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>> Mayor Reed: Started we have a quorum, our members will be with us shortly. Everybody have a seat. This is our annual session with councilmembers and senior staff to talk about priorities. We've done a little bit differently every year and this year will be no exception. We've got some different approaches for things and we'll work our way through it. Some things we won't be doing today, we won'ting going in depth in the polling information, because that report is on tomorrow's agenda. We'll talk a little bit about some of the aspects of that. We will not be making decisions on the priorities for ordinances, got a long list of those, we'll talk about them today. But we will vote on them tomorrow in the afternoon session. We're not making any decisions today, this is really a study session to try to give us baseline information and bring everybody up to speed of where we are since we last got together and talked about some of these issues. But it is a part of the process. Ultimately, council will have to make some decisions in March with the March budget message. Some work to be done before then but on March 9th I'll release the budget message. March 20th is the council meeting in which we'll make decisions. Some of the things you'll be hearing that will be coming out between now and March 9th, I don't know exactly when the results of the neighborhood association study session that we had a few weeks ago are going to be out, Kip do you know--

>> Any moment now.

>> Mayor Reed: So probably out. But probably, you haven't had a chance to read them. But that's not the point of today, anyway. That's for background for future council decisions. But they are out at part of the lead-up to the budget process. So this afternoon we'll get a status report on fiscal reform plans the council adopted a year ago, not quite a year ago. We're going to discuss some guiding principles for restoring city services. As I said in my state of the city speech we're finally at a point where we can begin to start thinking about restoring services and the council needs to be in a setting of how we go about such a discussion. Not about the individual items that need to be restored but that we're going to try have some guiding principles as we microphone in that direction. And then we'll have -- move in that direction. And then we will have -- staff will talk about the available and council can talk about all the ordinances in the priority policies before we vote tomorrow. Just to sort of go back to a year ago, when we met here February 14th, a year ago, we were facing a very large budget shortfall in the next fiscal year. And as you all know it will, we closed that shortfall, ended up having a balanced budget,

probably because we didn't have a choice. We are required to balance the budget under our own state charter and we did. But everybody will certainly remember the difficult decisions that we had to make in order to balance that budget, including cutting our workforce, again, and laying people off. But things, while are not perfect this year, they are better by comparison because next year's gap that we're looking at is not nearly as big as what we faced last year. But I think the council can take some comfort from the fact that the decisions we made had an impact, not just on this year's budget, saving a lot of jobs including police officers and firefighters and everybody else but it also had an impact beginning to slow down the rise in retirement costs and we'll talk a little bit about that. But over the last ten years we've cut 2,000 jobs out of our city. I'm cautiously optimistic that we're done with that, won't have to do that again, but that remains to be seen. But at least we have an opportunity to be in a position where we don't have to continue to shrink our workforce. Because I don't think there are many of us who think we have very much shrinkage to go, we're already shrunk too far. Part of the fiscal reform plan, we drew the line at January, saying January of last year was the minimum level of service that we should provide to the people of San José and our objective in the fiscal reform plan, two objectives, one is to make sure our retirement plans were solvent so our employees would get paid what they earned and accrued, and the other was to restore services to at least the January of '11 levels. Not that those levels were all that much to brag about, because we have been cutting services for a long period of time, but to at least try to get back to that area. That was the basically elements of the fiscal reform plan. But we did close the budget, big as the gap was, we shrunk some more, but we had an impact on the retirement cost and we are beginning to see them slow down a little bit, hear today about where the staff thinks we might be for the next fiscal year and years out on those areas. But again we're not making decisions, not asking councilmembers to make decisions today. This is really a chance for the senior staff and the council to be in a discussion about the priorities going forward, not the specific decisions that will ultimately be made by the council in the budget process as we go through it. So with that I think I'm turn it over to somebody else, I'm not sure who that somebody else is. It's City Manager Deb Figone.

>> City Manager Figone: Thank you mayor. You framed things very well. I don't have much to add. The staff has put a lot of thought into this study session this afternoon. As was indicated in your staff report, over the last few years we've used this as an opportunity to engage with the council for many things. But in particular from my perspective, to ground ourselves in where we're at in this part of the budget process, which is really in the early

stages. And I think given the great challenges that the council has faced, and the senior staff and doing yeopersons' work and balancing the difficult budgets we've faced each year, it's really important to ground ourselves in where we're at now, the progress that you've made and what lies ahead for this next budget cycle, and in the foreseeable future. The mayor talked about the stages of the process that are going to unfold. I do think it's critical that we keep in background the fact that over the last ten years we have had to cut 2,000 positions out of this workforce. That is very significant. I think even more significant, though, is that 1600 of those have been reduced over the last three years. And there's still a lot of fallout happening from that, a lot of settling down that's going on in the organization. And so when you think about our good news, of only 25 million next year, you really have to think about that in the context of where we've been and what might remain. So that's an important part of today's grounding. I think we all know that financial stability is absolutely critical. For us to be able to provide your constituents with the services that you know that they want, and that you want to provide them. We will talk a little bit about that today, in terms of some of the principles that we've drafted as initial concepts for guiding the restoration of services, if we do have that luxury. And there may be some decisions, especially in critical areas, that are very high-risk going into next year's budget, what we will need to draw on those principles. Because I will tell you I personally am very concerned not only about the direct service delivery that we know the residents rely on day in and day out but also the administrative infrastructure of this city. It is very tenuous right now. The analytical support to get the kind of work done that we need to get done to even prepare for days like today, or the basic controls that we have, in either our information technology or HR or finance systems. Those are business imperatives. And so we also have to think about those strategic support areas also as we think about service restoration. One last thing and then I'll tell you what we're going to -- how we're going to proceed next. Is the mayor recapped the process, as specified by the charter, in his message. But the real key document that Jennifer's going to release in a couple of weeks is our forecast. And that will official begin the administration's work in preparing for 12-13. So today we're going to start with a couple of things. First of all, we will be taking a look at the fiscal reform plan, where we're at, of the options that are still on the table, how those line up with the problem that we have yet to resolve. And then we're also going to be discussing preliminary projections for retirement plans. Because of the focus on projections and retirement form in general we will be starting with the discussion of some very important information on actuarial valuations, and actuarial assumptions. Because I believe it's absolutely critical that we continue to ground ourselves in an understanding of the drivers of cost in this

very, very complex system. And you know, where we might continue to find variation. I think it's also important to note that regardless of projections, what we do know is that our current costs are very much unsustainable within our current revenue system. And the revenues that we can expect over time. Just to give you an example of that, we're facing extra almost 60% contribution rates for Police and Fire pension alone. And so what this means is if we add an employee who earns a base salary of \$100,000, the City's paying an additional \$60,000 a year for retirement benefits alone and this doesn't include retiree medical, dental and other elements of cost for active employees. So retirement form is a difficult topic. It's a difficult issue as we all know but it's absolutely critical to achieve the sustainability of our benefits that we must achieve for our employees and our retirees. With that I'll turn it over to Jennifer Maguire our budget director to get started with our fiscal reform update and then Alex Gurza our deputy City Manager who will provide an update on retirement cost. Mayor we'll pause there if it works for council and senior staff for Q&A on those sections before we proceed on to revenues and the other dimensions of our presentation today. So with that, Jennifer.

>> Jennifer Maguire: Good afternoon. As you're aware, as part of the city council's approval of last March's Mayor's Budget Message, staff was directed to develop a fiscal reform plan as part of the 11-12 budget process. The goals of that plan were twofold. One was to achieve cost reductions and/or new revenues for General Fund, that will address the projected shortfall over the forecast period, restore services to the levels of January 1st, 2011, that was for police, fire, libraries and community centers, and open libraries, community centers, fire stations and the police substation built or under construction within five years. The second goal was to maintain retirement cost at the 2010-2011 levels which was \$186 million, all funds. With the approval of the 2011-2012 budget, where a \$115 million General Fund shortfall was eliminated, progress was made towards the fiscal reform goal. This slide provides an update to the ongoing funding needs that are estimated over the next four years, from 2012-2013 through 2014-2016, to achieve fiscal reform plan goal number 1. In total, the current projected general fund cost to resolve our ongoing shortfall, restore city service levels, and open new facilities is \$96 million. As the City Manager previously noted, however, the budget office is in the middle of updating the general fund five year forecast. Therefore, I'd like to emphasize that the \$96 million number shown on this chart will change later this month. Nevertheless, for now, this is still a valid planning number based on the information we have in hand. There are three components to the \$96 million number. First is the estimated General Fund

shortfall for next year that must be resolved. The preliminary estimate as you know for 12-13 is a \$25 million shortfall that was updated at the beginning of December. Second is the General Fund projection for the remaining three outyears of our last February 2011 forecast which estimated a \$35 million shortfall for that period. Finally is the estimated cost to restore services to January 1st, 2011, levels, as noted on the previous slide. The \$36 million figure shown here has been revised downward from the \$55 million first presented to the city council in the fiscal reform plan based on two factors. Not all of the eliminations that were contained in the proposed budget went forward. Therefore, those items were removed from the restoration list. And not all of the services that were eliminated are recommended to be restored, as changes that were implemented reflected we felt a more efficiently service delivery model method. For example, from going from five to four firefighters on a fire truck. The list of restorations will need to be revised as resources become available and we can plan to meet the service needs of our community. The discussion later in the study session will focus on considerations for restoring service level. So what are the major factors that are likely to change in our upcoming forecast? And we'll modify that \$96 million fiscal reform plan funding needs number. Well, first is revenue growth rates. As always, all of our over 450 General Fund revenues will again be analyzed for the forecast. Both the economically and noneconomically sensitive revenues are subject to performance changes based on the volatility of the economy as well as utility rate forecasts, overhead rate changes, and fee activity levels, to name a few. The second factor is retirement related costs. Based on the newest valuations approved by the Federated and the Police and Fire boards, the city's retirement contributions for pension and retiree healthcare will be updated and the new projections will be factored into the late February forecast. Next is the SAFR grant funded firefighter positions where a total of 49 sworn positions were recently added back and funded by the federal government through 2012-2013. The ongoing General Fund cost to continue 35 of those positions beginning in 13-14 is estimated at approximately \$7.5 million annually. Those costs have not yet been incorporated into our next forecast. The cost of 14 of the firefighter positions will be excluded as they are deployed at and would be funded by the airport if they were to continue. For the COPS grant-funded police officer positions, a total of 19 sworn positions are now funded through 13-14. The ongoing cost for those positions beginning in 14-15 is estimated at approximately \$4 million annually. That also has not been included in our forecast, and we will include those in our next round. Finally, with the recent dissolution of the San José Redevelopment Agency, the administration is working to update the debt obligation waterfall to get a better estimate of what General Fund impacts we may expect for 12-13 as well as

over the forecast period. The preliminary forecast that was prepared in November had assumed an ongoing \$20 million impact without knowing the fate of the agency. That number will likely change once we have completed and updated our analysis based on the currently legislation and circumstances. This next slide is one that we've put out from the beginning in our fiscal reform plan, but it has been updated. It's our updated scorecard which shows our ongoing cost reduction and revenue strategies. If all the strategies that were listed here were implemented, it is estimated that the anticipated cost savings and revenue increases could total about \$119 million over the next three years. The items still on the menu of strategies include additional retirement contributions or opt-in, which is the most significant cost reduction strategy on the list, with an estimate of \$39 million in savings. Due to potential delays in implementing the opt-in strategy, for example getting IRS approval, the savings show here are calculated only based on additional employee retirement contributions where employees would share up to 50% of the retirement unfunded actuarial liability or UAL based on the most recent city council approved pension plan ballot measure. For the Federated employees retirement plan the UAL is approximately 26%, and for the Police and Fire retirement plan the UAL is 24%. Based on the maximum annual shift of 5% in costs from the city to employees, as shown on the slide, the phase-in of the retirement contribution shift is currently estimated to take place over a three-year period with 5% in 12-13, another 5% in 13-14, and approximately 2 to 3% for 14-15 depending on the plan. The next strategy is retiree health care, and the 13.9 million shown on the slide is the estimated savings reducing the lowest cost health plan by 25%. The eliminating of the Supplemental Retirement Benefit Reserve, or SRBR, is next with savings of 8.8 million estimated. The elimination of sick leave payments upon retirement is estimated to generate \$6.2 million in savings, that's our latest estimate of how much we will be carrying in our forecast for those payments next year. And overtime savings of approximately \$1.2 million are on the list which represents the elimination of overtime eligibility for classifications which are considered exempt under FLSA rules. On the revenue side, a quarter percent increase in sales tax, if approved by the voters in the November election, could generate a total of \$32 million annually for the general fund. If a one-half percent increase was approved, that would double the number to \$64 million. As we have learned more from the state board of equalization, the revenue estimate has been slightly discounted, the numbers you've seen previously, to account for the fact that the local tax would be applied on a slightly different basis. It would be more of a destination tax such as for cars and business-to-business transactions than a point of sales tax. If a sales tax increase passes, a November 2012 election would result in the increase being effective

