

2/23/21

Item #3



**City Council Meeting**

**Item #3 - FY 2020/21 Budget Rebalancing Actions to Address COVID-19 Pandemic Impacts**

**February 23, 2021**

The seal of the City of Santa Clara, California, featuring a mission building, the year 1852, and the text "CITY OF SANTA CLARA CALIFORNIA" and "THE MISSION CITY".

## Agenda

- Phase 1 - Rebalancing FY 2020/21
- Phase 2 - Budget Balancing for FY 2021/22 and Ongoing Forecast
- Next Steps and Recommendations

# Budget Balancing Overview

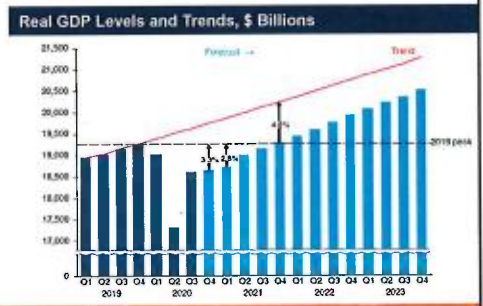
## Phase 1 – Rebalancing FY 2020/21

- COVID-19 impacts budgets nationally and regionally
- Council strategically built General Fund reserves over last several years
- Responded to community with food programs, rate assistance, community donations and partnerships
- Waited for data and information before rebalancing the budget
- Despite potential for stimulus funding and unknown timing, we need to rebalance this year's budget



**Santa Clara Responds: Santa Clara Fire Department Deliver Meals to Seniors**

The Fire Department joined the City's other essential services during the pandemic. City staff and volunteers joined the effort to deliver meals to seniors in Santa Clara who are vulnerable & food-insecure, supporting local food banks & community centers to help provide relief to the community.



# Budget Balancing Overview

## Phase 2 – A Strategic Approach to Budget Balancing

- Revenue impacts are long-term despite vaccine rollout and recovery
- Balanced approach combining new revenues, expenditure reductions and use of reserves
- Core essential City services will remain high
- Collaboration with all City departments with equity and service preservation in focus



# Phase 1 – Rebalancing FY 2020/21

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# 88%



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## Phase 1 - FY 2020/21 Revenue Update

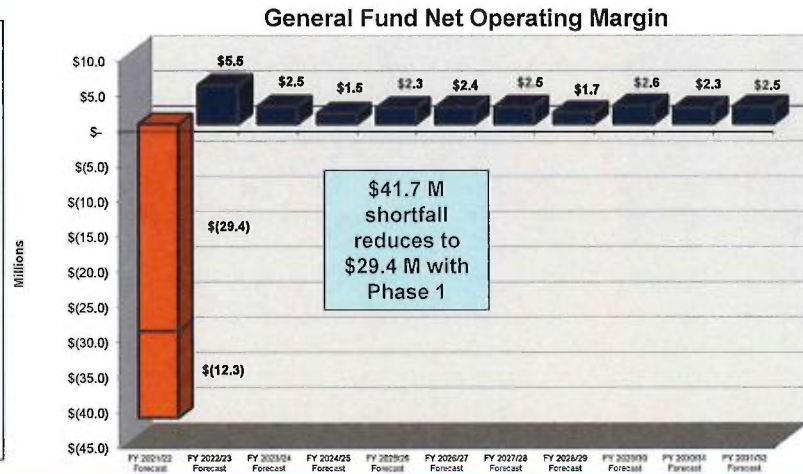
- Revenues tracking **\$20 M - \$25 M** below budget
- Downward adjustments of **\$17.3 M** recommended (detailed on adjustment slide)
- Remaining revenue shortfalls with expenditure savings to the extent possible

