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>> Mayor Reed: Good morning. I'd like to call this special meeting to order. We have a quorum. Councilmember Kalra is here as well, and Councilmember Chu and Campos are going to be absent. So I think almost everybody here. That's going to be here so might as well get started because it's past the starting time. Welcome, everybody, to the beginning of a long process. It seems like we never ended the last process on the budget but this is a beginning for 2011-12. I was thinking about it. I remember a quote that's attributed to Yogi Berra, seems like it's all over again. Either that or groundhog day all over again. I'm just hoping that at the end of the groundhog day sequence, there's a good year. To put an ending on the groundhog story because we've been at this for a very long time. This is the 10th year in which we've had to contemplate closing shortfalls in the General Fund. And it's not getting any easier. And next year is maybe not as bad as last year. But it still looks pretty bad. And since this is ten years and a week I think since I took office as a councilmember. The first year of service, revenues were going up faster than expenses. That didn't last very long. The last ten years that I've been here we've seen general revenues going up about 20%, average cost per employee going up about 80%. We have 100,000 more people living in the City of San José and yet we have a thousand less employees delivering services to our city. So effectively, we added the city the size of Sunnyvale to the City of San José. And we've reduced our workforce. So services have certainly been impacted over that time. And during that same time period, the annual contribution into the pension plans has more than doubled and you all know that pensions have been a huge part of the increase in cost that have resulted in all the actions we've had to take over ten years in reducing services. The other interesting thing if you're looking at the ten year period, and comparing expenses to revenues is that the percentage of our general revenues that we spend on public safety have gone from 47% ten years ago to 67% in the year that we're in and we'll see they're probably going to go up next year. We're now spending all the sales tax dollars we get, all the property tax dollars we get, all the utility tax dollars we get, and all the phone tax dollars we get on public safety, and that's not enough to cover the entire public safety budget. Interesting enough, the police department budget is up \$110 million during that ten years, but yet we have less officers today than we had ten years ago. And that's because the average cost per officer has gone up about 100%. So we obviously can't continue on this road. It's a course for disaster. A city with less police officers, less firefighters, less community centers, less libraries, it's not a city anyone wants to live in I think but in the overwhelming support of measures V and W, providing basic services to our people, the people we represent have given us a mandate to reform pensions, control costs, and protect services. So this is an historic opportunity

for us, and I hope we can all work together in a collaborative way to solve our problems and save our city as we know it. We do need broad collaboration and shared sacrifice to be successful and I want to acknowledge and thank many employees who have already taken reductions in compensation that allowed us to preserve jobs and protect services this year. Our police officers took a 4% cut to avoid layoffs. More than 25% of our workforce has given up 10% of total compensation this year even though we've asked them to do more with less. So I want to thank all of our employees for their dedication to public service. They work hard. We're thinly staffed, compared to other big cities. But we still have a great city. And we want to keep it that way. And so it's our task here on this side of the dais to figure this out. It's not easy. It's difficult, it's complicated but I'm sure that we can. But we need the collaborative effort of our employees and our residents to help make it work. So with that, I want to turn it over to the City Manager, who has all the answers. Well, maybe not all of the answers.

>> City Manager Figone: Maybe direction of travel, mayor. Thank you, thank you very much, thank you for spending a day on several very important topics, and I'm going to lead off this morning, first slide that you have in front of you is just a high-level snapshot of our agenda today. We're going to begin by setting the organizational context, and in particular, really, the results of all the organizational downsizing that's gone on. And what that means from the practical reality of aligning our great public administration work to the capacity that we have. We'll then move into an economic outlook to set the foundation for, then, what will move into which is our preliminary 2011-12 General Fund forecast. And then we'll move on to the difficult part of the conversation which is -- are the potential strategies to address the preliminary 11-12 General Fund shortfall and beyond. So let me just open it up. Clearly, the issue of organizational downsizing and aligning to our workload capacity is a very challenging topic. And we have challenges that we must face which are resulting from the downsizing which the mayor's referred to, that has gone on for nine years, and is, unfortunately, moving into year 10. So in this regard it is very, very important for the council and the community to be aware of what it has meant to take the reductions that have been taken over the last nine years and what it means for our realities. The realities that we confront in delivering services this year, and into the future. So just to remind us all, we have dropped from nearly 7500 positions in 2001, to now, 5840 positions as of August of 2010. That is a loss of more than 1600 positions. We shouldn't also forget that another 217 positions were funded only on a one-year basis, thanks to the concessions that we received from our employees. But that was a one-year buy-back and are slated to be eliminated as of July

1st, 2011. The position eliminations embodied in the adopted 10-11 budget were by far the most significant over this nine-year period, comprising approximately 40% of the nine-year total. And so to provide historic perspective, the current positions that we are at is back to the level that existed 16 years ago, in 1994. Of course, if you then look at that in relationship to the population, back then, it was about 825,000 in 1994, we're now over a million. So San José's population is 24% greater now than it was in 1994. And yet we're at those levels from the staffing perspective. So this downsizing especially the most recent has been very, very challenging to our organization which you know exists only to provide services to our community. And there are some constraints in our system in which they are what they are. So my comments aren't meant to be a criticism. But I do need to identify why we have not only just the challenges of reduced numbers but challenges associated with the systems and structures that we must operate within. First is the civil service seniority system. And because of that seniority system, we are now feeling the loss of talented new-hires who we had to lay off. Another result of the system that we live within is there's been bumping. Bumping because employees who, with seniority and former time in class, have the right to move to positions that are ones that they held previously, if their positions are cut. And so this has been highly disruptive to the continuity and quality of service that we can provide. 116 employees were bumped. And bumping and position eliminations have impacted every department and division. Now, we are very happy for those employees who were able to retain a job. That is a very good thing that has happened. However the reality from an organizational management perspective is that it does take time to train people, to rebuild teams and there's a real cost to doing this. And we are trying to make it work, and we have many, many success stories due to the great management of this phenomenon and the people that we've had working for the city. But there is also morale challenge from the bumping. Employees are working in jobs not of their choosing and employees are forced to leave work and teams that they enjoyed. We also have a fairness challenge going on in this city and it is a very real one. You may have heard me use the term compaction before, compaction is where supervisors are taking home less pay than the people that they supervise. This is not an accepted management practice and it is not fair. The compensation sacrifices that have been taken have not been shared evenly and this does breed negative feelings. I do find myself very concerned that many employees are living with an unpredictable level of anxiety. This stems from the uncertainty about our future. Are there other changes coming down the road? You know, you can bet there are. And so this causes anxiety on a day-to-day basis within our workforce. And there are concerns about being able to meet performance expectations. Our employees are very

committed professionals. They want to meet your expectations. They want to meet the community's expectations. And quite frankly they have high expectations for themselves which is why we hire them. And I'm going to return to this topic in a few minutes. So mayor, no, I don't have any easy answer but I can tell you what we've been trying to do about this at least from a management perspective and what my approach has been. What we've tried to do is engage in honest communication between myself, the department heads, they with their employees are trying to treat everybody in our organization as adults as we confront these issues. We've done special outreach and provided support to our managers and our supervisors to give them the tools and equip them to have the same courageous conversations and treat these concerns. We are trying to encourage our employees who feel in some ways that the brand that they are so proud of, the brand of public employee, is now tarnished in the eyes of the community and the media because of the difficult times we find ourselves confronting. And what I'd say in that regard as a 41-year public servant and I know mayor and council you would agree with this, that we are all serving in a very honorable profession, whether we are on the professional side or the elected side, it is incumbent upon us to hold our heads high, as we work through these challenging times. We are redefining what we have known over the course of our careers and that is not always easy to confront. So in that regard, the extent of the position, downsizing so far, couples with potential for more contraction to come requires us to think very, very differently and seriously about the future of city government and our organization. So some questions we need to ask ourselves: What will the model look like? What kind of employees will we need, what will they be doing? How must we redefine our relationships with the community? I've started having this conversation with my senior team. In fact we've been talking about it for quite some time. And we are picking up the pace of this conversation with the combined leadership teams throughout the departments and we're continuing this conversation taking it to the midline manager and supervisor level and actually having a half-day session on December 3rd. This is also part of a national conversation. My peers are wrestling with this also but I do believe that our challenges in California are even greater due to the constraints placed on government and our ability to raise revenues sources, and I think we have -- we do exist in a broken system from that perspective. But we have to deal with our reality and what's in our control at this point in time. This conversation cannot stay internal to the city. And so I do want to, beginning today, actively engage you and the community in thinking about this question. And even if we make changes to stem the position contraction, it is truly clear to me that we will not be adding employees anywhere near the rate that our resident and business

customer base is expected to grow over the next several decades and certainly we won't be adding them at a right that is needed to deliver services the way that we remember them. We do need to confront the fact that we may not have the basic capacity to deliver services under the workforce model that we traditionally have known. Increasingly city government's role may become less about actually delivering services with our own services, than ensuring that services are delivered by a variety of nontraditional means, and we need to clear the hurdles in order to serve our public in the best way that we can. Staff at all levels are very concerned about aligning workload expectations to the current reduced capacity of the organization. This is just not a management concern. I've recently spoken to each police shift, last week our officers feel very badly that some of the lower priority calls cannot be responded for four hours. I've talked to our inspectors, they don't like hearing from the development community that the turn around time that they can give on inspections isn't good enough. And so we need to equip our employees with the ability to answer those questions and feel okay about the service delivery that we're able to provide and at the same time we need to manage our expectations because we have many, many drivers of workload. It is just not what happens at council meeting, Tuesday to Tuesday. I think our staff report is pretty clear on this, and I know that the council and the members of the audience know what I'm talking about. But I do think we need to give some voice to this issue. So as you know, the majority of staff capacity is used to provide services to the residents of our city. And I would say, just kind of drawing upon the old 80-20 rule, at least 80% of our staff's work provides patrol services, responds to paramedic and fire emergencies, keeps our libraries and community centers open, maintains our parks. And our internal services support such as finance, I.T., general services, human resources, the city attorney's office, the City Manager's office and so forth, support these direct service functions. And even after significant downsizing, during the last nine fiscal years and especially the last two fiscal years, 20% of our staff capacity is still dedicated to responding to various groups of initiatives such as policy work, audit recommendations, request for ordinance updates and changes, supporting boards and commissions and task force, community outreach at a variety of levels, council referrals, and much, much more. So given the significant reductions in staff size, we do need to align expectations to organizational capacity. And in order to do that we need to work together. There is no perfect management construct or another system that is going to help us to resolve this issue. There are tools in the tool kit from a management perspective, but I think first and foremost it begins by awareness of this issue, the behavioral modification that it's going to take to make the changes to align expectations and to our capacity, and the personal commitment that

each of us must make in our -- the responsibility that we take in affecting this issue. The council and your appointees serve a critical role in helping the public to understand the reduced organizational capacity and the resulting reduction and elimination of services. We must have a heightened awareness of the need to align expectations with resources. We're doing that on many fronts. Just to remind you, you have work plans at the committee level that you work with your professional staff liaisons to shape each month. We've now started this process and applying it to our boards and commissions with a work plan process. Where each board, commission chair's responsibility to set priorities with the staff liaison. And management has typically used work plans over the years but I think as we have gotten accustomed to the people in our workforce, who are no longer there, I think that even more discipline needs to be imposed on the system and the use of work plans and similar tools to ensure that we're focused on the highest priorities. I also think we need to go further as a next step in the conversation in aligning expectations and capacity. I do suggest that we embark on a very deliberate effort for a periodic evaluation of what new initiatives are of interest and to take a look at existing initiatives and requests, and to regularly take a look and perhaps re-prioritize through a concept in the staff report, I'm calling it the policy box. Really what I mean is, we ask ourselves each time why this, why now? Can we park it and come back to it at a strategic point during the year where we can look at the priorities in total context? And I think it is very important that we really only focus on the most pressing issues, and to use our capacity on the most -- with the most value-added activities in this city. To given us a start for this conversation, in attachment F of your report, we have developed what we're now calling San José's framework of aligning expectations with organizational capacity. This is the result of a conversation which did happen over the summer, among our most senior leaders, and included some of the executive staff levels where we actually spent a good couple of hours brainstorming all the issues associated with this problem. And we've boiled it down to some principles and some practices that I do want to take a moment to talk you through. Because the thoughts and the words are very intentional. And I think need to be internalized. So first and foremost under the principles is, the issue of high quality professional work. And what we want is high quality professional work to remain the city standard. And so aligning expectations is mostly about prioritizing and focusing on the most important services and work. It is not simply about accepting reduced quality. What we feel is very important in whatever we're able to do with the capacity that we have, is that we build and maintain the public trust and confidence through the quality, professional work that the city has come to enjoy over the years ago. We do not want to trade that off. We do want to follow through on

our commitments. And in order to do so, we must apply our capacity wisely. The second is proactive communication about reduced service levels. As I said, no perfect -- there is no perfect management construct or set of rules that is going to allow this alignment to magically happen. It will take communication in order to align the expectations to reduced service levels. I believe that leaders at all levels must proactively communicate with our customers and stakeholders about reduced resources, the remaining priorities and services and the need to regulate the volume flowing through the system. I also think that all employees must be expected to communicate responsibly about several level changes. I've heard complaints from councilmembers, I've experienced it myself. Our employees currently are not all equipped to confront the angry resident, or to know what to say about why they can't be there as quickly as they used to be. And so unfortunately, sometimes they say things like call your councilmember, let the City Manager know. It's not my doing. They find themselves in awkward moments and we -- it is our responsibility as management leaders to help our employees be equipped to confront those difficult conversations. And I think it's also incumbent upon the council to help the community understand what we're facing. Now, there is no one size fits all approach to this. So we will need sound judgment on the level and quality of urgency that is needed in any given situation. I expect our managers to manage and to apply sound judgment that will help to decide what requires very best of quality. Where there is a true sense of urgency, what might be more better suited for basic levels of investment, and when it is okay to say, good enough is good enough. So balancing time, cost, quality and necessity is essential to continuing our good work. And to have effective planning and management. And then we need courageous leadership and awareness in order to avoid undue pressure. Inevitably, service requests beyond adopted service level will happen. We must be adaptable. We must be ready to drop the things that were neatly planned and respond to those that weren't. And it is incumbent upon all of us to use our good judgment in that regard. However, it is also incumbent upon us all to avoid catering to inappropriate pressure for service that truly is not a priority. And I think that we can do that through building relationships and communicating about those issues as they occur. And at the same time, we do want to avoid appearing to be unresponsive, inflexible or just out of touch on appropriate matters that do require attention. So in closing, some of the practices that we should be thinking about. One begins right now with this conversation. Raising awareness with our council offices, with the City Manager's offices, our boards and commissions. This conversation is just not about what council initiates. It's about what my office initiates. The competing priorities during budget season. The board and commission that wants to just go and do good

work. There are good intentions behind all of what we're talking about here, needing to manage, but raising awareness is really the start for managing this issue. As leaders we must also provide clarity of direction, sooner rather than later. There is an expense to rework. And so we need to tighten our systems and our direction and our work planning efforts certainly at the management level and to ensure that we're really clear about the direction that we're headed on any given issue, so that we can avoid the re-work and the confusion that ends up with chaos and I think wasted activity. And then I've commented on this a lot. And that is, again, communication and coordination cannot be overemphasized. I think that that really is the starting point for doing what I'm asking of the council and the organization and the community, which is to help us to align expectations with our capacity. That is my main ask of you today, is awareness. But mayor, I do think that we need to work on a way to have a couple, even if it's only one, strategic point in time during the year where we do revisit key priorities of the council. And that concludes this part of the presentation.

>> Mayor Reed: Thank you, City Manager. I think the time for the council to get engaged and to be helpful on this would probably be our February priority setting session, which I think is likely to be February 14th. And that's not in front of us today as to how to figure this out, but I think there is a time in there where we can spend some time doing that, working on this issue. I think I would ask you to figure out how we can best use that time in February. All right, we'll then move on to the next topic.

>> City Manager Figone: Economic outlook, turn it over to Kim Walesh.

>> Kim Walesh: Great. I'm Kim Walesh, chief strategist and acting director of economic development. As context for your budget-planning day, my presentation aims to shed a little light on the question, what can we expect in terms of the nature and timing of local economic recovery? And then ultimately recovery of the economies driven revenues that affect our city budget. And to prepare this briefing, I spoke with Dr. Steve Levy who was here at this time, of the center for continuing study of the California economy and also reviewed forecast of the beacon economics, the Bay Area economic institutes and the UCLA forecast. It's interesting because the overall message is remarkably consistent, and unfortunately it is that recovery from this recession is going to take some time. That we're looking at five years for a full recovery from the current recession. We can expect two more

really difficult years, 2011 and 2012 as we work through the very beginning of an upturn. 2013 and 2014 we'll likely start to feel a bit better with some positive growth, job generation. But full recovery is generally not projected till the end of 2015. Now, luckily, compared to other metro regions nationally, Silicon Valley is likely to recover sooner and more strongly. But we need to remember and this is a difficult, difficult dilemma, that recovery of city revenue sources will lag our overall economic recovery. So that's the overall message. Let me show you about nine slides here with some important indicators. So let's start at the national level. Economists love to talk about when recessions start and when they end. And so what you see up here is quarterly GDP. And you see the negative GDP during the recession, and technically economists will say that our national recession ended over a year ago, in June in 2009. Of course, it certainly doesn't feel like this recession is over because of totally inadequate job growth. It takes GDP growth of about 3% just to keep the national unemployment rate from rising. It's going to take 5% GDP growth to reduce unemployment by 1%. So third quarter GDP you can see is about 2%. And forecasts for 2011 are generally 2%-ish. So job recovery is going to continue to be slow nationally and I think earlier this year we saw what looked like a start to private sector employment growth. But that's now slowing again and state and local government cutbacks are really starting to be felt nationally. If you remember what you learned in macroeconomics, there are three big forces that drive economy, right, consumer spending, government spending, and business spending. And the challenge we have is that consumer spending is like two-thirds of the economy. And so it's going to be difficult to have a full economic recovery in this country or locally until more people go back to work, until their incomes start growing, and until people are comfortable that they've paid down their debt sufficiently. So local consumer spending is going to make it difficult to pull out of this recovery in the next several years. And of course there is continued weakness nationally in housing, construction, financial sectors which typically lead the pullout of recession. So that's a bit about the sort of national context, which I would say definite signs of economic recovery which people are going to be talking about is still a sense that it's tenuous. So locally, let's look at job growth locally and can you see this ride that we have been on. You see the increase, the run-up to the dot-com. We had the loss of over 200,000 jobs here and then we were just starting to recover jobs, and you see the point, June 2008, that was our prerecession peak. And then we've lost 88,000 jobs again. The sense again from the forecast is that by 2015, we may return to that prerecession peak that we hit in June in 2008. But you need to note that that level is still obviously markedly below that dot-com peak that we had in 2000. And right now, our over-level of job base, the city was racked to where our job levels

were in 1995. So the good news is you see a slight uptick at the end of my chart there that we are likely to end 2010 here locally with slight positive job growth. That's obviously important psychologically and obviously we hope that that will be sustained, that that is a very good sign. This chart shows the job growth by sector, so far this year. And you can see it looks positive. So people are hoping employment in information and high tech sectors is starting to return to a normal growth curve and businesses and financial services are starting to pick up. However there remains concern that cutbacks in public sector employment and certain slowness in building related industries are continuing to eat up gains that are being made by the tech sector. When you can see especially local government there a major drag now on growth in the job base, as we experience retrenchment. So the official unemployment rate remains stuck for our city at about 12%, about 11% for the metropolitan region. And what people are forecasting of course when job generation picks up that unemployment rate is going to stay elevated. Because people who had exited the job market, who had sort of given up, are now going to come back in, right, and hope to find work. So again, that 2015 is a critical year, forecasting that it's going to take until about 2015 for our local unemployment rate to decline back to a more normal, say, five to 6%. So jobs are one key indicator. In our region, venture capital is another important forward-looking indicator. We are very lucky in this region that we have venture capital and the start-up industry that it fuels. So there is some good news here. After two very difficult years of retrenchment, consolidation, winnowing in the VC industry, this year 2010 is actually viewed as a bit of a recovery year. Venture capital is on track to exceed 2009 levels, so the 4 billion you seize on the chart is through the third quarter. So money is starting to flow a little more and this is really, really important for our driving industries. As I said, earlier, consumer spending is going to be key to recovery. And we've not yet seen a big pickup to propel economy and tax revenues. So this shows taxable sales in our region, and it's so interesting because you can see what happened in our region. You see the run-up, the growth in taxable sales from 2005, to 2008. So as we had our housing bubble, we had that wealth effect here, that translated to growth, people spending more here and since that peak we've experienced about a 22% drop to the low part. And then we've started recovering about 12%. So forecasters say that consumer spending is definitely returning from that low point. But retail sales are not expected to grow quickly. We're not going to have some big surge in taxable sales until more residents have jobs income to spend and feel confident about the future and I think that makes sense. So we're expecting increases but very modest increases the next year or two. So if taxable sales are growing in the region even at a low rate, the question is how well are we doing in capturing sales tax revenue for

San José? And I think you've seen this chart before but I wanted to include it again because the answer in a relative sense is not as well. And we in San José, we face a challenge here of our own doing in the sense that, historically, this city did not really prioritize setting aside land for the kind of retail development that yields high sales tax returns. So we have not developed retail commensurate with our strong population and job growth, including retail, on our border. So we still remain about 20% under-retailed. So we have 20% less retail here, that you'd expect given our population and our income. And this situation is difficult to change in the short term but it remains a challenging drag on potential city revenue growth. And it's interesting to me, I asked the question, well, what if we weren't under-retailed? Instead of 20% we were at 0%, what would that mean? It would mean about \$24 million annually in tax revenue for our city. So let's look at property. So in the housing market again, there's a positive sense, and first of all you can see again that run-up in our housing market. An 84% price increase from 2000, to the peak in 2007, even as our economy was collapsing under the weight of hundreds of jobs being lost. So you see our housing bubble here, you see the trough. So the good news here is that in terms of average resale prices, recovery has begun. We know that significant downward property reassessments have occurred and we are not anticipating further overall decline in housing property assessments. And again, beacon economics and others are hoping that the housing prices here will return by 2015 to roughly to the level they were at, at that peak of 2007. Of course, for many of our families, they have the problem of 20% of homeowners remaining whose homes are underwater. So we have a couple more years of short-sales and foreclosures and families experiencing hardship in their home situation. But hopefully the peak levels of defaults and foreclosures are past us. On the corporate real estate, this chart shows that you can see our vacancy rates in San José for all three kinds of property have been rising and are above the Silicon Valley average. And hopefully, PWC's announcement today of their move starts significantly driving down that vacant office space rent. Makes a serious dent in that rate. So in 2010 we saw a lot of space turnover. A lot of leases expired and movement occurred trying to get cheaper prices for better quality space. Our city benefited from that in some cases and we lost out in some cases. I think this turnover is expected to slow down a bit next year. So -- but there's two concerns here. One is that experts expect asking rates to continue to fall. Given the high vacancy and the uncertainty in the economy. And economists are concerned that at worst, there's potential for more downward assessments of commercial property in our region. And at best, there will be no serious appreciation expected the next several years. Now what's challenging in this for me is that in an ideal system, as city economy rebounds, so should our

city government revenue. About 50% of our general fund revenue sources are tied to economic activity in some way. So the hope is that the economy starts to grow and then revenue starts to grow for the city. And unfortunately we know that this is not always the case. And that there is a lag. Now, one of the challenges is that sales and property tax are our largest single individual sources of revenue. And these are the slow-growing taxes. They are slower to respond during economic recovery than say, personal income tax or capital gains or corporate income tax. So whoever designed California's crazy tax fiscal system gave cities the two taxes that grow most slowly when coming out of a downturn like the one we have now. So there are several constraints to us. I've already explained the one about our underdeveloped retail sector. The second of course, and we've talked about this before, is sales tax is capturing a declining share of all consumer spending. Trends in consumer spending demonstrate a continual shift away from us spending dollars on goods and more on services. About 63% of every dollar you and I spend is now spent on services rather than goods. And of course of the goods that we buy we're buying more of it over the Internet. So an underlying issue is increased revenue expenditures on services and increased Internet sales will increasingly dampen the amount of sales our city can generate relative to consumption around us. And we think of constraint on property tax to fund city services, prop 13 limits the annual growth so when property values rebound the revenue doesn't go up commensurately. And of course in the case of our city property tax revenue that might normally go into a City's General Fund, accrues to the Redevelopment Agency as tax increment for a period of time. Since the agency's prior investment enabled a generation of incrementally higher property tax. So while for many reasons we must do everything we can to enable a strong local economy, and at the margin our efforts can make a difference, attracting a new clean tech company that generates sales tax, approving a new shopping center, we need to be aware, I think all of us, that because of the structure of our tax system, recovery of our local economic growth is not going to translate as tightly and quickly as we would like to city revenue growth. And you will see this in Jennifer's revenue projections. Two last slides. I just want to make the point that of course our local economic growth is very much tied to the external environment. To the ability of our state to overcome policy gridlock, to start investing again in education and infrastructure and all those things that our innovation economy is based on. At the national level the reduction in the stimulus programs that have been propping up the economy are a concern. Questions about how the deficit will be addressed, the extension of tax breaks, and globally, we're entering a period where probably constrained growth in the developed world, but a lot of rapid growth in emerging market economies. So

all of this is going to continue to affect us in the short term and the long term. So just to summarize what can we expect? We always hope for that hockey stick, that post-recession bounce. Oftentimes recoveries from deep recessions, the economy starts growing at 6 to 8% GDP growth and I think that's clear that's not going to happen here. Problems in real estate, housing, financial sectors are not going to disappear overnight. Construction isn't going to regain strength for year. We're not going to have that powerful economic expansion nationally or locally. Most economists are no longer concerned about a double-dip recession. So the message seems to be for all of us to expect a slow recovery over the next five years. And because I know a lot of this is -- it's a little dark and difficult to think about another five years -- I also want to emphasize that we shouldn't lose sight that in the medium and long terms the financial of San José and this region are incredibly strong. Our placement in the Bay Area, our placement nationally, we have many drivers. Our entrepreneurial people, venture capital, attractive place to live, that will ensure that we are successful in the long term. And I think the fact that we have public sector leaders who are dialed into the reality of the city's fiscal situation and our economic outlook is a real asset. So we're going to need to manage in a way that we can be adaptable and I guess have confidence in our ability to adapt and work through these challenging times but our outlook for the future once we get through this continues to remain very, very positive especially relative to other metro regions nationally and internationally. With that I think Jennifer is going to present the 2011-2012 General Fund forecast.

