

City of San José

2010-2011 Proposed Operating Budget Overview

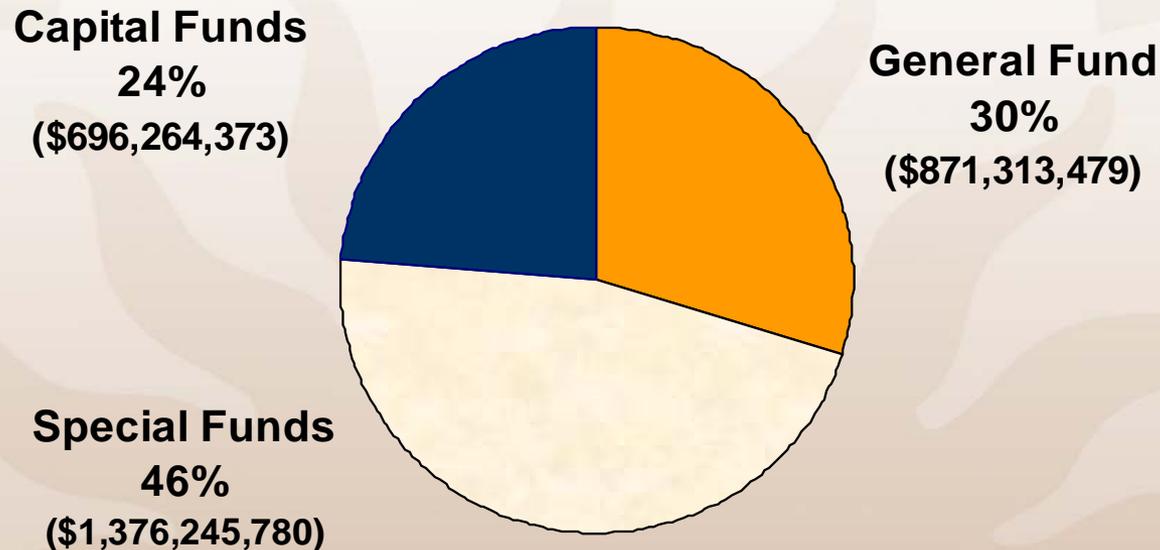
May 10, 2010



2010-2011 Proposed Budget Overview

2010-2011 PROPOSED CITY BUDGET^{1,2}:	\$2.5 billion
TOTAL NUMBER OF FUNDS:	113
TOTAL NUMBER OF EMPLOYEES:	5,656

¹ Does not include rebudgets from 2009-2010



² An adjustment of \$492,677,339 is necessary to arrive at the \$2.5 billion net 2010-2011 Proposed City Budget to avoid the double-counting of transfers, loans, and contributions between City funds.

2010-2011 Proposed Budget Overview

- Entering ninth year of General Fund budget deficits, the 2010-2011 \$118.5 million shortfall driven by increased costs (primarily personnel-related) and decreased revenues due to economic downturn
- Unprecedented budget actions proposed in many funds, with unavoidable significant service level impacts
- Proposed Budget developed in fiscally responsible manner; maintains as many City Council priorities as possible
- Loss of almost 1,000 positions from 2009-2010 Adopted Budget; staffing reduced to 1989 levels
- If employee concessions achieved, many of the services and positions proposed for elimination could be restored

Recent General Fund Budget Shortfalls and City-Wide Position Changes

	Total General Fund Shortfall	City-Wide Position Changes (All Funds)	City-Wide Positions (All Funds)
2002-2003	(\$ 46.3 M)	(36)	7,418
2003-2004	(\$ 92.1* M)	(205)	7,213
2004-2005	(\$ 81.7* M)	(426)	6,787
2005-2006	(\$ 58.0 M)	(115)	6,672
2006-2007	(\$ 34.9 M)	171	6,843
2007-2008	(\$ 19.9 M)	149	6,992
2008-2009	(\$ 29.6 M)	(7)	6,985
2009-2010	(\$ 84.2 M)	(362)	6,623
SUBTOTAL	(\$ 446.7 M)	(831)	
2010-2011	(\$ 118.5 M)	(967)	5,656
TOTAL	(\$ 565.2 M)	(1,798)	

*Includes State impact of \$10.8 million in 2003-04 and \$11.4 million in 2004-05

