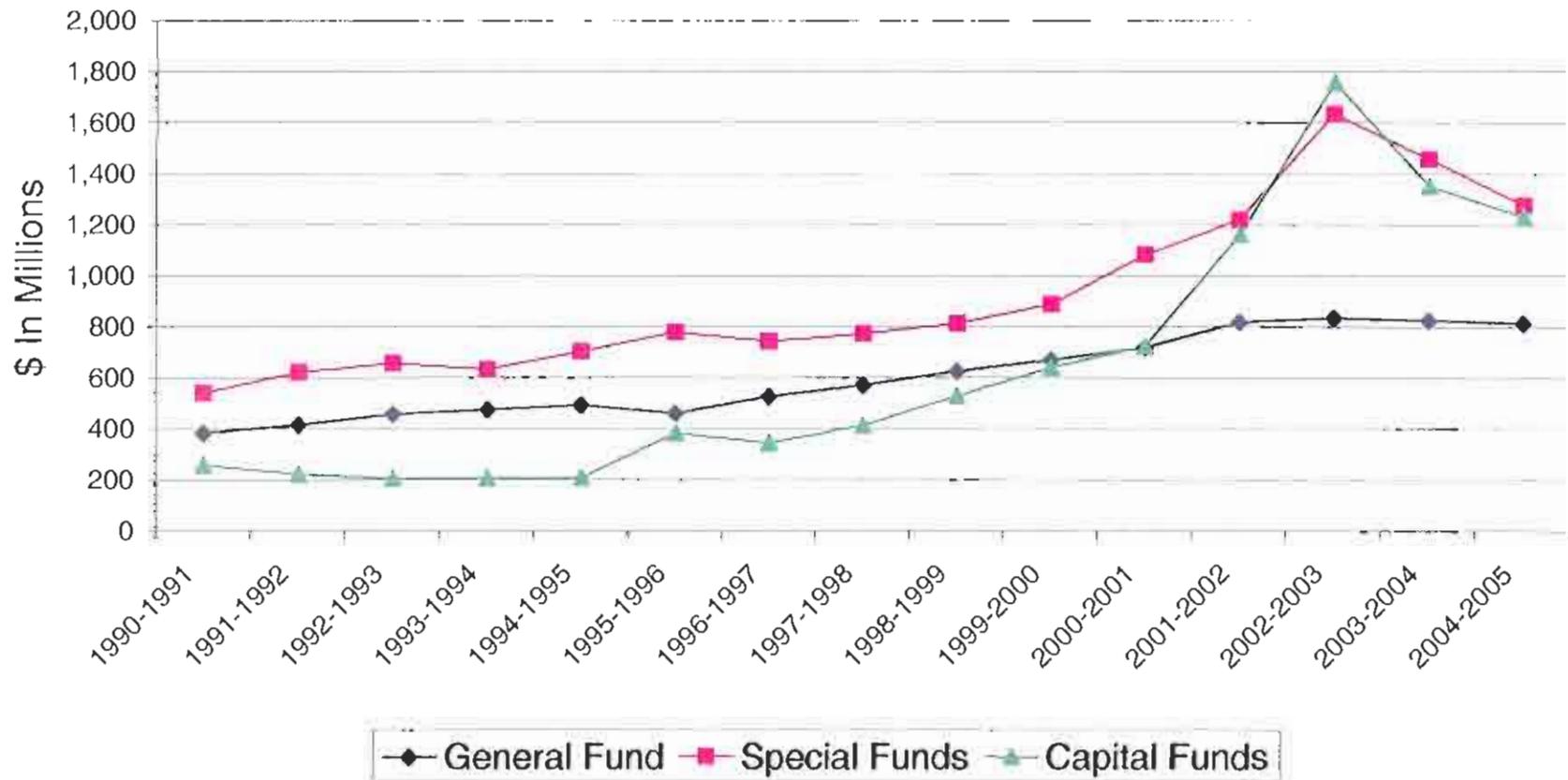
2004-2005 Adopted Operating Budget



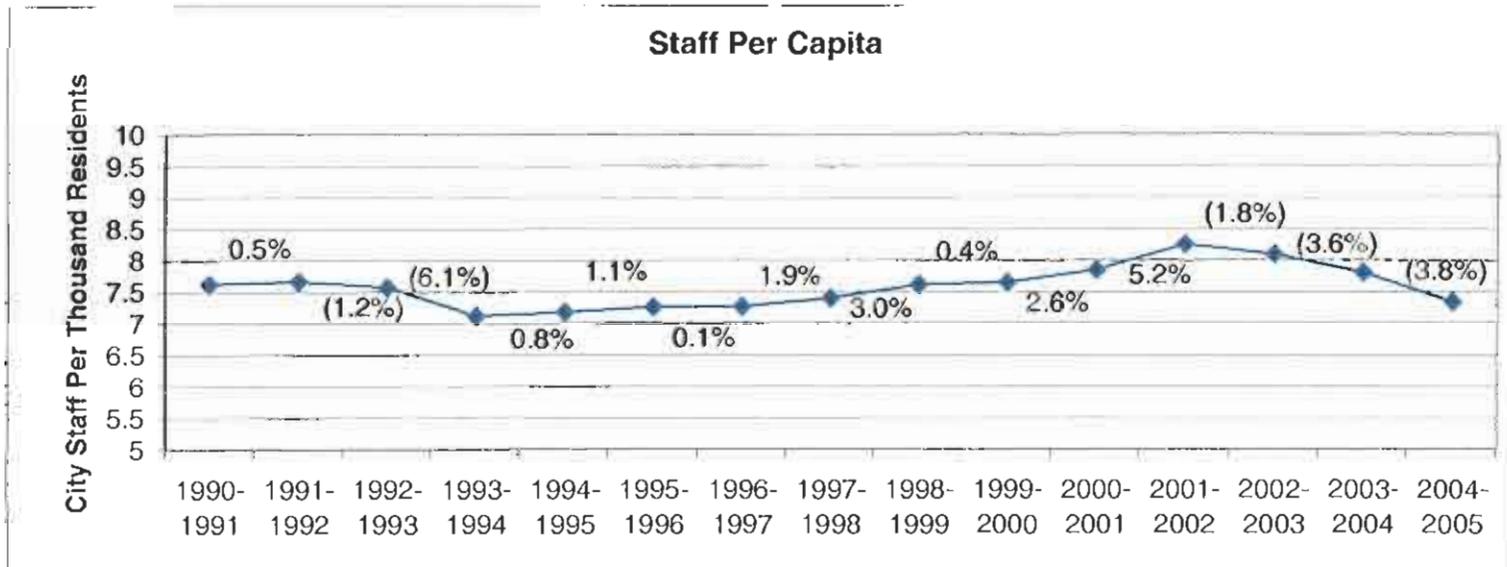
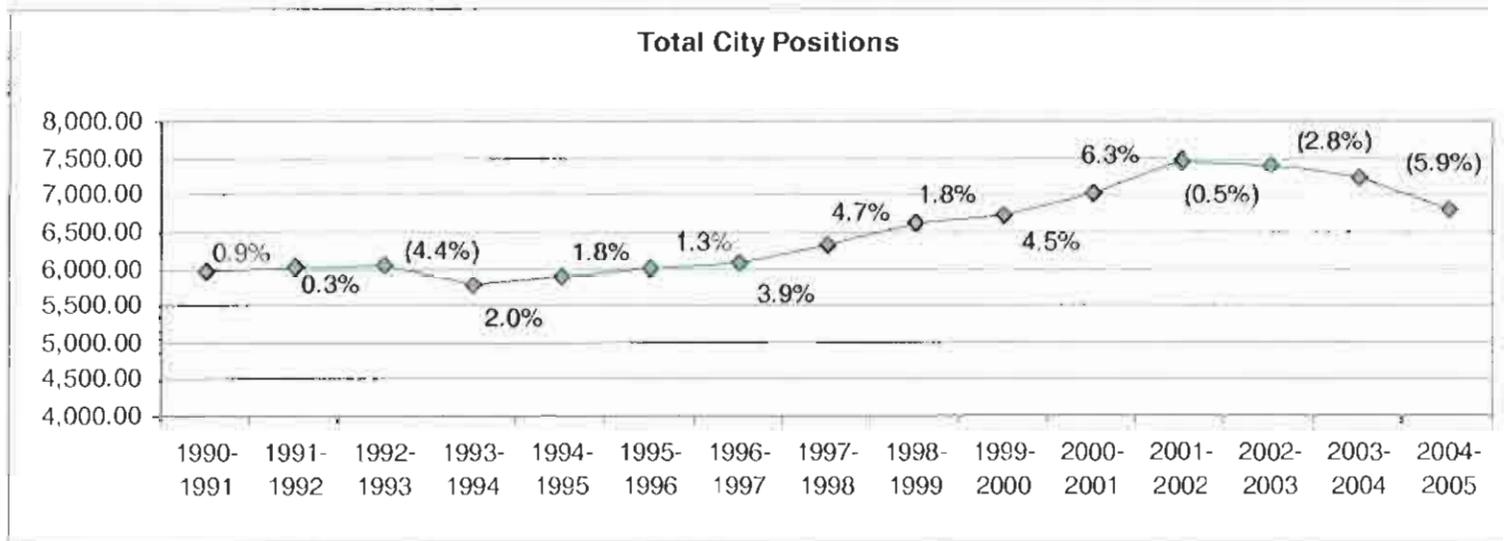
TOTAL OPERATIONS \$947,147,620
TOTAL POSITIONS (FTE) 6,786.74

ADOPTED BUDGET HISTORY 1990-1991 through 2004-2005

Total Adopted Budget By Fund Type



TOTAL STAFFING AND PER CAPITA COMPARISON



GOVERNING MAGAZINE TOP 35 CITIES (FEB 2000)

Population, Revenues, FTE City Comparisons

Rank	City	Population (1,000s)
6	San Diego	1,220,666
7	Phoenix	1,198,064
8	San Antonio	1,114,130
11	San Jose	861,284
21	Seattle	536,978

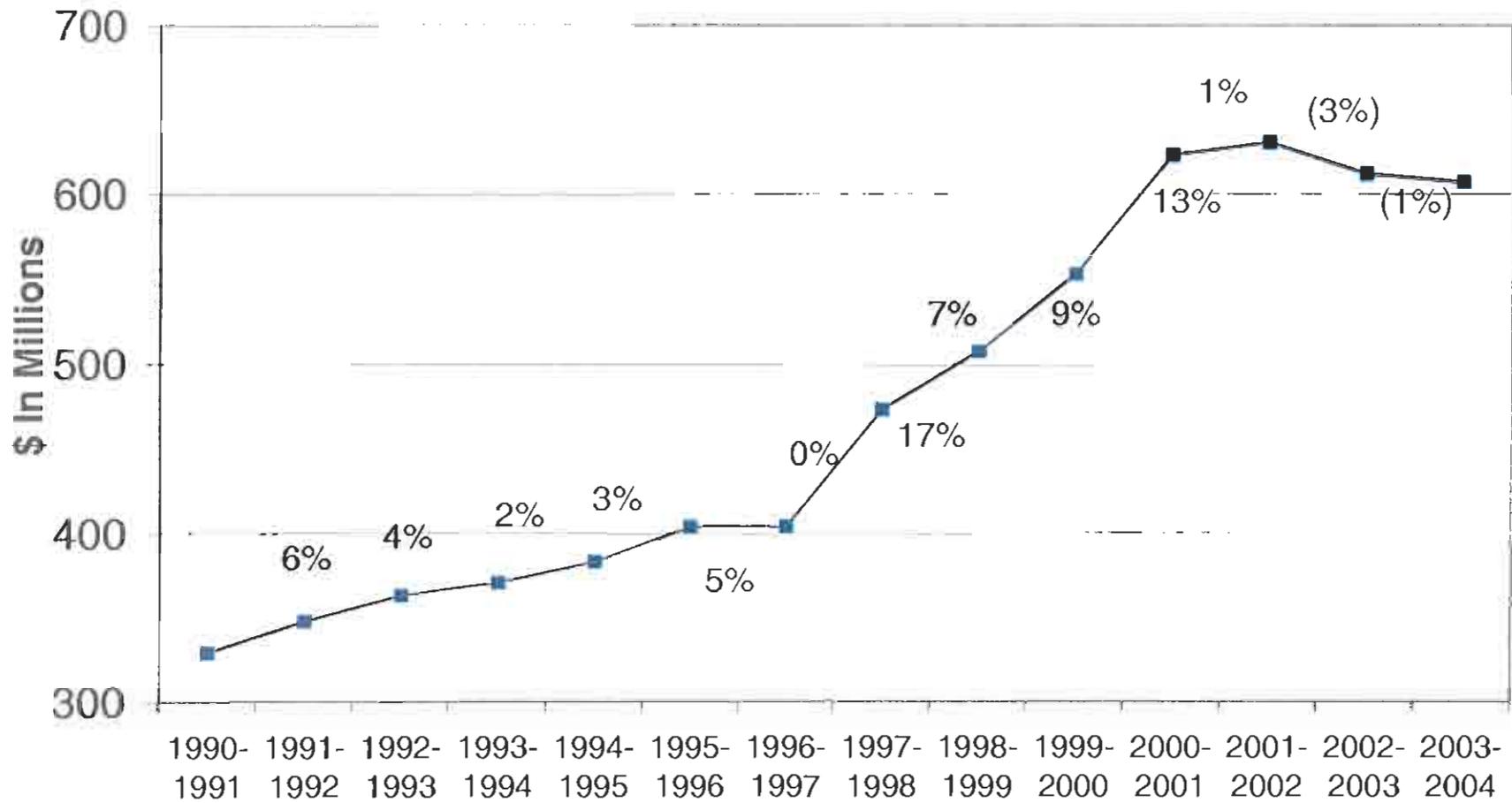
Rank	City	Total Revenues
13	San Antonio	1,679,745,000
15	San Diego	1,577,934,000
18	Phoenix	1,372,605,000
20	Seattle	1,276,337,000
23	San Jose	921,473,000

