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>> Mayor Reed: (gavel strike) Good afternoon. I'm going to call the San José city council meeting to order. This is the first in the series of study sessions on our budget. So we'll have to start it on an additional somber note that today is the day that the City of San José gets to write a check to the State of California for \$62 million. Unfortunately, the unconstitutional taking of our funds, well, superior court doesn't think it's unconstitutional. Hope the Court of Appeals thinks it's unconstitutional, but nevertheless today was the day that the money was due, and the check has been cut. Under protest, of course, but we did not receive a stay during the appeal, so today's a bad day for us. It's also a bad day for the state because it's just another example of the state's failure to handle its budget problems that trickle down to us. In this case it's much more than a trickle, it's a flood. Today's a continuation of the work that we started months and months ago, and is built on not only the March budget message which the council approved but many community meetings and hearings and efforts to reach out to the community as part of our community based budgeting process. Unfortunately, this is the ninth year in a row of budget deficits and over the last nine years we have shrunk our workforce by over 800 people in order to cope with the budget deficit each year. Nevertheless, even with that behind us, we still have a \$116 million shortfall ahead of us for this next fiscal year. It's clear that this is the toughest year that we've seen, the most difficult year fiscally in the history of San José and we have to make some tough choices. City Manager's already done a great deal of the heavy lifting with the proposed budget which is what we're here to begin to discuss today. And I would just like to note that it's very clear that we still need have concessions from our employees in order to save really important city services. The council has directed the manager to seek 10% in concessions with the 5 and 5 formula that we approved back in March. We're not there yet, and so what we see in front of us are recommendations from the manager for over \$60 million in service reductions in order to close part of the gap, with another \$55 million coming in additional revenues, transfers, and other solutions to close part of gap. Would like to use point out that if we don't get concessions, we are going back to 5600 employees for next year. That will be the staffing levels that we had in 1989. Even though the budget has more than doubled since then. We'll have the same number of people we had in 1989. One of the things we did this year as we had in the past is to do a scientific survey of the residents of the City of San José. And we also worked through our neighborhood priority setting session and our district budget meetings and it was clear that our number one priority from from our residents was to reduce employee compensation and retirement benefits before raising additional revenue or reducing existing city services. And right now we're not having much success at meeting those priorities of our community but we continue to work on that. These study sessions and the budget process that lays out in front of us over the next six weeks do present an opportunity for suggestions and creative solutions and we continue to be open to those. We have gotten a lot of great suggestions from our employees and from our residents over the last six months that we've been working on this. And many of those have been incorporated into the budget proposals that the manager has put in front of us. But we remain open to alternatives, creative solutions, because none of us relish the idea of having to implement the kinds of service cuts and layoffs that loom in front of us. We'll have these study sessions for the next ten days, basically, on the 18th we have an evening public budget hearing, May 21st, the budget documents and proposals are due to my office from councilmembers. On June 4th I'll release the June budget message. On June 15th we'll have a council meeting to consider the June budget message. On June 22nd will be the last day to do the adoption of the budget and fees and charges, so that we're ready to go into the next fiscal year. So that's the schedule out in front of us. It's a lot of hours. I know that May's a busy month as usual plus on top of all that we had this budget work so it's a very tough time for councilmembers and staff as well. But July 1st is coming whether we like it or not, and we have to have a balanced budget in place before then. Before then I'd like to turn it over to our City Manager for some opening comments.

>> City Manager Figone: Thank you, mayor and council. As you indicated our city's at a critical juncture and I think we all recognize the magnitude of the fiscal challenge that we face. In a few minutes our budget director, Jennifer Maguire, will walk you through the details and the technical aspects of the budget balancing actions that we've proposed. But I did want to spend a few minutes to -- with introductory comments from my perspective as your City Manager. As the council knows, when including the downturn in the development activity that we face, at an historic \$118.5 million General Fund deficit and shortfalls in many of our special funds such as the airport. The pure math of bringing our budget into balance is forcing enormously difficult decisions. We did not make the facts that we face, but we do have to deal with them. In making my recommendations I've tried to prioritize the greater good over individual

interest. At the top of my concern has been the collective ability of the organization to meet the service expectations of our residents and businesses. Not just this year but on a sustained basis into the future. The core of why we exist is to provide service. But as the cost of providing those services has grown, our ability to sustain a full complement of employees in order to provide those services has diminished. We are now in our ninth year of service reductions. And there are more bad years ahead of us. Although the magnitude of the 2010-11 shortfall has clearly been exacerbated by the recession, the City's underlying structural deficit has plagued us for a decade. Even though the city council approves all of the difficult recommendations before you, based on current projections, we still face a \$41 million deficit next year, and over the following years, another \$45 million will be added to that shortfall. On a personal note, I recently completed my 41st year in public service, most of which has been with the City of San José, a city and an organization that I love and for which I have deep pride. I cannot begin to tell you how personally painful it is for me to recommend a budget that eliminates such a broad array of services to our community and impacts so many of our employees. But as your City Manager I've used my best professional judgment, informed by the best judgment of my staff and department directors, including the police chief and the fire chief, about which services to reduce or eliminate, and which to sustain. All have demonstrated tremendous courage in doing what they needed to do as managers. Many of them and their staffs have taken personal hits from those who believe that they should have been loyal to other interests. All have felt deeply the pain, anxiety, and anger of employees and residents associated with this budget situation. Before Jennifer begins I want to provide some context for our current fiscal situation and what we see ahead. The good news is that there is a glimmer of hope on the horizon as the economic trough appears to have reached its lowest point. I do want to point out that this budget does assume some small growth in revenues. Nevertheless, our current economic environment is frankly precarious. The continuing high level of employment, restrained personal growth in income and low levels of development activity could jeopardize the growth in sales tax revenue needed to meet the estimates for the second half of the current fiscal year. And while recent property tax data from the county assessor is consistent with our projections, the backlog of assessment reevaluations caused by falling property values could reduce next year's property tax roll more than anticipated. These risks to the City's largest revenue category, sales tax and property tax, highlight the importance of maintaining our economic uncertainty reserve. Should any new one-time revenues become available, I recommend that they be used to restore the fund back to the \$10 million level that was reestablished last October so that the city council has dollars available to buffer the city from unanticipated downturns or missed projections. As we frequently note, the city has a well earned reputation for strong fiscal management and the city council should be very proud of this fact. The financial community has also rewarded that approach with strong bond ratings that reduce the costs of our borrowing. It is important that we maintain these fiscally sound principles as we regularly access the financial markets and intend to do so again in the near term to meet current financial needs. These include extending letters of credit, refinance existing debt and even entering into new debt for key economic development projects like the expansion of the convention center. The credit markets are tight and the lenders will scrutinize the city's budget balancing practices and financial prudence. As a city it is critical that we keep our financial practices sound as we seek solutions to resolve this structural deficit in order to be able to issue the debt that is currently needed for appropriate purposes and to be able to keep borrowing costs low and under favorable terms for the city. Which is why I feel an obligation to raise concerns about borrowing to pay for our ongoing operations as has been suggested. One important example to point out is pension obligation bonds. Responding to the direction in the Mayor's Budget Message we have been working to identify the potential benefits and drawbacks of pension obligation bonds. We will share our analysis in an information memo slated for the end of this week. But what's very clear to me now is that under no scenario are pension obligation bonds or POBs as they're called a viable tool to address the 2010-11 shortfall. And I think we have a consistency amongst the staff on that issue. Even if the city council wanted to assume the risk of financial loss from POBs which can be considerable the general stock market timing is not right and a six to nine month court validation action would have to be undertaken. From my initial review of staff's analysis I believe it is imperative for the council to understand the market volatility risks and potential financial losses to the city over the long term. These risks exist even with the optimistic assumptions about the average spread between bond interest costs and pension plan earnings. Should council wish to continue exploring POBs once you've reviewed our information memo I recommend that any further consideration occur in the context of a comprehensive look at pension system costs mitigation options including who bears the costs of any potential losses. I want to turn now to some of the approaches we have used to

balance this budget. In several areas we are suggesting changes to service delivery models such as the community center hub program which would centralize all services in ten hubs around the city. Or the fire department dynamic deployment model designed to mitigate the impact of reductions by making real time equipment deployment decisions, that address geographic gaps in emergency service coverage. To reduce operating costs we have also delayed the opening of the police substation seven trees branch library as well as the Bascom library and community centers. In several operations we have completed the business case analysis to evaluate potential outsourcing and because of the projected cost savings we are recommending that the council choose not to implement the public private competition policy, a decision which you can make under your policy. I make in recommendation knowing how difficult it may be for the city council to accept it. But the data is strong, the savings are significant, and the need to maximize savings wherever we can is urgent. Now, shifting to labor. Much has been written about the city council's direction to seek from all of our employees a 10% reduction in total compensation cost with the first 5% of that in ongoing savings. I do recognize again how difficult a request this is to consider. It is difficult for any of us to give up something that we have grown to count on. But under the current reality of our revenue, and expenses, the only way to balance our budget is to reduce costs and the unfortunate math is the costs necessary to close this historic deficit can only occur in two ways. Either we reduce the cost of each employee or we reduce the number of employees. Simply put, most layoffs could be averted if the bargaining groups agree to the 10% reduction in total compensation costs that have been called for by the mayor and city council. But to date none have. We have included a list of recommendations for which services could be restored if our employees take a 10% reduction. In recognition of the concern that some have had, that nonsworn employees have, that their concessions would be used to fund public safety services, the council has taken a great step and committed that nonsworn concessions will be used to restore nonsworn positions and sworn concessions will be used to restore sworn positions. The restoration proposals are thus divide accordingly. I do hope that our employees will step up in time to allow us to restore services and save jobs. The city council appointees have all shown a great leadership on this issue and will take a 10% reduction. The city's unclassified management and other employees in unit 99 already know that they will see at least a 5% reduction and I expect to make an announcement about the second 5% by the June deadline. We do continue to meet with our represented employees at the negotiating table and also have met with our labor leaders in numerous other settings. My office and department heads are work tirelessly and doing everything that we can to make sure that our workforce has accurate information about the state of the City's finances and the proposals contained in this budget document. This is a stressful and difficult period for our employees. It is critical to me as we confront these difficult challenges that the lines of communication stay open. I continue to hope that the represented workforce will recognize that by agreeing to these difficult concessions, not only will they save jobs and services to the community, but they will help to create a city organization and work environment that is more fiscally sustainable over the next several years. This is a difficult choice, but it's a choice driven not by any mean spirited desire to blame or punish employees or by any belief that their work is not valued but rather by the real financial crisis that we face. With the city facing such dire budget circumstances, it maybe popular to focus our attention on cutting management as a solution to our budget problems. I think that it is extremely important for the city council to understand that I have scrutinized and reduced the city's management team where it makes sense and in ways where we still maintain a responsible and well run organization. When you look at the relative numbers ever managers supervisors and line staff in the workforce the budget impacts recommended mirror the relative number of employees in each of these groups. It is also importantly to recognize that the dedicate management team that we have assembled is a critical link to achieving the city council's policy and service priorities. Too often management is thought of simply as a group of individuals who are paid a high salary. Management must be thought of as a critical says of task force, responsibilities, and practices that are assigned to individuals who have the requisite training, credentials, and experience and judgment to perform them. These functions are key to the success of the city accomplishing its mission and purpose, and not everyone is qualified to perform them. The management function becomes even more important and difficult in times extraordinary challenge and change. Managers both represented and unrepresent are held accountable for achieving results even as they confront dramatically reduced resources and many other obstacles. As we all know when things go wrong what are the first questions asked? Where was management? Who was keeping their eye on the ball? And what went wrong with the system? Our managers are being stretched daily to handle management task force associated with the accountability direction and oversight of teams divisions and departments. They're also problem solving and working on

highly complex challenges that required them to put in countless hours and work under tremendous pressure. I want all of our managers to know, both represented and unrepresented, that they are greatly appreciated for their significant contributions, and I also want unit 99 managers and employees to know that it has not gone unnoticed. That they are the first group of employees to join the mayor, city council, and council appointees and agree to concessions that have saved services and jobs in this proposed budget. In closing, I wanted to ask the city council and the community to recognize the profound changes that are ahead of us. Being a responsive, high performing workforce requires basic organizational capacity. We have lost significant resources over the past eight years, and we will no doubt lose more capacity in the coming months. We're losing valuable experience as well as next-generation talent, position cuts, bumping, displacement and retirements. With reductions affecting every department and all levels of the organization, we will be less able to take on special new projects, work will have to be prioritized and some things will simply not get done. That will be especially true over the next few months. As so many employees find themselves in new positions, learning new jobs, there will be a lag in capacity, and a loss in productivity. And I would ask everyone's forbearance as we go through this transition. In closing, mayor and council I would like to thank the many employees who have been involved in developing this proposed budget, as painful as it is for your deliberations beginning today. And a very particular thank you to Jennifer Maguire and her outstanding leadership and the tireless efforts of our budget office. They have spent countless hours away from their families through all hours of the night to get this document to you to close a historic gap. I will now turn this over to Jennifer as well as Paul Krutko who will walk you through the details of our fiscal reality.

