

# 2004-2005 Adopted Budget

## BUDGET IN BRIEF

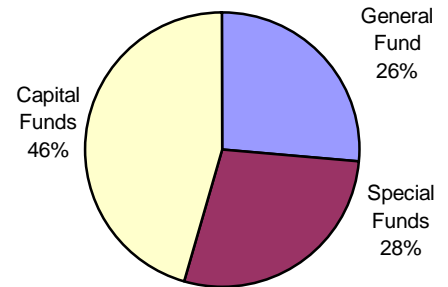
### Financial Plan

The 2004-2005 Adopted Operating and Capital Budgets for the City of San José total \$2.7 billion, an overall decline from the 2003-2004 adopted funding level of \$2.9 billion. With this level of funding, there will be noticeable reductions across the City's Service Areas. Even with these reductions, the City will continue to support a wide range of services to the City's 925,000 residents and 50,000 businesses.

Like many organizations, the City of San José has been facing significant financial challenges as a result of the continuing steep economic decline. With shrinking revenues and growth in costs, there are simply not enough dollars available to maintain the same level of service in all areas.

The City's nationally recognized performance-based budgeting program provided the framework for the organization to accomplish the difficult task of developing a balanced budget while preserving essential City services. The Adopted Budget recognizes City Council priorities and focuses resources on public safety, meeting basic infrastructure requirements, and maintaining the City Council's commitment to neighborhoods. As part of the budget development process, staff also devised strategies to restructure and rethink how we deliver services to ensure that our limited resources are used as effectively as possible.

### 2004-2005 Adopted Budget

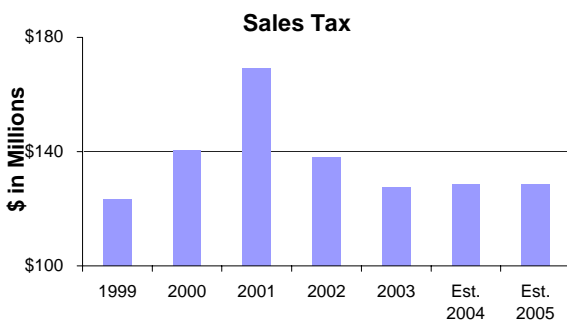


**General Fund:** used for regular operating expenditures, such as public safety, parks, and libraries.

**Special Purpose Funds:** used for operations that receive direct funding, which can only be used for a specific purpose, such as the Airport.

**Capital Funds:** used for infrastructure improvements, including transportation, sewer, public safety, airport, parks, and library projects.

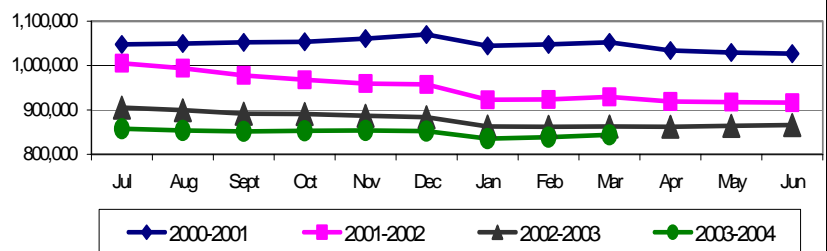
### Economic Outlook



Stagnant revenue performance, coupled with the job losses and a continuing relatively high unemployment rate in Silicon Valley, provide little evidence that the local economy is on the verge of a significant recovery. Santa Clara County has lost a staggering 231,000 jobs since December 2000. Given these factors, the Adopted Budget presumes that the City will continue to face a sluggish economy through 2004-2005 and that the City's economically sensitive revenues will experience flat or only slight growth.

The regional economic decline that began in early 2001 has persevered longer and with greater severity than the best economic experts predicted. This downturn has significantly impacted many of the economically sensitive revenues that support City services. For instance, Sales Tax receipts, the largest revenue source in the General Fund, dropped for 10 straight quarters and have only recently begun to show some minimal growth. In 2004-2005, Sales Tax receipts are expected to reach \$128 million, well below the peak of \$169 million in 2000-2001.