2010-2011 Proposed Budget Overview

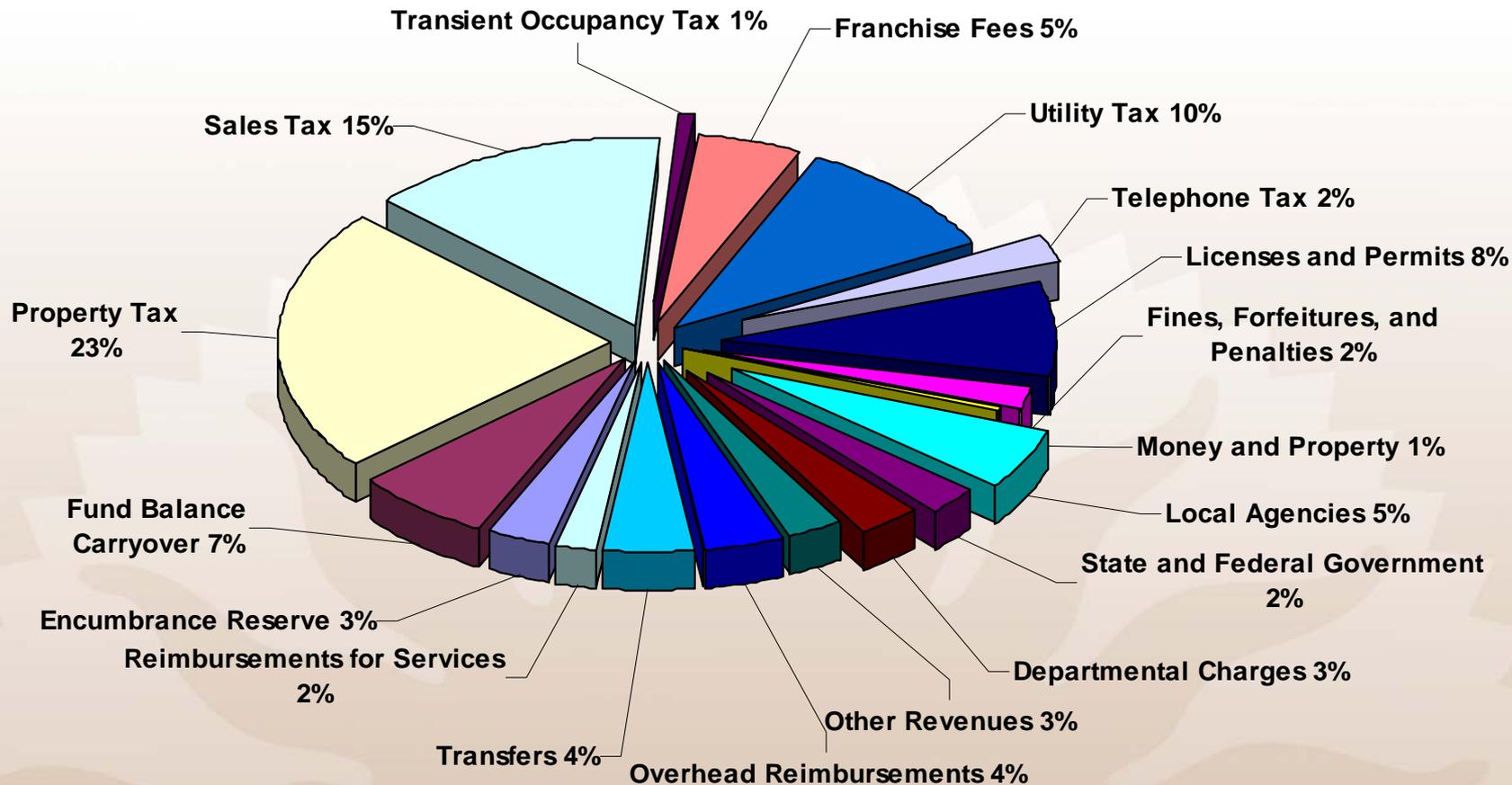
GENERAL FUND OVERVIEW

May 2010

2010-2011 General Fund Overview

- Solves 83% of the \$118.5 million General Fund shortfall with ongoing solutions (\$116.0 M base and \$2.5 M development fee programs)
- Alternative Tier 2 budget proposals (\$5.0 M)
 - Contingency Plan if Cardroom Tax measure fails
 - Alternatives to recommended proposals
 - Additional fiscal challenges (State, lower revenue)
 - Address more of shortfall with ongoing solutions
- Recommended General Fund Service Restorations Summary developed (sworn/non-sworn)

