

May 3, 2010

**HONORABLE MAYOR AND CITY COUNCIL:**

This transmittal message conveys the *2010-2011 Proposed Operating Budget*, the Administration's recommendations for how the City of San José should fund operations and services for the Fiscal Year 2010-2011. In formulating these proposals, the Administration has closed a projected \$116 million General Fund deficit, which grows to \$118.5 million when combined with the development fee program shortfall. Budget balancing actions have also been included for a number of special-funded services, such as the Airport and Convention Center, to ensure the fiscal health of those operations. These recommendations present a balanced budget, but at the same time confront the City Council and the community with a difficult set of choices. By objective measures, the City has arrived at a critical juncture. Through eight years of budget deficits we have shaved expenditures, judiciously reducing services and trimming personnel to minimize noticeable impacts. Having weathered eight years of financial turmoil, we now find ourselves amidst the perfect fiscal storm. Health care and pension costs have risen exponentially, and the bottom has dropped out of key revenue categories. Although the economy appears to be turning the corner, the deep recession is now fully impacting the City's revenues and there is little hope for a quick recovery that would restore revenues to pre-recession levels. With the drop in revenues and the use of various reserves over the last several years, cash balances are lower than at any time in recent history. Since 2001, internal service departments have been cut disproportionately so that further significant reductions in this area risk both fiscal security and internal stability. Unfortunately, as we look beyond 2010-2011, we see four more years of deficits totaling \$86 million. Our budget condition can only be described as fragile.

Of the 2010-2011 General Fund Base Budget, approximately 70% of the City's General Fund is tied directly to personnel costs. This should not be used to vilify our workforce. City of San José employees are second to none in their professionalism and commitment to serving the community. Nevertheless, the choices before us are clear, but not easy. We can ask our residents to pay more for services, we can ask our employees to accept lower compensation, or we can cut services. As this Proposed Budget is being prepared, neither of the first two choices has borne significant fruit. The blame for our current situation cannot and should not be assigned to any one factor or group, and the cost for solving these problems cannot be borne solely by employees or our taxpayers. Nevertheless, the budget must be balanced, and the unfortunate consequence of our current situation is a Proposed Budget that contains historic cuts. There is no service that the City provides for which there is not a devoted constituency, and many will find these proposals as unpalatable as we do. No department has been spared, and there is no pleasure in presenting these recommendations. The one hopeful note that can be sounded is that the nation's economic drought appears to have reached its lowest point, and this budget assumes some small growth in revenues.

## 2010–2011 PROPOSED BUDGET MESSAGE

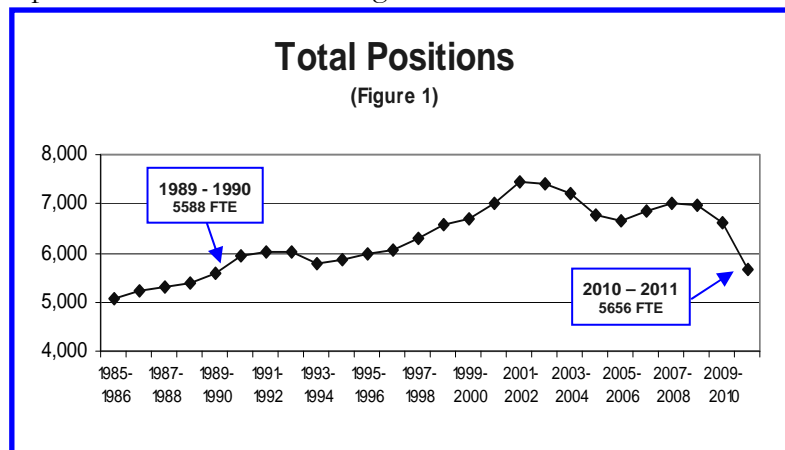
Substantial revenue improvements, however, will not arrive in time to address the current historic deficit.

As in years past, the *2010-2011 Proposed Operating Budget* includes a set of Tier 2 recommendations to address any unanticipated fiscal challenges such as: 1) the failure of voters to approve an increase in Cardroom taxes and tables; 2) lower than expected revenues; or, 3) additional take-aways by the State. Unlike years past, a *Recommended General Fund Service Restoration Summary* is also included. As has been well documented, the City Council has called for all City employees to agree to reductions in total compensation of 10%, with at least 5% of those reductions ongoing. To the extent employees agree to such reductions, the Restoration Summary would provide a roadmap to where the Administration would recommend the City Council consider restoring non-sworn and/or sworn services.

As we begin the ninth consecutive year of budget reductions, the growing gap between expenditures and revenues has become untenable. Since 2001, the average cost per employee has risen 64%, while revenues increased by only 18%. Since 2002, the organization has lost 830 positions and is less able to provide the services our businesses and residents have come to expect. This unfortunate historical perspective will pale next to the significant reductions that we face in 2010-2011. The change confronting us is best illustrated by Figure 1, which shows the number of City employees by year. With the number of staff falling back to levels not seen since San José's population hovered near 780,000, the impact of these proposed reductions will be significant. These include reduced

police and fire services with cuts in both the sworn and non-sworn ranks; reduced library hours; reduced community centers; reduced parks services; along with reduced maintenance of many City facilities and our transportation infrastructure. These are difficult recommendations to make, but there are simply no good choices left. This Proposed Operating Budget represents our best professional judgment to close the

gap in a fiscally responsible way consistent with the City Council's well-established direction to address the structural deficit.



As the Proposed Budget is being developed, there are signs on the national economic front that the tidal wave of negative financial news is beginning to recede, but the current picture is, at best, mixed. Gross Domestic Product has increased over the last two quarters, but nationally unemployment remains close to last October's high. Unfortunately, in key categories, City revenues remain below peak levels. For the current fiscal year, Sales Tax and Property Tax dollars have each fallen 5.2% from last year's levels and Transient Occupancy Tax is off 15.3%. Taken together, these revenue categories have suffered a nearly \$21 million loss. Similarly, development related activities have practically ground to a halt. As of this writing, the City has issued 308 residential building permits since the start of the fiscal year, far less than last year's 1,046 permits issued over the same period. Since last fiscal year, Development Fees are off 21.1%, the Construction Excise tax is down 32.3% and the Building and Structure Construction Taxes have dropped 43.3%. Together these represent a loss of \$12.4 million.

## 2010–2011 PROPOSED BUDGET MESSAGE

Readers of this message will find a combination of strategies designed to deal with the shortfall: 1) service reductions and eliminations; 2) revenue increases, use of reserves, and funding shifts; and 3) cost savings and new service delivery models. Similar to last year, a number of two-year strategies are recommended to ease the immediate impact of some proposals and provide time for a transition. And once again the planned opening of some new facilities would be delayed. While a strict adherence to the City Council's goal of eliminating the Structural Deficit argues against the use of any one-time dollars to close the budget gap, 17% of the shortfall closing recommendations rely on \$20.6 million in one-time dollars. However, even this use of one-time dollars failed to alleviate the need to impose significant reductions throughout every City operation.

San José has experienced a decline in revenues since 2002 that is simply unprecedented. Prior to this year, we had reduced the General Fund budget by \$464 million and 830 positions. In addition, decisions made by the City Council during the current fiscal year have already eliminated an additional 53 positions and 93 more are scheduled to be eliminated July 1 as approved as part of the 2009-2010 budget process. With the actions recommended in this Proposal, the General Fund reduction over nine years will total \$583 million, and with the elimination of an additional 821 positions, our workforce will have shrunk approximately 24%. During the same period, our population has grown by more than 100,000. With numbers like this, the first decade of the 21<sup>st</sup> Century might best be described as a decade of deficits.

### **BUDGET PROCESS**

The magnitude of the 2010-2011 deficit was apparent even in June 2009 as the City Council approved the current year budget. With costs to sustain the City's two Retirement systems pushing the projected deficit toward the \$100 million mark, work on the 2010-2011 budget balancing solutions began immediately. A pilot Program Prioritization effort was launched and in August the Council directed the Administration to develop program level information to allow a more in-depth review of City services. In response to that direction, the Administration released a 2010-2011 Base Budget Department Program Dictionary, which provides a listing and basic description of over 550 discrete programs provided by the City as reflected in the 2010-2011 Base Budget, including program cost, staff, and associated resources managed. This program-level information served as the starting point for the pilot program prioritization effort. Then all of the programs that provide direct service to the community were scored based on their alignment to five public priority results and four basic attributes. Once all of the direct service programs were scored, they were ranked by Priority Level, and the resulting information became one factor considered in developing the recommendations for the 2010-2011 Proposed Operating Budget.

In November, a Special City Council Meeting on *2010-2011 Budget Planning* was held and staff was directed to develop strategies to resolve the projected General Fund shortfall equally using: 1) employee wage and benefit concessions; 2) revenues; and, 3) one-time revenues, alternative service delivery proposals and efficiencies in operations. Unfortunately, as noted earlier, we have fallen far short in both the concessions and new revenues categories. The Council further directed that if any portion of the shortfall could not be covered within these three categories, the default would be service reductions/eliminations.

# 2010–2011 PROPOSED BUDGET MESSAGE

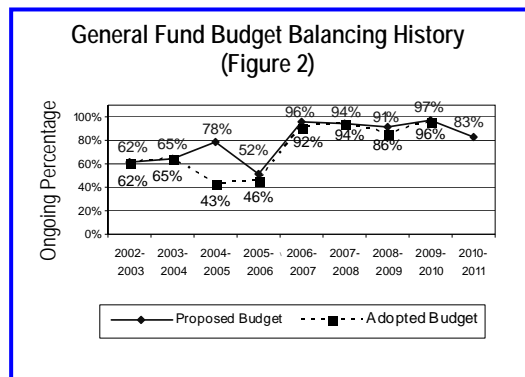
## BUDGET PROCESS (CONT'D.)

In December during the *Mayor's Budget Message Workshop*, the City Council identified several potential revenue strategies. The 2010 Community Budget Telephone Survey, conducted in January, revealed potential voter support for two new revenues: 1) an increase in cardroom taxes and tables; and, 2) a sales tax increase. Through the survey as well as during the *Neighborhood Associations/Youth Commission 2010-2011 Priority Setting Session* held on January 23, 2010, attendees provided input into the Program Prioritization ranking process and weighed in on how they would divide \$100 between the City Council's five priority goals, with the following results:

A Safe City	A Prosperous Economy	A Green Sustainable City	An Attractive Vibrant Community	A Reliable Well-Maintained Infrastructure
\$25.40	\$23.70	\$15.70	\$15.30	\$19.90

## BALANCING STRATEGIES

In preparing the *2010-2011 Proposed Operating Budget*, the Administration has remained true to the conservative budgeting principles that have consistently earned the City strong bond ratings. As noted and displayed in Figure 2, however, only 83% of the General Fund shortfall has been addressed with ongoing dollars. Each time we do not close the deficit with 100% ongoing dollars, the use of one-time money increases the following year's deficit dollar for dollar. As the *2011-2015 General Fund Forecast Update* (Table 1) shows, we continue to face significant deficits for the foreseeable future.



<b>2011-2015 General Fund Forecast Update</b>						
(\$ in millions)						
(Table 1)						
	2010-2011	2011-2012 <sup>1</sup>	2012-2013 <sup>1</sup>	2013-2014 <sup>1</sup>	2014-2015 <sup>1</sup>	Total
Projected Base Shortfall (Feb 2009 Forecast) <sup>2,3</sup>	(\$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)
<b>Total Cumulative Deficit</b>	<b>(\$116.0)</b>	<b>(\$156.8)</b>	<b>(\$174.8)</b>	<b>(\$196.3)</b>	<b>(\$202.1)</b>	<b>(\$202.1)</b>

<sup>1</sup> Funding does not presume cost-of-living salary increases in any of the years beyond that currently committed to for two bargaining units in 2010-2011.

<sup>2</sup> Does not include Development Fee Programs. Does include City's share of General Fund annual required contribution for retiree health care benefits and committed additions previously agreed upon by Council, such as operating and maintenance funding for capital projects coming on line and 25 new police officers through 2011-2012 (50 total).

<sup>3</sup> Does not include unmet/deferred infrastructure and maintenance one-time needs of \$446 million and ongoing needs of \$41 million.

# 2010–2011 PROPOSED BUDGET MESSAGE

## **BALANCING STRATEGIES (CONT'D.)**

It is the Administration's believe, however, that the use of \$21 million in one-time dollars is justified. Even though every one-time dollar used to close the deficit adds another dollar to next year's shortfall, the judicious use of one-time funds will allow the City to mitigate service disruptions to residents while transitioning to lower staffing levels and alternative service delivery models. In our professional judgment, this represents the best approach to balancing the competing goals of providing essential municipal services while responsibly reducing the ongoing deficit.

