



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Debra Figone

**SUBJECT: STATUS REPORT ON GENERAL
FUND FISCAL CONDITION,
2012-2013 GENERAL FUND BUDGET,
IMPACTS ON SERVICE DELIVERY,
AND PROJECTED PENSION COST
INCREASES**

DATE: September 9, 2011

RECOMMENDATION

- 1) Accept the verbal status report that will be presented at the September 20, 2011 City Council meeting on the General Fund fiscal condition, 2012-2013 General Fund Budget, impacts on service delivery, and projected pension cost increases. [Click Here for Presentation](#)
- 2) Affirm the City Administration's intention to immediately explore all viable budget balancing strategies to minimize, to the extent possible, the significant service level reductions that will again be necessary to balance the 2012-2013 General Fund Budget.

OUTCOME

This memorandum and the presentation scheduled for the September 20, 2011 City Council meeting will provide the City Council with the following: discussion of the General Fund fiscal condition; latest information regarding the 2012-2013 General Fund Budget, including the projected shortfall and major risk factors which could significantly impact the projected budget gap; potential impacts to service delivery for 2012-2013, including a discussion of potential strategies and scenarios to address the preliminary General Fund shortfall; and projected increases in pension costs.

BACKGROUND

On September 7, 2011, the Rules Committee approved a memorandum from Mayor Reed to: 1) defer consideration of a Declaration of a Fiscal and Service Level Emergency until after October 31, when negotiations will be done; and 2) add to the September 20 City Council agenda (to be heard at 2:00 p.m.) a status report on the General Fund fiscal condition, 2012-2013 General Fund

budget, impacts on service delivery, and projected increases in pension costs. The purpose of this memorandum and the presentation that will be delivered on September 20, 2011 is to address this new direction.

ANALYSIS

This memorandum provides an outline of the information that will be presented at the September 20, 2011 City Council meeting, including:

- Discussion of the City's General Fund fiscal condition;
- Status report of the 2012-2013 General Fund budget, including the projected shortfall and major risk factors that could impact the shortfall figure;
- Summary of the potential impacts to service delivery for 2012-2013, including a discussion of potential strategies and scenarios to address the preliminary General Fund shortfall; and
- Discussion of projected increases in pension costs.

The presentation on September 20, 2011 will provide additional detail on each of these subject areas.

General Fund Fiscal Condition

The City of San José continues to experience severe budget shortfalls that have impacted the ability to maintain adequate service levels to the residents and visitors of San José. Over the last decade, the City has addressed General Fund budget shortfalls totaling \$680 million. These shortfalls were driven by two deep recessions and an unsustainable cost structure. Over this period, budget balancing actions in the General Fund as well as other City funds have included the elimination of over 2,000 positions, or 28% of the workforce. Almost 1,600 of these position eliminations have occurred over the last three years.

With General Fund budget shortfalls projected into the future and the severity of the service reductions already implemented over the last ten years, the ability to maintain basic City services in upcoming years, including 2012-2013, will be extremely difficult. A discussion of the previous strategies used to resolve the shortfalls over the last decade along with the cumulative service delivery impacts will be included in the presentation.

2012-2013 General Fund Budget

Based on the 2012-2016 General Fund Forecast, as amended by the 2011-2012 Adopted Budget, a General Fund shortfall of \$78 million has been projected for 2012-2013. However, early indications are that the shortfall will rise as this 2012-2013 preliminary figure does not include potential impacts from the following risk factors, which could significantly increase the budget gap:

- **Retirement Contributions:** Potential impacts from increases in the City's annual required contributions to the Federated City Employees' Retirement System and the Police and Fire Department Retirement Plan based on results of the June 30, 2011 actuarial valuations that are now being prepared by Cheiron, the Retirement Boards' actuary, and expected to be completed by calendar year end 2011.
- **San Jose Police Officers' Association (SJPOA) Arbitration:** Potential impacts from arbitration results associated with the San Jose Police Officers' Association compensation reductions approved for 2011-2012. The City contends that the 10% reduction should be ongoing, while the SJPOA contends that it should cease effective June 23, 2012. Because there is no agreement on this issue, it will be submitted to binding interest arbitration under Charter Section 1111. The 2011-2012 Adopted Operating Budget assumes \$29.3 million in savings due to the 10% total compensation reduction. Should the arbitrator award a decision in favor of the SJPOA, i.e., that the 10% total compensation reduction is only one-time, the 2012-2013 Preliminary General Fund Shortfall would increase approximately by that amount.
- **San Jose Redevelopment Agency:** Due to the current fiscal situation of the Redevelopment Agency, State legislation and related court decisions, it is uncertain to what extent the City will have to absorb additional Redevelopment Agency expenditures. Those impacts are currently under review and will be discussed as part of the presentation.
- **Changes in Economic Conditions:** The revenue projections for the 2012-2016 Five-Year General Fund Forecast included a modest growth in major General Fund revenues (e.g.: Property Tax, Sales, Tax, Utility Taxes) assuming a gradual improvement in the economic environment. Due to reduced economic growth assumptions for 2012 at the national level, a continuously high unemployment rate in the region, and general economic uncertainty, downward adjustments to major revenues sources for 2012-2013 may be necessary.

2012-2013 Potential Service Delivery Impacts

Given the size of the General Fund budget shortfall, it is anticipated that significant service reductions will again be necessary to bring the 2012-2013 budget into balance. The severity of these service reductions will be dependent, in large part, on the budget balancing strategies that are implemented in 2012-2013. It is anticipated that a combination of budget balancing strategies will again be necessary to close the large budget gap next year and it will be the City Administration's intention to immediately explore all possible strategies due to the time needed for analysis. Potential strategies include: partial implementation of the Fiscal Reform Plan, additional outsourcing of services, sale and lease of City assets, and standard annual budget balancing actions (i.e., modifying service delivery models, identifying service efficiencies, reducing allocations for non-personal/equipment and overtime, re-aligning management and administration as programs are reduced or eliminated, adjusting cost-recovery fees, and identifying one-time funding sources).

