

2011-2015 GENERAL FUND FORECAST SUMMARY

OVERVIEW

- A General Fund Forecast base shortfall of \$116.2 million is projected for 2010-2011, primarily reflecting increased retirement plan costs coupled with weak economic performance.
- Increased expenditures account for almost two-thirds of the 2010-2011 shortfall, with decreased revenues accounting for the remaining portion of the shortfall.

2010-2011 Shortfall Components	\$ in Millions
Expenditure Changes	
- Increased Retirement Contribution Rates (estimate) (Police/Fire: \$43.6M; Federated: \$9.3M)	(\$ 52.9)
- Increased Expenditures (primarily personnel-related)	(10.2)
- 2010-2011 Committed Additions (new officers/facilities)	(7.5)
- Carryover from 2009-2010 Adopted Budget	(3.1)
Sub-Total Expenditure Changes	(\$ 73.7)
Decreased Revenue Estimates	(42.5)
Total Shortfall	(\$ 116.2)

- Over the next five years, General Fund Forecast base budget shortfalls totaling approximately \$182 million will need to be solved. This figure increases to over \$222 million when the unmet/deferred infrastructure needs that are included in the General Fund Structural Deficit definition are added.

2011-2015 General Fund Structural Deficit Projection (February 2010) (\$ in Millions)

	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	Total
Projected Base Shortfall (Feb 2010 Forecast)	(\$116.2)	(\$20.1)	(\$18.0)	(\$21.5)	(\$5.8)	(\$181.6)
Unmet/Deferred Infrastructure & Maintenance Needs*	(\$8.1)	(\$8.1)	(\$8.1)	(\$8.2)	(\$8.2)	(\$40.7)
Total Incremental Deficit	(\$124.3)	(\$28.2)	(\$26.1)	(\$29.7)	(\$14.0)	(\$222.3)
Total Cumulative Deficit	(\$124.3)	(\$152.5)	(\$178.6)	(\$208.3)	(\$222.3)	(\$222.3)

* Does not address one-time needs of \$446 million in the General Fund (\$821 million all funds).

- Based on preliminary estimates, retirement costs are expected to increase significantly over the forecast period. In 2010-2011, these costs will total 17% of the General Fund base budget, with this figure increasing to almost 25% by 2014-2015. To put those costs into perspective, for every \$100 of salary paid to an active Federated Retirement Plan employee, an additional \$29 will go towards paying retirement costs in 2010-2011, growing to \$43 in 2014-2015. For Police and Fire Retirement Plan employees, the comparable cost is \$44 to \$45 per \$100 of salary in 2010-2011 and \$72 by 2014-2015.
- A 2% cost-of-living salary increase has been included in 2010-2011 for employees represented by the Municipal Employees' Federation (MEF) and Confidential Employees' Organization (CEO) as approved in their labor agreement with the City. With the exception of salary step increases related to eligible non-management employees, these are the only salary increases assumed in this Forecast as there are no other negotiated agreements covering this period. The consideration of salary increases is being treated in this Forecast as a resource allocation policy decision.
- The Forecast includes committed additions previously agreed upon by Council, such as the addition of 25 officers in 2010-2011 and 2011-2012 (50 total) and operating and maintenance funding for capital projects coming on line.
- The General Fund Forecast base budget shortfall does not factor in the following: the impact of unanticipated compensation changes resulting from negotiations or arbitration awards, where applicable, with the City's various employee bargaining groups; potential State budget actions; funding for unmet/deferred infrastructure and maintenance needs; potential impacts from San Jose Redevelopment Agency budget balancing actions; and one-time revenue sources or one-time expenditure needs.
- The revenue and expenditure projections for the 2010-2011 fiscal year will continue to be refined over the next two months as additional information becomes available. Any necessary adjustments will be incorporated into the 2010-2011 Proposed Operating Budget.