



City of San José

# General Fund Budget Status Overview

September 20, 2011

# General Fund Budget Status Overview

## Purpose:

- To provide historical context to the City's General Fund budget problem
- To present preliminary General Fund budget shortfall figures for 2012-2013 and out years
- To discuss potential strategies and scenarios to address shortfall
- To inform City Council of the City Administration's intent to immediately explore all viable budget balancing strategies to minimize significant service level reductions/eliminations

# Looking Back: Budget Shortfalls Experienced Over Last Decade

- General Fund budget shortfalls in last decade driven by two deep recessions and unsustainable cost structure
- Combination of strategies used to address shortfalls
- Severe service reductions in both public safety and non-public safety areas were unavoidable

# Ten Consecutive Years of Shortfalls

	<b>Total General Fund Shortfall</b>	<b>City-Wide Position Changes (All Funds)</b>	<b>City-Wide Positions (All Funds)</b>
2002-2003	(\$ 46.3 M)	(36)	7,418
2003-2004	(\$ 92.1* M)	(205)	7,213
2004-2005	(\$ 81.7* M)	(426)	6,787
2005-2006	(\$ 58.0 M)	(115)	6,672
2006-2007	(\$ 34.9 M)	171	6,843
2007-2008	(\$ 19.9 M)	149	6,992
2008-2009	(\$ 29.6 M)	(7)	6,985
2009-2010	(\$ 84.2 M)	(362)	6,623
2010-2011	(\$118.5 M)	(783)	5,840
2011-2012	(\$ 115.1 M)	(440)	5,400
<b>TOTAL</b>	<b>(\$ 680.3 M)</b>	<b>(2,054)</b>	

***Now at 1988-89 staffing levels when population was 765,000***

**\*Includes State impact of \$10.8 million in 2003-04 and \$11.4 million in 2004-05**

# Substantial General Fund Position Impacts During the Last Three Fiscal Years

	<u>2008-2009 Adopted Budget</u>	<u>2009-2010 Adopted Budget</u>	<u>2010-2011 Adopted Budget</u>	<u>2011-2012 Adopted Budget</u>	<u>Percent Chg 08-09 to 11-12</u>
Positions	4,893	4,701	4,249	3,759	-23%
Change		-192	-452	-490	-1,134

# Structural Imbalance: Position Reductions Necessary to Offset Cost Increases

	<u>2001-2002 Adopted Budget</u>	<u>2011-2012 Adopted Budget</u>	<u>Change</u>	<u>Percent Change</u>
<b>Public Safety</b>				
Budget	\$292.8 M	\$457.0 M	\$164.2 M	<b>56.1%</b>
Positions	2,734	2,263	-471	<b>-17.2%</b>
<b>Other Departments*</b>				
Budget	\$246.1 M	\$221.2 M	-\$24.9 M	<b>-10.1%</b>
Positions	4,719	3,137	-1,582	<b>-33.5%</b>

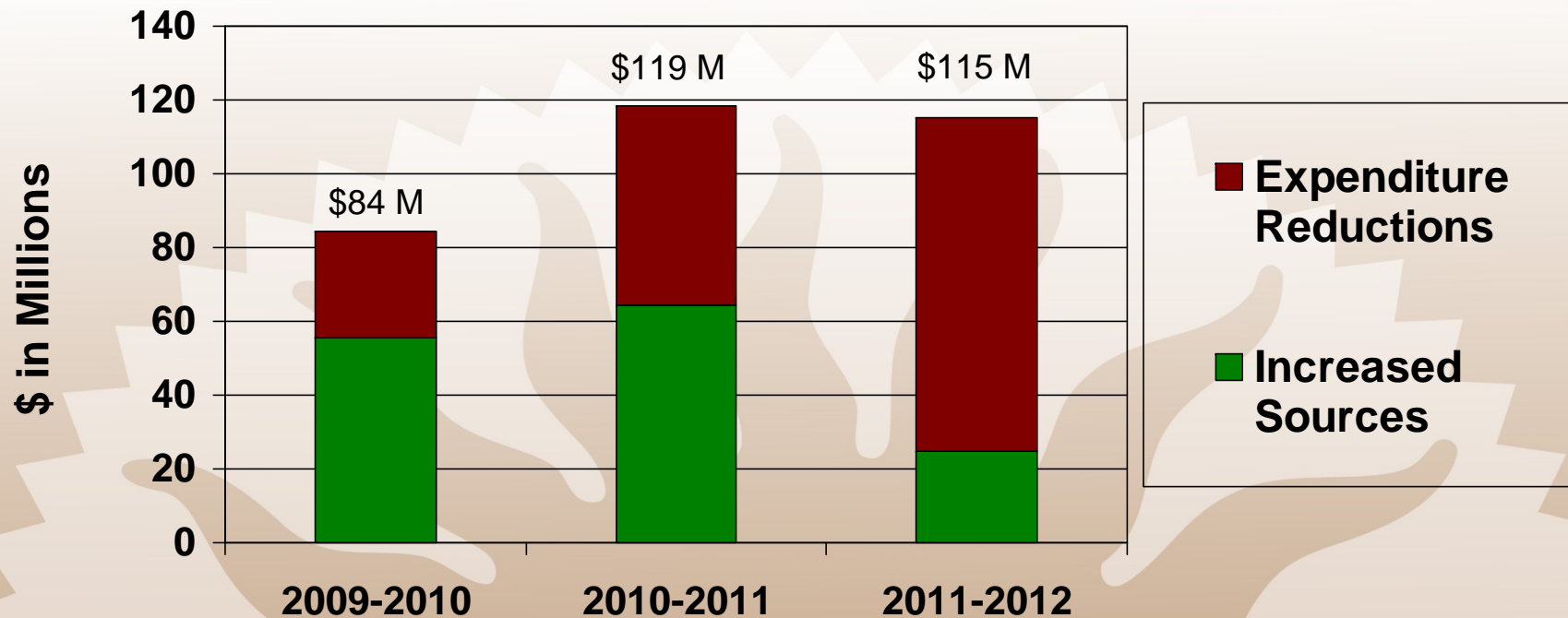
\* Other includes: Parks, Recreation & Neighborhood Services; Library; Information Technology; Transportation; Public Works; Environmental Services; Airport; Finance; Human Resources; Planning, Building & Code Enforcement; Economic Development; Mayor; City Council; Council Appointees; etc.