>> Jennifer Maguire: Good morning, Jennifer Maguire budget director. To begin with the budget outlook for the city does continue to remain dismal. In the short term at least. Our revenues continue to not keep pace with our expenditure growth. The economic realities that Kim described along with our increased expenditures have translated into a projected deficit of about 70 million for 2011-2012. And as the mayor indicated as well as the City Manager this will mark our 10th consecutive year of General Fund shortfalls and it does follow two years in which the city addressed combined budget deficits of over \$200 million and we eliminated over that two year period about 934 positions citywide. I'd like to look back at the last nine years and when you look at that we've actually closed a budget gap totaling about \$583 million over that period. As a cautionary note as we go into looking at this forecast, it should be considered very preliminary as it was prepared obviously during the continued economic uncertainty but also, we have very limited data this early in this fiscal year to not only predict this fiscal year but also do one year out. So in some cases we don't have any sales tax yet for this fiscal year. But we've done best

with the limited data that we do have in hand. The 2011-2012 preliminary shortfall is when \$21 million higher than the \$41 million forecasted last spring for 11-12. And if you look at how we got here, last February when we were predicting two years out on our forecast, we were looking about a \$20.2 million shortfall with a myriad of assumptions about our expenditures and our revenues. The adopted budget had an impact of about about \$20.5 million because we didn't resolve all of 2010, 2011 with ongoing solutions. We used some one-time solutions, so that automatically carried over our problem into 2011-2012. So we predicted in June we would have about a \$41 million shortfall. In the last two months we have rebuilt our base budget for 2011-12 by reviewing performance and making projections for about 450 different revenue sources in the General Fund. We updated the salary, benefit and other cost information for each city position. And we also eliminated one-time allocations and annualized the city council approved budget action. The result of that work is an increase as you can see on this slide of about \$29 million bringing the shortfall to the reported \$70 million level. The next slide explains the key changes to the 11-12 forecast. In total, we have projected that our revenues will be down about \$35 million when compared to last year's forecast for 11-12. The -- there's two components of the revenue. The actual individual revenue sources are down about \$28 million, in a variety of areas and not necessarily the usual suspects as I've been describing it. Our utility tax, franchise fees, Redevelopment Agency, and our property tax which is more of a usual suspect, our interest earnings, our card room tax, et cetera, are down in the current fiscal year compared to what we expected for 10-11 and when you aren't getting the growth this year it translated to a smaller base to even grow off next year. For example in our utility tax and franchise area in the electric and gas last February when we were putting the forecast together PG&E had rate cases in with the CPUC of 7% or so. In all my years of working on the budget those rate cases usually go through without a problem. They have to have a lot of data to support them. Apparently there was some protest they ended up settling at a much lower 1 or 2% rate. So we're not getting the revenue this year and compounds itself into a problem for next year. Our card room tax that just recently got passed for an increase, actually the activity is down, we're probably only getting \$2.5 million of extra revenue rather than the 5 that we thought was potential. The interest earning rates are down in the about .44 range. We have a lot of short term investments so almost had to practically zero out our interest earnings in our cash balances. We're not getting much return on interest rates. So a lot of that combines into a combination of \$27.9 million of revenue being down compared to when we looked at it last February for 11-12. We also had to lower our fund balance estimate for 11-12 by about \$7.2 million. I had needed to remove the assumption that we

have any extra revenue this year. We thought in 11-12, a year ago, that we would start to resume to a little more normal fund balance levels as you just heard when I did the end report. In the end of the day, we only had about a \$3.5 million surplus more than we expected, and we had about a \$13 million projection on fund balance. This year, based on the information of how things are tracking, we're probably underwater about \$10 million right now on revenues. We may need to be using our economic uncertainty reserve this year. It is really early, so I don't want to be completely pessimistic, but with the data we have in hand, it's not looking very good this year on several of these revenue sources. On a more positive side, we were able to lower our net estimated expenditure levels compared to what we were predicting last February to the tune of a net \$6 million. We did have about -- expenditures being down about \$16.7 million, primarily in debt service cost, because the interest rates are low, our variable debt service costs are lower, so we were able to take advantage of that. Our committed addition costs are down because of the council action this last year that pushed out some of our new facility openings. So the staggering of those dates also brought some lower costs. It is almost -- almost all offset though with some expenditures that are up for 11-12. Public safety vehicle replacement is up, primarily in our public safety cars and the engines in the fire department that need to be replaced, we're going to be having equipment that's going to be failing on our streets. If we don't start putting the money in there. Our health care costs, we had predicted they would be up 10% next year. They're actually, all indicators say that they will be up 15% because of the new federal legislation related to health care. We had to increase some of our vacancy rates, very minor this year compared to last year, but nevertheless we don't have very many vacancies in the General Fund from of all the placements. And as we've talked about before, we've had to increase our sick leave payments upon retirement appropriation. The next slide is a different look at the shortfall. And people, you know, always ask me, why do we have a budget shortfall? This compares our expenditures and revenues to what we are receiving today or what we are paying for today and how that looks next fiscal year. Many of these things we had predicted in our forecast, so that's why it's a little bit of a different look. It shows that our -- that in our preliminary forecast our revenue collections are not only -- continue to lose ground, but they're insufficient to keep up with our projected growth in expenditures. If you look at the different components, as you can see, part of the reason we have a shortfall is the carryover from last fiscal year of almost \$21 million. But we do have expenditure increases totaling about \$40 million. Those are things that we're not paying for today that we'll be required to pay for next year, based on our services that we have in place in our system. For example, \$22 million are for increased retirement

contribution rates. I might note that these are the rates we had from last spring. All the rates are being updated right now. I know the Federated one is going to be a little higher than we've got already in the system. But these were the rates that generated about \$9.6 million more on the police side, \$5 million in fire and about \$7 million on Federated. Our health care costs, like I said, are expected to go up about 15%. That translates into another \$4.1 million in expenditures for the city. We have salary, step, and performance increases that are programmed into the system that's going to add another \$3 million into our cost. We have committed additions that are scheduled to come online, which like the police substation and some other facilities that are expected to open next year. That's another \$6.6 million in cost. The public safety vehicle replacement that I discussed earlier is about 4.4 and some other minor adjustments. And if you look at our revenues today and you project them out, we have some ups and some downs, but all said and done, it's down \$9.5 million to what we're collecting today on an ongoing basis. So the resulting impact is why we have our structural problem and a \$70 million shortfall predicted for 11-12. Since property tax and sales tax do constitute about 45% of our total General Fund revenues, I wanted to provide a little more detail on assumptions used in the forecast for these two revenue sources and our approach to these revenues in general. In our property tax category as budgeted and as we adjusted in the end report, we're expecting a 3.2% decline this fiscal year, followed by 2% growth in 11-12. And this will bring collections to almost \$200 million. I looked back a year ago. That's exactly the same number I was projecting for 10-11. So it's just really not a pretty picture in property tax. In our secured property tax roll, which is obviously the largest piece of our property tax, we're expecting it to grow about 1% based on roll data that we're getting from the county and a very small expected CPI adjustment. The CPI was negative for this fiscal year. We're carefully monitoring the roll and the CPI data. We go to the meetings constantly, we have very good contact information over there, so we feel like we can get realtime data on what's happening with that. We will keep this up to date as we move through the system. But we can't expect any more than 1% at this time in this category. The other components, SB 813, unsecured property tax, are at extremely low levels this year. We think we're going to get some growth next year resulting in the overall category growing 2% for 11-12. In our sales tax category as we adjust for the end report, we are expecting 3.5% growth this year, and another 3.5% growth in 11-12. That will bring our collection level to about \$136 million. These projections are consistent with several economic forecast that we rely on for information, many of the ones Kim had mentioned. This does compare to \$154 million that we received just three years in sales tax, so we're still down about 12% despite two years of growth in this

category. Our other economically sensitive categories, we do expect slow growth in them, and then, again, we've got several noneconomically sensitive categories that we need to adjust for rate changes, like the PG&E one I mentioned and updated cost, this is for overhead, utilities reimbursements, et cetera. On the expenditure side, on compensation, we've included the ongoing 5% concessions, it was 0.67% for POA for certain employee groups that were recently agreed to. We have no other salary changes in this forecast assumed, and we have the salary and step performance increases included, and that was to the tune of about \$3.1 million, part of our compensation structure. For retirement, you can see the rates there, they're all growing, and again, these are not final. We should expect to get final retirement rates by the time we do our next forecast in February. But they are all increasing. They do reflect the cost-sharing. They've been updated for the cost of living adjustments for the two bargaining units that got cost of living adjustments this year and any impacts of step increases, and those are the results. Health, again, is going up 15%. The development fee programs we would assume to be net neutral on the General Fund, that they will solve any shortfalls they have within those programs. I am happy to report, I think we've gotten over the hump of the structural problem with Building and Public Works. We have extremely small shortfalls in Planning and the fire fee program and hopefully they'll get resolved as we move through this year. So we're not going to see the big fluctuations in those programs that you've seen in the last two years based on the actions that you've taken. We've also done many base budget adjustments to again eliminate one-time allocations and adjust budget figures for updated costs for debt service lease payments utilities. This also includes the elimination for several services that were scheduled to be eliminated July 2011 as part of the adopted budget. I have that displayed on the next slide. I'm not going to go over this in detail, and I apologize for how small it is. But I thought it was important to provide the listing areas in our memo of the major services and programs that are not included in the forecast. It is a total of 22.6 million and 220 positions that have been eliminated from the expenditure bases as they were funded on a one-time basis in 10-11. If these services were to be added back, the shortfall would go from 70 to \$92.6 million next year. A lot of important services there. This forecast as I mentioned does include a city council committed addition that total about \$6.6 million, these are the maintenance and operating costs for many of our new capital projects that were approved in the adopted capital project, mostly for bond financed projects. The list of the largest projects there are the south San José police substation. We have four branch libraries that would be scheduled to be opened, Bascom, Calabazas, Educational Park and Seven Trees. And also the Bascom community center. Due to the severity of our budget shortfall, I think we need

to look at the continuation of the city council approved strategy to defer the delays in the opening of these facilities or pursue alternative funding sources in order to deal with these new costs considering our shortfall. Further caveat to the forecast is that there are several things that are not included. Any outcome as negotiating labor agreements or any arbitration costs that we're not counting, any costs from unmet deferred infrastructure and maintenance needs, and that number is about \$444 million as a backlog on the General Fund, about \$43 million ongoing. Any additional impacts from the San José Redevelopment Agency, we're going to be working very closely with them over the next couple of months to look at their are am any one time revenues and expenses because this is an ongoing forecast, I have looked very closely and we've actually looked -- worked with the attorney's office to see if there's going to be any big litigation settlements or any one-time moneys coming in this next year. At this point we don't see it, like we were able to rely on some of that in last year's budget. Switching gears, this is a new slide that I have not shown you before. We put this together to assist in the rest of today's session for budget planning. I wanted to explain to you what are the real challenges and dilemma that we're faced in balancing the 2011-12 budget, especially on the expenditure side. If you look at the right-hand side -- excuse me, the left-hand side of this chart, you see that there's basic expenditures. If you just divide our budget up by Public Safety, and Public Safety I mean the Police and Fire Departments, any of their citywide expenses and capital expenses that are budgeted in the General Fund, and you look at all other. It's about a 56-44% split with 486 million on public safety and 378 million on other. Other includes all the rest of the departments, the parks and recreation department, general services, library, IT, transportation, finance and resources, our contingency reserve, our debt service payments, everything is on the other side. The way we look at it in the budget office is that when we are looking at what is available to cut, we look at something called our eligible base expenditure pie. And the eligible base expenditure is -- excludes grants, any expenditures that are grants-backed, reimbursement-backed, fee-supported. We take out things we can't cut or that are not discretionary. We have to pay the debt service on this building. We want to have a contingency reserve. We need to pay our workers compensation cost. We need to pay our sick leave upon retirement cost. Any contractually required facilities subsidies like for the tech museum that we are contractually required to pay, and anything else that is considered nondiscretionary in that regard, we pull those out before we assign targets to the departments to get ideas on the table of how to change the budget. The pie significantly changes when we do that. Public Safety becomes 71% of the pie, and all other become 29% of the pie. So you're looking at \$435 million in Public Safety and \$175 million

for all of those other services that we could cut from. Taking that concept a little further, we put together some potential reduction scenarios to demonstrate the effect on the eligible base of different percentage cuts to public safety and the resulting required cuts to other services. If you look at scenario 1, for example, and public safety was not cut any further than the already 65 police officers and one fire engine company that are scheduled to be eliminated July 1, the other services component would need to be cut 40% or \$70 million out of the \$175 million eligible to be cut. The eligible pies for the future would become 81% Public Safety and 19% other services. Obviously cutting 40% out of such a small piece of the pie would result in devastating service reductions to our community, considering the multitude of services that are in that wedge. And this is why, when we bring forward this after nine years, ten years, the budget proposals that the City Manager has to put into our proposed budget, why those budget proposals are such severe reductions to our community, because we don't have any other place to go. We still have base services that need to be -- we still need to get payroll out. We still have things that need to happen. On the other hand, if you go to the other extreme on a scenario 3, if you cut public safety 10%, or \$44 million, other services would need to be cut 15% or \$26 million, keeps the relative pie shares in proportion, but this would still require very deep cuts on the other services side of the pie. But it would also equate to about six more fire engines being eliminated and about 130 more police officers being eliminated on top of what's already out of the base. Obviously, that is also very unacceptable to our community from that perspective, as well. So this is the real dilemma that we face after this many years of budget reductions. So if you go to the next slide, as an alternative -- and we'll talk more about this in the next segment -- but as an alternative of relying solely on expenditure reductions or eliminations, because they are obviously so difficult, this slide provides an alternative potential scenario for balancing the budget for 11-12. Although service reductions and eliminations are not completely avoided, this strategy relies primarily on personnel cost saving strategies. As you can see here, and as the City Manager has recommended, we could get about \$52.2 million in General Fund savings if all employees had 10% ongoing compensation reductions, and we rolled back the 2% wage increase that was given to MEF and CEO in this fiscal year. The remaining budget balancing strategies would consist of cost savings from the service delivery model changes. It's hard to estimate that right now, and we'll hopefully get more direction later this afternoon. We'd hope to find a small amount of revenue, but it's very hard to find these transfers anymore, we really -- that are legal and things like that, and we just don't have the reserves in place anymore. We've used them. But we would still have about \$10.5 million in service reductions. Service reductions

and eliminations will always be the default, because we are so limited in our ability to raise revenue. To the extent that we could not get the cost-saving strategies on the personnel side, the \$10.5 million on service reductions and eliminations would only increase from that point. The immediate next steps, and I wanted to conclude with this, from the technical side of the forecast in the budget planning for 11-12 is that we will continue to monitor and report the current-year revenues and expenditures and economics on the city budget through a variety of a bimonthly financial report, midyear is coming up, as well. We are hoping today for some early direction on labor negotiations and organizational and service restructuring. We will be issuing shortly departmental reduction targets to get ideas on the table. We never cut evenly when we bring this forward to the city council review, but it is a way to generate ideas to resolve the budget for 11-12. We also, the City Manager and I have been discussing exploring some early implementation of some service reduction actions this fiscal year. The earlier we get started, the more money we can generate. And if you accelerate it, the less you would even need to cut next fiscal year, because you get more value out of it. We are going to take a look at that, but we also need to look at all the impacts and see what we would recommend, anything in that area to the city council. The five-year forecast is scheduled to be updated late February 2011. And with that, I'll stop there, mayor. And Kim and I are both available for questions and answers.

>> Mayor Reed: All right, I think we'll have a few questions here in these two sections. I'd like to just note that job creation is a lot more fun than cutting the budget, and I want to thank our staff that's been working so hard to try to generate job growth, which generates revenues for us, and we've certainly had some good successes. And Kim Walesh alluded to one earlier when she was talking about Price Waterhouse Coopers, PWC, having a press conference today announcing they are taking eight floors in what used to be known as the Sobrato, then the BEA, and then the Oracle building. And that's really good news, because they have looked all over the valley for alternate locations, and keeping it in the downtown was an important thing to have happen. So that's good news. Samsung announced yesterday they are expanding their R&D and their lab facilities by another 50,000 square feet. SunPower just got approval of \$30 million recovery zone bonds, so we've had several hearings on that. CDLAC, the California Debt Allocation Committee, has allocated that funding for them, so they're going to be expanding their headquarters in San José. We've got 22 projects that have gone through our special tenant improvement process in the last ten months, including Tri-Quint, F-5 Networks, Silicon Quest and lots of other

companies. It was an interesting report yesterday from Collier's, their market report that San José and Sunnyvale generated the most gross absorption of the five major R&D markets. San José had 580,000 square feet of gross absorption, which broke a seven-quarter streak of occupancy losses. So I think we have turned the corner, but it is slow, slow going to drag ourselves out of the recession. The numbers that show the job growth beginning are heartening, that's good. But it wouldn't have happened in San José without the really good work of our development services team, our jobs and revenue generation team, however you want to call it, a lot of people have worked really hard to take advantage of the opportunities as the economy has begun to turn around. The real question is whether or not we can capture all the jobs that are going to be created in San José. It's great to have that opportunity. And getting the jobs going the revenue going are really critical. But no matter how successful we are today, we're not going to see those revenues for a while. They're not going to be reflected in our sales taxes or our property taxes for a while. And so the next fiscal year is probably not going to get much benefit of these kinds of things, but the fiscal year after that hopefully will be better. I want to thank our city staff and redevelopment staff that have worked so hard to capture these opportunities. It will go a long ways in the future to -- so we don't have to have this conversation year after year, get the revenues growing. Councilmember Constant.

>> Councilmember Constant: Thank you. Just a few comments as we go forward. First of all, for Kim and Jennifer, great job presenting everything that we have and bringing us up to speed on everything this year. We know it's continually looking more grim I think was the word or dismal one of the words you guys used, dire, they're all synonyms that apply. I think it's important that we continue to keep in mind the whole context of things. And I know the mayor pointed out all the great things going for us, and there are a lot of great things but unfortunately, there are a lot of challenges. And I know we speak of the \$70 million deficit but in reality it's a \$92 million deficit because we have those one-time major service reductions that are scheduled to be automatically reduced and we know those were distasteful last year and I know they're not going to be any more tasteful for the council this year. As Kim was mentioning we still have until 2015 before we see any substantial change in the economic picture and that happens to be right when our pension costs peak as well. We know they are going up to where they are now to approximately 72% of payroll. We know that our health care costs continue to rise. And we face the GASB retiree health care liability a couple of years ago, and we talked about that growing liability,

which was about a \$1.6 billion liability or so, that we came up with a plan for. And if you remember, one of the concerns that I abrupt was that assumptions we use in calculating that liability were very rosy numbers, as far as the increase in health care costs. The numbers were very low, I believe 4.5% if my memory serves me right. But we continue to see our health care costs increase at a pace that's greatly exceeding that. And I think when the time comes for us to revisit and recalculate our health care liability, we're going to find that it's substantially more because we're not meeting those low numbers, those low estimations of escalations. So we're going to continue to see those rates rise which will continue to put pressure on our total costs, employee costs because we're not only having to fund the health care for our employees that are with us now but our 50% and the employees' 50% of the retiree health care. We know that we have the infrastructure needs, and Jennifer pointed out that the backlog is about a \$450 million one-time, plus the ongoing. And that comes right in context with the study session we recently had where we know it will take us approximately \$100 million a year for a long time, writing a check for \$100 million a year just to start making a dent in that roadway infrastructure. And there's no funding for that in this current budget. So that creates another \$100 million hole or deferral going forward. And we know that's just our roadways. That doesn't count our sewer system, our storm drain system, our water pollution control plant which we know has several infrastructure needs and the ten-year or so estimates to do that are astounding when you look at the significance of those. We also have our parks infrastructure which I'll remind you we don't even know what the depth of our problem is in the underground irrigation systems backlog in our parks. Last time we talked about that which I think was about a year ago, we heard that we needed three or \$4 million just to assess what that backlog of infrastructure, and again, that money is not included in this -- these projections. That's another hole that we see. Jennifer mentioned that our utility taxes, our franchise fees are not what we expected and they're not likely to increase. And that quite frankly is due to our competing policies. We have our policies where on one end we're promoting conservation and green technology and waste diversion that are all good things. But they also have a fiscal impact to us on the other end, and we see that in our budget. And I see those only continuing to slowing dig deeper our deficit holes in the future. We know that our service to our residents continue to decline at an unbelievable rate and that the residents that have been paying dutifully for quite a while for services continue to see less and less services. And with less and less services we see less and less employees. You know then when you look at it in our residents' perspective, we tend to sometimes just look at the simple things of what are going out there like the unemployment number whether it's 12% or 10% or 11% and we

look at the graphs and we see ourselves just slightly higher than others. But in real terms we know that when we're out in our districts we're e-talking to families where both wage earners have lost their jobs. They have 100% unemployment in their family. We see many homes in our districts and in some districts much more significant than quite frankly in my district the foreclosure situation where you can go down a street, and there's home after home foreclosed upon, or people have just walked away from them. And those foreclosures are still a significant hurdle in front of us. We see even those who haven't suffered a layoff or loss of their jobs have seen their family incomes decrease significantly, which again gives them less money to go out and spend in those much-needed sales tax producing endeavors that we need. We see our residents who come talk to me and talk not about the fact that they have to pay a little bit more for their own personal retirement planning but that they saw their entire retirement disappear right before their eyes. And those are real concerns that our residents have every day. And we continue to have our businesses that have more and more burdens put upon them by multiple agencies at multiple levels. Because it's not just us that is hurting, it's the county and the state and everyone else, and it just all keeps piling on. My concern is that we keep taking incremental steps that maybe slow down the downward spiral but really don't stop it. And I think that's what we really need to do. I worry as well as we talk about the budget, that we look -- we keep looking at those percentages and we set our targets that we're going to do this across the organization. But we have to realize that not every city budget dollar is equal. And there's some services that, quite frankly, are more equal than others. There are things like public safety and the essential services. I know Pierluigi here continually say those services in our charter are the ones that we should be doing. And those services I feel are a more valuable city dollar than the discretionary services. And I think as we go forward we have to continue to look at the budget in that perspective. And that we must, really, take priority and give priority to those essential and public safety services. And instead of -- I've used this analogy before, we've cut cut cut cut, and we've created many departments or programs that just can't function because they're cut to the bone, but we're still funding them at maybe 50% of what they were before, or some percentage, but they just can't get the output. And I think there's time that we have to say we're going to cut either entire departments or entire programs completely and just say we can't be in this business anymore. And we know there are things that we do in our city that are not only outside of our charter, but they are really outside of our purview, because other government agencies really should be doing those things. But because they haven't, we've sort of picked up the ball in the past and we keep carrying that ball and there's times that we might have to put that down

and carry our own and deliver those services that we need to do. And I think that is going to be our biggest challenge as we go forward. And quite frankly I think we as a council have to do more in our budgets. I was you know shocked myself. I brought this up last year but in a time when budgets were being cut across the board, our budget allocations in our council office went up. The percentages when you use government math said we took a cut but in fact dollar for dollar I had more dollars allocated to my office this year than I did last year and I think that's wrong. And I'll bring up again that we as a council rolled over about a million dollars, I forget the number but a little over a million dollars in funds that could go to prevent city services and I think we really have to say enough is enough. We may be a core service as far as providing constituent services but I think we need to take a significant cut in those areas and we need to put that money towards the public safety and the essential services. And then of course when we get to talking later about the labor and second tier retirement I have a lot more to say thank you, mayor.

>> Mayor Reed: Thank you. I just had a peach paper put there on the overhead, this is from the 2006-7 budget session, showing San José's revenues per capita compared to some other cities, to make the point of how important getting a job is to the City of San José. So if we just had the average revenues of Mountain View it would be hundreds of millions of dollars more for our budget. And I know the general plan task force is working on that jobs -- housing balance issue but clearly the cities to our north that have a much higher number of jobs per employed resident than we do are faring much better on the revenue side. It's not just the sales tax, it's in all other areas as well. So we have a lot of room for growth. If we could just get to the average it would be tremendous. We do have a lot less money per capita to spend on services than the other cities in the county on average, and a whole lot less than some of them. Councilmember Nguyen.

>> Councilmember Nguyen: Thank you, Mayor Reed. I don't have a very long commentary. I just have a couple of clarification questions. On page -- on this slide 30. Obviously, the expenditures listed here not including the forecast, I was wondering if staff could just roughly tell us what is the potential number, if -- especially looking at the additional impacts from the Redevelopment Agency and also the one time revenues and expenses. Because those are some of the things as we move forward we're going to have to look at these items and factor that into our forecast. So I was just wondering if you have a rough number of what that number might be.

>> Jennifer Maguire: We don't have that number right now. Obviously, the negotiated labor agreements depends on what the direction of the city council goes in that direction but those are subject to good faith bargaining with the groups and I don't know. The potential is as I showed you on one slide, if everybody took a 10% ongoing reduction it could translate to about \$52 million worth of savings. But I -- that's just you know one scenario of what that could be. I do -- have no idea what any outcomes of arbitration with IFF could be, I just can't predict that. The additional cost from unmet infrastructure needs to Councilmember Constant's point we don't have any of that in there. I'm not sure we're going to be able to fund that. We're going to look, we would like to do something in our I.T. area because we are really behind in our infrastructure in I.T. and it's hard to modernize the organization when you're trying to downsize it, so we can actually stabilize some services in certain areas without some investment in that area. Our D.O.T. department is looking at everything possible from grants to try to get at some of the transportation needs. It's just a constant challenge. The impacts from the San José Redevelopment Agency we've already reflected the council direction to remove reimbursements for San José B.E.S.T. and SNI, so that was the forecast is about \$5 million higher than it otherwise would be if we didn't do that. We're e-going to work with them we're going to try to neutralize any impacts often the General Fund so if the services can't be provided we would cut those services and not cause the net impact on the General Fund but in all cases I'm not sure that's going to be possible. So we're going to have to analyze that and work with the agency over the next couple of months. Again on the one time r and expenditures, I don't think there's a lot of one time revenues out there. We were lucky last year with some of the litigation settlements. We've looked around talking with some of the different departments and just don't see that happening this year. So you know, that's also a challenge. So I don't -- we hope that something will materialize but I just can't -- I can't give any number to anything right now. I think I've got a small little \$5 million in that one scenario that I think we can go and maybe take some fund balances that are legal from a couple of funds but they're so small nowadays and we're pulling all these funds like a shoestring budget as well, it's just become extremely challenging.

