

## General Fund Balancing Strategy Detail

### 2009-2010 Adopted Budget

#### INTRODUCTION

This Attachment is intended to provide a more detailed summary of the key actions taken to balance the 2009-2010 Adopted General Fund Budget. Significant revisions to the February 2009 Forecast Base Budget, as well as the key elements of the strategy to bring the General Fund into balance in the Adopted Budget, are described.

In February 2009, the Administration presented to the City Council formal projections for the 2009-2010 General Fund budget as part of the *2009-2010 City Manager's Budget Request & 2010-2014 Five-Year Forecast and Revenue Projections* document. The 2009-2010 "base-case" projections in that document estimated a 2009-2010 General Fund shortfall totaling approximately \$61.2 million. This shortfall represented the gap between projected 2009-2010 General Fund resources and the expected cost of current services in next year's terms, as well as several Council "committed" augmentations (e.g., the costs of operating and maintaining new facilities). In addition to the basic General Fund shortfall, it was noted that an additional shortfall of about \$4.1 million existed in the cost-recovery development-related fee programs in the General Fund.

Subsequent to the release of the February Forecast and based on updated information, a number of revisions to both expenditures and revenue estimates were made, which constituted the **Revised Forecast Base Budget** included in the Adopted Budget.

The revisions to the Base Budget included a series of changes that produced a net reduction in General Fund sources of \$21.2 million and a decrease in overall costs of \$4.8

million. These changes resulted in an increase of \$16.3 million to the estimated General Fund shortfall, bringing the revised deficit to \$77.5 million. This is the amount that was addressed by the Proposed Budget balancing plan. These adjustments to the Base Budget are described in more detail below.

In addition to developing a strategy to eliminate the basic \$77.5 million shortfall, a separate strategy was proposed to address the shortfall (\$6.7 million) projected for the General Fund cost-recovery Development Fee Programs. This was up by \$2.6 million from the \$4.1 million shortfall previously identified due to updated overhead rates issued by the Finance Department and a continuing weakening in development-related revenues. In order to isolate the fee program problem and ensure that solutions were made specific to those fee programs, that gap is listed and discussed in this document separately from the basic General Fund shortfall. The Development Fee Programs are directed by City Council policy to recover 100% of the cost of development review and inspection. The February Forecast assumed that consistent with that policy, these fee programs would develop a strategy that would completely address this shortfall. The Proposed Budget included such a strategy. Including the fee program shortfall, therefore, the total gap addressed in the Proposed Budget was \$84.2 million.

The 2009-2010 Proposed Budget contained a set of actions that increased both overall General Fund sources (by a total of \$35.4 million), and decreased net costs (by \$48.8 million). The changes in sources included two major components: additional 2009-2010 Beginning Fund Balance generated from reserves (\$20.4 million) and the addition of

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#### INTRODUCTION (CONT'D.)

\$15.0 million in revenues and transfers from other funds to be generated in 2009-2010.

The expenditure decrease of \$48.8 million was the net impact of two components: expenditure reductions of \$58.5 million offset by \$9.7 million in proposed augmentations. The proposed reductions of \$58.5 million included position, non-personal/equipment, and city-wide expense eliminations, as well as employee wage freeze savings (\$45.7 million), Development Fee Program reductions (\$5.7 million), funding shifts (\$2.3 million) and use of reserves (\$4.8 million). The \$9.7 million proposed additions included funding for new facilities operations and maintenance (\$1.7 million), City Council direction (\$1.6 million), revenue-supporting activities (\$1.0 million), technology and capital maintenance activities (\$0.7 million), and miscellaneous activities (\$4.7 million). The result was a balanced

2009-2010 General Fund Proposed Budget of \$880.9 million.

From the release of the Proposed Budget to the final adoption of the budget, additional revisions totaling \$103.0 million occurred. The largest component of the increase was the rebudget of 2008-2009 funds (\$82.9 million) to be carried forward to 2009-2010 to complete various projects. The Adopted Budget balanced approximately 96% of the total shortfall of \$84.2 million with ongoing solutions. The amount balanced with one-time solutions was only \$3.1 million.

