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>> Mayor Reed: Good morning. I'd like to get our council meeting started. This is a budget study session. The first of many that we're going to take on over the next couple of weeks. The study sessions are a continuation of the discussions that we started much earlier in the year. In our community based budgeting process we start official with a poll of our people with scientific survey to try to get an understanding of where the residents and the voters are in the City of San José. We did that in January. We had a neighborhood association leaders session here open a Saturday morning in January. Around the budget. We had our own study session with councilmembers and senior staff on February 14th. And then we approved the mayor's March budget message setting the framework for what we are about to begin looking at here and that is the managers proposed budget. Those of us who have been around for ten years, including me, remember all too well, unfortunately, this is the 10th year of shortfalls and deficits that we've had to deal with. Some of us can still remember when revenues were going up faster than expenses but that was a very long time ago. This year we're dealing with \$115 million gap between where our revenues are going to be and where our expenses are projected to be. But of course we have to balance our budget. And we have to do it the old-fashioned way with real money, real jobs and real people affected. We don't have the benefit of being the state legislature and being able to do it with borrowing and other gimmicks as they're called. And we don't have the printing presses the federal government has, unfortunately, although I do go visit them period when I'm in Washington just to see if they're giving out free samples. So we do it with real money and real impacts on real people. And this year the best case scenario seems to be that we'll only shrink our workforce by about 600 jobs. That's not a very good scenario, but it could be worse. We'll be going through the manager's proposed budget looking at where those reductions are proposed and of course, we're still negotiating with six of our unions around our requests for concessions to save jobs and services. We directed the manager back in March to prepare a budget that assumed we'd get concessions from all of our employees and that's all we have in front of us. So if we don't get the \$39 million in concessions from our bargaining units, there will be more jobs that will be lost. Fortunately we already have contracts with five, and that's a good start, but that's not even half the workforce yet. But we continue working on it, and we have to do that because the next fiscal year, 12-13, looks as bad as this fiscal year, and it's certainly not getting better. And we have some two-year contracts where the 10% concessions have gone, have locked them up for two years so there's less likely of concessions in the following year. So undoubtedly we'll be facing more reductions in workforce as we get into the next fiscal year. And I wanted to share with the folks that are here and anybody

who's watching the slides I've been using at the community budget meetings to explain the longer view, even though we're focused on this year's this next fiscal year's issues, I'm much more worried about the longer view, and what happens over the next five years. And what's driving our cost, primarily, are skyrocketing retirement contributions. Ten years ago, cost us \$63 million to pay retirement costs. This year we're in, we paid \$155 million. The probable bill which is due starting July 1st for the next fiscal year is \$250 million plus or minus a few million depending on whether or not we pay it early or not. But our professional staff and the board's actuaries, and the guidance that we've got for the future years, show those contributions going up to \$400 million. And that's not the worst case scenario. That's just the most probable scenario. Because we know from our study session on February 14th that we could be at \$650 million retirement contribution in only five years. And the \$400 million number is in part predicated on assumptions about rate of return for investments that only have a 25% probability of hitting the numbers. So it could be worse than 400 million. It could be 650 million and there are factors that we'll be looking at with a study session on retirement on the 18th which is part of our schedule. And then I've been trying to put this into terms that I can explain to our public, what does it mean in services and impact on the city if those numbers reach those levels. Here's the best way I've been able to come up with explaining it. Today we have 4200 people paid out of the General Fund. We have lots of special funds, there's additional workers. But the General Fund of course is where we pay for police officers, firefighters, librarians, community service workers, and all of us. If we hit the 400 million mark, looking at the rate of decline in the workforce in order to cover, the deficit will be down to 3,000 General Funded employees in four to five years. If we hit the \$650 million mark, and all we do is continue to cut services, we'll be down to 1600 General Fund employees in four or five years. Today, we have 2400 people working for the Police and Fire department. So you can see that this is an impossible scenario. We can't possibly live with this. This is a disaster scenario and that's why the council gave direction to the manager to include recommendations on some fiscal reforms that we'll consider in -- next week on March 18th for a study session on retirement and then May 24th, I'm asking the Rules Committee today to add to the council agenda council action on the 24th on fiscal year reforms so we can give some direction. Now, back to the current fiscal year. In trying to explain it to the public, I think I have a simple explanation of what's happening. First, general revenues, if you look at the summary information, general revenues are going down by 5%. We're looking at a proposed budget that would reduce the public safety budget for Police and Fire by 1%. Now this is in dollars. We've reduced the general government which is City Attorney, City Manager, City Clerk, city council,

mayor, HR, I.T., those kinds of things, by 11% reduction in dollars. And would reduce parks, recreation, libraries by more than 20%. And so because Public Safety is our number 1 priority, it's our core service, the reduction to public safety in dollars is much less than some of the other departments. But nevertheless we have tremendous impacts on our public safety department because while the budget is going down, costs are going up dramatically. And the slide that shows the increase in retirement cost is a large part of that equation. Next year the retirement costs in the police department, just the police department are going up by about \$25 million. Retirement costs in the fire department are going up by about 18 million. Even if we get 10% concessions from our officers and firefighters like we did with the firefighters that's not enough to even cover the cost in retirement. So we're asking the chiefs to do, well, you can't do more with less. Let's be realistic. They're going to have to do the best they can with less. And we'll be seeing some proposals in these budgets that are their best professional thinking about how to manage a department with demand going up, and resources going down. And I think they've come up with some reasonable recommendations, not that they prefer to do that. It's just that they're professionals, we've tasked them to do that and they've delivered on their task force. And it will be our decision making to decide whether or not to go with those or other recommendations that have been made on how to allocate the cuts, how to allocate the resources. So we'll spend a couple of weeks doing that. We'll have public hearing specifically on the budget next week, evening of the 17th. Any more study sessions, ultimately, we'll have a budget message that I'll reason June 3rd, trying to put this all in a package, and tie a bow on it, for the council to consider June 13th, will be a public hearing on the budget message. June 14th, council review and approval of direction to the staff. And then the 21st, the final adoption of the 2011-12 budget. And just to remind everybody, the 21st of June comes whether we like it or not. And July 1st comes whether we like it or not. And there is enormous amount of work that our budget staff and finance department, everybody else has to do between June 21st and being able to go to work and operate on July 1st. So this is really tough schedule, it is a tight schedule but it's necessary because the fiscal year is coming whether we like it or not. And I want to thank my councilmembers for all the work that they've done so far. These are difficult times to be elected officials, these are difficult times to be public employees. I want to thank the people who work for the city employees. We have one of the smallest sets of staffs of any big city in the country. In terms of our population. Our people work hard. They're professionals. They do a good job for our community. Unfortunately, the cost of those people have just gone up dramatically and we can't afford to have as many as we need. But we're coping as best we can. It

doesn't give me much comfort to know that other cities are having similar kinds of troubles, but I am grateful for the professionalism of our workforce who continue to do the job notwithstanding all of these things that are hanging over their heads. So I want to thank the workforce and thank the City Manager for her leadership with this and with that I'm going to turn it over to the City Manager.

>> City Manager Figone: Thank you, mayor. I too want to offer some reflections. It's amazing that we didn't compare notes, any of my reflections are along the same lines as yours.

>> Mayor Reed: It's good that I get to go first.

>> City Manager Figone: Yeah, it sure is, it's great. But that said, today does begin a series of study sessions on proposed '11-12 budget, and these sessions are designed, and I hope you find them helpful, to engage the mayor and city council in understanding the many recommendations that are now before you. As professional public administrators our goal in the process is to assist you in making the difficult decisions you now have to make. As you've heard me say many times and again it parallels what the mayor said, there are no easy answers in this budget. And I really must acknowledge that just as it will be difficult for the council to work through your decision making process it was also very, very difficult for this administration, in particular the senior leadership and I, to bring you these proposals. And I can honestly say that we have done our best with what we've had to work with. With that said, what is before you today, and for the rest of the sessions, is through our professional lens. We know that you must now apply your judgment and your perspective in reaching a final decision. So let me also begin this session by expressing appreciation to a few important groups. And this is where the mayor and I are reflecting on the same thing. First of all, our employees for the work that they do to provide services to this community. It truly saddens me to know, that they are working under a very significant cloud of uncertainty. As they go about doing their work to the best of their ability, day in and day out. And in spite of these circumstances, I am very much inspired to continue to hear about and see daily, what continues to be very dedicated and professional service to the public and for this I thank them all. Next are very talented and experienced managers. And mayor and council I cannot overemphasize to you the importance of their role in helping this city to navigate the treacherous waters that we are in during this fiscal crisis. And so I do thank them for their stamina,

their commitment and their leadership. And finally, with regard to the proposed budget that is now before you, we would not be here today to begin our discussions without the tremendous leadership of the City's budget director, Jennifer Maguire, and the dedicated staff of the city manager's budget office. Thank you all for your thoughtful work, the high quality analytical work that you have produced over many, many long days, long nights, and long weekends to position this council for a very, very important public policy discussion. So with that, I will now turn it over to Jennifer Maguire to get us started.

>> Jennifer Maguire: Thank you Debra. Good morning, my presentation today will provide you with a brief overview of the City Manager's proposed operating budget for 2011-2012 as well as information on our approach and strategies for resolving the \$115 million General Fund shortfall projected for next years. Highlights regarding budget actions and other city funds will also be discussed. To start, I know you've seen this graph before but it's important to remind ourselves that the proposed budget actually contains a \$2.5 billion recommended spending plan with 113 different funds and approximately 5,250 positions. I do need to note that the total budget will grow during the next phase of the budget process due to the re-budgeting or carrying over of current in-progress projects particularly in the capital projects area. As you can see from the pie chart we have three major components of our budget. In order of size the special funds comprise 45% of the budget with the largest components being environmental services airport and housing funds. The capital funds total 28%, with 14 different capital projects and the General Fund with 27% of the total for which most of my discussion will be focused today. As has been said, we're entering our 10th year of General Fund budget deficits. As discussed in the five year forecast that was released in February in another budget study sessions, escalating costs are expected to far outpace the modest revenue growth in 11-12 resulting in a general fund shortfall of \$115 million next year. These costs increases are driven in large part by increases in retirement cost which are expected to be \$57 million higher next year or about half the deficit. In addition, the budget shortfall has increased due to the loss of Redevelopment Agency reimbursements in total of approximately \$25 million. We did have to take down the forecast earlier in the year for loss of reimbursement of San José B.E.S.T. and SNI, as well as for reimbursements related to convention center payments and support staffing. Unfortunately, due to the size of our shortfall and the fact that we are in year 10, unprecedented budget actions are proposed with unavoidable significant service level impact. This budget contains the loss of almost 600 positions from the 2010-2011 adopted

budget level and represents the decline of approximately 10% in staffing. It is important to note, as it was mentioned earlier by the mayor, that the proposed budget was built on the assumption that concessions would be achieved from all of the City's employee groups. If these concessions are not achieved, additional budget reductions will be necessary and brought forward as a tier 2 to the proposed budget as I will discuss a bit later in my presentation. Finally, in addition to publishing the proposed budget, the City Manager did issue a fiscal reform plan on May 2nd. It's entitled manager's budget addendum number 1 that meets the city council direction to achieve \$216 million per year of cost reductions and/or new revenues for the General Fund that will allow the city to restore police, fire, library and community centers services to a level of January 1st, 2011 and to open libraries, community centers and fire stations built or under construction and the police substation within five years. The retirement reform elements of the plan are set to be discussed with city council next week on May 18th during a separate budget study session. The next slide shows the history of our General Fund shortfalls with the impact of citywide position changes for the last ten years. In total with this budget we will resolve \$680 million in General Fund shortfalls and eliminate 2200 positions since 2002-2003. This is why the impacts of this budget can be described as nothing short of severe after all these years of budget balancing actions. The elimination of 2200 positions represents a 30% decline in the workforce over a ten year period. With over 60% of the reduction occurring in the last two years alone, with the remaining portion occurring during the first eight years of the decade. We are at staffing levels from 25 years ago when the population was 740,000. To dive in a little deeper, this slide shows not only how we've balanced the General Fund from a department and position perspective over the last ten of years but also depicts the structural imbalance between our cost structure and our staffing levels needed to deliver services. Over the last ten years public safety budgets have increased by over 50% but the number of positions has declined by 531, almost 20%. Over the same period, other departmental budgets have decreased by 14% and the number of positions have declined by 1217 or over 46%. It's striking to note that the number of General Fund positions were nearly evenly split between the public safety and all of the departments in 2001-2002, but public safety now accounts for over 60% of General Fund positions. This trend reflects prior year budget balancing strategies which sought to preserve public safety as the city's highest service delivery priority. Moving into the General Fund more specifically, the general -- the City Manager's recommended budget actions will solve 80 million or 70% of the \$115 million General Fund shortfall with ongoing solutions. With one-time solutions of 35 million, a General Fund shortfall of \$78 million is projected for 2012-2013. As is displayed in

