

City of San José

City Council Study Session
2012-2013 Budget Planning

February 13, 2012

2012-2013 Budget Planning Study Session

Agenda:

- Fiscal Reform Plan Status
(including retirement costs and revenues)
- Principles for Restoring Service Levels and Investing in Organizational Needs
- City Council Priority Ordinances Update
- Public Comment

Fiscal Reform Plan Status

- Fiscal Reform Plan goals
- Fiscal Reform Plan cost reduction and revenue strategies
- Retirement costs
- Revenue ballot measure process
- Community Budget Survey polling results
- Business Tax modernization workplan

Fiscal Reform Plan Goals

GOALS:

1. Achieve cost reductions and/or new revenues for the General Fund that will:

- *Address projected shortfall over Forecast period*
- *Restore services to the levels of January 1, 2011 (Police, Fire, libraries, and community centers)*
- *Open libraries, community centers, fire stations, and the police substation built or under construction within five years*

2. Maintain retirement costs at the 2010-2011 levels (\$186 million – all funds)

Fiscal Reform Plan Ongoing Funding Needs Estimate for 2012-2013 – 2015-2016

Projected General Fund Cost to Resolve Ongoing Shortfall, Restore Services and Open Facilities

Shortfall Component	Funding Needs
2012-2013 Revised Shortfall (December 2011)*	\$25 M
2013-2014 – 2015-2016 Shortfall (Feb. 2011 Forecast)*	\$35 M
Restoration of Selected Services to Jan. 2011 levels (2011-2012 Costs)	\$36 M
TOTAL	\$96 M

* Includes costs to open new facilities

Note: These figures will be revised as part of the 2013-2017 General Fund Forecast this will be released in late February.

Fiscal Reform Plan Ongoing Funding Needs Estimate for 2012-2013 – 2015-2016

Several factors subject to change in the Forecast:

- Revenue growth rates
- Retirement-related costs (pension and retiree health care)
- SAFER grant-funded firefighter positions (2013-2014, approximately \$7.5 M annually)
- COPS grant-funded police officer positions (2014-2015, approximately \$4 M annually)
- San Jose Redevelopment Agency-related impacts

Fiscal Reform Plan Ongoing Cost Reduction and Revenue Strategies (Estimate)

Strategies (General Fund Only)	2012-2013	2013-2014	2014-2015	Totals
Cost Reduction Strategies				
Additional Retirement Contributions (or Opt-In)	\$15.5 M	\$15.5 M	\$8.0 M	\$39.0 M
Retiree Healthcare		13.9 M		13.9 M
Supplemental Retiree Benefit Reserve (SRBR)	8.8 M			8.8 M
Sick Leave Payments Upon Retirement	6.2 M			6.2 M
Overtime		1.2 M		1.2 M
Sub-Total Cost Reduction Strategies	\$30.5 M	\$30.6 M	\$8.0 M	\$69.1 M
Revenue Strategies				
Sales Tax (1/4% increase, Nov. election)	\$8.0 M	\$24.0 M		\$32.0 M
Business Tax Modernization			10.0 M	10.0 M
Disposal Facility Tax/Municipal Water Tax			7.5 M	7.5 M
Sub-Total Revenue Strategies	\$8.0 M	\$24.0 M	\$17.5 M	\$49.5 M
TOTAL	\$38.5 M	\$54.6 M	\$25.5 M	\$118.6 M

Note: Does not include: 1% COLA (retiree pensions) as proposed ballot measure would require a declaration of fiscal and service level emergency; reducing compensation and organizational efficiencies as these were implemented in 2011-2012; and Workers' Compensation offset as these savings would be realized in the retirement funds.

