

CITY OF SAN JOSÉ

Development of Strategies to Address the City's General Fund Structural Deficit

Report to Mayor's Budget Shortfall Advisory Group

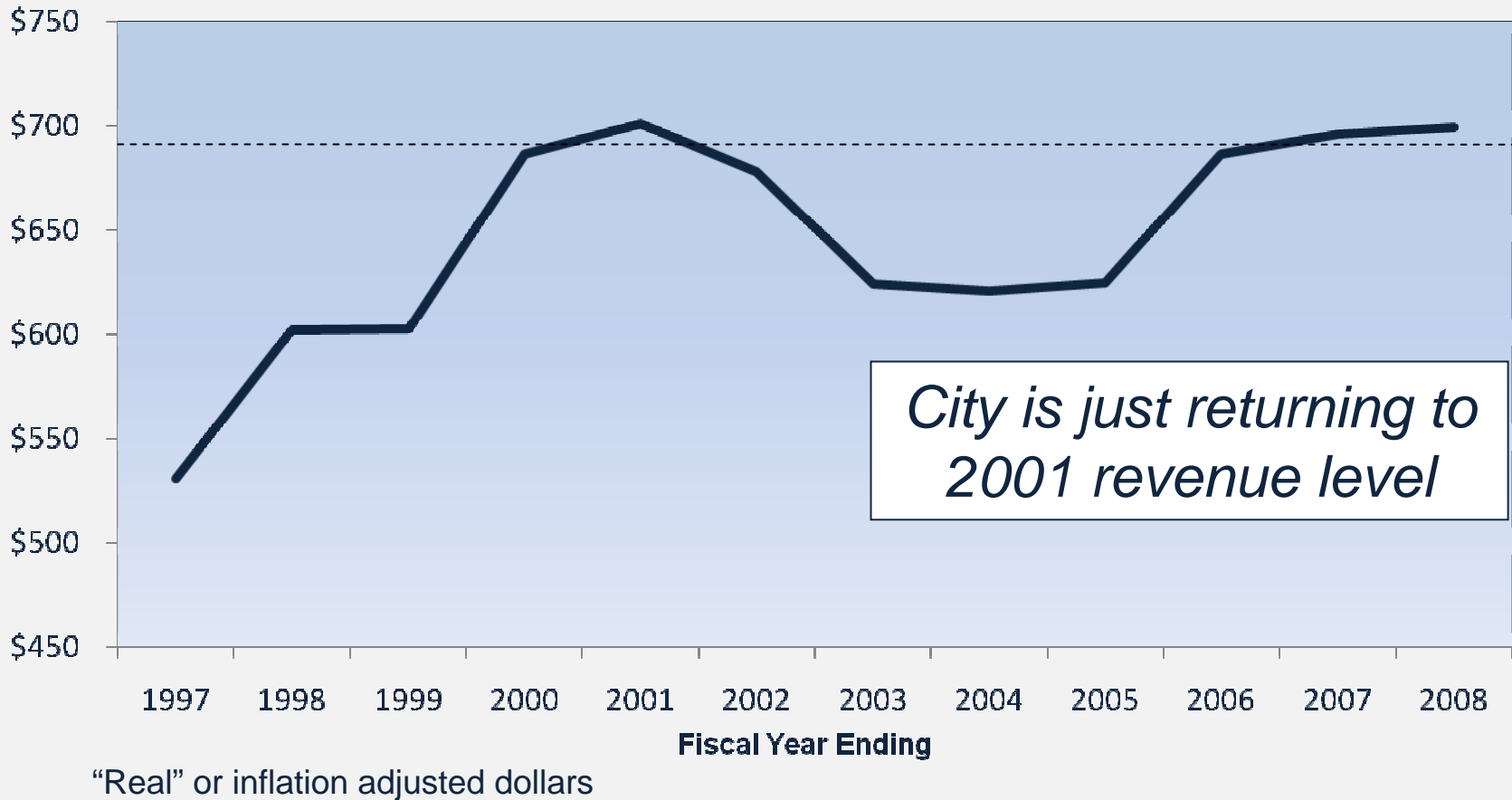
January 10, 2008

In This Presentation

- General Fund Budget Deficit
- Project Approach
- Top Priority Strategies
- Budget Principles

