

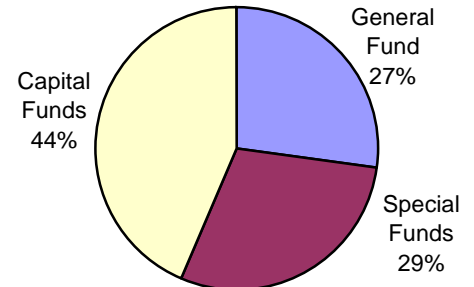
2005-2006 BUDGET IN BRIEF

Financial Plan

The 2005-2006 Adopted Operating and Capital Budgets for the City of San José total \$2.7 billion, which is roughly equivalent to the 2004-2005 adopted funding level. With this funding, the City will continue to deliver a wide range of services to the City's 926,000 residents and 50,000 businesses. These include police and fire services, parks, libraries, community centers, the San José Mineta International Airport, the Water Pollution Control Plant, recycling and garbage services, housing and neighborhood services, and the maintenance of the City's roadway infrastructure.

While the City's overall financial position remains relatively stable, the City is facing the fourth year of General Fund budget reductions as a result of the economic downturn that has persisted since 2001. In recent years, the City has bridged these deficits by trimming rather than eliminating services. In this budget, however, significant service reductions were unavoidable. Despite these fiscal challenges, the Adopted Budget was developed with a focus on City Council priorities, directing resources toward essential services, meeting basic infrastructure requirements, taking advantage of economic development opportunities, and maintaining the Council's strong commitment to neighborhoods.

2005-2006 Adopted Budget



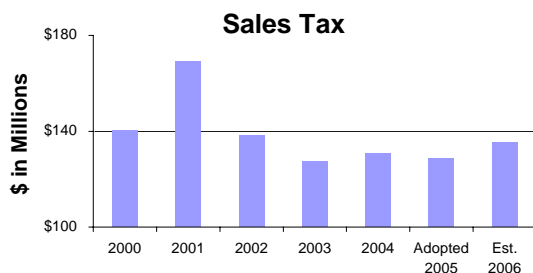
General Fund: used for regular operating expenditures, such as public safety, parks, and libraries.

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

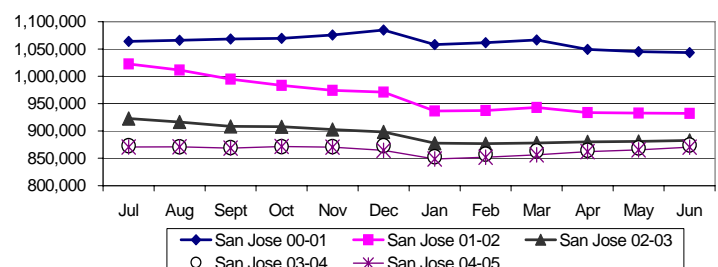
Capital Funds: used for infrastructure improvements, including public safety, transportation, sewer, airport, parks, and library projects.

Economic Outlook

A significant challenge in formulating the budget is projecting the future condition of the local economy. At the national level, the economy is suffering from the effects of excessively large increases in oil prices combined with rising interest rates and stagnant wages for most workers. On the local level, the economic situation remains stable but with no indication of significant improvement. Local job growth projections continue to be lackluster, the local unemployment rate remains above both the State and national levels, and there is growing concern that the warnings that California housing prices are unsustainable will prove to be accurate. As a result, the 2005-2006 General Fund revenue estimates have presumed flat or slight growth in key City revenues.



Santa Clara County Employment



Balancing the Budget

General Fund Budget Balancing Plan	
	(In \$000s)
Budget Shortfall	(58,052)
Budget Solutions:	
Use of 2005-2006 Future Deficit Reserve	12,541
Use of Economic Uncertainty Reserve	10,436
Cardroom Revenue (One-Time)	8,500
Transfers from Other Funds	3,602
Use of Enhanced Park Maint. Reserve	1,000
Business Tax Amnesty Program Revenue	1,000
Other Revenue Adjustments	6,702
Position Eliminations/Efficiencies	7,128
Non-Personal/Equipment Reductions	7,737
Shift Eligible Expenditures to Other Funds	2,119
Mayor, Council & Appointees Reductions	1,982
Reduced Workers' Compensation Claims	6,500
Salary Reserve Addition	(5,000)
Miscellaneous Additions	(6,195)
Total Balancing Solutions	58,052