Fiscal Reform Plan: Comparison of Funding Needs and Cost Reduction/Revenue Strategies

Ongoing Funding Needs	
Current Estimate:	\$96 M

Potential Ongoing Solutions	
Cost Reductions:	\$69.1 M
Revenue Strategies:	\$49.5 M
TOTAL:	\$118.6 M

Progress Made in Addressing 2011-2012 General Fund Shortfall:

- Solved \$115 M shortfall; \$80 M ongoing
- 10% total compensation reductions for all employees
- Service delivery efficiencies/new service delivery models
- Eliminated/reduced services and eliminated 440 positions (all funds)

Fiscal Reform Plan Cost Reduction Strategies

Retirement Costs

Retirement Cost Projections

Fiscal Reform Plan Revenue Strategies

Ballot Measure Process

Significant planning necessary to bring forward a ballot measure. Considerations include:

- **Type of Ballot Measure** (general purpose tax measure requires 50%+1 voter approval; special purpose tax measure requires two-thirds voter approval)
- **Cost** (stand alone special election: \$3.4 million, with subsequent measures at \$100K; special election consolidated with other jurisdictions: \$1.4 million, with subsequent measures at \$300K; general election: \$607K, with subsequent measures at \$400k)
- **Timing** (sufficient lead time for polling, outreach, and City Council approval of ballot language; early deadlines for placing item on ballot: March 6th for June 2012 ballot and August 7th for November 2012 ballot)

Fiscal Reform Plan Revenue Strategies

Ballot Measure Process

Additional considerations:

- **Probability of Success** (polling results, supporting/opposing coalitions, timing of measure)
- **Competing Ballot Measures** (the number and impact of other revenue measures on same ballot)
- **Availability of Staff Resources** (availability of resources to conduct outreach, develop educational materials, and prepare ordinance)
- **Implementation of Tax Measure** (effective date of tax measure factoring in any timing restrictions and the need to revise systems and inform the public)

Fiscal Reform Plan Revenue Strategies

Recent Ballot Measure Results

Local Revenue Measures Statewide

June 2010:

- 60 Ballot Measures
- 73% Passage Rate

November 2010:

- 191 Ballot Measures
- 58% Passage Rate

November 2011:

- 53 Ballot Measures
- 77% Passage Rate

Fiscal Reform Plan Revenue Strategies

Ballot Measures Under Consideration

State Revenue Measures

June 2012:

- Prop. 29 - Tax increase on cigarettes and tobacco products (additional \$1.00 per pack)

November 2012:

- “Schools and Local Public Safety Protection Act of 2012” (Governor’s proposal – income tax/sales tax increase)
- “Our Children, Our Future” (public education, Advancement Project– income tax increase)
- “Millionaires Tax of 2012” (public education, California Federation of Teachers – income tax increase)
- Among the 75 potential ballot measures are proposals to raise a tax on oil for education, raise income taxes for higher education tuition, and establish a tax treatment for multi-state businesses to create energy efficiency and clean energy jobs in California