Rank	City	FTE
14	San Antonio	14,968.00
17	Phoenix	12,165.00
22	San Diego	10,810.00
24	Seattle	9,477.00
33	San Jose	6,422.00

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

GENERAL FUND

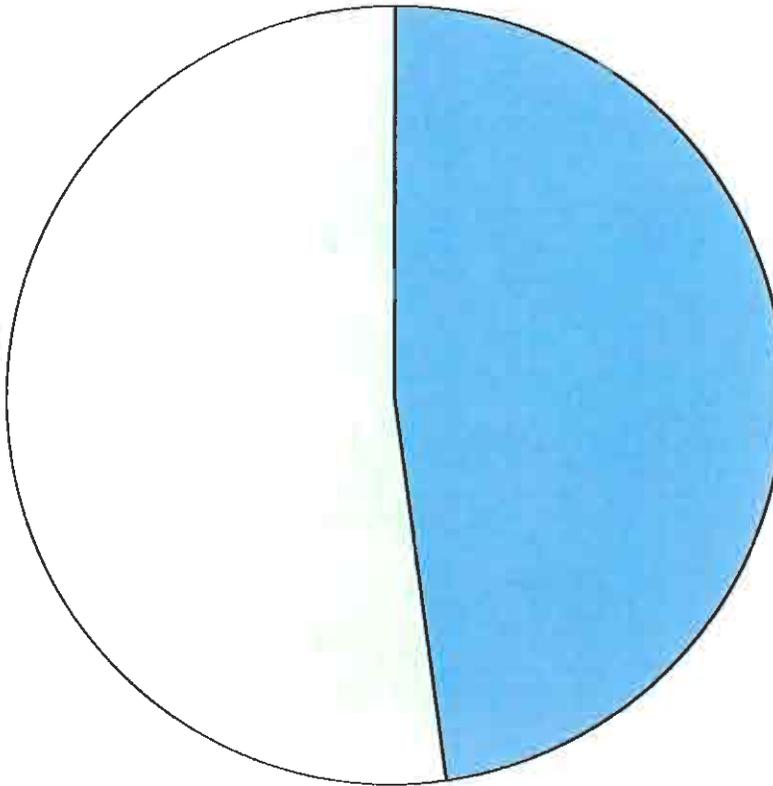
GENERAL FUND REVENUES (ADJUSTED) 1990-1991 through 2003-2004 (Actuals)



GENERAL FUND REVENUES BY ECONOMIC TYPE

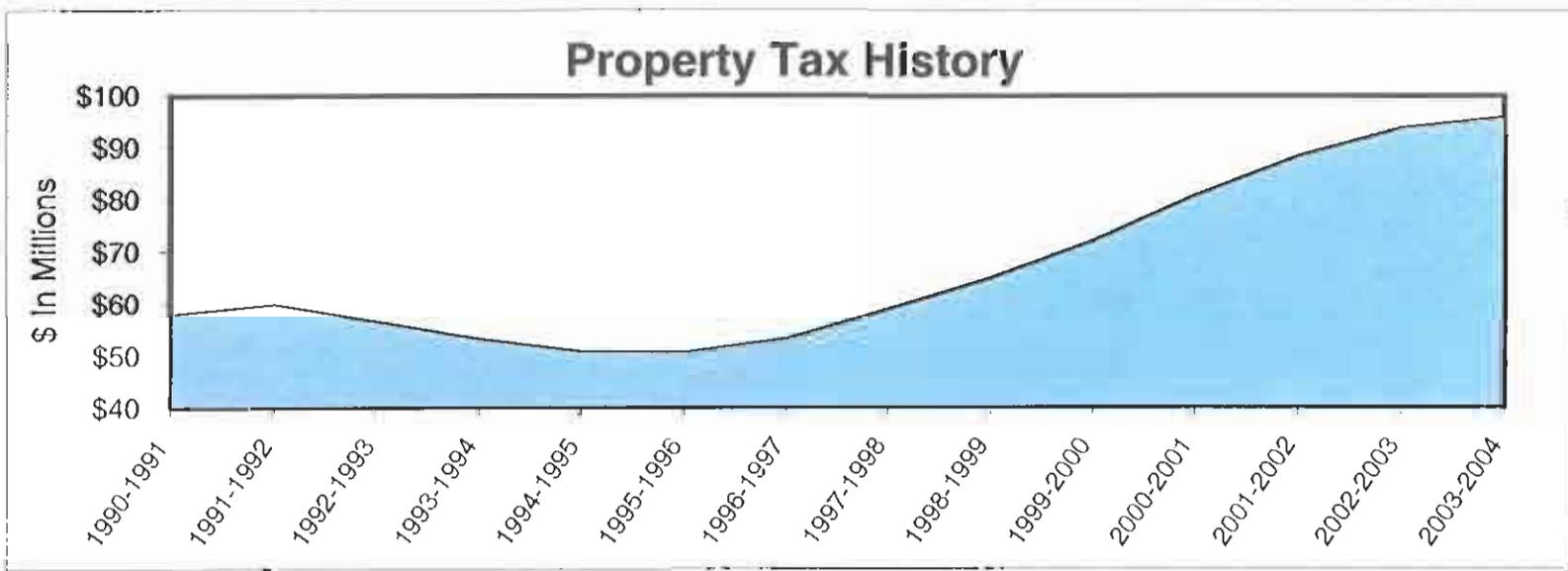
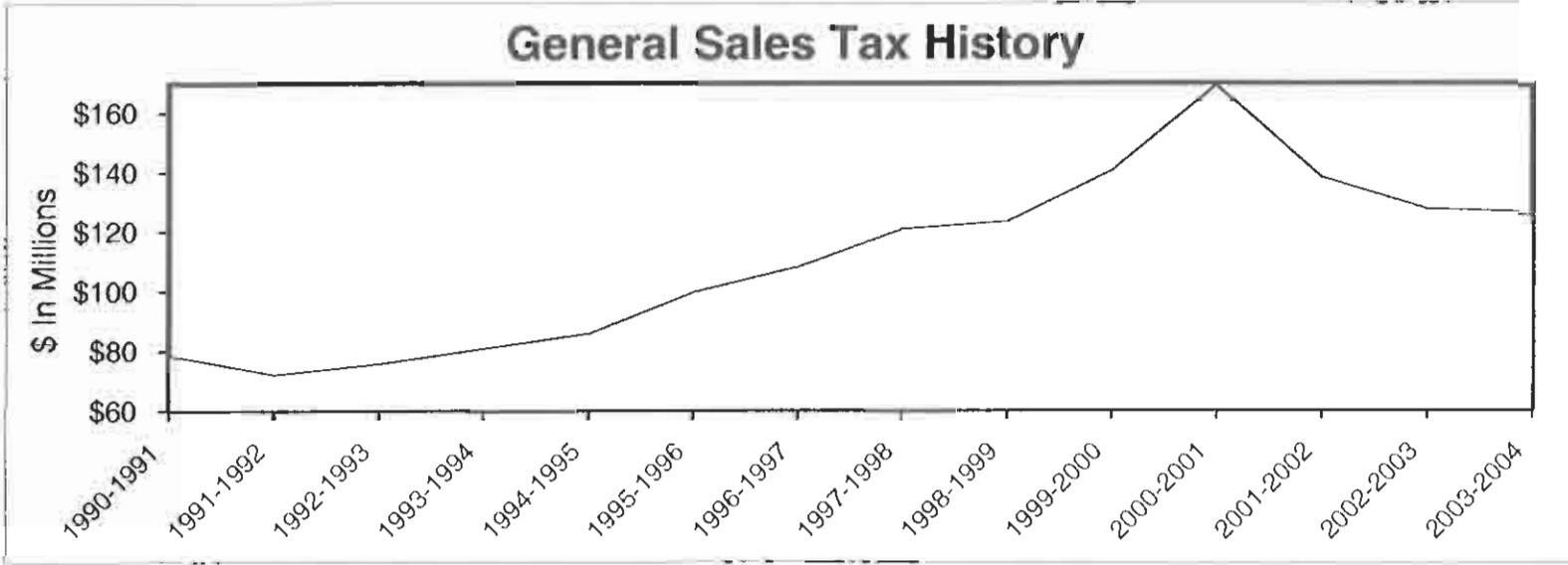
2004-2005 Adopted Budget

**Indirect/No
Economic
Relationship**
(e.g., Utility Tax,
Franchise Fees,
Transfers and
Reimbursements)
52.3%

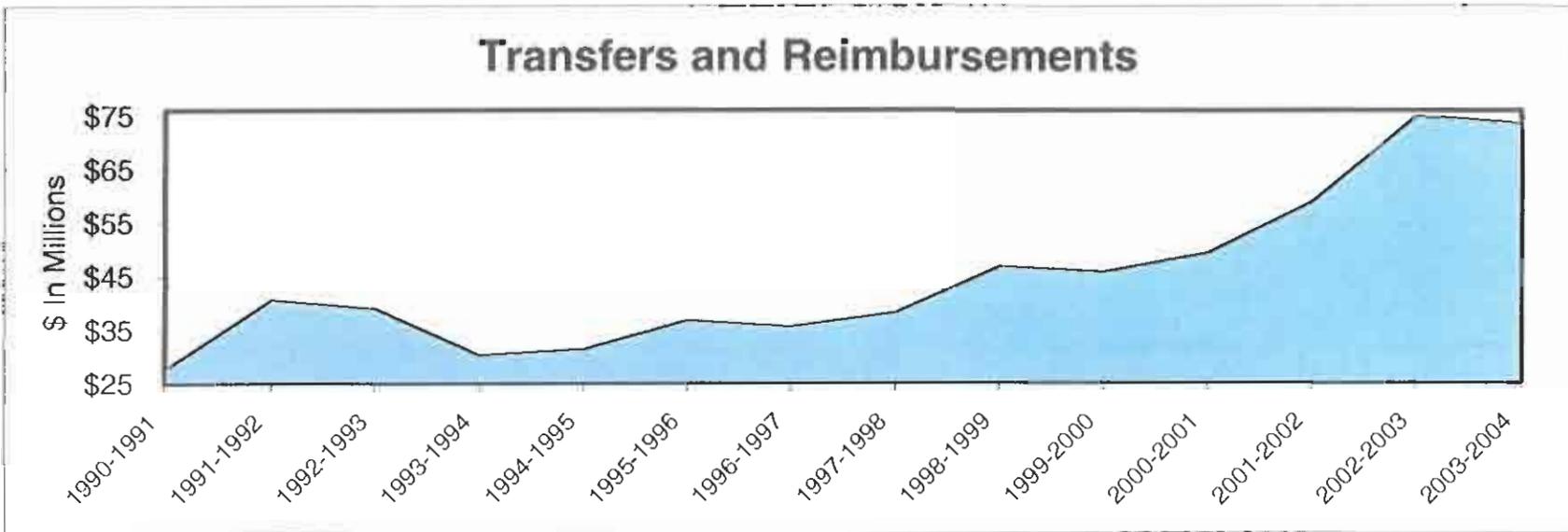
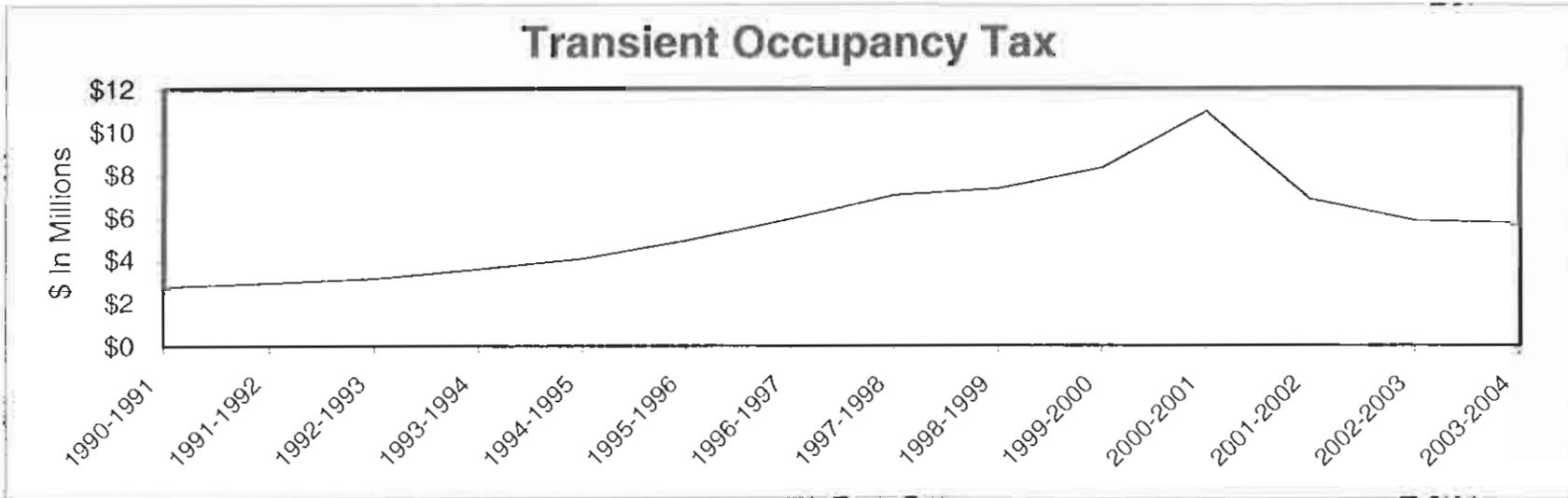


