How the City of San Jose Can Afford to Increase Salaries Without Cutting Services

WORKING PARTNERSHIPS USA

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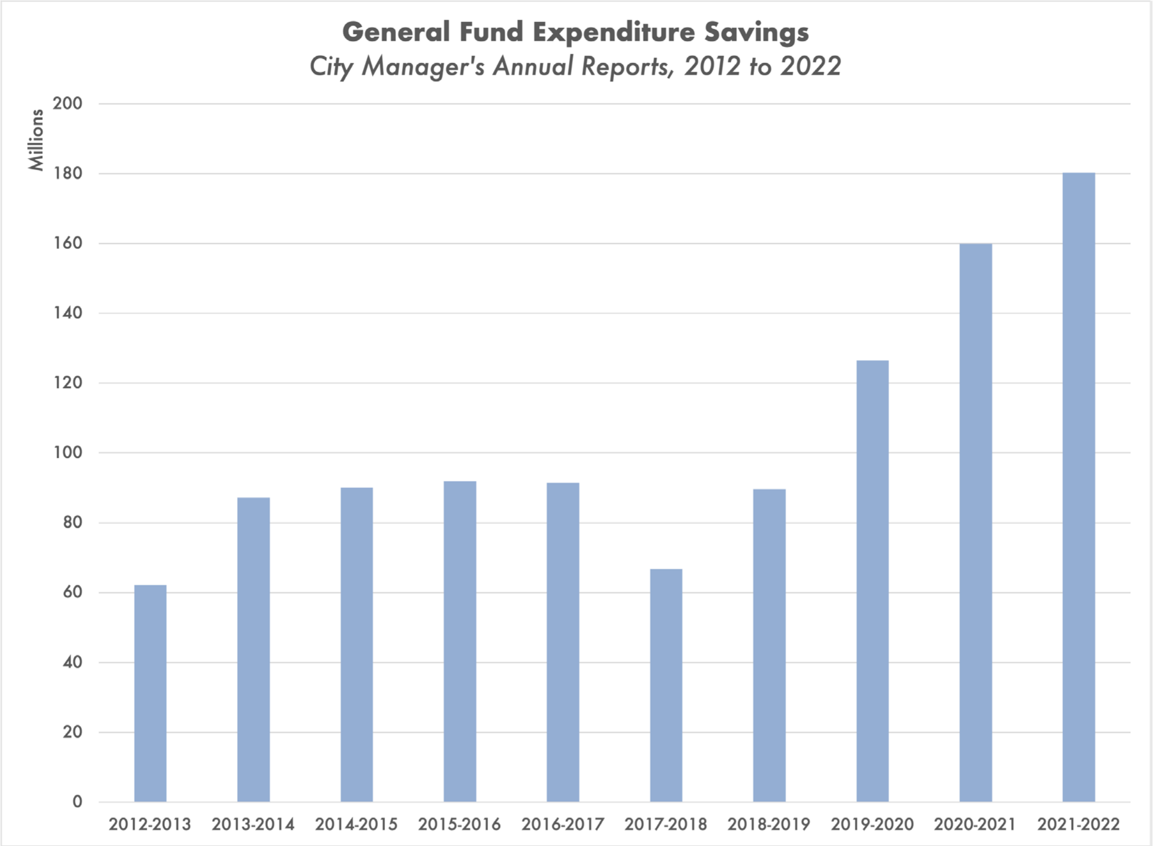
Introduction

On-going negotiations with labor unions in San Jose have brought attention to worsening issues with recruiting and retaining city staff. As the city struggles to fill over 860 vacant positions, employee unions have proposed improvements to wages to make the city a more competitive employer.

In response, the administration has claimed that increases to salaries would force cuts to services, as the city does not have resources within its budget to support the union's proposals.

However, these claims are based on the assumption that the city's current budget accurately and fairly forecasts its revenues and expenditures with little room for adjustments.

Historically, the city's budget has been an imperfect accounting tool and forecasts have consistently missed the mark, leading to a decade of substantial budget surpluses. The primary driver of these surpluses has been failing to accurately account for budget savings due to understaffing and associated project and service delays.