### Santa Clara County Employment



# *Balancing the Budget*

<b>General Fund Budget Balancing Plan</b>	
<b>SOURCE OF FUNDS</b>	<b>(\$000s)</b>
2004-2005 Future Deficit Reserve (one-time)	16,536
Cardroom Revenue (one-time)	6,250
Economic Uncertainty Reserve (one-time)	5,412
Business Information Management System	1,450
Sale of Surplus Property	1,000
Transfer from Other Funds	8,038
Miscellaneous	7,088
<b>Total Revenue &amp; Reserve Solutions</b>	<b>45,774</b>
<b>USE OF FUNDS</b>	
Position Eliminations/Efficiencies	(12,014)
Non-Personal/Equipment Reductions	(4,975)
Funding Shifts	(3,192)
Mayor, City Council and Appointees	(2,543)
Use of Reserves (Committed Adds)	(1,753)
Management Pay Increases/PDP	(2,172)
New Facilities (Operations & Maintenance)	1,025
Miscellaneous	1,564
<b>Total Expenditure Solutions</b>	<b>(24,060)</b>
<b>Total Balancing Solutions</b>	<b>69,834</b>

The 2004-2005 Adopted Operating Budget closed a \$69.8 million funding gap in the City's General Fund through a combination of ongoing cost reductions, prudent proposals for fee increases, and strategic use of reserves and one-time revenues. Additional revenues and the use of reserves account for approximately 66% of the budget balancing solutions, with expenditure reductions responsible for 34%. The reductions in public safety services were kept to a relative minimum in recognition of the City Council's expressed commitment to public safety as its highest priority. This has, however, resulted in more severe reductions in all other services supported by the City's General Fund. Given the large cuts in non-public safety areas in the Adopted Budget, public safety actions represent the largest component of the Compensation/State Budget Impact Contingency Plan that was formulated to address potential impacts from the State and from labor negotiations with employee bargaining units that were not known at the time the 2004-2005 budget was adopted.

Following the adoption of this budget, State actions were approved which resulted in a reduction of \$11.4 million in City revenues. To address this shortfall, two of the budget balancing strategies identified in the Compensation/State Budget Impact Contingency Plan were used (use of a reserve/implementation of new Emergency Communication System Support Fee). As of this writing, however, negotiations with the City's two largest labor organizations, the Police Officers Association and the International Association of Fire Fighters, remain unresolved. After the resolution of these negotiations, further budget actions may be necessary.

It is important to view the approved budget reductions in the context of cuts already experienced. In balancing the 2003-2004 Adopted Budget, the City successfully closed an \$81.3 million General Fund deficit. In August 2003, the City Council closed an additional \$10.8 million funding gap resulting from State budget decisions made after the City's budget was approved. In addition, in February 2004, confronting the lack of improvement in the general economy and the City's fiscal condition, the City Council approved the immediate elimination of 99 General Fund vacant positions. This action achieved \$6.3 million in 2004-2005 General Fund savings. Through the 2004-2005 State budget balancing actions, the cumulative impact of these General Fund reductions for 2003-2004 and 2004-2005 totaled almost \$180 million, or 22% of the 2004-2005 General Fund budget. Positions have similarly been reduced, from a high of 7,453 in 2001-2002 to 6,787 in this Adopted Budget.