Selected Budget Balancing Principles

- *Balance the City's ability and capacity to continue providing essential services to the community, revive the economy, build strong neighborhoods, and stabilize the City's budget.*
- *Focus on protecting vital core City services. Focus service reductions first in those areas that are least essential.*
- *Consider alternative service delivery mechanisms (e.g. appropriate community partnerships, public-private partnerships, working with other jurisdictions to ensure no service overlap, outsourcing/insourcing services delivered by City staff, etc.).*
- *Emphasize performance by focusing on improving business practices, including streamlining, innovating, and simplifying City operations.*
- *Emphasize quality over quantity: do fewer things as required, but do them well.*

The 2005-2006 Adopted Operating Budget closed a \$58.1 million funding gap in the City's General Fund. It is important to view these reductions in the context of cuts already experienced by the organization. With the 2005-2006 Adopted Budget, General Fund budget reduction actions have totaled over \$260 million over the past four years. This includes almost \$35 million that resulted from State budget actions. Positions have also been significantly reduced during this period, from a high of 7,453 in 2001-2002 to 6,672 in this Adopted Budget. The 2005-2006 Adopted Operating Budget relied on a combination of ongoing cost reductions, modest fee increases, and strategic use of reserves and one-time revenues. This includes the use of the Economic Uncertainty Reserve and the 2005-2006 Future Deficit Reserve that were established to address the current economic downturn.

In the Adopted Budget, City resources are focused on vital core services and City Council priorities. Reductions in public safety services are minimal 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 City Service Areas.

As has been the case for the past two years, a contingency plan has been developed to address uncertainty associated with underlying assumptions used in the development of the Adopted Budget. A \$31.5 million Compensation Contingency Plan (see back page) has been developed to address potential impacts from labor negotiations with employee bargaining units. Given the large cuts in non-Public Safety areas in the Adopted Budget, the largest component of the Compensation Contingency Plan is Public Safety reductions. Once the impacts of labor negotiations are known, the Contingency Plan will be brought forward for City Council consideration.

Budget Facts

2005-2006 Adopted Budget

GENERAL FUND

Police	\$ 237,774,929
Fire	125,606,600
City-wide Expenses	115,538,402
Parks, Recreation & Neighborhood Services	50,743,654
Planning, Building & Code Enforcement	33,117,814
Transportation	29,834,307
Libraries	24,311,502
General Services	20,267,268
City Administration	16,498,573
Finance and Employee Services	15,425,641
Capital Improvements	14,359,594
Information Technology	14,133,772
Public Works	6,741,895
Economic Development	4,720,908
Transfers to Other Funds	3,509,431
Other	20,104,856
Reserves	108,999,087
Total General Fund	\$ 841,688,233

ENTERPRISE/SPECIAL PURPOSE FUNDS

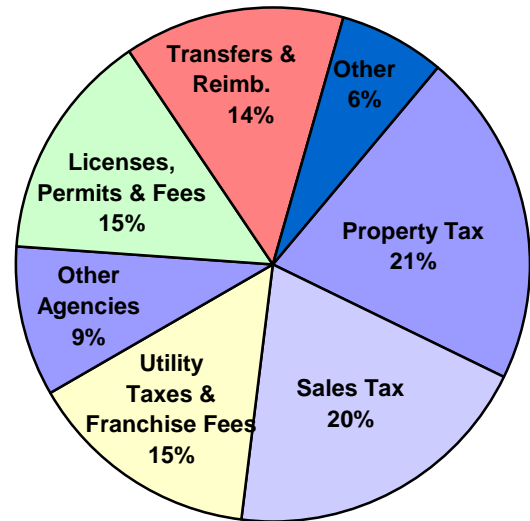
Airport	\$ 464,495,222
Waste Water Treatment Plant & Sanitary Sewer	194,788,812
Housing	118,935,097
Waste Mgmt (Garbage Collection/Recycling)	91,303,068
Municipal Water	28,042,033
Parking	23,858,784
Community Development Block Grant	21,684,088
Workforce Investment Act	19,161,593
Storm Sewer Operations	18,586,602
Gas Tax	17,000,000
Conventions and Cultural Affairs	14,278,451
Other	216,704,944
Total Special Purpose Funds	\$ 1,228,838,694

CAPITAL IMPROVEMENT FUNDS

Airport	\$ 469,241,854
Parks and Community Facilities	186,206,869
Public Safety	152,937,353
Library	88,576,268
Transportation and Parking	74,370,150
Water Pollution Control	55,180,673
Sanitary Sewers	46,767,486
Service Yards	34,058,418
Other	61,336,700
Total Capital Funds	\$ 1,168,675,771

