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>> Mayor Reed: Good morning. Let's get started. We will eventually be all on the dais, be starting any minute now. This is the first of many budget study sessions for 2012. We've been here before. Big difference this year is, we're not facing a huge budget gap. That's sometimes amazing what a difference one year can make, and last year we were looking at I think a \$115 million hole in the General Fund budget last year, and this year we're projecting a modest \$9 million surplus. Although I hesitate to call it a surplus. It's certainly a 1% cushion on the General Fund that we didn't have last year. So that's quite a change. And of course, all the folks sitting here I think are well aware how we got there. But maybe people at home, our thousands of viewers who tune into this show early in the morning, probably don't know that we cut our payroll by 24%, by eliminating a lot of jobs, laying people off and cutting pay by 10%, and that's how we created a modest 1% cushion. It's not something we want to do again, but it certainly had that impact. We also saved millions of dollars by contracting out services in creative ways so make sure that we continue to provide services at a lower cost. But those of you that have looked ahead to the future years know that this is only a one year reprieve and that part of what we have to do with this budget is prepare for the following fiscal year when we have another \$22 million gap that we're looking at many due primarily because of increases in retirement costs in that year. Which I think are about \$47 million, 30-some million for the General Fund and looking backwards, at retirement costs have gone from \$73 million ten years ago to \$245 million this year. So we're grateful that they're flat, more or less flat for the next fiscal year which gives us this one year reprieve, but we've lost over 2,000 jobs in the last ten years. We'll be able to add back a few of those jobs with this budget if things continue to go as projected, but we also have \$2.9 billion of unfunded liabilities that we're not solving and those unfunded liabilities in retirement went up by \$145 million in this last round of valuations. So that's why I hesitate to call a surplus, we're not funding everything we need to fund, like road and infrastructure, maintenance of probably \$100 million of what we should be funding. And we need to restore services to January of last year's level which is the goal set by the council a year ago. And that's another \$30 million, so those are the reasons why we really don't have a surplus, but we have a 1% cushion and we're happy to have a cushion instead of looking at a \$115 million hole. But if we are going to restore services in future years, there are things that we have to do, the council has laid that out. This budget continues to work on some of those issues, implementing the fiscal reform plan, and things that we're doing in this budget. But we also have the pension reform ballot measure, the lower-cost medical plans, ending sick leave cashouts, eliminating overtime pay for management employees which are not necessarily being implemented by this budget but are

part of the fiscal reform plan that we'll continue to work on. We'll have these hearings through the 17th of May, have an evening budget hearing on the 17th of May, budget documents due from councilmembers on May 23rd, June 1st I'll publish the June budget message, have the public hearing on June 11th, June 12th council will make a decision on the budget message, June 19th we'll adopt a budget and then staff will take every bit of ten days to implement whatever it is that council approves and I know that there's a huge amount of work that happens after we approve the budget to get ready to do business come the beginning the next fiscal year. There's a lot of work ahead of us it's difficult but it's so much better than last year, great zeal of relief I know to everybody at a we're not facing big cuts in staffing again or in pay. With that I'll turn it over to the City Manager and introduce the operating budgets she gave us on May 1st.

>> Debra Figone: Talk mayor, members of the council. It is my pleasure to present to you this proposed budget. However I do with cautious optimism. On the one hand we are seeing slow improvements to the economy which will help us begin to rebuild services and start to address some critical needs for infrastructure and maintenance. On the other hand we continue to face significant financial challenges as the mayor's indicated. This proposed budget allows us to set aside funds to help us deal with the shortfall we project the year after next. And our current reduced service levels clearly fall well short of council and community expectations. Although looking at a slim surplus is better than the persistent deficits we've had to close over the past ten years we still have significant work ahead of us. This proposed budgets does not include the restoration of key service levels that were cut in recent years and it includes only a small part of our significant backlog of infrastructure and maintenance needs. In addition, as has been referenced, our employees have had to endure significant reductions in compensation over the past two years and this budget does not include general wage increases. Fortunately with this year's financial increase we're not facing further cuts we're focusing infed on areas where alternative service models can reduce cost and enhance service levels. This could lead to some reassignments or limited layoffs of staff in certain programs. But I'm also recommending at a we add positions in a few critically important service areas where staffing has become far too thin. As the mayor has noted, orients retirement costs including both pension and retiree health care costs do remain a major cost factor, although they're a little more stabilized than we've seen. And these costs however do continue to grow. The annual cost of retirement in all funds is currently projected to grow about 27% over the next five years. Dealing with these

increases will continue to be a challenge for the city council. Our employees and our community over the next week these budget study sessions will provide the council with the opportunity to hear staff presentations, to ask questions about key budget issues, challenges, and our opportunities because we continue to have opportunities to pursue. Our budget director will begin with an overview of the entire budget which will be followed by the departmental staff presenting brief, high level summaries of the operating budgets of the various city service areas to outline a variety of information, but most importantly, the principal outcomes that we expect to achieve for each CSA, the expected service delivery for our key services, proposed budget actions that are before you, and highlights of the work plans for the different CSAs. We will review the fees and charges on currently scheduled for May 11th and then we'll go over the capital budget on May 14th. However, these days might move up depending on our schedule. And as the mayor noted, there will be two public hearings on the proposed budget one next Tuesday evening, May 15th and then Monday June 11th before we act on the budget on June 12th. Before turning it over to Jennifer Maguire I did want to take the opportunity to thank all of the staff, executive staff as well as front line staff who have been involved in getting this very, very important policy document to you. It's more than a document. It's a plan. It's a spending plan for the next year that will bridge a couple of years. They not only got you this very important policy document but, as you know, they are responsible for delivering on this plan day in and day out out as they go deliver on this plan. They do a marvelous job and many of them are in the audience. I wanted to thank them personally. I'm turn it over to Jennifer Maguire to start the review of the operating budget. Jennifer.

>> Jennifer Maguire: Good morning. I'm pleased to for 12-13 and for the first time in a decade, I'm relieved to describe our approach and strategies for allocating a very small General Fund surplus projected for next year considering the ten years of chronic General Fund shortfalls the city has endured. As the City Manager has indicated the and we have more work ahead in order to once and for all eliminate our structural imbalance in the General Fund. Once that is occurred we will be able to actually bring forward budgets that restore or add services rather than a budget that is basically only a bit better than the status quo we have this year. As part of my presentation I'll also provide you with highlights regarding 2012-2013 fiscal year. To start the proposed budget swains a \$2.6 billion spending planned with 115 different funds and 5470 positions of about 42% are in the Police and Fire departments. I do want to note that this budget will grow during the next phase of the budget process

due to the rebudgeting or carrying over of current in-progress projects that will mostly happen in our capital programs. As can you see in the pie chart we have three you can see in the pie chart we have special funds comprise 47% of the budget with the largest components being airport, environmental services and housing funds. The General Fund totals 29% for which most of my presentation will be focused on today and capital funds total 24% with 14 different capital programs. After ten years of budget shortfalls and painful decisions that have significantly reduced community services in our workforce, as I previously mentioned there is a small General Fund surplus projected for 2013. This is welcome news and adds us to each other's responsible manner. This budget follows the city council direction provided with the approval of the mayor's March budget message to take a two-year approach to the budget and prudently set aside funds to deal with the projected General Fund shortfall in 2013-14. To address basic service delivery needs. And to invest in the most immediate and critical deferred infrastructure and maintenance needs. The administration has also continued to pursue service delivery changes that reduce cost and or proof sis budget. With this budget the total number of city positions would increase by 70 from 4400 to 4470, a net change of billion 1% staffing levels would remain at a 1988-89 level when the City's population was about 20% smaller than it is today. This next slide just shows the history of our General Fund shortfalls and the impact of citywide position changes over the prior ten years. And the small surplus knew anticipated. Over the last decade as the council's very aware 680 million dollars in General Fund shortfalls were resolved with over 2,000 positions eliminated. This budget makes and extremely small dent in reversing that downward trend. Now I'd like to plaintiff ainto the General Fund more specifically. based on the 2012 which has been youthed slightly \$10 million surplus to a \$9 million surplus. There are small surpluses and shortfalls projected in the General Fund over the next five years as can you see in the chart. This is a significant improvement from the prioritize forecast and reflects the extremely difficult actions this organization has taken to bring the General Fund balance, General Fund budget into balance inclusion significant service reductions and service restructuring, position eliminations and employee layoffs as well as compensation reductions. Wile there is a small surplus of \$9 million projected for 12-13 excluding the development fee programs projected surplus of \$1.4 million it is important to keep in mind that there are a number of elements that are not factored into the forecast which could easily change the does not include any salary increases with the exception of salary steps for eligible nonmanagement employees and management performance pay. Fully funding the annual required contribution for Police and Fire retiree health care, we just got some updated information from Cheiron, that if we

were to fully fund our Police and Fire retiree health care that would add \$20 million in costs over the four outyears of the forecast. Does not include any fiscal reform plan implementation which is underway, it does not include any restoring key services to the January 1st, 2011 levels as the mayor mentioned. That alone would cost about \$33 million. Does not include any services that were funded on a one-time basis in 11-12 which we are planning on addressing in this budget as part of our recommendations. It does not include any unmet deferred infrastructure maintenance needs or one time revenue sources or structure needs that would come up on a year to year basis northwesterly as I will discuss in my presents the budget balancing strategy that is included in the City Manager's recommendations will set aside the \$9 million current year to help stabilize our services and organization for the next two years white we continue to pursue fiscal reforms . This slide provides a quick picture of our General Fund sources for 12-13. There are over 450 revenue sources in the General Fund that we monitor and forecast which it does provide diversities in our revenue base which is a good thing. Sales tax and property tax continue to be the two largest 358 million or 41% of our General Fund revenues. These two sources cover about 81% of our Police and Fire department expenditures which total \$441 million. This slide shows the breakdown of General Fund uses reflecting the city council's priorities. It's important to note that about police and Fire departments. The next largest category is community service with about 12% of the total. This slice primarily contains our parks and recreation and neighborhood services, library and Planning, Building, and Code Enforcement departments. This pie emphasize the point that the city is a service organization in which the majority of costs are associated with personnel. A total of 70% of our costs are driven by salary, retirement and other health benefits and including workers compensation claims and sick leave payments upon retirement expenses which are reflected in that piece of the pie. Moving on to our budget balancing strategy and recommended budget actions for 12-13. There were several documents that were approved by the city council that provided the city administration with a framework and policy direction for developing the 12-13 proposed budget. This includes the mayor's March budget message as approved by the city council in March. Our budget balancing guidelines in the city manager's budget balancing request released in February, our guiding principles for restoring city successful levels which was part of the City Manager's budget request at the end of February and the first developed as part of the General Fund structural deficit elimination plan as approved by the council initially in March 2008. For those members of the community who would like to learn more about these dolts they are included in the City Manager's 2012-2013 budget message as exhibits to that document that can be found on the City of San José