April 2013, with a June 2012 election effective October 2012. Business tax modernization is now estimated to generate at least \$10 million annually. A previous conservative estimate was \$5 million for this tax. More information on the business tax modernization work plan will be presented later during this budget study session by Kim Walesh. Finally, the disposal facility municipal water tax revenue items could generate approximately \$7.5 million. An increase to the disposal facility tax from \$13 to \$17.50 per ton could generate an additional \$5 million, and a new municipal water tax on 10% of gross revenues is estimated as \$2.5 million in annual revenue. When you look at both sides of the equation and put them together, as you can see on this slide, the current level of ongoing funding needs of approximately \$96 million could be met if the majority of the fiscal reform plan ongoing solutions were implemented. However, it will take both cost reductions and revenue strategies to meet the General Fund structural deficit elimination and service level restoration goal that has been set forth by the city council. If every cost reduction strategy shown on the previous slide was realized, that would amount to about \$69 million. Conversely, if we relied on just the revenue strategies alone, that would only amount to about \$50 million. In isolation, these strategies would fall short of the goals. Therefore, we need to keep the combination of both type of strategies in play as we move forward with a fiscal reform plan which has been designed to ensure both the long-term fiscal stability of the city and the delivery of services that should be provided to our community.

To conclude with my section of today's presentation, I do want to requirement everyone that there was been significant progress in recent years in addressing the City's severe budget problems, but that progress as we all know has had a big overall cost to our community in the loss of services provided. Just looking at 2011-12 and since the fiscal reform plan was first approved, we solved \$115 General Fund shortfall with about 70% or \$80 million in ongoing solutions. Those solutions contained a 10% total compensation reduction for every city employee, service delivery efficiencies, and the implementation of new service delivery models, and unfortunately the continued default strategy of eliminating and reducing services which resulted in a net 440 citywide positions eliminated last year alone. As we look forward to 2012-2013 budget process, I'm hopeful that the size of the \$25 million General Fund shortfall currently estimated for next year, which again is going to get revised in a couple of weeks, that we can achieve some service level and organizational stability while the strategies of the fiscal plan are implemented. As presented in the mid year budget review that will be heard by the city council tomorrow, there will be some one-time funds available to temporarily backfill any of the fiscal reform plan strategy timing that does not work for July 1 implementation date. However, to the extent that we are able to get to the ongoing

strategies over the goal line as close to July 1 as possible, the one-time funding would then be available for other high-priority critical needs in the city such as beginning to address the city's unmet deferred infrastructure backlog, for technology improvements, or to pay down debt, to name just a few. Because the numbers in our forecast and the cost to restore services will continue to be revised as we move forward and as new information becomes available, we think it is important to discuss in more depth one of our biggest cost drivers that of retirement costs, and the complexity of those projections. With that, I will now turn the presentation over to Alex Gurza for that portion.

>> Alex Gurza: Good afternoon, Alex Gurza, Deputy City Manager. As we switch presentations here, I want to take an opportunity to mention that this presentation is not to provide a labor negotiations update. But we are at a critical time in retirement form discussions with our 11 bargaining units. We're actually in mediation in different groups with all 11 and in fact mediation is occurring today with six of those 11 bargaining units. Mediation is confidential, and that is why you, members of the city council, employees and the public, aren't seeing the frequency of updates that we provide on our Websites. We have an unprecedented amount of information that we provide to the public about labor relations, but since mediation is confidential you're not seeing those updates. So I wanted to take an opportunity to mention that. So this presentation is about retirement projections. Given all the media reports and the stories about retirement projections, you can imagine we didn't get a lot of volunteers to give this presentation. I actually was looking for some before the presentation started. I fully realize that every word I am going to say, although may not be thrilling talking about actuarial work, will be listened to and looked at later, listened to in the future, in looking at whether some of the projections that I'm going to talk about were correct or not. I want to mention that none of the projections are going to show are ones that I calculated. I'm not an actuary. I don't pretend to be one. So almost all of the information that I am going to show today are actually from other documents, from actuarial reports, spent a lot of time looking at what kind of information that I could present that really comes from other reports that we have. So we're going to do the best we can to present information as we know it. In talking about future costs of defined benefit retirement plans, the only thing you know for certain is this year's bill. After that, it's a projection. They're educated projections made by actuaries. And so we're going to let you know about what we know about future costs. One of the things that I wanted to clarify is all these numbers that have been out there, 400 million, 431, 650. Want to mention that that is a future projection

for what the City's retirement costs are anticipated to be in fiscal year 2015, 2016. And in order to know that, you have to have actuaries give you really four numbers. What will the City's contribution rate be for pension in the Federated system? What will the City's contribution rate be for pensions in the Police and Fire system. What will the City's expected contribution be for retiree health care in Federated? And what are the anticipated retiree health care costs to be for police and Fire. So those sum of those four numbers, when you total them, is what is coming to these variation projections that you've heard. Since last week there's been media reports, and we've heard from our city employees that they think that a new revised number is out that makes that 400 or 431, we've heard 295, \$295 million, we have heard 300 million. We actually don't know where that number is coming from. And that is because all of those four numbers that I mentioned are not complete yet from the valuations. Three of the four are. So if there is anybody, whether media, employees, bargaining units that have information about where that \$300 million number is coming from or documents, we would really appreciate receiving them so that we can review them. Now, again, as I mentioned, one thing is for certain about the numbers we're going to present. They will not be correct in the future. In fact one actuary that the city consults with, when I asked them what do you think about this number? They said I can tell you one thing for certain, it is not going to be that. It is not going to be precisely correct. The question is how close do the actuaries predict what the City's cost is going to be? I've worked on retirement issues for the 17 years I've been a city employee. And I can tell you, and I've said this in many forms. There's not a day that goes by that I don't appreciate the complexity of retirement issues. And every day, there's more that I realize that there is to know about the complexity of information. One of the things I tell my staff a lot is, to confidently know what you don't know. And one of the things about retirement issues is I realize that many of those things I have to confidently know what I do know, and what I don't know. So questions that come up, I will be glad to tell you when I don't have the information, or when I don't know. I'm going to do the best I can in the presentation to explain my layperson, nonactuarial view of actuarial information and hope that it is -- it is helpful. So I'm going to start without how are defined benefit retirement costs determined? Again defined benefits are the types of plans that the City of San José has for Police and Fire and for Federated, contrasted with a defined contribution plan. This is a quote from a former Police and Fire actuary that I've shown many, many times. I will probably show it many, many times in the future. Because we hear so much about actuarial assumptions. They are very important. But they do not determine the actual cost of the retirement plans. The actual cost of the retirement plans is actually very simple: It's heavily heavily dependent on

the benefits. What is the benefit level that the retirement plans offer? And the administrative expenses that are paid and offset by the investment income received. Since some people are better like pictures better there is a picture that the board's actuary has shown many times, that I thought actually better describes how valuations work and how defined pension plans work. So this is an example that uses pipes and levers and things. And so I'm going to start off with the bottom. And this is really the outflow. And here you have benefits here. And you have expenses. So this is very important, this has to ultimately be paid out. This is the retirement fund, the bucket of money so to speak that gets put in to pay for the benefits. Now, so what goes in -- what goes in there? Where does the money come from? So you have employer contributions, city contributions, and you have employee contributions. But then over here you have investment earnings, also adding to the mix. And obviously, if you earn more, right, that's a big factor in how much has to be put in by the city and by employees. When I was looking at this slide over the weekend I realize one of the things this shows money only going in from investments. It doesn't have a back flow preventer. When there are losses money gets drained out as we have experienced in that. When that happens, what has to happen? More money has to go in. And so right now in our pension system, that additional money comes from the city, from the taxpayers to make up those losses that happen. Now, on the benefits side, the actuaries look at lots of things, including, what are the benefits? They look at what the benefits are at the given time. So they plan out. If the benefit is acts at certain years, here's how much you have to put in. But as we know we have experienced increases in benefits. So when I have increases in benefits, that wasn't planned nor. So the money, proper amount of money to pay for that was based on a different benefit level. That also creates an issue. So again we really think that this slide and I realize why Cheiron shows it so much is it's a pictorial way to show how actuaries actually develop their estimates and what they look at. Now, here is the rest of the part of the slide from Segal. It says the list of actuarial assumptions is very important to maintain adequate funding. You have to assume, you have to make all kinds of assumptions of how much money you have to put into the plan for it to be properly funded to set aside contributions as it says at the bottom to provide benefits in the future and to maintain equity among generations of participants and taxpayers. That last part is really important. What do they mean by equity among taxpayers and participants? What they mean is the more you don't put in the right amount, the more you don't project correctly, the more future generations of taxpayers have to be put in, feed the earlier slide to be able to have enough money to pay for that benefit. So here's another way to explain it. This is in the words of Ron ceiling, the former actuary of CalPERS. He is explaining what actuaries

have to do. He says look you hire some new employee and you've got to worry about when will this person leave? What will I owe them, how much service will they have, what will their salary be, you make assumptions of all of that. The fact that it doesn't work out on a year by year basis is no great surprise. And the question is, how is the actuary going to respond to that and change employers' contributions. So as I was thinking about that quote, I was thinking about, well, how can we look back on whether actuaries predict correctly? And how accurate that they were? And what came to me, believe it or not, I don't know why, is a slide I remembered from an actuary report from 2001, over a decade ago, and that was the former Police and Fire actuary by the name of Mercer, a well-known actuarial firm. And at the time they had done a study about the supplemental retirement revenue in the Police and Fire plan, they had done a study for putting that plan into place. For those who don't know what SRBR is, our 13th check program, where retirees get an extra check. What I remembered about that presentation, I went back and I found that, was that they actually gave scenarios that included a worst-case scenario. So I want to walk through that with you. So this again includes medical and dental and back at that time we were only partially prefunding retiree medical. And you see here is they have most probably and then worst case. I haven't seen the board's actuaries subsequent to that give worst-case scenarios. They can I suppose but this is what struck me about that is they gave a worst case. Then I thought gee let's look how we did, in terms of the actuary how they predicted. Back here you'll see it has fiscal year 1999 and they go all the way to 2024. So we're kind of in the middle there. And then they have what would it be with SRBR which we know we now have and what would it be worst case. And I want to focus on 2014 which hasn't even happened yet. So the most probable was that the City's contribution rate for pension and retiree health care would be 18.7%. Wouldn't it be great if that were true? This will get the worst case. The worst case, again in 2014, is 51.2%. We are worse than the worst case now. We inserted at the bottom the current, this current fiscal year's contributions for pension and retiree health care, and we are now at 57%, approximately. Going higher as a contribution rate in the future. So actuaries don't always predict correctly. Now, to their defense, benefits got increased during that time, that decade after that, to some degree. But it just shows you the difficulty, I think, of predicting, and sometimes you end up in a worst case scenario. And when you didn't expect it. When I remember when I looked at this slide back then I really remember very, very vividly. When I looked at that worst case I thought oh, I almost ignored I it because we couldn't ever get to those contribution rates. Here we are, not future projections, not what it may be in 2015, today, this current year. The other thing just as a reminder, one of the questions that at least we the

administration asked ourselves as we followed council direction, is the issue of risk. The issue of risk in our defined retirement plans became paramount to us as we looked at developing a fiscal reform plan for the council's approval. At the May 18th study session we put this key question before the city council. How much risk is the city and the taxpayers willing to take, willing to continue to take, in defined benefit retirement plans for city employees? Second question is how confident would the city council like to be that the cost estimates that actuaries provide today will turn out to be correct? So we just put these choices. Would you like to be 100% correct, would you like to be 75, what about 50-50 or 25% correct? The city council decided they at least wanted to be 50% correct. If you think about that, that is about the odds of flipping a coin. Meaning that, would the cost of the benefits that you're putting in place today, for example, for new employees, will turn out to be what we think they are, half the time you won't be right and half the time you will be right. Now, we all know that the Police and Fire plan had a contribution rate for next year that was significantly less than what the actuaries had predicted. Now, that is good news, absolutely good news for the City's budget. But what that prompted is, why did that happen? Why did we have such a big swing in the Police and Fire plan that did not occur in the Federated plan? Because all city employees know that everyone took a 10% cut in total compensation. We had significant cuts in employees, which we understand is the major issue in Police and Fire plan. But why not that same swing? City administration wrote a letter to the Police and Fire retirement plan saying we encourage them continuing to talk about what the reasons for that fluctuations are. So rather than trying to at least explain to you the discussion that occurred at the Police and Fire board meeting we'd like to actually show you a video clip from last month's Police and Fire board meeting where the actuaries Cheiron presented a conversation. I know this stuff is not the most thrilling to talk about actuarial information but we think it's a very important clip to show so we're going to show this discussion here where they talk about the issue of the leveraging issue that has been talked about as well as the issue of risk on the plan. I'm going to do my best to start this out here. Oops, it did not work, hold on. I might need some technical assistance to get this started. There we go.