>> Councilmember Nguyen: Thank you, and another question this next page on slide 33. Can you remind me again, why we're asking -- and we had this discussion before just refresh my memory, why are we asking an additional 2% of wage reduction from MEF and CEO? I know that we're you know potentially asking for a 10%

total compensation reduction. The 2% in addition to the wage reduction, I'm not really sure if I remember the discussion from last year.

>> Jennifer Maguire: This is not been directed. This is something that we will talk about in the next segment on labor negotiations. This is just if we rolled everybody back to 2009-2010 as a simple illustration. So this is just a scenario not presuming any council direction on any of these -- we don't have any council to do that but we were just simply saying if we just went back to 9-10 levels of compensation what would that generate? And did all the 10%, everybody played and was all ongoing what would be possible there and it's about a \$52.2 million generation of savings.

>> Councilmember Nguyen: But then that \$2.1 million that's already factored into the \$70 million shortfall correct?

>> Jennifer Maguire: That is.

>> Councilmember Nguyen: Finally I just want to thank staff for the comprehensive work that you've done so far. I think this is really early on and to have this much information available to us I think it's just very impressive and very responsible on your part. Obviously, you know the situations that we're going to be facing is very dismal and gloomy and I think that it's just really good for us to have this sort of forecast, moving on to January and February. So thank you.

>> Mayor Reed: Councilmember Pyle.

>> Councilmember Pyle: Thank you, mayor. I'd like to begin by thanking you as well. That cold shower you just gave us really woke me up. You did a great job. I would like to say, too, that after the tingling of that cold shower, it does give you time to think. We'll probably have to think outside the box probably more than we ever have. In reference to Tim's remarks for example, I would like to refer to one question that I have. I don't know if Dr. Levy

might have mentioned it, but between 21 to 23% of the public has not been affected by the recession. Did he say that, or would you agree with that? It's been brought up at every talk show I've ever listened to on Sunday.

>> To be honest, I haven't heard that yet.

>> Councilmember Pyle: Okay, I have. And my district comprises a lot of the 21 to 23%. And let me give you an example of the explosive reaction to the things that have been done in my district that made a difference. About two years ago, we put in one of the few restaurants that the district has. That's been very successful. Just this last week, we opened whole foods. That parking lot is never empty. It is absolutely amazing. When they put it in they said well you know we're going to have to cut back on the square footage, you know the recession, kind of tight on money. Now they're looking for more space. The reaction has been absolutely phenomenal. The -- we're putting in at least three more restaurants. And then, in Oakridge, with the addition of one more store which is coming maybe by the end of this year or early '11 we'll be at 100% capacity for their stores. That hasn't happened in a very, very long time. So what is the point of what I'm saying? The fact that we're 20% under-retail is really better than when I started on this council because I remember at the time, we were lower than that. So accolades to economic development, redevelopment, and the mayor's push. You've done a great job of that. We have increased, and we are doing better. But we need to kick it up, as much as we possibly can. The other one is, I had a question. Going after tax internet sales, that can has been kicked down the road so many times. Was there any conversation about that? Because we do not capture the sales tax that we should be capturing in this state.

>> Kim Walesh: I think that's part of the dilemma, is that we have this box that we need to play in, in the short term. And that we know we need to use San José's influence to start raising these issues and working with other regions and other states nationally and in California to address these underlying structural issues. And clearly Internet taxation needs to be addressed at the national level.

>> Councilmember Pyle: Because I'm sure it's huge. So I think one of the things we could do now that would not be terribly difficult, in fact I'd like to take a stab at getting one going, is a letter to Jerry Brown. So when he takes over, we have something to present to him. And the letter would be comprised of our current situation, what we

need to do, suggestions, et cetera, I think that certainly would help. And I will be in touch with Roxann to see what she might suggest. Because that could have an immediate effect. Then the other thing that I wanted to ask about is: Health care costs. Wow, 15%! Now, I would suggest that because diabetes affects 3 out of -- well, there's 1 case of diabetes for every 3 people in this area. And one out of two in the Latino community. That is something that perhaps we should really address. In whatever way we can, join with the county to make a real splash and get diabetes under control. I know I've been doing a little bit of work on it, and it's really amazingly frustrating. The South San José police fire station was factored in, but we're not using it. So I'm trying to figure that one out, Jennifer, if you could help me with that.

>> Jennifer Maguire: It actually is not operation this fiscal year, but it was deferred to next September of 2011. So it will affect the 11-12 forecast. It will cost about \$2.4 million annually to operate the San José police substation. So that's a driver of the cost increases.

>> Councilmember Pyle: Okay. And then I read a couple of reports that showed me that with the fire part of the public safety, that 23% of the calls were for fires. But 77% was for medical emergencies. So I think we really need to take a look at why we have so many of a particular item, like trucks and that kind of thing when most of it has to do with that. That's a whole other discussion, I realize. So -- and then the -- I think that's it for me. Oh, one possibility is this: You know, we signed somebody up and they begin to work for us and regardless of age they get involved in the pension system. Why is that? Could we not offer an option? There are a lot of young people that begin, that are maybe right out of college, maybe they're part time, they're not even out of college yet. They're not thinking about pensions and it is maybe a bit premature in reference to their career. So I'm hoping that we can look at other ways to offer benefits, and not just be automatic with what we offer. But to take a more careful look. Thanks.

>> Mayor Reed: Councilmember Oliverio.

>> Councilmember Oliverio: Thank you, mayor Reed and Councilmember Pyle, that's exactly what measure W allows us to do, we couldn't do that before as a city but now that is passed with 74% of the vote we now may have

that option to present that. Mayor I want to thank you for recognizing the jobs-revenue team. We don't create jobs and we often have a one time shot at getting those companies located in San José. I see councilmember-elect Don Rocha in the audience who worked in the Redevelopment Agency for years, and he knows that we have those one-time shots to locate the company. You mentioned quite a few. We also relocated Afaros from Sunnyvale to San José, right by the airport, that's a real big one. I want to be also complementary on all the data you're presenting. At the end of the day, we're going to have to make some decisions. People might agree or disagree what that decision is, but the reality is, you laid out the numbers. Find someone to go dispute that those don't add up. That is what we have. Those are our actual revenues, these are our expenditures. There is a lagging hole. We have to fill it, one way or the other. Councilmember Constant talked about the kind of current economic quagmire of individuals. I was just at a meeting last night in my district where a gentleman who had been unemployed for 18 years, a little teary-eyed, talking to the principal where his kids go to school, says if I don't get this offer, we're gone. So there's a lot of pain all around this community, not just within this enterprise, but within the entire community. I think that's important to keep in mind as we go through this. Kim, you talked about us not always necessarily always building the city with retail in mind or in our land use decisions. So what I'm inferring from you is that a lot of those decisions were mistakes that the elected officials made in converting industrial land or employment land to housing. Would you concur?

>> Kim Walesh: I would say that historically the leaders that didn't prioritize it, perhaps in the initial allocation of land as well as in conversions.

>> Councilmember Oliverio: Great, so on December 7th, we'll have our general plan hearings. That's where a bunch of folks are going to bring proposals to this council to zone lands. I don't call the general plan hearings. I call it tax base erosion night. So I'm going to have a real difficult time asking any city employee to take a concession if we can't keep the land we have zoned for jobs remaining for jobs. No matter how pretty the picture is, no matter what they paint us that will deliver the jobs some day, I control that. And I would have a real hard time asking any employee to give it up if I can't hold the line on my land use. That's a point I want to bring out. Jennifer Maguire, in your budget, does your budget anticipate full funding of the HNVF program or the city funds charities?

>> Jennifer Maguire: Yes, because that's what the council approved it ongoing at the level of this fiscal year, yes.

>> Councilmember Oliverio: Last year I wrote a budget memo detailing how that money, which is discretionary, which is not in the city charter, could be allocated to keep police officers hired, librarians in place, planning and land use individuals to plan our city for the long term, folks in the clerk's office, the City Attorney, et cetera. I think we have to take a look at that again, because again, I don't want to ask people for concessions if I'm not funding core versus discretionary. City Manager, you mentioned workload. I really think the council should self-impose some limit on writing memos. We shouldn't introduce the flavor of the day any time we feel like it, and whatever is left on the work load, just bring it to us. We vote all the time. We have to make decisions. Let's rank it. You got a list of 15 things, let's figure out where they are in line. And if things need to get pushed out inevitably for X amount of time, then we live with it. But we can't expect to come up with new policies and new things every time and take away from the things that we just spent the last three-hour talk on a separate council meeting on a Tuesday. So I think that's imperative on us. I know that you in the budget have \$6.6 million funded for those facilities that have yet to open, community centers libraries, substation in South San José that's anticipating a fully -- a full work week of activities and employment at those facilities, correct?

>> Jennifer Maguire: For the library, it's at the approved levels that, for hours that we have in the effective fiscal year, so modified.

>> Councilmember Oliverio: So those new facilities came on, but they didn't come on at the full extent of other facilities in the city then there would be some savings there?

>> Jennifer Maguire: That's correct.

>> Councilmember Oliverio: Versus having it shuttered forever or for a long time?

>> Jennifer Maguire: That's correct.

>> Councilmember Oliverio: You also mentioned in public safety cuts, I appreciate the way you lay it out there because if you left public safety alone you would obviously have major impact on anything else the city does. And I know we talk about core and we think about libraries and parks but we have to remember that the city just doesn't run on those departments. You have people in finance that have to take care of our bonds, that balance the books, you have people in I.T. that make sure the city's up on information technology standpoint. So there is that overhead we have to worry about. So being tech, capital of Silicon Valley and not being able to invest what we should in technology is a shame. So everything's on the table. That might be politically unsafe to say but it would be unrealistic to say anything any different. When you mention that the cuts would involve closing six fire engines I think we have to get out of that paradigm. Browning out a station and reducing service in our city is totally unfair. When other decisions can be made to configure the staffing to lower the cost and still provide the services. Other cities in our area in the county have those staffing ratios. I don't see them burning down. It's politically a hard one but in reality the compensation of those positions gets in the way of the delivery. We need it, it's there for emergencies that's for sure but I don't want to see a station close in this city if I have other alternatives. And I don't want to have to lay off police officers if I have other alternatives to manage that staffing. Thank you.

>> Mayor Reed: Councilmember Liccardo.

>> Councilmember Liccardo: Thanks mayor. Jennifer, thanks for the great news! Is it too late to buy lottery tickets? No, I do appreciate the extraordinary amount of effort and energy and great work that's gone into presenting us with all this information. If we make bad decisions it's on us. It's not because we haven't been provided with the best information because I think we have consistently over the last couple of years. I occasionally hear folks say well the council's not aware of this or that and that puzzles me when I get that feedback that somehow or another because I know that you guys are getting us the information. The question is whether or not we pay close attention. The question I had related to the increased retirement contribution rates, the \$21.5 million. I know that we have anticipated an increase in contributions going out to 2014 or 2015 if I recall

in order to get us up to sort of a full funding model where we can start to pay off the unfunded liability over next couple of decades. And I know we anticipated that, as long ago as a couple of years ago. My question is, that \$21.5 million, does that represent something unexpected as a result for instance of some of the changes in the noneconomic assumptions or so forth? Is that new information, or is that the \$21.5 million that we anticipated would be supplemental additional cost?

>> Jennifer Maguire: Thank you for the question. To clarify, that \$21.5 million is what we anticipated last March when we had -- when retirement department gave us a forecast of where the rates were going. So they were already in the forecast, five year forecast we presented to you last February. So that is not new information but it does not reflect the most updated information because I know Federated, the rates are a little bit higher for Federated as they had to make their fiduciary responsibility decisions, so that dollar amount will go up just because it's driven the way it is off the salary rates, so it will go up in our next forecast. But many other things could change in our forecast, so I can't -- I don't want to predict what the ultimate effect will be on the forecast.

>> Councilmember Liccardo: Right, and I know at the Police and Fire board right now, we're considering reducing our assumption for return, and I know that will result in probably a spike, as well.

>> Jennifer Maguire: Correct. So those will just by default will make the forecast shortfall higher, but that those may be the right things to do for those plans to keep those fiscally in check.

>> Councilmember Liccardo: Okay, good times! We -- with regard to the 54% figure that was cited related to the public safety share of our General Fund, I think it's 54%, if I understand correctly, looking at the remaining 46%, an awful lot of the support work that is done for instance the city attorney's office, that's also done to support public safety, is that fair?

>> Jennifer Maguire: Absolutely.

>> Councilmember Liccardo: Okay. So I'm sorry, it's not 54 -- 56%.

>> Jennifer Maguire: 56. And so I would argue that the PRNS department supports public safety, the library supports public safety. There's many -- I mean there's elements of the City Manager's office that supports public safety. We don't break our budget that way but this gives you a sense of it. It's not a clean black and white line.

>> Councilmember Liccardo: Right, I mean, 56% represents the police and fire department essentially.

>> Jennifer Maguire: Right, along with their citywide expenses, like we do have workers compensation costs in that part of the pie.

>> Councilmember Liccardo: Okay, but not necessarily their share of the cost. I know that some of the other departments support them in an indirect sense, but in terms of the direct support, city attorney's office or the City Manager's staff, that's not reflected in the 56%.

>> Jennifer Maguire: That's correct.

>> Councilmember Liccardo: Okay. That's helpful to know, because all of us believe that public safety is our top priority and of course it should be, but it's important to recognize that it is a big share of our shrinking budget. I just wanted to express my support for a concept that Councilmember Constant described. And I know he's been saying this for several years now is, we really need to think very seriously about getting out of entire lines of business in the city. And I know we've gone through very painful conversations around city services, about which neighborhoods get what, and those are particularly painful in times of scarcity like this. And although it doesn't help anyone, it certainly avoids a lot of painful fact, just kind of arguments for us to be able to say to the city, look, we're simply going to stop doing this rather than for us to be saying, okay, we'll just do it in this place or that place. And I think it's probably time for us to take a very big step back and recognize that we simply don't have the ability to do what we could do in the '90s or through much of this decade. The other question I had related to the economic growth projections, Kim I really appreciate the perspective you offered. And I know that you've checked in with Stephen Levy and he recently gave some updated figures to ABAG about long term growth. And also

sobering, because I think they cut their employment projections over the next 30 years by somewhere on the order of 15% for the entire region, the whole Bay Area. And I'm wondering if you are hearing any kind of countervailing news about some of those very long-term numbers in terms of job growth for this region. Is it -- is there reason for us to hope that it's not going to be so slow?

>> Kim Walesh: You know I am such an optimist, and I believe so much in our region, that part of me wants to believe we're going to be very aggressive, we're going to go after jobs for our region, you know, we can buck those long term curves and capture more and more for San José. But then the other part of me knows the reality, and it's like that last slide I put up there, that to a large extent that over the long term the amount of growth that's going to be in the Bay Area and San José, it is related to the national economy and the global economy. And so as all these projections are ratcheted down for how much our country is going to be able to grow, that's now causing the ratcheting down of expectations here. So while I believe we need to have a lot of adequate land and a lot of options for companies and be very, very aggressive, we need to be realistic about the likely levels of job growth that we're going to see here, I think especially the next five to ten years. It's always hard to look out much longer than that.

>> Councilmember Liccardo: Yeah, I can appreciate that. You know, I'm hopeful about the promise of disruptive technology that may come down the road that we may not know about or folks who are thinking about that are much smarter than I am, they are all -- this is the region where those technologies are going to blossom and I certainly hope that's the case but I know we've got to really brace ourselves for what is going to be a long, tough time so anyway I appreciate all the information.

>> Mayor Reed: Vice Mayor Chirco.

>> Councilmember Chirco: Yes, I had a question on the general plan 2040. And as we look at kind of the short-term situation, and really, where we want the city to be, and I know ever since I've been on the council, you know, when you figure that we are short, under-retailed has been a very large part of the conversation. I know in my district there is an area that they want to do retail, which is a great idea. But my concern, being on the general

plan update committee, that we might go for kind of the quick fix at the long-term expense and not have the master plan for what could be a really dynamic retail area. So a lot of under-retailed parcels then cannot grow because this particular -- the Arcadia property has been allowed to go retail and it absorbs what traffic ability there is so that would be smart, and look at an area so that we could maximize our retail growth, and not get ourselves into a situation where we get the quick fix but we lose the long term fix. We have so many properties in that Almaden expressway, 85, Blossom Hill area that are so under-retailed and this is a whole new development that would absorb the transportation that exists in that area. And if anything wanted to redevelop or add additional. So that's my concern, as we look at the 2040, and our need to grow services, you know, that we not wind up cutting off our nose to spite our face. And the other thing, and I know Pierluigi and I have had this discussion before in HNVF. And I'm not going to say, you know, nobody can say anything's safe or anything's going. But as we talk about public safety being a priority with our community and part of our charter, I think we need to really look broadly at what is public safety? Because as Jennifer said you know, it's our parks and rec department, it's our libraries. But organizations, our nonprofit organizations take every dollar that we give them and leverage it three to \$7 in addition to our \$1. So while we might get \$1.8 million, we're going to lose \$10 million in services. And we can't backfill those public safety needs. So really, to be thoughtful on quick fixes, which we get to with, like, a development that short terms long term development, or when we look at you know money that seems to solve a short term problem, but just to be thoughtful in the longer term conversation. Thank you.

>> Mayor Reed: Councilmember Kalra.

>> Councilmember Kalra: Thank you. And thanks for the report. And the data that's been provided. Just a couple of questions. One regarding the -- in the City Manager's report, in regards to the retirement, some of the additional cost, projected retirement cost, page 8, let me see where it is here, excuse me, page 8, November 8th report it talks about retirement costs and the calculation of such and refers to step increases, ongoing employer, employee agreements, cola, what have you, was there also a consideration of the salary cuts particularly obviously the ongoing salary cuts of the bargaining units, was that also factored in the retirement cost?

>> Jennifer Maguire: Absolutely, we build everything position by position on the current salary structure we have.

>> Councilmember Kalra: That's what I thought. I was sewage that was part of it but I just want to make that clear. On page 1 where it discusses some of the shortfall components, and on the major expenditure changes, were any of these factored in during the course of the past year in the February or the June forecast, or are these and if not, why not? I think some of these seem like they could have been anticipated and so is it just a carryover of the anticipated expenditure changes or are these true expenditure changes based upon as a change from the most recent reports?

>> Jennifer Maguire: It's a combination of both. For example, the increased retirement contribution rates are exactly what the rates we thought when we did the last year's forecast, but the numbers have all been updated based on our current compliment staff, based on the salary changes that you just mentioned, so those are updated numbers. But this is strictly looking at you know what we are not paying today that we will have to pay next fiscal year. The health care costs those are higher, add 10% growth we are now at 15% growths. The salary steps are in there the committed additions are actually in a slightly lower level because of the actions the council did to balance the budget last year. Public safety vehicle replacement is kind of a combination one, because of the cycle of our replacement, it's been affected by the fact that last year's budget proposal we took a bunch of savings for public safety vehicles on the police side and extended their mileage and age requirements. So that's causing the pushout to more aged vehicles need to be replaced in 11-12, along with on our fire side. So the revenue estimates, unfortunately those were not expected to be down \$9.5 million, that's just the reality of what we're looking at today. For the most part, this is just a different look at the picture of saying you know what's next year? What's happening with our cost and our revenue components compared to this year and why do we have a shortfall? As you pointed out many of the things we had already predicted.

>> Councilmember Kalra: It's just an adjustment with current numbers of some of the predicted categories I guess of expenditures. And it's certainly going to be again probably even more challenging this year than even last and I think that as we go forward, as some of my colleagues have indicated I think very clearly, how difficult

this period's going to be and certainly, it's very difficult for our residents and those particularly that are unemployed. And my council district is one of the districts that has a very high number of foreclosures, what have you and I think whatever we can do to not I guess rely up emotions and really look objectively what we feed to do. This past year I don't think was particularly good in terms of the way that we -- the way the employees looked to the public. I know there was a lot of anger that was out there, and even though they did give, a number of employees gave a lot back, and a number of the employees were laid the off and are in those unemployment lines, as well, and are suffering through foreclosures, as well. I had some of that at my house because of my pay cut. So the suffering is all around. It is certainly in the residents' eyes, and I see it, and I think it's just important that we all try to be objective and I appreciate the City Manager's comments in terms of the quality of work that our employees do. And I think that when we inject the emotions in it, that are unduly I think negative at times it really makes it harder for us to do our job objectively. But I'm confident that we'll be able to get this year regardless of the difficult decisions made and I think that you know we certainly need to look at everything and I think be as creative as possible and look at options. That includes as Councilmember Oliverio indicated looking at different public safety delivery models and what have you. We have to have all the facts out there. I think that more recently the VTA did a budget on the overview, and they paralleled what was happening in the private sector with the public sector. The reality is that as the private sector has suffered, especially those that don't have a job, the reality is that the public sector has not kept pace with the increase in private sector compensation. And so it's not a question of whether our employees are overpaid or underpaid. The reality is that we just have to make sure these balances get to zero the best way we can. We talk about service delivery at fire stations, you know, it's true that we may have different staffing levels than some of our peers. But the reality is compensation-wise, we are on par, our firefighters and police officers are on par with those in regions. But rather than making it firefighters and police are greedy compared to others, let's just talk objectively of what we can afford and what we can't, and what we can do to improve our service delivery. Yes, we had different staffing levels, and over the weekend we were at the brand-new Alum Rock station 2, I believe is the number. It's the busiest fire station in the county. That fire station has more calls than the entire city of Mountain View. So when you talk about levels of staffing, Mountain View has five fire stations within two miles of their downtown core. So we have to get all the facts out there and all the data. There's no one number you can pull out of the matrix and say, well, see, this is askew. We have to look at all of it collectively and decide how we are going to best make sure our community is

safe and keep our libraries open and do it with all the data and all the information that's out there rather than trying to in any way just justify, you know, certain actions. And some of the actions we're going to take may be very hard to justify and we're going to have to do them anyway, because we just don't have the money, and I think that's the reality that it seems that we all can see. But as long as we go with both eyes open and make sure that the public and all of us have all that information, you know, we'll just have to make those decisions, thank you.

>> Mayor Reed: Councilmember Herrera.

>> Councilmember Herrera: Thank you, mayor. It's pretty much all been said and I can only describe my feeling as hardly being able to exhale looking at all this. I think you know the one thing I want to say is I think the message we should convey to everybody is, I think we're all in this together. These are tough numbers and we have to do what we have to do and I think having run a business in the past, I know, you know, sometimes you're faced with some very tough decisions and if you don't make the right decisions then you jeopardize the whole future of your business. I think that's what we're facing with this city. I think given the current projections, we run out of money in 2027. In 17 years we would run out of money given our unfunded liabilities, and I know that was brought up in here. I don't remember exactly who said that, but that was a pretty sobering thought. So we not only have to get this in order for now, but for the future. And so I think we have to look at everything. Everything is on the table and we have to -- you know I really encourage the bargaining units and the employees who are looking at these same numbers to work with us. I think that we absolutely need to face this in that spirit. But we have to make those tough decisions and it's not about whether employees are doing a good job. They're doing a great job. We have great employees. It's just the mass. We have to look at this and go through it. Having said that I think we also have to look at how we grow the top line, too. And when I look at this slide here and see us at the bottom of revenue per capita, what is it that -- what things can we do strategically to change that picture? Because Palo Alto is you know more than twice what we have and that probably was the same years ago, too. So I mean we've talked about land use decisions that were made and we have the jobs-housing imbalance and that sort of thing. I think we have to keep our eye on changing that strategic number too. And that doesn't just happen by make cuts to compensation. That really requires different ways of thinking. Like you Kim, I'm a very optimistic person, we were at the clean tech open last night, it's very exciting to see all of these new

companies and I haven't felt this a long time, but being there last night I felt the beginnings of this excitement that I felt the last time Silicon Valley started to really get exciting, before the dot-com. I felt that excitement last night in that room. And it was -- it was good for me personally but I think you know, those kinds of companies and the things that we're doing I think we do have to keep a sense of optimism too, to get through this. Because it's really tough. And as I talked to my residents and makes out in my district, and like everybody else, people are facing foreclosure, they're facing unemployment. I think we have to keep people's hopes alive too that we're going to move out of this and that we have resiliency. This valley has such tremendous resiliency. As we said, we have venture capital which a lot of communities don't have the level that we have. And we have this entrepreneurial mix. We have people still out there starting their businesses, unemployed and starting businesses and moving forward in this. So I think that, you know, recognizing these positive things about us is very important. And I think that we should, you know, refrain from being rigid in our assumptions. Some of us come here with knowing what the answers are. And obviously, yes, there are in numbers, but I also think we also need to retain some flexibility in maybe there are some answers we don't have right now that would help us solve these problems, too. So I'm -- I can't say I'm looking forward to all this, but I think if we can get through this, and make these decisions, not only for now but for long term so that we don't have to keep doing the same thing, this groundhog day is a nightmare. So I think we need to really try to put some changes in place that are going to get us through more than one budget cycle and just challenge everybody to come to the table and let's figure out how to turn this into an opportunity. Thank you.

>> Mayor Reed: To answer one of your questions, Councilmember Herrera, the 2027 date for running out of money in the pension plans is a projection done by Northwestern university in a study. Obviously there's some dispute about what the expected rate of return is that people argue about but that's where that number comes from out of that study. They've done it for a bunch of cities and we're not nearly as bad as some other places.

