



City Council Meeting

Item #7 – RTC 25-272
Public Hearing: Action on the Adoption of the Proposed FY 2025/26 & FY 2026/27 Biennial Operating Budget and FY 2025/26 Capital Improvement Program Changes

Item #8 – RTC 25-538
Action Establishing the City's FY 2025/26 Appropriations Limit

June 10, 2025

Agenda

- FY 2025/26 and 2026/27 Proposed Budget
 - Budget Overview
 - Amendments to the Proposed Budget
 - Follow-up from Budget Study Sessions
- FY 2025/26 Appropriations Limit
- Recommendations

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

Priority Areas of Focus*

Excellent City Services

Maintaining quality of life / core services
Financial sustainability
Prioritize services for those in need

Reliable Infrastructure

Bond Measure implementation
Maintain existing infrastructure

Outstanding Quality of Life

Climate Action Plan
Parks and Recreation Master Plan

Thriving Community

Business growth and expansion
Process improvements
Downtown revitalization
Small business retention

2026 Major Event Planning: 1) Super Bowl and FIFA Planning and 2) Showcase Santa Clara

* 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	\$335,374,572	\$342,972,517
Special Revenue Funds	41,458,963	52,037,355	38,806,836
Enterprise Funds	945,192,918	1,012,631,859	1,100,414,703
Internal Service Funds	45,724,215	51,672,525	48,281,729
Debt/Other	152,273,904	273,236,049	27,245,993
Less (Transfers, Contributions, and Reserves)*	(416,866,269)	(529,425,156)	(302,635,147)
Subtotal Operating Budget	\$1,078,481,920	\$1,195,527,204	\$1,255,086,631
Capital Funds	568,932,159	777,527,724	150,763,062
Less (Transfers, Contributions, and Reserves)*	(1,818,315)	(1,454,000)	(1,454,000)
Subtotal Capital Budget	\$567,113,844	\$776,073,724	\$149,309,062
Total Budget	\$1,645,595,764	\$1,971,600,928	\$1,404,395,693

* 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



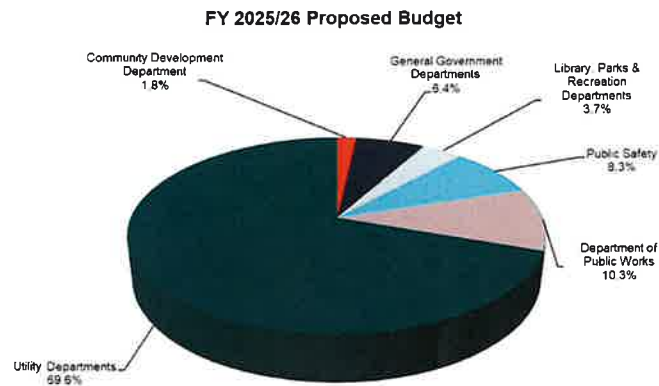
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Proposed Budget Overview

Expenditures by Department Type

- SVP and Water & Sewer account for 70% of the expenditure budget
- Police and Fire account for 8% of the budget
- Public Works accounts for 10% of the budget
- Other departments account for 12% of the budget



Proposed Budget Overview

Outstanding Quality of Life

- Public Safety Investments:
 - Continue 12.0 relief firefighter positions that were originally unfrozen with the Staffing for Adequate Fire and Emergency Response (SAFER) grant
 - Unfreeze 2.0 Police Officer and 1.0 Police Sergeant positions in FY 2026/27 aligning with recruitment of existing vacancies and future vacancies, offset by an increase in the vacancy rate, to increase capacity in Field Operations and Special Operations Divisions (traffic, regional task forces, and the Aerial Response Team)
 - Fire Department training on new Tiller Truck apparatus