# Combination of Strategies to Address General Fund Shortfalls Have Been Used

- General Fund Structural Deficit Elimination Plan provided blueprint beginning in 2008
- Revenue Strategies: four revenue-related ballot measures approved by voters; fees for service; transfers from other funds
- Cost Saving Strategies: total employee compensation reductions; outsourcing; new service delivery models; efficiencies; departmental consolidations
- Service Reductions/Eliminations

# With Dwindling Sources Available, Budget Shortfalls Solved with More Expenditure Cuts

## General Fund Annual Budget Balancing Solutions

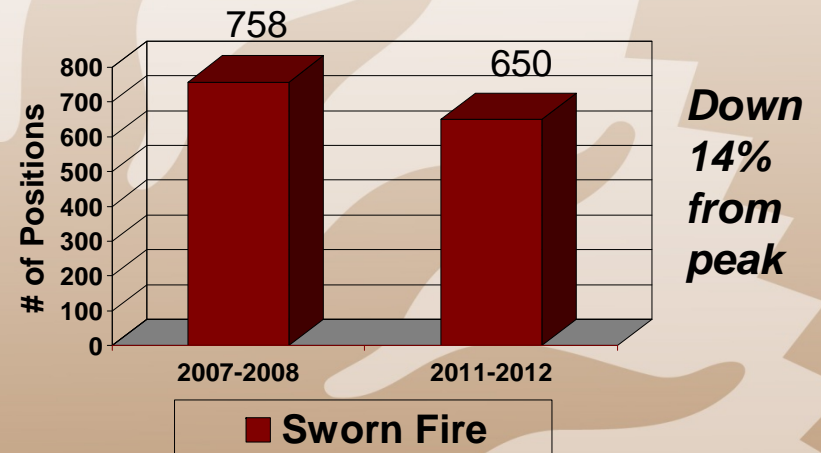
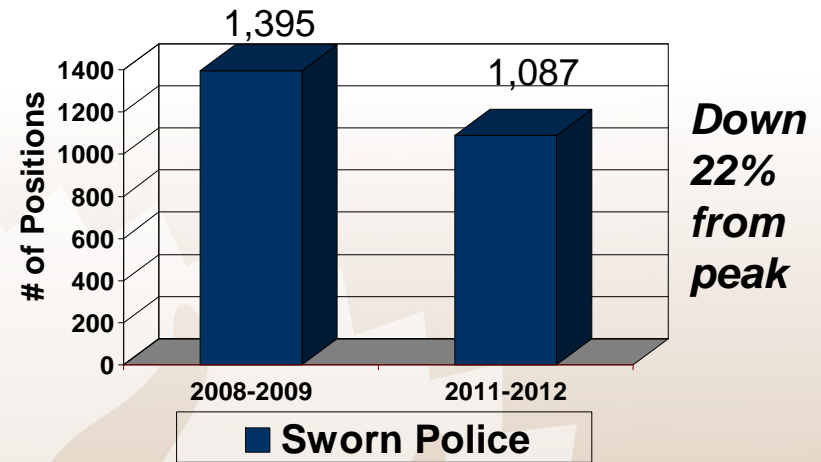


# Earmarked Reserves Down Over 50% from 2001-2002

<b>Earmarked Reserves</b>	<b>2001-2002 Modified Budget</b>	<b>2011-2012 Adopted Budget</b>	<b>Change</b>
Economic Uncertainty Reserve	15,810,000	0	(15,810,000)
Workers' Comp/General Liab. Catastrophic Reserve	15,303,208	10,000,000	(5,303,208)
Salaries and Benefit Reserve	10,216,769	5,626,903	(4,589,866)
Measure O&P/City Hall/SNI/Fire MP Reserve	7,710,718	0	(7,710,718)
Technology System Updates/Replacements	4,152,725	0	(4,152,725)
Development Fee Program Reserves	6,690,194	12,584,484	5,894,290
Various Capital/Maintenance Reserves	1,514,447	250,080	(1,264,367)
Miscellaneous Other Reserves	700,649	501,114	(199,535)
Various Fire Program/Service Reserves	535,694	0	(535,694)
Filled Position Elimination Expenditure Reserve	0	700,000	700,000
Retirement Pre-Payment Reserve	0	1,000,000	1,000,000
<b>Total Earmarked Reserves</b>	<b>62,634,404</b>	<b>30,662,581</b>	<b>(31,971,823)</b>
<b>Contingency Reserve</b>	<b>24,591,175</b>	<b>29,309,000</b>	<b>4,717,825</b>
<b>Total Reserves</b>	<b>87,225,579</b>	<b>59,971,581</b>	<b>(27,253,998)</b>