TOTAL ALL FUNDS	\$ 3,239,202,698
<i>Less Transfers, Loans & Contributions</i>	<i>(\$574,677,127)</i>
NET CITY USE OF FUNDS	\$ 2,664,525,571

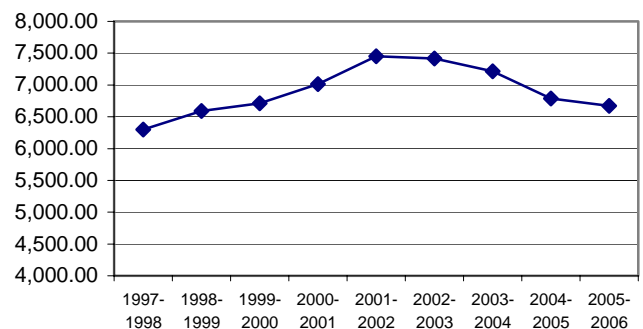
2005-2006 Major Sources of General Fund Revenues*



* Excludes Fund Balance

Total City Positions

Position History



A total of 88 positions were eliminated in 2005-2006. With these reductions and other reductions implemented in 2004-2005, the total number of City positions dropped almost 2% from 6,787 in the 2004-2005 Adopted Budget to 6,672 in this budget. The resulting staffing level is approximately equivalent to 1998-1999 levels.

An additional 333 positions are at risk as part of the Compensation Budget Impact Contingency Plan. If these reductions prove necessary, the staffing level would drop by an additional 5%.

Service Delivery Highlights

The City of San José organizes its operations into six City Service Areas (CSAs). Following is a brief description of the expected service delivery in 2005-2006 and the impacts of budget actions, including a description of major changes in fees.

Public Safety

Expected Service Delivery

- Provide essential emergency services in a timely and effective manner.
- Maintain school liaison functions and protocols, including School Habitual Absentee Reduction Program (SHARP) & Safe Schools Initiative.
- Maintain crime prevention programs, such as Challenges & Choices, Safe Alternatives to Violence Education (SAVE), Neighborhood Action and WATCH programs.
- Maintain and strengthen partnerships for identifying potential terrorism threats. Continue to put San José in the forefront of Homeland Defense in Northern California.
- Maintain Police investigation services.
- Effectively investigate arson fires and aggressively apprehend, and prosecute suspects.
- Meet EMS Paramedic Agreement contractual requirements.

Service Delivery Impacts

- Reduce clerical support in the Police Department's Crime Prevention Unit.
- Eliminate contractual counseling services for the Truancy Abatement-Burglary Suppression (TABS) Program.
- Reduce funding for general office supplies and vehicle leases in the Police Department.
- Reduce funding on a one-time basis for surplus supplies and materials set aside to address extraordinary hazardous materials incidents.

Expected Service Delivery

- Maintain conflict resolution and intervention at schools.
- Continue to provide homework support, sports activities and other enrichment to local youth.
- A new spay/neuter clinic and an expanded cat holding facility are scheduled to open at the City's Animal Care Facility.
- Maintain hours of operation at Dr. Martin Luther King, Jr. Library.
- Preserve funding for Anti-Graffiti and Anti-Litter programs.
- Maintain staffing for the Strong Neighborhoods Initiative.

Neighborhood Services

Service Delivery Impacts

- Reduce maintenance at the City's neighborhood and regional parks. Maintenance will be reduced by 2 days per week at neighborhood parks and by 1 day per week at regional parks.
- A facility re-use strategy was developed in which half of the City's community centers will be considered for alternative programming. Community organizations will be recruited through a competitive process in order to provide neighborhood and community services. Only if no suitable tenant can be found would centers be considered for closure.
- Add four hours of library service on Sundays at seven branch libraries and eliminate four hours of service on Monday mornings at all branch libraries.
- Reduce the aquatics program from a total of eleven pool sites to six. In addition, the year-round recreation swim at Fair Swim Center was discontinued from March through May and the Late Night Swim program was eliminated.
- Reduce funding for Community Based Organizations by the same proportion applied to City non-public safety services.
- Increase fees at Happy Hollow Park and Zoo.

