

City Council Meeting

Item # 1.A – RTC 25-271

**Study Session: Review of the
Proposed FY 2025/26 &
FY 2026/27 Biennial Operating
Budget and FY 2025/26 Capital
Budget Changes**

May 27, 2025

Agenda

- Proposed Budget Overview
- Follow-up from the May 13th Study Session
- June 10th Public Hearing/Budget Adoption

Proposed Budget Overview

- Proposed Budget allows for targeted investments
- Close alignment with City Council Priority Areas of Focus/identified needs
- Proposals to enhance City services (e.g., Fire and Police, development services, housing & homelessness, sustainability, library materials)
- GO Bond implementation (project management oversight and delivery)
- Staffing and resources to support major events



* Priorities identified as part of the 2025 Council Priority Setting Session held on April 3, 2025

Proposed Budget Overview

Prudent fiscal approach

- Restore Budget Stabilization Reserve to 25% of expenditures
 - Important tool to address economic downturns or other financial impacts to the organization
 - Reserves used to address COVID-related impacts and lessened cuts throughout the organization
- Use one-time funds for one-time uses
- Fiscal Sustainability Plan
 - In-depth analysis of the City's financial condition
 - Develop a blueprint for moving forward to ensure fiscal stability, address service/infrastructure needs, and plan for future growth
 - Revenue and fee options/economic development
 - Expenditure/service review
- Begin annual contributions to support capital infrastructure maintenance/replacement

Proposed Budget Overview

Expenditure Budget by Fund Type

FY 2025/26 and FY 2026/27 Proposed Budget			
Fund Type	FY 2024/25 Adopted Budget	FY 2025/26 Proposed Budget	FY 2026/27 Proposed Budget
General Fund	\$310,698,189	\$333,645,699	\$342,802,597
Special Revenue Funds	41,458,963	42,154,763	38,806,836
Enterprise Funds	945,192,918	1,011,491,693	1,100,414,703
Internal Service Funds	45,724,215	51,116,529	48,281,729
Debt/Other	152,273,904	273,236,049	27,245,993
Less (Transfers, Contributions, and Reserves)*	(416,866,269)	(528,008,962)	(302,635,147)
Subtotal Operating Budget	\$1,078,481,920	\$1,183,635,771	\$1,254,916,711
Capital Funds	568,932,159	367,743,203	150,763,062
Less (Transfers, Contributions, and Reserves)*	(1,818,315)	(1,454,000)	(1,454,000)
Subtotal Capital Budget	\$567,113,844	\$366,289,203	\$149,309,062
Total Budget	\$1,645,595,764	\$1,549,924,974	\$1,404,225,773

* Adjusts for transfers, contributions and reserves to avoid double counting of the same funds (e.g., internal services funds are excluded)



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Proposed Budget Overview

Summary of Position Changes

- FY 2025/26 **addition of 39.25 positions** from FY 2024/25 Adopted Budget
 - Base Adds – 18.25 positions
 - Proposed Adds – 21.0 positions
- FY 2026/27 **net reduction of 2.0 positions**

Summary of Position Changes (All Funds)	
FY 2024/25 Adopted Budget	1,159.25
Base Budget Changes (SVP Funded)	15.00
Base Budget (Other Changes)	3.25
Proposed Budget Changes (General Fund)	10.35
Proposed Budget Changes (General Fund – Reimbursed)	3.75
Proposed Budget Changes (Development Fee Funded)	5.90
Proposed Budget Changes (Other Funds)	1.00
FY 2025/26 Budgeted Positions	1,198.50
FY 2026/27 Proposed Additional Positions	4.00
FY 2026/27 Proposed Position Reduction (SAFER grant expiration)	(6.00)
FY 2026/27 Budgeted Positions	1,196.50