the next slide, including 11-12, General Fund shortfalls are expected to total \$193 million over the next five years. This chart which displays our updated 5-year forecast excluding our development fee program shows our projected shortfalls in the general fund year over year totaling \$193 million by year 5. The forecast does assume modest growth in our revenues but also includes the estimated growth in the City's pension costs that are projected to grow from 193 million in 11-12 to 305 million in 15-16. That's the General Fund portion. The 400 million you've been hearing about is all funds. Again, based on our recommended budget balancing strategy of 70% ongoing solutions, the \$43 million that you see depicted in 12-13 really will end up being 78 million because we'll carry over part of the shortfall to that year. It's important to know what this forecast does not include. As you can see in the long but important footnote, cost of living adjustments for any bargaining unit are not included. We also have not included any additional impacts on retirement costs associated with changes in actuarial assumptions or retirement benefit levels, any revenue from marijuana business tax, any of our unmet deferred infrastructure needs which totals 474 million one time and \$105 million ongoing in the General Fund, or any one-time revenues and expenditures that may be required in any given year over the period. This slide provides you a quick picture of our General Fund sources for 11-12. There are over 450 revenue sources in the General Fund which we need to forecast and monitor. This does provide diversity in our revenue base which is a good thing. Sales tax and property tax continue to be the City's two largest revenue sources generating 342 million or 42% of the General Fund revenues. These two sources cover about 73% of Police and Fire department expenditures which total, their two departments total about \$446 million. This slide shows a breakdown of General Fund uses. Reflecting the city council's priorities is important to note that 55% of our General Fund resources will be going towards our Police and Fire departments. This is up from 51% that -- at the same time last year. And again 60% of our revenues in total except for fund balance goes towards the two public safety departments. This final pie emphasizes the point that the city is a service organization in which the majority of costs are associated with personnel. Total of 74% of our costs are driven by salary, retirement and other benefits including workers compensation claim and sick leave payments upon retirement expenses. We did add those in, get Councilmember Constant's request last year I was looking at our notes and this does provide a better, accurate picture of what our real personal services costs are. This is why the majority of our reductions tend to come from the personal side of the equation. Moving into our proposed budget balancing strategy, here are the numbers on how we balance the General Fund budget. Starting with the General Fund shortfall of \$115 million, we identified

additional funding sources of \$18 million which address about 16% of the budget shortfall. And identified expenditure reductions of 97 million which address 84% of the problem. Unfortunately the majority of the funding sources were one time in nature and in fact the funding sources are actually expected to decline on an ongoing basis by \$14 million primarily as a result of loss of reimbursements from the airport fund for Police and Fire services and overhead reimbursements from other funds associated with lower salary costs. On the expenditure side the majority of our recommendations are ongoing with the primary exception of the recommendations to delay by one year the opening of several newly constructed facilities otherwise scheduled to come online in 11-12. The funding sources and expenditure solutions will be discussed in more detail on the following slides. On the source side, there are five major categories of revenue solutions that are contained in our budget balancing strategy that total \$18.4 million in 11-12 but actually are a negative by approximately \$14 million ongoing. The fund balance category of \$21.3 million provides the majority of the additional funding for 11-12 but is almost entirely one-time in nature. This category does include unexpended earmark reserves of \$15.9 million as well as additional expenditure savings, a little bit of excess revenue and the liquidation of carryover encumbrances totaling about \$5.4 million. The major earmark reserves that we're recommending to liquidate in this budget include our economic uncertainty reserve of \$5 million, the unemployment insurance reserve of \$5 million, the retiree health care reserve, our neighborhood capital improvement fund reserve, and our future deficit reserve that was set aside last fall. We have some fees, fine and fine changes and activity adjustments totaling \$1.8 million. These primarily include adjustments to our development fee programs. We have a few miscellaneous revenues. Our overhead reimbursements are decreasing by \$4.2 million due to lower employee compensation cost and proposed changes in staffing levels and other funds, and our transfers from other funds have decreased by a net \$447,000 in 11-12 and decreased by \$10.9 million ongoing. We do have incoming transfers to the General Fund from a variety of sources totaling about \$9 million, but that is more than offset by downward adjustments to the transfers from the airport maintenance and operations fund for Police and Fire services to reflect the proposed elimination of these services effective February 2012 from a potential outsourcing of those services. The next slide provides detail on the expenditure changes that we are recommending in the balancing strategy. In total, \$97 million in 11-12 and \$94 million ongoing in solutions are included. Specific details of these reductions will be contained in the next several slides and in the budget study sessions that follow over the next several days. In general the largest strategies include savings from assumed compensation reductions of \$58.5

million in 11-12 and savings from position eliminations and overtime of \$58.2 million. These savings are partially offset by increases to maintain the City's annually required retirement contributions. -- so you see the add of \$33.3 million -- and to pay for anticipated unemployment insurance expenses of \$4.5 million. So when we have been talking about the total employee compensation reductions, it's really been the net of the \$58 million from a gross perspective minus the annual required city retirement contributions for the most part getting us a \$39.5 million net savings from the concessions. On the uses or expenditures side, three major budget-balancing actions are included in the budget. The first again is the total compensation reductions as previously directed by mayor and city council. Again, the current status is -- out of the \$39.6 million that is needed in this budget, we have concessions achieved with six employee groups. Our firefighters, AEA, AMSP CAMP unit 99 and ABMEI which is a pending ratification, that will generate General Fund savings of \$11.2 million. We still have a ways to go. We have got pending \$28.4 million in potential savings from six bargaining groups: POA, MEF, CEO, ALP and OE3 and IBEW. The second major strategy includes several cost-saving measures in the form of new service delivery models and efficiencies. These changes are designed to reduce cost while preserving services to the extent possible. In the outsourcing category we're recommending to outsource parks maintenance and custodial services, graffiti removal and Police and Fire services at the airport. We have several new service delivery models and efficiencies such as in our police preprocessing center, staffing of fire truck companies, the fire haz-mat team, our warehouse services, and departmental administrative services. We do have a department consolidation included in the budget between our public works and general services departments that's saving over \$1 million annually, and we have included the civilianization of 15 police positions. The last major budget balancing strategy is unfortunately the default one and where most of the proposals are in this budget. That is of proposed service reductions and eliminations. The next three slides will start to preview the significant anxious contained in this budget. Like last year, the number of proposals in and of themselves is astounding put about the proposals need to be viewed in the context of what it took to balance this budget and the impact that will be felt after nine years of short falls and budget planing actions. Again specific details of these proposals, I'll just run through a quick list of them. We'll be discussing each of the CSA budget study session presentations. We have in the area of libraries, parks and communities centers, reducing our branch libraries from four and a half to three days per week, reducing hours at our ten hub community centers that are left, we're recommending to delay opening of the Seven Trees Bascom educational park and Calabazas branch libraries and the Bascom Community Center. We are

reducing the park ranger program, reducing landscape maintenance and watering at parks, and eliminating funding for the children's carousel at arena green. In the police and fire services area, we are recommending to reduce staff assigned to police patrol, staff assigned to police investigative units, recommending to eliminate the police school liaison program, the police helicopter program, reducing the school crossing guard program, delay opening the police substation, implementing flexible fire company brownouts with no fire station closers, eliminating one fire engine company that's effective July 2011 as part of the 2010-2011 adopted budget actions, and reducing fire management staff which increases the span of control and their management structure. As far as other services go we are reducing and reallocating the healed neighborhood venture fund, reducing funding to several community based organizations reducing strategic support services yet again in human resources I.T. finance and Public Works and reducing the mayor, city council and council appointee budgets and services. If we take a quick look at other funds we do have some budget balancing actions there. Most of our other funds are stabilizing so there's not a lot of reductions there but there are a few significant ones that I want to point out to you. We have staffing changes in the convention and cultural affairs fund with the elimination of five security officer positions and the proposal to contract those out due to the episodic nature of that work and the fact that the convention center is going to be going under the expansion and renovation efforts. Our housing department needs to be rebalanced, we're recommending to eliminate 13 positions, supported by the low and moderate income housing fund due to lower tax increment revenue as well as positions related to the community development block grant fund due to lower revenues there as well. We are reducing our capital program staffing in public works and transportation to continue to right-size our staffing needed for our capital projects. And on the slight bright side we do have some modest additions in various environmental service funds. Primarily though in equipment replacement, plant maintenance, and dealing with our permit requirements. As I know you're aware the \$115 million shortfall for 11-12 do not include these \$23 million in services that are shown on this slide. They were funded on a one time basis only in 2010-2011. With the exception of those services highlighted in blue, the services shown on this slide are not recommended to be restored in the proposed budget represents a further impact to our service delivery system. The services that are included in the budget for partial or full restoration have either been directed by the city council for inclusion such as the senior nutrition program have dedicated fundraising efforts behind them such as the police horse-mounted units and Almaden Lakes aquatics program or are development-fee funded. Looking at our estimated position impacts for 11-12, a total of 852 employees are

estimated to be impacted in this budget with approximately 370 full-time employees subject to layoff. Due to our civil service system and seniority rules, an additional 446 employees will be moved to different positions through the seniority bumping process including many who will move into lower paying jobs. For the second year in a row the level of disruption will again be extremely challenging for employees directly affected and the departments responsible for service delivery. If concessions are not achieved, in the proposed budget additional substantial reductions will be necessary to rebalance the General Fund. Consistent with the city council direction we would bring forward both a police sworn contingency plan and a non-sworn contingency plan. Based on the proposed budget, these plans would need to cover the projected savings from the concessions for those groups that are still outstanding totaling \$26 million. This includes \$13 million from the Police Officers Association and \$13 million from the other non-sworn unions. However, budget reductions and this is very important to know, in excess of these amounts will be necessary to close the gap if these concessions are not achieved. For the police tier 2 plan budget reductions totaling \$20 million will be necessary not the 13 and while for the non-sworn tier 2 plan budget reductions of \$22 million will be necessary. The higher amounts are necessary because there will be additional costs associated with eliminating positions and laying off employees. These include unemployment insurance cost, payouts and compensatory time payouts. In addition the reversal of savings assumed from the budget proposal would also occur. For example we -- based on lower compensation we were able to take savings in our sick leave payments upon retirement appropriation but that would have to be partially reversed if we do not get the concessions and also we took savings based on compensation savings potential in the police department in their overtime and special pay area. That also would have to be reversed. That's about \$1.2 million just for that alone. In the police department, the police sworn tier 2 plan will include additional sworn reductions of 156 reductions which would bring the total sworn reductions to 351 positions or 28% of the police force in this budget. Services affected would include field patrol being further reduced, our bureau of investigation staffing would be further downsized and reorganized and the remaining two sworn positions in crime prevention would be eliminated. We will be issuing a manager's budget addendum detailing the impacts of these reductions later this week. For the non-sworn tier 2 plan, approximately 290 additional positions would need to be cut. This plan is still under analysis but the level of reductions necessary would include the closure of all 19 branch libraries, the closure of all community centers or the hubs. Grace community center as well as Bascom community center, closure of 43 reuse satellite neighborhood centers, we would have to eliminate our park ranger program reduce

our Public Safety dispatchers and do a variety of reductions to our strategic support services to realign them to our core services. To understand the challenge in developing a tier 2 plan just in generality, the challenge of balancing this budget going forward, if this year wasn't bad enough, I want to give you an update on how our proposed general fund budget now breaks down into the public safety, other, and what I consider to be nondiscretionary components. Nondiscretionary includes those expenses that we're required to pay, such as our retirement costs, debt service costs, workers compensation costs, or expenses that are grant, reimbursement, or fee-related, we're cutting those costs, will have a net-zero impact on the General Fund. On the left-hand side of the chart, the pie shows that approximately one half or \$400 million of our \$819 million proposed budget is nondiscretionary, with 38% of the \$309 million devoted to public safety, and only 13% or \$110 million left to all other expenditures. If additional cuts to public safety are not bad enough cutting more out of the other, the \$110 million small slice of the pie, is particularly alarming when we are facing this potential \$22 million tier 2 cuts, and looking at a \$78 million shortfall, for 12-13. No options will be acceptable to the city council or the community. On the right-hand side of the chart when you exclude the nondiscretionary expenditures public safety now makes up 74% of the proposed budget with only 26% for remaining services. This is a conclusion in my presentation, and you've heard these next steps from the mayor. I'd like to turn it over, the presentation to Kim Walesh, our economic development director, who will provide you an overview or state of the local economy and then we will be glad to take any questions after the presentation if that works for you.

>> Kim Walesh: That was sobering for me and I'm sure it was for you also. I was asked to provide a high-level story of where our economy is at. As important context for where we've been and where we're going. I think you know on the national level, the sense is, well, the economy is growing again. And that is because economists declare recessions technically over after we've had several consecutive positive months of GDP growth. So technically, the national recession ended a year and a half ago, in June of 2009. Of course, it certainly doesn't feel even in Silicon Valley like the recession is over because of inadequate job growth. So I just want folks to realize, it takes GDP growth of about 3% just to keep that unemployment rate from rising. And it takes GDP growth of about 5% just to start reducing unemployment by 1 percentage point. So by contrast, the first quarter of this year, GDP growth was 1.8% and it's forecasted to generally be 2% going forward. So that being said, on the positive side, I think we see nationally and locally, we clearly see the start of private sector optimism, spending and employment

growth. But because two-thirds of economic growth is tied to consumer spending, we aren't going to have a real economic recovery until consumer spending really starts again. And this of course remains really challenging because we need more people to go back to work, their disposable incomes need to grow, and they need to be comfortable that their future is secure and that they've paid down debt sufficiently. So let's go to Silicon Valley. So this is the ride that we have been on, in terms of the jobs forecast. So you can see this last period of ten years, that Jennifer spoke of, you see the peak of the dot-com employment at a million and then you see the decline and you see that prerecession peak in June of 2008. And you see that the worst is over. You see the trough of January of 2010, and you see us just starting to inch up. So right now, we're actually back at the job levels that we were at in 1996, right? Before the whole dot-com pattern evolved. Now, most economists are hoping that we can return to that pre-recession peak by the end of 2013. So again, we're moving in the right direction. And on the positive note, if you look at the last 12 months from March of last year to March of this year, the region has added 18,000 jobs so we've grown at 2%. So you might ask, what's driving the job growth locally? And again what the slide will show in a minute is that there's a very positive story, in that we now see significant job growth that has returned to normal in some of our key driving industries. Especially, information services, software, and Internet, business and professional services and manufacturing. So we've got that engine going again. But what we're waiting for is for those driving industry growth to start rippling out to the broader economy. So of course if you can go to the next slide we have significant contraction in government and construction and continued weakness in financial and housing sectors. So what you see here, which is different from when I shared the information with you last November, is those sectors on the bottom there, starting to move forward, which is very positive. In fact, the Mercury News I think did a very nice job of pointing out that for our 150 largest publicly traded companies in Silicon Valley, last year was a banner year, and we are very lucky to have viable driving industries, highest revenue growth in a decade. Highest ever profit. Highest ever profit margins and employment increases. So this is very good for our region because this can lead to increased employment, it will lead ultimately to investment in new facilities, it will lead to opportunities for smaller companies, to have big customers, and to be acquired. So again, we're at this point where we're waiting for their success to really become the region's success. Now what's challenging for our people of course is that our unemployment rate is still high. And it's still very erratic. In the City of San José, our unemployment remains at 11.5%, for Santa Clara County, it's 10.6%. What this translates into is nearly 100,000 people still unemployed, and over 50,000 of our San José residents still unemployed. The hope is