Fiscal Reform Plan Revenue Strategies

Ballot Measures Under Consideration

Local Revenue Measures

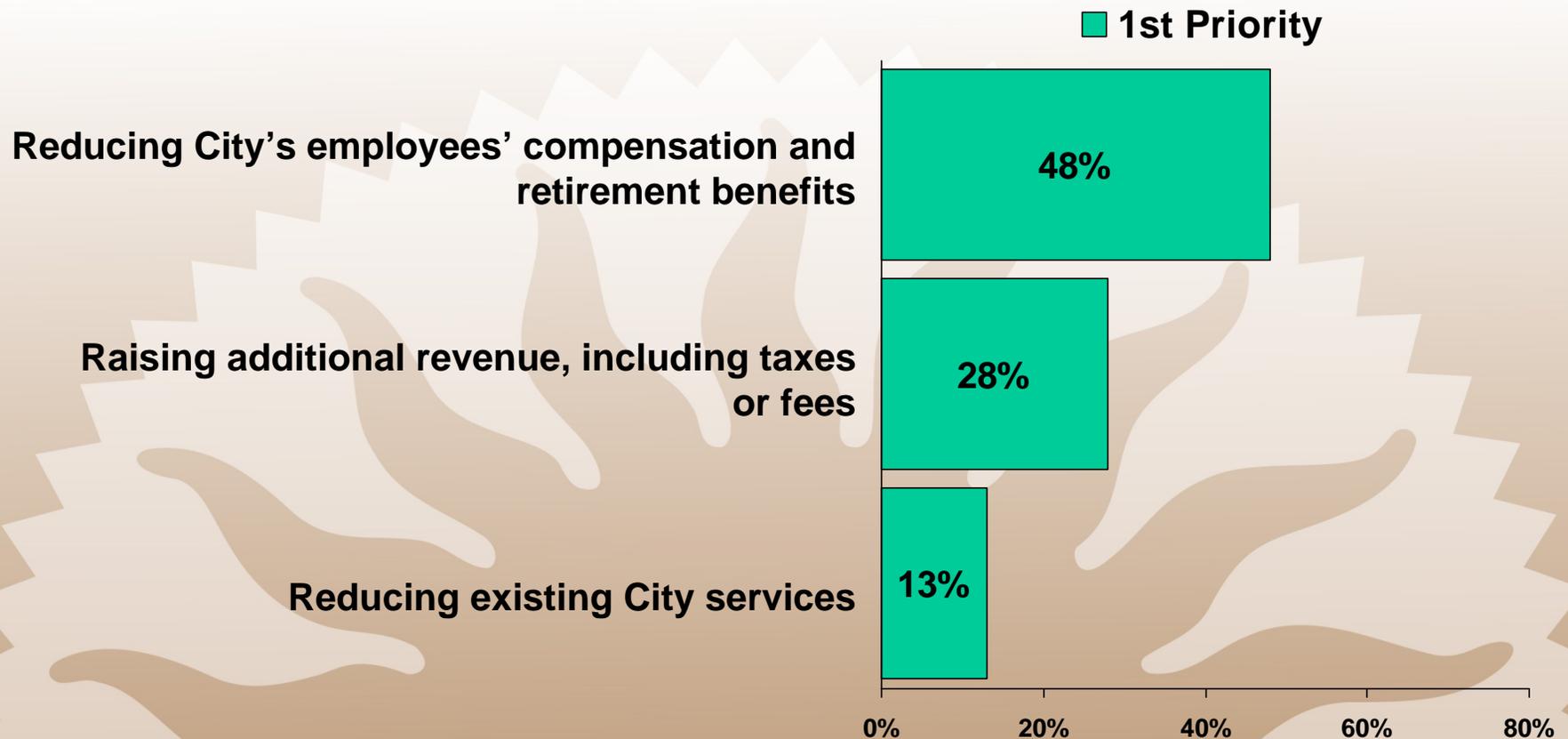
November 2012:

- Potential parcel tax measure by the Santa Clara Valley Water District
- Potential school district revenue measures (most districts indicated that they were not planning for a ballot measure; four districts were exploring or confirmed that they were pursuing a parcel tax or bond measure in November; other districts still discussing with their school boards)
- More will be known by late spring or summer

NOTE: VTA anticipates collecting 1/8 cent sales tax for BART starting July 1, 2012 (sunset after 30 years)