2010-2011 General Fund Sources of Funds

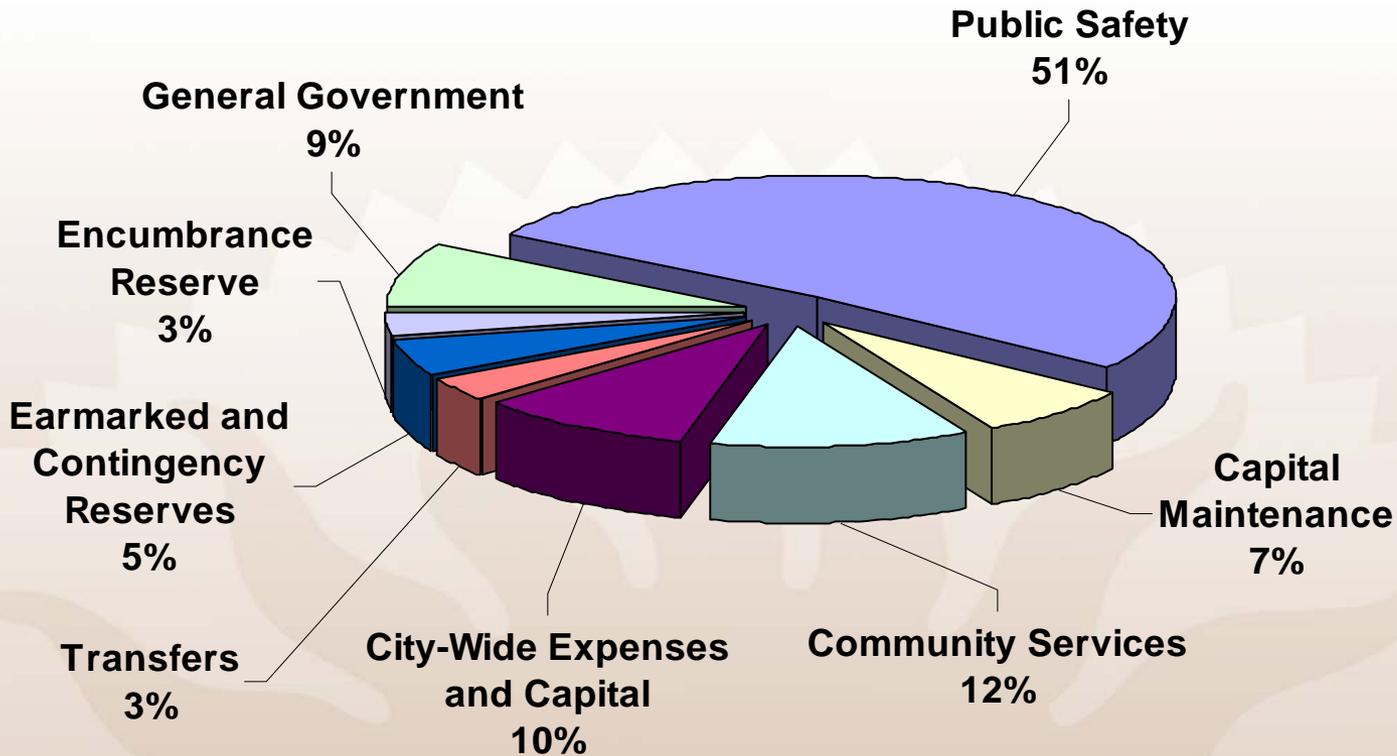


Total General Fund Sources: \$871,313,479

Source: 2010-2011 Proposed Budget

May 2010

2010-2011 General Fund Uses of Funds



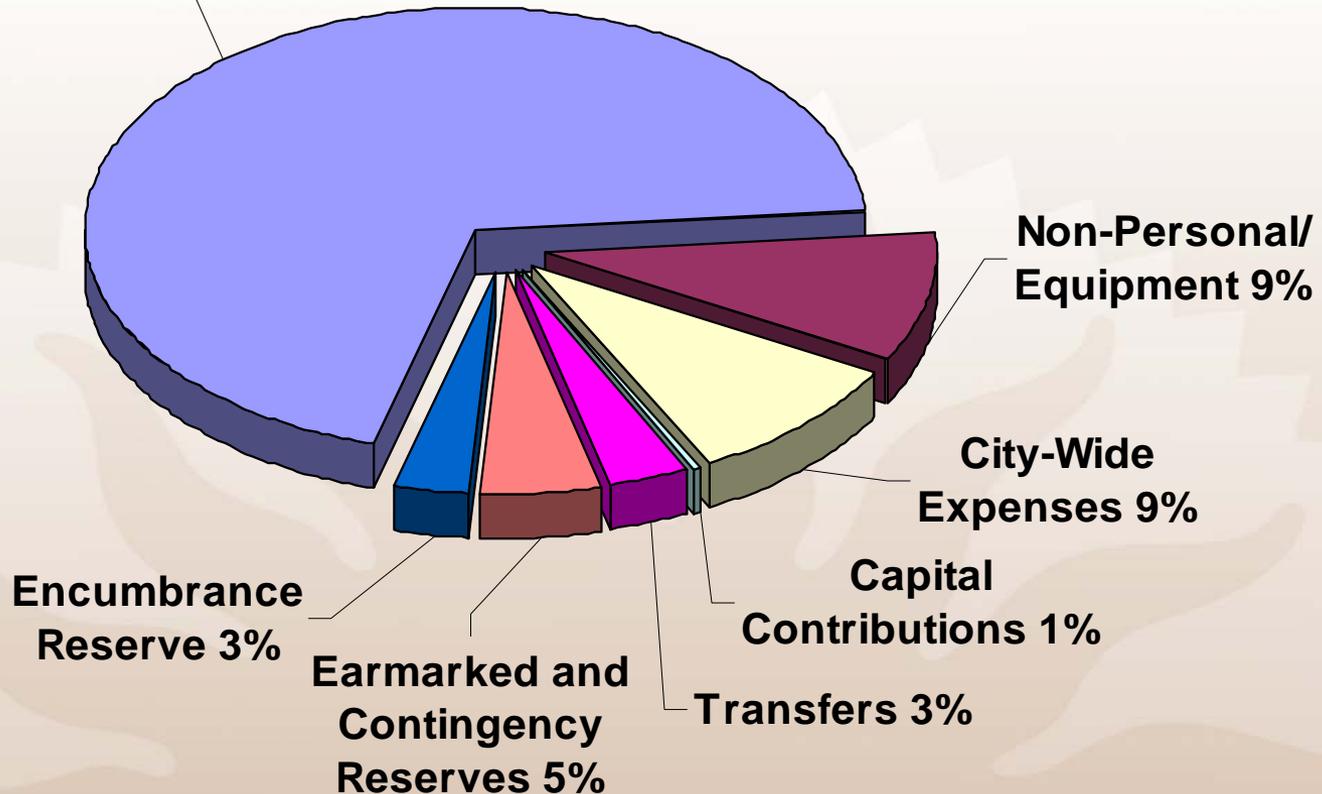
Total General Fund Uses: \$871,313,479

Source: 2010-2011 Proposed Budget

May 2010

2010-2011 General Fund Uses by Category

Personal Services
70%



Source: 2010-2011 Proposed Budget

May 2010

2010-2011 Proposed Operating Budget Balancing Strategy

2011-2015 General Fund Forecast Update

(\$ in Millions)

	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	Total
Projected Base Shortfall (Feb 2010 Forecast)^{1,2}	(\$116.0)	(\$20.2)	(\$18.0)	(\$21.5)	(\$5.8)	(\$181.5)
2010-2011 One-Time Solutions		(\$20.6)				(\$20.6)
Total Incremental Deficit	(\$116.0)	(\$40.8)	(\$18.0)	(\$21.5)	(\$5.8)	(\$202.1)
Total Cumulative Deficit	(\$116.0)	(\$156.8)	(\$174.8)	(\$196.3)	(\$202.1)	(\$202.1)

¹ Cost-of-living salary increases only assumed for two bargaining units in 2010-2011 based on existing agreements. Does not include Development Fee Programs.

² **Does not include unmet/deferred infrastructure and maintenance one-time needs of \$446 million (\$788 million all funds) and ongoing needs of \$43 million (\$45 million all funds). 5-3-2010 Transportation and Environment Report**

2010-2011 Budget Balancing Strategies

- 2010-2011 Mayor's March Budget Message
- Use of Reserves and Fund Balance, Transfers, Fee Increases, Assume Cardroom Tax increase, other Revenues Changes
- Service Reduction and Eliminations
- Service Delivery Model Changes
- Alternate Service Delivery
- New Facility Opening Deferrals
- Reduce Personnel Costs (Unit 99/Unit 82)

Balancing the General Fund

	<u>2010-2011</u>	<u>Ongoing</u>
General Fund Shortfall	(\$116.0 M)	(\$116.0 M)
Development Fee Program	(\$2.5 M)	(\$2.5 M)
Total Shortfall	(\$118.5 M)	(\$118.5 M)
Changes in Sources	\$ 56.6 M	\$16.0 M
Changes in Uses	(\$ 61.9 M)	(\$ 81.9 M)
Total Balance	\$ 0.0 M	(\$20.6 M*)

* 83% of the shortfall addressed with ongoing solutions

2010-2011 Changes in General Fund Sources

	2010-2011	Ongoing
	<u>(\$ in 000s)</u>	<u>(\$ in 000s)</u>
• Available Fund Balance (2009-2010 Reserves and Program Savings)	\$15,517	\$ 1,086
• Transfers-Other Funds/HNVF	23,551	11,305
• Fee/Fine Increases/Activity Adj.	2,444	1,195
• Miscellaneous Revenue (Cardroom Tax, Litigation Settlements, SJRA Reductions)	<u>15,038</u>	<u>2,476</u>
Total Changes in Sources	\$ 56,550	\$ 16,062

2010-2011 Changes in General Fund Uses

	2010-2011	Ongoing
	<u>(\$ in 000s)</u>	<u>(\$ in 000s)</u>
• Position Eliminations/Overtime	(\$64,622)	(\$70,573)
• Compensation Reductions (Units 99/82)	(1,257)	(1,274)
• Non-Personal/Equipment/City-Wide	(9,469)	(7,956)
• Funding Shifts to Other Funds	(5,272)	(2,166)
• Development Fee Programs	(123)	(931)
• Use of Reserves (Committed Adds)	(7,518)	(6,848)
• Unemployment Insurance Reserve	9,500	0
• HNVF-Related Activities	6,652	6,269
• Technology & Capital Infrastr. Maint.	2,661	0
• City Council Direction (Mayor's Msg)	500	0
• New Facilities Operations & Maint.	301	102
• Miscellaneous Additions	6,689	1,491
Total Changes in Uses	(\$ 61,958)	(\$ 81,886)

Selected Budget Reductions

Police and Fire Services

- Eliminate approx. 90 Patrol Officers (leaving approx. 500)
- Reduce Police Investigative Units by almost 20 positions
- Reduce the Police Metro Unit
- Reduce the Downtown Services Unit
- Reduce the School Liaison Unit and Crossing Guard Program
- Delay Opening of the Police Substation
- Consolidate the Police Financial Crimes and High Tech Units
- Consolidate Crime Prevention and Community Education
- Reduce Number of Police Take-Home Vehicles
- Implement Dynamic Deployment and Reduce the Number of Fire Engine Companies by 5 from 34 to 29
- Reduce Number of Fire Truck Companies from 10 to 9