The following Table I displays the overall projections for the 2009-2010 General Fund as they changed between the February Forecast and the Adopted Budget. The specific elements of the Administration's approved budget balancing strategy are summarized in Tables II and III and described in the material that follows.

**Table I**  
**2009-2010 ADOPTED OPERATING BUDGET**  
**Forecast To Adopted Budget Reconciliation**

	Total Sources	Total Uses	(Shortfall)/ Surplus
<b>February Forecast</b>	<b>\$ 866.596</b>	<b>\$ 927.788</b>	<b>(\$ 61.192)</b>
Forecast Revisions	(21.156)	(4.809)	(16.347)
<b>Revised Forecast (no fee impact)</b>	<b>845.440</b>	<b>922.979</b>	<b>(77.539)</b>
Development Fee Program Impact	N/A	6.704	6.704
<b>Revised Forecast (with fee impact)</b>	<b>845.440</b>	<b>929.683</b>	<b>(84.243)</b>
Proposed Revisions	35.422	(48.821)	84.243
<b>2009-2010 Proposed Budget</b>	<b>\$ 880.862</b>	<b>\$ 880.862</b>	<b>\$ 0.00</b>
Adopted Revisions	103,013	103,013	0.00
<b>2009-2010 Adopted Budget</b>	<b>\$ 983.875</b>	<b>\$ 983.875</b>	<b>\$ 0.00</b>

## General Fund Balancing Strategy Detail (Cont'd.)

### 2009-2010 Adopted Budget

#### **REVISED FORECAST BASE BUDGET**

As discussed above, following the issuance of the February Forecast, detailed analysis of the status of General Fund revenues and expenditures continued. Based on this review, a series of changes to the Forecast Base

Budget estimates for both sources and uses were incorporated into the Proposed Budget in the form of a Revised Forecast Base. This Revised Forecast Base Budget (no fee impact) resulted in a revised shortfall estimate of \$77.5 million, up significantly (\$16.3 million) from that shown in the February Forecast.

#### **REVISED FORECAST SUMMARY OF CHANGES**

Revisions to the source estimates contained in the February Forecast that were incorporated into the Revised Forecast included the following:

<u>Sources</u>	<u>Revision</u>
Property Tax	(\$ 14,342,000)
Sales Tax	(3,192,000)
Licenses and Permits	(1,418,000)
Departmental Charges	(1,171,000)
Transient Occupancy Tax	(1,098,000)
Miscellaneous Revisions	<u>65,000</u>
<b>Net Change in Sources</b>	<b>(\$ 21,156,000)</b>

Since the release of the February Forecast, changes to the General Fund uses included:

<u>Uses</u>	<u>Revision</u>
Development Fee Programs	\$ (2,611,000)
Miscellaneous City-Wide Expenses	(807,000)
Fuel Prices/Consumption	(490,000)
Miscellaneous Revisions	<u>(901,000)</u>
<b>Net Change in Uses</b>	<b>\$ (4,809,000)</b>

Following is a brief description of the Revised Forecast changes in General Fund revenues:

- The Property Tax revenue estimate was revised downwards by \$14.3 million based on information provided by the County of Santa Clara Assessor's Office at the time the Proposed Budget was being developed. In the Preliminary 2010-2014 General Fund Forecast, a Secured Property Tax growth rate of 1% was assumed for 2009-2010. In the final revision to this figure, it was assumed that

Secured Property Tax would decline by 6.5% in 2009-2010. This change resulted in a \$14.3 million reduction to the Secured Property Tax estimate.

- The Sales Tax estimate was adjusted downwards by \$3.2 million to reflect a downward revision to the 2008-2009 estimate that also reduced the starting point for 2009-2010. When the 2010-2014 Forecast was developed it was

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### REVISED FORECAST BASE BUDGET (CONT'D.)

assumed that collections would drop by 5% in both 2008-2009 and 2009-2010. Taking into account the March Sales Tax receipts, it is now assumed that receipts will fall by 7% in 2008-2009. The estimate for a 5% decline in 2009-2010 was unchanged.