Fiscal Reform Plan Revenue Strategies Community Budget Survey Polling Results

Priority for Balancing the Budget

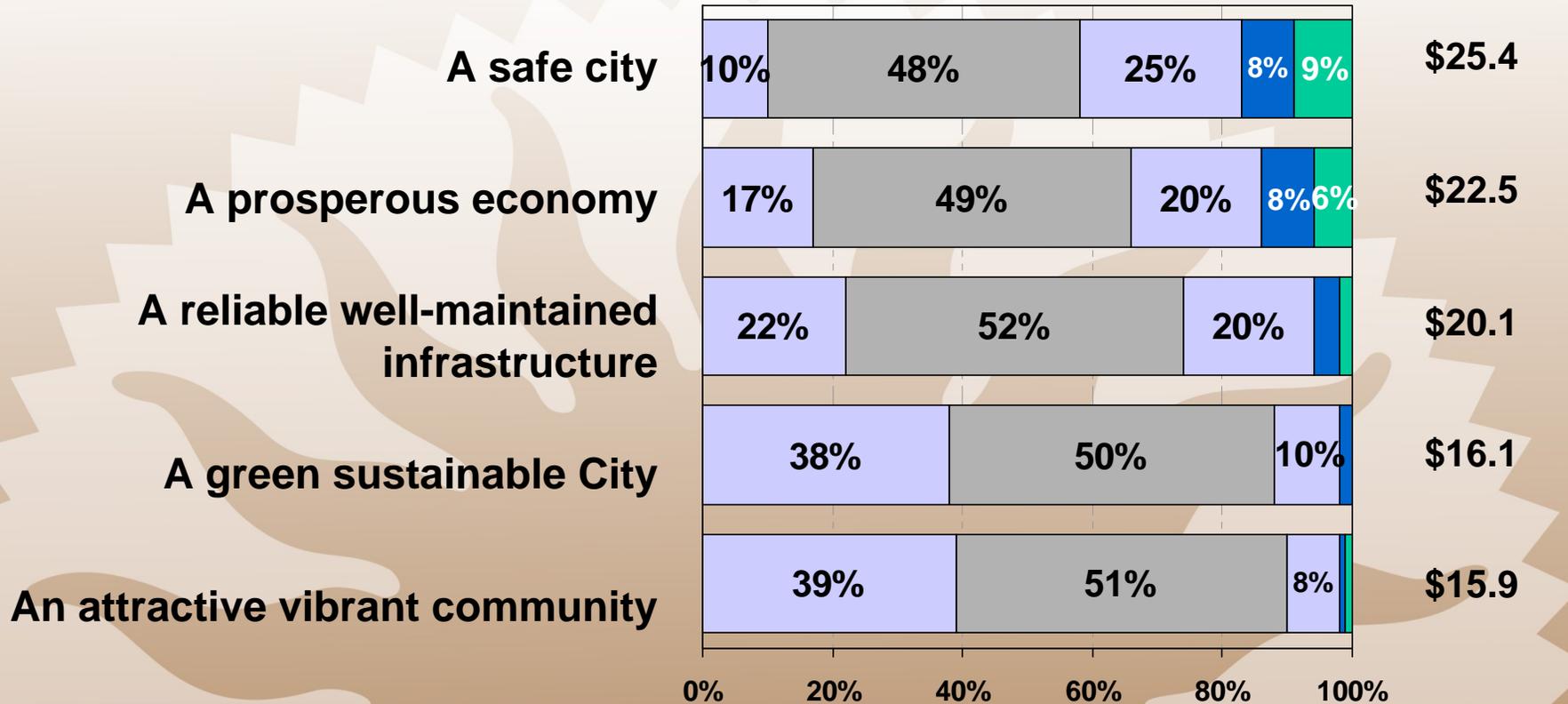


Fiscal Reform Plan Revenue Strategies Community Budget Survey Polling Results

How Would You Spend \$100?