**Direct Economic
Relationship**
(eg., Property Tax,
Sales Tax,
Motor Vehicle In-Lieu
Fees)
47.7%

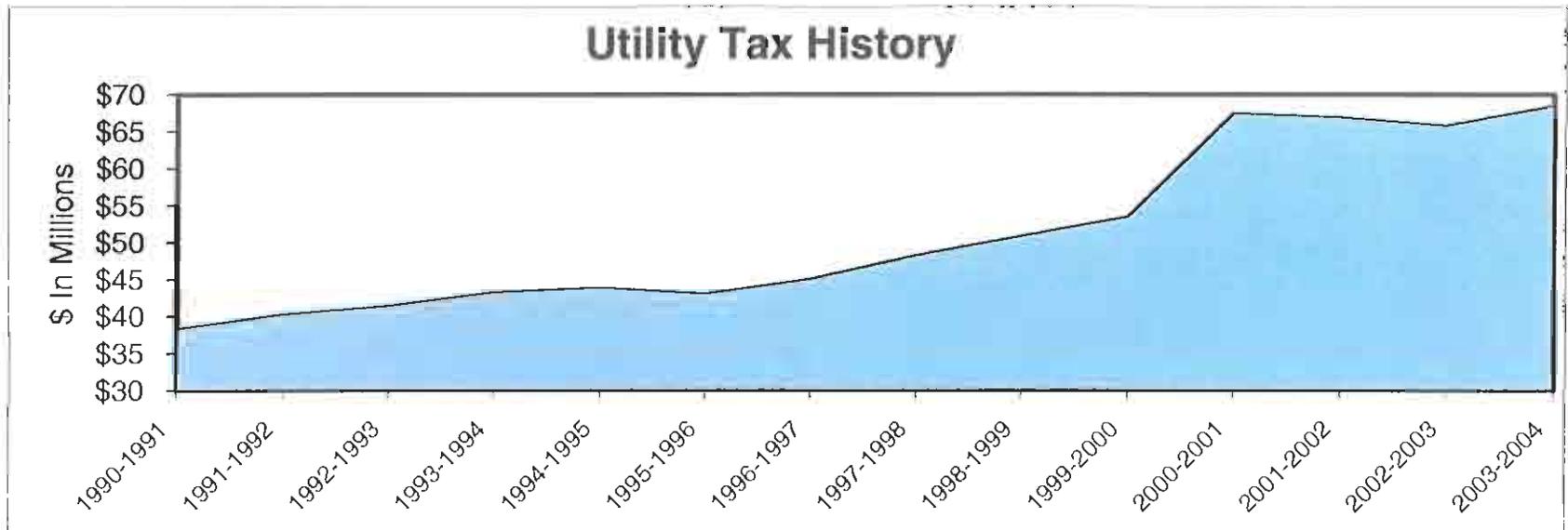
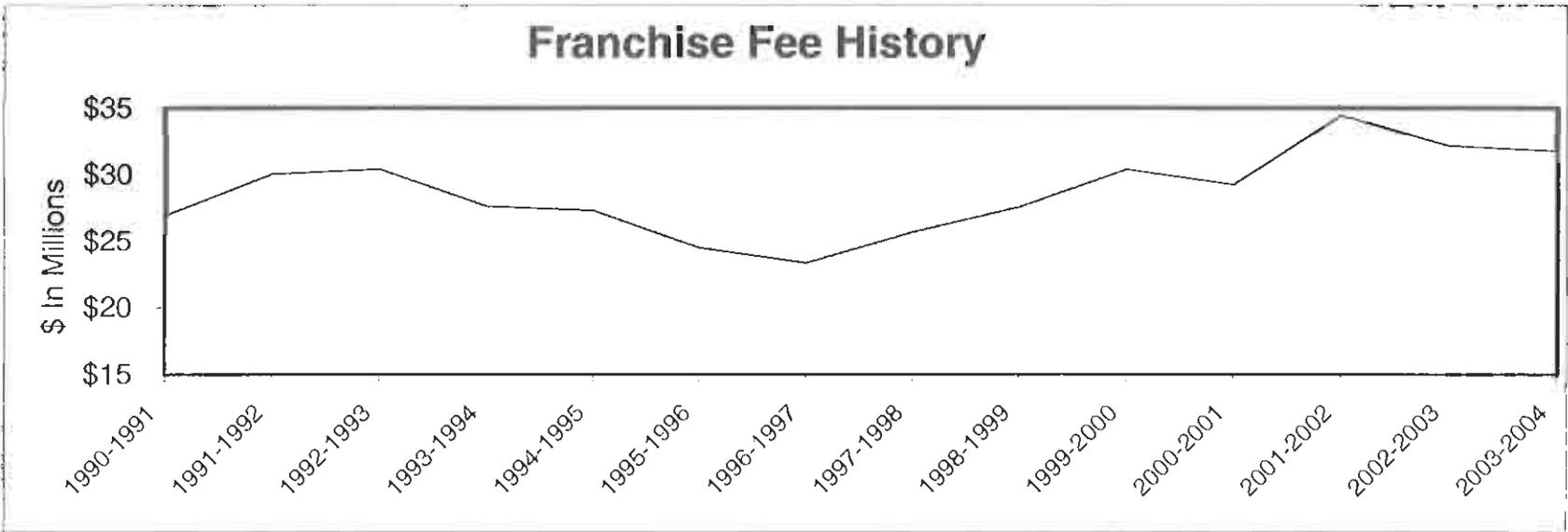
GENERAL FUND SALES TAX AND PROPERTY TAX HISTORY



