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INTEREST ARBITRATION

BEFORE JOHN A. FLAHERTY (RET.) – JAMS

In The Matter of Interest Arbitration Between CITY OF SAN JOSE, Employer, and SAN JOSE POLICE OFFICERS' ASSOCIATION, Association.	**JOINT EXHIBIT #33** Date(s): May 6, 7, & 8, 2013 Time: 9:00 a.m. Location: San Jose City Hall 200 W. Santa Clara St. Room 118-120 San Jose, CA Arbitrator: Hon. John A. Flaherty (ret.)

Pursuant to agreement by the parties, attached and submitted herewith as Joint Exhibit 33 is the May 29, 2013 Manager's Budget Addendum #37 Memorandum Re: Additional 2013-2014 General Fund Funding Sources and Revised $20 Million General Fund Contingency Plan.

Dated: June 5, 2013

CARROLL, BURDICK & McDONOUGH LLP

By _____
Gregg McLean Adam
Jonathan Yank
Attorneys for San Jose Police Officers' Association

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MANAGER'S BUDGET ADDENDUM # 37

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Jennifer A. Maguire

SUBJECT: **ADDITIONAL 2013-2014 GENERAL FUND FUNDING SOURCES AND REVISED $20 MILLION GENERAL FUND CONTINGENCY PLAN**

DATE: May 29, 2013

Approved

Date 5/29/13

RECOMMENDATION

The following adjustments to the 2013-2014 Proposed Budget for the General Fund are recommended:

1. Increase the Property Tax revenue estimate by $10,850,000;
2. Increase the 2013-2014 General Fund Beginning Fund Balance estimate by $4,000,000;
3. Increase the Budget Stabilization Earmarked Reserve by $6,000,000;
4. Decrease the Employee Compensation Planning Earmarked Reserve by $4,264,000;
5. Establish a San Jose Police Officers' Association Employee Compensation Planning Earmarked Reserve in the amount of $9,989,000;
6. Increase the Essential Services Earmarked Reserve by $3,125,000; and
7. Modify the $20 Million General Fund Contingency Plan that was presented as Exhibit 1 to the City Manager's 2013-2014 Proposed Operating Budget Message as presented in Attachment A.

BACKGROUND

The City Manager's Budget Office has continued to analyze projected funding sources for 2013-2014. Based on updated information from the County of Santa Clara regarding property taxes and the latest analysis of projected fund balance at the end of 2012-2013, upward adjustments totaling $14.85 million to the 2013-2014 Property Tax ($10.85 million ongoing) revenue estimate and 2013-2014 Beginning Fund Balance ($4.0 million one-time) are recommended. In 2013-2014, these funds are recommended to be allocated to the Budget Stabilization Earmarked Reserve ($6.0 million), the San Jose Police Officers' Association (SJPOA) Employee Compensation Planning Earmarked Reserve (net increase of $5.725 million), and the Essential Services Earmarked Reserve ($3.125 million). On an ongoing basis, additional funds would be available to allocate to the 2014-2015 Future Deficit Reserve. In addition, modifications to the $20 Million General Fund Contingency Plan are recommended to allow the majority of

Jt. EXHIBIT 33

proposals originally contained on that plan to move forward without being subject to the outcome of litigation.

ANALYSIS

Recognizing Additional General Fund Funding Sources

Additional 2013-2014 funding sources in the General Fund are expected to be generated from the following:

- **Property Tax** – Subsequent to the release of the 2013-2014 Proposed Budget, updated information was received from the County of Santa Clara Assessor's Office on May 17, 2013 regarding the 2013-2014 secured real property growth for the City of San José as of that date. This information will continue to be refined by the County Assessor through June 2013. Based on this latest information, secured property tax receipts in the City are projected to increase by 8% in 2013-2014, which is up from the 3% growth assumed in the 2013-2014 Proposed Budget, resulting in an increase in projected revenue of $9.8 million (from $191.6 million to $201.4 million). This increase is due, in large part, to the full or partial restoration of property values that had previously been temporarily reassessed downwards under Proposition 8 due to declining market values. Proposition 8 provides that when the market value of a property declines below the previously established assessed value as of January 1 each year (lien date), the assessor is required to proactively reduce the assessed value to reflect the lower market value. Approximately one-third of the properties in the City had received a Proposition 8 adjustment to their assessed value in 2012-2013, including properties that were adjusted downward in 2012-2013 as well as properties that had been adjusted downwards in a previous year. With the improvements in the real estate market, the assessed value for a large number of properties that had received a Proposition 8 reduction will be fully or partially restored to the factored base year value in 2013-2014.