Proposed Budget Overview

Outstanding Quality of Life



- Add 1.0 Management Analyst to help manage the Homelessness Response Plan, set up pilot Safe Parking Program, assist with managing Overnight Warming Location or a hotel respite program, seek out grant funding, manage the City's outreach team
- Add 1.0 Recreation Manager to provide Parks capital projects, GO Bond, and program support
- Arts Master Plan (\$120K for study)
- Adds funding in Non-Departmental for staffing resources to plan and support major events at the stadium (Super Bowl LX and FIFA World Cup events); City costs to be reimbursed

Proposed Budget Overview

Excellent City Government

- Restore library materials (\$290K) in FY 2025/26 and FY 2026/27 (additional funding of \$145K each year recommended in the Proposed to Adopted changes)
- Add 1.0 Management Analyst for sustainability programming; Climate Action Plan
- Add 1.0 Staff Analyst to support the implementation of the Housing Element
- Add 1.0 Sr. Information Technology Services Manager to support numerous technology projects underway; add funding to update the City's website to ensure ADA compliance



Proposed Budget Overview

Excellent City Government

- Administration:
 - Unfreeze 1.0 Legal Office Specialist position
 - Add funding for election costs for a potential Charter amendment measure
 - Human Resources Neogov improvements (performance management and recruiting tool)
 - Add 1.0 Accountant in Finance and 1.0 Management Analyst in Public Works to revise capital project accounting/tracking to improve transparency
- Add 1.0 Business Analyst to support development technology efforts (funded by Technology Fee/Building Development Fee Fund)
- Utility Customer Service: add 1.0 Utility Field Service Worker, 1.0 Customer Service Rep, 1.0 Meter Reader, and 1.0 Accounting Tech in Finance (funded by City utilities)
- Add funding for the Fiscal Sustainability Plan

Proposed Budget Overview

Excellent City Government

- Development Services
 - Building Division – Add 1.0 Plans Examiner and 1.0 Senior Inspector
 - Fire Department – Add 1.0 Fire Protection Engineer, 1.0 Fire Prevention Specialist, 1.0 Management Analyst and contractual plan review and inspection services funding
- Additional excess liability insurance to protect the City from large potential claims in FY 2025/26 (does not cover claims at the Stadium)



Proposed Budget Overview

Reliable Infrastructure

GO Bond Implementation

- Support for Infrastructure Bond Measure approved in November 2024
- Phased delivery of expenditure plan and coordination with Bond Compliance Oversight Committee
- Add funding of \$1.0 million in FY 2025/26 and \$2.0 million in FY 2026/27 to support positions and maximize Bond project capacity (5% restriction in bond)
- Staffing Additions: 1.0 Bond Projects Manager/DCM; 1.0 Principal Engineer, 1.0 Senior Civil Engineer, and 1.0 Management Analyst



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Proposed Budget Overview

Reliable Infrastructure

- Expand City fiber network throughout the City for internet equity and collaborate with private providers (\$500K for study)
- Feasibility Study for walkway/stairway from Tasman to Lafayette with carve-out under bridge for rideshare (\$200K for study)
- Add ongoing funding for capital infrastructure maintenance/replacement (\$1 million in FY 2025/26 and \$2 million in FY 2026/27)



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Proposed Budget Overview

FY 2025/26 Capital Budget Amendments

- FY 2025/26 – Second Year of Biennial Capital Budget
- Adjustments in Proposed Budget to reflect changes in estimated project costs / timelines
- Carryover of FY 2025/26 funds brought forward as part of budget adoption (included in the recommended budget actions and described in Attachment 3 to RTC)
- G.O. Bond updates and timeline to be provided separately



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

Amendments to the Proposed Budget

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Amendments to the Proposed Budget

- Attachment 3 to the RTC
- Capital project carryovers from FY 2024/25 to FY 2025/26
- Actions occurring after Proposed Budget issued
 - **Library Materials** – fully restore library materials funding
 - **Housing Annual Action Plan (May 13th)** – align with adopted plan
 - **Sewer Utility/Sewer Utility Capital Funds** – latest information on the Regional Wastewater Facility costs
 - **SV Hopper** – third year of funding
 - **Electric Utility Capital Projects** – adds limited project funding (substation projects/ Northwest Loop) funded by FY 2024/25 unexpended projects and developer contributions
- Limited operating carryovers (e.g., safety evaluation/implementation, labor negotiations, employee recognition, bond implementation, community grants, library grants, computer replacements, IT service evaluation, Benton/Lawrence Project, tenant-based rental assistance and supportive services, Bill Wilson Center support, affordable rental housing)