**Mean
\$ Amount**

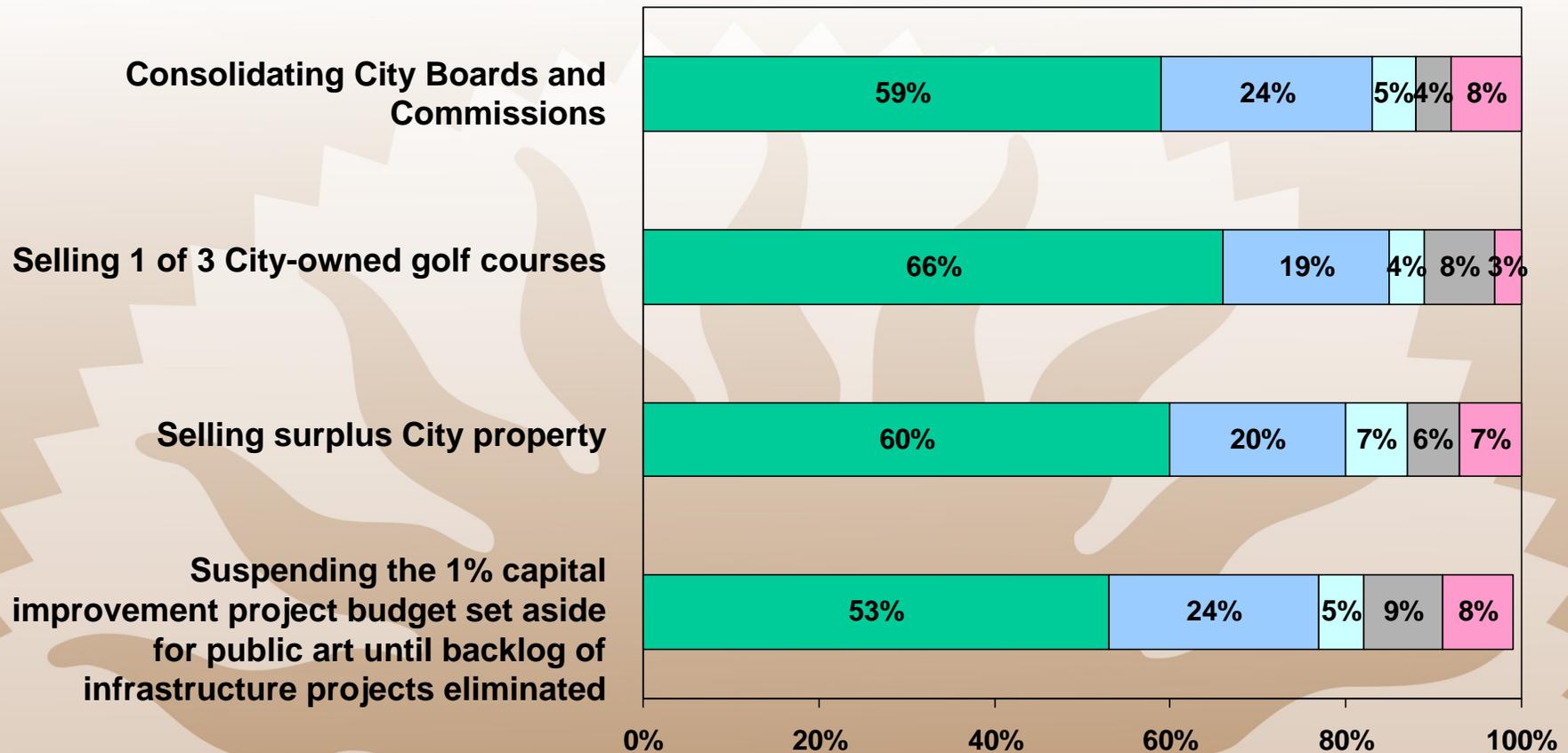
■ \$0-\$10
 ■ \$11-\$20
 ■ \$21-\$30
 ■ \$31-\$40
 ■ \$41+



