

City of San José

2011-2012 Proposed Operating Budget Overview

May 11, 2011

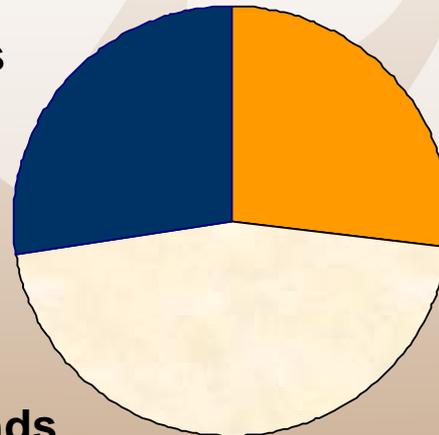
City of San José Budget Overview

2011-2012 PROPOSED CITY BUDGET:	\$2.5 billion
TOTAL NUMBER OF FUNDS:	113
TOTAL NUMBER OF EMPLOYEES:	5,252

Capital Funds
28%

General Fund
27%

Special Funds
45%



Note: Special and Capital Funds are typically restricted and can be used only for purposes specified by the fund

2011-2012 Proposed Budget Overview

- Entering tenth year of General Fund budget deficits
- The 2011-2012 General Fund shortfall of \$115 million driven by increased costs (primarily retirement) and decreased revenues (loss of San Jose Redevelopment Agency reimbursements)
- Unprecedented budget actions proposed, with unavoidable significant service level impacts
- Loss of almost 600 positions from 2010-2011 Adopted Budget; staffing reduced 10%
- If employee concessions not achieved, additional Tier 2 service reductions and position eliminations will be necessary
- Fiscal Reform Plan (MBA #1) outlines strategies to address escalating retirement costs and ensure the long-term fiscal health of the City

2011-2012 Proposed Budget Overview

Ten Consecutive Years of Shortfalls

	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
2010-2011	(\$118.5 M)	(783)	5,840
SUBTOTAL	(\$ 565.2 M)	(1,614)	
2011-2012	(\$ 115.1 M)	(588)	5,252
TOTAL	(\$ 680.3 M)	(2,202)	

Now at 1986-87 Staffing Levels when population was 740,000

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

2011-2012 Proposed Budget Overview

General Fund Department Budget and Position Trends

	2001-2002 Adopted Budget	2011-2012 Proposed Budget	Change	Percent Change
Public Safety				
Budget	\$292.5 M	\$446.6 M	\$154.1 M	52.7%
Positions	2,725	2,194	-531	-19.5%
Other*				
Budget	\$246.4 M	\$212. M	-\$34.4 M	-14.0%
Positions	2,637	1,420	-1,217	-46.2%

* Other includes PRNS, Library, Information Technology, Transportation, Public Works, Finance, Human Resources, PBCE, Economic Development, Mayor, City Council, Council Appointees, etc.

2011-2012 Proposed Budget Overview

General Fund Overview

2011-2012 General Fund Overview

- Proposed Budget solves \$80 million (70%) of the \$115 million General Fund shortfall with ongoing solutions
- With one-time solutions of \$35 million in 2011-2012, General Fund shortfall of \$78 million projected for 2012-2013
- Including 2011-2012, General Fund shortfalls are expected to total \$193 million over the next five years

General Fund Shortfalls Expected to Continue into the Future

Updated 2012-2016 General Fund Forecast* (\$ in Millions)

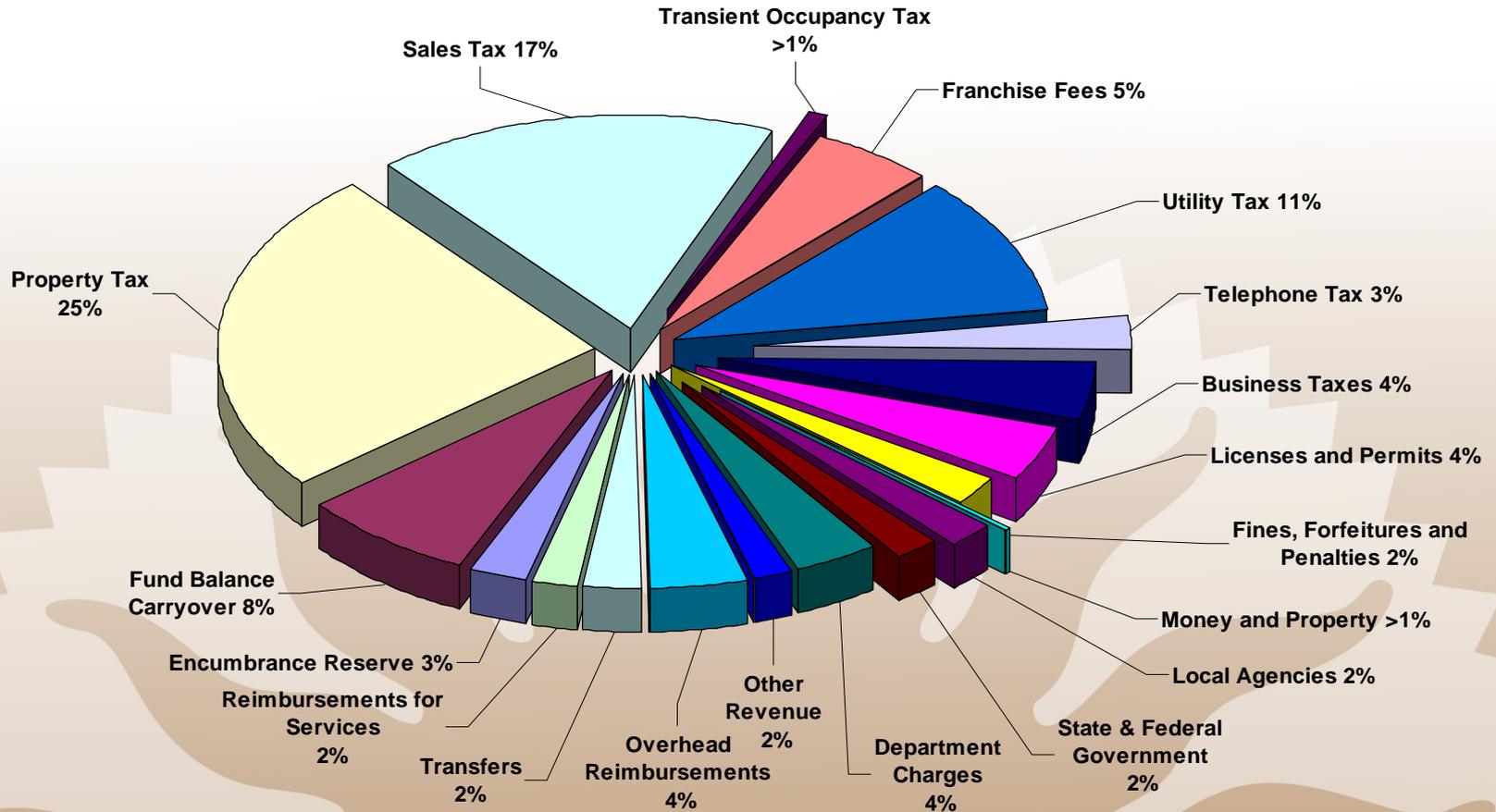
	2011-2012***	2012-2013	2013-2014	2014-2015	2015-2016	Total
Projected Annual Shortfall ** (Feb 2011 Forecast)	(\$115.1)	(\$43.1)	(\$25.1)	(\$10.0)	(\$0.1)	(\$193.4)
Total Cumulative Deficit	(\$115.1)	(\$158.2)	(\$183.3)	(\$193.3)	(\$193.4)	(\$193.4)

* Development Fee Programs not included. Does not include cost-of-living salary increases; additional impacts from future changes in actuarial assumptions or retirement benefit levels that could impact the City's required retirement contributions; revenue from Marijuana Business Tax, unmet/deferred infrastructure and maintenance needs; or one-time revenues/expenses.