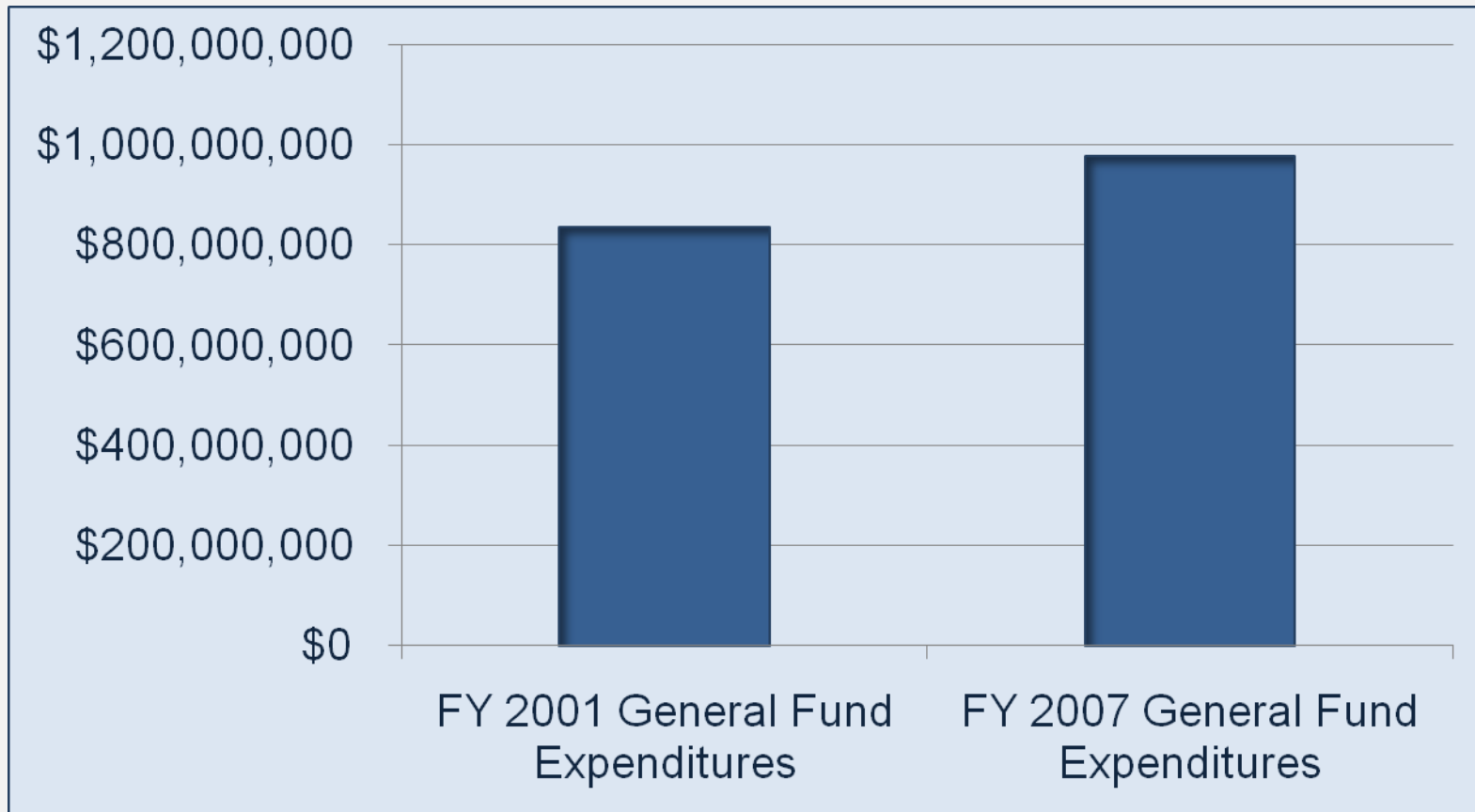
General Fund Budget Deficit

“Dot-Com Bust”



General Fund Budget Deficit

City Costs Have Continued to Increase



“Real” or inflation adjusted dollars

What is Behind the Growth in Expenditures?

