



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Debra Figone

SUBJECT: 2011-2012 PRELIMINARY
GENERAL FUND FORECAST

DATE: November 8, 2010

EXECUTIVE SUMMARY

The City Manager's Budget Office has completed a 2011-2012 Preliminary General Fund Forecast that will be used as an initial planning tool in the development of the 2011-2012 Proposed Budget. The fiscal outlook for the City continues to remain dismal as reflected in the very sizeable General Fund shortfall of almost \$70 million projected for 2011-2012. Fiscal Year 2011-2012 will represent the tenth consecutive year of General Fund shortfalls and follows two years in which the City addressed combined budget deficits of over \$200 million. It must also be emphasized that this is a very preliminary forecast provided in a time of continued economic uncertainty and with limited data available for 2010-2011. This Forecast will need to be updated as additional information becomes available on the revenue streams that fund the City's General Fund operations and key expenditure drivers.

Following are the major highlights of the Preliminary Forecast:

- A shortfall of \$69.9 million is projected for 2011-2012, which is \$29.2 million above the most recent estimate of \$40.7 million developed at the time the 2010-2011 Budget was approved. When the 2011-2012 Preliminary Forecast budget figures are compared to the 2010-2011 Adopted Budget, revenue collections not only continue to lose ground, but are insufficient to keep up with the projected growth in expenditures as shown in the chart below.

2011-2012 Shortfall Component (Ongoing)	\$ in Millions
Carry-Over from 2010-2011 Adopted Budget	(\$ 20.5)
Major Expenditure Changes	
- Increased Retirement Contribution Rates (Police (\$9.6 million), Fire (\$5.0 million), Federated (\$6.9 million))	(21.5)
- Increased Health Care Costs	(4.1)
- Salary Step/Performance Increases	(3.1)
- 2011-2012 Committed Additions (capital projects scheduled to come on-line)	(6.6)
- Public Safety Vehicle Replacement	(4.4)
- Other Adjustments	(0.2)
Sub-Total Expenditure Changes	(\$39.9)
Decreased Revenue Estimates	(\$9.5)
Total 2011-2012 Projected General Fund Shortfall	(\$69.9)

- As shown on the previous page, when comparing the 2011-2012 Preliminary Forecast to the Adopted Budget, the change in expenditures is the largest component of the budget shortfall. However, when comparing the 2011-2012 Preliminary Forecast to the February 2010 Forecast as updated through the 2010-2011 Adopted Budget, the lack of revenue growth is the major driver of the change in the shortfall. The February 2010 Forecast incorporated revenue and expenditure growth assumptions for 2011-2012, including the expected change in retirement rates. While expenditures are tracking close to those projections, revenues are tracking well below prior projections. Based on current collection trends, the 2011-2012 Preliminary Forecast reflects a \$35.1 million reduction to the General Fund revenue estimates and the 2010-2011 Ending Fund Balance/2011-2012 Beginning Fund Balance estimate when compared to the most recent Forecast released last February. The lower revenue collections are partially offset by lower expenditure estimates of \$5.9 million.
- The budget shortfall of \$69.9 million for 2011-2012 represents 8.1% of the projected expenditures for next year.
- "Committed Additions" are projected to total \$6.6 million in 2011-2012, reflecting the anticipated maintenance and operating costs for new capital projects now in the Adopted Capital Improvement Program. These include bond-financed libraries, community centers, parks and public safety facilities. A complete listing of Committed Additions is provided in Attachment A to this document. In many cases, 2011-2012 figures represent only partial year costs.
- Approved as part of the 2010-2011 Adopted Budget, the Forecast incorporates service reductions or eliminations totaling \$22.6 million and the elimination of 220 positions that are effective July 2011.
- It is important to note that this Preliminary Forecast does not reflect: the impact of unanticipated compensation changes resulting from negotiations with the City's employee bargaining groups or arbitration awards; unmet/deferred infrastructure and maintenance needs; additional impacts from San José Redevelopment Agency that may result from budget balancing actions that may be brought forward in the future; and one-time revenue sources or one-time expenditure needs. In addition, any gaps between revenues and expenditures in the Planning, Building, Public Works, and Fire Development Fee Programs are not reflected. It is assumed that these programs will be adjusted to recover 100% of their costs.
- The preliminary Forecast will be refined over the next several months as additional information becomes available. The formal 2012-2016 General Fund Five-Year Forecast will be issued in February 2011 and updated base budget revenue and expenditure estimates will be included in that document. Base Budget estimates will continue to be refined through the release of the City Manager's 2011-2012 Proposed Budget that is scheduled to be released in May 2011.
- Given the severity of the projected shortfall for 2011-2012 and the potential further impacts on service delivery, the Administration is bringing forward budget balancing strategies for City Council discussion as part of the Special City Council meeting on November 18, 2010.