>> 5050 level by definition looking at this chart half the time you're going to undershoot it and half the time you're going to overshoot it. We raise the question to the trustees, if you want to be right more often than not you might want to consider setting the discount rate below this bar. So that may tend more justification for the 7.4 not lower. Then we introduced for the board the concept of leverage ratios. We obtained the database from the center

of retirement research at Boston college, the renowned group that does retirement research analysis. And these represent, the bar represents on the left there, the actuarial liability relative to payroll and I'll get in a minute to why that is important. And in between the yellow and green line, the 50th percentile, that is maybe five and a half the ratio of liabilities divided by payroll and then the red areas would be the 75th to 95th percentile and it goes as high as ten. And we were showing you that San José's numbers, even though they're later than this data which is -- we tend to think this whole bar is increasing, San José's numbers are way up there as far as leverage ratios. And again, just hold for a moment. I've added a new slide that you don't have your packet so you can understand and appreciate why high leverage ratios are risky. Now the right-hand side, a leverage ratio for assets and in between this yellow and the green, eyeballing somewhere around 3. And Police and Fire fund again way up above all the other 126 plans. So I added a slide that I think these slides were telling enough and we could send this to the board after this meeting, that just developed on the plane yesterday. But what I'm showing here on the left-hand side, let's start with the right-hand side first because those are your numbers. Those are your actuarial liabilities, your market value of assets, and your payroll. So I divide that actuarial liability by payroll I get that first leverage ratio which is 13 -- no, it's 17.3. Liability leverage ratio. And then if I take the assets of 2.6 billion there divided by payroll I get a leverage ratio of 13.8. And on the left-hand side I'm taking roughly what the Boston college database produced for the 50th percentile. And leverage ratios are much lower. So why is that important? In the next row, I'm showing what if we have an unfavorable asset experience of 10% of both clients, what if we have an unfavorable liability experience of 1% in a 50-year liability experience, that would fluctuate too wildly, and you were amortize that over 20 years. With the low leverage ratio, the impact of that unfavorable experience would be 3.15% of payroll. But with your leverage ratio, that same unfavorable experience would be 10.84% of payroll. So just saying that you're more susceptible to large swings in contribution rates because you have so much liability and et cetera payroll to absorb those swings. We also talked to you about in all three things Hans in those of tig risk on the table what we're looking up there is the distributions from a monte Carlo simulation. It's irrelevant what assumptions use. I'm just trying Monte Carlo distribution results are in that gold bar area. In the middle the tbirt percentile is is comped and that's somewhere just South of 60%. But you see also 20 perforates time there are zero contributions. And then to the far right of the red there you've got maybe 5% of the time you've got contribution rates in excess of 120%. What taking the risk off the table means is you flatten that curve, you slightly rise, increase, I'm at the bottom chart now. You slightly increase the expected return of the 50th percentile but you

flatten the tail, or you don't have zero as much and you have lower results to the right. That's conceptual picture of what taking risk off the table means. Sequential analysis for too many pension plans just focus on that middle bar, expected, the odds of you hitting that right on the mark are almost nil. So those are the key slides that led us to say, we're more comfortable with 7.25, and we were, for -- we were there January, the board wanted us to go to 7.5, you had a vote, and now here you are with the decision time where we've got the June 30th, 2011 valuation results at 7.25 and 7.5 and the impact bottom two lines are the key things.

>> Alex Gurza: So we realize if slides are hard to see because it's the video. The actual presence presentation is linked on the Website to the agenda, can you see that. Where they're comparing two plans one leveraged and one not is the same experience compared on the two plans had a dramatically different impact on the two plans compared. Comparing Police and Fire, same situation mapped similar situation but it had a different impact. They're splainings to the Police and Fire board that it's because of the leveraging that exists. The next clip will be a very brief clip. This one is much briefer than the last one.

>> And Police and Fire plan in general will have hire leverage ratios because of the earlier retirements and the longer period in retirement. So I think that's one of the key factors you'll see here, is in general, they see plans will have higher leverage ratios.

>> Alex Gurza: So now let's talk a little bit about valuations. We've heard a lot about the issue of do valuations using the current data, are they using old information? Are they not taking into account situations like the 10% pay cut and all of that? Valuations occur, use data that is current as of the valuation date. So they are based on -- here in San José on fiscal year. So it's whatever the data shows as of June 30th of the valuation year. And that data includes many things. Payroll, demographics, investment earnings and losses, anything that happened in the last year it's as of June 30th. Now the valuations in San José's plans were previously performed every two years. What that would mean is anything that happened over the next two years was not taken into account until two years later and that valuation is done. The boards have moved to annual valuations with the city administration did ask them to consider and that is intended to not have to wait a whole two years before the plans take into account changes. But even though they were yam we saw this -- annual we saw this big swing in

the Police and Fire plan. So it at least allows you annually to before things are taken into account. So the valuations that are currently being done now, have been finished in Fred, and in progress with Police and Fire, on the retiree health care side. Again use data as of June 30th, 2011. They do not reflect anything that has happened from jolt 1 of 2011 until now or what will happen between now and June 30th of 2012. Yes, they make suggestions but the valuation itself does not consider anything that happened after June 30th. And the one thing that is important to realize is the one year lag between the valuation date and the contributions that that valuation establishes. So this year's contribution rates, the fiscal year that we're in is using data that is based on June 30th, 2010 numbers. So you think that sounds like a long time ago, we're already in 2012. That's the way it works. June 30th, 2010, establishes the contributions for 11-12 and all the data going on there. The 2012-13 contributions rates will be based on the June 30th, 2011 valuations. It's important to note, because some people ask why very want taken into account that the plans earned well? Right now the pension plans for the first six months have been either flat or modest gain of 1%. So don't really know yet what's going to happen in the next six months. So they wait until June 30th to then do the next valuation after that. Now this is a quote from the letter, one of our handouts is a letter from the Federated actuaries, same as Police and Fire but it's Cheiron and they give reports. But they put this what you can call a disclaimer. When they're making projections five years out. It says please note that these are based on the June 30th, 2011 valuations and assume that all assumptions are exactly met since June 30, 2011 and are exactly met each and every year into the future. In reality, should go without saying, experience will deviate from exceptions but with the over the long term. And it has says finally we have not adjusted the projections for any transaction or experience including investment returns after June 30th, 2011. Again this is the exclaimer they put to explain similar as he I mentioned before . So what's happened in the last year? What are the significant things that occurred? I put these slides together, over the weekend. Directly from the actuarial valuations. I took the valuations, I took the numbers, I put them on this slide. And so what this does in Police and Fire is compare the 2010 valuation and the 2011. Let's look at number of employees. We went from 2021 in the Police and Fire plan to 1735, a reduction of 14.2% number of employees. Sworn employees in our Police and Fire department retirement plan. Retirees and survivors went up by 4%. But look at payroll that they used. Went down by 24%. Now, that doesn't mean that each person's pay went down. It means understandably, we have less employees, therefore, our payroll, our overall payroll went down. Then they calculated average pay per active employee and again, this is taking an average and you'll see negative

11. Remember we all received a 10% pay cut but some people were in different positions, accepted positions in a different pay classification, so accepted pay significant valuations. Our understanding is a key reason why it had such a key impact in Police and Fire. But let's look at Federated and you will see a very, very similar impact here. We also had a 14.2, amazingly enough the same percentage, I actually redid the math, traced the same information in the slide before in reduction of number of employees. Retirees actually went up by 10% in Federated and payroll down again close to 24% and average pay per employee down 11%. So very similar demographic impacts but the prediction, the projection of what was going to happen in both plans, very, very different. And again, there are many different, the plans investment returns may be slightly different but not hugely different. The other thing that I think is very garcht about these demographic changes is we now have gotten to the point where we have more retirees than we do actives. This is the first year that it's happened. We were thinking that it could happen soon. Here we are. So in Federated we now have 3428 retirees and survivors, that's 3274 actives, going back to the previous slide we have 1885 retirees and survivors to 1735. Why is that important? Our City Auditor pointed that out in the audit. You have less number of active employees paying the contribution rate for an increasing number and more retirees. Now let's move to the issue of projected costs. Again these numbers are from the actuaries, nothing we designed ourselves. And this is for the Federated plan. And it actually looks backwards and it's contribution rate. And again we show two different types of numbers. The rate which is essentially the percentage of pay that the city and employees pay and then a total dollar amount. Now you'll see here it has gone from 15.37% of pay to 2013 at 44.45. So you can see increasing significantly, and can you see the employees share here, although growing, primarily due to retiree health care increases, again, why is the city going faster? The city currently in pension pays all of the unfunded liability portion. Now, moving to Police and Fire, they have a different time with it but again similar story. Back in 2003, 12% of pay and going to 57.54 here, and then you have the employees' share here. Now, the actuaries did point out that the rate is increasing, had a dramatic increase from one year to the other if you look at that time rate if you think about it, it makes sense because we have less employees. So the rate went up. Where even though the dollar amount's going to change. If you think about if you had 5,000 employees instead of 6,000 employees. We cut employees. So therefore, that's one of the he reasons why our total dollars may not be as high as they were before. So it's another thing to consider. This is a slide that I saw from the retiree health care projection for Federated. I think this one the alarming and demonstrates what we are facing the city and employees in terms of

retiree health care costs. This is a five year projection. We have been ramping up to what's called the annual required contribution. I consider the annual required contribution just as an analogy, sort of making your mortgage payment. We're not even making the mortgage payment yet for retiree health care. Because starting to pay it all of a sudden is a huge increase. So we've agreed to phase into it over a five-year period. I want to focus on 2013-14 here. And look at this number here. 32% total city and employees would have to put in just for the retiree health care benefit. Employees make because this is one where we do know what it's like to share the risk and share the cost. Employees would be 15.5%. And the city 16.84. Again, just for retiree health care. So what does that tell us? It tells us we need to do something to reduce the cost of the retiree health care benefit and one of the things we are trying to do is the lowest -- the high deductible plan. Because it becomes very difficult when you add up these costs just to an employee side plus the cost of pension. And I think that's a very alarming story. We don't know yet what it shows for Police and Fire because that's the one valuation that has not been completed yet. Now I want to explain these slides and because again I think these slides are important did I hand them out, from the valuation, double sided, the hand gadgets, one is from Police and Fire and one is Federated but I wanted to at least walk through this with you to show you what it shows here. This is in rates, and it is now a projection 20 years out. This is the revised projection for pensions going 20 years out. And this is the City's contribution rate. And the red line as it says up here is using the 2010 valuation. Last year's projection of where they thought they would be 20 years out, revised so you can compare. As can you see the rates, the rates are actually higher partially because you have less employees. Let's look at dollar cost. You see again in Federated this is the total city contribution for pension for the Federated system. Going here from \$90 million I think it says there all the way to \$204 million in 2031. And this shows the red line. So the slope, the red line is last year. The slope is still going up except it's not quite as much as it was last year so it's down a little bit but still a slope going up. Now let's contrast it with Police and Fire. So now you have rates. So you see the rates now are very, very high, into the 60 - here going up, you see the rates continue to go up and then this compares what they thought the rates would be last year. And the reason you have it going down is because the plans set and the board set an amortization period for paying off the unfunded liability. So so when you get that far out you see a reduction in the rates but it's way out here in 2028. Now let's look at the total dollar cost. And at least when I looked at it it's important to compare this one to the Federated one. So let me just go back here for a second. You see the Federated one, the red line compared to the other. And then you look at Police and Fire, you can see a great variance from what they

thought it would be last year 20 years out, the red line, and what they see here. But the numbers are still going up. Again, not as high as they were before. Big question is, what will this slide look like next year when they project out 20 years again? That's the question, especially with the leveraging issue in Police and Fire. What at least my understanding is, the leveraging this year went down, the leveraging could also result in it going up again, steeper than we thought. So that's an unknown question is this leveraging issue has the ability, creates volatility and the rates could be very different than what we thought they might turn out to be. So that's the end of the presentation and happy to take any questions. On this section and also Jennifer's section.

