

The following transcript is provided for your convenience, but does not represent the official record of this meeting. The transcript is provided by the firm that provides closed captioning services to the City. Because this service is created in real-time as the meeting progresses, it may contain errors and gaps, but is nevertheless very helpful in determining the gist of what occurred during this meeting.

>> Mayor Reed: Good morning. I'd like to get the study session here started. I think I have a council quorum, if we get everybody in from the green room. But we'll start just as soon as we get a quorum. Vice Mayor Chirco is ill, will not be here, now that Councilmember Pyle is here, in some sort of a traffic jam. I think we have a quorum in the building, get started in just a minute. Okay, we do have a quorum on the dais, we'll go ahead and get started with these study sessions. As you all know May is a very difficult month, because we have to do all of our regular work and get through the budget study sessions. So welcome everybody, to a difficult and long task, this year made more difficulty by the fact this is the eighth year in a row that we've had to talk mostly about cutting things, rather than things that we'd like to do. But these are a continuation of the discussions that we started in March, around the March budget message. And we're now going to have a chance to publicly review the work that the manager and the staff have done putting together a budget proposal that's within the framework of the budget message from March. Unfortunately, every time we run the numbers, they get worse, it seems, because of the economy, and now we're up around \$80 million in General Fund gap that the staff has had to try to solve. And we've got a lot of recommendations to go through over the next few weeks, but of course you can't talk about our budget without acknowledging that things could be worse. They're a lot worse in other cities. They're worse at the State. This budget has a lot of bad news in it but we could make it worse ourselves if we don't hold the line on pay increases in the next years as we go into negotiations. And unfortunately, the state of California could make it worse. The governor's finance director has recommended that they borrow 8% of our property tax funds to help close the state budget gap for next year. That would only be about 16, \$17 million or so. And that would be more than everything that the manager's already put in the tier 2 list. I have talked to the governor several times over the last year about his commitment not to take local government funds. And so far he's held the line. But I think on March 20th if there's not a successful day at the polls for the budget measures, that March 20th, all bets will be off and we'll have to start the fight over local taxes all over again with our friends at state government. But we'll be optimistic and deal with the problems that we have, and try to do the best we can with what we've got. But we know our expenses and our commitments exceed our revenues and our expenses are going up faster than our revenues, that's our long term problem. We've been here before, this is eighth year in a row. One of the things in reviewing the budget that strikes me is when we get to the end of the line, we're going to probably eliminate four or 500 positions. A lot of people are going to get demoted, probably 150 people will be laid off. It is interesting to note however, that if there were truly no raises in this next fiscal year, and I mean no raises, a real zero, a real freeze, that we would probably have enough funding to avoid layoffs. That's not a new idea. It's one that we've been talking with our bargaining units about. But we have no agreements so far to give up the raises that have been contracted for next year. So I think it's time now, look at the difficulties for renewed effort and I'm hoping that our bargaining units will stay at the table and continue to work with us. Because I do 30 we could avoid layoffs if everybody gave up their raises. But we have contracts and agreements and some of them have zipper clauses and so we have no agreements on that issue at this point. So we're faced with a lot of unfortunate changes. All of them are bad. We'll do what we have to do because we'll have a balanced budget by the end of June like we always do. We had some help from our community, a survey statistical valid poll of a thousand people to find out what the people of San José feel. We have had neighborhood sessions and priority setting sessions. We've had meetings in every community to talk about the budget. We have a pretty good feel about what our community thinks and our priorities and value for the community and we'll try to make sure those are reflected in the decisions we make in this process. But we do have to put everything on the table for consideration and evaluation, and if it was possible, we'd love to meet all the needs of our residents and do all of the things that we can, we just can't do. So we have to set priorities, we have to make decisions. There are plenty of bad decisions we have to make, because we have no choice. One of the things that I would like to ask is that on May 12th, when we have our public hearing in the evening on the budget, that the manager and the staff be ready to talk about the out of the box alternatives that are not reflected in this budget because we're in a box. And what things have been suggested by our employees and our residents that could save us a lot of money that we just can't do for one reason or the other. I think it's important for the public to know that we've thought about these things, we've worked on these things and for one reason or another we can't do them. And they're not reflected in the budget. I will publish a list of those I've heard from the community and have come from our employees that I think deserve an answer, in public. And I think that will be helpful, if everybody understanding that we are being creative, we are thinking outside the box. But just because you can think outside the box doesn't mean you can actually get out of the box. I think that's important for the public to hear that discussion, as part of that public hearing. And that may prompt some new ideas and some efforts to get out of the box, in some cases. We'll do study sessions from the day through the 15th of May. On May 12th and June 15th we have hearings on the budget in the evenings. May 21st, budget documents or proposals will be due to my office. June 5th I'll release my budget message. June 16th, the council will review and deal with the budget message and June 23rd is the

adoption of the '08-'09 budget and fees and charges. So that's our schedule. And I don't have to -- probably don't have to remind everybody that after June comes July. And we can all look forward to that. So look forward to this process, working together with my council colleagues. We have a council that gets engaged, works hard to solve the problems. And a staff that works with their professional skills to try to give us the best options that we have to consider. And if only the economy were better and if only the state wouldn't take our money maybe we wouldn't be in this fix, but we are. So we'll press ahead and come out with a solution by the end of June. With that I want to turn it over to the City Manager to begin to present the budget proposals.

>> City Manager Figone: Thank you, Mr. Mayor, members of the council. As you begin to consider the proposed budget in front of you, I did want to take a few minutes to set the context for where we find ourselves at this moment in time and reinforce some of what the mayor has already shared with you. So as you know, the General Fund deficit that we're facing for '09-10 is approximately \$84 million. And unfortunately, the future year looks to be worse. The past year has been, without a question, an extraordinary one. With the meltdown in the financial and mortgage industry, the bottom fell out of the national economy, and with that went city revenues which dropped dramatically. As the council's aware, during our mid year budget review we were forced to significantly reduce expenditures in the areas of development fees, aviation and traffic capital programs and we eliminated approximately 140 positions. And that in itself was an extraordinary effort. Then early last month when we were finalizing our decisions the new property tax figures came out and what had been a \$62 million deficit grew overnight to \$78 million excluding the development fees, and that was a 28% increase in the deficit. Against that backdrop, none of the decisions facing the administration and now the city council, were easy. Rather, these are bad choices between competing bad options. As I've told our employees many times, as I've talked to them through brown bags and other forums, this is not about devaluing any of the services that we've had to propose to you for reduction or elimination. This is not about the poor performance of our city employees. Not one department head could say that they wanted to submit to me the recommendations that they had to, and now, I to you. With deficits of the size, it's inevitable, and unavoidable, that significant cuts are needed, and will be noticed by our residents. As the administration evaluated the tough choices before us, a key driver was to ensure that we did not make next year's anticipated problems worse. As the mayor indicated we did evaluate what we brought before you through our professional lens and do recognize that now, the council will look at these proposals through your community lens and will do the balancing that you feel is right based on the values of the community as you interpret them. However, that said, there were several strategies that guided our approach. We kept the city council's priorities in mind. We looked at two-year approaches to provide additional transition time while not worsening the 2010-11 projections. We looked for ways to hold down the personnel cost and flatten the organization and where we could avoid it we've chosen not to add additional personnel. In all of our decisions, we were as fiscally responsible as possible. The proposal before you balances the budget with 97% ongoing dollars, higher than we've achieved in any of the previous seven years of reductions and we have focused on preserving our core services and have made public safety a priority. But this does not mean that we've been able to hold our Public Safety departments harmless. After seven years of reductions, the nonpublic safety services have been forced to rely on a shrinking piece of the General Fund pie, in making additional cuts in this area where the pie has shrunk continues to be more and more difficult and have a profound effect. This proposed budget continues that pattern with significant reductions across the board. The proposed budget also keeps faith with the structural deficit elimination plan. It does include service delivery model changes, additional use of redevelopment funds, dollars from the safely surplus property and personnel cost containment strategies, all strategies that are identified in that plan. Historically we have been able to manage through these challenging times by holding vacancies and for the most part avoiding layoffs. And even with this balanced proposed budget the forecast for next year still shows a significant deficit, the budget shortfall which assumes some moderate growth in revenues is projected to be \$37 million. And that figure does not include the additional pension costs that will likely be in the range of tens of millions of dollars. Nor does it include any potential impacts from the state, as the mayor just referenced. We have heard that the recommendation is to pull the prop 1A trigger which means approximately 17 to \$20 million of the City's revenues at risk. A tier 2 list of proposals is included in this budget. They are not recommended at this time, but they do offer you \$14 million in additional reduction options. These are available to the council, should you wish to move the needle from the 97% ongoing proposals to 100%. This would improve our fiscal situation going into the next fiscal year by about \$3 million. They could also be used to substitute for any of the proposals that we've brought before you that are unacceptable to you, and they're also available to address the State actions if those come to pass. But again the full tier 2 would fall short of what our current estimate is of that impact. In closing, a couple of points I'd like to make. This has been a Herculean effort, and it has been only possible because of the diligence of many, many people, many of them in the room today. The City staff, the

department heads, their teams, the budget office, have spent many, many hours to get us to today, and to the study sessions. Jennifer Maguire for her leadership through her budget team and to all of us who have sought her guidance and her steady hand, I can't thank them enough. The budget staff have spent literally hundreds of hours to 2:00 and 3:00 in the morning over the last 30 days to get us to today. These are turbulent times, and there are significant transitions that lie ahead. Just because the ink is on the page that describes the proposal doesn't mean that it won't take implementation effort, and we will be in transition mode for quite some period of time. This will take focus and discipline to guide our city to smoother waters, and the administration is here not only to answer your questions but to support you as you wrestle with the difficult decisions that we place before you. So with that I'll turn it over now Jennifer Maguire our budget director.

>> Jennifer Maguire: Thank you very much. Good morning. I have a brief but lengthier than usual overview of the budget to provide you with information on our approaching strategies for our little over \$84 million shortfall in city funds. To start, the proposed budget contains a \$2.6 billion spending plan, funding almost 6500 positions. I do need to note that the total budget will grow during the next phase of the budget process due to the rebudgeting or carrying over of current in-progress projects. A lot of those projects are in our citywide expenses and capital project area. The pie chart shows the breakdown of the three major portions of our budget. General Fund is 29% of our pie, or \$881 million. Our special funds account now for almost half of the budget, that's about \$1.5 billion. The largest components are in airport housing and capital funds. \$716 million. As you're aware the proposed budget was developed during a period of extraordinary economic turmoil, severely impacting the General Fund as well as a number of other funds in the city. The economic downturn is expected to impact the revenues through 2009 and well into 2010 and that is consistent with many economic forecasts that we review. You will find in this budget unprecedented budget actions, proposed in many funds and they do have significant successful level impacts, as the City Manager has discussed, but we do believe the budget maintains as many council priorities as possible. Going generally into our economic environment, the economic downturn has significantly impacted our city revenues, property tax, sales tax, transient occupancy tax, airport tax, traffic capital revenues. Later in this overview presentation Paul Krutko will provide you more information on our economic impact facing San José. If you look at a couple of these graphs here, just to give you some context, in '06-'07 and '07-'08, in '08-'09 the growth rate we're expecting here is a little over 4%. In '09-'10 we're looking at a decline of 6.5%. Overall for property tax revenues the county expects it to be one of the worst performers in the county's history. In sales tax, moving on to that area, we were getting, receiving about 5.5% to 7% growth rates for the first two years on that graph. In '07-'08 we had about 2.7% growth. We're looking at a negative 7% this year if we predict the next quarter to be correct which is a very hard call and a decline of 5% in 9-10. In transient occupancy tax, the last two years there in '08-'09 and in '09-'10 we're looking at 17 to 18% declines in that area. Our development fee programs over a two-year period of time is a decline of 12%, and the airport activity in the month of February was down 20%, just to give you some context of how different the fiscal situation has changed. This slide shows eight years of the General Fund shortfalls and the cumulative impact of position changes. In total with this budget we would have eliminated shortfalls of about \$465 million, and with a proposed reduction of 981 positions in all funds. Moving more specifically into the General Fund, our recommended budget balancing actions, as the City Manager indicates, solves almost 90% of the ongoing issues. We have a \$6.7 million development fee program that is also contained within the General Fund and, by council policy, is considered an enterprise or cost recovery program within the General Fund. We do have alternative tier 2 budget proposals as the City Manager mentioned. They are found under the City Manager's budget message section under the proposed operating budget document. That is there to potentially address the 100% of budget actions with ongoing solutions. Again, also, it is there for any substitution that the council may wish to make to any recommended action, the potential for state budget action and any increased employee compensation costs that are beyond the city's control. The potential state budget actions are a real threat to San José. The state has taken over \$495 million in San José revenue since 1990, which amounts to about \$45 million annually that we do not have for services in our community locally. And currently, the Legislative Analyst's office estimates that the 2009-2010 budget shortfall right now is \$8 billion out of balance, if the voters pass the propositions that are before them. If the propositions do not pass, that state deficit would grow to \$14 billion in 9-10. And again as the mayor indicated information received yesterday is that the state Department of Finance is proposing that the governor pull the prop 1A trigger to borrow 8% of our local property tax revenues. A very preliminary estimate is higher, mayor, than what the numbers you'd given because they're now look a little bit broader at our property tax and look at some triple flip very complicated revenue switch done several years ago. The revenue we are aware of here in San José is more in the range of 17 to \$20 million. As indicated our tier 2 proposals total \$14.1 million, that alone would not cover that sort of shortfall to our revenue sources. To give you a sense of our source of