Budget Savings are Consistent and Growing

Over the past decade, the city has experienced on average $105 million in general fund expenditure savings each year, with savings growing especially steep in recent years. These savings do not take into account reserves that were not expended or excess revenues above what was anticipated in the budget, but look only at expenditure savings from operations and services.

Even in the lowest year analyzed (fiscal year 2012-2013), total general fund expenditure savings were $62 million— 6.3% under budget.[1]

In fiscal year 2021-2022 alone, the city recognized $180 million in budget savings, a variance of 10% under budget.[2]

The Government Finance Officers Association recommends that public agencies develop a process for consistently monitoring budget forecasting and performance in order to adjust for any significant variances.

Growing variances in spending relative to budget are a sign that leadership has not meaningfully reevaluated its budgeting practices in light of this consistent and growing trend.

The city has historically proven capable of accurately accounting for its revenues, suggesting that expenditures have not received the same meaningful attention and oversight.

Over the 10 fiscal years surveyed, the city forecasted revenues within 1% of actual collections. Expenditure forecasts have ranged in accuracy from 4.7% to 10% under budget over the same time period.

Source of Budget Savings

The city's annual financial reports describe the source of these expenditure savings and show that they are consistently driven by underspending on budgeted services—primarily through job vacancies, savings on projects that do not move according to schedule, lower equipment and non-personnel costs and other citywide expenditures that fall lower than expectations, largely due to the city's staffing capacity.

For example, in fiscal year 2021-2022, savings for general fund personnel spending were over $15 million, non-personnel expenditure savings were over $20 million, savings on citywide expenditures were $98 million, and savings on budgeted general fund contributions to capital projects were $46 million under budget due to project delays.[3]

This data represents only savings in the city's general fund, which includes the city's discretionary revenues. Many city workers are paid from special funds or capital funds, where expenditure savings have been even more dramatic.

Across all city funds, total expenditure savings for fiscal year 2021-2022 were over $1 billion—a variance of 19% under budget.[4]

Adopting Best Practices for Expenditure Forecasting Could Free up Funds for Investments in Recruitment and Retention