>> Mayor Reed: Are you going to take questions on Jen's presentation, your presentation, whatever we've had so far, we'll just get into that. When we're done with this section we'll move into the revenue side, that's still the plan. We'll start with councilmembers, who have any questions.

>> Councilmember Liccardo: Thanks, mayor. Alex, would you -- with that video clip where we heard the Cheiron actuary describing the leverage ratios, and that 10% unfavorable event in investment returns, in our Police and Fire plan I believe you said that would result in a 10% roughly increase in contribution rate, is that right?

>> Alex Gurza: That's correct. And one that he compared it to that was not leveraged was approximately 3% change in contribute rate. So he was trying to demonstrate the impact that highly leveraged plan has and a not leveraged plan.

>> Councilmember Liccardo: Does that include the 1% adverse liability as well? Or is that moshed together to present a 10% increase?

>> Alex Gurza: I'm not certain Councilmember Liccardo. We will have to check with Cheiron on how they model they'd particular scenario.

>> Councilmember Liccardo: I'm trying to determine how sensitive we are to the market given our asset mix right now and it sounds like we're really, really really sensitive to the market, that is, Wall Street and bond markets really determine huge jumps by tens of millions of dollars of our contributions each year is that a fair assumption?

>> Alex Gurza: I know the boards are working hard on the asset mix, portfolio which tries to address that volatility and that risk that is one thing that both boards are trying to work on.

>> City Manager Figone: Councilmember, mayor and council, anything we can't answer we'll have staff taking those down and follow one responses.

>> Councilmember Liccardo: Thanks Deb that's very helpful. And finally I was curious about that \$300 million number because I had heard it from a couple of members of the media last week. I just did a back of the envelope calculation, adding up the numbers that you have from -- it appears the projection sets for the projected employer contribution rates, if you add that to the OPEB from Federated alone, you get to a little over, just about \$302 million. And it sounds like they're adding three of the four numbers but not the fourth. Is that what you're --

>> Alex Gurza: I was trying to replicate it as well because I was trying to figure out where that number come from and hopefully someone will help us out saying where that number came from. If you add up three of the four except for Police and Fire health care, it completed but again I'm only splaiect because I don't know who calculated the 300 and how they came up to that calculation.

>> Councilmember Liccardo: And based on understanding what that is number the OPEB for Police and Fire is the missing number and that number is somewhere in the order of 50 to \$100 million somewhere in that very broad range, is that fair?

>> Alex Gurza: I would have to double check that Councilmember Liccardo. We may have that number, but if we do we'll have it here if not I'll get it for you you..

>> Councilmember Liccardo: Do you know when we will get that number? .

>> Alex Gurza: I believe from the boards the actuary will come back with the retiree health care valuation.

>> Councilmember Liccardo: Next week.

>> Alex Gurza: Which I believe is next week. Two weeks.

>> Mayor Reed: Microphone. Senior staff is welcome to ask. Councilmembers go first.

>> Councilmember Herrera: Thanks for the presentation. If we had not done the 10% employee compensation reductions last year, how many more additional jobs would we have lost?

>> Jennifer Maguire: It's worth about \$40 million of our balancing strategy. So a lot, I mean --

>> Councilmember Herrera: Maybe 400 jobs?

>> Jennifer Maguire: Somewhere in that range. But it depends on the mix of the sworn versus nonsworn. I think we were about 130,000 or so average cost, a lot.

>> Councilmember Herrera: All right, thank you.

>> Mayor Reed: Any other questions from council at this time? We can of course always come back. Senior staff anything that needed to be covered that you wanted to point out or any questions that you wanted to ask? Okay. We're going to turn into the revenue section. Of course, you can ask questions at the end on anything that came up as well.

>> City Manager Figone: Turn it over to Jane Light to take us through revenue and why Jane? Jane's been involved in helping us to actually help the council bring I think four revenue measures over the last few years to the voters. And so she's helped us with that analysis each time. And also has a lot of experience, given the library parcel tax. So Jane will take us through basics of the -- what it takes to get a revenue measure on and move forward. And then we'll turn it over to Kim for where we're at with --

>> Jane Light: I think it goes from me to the mayor to talk about the survey.

>> City Manager Figone: Okay, perfect. We'll start with the --

>> Mayor Reed: I'll talk about the highlights because there will be a presentation tomorrow by the consultants on the poll that we did in January which had quite a few questions on it about the revenue. So if we can get the first slide up there. All right, revenue wasn't the only thing in the poll but obviously part of it. This is a slide we've had in past year and we can track it over time. And that was what were the top priorities for the people for dealing with, our budget needs to be balanced. As you can see in first place again, reducing city employees compensation and retirement benefits. Second place is raising additional revenue including taxes or fees 28%, reducing existing services third out of the three choices at 13%. We didn't give -- this wasn't an open-ended question as you can see. It was if you have to choose among these what's your first choice and what's your second choice and there's a slide in the presentation, you'll see with more detail on that. The next slide. And then the other question that we've asked over time. We started out asking this question in our neighborhood priority setting session with nickels. Last year we had jars and we had nickels and they got to put the nickels in the jar based on what their priorities were, a safe city, reliability green sustainable city and attractive vibrant community. And these numbers are relatively stable over time, whether we're doing it by nickels or by polling is that public safety a safe city has been number 1 every time we've done this. But it's not the only priority. As you can see, out of \$100, \$25 between the to a safe city. \$22 to a prosperous economy and the others got lesser amounts. So it's not that the only thing we're going to do is public safety. We're going to do a lot more than that. But public safety is clearly number 1 and has been in all of the times that we've surveyed this. Next slide. And then more specifically, on things that we could do to save money, balance the budget, we asked a few of those questions. Thrchtion that we're currently

thinking about doing or in the middle of doing, or considering consolidating boards and commissions, as can you see that got quite a bit of support. Selling one of the city owned golf courses got quite a bit of support. That was not specific as to who, what, when and where, just the generic question. Selling surplus city property also got broad support and suspending the 1% projects eliminated also got substantial support. Next slide. Then the revenue measures which is really going to be the bulk of the rest of the discussion on revenues. It's a pretty busy slide. But we had quite a few revenue measures. But if you just look at the colors you can see the relative position of the various revenue measures, and that really was the purpose of doing all this, to see which one has the best shot of being approved by the voters. A decision the council would have to make, but obviously initial polling strength is an important starting place. And before we get into the discussion of the specifics of the revenue measures, I just want to talk about what, in my experience, are the things you need to have in place in order to be successful with a tax measure on the ballot. First is, some significant public support and you know we might be there with this depending upon how you downtown liners and the maybes and the probables and things like that. But it's certainly positive and more positive than it has been in the past. So that's I think element number 1. The second element is, what are you going to do with the money? And part of what we'll do today, we're beginning today in this budget process is to begin to talk about what we would do with the money if we were to have a measure and were able to restore services. So that's what we would do with the money. But more important than that, the next element is, what does the public think you're going to do with the money? Do they think you're going to waste it or spend it on something they think is important? And each person is different and ahead about what they think is important. So the public perception is really important in how you're going to spend the money. Because that's one of the reasons local tax measures do better than state tax measures. At local government we can say roads, police, fire, parks, things like that, that they relate to. The state level it's harder. And they don't have quite as much credibility at state level of spending the public's money the way we can at the local level because we all know that our constituents can find us on any given day and if we don't spend the money the way we say we're going to spend it, they know about it and they're going to talk to us about it. The next thing which is a critical element that you have to have in place ask a broad coalition of support. Ideally business and labor working together with the council to get the tax measures across. That's not always possible. Tax measures, there's almost always opposition. But you want to start with a broad coalition if you can. Then you want to try neutralize the opposition. And next element is whether or not the opposition is going to be funded. And if

you look back on the ballot measures that we've had, we've had some examples of this, measures J and K which we successfully got approved. First, were a tax reduction, and we sort of neutralized is opposition because there was no funded opposition. We had business and labor support. And we were able to successfully got those across the goal line. But if we can't put all those elements together it gets harder and harder. Depending on where you start with the public and how many of those elements you have in place, it goes into the formula of calculating when is the best time to go, how much chance do we have to win and that's just my view based on my experience now having done several tax measures, ballot measures, I know that there's a lot of work to be done. But you know we're starting the process of being able to answer those questions beginning with what are you going to spend the money on? And that will be part of the priority stuff that we're working on. So with that, I'm going to turn it over to Jane I think who will talk more specifically about the various revenue measures. Thank you, Jane.

>> Jane Light: Thank you, Mayor Reed. My comments will kind of fill in from the mayor but I think will also take more of a city administrative staff point of view about the task force and considerations that we take on our end as we prepare things for your consideration and final decision. So the revenue strategies that Jen reviewed a little earlier all require voter approval. And in those cases, the ones we talked about which were the sales tax, business tax modernization, and disposable -- disposal facility tax, all of those presumably would be general taxes, with money going into the General Fund. And so they would take 50% plus 1 to pass. But if any of these taxes were earmarked for specific purpose, or any tax such as library parcel tax, those or specific purpose those take two-thirds plus one. The cost for a ballot measure really have a big range depending on how and when they occur. That if we actually do a stand alone special election for a ballot measure that could cost \$3.4 million. And for one measure, and then \$100,000 for each additional measure. If you're doing it on an already citywide ballot then the costs are about \$607,000 for the first measure and \$400,000 for each afterwards. So that becomes a cost from the administrative point of view a cost factor and a planning factor as we work with the City Clerk on budget. Timing it is is really a major thing in terms of the lead time that it takes for the March sixth, was our final date to approve any on the June ballot and then August 7th for the November ballot. So those dates are fixed, immutable and really have to be met. As part of a timing gets to be some of the issues around polling, which seems to have changed in terms of the over the last ten or 12 years that I've been following this. Used to be I remember the first time we did a -- I worked on a poll I was told they were good for about 18 months. We're down