- The Licenses and Permits category was decreased by \$1.4 million to reflect lower revenue estimates for the Building Permits (down \$1.0 million) and Fire Permits (down \$0.6 million) categories based on the lower collection trends for the development-related fees, partially offset by an increase of \$200,000 to the Cardroom Tax estimate.
- The Departmental Charges revenue estimate was decreased by \$1.2 million to reflect the following: a decrease of \$1.2 million to the Public Works revenue estimate based on lower collection trends for this fee category; an increase to the Planning Fee category of \$117,000; and an increase of \$52,000 to the Miscellaneous Fee category based on a higher Solid Waste Enforcement Fee estimate.
- The Transient Occupancy Tax revenue estimate was adjusted downwards by \$1.1 million to reflect the continued impact of the deep economic recession that is expected to have a more severe impact on this revenue category than assumed in the February Forecast.
- A variety of other revisions resulted in a net increase of \$65,000. These included downward adjustments to the Transfers

and Reimbursements category (\$138,000) and the Revenue from Local Agencies category (\$52,000), offset by an increase to the Use of Money and Property category (\$255,000).

Revisions to the projected 2009-2010 expenditure levels included the following:

- A reduction to Personal Services costs to reflect the reduced revenue estimates in the cost-recovery Development Fee Programs (\$2.6 million).
- A thorough review of funding requirements for City-Wide Expenses appropriations resulted in a net decrease of \$807,000. These revisions included changes to the Insurance Premiums (\$100,000), Jail Bookings (\$250,000), Banking Services (\$200,000), and Major Space Renovations (\$250,000) categories, as well as other minor adjustments (\$7,000).
- Due to a reduction in fuel prices and a review of consumption in the General Fund, departmental non-personal/equipment funding was decreased by \$490,000.
- Finally, all Base Budget expenditure estimates for all departments were carefully re-examined during the time between the February Forecast and the issuance of the Proposed Budget. This review resulted in a series of miscellaneous changes which resulted in a decrease of \$901,000 in the General Fund.

## General Fund Balancing Strategy Detail (Cont'd.)

### 2009-2010 Adopted Budget

#### PROPOSED BUDGET BALANCING STRATEGY

As summarized in Table II and discussed below, the budget balancing strategy

developed by the Administration closed an \$84.2 million General Fund shortfall and resulted in a balanced 2009-2010 General Fund Proposed Budget totaling \$880.9 million.

**Table II**  
**2009-2010 PROPOSED OPERATING BUDGET**  
**General Fund Funding Requirements and Balancing Strategy**

	2009-2010	Ongoing
<b>2009-2010 General Fund Shortfall</b>	(\$ 77,539)	(\$ 77,539)
<b>Development Fee Program Impact</b>	( 6,704)	( 6,704)
<b>Revised Forecast</b>	(\$ 84,243)	(\$ 84,243)
<b>Balancing Strategy</b>		
<b>Source of Funds</b>		
Available Fund Balance:		
Economic Uncertainty Reserve	\$ 5,000	\$ 0
2009-2010 Future Deficit Reserve	4,000	0
2008-2009 Other Reserves/Fund Balance	11,414	0
Transfer from Other Funds/Redevelopment Agency	4,999	2,248
Fee and Fine Increases/Activity Level Adjustments	6,998	10,086
Asset Management Program	1,600	1,600
Other Revenue Changes	1,410	794
<b>Subtotal Additional Resources</b>	<b>\$ 35,421</b>	<b>\$ 14,728</b>
<b>Use of Funds</b>		
Position Eliminations/Efficiencies	\$ (32,943)	(34,333)
Employee Wage Freeze Savings	(4,414)	(16,652)
Non-Personal/Equipment and City-Wide Expenses	(8,304)	(6,411)
Funding Shifts to Other Funds	(2,304)	(2,189)
Development Fee Programs	(5,734)	(6,485)
Use of Reserves (Committed Additions)	(4,806)	(5,564)
New Facilities Operations & Maintenance	1,662	2,535
City Council Direction (Mayor's March Message)	1,575	0
Revenue Supporting Activities	1,052	833
Technology & Capital Infrastructure Maintenance	710	435
Miscellaneous	4,684	1,234
<b>Funding Changes</b>	<b>\$ (48,822)</b>	<b>\$ (66,597)</b>
<b>Total Balancing Strategy</b>	<b>\$ (84,243)</b>	<b>\$ (81,325)</b>
<b>Remaining Balance</b>	<b>\$ 0</b>	<b>(\$ 2,918)</b>