## Phase 1 - FY 2020/21 Revenue Adjustments

Category	FY 2020/21	Description
Transient Occupancy Tax	(\$14.0 M)	Reduces estimate from \$17.6 M to \$3.6 M based on actual TOT receipts. TOT down 88% through December. The Ten-Year Forecast factored in the ongoing projected impacts.
Charges for Services	(\$2.2 M)	Reduces estimate from \$45.7 M to \$43.5 M; recreation classes and programming down \$2.1 M, Stadium reimb. for Deputy CM down \$0.3 M, increase in reimb. for clean-up support (\$0.3 M)
Interest Earnings	(\$1.1 M)	Reduces estimate from \$5.5 M to \$4.4 M based on lower interest rates and cash balances. The Ten-Year Forecast factored in the lower receipts.
Fines and Penalties	(\$0.2 M)	Reduced estimate from \$1.5 M to \$1.3 M for collection charges, traffic/vehicle code fines, and library fines
Transfer from Other Funds	\$0.2 M	Transfer from the Streets Capital Fund for the Public Right-of-Way Landscaping Improvement Project
<b>Total Adjustments</b>	<b>(\$17.3 M)</b>	

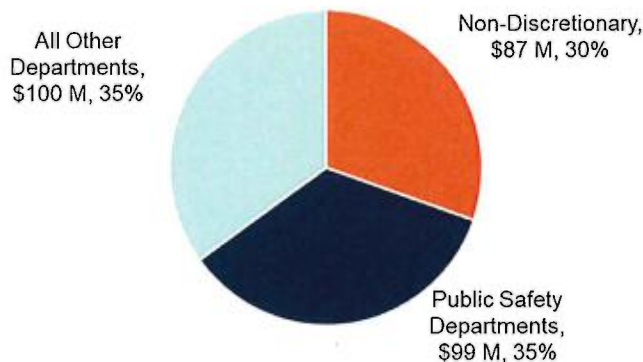
# Phase 1 Helps to Address Almost 30% of Forecasted Deficit

- We experienced a deep recession and assumes we recover upon roll out of the vaccine
- Does not assume budget reductions expected to be brought forward in FY 2020/21
- With potential FY 2020/21 reductions, \$29.4 M ongoing deficit to solve



# Non-Discretionary Expenses Limits Options

FY 2020/21 General Fund Budget (\$286 million)

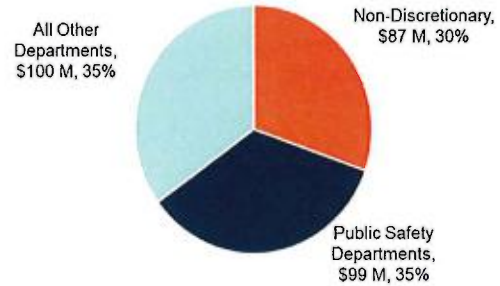


## Non-Discretionary is 30% of the General Fund Budget

### Non-Discretionary = \$87 M

- Retirement unfunded liability
- Council Appointees / Elected Officials
- Revenue backed
- Mandated
- Insurance
- Debt payments

FY 2020/21 General Fund Budget (\$286 million)

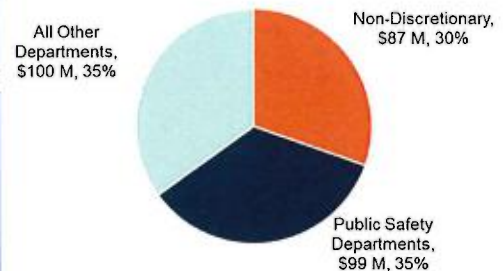


## Public Safety is Half of the Discretionary Budget

### Public Safety = \$99 M

- Fire Department \$41 M
- Police Department \$58 M
- Police increase in December 2020 cost \$1.7 M
- Among smallest % reduction in Phase 1
- Best case labor scenario = \$5 M Ongoing
- Needs to be considered for Budget Balancing

FY 2020/21 General Fund Budget (\$286 million)





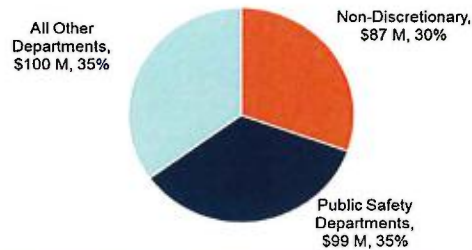
# All Other Departments are One-Third of the Budget