that that unemployment rate will start dipping below 10% by the end of this year, but most forecasters are saying it's going to take until 2015, another four years for that employment rate to work its way back down to normal, which is maybe 5 to 6% on average. So another positive side I think Thea that we know that venture capital is an important element of job creation and an important leading indicator for us. You can see that 2010 was clearly a recovery year for venture capital. Money is clearly starting to flow, financial community is much more positive than a year ago, clean tech is a bright spot in all of this, clean tech investment up 11% in one year alone. As I said earlier, consumers are the key to recovery. You can see how we experienced a very large drop in our region in sales tax from the peak in 2007 to the trough. The good news is, we've hit the low point. We've recovered 18%, so over time, as the employment picture improves, consumer spending will improve. And the forecast does include continued accelerated increase in consumer spending and then sales tax. Of course, as we all know, what's so frustrating is challenge translating this economic growth into city revenues ultimately. We know there's a lag on that. We also know we have two structural issues in San José. One is, the ratio of our jobs to our housing imbalance which shows up in charts like this. When you think of our B to B sales tax and you take it on a per capita basis, we're not as strong in other cities. We also know that we are underdeveloped in retail, given to our population, that situation has actually gotten slightly worse in the last couple of years. So we need to do everything we can to work our way out, but we need to recognize we have some underlying fiscal situations and the revenue problems for our city. On home prices, the worst is clearly over in our housing market, in terms of hitting the trough of average resale prices. But unfortunately, the housing market is truly not really recovering yet. We had a second decline in housing prices, very, very recently. And of course, we have about 15% of our homeowners remain underwater. That's an improvement from 20% several months ago. But I think we see that foreclosures and financial hardship for our people is causing more people to rent and rental rates to be going up, which is a difficult time for that to happen. If we look on the commercial side, the good news here is that our vacancy rates have been rising and they have now stabilized. This is very good. Slightly above the Silicon Valley average. So we're starting to see more absorption of vacant real estate. The first quarter of this year was one of the best commercial real estate quarters in the last decade in the region, seeing a lot of very significant sales or leases of empty buildings. So as the pattern has been in the past, we're starting to see vacancy rates being driven down very significantly in Palo Alto and mountain view which is good for us because that eventually means that our vacancies will go down here. So just to conclude, what can we expect? On the very positive side, our anchor

companies and our startups are starting to power our economic engine. And that's why we know those driving industries are important, because ultimately that benefits us all. We're very lucky among major cities in the U.S. that we have strong driving industries. Many other communities are still really wrestling with what are going to be their drivers of economic growth. But as we said in the past the job recovery as we look out over the forecast period is going to be slow, because of the public sector fiscal crisis, because the continued weakness in housing and construction and financial services which can often pull you out of a recession that's not expected to happen, and uncertainty about consumer spending. And again, what's difficult for us is that as the economy turns around here, the growth of our city tax base will lag. And ultimately, it's our growth of our tax base is not going to fully reflect the growing economy. And these are these structural issues. And San José and California, cities have the slow-growing tax bases. So the state gets the personal income tax, the corporate income tax, the capital gains, all of that that start zooming up in a recovery and we have the sales tax and the property tax which grow much more slowly. So that concludes my overview of the economy and I think you can see there's a cautious optimism here. We're in a much better place than we were last time we spoke which was in early November. But we can expect and should plan for a slow recovery, and a slow fiscal recovery for the city over the next four or five years. Thank you.

>> Mayor Reed: All right, time for some questions on this overview section. And then next we'll get into the economic development CSA. We'll take those up after our presentation but so now, councilmembers if you have questions on the overview, this is the time to do that. I had one question based on the projection of revenue increases, and I have to confess, I don't know where to find it in this binder. I know where to find it in the -- a couple of other places but I just want to verify that the projections over the next five years I believe Jennifer you're projecting a 3%, on average a 3% increase in revenues over the next five years.

>> Jennifer Maguire: That's correct. Actually the out-year forecast revenues are found in our five-year forecast document, that's why you couldn't find them in this document. You're correct, the General Fund revenue growth over the next five years is in the 3% range. Our expenditure growth is more in the 4.7% range.

>> Mayor Reed: All right we're not pessimistic about the economy and our revenues. 3% that's not great, it's not like the '90s but at least you're projecting some increase.

>> Jennifer Maguire: In fact for 11-12, we're projecting our sales tax to be growing 3.5% and our secured property taxes to grow 1%, our two largest revenue sources, which our secured property taxes running negative about 2% this year.

>> Mayor Reed: Okay, well, we'll get into discussion later on about what we can do to bump those numbers into stronger growth with the economic development CSA. But we'll leave that for later. Councilmember Pyle.

>> Councilmember Pyle: Thank you, mayor. I have a number of questions here, but I'll try to be as expeditious as possible. Does the 600 -- the lost of 600 employees, does that include RDA?

>> Jennifer Maguire: That does not include the agency direct employees but there is five employees that are funded through city system that are included in that number.

>> Councilmember Pyle: So the total number of people that went out the door is closer to over 700?

>> Jennifer Maguire: If you include what's happened at the agency that would be correct.

>> Councilmember Pyle: One of the things that I'm sitting here steaming about is the fact that our governments have failed us. The federal government is doing nothing to help us in fact cutting some of those programs. Sacramento is still trying to figure out what to do period. And I am furious because I think it's time to push back, and time to write a letter, doesn't have to be hostile, but a letter explaining where we sit. And part of our problem is that our -- the major expenses that have gone up are due to retirement. But are the people who are involved in PERS suffering the same thing? In other words, we're on a totally different retirement system than the majority of the cities in the state of California. Is that what's making the majority of the difference?

>> Jennifer Maguire: You know it's hard for me to answer because they are on a completely different system. I think that we are -- I think that we are recognizing our retirement system problems now, which I think the PERS system, from everything I've read are going to be having that day of reckoning very soon. And they have -- but they are in a different system and how they look and how they pay their mortgage payments for retirement, they look at the world a little differently. We're with our retirement system, with our trustees, trying to do the right thing to make sure that the money is in place for our retirees. These are getting more real on our actuarial assumptions, these are the numbers that will make our retirement system sound. But those are all questions that we can talk more about on the May 18th fiscal reform plan when we talk about retirement more in depth.

>> Councilmember Pyle: All right. And it's been my experience in whatever legislative group I've served on that it's not unusual for 75% of the moneys going to personnel. Because we are a people-driven government and so that is -- I just needed that to be said. And clearly we don't have enough income. So I was just wondering of those facilities that we are not going to open, is there any possibility that we could lease some of them?

>> Jennifer Maguire: That would be something that certainly could be explored. I know that we're on one -- open at least the Bascom community center we're going to look at some other reuse without costing the General Fund some additional dollars. But that's certainly something that could be explored and we can discuss that maybe later in the session. I don't know if Debra wants to comment.

>> City Manager Figone: One thing clearly we would need to evaluate is any of the bond covenants that would preclude private activity. And so as we explore reuse and you know even under the current structure, that is something that we have to keep in mind.

>> Councilmember Pyle: And I feel a little frustrated, because one of the corridors I'm working on is the Blossom Hill corridor. We have made a difference. We have increased sales taxes in that area. I think it is doable but I'm not sure if we have enough people to make it happen. I think Kim this is probably more up your alley in reference to full steam ahead on helping to promote those areas where there is sufficient wealth in the area to bring in those sales tax figures. So I just wonder if that's something that's high on your agenda.

>> Kim Walesh: Absolutely. I mean, we're full speed ahead on development of our existing large sites, which is where we get the highest yields for sales tax. So like the Arcadia Almaden, Arcadia Evergreen project which should yield over \$1.5 million annually, when those are operational, and then continue to do what we can in the smaller business districts for the retail, that's less important for sales tax but critically important for quality of life and ultimately every penny of sales tax really matters.

>> Councilmember Pyle: It certainly does. And then the -- we talk about the housing lagging. I would offer that most of that lagging is due to severe bank problems which never have been addressed and that's another thing that I think could and should be included in the letters to legislators. I would be more than happy to be instrumental in getting those letters out. And then, advertising, you know we have one of the best cities on the planet, we're strategically located, we have the ability to attract and/or get to other beautiful sites near us. And yet we don't tell anybody about it. So I am very interested in getting some articles in via magazine, for example, which is put out by the automobile association. I read it every time it comes because it's very, very interesting. But that kind of promotion, I don't think that's terribly expensive but the bang for the buck is tremendous. I'm hoping that we'll do more and more and more to promote our city with whatever dollars we can. And then finally I have a question as to what I perceive to be somewhat of a legal issue and that is, two years ago I went out and raised \$70,000 for the Almaden aquatics program. And now you're telling me that it's going to be cut. We did have money left in that program. I feel that belongs to the taxpayers. And I want to know what we can do about that.

>> City Attorney Doyle: I think she's said it's going to be restored but I'll let you address that.

>> Jennifer Maguire: That was highlighted that it was restored. That was highlighted in blue. Those moneys have been preserved, and so it can be operational.

>> Councilmember Pyle: Okay, because it said in here that it would be eliminated.

>> Jennifer Maguire: It shows what is was going to go away. But since there was issues with the lake, if it had been operational, there would be no more moneys for 11-12 but since that money was used we have preserved that in our gift trust fund, that will be available. That's why it was highlighted, she's trying to find this chart so that is a program that will be continued next year.

>> Councilmember Pyle: We want to encourage people to give to funds and all of that.

>> Jennifer Maguire: That is highlighted, asterisked, as full restoration of that program proposed.

>> Councilmember Pyle: Thank you.

>> Mayor Reed: Councilmember Herrera.

>> Councilmember Herrera: Thank you, mayor. Thanks for the report. I just want to commend Jennifer Maguire and the budget team for their great work in budgeting. I know that every year you receive awards, our city receives awards for the way we balance the budget. Even though it is terrible numbers we're looking at, it would be far worse if we didn't have the incredible work in putting this together. You come within 2/10 of 1% of making this happen. So I just have to commend your staff on that. I had some comments and questions on the overall information that we're hearing about. And in terms of unemployment, and I think Kim was talking about this, do we have any idea of how the unemployment breaks down in San José? For instance we know that by industry construction has been deeply impacted. I heard the number of 30%, in relation to the construction industry, and younger people, younger folks are really highly impacted, the teenage component is impacted in terms of younger workers trying to enter the workforce. Especially when I think about -- and I'm going to focus now on East San José, the area I grew up in, part of which I represent, and we have a couple of other council districts in that area, are we seeing disproportionate impacts of unemployment in particular geographic areas in particular age groups? And the other numbers I want to talk about are over 55. People that lose their jobs, that segment tends to be employed better than everybody else but when they lose their jobs they don't get them back. And so I'm worried about the folks in our community that are structurally unemployed, and how the city obviously isn't the only one

expected to tell us this as Councilmember Pyle mentioned we've been -- we're struggling from the effects of the federal government and the state government impacts as well, I just think it's to be noted that there are some groups in our community that are struggling even more with this unemployment. Do you want to comment on that?

>> Kim Walesh: Councilmember I think you're exactly right. Why don't I say what we know about the facts, and then in our CSA presentation, I think Jeff Ruster can address specifically what we're doing, because it's very interesting. Unfortunately we're able to get an overall unemployment rate for the city, which is a special calculation, but not able to get it by sub-geographies. But we do know two things. One, we know that unemployment rate is highly correlated with education level. So people who have a college degree are half as likely to be unemployed as people who have a high school degree or less. And that's true nationally and I'm sure that's true locally. We also know that this recession is very unique in that we have record numbers of people who have been unemployed for six months to 12 months, or more. And you're absolutely right. The evidence is that those tend to be very young people who are new entrants to the workforce and over 50. So we're lucky that we have federal funds to do what we can to provide training, and employed counseling services for people with a special emphasis on people who are harder to employ or going through very, very difficult transitions including 600 people we are working with who were laid off from NUMMI, many of who are older workers.

>> Councilmember Herrera: Thank you, and thanks for pointing out Work2Future's an excellent program, and I think it's important that we mention again that we have those resources, fortunately, that we're working to provide those, and I've actually attended a couple of the job fairs that you've had for younger workers so I'm very glad that we have that. Another question I have is about the recovery, about the jobs that are being created in terms of our driving industries. And I don't know if you know the answer to it. My concern is that a lot of the jobs at our companies that are doing great, I'm very happy that the companies that are located here and that they are having great revenue, my concern is that I think a lot of the employment that is happening is overseas. They are hiring overseas because most of their sales are happening overseas, not in this country. And I just -- I just throw that out there as a concern. Also, I was part of the Silicon Valley leadership group's trip to Washington along with the mayor and Vice Mayor. And certainly, one of the things that was on the table for discussion is the fact that trillions

of dollars are overseas, profits that are -- happen because of the business overseas. And the desire to bring some of those profits back to this country so that we could have job creation, and there's been many different proposals on repatriation. I'm not here to debate that, I just want to point out there's trillions of dollars sitting overseas and we need to find some way to bring that back here I think with the requirement that it be used to create jobs or provide infrastructure. Because that money could definitely help our local economic or our national economy. Do you have any comments on that, since we're working with these Silicon Valley companies?