## General Fund Balancing Strategy Detail (Cont'd.)

### 2009-2010 Adopted Budget

#### **PROPOSED BUDGET BALANCING STRATEGY (CONT'D.)**

Specific City Council direction regarding the preparation of the Proposed Budget was provided in the *Mayor's March Budget Message for Fiscal Year 2009-2010*. The details of the specific elements of that Message and the responses contained in this budget are provided in Attachment B. Attachment C contains information regarding the status of City Auditor recommendations with funding impacts and Attachment D contains a Tier 2 General Fund Budget Proposal summary.

Following is a brief discussion of the key elements of the budget balancing actions that were included in the Proposed Budget. Much more detailed descriptions of these elements are provided elsewhere in this document or in the 2009-2010 Fees and Charges document that is published under separate cover.

#### **Source of Funds**

From the Revised Forecast of \$803.8 million, a net increase of \$35.4 million to the General Fund sources estimate was brought forward, resulting in a Proposed Budget revenue estimate of \$839.2 million. The components of the \$35.4 million change included an increase in the estimate for the 2008-2009 Ending Fund Balance/2009-2010 Beginning Fund Balance (\$20.4 million) and higher transfer and revenue estimates (\$15.0 million). Following is discussion of those components broken down by the revenue categories that are presented in the *General Fund Revenue Estimates* section of this document.

#### Available Fund Balance

The higher fund balance of \$20.4 million reflects the liquidation of 2008-2009 reserves (\$15.1 million), an increase in expectations for expenditure savings in 2009-2010 (\$4.5 million), and the liquidation of encumbrances (\$0.8 million). The largest reserves proposed for use in the 2009-2010 Proposed Budget included a portion of the Economic Uncertainty Reserve (\$5.0 million), the 2009-2010 Future Deficit Reserve (\$4.0 million), the Airport West Proceeds Reserve (\$1.6 million), the Future Capital Projects (FF&E) Reserve (\$1.5 million), the Neighborhood Investment Reserve (\$0.7 million), and the Enhanced Parks Maintenance Reserve (\$0.6 million). Additional expenditure savings were projected from several projects and departments, with approximately half of the unexpended funds anticipated from the Watson Park Project (\$1.3 million) and the Electronic Content Management System project (\$1.0 million).

#### Increases to 2009-2010 Revenue Estimates

The \$15.0 million increase to the revenue estimates were spread among many of the revenue categories as summarized below:

- The Departmental Charges (up \$3.3 million) and the Licenses and Permits (up \$1.2 million) categories were adjusted to reflect updated fees to remain at cost recovery in the various fee programs, to reflect the continuation of the Business Discovery Program by the Finance Department, and to reflect an increase in Library Fines.

## General Fund Balancing Strategy Detail (Cont'd.)

### 2009-2010 Adopted Budget

#### **PROPOSED BUDGET BALANCING STRATEGY (CONT'D.)**

##### Increases to 2009-2010 Revenue Estimates (Cont'd.)

- The \$3.1 million increase to the Transfers and Reimbursements category included additional transfers of \$3.4 million, offset by a reduction in the overhead revenue estimate of \$240,000. A transfer of \$2.6 million from the Emergency Communication System Support Fee Fund and the additional transfer of \$1.5 million from the Construction Excise Tax fund were the largest increases in this category. Downward adjustments to the Transfers from the Airport Operations and Maintenance Fund for Police Services (down \$680,000) and for Fire Services (down \$774,000) were brought forward to reflect reductions in those programs.
- The \$2.5 million increase to the Fines, Forfeitures and Penalties category reflected the following: increased parking citation fines (\$1.0 million); increased parking fines generated from new Parking and Traffic Control Officers (\$874,000), and increased Police false alarm fines (\$661,000).
- The increase of \$2.5 million to the Revenue from Local Agencies category primarily reflected increased reimbursement from the San Jose Redevelopment Agency (SJRA) (\$2.0 million) to support City activities. Several other changes to reimbursements were brought forward, the largest of which included: an increase of \$225,000 to reflect additional funding from the Happy

Hollow Corp.; an increase of \$166,000 from the County to support the AFIS Palm Print Upgrade, and a decrease of \$197,000 from the County for the Senior Nutrition Program based on the proposed discontinuation of this program at some community centers.

