

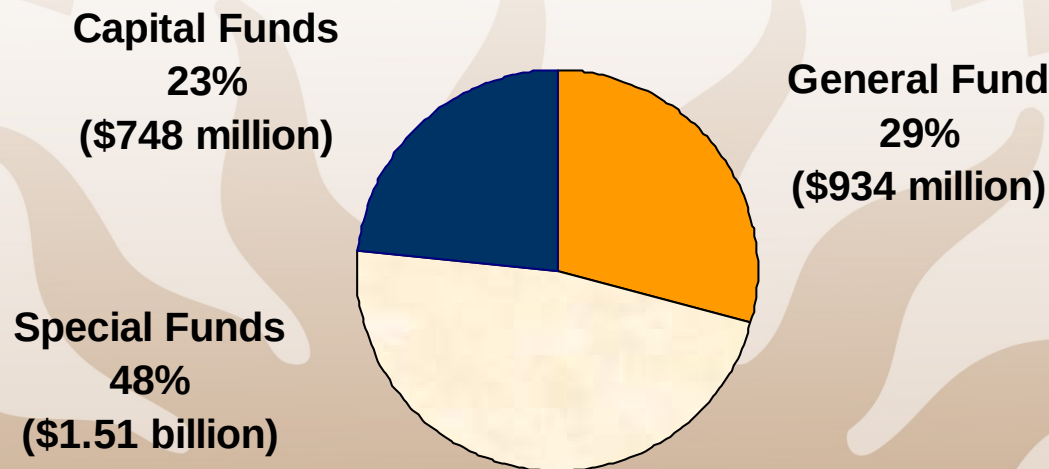
City of San José

2013-2014 Proposed Operating Budget Overview

May 8, 2013

City of San José Budget Overview

2013-2014 PROPOSED CITY BUDGET¹:	\$2.6 billion
TOTAL NUMBER OF FUNDS:	110
TOTAL NUMBER OF EMPLOYEES:	5,651



¹ An adjustment of \$556 million is necessary to arrive at the \$2.6 billion net 2013-2014 Proposed City Budget to avoid the double-counting of transfers, loans, and contributions between City funds.

2013-2014 Proposed Budget Overview

- Addresses small \$2.6 million General Fund shortfall projected for 2013-2014 and recommends a two-year budget strategy
- Balanced approach to develop the Proposed Budget that focuses on the following goals:
 - Achieving budget and service level stability
 - Targeting investments to meet priority needs of the community
 - Continuing service-delivery efficiencies and cost reduction/revenue strategies
- Employee Compensation Planning Reserve in all funds to support modest compensation increases
- General Fund Contingency Plans to address uncertainty regarding outcome of litigation (\$33.5 million, of which \$22.7 million would need to be rebalanced ongoing)
- Increase in positions from 5,522 to 5,651 (up 2.3%)

2013-2014 Proposed Budget Overview

History of Shortfalls & Position Changes

	Total General Fund Shortfall*	City-Wide Position Changes (All Funds)	City-Wide Positions (All Funds)
2002-2003	(\$ 46.3 M)	(36)	7,445
2003-2004	(\$ 92.1M)**	(205)	7,240
2004-2005	(\$ 81.7M)**	(426)	6,814
2005-2006	(\$ 58.0 M)	(115)	6,699
2006-2007	(\$ 34.9 M)	171	6,870
2007-2008	(\$ 19.9 M)	149	7,019
2008-2009	(\$ 29.6 M)	(7)	7,012
2009-2010	(\$ 84.2 M)	(362)	6,650
2010-2011	(\$118.5 M)	(783)	5,867
2011-2012	(\$115.2 M)	(440)	5,427
2012-2013	\$ 10.4 M	95	5,522
SUBTOTAL	(\$670.0 M)	(1,959)	
2013-2014	(\$ 2.6 M)	129	5,651
TOTAL	(\$ 672.6 M)	(1,830)	

* Includes Development Fee Program impact.

** Includes State impact of \$10.8 million in 2003-04 and \$11.4 million in 2004-05

2013-2014 Proposed Budget Overview

General Fund Overview

2014-2018 General Fund Forecast

2014-2018 General Fund Forecast Incremental General Fund Surplus/(Shortfall)

	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
Incremental Surplus/(Shortfall)	(\$3.8 M)	(\$13.7 M)	\$2.0	(\$4.7 M)	(\$6.0 M)
% of Annual Budget	(0.21%)	(0.78%)	0.11%	(0.25%)	(0.31%)

* Excludes Development Fee Programs' projected surplus of \$1.2 million.

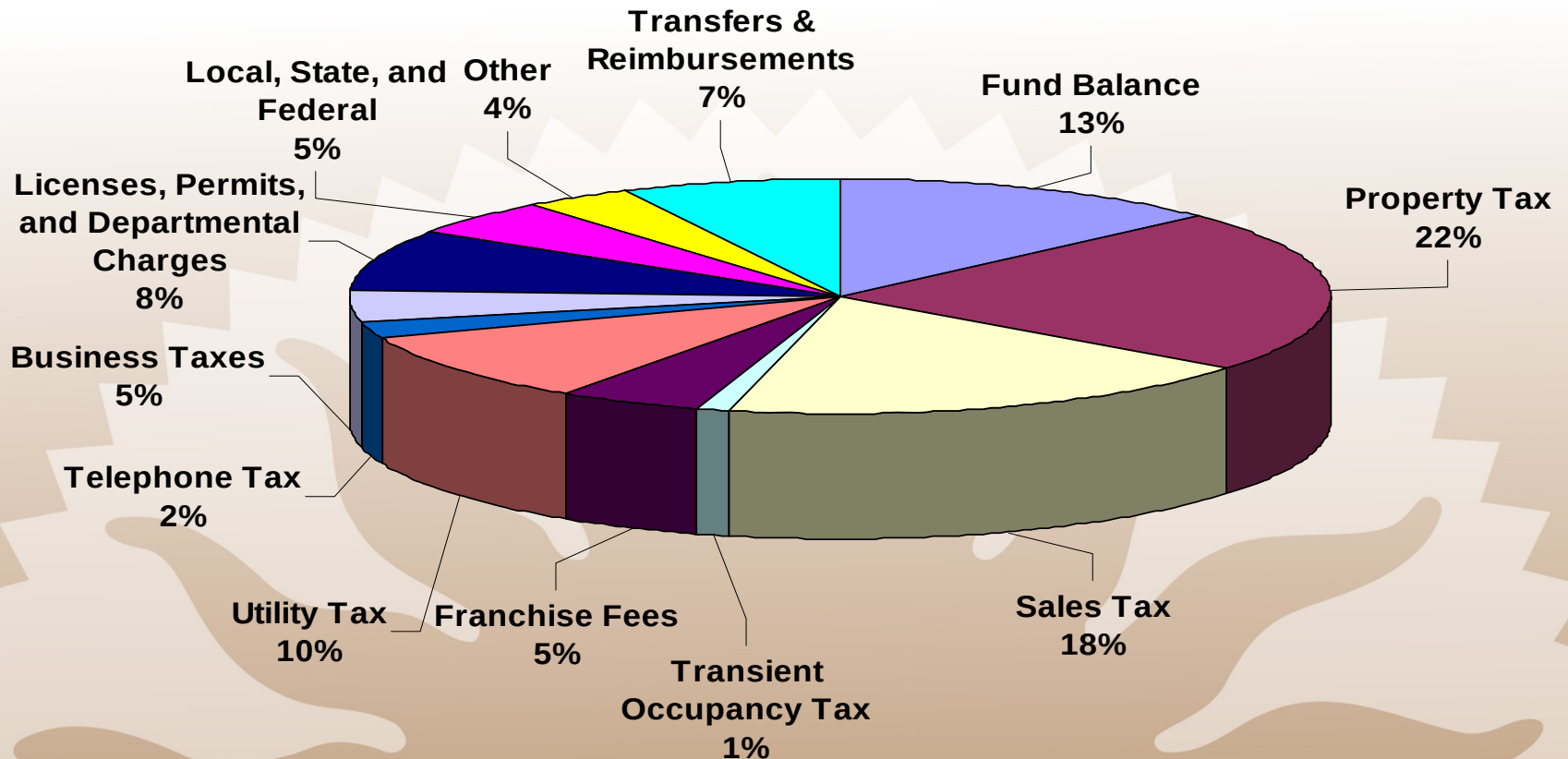
Includes:

