

# City Council Special Meeting: 2010-2011 Budget Planning

November 5, 2009

# Overview

- I. 2010-2011 Preliminary General Fund Forecast**
- II. Outlook for Economic Recovery**
- III. Solving the General Fund Shortfall: Three Major Strategies**
- IV. Approach to Prioritizing Services**



# **2010-2011 Preliminary General Fund Forecast**

# 2010-2011 PRELIMINARY GENERAL FUND FORECAST

## Overview

- Fiscal outlook for the City continues to remain dismal – high unemployment, reduced property values, minimal development activity
- Projected deficit of \$96.4 million marks the ninth consecutive year of General Fund shortfalls and the largest gap the City has confronted in any single year since 2002-2003
- General Fund Forecast should be considered very preliminary as it was prepared during a period of unprecedented economic uncertainty and with limited data available for 2009-2010

# 2010-2011 PRELIMINARY GENERAL FUND FORECAST

## General Fund Projected Budget Shortfall

Ongoing Funds Available (Shortfall)	(\$/millions)
February 2009 Forecast for 2010-2011	(36.74)
Estimated Pension Plan Increase (March 2009)	(51.70)
2009-2010 Adopted Budget Impact	(3.13)
<b>June 2009 Projected Budget Shortfall</b>	<b>(91.57)</b>
October 2009 Adjustments	(4.85)
<b>October 2009 Projected Budget Shortfall</b>	<b>(96.42)</b>

# 2010-2011 PRELIMINARY GENERAL FUND FORECAST

## Shortfall Increases by \$4.8 Million

- Lower projected revenue levels (\$34.2 million)
  - Downward adjustments of \$20.7 million to the economically sensitive revenues (primarily sales tax)
  - \$5.9 million reduction to Development Fee Programs (offset by lower expenditures)
  - \$7.6 million lower fund balance estimate
- Lower estimated expenditure levels (\$29.4 million)
  - \$13.5 million lower cost assumptions for the increased retirement contributions necessary in 2010-2011 (total increase of \$38.2 million)
  - Decrease of \$2.75 million in debt service costs for City properties due to lower interest rate assumptions
  - Net decrease in budgeted expenditures based on most recent review of base budget costs

# 2010-2011 PRELIMINARY GENERAL FUND FORECAST

## Key Revenue Assumptions

- **Property Tax:** 4.9% decline in 2009-2010; 0.4% decline in 2010-2011
- **Sales Tax:** 5% decline in 2009-2010; 2% growth in 2010-2011
- **Other Economically Sensitive Categories:** slight growth resuming in 2010-2011
- **Non-Economically Sensitive Categories:** Adjusted for anticipated rate changes, updated costs

# 2010-2011 PRELIMINARY GENERAL FUND FORECAST

## Key Expenditure Assumptions

- **Salaries:** 2% COLA for MEF and CEO per contracts; no COLA increases assumed for other bargaining units; step increases restored
- **Retirement:** Federated and Police/Fire pension costs projected increases total \$38.2 million
- **Health:** Projected 10% increase effective January 2011
- **Development Fee Programs:** Net-zero impact
- **Base Budget Adjustments:** Eliminate one-time allocations and annualize budget actions

# 2010-2011 PRELIMINARY GENERAL FUND FORECAST

## Service Reductions/Eliminations Effective July 2010

Service	Savings	Positions
Six Satellite/Neighborhood Centers Closures	\$ 1,710,000	23.04
Horse Mounted Unit Elimination	1,330,000	8.00
Branch Library Hours Reduction (8 hours less)	1,199,000	16.40
Crime Prevention Unit Reduction*	673,000	6.00
Convention and Visitor's Bureau Subsidy	337,000	
Central Service Warehouse Closure	300,000	5.00
Wellness Program Pilot for City Employees	300,000	2.00
Transfer to Convention/Cultural Affairs Fund	250,000	
Community Based Organizations Reduction (additional 8%)	210,000	
Dr. Martin Luther King Jr. Library Service Point Reductions	190,000	2.50
Mexican Heritage Plaza Maintenance and Operations	156,000	
Audit Staffing Reduction	130,000	1.00
Rose Garden Maintenance Reduction	126,000	1.96
Police Management Consolidation	125,000	1.00
Fire Data Management Staffing	119,000	1.00
Expanded Strong Neighborhoods Initiative Staffing	0	4.00
<b>Total</b>	<b>\$ 7,155,000</b>	<b>71.90</b>

\*Per City Council approval of the Mayor's June Budget Message for 2009-2010, prior to implementing the Crime Prevention Unit Reduction, the City Manager will explore and report to the Public Safety, Finance and Strategic Support Committee on alternative service delivery models for City Council consideration.

# 2010-2011 PRELIMINARY GENERAL FUND FORECAST

## Committed Additions Total \$7.8 Million

- 25 additional Police Officers (\$1.6 million/\$3.5 million ongoing)
- Maintenance and operating costs for new capital projects approved in the Adopted Capital Improvement Program (\$6.0 million)
  - Bond-financed libraries, community centers, parks and public safety facilities
- Revised opening dates for several facilities approved as part of the 2010-2011 Adopted Budget

# 2010-2011 PRELIMINARY GENERAL FUND FORECAST

## Revenues/Expenditures Not Included in Forecast

- Additional costs/revenue losses from State Budget actions
- Additional costs from unmet/deferred infrastructure and maintenance needs
- Impacts to San Jose Redevelopment Agency funded City support services and reimbursement for the Convention Center debt service payment
- Additional costs/revenues from County annexations
- One-time revenues and expenses