### Strategic Approaches

As noted earlier in this message, the actions proposed to balance this budget follow several familiar strategies designed to improve efficiency, ease the impacts on residents wherever possible, and maximize appropriate cost recovery strategies.

In a number of areas, new approaches to delivering services have been developed that extend the City's ability to continue those services, while at a lower cost. Where necessary, further analysis will be accommodated by initiating some of these changes on a two year timeframe, which provides reduced ongoing dollars in 2010-2011 but allows additional transition time for further evaluation. In addition, where applicable, we will use this time to address any employee bargaining unit meet and confer obligations that may arise. More detailed explanations are contained later in this message, but a brief summary of some of these programs is provided here.

- Service Delivery Model Changes/Two-Year Horizon – In a number of areas the Proposed Budget includes recommendations that would deliver service in new ways. In several other areas, new service delivery approaches will be evaluated over the coming fiscal year for future implementation.
  - Community Centers — This proposal would significantly reduce the number of Community Centers directly operated by Parks, Recreation & Neighborhood Services staff to 12 – one “hub” Center in each of the ten Council Districts, plus Grace Community Center and Edenvale, which would operate on a full cost recovery basis as an “enterprise” community center.
  - Events Staffing Consolidation — Under this proposal, event staff from PRNS and the Office of Cultural Affairs would be consolidated. With the elimination of 6.67 FTEs overall support for events would be significantly reduced.
  - Fire Dynamic Deployment — This proposal would use historical demand data, GIS, and real time information to optimize the redeployment of resources. With the implementation of the Dynamic Deployment strategy, the response time impact where resources have been reduced (as well as citywide impacts) would be mitigated to the greatest extent possible. As an alternative to eliminating one Truck and one Engine company, alternative staffing strategies, consistent with National Fire Protection Association (NFPA) standards, could be implemented with the agreement of Fire Fighters Local 230.

# 2010–2011 PROPOSED BUDGET MESSAGE

## **BALANCING STRATEGIES (CONT'D.)**

### Strategic Approaches (Cont'd.)

- Information Technology Consolidation — This proposal would improve efficiency through a multi-year, phased approach to consolidating enterprise information technology that would prioritize city-wide needs with a focus on driving efficiency throughout the organization. The approach, guided by an internal Senior Staff team, would lead to a more sustainable service delivery by concentrating existing staff, reducing and/or eliminating duplicative systems or equipment, migrating aging systems to more modern platforms, enabling a compliment of staff to support multiple systems, and standardizing database systems. Beginning in 2010-2011 staff would begin to be reallocated with the consolidation of databases and database administration in the Information Technology Department. The consolidation plan may eventually include: Phase II – networks, servers and voice administration; and, Phase III – HelpDesk and desktop support, application development platforms, and document management.
- Police Patrol Shift Changes — To mitigate the impact of eliminating 90 patrol officers (which includes 4 related to the San Jose Redevelopment Agency), the Police Department is exploring the use of alternative shift models that would adjust patrol team daily shift schedules to align staffing more efficiently with peak workload.
- Crossing Guards — Over the 2010-2011 Fiscal Year, the Administration intends to evaluate the transfer of this program from the Police Department to the Department of Transportation. A study will update the City's Traffic Safety Index of crossing guard intersections. The crossing guard program will be evaluated to determine whether sufficient cost-savings could be achieved to warrant moving the program to DOT.
- Development Services Administration — During 2010-2011, the Development Services partners (Planning, Building, Public Works and Fire) will evaluate the integration of administrative and project services. The focus of this effort is to build a high-performing integrated team that improves service delivery, reduces redundancy and improves effectiveness.
- Alternative Service Delivery – City Council Policy 0-41 *Service Delivery Evaluation* establishes a decision-making framework for evaluating service delivery model changes and determining when the City should invoke the *Public Private Competition Policy* (Council Policy 0-29). Policy 0-41 requires that a business case analysis be prepared and stakeholders consulted when the change would impact four or more employees. The City Council may then decide whether to move forward with the service delivery change with or without managed competition.
  - Airport Custodial Services — Provide custodial services by contracting with a private sector provider. Due to the significant cost savings (2010-2011 - \$2.8 million, ongoing - \$3.3 million) this proposal includes a recommendation that the City Council waive requirements of the Public Private Competition Policy. Any alternative to achieving the same savings amount would have unacceptable consequences. Such alternatives include either further position reductions that would result in the severe degradation of customer service at the Airport; uncompetitive rates and charges to airlines that would increase the risk of losing flights and carriers; or imprudent fiscal management of restricted funds.

# 2010–2011 PROPOSED BUDGET MESSAGE

## **BALANCING STRATEGIES (CONT'D.)**

### Strategic Approaches (Cont'd.)

- Other Custodial Services — At several City facilities (Water Pollution Control Plant, City Hall, Police Facilities, San Jose Museum of Art and Animal Care Services) custodial services would be provided by contracting with a private sector firm. The City currently contracts for some custodial services. Because of the projected cost-savings (2010-2011 - \$554,000, ongoing - \$738,000) this proposal includes a recommendation that the City Council waive requirements of the Public Private Competition Policy.
- CivicCenter Television — Under this proposal, video/multi-media staff in the City's Government Access operation would be reduced by two (of three). Because it impacts only two individuals, this proposal is not subject to Policy 0-41. Staff is currently conducting an RFP for these services. Based on a similar contract entered into by Santa Clara County, staff projects a \$130,000 savings.
- Police Warrants Unit — This proposal would eliminate six positions and save \$642,000 in 2010-2011 (\$800,000 ongoing) by contracting for in-state Prisoner transport. The business case analysis indicates a savings of roughly 75% and this proposal includes a recommendation that the City Council waive requirements of the Public Private Competition Policy.
- New Facility Deferral Strategy – The opening of a number of facilities scheduled for 2010-2011 would be deferred to reduce the otherwise significant impact of operating and maintenance expenses on the General Fund.
  - Police Substation — Currently scheduled to open in March 2011, the Police Substation would be delayed six months to align with the fall 2011 shift change saving \$1.3 million.
  - Branch Libraries — The Seven Trees Branch Library opening would be delayed 13 months; the Bascom Branch Library opening would be delayed 11 months. Under the new schedule both would now open in September 2011 saving \$2.3 million in 2010-2011.
  - Bascom Community Center — Opening of the Bascom Community Center would be delayed 11 months for a one-time savings of \$693,000 savings.

### Performance Management

The performance metrics contained in this Proposed Budget have, in many cases, been significantly refined. Consistent with ongoing efforts to move the City from performance *measurement* to performance *management*, the City Manager and City Auditor joined forces in September 2009 as part of the City Auditor's report, titled *Performance Management and Reporting in San José: A Proposal for Improvement*, which identified the need to reduce performance measures and ensure that existing measures are "meaningful, useful, and sustainable." As an initial step in close coordination with the Budget Office, two teams from the Art and Practice of Leadership program worked with the Office

# 2010-2011 PROPOSED BUDGET MESSAGE

## **BALANCING STRATEGIES (CONT'D.)**

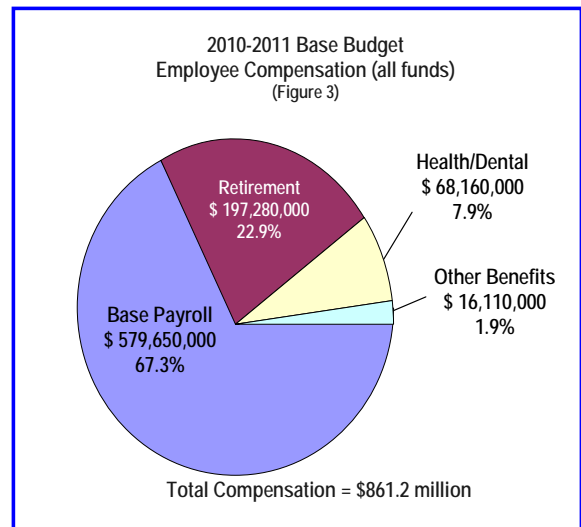
### Performance Management (Cont'd.)

of Economic Development and Public Works Department to refine and reduce performance measures. Building on this effort, the Budget Office strongly urged departments to identify performance measures and activity and workload highlights that could be eliminated because they do not meet the meaningful, useful, and sustainable criteria. In response, departments proposed an unprecedented 240 changes.

Major performance measure changes are incorporated for the Office of Economic Development, as well as the Fire, Airport, Public Works, Police, Environmental Services, and Transportation Departments that result in a reduced and improved set of performance measures and activity and workload highlights. As a result, this document proposes a net reduction of 105 performance measures and activity and workload highlights, including 120 deletions, 15 additions, and 91 revisions.

### Structural Deficit

The City's structural deficit has been much discussed and written about, and the City Council's commitment to eliminate this enduring problem has been well-documented. While the choices before us are difficult, the path to a balanced budget is clear, and the possibility of a future free of deficits is within reach. The components of that deficit-free future will involve some combination of compensation containment, increased revenue, and reforms. No single component will free us from future deficits. New revenues alone without confronting spending practices and the cost of our pay and benefit structure will lead to future problems. Only by moving on all three fronts can we hope to permanently relieve ourselves of the structural deficit.



### *Compensation*

As a service driven organization, the great majority of our costs pay for the employees who provide those services. With over two-thirds of our General Fund costs tied directly to salaries and benefits our options for balancing the budget are severely constrained. Absent new revenues, we can reduce services, or we can lower the cost of providing those services. As noted earlier, the City Council has directed the Administration to seek reductions in the total compensation costs of our employees equaling 10%, with 5% of those concessions reducing the City's ongoing costs. Figure 3 shows the current cost structure of our employees. The average cost per employee has risen 64% over nine years from \$73,581 to \$120,418. Had we during that same period been able to contain total compensation costs to the rise in the Consumer Price Index, the average cost per employee today

# 2010–2011 PROPOSED BUDGET MESSAGE

## **BALANCING STRATEGIES (CONT'D.)**

### Structural Deficit (Cont'd.)

#### *Compensation* (Cont'd.)

would be \$92,730, there would be no deficit, and we could afford a robust workforce of 7,559 employees, far above the peak 2001 workforce of 7,013. Setting theoretical possibilities aside, the City Council's goal of a 10% total compensation reduction would allow considerable progress toward a balanced budget. A 10% ongoing reduction in personal services costs would save \$63.8 million in General Fund base budget expenditures. While this would not eliminate future year deficits, it would allow us to avoid most General Fund service reductions in 2010-2011. As noted earlier, a *Recommended General Fund Service Restoration Summary* (Attachment E) has been developed to inform the City Council's decisions should bargaining groups agree to concessions. A *Recommended "First 5%"*

<b>Recommended "First 5%" Service Restorations Summary (Table 2)</b>		
<b>Sworn</b>		
Fire	Engine Company (5th Engine)	13.00
Fire	Truck Company 3	16.00
Police	Police Field Patrol	79.00
Police	Police Field Patrol — one year deferral of position reductions	7.00
Police	Police Sexual Assaults Investigations Unit	3.00
<b>Total Sworn Restorations</b>		<b>118.00</b>
<b>Non-Sworn</b>		
Clerk	Clerk's Office Contracts and Ethics Compliance	1.00
Library	Branch Library Hours — restore 4.5 days of services (25 hours per week to 39 hours per week)	61.45
Library	Dr. Martin Luther King Jr. Library (from 50% to 35% reduction)	5.63
PRNS	Community Centers (restore to July 1, 2010 service levels)	34.34
Trans	Pavement Resurfacing and Sealing	6.00
<b>"First 5%" Total Non-Sworn Restorations</b>		<b>108.42</b>
<b>Grand Total Restorations</b>		<b>226.42</b>

*Restorations Summary* (Table 2) highlights the services that could be restored with the first 5% of concessions should employees reach such agreements. It is important to note that these lists reflect our best thinking at this point in time, but the actual value of buybacks and final recommendations will be dictated by other decisions that Council makes in approving the 2010-2011 budget.

#### *Revenue*

California voters have historically demonstrated a reluctance to take on the burden of new taxes, and with the passage of Propositions 13 and 218, the threshold for approving new revenues has become increasingly difficult to overcome. While San José voters have supported revenue measures in the past, recent telephone surveys have revealed only mixed support for new measures. We will learn in June whether our voters will support a ballot measure that would increase taxes and table numbers for Cardrooms, which is projected to bring in \$5 million. Later this year, the City Council may also consider placing a sales tax measure on the November ballot. If voters were to support a ¼ cent sales tax increase, it would increase ongoing General Fund revenues by \$31 million annually, a figure that would certainly go far in reducing next year's projected deficit of \$40.8 million. While these potential new revenues would ease the fiscal burden in coming years, passage of these measures cannot be assumed. The deficit closing measures included in this budget rely on the \$5 million that would be available with passage of the Cardroom ballot measure in June. As in years past, the Administration has provided additional reduction options in Tier 2 (Table 3 and fully discussed in Attachment D of this message). The proposals in Tier 2 would be available should the *Cardroom Ballot Measure K* fail to receive voter support in June and would also allow the City Council to substitute these reductions from those proposed should it wish.