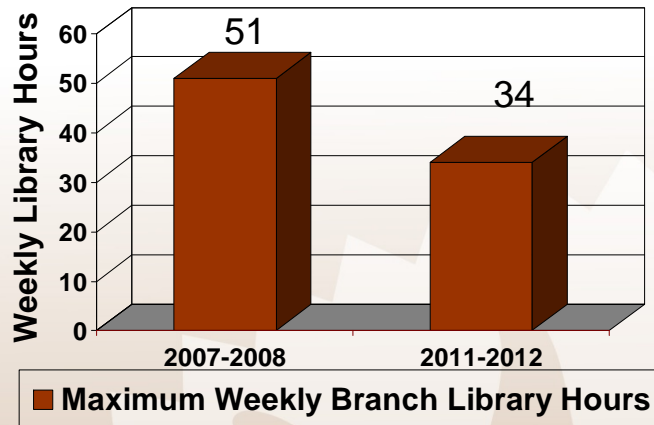
# Major Service Impacts – Public Safety

- Reduced police field patrol, special operations, and investigative services
- Eliminated police school liaison program
- Eliminated majority of crime prevention programs
- Suspended police helicopter program
- Reduced police horse mounted unit, PAB lobby hours/staff, police pre-processing center, performance analysis, research, and training
- Reduced police and fire staffing at the airport
- Eliminated 4 Fire Engine companies and 1 Truck company
- Implemented fire company brown-outs
- Reduced fire apparatus staffing

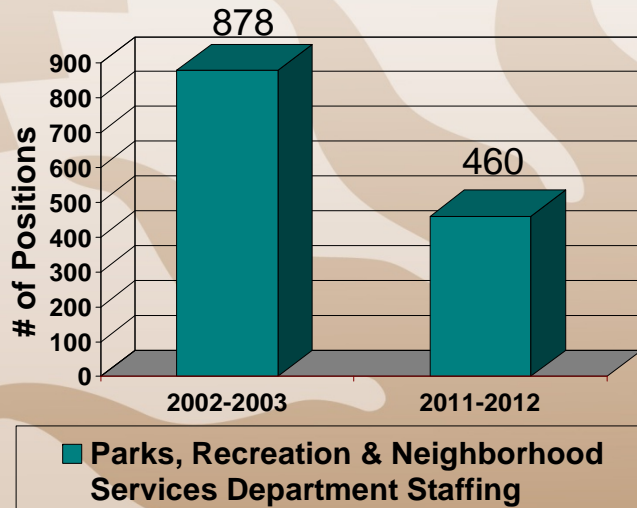


# Major Service Impacts – Community Services

**Down  
33%  
from  
peak**



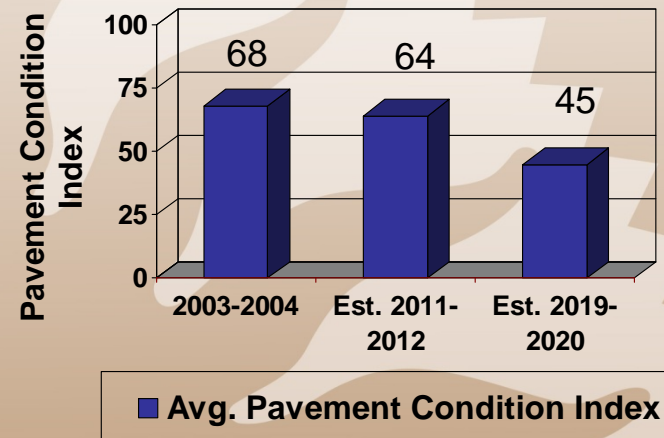
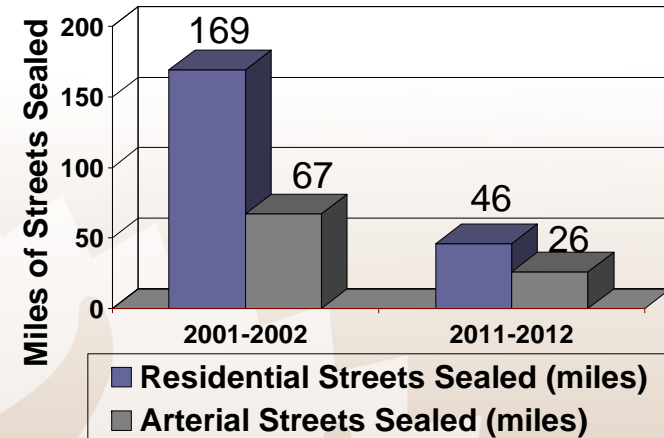
**Down  
48%  
from  
peak**