# 2010-2011 PRELIMINARY GENERAL FUND FORECAST

## Immediate Next Steps

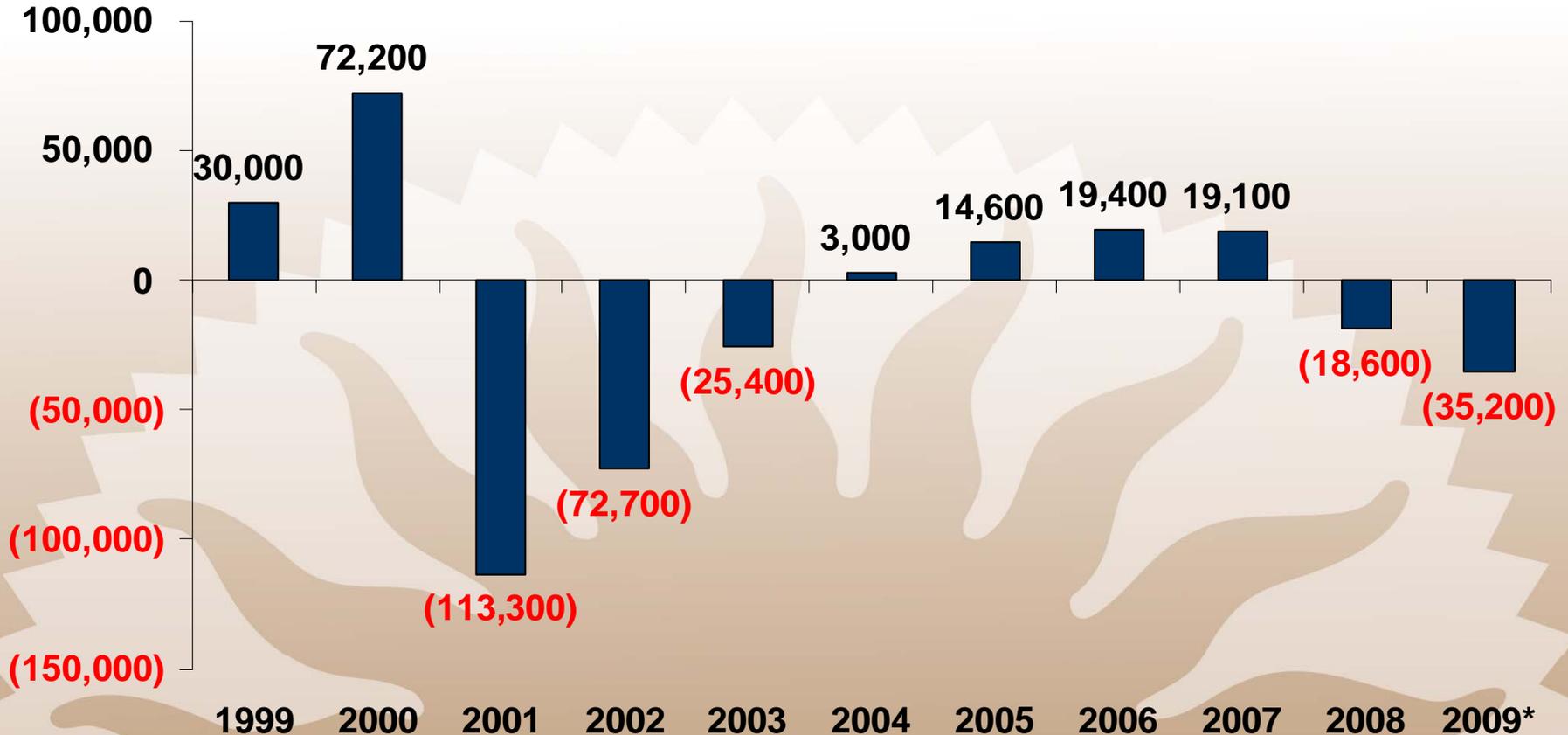
- Continue monitoring/reporting current year revenues and expenditures and economic impacts on the City's budget
- Five-Year General Fund Forecast update to be released late February 2010
- Issue in November, General Fund reduction targets to departments for developing the 2010-2011 Proposed Operating Budget