These broad strategy categories include controlling labor cost escalation and organizational and service restructuring concepts. Early direction in these strategy areas will help guide the development of the budget and shape the future of the organization.

BACKGROUND

The City Manager's Budget Office has completed very early projections on the status of the General Fund for the next fiscal year. This preliminary Forecast provides a starting point in the initial planning for the development of the 2011-2012 Proposed Budget. It is designed to provide an order of magnitude of the projected shortfall for the upcoming fiscal year.

The revenue and expenditure estimates update the figures that were last presented in the 2011-2015 General Fund Five-Year Forecast issued in February 2010 and updated through the 2010-2011 Adopted Budget. The projections reflect the following: actual 2009-2010 revenue and expenditure performance; year-end 2010-2011 revenue and expenditure projections based on activity through the first two to three months of the current fiscal year and revised expectations on economic performance; updated salary, benefit and other cost information; and committed additions, such as the operating and maintenance impact of capital projects that are scheduled to come on-line over the next year.

ANALYSIS

Overview

The following table displays the projected General Fund revenues and expenditures for 2011-2012 as well as the resulting \$69.9 million General Fund budget shortfall.

2011-2012 PRELIMINARY GENERAL FUND FORECAST

	(\$/millions)
2011-2012 General Fund Source of Funds	\$ 794.02
2011-2012 General Fund Use of Funds	<u>\$ 863.89</u>
2011-2012 Projected Budget Shortfall	(\$ 69.87)

The 2011-2012 Preliminary Forecast shortfall of \$69.9 million is significantly higher than the \$20.2 million budget gap projected for 2011-2012 in the February 2010 General Fund Forecast. The shortfall figure is also above the \$40.7 million deficit projected in June 2010 at the time the 2010-2011 Adopted Budget was approved. The increase in the shortfall from the February 2010 Forecast is primarily the result of lower revenue estimates.

CHANGE IN THE 2011-2012 PRELIMINARY GENERAL FUND FORECAST
 (FROM FEBRUARY 2010 TO November 2010)

Ongoing Funds Available (Shortfall)	(\$/millions)
February 2010 Forecast for 2011-2012	(20.18)
2010-2011 Adopted Budget Impact	(20.49)
June 2010 Projected Budget Shortfall	(40.67)
November 2010 Adjustments	(29.20)
November 2010 Projected Budget Shortfall	(69.87)

From June 2010 to this November 2010 Forecast, the projected General Fund shortfall for 2011-2012 has increased by \$29.2 million, reflecting the net impact of lower projected revenue levels (\$35.1 million) only partially offset by lower estimated expenditure levels (\$5.9 million). Following is a summary of the major factors that have resulted in this change:

Negative Factors (Increasing the Shortfall)

- A net downward adjustment of \$27.9 million to the revenue estimates based on actual 2009-2010 performance and revised expectations for 2010-2011 and 2011-2012. The largest downward adjustments are in the following categories: Utility Tax and Franchise Fees (\$10.5 million) due to lower current year collection trends in the gas, electric, telephone, water, and commercial solid waste categories; Revenue from Local Agencies (\$6.3 million) due primarily to lower reimbursements from the San Jose Redevelopment Agency as recently directed by the City Council (November 2, 2010); Property Tax (\$5.2 million) due to lower 2010-2011 collections in the Secured, Unsecured and SB 813 categories and lower 2011-2012 growth rates; Interest Earnings (\$2.6 million) due to lower interest rates and cash balances; and Cardroom Tax (\$2.5 million) due to lower than projected activity levels.
- A downward adjustment of \$7.2 million to the 2010-2011 Ending Fund Balance/2011-2012 Beginning Fund Balance estimate is assumed due primarily to lower expenditure savings and excess revenue assumptions. In this forecast, it is anticipated that current year performance will yield expenditure savings and carryover encumbrance liquidations totaling \$13.0 million, but will not generate excess revenue to carry over to 2011-2012. In the February 2010 Forecast, it was assumed that normal fund balance patterns would resume for 2011-2012 with excess revenue estimated at 1% and expenditure savings estimated at 1.5% of the projected budget for 2011-2012, generating a projected fund balance of \$20.1 million.
- Increases in specific expenditure items totaling \$10.8 million, the most significant of which are as follows: an increase to Fire Engine and Truck replacement costs as the current sinking fund is insufficient to meet the funding requirements over the next ten years and Police vehicle replacement costs (\$3.1 million); an increase to the estimated healthcare costs (\$1.0 million) reflecting a change in the growth factor from 10% to 15% based on recently approved federal healthcare legislation and industry trends; a decrease to the vacancy rates based on current trends (\$1.0 million) primarily in the Fire Department that result in higher personnel costs; and an increase to the Sick Leave Payments Upon Retirement allocation (\$1.0 million).