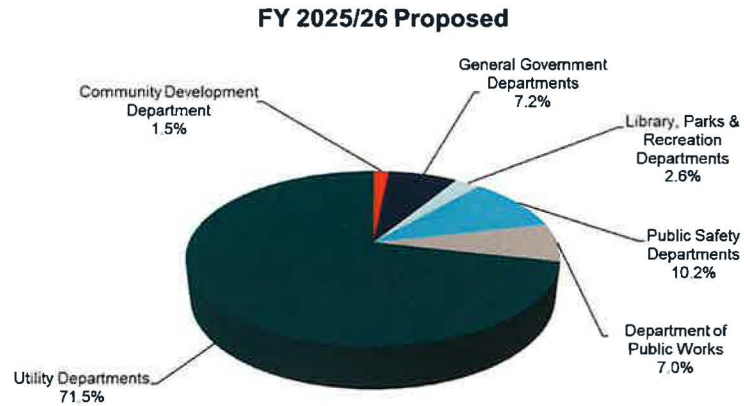
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Proposed Budget Overview

Expenditures by Department Type

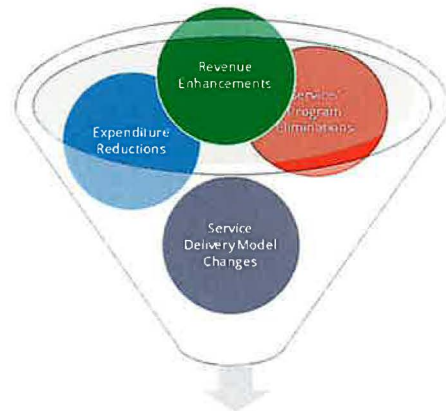
- SVP and Water & Sewer account for 72% of the expenditure budget
- Police and Fire account for 10% of the budget
- Public Works accounts for 7% of the budget
- Other departments account for 11% of the budget



Proposed Budget Overview

Fiscal Sustainability Project

- In-depth analysis of the City's financial condition
- Develop a blueprint for moving forward to ensure fiscal stability
 - Address projected budgetary shortfalls
 - Provide capacity to fund service and infrastructure needs
 - Plan for future growth and expansion of City services
- Goal: Develop various strategies for the community and the City Council to consider and establish an Implementation Action Plan
- RFP to be issued for consultant study
- Scheduled to begin in FY 2025/26



Adopted Strategies with an Implementation Action Plan

Proposed Budget Overview

FY 2025/26 Capital Budget Amendments

- FY 2025/26 – Second Year of Biennial Capital Budget
- Adjustments to reflect changes in estimated project costs / timelines
- Carryover of FY 2025/26 funds brought forward as part of budget adoption (June 10th budget actions)
- G.O. Bond updates and timeline to be provided separately



General Fund Budget Balancing

Forecast to Proposed Changes

FY 2025/26 Sources \$23.1 M

Forecast Surplus: \$9.3 M
2024/25 Carryover: \$13.7 M
Use of Reserves: \$0.1 M

FY 2025/26 Uses (\$23.1 M)

- Council Priorities & City Services (\$3.8 M)
- GO Bond Implementation (\$1.0 M)
- Budget Stabilization Reserve (\$11.8 M)
- Reserve for FY 2026/27 (\$6.5 M)

FY 2026/27 Sources \$7.2 M

Forecast Shortfall: (\$0.1 M)
2026/27 Budget Reserve: \$6.5 M
Overhead/Reimb/Reserves: \$0.8 M

FY 2026/27 Uses (\$7.2 M)

- Council Priorities & City Services (\$2.9 M)
- GO Bond Implementation (\$2.0 M)
- Budget Stabilization Reserve (\$2.3 M)

Select General Fund Reserves

General Fund Reserve	Target	Current Balance FY 2024/25 Budget	FY 2025/26 Proposed Budget	Notes
Budget Stabilization	25% of Expenses	\$69.1 M (23.4% of expenditures)	\$80.9 M	Meets Council Policy level of 25% of expenses
Capital Projects	\$5 M minimum	\$7.8 M	\$8.8 M	\$1 M added (increase by an additional \$1 M annually to build ongoing funding)
Pension Stabilization	Add 1% of Unfunded Liability Annually	\$34.6 M	\$34.6 M	Add at year-end; any additional amount would decrease the liability
Land Sale		\$10.3 M	\$10.3 M	Reflects the temporary use of \$8.1 M for the ISC to be repaid once GO bonds issued