- Reduced branch library hours/days (from 47-51 hours/6-7 days per week to 33-34 hours/4 days per week)
- Reduced community centers (down from 54 at peak in 2007-2008 to 11 in 2011-2012); 43 sites in re-use program
- Reduced neighborhood park maintenance
- Reduced regional parks maintenance and park ranger staffing
- Reduced/eliminated recreational services and special events support
- Reduced/eliminated services to seniors, persons with disabilities, and youth
- Reduced code enforcement staffing
- Reduced SNI services
- Reduced long-range planning services

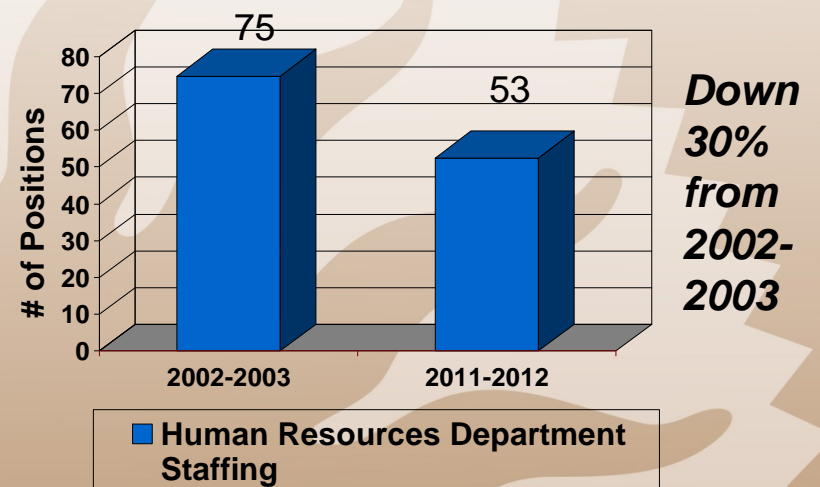
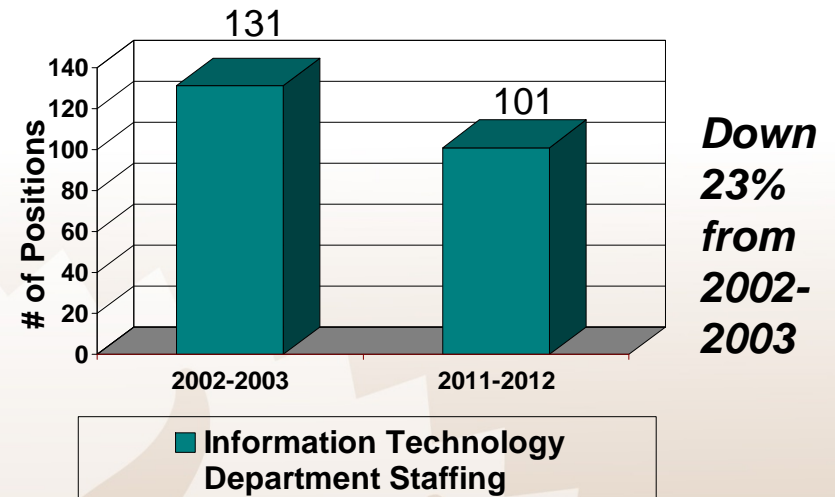
# Major Service Impacts – Capital Maintenance

- Reduced traffic maintenance program (e.g., traffic signal maintenance, roadway striping, and markings maintenance)
- Reduced pavement maintenance program (residential streets sealed down 73% and arterial streets sealed down 61% from 2001-2002)
- Eliminated funding for sidewalk repairs and street tree services (property owners now responsible)
- Reduced street landscape services
- Reduced City facilities maintenance and fleet maintenance
- Reduced transportation operations services (e.g., traffic calming, neighborhood traffic studies, responses to speed compliance calls)



# Major Service Impacts – General Government

- Reduced financial reporting, financial management, and finance administrative staffing
- Reduced employment services, safety program, workers' compensation claims administration, and training and development
- Reduced city-wide technology coordination, information technology infrastructure support, and development services technology services
- Reduced organization-wide management, support, and leadership staffing



# Looking Forward: Continued Budget Shortfalls Projected

- Preliminary General Fund shortfalls totaling \$113 M projected over the next four years, but likely higher
- Without fundamental change in cost/revenue structure, unacceptable service reductions and eliminations will continue
- Fiscal Reform Plan identifies potential solutions to address structural imbalance and restore services to January 2011 levels

# General Fund Shortfalls Expected to Continue into the Future

## 2012-2016 General Fund Forecast

(Based on Feb 2011 Forecast, Updated for 2011-2012 Adopted Budget\*)

(\$ in Millions)

	2012-2013	2013-2014	2014-2015	2015-2016	Total
<b>Projected Annual Shortfall **</b>	<b>(\$78.2)</b>	<b>(\$25.1)</b>	<b>(\$10.0)</b>	<b>(\$0.1)</b>	<b>(\$113.4)</b>
<b>Total Cumulative Deficit</b>	<b>(\$78.2)</b>	<b>(\$103.3)</b>	<b>(\$113.3)</b>	<b>(\$113.4)</b>	<b>(\$113.4)</b>