Positive Factors (Reducing the Shortfall)

- When compared to the February 2010 Forecast, decreases totaling \$13.8 million are expected in several of the expenditure categories. The most significant changes are as follows: lower debt service costs (down \$7.2 million from the February 2010 Forecast and \$700,000 from the 2010-2011 Adopted Budget due to lower variable interest rates); a suspension of the third year of the retiree healthcare cost sharing phase-in for International Association of Fire Fighters (IAFF) employees (two years of a phase-in for City contributions had previously been set aside; however, with no IAFF agreement in this area, the third year has not been included) (\$1.0 million); and lower workers' compensation claims payments (\$0.7 million) from \$18.2 million to \$17.5 million.
- The Committed Additions category has been reduced by \$2.9 million, from \$9.5 million to \$6.6 million, primarily due to the reduced hours of operation for Library facilities to reflect actions approved in the 2010-2011 Adopted Budget and delays in construction schedules. The prior forecast assumed that the number of hours of operation at all branch libraries in San Jose was 47 hours per week. Effective July 2011, an approved budget balancing strategy will reduce branch library hours to approximately 33-34 hours per week.

Major Forecast Components

The three major components of the General Fund Forecast include the following: 1) revenue projections; 2) projections for the cost of delivering existing services; and 3) projections for the cost of delivering additional services to which the City is currently committed, primarily the operating costs of new facilities scheduled to come on-line in the next year. Following is a discussion of each of those components.

General Fund Revenues

The General Fund revenue estimates for 2011-2012 were prepared by analyzing over 450 individual revenue sources. This includes reviewing actual collection trends, developing revenue growth assumptions based on current economic conditions, evaluating any available information on future rate increases/activity trends that would impact the City's revenues, and updating reimbursement-related revenues based on projected costs. Preparing the revenue projections for 2011-2012 has been particularly challenging given the continued economic volatility and limited or no data available for 2010-2011.

The 2011-2012 Preliminary General Fund Forecast is based on the expectation that the economy will continue to experience a weak recovery through 2010-2011 with slight improvement projected in 2011-2012. While the worst recession since the Great Depression may technically be over, the factors which drive the City's revenues continue to remain at or near their recessionary levels: as of September 2010, the number of jobs in the San José-Sunnyvale-Santa Clara Metropolitan Statistical Area was virtually unchanged from a year ago; the unemployment rate stands at 11.2%, down from the January 2010 peak of 12.4%, but still high by historical standards; at \$510,000, the median price of a single-family home is 9.7% higher than the September 2009 level, but has lost ground from gains experienced from April through August

2010; and passenger traffic at the Airport was up only 2.0% in September compared with a year ago.

The lingering impacts from the economic downturn are expected to result in slow growth in the majority of the City's economically sensitive revenues in both 2010-2011 and 2011-2012. However, as discussed above under *Negative Factors (Increasing the Shortfall)*, there are some categories that are not expected to realize the previously projected growth levels made last February 2010, including Property Tax, Cardroom Tax, and Money and Property/Transfers (Interest Earnings).

In addition to the economically sensitive revenues, there are a number of revenue sources that are primarily impacted by other factors, such as rate changes and reimbursement-related costs. For those categories, such as Utility Taxes, Franchise Fees, and Transfers and Reimbursements, the revenue estimates have been developed based on the available information on anticipated rate adjustments and costs. In the Utility Tax and Franchise Fees categories, the estimates for both 2010-2011 and 2011-2012 are well below revenue projections included in the February 2010 Forecast and the 2010-2011 Adopted Budget based on current collection trends. Revenue performance in these categories will be closely monitored over the next several months to determine if any adjustments are possible in these categories.

Following is a brief summary of the assumptions used for the City's largest two General Fund revenue sources, Property Tax and Sales Tax, along with the 2010-2011 Ending Fund Balance/2011-2012 Beginning Fund Balance estimate.