to about six months now. So the polling too has to be thought of which potential ballot is this. If you do a poll in February, that might not be an accurate poll by the time to place something in August for a November ballot. So now it becomes a not too early, not too late issue for polling. Outreach can take quite a lot of both staff time and kind of elapsed time as I think you'll hear when Kim talks about the process we're going through right now for the business tax modernization where there needs to be considerable outreach to stakeholders before the staff presents to the council some of the options and any recommendations. And then in addition, it takes some time to develop specific ballot language for each of these. As the mayor talked about probability of success is a factor just in terms of deciding how much staff time to put into something. And then competing ballot measures, there's a couple kinds of competition. One is, what is happening with other ballot measures that may be on people's same ballot. State measures, school measures, other county wide agencies. But also as I know you've all sat in some discussions, internal priorities as to which of the possible measures would be the first one or the one you would place on a given election, since you're unlikely to put your own competing measures on the ballot. As we look at staff resources, it really does take quite a bit of staff time, and it's something that we've tried to really thorough and good job of but it is something that people need to know in advance, they're going to have to time or make the time to do this. And then finally kind of the effective date of a tax measure. Some measures can take effect virtually immediately. Others a sales tax for example, because of the amount of work that has to be done for every booking sales to change their software to collect those taxes, it takes some months, even after a measure has passed, before it is actually implemented, and considerable staff work to get the word out and help agencies prepare for that. In terms of what is the recent history in California, I think we could say, looking at those numbers, there's a pretty high level of passage rate of ballot measures. But I think we should note, these include school, both bond measures and parcel tax across the state. These are not simply local government, as we think of it. And that the -- in November 2011, a comment that a number of school districts and some cities, particularly smaller cities but L.A. also have set their municipal elections in the odd-numbered years instead of the even-numbered years. So we do have a number of ballot measures that took place last November. The November 2010 year I think is really interesting to look at. Because it was a whole lot of ballot measures that year, statewide. Quite an anomalous number. And that may or may not be a harbinger for the future. It also had the lowest passage rate, at 58% where the others were over 70%. It's hard to know looking back that 2 was kind of the depth of the recession and may have had an impact on both the number of measures and the ultimate result

of those. But it is definitely an anomaly to look at. Then as we look forward to this June and this November, I at this point for state revenue measures it appears that there will be just one thing on a state level, a tax increase on cigarettes and tobacco products for another dollar per pack. But June -- but November is still obviously very much in play, with, at this point, still three competing measures that involve income tax and/or sales tax, and that all three of them may be on the ballot, two could be, one could be, that's still playing itself out and will be for a while. There are as many as 75 potential ballot measures, not all of which are financial. And all of those will be falling out one way or the other over the next few months. Then, looking at our local situation, again, at this point, it doesn't appear that the June measure will have much if any local revenues. But in November, the Water District may look at a parcel tax. And several school districts have parcel tax renewals that they are contemplating. But none of them have yet made a decision about whether or not they will actually do that. So we will know more by May or June, what other jurisdictions are thinking of. But at this point we don't know very much. It is worth noting though, that VTA does anticipate collecting a 1/8 cent sales tax for BART starting July 1st that will run for 30 years. And just to kind of run through the numbers for you. Our current sales tax rate in San José is 8.25%. With a VTA 1/8 cent which is .125%, that would be added to it. If the governor's proposal of those three state ones were to pass, he has a four-year, .5 cent sales tax included in his proposal and if the city did a quarter cent the potential sales tax rate would be 9.125%. That's how those kind of stack up at that point. And then I think Kim is going to go into some detail about the business tax.

>> Kim Walesh: Good afternoon. I'm Kim Walesh, director of economic development and chief strategist. And I'm here with Julia Cooper the acting director of finance. We were asked to co-lead this effort to start exploring in a more detailed way the opportunity to modernize San José's business tax. What I'd like to do is provide high level overview of the analysis that we've done. Some of the high level options we see, and our approach to outreach. You'll probably recall that this idea of restructuring the business tax rates to modernize and reflect the current business profile was part of the 2008 recommendations from the deficit elimination plan stakeholder group and then last year, staff was directed to conduct additional analysis and begin the outreach process. San José's current business tax is a tax that is based on employment. There's really two major ways that business taxes in California are structured. Either based on employment or based on gross receipts. If you look at the top row here which applies to most businesses, you'll see that the annual tax is \$150. If you have up to eight employees. And

then you are charged \$18 per employee over eight. And San José has a cap, a maximum that any business would pay, of \$25,000. So you see that 9.3 million is raised from the general business tax. That's about 85% of the total which is \$11 million. And you can see in the other rows that there are special provisions for commerciality landlords, mobile mobile home parks just a history, the provision was adopted in 1964, as I said it was designed as an employment based model and last modified 26 years ago. So in 1986 the rate was increased from \$75 to the current \$150. And then in 1998, those of you who were here may have remembered measure AA which came out of the news realities tax task force, and that proposed to increase the business tax by 3% and annual adjustments to inflation not more than 3% per year and voters actually projected that measure, 57% to 43%. So we started by doing a comparative analysis of how San José's business tax compared to the two other large Bay Area cities and to the other cities in Santa Clara County. And I want to emphasize that we think the most relevant comparison for us is the other cities in Santa Clara County. But we thought it was interesting to compare ourselves to the other large Bay Area cities. And what's interesting, you can see is that San Francisco first of all has a very unique model. They are the only city in California to tax payroll. So they tax 1.5% of gross payroll. Oakland and Fremont have a grease receipts tax. So you can see the total amount of money that San Francisco raises from their business tax, \$352 million compared to our \$11 million, Oakland \$48 million and then to try to standardize on the bottom row, we came up with the average tax revenue per firm in that community. So can you see on that basis, our tax is very low compared to the other two large cities, San Francisco and Oakland. And as the economic development director I just need to point out that San Francisco's business tax is the highest business tax in the Bay Area. The spur organization in San Francisco has calculated that for a general office firm, they pay 30 times more in San Francisco than in San José. Because strategy's tax is so high, they do have a large number of exemptions for certain industries and companies that locate in certain parts of the city. As I said earlier, I think the most relevant comparison is us to other cities in the area. And we have done exhaustive work comparing ourselves to the other cities. But the ones we showed here I think give you a sense that we think we're in the mid range at the moment compared to the other cities near us. So sometimes it's good to get back to principles, what would be potential principles that we would use to think about changing this business tax. I think that the fact that the economic development director is involved in this is sending a pretty strong statement that number one principle would be to generate revenues to support services without unduly influencing business location decisions. That's currently a top priority. Ideally you want a tax that can grow reasonably over time as the

economy expands. Ideally you want to align the tax with services demanded. We want to minimize the administrative cost both on the city side and for taxpayers. We think there's opportunity to simplify and clarify treatment of very low-revenue businesses. In San José, if you have under 22,000 a year of gross income from your business, you can apply for a special hardship exemption and pay \$38. But if not, it's not something that's necessarily easy to do and to understand. So we think we can do better there. And the last principle of course is potential sharing of the deficit solutions. Employees have come to the table, if residents were to come to the table with a sale tax increase, it might be reasonable to assume that businesses should come to the table also. So we see two major high level options here. The one is just to retain the current model that we have which is based on employment. But catch up for inflation. The second would be to make a change to a different tax base. Either to the gross receipts which is the most common method in the state of California. Or to a payroll tax which of course I don't recommend. So option A. I want to emphasize that this is not a specific recommendation. This is just a baseline. What staff did was took the current rate structure, the first column, and we said what if we just inflated the base rate up to CPI, to catch up for that last 25 years of no increase. And then we did the same on the per-employee charge. So again, this is just a base case. It's not a recommendation. But if we did that, it would generate an additional 18.1 million, if -- and we kept the cap in place and adjusted that cap to inflation, if we removed the cap entirely it would generate an additional \$18.6 million. And of course in coming up with a specific recommendation, would you want to look at many options which are listed there. Could you keep that base rate lower -- you could keep that base rate lower that employee rate could be slightly higher, you could implement over several years. You could inflate going forward but not do the catch-up. So there's a lot of variations on this. But just as a benchmark, that is what full inflation adjustment would look like. The second option, again this is just a what-if, not recommended but, this shows what if we took San Francisco's gross payroll method and applied it to our economic base in San José? We would generate \$345 million in revenue. And same thing, what if we took Oakland's gross receipts model which is again a much more common model and apply it to our economic base? So our staff team feels that it would be a very, very significant effort on the part of the city and taxpayers to do a change in that tax base. And that these other models of gross receipts and payroll they are much more intrusive and they would make us much less competitive. But we wanted to at least put that up as an option. So clearly, it is critically important to work with our business community in considering and developing a change to the business tax. We had an initial meeting with the chamber's tax policy committee in January. We have a

meeting with the Silicon Valley leadership group's tax policy committee this Friday. And some of the key questions we are asking them to think about is, what is the importance of this business tax in location, is decision making? Which model do they see as the least intrusive and the most competitive? What concerns or considerations do they see about an inflation adjustment to our current model? And ideally want to get at what change could conceivably betts for employers. It would be helpful to us if we want to understand moving down this path, clearly a lot more outreach would be required. Including outreach to the small business community which pays the majority of this tax and to organizations in our community that represent small business. So thank you.

>> Jane Light: So completes our part of the presentation about fiscal reform plan. And revenues. But at this point, we need council's feedback about what to pursue. Today is not a decision-making time but it's a time to hear back from you. And then based on what decisions are made, in a decision-making context, we would then proceed to determine the time line and resources needed to pursue any of these measures. So --

>> Mayor Reed: To start with could you go back to the outreach to the business community, particularly on the business license tax adjustments. I'm curious as to what they said when asked the question, you know, what kind of reaction are you getting from various parts of the business community? Based on the outreach you've done so far?

>> Kim Walesh: Yes he, I would say we are in the very early stages and I notice the chamber is in the room. We thought it important to share this with them in context of all the deficits we have and all the changes we have and are making. We have spent a significant am of time sort of talking through this context. This was a lot for them to digest. They need to go back and talking with their team members one on one and as a group and I think we'll get more feedback from them as time unfolds. So we didn't get any initial strong reactions one way or the other in that initial meeting.

>> Mayor Reed: Okay because that relates to another element that I forgot to mention, when I was talking about the elements of a election, who's going to raise the money? Money is required, no matter how strong it is, to sit

there and have no opposition i have no answer to that question, unof many things we don't have answers to yet. Nancy.

>> Councilmember Pyle: I'm assuming when this was first voted on 50 voters for the business tax that there must be some provision that we have to keep going back to the ballot box. If we are simply making an adjustment why would it have to go back? (inaudible).

>> City Attorney Doyle: I'd assume and I wasn't here in 1964 -- but would I assume that the voters did not vote it in. In those days the city council could enact the tax. And it's since the passage of prop 218 that requires it to go to the voters. So that's the change in it as well. Prop 218 requires that if you are going to either impose a new tax or increase a tax.

>> Mayor Reed: (inaudible) the answer to the question about at least the chamber of commerce view of --

>> Yes, actually Kim did come and we had our tax budget and regulatory committee and we appreciate being engaged in the dialogue at this stage. We certainly recognize that the city is looking at all forms of revenue enhancement and expenditure reform. And in light of that, for the business tax, we do feel that it's important to keep it simple. If you are going to look to modernization, keep it simple for business is really, really important. The employee model is really one of the best models for that because it's very easy to calculate. You don't have to have your tax person do a whole new form, do all kinds of calculations, et cetera. We are going to be taking this to our other committees. We know as council begins to give direction on this, we also plan to poll our members. So we're happy to work with Kim and the department, if you want to create various scenarios and we could poll our business members. We think it's important to keep in mind very small businesses because as we know, many small businesses of one or two people are people that have been laid off and they're just waiting for the economy to turn around so they can go back to work for an employer. But we are definitely interested in continuing the dialogue on this. And I wanted to share that with the mayor and council.

>> Mayor Reed: Okay, thank you. Other questions at this point? Ash.

>> Councilmember Kalra: Thank you. Thanks for the presentation. I think that I'm glad we're at least having the conversation on this. Clearly I think the contrast between even some of the modest things we're looking at, the contrast between Oakland and particularly San Francisco it's very clear that you know we'll never go down that road of being so uncompetitive and making it so business unfriendly because it's a disadvantage and makes it difficult for us to gain revenue in order to fund services we'd like the. But I think bringing the business tax up to date is important and I think that we've asked our residents, our taxpayers to given, in more fees and all that, we've asked our employees to give and I think that we do need to modernize this and bring it up to date and attach to some CPI and if I think if we should consider. We should consider a phase in, it should be for low revenue, small businesses. I think an extra 150, \$170 I suppose is significant for anyone but particularly those businesses that are really kind of hanging by a thread and those small businesses that should be given the most consideration but I think all in all this modernization it's something that needs to be done and I think it's something that's just a matter of equity, I think asking everyone to share. And triecious to find ways to help us with our ongoing deficits.