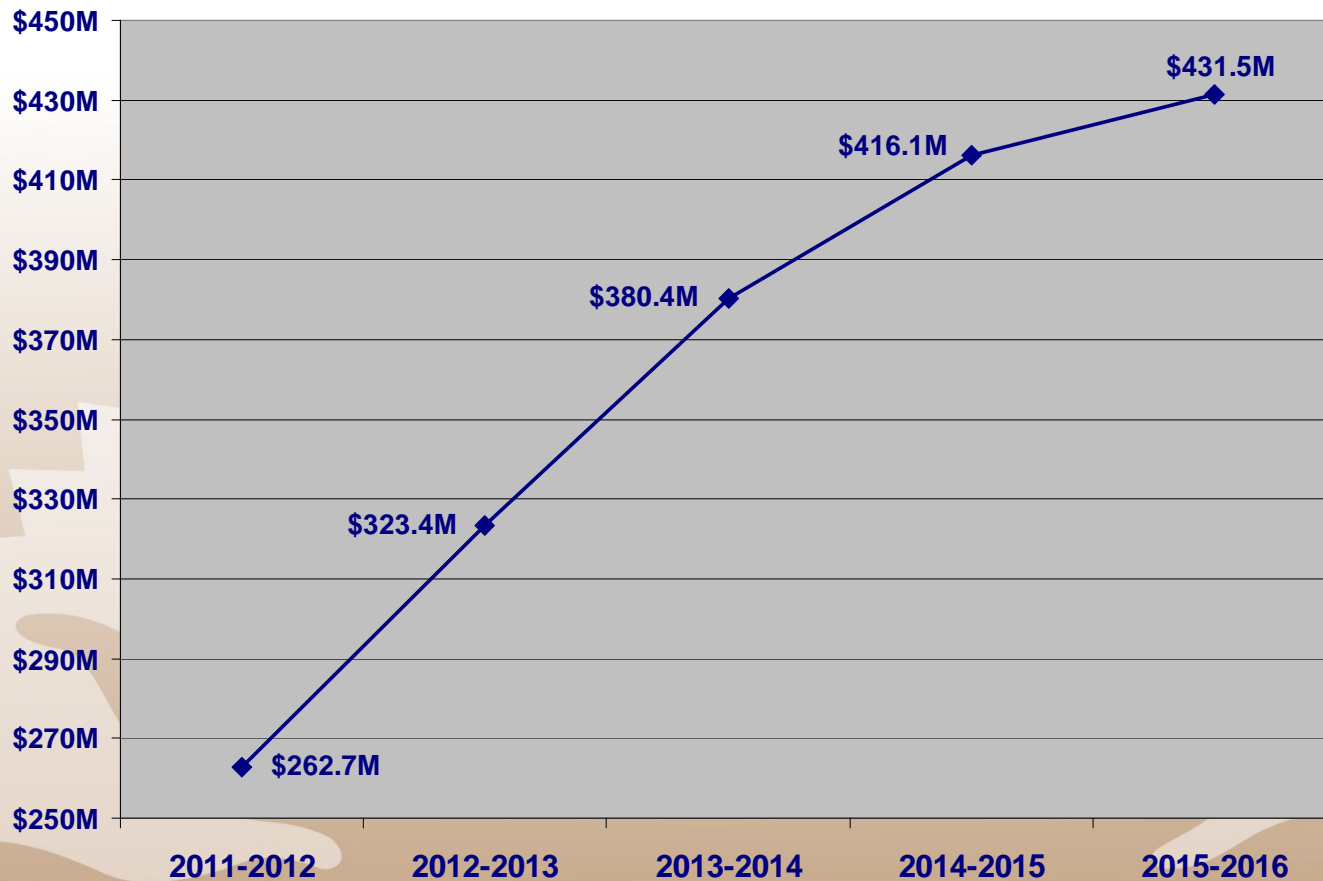
\* Does not include: cost-of-living salary increases; additional impacts from future changes in actuarial assumptions or retirement benefit levels that could impact the City's required retirement contributions; additional impacts associated with the San Jose Redevelopment Agency; unmet/deferred infrastructure and maintenance needs; Development Fee Programs; or one-time revenues/expenses. Assumes continued pre-payment of City's annual retirement contribution.

\*\* Annual budget shortfall attributed to each fiscal year. Assumes shortfalls addressed with ongoing solutions. Any portion of the annual shortfall solved on a one-time basis would carry over to the following year. The 2012-2013 budget shortfall figure includes \$35 million from one-time solutions carried over from 2011-2012.