>> Councilmember Herrera: I should say the positive is we make our contribution, the annual contribution every year and I should say the pension plan running out of money in the pension plan though I think everybody who is an employee here and those retired folks we need to make sure one of the reasons we're trying to write this budget is so we can make sure we continue to make those contributions so again, we're all in this together.

>> Mayor Reed: Councilmember Constant.

>> Councilmember Constant: Thank you mayor. I just wanted to amplify something that Pierluigi said. And that was when he was talking about the fire engine staffing. I had forwarded to everybody the Lafco fire service review for the county. I hope everyone got a chance to see it. If members of the public would like to see it, it's available on the Santa Clara County Lafco Website. But what's important, there's a chart on page 134 of that report that talks about the operating costs for fire departments throughout our county. And what's interesting to see is our cost, operating cost per daily staffed apparatus, basically a fire truck or a fire engine, is \$500,000 per year more than the next closest or the next highest staffing level dollars. And that happens to be county fire districts, central fire district in the county. And there are some where we are nearly double the cost per apparatus. So just to put that in numbers, for our daily cost per staffed apparatus in the City of San José is \$3,095,765. And if you look at -- we could look at Palo Alto which we saw how their numbers are so that might be a good comparison. Mayor cost per apparatus is \$1,805,663. That's a huge delta especially when you think of how many apparatus we have throughout the city. And while we set our performance goals on response times, we didn't budget along with those goals. We didn't staff according to those goals. We staffed to maintain staffing levels per engine, and I really think that that is contrary to what we could do in response times. Changing to that model that almost every other agency in the county has, and I know there maybe some exceptions like downtown station 1 some of these stations where the high rise is around, you may want to have higher staffing levels due to unique circumstances. But in the suburban area of our city, which is a significant portion of our city, we could be able to reinstate all those engine companies and truck companies and have firefighters left over if we change our staffing model to match those around us. I think that's an area we need to concentrate on, and I encourage everybody to go to the Lafco Website and look at this report. Because it is very extensive and thorough. And then, that comment that I forgot to make earlier when I was talking about those essential and public safety services, we've talked before about the things like the golf courses and the Hayes mansions and those other things and I think some of those we need to fast-track, we need to make the decision and get out of the business. We've been talking about them for four years, and we still have budget difficulties, and we still haven't got there. I know it is a matter of bandwidth and priority. But for me the priority is maintaining the services to the residents. I think that's

what we really need to do, and we have got just a few months before we have to have this budget approved. And I think that some of these we can make some decisions and achieve some realization.

>> Mayor Reed: All right, well, we have already bled over into the next subject matter with the conversation, that is the potential strategy to address the shortfall and beyond, so I think we'll shift staff a little more as we move into that. I think the City Manager will have additional presentation.

>> City Manager Figone: Thank you, mayor and the members of the council. As the office of employee relations staff are coming into the presentation area, I will initiate. If we can get to the next slide. What we're going to talk about now, and it will continue after your lunch break, is the potential -- or the potential strategies to address the preliminary 11-12 General Fund shortfall and beyond. And the first up is to discuss controlling labor cost escalation. And let me just preface my comments so I don't have to keep saying this. But many of the councilmembers have already alluded to the fact that this conversation is not about the value of our employees, their professional work, their commitment to this city. What we're talking about are the facts associated with the structural deficit, and at least on the cost side, what is -- continues to plague this problem. So what we now going to talk about is the annual summary of labor negotiations. And this actually was the result of sunshine reforms where the opportunity for public education and for the council to receive public input on our labor negotiations became a priority. And let me say that the recommendations that I'm going to be presenting to you through this report, and I'm going to set it up and then Alex will take it and then I'll wrap it up, are just that. They are recommendations for direction of travel which I think will go a long way as you've already heard to resolve the problem for 11-12. However they are all subject to meet and confer and we will meet and confer if we do receive direction from council and will do so in good faith as collaboratively and creatively as possible. First of all let's take a look at the diversity of our workforce. We are very unique and very unique lines of businesses. And so when you take a look at the composition of the workforce we have over 600 job classifications. Comprised of the wide ranges of unbenefited temporary seasonal part time positions up through management and executive positions. 96% of our employees are represented by 11 bargaining units. And so really, in that regard, the issues that we're talking about here and the potential solutions may not lend themselves to a one size fits all strategy. Another snapshot of the 11 bargaining units, again which represent about 96% of the workforce, is on

the slide in front of you. I do believe, despite the challenging times, that we do have good relationships with our bargaining units. That does take work, and communication, and I certainly continue to be committed to that. In fact, am concluding a series of one on ones with representatives of each of the bargaining units to talk about where we're at, what our workforce is feeling, what the realities of the next year are. Those have been informative and helpful discussions for me personally as we talk about how we work together to confront these challenging issues. Again, comments are not about blame but trying to confront the realities and trying to resolve the problems that we need to hit together, head on. Now the challenge ahead of us is on the next slide. We have a very aggressive schedule next year in terms of labor negotiations because all 11 of our bargaining units' contracts are open and they will be expiring at some point during 11-12. So that, in itself, is a very challenging set of tasks ahead of us. Because given the nature of the tasks ahead of us our bargaining sessions will be very complex. And so the sooner we get started the better. That is in great measure why I have set forth this recommendation today. So that we're not continuing to guess about what we might be seeking from our employees, but to put that out there and to start working on it. I would point out, and Alex can certainly reinforce this. This bargaining processes are about collaboration and conversation. But they are also driven by procedural requirements. And as I've talked to our bargaining units over the last month or so, you know each one in their own way has expressed concern about how the process unfolded last year. And concern has been expressed from different perspective. But what I would say here publicly and what I've told them is I do believe a lot of time was taken up not coming to the table. And as our window for working together continues to close, it is my responsibility to keep the council's options open on the procedural side of the house, to ensure that all of your discretion under the law is maintained. And so as that window closes because we're not talking at the table, we're not problem-solving at the table, it does start to feel more procedural. And that is the reality of I think the tension in the system, keep the council's options open. At the same time, the creativity only really happens at the table based on my many years of experience. So I did want to ensure that at least my registers were out there early so that we could begin our discussions. And in this array of our 5800 employees and 11 bargaining units, approximately only 229 or so employees are unrepresented. And -- which means not represented buy bargaining unit. My last slide before handing it over to Alex, is to remind us all about the hierarchy within our structure associated with the labor negotiations process and system. So the city charter specifies that the City Manager is the chief administrative officer of the city. And as such, is the City's employer -- employee relations officer, as governed by our employer-

employee reckless resolution. And so ultimately, I'm responsible for labor negotiations as the City Manager. And this is a very important responsibility, one that I take very seriously. Our negotiating team is not an independent group. They are operating on my behalf, under my direction as I receive it from the city council. And so with that in mind I'd like to turn it over to Alex Gurza, our director of the office employee relations to take you through bulk of the presentation.

>> Leslye Corsiglia: Good morning, mayor, members of the city council. Alex Gurza, director of employee relations. As the City Manager indicated, this slide sets up the framework for how we conduct negotiations. A lot of times people think somehow that the city's negotiating team is somehow an intermediary, somehow in between the city council and the employees. We actually directly represent you through the City Manager and the direction that you provide us. There was also sometimes feelings that the city council does not get the information about how negotiations go, what's going on at the table, talk a little bit about the unprecedented amount of information that is available not just to you but to the public about labor negotiations that haven't been given in the past. As well as the city council knows, they see me and my staff for many, many hours in closed session trying to relay to you the many, many hours that are spent at the table and every proposal that is made by a bargaining unit is presented publicly, on the Website and also discussed with you in closed session. As the City Manager indicated we operate labor negotiations under complex laws and regulations that govern how negotiations take place. The state law is the Meyers Milius Brown Act that governs cities, counties, local agencies in the State of California. It allows for collective bargaining and describes the process and it -- of course, as the City Manager indicated, negotiations are to take place between the designated representatives of the employer or the public agency and the bargaining unit and to be conducted in good faith. We also have the city charter that sets up our own particular form of government here in San José. We have our specific what we call local rules about labor relations, and that's embodied in the employer-employee relations resolution. And then finally the city council has a council labor negotiation guidelines that the council established a couple of years ago. We'd like to start with a review which is already discussed a liberal in the earlier session of the direction that the council gave us last year, for labor negotiations and then to start with letting you know the progress that we did make. So the direction we received last year was initially it was 5% then because of the significant increase in the City's shortfall the council directed us to achieve a 10% total compensation reduction. And there was a lot of discussion about what total

compensation means, and it has been a very useful exercise and we need to continue to do this is to educate our employees that the cost of an employee is not simply their cash compensation. It is the cost of pay and benefits. And so the direction was to reduce that total compensation by 10%. So for example, if an employee's pay and benefits is \$100,000, a 10% reduction in that total compensation would reduce pay and benefits to \$90,000 in my example. The council also had directed us even previous to this fiscal year to achieve full funding of employee health care, meaning to start paying off on that over-billion-dollar liability, made significant progress with that. And then also, had already directed us, the council had directed us to look at a second-tier retirement benefits for new hires. That is still pending and going to be dealt with in the upcoming negotiations. Now, this is sort of what we call our progress chart. It is in the council memo that we distributed which is how have we done towards achieving the council direction of a 10% reduction? And you can see there at the top line the unrepresented employees that the City Manager mentioned. Did reduce their total compensation by 10% another not on here the mayor and city council also had that same reduction. And then we have several of our bargaining units also had a 10% reduction in total compensation, although achieved in different ways, still achieved the 10%. We also reached an agreement where the Police Officers Association which was significant in that it avoided the layoffs of police officers that were imminent. But it was a 3.82% reduction in total compensation rather than the 10% that the other bargaining units had agreed to. Most of that as you'll notice however is one-time, meaning it expires. That means that that compensation will automatically if not negotiated differently pop right back up. And so those police officers that thankfully avoided layoff the funding for those positions will also go away at the edged of that contract, end of June. The firefighters union is listed there that's TBD because we have not yet reached contract with our firefighters, our contractual expired in 2009, and we are now scheduled to go to arbitration -- we're not scheduled yet, but we are due go to arbitration under newly amended city charter section 1111. MEF and CEO, MEF being our large eggs bargaining unit and CEO, had contracts through 2011. They had contracts that covered all this fiscal year and they had prenegotiated general wage increases of 2% which were actually the third year of a three-year contract. As again as a progress chart this is health care cost containment. As you know the City Auditor in one of the audits that she submitted to the city council and was approved was on health care and trying to contain health care, and she had several registers. And this was our progress on some of the recommendations that were there, which was to have increased cost sharing between employees and the city on health care, increase our co-pays and you can see there that we have several

bargaining units which are about 1500 employees that are now paying 15% of the low price plan for health care, and increased their co-pays from \$10 to \$25. The other bargaining units chose their 10% total compensation reduction in different ways, and so you see that we have not yet achieved those areas with the other bargainings listed there, in the case of MEF and CEO as I mentioned earlier they had contracts through this year. Very quickly, on how we've done on the prefunding I've mentioned we've made significant success on that but I do think it bears a point to say that achieving full prefunding does not mean that we've already paid off the over billion dollar unfunded liability. It simply means that we reached agreements with our employees to start phasing in to make the full -- what they call the full prefunding payments, which even when started that, it takes 30 years depending on your amortization schedule which is 30 years to actually pay off that unfunded liability. But we've gotten started and it's very significant. It bears a point here that unlike pensions employees of the city pay 50% of the cost of retiree health care. Meaning they are putting aside the same amount of money that the city is towards the unfunded liability. The one remaining bargaining unit is the San José firefighters which we have not reached agreement on the full prefunding and certainly hope to do so either by agreement or through the upcoming arbitration. This is just very quickly you've already talked about the currently projected shortfall of \$70 million. And understandably, in a service organization, most of our costs are personnel costs because it is the people and employees that provide those services. It's almost three fourths of the general fund is personnel cost. And how much those costs increase or how they increase are the subject of negotiations. How our pay and benefits controlled or governed, it is at the bargaining table. So that's why the rest of the presentation is going to focus on some of these costs. So in terms of the major budget strategies, one is to continue to try to reduce employee total compensation costs. Another, as was discussed in the earlier presentation, is transitioning to alternative service delivery models, a less expensive way to continue to deliver services. And 3, obviously the one we would like to avoid the most is to reduce or eliminate services to our community. As mentioned earlier, what's not on here is because, new revenues and because there are limited new revenues that the city anticipates in order to help the council balance the 11-12 budget. So this is a slide that we showed last year, and again, this is not a recommendation. But this is what we called last year sort of the book ends. To give you a sense, if you had a \$70 million shortfall and you simply decided to eliminate that shortfall by reducing services and positions, meaning not reducing total compensation, it would require almost -- an elimination of about 500 city employees. So that's a very significant reduction in the services that those employees provide. On the other end of the book end would

be to solve the \$70 million shortfall all on reducing total compensation. And so in the General Fund, to get the \$70 million it would require a 12.5% reduction in total compensation. Again, we are not recommending these sort of extremes, but just in order to show you the one end or the other. Now, these are just again historical numbers. They're numbers again to give the council a sense of the cost. This goes back, we've been comparing things in the growth of cost from 2000, 2001. And the call in the middle there is the projected 11-12 base budget. And when you look at the grand total of five hundred and almost 16 million dollars, or 793, often people say, well, isn't it expected that that is going to grow over time, especially over a decade. And of course it is. But there are some interesting numbers that you can see there. So it is a 53% almost 54% increase in the grand total. But base pay only increased by 25%. And what this chart kind of tells you is, where is it in compensation cost where costs have grown significantly. As you can see there in retirement benefits, this is the city's contribution to retirement benefits in 2000, 2001 were \$63 million. It is now anticipated in 11-12 to be \$194 million or over a 200% increase in the City's contribution. Health, again, is similar. We're not alone in employers with experience in increased health cost. What you see there, it's 113% increase in the health and dental benefits. The last two are I think also very interesting in the sense that you see the total number of employees. In 2000, 2001 we had 7,000 employees and projected 5700 in the base budget of 11-12. So it's a 20% reduction in the number of employees, yet the average cost per employee has increased from \$74,000 approximately to approximately \$140,000, so a 90% increase. The next slide, which is a graphical representation of that, this chart on the left shows the number of employees during this period split out by all employees up at the top. So you can see the decrease from 7,000 to 5600. Then in the middle separates out if you looked at only non-sworn, and you see a steeper drop in non-sworn. The bottom is sworn employees, so sworn police officers and firefighters that although have reduced, it is a lot less than the non-sworn employees. Went from 2070 FTEs to 1851. Now on the right shows the numbers, again, I showed you on the prior slides what's happened to the average cost per FTE. So you see again very different slopes to these numbers. As you'll see, the sworn cost, you have to go up now, so it was 91,000 in that blue line in 2000 and 2001 for the average cost of a police officer and firefighter, going up to 192. Now, when I say police officer and firefighter, I do want to clarify, that does mean all ranks, all people represented by the Police Officers Association and the San José firefighters. The green line in the middle shows the growth citywide, so combined sworn and non-sworn, and the orange line on the bottom shows the only non-sworn only, going from 66,000 average cost per employee in 2000-2001 to \$114,000. This chart, again, just

for the sake of reference point of what 1% of total compensation is, you can see in the General Fund, citywide, a 1% reduction in total compensation would save the city approximately \$5.6 million. In all funds it's \$7.9 million. It's important to note that when we negotiate we negotiate with employees that are funded by both General Fund and all funds. We don't negotiate sort of by fund. But because the General Fund short fall is \$70,000, we want to somehow what it would save in the General Fund versus all funds. Moving to what the increase in health care premiums, again this is just a graphical representation of sort of the Matterhorn slide that we as an employer as well as all employers across the country are facing, which is the dramatic increase in health care costs where back in 2000 the family premium for Kaiser, which is our lowest price plan, was \$438, and it has increased to \$1300 per month, almost a 200% increase in the monthly premium, again, for the I would say quote-unquote lowest priced plan. Another element that has increased significantly over the last several years is our sick leave payouts. Sick leave payouts are something that were negotiated in the past, are contained in the labor contracts. And the costs have risen dramatically. If you look back just in 2005, there was about -- these are in million, so 5.5, almost 5.6 million. Now we're up to \$14.5 million in sick leave payouts. You're going to spend a little time this afternoon talking about the report-out from the committee that was looking at pensions. But I did want to spend a little time going over the retirement costs and the projections because since it is the single most expensive benefit that the city provides. This again just builds upon the numbers that were on a prior slide to show the increase, the 200% increase in what the city is contributing into our pension plans. You can see however though, when you look Federated compared to our Police and Fire, for members of the public that don't know, Federated is the retirement system that covers every other city employee other than sworn Police and Fire personnel. When you look at plaintiff plan, the costs increased by 358%. That doesn't mean that employees don't contribute. Employees do contribute part of their paycheck and in some cases it has now grown to be a significant portion. But this is the city's contribution, looking at the city's cost for total compensation. We do have on our Website information about what the employees do contribute. We've talked this morning a little bit about the unfunded liabilities that the city is facing in its retirement costs. The top line is just for the pension portion. So we separate out pension from retiree health care benefits. These are two ways to look at it, whether you look at market value or actuarial value. Either way, they are very large numbers. Where the unfunded liability on pensions from a market valuing perspective is over \$2 billion. Over \$1 billion from an actuarial valuing. Retiree health care down below approximately 1.4 billion and again we're, as I mentioned before, on our road to paying

that liability off over the next 30 years. But our contribution rates as was discussed earlier are expected to rise significantly. And this is the information that was received that we're still using from last year. Where we are expecting the contribution rates for Federated to increase, again, to over in the 45% area. And in Police and Fire, climbing to over 70% of payroll. Again for people that don't know our pension system, for members of the public, if you have a 70% contribution rate that means if you have a police officer or firefighter who makes \$100,000, the city contributes an extra \$70,000 into the pension plan, in addition to what the employee contributes. And these contribution rates again will be adjusted, both boards are in the process of doing their actuarial reports and studying assumptions in the best manner that they can with updated information that they are receiving from their actuaries. So when we receive updated information on contribution rates, we'll provide them to the city council. So with that I'd like to turn it back over to the City Manager for her recommended direction.

>> City Manager Figone: Thank you, Alex. So just to put our recommendations out there, which are in the supplemental report, they're under my tab 3 in the binder and the report is, again, a supplement to the main labor negotiations report, it's dated November 10th. And on the slide in front of you I'll just walk through them if I can get that slide. Okay. So our recommendations are, of course, subject to negotiations and to council direction. And the recommendations are to continue the March 2010 direction for 10% total compensation reduction for fiscal year 2011-12 with modifications. That the entire 10% that was achieved, the five and five, the ongoing, that we roll back any general wage increases received in 10-11, and that the City Auditor applies recommendations for health care cost containment be included. This includes increased cost sharing, increased co-pays, increased Health and dental in lieu and eliminate coverage. In addition to the 10% total compensation reduction I'm recommending that we achieve additional reforms in a few key areas. First of all, in the retirement area, we will talk more about the second-tier work. But this would be in the pension and retiree health care areas. That we seek reforms and sick leave payouts upon retirement. And that we look at our compensation structure such as eliminating automatic step increases, modifying the step structure, and modifying overtime eligibility. And these are discussed in more detail in my staff report. And that we also use some guiding principles as we move forward. I mentioned the conversations I've been having with the bargaining units, our own experience about where there was confusion or perhaps bad feelings about areas that we could just not recommend that the council agree to. And so these guiding principles are discussed in detail on page, beginning on page 7 of the staff report but -- so I will just hit

them very briefly. First of all to commence negotiations in January of 2011. The sooner we get started the better. That we continue a -- using a total compensation approach as Alex has already discussed. This is more than just about the salary line. It's about the other related benefits that move with salary, and at increasing rates. And that our savings must be achievable and verifiable, given the magnitude of the problem we're facing and the fact that if we do achieve concessions I want the council to be able to consider saving jobs and services. And so the term I use is, we have to take the savings to the bank. We have to be able to cash it in so that you can consider buying back services. And in that regard, it's important to remember that reductions in city jobs does not reduce, per employee cost. So what does that mean? We often hear from our bargaining units, you know, our department has been really hit. People in our unit have been cut back. Can't we get some credit for that? And again, we cannot take that type of credit to the bank. Because we've reduced jobs in order to save money but that hasn't reduced the per-employee cost. Additionally, we must avoid adverse impacts to the retirement system such as the degree changes are made in staffing levels or if people continue to accrue credit in the retirement system, that that credit isn't paid for, we need to ensure that the changes do not adversely impact the retirement system and so that would have to be considered on a case-by-case basis. We also need to consider the interrelationship of variations by bargain unit. In my opening comments this morning I talked about compaction There are other interrelationships where a move in one bargaining unit might affect another bargaining unit's from the standpoint of pay relationships or other factors that must be considered. Clearly, this will be transparency in negotiations, as Alex has already mentioned. We post just about everything on our Website associated with labor negotiations to keep not only the public informed but our workforce informed. In fact, we received many positive comments from our workforce who are not necessarily members of the bargaining unit, maybe haven't caught up with what's going on through their union leadership, or union membership meetings and so the transparency is about the public but also about the workforce. And the availability of information requests and responses to those requests that we receive will also be made public. We received many, many, many requests for public information mostly from our bargaining units as we're going through the process. And at some points it's overwhelming for the staff to turn those around but they do their best and we will always post those. And then the inclusion of operational and other contractual issues. Some bargaining units will have very unique situations that we will consider with those bargaining unit that may not apply to others. And so that will also happen on a case-by-case basis. So in conclusion, these are my recommendations. I know mayor after lunch

there will be time for council discussion. And we do recommend, as a next step, that we begin negotiations with your direction in January. That concludes this portion of our presentation.

>> Mayor Reed: Thank you, City Manager. Let me just talk a little bit about the schedule. We still have to take up the retirement reform report from the general fund structural deficit elimination plan stakeholder group and the organizational services restructuring which we can do this afternoon. Obviously, we need some time to have the council discussion about the negotiating strategies, recommendations as well as everything else. But it's about ten minutes till noon. We had originally thought we would go to noon and come back at 1:00. We need to get started right at 1:00 in order to get everything done this afternoon. But we have ten minutes, if councilmembers have some questions about the presentation we just heard. We might take ten minutes to do that. But we'll try get into the discussion of it or any debating of it or in-depth details after lunch. But we got ten minutes. I hate to waste ten minutes when we have a tough schedule to meet so Councilmember Oliverio.

>> Councilmember Oliverio: Thank you, mayor. Just a few comments. I think if there's any opportunity where a bargaining unit wants to meet in a public format I think we should do that. I think that would solve a lot of the issues that have been talked about the last few years so have it as a public meeting. Everyone's information is out in the open. So if a bargaining unit wants to do that I hope we will entertain doing that, we can't legally impose that because it's not an arbitration hearing. The health care should be equal for all bargaining units. I don't think you should have people working in one department having different co-pays and different cost sharings. It should be worked as equal. I would like to see concessions be more geared towards salary. The general public does not understand so well when the concession is, let me prepay more of my retirement so you don't have to city. It doesn't make as much sense. It is just a lot cleaner, we had a lot of fiascos and that adds more workload to the staff, both on HR and finance trying to figure that out for the attorney. Clearly the alternative service model which is I think this afternoon that needs to be looked at and I'll leave it at that, thank you.

>> Mayor Reed: Councilmember Liccardo.

>> Councilmember Liccardo: Thank you. Alex, I just had a quick question about the slide and I'm sorry I don't have the number for you but it talked about the aggregate retirement cost in 2011-2012 and I believe the estimate was around \$194 million.

>> Alex Gurza: Yes, Councilmember Liccardo.

>> Councilmember Liccardo: I'm trying to reconcile that -- yes, that's it, it's there -- or it was there. Great. I'm trying to reconcile that with what I understood our number was last year. I thought we were just if I recall correctly, we were just under 200 million last year. And I thought that we were going to be adding to that cost somehow.

>> Jennifer Maguire: I think what might be going on here is the 11-12 has pulled out 220 positions from the base. You're dealing with a different employee population this year, so it's just causing the cost to go down, the \$22 million of employee cost is not in the General Fund.

>> Councilmember Liccardo: Is that General Fund or is that all funds?

>> That's all funds. Ah the other thing Councilmember Liccardo, the number was in March. But by the time we got con, a lot of those peoples got laid off and jobs got eliminated.

>> Councilmember Liccardo: That's a grim way to reduce costs. Thank you.

>> Mayor Reed: Anything else Councilmember Liccardo? Councilmember Pyle did you have something?

>> Councilmember Pyle: I was going to say we should let you go over to the grand opening for the brand-new company we are going to have coming here.

>> Mayor Reed: That's where I am headed during the lunch hours. I just had one question on one of the slides before we go. Slide number 53, which is the sick leave payouts show numbers for 10 and 11, and I know we are projecting an increase in sick leave payouts as part of the projections.

>> Jennifer Maguire: It is an increase to what we carried in the forecast last year, is it about \$10.5 million of sick leave payouts. Because we have to, each year, look at who is eligible, and we have a wave coming through right now. So it is a little bit lower than those numbers here but still a significant amount compared to the prior years.

>> Mayor Reed: All right, any other questions? We'll have more time this afternoon for discussion. Councilmember Constant.

>> Councilmember Constant: I'll save most of my comments and questions for later. I just wanted to public welcome back for Jennifer Shembry, welcome.

>> Mayor Reed: I want to welcome councilmember Javier Campos, councilmember-elect Javier Campos here. It's so fun sitting at these hearings. And Don Rocha was here. Okay, we're going to convene 1:00 sharp to get through the afternoon agenda, finish the discussion.

>> Mayor Reed: Good afternoon. I think we've got a quorum. As soon as everybody is collected out of the green room, we'll have it. We'll take up where we left off, and that was to see if anybody had any additional questions for staff on that section of the presentation on the labor cost escalation negotiations. We'll of course come back for discussion later at the end of the presentations but if there's any other questions that people had that we cut off when we left for lunch, now would be the time to take that up. Councilmember Kalra.

