


6/6/23

Item # 1.A



**City Council Meeting**

**Item # 1A – RTC 23-143**  
**Study Session: Review of the Proposed FY 2023/24 & FY 2024/25 Biennial Operating Budget and FY 2023/24 Capital Budget Changes**

**June 6, 2023**

## Agenda

- Overview
- FY 2023/24 and 2024/25 Proposed Budget
- Potential Future Revenue Sources
- FY 2023/24 Capital Budget Amendments
- Amendments to the Proposed Budget
- Follow-up from May 9th Budget Study Session
- Next Steps

# 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

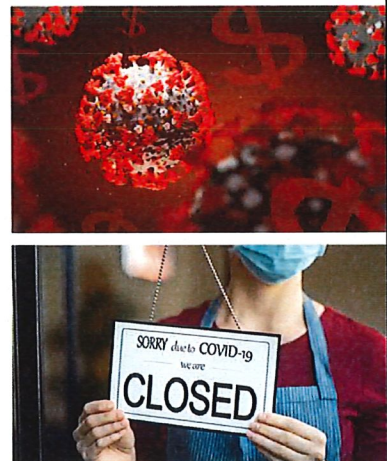
## Budget Development Process

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

# Overview

## Where We Have Been

- Significant operational and financial upheaval triggered by COVID-19
- High vacancies and continued cost controls
- Used approx. \$80 million in one-time reserves and federal stimulus funding to help address shortfalls and allow time for recovery
- Successful ballot measures (TOT, Business Tax, Utilities Transfer)
- Balanced approach to addressing deficit with focus on preserving community services



# Overview

## Where We Are Now

- With lifting of COVID restrictions, organization is aligning to a new normal
- Cost control measures allows time for successful COVID recovery
- High vacancies continue with impacts to service delivery
  - Saved \$10 million last year
  - Current 16.7% vacancy rate as of May 3rd; excludes frozen positions (37.5 FTE)
  - Department vacancies in select areas remain high with competitive recruitment environment (e.g., SVP @ 24% vacancies)
  - 8% - 10% annual turnover rate (retirements, resignations, dismissal, other)
- While General Fund forecast has improved significantly, uncertainty remains as witnessed by the recent events in the banking industry
- Collaborate with all departments to address deficit



# Overview

## Where We Are Going



- Improved financial forecast reduces need for significant reductions
- Reduce structural deficit and replenish reserves
- Budget that protects critical services including public safety – avoids layoffs
- Address 21% loss of capacity to due vacancies and frozen/eliminated positions
- Pursue financial revenue options to create capacity to address unmet needs and Council priorities
- Economic uncertainty and risk of recession persist
  - Budget Stabilization Reserve down by nearly half





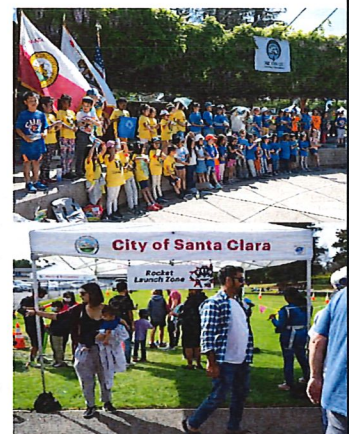
# FY 2023/24 & FY 2024/25 Proposed Budget

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## Proposed Budget Overview

- Balanced budget of \$1.5 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



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# 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	\$280,774,000	\$287,459,000
Special Revenue Funds	28,469,000	38,412,000	37,111,000
Enterprise Funds	815,865,000	872,344,000	968,036,000
Internal Service Funds	42,429,000	38,851,000	41,630,000
Debt/Other	19,847,000	374,983,000	40,658,000
Less (Transfers, Contributions, and Reserves)*	(203,143,000)	(509,710,000)	(247,781,000)
<b>Subtotal Operating Budget</b>	<b>\$975,822,000</b>	<b>\$1,095,654,000</b>	<b>\$1,127,113,000</b>
Capital Funds	\$357,381,000	\$396,879,000	\$108,386,000
Less (Transfers, Contributions, and Reserves)*	(1,454,000)	(1,588,000)	(1,454,000)
<b>Total Capital Budget</b>	<b>\$355,927,000</b>	<b>\$395,291,000</b>	<b>\$106,932,000</b>
<b>Total Budget</b>	<b>\$1,331,749,000</b>	<b>\$1,490,945,000</b>	<b>\$1,234,045,000</b>