## Other Departments = \$100 M

- Mayor and Council \$107k
- City Attorney \$1.3 M
- City Clerk \$1.1M
- City Manager \$2.6 M
- Community Development \$2.9 M
- Finance \$3.2 M
- Human Resources \$2.7 M
- Information Technology \$9.4 M
- Library \$9.7 M
- Parks \$15.5 M

- Public Works / Fleet \$19.1 M
- Capital/One-Time \$19.9 M
- Non-Departmental \$12.5 M

FY 2020/21 General Fund Budget (\$286 million)



# Phase 1 - Solving the FY 2020/21 Budget Expenditure Adjustments

Department	FY 2020/21 Discretionary	% of Disc Budget	FY 2020/21 Reductions	Ongoing Reductions	% of Discretionary
Fire	\$41.1 M	22.9%	(\$1.7 M)	(\$2.4 M)	(5.8%)
Police	\$58.0 M	32.4%	(\$3.1 M)	(\$3.4 M)	(5.9%)
Community Development	\$2.9 M	1.6%	(\$0.5 M)	(\$0.3 M)	(10.3%)
Library	\$9.7 M	5.4%	(\$0.6 M)	(\$0.2 M)	(2.1%)
Parks and Recreation	\$15.5 M	8.6%	(\$5.3 M)	(\$1.6 M)	(10.3%)
Public Works	\$19.1 M	10.7%	(\$1.5 M)	(\$0.8 M)	(4.2%)
City Manager's Office & Strategic Support	\$30.7 M	17.2%	(\$4.2 M)	(\$3.4 M)	(11.1%)
Council and Appointees	\$2.2 M	1.2%	(\$0.4 M)	(\$0.2 M)	(7.7%)
<b>Total Adjustments</b>	<b>\$179.2 M</b>	<b>100.0%</b>	<b>(\$17.3 M)</b>	<b>(\$12.3 M)</b>	<b>(6.9%)</b>

## Phase 1 - Solving the FY 2020/21 Budget Position Impact – Protects Employees

Net reduction of  
43.5 positions  
saving \$7.7 million  
ongoing

No Layoffs

4 employees  
reallocated to  
different functions  
or departments

Department	Budgeted Positions	Net Position Change	% Change
City Attorney's Office	8.00	(1.00)	(13%)
City Clerk's Office	7.00	(1.00)	(14%)
City Manager's Office/Non- Dept.	24.00	(4.00)	(17%)
Community Development	68.75	(1.75)	(3%)
Finance/City Auditor's Office	72.75	(1.00)	(1%)
Fire	168.25	(12.75)	(8%)
Parks and Recreation	82.75	(4.00)	(5%)
Police	239.00	(15.00)	(6%)
Public Works	131.50	(3.00)	(2%)
<b>Total</b>		<b>(43.50)</b>	



City of  
Santa Clara  
The Center of What's Possible

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## Phase 1 - Solving the FY 2020/21 Budget Expenditure Adjustments

- COVID-19 reduced/limited activities (\$5.2 million)
- Eliminate vacancies (some services have already been absorbed) (\$7.7 million)
  - 43.5 net position reduction
- Reduce budget for Boards & Commissions
- One-time savings from COVID-19/cost control measures
  - Hiring freeze (reflects some further service impacts)
  - Limited overtime (OT MUST BE PRE-APPROVED AND DEEMED FOR ESSENTIAL SERVICES)
  - Restricted conference, travel and training (NO DISCRETIONARY TRAVEL/TRAINING)
  - Lower supplies, materials and maintenance
  - Reduced contractual services and request discounts when contracts are up for renewal



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## Phase 1 - Solving the FY 2020/21 Budget Expenditure Adjustments

### Fire Department

- Alternate paramedic response with Trucks/Engines instead of supplemental ambulances
- Reduce minimum staffing overtime through flexible deployment minimizing response time impacts citywide