Follow-up from the May 13th Study Session

Follow-Up from May 13th Study Session

Summary of Feedback

- Importance of fiscal sustainability
 - Desire for understanding of the City's fiscal condition given the strong fundamentals in the City (SVP contributions, solid jobs to housing ratio, etc.)
 - Need for ongoing funds for capital infrastructure
 - Budget Stabilization Reserve at 25%
- Interest in restoring funding in particular areas (e.g., library materials)
- Interest in major 2026 events and scorecard on expenditures/reimbursements
- Understanding of how Council priorities fit into budget, are tracked, and balanced within the City's workload demands
- Questions regarding specific aspects of the budget (responses in the following slides and Attachment 3 to RTC)

May 13th Study Session Responses

1. Question: For the potential expansion of the City's fiber network, how will the fiber be used within the City?

Response: The City plans to hire a consultant with expertise in broadband networks to study deficiencies in internet options available to residents and businesses. The objective of the study is to recommend options to ensure that 100% of the City have reliable broadband access. Potential solutions may include expanding the City's fiber program, establishing partnerships with private industry, and/or establishing a municipal broadband service.

2. Question: Why does the Transient Occupancy Tax (TOT) revenue estimate increase approximately 20% from FY 2024/25 to 2025/26? Does this factor in growth associated with the major events scheduled for 2026?

Response: In FY 2024/25, the TOT revenue estimate was set at \$22.9 million in the Adopted Budget. However, receipts are tracking to exceed this level with a year-end estimate over \$25 million. From this higher starting point, collections in FY 2025/26 are projected to increase to \$27.5 million. This reflects growth of approximately 9% from the FY 2024/25 revised estimate and 20% from the FY 2024/25 Adopted Budget. The FY 2025/26 estimate factors in the annualization of the TOT rate increase from 12.5% to 13.5% in January 2025 as well as continued growth in this category. The major events in 2026 are expected to contribute to this growth.

May 13th Study Session Responses

3. Question: For the library materials restoration, how much is funded and is there a balance that remains unfunded?

Response: There was an unfunded need of \$290,000 annually to restore library materials funding. The Proposed Budget includes one-time funding of \$145,000 in FY 2025/26 and FY 2026/27, leaving an unfunded balance of \$145,000 each year. Restored funds will be used to support digital (60%) and non-digital (40%) materials, with a focus on items for children. With the restoration of Sunday hours, there is also more circulation of materials. Programming and the availability of materials go hand-in-hand in the comprehensive approach to library services.

4. Question: Do the additions in the Building Division take into account the internal audit of the Building Permitting Process?

Response: Yes, these position additions take into account the audit of Building Permitting Process. Additionally, an internal organizational review is being performed for City departments. Based on the results of this review, additional positions may be brought forward for City Council consideration to address recommendations from both the internal audit and organizational review. The results of the internal audit performed by Baker-Tilly are expected to be brought forward to the Audit Committee in June.



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May 13th Study Session Responses

5. Question: Why is the Tasman/Lafayette Walkway Feasibility Study funded by the City's General Fund rather than the Stadium Authority?

Response: The initial feasibility study for a walkway/stairway from Tasman to Lafayette with an under bridge carve-out for rideshare is funded by the General Fund (\$200,000); however, the City will seek additional funds from the Stadium Authority and private developments within the vicinity of the project, as well as Federal and State grant funds to support schematic design, construction plans, and construction costs. While the area is used heavily during events at Levi's Stadium, there is a desire to enhance conditions at this location due to daily usage of the at-grade crossing for the Great America Amtrak Station near Levi's Stadium.

6. Question: Can staff provide a report on the utilization of the SV Hopper program?

Response: The Department of Public Works is currently working with VIA and the City of Cupertino to finalize a report regarding the SV Hopper Program. Once that report is complete it will be distributed to Council in the next couple of months.



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May 13th Study Session Responses

7. Question: For the increase in the general liability insurance associated with major events in 2026, why is this funded by the City rather than the Stadium Authority?