- Proposed Employee Compensation Planning Reserve, as well as salary increases (steps for eligible non-management and management performance pay)
- Anticipated savings from first-year implementation of some elements of the Fiscal Reform Plan and Measure B retirement changes approved by voters in June 2012

Does not include:

- Impacts associated with elements of the Fiscal Reform Plan/Measure B that are not yet implemented
- The outcome of litigation with County of Santa Clara related to the PERS and Water District levies
- Fully funding the annual required contributions for police and fire retiree health care
- Restoration of key services funded on a one-time basis in 2012-2013
- Restoration of key services to January 2011 levels
- Costs associated with unmet/deferred infrastructure and maintenance needs
- One-time revenues/expenses

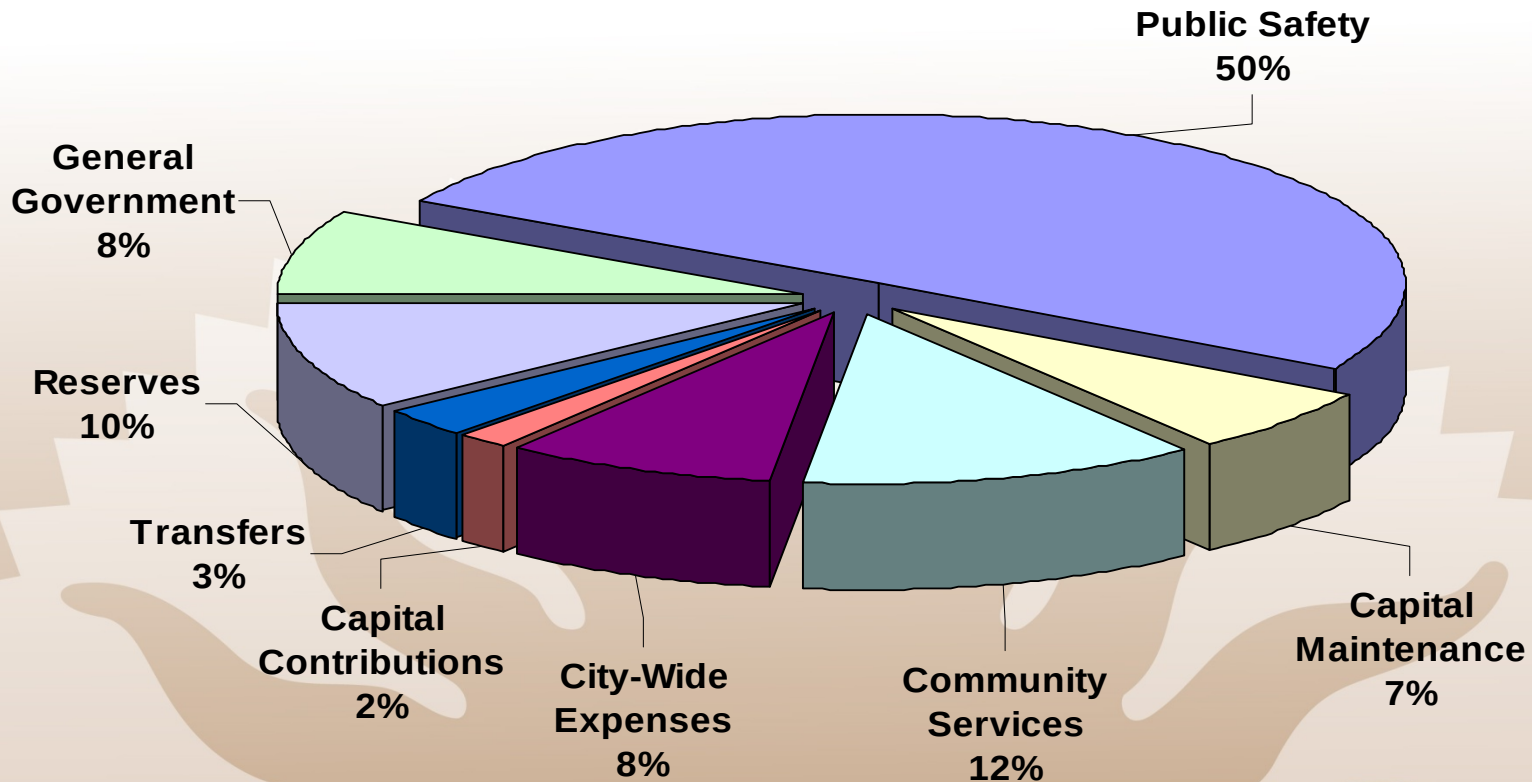
2013-2014 Proposed Budget – General Fund Funding Sources