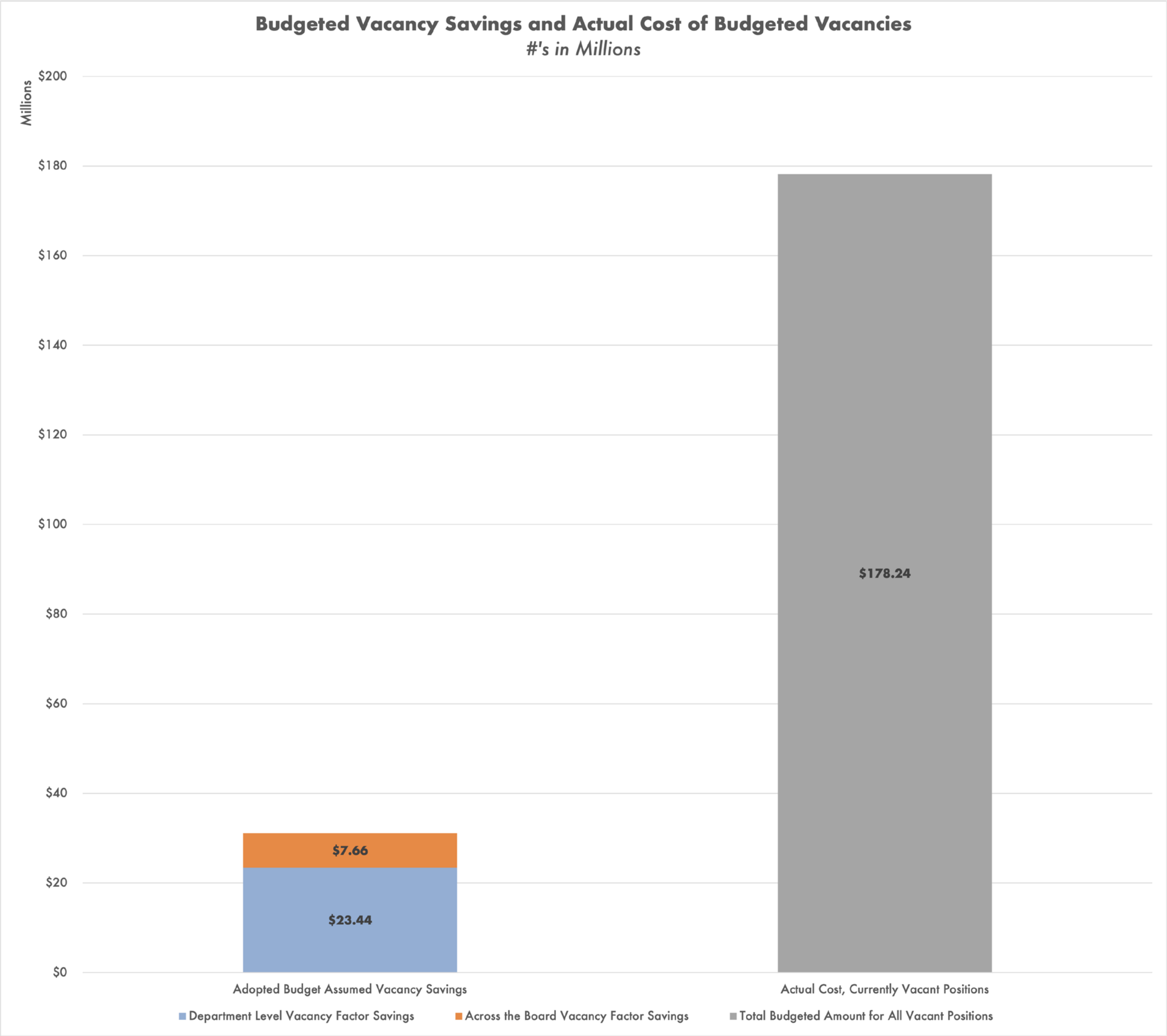
The Government Finance Officers Association recommends that for personnel budgeting, agencies "examine additional detail beyond just regular payroll expenses, including analysis related to hiring and vacancy information […]" in their assessment of spending performance.[5]

The 2023-2024 adopted budget assumed some savings from job vacancies, including $23 million at the department level and $7.7 million in across the board vacancy savings for a total of $31 million.[6]

In total, this amounts to an assumed job vacancy rate of 2.2%—far below the city's current job vacancy rate of 13%.

According to data provided to unions and made available to the public on the city's website, the total dollar amount associated with budgeted vacancies is over $178 million, meaning that the city would save $14.8 million per month that these positions remain vacant.[7]

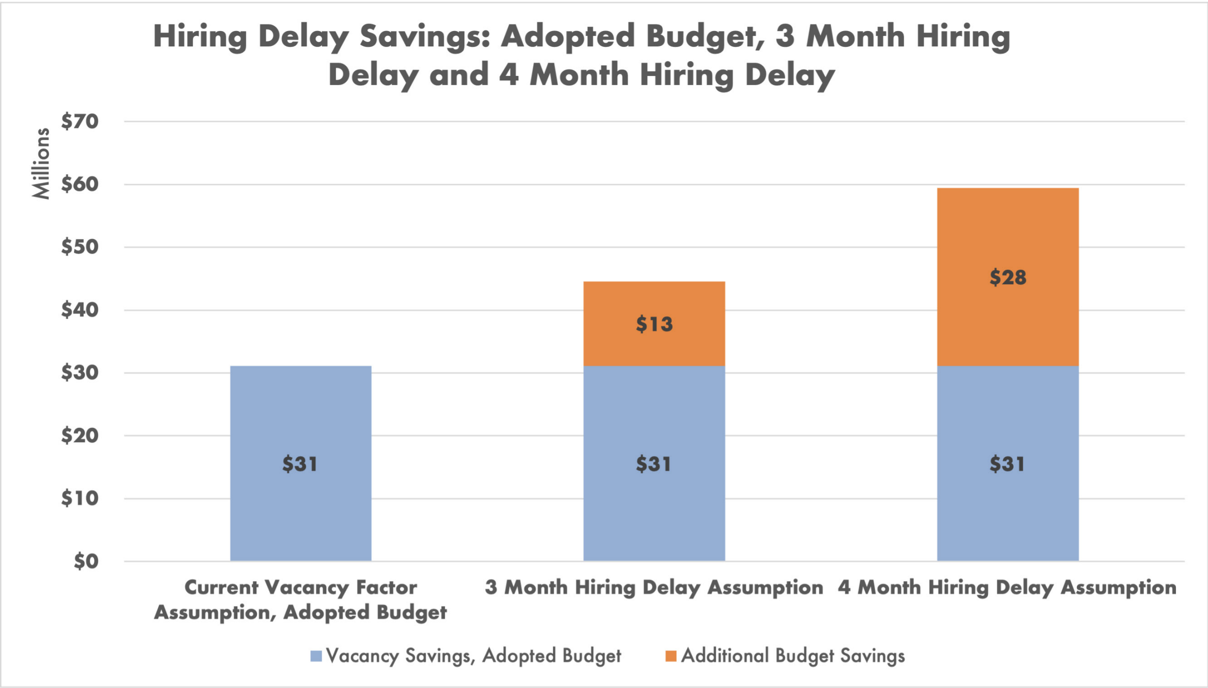
This means that current assumptions of $31 million in vacancy savings are equivalent to assuming a 2.1 month hiring delay for each vacant position.



