



City of San José

# 2012-2013 Proposed Operating Budget Overview

May 9, 2012

# City of San José Budget Overview

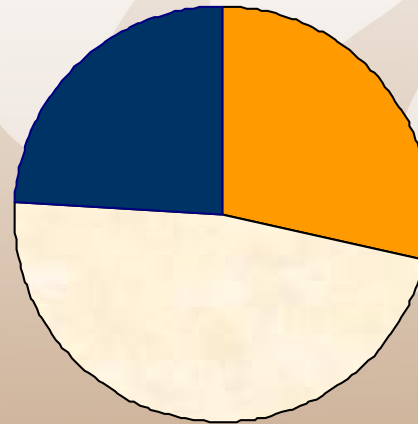
<b>2012-2013 PROPOSED CITY BUDGET<sup>1</sup>:</b>	<b>\$2.6 billion</b>
<b>TOTAL NUMBER OF FUNDS:</b>	<b>115</b>
<b>TOTAL NUMBER OF EMPLOYEES:</b>	<b>5,470</b>

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**Capital Funds**  
24%  
(\$743 million)

**General Fund**  
29%  
(\$882 million)

**Special Funds**  
47%  
(\$1.45 billion)



<sup>1</sup> An adjustment of \$511 million is necessary to arrive at the \$2.6 billion net 2012-2013 Proposed City Budget to avoid the double-counting of transfers, loans, and contributions between City funds.

# 2012-2013 Proposed Budget Overview

- After a decade of budget shortfalls, a small General Fund surplus is projected in 2012-2013
- Two-year approach to General Fund Budget
- Actions in the General Fund and other City funds are recommended to meet basic service delivery needs and invest in the most critical of the unmet/deferred infrastructure and maintenance needs
- Improve service delivery and/or reduce costs by the proposed addition of limited resources and implementation of more efficient and cost-effective service delivery models
- Increase in positions from 5,400 to 5,470 (up 1%)

# 2012-2013 Proposed Budget Overview

## Small Surplus After Decade of Shortfalls

	Total General Fund Shortfall	City-Wide Position Changes (All Funds)	City-Wide Positions (All Funds)
2002-2003	(\$ 46.3 M)	(36)	7,418
2003-2004	(\$ 92.1* M)	(205)	7,213
2004-2005	(\$ 81.7* M)	(426)	6,787
2005-2006	(\$ 58.0 M)	(115)	6,672
2006-2007	(\$ 34.9 M)	171	6,843
2007-2008	(\$ 19.9 M)	149	6,992
2008-2009	(\$ 29.6 M)	(7)	6,985
2009-2010	(\$ 84.2 M)	(362)	6,623
2010-2011	(\$118.5 M)	(783)	5,840
2011-2012	(\$115.1 M)	(440)	5,400
<b>SUBTOTAL</b>	<b>(\$680.3 M)</b>	<b>(2,054)</b>	
2012-2013	\$ 10.4 M	70	5,470
<b>TOTAL</b>	<b>(\$ 669.9 M)</b>	<b>(1,984)</b>	

*Now at 1988-89 Staffing Levels when population was 765,000*

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

# 2012-2013 Proposed Budget Overview

## General Fund Overview

# Small General Fund Surpluses and Shortfalls Projected Over Next Five Years

## 2013-2017 General Fund Forecast Incremental General Fund Surplus/(Shortfall)

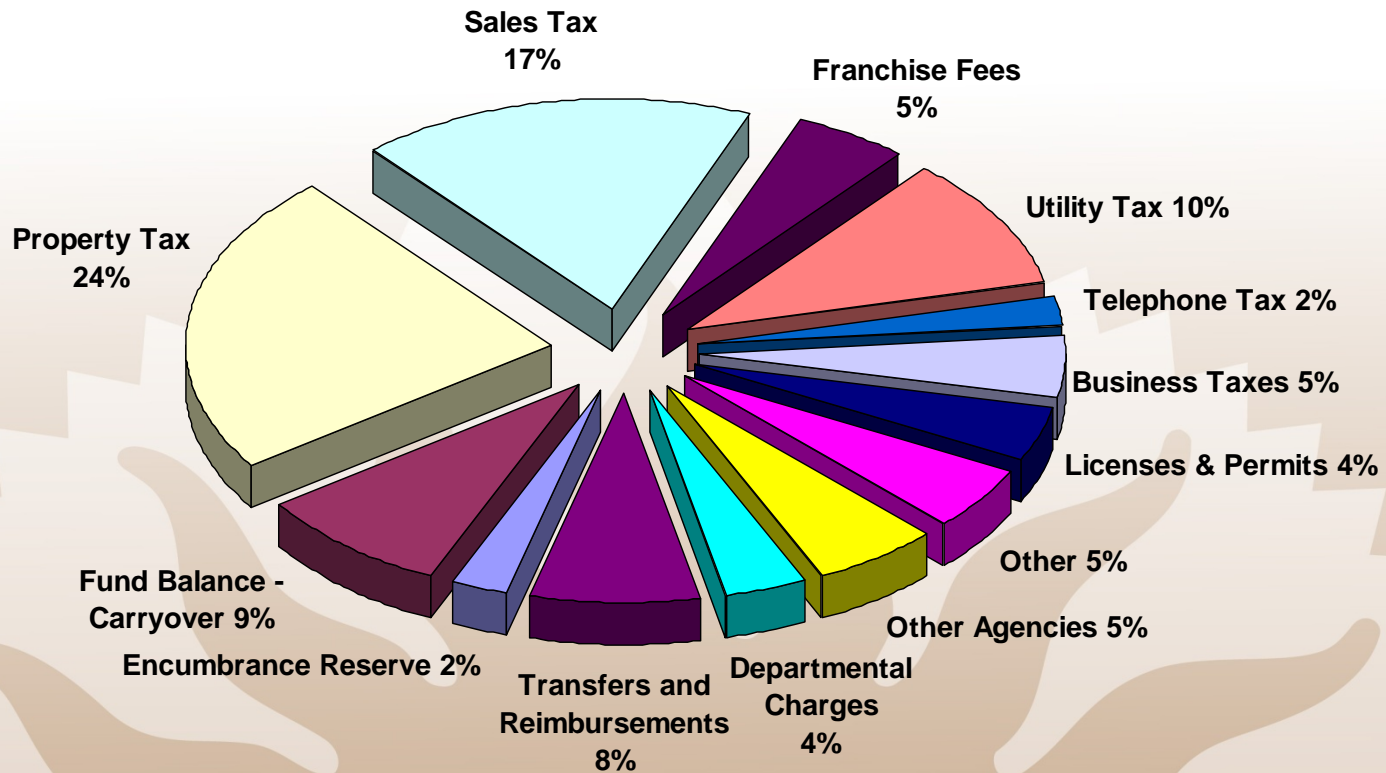
2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
\$9.0 M*	(\$22.5 M)	(\$1.3 M)	\$19.0 M	\$10.7 M

\* Excludes Development Fee Programs' projected surplus of \$1.4 million

### Does not include:

- Salary increases (with the exception of salary steps for eligible non-management employees and management performance pay)
- Fully funding the annual required contributions for police/fire retiree healthcare
- Fiscal Reform Plan implementation
- Restoring key services to January 1, 2011 levels
- Services funded on a one-time basis in 2011-2012
- Unmet/deferred infrastructure and maintenance needs
- One-time revenue sources or expenditure needs