** Annual budget shortfall attributed to each fiscal year. Assumes shortfalls addressed with ongoing solutions. Any portion of the annual shortfall solved on a one-time basis would carry over to the following year. For 2011-2012, \$35.1 million of one-time solutions will carryover to 2012-2013, bringing the shortfall in that year to \$78.2 million.

*** 2011-2012 shortfall figure updated April 2011.

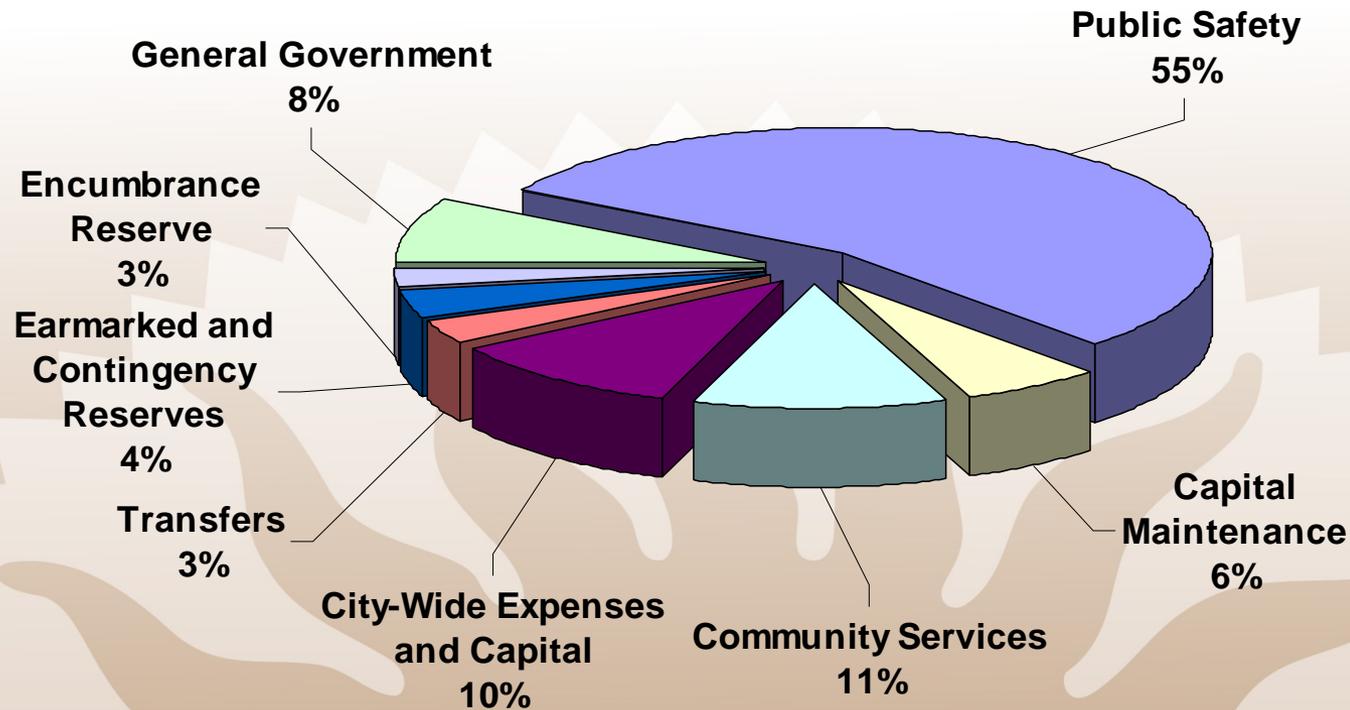
2011-2012 General Fund Sources of Funds



Total General Fund Sources: \$819,365,104

Source: 2011-2012 Proposed Budget

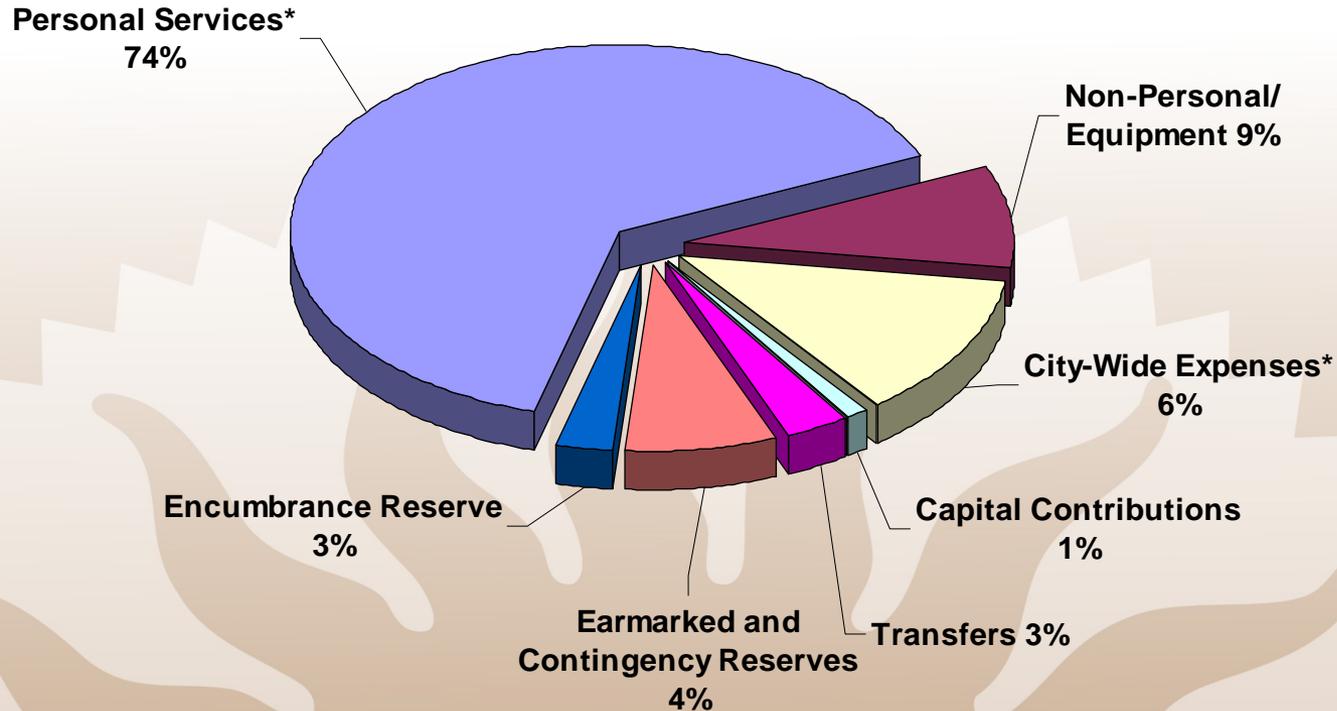
2011-2012 General Fund Uses of Funds



Total General Fund Uses: \$819,365,104

Source: 2011-2012 Proposed Budget

2011-2012 General Fund Uses by Category



Total General Fund Uses: \$819,365,104

* Although budgeted in City-Wide Expenses, Workers' Compensation Claims and Sick Leave Payments Upon Retirement are reflected in the Personal Services category as these are personnel-related costs.