# **Economic Outlook: Recent Performance and Outlook for Recovery**

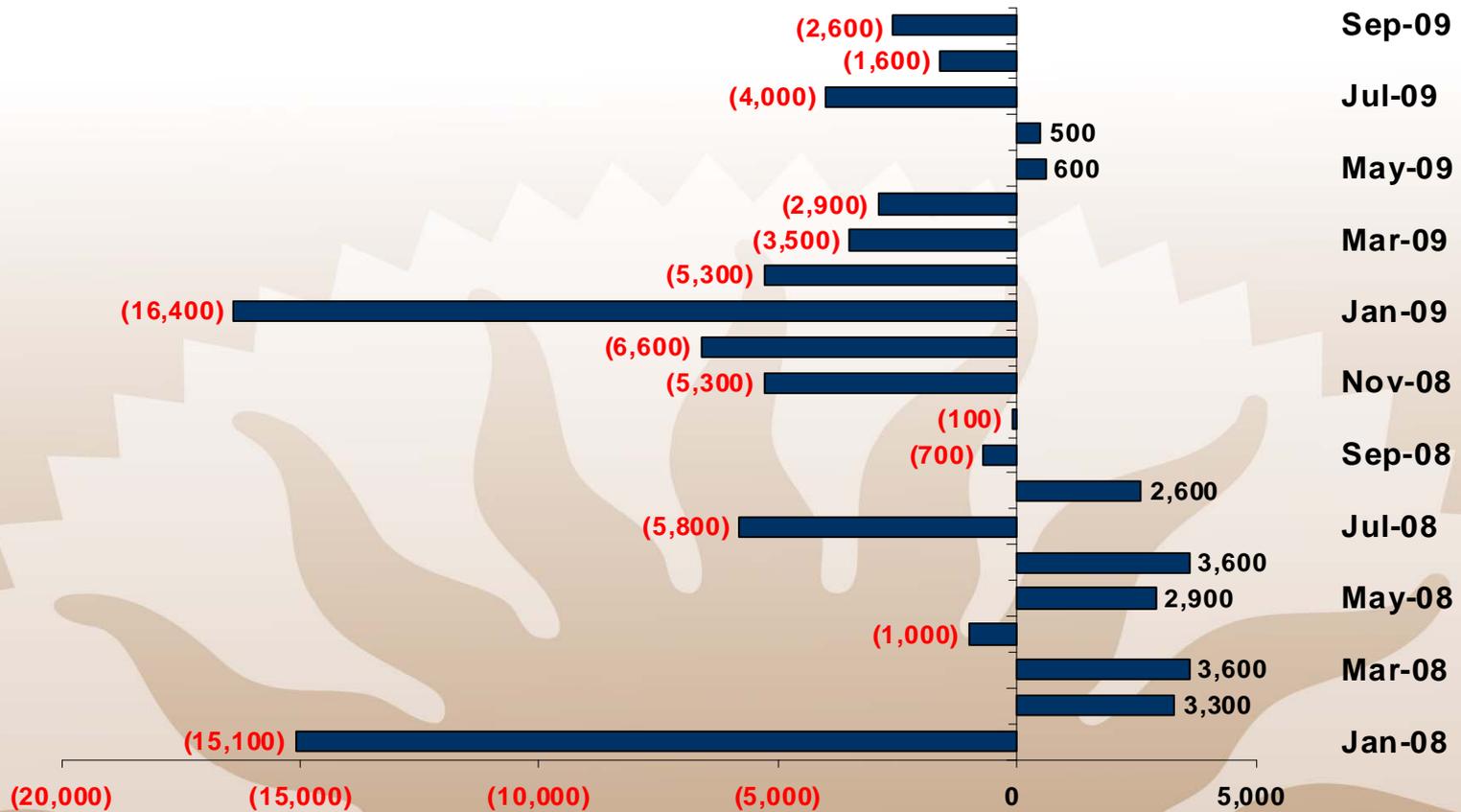
# More Than 53,000 Jobs Lost, Eliminating 2005-2007 Gains

San Jose MSA Jobs (Gains/Losses)



Source: California Employment Development Department, data through September of 2009

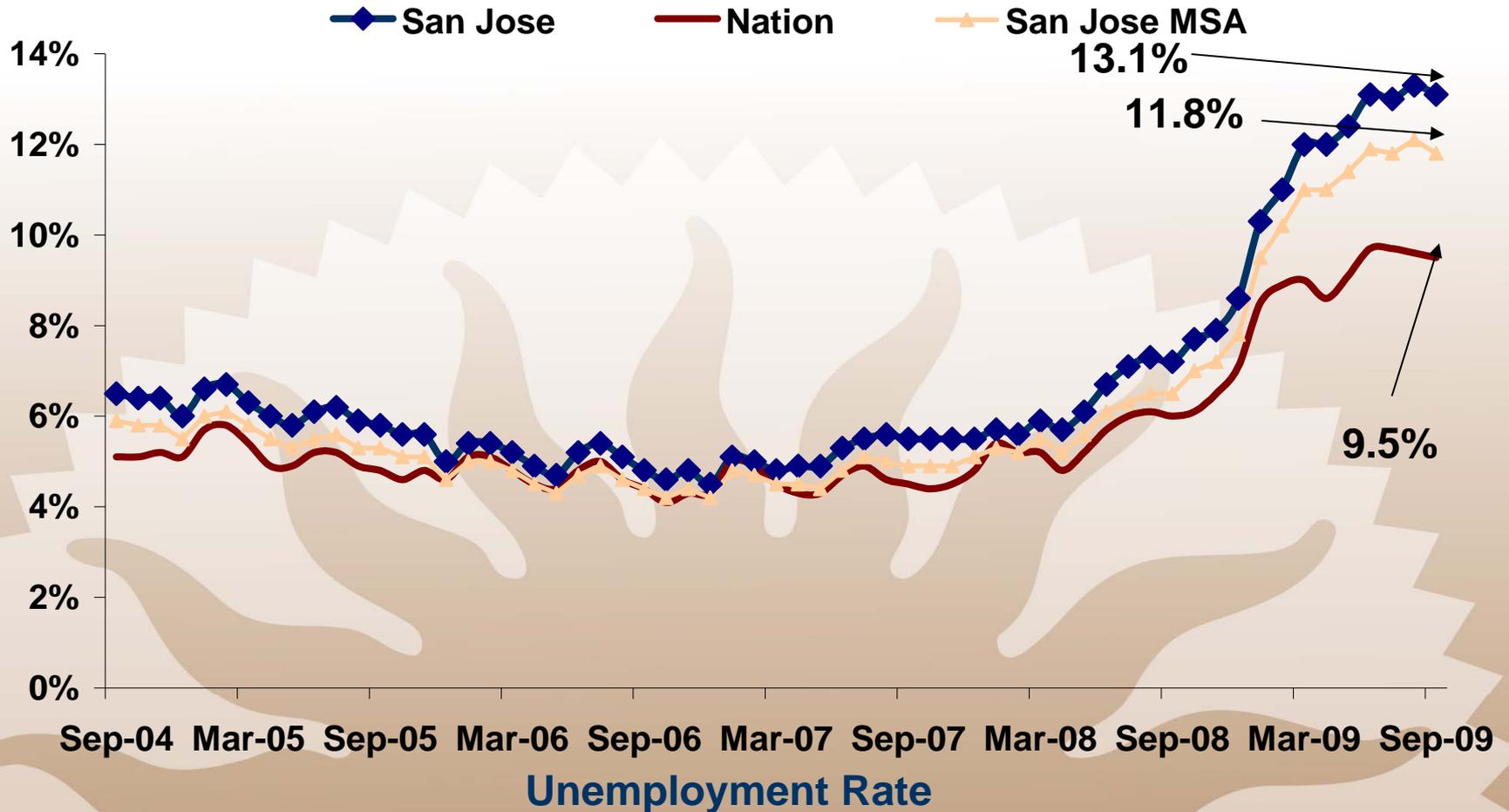
# Monthly Losses Continue In Recent Quarter, but Are Slowing



