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>> Mayor Reed: Good afternoon. I'd like to call this special meeting of the San José city council meeting to order. We're here today to do some budget planning for the fiscal year 2010-2011. And yes, we are starting early. And what used to be an annual process has becoming sort of an ongoing, eternal budget process, but that's just the nature of the way things are in the state of California. We're looking forward into next fiscal year, not with glee, but with anxiety, because we're going to face a daunting task of trying to balance a budget going in with a gap that's likely to be around \$96 million short of the money that we need to continue doing what we're doing. Of course we've been here before. This is the ninth year in a row of a budget gap that we've had to solve. We've done that in past years with combinations of strategies, including service reductions and eliminations of jobs, with revenue increases, uses of reserves and other one-time resources. Since 2001-2002, we've eliminated over 800 positions. Of course, we are in a service business. When we elimination a position, cut a position, we cut services to the community, because it is our people who deliver the services. I don't think we can continue to cut and cut and cut without long-term harm to the community. One of the things we heard last year as we were going through the budget process, trying work through all the issues, was that we needed to start earlier, which we're doing. And that's why we're here today. We're going to hear about our updated forecast, the outlook for economic recovery, and strategies for dealing with our deficit, and then ask the city council to give some direction going forward as we enter into negotiations with our bargaining units. This of course is the beginning of a very long process, now made even longer because we're starting earlier. You may remember that in January we'll do a community budget survey. We have a neighborhood association priority study session, mid year review, February we get our five year forecast, in march we have the March budget message and in May, the release of the proposed budget from the manager and I'm sure everybody will remember we do a lot of work in May around the budget and hopefully make decisions in June. It does seem like we just did that a couple of weeks ago, which is pretty much the case. But nevertheless here we are again taking a look next year trying to get ahead of this big problem, trying to get everybody that has a stake in this to engage with us to try to solve this problem without enormous layoffs. I've been through layoffs both public and private and I really don't like it. It's not good for the city. It's not good for the employees, and I'd really like to avoid it. But we're facing a pretty big gap. With that, I'm going to turn it over to the City Manager to begin the presentation.

>> City Manager Figone: Thank you, Mr. Mayor, members of the council. Yes, we are starting the budget process early this year, with more information and more engagement earlier in the process. And as you stated, Mayor, the magnitude of the shortfall and the fact that we've been closing deficits and reducing staff for the last eight years means that planning for and balancing the 2010-11 General Fund and I would add the special fund budgets will be very, very challenging for the entire city organization, for the council, and for the San José community. It is my firm belief, however, that with transparent information and ongoing engagement we will be able to come together and fully confront the difficult decisions that we face. As manager, I take very seriously our need to not only survive this severe economic downturn, but to once and for all eliminate the structural imbalances between revenue and expenditure growth that the council did set as a priority even before this downturn began. These ongoing deficits and more in sight over the next few years are truly taking a toll on our employees, our city organization and the community and it is crippling our ability to deliver services to the City of San José. So my specific hope for this session today is to get direction about how to approach developing the 2010-11 proposed budget at the major strategy level. Certainly there is a lot of detailed work that we'll proceed with but we do need some strategic direction today. This is important because as the mayor alluded to we will actually start developing the proposed budget next week and initiate that hard work. We'll also start on your behalf with your direction, negotiating with nine of the City's 11 labor unions whose contracts are up for negotiation. And with that I'd like to turn it over to my budget director Jennifer Maguire to get us started.

>> Jennifer Maguire: Thank you. Good afternoon. I'm going to kick off our presentation today with an overview of the 2010-2011 preliminary General Fund forecast. Then, since half of our revenues are linked to the economy, Paul Krutko, our chief development officer, and our guest, Dr. Stephen Levy, are going to follow immediately with a presentation about our local economic performance and recovery. After those two presentations, we would like to take council questions and discussion. So to begin with, our fiscal outlook for the city continues to remain dismal. We do have high unemployment, reduced property values, and minimal development activity. While the worst recession since the great depression may technically be over the factors which drive the City's revenues continue to remain at or near their recessionary levels. As of September 2009, more than 50,000 jobs have been lost in the San José area. And the unemployment rate stands at 11.8%, just below the August 2009 peak of 12.1%. The value of building permits issued in 2009 is at a 30-year low and while, at \$485,000 -- \$485,000, the median price of a single-family home has increased almost 20% since February 2009. It remains over 37% below

its value at the market peak in June 2007. Finally, passenger traffic at the airport was down over 17% in July and August compared with a year ago. These economic realities, along with other factors, have translated into a projected deficit of \$96.4 million deficit for 10-11. This will mark the 9th consecutive years of General Fund shortfalls, and the largest gap the city has confronted in any single year since 2002-2003. Over the last eight years we have closed budget gaps totaling \$465 million which makes this projected shortfall for 10-11 even that much more difficult. As a cautionary note the General Fund forecast should be considered very preliminary as it was prepared during the period of unprecedented economic uncertainty, and was limited, in some cases no data available for the current fiscal year in 2009-10. Most of us, not all of our revenues are on careful watch, and if they perform worse than projected it should be expected that the General Fund shortfall would increase accordingly. The 2010-11 preliminary shortfall is about \$5 million higher than the \$91 million forecasted this last spring. Looking how we got here, last February when we produced our five-year forecast, for 10-11 we were looking at about a \$36.8 million shortfall at that time. When we received some information on the preliminary projected impacts to the City's contribution rates based on investment losses to both our police and fire and federated retirement systems, we added in about a \$52 million impact for estimated pension plan increases. We did have a small adopted budget impact as we used a small amount of one time funds to close the 2009-2010 budget which led us to the \$91.5 million shortfall that was the most recently reported number. In the last two months we rebuilt our base budget for 10-11 by reviewing the performance and making projections for about 450 different revenues resources. We have updated our salary, benefit and other cost information for each city position, and we have eliminated all one time allocations and annualized any city council approved budget actions. The result of that work is an increase, as you can see on this slide, of about \$5 million to our shortfall, bring the total to \$96.4 million. This next slide explains the key changes to the 10-11 forecast. In total we did have lower projected revenues that are almost offset by lower estimated expenditure levels. And I'll go over a few of the key changes here. On the revenue side we did bring down our revenues about \$34 million. The largest is into our revenues themselves, about \$20.7 million on a net basis. About \$14 million of the \$20.7 million is a downward adjustment to our sales tax estimate when compared to last year's forecast. Other downward changes include downward adjustments to our interest earnings, our overhead reimbursements, our disposal facility tax due to our recycling efforts, and the removal of our business tax admin fee from our revenue stream. We also have lowered our revenue estimates based on the performance of our development fee programs, but we've also have lowered our costs so that does have a net zero impact on our General Fund forecast as we presume that program to be cost recovery. But that comes with its own set of challenges as you will see in a couple of weeks on a council agenda. We've also lowered our fund balance estimate. It's \$7.6 million lower than last year at this time to remove the assumption that we will end the 2009-2010 fiscal year with any extra revenue, as right now we are tracking right at or slightly below our revenue estimates through the first three months of this fiscal year. On the expenditure side, we have lower net estimated expenditures projected for 10-11, about \$29.5 million. \$13.5 million of the total is related to lower cost assumptions for the increased retirement contributions necessary for 10-11. We're now projecting an increase of about \$38.2 million versus that \$51.7 million that I showed you on the previous slide that was estimated last March. We have some lower debt service costs because the interest rates are down, and we also have a net decrease overall on our budget expenditures based on a review of our base budget costs. There's three increases to expenditures that I do want to bring to your attention that are in these numbers. The first is the fact that we have taken our budgeted vacancy rates down for many city departments because we just don't have the vacancies in the organization that we once did have. As I mentioned at the annual report presentation we are having trouble meeting our personal services appropriations in several departments. I had to adjust that down \$1.5 million. We did need to increase the Hayes mansion subsidy by about \$1.8 million. The total annual subsidy projected for 10-11 is \$6 million, it was once set at around 4, 4.2. We had to include an increase associated with an additional year of staff costs related to the comprehensive general fund plan update due to the scheduling of the plan. Since property tax and sales tax constitute about 43% of our total General Fund revenues I wanted to provide a little more detail on the assumptions used in this forecast for these two revenue sources and our approach to revenues in general. And for property tax, for this fiscal year, 2009-2010, we are expecting about a 4.9% decline overall. That is consistent with our budget right now. For 10-11 we are looking at about -- another negative year of about a half-percent decline in 10-11, which would bring our collections to about a little under \$200 million. That decline is primarily driven by another expected drop in our secured property taxes. But this is actually less of a drop than we had predicted last year at this time, because we -- they're dropping so severely this fiscal year. But we are carefully monitoring both our role and the CPI data from the county assessor's office that drives the projections in this area but this is our best estimate at this point in the year. On sales tax we are expecting a 5% decline in 2009-2010. Some people think it could be worse. Some people think it could be better. But when we look at a lot of data from economists, from our consultants on sales

tax, but with no data, we're going with the 5% decline right now. We are presuming that we have bottomed out in 9-10, and we have presumed a small growth rate of 2% for 10-11. This would bring our total sales tax collections to about \$123 million. And I want to point out that just two years ago we were getting close to \$150 million in sales tax. So we've lost \$26 million in a two-year period in sales tax. Our other economically sensitive categories we're assuming very slight growth again with the thought process that we are bottoming out and we will slowly start to grow over the next several years. And in our noneconomically sensitive categories we have adjusted our revenues for rate changes and updated costs, specifically in our utility areas, overhead reimbursements. On the expenditure side on salaries, we have included a 2% cost of living adjustment for our MEF and CEO bargaining units per our contracted agreement with them. We do not have any cola assumptions assumed for any other bargain units, including management, and we have restored the step increases that, for many unions, were given up in 9-10. On the retirement side, as I said earlier, we are projecting increases of about 38.2 million. The rates that we've used in this forecast should still be considered very preliminary but do reflect the retirement department's best current rate projections, based on an updated July actuarial study for the police and fire retirement plan that reflects lower investment losses as well as some actuarial recommendations regarding lowering the net earnings assumptions for the federated plans. As you know the final retirement contribution rates are subject to approval by the two retirement boards which is expected to occur this -- later this winter and we're hoping to include them in our final five-year forecast that will be released late February. On the health side we are projecting a 10% increase effective January 2011 which is consistent with our experience and we have a series of base budget adjustments that eliminate one time allocations and annualized budget projections. On the next slide, although I'll not go over this in detail I thought it was important to note as part of our base budget adjustments the major programs and services that have been removed and eliminated from our expenditure base for this forecast effective July 2010. Based on the approval of the 2009-2010 adopted budget, there is a total of \$7.2 million in cost and 72 positions that have been eliminated yet we are still facing this over \$96 million shortfall in General Fund. The forecast does include a series of committed additions from the city council which totals about \$7.8 million. The first is the addition of 25 additional police officers which would total \$1.6 million in 10-11 and \$3.5 million ongoing, assuming a January startup date for those officers. We also have maintenance and operating costs for new capital projects that were approved in the adopted capital improvement program. The largest expenditures in this area are for the south San José police substation scheduled to open March 2011, Seven Trees and Bascom libraries, Seven Trees and Bascom community centers and Edenvale community centers. This forecast does reflect the council action as part of the '9-10 fiscal year, the revised opening date for several facilities approved as part of the budget. To just add some further caveats to this forecast, there are many revenues and expenditure assumptions that are not included. The first and foremost is the additional costs, impacts, or revenue losses from any state budget actions. No, I know I'm going to sound like a broken record, but since 1990-91, the state has taken \$445 million in our city coffers, which amounts to about \$45 million annually we don't have today. We do need to watch the state very carefully. I'm most concerned about our gas tax revenues in the General Fund that total \$17 million annually. We have not included any additional costs from our unmet deferred infrastructure and maintenance needs, but as part of our larger definition of our General Fund structural deficit, we will update those numbers and include that as a line item and add to the total as part of our February forecast. So you will see those numbers come forward. We have not assumed any impacts to the redevelopment agency reimbursed city support services. Reductions are very likely here. But it will be the administration's goal to work with the RDA to minimize any General Fund impacts from those actions. And last, we don't have any assumptions for one-time revenues and expenses in this forecast. This compares ongoing revenues with ongoing expenses at this time, but they will be factored in later as we know about them. Before I turn the presentation over to Paul Krutko I wanted to conclude with this slide on our next steps as far as the forecast development and the budget development internally, that we will be continuing to monitor and report the current year revenues and expenditures and economic impacts on the City's budget through our bimonthly financial report and through every single fund in our mid year budget review, that will be heard and released at the end of January and heard by the city council in February. We will be updating our five year General Fund forecast, as I mentioned earlier, and we will also continue to update our revenue estimates as we get new information all the way through the proposed and adopted budgets for '10-11, and we are currently working on reduction targets. We're planning on issuing in November General Fund reduction targets to departments to begin their development as the City Manager said on proposals to be included in the 10-11 proposed operating budget. So I will turn it over to Paul Krutko.

>> Paul Krutko: Thank you, Jennifer. Paul Krutko, chief development officer. The preliminary forecast that Jennifer has presented thus far is really framed by what is going on in the economy. So my role here for a few

slides, and then we'll have the opportunity to hear from Dr. Levy is to contextualize that for the council. This slide reflects if I were showing you this slide at the end of 2007 the story we would be talking about is, you know, we've made strong steady growth back from what was quite a precipice we fell off in terms of jobs because of the last recession. Reminding the council in the last recession, not the one we're currently in we were more severely hit than probably any other region in the country. 1 out of every 10 jobs lost in that recession were lost here. So to take away from this slide is from the peak which would be that one bar upward there in 2000 to the present, we've lost 209,000 jobs so even despite gains in the 2004-2007 time frame, we're still down 209,000 jobs from that peak points. But what's important to note about that is we've gained 160,000 in population during that same period. So -- can you help me with this? Margaret, thank you. Okay, thank you. This is just to give you a flavor of what's happened in the last year. And I know that I've shared with a number of councilmembers, one of the things that was very disappointing about, at least as far as what we're trying to do now in the format stimulus funding is the federal government focused on where the job employment levels were comparing December '07 to December '08 made allocations of funding across various programs. We're not alone, San Francisco, San Diego, San Antonio, other cities like that experienced the job loss later in this recession cycle starting the beginning of this year. So we need to be mindful that while folks hold out a hope for stimulus dollars we have to be very, very competitive and be very diligent as new program modifications are made, or we won't be able to get as much money as we thought we were going to get. Thank you. Doesn't seem to be working, so we have to -- okay. So in terms of the unemployment, the key take-away here is that our job losses outpacing the nation and as we have conversations with people at the federal and state level we are really trying to emphasize this, that from the standpoint of this chart, you can see that the San José number which is San José proper and then the MSA which is largely us and Santa Clara County, the remainder of Santa Clara County is far above the national percentage. And in fact, we are lagging in terms of job production in that recovery. Put a little flavor on this. In terms of manufacturing jobs, the number is year-over-year we are down 18% in manufacturing employment and in the construction trades it's been widely reported that there's somewhere between 30 and 35% unemployment. So when we look at an aggregate number for San José of 11.8, particular sectors are even being harder hit. I think the scale of this is important because when we talk about numbers and percentages things can get lost. But this is as if every person living in Los Gatos, Saratoga and Campbell were unemployed. So that's what a number of 108,000 people represents. One of the things that's always been key to our success is that that engine gets primed, from venture capital investments. The changes in terms of the national credit structure, and in terms of various steps that the federal government is taking, is changing sort of the landscape for venture capital. And we are seeing a very significant decline in venture capital in this year over what it has been. So we're going to have to need to work very, very hard to make sure we're creating environments where our startups are still able to garner money to create that next wave, but right now investments are down. And then the final slide I want to share with you is just the sense of where we stand on occupancies and currently the key job produce properties. And this gets to Jennifer's point relative to where we stand on assessed values and potential property tax dollars that would come both to the city and to the agency. What we're seeing is significant rises in the last sort of five quarters, in vacancy in the industrial category, that would be sort of the gritty types of environments, where people get their hands dirty, Monterey corridor and elsewhere. In our office and industrial corridor, you can see that particularly in the R&D sector, it's gone up very significantly and I guess the point there would be just to put a little finer grain on it, the other issue that's impacting your property tax revenues is that median home prices year-over-year in San José have declined by 38%. So the factors here are that numbers are numbers and math is math. And when you total those things up, those are the elements that get folded in, and made a part of, the preliminary forecast that Jennifer just presented to you. So at this point I'm going to ask Dr. Steve Levy to come to the days. I want to thank Steve for being with us today. For those of you who don't know Steve he's the director and senior economist for the center of continuing study of the California economy in Palo Alto. He has decades of experience in preparing economic projections and evaluating projections prepared by other organizations. He is our economist for Envision 2040. He is preparing the long-term -- has prepared and is still modifying the long-term economic and demographic projections for the city, and he has conducted extensive research on the link between the state budget and the California economy. So to tee up the conversation, we have these three questions that we've asked Steve to address you on. What should we expect in the timing and nature of the economic recovery? What's the outlook for longer term economic and revenue growth? And how will the current and ongoing state fiscal crisis affect cities like San José. We really thank Steve for being here.

>> I'm sure you know that when Kim and Paul first asked me, this was a friendly study session with Lenny Mendoca and me, and we were going to talk about the economy. I do read the San José Mercury News and watch the issues in Palo Alto, so I understand the context has changed and this is really the beginning of a

serious discussion for you all. I'm certainly not going to speak about the issues that you're going to have to deal with. But a week ago, I gave a version of this talk to the Alameda County pension board. And two weeks before that to the assembly. And unfortunately, the bottom line is that, for cities in California, even a very strong economic recovery will not address the systemic revenue problems that you know about. And so, to some extent, debating whether the recovery is going to be moderate or strong or really strong holds out the illusion that the revenue problems facing cities will disappear if it's really strong. And I think that that's false. You all know more than I, as elected officials, the human part of why this recession is different in terms of families and unemployment and people losing their homes, and that's certainly the most important part. But analytically for you, the most important part of why this recession is different is that it was triggered by this huge bursting of asset bubbles. First in home prices here and throughout the state, later, in the prices of commercial properties, in the prices of the assets that the home loans were securitized into, in prices on the stock market here, and around the world. One of the reasons that most economists, your staff, the people that come and talk before you, are saying that this is a slow recovery, is not because the people trying to manage the recovery are incompetent, or not throwing everything they can at it. But because we're dealing with the unwinding of this asset bubble, the incredible loss of wealth to consumers, which affects their behavior, to banks and businesses, which affect the stability of the system, and the incredible kind of fear and paralysis that that part of the recession has brought. And so when you think about how this is going to play out over July 2010 to June 2011, I don't have anything to offer different from what you're hearing from most people, that even though we're throwing a lot at it, and the senate yesterday extended unemployment, and the home buyers credit, that this recovery will come slowly, because we're dealing with the asset bubble, the rebuilding of wealth, the need for consumers to rebuild their balance sheets and save, and all of that also suggests that when we get through the bubble, like when we got through the bubble in 2000 for venture capital, that the economy will be somewhat different, and that we won't easily go back to another bubble, consumers spending a buck and a nickel of every dollar they earn, and that will have implications for property and sales tax revenue here and elsewhere. The longer-term outlook here if we all do our work in Silicon Valley is actually pretty good. Again with the caution that, unless you're running an income tax system, cities and counties that rely on property and sales tax may not benefit proportionately with the recovery in the innovation part of the economy. But I'm not pessimistic about the long term for San José and the environs. In the last quarter, the Bay Area got -- the state got 56% of U.S. venture capital. The Bay Area got over 40%. Those numbers are steadily rising from 15 years ago. The nation is embarking on a series of investments, investments that we hope will stimulate private investments here, and they certainly to me seem to be in areas that we are competitive in. So that's -- longer term, there is not a huge problem unless we fail to create communities that are places that entrepreneurs and families want to come and live in, which is what you're struggling with here. We have a good economic base. Property taxes and sales taxes and, again, I defer to your staff about the specifics here. I know a little bit about the situation statewide. I'm not sure why you would be any different. The bursting of the bubble has two impacts that suggested that staff is correct to be cautious about any short-term recovery. There's a lot of vacancy in commercial property and pending foreclosures for homes. Unless you have a whole lot of new building, or all of a sudden asset prices for resale property go up, you're going to have a very hard time getting any growth in property tax here, in Palo Alto, or any other place, because what we used to have, which was people selling their property eight or ten or 15 years later, and the assessment rising upon sales, because the asset prices have gone up, we now have kind of in reverse. That first of all, the volume of sales activity particularly for commercial property isn't going to be very good. But those huge prices that triggered reassessments for property taxes in 2006 and 2007 are lower now. So the potential for property tax revenue gain simply through the turnover of property is less. And unless you know here in San José or any particular city knows that there's a lot of new building going on I don't see where you get any short-term bounce in property too much revenue. The sales tax, you're dealing with some increase but you're dealing with consumers rethinking how they spend and how they borrow and do they want to buy down some of their debt. You're at least in the short term looking at it being reasonable to assume that consumers aren't going to jump back in. That's that part. I have a piece of advice. I did it in study session with the mayor and the City Manager. Cities in California, property tax and sales tax based cities have two revenue sources that will underperform the economy in the long term. Even with a wonderful rebound in innovation and venture capital and all of that, the benefits will go primarily to income tax. I'm sure you've all heard and know this before. And so cities together, I know that the big effort from the league of cities is to stop the state from stealing the money. But I think there's another proactive effort that all of the mayors and the councils need to do, and one is to either reorient your sales tax base or this new business net receipts tax that the Parsky commission recommended, to make sure that the legislature, when they address fiscal reform, include local fiscal reform. Because unless you want to, or Los Angeles or Palo Alto, impose a whole lot of new taxes, you're going to need your property taxes and your sales tax base to broaden some to capture increasing

areas of the economy so that it will at least grow as fast as the economy. The current sales tax base, unless the business to business stuff just picks up unbelievably, it's going to lag the economy in 2011 but it's also going to lag in 2018. And unless we have another huge asset bubble in property prices, your property taxes are probably not going to repeat that wonderful era of six to eight years ago when they were growing at six, seven, 8, 10%, I don't know the numbers here. And so all cities, including San José have a real imperative to be discussing with the state as it discusses tax reform and California forward and repair California and all of those people to make sure that local governments get a piece of a revenue base that's going to grow more quickly. Kim didn't ask me to talk about this, and so this is just a personal comment in the ending. You are, like Palo Alto, in the midst of this enormous social contract issue similar to Medicare but different, because it's the retiree benefits for your employees, and it's very personal. You have the stuff that you know about and you have the -- what I talked about last week in Alameda which is, you all are facing increased contributions because of the investment part of funding the benefits that have been promised and that people have made decisions on. It's an enormous complex problem. I don't know anybody who thinks the arithmetic works and I don't know anybody who has a perfect answer. But at least I'll leave you with the fact that everybody I know is dreading the day when that tradeoff between what cities have to do to fund those benefits that were promised in good faith, and which people made their life decisions on, okay, just like Medicare, funded and paid for, conflicts with the provision of police and fire and other services, and I'll leave you with the let gutty example but it's more gutty to me because I think of the state all of the time. We keep passing these bonds at the state level, cities fund them, but we keep passing these bonds at the state level and people say no taxes. And that debt service as the treasurer has said, Bill Lockyer has said, will begin to eat into the state's funding of health and education and social services. We have these two enormous social contract issues before us where the arithmetic doesn't work. I don't have anything clever to say, but it is, I think, really true from everybody I know, that despite all the good faith, the arithmetic doesn't work. Going back to the first, you got to change your revenue base long term or even a really, really well-growing economy won't do for you in the next decade what it did for you in the last. There is an increasing disconnect between the economy and city local government revenues all throughout California. Thanks.