Selected Budget Reductions

Libraries, Parks, and Community Centers

- Reduce Branch Library Hours/Days from 6 to 3 Days per week
- Reduce King Library Hours (12%) and Services (up to 50%)
- Close 21 Satellite/Neighborhood Community Centers (10 hubs would remain); Phase-Out Senior Nutrition by June 2011
- Reduce the Aquatics Program
- Reduce the Park Ranger Program
- Eliminate or Reduce Community-Based Organization Funding
- Delay Opening Bascom Library/Community Center and Seven Trees Community Center
- Eliminate the Healthy Neighborhoods Venture Fund (HNVF), Maintain \$6.7 million of HNVF-Related Activities

Selected Budget Reductions

Other Services

- Reduce neighborhood traffic calming
- Reduce pavement resurfacing and sealing
- Outsource custodial services (City Hall, Police Facilities, SJ Museum of Art, Animal Care Services)
- Reduce facilities mgmt, fleet services & vehicle replacement
- Reduce IT business applications, infrastructure operations, customer contact center, and HelpDesk staffing
- Human Resources reductions, including workers' compensation staffing, training and workforce development, employment services, safety program
- Reduce Finance Investment Program staffing, IBS support, decentralize purchasing/P-Card, payment processing efficiencies, consolidate warehouse/central services
- Reduce Mayor, Council and Appointee budgets/services

Selected Budget Reductions

Other Funds

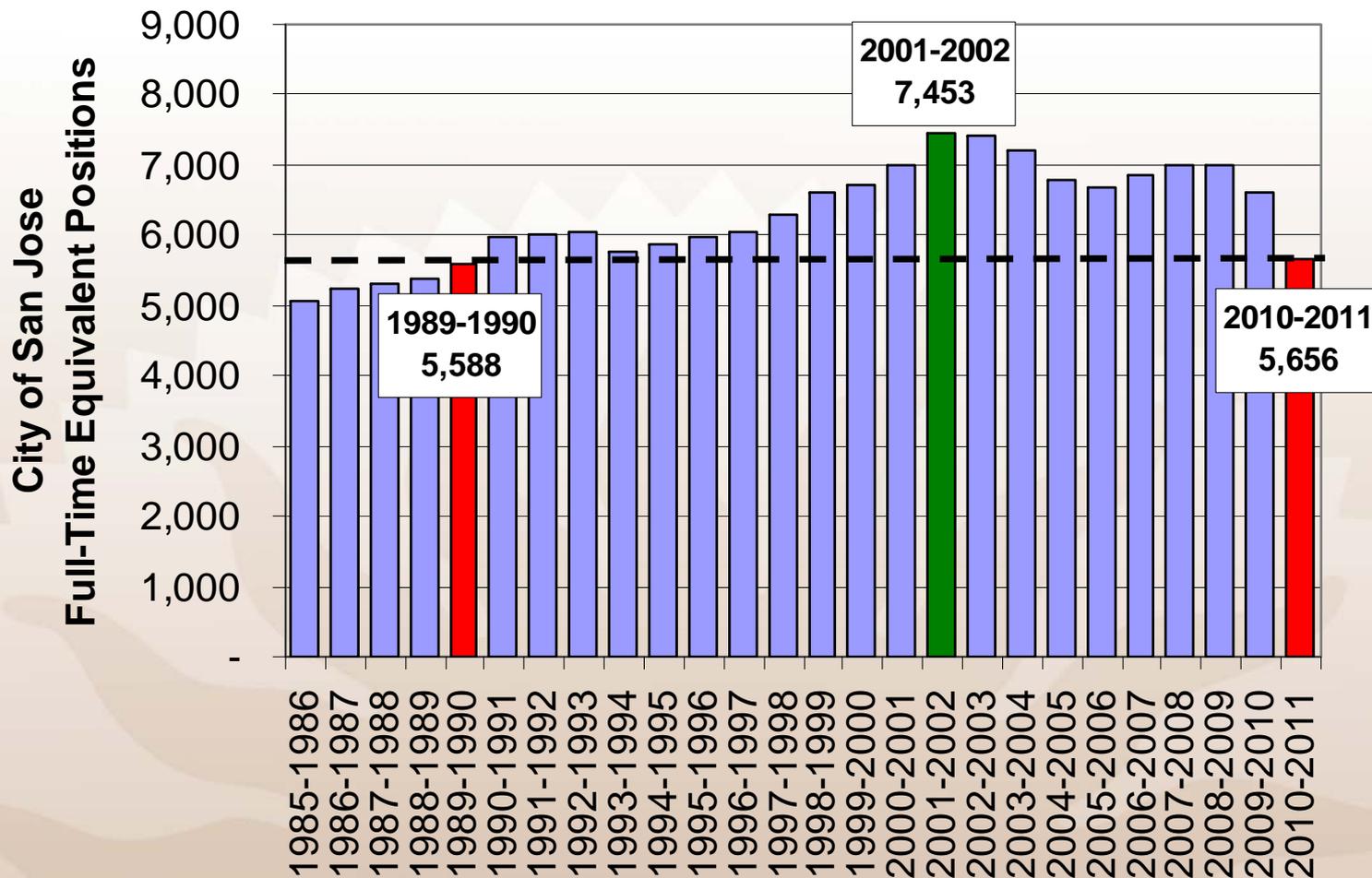
- Reductions in the Airport Funds (eliminate 93 of 305 Airport positions, outsource custodial services)
- Reductions in the Conventions/Cultural Affairs Fund (eliminate 42 of 56 positions)
- Reduce Capital Program staffing in Airport, Public Works, Transportation, and Parks
- Reduce Housing Department Staff (5 of 80 positions)
- Modest Additions in the Various Environmental Services Funds (land for Environmental Innovation Center, equipment replacement, Energy Efficiency Fund, NPDES Permit)

Proposed Budget Position Changes (All Funds)

2009-2010 Adopted Budget Positions	6,623
Base Budget Changes	(146)
Proposed Budget Changes	<u>(821)</u>
Total Change	(967)
2010-2011 Proposed Budget Positions	5,656

- 15% reduction in positions
- Staffing at 1989 levels, when population was approx. 780,000

2010-2011 City Staffing 1,797 Below Peak Returns to 1989-1990 Level



Source: 2010-2011 Proposed Operating Budget

Estimated Position Impacts

- **Proposed Budget Position Impacts**

- 644 full-time filled position cuts (inc. expiring limit-dated positions)
- 442 employees impacted through seniority rules
- 37 positions with 2011 impact
- 90 part-time benefitted filled position cuts (no indirect impact)
- 104 part-time unbenefitted reductions estimated in Library
- **1,317 total employees impacted**

- **Proposed Budget Outcomes**

- 463 employees stay in current class
- 166 employees demote to lower class
- 37 employees with 2011 impact
- **457 full-time employees subject to layoff**
- **90 part-time benefitted employees subject to layoff**
- **104 part-time unbenefitted reductions estimated in Library**