# 2010–2011 PROPOSED BUDGET MESSAGE

## BALANCING STRATEGIES (CONT'D.)

Structural Deficit (Cont'd.)

*Revenue* (Cont'd.)

<b>Tier 2 General Fund Budget Proposal Summary</b>				
(Table 3)				
	<b>PROPOSED CHANGES</b>	<b>Positions</b>	<b>2010-2011 \$</b>	<b>Ongoing \$</b>
<b>Neighborhood Services CSA</b>				
1.	Anti-Graffiti Program Staffing	(2.63)	(355,000)	(360,000)
2.	Regional Park Services	(5.21)	(348,000)	(367,000)
3.	Neighborhood Park Restroom Seasonal Weekday Closures	(5.13)	(361,000)	(371,000)
4.	Park Ranger Services	(7.70)	(491,000)	(658,000)
5.	General Code Enforcement Program Staffing	(1.00)	(117,000)	(128,000)
<b>Public Safety CSA</b>				
1.	Crossing Guard Staffing – Moderate Risk Intersections	(15.12)	(658,000)	(666,000)
2.	Police Field Patrol	(10.00)	(1,853,000)	(1,859,000)
<b>Transportation &amp; Aviation Services CSA</b>				
1.	Streetlight Shutoff in Commercial/Industrial Areas and Arterials (10% reduction)	0.00	(392,000)	(490,000)
<b>Strategic Support CSA</b>				
1.	Financial Reporting Oversight	(1.00)	(122,000)	(122,000)
2.	City Hall Security	(1.00)	(66,000)	(74,000)
3.	Facility Set-Up Staffing	(1.00)	(74,000)	(81,000)
4.	Benefits Administration Management	(0.80)	(159,000)	(175,000)
5.	Workforce Development Program	(2.00)	(255,000)	(279,000)
6.	City-Wide Web Applications Staffing	(1.00)	(116,000)	(127,000)
7.	HelpDesk Staffing	(1.00)	(133,000)	(146,000)
8.	Unemployment Insurance		500,000	
	<b>TOTAL</b>	<b>(54.59)</b>	<b>(5,000,000)</b>	<b>(5,903,000)</b>

A review of the Tier 2 list reveals proposals that would even more severely impact many core services. While these proposals are not recommended at this time, they would be available should any of the developments identified above cause the General Fund budget balancing strategy to require additional expenditure reductions.

### *Reforms*

As the City struggles to confront a structural deficit that has forced historic service reductions, it is worth revisiting some of the options identified in the *General Fund Structural Deficit Elimination Plan* which was released in November 2008. The options identified in this plan provide a path to fiscal stability. Among those worth additional consideration are:

# 2010–2011 PROPOSED BUDGET MESSAGE

## **BALANCING STRATEGIES (CONT'D.)**

### Structural Deficit (Cont'd.)

#### *Reforms (Cont'd.)*

- Implement a Two-Tier Retirement Benefit to lower the retirement system costs as new employees enter the system.
- Modify Binding Interest Arbitration – Under the City Charter, which can only be changed by ballot measure, arbitration is required when the City's police and fire unions reach impasse in labor negotiations. This places the ultimate authority for public safety compensation costs in the hands of an outside party who is not accountable to the people of San José.
- Increasing the time, amount, and method to reach maximum compensation from the current traditional five-step salary structure.

Other strategies from the Structural Deficit Elimination Plan that are currently on the table in bargaining and would make substantial long-term improvements in our ability to manage costs are:

- Reforming the existing sick leave payout program to limit large payouts upon retirement.
- Bringing the City's workers' compensation benefits program more in line with the standard benefit package provided under State Workers' Compensation laws.
- Bringing the City's overtime rules more in line with the federal standard.

In addition to the reforms identified above, there are other barriers which inhibit the Administration's ability to contain costs. As directed in the Mayor's March message, we will be providing information during the Budget Study Sessions on these existing Council policies, budget policies, or processes that limit our ability to either control escalating costs or reduce expenditures, including those that: 1) are too long or costly to implement in time for inclusion in this Proposed Budget; 2) increase the cost of doing business as a contractor to the City; and, 3) inhibit the City from attracting businesses to start or expand in San José.

### Interfund Loans and Outstanding Agency Obligations

In accordance with City Council Policy, a detailed listing of outstanding City interfund loans is included in this document. As detailed in the Summary of Interfund Loans in Capital and Operating Funds, under the terms of a loan from the Sewage Treatment Plant Connection Fee Fund to the General Fund, the General Fund would be required to repay the Sewage Treatment Plant Connection Fee Fund \$2.3 million in 2010-2011. This document proposes an extension to the repayment date from June 30, 2011 to June 30, 2013. In order for the extension to be effective, City Council adoption of a resolution documenting the extension is required and will be agendized for City Council action on the same date that the City Council considers adoption of the 2010-2011 operating budget. Without the extension of the loan terms, additional cuts to General Fund programs and services would be necessary in 2010-2011 to meet the obligations of this loan.

# 2010–2011 PROPOSED BUDGET MESSAGE

## **BALANCING STRATEGIES (CONT'D.)**

### Interfund Loans and Outstanding Agency Obligations (Cont'd.)

The City and San José Redevelopment Agency have worked together successfully on many projects that have benefited and improved the quality of life to our residents for numerous years. For example, the Agency has transferred considerable funds to assist the City's budget by funding projects that allow the City to fund San José BEST, police officers, and code enforcement staff to name a few. The City recently loaned the Agency unrestricted funds to enable the Agency to make the required State Education Revenue Augmentation Fund (SERAF) payment. SERAF is currently being challenged in the courts as an illegal take from the state. The fiscal challenges being faced by our organizations are making it difficult for future funding arrangements between the City and Agency. A summary of Redevelopment Agency obligations to the City are included in the *Summary Information* tab of the Proposed Budget.

### Workforce Impacts

With the significant impact on the workforce that will result from this Proposed Budget, the organization will experience a significant loss of capacity. Service level standards and priorities will change. Discipline will need to be imposed to manage expectations. The specific impacts are described through the program reductions detailed in this message and throughout the budget document. But it must be understood that there will also be an additional loss of capacity that is more difficult to quantify. We regularly rely on the marginal extra capacity of our employees to be a responsive organization. It is that marginal extra capacity that allows us to take on unanticipated special projects or requests that come up throughout the year. And it's the marginal extra capacity that sustains our ability to be a customer service-driven organization. It would be disingenuous to argue that our work in these areas will not suffer from the reductions proposed in this budget. After nine years of shrinking the organization, the capacity to take on new layers of work will be limited.

Due to civil service rules as discussed below, we will also see a loss of productivity as hundreds of employees move into new positions where they will be required to learn (or re-learn) the skills and knowledge necessary to successfully fill the requirements of their new position. More patience and understanding from the City Council and the community will be necessary due to the loss of organizational capacity and service disruptions.

Our ability to sustain services throughout the past eight years has rested on a foundation of conservative fiscal policies adhered to by the City Council and the organization. We have continued the hiring freeze for non-critical positions, first imposed in 2001 with the desired effect of reducing expenditures and preserving vacancies to avoid layoffs. The number of City employees is now down significantly from a high of nearly 7,500. The 5,656 positions included in the 2010-2011 Proposed Budget, represents a net decrease of 967 positions from last year. The San José organization has a well-earned reputation as a lean organization. However, with the reductions noted above, the remaining employee count is roughly equivalent to those of 1989-1990, what can only be described as a stunning reduction to the workforce. In the intervening years, our City population has grown by some 220,000, a 28% increase. All of the individuals potentially impacted by the recommendations in this budget have been notified. Over the past eight years some 830 positions have been eliminated, yet only 12 full-time employees have left the City involuntarily. This year will

# 2010–2011 PROPOSED BUDGET MESSAGE

## BALANCING STRATEGIES (CONT'D.)

### Workforce Impacts (Cont'd.)

be different. We have far fewer vacancies, and far more positions are being eliminated than ever before. While some displaced employees will be moved into other funded positions, the number of displaced employees far exceeds the number of positions left to accommodate them. As shown in Table 4 below, the 2009-2010 Adopted Budget included funding for 6,623 positions with 146 positions scheduled for elimination. The reduction of the 146 positions that are part of the 2010-2011 Base Budget changes include 78 positions scheduled for elimination in July 2010 as approved as part of the 2009-2010 budget process, 53 positions eliminated during 2009-2010, and 15 one-time positions scheduled to sunset at the end of 2009-2010. This Proposed Budget reflects 821 position reductions resulting in a grand total of 967 position eliminations between the 2009-2010 Adopted Budget and the 2010-2011 Proposed Budget.

<b>Changes in Position Count</b> from 2009-2010 Adopted to 2010-2011 Proposed Budget (Table 4)	
<b>2009-2010 Adopted Budget</b>	<b>6,623 positions</b>
2010-2011 Base Budget Changes	(146) positions
2010-2011 Proposed Budget Changes	(821) positions
Total Position Changes	(967) positions
<b>2010-2011 Proposed Budget</b>	<b>5,656 positions</b>

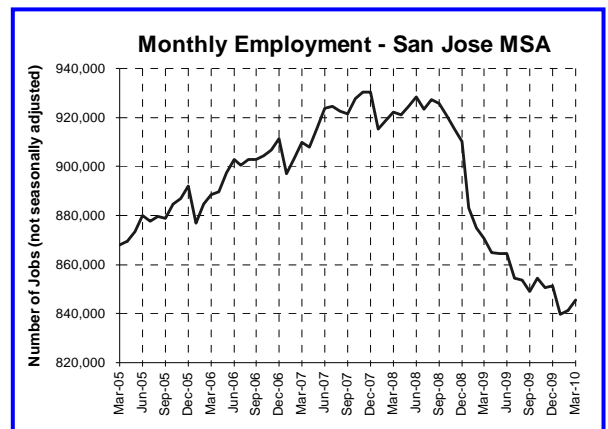
Of the positions recommended for elimination in the Proposed Budget, approximately 1,123 employees will be impacted and 457 full-time employees would face layoff. In addition, approximately 200 part-time employees could face layoff. Unfortunately, because so many positions are being eliminated with this proposal, it is unavoidable that a significant number will be forced to leave City employment. Since 2002 when the harshest impact of the economic downturn hit the City budget, the net reduction of City positions totals 1,797, a 24% reduction.

## ECONOMIC PERFORMANCE

The 2010-2011 revenue estimates are built on the assumption that the lingering effects of the economic recession will continue to impact the City's economic performance.

### National Outlook

Reversing four quarters of economic contraction, Gross Domestic Product (GDP) began to grow again during the last two quarters of 2009, with at least part of that growth attributable to the federal stimulus program. However, the key economic indicators are mixed, with real GDP growing in the fourth quarter of 2009 at an impressive rate of 5.6%, but with the seasonally-adjusted March unemployment rate of 9.7% remaining close to its October 2009 high of 10.1%. It may be the case that the national economy has turned the corner but, from the perspective of households, the future still remains uncertain.



# 2010–2011 PROPOSED BUDGET MESSAGE

## ECONOMIC PERFORMANCE (CONT'D.)

### National Outlook (Cont'd.)

The results of the most recent Consumer Confidence Survey, released by The Conference Board on April 27, 2010, reflect the ambivalence consumers are feeling. While the Index increased for the second straight month, 40.2% of consumers claim business conditions are “bad,” compared with the 9.1% of consumers who claim conditions are “good.” Moreover, 45.0% of consumers say jobs are “hard to get,” while only 4.8% describe jobs as “plentiful.” The Federal

<b>Unemployment Rate (Unadjusted)</b>			
	<b>March 2009</b>	<b>Feb. 2010</b>	<b>March 2010</b>
San José Metropolitan Statistical Area	10.5%	12.1%	12.3%
State of California	11.0%	12.8%	13.0%
United States	9.0%	10.4%	10.2%
Source: California Employment Development Department			

government has a difficult task in the coming year as it attempts to scale back the monetary and fiscal stimulus programs implemented over the past year. Withdrawal of federal support too soon could stall the nascent recovery, while continuing support too long could lead to rapid inflation.

Assuming the Federal government is successful, real GDP is expected to grow in the 1.0%-3.0% range during 2010-2011, somewhat below the historical average, and the unemployment rate is expected to remain in the mid-9% range through the end of the fiscal year. The determinants of inflation – employment, manufacturing capacity utilization, and energy prices – are all projected to remain relatively low during 2010-2011. Inflation is expected to remain within a range of 1.6%-2.2%.