main Internet web page. This next slide shows the numbers and how we balance the General Fund budget. The 2012-2013 General Fund base budget resulted in the General Fund surplus of about \$9 million and there was an additional \$1.4 million surplus associated with the development fee programs that are kept within the development fee programs bringing the total surplus to \$10.4 million for next year. If approved, the proposed budget actions will result in additional funding sources that total -- budget actions that would total \$34 many 9 million while additional expenditures would total 45.3 million with comparing the 2012-2013 column with the ongoing column the majority of the recommended budget actions are one time in nature in this proposed budget. As directed the administration has avoided adding ongoing expenditures in excess of the ongoing revenues and has kept the budget completely in balance from a two-year perspective. Moving into detail on the funding sources side, there are contained in our budget balancing strategy that total 34.9 million in 12-13 and 4.3 million ongoing. The first three items on the list are reflected as additional fund balance, including the use of the 2012-2013 future deficit reserve of 21.9 million that was established during the year to address any projected shortfall for 12-13. There was an additional 11-12 ending fund balance of \$6 million. Those expected to be generated from additional current year. And there's the use of a development fee program reserves of \$2.9 million to fund development related service enhancements in 12-13 as well. Transfers from other funds includes a one time transfer from the expired special assessment districts of \$1.2 million, a transfer from the convention and cultural affairs fund to cover support costs that were previously captured through an overhead rate process and a one time out of that fund. Fees and fine changes activity adjustments he total 1.8 million with the largest adjustment to our parks arounds recreation departmental changes of 1.4 million. Other departmental changes sidewalk repair program reimbursements of 1 million bit contain other overhead requirements have decreased by and other city funds in this budge. This slide provides the detail on the expenditure changes that we are recommending in the balancing strategy. In total this budget would add \$45.3 million in 2012-13 but only \$14.sen million ongoing in expenditures in 13-14. Specific details of these changes will be contained in the next several slides and in the budget study sessions in the next several days. I must note that half of the funds or 22.5 million is recommended to be established a 2013-2014 future deficit reserve in order to implement a two-year approach to the budget by setting aside funds in 12-13 to address the projected shortfall in that year. Of that amount, \$9 million is generated from the ongoing budget surplus that I discussed earlier, and \$13.5 million is from the current year reserve. It is important to note that as we approach 13-14 we will need to replace the one-time funds with

ongoing funds in order not to push a \$13.5 million problem into the 14-15 fiscal year. To provide more detail, to the expenditure amounts contained in the previous slide we have organized our recommended proposals into six strategic categories. The major actions in this budget will continue services funded on a one time basis in 11-12, they will open facilities constructed with general obligation bonds with the exception of the substation, we will address the most immediate and critical of the City's unmet deferred infrastructure needs, we'll address essential operational and organizational needs to strengthen the organization, meet community expectations or mitigate the potentiality risk of higher long term costs, we'll fund a limited number of programs and initiative identified in the mayor's March budget message from to grocery on enhance service levels. In the category of continuing services funded on a one time basis in 11-12 all of the services in this chart have been recommended medical marijuana program that is funded one time while legal issues are resolved. So you can see we've got three police officers, two park ranger positions, continuing funding for the safe school campus initiative at middle schools, horse mounted unit, Lake Cunningham skate park and the rest of the items you see on this chart. The proposed funding includes funding to open the Seven Trees Bascom Calabazas approved by the voters in the year 2000. This recommendation also includes the opening of the Bascom community center that is adjacent to the branch library. The openings of the Seven Trees and Bascom branches have been deferred since 2010-2011 and are now scheduled to open in early 2013. The openings of the educational park and Calabazas spring 2013. Together the cost for all four branches in 12-13 will be a net \$1.1 million with the ongoing costs being about \$2.9 million which includes the addition of about 35 positions in the library. Consistent with existing branch libraries 30 to 34 hours per week and in the fall we wanted to note that the administration will review the City's fiscal status to assure the ability to support these new facilities on an ongoing basis. Several one time and ongoing funding proposals will address the most immediate and critical unmet and deferred infrastructure and maintenance needs at city facilities. These efforts are necessary to reduce potential risk of failure damage or higher risk in the future. As you can see on largest of which is our communications center, uninterrupted power supply. We have funding for our city facilities preventive maintenance we're recommending on a one time basis to bring that maintenance up to an 80% level with only 40 to 50% ongoing level. In our transportation area we have funding for city owned street tree maintenance, ray reflective markers and other things you see on this list and our infrastructure hosted e-mail beginning of mapping of our financial management system that needs to be reparticularsed, data security, a business tax system replacement and some other small items that you can

see. The proposed budget will also restore funding to address specific needs to strengthen the organization and meet community expectations or mitigate potential risk of higher long term costs. Examples include again putting money aside for our future deficit reserve for 13-14, putting about \$500,000 of overtime funding to the police department for targeted enforcement. Putting -- restoring about 70% our water budget for landscape irrigation for our parks, which was cut out of the budget last year. Adding some needed park rangers. Opening up the fair swim then this summer because we lost our vendor, enhancing our services through our development fee programs. Putting some money aside for economic development incentive fund and then doing some very, very small, modest addition in our strategic support staffing including the departments you see listed there. In the fifth category, the administration was directed to provide funding for the following initiatives that were included in the mayor's March budget message as approved by the city council. We've added \$2 million to the San José B.E.S.T. program bringing that program to a 4.6 million dollar level for next year that is being funded by the deferral of the police substation. We've got \$600,000 for the senior services and wellness program, spall business ambassador program position has been funded. We have some transition money for Christmas in the park and some of the other items you see here including repayment of the fiberoptics loan that will be about 17 years old by the time that we pay it off. Compared to the last two years, the proposed budget does not include any widespread reductions as the City Manager indicated in services or staffing levels. However we do continue to identify opportunities to deliver new models or services to the community or organizational support that will cause impacts in specific programs. potential layoffs by taking advantage of vacancies and appropriate redeployment of employees. The following list contains examples reduce cost or enhance service levels. We are recommending to go to a more commercial based park landscape maintenance model. We're recommended to focus our limited street pavement money, and our priority street network with about 400 miles of the city. We're recommending some graffiti program bait square feet to be eradicated. We're happening our model slightly on our police officer recruit academy and we're also doing some amount of civilianization of positions in the police department. This proposed budget also contains several budget recommendations in other funds. The most significant of which are highlighted on this slide. In the airport, we are recommending to outsource our curbside management services that will generate about \$1 million in savings to the airport as part of their airport competitive strategic plan. We're doing some small service enhancements and also providing some small amount of funding for air service marketing. In the convention and cultural services fund we are recommending eliminating the nine remaining

address the variable nature of their work. We're also recommending through the issuance of commercial paper a convention center kitchen remodel and our air conditioning system repairs. And environment services we're recommending some staffing adjustments, some infrastructure improvements primarily in the water musician control plant and some additional street sweeping signage about 40 more miles throughout our neighborhoods. In the housing funds we're recommending a net reduction of two positions to better reorganized the functions after the disillusion of the Redevelopment Agency. The Community Development Block Grant, for the may fair Santee and the five wounds brookwood terrace areas, and allocation reduction from the federal government. The proposed budget that you have before you has very limited fee impacts. In fact it's probably the least amount of fee impacts that I can remember in my history. In the utility world there will be no rate increases recommended for the sewer service and use charge fee the storm sewer service fee and recycle plus! rates. There will be a rate increase of approximately 9.5% for the municipal water system due to the higher cost of wholesale water. In our development fee programs, again this has been several years in a row there's no generate increases. There is some minor fee revisions proposed to more clarify fees or more accurately 100% cost recovery for those four programs. And in our other fee programs there are some fee adjustments to maintain or improve cost recovery and there's a limited number of new fees proposed in several departments. With the recommendations contained in the City Manager's proposed budget a total of 77 employees are estimated to be impacted by this budget with approximately 16 full time employees subject to layoff or redeployment. Due to the fact that we currently have over 450 vacancies in the city the human resources department believes that most if not all employees will be placed in other jobs and layoffs may ultimately be avoided. However due to the civil service system and seniority rules an additional 50 employees will be moved to different positions in their classification through the seniority bumping process and 60 five positions will be impacted in December 2012. Looking forward and beyond the 2012-13 budget process, the administration's goal is to build capacity to meet the City's basic service delivery needs, maintain competitiveness as an employer, address the significant backlog of unmet and deferred infrastructure needs and as you're well aware the fiscal reform plan outlines about \$115 million of General Fund cost belt capacity to address these needs. Before I close, as you're aware, there is a potential library ballot initiative that may be placed on the November ballot if sufficient signatures are obtained. As described o dedicated nondiscretionary financial 74th of the city's San José library department. The largest component of the measure is the allocation of a percentage of the assessed value of real and personal property in the city as

assessed for city taxes. This item is being discussed as part of this overview because if approved this measure may require a rebalancing of the 2012-2013 budget depending on the effective date of the initiative. This measure would result in an increase which would be offset by a corresponding reduction to other services and programs funded by the General Fund. On April 24th, an information memo was released on the budget impacts associated with the potential ballot measure based on the 2011-2012 adopted budget. At that time that analysis showed that the General Fund budget for the library department would be increased by 86% or 19 million if the ballot initiative was approved. These figures have now been updated with the release of the 2012-2013 proposed budget include an annualized figure of approximately \$3 million for the four libraries that are budgeted and recommended to come online in 12-2013. Because the library department budget is expected to increase with the opening of the new library facilities there's a smaller gap of about 15.7 million between the current library funding and the funding that would be allocated to the library under the ballot initiative. This still represents a 60% increase in the General Fund budget for the library. This slide shows the type of service tradeoffs that will be necessary if the ballot measure is approved assuming there is no new General Fund revenue or other sources to fund the library services. There would be significant enhancements to the services that would be offered to the library department. The slide lists the type of improvements that are likely to be realized with a \$15.7 million increase to the library General Fund budget, increased days and operations programming at the branch libraries. The restoration of services at the Martin Luther King Jr. library and an increase of the budget for the acquisition of materials. In addition these funds could be used to replace the parcel tax if this tax is not extended beyond 2014-15. Again because there's no new revenues associated with the ballot measure the increase in the library department budget would be required to be offset by other reduction in General Fund 15.7 million this list that you see on the slide gives examples of the type of services that maybe impacted in order to increase the library department funding and it would take a combination of all of this to get to 15.7 million. In the ballot initiative passes in 12-13 we would have to bring back a rebalancing plan that outlines the offsetting General Fund reductions. If the ballot reduction offsetting budgets reductions would be incorporated in the 13-14 budget. I will close my presentation with the overview of the next steps that both the mayor and the City Manager outlined in the budget process. Again we're scheduled to have city council's final adoption of the budget on June 19th. I'd now like to turn over the presentation to Kim Welsh who will provide an overview of the state of our local economy and then we would be glad to take questions after her presentation. Thank you.