>> Paul Krutko: Thank you, Steve. Mayor, we're ready for questions at this point, I guess Jen, is that correct?

>> Mayor Reed: All right, let's see if there are council questions on this part of the presentation. There's several more segments to go through, but we'll see if we want to talk about projections first. Councilmember Pyle.

>> Councilmember Pyle: Thank you, mayor. I'll be brief. I did want to check on a figure Dr. Levy that you mentioned. You said that 56% of the venture capital funds went to the Bay Area or California?

>> For the third quarter it was California. The normal shares are about 50% for the state, which is pretty amazing. Half of the U.S. venture capital in the Bay Area gets in the high 30s or around 40. We get about \$2 out of every \$5 in venture capital in the United States and it's been growing in the past decade.

>> Councilmember Pyle: And also in reference to the revenue streams, sales taxes, property taxes, what goes down when there's a recession? Both of them so you say we need a more stable source of funding. Do you have any suggestions for those sources?

>> I've argued long and hard with the tax commission and testified to the assembly. I'm happy to tell you what I told them. It's really what I -- what I said at the end, that cities have an interest, either in counties and transit districts, in extending the -- broadening the sales tax base to services so your primary tax base captures some of the fastest growing parts of the economy or if your legislature actually goes for this new business net receipts tax, it was originally posed by the Parsky commission as replacing only the state share of the sales tax. If they go that way, I would recommend that you argue that it replace also the local and transit district share. You want to have fast-growing areas of the economy in your tax base. The other one, which is more controversial, and I'll just relay it, I'm sure you know it, is the idea of whether assessment practices on nonresidential property provide loopholes and whether not any change in the rate or any of the rate part of it but whether more frequent reassessment of commercial property is a good set of public policies that would probably increase revenues for all local governments that get property tax. Those are the two big ones. I don't see cities trying to play around individually with an income tax. So it would be look at your sales and property tax bases to broaden them in the hopes maybe if it was successful of lowering rates down the road.

>> Councilmember Pyle: Thank you.

>> Mayor Reed: Councilmember Constant.

>> Councilmember Constant: Thank you. I have a couple of questions. The first is for Jennifer. Back on page or slide number 7 where you go over the key revenue assumptions with the property tax decline of 4.9% and the sales tax decline of 5%. In the last Public Safety, finance and strategic support committee, when we looked at the revenue changes, and we had a figure of sales tax decline that was somewhere around a 30% number, can you reconcile for us how we get from one quarter, where we have a 30% number, to an annual 5% number?

>> Jennifer Maguire: Thank you for the question, Councilmember Constant. The last fiscal year our sales taxes dropped -- and I'm going off memory, but I think it's fairly close -- about a .4% drop in the first quarter, about an 8% drop, then a 29% drop, and about a 28% drop, and actually, this is about right, I just got the numbers in front of me. So we -- year-over-year we had about a 16% drop. What we've done is we've looked at for 9-10, what we've done is we've looked at each of those quarter drops and because they were so severe at the end of the fiscal year and not so severe at the beginning of last fiscal year we're comparing quarter to quarter thinking we might have a couple more quarters of drops and then hopefully we've gained some of the -- we've gained and not dropped even further for those last two quarters that we experienced those 28, 29% so next spring we're hoping that we see a little bit improved some growth off those quarters. So from a year-over-year basis we are hoping to only decline 5%. We have had, I said, some -- or this is, you know, we talked to a lot of people about sales tax, and nobody wants to go completely on record on it, but it could be worse. I'm not saying it cannot. I'm very worried about that estimate. But based on our best discussions with our sales tax consultant with look at beacon economics, our own consult be economist, we believe a 5% decline is reasonable. We'll watch it quarter to quarter, we won't get our first sales tax information for this fiscal year until December, so we'll report that in our next bimonthly financial report that will go to committee in December, and we will -- we might have to adjust this category accordingly. But that's the thought process on the sales tax.

>> Councilmember Constant: And then back at that same meeting when we were going through all the charts and numbers and categories, one of the areas that I had expressed concern was the ending fund balance or the cash flow position that the city has. Is that something that we're going to be discussing today seeing a cash flow, our cash position chart like we had in that meeting?

>> Jennifer Maguire: I'm going to ask Scott Johnson to answer that question.

>> Scott Johnson: Good afternoon, Councilmember Constant, Scott Johnson, director of finance. That's an item that we have on the agenda later this month to the public safety, finance and strategic support committee. So we're in the process of issuing a report with the analysis in regards to the General Fund cash flows.

>> Councilmember Constant: Okay, thank you.

>> Jennifer Maguire: I might add to confirm the cash balances are very low as you saw if whoever read the bimonthly financial report, the primary driver has been our prepayment of our retirement contributions. But it is a very, very low level and as the director of finance indicated, we have our eye on it very closely.

>> Councilmember Constant: Okay. And then going to page 9, the -- I just want to be clear, so make sure I and everybody was listening's on the same page, this list of service reductions for next fiscal year are already included, or assumed in the deficit of 96.4 million. So without these actions, it would be whatever that, plus 7 is, that's correct; right?

>> Jennifer Maguire: Yeah, so it would be -- our deficit would be over \$100 million. So these have been removed, that these services would no longer be provided effective July 2010.

>> Councilmember Constant: I just want to point out, make sure I'm accurate here. Compared to last year when we argued about each one of these services, we were saying whether we would be reducing the deficit or not, if these happen this year it would be whether we would be increasing our deficit or not, correct?

>> Jennifer Maguire: You are absolutely correct.

>> Councilmember Constant: Okay.

>> City Manager Figone: And Jennifer, could you clarify, because I didn't hear it in your comments, why these are not in the base? I want to make sure the public's clear on that, as well as the council.

>> Jennifer Maguire: Yes. As part of the city council approval of the mayor's June budget message, many of these services were bought back with one-time dollars or they were included in part of the City Manager's proposed budget where we had recommended that we needed a year to transition out of these services. For example, the central service warehouse closure, as one example.

>> Councilmember Constant: Thank you. I just asked that because as we get further along in the process and we get into the BD process and arguing about individual services, I think it's important to note that the context is really \$100 million or over \$100 million not necessarily the 96 million. The footnote there about the presentation to placed committee, on alternative service delivery models, do we know when we'll see that in committee?

>> Jennifer Maguire: My understanding is that's going to be going to committee in January. So we may have direction on that one for -- if it's anything changes on that for our February forecast update.

>> Councilmember Constant: Okay. My next question's for Paul. On page 18, the vacancy rate chart where we have the R&D, the office and the industrial. I know that you mentioned that these are the three primary ones that we track because of their impact. Do we at all track the retail vacancy, since it's somewhat tied to sales tax which is our other revenue generator, are we looking at this purely from the property tax perspective?

>> Paul Krutko: Councilmember, I don't know off the top of my head know that we do that. There are people upstairs listening and would I ask them if we have that information and bring it down if we do.

>> Councilmember Constant: I would be curious if we do, if there is a correlation between vacancy trends and sales tax receipts in the retail category. If there's not then I don't see any value in it for me personally. And I think those are all my questions at this point.

>> Mayor Reed: Councilmember Liccardo.

>> Councilmember Liccardo: Thanks mayor. Question for Stephen Levy. Thank you for your presentation, and I appreciated your perspective when we heard a similar perspective in front of the general plan task force. It is certainly sobering but it's helpful to have it in such a direct manner. This could be sort of categorized as wishful thinking, but I guess it's never too early for a hail Mary pass. Back in the 1980s you remember a fellow by the name of Arthur Laffer that a lot of folks seized upon to argue that somehow or another if we lowered personal income tax nationally, we would generate more economic activity and somehow our deficit would come down, of course that didn't pan out because deficits boomed throughout the 1980s in terms of local governments, have you ever seen any context where in any of our taxes or fees where we could reduce any of them in a way that could generate enough economic activity to get us to something even close to revenue-neutral?

>> Was the question, if San José or another city reduced their taxes, would that --

>> Councilmember Liccardo: Yeah, by that I mean you know, are there any specific taxes or fees that we could look at, knowing that increasing them is incredibly challenging and often impossible under prop 218. Are there any that we could reduce that could actually stimulate enough economic activity to either keep us in revenue neutral position or actually stimulate new revenue?

>> Okay, I don't know of cities, small or large, that have attempted this, so I don't think there's a record. The general record on this is that no one's mind gets changed by looking at the evidence in an anecdotal way. We had a vote on that in the 2008 election. The problem is that, in order to get more revenue on the theory that you're proposing, companies and individuals would have to move, all right? The problem with tax cuts in the current situation, remembering that we've just had two, one in 2008 and one in 2009, is what I started out with, that we're

dealing with a loss of wealth, and a loss of confidence, and we've thrown a trillion dollars or more in loan guarantees and low interest rates and everything, there's no evidence right now that, short of this rebuilding of confidence and stability in the financial system, that anything you do is going to get more consumers. So I don't think there's any evidence to support short-term tax cuts for short-term benefits. In the long term, you would be saying that -- well, the city -- the City of San José, to have a different -- dramatically different sales tax than, say, Santa Clara or Palo Alto, I mean I'm not sure what you're saying.

>> Councilmember Liccardo: I'm not going there.

>> You only have 1%. You don't have legislative control.

>> Councilmember Liccardo: Yeah, I was specifically focused on the issue of fees that we control, without a lot of having to go to the ballot and things like that.

>> Yeah, I don't -- I mean -- personally from my professional work, I argue the other side, that given the small amount of discretion you have over money, take the Google example or Intel or Adobe or somebody, I would argue that San José competes for those firms by providing an incredible location both for the entrepreneur and for the people that work there. That you have more scope, cities have more scope to compete on the great cities, great services side than you do given the limited control you have over revenues. And given, you know, that we have a very specialized economic base here. We thrive on very innovative and often highly talented people that are picking where they and their company and their families want to live. It is hard for me to see how a small amount on the fees is going to be an inducement to those companies, versus saying, San José is the place to be downtown.

>> Councilmember Liccardo: I understand, thank you. I thought it was worth asking. Secondly, on the issue of sales tax, I know there's been a lot of conversation here about the negative 5% projection. And recent quarters I think we've seen drops somewhere between 21, 27% in successive quarters. Is there any evidence that there's some pent-up consumer demand out there that would enable you to see a significant bounce back in sales tax revenue in the past when we've seen other big drops, I don't know if we've ever seen drops of this magnitude but --

>> Okay, I would be very surprised that there's going to be a soon consumer bounce that the general theory of why most economists that you've heard and that I've heard are saying it's going to be a slow recovery. Longer-term, if there were a huge increase in innovation and it turned out that the business to business sales part for San José picked up, that might be possible. In the longer term I would have more faith in that, than some huge rise in consumer spending. I think we're in a new era and even if you got a temporary bounce, the long term projections are for this sales tax base which is heavily in goods and gasoline to grow more slowly than the economy. And the point I've been trying to make is, if consumers do start to spend more, they're increasingly spending more on areas that aren't taxed. And so there's a nexus question between a consumer bounce-back and do you have a tax base that will capture enough of it to keep pace with your caseload growth in the city.

>> Councilmember Liccardo: Thank you, Stephen. Just a last question just to follow up on that. At the VTA we were presented with a consultant's projection on 30 year sales tax revenue projections and certainly it's very difficult to be looking that far in the future but the number or the graph that we were presented with was essentially a flat line.

>> Right.

>> Councilmember Liccardo: And even as the county would be adding, I think, somewhere on the order of 700,000 or more people over that period of time, there would be actually zero aggregate growth in sales tax revenue. Is that similar to the picture you're painting?

>> Okay. I was VTA's consultant for several years before I was not VTA's consultant. I would certainly have to acknowledge that looking from a 2004 or 2005 perspective, the numbers I was giving them turned out to be, you know, way too high. So this is a professional area. It's hard for me to get into it as a friend. I was taken aback a little bit by flat over 30 years. I tried to find out from the staff exactly the basis of that and couldn't. That's

surprising. I'm not arguing flat. I'm arguing that if the economy goes up by 5% you might be looking at sales tax revenue to go up by 3.5. Little bit less than the economy. Flat is -- but again, I haven't looked at it professionally but that's surprising to me.

>> Councilmember Liccardo: Thank you, I appreciate your perspective.

>> Mayor Reed: Councilmember Herrera.

>> Councilmember Herrera: Turn on the microphone. I really appreciate staff's report, and really appreciate the opportunity to hear from Steve Levy. And I had a couple of questions. In the big picture, nationally, and you talked about this unprecedented bubble, and the unwinding of this asset bubble. And we hear daily, that Wall Street is in some ways still continuing on with some of the practices that got us there, in terms of derivatives, unregulated still derivative trading, still having toxic debt among the largest banks. How will -- how do you see that? I know that's not in our control here, but how is that going to impact us going forward in terms of the ability for both small business and larger businesses in the tech sector to gain capital, to be able to get credit, to be able to advance business? I just kind of wanted your general thoughts on that bigger picture.

>> Sure, okay. You're kind of at the edge of my knowledge. But there are two points. One is that bubbles, even horrible gut-wrenching ones, with horrible human consequences, do unwind. And so unless we do something incredibly stupid, I think this bubble will unwind. It will mean that revenue growth for the economy and cities will be slower than it might have been for two or three years. I don't see that it threatens the long term prosperity of San José or Silicon Valley. I think we're going to do pretty well. I don't have any particular expertise to offer, except that I hope that Dodd and Frank and Deitner pull together something. You know, the -- our lesson here was that the private venture capitalists really did change their behavior after we all saw them and bought into companies that didn't have business plans. They changed their risk profile, they changed the way they compensated the companies that they invested in. And I have some faith that the major part of the economy will be less risk-adverse in the future. But as far as the regulation thing, I don't have a great answer to that for me -- for you.

>> Councilmember Herrera: Did you mean more risk adverse, in the last -- I hope that's what you said, but --

>> More risk-adverse, I think we are --

>> Councilmember Herrera: You said less. I thought you meant --

>> Certainly for households, which is the short term dilemma for people that rely on sales tax is that as consumers we're becoming more prudent. We're trying pay down our debt and not spend as I said a buck and a nickel out of every dollar because we had a really bad experience and that will keep consumer spending less than it might have been in a normal recovery. But that's good long term. We have a really more prudent venture capital industry. It's hard to remember that venture capital investment in Silicon Valley is less than half of what it was in 2000, yet we can all sit here and see incredible opportunities ahead, and we're feeling pretty good except for right now about that sector. So it corrected. People correct.

>> Councilmember Herrera: I hope you're right about that, and I'll just say that I have a concern about that correction. I think Silicon Valley did make that correction, and I think you're right. Venture capital and the way that business is done here reacted to that bubble and things got corrected. I'm just concerned that because the federal government is involved and we're involved as taxpayers in supporting that system, I just hope that we really do -- that that really does get under a regulatory control and that we move away from allowing those kinds of things to propagate to the point of risking the taxpayer money and I am concerned that the credit markets that haven't opened up yet really harm small businesses. And when -- to Sam's question about looking at fees, I think those might not entice a Google to come to Downtown San Jose but it certainly might help small retail businesses and I think we all have to be concerned about small businesses in this picture because they still create the majorities of jobs. I'm worried about the health of those businesses and their simple access to capital so that they can make payroll and grow and I know that's not something that we maybe all have control over but that's a factor we need to consider and do everything we can on every level to try to change that. My other question was about the commercial part of the market. We saw residential. We saw that bubble burst. We've seen foreclosure

rates. We're hopefully coming to the bottom of that. But what about commercial which is the other shoe about to drop. Can you comment on that and how that will impact our economy?

>> I think at a general level, you're right. That people who follow that market think that there is still considerable risk, and that the period of highest risk is probably ahead of us and not behind us. It's one of the contributing factors back to your problem for why it's less likely to see a lot of new building or property changing hands at higher rather than lower prices. There's a real connection to the revenue base and economy here because there are such high vacancy rates and potential defaults. I think it will be a long time before that recovery is complete. But asset markets recover painfully, but they recover. We simply don't build anything until the economy picks up, and demand is back in balance. It's very painful. We're not building hardly any new homes here and that is part of the correction. I suspect there'll be few and far between new commercial properties here or anywhere in the most of communities in the United States for a while until that market gets back in balance. I have some faith based on performance that this is what the secretary of the treasury said, an all-in administration, and both on your question about small business and on this larger question, with fits and starts, there will be responses to additional crises, should they occur.

>> Councilmember Herrera: Thank you. And the last comment is, I like what you are saying about companies and choosing a location -- choosing San José because they like the location and because of all the positive things about our city. And I think we do need to keep that uppermost in our mind, that it's not just about looking at the negative side of the balance sheet but also look at what we have to offer. And I'm very optimistic about the future of Silicon Valley. I worry about the state, what the state -- the decisions they make, and the federal government, the federal government, too. And we don't live in isolation, unfortunately, and even though we are the engine, I think we have to really look at how these other forces interplay with us but I'm very optimistic that we will come out of it and we will --

>> Let me repeat something very quickly we did for the 2040. You are competing for people the age of my son, between 20 and 34, that want a hip, urban, active community. And people like my wife and I, who sold our house, and want to live in downtown, for us it's Palo Alto. You're competing for two very fast-growing specific demographic trends over the next ten or 15 years. And that's right there for you as a city to go after those folks.

>> Mayor Reed: Councilmember Nguyen.

>> Councilmember Nguyen: Thank you. Couple of questions for staff regarding the committee additions. So for fiscal year 2010-11 we're look at potentially allocating \$7.8 million for these committee additions. My question is how much has the city spent on these particular committee additions since 2000 and I'm curious to know which department has the most of these committee additions?

>> Jennifer Maguire: I don't have that handy, Councilmember, we would have to research that and can go back through the budget years. We could issue a supplemental on that.

>> Councilmember Nguyen: That would be fine.

>> Jennifer Maguire: Back to 2000?

>> Councilmember Nguyen: Back to 2000, yes. And then a quick question for Dr. Levy. You talk a lot about property tax and sales tax. I guess I just have one question about the proposition 8 reassessments. My question is, what will the effect of these assessments be on property tax revenue?

>> What was the question?

>> Councilmember Nguyen: What will the effective of prop 8 reassessments be on property tax revenue? This is 1978 debt.

>> Are we talking about the Larry Stone's --

>> Councilmember Nguyen: Yes, the declining value in property tax.