>> Kim Walesh: I think you're absolutely right. That issue of how do you tap that profit to benefit the American economy and then our local economy is a key issue, and you're right, it's related to how the federal governmental approaches incentives for the repatriation of foreign earnings, back to the U.S. I think locally, though, I truly believe this, that we have companies that hire here, locally, because they are hiring nationally and internationally. In the world today companies need to be tapping into talent and serving markets globally and I would be worried if our companies weren't doing that. So the pattern is yes, they're going to add jobs all around the world, and that is a prerequisite for them to continue to maintain their headquarters here. And can continue to add jobs here. That's really what we see on the ground, is with individual companies. So always understand the concern and the perception, that that job growth might be happening at the expense of job growth here. It goes together in lock step.

>> Councilmember Herrera: I think that's true but I've also talked to CEOs who if they were able to have tax incentives and different opportunities to bring more of that money back here there's some sense that there might be a way to do that. And create more jobs here. Because if they have -- if they are faced with -- they have to meet the requirements to improve the about balance sheet for the shareholders, that's ultimately their job. And if that happens more on investing money overseas, than it does here, that's what they're going to do. So we have to find ways to incent them, I think, however that is, hopefully incent not using the stick, but somehow we need to get job growth going in this country, I just need to say that. The other thing, and I love our Silicon Valley companies, I think they would like to do that too but it has to work, has to make business sense for them, too. We need to find out how to do that. The other thing is making sure our workforce is educated in a way that they can take the jobs that are being offered in the high tech industry, and I'm glad that San José is working on that with the county office

of education to work on ways to improve so that more of our kids are graduating high school, collect, prepared to handle the jobs that are being created in these new industries. So that's a whole other thing. The other thing I wanted to comment just on the general is that 80% of the jobs in San José are with companies that have ten or less employees. So we need to, I think we also need to take a look at how we're dealing with small businesses here and encourage small businesses. Because they're providing jobs. Now, I don't know and I heard that number given out at a business adjourn function a couple of weeks ago, the business journal had a small business seminar and that was the number that was given out. You wonder whether that's new companies, companies that are slinging in size or is that the average? Is that a good indicator of what's happening in San José, do you have any comments on that?

>> Kim Walesh: Yes, I think I'd like to take a closer look at that. It may be that 80% of companies are small business. But the work that we've done looking at where people are employed, about 15% of employment is with the small businesses. So I any 80% of all companies are small companies. But 15% of people work for businesses that have less than 20 employees. So depending on --

>> Councilmember Herrera: The old 80-20 rule again, right?

>> Kim Walesh: It's the old 80-20 rule, exactly.

>> Councilmember Herrera: All right, good example of that. But I think we're always concerned about small businesses, and we do see a lot of them starting. And I just want one positive thing about small businesses: Hats off to anybody in this recession that is willing to take their hard earned money, invest it, and create a business. And people in San José, you need to shop at those businesses, as Councilmember Pyle said, we need to support those small businesses. Because they're taking those risks to set up those restaurants and those shops and we need to encourage them by spending our money there. So I wanted to ask, I have a few more questions on economic development. I was concerned that in the report, that I -- I didn't necessarily see -- I saw very little mention of the adopted economic development strategy as a blueprint for priorities in the report. And I think that we must stay focused on the priorities that the council has adopted within the strategy.

>> Kim Walesh: Yes, councilmember, I think in the next section where we talk about the community and economic development CSA we can address this question. This was intended to be kind of high level overview of the economic generally.

>> Councilmember Herrera: Okay. Great.

>> Kim Walesh: Economic strategy is the key document for how we are aligning the staff and resources that we have to regain jobs and generated revenue for the city.

>> Councilmember Herrera: The other thing that I'm wondering about is, and we've had to realign economic development, we've lost -- I guess we've reorganized it and so we have -- I'm not sure we have somebody just focused on going out and working with putting deals together to bring employers into San José. Because ultimately we need to -- one of the big-picture problems is to shift that jobs-housing balance and one of the ways we do that is to encourage companies to start here and stay here. And so what I'm wondering on the economic development team is how are we focused, how many of that team are focused on doing that, sort of the sales arm of our economic development team?

>> Kim Walesh: Yes, councilmember, that job number 1 is reaching out to businesses that are here already and helping them stay here, be successful and expand. And also through networks, bringing other new companies into our community. So we have six people in our office of economic development in the core function in addition to Nancy Kline and me, that is a priority for every single one of us. So the whole team has been very focused on that and has been focused on that with our partners in the Redevelopment Agency.

>> Councilmember Herrera: And I guess I want to encourage you to utilize the council office necessary that endeavor too, because every one of us is like a field salesperson for you, for San José, were all out there beating the drum for San José and to come to San José, so I think all of my colleagues would agree that we would like to be helpful in reaching out. We talk to businesses all the time. And so if we can have more of a coordinated effort, I

think you should definitely utilize us in helping bring opportunities to the forefront. The other thing -- my last question at this point is regarding RDA, we have some existing personnel left in Redevelopment. And RDA, part of the big function of RDA was economic development. I guess maybe this might be more of an editorial comment. I really think it's very important that we align the RDA resources that are remaining with economic development, that we work together and save money by not having -- for example, I don't know, there's probably a separate database, there's probably different things that are still separate in those organizations. And if we're only going to have eight people left, I guess it's eight in RDA I think that the infrastructure supporting that needs to be -- we don't need to have a separate -- a lot of separate infrastructure there and they should be aligned and pulled in with OED. Do you have any comments on that?

>> Kim Walesh: I think it's absolutely critical because we have fewer people collectively that we function as one team, as never before, right? We need to be able to deploy the people we have every week, to the highest and best use. We need accountability. So we're going to need to have one strategy, one team, one infrastructure and that team, you're absolutely right, is going to need to work with council, with outside partners, with all of these networks so that we can all be out there doing the sales and the business development work that brings in the new projects. That is absolutely what the vision here is, and in my professional view you know, it needs to be. There's still a lot of uncertainties about the people and exact numbers and budgets. But as that's worked out over the next several weeks and months, you know, we will have one concerted very effective approach.

>> Mayor Reed: The City Attorney had an editorial comment.

>> City Attorney Doyle: I just wanted to note again and remind that the redevelopment -- primary purpose of redevelopment is elimination of blight. And we've always said that one way to eliminate blight is through economic development. But under the law and given the fact that the governor is still attempting to eliminate redevelopment I think it's important to focus on the primary mission which is elimination of blight and whether through SNIs or North San José or other areas we can help grow the pie through our efforts to eliminate blight.

>> Councilmember Herrera: I totally agree. I just want to make sure we're eliminating blight and emphasizing efficiencies. I don't think anybody contemplates trying to have duplicate infrastructure. That doesn't help us eliminate blight. That just increases our cost. So I'm just advocating for being -- you know, looking at ways that we can become efficient, which is part of the City Manager's budget balancing strategy. Anyway, that's all my comments and questions for now, thanks.

>> Mayor Reed: Councilmember Constant our next on the list.

>> Thank you, mayor and thank you, Jennifer for so many wonderful hours of reading pleasure you've provided all of us. I have a few questions. If you refer to page 16 of your presentation, the budget balancing strategy efficiencies and new service delivery models. The first bullet point is outsourcing services. My question probably most directly is -- to the City Manager is a couple of years ago, we made some changes to our competition policy. How has that policy affected your work in this budget process to find efficiencies and to be able to make decisions that help us preserve services throughout our city?

>> City Manager Figone: Well, certainly it has helped in that the very contentious question about contracting-out is a sensitive one and was a sensitive one politically and culturally in the city. So I think the move from the very cumbersome competition policy to the more business case analysis has helped. Clearly there is still process that we need to go through. So I cannot tell you it's the most nimble of approaches, but I do think from the standpoint of getting the stakeholders aligned through the business case analysis, and then the steps that follow from there, it's been a quantum leap forward. But is it the most nimble, I would say no. But none the less we are bringing you forward some very bold changes which do save dollars assuming at the end of the day that council agrees with our recommendations. And Ed has been really at the helm. Ed, is there anything you would add to that?

>> Ed Shikada: Thank you, Councilmember Constant, City Manager. The only thing would I add is that the business case analysis gives us a basic framework from which the staff working with stakeholders do the analysis and go through the you consults in a way that's predictable to everyone involved. So the council's adoption of the

new service delivery evaluation policy really has enabled us to have those difficult conversations in a constructive manner.

>> Councilmember Constant: How much time does it take to invest in one of these areas?

>> City Manager Figone: Again, Ed could help, but it's significant. You know, the front end business analysis which I think we would do regardless of the policy, because otherwise, what basis would you have to move forward? But it is very significant. And so the process does require work. I couldn't quantify it for you. And then we have to also understand there is a meet-and-confer requirement which adds to the decision making process so it is a significant investment.

>> Councilmember Constant: Thank you. In looking for how we can just continue to preserve and provide basic essential services, one of the things I found difficult to follow in the big budget document here, is how much of our strategy is based on changes to span of control? And because one of the observations that I know I've made on the dais a couple of years in a row is the amount of actual service providers being eliminated versus the ratio of supervision. While I know it takes strong management structures to manage a changing work environment, especially with bumping and all of those other things, I'm just wondering how do we find or compare span of control over a series of years?

>> City Manager Figone: You know, I don't think you'll be able to do that. And it's not by design. This question does come up and maybe Jennifer can help me here. But I think the challenge is that classifications have changed over time, who's defined as management and supervisors have changed over time. In most of our organizations you don't necessarily have the vertical relationships that you might in a paramilitary organization such as police or fire. So as everybody's job descriptions have changed over time, I think that's more difficult to track. So, you know, I'm sure that's not the answer you'll want to hear, but it is difficult to compare. I will tell you, though, there's been many layers pulled out. And there's been a lot of flattening going on. In fact, I asked Jennifer to point out to me just in terms of unit 99 in this budget alone, I think there's you know I want to say off the top of my head, 16 positions, about 7% being reduced. So at the same time we are broadening people's job descriptions

in management, as you acknowledge. Because how we need to manage is becoming more and more complex. Especially as we take on public-private partnerships and look external to the organization, to manage many of the same things that we did internally.

>> Councilmember Constant: Thanks. And the reason I -- Jennifer were you --

>> Jennifer Maguire: I was going to add. One place you can readily see a span of control issue in this budget would be in police patrol services where we have changed in the patrol, we've eliminated 9 lieutenants and 14 sergeants. There was -- that has changed the span of control from seven to one to 11 to one. So that one you can readily quantify and do that, and so we have that one as saving about \$5 million ongoing just for that one proposal alone. We're also doing a similar thing with bat chiefs in the fire department so it is a little easier for us to quantify.

>> Councilmember Constant: I did notice that, but I can tell that you the overall span of control in the police department didn't change at all. I'll be talking more about that when we get to the Public Safety CSA. But an analysis much like the City Auditor did in her report, of the current budget numbers, show virtually no change in overall span of control in the organization, which is one of the issues that I think we really need to address. And I asked the question because I went through the document and the only place where you could readily see it really was the police department. And you could look at the -- because you have a very defined, this step this step this step this step. And you can just do a simple calculation and figure it out. But the other reason I ask is because quite frankly our residents ask us that. Because the only people they see gone are the people who they interact with. The people at the libraries, the people at the community centers, the people they see at the parks, things of that nature. I think one of the concerns I continue to have with our budget is priorities. You know, a budget is often seen as just a clear statement of an organization's priorities. And when I look at the budget, and you see that a lot of the services that residents hold near and dear to their heart are gone, but other services continue to be provided. For example, someone, if we end up going to tier 2 cuts, someone's going to go to any community center in the city and find it closed or any library in the city and find it closed. Yet, we're still funding family camp which I know we've discussed before. But at a time when we can't provide services right here in our city for people

who pay for them and need them we're still running services that benefit a very, very small percentage of people. And you can find examples of that throughout the document. And I think that that's something that we really need to look at, because if we think this year's bad, next year's going to be worse. Because our projected deficit, 12 months ago, was nowhere near the \$78 million that we're seeing for next year's projected deficit and unfortunately every year I've been here, and I know in previous years, those deficits have grown significantly from the 12 month previous projections. So I think we're just going to have a really big significant problem. And I know Pierluigi has mentioned it time and time again, of those things that we're required to do because they're in the charter or that we're mandated to do. I know I've made comments year after year about those services that are essential. And I've gotten away from using the word core because as we all know, everything we do is core in our documents but really those essential services and we've drawn these artificial barriers that say if this happens in negotiations with the police department, or does not happen, it means the elimination of all these police services, even if we're providing other services in the city that aren't as high a priority as public safety. You see that we're going to rolling brownouts instead of changing staffing on engine companies. There's things like that, that I think are just a clear statement of city priorities not being in line with the priorities of the residents, and not being quite, frankly, in line with what we're required to do. Because we still do and provide a lot of services and programs that we're not necessarily obligated to do and many of them arguably aren't even things that people consider a typical service that a city provides. So I'll give plenty of examples fortunately or unfortunately depending how you look at it, on each city service area but I think it's important that we continue to remind ourselves of that. And finally we heard a lot of comments so far from my colleagues about what we can do or should be doing to change things for economic development and all that is 100% critically important and I agree with everything that was said. We need to do that. But we also have to be aware of how much we continue to increase the cost of doing business in the City of San José. When you look at the fees and charges, you see that going up. When you see getting a permit to do this goes up, development fees are going to go up, this is going to go up, parking, everything goes up. It gets to a point where we are not competitive with our surrounding cities. And that is going to exasperate the problem that we see of the job-housing imbalance, the retail sales imbalance. Because it's very difficult for people to come and work, or invest in our city. And a lot of those quite frankly, we can probably come up with a list of ten things that this council's done in the last four years that's increased costs. There's things that we do, and I think we just have to be continually conscious of that even if it's a really good idea? Is it a good idea given the

economic times we find ourselves in or will it be just as good an idea if we set unemployment of X% growth at Y% and expenses down whatever percent and come up with targets, I just say that so we can continually be conscious of this. Sometimes we do things that complicate our problems, and we don't always focus on the issues that are most important, and those are the things that the city must and should be doing.