>> Councilmember Herrera: Appreciate the discussion and appreciate the chamber weighing in and glad to hear they're working on this and to have some positive things to say about the employee method. I would be concerned about the small businesses, I think that's already been mentioned that are just maybe trying to recover after this economic downturn and would want some sort of exception maybe or some sort of provision for those that are going to hire new employees. Because we need to be looking at making sure that we're putting people back to work at the same time that we're trying to bring revenue in from businesses. So I'd want to try to make sure that we are not going to negatively impact that rebound and recovery cycle for these small businesses.

>> Councilmember Liccardo: Just a question. Kim I appreciate all the analysis you've given to this. Have you also considered the possibility of eliminating the tax and simply increasing utility tax on on businesses by what would be the equivalent amount in revenue, the idea being obviously to reduce the burden on both businesses and city administration having the tax at all if we were able to get the same amount of revenue obviously and create an incentive obviously for businesses to be energy-efficient?

>> Kim Walesh: We hadn't looked at that specifically yet but that would be one way to differentiate ourselves. It is common for cities to have a business tax.

>> Councilmember Liccardo: I understand why we have one. I throw that out as a potential to gear for.

>> Mayor Reed: 1998, the ballot measure, I don't remember the business tax effort then and I think it would be important to know what the voters were asked, how the vote turned out, and any information that we have from 1998, about that as we're going forward. Because it wasn't that long ago. Lots of things have changed. But we might learn something from it in terms of the ask and how it was phrased and it must be somebody around that would still remember the campaign from 1998 that could help enlighten us on the arguments for and against and all those kinds of things. It would be nice to track those folks down.

>> Councilmember Kalra: Thank you. And just one point on the discussion over the ballot measures. And kind of the challenge of being one of, it's going to be dozens and dozens particularly we go in November with the potential sales tax increase, it's going to be really one amongst many I'm sure different types of revenue measures, state level, school boards, Water District, what have you. And I think that as the mayor was mentioning kind of the final way to market, yet find a way to bring coalition together and in order to gain support for it. And I think Councilmember Pyle is one that would continue to repeat and repeat this to the community as well that local taxes stay local. I think that's something that I think collectively if we do head in that direction that that is one way, one way we need to kind of marketing in an effective manner.

>> Mayor Reed: Councilmember Pyle's message reached our neighborhood leaders because I didn't mention it, when you look at the results of the neighborhood priority-setting session we had 11 tables. Kip will correct me if I'm wrong. Out of ten of 11 tables were in favor of some sort of a tax increase. They were split between one or the other. And I think the rule was the table had to be unanimous on ooh a revenue increase. Ten tables, unanimous that they would support it. Those are the neighborhood leaders, that's not the whole community but at least some

people are hearing it. Kansen. No just stretching. Okay. Anything else on this before we move on to the next session from senior staff or anybody? Okay, Deb.

>> Alex Gurza: If I could there's just a follow-up question. Councilmember Liccardo asked earlier in the retirement section, about the retiree health care cost for Police and Fire. I just wanted to clarify. We used a couple of terms. The formal term for retirement, OPEB, other post employment benefits which is other retiree health care. so what I did is I looked at the July 20th of last year Cheiron letter projecting costs out to 2015-16 and for Police and Fire the OPEB cost were 33.6 million. So that what we're waiting for now is to know what will that 33.6 million be projected to be.

>> Jennifer Maguire: And I'd also like to clarify Councilmember Herrera in answer to your question, it's hard to answer off the top, because I had not gotten the 10% total compensation reduction, it would have cost us another three to 400 employees. That would have to have been eliminated.

>> City Manager Figone: We're deliberating over whether or not to give a break. So I think what I would suggest, mayor, if it's okay with you we just keep it informal and people, you need to get up feel free stretch and we'll just keep moving or would you like a formal break? Okay. We'll just keep going. (inaudible) okay so we're going to shift gears and start to envision our future a little bit. I'm a firm believer that as we're working through difficult times, and we've had a lot of these discussions, senior staff, that we really should keep the end in mind. And work to envision our future. And if we are successful, as we've talked about, in completing the fiscal reforms, we certainly have some one-time money that, depending on how much of the ongoing problem is resolved, there might be some capacity there, we're going to be considering as we have been redeployment strategies along the way. And so I don't think it's premature to start thinking about, if we are fortunate enough to be able to start adding back services or redeploying to offer improvements in services, how would we consider that? What would we think about? And in particular, with the pent-up demand that we all know exists, not only for the very basic of services, you know the council direction includes a baseline of trying to get back to January of 2011. I think, though, we would all agree, there's much, much more than just that baseline. Although that is a really excellent starting point. So we've taken a shot at a set of guiding principles for restoring city service levels. These are

preliminary draft concepts. They're in your staff report as attachment A. They might also be in the handouts that are -- that were at your seat this morning, or this afternoon. And so what I'm going to do is ask Kip, I think, where is Kip?

>> Right here.

>> City Manager Figone: To talk us through these. They do fall through three categories, ensuring the fiscal soundness of the city, choosing investments that achieve significant outcomes, and improve the efficiency and effectiveness of service delivery. These preliminary concepts would continue to work with the budget principles that we have so that in combination as you consider adding back services or redeploying, we also have you strong budget principles that have served us well and hopefully we won't get ourselves into this sort of problem again moving into the future. So with that Kip I'll turn it over to you.

>> Thank you good afternoon everyone you'll be pleased to know I have exact two slides. So for the first one if I could draw your attention to the handout, the guiding principles I'm not going to read through all of these but do I want to draw your attention to a couple of the nuances and a couple of them which I think are important. Under the first general category of ensuring the fiscal soundness of the city, one of the ipse long run to avoid future service disruption. Simply that whatever we do now doesn't get somebody else or us into the same situation that we're in in the future. And then also, if possible, defer adding new permanent positions until new retirement system is in place. As we've seen there's a potential big swing between the retirement costs that we have now and the retirement costs that we might have in the future. So the idea is if we can defer long term decisions until that moment that will be a cost advantage to us. In the second category, choose investments to achieve significant outcome. There's one here that's sort of a broadening of it. And I want to be real clear about it. It's the idea that we should perhaps balance investments, not necessarily evenly but among three basic categories. One restoration of service levels and again I use the term service level because it's not necessarily that we're restoring the service or the people that we're providing the service. We're trying to restore the level of services that were provided before. Two, that we balance that with opening of new facilities. Particularly those that are already constructed. Or in the process of being constructed. So where we have significant capital investments that we've

made that are on hold that we balance the opening of that as well. And then the third is realizing that we have a large both infrastructure and asset management issue. We have the street pavement maintenance that we all know about on a day-to-day basis but we also have our city facilities and assets. And that we balance investments in those as well as the other two categories. So the idea would be that any future investments would take all three of those and ideally make investments in all three of those areas. Second one I'd like to focus on in choose investments achieve significant outcomes is the last one in that category. And this is sort of a dichotomy. It says focus funding on those areas where there is either a high probability of success or high cost of failure. So suggest two roads of investment. One where we know this will have a desirable outcome and two where if we know we don't do something the potential outcome is huge. That's sort of an interesting one to think about as you're considering. Then the last category I'd like to highlight to you as well. The first bullet I think is very important. Before restoring prior service methods evaluate methods to deliver, determine if alternative service delivery models would be more cost effective. This again is the assumption that restoration of service levels does not necessarily mean restoration of service as it was provided before. And related to that is the idea of prioritizing organizational investments and maximize workforce productivity efficient and effectiveness , and achieving service outcomes. So this is the list ever preliminary draft concepts and then moving on to slide 2. I'd like to launch right into discussion and I'd like all of your feedback on this. The two key questions of course are out of all of these, which ones do you think are most important? And of course, realizing that goals are competing, and to the extent that they are competing you cannot maximize across all goals. It is simply mathematically impossible. Therefore which of these are most important, are more important as we take into account the decisions we are facing. And the second key question, what is missing? Is there something up here that should be up here? Doesn't necessarily have to take them in order that is most pressing for you and with that I'll open it up .

>> Mayor Reed: I think your principles are covering a couple of things I'm concerned about, I just want to make certain they are and I think the high cost of failure, one goes to a couple of things I'm concerned about. But is, we have our infrastructure backlog, hundreds of millions of dollars on the list that just sort of gets bigger. And we keep pushing it out. And so that stuff is on there for longer and longer times. And we haven't looked at it. So I'm concerned if there are things on there that have a high cost of failure, I'm concerned how we work that into our

discussion of whether we have one time money or ongoing money to deal with that high cost of failure category. And then the other one is, how do we work into that discussion? I think it covers it, but for example, I think we've known for how many years? Chief Moore, that we need a records management system in the police department. At least 15 or 20 years. And how far away are we from getting it? About six months. So there are other things that we know as an institution would be good for us to be effective, efficient, delivering services. Vijay probably has a list of the technology things and they just always get pushed out, well, it's a few million dollars, we don't have a few million dollars, we postpone it year by year, the delivery, we have to think through the things that are not on the infrastructure backlog list, they are on a list of things we ought to do because it would save us a lot money or deliver services much better. So are those -- would those be included in the kinds of things you've got?

>> I'm going to repeat to make sure we capture those because these are really important as we refine these. One is the idea where we have investments that are essentially high cost investments like the infrastructure backlog that those become priority. If something we don't do now is going to cost us three years or five years down the road that that become a higher priority. Other things, I'm not sure how to call them, backbone, easy not to do but make a huge difference going forward, things like record management, technological, the thing that I'm sitting there with my phone and tablet, neither of which are paid for by the city but that's where most of our work gets done these days. But there's a series of basic infrastructure that may be needed to allow us to do the next level of work. Those are the two points I've gotten from you Mr. Mayor, is that correct?

>> Councilmember Pyle: Well I'd like to ask about a couple of things. I think first of all it's extremely important to deliver what we said we would deliver to the public. That being, the libraries, and other buildings, such as the police substation, that haven't opened yet. So what I'm hearing more and more is public-private partnership. And I don't know who would team up for example with the police, in order to open the substation. But perhaps there is a way that the -- but perhaps there's a way that the federal government and the state government could get together so that the cost on that would be less. Or perhaps the public is interested in renting some of the libraries that we've opened. I mean, I don't know, wishful thinking that they would open when we get more money, is not going to be in the best benefit of the public. So I would like to get some input on that on where we might be thinking.

>> And so the key question there is could we do public-private partnerships with opening up some of the new facilities, can community centers or libraries, see that as a potential not solely to be the support for the funding of those. Thank you. Councilmember Liccardo.

>> Councilmember Liccardo: Kip, when you discuss the balance that's on that sheet, the infrastructure backlog and the new facilities and all that I appreciate the fact that you qualified the balance, it wouldn't mean that you would spread the money evenly but I might go a step further and say that I really think infrastructure backlog should be the priority among those three items and that it won't be a balance and we should probably explicitly say that recognizing that there is a very high cost of failure in many of those assets, recognizing there is an increasingly marginal cost of neglect, we are seeing those in our streets and many of our more visible assets and I think it's got to be our top priority. That would be my two cents.

>> So that if you got the three different choices what you're suggesting is that the infrastructure maintenance need to be the most heavily weighted and the reason for that is the high cost of neglect, if you don't pay for it now, you will pay for it multiple times in the future, as we make investments with either one time or ongoing costs. Thank you. More questions or feedback on this?

>> Councilmember Constant: Thanks. I want to agree with Sam on that. I think it's really important the infrastructure. And especially when we really look at how much more it's going to cost us in the future for failing to take care of it now. And I want to make sure when we talk infrastructure we're not just talking about roads. Our roads are very important but our I.T. infrastructure and the total cost of operating these legacy systems, I think is skewed when we talk about how much it costs to operate when getting into new software, new hardware, we put so much work into getting into them, that is something we have to key in and additionally the underground infrastructure, the irrigation infrastructure and all of our parks that we know has a lot of work needed and the longer we wait the more expensive it gets.

>> So four key points to that the overall infrastructure backlog as being a priority. Two, the earlier comment on the I.T. infrastructure backlog, three in addition to that, the actual cost that we're paying now may be much higher than that, we just don't have a way for accounting for all the work around costs that go into that and then four a plea for the invisible infrastructure that is underground because it is underground it gets forgotten or ignored because of the concomitant costs are higher .