- City built many new capital facilities which require money from General Fund to operate
- Personnel costs increased even as number of City employees decreased
- Growth in personnel costs outpaced both inflation and gross domestic product (GDP) for San Jose metro area

General Fund Budget Deficit

Current Status

(in millions)

	Fiscal Years				
	2008/09	2009/10	2010/11	2011/12	TOTAL
Projected Shortfall (11/07 Preliminary Forecast)	\$24.8	\$41.8	\$2.4	\$6.4	\$75.4
Unmet/Deferred Infrastructure & Maintenance Needs*	\$39.7	—	\$3.2	(\$2.7)	\$40.2
GASB 43/45 (General Fund Retirement Benefits)**	\$21.6	-	-	-	\$21.6
GRAND TOTAL					\$137.2

* Assumes one-time needs of over \$500 million in the General Fund (\$900 million all funds) are addressed.

** City's 50% of General Fund portion of remaining annual requirement for full pre-funding (\$57 million); current annual City/employee contribution of \$43.9 million.

Project Approach

Key Questions

- What are Stakeholder's suggestions and priorities?
- Is City "at market" with revenues, expenditures and other key variables?
- What good ideas can City replicate from other jurisdictions?
- Can strategies have significant impact within three year timeframe?

Initial Strategy Development

- City staff developed some beginning strategies based on professional knowledge
- City recognized need for input to help develop new, innovative ideas
- Reached out to employees/community in three ways:
 - Five focus group meetings
 - Two online surveys
 - City Manager's Employee Budget Forum
- Process generated additional strategies

Stakeholder Outreach Process

- Four separate stakeholders groups identified
 - Senior Staff
 - City Labor Alliance
 - Employees
 - Community/Business Groups (including City Boards and Commissions)
- Five focus group meetings for the diverse stakeholder community
 - First Meeting: Developed new ideas and voted
 - Second Series of Meetings: Four groups prioritized top strategies and discussed advantages/concerns of each strategy

Stakeholder Outreach Process

- Online surveys to City staff and greater San José Community
 - Evaluated/ranked options
 - Open comment opportunity
- City Manager's Employee Budget Forum
 - Shared strategy development work and received more ideas
 - Questions and answers opportunity

Stakeholder Focus Group Process

First Stakeholders Focus Group Meeting

- 85 participants from all stakeholder groups
(55% of the 155 invited)
- Identified new ideas and “dot-voted” to rank priority
- Strategies categorized as:
 - New
 - Redundant with existing strategies or
 - Non-responsive as deficit reduction strategies
- 52 new strategies identified for further analysis

Stakeholder Focus Group Process

Second Stakeholders Focus Group Meetings

- Separate focus meetings for each of the four stakeholders groups (74 participants)
- Participants priority-ranked top priority strategies identified to date
- Participants discussed advantages and concerns for each strategy

Stakeholder Survey Process

- Survey Outreach:
 - Disseminated via payroll flyer, City Manager email (City Employees), a press release, City website (Community)
 - Translated into Spanish and Vietnamese
 - Available online for 18 days
- 2033 City Employee responses
- 656 Community responses

Stakeholder Survey Results

- Responses differ:
 - Employees responses favor:
 - new / increased revenues
 - expenditure controls / shifts
 - Community responses favor:
 - service delivery changes
 - expenditure controls / shifts
- Agreement about Service Reductions:
 - Both groups see as “least best option”