## **Selected Budget Balancing Principles**

- ✓ *Prioritize continued provision of essential services, reviving the economy, building stronger neighborhoods, and stabilizing the City budget.*
- ✓ *Explore opportunities to establish new fees for services where appropriate.*
- ✓ *Defer new commitments unless they stimulate the economy and/or are funded through redeployment of resources.*
- ✓ *Defer capital improvement projects that create negative impacts on the General Fund.*
- ✓ *Emphasize quality over quantity – do fewer things, but do them well.*
- ✓ *Work with employee bargaining groups to find ways to limit the number of employee layoffs.*

# Financial Summary

## 2004-2005 Adopted Budget

### GENERAL FUND

Police	\$ 237,633,302
Fire	120,414,307
City-wide Expenses	100,231,855
Parks, Recreation & Neighborhood Services	54,628,837
Planning, Building & Code Enforcement	32,067,969
Transportation	31,195,357
City Administration	28,817,745
Libraries	23,038,859
Capital Improvements	19,419,583
General Services	17,205,038
Finance and Employee Services	13,993,331
Information Technology	13,124,347
Public Works	6,890,994
Economic Development	1,908,319
Transfers to Other Funds	5,867,457
Other	3,837,536
Reserves	102,253,949
<b>Total General Fund</b>	<b>\$ 812,528,785</b>

### ENTERPRISE/SPECIAL PURPOSE FUNDS

Airport	\$ 486,308,081
Waste Water Treatment Plant & Sanitary Sewer	198,054,215
Housing	173,064,704
Waste Mgmt (Garbage Collection/Recycling)	79,589,852
Municipal Water	27,642,269
Parking	26,675,966
Community Development Block Grant	19,223,273
Storm Sewer Operations	17,661,541
Conventions and Cultural Affairs	17,233,956
Gas Tax	17,000,000
Transient Occupancy Tax	9,527,767
Other	203,419,643
<b>Total Special Purpose Funds</b>	<b>\$ 1,275,401,267</b>

### CAPITAL IMPROVEMENT FUNDS

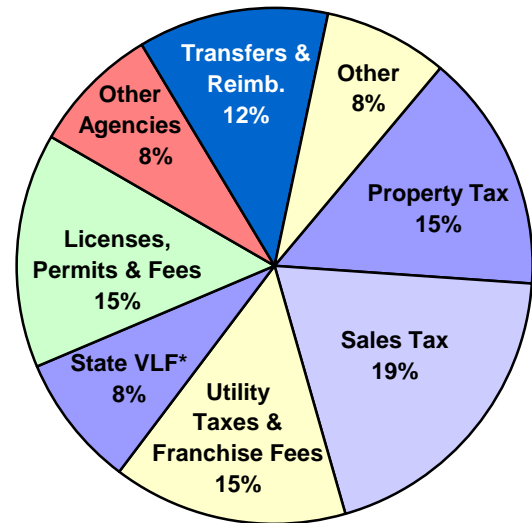
Airport	\$ 485,854,965
Parks and Community Facilities	168,060,089
Water Pollution Control Plant	139,798,268
Public Safety	108,334,978
Civic Center	88,495,707
Traffic	73,369,060
Library	63,069,638
Sanitary Sewers	44,303,252
Other	58,843,902
<b>Total Capital Funds</b>	<b>\$ 1,230,129,859</b>

**TOTAL ALL FUNDS \$3,318,059,911**

**Less Transfers, Loans & Contributions (\$622,585,061)**

**NET CITY USE OF FUNDS \$2,695,474,850**

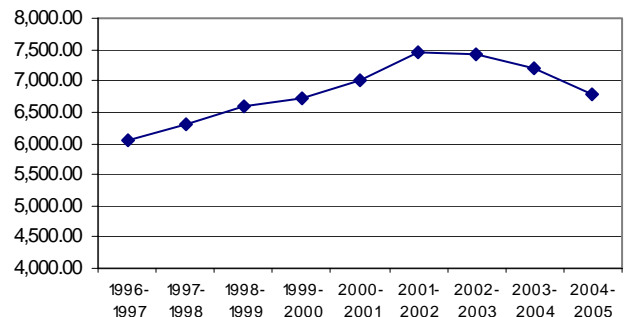
## 2004-2005 Major Sources of General Fund Revenues



\* Motor Vehicle License Fees

## Total City Positions

### Position History



A total of 235 positions were eliminated in the 2004-2005 Adopted Budget. This is in addition to 191 positions eliminated during 2003-2004. With these reductions, the total number of City positions has dropped approximately 6% from 7,213 in the 2003-2004 Adopted Budget to 6,787 in this budget. Alternative job placements were found for staff in all of the filled positions eliminated as part of the Adopted Budget. It should be noted, however, that an additional 265 positions are at risk as part of the Compensation/State Budget Impact Contingency Plan. If these reductions prove necessary, the staffing level would drop by an additional 4%.