To assist in the budget planning process and provide context to the difficult choices City leaders will face in developing the 2012-2013 budget, three scenarios will be discussed on September 20, 2011 to balance the budget, including:

- **Scenario 1:** Implement all general budget balancing strategies described above except those associated with the Fiscal Reform Plan and spread budget impacts across all City Service Areas.
- **Scenario 2:** Implement all general budget balancing strategies described above except those associated with the Fiscal Reform Plan and only spread budget impacts across the non-public safety City Service Areas, maintaining public safety at service levels approved for 2011-2012.
- **Scenario 3:** Implement all general budget balancing strategies including those associated with the Fiscal Reform Plan that can be accelerated into 2012-2013 and spread budget impacts across all City service Areas.

The potential service delivery impacts will be described in context of these budget balancing scenarios to help define the policy choices facing the organization.

Projected Increases in Pension Costs

The projected increase in retirement costs is a major driver of the projected 2012-2013 General Fund shortfall. While the retirement contribution amount for 2012-2013 has not yet been set, it is anticipated that a substantial increase will be implemented next fiscal year, as modeled in the 2012-2016 General Fund Forecast. In addition, as described under the risk factors above, there are several potential changes to the retirement calculations that could increase the retirement contributions for 2012-2013.

EVALUATION AND FOLLOW-UP

As part of the annual budget process, the Administration will release the 2012-2013 Preliminary General Fund Forecast during November 2011 and the 2013-2017 Five-Year General Fund Forecast late February 2012. These documents will identify the magnitude of the General Fund shortfall to be addressed as part of the 2012-2013 Proposed Operating Budget scheduled to be released on May 1, 2012.

POLICY ALTERNATIVES

Not applicable.

PUBLIC OUTREACH

- Criterion 1:** Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**
- Criterion 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**
- Criterion 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

Although this memorandum does not meet any of the criteria listed above, it will be posted as part of the September 20, 2011 City Council Agenda.

COORDINATION

Not applicable.

COST SUMMARY/IMPLICATIONS

Not applicable.

CEQA

Not a project.


DEBRA FIGONE
City Manager

City of San José

General Fund Budget Status Overview

September 20, 2011

General Fund Budget Status Overview

Purpose:

- To provide historical context to the City's General Fund budget problem
- To present preliminary General Fund budget shortfall figures for 2012-2013 and out years
- To discuss potential strategies and scenarios to address shortfall
- To inform City Council of the City Administration's intent to immediately explore all viable budget balancing strategies to minimize significant service level reductions/eliminations

Looking Back: Budget Shortfalls Experienced Over Last Decade

- General Fund budget shortfalls in last decade driven by two deep recessions and unsustainable cost structure
- Combination of strategies used to address shortfalls
- Severe service reductions in both public safety and non-public safety areas were unavoidable

Ten Consecutive Years 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
TOTAL	(\$ 680.3 M)	(2,054)	

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**

Substantial General Fund Position Impacts During the Last Three Fiscal Years

	2008-2009 Adopted Budget	2009-2010 Adopted Budget	2010-2011 Adopted Budget	2011-2012 Adopted Budget	Percent Chg 08-09 to 11-12
Positions	4,893	4,701	4,249	3,759	-23%
Change		-192	-452	-490	-1,134

Structural Imbalance: Position Reductions Necessary to Offset Cost Increases

	<u>2001-2002 Adopted Budget</u>	<u>2011-2012 Adopted Budget</u>	<u>Change</u>	<u>Percent Change</u>
Public Safety				
Budget	\$292.8 M	\$457.0 M	\$164.2 M	56.1%
Positions	2,734	2,263	-471	-17.2%
Other Departments*				
Budget	\$246.1 M	\$221.2 M	-\$24.9 M	-10.1%
Positions	4,719	3,137	-1,582	-33.5%