  Upward adjustments to 2013-2014 revenue estimates are also recommended for the Unsecured Property Tax (increase of $800,000 from $11.8 million to $12.6 million) and the SB 813 Property Tax (increase of $250,000 from $3.35 million to $3.6 million) categories based on higher than anticipated receipts in 2012-2013 that are expected to be received on an ongoing basis in 2013-2014.

- **Beginning Fund Balance** – Based on the latest analysis of projected General Fund revenues and expenditures, an upward adjustment of $4.0 million to the 2012-2013 Ending Fund Balance/2013-2014 Beginning Fund Balance is recommended. Additional fund balance is available due to higher than estimated revenues in categories such as Property Tax, Business Taxes, and remaining Tobacco Settlement payments, higher than estimated vacancy savings in various departments, and additional savings in city-wide expenditures.

Allocation of Additional General Fund Funding Sources

The additional 2013-2014 funding sources in the General Fund are recommended to be allocated to the following:

- **Employee Compensation Planning Earmarked Reserve/SJPOA Employee Compensation Planning Earmarked Reserve** – Actions are recommended to remove the portion of the $11.1 million Employee Compensation Planning Earmarked Reserve attributed to the employees represented by the SJPOA ($4.3 million) and to allocate this funding along with an additional $5.7 million to a separate SJPOA Employee Compensation Planning Earmarked Reserve. Although the outcome of arbitration with the SJPOA is unknown at this time, this represents the last offer in negotiations with the SJPOA and establishing this reserve will ensure that sufficient funds are set aside if a negotiated settlement were to occur. Included in this reserve is funding equivalent to a 2.5% ongoing general wage increase in 2013-2014 and 2014-2015 as well as a one-time 4% non-pensionable retention bonus paid in two installments (March 2015-2% and June 2015-2%).

- **Budget Stabilization Earmarked Reserve** – An increase to the Budget Stabilization Earmarked Reserve by $6.0 million (from $4.0 million to $10.0 million), which will bring the reserve to approximately 1% of General Fund revenues or expenditures in 2013-2014 is recommended. This additional funding is proposed to be incorporated into the $20 Million General Fund Contingency Plan.

- **Essential Services Earmarked Reserve** – An increase to the Essential Services Earmarked Reserve by $3.1 million (from $2.0 million to $5.1 million) is recommended and would be available for allocation by the City Council during the 2013-2014 budget process.

- **2014-2015 Future Deficit Earmarked Reserve** – A total of $8.725 million of the remaining unallocated ongoing funding is recommended to be placed in the 2014-2015 Future Deficit Reserve. Along with the entire Budget Stabilization Reserve, a portion of this additional ongoing funding ($5.829 million) is proposed to be incorporated into the $20 Million General Fund Contingency Plan. It should be noted, however, if the Contingency Plan is not needed, the 2014-2015 General Fund estimated shortfall of $13.7 million would be able to be reduced by this $8.7 million ongoing funding, bringing the shortfall that year to approximately $5.0 million. The 2014-2015 Future Deficit Reserve one-time funding of $13.7 million would also still be intact and available to temporarily close that remaining $5.0 million shortfall.

The following chart summarizes the recommended changes to the Proposed Budget General Fund funding sources and uses in 2013-2014 and ongoing:

RECOMMENDED 2013-2014 GENERAL FUND PROPOSED BUDGET ADJUSTMENTS

	2013-2014	Ongoing
Source of Funds		
Property Tax	$10,850,000	$10,850,000
Beginning Fund Balance	4,000,000	0
Total Source of Funds	**$14,850,000**	**$10,850,000**
Use of Funds		
Employee Compensation Planning Earmarked Reserve	($4,264,000)	($4,264,000)
SJPOA Employee Compensation Planning Earmarked Reserve	9,989,000	6,389,000
Budget Stabilization Earmarked Reserve	6,000,000	
Essential Services Earmarked Reserve	3,125,000	
2014-2015 Future Deficit Earmarked Reserve		8,725,000
Total Use of Funds	**$14,850,000**	**$10,850,000**

Modifications to the $20 Million General Fund Contingency Plan

The 2014-2018 General Fund Forecast included approximately $20 million in ongoing savings from the Supplemental Retiree Benefit Reserve (SRBR) elimination and the lowest cost healthcare plan changes. These changes have been challenged and the SRBR is part of a trial related to Measure B in the Superior Court in July 2013. In the Mayor's March Budget Message for 2013-2014 as approved by the City Council, the Administration was directed to develop a list of $20 million in proposed ongoing and/or one-time expenditures that will not be implemented until at least 60 days after a favorable verdict is received. The 2013-2014 Proposed Budget includes a list of budget proposals that meet this City Council direction with $20 million in 2013-2014 budget reductions, of which $15.7 million is ongoing.