Next Steps

- | | |
|---|---|
| May 10 th - 20 th | City Council Budget Study Sessions |
| May 18 th /June 14 th | Public Budget Hearings (Evening Mtgs.) |
| June 3 rd | Deadline for Labor Negotiation Results for Inclusion in the Mayor's June Budget Message |
| June 15 th | Council Review/Approval of Mayor's June Budget Message |
| June 22 nd | Adoption of the 2010-2011 Budget and Fees and Charges |

Overview of Current Economy



INTERNATIONAL
ECONOMIC DEVELOPMENT
COUNCIL

- Unemployment
- Market
- Housing Declines
- San Jose Specific

May 2010

Overview of Current Economy



INTERNATIONAL
ECONOMIC DEVELOPMENT
COUNCIL

Unemployment

- March 2010 unemployment 9.7%
- 8.2 million jobs lost since 12/07
- 2.1 million manufacturing jobs lost since 12/07
- 661,000 people nationwide have stopped looking for jobs
- Teen unemployment is currently 26%

Paul Krugman estimates the U.S. needs to add between 250,000 and 300,000 jobs per month every month for the next five years just to employ new workers added to the workforce and recover the eight million jobs lost in the last two years.

Overview of Current Economy



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ECONOMIC DEVELOPMENT
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Unemployment continued

- The retail sector shed 432,000 jobs for all of 2009
- 288,000 people lost jobs in the financial sector in 2009
- The overall service sector accounts for approximately 86% of all employment

Overview of CA Economy



INTERNATIONAL
ECONOMIC DEVELOPMENT
COUNCIL

California Unemployment Situation

- 12.5 percent in February, 3 years ago 5% to 6%
- Unemployment tops 20% in eight California Counties
- Between 2009-2010
 - Construction lost 17.7% more jobs
 - Manufacturing lost 7.2% more jobs
 - Professional services lost 4.2% more jobs

Overview of Market Economy



INTERNATIONAL
ECONOMIC DEVELOPMENT
COUNCIL

Market

- Capital Markets are still tight and constrained
- In 2009: only 34% of small businesses received adequate access to credit
- Foreclosures increased 204% between Oct 2006-2008
- GDP: Fell 2.0 % from 2008-2009
- US trade deficit is \$39.7 B in 2010

Housing Market Losses



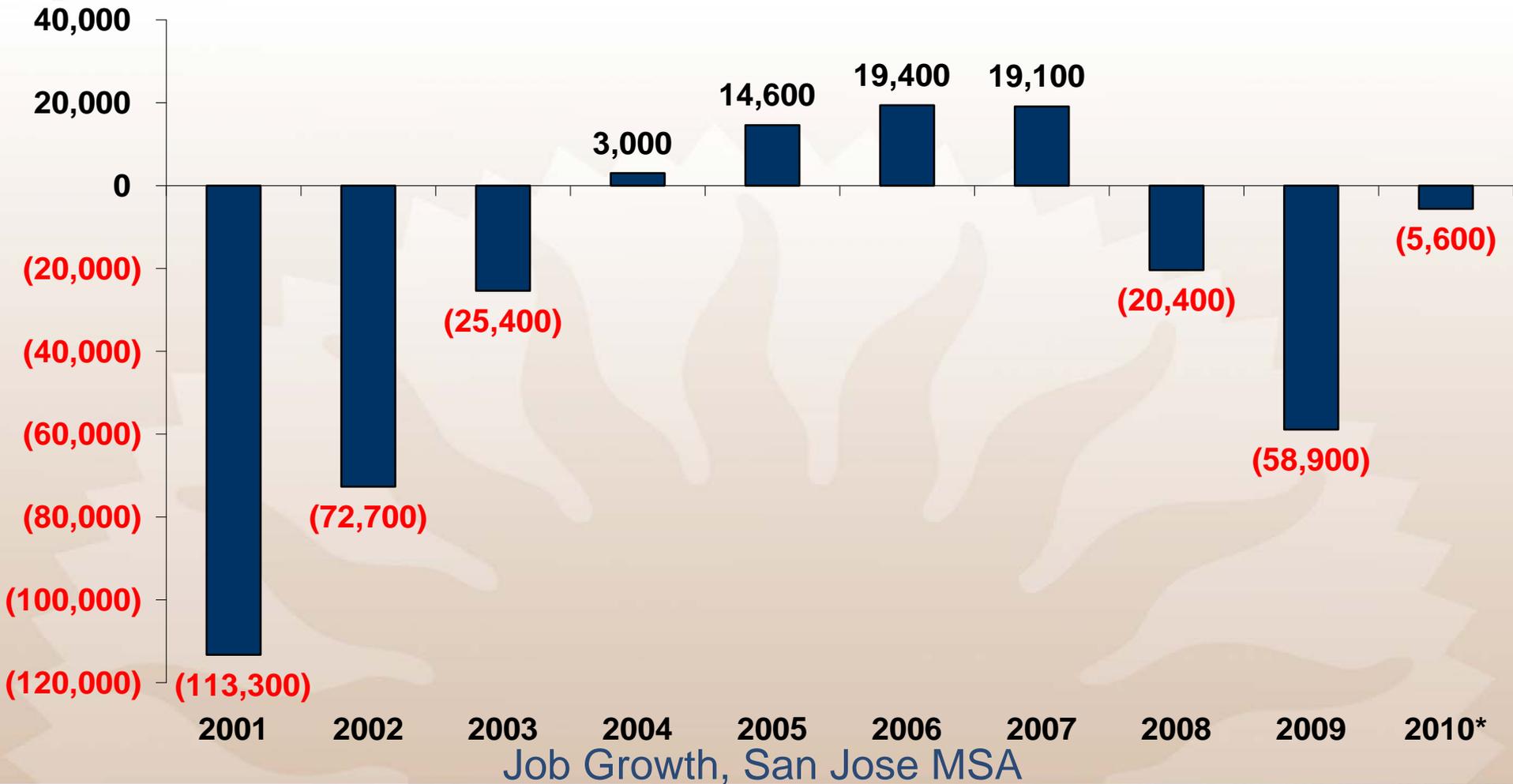
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Loss of \$4.9 trillion in value over last 2 years

- Average home prices across the United States are at similar levels in late summer 2003 according to the Standard & Poor's/Case-Shiller housing index
- U.S. median home price down 4% in 2010 from 2009
- Foreclosure filings for Q1 2010 are up 16% from Q1 2009
- One in every 138 U.S. housing units received a foreclosure filing during the quarter one.