>> Jennifer Maguire: Thank you Debra and good afternoon. I would like to provide you with a brief overview of the City Manager's proposed operating budget for 2010-2011. The presentation will provide you with information on our approach and strategies in resolving the \$118.5 million General Fund shortfall as well as highlights regarding budget balancing actions that were necessary in other city funds. Start, the proposed budget contained a \$2.5 billion recommended spending plan with 113 different funds and approximately 5700 positions. 42% of those positions are in our police and fire departments. I do need to note that the total budget will grow during the next phase of this budget process due to the rebudgeting of or carrying over of current in-progress projects primarily in the capital projects area so this never will be different when we finally adopt the budget. As you can see in the pie chart before you we have three major components to our budget. In order of size is our special funds which contain 46% of the dollars or \$1.4 billion. The General Fund which we'll be discussing mostly today in my overview is about 30% of the total or \$871 million and our capital funds are 24% or \$696 million of the total. As has been said today we are entering our ninth year of General Fund budget deficits. And as was discussed in our five-year forecast document that was released late February, the 2010-2011, \$118.5 million shortfall has been driven by increased costs, about 60% of the total primarily in our personnel related category, but it also has been driven by our decreased revenues due to our economic downturn. Later in this overview presentation Paul Krutko, the City's chief development officer will provide more information on the economic environment that we are facing and its impact on San José and our revenue sources. Unfortunately due to the size of the shortfall and the fact that we are in year 9 we do have unprecedented budget actions proposed in many funds and there are unavoidable service impacts. But we do believe the budget was developed in a fiscally responsible manner and maintains as many city council priorities as possible under these circumstances. It is important to note that the proposed budget does reflect a loss of about a thousand positions from the 2009-2010 adopted budget left and again staffing as has been said before has been reduced to the 1989 levels. However our population has grown about 28% since that time period. It's also important to note that if employee concessions are achieved, over the next few weeks, many of the services and positions proposed for elimination could be restored in this budget. The next slide shows the history of the General Fund shortfalls. We throw this slide up here every year, the last several years and the impact of our citywide position changes for the last nine years. In total with this budget we will have eliminated 565 million in General Fund shortfalls and almost 1800 positions since 2002-2003, which is why the impacts of this budget can be described as nothing short of severe, after all these years of budget balancing actions. I'd like to move into a General Fund discussion more specifically. The City Manager's recommended budget balancing actions do solve about 83% of the \$118.5 million General Fund shortfall with ongoing solutions. As a reminder the \$118.5 million figure contains a \$116 million base budget shortfall combined with a \$2.5 million development fee program shortfall. The development fee programs are a cost recovery program that are contained within the General Fund so we do add those two together when we talk about solutions to the General

Fund. Although not recommended at this time, we have prepared an alternative tier 2 budget proposal, totaling \$5 million. This can be found in the City Manager's message section of the operating budget document as attachment D. Tier 2 was developed with four objectives in mind, with the first and foremost being a contingency plan if our card room tax measure fails with the voters in early June. It is important to have this contingency plan because we are counting on \$5 million of revenue for that measure passion. And if it doesn't we need to have a place to go to, should that fail. The contingency plan can also be used for council alternatives to recommended proposals, if we face additional fiscal challenges from the state or if we have lower revenues, or if council wished to address more of the shortfall with ongoing solutions. Finally, in the City Manager's message there's a new attachment E this year which is our recommended General Fund service restoration summary. This summary which is been divided by sworn and nonsworn service restorations was developed should employee compensation reductions occur over the next few weeks. The list illustrates the potential significant improvement in both the general fund services that the city would be able to deliver and the employees that could be retained if concessions were achieved with our bargaining groups. A quick picture of our General Fund sources for 2010-2011. We do have over 450 revenue sources in the General Fund. So we are fortunate to have a diversity in our revenue base. Sales tax and property tax continue to be our drivers of our revenue, with about \$320 million or 38% of our revenue base coming from those two sectors. On the use side, this gives you a snapshot of the -- by kind of a departmental category picture. Reflecting the city council's priority is important to note that over half, about 51% of our General Fund resources will be going towards our police and fire departments in 10-11 under our balancing strategy. That's about the same percentage as we showed you last year at this time. If you just were to look at our general revenues excluding our fund balance and our transfers and overheads and other reimbursements, that would -- our public safety departments would account for about 64% of our revenue base. If we turn to look at our General Fund uses by category, this is our annual reminder slide that about 70% of our costs are driven by salary, retirements and other benefits. As we are a service organization, and also why the majority of our reductions tend to come from the first, personnel side of the equation. The remaining 30% of our expenditures can be found in the remaining categories such as nonpersonal equipment, citywide expenses, capital, transfers and our earmark contingency reserves. It is important to note on our nonpersonal and equipment expenditures, as there's always attention on that one, that accounts for about \$80 million. About one-third of those expenditures are for gas, electricity, insurance, vehicle, maintenance and operation, and vehicle replacement. But it also funds other things like our election cost, our county crime lab, for our police department payment, our payment to the San José State University for our king library to name a few other large expenditures in that category. In citywide expenses, that category contains our workers compensation cost which are really personnel related. You could theoretically put that up on the personal services side of the pie. It also has our sick leave payments upon retirement expenditures, our \$15 million pass-through for our convention center lease payments, as well as many other type of expenditures in that area. That's delineated in our book. Moving more specifically into our proposed operating budget balancing strategy. This slide you've seen before, but it does serve as our starting point, as our General Fund forecast update in look at our five year forecast. These numbers do exclude our development fee program. Over the next five years beginning in 2010-2011 we're estimating shortfalls totaling over \$202 million for the period. It is important to note that this forecast does presume modest growth in our revenues over the period. But it also includes the estimated growth in the City's pension cost that are predicted to grow to 72% of payroll for our police and fire employees and 42% of payroll for our federated employees for the 2014-2015 period. It is also important on the other hand to show that this forecast does not include as you can see in the footnotes any cost of living increases for any bargain unit beyond the two agreements in 2010-11 for our MEF and CEO employees nor does it include unmet infrastructure and service needs of \$446 million in one-time and \$43 million in ongoing needs in the General Fund. Based on our recommended budget balancing strategy, as you can see in column 2 on this, on the 11-12 column, with us recommending 83% of the balancing strategy with ongoing solutions, approximately \$20.6 million of one-time solutions would be carried over to 11-12, it was in a sense doubling the deficit for 11-12 to almost \$41 million. The administration used seven major strategies in balancing this budget. In addition to our overarching theme to try to use as many ongoing solutions as possible as we felt prudent to minimize the carryover impacts to 2011-2012. First and foremost, as our guide, was the council approval of the 2010-2011 mayor's March budget message. But we also used reserves, we used fund balance, we used transfers, fee increases, again we assumed the card room tax measure passing. We have many other revenue changes, including several pending

litigation settlements as part of our strategy. We have many service reductions and elimination, service delivery model changes. We have alternative service delivery with our custodial and our warrants area of the police department, we have new facility opening deferrals, and we have counted on reduced personnel cost of 5% for our unit 99 and 82 employees. The next slide are the numbers that are very high level of how we balance the budget. If we start with our General Fund shortfall of \$116 million in the base budget and add the development fee program shortfall of \$2.5 million, that is how we arrived at the \$118.5 million shortfall. There really is almost a 50% split between our revenue and expenditure solutions in our recommendations. However, unfortunately, most of our source solutions are one-time in nature. More specifically the changes in our sources or revenues is that we are recommending an increase of \$56.6 million of sources to balance the budget in '10-11 but only 16 million of it is ongoing. On the use side or expenditure reductions you can see about \$62 million of expenditure reductions that annualize to \$82 million ongoing. This leaves the balance of 20.6 million that will be carried over to '11-12 bringing that shortfall to \$41 million as I mentioned in the previous slide. We look more specifically on the source side, we have four major categories of revenue solutions that are contained in our budget. Again totaling \$56 million in '10-11 and \$16 million ongoing. We're recommending to increase our available fund balance that's primarily coming from liquidating several 2009-2010 earmarked reserves and recognizing some program savings or eliminating programs that were programmed in '10-11 -- I mean '9-10, excuse me.

We are recommending about \$23 million of transfers from other funds into the General Fund. The biggest component is the elimination of the Healthy Neighborhood Venture Fund which will, by the time we put the expenditures from the Healthy Neighborhood Venture Fund albeit at a smaller scale into the General Fund there's a net General Fund benefit of about \$9.5 million in our budget balancing strategy. We have \$2.5 million worth of fees and fine increases and activity level adjustments and finally we have \$15 million worth of what I'm calling miscellaneous revenue adjusts. That category contains our card room tax, passion it, we hope, that's \$5 million, about \$12 million with potential litigation settlements, offset by some reductions and reimbursements from our redevelopment agency, for -- and there will be expenditure offsets for those as well. The next slide provides detail on the expenditure changes that we are recommending in our balancing strategy. Again in total, \$62 million in 10-11, almost \$82 million ongoing. Specific details of this side of the equation will be contained in the next several slides as well as throughout the week as we go through the CSA sections in the study sessions. However in general, we have listed the major categories here, we have position elimination and reductions in overtime, we have the compensation reductions I mentioned earlier of about \$1.3 million, we've reduced our nonpersonal equipment and citywide expenditures, we have actually taken expenditures out of the General Fund and shifted them to other funds where that would be appropriate. We have some savings in our development fee program. And we have because of our delay in our facilities and our recommendation to not add the 25 officers next year we have what we call our use of reserves or committed add savings. We do have some additions in this budget that I need to point out to you. The largest of which is our unemployment insurance serve that we needed to establish at \$9.5 million. This would be necessary on a one-time basis. Our best estimate of what unemployment cost could be next year with the number of employees that could be laid off, we have the HNVF related activities that would be coming into the General Fund with the elimination of that fund. We have technology and capital infrastructure maintenance add of \$2.7 million, the largest of which is to recognize a large grant the fire department got for self contained breathing apparatus, mostly grant offset. We have the \$500,000 that was directed by the mayor's March budget message by the essential services preservation fund. We have a small amount of money, \$300,000, for new facility operations and maintenance that's primarily for security over a couple of facilities that we are recommending to defer the opening of. And then we have miscellaneous additions in this budget primarily establishing an energy efficiency fund related to a PG&E settlement, about \$1.5 million. We need to return some money back to some other funds related to retiree health care. We have adds related to dynamic deployment, and we have several other adds that are revenue offset or revenue generating offsets. Going more specifically at a selected basis of our budget reductions, if we look at -- in the General Fund there are police and fire services. We're recommending to eliminate approximately 90 patrol officers, reducing our police investigative units by almost 20 positions, reducing the police metro units, the downtown services unit, reducing the school liaison unit and crossing guard program, we're recommending delaying the opening of the police substation, consolidating the police financial crimes and high tech units, we're recommending consolidating crime prevention and community education, we're recommending to reduce the number of police take home vehicles. The implementation of dynamic

deployment and reducing the number of fire engine companies by five, and also reducing the number of fire truck companies from ten to nine. In our library parks and community center area some of the more significant proposals are to reduce the branch library hours and days from six to three days per week, reducing our King library hours by 12% and the services up to 50% provided in that facility. We're recommending to close 21 satellite and neighborhood community centers with ten hubs remaining, phasing out the senior nutrition program in those ten hubs by June 2011, reducing aquatics program, reductions are in here related to the park ranger program, either eliminating or reducing community based organization funding, delaying opening the Bascom Library and Community Center and the Seven Trees - - actually it's supposed to be Seven Trees library, typo, excuse me. And eliminating the Healthy Neighborhood Venture Fund that I mentioned earlier. In other services, we're recommending to reduce neighborhood traffic calming staff, reduction our payment services and sealing, outsourcing our custodial services in our City Hall, police facilities, museum of art and animal care services, reducing our facilities management, fleet services and vehicle replacement, reducing several areas of our I.T. department, several areas of our human resources department, again several areas of our finance department, as well as the mayor, council and appointee budget and services. It's been very difficult ton strategic support departments because those have been the areas that we have really reduced over the years. So these areas are very concerning to the administration because we are -- it's -- we're trying to manage the risk of continuing to reduce those areas. Turning to other funds in this budget, and this is a very, very high level slide, but we are recommending reductions in our airport funds, eliminating 93 of the current 305 airport positions and outsourcing custodial services due to their financial stress on their funds over in that area. I just need to point out that this staffing elimination, at the airport, will reduce by about half the positions we had in that department compared -- we had 400 positions in 2008-2009 and we have about 200 positions in 10-11. We have 42 positions recommended for reduction in the convention and cultural affairs fund leaving 14 positions for ongoing work. This is necessary to prevent that fund that these positions are in from going negative over the next couple of years due to the convention center expansion work. We're reducing over 73 positions in our capital program staffing and our airport Public Works transportation and park primarily due to the closeout of our decade of investment. We're reducing housing department staff, five of 80 positions, saving about \$1 million in that department. And we do have some modest additions in various environmental services funds primarily for the items you see there to do a land purchase and equipment replacement and primarily for the NPDES permit. Turning to our positions. As you can see here this kind of breaks down the positions, the thousand positions that we are recommending for elimination in this budget. They really came in two phases. 146 of the positions are eliminated in what we call the base budget so they would not have been part of the forecast \$118 million shortfall. 78 of the positions were slated to go away because they were funded with one-time dollars in the 9-10 budget. But another 53 positions were eliminated during the year primarily in the development fee program. And then we had 15 positions added this last year that were scheduled to sunset June 30th for special projects. So you can see that the rest -- the remaining of the 821 positions are really proposed budget changes contained in our budget balancing s strategy. If you look at the positions from a graphic bash chart perspective here is the history of our staffing since the mid 1980s and the dramatic effect this budget is taking on our position count, despite our growth in the population in the intervening years. As you can see we peaked in 2001-2002 at 7400 employees. We went down, then we added back a few in a few areas, mostly for facilities coming online and some in the police and fire department areas and then we've had to really dramatically decrease in the last two years. Moving on to estimated position impacts from the actions contained in the 2010-2011 proposed budget, Mark Danaj is here, our human resources director, who -- he's available to answer more specific questions if you have on the slide. But in total, we have about 1300 people affected and are impacted by this budget with about 650 people subject to layoff, about you know 50% of them. Due to our civil service system and seniority rules there will be a tremendous amount of employee bumping either to a new job within their same classification of work or as a demotion. This level of disruption as the City Manager said is something that our organization has never seen before and it will be difficult for to get through for the employees directed as well as the departments responsible for delivering the services. Focusing on the proposed outcomes portion of the slide there will be 463 employees that would stay in their current classification but they would be doing a different job or they would be moved to a different department. 166 employees would be subject to be demoted to a lower classification. We have 37 employees that would have about a mid year 2011 impact as we've delayed some of our proposals to mid year. With in total 650 people subject to layoff. 457 full time employees, 90 part time benefited and 104 part time unbenefited reductions estimated in the

library. For next steps, I know the mayor went through these dates but here they are for you again. For your reference. The next couple of weeks will be the study sessions and we will also be issuing a lot of manager's budget addenda to answer any questions we can't do over the next two weeks or make more in-depth analysis. At this point in time I will turn it over to Paul Krutko and then we will take questions if that's all right with you. Thank you.