TOTAL GENERAL FUND SOURCES: \$934,008,927

Source: 2013-2014 Proposed Budget

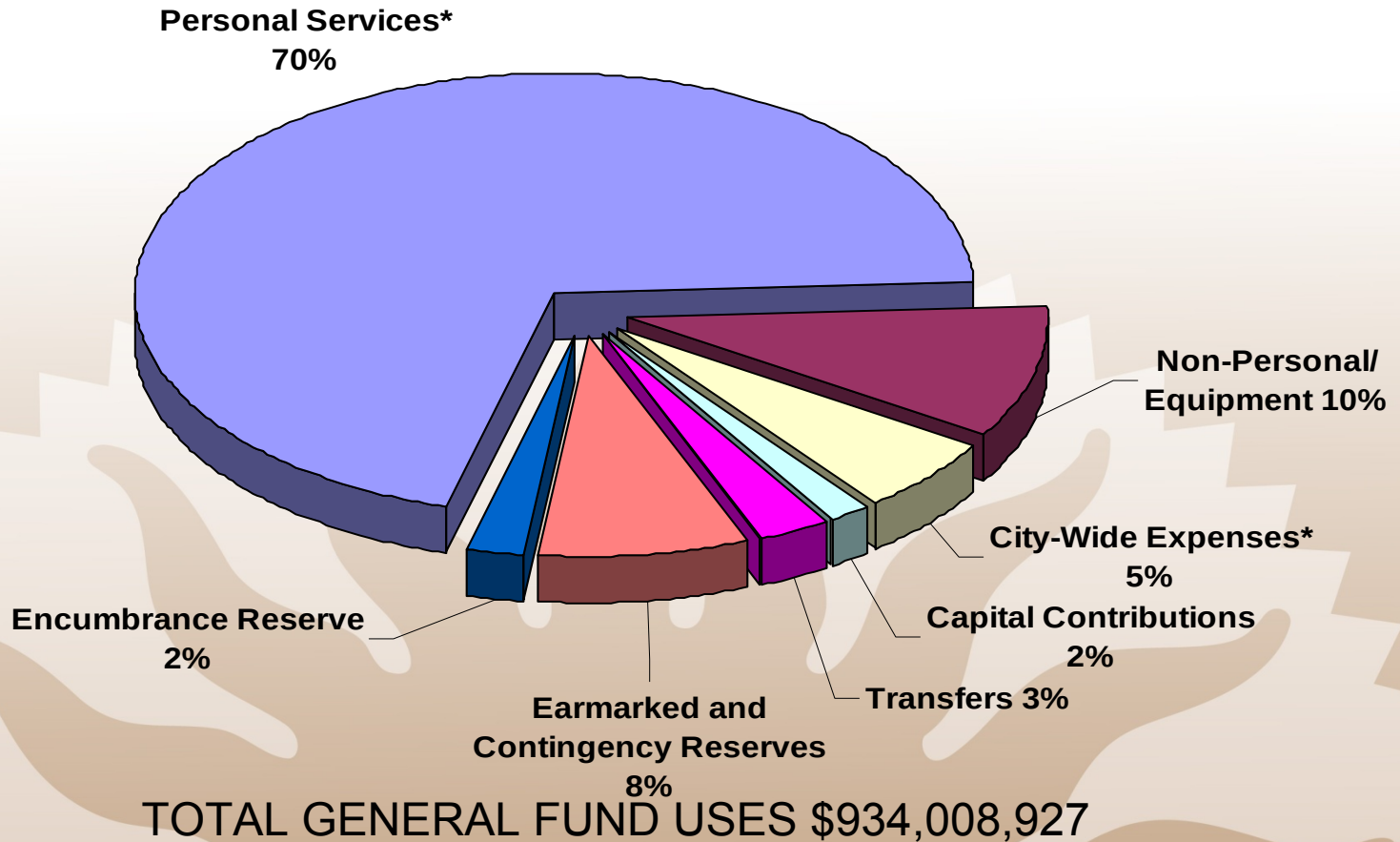
2013-2014 Proposed Budget – General Fund Uses



TOTAL GENERAL FUND USES \$934,008,927

Source: 2013-2014 Proposed Budget

2013-2014 Proposed Budget – General Fund Uses by Category



* Although budgeted in City-Wide Expenses, Workers' Compensation Claims and Sick Leave Payments Upon Retirement are reflected in the Personal Services category as these are personnel-related costs.

Source: 2013-2014 Proposed Budget

2013-2014 Proposed Budget Overview

2013-2014 Proposed Operating Budget Recommended Balancing Strategy and Budget Actions

2013-2014 Budget Balancing Strategy

General Framework and Policy Direction

- Mayor's March Budget Message as approved by the City Council (March 2013)
- Budget Balancing Guidelines contained in the City Manager's Budget Request as approved by the City Council (March 2013)
- Guiding Principles for Restoring City Service Levels as approved by the City Council (March 2012)
- City of San José Budget Principles as approved by the City Council (March/Sept. 2008)

2013-2014 Budget Balancing Strategy

General Fund

	<u>2013-2014</u>	<u>Ongoing</u>
Revised General Fund Shortfall	\$ (3.8 M)	\$ (3.8 M)
Development Fee Program Surplus	<u>1.2 M</u>	<u>1.2 M</u>
Total General Fund Shortfall	\$ (2.6 M)	\$ (2.6 M)
Recommended Budget Actions		
– Additional Funding Sources	\$ 56.8 M	\$ 6.4 M
– Expenditure Additions*	<u>54.2 M</u>	<u>3.8 M</u>
Net Impact of Budget Actions	\$ (2.6 M)	\$ (2.6 M)

* Implementation of \$33.5 million in 2013-2014 expenditure proposals are recommended for delayed implementation pending litigation outcomes.

2013-2014 Budget Balancing Strategy

\$33.5 Million Contingency Plans

- **\$20 Million General Fund Contingency Plan**

Ongoing savings from the Supplemental Retiree Benefit Reserve (SRBR) elimination (\$13.5 M) and the lowest cost healthcare plan changes (\$6.5 M) are included in the budget, but have been challenged as part of Measure B or other litigation.

- **\$13.5 Million Successor Agency to the Redevelopment Agency (SARA) PERS/Water District Levy General Fund Contingency Plan**

General Fund SARA Legal Obligations Subsidy savings are included in the budget (\$13.5 M one-time, \$2.7 M ongoing), but are pending final outcome of litigation with the County of Santa Clara related to the withholding of SARA tax increment associated with the PERS and Water District levies.

- City Manager's 2013-2014 Budget Message (Exhibits 1 & 2) lists expenditure proposals associated with each Plan where implementation is contingent on the outcome of the pending litigation. These proposals are denoted by an asterisk in the budget document and the slides that follow.