**Monthly Job Growth (Loss), San Jose MSA**

Source: California Employment Development Department

# Unemployment Remains Above Nation; 107,500 People Officially Unemployed



Source: California Employment Development Department, through September 2009

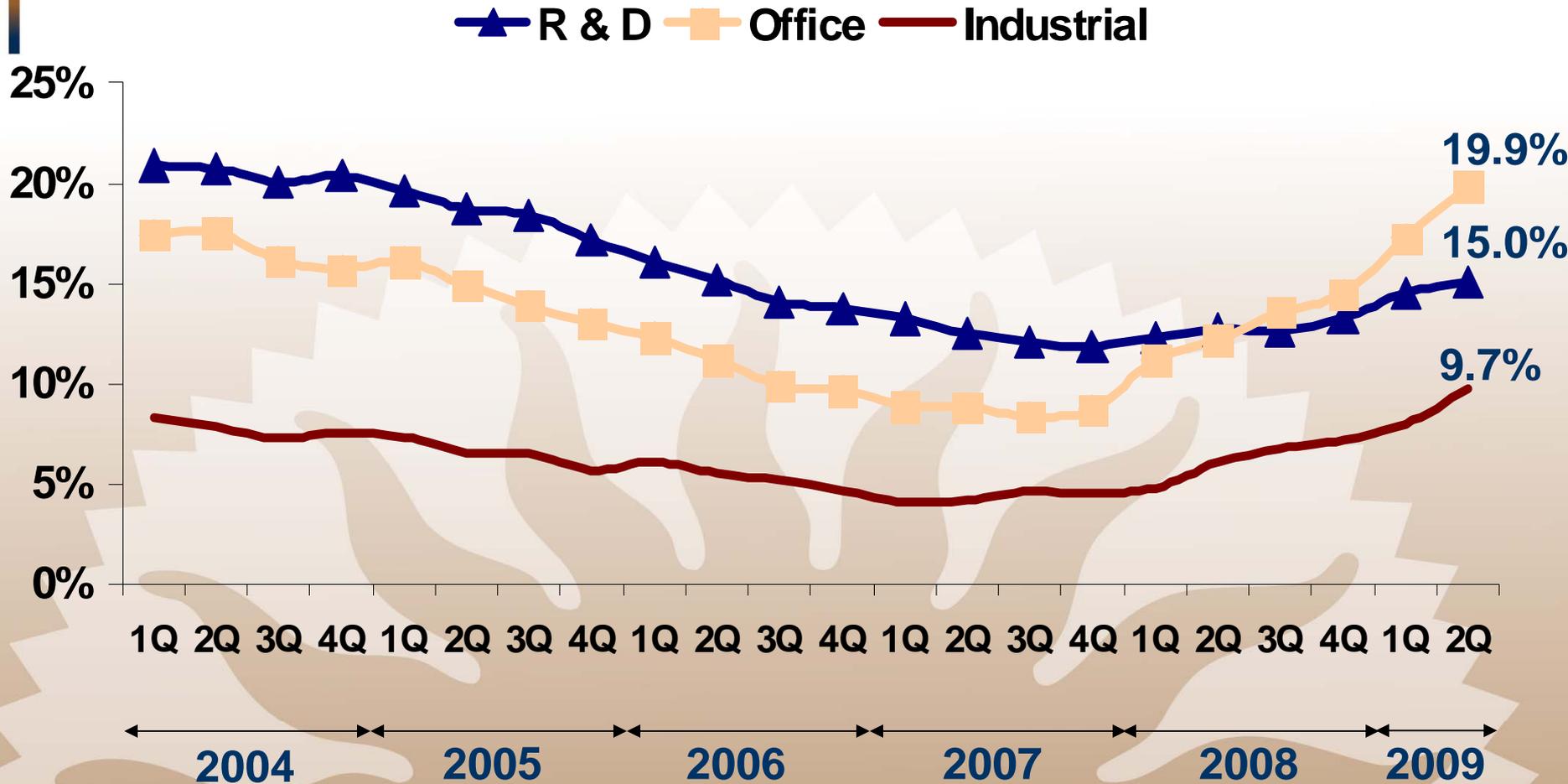
# VC Funding Fell By 50% in 2009



**Silicon Valley Venture Funding (billions)**

Source: Mercury News

# Vacancy Rates Still Rising



Average Vacancy Rates, Silicon Valley

Source: Colliers International

# Dr. Steve Levy, Center for Continuing Study of the California Economy

1. What should we expect in the timing and nature of economic recovery?
2. What is the outlook for longer-term economic and revenue growth?
3. How will the current and ongoing State fiscal crisis affect cities like San José?