# *Service Delivery in 2004-2005*

The City of San José has organized its operations into seven City Service Areas (CSAs). Following is a brief description of the expected service delivery in 2004-2005 and the impacts of the approved budget actions, including a description of major fee proposals.

## **PUBLIC SAFETY CITY SERVICE AREA**

### ***Expected Service Delivery***

- Provide essential emergency services in a timely and effective manner.
- Maintain and strengthen school partnerships related to gang and drug activity and crisis management.
- Maintain and strengthen partnerships for identifying potential terrorism threats. Continue to put San José in the forefront of Homeland Defense in Northern California.
- Effectively investigate arson fires and aggressively pursue, apprehend, and prosecute suspects.
- Meet EMS Paramedic Agreement contractual requirements.
- Continue progress on capital improvements supported by the Public Safety bond measure. To mitigate the operating and maintenance costs of new fire stations, existing staff will be redeployed on a temporary basis.

### ***Impacts of Budget Actions***

- Reduce funding for Neighborhood Watch Programs by increased community partnership.
- Reduce number of Fire and Police academies.
- Implement City Auditor recommendations on vehicle utilization.
- Reduce staffing for the Police Horse Mounted Unit.
- Eliminate specialty programs, such as Curfew, Tobacco Enforcement Programs, and Crime Stoppers.
- Implement reductions in the Hazardous Incident Team that will redeploy seven firefighters to stations as cross-trained personnel.
- Eliminate administrative positions in the Police and Fire Departments.
- Reduce overtime funding for the Entertainment Zone by utilizing on-duty patrol personnel.
- Increase various Police fees to bring the fee program closer to cost-recovery.

## **RECREATION AND CULTURAL SERVICES CITY SERVICE AREA**

### ***Expected Service Delivery***

- Protect our most vulnerable customer populations, including therapeutics, seniors, and youth.
- Recreation Fee Class and Activity Program will continue to provide a wide range of learning and physical activities throughout the City as a cost-effective means to provide these opportunities.
- After-school sites throughout the City will continue to provide homework support, recreational activities, and other enrichment activities to our elementary and middle school children.
- The new Animal Care and Services facility will open to provide a new level of service to residents of San José.
- The Strong Neighborhoods Initiative (SNI) areas will continue to see progress on their top 10 priorities and in the organizational development and coalescence of the neighborhoods and leaders.
- Library branch hours will be maintained.

### ***Impacts of Budget Actions***

- Implement a new "hub" model for community centers consisting of 16 hub community centers supported by 12 satellite community centers, four neighborhood centers and a complement of 77.5 staff. This compares to the current system of 42 facilities and 115 staff.
- Eliminate five of 19 Safe and Accessible Integrated After School Program sites at elementary schools, affecting approximately 250 students.
- Eliminate the Bookmobile and the Disability Outreach Services, and reduce hours of service at some service points in the new Dr. Martin Luther King, Jr. Library.
- Reduce park maintenance funding.
- Reduce funding for community-based organizations.
- Merge Library Department's Partners in Reading Literacy Program with the Parks, Recreation & Neighborhood Services Office on Early Care and Education.
- Increase fees where possible, including aquatics fees and regional parks reservation fees.

# *Service Delivery in 2004-2005*

## **TRANSPORTATION SERVICES CITY SERVICE AREA**

### ***Expected Service Delivery***

- Maintain infrastructure and facilities to ensure community safety.
- Provide viable transportation choices.
- Provide traffic safety education to elementary school children.
- Support SNI priorities with traffic calming and neighborhood improvement projects.
- Remain committed to building the transportation system to improve commutes on freeways and arterials.
- Re-time 93 signalized intersections located on the VTA light rail and other downtown commute corridors to improve traffic flow.

