



2011 State of the City Address
San José Mayor Chuck Reed

Wednesday, February 17, 2011
San José Civic
EMBARGOED UNTIL 7 P.M.

Good evening. Welcome everyone. Thank you for attending.

Thank you, Michael Klayko, for the wonderful introduction and for keeping Brocade in San José. Brocade has built a state-of-the-art green campus for more than 2,400 employees. Thank you for your investments in San José, for the thousands of jobs and millions in tax revenues.

Congratulations to our honorees this evening: our community volunteers and city employees who were just recognized. Thank you for everything you do to make San José a great place to live, work and raise a family. Let's give them another round of applause.

Let's thank our emcees Lissa Kreisler and Sam Van Zandt of KBAY for showcasing the great work of our honorees and sharing the history of the San Jose Civic. Great job!

Thanks to the band, Strumming for Vets. Thanks for your music and for helping veterans with the challenges they face returning from combat. Will all of the veterans in the audience please stand so we can thank you for your service.

To all of the elected officials who have joined us tonight: Thank you for your service in these tough times. Please stand.

I want to recognize my wife Paula and my sister Sandy who are with us tonight. Paula, thank you for your love and support. Without your help, I wouldn't be Mayor.

I hope you are all enjoying our historic San José Civic Auditorium, newly renovated with Redevelopment funding. Was anybody here in 1968 when *The Who* kicked off their first U.S. tour? Sorry to disappoint you, but I won't be smashing any guitars tonight.

What I will do is highlight some great things San José has accomplished, despite tough times in our state and nation. And I'll present you with the facts about the challenges we must solve to ensure that the things we value most about San José are preserved for future generations.

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In the near-term, we must work to create jobs in San Jose – and work to keep existing jobs here.

Keeping jobs here in Silicon Valley has been a monumental task, made much more difficult by having to compete with cities that get major financial support from their state governments to help companies expand. Over the past ten years, Texas has added more than a million new workers, and Arizona has added nearly 400,000. California? We've done worse than zero. California actually lost jobs over the past decade.

Governor Brown said that his “intention is to make California again a leader in job creation.” The state legislature should embrace this goal, and they can start by rejecting the Governor's proposal to eliminate Redevelopment Agencies and Enterprise Zones, which are our main tools for supporting job creation.

The State of California ought to look to other states and learn how to help the private sector create jobs. That's what it will take to get revenues growing again so California can climb out of the fiscal quagmire.

Despite these challenges, there is good news. Even though the city, the state and the country are far from recovered from the Great Recession, there are reasons to be optimistic about our local economy. Silicon Valley companies are growing, and we ended 2010 with net positive year-over-year job growth.

Much of San José's success is directly related to our collective efforts in implementing our Economic Development Strategy. Kudos to our Special Tenant Improvement team, our Planning Building and Code Enforcement department, our Office of Economic Development and our Redevelopment Agency. You're all doing a great job to help companies stay here and grow here. Just in the past year, our expedited permitting programs have helped more than 100 companies.

Let me give you one example of this great work. Back in September, I hosted fifteen local developers and brokers for a "reality check" of Silicon Valley real estate trends. They reaffirmed that San Jose had an opportunity to generate jobs and revenues if we could work at the speed of business.

Shortly after that meeting, we assembled a Jobs and Revenue Generation Team with staff from seven different departments actively engaging with the developers who told me they were eager to break ground on new projects.

This team made it possible to get projects moving quickly and over the goal line by the end of the year. Thank you to Irvine and Fairfield for pulling building permits for 1,600 apartment units in December.

Others are likely to pull permits for another 4,000 units before September. These investments will generate millions of dollars of tax revenues and create thousands of construction jobs. All of that has been made possible by a great team working at the speed of business.

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With nearly a hundred thousand people unemployed in Santa Clara County, creating jobs must continue to be a top priority, and when it comes to creating jobs, our Green Vision is paying big dividends. Despite the worst economy since the Great Depression, San José is the home of world leaders in clean technology and now we have over 4,000 clean tech jobs.

Our demonstration partnership policy has proven to be a successful element of the Green Vision. Clean tech companies told us that one of their biggest problems was being able to demonstrate their products in the real world. Our first partner was Coulomb Technologies who installed their first electric vehicle charging station across the street from City Hall.

They now have thousands of charging stations around the world, and we have received millions of dollars to build infrastructure for electric vehicles with our regional partners.

In December, we unveiled the Green Vision Showcase across from City Hall where twelve renewable energy companies are demonstrating their products.

