

6/27/23

Item #5A + 5B



City Council Meeting

Item # 5A – RTC 23-144
Public Hearing: Action on the
Adoption of the Proposed FY 2023/24
& FY 2024/25 Biennial Operating
Budget and FY 2023/24 Capital
Improvement Program Changes

Item # 5B – RTC 23-519
Action Establishing the City's FY
2023/24 Appropriations Limit

June 27, 2023

Agenda

- FY 2023/24 and 2024/25 Proposed Budget
 - Budget Overview
 - Potential Future Revenue Sources
 - Amendments to the Proposed Budget
 - Follow-up from Budget Study Sessions
- FY 2023/24 Appropriations Limit
- Recommendations

FY 2023/24 & FY 2024/25 Proposed Budget Overview

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Overview

Budget Provides Stability for Community Services

- FY 2023/24 and FY 2024/25 Proposed Biennial Operating Budget
 - Reflects improved 10-Year General Fund Forecast (\$27M to \$9M)
 - General Fund structural deficit significantly reduced
 - Preserves services with fewer reductions necessary
 - Strategic support reductions vs. direct services
 - Multiple Study Sessions / Public Hearing – Budget adoption June 27th
- FY 2023/24 Capital Budget
 - Limited adjustments for FY 2023/24
 - Future revenue measure direction needed



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Overview

Budget Development Process

- Mayor/Council Briefings – Late March
- Release Proposed Budget on City's website – April 28th
- Budget Study Session/Forecast Update – May 9th
- Release Budget-in-Brief/outreach to stakeholders – May 23rd
- Budget Study Session – June 6th
- **Public Hearing/Budget Adoption – June 27th**

Proposed Budget Overview

FY 2023/24 and FY 2024/25 Proposed Budget			
Fund Type	FY 2022/23 Adopted Budget	FY 2023/24 Proposed Budget	FY 2024/25 Proposed Budget
General Fund	\$272,355,000	\$281,795,558	\$287,458,968
Special Revenue Funds	28,469,000	48,639,709	37,111,226
Enterprise Funds	815,865,000	872,344,414	968,035,945
Internal Service Funds	42,429,000	39,606,414	41,304,602
Debt/Other	19,847,000	374,983,049	40,658,134
Less (Transfers, Contributions, and Reserves)*	(203,143,000)	(515,319,491)	(247,455,561)
Subtotal Operating Budget	\$975,822,000	\$1,102,049,653	\$1,127,113,314
Capital Funds	\$357,381,000	\$657,486,151	\$108,385,754
Less (Transfers, Contributions, and Reserves)*	(1,454,000)	(3,188,205)	(1,454,000)
Total Capital Budget	\$355,927,000	\$654,297,946	\$106,931,754
Total Budget	\$1,331,749,000	\$1,756,347,599	\$1,234,045,068

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

Proposed Budget Overview

- Balanced budget of \$1.8 billion for FY 2023/24 and \$1.2 billion budget for FY 2024/25; General Fund approx. one-fifth of budget
- Multi-pronged approach to solve the General Fund deficit: new revenues, one-time & ongoing expenditure savings, use of reserves
- Limit direct service impacts; strategic support reductions
- City continues to fill vacant positions – result in overall improvement to services (still below pre-pandemic levels)
- Set General Fund Budget Stabilization Reserve at minimum of 15% of expenditures
- City's utilities represent the majority of the budget and the resources are aligned with expected activity
- Collaboration with all City departments