Benchmarking Results

- City expenditures are average to below average
- City below the market rate for some revenues
- City allocates more funding to “special funds” than is typical
- Recent capital spending has been relatively high

Top Priority Strategies Development

- Original strategies combined with stakeholder/survey input
- Strategy qualification criteria developed as initial screening device
- Top strategies emerged for further analysis

Strategy Qualification Criteria

Qualification Criteria

1. Preliminary benchmarking information shows that San Jose is below market (revenues) or above market (expenditures).
2. Strategy is being used in a best practice jurisdiction or another of the peer jurisdictions.
3. Prior work by budget office or other city department has made a convincing argument for change.
4. Practice is out of alignment with current City objectives or planning.

Disqualification Criteria

- A. Strategy cannot be effectively implemented in three year time frame.
- B. Strategy would not reduce deficit or if it does would have greater longer run costs.
- C. Strategy is not consistent with current Council three year goals.
- D. Strategy would have a limited impact, and cannot be logically combined with similar strategies.

Moving From Qualified Strategies to Top Priority Strategies

- 194 strategies qualified for further analysis out of 320 strategies suggested
- Many unqualified strategies are good but cannot be implemented in three years
- Some strategies were combined
- Strategies were prioritized based on value to City and implementation potential
- 21 top priority strategies were selected as most viable

Top Priority Strategies

Strategies were categorized as follows:

- Revenue Strategies
- Service Delivery Model Changes
- Expenditure Controls and Shifts
- Service Reductions

Top Priority Strategies

Fiscal Impact Estimate in Millions

REVENUE STRATEGIES

<u>Strategy</u>	<u>Potential</u>	<u>Implementation Considerations</u>
1. Extend the Emergency Communication System Support Fee	\$23.4	Council Approval
2. Utilize Financing Strategies which have Positive Net Present Value	\$1.7 – \$6.1	Council Approval
3. Ensure Current Fees Fully Cover All City Costs	\$2.0 - \$9.0	Council Approval

Top Priority Strategies

Fiscal Impact Estimate in Millions

REVENUE STRATEGIES *continued*

<u>Strategy</u>	<u>Potential</u>	<u>Implementation Considerations</u>
4. Restructure Business Tax Rates to Modernize and Reflect Current Business Profile	\$6.3 - \$15.0	Council / Voter Approval
5. Modernize Utility Users Tax and Consider Bringing Rate into Alignment with Other Large Cities having this Tax	\$7.9 - \$39.6	Council / Voter Approval
6. Implement City-Wide Lighting and Landscape Districts or Other Proposition 218 “Property-related” Fees	\$2.5 - \$11.0	Council / Voter Approval

Top Priority Strategies

Fiscal Impact Estimate in Millions

<u>REVENUE STRATEGIES</u> continued		
<u>Strategy</u>	<u>Potential</u>	<u>Implementation Considerations</u>
7. Levy Parcel Tax or Sales Tax for Public Safety or Other Services	\$14.0 - \$38.0	Council / Voter Approval
8. Increase Transient Occupancy Tax to Market and Shift to General Fund	\$4.5 - \$11.3	Council / Voter Approval / Coordination with Convention Center Plans

Top Priority Strategies

Fiscal Impact Estimate in Millions

SERVICE DELIVERY MODEL CHANGES

<u>Strategy</u>	<u>Potential</u>	<u>Implementation Considerations</u>
1. Formalize and Implement a Rigorous Asset Management Program	\$3.3 - \$5.0	Council Approval
2. Combine Redevelopment and City Corporate Support Functions and Shift Economic Development Costs to Maximum Extent Possible	\$2.2	Council / Agency Board Approval
3. Revise Competition Policy, Implement Managed Competition for Service Delivery, and/or Optimize Work Processes	\$8.0 - \$13.3	Council Approval / Competition Policy Revision