### City of San José Outlook

Moderate growth in the global and national economies is expected to produce only moderate growth in the local economy. Local employment levels are expected to increase at a rate well below the historical norm and the unemployment rate will remain high.

As of March 2010, employment in the San Jose Metropolitan Statistical Area (MSA) remains well below the prior year level. The March 2010 employment level of 845,600 was 2.9% below the March 2009 employment level of 870,700. Over the past 12 months, the San Jose MSA has lost 25,100 jobs.

The San José metropolitan area continues to experience double-digit unemployment, with the March 2010 unemployment rate of 12.3% increasing from the February 2010 rate of 12.1% and close to the January 2010 high of 12.4%. The March 2010 figure is significantly higher than the 10.5% rate experienced a year ago. The March 2010 unemployment rate in this region is less than the unadjusted unemployment rate for the State, but remains above the nation, which has a current unadjusted unemployment rate of 10.2%.

Through March, permit activity for residential, commercial, and industrial construction was significantly below prior year levels. Only 308 residential permits have been issued so far this fiscal year compared with 1,046 residential permits issued at this time last year, a 70.6% drop. The total valuation of commercial permits issued so far this year is \$143.8 million, an 18.7% drop from the prior year valuation of \$176.8 million. The \$95.9 million of industrial permits issued this year shows an even larger drop, 53.1%, from the prior year valuation of \$204.4 million.

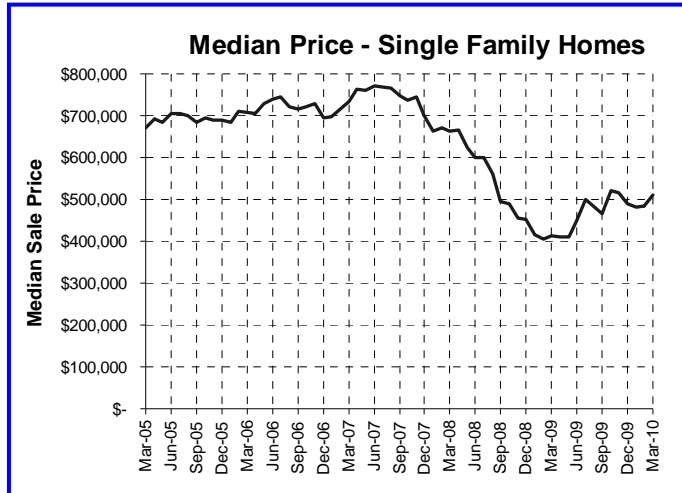
# 2010–2011 PROPOSED BUDGET MESSAGE

## ECONOMIC PERFORMANCE (CONT'D.)

### City of San José Outlook (Cont'd.)

This permit activity drives the revenue collection in several construction tax categories and is an indicator of future activity for several other categories, such as the storm and sanitary sewer system fees. Additionally, over the last ten years, the construction industry has provided approximately 5% of the region's jobs; so the reduction in permit activity is expected to contribute to a slow recovery in local employment.

The March 2010 median home price of \$510,000 for single family homes within the City is 23.7% above the March 2009 median of \$410,000. March marks the sixth consecutive month in which the median home price has increased from the same month in the prior year. Despite this improvement, housing prices remain well below the levels seen in recent years.



The lingering effects of the economic recession are expected to continue to impact the City's economic performance in 2010-2011. The deep decline in the City's revenue collections over the past year coupled with the slow growth projected over the next year produces an estimate of 2010-2011 annual revenues which will be substantially lower than what the City has experienced in recent fiscal years.

## BUDGET OVERVIEW

In the 2010-2011 Proposed Budget, the total net proposed funding is \$2.5 billion for all City funds (General, Special, and Capital). This is \$515.8 million or 17.4% below the 2009–2010 Adopted Budget (Table 5 below). This overall decline is due to two primary factors: 1) the fact that the Proposed Budget does not yet include funds that will be rebudgeted and added to the final Adopted Budget to complete multi-year projects. 2) a 33% decrease in the Capital Funds, which was the result of a substantial decrease in the Airport Capital Program and bond-funded programs as many of the previously budgeted projects are now complete or underway; and, As noted above, the total number of positions is proposed to decrease by approximately 12.5%, to a total of 5,662.

Our earliest projections for 2010-2011 predicted a \$91.3 million shortfall in the General Fund (excluding the development fee program). With the loss of Sales Tax revenue, the ending fund balance for 2008-2009 did not allow the City Council to follow past practice and create a 2010-2011 Future Deficit Reserve. However, we were able to increase the Economic Uncertainty Reserve to \$10 million by making additional expenditure cuts just months after the City Council adopted the 2009-2010 Operating Budget. The wisdom of these actions became evident as the economy continued to deteriorate and development activity slowed. For the second time in as many years, the

## 2010–2011 PROPOSED BUDGET MESSAGE

### BUDGET OVERVIEW (CONT'D.)

<b>2010–2011 PROPOSED BUDGET — ALL FUNDS</b>			
(Table 5)			
	<b>2009–2010 Adopted</b>	<b>2010–2011 Proposed</b>	<b>% Change</b>
General Fund	\$ 983,875,351	\$ 871,313,479	(11.4%)
Special Funds	1,500,612,838	1,376,245,780	(8.3%)
<Less: Operating Transfers>	(545,488,986)	(485,797,839)	(10.9%)
<b>Net Operating Funds</b>	<b>\$ 1,983,999,203</b>	<b>\$ 1,761,761,420</b>	<b>(11.2%)</b>
Capital Funds	\$ 1,035,245,995	\$ 696,264,373	(32.9%)
<Less: Capital Transfers>	(7,280,000)	(6,879,500)	(5.5%)
<b>Net Capital Funds</b>	<b>\$ 1,027,965,995</b>	<b>\$ 689,384,873</b>	<b>(32.9%)</b>
<b>Net Total</b>	<b>\$2,966,965,198</b>	<b>\$2,451,146,293</b>	<b>(17.4%)</b>

City Council was forced to eliminate positions during the year and \$4.5 million of the Economic Uncertainty Reserve was approved to be used to offset further declines in General Fund Revenues, bringing the total reserve to \$5.5 million. In November, 43.5 positions were eliminated related to Development Fee and Capital program and another 9 positions were eliminated (six related to the Airport) at Mid-Year. By February, the 2010-2011 General Fund shortfall in the Five-Year Forecast had risen to \$116.2 million. The 2010-2011 shortfall increases to \$118.5 million once final forecast revisions and the Development Fee programs are included. More detail of the General Fund Balancing Strategy can be found in Attachment A.

In preparing the 2010-2011 Proposed Operating Budget, the Administration was guided by a set of general budget balancing strategy guidelines contained in the City Manager's Budget Request and adopted by the City Council in the Mayor's March Budget Message. This Proposed Budget also responds to the 55 directives contained in the Mayor's March Budget Message with descriptions of how the budget responds to these referrals (Attachment B). A total of 7 of these directives will be responded to through the Manager's Budget Addendum process and will be brought forward to the City Council over the next year. A description of responses to the City Auditor's referrals is also included (Attachment C). As displayed in Table 6 below, the 2010-2011 Proposed General Fund Budget Balancing Plan contains a series of recommendations that closes the \$118.5 million shortfall with both increased sources and reduced uses, balancing the budget with 83% ongoing solutions.

## 2010–2011 PROPOSED BUDGET MESSAGE

### BUDGET OVERVIEW (CONT'D.)

<b>General Fund Budget Balancing Plan (in \$000's)</b> (Table 6)		
	<b>2010-2011</b>	<b>Ongoing</b>
<b>2010-2011 General Fund Shortfall</b>	<b>(116,016)</b>	<b>(116,016)</b>
<b>Development Fee Program Impact</b>	<b>(2,492)</b>	<b>(2,492)</b>
<b>TOTAL GENERAL FUND SHORTFALL</b>	<b>(118,508)</b>	<b>(118,508)</b>
<b>SOURCE OF FUNDS</b>		
Available Fund Balance:		
2009-2010 Reserves and Program Savings	15,517	1,086
Transfers from Other Funds/Healthy Neighborhoods Venture Fund	23,551	11,305
Fee and Fine Increases/Activity Level Adjustments	2,444	1,195
Miscellaneous	15,038	2,476
<b>Total Change in Source of Funds</b>	<b>56,550</b>	<b>16,062</b>
<b>USE OF FUNDS</b>		
Position Eliminations/Overtime	(64,622)	(70,573)
Employee Compensation Reductions (Units 99 & 82/Appointees)	(1,257)	(1,274)
Non-Personal/Equipment and City-Wide Expenses	(9,469)	(7,956)
Funding Shifts to Other Funds	(5,272)	(2,166)
Development Fee Programs	(123)	(931)
Use of Reserves (Committed Additions)	(7,518)	(6,848)
Unemployment Insurance Reserve	9,500	0
Healthy Neighborhoods Venture Fund-Related Activities	6,652	6,269
Technology & Capital Infrastructure Maintenance	2,661	0
City Council Direction (Essential Services Preservation Fund)	500	0
New Facilities Operations & Maintenance	301	102
Miscellaneous Additions (primarily reserves/revenue supported)	6,689	1,491
<b>Total Change in Use of Funds</b>	<b>(61,958)</b>	<b>(81,886)</b>
<b>TOTAL BALANCING SOLUTIONS</b>	<b>(118,508)</b>	<b>(97,948)</b>
<b>Remaining Surplus/(Shortfall)</b>		<b>(20,560)</b>

The table above shows the matrix of balancing strategies and the dollars associated with each action. A complete discussion of the balancing strategies and the dollars associated with each action can be found throughout the Proposed Budget document.

# 2010–2011 PROPOSED BUDGET MESSAGE

## **CITY SERVICE AREAS**

The following sections highlight the most significant proposals for the City's six City Service Areas (CSA).

### ***Neighborhood Services CSA***

Among the impacts most noticeable in the *2010-2011 Proposed Operating Budget* will be major changes proposed in the Neighborhood Services CSA, with significant reduction to the City's community centers and libraries. Proposed changes to these programs and services have met with a great deal of media attention and public apprehension from all sectors of the community.

#### *Libraries*

In June 2009, the City Council adopted a budget that reduced branch libraries from 47 to 39 hours/week effective July 1, 2010. The recommendations in this Proposed Budget would eliminate 72 positions (\$6 million) reducing branch hours of operation to 25-26 hours per week. The current Monday – Saturday operations would be reduced to three days/week. The impact of this reduction would be mitigated (to the extent possible) by pairing neighboring branches so that one branch would be open Monday, Wednesday, and Friday, and the other open Tuesday, Thursday, and Saturday. Branch services such as story-time, children's educational programs, literacy programs, adult programming, Summer Reading Celebration, and school class visits would also be reduced.

At the Dr. Martin Luther King, Jr. Library, 26 positions would be eliminated (\$1.9 million) with a corresponding reduction in operating hours. During the academic school year, hours would drop from 81 to 72 hours/week. During non-academic periods, the hours they would go from 67 to 58 hours/week. In addition, the Children's Room, California Room, along with the Reference Desk, Access Services, and Periodicals support would all see reduced hours.

An additional \$2.3 million would be saved by delaying the opening of two new branch facilities. Seven Trees Branch Library (scheduled to open in August 2010) and Bascom Branch Library (scheduled for October 2010) would both be delayed to September, 2011.

One new fine is proposed for the upcoming fiscal year – a \$3 fine for patrons who place a hold on a library material and do not pick-up the material within 7 days. The new fine is estimated to generate approximately \$30,000 per year in additional revenue.

#### *Regional Parks*

In the City's regional parks, nine Park Ranger positions would be eliminated (\$562,000). As a result, Overfelt Gardens, Emma Prusch Park, and the trails system would no longer have dedicated Park Ranger staffing. Funding set aside last year remains available to mitigate potential safety impacts with the installation of emergency call phones and signage reminding people of basic park and trail rules in the absence of ranger staffing.

Another proposal would save \$142,000 by closing the Lake Cunningham Marina and reducing administrative support at Emma Prusch Park. Current marina services include a public boat launch ramp (open to the public all year), dock space and boat trailer parking; pedal boat, rowboat, sailboat and kayak rentals; fishing rod loaner program; and a concession stand with light snacks, soft drinks and tackle supplies.