>> Kim Walesh: Thank you, Jennifer. I'm Kim Walesh director of economic development and chief strategist. I'm glad to provide an overview of our local economy. Of course U.S. economy is important context for understanding our local situation. And what's really interesting nationally is that the last three or four years you can see the dark line up there, GDP has continued to grow every quarter. But the job growth has been bouncing around up and down from one quarter to the next for the last four years. Luckily, our situation in San José by contrast is really different. In that we have now been adding jobs consistently for nearly two years. For seven quarters. And our level of jobs, this is for the San José metropolitan area, is nearly back up to what it was pre-recession in June of 2008. And this is another way of showing that. In the last 12 months, the period from this march to last March, the area has added 29,000 jobs. And you see three years there of solid continually increasing job growth. This means we would rather be here than anywhere else in the United States. We are clearly leading the Bay Area, California and the nation in job growth in our region. So we grew 3% in the most recent period. And the national average was 1.3%. The other change from last year, which is a very different picture, is now clearly all sectors except for government have shown growth in the last 12 months. So these are signs that the jobs recovery is starting to be broader-based than just technology. So you see increases in manufacturing, in information services, which is software, but then you also see growth just most recently in construction, which is trick, as well as strong growth in business and professional services. Another positive sign is that we saw a very healthy increase in sales tax from 2010 to 2011. A 25% uptick. In San José specifically, that growth is coming from increases in auto sales, we've been very aggressive in that area, from restaurants, and from gas stations. Recently, also, I'm believed to show that the vacancy rate, this is in the City of San José now for manufacturing space and R&D space have both improved in the last year. And are now below the Silicon Valley average. And clearly, this is a strength of San José, is that we have a diversified economic base so we offer space for manufacturing for R&D, for office. Our weak space, remains however our office vacancy rate of 20% compared to the regional office vacancy rate of 13%. We have 4 million square feet of vacant office space that remains in San José. So 2011 was clearly a record year, especially for our large firms and especially for our scaling firms that are really serving global markets. So you see increases in the Silicon Valley 150, which is the top 150 largest publicly traded companies. And we saw a 14% increase in venture capital. What's challenging however is that despite the strengths in the corporate sector, we continue to have a high unemployment rate in our city. It's remained at

10%. There are about 48,000 of our San José residents who are officially unemployed as of this month. Economists think this is probably for two reasons. One, more folks have moved back into the labor market when job growth happens. So you have a different base. But also, there's now a growing concern that the natural rate of unemployment, which may be used to be 3 to 4% nationally, is increasing up to maybe 5 to 7% where you may have people in your labor force who are structurally unemployed. Because there's just a skills mismatch between the jobs that are being created and the skills of the workforce. which is a troubling and important problem. And home prices remain sluggish. So we did see a 3% increase in the value of homes in San José but clearly nowhere near approaching that prerecession peak like we see with jobs. So tight credit markets continue to impact the housing sector and we really need more income growth for people to start seeing the housing values to go up. Clearly, though, we know the apartment market is very heated. Reflecting the job growth and the average price for a two-bedroom apartment now approaches \$2,000 in San José. We talked about this before, the frustrating disconnect, that while city revenue is certainly going to increase and is increasing once again, we can't expect cities to benefit directly from all of the growth around us. Cities don't benefit from the corporate income tax or from the personal income tax. As we talked about before, the sales tax is just on products. And the largest amount of expenditures are services and Internet tax products. And of course our property tax base is widely expected to grow more slowly, the future two decades, than it has in the last. And the last difficult situation we're in is of course that the property tax increment growth in San José's extensive redevelopment areas, must be used to pay down about \$4 billion in redevelopment obligations over the next several decades. So that increment will not be available to benefit our General Fund for a long time. So just to some, what can we expect? I think we'll continue to hear about slow job recovery nationally. But in our region, the valley jobs are forecasted to grow about 2% annually over the next four years. And our hope is that will start translating into increased consumption and increased income that can continue to bolster sales tax and property valleys here. But we need to be realistic that the growth of our city revenue is not going to grow as quickly as a recovering economy. Which is why it's important that we continue to focus on control our city cost escalation and pursuing more revenue through the limited opportunities that we have to do so. So thank you. That concludes just a brief overview of our local economy.

>> Mayor Reed: Okay, this is a point if council has any questions or comments on the overview part of it before we get into more specific because the next section is the Community and Economic Development service area. But we'll talk overview here for a moment. Councilmember Pyle.

>> Councilmember Pyle: Thank you. This is a question for Kim Walesh but I'd first like to congratulate your team. You've done an absolutely stellar job with a relative small group of people to bring business back to San José. We're really happy with that. And I'd like to say too that I was in real estate for ten years. And just recently helped my daughter to get into her first home. It was overbidding, it's becoming the norm. Because the difference between what people are paying for rent, and what they could basically pay for home payments, is becoming very close. And I would -- I've been told and I tend to believe it that once the housing market picks up, other things tend to follow suit. Would you agree with that at all, or do you see problems with it?

>> Kim Walesh: Yeah, obviously you want the recession sometime if housing market is what carries you. Again I think we'll see a housing market that becomes more linked to the fundamentals of our region, to real income that people really have, rather than the kind of bubble housing market that we experienced prior to this downturn. And I think that will be good overall.

>> Councilmember Pyle: And I can tell you, too, that the banks are being extremely careful all along the way. That almost all buyers are going out there prequalified. So some of the creative financing that was a component of the crash is not out there. I'm happy to say. Thank you.

>> Mayor Reed: Councilmember Campos.

>> Councilmember Campos: Thank you, mayor. I'll stay with Kim. First of all, thanks for report. Very informative. On the job growth that we've experienced, that doesn't -- that's not very consistent with that we still have high unemployment. Which leads me to -- I appreciate some of the analysis, but has there ever been any thought that, I mean, those jobs that have come here are going to folks outside the city and is there a number that

maybe we've projected that there are jobs that you know, folks are they live outside the city and they are working over here? You see that a lot in construction. Has there been any analysis on that?

>> Kim Walesh: Yes, I think that's a really good point. Traditionally, I believe about 80% of the jobs in the county are taken by people who live somewhere in the county. And maybe about 20% are people commuting in. I don't know if there's been a shift in that recently, I think it would be really interesting to look at. I do feel like there were a lot of people that dropped out of the labor market, that people were discouraged that they couldn't find a job. Now that jobs are being created not just in tech but in other sectors, there are more people that are actively registering as looking for unemployment, looking for jobs. So I think that's part of what's keeping our unemployment rate up high is people are actually more hopeful that they might find something and are going back into the labor market actively.

>> Councilmember Campos: Of course the goal is we create more jobs here in the city. We would hope that it's local folks that are getting hired. And then they participate in our economy. So going back to one of the statistics that you brought in the construction field, you know, we've seen job growth, but a lot of times, you see contractors. And let's use Public Works projects. You see contractors from outside of the area, that are getting public dollars to do work here. However, those public dollars in theory would be great to stay here. So that you know, those tax dollars are going back to opening libraries and hiring more cops, opening the police substation, et cetera. But in reality, that's not happening. And I think we should take a better look at that and see what can we do as a council to try to ensure that those jobs are staying here? And I'm sure all my colleagues when you're going out to your neighborhood association meeting you're probably hearing from folks, hey, you know, we need to work. You know, so-and-so, my neighbor's out of work, my brother's out of work, my husband's out of work, my wife's out of work, et cetera. I hear it all the time. And if there's an area where we might be able to have a little bit more influence or control, is for Public Works projects, you know we should be looking at why wouldn't we want to keep those jobs here. You know because they're tax dollars and they should be spent here, to stimulate our economy. Those are my comments.

>> Mayor Reed: Councilmember Chu.

>> Councilmember Chu: Thank you, mayor. Thank you Jennifer and Kim for the great presentation. Question on page 5 of the slide. General Fund shortfall for the next five years, the slide does not include. I wonder can we put some figures to this list? What do we expect to see a saving of a fiscal reform plan, what does it cost to restore key services to January 2011 job level? Can it put some number associated with this list?

>> Jennifer Maguire: Thank you, Councilmember Chu. Certainly. Getting to that slide. For salary increases for every 1% of a total compensation increase --

>> Councilmember Chu: Oh you have that sure.

>> Jennifer Maguire: If the city was to give a total compensation increase of 1% to any employee in the General Fund that would be about a \$5.8 million cost for every 1%.

>> Councilmember Chu: Sorry but this is a salary -- okay, \$5.8 million?

>> Jennifer Maguire: 5.8 million for a total 1% compensation increase. So you could see if you were to reverse the 10% that was happening over the last year or two that could add up quickly. The complete police and Fire retiree health care we recently received some projections from Cheiron. that could add \$20 million in cost on the city side it will be also costs ton employee side as well.

>> Councilmember Chu: Again that's over the four years?

>> Jennifer Maguire: Over the four years. The fiscal reform implementation our latest figures are -- are that that could generate, if everything was approved including the revenues by the voters which includes sale tax and business tax, to name two of the revenues, but this includes all of the retirement changes, SRBR, retiree medical and other changes, that would be about \$114 million over that period. It could generate \$114 million of savings or improved revenues.

>> Councilmember Chu: This is a year?

>> Jennifer Maguire: It would be phased in over the four years.

>> Mayor Reed: It would be annual savings.

>> Jennifer Maguire: It would be annual, yes.

>> Councilmember Chu: Annual savings, so we save \$114 million every year?

>> Jennifer Maguire: Uh-huh. Restoring key services to the January 1st, 2000 levels, that our latest cost estimate would cost the city about \$33 million. The services funded on a one-time basis we already have included in the proposed budget so that one is already included. Our unmet infrastructure needs about \$100 million backlog. Then one time revenue sources and revenue it's lard outropes where that revenue would coming from.

>> Councilmember Chu: Thank you, that really helps. The 7.5 positions medical marijuana are we generating any revenue is that a fees -- service base?

>> Jennifer Maguire: It's not a tax. We did have a fee program that didn't go into effect in the current year but the tax, the medical marijuana tax I have that estimated about \$3.6 million for 12-13. The cost of these positions or this program for next year are about \$1.2 million so there's a net gain to the General Fund of about 2.4 million. Did I hear all right from the left? Okay. Let me see on page 17, this is really a question to me. Because I had smelled some smoke that there will be a parcel tax or sales tax increase in November. I guess my question is, can we lump the information technology investment into the parcel tax and the sales tax? So this is really not a question to you.

>> Mayor Reed: But we are.

>> Councilmember Chu: Hmm?

>> Mayor Reed: We are including those kinds of questions in the survey that's being done maybe this week, I'm not sure when the survey is being done. But that question is one we're trying to poll on.

>> Councilmember Chu: More on that, mayor, I was wondering should we also include sidewalk repair in the survey as well.

>> Mayor Reed: Ed Shikada is shaking his head yes, that's included in the survey questions.

>> Councilmember Chu: Okay, great.

>> Mayor Reed: Trying to find out away people will support and we're trying to find out if that's one of them .

>> Councilmember Chu: Page 23, we have 450 openings currently?

>> Jennifer Maguire: We actually have more than that, 475, we are cutting some of the vacancies out of the system, so I'm estimating about 450 available vacancies but several of them are in progress of recruitments but there are a lot of vacancies so that can really help mitigate any layoffs for the affected employees.

>> Councilmember Chu: But we still would need to lay off 16?

>> Jennifer Maguire: We may not need to, because human resources is diligently working to find placement for them in other city classifications that are -- that ones they may not have rights to but they would be qualified for. So it might be a different classification but they're going to try to match skill sets for those individual employees and seize if there's another city job that they could do. So that's going on during the month of may.

>> Councilmember Chu: So there would be some stacking increase in the human resources department I would assume?