Fiscal Reform Plan Revenue Strategies Community Budget Survey Polling Results

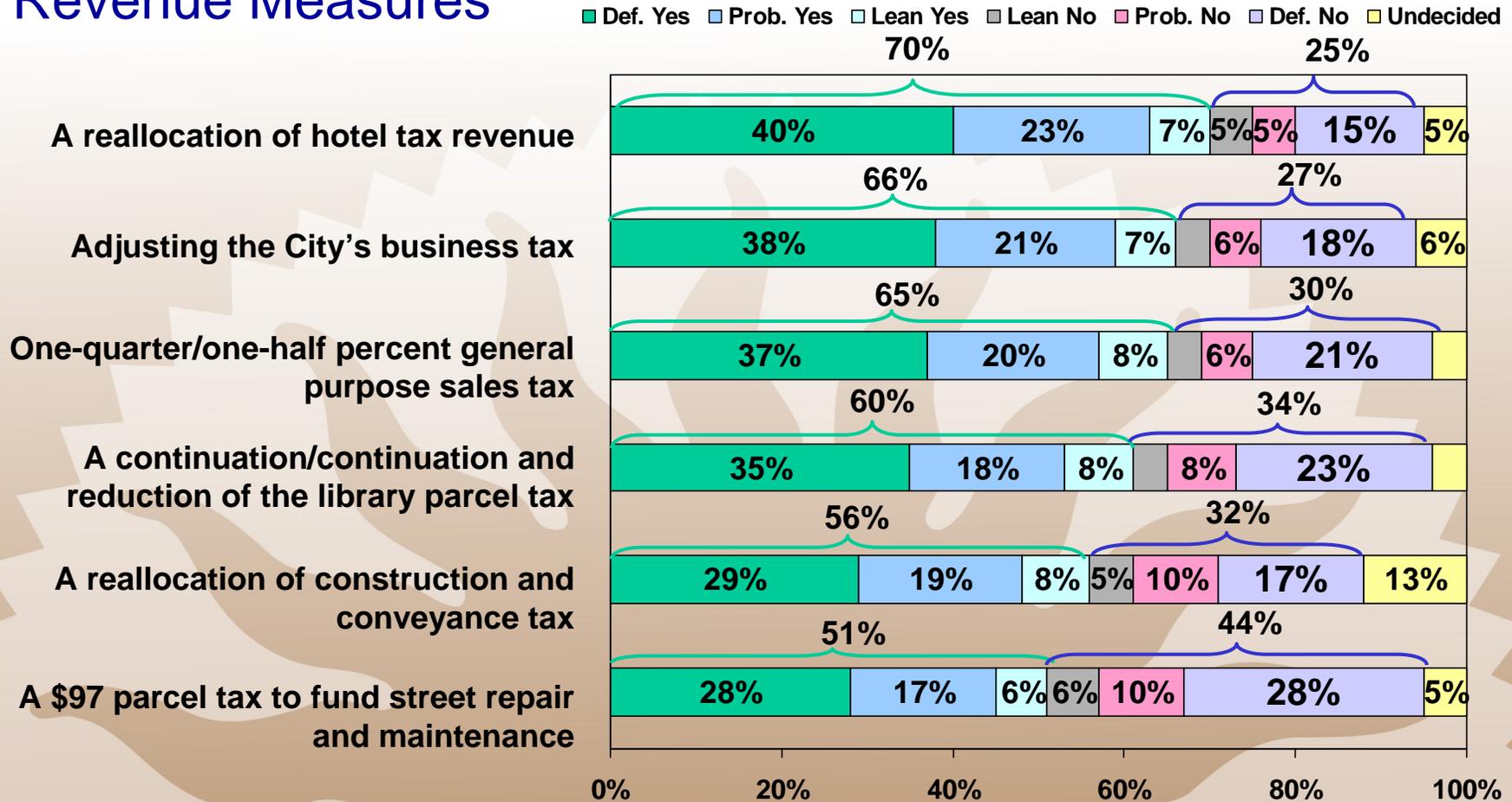
Specific Strategies to Address the Deficit

■ Str Supp
 ■ Smwt Supp
 ■ Smwt Opp
 ■ Str Opp
 ■ DK/NA



Fiscal Reform Plan Revenue Strategies Community Budget Survey Polling Results

Revenue Measures



Fiscal Reform Plan Revenue Strategies Business Tax Modernization Workplan Update

San Jose's Business Tax: Analysis, Options, Outreach

Business Tax Modernization Council Direction

- Recommendation by General Fund Structural Deficit Elimination Plan Stakeholder Group in 2008:
“Restructure Business Tax rates to modernize and reflect current business profile”
- Staff directed to conduct stakeholder outreach

Business Tax Modernization

San Jose's Current Tax Structure and Rate

Types of Business	Annual Tax	Additional Tax Increments	Not to Exceed	Number of Firms	Tax Revenue
Most Businesses	\$150 up to 8 employee	\$18 per employee over 8	\$25,000***	51,500	\$9.3 million
Commercial Landlords	\$150 up to 15,000 sq. ft.	\$.01 per sq. ft. over 15,000	\$5,000**	3,350	\$1.2 million
Residential Landlords	\$150 up to 30 units	\$5 per unit over 30	\$5,000**	3,300	\$688,000
Mobile Home Parks	\$150 up to 30 units	\$5 per lot over 30	\$5,000**	50	\$47,000
Totals				57,000	\$11 million*