>> I assume your staff has that down quantitatively better than I could. That is part of the problem that I was talking about for the short term which is that we have still numbers of properties that are getting downward assessments. So it's going to be very hard to see any property tax revenue increases that are anywhere near where you used to have because the base is being lowered for some people. So it has a -- the economy and then the lowering of the property values, and then the lowering of the assessments, is one of the short-term problems that you're facing that's not going to get resolved for a long, long time.

>> Jennifer Maguire: And just to add the -- when we were putting together the budget for 9-10 in April, that's when, you know when we started to learn about the prop 8 adjustments. So our right now sitting at our secured property tax declined 9 to 10% because of a lot of the prop 8 property tax adjustments. Going forward we're looking at another negative .5% in property tax. And that is a projection at this time and they're continuing to update the rolls as we speak.

>> Councilmember Nguyen: Thank you.

>> Mayor Reed: Councilmember Kalra.

>> Councilmember Kalra: Thank you. I want to thank all the speakers, Dr. Levy and Jennifer and Paul, and thank the mayor and city manager for getting this meeting so quickly put together. I had a question in regards to projections, and again this is not speaking to structural issues, but rather just assumptions and projections as we go forward and dealing with the 2010-2011 budget. And it indicates that from March until October, the assumptions on the retirement contribution went from 51.7 to \$38.2 million. Now, just -- I'm assuming that's because of the improvement in the market but I just wanted to see if there's any other reason that that, if there's any other reason beyond what my general assumption would be and if so how that might play a role and then beyond that TAC taking a look at between now and late February when we take a look at the five-year General Fund forecast, do you see a continued trend with that or you see that leveling off or is there any way to determine that at this point?

>> Jennifer Maguire: You are correct. It is based on the update to the investment losses. So we use the Segal actuarial report as of July. We updated the assumptions with the retirement department so we -- we feel like we're a little bit closer than we were last March. We have, that's on the police and fire side. So we just basically used the projections in that report. And on the federated side we have a slight increase for that -- for the city contributions in that area due to the fact that the actuary is recommending that we lower our investment earnings rate down slightly, down slightly which translates to an increased contribution rate. If you look in the rate projections in that Segal report it does over the five years increase quite significantly, and it is a big concern of the City's that where those projections will go. So obviously, the two city retirement boards will be setting those upcoming rates and we will update them and include what we can into the next forecast. But it is an absolute concern because if you look -- if you look back in February, if you didn't have those -- the retirement projection increases happening, we were right on the edge, almost positive in our base budget shortfall if we could resolve the structural problem, assuming that the economy is very slowly growing. But I don't think that's possible anymore. I think you should be expecting to have negative numbers in all five years of the next forecast.

>> Councilmember Kalra: But and again, setting aside the structural issues, that's obviously something that both retirement boards and the council are taking up, but just in terms of this deficit, this round of 2010-2011 --

>> Jennifer Maguire: I think expecting them to grow both the city contribution rates over the -- for the entire five year period from just the data I saw in July from the police and fire side.

>> Councilmember Kalra: Okay, from March to October there was the contributions with the estimated contributions were reduced, but then over the next -- I understand over the next five years we certainly see a growth I've seen even part of the federated board seen those projections but over the next few months as we continue to deal with the structural issue in the next few months have to try to reconcile at least the 2010-2011 budget, is there any estimation over the next six months or so, just so we at least know, get a better feel what numbers we're going to have going into this next deficit cycle?

>> Jennifer Maguire: As I understand it, you know, this is just based on the investment losses. So any changes to the noneconomic assumptions like mortality rates, looking at the valuation of the plan, of the -- you know, the salary increases that were given, all the other factors and the earnings assumption on the police and fire side, could definitely increase those rates. I think we need to be concerned that they could go higher.

>> City Manager Figone: If I could just add one more variable and that would be the experience of turnover in the city so the number of retirements that are actually occurring versus what was assumed in the actuarial work that was done.

>> Mayor Reed: Councilmember Campos.

>> Councilmember Campos: Thank you, mayor. The slide that you currently have up, I think it's the one that says 25 additional police officers and that is projected for 2010-2011, is that correct?

>> Jennifer Maguire: Yes.

>> Councilmember Campos: The addition, the other 25 officers that I think were approved for last year's budget, is that included in here or am I --

>> Jennifer Maguire: No, those are not included. That was approved as an ongoing -- it was removed from the forecast as an ongoing reduction so when you see the forecast in February, it will have these 25 officers, and one more year, 11-12, based on what was approved in the mayor's message of two years ago or so. So there was to get to 100 officers but the 25 from last year were not -- it's not assumed that they were deferred out a year. They were assumed in this budget as gone so they're not -- they've not been pushed out so you'll see two more years, 10-11 and 11-12 in this when you see a five-year forecast.

>> Councilmember Campos: Okay, thank you. I'm not sure if this question's for you Paul, or for anyone else. But when we think of the City's revenue when it was at its peak and now it's declined, do we have a percentage or a dollar amount on how much it has declined since the peak, the City's revenue?

>> Paul Krutko: Well, councilmember, I guess the way, one of the things that we do have to be careful about is when we talk about the shortfall, that's the difference between our revenues and our expenditures. So we would have to go back and look at this for you. But the conversation I had with Larry and I had with Jennifer, our revenues have been increasing over -- over time. The problem is, our expenditures, our costs are increasing more rapidly. So the revenue increase that we experienced over the last decade or so isn't matching the expenditures. But we can get back to you with that specific -- those specific numbers. Right now we're beginning to see specific declines in revenues but that's off of a trend line that had been going up into the right. We can get back to you.

>> Councilmember Campos: I appreciate that.

>> Paul Krutko: But that's what the issue of the shortfall really is.

>> Councilmember Campos: I put this question probably before Dr. Levy. Is there a relationship between job creation and sales tax? So an example would be, if the city, and I don't mean jobs housed in the city, if the City of San José were to be in a position to create 50,000 new jobs, would we see a relationship of our tax revenue going up, or is there a correlation, or maybe there's not.

>> They are connected. Remembering that most of the sales taxes are paid by residents, okay? And so there's certainly a connection between new residents and sales taxes which doesn't answer the question of what's the total cost in revenues implication of having new residents, but new residents who spend here would add to sales tax. The problem is not that jobs don't create tax revenue. The problem is, at least the one I've tried to articulate, that absent an income tax, cities are going to be less able to translate job growth into revenue growth, as well as it worked in previous decades. But there's still, obviously, a connection to more economic activity, and residents you have here, the more sales tax revenues you'll have. It's just that, given that your revenues or sales and property taxes, they're not structured to keep up one for one with job growth.

>> Paul Krutko: And Steve's other point that he made is also a good one earlier, in which we are noticing and seeing, and it's across the nation, a shift in what consumers, what types of things consumers are spending on. So they're not necessarily spending on hard goods in which we can get a sales tax revenue. They're using more of their dollars to provide services that don't create a taxable event. The other point I'd make back to your earlier question was, you know when I got here in 2002, February 2002 which was right at the bottom of the last recession, everyone told me about well, we're different because we have this high business to business sales tax. I mean it was 30%, 35% of our total. And what's happened is, as our companies have spread their locus of operation around the United States, we have less of that business to business percentage. And so the strategy, for us, to get to your point, and I think what the clean technology strategy is as we help these companies to grow, can we get more of their manufacturing to stay here and can we craft an economic strategy and tactics that will make that happen? Because if this is the locus of sales then you know we can generate it. But someone selling, you know, right in a cubicle writing in a software code doesn't create a taxable event for us. While they're good jobs and they pay really good incomes, at the same time as Steve is saying, I'm going to rethink how much I'm going to spend, and I'm going to save more, they could be paid a lot of money, but it's not generating any yield for us in the economy, is that fair?

>> Yes.

>> Councilmember Campos: That's all my questions.

>> Mayor Reed: Let me just follow up on that. Somebody sitting in a cubicle adds value to that property that an empty building doesn't have. So it's not just the sales tax, it's property tax, the utility taxes, and the other revenue sources that could be affected by the creation of jobs filling the empty buildings, so it's not just about sales tax.

>> Paul Krutko: I understand that, mayor. The challenge we have in just what's a key component of the general plan task force is we're still less than one job per employed resident. It's the factor of are we getting our fair share of those jobs to fill up that space that we have. I do if I could, I have the answer to Councilmember Constant's question if you would indulge me. Just a little context. We represent almost half of all the retail space in the county. It's 15 million square feet of retail space again about 32 million. Year-over-year, mid year, the last year the vacancy rate for our retail was only 2%. It's risen to 5.6% mid year to mid year. Now, to put that into context, that is actually quite good relative to the rest of the county. Where my distinguished colleague lives, they're up at 25% vacancy in Palo Alto right now, and if you look across the chart, Sunnyvale is -- Saratoga, Cupertino are north of 15%. So we've risen which would be almost 100%, but it was from 2.1 -- over 100% from 2.1 to 5.6. But we do -- you know, our relative share is very large compared to the rest, so I don't know that there's a correlation between what we're yielding from sales tax and vacancy.

>> Councilmember Constant: Thank you.

>> Mayor Reed: Councilmember Oliverio.

>> Councilmember Oliverio: Thank you, mayor. Just want to thank everyone for their questions but mostly the presentation and I think it's pretty darn obvious that there are no easy answers or any panacea that's going to get out of this. We're going to have to make tough decisions and not be friends with everybody, and I'd look forward to the rest of the presentation.

>> Mayor Reed: Okay, let's do the rest of the presentation. I think it's time to switch to another section on strategies, I believe. City Manager.

>> City Manager Figone: Thank you. And if we could bring up the next slide, we're going to be talking now about strategies and solutions, and we'll have a switch-up of the staff. So I am also going to present this section and at the end of it we will open it up for questions and comment. You've heard us talk about the three major strategies, in order to solve this problem before. Those are reduce per-employee costs, reduce or eliminate services, or increase existing or add new revenues. I'd like to start actually this discussion with the third strategy, which is to increase existing or add new revenues. We'll then provide some additional discussion points about strategies 1 and 2. This should set the stage for questions and discussion about the appropriate mix of strategies for preparing

for 2010-11. I do believe it's very important to explore new and increased revenue sources for 2010-11 in the General Fund and beyond. You may recall that the General Fund structural deficit elimination plan did identify a range of revenue options, taxes as well as fees, that could be pursued over the five-year period. In August I appointed a senior team to review and update this list of potential new and increased revenue sources that are identified in the plan. And Scott Johnson, our Finance Director, and Marwick McCann, our deputy director of the Budget Office, have led this team. In your packet, and right now the material, I believe at least it is in my packet, is under tab 3, you do have two products from this team's work. You have a one-page summary sheet that was released on October 26th and a more detailed work plan released on November 3rd. I think it's important that we think about revenues in two categories. First, are those options that are clearly practical for 2010-11, and then options that appear to require a longer lead time. So in terms of the first category, we believe that there appears to be about 4 to \$10 million worth in revenue that could be realized through new fees, fee increases and other one-time sources that are within the council's control, and that we could count on for 2010-11. But clearly more specific work is needed in this category, but we will be undertaking this work. And I would expect that we would present to you a proposed budget with new fees in that range, again, of \$4 million to \$10 million. The second category however on the next slide includes a range of new or restructured taxes that will require voter approval at the ballot box. And from our past experience as the council remembers about a year ago, we went through a lot of work to eventually get measures J and K in front of the voters and over the goal line. And so it is from that past experience that we believe there are four important considerations in deciding to pursue new revenue sources requiring a ballot measure. And those are on the slide before you. I'll talk you through them briefly. First of all is viability, and that is the likelihood of success with voters. As you usually know this is usually informed by polling. And as we did a year ago you started with approximately seven revenue ideas that are pretty viable on the table. We worked through the technical analysis. We end up polling. You deliberated and debated. We evaluated the cost, and we got down to the decision that we would bring forward measures J and K. So viability is an important consideration and the time it takes to work through that. The second consideration is investment and that is the staff's prework, the outreach that might be required, again with J and K we did a lot of outreach, worked with the business community and so that took resources, and time, and certainly costs attached to that. The third consideration is context. And that is, what else is going on in our environment? What are the other plans of other governmental jurisdictions? What is the election timing that we want to hit? And then, the fourth is, timing. And that means, not only timing with an election, but timing to deliver you a budget, where I can count on the revenue. And just to remind you I've got to deliver you a proposed budget by May 1st and you need to deliberate and approve a budget that can be implemented on July 1st. On the next slide, these are the nine potential new revenue sources that would require a ballot measure, and the amount that they could generate. I'm not going to go through them. These are from the structural deficit elimination plan. Certainly as we take on the idea of new revenues, these ideas will evolve. Others might surface. I do want to point out one clarification on the sales tax item over one of our documents. And that is, our research indicates that the minimum sales tax that a city can impose is actually 1/4 percent. The 1/8 percent is not an option for cities but for transit agencies. And so with that, Scott is our expert, and he and I are here to answer any questions that you might have about the revenue category, and what I would say is that since some of these revenues are really multiyear, or longer-term and their approach certainly receiving any direction or guidance about council's sense of priorities today or as we move forward would be very important to us. So let me pause there and take questions, mayor, on revenue before we go on with the other categories of solutions.

>> Mayor Reed: Councilmember Oliverio.

>> Councilmember Oliverio: Thank you, mayor. In the structural budget deficit committee, I can't remember the exact acronym, that met for I think approximately a year that Councilmember Constant chaired, I do remember that both union and chamber were pretty solidly behind allowing more card room tables with the revenue to follow from that. That is something that everyone agreed on. I understand that some folks on the council it's not what they liked to see but it's rare that we get unanimity about these types of issues, and if we're looking for things that were the potential revenues there, that would be something to make that comment on. And then City Attorney, you know, we -- at the Rules Committee the other day, we had discussed the new -- a possible ordinance for medicinal marijuana, and also taxing it much like Oakland. And I would imagine that that could be included on a business tax restructuring rate.

>> City Attorney Doyle: Yes, and I think whatever proposal would come forward, you could include a separate formula or however you wanted to tax it based on percentage, and that's something we'd have to work with the finance department. But the idea now is to move beyond the current system of business tax and modernize it.

>> Councilmember Oliverio: But from your background it could be a single ballot measure?

>> City Attorney Doyle: If the council wanted to put a business tax modification forward and include it in the rate structure, a business tax would be one on medicinal marijuana use or businesses, then yes, you could.

>> Councilmember Oliverio: Thank you.

>> Mayor Reed: Councilmember Pyle.

>> Councilmember Pyle: Thank you, mayor. I'm a little worried about the law of unintended consequences for some these. In reference to the business tax, what is the likelihood that businesses aren't going to rebel strongly and maybe not settle here, 100%, you think? I'm not sure who wants to speak to that.

>> City Manager Figone: Let me start. This revenue strategy was on the table, it was discussed in the committee that Councilmember Constant chaired, the structural deficit elimination plan committee. And the idea was to modernize our business tax. It goes back to the mid '80s. I think the general sense at least from the business members on the committee was, they'd be willing to look at it. They would want to have more outreach done so that the city could hear where we might need to become more business-friendly before they would agree to support a change. So that work really hasn't been undertaken yet, which is why there's some time associated with a number of these, to do more of that outreach.

>> Councilmember Pyle: In reference to the parking lot tax, what would that do to our free parking incentives? Which does get people down here to shop, and buy, and go to theaters and restaurants, et cetera.

>> Ed Shikada: Councilmember Pyle, Ed Shikada, chief deputy City Manager. It's been a little bit of time since we fleshed out the concept. Basically the concept was 10% above existing posted rates, again applicable only to public lots so would not include privately owned but open to the public. In effect if it were free the assumption would be no additional charge.

>> Councilmember Pyle: Thank you. Have we at this point talked to the people with the disposal facilities regarding that tax? It was \$5 million.

>> City Manager Figone: The disposal facility tax -- and Scott, I'm going to let you jump in here -- is on our landfills. And again, if this is one that we want to pursue, we would be reaching out to that sector. This one hasn't been raised as I remember it since the early '90s.

>> Scott Johnson: That's correct. And as our City Manager pointed out, in our supplemental memo we have a matrix that provides more detail in regards to each of these concepts. And at this point these are concepts, these are ideas that the team has been putting together for the work plan. And you can see here where the point that we're making here is that our revenue in disposable facilities taxes are actually declining because our diversion rate has been going quite well. And there are some ideas, working with the environmental services department, that they put out that would help strengthen that revenue stream and continue our Green Vision in regards to disposal.

>> Councilmember Pyle: Thank you. That's it for me.

>> Mayor Reed: I had a couple of comments on Councilmember Pyle's questions about the tax revenue potentials, it is probably too early to understand what happened on Tuesday but there are still people that are already out there trying to interpret what happened around the Bay Area with regard to revenue increases, taxes that were on the ballot, and one comment that I had read was that in places where the council was United and everybody agreed we needed to do this so there's not a big fight, sales taxes increases were approved. But where there was a big fight, they lost. And so as we had in measure J and K, we had pretty much everybody

united behind the idea, we had support from business, from labor, from our council and it was possible to get those over the goal line. So having a lot of community support, I think, is essential to any of these tax increases that we might want to put on the ballot. And the second one had to do with the business license tax. And I haven't done any outreach on this but based on previous comments that support from the business community or maybe lack of opposition from the business community at best, would be dependent upon our ability to control our expenses. And as long as our expenses are out-pacing our revenues and we have problems meeting our pension obligations, I'd be surprised if the business community would be willing to voluntarily support an increase in their taxes but then again, that's part of the analysis that would have to be done with all of these revenues sources as we did with measures J and K if we are going to be successful. Councilmember Liccardo.

>> Councilmember Liccardo: Thank you mayor. I agree with that sentiment. I think ultimately we get to a place where we're able to put revenue increases on the ballot with any hope of success it's going to be with grand compromise with everyone at the table knowing there's significant costs given up on two tiers, maybe on retirement issues, maybe it's other issues but it really means everyone coming to the table and giving up something they don't want to give. The question I have is which of these items if any can be passed with a simple majority?

>> City Attorney Doyle: Business tax is a general tax. Let me give you a general rule. So long as the money goes to the General Fund and it's not for specific purpose it's 50% plus 1. Business tax currently is a general tax. I'd assume that would be continued. The parking lot tax I think as Ed indicated, we haven't had discussions in a while but I think it's intended to be a general tax. Card room tax is a general tax, it's 50% plus one. Same with the disposal facility tax. Assessment districts are different. They require based on benefit the property owners in the area, and it requires, again, a 50% but it's a different type of voting. T.O.T. is a -- you have a general tax and a special tax and it really depends if it's a general tax portion or the special tax force. This is intended to be a modification to the current tax but it would require voter approval. And C&C tax, special tax, two-thirds. Sales tax, 50% plus one, and same with -- well, service-specific parcel taxes I'm assuming that's connected to specific projects, so it's probably a two-thirds requirement.

>> Mayor Reed: One last comment before we move on. The community budget poll that we do in January every year, could certainly do some polling on some of these revenue opportunities to see how good the community support is and I think that's a place we can begin to gauge it as we move forward. I think that was the end on that section. Move to the next?

>> City Manager Figone: Yes and again just to summarize, I just want to be clear I'm open to all ideas about how to approach revenue generation. However I need to be pragmatic about it and just remind you about the very real time lines to deliver you a proposed budget on May 1st and your need to have an adopted balanced budget effective July 1st. The next category is cost reduction strategies and there are two major cost reduction strategies. Reduce per employee cost or reduce or eliminate services. Let's start first about some information about per-employee costs and I really am not going to spend much time on this at all because going back to your session about a week ago and the material in your packet we just covered that topic very thoroughly but would again certainly be able to answer any questions that you have. Let me just say that with the update of the forecast, we're now developing a base budget for 2010-11 and that per -- average per-employee cost that I reported to you about a week ago of about \$120,000 is now up to about \$129,000, and that is primarily due to rising health care and retirement costs. What this slide shows you is that now, our labor costs have risen to constitute 73% of our forecasted expenditures. So even with our true zeros which really significantly helped with 2009-10 the average cost per FTE as I just mentioned has gone from \$120,000 to \$129,000 based on the base budget projections for 10-11. And so I do also want to point out that the true zeros that were taken in developing the current year budget were also taken by management, and the City Attorney, City Clerk, City Auditor and I took pay reductions to provide leadership on this issue. On the next slide, the city has 11 bargaining units and 96% of our employees are represented. And nine of the 11 are up for negotiation this year. And just briefly, to the issue of whether these negotiations could be open to the public, which has been raised, I do want to point out that the issue of open negotiations would be subject to the ground rules, and those would require meet-and-confer with these bargaining units. On the next slide, you have seen a chart that looks like this last week, and this just gives you a sense of scope for what a 5%, 10% and 15% reduction in total compensation cost would save the General Fund and other funds in the city. On the next slide as we consider options to reduce per-employee costs there are many options that could be considered. And so you see the -- at least a good sampling

of these options. Again pursuing these options would be subject to meet-and-confer with our bargaining units. And there could be some tailoring based on the different options with the bargaining units. On the topic of reducing or eliminating services, whatever we can't generate in revenue or save from labor costs we will need to take from services. And that means reducing, eliminating or otherwise changing services and their associated staff positions. On this topic, and the next slide, I think, is an important one, if you can bring up the pie chart. I think it's very important first of all to -- for me to point out that whenever I'm talking about Public Safety versus nonpublic Safety it is not for purposes of pitting services against each other. But as you look at the total pie, and the proportion of the cost going into public safety versus nonpublic safety services you can see now that we are at 50% of the General Fund being devoted to public safety and 42 being devoted to nonpublic safety services. When you look at the problem we are facing and where we are going to take those costs if we are not able to lower the per-employee costs or significantly increase revenues in time for at least 10-11 we have to look to where we're going to cut services. And we know that public safety is a significant priority for the community, for the council, and if that 58% is untouchable, the balance of the 42% is where we're going to have to find up to conceivably up to \$100 million if we are not effective in other areas. So I think it's really important to see that our options are really very, very limited and can have a devastating impact on this community depending on where, what strategies we are able to be successful with. To provide a benchmark, a \$50 million reduction in staff positions and associated services would have the following impact. If you look at this chart, reduction in all positions, again, to deal with the \$50 million worth of a problem, is about 370 FTEs or reduction of 8% in the workforce. And if we looked at nonsworn only for \$50 million worth of solutions, 498 FTEs, approximately 20% of the workforce. On the next slide, if we look at, consider the mayor's recommendation for the 50-50 sharing, and taking the \$96 million that is approximately \$48.2 million which would be taking a look at new revenues and reducing or eliminating services, and 48.2 in reducing per-employee costs. In order to operationalize that, I would recommend that we consider an 8% reduction in total compensation, and as we've said before, we do not negotiate or budget -- negotiate with our bargaining units by fund, and so this would assume 8% reduction in total compensation across all funds. Also, the recommendation would be to pursue the second-tier pension benefits and second-tier retiree health care benefits in the current and upcoming negotiations. We have a tremendous timing opportunity to engage in those discussions with our bargaining units. And I think that ends this section, and we're happy to answer any questions that you might have.