# 2010–2011 PROPOSED BUDGET MESSAGE

## **CITY SERVICE AREAS** (CONT'D.)

### ***Neighborhood Services CSA (Cont'd.)***

#### *Community Centers & Services*

To achieve a \$5 million ongoing reduction, a new service delivery model has been developed for the City's community centers. Under this proposal, the City would continue to operate ten hub centers, one in each Council District, along with Grace Community Center and the new Edenvale Community Center, which would aim to operate on an enterprise (full cost-recovery) basis. Each hub would offer standardized staffing and hours and a full range of recreation classes for youth, adults, and seniors including leisure, education, sports, summer camps, fitness, and wellness classes. The hub centers would be:

- Cypress (Council District 1),
- Southside (Council District 2),
- Roosevelt (Council District 3),
- Berryessa (Council District 4),
- Mayfair (Council District 5),
- Willow Glen (Council District 6),
- Seven Trees (Council District 7),
- Evergreen (Council District 8),
- Camden (Council District 9),
- Almaden (Council District 10)

In 2010-2011 Seven Trees Community Center would be opened and established as the District 7 hub. This center, as well as the new Edenvale Community Center would be operated with existing resources. The deferral of Bascom Community Center is also recommended, which will save the General Fund \$693,000 in 2010-2011. This facility is scheduled to now open in September 2011.

With the elimination of 30 positions, the 21 remaining satellite and neighborhood centers would be put into the Re-use Program. Grace Community Center, which offers mental health, therapeutic, recreation, and nutrition services to adults with mental disabilities, would remain open but with reduced staffing. As part of these changes, several citywide community services would be eliminated, including the Office on Aging, Office on Therapeutics, and the Citywide Theater Program. The Senior Nutrition Program would be retained for 2010-2011 but would be eliminated at the end of the fiscal year. During 2010-2011 services would be offered at a reduced level in each of the ten City hub sites while staff would identify alternative service providers.

Consistent with the City Council's previous action, staffing for the Citywide Aquatics Program would be maintained only at two City-owned pools, Mayfair and Camden, due to their geographic locations and their proximity to a hub community center which would allow the potential for cross-utilization of staff. City staff will be currently in the process of identifying alternative service providers to deliver aquatic program services at the remaining City-owned pool sites.

Another proposal would save \$256,000 by eliminating the Citywide Sports Office and most related programming. The Sports Field Reservation unit, which processes 200 applications annually for private and non-profit groups to reserve sports fields would be retained, so groups could self-organize to maintain leagues if desired. This proposal includes the elimination of committed addition resources for Watson Park, Phase I and II, and the inclusion of additional rental reservation revenues which are anticipated as a result of the completion of two lighted soccer fields.

# 2010–2011 PROPOSED BUDGET MESSAGE

## **CITY SERVICE AREAS** (CONT'D.)

### ***Neighborhood Services CSA (Cont'd.)***

#### *Community Centers & Services (Cont'd.)*

As noted in the *Community and Economic Development* section of this message, a consolidation of the Parks, Recreation & Neighborhood Services (PRNS) and Office of Cultural Affairs Special Events teams is recommended. Together the teams manage more than 475 community and downtown events annually. As a result of this recommendation, the PRNS team would be eliminated at the end of 2010. This timing will allow the team to continue supporting Christmas in the Park and the San José Holiday Parade for one more year. However, City support for these two events would be eliminated in 2011-2012.

#### *Community-Based Organizations*

As a result of recommendations included in this Proposed Budget, a number of Community Based Organizations (CBOs) would no longer be funded. A \$1 million savings would be achieved by eliminating funding to the following: Catholic Charities of Santa Clara County (\$374,000); MACSA (\$229,000); Rohi Alternative Community Outreach (\$93,000); Cupertino Community Services (\$64,000); Breakout Prison Outreach (\$63,000); Inner City Games (\$49,000); YMCA Mayfair Program (\$45,000); Career Training Center (\$41,000); Boys and Girls Club (\$20,000); OUTREACH (\$15,000); Youth Science Institute (\$15,000); Respite and Research for Alzheimer's Activity Center (\$12,000); and Korean American Community Services (\$8,000).

#### *Healthy Neighborhoods Venture Fund (HNVF)*

This proposal would solve \$9.4 million of the General Fund shortfall in 2010-2011 and provide savings of \$2.5 million to the General Fund thereafter by eliminating/reducing Healthy Neighborhoods Venture Fund (HNVF) programs, closing out the fund itself, and shifting the fund balance and tobacco settlement proceeds to the General Fund. This would eliminate the Homework Center Grant Program. However, homework center programs would still be offered at nine elementary school sites on a cost-recovery basis. In total, \$6.7 million of General Fund support would continue for, among other: 1) Children's Health Initiative (\$2,100,000); 2) Level 2 Homework Centers (\$306,000); 3) Senior Nutrition Programming (\$456,000 one-time); 4) several non-profit organization that provide services and currently have multi-year grants would continue to receive funding (\$3.1 million), but at a level reduced by 20.2%, a reduction that is equal to the reduction taken by the City's non-public safety departments; and, 5) City Hall debt service (\$107,000).

#### *Code Enforcement*

Reduction proposals in Code Enforcement would eliminate twelve positions while adding two temporary positions in the Code Enforcement Division for an ongoing savings of \$1.7 million. In the Community Development Block Grant (CDBG) Code Enforcement Program, six inspectors and one senior office specialist would be eliminated, leaving ten inspectors assigned to eligible areas. Among the San José Redevelopment Agency (SJRA) funded inspectors, four of seven inspectors plus one Senior Office Specialist would be eliminated, leaving three members of the driveway team. In addition, a Senior Office Specialist funded by the Solid Waste Enforcement fee is proposed for elimination.

## 2010–2011 PROPOSED BUDGET MESSAGE

### **CITY SERVICE AREAS** (CONT'D.)

#### ***Neighborhood Services CSA (Cont'd.)***

##### *Code Enforcement (Cont'd.)*

In an effort to reduce service delivery impacts, two General Fund Code Enforcement Inspector positions would be added on a one-time basis to the General Code Program. The addition of these positions would increase the number of General Fund funded Inspector positions to 7.75 for the entire City. The General Code Program staff would handle complaint-based services. With these reductions, response time for the initial field inspection could increase from 10 days to 15 days due to an increase in area responsibility for assigned Code Enforcement Inspectors. SNI neighborhood sweeps would be reduced from once a year to once every two years. Proactive enforcement to address the impacts of vacant foreclosed properties in neighborhoods would be discontinued.

##### *Animal Care & Services (ACS)*

On average, ACS answers approximately 50,000 calls per year. They will continue to focus priorities and resources on health and safety related calls such as aggressive animals, injured animals, public safety assists, confined strays and deceased animal removals. In order to mitigate the impact on call-wait times and provide greater staffing flexibility at the Animal Care Center, a recommendation to eliminate two dispatcher positions to fund one Senior Animal Services Officer is proposed.

A proposal to extend funding for Animal Licensing Efforts through 2010-2011 would allow the Animal Care Center to ensure that all dogs and cats are licensed. Licensing staff would continue gathering rabies vaccination information from San José veterinarians and contacting the pet owners to confirm compliance.

#### ***Public Safety CSA***

Although public safety is a top priority for San José residents, City Council, and the Administration, the magnitude of the City's overall budget challenges this year requires significant reductions in this CSA. For example, the proposed elimination of approximately 160 sworn positions in the Police Department includes positions in Patrol, Investigations and special units. In the Fire Department, elimination of approximately 90 sworn positions includes the elimination of five engine companies, one truck company, and the reconfiguration of staffing and response of the Hazardous Incident Team.

In addition to the service reductions and eliminations under consideration to address the 2010-2011 budget shortfall, the City Council last year approved service reductions and eliminations that were restored on a one-time basis in 2009-2010 with the reductions effective July 1, 2010. The units affected were the Horse Mounted Unit and Crime Prevention Unit.

# 2010–2011 PROPOSED BUDGET MESSAGE

## **CITY SERVICE AREAS (CONT'D.)**

### ***Public Safety CSA (Cont'd.)***

#### *Police*

In the face of the current need to reduce costs and eliminate current sworn and non-sworn positions in the Police Department, this budget proposes to eliminate funding identified in the 2011-2015 General Fund Forecast for 50 new police officers – 25 in 2010-2011 and 25 in 2011-2012. Elimination of the funding for these additional sworn positions would prevent further eliminations within the Police Department's sworn personnel, and would save \$1.6 million in 2010-2011, and \$5.4 million ongoing.

Specific Police functions that would be affected by reductions in this proposed budget include:

- Reduce Police Field Patrol by 90 positions, this includes 4.0 position reductions related to the SJRA, leaving approximately 500 officers in Patrol. A majority of the 96 patrol teams would be affected based on workload demands throughout the 16 patrol districts within the City. This would save \$12.7 million in 2010-2011, and \$14.0 million ongoing. Alternative shift start times, requiring meet and confer, could mitigate the impact of this proposal.
- Reduce the Metro Unit by 12 positions (10 officers and 2 sergeants), leaving the Unit with 1 lieutenant, 6 sergeants, and 30 officers. This would impact investigation of certain types of crime, such as street level narcotics and prostitution; limit the type of operations conducted; and impact Patrol, which would not receive as much covert support. This would save \$1.7 million in 2010-2011, and \$1.9 million ongoing.
- Reduce staffing in seven investigations units by a total of 25 positions (18 officers and 6 sergeants, and 1 lieutenant), leaving the combined investigations staffing in these units with 6 lieutenants, 21 sergeants, and 88 officers. This would affect the Police Vehicular Crimes Unit, Police Warrants Unit, Police Robbery Investigations Unit, Police Sexual Assaults Investigations Unit, Police Family Violence Unit, Police Assaults/Juvenile Investigations Unit, and Police Special Investigations-Vice Unit. This would save \$3.8 million in 2010-2011, and \$4.2 million ongoing.
- Reduce the Downtown Services Unit by 10 officers, leaving 1 sergeant and 7 officers. This would result in reduced regulatory enforcement in nightclubs, cruising management, and ability to coordinate with downtown nightclub owners. This would save \$1.4 million in 2010-2011, and \$1.5 million ongoing.
- Consolidate the Financial Crimes and High Tech Units, eliminating 1 sergeant and 6 officers, and leaving 1 lieutenant, 4 sergeants, and 23 officers. This would save \$943,000 in 2010-2011, and \$1.0 million ongoing.
- Consolidate and reduce Crime Prevention, Community Education, and School Liaison functions by 9 positions, including 7 officers, 1 sergeant, and 1 lieutenant. Affected units include the Crime Prevention Unit, Police Activities League, and School Liaison Unit. This would save \$1.6 million in 2010-2011, and \$1.7 million ongoing.

# 2010–2011 PROPOSED BUDGET MESSAGE

## **CITY SERVICE AREAS (CONT'D.)**

### ***Public Safety CSA (Cont'd.)***

#### *Police (Cont'd.)*

- Reduce the School Safety Unit by eliminating 6 currently unstaffed crossing guard positions and 33 crossing guard positions at lower-risk intersections. This would save \$325,000 in 2010-2011, and \$326,000 ongoing.
- Additional police staffing reductions totaling 13.5 positions would affect the units listed below. Net savings for 2010-2011 would total \$2.1 million, and ongoing savings would total \$1.9 million.
  - Recruitment and Training – 5 positions
  - Communications and Dispatch – 3.5 positions
  - Secondary Employment – 1 position
  - Permits – 1 position
  - Field Operations Management – 1 position
  - Police Information Technology Administrative Support – 1 position
  - Airport Canine Unit – 1 position

Finally, the budget proposes a further delay in the opening of the new Police Substation in South San José to September 2011 in order to align with the fall 2011 sworn shift change and postpone costs associated with the opening of the new facility. This would save an estimated \$1.3 million in 2010-2011.

The Police Department continues to identify opportunities to staff certain functions with non-sworn personnel, both to lower costs and move police officers to higher priority functions that require sworn staff. The Department continues to look at civilianization opportunities to achieve greater efficiencies or cost savings, which may also require meet and confer.

# 2010–2011 PROPOSED BUDGET MESSAGE

## **CITY SERVICE AREAS (CONT'D.)**

### ***Public Safety CSA (Cont'd.)***

#### *Fire*

As with the Police Department, this proposed budget calls for significant reductions in overall staffing and new approaches to delivering service in order to reduce costs. Almost the entire operating budget of the Fire Department is for personnel, thus any significant reduction in expenditures must involve reduction of staffing levels, service levels, and response times.

- Implement “Dynamic Deployment” service-delivery model. The Fire Department proposes to implement the “Dynamic Deployment” service-delivery model that uses historical-demand data, geographic information, real-time data, and community risk assessment to determine the optimal allocation of equipment and staff on a real-time basis. Dynamic Deployment is expected to partially mitigate the negative impact on response times as a result of the proposed reduction of five engine companies and one truck company.

To implement Dynamic Deployment, 3 senior public safety dispatcher positions and a battalion chief would be added, at a cost of \$617,000 in 2010-2011, with an ongoing cost of \$639,000. The battalion chief is proposed to support the development and implementation of the Dynamic Deployment strategy and would manage the Fire Communication Center. The public safety dispatcher positions would monitor resource levels and review the computer-recommended resource deployments to make determinations on whether to accept or modify them based on community conditions such as traffic or street closures.