Source: 2011-2012 Proposed Budget

2011-2012 Proposed Budget Overview

2011-2012 Proposed Operating Budget Balancing Strategy

2011-2012 Budget Balancing Strategy

General Fund

	<u>2011-2012</u>	<u>Ongoing</u>
Revised General Fund Shortfall	\$115 M	\$115 M
Budget Balancing Solutions*		
– Additional Fund Balance/Sources	\$ 18 M	(\$ 14 M)
– Expenditure Reductions	<u>\$ 97 M</u>	<u>\$ 94 M</u>
Total Budget Balancing Solutions	\$115 M	\$ 80 M

* 70% of the shortfall addressed with ongoing solutions

2011-2012 Budget Balancing Strategy

Changes in General Fund Sources

	2011-2012 <u>(\$ in 000s)</u>	Ongoing <u>(\$ in 000s)</u>
• Available Fund Balance (2010-2011 Reserves and Program Savings)	\$21,260	\$ 226
• Fee/Fine Changes/Activity Adj.	1,752	1,488
• Miscellaneous Revenue	34	(41)
• Overhead Reimbursements	(4,205)	(4,435)
• Transfers from Other Funds	<u>(447)</u>	<u>(10,897)</u>
Total Changes in Sources	\$ 18,394	(\$ 13,659)

2011-2012 Budget Balancing Strategy

Changes in General Fund Uses

	2011-2012 (\$ in 000s)	Ongoing (\$ in 000s)
• Employee Total Compensation Reductions	(\$58,509)	(\$58,508)
• Position Eliminations/Personal Svcs Savings	(58,197)	(56,999)
• Non-Personal/Equipment/City-Wide	(9,962)	(8,369)
• New Facilities Operations & Maintenance	(6,288)	(91)
• Redevelopment Agency Support Services	(3,694)	(3,419)
• Mayor, City Council, and Appointees	(2,817)	(2,587)
• Funding Shifts to Other Funds	(1,864)	(1,214)
• Annual Required City Retirement Contributions	33,288	33,288
• Unemployment Insurance Contributions	4,463	0
• Development Fee Programs	2,427	2,180
• Technology & Capital Infrastructure Maintenance	2,064	1,010
• City Council Direction (Senior Nutrition Program)	550	550
• Miscellaneous Additions	1,700	412
Total Changes in Uses	(\$ 96,839)	(\$ 93,747)

2011-2012 Budget Balancing Strategy

Employee Total Compensation Reductions

- Employee concessions sought to generate net savings of \$39.6 million (\$58.5 million gross savings) to mitigate service cuts and save jobs
- Current Status
 - Concessions achieved with six employee groups (IAFF, AEA, AMSP, CAMP, Unit 99, and ABMEI*); generates net General Fund savings of \$11.2 million
 - Agreements outstanding for six bargaining groups (POA, MEF, CEO, ALP, OE#3, and IBEW) (pending \$28.4 million in potential savings)

* Tentative agreement subject to ratification of the membership and City Council approval

2011-2012 Budget Balancing Strategy

New Service Delivery Models/ Efficiencies

- **Outsourcing Services**
(parks maintenance and custodial services, graffiti removal, Police/Fire services at Airport)
- **New Service Delivery Models/Efficiencies**
(Police pre-processing, staffing on Fire truck companies, Fire Hazardous Incident Team, warehouse services, departmental administrative services)
- **Department Consolidation**
(Public Works and General Services)
- **Civilianizing Police Positions**

2011-2012 Budget Balancing Strategy

Reductions - Libraries, Parks & Community Centers

- Reduce branch library from 4.5 to 3 days per week
- Reduce hours at the Hub Community Centers
- Delay opening of the Seven Trees, Bascom, Educational Park, and Calabazas branch libraries and Bascom community center
- Reduce the Park Ranger Program
- Reduce landscape maintenance/watering at parks
- Eliminate funding for Children's Carousel at Arena Green

2011-2012 Budget Balancing Strategy

Reductions – Police and Fire Services

- Reduce staff assigned to Police patrol
- Reduce staff assigned to Police investigative units
- Eliminate the Police School Liaison Program (collaboration with the 19 San Jose school districts)
- Suspend the Police Helicopter Program
- Reduce the School Crossing Guard Program
- Delay opening of the Police Substation
- Implement Flexible Fire Company Brown-Outs (no Fire Station closures)
- Eliminate one Fire Engine Company effective July 2011 (2010-2011 Adopted Budget action)
- Reduce Fire management staff (increase the span of control)

2011-2012 Budget Balancing Strategy

Reductions – Other Services

- Reduce/reallocate Healthy Neighborhoods Venture funding and reduce San Jose BEST funding
- Reduce code enforcement activities
- Reduce Strong Neighborhoods Initiative staffing
- Reduce funding to community based organizations
- Reduce strategic support services (Human Resources, Information Technology, Finance, and Public Works)
- Reduce Mayor, Council and Council Appointee budgets/ services

Selected Budget Actions

Other Funds

- Staffing Changes in the Conventions/Cultural Affairs Fund (eliminate 5 Security Officer positions/use contractual services to provide security services)
- Housing Department Reductions (eliminate 13 positions supported by the Low and Moderate Income Housing Fund and the Community Development Block Grant Fund)
- Reduce Capital Program staffing in Public Works and Transportation
- Modest Additions in the Various Environmental Services Funds (equipment replacement, plant maintenance, NPDES permit)

2011-2012 Budget Balancing Strategy

Important Services Discontinued in July 2011

2010-2011 Adopted Budget Reductions Effective July 2011	
Police Patrol Staffing (62 FTE/\$9.2M)	Strong Neighborhoods Initiative (6 FTE/\$652K)
Satellite/Neighborhood Centers Closure (38 FTE/\$3.2M)	General Code Enforcement (2 FTE/\$229K)
One Fire Engine Company Elimination (13 FTE/\$2.4M)	Workers' Compensation Claims Staff (2 FTE/\$218K)
Branch Library Hours Reduction (4-5 hrs) (22 FTE/\$1.8M)	Anti-Graffiti Program (2 FTE/\$211K)
Senior Nutrition Program Elimination* (26 FTE/\$1.2M)	Development Svcs. Program Mgr.* (1 FTE/\$175K)
Park Ranger Program (9 FTE/\$752K)	Info. Tech. Business Applications (1 FTE/\$136K)
Sexual Assaults Investigation Unit (3 FTE/\$581K)	Arts Express Program Elimination (1 FTE/\$131K)
Dr. Martin Luther King, Jr. Library Services (6 FTE/\$549K)	STAND Gang Intervention Program (2 FTE/\$125K)
City Attorney Staffing (3 FTE/\$437K)	Special TI/ITI Development Program* (2 FTE/\$106K)
PRNS Special Events Staffing (7 FTE/\$425K)	Almaden Lake Aquatics Program* (3 FTE/\$70K)
Police Horse Mounted Unit Elimination* (1 FTE/\$282K)	Lake Cunningham Marina Closure (2 FTE/\$60K)
Building Fee Program* (11 FTE/net \$236K)	

* Partial or full restoration of these services proposed in 2011-2012.

2011-2012 Budget Balancing Strategy

Estimated Position Impacts

- **Proposed Budget Position Impact**
 - 541 full-time filled position cuts (includes expiring limit-dated positions)
 - 244 employees impacted through seniority rules
 - 67 part-time benefitted filled position cuts (no indirect impact)
 - **852 total employees impacted**
- **Proposed Budget Outcomes**
 - 352 employees stay in current class
 - 94 employees demote to lower class
 - **370 employees subject to layoff (includes benefitted part-time)**
 - 36 employees not affected until January