- *Property Tax:* In 2010-2011, it is assumed that Property Tax revenues will end the year 3.2% below 2009-2010 actual collections based on current projections provided by the County of Santa Clara. In 2011-2012, Property Tax receipts are expected to increase 2.0% over the estimated 2010-2011 collection level, bringing total collections to \$199.6 million. For Secured Property Taxes, which represent over 90% of the revenues in this category, receipts are expected to decline 2.0% in 2010-2011 but increase 1.0% in 2011-2012 based on preliminary information from the County of Santa Clara and the change in the Consumer Price Index (CPI) from the prior year, which is used as a primary driver in the Secured Property Tax calculations. As of August 2010, the CPI was up 0.6% from the prior year. This figure will be refined through October and is expected to show an increase of 1% or less.
- *Sales Tax:* It is assumed that Sales Tax receipts will increase 3.5% in 2010-2011 from the 2009-2010 collection level and increase an additional 3.5% in 2011-2012. To develop the 2011-2012 estimate of \$136.1 million, staff analyzed actual 2009-2010 performance and reviewed the economic forecasts provided by MuniServices, the City's Sales Tax consultant, as well as the UCLA Anderson School. It should be noted that the \$136.1 million collection level is still \$30.5 million (18.3%) below the \$166.6 million collected in 2005-2006.
- *2010-2011 Ending Fund Balance/2011-2012 Beginning Fund Balance:* Each year, it is expected that an ongoing amount of expenditure savings and excess revenue from the current year will be available in the following year. Given the current economic environment,

however, only 2010-2011 expenditure savings and carryover encumbrance liquidations totaling \$13.0 million are assumed to be available as a funding source for 2011-2012. Revenue collections are currently tracking to end the year below the budgeted estimate. If current collection trends continue, it is likely that the Administration will bring forward a recommended to use a large portion of the Economic Uncertainty Reserve to offset this lower collection level.

On an overall basis, 2011-2012 General Fund revenues of \$751.8 million (excluding the 2010-2011 Ending Fund Balance/2011-2012 Beginning Fund Balance) are expected to be approximately 5.25% below the 2010-2011 Adopted Budget level of \$793.5 million. When compared to the Adopted Budget, the largest declines are the result of the elimination of one-time grants and transfers and a reduction in reimbursement from the San Jose Redevelopment Agency. The 2011-2012 Beginning Fund Balance of \$42.2 million is expected to be 68.7% below the 2010-2011 Adopted Budget level due primarily to the elimination of rebudgets that were carried over from 2009-2010 to 2010-2011 to complete projects. With the large change in the Fund Balance figure, the total 2011-2012 General Fund sources of funds of \$794.0 million are 14.5% below the 2010-2011 Adopted Budget level of \$928.3 million.

General Fund Expenditures

To estimate the General Fund expenditures, growth assumptions are developed for each of the General Fund expenditure categories, including Personal Services, Non-Personal/Equipment, City-Wide Expenses, Capital, Transfers, and Reserves. Total expenditures are projected at \$863.9 million for 2011-2012, which is 6.9% below the 2010-2011 Adopted Budget level of \$928.3 million. This change reflects the net impact of growth of 1.3% each in the Personal Services and Non-Personal/Equipment categories and a decline of 40.5% in the other expenditure categories (City-Wide Expenses, Capital, Transfers, and Reserves). This large decline primarily reflects the elimination of carryover rebudgets from 2009-2010 to 2010-2011 to complete projects and the fact that Earmarked Reserves have not been carried over to 2011-2012

The largest cost category is Personal Services, which now represents almost three-fourths (\$627.1 million) of the City's Base Budget costs. Personal Services costs are broken down into three major components: Salaries and Other Compensation (\$412.5 million); Retirement (\$156.0 million); and Health and Other Fringe Benefits (\$58.7 million). For 2011-2012 the projection for Personal Services costs has been calculated at a detailed level by analyzing each of these cost components. To develop the 2011-2012 Personal Services projections, an extract of City's payroll system information as of August 2010 was used as the starting point to identify the salaries, current salary steps, and benefits of existing staff. For 2011-2012, these Personal Services costs are adjusted for scheduled step increases and any other salary-related adjustments. The Personal Services budget for each department is also adjusted to reflect anticipated vacancies during the year. Following is a summary of the major assumptions used in the Personal Services projections:

- *Salaries and Other Compensation:* There is no salary changes assumed in 2011-2012 for any employee group reflecting the fact that there are no negotiated agreements covering this period. Approval of any negotiated salary increases, without any offsetting increase in revenues or reduction in services or other costs, will have the effect of driving up the City's General Fund shortfall. In this regard, consideration of salary changes is being treated as a resource allocation policy decision. With personnel costs accounting for approximately two-thirds of the General Fund budget, it is clear that the more savings that can be obtained through reducing per employee costs, the less service reductions/eliminations will be needed to eliminate the structural budget deficit. It should be noted that every 1% change in General Fund total compensation has a General Fund impact of \$5.6 million (excluding fee-funded positions).

The Forecast also assumes annual step and management pay for performance increases for employees that have not reached the top step in their classification. The projected average growth rate associated with step and management pay for performance increases alone is estimated at approximately 0.5%. This accounts for approximately \$3.1 million of the Personal Services costs in 2011-2012.