>> Jennifer Maguire: There is part of this budget a net add of a couple of positions in the human resources department which you'll hear in a couple -- I think Thursday or Friday open the budget study sessions but that's helping with our recruitment efforts.

>> Councilmember Chu: Great, that up.

>> Mayor Reed: Councilmember Liccardo.

>> Councilmember Liccardo: Thanks mayor. Jen, in the documents I know it wasn't in the presentation but in the preliminary documents in the budget, if you look the year to year and and the total General Fund the number drops almost 3%, 2.5%, total General Fund expenditures, go to page 3-1 it appears to be totally due to a drop in the carry-over a huge drop in about 50 million, if I'm not mistaken.

>> Jennifer Maguire: Councilmember Liccardo that's primarily from a lot of my relevance that we have not brought forward for a rebudget. So for example, the workers compensation general liability reserve of \$10 million that will be brought forward in a later part of the process. So the General Fund will grow once we rebudget all of our development fee programs and we'll bring that forward as part of an MBA a little bit later in the process.

>> Councilmember Liccardo: Okay that's really helpful. If you look at that number III.1, 121 million the proposed is 78 million. Do you anticipate that we'll get somewhere close to 121 in that carryover number?

>> Jennifer Maguire: I'm guessing not quite as close to that. But we'll see. I don't know how many carryover projects are in the General Fund and we don't have the wiggle room or the bandwidth in the department budgets to carry over projects over the last two years so I've seen that decline over the last several years so I'm guessing it may not get to that level but I'll reserve that until I can actually look at all the numbers.

>> Councilmember Liccardo: Okay, thank you. And mayor I expect you'll cut me off if I'm getting too much in the weeds but I'm covering the areas that were in the preliminary part of the budget.

>> Mayor Reed: That's all right, we'll take a voyage into the weeds in the next couple of days so if you get ahead it will be just a little ahead.

>> Councilmember Liccardo: Okay. Topes \$15 million convention center payment, it seems as though we are relying on the successor entity to pick up the tab on that for the next fiscal year. And I'm just wondering whether we've got, I don't know if this has actually been explicitly considered by that board yet or if we've got some agreement with the county because there's is reference to I think paramedic fee that will be reduced from the county. I'm wondering if there's been an agreement with the county of some kind or how can we be sure that 15.3 million is going to get picked up. That's my biggest concern.

>> Jennifer Maguire: That's a great question. The convention center is an successor agency to redevelopment agency. The way you see that explained in our budget is because of the source of fund in the Redevelopment Agency retirement obligation fund, coming into the city and then we're just turning around and it's going right back out. In the end of the day, the city actually has to provide about an \$11 million subsidy to the successor agency to pay for their -- the administrative cost, some of our recognized obligation payments, and some of our ERAF payments. But we think if we look at the waterfall that the convention center should be able to be covered by tax increment money.

>> Councilmember Liccardo: Okay. My recollection and I wasn't around when that deal was struck, obviously I'm guessing it was back in the '90s. My understanding was that the city was essentially thrust in the position of paying off the bonds on the convention center, because although we all understood the RDA would be paying it, the city could get a better rate, and so the city was sort of on the hook somehow. What I'm concerned about is to what extent we can be sure that the successor entity will understand that as an obligation of theirs and not of the City's.

>> City Attorney Doyle: The obligation does show up on the ROPS. It is an issue of perhaps a cash flow situation. The way the deal was structured they're city bonds but that the agency has a reimbursement agreement and the agency has always been on the hook successor entity knows the situation. If there's an issue it's probably more of a cash flow issue than the obligation issue. The obligation is recognized.

>> Councilmember Liccardo: So we don't believe they have the discretionary authority to decline?

>> City Attorney Doyle: We don't believe they have the discretionary authority to decline. .

>> Jennifer Maguire: That's what we're watching. Based on our projections can't be covered based on the waterfall.

>> Councilmember Liccardo: Okay, great. I've seen the number 9 million and change, like \$9.23 million referring to sale of bonds in different places in the capital budget and so forth. Is that, pointing you for example that one place is 3-29. Is that entirely the commercial paper we're issuing for convention center or is there some issuance of bonds that we're contemplating this year? I'll give you a moment to get to that page. It's 3-29. Which is the capital improvement program source of funds.

>> Jennifer Maguire: I believe there's some bond issuance to the last part of the G.O. bonds that are going to be issued next year. I'm looking to see if Julia -- is that correct? Yes, I'm correct on that. The remaining obligation bonds from the decade of improvement, they're going to be issued next year.

>> Councilmember Liccardo: The remaining, okay, thank you. And then finally, I saw that there's a \$2.2 million payment that we're making on a roughly decade and a half old debt from the General Fund to the sewage treatment plant fund. And I can hear Rick groaning internally already with this question. We've put it off as long as we have. What's the consequence of us not paying it all this year? In other words, issuing another deferral for a year for some portion of that?

>> Jennifer Maguire: The council could certainly make that decision. That is a policy call. We have -- we were supposed to pay it off -- it was supposed to be a 15-year loan. We did ask for the council to defer it a couple of years ago and we just paid like a minimum of \$50,000 due to the severity of our budget situation and although we didn't want to we had to use some one time funds to resolve notices budgets. Because we are in a position of having some one-time funds we thought that would be prudent to get rid of that loan and just not have to worry about the \$50 per year. But it's certainly a council call. We have -- the interest rates are low right now. Over the period of the loan we have paid -- it was originally about a \$5.1, \$5.2 million loan. We have paid about \$2 million in interest. There is no immediate need in 12-13 that would cause the sewage treatment plant -- any jeopardy to water pollution control projects. But we thought we would take the opportunity why could and just pay it off.

>> Councilmember Liccardo: Understood.

>> City Attorney Doyle: Council is right it does have the call, I would note that the council adopted the City Auditor's audit, which included intercity funds but the recommendation there was to pay it off as soon as possible. It is a policy call.

>> Mayor Reed: Anybody interest should look at the auditor's calling into question the use of the funds that were special purpose funds that were loaned to the General Fund. And eventually somebody gets angry and I don't know who that somebody is or where they work but there's a policy reason, I've forgotten it all but I do know we've been delaying the payments.

>> Councilmember Liccardo: That concern was in the back of my mind. My concern for Rick, this is an issue we can better take off line, I'm happy to do that but the fact that prop 218 pass after this loan transaction occurred which was sometime in the mid 90s does that provide us any cover from those concerned?

>> City Attorney Doyle: No, it doesn't because the obligations are from special funds and you have an obligation to reimburse it or pay it back.

>> Councilmember Liccardo: Okay, thank you.

>> Mayor Reed: I think that's the council comments on the opening overview. We'll now turn -- Councilmember Herrera do you have something? I'm sorry. All right.

>> Councilmember Herrera: Thank you, thank you Kim and staff for this report. I wanted to ask Kim a little bit about the unemployment rate that we track. The San José metropolitan area is different than what we just look at San José separately, is that right?

>> Kim Walesh: Yes, what's published is the metropolitan area and through a special relationship we with EDD we're able to call that out for the City of San José residents separately.

>> Councilmember Herrera: When we look at the metropolitan area what cities does that cover?

>> Kim Walesh: That's all of Santa Clara County and San Benito county.

>> Councilmember Herrera: The current rate is at what again?

>> Kim Walesh: 10%.

>> Councilmember Herrera: And it's been significantly higher than the rest of the county at least since I've been sitting up here. What was the highest rate it got to? 11, 12?

>> Kim Walesh: What was the highest rate, I want to say 11, 12. It's been 1 to 1.5% above the county average.

>> Councilmember Herrera: So I'm very concerned about the unemployment rate in San José and what we can do if anything to address that. Councilmember Campos is talking about hiring local folks and it's certainly

something I think everybody up here is concerned about, people in San José having jobs. What kind of ability do we have to require contractors that do business with the city to hire local people? I guess I'm probably asking the attorney. Do we have the ability to do that? Is that within our power to do that?

>> City Attorney Doyle: You're talking about local preference issues?

>> Councilmember Herrera: Yes, can we require companies that do business that would some for example, be contracted to ?

>> City Attorney Doyle: Contract requires that you award to the lowest responsible bidder and local preference is not allowed. There's constitutional issues with respect to requiring local preferences. In the case of RFPs there are and we do have a program in place in the procurement area where we give a certain local preference to, I think it's a 1% essentially the sales tax difference. And so there is some local preference given there. It's almost a tie breaker also, in some context, depending on if it's a service rather than goods. The best thing would be to give council, since it's been some time since we've had this issue, an overview on what limitations there are. We can go on.

>> Councilmember Herrera: So I would be interested --

>> Mayor Reed: Before you go on Ed Shikada has something to add.

>> Ed Shikada: I'm not sure anything to add but another data point. Councilmember Campos' question there has been some work done by the building trades council that built local hiring. I think it's just notable in the world of the policy levers that the construction industry had taken a look, about a year maybe a little more than a year ago that they put out an analysis that indicated that the prevailing wage analysis had an effect on out of area hiring .

>> Councilmember Herrera: It is assisting.

>> Ed Shikada: Drawing that correlation.

>> Councilmember Herrera: So we don't have -- Kim were you going to respond to that?

>> Kim Walesh: The other fact on this if I could say is really address the issue of the education and skills mismatch. So through work Puyallup we're doing everything we can to adults to get skills in the jobs that are being hired in areas like Klein tech and health care. I suspect one of the reasons are, unemployment rate is slightly higher than the rest of the county is that our education levels skew slightly lower and nationally as well as locally in this recession, people who only have a high school degree or limited education beyond high school have a much higher unemployment rate than people who have a college creation education, I do think that's a factor and it relates to the importance of increasing the education levels of all of our residents. And skills based training so people are prepared to take the jobs that are being created in our city and all around it.

>> Councilmember Herrera: Point is well taken.

>> City Attorney Doyle: Council I think it bears coming back with a paper that explains it. I do know they carry their own controversy but that's another way of a lot of local trades, on construction projects are in the game.

>> Councilmember Herrera: Yes and just because a company would be outside of the area, doesn't mean that they necessarily wouldn't hire local folks if a local company was able to win a bid for a project I hope that they would be hiring local folks but I'm very interested in anything we can do legally that would help hire local people that live in this city. I am very interested in that. I've said that before. The other thick is what about employees that work for the City of San José? I understand that a lot of folks-d I know that particular certain jobs have more people living outside of San José than other jobs. For example public safety. If we take a look at police officers and firefighters, jobs, is there any requirements they live in San José?

>> Debra Figone: We are precluded from that requirement now under the law, it is my understanding.

>> City Attorney Doyle: There are constitutional issues but there is an able to fashion a certain jobs, public safety in mind where can you have an either radius restriction or an hour and a half, 90 minute response time where people have to come back. We've looked at that in the past and I think we've had memos in the past, never had any direction but there is some ability to look at without saying you have to live in the city limits, that you have to live within a certain variance of San José for an emergency response.