funds in the General Fund we have over 500 revenue sources that we do track in the General Fund so we do have a diversified portfolio which is good for the economy. The property taxes as you can see here the large pieces of the pie, they total about \$329 million but only cover about 74% of the police and fire budgets. If you break down the General Fund by use of funds by more of like a departmental type category, reflecting the city council's priority is important to note that over half of the General Fund resources go towards police and fire. As you you can see the 51% total there. On the next slide, this shows public safety funding as compared to our nonpublic safety departments. This is what the City Manager was discussing. Even with the reductions recommended in the budget we do have albeit very slight growth in our public safety departments for 9-10, together the police and fire departments total \$445 million where all the other departments combined total \$253 million which makes those reductions even also difficult after seven years of cutting. And this is more of a reminder slide that almost 70% of our costs are driven by salary and benefits costs as we are a service organization. And this is why the majority of reductions tend to come out of the personal side of the equation. Moving on to our operating budget blanks strategy, I know you've seen this slide before. But this is the - - does serve as our starting point in developing the General Fund budget, it's our five-year forecast. And this does assume that each year is balanced with ongoing solutions, so these are incremental numbers on here. As you're aware, earlier in February we were predicting a \$61.2 million shortfall, but we had to do a significant downward adjustment to some of our revenues including property tax, sales tax and our T.O.T. revenues which brought that total shortfall to \$77.5 million and again, this is without the development fee programs that are considered separately. Looking towards 2010-2011 which was on our horizon when we put this budget together, the base shortfall was predicted at \$36.7 million and if you combine that with the one time carryover solutions as we recommended them in the proposed budget of 2.9 million and a potential scenario of what our pension plan increases could be, we're looking at perhaps a \$90 million shortfall in '10-'11. Again, this is not assuming any state budget actions and in any of these numbers. Moving forward, when you combine our base budget General Fund shortfall with our ongoing unmet deferred maintenance needs the industrial deficit could be as bad as \$300 million, if you take a five-year viewpoint. And this does not address the one time need in our infrastructure, \$825 million in all funds if we were to catch up everything to the condition they should be. The administration did use eight major strategies in balancing this budget. In addition to our overarching theme, carryover impacts to '10-'11, we did obviously the '9-'10 mayor's March budget message as the policy document for us to guide our actions. We do have many service delivery models, two year implementation time frame where that makes sense to phase out of services or allow time to go to new service delivery models. We have management consolidations, personnel cost containment, new facility opening deferrals, we have service area deferrals, roll backs, the roll backs it's important to note because where we had some strategic add-backs in the last few years we're finding ourselves having to roll those back once again in this budget. We also have a variety of fee increases, some prudent use of reserves and transfers to and from other funds in this budget. As far as the numbers go and we balance the budget, you see the \$82.4 million total, we have changes in sources and uses that show that there's a resolved 9-10 budget and with 97% of the shortfall, or all but \$2.9 million addressed with ongoing solutions. I do believe that is the highest percentage in any year we can recall, if you go even to the early '90s, back at least 18 years ago when I first started in the City. We felt it was very fiscally responsible to maximize the ongoing potential, given the size of that year's shortfall. On the source sides we have a variety of one-time actions but those are primarily in the use of reserves and fund balance. But we do also have ongoing revenue increases. The use of the one-time revenues here are offset by ongoing actions on the expenditure side which allows us to get to that 97% ongoing solution overall. The economic uncertainty reserve, I'll mention a few items on here. We are recommending to use a third of it, which would leave state budget impacts if that was an unfortunate hit to us. Based on council policy to be specifically used in 9-10, we have carefully reviewed all of our other earmarked reserves to liquidate for redevelopment reimbursements. The largest other transfer is liquidating our emergency communications fund, since that is now a tax approved by the voters. We also have several fee and fine increases, primarily the area that that covers would be our PRNS pricing and revenue strategy, we have parking citation increases, and doubling of our library fines, for example. We have taken a good look at our asset management program, in fact that's being recommended in this budget to be transferred from Public Works over to general services. And we believe we can sustain another \$1.6 million in ongoing sale of surplus properties, that will bring the total of \$1.8 million on an ongoing basis in that arena. On the use of funds side, there is a variety of actions totaling \$48.8 million in 9-10 and 66.6 okay going, I'll go through that in just a minute on another couple of slides. I do want to note we do have modest additions in this budget starting with the line item that shows new facilities, operations and maintenance. We have that, city council direction from the mayor's March budget message, we have revenue supporting activities, where the revenues more than offset the cost there. We have technology and capital infrastructure maintenance adds and miscellaneous adds that we felt we needed to keep

viable. Adding staff to make new employment services model work. For example, we're reducing 16 positions across many departments but we're needing to add back six different types of positions to make that, a cost of \$700,000, to make that work. But the net effect is about a \$1 million savings. We have also set aside filled position elimination, expenditure impacts, comp time buyouts that might be necessary if we have to lay off employees. We've added some money for the police auditing and for our sworn hire-ahead program and most of these are all one-time adds and some money for further implementation of our General Fund structural deficit elimination plan for like polling or outreach for the community. I have three slides that will give you the highlights of the major service reductions and eliminations. The number is just outstanding of the number of proposals contained in this budget. But we wanted to list these proposals here so you have the context of what it took to balance the budget. And anybody else that's watching this presentation, and what the impacts will be felt by the community after seven years of shortfalls. Specific details of these shortfalls will be discussed in each CSA budget study session. You see here we're recommending to reduce hours at branch libraries by 13 hours a week. 2010 proposal, phase out proposal, recommendation to close regional parks on Monday, nonmandated traffic calming, and ton next slide we have elimination and temporary deactivation two fire engine companies. Deferring the addition of 25 police officers that were assumed in the forecast forecast, although we have a grant application with the federal government for those positions. We're eliminating police officer positions from the swing shift patrol, horse mounted, and we're recommending to eliminate our crime prevention program in 2010-11. To develop a service delivery model on that program. More on our strategic support area, we're recommending to reduce our custodial staffing, fleet management funds, several I.T. Website and help desk areas, we do see risk management staffing, all of our community based organizations by 15.9% which was the average nonpublic CSA reduction. We're reducing staff in nonpersonal and equipment in all of our council appointee offices and reducing the mayor and city council budgets by 15.4%. Moving on to cost savings and new service delivery models, I have two slides to give you examples of that but they are significant actions in this area. We have management staff consolidations and restructuring. We have a salary freeze for senior executive management and professional employees or those in unit 99. We have no merit increases included for all managers or pay for performance program. All open contracts have been removed. We have employment services consolidation that I mentioned earlier, we're delaying or the departments of library and PRNS are absorbing costs for new facilities coming online as well as our D.O.T. department as well. And we do have some energy efficiency efforts as noted on the slide. On the second slide I've got some other items listed here. We're recommending to consolidate our office of emergency service into the fire department. Fire department support paramedics, police take home vehicles, implementing some police patrol call replacement efficiency, payment compliance review, decentralizing procurement of goods and services below \$10,000. Completely outsource an operation by 10-11. We do have significant actions in other funds that are very important to note here. Reductions in our airport funds, there is an elimination of 43 airport positions, and that's on top of the 52 we did at mid year. We do have reduction in our convention and cultural affairs funds of almost 30 positions, we have reductions in our transient occupancy tax fund, which are convention facilities, which is necessitating the funds above, as well as our Convention and Visitors Bureau. One area we do have modest additions in is in our environmental services department primarily because of permit additions. And we do have some utility adjustments in that area as well, which will be discussed in a further budget study session. Moving on to potion for all funds we did go in -- this council approved in '08-'09, an addition, net elimination of this budget of 513 positions, 141 of those potion were removed at mid year. This brings us down to a 6472 position level. I need to give you a sense of the departmental impact in this area. Convention and Visitors Bureau down 30 positions, which is 35% of their entire position count. Our Planning, Building, and Code Enforcement is down 96%, 30% drop, our airport total reduction of 95 potion which is about a 25% drop in their staffing, and they have further cuts that will be necessary to do in 10-11. Our Public Works department is down 51 positions or 14% of their total. And our library, I.T. and finance departments, they're all down about 10% or so in their totals, to give you a sense of the scope. The next slide shows our citywide position tracking and you can see where we did -- we were increasing slightly and then we went down and then we are now forced to go down again. Since 1993-94, our proposed budget brings our citywide positions back at approximately our 1998 levels despite our city population growing by about 14% during those intervening years. As far as employee impacts goes, this budget does impact 490 potion, people, the outcomes would be that 212 employees would stay in their current class, although they would likely move to a different department. 106 employees would demote to a lower class. 112 employees would be subject to layoff and -- or redeployment which would be full time employees, 37 part time benefited positions layoffs in this budget with 23 employees, that would be affected in January. Mark Danaj is here if you have any specific questions in this area or about the process. Finally, the next steps which the mayor did go over are on

here for your view. And with that I'd like to turn it over to Paul Krutko and then we would like to answer any questions you have related to this overview session.

>> Paul Krutko: Thank you, Jennifer. Paul Krutko, chief development officer. I'm going to do a brief presentation on where we stand with the -- I thought I was going to do a brief presentation. Thank you. On where we stand in terms of the national economy, world economy, and how it affects San José. I think it's really important that as we look at the budget deliberations over the next few weeks, that we really do have a good understanding of the severe head wind that our economy is working in. And so I'm taking advantage of some material, I'm a board member of the international economic development council, you see that logo on here. This is some information at the beginning of the presentation that they've put together that I think is really germane to this discussion. So National and it really is compilation of many of the headlines you've seen. National unemployment is at 9%, 5.1 million jobs have been lost since December. And of '07. Two-thirds have been in the last five months. So this is an accelerating crisis. There's been significant impacts in the manufacturing area which is on top of manufacturing losses the country had been experiencing for quite some time. Very severe dislocations in retail. As you can see, in terms of over 500,000 jobs, I think the key point is the one at the bottom, that January's numbers were more layoffs than in any month since October 1949. This show graph really illustrates how the job losses across the nation have accelerated. And given that we sell goods and services to the rest of the nation and the world, as job losses accelerate elsewhere, this recession has finally come home to roost here in Silicon Valley. In terms of California, the current unemployment rate is 11.5%, the highest in 26 years. I really want to call council's attention to the bottom bullet that, while that number is very high across the state, we've seen severe unemployment in construction. It's ranging 18.5% now. So projects that we're working on that are countercyclical are very, very important, putting construction workers back to work. That's why the president's stimulus plan is so important. Relative to the market as we've seen across projects in San José, and affecting our development services component of our organization, the freeze in capital markets has caused projects that were ready to go, not to be able to go forward, even if they have sound underlining fundamentals. The point that I want to make on this slide that I really want to enforce in terms of the head wind is the number of stores that have closed across the United States. And you can see the number, 148,000 stores across the nation in 2008. And a prediction that we've not seen the end of it, that the first half will be equal to about half of the number in 2008. This slide shows you the well-known names across the nation that have closed. Does not at all reflect the severe dislocation in sole proprietorships, mom and pop stores, you know, the kinds of stores, local stores that are adversely impacted. This just gives you a sense of the leading names that you see advertised on television regularly and what the impact is there. Tell you a little bit about manufacturing. Just wanted to reinforce that many of our companies, in terms of software development, in terms of hardware, routers, communication, all of that work, they sell to companies who make things elsewhere in the United States and around the world. So this severe job loss in manufacturing that is accelerating this year has been an ongoing trend since 2000, an ongoing loss in manufacturing since 2000. Shifting, the headline is the critical one, a loss of \$6 trillion in value over the last two years. The indices are showing across the nation, I'm going to talk about San José specific in a minute, but across the nation, an 18% decline in home prices, the median price has gone down by 13% and we do know what's happening relative to foreclosures. The impact and summary on daily life is that as you can see from this slide, that's in the face of other trends, where we, as Americans, are spending much more on health care, where premiums are going, what that means relative to a wage increase, that's an issue in the budget that we're talking about with the council over the next several weeks. You can see what's happening in terms of tuition cost, up by 26% over the last eight years. And increasing distress in terms of poverty, children living in poverty, and homelessness across the nation. Two slides just to kinds of encapsulate this from a national revenue perspective. This slide is showing sources of revenue, and the trends since the first quarter of 2004. You can see obviously down and to the right. But I do want to call your attention that what is going on in California is happening across the nation, as you can see state revenues are now going into the negative. You know, not even staying above sort of a break-even point when you look at it from a source revenue. Call your attention, in particular, we don't have an income tax here. This is a national slide. I would call your attention to the red bar, that's the sales tax trend and you can see across the nation, sales tax is down nearly 3% across the nation in the last quarter. When we look at this, and when we hear information that comes to us through the national media, we need to think about sort of how do we plan for the future. This is a graph of results from a McKenzie global survey of business leaders in terms of their prognostication about where the economy is going to go and you know, as we think about the future, we are in a very uncertain outlook. And the two main elements that are really creating uncertainty, you heard some of that from Scott, Scott Johnson, our finance director about a particular circumstance. The elements here are, we are not sure how the global credit crisis will play out. When will global credit and capital markets reopen, or will they