# Preliminary 2012-2013 General Fund Forecast: Significant Risk Factors

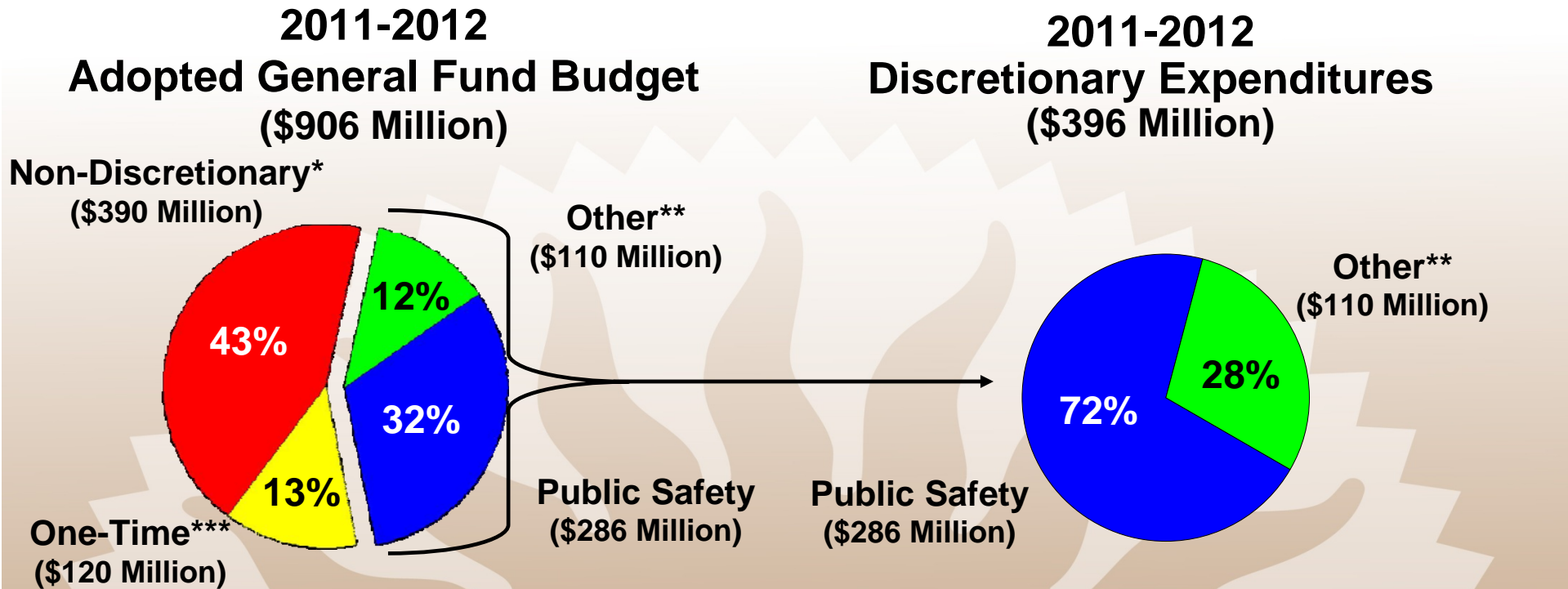
<b>Major Factors Impacting Forecast:</b>	<b>2012-2013 Est. \$ Range</b>
<b>Retirement Contributions</b> (changes in actuarial valuations to ensure plan health; 1 percentage point = \$3.1 million in the General Fund)	<b>\$10 M - ?</b>
<b>San Jose Redevelopment Agency</b> (Reduced property tax growth, state actions)	<b>\$16 M - \$42 M</b>
<b>POA Arbitration Results</b> (If 2011-2012 reductions are one-time)	<b>\$30 M</b>
<b>Economic Conditions</b> (e.g., reduced Sales Tax growth: 1% = \$1.4 M; reduced Property Tax growth: 1% = \$2 M )	<b>?</b>

# Updated Retirement Contribution Projections (Pension & Retiree Healthcare)



Note: Based on Cheiron's Estimates of August 2011 (All Funds)

# Unacceptable Service Reductions/ Eliminations Remain



\* Non-Discretionary includes annual retirement contributions, grants, reimbursements (incl. gas tax), fee-supported activities, debt service, insurance, workers' compensation, sick leave payments upon retirement, contractually required facility subsidies, Mayor, City Council, Council Appointees, and other non-discretionary items.

\*\* Other includes PRNS; Library; Information Technology; Transportation; Public Works; Finance; Human Resources; PBCE; Economic Development; Mayor, City Council and Council Appointees Offices; and other expenditures.

\*\*\* One-Time includes contingency reserve, encumbrance reserve, earmarked reserves, one-time grants, and expenditure rebudgets.

# 2012-2013 Projected General Fund Shortfall Range

**2012-2013 Preliminary Shortfall: \$78-115 M\***

## Potential Funding Sources

• Future Deficit Reserve	(\$10 M)
• Other Sources	<u>(\$ 5 M)</u>
<b>Total Potential Funding Sources</b>	<b>(\$15 M)</b>

**Remaining Shortfall: \$63-100 M**

\* Shortfall range attributed to potential increases in retirement costs and impacts from the San Jose Redevelopment Agency. Other risk factors could further increase shortfall total.