>> Paul Krutko: Good afternoon, mayor and council, Paul Krutko, chief development officer. My role in 12 quick slides is to give you an overview of our best judgment about where the national and global economy stands. As you know we're one of the most globally connected cities in the world. So as a result, what happens nationally and globally have direct and profound impacts on our local economy and our prospects. So again, 12 quick slides to give you a sense as to what we see going on. Across -- National and we'll see this in a moment in a slide, we are tracking a good three and a half percentage points above the nation in terms of unemployment in San José. So we are in a worse situation than we're seeing across the nation. The recession we're seeing is largely focused on the coast, the center part of the nation, that has a more oil-based and energy-based economy is not faced with the same recessionary impacts. So as you can see, since the beginning of the recession, 8.2 million jobs have been lost. A significant contraction in manufacturing. The unemployment figures do not reflect and this is something that is present in our own local economy people who have stopped looking. And what is particularly of concern as we move into this summer, this year in the nation, is the significant level of teen unemployment in the United States. And to put a fine point on it, economist Paul Krugman who writes regularly in the New York times and I believe has the Nobel prize in economics, what his estimate is, is that we have to add nearly 300,000 jobs per month every month for the next five years just to employ the people coming into the workforce, those like me who had a son who graduated from college on Saturday, coming into the workforce, and recover those 8 million jobs that have been lost over the last two years. Significant to this, and this is reflected in our sales tax numbers, there is a double edged sword. We have people who are earning salaries and continuing in the workforce, readjusting their personal balance and operating sheets, if you will. They're not spending money. That has the effect of declining sales tax revenues and as that happens, the retail sector sheds jobs which is people in the economy who would be spending as well. We all know of the significant dislocation of the finance sector but it's important to understand that in terms of the nation, 86% of all employment across the nation is in service related jobs. I mentioned this a little while ago. California tracks higher than the nation. Since very significant levels of unemployment in eight California counties where they're above 20%, and you can see between '09 and 2010, between the time we were here last May and now, we've seen significant losses in construction, manufacturing and professional services in terms of their overall. The one that's most daunting I think is in the construction area and that would have the most dramatic impact if we could get more people building more things in this state. Relative to the market itself, and as I know in discussing the economic strategy with the council and the other times that I'm before you, concern about small business and concern about their ability to survive. And the key issue here is that we are still seeing a very constrained financial market. Banks are not lending at the degree they were lending before this recession. This is -- had the result in significant increases in business foreclosures. As you can see on the slide. And overall the nation's GDP fell from 2008-2009 to now by 2%. Which is dramatic. In terms of the housing market, this is a pretty daunting slide. Because again, we here have a key component of our economy is sales tax, which I've already touched on, and property tax. And as you can see, over the last few years, nearly \$5 trillion in value has evaporated in the United States. And that the current housing price levels are about what they were seven years ago, medium price is down from '09, so the prices on the median level across the nation are still declining. Foreclosure filings in terms of other than occupied housing are up significantly, and I thought this was an interesting way to understand the current cries, that one out of every 138 U.S. housing units have received a foreclosure filing during the first quarter. Now, Turk to San José very quickly, what we have I think seen is a stemming of the job losses. We still have experienced job loss since the beginning of the year. But you can see the very significant level that occurred last year. So we should have showed you this slide before where we were making significant progress in job growth, and then the bottom fell out in '08 and '09. But as we have noted in the economic development strategy, many of our leading companies are beginning to hire again. But the question becomes, how does that hiring turn into revenue that we can use to provide the services that our community is looking for? So I mentioned this a little while ago. While the nation's rate is very high, by historic standards, and California is very high by historic standards, by the City of San José proper, we are above both of those rates. And it is reflective of what I think I touched on earlier, our companies sell to

the rest of the world. When the rest of the world is having difficulty, they shed workforce, try to be more productive. As they do that, the remaining workforce decides that they may not buy that car or they may not make that purchase at Valley Fair, and as a result, the retailers pull back. And as the mayor's pointed out many, many times, those jobs that are in our driving industries drive other jobs, but we are now at the beginning of seeing some of those driving industry jobs come back. Vacancy rates, this is important, because I think a number of you commented on this in our last discussion with the strategy of what you're seeing in your districts. And what we're seeing is increased vacancy, manufacturing, office, and R&D. I just would still point out that the vacancy in our manufacturing base is relatively low, compared to other parts of the United States. But what's driving the rates up in office R&D is the current number of properties with less than 30,000 square feet. Now, we may not think that's important, but the fact of the matter is, as we've explained to you before, our technology companies are a lot of small companies with small workforces. That's what makes up a great part of our success, and that's the kind of space that we're seeing in the market right now. Talk very quickly, as you can see, we continue to trend just a little bit around the 50% mark in terms of the hotel occupancy. That relates to the budget proposal that Jennifer alluded to that we'll talk about more later this afternoon that we've had to scale back significantly in terms of our relationship with Team San José and employment at the convention center. This has ramifications though you'll recall that T.O.T. supports the General Fund, it supports our arts programs, it supports convention center marketing, as well as provides essentially the financial subsidy that covers the losses that occur because we don't generate enough revenue from convention events to cover the expenditures. So this is a really vital slide. Because it has ramifications in a number of places within the city. And what this is reflective of as well is not only are we seeing reduced occupancy but the average daily rate decline. Those rooms that are being booked are being booked at a lesser price so when you apply the T.O.T. to that the yield is less than what we've experienced in the past. We're seeing a little bit of uptick, there's some really good news at the airport. I think that is going to continue. We're working very hard with Bill Sherry to support his efforts to bring more service. The airport, as you know, is a wonderful asset, and I think we're going to hopefully see some positive trends. He'll speak to you later in the study sessions on this point. This is a bit of hopeful news, but I'm going to be temperate. We're seeing median house prices, the yellow line is Santa Clara County, the blue line is San José. We're beginning to see an upward tick in the median house prices. But tempering the enthusiasm for this slide is that the recovery act had a number of programs to help those who were credit worthy to get into the housing market. Those programs are expiring. What we're going to be watching very carefully is when those programs expire, does the market stabilize, does it rise, or does it decline, so that one we need to stay tuned for. So this is my final thought, before we move to questions from the council, that we wanted to share with you. As we think about next year and then we think about as Jennifer put up slides what we can think about for five years to come. The key element that's very important to understand is, there's been a shift in terms of consumer spending from buying goods, things that we earn sales tax on, to buying services. And as you can see, they went all the way back to 1935 where people were spending 35 cents on a dollar on services and 65 cents on buying things, to now, where the consumer spends 63% of every dollar on a service which is not a taxable event at this point for the City of San José. Two people, two groups that look at that time economy that we trust very well who, as Jennifer makes her forecast, we see that we trend very well with their analysis. So one of the concerns, and if you'll recall a slide we showed you last year, there were a number of ways out of the recession. And a lot of people were hoping it would be a hockey stick, if we were in hockey season, that we would go up very rapidly. There were others who saw different trends. There was one that was reflective of is there a possible for a double dip. Beacon economics say the fundamentals are weak right now and we may be faced as Deb said we hope we're at the bottom but we may not be all the way at the bottom. That one of the important things that they make is the decisions that are being made in Washington and in Sacramento, and I'd argue in Brussels and in Beijing, will have tremendous impacts on whether and how the markets recover. And do they recover fully? And so the notion here is that while things seem to be stabilizing, it is a tenuous stability. All we have to look at is what happened last week with the Greek financial situation and the ramifications that had on global markets. UCLA Anderson is one that I know that Jennifer and Larry Lisenbee before her rely on in a very significant way. We trust their analysis. They've been right pretty much all the time. And their projection is little or no job growth in California with unemployment to remain the same. Now, what that means is obviously some parts of the state are going to do better than others, and what that means is we're likely to see more jobs returning here than other parts of the state. But real personal income in California they're projecting will only grow by 1%. And the keys to our recovery are many of the things that the council has

been working hard on and working with your economic development team, both the city and redevelopment agency on. And that is, this idea that can we return to manufacturing, particularly in clean technologies, and sell products to the rest of the country and that create sales tax for us. That's a strategy for us. The continuation of many of the things on the books that we're trying to pursue will have a countercyclical effect. Public works construction, if we're successful to bring the earthquakes stadium forward, if high speed rail happens, those -- baseball, those things will have a substantive impact. Creating construction jobs which then go through the economy. And we're hoping that our companies, as they're coming out, will have increased investment, in business equipment and software. So mayor, that concludes my brief presentation on where we think the economy is. And I believe, Jen, we're -- oops, I'm going to give it back to Margaret before I mess it up, unless I already did, for questions.

>> Mayor Reed: Got the right slide up?

>> Paul Krutko: It's back up now mayor.

>> Mayor Reed: I had a few questions to start with. I wanted to go back to some comments made by the manager in the opening about borrowing. And she talked about the need for a validation action on any pension obligation bonds, and I'd like to know, maybe the City Attorney could explain the validation and action and why that would be something we'd have to do.

>> City Attorney Doyle: There currently is some uncertainty in the markets over the issue of pension obligation bonds. And before you can actually get a clean opinion of bond counsel which allows you to issue the -- such bonds, they -- we'd have to do what's called a validation action. Very similar to our convention center financing where we -- it was again, it was a type of financing that wasn't well established. We had filed a complaint in the superior court, here in Santa Clara County, it's called a an all persons interested lawsuit. We did get a response filed albeit late, that case is on appeal. We do have a default judgment, as long as that is pending in the courts we can't issue the bonds and similar with the pension obligation bonds we anticipate it would take anywhere from three to five months to get a judgment out of the superior court and depending on whether any appeals are taken from that could delay the issue.

>> Mayor Reed: Thank you. And in the debt category, on page V-19, there's a discussion of debt service obligations and planned debt issues, which total about \$300 million. None of those are proposed to be spent for operations, if I want to make sure I understand those proposals, because we have some tax allocation bonds for the agency, tax allocation bonds for housing, convention center special facilities direct of 100 million and some general obligation bonds to fund a portion of the library and public safety projects. Those are the bond measure projects. So that money is not designated for operating dollars, if I understand the way this is described in here. I just want to make sure that's correct.

>> Jennifer Maguire: That's correct, mayor.

>> Mayor Reed: Then the City Manager also mentioned some letters of credit that we need to deal with this year. I'm -- I believe that's the letter of credit, the J.P. Morgan letter of credit, the agency has and another J.P. Morgan letter of credit out at the airport. And by dealing with those this year I assume that means getting them extended in some fashion. Scott Johnson.

>> Scott Johnson: Mr. Mayor, members of council, Scott Johnson, director of finance. We have about \$300 million of letters of credit for variable rate debt that we have outstanding that we're working with the letter of credit providers on renewals of those letters of credit for existing debt that is outstanding.

>> Mayor Reed: Okay, thank you. In the slide presentation, I believe it's slide number 16, selected budget reductions, police and fire services, the proposed budget includes eliminating approximately 90 patrol officers, reduction police investigation units by 20, reduce metro unit, reduce downtown services unit. How does civilianization and the audit that the City Auditor did fit into that? I think if I recall we had 80-some officers who were doing jobs that don't require a gun and a badge.

>> Jennifer Maguire: The proposals for the police department didn't -- do not contain any civilianization proposals at this time. Those are subject to meet and confer. The way the current contract reads right now is that we can add I think it's 15 positions, that would be in the civilian classifications and then redeploy 15 sworn positions back to the line. But that would be a cost to the city. We are interested in looking at perhaps seeing if we can in the sense reduce an officer and add a civilian so we can actually get cost savings. Because the other would actually be a cost-add to the budget.

>> Mayor Reed: So if you hire a civilian to do a job that an officer is currently doing and move the officer out to patrol for example you've got to have the money to hire the civilian?

>> Jennifer Maguire: That's correct.

>> Mayor Reed: Okay. One comment on slide 31, the San José jobless rate remains over 13%. We talk a lot about our jobs -- housing imbalance when we're looking at revenues. But one of the reasons we have over a 13% unemployment rate is, as somebody who had a job in Sunday, Mountain View, Palo Alto, who is now out of work, they're unemployed in San José. So the jobs that have been lost in the county, many of those people work elsewhere, and live in San José. And that drives up our rate higher than some of the surrounding cities. So there's more than one reason to try to balance that jobs-housing ratio a little bit as we've been talking about doing for a long time. Councilmember Liccardo.

>> Councilmember Liccardo: Thanks, mayor. Had a question first about job growth, Paul. I appreciate the projections that were given by Anderson and other folks that I know are relatively pessimistic from where we'd like to be in terms of going forward in the next year or two. I've also seen the SVLG complete its annual survey of CEOs regarding hiring among member companies and it seems to be quite a bit more optimistic though cautiously so. I think I just looked it up again and it was 58% of the respondents indicate they expect job growth in their companies in 2010, about 7% anticipated declines. Do you see reason to believe that we will be adding jobs in this valley at a considerably higher rate than the rest of the state?

>> Paul Krutko: Councilmember Liccardo, I think the key thing that I would start with, in responding, is that SVLG companies are Balboa operations. So when the CEO, I -- maybe it's specific to the valley but we know that as global operations they have choices about where they can deploy that hiring. And so one of the things that's going to be very important, and we'll talk about this as we move into the CSA presentation, hopefully later this afternoon, is how well we're doing to capture those decisions as they are being made. Reflective of that is, we are coming forward with revisions in the Cisco development agreement. I'll be very frank, when John Chavers makes that decision where he is going to make that decision, we want the answer from his Real Estate team to be, no problem with doing it in San José, everything's approved. That's the nature of the competition we're in. So very much the -- the programs we brought before you are going to be really critical and staff is running as hard as they can, the special tenant improvement program, the industrial tool program, all the work that all of you do in calling on CEOs is vitally important. Because they have a lot of choices and there's a lot of other jurisdictions around the country that are putting a lot on the table to get them to develop facilities in those communities.

>> Councilmember Liccardo: I certainly agree with the sentiment for the answer. I recall seeing a study that was done last year that indicated that a bigger predictor of our job growth is -- for any region's job growth is where companies choose to grow, not necessarily where they choose to locate their headquarters. So I certainly appreciate your sentiment. A quick question about bumping. And its impact on our labor force. And Jennifer, you noted in some of the numbers that are involved here, given the over thousand employees that are affected, many through worst kind of impact which is the layoff but many others who will be bumped and I think we all recognize that there's enormous disruption to the organization in bumping because now you've got somebody in the position doing a job that they didn't previously do and they've got to learn and get up to speed. And it seems to me in many cases the, if not most cases the bumper will be making more than the bumpee. In the sense that per-employee cost will probably be rising as we wash those impacts throughout the entire organization. So the question I had was, do we have the ability to offer a potential bumper, I'm sure I'm using the terms wrong, an employee who will be bumped to another position, to offer them a severance as an alternative to bumping?

>> Councilmember Liccardo, Mark Danaj, director of human resources. The Muni code does not provide for that. The Muni code is very explicit in the process which we need to displace employees from their classes on a seniority basis.

>> Councilmember Liccardo: I assume -- I know we've got meet-and-confer obligations in all kinds of issues. The question I have is, do we have the ability to change the code, if we were to determine, hey, we could actually save money and cause less disruption if we gave people an option to take a severance rather than to bump? That is, I'm thinking for instance of an employee who maybe toward the end of their career anyway, who might be quite willing to simply take the money and run so to speak, and leave an employee who is less senior in their current position doing what they want to be doing and actually incurring lower cost per employee on an annual basis?

>> Sir, certainly, the council has the ability to change the municipal code. But we'd be subject to meet-and-confer depending on the impact on working conditions. On the issue of an incentive for people to leave, the important part to focus on in that instant is the cost to the organization of providing that incentive, when-d and what the relationship of that cost is to the individual likely to be leaving in the next year or two anyway. So there certainly are cost benefit analyses that would have to be applied to that but

the short answer is that the Muni code could be changed it's just a significant part of the Muni code and would be subject to meet and confer.

>> Councilmember Liccardo: Is there any idea at this point as to whether or not severance alternative could be cost savings? I mean, is this something you guys have look at before?

>> The city has looked at early retirement incentives, as an option, and has come to the conclusion that their expense outweighs the value they provide to the organization.

>> Councilmember Liccardo: Okay, thanks.

>> City Manager Figone: If I could add though, and staff please jump in here, because this happened I think a while back. Those kinds of incentives which are costly, are where it's a golden handshake and the expectation is you're going to add to your years of service in the retirement system. That would be different from a severance of a certain flat dollar amount, which doesn't add to your years of service but just gives you know, the departing employee a check of some level.

>> Councilmember Liccardo: Right, and it was really the latter that I had in mind.

>> City Manager Figone: That's what I thought.