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

# Budget Guiding Framework

## Council Adopted Strategic Pillars:

1. Promote and Enhance Economic, Housing and Transportation Development
2. Deliver and Enhance High Quality Efficient Services and Infrastructure
3. Enhance Community Sports and Recreational and Arts Assets
4. Enhance Community Engagement and Transparency
5. Ensure Compliance with Measure J and Manage Levi's Stadium
6. Manage Strategically Our Workforce Capacity and Resources
7. Promote Sustainability and Environmental Protection

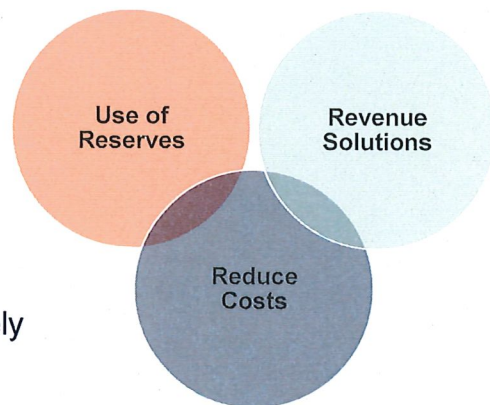


# Summary of Funded Position Changes

Summary of Funded Position Changes (All Funds)	
<b>FY 2022/23 Budget</b>	<b>1,127.00</b>
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)
<b>FY 2023/24 Budgeted Positions</b>	<b>1,149.25</b>
FY 2024/25 Proposed Additional Positions (Building Fee Funded)	4.00
<b>FY 2024/25 Budgeted Positions</b>	<b>1,153.25</b>

# 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)
<b>Increased Revenues</b>			
– 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
<b>Total Revenue Solutions</b>	<b>1.6</b>	<b>2.5</b>	<b>4.2</b>
<b>Expenditure Reductions</b>			
– 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
<b>Total Expenditure Solutions</b>	<b>5.3</b>	<b>7.5</b>	<b>2.0</b>
<b>Use of Reserves</b>			
– Budget Balancing Reserve	1.1	(1.1)	0.0
<b>Use of Reserves</b>	<b>1.1</b>	<b>(1.1)</b>	<b>0.0</b>
<b>Future Unidentified Solutions</b>			<b>5.2</b>
<b>General Fund Balancing Total</b>	<b>\$8.0 M</b>	<b>\$8.9 M</b>	<b>\$11.4 M</b>

# 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

## Phase in TOT Increase

- City of Santa Clara's current TOT rate is 11.5%
- The City has implemented 2% of the 4% TOT increase approved by the voters
- Remaining 2% needed to address deficit (additional 1% in Jan. 2024 and 1% in Jan. 2025)
- Outreach regarding this proposal occurred with several large City hotels earlier in March 2023

Transient Occupancy Tax by City	
City	Rate
Gilroy	9.0%
Saratoga	10.0%
Fremont	10.0%
Mountain View	10.0%
San Jose	10.0%
Morgan Hill	11.0%
<b>Santa Clara</b>	<b>11.5%</b>
Campbell	12.0%
Cupertino	12.0%
Los Gatos	12.0%
Sunnyvale	12.5%
Los Altos	14.0%
Milpitas	14.0%
Palo Alto	15.5%

# 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)

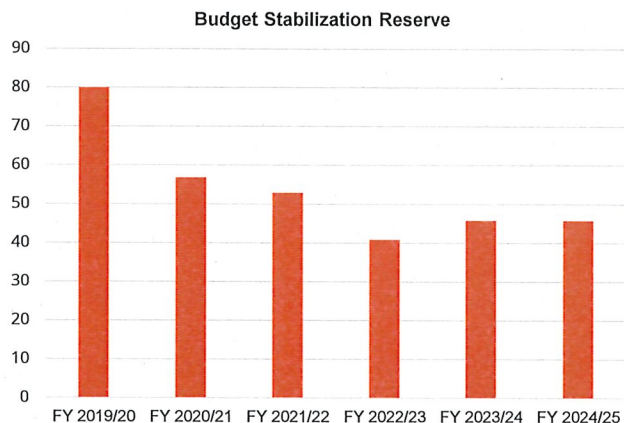
# Budget Balancing Strategy

## 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 <sup>1</sup>
General Fund Capital Projects	\$6.6 M	\$6.1 M <sup>2</sup>
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 <sup>3</sup>
<b>Total</b>	<b>\$89.3 M</b>	<b>\$92.7 M/\$93.8 M</b>

