

## **San José Budget Q and A from Mayor Chuck Reed**

*“We cannot become a great city unless we eliminate our structural budget deficit. That is our greatest challenge. The budget deficit is public enemy number one, an enemy that will steal our hopes and kill our dreams of becoming a great city if we ignore it.”*

-- Mayor Chuck Reed, State of the City Address, 2007

General Fund Shortfall in 2010-2011: \$116 million (about 15% of revenues and more than our entire budget for parks, libraries, community centers, gang prevention, and senior services combined)

### **How did we get into such a dire fiscal condition that we have to cut vital services to eliminate a \$116 million shortfall in next year’s budget?**

- Expenses have grown faster than revenues for years. The average cost per employee has gone up 64 percent in 9 years while revenues have gone up by only 18 percent. The difference is more than \$200 million per year. We have 800 fewer employees delivering services as a result of cuts year after year.
- Revenues, like sales and property taxes, have dropped due to the national recession and changes in the economy.
- We built new libraries, community centers, fire stations, and other facilities over the past decade, increasing our operating costs by over \$20 million per year to pay for operations and maintenance.
- We have to make huge new payments into the city’s two retirement plans to cover their losses over the past two years and to pay for increased benefits. Payments from the general fund into the retirement system will go up by more than \$50 million per year this year and by more in future years.
- The State of California regularly raids our treasury and helps itself to our money. Over the past 12 years, the state has taken more than \$500 million from San José.

### **Why has the average cost per city employee grown by 64% over the last nine years while general fund revenues grew by only 18%?**

The roots of this problem go back to 1996 when employee compensation started to grow dramatically. The internet boom was beginning and the city had to compete with the private sector for employees. The State of California made matters much worse in 1999 when the legislature dramatically boosted employee pension benefits retroactively on the erroneous assumption that the stock market would continue to rise forever and benefits could be increased without cost.

Over the past 15 years, other actions taken by City Councils or dictated by outside arbitrators have caused employee compensation to grow much faster than revenues, resulting in cuts in service annually for the past nine years. See the other side of this page for the details.

## **What actions taken by City Councils or dictated by outside arbitrators over the past 15 years have caused employee compensation to grow much faster than revenues?**

There have many individual actions on many different occasions. This is a partial summary.

- Giving employees pay raises faster than revenues were growing.
- Giving raises and increasing benefits when revenues were falling.
- Giving raises and benefits retroactively at costs of tens of millions of dollars.
- Allowing employees to cash out unlimited amounts of sick leave when they retire from the city.
- Providing healthcare for life to city retirees.
- Allowing pension payments to exceed 100% of the salary earned in the final year of employment.

## **How can we get out of this budget crisis without drastic cuts to services to our residents and businesses?**

Our short term options to avoid service cuts are to reduce employees pay and benefits or to increase taxes.

1. Two-thirds of our budget goes into employee pay and benefits. If all of our employees give back 10% in wages and benefits, we can save services and prevent layoffs.
2. In California, new taxes require voter approval. The Council has put a measure on the June ballot to increase taxes and tables at the city's two card clubs which would generate \$5 million per year of new revenues. The City Council may consider putting additional taxes on the ballot for November.

### **Get Involved and Stay Informed!**

E-mail me at [mayoremail@sanjoseca.gov](mailto:mayoremail@sanjoseca.gov) to stay informed.

The City Manager's proposed cuts and other documents are online: Go to [www.sanjoseca.gov](http://www.sanjoseca.gov) and click on "Budget Info."