- The \$2.2 million increase to the Other Revenue category primarily reflected the \$1.6 million increase in the estimate for Sale of Surplus Property associated with the real estate services transition to asset management and an additional \$400,000 related to unclaimed accounts in the Integrated Billing System.
- The Franchise Fees category was adjusted upwards by \$250,000 to reflect an increase to the Commercial Solid Waste Franchise Fee estimate due to the elimination of the 20,000 cubic yard exemption.

#### **Use of Funds**

The remainder of the balancing strategy involved a multitude of specific expenditure actions, resulting in a net decrease of \$48.8 million, with an ongoing savings value of \$66.6 million. Recommended changes from the Forecast Base Budget level in the Proposed Budget resulted in a net decrease of 347 positions.

A listing of the Proposed Budget modifications is provided by specific categories in Table II, and budget actions are described in greater detail in the CSA and departmental sections of the Adopted Budget document.

## General Fund Balancing Strategy Detail (Cont'd.)

### 2009-2010 Adopted Budget

#### ADOPTED BUDGET BALANCING STRATEGY

The final phase of the 2009-2010 budget process commenced following the issuance of the City Manager's Proposed Budget and consisted of the following major steps: City Council Budget Study Sessions on the Proposed Budget; issuance by the Administration of recommended revisions to the Proposed Budget (in the form of formal Manager's Budget Addenda); formal public input through the Public Hearings process;

issuance of the Mayor's June Budget Message memorandum; and approval by the City Council of a final Adopted Budget.

Summarized in Table III by general category are the additional funding requirements introduced by Manager's Budget Addenda or the Mayor's June Budget Message. (The full text of the Message is included as an Appendix to this document.) Those additional requirements totaled \$103.0 million.

**Table III**  
**2009-2010 ADOPTED OPERATING BUDGET**  
**General Fund Funding Requirements and Balancing Strategy**

	2009-2010	Ongoing
<b>Remaining Balance from Proposed Budget (from Table II)</b>	<b>\$ 0</b>	<b>(\$ 2,918)</b>
<b>Balancing Strategy</b>		
<b>Additional Resources</b>		
Fund Balance to Support 2008-2009 Projects/Balancing Strategy	\$ 82,149	\$ 0
Revenue-Related Rebudgets to Support 2008-2009 Projects	1,931	0
New Grants/Reimbursements	13,065	67
Revised Revenue Estimates	<u>5,868</u>	<u>4,831</u>
<b>Subtotal Additional Resources</b>	<b>\$ 103,013</b>	<b>\$ 4,898</b>
<b>Funding Changes</b>		
Position Restorations/Efficiencies	\$ 13,247	\$ 9,621
Employee Wage Freeze Savings	(4,590)	(4,590)
Non-Personal/Equipment and City-Wide Expenses	1,234	192
City Council Direction (Mayor's March and June Messages)	(1,110)	0
Technology & Capital Infrastructure Maintenance	(130)	0
Revenue Supporting Activities	2,344	0
Recovery Act of 2009 (Stimulus Program)	10,204	0
Miscellaneous	(1,058)	(112)
Rebudgeted 2008-2009 Projects	<u>82,872</u>	<u>0</u>
<b>Funding Changes</b>	<b>\$ 103,013</b>	<b>\$ 5,111</b>
<b>Total Balancing Strategy</b>	<b>\$ 0</b>	<b>(\$ 213)</b>
<b>Remaining Balance</b>	<b>\$ 0</b>	<b>(\$ 3,131)</b>

## General Fund Balancing Strategy Detail (Cont'd.) 2009-2010 Adopted Budget

### ADOPTED BUDGET BALANCING STRATEGY (CONT'D.)

#### Additional Resources

As part of the City Council-approved revisions to the Proposed Budget, a total of \$103.0 million in additional resources were approved to be utilized as part of the Adopted Budget strategy. The major elements of these revisions are described below.