# **Solving the General Fund Shortfall: Three Major Strategies**

# Three Major Strategies

**I. Reduce Per Employee Cost**

**II. Reduce/Eliminate Services**

**III. Increased/New Revenue**

# Increased/New Revenue

- General Fund Structural Deficit Elimination Plan identified range of revenue options
- Appointed team to review, update, and add to list of options
- Two categories:
  - Options practical for 2010 - 2011
  - Options that appear to require longer lead time

# Increased/New Revenue: Potential Strategies for 2010-2011

1. Review current fees to ensure full cost recovery
2. Propose new fees to recover City costs/maximize cost recovery
3. Identify transfers/reimbursements from other funds and other one-time sources

**Total: Range from \$4M to \$10M**

# Increased/New Revenue: Considerations

- **Viability:** Likelihood of success with voters
- **Investment:** Staff pre-work, outreach required, cost
- **Context:** including plans by other government jurisdictions, election timing
- **Timing:** May 1, 2010 delivery date for balanced 2010-2011 Budget

# Increased/New Revenue: Potential Strategies Requiring Voter Approval

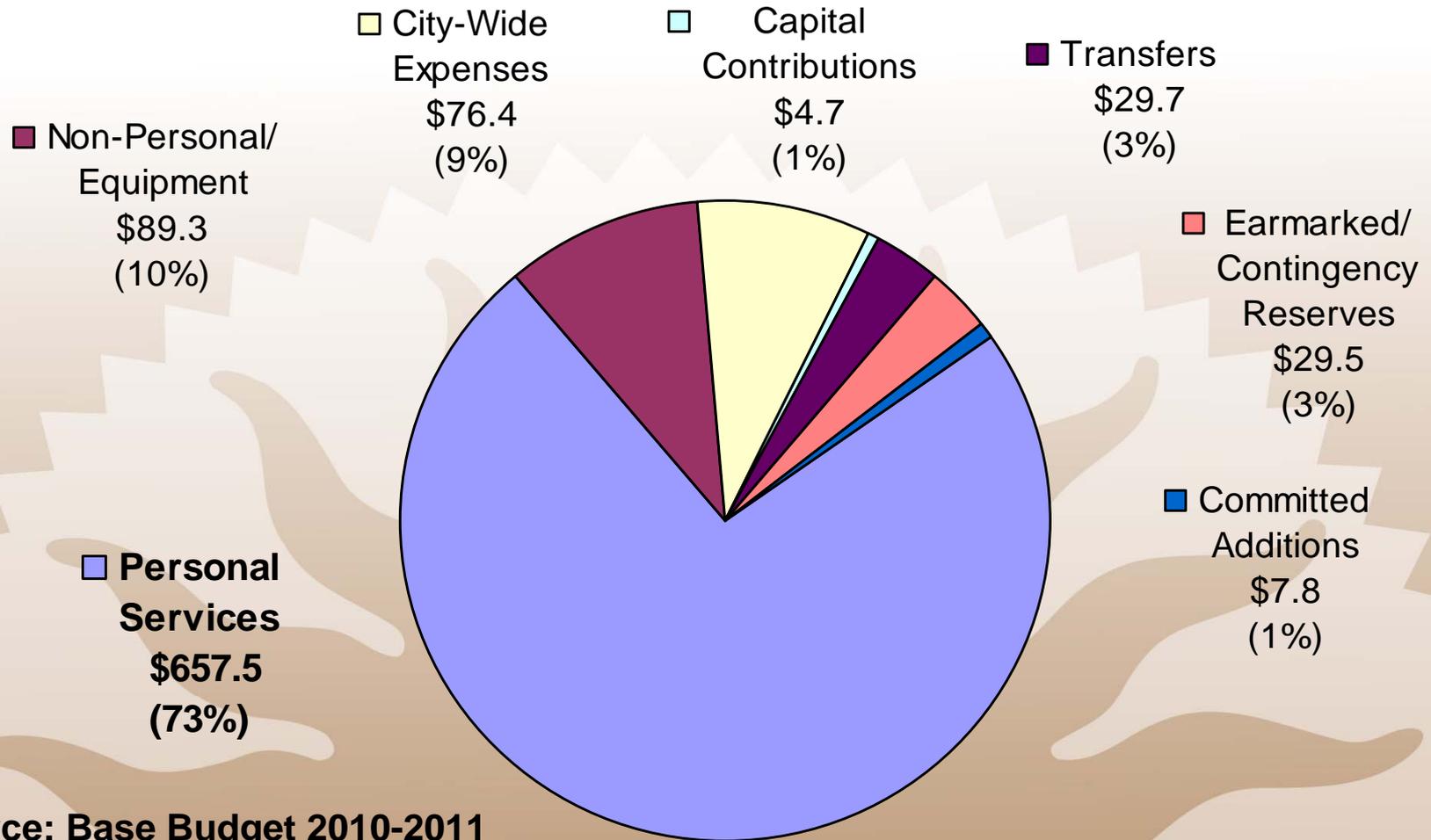
Prioritize 2 - 3 Strategies	Potential Annual Revenue
➤ Business Tax – Restructure rates, modernize tax to reflect current business profile	<b>\$500k - \$13M</b>
➤ Parking Lot Tax	<b>\$2.6 M - \$4.5M</b>
➤ Tax on Card Room Bank Groups, change Card Room Tax, and/or Number of Tables	<b>\$520K - \$12M</b>
➤ Disposal Facility Tax	<b>\$5M</b>
➤ Localized Maintenance Assessment Districts	<b>\$715K - \$1M</b>
➤ Close 30-day exemption on TOT Tax	<b>\$750K - \$1 M</b>
➤ Shift Construction and Conveyance Tax from Capital Projects to Operations & Maintenance	<b>\$1.9M - \$3.2M</b>
➤ 1/4 % Sales Tax increase	<b>\$32.9M</b>
➤ Service-Specific Parcel Taxes	<b>\$7M</b>