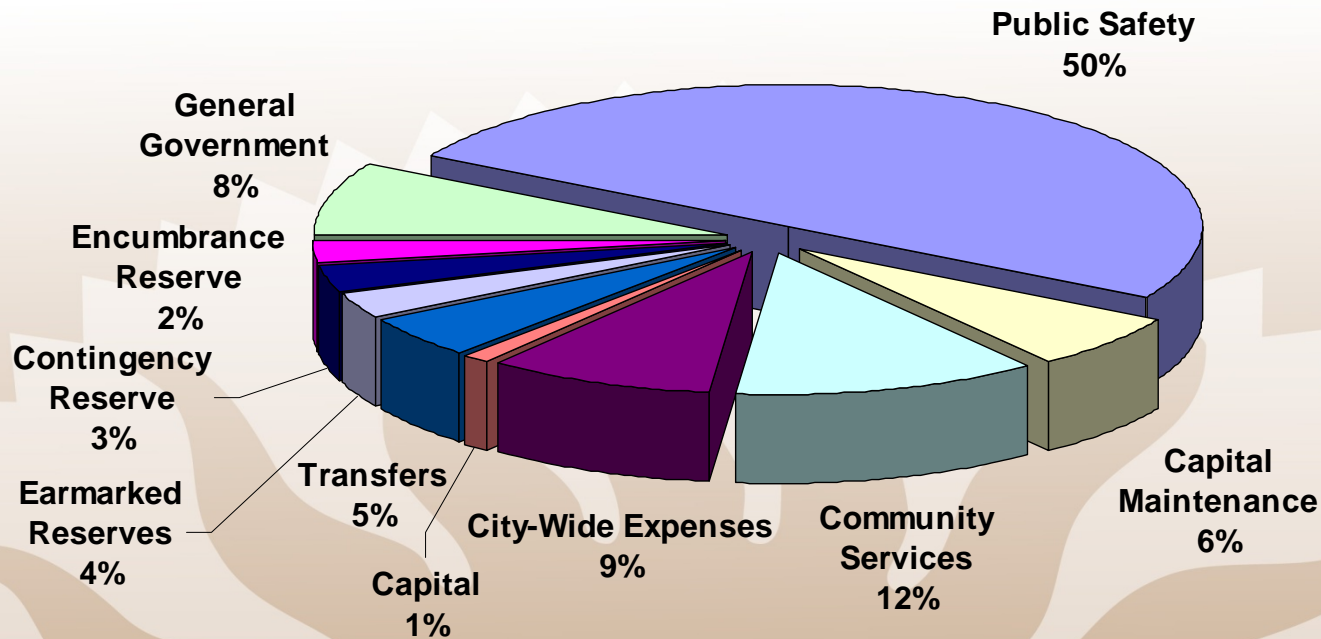
# 2012-2013 General Fund Sources of Funds



**Total General Fund Sources: \$882.4 million**

Source: 2012-2013 Proposed Budget

# 2012-2013 General Fund Uses of Funds

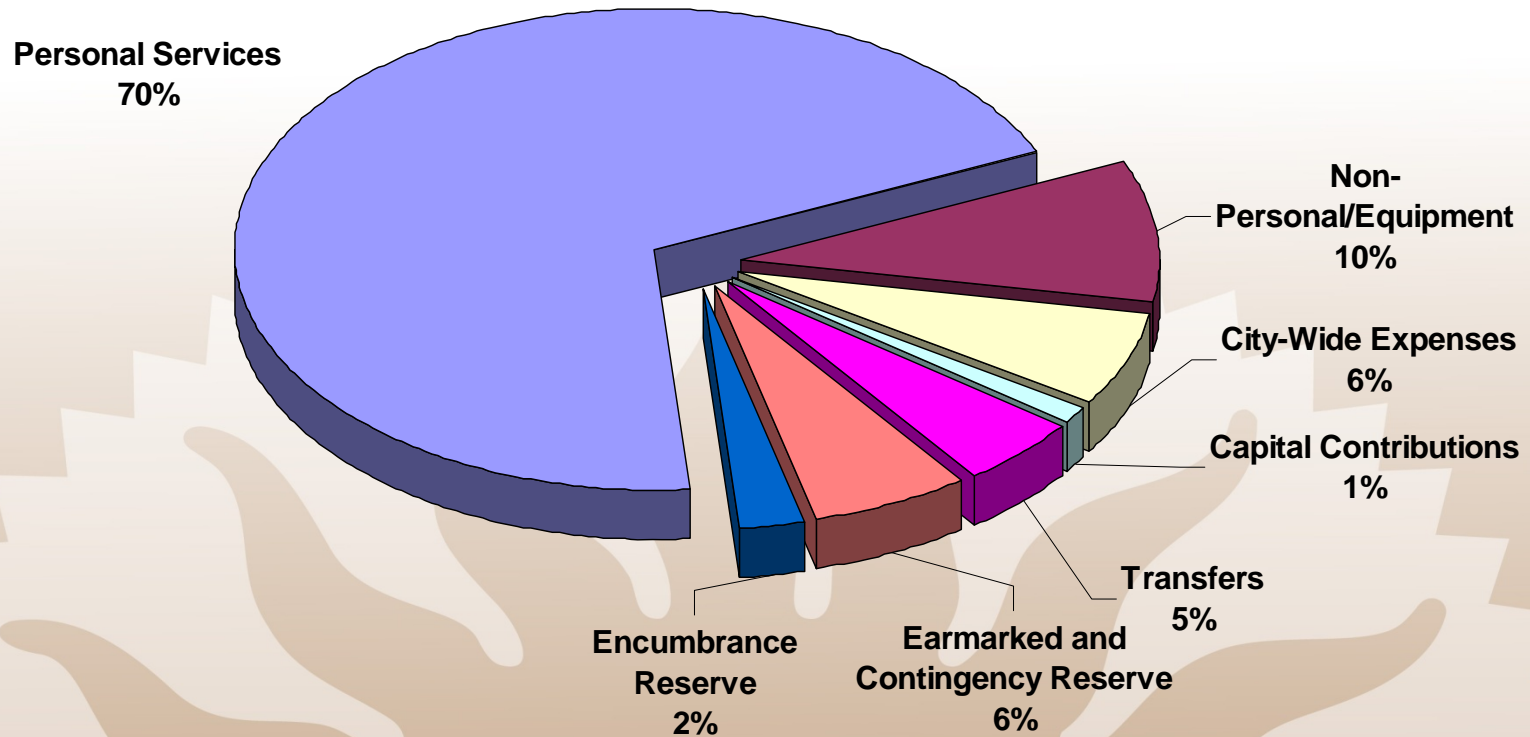


**Total General Fund Uses: \$882.4 million**

Source: 2012-2013 Proposed Budget



# 2012-2013 General Fund Uses by Category



**Total General Fund Uses: \$882.4 million**

\* 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: 2012-2013 Proposed Budget

# 2012-2013 Proposed Budget Overview

## 2012-2013 Proposed Operating Budget Recommended Balancing Strategy and Budget Actions

# 2012-2013 Budget Balancing Strategy

## General Framework and Policy Direction

- Mayor's March Budget Message as approved by the City Council (March 2012)
- Budget Balancing Guidelines contained in the City Manager's Budget Request (Feb. 2012)
- Guiding Principles for Restoring City Service Levels (Feb. 2012)
- San José Budget Principles (initially developed as part of the General Fund Structural Deficit Elimination Plan) (March/Sept. 2008)