Tier 2 Budget Balancing Contingency Plans

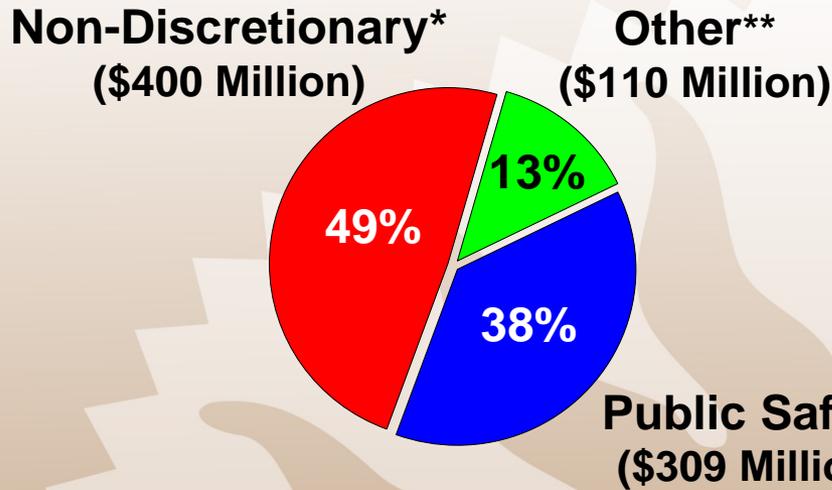
Without Concessions - Additional Reductions Necessary

- In the Police Department, additional sworn reductions of 156 positions will be necessary (\$20 million):
 - Field Patrol would be further reduced
 - Bureau of Investigations would be further downsized and reorganized
 - Remaining two sworn positions in Crime Prevention would be eliminated
- Non-sworn reductions will require the elimination of approximately 290 positions (\$22 million). Examples include:
 - Closure of all 19 branch libraries
 - Closure of all 10 community center “Hubs”, Grace and Bascom Community Centers, and 44 Re-Use satellite and neighborhood centers
 - Elimination of the Park Ranger Program
 - Reduction of Public Safety Dispatchers
 - Reduction to Strategic Support Services

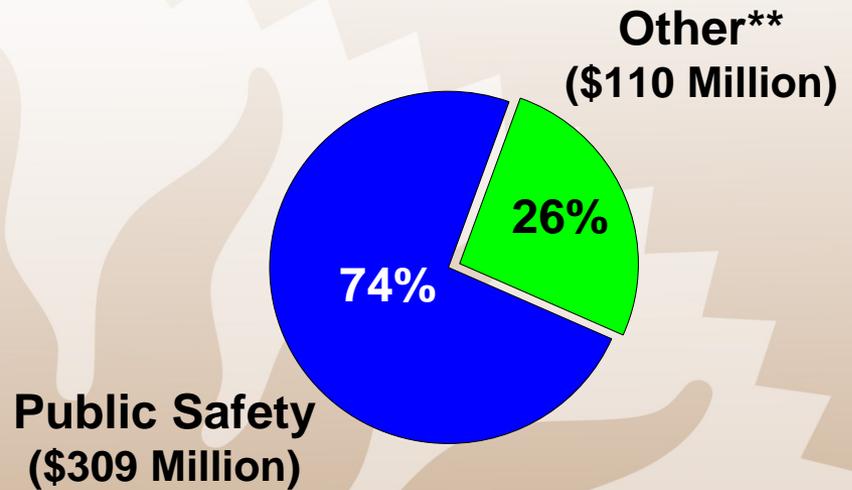
Tier 2 Budget Balancing Contingency Plans

No Acceptable Budget Balancing Options Remain

**2011-2012
Proposed Budget
(\$819 Million)**



**2011-2012
Discretionary Expenditures
(\$419 Million)**



* Non-Discretionary Expenditures include retirement costs, grants, reimbursements, fee-supported activities, debt service, Contingency Reserve, workers' compensation costs, sick leave payments upon retirement costs, contractually required facility subsidies, and other non-discretionary items

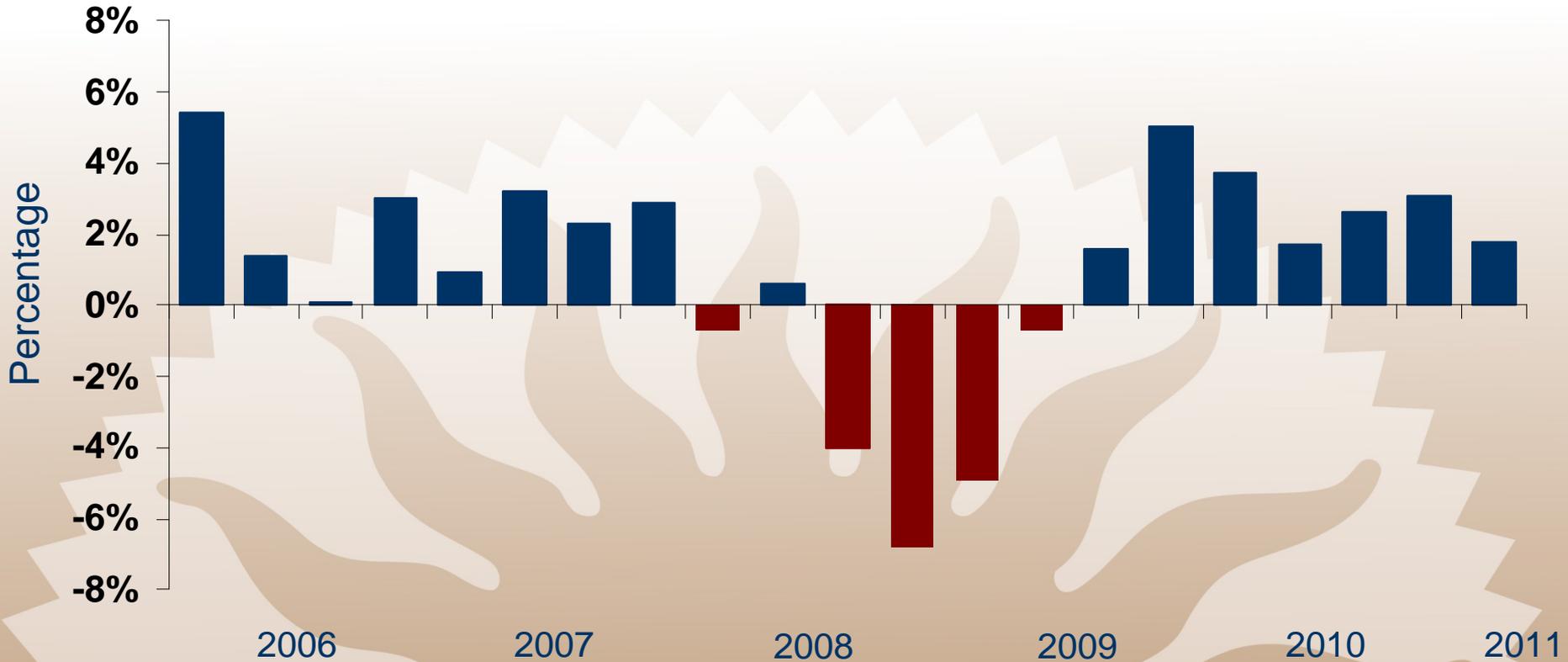
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Next Steps

- | | |
|---|--|
| May 11 th thru 19 th | City Council Budget Study Sessions |
| May 17 th /June 13 th | Public Budget Hearings (Evening Mtgs.) |
| June 3 rd | Mayor's June Budget Message Released |
| June 14 th | Council Review/Approval of Mayor's June Budget Message |
| June 21 st | Adoption of the 2011-2012 Budget and Fees and Charges |