>> Councilmember Herrera: These are well paid great jobs if there's any way to give local preference for people to work for the city, I'd certainly be very interested in seeing if we could do that as opposed to hiring somebody from out of state to come and take -- become a police officer or firefighter. I think there are a lot of folks that are qualified within the city limits that would be able to do those jobs. I think not just the private sector but actually our public sector, if we could provide jobs for local people I'm very interested in what we can do within the limits of the law, I just wanted to say that. Moving on to, I had a question about the surplus, the \$9 million surplus we see in 12-13. How did we end up with that \$9 million surplus?

>> Jennifer Maguire: Well, we originally, I'm not sure what point to go back to.

>> Councilmember Herrera: I guess the overall picture, my real question is we asked employees in all of these to take a 10% total compensation reduction. How much did that help our \$9 million?

>> Jennifer Maguire: Recently was about \$40 million in last year. So it really was a combination of all the service reductions, the reduction of head count in this organization, the total compensation reduction, the service delivery model changes, it is a combination of all those factors. Our revenues are slightly improved as you know they're growing slowly every year, but we've been also taken measures to reduce our cost. So taking those actions together have resulted in this thin margin of a \$9 million surplus.

>> Councilmember Herrera: What percentage was through cost versus revenue?

>> Jennifer Maguire: I don't know most open the cost side suns we're very precluded doing much on the revenue side without going to the vote of the people. The forecast the next year \$22.5 million deficit that we're looking at, our retirement costs are going up in the General Fund alone that year about \$30 million. Most of that is retiree health care which is driving that deficit. We are in 14-15 and 16-17 those are very close reductions considering an 800, \$900 million budget in the end. We are skimming along on the bottom, better than status quo this year but we have work to do to get us on stable footing.

>> Councilmember Herrera: When was the last time we had a surplus in the budget?

>> I think it had to be about 2001-2002.

>> Councilmember Herrera: It's been ten years.

>> Jennifer Maguire: Definite solid ten years of shortfalls.

>> Councilmember Herrera: As we can see it's short-lived because we're looking at a 22.5 million next year as and as you just explained some of the reasons why that is. So if we don't do some of the things you've outlined, we're going to be faced with that \$22 million. And how would we resolve that next year if we don't?

>> Jennifer Maguire: So we have in this budget you know done a two-year approach. But part of the approach is \$13.5 million of one time funds from the current year money we've set aside. So what I'm worried about is, you know, carrying over our problems of 14-15 and everybody -- I don't want anybody to falsely believe that we're all out of the woods because we've taken care of that deficit in 13-14. I do want to remind everybody that that number will change. That is a very early projection to be able to project out what our deficit will be, hard to do at best. But it is our professional work of where we think the numbers are going. So we definitely have work to do, and there's so many things that are not included that could change this number. You know, if the retirement boards change interest rates that could be nothing else changes on -- because there's obviously millions of

assumptions that go into the retirement cost. That could also increase our retirement cost that year more than what we're carrying so there's lots of factors that could headache Cha.

>> Councilmember Herrera: Right and you've listed a lot of things that could that could change this. So as we've seen every year we start off with one number and usually it doesn't get better unfortunately as time goes on to making sure we balance the budget. In looking at -- I'm just looking at the overview on page 5 and the use of funds. What -- if things get worse, what things in that list can we pull back to help us? I'm looking at for example the fiberoptics loan repayment for \$2.2 million. Is that something that we --

>> Jennifer Maguire: That's something we could pull back again, that would be a stopgap measure because that's one time funds. Because the libraries are not scheduled to open until about halfway through the fiscal year we do want to do a check-in with council before we finally open them. We are scheduled to open them, we want to open them but we will do an early forecast for you in the fall like we normally do to make sure that the numbers haven't changed in any significant way. But any of -- you know any of the proposals that we have that are one-time in nature we probably could pull back. If any of the projects on the unmet deferred infrastructure needs which is unfortunately the easier place to go, because that means we have a lot of staffing behind it. We could stop that in-progress projects some of the building needs we could stop those. So there are some opportunities that -- but you know we'd probably try to minimize just general disruption to our overall service delivery system at mid year like we have in the past, we'd need to rebalance.

>> Councilmember Herrera: I'm going to page 145, appendix C baseline service levels. And talks about the fire department. And 33 fire stations opened. Service metrics are determined by using actual data and the level approved in 10-11 adopted budgets. We have 33 fire stations opened. How many do we have closed?

>> Jennifer Maguire: I think we have 1 which is communications him.

>> Councilmember Herrera: What number is that fire station?

>> Jennifer Maguire: I don't know the number. Is it 33? Flea.

>> Councilmember Herrera: How did that get closed?

>> Jennifer Maguire: That was through a budget action of two years ago.

>> Councilmember Herrera: Who made the recommendation at a that be closed?

>> Jennifer Maguire: The city administration in conjunction with the fire department. And a lot of that was because the build-out had not happened on the top of that hill to the levels that was really going to trigger the opening and they were putting mitigating factors in through their dynamic deployment model, service delivery model. The chief can certainly talk much more about it than I can.

>> Mayor Reed: Can we hold on that until we get to the fire department?

>> Councilmember Herrera: I guess we are getting too --

>> Mayor Reed: We will get into that in detail.

>> Councilmember Herrera: Okay great, those are all my questions, thank you.

>> Mayor Reed: Anything else on the overview? We will come back to all of these topics along the way one or more times undoubtedly. So done with the overview. Now we want to turn to the Community and Economic Development CSA which will take up the rest of the morning. We'll give staff a chance to swap positions. We obviously are excited to get into the Community and Economic Development CSA, we were talking about it on the overview, about half of the questions were on related to the overview. Back in April we got an 18 month development strategy work plan and accomplishments and council you gave direction to focus on the five highest priority actions in the next years focusing on the priorities council's priorities and economic development as well

as all the other issues that come up in the economic -- Community and Economic Development CSA. So I just like to highlight some of the accomplishments kind of looking backwards before we get into -- in the budget. I know they're in the budget, I know people probably read them, but some of these, I want to point out, I don't want to go through a lot of the accomplishments but I think we have a lot to be proud of with the work with this particular team. And start first with the development services team. We did 83 permits that were issued under the special tenant improvement program so 83 companies growing in San José creating jobs in San José, 158 permit under the industrial tools program, again 158 companies adding jobs and making investments. Of course we finished the general plan work. Finished is not the right word. We approved the GP 2040 update. The work is never finished. It's just that phase. We do a lot of amendments to ordinances and policies and process streamlining and created incentives for investment all to make it San José a better place to do business, create jobs and create those opportunities for those unemployed people that we talked about earlier. Got a lot of business outreach and retention, corporate expansion, relocations, real estate division sold a few properties, a couple, three to \$4 million in property sales which we of course really needed this year, we had great success with arts and culture work and workforce training and development. So this has been a busy CSA. Housing despite the bad economy and the bad everything, 600 units of affordable housing and 3200 of market rate housing. Under construction in North San José. And to go back to the questions about covering successor agency obligations, nothing like increase in tax increment to help the successor agency pay those convention center obligation and others. So I think it's about \$800 million in private sector investment in those housing units and there's more in the pipeline as well. That won't generate \$800 million of tax increment, because there were already some assessments but it's millions of dollars of assessments all to the good of the successor agency and the city and the General Fund. And then of course we got the overview of how Silicon Valley is recovering. I just wanted to add a couple more factoid to that. Metro area . Forks changed their ranking, we dropped from 27th to fifth in the Forbes ranking as a result of what happened. KRON does an annual KRON 200 survey of companies and of \$100 million in r and there's 200 of them, and out of that list San José has more \$100 million companies than San Francisco and Oakland combined and Santa Clara County has more \$100 million companies than the rest of the Bay Area in total. So I think we can be proud of that and I'd just like to note that I think this window of opportunity is limited. We don't know how long it's going to be open. If the Greeks go crazy and default on their debt and pull out of the euro zone and they go into recession, this window night close. So this work that is going to be done over the capturing the

opportunity. Because I know that many companies are thinking about expanding and they're going to make that decision and we have to be ready as we have proved in the past year and so I think this budget supports that. It is not a very big CSA. But it has an impact throughout the city, because as we increase our revenues, we can spend it in other departments as well. So with that I want to turn it over to the staff to get into the weeds. This is the weeds section on the CSA. We'll go through the book, section by section, and I think Judge Judge is going to start it out.

>> Kim Walesh: Thank you, Mayor Reed and councilmembers, I'm still.

>> Kim Walesh: .

>> Kim Walesh: Director of economic development and I'm here this morning with our entire CSA leadership in the box and in the seats we had used the word extraordinary to describe the times that we were in then. We faced extraordinary uncertainty about the future of redevelopment. We faced extraordinary resource constraints. We had unprecedented reductions in our combined redevelopment, economic and development services capacity. But we also faced extraordinary opportunity. And we really believe and continue to believe there's incredible opportunity for San José to regain jobs and revenue, as this economy recovers. So one year later, our team with you, we have managed through some very difficult issues. But all things considered, we think things are working extraordinarily well. You helped by making it clear what your top priorities are. We really focused our talented staff on those priorities. And we have been reexamining what we do and how we do it. And as demonstrated in our discussion several weeks ago about the economic development strategy work plan we have delivered important results. And I know all the CSAs think they're unique but we are the most unique in two ways: One, just to remind you we are the only ones that are actively working the revenue side of the city budget. That vital cycle. We especially believe that we are the stewards of the land, why the employment and the retail sectors are and stewards of the vision of putting jobs first so that we can create a more balanced and fiscally healthy city. We're also unique, in that we are a tiny speck of the General Fund budget. So less than 1% of the operating budget is General Fund support for our CSA. This yields very strong return. The auditor's services and accomplishment report found \$10 returned to the city for every \$1 vested in our CSA. So we are going to give you

a quick overview of our budget proposals and divided into our four main areas. I'm going to talk about economic development which includes workforce development and cultural development. Joe is going to talk about long range planning which is focused on the implementing envision 2040. Joe is going to then talk about development services which also reflects work of public works and fire and then Leslye is going to talk about housing. So on the economic development front, business outreach is job number 1. We had a target of 250 meetings related to business retention, expansion and relocation. And we're at 235. And we have learned two things, one is that companies go where they're welcome and stay where they're appreciated. They like it when we're out there interacting with them. Two, we've learned this last year that our city has tremendous value to deliver to business success. And so we will continue to do that work going forward, looking for big wins, big headquarters wins like we with had Polly come and flex tropics this year. And more important in clean tech manufacturing and 23. In downtown we of course have tremendous positive momentum in downtown. We are challenged now to sustain that with minimum city financial resources. So we will continue to work on new models of partnership, which are being successful. We have launched the first integrated business outreach effort with the downtown association. Working as a true team. We have launched the choose downtown campaign, and will continue to work that with downtown property owners and brokers. And many other partnerships. Through small business, we will continue to implement the boss.com partnership of 40 service providers which is helping our residents start and grow small businesses and the shop San José campaign. Through Work2Future we are actively helping 8,000 unemployed people. 85% of those are our San José residents. Get the skills and support they need to find jobs and helping our employers hire our people. And of course, in the area of arts and events, we are leading the nation in working the linkages between arts economy and place. Among other things we have a nationally significant creative place-making initiative going on in sofa and as you know 300 plus outdoor events events citywide every year. I need to agriculture this was an area of concern that you expressed concern today we need to celebrate. Mayor Reed was right. Our neighborhood services group which is now part of OED, is on track to generate \$4 million from real estate sales this year. To put that in perspective, that is over double the average generated the prior ten years. And that work was done with only four staff of 9 positions filled. So truly, an extraordinary effort. In addition to that, \$1 million in lease savings and many, many other projects with acquisitions, easements, right-of-ways, relocations, all those things that make our city projects and our partners' projects work. So the budget impacts proposed. We started a new model last year to sustain the enterprise

program with fees. That's working really well. We want to continue that. There is a proposal to add \$50,000 in one-time funding into an incentive fund to use if we need the resources to make a difference in the location or expansion decisions of headquarters operations or scaling companies. There is a proposal to eliminate \$554,000 in general support for the convention and visitors bureau, because we believe there are sufficient funds from other T.O.T. sources to adequately market the convention and cultural facilities. And there's a final shift of office of cultural affairs, their nonpersonal support into the T.O.T. So this completes the transition to the point we can say that there's no General Fund dollars anymore in cultural affairs, it is all supported appropriately by the T.O.T. And for the convention facilities, there is a proposal to provide \$10 million from fund 536 through the issuance of commercial paper to fund the improvements in the kitchen remodel and the HVAC repairs that were identified after the project has begun. And as Jennifer mentioned earlier there's the elimination of nine city positions from Team San José so that when that work is needed which chiefly remains with maintenance it can be handled on an emergency and as needed basis.

