

## General Fund Balancing Strategy Detail

### 2009-2010 Proposed Budget

#### INTRODUCTION

This Attachment is intended to provide a brief, but more detailed, summary of the key actions provided for in the General Fund as part of the overall strategy to balance the 2009-2010 Proposed General Fund Budget. Significant revisions to the original February 2009 Forecast Base Budget, as well as the key elements of the strategy to bring the General Fund into balance in the Proposed Budget are described.

In February 2009, the Administration presented to the City Council formal projections for the 2009-2010 General Fund budget as part of the *2009-2010 City Manager's Budget Request & 2010-2014 Five-Year Forecast and Revenue Projections* document. The 2009-2010 "base-case" projections in that document indicated the presence of a shortfall totaling approximately \$61.19 million. This "shortfall" represented the difference or gap between projected 2009-2010 General Fund resources and the expected cost of both current services in next year's terms, and providing for several Council "committed" augmentations (e.g., the costs of operating and maintaining new facilities).

In addition to the basic projected shortfall in the General Fund of \$61.19 million, it was noted that an additional shortfall of about \$4.10 million existed in the cost-recovery, development-related fee programs in the General Fund.

Subsequent to the release of the February Forecast, a number of revisions to both expenditures and revenue estimates were made, based on updated information, which combined, constituted the **Revised Forecast**

**Base Budget** included in the Proposed Budget.

Discussed below, the revisions to the Base Budget included a series of changes that produced a net reduction in General Fund sources of \$21.2 million, and a decrease in overall costs of \$4.8 million. These changes resulted in an increase of \$16.3 million to the estimated General Fund shortfall, bringing the revised deficit to \$77.5 million. This is the amount that is addressed by the Proposed Budget balancing plan. These adjustments to the Base Budget are described in more detail below.

In addition to developing a strategy to eliminate the basic \$77.5 million shortfall, a separate strategy is proposed to address the shortfall (\$6.7 million) projected for the General Fund cost recovery Development Fee Programs. This is up by \$2.6 million from the \$4.10 million shortfall previously identified due to updated overhead rates issued by the Finance Department and a continuing weakening in development-related revenues. In order to isolate the fee program problem and ensure that solutions were made specific to those fee programs, that gap is listed and discussed in this document separately from the basic General Fund shortfall. The development fee programs are directed by City Council policy to recover 100% of the cost of development review and inspection. The February Forecast assumed that consistent with that policy, these fee programs would develop a strategy that would completely address this shortfall. The Proposed Budget includes such a strategy. Including the fee program shortfall, therefore, the total gap addressed in the Proposed Budget is \$84.2 million.

## General Fund Balancing Strategy Detail (Cont'd.)

### 2009-2010 Proposed Budget

#### INTRODUCTION (CONT'D.)

The following Table (I) displays the overall projections for the 2009-2010 General Fund as they changed between the February Forecast and the Proposed Budget. The 2009-2010 Proposed Budget contains a set of actions that increase both overall General Fund sources (by a total of \$35.4 million), and decreases net costs (by \$48.8 million). The changes in sources include two major components: additional 2009-2010 Beginning Fund Balance generated from reserves (\$20.4 million) and the addition of \$15.0 million in revenues and transfers from other funds to be generated in 2009-2010.

The expenditure decrease of \$48.8 million is the net impact of two components: program expenditure reductions of \$58.5 million offset by \$9.7 million in proposed augmentations. The proposed reductions of \$58.5 million include staffing, non-personal/equipment, and city-wide expense eliminations (\$45.7 million), development fee programs (\$5.7),

funding shifts (\$2.3 million) and use of reserves (\$4.8 million). The \$9.7 million proposed additions include funding for new facilities operations and maintenance (\$1.7 million), City Council direction (\$1.6 million), revenue supporting activities (\$1.0 million), technology and capital maintenance activities (\$0.7 million), and miscellaneous activities (\$4.7 million). The result is a balanced 2009-2010 General Fund Proposed Budget of \$880.9 million.

As described in the City Manager's letter preceding this document, the balancing strategy proposed in this document contains a combination of ongoing and one-time solutions. The overall strategy, however, balances approximately 97% of the total shortfall (including the development fee program impact) with ongoing solutions totaling \$81.3 million. The amount balanced with one-time solutions is only \$2.9 million. The specific elements of the Administration's proposed strategy are displayed in Table II, and described in the material that follows.