>> Councilmember Liccardo: Thank you Deb.

>> Jennifer Maguire: If I may add because I did do some of that analysis back in the either 2000, which is on early retirement, which is different than what you are suggesting councilmember, it turned out that several of the places where there was eligibility for retirement were not necessarily in the classifications that had the most impact from where we needed the positions to vacate. I don't know what that analysis looks like today. I want the council to be mindful of the fact that obviously we'd have to come up with the cash for the incentive payment but also, there would be additional cost related to vacation, you know, the vacation, the buyouts when they left and also sick leave payments upon retirement or sick leave payments if they were going to retire.

>> Councilmember Liccardo: Thanks, Jennifer. I understand that's not a simple question and sounds like it may not be worth the energy to inquire a whole lot further. But I appreciate the fact that you've looked at it. And then finally the slide 8 that I think Jennifer showed relating to Public Safety and the percentage of Public Safety as a total of the -- sorry as a percentage of total usage of funds, as we look at this, Jennifer, I assume that even within some of those other slices of the pie, for instance as we look at general government or citywide expenses, that some slices there may also include Public Safety cost, for instance the city attorney's office I know spent some significant period of time dealing with police cases.

>> Jennifer Maguire: Absolutely. This is a very simplistic view of just the two departments, of police and fire and their share of the pie, but I would argue and agree with you that many of the other slices have public safety cost in it, and you know, PRNS, library, attorney's office and our citywide expenses, a lot of workers compensation cost related to our police and fire department. So it is in all, many of the other elements of the piece of the pie.

>> Councilmember Liccardo: Do we have any general percentage of what that would be if we were to include all that?

>> Jennifer Maguire: We have not done that analysis, I don't have that, but it is definitely bigger than 51%.

>> Councilmember Liccardo: The last question I have is how has that 51% changed over sometime? You indicated last year it was about the same. If we looked back over a decade do we have any sense of what percentage we would see that number?

>> Jennifer Maguire: I don't have that number. I would say roughly it has been about half or more of our General Fund but we'd have to go back and verify.

>> Councilmember Liccardo: Thanks, Jennifer.

>> Mayor Reed: While we're on that slide I think during your presentation you noted that public safety is 51% of the total General Fund uses. But 64% of General Fund revenues. Is that the --

>> Jennifer Maguire: It was actually 64% of our revenues if you exclude our fund balance and our transfers and reimbursements which transfers that come into the General Fund for various things or overhead reimbursements. If you just took our general revenues, it is something -- a question you had asked me last year, and I'd written in my notes, it's 64% of our total revenue if you exclude those parts of our revenue sources.

>> Mayor Reed: Are you done? Councilmember Chu.

>> Councilmember Chu: Thank you, mayor. I just wanted to thank the City Manager and Jennifer for your hard work to present us this budget proposal, especially you, Jennifer. My condolence goes to you for the losing of your father. And I actually have one question and one comment. The question was one of

the few, I don't have the number indicating the workforce reduction, they're in the housing department, out of 80 people, we will be losing five people, five employees, that's less than 5%, even lower than what we're asking for the police and fire department. So I don't know if there's a good explanation for that. Why housing has such a small reduction than any other department.

>> Jennifer Maguire: Yes, thank you for the -- thank you, councilmember. The housing department is not in the General Fund. It's driven by its own revenue sources which is you know, 20% is the transfer from tax increment revenues as well as many other grants funding sources. But since they have limited funding because of the tax increment in growth in property taxes not growing -- not predicted to grow this next year they needed to do some rebalancing. But they're driven by not the revenues sources in the General Fund but they are driven as well as these other areas on the slide are driven by other elements other than the General Fund revenues.

>> Councilmember Chu: So most of their 80 positions are not paid by the General Fund? The reason I wanted to bring this one up is like -- and the water treatment plant, most of the employees are not drawing salary from the general plant but when easked for a 10% they're not exempt at all. The question is most of the 80 people are not drawing salaries from the general plan?

>> Jennifer Maguire: All 80 positions -- not one of the 80 positions are in the general fund, not one of them. Same within a lot of the environmental services funds, in the airport. But to the extent we do get concessions, it helps in all of those funds that are all having financial difficulties or it will impact our ratepayers in having to have a lower rate increases so it does trickle to our service delivery and across all of our 113 funds across the city.

>> City Manager Figone: And may I just add to that mayor? Councilmember, I think there's really two things going on in housing. The housing employees, if concessions are agreed to, will be subject to those concessions, in terms of the loss of total compensation. And so that would improve the bottom line of the housing department in terms of programs, that they're able to deliver. The second thing to note is the cut in positions, I believe, Jennifer, are also related to the CRAF borrowing and thus the lost capacity in housing to deliver programs.

>> Jennifer Maguire: That's correct.

>> Councilmember Chu: Great, thank you very much. Another comment and I stated before I probably would repeat id over and over again before the end of the year. Is the cutting of the library hours. I felt that we're in a variable now, 39 hours a week, to cut it down to 25 is really not acceptable because the library is one of the city facilities that are mostly -- widely used by our residents. So -- and also, a lot of those people, the attendees, the users of public libraries are students. And we will never have another opportunity for them to come back and to repeat their education. And even if later on, we'll have a better budget time. So the library hours, which I would really like to consider to be able to maintain at the current level. Thank you.

>> Mayor Reed: Councilmember Pyle.

>> Councilmember Pyle: Thank you. Paul, I'd like to direct some questions to you. First of all, the figures in slides 2 and 3, of the overview that you gave, all pertain to United States figures. That would be corrects?

>> Paul Krutko: That is correct.

>> Councilmember Pyle: Okay. And of the jobs that were gone, they're primarily, because there were so many that lost their jobs in the retail sector, that would be seniors, students, predominance of people that are not in the -- they were either part time jobs or other time sustained things, they were not in the common sector, I would call it. It's more specified, and is that -- that ties in with the other figure that you have here about the teen unemployment.

>> Paul Krutko: Councilmember, I would have to get back to you in terms of how to slice the 432,000 jobs lost nationally if there is demographics.

>> Councilmember Pyle: Okay.

>> Paul Krutko: Essentially would I believe that in number -- I'm sure John Lang is listening upstairs and he can get back to you in a little bit. But those jobs usually roll up to full time equivalents so when there are 432,000 jobs, that would be two part-time jobs equal one job, that type of thing. I would also say that for many, many households that part time employment by someone in the household is vital. So this is -- this is a significant job loss.

>> Councilmember Pyle: Oh, absolutely I would agree with that. The other question I had is in reference to the -- let's see, it would be slide 5, having to do with the banks, the -- in reference to the foreclosures, et cetera. Banks are still playing a huge role in not committing money to people who do want to get those

loans. I mean, that's caused a whole down play in the Real Estate market. So would you -- first of all, would you agree with that, and secondly do you have any ideas how we could reverse it?

>> Paul Krutko: First of all, I'll take the last question fishes, if I had ideas of how to handle that I'd be working in different levels of government right now. There are people advise being the president here now. There are challenges that we have constrained credit, and everyone has moved from being very risk friendly, to an incredibly risk adverse environment. And so, you know, that's why I guess connecting it back to what we can do, to the degrees that some of the incentives we've put on the table for park and business licenses and expedited permitting, to the degree that we can make it easier so that the dollars they are getting are deployed as quickly as possibly and efficiently, but we don't have in sort of our quiver of tools any way that we can really impact the credit for small business. I think what's important is, is that as you, as policy makers, talk to the next levels of got, that you're communicating how important this is, and that particularly the Congress continue to put the pressure on. And we put out billions of dollars in ARRA to help bail out major financial institutions. And we are seeing them do very well. But we're not seeing as much lending as we'd like to see.

>> Councilmember Pyle: That's correct. And I'm hearing that from developers in San José that just can't get those bank loans going. And they would be people that have been in business for years and years and years. That was predominantly the question I wanted to ask at this time. Thank you.

>> Mayor Reed: Councilmember Constant.

>> Councilmember Constant: Thank you. My question I think's for Jennifer. It's open slide nine, the General Fund uses by category. When you mentioned some of the things that are in the nonpersonnel equipment, the 9%, that \$800 million or whatever that number was, not \$800 million. That would have to be way too lie. Why do we not have sick leave payout and workmen's comp and those related things in personnel cost? And you didn't mention vacation buyout or some of those other one-time buyouts. Can you clarify where they are?

>> Jennifer Maguire: The workers compensation sick leave payment upon retirement are in our citywide expenses category. We could, from the -- this is just a pure display of how the moneys actually get budgeted, but you're right, in when we do try to discuss it in the forecast document, we do add those categories into our overall personal services cost because they are. It's just a function of how we budge for them. We don't budget those in individual departments because it's hard to know who's going to have a sick leave payment upon retirement or who's going to have workers compensation claim. But we do have that broken identity in their citywide expenses category in that section of the document. As far as vacation payouts if somebody was to leave, those are not budgeted. So if -- to the extent that those occur, the departments are expected to absorb those. Because, again it's an unpredictable activity, depending on how -- who leaves in a particular year, what their vacation balances might be as well as on the comp time payouts as well. So it's something we expect the departments do manage to. You won't see that specifically as a line item budget but it's something we need to watch for and something that's causing our particular departments this year to really manage their personal expenditures. And one reason why we put that reserve together last year, because of the unpredictable nature of the payouts, which we are keeping and recommending to keep intact this next year, which is \$1 million, because if we have a lot of retirements by June and our sick leave payments upon retirement appropriation would not be able to handle a large influx we're probably going to be over our sick leave payments appropriation this year by probably a million dollars, and afraid that next year's amount of \$9.3 million for those payments would not be sufficient if we had a lot of retirements occurring.

>> Councilmember Constant: Just an editorial comment, I think we should consider moving those things into the budgets for each department. I know it's hard sometimes to forecast when you're going to have those expenses hit the books, but I think as a -- I think it would help department heads if we had department heads more concerned about those amounts of dollars. And from a management perspective, because I know that a lot of people call in sick but don't take sick time. Or I just think that from a management perspective it would be better to control cost if the person who was responsible for that department got to see those costs every single year. I think it would also help when we look at workmen's compensation claims by department to help better management and mitigate costs and give more incentives for more active participation by department heads and upper management in each department.

>> Jennifer Maguire: And just to add on, the workers exception claims expenditure information, for the first time this year in '9-10, we did break out those expenditures by the big five users, so we are starting to

track that, and work with the departments, with police, fire, general services, DOT et cetera, so we can start seeing if we can look at those expenditures more closely.

>> Mayor Reed: Vice Mayor Chirco.

>> Councilmember Chirco: Yes, I know there was reference to like hoping that Cisco, when they look to add, that they would want to have the conversation with San José, and I know from the Mayor's (inaudible) the City Manager's message, on page 12 it talks about you know the decrease, the additional off the capacity makes it more difficult to quantify. So I'm just wondering, what kind of capacity, if that marginal capacity that should something like that happen, that we have the capacity to respond quickly to that kind of an ask to keep those jobs here in San José?

>> Paul Krutko: Well, I think part of it Vice Mayor is to try to be ahead of those kinds of situations. And the example that I alluded to, staff has been working hard with the company, in fact, probably tired of hearing me say, let's get this done, so that when Cisco makes that decision, we're in position. I think probably what you're alluding to is the one that happens all of a sudden. I guess we've got a team within the administration and working with John Weis and his team, that we pull together very quickly to respond to the alternative, and what happens is, that work gets set, other work gets set aside. We have to make priorities. And -- but we're -- this is one of the not trying to, you know, praise where praise isn't due but these are some of the finest folks that I've worked with, about their ability to put something together quickly. So we are least in the game. And that's part of what's really a challenge right now is that it's a very competitive environment, and we're a very interesting hunting grounds for others, other communities, other countries. The people looking to make investments. So we are, you'll see, much like all the other departments. We are reducing two positions, in OED, out of a very small group. Joe is having, Joe Horwedel will talk to you a little bit about in a little while about some of the reorganization we're proposing to do, to cross-train and build more capacity. So we're trying to figure out new delivery models to try to keep our performance up where it has been in the past. But it's going to be difficult.

>> Councilmember Chirco: And especially looking at Planning, Building, and Code Enforcement, which is a fee-driven department, maybe to looking at some of the dynamic deployment strategies the fire department is looking at, because putting projects aside can create its own self-limiting criteria. So I know that there are no easy answers, but I thought your comment was worthy of attention. Thank you, Paul.

>> Paul Krutko: Thank you.

>> Mayor Reed: Couple of comments before we move on to the next section. In the manager's proposed budget, Attachment E is the recommended General Fund service restoration summary that she referred to, and Councilmember Chu referred to the library hours. I think it's worth noting that 5% concessions would be more than enough to cover the library hours, the branch library hours has a price tag of about a little less than \$5 million to restore to four and a half days of service. And we will certainly be considering concession over the next few weeks as we look at different contracts. So certainly possible to restore library hours. The second comment is on the slide 8 that we talked about, the uses of funds with the Public Safety question. On page -- well, there's quite a few places where you have the revenues broken out so I'm looking at page VI-1. Which is an overview of revenue estimates. If you take property tax, sales tax, utility tax and telephone tax, those are the taxes most of our people associate paying, those four taxes combined are not enough to cover the public safety budget. And so the 64% of revenue that we're spending on Public Safety is a really large number relative to the rest of the departments. I think we're done with this section of questions and answers on the overview and the first part of the economic development. Going to move into the next section. Unless staff tells me I'm premature but I think we're ready to talk about the economic development. More specifically.

>> Paul Krutko: Thank you, mayor. We're going to change out a little bit here.

>> Mayor Reed: So we're going to move to the city service area starting with Community and Economic Development, is that correct?

>> Paul Krutko: That's correct, mayor. Joining me at the dais for this section will be Joe Horwedel, director of Planning, Building, and Code Enforcement, Katy Allen, and Leslye Krutko, director of housing. We will have others in the audience ready and willing to answer council questions. And I think that really points to the type of city service area this is. We are the team that is -- tries very hard to bring business to the city, to work with the companies that are here. To perform in termination of reviewing and approving housing proposals, moving forward with Public Works projects. This is the development side of city business as well as some things we're going to highlight in our presentation that maybe special topical areas. The CSAs responsible for the convention center, arts and culture, those other kinds of pieces. So mayor, let me begin. I think we're in place and I've introduced who's here with me. We have,

what your council has seen before, and I've lost the clicker. Can I have that? This is the outcomes and we're focused on the strength of our economy. We know, we've shared with you many times the vital cycle slide. We don't have that here today but how important the community, the strength of the community, the vitality of the community is to attracting business and talent here. That makes us a competitive place and that's -- has a range of dimensions not limited societally to community, but also to the type housing and events and cultural offerings. So you see the partners on the screen, this is the place where also, where the agency supports, in terms of funding and collaborative work. So the agency is a part of this CSA. The core services are shown on the screen, I'm not going to list them. I think the council knows them very well. This is where we plan. This is where we work to put projects together as I've just said. So I'm going to turn the presentation over to -- I'll finish up the slide. I guess I am the last one. Are you Joe or is it me?

