



Memorandum

TO: MAYOR REED
SUBJECT: BUDGET DOCUMENT

FROM: Councilmember Nancy Pyle
DATE: May 21, 2010

Approved

Nancy Pyle

Date

5/21/10

RECOMMENDATION

The goal of these recommendations is to help create a balanced budget that saves city and community services. I look forward to working with the Mayor to achieve a goal of realizing savings due to employee concessions and avoiding service reductions to our residents and businesses.

Last week the San Jose Firefighters and San Jose Police Officers, AEA, CAMP, AMPS, IBEW and ABMEI publically announced their proposal for wage reductions. It is suggested that the following be included in the Mayor's June Budget Message, ask City Negotiators to work with Union Leadership to determine the following:

- If all employees outside of Police and Fire contributed an additional 7.5% to their retirement account in place of the General Fund contributions, what would be the savings to the General Fund?
- If Police and Fire contributed an additional 5% to their retirement account in place of the General Fund contributions, what would be the savings to the General Fund?
- If employees agreed to no raises what would be the potential savings to the General Fund if the Retirement Boards were to vote to revise contribution rates based upon revised actuarial estimates?

We have only a few weeks to come up with a balanced city budget. If these proposals are found to be sound, I encourage my colleagues to give them serious consideration. It is understood that the public proposals do not reach the stated goal of 5% ongoing and 5% one-time employee wage and benefit concessions but given the current state of negotiations and the willingness of these unions to present an alternative solution, these creative proposals with new ideas should be fairly and completely evaluated. Without seriously considering the wage concessions presented by San Jose Firefighters and San Jose Police Officers, AEA, CAMP, AMPS, IBEW and ABMEI, it appears that we will be facing cuts to the services we provide our communities and contentious and unpredictable decisions to impose contracts upon our workers who have presented what they hope will turn out to be a viable alternative.

I would also like the Mayor to include the following recommendations in his Budget Message:

- Direct staff to meet with the union leadership to explore ways to improve the bargaining process.
- If the economy recovers more than expected, designate additional funds be used to provide economic incentives to attract business to San Jose.
- Direct the City Manager to implement the entire Competition Policy for MEF personnel if MEF agrees to negotiate concessions through at a minimum a side letter to their existing agreement.

- Direct the City Manager to explore options for a Two-Tier Retirement System with stakeholders participation and present the options at a Council Study Session.

Attached is list of suggested additional budget items to be looked at to balance the current city budget.

BACKGROUND

Our city budget is at the most critical point in memory. We are facing more than \$118m in budget deficits for the coming year with more to come in the next year. Our residents and businesses are facing their own deficits. We are all painfully aware that something needs to be done.

It is time that we look to ourselves to confirm what kind of city we want to be. Will we provide vital services to our most fragile residents, will we work with our youth to help them grow and mature into productive caring adults, will we keep our beloved community centers open and will we work to regain our status as the safest big city? If our answer is yes, we need to find a way to balance our current budget without reducing the number of employees who provide those services.

Seven of our unions have publically offered to help us balance this budget. They understand that without their help, we will have no choice but to eliminate jobs and in turn eliminate services. The San Jose Firefighters and San Jose Police Officers have worked with AEA, CAMP, AMPS, IBEW and ABMEI to offer true employee cost savings. Our public safety unions have offered to contribute an additional 5% to their retirement funds with the other unions offering to contribute an additional 7.5% to their retirement funds. These additional contributions will replace general fund monies the city is obligated to contribute to the retirement funds. The savings to the general fund will be used to save services and jobs provided by these unions.

These recommendations are citywide in scope. They do not identify specific community centers to save, parks to keep open or branch library hours. The recommendations are based upon additional contributions to retirement accounts from all of our employees. Once again, it is proposed that all employees in the Police and Fire unions make additional 5% contributions to their retirement accounts and all other city employees make additional 7.5% contributions to their retirement accounts. If an employee group does not agree to negotiate concessions, we should support the city manager's decision to eliminate positions within that union as directed in previous Council action.