2010 Job Growth Remains Negative

San Jose MSA Jobs (Gains/Losses)

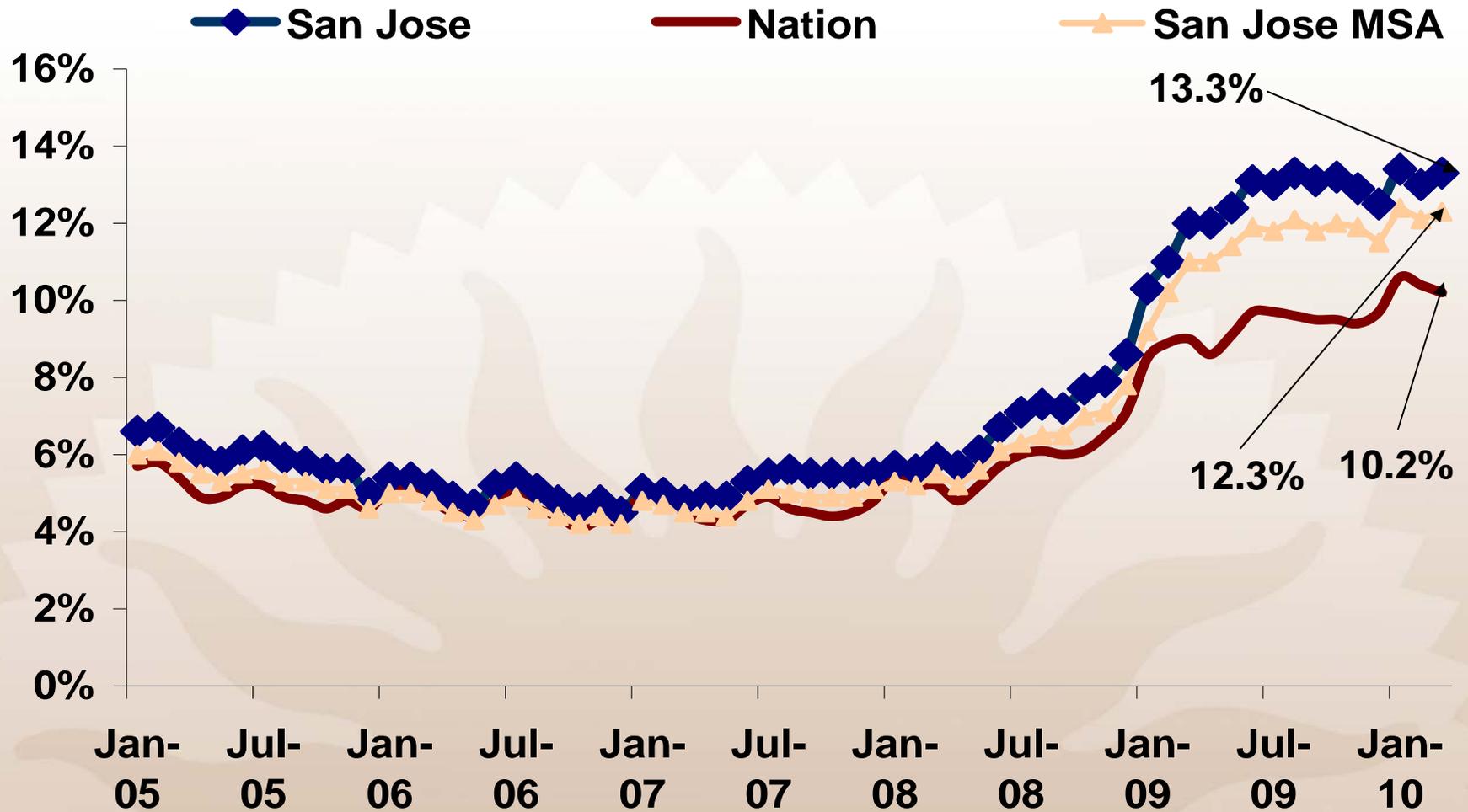


May 2010

* 1st Quarter 2010

Source: EDD

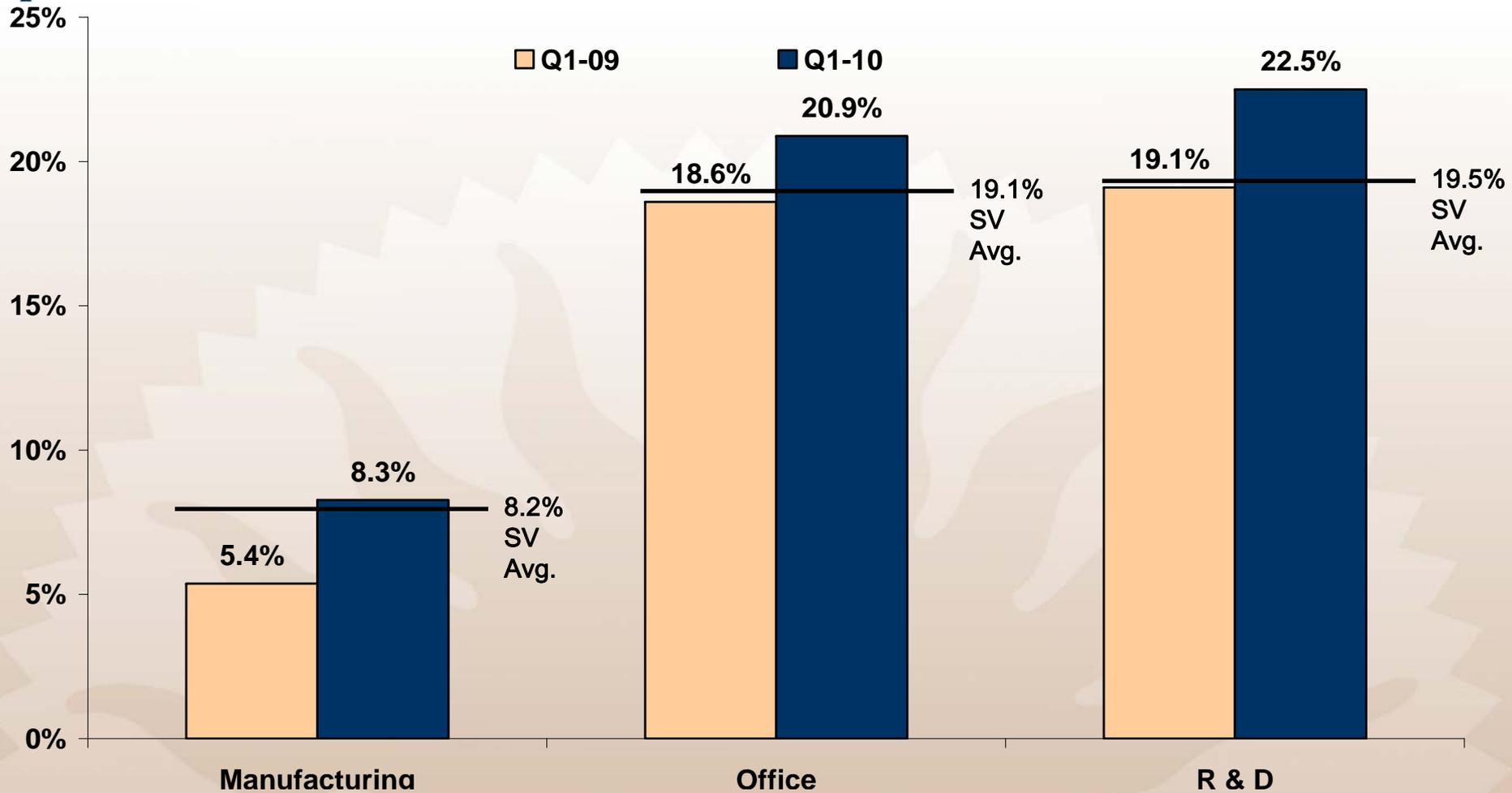