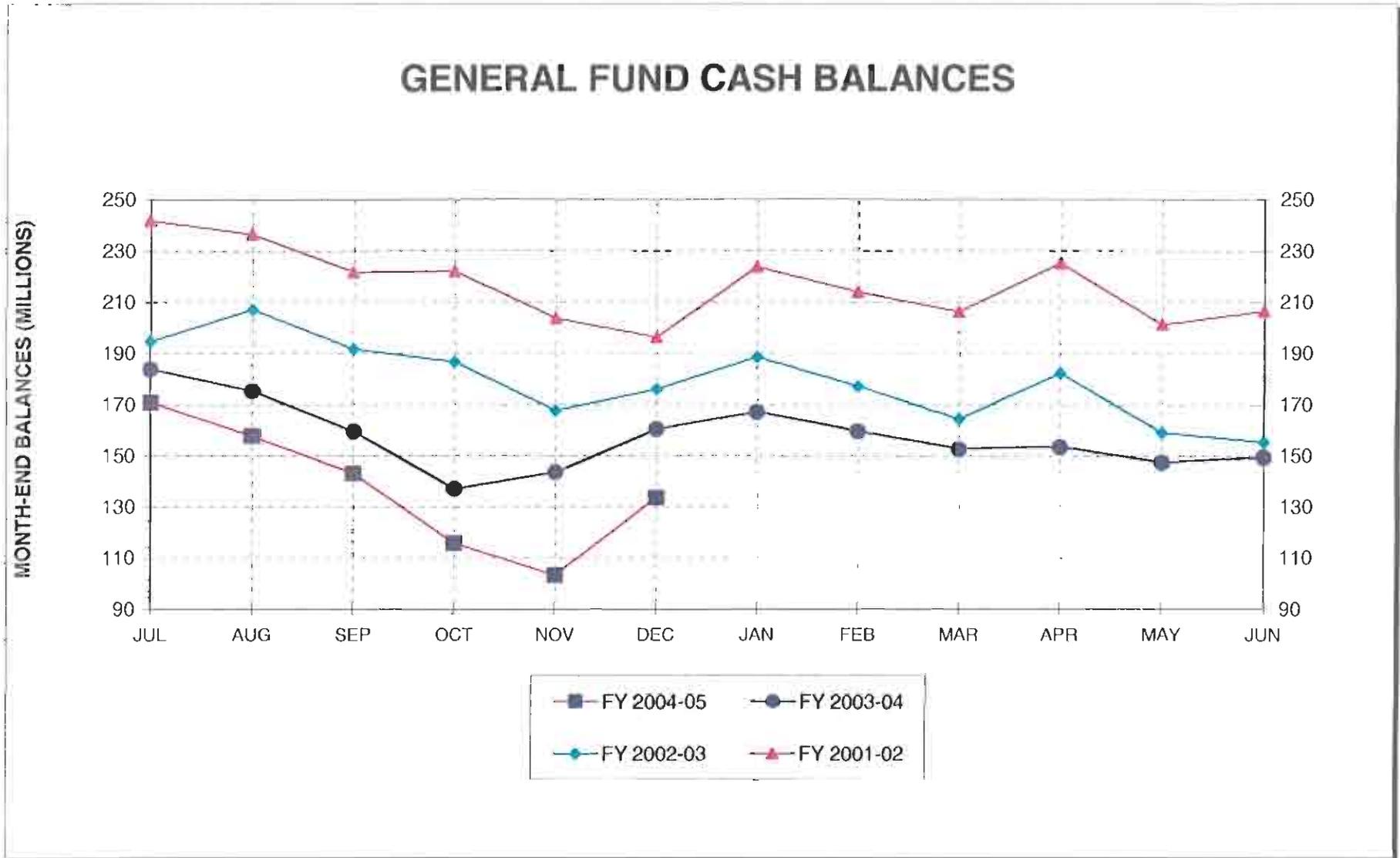
GENERAL FUND TOT AND TRANSFERS/REIMBURSEMENTS HISTORY



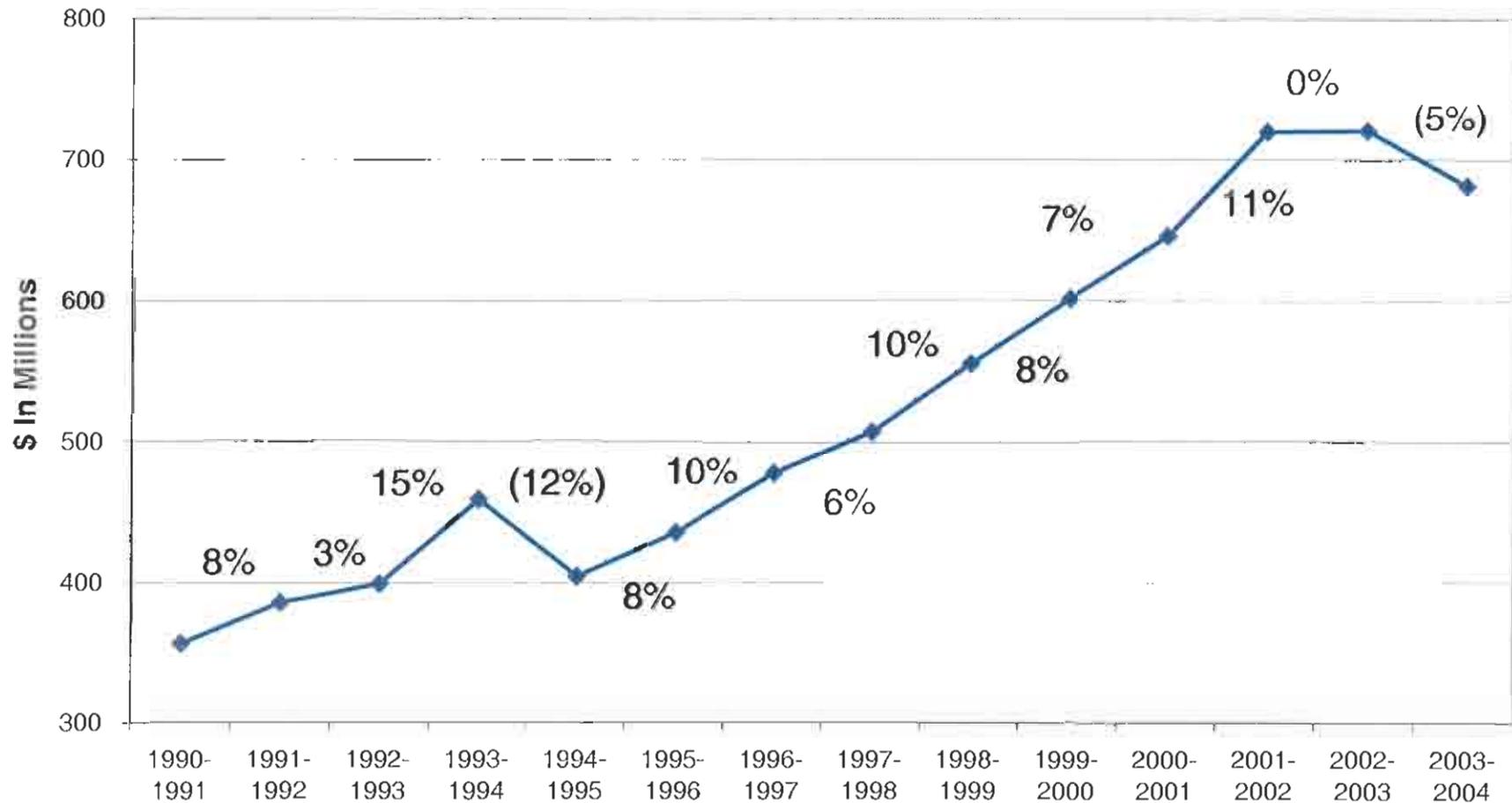
GENERAL FUND FRANCHISE FEE AND UTILITY TAX HISTORY



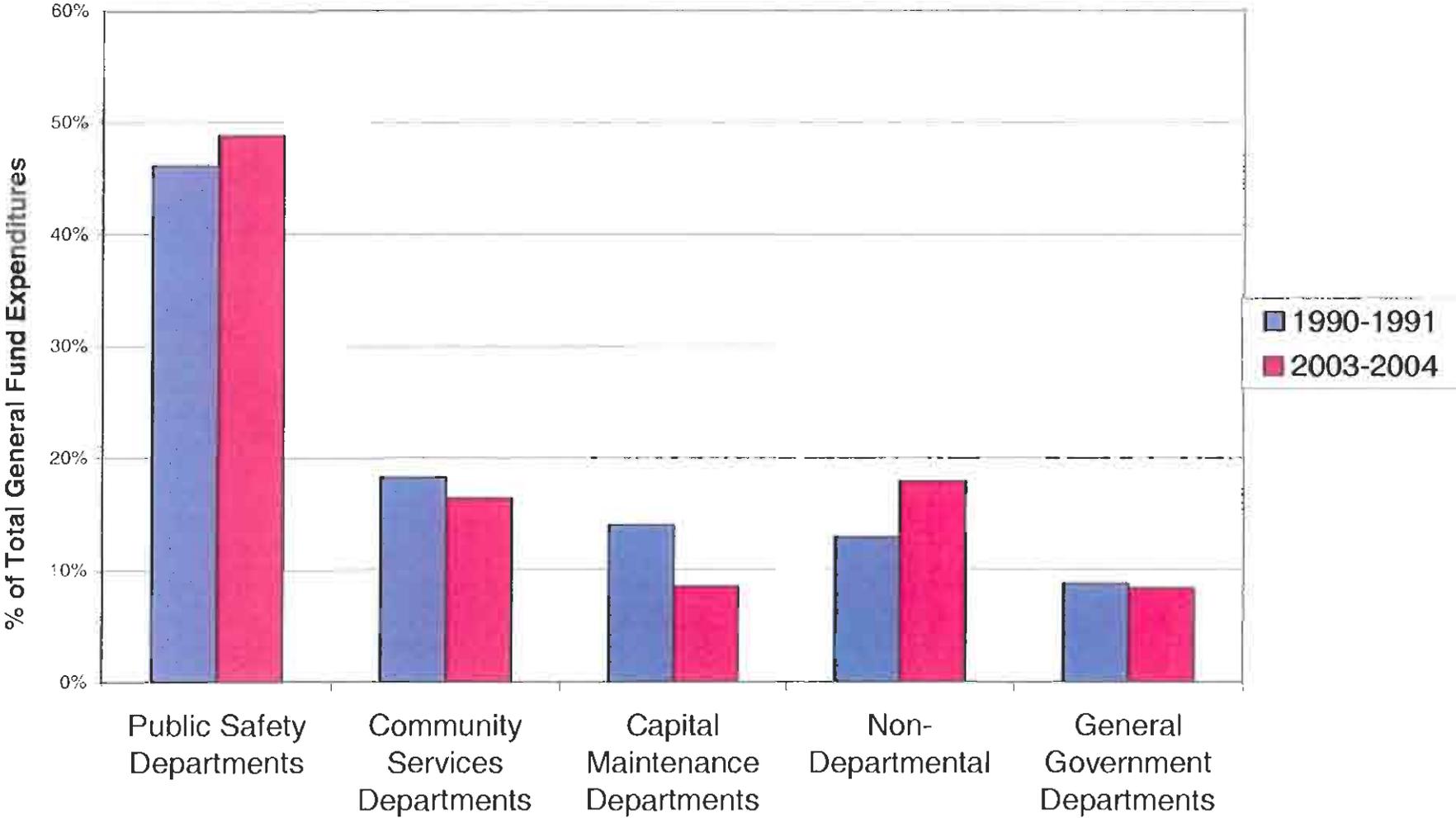
GENERAL FUND COMPARISON OF CASH BALANCES



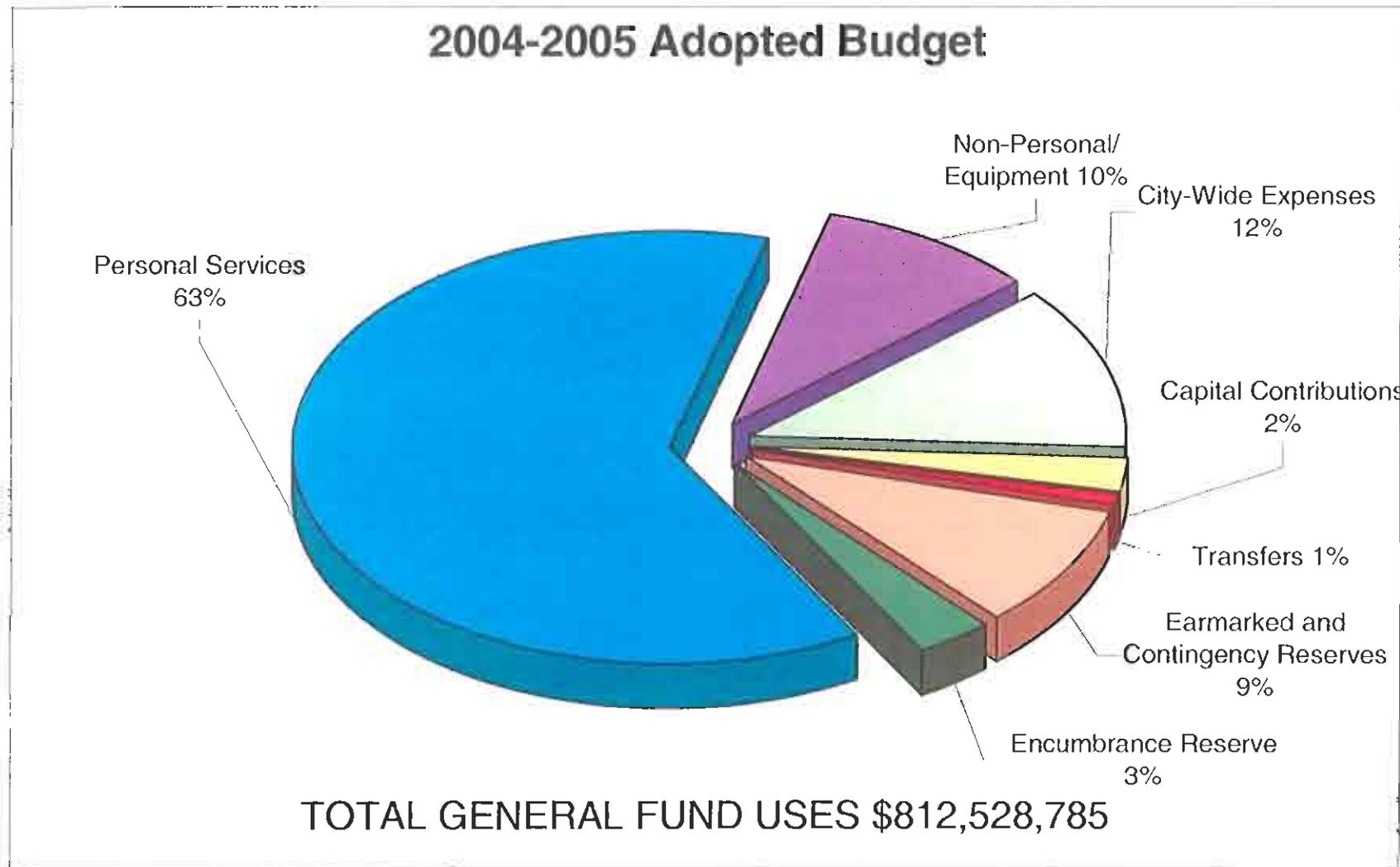
GENERAL FUND EXPENDITURES 1990-1991 through 2003-2004 (Actuals)