>> Joe Horwedel: Thank you Kim. In the world of long range planning we have moved forward with the implementation of the envision 2040 plan. The council has seen some code changes come before you. In the next year we will be bringing additional zoning code changes to help implement the plan and remove the barriers to the type of development we've seen in the city. We have also been aggressive foundation of the envision plan. We have five of those plans underway right now and funding for three more that we will be starting up as soon as we finish recruitments for some planners. The other piece that we have been working on is with the aligning, the envision 2040 to the other policy documents in the city. So this year the CIP process, we started that, have made some real good strides, really connecting, what we build in this city of how it helps build the future of this city. To major sure we're focused on the right things we're also looking at alignment with the economic development strategy, the green prints the various policies of the documents to the city to make sure we're all connected and moving in the same direction. We are as noted for long range planning really dependent on grant funding. In how we've looked at this in the past. We are looking this next year in using some funds through the general plan update. We had not used all the council had allotted for the update. We really wanted to hold some in reserve. We think it's village plans that we're not able to attract grant funds for that are probably the ones that are marketplace is the most interested in building. Corridors like Stevens Creek boulevard, where we have a lot of pressure in

those areas but we aren't able to compete for state and federal dollars to do that work. We also want to get started on the protected intersections so this is the work where we disconnect our level of service policy in these corridors so that we can allow development to move forward. We're working right now in the Stevens Creek corridor with problems in that area but we'll work around it. We think it's one that is important in investment if we're really interested in moving forward with the general plan. We will rezonings dealing with some of the site specific issues that we were not able to deal with at the time of the update. Looking forward this year, we are expecting for the five wounds plans to be done, there's as well as the Diridon station. As well as the grants we got for West sap car lows and Bascom, we'll be getting those prepared this year as well as putting zoning on the ground that would help developers really move straight into a development permit process rather than having to wait to rezone land and go through the environmental stages. So we're really trying to figure out how do we front load things to make it easier to build the plan that we want. In the role of development services, as Kim noted really thanks to the council that you helped us in January by adding staffing to help keep up with the demand. We are in the process of recruiting positions around that, and the biggest complaints we hear from our customers is how long it takes to either get an appointment to file applications, how long does it take for staff to be responding back on applications. So it's one that we really are working at getting back to our base level of service. At the same time providing greater level of service options to our customers. It's many of the things we're able to do back in when our staffing was much higher than it is today. Around that we're also looking at our commitment to our customers on the actual service itself. That we've been through to the CED committee to talk through some ideas around how we can improve the base level service and the coordinated services we provide. It's something that we're working at through our mid level managers really to go through and work on the cultural piece about how we deliver services. And around the actual service itself as we go through and bring back the staffing to get our base level services it does then give us the flexibility to work on some of our coordinated type reviews that we have eliminated as we went through and lost staff through a lot of retirements here in this last year that we're building ourselves back in and that's really a service that has been appreciated by customers. They missed it when we scaled that back so we will be bringing that back for our customers. That will probably be by the year end coordinated review will be available by the end of this fiscal year. We will have the position filled that will get the baseline services more back on track where it should have been. So we are really working hard to match our staff to the work loads coming in. It is still as you heard from Kim on the overall economy statewide, nationally and

locally we have a lot of bright spots. But it is also a lot of very fluid sustainability there. And so it's hard to project how much we need of staffing to meet our customers' needs so we're trying to be a little bit bold about what we're asking for in this budget. Not that we necessarily would fill all those positions day 1 but we do think it's important to have that capacity to be able to respond as things are coming in. We're feeling optimism around that, our customers are so clearly when there's you outside forces that may affect the credit market such as Europe anticipating having that available and up and running by the end of this fiscal year. In this budget, there is a General Fund component for the small business ambassador program. We think it's a really important part of helping us go through and really serve the smaller customers that we have not been able to devote time to. This is not going to be the silver bullet to solve everything but it is an important first step to go put a voice-person there that is a resource for those customers and to help them as we move through the process and get their permits approved. So we are a big business. We're a growing business again. We're going to be back up to close to 200 staff delivering development services. And we really are what our core values have been around, the efficient service delivery, timely services that are focused on what our customers need that has fallen as we went through a couple of tough years. But we are seeing the corner turn and with this budget we're expecting good things to be back helping meet our customers' needs to them succeeding.

>> Leslye Corsiglia: Thank you, Joe. I'm going to move on to housing and community development. One of the things that I think we all -- we've talked about and we know is that with redevelopment, the city lost its most important housing funding, local housing funding, with the 20% low and moderate income housing fund. So that's changed up the City's housing program quite a bit. We will have funds available, 20% funds available to pay debt services and also to pay for those projects that are under construction. But will not be able to use any additional ongoing RDA funding for housing. This requires more creativity in order to continue to do what we do. And we expect that we will -- we're looking for new resources. We plan to use the resources we have most effectively and we're seeking new ways of providing service. We're going to continue to provide assistance to home buyers through our first time home buyer programs many of which are funded with state housing funds. We will continue our housing rehab program and especially focusing on our mobile homes which really need attention. And with that we again will be using to the extent possible both state and federal funds. We have a new development that continues. We actually have 9 developments under construction, over 158 units. We have another 10 pipeline

projects with nearly 900 units that we have found funding for. And lastly we are going to continue our efforts partnering with destination home and ending chronic homelessness seeking additional funding from a variety of sources to accomplish that. Our proposed budget actions are small this year. We're proposing a reduction of three staff people. However over the last three years our staffing has reduced 28%. We still have an \$82 million program budget. And that includes a lot of federal and state sources. It also includes program income that we have from our loan portfolio. We do have an \$800 million loan portfolio which we will continue to administer as well. One thing of note is what's happening at the federal level for housing. So we did see a 19% drop in Community and Economic Development funding program hopeful that those funding sources remain stable and that we don't see any further reductions this coming year. And so we're working very closely in Washington to make sure that those programs remain fully funded. As far as what we'll be focusing on this year other than managing our programs and seeing those 19 projects move forward. We are Community and Economic Development block grant program leveraging our CDBG funds in a way that they have not been leveraged before. We will plan to bring forward an MBA during this budget process in conjunction with PRNS that assures adequate staffing for efforts that will be coming forward shortly. In addition, we are looking at creative financing options including managing our portfolio in a way that we support all of our administrative costs and that we provide basic funding for the programs that I mentioned. In addition we'll continue to look for new funding sources. And lastly, we'll be looking in January at implementing the citywide inclusionary program that was approved two and a half years ago. This does however only apply to home ownership due to the Palmer decision with that I'll give it back to Kim.

>> Kim Walesh: Just to conclude, we are very much focused on regaining jobs and revenue as the economy recovers. We're focused on building the strong basics. Development services offering, we need to work together to build a distinct value and brand of the San José location. Companies are increasingly looking at amenity rich special environments. We need to be competitive there. We have been successful seeking outside resources. We need to continue to do more of that. We've had successful partnerships and we need to continue to develop partnerships to extend and capacity that we have inside City Hall. And at the end of the day, we're all about building confidence in San José's future because investment dollars and jobs and residents want to be in the

place that has a bright future, and where everybody's confident in where the community is moving. So thank you for the opportunity to make some opening remarks.

>> Mayor Reed: All right, let's come back to the council for additional discussion. I had a few questions as we get down into the details of this. First was on the business outreach retention work. You gave a number of how many visits were a target of I've already forgotten what that was but my question is how do you think you'll reach that number question I think it was 250.

>> Kim Walesh: We targeted 250 which I thought was incredibly ambitious and we're at 235.

>> Mayor Reed: In the next budget year-to-are you going to have enough staff to get the 250 or 235 range again?

>> Kim Walesh: Yes, we only have about six people that are actively involved in business outreach and only one of them is able to 100% of the time do business outreach, which is Don Burris which we were happy to have join us from the Redevelopment Agency. 250 will continue to be a stretch target but really focus on quality of the follow-up. So we're maintaining the original 250 relationships and then adding new ones.

>> Mayor Reed: And you'll have sufficient staffing to do that you think with this budget proposal?

>> Kim Walesh: Yes. We were glad that the enterprise zone position is now permanent. It was temporary for one year. We would always welcome the opportunity to add business outreach and if I could add anywhere in our economic development operation it would be to business outreach because that really is job number 1. That creates the pipeline and all of the good outcomes that benefit the city.

>> Mayor Reed: So is the 250 target does that include brokers, developers, property owners or just corporate enterprises?

>> Kim Walesh: It's mostly company but development community, is really critical because that's what gets us to the companies. So most of those 250 are companies. But some number of them are the relationships that we have with the other major parts of the business network here.

>> Mayor Reed: So with this budget you'll continue to build on those relationships and Joe's been out talking to people. I've been to some companies who shall remain nameless, big companies with Joe to talk to them about what we can do if they want to grow and expand, which they do. So I know there's a lot of medium working that but it's really ultimately a small number of people who are doing the bulk of the meetings. Because Joe and I can't go to 250 of them.

>> Kim Walesh: Absolutely. It's been great that Joe's been out there, I love that but what we're trying to do is act like economic development is everybody's business. So we have our small core which is focused on the outreach. You're out there councilmembers are out there people in other departments are out there so we are really trying to have a more coordinated approach, maximum flow for maximum impact.

>> Mayor Reed: And the other subcategory is the Green Vision work, we have a substantial number of clean tech companies that are locating in San José, growing expanding I think 7,000 clean tech jobs now. I'm assuming when we are talking about this outreach and corporate stuff that includes the clean tech companies as part of that that we're not going to lose the opportunity to grow with clean tech?

>> Kim Walesh: Absolutely, Scott Green and Don Burriss which have a lot of disease in clean tech. A great example is switch lighting which is a next generation LED lighting company that's doubled their space, grope from 40 to 80 people. Good example of a company we've been able to help in a lot of ways from technology demonstration to helping them with permitting to get ling them more local and national exposure for their work. Clean tech very much continues to be at the house of our business outreach.