>> Jennifer Maguire: If I may add, related to the family camp and some other programs that are funded in this budget that may not be as high of priority that from a resident point of view, the fact is that because this budget is so complex, it would be helpful for, if any resident wants to see us look at our program dictionary document that is posted on our Website. It is hard to do in this big green document but family camp for example is almost 100% cost recovery so it is completely supported by fees. So understanding our funding components of how we fund all these programs is key, and it's really hard to do in this document. So that is a good companion document for people to understand how we are funded in certain areas.

>> Mayor Reed: Councilmember Rocha.

>> Councilmember Rocha: Thank you, mayor. Let me also thank the City Manager's office and your staff for this work. I know we're just beginning so there's a long way to go but clearly a lot of work and time has been put in this and it was very helpful the briefings I've been given ahead of time also. Let me ask a question about slide number 10, and I'm looking at the two encumbrance reserves and earmark and contingency reserves, the 7%. My quick math, and I'm no expert, looking at \$57 million there. And generally can you give me a brief and we can get in this as we get further along in the document but generally what those dollars are used for, how and --

>> Jennifer Maguire: The encumbrance reserve is -- represents moneys that are reserved for projects or for contracts that have been committed in prior fiscal year. So those are when we -- when the council allows for execution of contracts for any project, or when we encumber any agreement with some sort of service provider we generally encumber the funds to secure them for that particular contract. The encumbrance reserve is \$20.6 million which is lower than it has been in years because a couple of years ago, we put in a strict aggressive encumbrance liquidation policy, where we don't hold onto money if it -- we don't want to tie the money up in the

budget if it's not needed and if a service -- we don't need to provide that service anymore. So the finance department has done an aggressive new policy in that where funds are liquidated. We have in this budget an expectation of at least \$4.5 million in encumbrance liquidations as part of fund balance to be available to fund services for next year but that's a traditional budgeting methodology in any city or county that you would see would be to encumber money to reserve it for a specific purpose. The contingency reserve and the earmarked reserves, the contingency reserve is by council set at 3% of expenditure or higher, the policy. That is our really last go-to pot. We've never used it to balance the budget. It's a very small percentage. It covers perhaps two weeks of payroll if we were to have a major disaster in the city. It's actually very small. If we could ever afford to build it up a bit, it would be a good thing for our city. The earmarked reserves in this budget include our salary and benefit reserve which includes money that we have set aside for health care increases and dental increases, next January. We don't distribute it to the departments until 2003 actually know what those actual increases will be. I think we're presuming a 14% health increase next year, something a little bit smaller for dental but we hold that for reserve and don't distribute that to departments. We do that as either part of the mid year budget review and that's when you'll see those types of actions happen. We don't distribute any more to any department unless it's necessary. We keep it in there as an estimate. We also have in that earmarked reserve a recommendation to have -- establish something called a filled position elimination impacts reserve. Because in this budget with all this employee disruption, the departments are -- have very small vacancy factors that they have to meet and meet in their budget, meaning that as soon as a position becomes vacant, that you should take some time to fill the position there will be some savings associated with that position. The matter of the fact is we've been carrying much lower vacancy rates, and with people bumping into vacancies and redeployed into vacancies, it's going to make departments have difficulty meeting their budgets. We wanted to put a little bit of money aside for that. The fact that people will bump -- people will be bumping all over the organization and they might be bumping the higher paid people bumping into vacant positions that are budgeted at a lower step, so the positions are not budgeted correctly so we wanted to provide for that. So we did some analysis and at a minimum I think it's not an optimistic number, very conservatively, we've set aside \$700,000 for that. This year, as you saw at midyear, we had to do a lot of cleanups of the department because it simply could not make their budgets based on how tight we are with how much -- there's not room in their budget to absorb things as there once used to be. Your other question was about -- earmarked contingency and encumbrance. Are there any --

>> Councilmember Rocha: Those were those two.

>> Jennifer Maguire: Okay.

>> Councilmember Rocha: So I've waded into this, haven't jumped in completely yet.

>> Jennifer Maguire: It's a lot.

>> Councilmember Rocha: If I may ask now, as opposed to sending you an e-mail, could you point me to the sections where I can see greater detail at some point? You don't have to do it now, just let me know so I can jump into that completely. My second question is on the same slide. The -- you mentioned the asterisk at the bottom the sick leave payments and how we had now moved to including that in the personal services category.

>> Jennifer Maguire: Just for display on this chart.

>> Councilmember Rocha: Just for display. Is that an annual estimated for sick leave payments or is it total count for each employee? Explain to me how you're factoring that.

>> Jennifer Maguire: Yeah, it's an analysis that we reset every fiscal year, in fact, this last year, like last year we had actual expenditures of about \$14.5 million. We were projecting for 11-12 \$10.5 million. We look at position by position who's eligible to retire, by certain criteria, depending whether they're in Police and Fire or Federated. How much sick time they actually have on the books, how much they use, we make little assumptions about how much they may use or how much they may gain over the next year, and what the actual rate of pay that they'd be paid out. So it is quite an in-depth analysis of what we are trying -- trying to predict that appropriation. We had that appropriation in the forecast as \$10.5 million but with the assumption of --

>> Councilmember Rocha: That's for 11-12?

>> Jennifer Maguire: 11-12, 10.5. But with the employee concessions we were able to reduce that amount by \$1 million. Because if employee compensation goes down we obviously see a reduction in those payments, by \$1 million. That was a good outcome of employee concessions as well, again I have to reduce some of those assumptions if we have to go into tier 2 because it is not going to come to fruition.

>> Councilmember Rocha: You mentioned last year was the first time we included them as part of the budget formally?

>> Jennifer Maguire: No, what I was saying is this year the sick leave payments upon retirement, generally -- I mean it's budgeted in the citywide expenses category.

>> Councilmember Rocha: Have we always included it in our budget traditionally?

>> Jennifer Maguire: It's always been included in our budget and we have tracked it every single year. It is hard to know who will retire in any given fiscal year, but we look at the eligibility and make assumptions based on past information we have.

>> Councilmember Rocha: Okay, thank you.

>> Jennifer Maguire: Just to answer your other question, the tab just for anybody that's interested under the green tab under citywide, is where there's two sections called, one is called citywide expensed and if other one is called general fund capital transfers reserves. Under that section starting on page -- section 9-27 is where you can find all the detail on our reserves in this budget.

>> Councilmember Rocha: Thank you. My last comment came to my mind and I wasn't going to bring it up, but one of my colleagues started speaking of the issue and that's span of control. Back in our February study session, we had met as a group and I had submitted a memo and spoken to the City Manager about it as well and there

was going to be maybe some response or some points made to this at the meeting we never got to it because we went longer but let me just read from the last section where I made a suggestion. And that was begin collecting data on span of control, management layers and other relevant measures on organizational structure for the current budget year and harvest that same data from previous year organizational charts to reveal any trends. And I know we just spent some time talking about it, but I wanted to remind folks that I have had some thoughts on this and I'll probably be revisiting as we go through these hearings. So thank you.

>> Mayor Reed: Councilmember Chu.

>> Councilmember Chu: Thank you. Thank you very much for the work. I have some questions on this City Manager's budget message. I don't know, should I defer it until the CSA or can I just shoot it out and maybe you can address it when we come to the CSA? The first one is the graffiti abatement on page 11. I heard from the community that we have a pretty good team. Fighting the graffiti with what I want to call it a very success story. And those people that work in the graffiti abatement, have a real good connection with the volunteers in the community. That's how we can fight the graffiti problem in the city of San José. So by eliminating \$363,000 and reducing the staff, in the graffiti abatement, we could have a major impact to our -- to our city on this issue. So on page 15, there is a proposal by the environmental service CSA to fund a consultant in service to evaluate alternative technology solution for the city integrated billing system. And because Oracle is not supporting this system anymore, so the question is why can't we just go out for an RFP, see if the other company, you know, besides Oracle, maybe wanted to bid on this process, instead of hiring, you know, a high level consultant and spend very scarce city dollars for this purpose? And again, on page 16, there is revenue generation idea of a neighborhood park, taking reservation for 235 per day. I don't know that that \$235 is a random number, and also I'd like to know how can we make sure the enforcement of this program for those who have paid to reserve a public table, and make sure they get their picnic table? And the other question is, how would other knows that the area is reserved? So I would like to have more detail about this \$235 a day at the neighborhood park, what if I only want half a day, or I think the recommendation is one park per district. And why don't we do it to all parks? And the last question is on page 17. This eliminating some code enforcement positions and proactive enforcement. I think it says that if there's a complaint, a neighborhood quality complaint instead of having the

code enforcement, to go out and do the field inspection or sited the people, we were just going to send out a letter. I really question that, of how this one would work. Again, in my years as a city council member, our office, most of the calls I'd say maybe more than 50% of the calls are regarding to the code enforcement issues. And I don't want to see there's any reduction in the coat enforcement effort. Of course I don't want to see any reduction of Police and Fire as well. But again I just question this courtesy warning letter strategy, will actually work on not. So you don't have to answer those questions. I know we probably address all of them in detail when we get to the CSA. But please make a note of it, and so we can continue the discussion.

>> Jennifer Maguire: Yes, thank you very much, Councilmember Chu. We will make notes of that and hopefully your questions will be answered during each of the individual study sessions.

>> Mayor Reed: Councilmember Campos.

>> Councilmember Campos: Thank you, mayor. First of all I concur with Councilmember Chu's comments on the anti-graffiti program. My constituents as well are very concerned about that and have made a very good point of showing the relationship with the anti-graffiti department, and the network of volunteers and how well that works, and we should not forget that, because that's going to be important. I question if basically a painting contractor, how are they going to continue that relationship of not just managing their workload but you know, having to work with volunteers? Not as easy on -- it is not as easy as it looks on paper as it is when you actually roll out a plan like that so thanks, Councilmember Chu for making that comment. My question comes on page 15, actually it's page 14, just clarification on the annual required city retirement contributions of \$33 million. How is that different or what's the relationship with that, and the first slide that we got, where it showed that the city will need to contribute \$155 million to retirement. Could you clarify that for me? The very -- remember the very first slide that we opened the meeting up with, the blue slide? How are those two numbers related?

>> Jennifer Maguire: Okay, so the number on my slide on page 14 which is up on the screen here, in the past, the -- until there was a change in how we pay for the retirement contributions, we were -- when we reduced a position, we would take the entire value of the position, because retirement is an associated cost with the

position. With a change in methodology because last year it was determined we were not paying our full retirement costs, when we started downsizing the organization that we in fact were shorting the system by the methodologies that had been previously approved, the changes that the board made said you must make your required annual contributions to make the fund whole there. So when we're showing you the real costs of the services that are being reduced in this budget, but since we have to still make that retirement cost we needed to add back and make sure we were paying the full \$33 million. In this budget in the General Fund in fact all funds we are making 100% of our payments that we are required to make. And the General Fund it's about \$192 million is fully funded in this budget. It is a budgeting methodology change that we needed to reflect. Because we want you to still understand what it costs to deliver a program because retirement is part of a position. But in the end of the day we still got to make up those costs. We can't fully deduct -- we can't take account for the entire savings of a position because we've still got to pay that retirement cost because we have unfunded liabilities and what have you related to that, to our retirement system.

>> Mayor Reed: Just to follow up on your question, because my slide was the one that started this if I understand it correctly. To answer your question, the \$33 million is included in the \$250 million number on the slide. Thankfully this is not on top of that.

>> Councilmember Campos: That answers my question.

>> Jennifer Maguire: It is complicated the way we've had to budget it. Thank you for clarifying, mayor.

>> Councilmember Campos: Then my next question is on page 33. San José lags in sales tax and remains 22% under-retailed. One, I was on the Planning Commission where we approved a recommended approval of the market center, the plant, three Lowe's, the Target shopping center by Alviso and a number of large big box projects. How did that not make a dent? I mean I'm just -- I mean I can -- I can -- I mean -- we've got a million people. So it's almost like the dog chasing the tail. I mean it doesn't seem like we'll ever get to zero, where we're not under-retailed.

>> Kim Walesh: Councilmember, those projects made a huge dent. They were really, really significant and those large projects going forward will move the needle and luckily we have several more of those in the pipeline. This is an issue that goes back 30 or 40 years in the City's history and really is not setting aside the large sites and strategic locations for retail and having he those large sites develop around the periphery of our city. So we pointed out so that we keep focused on doing everything we can to generate retail sales tax. But it's knot a problem that's going to go away. And of course we're lucky to be -- go away completely. We're lucky to be a city Haase growing right? So as the population grows you need to be developing that those retail offerings commensurate with the population growth. Again going back decades the city just didn't do that.

>> Councilmember Campos: I guess my question is, will we ever get to per capita for example Palo Alto? I just think that if this is per capita we've got a million people, Palo Alto has 55,000, if that. It almost seems like we shouldn't be comparing ourselves to them because they don't have the population that we do.

>> Kim Walesh: They don't. Palo Alto has a very different balance in terms of lands devoted to jobs and economic activity versus lands devoted to housing. So part of sales tax is not just retail sales tax but it's the business to business sales tax that's being generated from their economic base. That's one of the reasons that Palo Alto, Santa Clara, Cupertino, are doing better for us. It's not just the retail sales, things that you and I spend money on. But it's the power of their economic base. They are more imbalanced to jobs, and we are more imbalanced to housing, which is a problem we intend to correct slowly over time.

>> Councilmember Campos: Okay. I think that it would have been helpful to have -- and you might have had a slide on that. But okay. Thank you. Those are my questions.