>> Councilmember Kalra: Thank you, mayor. Just a couple of comments and response to the presentation, again thank you for the presentation. I think one of the areas of frustration I know the City Manager referred to it was I guess how long it took to actually get to the table or for meaningful discussions what have you. I think that's something that probably all of us have heard, one of the feelings of frustration from the employee side is there wasn't a lot of wig many room at the table. Once you're at the table there isn't much allowance for creativity, we kind of boxed our bargaining team in so much that once at the table didn't feel much like bargaining, rather, this is what we have to get and that may being certainly a product of what we are and we don't have much other options, but to the extent possible allow for creativity at the table, allow for difference kind of outside the box thinking, I know this has been mentioned several times but there's a limit to that. I know that we've squeezed as much as we can in so many areas. I think that adds to the area of frustration on both sides, once at the table, it's a dilemma because there isn't a sense that there's much to bargain over because of the situation we're in and I think whatever could be done in terms of taking suggestions and alternative options and just putting everything on the table I think is really important and allowing for everything to be at the table both at the bargaining table and when we're having our discussions out in the public, the City Manager, the leadership of the bargaining units, just outside the bargaining table to just talk when what option might be available to not instantly cancel something out but allow it to be vetted to understand that some options might be more realistic and open and reasonable than others. But I think that the sense again that we're all in this together is really shown through our actions as much as anything else. Additionally, as mentioned during the presentation, there is a wide range of different classifications and duties that our city employees do. And that it doesn't necessarily lend itself to strategies that are one size fits all. And that applies I think equally, that certainly applies to when we look at across the cut --

across the board cuts or across the board service delivery cuts in all the departments that we have to recognize that the different departments and the different bargaining units interact with each other differently, and it's not always going to work out that way. Similarly I would hope that we would look, when we look at these cuts that are going forward requesting even further cuts, they're becoming quite significant. And I think in terms of quality of life they certainly would have a greater impact on those that make less money and we put averages out there in terms of average salary, that gives the impression that all of our employees are making six figures and a lot of our employees are making a lot of money. In reality, that is not the case. Some making over 200, some making between 100 and 200, and many making under 100,000 and sometimes far less. As was mentioned by all of us at one time or another, during these difficult times, we need to recognize the disproportionate amount of impact that those cuts have on different employees is quite dramatic. And so I certainly agree with the sentiment that has been relayed on many occasions. I know Councilmember Chu continues to ring the bell that we need to at least consider what kind of impact we're having on our lower income -- our lower income employees, and certainly have on the table for discussion the opportunity to have some kind of scaled system so that we have less of an impact on those that are certainly going to suffer the most with these continued cuts and continued ongoing cuts. So I hope that is something that we can also at least keep as part of the discussion going forward, and I know it offers administrative challenges and other challenges, especially when you have the different bargaining units mixed in with each other in different departments. But I want to at least make sure that we have this recognition that some will suffer more than others with the same percentage cut based on their quality of life and what they're able to put on the table at home. Thank you.

>> Mayor Reed: Councilmember Liccardo.

>> Councilmember Liccardo: Thanks mayor. I know that we've talked for some time for several years about, in asking for concessions, to see how we could sort of means -- test the concessions to reduce the brunt of the impact on the lowest paid employees. And I know there are lots of challenges around that put I guess what I was hoping without going over the line, disclosing what you maybe think is too much Alex could you describe if there's some openness on the part of the bargaining units towards that approach, to how we could work through over the

hurdles to do what has been suggested certainly by Councilmember Kalra and many of us I think on prior occasions.

>> Alex Gurza: Sure, Councilmember Liccardo. We haven't had an opportunity to talk to all the bargaining units. For example, MEF, our largest bargaining unit in the city, is a good example of a bargaining unit that has in and of itself has a wide variety of range of compensation from part-time, unbenefited employees to full-time employees at different pay scales. So we've not had an opportunity to talk to them about that issue but last year when the council did ask us to talk to bargaining units about it, there's not as I think an understanding of the issue there is a lot of complexities about how you achieve that especially in a civil service structure where you have five steps, if you pick the number, you said, okay, employees that make less than X number of thousands of dollars, it could cross over classification. So not that it can't be done, I think there are just some complications that we'd need to talk through and impacts especially, as Councilmember Kalra mentioned, you know, impacts that if you do it and one bargaining unit agrees to it and the another doesn't, how does that work out? So it's something that I think there was interest in at least discussing it, but didn't lead to any agreements to do something where, for example, to achieve the same savings, you may have to have certain employees take a greater cut, let's say instead of 10, 15, so others could take 5. I mean, that in and of itself creates some challenges. But I think we, absolutely, if the council would like, continue those discussions about what -- is that is possible, and how that would work.

>> Councilmember Liccardo: Thank you, Alex.

>> Mayor Reed: Councilmember Pyle.

>> Councilmember Pyle: Thank you, mayor. Alex I'd like to talk about health care for a minute. When a person does sign up apparently there are two ways to go either single or family. There's no single couple family or any other alternative. If we can have a single couple or one-plus, would that make a difference in the cost?

>> Alex Gurza: Yeah, Councilmember Pyle, we are somewhat unique in that we only, as you mentioned, only have two, single or family. So without the -- some organizations will have single plus one, single plus two and then family. Our human resources department has looked at that issue. And ultimately the premium costs are going to be adjusted so in the end the City's going to probably end up paying about the same. For some employees however it may make a difference. In other words to pay a single plus one rate versus a single cost. So it's something we're going to continue to look at and our human resources department will continue to analyze.

>> Councilmember Pyle: And then another thing every time we turn around, the health care goes up 10%, 15%, everywhere we go, there's never a rest. That's what I'm struggling with why does it go up every year and do we do any sort of bargaining, is it predicated upon the high instances of particular disease do we have that problem in the city? It should be adjusted to what is the reality of the situation, I would think.

>> Alex Gurza: Yes, you are right. We have lots of premium cost just continuing to escalate. Again, we're not alone in that regard. But you know, some small solace, the last year my understanding is our increases were not quite as much as others, but they're still large increases. In terms of looking at wellness and wellness efforts and identifying those diseases that are high cost, that's part of the wellness efforts that our human resources department is doing and I think we need to continue to do to try get to the underlying root causes of the cost of health care.

>> Councilmember Pyle: I'm sorry, I thought that was discontinued, that program, it is still in effect? That's good to know. That being utilized?

>> Alex Gurza: I don't know if Mark is still here, do you want to comment about that, Mark?

>> Mark Danaj: Mark Danaj, director of human resources. Councilmember, the program is in existence. It is still continuing. We are in the beginning of a second year effort. It is something that will take time, though, before we start seeing it impacting our costs. But indeed disease -- most of our costs are driven by a handful of diseases that really drive health care cost. Just like other populations, diabetes as you mentioned this morning is an

example of one of them. Those programs are continuing in the current budget year. They have not been decided for the future budget year, but we're in the second year of our program. As Alex suggested our rates for the coming fiscal year. The benefits run on a calendar year basis. The calendar year basis for 2011 that's coming up, health care rates came in at about 7%. That is slightly below the trend for Northern California which is a good piece of news. But when projecting into the next benefit year, further out and starts in 2012, which Jennifer did also mention this year, our plan is to provide for about a 15% increase. The newest one of is some of the uncertainty that is part of the national health care legislation that was passed. Markets don't respond well to uncertainties. At least at this point trying to project out more than 12 months that's why you have that higher rate of 15% currently.

>> Councilmember Pyle: That is some of that is driven by our predictions.

>> Mark Danaj: That's correct.

>> Councilmember Pyle: That would I would really have to take a look at. And then also, on the sick leave payout, I guess that we are back to you again. Thank you, Mark. They have jumped from \$5 million to \$14.5 million in five years. Obviously, we've had more people retire. Is that the primary reason, or do we just have more sick leave out there?

>> Alex Gurza: I think it's a combination of things, Councilmember Pyle. We have had a lot of employees retire, we're entering into the baby boomer retirement, so that is one factor. The other thing is the payouts particularly in Police and Fire where certain employees can be eligible to 100% of the payouts, to the extent that employees are retiring with large balances that's going to increase the amount. And also as salaries increase, in the last few years public safety salaries there were increases in the last contracts so that also increases the rates. I think it's a combination of those things that lead to the increases in payouts.

>> Councilmember Pyle: \$14.5 million, that's mind-boggling, yes. I think that was it, so thank you for the answers.

>> Mayor Reed: I think I'll move now into the next section of the presentation regarding the report from the General Fund structural budget deficit elimination stakeholder group on retirement reform.

>> City Manager Figone: Thank you, mayor, members of the council. I'll be presenting this report which is -- the report itself is in your packet. It's item 3.3A 2. And I'm going to basically highlight the process that was used and I think after my comments, chair of the task force, Councilmember Constant might want to make some comments. So as you know, the structural -- General Fund structural deficit elimination plan stakeholder group, which did a significant amount of work in 2008, reviewed a variety of strategies which have led to many of the items that we have been bringing to council over the last couple of years, one of the items that was discussed but then set aside given the more pressing matters of the time and the need to really delve into pension reform more fully was the idea of pension reform and in particular a second tier of our retirement system. So the task force has met and its charge was to provide input to the city council regarding major considerations and concerns. With the existing retirement systems and priority elements for retirement reform. The scope was not to walk away with a fully formed, hammered out second tier at any level of detail at all. It was to do a few things. One was to have a general understanding of the city's pension systems and retiree health care benefits including major cost drivers. To also have a general understanding of the national and regional trends in retirement reform. To identify the major considerations and concerns with the City's existing retirement systems and the idea was that these considerations and concerns would be taken under advisement by the council and could lead to principles for retirement reform and principles that could guide restructuring of the system and meet and confer, and then within that, to identify the priority elements for reform from this task's perspective. The group met over four meetings. They were very engaged and received a variety of materials. The first two meetings were pretty much devoted to getting up to speed on the issues, and we did provide a significant amount of information in the way of fact sheets, and frequently asked questions, external reports, staff made presentations at the first meeting. And at the second meeting there was a focus on the City Auditor's report on pension sustainability. And with these two more informative sessions under the belts of the stakeholder group we were able to move into the next two meetings really having a very engaged discussion around the changing workforce, the first kind of crack at a swat analysis of kind of a modified swat, which actually was very instrumental in leading to the information in front of

you today. And then the fourth meeting, really, led to culminating the conversation and the priority elements for reform. The genomes and aspirations for the plan. And various approaches. So the swat -- if I could have the next slide -- the questions that were asked were arounds the strengths, concerns and weaknesses, the end goals of reform and the potential elements of reform. So key questions under the current view were, what are the major strengths of the current retirement system and what are the major weaknesses and concerns with the system. In terms of end goals, should be the ending goal of the reformed retirement system and what changes should be considered to the current retirement benefit system. We went through the typical brainstorming and then dot exercise, and the results of that are on the next few slides. So in response to the question, what are the major strengths of the existing system, clearly if we did not have a funding problem, if we had all the money that we needed, we probably wouldn't even be having this conversation, because the strengths of the system are many. And in our staff report, you see the full brainstorming list. But as a result of the dot exercise, the top five are what were highlighted and are on this slide. So clearly, in terms of major strengths, it attracts a high caliber workforce. It rewards experience and commitment to public service, enables healthy retirees who have health care coverage and security, avoids the high cost of turnover for the city as an employer, and it's very stable and certain for employees. All very positive strengths of the system. However, it does have its major weaknesses, and there are concerns about those weaknesses, especially in our current state of financial affairs, now, and moving into the future. So as you heard this morning, the cost of the system is affecting service level to our residents, which certainly aren't good now, and continued rising costs in retirement are causing reduction to services to our residents into the foreseeable future. Also, the city as a guarantor for the plan bears virtually all the risk for market losses, inflation, and bargaining changes. The 3% cola as a feature of the plan bears no relationship to the CPI or what's going on in the economy. At least for the time that the task force did its work, it was difficult to -- and I believe it's difficult for us to lay our plan side by side with other cities to really do a comparative analysis, especially when you talk about things like competitiveness and labor market and so forth. So that was viewed as a concern about at least I think how we're able to compare our plan to those in other cities. And although it's a generous plan, it is fiscally unsustainable. So what should the end goals of reform be? There are some overlapping themes here, but certainly first and foremost is a fiscally sound city. Whatever solutions are developed should be collaborative. They need to work for our residents, our employees, and the city, and we should strive to eliminating the us-versus-them dynamic which seems to be embedded, I think, inadvertently in

this conversation. Stabilizing city services both in quantity and quality. More predictable, smoother costs in the future. No major ups and downs, surprises, and again, the theme of the system being financially sustainable. And certainly, to keep in view the need to have a competitive total employee compensation package and strive to achieve labor market equality. And then the last question was, what changes should be considered to the current retirement benefit system? Granted, this is not an end-all, be-all list, because this is one set of inputs. I would say the other very important input is from the City Auditor's report, and then also having the benefit of staff's thinking and work which has been under way for quite some time. So but to the top five in this area, I don't think there's any disagreement that creating a second-tier pension system for new employees is something that we must pursue. A change that was high on the list was increasing the retirement age. Changing the automatic 3% cola to linking increases to the crip or perhaps increases that are given to Social Security recipients, as a reminder, the city is not a part of the Social Security. Changed to a defined contribution plan such as you find in the private sector, like a 401K plan or could be a hybrid, as an option. And the other part of the discussion that I thought was interesting is, as we look at who we're trying to incent to stay as long term employees, although they're all valuable, but we may need to consider which group of employees that the city would really want to incent to stay, due to the cost of training, the investment that's made in the employee, the cost of turnover and perhaps, the plan and who gets what type of plan, might need to be calibrated with that in mind. And then no city pension holidays and ensure we always pay full normal costs. So our recommendation at this stage for direction on the next slide is to direct staff to continue the analysis of options for a second tier retirement program and to return to the council with recommendations in early 2011, with more data in front of you, the benefit of our thinking and analysis. Clearly this is not as easy as just putting a second tier into place. You have to ask, what happens to the first tier, and we really have to do some very thoughtful modeling of costs and so that we go in eyes wide open to the options for reforming this system. And also, our recommendation is that options should include the input, not only from the stakeholder group who just met, but also the City Auditor's recommendations which the council has already considered and has approved. And those would be found on page 67 of her report, once you are able to look at that report again they're very thoughtful and should be factored in. And are factored in to our recommendations. I'd like to just close which thank being the stakeholder group, some of them are in the audience. They got a lot of work done over four meetings and I'd also like to thank the staff who put a lot of time

into preparing and delivering the presentations to enable the task force to do their work. That concludes my report, mayor.

>> Mayor Reed: I think Councilmember Constant who chaired that task force starting a couple of years ago and picked it up again might have some comments.

>> Councilmember Constant: Thank you mayor. First of all I want to thank all the participants on the task force. We had quite a very good retention rate from people who served on the original stakeholder group who came back to work through this process. The group was very attentive. Very diverse in viewpoints. And for the most part, except for a few times when passions got elevated we kept the discussion very productive and going in the right direction. And as you know we had members from all the major stakeholder groups. We had city employees, labor representatives, neighborhood representatives, taxpayers' representatives, a good variety there, nonprofit representatives. We did have a lot of support from staff and I appreciate all of them being there and our best attendance record goes to Pierluigi Oliverio, who wasn't even on the task force but has the best attendance of anybody on all sets of meetings. So we appreciate his time there, thank you. Four meetings was a very short time to go through what is undoubtedly a very complex issue. And a very complex plan that we have, both in the Federated and the Police and Fire side of our retirement systems. There was a lot of discussion after receiving the education. You have the analysis here of the voting and where things kind of rose to the top. I did my best not to get in on the voting and just to watch and kind of take in what people were saying and the conclusions they were drawing. But I do think it's appropriate for me now to point out a couple of things that I found to be a little bit of a contrast. For example, it shows up that the, under the major strengths of the existing retirement system, that it avoids the high cost of turnover and retains employees. But I think if we look at the years of service at retirement, we'll see that those years of service are trending downward. And I think that they've -- that while it appears that it's something that really retains employees, I think a closer analysis of how long people work when they apply for retirement you'll see that the trend is actually shorter and shorter employment length. So I think that's an area that we as a council need to look further into. I know I brought this up the last time we were talking about the SRBR and the fact that some of those concerns that people that receive very, very small pensions, and the impact to them is really because they had very, very short tenures of service with the City of San José. I think

another thing that was enlightening as well, and we basically touched on it but it was not a really time to delve into it deeper and that is I think we need to have a discussion, a public discussion on what really is retirement and what retirement should be. Because we found and I know it came in front of us and we brought the same information to the stakeholder group, that often times, taxable income increases as you move from active employment into retirement if you work your full 30 years in some of the bargaining units. And I think that's something we have to look at, as we're going forward, is that really what the intent of retirement is? And I think that's something that we should really fully analyze. I want to thank the participants. I think we have a couple of people in the audience that might want to speak to this. I don't know if we're going to be taking their comments now or later.

>> Mayor Reed: We'll take all of the public comments on all of this later.

>> Councilmember Constant: At the end, okay. But again, just a thanks to everyone, especially the folks from OER who were there every night working with us, and making sure that we got all the information, and of course to Kim. I don't know if she's still here. I saw her earlier. But Kim Walesh, who did a great job kind of keeping me on track and making sure we had everything prepared. Thank you.

>> Mayor Reed: City Manager.

>> City Manager Figone: Thank you mayor. Rick and I were just talking and I do want to clarify our recommendation. Clearly we need to look at second tier. And however, under the second bullet, in recommending that we not only include the stakeholders groups recommendations but the City Auditor's recommendations, I also am including in that looking at any changes that might be needed for even existing employees. And I know that was part of the auditor's report. It's a very difficult conversation to have but I think we need to have everything on the table and clearly there will be discussions about vesting and so forth. But we need to delve into that as part of this recommendation also.

>> Mayor Reed: I have one of question for Alex who I think is over there. Yes, can I see Alex over there. A year ago November 5th, council directed staff to start negotiations to change retirement benefits for new employees to allow the city to control future increases in retirement costs. Back to the dÈjÀ vu comment that I started the day with. Can you talk a little bit about, you got that direction in November and the negotiations have ensued and I've lost track of it.

>> Alex Gurza: Yes, we actually is exchanged specific proposals on a second tier with the San José firefighters union, they have made proposals on second tier as well as the city, so when we get to the arbitration hearings there that will be an item that has been on the table with them. With others, we ended up because of the size of our budget deficit last year, the \$118 million deficit, we ended up focusing on the concessions and did not achieve the agreements on a second tier. Really, deciding to move those discussions until 2011 when we have all the bargaining units coming up for negotiations.

>> Mayor Reed: Did you get proposals from any of the other bargaining units beyond fire?

>> Alex Gurza: The proposals on second tier for pension, the only proposal we had received specifically on it would be from the firefighters. There were others who were open to discussing the issue, but no specific proposals on a second tier pension.

>> Mayor Reed: Thank you. Councilmember Pyle.

>> Councilmember Pyle: Thank you, I just had a questioning on something that Councilmember Constant just brought up. Did you say redefined retirement?

>> Councilmember Constant: I said talk about what the definition of retirement is.

>> Councilmember Pyle: Right. So my question, I guess, would be for you, Mr. Attorney Doyle. What about the vested rights part of what we already made a bargain with. In other words that seems like a tricky situation.

>> City Attorney Doyle: It absolutely is. You need to be sensitive to those rights. Clearly, when people enter the workforce they enter with a retirement plan in place and much of that is deemed vested under the law. However, there are-d there may be things, I won't say there are, there are things that can be bargained and that's something we need to look at and I think no different than the retiree health issue where we went identity and got a an opinion which did discuss the vested nature of those rights. We would do the same thing here, it's a complicated answer, and we need to get back to the council with the complete answer.

>> Councilmember Pyle: If I had my way we would do as much economic development as possible, today being a clear example of that. I did ask for a summary from redevelopment and discovered that from '07 to '10, 11 companies have been brought often board and the investment just under \$10 million, and we have as a result, it's ten new companies. One of those is Brocade. The others is Nanosolar, Solar Junction, Solar Power, I know you had a lot to do with this, Mr. Mayor, so you are to be congratulated. Stion, Borgata Recycling, CBT Technologies, please don't ask me what that stands for, but I would think Silicon Valley Technological something-or-other, CTS Manufacturing, Shocking Technologies, Ultratech and Solfocus. That is in three years. This is not something we can put in our hat right now, but I would like to caution all of us that to me, it's kind of like having a tree farm. Let's say you have a thousand trees. And every year you use part of those trees, let's say you take ten a year, well, that would keep you going for ten years. But if you replant as you go, then you can be self-sustaining. And I'm very much interested in planting, as many of these seeds for further business, as we possibly can. So with that I'm going to come up with a little battle plan but not right now. Thank you.

>> Mayor Reed: Councilmember Constant.

>> Councilmember Constant: I'll save my comment for later.

>> Mayor Reed: Okay, we will be back for more comments. We'll move now into the next section of the presentation regarding organizational and services restructuring.

>> City Manager Figone: Mayor, Ed Shikada, Assistant City Manager, will present this part of the report.

>> Ed Shikada: Thank you mayor, members of council. Albert Balagso and Jane Light joined me at the table. I will note that I believe we have the last segment of presentation for the afternoon, for the day. So for those of you who have found this too difficult to listen to, it's almost over. That said, we will definitely do our best to strike an upbeat note here. We'll cover the -- let's see, okay, so we'll go over a few specific points, looking at our recent experience in the area of service delivery restructuring, current work, and then a few areas that we see on the horizon. I do want to hopefully leave you with a sense, an ability to take stock in the work that the city organization has done in order to tackle some of these very difficult issues, both in terms of being a responsible service provider, being innovative, and focused on the services that the city provides. That said, we'll say at the outset that I don't want to suggest that we'll put a happy face on the issue. No question that each of the examples that we'll go over have involved very difficult conversations and very difficult decisions by the city council along the way. So we will certainly note a few more of those on the horizon, but that said, clearly a responsible organization moving forward. Okay with that let me start by reviewing some of the prior city council actions that have brought us to the current year. Identifying first in terms of your current year budget, first, the custodial services transition, which was the significant step obviously a very difficult ten for the city. And at this point, these services having been transitioned to our contractor on a number of city facilities. Also neat, the police warrants unit, also known as the in-state prisoner transport which is currently in the process of transition from San José police department staff to selected service provider. And I'm go through these quickly and certainly be available for any questions if you'd like more detail. Also a couple of other services that were identified in the current year budget as it was presented to the city council. There were two services number 3 and 4 here that are currently ongoing. Service delivery evaluations. First or third really on this list being the workers comp administration, the administration of claims, handling of individual workers compensation claims, as well as employee health services, often referred to as occupational health services. Both are currently undergoing service delivery evaluation, structured review and have involved requests for interest by private industry service providers and that we expect to bring recommendations to the council's Public Safety, Finance and Strategic Support committee after the first of the year. Also a few additional services that while may not have fit under the formal structure under our service delivery evaluation policy to note that alternative service delivery methods are not strictly or exclusively focused

on outsourcing. A few notable areas here are fire dynamic deployment, structure, where the city council's obviously had extensive discussion in the method of deploying fire resources. Second, the police patrol shifts where modifications to the shift change hours have the potential to mitigate some of the peaking of on duty staffing at shift change. And third, development services integration. We're going across city departments, the Planning, Building, and Code Enforcement, Public Works, and Fire Departments have identified and are moving forward with making some changes to the back of house operations such as accounting functions that are allowing those departments to operate in a more streamlined integrated manner. Also, moving on to the information technology area as Jennifer Maguire pointed out, always a difficult area for us given our desire to be investing more. But that said, working within the resources that we do have available to improve our position for I.T. stability, one of the first areas here has been the examination of database administration, how that's being done across the city and looking at areas that some of those functions should be done in a more effective consolidated manner. Next the serve civic center television services that has been changed has in fact directly affected our city council meeting broadcasts and how those services are provided. And then finally, a more general department consolidations, moving forward on a number of functional areas, noting a few here, centralized public creating and bidding of construction contracts involving the Public Works Department as well as a number of other areas, probably most notably the public works and general services plan for consolidation which is currently underway. So with that I'd like to turn over to two specific service areas, the public -- sorry, planning -- what am I saying? What department are you? Parks, Recreation, and Neighborhood Services Department, as well as library services in which restructuring and modifying service models is clearly being institutionalized. So with that, Mr. Balagso.

>> Albert Balagso: Thank you. If I could preface this slide with the journey we've taken to get to this point. Alternative service delivery providers and models is certainly an area that we have been tracking down, but it was a journey to get to that point, certainly starting with the use of -- greater use of volunteers. The rose garden being an example of that, and most recently some of our graffiti abatement components that has reaped us some great benefits as well. In addition to that we have established formal partnerships by establishing the San José Parks Foundation, revamping the Happy Hollow Corporation, and elevating the Guadalupe River Park Conservancy, to a point where they're now looking at capital projects and how to maintain them within our central

park in our downtown area. Donated services, we have the great agreement with Adobe for the McEnery Park maintenance, Hitachi in South San José and Piercy Park. The action recently taken by the city council on Tuesday will give us a new tool in our tool box regarding prevailing wage and trying to bring new partners to the table, as well. We also in the recent years brought forward our financial sustainability model by looking at how we relook at our fees and how we set those. We had set a five-year target of a 28% cost recovery as we began with 11% cost recovery. We are now hovering around plus 25% within 18 months of launching this component. So we have reset our mark for 40% within five years. So we're raising the bar on ourselves and seeing if we can get better in doing that. Going back to where we are today with our community centers and our alternative service providers, we have currently 17 facilities that were previously put on reuse and now have different providers opening the doors and providing services out of them. Council last year approved an end date for 22 facilities, by July 1st of 2011, and we are working on that track now. We have a phase 1 where we're addressing the five or the six highest needs centers, Alma, Alum Rock, Alviso, Gardner, Starbird, and Washington. And that RFI is currently out, and we will be coming forward and executing agreements with our new partners in January of 2011. We have a second phase for the remaining 16 facilities, and we will be releasing a second RFI later this month, and we will be proceeding with executing the agreements with potential partners in February of 2011 as well. Last year also enabled us to try a new model of alternative services with our aquatics program. And we were surprisingly successful with the council allowing us to utilize a new and unique service purchase model that enabled us to move forward with even private providers. So we also have issued in October an RFI for aquatics. And we were looking at 10 sites for the coming year that we issued them for. They were for six city pools, one lake, and three school leases. And so we will be advancing that and hopefully be able to announce the partners in January, February of 2011 as well. Our senior nutrition also has an end date and we have a task force, joint task force with the county co-chaired by Councilmember Constant and supervisor Liz Kniss. That has been meeting. Our next meeting is Monday, November 22nd. And we are working on trying to identify alternative financial models and perhaps service delivery models that will either allow us to continue them as they are or in a different model, either downsize, fewer models, or same amount of sites, fewer services. But this is all being worked through consultant work as we are bringing this forward. Our anticipation is that we will have the consultant report completed by December 22nd and a community forum held in January of 2011. Finally, the Christmas in the park which is provided through our special events team is also scheduled for reduction, actually

in job of 2011. This unit was transferred over to the Office of Economic Development and they are working on looking at a sustainable model for the future. It is kind of a three-pronged approach of maintaining a core of the existing staff, looking at in-kind contributions that are currently supporting this event, and the fundraising efforts that will be provided by the board of San José Christmas in the park. So that one is advancing. They're working on that plan as we speak. We'll know more as they conclude in January. With that, I'll pass it on to Jane.