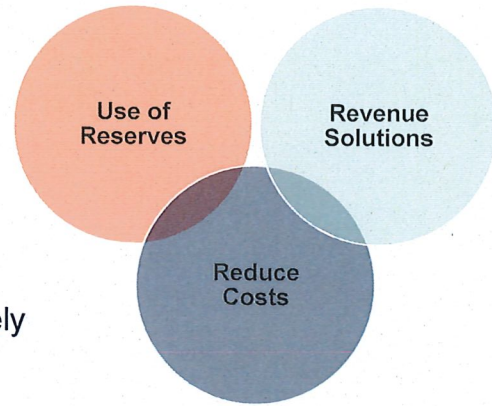


Summary of Funded Position Changes

Summary of Funded Position Changes (All Funds)	
FY 2022/23 Budget	1,127.00
Base Budget Changes (Fire SAFER Grant firefighter positions)	18.00
Base Budget Changes (SVP Funded)	10.00
Base Budget Changes (Development Fee Funded)	5.00
Base Budget (Other Changes)	0.25
Base Budget Changes (freeze Related-funded positions)	(7.00)
Proposed Budget Changes - General Fund Reductions	(4.00)
FY 2023/24 Budgeted Positions	1,149.25
FY 2024/25 Proposed Additional Positions (Building Fee Funded)	4.00
FY 2024/25 Budgeted Positions	1,153.25

Budget Balancing Strategy

- Combination of strategies to address ongoing deficit in Biennial Budget
 - Revenue-generating actions
 - Ongoing/one-time expenditure reductions
 - Use of Reserves
 - Continue phased approach
- Maintain Budget Stabilization Reserve at 15%
- **Restoration of services** not in budget; would rely on outperforming forecast and/or **new** revenues



Budget Balancing Strategy

- **We need both new revenues and expenditure reductions** (\$8 M - \$12 M ongoing)
- Continued phased approach; address approx. half of ongoing need
- Use one-time funds (SAFER grant, salary savings, reserves) to balance budget

FY 2023/24 and FY 2024/25 Biennial Operating Budget General Fund Balancing (\$ in millions)			
	FY 2023/24	FY 2024/25	Ongoing
Forecast Shortfall	(\$8.0 M)	(\$8.9 M)	(\$11.4 M)
Increased Revenues			
– Increase TOT Rate: phased 2%	0.9	1.7	3.4
– Fee Adjustments	0.5	0.8	0.8
– One-Time Revenues	0.2	0.0	0.0
Total Revenue Solutions	1.6	2.5	4.2
Expenditure Reductions			
– Fire SAFER Grant	1.0	3.1	0.0
– Police Vacancy Savings	1.6	1.7	0.0
– Other Departmental Proposals	2.7	2.7	2.0
Total Expenditure Solutions	5.3	7.5	2.0
Use of Reserves			
– Budget Balancing Reserve	1.1	(1.1)	0.0
Use of Reserves	1.1	(1.1)	0.0
Future Unidentified Solutions			5.2
General Fund Balancing Total	\$8.0 M	\$8.9 M	\$11.4 M

Budget Balancing Strategy

Revenue Solutions

- Transient Occupancy Tax - phase in the remaining voter-approved Transient Occupancy Tax increase in FY 2023/24 (1 percent in January 2024) and in FY 2024/25 (1 percent in January 2025), generating additional revenue of approximately \$0.9 million in FY 2023/24 and increasing to \$3.4 million ongoing
- Fee increases were brought forward and approved by the City Council on April 18, 2023
- Anticipated increase to the Storm Drain Environmental Compliance fee is assumed in FY 2024/25
- One-time transfer of \$149,000 from the Vehicle Replacement Fund for the sale of vehicles that will be retired as a budget proposal

Budget Balancing Strategy

Expenditure Savings/Reductions

- In FY 2022/23, the Fire Department was awarded a three-year SAFER grant, which will generate annual General Fund savings (\$1.0 million to \$3.1 million) during the grant period
- Align the Police Department's vacancy factor with the historical staffing rates over the past decade, generating savings of \$1.6 million - \$1.7 million in FY 2023/24 and FY 2024/25; the vacancy factor adjustment will allow the continuation of recruitments and hiring efforts
- Other departmental reductions limit direct service impacts, and the 4.0 position reductions are in strategic supports areas (City Attorney's Office, City Manager's Office, City Auditor's Office, Human Resources Department)