remain in a freeze and volatile, and how will the crisis play out? There are these four scenarios we need to think about as the staff is preparing a budget and council is deliberating on what approaches to take. The right top quadrant is what everybody's hoping for but you can see only 14% of business leaders and economists believe that's going to happen, which is this very quick return. Even chairman Bernanke, in statements he made, the headlines, he sees the economy growing later. You need to read the second paragraph because he says, economic activity is likely to be subpar. What he's really talking about is the economy contracting, what he believes will happen is businesses will stay cautious about hiring, causing further sizable job losses in coming months. So while the recession, the contracting of the economy may stop, the effects will continue for quite some time. The left, top quadrant, is what most people believe is going to happen, that we see growth beginning to come back in the 2011, 2012 time frame. The quadrant to the lower right is probably a little more daunting, and that is that we would see the recession moderate but we would have a longer slow growth period. So that is sort of context. My last five slides are really about San José specific. This is the picture for us. We had the very severe effects of the last recession here, and that was largely due to the excesses I think in the dot-com area. We began to see what we were very pleased about, which was the steady and sustainable growth pattern, based on companies that were responding to real markets with real products. But as you can see in 2008, and now already in 2009, in the first quarter, we've given back significant numbers of the jobs that we were able to bring back into our economy. And I think there was a hope that we would function differently. But the last year, we have now had the effects of the global recession impact us directly. Okay, I'm stuck. Well, I can tell you what I was going to tell you. Let me move on because I know we're limited as to time. The next slide was -- there it is, unemployment, this is very concerning, we need to bring this to council's attention as you deliberate here. That we are now as a city, we have a higher unemployment rate than the state. What's been reported, generally, is sort of an MSA number which is the yellow number which would put us a half a percent below the state. But if we look at unemployment in San José proper, and so this is an issue for us as we talk to other levels of government, and regional organizations, that we stress that we do need our fair share of stimulus dollars, because we are having severe economic dislocation. There is this sort of imagery of Silicon Valley and we should be immune and so on, so forth, but that's not the case. We've had also, to reinforce that, the last two slides, we're seeing increasing vacancy. We'll talk about that in the CSA presentation about how we intend to deal with that. But what that means is that property taxes are likely as the values are affected by the vacancy and the rates will bring the numbers down. We will illustrate that we are seeing a severe impact in hotel occupancy which has -- creates very real concerns for us, because of the significance the T.O.T. revenue plays in our budget. To note, it's not only the issue of occupancy but rates are declining. So the people that are staying here are paying lower rates. We apply the tax rate to that. We are generating less revenues. And finally, the home price question has been on many, many people's minds in the media, and you can see what's happened and specifically in San José, and what's happened in Santa Clara County, so you can see that while some high-ends price -- parts of our county, price, median prices are up, the trend line in San José, and specifically, is to the negative. So in conclusion, one of the things that I often talk with the council about, when we do presentations, is that in a positive sense, our relationship to the world economy is tremendously important. That's one of our very real strengths. Jobs and capital flow to San José. But at the same time, when we are in a very significant global recession, the national and world economy struggles that we're seeing bring those effects home to San José in a very real and substantive way. So collectively in conclusion, and collectively, the work you're going to see from the senior staff on the proposal that the manager is presenting today, we really want to -- we really made the effort to try to reinforce the cycle that we've talked about before, that despite the economic headwinds, we need to make as good a prudent investment strategy in our future so that we can be the great city and continue to be the great city that we've become. Thank you.

>> Mayor Reed: Does that conclude the overview section?

>> Paul Krutko: Yes.

>> Mayor Reed: Okay, open it up for council questions on the overview section. I have a couple to start with. Jennifer, on page 9 of the slides, the General Fund overview, General Fund uses of funds, we show that 51% goes to public safety. And I don't know if that's really the best way to think about it. Because on page IV-11, we have \$445 million going to total public safety departments, which actually is an increase, \$6 million increase for public safety over last year. So \$445 million we're spending on public safety. On two pages before that, we have, on page 9 we have a comparison of General Fund sources. We only have \$685 million of General Fund

revenues. So out of \$685 million of General Fund revenues, we're spending \$445 million on public safety. So we're really spending two-thirds of our General Fund revenues on public safety.

>> Jennifer Maguire: That would be correct.

>> Mayor Reed: It's got all these transfers and internal things that make the number bigger. But when you just look at revenues, which is the simplest way to look at it, of the General Fund revenues, page 9, the other revenue, we've got \$15 million of other revenue is there any big in there, or is it lots of little things? I notice it's gone down from '05, \$45 million down to \$15 million in this budget. And I'm wondering where are the card clubs? Are they in other revenues? Because card clubs are almost \$15 million by themselves.

>> Jennifer Maguire: The card club, the card tax revenues are in businesses, licenses and permits. This category if you were to go to page -- section 6, page 29, talks about all the major revenues in that section. The FMC land lease, HP pavilion, commingling of different revenue sources, investment fee reimbursement, safely surplus property would be in that category, to give you some examples. But the card room tax revenues are in licenses and permits.

>> Mayor Reed: Looks like there are not any great hopes for other revenues in that category to rebounds any time soon.

>> Jennifer Maguire: No.

>> Mayor Reed: Those are my questions on the overrule view. Councilmember Oliverio.

>> Councilmember Oliverio: Thank you, mayor. I would just like to say that we have pretty much all the management and staff in the room, number one I appreciate all the work you did to get the budget proposals forward to go to the budget office and the City Manager. I've been here two years now so I've had the opportunity to be with you in the room, see the work do you. Sometimes we have policy differences on where we want to go, but I think every person is a hardworking person, there is a cynic that kind of spits at government and always thinks we're fumbling arounds. I don't believe that to be true. I believe 95% of the people that work underneath you are hardworking, competent and dedicated to the city. I also understand that everyone that works for you are unionized, I would think in these trying times would you have the dialogue with your staff to kinds of think of other creative solutions. There shouldn't be one door to employee ideas, there should be other doors. So if employees themselves want to come up with interesting ways to save money and save their comrades, their friends in the city, that would be a good thing. And this is certainly going to be a tough time for the council to make those decisions. I know I get the e-mails today and people ask me to save a certain program and I ask what would you cut instead? They say that's up for you to decide. I go back and say no, you pay your mortgage, you buy your groceries, you have to make the decision. Let me give you some options. That's what dialogue we are going to have. Do I really need to close a fire station or reduce police or reduce library hours or take away from D.O.T. when I don't have to? The reality is this city gives \$9 million away of tobacco settlement moneys every year to outside organizations. Which are not core. We might like them and they do great things but they're never as much core as a library They're never as core as a sewer, D.O.T, police, fire, and I really think we need to look at instead of laying off staff, that we take that money that every other city put in the General Fund and we put it towards our core services, because this is one of those rainy days and I'd rather do that than have to lay off people and have them deal with a job market that's terrible. Because if they get laid off they might not have a job for six months or a year, based on the current climate. So we'll go further, ace know the mayor said we'll have more of an open box on May 12th. But that's how I feel. I respect the work you do, that's going to be tough and if you can convey that to the employees, I'd appreciate it, thank you very much.

>> Mayor Reed: Councilmember Pyle.

>> Councilmember Pyle: Thank you. I would also like to bring major kudos to all of the departments, and people that have been involved. I haven't heard one scream, I haven't heard one menacing shrill in the middle of the night scream. And that's really mazing. You know, as we go along and we hear not only from this session but as we watch the news, we watch houses in Victorville that are brand-new that never got finished being plowed away, because the cost of keeping herd on them and make sure that vandalism doesn't occur continually, are incredibly

sad. People around the state are finding amazing ways to solve their problems. I thought that was an amazing one. I want to say, too, one of the take aways Paul that I took from Bernanke is that we pretty much hit the bottom. Would you agree with that? I mean, we've been in free fall.

>> Paul Krutko: Again, I would caution with the federal reserve chairman, you have to look at every word, and parse every word. And as I said, I think that there is -- there is a hope that things will be dramatically better, so people hone in on some of the words. I think the worrisome thing that he said in that was that we will see more job losses, and sustained job losses, but he's really reflecting on that we will start seeing growth again in the economy. But that's growth after a substantive decline. So I hope the federal reserve chairman is right. I would just caution that many have looked at the prior federal reserve chairman's comments and gone back in time and said that they didn't know that those were quite accurate at that point in time. So --

>> Councilmember Pyle: Amen to that. I would like to say too, though, that because we're only a part of the global setting, and what we do is affected by other countries, in that a lot of our major corporations have lost their audiences. I mean, they're not selling equipment and software and materials and all the rest to the European market as much as they were, the Asian market as much as they were, anywhere. On the other hand, we can't give up on getting our name out there and promoting the City of San José. I think that is absolutely crucial. When I opened up this San Francisco chronicle this morning, here was a beautifully done magazine that is from Canada. And it's a promotion to get people to come to Canada. So I'm hoping to get something started where we promote people to come to San José during the summer, and also, to try to promote tourism. I see that as one of the things that -- one form of outreach that we could do that might make a difference. And I'd like to get your thoughts about that.

>> Paul Krutko: Well, the travel and leisure business in terms of the global economy is a significant component. And there are many dollars that are spent in that area. Obviously, the recession impacts people's ability to do that kind of travel. But on the other hand, one of the things that was noticeable over the last year or so was the relative value of the dollar compared to other currencies, was encouraging foreign nationals to travel to America. So the question is, how do we position San José to capture that share of the market? And we have, over the years, worked very well with the Convention and Visitors Bureau on that kinds of activity. I think we're well positioned. If you think of our city relative to our neighboring assets, there is an opportunity there. Clearly, we need to fill up hotel rooms. So anything that would increase hotel occupancy would be a good thing.

>> Councilmember Pyle: Thanks. That's it for me, thank you.

>> Mayor Reed: City Manager had a comment on that.

>> City Manager Figone: If I could add to that, council, I think there's a considerable activity under our consolidated marketing, and we will definitely bear that in mind.

>> Mayor Reed: Councilmember Nguyen.

>> Councilmember Nguyen: Thank you. I also wanted to convey my thanks and appreciation to the budget staff. I know this is not easy time for anyone and we are relying, I am, relying heavily on your knowledge and expertise to provide us the guidance and the expertise so that we can get through this budget year. I just had a couple of quick questions. Jennifer, you mentioned earlier in the presentation that the State is taking \$45 million from our city annually. You can describe to me, or briefly, what programs or departments does that money come out of?

>> Jennifer Maguire: That, the revenues that they have taken from us are mostly on the revenue side. So it wasn't -- it affects all of our General Fund departments because we don't have those revenues to support those activities. It's mostly been in the area of allowing the county to charge us for property tax administration, we used to at one point get a cigarette tax. We have ERAF property tax shifts which is about \$40.4 million annually that we no longer have -- that we no longer get in property tax revenues. And things like that nature that we no longer support all of our General Fund services.

>> Councilmember Nguyen: Right, thank you. And then the other questions, again, for clarification, when and to what extent can we tap into the tier 2 budget proposal? Not that we wanted to go there yet, because we have to look at what we have, you know, on the budget right now. But as we're moving forward I think that's something that I like to start thinking about. So if you can just answer the question.

>> Jennifer Maguire: Tier 2 again is not recommended in our proposed budget blanks plan. So tier 2 is available to move into tier 1 or into our balancing plan at any time that the council would choose to do so. So if you did want to substitute a proposal out in tier 1 or if we did have state budget actions against our revenues we would look to that list of proposals. Again, or if you wanted to go and get more of a 100% ongoing in our balancing solutions.

>> Councilmember Nguyen: Thank you.

>> Jennifer Maguire: But it would be through any of those processes.

>> Councilmember Nguyen: Thank you, Jennifer.

>> Mayor Reed: Councilmember Campos.

>> Councilmember Campos: Thank you, Mayor. And first of all, I know that this has been a very difficult time and I know that staff has really thought outside the box. I know all of the department heads and supporting staff have thought outside the box. But I'm wondering and I don't know if it's the budget office that can answer this or if you can answer this, Paul. We know that right now in the private sector, they're actually assessing maybe some of their contracts that they may have, consulting contracts. And they're renegotiating that, from what I've had discussions with some of the people in the private sector, they're going and saying, can we get a 10% reduction. Have we, in the City of San José, even explored that opportunity, can we explore that opportunity, and City Attorney.