>> Mayor Reed: Okay, on this section where there is -- we have -- where are we on the agenda here, the next one is prioritizing city service, that's the last section of the presentation.

>> City Manager Figone: Correct.

>> Mayor Reed: On this particular section, this is not new. We've seen a lot of this before. So I don't have any questions at this time. So let's move into -- Councilmember Kalra.

>> Councilmember Kalra: Thank you, mayor. I just wanted to in regards to your memo and the 50%, 50% -- was that arrived at just in terms of trying to find some equitable way of trying to split it or what was the reason behind picking that number? Was it because it's a logical number to pick or was there some background to it?

>> Mayor Reed: It's 50-50.

>> Councilmember Kalra: That's what I figured. I was just curious. I'm not sure if some other analysis was done, thank you.

>> Mayor Reed: Not a lot of science involved.

>> Councilmember Kalra: Thank you.

>> Mayor Reed: Okay, on to the next section.

>> City Manager Figone: Thank you, mayor. Actually now I'm going to turn it over to Ed Shikada to take you through our thinking of how we might prioritize city services and this is really in response to some earlier council concerns about, you know, what is really core in the city, and to the need to understand more deeply than what is currently presented in the budget, what services really make up the City's complete service delivery system.

>> Mayor Reed: Before you get started on that we've had several discussions here at the council about setting priorities and program level budgeting and those conversations and staff has been working on trying to figure out how to do that in our budgeting system to respond to the council's interest so this is in response to a previous request from the council.

>> Ed Shikada: Thank you Mr. Mayor. You've covered that first slide. We'll move on. So with that just perhaps a little bit of context as we talk about prioritization and options for developing a method for setting priorities in terms of the city services. We just would like to start out by noting that the organization in the City of San José really has had a long history of versus having a best practice amongst municipalities and the development and the setting of management practices for a number of areas. Let me hit a few highlights here. First in terms of our annual budget process, that the city council implicitly sets priorities. The council has over a number of years used the city service area approach in order to take what is a huge volume of services, and creating more of an intuitive connection to how to set those priorities in making that connection between services and results. Second, that over the past couple of years now, through the General Fund structural deficit elimination plan staff developed and has used to some extent an analytical framework for identifying those services that might be the strongest candidates effectively for reductions or eliminations. Third and as the mayor and manager pointed out, over the past several months really as a follow-on to the last annual budget cycle, staff has looked at a number of different methods for setting priorities among services. And in your package as a part of the material for today's meeting there is an article from the international city-county management association public management magazine that talks about a method. And starting off I would like to note that the article describes the conceptualize and we think it describes in pretty -- very intuitive method. But we would not anticipate taking that methodology on its face without some customization for San José. So with that, let me just do a quick walk-through on the material that we'll cover over the next few minutes and I'll walk briskly through it. First to describe the method that we are proposing as a means to address the question of so what are core services and what -- how would you prioritize among the many, many services really hundreds of services that exist within the city. Second, we'll review and hopefully get some council feedback on what we'll term priority results, the really top-line results that our services are focused on. Third, to clarify, and this start off with a bit of disclaimer here in terms of what it is, and what it is not. And perhaps in terms of what it is not, when we refer to a ranking or prioritization of programs, that what we would really intend this to be is effectively a framework for evaluating the relative impact that various services have on achieving our top line results. Second, that this method could be a basis for engaging the alignment of funding, so basically how much money we put into individual services and alignment with the results that we are hoping to achieve and then a basis for make adjustments in those funding levels. Now comes a disclaimer. Third, it is not a guarantee that the lower priority programs, lower priority services will be eliminated. It can certainly help in the decision-making, but there may be in many cases a variety of reasons that the council, or based on community input, that the council decides to keep a program that ranks relatively low on that priority scale. And finally looking at the top end of what might be the priority services it is not a an endorsement that those high priority services are being delivered in the most cost-effective manner. It is important to put boundaries around expectations of what the method I'm about to describe would result in and how it might help us. It would be a tool as we head into the budget process. So hopefully, coming out of the presentation and the discussion this afternoon we'll get a confirmation from the council on the interest level in pursuing this and our beginning to engage stakeholders in a more comprehensive way. So with that let me kind of walk through the concept using a couple of bubble diagrams. We'll start with this one just in terms of the components of what go into program prioritization. Are first as I mentioned the top line results. And the city council, back now a couple of years ago, established five priority areas that the city services were focused on. We've taken those as well as some more recent priority direction from council to set a first draft. Second, that there would need to be a weighting of those priorities. In effect, an assessment largely qualitative, but ultimately comes down to numbers in terms of the relative dollar value that the council, the community would expect to have to invest into each of those priority results. Third, we have a -- now a dictionary of programs with individual descriptions and the outcomes that are intended, and that will be an iterative process as we'll describe in a minute but effectively becomes the basis for setting priorities. Fourth, that there are some basic attributes or some contextual information such as whether a program is mandated statutorily. And finally there is a scoring system that would set quantitative value to individual programs. So looking at that, in an architect's version of a flowchart, I say that as an engineer, that try and describe the way that this system works moving from the left to the right, that the council's priority results would be combined with those basic attributes, as I mentioned some of those such as being mandated would feed into the programs, descriptions themselves. We would go through a scoring effort. Notable here you see two bubbles above each

other. One labeled program priority scoring for direct services, services that go directly to the community and a separate system or separate tiering you might say for strategic support. So some of the services that are more focused at internal governance and ensuring quality control as the case may be would have its own scale, so to speak, and that ultimately it informs the council's budget deliberations, community input and ultimately decision making. Also notable, at the bottom of this screen, stakeholder engagement throughout, and I'll detail that in a second. But this method would provide a number of opportunities for substantive stakeholder input. So let me stop here for a second and note what staff, based on locker room discussion, have put together as a first cut of what might be the priority results. And after I go through them I'll fill you in a little bit more on that locker room piece. First would be a safe city, safety being obviously an extremely high priority for the community. Second a prosperous economy, third a green and sustainable city. Fourth, an and again not in priority order, there would be a weighting ultimately involved, but to give you this top-line first cut, fourth, a vibrant and culturally diverse city, fifth, healthy educated and connected communities and finally, a high performing transparent government. Back to the locker room, perhaps, analogy, what's not listed here and this was perhaps an example of the debate among staff, the editor of this slide got the last word. And so what's not on here is infrastructure. So perhaps one of the items that the council could before us some feedback on, whether in this context of top line results, infrastructure, the condition of public facilities would be a category or a result that would rise through the level of the dimensions that are described here. Okay. Next, moving on to those basic attributes as I mentioned, these are in some manner the context in which programs exist, whether it be mandated by federal, state or other regulation, to the extent that a program is cost recovery, through fees or other non-General Fund revenues; third, the relative demand, the number of users so to speak or customers, recipients of a program and whether that is tended to trend upward or downward and then finally, the potential for another entity whether it be another government entity, a private entity, or a nonprofit to assume responsibility for a program in terms of some of the basic attributes, again each of these would be assigned weights that ultimately feed into the scoring system. Next, the programs themselves, we've -- council has heard staff refer to program maps, an effort that has been under way now for a couple of months in order to develop an itemization a dictionary so to speak of variety of services provided. And in your material today you have some samples from a number of departments that have been brave enough to put themselves out there at that level of detail. And let's see, so some of the guidance that we've used to identify the level at which programs would be defined, first that it be clearer and concise in order to help us rank an individual program against others as well as, in some cases to identify duplicates of services that may exist across departments. Second, that these programs can then be connected to city council's priority results noted on the earlier slide through our city service area outcomes to connect it once given back to work that has already been well established in San José using the city service model and finally that our first cut with some iteration to date of these program maps, have identified ruffle 450 discrete programs citywide. So as we go through the exercise, it's important to note that this is a very voluminous effort and a significant undertaking already to date in coming up with the 450, and we would expect that there will be a number of iterations from here on forward. Back on stakeholder engagement and potential milestones or particular areas we'd expect that different stakeholders would have different areas, different points in the process that they may be particularly interested in. So just as a few examples, the weighting certainly of those priority results and relative investment levels in order to achieve for example safe city. The feedback on the definitions, what we've defined as a program and the basic attributes that would be considered in assigning the scores to individual programs. The need for peer review, the concept would have the departments that are responsible for the program take the first cut at those -- at the scoring but to have that fully vetted from some potentially very interested critics in terms of how one department's programs are scored against another and to do that in the light of day. And then, finally the discussion of the scores, and the priorities that come out of that process. So in terms of what we would hope to achieve, by going through an effort and undertaking like this, first would be to increase the focus and the connection between our line items, our individual programs, the budget and the city's priority results at the top line. Second, as noted, an opportunity for very specific, assuming that there is interest and willingness to proceed with the basic framework, as is described, really, again, opportunities for stakeholder engagement, at very specific and very substantive points. The ranking of the programs themselves, and while one could argue that they would be -- you could conceivably come up with a ranking from 1 to 450, that as was described in the ICMA article we'd expect that to be broken into levels so say four levels to make it more manageable in terms of the priority, level 1 versus priority level 4 and have discussion of the services that might fall into those ranges. Third -- I'm sorry, fourth, that the prioritization process will help us make those budget allocation decisions because we can then roll up how much the funding level is allocated to priority 1, level 1 versus level 4 and how those might change under different scenarios coming forward with different budget options. And to be plate I'd say blunt in recognizing that there is a bottom line here that part of the reason to undertake a prioritization exercise would be to identify those

programs that are at the low end. So there very well could be both reductions or complete elimination of programs that have the most minimal impact on those priority results. And then in the longer term should we decide to proceed with this on an ongoing basis we could certainly see a greater connection to the establishment, selection of key performance measures, tying it back to performance management and using that as an ongoing way to have top line feedback for the council and the community and then finally in terms of next steps, that we'd like to get some feedback from the council and interest and undertaking in our effort like this Should there be that confirmation and based upon our expire to proceed with this we would finalize a work plan and then engage stakeholders on different points in the effort. We would definitely want to maintain some flexibility on the schedule of going through this type of exercise because depending on the level of interest from stakeholders there could be a great level of interest in going through it in a high level of detail and we want to make sure we provide space for that, and finally to finalize and refine this system going forward. So with that Mr. Mayor, members of the council thank you for your patience, and I'd be happy to answer any questions.

>> Mayor Reed: Councilmember Constant.

>> Councilmember Constant: Thank you, mayor. First, I want to thank you for this discussion. This is something that, as you know, I've been asking for for quite a while, because I think it's really important that we talk about prioritization for two reasons. One is, it forces us to really look at program-level detail. In the past, as we've seen going through the budget processes, we only see program-level detail when we're talking about cuts and we never talk about program-level detail whether we're funding. So when we're up here trying to make evaluations and when we're out in our districts talking to our constituents, it's very hard to explain why some things are funded and why other things are not. When the only information you have when you're making your decisions is what you're cutting. And I think it's really important for us to really look at all these different services. Because we do exist really only to provide services to our citizens. There's really no other purpose for us to be here but to provide a service and it's a variety of different services. But I think we have to realize that not all services are equal. A dollar spent in an area that affects health and safety, in my mind, and in many of my constituents' mind, has a greater value than a dollar spent on a discretionary service. And I think that because of the way our budget process has evolved over the years, we've created a document that as you've heard me say before, designates every single thing we do as a core service. And it's really hard to really prioritize when everything is core. When you think of the word core and the common definition of core, it's really the essential reason, your inner being of what you're there for and not everything in your portfolio can be core. And we treat everything that way. So that's why you've heard me kind of change the terminology to talking about essential. Because there's a lot of things we do that are critically essential and a lot of things that we do that are discretionary are not essential. And I think that that is, if nothing else, we are able to get out of this process, if we don't get anything else but to really define what those essential things are that we must do, then at least we've made some progress. I appreciate kind of the flowcharts and the process. And the staff's view of how we might go forward. But for me, it falls short in one area. And that is, it really doesn't provide an avenue to categorize by necessity. And there are a lot of things that we feel are important. But I don't know that we really get down to talking what is necessary. And as I've said before, I think that if we went to the point, like Ed had mentioned, making 450 categories, we'd drive ourselves crazy. And in the presentation, Ed pointed out the option of potentially four categories. And I agree with that number, because I think we should be able to look at everything we do and ask ourself one of four questions, and that would put us -- easily these items in four categories. One is, must we do it? There are so many things that we do that we are either mandated to do or that nobody else can do. And if you think of the items like public safety, health and safety, infrastructure, those are things we have to do. We have to maintain the roadways. We have to have 911 dispatchers, police officers, firefighters, water pollution control plant, the list goes on and on. Because those are health and safety and really essential mandated things that we must do. And if we don't ask that question, what must we do, you'll have things like what happened in this presentation that I appreciate Ed pointing out, as things like infrastructure fall off the list. Because infrastructure is never anybody's number one priority, because it's not their favorite thing. And we need to get away from the discussion of where's my passion, where's my favorite thing, to what is important, and what is necessary. So I think we should be simplifying that process and simplifying the categories and talking about what we must do because we're mandated to do it or only us as the local government can provide the service to what we should do. And there are a lot of things good cities should do but they're not mission-critical. If you stop doing them there's not going to be a risk to health and welfare or individual, people's lives or property. And then there's a lot of things that we would like to do because there are a lot of things that really enhance the quality of life and make a city more livable and makes you a better place that people want to come to. But they are kind of the next level of discretionary services. And then quite

frankly we have to really look carefully and see what are those things that maybe we shouldn't be doing at all. What is it that we're doing that local government shouldn't be in the business of. Whether it's because, over the years as we had extra money we moved into areas where we're doing things that are really more the responsibility of a local government agency or a regional agency, but we did it because times were good. But when you have a budget process like we've had in the past, in the good times it's easy to build onto things and then in the bad things, everything gets trimmed with the same haircut all the way across and the only distinction we make is public safety versus nonpublic safety. I argue that we really can't say every dollar we spend is equal. Because mandatory things and health and safety things must have a greater weight. We also should be looking at things which I didn't see mentioned specifically here but we need to be looking at what dollars that we're spending that are leveraged where we get more than a dollar return by spending a dollar and where -- and how much our return on investment is for those dollars that we spend. Because if we spend a dollar and we leverage another agency's dollar to provide \$2 worth of service that's one thing. But if we spend one of our dollars and we get \$3 back that's another thing. And we need to look at those things to see how we're using that money so that limited cash flow that we heard about a little bit earlier can get the most services for our residents. I want to emphasize that because we really do exist to provide services to our residents. And if we -- if you think about it as like cascading pools of waters, with your must-do pool on top, and then your should-dos and then your would like to dos, you need to fill up that top pool before it cascades into the next pool. You must fund your mandatory services before you get to your should-do services. And you should do your should-dos before you get your would like to dos. Or you create your would like to do programs on a full cost recovery. We'd like to do it, and if you want the service, you pay us the dollar for the dollar service we're providing. And I think if we can change that perspective, we could do a much greater job in providing services to our residents. And Ed you made a comment that one of the pitfalls could be, we could get to this and there might be I think you said there could be eliminations. Well, I think that's exactly what this exercise should be doing is, we should be finding eliminations. We should be finding services that we shouldn't be doing, or that we would be -- like to be doing but we can't afford. And we need to change the mentality from what we deserve, whether the we is, we as a city, we the employees or we, the residents, to what we can afford. Because there's a big difference. And I like to point out you know my kids, I have great kids, and they deserve a lot, but we can't afford to do a lot of the things that they deserve. They deserve to go to Disneyland for being such great kids, but they might have to go to Great America instead. Because those are things that, when you're talking about your limited resources, you have to do what you can afford. Not what they really deserve to get. And I think we have to look at that as we spend the money. So while I appreciate all the work you've done here, I'm not sure if it really gets to where I thought we were going in prioritizing services. And I think that I would encourage my colleagues to think about what I've said, and think about whether it makes more sense to talk about what we must do, what we should do, what we would like to do, and what we really shouldn't be doing. And we should be waiting, not necessarily by the demands of what people want, but by weighting on the leverage we can use on our money is and the return on investment is so we can provide services to our residents. Thanks.

>> Mayor Reed: Councilmember Kalra.

>> Councilmember Kalra: Thank you, mayor and thank you for the presentation. I do think it's really interesting to talk about this, and certainly valuable to further analyze exactly what services we are providing, in as much detail as possible. I think that we can only benefit from the discussion as well as from the analysis. And I have a few points and a couple of them actually are consistent with Councilmember Constant. One is the maintenance and infrastructure issue. It's not sexy, it's not something that we necessarily you know can do cheers about sometimes but I do think that I'm in agreement that it is something that we need to keep as a top level priority. And then another issue is, the issue of leveraging that Councilmember Constant also indicated, I think we do need to see not just resources that we're providing to particular services but also how they're leveraged by other government entities, by nonprofits, by the private sector because I think that we certainly may be able to see great benefits to our residents and to our community, and if we look at the four areas Councilmember Constant looked at, there might be areas lower on the list, and unless we do it, they get greatly leveraged, and maybe make sense to continue to provide the resources for something that we should be doing, because the leveraging allows -- it makes sense to still put in that investment. And I just -- the final point is just on the whole idea of ranking which frankly I find problematic. I find it problematic for a number of reasons. First of all it ultimately whether we like it or not it will pit different services against each other, which may be the right thing to do, I don't know. But I think that could lead to problems particularly if we -- I can't foresee a process in which we get a system set up, that is accurate enough to really gauge the importance of the services. We can try and I think that we could probable do

a decent job at it but ultimately it will be very difficult to do a number of things. And simplification sometimes has pitfalls for the public as much as it does for us in trying to come to decisions on the issues. But one of the issues, whether it's really, we have a million residents, is the prioritization of our services really representative of what the residents and what the demographics of our community really feels, you know, we -- I know that the City Manager's office councilmembers we go through processes sometimes where we do very diligent stakeholder outreach and try to reach out to the community. Oftentimes we certainly get interest groups or certain stakeholders that are always at the table and rightfully so they're there, they're present but we don't always get the broad range of the public to be present and to be part of that discussion and so my fear is that underrepresented groups or groups that don't ordinarily have a voice will continue to lack that voice and therefore services that they may be able to take advantage of are ranked as highly. And the issue of ranking as a whole, I think that the problem with it is, first of all, it's not as I indicated creating it would be very challenging to create one that's actually representative of the types of services we're providing and what benefit our community gets from it and our residents get from it. But also I think it does create a means for bureaucrats, this is applied to all of us that are sitting up here as well as our staff, it provides us an opportunity to really remove the responsibility from us the decision makers and just point at a chart or point at a list and say, well, this is the system we came up with, this is where it ranks, and so we can just kind of chop those things off without doing a more meaningful discussion and dialogue of the services we provide and doing a much more in-depth analysis. Now, again, that would depend on what ultimately the system would be, and how we define the priorities. But I think that clearly could be something that's problematic in truly trying to define what it is that -- and what services we should be providing the community. Thank you.

>> Mayor Reed: Councilmember Liccardo.

>> Councilmember Liccardo: Thanks mayor for suggesting city services that should be cut as a recipient of four parking tickets in the last 18 months. And I usually ride my bike --

>> Mayor Reed: We appreciate the revenues, thank you.

>> Councilmember Liccardo: I appreciate that but --

>> Councilmember Constant: Are you saying reading lessons? The signs are pretty easy to read.