Service Delivery Highlights

Economic & Community Development

Expected Service Delivery

- Aggressively implement the City's Economic Development Strategy. The addition of four positions was approved to further this effort.
- Continue to work towards the goal of producing 10,000 affordable housing units by December 2006. The City continues to perform at the top of its class in housing production, receiving an A+ from the Bay Area Council in its December 2004 Bay Area Housing Profile Report.
- Partner with local jurisdictions and non-profit service providers to implement the City's Ten-Year Homeless Strategy.
- Provide excellent customer service in a predictable and timely development review process.

Service Delivery Impacts

- Reduce general code enforcement activities, resulting in a focus on responding to complaints, rather than a more proactive model. Resources will primarily address life safety complaints and conditions.
- Reduce capacity for land use and planning actions to further the adopted Strong Neighborhoods Initiative plans and specific plans.
- Reduce funding to local small business chambers of commerce and the Convention and Visitors Bureau.
- Reduce Arts Program administrative staffing.

Expected Service Delivery

- Continue development of air service routes in response to the City's Economic Development Strategy to acquire new air service.
- Continue to manage security mandates at the Airport.
- Continue construction of the North Concourse at the Airport.
- Continue timely response to traffic maintenance service requests.
- Improve pedestrian safety through installation of countdown signals, red light enforcement devices and crosswalk enhancements.
- Invest in technologies to reduce operating costs of traffic signals and streetlights.

Transportation and Aviation Services

Service Delivery Impacts

- Timing of future Airport facility improvements will be delayed and re-phased dependent on future economic conditions and demand for services.
- Reduce parking shuttle hours at the Airport, resulting in an additional 30 seconds to 1 minute wait for customers during peak traffic.
- Eliminate one of eight Police Department Traffic Enforcement Units, impacting response and investigation of non-fatal traffic accidents.
- Decrease preventative maintenance on pavement and traffic signals. The current investment in street maintenance will remain well below the level necessary to maintain the roads in good condition.
- Reduce sidewalk repair grants from \$1,000 to \$500 for most properties and from \$2,000 to \$1,000 for larger lots. All owner-occupied properties will still be eligible for grants.

Service Delivery Highlights

Environmental & Utility Services

Expected Service Delivery

- Continue to exceed the State's AB 939 waste diversion mandate of 50%.
- Replace and rehabilitate the City's aging infrastructure, including significant investments in the Water Pollution Control Plant.
- Continue to meet or exceed storm water permit requirements.
- Continue to invest in the recycled water system to enhance reliability.
- Continue to improve the cleanliness of residential neighborhoods through the enhancement of street sweeping effectiveness.
- Utilize Green and Sustainable Building design and construction principles in public and private construction.

Service Delivery Impacts

- Increase resources to implement new storm water permit requirements.
- Expand parking prohibition and enforcement on sweep days by installing 40 new curb miles of signage for parking prohibitions.
- Implement modest Storm Sewer, Sewer Service and Use Charge, and Municipal Water System rate increases in order to maintain reliable utility infrastructure, while keeping rates below County averages.
- Increase funding to maintain and operate new storm pump stations and to replace existing pump stations.

Expected Service Delivery

- Oversee the City's capital projects, ensuring on-time and on-budget delivery of facilities that meet both customer and City staff needs.
- Operate and maintain the new City Hall. The consolidation of services at this new facility will improve service delivery to our residents and businesses.
- Attract and retain qualified employees.
- Maintain availability and support for network/telecommunications operations to ensure availability of systems.
- Continue to ensure that the City's financial resources are protected and available to address short and long-term needs of the community.

Strategic Support

Service Delivery Impacts

- Reduce City facilities maintenance staff, while deploying enough staff to operate the new City Hall facility.
- Reduce Workers' Compensation budget based on estimated claims.
- Reduce Public Works Capital Improvement Program staffing based on the anticipated capital project workload.
- Implement a business tax amnesty program to generate additional General Fund revenue.
- Reduce administrative staffing and redistribute work to remaining staff.
- Reduce vehicle replacement funding.

Investing in the City's Infrastructure

Against the backdrop of sustained economic challenges for the region, the City's Capital Improvement Program continues to bring significant improvements to San José. Over the first five years of the City's *Decade of Investment*, nearly 800 projects have been completed, delivering roadway improvements, enhanced recreational and park facilities, new libraries, and improved public safety facilities. In 2005-2006, nearly 150 additional projects will be added to that list, including the new City Hall, four new libraries, five community centers, numerous park and trail improvements, fire station upgrades, several new traffic signals, and utility infrastructure improvements.



Berryessa Branch Library

Many other projects that support the City's economic development goals are also underway. These include the Airport expansion, major roadway and traffic flow improvements, and the expansion of the Municipal Water and Sanitary Sewer Systems into Edenvale and North Coyote Valley.