>> Mayor Reed: And how we deliver on all of these opportunities, it takes people to do that. Joe mentioned some of the staffing changes that we approved in January, and then there's some additional staffing in this

budget. I'm concerned about the timing of getting these people in place because we seem to be behind the power curve and I know how hard that is to do that. I think this is a question for the strategic support section but it is not just Joe Horwedel posting a job opening and somebody gets magically hired, it takes a lot of job elsewhere in the organization. The question which I'll probably ask probably Alex Gurza when we get to that is does Alex have sufficient help on the staffing level to be able to respond to the department like this when we need to staff up, so Joe how close are you on the ones approved in January and where are we in the process?

>> Joe Horwedel: On the -- of the positions we got approved, fire has hired I think two of the positions. And building we are doing the interviews for practical so we've actually had electrical inspector candidates walking job sites where we've set it up so -- to see how they do. We just finished the planning application submittals for planners, we had 400 applications for 3 positions so we've got a little bit of digging to kinds of work through that. We have, for the building engineers, have put two offers out, one has been accepted, one is deciding. We have two others we're doing background on. So we are very aggressive in working through. But as you note it really, that happens because human resources has staff available to help us with that, that it takes really the organization to support us. And we have augmented in human resources some overstrength positions so that they can help keep up with the recruiting that's going on not just in our world but some other parts of the city where there's key positions that just need to get filled.

>> Debra Figone: Mayor if I could also add, we are really focused on organizing ourselves around hiring. And I must say that the senior team, in particular, in the CSA, is really focused on not only the technical competence that is needed in each of our positions but also what character and what qualities do we want in individuals who do end up landing our really terrific jobs. And so we are really spending a lot of time on thinking about things like customer service and how we evaluate for that, and setting the expectation really with the interviews and with the process about what kinds of employees we need to have in order to deliver the services that I know the council wants.

>> Mayor Reed: Okay, well, this isn't just an academic exercise about hiring people because we happen to think we're going to have some business. We do have business, we do have work and I just wanted to share, drop a

few names here so just looking at the special tenant improvement and the industrial tool appointment for this week. One week in San José. Hitachi, ie, Phillips allows aled cisco Oracle, land research and Maxim. That's just this week. the economy is doing beer Ellis partners North San José office project Santana Row office program sun gardens retail Carey Evergreen retail and residential projects like the Ohlone project, there's work to be done and it's an opportunity that we have and we just have to all of that work on that outreach and recruitment and retention and all that stuff it's working and now is the time when we've got to capture it so I've got a high level of confidence in our team to being able to deliver on all this because it is a window that's open. How long it will be open we won't know until it's closed. We want to capture as much as we possibly can. And then hi a little further out there thinking and that's the village plans. You mentioned those, Joe. I'd like to see us do one. Because we have a concept. We need a proof of concept. And the way you prove the concept is to build the prototype. And we're not going to have a prototype if we first don't get something planned with people who are willing to spend their own money. To build something. And so I'd like to see the staff figure out okay, where is the highest opportunity that we have, to do a village plan that could be implemented, and to focus on in the next year, figuring out how to make that happen with some of these projects or some of these developers or some of the people that have an interest in it. Because we have maybe 70, Sam, 70 villages roughly in the general plan. Let's do one. And that will prove it to the other developers that it's feasible, possible and maybe generate some excitement. We have the funding. We have a reserve. So what I'd like to see is some sort of an MBA on how you'd spend that money in this next year to move forward. It doesn't have to be just one. But I'd like to have one that we can say, all right we did it, we organized it, we planned it, somebody built it, and you, too, could do that in another village plan so that we will use this model. We need to do a lot in the villages over time. So I would challenge the staff to figure that out and with that I have about the end of my questions. I'll turn to Councilmember Pyle.

>> Councilmember Pyle: Thank you, mayor. Wow. This is really exciting. In what's going on and I'd like to volunteer myself to come out on some of these visits and also my district for a village. Any time you're ready we will be as well. Let's see, I got so carried away I kind of lost track of my questions. I'll get them very quickly. In reference to companies coming here they element never bring except for the major administrative staff they almost never bring employees from somewhere else. Would that be an accurate statement?

>> Kim Walesh: We -- yes. We actually know where the jobs comment from.

>> Councilmember Pyle: Right.

>> Kim Walesh: In Santa Clara County over time about 55% of the job growth comes from companies here that are expanding. They're already here and they're expanding.

>> Councilmember Pyle: Okay.

>> Kim Walesh: About 40% of our job growth comes from new companies that start up and are born here. And only 5% of our job growth literally comes from a company that's located from someplace else and moves in. So that's a real source of strength. We're all about starting up the new and help the ones that are here expand so local people can be employed.

>> Councilmember Pyle: Exactly. And that would be part and parcel of the reason as to why San José is recovering more rapidly than other parts of the United States. And then the fact that we do need the housing to put people in who are wanting to work for companies but can't afford \$72,000 a year perhaps. So all of this is just so critical. And the small businesses that are needed, in order to complement the companies that are coming in, all of that is just so integral. And I don't know if we've been able to accomplish that in every situation but it would seem that we have a pretty good balance between the housing opportunities and the companies, the small businesses that can be formed to complement needs of the companies. It's such a complicated thing but it looks to me like you're doing a good job of keeping it all orchestrated. But it is -- that is a very tender balance is it not?

>> Kim Walesh: It is a tender balance. That's the reason why the envision 2040 plan really emphasizes jobs first for the next phase of our development. We have so many residents here we want more jobs to also be here so our residents work closer to where we live, so our fiscal base can be stronger and so that we can meet our environmental goals, and the public transportation system can work.

>> Councilmember Pyle: Exactly.

>> Kim Walesh: It is really about strengthening the balance to have more jobs relative to our population.

>> Councilmember Pyle: Exactly. We certainly have enough of a workforce to complement that.

>> Joe Horwedel: The one other piece of it that we always need to be careful of is we have a jobs employment is we do need to make sure that the showing us housing and the jobs that we have are 23rd matched because not all jobs are the same and not all housing is the same. How we think of what housing stock we have today what are the missing pieces and the job stock we have, what are the missing pieces and really how we focus on those.

>> Councilmember Pyle: Thank you. It's really important I think for people to understand, people like myself and people in my district as well, why we do what we do in reference to housing situations. And the low cost housing and all the rest of it. It's very, very critical. That's really it for me. I'm struggling a little bit today, so that's it.

>> Mayor Reed: Councilmember Liccardo.

>> Councilmember Liccardo: Thanks Mayor. I have sort of a general question that either Kim or Leslye may be able to help me with. And I want to commend both of you for the great job that you guys are doing, and your departments, to leverage resources where such severe cuts have occurred whether we're losing RDA or federal resources various kinds to Leslie's department I know. But I'm really impressed for instance on the economic development side how we're leveraging private shoes downtown, also had a meeting recently and they were very enthusiastic, very engaged. It's hard' doing some that's good for the city often and these companies these brokers in particular were really invested in making this happen. The downtown WiFi I know Vijay's been involved on that but he Office of Economic Development has been leading that effort. The companies that have been doing downtown association I just think we're really creating new models here that will -- they're both sustainable and I think in many ways may in fact yield better results than the old way of doing things and it's great to see. The question now is, sort of looking at the big picture recognizing we've got higher job growth than anybody outside of

Houston in the country. We've got higher rent growth than anybody in the country. Why aren't developers rush in and it all comes down to the lenders, right, that lenders are terrified of dipping the toe in the water and concern that we've got too much potential housing stock coming onto, in North San José and elsewhere and they don't want to flood about market. I'm hearing concern that the lenders need higher cap rates in today's market. I'm wondering is there an information gap here and is in a role that the city can play in breaching that gap with the financial markets to let them know, hey, this is a good place to be investing in rental housing? Because we've got the demand, we've got the job growth, we've got the recommend numbers to prove it. Is there a role for us?

>> Nancy Kline, economic development. We believe that there is. We just had a conversation in our CSA the other day about targeting areas specifically around village plans ore other key areas in the downtown and going out and reaching out to different capital partners that could thereby get better information. Even the investors that we had met with were not very clear on what the market or market opportunity was here. We would at least like to see if we could get one, two, three different deals going because of that.

>> Leslye Corsiglia: Councilmember if I could add, I think we are seeing more interest and I think it's picking up and Joe could probably respond to that as far as what he has been hearing.

>> Joe Horwedel: Well I think one of the things the American pointed out with regard to the village plan, to actually have one of those in place really becomes a great example even when we did the plan it took a couple of years for the brokers to really understand it and then the developers to understand it. But once they discovered and we reached it as a tool to reach out to them they saw that the city was committed to the vision we had already went through the community process and set -- and so we reduced the Rick. And that's part of I think what we need to do a better job ask to go through and help them understand was the real risk level for them to invest here. Certainly it is competition of other marketplace but if we can go through and get them to market faster with less kind of risk of their project cratering, that helps bring them into it. I'll give a shameless plug for something that Kim spent some time with, refer on. It ran in western cities about our vision with the general plan, and villages, is an economic development strategy, and how that is different of how a lot of other cities have thought about land

development. So it's one 98 think you know what this CSA does is around that exactly what you're asking about Sam.

>> And I just needed to tag in one more. We need to really get out there and talk about the Berryessa area. Most people do not think that BART is coming. In 18 months to lock down land in that area because that's the window where jobs really start to come, a two 24-month period beyond that that makes a lot of sense.

>> Councilmember Liccardo: I agree, that's a tremendous opportunity of 3,000 units there. I do appreciate the mayor's point about the village plan. It seems to me we've got 40,000 units of capacity to build before you ever touch a village and there are generally places we think is more desirable from the city's standpoint to build housing because they will be closer to transit and developers rush into those areas before we spend an enormous amount of energy around villages. I do agree with the point that it's helpful to get a plan up and running and I know we're very close with the five wounds plan that will be comments down the pike very shortly focus in the areas that are already ready to go and the general plan task force has emphasized is important to start building in. A question about expenditure and planning. I'm looking now in the budget, there's an additional \$500,000 I believe the that's allocated for Planning Department for page -- it's chapter 8 page 232. Relating to software for Website and electronic content management. And Joe I was just hoping you could help me understand it. Does that have anything to do with the chess clock and being able to manage my favorite subject?

>> Joe Horwedel: Yeah. No, it does not have to do with the chess clock. It deals with the question that came up when we were factuating about economic development strategy of our permitting system that we need to make some major investments so that it doesn't collapse on us.

>> Councilmember Liccardo: Okay.

>> Joe Horwedel: This is around our document imaging and us getting off a proprietary system. The chess clock.

>> Councilmember Liccardo: Looking forward to the gigantic launch party we'll have.

>> Joe Horwedel: July.

>> Councilmember Liccardo: I'll be there coming to date. And then the small business ambassador I'm going to offer some unsolicited marketing advice about what we call the small business ambassador. Because ambassadors are usually folks who represent one country in the foreign country. And I would hate for our business community to believe, and many do, that City Hall is a foreign country. I would suggest that maybe it's a small business advocate rather than a small business ambassador. That's obviously for staff consideration.