>> Councilmember Liccardo: Challenge is I'm always waiting for Pete to stop talking and I have to -- I'm joking Pete I'm joking. I want to echo Pete's comments which is right, infrastructure is really critically important to our residents. And when we talk about the basics of city governments you know, paving the streets, very basic. Our failure to do that enough, and we know it's because of resources, it's not because anybody doesn't want to pave the streets but our failure to do that cost our residents hundreds of dollars a year individually on tire damage and accidents and everything else. So those kinds of things are so basic in terms of our infrastructure maintenance are really critical and I do think that should be on the list. On prioritization, Councilmember Kalra's points are well taken. My concern is, that if we don't prioritize, the priorities will be set for us and that inevitably means the politically powerful will prevail and those that are not powerful will not. And certainly there's always a challenge in getting people engaged in communities as diverse as ours but it seems as though that is our role as elected officials is to get out there engage them as best we can, try to hear those who are not often heard, and then get out there and push priorities for everyone. We can't possibly do it perfectly. We are going to fail if we try to do it perfectly. But we can do it pretty well and I think we've got a good group here to make that effort. I do think despite all the limitations in our ability to prioritize I don't think we have much choice.

>> Ed Shikada: Mr. Mayor, if I might, Councilmember Liccardo, let's see if I can get back to the slide that shows the priority results. There it is. Someone snapped a towel at me, to make sure that I made the argument for not putting infrastructure on the list. And the rationale there would be that infrastructure in effect is a means to an end. So if you take for example our water pollution control plant, that it is in pursuit of a green sustainable city it is in many ways having to do with our health of our community, again just as an example, so that would be part of the rationale for not having infrastructure as a particular category on this list.

>> Councilmember Liccardo: I feel better, thank you.

>> Mayor Reed: Councilmember Oliverio.

>> Councilmember Oliverio: Thank you, mayor. I appreciate what you've done, I appreciate pulling something together. I'm willing to try this. I understand we want to do outreach to community and stakeholders but I keep thinking back to when I was running for office and people kept saying to me again and again you know I work I have a family I'm not going to be able to go to those meetings so I'm voting for you or electing someone to represent me, meaning I can't always expect you to garner my opinion every day of the week but I'm going to elect somebody to represent the entire district. So I think sometimes with all our outreach we don't really hit the majority of people. It's just those that will come to meetings, and I appreciate them, I love them, they're concerned. But in the end it's not the totality of the city. So if, you know, so a lot of times you're looking for direction, again, I will try this, I will do the process but let me give you my direction as far as my priorities. Police, sewers, fire department, streets, planning department, disaster preparedness, economic development, libraries, parks, code enforcement. That could shift tomorrow. But it's pretty close to what we need to do. And those other things are, I think what Councilmember Constant had the nice-to-haves or things we have to ask people to fund. So we're going to get there. I think I'm comfortable listing priorities of myself or what I hear from my constituents. There will be other days for this. I go through this process but I don't think my list will change much going through the process.

>> Mayor Reed: Councilmember Herrera.

>> Councilmember Herrera: Thank you, mayor. And thank you, staff, thank you Ed, for putting this together and for the clarification about I think you're saying that infrastructure is embedded in a lot of these other categories and I agree with what's been said that we do need to call it out. I remember as I was running for office, public safety was high on the list, and just making sure those potholes get fixed and just basic kinds of things. And I think the average person out there, that's a lot of times what their relationship is to the city, just the very basic services. And as we have constituents reach out to us many times it is for some -- for something regarding infrastructure or for a street sign. And those are kind of the things that we're judged on, or public safety issues. So I think there are some services that are essential, and I think it would be interesting to take a look at the services that we're mandated to provide. I think that's helpful, and I think all of this information, when we're talking about whether we're going to call it, you know, weighting it in terms of priority or services we have to provide, it's good information for us as we sift through. Ultimately this group up here's going to have to make some decisions guided by our staff, we're the decision makers and we will have to, you know, make that decision, that informed decision. One of the things that I hope we can do is look at any duplication, I know you listed this in here, really hunt out any duplication that is in these programs. Any way that we can save where things are being duplicated because then those kinds of duplications and overlapping might possibly cause us to have to diminish or eliminate a service where we could really just reorganize it or realize it overlapping and eliminate that. So I'm -- I don't have a gut level of how much overlapping there is but I think there might be more than we realized and so I hope that we will really look for that because I think that will allow us to provide more services. I also really support the idea of leveraging dollars so that programs that bring in more dollars to help us provide more services we should take advantage of that. And then realizing the impacts where maybe we think a service isn't so essential but cutting back on that service then has the effect of increasing for example public safety when we increase -- when we decrease a program that might prevent crimes or you know delinquency prevention or something else that we might not think is a core service but then it ends up causing unintended consequences in another way costing us more. So I think all this information is really good. I think we all noticed to reflect on what our city provides, the kinds of services we provide. That's our job. And I look forward to this continuing discussion, and I know that we will all work together to make the tough decisions we need to.

>> Mayor Reed: Couple of questions about the amount of resources that you'll have to put into this. You've already done a great deal of work and when I saw the list of 450 programs I thought boy, I hope I don't have to go through that list and make some decisions because that's a very big task. I know there's a lot of staff resources, the manager's office would have to go into it. But what about the stakeholders? Do you think we can get stakeholders who are willing to engage at that level of detail? Because I don't think we can be successful unless we get our city labor alliance somehow engaged in this. Because when you're talking about programs, they have a lot of experience, a lot of expertise, especially where there might be inefficiencies or duplications in all the other categories. And I don't know if the manager's had a chance to talk to the CLA about this at this level of detail, probably not, since we're previewing it here today. But it's a lot of work. And I hope, as I understand it you're not

expecting the council as a collectively to go through this process but ultimately this feeds into our decision making along with the poll and some other things.

>> Ed Shikada: Yes, Mr. Mayor, it's absolutely right on all counts, first it is a lot of work. And that the means to keep it manageable for stakeholders and ultimately the council would be to have the staff that are directly responsible for the programs to take that first cut. And it's really through reactions and what will likely be some I would expect some fairly surgical responses and comments on particular service areas, the way they're described, the way that they're scored. So our job will be to take that first cut and then to take the comments that will come back in the context of what's specific to a program and what's a norm or what have you, in the way that we handle it. And try to make it as time-effective as possible for the stakeholders in that way. It absolutely will be a significant undertaking for stakeholders as well as for staff, and as the budget director has pointed out to us a few times, we would be undertaking this at the same time that we have staff and departments putting together the budget itself. So clearly our capacity as an organization and as individuals will be taxed in undertaking this, at the same time I think that we recognize this is what needs to be done.

>> Mayor Reed: I think it's an opportunity for the departments and the divisions, however you divide this up to get their rank and file employees engaged in the discussion of the budget which I think is a good thing and one of the things we've been asked to try to do. I think it has a lot of value in there but I'd like to know how much work it's going to take and whether or not we can actually do the work and the time line for this. I don't see you getting through this by January or February.

>> Ed Shikada: Correct.

>> Mayor Reed: Okay, but it would be useful to the manager in putting together the proposed budget by May 1st.

>> Ed Shikada: Very much so.

>> Mayor Reed: Is that kind of your time line working towards that and have that information available to us as we're evaluating the proposed budget?

>> Ed Shikada: It is. In fact our original schedule would be calling for putting it together even faster than that but we want to prepare or provide enough space for stakeholders to feel comfortable that we're not railroading a system and the results of a system through.

>> Mayor Reed: Vice Mayor Chirco.

>> Councilmember Chirco: Thank you. I think this is a good exercise for the organization. But after nine years of budget deficits, my question is, we've eliminated a lot. So realistically speaking, what do you think -- you know, when you do this prioritization of 450 discrete programs, even using the classification, maybe 4 categories, what if you find that 98% are core services?

>> Ed Shikada: And to your point, I think that that really speaks to the value of going beyond the definition of core and noncore. Because ultimately it will be *Wass* affordable within the context of our budget. At the same time I think it would be remiss if I didn't point out in the conversations that we have with both rank and file employees as well as management, there is an underlying concern that, as over the course of so many years, over the past several years, that while resources have been cut, the program expectations remain. And in large in your, I think that that's accurate. So this will help us identify those programs that we can make a very discrete decision to not have those continue.

>> Councilmember Chirco: And my question -- you know, and as we have cut resources, this exercise may well find programs that are key to the vitality that have been so decimated by the budget cuts, it becomes compelling to add resources, to add to the strength and vitality of the city.

>> Ed Shikada: Absolutely. I think that that is definitely a potential outcome.

>> Councilmember Chirco: I wish -- I wish you all the luck in the world, it's an exercise I think will benefit the city. [Laughter]

>> Councilmember Chirco: So good luck. Thank you.

>> Mayor Reed: Councilmember -- go ahead Jennifer.

>> Jennifer Maguire: If I may just jump in here just given the timing, because as Ed has pointed out, just -- it is going to be difficult given the fact that departments will be giving the City Manager budget proposals, in January, we start getting into the analysis of those beginning in February. So we do want to run these in parallel, and this will be a work-in-progress over a couple-year period at best. We want to use the findings that we can get to through that point of the process and incorporate as much as we can into the thinking, into the proposed budget. And a lot of the departments go through this exercise maybe not exactly the same way but when we have presented you proposals over the last eight years they are going through a prioritization process. As Ed started his presentation, it's not new, but a different approach to it and hopefully giving the council more information to help you in your decision-making as we go forward. But it will be an ongoing -- ongoing process I would imagine at least a couple years.

>> City Manager Figone: If I can add, you know, given the council's comments, I think what I'm hearing is what we've been wrestling with, I mean, clearly when you get down to prioritization, there is a very significant values debate that will occur. If we are successful with this model and I would like to stay kind of open on if and when we can deliver to you this year, it is only a tool. It is not the silver but, it is not a model that spits out the right answer. It doesn't take away your decision making powers or not intended to be cookie cutter mechanical. It's just another set of information. At a minimum what we do have for you, and I think I can guarantee you will have, is what we've referred to as the dictionary. We do have -- we just gave you samples of this material. We're still refining but we do have all 450 programs identified, and so at a minimum we can give you a published dictionary at the program level so that when you're looking at your core service level budget and let's replace for now the term core with budgeted services, you can look at what comprises that service. And so if the council's inclined and if we have the capacity, we should go through this process but I guess I would want to reserve the right to abandon if it's getting in our way to getting the budget published or causing other areas to grind to a halt. I'm still hearing though, we probably need a way to at least explain to you kind of the difference between essential and discretionary which again will get down to a values decision kind of debate. So maybe if we are given the flexibility to proceed with this, and try to work with it, that might be another way to go. But at the end of the day, if you really hate this idea, we'd prefer to hear it now, because again, because of the work and the undertaking.

>> Mayor Reed: Councilmember Constant.

>> Councilmember Constant: Thanks. I know some of the discussions we've had in the last couple minutes has been around do we have the time? Or do we have the resources? Or quite frankly, do we have the money to do it? And I just want to counter, we don't have the time to not do it. Because we've seen red for eight years and we're seeing red I think Jennifer has said for five more years. 13 years of red, I don't know if that counted this year or not so maybe 14 years of red is a lot of red. And we have to invest our time and resources to figure this thing out. We can't just keep going, budget cycle to budget cycle. We've been creeping it up earlier and earlier. If next year's budget ends up being bigger maybe we're going to start in August instead of November and it's going to be put down the budget and pick up the next one and just keep chugging along. So I think we really need to do it. I want to make one more statement on why prioritization is important. Because in the traditional budgeting method of saying public safety, or nonpublic safety, nonpublic safety gets X percent cut, and public safety gets Y percent cut, what you end up doing is cutting individual units and programs incrementally over a number of years. And when you go and analyze the performance of individual units, you find out they've lost their functionality. And I would much rather have six productive functional programs delivering services, than ten not-functional -- not fully functional programs that are doing a partial delivery of service, or no delivery whatsoever. And you know, you can look at whatever program, the one that comes to mind now is, I'll pick on the police motorcycle unit. We've taken that unit and it continually gets shrunk and now we have I don't know how many but it's 20-something motorcycles trying to cover 177 mimes, 177 square miles, 24 hours a day, 365 days a year, and our residents, from north to south, East to West, no matter what community meeting you go to, say that traffic is their number one priority. But we've incrementally affected that unit in a way that they can -- there is no possible way of them providing that

service to the residents, that's so highly sought after. So I think we can't afford not to do it and we really have to prioritize those health and safety issues and go forward from there. So thanks.

>> Mayor Reed: Councilmember Herrera.

>> Councilmember Herrera: Yeah, I just wanted to add, my commendation and my hope, and the fact that I'm very glad to see that the staff is going to be engaged at, you know, at the line level to give input. I think that's really a great thing. I think a lot of times the staff knows and understands the programs and it sounds Ed people already have in their mind some low hang fruit or some quick opportunities to look at things that could be advanced, some ideas. So I always think it's good if we could engage folks at every level in the organization to contribute. And I really -- I really want to say I think that's a great idea.

>> Mayor Reed: I don't have any more requests to speak on this item. Does staff have questions for us that maybe we haven't answered in terms of whether or not we should proceed with this, or anything else you might want to get out of us here this afternoon before you move ahead?

>> Ed Shikada: Perhaps just to lead off with the prioritization. I think that at the risk of trying to recap the council's conversation, that the sense I took away, or will take away, is that there is interest in proceeding, recognize that we've got particular priorities as we go forward and want to make sure that we're able to address those along the way. But nonetheless that this is an important activity for us to undertake.

>> Mayor Reed: Okay, I think that concludes this presentation. And a series of presentations by the staff, is that correct?

>> City Manager Figone: Yes, now we turn it back to you, mayor for any guidance to the staff.

>> Mayor Reed: Thank you. The last item on the agenda has to do with giving some direction to the manager. And what I'd like to do is to try to get a motion on the floor at some level before we take the public testimony so the public has some idea of what we're contemplating doing in light of the testimony. We started a long time ago trying to solve budget problems for last year. And we managed to avoid some pretty serious reductions while taking other serious reductions through a share-the-pain approach and there was plenty of pain to go around. We were able to negotiate true zeros with, of our bargaining units and thanks to their sacrifices and that of management and our appointees, we saved \$9 million worth of money to help us save a lot of jobs. But as I mentioned earlier, there were suggestions and criticisms that we should start the process earlier this year. They ought to get the rank and file employees involved in the process, that's part of what you just heard, that we should work with the city lay alliance earlier and we should give the bargaining units each of them a dollar amount to give them something to work with instead of the way we did it last year. So this presentation day is part of trying to respond to those suggestions. I have a memorandum suggesting and recommending what I think we should do going forward from here to continue moving in the process of getting to a balanced budget by the end of June. That memo is dated October 30th, 2009, and I'd like to just explain my recommendations briefly. First is, I'm recommending that we share the pain again this year, I recommend a 50-50 split between asking and negotiating for concessions on wages and benefits and covering the rest of the gap through revenues and service delivery changes. I'm also recommending that we start working ahead on the out years, where we also have big problems, by beginning negotiations to change retirement benefits for new employees, so that we can control future increases in retirement costs, and we do that following the policy statement adopted by Santa Clara County and San Mateo County Associations of City Managers. Third is a recommendation that we do not enter into any ground rules with bargaining units that prevents disclosure of proposals and that all offers made by city and bargaining units shall be made public at the time they're made so the public can follow us and see what we're doing. And then finally, that we direct staff to include in the annual community budget poll questions to evaluate potential public support for new revenues. Councilmember Pyle also has a memo, which I think have some good recommendations, and I think there's an opportunity to move both of these memos together by making some adjustments in my recommendations and hers. First, the recommendation regarding the current projected shortfall in her recommendations for allocating 10 to 30% across four different categories. I know that it leads to one of those categories the alternative service delivery proposals have been the subject of a lot of work. And really small dollars, pain a couple of million dollars in there. I don't think it's realistic to expect that we're going to get much out of that given the work we've already done. And if we were to put employee wage and benefit concessions in one

category, add the alternative service delivery proposals to the efficiencies and operation and one time revenue sources and then have revenues as a category, I think we could reasonably stretch to a one-third one-third one-third across those three categories. I don't think it's impossible to get the kind of revenues we're hoping for or do the things we need to do. Those would be reasonable goals and targets to begin the process. Secondly, the proposed changes to the retirement benefits section, we're already in negotiations with at least two bargaining units. So we're moving ahead on this. But the idea of the recommendations for the information that we need to put together is a good one because those are questions that do need to be answered for us and for our bargaining units. So I think that's a reasonable place to begin presenting in the negotiations as we move through bargaining unit after bargaining unit. A third category of labor negotiations, I kind of like the idea of equal time. For -- that would of course not apply to closed sessions, because we can't invite people into our closed sessions and that should be done in public. But having equal time for presenting, if there's a presentation on what has been proposed by us or the bargaining units to council, or to the bargaining groups, I think equal time would be useful and helpful. And Councilmember Pyle recommends some clarification that if we disclose information about the proposals that we're not talking about the internal discussions or maybe the brainstorming or proposals that are still in development stage and I agree that is not what I intended to get to because I think that might be a problem. Number 4 the full funding of retirement accounts there's questions that she thinks needs to be addressed and I would agree with that. I don't know that staff is prepared to answer them today but they do need to be answered and I think that could be done relatively soon, with informational memos from staff because I know they worked on some of these already. But we've got to get it out there. And then finally on the outreach to state legislature, I'd like to defer that or refer that to league of California cities because we have some folks that are very engaged in the league of cities and we're not in this alone and trying to do something with the state legislature it's really crucial that we're lined up with the league of cities on most of these issues. So I think that is something that we could work with the league of cities to come up with a strategy to deal with the legislature. So I think with those modifications we could move both of these memos get them on the floor for discussion anyway and I'd like to ask Councilmember Pyle if she wants to comment on the two.

>> Councilmember Pyle: I think it's a great idea and I also think that in reference to the first page, when I did talk about alternative service delivery proposal that would fit in with what Councilmember Constant has been talking about, and in reference to what you have been talking about, Ed Shikada made reference to those noncore services that would need eventually to be outsourced or people could maybe start their own companies if they wished to do so. But that there would be a vehicle for those particular items. That was the main thinking, in reference to that. Because we did spend quite a bit of time putting that together and this would be an apt area for it to be used effectively.

>> Mayor Reed: Thank you. I'd just like to add one more thing about the targets for the categories, wage and benefit concessions and revenues and efficiencies, et cetera. Ultimately the default is service cuts and job eliminations, because if we fall short of covering the gap with these categories, that the only thing left is the jobs. And I'd really like to avoid that.

>> Councilmember Pyle: Right.

>> Mayor Reed: But that is ultimately the default if we fail to get the numbers any other way.

>> Councilmember Pyle: So with that Mr. Mayor, I would like to move to forward your memo and mine jointly, so that we can move on.

>> Mayor Reed: We have a positions to approve the two memos as modified here on the discussion so far. We'll try get -- we have a motion on the floor and I do have some councilmembers who want to speak at this point. We'll take that and then we'll get the public testimony and then we'll take action. Yes there was a second, Councilmember Herrera I believe. Councilmember Constant.

>> Councilmember Constant: Just want to make sure that I'm clear on what the motion is. It's pretty much what the mayor was explaining not simply the two memos going forward but how he explained the two.

>> Councilmember Pyle: The dove tailing, yes.

>> Councilmember Constant: The one area I have a little bit of concern on is the reference to using one time revenue sources. And I really think that one-time revenue sources should be a very last resort in dealing with the structural deficit and the ongoing deficit. And -- because as we go back and we refer to the presentation we saw earlier, we got, what was that, seven plus million dollars of one time things coming back that we're dealing with a reduction the second year. So personally I would rather see one time revenue sources be used for one time expenditures and preferably infrastructure or something like that where we can chip away at things. So perhaps what I'm asking for is a friendly amendment just to have staff consider the concept of what I just said of using -- refraining from using one time sources for budget solutions but looking at them to address one time needs.

>> Councilmember Pyle: That sounds fine with me.

>> Councilmember Constant: Okay.

>> Mayor Reed: Okay to the seconder so that modifies the motion.

>> Councilmember Constant: Just on the questions contained on question number 4 the funding of the retirement accounts, if when staff answers those questions when I assume will be in an info memo, if we can just be clear to articulate the actuarial periods, the two-year actuarial, two-year actuarial reports that we do and how contribution rates are set for basically two-year blocks. And maybe a refresher on the benefits of going to annual actuarial reports and what that means to us on an ongoing contribution rates, and things of that nature that really talk about kind of the ongoing solution as we're facing this problem for multiple years in the future. Thank you.

>> Mayor Reed: Councilmember Liccardo.

>> Councilmember Liccardo: Yes, mayor. Mayor, I was hoping you could clarify in paragraph 1, I guess Councilmember Pyle's memo, how the buckets of one-third one-third one-third what they consist of. I was a little unclear about that.

>> Mayor Reed: As modified, they would be employee wage and benefit concessions would be bucket number 1, bucket number 2 would be revenues, and then bucket number 3 would be alternative service delivery proposals, efficiencies and operation and one time revenue sources.