- Reduce the number of fire engine companies by five, from 34<sup>4</sup> to 29<sup>4</sup>. Each engine company represents 13 to 15 positions, and total of up to 69 firefighter positions would be eliminated in this budget proposal for \$10.5 million in 2009-2010 savings, and \$11.7 million in ongoing savings. Dynamic Deployment would be used to optimize the redeployment of remaining resources on a real time basis. Provided that alternative staffing models can be successfully achieved, the Fire Department would be able to keep all fire stations operational to respond to EMS incidents. The Department is also exploring several strategies to deploy resources from two company stations. The Fire Department would mitigate, to the greatest extent possible, impacts to performance levels; however, response times likely would increase as a result of reductions in staffing. The engine companies currently identified for reduction are:
  - Engine Company 30 (Auzerais Avenue)
  - Engine Company 33 (Saint Florian Way/Communication Hill)
  - Engine Company 34 (Las Plumas Avenue)
  - Engine Company 35 (Poughkeepsie Road)
  - Engine Company to be determined

---

<sup>4</sup> Includes Station 20 (Airport) which is funded by Airport funds and dedicated to responses at the Mineta San José International Airport.

# 2010–2011 PROPOSED BUDGET MESSAGE

## **CITY SERVICE AREAS (CONT'D.)**

### ***Public Safety CSA (Cont'd.)***

#### *Fire (Cont'd.)*

- Eliminate Truck Company 3 (Martha Street). This would include the elimination of 16 positions (3 captains, 6 engineers, and 7 fire fighters), and would leave 9 truck companies in the Department. Engine 3 would remain in service at Fire Station 3. Dynamic Deployment would be used to minimize adverse impacts associated with the elimination of the truck company. This would save approximately \$2.5 million in 2010-2011, and \$2.7 million in ongoing savings.

As an alternative to the elimination of one truck company and one engine, the staffing levels for all truck companies would be reviewed to determine if the number of positions could be reduced from five positions to four positions. This staffing level for truck companies meets the National Fire Protection Association Standards. This change would be a meet and confer item as the current Memorandum of Agreement with the International Association of Fire Fighters Local 230 requires five positions on each Truck Company.

- Reconfigure Hazardous Incident Team (HIT). This proposal would consolidate staffing for an engine company, truck company and the HIT at Fire Station 29 (Innovation Drive). The remaining members of the Hazardous Incident Team (1 captain, 1 fire engineer) and the fire fighters on Truck 29 would be reconfigured. Savings in 2010-2011 would be \$800,000, with ongoing annual savings of \$892,000.
- Reduce Number of Fire Fighter Recruit Academies in 2010-2011. This would eliminate one of two recruit academies in 2010-2011 as a result of the overall reduction in sworn positions proposed in this budget. In addition, administrative staff assigned to the recruit academy would return to line duty while the academy is not in session. This would save \$1.1 million in 2010-2011.
- Eliminate the Fire Department Public Education Program. This would eliminate one position in the Department's Public Education Program that promotes fire and life safety through public outreach programs, including Senior Safety, school outreach, fire station tours, Ride-a-Longs, Fire Prevention Week, and Juvenile Firesetters. "Vials of L.I.F.E." would remain available at fire stations, as well as limited public safety informational materials. In addition, San José Prepared! would explore the possibility of incorporating fire and life safety into its program to help offset performance impacts related to this reduction. This would save \$133,000 in 2010-2011, with ongoing savings of \$148,000.

### ***Transportation and Aviation Services CSA***

#### *Aviation*

The Airport's 2010-2011 Proposed Budget reflects the winding down of a major construction program and the related increase in debt service, reduced revenues, and a focus on remaining cost-

# 2010–2011 PROPOSED BUDGET MESSAGE

## **CITY SERVICE AREAS (CONT'D.)**

### ***Transportation and Aviation Services CSA (Cont'd.)***

#### *Aviation (Cont'd.)*

competitive. Although long-term projections indicate that air traffic eventually will grow again, short-term uncertainties require the Airport to severely reduce expenditures and staffing, and to continue to seek opportunities to increase revenue as much as practical. This is necessary in order to keep costs to airlines at a competitive level compared to other airports both in the region and across the nation.

On the positive side, the Airport will open its new Terminal B for service on June 30, 2010. This milestone marks the substantial completion of the Airport's \$1.3 billion comprehensive modernization program to create a convenient, comfortable, and competitive gateway for San José and Silicon Valley, ahead of schedule and under budget. The project is scheduled for full completion spring 2011 when new surface parking lots are built.

On the negative side, the Airport has seen passenger traffic fall by 25% and the number of daily departures fall by 33 percent since 2007 as a result of the prolonged severe recession, capacity reductions in the airline industry, and the spike in fuel prices in 2008. The Airport is a self-supporting enterprise in a fiercely competitive environment, and it relies entirely on the revenue produced by its own operations. The loss of passenger traffic and flights has directly reduced revenues from parking, concessions, rental car, and airline rents and charges, yet the Airport cannot increase rates without risking its ability to compete for air service and passengers.

The proposed budget includes reductions that will eliminate 93 Airport positions, bringing authorized staffing levels down to 212, compared to 400 two years ago, a 47% percent reduction. These reductions will save \$6.9 million in 2010-2011. Specific reduction proposals include:

- Reduce Airport capital program staff. Eliminate 10 positions, or 25% of current staff. These reductions would be phased throughout the year in the Airport Planning and Development Division due to the completion of the majority of the construction and activation work associated with the Terminal Area Improvement Program. Estimated savings in 2010-2011 are \$582,000.
- Align Airport traffic control curbside support with current passenger levels. Eliminate 10 of 30 Parking and Traffic Control Officer positions. New terminal facilities, roadways, and curbs, along with reduced passenger levels, would make this proposal feasible without impacting public safety. Estimated savings in 2010-2011 are \$705,000.
- Reduce Airport administration, marketing/communications and property management. Eliminate 10 positions in various Airport administrative units including the Airport Finance, Technology Services, Employee Services, Safety and Training, Marketing & Communications, and Property Management in alignment with available resources. Estimated savings in 2010-2011 are \$1.4 million.

# 2010–2011 PROPOSED BUDGET MESSAGE

## **CITY SERVICE AREAS (CONT'D.)**

### ***Transportation and Aviation Services CSA (Cont'd.)***

#### *Aviation (Cont'd.)*

- Restructure new facility support services. Eliminate 5 positions. Efficiencies would be realized with just-in-time shipping and receiving warehouse model and reduced general maintenance needs in the short-term because of new facilities, systems and equipment. The new terminal facilities are double the size of the previous terminal space, and long-term needs are likely to increase. Estimated savings in 2010-2011 are \$619,000.
- Consolidate Airport Planning and Development. Eliminate 4 positions. This will reduce Airport Planning and Development Division staffing and consolidate work functions in the airfield, utility, and environmental work areas. Estimated savings in 2010-2011 are \$513,000.
- Relocate and consolidate Airport administrative offices to the terminals. The reductions in Airport staffing and the availability of unused space in the terminal complex provides an opportunity to consolidate the entire department in one location and save money now used for renting office space. If approved, this would take place this fall, and would lead to ongoing savings of approximately \$1.9 million per year. The consolidation of the entire staff may present further opportunities for efficiencies and could lead to proposals for additional position reductions and cost savings in the budget for 2011-2012.
- Airport Building Maintenance Services – Service Delivery Model Change. Eliminate 54 custodian positions. In accordance with Council Policy, a business case analysis was completed. Based on the analysis, this proposal includes a recommendation that the City Council choose not to implement the Public Private Competition process. If approved, this proposal would save approximately \$3 million in 2010-2011.

As noted in the Public Safety CSA summary, the Police Department also has proposed a reduction of one position in the Airport Police canine unit. This is in addition to the Airport Police staffing reduction of five positions approved as part of the 2009-2010 Mid-Year Budget Review, reflecting the lower levels of passenger activity.

Looking ahead, the Airport expects to face continuing financial challenges as new expenses associated with debt service for new facilities begin and passenger and airline activity remain low. As a result, the Airport has developed strategic principles to guide its efforts to keep costs competitive with a focus on implementing them for 2011-2012. As of this writing, a City Council meeting is planned for May to seek the City Council's direction regarding this effort.

Finally, the Airport will be bringing a proposed amendment to the Airport Master Plan to the City Council in June that would allow for the potential development of 44 acres of Airport property on the west side of the airfield for new general aviation purposes. Preliminary financial forecasts indicate that full development of this property by private-sector parties over the next several years ultimately could result in approximately \$4 million in annual revenue to the General Fund from new property taxes, and \$4 million in new revenue to the Airport.

# 2010–2011 PROPOSED BUDGET MESSAGE

## **CITY SERVICE AREAS** (CONT'D.)

### ***Transportation and Aviation Services CSA (Cont'd.)***

#### *Transportation*

In the Transportation Department, proposed budget cuts would be spread across many services including the Capital Program, traffic calming, and street maintenance, resulting in the elimination of 44.5 positions.

Although the City's transportation infrastructure continues to both grow and age, the resources available to operate and maintain these assets have been insufficient to meet the optimum standards for protecting their condition and operability. Staff continues to invest available funding and resources in the most efficient and effective way possible, but the gap between resources and needs is a critical issue for the City, now and in the future.

The Proposed Budget recommends the elimination of positions in several programs, reflecting the City's constrained General Fund resources. Among these are:

- **Reduce Traffic Capital Program.** Eliminate 12 positions reflecting the significant drop in revenues to the Construction Excise Tax Fund and Building and Structure Construction Tax Fund. This would leave approximately 73 positions in the program, but would significantly reduce support for regional, transit, bike and pedestrian projects; grant management; and project development engineering. This also includes the elimination of two positions that manage the design and implementation of Intelligent Transportation System projects. Estimated savings in 2010-2011 are \$1.4 million, with \$1.6 million ongoing.
- **Reduce Neighborhood Traffic Calming.** Eliminate 9 positions, from 20.5 to 11.5 positions. The unit would focus solely on traffic and pedestrian safety services as well as those mandated by law. Speed compliance calls would be directed to the Police Department for enforcement. Estimated savings in 2010-2011 are \$921,000, with \$999,000 ongoing.
- **Reduce Pavement Resurfacing and Sealing.** Eliminate 6 positions that perform in-house street resurfacing work on major collector and arterial streets. The remaining crew of 36 positions would be responsible for pavement preparation and seal work on residential streets. In addition, as a result of reduced funding in the Traffic Capital Program, 5.8 miles of residential streets that were scheduled to receive a higher street sealing treatment would be deferred. (savings of \$455,000 in 2010-2011; \$502,000 ongoing).
- **Reduce Inspection Services.** Eliminate 4 positions and realign street landscape maintenance. This would shift approximately one position from the General Fund to various Maintenance Assessment Districts (MADs) and reduce inspection services for sidewalks and the ADA Curb Ramp Program. Estimated savings in 2010-2011 are \$424,000, with \$461,000 ongoing.

# 2010–2011 PROPOSED BUDGET MESSAGE

## CITY SERVICE AREAS (CONT'D.)

### *Transportation and Aviation Services CSA (Cont'd.)*

#### *Transportation (Cont'd.)*

- Reduce Traffic and Lighting maintenance staff. Eliminate 2 positions that provide support to Phase I of the Traffic Light Synchronization Program, which is expected to be completed at the end of 2009-2010. Estimated savings in Capital Funds for 2010-2011 are \$207,000 in 2010-2011, with \$226,000 ongoing.
- Reduce Parking Program support. Eliminate 2 positions and contractual services funding that provide support for project delivery, project management, maintenance oversight, and budget development of the Parking Capital Program. Estimated savings in 2010-2011 are \$350,000, with \$379,000 ongoing.
- Consolidate Vehicle Abatement, Permit Issuance, and administrative services. Eliminate 1 position and consolidate off-site vehicle abatement services and City Hall permit issuance and customer service support. Estimated savings in 2010-2011 are \$79,000, with \$87,000 ongoing.
- Reduce Traffic Signal Activation staffing. Eliminate 1 position, reflecting the decline in development activity and the capital program. Traffic signal activations have declined 50% in 2009-2010, and activity is projected to decline an additional 25% - 50% in the next few years. Estimated savings in 2010-2011 are \$122,000, with \$134,000 ongoing.