- 11 firms are at the \$25,000 cap***
- 28 firms are at the \$5,000 cap**

Business Tax Modernization

History of San Jose Business Tax

- Adopted in 1964
- Employment-based model
- Last modified 26 years ago
 - 1984-Rate increased from \$30 to \$75
 - 1986-Rate increased from \$75 to \$150
- Voters rejected an inflationary adjustment in 1998

Business Tax Modernization Comparative Analysis

San Jose's business tax revenue collected and revenue per firm are:

1. Far below the other two large Bay Area cities
2. In the mid-range of Santa Clara County cities

Business Tax Modernization

Bay Area Large City Comparison

	San Jose	San Francisco	Oakland	Fremont
Model/Basis for Tax	Employment	Payroll (1.5%)	Gross Receipts	Gross Receipts
Tax Revenue Generated	\$11 M	\$352 M	\$48 M	\$7 M
Average Tax Revenue Per Firm	\$193	\$5,375	\$2,148	\$113

San Francisco's business tax is the highest in the Bay Area

--30 times higher than San Jose for a general office firm (SPUR)

Business Tax Modernization Santa Clara County City Comparison

	San Jose	Sunnyvale	Cupertino	Mountain View	Santa Clara
Model/Basis for Tax	Employment	Employment	Flat Rate	Flat Fee	Flat Rate- Employment Range
Tax Revenue Generated	\$11 M	\$1.3 M	\$700 K	\$200 K	\$900 K
Average Tax Revenue Per Firm	\$193	\$166	\$350	\$40	\$98

Business Tax Modernization

Potential Principles Underlying Business Tax Change

- a) Generate revenue to support services *without unduly influencing business location decisions*
- b) Ensure revenue can grow reasonably over time with economy
- c) Align tax with service demand (Larger businesses generate more demand for services than small)
- d) Minimize administration costs for City and taxpayers
- e) Simplify and clarify treatment of very-low-revenue businesses
- f) Sharing of deficit solutions (employees, residents, businesses)

Business Tax Modernization

Two Major Options for Consideration

Option A: Retain Current Tax Model

- “Modernize” by Making Catch-Up Increase to CPI, Inflate Going Forward

Option B: Change Model to Different Tax Base

- Gross Receipts or Payroll

Business Tax Modernization

Option A: Current Tax Model/CPI Adjustments

Current Tax Rate Structure	Inflate to CPI	<u>Additional Tax Revenue</u> Generated if cap is adjusted to CPI	<u>Additional Tax Revenue</u> Generated if cap is removed
\$150 up to 8 \$18 per person over 8	\$326 up to 8 \$39 per person over 8	\$18.1 million	\$18.6 million

Variations possible:

- ***Keep base rate lower***
- ***Increase per employee rate more***
- ***Change 8 employee threshold***
- ***Implement increases over several years***
- ***Inflate going forward only***
- ***Include Administration fee***

Business Tax Modernization

Option B: Change Model/Different Tax Base

	<i>San Jose 's Current Model</i>	<i>San Francisco (Gross Payroll Model)</i>	<i>Oakland (Gross Receipts Model)</i>
Estimated revenue potential in San Jose	\$11 M	\$345 M	\$50 M

Table shows “what if” San Jose applied models from other cities to San Jose economy...not recommended!

Very significant effort to change tax base, models are much more intrusive, less competitive

Sources: Analysis of Company to 10-K's, Econovue

Business Tax Modernization Outreach Initiated to Chamber and SVLG

1. What is the importance of SJ's business tax in decision-making?
2. Which model is least intrusive, most competitive (employee vs. gross receipts vs. payroll)?
3. What concerns and considerations do you have about adjusting current model to inflation?
4. What change could be supported by employers?

Outreach to additional small businesses would be recommended if Council wants to continue down path.