>> City Manager Figone: Let me kick it off. I think that's a really important question for us to follow up on. We do have procurement rules and many contracts are the result of our fee processes and not necessarily through negotiation. But I think we should take a look at that. I, too, am aware in the private sector that, you know, in various industries they're going back to their contractors, and saying, hey, let's renegotiate the deal. So I would suggest if that was an interest of council that we at least scan our systems to see where those opportunities are. And it may mean a temporary policy change. It may not. I couldn't answer right now. But I think, you know, if you just think about the capital contracts are the result of a very strict bidding process, the larger service contracts are the result of RFP processes, not typically through a negotiated process. So I think we should scan the opportunities and come back to council with what they might be.

>> City Attorney Doyle: I just echo what the manager said. There are kinds of contracts that are under \$250,000 that the city enters into, that doesn't come to council, that is under the manager's authority or appointee authority. Those can be looked at. I think most of the contracts are entered into in the month of June for the next fiscal year. There are a good number of them. So it's a timely question and so I think it is something that we can explore.

>> Councilmember Campos: So do we need to do a formal, we could just refer that to the City Manager's office?

>> Paul Krutko: Yes, we will take that referral.

>> Councilmember Campos: I appreciate that, thank you.

>> Mayor Reed: I had a couple of other things to share. I get the daily news reports from other cities and other mayors of what they're doing and in San Diego, they imposed pay cuts with contracts, their council voted to impose pay cuts on their employees and several other of their unions agreed to pay cuts. Mayor Villaraigosa in L.A. has called for pay cuts in his workforce, and Mayor Dellums announced layoffs including 140 police officers as his proposal to solve his budget problem which is quite a bit worse than ours. So I guess misery loves company and we got a lot of company in this business. Councilmember Liccardo.

>> Councilmember Liccardo: Thank you, mayor. Along the lines of more bad news elsewhere, I'm not sure if it's been mentioned already, I came late but you probably announced Mayor Dellums announced 140 police officers will be laid off in Oakland. Certainly our problems are bad here but I wouldn't want to trade our problems for any other in the Bay Area now. I had a quick question about access within the budget. Jennifer, I appreciate all the work that your team has done. As I've reviewed uses of funds in section 3, as we've tried to identify individual line items of budget expenditure we've had a challenge in being able to do that. That is, we can certainly identify where cuts are or where there are supplemental funds being spent. But to get to the actual base numbers within an individual line item seems to be more challenging. And the question is, how could we or our staffs be able to get to those individual line items?

>> Jennifer Maguire: The budget is set up on a -- we budget at the level we appropriate. So the personal, nonpersonal, separate city items in general. I would suggest that we don't -- would I suggest you look in the CSA sections to see what core services in the operational services that are in those core services, we do tell you how much each core service is worth from a budgeting perspective. We do have in the very back of the budget have line items. If you have a specific question that we can research you, I suggest you e-mail us, and we can help you as well if it's not at the level you need it to be.

>> Councilmember Liccardo: There is no simple all-encompassing document that we can access online or on paper to look something up?

>> Jennifer Maguire: The whole budget in detail is in this big, thick document. I would suggest if you are looking at the General Fund particularly --

>> Councilmember Liccardo: Yes.

>> Jennifer Maguire: Reference back to core services. There is a line item, a section that shows the line item by core service. If you are interested to see what's in that core service by line item would you look in the CSA section for that.

>> Councilmember Liccardo: Okay. I think from my review, certainly from our team's review is what we get are generalized descriptions. Certainly we can see where money is being cut within a line item. And certainly, we can have generalized description of how much money is being spent within a department for various purposes. Where we have a challenge is actually being able to say, okay, now, I know how much we are spending on each one of these purposes, within a department at the end of the day. And if you're saying, we just need to go through your budget office do that, I know your staff is not blessed with a wealth of time.

>> Jennifer Maguire: We transitioned that over a multiyear period many years ago, in the late 1990s, early 2000s, going to a core service format, where the budget is presented in an outcome performance base, to get to where the dollars are spending, the service levels that will be introduced with those dollars. The budget is not organized that way anymore. It was more the performance based budget, most cities have gone to performance based and outcome based and that's what our budget presents. To the extent we can help filter those questions back to the departments and see if they can compile budgets and subbudgets, we'll do the best we can.

>> Councilmember Liccardo: Thank you. This was raised by Councilmember Constant a few weeks ago, if there's an expenditure, \$50,000 line item somewhere, if we had a program-based budget for advertising in smoke free parks and we felt that perhaps that money was better utilized elsewhere, it would seem to me we wouldn't have the ability given what we have to be able to say that's not the best use of that money. Because it would sit within a larger pot that would be essentially discretionary for the department head. And so I think what I hear you saying is, that's just the way the budget is designed.

>> Jennifer Maguire: It's designed at the appropriation level and we actually probably have at least 2,000 appropriation of level of detail we do provide to the city council. It's just with 114 funds and all that, we do have -- I mean the budget would probably be this big if we produced a budget like that, we would probably need a lot more staff if we produced a budget of that level of detail. That type of line item would be last year in the HNVF funded item, there is delineation on HNVF plan on what those items are. And I must say in our citywide section, if we feel

it is a significant program that we do want to call out from a line item perspective and make a full disclosure on what we're spending in that program you would find that in our citywide expenses program so you could see several programs, there are hundreds of appropriations in our citywide area that would take larger programs and show the cost of those. And especially those that are across multidepartments.

>> Councilmember Liccardo: Thank you.

>> City Manager Figone: If I can just add, I think that the question that you're posing is really the policy question about do we spend money on this or that. And that is completely appropriate. And then what our responsibility would be there is to come back and tell you what the value of that is. And really, it's the council's call whether or not we do that advertising. So I guess my point is that council shouldn't have to hunt and peck through the budget, if we don't have a line item budget any longer, Jennifer said the cities have deviated from that. You shouldn't question where the dollars are spent and we should be able to provide you that value.

>> Jennifer Maguire: As issues come up please ask the departments and we'll do our best to get all the questions answered.

>> Councilmember Liccardo: Okay, thank you.

>> Mayor Reed: Councilmember Herrera.

>> Councilmember Herrera: Thank you, mayor. I want to start off like everyone else by saying thank you to our staff for all the work. Deep appreciation, and thanks to Debra and Jennifer Maguire for all the work. It's obviously you have worked hard to get us all this budget informs on a timely basis and it's going to help council and us thinking on what's going to come. I have a couple of questions, and I think they're just overview and probably Paul is probably going to be answering. In terms of the retail slide on slide 8, in the 148 stores shut down in 2008, that is a nationwide information, do we have any information on comparing with the past, last time we had this sort of retail drop and when it recovered and then San José's retail numbers, how do we compare? And when do we expect recovery on that?

>> Paul Krutko: Councilmember, I do believe in the CSA presentation, getting a nod or something, we do have information about, which will be coming up next about our specific retail position. But in general, what I would say to you is that beyond the recessionary effects that I've described, we have a structural problem that we've talked with council about over time. Which is that our relative share of retail dollars being spent in the metropolitan area is less than adjacent communities. So we're working real hard to create new retailing opportunities. There are a number of projects that we are focused on that we would like to bring forward. Some of them have specific challenges. They may require us to make some investments up front to be able to get a longer-term stream of revenue. So I don't know if I'm answering your question specifically, which was, last time there was lots of retail stores disappearing, when they came back. I guess I'm taking your question to a different place, which is we need to be working real hard in retail because we're already behind the curve, whether stores are closing or not. And so that's really what our focus is on, is to really work with our major shopping centers. As you know, we -- there is some concern that in that retailing environment, one of our major mall owners is now in a bankruptcy proceedings, and so what does that mean to Eastridge? And so we're going to be real diligent on that point working with the council to make sure that we're as helpful as we can in those circumstances. But we also need to develop several sites that we have that have retail potential. And that's that will be decisions that come before council as we try to make that happen.

>> Councilmember Herrera: Thank you for that answer, Paul. And I think it's interesting, I know in my direct I do see some decline in retail but I also see new retail opening. And I think we need to look at the success stories of why some businesses are thriving and opening and others are struggling. The other thing I'd say about that is my colleague Nancy Pyle has said often, we really need to encourage our citizens to spend their money in San José. That really helps us in our budget situation. The next question I had is on slide 16, on the job growth, San José's job growth. It looks like if I'm -- if I did my math we're still 11,200 jobs to the plus. But it's disconcerting that we're losing these jobs. You can comment on what kind of jobs we're losing and is there a glimmer of hope of jobs that we are retaining or jobs that may come in?

>> Paul Krutko: We can -- I would want to come back to you with a specific sector analysis. I think we do have that kind of information. But I would generally characterize that we have job loss in all categories. If we can, when we come back in half an hour or so, if my staff has that, I'll come back and answer that question specifically. I don't have that off the top of my head but I'll answer that question.

>> Councilmember Herrera: If we have new job starts perhaps we can stimulate that along. And my last question was on the unemployment rate. And I've been very concerned about this for a long time, when I hear national numbers, I've been assuming just from anecdotal information in our own district that our rate was probably a lot higher. I'm wondering, I'm hoping and probably we're working very hard to do this, in terms of specific proposals to the federal government to get more stimulus funding because I really think we need to make that an urgent kind of situation. And not that Washington's going to save us but I think we need to use everything we can to make sure we get our share of it.

>> Paul Krutko: Councilmember Herrera, according to the way the stimulus was set up, there is a criteria of job loss in the last year or two. Which is important, the national economy, some regions have had sustained job loss for decades. And so the significant dislocation is in places like here, where the jobs that are lost right now, not over several decades. The question is as we make our case, it's always important to point those things out, that we have the opportunity to drive the national economy and help the rest of the country. And to get to your question, I got a nod that we do have those numbers. So we'll come back to you. The one thing you did remind me was, we have a major emphasis on green and related types of jobs. We think those are growth sectors for us. We also think that over the long term, the bioscience effort is going to be very important. And so we are focused on sectors that will have long term growth potential for our community.

>> Mayor Reed: Councilmember Constant.

>> Councilmember Constant: Thank you, Mayor. First, Jennifer, I just wanted you to know, that my staff and I have noticed definite improvement. That extra work is appreciated. I do however agree with Sam. I know the trend has been to go away from program-based budgeting and more to outcomes. But I think that in the future, this is a discussion we should have. Because with mounting deficits, and knowing that this isn't -- we know it's not a one-year problem because it's been an eight-year problem and it's going to be a bigger problem next year. I really think that we get to a point where we end up having dozens of dysfunctional programs because we haven't made the decision to get rid of one or two to make others whole so they can operate at peak efficiency and get to an outcome. It is something we need to move towards. I don't know if we necessarily have to go back to the old method, but go to a hybrid method, something like Sam was referring to, to look at programs so we can force the discussion of programs and what's getting the most bang for the buck and what's fully functional versus what may become dysfunctional if we defund a portion of it. So I think that's something that I would like to see us move to. And then I had a question for you, Jennifer. On the budgeted funds guide that we got about a year ago, will we be seeing an update of that on any regular base like every other year?

>> Jennifer Maguire: I think about every other year would be appropriate. Because we don't add or subtract funds that often and it's a big effort to put that together. But I do want to keep it current. There's really not any significant funds that I can think of that we've added. But my full intention after what it took to get that budget document, that particular document done, which was many years in the making, I would want to look at adding or subtracting any funds as relevant.

>> Councilmember Constant: I think every other year is a good interval. I do refer to it favorably regularly to remind myself what's going on in the other 113 funds or other 114 funds.

>> Jennifer Maguire: City staff or our office looks at it as well.

>> Councilmember Constant: One comment I want to make, I know I'm a broken record, I'll make it again, I'm really, really concerned about the footnotes in the deferred infrastructure maintenance. I know we're make very, very small down payments on these issues. I do know that they're bold, it is not a footnote, still not to the headline but we're getting there. But I'm really concerned that after several years of not aggressively addressing it, looking at where we are now and where we're going to be the next couple of years, knowing that we can't aggressively address it, I don't want to be at a point where 11 of us rotate off the council and we have a city that's falling apart

because we haven't met those deferred infrastructure maintenance needs. And I just want to reemphasize I would like to have a broad council discussion, perhaps on that one day that we have a reserved study session where we don't have any topic yet to really look at the depth of the deferred infrastructure, deficit, where it exists, not only in the roadways, but what it's going to take not only to get us whole today, but what the needs are for the next ten years. Because we know it's going to take us ten years to catch up for what we're backlogged and that should come at the sacrifice of the next ten years. So how are we between now and 2019 going to get to the point where the numbers are smaller? Because a half a million dollars in the General Fund is huge. \$800 million in all funds is huge. And a \$30,000 down payment is almost nothing. And I think we really need to look at, in addition to that ten-year time frame, what is our -- what is the minimum required payment for us to not go backwards? Because I know we're going backwards every one of these years. So I just hope that we have the time to have a really in-depth conversation about that and we continue to keep it in our consciousness, and we remind the public that this solving the 85 million this year and the 100-whatever million next year is not solving the problem. We still have this big elephant that we need to start taking bites out of. Thank you.