With the significant investment in the capital infrastructure, the 2005-2006 Adopted Capital Budget of \$1.2 billion represents 44% of the City's budget. Over the next five years, capital investments are expected to total \$2.1 billion.

Major Capital Investment Highlights

- ❑ ***Mineta San José International Airport*** – Security projects remain the highest priority and the most significant of these projects is the North Concourse Building. The majority of the non-security related projects have been re-phased and will proceed based on market demand.
- ❑ ***Transportation Improvements*** – Traffic and parking improvements totaling \$74 million are budgeted in 2005-2006, with \$218 million programmed over the next five years to maintain and enhance the City's transportation system.
- ❑ ***Parks, Library, and Public Safety Facilities*** – In 2000 and 2002, voters approved General Obligation Bond measures to support library projects (\$212 million), parks projects (\$228 million), and public safety facilities (\$159 million). Bonds continue to fund new facilities as well as the upgrade and replacement of existing facilities. Over the next five years, a combined \$403 million is scheduled to be allocated from these sources.
- ❑ ***Utility Infrastructure*** – Significant investments in the City's utility infrastructure are planned, including completion of the \$89 million Reliability Improvements project at the Water Pollution Control Plant and the expansion of the water and sanitary sewer systems.

Identifying General Fund Resources to Address Operating Costs

The completion of so many capital projects in such a short time brings with it a major challenge – identifying the resources necessary to operate and maintain the new facilities. The General Fund operating costs for facilities included in the 2006-2010 CIP are estimated at \$2.7 million in 2006-2007 and climb to almost \$21 million by 2009-2010. While project deferrals have been used in recent years to address this challenge, fewer opportunities remained when developing the 2005-2006 Adopted Budget. Other strategies, however, have been developed to address these costs. These include the temporary redeployment of existing staff to new fire stations, a comprehensive analysis of all parks facilities to determine which might be considered for closure based on age or because they duplicate services found in the same geographic proximity, the consolidation of facilities, and capital investments that reduce operating costs such as energy efficient traffic signals.

Compensation Impact Contingency Plan

In addition to preparing the 2005-2006 Adopted Budget, City staff has prepared a \$31.5 million Compensation Contingency Plan to address the potential impact of salary and benefit negotiations with the City's bargaining units.

The memorandums of agreement remain to be negotiated with the Police Officer's Association and the International Association of Firefighters, Local 230, whose contracts expired in February 2004. These employees have the right to binding arbitration. The employees represented by the other City bargaining units agreed to no salary increases in 2004-2005 to help alleviate the General Fund budget shortfall. However, provisions were included in these contracts to allow compensation adjustments if increases are negotiated for the Police and Fire unions. These provisions do not apply to salary increases resulting from binding arbitration. In addition, several of the other bargaining units have open contracts with compensation increases in question in 2005-2006.

Because virtually all of the available revenue and one-time reserves were used in balancing the 2005-2006 Adopted Budget, the Contingency Plan relies almost entirely on expenditure reductions. The proposals are spread among all City service areas, with those proposals that reduce administrative or support functions generally prioritized above those that impact direct service delivery. With the heavy reliance on non-public safety areas to address the Adopted Budget shortfall, there are fewer opportunities for further reduction in those areas without severely impacting service delivery. As a result, the Contingency Plan includes some very significant reductions to the public safety services. Listed below are some of the major service impacts associated with this plan. If the full plan were required, a total of 333 positions would be eliminated (impacting approximately 208 filled positions).

- *Reduce or eliminate school crossing guard program*
- *Reduce San José After School programs*
- *Further reduce Safe School Campus Initiative teams*
- *Reduce library branch hours*
- *Eliminate Adult Sports program and reduce the Youth Sports program*
- *Further reduce parks maintenance at regional and neighborhood parks*
- *Reduce or eliminate the Police Horse Mounted Unit staffing*
- *Reduce number of fire truck companies*
- *Reduce Police traffic enforcement staffing*
- *Reduce Police investigations and patrol team sworn staffing*

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

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 2005-2006 Adopted Operating and Capital budgets are posted on the City's website at www.sanjoseca.gov. These documents are also available at San José libraries. For additional information, please contact the City Manager's Budget Office at (408) 535-8144.

This publication can be made available upon request in alternative formats such as Braille, large print, audio-tape or computer disk. Requests can be made by calling (408) 535-8144 (Voice) or (408) 294-9337 (TTY).