



City of San José City Budget Overview

Neighborhoods Commission
May 12, 2010

2010-2011 Proposed Budget Overview

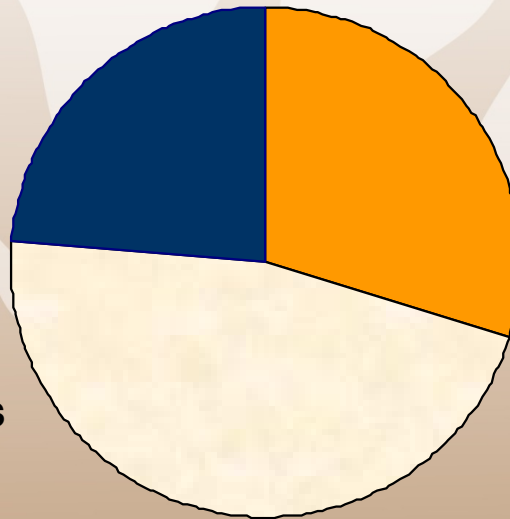
2010-2011 PROPOSED CITY BUDGET^{1,2}:	\$2.5 billion
TOTAL NUMBER OF FUNDS:	113
TOTAL NUMBER OF EMPLOYEES:	5,656

¹ Does not include rebudgets from 2009-2010

Capital Funds
24%
(\$696,264,373)

General Fund
30%
(\$871,313,479)

Special Funds
46%
(\$1,376,245,780)



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.