>> Mayor Reed: I think that concludes the questions on the overview section, and we'll now turn to the Community and Economic Development CSA.

>> Paul Krutko: Thank you, mayor, we're ready to begin. Again, Paul Krutko, chief development officer. I'm the sponsor of this particular CSA as well as leading the economic development effort. Joining me today is Joe Horwedel, director of Planning, Building, and Code Enforcement, Katy Allen, director of Public Works and Leslye Krutko, director of housing. We have a brief presentation, only 15 slides. We'll move quickly to get to council's questions. On the screen is our responsible areas as a CSA. Core services we've identified are listed above and I won't go through those either. We will come back to those, at council's pleasure.

>> Joe Horwedel: Thank you, Mr. Mayor and council. The major part of the Community and Economic Development CSA is the development programs, development services business we provide. We see it really is a tool to help build ourselves out of some of the challenges we have structurally within the city. How we deliver that service is with our customers. As the city doesn't build projects we go through and partner with our customers in the services we deliver. We've spent an extensive amount of time over the next several number of years in improving that service delivery. A large part of that is the predictability of that consistency, the work that we deliver. Especially now with the downturn our customers have seen, how we balance the viability of those projects into the future. You've heard a little bit about this already. What the slide is showing is our staffing as it relates to development services. With the reductions that we have done over the last year, and what we have proposed this year, we are still a \$30 million a year business. So we are a significant business. There is still development going on in the City of San José. We are open for business. But there are consequences of, as we have been shrinking based on the activity coming in, consequences to the service delivery we do and our ability to be responsive or adapt as quickly as we all would like. That also affects part of our other business as reflects the nonsupported parts of our business development. The services we will provide to our customers this next year, we will continue to deliver timely, quality services to our customers that we are extremely focused on our cost recovery part of the business. We do have some fee increases that are targeted to make sure the places where we are not cost recovery, that we go and reconcile that. Because we know, and you have heard from both staff and our customers where we are not cost recovery we do not have the ability then to deliver the services that our customers are looking for. And that goes back to the partnership piece, is that we want to make sure that the services that our customers want and need, we're able to have the resources to do. We are looking at an increase in Public Works fees this year, that is a rethinking of how we have delivered those services, so that they match to the true cost of that service delivery to make sure we have the right staff there. We are also still continuing with the update of the general plan. It is really, in staff's mind, one of the most critical projects we're off work on, an the CED CSA right now. Because it is looking at the future of this city over the next 30 years about the land use choice we make. And as we know the structural amounts we have with the budget if we don't get that right we will continue with that.

>> Leslye Krutko: So with housing, the housing department is entirely specially funded so there are no general funds. And our proposed budget this year includes additional funding due to the federal stimulus moneys. Because we rely heavily on tax increment however we are needing to be very cautious about future revenues and typically those reductions in property tax revenue follow reductions in other revenue. So with our budget as we go forward, we'll need to be adjusting that after we receive the assessor's numbers and we typically

do that in September. As was mentioned in the beginning presentation, the housing market has been particularly hard hit by the economy so our priorities this year will be to respond to that. First, with sponge to families who have lost their homes, there are people that have already lost their homes and we have opened a foreclosure assistance center in partnership with a number of different agencies next week, we'll don't support the efforts of destination home and to try to eliminate homelessness, but also to respond to people who are impacted by this economy, and are at risk of homelessness. And also, in the past, during recessions, affordable housing production has often been the mainstay of the development sector. But this time it's been quite different. And the problems in the financial market have really hit the affordable housing market, just as it has the market-rate development. We've been impacted by the state and we've been impacted by the wariness about the market for housing programs. We are looking to borrow funds, and until we do, we are going to be limited on how much development we can do. But we will be coming to the council next week with several projects that can be shovel-ready this year. We are pushing those forward hoping they will start construction, bringing fees into the city and creating jobs. That's a priority for us now to do what we can. But at the same time we need to recognize we have \$100 million in projects in our pipeline that we do not have funding for at this time. Two key points in the budget for housing is the spending of the new American recovery and reinvestment act funding. We will receive more than \$4 million in funding that can be used to assist those that are at risk of homelessness and rapidly rehouse people who have lost their homes and also additional community development block grant funds. That's in addition to new money we've received from the neighborhood stabilization program which provides funding to purchase foreclosed properties. The budget does include \$85 million in bonding, will help us meet that \$100 million in backlog that I mentioned. Hopefully the markets will recover to allow us to do that borrowing but in the meantime we're looking for lines of credit to help us restore that funding. Our funding is actually going up in some areas. We will work this year to reduce the number of homeless residents and respond to foreclosures and we will be monitoring our funding very, very carefully to ensure that we are appropriately planning for any economic downturn. And in response to that we are not increasing our staff, even though we are accepting these additional responsibilities and funds.

>> Paul Krutko: In the area of economic development and workforce development, we are really focused on make sure that we maximize our federal stimulus funds. We are going to receive double the amount of workforce that's sort of lemonade out of lemons. The major focus within your economic development staff, with our partners in development services and with the agency and appropriate parts of the city, is on revenue generation. So we are very, very focused on how we can enhance investment in a community that brings jobs and tax revenue. We're really emphasizing driving a lot of our small business as sort of support to what is our web2.0 platform, I've talked to councilmembers, as an effective service delivery program. And another mechanism within economic development is how we can support and facilitate the convention center expansion. We have a couple of proposals in this budget that we think are important. There is a proposal to provide resources for nonprofit assistance and oversight, and we did a presentation at Rules Committee this past week on that topic. With a supporting note that we provide over \$36 million of funding to 426 nonprofits. So make sure we have a strong service delivery package to those entities that are providing critical service is important. We are also make a recommendation that we've made substantive progress in managing our various operational issues in downtown and we were look to make that effort permanent. We are cutting the funding available for some of the very large-scale events that we have supported in the past, and I already mentioned the workforce funding. So from a delivery perspective we are going to just redouble our efforts. There are a number of initiatives working with the council offices, for additional outreach to business, to be sure we are identifying each and every opportunity that we can increase our economic performance. We also are going to be bringing forwards through an MBA the cost-sharing model for a new public safety deployment model in the downtown entertainment zone. The council has heard a number of presentations on that. And that is really the emphasis in terms of economic development. I do want to highlight, one of the other areas of responsibility is the convention efforts our partnership with Team San José and the CVB. In terms of priorities, clearly what our convention efforts are with the facility and with Team San José is just to drive economic impact, to try to create revenues that support the rest of the city. To make sure we have a good array of cultural and artistic performances and really, creating jobs is a key component. However, in this budget, this budget that you have in -- that you're considering today is really reflective of a declining T.O.T. scenario that we've already talked about, that's been mentioned before. We are eliminating all the vacancies at the convention center of city staff. There is also a real layoff, approximately 14 positions, that will be occurring reflective of the revenue picture. We do need to make an adjustment in the current Team San José budget, while this budget was being published we got additional negative numbers relative to T.O.T. revenues, and so we will make an adjustment to an MBA process. We're also scheduled to talk with council, in a little bit of detail at the

May 19th council meeting on this topic. So relative to expected service delivery, we really do believe we are going to see a significant decline in meeting and convention business due to the recession. There is a significant decline in general business travel. It is important for council to remember that 90% of the T.O.T. that we received comes from general business and leisure travel not directly tied to convention activity. The numbers we're seeing is a 30% decline over the next two years that's going to impact as the ordinance allocates to the convention fund, marketing, also will have available on the size of the expansion and its scopes. Oh, this is surprise. Okay, the budget did include, just so in all of our presentations the slide relative to the tier 2 proposals. There are two here. The proposal is -- one would be relative to the recommendation in the budget on the convention and visitors bureau. We're recommending as a tier 1 that we move half of the management salaries to fund 536. But the tier 2 proposal would apply the -- across the board nonprofit reduction. We didn't do that in the budget to the base allocation from last year, for CVB. And then what we're proposing is an even deeper cut. I didn't go into OCA because of the limited time. I can do that on the question period but we did propose staffing reductions to manage special events. What we're proposing as a tier 2 cut is a deeper reduction, special event component primarily that provides special event services throughout the city. We provide coordination to some foundational events throughout the city. That's the tier 2 cuts. In closing, in terms of our outlook that we already spent a lot of time this morning, we don't believe in our area that we're immune from what's going on National. And internationally, we're very uncertain relative to when the recession will end. We believe we're going to lag behind the nation, and how well we respond is really going to depend upon what the partners in this CSA do to quickly help projects move forward. One of the things that we did want to highlight is just the general comment about office R&D types of occupancy. We really see over the next couple of years occupancy of already built space. We think we will see limited proposals for new buildings to be constructed. So the efforts that we have with special tenant improvement, and the industrial tool program are going to be very, very important. So with that, mayor, we are concluded.

>> Mayor Reed: Thank you for the presentation. I had a couple of comments. I just wanted to start where you left off with the special tenant improvement program and the industrial tools program. I agree with you wholeheartedly that most of the activity over the next couple of years is going to be filling up empty buildings. And we have a great program that has proved to be very successful in helping people move into those buildings. And I've been to several ribbon cuttings of companies that would not have moved into San José if it hadn't been for our special tenant improvement programs and our industrial tools programs. So I want to thank the staff on being able to deliver on the promises I make about issuing those building permits in an hour. The appropriate time and place, the staff does a great job of doing tonight an hour or so. Those are really important in the short run and I want to make sure that everybody understands that the staff does a great job in delivering on those programs. And I've heard that from lots of CEOs. This is not just myth. It is reality that it's because of the work our staff does to make it possible for people to move on their schedule, that's why they're in San José. And we have a lot of opportunities because we still have, I don't know, 15 or 20 million square feet of empty space that could be filled. The other thing that I wanted to say that I think is really important is that we use redevelopment dollars and capital revenues to, wherever we can? We need General Fund revenues. Generating tax increment will also generate utility taxes, hotel taxes, phone tax, et cetera. That's an important strategy as we try to use what we're spending on capital in a way that helps us with the redevelopment or with the General Fund. The baseball stadium is another one, because if you look at what has happened with the arena, the last economic analysis that we did a few months ago showed, I think, \$4.5 million of tax revenues that are coming to us as a result of arena activity in one form or another. So there's opportunities like that, not only do they create construction jobs, and work for our Planning Department, building department along the way but they do generate General Fund revenues and that just has to be part of our long term strategy. Councilmember Pyle.

>> Councilmember Pyle: Thank you, mayor. I have some little goodies here to distribute. And I put these together because I -- this is for you -- I thought it would be interesting for you to see what's happened with a time poll. I am trying to make a point here. And these will help me to make that point. As you look through these and you see the percentages of changes for people, and what the poll or what the results have been for them, it has become very obvious to me that when you look at the percentage of Americans that have cut back on entertainment, that tells me we need to have a whole lot more in the way of netflix stores, we can't just have them in Los Gatos. The fact that more people are buying food and supplies in bulk, seems to me we need maybe some more high-end bulk type stores. And the point is they're spending less on retail so what are they spending their money on? This is just sort of a quick assessment of maybe things we should take a look at. Because this helps to think in terms of what can we do now, that will help to get money from the buying public as it is? And one of those things is big

boxes. We've kinds of kicked the big boxes for a while now. I know because of some, the big companies because they are doing so well, will they consider building more stores that do cater to the big purchasers?

>> Paul Krutko: Councilmember Pyle, we're aggressively in conversations with large format retailers, where appropriate. The important thing to understand about that is that a Lowe's or a Target as an individual store has two key components to it. One is, as we've seen at the market center on Coleman, they create an environment where a number of other stores can open and thrive because of the traffic they generate. So you know, we constantly use that one as an example, because it shows, as well as what we're doing, in -- at the plant and on Monterey, if we create that retail resource, the customers are here, the buying power is here. When you go to those facilities and you see a full park lot when it was some other kind of use just a few years ago, that tells you those customers were going someplace else. So the key component is, the larger format store can bring a customer base. The second piece is, just in and of themselves, they -- a Lowe's is worth north of \$500,000 per year in sales tax as an individual investment. So that's why we're very diligent about pursuing them. As I mentioned in the earlier presentation, we do have several large sites in the city that we think can be developed. We're working with those owners very directly. There are, as we've talked with individual councilmembers, when there's district components of this, is that there are particular challenges that we've got to work through. But as I look across the dais in almost every district we have some kind of opportunity that we're going to pursue. And it ties back to what Joe says. We have to do work and demonstrate that we can move things very, very quickly to capture that business. That's going to be the game now for the next five years. We're in competition with everybody else. We always were but were even more so now. But I think the advantage we have is, we've got the market. And so when people come here, we can point them to specific centers and stores that are doing very well even in this recessionary environment.