# Cost Reduction Strategies

**I. Reduce Per Employee Cost**

**II. Reduce/Eliminate Services**

# Personal Services Expenditures constitute 73% of Forecast Expenditures



Source: Base Budget 2010-2011

# Negotiation Schedule

Bargaining Unit	Contract Expiration
IAFF	Expired
ABMEI	12/10/09
IBEW	03/06/10
OE#3	Expired*
ALP*	N/A**
AMSP	06/30/10
AEA	06/30/10
CAMP	06/30/10
POA	06/30/10
MEF	06/30/11
CEO	09/17/11

\* Association of Legal Professionals (ALP) is a new bargaining unit

\*\* No current contract- meet and confer for 2010-2011

# Savings from Reducing Per Employee Cost

5.0%		
General Fund	Other Fund	Total Funds
\$31.15M	\$11.05M	\$42.19M

10.0%		
General Fund	Other Fund	Total Funds
\$62.30M	\$22.09M	\$84.39M

15.0%		
General Fund	Other Fund	Total Funds
\$93.45M	\$33.14M	\$126.58M

Source: Citywide Base Budgeted Salary and Benefits for Fiscal Year 2010-2011

# Options to Reduce Per Employee Cost

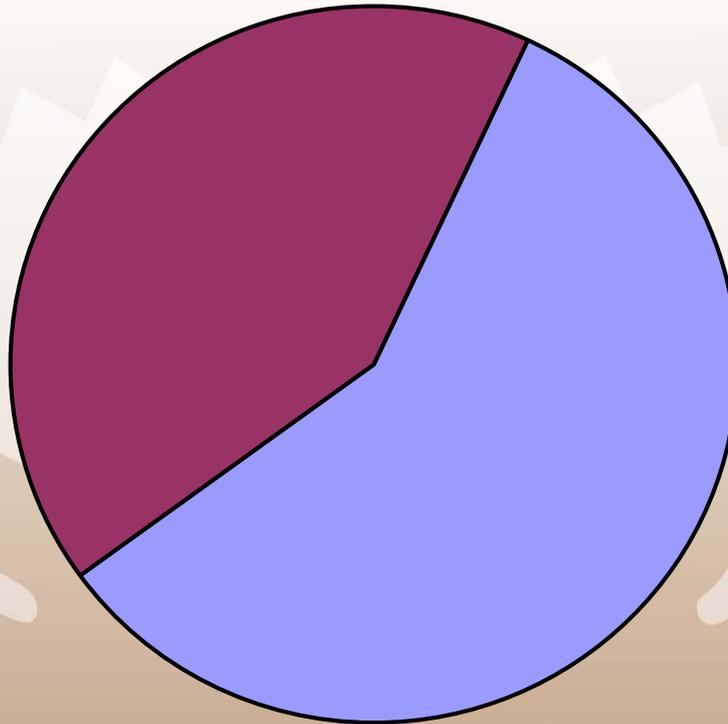
- Reductions in Pay (base pay and premium pays)
- Modifications/freezing 5% Salary Step Pay Increases
- Second Tier Pension Benefits
- Second Tier Retiree Healthcare Benefits
- Employee Sharing in Unfunded Pension Liability
- Healthcare Cost-Sharing Changes
- Healthcare Plan Design Changes (co-pays)
- Sick Leave Payout Reduction
- Modifications to Overtime Eligibility
- Disability Leave Supplement Reductions

# Reduce/Eliminate Services

1. Reduce Number of Employees
2. Implement Alternative Service Delivery Models
3. Improve Efficiency

# Public Safety Expenditures constitute 58% of Forecast Expenditures (\$ Millions)

**Non-Public  
Safety  
\$375.1  
(42%)**



**Public  
Safety  
\$519.7  
(58%)**

**Source: Base Budget for 2010-2011**

# Position Reductions to Address \$50 Million General Fund Shortfall

Reduction in <b>All Positions</b>		Reduction in <b>Non-Sworn Positions Only</b>	
Number of Position Reductions	Percent General Fund Workforce Reduction	Number of Position Reductions	Percent General Fund Workforce Reduction
370 FTEs	8%	498 FTEs	20%

Source: Base Budget for 2010-2011

# Mayor's Recommendation – General Fund Shortfall (\$ in Millions)

Increased/New Revenue & Reduce/Eliminate Services	\$48.2
Reduce Per Employee Cost	\$48.2
<b>Preliminary 2010-2011 General Fund Shortfall</b>	<b>\$96.4</b>

**Start negotiations to change retirement benefits for new employees.**

# City Manager Recommendation

## General Fund Shortfall

**8.00% Reduction in Total Compensation**

<b>General Fund</b>	<b>Other Funds</b>	<b>Total Funds</b>
<b>\$49.84M</b>	<b>\$17.67M</b>	<b>\$67.51M</b>

Pursue Second Tier Pension Benefits and Second Tier Retiree Healthcare Benefits in current and upcoming negotiations.