- *Retirement:* Retirement costs are calculated as a percentage of salary costs. In this Forecast, retirement costs have been adjusted for the impact of step increases, ongoing employee-employer cost sharing agreements, 2010-2011 cost-of-living adjustments for two bargaining units, and estimated changes in the City's contribution rates to its two plans, Federated and Police/Fire Retirement, last updated in February 2010. The projected changes in these contribution rates have resulted in an increase of approximately \$21.5 million in the General Fund for the Police (\$9.6 million), Fire (5.0 million), and Federated (\$6.9 million) Retirement plans pension costs.

The rates set forth in this Forecast should still be considered preliminary, but do reflect the Retirement Department's best current rate projections. In addition, the third year of an approved five-year plan to phase-in the City's share of the General Fund annual required contribution for retiree health care benefits is included for all employees, except those represented by the IAFF, whereby only two years are assumed as no agreement on a phase-in has been reached with that bargaining group. It is also assumed that the City Council's decision to prepay the City's contributions into the two retirement funds in order to receive a rate discount will continue for 2011-2012. In total, for this Forecast, the City's contribution rates (pension and medical) are presumed to grow from 42.59% to 49.39% for the Police Retirement Plan, from 43.77% to 50.32% for the Fire Retirement Plan, and from 28.31% to 32.99% for the Federated Retirement Plan. In addition, five of the City's employee groups included in the Federated Retirement Plan will continue to pay a higher contribution rate, as approved in June 2010 in order to achieve an overall 10% employee total compensation reduction, 5% of which was ongoing. It is important to note that all final retirement contribution rates are subject to approval by the two Retirement Boards, which is expected to occur in time to be included in the final 2012-2016 General Fund Forecast document released in February, 2011. It also should be noted that every 1% (100 basis points) change in the retirement rates has a General Fund impact of \$3.5 million (excluding fee-funded positions).

- *Health and Other Fringe Benefits:* Cost increases have been projected based on the scheduled increase to the City's contribution for employee health care of 6.8% effective January 1, 2011 and a projected 15% increase effective January 1, 2012 based on current industry trends and recent federal legislation that increased the dependent eligibility age from 24 to 26 and eliminated the student status requirement. The value of this increase in 2011-2012 is \$4.1 million.

The remaining cost categories, Non-Personal/Equipment and Other Expenditures (City-Wide Expenses, Capital, Transfers, and Reserves) have also been calculated at a detailed level for 2011-2012. The process utilized by the Budget Office includes eliminating one-time allocations that were approved in 2010-2011, annualizing all partial-year reductions or additions approved in 2010-2011, and incorporating adjustments for specific large Non-Personal/Equipment allocations. For example, the Forecast reflects adjustments to utility costs, lease costs, vehicle replacement, maintenance and operating costs, workers' compensation claims payments, sick leave payments upon retirement costs, debt service payment obligations, and contractually required cost-of-living increases to major contracts. The Contingency Reserve has been adjusted consistent with the City Council policy of maintaining a Contingency Reserve equal to 3% of eligible expenditures.

For the Development Fee Programs (Planning and Fire), the 2011-2012 costs have been adjusted downwards by \$0.5 million in this Forecast to match the projected revenue, resulting in a net-zero impact on the City's General Fund Forecast. Each of the fee programs will be required to develop strategies that will address any shortfall in the 2011-2012 Proposed Operating Budget process. The revenues and expenditures for the two remaining partners, Building and Public Works, have been aligned with no revenue shortfall currently estimated for 2011-2012.

Major General Fund Service Reductions Effective July 2011

Approved as part of the 2010-2011 Adopted Budget, the expenditure budget in the 2011-2012 Forecast has been reduced by \$22.6 million and 220 positions have been eliminated for several services that were programmed to be reduced or eliminated effective July 1, 2011. These changes in services are summarized in the following table.

Major Service Reductions Effective July 2011

Service	Savings	Positions
Police Patrol Staffing Reduction	\$ 9,167,000	62.00
Satellite/Neighborhood Centers Closure	3,190,000	38.47
One Fire Engine Company Elimination	2,381,000	13.00
Branch Library Hours Reduction (4-5 hours)	1,789,000	21.67
Senior Nutrition Program Elimination	1,164,000	25.86
Park Ranger Program Reduction	752,000	8.98
Sexual Assaults Investigation Unit Staffing Reduction	581,000	3.00
Dr. Martin Luther King, Jr. Library Service Reduction	549,000	5.63
City Attorney Staffing Reduction	437,000	3.00
PRNS Special Events Reduction	425,000	6.67
Police Horse Mounted Unit Elimination	282,000	1.00
Building Fee Program	236,000	10.50
General Code Enforcement Program Staffing Reduction	229,000	2.00
Strong Neighborhoods Initiative Staffing Reduction	222,000	3.00
Workers' Compensation Claims Adjuster Staffing Reduction	218,000	2.00
Anti-Graffiti Program Staffing Reduction	211,000	2.00
Development Services Program Manager Elimination	175,000	1.00
Information Tech Business Application Management Reduction	136,000	1.00
Arts Express (K-12 Arts) Program Elimination	131,000	1.00
STAND Program Gang Intervention Program Staffing Reduction	125,000	1.63
Special Tenant Improve/Industrial Tools Improvement Reduction	106,000	2.00
Almaden Lake Park Aquatics Program Elimination	70,000	3.22
Lake Cunningham Marina Closure	60,000	1.51
Total	\$22,636,000	220.14