>> Councilmember Pyle: Thank you. Santa Clara has their own power company. Have we ever looked into that? There's probably advantages, disadvantages.

>> Paul Krutko: I don't know if anyone in the room may have looked into that. The Manager may have been able to look into that.

>> City Manager Figone: I don't think we have. The city group so raptly in the '70s, the infrastructure would be too great to put in at that time. There is probably new sores of power, solar which I know we're looking at in some of our surplus properties.

>> Councilmember Pyle: And the Green Vision is going to bring in a lot of green, as a result of that. And with that is there -- I keep trying to think of other ways to bring in income. It's certainly not an easy thing. But of the stores and the facilities that we have now available, we can keep generating income, do you think, or expanding it, expanding the income? I'm not quite sure what we'd need to do.

>> Paul Krutko: Well, we, and I'm not certain, we might have the back pocket slide John -- didn't we have the one on the comparison between the cities in there? No, okay. So we have showed you before a slide that is shows our relative comparison of revenues per capita on dollars of retail spent. And there is still room for us to capture more of retail spending. So it's not just the question of increasing. It's the more we can do to have our residents and the people who come here on a daily basis to work, to buy things in San José, yes, there is a revenue opportunity there.

>> Councilmember Pyle: All right.

>> City Manager Figone: If I can just add, for Paul to amplify on. The employment lands question is really critical.

>> Joe Horwedel: That is really clear. The commercial lands we were not able to compete in the marketplace, town house type development, the land cost break we're so radically different.

>> Councilmember Pyle: Thank you.

>> Paul Krutko: And councilmember, what Jen just reminded me, the table that I was mentioning is on section VI page 10. Per capita sales tax compared to the surrounding jurisdictions. Thank you.

>> Mayor Reed: Councilmember Constant.

>> Councilmember Constant: Thank you, mayor. First, a commercial I like to always get my commercials in hering because we're talking about economic development. In two weeks, we're going to have the opportunity to discuss and vote on the Stevens Creek sign code update. It is things like that that we have really an opportunity to make a difference for the businesses in our communities. And when we have areas like that, and we all have areas in our district that are these economic centers, we really need to make sure that we're giving them every single possible tool that we can give them, so that as soon as three see the light at the end of the tunnel and verify it's not the train coming at them, they can start investing and getting their marketing and their tools and everything in place. So I just encourage everyone up here to look at things like that and let's make sure we're pushing the envelope so that we're giving our businesses every possible tool. That includes things like expediting, neighborhood business districts, like the one that Pierluigi and I have been championing on the border line of our districts, where we have the ability to give people the tools they need to succeed and we knead need to do that in every area of the city. That's the end of my commercial. I do have some questions as it relates to CVB and Team San José. With the reduction of staff, 29 positions, I know there has been some discussion about potentially using some of those positions to assist in the construction and expansion effort. But I really haven't heard an update on where we are on that. I'm just assuming because they're eliminated that that conversation hasn't been going well. So I was hoping maybe we could get some explanation and discussion on that.

>> Paul Krutko: Thank you, councilmember. Actually, the way that you should understand what's in the budget is, the positions that are being eliminated were not opportunities for people to do construction work, or other kinds of activities. So the positions that are in there are not in that category. That opportunity is something that the Team San José staff has articulated against some of the remaining employees. So distinguishing it from what you said. We're very much relying on our partners, the redevelopment agency. Do they believe that that can be accomplished, will those individuals be able to really accomplish the work? What are the issues for the other construction workers, what are the liability questions, and all that. So that -- those discussions are still going between Team San José, the redevelopment agency, Dan McFadden is working in the manager's office supporting me on that. He's also taking a look at that question. So if it's possible, we would pursue that. Though I would remind the council that those employees that are laid off, if you track through the budget document, they have the same rights as other employees in the city. So they go through the same process to potentially find homes in other city departments due to their seniority and other issues. But again, we're really relying on the redevelopment agency to tell us if that really makes sense in terms of -- as a strategy.

>> Councilmember Constant: So the conversation is still happening.

>> Paul Krutko: Yes.

>> Councilmember Constant: Good. Now, those employees that migrate to other parts of the city, will they all have the opportunity to come immediately back, when the convention center is rebuilt, and booking up, and moving forward at what we hope to be a very rapid pace?

>> City Manager Figone: I don't see the -- a director here. But to the degree they're on a reinstatement list, yes, and to the degree there are, you know, hiring opportunities outside of the reinstatement list, my belief is yes.

>> Paul Krutko: Yes, that's the answer.

>> City Manager Figone: If I'm off base on that we'll clarify.

>> Paul Krutko: Same as the manager. I was going to defer to Mark to give you the situation.

>> Councilmember Constant: Okay. Then I had an opportunity to look at the budget that Team San José submitted. And there are some differences from what they put forward to what's in the documents that we have. And I'll just point one out, like with the parking revenue. Why the big change from what they're proposing, if

we're holding them accountable for their projections, and their budget, why are we changing it? And what are -- what is the reasoning behind that?

>> Paul Krutko: Councilmember, I can -- we'll get back to you on the specifics of that question. The budget office I think in concert with D.O.T. looks at those numbers and tests those numbers. We're very -- our approach to the budgeting for the convention function is very focused on making sure that the General Fund is not put at risk. So there probably is, in tonality, probably more of a conservative approach to the revenues, versus what Team San José might put forward. But we'll delve into that question specifically and get back to you. I don't have a specific answer on that, but we'll get back to you on that one.

>> Councilmember Constant: I just feel that we really do need to hold them accountable. And if they think they can do it, we should put the pressure on them to do so.

>> Paul Krutko: Councilmember, just to amplify what my response, the issue that we're mindful of, is that we have the budget in this year that we're worried about. But we're also worried about how we manage the resources over the construction period. So one of the things that I think we're talking about with Team San José, and want to come back to the council, is, you'll recall, we were very concerned about the level of the unencumbered fund balance. Because the unencumbered fund balance is going to provide the revenues. Remember the terminology we used for the glide path during the construction. While an individual year, I totally concur with your point, we need to hold them to what they promise, and deal with it appropriately, we've got a multi-year problem, while we're managing operations while we're building a facility. So that's probably where some of those differences are. The change in parking, as well, is a new item, that is something that came out of the new contract. Again we'll look eighth more in detail with D.O.T, Jim Ortbal and the budget staff, make sure we know what's going on there.

>> Councilmember Constant: Okay. Last year I know we had quite a bit of discussions about the overhead rate, not only as it applies to Team San José but how it applies to many areas in the city. And last year was a very large increase from the previous year. And then this year it looks like it's a 40-plus percent increase again. Is that increase something that is universal across everywhere that we apply it? That's question number one. And number two, I'm still fuzzy on how we come up with that overhead number. Because I look at this budget document and I see us reducing strategic support, reduction positions, reducing the cost of doing business everywhere and yet we're increasing overhead. If overhead is strategic support and all those different areas, it just doesn't match.

>> Paul Krutko: I'm going to ask Scott Johnson to speak about those issues. If it's appropriate.

>> City Manager Figone: And while Scott is approaching, I want to speak about the revenues source, it is a two-edged source of it's been quite a challenge from that perspective.

>> Scott Johnson: Thank you, Mr. Mayor members of the council. Scott Johnson, director of finance. Councilmember Constant, we've had detailed discussions with Team San José in regards to the calculation for overhead. The calculation of rate of increase, know that's not the case citywide. We look at it specifically within each department, within each program. And there are indices that we use to calculate the rate of overhead that's applied to that particular department. I'd be happy to provide the council with more detailed information on the breakdown of the cost of overhead for Team San José.

>> Councilmember Constant: Well, just trying to be objective in looking at this, I don't remember what the percentage was last year jump, but I know it was an eye opener when I saw it. And then to see another 40-plus percent this year, when you add the two it's overhead doubled in two years. And at the same time, seeing strategic support shrinking. It's very difficult for me to reconcile that. And it seems like a very unclear fuzzy number. And I want to make sure that it's clear in my minds, number 1, because it's not, and number 2, that we're being fair across all areas that pay overhead. Because everybody does. And I don't think we should have drastically different numbers. And in this economy, I just -- anything that goes up 40-plus percent two years in a row is -- I think there's a problem.

>> City Manager Figone: Do I think we need to get back to you with the key elements of overhead. And as my memory, if it's not failing me, it is not exclusively strategic support. There are other elements to overhead that come into play, is that not correct, Scott?

>> Scott Johnson: That's correct. Just one other anomaly that is the cause for the increase is, the first year that we applied in the contract, actually Team San José got kind of a reduced amount in accordance with the contract and then we tried that up. In addition, as council is aware, there were a number of audits conducted, the city's internal auditor conducted two years of audits within one year. And they do track their hours and therefore, we applied the internal auditor's hours as well as the external audit and then there was also a separate performance audit. And so there are a number of reasons why there was the increase that is unique, specifically, to Team San José that we can provide to council with that information.

>> Councilmember Constant: Okay, I'll look forward to that. I just think when we have an independent group and we're holding them accountable, when we have one large budget item that we have absolutely no control over and it can jump in double digits, significantly high double digits in one year I think that's an item we need to look at. I think I have one last question here. As far as the convention center operations, are we using any of the sinking fund or reserve-type funds in this budget like we are generally overall with our General Fund budget, has that been contemplated?

>> Paul Krutko: I'm going to ask Jennifer to help me with that. But the reserve we have is a reserve we fund relative to make sure that if things break or need to be dealt with, at the facility, over the course of the year, that we have resources to do that. So that's generally how we employ it. And generally the way we employ it, councilmember, is, we manage that almost on a monthly basis. So that as we go through the year, we get more comfortable with that we can spend some money to do some things in the building because we don't expect a catastrophic thing to happen. But I don't know if Jennifer or her staff wants to amplify that at all.

>> Jennifer Maguire: Thank you. The sinking fund is currently at the modified '08-'09 bucket at a million dollars. We are hoping to keep it at that level. We don't have any expenditures, things can change by the end of June, but we are recommending to carry that number over. It's not increasing or decreasing.

>> Councilmember Constant: Right now as far as just within the convention center, our sinking fund is for capital repairs or improvements. But we don't really have a separate economic uncertainty reserve within that, like we do in the greater overall budget?

>> Paul Krutko: That -- councilmember, you're getting to the point that I just made just a little while ago. We need to manage the unexpended fund balance in fund 536 that way. So for example, if we weren't -- if we were not expanding or proposing to expand this year, we would -- we've got a very healthy balance in that account. And we might be recommending to the council that we spend some of those resources to cover operating expenses or to do some additional marketing or to make some repairs. But when -- my point earlier was, we came in and talked to the council in December about expansion, how vitally important that cash balance was going to be to us over the next three years. So to some extent that ending fund balance is kind of like the reserve you're talking about, if that makes sense.

>> Councilmember Constant: Yes, it does, thanks. I just -- one editorial comment and then I'll be completely done here I think. Just like I was mentioning with what we need to do economically citywide, to be ready as we come out of this slump that we're in, I think the convention center facilities are kind of feeling the multiple effects like our regular budget is with T.O.T. declining, with the budget declining, with numbers of just general revenue from number of events coming in declining, then having reduced revenue by expansion, it's kind of like the quadruple hit happening all at one time. As we go forward in the next couple of years, we need to make sure to be able to jump at the first sight of recovery. We need to make sure that we're in a position as a city in these areas of Community and Economic Development, through our convention centers, operations to be really ready to roll as soon as that building is complete and the recovery is on its way, we need to be ready to jump immediately. Thanks.

>> Mayor Reed: City Manager had a question, I think.

>> City Manager Figone: I just wanted Jennifer to give the council a sense for the value of overhead to the General Fund.

>> Jennifer Maguire: Yes, thank you. For the 9-10 budget, we are -- we have 37.8 million in overhead from all of our special and capital funds as a revenue source into the General Fund.

>> Mayor Reed: Councilmember Kalra.