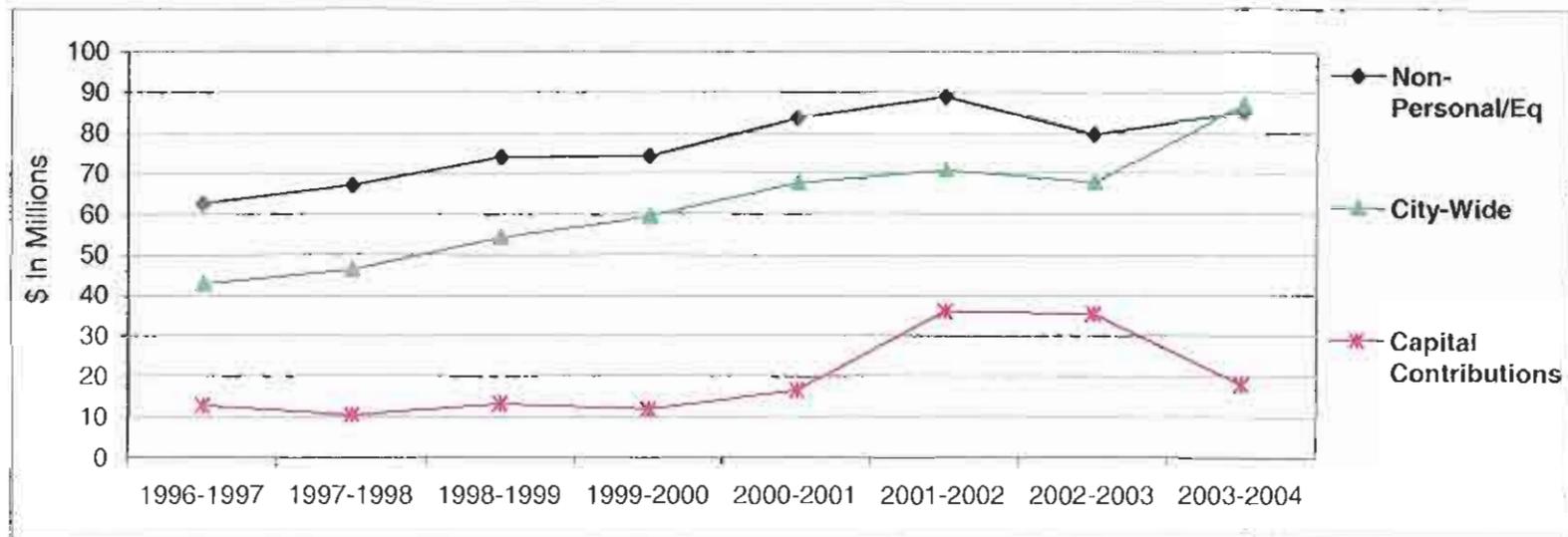
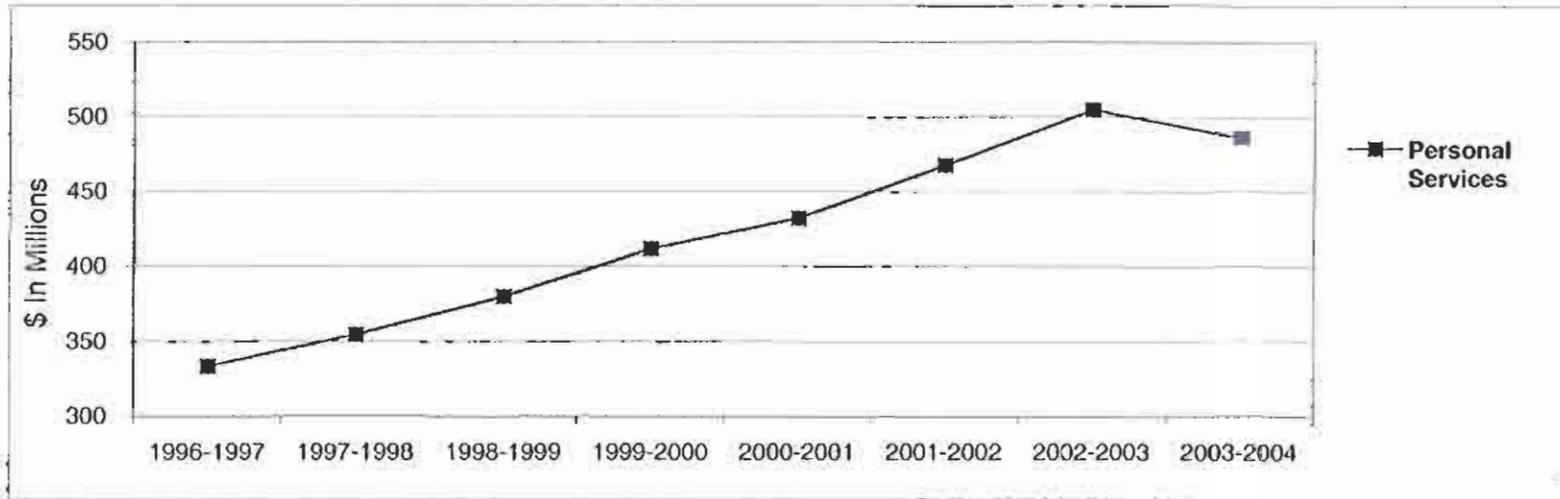
GENERAL FUND EXPENDITURES 1990-1991 compared to 2003-2004 (Actuals)



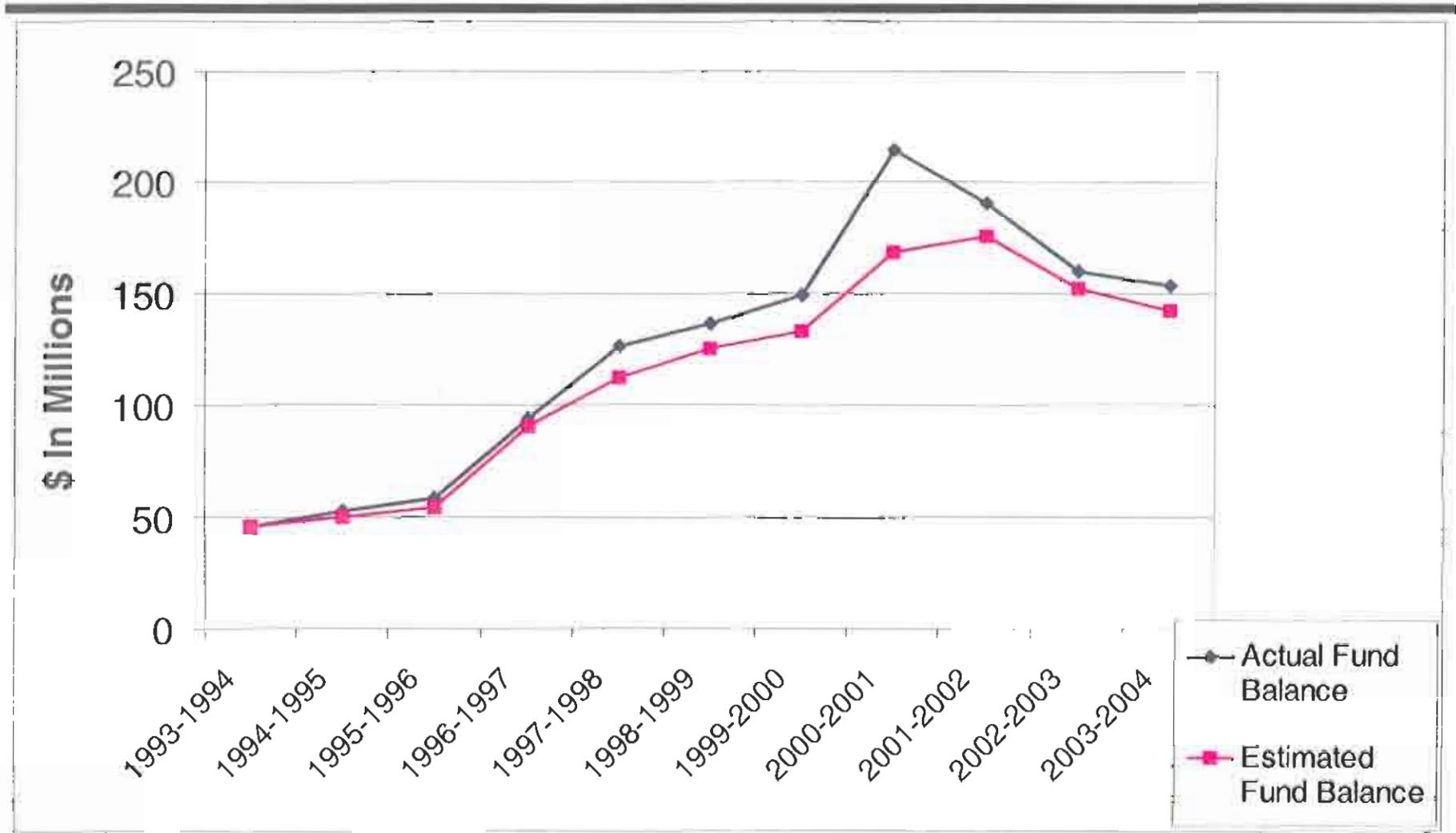
SUMMARY OF GENERAL FUND USES BY CATEGORY



GENERAL FUND EXPENDITURES BY CATEGORY COMPARISON 1996-1997 through 2003-2004 (Actuals)



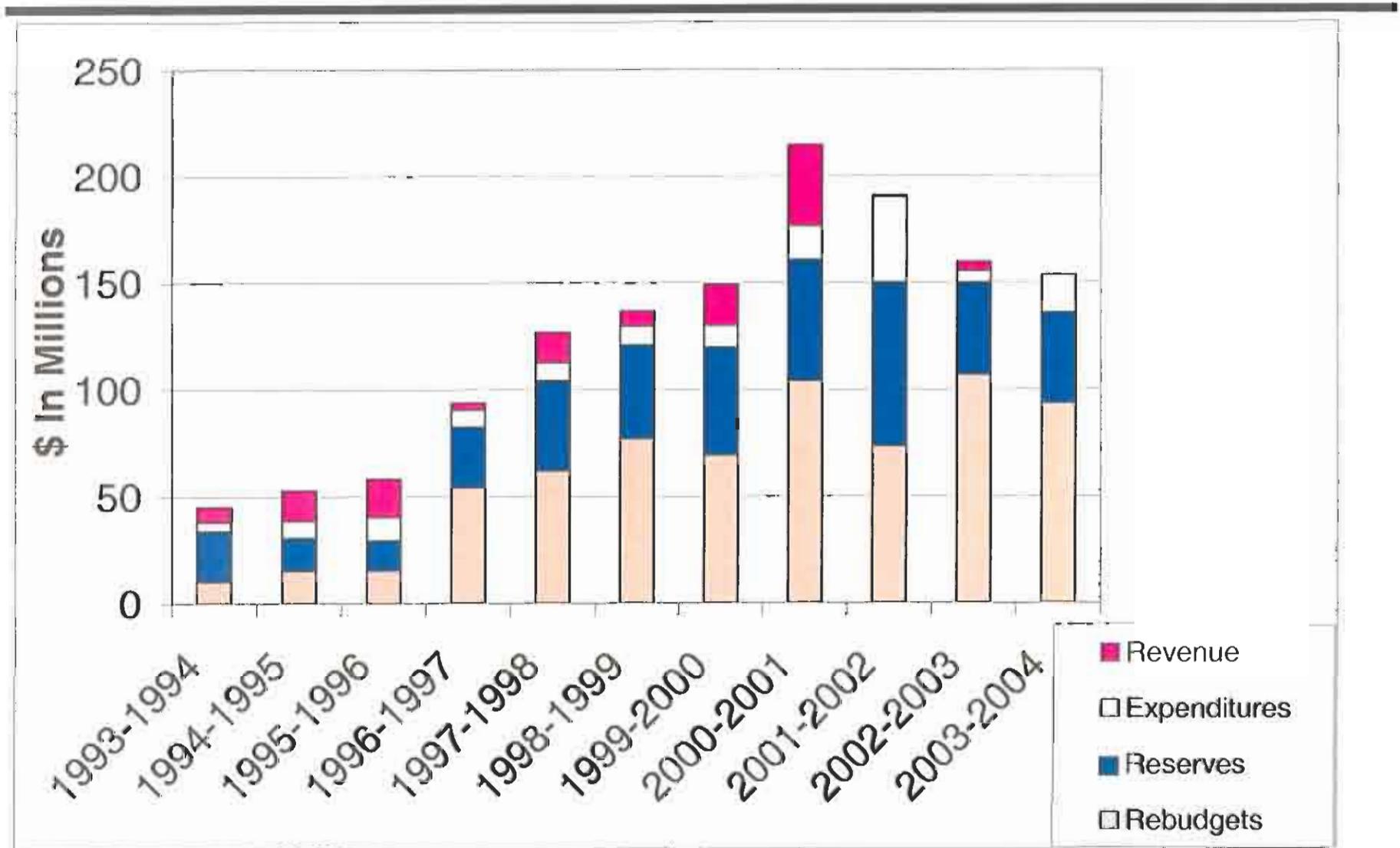
GENERAL FUND FUND BALANCE HISTORY 1993-1994 to 2003-2004 (Actuals to Estimates)



Variance as % of Budget

0.0% 0.8% 0.8% 0.6% 2.3% 1.7% 2.2% 5.6% 1.6% 0.9% 1.4%

GENERAL FUND FUND BALANCE COMPONENTS 1993-1994 to 2003-2004 (Actuals)



MAJOR STATE BUDGET ACTIONS

Impact on General Fund (1990-1991 through 2004-2005)

Description of Action	Cumulative Cost or Revenue Loss to the City	Annual Cost or Revenue Loss to the City
Allowed the County to charge cities for Property Tax collection (1991-1992)	\$10,648,000	\$832,000
Diversion of Cigarette Tax (1991-1992)	17,141,000	1,368,000
Allowed the County to charge cities for booking prisoners at County jails (Restored in 1999-2000)	28,602,000	0
Withdrew half of Vehicle Citation Fees (Restored in 1998-1999)	7,700,000	0
ERAF Property Tax Shift (1992-1993)	251,183,000	29,772,000
Elimination of County's Animal Control Program (Program shifted to City in 1993-1994)	26,178,000	2,014,000
Proposition 172 – Public Safety Sales Tax (1993-1994)	(42,772,000)	(4,300,000)
Motor Vehicle In-Lieu Tax Diversion (2003-2004)	15,685,000	0
San Jose Contribution To State (2004-2005)	11,100,000	11,100,000
TOTAL	\$325,465,000	\$40,786,000