# 2012-2013 Potential Budget Balancing Scenarios

- Scenario 1:** Implement general budget balancing strategies; no Fiscal Reform Plan strategies; and spread budget impacts across all service areas
- Scenario 2:** Implement general budget balancing strategies; no Fiscal Reform Plan strategies; and only spread budget impacts across non-public safety service areas
- Scenario 3:** Implement general budget balancing strategies and those Fiscal Reform Plan strategies that could potentially be brought forward in 2012-2013; and spread budget impacts across all service areas

# Budget Balancing Strategies: All Scenarios Standard Practices

- Identifying service efficiencies
- Reviewing and lowering to the extent possible non-personal/equipment and overtime allocations (including contract re-negotiation)
- Re-aligning management and administration as programs are reduced or eliminated
- Adjusting fees to achieve/maintain 100% cost-recovery levels
- Identifying one-time funding sources
- Outsourcing/service delivery model changes
- Sale/lease/re-use of assets

# Budget Balancing Strategies: All Scenarios Outsourcing/Service Delivery Model Changes

- Initial List for Potential Service Change
  - Airport Parking & Traffic Control
  - Accounting/Payroll/Collections
  - Branch Library Services
  - Fleet Services
  - Parks Maintenance
  - Real Estate
  - School Crossing Guards
  - Workers' Compensation
- Identify Other Services for Service Delivery Evaluation
- Review Effectiveness of Recent Outsourcing

# Budget Balancing Strategies: All Scenarios

## Sale/Lease/Re-Use of Assets

- E-Lot (4 acres) – Federal purchase cancelled, staff will re-solicit for sale but police parking need an issue
- Rancho del Pueblo Golf Course (33 acres) – General Plan amendment in progress; rezoning would maximize value
- Hayes Mansion - \$57 million debt is roughly 3 times the estimated value
- Main Corporation Yard (5 acres) – General Plan designated high density residential, revisiting needed to adjust to market; \$14 million debt from Service Yards C&C Tax Fund
- Telecom cell sites – potential to capitalize revenue
- Sale of smaller properties – underway

# Scenario 1 – Spread Cuts Across All Service Areas, No Fiscal Reform Plan

**2012-2013 Remaining Shortfall: \$63-100 M**

## Potential Cuts by Service Category

	<u>\$ Target</u>	<u>% of 11-12 Budget</u>
• Community Services	\$25-42 M	26-44%
• Capital Maintenance	\$4-6 M	8-12%
• General Government	\$11-19 M	15-25%
• Non-Departmental	\$ 7 M	3%
• Public Safety	<u>\$16-26 M</u>	3-6%
<b>Total Potential Cuts</b>	<b>\$63-100 M</b>	

# Scenario 1 – Potential Cuts by Service Area

**Community Services: \$25 - 42 M (26-44% of budget)**

## ***Potential Service Impacts:***

- Close all branch libraries (only MLK open)
- Close or convert all “hub” community centers to re-use sites with no City subsidy; close Grace Community Center
- Eliminate Senior Nutrition
- Reduce parks maintenance and expand outsourcing of remaining parks maintenance
- Eliminate remaining park rangers
- Reduce anti-gang efforts
- Reduce graffiti abatement program
- Reduce code enforcement staffing

# Scenario 1 – Potential Cuts by Service Area

**2012-2013 Remaining Shortfall: \$63-100 M**

*Less:*

*Community Services (\$25-42 M)*

**2012-2013 Remaining Shortfall: \$38-58 M**

# Scenario 1 – Potential Cuts by Service Area

**Capital Maintenance: \$4 - 6 M (8-12% of budget)**

## **Potential Service Impacts:**

- Reduce the traffic maintenance program (e.g., streetlights, traffic sign maintenance)
- Reduce the pavement maintenance program
- Reduce street landscape services
- Downsize and reduce City facilities maintenance and fleet maintenance
- Reduce transportation operations services (e.g., school safety, business parking, persons with disabilities services)

# Scenario 1 – Potential Cuts by Service Area

**2012-2013 Remaining Shortfall: \$63-100 M**

*Less:*

*Community Services* (\$25-42 M)

*Capital Maintenance* (\$4-6 M)

**2012-2013 Remaining Shortfall: \$34-52 M**

# Scenario 1 – Potential Cuts by Service Area

**General Government: \$11 - 19 M (15-25% of budget)**

## ***Potential Service Impacts:***

- Further decrease human resources, information technology, and finance functions, with significant increased risk
- Further reduce organization-wide management and leadership
- Further reduce Mayor, City Council, and Council Appointee Offices

# Scenario 1 – Potential Cuts by Service Area

**2012-2013 Remaining Shortfall: \$63-100 M**

*Less:*

*Community Services* (\$25-42 M)

*Capital Maintenance* (\$4-6 M)

*General Government* (\$11-19 M)

**2012-2013 Remaining Shortfall: \$23-33 M**

# Scenario 1 – Potential Cuts by Service Area

***Non-Departmental: \$7 M (3% of budget)***

***Potential Service Impacts:***

- Eliminate Children’s Health Initiative
- Reduce/eliminate facility operating subsidies (e.g., History San José, Mexican Heritage Plaza, Tech Museum of Innovation, Museum of Art, San Jose Repertory Theatre)
- Reduce San José BEST Program
- Eliminate non-public safety vehicle replacement
- Eliminate Convention/Visitor’s Bureau General Fund subsidy
- Eliminate technology fund
- Eliminate Senior Wellness Program