Our Green Vision goals not only help incubate new technologies, they also save energy, prevent waste, and save money. In the year ahead, we will break ground on three waste-to-energy facilities that will divert material from landfills and use it to generate power, and we will close deals to produce 15 megawatts of solar energy to power our city facilities.

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Another important job creation opportunity is our new, world-class, state-of-the-art airport. The new airport is efficient for airlines, convenient and comfortable for the public, and it's among the best in the nation for on-time performance.

Our passenger counts are starting to go up, but we need more flights to serve our business community and Silicon Valley travelers. As we add airlines and flights, hundreds of jobs will be added as well.

I've made a personal commitment to help rebuild airline business and have been meeting with airline CEOs to find out what we can do to help them grow in San José. Thank you Silicon Valley Leadership Group and San Jose Silicon Valley Chamber of Commerce for your support and advocacy for the airport.

Thank you also to Alaska and Southwest Airlines for your continued commitment to San Jose. We appreciate the new flights.

From meetings with airline CEOs, it's clear that our success depends on implementation of our Airport Competiveness Strategic Plan. The Council has been clear and consistent in its support of the airport, but difficult decisions must still be made to control costs and ensure the airport's success.

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When we ask our residents what the city’s top priorities should be, two things rise to the top: building a strong economy and creating a safe community. We’re beginning to see good news on the economic front, and now I want to share some of what we have to be thankful for when it comes to public safety:

- San José remains one of the safest big cities in the country.
- Officer-involved shootings have dropped dramatically over the past six years.
- Our homicide rate is one of the lowest of the big cities, and our officers solve most homicide cases through great police work and collaboration with our community.

- The Mayor’s Gang Prevention Task Force has become a national model. We continue to work to reduce gang violence through innovative programs like the Safe Summer Initiative. I want to thank our District Attorney Jeff Rosen for finding \$75,000 to help fund the next Safe Summer Initiative.



- We have a great new Chief of Police in Chris Moore and a great new Fire Chief in Willie McDonald, both of whom have stepped into difficult jobs at a difficult time.

The biggest challenge Chief Moore and Chief McDonald face is managing their departments with flat budgets and sky-rocketing expenses. In past years, we have asked our police officers and fire fighters to do more with less, and they have. But the reality is we cannot maintain existing service levels with fewer people.

With the cost of retirement benefits for public safety rapidly escalating, we’ve been forced to reduce staffing in both the police and fire departments.

Did you know the budget for public safety is the same this year as last year? It is. But we have fewer police officers and fewer firefighters than we had last year, because the cost per person continues to climb dramatically.

We expect – and we receive – extraordinarily high standards of service, and we are very proud of the men and women in our police and fire departments. Our police officers and firefighters regularly take risks to protect this city from physical harm. Now we are calling upon them to help save us from fiscal harm.

Next year’s budget will have a shortfall in excess of \$110 million because costs are going up and revenues are flat. The largest part of the increase in costs is for police and fire pensions, which will grow by over \$45 million next year. No one wants to lay off police officers or firefighters, but it will take significant concessions to avoid layoffs.

Let me emphasize that there is no more money. The well is dry. The \$451 million we are spending this year on public safety is more than we will receive in revenues from the property tax, sales tax, utility tax and phone tax combined. Those revenues are flat.

Even if we can keep the budget for public safety at the same amount as this year, which is by no means guaranteed, the police and fire departments will have to figure out how to absorb huge cost increases for retirement benefits for our officers and firefighters.

Some savings could come through new ways of serving our residents, like using technology to work more efficiently. Efforts like civilianization and new staffing models can help close the gap. But that won’t be enough.

San José police officers and firefighters: you routinely demonstrate leadership and commitment to the residents you serve. Tonight, I’m calling on you to do just that – step up and help us pay for the increased cost of your benefits. I know it isn’t easy, but it’s time for solutions.

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I discussed public safety first because it’s our top priority and the biggest part of our General Fund budget, but solving our fiscal problems will take a collective effort across the entire organization, because rapidly rising costs affect every department.

We didn’t get to this situation overnight. The roots of it go back decades. When I was a rookie Councilmember back in November of 2000, the internet boom had been good to the City. Job

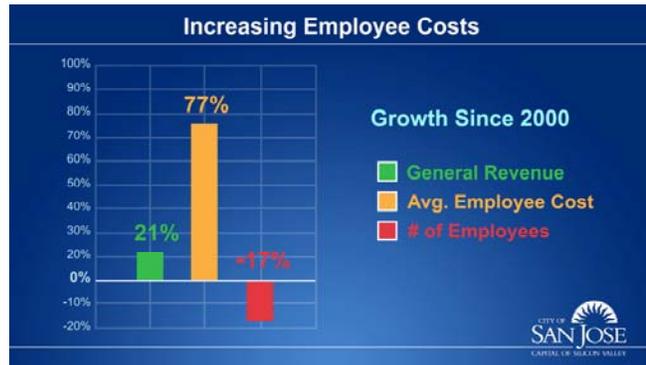
growth was at an all-time high. We had over a million jobs in Santa Clara County. Revenues had been going up faster than expenses for years.