In demonstration of their sensitivity to the city budget, contract proposals submitted by the San Jose Firefighters, Police Officers, AEA, CAMP, AMPS, IBEW and ABMEI all agreed to two-year contracts with no salary increases. Two-year contracts will give us time to back off from yearly negotiations which are emotionally exhausting to union leadership, city negotiators, and the city council.

There has been much talk about "permanent" salary reductions. I believe that the term of the contract defines the length of a "permanent" salary reduction. It does not make sense to expect the unions to agree to anything beyond the length of the contract.

This proposal also reinstates funding to the items eliminated by the "One Time Service Reduction Restoration" action taken last year with the exception of the redeployed Horse Mounted Unit, Cultural Affairs subsidy, Fire Data Management and Police Management Consolidation.

The total amount of projected savings if all employees agree to additional contributions to their retirement accounts is not the entire solution. Included is a list of other areas that should be explored for additional funding. MBA #9 provides an analysis of proposals presented by Working Partnerships for alternative balancing proposals. While the administration agrees with the strategy presented by many of the proposals, they do not agree that there are any more savings to be found within these areas. The request to the Mayor is to ask staff to look for more areas for cost savings using the examples provided for guidance.

Given the complexity of the city budget, it is fully anticipated that there will be some items within this proposal that will be a challenge to the City Manager's Office. I am also confident that the Mayor and my council colleagues will have additional ideas for funding sources. However, accepting the proposal for wage concessions and two-year contracts by seven of our employee unions is a strong place to start. I ask the Mayor to direct the City Manager to work with our employees to implement the proposed wage concessions. The alternative of rejecting the wage concessions will lead to the grim reality of cutting vital city services or the hostility of imposing contracts. Either of these decisions will only hurt our businesses, employees and residents.

Amount of City Funding Required:

Projected General Fund Deficit	\$ 118.5m
City Managers Proposed	
<u>Additional Funding Sources</u>	<u>\$ 56.6m</u>
Shortage	\$ 61.9m
Funding to restore 09/10 budget item	
“One-Time Service Reductions Restoration”	
<u>With noted exceptions provided in Background</u>	<u>\$ 5.7m</u>
<u>Total funding needed</u>	<u>\$ 67.6m</u>

Funding Sources

5% retirement contributions by Public Safety	\$ 12.213m	per year of the contract
7.5% retirement contributions by all non-sworn employees	\$ 13.750m	per year of the contract
Savings to Unemployment insurance reserve increased due to increase number of lay-offs	\$ 8.9	m
Elimination of approximately 60 vacant positions	\$ 6.0	m
Further reductions to budget for supplies and other non-personnel expenditures such as State of the City, Mayor/Council travel,	\$ 2m – 3	m
Further reductions to low priority items such as: Councilmember transition, Management and Continuous Improvement Training, Second Fire Academy, Dynamic Deployment	\$ 4.7	m
Transfers from Capital Funds to Operating Budget For example – use Park funds to cover the costs to buy land for Autumn Parkway that will become part of the Guadalupe River Park	\$ 3m – 5	m
Portions of Miscellaneous Fund Balances such as: Economic Uncertainty Reserve, Ending Fund Balance Contingency Reserve	\$ 11.0	m
5% additional contributions to retirement funds for Reinstated of Public Safety positions	\$ 1.5	m per year of the contract
7.5% additional contributions to retirement funds for Reinstated Non-Sworn city employees	\$.9	m per year of the contract

Additional areas for potential savings:

Savings to city retirement contributions based upon new Actuarial projections with two years of no wage increases. Current retirement fund rates are based upon an assumed 4.25% yearly wage increase.

Potential Savings - \$7m

Salary and Benefit Reserve Adjustment

Potential Savings - \$5.6m

Anticipated Outcomes:

Requested funding changes would affect benefits or services for San José residents, businesses, community groups, etc., as described below: (Use as much space as required.)

The goal of these recommendations is to help create a balanced budget that saves city and community services.

Department or Organization: City-wide

Department or Organization Contact (Please list contact information for the individual that certified cost estimates contained within your recommendation.)

Name: Jennifer Maguire

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This change is:

One-time Ongoing

The City Service Area to which the change best relates:

- Community and Economic Development Services
- Environmental and Utility Services
- Neighborhood Services
- Public Safety
- Strategic Support
- Transportation and Aviation Services