# 2012-2013 Budget Balancing Strategy

## General Fund

	<u>2012-2013</u>	<u>Ongoing</u>
Revised General Fund Surplus	\$ 9.0 M	\$ 9.0 M
Development Fee Program Surplus	<u>1.4 M</u>	<u>1.4 M</u>
<b>Total General Fund Surplus</b>	<b>\$10.4 M</b>	<b>\$10.4 M</b>
<b>Recommended Budget Actions</b>		
– Additional Fund Balance/Sources	\$34.9 M	\$ 4.3 M
– Expenditure Additions	<u>45.3 M</u>	<u>14.7 M</u>
<b>Net Impact of Budget Actions</b>	<b>\$10.4 M</b>	<b>\$10.4 M</b>

# 2012-2013 Budget Balancing Strategy

## Changes in General Fund Sources

	<u>2012-2013</u>	<u>Ongoing</u>
2012-2013 Future Deficit Reserve	\$ 21.9 M	\$ 0
Additional 2011-2012 Fund Balance	6.0 M	0
Development Fee Program Reserves	2.9 M	2.6 M
Transfers from Other Funds	2.0 M	0.3 M
Fee Changes/Activity Level Adj.	1.8 M	2.4 M
Other Revenue Changes	1.2 M	0.2 M
Overhead Reimbursements	<u>(0.9 M)</u>	<u>(1.2 M)</u>
<b>Total Increase to Funding Sources</b>	<b>\$ 34.9 M</b>	<b>\$ 4.3 M</b>

# 2012-2013 Budget Balancing Strategy

## Changes in General Fund Uses

	<u>2012-2013</u>	<u>Ongoing</u>
2013-2014 Future Deficit Reserve	\$ 22.5 M	\$9.0 M
Unmet/Deferred Infrastructure/Maintenance	9.6 M	1.3 M
Miscellaneous Additions/Other Changes	7.5 M	1.4 M
Services Funded One-Time in 2011-2012	3.5 M	2.3 M
Development Fee Program	3.3 M	3.0 M
Fiber Optics Loan Repayment	2.2 M	(0.1 M)
New Facilities Operating & Maintenance	2.1 M	4.0 M
Essential Services Reserve	1.5 M	0
Use of Reserves	(4.9 M)	(4.0 M)
Position Changes/Other Personnel Savings	<u>(2.0 M)</u>	<u>(2.2 M)</u>
<b>Total Increase to Funding Uses</b>	<b>\$45.3 M</b>	<b>\$14.7 M</b>

# Recommended Budget Actions

## General Fund

Major actions recommended in the budget will:

- Continue services funded one-time in 2011-2012
- Open facilities constructed with general obligation bonds
- Address the most immediate and critical of the City's unmet/deferred infrastructure needs
- Address essential operational and organizational needs to strengthen the organization, meet community expectations, or mitigate potential risk of higher long-term costs
- Fund a limited number of programs/initiatives identified in the Mayor's March Budget Message approved by the City Council
- Implement more effective service delivery models to improve efficiency, reduce costs and/or enhance service levels

# Recommended Budget Actions

## Continue Services Funded One-Time in 2011-2012

- Police Field Patrol (3.0 Police Officers)
- Park Ranger Staffing (2.0 positions)
- Safe Schools Campus Initiative at Middle Schools (4.0 positions)
- Police School Safety Unit – Crossing Guards (21 guards/3.69 FTE)
- Police Horse Mounted Unit (1.0 position/non-personal)
- Lake Cunningham Skate Park (2.6 positions)
- Creek Encampment Clean-Ups (Police overtime)
- Ordinance Planner (1.0 position)
- Vacant/Neglected Buildings Enforcement (1.0 position)
- Medical Marijuana Program (7.5 positions)



# Recommended Budget Actions

## Open Facilities Constructed with General Obligation Bonds

### Branch Libraries

- Seven Trees (December 2012/January 2013)
- Bascom (January/February 2013)
- Educational Park (April 2013)
- Calabazas (May 2013)

**Bascom Community Center** (summer 2012)

# Recommended Budget Actions

## Immediate and Critical Unmet/Deferred Infrastructure Needs

- Police Facilities (uninterrupted power supply, back-up generators, urgent building maintenance/repairs)
- City Facilities Preventative Maintenance (80% level one-time; 40-50% level ongoing)
- Transportation (street tree maintenance, raised reflective markers and arterial street striping, vehicle detection sensors, school radar speed display sign replacement)
- Information Technology Investments (hosted email, Financial Management System business process mapping, data security, Business Tax system replacement, server licensing, centralized software deployment)

# Recommended Budget Actions

## Essential Operational and Organizational Needs

- 2013-2014 Future Deficit Reserve (\$22.5 million)
- Police Targeted Enforcement (overtime)
- Park Landscape Irrigation (70% restoration)
- Park Rangers (2.74 positions)
- Fair Swim Center Summer Program (no vendor)
- Development Fee Programs (Building, Planning, Fire, Public Works)
- Economic Development/Incentive Fund (\$750,000)
- Strategic Support Staffing (Human Resources, Finance, Information Technology, Retirement)

# Recommended Budget Actions

## Council Approved Mayor's March Budget Message Initiatives

- San José BEST (\$2.0 million from Police Substation deferral)
- Senior Services and Wellness (\$600,000)
- Small Business Ambassador Program (1.0 position)
- Christmas in the Park (\$75,000 grant, \$129,000 City funding)
- Community Action and Pride Grant Program (\$110,000)
- La Raza Study (\$50,000)
- Fiber Optics Loan Repayment (\$2.2 million)
- Essential Services Reserve (\$1.5 million)
- San Jose Downtown Association (\$190,000 Parking Fund)

# Recommended Budget Actions

## New Service Delivery Models

- Park Landscape Maintenance Team-Based Model
- Pavement Maintenance Strategy (priority street network – 400 miles)
- Graffiti Abatement Program Efficiencies (additional 331,000 sq. ft.)
- Police Officer Recruit Academy Efficiencies (South Bay Public Safety Training Consortium)
- Police Sworn Position Civilianization (3.0 positions)

# Recommended Budget Actions

## Other Funds

- **Airport Funds** (outsource curbside management services for \$1.0 million in annual savings as part of the Airport Competitiveness Strategic Plan; service enhancements; collaborative air service marketing)
- **Convention and Cultural Affairs Fund** (eliminate 9.0 remaining City positions/use contractual services to address variable nature of work, Convention Center kitchen remodel and HVAC system repairs)
- **Environmental Services Funds** (staffing adjustments, infrastructure investments, and street sweeping signage)
- **Housing Funds** (net reduction of 2.0 positions to better reorganize functions after dissolution of the San Jose Redevelopment Agency)
- **CDBG Fund** (allocation reduction/neighborhood-focused strategy)

# 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 approx. 9.5% for the Municipal Water System due to the higher cost for wholesale water
- **Development Fee Programs:** No general rate increases; minor fee revisions proposed to clarify fees or more accurately charge for particular services; use of reserves to remain at 100% cost recovery
- **Other Fee Programs:** Fee changes to maintain or improve cost recovery and a limited number of new fees proposed in several departments

