

2012-2013 Preliminary General Fund Forecast

November 15, 2011

2012-2013 PRELIMINARY GENERAL FUND FORECAST

Overview

- Budget outlook for the City continues to remain dismal – revenue growth not keeping pace with expenditure growth
- Projected shortfall of \$80.5 million marks the 11th consecutive year of General Fund shortfalls and follows three years in which the City addressed combined budget shortfalls of over \$300 million
- General Fund Forecast should be considered preliminary as it was prepared with limited data available for 2011-2012

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Increased Expenditures Driving Shortfall

2012-2013 General Fund Shortfall Components (Ongoing)	\$ in Millions
Carry-Over from 2011-2012 Adopted Budget	(\$ 34.88)
Major Expenditure Changes	
- Retirement Contributions Increases	(50.33)
- Redevelopment Agency Additional Impact	(10.00)
- 2012-2013 Committed Additions (capital projects scheduled to come online)	(6.16)
- Health Care Increase	(2.54)
- Salary Step Increases/Performance Pay	(1.23)
- Unemployment Insurance Savings	2.44
- Sick Leave Payments Upon Retirement Savings	2.00
- Debt Service/Subsidy Net Savings	1.65
- Other Expenditure Net Savings	2.37
Total Expenditure Changes	(\$ 61.80)
Major Revenue Changes	
- Sales Tax Increase	9.11
- Property Tax Increase	4.26
- Other Revenue Net Increases	2.83
Total Revenue Changes	\$ 16.20
Total 2012-2013 Projected General Fund Shortfall	(\$ 80.48)

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Key Revenue Assumptions

- **Economically Sensitive Revenues:**
 - **Property Tax:** 2.7% growth in 2011-2012
(\$205.7 M) 2.8% growth in 2012-2013
 - **Sales Tax:** 2-3% economic growth 2011-2012
(\$149.2 M) 3.0% economic growth 2012-2013
- **Non-Economically Sensitive Revenues:**
Adjusted for anticipated rate changes, collection trends, updated costs

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Key Expenditure Assumptions

- **Personal Services (\$644.9 M)**
 - **Salaries** (\$346.8 M): up \$1.8 M (0.5%)
no salary increases; step/performance increases applied as applicable
 - **Retirement** (\$247.6 M): up \$50.3 M (25.5%)
(Police \$27.1M; Fire \$13.9M; Federated/Other \$9.3M)
 - **Health/Other Fringe** (\$50.4 M): down \$7.3 M (12.7%)
assumes health rate increase of 11.0% in January 2013; unemployment insurance savings
- **Other Expenditures (\$230.1 M)**
 - **Non-Personal/Equip/City-Wide/Capital/Transfers/Reserves** (\$224.0 M):
calculated at detailed level; eliminates one-time funding/grants; Contingency Reserve intact
 - **Committed Additions** (\$6.2 M): new facilities operating/maintenance costs
- **SJ Redevelopment Agency:** \$10 million additional impact in the Preliminary Forecast, \$20 million total for 2012-2013

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Retirement Costs Assumptions: Pension & Healthcare

General Fund	2012-2013 February Forecast	2012-2013 Prelim Forecast*	<i>Change from Feb Forecast</i>	2012-2013 Rate of Payroll
Federated	\$65.1 M	\$65.6 M	\$0.5 M	52.09%
Police	\$106.6 M	\$114.1 M	\$7.5 M	96.44%
Fire	\$63.9 M	\$67.3 M	\$3.4 M	98.62%
Other	\$0.6 M	\$0.6 M	\$0.0 M	Various
Total	\$236.2 M	\$247.6 M	\$11.4 M	

* Federated: Pension based on the June 2011 preliminary valuation by Cheiron and assumption changes approved by the Federated Retirement Board on October 20, 2011. Healthcare calculated by actuary in July 2011.

Police & Fire: Pension & healthcare based on estimates calculated by Cheiron in July 2011.

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Committed Additions Total \$6.2 Million

- Maintenance and operating costs for new capital projects approved in the Adopted Capital Improvement Program
 - South San Jose Police Substation (\$2.4 M)
 - Four Branch Libraries (\$2.9 M)
Bascom, Calabazas, Educational Park, Seven Trees
 - Bascom Community Center (\$600,000)
- Other Operating Budget Impacts (\$152,000)
 - New parks and recreation facilities
 - Traffic infrastructure

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Significant Risk Factors/ Revenues/Expenditures Not Included in Forecast

- Outcome of negotiated labor agreements/
arbitration
 - Police Officers' Association arbitration (\$25 M)
 - No agreements in place for 5 City's bargaining units (ALP, MEF, CEO, OE3, & IBEW)
- Additional costs from unmet/deferred infrastructure and maintenance needs (\$474 M one-time, \$105 M ongoing)
- One-time revenues and expenses

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Immediate Next Steps

- Continue monitoring/reporting current year revenues and expenditures and economic impacts on the City's Budget
- Pursue fiscal reform efforts to address the General Fund structural imbalance
- Issue targets to departments
- Five-Year General Fund Forecast update to be released late February 2012

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