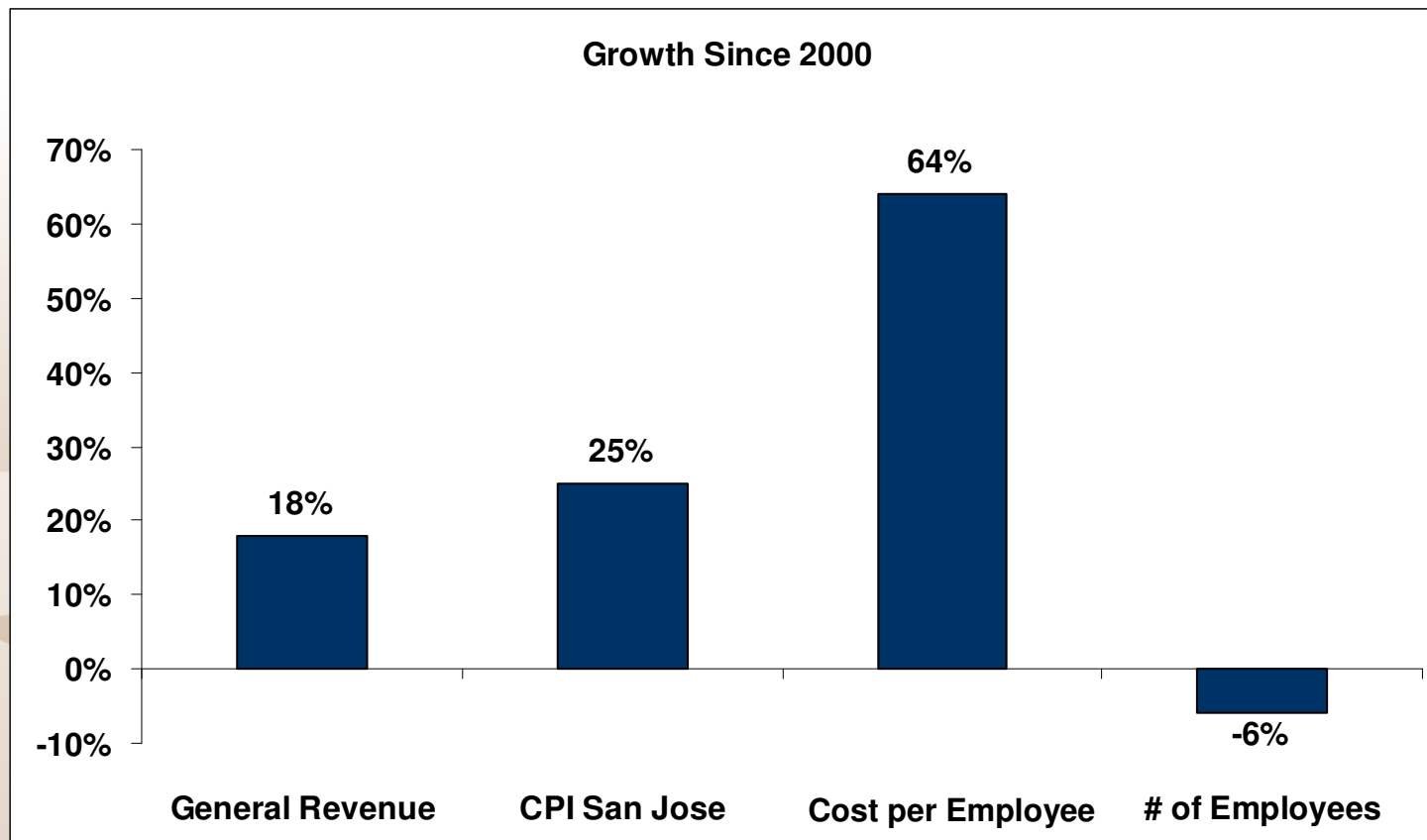
2010-2011 Proposed Budget Overview

- 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

City has Faced Ongoing Fiscal Challenges Since 2002

1. General Fund Structural Deficit:
Expenditure growth outpacing revenue growth
 - Growth in personnel costs (salary, retirement, health care)
 - New operating costs for new facilities
 - Unstable revenue base
2. Severe Economic Downturn
3. State Budget Takes

Expenses Growing Faster than Revenues



Note: Figure for General Revenue in the General Fund excludes Beginning Fund Balance and Transfers and Reimbursements

Growth in Personnel Costs

	2000-2001	2009-2010	Increase
BASE PAYROLL	\$416,010,420	\$582,337,708	39.98%
RETIREMENT BENEFITS	\$63,054,083	\$137,472,029	118.02%
HEALTH/DENTAL BENEFITS	\$30,317,792	\$64,197,978	111.75%
OTHER BENEFITS	\$6,608,312	\$13,566,187	105.29%
FULL TIME EQUIVALENT EMPLOYEES	7,012.51	6,623.36	-5.55%

Steep Drop in Economically Sensitive Revenues

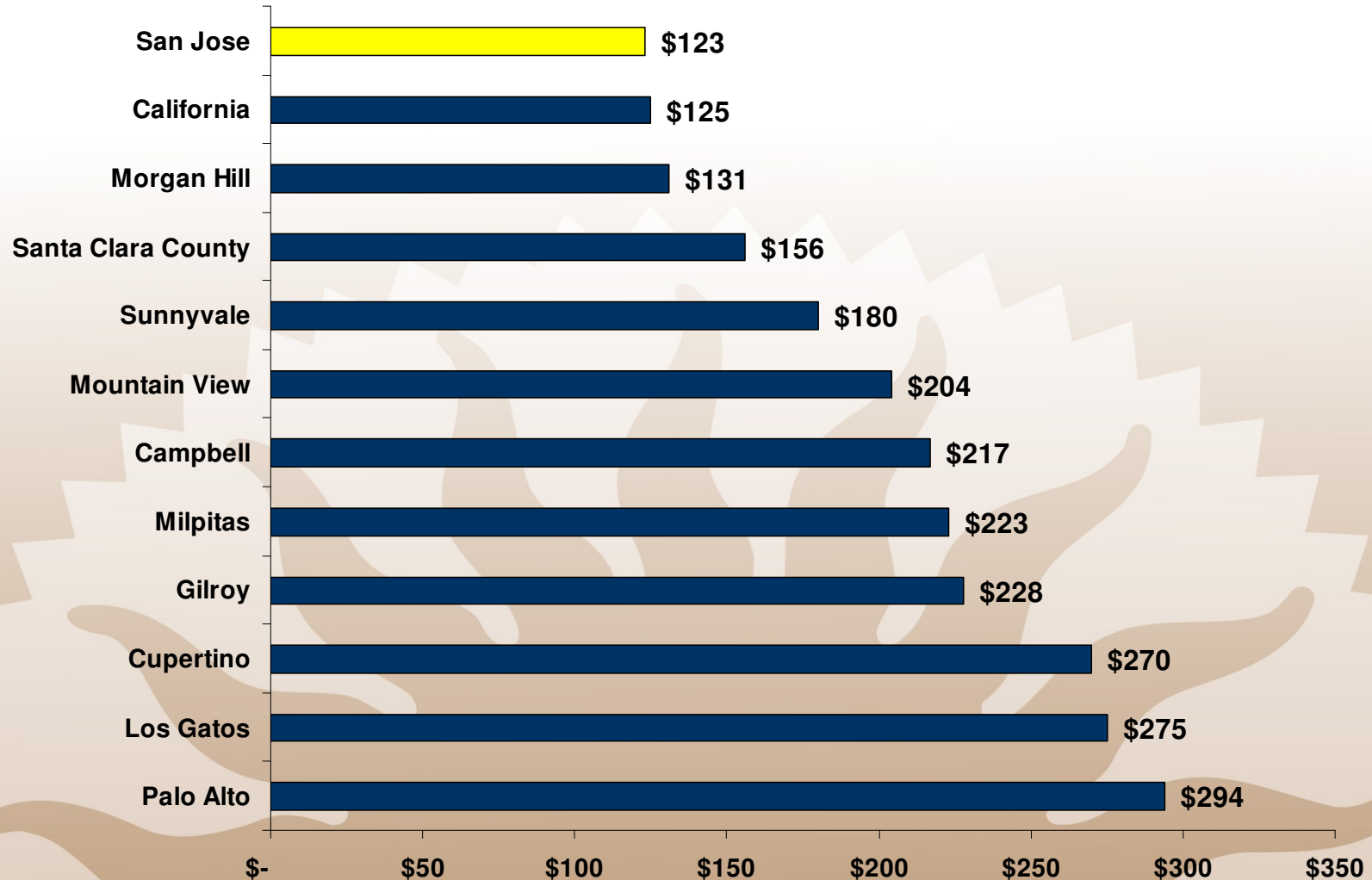
Comparative Performance of Economically Sensitive Major Revenues
(\$ in millions)