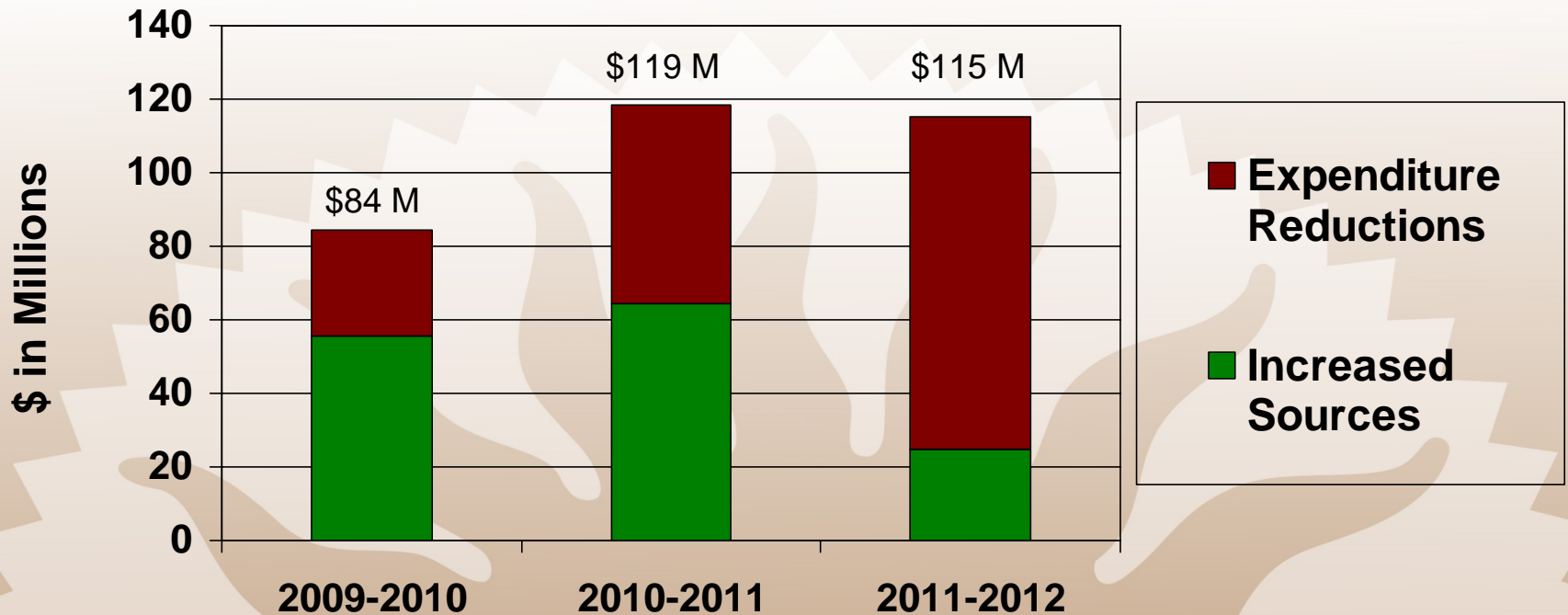
* Other includes: Parks, Recreation & Neighborhood Services; Library; Information Technology; Transportation; Public Works; Environmental Services; Airport; Finance; Human Resources; Planning, Building & Code Enforcement; Economic Development; Mayor; City Council; Council Appointees; etc.

Combination of Strategies to Address General Fund Shortfalls Have Been Used

- General Fund Structural Deficit Elimination Plan provided blueprint beginning in 2008
- Revenue Strategies: four revenue-related ballot measures approved by voters; fees for service; transfers from other funds
- Cost Saving Strategies: total employee compensation reductions; outsourcing; new service delivery models; efficiencies; departmental consolidations
- Service Reductions/Eliminations

With Dwindling Sources Available, Budget Shortfalls Solved with More Expenditure Cuts

General Fund Annual Budget Balancing Solutions

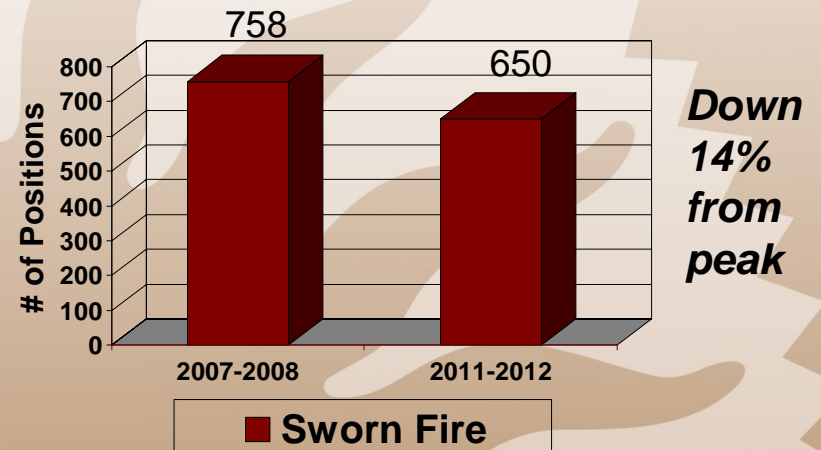


Earmarked Reserves Down Over 50% from 2001-2002

Earmarked Reserves	2001-2002 Modified Budget	2011-2012 Adopted Budget	Change
Economic Uncertainty Reserve	15,810,000	0	(15,810,000)
Workers' Comp/General Liab. Catastrophic Reserve	15,303,208	10,000,000	(5,303,208)
Salaries and Benefit Reserve	10,216,769	5,626,903	(4,589,866)
Measure O&P/City Hall/SNI/Fire MP Reserve	7,710,718	0	(7,710,718)
Technology System Updates/Replacements	4,152,725	0	(4,152,725)
Development Fee Program Reserves	6,690,194	12,584,484	5,894,290
Various Capital/Maintenance Reserves	1,514,447	250,080	(1,264,367)
Miscellaneous Other Reserves	700,649	501,114	(199,535)
Various Fire Program/Service Reserves	535,694	0	(535,694)
Filled Position Elimination Expenditure Reserve	0	700,000	700,000
Retirement Pre-Payment Reserve	0	1,000,000	1,000,000
Total Earmarked Reserves	62,634,404	30,662,581	(31,971,823)
Contingency Reserve	24,591,175	29,309,000	4,717,825
Total Reserves	87,225,579	59,971,581	(27,253,998)