>> Jane Light: Thank you. So in this current fiscal year, I haven't got the heart to go back over past history like Albert did. It's just too painful. The current fiscal year, the adopted budget includes four and a half days of service for branch libraries, of which one -- some of which is one-time funding, essentially the half day service. The previous year, we had had five and a half days of service, so it was the loss of one entire day of service. The way we implemented that was the five hours that we were open at Mondays went, and Friday mornings we're no longer open. And then beginning the base budget for next year, when you lose the \$1.3 million of one-time funding, we eliminate another 27 or so FTE positions and go to a four day-week. Currently all the branches have the same hours every week at each facility. It makes it a lot easier for users to remember when the libraries are open. But if we go to a four-day, our plan is that libraries will kind of be paired up, some geographically, and some will be open Monday, Tuesday, Wednesday, Thursday, others will be open Wednesday, Thursday, Friday, Saturday. And library staff who are full-time would work at two different libraries in the course of the work week on a regular basis. What we have found so far was three months of the new hours completed at the end of October was that although we reduced our hours by about 18% and our staff about 18%, we found that the number of visitors is only down 9% and the number of check-outs is between 6% and 7% each month, fewer than it was a year ago. So although the City Manager talked about compaction in terms of salaries, we're seeing a different kind of compaction, which is of use, where people then modify their use of the library to come when we're open and the libraries are even busier. We really didn't know quite what to expect. Because this is a bigger cut than we had before, we expected some compaction. I think we thought that we would see a greater than 6%, for example, in the amount of items checked out, given almost a 20% reduction in staffing and hours. So our wonderful staff is working hard to keep up with the unrelenting number of returns, particularly. Since we're mostly on self-checkout, it is mostly on returns and the number of items we're struggling with now. But we are looking and I think you'll see some things in next year's budget. Looking at further automating materials handling with

some new technology, some of you, Evergreen and Santa Teresa already have, and Vineland already have some of that technology in. That has fallen in price, and some new configurations and new vendors are on the marketplace, and we think that is the way we may want to go in the next year or so. Doesn't help staff today. But it I think will help in the long term. In addition this year, we're working at centralizing some functions that previously have been decentralized. One is the evaluation and discard of library materials which due to become outdated and also in poor condition. So we are looking for a centralized team and the purchase somewhere where you could discard them quickly and not have so much time spent at each facility. And we've been centralizing our planning and scheduling of our programs, not only the classes for young children, and the after-school activities for kids, particularly in the way of science and math for school age kids, but also the program for adults that we offer with community partners. And that is definitely saving us some time, staff time, and still presenting quality educational opportunities at the branches. It is a big change for our staff, and we are now in the third month of that and anticipate that we'll be kind of fine-tuning it throughout this rest of the fiscal year. As we noted, two of the facilities that were completed the current fiscal year, we've deferred the opening of them until 11-12, and both the Educational Park and Calabazas branches will be open in 11 -- will be ready to open in 11 and 12. So with that, I think we'll be happy to answer questions later.

>> Ed Shikada: With that look back, as well as current ongoing activities, the next topic would be, so what next? As we look forward to the figures and financial estimates for the upcoming year, we have identified a few particular services that could be candidates, and again this is preliminary, for the structured review and the potential alternatives in terms of service delivery messed. So we've e-identified eight. Let me go through a walk through of what these are and some preliminary thoughts. First is in terms of the police law enforcement activities, as well as the airport -- aircraft rescue and firefighting operations at the airport provided by the San José PD as well as the San José fire department, in particular specialized services specified by the federal aviation administration. The airport department, police department, fire department are already deeply engaged in discussions of methods through which the service could be provided motion efficiently, as well as looking at options in which the service could be outsourced. In fact I believe that we will shortly be proceeding with either a request for proposal or request for interest, in order to identify more private-sector opportunities to provide that service. Same true to a certain extent in terms of the airport terminal and maintenance services identifying in-

building services, maintenance services, at the airport, and the extent to which a private operator might be available to provide that service at a lower cost. Third, the crossing guards, services currently provided within the police department, part of the budget approval for the current year was to look at a reorganization of that function into the Department of Transportation methods through which those submitted resources could best be leveraged for us and deployed for us. The landscape and restroom maintenance involving both our Parks, Recreation and Neighborhood Services operations, as well as Department of Transportation, in looking at street landscaping, opportunities for outsourcing, again, in the interests of lower costs. Fifth, fleet services. Review of the delivery of our fleet maintenance services and the potential for contracting, potentially including contracting in those services, either for civilian or heavy equipment, as well as potentially the public safety fleet services. Six, document imaging, primarily focused on our development-related activities, development-related services, and looking at a comparison to the marketplace ability to provide those services. Seventh, our 911 as well as 311 dispatch operations, once again looking at interagency service agreements and potential for either contracting out or contracting in, as may be applicable there. And then finally garbage billing, garbage utility billing and the call center operations where one of the related items that the council has received presentations on, also ongoing work, potential for the garbage haulers to take on some of the services currently provided by city staff, and looking at the cost models associated with either option. In these cases as well as perhaps any others that might be identified along the way, we do have a structured method for the evaluation of alternative services, service models that this outline is effectively the information that's provided in our service delivery evaluation policy, policy 0-41 as it's often referred to, adopted by the city council in October of last year. I wouldn't go into these individual steps. Perhaps one bottom line to note as actually number five here, that at the conclusion of the structured evaluation, we would come back to city council with a recommendation as to whether managed competition in which city staff might compete alongside private-sector operators, whether managed competition would apply. If it does apply, the timelines associated with that have been estimated at roughly 18 months. And if it does not apply, potentially on it would be on the order of six months. To provide a baseline here in terms of alignment with our budget calendar for the upcoming year, I would note that since some these services are already under way in terms of evaluation, in some cases we may be moving more quickly, so you could look at these dates as no later than, in order to bring for policy recommendations that could be ready for adoption by the city council in June in conjunction with the upcoming budget. And then finally to note, close this segment with an acknowledgment of

some of the policy drivers, many of which have already been mentioned in terms of wages. As Albert noted, related to prevailing wages, council acted this week in order to add some flexibility in application of prevailing wage as it relates to parks maintenance will also be coming next month in December relative to the applicability of living wage at the airport. On the second item, the City Manager noted the impact of bumping in the civil service structure and the impact that has on civil service delivery. So staff is currently reviewing how that process might apply in the upcoming cycle and examining opportunities to come back to perhaps modify that process for certain classifications, especially those involving the position-specific knowledge that would be lost through the bumping process. And there are likely other areas, other city policies and/or citywide conventions that could bear some fruit in review, and we'll bring those forward as appropriate. So as we close off this part of the presentation, I would note that clearly, we have a full plate, as does the city council, in terms of the issues that will be coming forward over the next several months. And on the slide showing the budget calendar as it will come forward and unfold over the next roughly six, seven months, and the particular milestones, that we'll be bringing forward progress as we make it. So with that let me turn it back over to City Manager for summary.

>> City Manager Figone: Yes, thank you, Ed. So just to recap the direction that we're looking for from council really falls under the labor negotiations umbrella. And so just putting up those slides again, and that would be first of all to continue the March 2010 direction for 10% total compensation reduction for fiscal year 11-12, with modifications, and then you see there the items that I covered this morning. And in addition to the total compensation reduction direction, we would also recommend that we, in addition, receive your direction to work to achieve additional reforms and areas of retirement, sick leave payout, and compensation structure. And then the guiding principles on the next slide I think are a very important component of this direction, so that we're all very clear about, you know, under principles that would underlie the conversations to really ensure that what we ultimately can bring forward to council you can count on in terms of savings and other related concerns. And then in the area of retirement reform, our recommendations are to direct us to continue the analysis of options for second-tier retirement program and then return to you in early 2011 for a fuller discussion and then your direction, and that these options should not -- should include but not be limited to the input from the stakeholder groups as well as the City Auditor's recommendations which you've already approved in concept. Thank you.

>> Mayor Reed: Thank you City Manager. We have some people who are here, probably still here, I would like to take that public testimony. All the presentations have been made. So come on down when I call your name. So you're close to the front. Michael Dodson, Laurie Bird, Greg Miller.

>> Good afternoon, mayor, members of the council, distinguished guests. My name is Mike Dodson, been with the City Attorney's Office for 15 years. I'm here on behalf of the association of legal professionals, the newest bargaining unit, and one that I would point out was the first to come forward I believe last year with a recommendation of a 10% pay cut. I would like the council to consider what was indicated by the City Manager this morning and that is, that there may be unique issues applicable to certain bargaining units that don't apply to others. And what I mean by that is, and as Councilmember Kalra said a little while ago, you should not take a one size fits all approach to the negotiation process. We unlike the vast majority of city employees have not been entitled to automatic step increases. We have situations where members of the City Manager's office are make more than long tenured attorneys in our office. I myself am a 15 year city employee, a 25 year attorney and not at the top of my pay scale and there are numerous stories like that. We are part of the solution, we are not part of the problem. We have voluntarily even before we unionized or organized a year or so ago voluntarily given up pay and benefits to save jobs and provide services. Given up the professional development program even though we are under obligations by the state bar for mandatory continuing education. Just a year ago the Mercury News published a study from an outside agency which pointed out that among the large cities and counties in the state of California, just on the litigation side, which is only half of what our office does, just on the litigation side, San José had the, by far the lowest dollar expenditure for verdicts, for settlements and for payments to outside counsel. Those numbers actually went down the study pointed out from \$4.9 million --

>> Mayor Reed: Sorry your time is up.

>> Thank you.

>> Mayor Reed: Laurie Bird. Greg Miller. Nancy Ostrowsky.

>> Hello, my name is Laurie Bird and I am a member of the budget task force reduction or the budget reduction task force. As a finance professional working in the private sector, I appreciate the opportunity to serve on the recent task force as well as the one that was convened two years ago. It has been a tremendous learning experience for me and I am a better advocate as a result. As you well know, the budget challenge is great, and next year will be even more difficult. The community is already unhappy with the service cuts that have been made, particularly to Public Safety, community centers, libraries and parks. And voters made it entirely clear, on November 2nd, that changes to retirement plans are needed and expected. You will likely hear people who say, don't be too Draconian in your changes. Things will always get better. But it's now been ten years of budget deficits and things have gotten a lot worse. It is finally time to make the changes needed to put San José back on the path to financial sustainability. I thought the auditor's report, while sobering, was excellent. Unfortunately some saw it as an opportunity to attack the findings and, more surprisingly, the auditor herself. Don't be swayed by those who would choose to shoot the messenger. The report is insightful and provides recommendations that should be closely studied. And finally, while some of the changes you may consider like retirement age or cola rates won't have an immediate effect on the budget they will finally begin to lay the ground work for a stronger financial future. Difficult choices will be required, but the people of San José are counting on you, thank you.

>> Mayor Reed: Greg Miller. Nancy Ostrowsky. Elizabeth Brierly.

>> Good afternoon. I'm a resident of San José and first of all you know what I understand is that pensions right now average for pensions for city workers are somewhere between 20 and \$30,000 a year and you can correct me if I'm wrong on that but that is not a huge amount of money. One again, I think you're creating false choices between cutting services, and cutting compensation for staff, and pensions, and things like that. Every year the San José Mercury News puts out a special thing about how the executives and business people in this area make hundreds of millions of dollars, and we know that there's huge corporations that operate out of this area. This wealth should be tapped for revenue. I mean, there's no excuse in the richest country, probably one of the richest areas of the richest country in the world, to be constantly putting the cuts on the backs of workers. Also businesses value a well maintained infrastructure, public safety and quality of life in its workplace and as that

goes down businesses will leave for that reason. So go for the, you know, go for the revenue, you know. [ No audio ]

>> Mayor Reed: Nancy, can you check the podium and see if it's working now?

>> Testing.

>> Mayor Reed: Okay, go ahead.

>> Hello, Nancy Ostrowsky, senior staff with IFPTE local 21 representing AEA and CAMP today. I'm concerned about any negotiation and direction the city administration gets from you today because we are going to have a new city council in a few weeks. They will be free to change direction. It does not make sense to make decisions now that are likely to be reconsidered. The council should wait for the new year to send -- to have a new council decide the guidelines for negotiations. Thank you.

>> Mayor Reed: Elizabeth Brierly, Roger Stores, Linda Didis.

>> Thank you, mayor Reed, thanks to Pete Constant for coordinating the stakeholder -- [ No audio ]

>> Mayor Reed: Some of them are working.

>> Are we back?

>> Mayor Reed: Yes we're back.

>> I'm Elizabeth Brierly, a taxpayer representative to the budget elimination task force. I was pleased to see the reports of the spending cuts being planned and the planned consolidations and so forth. That is a vital side of the coin of coming to the solution to this crazy nationwide problem that we're facing. Councilmember Pyle said she

would like to grow our way out of this. I applaud that as the other side of the spending cut coin. We must reduce barriers to businesses locating in San José. It is a privilege for San José to have businesses locate here and we should do everything we can to encourage that, reduce regulations and taxes on them and so forth. Remember you have an obligation not only through contracts with employees but implied contracts with city residents who have a natural right to their product, their earnings. And in closing I'd just like to thank the council for facing this really tough issue as well as the city staff. It can be very emotional and everybody's approaching it really well. Thanks so much.

>> Mayor Reed: Roger stores, Linda Didis, Ben field.

>> Good afternoon, pair and city council, thank you for allowing me this time to speak. I represent AEA IFPTE local 21, circulation being a city employee and being a resident of the city. Just looking at this from an employee perspective, we're starting this early, I applaud that but I hope you understand for the next six seven months we are going to have a lot of employees that are in a fearful state, they're going to be agitated, there is a lot of worry and fear out there and so we just draw this out longer. As the mayor mentioned this becomes almost a continuous process. I'm concerned because all the solutions I hear seem to be focused on the employee. Either we're going to cut the employee's benefits, salary, retirement, or we're going to cut their jobs, we're going to outsource their jobs. We -- we're in the situation primarily because of one reason. I applaud the mayor for putting that slide up. San José is at the bottom of the revenue per capita list. We're also at the bottom of the jobs to housing ratio. We have become a bedroom community, we've probably always been a Wednesday room community but since prop 13 has come into effect being a pedestrian room community has become even a bigger issue. We're talking about all these things to do to rein in costs on the employee side but we have a situation where the jobs housing balance is continuously getting worse and worse. Because for any given Tuesday on the consent calendar we're approving more and more housing and the jobs that should be going along with that don't. The mayor brought up a good point, in the past ten 20 years we've added the city of Sunnyvale, to our population, but do we have the jobs that the city of Sunnyvale? I don't think. The city of Sunnyvale has 240,000 jobs with a population of 140. We are the bedroom community of this whole region. We are trying --

>> Mayor Reed: Your time is up. Linda Didis, Ben field, and Kay McKenzie.

>> Linda Didis. I hope the technical difficulties aren't due to the fact that the two professionals that ran the system have been contracted out and laid off. At any rate I'm here to speak vehemently against the direction of the City Manager to roll back the 2% wages for MEF and CEO. These wages were negotiated in good faith almost three years ago. And the 12 years that I've been here I've never seen the city give direction to take back something that was negotiated in good faith. Don't want to forget that this council forget that MEF and CEO opened their contracts you know last year and gave up the 1.5% and actually did take a true zero, that was one raise that they did give up. I also have to agree with Nancy Ostrowsky that I don't think this is the time to be giving direction. It is early, you have missing councilmembers, you have two councilmembers to be sitting in the audience that won't have an opportunity to weigh in on this. Thank you.

>> Mayor Reed: Ben Field, Kay Denise McKenzie, Bob Brownstein.

>> Mr. Mayor, members of the council, Ben Field, South Bay labor council. A few years ago an attorney in my office was getting ready to retire after 38 years of service and when I asked him about seeing the light at the end of the tunnel he said Ben there is no light at the end of the tunnel, this is only the tunnel. And it was meant as a bit of gallows humor but that's how city employees in San José feel route now. The economy is bad there is no sign of increased revenue in sight and the two options being advanced by the city are cutting employees and cutting their compensation. City workers took major cuts last year, many of them made concessions the year before and they're being told again this year that they'll be asked to take additional cuts. It appears that as long as the city projects shortfalls they will be asked to take cuts. There is no light at the end of the tunnel for them. It seems that even before negotiations have begun this year any possibility of alternatives to reductions in staffing and compensation, are already off the table. The economic situation is distressing enough but what is even more distressing is that is the close mindedness of this approach. Even if the city administration does not feel that it has creative solutions in mind, you should not foreclose the possibility that at the bargaining table others will come up with some. It would be as bleak as the situation is right now it would be a mistake to foreclose that hopeful possibility. Thank you.

>> Mayor Reed: Kay Denise McKenzie, Bob Brownstein, Bob Rodriguez.

>> Good afternoon, honorable mayor and city council. My name is Kay Denise McKenzie, and I'm president of CAMP IFPTE local 21. There have been numerous comments this afternoon about collaboration in resolving the preliminarily projected fiscal year 2011-12 budget deficit and in labor negotiations. To me, collaboration means dialogue, idea generation, analysis, evaluation, and debate. Rather than a take it my way or leave it approach. Especially in negotiations. I challenge the council, through the City Manager and her employee relations designee, to conduct the business of labor negotiations in 2011 in a fresh environment of ream collaboration at the negotiations -- really collaboration at the negotiations table rather than a simulated one. Allow us to be partners in creating the new reality you are embarking on as part of the 2011-12 budget process, thank you.

>> Mayor Reed: Bob Brownstein, Dan Rodriguez, Yolanda Cruz.

>> Bob Brownstein: Mayor Reed, members of the council, at this stage of the budget process it may be most helpful to look at budget issues from the big picture perspective. From the big picture we know that the City of San José like most other institutions has been severely damaged by the great recession, a recession largely caused by malpractice in the finance industry, and the scale of the recession means San José cannot make budget decisions without causing some degree of harm and loss to people who live and work here. But that said, we still have choices. In particular we can make budget decisions that are part of a plan for recovery or we can make budget decisions that are part of a plan for decline. I understand the concern that a robust recovery may not happen. But the great danger in planning for decline is that it becomes a self-fulfilling prophecy. I urge planning for recovery. Not because, like Kim Walesh, I'm an optimist. I'm not. But because planning for recovery encourages the recovery that we want. How do we make decisions that are plans for recovery? To name a few, the City Manager observed that the city standard for performance should always be high quality professional services. I couldn't agree more. To provide high quality professional services, you need high quality professionals. If you drive those staff away, path to recovery is weaker. Secondly, communities recover faster

when they have a cooperative spirit and common visions. They don't need unity, but they can't afford deep divisions. To the extent we allow discord to fester, we discourage recovery. Third, if the city ceases to provide important services, there is a risk they will never be provided at all, or they will be provided by firms that are specialists in delivering services of low quality at high prices but are expert at maintaining access to the public treasury. Long term decline would be a sad fate for a city like San José which has so much promise. Our goal should be to prepare for and work for recovery, despite the ought. Thank you.

>> Mayor Reed: Dan Rodriguez, Yolanda Cruz, Ed Rast.

>> Mr. Mayor, members of city council, thank you for hearing me. My name is Dan Rodriguez. I'm a business representative for the IBEW, electrical workers. I don't have a whole lot to say here other than this decision you're making today can be delayed. No, the new city council is in place. You're talking seven months in advance. There's no real reason to start negotiations at this point. You're pushing the limits on it, and the new city council may change your direction. Why would you even consider this at this time? Why not wait a month or two, until everybody else has set in, let them make a decision and everybody can go along with that and there won't be any changes. Thank you for your time.

>> Mayor Reed: Yolanda Cruz and Ed Rast. That was the last card. Anybody else get your card in.

>> Hello, my name is Yolanda Cruz, and I'm the president of AFSCME MEF. I wasn't actually prepared to speak here today. I wasn't certain what was going to be going on. I thought that this was going to be an information-only session. The fact that council is being asked to take direction concerns me greatly because of the direction that has been portrayed up here. I believe that we do have to look at alternatives, and different ways of looking at things. I've never seen as Linda stated as Bob Brownstein and everyone else who has spoken has stated, never seen this kind of issue but AFSCME is prepared to come to the table with a city that is prepared to actually negotiate, not with a city that is prepared to tell us what we're going to get and give the semblance of a negotiation. I've never seen a time in the 25 years that I've been a city employee that the city has taken something back from a bargaining unit who bargained in good faith. That was in good faith that we bargained for

that 2% raise. We attempted to get some issues resolved with the city but we were unsuccessful in doing so and I encourage you as councilmembers to think really long and hard about what you're doing in possibly helping create something we had last year. I'm a firm believer in not reinventing the wheel, but if the wheel is square instead of round we need to replace it so we can have a smoother way of transitions into issues.

>> Mayor Reed: Ed Rast.

>> Ed Rast. I was a member of both the budget deficit group and the pension reform group. One of my concerns all the way along in this whole process is that we have the people and the ideas in the community and within the employees, to solve this problem. It's been a ten-year problem at this point in time. Fanned we don't start taking clear action on it, to solve it is going to continue to be another ten years ago on the process. I was disappointed prior to the election on all sides of the type of conversation that went on over the two propositions. I think it was just unnecessary, and rude, I guess, in lots of ways and it's disappointing to the community for us to have that type of conversation. I would hope in the future that we don't demonize the employees, that we have a more cooperative process, so it doesn't negatively impact the morale of the employees. The city is based on the idea that we have less employees and they're going to do a great job fanned they have low morale they aren't going to be doing a great job for us. We also, Councilmember Pyle and Oliverio and others have talked about the idea of growing our way out of this budget process. I think that's the only solution you're going to have. You've cut as far as you can go, I think. And if you continue to cut further, it's just going to negatively impact. I think a couple of areas to look at is why we should be funding, as Councilmember Constant says all the time, essential services, not nongovernment services, not things that we would like to have or we're basically bailing out nongovernmental entities all the time. But we need to fund the essential services first and come up with a way to fund the rest of it within reasons. Also, we are not doing comparisons with other cities on service level, performance measures, best practices, and total compensation to give you a perspective of where we stand with everybody else. We're doing a few here and there selective, but we're not doing a comprehensive look at it so you can see where it is. Because just all the ideas are not in San José. I think that the intelligence to implement them is here, but some of the ideas are going to be in other cities, and we need to look at those areas also.

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

>> Ed Rast: And thank you very much.

>> Mayor Reed: That's the last speaker during the public comment period. I wanted to see if staff had any additional comments or information they wanted to share with us after the public comments. I had a specific question somebody posed, I just remember most recent staff report I forget when it was a custom week ago, that showed the average police and firefighter retiree over the last ten years is now in excess of \$100,000. I think that's right but you want to comment on that staff?

>> Alex Gurza: Mayor Reed that is correct. We actually have some statistics on that on our Website, if you go to the City Manager's Website, employee relations there is a whole section on retirement. It does depend on when you retire. So if you look at police officer firefighters that retired in the last five to ten years, the average pensions are over 100,000. In our Federated group the pensions are smaller. Generally the years of service however are also less by average compared to what it costs for a firefighter and so the average pensions are smaller in Federated. So we have information available people to look at the average pensions.

>> Mayor Reed: Another question had to do with possible revenue solutions, that is usually a word for taxes, I presume. And we will be doing a poll in January, our annual community budget preparation poll. I am assuming that we will continue to poll on some of the potential sources of new revenues that we have in the past. I don't know who has got the ball in that poll, but it is one of the things that is in the budget process.

>> Ed Shikada: Tom Manheim, who is sitting right behind me, has the primary ball there, but we are coordinating among all of the staff, obviously the Mayor's Office, as well, as to what particular revenue options, might be more fruitful.

>> Mayor Reed: I would point out that we have had some success with revenues. We got measures J and K passed a couple of years ago, for I think that's \$40 million worth of revenues that we secured with the passage of

that, that we probably wouldn't have today under Prop 26 that just got passed, and then we had the measure G, I think it was, in June, the card club increased tax which generates some additional revenues. So we are certainly going to look at that, but ultimately it depends on what the voters might approve. Any other comments from staff? Just bring this back in for some council discussion. Councilmember Constant.