>> Joe Horwedel: We are very open to title, we just pulled off what it was called five years ago. But it's one that -
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>> Councilmember Liccardo: I understand that's the old title. I'm hoping we're going to set a new title. Okay, whatever word that's chosen. A question Leslye --

>> Mayor Reed: I'm heard emissary, assumer luminary, concierge. So we'll come up with one.

>> Councilmember Liccardo: Just not ombudsman. Snob can pronounce it.

>>> The question about foreclosure for Leslye I'm looking now at chapter 7-16. And it focuses on the fact that we seem to be on the downward trend that very severe and steep spike in foreclosures, I'm sorry I got the one, yes, it is 7-16. That severe spike in foreclosures that we have been suffering. I'm downward trend we're now in the next year over 8,000, I guess 8,000 too many. But to get a sense about how long this tail is, I recognize it's downward but I'm guessing there's still tens of thousands of defaults out there. Do we have any sense about how big? I know the mouse is moving through the snake but I want to know how long that mouse is.

>> Leslye Corsiglia: I'm not sure we can predict at this point. But I think we know that there are still quite a number of folks who are out there, as you said. And we need to expect that, that said, it's going to continue. The one thing that's different for San José than some areas of the state, however, is that because our market is so strong, foreclosed homes are being eaten up so quickly. So we're actually having difficulty in some cases spending our foreclosure resources because the funds are to be used to purchase foreclosed homes and there are not enough foreclosed homes out there for us to buy. And so that's one concern. We know they're continuing to happen so families are being impacted but our market is easily picking up these units.

>> Councilmember Liccardo: My question is anecdotally, that the purchasing is happening from investors rather than homeowners. I don't know if we have any data that tells us whether that is true or not or how true.

>> Leslye Corsiglia: We can try to get data. I think that is what we hear as well. A lot of all-cash offers as Councilmember Pyle has mentioned, the difficulty for a home buyer to try to enter the market when you have investor with a lot of cash.

>> Councilmember Liccardo: Do we have any local data on just the magnitude of sort of the defaults that are in the pipeline?

>> Leslye Corsiglia: Yes.

>> Councilmember Liccardo: I've seen data in the past, I don't know if we have.

>> Leslye Corsiglia: We can provide an update to the council that lets you know where we are on that cycle.

>> Councilmember Liccardo: Okay that would be great. I know that we now have a set of fees that we impose on lenders who are coming in, if we're able to identify them, relating to mitigation of foreclosure impacts. I was hoping I could just get a quick summary of sort of what fees are there, that help us pay for code enforcement and whatever headaches come up with a house in, you know an empty house in a neighborhood that's struggling.

>> Joe Horwedel: Councilmember I don't have the specific fees populate. So when the section comes to council we can actually get that. We are citing property owners, banks where they are not maintaining the properties. We are putting reinspection fees on we are putting liens on the properties so we are being very aggressive with them and we do have a number of banks that are now registering their properties with us. They are using us chasing after them. We have a code inspector that deals with it full time, that is chasing after these properties. that is primary cost recovery.

>> Councilmember Liccardo: Thanks Joe this may be a question for anybody who can answer it, Tom Murtha who probably isn't here, all about North San José, we're anxiously waiting for ground to be broken but my upsing is documents are still sitting on the desk of somebody at the housing department in Sacramento. Do we have any indication that that is going to move in our lifetime? Seems to be the most prominent set of 500 units in the downtown.

>> Richard Keit. Yes, we're extremely frustrated but very, very close. The -- remember now, we're working with three developers, two private and one first community housing is the affordable housing component. And the good news is, the attorneys have finally agreed with all the stipulations that were going back and forth with the housing and community development department. And we are extremely close. I do predict that we will have an agreement in place, the disbursement agreement for signature, by the end of the month. The one component that is taking a little bit of time, we had to change out exhibits, because intercorp and Swenson have decided to modify the project as you're aware to a super-block from the tower. And that required a schedule change and a site plan change. So that we have approached HCD, housing and community development in the state, they are in favor of that development, and so that final schedule with some modifications to, there's literally A through G, whatever number of exhibits that have to be modified slightly. And that's being done right now and finalized. So there is a disbursement agreement, an affordable agreement, a stand-alone agreement and the agreement now between these two developers that are all coming together. And I'm hoping by the end of the month that's reality.

>> Councilmember Liccardo: Okay.

>> It is important because it's a \$up there million -- 21 million grant and \$31 million to the city half of which would go to the county to pay off debt.

>> Councilmember Liccardo: I agree, there's lots of reasons and great to seize several hundred units get built downtown. Richard, thank you for your efforts to do battle with bureaucratic Torpor in Sacramento see if we could give a helpful nudge?

>> Absolutely. Roxann in Sacramento and Leslye here have been extremely helpful in moving this project forward.

>> Thank you.

>> Mayor Reed: Councilmember Rocha.

>> Councilmember Rocha: Thank you, mayor. One question, more of an asked accounting, capturing these dollars, that would be section or chapter 7 page 14. It's a spreadsheet that shows city service area budget summary. And it's our accounting for the real estate services, \$3.2 million to \$3.3. So as I heard you talk about the money we generated measurement we're expending in terms of staff, not represented here, what's exactly represented here? This isn't staff cost this is -- or is it?

>> Kim Walesh: I'm going to let Nancy answer that question.

>> About \$1 million of that is staff cost. The other two are expenses like lease costs. So we -- our budget overall is about \$3 million.

>> Jennifer Maguire: And I'll add in Jennifer Maguire budget director, the revenue that's associated with the real estate activity is to the jeeped, I believe we have a revenue estimate of about \$1.5 million and there's revenue estimates in each of the capital funds as appropriate.

>> City Attorney Doyle: .

>> Councilmember Rocha: That's what I expected. When the numbers came in nine and I didn't understand that statement. If you could repeat that.

>> So we have overall nine positions. Part of that includes me for a part of time. And then eight other positions, one which is unfilled. And several others which have either been out maternity leave or other activities. So in were literally four people doing the work to produce the results.

>> Councilmember Rocha: Then I would expect we talked about the other costs that we're hiring outside consultants or contracting other services to cover all the difference between that and the million point -- I'm sorry I can't remember how much you said.

>> So million in staff costs, roughly \$500,000 General Fund, roughly \$500,000 capital collaborate closely with Public Works on maintenance, et cetera. So and again the bulk of that is, well, city staff and then there is some consultant work there.

>> Councilmember Rocha: No board of directors a part of that?

>> Not to this point we have not.

>> The hesitation is something you my consider in the near future?

>> Very eager to brokers to be used based on some feck any CalTrans in the law. So thanks to Rick's staff we're moving forward with that early next year.

>> City Manager Figone: .

>> Councilmember Rocha: Okay. And then the strategic support line item, just two below that. The 3.8 million.

>> Kim Walesh: Yes so you know last year, the explanation for that.

>> Councilmember Rocha: Please.

>> Kim Walesh: I saw that also, I thought what is that? So last year real estate was moved into OED, they didn't technically have a core service so they were put into strategic support for this first year. The people and oars were in strategic support and then in this year in this budget real estate has its own service and that's why you see it on that line there. That's a good question.

>> Councilmember Rocha: Thank you mayor.

>> Mayor Reed: I have a question on page VII-22, looking at the target for 2012-13 for most of the performance measures, the target is higher than the past yore. Which is good. But really, the question is, can we do better in terms of our five-year goals or even our targets? If you sort of look at that and see, that's mostly Bs and Cs. Are we really satisfied with our goals and is there a way to get -- set higher goals and achieve higher goals? Now, some of these thing aren't foally within our goals, people's perceptions of services. So maybe that's not the best measure. Some of these things I think are totally under control, if they want to set controls and give controls -- I just want Joe to have a chance to comment on thee now or maybe statement letter in the process of what we can do to raise our bar, raise our objectives and deal with some of the customer service issues. When you think of it, having 30% of the customers who rate us less than good or better, it's not all that high. So I haven't looked at the

details of those surveys in a long time. And I don't know what all the elements are but could you just talk about that a little bit, Joe?

>> Joe Horwedel: No, it is a very good question and I would suggest we come back with an MBA relating to that. That is part of us redefining what our resources are. It says that is the full you universe of everybody. People who have appointments owe people that walk in and say hey I want to file a personal or answer question we are really focused on 15 or 30 minute wait others it may not be a two hour wait we building but we deliver it. We'll come back with some more thoughts on that.

>> Mayor Reed: Good, I think that would be very helpful now that we're no longer cutting the department by half, we're actually growing the department, improving, trying to improve the services. I think time to look at those goals, any other questions or comments on this CSA? We have a few minutes left. We don't have to leave early. We will start again tomorrow morning at 9:00. I have no requests from the public to speak. So if you have a question later about this CSA, there's no rule against coming back to it but let's try to get it done. Councilmember Herrera.

>> Councilmember Herrera: I just want to commend the economic development department and Kim Walesh in particular for her leadership. And I think it's been amazing the amount of projects that have been able to get done, and move forward even in this tough time with such a small staff. And I just -- I think that we're at a great inflection point in our history, where we can start to begin. We're starting to begin to address our jobs -- housing imbalance. We're focusing with the general plan on jobs and creating those jobs. I think we're also keeping in mind as Joe pointed out the different needs for housing. So we're not going to not -- we're not going to abandon the idea of building housing but we're going to build appropriate housing. So I'm very excited to be working in an environment here we're going to do this right things and we see the important nexus of housing jobs and transportation and that we're going to make those moves to as we go forward to take advantage of actually economy that is growing in our area. And I think San José's well positioned, I'm very excited about moving forward with that and I just wanted to say those positive comments.

>> Kim Walesh: Thank you. I just need to say back thank you. But a leader is only as good as her team. And we have just incredible staff not just in economic development but in all of our CSA departments that have really hung in there with us. And our very, very committed to the city and to doing our best work and to really realizing their full potential every day. So I just really want to commend this is a CSA that is really functioning at a very high level now and it is really because of the staff who are doing great work.

>> Councilmember Herrera: And I think some of the policy decisions we have been able to make the economic development committee has supported staff's recommendations to do things that have been innovative and have helped drive more projects coming through. I think the idea of focusing on some of the small businesses, the ambassador program, you call it advocate or ambassador, whatever we need to call it, it needs to have advocacy as part of it so I think that's important but I think the staff gets it so I have a lot of hope and I think you need to have optimism in this that we are going to seize this opportunity and we are going to see more jobs created. I am concerned about and I said it in the beginning concerned about creating jobs and making sure San José residents are employed. I'm concerned that there are a lot of folks who have given up or are underemployed. I want to make sure we have not forgotten about those folks. We are very happy about the wonderfully high tech skilled folks live in San José, a lot of them have to commute going north. A lot of them we would like to see them having jobs in San José but we can't forget about those who still need to work and still need to find a way to close that skills gap. I'm proud to have Work2Future and make sure all our forecast have an opportunity to get back to work.

>> Mayor Reed: Back to work that's great idea but we're done with our work in the morning a few minutes early, we'll start again on the budget tomorrow morning at 9:00. We're adjourned.