<sup>1</sup>BSR 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

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

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



# Potential Future Revenue Sources



# 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)

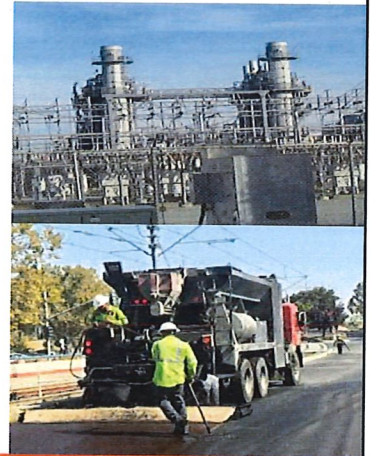
Separate process to evaluate options with Fall 2023 decision goal

# FY 2023/24 Capital Budget Amendments



# 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
- Over \$500 M unfunded infrastructure needs remain



## Amendments to the Proposed Budget

# Amendments to the Proposed Budget

- Capital project carryovers from FY 2022/23
- Actions occurring after Proposed Budget issued
  - **Homekey Interim Housing Development (May 2<sup>nd</sup>)** – \$5 M from Santana West Settlement and unused balances in Housing funds
  - **Housing Annual Action Plan (May 9<sup>th</sup>)** – align with adopted plan
- Limited operating carryovers and other clean-up adjustments

## Follow-up from the May 9th Budget Study Session



## Follow-up from May 9th Budget Study Session

### Summary of Feedback

- Discussions about elements of the General Fund Forecast and balancing strategy (e.g., personnel costs, CalPERS, development estimates, sales tax, TOT)
- Concerns around staffing, recruitment, and program delivery
  - Interest in increasing library and senior center hours by filling positions
  - 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)
  - SVP high vacancy rate
- Interest in pursuing revenue-generating options to address significant capital infrastructure needs and other service needs

## Follow-up from May 9th Budget Study Session

### Responses to Questions (Attachment 2 to RTC)

- Written responses to 36 questions provided
- Address questions regarding various revenues and expenditures (e.g., sales tax, TOT, cannabis, CalPERS, use of one-time funds/reserves, vacancy rates)
- Address questions regarding staffing levels/vacancies, programming and projects (e.g., Northside substation, drug education, senior center, libraries, on-demand shuttle, Street Tree Services project, Lick Mill Boulevard Beacons project)
- Future revenue opportunities to address significant unfunded capital infrastructure needs and other services to be brought forward in separate study session
- Budget in Brief (Attachment 3 to RTC)

# Next Steps

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## Next Steps

### FY 2023/24 and 2024/25 Budget Calendar

Date	Budget Schedule
April 28, 2023	Proposed Biennial Operating Budget and CIP Budget changes Released
May 9, 2023	Study Session to review Biennial Operating Budget and CIP Budget changes
June 6, 2023	Study Session to review Biennial Operating Budget and CIP Budget changes
<b>June 27, 2023</b>	<b>Public Hearing/Adoption of Biennial Operating Budget and CIP changes</b>



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# Recommendations

## June 27th Recommended Actions

1. Approve the Proposed FY 2023/24 and FY 2024/25 Biennial Operating Budget and FY 2023/24 Capital Budget Amendments
2. Approve recommended revisions to the Proposed Budget
3. Approve the Appropriation Schedules for Operating and Capital Funds
4. Adopt the FY 2023/24 Appropriations Limit
5. Direction to phase in Transient Occupancy Tax rate increase from 11.5% to 13.5%



## City Council Meeting

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Budget Changes**

**June 6, 2023**