#### Fund Balance to Support 2008-2009 Rebudgeted Projects/Balancing Strategy

The unrestricted portion of the 2008-2009 Ending/2009-2010 Beginning Fund Balance estimate was adjusted upward by an additional \$82.1 million to reflect the 2008-2009 funding which was estimated to be available to be carried over to 2009-2010 to complete previously approved projects and to be used as a budget balancing strategy.

#### Revenue Rebudgeted to Support 2008-2009 Rebudgeted Projects

The Adopted Budget includes grant and reimbursement-related revenue totaling \$1.9 million that was rebudgeted from 2008-2009 to complete the associated projects in 2009-2010. These revenue-related rebudgets were spread among a number of revenue categories (Local Agencies, State and Federal Government) and were offset by expenditure rebudgets.

#### New Grants/Reimbursements

The Adopted Budget includes \$13.1 million in new grant/reimbursement revenue. The

majority of this increase was due to the new American Recovery and Reinvestment Act revenue totaling \$9.7 million and associated overhead totaling \$500,000. Expenditure appropriations for this new program are also included in the Adopted Budget. There were a number of other new grants and reimbursements from Local Agencies, the State, and the Federal Government included in the Adopted Budget, many of which were public safety related.

#### Revised Revenue Estimates

The 2009-2010 revenue estimates were adjusted upwards by \$5.9 million based on revised projections.

The largest increase (\$4.8 million) was in the Property Tax category. The Secured Property Tax estimate for 2009-2010 was increased based on updated information from the Santa Clara County's Assessor's Office as of June 1, 2009. In the Proposed Budget, this category was expected to drop by 6.5%; while in the Adopted Budget, this figure has been adjusted to a decline of 4%.

Other large adjustments include: an increase of \$490,000 to the Transfer from the General Purpose Parking Fund to reflect the transfer of prior year interest earnings; an increase of \$350,000 to the Parking Citation fees to offset the increase in the parking citation processing cost; and an increase of \$197,000 to the revenue from the County of Santa Clara for the Senior Nutrition Program to reflect the restoration of services.

## General Fund Balancing Strategy Detail (Cont'd.)

### 2009-2010 Adopted Budget

#### ADOPTED BUDGET BALANCING STRATEGY (CONT'D.)

#### Funding Changes

Actions resulting in a net addition of \$103.0 million were approved as part of the Adopted Budget. The largest increase was for completion of programs and projects authorized in the prior year (\$82.9 million). The majority of the rebudgets occurred in three areas: Capital (\$14.6 million), Earmarked Reserves (\$35.8 million) and City-Wide Expenses (\$25.7 million). Due primarily to improved revenues and agreements reached with several employee groups to contain payroll costs, a number of services that had been proposed for reduction in the Proposed Budget were restored in 2009-2010. As part of these actions, a total of 151 positions were restored in the Adopted Budget. As a result, a total of 196 positions were eliminated in 2009-2010.

Listings of all the approved budget modifications are described in detail in the CSA and departmental sections of the Adopted Budget document.

#### Future Implications

As shown in Table III and mentioned previously, a total of \$3.1 million in one-time solutions were approved as part of the strategy to balance this budget.

The most recent projection for the General Fund in 2010-2011 (as shown in the February 2009 Five-Year Forecast document) was for a shortfall of approximately \$36.7 million. Assuming the basic assumptions utilized in that forecast were close to being correct, the carryover impact of the one-time measures contained in this budget would lead to an increase of \$3.1 million in the estimate and a shortfall in 2010-2011 of approximately \$39.8 million. In addition, it is now assumed that significant negative impacts associated with funding the retirement plans will be realized in 2010-2011. This impact is preliminarily estimated at \$51.7 million, bringing the projected deficit for 2010-2011 to \$91.5 million. While all of the assumptions used to develop this estimate will be revisited in the development of the 2011-2015 General Fund Forecast, it is anticipated that a very large shortfall will have to be addressed next fiscal year.