



# Memorandum

**TO:** HONORABLE MAYOR  
AND CITY COUNCIL

**FROM:** Debra Figone

**SUBJECT:** CITY COUNCIL/SENIOR STAFF  
STUDY SESSION: 2010-2011 BUDGET  
PLANNING UPDATE

**DATE:** February 5, 2010

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**COUNCIL DISTRICT:** City-Wide

## **OUTCOME**

- (1) Update on budget planning to address the 2010-2011 General Fund shortfall of approximately \$100 million.
- (2) Update on the Administration's Pilot Program Prioritization effort and Community and Stakeholder outreach and engagement.

## **BACKGROUND**

On January 9, 2007, the City Council approved several items related to the Reed Reforms including a "Change to a Community Based Budgeting Process." As a result of that direction, the annual budget process has been modified to solicit early input from the Community and the City Council. This year, these efforts have included the Special City Council Meeting on 2010-2011 Budget Planning that was held on November 5, 2009, the Mayor's City of San Jose Budget Message Workshop held on December 17, 2009, the 2010 Community Budget Telephone Survey conducted from January 13 to January 21, 2010, and the Neighborhood Associations/Youth Commission 2010-2011 Priority Setting Session held on January 23, 2010. The early engagement in the budget process is particularly critical this year given the size of the projected General Fund shortfall and the substantial changes and decisions that will be necessary to close that gap.

As a result of the early engagement, at the November 5, 2009 Special City Council Meeting, the Mayor and City Council directed staff to develop strategies to resolve the 2010-2011 projected General Fund shortfall estimated at \$100 million targeted equally in the following three areas: one-third from employee wage and benefit concessions; one-third from revenues; and one-third from one-time revenues, alternative service delivery proposals and efficiencies in operations (with a request to refrain from using one-time revenues for budget balancing, but instead for one-time needs; and to consider renegotiating existing service contracts to reduce costs). If any portion of the shortfall cannot be covered within these three categories, the default is service

reductions/eliminations. This memorandum provides an update on budget planning efforts currently underway to address the projected General Fund shortfall and references a forthcoming companion memorandum, which summarizes the most significant preliminary service reduction/elimination proposals that have been submitted by City Departments to The City Manager's Office. This memorandum is scheduled to be issued in preparation for the February 16, 2010 Study Session no later than Wednesday, February 10, 2010.

Given the magnitude the General Fund shortfall projected for 2010-2011 and the cutbacks that were implemented during the past eight years, in summer 2009, the Administration started to develop and implement a pilot program prioritization effort. Additionally, at the August 18, 2009 City Council Meeting, the Mayor and City Council directed the Administration to develop program level information as part of the 2010-2011 budget process to allow a more in-depth review of City services. An update to and overview of the pilot program prioritization effort, which is aligned to priorities that the Mayor, City Council, and community have set during previous budget processes, is discussed in this memorandum.

## **ANALYSIS**

At the February 16, 2010 City Council Study Session, the City Council will have the opportunity to learn about the current status of 2010-2011 budget planning efforts. The following discussion provides an update on 2010-2011 General Fund budget planning, the 2010 Community Telephone Survey, the Neighborhood Associations/Youth Commission 2010-2011 Priority Setting Session, and the City's Pilot Program Prioritization effort.

### **2010-2011 General Fund Budget Planning**

As mentioned above, at the November 5, 2009 Special City Council Meeting, the Mayor and City Council directed staff to develop strategies to resolve the 2010-2011 General Fund shortfall that is currently estimated at approximately \$100 million<sup>1</sup> targeted equally in the following three areas: one-third from revenues; one-third from employee wage and benefit concessions; and one-third from one-time revenues, alternative service delivery proposals and efficiencies in operations (with a request to refrain from using one-time revenues for budget balancing, but instead for one-time needs; and to consider renegotiating existing service contracts to reduce costs). If any portion of the shortfall cannot be covered within these three categories, the default is service reductions/eliminations.