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Follow-up from the Study Sessions

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Follow-Up from Budget Study Sessions

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 and potential change in reserve policy
 - Budget Stabilization Reserve at 25%
- Interest in fully restoring library materials funding
- 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; interest in scorecard
- Responses to budget questions provided in Attachments 5 and 6 to RTC; responses to the May 27th Study Session on the following slides



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May 27th Study Session Responses

1. Question: Without adding new positions, how can the City support the major special events without impact existing City services?

Response: The impact of special events is expected to be minimal. While the proposed budget does not add funding for new positions, it does add more resources in the form of as-needed staff, overtime, and funding for staffing from other agencies (police staffing). Additionally, the City Manager's Office is looking to add temporary staffing to advance City Council priorities, organizational improvements, and community engagement in 2025 and 2026 within existing resources and salary savings, without an increase to the General Fund budget. To the extent that any permanent or temporary staff are used to support the major special events directly, those costs will be billed to the events and fully reimbursed, in compliance with Measure J.

2. Question: When will the special events dashboard be available and will it include data from FY 2024/25? Will the dashboard include all staff time, not solely public safety?

Response: Information will be provided through an online dashboard reflecting the actual costs and reimbursements on a quarterly basis for the major events. This will include all City costs billed to the Bay Area Host Committee starting in FY 2024/25. The dashboard will be available by August 2025.



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May 27th Study Session Responses

3. Question: For the firefighter positions currently funded from the Staffing for Adequate Fire and Emergency Response (SAFER) grant, can we retain all the positions once the grant ends?

Response: The SAFER grant allowed for the restoration of 12.0 previously frozen firefighter positions and the addition of 6.0 firefighter positions based on the existing vacancies at the time of the grant application for a total of 18.0 grant-funded positions over the three-year grant period ending in FY 2025/26. This budget recommends the continuation of the 12.0 restored firefighter positions starting in FY 2026/27. The 6.0 positions that were requested due to vacancies were temporary and no longer funded after the grant.

4. Question: On average, how much annual funding do other jurisdictions allocate to their Capital Projects Reserve and/or dedicate to capital infrastructure?

Response: Staff found that the cities in the County have different policies for allocating funds for capital purposes. The fiscal policies for several cities specified the use of a portion of General Fund year-end surplus funds for capital projects. A few cities set a minimum goal of \$5.0 million for a capital reserve. A few cities have dedicated funding sources for capital, such as Construction and Conveyance (property transfer) Tax, dedicated portion of the Transient Occupancy Tax, Storm Sewer Fees. The City of Palo Alto budgets a base transfer from the General Fund.



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May 27th Study Session Responses

5. Question: For prior fiscal years, how close are the year-end actuals to the budgets for those years?

Response: The goal each year is to end the year with a General Fund surplus equal to 2% of revenues and 2% of expenditures for a total of approximately 4% of the budget. At the end of the last five fiscal years, surpluses ranged from \$2.1 million (0.8%) to \$36.4 million (12.8%). These surpluses were comprised of excess revenues and expenditure savings from the budgeted levels.

6. Question: For the support for the unhoused, are we simply partnering with the County?

Response: The City partners with the County to offer specific services including homelessness prevention and project-based case management. CDD and CMO staff also dedicated significant time on the Homelessness Point in Time Count in January 2025 in partnership with the County and this will be a continued partnership. The City directly funds the WeHope mobile shower and laundry program, NextDoor Solutions domestic violence survivor support, and tenant-based rental and deposit assistance (TBRA) with case management. Staff is in the process of expanding the TBRA program using HOME ARP funding. The City also received a \$1.8 million grant from the State for the Santa Clara Overnight Care Locations pilot program that will come back to Council for approval in summer 2025. The City is planning a Study Session on July 8th on a citywide plan to reduce homelessness and its impacts.