Additional budget proposals that would reduce costs without staff reductions, or would increase revenues, include:

- Eliminate New Funding for Transportation Assets. The elimination of funding set aside in the 2011-2015 Forecast for operating and maintenance costs associated with County pocket annexation and new transportation assets would result in \$291,000 in ongoing savings.
- Street Landscape Maintenance. Reductions of funding for contractual services; utility funding for lower water usage due to the conversion to water-efficient landscaping; and in the overtime budget in the Street Landscape Maintenance section together would result in \$175,000 in ongoing savings.

Finally, several increases in parking rates could result in a net revenue increase of \$152,000. This would include doubling the rate for all non-Downtown parking meters from \$0.50 to \$1.00 per hour and extending meter enforcement from 5:00 p.m. to 6:00 p.m. citywide; increasing the flat rate at the Market Street Parking Garage from \$3.00 to \$5.00 on days when there are major events at the HP Pavilion; and establishing a \$5.00 flat rate at the Market Street Parking Garage for major outdoor weekend events.

# 2010–2011 PROPOSED BUDGET MESSAGE

## CITY SERVICE AREAS (CONT'D.)

### *Community and Economic Development CSA*

Economic development is a high priority for the City of San José, and the City continues to face national and global competition to maintain its position as the world's leading concentration of technical and entrepreneurial talent. Ironically, the current economic environment of lower rents and sluggish housing values provides an opportunity to attract more emerging technology companies in sectors like: clean technology and bioscience. The recommendations for this CSA include a combination of fee increases, staffing reductions and process improvements to close the funding gap in Development Services, as well as significant staffing reductions at Convention Center Facilities, and reductions in the area of arts and festival grants.

*Strengthen the City's economic base to generate revenue and create jobs* – In 2009-2010, the nation experienced its weakest economic performance in more than half a century. The weak world financial markets have been impacting the San José Metropolitan Statistical Area (MSA) since the 4<sup>th</sup> Quarter of 2008. The San José MSA lost 58,900 jobs in 2009. The unemployment rate increased from 7.71% in December 2008 to 11.5% in December 2009 (compared to 9.7% for the nation).

In 2010 the Office of Economic Development released an updated Economic Strategy, to ensure that San José is prepared to benefit from eventual national economic recovery. This was a collaborative effort involving the Redevelopment Agency, the Departments of Planning, Building, and Code Enforcement, Transportation, Airport, and Housing. The draft Economic Strategy includes 12 Strategic Goals and an implementation work plan identifying the top 10 actions for 2010-2011.

To implement the Strategy, OED received City Council approval of key incentives to jumpstart business activity in San José, including business tax suspension for small businesses and downtown parking incentives for businesses securing new leases and a proposed new tool of net new tax sharing.

The Community and Economic Development CSA has been aggressively implementing the Clean Tech Strategy that was adopted in 2008 and advancing the Green Vision goal of 25,000 clean tech jobs with the creation 4,000 of clean tech jobs.

*Facilitate the development of safe, healthy, attractive, and vital communities* – The economic downturn continues to impact the City's Development Services Partners – Planning, Building and Code Enforcement, Public Works, and Fire. In 2008-2009, construction valuation declined nearly 25% from the already low levels experience in 2007-2008. and this drop was experienced in every land use category (residential, commercial and industrial). This steep decline necessitated all four partners to right-size their budgets with the elimination of more than 50 positions to reconcile a projected \$9.8 million gap in its development fee programs. A continued worsening has resulted in the elimination of an additional almost 100 positions in order to align projected activity with projected revenues. For example, since 1980 the City has averaged nearly 3,100 residential building permits a year. There was a slight decline in permit activity in 2008; in 2009 activity virtually disappeared as the City issued 307 residential permits, just 10% of its historical average.

# 2010–2011 PROPOSED BUDGET MESSAGE

## CITY SERVICE AREAS (CONT'D.)

### *Community and Economic Development CSA (Cont'd.)*

The City's Development Services Partners work together to provide timely and high-quality services that support private development, including zoning, development permits, plan review, and inspection. Even in the current economic environment, Development Services is a \$22 million business for the City.

*A combination of targeted fee increases, staffing shifts/reallocations, and process improvements* are recommended to close the gap in the City's Development Services:

- To balance the \$14.5 million Building Program and ensure sufficient Permit Center staffing, the Permit Center hourly fee would be increased by 27%, a third Plan Review Express line would be restored with the restoration of 5.5 positions to process more complicated and larger projects on an expedited timeline. This would increase staff capacity to handle projects going through the Special Tenant Improvement/Industrial Tool Installation plan review processes.
- To balance the \$2.9 million Fire Development Fee Program, eliminate 5.0 positions, shift 2.0 positions to non-development, reduce non-personal/equipment and overtime funding, use a portion of the Fire Fee Program Reserve (\$924,000), and increase fees 2%.
- To balance the \$2.5 million Planning Program, eliminate 0.5 Planner position, reassign 0.5 Senior Planner Position from the General Fund and 0.21 Planner position to the Building Fee Program.
- To bridge a \$1.1 million gap between projected revenues and costs in the Public Works Development Fee Program, eliminate 2.31 positions, and reallocation of a net 5.77 positions to the capital program.
- To balance the \$1.6 million Public Works Utility Fee Program, raise Minor Permit fees to cost recovery (for 10.9% revenue increase), eliminate 0.08 positions and a net reallocation of 0.42 positions from capital funds to this program to appropriately account for management costs.

Two process improvements are under way to enhance service delivery and reduce service overlaps. The first would create an administrative hub for Development Services to streamline processes and enhance service delivery. Administrative functions, including budget, revenue, billing, and contracts would be consolidated for all the development services into a single budget, thereby addressing overhead and improving transparency in the process. The second would implement a model using development project managers to help fill any gaps in service and to serve as "process advocates." The development project manager would serve as a point of contact throughout the life of a project and would provide predictability through early and prompt decision making and issue resolution.

Finally, during 2010-2011, the City will complete a comprehensive update of the General Plan (called Envision San José 2040), the blueprint for San José's land use development and City service delivery goals. This community-based effort envisions San José in the future as a walkable, bicyclist-

# 2010–2011 PROPOSED BUDGET MESSAGE

## **CITY SERVICE AREAS (CONT'D.)**

### ***Community and Economic Development CSA (Cont'd.)***

and transit-friendly city with new housing and jobs in Downtown, North San José, major transit corridors, and neighborhood villages. These areas would also have parks, schools, and other amenities as complete communities. A draft General Plan document will be available for public review in Fall 2010 and the Environmental Impact Report will be available for public comment in December 2010. The community Task Force will make a final recommendation to the City Council in Spring 2011. Council consideration and adoption is anticipated in June 2011.

This Proposed Budget would reduce funding allocated for other departmental staff (Public Works, Transportation and City Attorney's Office) to assist with the Comprehensive General Plan Update (GPU) process. The remaining allocation of \$260,000 is considered sufficient for the remainder of General Plan Update activities scheduled for 2010-2011.

3. *Provide a diverse range of world-class events and cultural opportunities* – Significant reduction proposals related to arts and events include eliminating 42 positions in Convention Facilities, further reducing the Convention and Visitor's Bureau Marketing Program allocation (\$277,000), and reducing events planning and coordination currently provided by the Office of Cultural Affairs.

To address declining activity and revenues and escalating costs associated with Convention Facilities, this Proposed Budget would eliminate 42 of 56 positions. Reductions in this area are required to ensure the financial stability of the Convention and Cultural Affairs Fund. The positions recommended to be eliminated are associated with unpredictable activity loads. (42.0 positions; \$3.7 million in 2010-2011, \$4.0 million ongoing)

The elimination of 2.0 positions in the Business Development and Economic Strategy division would consolidate administrative analytic support across the Office of Economic development and result in reduced capacity for general economic development activities in support of retail and corporate outreach and special regional projects, as well as staff support to the small business development commission. The Redevelopment Agency currently reimburses the City for half of these Agency-related services; however, due to financial constraints, the SJRA can no longer support these positions. These position eliminations also include a reduction in reimbursement to the General Fund from the San Jose Redevelopment Agency in the amount of \$129,570.

A reduction of a Senior Events Coordinator in the Office of Cultural Affairs would reduce the oversight, planning, and coordination for more than 400 neighborhood and Downtown events. Staff consolidation between the Office of Cultural Affairs and Parks, Recreation and Neighborhood Services for events production will continue the 2010 Christmas in the Park and Holiday Parade events, but require development of a transition plan for continuation of these events beyond 2010 and will require a new model, likely leveraging community partnerships. (1.0 position; \$131,000 in 2010-2011, \$143,000 ongoing)

Recommendations this year would continue to build on strategies that were implemented last year to reduce the General Fund support of arts and cultural programs and to reallocate support for these important programs through the Transient Occupancy Tax (TOT) and a more competitive process for awarding arts grants and funds. Specific proposals include:

# 2010–2011 PROPOSED BUDGET MESSAGE

## **CITY SERVICE AREAS (CONT'D.)**

### ***Community and Economic Development CSA (Cont'd.)***

- Reallocate 1.3 positions in the Arts Program from the General Fund to the Transient Occupancy Tax (TOT) Fund. This funding reallocation would retain core Office of Cultural Affairs staff and reduce grants to arts and cultural non-profit organizations by \$159,000 leaving a balance of \$2.33 million for grants. (savings of \$159,000 in the General Fund)
- Eliminate the Festival, Parades and Celebration (FPC) subsidy that augments the Transient Occupancy Tax annual grant awards. This loss is anticipated to be mitigated by the Multi-Year Arts Stabilization Fund. (savings of \$38,000 ongoing)
- With the elimination of the San Jose Museum of Art School subsidy, it is anticipated that this organization would continue to apply for an operating grant funded by the Arts Grant Program in the Transient Occupancy Tax Fund. (savings of \$28,000 ongoing)

*Provide a Diverse Range of Housing Opportunities* - Housing affordability in San José continues to be a challenge. According to the Santa Clara County Association of Realtors, the median sales price of a single family home in San José fell from \$565,000 to \$450,000 between 2008 and 2009. This figure represents a 20% decline from prior year prices. However, it appears that the housing market is beginning to stabilize as the median price of a home in 2010 jumped nearly 8% to \$485,000. The rental housing market has held steady with a 5.1% vacancy rate (Real Facts December 2009). Additionally, San José has experienced a 280% increase in foreclosure since 2007. It is anticipated that foreclosures will continue through 2012 as households struggle with unaffordable mortgage payments and/or job loss.

The Housing Department will provide a loan to the San José Redevelopment Agency (SJRA) to fund the Supplemental Education Revenue Augmentation Fund (SERAF) payment required by the State. In February 2010, the City Council and SJRA Board approved a plan to meet the State mandated payment of \$75 million over two years to the SERAF as a result of rebalancing the SJRA 2009-2010 Capital and Operating Budget. This plan included a \$52 million loan from the Low and Moderate Income Housing Fund and \$10.0 million from other City funds in 2009-2010 and an additional \$13 million loan from the Low and Moderate Income Housing Fund in 2010-2011. In order to fund this loan, the Housing Department is issuing bonds of \$40 million in 2009-2010 and a total of \$25 million in commercial paper to cover the remaining obligations through 2010-2011.

Due to this shift in funding, the Housing Production Program will have limited funding for the construction of affordable housing in San José in the coming years. An associated reduction in Housing Department staffing levels is proposed. A net reduction of five positions and funding shift of one position will result in approximately \$1 million in savings in the Low and Moderate Income Housing fund in 2010-2011 (5.0 positions, savings of \$854,000 in 2010-2011, \$904,000 ongoing).

### ***Environmental and Utility Services CSA***

The Environmental and Utility Services CSA continues to focus its resources on achieving several of the City's aggressive Green Vision goals. Significant initiatives are underway to achieve zero waste,

## 2010–2011 PROPOSED BUDGET MESSAGE

### **CITY SERVICE AREAS** (CONT'D.)

#### ***Environmental and Utility Services CSA (Cont'd.)***

increase the use of recycled water, improve energy efficiency, increase the use of renewable sources of energy, plant new trees, and switch to “smart” streetlights. In addition, three major initiatives are driving many of the CSA’s 2010-2011 budget proposals: 1) upgrading and maintaining the City’s aging sewer and wastewater utility infrastructure and equipment; 2) addressing knowledge retention needs at the wastewater treatment plant; and 3) responding to the requirements of the regional stormwater permit that protects our vital watershed from pollution.

The *San José/Santa Clara Water Pollution Control Plant*, coupled with the City’s *Sanitary Sewer System*, protects public health and the environment by transporting wastewater from homes and commerce through 2,200 miles of pipeline and pump stations to the Plant for treatment and discharge to the South San Francisco Bay. Like many others across the nation, San José’s treatment plant and collection system are more than 50 years old and in need of major repair and improvements. The projected cost of meeting the Plant’s infrastructure need is estimated to be \$1 billion to \$1.5 billion – making this the largest capital improvement project in the City’s history.