### ***Impacts of Budget Actions***

- Continue the City's popular sidewalk repair program, but with a \$1,000 reimbursement limit (higher for properties with large frontages) to ensure availability of grants to the maximum number of residents.
- Reduce frequency of landscape services from every three weeks to every four weeks.
- Reduce funding for tree pruning and other services, including Our City Forest, which will reduce the number of trees planted.
- Increase penalties on 16 types of parking infractions to bring these penalties in line with other Bay Area cities while still remaining slightly below the average, except in the area of safety-related penalties, which will be somewhat higher.
- Reduce preventative maintenance for streetlights, traffic signals and roadway markings so that resources can remain available to address safety issues, such as malfunctioning traffic signals, in a timely manner. Residents may notice that signs and markings are more faded, streetlight malfunctions take longer to be repaired, traffic signals are not functioning as efficiently, or a signal lamp may be out more often than before.
- Reduce resources for capital projects due in part to declining grant revenues and a larger transfer of funding to the General Fund as a budget balancing strategy.
- Reduce maintenance of the City's 2,300 miles of pavement, which will lead to overall condition deterioration.

## **ENVIRONMENTAL AND UTILITY SERVICES CITY SERVICE AREA**

### ***Expected Service Delivery***

- Provide wastewater, garbage and recycling, storm water runoff, sanitary sewer, water and other neighborhood-based services that protect the environment, assist in the City's Strong Neighborhoods Initiative (SNI), and are necessary building blocks in the City's economic development strategy.
- Provide support for neighborhood clean-ups.
- Support Green Building efforts.
- Continue major infrastructure improvements to the Water Pollution Control Plant, the Sanitary Sewer System, and the Municipal Water System.

### ***Impacts of Budget Actions***

- Improve Street Sweeping Program results by posting parking restriction signs on an additional 40 miles in targeted areas.
- Implement a 4% increase to water rates in the Municipal Water System's service area to recover the wholesale water rate increases levied by the City's two suppliers. Also approved was the indexing of wholesale recycled water rates to match those charged for wholesale untreated water by the Santa Clara Valley Water District.
- Implement the second year of a two-year rate increase package that raises Recycle Plus (garbage collection) rates by 9%, bringing the program closer to cost recovery while still maintaining rates below the County-wide average for similar services. The monthly cost for yard trimmings carts will increase to \$2.50 to achieve cost recovery for this subscription service.
- Add funding for security enhancements and facility maintenance and rehabilitation primarily at the Water Pollution Control Plant and the storm sewer pump stations.
- Implement the third year of a three-year rate increase package for the Storm Sewer Operating Fund. Revenue generated by the 4.5% increase will be used to fund a modest capital improvement program.
- After 10 years without a rate adjustment, a three-year package of 4.5% annual rate increases was approved for the Sewer Service and Use Charge fees. These increases are necessary to address aging infrastructure needs, improve wet weather reliability at the treatment plant, and cover increased costs to operate the sewage collection and treatment systems.

# *Service Delivery in 2004-2005*

## **AVIATION SERVICES CITY SERVICE AREA**

### ***Expected Service Delivery***

- The Airport expansion is underway. The North Concourse is the first major project and will address federally mandated security requirements. This facility will include a permanent automated in-line explosive detection system and associated screening space.
- Focus limited business development resources on attracting new air service, such as the recent addition of JetBlue Airways service to New York. The enhancement of air service to key trade centers will be a key economic development objective.
- Continue the acoustical treatment of properties in the expanded eligibility area. Treatment of approximately 313 properties are scheduled for completion in 2004-2005 with an additional 238 units awarded during the year.

### ***Impacts of Budget Actions***

- Reduce contractual staff that provide assistance to passengers as they navigate through terminals.
- Reduce curb monitoring services.
- Reduce funding for infrastructure maintenance, shuttle bus maintenance, and facilities maintenance.
- Reduce funding for Valley Transportation Authority Airport Flyer Service to bring shuttle service hours in line with both customer demand and revenue levels.