>> Joe Horwedel: It's you.

>> Paul Krutko: This is just to reflect a summary for the council on where we were last year and where we are today. And in particular, this reflects the fact that you see a reduction of about \$8 million, but 100 positions. And that's reflective of the fact that principally the bulk of our business, the bulk of our staff in this CSA is fee-driven and is tied to economic performance.

>> Joe Horwedel: Thank you, Paul. So it's one to first start with talking about the business of development services. We are today a \$22 million business, that's provided by three departments, Public Works, fire, planning and building. We serve over 27,000 customers a year, at this point, with 150 staff delivering that service. Several years ago, we were over 250 people delivering that service in a 35-plus million dollar business. So it is something that we are kind of the canary in the coal mine for what the city is now facing for what we've worked through in the development services part of our business. And I wanted to go through and do a little foundation-setting for what you're going to hear from the group, as well as probably some other city staff over the next couple of days. And it's to connect back to the program prioritization exercise that the city went through back in the beginning of the year, where we looked at how all the city services help meet five key priorities. Those were infrastructure, a safe city, prosperous economy, vibrant community and a green economy. We looked at everything that we did that the General Fund is related to, and said how well do they score or help support, achieve those goals. Development services is one that had a consistent level of coming out of it that it scored as a level 1. That meant that as a part of achieving those five goals it was critical to achieving that. It wasn't just about serving the customer, but it's about positioning the city for the future. Having great communities, having a strong economy having great infrastructure, a green economy. So as a part of the services we deliver, we are focused on our customers, we have a strong focus on fiscal sustainability, that's why we went through those reductions that we did over the last two years, following what was going on with our service delivery. We still are very much focused on trying to meet our customers' needs for schedule, as well as being as efficient as possible in how we deliver that service and we'll talk a little bit more in a bit about that but first Katy's going to talk about some of our process improvements.

>> Katy Allen: Thank you, Joe. As you will hear over the next several days, from departments that are trying to manage their services with greatly reduced staff, what we wanted to do, what Joe and I wanted to do here was point out some specific initiatives that are underway that are kind of the reality that we're faced with. As you've seen we've had 25 to 30% staff reductions in our just development service team so what we need to do is rethink and reprioritize how we organize ourselves. So what this slide does is it focuses on three areas. One is an administrative hub. Primarily what we're focused with here is the idea to consolidate any overlaps so that we can fast -- we can be fast and assemble quickly on any critical initiatives or projects that roll into our court. Right now we all have administrative staffs but with reduced levels in both publication, in our fire team as well as planning and building, we want to look at our administrative resources and combine and consolidate those. The project manager concept is one that's been around for a long time and we think it's time to break ground on this initiative. Primarily how I would best describe a project manager is really a process advocate. What we're looking for is some of our senior team and folks we have in our development services section that has a great deal of experience and individuals that can help facilitate for our applicants. They'll understand the projects from beginning to end. And primarily what we want to do is provide, we want to connect all the steps that they have to go through but primarily provide them with early decision making so our applicants can make timely business decisions. And then last is service consolidation. Over the years, when we're a larger organization on the development services side we decentralized a lot of the activities you'll see in the bullets in this section. What we want to Do do going forward is really consolidate any overlap so that decision making is

clear and efficient, but it's more centralized than in the past. I think in the past when we had more resources we decentralized them as a means to be more efficient but in the current reality consolidating we feel will be a strong service improvement to our applicants. So with that I'll turn it back over to Joe.

>> Joe Horwedel: So I wanted to go through with the council what some of the trends are in our business right now. Overall, as you've heard, kind of the flat climb out seems to be what we're going through, and there is some concern about whether there is the double-dip lurking out there. So we're trying to be very cautious as we grow back our business. We are seeing a really strong single family remodel activity going on in our permit center in buildings, it's the lines you see in the morning, customers coming in and that we're still doing about 2400 of those a year. As we noted last year, the size of those is getting smaller. Just a frame of reference, a couple of years ago the average single family remodel was about 234 square feet, somebody was adding onto the house. Today we're doing about 120. So our cost to deliver that is still the same. It still takes the same amount of inspections but our ability to cover cost has gone by about half. That is part of the dilemma that we face in our services. We do see some commercial industrial activity going on. Again pretty rare. Used to be a lot of cranes around the city. Today it's great excitement when we see one crane up around the city. Right now we've got Equinix putting steel in the air that we're working with, but there's not a lot else besides that that's going on. With the service delivery we've talked a little bit with the council about this, with the staffing that as we shrink back by over 100 positions we really don't have stretch capacity anymore in the organization. So that literally when somebody's on jury duty somebody's out on sick leave, or worse yes, sir, they're out on extended medical, it really brings us to our knees. And so we are grappling with that right now to keep up with that. Even things like training or time for process improvement has really become a luxury rather than a core business like it should be. We've seen a decline in our customer satisfaction. We got the results of our 2009 customer survey and we anticipated the decline. We've seen a decline across all our segments, and so we are going back to look at how we work our way out of that. The good news is, is the attitude of how our customers see it is still strong, that the willingness to work solve problems is still recognized. But the challenge is just our timeliness in being able to respond is a tough part of our business. We do have a proposal in the budget about starting to grow our way back out. On our coordinated review and building we are seeing that there is demand out there that we're booking several weeks in advance so we think there is a sustained capacity so we're doing that. We think it will help with our special tenant improvement program and our industrial tool program. We're seeing companies come in like Phillips, some of our solar companies to go and install new tools which we're very positive about so we think this is a positive augmentation, we hope we can do some more of that in fire Public Works and Planning, we're not seeing that yet so we're going to start here. Lastly the long range planning part of our business we are going to continue moving forward with some of our strategic ordinances like we're doing with the sign code today, we're working on some transit district zoning standards, we're moving forward with the general plan update. With that to come to council next fall -- or next June. And we're looking at how to align our capital improvement program with that general plan. There are some improvements going on, some challenges that we'll work through as we go through it. Leslye.

>> Leslye Krutko: Thank you, Joe. Speak to the housing department's key services and priorities. Despite the economy, which we know, we heard the presentation earlier, and also today's transfer of CRAF funds to the county on their way to the State, the housing program continues to administer a significant program. I did want to respond a little bit to the discussion earlier. The housing department is all general -- excuse me has no General Fund, all special fund and we have approximately 20-plus loan and grant funds that we get from federal and state sources. So we're impacted by other economic informs. And to put that into some perspective, with I started with the city, in 1991, 19 years ago, we had 75 staff people. And we had a tax increment of about \$15 million. We had two major sources of funding. We will now have a funding of 75 positions, the same as we did 19 years ago. Our budget for programs is about \$88 million, our tax increment's over \$40 million. We have been able to manage our programs in a very, very lean way. And we continue to seek other funding sources as I'll talk about in our discussion. Another example is about four years into my tenure here with the city, the housing department suffered a 50% staffing loss at a time when the rest of the city did not have a staffing reduction. That was because of decreases in tax increment, that was because ever a take by the state of increment. So we are very much impacted by what happens to tax increment. Last year we had an increase in increment of a little over 2%. This next budget year is projected right now at flat. We have, however, put together our budget, very -- in a way that's financially managed in the event that there is a reduction in increment, we believe that we can handle that. So use a point that we are -- we're not impacted by the General Fund, we

are impacted by other outside economic forces. So as I mentioned, the budget anticipation 88 million available for loans and grants. Those funds are for housing rehab, for mobile home repairs, for community infrastructure and community projects, as well as a small amount of money for our new construction program. We administer over 20 loan and grant programs at present. Of the amount that we have available next year, about \$30 million of that comes from federal stimulus funds and about \$17 million of that is from the neighborhood stabilization program which is intended to purchase foreclosed property and resell those properties. We continue to look for very creative financing efforts to continue our efforts, we just found out this past week, we received another \$375,000 grant in conjunction with our environmental services department to do energy efficient rehab of residential structures. We'll continue to look for those kind of opportunities. On the impacts of the budget actions, because of the CRAF we expect to have limited future funding for new construction. We are going to do whatever we can with our partners to look at innovative ways to continue construction. But at this point, our major source of funding for new construction is much smaller than we'd had in recent years. We will continue, however, to administer our smaller programs, and we'll look as I said to other funding sources. Our organizational impacts and what we're doing in order to decrease our staffing by about \$1 million, we are combining our grant management, so all of our grant programs will now be administered in one place. We are consolidating our underwriting staff so both our multifamily and our single family underwriting programs will be handled under one umbrella and we'll be able to deal with any variations in workload. We're consolidating inspection staff in one area, we previously had that in two different areas, and we're reducing our staffing for our large-project lending from 7 to 3. I would like to indicate, even though we're seeing a decrease in CRAF funding, which means very little lending going forward, we have 55 active projects right now. We have eight projects that are starting construction right now, and we have about 15 projects where we are renegotiating because the projects have come up to their 15 years. And with tax credit projects, projects have to be refinanced at year 15. So we have significant -- those three people have significant work to do. So just to summarize, our expected service delivery, we will continue to have our small programs at traditional levels. We -- the stimulus programs are adding considerable resources, and bringing in economic funding to the city. We hope that both our foreclosure efforts and our efforts with destination home will limit the amount of homelessness and hopefully give us progress towards our goal of ending chronic homelessness. And then I -- and lastly we do expect that it may be several years before we see any significant new construction. So with that I'm going to hand it back to Paul, I believe for economic development.

>> Paul Krutko: Thank you. Quickly, through the rest of our presentation, in terms of the economic development staff, the Vice Mayor already allied to the capacity that we have. It's important to note that the Office of Economic Development really provides development strategy and policy leadership citywide. And in many instances OED's a convener for interdepartmental teams to solve problems and advanced projects, not only in the area of economic development projects, but those that have some broader impacts on the larger city. You can see those types of activities listed on the screen, just highlighting it. We lead major project negotiations relative to, for example, the former FMC site, we coordinate downtown services, and we're also leading in terms of the Green Vision implementation, developing the applications and strategy positions to advance that initiative. Joe alluded to the program priority ranking that we went through with the community and with the staff and with other stakeholders. And the council will note that in the manager's budget proposal we did emphasize in economic development level 1 types of activities. And those as Joe pointed out are those that are strong contributors to achieving results. And in this area it's all about business attraction and expansion and coordinating and helping to develop outdoor events. So I'm going to now focus, shift a little bit and I'm going to focus on some key topics that are in the budget that we think are important for the council to note, as they engage in their deliberations. First, in the workforce area, we've been the recipient of significant ARRA funds. And despite ongoing recession, I mentioned earlier in terms of home other than support, those ARRA funds are going away. And so we were plussed up to 24 million serving 8,000 enrolled adults, tens of thousands of people coming through the doors for services. There we just received word and wanted to share with the council we're being reduced to 10.2 million. And again this is due to the scale-back from ARRA. There were -- is also in the federal level a decrease in the formula allocation. We need to be fully extended by August 2010. So we're going to have to again realign our service delivery to meet the needs of a very diverse population in our community seeking services all the way from migrant workers to the high technology entrepreneur. And I did want to take a moment to talk a little bit about a success. Jeff Ruster just told me, who leads that effort, along with Chris Donnelly and Joy

Soledon, that we just got our ARRA audit. Remember all of the focus on accountability in terms of ARRA. The state's employment development department indicated we were the only workforce board in the entire state that had no fiscal issues with any of its programs. And in addition, the audit for our regular formal program said the same thing. So it's a testament to the staff we have working in that area. The mayor's message, moving on, the mayor's message did ask us to discuss with the council the programming that both the agency and the city has in an area of small business. We're preparing an MBA and that will be in your package. This slide summarizes what the city side of that equation is, the agency overview will be responding separately. I did want to point out that because of the limited staff we have moved to alternative service delivery approaches which is really reflected in the business other than space program which gives us significant ability to funnel small business to resources, through essentially a virtual economic development department online. Relative to the incentive I did want to point out we did have a lot of conversation in tense of the strategy. Been in front of council several times. So I did want to note that based on the feedback that we've received from the council, particularly Councilmember Herrera and Councilmember Liccardo, we are taking a relook at the catalyst strategy, the catalyst program strategy, and we'll be coming back to the council with a way, an approach to look to reallocate those resources in a different way to create more flexible incentives to help key projects move forward. So that will be coming forward to council probably through an MBA for the consideration in the full budget process. Another key topic, and touching on it I'm sure we can spend more time in the Q&A, is that the convention center, the Office of Economic Development serves as the contract administrator for our operating agreement with Team San José. Team San José currently has 56 city civil service positions. What is proposed in the budget is a response to reduced business. There is a significant downturn in terms of the amount of business coming through the convention center, both in terms of the recession, but also sort of as the anticipation of the expansion project. And we looked at that with the Team San José staff, notably Dan Fenton and his leadership team that we work in a very collaborative fashion with, and what the numbers showed us is that if we did not make changes this year we could run into a negative fund balance to the tune of \$5 million and in fact in two years, we would be at a break-even position. So in January, Team San José proposed 25 position eliminations. We held those, kept those folks on the workforce because we didn't want to go through a double-bumping exercise. And so we are now combining those with additional 17 positions, because the situation has worsened. It hasn't gotten better. By doing that, what will happen is, we will be able to keep a positive fund balance, and operate the facility in a cost-efficient and effective manner. There will be 14 positions, civil service positions remaining. Those are primarily focused on the maintenance and operation of the facility. But again, this is completely due to declining business in terms of what we're seeing at the convention center. So close out the presentation, I just want to touch a little bit on the office of cultural affairs, which is the part of the office economic development. This is our last area of focus today. I do want to point out that this is an area where when we went through the program priority setting, the public did give us, as well as the stakeholders, some pretty solid direction about where they wanted to see dollars spent in this area. And they were particularly you'll see in a cut we're making felt that it wasn't a core business for the city to be involved in, K-12 arts education. The services that are provided through the office of cultural affairs are shown on the screen. One of the impacts of the budget actions that we are proposing, they are primarily driven by the decline in transit occupancy tax and general resources available for the arts. So there is going to be a percentage reduction to proposed, for the T.O.T. based grant supports arts organization. I've already mentioned that one of the programs that we have to eliminate to be able to balance this particular area of the budget is in the area of K-12 arts education. We were coordinating leading that program. We are having to scale back, there are staffing reductions in the office cultural affairs, relative to coordinating events that will have a significant service delivery impact in every district of this community, and every neighborhood that benefits from those. We're going to focus on the most complex events and we're going to focus on those that have significant city service costs, particularly in the area of public safety. The one I wanted to highlight on that is key that we wanted to make sure the council was aware of is that there's a companion reduction in terms of PRNS, their budget proposal relative to the holiday parade and Christmas in the park. This has been a city-produced event for over 30 years, but the current fiscal situation is causing us to think about this, and to try to create a different business model. So what is contained in the budget is to continue the -- Jennifer talked about that there are some positions in the budget that last until January of the next fiscal year. This is one of those areas. The staff will remain in place. We will be able to produce and deliver Christmas in the park as we have in years past. Parallel to that, though, during the next six months, that staff will be transferred and

connected to OCA, and we will be trying to work on a transitional plan identifying a private or a nonprofit sponsor or sponsorships and other revenue sources that will allow us to continue Christmas in the park as we've know it in 2011. The point, though, is that we don't believe that we can proceed, and continue in a way that we have in the past with city-produced events. So summing up on cultural affairs, we are going to have diminished capacity in terms of event coordination. We're coordinating over 400 events across the city. There's going to be more lead time in working with organizers, didn't I shift? I did something wrong. I keep pressing, I'm sure you'll help me with that. I'll just continue. We talked about that we also, the final thing we're going to do in terms of service delivery is there's been a lot of direction from the council about how to deal with special event services and cost initiatives and that will be a particular focus for this office. The last four slides, five slides, deal with an element that was contained in the study session for the economic development strategy, where we talked about incentives to spur development. We were asked to come back and look at what opportunities we had relatively to fee waivers, fee reductions, fee suspensions. And so Joe's going to takes through a brief conversation about that. And then we'll be ready for questions.