>> Councilmember Liccardo: And then some remainder would be simply cuts?

>> Mayor Reed: That's the default. If you don't get to the targets ultimately it is cuts.

>> Councilmember Liccardo: Okay.

>> Mayor Reed: That seems to be the only other alternative. But I don't think we ought to make a target of cuts.

>> Councilmember Liccardo: Okay, thank you. That's helpful. And I guess with regard to the retirement benefits, since some of us just emerged from a four-hour retirement meeting this morning, that was fun.

>> Mayor Reed: And you can go to a VTA meeting after this?

>> Councilmember Liccardo: Yes, we're fired up. Rose and I have been tag-teaming all along. On that issue of retirement benefits Alex maybe if you or Russell whenever this comes back to council could be really clear about explaining some of the -- I mean we're all familiar with the basic risk reward tradeoff in investment but the fact that we made a very deliberate choice at least in police and fire fund, I'm assuming they've done the same on the other fund this last September to change the asset allocation to invest in a way that reduces volatility considerably such that we're seeing standard deviations fall from 13 to nine. As a result we have reason to believe you're not going to be able to ride out big years in the stock market with big gains. We are essentially moving off of dependence on big returns from equities and we're doing so because we believe in the long run that's the best way to secure the safety of the fund and to grow the assets over time. One thing that does mean is that there may be new investment strategies out there from all kinds of investment advisors who can sell you all kinds of deals about how they're going to get you a 30% return on some big year. But that's not the path we're choosing, and

we're doing that very explicitly. So I think it's important that the whole council understand about how boards have been making those decisions, in part in a recognition that we're not just going to grow our way out of a \$1.1 billion stock market loss over the last couple of years. Thank you.

>> Mayor Reed: Councilmember Kalra.

>> Councilmember Kalra: Thank you mayor. I just had one comment on Councilmember Pyle's memo in regards to number 5 the outreach to state legislature. Just maybe it's something that we can -- that staff needs to look into and I know that Councilmember Chu works motion closely with the league of California cities, and I know there are some areas in which we find some consistency in common purpose particularly in regards to the state coming after the transportation and RDA funds and so on. However, there are going to be other areas where, given the fact that the league of cities in California, most representation are from smaller cities, and certainly from cities of Silicon Valley, there may be value to working together with the local jurisdictions and agencies. So there could be some value in finding some way if not specifically through this action team model there may be others -- other model or at least some way we can work in unison with the local governments, to approach the state in regards to how the state is affecting us specifically here in Silicon Valley and here in Santa Clara County. So just in regards to that I think that although I agree that league of cities does a good job of representing us on statewide issues, there may be other issues we can continue to work on with local jurisdictions. Thank you.

>> Mayor Reed: Councilmember Campos.

>> Councilmember Campos: Thank you mayor. Mayor I just want to be clear on what I am reading on your number 3 and Councilmember Pyle's number 3. This is how I interpret it and I just want to make sure that I'm interpreting it in the right manner. After the council has voted on its last and best final offer to the bargaining units, staff -- and staff has presented it to them, staff will then present it, the final product, of those negotiations to the council, along with a staff recommendation on how to proceed, and then, they would make -- then staff, when I say them, would make its recommendation to the council, in open session, and allow council to ask questions of staff. At that time the bargaining units would be allowed to comment on staff's presentation, is that what I'm understanding from yours and Councilmember Pyle's.

>> Mayor Reed: No, that's not what I was intending. I'm not proposing that we wait until the last, best, final offer. I'm saying all offers, all proposals once they're made and we know what they are then those are public so it would be the first proposal, the second proposal, the third proposal, whatever. And --

>> Councilmember Campos: But would they be presented in a public setting for us to give feedback, or are they just presented online? I'm not clear on the process. Are we saying that they're presented in this setting, or are they presented again online for people to be able to read them? So I'm not -- it's not clear on me what the process that is intended from this --

>> Mayor Reed: I'm proposing that they be made public.

>> Councilmember Campos: Public?

>> Mayor Reed: Posting them online which is what we're doing now with the fire negotiations are posted online, both sides' proposals are posted online, that's what I was doing.

>> Councilmember Campos: We wouldn't be able to have a thoughtful discussion, once their -- both sides would be presented correct, staff?

>> Ed Shikada: Yes.

>> Councilmember Campos: And we don't have an opportunity to be able to ask questions. That would still stay behind closed doors, is that what I'm hearing?

>> Alex Gurza: Good evening, Alex Gurza, director of employee relations. At least the way I read the mayor's memo and Councilmember Pyle's memo, it's sort of two separate issues. The mayor's memo speaks about

making offers and proposals public during the course of the negotiations. So as the mayor indicated very similar to the postings online now in the fire negotiations. We've not settled or headed towards arbitration but the proposals are all out there. And so -- but after, only after they are made so they're made at the bargaining table and then what the mayor is suggesting is then those be made public. I think I read Councilmember Pyle's issue, is to be more when the negotiations are concluded, and we come to the city council, or the bargaining unit goes to its members, right, to either discuss a tentative agreement on the whole agreement, or a last, best, final offer if the city has made that. And that in those instances there be some equal time for either the bargaining unit and I think you meant to go both ways I think, either before you or before the members that the other team have an opportunity to have equal time.

>> Councilmember Campos: That would be in an open session, as we're sitting right now is what I understand?

>> Alex Gurza: Yes, when we bring to you a tentative agreement for example to vote on my understanding would be in that setting instead of limiting to the two minutes for example that a bargaining unit may have respond that they have an equal amount of time to make a presentation to the council? Is that correct, I think --

>> Mayor Reed: Councilmember Pyle seems to be saying yes to your version.

>> Councilmember Campos: So Councilmember Pyle, so it would be the last and best final offer according to what we're saying where we would have an open session to be able to have that discussion?

>> Alex Gurza: Either you would have a last best final offer or preferably you have a tentative agreement, but it's on the entire contract.

>> Councilmember Campos: That would happen in an open session?

>> Alex Gurza: Yes, as it normally does that happens in an open session that we bring that to the council and the bargain unit brings it to its members.

>> Councilmember Pyle: If I may, it may be that both sides have a little bit different way of doing things, but by being open and by being able to present both sides, it may be that we'll be able to work things out a little more quickly and a little more equitably in the eyes of the bargaining parties. Thank you.

>> Councilmember Campos: Thank you. And then I had just one last comment that I wanted to make. I know that when we're talking about the cost-sharing and changing, I'm thinking about the retiree police officers and the retiree firefighters. I know that some of them have and there's probably, I don't know exact number but I'm sure there are quite a few retirees that maybe retired more than 30 years ago, and I know that they're bound by the negotiation of the active board, is that correct?

>> Alex Gurza: In a limited circumstance Councilmember Campos. Over the years, let's say you have a retiree who retired 30 years ago. There was no retiree health care offered 30 years ago but when the council implemented retiree health care it was extended to people even in some cases that had been retired. I think what you're referring to is normally things that are negotiated do not apply to people already retired, normally. But in the case of retiree health care and then again only in the limited circumstance that we changed plan design would that change for retirees. To give you an example, when we implemented co-pays, the co-pays go -- are for -- with active employees as well as retirees. However what cannot be affected is the fact that they continue to get 100% paid for either single or family coverage, which is for example, more generous than for active employees. That can't be affected without considering the vested status. So we're really limited to the issue of plan designs like co-pays or deductibles that if we negotiated those with the kisses would also apply to retirees. And we have heard from the retiree associations that they'd definitely like the city to consider those impacts to them and we definitely will be doing so.

>> Councilmember Campos: So you are taking their input into consideration?

>> Alex Gurza: Yes, if we proceed with looking at plan design further as is in one of the options that the City Manager covered and we proceed with those, we will be doing outreach to the retiree associations.

>> Councilmember Campos: Thank you.

>> Mayor Reed: Councilmember Oliverio.

>> Councilmember Oliverio: Thank you, Mayor Reed. Mayor Reed I appreciate the efforts into your memo as well as Councilmember Pyle all the work that went into yours and I wanted to ask for the opportunity for a friendly amendment. I've offered a memo on making labor negotiation public. This would be the ability for us to as a council to vote on it, allow our staff to bring it to a meet-and-confer process and at least go to that meet-and-confer process and I would ask for that friendly amendment.

>> Councilmember Pyle: Are you saying to add it?

>> Councilmember Oliverio: Correct, correct. We would be taking the current motion and adding my memo in addition to it to let it go for the council to be part of the motion and allow it to go to a meet and confer process.

>> Councilmember Pyle: So you're not happy that it's clarified enough in number 3?

>> Councilmember Oliverio: No, actually my memo is different, in that my recommendation is that all union negotiations that we hold today between our city staff, union members, that those meetings actually be request, that they be public meetings where the public can attend those meetings.

>> Councilmember Pyle: Not ready to go there yet.

>> Councilmember Oliverio: Okay. Then I'd like to offer a substitute motion moving forward the mayor's memo with ought the edits, combining Councilmember Pyle's memo which would also include making labor negotiations public, my memo which would then go to the meet-and-confer process via the second.

>> Second.

>> Councilmember Oliverio: Thank you.

>> Mayor Reed: City Attorney says that's appropriate for the substitute. The modification had just the one area?

>> Councilmember Oliverio: Correct, mayor.

>> Mayor Reed: So that's the motion on the floor. Not going to be voting on that until we hear some public testimony but that's the motion on the floor. So any additional questions or comments before we go to public testimony? Because we're not going to take a vote for a while here.

>> Councilmember Pyle: Right. Mayor I'd just like to at one thing, I don't see why some of the funds that can only be one time could not also used to address the shortfall. Not including that but not concluded excluding that thought.

>> Mayor Reed: That would be an appropriate thought if we were to include that. Councilmember Liccardo.

>> Councilmember Liccardo: Yes, just a question for clarification. I'm trying to understand the competing proposals with regard to labor negotiations. Councilmember Oliverio, your proposal would have not just the proposals be made public but in fact the actual negotiations as well is that right?

>> Councilmember Oliverio: Correct, Councilmember Liccardo.

>> Councilmember Liccardo: Okay. And Councilmember Pyle coy ask, contemplated on your memorandum would the actual proposals be made public? Yes, okay. Thank you very much.

>> Mayor Reed: So the product of the negotiations would be made public not the negotiations themselves. I think the fundamental difference between the motion and the substitute. Councilmember Chu.

>> Councilmember Chu: Thank you, mayor. I was going to speak to the original motion, so I can defer it until we have --

>> Mayor Reed: Okay. Councilmember Kalra.

>> Councilmember Kalra: Thank you, mayor. I don't know if staff or the City Attorney can discuss it, what if any obstacles there might be for the substitute motion, obviously just in regards to the opening up negotiation. Is there --

>> City Attorney Doyle: The short answer is you can't require it. It is subject to meet-and-confer. It is part of the ground rules, that the bargaining parties would enter into. If they agreed, as part of the ground rules, then -- that the open -- that the discussions be opened, then they'd be opened. If they didn't agree, the law does not allow you to not continue to have substantive discussions on other issues. So essentially it requires the agreement of both parties.

>> Councilmember Kalra: But let's say there's an agreement between both parties that do that, what if any obstacles -- do you foresee any issues from the city's side, either liability or strategic or what have you, are there any issues from the city's side going forward?

>> City Attorney Doyle: Legally it's doable. I think operationally, I'd have to defer to your chief negotiator.

>> Alex Gurza: In terms of obstacles it's not been done before in San José. I think that that would be the discussion with the bargaining units. As the city attorney's mentioned, when we start negotiations one of the first discussions are ground rules discussions. How many people are going to be on each bargaining team, who gets to come you know into the room and not in the room and so what actually effect that will have I mean I don't really know specifically yet since we haven't done it that way. But if the substitute motion passes, we would be negotiating that issue and the ground rules with them and having that discussion with the bargaining units.

>> Councilmember Kalra: And if it's agreed upon, even in the ground rules do you foresee obstacles from the city bargaining team side, in going forward and having public negotiations, strategically or otherwise?

>> Alex Gurza: Well I think definitely -- one of the issues in negotiation clearly when you're doing a lot of brainstorming, so I think that one of the things that I think that both the city and the bargaining teams would have to think about is, you know, does it at all impact the brainstorming when, you know, maybe have a killing effect on throwing out some ideas on either team, because there -- you know a lot of brain storming does occur, and then what can happen is people think that either side is headed in a certain direction, when they're really not. And I think that's just a dynamic issue that I wouldn't call it an obstacle, but just an effect I think that would occur from having public negotiations.

>> Councilmember Kalra: And one last comment, I think that was kind of what I was getting at as far as a concern would be that it may stifle creativity, outside the box thinking, something might be put out there in order to facilitate discussion and then later on, maybe, worry may be that hold that one item because they throw it out there and it may hinder the creative bargaining. I think that's one area where it hasn't been well thought out from the city side that they might benefit of having you and your team an opportunity to think about -- think about the obstacles rather than being required to go forward and having as part of the prenegotiations as far as ground rules? But anyway, thank you.

>> Mayor Reed: Okay, well I don't want to finish the debate on this because we got to come back and debate on it, but I want to get public testimony. Councilmember Constant? Okay, we'll take public testimony at this time, and then we'll come back and debate the substitute motion, the motion and anything else that council wants to do. We'll take some public testimony now. I've got a lot of people who want to speak. It's late so I'm going to have to limit testimony to one minute so that everybody gets to testify before dinnertime. Late dinner, probably. When I call your name please come on down. Pat Saucedo, Rena Mather, Brian O'Neil, and Jim Cantori.

>> Mayor and council, Pat Saucedo. San José Silicon Valley chamber of commerce. This is all painful, we know that. I came here this afternoon recommending the mayor's memo, saying the chamber is supportive of adopting and giving the direction as contained within the mayor's memo. I know there's been discussion this afternoon of incorporating Councilmember Pyle's memo. I'm not quite sure when that came out Councilwoman. Have not seen that except what was on the board this afternoon. We still stand behind the mayor's recommendation with the caveat that we do like what Councilmember Oliverio has put on the floor, in opening the negotiations. We are in extraordinary times. And this is going to be painful whatever the results and the public needs to know what goes on here. Secondly on the prioritization, we believe what the City Manager has presented is a very good step in trying to identify the mandated public core services that this city is responsible to provide. Thank you very much.

>> Mayor Reed: Rene Mather, Brian O'Neil, Jim Cantori and Greg Ramirez.

>> Hello councilmembers, my name is Rena Matthew Brio. I live in the Northside neighborhood at 482 North 12th street. I'm a green building planner for the Planning Division, and over the years I've worked on development projects on all of your districts. I ask that you look at the budget. As you look at the budget you look at the quality of residents you want to retain and attract here in San José. If you want residents who take care of their property to support our local businesses, who involve themselves with improving our neighborhoods, look no further than your own employees. The reality is that 75% of MEF union members are like me, residents of the city. I came to the City of San José because it was an attractive place to work. And with me my brother and my two parents from Chicago followed soon after because they wanted to be close to me pretty much because I was completely overjoyed with working here because it's an amazing place to work and I'm surrounded with very talented people especially in the planning staff. I hope to return here one day as a San José employee again because I am continued to be invested in this community but such dismal figures that are looking above specifically at cutting the costs of employees particularly their on salaries quite frankly makes this place less and less attractive to return to. Thank you.

>> Mayor Reed: Brian O'Neil. [applause]

>> Mayor Reed: No Brian. Jim Cantori, come on down, Nancy Ostrowsky. Anybody? Jim Cantori, you can go first.

>> Hi, my name is Jim Cantori, I've been a resident of San José since 1974. And to properly identify myself at a caucus recently I was identified or selected as a second alternate on the neighborhoods commission. But these views whatever I say are my own personal views. I'm concerned that about 54.8% of certain cuts were on the neighborhood centers, and libraries. Putting our youth and seniors sort of at risk needing a place to go. I appreciate the prioritization process. I think we should consider scaling back the hours proportionately at, say, the least-used centers, within the city, so everybody gets a fair shake. I'd like the staff to consider reductions in pay of, say, 20 to 30%, to see if that might help close this \$96.4 million shortfall.

>> Mayor Reed: Sorry, your time is up. Brian O'Neil, Greg Ramirez, Nancy Ostrowsky, Dennis Martin. Go for it somebody.

>> Thank you, mayor, I'm Dennis Martin with Naop. The commercial real estate development association. And I just wanted to say that if we've learned anything here, it's that the last budget failed. I mean we all knew what the state was going to do last spring and you didn't go far enough in the budget. You need to refrain from this type of one-third one-third pie in the sky thinking. It failed in Palo Alto and it won't work here. I mean, clearly one-third of the Palo Alto proposal was that there would be a reduction in employee costs, SEIU is fighting that tooth and nail. One-third was measure A a business license tax and that failed at the ballot. You need to take more conservative positions, lower the assumed rate of return on investments for retirement, assume the lowest revenue projections and reduce the total compensation cost not by 5% but by 10%. You could get ahead of the curve a little bit if you took these actions. You also need as part of this budget to take actions to increase competitiveness lower fees --

>> Mayor Reed: Sorry, your time is up.

>> Thank you.

>> Mayor, councilmembers, my name is Gregory Ramirez. I'm here on behalf of AFSCME MEF and CEO to speak against the mayor's proposal to have the employees and families of the City of San José shoulder half of a projected \$96 million shortfall. I am in favor of Councilmember Pyle's memo and believe it should stand alone. This proposal really speaks to being -- the manager's proposal speaks to being out of touch with realities of what it takes to raise a family and live here in the City of San José. After having already agreed to forgo raises earlier this year, to then have their take home pay reduced by a rate of 8 or 9% would be absolutely devastating not only to the employees and their families, but to the community as a whole. The business community of San Jose should take notice. This proposal of the mayor's will take \$48 million out of your pocket and the local economy at absolutely the worst time. The idea of setting fixed targets without input from stakeholders is premature and result in more bad decisions. I ask the city council to instruct the City Manager to take a reasoned approach to invite the community to provide input and to seriously consider and vet the possible solutions that will result. There are a lot of good ideas out there and they're free, let's hear them, thank you.

>> Mayor Reed: Nancy Ostrowsky, Eric Larson, Lisa Jensen, Carol Garvey.

>> Good afternoon or evening, this is Nancy Ostrowsky, I'm senior staff with IFPTE's Local 21 representing the AEA in the city. This is to remind publicly all of you that the city employees can help solve these problems. We want to partner and be at the table, which means developing proposals jointly, not presenting them to us. Their openness and transparency is important to us. If we're going to solve a \$90 million problem let's do it together. That means we need transparency in the process. We all need to have access to information about the numbers and the assumptions about how we got to the place we're in. We look forward to working with all of you, thank you.

>> Mayor Reed: Eric Larson, Lisa Jensen, Carol Garvey.

>> Hello, my name is Eric Larson and, I'm a member of AFSCME MEF chapter. You know last year city employees -- we were asked and we agreed to open up our contract, and to help solve the City's budget problems. As a result of this many libraries and community centers were able to stay open. I question, though, how many private consultant contracts did the city ask to renegotiate last year? The city spends millions of dollars on these consultants and their vendors every year and the only responsible thing is to review line by line each and every one of these contracts. I oppose Oliverio's memo and motion, and I ask you to support Nancy Pyle's memo. Thank you. [applause]

>> Mayor Reed: Lisa Jensen, Carol Garvey, Dan Rodriguez.

>> Good evening Mayor Reed and council. As you consider prioritization please consider that core neighborhood services from the General Fund and redevelopment agency are inextricably linked. My neighborhood has seen the benefits of the strong neighborhoods initiative firsthand. Prior to SNI or its predecessors weed and seed and project crackdown, my neighbors saw the brutal gang murder of a college student whose body was left in an alley behind the homes of my friends. A police officer was shot in our other alleyway. Hookers stopped cars as they pass through our neighborhood. And you could purchase the drug of choice on any street corner. Empty lots were filled with weeds and drug paraphernalia. Our neighborhood, in spite of its proximity to the downtown core was ignored and unloved as were other fragile neighborhoods. SNI brought much-needed support in the form of infrastructure improvements, community building, and the political will to make real change. I encourage you not to decimate SNI or other critical services. Without these resources, neighborhoods like mine will again be ignored and slide into decline. The cost of future improvements will be much higher but more importantly the trust of the community will be gone. Thank you.

>> Mayor Reed: Carol Garvey, Dan Rodriguez. Avril Beatty.

>> Hi, I'm Carol Garvey, a very long-time resident of San José. As a county worker, I was a dispatcher for San José police and fire from 1978 to 1990. And I know how hard, therefore, I know how hard some city employees work for their pay and pensions. I also know firsthand how important a decent pension is in terms of being able to live. And to be able to afford to live with dignity in San José after retiring. Pensions are complex, and are impacted

by many factors. Rigid solutions won't create good policy on pensions. We need to learn from all the experts who are tackling this issue. And I urge you to follow the framework that Councilmember Pyle set forth in her memo, which goes a long way towards developing a thoughtful policy. Thank you very much.

>> Mayor Reed: Dan Rodriguez, Avril Beatty, Bob Adser.