# Scenario 1 – Potential Cuts by Service Area

**2012-2013 Remaining Shortfall: \$63-100 M**

*Less:*

*Community Services (\$25-42 M)*

*Capital Maintenance (\$4-6 M)*

*General Government (\$11-19 M)*

*Non-Departmental (\$7 M)*

**2012-2013 Remaining Shortfall: \$16-26 M**

# Scenario 1 – Potential Cuts by Service Area

**Public Safety: \$16 - 26 M (3-6% of budget)**

## **Potential Service Impacts:**

- Reduce police patrol, resulting in increased response times
- Reduce police Investigations staffing, resulting in fewer crimes investigated
- Reduce police communications staffing, resulting in increased call response times
- Eliminate the police school crossing guard program
- Defer opening of police substation
- Reduce number of fire engines or increase brown-outs, resulting in increased response times (reductions subject to SAFER grant limitations)

# Scenario 2 – Spread Cuts Across Non-Public Safety Service Areas, No Fiscal Reform Plan

**2012-2013 Remaining Shortfall: \$63-100 M**

## Potential Cuts by Service Category

	<u>\$ Target</u>	<u>% of 11-12 Budget</u>
• Community Services	\$35-58 M	37-61%
• Capital Maintenance	\$5-9 M	11-17%
• General Government	\$16-26 M	21-35%
• Non-Departmental	\$7 M	3%
• Public Safety	\$0 M	0%
<b>Total Potential Cuts</b>	<b>\$63-100 M</b>	

## Scenario 2 – Spread Cuts Across Non-Public Safety Service Areas, No Fiscal Reform Plan

- This scenario would leave only \$10 - 47 M in non-public safety discretionary funding for all non-public safety discretionary services currently totaling \$110 M
- Remaining funding would not maintain a minimal basic level of non-public safety services to our residents, businesses and visitors (e.g., traffic signal maintenance, anti-gang efforts, parks maintenance, code enforcement)
- Basic functions are still needed to deliver and support public safety services (e.g., payroll, human resources, vehicle maintenance, information technology)
- Scenario 2 – Not a viable option

# Scenario 3 – Spread Cuts Across All Service Areas, Fiscal Reform Plan

**2012-2013 Preliminary Shortfall: \$78-115 M**

## **Potential Funding Sources**

- Future Deficit Reserve (\$10 M)
- Other Sources (\$ 5 M)

**Total Potential Funding Sources (\$15 M)**

**2012-2013 Fiscal Reform Plan (\$67 M)**

**(Does not assume voter-approved revenues\*)**

**Remaining (Surplus)/Shortfall\*: (\$4 M) - 33 M**

**\* With voter-approved revenue measures, a surplus would result**

# Scenario 3 – Fiscal Reform Plan: Potential General Fund Savings

Areas of Savings	Estimated 2012-2013 Savings	Estimated 2013-2014 Savings	Estimated 2014-2015 Savings	Estimated 2015-2016 Savings
Workers' Compensation Offset	\$2.8 M			
Sick Leave Payout	\$9.5 M			
Overtime		\$1.2 M		
SRBR	\$3.7 M			
Retiree Healthcare		\$13.9 M		
Additional Retirement Contributions/Opt-In Program	\$21.0 M	\$21.0 - 78 M*		
1% COLA (retiree pensions)	\$30 M*			
<b>Subtotal</b>	<b>\$67.0 M</b>	<b>\$36.1 - 93.1 M</b>		
Revenues (full-year values)	\$36.5 M		\$10.0 M	
<b>TOTAL SAVINGS</b>	<b>\$103.5 M</b>	<b>\$36.1 - 93.1 M</b>	<b>\$10.0 M</b>	

\* Savings assumes a 6.75% earnings assumption

# Scenario 3 – Spread Cuts Across All Service Areas, Fiscal Reform Plan

- Fiscal Reform Plan cost reduction strategies are subject to meet and confer/arbitration and some may face legal challenges
- Revenue strategies are subject to voter approval and the timing of potential implementation would impact savings generated in 2012-2013
- Given the barriers to implementation, the Fiscal Reform Plan savings can not be assumed for budget balancing purposes until the strategies are approved
- If achieved, the Fiscal Reform Plan would dramatically change 2012-2013 service delivery impacts (shortfall range with cost reductions: surplus of \$4 million to a deficit of \$33 million; surplus range with cost reductions and revenues: surplus of \$41 million to \$4 million)

# Budget Balancing Strategies – Potential Impact on Positions

	<u>Scenario 1</u>	<u>Scenario 2</u>	<u>Scenario 3</u>
2011-2012			
City-Wide Positions	5,400	5,400	5,400
Potential General Fund Position Eliminations:			
- Sworn	(110 - 180)	(0)	(0 - 50)
- Non-Sworn	<u>(410 - 680)</u>	<u>(575 - 945)</u>	<u>(0 - 190)</u>
<b>Total Est. Change</b>	<b>(520 - 860)</b>	<b>(575 - 945)</b>	<b>(0 - 240)</b>
2012-2013	4,540 -	4,455 -	5,160 -
City-Wide Positions	4,880	4,825	5,400

# City is in a Fiscal and Service Level Emergency

## Action steps for 2012-2013 Budget:

- Pursue Scenario 3 (Fiscal Reform Plan strategies)
- Plan for Scenario 1 (general budget strategies, no Fiscal Reform Plan, spread cuts across all service areas)
- Explore all viable budget balancing strategies to minimize significant service level reductions/eliminations
- Modify policies and processes that hinder effective service delivery

# General Fund Budget Status Overview

## QUESTIONS & ANSWERS