**Source:** Citywide Base Budgeted Salary and Benefits for Fiscal Year 2010-2011



# Council Discussion



# Approach to Prioritizing City Services

# Why Prioritize Services?

- Limited resources necessitate making choices among current programs
- Councilmembers and stakeholders have expressed an interest in prioritizing services at the program level
- Recognizes the complexity of services and stakeholder interests

# Prioritization is Not New to San José

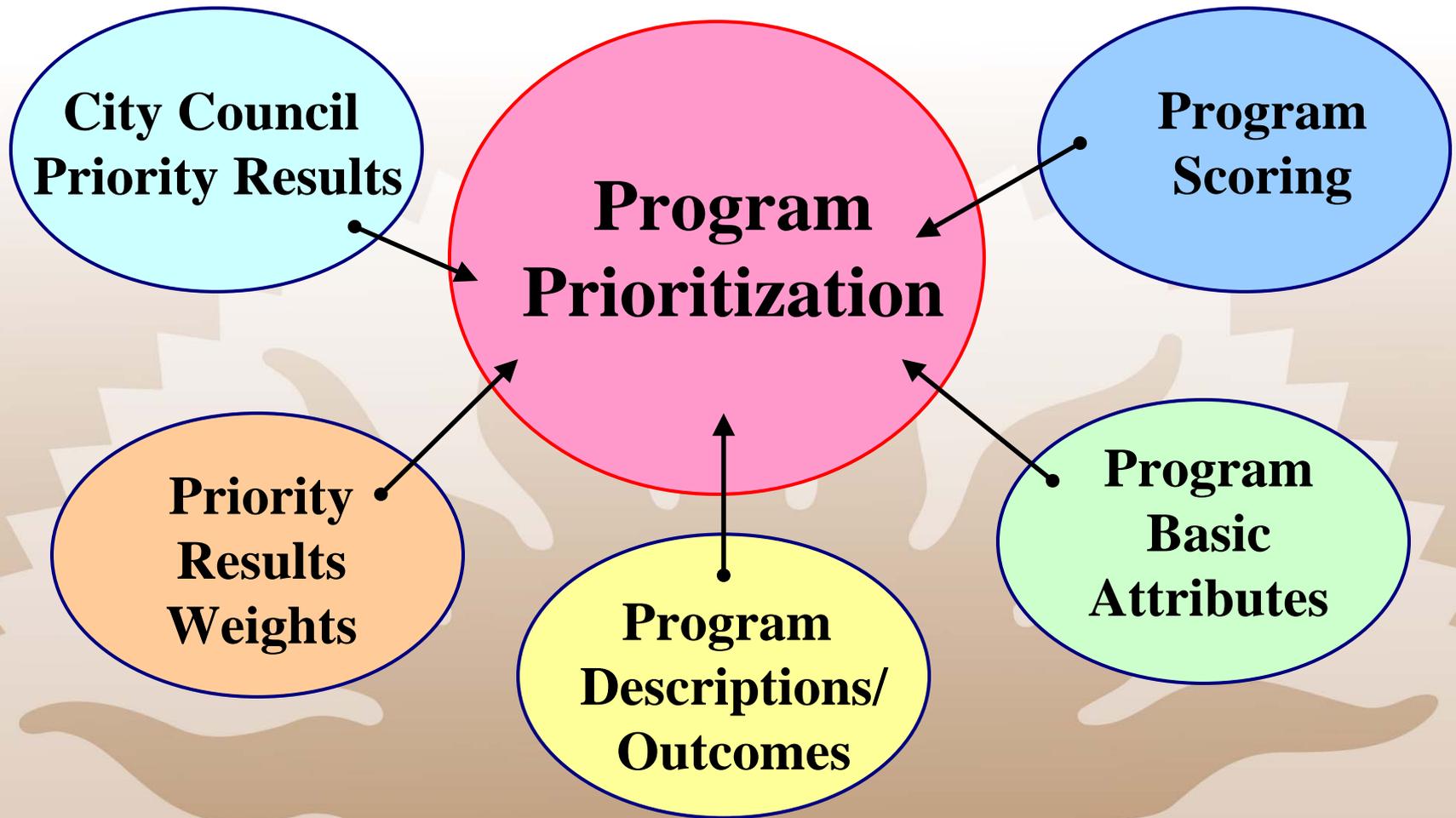
- Annual budget process implicitly reflects City Council priorities and has never included across the board reductions.
- General Fund Structural Deficit Elimination Plan “Analytical Framework” developed to identify candidate service reductions/eliminations
- In summer, staff embarked on the development of a prioritization process
- Prioritization method described in the ICMA article best informs the City’s work-in-progress prioritization process among various similar approaches