Response: The insurance premiums are preliminary. The appropriate policy limits and self-insured retention are still under discussion with Alliant, the City's insurance broker. There was not a significant spike in claims arising from Super Bowl 50 and this will be considered when making the final coverage determination. The potential change would be to the City's insurance only and would not extend to a private entity. The Stadium Authority's standard non-NFL insurance coverage will be paid through the Stadium Authority budget while specialty coverages for FIFA World Cup will be borne by the Bay Area Host Committee. The potential risk to the City arises from the increased number of visitors (attending special City events around Super Bowl LX and FIFA World Cup, traveling to the City for the major events, increased interest in City) that can translate into the potential for increased claims. Such claims would be against the City rather than any other entity and would be addressed by the City's insurance. These issues were also discussed for Super Bowl 50 and, at that time, the City decreased the self-insured retention from \$5 M to \$3 M and increased the City's coverage policy limits from \$20 M to \$65 M (the limits were decreased to \$50 M in the years following). The corresponding increase in the premiums was a City expense, not charged to the Stadium Authority. The proposal for the current budget follows this model.



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May 13th Study Session Responses

8. Question: Are the latest cost estimates provided by Silicon Valley Regional Interoperability Authority (SVRIA) incorporated into the budget?

Response: The FY 2025/26 budget reflects the estimate provided by SVRIA in late February 2025. As the February estimate is slightly higher (\$14,000) than Santa Clara's allocation adopted in March 2025, there is sufficient budget to cover the FY 2025/26 costs.

9. Question: Are the latest cost estimates for the Water Treatment Plant incorporated into the budget?

Response: No, the latest cost estimates were received after the development of the proposed budget. The operations and maintenance costs are \$0.3 million higher than the proposed budget, while the construction estimate is \$5.8 million lower than the proposed budget. Overall, the five-year CIP total for the Regional Wastewater Facility is largely unchanged. As part of the adoption of the budget on June 10th, staff will bring forward adjustments to the Sewer Utility funds to reflect these updated operating and capital costs for the Regional Wastewater Facility.



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May 13th Study Session Responses

10. Question: For the major events in 2026, how are these being supported by staff? Are there additional positions recommended to address the workload?

Response: The major events are supported by existing staff, as needed staff, the use of overtime, and staff from outside agencies (e.g., Police officers from other jurisdictions). There are no new positions added for the major events.

11. Question: For the unfunded priorities, when will these be revisited? Were any previously identified priorities removed from the list?

Response: Staff is currently working on developing reports for City Council consideration related to some of the unfunded priorities including but not limited to: RV Parking, Vision Zero, parking, etc. Those reports will be presented to the City Council as they are completed. In fall 2025, staff will return with a biannual update on the Council Priority Initiatives with a summary of progress on each item. In addition, staff is working to develop a public dashboard to efficiently provide updates on the progress of Priority Initiatives. Items identified as complete or baseline/ongoing have been removed from the tracking list.



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May 13th Study Session Responses

12. Question: For the General Obligation Bond projects, how can changes to the expenditure plan be brought forward for consideration based on needs?

Response: The expenditure plan for bond proceeds was adopted by the City Council on July 16, 2024. Ordinance No. 2069, Section 13(b)(ii) outlines the process to amend the expenditure plan: *"City staff shall review, analyze and make a recommendation on any proposed substantive amendment to the Expenditure Plan ("Amendment"). Prior to City Council consideration, any such proposed Amendment shall first be submitted to the Bond Compliance COC for their review and recommendation. Any proposed Amendment shall require the unanimous approval of the City Council"*.

13. Question: With the number of City Council priorities, does the City administration have the capacity to address all of these priorities?

Response: The City administration will continue to balance the City Council priorities with the other day-to-day operations. The work on the Council priorities can impact the ability to make progress in other areas given staff capacity. As we move forward, it will be important to manage the total number of Council priorities that are being pursued at a given time to ensure those priorities can be successfully implemented while we continue to deliver a high level of service to the community.



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May 13th Study Session Responses

14. Question: For capital infrastructure funding, the \$10 million ongoing amount built into the Ten-Year General Fund Forecast seems low. What would be a realistic amount to budget to address the needs? Should the City's budget policy regarding the Capital Projects Reserve be revised with a new goal rather than the minimum balance of \$5 million?

Response: The \$10 million in the Forecast over ten years was a first step in funding ongoing infrastructure maintenance but does not address all the funding needs. The proposed Fiscal Sustainability Plan would evaluate the ongoing needs as well as potential funding strategies. The results of this Plan may also inform an update to the City's Budget and Fiscal Policies that currently sets the General Fund Capital Project Reserve at a minimum of \$5 million. Council may direct staff to bring forward a revision to the policy that would be approved by the City Council. Staff recommends that this be done in concert with the Fiscal Sustainability Project.