May 27th Study Session Responses

7. Question: How will special events be covered with as-needed staff and overtime and how are they funded in the budget?

Response: The FY 2025/26 proposed budget includes \$11.4 million for personnel and non-personnel costs (e.g., equipment, training) 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. These costs are budgeted to be reimbursed. The \$11.4 million budget in Non-Departmental includes \$5.3 million for overtime, \$1.0 million for as-needed costs, and \$2.1 million for sworn staffing from other agencies.

8. Question: How much Stadium performance rent is anticipated in the budget?

Response: The anticipated performance rent assumed in the Proposed budget is \$2.15 million in FY 2025/26 and \$2.85 million in FY 2026/27. These amounts are also assumed in the Santa Clara Stadium Authority (SCSA) budget approved on March 11, 2025.

May 27th Study Session Responses

9. Question: When the year-end budgetary report is presented, should the anticipated surplus funds in the General Fund be allocated to the Pension Stabilization Reserve or the Capital Projects Reserve (CPR)

Response: Staff plans to bring forward recommendations to add funding to the Pension Stabilization Reserve and CPR. Under the City's Budget and Fiscal Policies, the target annual funding contribution to the Pension Stabilization Reserve is 1% of the City's unfunded pension liability; funds are typically added as part of the year-end report. Surplus funds are also expected to be added to the CPR. Historically, year-end surplus funds are the primary funding source for capital projects that rely on the General Fund and are the main funding source for the subsequent biennial capital budget.

10. Question: How can the City capitalize on the major events? Should the City hire a consultant to maximize TOT revenues from short-term rentals (VRBO and Airbnb)

Response: CDD is working on a Short-Term Rental (STR) program. The City is partnering with a consultant to develop a website to register STRs and an outreach campaign. The consultant will monitor internet listings and cross-reference them with the City's registered STRs to program compliance. The STR registration portal is expected to go live in July 2025, with an outreach campaign following in August 2025. The City has a voluntary compliance agreement (VCA) with Airbnb. The City also receives TOT from other smaller STR websites. VCAs with other STR websites will be pursued ahead of the large events.



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May 27th Study Session Responses

11. Question: Can staff verify that the 51% of the General Fund budget allocated to public safety excludes Stadium work?

Response: Yes, the 51% of the General Fund allocated to public safety excludes Stadium work. The Stadium budget is included under the Non-Departmental budget, which includes both standard Stadium items and special event related items.

12. Question: For the \$6.7 million proposed in the General Fund for FY 2025/26 and FY 2026/27 for City Council priorities and City services, are these funds earmarked for specific purposes?

Response: The Proposed Budget allocates \$6.7 million over the two-year period (\$3.8 million in FY 2025/26 and \$2.9 million in FY 2026/27) to the various budget proposals in the budget that support City Council priorities and City services (e.g., library materials; Fiscal Sustainability Plan; explore potential expansion of the City's fiber network; staffing to support housing and homelessness response, sustainability/Climate Action Plan, administrative support for the City Attorney's Office, and parks and recreation capital project and program support; the continuation of the 12.0 firefighter positions (partially offset by a reduction in overtime); general obligation bond implementation; and capital funding for the Public Art Master Plan and the feasibility study for the walkway from Tasman to Lafayette).



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May 27th Study Session Responses

13. Question: Are the City Council priorities prioritized and can a dashboard be provided to show how the funding is aligned to the priorities?

Response: The City Council priorities are currently not prioritized. A prioritization process can be evaluated as part of future priority setting sessions. A dashboard and biannual reports will provide information on the status of priorities, including whether they are funded. The target date for the dashboard is fall 2025.

14. Question: What are the 7.35 ongoing positions funded with one-time funds, and how would we forecast for those positions?