## **ECONOMIC AND NEIGHBORHOOD DEVELOPMENT CITY SERVICE AREA**

### ***Expected Service Delivery***

- Focus activities around the Economic Development Strategy and emphasize four strategic initiatives: develop strategic partnerships with San José State University and other universities to drive innovation and economic impact; evolve and position downtown as a unique creative and cultural center of Silicon Valley; support the start-up and growth of local businesses; and diversify the economic base and preserve/create middle-income jobs.
- Maintain excellent customer service with a predictable and timely development review process by providing seamless "one-voice" service delivery.
- Respond to emergency home repair needs of the City's lowest income residents.
- Provide attractive, clean and safe Convention facilities for over 500,000 attendees annually.

### ***Impacts of Budget Actions***

- Immediately following the adoption of the 2004-2005 budget, eliminated 25 positions from Convention Center Services to reflect implementation of the contract with Team San José, a local non-profit organization to operate the Convention facilities.
- Close a shortfall in the development fee program with a combination of position eliminations, redeployments, a phase-in of fee increases, and the use of fee reserves.
- In the areas of long-range planning and code enforcement, shift activities from proactive enforcement to a more reactive model; however, health and safety protections will be preserved.
- Expand the Silicon Valley Workforce Investment Network program.
- Reduce funding for community-based organizations.
- Expand blight reduction partnerships with neighborhoods to offset reduced City resources

## **STRATEGIC SUPPORT CITY SERVICE AREA**

### ***Expected Service Delivery***

- Assist front-line departments in serving the community by providing recruitment, training, purchasing, technology, revenue collections, facility and fleet maintenance, protecting and investing the City's financial resources, and other support services.
- Ensure the availability and provision of safe and mechanically sound public safety fleet and equipment.
- Deliver capital projects in a timely and cost effective manner.

### ***Impacts of Budget Actions***

- Reduce level of custodial service at City facilities; minor repairs will not be completed in a timely fashion.
- Reduce fleet management staffing, which will impact the timeliness of repairs and decrease fleet availability. Public safety vehicles will continue to be the priority.
- Reduce the number and variety of training courses.
- Eliminate night/swing shift technology staffing support, resulting in reduced system availability as well as reduced support to departments.
- Reduce Public Works staff that supports capital projects based on the anticipated workload.

# *Investing in the City's Infrastructure*

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The City's Capital Improvement Program (CIP) continues to bring significant improvements to San José. In 2004-2005, nearly 180 projects will be completed, including a new City Hall, two new libraries, major renovations to two community centers, numerous park and trail improvements, fire station upgrades, several new traffic signals, and utility infrastructure improvements.

Major projects are also underway that support the City's economic development goals by addressing needs associated with the City's growth, including the major expansion of the Airport, major roadway improvements and Intelligent Transportation Systems (ITS) projects that improve the flow of traffic, and the expansion of the Municipal Water System and the Sanitary Sewer System into Edenvale and North Coyote Valley.



*Rincon Storm System Improvements, Phase II*

The total dollars invested in the capital infrastructure will remain high in this next budget cycle. The 2004-2005 Adopted Capital Budget, totaling \$1.2 billion, accounts for 46% of the City's total Adopted Budget. Over the next five years, \$3.5 billion in capital improvements are programmed. While both the one-year Capital Budget and the five-year Capital Improvement Program (CIP) are smaller than those adopted last year, this level of investment is still one of the largest in the City's history, continuing the "Decade of Investment" that is transforming much of the City's infrastructure.

It is important to note that in this difficult economic environment, this level of capital funding is possible only because a number of the programs have dedicated revenue sources that are not tied directly to the economy or reflect voter-approved General Obligation Bonds that have provided an influx of resources to improve our libraries, parks and public safety facilities.