2013-2014 Budget Balancing Strategy

Changes in General Fund Sources

	<u>2013-2014</u>	<u>Ongoing</u>
Available Fund Balance		
2013-2014 Future Deficit Reserve	\$ 29.4 M	\$ 0
SARA City Subsidy (12/13-13/14 cash flow)	6.4 M	0
Police Dept Overtime Reserve	4.0 M	0
Tobacco Settlement Revenue	3.5 M	0
Development Fee Program Reserve	2.6 M	2.3 M
Additional Ending Fund Balance	5.2 M	0
Grants/Reimbursements/Fees	3.9 M	1.2 M
Other Revenue Changes	1.7 M	2.0 M
Transfers and Reimbursements	<u>0.1 M</u>	<u>0.9 M</u>
Total Increase to Funding Sources	\$ 56.8 M	\$ 6.4 M

2013-2014 Budget Balancing Strategy

Changes in General Fund Uses

	<u>2013-2014</u>	<u>Ongoing</u>
2014-2015 Future Deficit Reserve	\$ 13.7 M	\$0
Unmet/Deferred Infrastructure/Maintenance	15.2 M	0
Service Level Enhancements	10.3 M	5.7 M
Other Reserves	9.9 M	0
2012-2013 One-Time Funded Services	6.6 M	3.2 M
Development and Other Fee Programs/Grants	4.8 M	3.8 M
Use of Reserves	(2.6 M)	(2.8 M)
Service Delivery Efficiencies/Cost Reductions	<u>(3.7 M)</u>	<u>(6.1 M)</u>
Total Increase to Funding Uses	\$54.2 M	\$3.8 M

Recommended Budget Actions

Unmet/Deferred Infrastructure and Maintenance

- Police Communications Building
 - Fire Protection System, Electrical System Upgrades*, Chiller Replacement*, Waterproofing*
- Police Administration Building
 - Elevator Retrofits, Chiller Replacement*, HVAC Controls*, Waterproofing*, Firing Range Lighting*
- City Hall Waterproofing and Bamboo Courtyard Renovation*
- Operating/Capital Budget Systems Replacement Reserve*
- Preventative Maintenance Program*
- Street Tree Maintenance*
- Computer Server Replacements/Network Upgrades*
- Real Estate Srvcs Document Imaging and Records Retention System*

Recommended Budget Actions

Service Level Enhancements

- South San José Police Substation (opening January 2014)*
- Homeless Response Team (two-year strategy*)
- Police Community Service Officers Staffing (January 2014)*
- Police Crime Prevention Staffing*
- Police Automated Field Reporting/Records Management System (AFR/RMS) maintenance and operations
- Police Sworn & Civilian Recruitment Activities and Firefighter Recruit Testing
- Police Crime Analysis Staffing*
- Fire Cardiac Monitors/Defibrillators
- Fire Functional Movement Screening and Testing
- La Raza Roundtable/Harvard Study Consensus Building Project

Recommended Budget Actions

Service Level Enhancements (Cont'd.)

- Senior Nutrition Program Meal Enhancements*
- Anti-Graffiti Program*
- Microsoft Office Upgrade*
- Center for Employment Training
- Radar Speed Display Signs*
- Internal Financial Controls Evaluation
- Minimum Wage Ordinance Compliance Staffing
- Employment Services Staffing*
- Ballot Measure Polling

Recommended Budget Actions

Other Reserves

- Budget Stabilization (\$4.0 M)*
- Successor Agency City Legal Obligations (\$2.5 M)*
(after anticipated rebudget, reserve will total \$10 M)
- Essential Services Reserve (\$2.0 M)
- Fiscal Reform Plan Implementation Reserve (\$1.35 M)
(After anticipated rebudget, reserve will total \$1.5 M)

Recommended Budget Actions

2012-2013 One-Time Funded Services

- San Jose BEST/Safe Summer Initiative (two-year strategy, ongoing*)
- Senior Wellness and Transportation Services
- Community Action and Pride (CAP) Grants (two-year strategy*)
- PRNS Volunteer Management Unit
- Evergreen Community Aquatics Program (ongoing*)
- Economic Development Incentive Fund*
- Neighborhood Business Districts (ongoing*)
- Medical Marijuana Program (ongoing*)
- Legal Support Staffing (ongoing*)
- Office of the City Clerk Staffing (ongoing*)
- Office of Employee Relations Fiscal Reform Staffing (ongoing*)

Recommended Budget Actions

Development and Other Fee Programs/Grants

- Development Fee Programs – to ensure increasing demands can be met within expected service delivery timeframes
 - *Building*: Additional resources for inspections, plan review, permit center staffing, and administrative services
 - *Planning*: Additional resources to improve service levels for application intake and environmental review work
 - *Fire*: Additional staffing for plan check, inspection, and customer support
 - *Public Works*: Additional resources for management oversight, plan check review, inspections, and geographic technical support
- Parks, Recreation and Neighborhood Services Fee Programs
- Animal Care and Services Staffing – City of Milpitas Contract

Recommended Budget Actions

Service Delivery Efficiencies/Cost Reductions

- Workers' Compensation Service Delivery Pilot Program
- Police Overtime
- Police Contractual Backgrounding Services
- Successor Agency to the Redevelopment Agency Subsidy Reduction
- Successor Agency to the Redevelopment Agency Administration Transition
- Children's Health Initiative Transition
- Community Facilities Revenue Fund – Hayes Mansion Subsidy Reduction (civic center debt refunding)

Recommended Budget Actions

Other Funds

- **Airport Fund:** Passenger activity levels estimated to grow 1.5% from 2012-2013 levels; 2013 Airport Councils International Conference
- **Capital Funds:** Additional staffing to deliver capital improvement program projects
- **CDBG Fund:** 5% decline in funding due to federal sequestration
- **Environmental Services Funds:** Staffing adjustments, new sewer cleaning vehicles, vehicle replacement
- **Housing Funds:** Due to contracting funding, reduction of 7.0 positions in the Rehab/Loan Program and Homeownership Downpayment Program
- **Workforce Investment Act Fund:** work2future service delivery model change includes a phased transition for direct client services from the City to a third party administrator

Recommended Budget Actions

Limited Fee Impacts

- **Utilities:** No rate increases recommended for Sewer Service and Use Charge Fee, Storm Sewer Service Fee, and Recycle Plus Rates; rate increase of approximately 8% for the Municipal Water System primarily due to the higher cost for wholesale water
- **Development Fee Programs:** No general rate increases; new Technology Fee of 2% assessed on development fee permits for future technology initiatives
- **Other Fee Programs:** Fee changes to maintain or improve cost recovery and a limited number of new fees proposed in several departments

Looking Forward

- Budget position continues to stabilize and allows us to continue to make modest investments to address our most critical needs
- However, City services continue to remain well below desired levels and the deferred infrastructure and maintenance backlog continues to be significant
- Fiscal Reform Plan cost reduction and revenue strategies that have not yet been implemented could total \$85 million to \$122 million annually in the future (employee retirement contributions and sales tax increase) to meet service delivery demands and other needs
- Service delivery challenges remain as we work through filling vacant and new positions and training new staff over the next year