#### ***General Fund Revenues***

Although the Administration has continued efforts on various revenue ideas, any major increase to ongoing revenues which can be used to balance the 2010-2011 budget will require a June ballot measure and voter approval. Given this requirement, the Mayor, in his 2010 Community Budget Telephone Survey (scheduled for presentation to the City Council during the February 9,

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<sup>1</sup> The update to the preliminary 2010-2011 General Fund Forecast is scheduled to be released on February 26, 2010.

2010 Council Meeting), included survey questions for potential revenue measures. Specifically, when survey respondents were presented with five different potential ballot measures to raise additional revenue for the City, only two measures were initially supported by more than 50% of likely voters.

- 64% of likely voters indicated they would support increasing the tax on card room revenues in San José from 13 percent to 15 percent and increasing the number of tables allowed.
- 53% of likely voters indicated they would support a measure enacting a one-quarter cent sales tax.

The increase to the tax on card rooms is equivalent to approximately \$2 to \$9.5 million annually in additional General Fund revenue depending on the proposed changes to the tax. The increase in a one-quarter cent sales tax is equivalent to approximately \$30 million annually in additional General Fund revenue.

However, since both tax measures require voter approval and the earliest that could occur is June 2010 (City Council approval to place any measures on the June ballot is required by March 10, 2010), the Administration cannot include the potential revenue from these measures as part of a budget balancing strategy in the 2010-2011 Proposed Budget that is scheduled to be released May 3, 2010. Therefore, only \$10 million in revenue solutions that would be within the City Council's approval authority without a vote of the Public (both one-time and ongoing) is currently assumed for budget balancing planning purposes. This figure will be refined as budget proposals for 2010-2011 are fully analyzed and presented to the City Council for consideration in May, 2010.

### ***Employee Wage and Benefits Concessions***

Employee wage and benefits concessions require negotiations with the City's bargaining units which are expected to continue over the next several months. During the Special City Council Meeting on November 5, 2009, staff received direction to achieve savings through employee wage and benefit concessions equaling 5% of total compensation for all employees. If these concessions are agreed to with the City's bargaining units and implemented for all employees, expenditure savings of approximately \$30 million in the General Fund would be generated in 2010-2011 based on the current workforce.

The City is currently in negotiations with four bargaining units:

- International Association of Fire Fighters, Local 230 (IAFF)
- Association of Building, Mechanical and Electrical Inspectors (ABMEI)
- International Brotherhood of Electrical Workers, local #332 (IBEW)
- Police Officers' Association (POA)

The City will soon be in negotiations with additional bargaining units:

- Association of Legal Professionals (ALP)
- Association of Engineers and Architects, IFPTE Local 21 (AEA)
- City Association of Management Personnel (CAMP)
- Association of Maintenance Supervisory Personnel (AMSP)
- International Union of Operating Engineers, Local #3 (OE#3)

There are two bargaining units that have contracts with the City extending through 2010-2011, which include a scheduled 2% general wage increase in July 2010 and September 2010, respectively:

- Municipal Employees' Federation, AFSCME Local 101 (MEF)
- Confidential Employees' Organization, AFSCME Local 101 (CEO)

As of the date of this memo, no agreement has been reached with any bargaining unit that achieves the targeted cost savings. Therefore, given the uncertainty regarding the outcome of those negotiations and the fact that the release of the 2010-2011 City Manager's Proposed Budget will occur on May 3, savings from employee concessions are not assumed for budget balancing purposes at this time.

### ***Service Reductions/Eliminations and Service Delivery Model Changes***

Due to timing considerations and uncertainties regarding major revenue strategies and employee wage and benefit concessions, it is currently assumed that a likely scenario is that the majority of the currently projected \$100 million General Fund shortfall will be resolved with service reductions/ eliminations and service delivery model changes. At this time and as previously discussed, only \$10 million of the \$100 million projected shortfall is currently assumed to be solved with some ongoing and mostly one-time revenue solutions, which do not require voter approval.

This \$90 million figure could be reduced by approximately \$30 million if 5% wage and benefits concessions were realized from all employees. These agreements would have to be in place by early April in order to be incorporated into the City Manager's Proposed Operating Budget that is scheduled to be released on May 3, 2010. In that case, approximately \$60 million of service reductions/eliminations and service delivery model changes proposals would be submitted to the City Council for consideration.