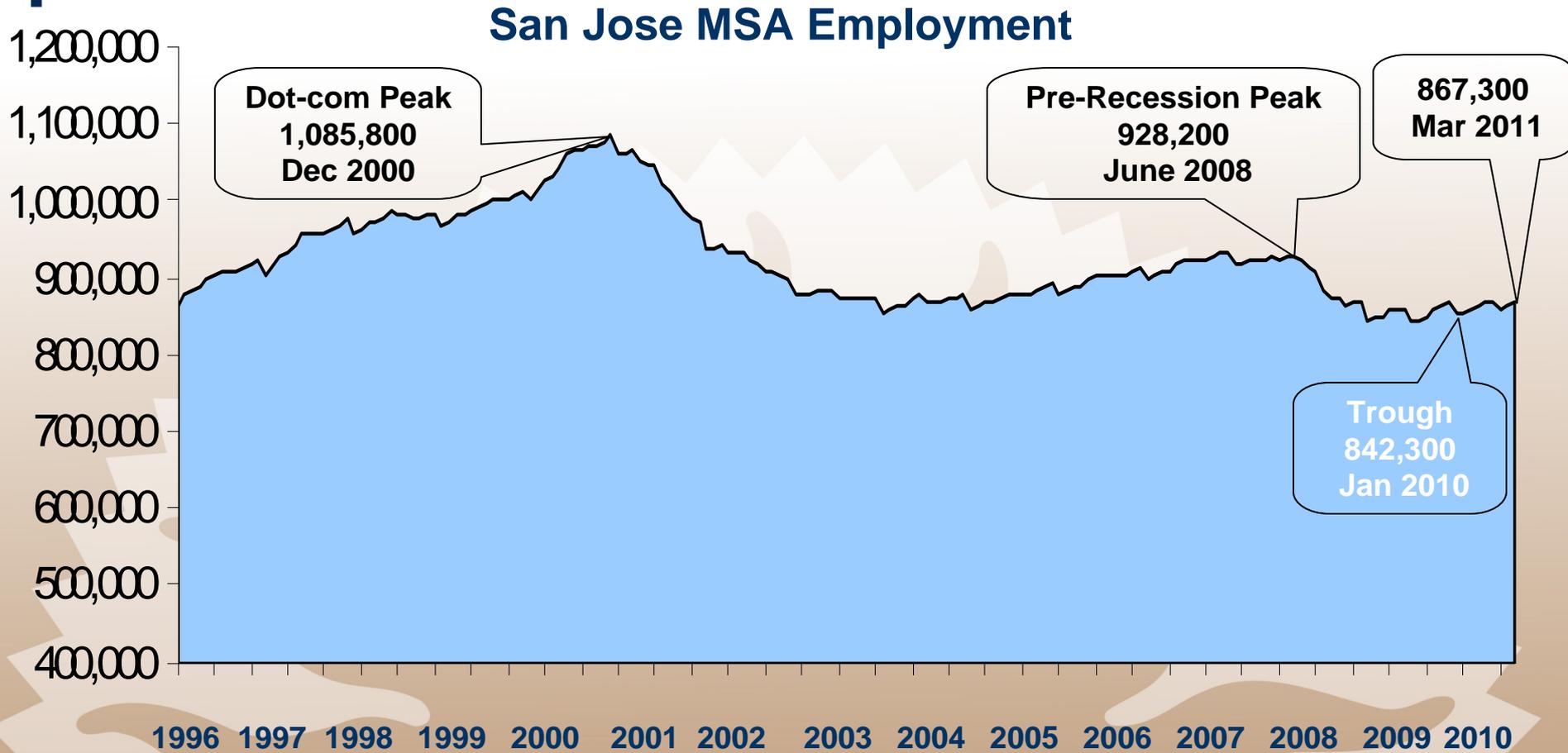
Economy is Growing Again

Gross Domestic Product (GDP)



Source: Bureau of Economic Analysis (BEA)

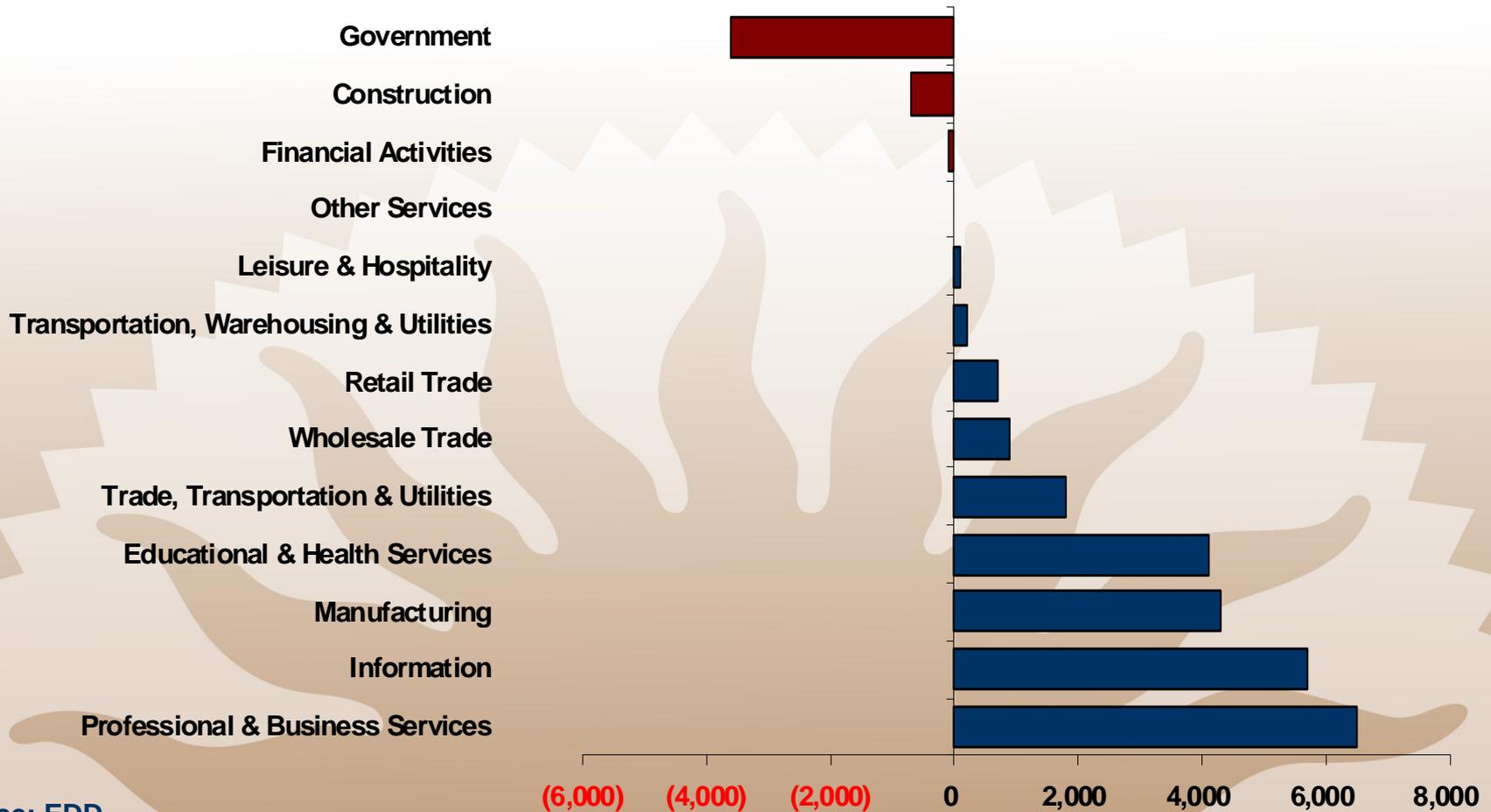
Jobs Are at 93% of Pre-Recession Peak; 79% of Dot-com Peak



Source: EDD

Tech Sectors Driving Job Growth, Government Contracts

Employment Growth Mar 2010 -Mar 2011



Source: EDD

2010: Record Year for “SV 150”