Revenue Source	Peak		Actual		Modified Budget	% Decline from Peak	
	Year	Actual	2007-08	2008-09	2009-10	2008-09	2009-10
Property Tax	2008-09	\$ 210.84	\$ 203.72	\$ 210.84	\$ 199.85	0.0%	-5.2%
Sales Tax	2000-01	169.22	154.00	132.01	125.08	-22.0%	-26.1%
Transient Occupancy Tax	2000-01	27.61	24.03	19.35	16.38	-29.9%	-40.7%
Development Fee Programs*	2005-06	41.21	38.20	31.92	25.19	-22.5%	-38.9%
Airport Parking and Roadway Rev.	2000-01	60.01	48.01	42.60	38.71	-29.0%	-35.5%
Airport Passenger Facility Charges	2005-06	22.27	21.22	17.42	16.50	-21.8%	-25.9%
Construction and Conveyance Tax	2005-06	49.00	26.81	20.47	20.00	-58.2%	-59.2%
Construction Excise Tax**	2000-01	20.74	13.55	8.12	5.50	-60.9%	-73.5%
Building and Structure Const. Tax**	2000-01	17.45	9.62	7.05	4.00	-59.6%	-77.1%
Sanitary Sewer Connection Fee	1997-98	2.70	0.79	0.65	0.25	-75.9%	-90.7%

* Development Fee Programs include Building, Fire, Planning, and Public Works.

** The 2009-10 budget includes valuation table increases.

San Jose Per Capita Sales Tax Lags (All Categories)



Source: Muniservices, Cash Receipts Second Quarter 2009

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

2011-2015 General Fund Forecast Overview

- 2010-2011 General Fund shortfall of \$116 million; shortfalls total \$181.4 million over a five-year period
- Increased expenditures account for over 60% of 2010-2011 shortfall, with decreased revenues accounting for remaining portion

2010-2011 Shortfall Components

Expenditure Changes

- Increased Retirement Contribution Rates (Police/Fire: \$42.8M; Federated: \$8.9M)	(\$ 51.7)
- Increased Expenditures (primarily personnel-related)	(10.0)
- 2010-2011 Committed Additions (new officers/facilities)	(7.5)
- Carryover from 2009-2010 Adopted Budget	(3.1)

Sub-Total Expenditure Changes

(\$72.3)

Decreased Revenue Estimates

(43.7)

Total Shortfall

(\$116.0)*

* Excludes Development Fee Programs, which increase the deficit by \$2.5 M

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**



APPROACH TO BALANCING THE 2010-2011 PROPOSED BUDGET

**(Closing a General Fund Gap of
Approximately \$116 Million)**

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)
- Program Prioritization Effort

Program Prioritization Effort Public Priority Results

HOW WOULD YOU SPEND A HUNDRED DOLLARS?