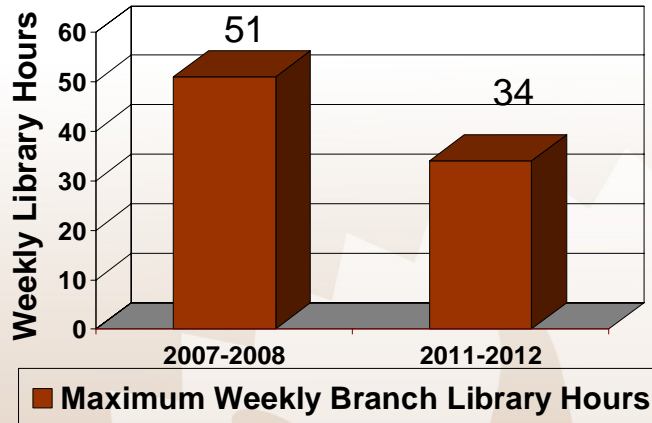
Major Service Impacts – Public Safety

- Reduced police field patrol, special operations, and investigative services
- Eliminated police school liaison program
- Eliminated majority of crime prevention programs
- Suspended police helicopter program
- Reduced police horse mounted unit, PAB lobby hours/staff, police pre-processing center, performance analysis, research, and training
- Reduced police and fire staffing at the airport
- Eliminated 4 Fire Engine companies and 1 Truck company
- Implemented fire company brown-outs
- Reduced fire apparatus staffing

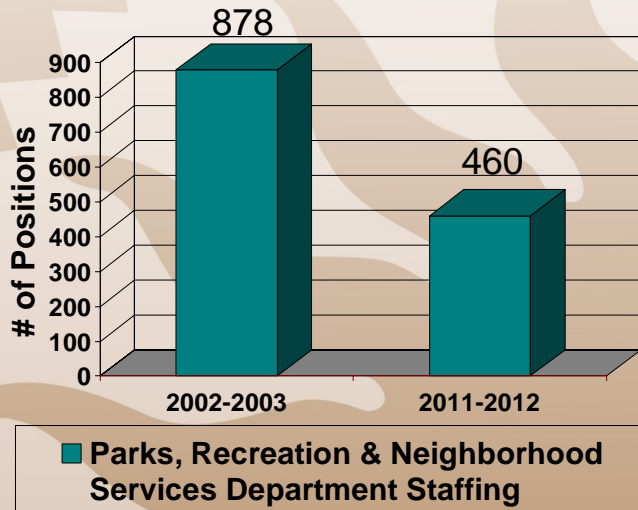


Major Service Impacts – Community Services

Down 33% from peak



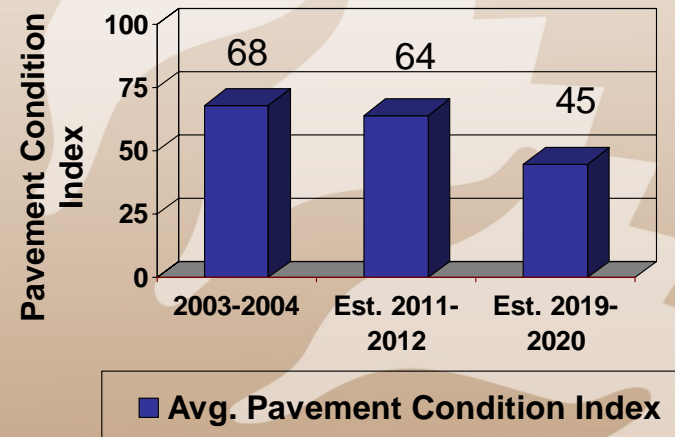
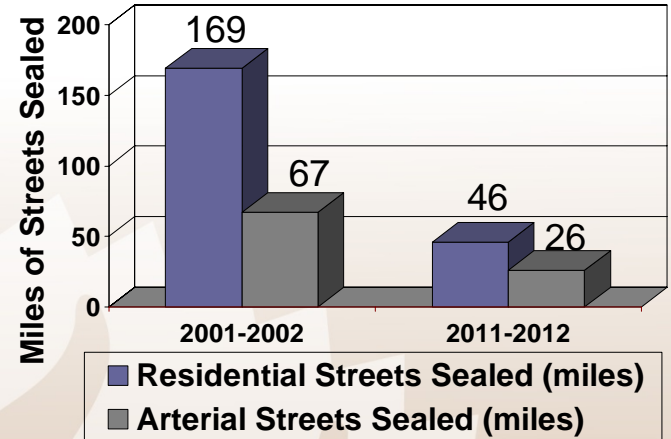
Down 48% from peak



- Reduced branch library hours/days (from 47-51 hours/6-7 days per week to 33-34 hours/4 days per week)
- Reduced community centers (down from 54 at peak in 2007-2008 to 11 in 2011-2012); 43 sites in re-use program
- Reduced neighborhood park maintenance
- Reduced regional parks maintenance and park ranger staffing
- Reduced/eliminated recreational services and special events support
- Reduced/eliminated services to seniors, persons with disabilities, and youth
- Reduced code enforcement staffing
- Reduced SNI services
- Reduced long-range planning services