### Police Department

- Reduce Administrative Services personnel in Training, Professional Standards, Records, and Task Force Unit
- Reduce Field Training Officer Program/Community Service Officers
- Suspend Special Operations Drone Program

## Phase 1 - Solving the FY 2020/21 Budget Expenditure Adjustments

### Parks and Recreation Department

- Restructure citywide special event programming and returns events to levels previously experienced
- Reduce Parks Division grounds maintenance resources at parks
- Consolidate Recreation Teen Center administrative staffing
- Remove Healthier Kids Foundation and Latchkey Programs per Council action

### Library Department

- Eliminate funding for the unsustainable pay-per-use digital collection (to be implemented once the libraries reopen)

## Phase 1 - Solving the FY 2020/21 Budget Expenditure Adjustments

### Public Works Department

- Reduce fleet operations, vehicle replacement, and implements just in time inventory
- Capital Projects Design Division staffing reduction
- Traffic Division staffing reduction
- Closure of fountains at City Hall and Franklin Square

### Community Development Department

- Reduce Planning Division plan review and administration staffing

## Phase 1 - Solving the FY 2020/21 Budget Expenditure Adjustments

### City Manager's Office/Non-Dept.

- Eliminate one Assistant City Manager, Deputy City Manager
- Eliminate Risk Management Office Specialist
- Eliminate contingency funds for the City Manager's Office and the City Council

### Assistant City Clerk

- Eliminate one Deputy City Clerk position (former Public Records Manager position)

## Phase 1 - Solving the FY 2020/21 Budget Expenditure Adjustments

### Mayor and City Council

- Decrease funding for as-needed staff

### City Attorney's Office

- Eliminate Legal Office Specialist II

### City Auditor's Office

- Assume continued vacancy and related savings for the City Auditor in FY 2020/21
- Relies on Audit Manager to manage current audit workplan during transition to a new City Auditor

## Phase 2 - Budget Balancing for FY 2021/22 and Ongoing Forecast



## Phase 2 – Budget Balancing for FY 2021/22 and Ongoing Forecast

### General Fund Forecast Timeline – COVID – 19 Induced Impact

	January 2020 Forecast	April 2020 Forecast	January 2021 Forecast	February 2021 (With Phase 1)
General Fund Shortfall	(\$13 M)	(\$34 M)	(\$42 M)	(\$30 M)

## Potential New Revenue Sources

### FY 2021/22 and FY 2022/23 Potential General Fund Sources

- Federal stimulus funding (TBD - one-time)
- Improve municipal fee cost recovery (\$1 M - \$3 M ongoing)

### Future Potential General Fund Revenue Sources

- Utility User Tax (\$4 M - \$6 M)
- Business License Tax (\$1 M - \$3 M)
- Documentary Transfer Tax (\$1.4 M - \$7 M)

### Future Development Projects

- Related Property Lease (\$0.6 M - \$5.3 M annually in first 10 Years) – reflected in Forecast
- Other Developments (\$TBD) – Gateway Crossings, Kylli and other major projects

## Phase 2 – Budget Balancing for FY 2021/22 and Ongoing Forecast

### Phase 1 – February 23rd

- Addresses \$12.3 M of the \$41.7 M shortfall

### Phase 2 – May 1st - FY 2021/22 and FY 2022/23 Biennial Proposed Budget

- Balance two years with a combination of expenditure reductions, revenues and use of reserves
- Other Budget Balancing Scenarios

## Scenario 1 – A Balanced Approach

	FY 21/22	FY 22/23	FY 23/24	FY 24/25	FY 25/26
Forecast (Shortfall)/Surplus	(\$41.7 M)	\$5.5 M	\$3.3 M	\$1.6 M	\$2.3 M
Carried Over Deficit – 1x Solutions		(\$17.6 M)	(12.1 M)		
February 2021 Reductions (Phase 1)	\$12.3 M				
May 1 Proposed Budget (Phase 2)	\$11.8 M				
Revenue Solutions	TBD				
Potential Labor Negotiations	TBD				
<b>Remaining Shortfall</b>	<b>(\$17.6 M)</b>	<b>(\$12.1 M)</b>	<b>(\$8.8 M)</b>		
Use of Budget Stabilization Reserve	\$14.0 M				
Land Sale Reserve	\$3.6 M	\$12.1 M			
<b>Remaining Budget (Shortfall)/Surplus</b>	<b>\$0 M</b>	<b>\$0 M</b>	<b>(\$8.8 M)</b>	<b>\$1.6 M</b>	<b>\$2.3 M</b>