Response: The 7.35 positions include 1.0 Management Analyst to help manage the Homelessness Response Plan; 1.0 Staff Analyst for Housing Element implementation; 1.0 Accountant and 1.0 Management Analyst to support a revision to the charging of public works staff directly to projects; 1.0 Recreation Manager to support Parks and Recreation; 1.0 Management Analyst to support sustainability / Climate Action Plan; unfreezing 1.0 Legal Office Specialist; and 0.35 portions of positions in Finance and Fire. These positions were identified as the highest needs to deliver current City Council priorities and support operations in key areas. The ongoing cost (if approved) will be included in the next 10-year forecast and will be factored into the solutions needed through the Fiscal Sustainability Plan project.

May 27th Study Session Responses

15. Question: What will be the scope of work for the Fiscal Sustainability Project? Was a similar report prepared in the past that can be used as a model?

Response: There has not been a consultant report prepared in recent history examining the City's fiscal position. Staff is developing a request for proposal to obtain a consultant for the Fiscal Sustainability Project. As part of this process, staff is reviewing reports from other jurisdictions to inform the scope. While the scope of work is still under development, it is expected to include an analysis of City funding sources, infrastructure needs, services, and reserve levels (e.g., Budget Stabilization Reserve, Pension Stabilization Reserve, Capital Projects Reserve). The analysis will also review the City's current position as well as provide benchmarks from local / comparable jurisdictions. One of the expected project deliverables is an Implementation Action Plan that presents actionable strategies for the City Council and community to consider that would address projected budget shortfalls, enhance the City's capacity to fund services and infrastructure, and plan for future service demands and population changes.

FY 2025/26 Appropriations Limit

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Appropriations (Gann) Limit (Item 8)

- In compliance with Propositions 4 (Gann Initiative) and 111 (Spending Limitation Act of 1990), State constitution limits the amount of revenue that can be spent by governmental agencies.
- Beginning with FY 1990/91 appropriations limit, Cities can use the following as an adjustment factor:
 - Annual growth in City's population or County's population
 - Annual growth in California Per Capital Income or non-residential assessed valuation
- FY 2025/26 appropriations subject to the limit of \$697,292,626
- Revenue subject to Appropriations \$254,040,417 or 36.4% of limit



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Recommendations

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Recommendations

Agenda Item 7 – Budget Adoption

1. Approve the Proposed FY 2025/26 and FY 2026/27 Biennial Operating Budget and FY 2025/26 Capital Budget changes, including the recommended revisions detailed in Attachment 3;
2. Approve the Appropriation Schedule for operating funds totaling \$1,724,952,360 in FY 2025/26 and \$1,557,721,778 million in FY 2026/27 and the FY 2025/26 Appropriation Schedule for capital funds totaling \$777,527,724 as detailed in Attachment 4;
3. Approve the Housing Authority FY 2025/26 expenditure budget of \$459,878 and FY 2026/27 expenditure budget of \$471,936 as presented in the Operating Budget;
4. Approve the Sports and Open Space Authority FY 2025/26 expenditure budget of \$11,404 and FY 2026/27 expenditure budget of \$11,612 as presented in the Operating Budget; and
5. Direct staff to bring forward recommended revisions to the Capital Projects Reserve funding target included the City's Budget and Fiscal Policies informed by results of the Fiscal Sustainability Plan.



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Recommendations

Agenda Item 8 – Appropriation Limit

1. Adopt a Resolution Establishing the City's Fiscal Year 2025/26 Appropriations Limit of \$697,292,626 Pursuant to Article XIII B of the California State Constitution



City Council Meeting

Item #7 – RTC 25-272

Public Hearing: Action on the Adoption of the Proposed FY 2025/26 & FY 2026/27 Biennial Operating Budget and FY 2025/26 Capital Improvement Program Changes

Item #8 – RTC 25-538

Action Establishing the City's FY 2025/26 Appropriations Limit

June 10, 2025