SJ Jobless Rate Remains Over 13%



May 2010

Unemployment Rate

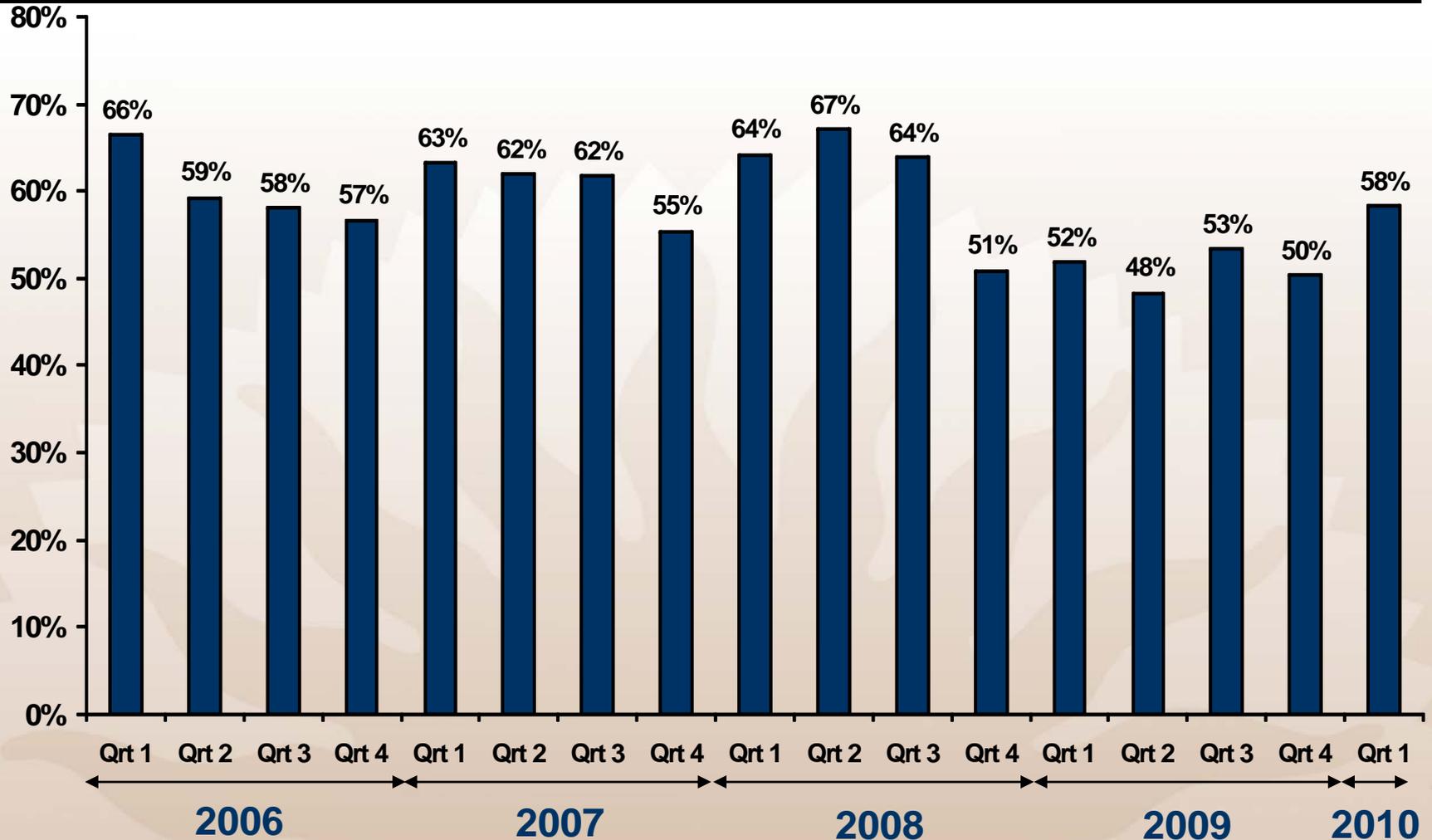
Vacancy Rates Driven Up By Number of Available Properties with 30K Sq Ft or Less