**Table I**  
**2009-2010 PROPOSED OPERATING BUDGET**  
**Forecast To Proposed Budget Reconciliation**

	Total Sources	Total Uses	(Shortfall)/ Surplus
<b>February Forecast</b>	<b>\$ 866.596</b>	<b>\$ 927.788</b>	<b>(\$ 61.192)</b>
Forecast Revisions	(21.156)	(4.809)	(16.347)
<b>Revised Forecast (no fee impact)</b>	<b>845.440</b>	<b>922.979</b>	<b>(77.539)</b>
Development Fee Program Impact	N/A	6.704	6.704
<b>Revised Forecast (with fee impact)</b>	<b>845.440</b>	<b>929.683</b>	<b>(84.243)</b>
Proposed Revisions	35.422	(48.821)	84.243
<b>2009-2010 Proposed Budget</b>	<b>\$ 880.862</b>	<b>\$ 880.862</b>	<b>\$ 0.00</b>

## General Fund Balancing Strategy Detail (Cont'd.) 2009-2010 Proposed Budget

### REVISED FORECAST BASE BUDGET

As discussed above, following the issuance of the February Forecast, detailed analysis of the status of General Fund revenues and expenditures continued. Based on this review, a series of changes to the Forecast Base Budget estimates for both sources and uses

have been incorporated into the Proposed Budget in the form of a Revised Forecast Base. This Revised Forecast Base Budget (no fee impact) resulted in a revised shortfall estimate of \$77.5 million, up significantly (\$16.3 million) from that shown in the February Forecast.

---

### REVISED FORECAST SUMMARY OF CHANGES

Revisions to the source estimates contained in the February Forecast that have been incorporated into the Revised Forecast include the following:

<u>Sources</u>	<u>Revision</u>
Property Tax	(\$ 14,342,000)
Sales Tax	(3,192,000)
Licenses and Permits	(1,418,000)
Departmental Charges	(1,171,000)
Transient Occupancy Tax	(1,098,000)
Miscellaneous Revisions	65,000
<b>Net Change in Sources</b>	<b>(\$ 21,156,000)</b>

Since the release of the February Forecast, changes to the General Fund uses include:

<u>Uses</u>	<u>Revision</u>
Development Fee Programs	\$ (2,611,000)
Miscellaneous City-Wide Expenses	(807,000)
Fuel Prices/Consumption	(490,000)
Miscellaneous Revisions	(901,000)
<b>Net Change in Uses</b>	<b>\$ (4,809,000)</b>

---

Following is a brief description of the Revised Forecast changes in the General Fund revenues:

- The Property Tax revenue estimate was revised downwards by \$14.3 million based on the latest information provided by the County of Santa Clara Assessor's Office. In the Preliminary 2010-2014 General Fund Forecast, a Secured Property Tax growth rate of 1% was assumed for 2009-2010. In the final revision to this figure, it is now assumed that Secured Property Tax

will decline by 6.5% in 2009-2010. This change resulted in a \$14.3 million reduction to the Secured Property Tax estimate.

- The Sales Tax estimate was adjusted downwards by \$3.2 million to reflect a downward revision to the 2008-2009 estimate that also reduces the starting point for 2009-2010. When the 2010-2014 Forecast was developed it was assumed that collections would drop by

## General Fund Balancing Strategy Detail (Cont'd.) 2009-2010 Proposed Budget

### REVISED FORECAST BASE BUDGET (CONT'D.)

5% in both 2008-2009 and 2009-2010. Taking into account the March Sales Tax receipts, it is now assumed that receipts will fall by 7% in 2008-2009. The estimate for a 5% change in 2009-2010 is unchanged.

- The Licenses and Permits category was decreased by \$1.4 million to reflect lower revenue estimates for the Building Permits (down \$1.0 million) and Fire Permits (down \$0.6 million) categories based on the lower collection trends for the development-related fees, partially offset by an increase of \$200,000 to the Cardroom Tax estimate.
- The Departmental Charges revenue estimate was decreased by \$1.2 million to reflect the following: a decrease of \$1.2 million to the Public Works revenue estimate based on lower collection trends for this fee category; an increase to the Planning Fee category of \$117,000; and an increase of \$52,000 to the Miscellaneous Fee category based on a higher Solid Waste Enforcement Fee estimate.
- The Transient Occupancy Tax revenue estimate was adjusted downwards by \$1.1 million to reflect the continued impact of the deep economic recession that is expected to have a more severe impact on this revenue category than assumed in the February Forecast.
- A variety of other revisions results in a net increase of \$65,000. These include downward adjustments to the Transfers and Reimbursements category (\$138,000) and the Revenue from Local Agencies category (\$52,000), partially offset by an

increase to the Use of Money and Property (\$255,000).