15. Question: What labor costs are assumed in the Ten-Year Forecast?

Response: The Forecast builds in the labor cost assumptions for all salary and benefit categories. For instance, salary costs are based on negotiated labor agreements and/or assumed growth, retirement costs are based on information from CalPERS and the City's actuary, and health costs are based on projected increases to premiums and negotiated labor agreements. There are several labor costs tied to specific bargaining units (e.g., POST pay, education incentive pay, holiday pay). Employee-specific data is also downloaded each year.



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May 13th Study Session Responses

16. Question: How is the City managing the unfunded pension liability?

Response: The City contributes to a Pension Stabilization Reserve (Trust). The current budget policy is to fund 1% of the value of the City's unfunded liability annually (typically in December as part of Year-End Report). While the City's CalPERS plans are funded below the State average, the Trust has a balance of \$49 million. This amount raises the funding ratio from 61.9% to 64.5%, compared to the State average of 70%. The Council could decide by policy to fund additional amounts; however, given resource constraints, staff would recommend that a policy decision be brought forward after the Fiscal Sustainability Plan project. Pre-funding options have been evaluated by staff and are not recommended due to additional risk this strategy could bring to the plan. Plan design changes would require further analysis, and staff will include this scope to the Fiscal Sustainability Plan project.

17. Question: What are the separate budgets and position counts for the Police and Fire Departments?

Response: In FY 2025/26, the Fire Department budget totals \$81,298,549, or 4.5% of the total City budget and 21.1% of the General Fund budget, with 175.50 FTE (14.6% of total FTE). In FY 2025/26, the Police Department budget totals \$100,425,435, or 5.6% of the total City budget and 29.8% of the General Fund budget, with 231.00 FTE (19.3% of total FTE).



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May 13th Study Session Responses

18. Question: Are there sufficient Information Technology staff to address the workload, including changing needs such as AI, and what would the two new positions (one in FY 2024/25 and one proposed for FY 2025/26) be assigned?

Response: The current IT staffing model combines a limited number of city staff with a contracted service provider, Unisys. This contract is recommended to be extended through December 31, 2025 (as a separate item on the May 27th Council agenda), while a longer extension is being negotiated through the closeout of the 2026 special events. At the same time, an IT review will be conducted to determine the long-term strategy for the delivery of these services. In an effort to improve efficiencies, streamline processes, and enhance the end user experience, two new Senior IT Services Manager positions have been added, one in last year's budget and one proposed to be added for FY 2025/26 to focus on departmental applications and projects, including the use of AI in the workplace.

May 13th Study Session Responses

19. Question: Are the park in-lieu fees sufficient to purchase park land? How are the needs for new park space and improved park space being balanced?

Response: By internal policy, approximately 25% of the park in-lieu fees are allocated to the Parkland Acquisition Project, which has an estimated balance of \$11.5 million. The current fair market value for an average acre of land ranges from \$5.25 million (North Santa Clara) to \$5.65 million (West Santa Clara). Most property for sale in Santa Clara (including North Santa Clara) has a facility/building asset that will also factor into the land/property value. An estimated 3-5 acres is required to develop a neighborhood/community park with adequate amenities such as off-street parking, restrooms, open space, playground(s), picnic tables, walking paths, and optional sport courts. The Parks and Recreation Department will be issuing a Request for Proposal within the next fiscal year for a vendor to assist with identification and potential purchase of parkland. Additionally, the Parks Master Plan will be finalized within the calendar year and will assist City Council and staff in prioritizing and balancing the approach to parkland acquisition and improving existing parkland, including the 32 acres located in North Santa Clara within the Related Project.

May 13th Study Session Responses

20. Question: How much does the City spend supporting the unhoused? How are we addressing the service needs?

Response: Between FY 2022/23 through the current fiscal year, the Housing Division has spent an annual average of approx. \$0.9 million on services for the unhoused and homelessness prevention (e.g., partnering with the County of Santa Clara for intensive case management, tenant-based rental assistance, and mobile shower and laundry services). Funding for these services is incorporated into the ongoing budget in the Housing Division in various Housing funds (Housing Authority, City Affordable Housing, Housing Successor Agency, and Housing and Urban Development).