REPLACEMENT

CITY COUNCIL STUDY SESSION
CITY'S BUDGET PROJECTIONS AND PRIORITIES

2006-2010 PRELIMINARY
GENERAL FUND
FORECAST

2005-2006 PRELIMINARY GENERAL FUND FORECAST SHORTFALL

Shortfall (\$ in Millions)

March 2004 Forecast	(\$ 8.80)
2004-2005 Adopted Budget Impact	(\$40.15)
2004-2005 General Fund Rebalancing Plan Impact	<u>\$ 8.50</u>
Revised Forecast	(\$40.45)
October 2004 Forecast	<u>\$ 19.82</u>
TOTAL SHORTFALL	(\$60.27)

2005-2006 PRELIMINARY GENERAL FUND FORECAST: \$60.0M SHORTFALL

Summary of Revenue Changes (↓ \$18.8M)

- ↓ \$ 8.90M Available Beginning Fund Balance
- ↓ \$ 3.40M Construction Excise Tax Transfer Error
- ↓ \$ 2.80M Motor Vehicle/Airplane In-Lieu
- ↓ \$ 1.40M Overhead/Parking Fines
- ↓ \$ 1.00M Disposal Facility Tax
- ↓ \$ 1.00M Arena Rents

2006-2010 GENERAL FUND FORECAST

	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010
March 2004	(\$8.80)	(\$38.46)	(\$17.15)	(\$12.63)	N/A
Adopted Budget Impact	(\$40.15)				
General Fund Rebalancing Impact	\$8.50	(\$9.95)			
Revised Forecast	(\$40.45)	(\$48.41)	(\$17.15)	(\$12.63)	N/A
October 2004	(\$60.27)	N/A	N/A	N/A	N/A

2005-2006 CITY SERVICE AREA REDUCTION TARGET APPROACH

2005-2006 Preliminary Shortfall

October 2004 Forecast	\$ 60.0 M
Compensation Impact Contingency Plan	<u>40.0 M</u>
Total Preliminary Shortfall	\$100.0 M

2005-2006 Budget Balancing Planning Assumption

New Revenue/Use of Reserves	<u>(\$ 25.0 M)</u>
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Remaining Shortfall Balance	\$ 75.0 M
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2005-2006 CITY SERVICE AREA REDUCTION TARGETS

CSA Reduction Targets*

(Public Safety CSA = 10%, All Other CSAs = 21.8%)

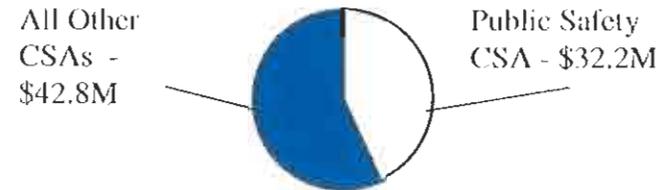
Economic & Neighborhood Development	\$ 1,689,000
Environmental & Utility Services	415,000
Public Safety	32,207,000
Recreation & Cultural Services	17,109,000
Transportation Services	6,867,000
Strategic Support	10,575,000
Council Appointees	<u>6,138,000</u>
Total	\$ 75,000,000

* Percentage of Adjusted 2005-2006 Preliminary Base Budget

2005-2006 CITY SERVICE AREA REDUCTION TARGETS ALTERNATIVES

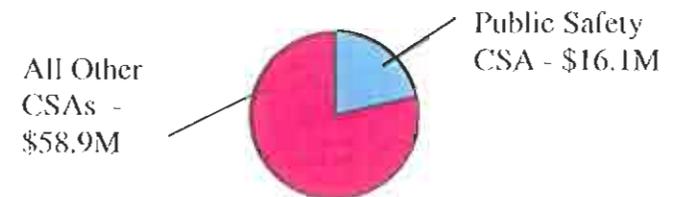
Current Planning Targets

Public Safety CSA	10.0%
All Other CSAs	21.8%

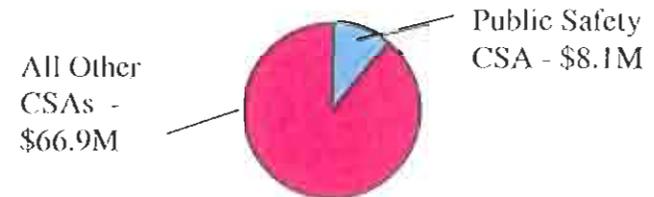


Alternative Targets

1. Public Safety CSA	5.0%
All Other CSAs	30.0%



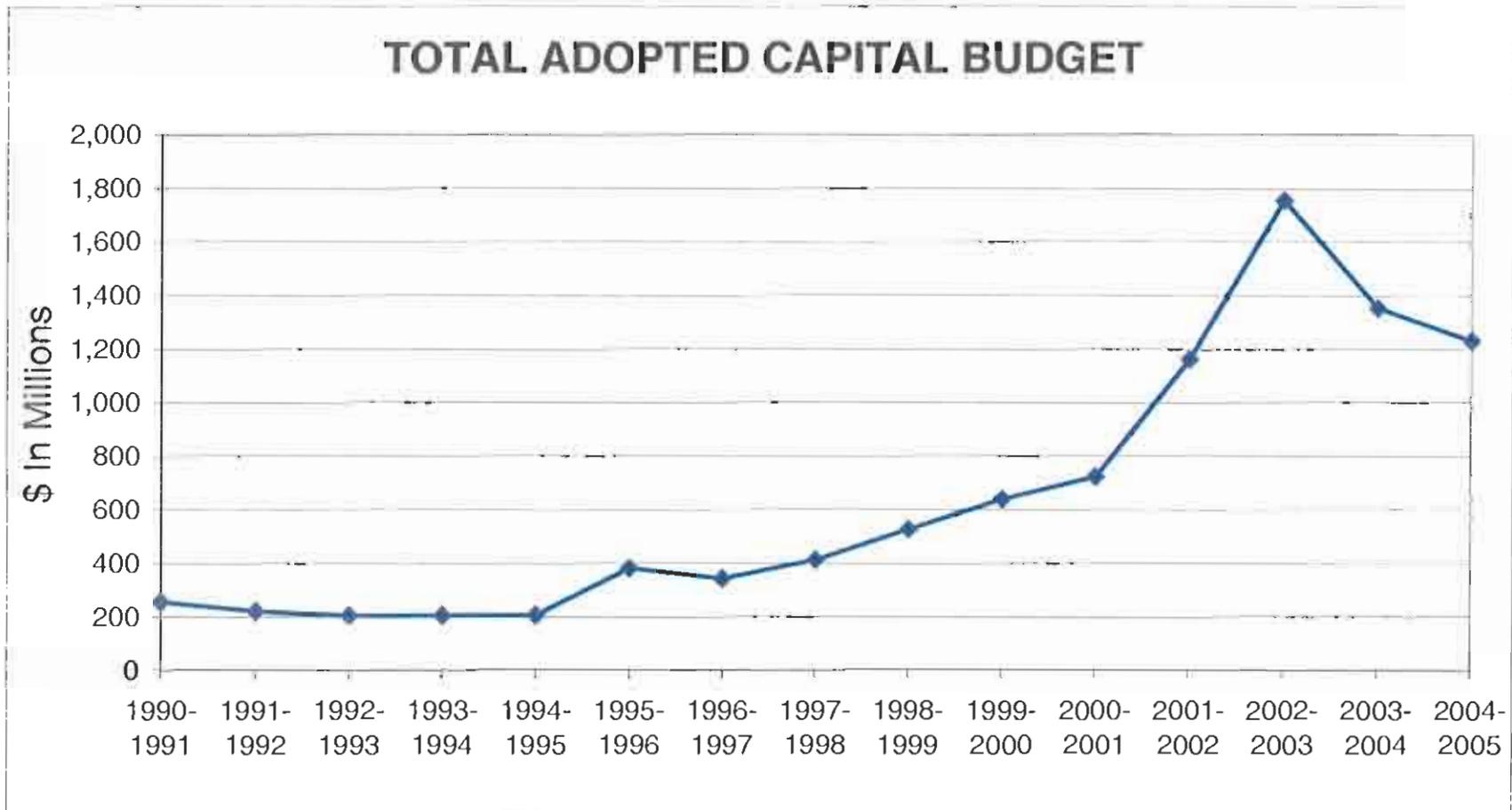
2. Public Safety CSA	2.5%
All Other CSAs	34.1%



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

OTHER FUNDS

ADOPTED CAPITAL BUDGET HISTORY 1990-1991 through 2004-2005



DECADE OF INVESTMENT

Major Issues with the Capital Improvement Program

- 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
- Less availability of State funding for transportation
- No capital funding for many city-owned facilities and significant backlog
- 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

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

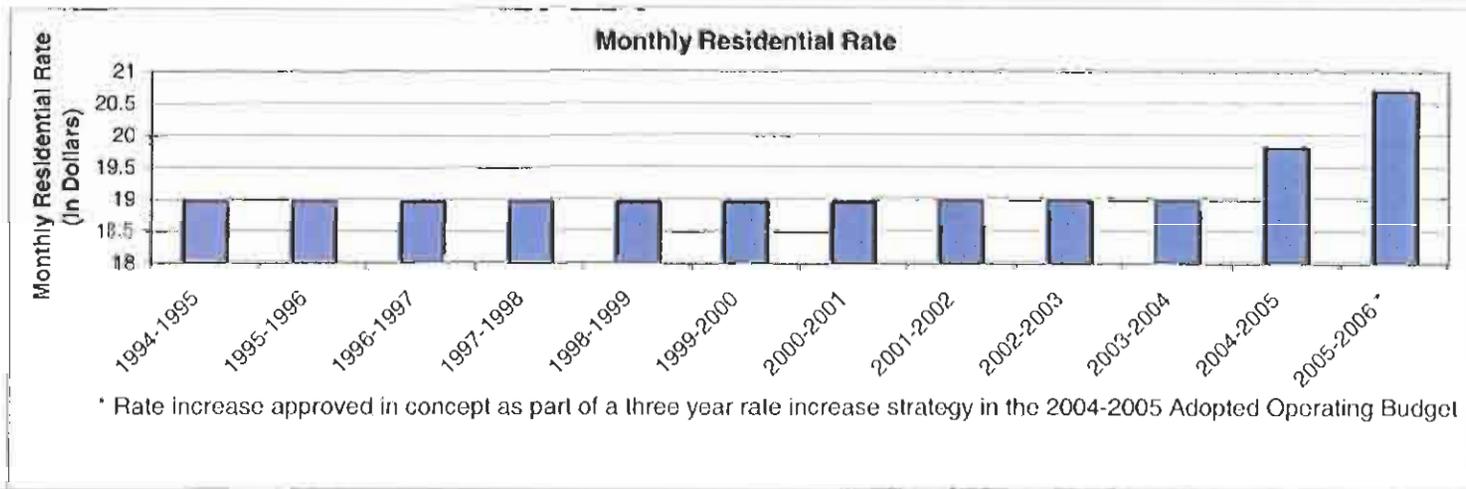
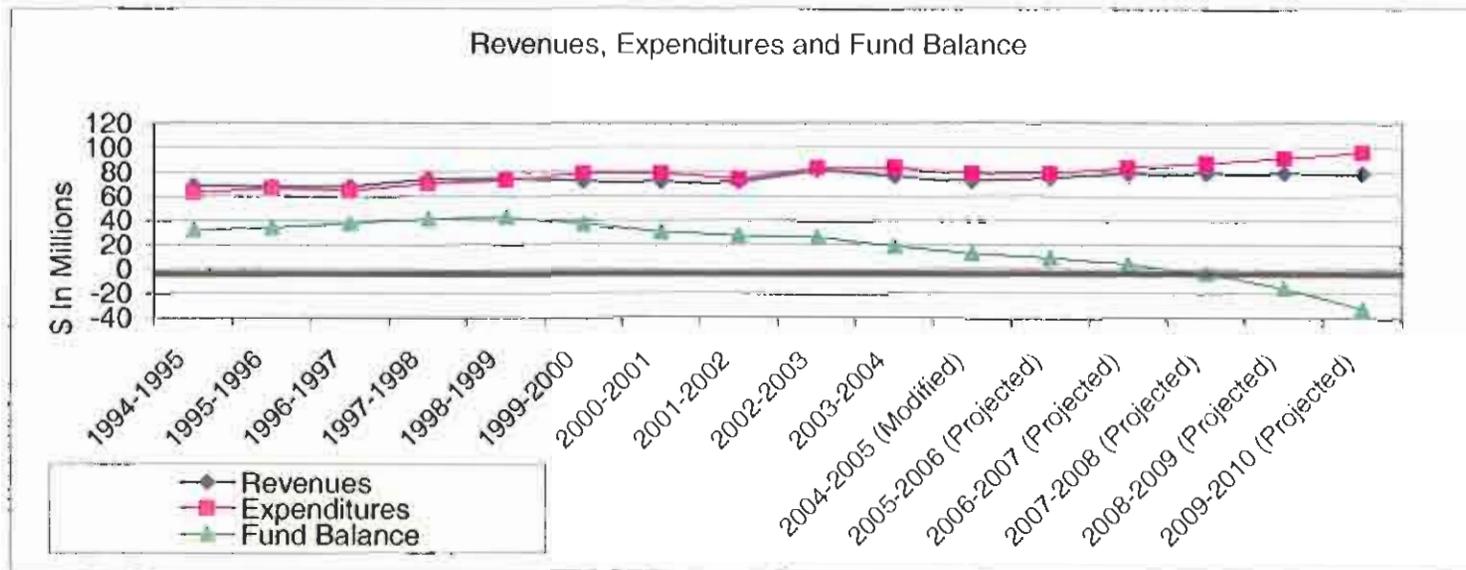
Projected General Fund Operating and Maintenance Costs From New Capital Projects