Top Priority Strategies

Fiscal Impact Estimate in Millions

<u>SERVICE DELIVERY MODEL CHANGES</u> <small>continued</small>		
<u>Strategy</u>	<u>Potential</u>	<u>Implementation Considerations</u>
4. Increase Use of Civilian Positions in Police and Fire	\$0.5 - \$1.5	Council Approval / Meet & Confer
5. Eliminate Binding Interest Arbitration	Future Cost Avoidance	Council / Voter Approval (City Charter Change)
6. Modify Minimum Fire Staffing Policies Where Appropriate Based on Fire Strategic Plan	TBD	Council Approval / Meet & Confer
7. Implement an Employee Suggestion and Process Streamlining Program	\$0.0 - \$1.0	Council Approval

Top Priority Strategies

Fiscal Impact Estimate in Millions

EXPENDITURE CONTROLS AND SHIFTS

<u>Strategy</u>	<u>Potential</u>	<u>Implementation Considerations</u>
1. Shift Healthy Neighborhood Venture Fund Funding to General Fund	\$5.0 - \$9.0	Council Approval
2. Reduce Workers' Compensation, Disability, and Overtime Costs	\$3.0 - \$4.2	Some Steps May Be Subject to Meet & Confer
3. Shift Construction and Conveyance Tax Funding from Capital Projects to Operating and Maintenance Costs	\$6.0 - \$12.0	Council / Voter Approval

Top Priority Strategies

Fiscal Impact Estimate in Millions

EXPENDITURE CONTROLS AND SHIFTS continued

<u>Strategy</u>	<u>Potential</u>	<u>Implementation Considerations</u>
4. Reduce the Rate of Increase in Employee Salary and Benefit Costs	\$6.6 - \$10.0 see below	See Below
4a. Increase Time to Reach Maximum Compensation	\$1.9	Meet & Confer
4b. Reduce Entry-Level Compensation for Positions for which the City Receives Many Qualified Applicants	\$0.7 – \$1.7	Meet & Confer
4c. Implement Health Care Plan Modifications	\$1.2 - \$4.6	Provider Contract Negotiations / Meet & Confer
4d. Implement Sick Leave Payment Upon Retirement Program Payment Modifications	\$1.8	Meet & Confer

Top Priority Strategies

Fiscal Impact Estimate in Millions

EXPENDITURE CONTROLS AND SHIFTS continued

<u>Strategy</u>	<u>Potential</u>	<u>Implementation Considerations</u>
5. Change Prevailing Wage Applications: Eliminate Service Contracts	\$1.2	Council Approval

Top Priority Strategies

Fiscal Impact Estimate in Millions

<u>SERVICE REDUCTIONS</u>	
<u>Strategy</u>	<u>Potential</u>
Reduce/Eliminate City Services to Funding Capacity	\$25.0

As part of the City's annual budget process, City Service Area and Departmental budget reduction strategies will be developed. The City Manager will bring forward ongoing service reduction or elimination recommendations in the Proposed Operating Budget for City Council consideration as part of the budget review process.

Longer Range Strategies

Some strategies not within three year timeframe still have merit:

- Economic Development
- Two-Tier Retirement System
- A Better System of Local Government Finance

Recommended Budget Principles to Avoid Future Structural Deficit

1. Structurally Balanced Budget
2. Proposed Budget Revisions
3. Use of One-Time Resources
4. Budget Requests During the Year
5. Reserves
6. Debt Issuance

Recommended Budget Principles to Avoid Future Structural Deficit

7. Employee Compensation
8. Capital Improvement Projects
9. Fees and Charges
10. Grants
11. General Plan
12. Performance Measures

In Conclusion

- Expenditures exceeding revenues is not a unique problem
- City was one of first to recognize structural budget deficit and is doing something about it
- City has choices about how to resolve structural deficit, but are all hard choices which will require further discussion
- City must adhere to budget principles which can serve as a meaningful framework for maintaining financial discipline

CITY OF SAN JOSÉ

Development of Strategies to Address the City's General Fund Structural Deficit

Report to Mayor's Budget Shortfall Advisory Group

January 10, 2008