The City also received a \$1.8 million grant from the State for the Santa Clara Overnight Care Locations pilot program. Staff proposes to use this funding to support initial investments in an emergency and inclement weather shelter program for unhoused residents and to conduct mobile outreach and case management citywide for a two-year period. This project will return to City Council for approval by early summer 2025.

The City is planning a Study Session on July 8th for a discussion on a citywide plan to reduce homelessness and its impacts, which includes additional future services to support the unhoused.

May 13th Study Session Responses

21. Question: Are there ongoing positions funded with one-time funds? How will those costs be addressed moving forward?

Response: The budget includes 7.35 ongoing positions proposed to be funded by the General Fund as detailed in Attachment 3. These positions were identified as the highest needs to deliver current City Council priorities and support operations in key areas. While the FY25/26 and FY26/27 costs are funded with one-time resources, the ongoing cost (if approved) will be included in the 10-year forecast and factored into the solutions needed through the Fiscal Sustainability Plan project.

22. Question: Are there additional surplus funds in the General Fund projected for FY 2024/25?

Response: Yes, the General Fund is tracking to end FY 2024/25 with a surplus due to higher revenues and expenditure savings. A portion of this projected surplus from Stadium revenues and Sales Tax was factored into the Proposed Budget balancing. Additional surplus funds are expected and will be reconciled in the FY 2024/25 Year-End Report in December. Surplus funds have historically been the source of funding to support the City's infrastructure that relies on the General Fund, contributions to Reserves, and to address other needs that arise after the adoption of the budget.

May 13th Study Session Responses

23. Question: What is the overall increase in salaries and benefits in the Proposed Budget?

Response: The increase in salaries and benefits between FY 2024/25 and FY 2025/26 is \$39.5 M or 11.4%. This reflects adjustments to salaries, including as-needed staff (\$12.6 M, 31.8%) and overtime (\$7.3 M, 18.2%). Most of the overtime (\$5.3 M) is associated with special events at the Stadium. Increases in retirement costs, health allocations, and other benefits total \$11.3 M, or 29%. The remaining amount of \$8.3 million, or 21%, reflects the increase in budgeted FTE between the two fiscal years.

24. Question: How much funding is budgeted for a City Charter amendment and why is that incorporated now?

Response: \$100,000 is included in FY 2026/27 for a potential City Charter amendment. The 2025 Governance and Ethics Committee Workplan approved on May 1, 2025, includes a Comprehensive City Charter Update proposal. The Proposed Budget provides funding to bring forward a measure in FY 2026/27 based on the outcome of this work. These funds would be returned to the General Fund if a Charter Amendment does not move forward.

May 13th Study Session Responses

25. Question: How much funding is set aside for major events? A dashboard with expenses and reimbursements would be helpful to inform the Council and the public.

Response: The FY 2025/26 proposed budget includes \$11.4 million for personnel and non-personnel costs associated with Super Bowl LX and FIFA World Cup 2026 events, while the FY 2026/27 proposed budget includes \$1.2 million for salary costs associated with the FIFA World Cup events. Information will be provided through an online dashboard reflecting cost estimates and reimbursement status on a quarterly basis for each major event. All of these costs are budgeted to be reimbursed.

26. Question: Will the time spent on major events displace normal City service delivery? How much of our City services are being impacted?

Response: The time spent on major events is expected to have a minimal impact on normal City service delivery. In FY 2025/26, City salary costs (\$1.6 M) represent a small portion of the total labor-related costs associated with the special events (\$10.1 M). Most of the labor-related costs are budgeted in the overtime, as-needed staff, and other agencies categories. These categories add capacity to support the special events beyond the base level of service provided by existing staff.

June 10th Public Hearing/ Budget Adoption

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Public Hearing/Budget Adoption

- June 10th Public Hearing and Adoption of Proposed Budget
 - Appropriation Schedules
 - Capital Budget Carryovers from FY 2024/25 to FY 2025/26
 - Any Proposed Budget to Adopted Budget recommended changes
 - Follow-up from May 27th Study Session
- Appropriations Limit (Gann Limit) to be approved on June 10th



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City Council Meeting

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**Study Session: Review of the
Proposed FY 2025/26 &
FY 2026/27 Biennial Operating
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Budget Changes**

May 27, 2025