>> Councilmember Constant: Exactly. I think it's really important as we go forward in restoring services that we keep in mind how we deliver them could be completely different than how we have in the past but the goal in my mind should be from the residents point of view are they receiving the service.

>> Okay so again focusing on that there will be change but that the measurement perspective that you would suggest is the resident am I receiving the service not how many steps did it take to get to me or who provided it but how am I receiving the service and whether it's good or not?

>> Councilmember Constant: Exactly.

>> Councilmember Kalra: And your last kind of add-on was not just sort of receive the service but is it a quality service and that receiving the service, that they expect, and not just are our library doors open but do we have quality librarians staffing them to serve our community and not just whether we have a police officer on the street, whether they are of the highest quality to serve our community as well. And so I wouldn't necessarily say that I would put maintenance above the restoration of services. But I do think it's important to highlight it because we don't get peeping pounding on our door verbalize I think if we don't it's very easy to continually shift that to the back burner as we continue to focus on services that contact the public more often. So I do think that maintenance is important, and I think that the way Pete talks about I.T., that's been referred to a couple of times, is not as important for third point of, in the proving efficiency and effectiveness. Prioritize organizational investments and maximize workforce productivity efficiency and effectiveness. I think bringing our workforce up to speed in efficiency and I think all of that, I guess that's the number 2, ensure strategic support and technology resources as well. But just the idea of improving the work for that we have and the model we already have is

really important, I think that sometimes, we can be quick to think that someone can just come in and do it better because they can do it cheaper when I don't think anyone can do it better than our employees, they already have, make them better what they do by giving them the tools to succeed at it. And so I certainly, as I said, I think restoration of services should be top amongst everything but I think maintenance, and particularly getting ourselves up to speed in terms of technology, will help in that piece, the restoration of services as well.

>> So Councilmember Kalra, make sure I heard all things, one key thing is restoration of, second thing you said I'll say first is the infrastructure backlog should be brought up not as a top priority necessarily but should be brought up because otherwise it's the one not likely to get hurries as most oop first point you made however is when you're looking at service restoration which for you is the top priority, it is not just the quantitative analysis it's the qualitative analysis, how well qualified are the people providing that service and then the third point you made is related to infrastructure, technology infrastructure, with the focus, though, of being a new one, which is giving the employees that we have, the capacity to do their job better, which got to your fourth point, which is making investments which build the capacity of our existing employees, our existing talent to do their job in a better way. Is that capturing it correctly?

>> Thank you.

>> Councilmember Herrera: I think the infrastructure and working ton infrastructure is important but I don't see it as a top priority just look at our General Fund budget. I think it's going to require a real focus and probably you know additional revenue that we specifically go out and do just like we did with bond measures with parks and other things. So I think to believe that we have the money to restore services and do all the infrastructure with that same pot of money without substantially increasing it I think is not realistic. Especially I think we have a half a billion dollars of backlog in infrastructure just for the roads alone we need \$100 million additional dollars every year to start repairing them. educating the public, putting a measure to pay for that because I think there is a lot of support for getting that infrastructure done but I don't think people are going to be happy if it's all going to those infrastructure improvements and not to return services. So I -- I think we have to restore services. I think the idea of making the services restore, and the city, the productivity increases I think are important. And we've talked

about technology being one of those things to really enable employees to be more productive. So I think we have to look at increasing productivity, through technology, looking at how we deliver services, continuous improvement kind of model we've seen used in the private sector too, I think doing those kind of things with it city. I already see that happening. Lot of creative things are happening with our employees, we need to incent them and go through as they do with that.

>> Two things pulling restoring services is very much a priority. Two the backlog of infrastructure is extremely important but not unrealistic to expect that to be done, part of the overall strategy that specific attention needs to be brought to that special folding or funding that's dedicated to that needs to be brought in to address the very large issue that that is. And then thirds that as we look at restoring services that the focus would be on employee productivity and allowing employees to be more productive both with increased approach and the proper incentives to allow them to work and use their own knowledge to improve the work processes that they are doing in a way that really as you said incentivizes them to continue to improve their productivity and performance, is that correct? Thank you.

>> Councilmember Oliverio: I think you should try for that FedEx ad when they speak really quickly. So echoing comments from my colleagues, technology and efficiency wherever we can, infrastructure whether it's below ground or bough ground where people know they're getting something. Where it's coming to, generosity of technology when it comes to police, resident-facing, patrol and to Councilmember Constant, it's the service that our residents recognize. And then to the point prior it's also the delivery model has to be kept in mind that it's done in the most efficiently as possible. We will not and should not redoshes bring back janitorial to the city. We know we've saved millions of dollars, and those millions of dollars can then be allocated to some things that outsourced and saved moneys there. We've gained those efficiencies, we continue to capitalize on them so we can give the residents more. And I think those should be the priorities as we service up.

>> Technology, infrastructure backlog and then in terms of is phs restoration, two nuances, resident facing, the services that come back go directly to the residents, patrol to the police and two, forward facing is the word you

used it in terms of not going backwards on any of the efficiencies that we've achieved and the savings that we've achieved.

>> Councilmember Constant: The other thing I failed to mention earlier is we often talk about the cost of action, taking action in funding this item or funding that item. But I think we need to place equal weight on the cost of inaction. So when we're evaluating whether we're going to spend \$5 million on infrastructure, the analysis shouldn't just be, it's 5 million here and two hours of service there or whatever. But if we don't do that? Can we continue to not fund our infrastructure for the next five years, that cost will be or could be because we continue to have issues with intergenerational transfers. And if we don't address that the ball becomes so big at the other end it's unbearable. And we've seen that just on our watches, issues that have been kind of slid over to us over time. So I just want to make sure that as we're evaluating things in the budget it's not only the cost of action but it's the cost of inaction.

>> I think there is also councilmember the additional suggestion that we also look at the time horizon so it is not just the immediate two-year period, it is the longer term perspective as well. City Manager.

>> City Manager Figone: Yes, I just wanted to build upon the quality theme and some of the other themes I've heard. I think it's really critical that we do pay attention to the support services that are needed. So deliver any direct service -- deliver any direct services directly so we've already talked about technology and I would add other considerations such as training, other support mechanisms for our employees or at least factoring that in, even if it's not an employee-centric service. It's something to be considered. And so in this segment, I really encourage the senior staff to speak up. You're the ones who are going to have to apply these principles. You know what's going on in the service delivery system, and where the needs are. So if you see gaps or you think there's areas to be reinforced with the council please speak up.

>> Councilmember Campos.

>> Councilmember Campos: Just to add, and it might have -- I might have been dozing off but I didn't really hear any discussion on community centers, libraries, I think Nancy had brought that up. But that's tangible. People can see that. People can say, well, is today Thursday and is that the day my library's open? Or getting back to the way it was, where seven days a week we had libraries open, community centers open. Along with not forgetting some of the preventative services that we have such as the mayor's gang prevention task force. There are a lot of services that are provided out of there that go a long way to making sure that our streets are safe, our kids are engaged in positive activities which help bring the crime down. I just want to make sure that those are also taken into consideration.

>> So those would be forking on some things which are tangible and people can physically see and touch, the libraries are open for more hours and the community centers are open for more hours, and second, increasing investment, investments in things like mayor's gang prevention task force which are preventative in nature and lower cost in going in to remedy it on the back end. Thank you. I got the mic.

>> Hans Larsen: Mr. Mayor, members of the council, the discussion of infrastructure, musk to my ears, as a trainings director that's sitting on an extensive road network that is deteriorating. I wanted to just highlight a couple of significant pieces of staff work that trainings and Public Works are working on that will help prepare the council to discuss the issue of infrastructure maintenance and the deferral. In March, so next month, the Department of Transportation will have a report to the transportation and environment committee on the topic of pavement maintenance and will address issues on the size of the backlog, the cost of inaction, it will just get bigger if we don't increase investment, and lay out potential funding options, to help address that. And then in April there will be a more comprehensive report that the Public Works department is putting together also to the transportation and environment committee to the larger citywide infrastructure needs. So you'll have both of those reports as we move into the budget process to help guide policy discussions in that area.

>> Thank you, Hans. Other feedback or comments, anything that we're missing?

>> Vijay Sammeta: Thank you, mayor and members of the council, Vijay Sammeta, I think when we talk about infrastructure and quality workforce that's exactly where I.T. fits in certainly we have most of our major systems at he's a decade old. Simply fire up your office productivity app and talk about the date, it says 2003. When we talk about retaining the next generation of workforce or making our next generation of workforce productive blur the line between infrastructure backlog and restoration of services. It's a good opportunity to look at the way we're doing things. Do some process reengineering, invest in technology, and hopefully, give the council more options with regards to how they can spread those employees when we get back to hiring. You know, I think when I look at the absolute key systems and that's the stuff that Julia Cooper and Jennifer Maguire use, those are at least a decade and in some cases two and a half decades old and just don't meet the needs of the organization. So there's a real value to the soft dollars that staff time spends preparing reports like this, preparing records and dealing with day-to-day that the public can that's the only comments I have and thank you for you guys support.

>> One thing I want to capture in that is inherent in that idea is technology infrastructure backlog and they can be restoring services potentially at the same time. Councilmember Liccardo.

>> Councilmember Liccardo: Yeah, I was just going to say I think we all recognize that there's some really multiplier effects that we can get out of I.T. that's well applied. I think we've all seen applications in various facets of our lives where I.T. is sitting in empty classrooms, not being utilized for instance, where a lot of investment doesn't get it. What would really be helpful is to have a really strong sense of where we think the marshal investment in the I.T. is going to give us the most benefit in terms of really being able to leverage our employees' abilities to serve. And you know I think for instance about an RMS in the police context with all these officers who are out there hand-writing their reports and other cities have been automating for several years now. I think this is leverage benefit in terms of having more officers out ton street doing what we want the officers doing. I'm sure there are plenty of other examples that are at least as valuable and it might be really helpful for us to think about maybe prioritizing some of those top 10 wish list I.T. items that we really think can help the organization take off.

>> So the request is to understand of the various potential technology investments what are the ones -- what is the payoff in terms of productivity and productivity increases on the personnel on the staff side, and then

therefore, with that as a data point conduct a bit of a ranking exercise to prioritize top ten in your words, investments that would get us there as a city. Thank you. Other comments, feedback? Yes.

>> So my question or thought is around page 15 of this community budget survey which I know was a few hours ago. So if we look at services, and you know a face city, a prosperous economy, a green prosperous city, what do those actually mean? Does being a green prosperous city mean zero waste all renewable energy? To what spectrum does that go to and how do we deliver on that, if we know what those terms mean, can we build up to say what it would take to get there? And then look at the required funding. But are there also ones like, if we worked on a prosperous economy really hard would that solve the other problems in and of itself? So are we looking at how one thing feeds into another to serve our long term problem or taking lots of small steps along the way.

>> Thank you. Okay. Anything else?

>> Mayor Reed: Eligibility more information from the neighborhood priorities survey that got circulated today. You haven't read it yet. Here is a little teaser for you. Try to figure out what the top 10 priorities from the neighborhood associations. I've got the top 5. But because there were 11 tables and different things on the tables, there are a lot of ties for six, seven and eight. The top 10 -- we didn't have -- this wasn't a principles discussion, it was basically how would you spend money if you had money to spend and what would your priorities be exercise that was run by innovation games again for us at no charge again. So the top priorities for neighborhood association groups of the 11 tables of people, number 1 was gang prevention, two was park enforcement, three was neighborhood and 5 was libraries. And lots of things tied for six seven eight nine ten whatever. Take a look at it I think you will find it useful. There were 16 neighborhood associations as well as our neighborhood commission and youth commissioners that participated. But that report's in your electronic mail sometime today. Whenever you get a chance to read it. I know you're sitting here, you can't see it. On that, I think we're going to turn to the next section of today's agenda, is that right Deb?