<u>Project Title</u>	<u>2005-2006</u>	<u>2006-2007</u>	<u>2007-2008</u>	<u>2008-2009</u>
Civic Center	\$7,653,000	\$16,210,000	\$16,404,000	\$16,609,000
Fire Facilities		1,077,000	6,005,000	7,314,000
Library Facilities	83,000	1,829,000	2,546,000	4,563,000
Parks Facilities	531,000	1,670,000	2,915,000	6,083,000
Parks Facilities-Other	250,000	855,000	894,000	1,074,000
Agencies				
Police Facilities	29,000	37,000	384,000	729,000
Traffic Projects	162,000	236,000	300,000	389,000
Traffic Projects-Other	59,000	148,000	155,000	162,000
Agencies				
Total	\$8,767,000	\$22,062,000	\$ 29,603,000	\$ 36,923,000

Source: 2005-2009 Adopted CIP

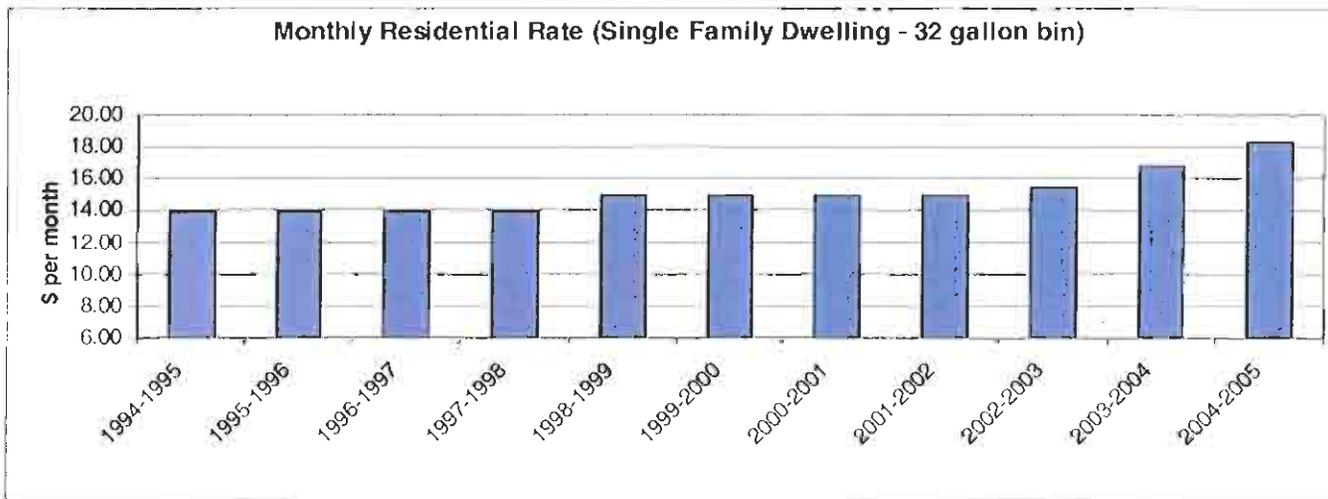
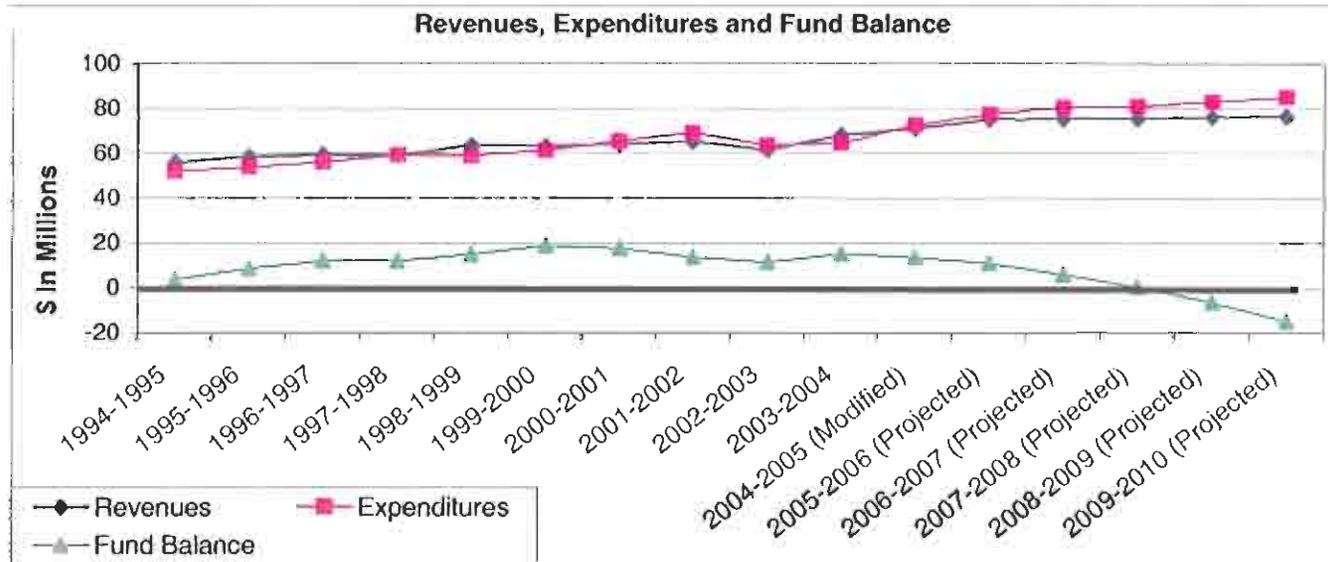
SEWER SERVICE AND USE CHARGE FUND

Revenues, Expenditures, Fund Balance and Rate History



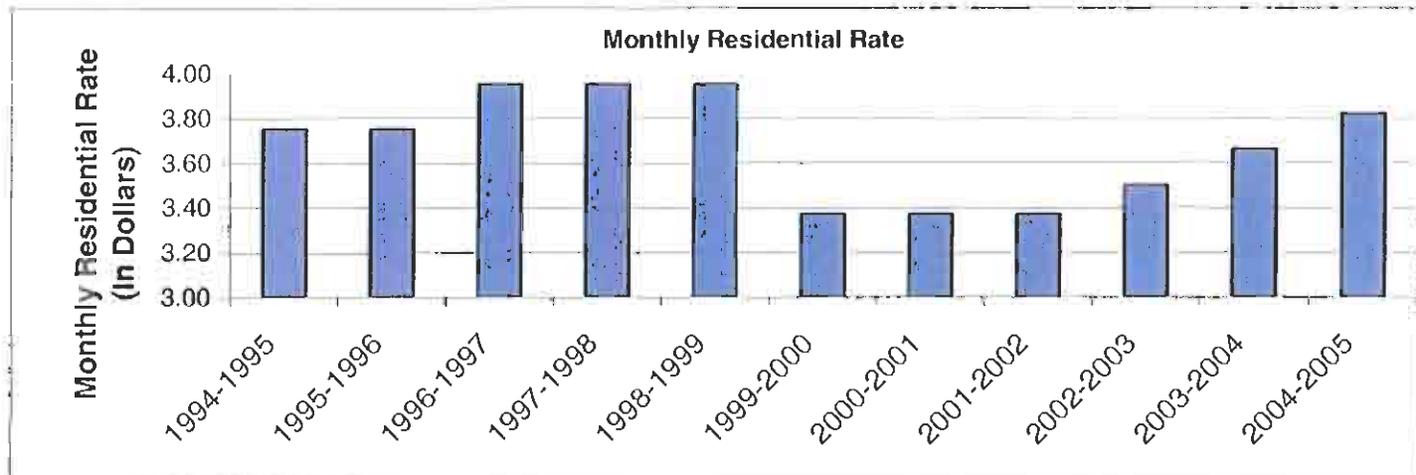
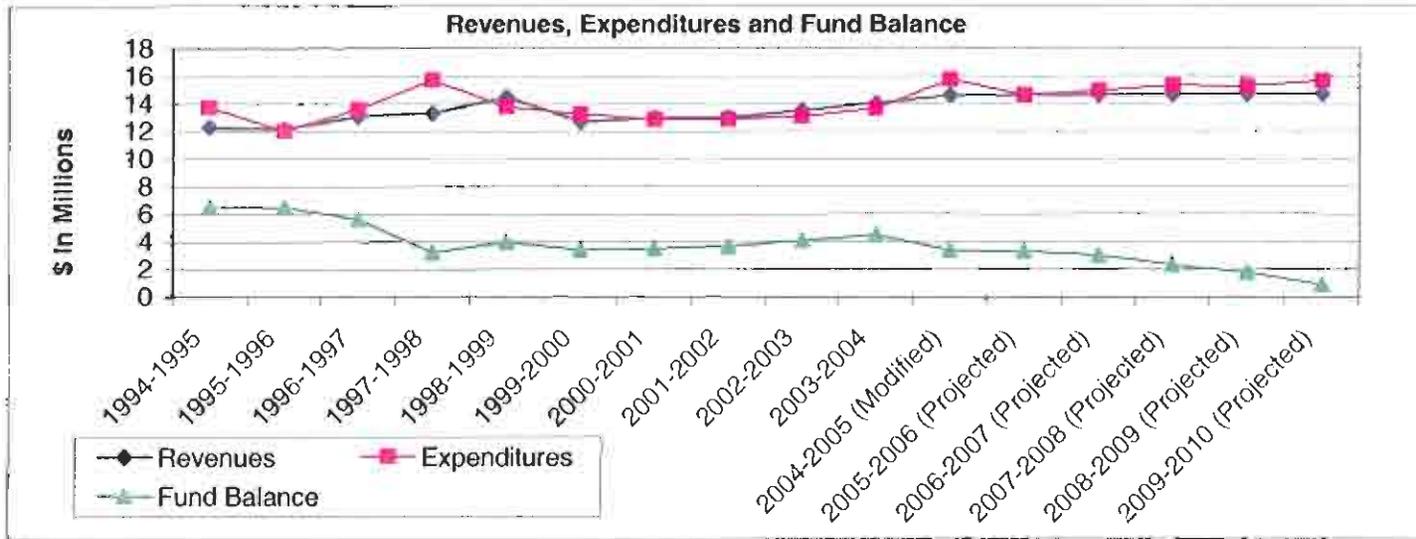
INTEGRATED WASTE MANAGEMENT FUND