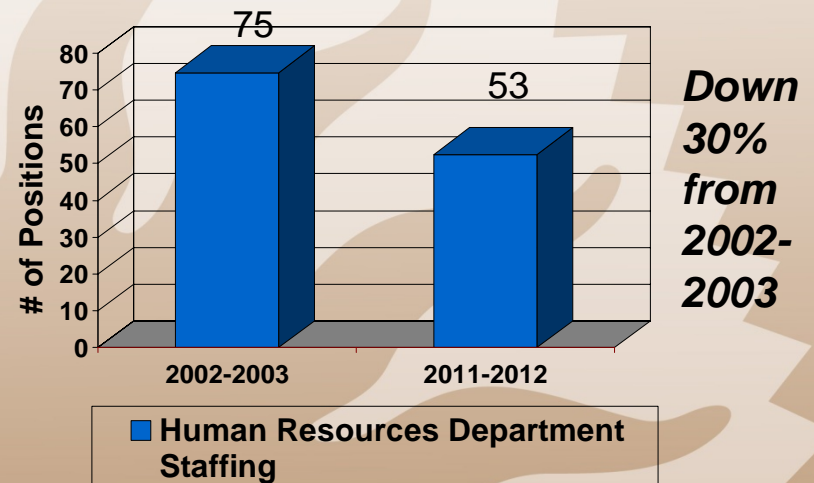
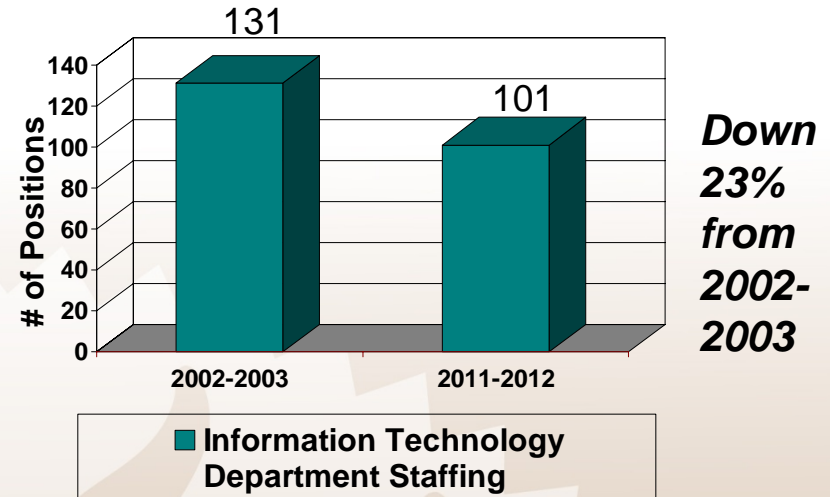
Major Service Impacts – Capital Maintenance

- Reduced traffic maintenance program (e.g., traffic signal maintenance, roadway striping, and markings maintenance)
- Reduced pavement maintenance program (residential streets sealed down 73% and arterial streets sealed down 61% from 2001-2002)
- Eliminated funding for sidewalk repairs and street tree services (property owners now responsible)
- Reduced street landscape services
- Reduced City facilities maintenance and fleet maintenance
- Reduced transportation operations services (e.g., traffic calming, neighborhood traffic studies, responses to speed compliance calls)



Major Service Impacts – General Government

- Reduced financial reporting, financial management, and finance administrative staffing
- Reduced employment services, safety program, workers' compensation claims administration, and training and development
- Reduced city-wide technology coordination, information technology infrastructure support, and development services technology services
- Reduced organization-wide management, support, and leadership staffing



Looking Forward: Continued Budget Shortfalls Projected

- Preliminary General Fund shortfalls totaling \$113 M projected over the next four years, but likely higher
- Without fundamental change in cost/revenue structure, unacceptable service reductions and eliminations will continue
- Fiscal Reform Plan identifies potential solutions to address structural imbalance and restore services to January 2011 levels

General Fund Shortfalls Expected to Continue into the Future

2012-2016 General Fund Forecast

(Based on Feb 2011 Forecast, Updated for 2011-2012 Adopted Budget*)

(\$ in Millions)

	2012-2013	2013-2014	2014-2015	2015-2016	Total
Projected Annual Shortfall **	(\$78.2)	(\$25.1)	(\$10.0)	(\$0.1)	(\$113.4)
Total Cumulative Deficit	(\$78.2)	(\$103.3)	(\$113.3)	(\$113.4)	(\$113.4)

* Does not include: cost-of-living salary increases; additional impacts from future changes in actuarial assumptions or retirement benefit levels that could impact the City's required retirement contributions; additional impacts associated with the San Jose Redevelopment Agency; unmet/deferred infrastructure and maintenance needs; Development Fee Programs; or one-time revenues/expenses. Assumes continued pre-payment of City's annual retirement contribution.

** Annual budget shortfall attributed to each fiscal year. Assumes shortfalls addressed with ongoing solutions. Any portion of the annual shortfall solved on a one-time basis would carry over to the following year. The 2012-2013 budget shortfall figure includes \$35 million from one-time solutions carried over from 2011-2012.

Preliminary 2012-2013 General Fund Forecast: Significant Risk Factors

Major Factors Impacting Forecast:

**2012-2013
Est. \$ Range**

Retirement Contributions

\$10 M - ?

(changes in actuarial valuations to ensure plan health;
1 percentage point = \$3.1 million in the General Fund)

San Jose Redevelopment Agency

\$16 M - \$42 M

(Reduced property tax growth, state actions)