May 2010

Vacancy Rates, San Jose

Global Recession Continues to Impact Hotel Occupancy



May 2010

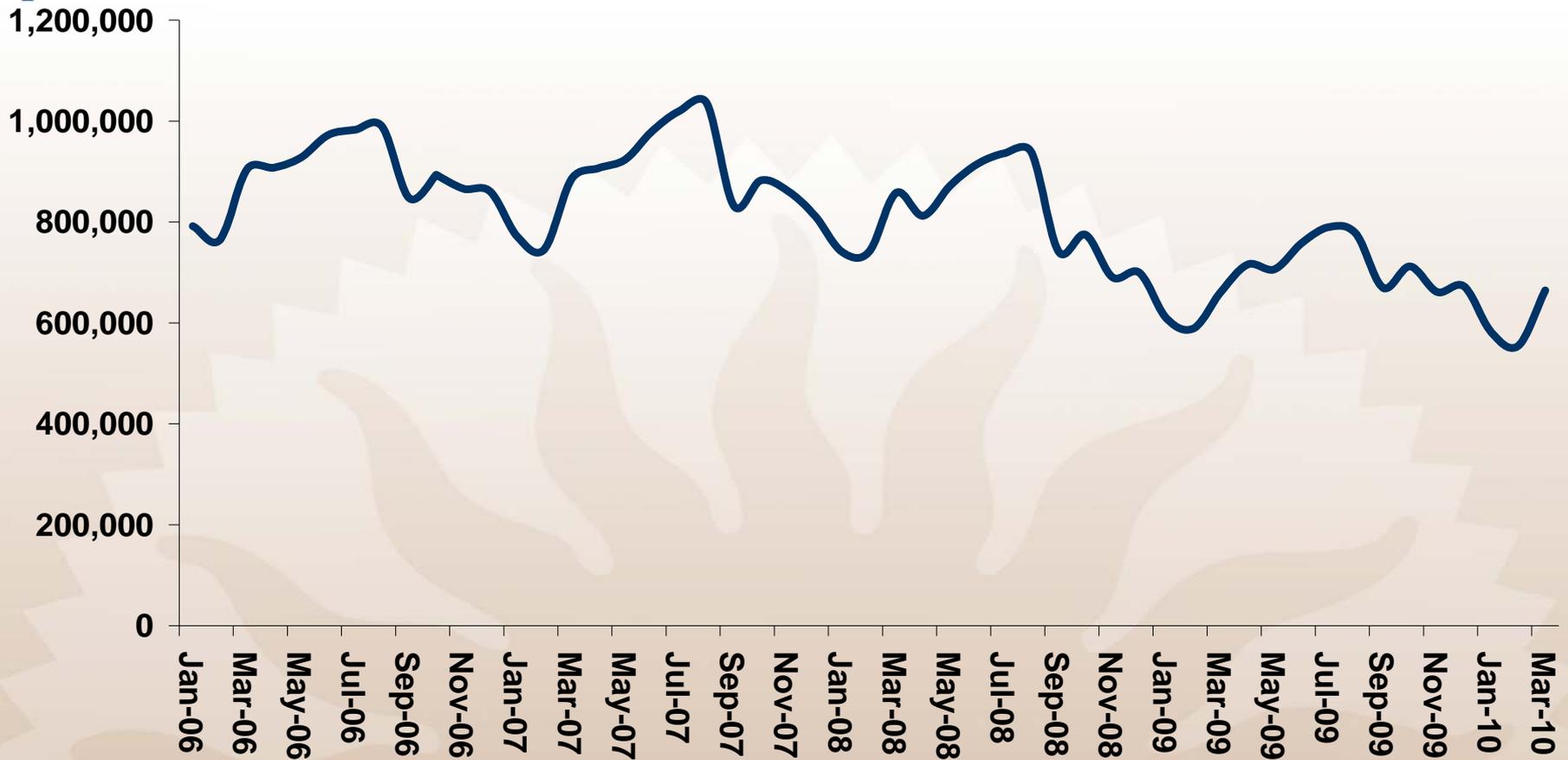
Hotel Occupancy, San Jose

* 1st Quarter 2010

Source: San Jose Convention & Visitors Bureau, Calendar Year



Airport Passenger Traffic Reverses Downward Trend



May 2010

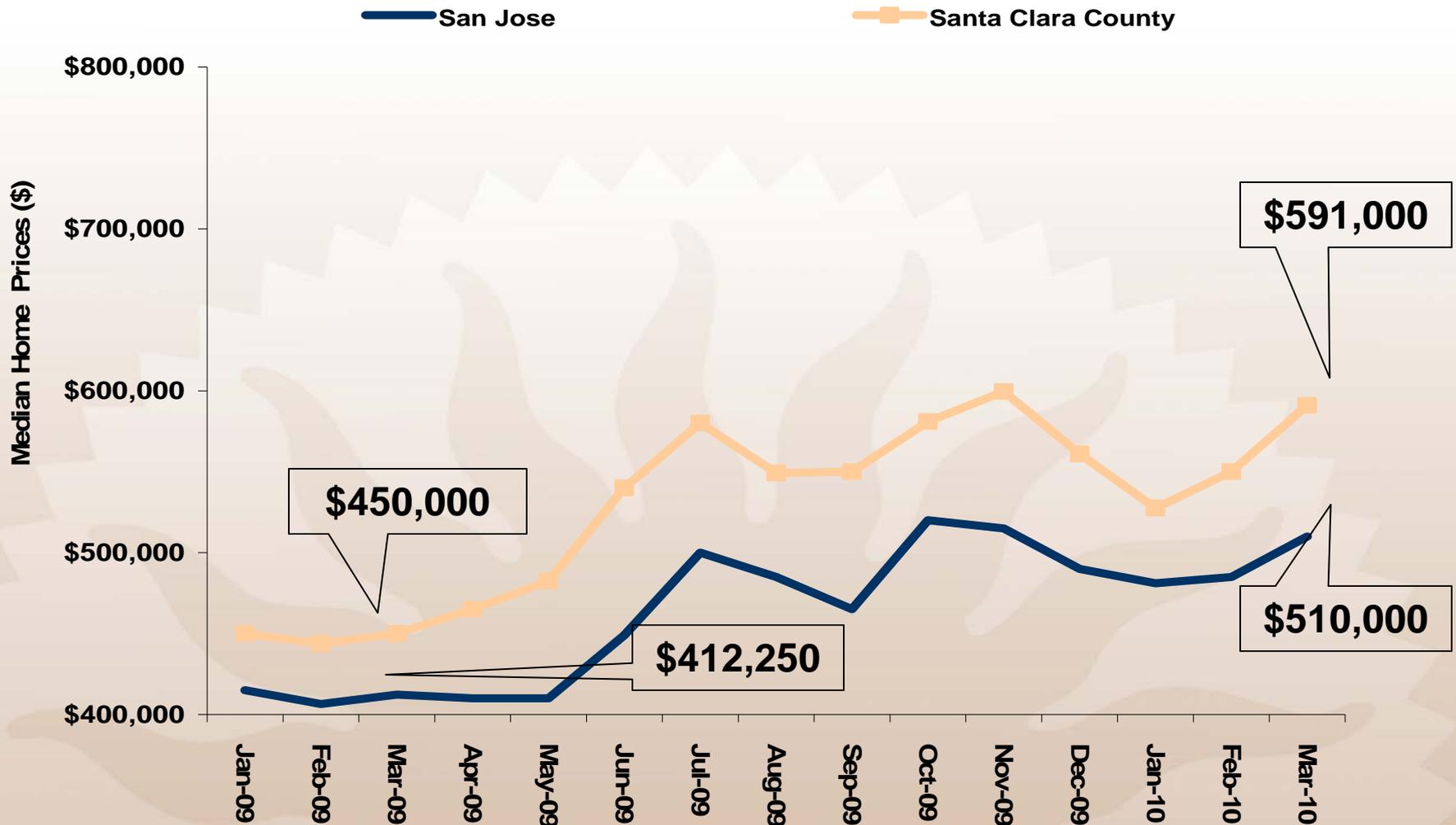
Passengers

34

Source: SJC



Both Home Prices and Home Sales Have Increased in Last 12 Months in San Jose



May 2010

Median Sale Prices

Thoughts Moving Forward

International Council of Shopping Centers

- Services DOMINATE Consumer Spending
 - In 1935, about 35 cents of every dollar went to consumer services, today it is 63 cents

Beacon Economics for 2010

- Fundamentals say weak recovery and a double dip in 2011
- Policy choices and financial markets can alter this substantially
- Economy is tenuous, remain cautious about the future

UCLA Anderson Forecast for 2010

- Little or no job growth in the California, unemployment to remain in double digits
- Real personal income in California will grow only 1%
- Keys to California's recovery- growing demand for manufactured goods from outside the state, increased public works construction and increased investment in business equipment and software

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