# Prioritization Presentation Objectives

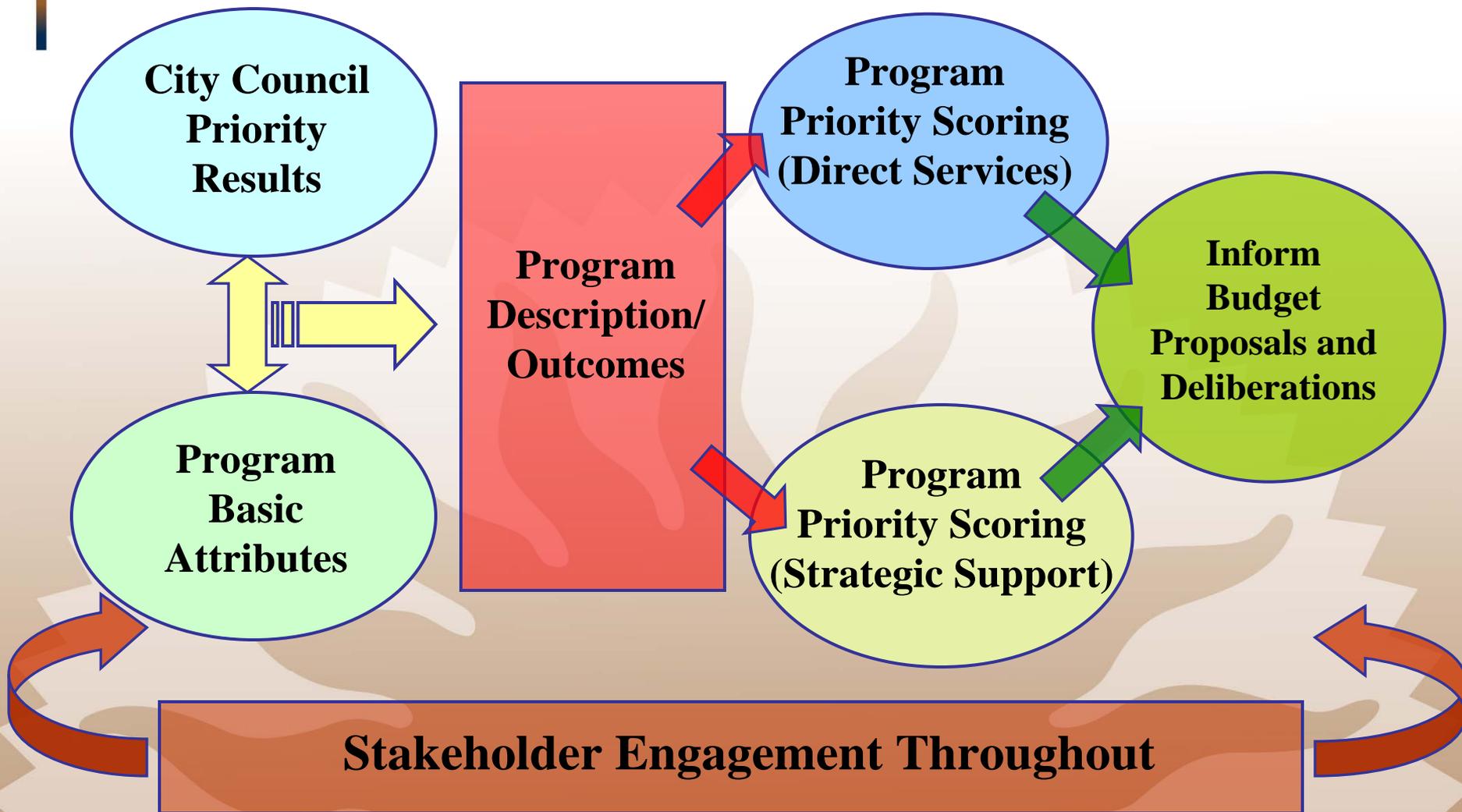
- Describe the draft San José prioritization method as informed by ICMA article
- Confirm the City Council's Priority Results
- Clarify what a ranking of programs would and would not provide:
  - A framework for evaluating the relative impact of City programs on achieving the City's priority results
  - A basis for gauging the alignment of funding to the City's priority results, and making adjustments
  - Not a guarantee that lower priority programs would be eliminated
  - Not an endorsement that high priority programs are being delivered in the most efficient manner
- Confirm interest in prioritizing programs and engaging stakeholders

# Program Prioritization

## Key Components



# Program Prioritization Framework



# San José's Priority Results (Preliminary Draft)

- Safe City
- Prosperous Economy
- Green, Sustainable City
- Vibrant, Culturally Diverse City
- Healthy, Educated, Connected Communities
- High Performing, Transparent Government

# Key Program “Basic Attributes” (Preliminary Draft)

- Degree to which a program is mandated by Federal, State, or other regulation
- Cost recovery of a program through fees or other non-General Fund revenues
- Demand for a program (number of recipients) and trend toward increasing or decreasing
- Potential for another entity to assume responsibility for the program

# Program Descriptions/Outcomes

- Need to be clear and concise in order to guide program ranking as well as identify duplicative services
- Programs are connected to City Council Priority Results through CSA Outcomes
- Initial “program maps” have identified roughly 450 discrete programs city-wide

# Possible Stakeholder Engagement Milestones

- Input to weighting of Priority Results
- Feedback on definitions of programs and basic attributes
- “Peer review” and vetting of program priority scoring
- Discussion of proposed budget in light of program priorities

# Program Prioritization Outcome

- Increase focus and connection of budget to City's priority results
- Stakeholder engagement in program priorities
- Priority ranking of programs (4 levels)
- Incorporate prioritization process into Proposed Budget funding allocations/reductions
- Rationale for reducing or eliminating programs that have the least impact on achieving the City's priority results

# Next Steps for Service Prioritization

- Confirm interest in undertaking an effort to prioritize services
- Finalize a workplan for stakeholder engagement as part of the 2010-2011 budget process
- Refine the San José prioritization system



# Council Discussion

# UPCOMING KEY BUDGET DATES

## January 2010

- Community Budget Survey
- Neighborhood Association/Youth Commission Priority Setting Session
- 2009-2010 Mid-Year Budget Review Released

## February 2010

- 2010-2011 City Manager's Budget Request and 2011-2015 Five-Year Forecast and Revenue Projections for the General Fund and Capital Improvement Program Released
- Updated General Fund Structural Deficit Elimination Plan Released
- City Council/Senior Staff Budget Study Session

## March 2010

- City Council Reviews and Approves Mayor's March Budget Message

## April/May 2010

- 2010-2011 Proposed Capital/Operating Budgets, 2011-2015 Capital Improvement Program, 2010-2011 Proposed Fees and Charges Released
- Council District Community Meetings to Discuss 2010-2011 Proposed Budget
- City Council Study Sessions and Initial Budget Public Hearing

## June 2010

- Final Budget Public Hearing
- City Council Reviews Mayor's June Budget Message and Final Review of Budgets
- City Council Approves 2010-2011 Capital/Operating Budgets and Fees & Charges