San José voters approved new taxes to build \$600 million in capital projects like new community centers, parks, sports fields, libraries, fire stations and police facilities. The period was dubbed the Decade of Investment.

It appeared that operations for new buildings could be funded out of increased revenues. It appeared we could give our employees big increases in pay and benefits that also would be paid out of new revenues.

Unfortunately, the internet boom went bust, and Silicon Valley’s job base lost 200,000 workers. Over the last ten years, the City’s revenues grew by only 20%. Yet, the average cost per employee went up by almost 80% -- much of this due to skyrocketing retirement benefits. The net result was that our city workforce had to shrink by over one thousand workers.

Revenues were up a little. Costs were up enormously. Now we have fewer people delivering services to the people of San José than we had 10 years ago, even though our population has grown by more than 100,000 residents – that’s about the size of Santa Clara.



This fiscal history is why I said in my first State of the City Address that, “the budget deficit is Public Enemy Number One, an enemy that will steal our hopes and kill our dreams of becoming a great city if we ignore it.”

Unfortunately, since that State of the City four years ago, the danger from the deficit has grown like a cancer. Our hopes and dreams, our quality of life, the very reasons we choose to make San José our home, are at great risk.

Last year we reduced our work force by 800 positions and demoted or laid off more than 150 people, including 49 firefighters. Thankfully, a quarter of our workforce, including our senior

management and City Councilmembers, took a 10% reduction in total compensation, which allowed us to save services and the jobs of many valued employees. Our police officers gave up 4% and saved the jobs of 70 officers for one year.

This year, it's going to take more. Those who have already given 10% concessions need to make them permanent. Everyone else needs to step up and do the same.

This request has nothing to do with the quality of our workforce. San José employees are professional and dedicated.

Everyone here heard about the innovation and dedication to delivering high quality service in the Pride of San José presentations. I want to recognize and thank all of our honorees for your great work – and I want to thank the entire city workforce as well.

For the past decade, you have delivered services with less resources as positions were eliminated in your departments and programs to our residents were cut. Pundits talk about needing to reduce the size of government, but the truth is, San José has one of the lowest ratios of employees per capita for any big city in the country.

Our problem isn't having too many employees. We need more cops on the beat, longer hours at our libraries, more workers battling graffiti and blight, and more firefighters in our stations. The problem is we can't afford them.

Over the past decade, we've cut services and eliminated staff, but costs per employee have continued to go up. San José's unfunded liabilities for retirement benefits have grown by billions of dollars. These spiraling cost increases must be stopped, and the first step is to acknowledge the reality of the dangers we face.

As Senator Robert Kennedy said to a crowd of 10,000 people a few blocks from here in St. James Park in 1968, "We can no longer afford to differ on reality. We can no longer afford to deceive ourselves. It is time we face the problems that exist (in this country) with candor and with truth."

How will we do it? That's a question that we must answer collectively and collaboratively, but as Mayor I have the responsibility to lead, and I will.

Here's what we will not do while I am Mayor:

- We will not slide into insolvency.
- We will not go the way of Vallejo and reduce the size of our police force and fire department by 40%.
- We will not go the way of Pritchard, Alabama and stop paying pensions to our retirees.
- We will not stand by and watch San José become a city with inadequate police and fire departments, and shuttered libraries and community centers.

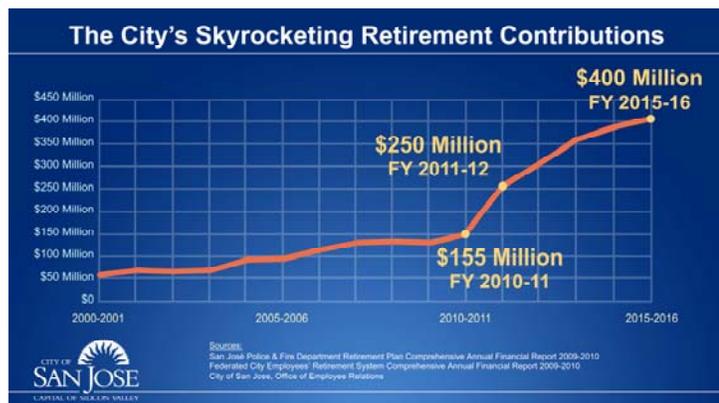
What we will do is implement fiscal reforms to bring costs under control.