General Fund Committed Additions

As has been the City's practice with the General Fund forecasts, cost estimates for a number of specific Committed Additions that address previous City Council direction are included in this 2011-2012 Preliminary Forecast. The "Committed Additions" category reflects anticipated maintenance and operating costs for new capital projects approved in the Adopted Capital Improvement Program, including bond-financed libraries, community centers, parks and public safety facilities.

As detailed in Attachment A to this memorandum, "Committed Additions" in 2011-2012 are projected at \$6.6 million or 9.4% of the General Fund shortfall. Included in this allocation are new parks and recreation facilities (\$417,000) including operating and maintenance costs for turnkey parks, trails, and other park facilities. In addition, operations and maintenance funding for bond-financed libraries (\$3.0 million) including the new Bascom, Calabazas, Educational Park, and Seven Trees branch libraries; South San José Police Substation (\$2.4 million); and Bascom Community Center (\$643,000), are included as part of this allocation. It should be

noted that the allocation reflects revised opening dates for several facilities approved as part of the 2011-2012 Adopted Budget. For the South San José Police Substation, the revised opening date of September 2011 is assumed.

As these costs will continue to present challenges to the General Fund shortfall in 2011-2012 and anticipated in future years, a continuation of the City Council-approved strategy to defer or delay opening facilities or pursue alternative funding sources included in the 2010-2011 Adopted Budgets may be required. An evaluation of the project schedules and/or the staffing necessary to maintain and operate these facilities will be included in the upcoming budget process.

Revenues/Expenditures Not Reflected in Forecast Model

It is important to note that there are a number of significant factors that may impact the City's General Fund condition during the next fiscal year that are not reflected in this forecast model. These include the following:

- *Negotiated Labor Agreements:* There are no salary adjustments assumed in this Forecast as there are no approved contract agreements that specify changes for 2011-2012. It is also important to note that the City and IAFF, Local 230 whose contract expired June 30, 2009, are proceeding to binding arbitration. This Forecast does not assume that any additional costs or savings would result from the outcome of those proceedings.
- *Unmet/Deferred Infrastructure and Maintenance Needs:* As reported to the City Council in June 2009, the annual ongoing need in the General Fund totals \$38.8 million assuming a one-time General Fund backlog of approximately \$458 million is met. The Forecast does not assume additional funding to address this need.
- *San Jose Redevelopment Agency Funding:* The Forecast assumes continued San Jose Redevelopment Agency funding for the reduced level of City support services as well the reimbursement for the Convention Center debt service payment in alignment with the November 2, 2010 City Council/Redevelopment Agency Board approval of the Redevelopment Agency's Capital and Operating Budgets for 2010-2011. Given the fiscal challenges facing the Redevelopment Agency, it is likely that funding budgeted for City support services will be further reduced in 2011-2012. As directed by the City Council/Redevelopment Agency Board, the proposed funding levels for 2011-2012 will be refined and updated based on discussions with the Redevelopment Agency and the Mayor's Office over the next several months. Any corresponding budget proposals based on these discussions will be brought forward for City Council consideration as part of the 2011-2012 Proposed Operating and Capital Budgets. The Administration's goal will be to minimize any General Fund impacts from those potential actions.
- *One-Time Revenues/Expenditures:* Because the Forecast compares ongoing revenues and expenditures, it generally does not factor in one-time funding sources or one-time expenditure needs.

NEXT STEPS

The City will be faced with another extremely challenging budget process for 2011-2012. As was the case last year, early engagement in this process is underway with the November 18th Special City Council meeting. Potential strategies to address the 2011-2012 General Fund shortfall and future deficits will be discussed at the November 18th Special City Council meeting, including Controlling Labor Cost Escalation and Organizational and Service Restructuring.

As the budget development process moves forward, it will be important to have clear direction associated with these strategies.