Approximately \$20 million in this category of solutions will most likely include service reductions and eliminations that were included in the City Manager's 2009-2010 Proposed Budget, but approved to be restored by the City Council through the Mayor's June 2009 Budget Message (these restorations were primarily funded due to a slight improvement in Secured Property Tax revenue projections and employee wage concessions) and those service reductions/eliminations that were included as Tier 2 General Fund Budget Proposals (these

proposals were developed as additional reduction options for 2009-2010). The June 2009 service restorations included funding for Fire Stations, Park Rangers, Police Officers, and Branch Library services. The 2009-2010 Tier 2 budget proposals included elimination of the Summer Aquatics Program, additional reduction of Branch Library services, weekday closure of Neighborhood Parks restrooms, reduction of Anti-Graffiti programs, elimination of the School Crossing Guard program, additional reductions in police officers and firefighter engine companies, and outsourcing of custodial services. Although these proposed reductions were considered severe by the Mayor and City Council and the Community during the 2009-2010 budget development process, unfortunately, in order to close the significant 2010-2011 General Fund shortfall, the Administration will be forced again to recommend some form of these proposals as well as much deeper cuts to programs and services benefiting our residents than contemplated just a year ago.

It is important to note that the service reductions/eliminations under consideration to address the 2010-2011 General Fund budget shortfall do not include the service reductions/eliminations that are effective July 1, 2010 as approved by the City Council through the 2009-2010 budget process. These service reductions/eliminations are identified in the table below.

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 Visitors' Bureau Subsidy	337,000	
Strong Neighborhoods Initiative Staffing **	321,000	9.94
Central Service Warehouse Concourse	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
<b>Total</b>	<b>\$7,476,000</b>	<b>77.84</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. This report is scheduled for the February 2010 Committee Meeting.

\*\* This reduction includes the reduction of expanded Neighborhoods Initiative Staffing funded in 2009-2010 through a reduction of the Neighborhood Investment Fund Earmarked Reserve.

The table on the following page highlights the severity of service reductions/eliminations for 2010-2011 with and without employee wage and benefit concessions.

**2010-2011 Potential Service Reductions/Eliminations Scenarios**

	<b>Scenario 1</b> (assumes Employee Wage and Benefit Concessions by early April)	<b>Scenario 2</b> (does not assume any Employee Wage and Benefit Concessions)
2009-2010 Service Reductions/Elimination (Restored Services and Tier 2)	\$20 Million	\$20 Million
Additional Service Reductions/Eliminations Necessary to Close General Fund shortfall	\$40 Million	\$70 Million
<b>Total Potential Service Reductions/ Eliminations included in the 2010-2011 Proposed Budget Scheduled to be released on May 3, 2010</b>	<b>\$60 Million</b>	<b>\$90 Million</b>

Under either scenario, per the November 5 City Council direction, the severity of these service reductions/eliminations for 2010-2011 can be partially offset through voter approved revenue measures, if approved by the voters in June 2010. In order to place any such revenue measures on the June 2010 ballot, the Mayor and City Council will be required to approve placing such measures on the ballot no later than March 10, 2010.

A preliminary summary of major service reduction/elimination proposals submitted by City departments to the City Manager's Office, based on a 35% reduction target for non-public safety departments and a 7.5% reduction target for public safety departments, is scheduled to be issued in preparation for this Study Session no later than Wednesday, February 10, 2010. This summary is intended to provide some context into the magnitude of service changes that will be necessary to close the 2010-2011 budget gap. It will include significant and community-sensitive service reduction/elimination proposals as well as proposals which recommend an alternative service delivery model for existing services. It will not yet contain any service reduction/elimination proposals due to 2010-2011 rebalancing actions for the Redevelopment Agency budget, the City's Capital Improvement Program, the Community Development Block Grant Fund, the Development Services Fee Program, and Convention Facilities Program (Team San José). It also will not yet contain any proposals for City Council appointees. It should be noted that in addition to the proposals identified in the forthcoming memorandum, the Administration is also exploring broad departmental and functional consolidations.