Revenues, Expenditures, Fund Balance and Rate History



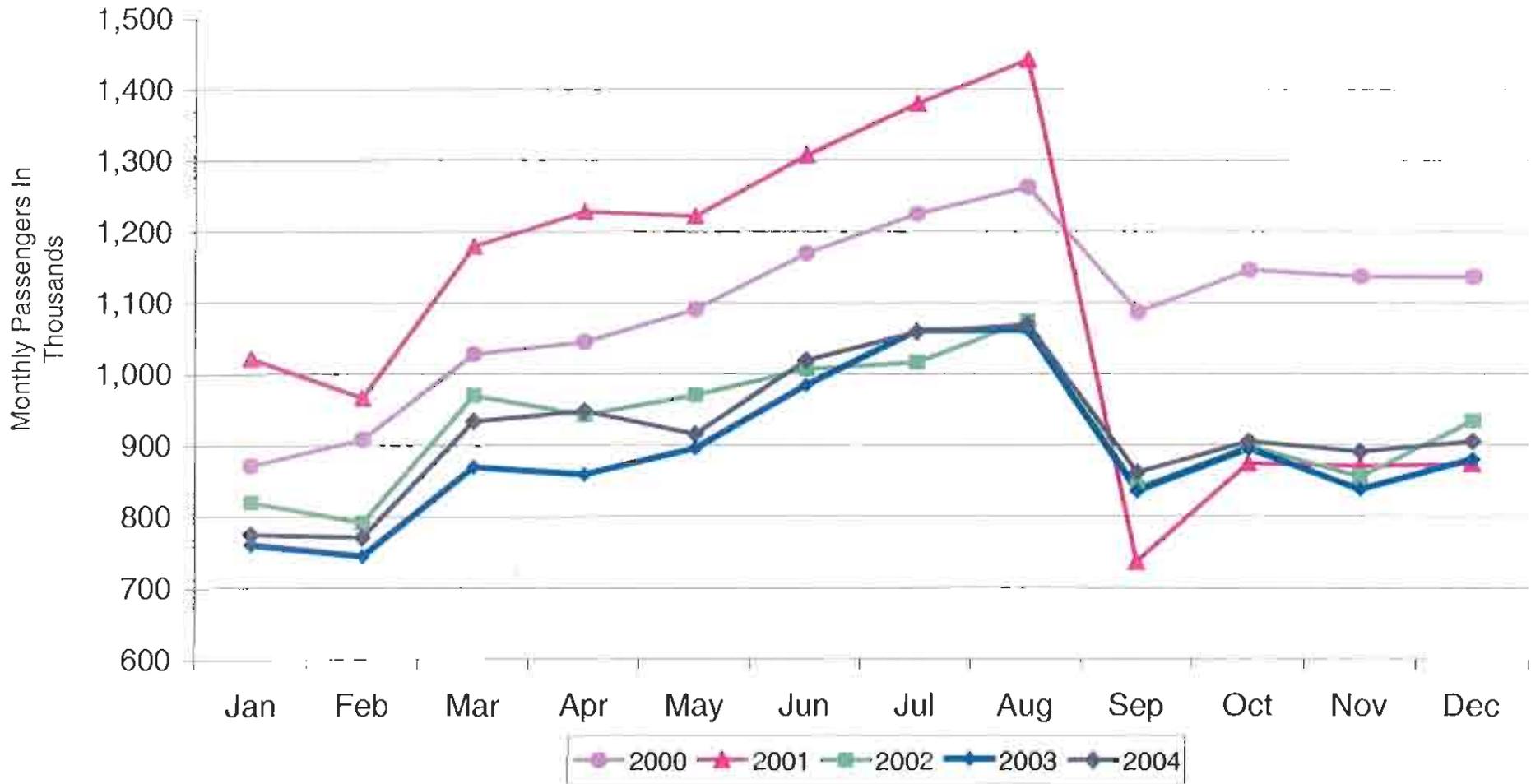
STORM SEWER OPERATING FUND

Revenues, Expenditures, Fund Balance and Rate History



AVIATION CSA SITUATION - PASSENGERS

Mineta San Jose International Airport



AVIATION CSA SITUATION AND OUTLOOK

- Activity has shown monthly growth – Year to date Passengers have increased 2.1% over 2003-2004 levels
- Revenues are projected to grow by approximately 3% in the coming year
- Expenses continue to increase (Retirement and CPI increases)
- Cautiously optimistic about the timing of economic and aviation industry turnaround – Impact of local economy, airline health and impacts of the war are all of concern
- Preliminary Aviation CSA 2005-2006 shortfall **\$18.4** Million – both Capital and Operating Funds impacted

GENERAL FUND BUDGET BALANCING INFORMATION

RECENT GENERAL FUND BUDGET SHORTFALLS

	Adopted/State Shortfall	% of Base Expenditures	City-Wide Positions Eliminated
2002-2003	\$ 35.9M	5.1%	36
2003-2004	\$ 87.8M	12.1%	205
2004-2005	\$ 81.2M	10.0%	426
2005-2006 est.	\$ 60.3M	8.2%	N/A
	<hr/> \$265.2M		

ONGOING GENERAL FUND COST-CONTAINMENT STRATEGIES

- City-Wide Hiring Freeze (November 2001)
- Cost/Position Management Plans
(First implemented 2002-2003)
- Expenditure Controls on technology, marketing, travel, meals and vehicle purchases (February 2003)
- Voluntary Furlough and Special Reduced Work Week
(First implemented 2003-2004)

2004-2005 GENERAL FUND ADOPTED/STATE BUDGET ACTIONS

Balancing Strategies Sampling

- Emergency Communications System Support Fee Established
- Economic Uncertainty Reserve and Future Deficit Reserve Utilization
- No Employee Cost-of Living Adjustments
- 100 Vacant Position Elimination Plan Approved
- 10 Community Centers Closed
- 5 After School Program Sites Closed
- Neighborhood Watch Program – 50% Reduction
- Library Bookmobile and Disability Outreach Service Elimination
- Park Maintenance – Watering, Litter Pickup and Trash Removal Reduction

2004-2005 GENERAL FUND ADOPTED/STATE BUDGET ACTIONS

Balancing Strategies Sampling (Cont'd.)

- Traffic Signs/Signals, Street Lights, Roadway Marking – Maintenance Reduction
- Pavement Sealing Reduction (\$9.5 Million Funded/\$30 Million Needed Annually)
- Technology Support Reduction
- Custodial Services and City Facility Repair Work Reduced
- Police Sworn Administrative and Investigative Staff Frozen
- Code Enforcement – Proactive to Reactive
- Capital Projects with O&M Impact Deferred

2005-2006 BUDGET BALANCING OPTIONS

- Service Reductions
(i.e., vacant/filled position elimination)
- Use of Reserves
(i.e., 2005-2006 Future Deficit and Economic Uncertainty Reserves)
- New Revenue Sources
(i.e., voter-approved tax increases, others ???)
- Funding Shifts
(i.e., HNVF, CDBG, C&C Tax Funds, other Capital Funds)
- Deferring Capital Projects
(i.e., capital projects with General Fund O&M impact)
- Explore Personal Services Cost Savings
(i.e., mandatory unpaid furloughs, health/dental cost sharing formula, sick leave payment upon retirement formula)

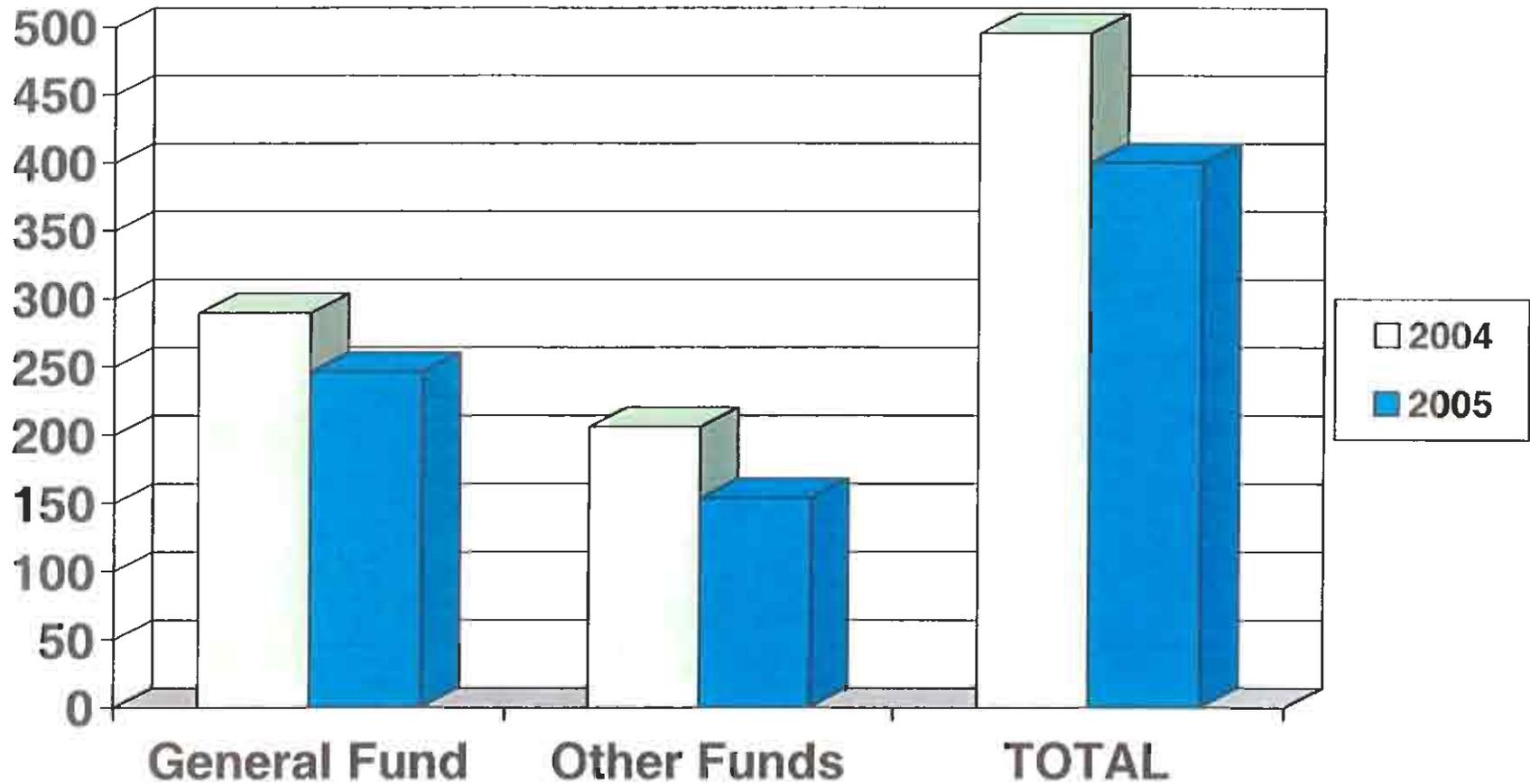
CURRENT VACANCIES BY CITY SERVICE AREA (as of 1/7/05)

<u>City Service Area</u>	<u>General Fund</u>	<u>Other Funds</u>	<u>Total</u>
Aviation Services (396.50)	0.00	25.50	25.50
Economic & Neighborhood Devel. (632.91)	29.30	12.60	41.90
Environmental & Utility Services (592.26)	0.00	64.00	64.00
Public Safety (2,549.02)	80.63	0.00	80.63
Recreation & Cultural Services (1,173.48)	88.73	8.15	96.88
Transportation Services (388.24)	17.30	7.20	24.50
Strategic Support (1,054.33)	<u>30.46</u>	<u>36.24</u>	<u>66.70</u>
	246.42	153.69	400.11
 Annualized Costs/Savings	 \$22.69M*	 \$13.42M*	 \$36.11M*

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

VACANCY COMPARISON

January 2004 to January 2005



POTENTIAL ONE-TIME GENERAL FUND OPTIONS FOR BALANCING BUDGET

Reserves

Economic Uncertainty	10,436,180
Workers' Comp/General Liability	10,000,000
2005-2006 Future Deficit	7,330,537*
FF&E for Capital Projects	6,846,718
E-Government Applications	<u>1,310,000</u>
Total	\$ 35,923,435

Other

Contingency Reserve	\$ 25,325,726
Cardroom Revenue	\$ 8,500,000

* As part of the 2004-2005 Mid-Year Budget Review, an additional \$5.2 million is recommended to be added to the 2005-2006 Future Deficit Reserve from 2004-2005 Cost/Position Management Plans.

UPCOMING KEY BUDGET DATES

February 2005

- Feb 8 - City Council Reviews 2004-2005 Mid-Year Budget Review/CSA Performance Report
- Feb 9 - Mayor's State of the City Address
- Feb 25 – 2005-2006 City Manager's Budget Request/2006-2010 Five Year Forecast Released

March 2005

- Mar 22 – City Council Reviews Mayor's March Budget Message

April 2005

- Apr 25-29 – 2005-2006 Proposed Capital/Operating Budgets/2006-2010 Prop. CIP Released

May 2005

- May 9-20 – City Council Budget Study Sessions
- May 17 – Initial Budget Public Hearing

June 2005

- Jun 13 – Final Budget Public Hearing
- Jun 14 – City Council Reviews Mayor's June Budget Message and Final Review of Budgets
- Jun 21 – City Council Approves 2005-2006 Capital/Operating Budgets and Fees and Charges