>> Joe Horwedel: Thank you, Paul. So as it relates to the question of what could the city do to stimulate development in the city? We really think that we should have some guiding principles around that and it's really what are the actions that attract investment that otherwise might not come to San José to come here. And that it would encourage that development to break ground sooner rather than occurring two or three or four years down the road. So what are those opportunities we have? And what also going along with it is not all development is the right development. And we're seeing that with the general plan update, that some things hem us fiscally, and other things take us further away from where we want to go to. There it went again. So as a part of that, while it's coming up. We think that the guiding principles that really work with this are, they do need to have a long term fiscal benefit to the city, that really around General Fund revenues, or that it substantially lowers the operating costs to the city. And certainly we shouldn't be incenting developments that add to our operating cost. We think that we should be thinking about long term plan, the city where we're trying to get to as a city over the next ten years, 30 years, 50 years versus things that are merely just activity. And that we do have a number of exemptions and deferrals that we do today, and that we've done in the past. And one of the things that we've noticed as a part of those, that in many of those we have not been targeted. We've done really blanket:00 type waivers or exemptions. And to the extent that we are looking at doing deferrals or waivers again that's one of the tools we have to help encourage the right things. So maybe if we're targeted in what we're going after it actually allows us to amass more dollar-power versus spreading it over a number of smaller initiatives. And certainly, putting limits on how fast people need to perform, a use it or lose it type provision, so that we really get the outcomes we want. There are some of the things we deal with that are more appropriate for deferrals, versus waivers. Things that are mitigation-related really are not something that's set up for a waiver, that we really need to think about what is it that it's appropriate to pay later in the process rather than up front such as park land dedication or some of our North San José traffic type fees, sewage fees, the inclusionary's up there but that's really not in place, we as a city have already deferred that to the economy improving but we have connection fees that we collect. And then there's things like our construction taxes that are not paying for specific infrastructure, it's going into the General Fund, that helps us do capital type things. But we have a little bit more flexibility around that. One of the things you don't see on this list that does get mentioned from time to time is the fees to pay for processing projects, essentially paying for staff. We do not have other sources of funds for that so to the extent that we waive or defer paying for staff cost it essentially means we don't have the dollars to pay for the staff to do the work. There are consequences for doing a program like this and it's partly why we haven't done a lot of this in the past. To the extent that we do waive those fees then we need to finder other sources of funds. If those fees were paid for mitigation, capital types of things, this -- when we do defer the fees it does have some hampering of the City's ability to keep up with development. We hear that a lot from the community where we have not done a good job of providing the infrastructure that went along with development. The waived and deferred fees do have exacts to our capital budget. We have seen a tremendous decline in the amount of capital dollars into the city and so it is one of the things that does have some consequence of our ability to attract state and federal transportation grants that you've Hans Larsen talk about. And then lastly, the incentives for the wrong type of development really do dig a deeper hole. We do think that to the extent we are going to do deferrals or waivers, we should be very targeted around that. So our recommendation for staff is we would like the council to talk through what you think makes sense for any deferrals or waivers that staff would return back to the council through the budget

process, through an MBA to be able to respond and then move forward with necessary actions if the council's inclined to do this.

>> Paul Krutko: Mayor, that includes the staff presentation.

>> Mayor Reed: Thank you. I'll have a few questions, I'm sure. Councilmember Oliverio.

>> Councilmember Oliverio: Thank you, mayor. I guess this one's more appropriate I think for the City Manager and council as well. You know we've discussed about being ready to move at the speed of business or be able to seize the opportunity but if we have a development fee funded staff that's not able to be there, then do we as a council consider General Funding of some positions to make sure they're there? And the question to you City Manager is that one body considering we don't have much money and that one body means we have to take it from something else, there's no other alternative, is that one body going into the economic development office or does it go in the planning department Department? Is that enough flexibility for that above average person who can really facilitate the process changes to allow us to be quick, with where would you see that being?

>> City Manager Figone: Well I think I'm going to need the staff's help. I've asked them the similar question, I think quite frankly one position isn't good going to do it. You'll see, we're adding five is that correct Joe, through the building process, one of the few adds in this budget to do exactly what you're suggesting. So you know, again, the staff can jump in here. Where we're I think finding the tension between the resources that we do have, even short of ating, is when there's a desire to have new policies, like a sign ordinance, or you know, you can just go down the list, typically those staff have been pulled off of other efforts and do then compete with helping people get through the door. So I think that's really where we need to, if we can't really add resources or add enough from the General Fund, I would say that that's what we need to manage through, and councilmember, may I have the staff add to that?

>> Councilmember Oliverio: Sure, that's fine. I'd be happy to hear that. But I think also it should be kind of what you're saying Joe it should be only revenue producing projects and it has to be a business, a retail, whether it's retail-commercial, market rate housing that's of a certain density that pays for itself, things of that matter. Because otherwise we're continuing to do things that lose. But I'll speak to it briefly if you want to on this topic.

>> Paul Krutko: Well, councilmember one thing I would say is that the council, in the area of economic development, the council several years ago, the mayor in his message included additional resources in the area of economic development. We are now, because of being a partner with everybody else in the city, cutting back from those positions that we had funded prior. And we also, with those positions, use them to advance other city initiatives, particularly clean technology and the Green Vision which is very appropriate for economic development. But I think the right answer is that the staffing capacity that I think we need, is reflective of what Katy described in that program manager category. Now we're going to spend some time in this next budget year figuring out how we can consolidate resources to get more out of that existing staff. But the key skill set here is, multidisciplinary problem-solving. And leading others in the organization to the outcomes. So if we were to add -- ever add back capacity if we had that capability, I think we'd all agree that that's sort of the area that we need. Because many times you can get to the answer faster, if you have seasoned experienced people that have seen this situation before and know how to resolve it.

>> Joe Horwedel: The one piece I would kind of add to that, and I think the City Manager is correct in that one person is not going to magically give you a lot of capacity. If we're looking at one or two people I would say it's the project manager concept that we've made out because it does help us work through issue faster. I think looking at the targeted pieces in order of magnitude for us to go through and open up a whole new line for service for small business industrial tools that's been talked about from time to time, to do that is about a three quarter of a million dollar initiative. We think we can go through and sustain that on a revenue basis but from a business fiscal sustainability ability for development services basis, I can't justify putting three quarters of a million dollars at risk right now. That's why we haven't come forward with that. Those kind of chunks that you would go out and say do you bankroll or kind of put an insurance policy back that if the revenues aren't back there that you don't have to go lay staff off again the next month. But I think for one or two pros positions it's the project manager is really I think the biggest bang for the buck now.

>> Councilmember Oliverio: Thank you Paul. I would say you would want it to be flexible enough to ebb and flow with the happenings. Sometimes it is facilitating, sometimes, we have to deal with someone who's trying to open this small business. There's this random rule, that when anyone looks at it, people go, that doesn't make sense, yet it holds up the process for months, while this person's mortgaged their

house and taken a second loan, to open the business, and if you thought of bringing it forward to the council and having a dummy clause, that this just makes sense, let's get past this, so sometimes it's, I know you mentioned \$750,000 for industrial tools and I'm sure there's a level of complexity there but sometimes it's that body being able to get someone to you know look at the page a little bit differently on what's being offered. So -- but the reason I say one person is because we don't have rich funds here to be throwing a lot of people anywhere. And if it's one body to you, it's one body out somewhere else. There is no other money left. So I acknowledge that, but I'm saying as a councilmember, I'm willing to bet a little bit more of my General Fund for economic development understanding I have to cut somewhere else.

>> Mayor Reed: I'm going to stay with this line of questions and comments, and I hate to use a football metaphor in the middle of a hockey playoff season but I can't come up with a hockey metaphor for driving 99 yards down the field, being on the one-yard line and not being able to get it across the goal. We just went through all the money we're spending on marketing, promoting, all the money we maybe spend on incentives and then we have a company that wants to come to San José that will invest a lot of money and create a lot of jobs and we have 18 million square feet or so of empty space. 50 or 60,000 people look for jobs. I really want to get them over the goal line and getting over the goal line is what I'm concerned about because I know in past years when things have started to improve, we're always six months behind the power curve, and being able to hire people and get them in, even when things start getting better. So I'm really concerned about having those opportunities to -- on the one-yard line and not being able to deliver. So I want to just have you explain how we're using this budget to deal with that. Question first, and I think this is for Ed Tolentino because he's on the front line trying to figure out what call to play on the one-yard line and realizing there's nobody in the huddle. Just staying with the football metaphor. So Ed, there are two companies that want to move from another city, not to be named into north San José, and they need to be in their buildings by August. These are real companies and this is not a hypothetical. In your special tenant improvement program if they call you up today how far out are you setting those special tenant improvement meetings where we get everybody together and solve the tenant improvement problems?

>> Joe Horwedel: You're on.

>> At this time we're scheduling for May 28th is the earliest that we can get them in. So we still have one opening for May 28th. Otherwise, you know, it will be early June. When we can get them in to review their projects.

>> Mayor Reed: So what is it -- what would you need to be able to improve that so there wouldn't be a one-week lag or two-week lag or something?

>> Joe Horwedel: So one of that is what Ed's group has put together, a proposal in the budget to add our third service line, the coordinated review, so that's five positions, two of which are already on board today. The next increment behind that is what I talked about is a \$750,000, kind of the next -- that's the next tranche to expand that. Some of it is for us to go and do some triage with some of our other customers that today are in that system that are very interested in moving through the process, such as cell phone carriers that I don't think really belong in that service line. But they're there today. Filling up slots. And I'd much rather get them out of those slots and you know, keeping those spots available for companies coming in.

>> Mayor Reed: I think that would be a really good move because as much as I love my cell phone, one more tower is probably not as important as one more solar company that's going to take a \$100 million building and put \$200 million worth of equipment in it. And so being able to do that is really critical, because these are real opportunities. So if you add the five people that you're talking about, how does that improve the time to get in to see you, Ed?

>> Well, the strategy is to try to push the small businesses and medium-sized businesses through the express lines and get them out as soon as possible. So we're addressing the small businesses and at the same time, because of the short turn around, it will give capacity to the plan check staff that are in the back of the house to address more larger projects than hopefully have more appointments available for the STI and ITI businesses that want to come in.

>> Mayor Reed: All right, so they come in, we meet with them, issue the building permit in an hour or two, once they make the appointment, and then there's the whole construction-inspection process that I know presents some pretty big challenges for you.

As I'm familiar with some of the issues that have come up with brocade, which is a \$400 million

investment and thousands of employees, but lots and lots of work, what about increasing our capacity to make sure we can deliver those inspections on time?

>> On inspections, the inspectors currently have furloughs. And that will go away at the start of the new fiscal year. So that will give us extra capacity. So we will have every other Friday that we don't have inspections today, we will be having inspections starting the new fiscal year. Now, on top of that, we have inspectors that are on loan to Public Works, and there will be two of them coming back, and there are also two other inspectors that are being cut in Public Works that we're going to absorb. So basically, there will be an increasing capacity in the inspection field.

>> Joe Horwedel: And the last piece on that, we are working on an MBA that, with the terms the council imposed with ABMEI, with the 5% reduction, those dollars stay in the development fee program. And so we're pricing out right now what we can buy back in the way of additional staffing. And we think it's just under two inspectors, so that we would be coming back through the budget process to ask for overstrength positions to bring back probably a supervising inspector and another inspector so we'd be able to increase our capacity through furlough going away, couple of the staff coming back from Public Works that we had been loaning as well as the two additional positions. So we'd be getting back from today being in some cases five days out, badge to -- our goal is to be back to 48 hours.

>> Mayor Reed: Good, I think that's really important because the CEOs of these companies talk to each other.

>> Joe Horwedel: Yeah.

>> Mayor Reed: And they don't just complain to me, they complain to the people that they see on a daily basis. And if we don't deliver throughout the whole cycle, they're going to tell the next CBO, don't bother going to San José, go someplace else. And the opportunities are here. The Silicon Valley leadership group, most of them believe they're going to hire, they're going to expand this year. So I believe we can capture a lot of that if we're prepared to work at the speed of business. That takes me to the surge capacity or stretch capacity, as you described it, Joe. If we get lucky and the economy turns and clean tech booms as we think is possible, we authorize you to hire some people in this budget, if you use up that capacity, how long will it take us to do the next increment, whatever that might be? Do we have to wait until mid year to make adjustments or is there some way for you to say, wow, business is really picking up, we need move more quickly, I don't want to wait six months?

>> Joe Horwedel: As development services we've been very fortunate in that when we have demand we've been able to go to the budget office and get overstrength positions without going through mid year. So that would be our plan. But as a part of if we're getting -- you know we've gone through all the redeployment, bringing people off the layoff lists and filled positions that we've created and we need to do recruitment, and it's going to take a couple of months. I think one of the questions we're going to have to look at is at what point do we use the contractual consultants to help us. We only have so much capacity with overtime with our inspectors. We've been pushing them to get -- you know, just part of being more efficient, we're working them hard on that end. So I think that's our next relief valve.

>> Mayor Reed: My final question I think on this area is do you need an allocation of one-time funding to be able to stretch or surge or respond to that?

>> Joe Horwedel: That's the one that I -- would be nice to have that is --

>> Paul Krutko: I'll help him with that. We -- you know, we raised these questions earlier in the year. We identified and took some money out of pilot funds that we would use to incent companies, to make resources available in case of that circumstance. I think we -- my memory escapes me -- I think it's around \$190,000 or something like that. I think it's important to have some source like that because we can find ourselves in a circumstance, these things move really quickly and you need to be able to respond. So if you would give us the opportunity to come back, maybe and size that for you, we certainly can answer that question.

>> Mayor Reed: Thank you. And finally in the incentives area, I really think we ought to focus what little bit of funding we can afford for incentives to companies that will generate tax revenues for us and jobs.