Work on \$250 million of the Plant’s most critical infrastructure needs (e.g., electrical system reliability, digester rehabilitation) has already begun. Concurrently, the Plant Master Plan effort is half-way through a three-year process to shape the course of infrastructure improvements and land uses at the Plant for the next 30 years. While these long-range plans are being developed, the CSA has identified several immediate needs for the collection system and is proposing funding to replace old maintenance equipment that is inoperable or unreliable including: two Vactor trucks (\$850,000) for cleaning sewer lines and responding to system overflows; two utility trucks and one “boom” truck (\$450,000) for lifting and transporting pumps; and one backhoe and trailer (\$150,000) for repairing sink holes and collection system backups.

Along with facing the challenges of aging infrastructure, the Plant needs to prevent a significant loss of technical expertise; half of the facility’s mechanical maintenance staff and over 40% of its operators are eligible to retire within the next five years. Because previous recruitments for Plant operators and mechanics have yielded few qualified candidates for these very specialized, technical fields, the Proposed Budget also recommends implementing an apprenticeship program using seven temporary positions – one Plant Shift Supervisor, three Plant Mechanics, and three Plant Operators – funded for one year, with the possibility of extending the Plant Mechanic and Plant Operator positions for an additional year (\$650,000). This would enable current employees to transfer their knowledge to these trainees who would then have the necessary qualifications and direct experience to apply for full-time positions as they become available. The apprenticeship program would build on other essential knowledge retention efforts underway which include implementing an Environmental Management System (ISO 14001) and an Asset Management Program – both of which put in place the necessary systems and processes to improve elements such as technical documentation, maintenance procedures, and operational reliability.

The third focus of this year’s Proposed Budget relates to the City’s responsibility to comply with a regional stormwater permit to protect our waterways and Bay from damaging pollutants such as trash, mercury, and pesticides. The five-year Municipal Regional Stormwater NPDES Permit

# 2010–2011 PROPOSED BUDGET MESSAGE

## **CITY SERVICE AREAS (CONT'D.)**

### ***Environmental and Utility Services CSA (Cont'd.)***

became effective in December 2009 and requires a 40% reduction in trash from the storm sewer system to receiving waters by 2014. In response, proposed additions include: installing in-line trash control devices that capture the trash before it migrates to waterways (\$1.0 million); a temporary position to manage the installation of trash control devices (\$118,000); constructing paved berms at the City's corporation yards to prevent debris and pollutants from washing into the storm sewer system (\$40,000 from Storm Sewer Operating Fund and Sewer Service and Use Charge Fund/\$140,000 from the Service Yards Construction and Conveyance Tax Fund); establishing demonstration projects that use alternatives to pesticides and herbicides for pest management (\$100,000); and sampling and monitoring equipment to meet required testing protocols for water quality at 12 pump stations (\$50,000).

### ***Strategic Support CSA***

More than five years of staffing and resource reductions have impacted the Strategic Support CSA's ability to deliver critical behind-the-scenes services and functions, including administrative support, technology, training, and facilities and vehicle maintenance. This year's Proposed Budget includes a strategic effort to consolidate technology resources throughout City departments along with the elimination of 12 IT positions, new efforts to restructure and consolidate staffing in the Public Works Capital Improvement Program, and further narrowing of the City's fleet and facilities services. This includes extending the life cycle and maintenance of City vehicles and equipment, and reducing services and maintenance and City facilities.

*Maintain a high performing workforce that is committed to exceeding customer expectations* – As the City faces higher than anticipated retirements and significant impacts due to layoffs and bumping, succession planning and workforce development will be essential to move the City organization forward in a way that maximizes resources and provides critical community services in the most efficient manner. At a time when many City employees will be redeployed to new jobs and new departments in roles that may well require training, the Citywide Training Program will be reduced due to the elimination of the citywide training allocation (\$150,000), employee recognition funding (\$25,000), and elimination of 1 of 4 positions in the Training and Workforce Development program. (1.0 position; savings of \$90,000 in 2010-2011, \$101,000 ongoing)

The reductions necessary in the Human Resources Department are most significant in the area of Risk Management, which includes staffing for Workers' Compensation, the Citywide Safety and Loss Program, Risk Financing and the Return-To-Work programs.

- This Proposed Budget rolls back a portion of the Workers' Compensation Claims staffing that was added in 2007-2008, reducing 4 positions (of 22). This would likely result in an increase in the time it takes to process claims (savings of \$382,000 in 2010-2011, \$426,000 ongoing).
- The Citywide Safety and Loss Program would be reduced by 1 position, making it necessary to scale back assistance to departments and reduce capacity to work proactively in loss control (savings of \$112,000 in 2010-2011, \$122,000 ongoing).

# 2010–2011 PROPOSED BUDGET MESSAGE

## CITY SERVICE AREAS (CONT'D.)

### *Strategic Support CSA (Cont'd.)*

- The Return-to-Work program would be reduced by eliminating 1 vacant position and having the work absorbed by remaining staff, as well as Risk Management staff (savings of \$110,000 in 2010-2011, \$113,000 ongoing).

On the positive side, the City will extend its Employee Wellness Pilot Program, as part of an ongoing effort to reduce health care costs for both active employees and retirees. The program was launched in 2008-2009 in an effort to promote healthy lifestyles, prevent chronic health problems and decrease the use of health care services with a long-term goal of lowering the City's total health-related costs and health insurance increases. This would extend the program and funding for a Senior Medical Assistant (75% supported by Retirement Funds), temporary staffing for oversight, and non-personal/equipment funding. The \$548,000 program costs are funded by Retirement Funds, the City's health care providers (\$400,000 revenue offset), and the anticipated re-budget of department savings of \$110,000 from 2009-2010.

*Safe and functional public infrastructure, facilities and equipment* – The City's Capital Improvement Program continues to see a decline in activity, primarily due to the approaching completion of Library, Parks, and Public Safety bond programs. In 2009-2010, the Public Works Department reduced staffing to appropriately align resources with capital project activity. Additional reductions this year would eliminate 23.7 positions at the beginning of the year and 14 more at mid-year. These changes are proposed to reflect the activity decline in the capital program, and to align staff resources with the current capital project activity. These reductions include the elimination of administrative staff, as well as technical engineering and inspection positions (savings of \$3.5 million in 2010-2011, \$4.9 million ongoing).

This Proposed Budget also identifies several areas where savings will be achieved by stretching out the life cycle and maintenance schedules for the City's vehicles and equipment. Specific proposals would:

- Extend the replacement criteria for marked and unmarked Police patrol cars by one year and 10,000 miles. The replacement criteria would increase from the current 5 years and 100,000 miles for marked vehicles and, from 10 years and 100,000 miles for unmarked vehicles (savings of \$1,263,000 in 2010-2011, \$394,000 ongoing).
- Reduce the non-public safety vehicle replacement allocation of \$1.0 million by \$800,000 in 2010-2011 and \$200,000 ongoing. Priority would be given to equipment and vehicles that are critical to program service delivery needs and are in danger of failing (savings of \$800,000 in 2010-2011, \$200,000 ongoing).
- Reduce management oversight currently provided by the City's Fleet Services and extend the intervals between regular preventative maintenance of vehicles (savings of \$779,000 in 2010-2011, \$835,000 ongoing).

# 2010–2011 PROPOSED BUDGET MESSAGE

## **CITY SERVICE AREAS (CONT'D.)**

### ***Strategic Support CSA (Cont'd.)***

Consolidation of warehouse and central service operations would add a net 3 positions and current service levels would continue with a potential increase in wait time for retrieval and delivery of records. In 2009-2010, staff completed a Request for Proposal (RFP) for warehouse services and found the existing service delivery model was more cost effective. As a result, this proposal would reverse last year's budget action to contract these services (cost of \$272,000 in 2010-2011; ongoing cost of \$262,000).

Savings also would be achieved by reducing a number of services, as well as operations and maintenance costs for City facilities, including:

- Reduce Facilities Management Division staffing, eliminating six positions. The anticipated impacts include less timely set up of meeting rooms, increased response times to electrical work orders, and less responsiveness to after-hours requests (savings of \$592,000 in 2010-2011, \$769,000 ongoing).
- Reduce custodial contractual services at 18 City facilities, including community centers, senior centers, and youth centers, by 1 day per week from the current level of 5 days or more per week (savings of \$150,000 ongoing).
- Eliminate maintenance and utility costs associated with the Old Martin Luther King Jr. Facility, which will be demolished for the planned Convention Center expansion. City employees working at this location are being relocated to other City facilities (savings of \$532,000 ongoing).
- Reduce City Hall contractual services by 7% or \$292,000, which may result in the deferral of less critical maintenance activities and increased cycle times (savings of \$292,000, ongoing).
- Reduce City Hall security, resulting in decreased security presence at City Hall. Service levels for vehicle check-out, issuing and replacing identification badges, and parking oversight would also be reduced (savings of \$77,000 in 2010-2011, \$88,000 ongoing).

*Effective use of state-of-the-art technology* – Budget reductions over past years have significantly constrained resources supporting the City's technology infrastructure and operations. In 2010-2011, the City will begin a multi-phase consolidation of all technology resources to achieve operational efficiencies throughout the organization. The first phase would consolidate database administration, while subsequent phases would consolidate networks, servers, desktop support, and other systems. A new Senior Staff team has been developed to help guide and inform this process and to make decisions about technology infrastructure and maintenance for important day-to-day activities and to guide future technology investments. In addition, the following proposed reductions in the Information Technology Department were approached using a consolidation framework:

# 2010–2011 PROPOSED BUDGET MESSAGE

## CITY SERVICE AREAS (CONT'D.)

### *Strategic Support CSA (Cont'd.)*

- Reduce support for Business Applications Management, eliminating 3 of 11 positions and reduce business applications management services. These positions assist departments with technology decisions and project implementation, and eliminating them will better align management staffing levels with organizational capacity as fewer projects will be implemented given the current budget environment (savings of \$473,000 in 2010-2011, \$519,000 ongoing).
- Reorganize Infrastructure Operations, eliminating 3 positions and reducing staff dedicated to the Housing Department. Work would be reorganized to allow remaining technical managers to oversee Infrastructure Division workgroups (savings of \$439,000 in 2010-2011, \$474,000 ongoing).
- Right-size Customer Contact Center staffing after call center consolidation and the implementation of the Integrated Billing System. Remaining staff (34 positions) would absorb the duties of these positions with minimal impacts (savings of \$295,000 in 2010-2011, \$313,000 ongoing).
- Eliminate 1.0 HelpDesk position as a result of a recent work order system upgrade and operational efficiencies, this can be accomplished with minimal impacts (savings of \$146,000 in 2010-2011, \$146,000 ongoing).
- Reduce Legacy Telecom phone system staffing from 4 to 2 positions to adjust for the reduced workload as a result of the transition to Voice over Internet Protocol (VoIP) (savings of \$262,000 in 2010-2011, \$287,000 ongoing).

Despite resource and staffing reductions, this Proposed Budget aims to restructure and maintain the key strategic support functions necessary to deliver services to both City employees and residents.

## CONCLUSION

Formulating the 2010–2011 Proposed Operating Budget has been an extraordinary challenge. The City has never been confronted with a budget deficit of this magnitude. We have successfully closed the largest General Fund shortfall in the City's history. However, the reduction proposals in this document will have a profound affect on our ability to serve the San José community, and the number of positions proposed for elimination is sobering. We have avoided even worse reductions by maximizing the strategic use of reserves, appropriate fund transfers, and one-time revenues. The Administration believes the blend of solutions represents the best approach to balancing the budget given the options currently available. This has been a significant accomplishment and it is important to keep in mind that, even with these reductions, we still are proposing over \$871.3 million in the General Fund and net \$2.5 billion in all operating funds to continue providing a comprehensive mix of services. This plan maintains the sound financial discipline that has allowed us to manage the organization and our service delivery through the past eight years of economic difficulties.

## 2010–2011 PROPOSED BUDGET MESSAGE

### CONCLUSION (CONT'D.)

I want to express my profound appreciation to our City workers who have displayed such a high degree of professionalism and commitment even as we enter our ninth year of service reductions. My appreciation also goes out to all of the dedicated City employees who have worked closely with the Administration as we moved through this budget process. In particular, I want to acknowledge the administrative staff in City departments, as well as the staff of the City Manager's Budget Office, who all work tirelessly for uncountable hours and contribute so much to the preparation and production of this budget document.

While the recommendations contained in this document will confront the community, the City Council and our workforce with difficult changes, they collectively preserve the most essential services we provide as a City and avoid adding to San José's significant budget problems. It is critical that we remain focused and disciplined as we confront the challenges of the foreseeable future, so that we continue to address the City's structural deficit and emerge as a financially stronger and healthier government in the future.



Debra Figone  
City Manager