Some may believe that the taxpayers will give us more money. However, until we make significant fiscal reforms to get our runaway costs under control, the chances of getting voter approval for additional revenues are slim to none. We have to stop the bleeding before we ask the voters to give us a transfusion of new money. Fiscal reform must come first.

The people of San José recognize that cutting services to pay for cost increases is a formula for disaster. With the overwhelming approval of Measures V and W, the voters have given us a mandate to get control of runaway costs. Now it is up to us, the City Council and our 11 bargaining units, to figure out a way save our City from the cancer of cost increases that grows, and grows, and grows.

This dangerous growth is being driven by retirement costs. In the past ten years, our annual retirement costs increased by more than \$90 million. In the next five years, they will increase by another \$250 million to \$400 million per year. If we fail to act now, there will be much more on top of the \$400 million. The ramifications of these increases are stunning.

We cannot afford to spend hundreds of millions of dollars more from the



General Fund just to pay for increases in the cost of retirement benefits. We will soon pay more for retirement than we do for salaries.

If we maintain our public safety budget at its current level, we will have to reduce the budgets in every other department by over 50%. That means closing half our libraries and half our community centers. That's unacceptable.

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It may seem that we are at the mercy of events beyond our control as we are buffeted by wave after wave of cost increases, but we are not helpless. We can beat this fiscal cancer and save our quality of life, if we have the political will to do so.

We can stop the hyper-growth in costs by making changes for new employees, for retirees and for current employees. We can stop draining money from services and pouring money into retirement benefits, but everybody has to participate. Everyone has to help. Everyone has to share the pain.

I got some criticism last year for not giving more advance notice of the fiscal reforms that the Council placed before the voters. Today, I am giving everyone notice of what I believe we need to do now to save our City from fiscal disaster.

- We need to increase the age for full retirement to match Social Security, where those who retire earlier receive reduced payment levels.
- We need to eliminate guaranteed annual increases in pension benefits.
- We need to eliminate bonus payments to retirees.
- We need to reduce the accrual rate for pension benefits.
- We need to increase the share that our employees pay for their benefits.
- We need to eliminate spiking of benefits by using an average salary to calculate payments.
- And we need to reform our practices around workers' compensation, disability retirements, sick leave payouts, vacation buybacks and overtime pay.

All of these fiscal reforms must be taken to stop the cancer's growth, avert fiscal disaster and put us on the path to rebuild our police force, fully staff our fire stations, maintain our streets and keep our libraries and community centers open.

I'm not happy to be up here tonight delivering this message. I am sorry to have to write this unpleasant prescription. But this is our new reality, and no one can be shielded from it. It's time to take our medicine and undergo some painful treatment.

Not making these reforms puts everyone at risk; our residents, our retirees, and our employees.

These reforms are not likely to be popular with our unions, who bargained for benefits that were approved by past City Councils. But fiscal reforms are strongly supported by our constituents, who put us into office, pay the bills, and are fed up with cuts in services.

I have told you what I think must be done, but I am open to alternatives. I hope that our bargaining units will come forward quickly with meaningful and substantive proposals to save our quality of life.

That's what our residents expect and that's what we must deliver. Our residents know that we must stop the growing cancer of cost increases that threatens our hopes and dreams. If we don't achieve fiscal reforms through negotiations, the voters will certainly make the changes at the ballot box.

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Making these fiscal reforms will allow us to keep our city the wonderful place of hopes and dreams that it has been for generations.

When Paula and I first moved to San José with our young family in 1977, we were like so many of you, looking for a great place that we could call home. We found:

- A place that is a beacon of peace and prosperity.

- A place where people from around the world come together and focus on what they have in common rather than their differences.
- A place with wonderful parks, libraries, community centers, schools, and safe neighborhoods.
- A place of great opportunity with a great quality of life.

More than 30 years have passed since we first arrived in San José. Our kids are grown, and Paula and I are grandparents, but I still remember what we wanted for our family all those years ago.

As I meet the schoolchildren who visit City Hall on field trips and talk to their parents out in the community, I become even more determined that they must have the wonderful opportunities that San José has provided to all of us.

It is our collective duty to preserve San José's opportunities and quality of life for future generations. I will do whatever it takes to protect our city.

Please join me. Together we will save San José's opportunities and quality of life for all of us: you, me, our neighbors, our friends, our children... and our grandchildren.