Fiscal Reform Plan Revenue Strategies

Next Steps

- Council feedback on which revenues to pursue
- Determine timeline for pursuing any measures
 - polling
 - outreach
 - ballot measure language development and approval

Fiscal Reform Plan Status

Discussion

Principles for Restoring Services and Investing in Organizational Needs

- Ensure the Fiscal Soundness of the City
- Choose Investments that Achieve Significant Outcomes
- Improve the Efficiency and Effectiveness of Service Delivery

Principles for Restoring Services and Investing in Organizational Needs

Discussion

- What guiding principles are most important?
- Is any important principle missing?

City Council Priority Ordinance Update

Background

- Ten consecutive years of budget shortfalls have reduced the City's workforce by nearly 30%.
- Current staffing of approximately 5,400 positions is a level not seen in over 20 years.
- Limited availability of City staff resources to take on new policy initiatives has resulted in a backlog of pending ordinances.

City Council Priority Ordinance Update Background

February 14, 2011 Priority Setting Session

- Top ten priorities identified from list of 43 pending ordinance changes and major referrals.

August 30, 2011 Priority Setting Session

- Top ten priorities were modified—Smoking in Outdoor Areas, Social Host Ordinance and Payday Lending included in top ten.

City Council Priority Ordinance Update

Top Ten Priorities

1.	Off-Sale of Alcohol at Grocery Stores streamlining	6.	Tree Removal Ordinance – Streamlining and Cost Recovery on Private Property
2.	Off-Sale of Alcohol process streamlining	7.	Zoning Ordinance Quarterly Modifications
3.	Payday Lending	8.	Zoning Standards – Main Street/ Alum Rock
4.	Sign Code Major Update	9.	Medical Marijuana
5.	Smoking in Outdoor Areas	10.	Social Host Ordinance

* Real Estate Transactions Streamlining was added as a future top priority in August 2011.

City Council Priority Ordinance Update

Future List of Priorities

- Current Top Ten priorities are anticipated to be completed by June 2012.
- Identifying future top priorities will allow staff to transition quickly to support them without coming to Council between now and August 2012.

City Council Priority Ordinance Update

Future List of Priorities

Economic Development

- Public Entertainment Business Fee Methodology (#17)
- Development Agreement Policy (#18)
- San Pedro Urban Market Kiosks (#24)
- Update Downtown Paseo/Plaza Use Guidelines (#25)

City Council Priority Ordinance Update

Future List of Priorities

Neighborhood Quality of Life

- Access to Healthy Food (#1)
- Streamline Permit Process for Recurring Farmers Markets on Private Property (#22)
- Special Events Ordinance (#7)
- Noise Performance Standards Update (#13)
- Public Review of New Retail Reuse (#20)
- Regulation of Unattended Donation Boxes (#21)
- Strengthen Vacant Structure Ordinance (#23)
- Mobile Vending (#27)

City Council Priority Ordinance Update

Future List of Priorities

Environment

- Landscape Ordinance (#2)
- Lighting on Private Property Policy Changes (#3)
- Plug-In Requirements for Parking Garages (#5)
- Green Building Retrofit Ordinance (#11)
- Riparian Corridor Policy (#19)
- Transportation Innovations to support High-Density Development (#28)

City Council Priority Ordinance Update

Future List of Priorities

New Zoning Districts

- Multi-Family District Update (#12)
- North San Jose Form Based Code (#14)
- Urban Village Zoning District (#15)

Historic-Related

- Mills Act Contract Ordinance Streamlining (#4)
- Conservation Area Ordinance Streamlining (#10)

City Council Priority Ordinance Update

Future List of Priorities

Administrative

- Gift Ordinance (#6)
- Tow Car Ordinance Amendments (#16)
- Contractor Employee Benefits (#26)

Other

- Taxicab Vehicle Operation Ordinance Amendment (#8)
- Condominium/Apartment Conversion Notice Ordinance (#9)

City Council Priority Ordinance Update Prioritization Exercise

- Opportunity for Council to create a future list of priority policies and ordinances by voting for **nine** items listed in Attachment A
- Items may be drawn from all Pending and Potential New Ordinances
- Votes to be tallied by City Clerk during the February 14th Council meeting

City Council Priority Ordinance Update

Discussion

2012-2013 Budget Planning Study Session

Public Comment