POA Arbitration Results

\$30 M

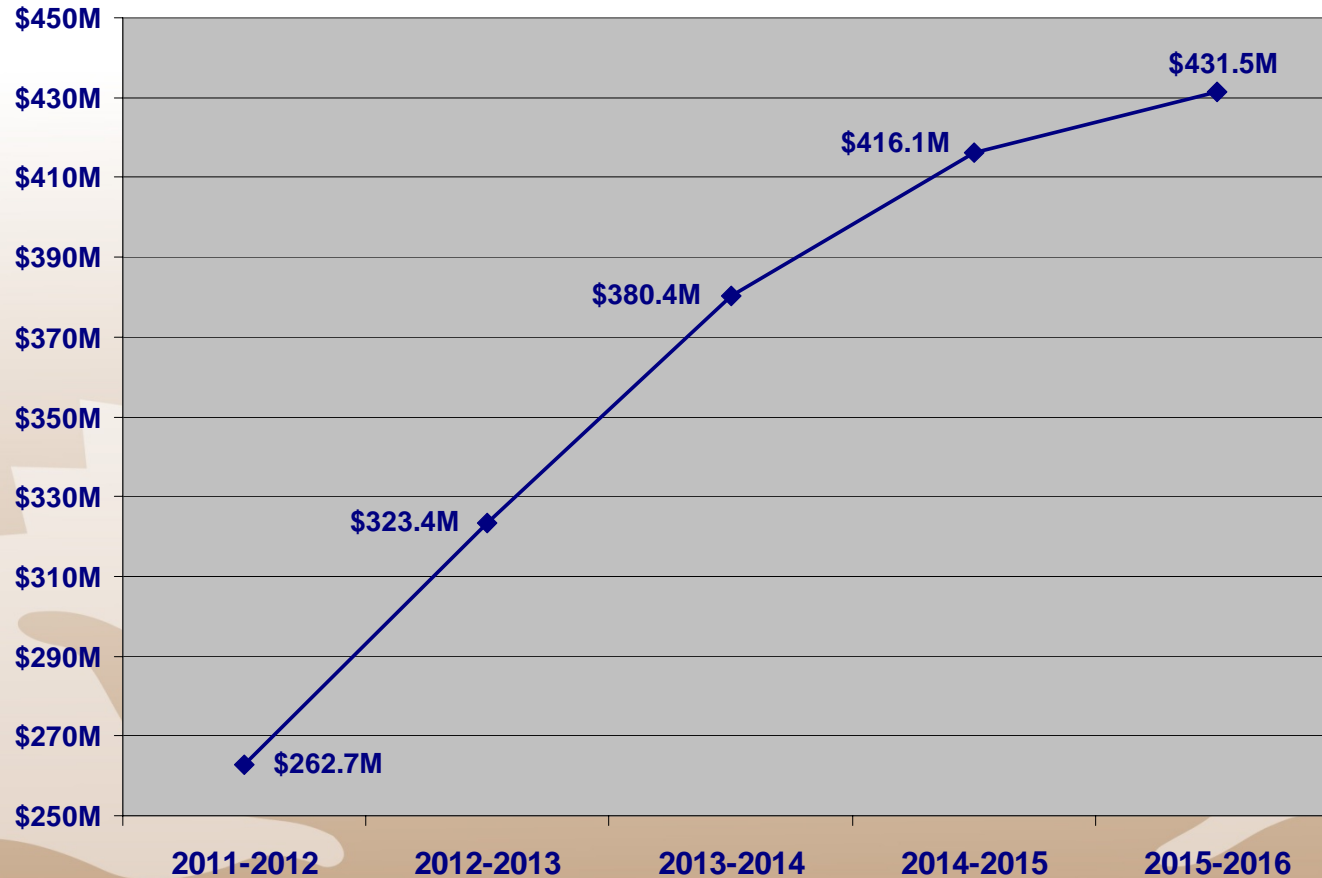
(If 2011-2012 reductions are one-time)

Economic Conditions

?

(e.g., reduced Sales Tax growth: 1% = \$1.4 M;
reduced Property Tax growth: 1% = \$2 M)

Updated Retirement Contribution Projections (Pension & Retiree Healthcare)



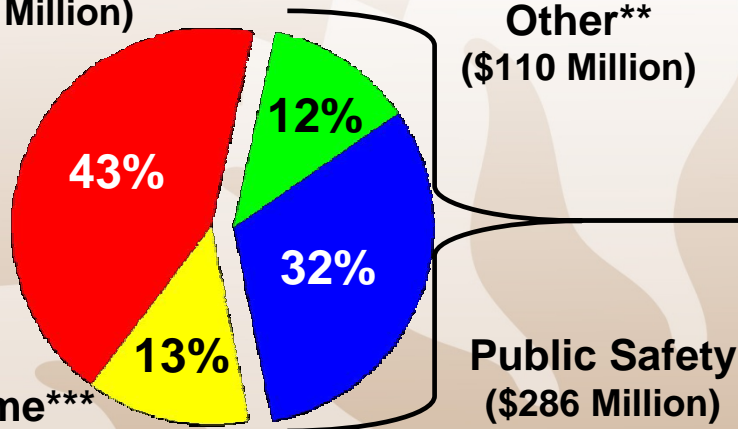
Note: Based on Cheiron's Estimates of August 2011 (All Funds)

Unacceptable Service Reductions/ Eliminations Remain

**2011-2012
Adopted General Fund Budget
(\$906 Million)**

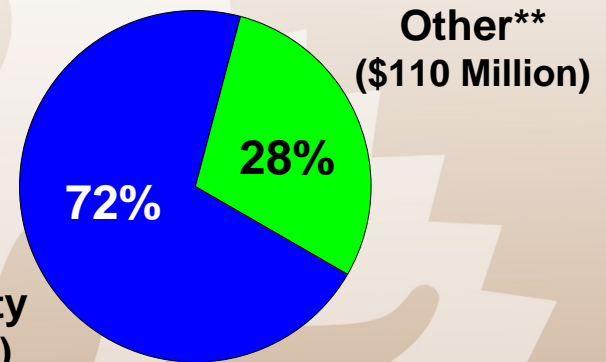
**2011-2012
Discretionary Expenditures
(\$396 Million)**

**Non-Discretionary*
(\$390 Million)**



One-Time*
(\$120 Million)**

**Public Safety
(\$286 Million)**



- * Non-Discretionary includes annual retirement contributions, grants, reimbursements (incl. gas tax), fee-supported activities, debt service, insurance, workers' compensation, sick leave payments upon retirement, contractually required facility subsidies, Mayor, City Council, Council Appointees, and other non-discretionary items.
- ** Other includes PRNS; Library; Information Technology; Transportation; Public Works; Finance; Human Resources; PBCE; Economic Development; Mayor, City Council and Council Appointees Offices; and other expenditures.
- *** One-Time includes contingency reserve, encumbrance reserve, earmarked reserves, one-time grants, and expenditure rebudgets.