+ 20.3% Highest revenue growth in decade

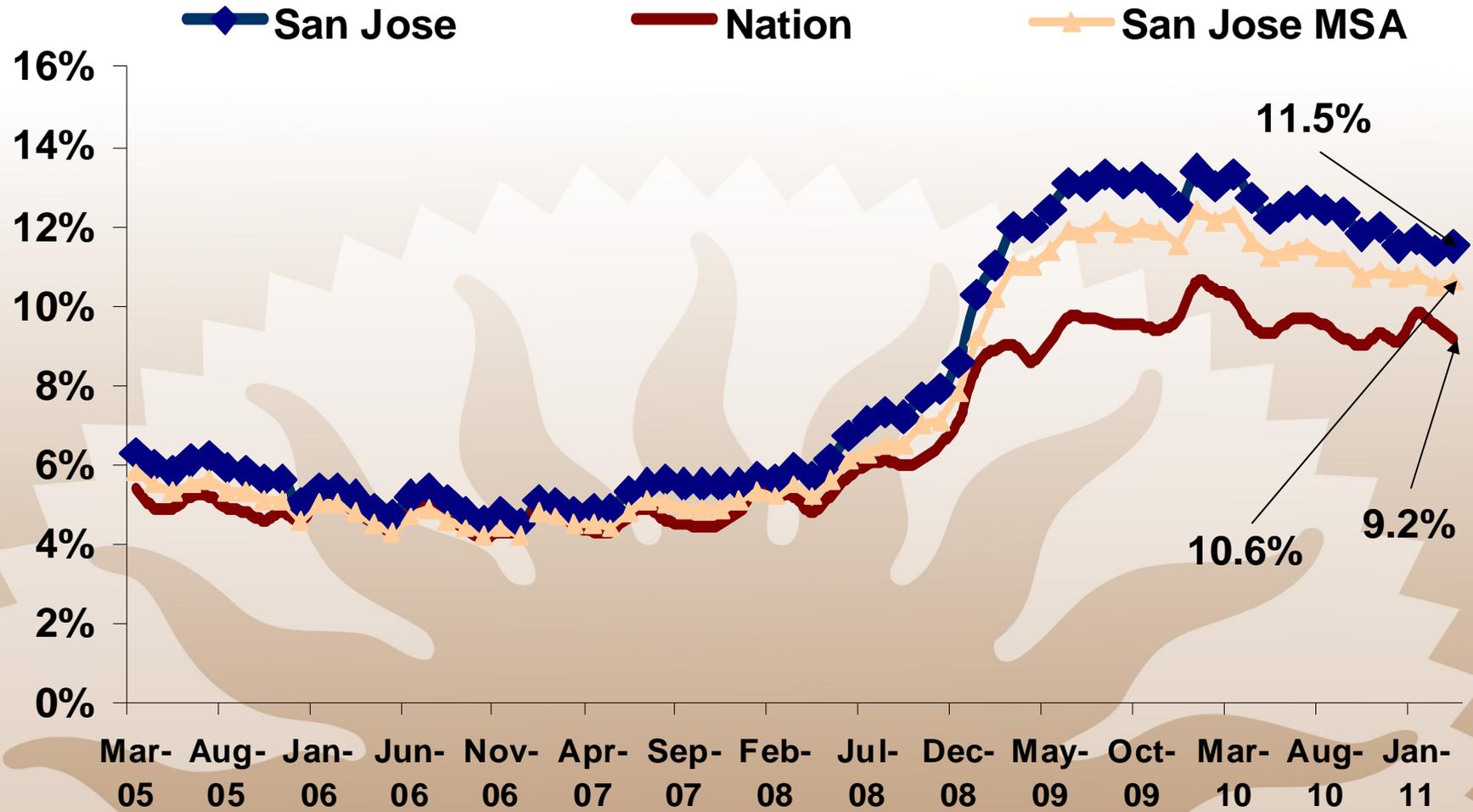
+ 78.6% Profit: \$84.7 billion--highest ever

15% Profit margin: highest ever

+ 6.1% Employee increase

Source: San Jose Mercury News

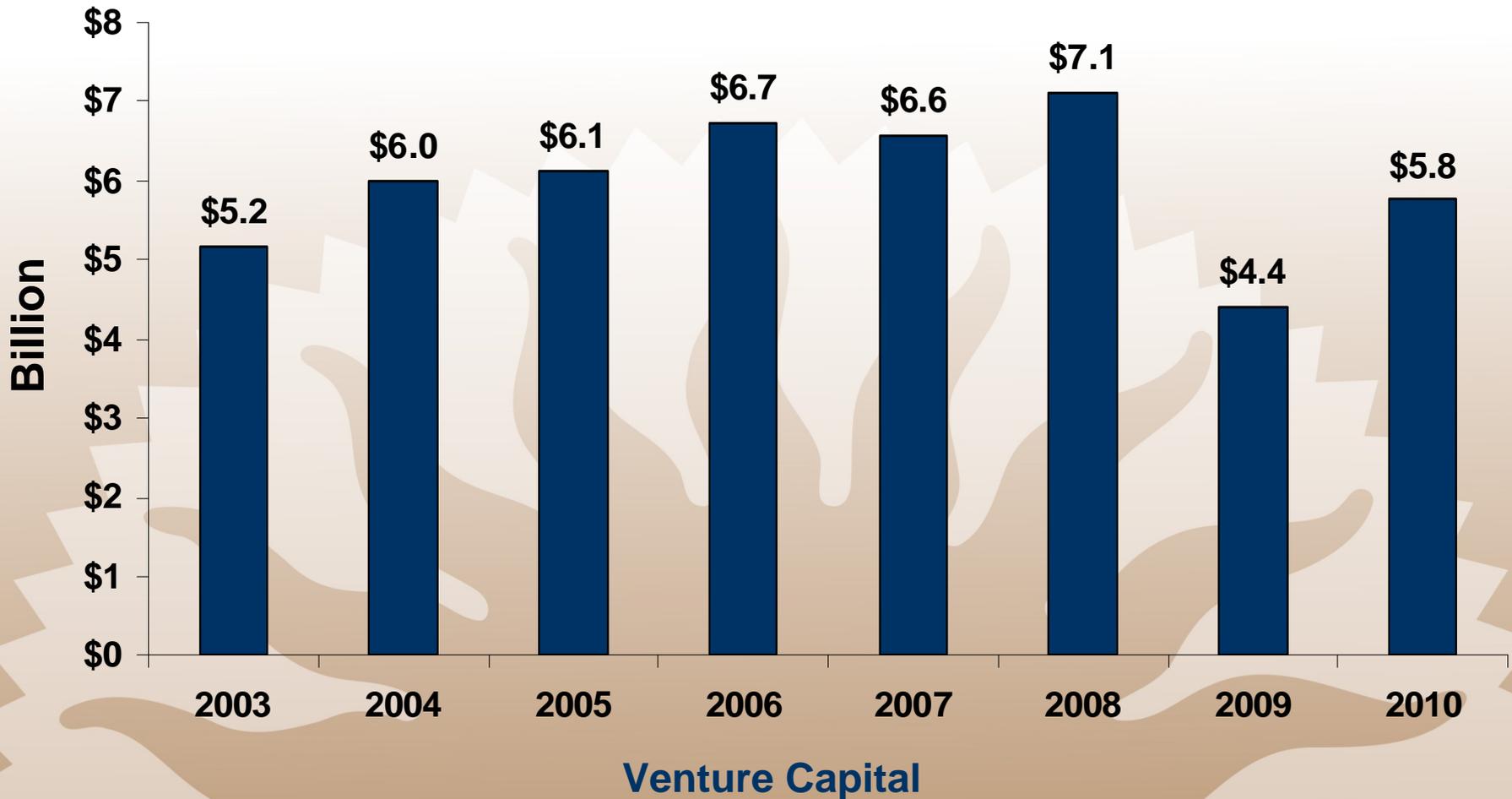
Unemployment Rate Still High & Erratic; Long Recovery Likely