## Scenario 2 - No Public Safety Reductions

- Remaining departments would need a **30%** reduction in \$24 M scenario
- With Phase 1, remaining departments would need further **15%** reduction
- Significant service impacts and operational risk

Department	FY 2020/21 Discretionary	Current Phase 1 - Ongoing	No PS \$12 M Target (15% Disc.)	No PS \$24 M Target (30% Disc.)
Fire	\$41.1 M	(\$2.4 M)	\$0.0 M	\$0.0 M
Police	\$58.0 M	(\$3.4 M)	\$0.0 M	\$0.0 M
Community Development	\$2.9 M	(\$0.3 M)	(\$0.4 M)	(0.9 M)
Library	\$9.7 M	(\$0.2 M)	(\$1.5 M)	(\$2.9 M)
Parks and Recreation	\$15.5 M	(\$1.6 M)	(\$2.3 M)	(\$4.6 M)
Public Works	\$19.1 M	(\$0.8 M)	(\$2.9 M)	(\$5.7 M)
City Manager's Office & Strategic Support	\$30.7 M	(\$3.4 M)	(\$4.7 M)	(\$9.4 M)
Council and Appointees	\$2.2 M	(\$0.2 M)	(\$0.2 M)	(\$0.4 M)
<b>Total</b>	<b>\$179.2 M</b>	<b>(\$12.3 M)</b>	<b>(\$12.0 M)</b>	<b>(\$24.0 M)</b>

## Scenario 3 - Use Reserves Instead of Public Safety

- Draws down reserves by an additional \$13.3 M in the first year
- Significant reductions to BSR, Land Sale Reserve and/or Pension Trust
- Uses Pension Trust set aside to assist with long-term unfunded liability
- Reduces City safety net, funds to better position City in future

Department	Use Reserves for PS - \$12 M Target	Use Reserves for PS - \$24 M Target
Fire	\$0.0 M	\$0.0 M
Police	\$0.0 M	\$0.0 M
Community Development	(\$0.2 M)	(0.4 M)
Library	(\$0.7 M)	(\$1.3 M)
Parks and Recreation	(\$1.0 M)	(\$2.0 M)
Public Works	(\$1.3 M)	(\$2.6 M)
City Manager's Office & Strategic Support	(\$2.1 M)	(\$4.2 M)
Council and Appointees	(\$0.1 M)	(\$0.2 M)
<b>Reserves</b>	<b>(\$6.6 M)</b>	<b>(\$13.3 M)</b>
<b>Total</b>	<b>(\$12.0 M)</b>	<b>(\$24.0 M)</b>



## Scenario 3a – Use of Additional \$6.6 M Reserves in First Year

	FY 21/22	FY 22/23	FY 23/24	FY 24/25	FY 25/26
Forecast (Shortfall)/Surplus	(\$41.7 M)	\$5.5 M	\$3.3 M	\$1.6 M	\$2.3 M
Carried Over Deficit – 1x Solutions		(\$24.2 M)	(\$18.7 M)		
February 2021 Reductions (Phase 1)	\$12.3 M				
May 1 Proposed Budget (Phase 2)	\$5.2 M				
Revenue Solutions	TBD				
Potential Labor Negotiations	TBD				
<b>Remaining Shortfall</b>	<b>(\$24.2 M)</b>	<b>(\$18.7 M)</b>	<b>(\$15.4 M)</b>		
Use of Budget Stabilization Reserve	\$14.0 M				
Land Sale Reserve	\$10.2 M	\$9.5 M			
Pension Trust Reserve		\$9.2 M			
<b>Remaining Budget (Shortfall)/Surplus</b>	<b>\$0 M</b>	<b>\$0 M</b>	<b>(\$15.4 M)</b>	<b>\$1.6 M</b>	<b>\$2.3 M</b>