Following is a timeline for the budget development process:

November 2010

- City Council Special Meeting on 2011-2012 Budget Planning

January 2011

- Community Budget Survey
- Neighborhood Association/Youth Commission Priority Setting Session
- 2010-2011 Mid-Year Budget Review Released

February 2011

- 2011-2012 City Manager's Budget Request and 2012-2016 Five-Year Forecast and Revenue Projections for the General Fund and Capital Improvement Program Released
- Updated General Fund Structural Deficit Elimination Plan Released

March 2011

- 2011-2012 Mayor's March Budget Message Released, Public Hearing, 2011-2012 Mayor's March Budget Message Amended/Approved by City Council

April 2011

- 2011-2012 Proposed Capital Budget and 2012-2016 Capital Improvement Program Released

May 2011

- 2011-2012 Proposed Operating Budget and 2011-2012 Proposed Fees and Charges Released
- Council District Community Meetings to Discuss 2011-2012 Proposed Budget
- City Council Study Sessions and Initial Public Hearing on 2011-2012 Proposed Operating Budget, 2012-2016 Proposed Capital Budget and Capital Improvement Program, and 2011-2012 Proposed Fees and Charges

June 2011

- 2011-2012 Mayor's June Budget Message Released, Final Public Hearing, 2011-2012 Mayor's June Budget Message Amended/Approved by City Council
- 2011-2012 Operating Budget, 2011-2012 Capital Budget and 2012-2016 Capital Improvement Program, and 2011-2012 Fees and Charges Adopted by City Council

CONCLUSION

The 2011-2012 Preliminary General Fund Forecast is intended to serve as a starting point in the development of the 2011-2012 Proposed Budget. This early data is provided to assist in planning efforts and will be refined over the next several months as additional information becomes available. It must be emphasized that the forecast figures presented in this document have been developed based on the very limited data currently available. As additional information becomes available, changes to these estimates will likely be necessary and will be incorporated into the formal 2012-2016 General Fund Forecast that is scheduled to be released in February 2011. This later and updated forecast will provide a more in-depth analysis of revenue and expenditure trends and will present optimistic and pessimistic cases that will illustrate the impacts of lower or higher revenue and expenditure growth on the City's General Fund. In addition, base budget estimates will continue to be refined through the release of the City Manager's 2011-2012 Proposed Budget that is scheduled to be released in May, 2011.

With the 2011-2012 budget, the City of San Jose will be facing its tenth consecutive year of General Fund budget shortfalls. The almost \$70 million preliminary General Fund shortfall estimate is significant, particularly considering it is following in the wake of the City's largest deficit of \$118.5 million solved in 2010-2011. This will be extremely difficult given the budget actions that have already been implemented in previous years. Beginning with the November 18th City Council Special Meeting, the Administration will be engaging the City Council and various stakeholders early in this budget process to develop strategies to address this significant challenge.