And I agree with you that we ought to focus on those that are going to increase revenues rather than just add to our expenses, and that's not every company. Really, driving industries, it's all about driving the economy, and those are the ones that we really need to focus on. Because if we can capture the driving industries, a lot of other things will take care of themselves so the focus that you're talking about I think is really important. Vice Mayor Chirco. Sorry, I wasn't paying attention there. Councilmember Herrera.

>> Councilmember Herrera: Thank you, mayor. And thank you, Joe, and Paul, and Katy and Leslye. And also, thank you to the previous -- our budget folks and the City Manager for the previous

session, as well. I just want to add some other positive things that I heard at the leadership group. In terms of not only do most of them see, 58% see job growth, but they talk about the benefits of doing business in Silicon Valley, with access to skilled labor, 71% of them feel that is one of the assets here. And that they believe, 66% of them believe that the entrepreneurial mindset here is one of the most positive things. So I think those are the positive aspects, and there's not a lot of positive lately to think about so I think this is really heartening, those of us who came and heard this optimistic outlook by the most important significant companies in Silicon Valley. They at least gave me some you know some positive hope here. I agree with what's been said about, we need to incent companies to -- that are going to come here, that are going to produce jobs that are going to help our low economy provide employment and provide revenue for our city. And I really appreciate the comments that Paul made about the catalyst fund. And I'd certainly like to see, I recall the balance of that fund is about \$1.5 million, somewhere around that number. I'd like to see that used to bring headquarters companies into San José, use that money as targeted incentives to bring those kind of driving industry, job-producing companies into San José. And I'm also concerned, as the mayor indicated, about keeping the capacity of the STI and ITI programs. That is obviously one of the gems that we have to offer to keep the companies to stay here.

So we have to maintain that capacity. And also, I think I'm really glad that we highlighted today that those, the concessions that ABMEI is going to be making, we will use some of that to maintain jobs. Because I think that is one of the formulas, I think that is one of the winning formulas that as we move through the budget, the council made that direction but nevertheless those savings are going to be brought back to support that unit and I think that's a really good thing. I had some comments on the bigger -- on the previous or we on the previous presentation but I think I'll wait until we finish that and come back to that.

>> Mayor Reed: Unless somebody has a question, back to you Councilmember Herrera. Okay, apparently there are some more. I'm sorry, I missed Vice Mayor Chirco and then Councilmember Liccardo so we'll come back to Councilmember Herrera.

>> Councilmember Chirco: Thank you. I was look at your business attraction and expansion, and actually I have to say this was kind of the lift after all of the down. And one of my questions had to do with like -- because I know it was just at council, the Las Plumas and the \$4 million grant that has been applied for, I don't know how much of that would involve work with the planning and building out at the Las Plumas site but that was a concern as I mentioned earlier.

>> Paul Krutko: Sorry, Vice Mayor, that project is essentially a city project. So what will happen is, as we get those resources, it's a -- it's one of our collaborative efforts with ESD having a portion of the site. The other part of the site would be the clean tech incubator. Katy's staff will be involved in helping us deliver it as a facility so we should be in good shape with that.

>> Councilmember Chirco: And I really like the regional influence team. I hope to see some action on that. I did have a concern about the historical preservation program, and actually, I had spoke to the City Attorney about this. Because that's kind of been an ongoing issue. I know in the almost eight years I've been on council, we've had several legal issues over historical preservation. So I was concerned when elimination of the proactive historical preservation program, so maybe the City Attorney could address that.

>> City Attorney Doyle: Well, the code does require a historic preservation officer. I think that position has been vacant for some time. You know, again, the -- it's your municipal code and if you choose not to fill the positions, that's really your call, ultimately. I think the long term, in the intent is that you have somebody in that position and I think the Planning Department is trying to carry at least some of the ball there, and my staff has been work with the historic landmarks commission as well. But it isn't completely staffed, and that's a given. And Joe, I don't know if there's anything more to add.

>> Joe Horwedel: Well we do have a historic preservation officer, this is probably a third one in about three years. It's been with the bumping that's gone onists been a little more fluid than we'd hoped and our goal is to continue to have someone who would deal with the development issues which have really been the issues that we've had the litigation over is how we deal with historic resources through development. And that would still continue, but we would not be doing historic landmark designations, we would really scale back on the amount of historic preservation work that we do in the city of looking at design guidelines changes that sort of stuff. The landmarks commission would not have regularly scheduled meetings. We really would be based on when that was development applications moving forward rather than today, where they meet every month.

>> City Attorney Doyle: And Vice Mayor let me just also add, to the extent there are requirements under CEQA we have to do disclosure and we have to do compliance with historic resources, that will have to continue. The one concern I have, and Joe at least alluded to it is the potential for litigation that we may -- remember we have had a few of those cases where maybe a little more advance work could have at least mitigated some or maybe even prevented some of the litigation. So to the extent you don't have the same resources devoted, there may not be the same outreach or sensitivity to the issues. I think that's something we're mindful of, but we really will have to try to address it with the resources we have.

>> Councilmember Chirco: I understand the shortage of resources, but I was concerned about meet as needed. I know -- I've been the liaison for a few years now with the historic -- and we've really worked with your department to try and get some really qualified people that are thoughtful. And when we start valuing it, are we going to continue to get the quality people that can make a difference. The question that came up in my office, as a certified local government which I understand the federal government gives the state the ability to designate sites, and then we can apply, under the state, to be a certified local government. And we -- and are we required to have a landmarks commission?

>> Joe Horwedel: Right. And that is -- there are certain requirements under our ability to remain a certified local government. And it is our goal to not lose that. We worked very hard to become a certified local government. And there is a need for a number of things, and the landmarks commission are a body that reviews historic resources is a piece of that. And in fact the members of that commission has training, educational responsibilities, so we work with the commission to keep them skilled, so we can retain that. I think your point is a very important one, that if we scale back landmarks commission, we do have a very talented landmarks commission the members on there of how we retain that during this, what I'm hoping is a short term versus a permanent decision. And this is something we did about 12 years ago for about a two-year period the landmarks commission essentially went into hiatus for a while and then came back.

>> Councilmember Chirco: I would -- I did see Lee did a briefing on the boards and commissions. And I was concerned about meeting as needed. I know boards and groups I've met on, that there needs to be some standardized meeting. It can be diminished, obviously we have resource issues. But I think if it's as needed, maybe as needed defined by one person is not the same definition of a second person. And so I think I would be disappointed to see that, do they meet once a year because that's the definition of as needed. I would rather see something even as mental as quarterly, to let this group and the community know and the state know that we take this responsibility very seriously. So that would be my hope.

>> Joe Horwedel: And I have stepped up meetings with the preservation action council, just to the point about better conversations going on early on. And we've been talking through this issue and one of the things that happened the last time is that the commission itself essentially took on some of those responsibilities. So while there wasn't staffing and city dollars that were really supporting it, they took on more of a volunteer role of actually the care and feeding of the commission and that's one of the things that we've been talking about. Is there a way that while you may not have the resources to write reports and take notes and that sort of stuff is there a way for the commission to operate that is more self-supporting?

>> Councilmember Chirco: I like that language better than self-serving, self-supporting. I would look forward to kind of the conclusion of this. I realize everything we talk about is budget but this is a requirement and we do have to have it and we are the certified local government. I'd like the see some more definitive answers than what I am hearing and seeing. Thank you.

>> Mayor Reed: Councilmember Liccardo.

>> Councilmember Liccardo: Thanks, mayor. Joe, going back to the mayor's point about being ready and flexible for what we hope will be a significant surge in development activity in the future and hopefully nearer future, I'm sure that none of us oar billing fan of borrowing, of having cities engaged in borrowing money. But in a context like that one, where you've got fee payers on the hook, and they're using city services, do we have the flexibility to borrow into reserves to be able to staff, to get people through a pipeline quickly knowing that within two to three months we'll have fees at the other end that will put us back in the black?

>> Joe Horwedel: That is one of the things we look at now as part of the monthly activities. As this morning we met with the building managers and we went and saw what revenues are going on, we meet kind of within all of our parts, every month, how did our dollars go to see if there's an uptick going on. And if we're seeing something out there, whether it's a one-time thing we got to deal with or sit something that's a sustained pace that's when we go talk to the budget office and say all right, we'd like an overstrength position here to go meet that need. I think the challenge would be, is full-time city staff, to go

through and meet a one-time you know activity that's here today. And I mentioned the cell phone companies, that there's a company that's working through that I think has 180 sites that they want to move through city. And so we want to get a sense is, how fast do they want to do that? Is this a one-month project or a year and a half project? Because then I can figure out in the staffing what it takes in fire, planning and building to do that? And see all right, do I staff up for that or do I go through and kind of just slow everything else down where I've got this moving through and then at the end of that it goes away? That's what we're doing on a monthly basis is try and figure that question out. But why, you know, in the past we've always done this as a part of regular staff, full-time, which is a bit challenging right now where we've got a lot of uncertainty going on. And I know that's not always a popular topic, it's not a popular one with us, about do we start doing contractual staffing for some of this? But it is something I think we need to think about, if being able to deliver time frame is the most importantly thing versus other -- is it cost of service or a number of other issues.

>> Paul Krutko: Let me build on that a second. One thing that the council knows and I know that the mayor knows, is that many of our leading companies -- this isn't a question about their willingness to pay. In fact, we have the notion that some people want to pay to get a higher level of service. What we're trying figure out, and that Katy spent some time on that single slide which was probably worth more conversation, is we're really trying to figure out how we can build that capacity to move people around to respond to those opportunities. Maybe we need people working on one area of the development review process for a particular type of project how can we shift them to another area? Joe's right. I think we're going to need to have the flexibility to grab resources from wherever to respond to the company. Because the company doesn't really and seriously care about how we're organized or who's doing the work. But in many instances they're ready to write the check. If we can say to them, you're going to get it by a certain date. So that's what we're trying to figure out and it's one of the really strong service consolidation efforts that we're working on is the part of this economic crisis.

>> Councilmember Liccardo: And I agree, appreciate the challenge that you have and I guess what I'm looking for is for some guidance for us as a council. But what we need to do to enable you to have that flexibility, if it's a question of being able for instance to go to reserve fund at a time when you know when development confident is clearly picking up if we need to change a rule to enable you to do that if we need to change a rule to enable you to contract for employees for a limited period of time before you take them on as full time because you don't know whether this is a one time shot or this is sustained, you know what do you need from us to enable you to be as flexible as possible? Because we all want to get ahead of the recovery and take advantage whatever job creation we possibly can.

>> City Manager Figone: I'm wondering Joe or Jennifer if you could just describe, I think the what the councilmember is asking is our own cash flow and be able to front perhaps some cost knowing that we can true it up perhaps at the end.

>> Councilmember Liccardo: Right, that's part of it. If there are obstacles to you doing that, what can we change to enable you to do so?

>> Joe Horwedel: Yeah, so right now, one of the things that we're looking at doing with the administrative hubs is to actually consolidate our workers, we have the ability to move those between the different programs easier, you know, all within the full confines of the law. But also, I was looking at how we do a better job of moving people around, where the needs are. We do a lot of it today but we can do more of it. But the real pinch point is going to be at the end of the day is that if I'm paying somebody to do something today and I'm incurring those costs is how do I go through and not get myself into a hole, where I'm not going to get recovered on those costs? Because our reserves we used to be a \$10 million reserve in the development program. We're down in the million dollar range. That burn rate, you know, that's two weeks worth of work.

>> Councilmember Liccardo: Right.

>> Joe Horwedel: It is just, we are on such a thin margin that we're looking at how to go through and stretch out but literally not go bankrupt doing it.

>> Paul Krutko: Joe do I have it correct that included in that reserve category in the past is a sort of works in progress activity too so you know we have money that folks have given us for work that they expect to get done. So --

>> Councilmember Liccardo: No, I appreciate you're operating on thin margins. Where you mentioned obviously the various departments that require coordination, and certainly meaning no slight against any department director, but is this opportunity as we're talking about being smaller as an organization, to

move beyond the applicant pinball of folks bouncing between department heads, to try to move Public Works, planning, fire, all those folks under a single department head?

>> Joe Horwedel: Yes, the slide Katy talked about is exactly that, is that we really looked at what was the problem statement? That if our customers are experiencing either gaps or overlap, how do we go through and make sure we have no overlaps and we have no gaps? And whether that's in one department, three departments, 17 departments is really irrelevant to the customer. It's how we operate as city staff delivering that service. So what we were working forward for the administrative hub, the project management and then there were six items that were listed underneath that, those all around how would we operate much more effectively than we do today? You know as I think we accomplish a lot with what we have, but, you know, to go that next step, to be even more efficient and to deliver the better service, that is what it's going to take to get there. So the service consolidations you see up there, those were all things where there's either multiple departments or multiple parts of departments involved in the service, but there isn't necessarily a clear owner of it who is responsible from the start to the finish of that issue. Whether it's subdivisions or grading or green building, there's a lot of people involved in the city, and we just want to make sure that there's a clear owner who is responsible to the customer.

>> Councilmember Liccardo: Thank you. I better understand that now. I don't think I got it the first time so thank you. The last set of questions I have really relate to the arts and I know that Paul, I know that you're undoubtedly your team is hearing from it from the commission and other folks about all kinds of unease relating to the use of T.O.T. money and so on, so forth. I'm looking at a memo you issued on March 29th. I don't expect it to be on the top of your memory bank. It relates to the multiyear arts grant stabilization fund and the conversion of that fund to backfill what we know is a loss of T.O.T. revenues because of the economic reality that we're facing. And as I look at the plan in terms of the funding it front-loads the money in the first two years of the next four years which makes a lot of sense. And my question is, is if we were to expect the convention center we hope, the expansion would be done by 2013, is that a fair assumption? Or is that not a fair assumption?

>> Paul Krutko: Let me put the director of Public Works on the spot.

>> Katy Allen: We have a schedule and we're showing completion of December of 2012.

>> Councilmember Liccardo: Fabulous, even better. Would it make sense to move those last two years, I know you're looking at me like I'm crazy here Paul but I'll give it a shot, take those last two years, move them into the front year to pay for staff that's currently being consumed by T.O.T, perhaps to forestall this ongoing debate over scarce T.O.T. being used to pay for city staff instead of grants, and then that way, perhaps when we need to have that discussion, we'll be having it in the context of rising T.O.T. rather than shrinking T.O.T. and by that I'm reaving to roughly at this point it looks like maybe 100 -- a little over \$200,000 between fiscal years 2012 and 2013?