With the additional funding sources available, modifications to that plan are recommended that would allow all of the projects and services to be removed from the Contingency Plan with the exception of the opening of the South San José Police Substation. Attachment A includes the revised plan as well as the original plan that was presented in the 2013-2014 Proposed Budget.

The items that would remain on the plan include the Budget Stabilization Earmarked Reserve ($10.0 million), the 2014-2015 Employee Compensation Planning Earmarked Reserve ($12.2 million in 2014-2015), the 2014-2015 Future Deficit Earmarked Reserve ($7.9 million in 2013-2014 and $5.8 million ongoing), and the South San José Police Substation ($2.1 million in 2013-2014 and $2.0 million ongoing). It is important to note that the 2013-2014 Employee

Compensation Planning Earmarked Reserve would no longer be included on the Plan and any 2013-2014 salary adjustments that would be funded from this reserve would no longer be contingent on the outcome of litigation. The City's proposal for any salary increases for 2014-2015, however, is contingent on the outcome of the litigation.

With the potential use of the 2014-2015 Future Deficit Reserve as reflected on the Contingency Plan ($7.8 million in 2013-2014 and $5.8 million ongoing), the remaining unallocated 2014-2015 Future Deficit Reserve would total $5.8 million in 2013-2014 and $2.9 million ongoing. This ongoing funding would reduce the ongoing shortfall projected for 2014-2015 from $13.7 million to $10.8 million. Of this amount, $5.8 million in one-time funds from the 2014-2015 Future Deficit Reserve would be available to partially offset this shortfall, leaving a remaining shortfall of $5.0 million to be resolved that year.

JENNIFER A. MAGUIRE
Budget Director

Attachment A: $20 Million General Fund Contingency Plan

ATTACHMENT A

$20 Million General Fund Contingency Plan

Revised Plan

2013-2014 Revised Plan
$20 Million General Fund Contingency Plan

Proposal	2013-2014	Ongoing
Budget Stabilization Reserve	($10,000,000)	
2014-2015 Employee Compensation Planning Reserve[1]		($12,165,000)
2014-2015 Future Deficit Reserve	(7,854,000)	(5,829,000)
South San José Police Substation Opening[2]	(2,146,000)	(2,006,000)
Total	**($20,000,000)**	**($20,000,000)**

1 The Employee Compensation Planning Reserve for 2013-2014 would no longer be impacted. The use of the 2014-2015 Employee Compensation Planning Reserve would, however, be contingent on the outcome of the litigation associated with the SRBR elimination and lowest cost healthcare plan changes. This figure now includes an additional 0.5% increase for employees represented by the San Jose Police Officers' Association (SJPOA), consistent with the last offer in negotiations with the SJPOA.

2 Opening planned for January 2014; staff start date of November 2013, includes closure costs

Original Plan in 2013-2014 Proposed Budget

2013-2014 Proposed Budget Plan
$20 Million General Fund Contingency Plan

Proposal	2013-2014	Ongoing
Budget Stabilization Reserve	(4,000,000)	
Employee Compensation Planning Reserve[1]	(11,100,000)	(11,100,000)
Employment Services Staffing[2]	(77,000)	(94,000)
Microsoft Office Upgrade	(812,000)	(262,000)
Police Field Patrol Community Service Officers[3]	(1,107,000)	(1,836,000)
Police Crime Analysis Staffing[2]	(64,000)	(78,000)
Police Crime Prevention Staffing[2]	(224,000)	(244,000)
Preventative Maintenance Program	(370,000)	
Senior Nutrition Program Meal Enhancements	(100,000)	(100,000)
South San José Police Substation Opening[4]	(2,146,000)	(2,006,000)
Total	**(20,000,000)**	**(15,720,000)**

3 If all or part of the savings associated with the SRBR and lowest cost healthcare plan changes contained in the 2013-2014 budget are not realized, the City will no longer have identified ongoing funding to pay for compensation increases. In the event all or part of these savings are not realized, the City's proposal on the table with most of its bargaining units would be to roll back any negotiated compensation increases prospectively, effective the pay period upon notice that the savings will not be realized. However, since the pay adjustment would not be retroactive, the costs associated with salary increases provided up until the notice date would have to be backfilled with the 2014-2015 Future Deficit Reserve.

4 Start date of September 2013

5 Start date of January 2014

6 Opening planned for January 2014; staff start date of November 2013, includes closure costs