>> Councilmember Constant: Thank you, mayor. First, I want to respond to some of the comments that were made by the public speakers. We heard a couple of times that you know we need to wait, we need to be a little bit more deliberate and give it a couple more months. We also heard that we've never seen this type of direction this early. I want to address those two particularly. First of all is, we saw last year what happens when we continue to push the can, kick the can down the road and get right up to not even the 11th hour but past the 12th hour and trying at the very last minute to deal with the budget difficulties. This is a big problem, one big problem amongst a pile of several problems that we need to do. And I believe sincerely that we do need to start now. And those who said they've never seen this type of action this early, you're right. And we haven't seen this type of recession before in our lifetimes, as well. I won't speculate if maybe the mayor was old enough to see the last great depression but at least in most of our lifetimes here. And most of us who have been around this city for quite a long time know that we've never seen budget deficits not only of the magnitude that we've seen last year and this upcoming fiscal year, but not only the magnitude each year but the cumulative impact over such a long period of time. A decade of time. So I do believe we need to start now. I would love to simply grow our way out of this problem. But we know that until we're able to lower the cost of city services where our permit fees and license fees and all the other related fees that we charge start becoming more comparable with the surrounding cities, it is going to be difficult for us to lure the small and mid sized businesses that really drive the economy, bringing them back to San José, we have to get control of our costs. Growing our economic development, we cannot grow our way out of 72% of employee compensation going to retirement contributions, that's just an area that's too large. So we do need to tackle these issues head on. With all that in mind I'd like to make a motion. It's going to be a long motion so I'll try and go slowly for Dennis. My motion would be to continue the prior direction for March of 2010 for a 10% total compensation reduction for fiscal year 2011-12 with the modifications as recommended by the City Manager, which is that the entire 10% is ongoing, that there is a roll-back of any general wage increases received in fiscal year 10-11, that we include the City Auditor's recommendations for health care cost

containment, in addition to the 10% total compensation reduction, achieve additional reforms in the areas of retirement, sick leave payout and compensation structures as indicated by the City Manager, to continue the guiding principles that the City Manager has proposed, which specifically includes starting negotiations in January 2011, and to continue keeping our eye on the total compensation of employees. And all of the list of bullets that are on page 86 of the presentation. And to further direct staff to continue the analysis of options for a second tier retirement program and to return to the council with recommendations in early 2011, and those options should include the input from the General Fund structural deficit elimination stakeholder group, I think that's the right name. The City Auditor's report, recommendations that have already been approved by the city council, as well as the added portion for the City Manager to work with the City Attorney to look at what current options are available for existing employees. So that's my long motion, and I'll have comments afterwards.

>> Mayor Reed: We have a motion on the floor. Let me see if I can clarify it. I think --

>> Councilmember Constant: Can you repeat it?

>> Mayor Reed: I think you moved to support staff recommendations.

>> Councilmember Constant: Pretty much.

>> Mayor Reed: Plus, I think there was one addition, I'm not sure I wanted to clarify if you left out anything or you added anything.

>> Councilmember Constant: The addition was at the end, that is the issue of the City Manager and the City Attorney looking to ensure that we have addressed all issues as it relates to potential savings from current employees.

>> Mayor Reed: All right. Discussion on the motion? Did you want to speak to the motion Councilmember Constant?

>> Councilmember Constant: If I can just continue. I just think that I want to reemphasize some of the motions, that I did earlier, I think we have to look at the charters required any essential city services and public safety and put those right there out in front of the things that we must do. I think that we really need to critically look at what programs and/or departments in our city could just be wholesale eliminated and what the impact would be to not only the city operations but the impact to the budget. Because I honestly think that we are dying the death of a million cuts and this may be the time where we just have to just start amputating some appendages to save the heart and lungs, which is, I really think, has to be our number one priority. I think that we really need to have some serious continued discussion about the competition policy, and we have found there were a lot of fears last year when we talked about outsourcing and managed competition and all these things but we have seen -- we heard testimony that if we outsourced janitorial service our building would be falling apart and the building would be dirty because all 45th companies are greedy private companies that just want to sit at the public trough and take our money and not provide services and I think we have seen that that is not the case, that we are receiving very good service from the vendors that do that. We have our outsourcing in our parking garage and other areas and we have incredible people providing good service at good value not only to the city but the taxpayers of the City of San José. And I just want to reemphasize that all those private companies out there they don't try to be everything to everyone and provide all their services in-house. They look at what their core mission is, they look at why they exist and they concentrate on that and then they hire and contract other companies to provide those ancillary services. And I really think that given the situation that we see ourself in, in this year, in this economy, and quite frankly in this decade, it's something that we must do. We owe it to the residents. Because we have to remember our number one and quite frankly our only reason for existence is really not just to be -- to create bureaucracy and red tape. It's to provide services to the residents and businesses of San José. And because of the decision that this and prior councils for generations have made, we are continually reducing the services to the residents, the taxpayers and the businesses and we're failing at our primary mission. Thank you.

>> Mayor Reed: Councilmember Liccardo.

>> Councilmember Liccardo: Thanks mayor. I'll support the motion. I just wanted to first thank Albert and Jane and all the folks who work with you and I know in many other departments who have been really carrying a much heavier load as a result of all these cuts. I think about, for instance, the reduction in rate service hours and the amount of work that people are doing in the hours that they are working, and many of them would like to be working more if we had the money. But they are providing extraordinary service under very, very difficult circumstances. So I think it's time for us to really recognize there are a lot of folks who are carrying a very heavy load right now in this city. They are in our libraries, they're in our police force they're in lots of parts of our city and they're doing great work. I also wanted to encourage us as we think about the January polling that we need to do and looking at revenue options. We really need to reach out to South Bay and working partnerships. They have been looking at those options at county level, at the local level for many years and certainly can give us some good guidance. I think we all agree it's going to take a two-thirds vote to approve any revenue creation measure in this city and that is a very, very heavy lift. And there may be no options. But I suspect there may be a couple options that are very promising at least that we ought to be certainly examining, we should be pulling on several. So I hope that we can reach outside and really talk to folks who have led campaigns. I think also talking to Silicon Valley Leadership Group would be helpful. They have led very successful transit measures that required two-thirds vote in 2000 and 2008 as well as several prior measures. So let's talk to our partners who understand what it takes to make that very difficult hurdle. And then finally on this issue about growing our way out. I agree with Councilmember Constant. I came into office in 2007, after a substantial period of economic growth, although we know it was a very, very difficult recession we'd encountered in 2001 and 2002. But we'd had a few years of economic expansion, the market was looking good and the first news that greeted me when I came into office is we had an unfunded liability of retiree medical expenses of about \$1.6 billion at the time now it's been modified to about \$1.4 billion. That was staggering. Then I heard immediately thereafter that we in half a billion to three quarter of a billion unfunded maintenance backlog in various parts of our city particularly in the transportation and infrastructure areas. And those are chronic problems that have very little to do with the economy and an awful lot to do with some of the structural challenges we've had in this city for many, many years and they go well beyond our current economic woes. There's no question that the current recession is contributed mightily to our troubles but our troubles preexisted this recession. And they will continue after the next boom. We cannot grow out of this problem. That is wishful thinking. I think the cost curves are far too steep. There's no realistic scenario under

which we're going to make revenues outgrow the pace of cost escalation in this city. And I am certainly optimistic by the way about the local economy here in Silicon Valley. I'm more optimistic than Kim, frankly. I think that this area is going to boom in the next half-decade. Well, boom might be a strong word, but I think we're going to be on our way to strong economic growth within half a decade, and I'm very enthusiastic because I see what companies are doing out there. But the reality we all face here is that growth in the private sector does not immediately translate to growth in revenues, particularly when we know we're so dependent on revenues that are inevitably going to shrink over time. Utility taxes, sales taxes, et cetera. I saw projections that VTA did back in 2007 in so-called good old days and they projected sales taxes revenues over the next 30 years as being essentially flat when adjusted for inflation. That is not terribly promising news for governments. And we have to recognize that no matter how the private sector does we need a significant reshaping of government if we're going to survive and continue providing services. That means obviously we have to shrink in painful ways unless there are some significant changes in Sacramento that enable us to expand revenues. And since that isn't about to happen in the meantime we've got to make tough choices.

>> Mayor Reed: Councilmember Nguyen.

>> Councilmember Nguyen: Thank you. I just wanted to express that I completely understand the sentiments that most of the speakers spoke about in regards to why we're moving in this direction and why are we taking initiatives, when we don't have the new councilmembers coming in. But whether or not we have two new councilmembers coming or not, I think that with the public support and the passage of measure W, the public spoke, and I think that that needs to be a part of our conversation moving forward. You know for lack of a better word I think that's the public mandate with 73, 74% of support I think that we need to recognize that, and allow that to be part of the budget conversation as we move forward. Granted, we should take or solicit ideas from different stakeholders group you know from the South Bay labor council, from the business community, from staff, from the general public. But at the core of it all is that we are here to represent residents of the City of San José not to represent any particular interest groups. And so when the public spoke and spoke so adamantly, I think that that needs to be the foundation of our conversation in regards to where are we going to move the city forward? And so, yeah, I completely agree with the end goal of the General Fund structural deficit elimination plan

stakeholder group that we should be a fiscally sound city. I will strive -- I will strive for the City of San José to be the most fiscally responsible city in the state of California and for other cities to look at us and look at us as a model and a leader on how we can move ourselves away from this huge budget deficit in the coming years. And so I just want all of us to understand that there is a foundation that we need to look upon, and that is, you know, we need to do something to change our current fiscal system because it's just not going to work if we keep on fooling ourself that there are other ways to get out of this situation. Thank you.

>> Mayor Reed: Councilmember Herrera.

>> Councilmember Herrera: I think the best way we've talked about or heard one of the speakers talk about making the right decisions to plan for recovery. I think one of the best ways to plan for recovery is to make sure we're on a sound scam basis now. I don't mind saying I'm an optimist. I'm proud of it. I'm proud to be an optimist and I think anybody sitting up here better have some optimistic feeling about this city because eventually want to see us come out of this horrible recession. But I think we have to make sure we get our fiscal house in order. If you were in a business, we'd talk about trying to become lean and mean and that's really what we need to do. And just like everyone who is an employee here, and who sat at a bargaining table and has negotiated in good faith, so has our taxpayers and citizens throughout who have been paying taxes and who have been in good faith paying those taxes expecting to get services and thinking they're going to have adequate police and fire and libraries and community centers and adequate roads and all of those things that everyone living in this community wants to have. That's the bargain that they're making by continuing to buy things here, pay their home taxes, do all the things here in San José expecting that we're going to provide that. It's already been said that that's our main function, it's our own function to serve the community and we all do so. The councilmembers up here, the employees, the businesses here we're all part of that. I think it's very, very importantly that we move forward on these things. I don't take delight in them. I'm very glad that the measures that have been talked about, V and W did pass, because I think they had to, and I do think that the residents, the voters have spoken on those. But I don't take delight in the situation. This is a really tough situation for all of us but I think we have to get our scam house in order and position ourselves correctly so that we can grow. Now I want to say something on the other side of the equation because although you know we can't necessarily grow our way out of it without getting

ourselves in fiscal order first I think we do need to take a look at the revenue side of the equation and the slide that was up there that showed Palo Alto being at one end and us being on the other end, I really want to see some effort and I understand that takes staff time. But I want us to really address that deficit because there's two book ends here. We've got the structural deficit in terms of rising employee costs that we need to have ongoing solutions for but we need to look at ongoing solutions for the other side of the coin too. And that means really advocating for things like taxing Internet purchasing and really looking at other ways to bring in revenue on this side. That does mean bringing in new businesses, attacking the retail deficit that we have and how we plan land use and really training, making sure that every decision takes into account moving that jobs-housing imbalance towards more jobs. So I think we have to keep looking at that as much as we're looking at just reducing employee compensation, because ultimately if we don't position ourselves and start really making -- keeping our eye on maintaining the vibrancy of this community, making sure it's a place that people want to live and work that we will be in trouble on that side of tight. So I will be supporting the motion. I again encourage all of us to work together, it's a very tough situation but I think we can get through this. By doing these things I hope we can include some performance based incentives so folks who are working even harder showing effort in this can get rewarded, having some rewards on the end, and not just look at cut cut cut. I think that has to be put into the mix too so I will be supporting this.

>> Mayor Reed: Councilmember Pyle.

>> Councilmember Pyle: . Thank you mayor. I wish I had known that there was going to have to be a vote today. Because what I read and what we were given in materials prior to this meeting there was nothing that said this is going to be put to a vote and so we have to be ready for the unexpected. I have a couple of revenues and a lot of angst actually. Because if you are saying let's accept this, let's accept all of this, I can't do that. And the reason I can't is because on page 42 of this flier that we were given just today as we got here, it does say on page 42 which I had a minute ago, that 2010-11 direction, is it 10% total compensation direction, so in other words we're going to assume that this year, that they will be the same as last year, would that be a correct assumption, I guess Alex?

>> Alex Gurza: That slide was intended to show the progress from council's direction last year which was a 10% total compensation reduction.

>> Councilmember Pyle: But it wasn't for everybody.

>> Alex Gurza: No, it wasn't, so the direction actually is to continue that and achieve it for those where we did not achieve it, continue it for those that we did with the modification that the portion that was one-time continue. So to give you an example, we haven't reached an agreement at all with the San José firefighters, so the direction would be to continue to try to achieve that 10% total compensation reduction because we haven't achieved anything in that example and there are others.

>> Councilmember Pyle: And the other part of it is that, with all due respect, I like to digest things. I like to double-check them, I like to look them over, before I put a vote on it. It's like saying I agree 100% with everything that's in here. I don't know. I have lots of questions about what was in here and haven't asked all of those yet. So may I ask some of those questions now?

>> Mayor Reed: You certainly may.

>> Councilmember Pyle: All right. In revenues to the civic center television, this suggests that there be at least one person that would go away, would that be correct, Ed?

>> Ed Shikada: Councilmember Pyle, actually as it relates to civic center TV, that was a prior action. And so that's already been put in place, this is basically a status report, we're providing an update.

>> Councilmember Pyle: Okay, and just to make a point. Yes, we can't 100% grow our way out of this. But it's like planting the trees. We get ready for more revenue, in the oncoming years. It's not going to happen all in one year. I don't believe in the hail Mary passes. Well, it depends on who's playing. But by the same token, Civic Center Television, for example, could we not think in terms of serving public needs, for instance if the girl scouts

came in and they wanted to do a quick film or what have you, could we possibly offer those services for a reasonable fee? Is this something that we could think about? I don't know why we wouldn't. Christmas in the park was shifted to OED. Is that with the same number of people, 11 people that we're counting on and now ten?

>> Albert Balagso: Beyond January which is the end date there would only be about 1.5 positions carried forward. The remainder would be an end date.

>> Councilmember Pyle: Wow. And then the -- Jane, the 27.3 positions, that would be, quote unquote, eliminated, I hate those terms. What is the profile of those folks?

>> Jane Light: Councilmember Pyle, it is a variety, from a senior librarian, who is a unit manager, a branch manager all the way down to a library page and aide. There are several part-time benefited positions for both librarians and library clerks there, two library assistants, I think three or four full-time librarians, and some page and age hours.

>> Councilmember Pyle: So it's across the board.

>> Jane Light: It's just up and down.

>> Mayor Reed: Before you go on the City Manager wants to clarify.

>> City Manager Figone: Just those two examples, Ed was recapping decisions we made last year. What we're trying to indicate is the progress that's been made on service delivery changes. The 27 library staff are ones that were bought back with the concessions, and I think what we've highlighted there is those are the positions that would be out of the base in 11-12.

>> Councilmember Pyle: So the crossing guard, the fleet services and the dispatch services were all part of that, as well?

>> City Manager Figone: No, those now would be the new services under consideration.

>> Councilmember Pyle: Okay, it is hard to identify which is old and which is new, and the reason I feel great angst at voting on something that I haven't really thoroughly gone through. In reference to the dispatch, we have one of the best dispatch outfits that there is. And because smaller cities are saying, wow, we can't afford police services, or what have you, I would think we would have a good opportunity to contract in from other cities. Is that something that has been considered?

>> Ed Shikada: That would certainly be on the table, as a part of the work ahead, to look at an opportunity to in-source that work.

>> Councilmember Pyle: Those are just two opportunities. There's opportunities everywhere, and I think somewhere in here we need to balance the total negative side of all of trying to make this work, with something that is positive, some tree-growing, as well. Thank you.

>> Mayor Reed: Councilmember Oliverio.

>> Councilmember Oliverio: City Attorney Rick Doyle, I believe was this all the information for today's agenda posted within the sunshine time frame? Outside of the PowerPoint.

>> City Attorney Doyle: I -- I don't know if all the memos were within the ten days. I think one memo may have come outside, the City Manager is going to have to address that.

>> City Manager Figone: I need to ask for staff's help. I think the only one possibly outside was the supplemental that everything was within the sunshine and so all the material presented in PowerPoint today is explained in detail, and the reports were out a good week and a half ago.

>> Councilmember Oliverio: As I remember, I just remembered direction always being a part of today's study session.

>> City Attorney Doyle: The agenda, no, the agenda -- that is a separate issue, a separate question. The agenda did contemplate council discussion and direction, and that was cleared through the Rules Committee.

>> Councilmember Oliverio: Okay. Thank you. On the motion would there be a friendly amendment to allow that if a particular bargaining unit were to say, you know, we'd really like to negotiate as a public meeting, would your motion contain the ability for the City Manager's office to say yes, we would accept that?

>> Councilmember Constant: I don't know if we actually need a motion for that. I'll look to the City Attorney, I know we've discussed that a number of times before.

>> City Attorney Doyle: Can you repeat the question?

>> Councilmember Constant: Sorry.

>> Councilmember Oliverio: Sure. Hi, Rick.

>> City Attorney Doyle: I'm trying to multitask here.

>> Councilmember Oliverio: I know. You're very good. The idea was, the motion was, to include, should any particular bargaining unit say, we'd like to approach this differently this year, and we would like to conduct our negotiation as a public meeting. So I would -- my hope is that the motion would contain the ability for the City Manager to accept that offer from any particular bargaining unit that wants to do their negotiation as a public meeting.

>> City Attorney Doyle: I think that's probably a good amendment to add, because normally the city doesn't engage in that, and it's probably good to get that on the table from the city side.

>> Mayor Reed: I think Alex Gurza has a comment on that.

>> Alex Gurza: I just wanted to mention that normally, how negotiations are conducted in the sense of how many employees attend, the size of the bargaining teams, those kinds of issues are subject of the ground rules which are mandatory subject to bargaining normally dealt with at the beginning of the negotiations. So those are the kinds of issues we will be discussing in the first -- usually the first session with each bargaining units.

>> Councilmember Oliverio: So, Alex, my understanding from you, then, that ground rules would allow -- our current ground rules would allow an acceptance of offering negotiations as public to be accepted?

>> Alex Gurza: Well, they could. The ground rules are usually established each negotiation period. So for example, there aren't any ground rules right now. We haven't started the negotiation. So when we start we could establish ground rules and part of that discussion usually involves the conduct of the negotiations, meaning how are they going to proceed, how many people attend and various --

>> Councilmember Oliverio: I catch that. I'm just really specifically narrowed in on if any particular bargaining unit says, hey, Alex Gurza, these are our ground rules, but we would like to do this in public light, are you, as the -- working for the City Manager, ready to accept that?

>> City Manager Figone: I think in concept, yes. What we would have to reach agreement on is what is meant by public negotiations. Some of our units you know think that that means negotiating here and allow them to have public comments. I wouldn't recommend that at all.

>> Councilmember Oliverio: Could any member of the public attend and observe what goes on during negotiations and where all the information is out there in the open, there's none of this he said, she said, and again this is a voluntary, should any particular bargaining unit choose to go that route?

>> Councilmember Constant: So let me jump in here. What I am comfortable doing, is asking staff to come back, perhaps to the rules committee would be the appropriate place, with a discussion of what it would entail to move in that direction and what issues would need to be addressed, and specifically, to the City Attorney to address it, if we do have these then do all the public meeting rules like public participation and comment and all that, how they would impact and if we could have that discussion at Rules, if that's okay with the seconder.

>> City Attorney Doyle: You can have that discussion at Rules or as part of the discussions in closed session directing the negotiators. The point is, you just can't unilaterally impose it.

>> Councilmember Oliverio: That's fine.

>> Councilmember Constant: So it was to either Rules or Closed Session, whichever the City Manager feels are appropriate.

>> Councilmember Oliverio: Thank you for that.

>> Mayor Reed: So that's the motion. Alex, did you have anything else to add? Thank you.

>> Councilmember Oliverio: So just continuing on, I really wanted to thank the speaker, I think he was from the architects, who mentioned our housing and jobs imbalance. And that goes back to what I talked about at the beginning of the session, was these General Plan amendments where we rezone all this industrial or employment land for housing, and it happens all the time. And I pray at some point that I'm going to have a council meeting and I'm actually going to have people that work at the city go, hey, I'd like to continue a career here. Please don't rezone this land that puts me in a bad position where the city's not going to have the revenues to cover it. And

again, that's something that's so important is as we talk about the growth and it doesn't grow us out tomorrow but it's the whole idea of stopping the bleeding on that. On the other speaker comments, we have to be delaying for years so we have to make a decision. When it comes to seeking new revenues, I don't think the general mill willing try it unless they see certain things fixed, modified, whatever and they're not going to accept any raise in taxes at this point in time. However, when we do the polling I'd certain would like to recommend that we look at things like the solid waste fee and the utility tax. And the reason I bring these up are because they're green taxes. And as we have a more green-oriented PR opinions of folks, that these things that are dissuading behavior we don't want. We don't want people to throw away endlessly into the landfill and we don't want people to waste water and waste electricity. So I'll just throw that out there as an option. That is, could be a source of. Because if we have to climb the two-thirds hurdle, and that gets you 6 more points on an opinion poll, then I think that's something to look at. And we just can't sit and raise all the fees, because again, if our job revenues team is competing with Sunnyvale and Mountain View for a company location, and our fees are inordinately higher, we're not -- we stand to lose a chance. Or if I raise the price so high on a water heater no one's going to ask for a permit, they're just going to put it in. Then our speaker mentioned people that make a lot of money, and you know, that should be a revenue source. The city doesn't have the ability to tax those incomes, and there will always be those CEOs, and I tell you, that is such a minority of the population. And I know there are folks that work at Google, but again, not everywhere works there. And the reason they gave out raises this year, or are going to, is because they have \$33 billion in the bank. We don't have those types of revenues here. When it comes to the alternatively service model, it was a painful decision, but the council did outsource the custodians last year, as mentioned, saved \$4 million. That saved \$4 million of something else. We didn't do that, there would be \$4 million of cuts, and you name it. You pick whatever group you work with, or whatever thing you like in the city, that would be \$4 million less of that. I can say that the City Hall appears to be pretty clean to me, and I think the alternatives of looking at other items, whether it's restroom maintenance, or landscaping maintenance, needs to be looked at. You know, maybe it's an area where we gain savings over attrition. So as people retire, we just don't rehire. We then take that amount of work and that amount of money that was done with that particular item and then use that as the outsourced model. So that you, again, ideally wouldn't have to lay off those people, but you would gain savings over time. It might be tough with a \$70 million deficit, but at least throw that out there as an

option. Question on the crossing guards. How are we going to reduce the cost of that program being that they're already part-time without benefits?

>> Ed Shikada: Let the D.O.T. or the police department weigh in if you'd like to. It's core. I believe it was more an issue of how they were deployed rather than expecting a reduction in the transportation cost.

>> Councilmember Oliverio: Okay, the way they would be moved around the city and then the supervision would not be a police officer, it would be a D.O.T. employee. Okay, I think I covered that one. And then Jane, the library's done an incredible job. We tripled circulation in 10 years, but we didn't triple head count, we opened new branches, et cetera. Obviously we did a lot of automation to get us there and that was probably contentious because people viewed automation as possibly not needing as many librarians, but we got past that. So question for you though is when we're trying to open these new facilities and manage hours around the city, and there's the consecutive days work rule, is that going to be a hindrance to implementing library staffing to meet the demands of the residents?

>> Well, the consecutive days work rule in the current MEF contract calls for full-time people to have two days in a row off. And as we've looked at either a four-day week or last year we also looked at a three-day week, we did not see that as an obstacle. You know, for years the library was open six days and sometimes seven days, and we -- by having part-time staff, we then can staff so we are open all those days without having to have double the full-time staff. I don't anticipate that will be a problem, and the library staff are very committed to trying to achieve the highest level of services and recognize the need to be available at the times when people can get to us.

>> Councilmember Oliverio: Thank you, Jane. And then just finally, Mayor, Councilmember Constant, Councilmember Herrera, Councilmember Liccardo, Councilmember Nguyen, I really appreciate your comments just now. Thank you for being articulate, as well as being compassionate. There's no one wants to be doing this. We would much rather have been here a decade ago, and times were high and planning, doing whatever, but it's what it is, so thank you.

>> Mayor Reed: It was a lot more fun a decade ago. I'd like to do it again some day, have a little fun.

Councilmember -- Vice Mayor Chirco.

>> Councilmember Chirco: Thank you. Albert, I wanted to ask on the reuse do we have a strategy in place to keep track of these contracts, monitor who's in them, what the rents are, what the contracts are, I just remember getting here there was no inventory who was in what facilities. My current is, we look at all this reuse, how do we maintain the quality of our, we expect to have services returned to our community. Also, what evaluations are we putting in place to verify that all these contract, partnership on the reuse?

>> Albert Balagso: Thank you, Vice Mayor. We do have a contracts unit which is putting all the pieces in place, conducts the RFI, and puts the contract together and does the monitoring. That also includes staff who go out and do periodic checks to manage the facilities that out there in reuse. We have done an inventory of all the facilities that we have and what the infrastructure needs are, because some of them we do have to do some capital improvements in order to keep them up and running. We need to ensure as we move forward that we keep this contract unit in place to continue that monitoring and evaluation to ensure that those services are still there and the infrastructure remains adequately. And we don't lose ground as far as what we built.

>> Councilmember Chirco: I'd almost like to see a strategy put in place such as used for B.E.S.T. or HNVF where it's results based accountability. Where they are evaluated and if they feel they meet the mark, then somebody else gets an opportunity to reuse the facilities, and provide the services that we expect to have delivered. I just don't want this to fall between the cracks and it was horribly there when I got on council.

>> Albert Balagso: Thank you for that point. In this format of contracting that we have, it is not a grant formula. I can terminate that contract for cause or no cause at any given time.