2012-2013 Projected General Fund Shortfall Range

2012-2013 Preliminary Shortfall: \$78-115 M*

Potential Funding Sources

• Future Deficit Reserve	(\$10 M)
• Other Sources	<u>(\$ 5 M)</u>
Total Potential Funding Sources	(\$15 M)

Remaining Shortfall: \$63-100 M

* Shortfall range attributed to potential increases in retirement costs and impacts from the San Jose Redevelopment Agency. Other risk factors could further increase shortfall total.

2012-2013 Potential Budget Balancing Scenarios

- Scenario 1:** Implement general budget balancing strategies; no Fiscal Reform Plan strategies; and spread budget impacts across all service areas
- Scenario 2:** Implement general budget balancing strategies; no Fiscal Reform Plan strategies; and only spread budget impacts across non-public safety service areas
- Scenario 3:** Implement general budget balancing strategies and those Fiscal Reform Plan strategies that could potentially be brought forward in 2012-2013; and spread budget impacts across all service areas

Budget Balancing Strategies: All Scenarios

Standard Practices

- Identifying service efficiencies
- Reviewing and lowering to the extent possible non-personal/equipment and overtime allocations (including contract re-negotiation)
- Re-aligning management and administration as programs are reduced or eliminated
- Adjusting fees to achieve/maintain 100% cost-recovery levels
- Identifying one-time funding sources
- Outsourcing/service delivery model changes
- Sale/lease/re-use of assets

Budget Balancing Strategies: All Scenarios Outsourcing/Service Delivery Model Changes

- Initial List for Potential Service Change
 - Airport Parking & Traffic Control
 - Accounting/Payroll/Collections
 - Branch Library Services
 - Fleet Services
 - Parks Maintenance
 - Real Estate
 - School Crossing Guards
 - Workers' Compensation
- Identify Other Services for Service Delivery Evaluation
- Review Effectiveness of Recent Outsourcing

Budget Balancing Strategies: All Scenarios

Sale/Lease/Re-Use of Assets

- E-Lot (4 acres) – Federal purchase cancelled, staff will re-solicit for sale but police parking need an issue
- Rancho del Pueblo Golf Course (33 acres) – General Plan amendment in progress; rezoning would maximize value
- Hayes Mansion - \$57 million debt is roughly 3 times the estimated value
- Main Corporation Yard (5 acres) – General Plan designated high density residential, revisiting needed to adjust to market; \$14 million debt from Service Yards C&C Tax Fund
- Telecom cell sites – potential to capitalize revenue
- Sale of smaller properties – underway

Scenario 1 – Spread Cuts Across All Service Areas, No Fiscal Reform Plan

2012-2013 Remaining Shortfall: \$63-100 M

Potential Cuts by Service Category

	<u>\$ Target</u>	<u>% of 11-12 Budget</u>
• Community Services	\$25-42 M	26-44%
• Capital Maintenance	\$4-6 M	8-12%
• General Government	\$11-19 M	15-25%
• Non-Departmental	\$ 7 M	3%
• Public Safety	<u>\$16-26 M</u>	3-6%
Total Potential Cuts	\$63-100 M	

Scenario 1 – Potential Cuts by Service Area

Community Services: \$25 - 42 M (26-44% of budget)

Potential Service Impacts:

- Close all branch libraries (only MLK open)
- Close or convert all “hub” community centers to re-use sites with no City subsidy; close Grace Community Center
- Eliminate Senior Nutrition
- Reduce parks maintenance and expand outsourcing of remaining parks maintenance
- Eliminate remaining park rangers
- Reduce anti-gang efforts
- Reduce graffiti abatement program
- Reduce code enforcement staffing

Scenario 1 – Potential Cuts by Service Area

2012-2013 Remaining Shortfall: \$63-100 M

Less:

Community Services (\$25-42 M)

2012-2013 Remaining Shortfall: \$38-58 M

Scenario 1 – Potential Cuts by Service Area

Capital Maintenance: \$4 - 6 M (8-12% of budget)

Potential Service Impacts:

- Reduce the traffic maintenance program (e.g., streetlights, traffic sign maintenance)
- Reduce the pavement maintenance program
- Reduce street landscape services
- Downsize and reduce City facilities maintenance and fleet maintenance
- Reduce transportation operations services (e.g., school safety, business parking, persons with disabilities services)

Scenario 1 – Potential Cuts by Service Area

2012-2013 Remaining Shortfall: \$63-100 M

Less:

Community Services (\$25-42 M)

Capital Maintenance (\$4-6 M)

2012-2013 Remaining Shortfall: \$34-52 M

Scenario 1 – Potential Cuts by Service Area

General Government: \$11 - 19 M (15-25% of budget)

Potential Service Impacts:

- Further decrease human resources, information technology, and finance functions, with significant increased risk
- Further reduce organization-wide management and leadership
- Further reduce Mayor, City Council, and Council Appointee Offices

Scenario 1 – Potential Cuts by Service Area

2012-2013 Remaining Shortfall: \$63-100 M

Less:

Community Services (\$25-42 M)

Capital Maintenance (\$4-6 M)

General Government (\$11-19 M)

2012-2013 Remaining Shortfall: \$23-33 M

Scenario 1 – Potential Cuts by Service Area

Non-Departmental: \$7 M (3% of budget)

Potential Service Impacts:

- Eliminate Children’s Health Initiative
- Reduce/eliminate facility operating subsidies (e.g., History San José, Mexican Heritage Plaza, Tech Museum of Innovation, Museum of Art, San Jose Repertory Theatre)
- Reduce San José BEST Program
- Eliminate non-public safety vehicle replacement
- Eliminate Convention/Visitor’s Bureau General Fund subsidy
- Eliminate technology fund
- Eliminate Senior Wellness Program

Scenario 1 – Potential Cuts by Service Area

2012-2013 Remaining Shortfall: \$63-100 M

Less:

Community Services (\$25-42 M)

Capital Maintenance (\$4-6 M)

General Government (\$11-19 M)

Non-Departmental (\$7 M)

2012-2013 Remaining Shortfall: \$16-26 M

Scenario 1 – Potential Cuts by Service Area

Public Safety: \$16 - 26 M (3-6% of budget)

Potential Service Impacts:

- Reduce police patrol, resulting in increased response times
- Reduce police Investigations staffing, resulting in fewer crimes investigated
- Reduce police communications staffing, resulting in increased call response times
- Eliminate the police school crossing guard program
- Defer opening of police substation
- Reduce number of fire engines or increase brown-outs, resulting in increased response times (reductions subject to SAFER grant limitations)

Scenario 2 – Spread Cuts Across Non-Public Safety Service Areas, No Fiscal Reform Plan

2012-2013 Remaining Shortfall: \$63-100 M

Potential Cuts by Service Category

	<u>\$ Target</u>	<u>% of 11-12 Budget</u>
• Community Services	\$35-58 M	37-61%
• Capital Maintenance	\$5-9 M	11-17%
• General Government	\$16-26 M	21-35%
• Non-Departmental	\$7 M	3%
• Public Safety	\$0 M	0%
Total Potential Cuts	\$63-100 M	

Scenario 2 – Spread Cuts Across Non-Public Safety Service Areas, No Fiscal Reform Plan

- This scenario would leave only \$10 - 47 M in non-public safety discretionary funding for all non-public safety discretionary services currently totaling \$110 M
- Remaining funding would not maintain a minimal basic level of non-public safety services to our residents, businesses and visitors (e.g., traffic signal maintenance, anti-gang efforts, parks maintenance, code enforcement)
- Basic functions are still needed to deliver and support public safety services (e.g., payroll, human resources, vehicle maintenance, information technology)
- Scenario 2 – Not a viable option

Scenario 3 – Spread Cuts Across All Service Areas, Fiscal Reform Plan

2012-2013 Preliminary Shortfall: \$78-115 M

Potential Funding Sources

- Future Deficit Reserve (\$10 M)
- Other Sources (\$ 5 M)

Total Potential Funding Sources (\$15 M)

2012-2013 Fiscal Reform Plan (\$67 M)

(Does not assume voter-approved revenues*)

Remaining (Surplus)/Shortfall*: (\$4 M) - 33 M

* With voter-approved revenue measures, a surplus would result

Scenario 3 – Fiscal Reform Plan: Potential General Fund Savings

Areas of Savings	Estimated 2012-2013 Savings	Estimated 2013-2014 Savings	Estimated 2014-2015 Savings	Estimated 2015-2016 Savings
Workers' Compensation Offset	\$2.8 M			
Sick Leave Payout	\$9.5 M			
Overtime		\$1.2 M		
SRBR	\$3.7 M			
Retiree Healthcare		\$13.9 M		
Additional Retirement Contributions/Opt-In Program	\$21.0 M	\$21.0 - 78 M*		
1% COLA (retiree pensions)	\$30 M*			
Subtotal	\$67.0 M	\$36.1 - 93.1 M		
Revenues (full-year values)	\$36.5 M		\$10.0 M	
TOTAL SAVINGS	\$103.5 M	\$36.1 - 93.1 M	\$10.0 M	

* Savings assumes a 6.75% earnings assumption

Scenario 3 – Spread Cuts Across All Service Areas, Fiscal Reform Plan

- Fiscal Reform Plan cost reduction strategies are subject to meet and confer/arbitration and some may face legal challenges
- Revenue strategies are subject to voter approval and the timing of potential implementation would impact savings generated in 2012-2013
- Given the barriers to implementation, the Fiscal Reform Plan savings can not be assumed for budget balancing purposes until the strategies are approved
- If achieved, the Fiscal Reform Plan would dramatically change 2012-2013 service delivery impacts (shortfall range with cost reductions: surplus of \$4 million to a deficit of \$33 million; surplus range with cost reductions and revenues: surplus of \$41 million to \$4 million)

Budget Balancing Strategies – Potential Impact on Positions

	<u>Scenario 1</u>	<u>Scenario 2</u>	<u>Scenario 3</u>
2011-2012			
City-Wide Positions	5,400	5,400	5,400
Potential General Fund Position Eliminations:			
- Sworn	(110 - 180)	(0)	(0 - 50)
- Non-Sworn	<u>(410 - 680)</u>	<u>(575 - 945)</u>	<u>(0 - 190)</u>
Total Est. Change	(520 - 860)	(575 - 945)	(0 - 240)
2012-2013			
City-Wide Positions	4,540 - 4,880	4,455 - 4,825	5,160 - 5,400

City is in a Fiscal and Service Level Emergency

Action steps for 2012-2013 Budget:

- Pursue Scenario 3 (Fiscal Reform Plan strategies)
- Plan for Scenario 1 (general budget strategies, no Fiscal Reform Plan, spread cuts across all service areas)
- Explore all viable budget balancing strategies to minimize significant service level reductions/eliminations
- Modify policies and processes that hinder effective service delivery

General Fund Budget Status Overview

QUESTIONS & ANSWERS