Source: EDD

Unemployment Rate

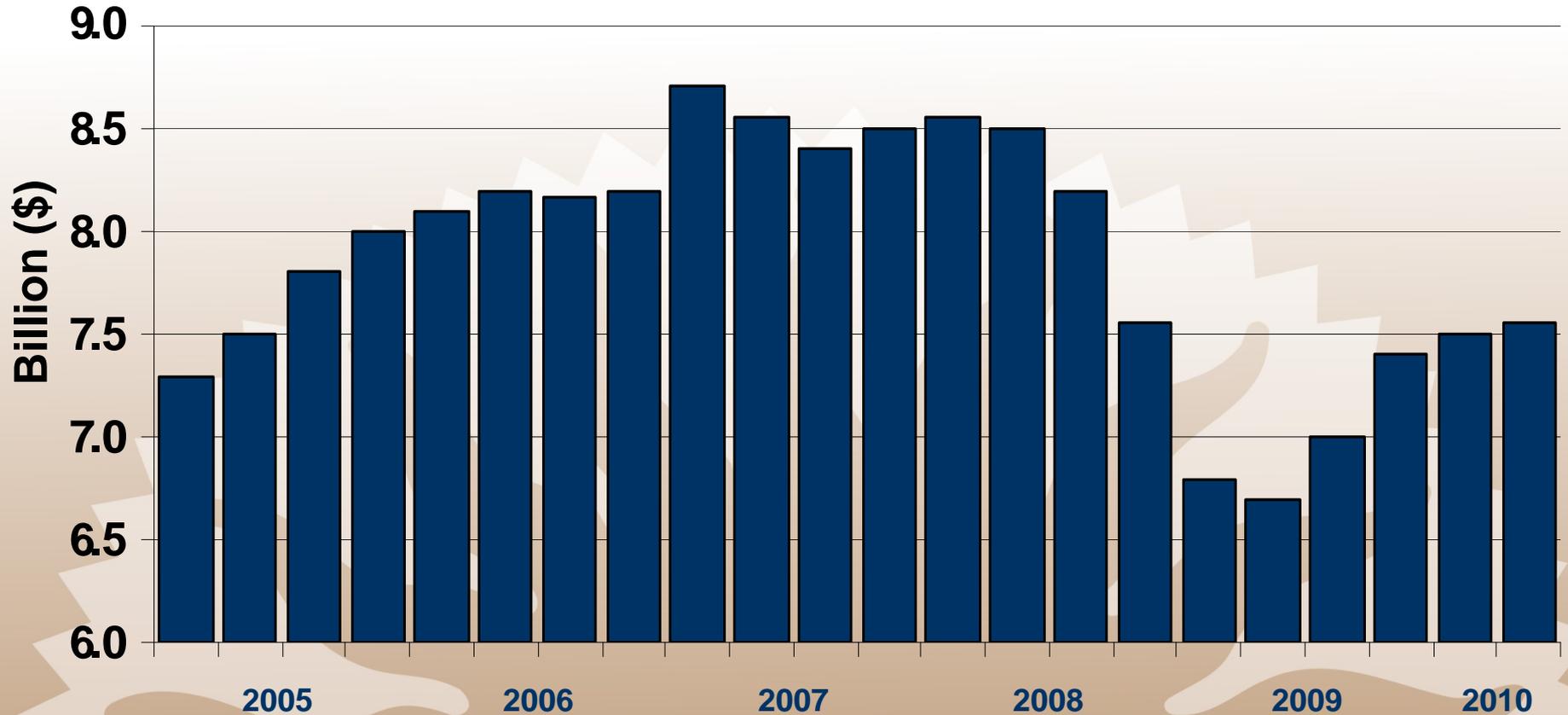
Venture Capital On Track Again



Source: PWC Moneytree Survey

Consumers Are Key to Sustained Recovery

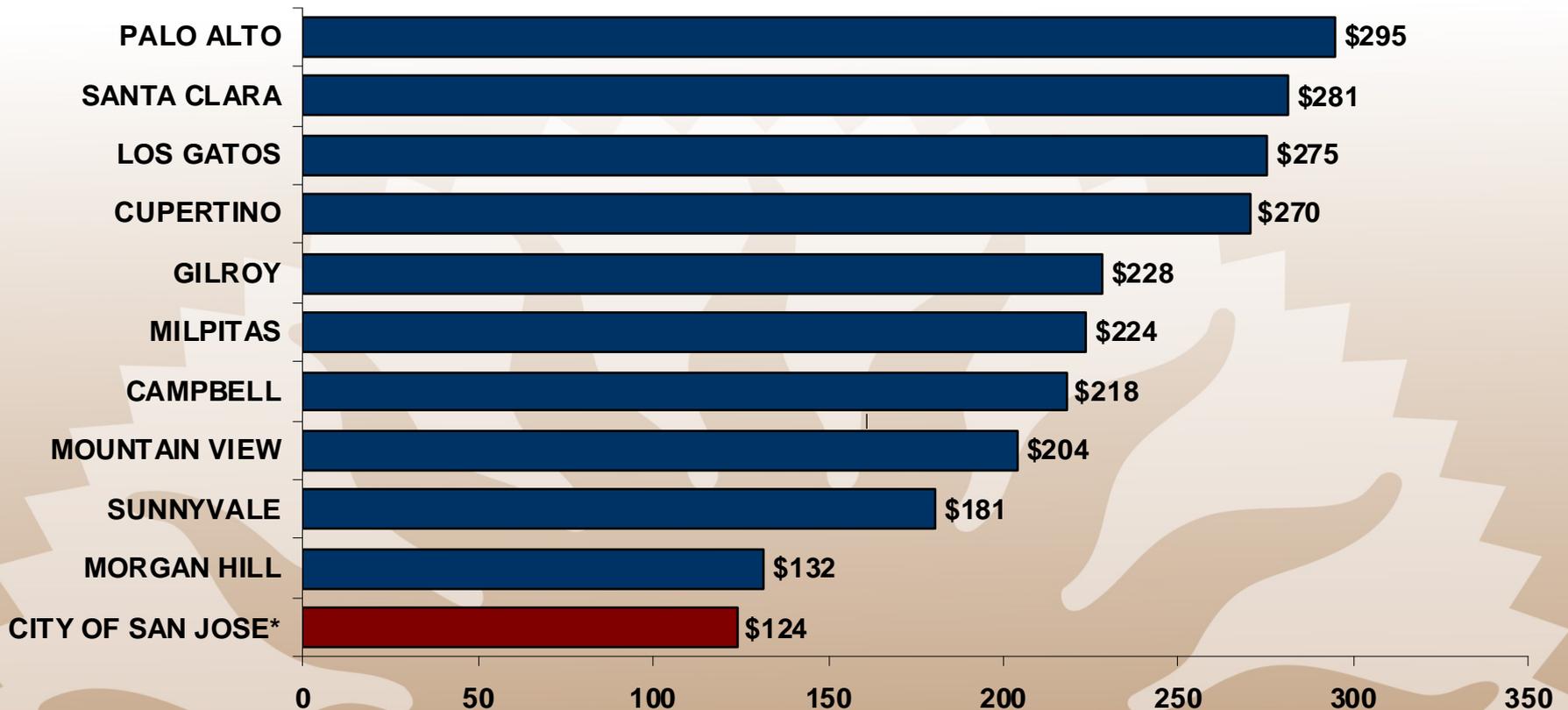
San Jose MSA Taxable Sales



Source: Board of Equalization

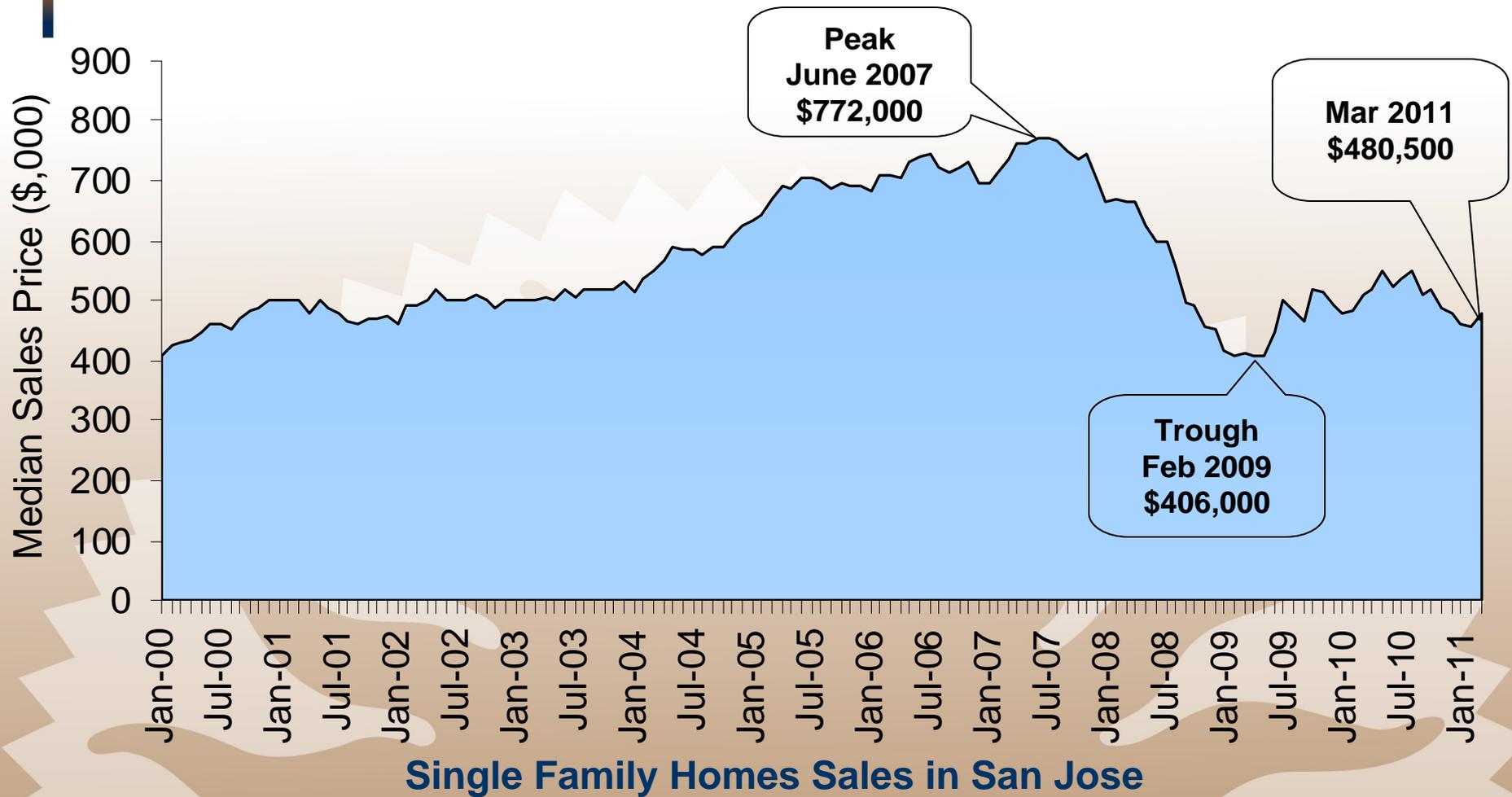
SJ Lags in Sales Tax; City Remains 22% “Under Retailed”

Sales Tax Per Capita



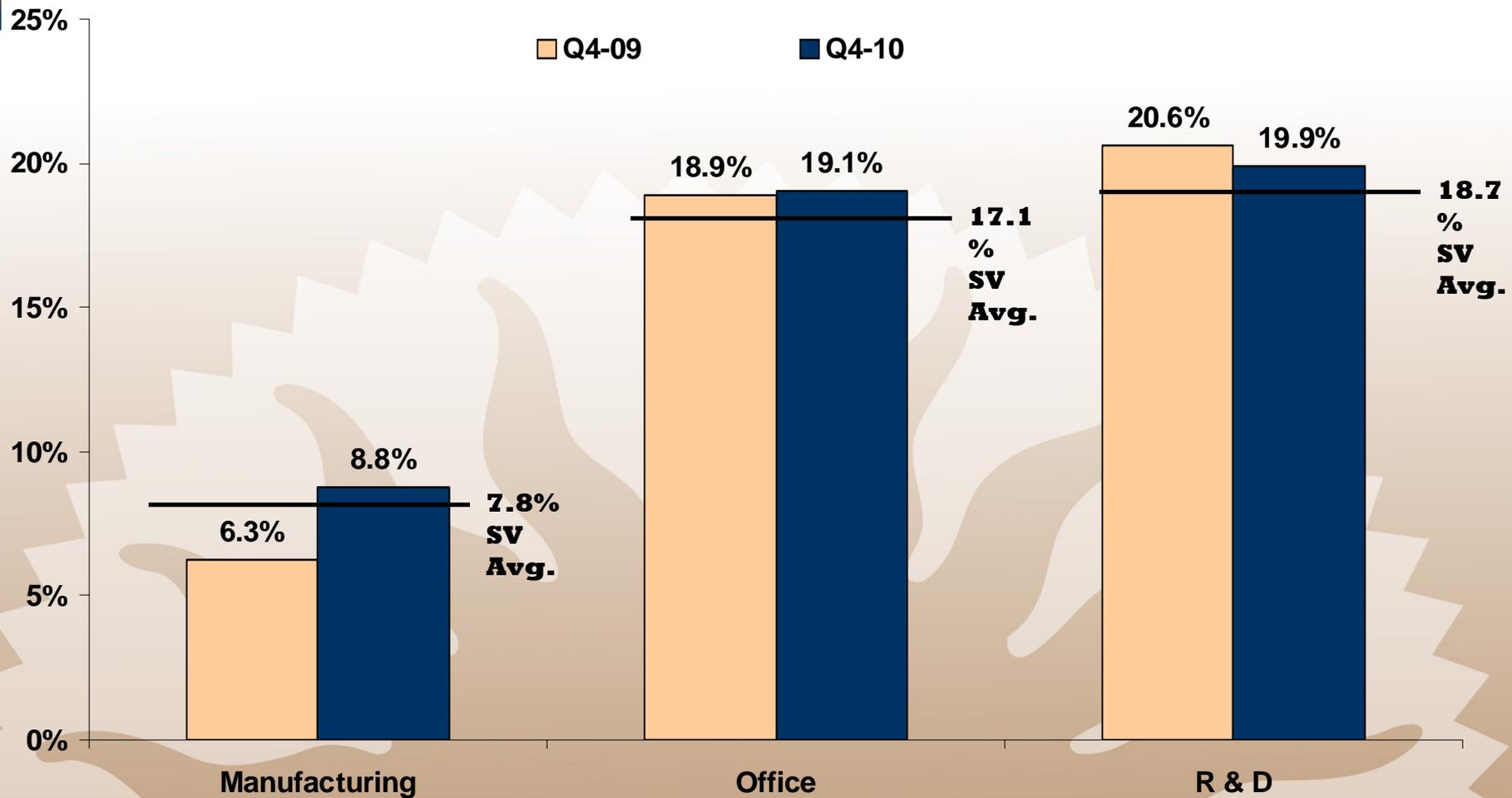
Source: Muniservices, 4th Quarter 2010

Home Prices Dip 6% Year-Over-Year; 15% of Homes Still Underwater



Source: SCCAOR

San Jose Office/R&D Vacancy Rates Stabilize; Slightly Above Valley Average



Source: NAIBT Commercial

Vacancy Rates, San Jose

What Can We Expect?

- **Valley anchors and start-ups power ahead**
- **Slow job recovery (2011-2015)**
 - **Public sector fiscal crisis drags**
 - **Problems in housing, construction remain**
 - **Consumer spending capacity is uncertain**
- **Growth of City tax base will lag, and not fully reflect, growing economy**

City of San José

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