**2010 Community Telephone Survey**

From January 13 to January 21, 2010, the City's consultant, Fairbank, Maslin, Maullin, Metz & Associates, conducted the annual Community Budget Survey by making 900 telephone interviews with adult residents of San José. This year's phone survey explored residents' perceptions of City services, their funding priorities, and their support for or opposition to increasing revenues or cutting expenditures. The results of the phone survey will be presented to Council on February 9, 2010 (Item 3.5) and will be integrated into the Study Session.

### **Neighborhood Associations/Youth Commission 2010-2011 Priority Setting Session**

On Saturday, January 23, more than 80 community members representing San Jose neighborhood organizations, the City of San Jose Neighborhoods Commission, and San Jose Youth Commission attended the Fourth Annual Mayor's Neighborhood Association/Youth Commission Priority-Setting Session. A compendium memorandum describes the meeting and summarizes the input from the participants.

### **City's Pilot Program Prioritization Effort**

As mentioned above, the Mayor and City Council directed the Administration to include program level information as part of the 2010-2011 budget process to allow a more in-depth review of City services. In response to that direction, the Administration released a 2010-2011 Base Budget Department Program Dictionary, which provides a listing and basic description of over 550 discrete programs provided by the City as reflected in the 2010-2011 Base Budget, including program cost, staff, and associated resources managed. The Program Dictionary is intended to supplement information included in the Proposed Budget and is expected to serve as a resource to the Mayor and City Council as well as the community and stakeholders during the upcoming budget process. This document was distributed under separate cover on January 20 to the Mayor and City Council and is available at the City's Internet site at [www.sanjoseca.gov](http://www.sanjoseca.gov) (click on City Manager and then Budget).

At the November 5, 2009 Special Council Meeting, the City Council supported the Administration in proceeding with a pilot Program Prioritization Process to inform the City's 2010-2011 budget process. As identified at that meeting, the Pilot Program Prioritization effort has several objectives:

- To provide information about the range of specific programs funded by the City
- To better understand these programs in relationship to the City's priorities
- To assist in the task of making choices among current programs given the limited resources available
- To respond to an interest expressed by the Mayor and Councilmembers as well as stakeholders in prioritizing services at the program level

The Pilot Program Prioritization effort included several steps as outlined in the table below.

**Pilot Program Prioritization Effort Steps**

Description of Step	Assigned Group	Date of Completion
Development of Program Maps	Departments	November 25, 2009
Department Ranking of Programs	Departments	December 3, 2009
Review of Departmental Ranking of Programs and Recommendations for score changes to the City Manager	Review Team consisting of City employees from senior managers through line staff, and representatives from the Neighborhoods Commission, Business, and City Labor Leaders	January, 13, 2010
Determination of Relative Investment Levels for Priority Results (online stakeholder survey, community telephone survey, and input from the Neighborhood Associations/Youth Commission 2010-2011 Priority Setting Session)	Mayor and City Council, Labor Leaders, Neighborhoods Commissioners, Youth Commissioners, General Fund Structural Deficit Elimination Plan Advisory Group, Senior Staff	January 2010
Issuance of Ranking of City Programs which provide a direct service to the Community by four Priority Levels	Not Applicable	February 10, 2010

The results of the program prioritization effort are scheduled to be issued in preparation for this Study Session no later than Wednesday, February 10, 2010.

**CONCLUSION**

The overall goal of this City Council/Senior Staff Study Session is to provide the City Council with an update on budget planning efforts to address the 2010-2011 General Fund shortfall of approximately \$100 million as well to provide an update on the Administration's Pilot Program Prioritization effort and Community and Stakeholder outreach and engagement process. The City Council's feedback in this Study Session will be important to inform the Mayor's March Budget Message for Fiscal Year 2010-2011. Given the difficult choices facing the City, the Senior Staff and I look forward to engaging in a meaningful and rich discussion regarding our planning efforts to balance the 2010-2011 Proposed Budget.

  
 DEBRA FIGONE  
 City Manager

For questions please contact Jennifer Maguire, Budget Director, at (408) 535-8144.