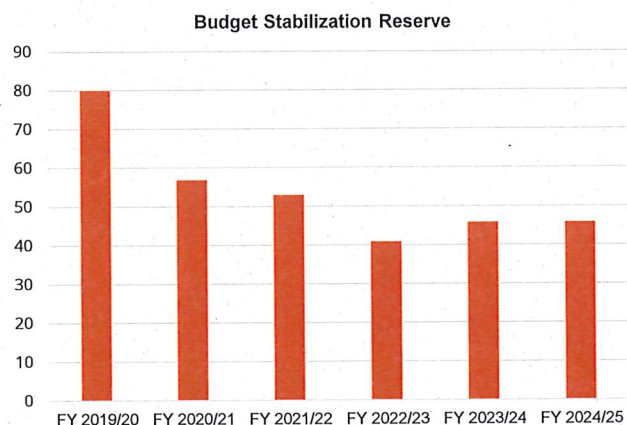
Budget Balancing Strategy

Use of Reserves/Future Unidentified Solutions

- In FY 2022/23, Budget Balancing Reserve established as part of the FY 2021/22 Budgetary Year-End Close process; this Proposed Budget uses \$1.1 million of this reserve in FY 2023/24 and replenishes the amount in FY 2024/25
- After the biennial budget period, future balancing solutions are expected to be necessary; a revised forecast will inform the needed actions at that time

Budget Stabilization Reserve

- Budget Stabilization Reserve has dropped almost half from \$80 M
- Other one-time sources used for budget balancing
 - Land Sale Reserve (\$11 M)
 - Federal Stimulus Funds (\$26 M)



Select General Fund Reserves

Reserve Type	2022/23 Balance	2023/24 & 2024/25 Balance
General Fund Budget Stabilization (BSR)	\$40.8 M	\$45.8 M ¹
General Fund Capital Projects	\$6.6 M	\$6.1 M ²
Land Sale Reserve	\$18.5 M	\$18.5 M
Pension Trust (General Fund)	\$21.4 M	\$21.4 M
FY 2023/24 Budget Balancing Reserve	\$2.0 M	\$0.9 M/\$2.0 M ³
Total	\$89.3 M	\$92.7 M/\$93.8 M

¹BSR increase of \$5.0 M needed to meet the 15% target in FY 2023/24 and FY 2024/25; separate action to be brought forward in June 2023 to increase reserve

²Use of \$0.5 M funds the third year of the Modesto Ash tree removals plan

³The FY 2023/24 Budget uses \$1.1 M of the reserve, which is restored in FY 2024/25



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Santa Clara**
The Center of What's Possible

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Potential Future Revenue Sources

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**City of
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Potential Future Revenue Sources

Consider for implementation in future budgets

- General Obligation Bond (Capital Infrastructure)
 - Fire, Storm, & Community Facilities Infrastructure
- Library/Community Services Parcel Tax
- Documentary Transfer Tax
- Sales Tax
- Utility Tax (gas, telephone, cable)

Separate process to evaluate options with Fall 2023 decision goal

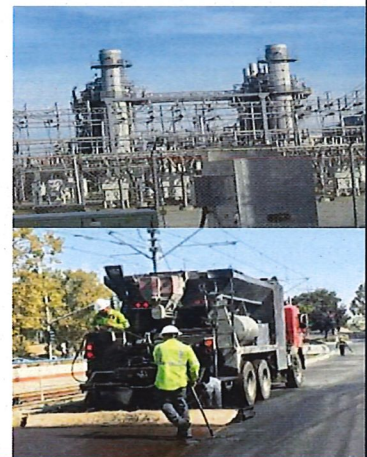
Amendments to the Proposed Budget

Amendments to the Proposed Budget

- Attachment 2 to the RTC
- Capital project carryovers from FY 2022/23
- Actions occurring after Proposed Budget issued
 - **Homekey Interim Housing Development (May 2nd)** – \$5 M from Santana West Settlement and unused balances in Housing funds
 - **Housing Annual Action Plan (May 9th)** – align with adopted plan
- Limited operating carryovers (e.g., library facilities master plan, small business assistance, IT projects) and other adjustments (e.g., Public Works studies, Human Resources recruitment/hiring)