>> Paul Krutko: Councilmember, yeah. What we're proposing and let me go back and contextualize what we're proposing. You have a relatively small office cultural affairs staff. If you go out with me on page 7-46, you're going to see that the authorized positions this year are 12. And we're reducing positions to 10.6 and we're proposing a relatively modest funding shift of 1.5 positions into the T.O.T. That staff, that number that we're showing you is not only -- is not -- includes the milk arts staff, it includes the event staff, correct, am I -- correct? Yeah, no, you're missing my point, Carey, I'm sorry, I'm confusing things. But the point I'm trying to make councilmember is we're proposing a relatively modest funneling shift. And what we have been communicating to the arts commission and reasonable persons can disagree reasonably and that's what we're doing, when we gave our proposal to the City Manager what we were indicating is we need to retain core staff capacity in OCA to deal with the extraordinary difficult events that we crowned. We've had American musical theater close its doors. We've had continued work that we needed led by Kerrie and Kim relative to the Mexican heritage plaza. The rep has had significant issues, so on and so forth. And the concern that we've had is, we very much respect the idea that the arts commission is bringing forward, the leadership is bringing forward, that you know, the bargain on T.O.T. when it was struck many, many years ago talked about using money for programming, and General Fund resources being used to support staff. We showed you, you know, over a half a billion dollars of budget shortfalls over eight years before we ever got to this point.

>> Councilmember Liccardo: Paul, believe me I'm not arguing the point that you're making. I don't disagree with a thing you've said at this point. The point is that isn't this conversation, if we have the ability, with the existing multiyear arts grant stabilization fund and the way it's being reallocated over four years, we have the ability to simply reallocate some of the outyears and use that to pay for city

staff. Wouldn't it make more sense to have this debate about how we use T.O.T. revenue in a context where T.O.T. is actually rising rather than when it's shrinking and all the arts groups are --

>> Paul Krutko: Yeah, I think the key thing was that the mayor's message last year wanted us, you know, we were to move forward with the plan, to try to identify other resources, to ameliorate the declining funding sources on arts organization this year. And the plan, as it is right now, is substantially front-end loaded. The plan we have now in 10-11 is bringing forward \$475,000, next year it's bringing 220, and then it drops because we're running out of available resources, it drops to 135 and 67. So the best we could bring forward would be approximately \$200,000.

>> Councilmember Liccardo: That's exactly what I --

>> Paul Krutko: I understand. That would mean that we wouldn't have any resources to deal with shortfalls two years hence. Clearly, that's a councilmatic decision. The question is, how -- I'm answering your question in a positive way -- the question would be, what can you -- you can accomplish a lot of balancing a shortfall when you're bringing forward \$475,000 and even \$220,000. But when you get to those next two years, you're not going to be able to really impact. If things go the other way we'll have a broader array of problems. So the notion of perhaps bringing those dollars forward is something that is certainly worthy of consideration.

>> Councilmember Liccardo: Okay, thanks Paul. And I guess just the last point and this is a really small one. I know we've got a strong advocate on the commission, actually several strong advocates on the commission for the champion of arts education program. My understanding is, you know, that's at least as it's been explained to me and I may not understand it well, to donate the awards it's pretty well programmed to the point where we can partner with some organizations like the county office of education essentially without having to really spend any significant resources at all on that. If we're able to get a program like that off the budget is there any reason why we couldn't simply continue to have a program, that is, be a San José hosted program so we could host the event at the end of the year at City Hall?

>> Councilmember Pyle: If I could bring Kerrie down to the podium, I think that's essentially what she's trying to keep alive.

>> Thank you, Councilmember Liccardo. That's exactly what we're doing. We're currently exploring any partnership opportunities that might be available through Santa Clara County office of education and also with arts council Silicon Valley. They expressed some interest in that particular award program. The award program, the cost of that, is approximately \$500,000. So that's something that we see that we can continue.

>> Councilmember Liccardo: Okay, great, thanks a lot.

>> Mayor Reed: Councilmember Herrera, are you ready to get back to the other question in the other area you wanted to talk about?

>> I actually just -- -- I had another question on this portion, and that was the remodeling that we talked about, 2400 of them happening per year Joe. I'm sure you're already looking at this but I was wondering what are you looking at in terms of being able to maybe look at providing a different kind of service for those projects that are smaller in nature, and is there any possibility of creating more of a cookie cutter kind of -- any automation any kind of you know, idea being able to -- so we don't have so much of our resource devoted to something that's not going to produce the revenue that some of these bigger things would?

>> It is -- as it relates to single family remodels, it is extremely labor-intensive, and it's one that every one of them is unique. As a home owner who's gone through the process twice of adding onto their house, I can attest to that personally, and from the ride alongs that I do, things like water heaters, it is possible to do that, reroofs, and we've already done a tremendous amount of that. We have most -- or a large chunk of reroofs are done, filed for online. So the roofing companies know that they can do that. They don't have to come see us. We're doing more with inspection scheduling so that the contractors and homeowners can do that without talking to city staff. So we're looking for those kinds of opportunities. We are looking at some more in the way of the permits middle so that people don't have to come see us. But at the end of the day, working with the building codes, which are getting thicker every time they get adopted across the country, just the requirements that exist is really hard to have a cookie-cutter solution. We are looking at it, though, as some of the things I mentioned, the cell phone companies, of giving them a template and say, if you go do these things then we could move you through a lot faster through the process as opposed to doing every one of them different. This they standardize them, it allows us to standardize on our service delivery.

>> Councilmember Herrera: Thank you. I know you would have already thought about this but just thought I'd ask it. Going back to the first -- the proposed operating budget or review, I was just curious about, it's slide 9 on encumbrance reserves. And then there's also earmarked in contingency reserves, so I'm just adding it in my head, I guess it's like \$26 million in encumbrance reserve and 43 million in contingency reserve. And I wanted to understand that a little better. Encumbrance, those are allocated to projects that are currently ongoing or?

>> City Manager Figone: That will be answered, councilmember, by Jennifer Maguire.

>> Jennifer Maguire: Thank you. The encumbrance reserve balance is something that is a -- it's moneys that have been reserved for projects as you described. The encumbrance reserve is -- right now, it's basically set at the previous year's level of \$25.8 million. And what happens during the year is, the encumbrances get liquidated. Last year at this time, because the finance department did a major effort and yore hauled the policy related to encumbrance reviews, that last year that number was \$43.6 million. So encumbrances on the books have really come down. We do every year as part of our fund balance allocation estimate the liquidation of encumbrances that do foul the fund balance and they become a funding source for the city council the next budget process. We're estimating about \$3 million of liquidations of encumbrances in the coming year. We're going to put an MBA out on encumbrances and our policy which I don't think the council has seen, and so you can understand how we deal with those on an ongoing basis as project expire and as the year progresses. As far as the contingency reserve is concerned, the contingency reserve is set, at council policy, at 3% of expenditures. So that's what the contingency reserve, at \$29.3 million, is set at for 2010-2011. I do need to let you know that the contingency reserve which we don't use, has never used in my 19 years here for budget balancing perspective is really an absolute catastrophic reserve set in place by the city council. That would only, at this point of how our payroll costs have increased, it would only cover two and a half weeks of payroll if we have a major disaster in the city organization. So it's really not a large, healthy reserve. In fact, if we were to ever get some more dollars in this organization I think that the City Manager and I have discussed it, we'd probably recommend to the council to start increasing that reserve to at least higher -- to at least cover one month of payroll, police and fire and the rest of the organization. The other reserves in there are reserves that we have shown in that pie chart would be like the unemployment insurance reserve that is described in the balancing strategy, that we need to set aside for '10-11 based on our balancing strategy.

>> Councilmember Herrera: So the number I was look at was, it says earmark and contingency reserves of more than 5%, which is more than -- I'm assuming 5% of the General Fund is what that 5% means. But that's more than 29.3.

>> Jennifer Maguire: That would contain the \$29 million contingency reserve, and about \$14 million of earmarked reserve, which is 9.5 is unemployment reserve, and then we have \$200,000 for the general plan update, a little bit of salary and benefit reserve for our health -- our increased -- projected 10% increase in health cost projected January 2011, and retiree health care, matching funds that would be the City's obligation if we could get into a five-year phasing plan with the international association of firefighters. So that's the only reserves that we have in that category.

>> Councilmember Herrera: Are there other reserves in this budget? Because I keep having people ask me questions about reserves, that the city has all these funds and reserves in other areas. Am I replying some other reserves that the city has?

>> Jennifer Maguire: We do have other reserves that we will be bringing forward later in the budget process to rebudget. Whether or not there would be carryover funding, for example we have a \$10 million workers compensation general liability reserve that the council has, if we had a major claim against the city. That reserve used to be at \$15 million but several years ago we decided \$10 million was a more appropriate level. We have those types of reserves. If you were to look in our adopted budget book or even -- or page -- I guess it's section 9-45, there is description of the earmarked reserve, you'll see what we had for adopted and what we're proposing. And you'll see us bringing back some recommendations to rebudget some reserves as we go forward in the budget process. Another area of reserves is what Joe Horwedel was discussing and Paul Krutko was in our development fee area, we have those reserve and we've had just a few other reserves, that I'm trying to give you some examples. Like retirement prepayment reserve. We had a \$1.8 million retirement prepayment reserve. We're recommending to liquidate \$800,000 out of that reserve as part of a balancing strategy this year. But we don't know what the rates will be set when we actually -- when the retirement boards set those discount rates, so we need to have a reserve to go. So if we underfunded the departments we can use that. So we really don't have

a lot of reserves, but you'll see some more be brought forward through the next phase of the budget process.

>> Councilmember Herrera: Jennifer, thank you for going through that. And I realize it's all through the budget, and I've been looking at it. But I think it's for people listening to this too that I'm concerned that we make sure that we really educate and people understand what money we do have in reserves and what that money has to be, can be used for. And so I would appreciate as we go forward that we really explain that. Because as I said I've had people e-mailing me and asking me about reserves that are much larger than what I see here. So I think in years past we probably have had larger sums of money in reserves, but we really need to make sure that we all understand what we have and what it can be used for.

>> Jennifer Maguire: Yes and I think you know one reason -- we do have some of a couple of the reserves that we just don't have in play this year which was if we had left over fund balance we would have a future deficit reserve we weren't able to establish that this year, and the other reserve which I consider more of a contingency reserve is the reserve the City Manager was describing, which is the economic uncertainty reserve, which is sitting at \$5.5 million, which, you know, hoping not to have to use this year. But we are concerned with our sales tax projections, if we may need to dip into that like we did last year in June when we get our next quarter's sales tax results.

>> Councilmember Herrera: And also, I mean, if there are opportunities, like Councilmember Liccardo was pursuing with looking at possibly loaning money for development purposes, where it would be paid back from the project. If there are other opportunities like that where we could use money on a temporary basis from reserves and we knew that it was secure I would be very interested in looking at any kind of creative, legal, prudent things that we could do to maintain services and move forward with fewer cuts.

>> City Manager Figone: If I could just jump in a minute councilmember. Jennifer, perhaps we can issue an info memo here in the next week or so that just talks about reserves and at least points people to the right places in the book to understand reserves and I think there's often a question of what is really discretionary versus what is required to hold onto, due to legal constructs around particular funds. So I think perhaps we can at a high level answer some of those basic questions.

>> Councilmember Herrera: I guess my last comment is, kind of the distressing numbers that were put forward on, we were talking about the General Fund forecast, 2011 to 2015, forecasting that in the year 2014 to 15, 70 police and fire retirement is going to be 72% of the payroll cost and federated, 43%. That is very concerning. And I think as we go forward in looking at this budget, the frustration of a lot of people, every year we continue do have these deficits and we continue to budget cut and solving these deficits, and it's the ninth year. I think unfortunately what we have sometimes is the tip of the iceberg. We have the General Fund shortfall and we have looming ahead this iceberg like we're the titanic heading for it with the retirement situation. And it's something I really think we need to make sure that as we're explaining all of this to -- so we understand it as well as the public that we not only see the tip of the iceberg but that we do understand the iceberg that's in front of us.

>> Mayor Reed: Any other questions? We're just about do with this subject matter. I had a couple of more questions on reserves.

>> Paul Krutko: Mayor, could I just one thing. Councilmember Liccardo, I got a -- I have a better understanding of the area you asked me a question on, so I think we need to either do an info memo or an e-mail to clarify that. Because the future year funding is actually projected, you know, we take 10% and create a reserve every year out of the T.O.T. That's projected reserve money. The money we have now for the first year that's the General Fund and that's all there is. The five year is our money we would collect on a reserve. So front end loading it, let us explore that, I understand your concept and get back to you.

>> Councilmember Liccardo: Okay, thanks.

>> Mayor Reed: Back to the question of reserves. The emergency reserve fund, is that a contingency reserve?

>> Jennifer Maguire: No, that's not. There is a separate emergency reserve fund, a separate established fund by the city charter. I think it has around \$3 million if my memory is serving me correctly and they're look it up. That really is for like FEMA related disaster fund, that's how we've used it, if we need to front money from that fund and we get reimbursed from FEMA activities. In fact it is almost \$3.4 million.

>> Mayor Reed: Okay. Councilmember Oliverio.

>> Councilmember Oliverio: I just wanted to comment that I would find that memo incredibly useful on the reserves because I think as Councilmember Herrera has said, that a lot of people come to you with lots of questions. And a lot of times if you don't have the correct answer they spread urban myth, which

then complicates our situation having to make the hard decisions, and I'd be happy to actually give you some thoughts on how to make that easily understood, if you have the time.

>> Jennifer Maguire: All right, thank you.

>> Mayor Reed: I know somewhere in this budget because I have seen it, I just can't put my fingers on it, is a list of the fund balances that were transferred as part of the getting the \$55 million before we get the service reductions. And that's the best list of places that people think of, we got money in reserves, that aren't technically reserves, which we have scrubbed and transferred as much as possible. I just don't know where that is in the document. If anybody does, point that out, that would help.

>> Jennifer Maguire: It is in our General Fund revenue estimates section, it's a tab. So let me get you the page number. It says -- it's starting on page -- starting on page section 6-34, to the end of that section, under beginning fund balance where we talk about our transfers in as well as the liquidation of reserves that we are recommending to balance this budget with.

>> Mayor Reed: So that list, and I've seen it in other forms in here as well. But I'm at page VI, 35. And then there's almost an entire page list of various transfers and reimbursements. That's what you're talking about?

>> Jennifer Maguire: It follows on page 36. So that's where you can see a lot of the balancing strategies in there. Each of those bullet points shows the variety of transfers we found in other funds to help us with this budget balancing strategy.

>> Mayor Reed: That's one place to point people, if they want to know if we've got money sitting out there in reserve and other funds and places, which we've done a pretty thorough job I think of trying to find those places where you can move money into the General Fund.

>> Jennifer Maguire: And then on the top of page 37 on the right-hand corner is the description of the unexpended earmark reserves, getting back to Councilmember Herrera's question of ones that we're recommending to cash in to help balance this budget as well.

>> Mayor Reed: All right, any other questions in this section? Today we're trying to cover the Community and Economic Development CSA. Seems like we've successful done that. I'll see if there's any comment from the public because that's also on the agenda. I don't have any cards. Do we have any cards that have been turned in? So we don't have any public comments again. Council if you want to prolong this a little longer, we can do that, we're ahead of schedule, never hurts to start out ahead of schedule, 20 minutes at least. I they we're done with the budget today. The next time we take up the budget is Wednesday may 12th starting at 9:00 a.m, starting with ABC neighborhood services as well if we get done with environmental, which I think we well. Tomorrow is a regular council meeting. Thank you, we're adjourned.