DEBRA FIGONE
City Manager

2012-2016 GENERAL FUND FORECAST

Operating Impact of Capital Programs

ATTACHMENT A

	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016
NEW PARK AND RECREATION FACILITIES MAINTENANCE AND OPERATIONS					
Antonio Balermينو Park (Almaden Apartments Area)	0	0	0	0	13,000
Cadence Turnkey Park (Land)	0	0	0	0	3,000
Chelmers Park	0	0	0	0	3,000
Commodore Children's Park (Mabury Park)	0	0	0	0	44,000
Del Monte Park	0	0	0	0	39,000
Emma Prusch - Back Acreage	0	400,000	409,000	417,000	425,000
Future Trail Projects	0	0	39,000	92,000	148,000
Guadalupe River Dog Park/District 3 Dog Park	0	0	0	76,000	78,000
Hitachi Park	332,000	340,000	347,000	354,000	361,000
Joseph George Middle School Sports Field	0	0	0	0	0
Martial-Cottle Community Garden	0	0	0	0	28,000
Martin Park	0	0	0	0	82,000
Newhall Neighborhood Park	0	0	0	0	11,000
Nisich Park	15,000	15,000	16,000	16,000	17,000
North San Pedro Turnkey Park and Tot Lot	0	5,000	15,000	16,000	16,000
O.S. Hubbard Elementary School Sports Field	0	35,000	36,000	37,000	38,000
O'Donnell Garden Park Gazebo	3,000	3,000	3,000	3,000	3,000
Pellier Park	0	0	0	0	4,000
River Oaks Park	0	0	0	0	30,000
Shady Oaks Sports Park	0	0	0	50,000	75,000
Sheppard Middle School (Sports Field Partnership)	0	0	0	0	0
Solari Sports Field Conversion	0	0	0	0	0
South Rincon Area Park (Land)	1,000	1,000	1,000	1,000	1,000
Spartan/Keyes Park Phase I (Land)	1,000	1,000	2,000	2,000	2,000
Steinbeck Middle School (Sports Field Partnership)	0	0	0	0	0
Tamien Specific Plan Area Park	0	0	21,000	37,000	38,000
TRAIL: Lower Guadalupe River (Gold St. to Hwy 880)	58,000	59,000	60,000	61,000	62,000
TRAIL: Lower Silver Crk 4/5A (Alum Rock to Hwy 680)	0	15,000	15,000	16,000	16,000
TRAIL: Lower Slvr Crk VI (Dobern Brg. to Foxdale Dr.)	0	5,000	5,000	5,000	5,000
TRAIL: Penitencia Creek Reach I	0	35,000	36,000	36,000	37,000
TRAIL: Three Creeks - East	0	0	8,000	63,000	64,000
TRAIL: Three Creeks - West	0	104,000	106,000	108,000	110,000
TRAIL: Three Creeks (Land)	6,000	0	0	0	0
Venetian Terrace - Scottish Rite (Land)	1,000	3,000	3,000	3,000	3,000
Vietnamese Heritage Garden	0	0	0	0	174,000
Vista Montana Turnkey Park and Tot Lots	0	0	0	0	46,000
West Evergreen Park	0	0	0	0	12,000
TOTAL NEW PARK AND RECREATION FACILITIES MAINTENANCE AND OPERATIONS	417,000	1,021,000	1,122,000	1,393,000	1,988,000
NEW TRAFFIC INFRASTRUCTURE ASSET MAINTENANCE AND OPERATIONS					
Traffic Projects - Forecast	20,000	31,000	32,000	35,000	35,000
Traffic Incident Management Center	0	11,000	22,000	22,000	22,000
Traffic Light Synchronization Project	33,000	33,000	33,000	33,000	33,000
Landscape Maint - New Infra Assets and Op Costs	6,000	50,000	98,000	146,000	194,000
TOTAL NEW TRAFFIC INFRASTRUCTURE ASSET MAINTENANCE AND OPERATIONS	59,000	125,000	185,000	236,000	284,000

2012-2016 GENERAL FUND FORECAST

Operating Impact of Capital Programs

ATTACHMENT A

	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016
MEASURE O (LIBRARY) MAINTENANCE AND OPERATIONS					
Bascom Branch	938,000	1,126,000	1,148,000	1,173,000	1,194,000
Calabazas Branch	557,000	770,000	787,000	803,000	819,000
Educational Park Branch	671,000	870,000	888,000	906,000	925,000
Seven Trees Branch	858,000	965,000	985,000	1,007,000	1,027,000
Southeast Branch	0	0	881,000	900,000	916,000
TOTAL MEASURE O (LIBRARY) MAINTENANCE AND OPERATIONS	3,024,000	3,731,000	4,689,000	4,789,000	4,881,000
MEASURE P (PARKS) MAINTENANCE AND OPERATIONS					
Bascom Community Center	643,000	744,000	758,000	774,000	789,000
Soccer Complex	0	0	0	0	0
Softball Complex	0	0	689,000	717,000	732,000
TOTAL MEASURE P (PARKS) MAINTENANCE AND OPERATIONS	643,000	744,000	1,447,000	1,491,000	1,521,000
MEASURE O (PUBLIC SAFETY) MAINTENANCE AND OPERATIONS: FIRE					
Fire Station 21 - Maintenance and Utilities	0	0	16,000	22,000	22,000
Fire Station 37 - South Willow Glen - Staffing/NP	0	3,032,000	3,316,000	3,562,000	3,562,000
Fire Station 37 - South Willow Glen - Maint/Util	0	31,000	41,000	42,000	43,000
TOTAL MEASURE O (PUBLIC SAFETY) MAINTENANCE AND OPERATIONS: FIRE	0	3,063,000	3,373,000	3,626,000	3,627,000
MEASURE O (PUBLIC SAFETY) MAINTENANCE AND OPERATIONS: POLICE					
South San Jose Substation - M & O (GSA)	972,000	1,049,000	1,070,000	1,091,000	1,113,000
South San Jose Substation - M & O (PD)	162,000	199,000	203,000	207,000	211,000
South San Jose Substation - 9 Police Prop Spec	720,000	734,000	749,000	764,000	779,000
South San Jose Substation - Fleet	460,000	373,000	381,000	388,000	396,000
South San José Substation - Parks Maintenance	134,000	137,000	139,000	142,000	145,000
TOTAL MEASURE O (PUBLIC SAFETY) MAINTENANCE AND OPERATIONS: POLICE	2,448,000	2,492,000	2,542,000	2,592,000	2,644,000
TOTAL OPERATING IMPACT OF CAPITAL PROGRAMS	6,591,000	11,176,000	13,358,000	14,127,000	14,945,000