# Recommended Budget Actions

## Estimated Position Impacts

- **Proposed Budget Position Impact**
  - 53 full-time filled position cuts
  - 5 full-time filled position cuts effective December 2012
  - 19 employees impacted through seniority rules
  - **77 total employees impacted**
- **Proposed Budget Outcomes**
  - 50 employees stay in current class
  - 6 employees demote to lower class
  - **16 employees subject to layoff/redeployment**
  - 5 employees not affected until December 2012



# Beyond the 2012-2013 Budget Process

- Looking forward, the Administration's goal is to build capacity to:
  - meet the City's basic service delivery needs
  - maintain competitiveness as an employer
  - address the significant backlog of unmet/deferred maintenance and infrastructure needs
- Fiscal Reform Plan outlines \$114 million of General Fund cost reduction (\$64.5 million) and revenue (\$49.5 million) strategies over a five-year period to help build capacity to address needs

# Library Ballot Initiative

- Potential Library Ballot Initiative would amend the City Charter to require financial support for the San José Library Department. A new Library Fund would be established funded from the following:
  - An appropriation of an annual sum of not less than .04% equal to a percentage of assessed value of all real and personal property in the City as assessed for City taxes.
  - An appropriation of 14.22% from the Construction and Conveyance Tax Fund's revenue for library capital expenditures.
  - Money received by the Library Department from fines, sales, gifts, grants or otherwise related to the operation of the Library.
  - Any additional appropriation from the City's General Fund.
- The Library Fund will only be used for the operations and facilities of the Library Department; no overhead costs may be paid from the Library Fund.

# Library Ballot Initiative

- If the Library Ballot Initiative qualifies for the November 2012 ballot and is approved by the voters, budget adjustments will be necessary to increase the General Fund allocation to the Library Department.

	Current Library Funding	Library Funding Under Ballot Initiative <sup>1</sup>	\$ Change	% Increase
2011-2012 Adopted Budget	\$22.6 M	\$42.0 M	\$19.4 M	86%
2012-2013 Proposed Budget <sup>2</sup>	\$26.0 M	\$41.7 M	\$15.7 M	60%

<sup>1</sup> The General Fund allocation under the proposed ballot initiative includes the .04% of assessed property valuation (\$40.3 million) and funding from fines, fees, and grants (\$1.7 million in 2011-2012 and \$1.4 million in 2012-2013 due to lower grant amounts). The assessed property valuation figure is based on the 2010-2011 Net Taxable Assessed Value for the City's secured and unsecured properties as reported in the 2010-2011 Comprehensive Annual Financial Report for the City of San José. This figure does not include the property valuation of property located in the former redevelopment areas.

<sup>2</sup> Assumes the annualized cost of the 4 libraries recommended to be opened in 2012-2013.

# Library Ballot Initiative

## Potential Service Changes

Library Service Enhancements	Service Reductions in Other Areas
<p><b>Increase Branch Library Hours and Days of Service</b> (6 to 7 days per week, 50-59 hours)</p> <p><b>Add Branch Library Programming</b> (e.g., story time, children’s educational programming, family learning centers, job search/resume writing, adult education programming, teen after-school programs)</p> <p><b>Restore Martin Luther King Jr. Main Library Services</b> (Children’s Room, California Room, reference desk hours)</p> <p><b>Replace Parcel Tax Expenditures</b> (if needed)</p> <p><b>Increase Library Acquisition of Materials</b></p>	<p><b>Eliminate Proposed Ongoing Additions</b> (e.g., infrastructure/technology investments, safe schools campus initiative, Police horse mounted unit, Senior wellness, landscape watering)</p> <p><b>Reduce 20-25 Police Officer positions</b></p> <p><b>Eliminate One Fire Engine Company</b></p> <p><b>Close 25% of Community Centers/Re-Use Centers</b></p> <p><b>Reduce Park Rangers</b></p> <p><b>Reduce Pavement Maintenance</b></p> <p><b>Reduce Children’s Health Initiative (50%)</b></p> <p><b>Reduce San José BEST (50%)</b></p> <p><b>Reduce Strategic Support Functions</b> (e.g., Finance, Information Technology, Human Resources, Public Works)</p>

# Next Steps

May 9<sup>th</sup> thru 17<sup>th</sup>

City Council Budget Study Sessions

May 15<sup>th</sup>/June 11<sup>th</sup>

Public Budget Hearings (Evening Mtgs.)