>> Mayor Reed: Councilmember Kalra.

>> Councilmember Kalra: Thank you, mayor. I think there's already been a lot of good questions and comments made, in regards to the most recent comments, Councilmember Campos just got starting retail I think goods points were made there too, including the fact it's not the business to business but during the fact the daytime the

cities have a lot more people in them per their population than we do. And so that's a lot of retail is spent during the daytime, whether it be at restaurants or people going shopping during lunch time that adds up and we certainly lag in that regard. In the weekend we may have more people so that's why I think we should continue to focus on adding retail. But that's why it's so critically important to add jobs and to balance the job jobs-housing imbalance. That's going to ultimately drive retail more than anything else we could possibly do. And I do think that absolutely, should be a focus of ours to focus to do what we can to bring jobs. Ultimately I think cities play a much lesser role than we like to think in terms of job creation. It's really private sector driven but we can do things to help facilitate job growth. We can get out of the way or one of the priorities that the mayor and the council has had is in helping to facilitate in terms of permitting and so on, I think that's been really helpful in getting companies here. So I think we're focusing on the right things in terms of job growth and I think we're seeing it both whether it be in downtown, North San José, Edenvale, we've had some very good stories in the last couple of months of companies moving into San José particularly because of what our Office of Economic Development and RDA have been able to do. So I think in that regard we're on the right track. So to that extent, in looking at page 12 on the slide 12, it shows a revised General Fund shortfall of \$115 million, and then ongoing \$115 million. So I imagine that doesn't necessarily take into account, or does it, a potential projected increases in property tax and sales tax? Because if there are unexpected or continued growth in those taxes I imagine that the shortfall would be reduced.

>> Jennifer Maguire: No, I have -- we do have revenue increases forecasted for the period in modest like approximately a 3%. So to the extent we can do better it will help in that regard.

>> Councilmember Kalra: Okay, yeah, that's the point is that I think it's good to be cautious, but, you know, we do see improvements that are occurring, and especially since the jobs numbers tends to lag the revenue, the corporate revenue. And so hopefully in this next fiscal year we'll actually see the jobs numbers, anecdotally I'm seeing it happen certainly in Edenvale but I think we can hope to expect continued increases in job growth given the increases in investment that the companies are starting to make. One follow-up question is a retirement question. So the \$33 million of required city contributions, and that -- and so that's required, is it at the normal cost? Certainly in terms of making sure that everyone that's on the plan is being -- is being fully funded?

>> Jennifer Maguire: It's a combination, the rate and the dollar amount that's been set by the boards that we're required to pay is a combination of normal cost and the unfunded liability. The normal cost has a lag of about a year so you'll see it change in the next actuarial evaluation coming out.

>> Councilmember Kalra: How much of our budget is going to retirement contributions for this next fiscal year?

>> Jennifer Maguire: About 200 of the \$817 million.

>> Councilmember Kalra: And how much of that is going to unfunded liability?

>> Jennifer Maguire: I think the last I heard, and we can talk about it more during our fiscal reform, as far as the \$200 million, about half of it is normal costs and half of it is unemployment liability, I believe, but we'll double check those numbers and make sure they're correct for you in the next, the later study session.

>> Councilmember Kalra: Thank you. And the last thing again I appreciate if my colleagues were asking some good questions and making some good comments, just a general statement on our priorities, because I don't think I have to tell anyone here and certainly not the city staff that as we diminish some of these services particularly in city services, I would include some of the general services, libraries and what have you that there are other social costs to that that ultimately add to our fiscal costs going forward and that we can't forget that and as Councilmember Chu and Campos both refer to one of the programs anti-graffiti. The amount that's leveraged between our current anti-graffiti team and our volunteers in the neighborhood it's hard to calculate that. I don't know if you can potentially calculate that but the reality is not a simple dollars and cents figure. When we're going to lay off potentially hundreds of police officers we have to understand what that's going to mean in terms of the social cost, what it's going to mean to the safety are of our residents and ultimately the financial safety of our city. Our homicide rate is already approaching the rate for last year. Is that an aberration, we would like to think so. But as we lose 200 more police officers there will be no surprise if our crime rates continue to grow. If our libraries are closed for three days a week, there will be no surprise if we find kids getting into things that they

shouldn't be getting into. And so I just mention that not as simply social commentary because we have tough choices to make and some of them are going to be difficult to avoid but ultimately it falls on us to protect our residents and do what we can to provide those services necessary. And I just hope that as we come down to these final few weeks that we keep that ultimate goal in mind above all. And that I appreciate and have, as I've mentioned before, with a lot of the fiscal goals that have been set, I've been on board with the majority of them and I think they're important. But I don't think they're more important than the quality of services and the quality of life that our residents -- that our residents enjoy and should enjoy and particularly their safety. It doesn't mean that we are going to be able to provide everything that we have been able to provide but I think that should be underlying all of our discussions, and with that we should be looking at the fiscal situation that we're in and should go forward that way.

>> Mayor Reed: Councilmember Oliverio.

>> Councilmember Oliverio: Thank you Mayor Reed. I wanted to number one thank you for your fiscal austerity and the positions you're taking because we are in a position we have to be candid. City Manager and budget team really appreciate what you've put together and the city staff as has pen spoken about by the mayor and the City Manager, for all the work they do. It's a tough spot and it's going to question whatever word you want to use, value, or whatever you think is important in this city, because you are clearly not going to make everybody happy. There is simply no money to allocate. Go back to elementary school when you had first experiment separating beans. There is only so many, and that's what we have to do. And I know there's some ideas to do some other things, but those other things fall into different levels of government, and at the end we have the power to make decisions that we can affect today and in these short periods. So I just wish all my colleagues the fortitude to have to get through this situation because your constituents and our employees are going to be at the impact of this. But in the end I don't see what other alternatives we have. So we're going to do things like outsource. We're going to do things to outsource so we can still provide a service to residents. We're going to do things like question span of control because you know what? At the end of the day, efficiencies have to be obtained and if that's what's going to come out of it that's what's going to have to come out of it. Everyone has to put something on the table. We might want that nice thing and it might be mine and I might tell you it's really

important and each of us might say it's important but in the end, this is the situation we're in. And so I just wish us all good luck and cordiality when we discuss this budget, because it's going to be tough. But as we all know, we're going to live through, for all my colleagues that will be here next year, we're going to live through a \$78 million shortfall next year. So we'll just have to get through it one way or another. I look forward to each CSA and the discussions on retirement reform because we do not provide services in this city if we don't fix the retirement structure and as I said at my budget meeting it is not the fault of Bill, Mary or Tom, whatever city employee that might be. It is the fact that we have a structure that doesn't -- lack of a better word -- doesn't -- it doesn't sustain itself. That's the word I'm looking for. It's not scalable. It just can't go, a closed pension fund with people retiring earlier, living longer, with less city workers, supporting retirees, just doesn't pencil out. So we have to figure that out. And again it's painful. It goes to some of the most basic things that people were promised. But in the end we have to make the decision. Otherwise we go a different route and a different route will destroy the City's credit rating and destroy some other things. It might be the way to go in the future but in the end I think we can still control the way the ship's steering so thank you.

>> Mayor Reed: Thank you. Councilmember Pyle.

>> Councilmember Pyle: Thank you. I agree with you, Councilmember Oliverio. My problem is this: Yes, we have to do this. We have to tighten our belts. We've been doing that for ten years. I think one of the advantages other cities have over us is that they have been creating wealth. And we have not spent much time doing that. And just a simple thing we can do that is signs throughout the City of San José. I don't care if they are signs that go in windows, simple like buy San José, buy San José. I understand there is some backlash to that, and that other cities would say, well, you know, we are going to reciprocate and do the same thing. But we need to really encourage people to put their city first. I think and I would love to know the answer to this. If I were renting a home, and every single year, the rent went up 23%, 35%, whatever it happens to be, I would question that. But we, year after year after year, pay more and more and more for our health insurance. Why? Can we have no push back? I think -- I think pushing back with our representatives on the national level is a must. And on the state level as well. I think we need to get on radio talk shows, we need to fight back against these absolutely -- I don't know if there's a word drastic enough to describe it. But we are just accepting something at face value, and not

questioning. Maybe you are questioning and I don't know about it. But I for one think it's time to put an end to some of this insane -- it's usurious. That's the word I'm trying to think of, absolutely usurious. And there are rules against that. So I hope that we could have some impact there, and would I like to get some comments if I might.

>> Councilmember Oliverio: Is that for me Councilmember Pyle or --

>> Mayor Reed: We're going to go into the economic development CSA next, so I think there's details and comments that we probably should hold, so then let's officially make the transition into that next section. Because I think a lot of people have specific questions or comments. But I've got a couple of councilmembers who want to speak before we make the phase shift here. Councilmember Herrera and then Councilmember Rocha.

>> Councilmember Herrera: Well, I just want to thank my colleagues too for all the insightful helpful documents that have been made. But as we definitely have a structural problem on the spending side when we get this resolved we also have to acknowledge that we have a structural problem on the revenue side, too. And we are going to have to eventually address that. And I think we need courage to address the spending side, and we are going to need an equal amount of courage to address that revenue side, because we don't have adequate revenue and haven't had for some time in terms of sales tax and property tax. It simply doesn't meet, is not going to meet the requirements of a city to provide services so we're going to have to look at that. We don't collect any revenue from the Internet sales, I think that's been pointed out in the budget document and that's also a structural problem that we have in this budget.

>> Mayor Reed: Councilmember Rocha. Okay. We're officially going to switch here transition into the -- well, we've already transitioned, but we're officially going to switch in the discussion about the community and economic development CSA. On this schedule we're a little bit behind schedule but we will have to adjourn this at about five minutes of 12:00 because we have the police officer memorial ceremony in the rotunda at 12:00 and I know that most people here would like to participate in that. So if we don't get done with the community and economic development CSA we will continue that session until, looks like tomorrow morning is our next session at 9:00. So we'll go as far as we can and we'll catch up storm. So with that let's kick off the CSA. I'd just like to

congratulate the folks in the CSA. If you look at page VII-15 and look at the service delivery accomplishments of the CSA there's many things in there to be proud of. So good work last been done in the last year and I just think this is an area where there's great opportunity. I think this is an area where we can be optimistic about the next year and that's a good thing because of the opportunities of what's happening in our economy and the results of the work we've been doing in the past around economic development that we're going to see bear fruit in this next year or so. So with that I think Kim Walesh is going to lead the discussion.

>> Kim Walesh: Great, good morning, Kim Walesh, pleased to be here with my CSA colleagues. We see this obviously as an extraordinary time for our city and for our departments that comprise our Community and Economic Development CSA. On the one hand, this is a time of such incredible opportunity to catch this economic rebound and regain jobs and revenue as this economy recovers. On the other hand this is a time as we know of incredible resource constraint. Our CSA staffing levels are at historic lows and now we have the unexpected contraction of redevelopment staffing and resources. So it is truly an extraordinary time. As you know our CSA provides a range of services that are really essential to regaining jobs and revenue, and to ensuring that our community can be competitive and attractive to companies and talent in the future. We want you to know that this CSA came out of its silos years ago. We are an integrated one team. We meet every Tuesday morning and we work through policy, projects and planning issues as a team. And our small team has delivered big results in the last year and we are committed to do the same in the coming year. We are all about ensuring that we're maximizing opportunities for economic development, revenue, growth, citywide. We all know or it's important to know that more than 60% of our City's General Fund revenue stems from our employment lands and our retail lands and this CSA is also essential to support generating tax increment that finances redevelopment. The General Fund investment in our activity is very small. We're talking about 1% of General Fund operating cost being invested in this work, in this budget. In '09-10 year the City Auditor pointed out that every \$1 invested returned \$8 to the General Fund. So what we'd like to do is hit the highlights of the budget proposal. So we have Joe Horwedel from Development Services, Leslye Corsiglia from housing, I'm going to address economic work force and cultural development, and we're also here with our other development services partners, Dave Sykes of Public Works and deputy chief and fire marshal Reuben Torres.

>> Joe Horwedel: Thank you, Kim. So development services is a major part of our economic development strategy of the city. We are a \$26 million business. It's growing back from where we were two years ago. Still nowhere where we were several years ago. But we are extremely focused on delivering service to our customers. Focused around time for delivery and doing it in as efficient manner as possible. Working in a really tight fiscally restrained challenging environment with that. We have some initiatives that we started up this current fiscal year of our project manager expediter position, Lee Butler. He's been at the council committee several times talking about some of the success we've had. We see that as part of our competitiveness, working competing against other cities, filling vacant industrial space. We are also working in our consolidations. We do this every year. This past year we've made major efforts on storm water, green buildings, broken chair. Our coordinated in Hans' STI process that we did almighty the current fiscal year. We are filling all our seats on that so we're really proud of that work and looking at how to continue there. I'd say it's really uneven the trends that we are seeing in development. And I think it's what we're going to see in the rest of the organization that two years ago, we went through a lot of pain, some parts of it in building, we're bringing people back. In planning, that part of the process it's a real long, flat recovery and I think that's what you heard from Kim already. We're going to face as a city coming back out of the recession. But it is really good the investments we've made with STI we are bringing tenants into our spaces and filling those which is part of bringing property taxes back up. We also are working on our service delivery and so where we have had to cut we are bringing back staff on a very targeted basis. Where the customers, where the revenues are at, but there are a lot of challenges that we worked through on that. Some of that we talked about last year on our customer satisfaction. We are seeing a slight rebound on that as the first level of information coming in but the severity of those cuts we did in development overall we expect we're going to have some cuts or still challenges in that. We are moving the STI process into our base budget. We think the revenues work with that. We are working also on our service delivery, challenging parts of the General Fund. We still had some of that in our service delivery. We're already implementing that. We're hearing the complaints about that, we're already readjusting. But it is one as you're going to be hearing overall that we can't keep doing it the way we've done it. People have grown accustomed to a high level of service, and we are just not able to deliver that where the General Fund is involved. And then lastly as it relates to long range planning, we are finishing the general plan update. We are keeping the ordinance position and prioritizing ordinances, it's in the Mayor's Budget Message, that reflects the prioritization that the council did. We are working

on that with the attorney's office. We do have some challenges with implementing the Jim, we are working on grant funding on that. We are working on a so slower pace of the general plan long range planning but we are still making those efforts.