*Vineland Library*

One of the major challenges in dealing with the contradiction between the availability of funding to improve our infrastructure and the substantial General Fund operating budget shortfalls has been to balance the need for the new and expanded facilities and the ability to operate and maintain these facilities. In order to minimize the General Fund operating and maintenance impact over the next few years, schedule changes and other cost reduction strategies were implemented as described below.

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## **APPROVED ACTIONS TO REDUCE GENERAL FUND OPERATING COSTS**

- **Library** – Delay completion of West Side Branch from 2007-2008 to 2010-2011 and accelerate completion of the Willow Glen Branch from 2010-2011 to 2007-2008. This change will allow existing staff from the Willow Glen Branch to relocate to the Evergreen Branch upon its completion.
- **Park and Community Facilities** – Delay the completion dates of six park and community center projects. These deferrals include four community centers and two park projects.
- **Public Safety** – Temporarily redeploy sworn personnel to staff three new fire stations. In addition, a new fire station and a remodel to an existing station were consolidated, resulting in ongoing operating and maintenance savings.

The General Fund operating and maintenance costs avoided from these actions total \$2.0 million in 2005-2006, \$5.3 million in 2006-2007, \$2.6 million in 2007-2008, and \$2.5 million in 2008-2009.

In addition to approving the 2004-2005 Adopted Budget, the City Council approved a \$31 million Compensation/State Budget Impact Contingency Plan to address potential impacts that the State of California's final budget balancing decisions will have on City revenues and any additional funding gaps resulting from salary and benefit negotiations with the City's bargaining units.

Subsequent to the adoption of the 2004-2005 budget, State actions were approved that resulted in a reduction of \$11.4 million in City revenues. To close this funding gap, two of the components of the Contingency Plan were used: the use of \$2.0 million from the Compensation/State Budget Impact Contingency Plan Earmarked Reserve; and an increase of \$9.4 million in fee revenue from the January 1, 2005 implementation of a new Emergency Communication System Support Fee.

Resolution of contract negotiations with the City's two largest labor organizations, however, the Police Officers Association and the International Association of Fire Fighters, as well as a number of smaller organizations remains unresolved. The 2004-2005 Adopted Budget was built on the assumption that no salary increases for any City employees would be granted in 2004-2005. However, should any or all of the employees gain salary and/or benefit increases through negotiation, or through binding arbitration in the case of the Police Officer's Association or the International Association of Firefighters, Local 230, the size of the General Fund budget gap will increase.

The remaining items on the Contingency Plan to address any budget shortfalls associated with labor negotiations will involve significant expenditure reductions. The service reductions associated with the Contingency Plan will primarily impact public safety functions that were preserved in the 2004-2005 Adopted Budget. Listed below are some of the major service impacts associated with this plan. If the Contingency Plan were fully implemented, a total of 265 positions would be eliminated.

- *Reduce by 50% or eliminate the school crossing guard program.*
- *Reduce response teams for Safe Schools Campus Initiative from eight to seven.*
- *Reduce services for Clean Slate and assistance to youth who want to leave gang life.*
- *Reduce public safety dispatch support.*
- *Reduce number of fire engine companies.*
- *Reduce number of police sworn positions in civil investigations, traffic enforcement, violent crimes and patrol.*
- *Reduce library branch service by one day per week.*

If necessary, this plan will be brought back to the City Council after the completion of negotiations with the various bargaining units.

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### ***Managing Our Finances***

Despite the current economic challenges, the City of San José is recognized for its excellent financial management. San José has maintained its strong AA+ bond rating, the highest of any major California city. The City's excellent credit ratings will save taxpayers money in financing costs for the three general obligation bonds passed for park, library, and public safety improvements.

### ***Accessing the Budget***

On-line versions of the City of San José's 2004-2005 Adopted Operating and Capital budgets are posted on the City's website at [www.sanjoseca.gov](http://www.sanjoseca.gov). These documents are also available at your San José public library. For more information about the City of San José Budget, please contact the City Manager's Budget Office at (408) 277-5111.