Revisions to the February projected 2008-2009 expenditure levels include the following:

- A reduction to Personal Services costs to reflect the reduced revenue estimates in the cost-recovery Development Fee Programs (\$2.6 million).
- A thorough review of funding requirements for City-Wide Expenses appropriations resulted in a net decrease of \$807,000. These revisions included changes to the Insurance Premiums (\$100,000), Jail Bookings (\$250,000), Banking Services (\$200,000), Major Space Renovations (\$250,000) categories, as well as other minor adjustments (\$7,000).
- Due to a reduction in fuel prices and a review of consumption in the General Fund, departmental non-personal/equipment funding has been decreased by \$490,000.
- Finally all Base Budget expenditure estimates for all departments were also carefully re-examined during the time between the February Forecast and the issuance of the Proposed Budget. This review resulted in a series of miscellaneous changes which resulted in a decrease of \$901,000 in the General Fund.

### PROPOSED BUDGET BALANCING STRATEGY

Specific City Council direction regarding the preparation of the Proposed Budget was provided in the Mayor's March Budget Message.

**General Fund Balancing Strategy Detail (Cont'd.)  
2009-2010 Proposed Budget**

**PROPOSED BUDGET BALANCING  
STRATEGY (CONT'D.)**

The details of the specific elements of that Message and the responses contained in this budget are provided in Attachment B. Attachment C contains information regarding the status of City Auditor recommendations with funding impacts. Attachment D contains a Tier 2 General Fund Budget Proposal summary.

As summarized in Table II and discussed below, the budget balancing strategy developed by the Administration results in a balanced 2009-2010 General Fund Proposed Budget totaling \$880.9 million. Following that is a brief discussion of the key elements of the budget balancing actions that are included in that Proposed Budget. Much more detailed descriptions of these elements are provided elsewhere in this document or in the 2009-2010 Fees and Charges document that will be released under separate cover on May 1.

**General Fund Balancing Strategy Detail (Cont'd.)**  
**2009-2010 Proposed Budget**

**PROPOSED BUDGET BALANCING STRATEGY (CONT'D.)**

**Table II**  
**2009-2010 PROPOSED OPERATING BUDGET**  
**General Fund Funding Requirements and Balancing Strategy**

	2009-2010	Ongoing
<b>2009-2010 General Fund Shortfall</b>	(\$ 77,539)	(\$ 77,539)
<b>Development Fee Program Impact</b>	( 6,704)	( 6,704)
<b>Revised Forecast</b>	(\$ 84,243)	(\$ 84,243)
<b>Balancing Strategy</b>		
<b>Source of Funds</b>		
Available Fund Balance:		
Economic Uncertainty Reserve	\$ 5,000	\$ 0
2009-2010 Future Deficit Reserve	4,000	0
2008-2009 Other Reserves/Fund Balance	11,414	0
Transfer from Other Funds/Redevelopment Agency	4,999	2,248
Fee and Fine Increases/Activity Level Adjustments	6,998	10,086
Asset Management Program	1,600	1,600
Other Revenue Changes	<u>1,410</u>	<u>794</u>
<b>Subtotal Additional Resources</b>	<b>\$ 35,421</b>	<b>\$ 14,728</b>
<b>Use of Funds</b>		
Position Eliminations	\$ ( 37,357)	(50,985)
Non-Personal/Equipment and City Wide Expenses	(8,304)	\$ (6,411)
Funding Shifts to other Funds	(2,304)	(2,189)
Development Fee Programs	(5,734)	(6,485)
Use of Reserves (Committed Additions)	(4,806)	(5,564)
New Facilities Operations & Maintenance	1,662	2,535
City Council Direction (Mayor's March Message)	1,575	0
Revenue Supporting Activities	1,052	833
Technology & Capital Infrastructure Maintenance	710	435
Miscellaneous	<u>4,684</u>	<u>1,234</u>
<b>Funding Changes by City Service Area</b>	<b>\$ (48,822)</b>	<b>\$ (66,597)</b>
<b>Total Balancing Strategy</b>	<b>\$ (84,243)</b>	<b>\$ (81,325)</b>
<b>Remaining Balance</b>	<b>\$ 0</b>	<b>(\$ 2,918)</b>