>> Leslye Corsiglia: So moving on to the housing department and expected service delivery. As Councilmember Pyle said earlier, the real estate market is still reeling from the banking crisis and as a result we haven't seen a lot of new construction activity for either affordable or market rate housing in recent years. Although we're very happy that to see some new construction happening in North San José. Continues to be a lot of pressure on housing and community development funding from all different levels. Clearly the biggest threat being from the potential elimination of redevelopment. Since 20% funding of the low and mod fund has really been the primary source of local funding for affordable housing. Nonetheless it's important to note that the city still has a robust housing program. We expect to have just under \$100 million in program money this year for our programs. We have nine projects, affordable projects under construction. With another six that are getting ready to start as soon as they can find their other funding. We also continue our rehab programs and our home buyer programs and will assist over 400 households this year and will touch 26,000 or more residents with our grants and our grant programs. Additionally, we'll be working and continue to work with destination home as our partner as part of the 100,000 homes campaign and expect during this fiscal year to house 500 of the county's chronically homeless. As far as program impacts because of these funding challenges and coupled with what is anticipated, redevelopment reform, assuming that redevelopment continues, the department has proposed a budget that cuts \$1.5 million from the 20% funded administration budget and another 16% reduction in the amount of \$400,000 out of the community development block grant program. This has resulted as was stated earlier in the reduction of 13 positions, and four part time or four temporary positions in the housing department. In making these reductions we considered our core services in ensuring that we had adequate staff to manage our current obligations and the city's \$700 million loan portfolio. We also looked at fully charging administrative costs to other than the 20% fund. A little good news, the emergency shelter grant program which funds homeless provider services, did receive a 40% increase in funding for the coming year. So we are excited about that. Couple of organizational impacts, one we have operated the foreclosure help center now for two years. The funding for that program is no longer available come July. We're looking at partnerships or other ways that we may be able to keep that program

going. Unfortunately, as was mentioned in the overview, foreclosures continue to be a problem. And the budget right now includes a transfer of the strong neighborhood initiative function to the housing department and I believe after this presentation, the City Manager will speak to this issue.

>> Kim Walesh: So in economic development this budget eliminates one position, the assistant director position. As I mentioned earlier, we're down to six people. We have a very small but very sophisticated group. So what this tells me is we need to be focused on the right priorities, and we need to be aligning and leveraging the efforts of many other people inside and outside the building. Job number 1 is business outreach, so we will be in relationship with emerging growth companies, anchor employers, revenue generators clean tech firms and incoming foreign investment. We are very focused in advancing major projects like the urban markets downtown, the big retail projects mentioned earlier, the FMC site soccer and Diridon. We are completing the integration of real estate services which was previously in Public Works, has now come into the Office of Economic Development in order to drive revenue from sales and better management of leases there. We're continuing the effective partnerships that we have with the airport and the mayor's office to recruit new air service, a critical business priority, and we are very actively managing the downtown issues and opportunities. It's very essential to maintain momentum downtown and shift to new models. In workforce development, we have a 40 people in workforce development all entirely federally funded. 85% of the unemployed people served are our residents. We do not know yet what the funding level is going to be. That's a congressional formula. When we hear in several weeks we do expect a 15 to 25% reduction in services and staffing. Work2Future is relocating to City of San José community centers which will bring the services closer to clients and actually provides revenue back to the city and reduced cost to Work2Future. It's really critical to know that we cap these federal funds to provide the support for small businesses and for people who want to start their own company. So that happens through the businessownerspace, a network of more than 40 service providers which includes the entrepreneur center downtown. 240,000 companies have benefited from this virtual one-stop center since it was opened several years ago. In cultural development, a major change here is that this budget proposes funding the three remaining special events staff who authorize and coordinate the 320-plus events that happen citywide, funding those folks with T.O.T. funding. So this will reduce the funds available to the arts community for grants by approximately 30%. So after this proposed budget is adopted, all remaining cultural affairs staff will be funded bit either T.O.T.

funds or public funds. So no General Fund support for cultural affairs and the staff has been reduced from 20 to 10 over the last several years. Another very significant change is that the long term operations and maintenance agreements with cultural institutions are being reduced five to 15% this year. It's important to note that some of those are very long term agreements. 55 to 99 year agreements that were made when those institutions and facilities were built were not intended to be reopened but because of the fiscal crisis have been reconsidered. The sports opportunity fund is eliminated, so we'll not have funds available to incent new outdoor or existing outdoor sporting events. We had some very important transition planning taking place as a result of budget decisions last year. Christmas in the park the transition is going very well to a new production model, less dependent on city staff and financing. With the holiday parade, as of this point, we have not had an independent producer step up to produce or fund a 2011 holiday parade. The transition of arts express, a 30-year program serving students, is going well and will continue under a new region model led by symphony Silicon Valley. With the convention facilities and the Convention and Visitors Bureau, as was mentioned earlier, we have further reductions in the city positions with Team San José. So there will be nine city positions remaining, and the remaining staff are generally focused on general maintenance functions. The new service model was mentioned previously, another reduction is a very significant reduction in the General Fund support for marketing through the Convention and Visitors Bureau. So in summary, time of great opportunity, time of serious constraint. We are focused on regaining jobs and revenue, as the economy recovers. We want to sustain strong basics of facilitation and helping companies get into space. Even as we build the distinct value of having a San José location. We are going to seek outside resources, it takes resources to get resources. But we are very aggressively pursuing outside resources. And for all of us, right now, we need to continue to build confidence in the city's future. Which in the long term remains very bright. So thank you.

>> City Manager Figone: And just to comment briefly on what Leslye indicate indicated. In the base budget you will see we moved what was left or what we cobbled together for a strong neighborhoods team to housing. This work was being formulated or this concept at the same time that the landscape affecting redevelopment tax increment was also changing. We're now at a stage where we are rethinking that organizational placement so you'll have an MBA with our thoughts during this process, and then we will be able to you know better convey to you our recommendation for organizational placement.

>> Mayor Reed: Anything else from the CSA team?

>> No.

>> Mayor Reed: Then we will come back for council discussions and questions. Just a reminder we have about a half an hour before we have to adjourn for the memorial ceremony. I wanted to start just by talking about the opportunities that we have with the economy beginning to improve and companies being profitable and all the things we could capture in the way of economic development. And that, matching that with our great need for new revenues, which is kind of the whole point of this, and I'm interested in your perspective if you look at the entire department, how much of your resources, how are you allocating your resources on generating new revenues, whether it's tax increment, which directly helps the General Fund, sales tax, which directly helps the General Fund, sales tax which directly helps the General fund, or any other tax revenue source across that? Because you have a lot of activities, a lot of things in the department and the department has grown. So I'm a little bit concerned about our focus of resources and time on the tax generation piece of this, the revenue generation piece which we so desperately need. And when I look at the budget there's funding coming from a variety of places so some of that's restricted as to what we can do. I guess we have some special funds, we have some capital funds. So I'm particularly interested in the General Fund dollars that we have, that we have some discretion on, how we're spending those in the CSA towards economic development towards that tax generation number. And I'm looking at the chart on page Roman 8-80 for the office of economic development primarily. And I didn't -- I don't think I tracked exactly what's happening with the office of cultural affairs and the funding, because you said we were transitioning that so it's funded either from outside sources or T.O.T. revenues but I couldn't do the math quick enough to figure out off of this page. So could you just talk about focus on the highest priorities, and what you view those are? And how the resources that we've given you could be used in highest priorities.

>> Kim Walesh: Absolutely. Starting with the Office of Economic Development, 100% of our core six economic development professionals are focused on activities that ultimately generate revenue for the city. The report that we did when we summarized our progress implementing the economic strategy indicated that the projects that are

in process will benefit the General Fund of \$13.3 million going forward in tax increment, \$5 million. So a big part of what we're focused right now is retention. I learned when I was in private business, the most important things you can do is please your current customers and get the follow-on business, right? So all of us six folks including Nancy Kline and me personally are involved with companies to make sure they are absolutely aware of the resources that we still have to offer. We are in relationship with key partners like brokers and property owners and developers on a weekly basis. We have had good conversations with external partners like the chamber of commerce and the downtown association, about how they can be part of our small army. Focused on expansions and new projects in. So I can safely say that 100% of our work of our core team, when we think about the office of cultural affairs, as I said earlier, we have three people focused on special events. And we have two people focused on managing the relationships with cultural organizations and institutions. And I think it's really important to recognize that especially for the major events that happen in this community, they're significant revenue generators. Let me give you an example. The rock 'n' roll half marathon, \$550,000 in revenue to this city. The Cirque du Soleil and the jazz festival, two to \$300,000 in revenue. Downtown for the holidays, Cinequest, and the major institutions like the tech museum, CDM, the art museum are all generators of economic activity downtown. So I would also say, a significant part of our work in cultural affairs now that it's part of the Office of Economic Development is ensuring that to the extent possible we focus on economic impacts of arts and culture.

>> Mayor Reed: Well, I noticed the most interesting thing in the budget on the first-pass reading is the increase in strategic support by 1,000% in the OED budget, that's obviously the result of transferring the real estate business into that department. It's not like new money was found, we just moved it.

>> Kim Walesh: No.

>> Mayor Reed: But now we've again diluted the focus of Office of Economic Development because I know you've got good people working on real estate now that weren't working on it before. So we've lost economic development capacity in the Redevelopment Agency and we're diluting economic development capacity in the office of economic development which leads me back to the need to focus on the most important stuff and I'm

interested in your perspective on the total capacity to do the core stuff that will work with driving industries to drive tax revenues.

>> Kim Walesh: Yes. My counterpart in San Francisco has 30 people, a small army doing the same work of our core group. So in an ideal world we would have a much more significant capacity to invest in this function. You know our view on real estate is that that was brought into economic development in order to provide links to our economic development strategy. So rather than economic development people working on real estate we're now able to use the real estate people and align them more with our economic development strategy. As we think about how to maximize revenue from selling city properties, from leasing city properties, and we think about how to decrease the cost of doing real estate transactions, and really have the speed of business in our real estate transactions like we have in the rest of our economic development functions. So at this point that transition is going well and we see it as bringing more capacity to economic development rather than our six core people are not involved in real estate, they're very much involved with interacting to the business community on a daily basis. But that's something we'll keep an eye on. So far it's been additive rather than reducing focus.

>> Mayor Reed: And a final note in the accomplishments section where you list some of the companies that the CSA has worked with, some of the solar companies in particular, there's a discussion there about helping them get their application through for tax exemption on their equipment purchases. Which I think highlights the importance of the CSA because those companies that are listed there, put about \$300 million just into equipment. Into the buildings that we helped them get permitted quickly, working at the speed of business. And that \$300 million then goes on the tax rolls and it ultimately comes to the city either in tax increment or some other way. And these days tax increment is a direct connection to the General Fund. So the need to do that is very high because those are opportunities. With these companies growing and moving, that is the fastest way to tax revenue increases. Because those buildings are already there. They don't have to be developed. Our special tenant improvement program is really important. Working at the speed of business is really important because that is something that could impact our next fiscal year. If not 11-12 at least certainly 12-13 and so I just rate that as the highest priority because we're desperate for more revenues and that's the quickest fastest way to generate those so I want to thank the CSA for making that happen because as I look at each of those projects there's a

dozen elements to success, every part of the CSA had to pull together as a team, to work at the speed of business and get them over the goal line so thank you on that. Vice Mayor Nguyen.

>> Councilmember Nguyen: Thank you. Thank you very much staff for the presentation. I didn't get a chance to thank Jennifer Maguire and her team for all the work they did on the budget. I just had a couple of questions on this particularly section. My first question actually goes to the planning director. Joe, I understand that with the development activities slowly increasing, and we have a couple of major projects, like the FMC, Diridon Station, the urban market and some of the other ones and also with the possible shifting of staff. My focus is actually more on the existing small businesses. What are we doing to help those small businesses who at this time want to obtain C.U.P., relocation assistance, expansion, obviously, you know, I have a one particular company in my council district, premier recycling that's been trying to get a C.U.P. for the last two and a half years. And with the basic premise is they want to increase the tonnage. And I think with that we can increase our revenue if we're able to move that process forward. It's very frustrating for a small company like that with 53 employees to wait two and a half years and they still haven't gotten anywhere. What have we been doing to help those small businesses who are trying to make it work in our city?

>> Joe Horwedel: That is one of our challenges. That project manager has about 60 similar projects that they are carrying at this moment. And we do not put General Fund in a big way into the team so it's really cost recovery. And that's why I drew the flat line for planning is that we really are in that wedge, that I have not -- our customers don't want us to raise fees. We're pushing on delivering service, and the way it works right now is, that it comes out of staff that are doing the work. We're trying to turn the equation so that we essentially pay ourselves first so the first dollar goes for the staff that's doing the work, kind of the question that Councilmember Constant was asking about level of span of control. We eliminated management dramatically out of that division and that's one of my challenges is that I have the bandwidth that Laurel or I have to go through and help sort through things, is that it's just -- we're constrained on that so we're doing triage literally every week to figure out where the brush fire is and not trying to go to where the yelp is the loudest but where it is most strategic. And that is one where we recognize there is revenues on it. Mike cannon is beating on his counterparts in his department how to move that forward. I don't have a magic answer that says that that one will go to hearing next week. I think it has gotten

finally close to that, being able to go to hearing. But it is one that the bandwidth to go through and do hand-holding an individual project and draw the plans or kind of write the reports for them, we just do not have that kind of capacity in the city organization anymore. And that it's part of you know, just that is a reality that's unfortunate. And so right now we are paying a lot of attention to the large projects because if I can spend ten hours with somebody I can generate a million dollars in sales tax or if I can spend ten hours with somebody, I'll generate a thousand dollars in sale taxes. It's literally that kind of triage that we're doing in the organization. I hate operating that way, but it's a reality of where we're at, at the moment.