>> City Manager Figone: Okay, quick introduction and up the. Envisioning our reality. We have a lot of the things on list to get to and in the category of ordinances that will implement policies that have been of high priority to the council. The process that we've used over the last year or so, to prioritize, has been very, very valuable for staff. See earlier comments on how thin we are, and in particular, very thin in the staff who handle a lot of the analytical work, the policy work, that is really foundational and key to the ordinances that have been on the list, and that we've been working through. So you're actually going to vote tomorrow on your next top 10 or so Ashwini, is it? But there's more than 10 kind of waiting in the wings. So in your staff report, for tomorrow's agenda, council agenda, and then also I think in the packet that you were given last week for today, Ashwini is going to frame up how we would recommend you proceed and also be able to answer any questions about the items that are pending on the list. Ashwini.

>> Thanks Deb. Good afternoon. So as you've heard and I think you're well aware, the city has seen a drastic reduction in staffing levels, as a result of ongoing General Fund shortfalls. So this fiscal year itself we had over 400 city positions cut, and we are about at 5400 positions, a level we haven't seen for over 20 years. This significant reduction obviously limits staff's ability to take on new positions, as staff is kind of working on other priorities that the council has identified. And it's not also just about reduced staffing levels but managing through substantive changes that we've had. So significant turnover as a result of downsizing and bumping and people learning new jobs. So we had a huge set of spending ordinances. And so we started off last year, almost exactly last year on February 14th, where we identified top ten priorities from a list of 43 pending ordinance changes. And we had a follow-up prioritization exercise in August, at which time we kind of added, council added three pending ordinances to a modified top 10 list. So they're at smoking in outdoor areas, household and payday lending ordinances. At that time there were kind of three added as in waiting ordinances, one zoning standards for main street and Alum Rock, a development agreement ordinance and ordinance changes and major referrals. Top 10, you have the real estate transaction streamlining at the bottom just waiting to get on the list. Just a reminder that this list will not be up for consideration tomorrow and council will really be asked to vote for the next kind of set of priorities that can move onto this list as these get completed. And so all of the current top 10 are anticipated to be completed by the end of this fiscal year. And that's why tomorrow you'll be kind of looking at the next nine. And so we don't have to come to you between now and August. Which is when we'll be coming again with the

prioritization exercise. So what I'm going to do is just kinds of provide a quick overview of everything that's on the pending list. And then we have staff here available to answer questions or provide more daylight. And just for the purposes of this presentation, what we've done is just group them by broad topic areas. So you can see the general theme of the ordinances. And obviously, some of them span multiple areas. So starting with economic development, we have four specific ordinances related to this area. One is amending the public entertainment ordinance to authorize changes in the fee methodology. The second one is developing council policy to provide more specific guidance on the recently adopted development agreement ordinance. And then amending an ordinance for the San Pedro urban market so allow semi permanent kiosks on public property and also to allow a single entity to operate multiple kiosks. And finally amending the Muni code to increase the number of downtown paseos and plazas and to direct guideline modification. The second kind of broad area of ordinances is neighborhood quality of life. And so we have eight items, eight items related to this topic. The first item would require an amendment to the zoning code to provide easier access to healthy food. And this work is being done in collaboration with the health trust and includes deregulation of farmers markets. So which is item number 22 on the list. And for tomorrow's voting exercise since these items are interrelated they will be presented as one single item. Other ordinance necessary this area including updating and consolidating permitting for such events. Updating the noise ordinances for best practices, amending the zoning code to provide for discretionary review, offering new retail in existing buildings, regulating unattended donation boxes and also structure historic building provisions. And then the last item that you see under this area was just added to the list at the February 8th Rules Committee. And this is related to mobile vendors, including alignment of regulations with the county's ordinance. In the area of environment, we have six ordinances. The landscape ordinance item would really modify the City's existing water efficient landscape ordinance to align with the state's model landscape ordinance. The second item would involve modifications to council policy 4-3, to include standards for the use of white light sources and private streets, parking lots, pedestrian and landscape areas and this would be consistent with the recent update for the council spoil for public street lights. The third item refers to requirements for installation of electric vehicle charging stations in parking garages. And the fourth one is related to green building retrofit ordinance which would look at requirements for additions and alterations of exiftion buildings. At this time, staff is actually scheduled to report out to the T&E committee on this item in March. And it's not really recommending bringing forward any additional changes given our desire to stay competitive in the building market. The next item

in this area would involve developing a council policy and ordinance to align with the riparian corridor policy study in the general plan. And then the final would really involve changes to the zoning code to align with the general plan VMT goals by reducing parking requirements and expanding ecopass car share and other measures for private development. So under new zoning districts we have three items to facilitate housing, creating a new form based code for the not San José area to enable implementation of if North San José strategy and also, updating diseng standards for urban villages to align with the general plan.

>> Councilmember Pyle: We have a couple of items under the historic related area related to prevention of the preservation conservation areas. These are the final two categories. We have some administrative ordinances such as clarification of specific provisions of the gift ordinance. Amending the ordinance and then the third one is based on recent direction of the rules committee on February 8th as well. A potential ordinance related to contracted employee benefits where staff could mandate a nipple of and this could be done through a preliminary required number of days off, in case of living wage employees, or through using the number of days off as part of the valuation criteria for proposals. And just wanted to kind of put it out there, that if it is determined to be a future top priority staff would welcome feedback on the preferred scope. And then to wrap up we have two additional resources. Amending the taxicab ordinance to reduce minimum mileage or alternative fuel vehicles and developing a notification notice for neighbors. When converse from sale to rental or vice versa. And this item has actually been to the CED committee before and is awaiting future direction in late February. And so at tomorrow's council meeting the mayor and councilmembers -- the pair and councilmembers will be given a ballot that will list all of the pending ordinances. Shown in attachment A. We actually had a supplemental memo with an updated list sent out today. And then, you will have the opportunity to vote for your nine highest priority items on the list. These ballots will be collected by Dennis, our City Clerk. I W.H.O. will tally the number of votes for each item at the meeting itself. And the nine items that receive the highest number of votes will be used to establish the future list of the top 10. because it will also include the real estate streamlining transaction. With that we're happy to take any questions. Staff is available to provide further clarity if you have any questions. Thank you.

>> Mayor Reed: One additional suggestion perhaps. Maybe it's not on for tomorrow's agenda put we tell you there's something you can drop. Because some of these things have been on the list for a long time and maybe

people have forgotten why they're on the list. If the council can say just drop this one, make the list shorter, for the next priorities. We're not really focused that way for tomorrow but perhaps there are decisions we make to make the list shorter.

>> City Manager Figone: Mayor, maybe along those lines, if staff responds to questions, or if you have more tomorrow, where outreach fits into these ordinances and contributes to their complexity. And whether or not there's any modifications or simplifications in terms of outreach that the council would be willing to entertain.

>> Mayor Reed: That's right. Because some of these things look very simple but depending on how much outreach they can be much more work and we have an outreach policy but the council could decide not to apply it in any given substance or something and that could certainly change the scope of the work and the ease of getting it done, as well. So now is the time to ask questions about any of these, obviously we'll have it on the agenda tomorrow and you can ask questions again. But if you need to get the staff to get you an answer between now and tomorrow now is the time to try to put it up there.

>> Councilmember Oliverio: Question for Joe and Laurel on the planning of the various ordinances that are due, in implementing the general plan which we spent four years of outreach and having input of the council can we not implement this general plan without these ordinances and do you see repeating an entire process that we spent four years on to get feedback?

>> Joe Horwedel: No is the simplest answer. Our current code allows us make the new general plan a more enticing for developers to build rather than doing it all by planned development, giving more flexibility for things like parking ratios and setbacks. But they're not must-haves today. So that's kind of how we're chunking our way through it.

>> Councilmember Oliverio: Okay.

>> Ed Shikada: Mayor if I might just as a transition, I had an offline question which is where did the order of things come from on the way the owners are listed I'll ask Ashwini to respond to that.

>> On the pending list, right? We just actually started out with lead department and alpha order. We used to have kind of separate categories so a couple of them may be out of order. But it was really to show PBCE had most of these items. And so we wanted to be able to kind of show if -- if they had to take on the items, you know, who is it that's leading these? So that was how it was intended to be ordered.

>> Councilmember Liccardo: Just two questions for tomorrow or whenever anyone wants to respond. One is, it seems if you are going to merge 22 and number 1, that's the healthy foods, it may be worth discussing tomorrow the possibility of also adding the mobile cart within the healthy foods as well. I think there's some relationship with all of them, the increasing access. So I just throw that as an idea that we can discuss maybe tomorrow. I guess the second issue is, and it's a conversation Ashwini and I had only a few days ago, we're at a point now with I think it's number 27 or 28, it was just added on the transportation innovations and development, we're at a point now where we're in negotiations with whoever prevailed in the RFP with a car-sharing program we expect a bike-sharing program out in the fall, there's a lot of discussion about ecopass and development is finally happening, if we can create some pallet of incentives for developers to reduce transportation impact fees in exchange for contributing to expanding car share infrastructure or something like that, if those are the kinds of things we can offer without an ordinance change then it seems like this could be something that could be pulled off of this list. If on the other hand all these things require ordinance changes I understand that is going to wait in line. I throw out that question, is it something that needs an ordinance change to put a schedule out there to developers saying, we can give you a break on this if you do this.

>> Mayor Reed: Other questions on ordinances? Okay, we'll vote tomorrow.

>> Councilmember Rocha: One question just clarification. On the pending or new. Forgive me, when you listed, what category was that listed under ?

>> I think that was the neighborhood quality of life.

>> Councilmember Rocha: Thank you, that was it.

>> Mayor Reed: Anybody else? We have to stay here until 5:00, so they're locking the doors. Probe lose my quorum. Just guessing. Have you got anything to add? Deb, this was the end of the last item.

>> City Manager Figone: No just a quick thank you. To all the staff, tremendous amount of work, especially all facets of this presentation but a lot of work done over the weekend. So thank all the staff, the senior staff, and council appointees for your role in this, Rick's team has a heavy list in the ordinances, and so thank you, Rick and Mr. Wall did you notice that? I thanked Rick. So thank you very much. [applause]

>> Mayor Reed: Take note for the record. A couple of things about the materials that we had today. I just want to go over, where they're posted how people can get access to them, people who are watching from home. Retirement board presentation video, I think there's a link, you can see the real presentation in better quality if somebody wanted to.

>> Alex Gurza: Yes, we will link it. We will link to the retirement video presentation such that people can watch the experts if they don't want to watch the whole video.

>> Mayor Reed: And then in terms of the basic materials, are they posted with today's agenda like we usually do with council meetings?

>> Jennifer Maguire: They should be at the first Website, I think it was going to be done at 1:20 today but also on the City Manager's Website, you can find it in two different areas.

>> Mayor Reed: Okay, I want to thank everybody for your participation. We have a difficult job ahead, for the rest of the budget cycle. But it's always been difficult every year I've been here so this year doesn't look as bad as last

year and for that I'm grateful. I know you're all happy that we're not facing as big a problem last year. They say flat is the new up, I think that was the case last year. Maybe this year we'll get a little bit of up. I'm going to be optimistic, hope we can pull it off. Maybe we can. Thank you for coming. We have a couple of public comments before we disperse. David Wall.

>> What we didn't hear today and should be focused on is what my new here owe Lou Wolff says. Performance is relatively simple to measure. And perms is what counts. He said that in an op Ed piece back in 2003. One of the sad parts we've seen here today is the manipulation of ballot timing and language. This goes right to the issue of competence in government. Why this is clear but it is distasteful one another thing that wasn't discussed today, but should have been, is never to throw away free money. We heard, at the closing, our honorable City Manager thank the City Attorney. And I'm grateful for that. But throwing away \$440,000 in liquidated damages to save a boondoggle known as the environmental innovation center is not proper thinking. Outside of that, I just want to give thanks to fire engine company 1B. Captain Brian Endicott. Firefighter asha Wagner, fire engineer Brendan caston and firefighter paramedic Sol Florez who were in my neighborhood yesterday performing a life-saving event. Whoever came up with an idea that four firefighters, no matter what their ranks are per engine is relatively stupid. You need minimum of five, possibly six, per engine company. And I guess we'll leave it at that Mr. Mayor. But what I've seen today, as a citizen, outside of department heads, is a confidence-destroying event. Thank you.

>> Mayor Reed: That's it for public comment. We're adjourned. Thank you.