>> Hi, I'm Dan Rodriguez. I'm the business rep for International Brotherhood of Electric workers. I'm here to discuss the mayor's \$7500 proposal that he wants to take from the pockets of the city employees. My members are asking me why they're being asked to give back the pay that they have earned honestly and through their hard work. They don't understand why they're being asked to do the same job with less people than before, and then they feel they're being punished for their efforts by less pay and more work. They didn't create the budget problem. They have no say in how the City chose to spend its resources. They would really honestly like to help the city resolve the problems and given the chance they are willing to work with the city to come up with a solution. But their opinions have not been sought out and their feelings have not been considered and their solutions are ignored. What they have been told is the money is gone and more is needed. Our employees also have budgets that they have to manage. When you reduce these budgets by \$7500 the city's budget burdens is shifted to their families. Please don't force your employees to make a tough choice on whether to pay their utility bill or the grocery bill because you choose to make an easy decision to balance your budget on the back of the employees and their families. Thank you.

>> Mayor Reed: Avril Beatty, Bob Adser, Prudence Slatehog and Ben Field.

>> Hi, I'm Avril Beatty. I am a planner in PBCE. My husband, a fellow city planner and I, live at 565 north 9th street in District 3. I am one of the five remaining project managers in development in the City of San José. I would support that rather than cutting 10% across the board, that you consider having the employees pay into their respective retirement plans, that seems fair rather than having one group support and subsidize another. And rather than reducing the value of the employees by 10% we would be willing to take a pay cut, if it means a reduction in hours. If we don't have money, perhaps we just can't provide the same level of service to the city. So consider a furlough, perhaps every other Friday, City Hall is closed down, save on the utility bills, and wait for the --

>> Mayor Reed: Sorry, your time is up.

>> Thank you.

>> Mayor Reed: Bob Adser, Prudence Slatehog, Ben Field.

>> Mr. Mayor, members of the city council, the one-third one-third one-third idea has a certain symmetry, but it is not connected with a policy rationale which is a fundamental problem. The city's budget strategy ought to give city staff flexibility within appropriate limits. The framework -- excuse me -- that flexibility is essential to reaching a resolution of our budget problems that best serves city residents. The framework for budget planning should not arbitrarily set percentages for certain cuts or for revenue sources. If you must adopt a one-third one-third one-third division I urge you to make those tentative targets and not unnecessarily box yourselves in. Thank you.

>> Mayor Reed: Prudence Slatehog, Linda Didis, Dana Bainbridge.

>> Good evening. My name is Prudence Slatehog and I'm here to represent the operating engineers local 3. I'd like my comments to go to the issue of a two-tiered proposal to solve the retirement problem and I'd certainly support other statements that have been made. Suggesting that we look at this issue much more closely before we look at a two-tier system. And I'm really going to talk about the issue of the future. We're really going to confine our new employees. Not only to a lower retirement benefit, and most of those are going to be our children and grandchildren, but at the same time, we're going to be asking them to pay for the much higher benefit that retired employees are going to be enjoying. So as a matter of fact equity, I think you have to look at your ability to take care of not only the current workforce but the future workforce, many of whom are our children and grandchildren. So if you look at the options I suggest you look at retirement as a very long term benefit not one

that you can solve for today's workforce but one that you have to solve for the future in terms of fairness and your ability to recruit and retain.

>> Mayor Reed: Linda Didis, Dana Bainbridge, Yolanda Cruz, Sally Zarnowitz.

>> My name is Linda Didis, I'm a business agent for AFSCME, which represents MEF and CEO. I think I stood before you last week and asked whether or not the unions could be involved with coming up with solving issues on the deficit, and I stand here today and ask you again. One of the things I did yesterday was take some MEF and CEO new leadership over to retirement department to understand some of the things that are being asked, because they're complicated issues. Going from open amortization to closed amortization diversity of funds changing the annual earned assumptions, corridors, smoothing periods all these are complex issues and they need to be considered by everyone before we choose one thing to adopt, or before you choose one thing to adopt. Certainly during the last round of negotiations that the city labor alliance went into in retiree health care we asked what a two-tiered system would save just for retiree health insurance. We never got a response for that. We still don't know today what that data involved.

>> Mayor Reed: I'm sorry your time is up.

>> Thank you.

>> Mayor Reed: Nina Bainbridge, Yolanda Cruz, Sally Zarnowitz, Laura Cicerello.

>> Thank you, Mr. Mayor and council. Sally Zarnowitz, planning. I wanted to just note I'm a lifelong Bay Area resident. Six generations of my family have enjoyed sharing this state with a wide range of wonderful people. We've had tough times in this state before I think we'll get through this. I'm invested in this city. I've raised two boys with my husband in a neighborhood, sent them to public schools. One of them has made it onto the University of California system. As a licensed architect I've designed BART stations, I've worked in community colleges, taught architecture there, always with the commitment to respectfully helping the public, to helping with students, homeowners, business owners, builders of all backgrounds, maintain and design legal, safe, sustainable, hopefully inspirational places and destinations. And that I believe is economic development, and that's part of planning. So now with the severely limited planning budget I review all the development downtown including large transit oriented and mixed use project. San José is a city of opportunity and innovation I just want to say that you know, through hard work and conservative planning, planners sorry -- public employees --

>> Mayor Reed: Sorry, your time is up.

>> Live a good life. So I respectfully support solving the problem together and a one-time financial contribution to the retirement system as well as considering a furlough, thank you.

>> Mayor Reed: Sorry, your time is up. Yolanda Cruz, Laura Cicerello, Tony Martinez.

>> To start out, I just hope that you all understand what you're voting on, because I do not. My name is Yolanda Cruz. I'm the president of AFSCME MEF chapter representing 2500 of the city employees who would most directly impacted by your actions today. I stand here as I have many other times on behalf of my members who endured continuous and relentless onslaught, chamber of commerce to hold the city employees your family accountable for all the fiscal problems we face today. I must remind you that the entire economy is in a recession. And we are all being forced to make very difficult decisions in our personal and professional lives. Decisions that should be rooted in a careful analysis of the best possible way to achieve the necessary outcomes required to balance the fiscal challenges we face. As I read the mayor's memo I was bewildered at the tone and the direction it was uncovering. To ask for 50% of the city's budget shortfall to come from employees and the rest to come from service delivery changes and revenues, I began to think, how can that not equate to more than 50%? All of the city employees are the ones who provide the services. Then as any good leader would, I decided to have a constructive look at me, at my AFSCME MEF union, and see what we have done to help preserve the services to the citizens of San José.

>> Mayor Reed: Sorry, your time is up. Laura Cicerello, Tony Martinez Aaron Resendez.

>> Laura Ciserello, soon to be Batra, 272 East St. John Street, San José, California. 27 out of 28 years of my life in San José. MEF member. I am affected by this latest round of budget cuts. I know there's more coming.

Chances are I won't be here to bug you six months from now. I'm not here to beg for my job. I'm asking for a measure of dignity and consideration for the remaining staff you have and for their expertise and time. I urge a twice a month furlough instead of a 10% pay cut. It's almost the same results and it shows a measure of dignity and respect for their time. You put a lot of money and effort into training us hiring us maintaining us we love respect and honor this city. We ask for the same from you. Thank you. [applause]

>> Mayor Reed: Tony Martinez, Aaron Resendez, Jenny Nussbaum. Aaron, take it away, you're closest. And then Jody Clark after Jenny.

>> Thank you, mayor and city council. You could spend a lot of time doing this, but it's a simple math. You know, I don't like division, but you know I like subtraction, multiplying, or adding. And on economics, just go for what we need and what we want. I know we need a good economy, the life good life in San José but let's look at the other way too, only Sam Liccardo, Mr. Liccardo thank you is the only one who mentioned that we have to look at the whole city. Any of you districts that people are struggling with this economy, go look to them and talk to them. We are talking on the table and trying to make solutions in our families right there and make cuts in our own family. Talk to one of them and you'll learn more about this and how can you cap? On city employees, I respect those city employees but we have to may a sacrifice. How? Picture it you know, in going to our reality. Last Saturday --

>> Mayor Reed: I'm sorry your time is up.

>> Last Saturday the kid that was shot in my neighborhood is not a problem of our district, it's the whole city. That's what we got to look at, thank you..

>> Mayor Reed: Jenny Nussbaum, Jody Clark, Trish Glassey.

>> I'm a member of MEF and a senior planner. On my 10th anniversary here I was told that I and 25% of the planning staff could be laid off this month. This is our third round of layoffs and cumulatively, one of the largest employers in San José when the city itself cuts staff, it not only affects employees, it impacts San José's economy with ripple effects. We spend our money here and are contributing to San José sales tax revenue. As planners we help the city compete economically with other cities as a desirable place to do business and as a great place to live or visit. Investing in us long term is stimulating a healthy economy for San José. We work hard for the city it makes sense to keep us on board. Thank you.

>> Mayor Reed: Jody Clark. Trish Glassy, Wilma Hashi.

>> Good evening, my name is Jody Clark and I live at 68 Ryland Park Drive in the Vendome neighborhood. I have been a city employee for 11 years, and as of December I will be one of four project managers in the planning department. Given this number, we can no longer do more with less. We have gotten to the point where we need to do less with less and we do need to cut particular items. I am also going to be demoted, I'm going to be taking a 15% pay cut at the end of this month. Many of you know my husband who is Mark Gerhart. He was asked to take a pay cut last year. Our family has been greatly impacted and now I'm hearing that we are going to be made to probably take another 10% pay cut. I do ask that you work with the unions to see how this can be done in a more equitable fashion. There are furloughs there are payments to the retirement fund that would be done to better make these cuts. Thank you.

>> Mayor Reed: Trish Glassy, Wilma Hashi and German Leon.

>> Hello, Trish Glassy. President of CEO. In all the discussion it's unclear which elements of which memo are on the table. Could you please clarify specifically what happened to number 2 on each of Councilmember Pyle and Mayor Reed's memos. And I'll pick up where Yolanda left off. We opened our contracts last year and agreed to concessions that amounted to over \$6 million in savings to the city to save vital services that our community deserves, reliance on and values. Proven by the citizens of San José voting on bonds and parcel taxes for parks,

community centers, libraries and 911 services, we stayed engaged in the city manager's beyond budget cut committees, we participate on city committees, subcommittees, focus groups and community outreach meetings. We have shared ideas and demonstrated a serious and meaningful commitment to be engaged in these processes. I personally remain hopeful that our ideas issues and concerns are articulated in a manner that was clear concise and genuine. Yet time and time again we merely provide -- we are merely provided with lip service that you want to engage us in the process. That you are willing --

>> Mayor Reed: Sorry your time is up. Wilma Hashi, German Leon, David Wall.

>> My name is Wilma Hashi, I'm president of the Friends of the Pearl Avenue Library and the Seven Trees Library. Both of those libraries support citywide library programs, and I too support the city staff even though I'm not a city employee because I think they have made this city what it is today. I also would like you to think about the libraries when you're working on these budget cuts. I was at pearl avenue library today we were doing the read for adults and one of the participants said to me this library was too small. What he meant was, there is too many people coming into the library there's not room for anybody to find a place to sit down anymore. The libraries are being fully used because of the situation we have with the budgets today. We have a knit and crochet group that comes and knits hat for the hospital for babies. And we've got about 15 people who come and they range in age from about six to 70-something so I want you to consider that the libraries are fulfilling a service and please be careful in making any cuts to them, thank you. [applause]

>> Mayor Reed: German Leone, David Wall, Susan Bailey.

>> Good afternoon? Mayor and members of the city council. My name is German Leone and I've been a city employee for the last 19 years. I'd like to refer to Mayor Reed's October 30th memo where it says the guiding principles from the City Managers association state that I quote attracting competent and motivated employees to city service and it goes on to say all cities in the region compete for the same employees. My question is how does the city propose to achieve these goals if it's offering lower pay and lower benefits? A recently hired employee told me if they're going to start cutting my benefits, I'll just go to work in private industry. City employees have been hit heart by reductions relocation and layoffs. By the end of this month more city employees will be unemployed. Having said this I ask the city council to seriously consider other alternatives in saving, funding and using revenue strategies to balance the shortfall in the General Fund. Thank you.

>> Mayor Reed: Your time is up. David Wall, Susan Bailey, Bob Brownstein.

>> David Wall: Good afternoon. Today we have seen no apparent innovations in dealing with government, revenue collection or service provision. There is a dramatic need which is not talked or even thought about, it's the need too alter the city charter to amend it. Specifically to eliminate section 411. Council needs to create new economic models, one of which, since we have such bright folks in charge, that you have to have direct interaction with city operations. Section 411 is an impediment. Reduction in city services should also include mandatory psychologist of management functions. You are replete with redundant systems with directors, deputy directors and associated mid level managers. The 10% that you're asking the city employees to take is really not 10% but it's an additional 10% because of what the state is going to do with them as far as withholding taxes. So that's 20%. Actual formulations of --

>> Mayor Reed: Sorry, your time is up. Susan Bailey, Bob Brownstein, Gay Gayle.

>> The primary responsibility of the city should be to provide us with a safe city. Not only personal safety but also infrastructure. And provide an environment in which the economy can prosper. That would be facilitating businesses, excuse me, and don't overfee and overtax incentive out of existence. If the city does this it is a high performing city government. There are other things that were listed, really, are private citizens' responsibilities, not the City's. I agree with Councilmember Kalra that we don't hear enough from the general public. And also, Councilmember Constant, that the city needs to concentrate on mandatory things and basic things. I also want to add that the labor unions, I think there should be defined contributions, they should manage their own retirement funds. We have to sustain our own losses and we can't afford to sustain ours and theirs, too. Thank you.

>> Mayor Reed: Your time is up. Bob Brownstein, Gay Gayle, Juan Berelli.

>> Bob Brownstein: Mayor Reed, members of the council. I would like to offer an improvement to the proposal regarding having both the union and the city representatives report back to their bases both at the same time. As I understand the proposal on the table that would only happen at the very end of negotiations and that is too late when negotiations are difficult. The problem is, the content of proposals really has more than its details. It says something about direction and it says something about intent and that has to be interpreted. And if it is interpreted even innocently in the wrong way then negotiation will lead to conflict unnecessarily. If both sides are there whenever a proposal is traded, to make sure that each proposal, through the process, is fully understood in regards to the intent and the direction of the people who made the proposal, we are less likely to get an unnecessary train wreck. And train wrecks are a real miserable experience. Thank you.

>> Councilmember Liccardo: Mayor, may we ask questions of speakers?

>> Mayor Reed: Why don't you wait. I've just got a couple more cards and then we can take up questions. Gay Gayle. Then Juan Berelli and Randy Sky is our last speaker.

>> Yolanda's memo, the third part. Yet time and again we are merely provided with lip service that you want to engage us in the process, that you are willing to search outside of the proverbial box to help find the most creative and resourceful alternatives to balance a budget that maintains a quality of service that we as a city can be proud of and one that our citizens of San José deserve. The only way you can achieve this is to show true leadership and walk the walk that you talk and have a true engagement of all stakeholders, the community, labor, businesses and employees. A true evaluation of ideas, opportunities and challenges needs to be carefully and thoughtfully considered with real facts and figures provided not preconceived outcomes that provide a solution that exploits the challenging solution we are now in. We are not afraid of open negotiations. In fact, in some regard, let's discuss them. They sound, with Bob's suggestions, very laudable. 13 years ago when I came to this city we were the top five of salaries. Now we're not even in the top 10. I want to retire from the city soon, not -- I won't be able to retire soon but when I do I'm going to have to leave the city because I won't be able to afford to live here.

>> Mayor Reed: Your time is up Juan Berelli Randy Sakai.

>> Good evening, mayor and city council, my name is Juan Berelli, and I live and own a home at 1643 Fair Orchard Avenue here in San José and I have been a city employee in planning for almost six years. At the beginning of this year my planning position was eliminated and I bumped back to a former planning position where I took a significant 15% pay cut. It is my understanding that the city would now like me to give up another 10% of my pay which would equal a 25% reduction of pay for excellent work and service I provide as a public servant. As many of you know personally since I've worked with almost each and every one of you in San José's important SNI neighborhoods. NPR and other reputable news organizations have already begun reporting improvements in the economy that signal that this economy is improving and ending. Therefore I strongly urge you to work with my union AFSCME MEF, on identifying and implementing other solutions to our budget deficit problem. Thank you.

>> Mayor Reed: Randy Sakani. [applause]

>> Mayor before you start the clock point of order. If this motion fails, and then there's another motion will there be an opportunity to speak to that motion?

>> Mayor Reed: No, this is it on the public testimony.

>> Okay, very good. Let me start off then by saying, I want to address the aspect, urge you to vote no on this motion largely out of the addition of Mr. Oliverio's component where he wants to have negotiation open for the unions and only the unions. I would have been speaking in favor of it had it been for all negotiations in the city, where all citizens dollars are involved. But to focus only on the unions, is unbalanced, unfair, it's undemocratic, its wrong. So I ask you to say no to that. Beyond that, thank you mayor for saying the stakeholders should be engaged and I do hope in this process whatever comes out of it that it is open for other solutions and from other areas other than what staff has already identified. Thank you.

>> Mayor Reed: That concludes the public testimony. Now bring it back for further council discussion and debate. Let me just clarify a couple of things about the motion, some questions have been asked and some things have been said, and if I can just sort of describe what the motion is, as it's on the floor. We have a substitute motion that we're considering. So with the modification proposed by Councilmember Oliverio, the substitute motion would include direction to the staff to enter negotiation with our unions to obtain ongoing wage and benefit concessions. Equal to Councilmember Pyle's memo, one-third employee wages and benefit concessions, one-third revenues, one-third alternate service delivery proposals and efficiencies in operation and one-time revenue sources. If the council were to approve that, that would ultimately translate to about 5% across the board to be requested from all of our bargaining units. The second bullet directing staff to start negotiations to change retirement benefits would incorporate my recommendations, and Councilmember Pyle's recommendations, as well. Acknowledging that we're already in negotiations with a couple of our unions. The third one is the one that's the subject of the substitute motion, really. I had proposed that we direct staff not to agree with any ground rules with bargaining units that prevents disclosure of proposals and that all offers get made public at the time they are made. And then Councilmember Oliverio has added, in his motion, that all negotiations will be done in public. Not just the proposals. So -- the meetings would be open to the public, that's the effective of the -- his substitute motion and then the fourth one was to include the annual community budget poll of questions to evaluate potential support and then Councilmember Pyle's fourth one, regarding full funding of retirement accounts would be a report back to us presumably with an information memo and then number 5 outreach to state legislature would be coordinated with the league of California cities. So that's through Councilmember Chu. That would be I believe the motion, substitute motion on the floor.

>> Councilmember Constant: There was also the friendly amendment by me for staff attention to one-time revenues being prioritized for one-time expenses and not used for ongoing structural deficit issues.

>> Mayor Reed: Right but that's not policy decision, that's to give staff direction as they're working through this. Bought ultimately we have to make the final decision. That's the substitute motion on the floor. I'm not going to be supporting it. I'm going to be supporting the underlying motion. Back for council discussion and debate on this. Councilmember Chu.

>> Councilmember Chu: Thank you mayor, again, I want to address the main motion so I'll defer my question.

>> Mayor Reed: Okay, Councilmember Liccardo.

>> Councilmember Liccardo: It sounded as though Bob Brownstein was offering a suggestion that may be helpful, but I can't say I completely understood what language would need to be inserted. And I was hoping that perhaps Bob could articulate that in some way. I'm sorry, Bob, I know you were sitting way up there so I'm sorry to make you come all the way.

>> Bob Brownstein: The mayor's proposal is each time a party presents a formal proposal, it will be made public. What I'm saying is, when that's done each side is going to report it back to its respective base, your team to you, and the union team to its membership and when that happens, the other side should be there, to say, this is what we meant when we put that proposal on the table.

>> Councilmember Liccardo: Okay.

>> Bob Brownstein: It's very similar to Councilmember Pyle's language in her memo, which somehow suddenly became only at the very, very end when I it's kind of too late to do much.

>> Councilmember Liccardo: Essentially the request is to make sure that both sides are present at the time of the disclosure.

>> Bob Brownstein: Right, right, so if it's misconstrued the other side can say wait a minute, that's not what we meant, we meant, whatever they say.

>> Councilmember Liccardo: That seems reasonable.

>> Mayor Reed: City Attorney should comment.

>> City Attorney Doyle: Councilmember Liccardo, currently the proposals from your staff are presented in closed session. You are only allowed under the Brown Act to go into closed session to direct your negotiators. You can't bring other people in the room. So the proposal, if the council wants to consider it, at any presentation that would have to be done in open session. So you would have to ask that if the proposal comes in it's presented in open session, you could present it in closed session but you would also have to separately agendaize it in open session and allow both sides to make a presentation.

>> Councilmember Liccardo: All right. Thank you. And Rick just to go to the issue about the provision raised by Councilmember Oliverio, as it's currently worded, I'm a little unclear about the verbiage. Would it require that any condition of bargaining -- that any bargaining have a precondition that negotiation occur in open session or simply that we request that as one of the preconditions?