Next Steps

through May 28th

Community Budget Meetings

May 8th through 15th

City Council Budget Study Sessions

May 14th/June 10th

Public Budget Hearings

May 31st

Mayor's June Budget Message Released

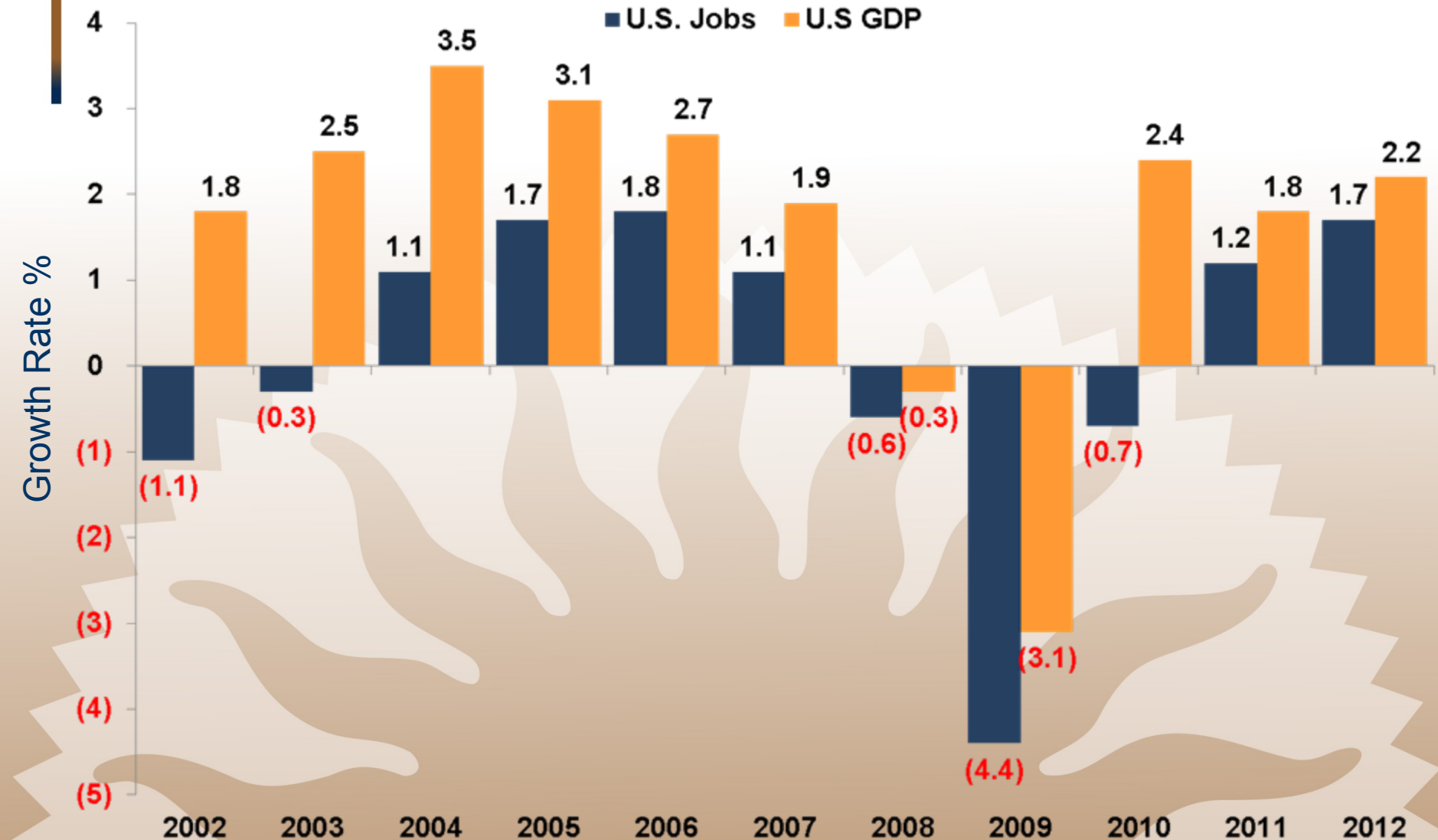
June 11th

Council Review/Approval of Mayor's June Budget Message

June 18th

Adoption of the 2013-2014 Budget and Fees and Charges

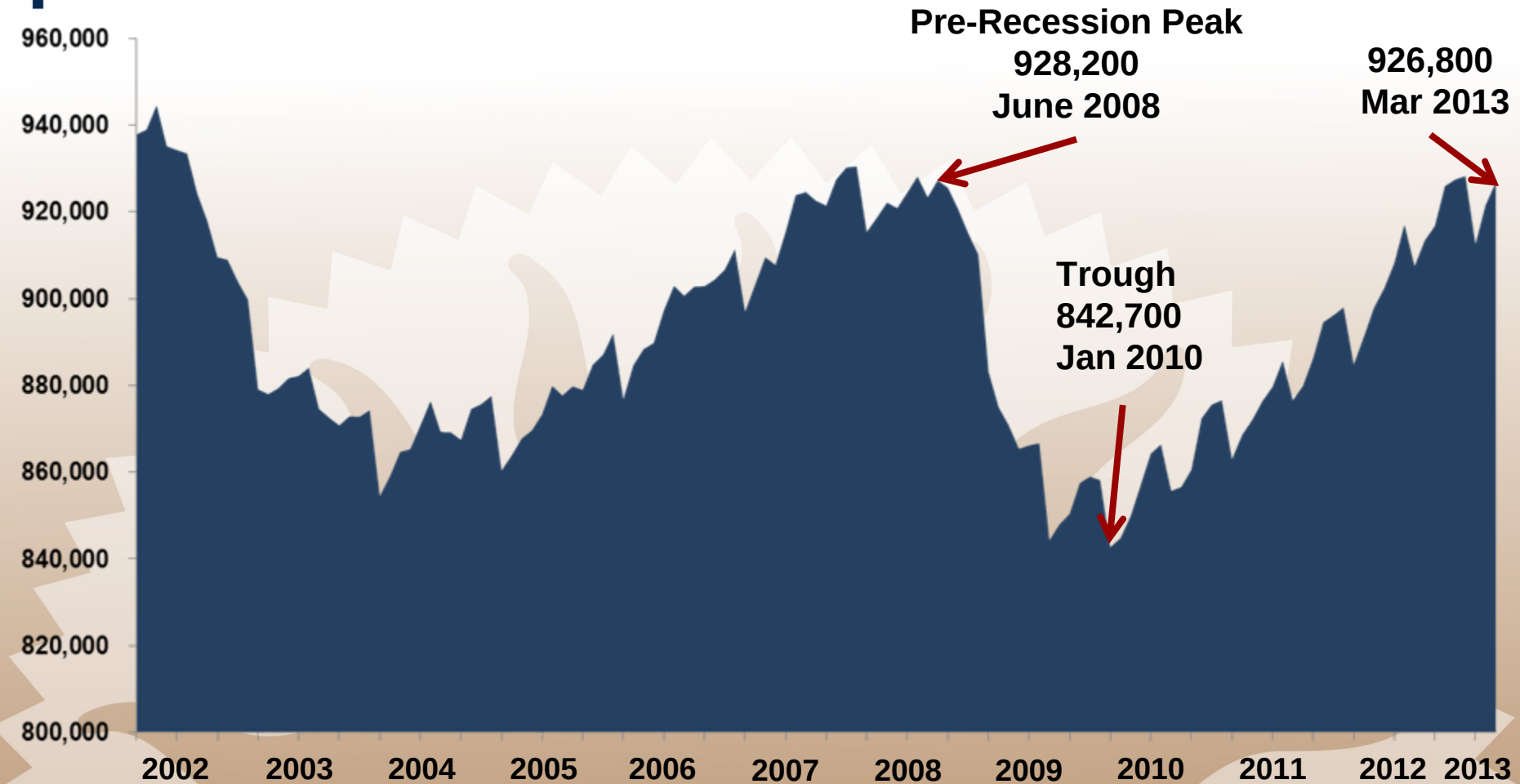