June 1<sup>st</sup>

Mayor's June Budget Message Released

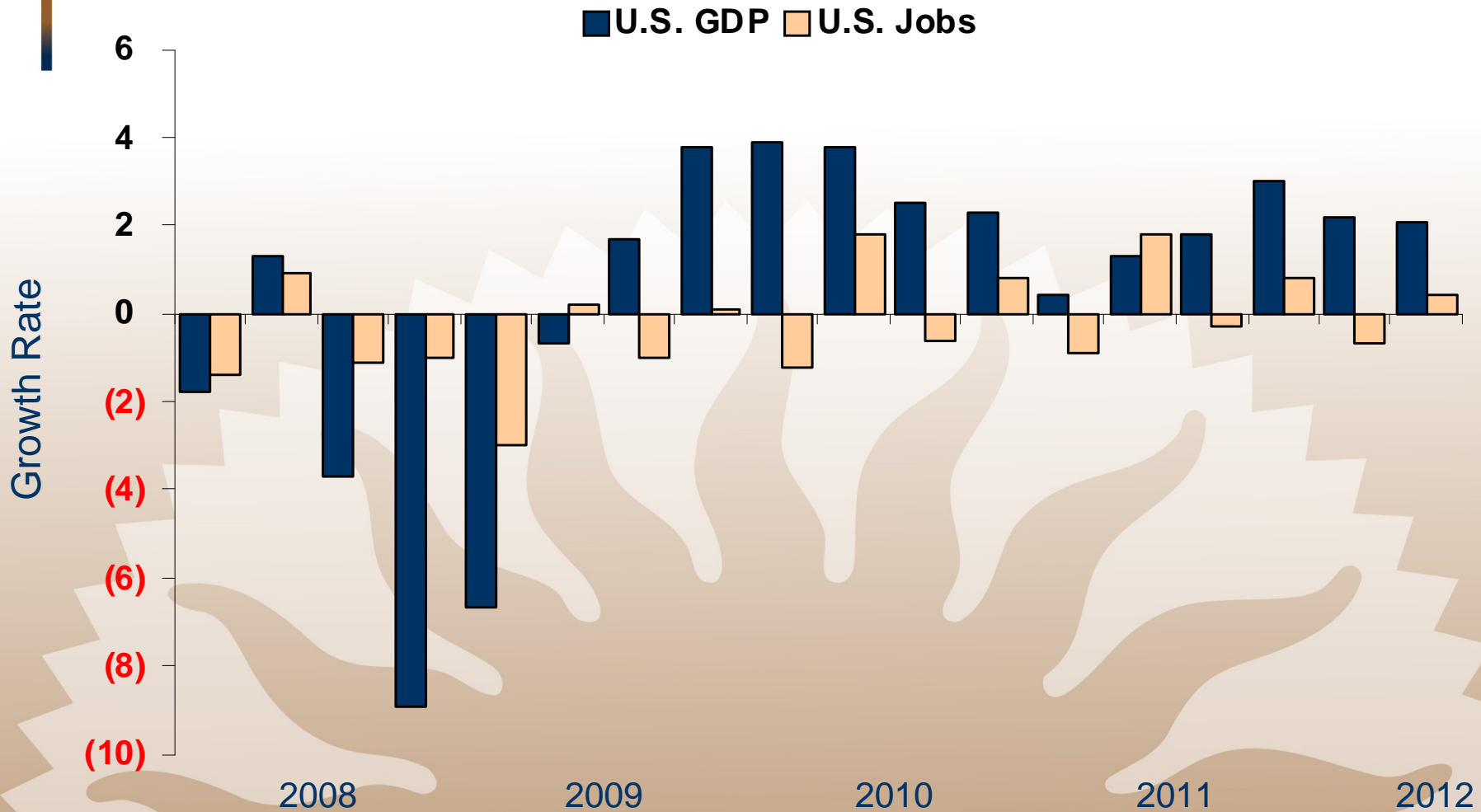
June 12<sup>th</sup>

Council Review/Approval of Mayor's June Budget Message

June 19<sup>th</sup>

Adoption of the 2012-2013 Budget and Fees and Charges

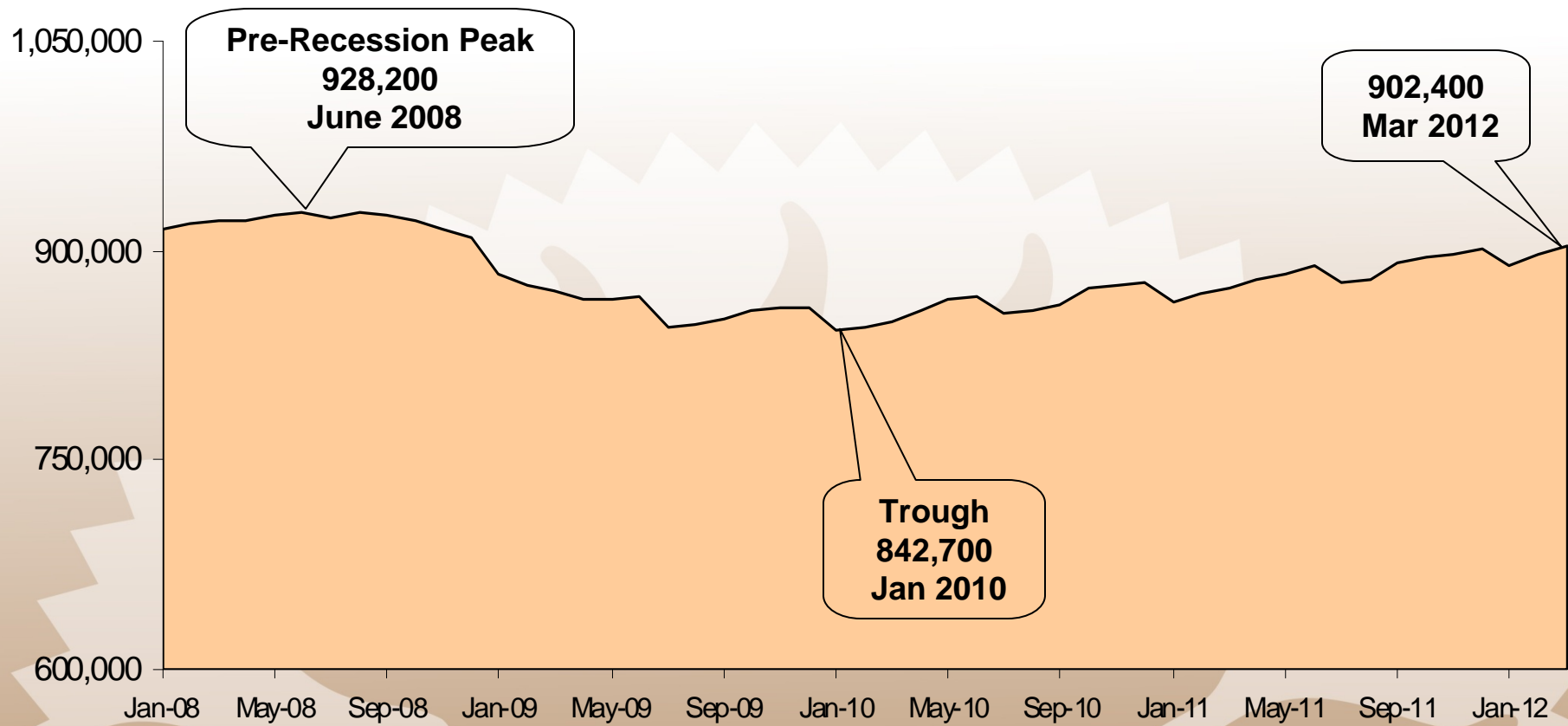
# Sustained GDP Growth, Erratic Job Growth



Source: Bureau of Economic Analysis (BEA)

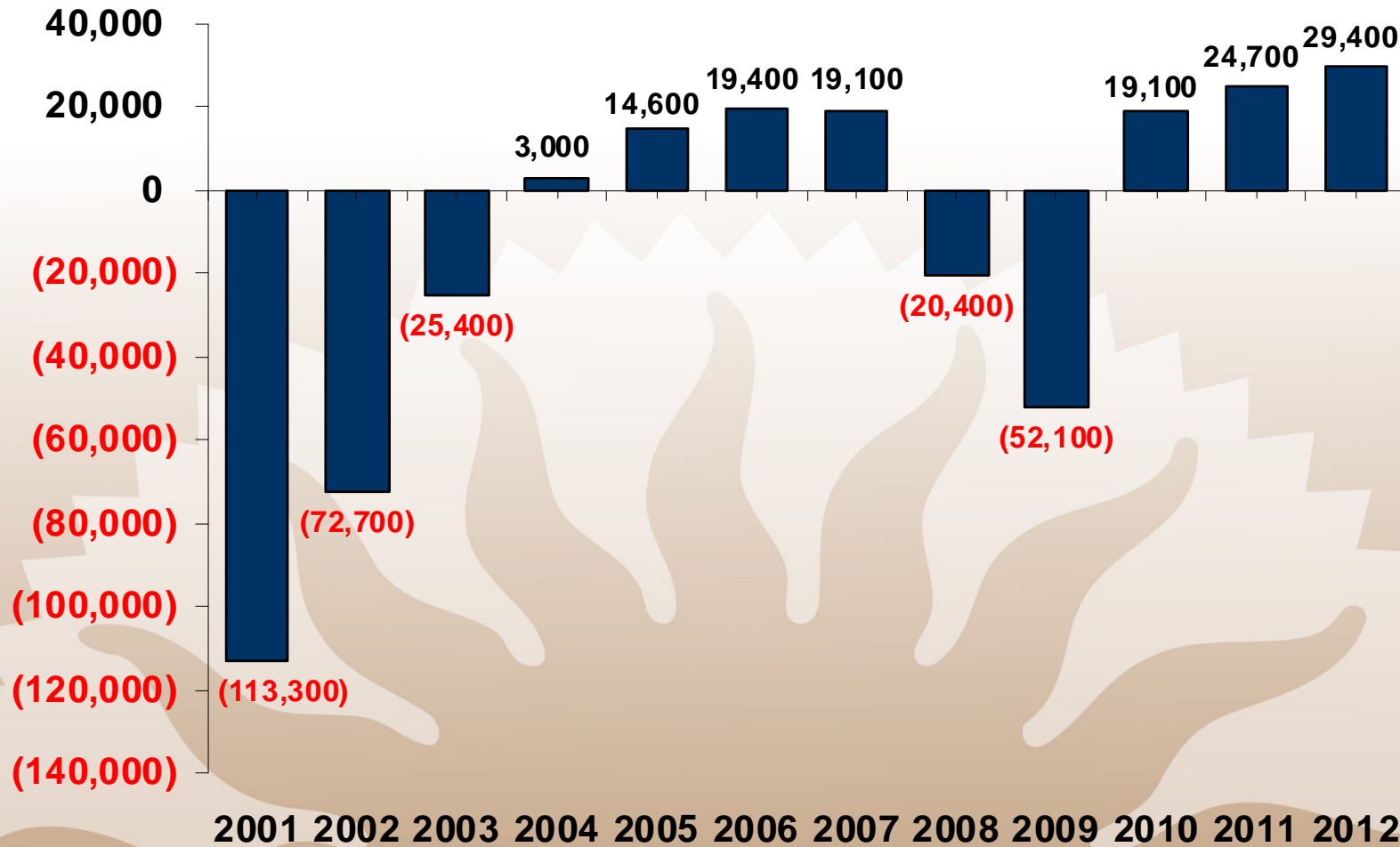
# Job Level At 97% of Pre-Recession Peak