A Safe City
\$24.40



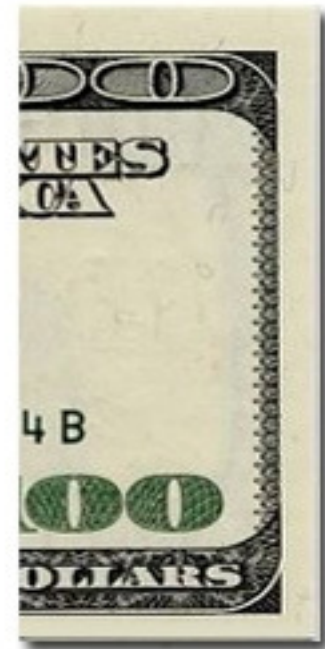
**A Prosperous
Economy**
\$23.70



**A Green,
Sustainable
City**
\$15.70



**An Attractive
Vibrant
Community**
\$15.30



**A Reliable,
Well-Maintained
Infrastructure**
\$19.90

Potential New Revenue

- Many potential revenues require voter approval
- Favorable polling results for only a couple of strategies

Polled Strategies	Survey Results (% in favor)	Potential Annual Revenue
Increase Cardroom Tax and/or Number of Tables	64%	\$2 M - \$5.3 M
½ - ¼ Cent Sales Tax Increase	48% - 53%	\$30.25 M - \$60.5 M
Disposal Facility Tax Increase	43%	\$1.5 M - \$8 M
Modernizing Business Tax	43%	\$0.5 M - \$13 M
Parking Lot Tax	37%	\$5.2 M - \$9 M

- Cardroom Tax ballot measure in June 2010
- Additional work to be done before deciding whether to put Sales Tax measure placed on ballot

Employee Concessions Sought

- Employee concessions sought to avoid service cuts and save jobs
- Council direction to achieve a 10% in personnel cost savings (minimum 5% ongoing and another 5% from concessions that could include one-time cost savings with flexibility to help save additional services)
- In 2010-2011, avg. sworn position cost is estimated at \$182,000; avg. non-sworn position cost is estimated at \$110,000; and avg. position cost city-wide is estimated at \$133,000.

Savings from Reducing Per Employee Cost* (\$ in millions)

10%		
General Fund	Other Funds	Total Funds
\$63.90	\$22.36	\$86.26

Summary by Bargaining Unit

Employee Unit	Contract Expiration	10% Reduction	Full Time Equivalents (FTEs)
		General Fund	
San Jose Police Officers' Association (POA)	6/30/2010	\$24.73M	1362.0
San Jose Fire Fighters, Local 230 (IAFF)	6/30/2009	\$13.50M	739.0
Subtotal (Subject to arbitration if no agreement)		\$38.23M	2,101
Municipal Employees' Federation (MEF)	6/30/2011	\$13.05M	2199.62
Confidential Employees' Organization (CEO)	9/17/2011	\$1.27M	216.62
Subtotal (Changes to pay/benefits require agreement of these unions to reopen contract)		\$14.32M	2,416

Source: Salary and Fringe Benefit Costs by Employee Unit & Fund for the 2010-2011 Base Budget (2/27/10)

Summary by Bargaining Unit

Employee Unit	Contract Expiration	10% Reduction	Full Time Equivalents (FTEs)
		General Fund	
Executive Management (Unit 99)	N/A	\$3.01M	241.00
International Union of Operating Engineers, Local No. 3 (OE#3)	N/A	\$2.81M	805.42
City Association of Management Personnel (CAMP)	6/30/2010	\$2.60M	391.50
Association of Legal Professionals (ALP)	N/A	\$789.24K	46.00
Association of Engineers and Architects (AEA)	6/30/2010	\$619.26K	233.00
Assoc. of Building, Mechanical & Electrical Inspectors (ABMEI)	12/10/2009	\$594.25K	50.00
International Brotherhood of Electrical Workers, Local No. 332 (IBEW)	3/6/2010	\$443.19K	80.00
Association of Maintenance Supervisory Personnel (AMSP)	6/30/2010	\$372.52K	84.00
Unrepresented Non-Management	N/A	\$106.76K	27.90
Subtotal		\$11.35M	1,959
GRAND TOTALS:		\$63.90M	6,476

Source: Salary and Fringe Benefit Costs by Employee Unit & Fund for the 2010-2011 Base Budget (2/27/10)

Service Reductions/Eliminations

- Eliminate/phase-out programs where the City can no longer afford to provide the service
- Balance public safety and non-public safety reductions
- Delay opening new facilities to avoid new operational costs in 2010-2011
- Use ongoing budget solutions to the extent possible



MAJOR PROPOSALS TO REDUCE OR ELIMINATE SERVICES

Selected Budget Reductions

Libraries, Parks, and Community Centers

- Eliminate Office on Aging, Office of Therapeutic Services, and Theater Program
- 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
- 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

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

Key Assumptions: 2010-2011 Proposed Budget

Employee Concessions

- The 2010-2011 Proposed Budget will assume no concessions unless concessions achieved by early April
- The final budget will assume no concessions unless concessions achieved by early June
- Will develop plan on services and jobs that can be restored if concessions are achieved

Revenues

- Assume Cardroom Tax measure will pass; will develop contingency plan with additional reductions in case measure fails

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 |