RULES COMMITTEE: 01-25-12
ITEM H.3

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: RULES AND OPEN GOVERNMENT

FROM: COUNCILMEMBER NANCY PYLE

SUBJECT: **MAYOR'S COMMUNITY BUDGET SURVEY AND JUNE/NOVEMBER 2012 TAX MEASURES**

DATE: January 19, 2012

Approved Nancy Pyle Date 1/18/12

RECOMMENDATION

If Mayor Reed presents the results of his survey on February 14th as he has indicated, the City Manager is directed to bring the following information to Council for discussion of the advantages of a June or November tax measure:

- Information about anticipated revenue generated by a ¼ and ½ percent Sales Tax increase, a Business Tax adjustment that will keep up with inflation, a Modernization of the Business Tax as presented in my memo dated May 23, 2011.
- Evaluation of the advantages/disadvantages of tax increase ballot measures in a June or November election with information about the June 2010 and November 2010 revenue measure results
- List of other potential revenue ballot measures for June and November including those under consideration by the State

If the results of the Mayor's Community Budget Survey are not presented to Council on February 14 or sooner, the City Manager is directed to bring the requested information on that date without benefit of the survey results for Council discussion. Council will not meet on February 21 and the deadline for Council action for the June election is March 6, 2012.

BACKGROUND

As a City, we must present a balanced budget to our residents each June. We do not have the luxury of submitting late budgets like the state or increasing our debt ceiling like the federal government. There is no doubt that we are taking serious steps to address our pension costs and that a pension reform measure will be on the ballot in June.

It is time to take clear steps to generate adequate revenue for our city. The cost to include a second ballot measure in the June election according to the City Clerk is just $401,000. Even with the $55m reduction pension contributions we are still left with at least a $25m projected budget deficit. We have no place left to cut. We have a choice to make – present our residents with a budget that makes an additional $25m in deeper cuts to city services <u>or</u> take full control of our city budget by generating more revenue. It is time to have a blunt conversation with our residents letting them know that City income has not kept up with inflation and our inability to maintain income is another contributor to our structural budget deficit and resulting service cuts.

We have acknowledged many times our need to create additional revenue:

- In her Fiscal Reform Plan dated May 2, 2011 the City Manager identifies a need for increased revenues and presents the following opportunities:
    - ¼ cent Sales Tax increase
    - Muni Water System Tax
    - Business Tax Increase
    - Disposal Facility Tax increase

http://www.sanjoseca.gov/budget/FY1112/05MBA/MBA01-FiscalReformPlan.PDF

- On May 23, 2011 I submitted a memo to Council to "to modernize a small portion of the City's Business Tax structure to reflect the conversion of traditionally used retail space to space for businesses offering personal services which are not subject to sales tax."

http://www.sanjoseca.gov/clerk/Agenda/20110524/20110524_0304att5.pdf

- In Councilmember Liccardo's June 24, 2011 memo to Council he states "There appears little question that we cannot continue to cut our way to service level solvency; the City needs new revenues."

http://www.sanjoseca.gov/clerk/Agenda/20110624/20110624_0301att5.pdf

- In my op-ed in the Mercury News on December 14, 2011 I presented the following based upon factual information provided by our Budget and Finance departments: "In 2011-12, San Jose is estimated to collect $1 million less in tax revenue than in 2006-07, based on the city's annual Gann Limit calculation." And "if a Consumer Price Index adjustment had been factored into this [Business tax] tax level over this period, business tax collections would be more than twice the current level.

http://www.mercurynews.com/opinion/ci_19540542?IADID=Search-www.mercurynews.com-www.mercurynews.com

The deadline for Council action for the June election is March 6, 2012. Now is the time to have a thorough discussion about the need for additional revenue and to weigh the merits of a June vs. November tax measure.