## San Jose MSA Employment



Source: EDD

# Leading the Nation in Metro Job Growth



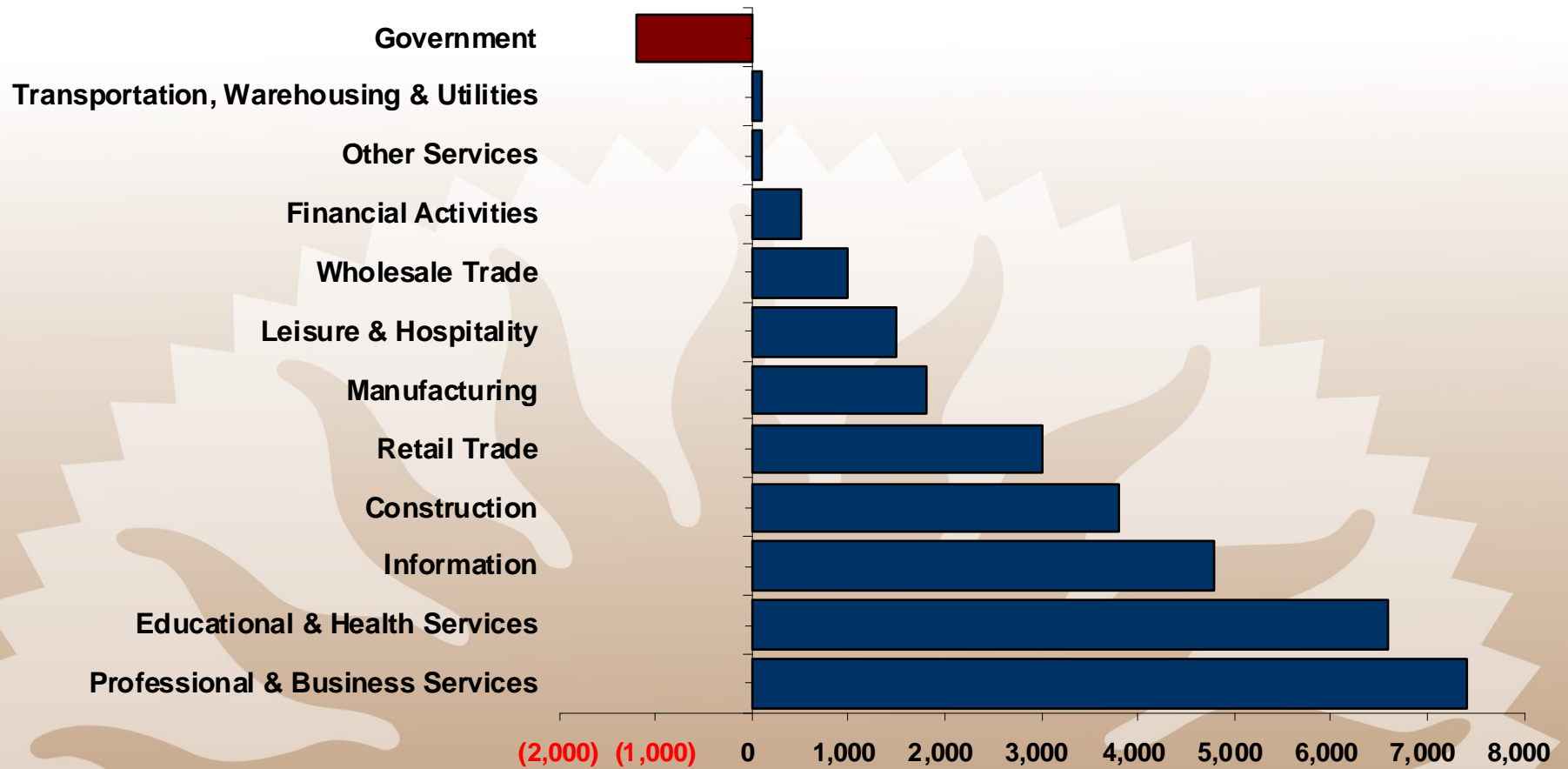
Source: EDD

## San Jose MSA Job Growth



# All Sectors Growing, Except Government

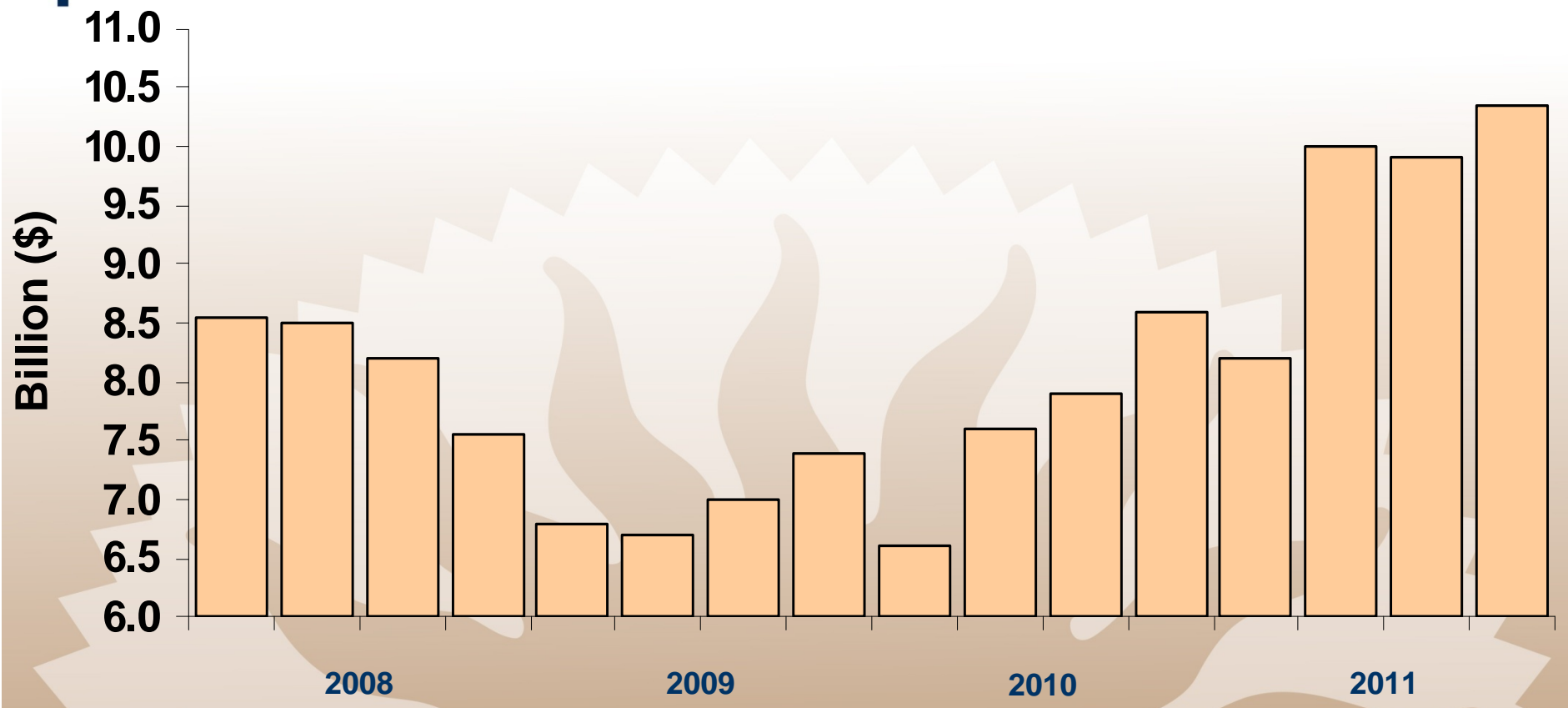
## Employment Growth Mar 2011 -Mar 2012



Source: EDD

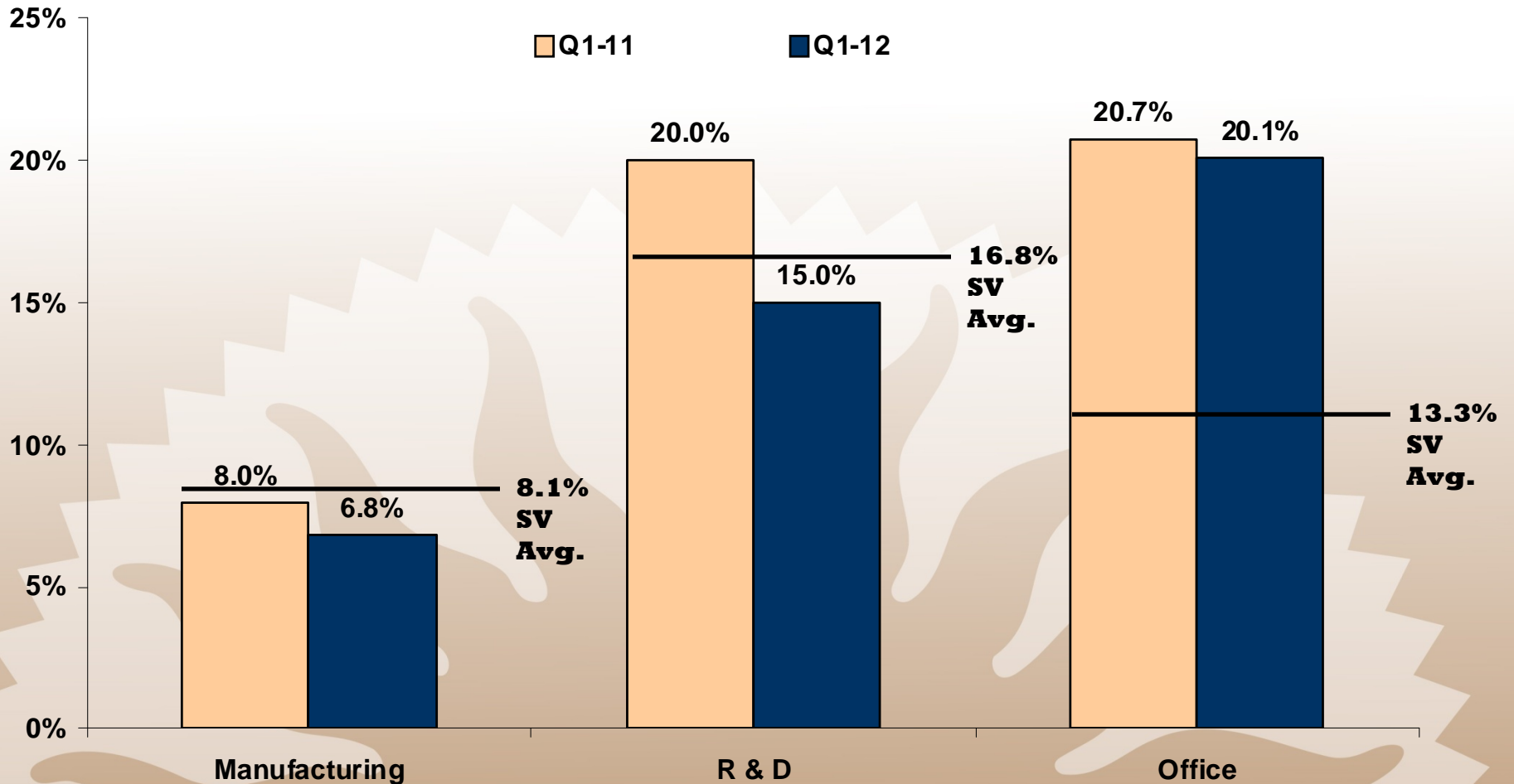
# Consumer Sales Grew 25% in 2011

## San Jose MSA Taxable Sales



Source: Board of Equalization & HdL Companies

# City's R&D/Manufacturing Vacancy Rates Fall Below Valley Average; Office Remains High



Source: Cassidy/Turley Commercial