According to data also provided to city labor unions in the course of contract negotiations, the typical hiring process from job posting to new hire is 80 business days or between 3 to 4 months. This does not take into account the period of time that a position may remain vacant without an active hiring process initiated.

Accurately accounting for a hiring delay of between 3 to 4 months would create budget savings of between $44 million to $59 million, an increase of between $13 million to $28 million above the vacancy savings assumed in the 2023-2024 adopted budget.

In other words, adjusting to more accurately reflect likely budget savings given the city's hiring timeline would free up a substantial amount of funds that could be reinvested in services and staffing.



Even accounting for the use of temporary workers or contracts, which may offset some vacancy savings, the city's consistent pattern of project delays and underspending in other areas driven by understaffing would still make this savings estimate a conservative assumption compared to long-term trends. Assumed budget savings would amount to less than half of the city's lowest actual expenditure savings over the past decade.

According to data also posted publicly online by the administration, the cost of a 1% wage increase for AFSCME - MEF and IFPTE Local 21 is $3.56 million, meaning that even a conservative hiring delay assumption of 3 months could likely add substantial improvements to employee pay.[8]

Annotations

1. IFPTE Local 21 and AFSCME MEF 101 represent nearly 4,500 workers in the City of San Jose who are currently working without a contract as of the publication of this paper, 7/28/2023.

2. Annual Report FY 2012-2013, City of San Jose https://www.sanjoseca.gov/home/showpublisheddocument/7282/636644225342170000

3. Annual Reports 2021-2022, City of San Jose, pp 15-18 https://www.sanjoseca.gov/home/showpublisheddocument/90013/638001717226970000

4. Ibid, pp 51-68 https://www.sanjoseca.gov/home/showpublisheddocument/90025/638001720644200000

5. Ibid pp 15-18 https://www.sanjoseca.gov/home/showpublisheddocument/90013/638001717226970000

6. "Best Practices in Budget Monitoring," Government Finance Officers Association, https://www.gfoa.org/materials/budget-monitoring

7. \$7.7 million in vacancy factor savings appear in the proposed budget according to the City of San Jose 2023-2024 Proposed Operating Budget (https://www.sanjoseca.gov/home/showpublisheddocument/97189/638248376264000000) while departmental vacancy savings rates were provided as a response to a union information request which is available online. Vacancy savings at the department level have been calculated by assuming that the vacancy factor was applied to personnel budgets as adopted in each department according to an information request published March 10, 2023 https://www.sanjoseca.gov/home/showpublisheddocument/95301/638140616758900000

8. Data included in Attachment C, Information Request dated May 29, 2023 https://www.sanjoseca.gov/home/showpublisheddocument/98694/638210334387000000

9. Information Request dated March 10, 2023 https://www.sanjoseca.gov/home/showpublisheddocument/95301/638140616758900000