>> Councilmember Kalra: Thank you mayor, and thank you for the presentation, everyone. First, I have a couple of questions, but I do want to just reiterate some of the comments that were made in regards to economic development, and that, I know that I met with Paul, I'm sure Paul has met with all of you regarding your own individual districts. I think there are opportunities and that although we need to and should focus on what we need to do to keep our -- to balance our budget and to make sure we preserve as many jobs as possible and deliver the services we need to deliver, there are opportunities that are out there. And some of them may not be tomorrow. Some of them may be tomorrow or the following year but we have to lay that foundation now, as you can be certain other jurisdictions in the valley or in this country or even around the world are doing the same thing. There are opportunities and particularly in some of the industries that Paul referred to. We do see some growth. And so as much as possible, just as we can be kinds of marketing San José as far as buying in San José, I think it's marketing San José also to those that are looking to grow, or those that are waiting kind of for the turnaround, around preparing for it and are looking for areas to expand into or to grow into. Those are opportunities that we can take right now. I know that a few months ago, there was actually I think it was in January, January or February, there was a credit union that opened up actually at the plant. And when I talked to them, you know, why did you choose San José because they were looking all over the region, their own independent analysis shows San José as a place with tremendous possibilities, and with tremendous growth opportunity. And so that was really nice to hear, that someone, completely independent from us or from our Budget Analyst, they were also seeing San José with that kind of optimism. And so we need to also show that same kind of optimism as we deal with the difficult choices that we're going to have to deal with for the next year or two, and maybe more. But we still have to plant the foundation to allow for us to be at least at the front end of the recovery as much as possible and as difficult as that might be. In regards to a couple of the items that were raised during the presentation, in housing, one of the issues, or one of the slides says that move the projects forward as quickly as possible, create jobs forward as quickly as possible and create fee revenue to the state. I think that's great. I'm wondering if there are changes made in regards to those projects or kind of an incentive that we have to move more quickly if there is a project ready to go?

>> Leslye Krutko: Councilmember, it is the latter. We have a very small amount of money available, and what we've decided to do is push forward what will be four projects. If we can apply the last gap money, three will be able to apply for funds from the state and another one for funds in a short while and actually get going. So it really is just a strategic how we use the money.

>> Councilmember Kalra: Thank you. And in regards to moving to a different area, in regards to some of the questions that Councilmember Constant raised, regarding the convention center, I think, and I appreciate staff's responses in getting some feedback on some of the reasoning as to why the numbers are the way they are, or why at least the -- you know, why the budget treats -- seems to treat this area a little bit differently or at least some of the numbers may reflect that. And one of the factors, because I had an opportunity also to review their budget, as well, that -- and it was something that Councilmember Oliverio said in the beginning is to allow for out-of-the-box thinking, or solutions, one such is the possibility of allowing to use some of the current employees on the construction project, if there is some kind of arrangement made with the contractor, if it comes with a savings to the city. If we can save jobs, and save money to the city, that seems to be San José that we can at least entertain. And so I would appreciate at least, as we go forward, some kind of response as to why it may or may not be feasible to go ahead with that opportunity. And at least we'll have all the options on the table and we can discuss them more fully. And similarly, Councilmember Constant raised the issue of overhead and I understand there may be some line-item reasoning, as to why the amount has gone up more for this group, so to really have a more full data set to understand why the numbers are the way they are, and finally, in regards to the T.O.T. projections, I think they should be conservative. And I think it's appropriate for them to be conservative. Especially in the current market. But I would -- I would agree that there may be an advantage to having some kind of mid year analysis to see where we are, if things do start to turn around for these -- in the T.O.T. taxes, then at least

we can make an adjustment that's appropriate. As Councilmember Constant indicated, you know, there's been multiple hits taken, and we're putting a huge investment in the convention center. And I like to see that we have all options on the table and that at least as a council, we have a better understanding of where the numbers are coming from. Thank you.

>> Jennifer Maguire: Councilmember Kalra. Jennifer Maguire. We will provide you with bimonthly status reports on the status of the T.O.T. revenue collections for remainder of this year and into next year as always and we will give you a full report at mid year with how those collections are doing.

>> Councilmember Kalra: And would that allow -- or at least the way the budget is currently stated, would that allow for adjustments?

>> Jennifer Maguire: Absolutely.

>> Councilmember Kalra: Thank you.

>> Mayor Reed: Councilmember Campos.

>> Councilmember Campos: Thank you. Paul, I want to talk about economic development and I know that my colleague, Nancy Pyle, brought up about the different ways of people now looking at how they're shopping, the trends, it's changed from what it was before, when people had jobs and they had be a abundance of money to spend. And I think that this provides an opportunity for us to be able to look at the new trends on how people are shopping. And also, take into account the different aspects of how various cultures shop within the City of San José. And we know that certain areas of shopping districts have different trends. Is and I think that this also gives us an opportunity to look at the trends that are currently happening, where people are losing their jobs, so they're deciding that they're going to start a small business where it's more one on one. They're looking more locally to buy products that maybe an individual has made or has grown. We know farmer markets are still doing very well. I know the one in my district is doing extremely well, and I would imagine that farmers' markets are doing well in others. So have we thought about maybe creating incubators, where maybe it's not a long term lease, but it's -- their small enough so that people could have a small business to be able to at least get started? And so I was thinking about that, as Nancy brought that up, and Councilmember Pyle brought that up, on new ways of thinking about how we create space with some of these buildings that are vacant, how do we fill them. Of creating opportunities for people to shop different.

>> Paul Krutko: Councilmember, you and I have had conversations about this, and I agree with you, that I think we need to think creatively about what kinds of different opportunities than traditional retailing as we know it might make sense. There are good examples in San José where sort of nontraditional shopping environments have done very well. So we're very much interested in pursuing those. I think you raise an interesting idea about, you know, we've had landlords in the past working with OED as well as RDA, be interested in doing creative things with space, when there really isn't another viable economic alternative. In other words, you know, well we might make space available for nonprofits or we're able to enter into a very creative partnership that the RDA led on the bioscience center with that owner because he had vacant space that wasn't being filled. So the notion of some kind of retail incubator I think is something that may be worthwhile in us exploring. I think that you know, some of the ideas about creating more outdoor environments, given our climate, make a lot of sense. I mean, you just even look at what we started here, on council Tuesdays, you all don't get outside to see it. But there is a farmers market opportunity starting out here. And I think those kind of nontraditional things make some sense. So yeah, we would want to explore those ideas and would welcome ideas from individual council districts of where you think that that might work.

>> Councilmember Campos: I think it's not traditional right now but as the trend is changing, I think it's going to be traditional. I think that that's kind of -- we see as we watch the news, how people are losing their jobs and they're starting to do more one on one kind of gathering people together, their neighbors and thinking about. So -- thinking about it from that perspective of how we create spaces for people to be able to sell within their own neighborhoods or their own communities, or even in their own city.

>> Paul Krutko: There's another trend we have to watch, I think, over the years coming forward with budget. And that is that is there a shift in spending from people from hard goods to personal services? And not making a plug for tax increases, I'm not doing that. But those are a taxable event. And so people within their own budgets spend more on those things than they do on hard goods. Coupled with people buying on the Internet, there is a whole lot of pressure on that sales tax number. We talked about it from a lot of different places that we could get more. You're right, people are buying things different and what is a revenue generating event for us?

>> Councilmember Campos: Maybe we need have that discussion. Whenever you feel that -- something we need to have sooner than later, I feel, and it would be interesting from your perspective to know when we start having that discussion in relationship to where we're at now. Thank you.

>> Joe Horwedel: Councilmember Campos, one piece I did want to add was talking about the general plan update, and we are talking about the concept of villages and hubs around the city. One thing that has been talked about is, we have challenges a number ever our cities have single family homes fronting on major streets that the marketplace has essentially created incubators. We haven't really figured out how to do that well. It is one of the opportunities that as we go through the implementation of the general plan so really look at those streets out there and are there opportunities to look more creatively at homes, realize it's a tough living environment but it's an opportunity for somebody to own a startup incubator, and what kinds of retail services we would allow in there. That's one of the things we could get out of the update is an exciting thing that comes out of it, especially in communities that are ethnically diverse.

>> Councilmember Campos: I agree.

>> Paul Krutko: Having had the opportunity to travel in Europe, one of the things you notice is a creation of an infrastructure where farmers markets just happen at a regular base, within four hours they're up, they're gone, right? And it just cycles through the community. And so the idea of more of an infrastructure to support that. And in those when you go to them they have hard goods as well as the vegetables and the other things that you expect to find there. So it's an interesting concept that we ought to try to explore in conjunction with the general plan.

>> Councilmember Campos: I look forward to your thoughts on that and I hope you do take the time to explore that because I really do think that's going to be the new trend.

>> Mayor Reed: Councilmember Liccardo.

>> Councilmember Liccardo: Perfect timing, thank you, mayor. Joe, I had a quick question about the loss of over 30 positions in your department. Just with regard to the economic development piece, I know there are others, as well. In a hopeful world, in which we will need to ramp up for development activity at some point, we hope that's sooner rather than later, how quickly are you able to ramp up, how flexible are you able to hire staff in order to get proposals through so we can get jobs created?

>> Joe Horwedel: The ability for all the development service partners to ramp up as activity comes back I think will be pretty quick. We are very fortunate that we have an arrangement with the budget office and the City Manager's office, that as activity was added back, we were able to bring back to full strength. The upside of the unfortunate layoffs is we do have a list of people that we already -- they're great employees, just didn't have work for them. We that have the ability to bring them back into a part time or full time position, it is one where we talk about being nimble and tracking our activity, it is for that side as well as the down side.

>> Councilmember Liccardo: Thanks Joe. Jennifer or pall, I had a question about what previously existed as the arts stabilization loan fund and the flex funds. Are those surviving this fiscal year?

>> Jennifer Maguire: Those are not appearing yet in the budget. Those were created with one-time funds several years ago, maybe three is my guess. And if there's funds still left in those appropriations we'll recommend them through a rebucketting action through an MBA to be incorporated in final June budget actions by the council.

>> Councilmember Liccardo: I'd like to make a pitch then and I'm sure my colleagues will all have pitches as well to make. But we're seeing a shrinking in in the arts grants, the funds available from 3 million to \$2 much 3 million, a lot of struggling nonproperties are I guess struggling would be a kind way to put it. You all have been hearing it, I know I've been hearing it constantly about the impacts of the grant declining contributions to keep our arts groups alive. And I'd like to see how many we can keep alive knowing that this is going to be a tough year, tough couple of years for many of them. If there is a redistribution of that fund money, I'd like to see how we can backfill loss of arts grants for many of the partners we have in the downtown.

>> Paul Krutko: Yeah, in particular on the arts stabilization fund councilmember, we had made two investments, one was with AMT, and one was with the rep. Obviously, the AMT's bankruptcy issues compromised their ability to repay that. We have been working with Team San José on the re-- I don't know if that's the right term, reBroadwaying of CPA and in that transaction there may be an opportunity to recover some money. And our intent is to put it back in that fund. But I think we're probably -- have very limited resources left in the art stabilization fund at this time.

>> Councilmember Liccardo: Okay, I miss spoke, I said arts stabilization funds in the downtown. I meant arts groups throughout the city. I know you're working with Dan to try to see how, Niederlander and others how we can possibly restore those funds. I had a question about what percentage of the arts grants money is actually getting delivered to arts organizations. I know in every organization there is always administration cost. Do we have any sense about what percentage the money that's designated through T.O.T, actually makes its way to the organizations as opposed to diverted?

>> Paul Krutko: Councilmember, I'm going to ask Kerry Haffner to respond to that.

>> Good morning, Kerry Adams Haffner, director of the Office of Cultural Affairs. As you know, the OCA receives approximately 1.5% of the historic T.O.T. What's happening this year is unprecedented in that each year we have always set aside the contingency of 10%, so in the case of economic down turns, for this year, we've actually experienced a significant shortfall in the collections of the T.O.T. So to the tune of approximately \$775,000. So we are absorbing approximately \$400,000 of that shortfall this fiscal year. The remaining \$300,000 is going to be carried over into next fiscal year. So off the top we're actually going to have to take off \$300,000 to absorb the shortfall. And of course in past years we've had the ability to rollover the contingency because we haven't had to tap it. In addition to the 300,000, we have to take an additional 10% case of contingency. We are going to be experiencing a 45% reduction in the availability of T.O.T. funds that will be available for arts grants.

>> Councilmember Liccardo: Kerry, I appreciate that, and I appreciate all the information you've provided. I know you've been in the thick of this, and it's not an easy position for you or anyone to be in sow so I'm mindful of that. When you say we're taking another 10% aside for a rainy day essentially I think a lot of folks think it's raining cats and dogs now. Is that really a time to be taking 10% aside or should we simply spend the money?

>> Great question. The other thing that the office of cultural affairs have done is after the past several years, when there's uptics in the T.O.T, we've set aside a long term reserve in the case of rainy days. To buffer this commecial downturn, staff is recommending the drawing-down of approximately 2/3 of this long term reserve to approximately \$200,000 to buffer this reserve, if we didn't make that reserve it would be more than 45%.

>> Councilmember Liccardo: Thank you, Carey, appreciate that. Trying to think if there were any other questions in your shop, I don't think I do. Thank you very much. The question I had relating to the sports opportunity fund, Paul, I understand that that's being reduced by 100,000, and I think from communication that you had with our office, that was pretty much coming out of the tour of California event, is that right, or is that going to be distributed among all the events?