>> City Attorney Doyle: I'll ask Councilmember Oliverio to discuss the intent of his motion.

>> Councilmember Oliverio: Mine is I think fairly clear, that -- and I appreciate Bob Brownstein's comments on what he'd like, but actually my proposal avoids that step, because the intent and the direction is public. There's no chance of any train wreck because everyone's seeing what's happening. So again mine is, so let me take us through the work flow here. Our staff, you know, our city management staff, the negotiator typically work with the union, they bring it to closed session. All those meetings that occur that they bring us the updates that they only hear what they tell us and I don't get to hear from the union members all that is what I want to be in the public.

>> Councilmember Liccardo: I understand the intended outcome. The challenge I'm trying to get to is the steps you need to take to get there. We set ground rules for Alex and the head of the bargaining unit sets ground rules before they start the actual negotiation. And if they don't agree to ground rules then it seems to me we have a hard time negotiating. Is that fair to say?

>> City Attorney Doyle: Well you cannot continue then negotiating.

>> Councilmember Liccardo: Right.

>> City Attorney Doyle: You have an obligation under Meyers Milius Brown to enter into substantive negotiations. The fact that you don't enter into ground rules doesn't stop you from negotiating.

>> Councilmember Liccardo: Right, so the challenge I'm trying to figure out is, if we pass something like this, and they say no, then we just keep negotiating.

>> City Attorney Doyle: I think the intent, as I understand it, is this is -- the city side wants to encourage public negotiations, I think the intent of this --

>> Alex Gurza: If I could add a very practical real example. With Local 230 we proposed ground rules and one of those ground rules was that the negotiations be open to the public. Those draft ground rules have been available to the public. We did not reach an agreement with local 230 on the ground rules but we didn't want to -- we wanted to proceed because we're obligated to proceed to negotiate on the substantive issues. We moved on we didn't have any ground rules and we moved on, that's how practically it works.

>> Councilmember Liccardo: I just wanted to ensure that this proposal wouldn't prevent us from continuing to negotiate.

>> Alex Gurza: That's correct. I could also just clarify one practical issue with Mr. Brownstein's suggestion. During bargaining, I mean, there are times when we bargain once a week. There are times when the expiration is coming soon, where we're bargaining every day sometimes until late at night. I just -- not quite sure I understand the practicality because if we were to have to come to the council to -- for each side to present as the proposals were made we'd definitely have to have it on your open session agenda at least every Tuesday, or figure out how possibly do we get an opportunity for the bargaining to come to you in open session to explain their

proposal. So I think that needs a little bit more thinking about how practically that would work. Clearly open negotiations may obviate that problem because the discussion and the explanations would all be -- would all be open.

>> Councilmember Liccardo: Thanks, Alex.

>> Mayor Reed: Councilmember Nguyen.

>> Councilmember Nguyen: Thank you. I'm not going to support the substitute motion. I think it's pretty straightforward that all labor negotiations should be subject to the ground rule set up by the two fathers but I do want to thank Mayor Reed and Councilmember Pyle for laying the groundwork for this discussion, it's very helpful. I wanted to follow up on an issue that's raised by a couple of speakers and that's the two-tier pension system. I assume that staff will present, will provide us an analysis of how much the city is going to save should this is the way that we're going to go, right?

>> Alex Gurza: Absolutely.

>> Councilmember Nguyen: And when should we expect that?

>> Alex Gurza: One of the reasons we haven't had actuarial evaluations done on the second tier is we needed to -- we thought it was very important to wait until the new evaluations are done because if we had done them earlier we would be using two year old data before the billion dollar loss and so we need to have a new starting point. So once those are done, which they're hopefully going to be done soon, we can then do some modeling on what might a second tier say and we would absolutely present that to the council clearly and in our bargaining.

>> Councilmember Nguyen: That's fair, and then just a final question. In this binder that I received in at least two memos staff used the word sustainability quite a bit and so I'm just a little confused. I don't really understand how you define sustainability. Obviously, you know, what type of benchmarks are we looking at in order to measure whether the retirement system is sustainable or not? So as we move along I was wondering if you can provide clarifications to some of these big words you're using because it would be very helpful in our budgetary discussions.

>> Alex Gurza: We will do that.

>> Councilmember Nguyen: Thank you.

>> Mayor Reed: Vice Mayor Chirco.

>> Councilmember Chirco: I'm not going to be supporting the motion. It doesn't sound like it's a practical application. I believe what the mayor suggested, that they post the proposals so they're available for the public makes them available for the public to keep track of what's going on. And what I've heard from Alex, that it is a process under the Meyers Milius Brown Act, that it is a joint process, and I think that's a violation of our trust as we go into negotiation on coming together collaboratively, to agree to ground rules.

>> Mayor Reed: Councilmember Campos.

>> Councilmember Campos: Thank you, mayor. First of all Bob, thank you for clarifying what my earlier question was, and I think there was some confusion. So I wanted to ask staff, you said that there would be a problem with - - there may be some -- I don't think you said problem, I'm not sure what word you used but that we would have to further look into that to see how we would be able to agendaize that on the agenda.

>> Alex Gurza: Right. Really, the practical implications is if a proposal is made and it can be a proposal on a single item, for example. And what I think I understand is that the time those proposals are made to provide the bargaining unit with an opportunity to come to you in public to explain to you the proposal. The issue is, you know, how does that happen, we'd have to be agendaizing the -- here in your open session in order do that.

>> Councilmember Campos: So couldn't we, Rick, with that intent of the motion, I think that's what was in Councilmember Pyle's memo, is there a way for you to legally figure out how we could meet the notice qualification so that we could at least move forward with the intent of what I believe Councilmember Pyle's memo is stating?

>> City Attorney Doyle: I mean, I -- Alex's point is a good one, if they're scheduling negotiations over a week or two period, and things are going back and forth, not every proposal is ever going to get to the council. But I think that the intent as I understand it is where there is a significant proposal, and it's then presented to the council, and presented to the council in open session, the noticing decisions are going to have to be presented and trying to work out the logistics. We can find a way to do it. We may have to ask Rules Committee to waive certain notice requirements. But that's going to be logistically an issue. Separately, what you want to avoid direct dealing issues, that you're not negotiating and bypassing your negotiators, so it's truly a presentation and not a negotiation session. So I think there's ways to make that work but you know we haven't done it before and we would have to try sit down with staff and craft something. But there could be logistical issues on timing and noticing.

>> Councilmember Campos: I won't be supporting the substitute motion, but I'm hoping that if this one does not pass, and there is the original motion, that those comments and that direction could be directed to the city attorney and staff to figure out how we could make that happen. Thank you.

>> Mayor Reed: Again, the motion is for equal time in both directions. So there is another logistical piece to that, when the bargaining units are doing their presentations, some things to be worked out. Councilmember Pyle.

>> Councilmember Pyle: I just wanted to ask in reference to Ash Kalra's memo, we'll work on that separately or vote on that separately? It's getting confusing as it is. But Ash is next.

>> Mayor Reed: Actually when we get done with this and I'm going to recommend some -- that we send all of the rest of the stuff about the ad hoc committee stuff to the Rules Committee and get it back on the council agenda December 1st, because I think in light of the direction we've given staff about doing some outreach around the priorities, the work plan is going to be a big issue. So -- I would suggest that's how we do that but we'll get to it and if council wants to do it after we're done here on this item we'll come back to it. Councilmember Oliverio.

>> Councilmember Oliverio: Thank you mayor. Wanted to make some comments on the motion and I wanted to point out some folks that smoke, Nancy Ostrowsky asked for an open transparency in the process and clearly public meetings would give that to you. There would be 100% transparency. Eric Larson, if you are still here, you talked about competitive contracts. I ask you to watch the consent calendar because we're still approving wanting to approve contracts with vendors that we're not even quoting their direct competitors so we're not paying the best price possible and I think that's a problem in our procurement policy. Carol Garvey said, people need to be paid. Absolutely, I don't discount that. But it's of course also what we can afford. My father who is a retired union member, a teacher, makes a \$22,000-a-year pension and no lifetime health care. There's some things about what you want to do and what you can afford, and clearly we're not just there, the money. The gentleman from the IBEW and Yolanda Cruz, I know it comes out sometimes, we read it, frankly who wants to take money out of anyone's pocket if you don't have to? What are the choices? Sitting here for X amount of time, being here on the council and hearing so many people that have been offended during these private meetings where accusations fly left or right, false data or no data at all, why go through this, when we can say this is who we have and this is what you want and the process is out in the open. I just think that is a much nor better. I know people have said in closed meetings, private meetings, we have creativity, we have brainstorming, we have out-of-the-box thinking. Well, you know, that helps a lot of times in public meetings, when you're out in the community or even on here. And I would say that creative thinking and brainstorming and out-of-the box thinking also gave us unsustainable benefits that we can't afford. So that's the type of creativity that let's let it be out in the open. I mentioned Bob Brownstein's avoiding the train wreck. I believe preliminary public negotiations would avoid the train wreck. We wouldn't have to do the political games. We wouldn't have to do the back-and-forth that's so common with the process. Gay Gayle, she wants to be part of that process, great. Make it part of the process so everyone knows. I know, I've heard of it all the time where union members are offended with what happens in these closed meetings. Here's your opportunity to have it open and see what's going on. I also say that the planning staff that's been here, very heartwarming, land use projects and we coming out, oftentimes I only hear from the union executives but it's nice to actually hear from the employees. And I concur that we want to be able

to keep as many of them as possible. And you know, I'll just say this, we have this proposal coming forward here and I can't say I agree with every element that's there. In fact I'd like to find a way where you know, no one -- we don't have massive pay cuts. In fact everyone takes a true zero for five years, a long period of time to where revenue can get back up. That mine we explore furloughs, but you got to acknowledge there's that retirement differential that you got to pay. So if that can be worked out and if somebody wants to sign up for five years of a true zero which includes furloughs, that you pay your retirement benefit that maybe that's a way to retain staff and retain services. Again on the source revenue, I support more card tables that pay a tax that bring revenue into the city. I can't sit here and go on the sides of not recognizing the value of that revenue that that brings us and you know what we only tax those that use it. Not the general public not the folks that struggle to make ends meet. We talk about one time revenue up here, great, we just hear from Jennifer Maguire that we're going to spend another \$1.8 million subsidizing the Hayes Mansion. Let's put out an RFP and see who wants to take it over and use it for assisted senior living. No economy erases the fact that this population's aging and they want to be taken care of. So that's good one-time revenue. One of the golf courses, that could go, again, use it for some infrastructure. We come to the question of core, maybe that budget needs to be cut by the services that are not 100% needed in city charter. Which takes me to HNVF. \$10 million albeit for organizations that are great and providing great things but would I rather lay off city employees that provide services or give to those organizations? I've said it before I think that's the importantly thing. I think the behind closed doors negotiations is bad business, I want it to be that residents can watch what's going on. I think only having union officials our negotiators and discussing you know, that's -- it's problematic. We see what goes back and forth. The decisions are made back and forth in a closed private session meeting. Clearly if you poll people in San José or anecdotally or scientifically, you're going to find people, yes, that makes sense to me, why not, it's government's business. And you know I would say this. If we don't want to do it live, we really feel it's going to take down the creativity and the out of the box thinking then let's tape it. Let's tape it so we can watch it afterwards. Because right now, I don't have any transcript or any record of what's said in any of these union negotiations back and ad infinitum. It would be nice, how did we get here, how did we arrive at this? Well, this is the discussion that occurred. We have nothing of that record and I would think that is an option for us if we're not ready for the live public meetings. But I do acknowledge what the mayor is putting forward and Councilmember Pyle about talking about the proposals more in open session. I think that does add value. But again, I think it's important for the public to be part of the process, otherwise we're going to be back and forth talking about this two years from now three years from now five years from now and indefinitely. So we've been a leader in many ways. We're not asking to do something so incredible here. All we're asking is lets take a look at putting this as far as a meet-and-confer issue. We're not mandating that it gets done, we're just simply let's forward the dialogue and have the discussion and you know what it might be extremely advantageous to the unions and disadvantageous to us in the future but you know I think we'll find that out together. I don't think it's always harping and knocking the union side of the fence. I don't think we're perfect. And that's what it is. Are I know some folks are tired. I'll stop but that's my motion and we'll vote on it at some point.

>> Mayor Reed: Not only are some people tired, the VTA staff is wondering where the quorum is. Five of us have to go over there soon. They've already started the meeting. Councilmember Constant.

>> Councilmember Constant: My kids are waiting, so I'll be short. In fact I won't say anything. Except I support the efforts here and we'll go on.

>> Mayor Reed: Councilmember Kalra.

>> Councilmember Kalra: I'll take Councilmember Constant's time. Anyway it's been said I know that in speaking with Alex he neither endorses nor condemns the idea. He'll follow the direction as staff ordinarily does. But I do think that there's a risk in stifling creativity, and limiting open brainstorming, and inhibiting and potentially limiting the successful negotiating of contracts. And I understand Councilmember Oliverio's desire for opening up the negotiations. But his memo I think has a lack of particularly of background that really will tell us what the end result will be. We don't know if the reason why we're in the situation we're in is because we have closed negotiations. That's what he's assuming. Of course most municipalities in this country are going through the same things we are because we're in a global recession and frankly locally we're in a much worse position than most places in the country. The reality is we would need much more background, staff would need much more thoughtfulness in thinking how they would approach it, we would need to know other jurisdictions in this state or this country have open negotiations. If they do what were the results before they had them and after they had

them was it a positive net game in the terms of the contracts they negotiated? Was it a positive net gain relative to the quality of services? Was it a positive net game regarding to work stoppages or other unintended consequences that might occur. Although I understand and respect Councilmember Oliverio's opinion on this I just think it's not prepared to go forward at this time and I think that I will not support the motion although I will support the underlying motion with the one comment that Councilmember Pyle's discussion of looking at the one-third in kind of a more of a detailed analysis of the opportunities to try to bridge the budget deficit, I would approve of those more so than the somewhat arbitrary 50% as was stated by a couple of the folks it really does put a greater burden on the employees because of course service delivery changes putting 50% on the bargaining units on their wage and benefits and then also in the other 50% incorporating service delivery cuts those are layoffs and so we're putting a far majority of our strategy on the employees. So I would really encourage us looking at creatively as possible and working at a broader range of potential strategies. Thank you.

>> Mayor Reed: Councilmember Herrera.

>> Councilmember Herrera: Thank you, mayor. I think the notion of having the discussion in public, there is somewhat intrinsically satisfying about that idea to the public, and to a lot of people that have heard it, and we've heard positive things mentioned about it. I haven't heard either of the bargaining parties including ours or the labor groups think it's a good idea, though and after all it's the relationship and work together they have to work together and agree to rules in order to produce something so I haven't seen anybody get very excited about who actually would have to do this work. I would like to know though, I would like to have -- to have future input from staff though, if there are any other municipalities that have done this and to Councilmember Kalra point it would just be some good information. I'm not going to support the motion but I think the idea is intriguing and there might even be benefits for both groups but I don't think we're ready for it right now, thank you.

>> Mayor Reed: I think we're done with the debate on the substitute motion, are we? Time to vote? All in favor, I count in favor Oliverio, Constant, Liccardo opposed, everybody else. So that fails on a 3-8 motion. So 3-8 vote. So that leaves the underlying motion which was made by Councilmember Pyle. And on that one, Councilmember Chu wanted to speak to that.

>> Councilmember Chu: Thank you, mayor. I want to thank Councilmember Pyle and mayor to come up with both of their memo and also the language modification on number 5 items on the outreach to state legislature. I would like to propose that we put it little bit more specific, strong language, and indicated that San José city council will support the league of cities, there's a petition to put on the November 2010 ballot for a constitutional amendment, so would like to put in the language that we support a petition for constitutional amendment.

>> Councilmember Pyle: I got a little problem with that for this reason. I think if we made it broader we don't have to get saddled into one particular thing. It's a brand-new concept that you're bringing up so if we said to support the league of cities activities and work with the league in order to make this happen I would be happy with that.

>> Councilmember Chu: And my other proposal --

>> City Attorney Doyle: Councilmember I want to just for Brown Act purposes it wasn't agendized, there were two issues that were not agendized that were going to be discussed, one was the ad hoc committee and if you're asking the council to take a position of support you can direct staff to bring back for agenda so you can take formal action, the only direction that's allowed is for City Manager to follow up on certain activities. You can direct staff to follow up and we'll bring that back.

>> Councilmember Chu: Very good, thank you very much, I appreciate that input. And the second one is the -- I strongly feel that if we renegotiate some of the contract services, will yield a lot of savings to the city coffers. So number 1, addressing the current projected shortfall, I'd like to add the renegotiate the contract of service as one of the -- or part of the alternative service delivery proposal.

>> Mayor Reed: I think that would be included in alternative service delivery calculations, because we're currently delivering with contracts, consultants, if we decide to bring it in-house that's an alternative service delivery that may save us money. So that would be part of it.

>> Councilmember Chu: I just wanted to be more explicit.

>> Mayor Reed: Is that part of it? Councilmember Pyle says that's part of the motion, the friendly amendment. Okay with Councilmember Herrera? Because there certainly are opportunities there. Okay, on the motion in chief, Alex.

>> Alex Gurza: Mayor Reed, just for point of clarification, I'm unclear as to where it left with the issue of disclosing proposals.

>> Mayor Reed: The motion is to disclose proposals at the time they're made post them on the Web.

>> Alex Gurza: As we have been doing recently. On the issue of the equal time issue, is that simply something we need to study and come back or how is that -- is that part of this motion?

>> Councilmember Pyle: If I could read the language, direct the staff to include in any ground rule that any presentation, any to the city council or to the bargaining units include equal time for presentations by the city negotiating team and the bargaining unit. So in other words, if they want to bring it forward both sides should be able to state their case.

>> Alex Gurza: Right and again just commenting because of the other idea Mr. Brownstein had normally we wouldn't be coming to you in open session until there's a tentative agreement or a last, best offer so I just wanted to be clear there's no confusion that would be the opportunity rather than every time a proposal is made. So the idea really is then, when we come forward and it's on your agenda for approval, then in that case then that's the opportunity to provide the equal time. Okay.

>> Mayor Reed: Councilmember Campos.

>> Councilmember Campos: I hear what you're saying Alex. I thought we just had confusion here. I thought that Rick was going to look into if it was feasible to look into any major proposal you brought to council after the negotiation. Maybe I --

>> City Attorney Doyle: We can do that discuss it with staff. Alex is right typically if you have a tentative agreement --

>> Councilmember Campos: A tentative agreement, I don't just want it to be best and final offer.

>> Alex Gurza: Yes, there again, the detail, but we don't want to walk away with any confusion. There are tentative agreements reached during the bargaining on individual issues. So you have one issue, it may be a minor contract language change, signed by the lead negotiators, it's put aside, right? That's different than a tentative agreement on the entire contract. So when we're coming to you with a tentative agreement on the entire contract, or to consider last best final offer that's when it comes to council as opposed to each time we may reach a tentative agreement. So frequent, I can tell you in good negotiation you've reached tentative agreements along the way. And again, the issue, the idea here that was being discussed before is to have an opportunity to come to open session, each proposal, that's different than Councilmember Pyle's idea. Councilmember Pyle's idea is along the lines that I indicated. I think one of the issues if we were to provide this opportunity to come to the council in open session, I think as the City Attorney indicated, one of the big cautions would be how to avoid direct dealing? If it's simply a presentation without comment, that is one thing. But when we engage in a conversation and say well, might you do this as opposed to that, or we might do that, then it's direct dealing possibly on either side, so it's a very tricky issue at that stage.

>> Councilmember Campos: So is it fair to ask you to come back about with those questions so we're not taking up any more time because I know the VTA members have to go --

>> City Attorney Doyle: I think that's a very good point. We are coming back with this ad hoc I believe Councilmember Chu so --

>> Councilmember Campos: Councilmember Pyle could you ask that -- thank you.

>> Mayor Reed: Okay, on the motion, all in favor? Opposed? One, Oliverio, that motion passes on a 10-1 vote. Taking us to a couple other items to discuss, the ad hoc committee and then Councilmember Chu's request on the league of cities piece of this. Since those are not agendaized for action, but discussion, I think in light of our discussion today we ought to have all of that go to the Rules Committee on the 18th to try to figure out what a work plan would be for an ad hoc committee and get that back to the council agenda on the 1st of December so that if we are going to have an ad hoc committee we got to take into account the staffing and the work that's already going to be done in the other part of what we directed the staff to do today and Rules Committee can work on that work plan on the 18th and then if we want to proceed it on the 1st the council can approve the committee and everything and plenty of sunshine for everybody and then the same thing for the league of California cities request for Councilmember Chu we can just refer that to staff to bring it back to us with the appropriate recommendation so we can take action on that. Is that okay? Those are directions then, we'll do that, I don't think we need to take formal action, in fact we're not taking action except to refer them to staff. Anything else on this agenda? I don't think there is. VTA meeting is already underway. Perhaps they're waiting for us, I don't know, they're waiting for us. I was hoping they'd be done by the time we got there just to be honest. Okay that completes our session today, we are adjourned.