>> Councilmember Chirco: I appreciate that. I have a question, and this might be to Alex. One of the consequences of a 10% reduction last year, or any organization, the organizations were given a variety of ways they could accomplish the salary reduction. A lot of our part-time unbenefited employees, that entire reduction

wound up in their paycheck, where maybe a full-time benefited had the opportunity to maybe put more towards their retirement, or more toward the unfunded health care. One of my concerns is, as we look at our short time, and I know Jane as spoken repeatedly on how critical part-time staff is to the smooth running of her organization, because it allows a flexibility in scheduling. Do we wind up not being able to have that flexibility because we have just underpriced ourselves to the point that we will not be able to attract the part-time help that we need to provide the services for our citizens?

>> Alex Gurza: Yes, Vice Mayor Chirco, that is an issue that we'll have to discuss. We did have some part-time employees last year that did have a 10%. But the majority of them are actually represented by MEF who have not taken any reduction. But when we negotiate with MEF next year, who does represent the part-time, for example, employees at the library, that is an issue that we'll be sensitive to and discuss that with them at the table.

>> Councilmember Chirco: My concern, I'm not going to say I'm against this. These are Draconian times and they require Draconian decisions. But when you say that one of the guiding principles is to achieve the entire 10% ongoing, how do you be sensitive to somebody that maybe works 12 hours and has to take an entire 10% in their salary, if your direction from council is to achieve an entire 10% or the additional 2, because it was to go back to the whatever year it was. Can you help me understand that?

>> Alex Gurza: Well, those are issues that again are going to be left at the bargaining table to try to talk through what the options are. You're right, that a full time employee, for example, in fact we had many employees who took the entire reduction or almost the entire reduction in paying part of what the city pays in retirement benefits so their base salary didn't get reduced a lot. I think it is a difficult issue but I think it's an issue that we can discuss at the bargaining table and brainstorm what options there are, that might be within one bargaining unit, something different for part time employees, unbenefited for example than for full time employees. There are examples where we've done that in the past so I think it's really going to take a lot of brainstorming at the table about how we address that without causing the problem for the library or the parks and rec for example.

>> Councilmember Chirco: I also have a concern some of our lower paid employees and I've asked you know, I've had expressed this concern before, does that take them below our living wage ordinance that we impose on any of our contractors?

>> Alex Gurza: So far we have not even gotten close to the living wage issue. We will be monitoring that to ensure if any reduction doesn't bring us below any current council policy and if it does we would come back and discuss that with the City Council.

>> Councilmember Chirco: And most especially, then a question for my understanding. You have a part time that doesn't have access to benefits, wouldn't that require the higher amount? Because there's two living wages, one is with benefits and one is without, and there is a difference between the two.

>> Alex Gurza: There are two living wage differences, and we'll monitor that. The other thing to keep in mind, however, though, is a part-time and benefited employee's total compensation is less than a full-time benefited employee's compensation. So in other words, their total package, a 10% total compensation reduction for an employee with benefits is going to end up as being more, right? Because the employee who is just paid an hourly wage just has to reduce 10% of that versus the 10% of the whole package.

>> Councilmember Chirco: But it gets to the point where if somebody is working 8 hours, 12 hours, versus somebody who's working 40 who has some flexibility in where they will take that reduction, and ultimately a full-time benefited employee is paying toward their own retirement. It's basically a guarantee that they will get the money back. So those are things that I think should be sensitive to. And to give you the guidance to have flexibility within your negotiating, to not just make it 10% across the board but to negotiate with that to -- and I'm not going to say don't achieve the 10% because the reality of our budget situation is we have to. But to use the flexibility in achieving that 10% does this give it to you?

>> Alex Gurza: I think it absolutely does because just to say to reduce the 10% doesn't actually tell us how that can be done. So that's the product at the bargaining table to discuss various issues, and it could lead to within a

bargaining unit differences between how the 10% is achieved from one set of classifications versus another. So I think it does leave us that flexibility to negotiate that at the table.

>> Councilmember Chirco: Thank you. As with all these decisions all of them are painful. One other question I have and it has to do with our council appointee offices. They have very small staffs, very little flexibility in how they can spread out a reduction that is now ten years in the making. So we look at our independent police auditor or the city attorney's office or the City Clerk, I begin to wonder, do they even have the capacity to take that kind of a cut, and still meet their legal requirements? And I don't even know who I could look to, to begin to answer that. And I'll start with the City Attorney.

>> City Attorney Doyle: I think we've stated in the past that you know it's increasingly becoming difficult and to the extent that we have to meet the council's needs particularly where we can't control litigation whether we do it in-house or outside it's difficult. I would -- I'm not going to say absolutely no, we can't meet those obligations, but it's extremely difficult and I think you've seen that in our budgets from year to year.

>> Councilmember Chirco: And I know like the independent police officer, they're working on very lean staff. The city clerk, they have got legal requirements that they need to meet, as well as -- and I know the City Auditor we rely heavily on her to hopefully find money that will lessen some of the burden of this. So one of the ideas I'd like to kind of just float is to ask the council appointee offices to take a very serious look at their budget, and what is a reasonable -- and I mean it's got to be painful guys because everything we're doing is painful. But to submit to the council a suggested reduction. Now, I realize that will put a greater burden on the City Manager who is also a council appointee but for her to be able to do her job in the most effective manner possible she needs the other offices. So --

>> City Attorney Doyle: Can I make a suggestion and this is something Councilmember Liccardo, I think, talked about the good old days. There was a time between 2005 where we used to go to what was then the finance committee, tall council appointees with their draft budgets and at least give the council a first -- the committee a chance to review those budgets. And then from that input we would then go and present it as part of the budget

with the City Manager's budget the May 1st budget but each of the appointees have the opportunity to vet and get some input on those working with mayor's budget office.

>> Councilmember Chirco: So to the maker of the motion, could I make a friendly amendment that that was a procedure we have in the past, to ask the council appointees other than the City Manager who this is the City's budget to come into the Public Safety, Finance and Strategic Support Committee with a proposed budget reduction for them which would then have to go to the budget office.

>> Mayor Reed: Let me suggest we're getting a little bit ahead of the cycle here because we're not talking about allocating budget reduction targets today.

>> Councilmember Chirco: Okay.

>> Mayor Reed: That is not part of the recommendations for any of the departments. We're just talking about this direction and we still need to take up the rest of the budget process, and the schedules and everything and that will come back to the council.

>> Councilmember Chirco: Okay. Well, while I might be glad to come back and speak as a public citizen, maybe, I would just ask the others on the council that will remain, and to the two, I see up in the loges up there, to extend that to the council appointees because it's become increasingly difficult to manage these small offices with the same level of cuts that the rest of the city's having to take. And believe me you're going to bleed no matter what kind of a cut you take. With all of that having been said, for ten years or I've been here eight, but I have heard we've got to think out of the box, we have to think creatively, we have to do more with less, ad nauseam. There is nobody that's sitting in this room with a smile. Our community, our employees or the councilpeople. I've always thought we did our best thinking when we were forced to. And I'll only use myself as an example because I don't think if I don't have to. But the reality is, we're having to think and we're having to make tough decisions. Every one of our citizens, and that includes our employees because most of them are citizens, we're all having to make tough decisions. And my dad used to say that all it takes to turn a recession into a depression is for you to lose

your job. I'd like to keep this a recession. And not to make it a depression. I will be supporting this. As painful as it is. I remember coming to California because my parents' recession turned into a depression. They loaded what they could in a car along with the three kids and we came to California. That's not -- I'm not the only one that knows that story. There's thousands and millions of us that have done that. And that's where we are. But I think collaboratively and together, in working really hard, to make it a depression -- a recession for most of us and to keep the depression to as few as possible. So I will be supporting this motion.

>> Mayor Reed: Councilmember Kalra.

>> Councilmember Kalra: Thank you. As far as the motion, I think most of what's in it I think are items that need to be there especially some of the analysis of retirement and what have you. And it's not even a matter of the recent elections. The reality is I think all of us up here understood even before the election that we need to take a good hard look at our retirement system two tier and other opportunities we have to work again can collectively with the residents and the employee bargaining units to figure out ways to make it nor sustain annal. For most of that I think it's understandable that we have to consider that direction. I do understand what I see is some frustration from Councilmember Pyle in that just last year, when we gave direction, there were certainly much more deliberation and much more opportunity for discussion amongst us, not to mention even amongst the public and the residents and the employees, before we gave direction which was very difficult direction to give but it was direction that we gave nonetheless. Early on the direction that we started with was the one-third, one-third, one-third where there was at least an opportunity or recognition that we had to look at all avenues and all opportunities. Even though we weren't able to achieve it, at least we started in the starting place that acknowledged the fact that we really needed to look at everything. But my worry here first of all is just in the matter of a few days we're giving direction right now. And I don't think that -- and I don't say that to not -- to undermine or in any way diminish the severity of what we face before us. I do however feel that it's counter to what people are saying up here or working collaboratively. Even with the retirement task force put together, the end goals of the reform retirement benefit system. One of them is that the solutions should be collaborative, should work for citizens, employees, and the city, which I completely agree with, and should eliminate an us-versus-them dynamic. I don't think we're doing that today. I think we're continuing the same push that may very

well be necessary but I think it's as much as how we go about our business as what the end result is. The opportunity I think to, again, I've repeated this both the City Manager and I think even in discussion with the councilmembers, there's a very limited opportunity for us to try to heal our city even during a very tough recession, even knowing that we're going to have to make some dramatic cuts or get dramatic wage give backs from the employees. The only two options really that we're looking at are compensation cuts or service cuts. Compensation cuts fall on the employees. Service cuts fall on the employees and the residents because obviously as you lay off more employees you're not going to deliver the same quality of service to the residents. You've already heard about cutting back on library hours and other services. What I don't hear enough of and again Vice Mayor Chirco indicated that she heard it time and again, you know, thinking outside of the box and working creatively, last year at least there was a discussion of trying to achieve a third with other options, revenues and what have you, clearly we weren't able to do that. We just discussed right now to do polling, maybe we can get some, maybe we can't. But to close that off, it seems premature. To give direction for the 10% maybe something we have to do, may be more, may be less ultimately when we sit down with our bargaining units, but just to understand that we have a tough situation, that play be what we have to do to give direction before we even sit down, last year when we gave the direction of the 10% it was after some discussion. We started with one-third, one-third, then we amended it to 10% and we made the 10% 5% ongoing and 5% one-time. That took some time for us to get there, and I do agree with Councilmember Constant and the city manager and others that we can't wait as long as we did then. Right now we're eight months before we have -- approximately before we have to vote on a budget. I think it's absolutely appropriate for the City Manager and her team to say, we're going to need 10%. That's honest, looking at the numbers and saying this is something we have to do. To give direction to that, without discussing it, amongst ourselves let alone with the bargaining units and the community, I think that's one of the areas where I think that it may be counterproductive in terms of really coming to real agreements with our bargaining units. And so, if I could ask the City Manager about that, just the idea behind putting the direction right now, and whether you feel that's counterproductive, the idea of working collaboratively, or in addition, maybe, continuing to fuel the us versus them kind of dynamic that you already very well -- spoke to very well in termination of trying to move forward. Do you think it's helpful to get that direction, as opposed to your direction allowing us as Councilmember Pyle said to look at the entire package before us beyond a few days and

then to have us give direction and that's not evenly referencing the new councilmembers coming in whether they come in or not we have to make decisions and just to have your thoughts on that?

>> City Manager Figone: Yes, you know, I don't think it's counterproductive, I don't think it constrains the conversation at all assuming people come to the table and have a conversation. I also don't think that direction means that we shouldn't look for other revenues, that other ideas won't come through the department proposal. I would expect that they'll come from many, many directions. So I think the value of the direction is to be, as you just stated, councilmember, honest and forthright about what it's going to take, knowing that we'll probably have parallel tracks going on. The departments are going to be generating proposals, we'll be negotiating and, you know, the results of several processes kind of converge. We need to remember Jennifer really needs to know what we have in hand by early March. That's typically when we present that summary of reductions to all of you. Because we are in production mode throughout April in order to publish by May 1st. So even your window for deliberation and you know, maybe even moving some of the parts is a very small one. So it really is in that spirit that this recommendation is coming to you so we get it out on the table and get started. Then I really think the creativity can -- should continue. We shouldn't feel constrained by this correction.

>> Councilmember Kalra: Yeah, and I think that that's -- at least some of what I heard from the speakers, I think some of the frustration seemed to be that there wasn't or they were not allowing for that room for creativity. Like I mentioned before, we are kind of boxing ourselves in once again before we even begin this time. Last time it took a while for us to get into that box, but once we did, then we had the direction. But -- and that may very well be the nature of the seriousness of the issue. I just think that there are opportunities again to continue the collaboration in a way that's truly collaborative. And I don't know if we're continuing by doing this if we're continuing to kind of push away an opportunity to really come together. In regards to some of the suggested areas that we're looking for alternative service delivery models, I don't know if I can find the page here, but one of them had to do, the two that dealt with the public safety, one was the dispatchers, I don't know if you can pull it up because I can't find the page right now. But one was the dispatchers, and I just had a question as to -- because I know we contract in some of the dispatch services from some of the other agencies. I was wondering if that was revenue neutral or if there's an opportunity there to help -- if there's an opportunity or at least or even legally if we can supplemental

some of our operations in that regard. Because we have a very good system, we have a very good dispatch operations, and that would be one area that I'd hope that and, that would be afternoon area that I would hope to could some inference for -- set up, a communications center there.

>> Mayor Reed, members of the council, Chris Moore, acting chief of police. Councilmember Kalra, you are correct, that we have an outstanding 911 center. We have received inquiries from various municipalities throughout the Bay Area -- not throughout the Bay Area but throughout our county, would it be possible for us to use our technology to go ahead and answer their calls for service. We are in the process of looking at that now. And also, concurrent with that, is there a number of other police chiefs and fire chiefs throughout the county are starting to look at this in a different light as well. I know that the cities of Palo Alto and Los Altos are looking at consolidation of their potential of their dispatch centers. If you think back, back prior to 1990, the City of San José received its dispatch services from the county, and the level of service that we had at that time was such that it made sense for us to bring it back in-house. We have a good system, it does have the potential for us to take on other cities, but that's something we're looking at.

>> Councilmember Kalra: Were you currently contracted with the county, doing some of their dispatching, or do they still have their own independent?

>> They have their own facility.

>> Councilmember Kalra: That would be one area that would be most logical, at least half of them are the same residences as we have, and given the amount of calls that they would generate I think that it could make sense. But again, that is not necessarily all on our hands, it is what their needs are. And another one that is has to do with airport, police and fire services at the airport, obviously a very important part of our city. One, I just would wonder or at least be cautious, I guess this is both to you chief as well as to the airport manager and city management, in outsourcing that, I mean, it just seems like it -- I don't know what models there are, and maybe there are many airports that do that already, so I don't know if Bill Sherry can speak tho that. But instinctively there's some natural reticence of that kind of service in such a critical operation that we have.

>> Bill Sherry: Yes, councilmember, Bill Sherry, aviation director. Throughout the U.S. there are many different models between how public safety services are rendered, and we've looked at a number of those models. Most notably is Honolulu, that outsources law enforcement, and Burbank, that outsources fire. We've also talked to the FAA and the TSA and those models seem to be well received and they work. So that's really what we're basing our recommendations on. We're estimating that we can save somewhere in the order of magnitude of 10 to 12 million and that's a significant amount of money for the airport.

>> Councilmember Kalra: What are the savings, I mean, I assume you're saving in personnel cost but does it have to do with the personnel that are being extended, wages, benefits, is there any other infrastructure services that go to that as well?

>> Bill Sherry: I would say all of it ask personnel cost.

>> Councilmember Kalra: What I would be most interested in is the savings that we can secure but in addition to that other operations that do outsource what the cost and benefits are to them, like if they see any issues with it, has it been seamless? I think that's something that I certainly want to look at more carefully if it is contemplated as is suggested here.

>> Bill Sherry: And we will most certainly bring those comments and perspectives back when we bring the proposal back. I think most important to me was not only the way the airports look at it and the agencies but the regulatory agencies, the FAA and the TSA. And again, we got very favorable comments from both of those two agencies.

>> Councilmember Kalra: All right, thank you. And Alex on the discussion a moment ago about the recommended direction regarding the 10%. And so just want to clarify. So in addition to whatever was given last year we already know that 5% of it was one time. So then the contemplation would be 10% converting that 5% to ongoing and adding additional 5%?

>> Alex Gurza: Well, Councilmember Kalra I think we want to make sure everybody understands the question you're asking. Let's take an employee group that already has 10%, 5% is ongoing meaning it continues until negotiate different. The other 5% or half of it stops on January 30th of 2011 and if nothing changes their total compensation would increase by 5%. It's not additional reductions, it's for example for that particular group the 5% would continue and the 5% that was supposed to stop would also continual. So it's not on top of 10 another 5.

>> Councilmember Kalra: Converting the one time or whatever it is to ongoing and for the bargaining units, for them to achieve 10%?

>> Alex Gurza: That's correct. Even for groups that had 10% it doesn't have to be the same way, we can negotiate differences between the way it was done and how it moves forward on an ongoing basis.

>> Councilmember Kalra: And then for the two, the MEF, the 2%, then it essentially would be for that bargaining unit to achieve 10%, and then to roll back the 2%. So from what they may be getting now, basically to achieve 12% ongoing.

>> Alex Gurza: Well, yeah. There are two differences in those numbers. The 10% is in total compensation and the 2% is general wage only. And it's for two bargaining units, the MEF and CEO.

>> Councilmember Kalra: And is there any legal issue to that? Obviously, it has to be bargained. But in general, the contracts we bargain. But in terms of the ability for council to impose, taking back a 2%?

>> City Attorney Doyle: I think you're obligated under the Meyers Milius Brown Act to go to the table and negotiate in good faith. Assuming you can't accomplish that, the council is free to impose its last, best and final. So I mean you have to play this out, and at that point you see where you are.

>> Councilmember Kalra: Okay.

>> Alex Gurza: Sorry, to add whether it's the 2% or the 5%, it's all rolling back things that had previously been negotiated.

>> Councilmember Kalra: Sure.

>> Alex Gurza: You know, so whenever we do concessions, it's changing things that had been negotiated in the past, so it does have to go through the negotiation process as Rick mentioned.

>> Councilmember Kalra: Okay, good, understood, thank you. And so again I think the biggest concern is, there was a fence I know, and we've all heard it, whether during public comment or otherwise, that the 10% was just a foregone conclusion, and that imposition -- it was just basically, that bargaining was just done on pace to getting to imposition, that's something that I think I've heard on a number of occasions. And my fear is that there's going to be the same feeling, regardless of what the end result is, whether we are hopefully able to negotiate something that we can all agree on. I think last year, the direction was to try to achieve 10% at the bargaining table, and then, you know, imposition became looming at that point. I agreed last year to vote to try to achieve 10% at the bargaining table with the 5 and the 5 because I truly felt and hoped that we can achieve something at the bargaining table, but that didn't actually translate to wanting to have to impose 10%, because I know they are two different things, they mean two different things. And so at, you know, again as Councilmember Pyle indicated with her frustration, that I share in that with this direction, I just think that we should be very cautious about, again, setting a tone that's not going to encourage cooperation, and ultimately at the end of the day, we're going to have a deficit, it's going to come down to probably laying people off we're getting concessions, one way or the other. Looks like what happened last year is going to happen again, the path of how we get there I think is very important. What equally concerned about or at least very, very concerned about, as the end result on the residents, I think that ultimately we have to find a way to provide these services for the residents the best way we can, and without the employees on board for at least part of the process, it can be very difficult to do that.

>> Mayor Reed: I had a question for Jane Light. You probably know the date. When does the existing, what I call measure S parcel tax, because that's what we voted on a few years ago, when does that run out? When does it need to go back on the ballot? Because that is another tax measure.

>> Jane Light: That is another tax measure. It would -- the very latest it could be on the ballot is in the fall 2014 because it expires at the end of 2014. Another possibility would be to look at 2012, what placing it on the ballot early enough that there's some assurance of continuity, assuming that it passes.

>> Mayor Reed: How much is that in aggregate?

>> Jane Light: Presently it is about \$7 million dollars and it is about \$27 per single-family parcel.

>> Mayor Reed: What is that restricted to?

>> Jane Light: It is restricted or the language says that it will be used to improve library services, and we presently spend the dollars on 41 FTE. And on -- it's about half of the total library's materials budget, the remainder half coming from C&C dollars and similarly, about half of the funding for library technology.

>> Mayor Reed: And that has to go back to the voters?

>> Jane Light: That does have to go back to the voters, or it just expires.

>> Mayor Reed: Thank you. If we're going to think about revenue enhancement, taxes, whatever you want to call them, we have to look at all the things we have to do around I think that has got to be part of the equation. I'm going to support the motion. I think it's important to start the direction we started last year on the 10%. Some people have beginning and some people haven't. So far the people who received the most haven't given nearly as much as some others. But we're trying to do this bargaining unit by bargaining unit, and staying on the 10% is I think the appropriate way to go. But I'd like to point out that the appointees, the unit 99, the mayor and

councilmembers have done 10%, in some cases more than 10%. So I don't contemplate coming back to the people who have done the 10% and asking for additional concessions on top of that. I think we got to focus on the people who -- the units that haven't agreed to anything, the units that haven't given as much, and to try to get it to be ongoing, so we can protect the services and the jobs. Early on in the presentation we had a slide that showed what happens if we don't get concessions, and how many jobs that we lose. Somewhere in the neighborhood of 500 people. 500 jobs eliminated if we don't do concessions, and that's the one book end, as it was described. And then we have the other one, I think it's more of a rock and a hard place than book ends. If we don't do anything, we are going to lose 500 jobs and 500 people that are providing services, and we're not going to get it all in concessions. So we'll have to be creative to try to make it up in a difference. And I know the City Manager is already talking to the bargaining units. If there are other ideas, whether they're revenues or otherwise, those can certainly be considered. But we do know that if we don't do anything, we're in trouble, and if we take appropriate action, we can get through this with everybody sacrificing. There's no doubt about that. There's plenty of problems to go around. But we do have people that have already made sacrifices, and I appreciate that. We have to acknowledge that jobs have been saved and there are people working for us today that wouldn't be here if we hadn't had the sacrifices from our employees to save the jobs from other employees. And I want to thank the union leaders who were willing to do that and the employees who stepped up and had to do it whether they liked it or not, I guess. But nevertheless they did it and they continue to do their jobs even though times are tough and there's a lot of reasons to be unhappy about this budget. People are still doing their jobs, and I want the people of the city to understand that we have one of the smallest workforces in the country for any big city, that our people worked really hard, they're dedicated, and we can't pay them as much as we'd like to, and we can't continue to afford to pay them as much as we have. That's just the economic reality that we have. And so we're stuck in this place where we have to ask for concessions. But I think we're taking the appropriate time, appropriate motion, and I'm going to support it. Councilmember Constant.

>> Councilmember Constant: Thank you, mayor. You know this is my fifth budget cycle that we're getting into here. And every time we hear the same thing. That we need to think out of the box, we need to be more collaborative, we need to do this, we need to grow our way out but then every time we come to the next budget it's like we want to throw out everything we've done and pretend like we're in a vacuum and start everything

over. So it troubles me when I sit up here and I hear over and over that we haven't discussed this enough, we haven't been collaborative enough, and we've been doing it for four years straight that I'm aware of, that I've been here, and I know it's been happening prior to that, as well. We've had discussions on the Public Safety, Finance and Strategic Support Committee that I sit on, many discussions about the budget, and all the auditor's reports, and everything that's related to it. I know the Community and Economic Development committee, when I was on that, and continuing after I was on that, had many discussions about how we could grow businesses in the city of San José, how we might be able to grow our way out of problems. The Rules Committee has had a number of discussions. We've had retirement study sessions, we have had budget study sessions, we have been doing all this. So for me to sit here and hear people say we haven't discussed this enough, we haven't been collaborative, I'm not prepared to move forward, it just frustrates me. Because we are doing that, we have been collaborative, we have been working. The difference between being collaborative and finding a solution, there's a gap. You can collaborate a lot. But at some point you have to consider what you are going to do. And we have to keep in mind that the actions that we're take today will actually preserve jobs for city employees. And I think that's gotten lost in the discussion but what we're doing today is talking about preserving jobs in the people at work for the City of San José which preserves residence to the City of San José. I heard some discussions from my colleagues that we are going to be reducing services through this. And we're not. These pay cuts don't reduce services, they preserve services. And when we were talking about the council appointees offices, it's true that if we ask them to meet some arbitrary budget reduction, it's going to impact what they can do. They only have so many places. But when we say budget reductions of total compensation, that doesn't affect the amount of work going out the door, because it preserves the services. And I think we have to keep reminding ourselves, it is about preserving jobs and preserving services. And that is the whole intent of my motion, and I'm sure that is the intent of the City Manager when they put all this information together for us. And we just have to face it. It's not in a vacuum. We have the perspective of many, many years of city operations and city budgets and city discussions and on and on, ad nauseam, in things to pull on. And I also just want to address something about the internet sales tax. Because there seems to be a fallacy that internet sales are not taxable. They are. And we actually have a unit in our city, I believe, out of the finance department that audits businesses in San José to ensure that they're paying their appropriate sales tax. And we have a mechanism to do that, and perhaps we're not doing it because of budget constraints. But maybe that's something we should look at, because Internet sales are taxable, and if people are

buying over the internet and not paying the tax, that's an issue, it's an enforcement issue, it's a reporting issue, which is different than taxing the Internet, which is a whole 'nother discussion that has been had at the federal level that is wholly outside our purview. So I just think that we need to keep all those things in mind as we're going forward. And I hope that my colleagues continue to be steadfast in support of this and other things that we must do to preserve the services in our city.

>> Mayor Reed: Councilmember Pyle.

>> Councilmember Pyle: Thank you. I just wanted to clarify. I've gone back through everything, I don't see where there's anything in here that would be leaving us in concrete. And so I will be supportive. I do want to say that I just needed a little chance to go back through. I didn't expect to vote today, so you'll have to indulge me with that. But thank you, I will be in favor of it.

>> Mayor Reed: I think that concludes the council discussion. We have a motion on the floor. All in favor, opposed, one opposed, Councilmember Kalra opposed, two councilmembers absent, so do the math. 8-1, I think. That concludes the agenda. We've done the public comment. I think it's safe to quit and go home. We're adjourned. One last thing, there's no meeting next Tuesday. We did that in advance.