>> Paul Krutko: The fund was established a couple of years ago because there was a desire to have some resources to support some of these significant opportunities that were coming to us. And so what's being proposed this year is essentially a 40% reduction in that. There is a plan that we have put together, Kerry has been active in that is well, because OCA has the events side of the shop as well as the arts side, to offer everybody reduced money. But one of the things that -- and I'm not sure where those discussions have gone on, but the biggest receiver was the rock 'n' roll half marathon. Those conversations are still going on.

>> Councilmember Liccardo: And we have not yet completed negotiation for rock 'n' roll half marathon for this year yet, is that correct?

>> Paul Krutko: To my understanding those negotiations have not been concluded.

>> Councilmember Liccardo: If it becomes a trigger point for decision as to whether or not this was even going to happen this year, I'm hoping that that will be brought to the council's attention in some way.

>> Paul Krutko: We certainly can. The arrangement we have for the various events that are in there, rock 'n' roll is the unique one. What I mean by that is, we generally use the dollars to defray the city costs for D.O.T. and for the other departments, in pulling off an event. And the events we're talking about generally are events in city streets. So have you that component. When rock 'n' roll came to town initially, they were representing to us, and dba Fenton will share with you I think that they would say we would be very much like other cities in terms of room night generation which then we're going to get T.O.T, we're going to get sales tax. And over the last couple of years that hasn't panned out. That's what's causing us to question making that kind of investment when the marketing isn't resulting in revenues, something we're questioning.

>> Councilmember Liccardo: Okay, thanks Paul.

>> Mayor Reed: Could I just interrupt here for a second, we've got 20 minutes before we're going to adjourn, short questions, short answers, I want to have certain people speak before we leave and I want the public speak before we lose our quorum.

>> Councilmember Liccardo: I'll have one last question, then, mayor. Section 7, page 29, as I understand it, this goes back to the America festival, because of the decline in sponsorships, we know that's the case for all of our events citywide these days. And because of the reduction in the A city money that would be available for the America festival, and obviously there are substantial city costs imposed. Philco is not able to go forward with the America festival. We're saving \$25,000 by not spending money on fireworks. At the same time, PRNS as I understand it, is hitting that organization with a \$5,000 cancellation fee. And you know, I know that we're in tough budgetary times but we're making it tough on our friends. And what I'm wondering is to what extent are we able to shift any of that \$25,000 that we're saving with the cancellation to pay for the fee that we're hitting Bill and others on the back end?

>> Paul Krutko: Councilmember, we'll look into that matter. I believe that's something that's in Albert Balagso's shop so we'll take a look at that.

>> City Manager Figone: Yes, in terms of the savings, it's hitting the bottom line. I think the bigger question is really the council policy decision about waiving a fee. And that's what I need to have staff brief me on, councilmember and we'll circle back with you.

>> Councilmember Liccardo: Great, thank you very much.

>> Mayor Reed: Councilmember Oliverio.

>> Councilmember Oliverio: Thank you, Mayor Reed. Question is for Paul. Paul, it was discussed on how consumers have changed and bought in more bulk. And recently in Santa Clara they passed a new ordinance banning big box retailers. Would you recommend that as a policy for San José?

>> Paul Krutko: Councilmember, I think the city has real opportunities in large format retailing. How those retailers conduct themselves with their employees and how they conduct themselves as corporate citizens I think is an appropriate issue for council to be concerned about. What my job is, is to focus on the revenue side. And there are clearly retailers not present in our marketplace that are in communities on our borders. And as the advocate for trying to generate revenue for the city, we want to pursue them. Many of them are excellent corporate citizens. We just held an event in Target in which Target is contributing significant resources to a variety of events in our city, and has been a very excellent corporate citizen. So I would want us to be careful that when

we talk about large-format retailing, we realize it's a very diverse set of retailers. And look at each those opportunities individually.

>> Councilmember Oliverio: So if I may paraphrase, economically it's a good thing for large format stores because they produce sales tax for our city?

>> Paul Krutko: They, on a per-square-foot basis they produce extraordinary amounts of revenue for the city.

>> Councilmember Oliverio: Thank you.

>> Mayor Reed: Councilmember Herrera.

>> Councilmember Herrera: Thank you, mayor. I just want to thank you Paul Krutko and his staff for the presentation on economic development. I think that when I think about economic development, it's the future. It is where we're going to be looking to see our future, and hopefully, the upturn happening in San José. And in my short time with the council I've been really impressed in working with the department and the resources it provides. In terms of the future it's where I look to, to see hope and to see things improving. Because it is really going to be -- it is the engine that could. It's the small group of folks, really, that are working really hard to help stimulate this engine and make things happen. And I mean that very sincerely. And unfortunately along with all the other departments, we have to look at -- at the cuts, and make those as well, but I look to the future with this group really taking us in the future and helping us achieve some of these new opportunities. I want to support what my colleagues have said about those new opportunities, whether it's large-format stores or diverse communities that do small markets, as Councilmember Campos said. And I think that she had an excellent idea, and there will be other ideas percolating out of here and with the help of our economic development staff. I also wanted to make a comment about the arts. I received information, e-mails supporting them, and one from the San José art alliance, the arts are so incredible important, and they're a tangible and intangible factor in helping the economy recover. I want to support what Councilmember Liccardo said, if there's any possible way when we're through this to see our way to any additional funding to keep them alive. Because they are going to be part of the engine that helps our economy recover and go into the future. And next item up here, in terms of signage, I want to give kudos to Pete Constant for his leadership on these issues. I'm going to have similar concerns out in district 8 sparse needing to make sure that we have appropriate signage to support our business. We've already made changes to capitol utero. It's a huge benefit to our community, I've heard this over and over again. Those are kind of my general comments and thank you.

>> Mayor Reed: Councilmember Kalra.

>> Councilmember Kalra: Thank you, mayor. I'll be as quick as I can, four comments, one, arts organizations, I'll support what Councilmember Liccardo and Herrera said. I'm glad Councilmember Liccardo expanded it citywide. Planners, I'm happy to know that we'll be able to get some of the planners back if economics dictate it. As much as I think we have a fantastic senior staff, I especially on my time on the Planning Commission came to appreciate the talent of some of the newer planners. I hope we can keep them and have them make careers here in San José. In regards to big box, there certainly can be a bottom line benefit if you're looking at just revenue but there's no doubt that some big boxes create more for municipalities than others. That includes the wages, health care and so on, that other municipality or government agency is going to have to take care of. That is something we should take into account and Paul I think you referenced that generally in look at what kind of corporate citizens they are and what kind of job opportunities they provide as well as the revenue. And finally in regards to what Councilmember Campos discussed as far as our changing consumer climate here in San José, and I refer to it when we've had discussions before, particularly with regard to the public market, about the flea market, how that's an organic creation, created and sustained because of a new -- because of new generations of folks that are used to a different type of experience when it comes to retail. I think that hopefully the public market can offer one of those opportunities as an incubator type system for some of those same businesses that are coming from the flea market. Because the different tenancies available, and we do know that we have some businesses from the flea market, as a flea market site will ultimately be developed we have some businesses that are long standing there that may benefit themselves as well as the public market to be in that type incubator type system that a market does provide. Thank you.

>> Mayor Reed: I had a couple of questions before we take public comment. On page VII-30. Why are we transferring \$1.4 million out of the Hayes mansion center to the CSA?

>> Jennifer Maguire: That is a savings, we're able to reduce our transfer on a one time basis based on some lower interest rates on the bond. So the negative is actually reflecting a savings.

>> Mayor Reed: That's a good thing. How much are we putting into the Hayes conference center mansion this year, then? Where is that money going to come from, not out of this CSA or is this all covered in this CSA?

>> Jennifer Maguire: For 9-10 it's \$2.7 million from the General Fund. It was just for comparison purposes, the estimate for this fiscal year is \$4.3 million. So we do have some one-time savings there.

>> Mayor Reed: Okay. One comment on the retail incubator. As you're thinking about incubators there are things we can do that don't cost us money, facilitate private development, the flea market, I've been a long time advocate of as the councilmember representing that district, it is a great incubator. We have other models such as the Mercado that Dennis Fong owns at Tropicana, there are lots and lots of different kinds of stores and the key is places where folks can go in and buy a small amount of square footage on a month to month lease. So you can go start your business. Instead of a thousand square feet you can start it in 100 square feet, in some case 20 square feet. There are microsmall business, it doesn't take a lot of money to start it. What will be an incubator is the San Pedro urban market. Short leases, small spaces, that let people get started with less up-front capital on that. We do control that, as far as permitting, signage, up front permitting that doesn't cost us anything that we ought to keep in mind. I'll invite the public to speak. We have four people that want to speak, Bruce Lavity, Jeff Roche (saying names).

>> Good morning Mayor Reed, councilmembers, my name is Bruce Lavity, I've been producing events downed for 33 years. I'm the director of the jazz festival. I've been involved in tap stream talent, ZeroOne, music in the park. I also serve as the president of California presenters which represents civic and cultural events throughout the state. In San José more than any time in my tenure with the dramatic increase in cost and fees and the equally dramatic decrease in the grants available through the parades and festivals grants process. As a group we met with the office cultural affairs and the Office of Economic Development to come up with the solutions for the disparity. I hope we'll be able to find ways together to develop a plan for how and which events receive funding. How we can jointly look at finding funding for sponsors and national granting organizations throughout the United States. Thank you very much.

>> Mayor Reed: Jeff Roche, Jeff Morales, Angie Helshrop.

>> I'm Jeff Roche, general manager of the AT&T San José jazz festival. You know, the one thing I think the city council and the city staff needs to look at is the idea that instead of being advocates for city events like ours, that the city views us as a revenue source. Many people may not realize this happening, but it really is and I can give you a couple of good examples that can be fixed very quickly by this wonderful body. First of all, I mean, there are things like the city, for using the plaza de Cesar Chavez, the city generated \$23,000 in parks fees last year as a rebate on ticket price. The jazz festival paid \$20,000 of that. Now believe it or not this year coming up, this past fiscal year that we finished March 31st, \$20,000 was bigger than my net operating profit. So a waiver that the council could provide on those park fees would greatly impact our bottom line, quite frankly. I don't know that the park -- that the parks department probably has a revenue goal but the parks department probably isn't worrying about make payroll in September. The second thing is as Bruce talked about we've got staggering increases in city cost. You know, the city enjoys a monopolistic position on that, and as any economic student who has taken one class in economics understands, pricing in a monopoly position, it's really simple. I don't quite frankly know that any fireman makes \$165 an hour but that's what we're being charged. So let's take a realistic look at the incremental fees we're being charged. Let's take a realistic look at what we have to phi get the city engaged in our events. Quite frankly \$20,000 investment will generate two to \$300,000 dollars in funds. I don't know a --

>> Mayor Reed: Sorry your time is up.

>> Thank you.

>> Mayor Reed: Jeff morales. Okay, Angie.

>> My name is Angie Helstrap Alvarez. I'm executive director of MACSA. Thank you mayor and city council and staff for all of your work. Obviously we're in difficult economic times but I'd like to request that the city makes art funding a priority. MACLA is looking at a 26% reduction in our OCA grant despite we were the top ranked group in the mid size arts organization. So for us that's a pretty major hit. Along with other hits in the philanthropy field, which some funders are only focusing on safety net services is creating a perfect storm. MACLA is well run and relevant. Over 30,000 youth, families, community members and artists participate in our programs annually. We work with lots of different folks, including small businesses and we're involved with the small business project in our neighborhood. We've never asked for a bailout and we're strategic in bringing additional money here to San José. As well as MACLA, along with that's right vision and 1stAct, are hosting the NALAC conference. I'd like you to consider making arts funding a priority. Thank you.

>> Mayor Reed: Roy Kirbayashi.

>> Mayor and councilmembers, my name is Roy Hirobayashi, executive director of San José Taiko. Thank you for allowing me a moment to speak to you. You've heard of the plight of the arts community. Especially from our multicultural arts communities are really going to be suffering from all of this. Angie mentioned we will be taking a hit, about 70% hit as what we see from the city's budget, office of cultural affairs budget. We realize this is a big problem and how we are going to be able to do this, I appreciate what the mayor said thinking out of the box, I think that's really important as arts groups we need to rethink how we operate. You also have to help us in being involved in thinking outside of the box. Step forward to work with you to help look at what those ideas are what those plans are and how we can really do things out of the box to use our funding in a better way to help support the arts groups here in the city, citywide. And so I do believe there are really different kinds of options that can be looked at besides what's going on right now. Thank you.

>> Mayor Reed: That concludes the public testimony on this session, on this section. I think we're done with the Community and Economic Development CSA unless councilmembers have more questions. Right on schedule I believe for what we were supposed to do this morning. And when do we get to do this again? Tomorrow, great! Good to know. Tomorrow morning or tomorrow afternoon, I forgot. Tomorrow morning?

>> City Manager Figone: Jennifer, tomorrow morning?

>> Jennifer Maguire: Tomorrow morning at 9:00 a.m. we'll start with environment and utility services and then neighborhood services is what's on the schedule.

>> Mayor Reed: See you all tomorrow. We're finished for the day, we're adjourned.