2023/24 Capital Budget Amendments

- FY 2023/24 – Second Year of Biennial Capital Budget
- Adjustments to reflect changes in estimated project costs / timelines
- Limited number of new projects and budget adjustments
 - Northern Receiving Station Transformer and Breaker Upgrades (\$76.3 M)
 - Kifer Receiving Station Rebuild and Replacement (\$30.7 M)
 - NRS-KRS 115kV Line (\$29.3 M)
 - Scott Receiving Station Rebuild and Replacement (\$29.0 M)
- Carryover of FY 2022/23 funds brought forward as part of budget adoption (Attachment 2 to RTC)
- Over \$500 M unfunded infrastructure needs remain



Follow-up Budget Study Sessions

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Follow-up from Budget Study Sessions

Summary of Feedback

- Discussions about elements of the General Fund Forecast, budget mechanics, and balancing strategy (e.g., personnel costs, budgeting for vacancies, CalPERS, sales tax, TOT, development estimates, planning for future growth)
- Concerns around staffing, recruitment, and program delivery
 - Interest in increasing library and senior center hours by filling positions; interest in timeline for improved service delivery
 - Discussions around public safety and the need to deliver the programs and services (e.g., Northside substation, drug education, fire services after SAFER grant expires)
 - Departmental vacancy rates and strategies to increase recruitment/hiring
- Concerns about the available funding for capital infrastructure and interest in pursuing revenue-generating options to address significant capital and operating needs; need to be strategic in bringing forward potential ballot measures



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Follow-up from Budget Study Sessions

Responses to Questions (Attachments 4 and 5 to RTC)

- Address questions regarding various revenues and expenditures (e.g., sales tax, TOT, cannabis, CalPERS, use of one-time funds/reserves, budgeting for vacancies, available capital funding)
- Address questions regarding staffing levels/vacancies, hiring/recruiting, programming and projects (e.g., Northside substation, drug education, senior center, libraries, on-demand shuttle, Street Tree Services project, Lick Mill Boulevard Beacons project, PAL)
- Future revenue opportunities to address significant unfunded capital infrastructure needs and other services to be brought forward in separate study session
- Discussion on fee schedule for public facility rentals to be brought forward separately; expected by December 2023/January 2024
- Budget in Brief (Attachment 6 to RTC)

FY 2023/24

Appropriations Limit

Appropriations (Gann) Limit (Item 5B)

- 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 2023/24 appropriations subject to the limit of \$628,493,798
- Revenue subject to Appropriations \$217,487,082 or 34.6% of limit

Recommendations

Recommendations

Agenda Item 5A – Budget Adoption

1. Approve the Proposed FY 2023/24 and FY 2024/25 Biennial Operating Budget and FY 2023/24 Capital Budget changes, including the recommended revisions detailed in Attachment 2.
2. Approve the Appropriation Schedule for operating funds totaling \$1,617,369,144 in FY 2023/24 and \$1,374,568,875 in FY 2024/25 and the FY 2023/24 Appropriation Schedule for capital funds totaling \$657,486,151 as detailed in Attachment 3.
3. Approve the Housing Authority FY 2023/24 expenditure budget of \$457,193 and FY 2024/25 expenditure budget of \$414,581 as presented in the Operating Budget.
4. Approve the Sports and Open Space Authority FY 2023/24 expenditure budget of \$10,000 and FY 2024/25 expenditure budget of \$10,200 as presented in the Operating Budget.
5. Direct staff to bring forward a separate resolution to increase the Transient Occupancy Tax rate by one percentage point effective January 1, 2024. (Note: the remaining one percentage point increase would be brought forward next year for January 1, 2025)

Recommendations

Agenda Item 5B – Appropriation Limit

1. Adopt a Resolution Establishing the City's Fiscal Year 2023/24 Appropriations Limit of \$628,493,798 Pursuant to Article XIIIB of the California State Constitution.



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June 27, 2023