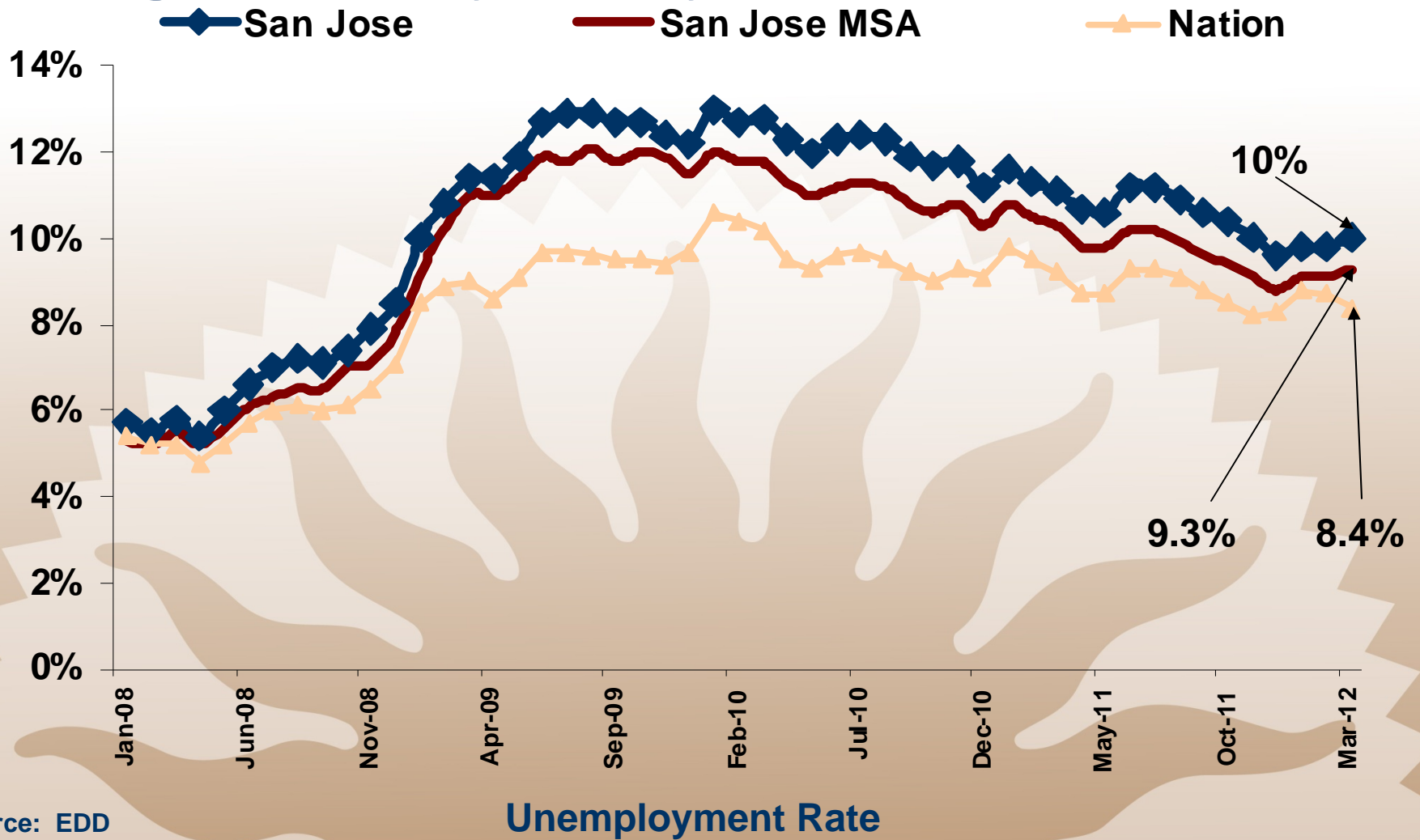
Vacancy Rates, San Jose

# 2011: Record Year for Silicon Valley

- + 18%** Revenue growth SV 150
- + 98%** Profit increase SV 150 (\$101 billion)
- + 12%** Employee increase SV 150
- + 14%** Venture capital rebound

Source: San Jose Mercury News

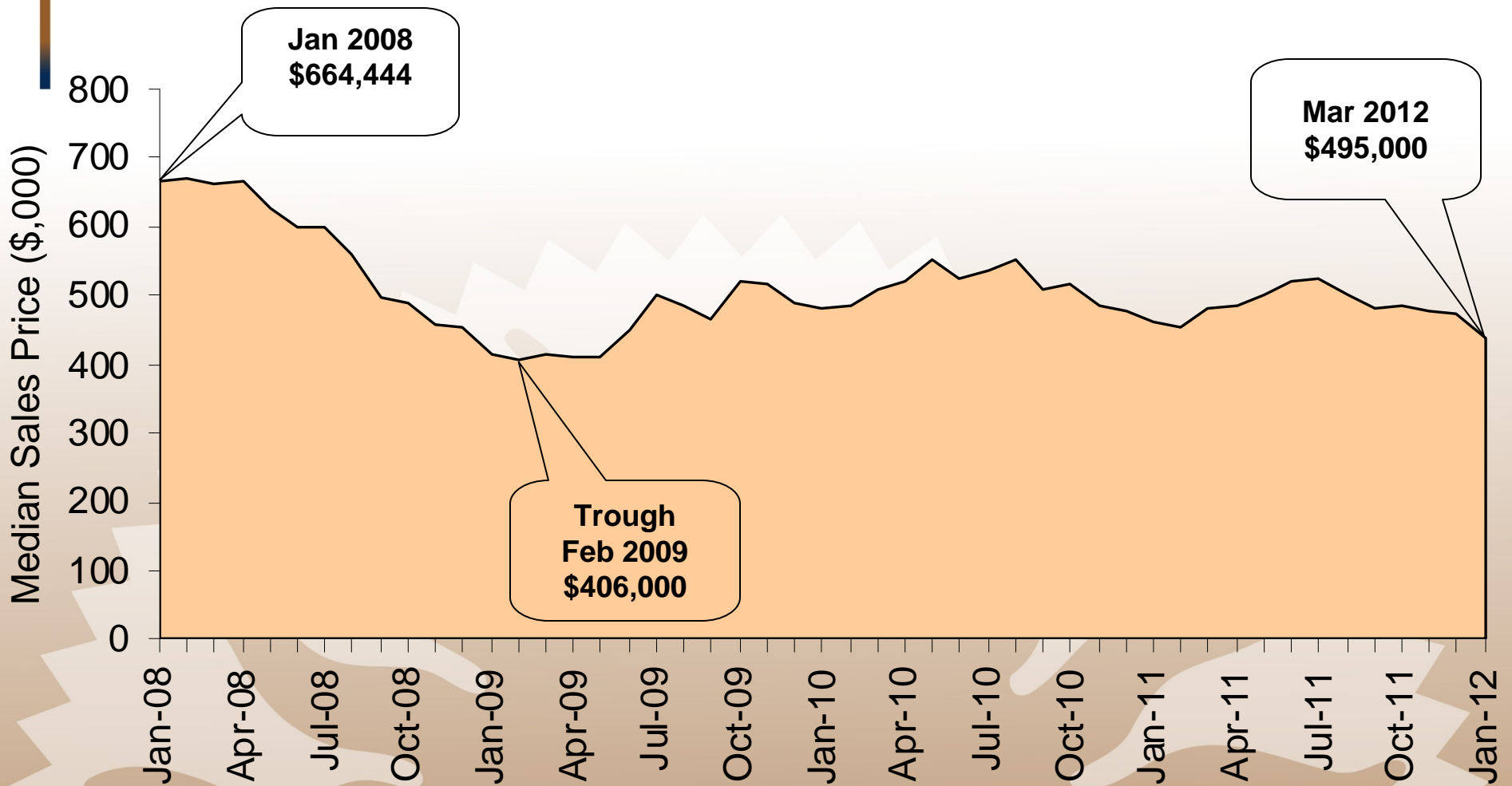
# Unemployment Remains High; Long Recovery Likely



Source: EDD

Unemployment Rate

# Home Prices Increase 3% Year-Over-Year



Source: SCCAOR

## Single Family Homes Sales in San Jose

# Disconnect Between Private and Public Recovery



# What Can We Expect?

## Slow job recovery nationally (2012-2015)

- Tight credit markets continue to impact housing, construction
- Uncertainty around the Federal Government spending and taxes is drag on economy

**Valley jobs forecasted to grow 2% annually over next four years**

**Growth of City revenue will lag--and never fully reflect--growing economy**





City of San José

# 2012-2013 Proposed Operating Budget Overview

May 9, 2012