2 Years of Sustained GDP and Job Growth



Source: Bureau of Economic Analysis (BEA), Bureau of Labor Statistics

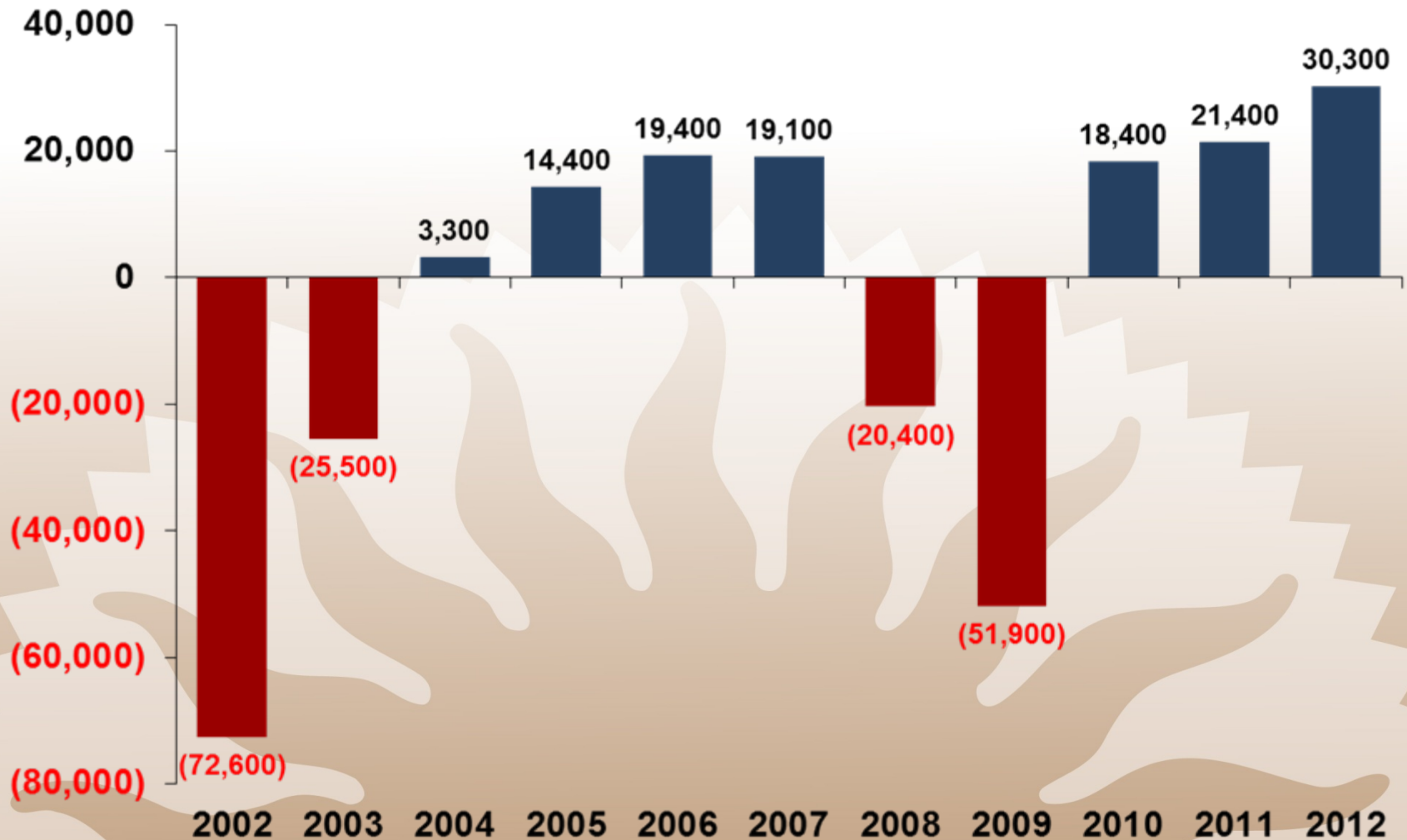
Regained All Jobs Lost Since Recession

San Jose MSA



Source: EDD

Strongest Job Growth Since 2001

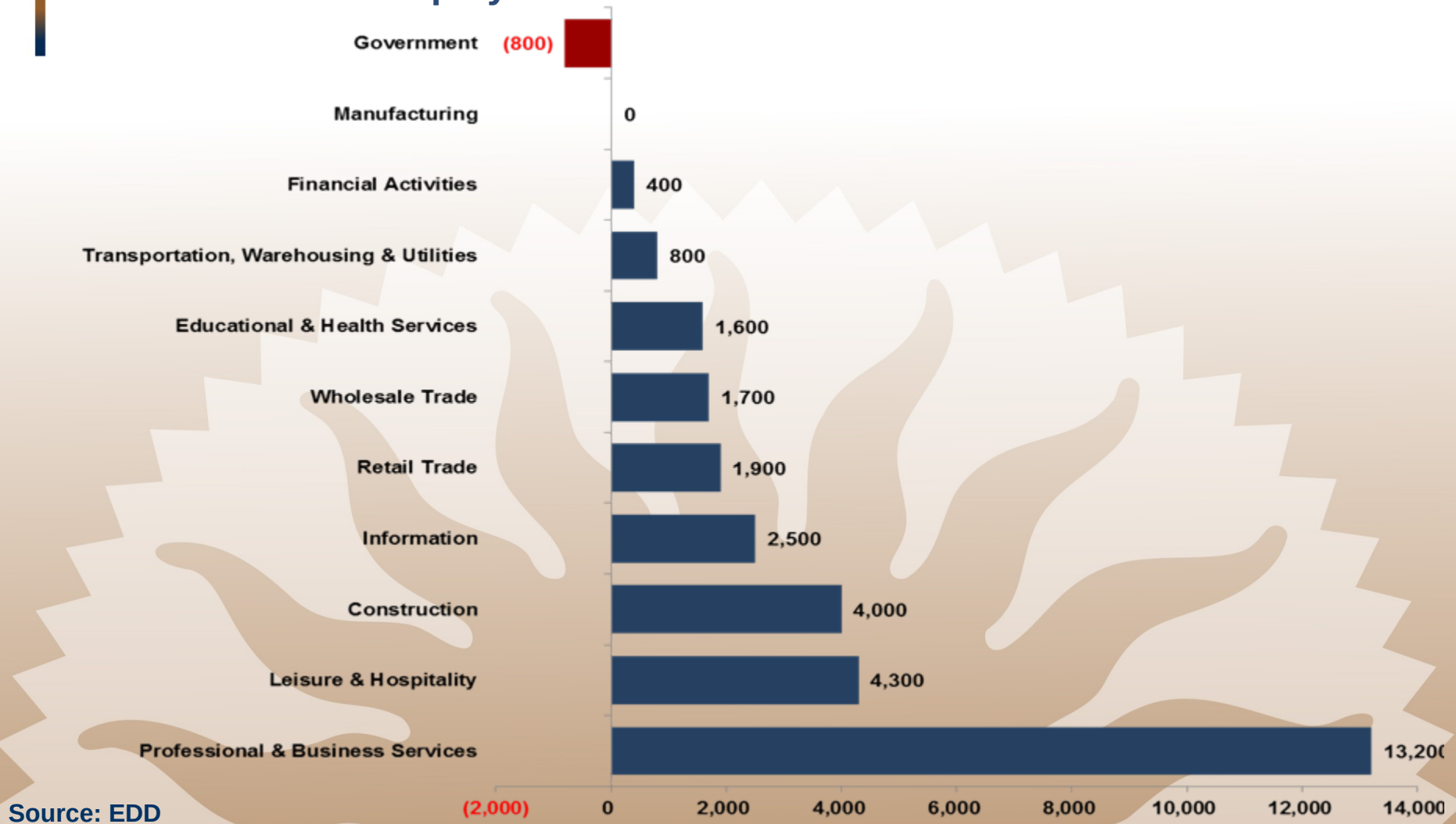


Source: EDD

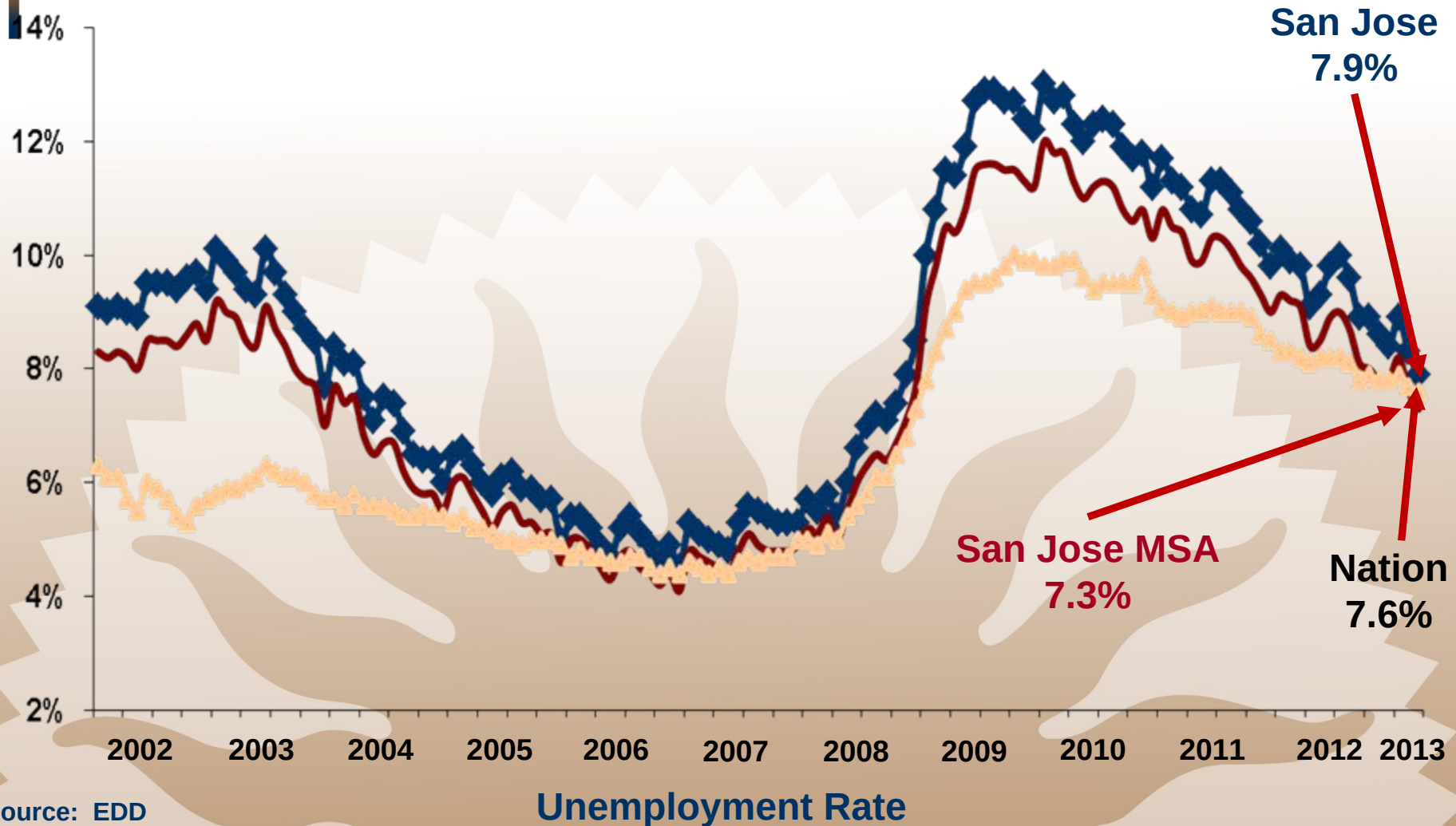
San Jose MSA Job Growth

All Sectors Growing, Except Government