>> Councilmember Nguyen: Joe I didn't bring this up to be critical of staff. Obviously we understand that, with the limited resources, staff is working overtime on a lot of these projects. But it is critically important that we need to build up a reputation where people who are doing business here want to stay here. I think for a lot of our council colleagues we have spaller companies that threaten us that they want to leave San José and relocate somewhere else and I think maintaining our reputation of people want to maintain and do business here, I think is as important as bringing the major companies to San José.

>> Joe Horwedel: Wholeheartedly agree with you. And one of the things in our budget proposal is to do an expedited planning review process similar to the success we've had with SDI, because we've been very competitive in keeping and attracting companies with that, as the mayor's pointed out. We don't have a corollary in the discussion side, the Planning and public hearing side of the realm. I do have to live within the confines of state law that says cost recovery that I can't make all of my customers pay to do that. So somehow I've got to grow the resources the staff the bandwidth to do that at the same time I have customers like premier that I can't get them served as fast as they would like to do. That is literally the kind of vice that we're trying to steal staff from other parts of the organization that we're not going to go work on X but that means there's some other project that I've committed to the council to do. It is a really tough equation that's going on and I don't take it as a criticism. It is a reflection of how we need to operate as a city and it is one that we're not operating the way that Laurel and I would like the planning piece to be operating right now. That is the one that's why we've come forward with that proposal. Our goal is to grow that into a couple more staff, because it is one that we think we can charge a

premium for, we just got to work through the logistics of doing that and Rick is working with us as to how to do that.

>> Councilmember Nguyen: The other question I have has to do with the housing department. Leslye, seems like your department is picking up more work as you're looking at the potential of the elimination of 13 employees. I was just wondering if you can just share with us realistically how is this going to impact your department given the fact that you know with the possible elimination of the Redevelopment Agency and your picking up the strong neighborhoods initiative projects. I just can't imagine how this is going to go you know in the next fiscal year with 13 people not being here and doing the work that they're doing right now.

>> Leslye Corsiglia: Thank you, Vice Mayor. Absolutely it's a big reduction for our department. It's about 20% of our staff. So it is definitely it is going to be felt. We -- what we're trying to do is, we've tried to make some organizational changes. And we've actually did some preparation for that this year with cross-training staff. And I think during the year we're going to be looking at how this works and whether or not there are other changes we need to make to be able to continue to provide the service that we have. So this is what we need to do, because we need to be able to live within our budget means but I think it will be difficult. And we'll need to be looking more at what kind of partnerships we can have. And to be able to continue what we're doing. We're also one of the things we're really strong about now is making sure that whatever programs that we take on, that they support themselves. So if we look to a future when we have less in the way of redevelopment dollars, but we still have programs to operate, we want to make sure that they provide administrative funding. Because we can't rely on the redevelopment funding in the future. One of the things that we're working on with the redevelopment reform and the redevelopment potential for elimination is that we need to continue to remind the legislature that we have programs and obligations and requirements that the city has, and needs to monitor for 55 years. So we do have a big responsibility that we still have. And as a result, we still will have income available for administration, just not necessarily for new programs. So in a nutshell we have to see. We're going to have to look at this next year, see how it all falls out.

>> Councilmember Nguyen: Thank you. Those are all my questions.

>> Mayor Reed: Councilmember Pyle.

>> Councilmember Pyle: Thank you, mayor. I just wanted -- well I just want to go on record saying, I think any department that makes money should be able to continue on with full support. But that's just my opinion. Leslye I too reflect the same appreciation for what you do and the fact that you've got a tough job and extraordinary circumstances. Could you tell me the 39% increase in reference to emergency housing, how would that translate in reference to jobs?

>> Leslye Corsiglia: It really doesn't translate into jobs. It's more for -- I mean there may be some jobs that come out of it because it's support to community based-ops for -- that provide housing and other services to the homeless. And so it -- there may be some jobs because they would potentially hire people to provide those services. But for the most part it's direct services to our homeless residents.

>> Councilmember Pyle: Okay, thank you for that. And then in reference to Team San José, I'm absolutely amazed that we're going to go from 56 to nine. That is a real thud. 56 to nine. That is amazing. That's another area where we could really make some money. If we could only come up with a formula in reference to that. Joe, in reference to your dilemma, in reference to trying to wear many hats and get everybody served with limited resources. Is there -- you have quite a few people that have left the city. And I'm getting at that because I'm wondering how many could come in on a temporary basis or be ready to help out with some part time work. But because the cost of that individual who has left the retirement system would be far less than the amount that we would be bringing into the city especially in reference to the small business that Vice Mayor Nguyen referred to.

>> Jennifer Maguire: We actually brought back two planners on a part time basis last week. Because one, we had some retirements and we needed to keep delivering service. We were also looking at with this projected proposed budget some part time positions for planner and a senior planner position. We don't think there's enough revenues for a full time but we want to go and be delivering service so we are taking advantage of some

amount of moneys and bringing people back off the reinstatement list to fill those positions. They do go into regular civil service position so that we are paying retirement those types of things on them.

>> Councilmember Pyle: And then you mentioned I'm trying to remember which one mentioned it but when we were talking about outside resources and getting them whenever we can, Kim I think it might have been you, is that something that councilmembers can help with? Because I think we're all more than willing to step in and roll up our sleeves wherever we can in our districts to help carry the message and/or talk to strategic people there.

>> Kim Walesh: Absolutely. We always look for leads from councilmembers. Some of these are state or federal grant opportunities that we track and we go off, go pull together applications for as a team. But others are opportunities for public-private partnerships and to leverage other community resources and you're often very dialed-in to those so we appreciate leads.

>> Councilmember Pyle: Thanks.

>> Mayor Reed: Councilmember Oliverio.

>> Councilmember Oliverio: Thank you, mayor. From your presentation I viewed much of this is in the control of the council. You started off about lands use. So number 1, the council cannot convert industrial or employment land to housing. Number 2, it can make a choice on housing. If I do it affordable through a nonprofit it doesn't pay property tax to provide for city workers to provide services or I do something market rate and do it for a for-profit developer we have a choice. We have a choice of density. We can continue to build wood town houses, or we can ask the market that San José needs to build green and sustainable and build higher densities, which brings in more aggregate property tax and utility taxes. That is a choice that we make on a weekly basis and I think we always have to remember that. In addition to your comments on retaining and recruiting we certainly need to keep our costs in line or as low as possible to induce development. I think Mayor Reed's STI programs and all of the things he did overseeing North San José when he was a councilmember is important. We need to have General Fund funding of a planner, whether it's one or two or through the Office of Economic Development or if it's through

the planning department. And as you have said you chose Joe and Kim different projects which are better. We have to emphasize anything that is commercial and job oriented but we also have to make that choice. If it means I do not fund another position in another department to provide you that because that's what we want is economic growth then I have to do that. I can't say it here and not provide it to you I think that's important. But on the other side you have to come through and be able to push those things through, and I also do think you need the flexibility that if you need an outsource and inspection, you need the flexibility to do that. We had a strike by our inspectors, we were still able to move and I think you need that flexibility because much like the convention center things move around, we don't have programs all the time, and you need a flexible workforce. Today we have a backlog but three months from now it might vary. Today I think you need that special ability. I'm very curious to see how the three people will work the special events. In the end, you put out that that economic development or the economic output of those events are going to be good. And we'll see how those three do. Again, we won't be able to do every event we used to do, and so maybe we have to pick and choose the event that make the most sense. And I -- oh here's the other thing. We've built our product is -- what was it -- I think someone said at city staff our product is process. I think it was you Joe. And we love to do outreach on everything because it's good, it's part of government it needs to sustain the community but sometimes when we spend staff time of significant managers, directors, on working with one individual that doesn't represent the greater community and we spend our time on noneconomic development matters, when those hours could be better spent on getting a permit through the process to employ people, we have to make that. And we as the elected representatives from our district, we can handle constituents that have issues. Because in the end we need to be able to funnel those, so we don't over-exercise staff every time. I would just put that that's an important thing as we are dealing with less people that we have to manage expectations. And keep your desk clear for the most important things. Thank you.

>> Mayor Reed: We got about another five or six minutes before we ought to adjourn. Who wants to be short that's on the waiting list? Okay, well you had a chance already. So -- Councilmember Campos says he will go short. Then we'll get two people in, so go ahead.

>> Councilmember Campos: Just to quickly and I'm not sure if this is the appropriate time to talk about this. HNVF, is that okay today or is that for tomorrow?

>> City Manager Figone: It's when we do neighborhood services.

>> Councilmember Campos: Okay. So Kim you did talk about city-owned facilities, operations and maintenance facilities, there being a five to 15% reduction. How did you determine who got 5% and who got 10% and who got 15%?

>> Kim Walesh: There are six agreements, and to meet our budget target, they needed to add up to 10% on average. And so what we did was, we sat down with every single organization, with their executive director, and their board members, especially for the four that have very long term agreements. This was a surprise to them, because those agreements were put in place a long time ago, when their boards committed resources, and they've counted on those resources for a long time. And so part of what we did was, we looked at the capacity of the organization to sustain such a sudden reduction. Because many of these organizations plan their exhibitions or performances two or three years out in advance. This cut will hit July 1st. We looked at the capacity of the board to raise money to fill in. But we're also very concerned about the City's reduction of those agreements being interpreted in a negative way, that might drive donors away, so how we communicate this is critically important. Many of the major donors don't live in San José and we've worked very hard to get them interested. And quite frankly we looked at where the dollars were. So for example the tech museum's agreement is the largest, it's \$1.3 million annually, so they have the biggest cut. They are taking a 15% cut which is very difficult for them. As you may know in the case of Mexican heritage plaza, that's coming forward to council on the 24th. And we had a target there of the 10% and we were able to work that out so that's a 10% reduction over the prior commitment. So it was a real process of engagement and looking at how to get to the figure and the capacity and the ultimate impact on the organization and our relationship with them.

>> Councilmember Campos: But you didn't put forth a number that any of these organizations felt that you know it's going to be impossible for us to meet this? You worked with them collaboratively to come up with something that they would be able to handle?

>> Kim Walesh: We worked with them collaboratively, but I don't want to underestimate the impact of this on them is significant. All these organizations generally had their budgets and their plans already approved for next year so this creates a hole that they're going to need to fill through donations. It's not possible for many of them to just turn on a dime because they're already reduced to skeletal hours, and skeletal programming. And so if they cut the programming further their ability to generate revenue through ticket sales declines and they get into a very negative spiral. So I think they all understand the fiscal crisis that the city is facing but these are not easy adjustments for any of them.

>> Councilmember Campos: Okay. I tried to find the amounts in here, I couldn't, and perhaps I wasn't looking well enough but could you provide that for me? The list of the groups and what they're going to end up looking like next year in terms of subsidy.

>> Kim Walesh: Yes, we can provide those.

>> Councilmember Campos: Okay, thank you.

>> Mayor Reed: We have time for a short question and a short answer if anybody's got one. Otherwise, we have to leave, the questions can be short the answers have to be short as well. Councilmember Constant. Not that this is your only minute. We'll be back tomorrow morning.

>> Councilmember Constant: I just wanted to follow up on the comments that Pierluigi made about General Fund support. Joe, what kind of General Fund support would be required to are to us to get caught up on the ordinances that we have a backlog on and really deliver the services to the residents who come in and ask the questions on the small business owners?

>> Joe Horwedel: So on the ordinances, we initially offer -- explored cutting that position. That is not proposed in the budget so that's one that we're come July 1st we'll be offering. Starting back up. I did have retirement so I have to wait for bumping to happen to fill that again. I think the biggest challenge we're facing for the small business person who's trying to find information or the resident is coming into our permit center and how much staff time we're able to devote to them. Our goal is to not stop doing that. But is to go through and really focus on helping the homeowner, the small business person who is trying to figure out how to get started and spend some initial time with them. I've got that in the budget so --

>> Councilmember Constant: But that really wasn't my question. What would you need for the type of General Fund support that Pierluigi mentioned and that I know I've talked to you in the past and brought up in prevention years. You can get back to me. You don't have to answer now.

>> Joe Horwedel: I don't want an off the top of my head answer.

>> Councilmember Constant: I just think it's important we do that, because the opportunity costs we are facing are incredible. And I know Joe knows this, really well aware of an issue that we're experiencing in my district where we have a building owner who has the ability to fill several floors in their building, but they can't get the lease signed because of the uncertainty with our sign code and the tenant is a major tenant who needs the visibility and won't sign a lease without it, we can't get there even though what they want to do is within the requirements of our code, that we've authorized, but we can't get there because we don't have the ordinance. And it's things like that, that I think are contributors of that spiral that was mentioned for the arts groups. It's a lot of issues where we have this. And then my final thing, because we're out of time, is how often or do we ever do a direct comparison of our building and development fees and our permit fees with our peer cities in our county?

>> Joe Horwedel: We do it every year and we just ran the numbers and we'll share that.

>> Mayor Reed: We'll hold on that we'll come back tomorrow morning and he you can answer those questions unless you got an answer right now.

>> Supervisor Yeager: Just to close out the answers to Councilmember Campos question, can be find on chapter 9, page 15, and chapter 9, page 9.

>> Mayor Reed: All right, we're going to adjourn. I have no requests from the public to speak which is why we're not taking it. We will take this up again in the morning right where we left off, 9:00.