## General Fund Balancing Strategy Detail (Cont'd.) 2009-2010 Proposed Budget

### PROPOSED BUDGET BALANCING STRATEGY (CONT'D.)

#### Source of Funds

From the Revised Forecast of \$803.8 million, a net increase of \$35.4 million to the General Fund sources estimate is recommended, bringing the 2009-2010 Proposed Budget sources estimate to \$839.2 million. The components of the \$35.4 million change include an increase in the estimate for the 2008-2009 Ending Fund Balance/2009-2010 Beginning Fund Balance (\$20.4 million) and higher transfer and revenue estimates (\$15.0 million). Following is discussion of those components broken down by the revenue categories that are presented in the *General Fund Revenue Estimates* section of this document.

#### Available Fund Balance

The higher fund balance of \$20.4 million reflects the liquidation of 2008-2009 reserves (\$15.1 million), an increase in expectations for expenditure savings in 2008-2009 (\$4.5 million), and the liquidation of encumbrances (\$0.8 million). The largest reserves proposed for use in the 2009-2010 Proposed Budget include a portion of the Economic Uncertainty Reserve (\$5.0 million), the 2009-2010 Future Deficit Reserve (\$4.0 million), the Airport West Proceeds Reserve (\$1.6 million), the Future Capital Projects (FF&E) Reserve (\$1.5 million), the Neighborhood Investment Reserve (\$0.7 million), and the Enhanced Parks Maintenance Reserve (\$0.6 million). Additional expenditure savings are projected from several projects and departments, with approximately half of the unexpended funds anticipated from the

Watson Park Project (\$1.3 million) and the Electronic Content Management System project (\$1.0 million).

#### Increases to 2009-2010 Revenue Estimates

The \$15.0 million increase to the revenue estimates are spread among many of the revenue categories as summarized below:

- The Departmental Charges (up \$3.3 million) and the Licenses and Permits (up \$1.2 million) categories were adjusted to reflect updated fees to remain at cost recovery in the various fee programs, to reflect the continuation of the Business Discovery Program by the Finance Department, and to reflect a proposed increase in Library Fines.
- The \$3.1 million increase to the Transfers and Reimbursements category includes additional transfers of \$3.4 million, offset by a reduction in the overhead revenue estimate of \$240,000. A proposed transfer of \$2.6 million from the Emergency Communication System Support Fee Fund and the additional transfer of \$1.5 million from the Construction Excise Tax fund are the largest increases in this category. Downward adjustments to the Transfers from the Airport Operations and Maintenance Fund for Police Services (down \$680,000) and for Fire Services (down \$774,000) are proposed to reflect reductions in those programs.
- The \$2.5 million increase to the Fines, Forfeitures and Penalties category reflects the following: increases to parking citation fines (\$1.0 million); increased parking

## General Fund Balancing Strategy Detail (Cont'd.) 2009-2010 Proposed Budget

### PROPOSED BUDGET BALANCING STRATEGY (CONT'D.)

#### Increases to 2009-2010 Revenue Estimates (Cont'd.)

- finer due to increased enforcement associated with new Parking and Traffic Control Officers (\$874,000), and increased Police false alarm fines (\$661,000).
- The increase of \$2.5 million to the Revenue from Local Agencies category primarily reflects increased reimbursement from the San Jose Redevelopment Agency (SJRA) (\$2.0 million) to support City activities. Several other changes to reimbursements are recommended, the largest of which include: an increase of \$225,000 to reflect additional funding from the Happy Hollow Corp.; an increase of \$166,000 from the County to support the AFIS Palm Print Upgrade, and a decrease of \$197,000 from the County for the Senior Nutrition Program based on the proposed discontinuation of this program at some community centers.

- The \$2.2 million increase to the Other Revenue category primarily reflects the \$1.6 million increase in the estimate for the Sale of Surplus Property associated with the real estate services transition to asset management and an additional \$400,000 associated with unclaimed accounts associated with the Integrated Billing System.
- The Franchise Fees category was adjusted upwards by \$250,000 to reflect an increase to the Commercial Solid Waste Franchise Fee estimate due to the elimination of the 20,000 cubic yard exemption.

#### Use of Funds

The remainder of the balancing strategy involves a multitude of specific proposed expenditure actions, resulting in a net decrease of \$48.8 million, with an ongoing savings value of \$66.6 million.

A listing of the proposed budget modifications is provided by specific categories in Table II and all of the proposals are described in greater detail in the CSA and departmental sections of the Proposed Budget document.