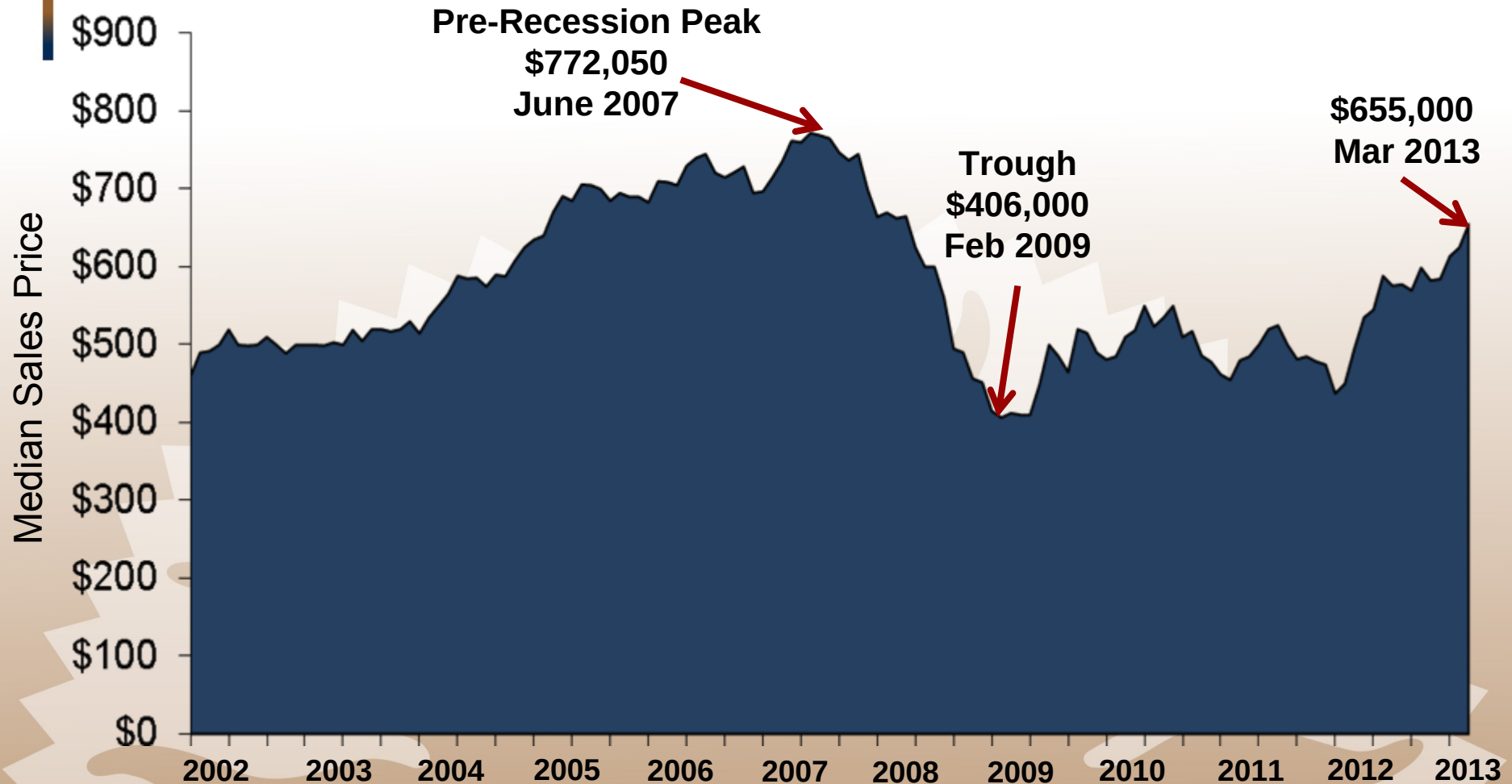
Employment Growth Mar 2012 -Mar 2013



Unemployment Declines Below 8%



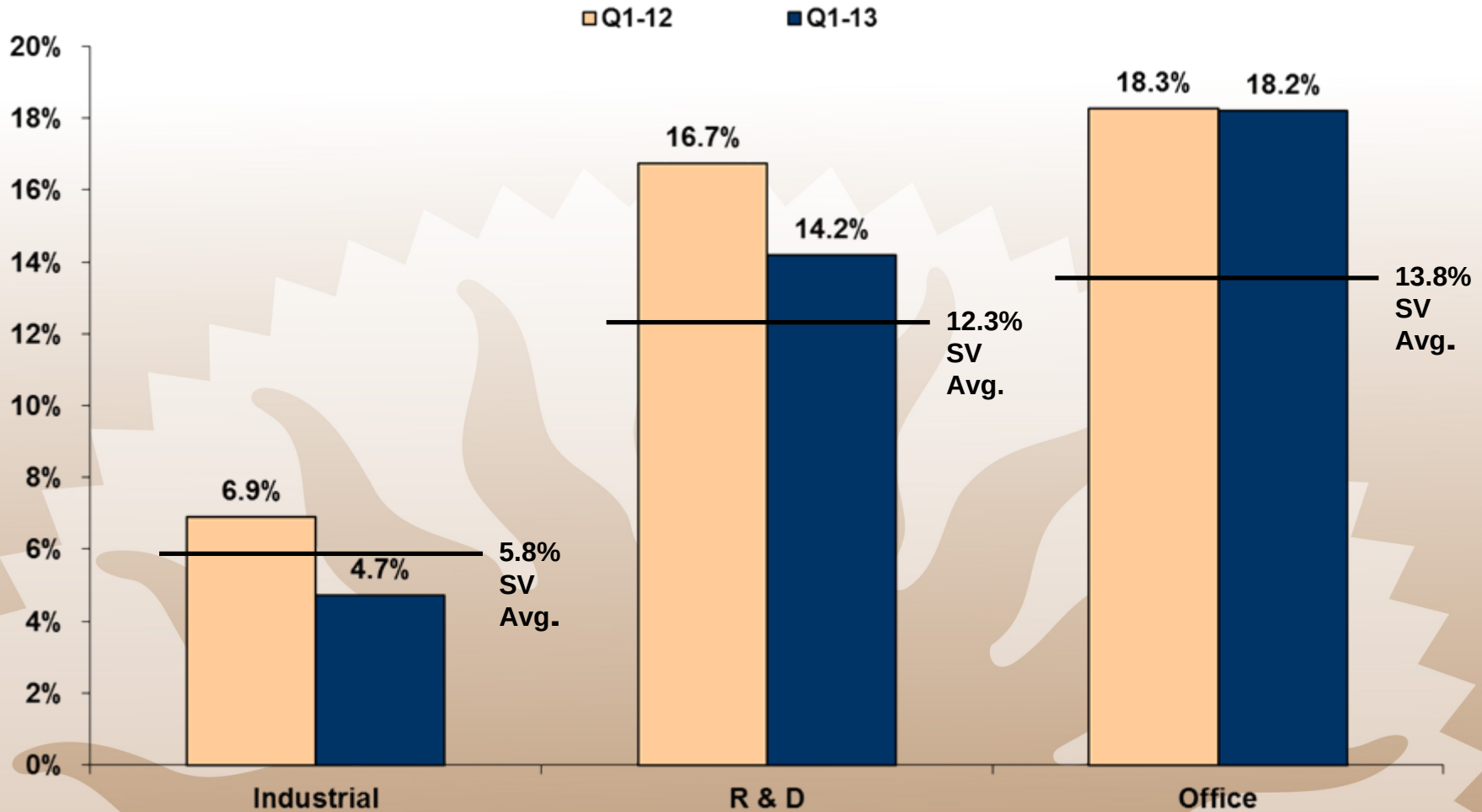
Home Prices Increase 32% Year-Over-Year



Source: SCCAOR

Single Family Home Sale Prices in City of San Jose

City's Industrial Vacancy is Tight; R&D Vacancy Improved; Office Remains High



Source: Colliers International

Vacancy Rates, San Jose

Slow Growth Expected to Continue

- Valley jobs forecasted to grow 2% annually over next two years
- Factors affecting more robust growth
 - Prudent credit markets continue to affect commercial lending
 - Uncertainty around the Federal spending
 - Lack of confidence in the European market place
- Growth of City revenues will lag--and not fully reflect—growing local economy

City of San José

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