## Scenario 3b – Use of Additional \$13.3 M Reserves in First Year

	FY 21/22	FY 22/23	FY 23/24	FY 24/25	FY 25/26
Forecast (Shortfall)/Surplus	(\$41.7 M)	\$5.5 M	\$3.3 M	\$1.6 M	\$2.3 M
Carried Over Deficit – 1x Solutions		(\$30.9 M)	(\$25.4 M)		
February 2021 Reductions (Phase 1)	\$6.5 M				
May 1 Proposed Budget (Phase 2)	\$4.3 M				
Revenue Solutions	TBD				
Potential Labor Negotiations	TBD				
<b>Remaining Shortfall</b>	<b>(\$30.9 M)</b>	<b>(\$25.4 M)</b>	<b>(\$22.1 M)</b>		
Use of Budget Stabilization Reserve	\$14.0 M				
Land Sale Reserve	\$16.9 M	\$2.8 M			
Pension Trust Reserve		\$21.6 M			
Capital Projects Reserve		\$1.0 M			
<b>Remaining Budget (Shortfall)/Surplus</b>	<b>\$0 M</b>	<b>\$0 M</b>	<b>(\$22.1 M)</b>	<b>\$1.6 M</b>	<b>\$2.3 M</b>

## Budget Balancing Select General Fund Reserves

Reserve Type	2020/21 Current Balance	COVID Programs	Remaining Reserves Scenario 1 and 2	Remaining Reserves Scenario 3a	Remaining Reserves Scenario 3b
General Fund Budget Stabilization (BSR)	\$57.7 M		\$43.7 M	\$43.7 M	\$43.7 M
General Fund Capital Projects	\$5.4 M		\$5.4 M	\$5.4 M	\$4.4 M
Land Sale Reserve	\$23.7 M	(\$4.0 M)	\$4.0 M	\$0	\$0
Pension Trust (General Fund)	\$21.6 M		\$21.6 M	\$12.4 M	\$0
3 <sup>rd</sup> Year Forecast Ongoing Shortfall			(\$8.8 M)	(\$15.4 M)	(\$22.1 M)

## Phase 2 – Budget Balancing for FY 2021/22 and Ongoing Forecast

- No cuts to Public Safety – Remaining Departments would need to be cut up to 30% with significant service impacts and operational risk
- Use Reserve to Offset Public Safety – Drains key reserves and does not address ongoing shortfall

## Priority Setting Retreat Direction COVID-19 Programs

- Evaluating Small Business Grants
  - Expand eligibility criteria
  - Allows former grantees to reapply
- Loan program would require additional 2-3 staff resources
  - Would need to evaluate of ability to repay
  - Unknown collection rate / slow distribution rate
- ERAP – \$2.8 M allocated, approx. \$1 M distributed

## Next Steps



## Next Steps FY 2020/21 and 2021/22 Budget Calendar

Date	City/Stadium Authority Budget Schedule
February 1-2, 2021	Council Priority Setting Retreat / Adoption of Budget Principles
February 23, 2021	FY 2020/21 Rebalancing – Phase 1
March 2, 2021	Study Session on Stadium Authority Budget
March 16, 2021	Approval of Stadium Authority Budget
TBD	Study Session on Municipal Fee Schedule
April 27, 2021	Public Hearing and Adoption of Proposed Municipal Fee Schedule
April 30, 2021	Release Proposed Biennial Operating Budget and Summary of Capital Improvement Program Changes
May 25, 2021	Study Session to review Biennial Operating Budget and CIP changes
June 8, 2021	Study Session to review Biennial Operating Budget and CIP changes
June 22, 2021	Public Hearing/Adoption of Biennial Operating Budget and CIP changes

## Recommendations

## Recommendations

1. Approve the FY 2020/21 budget amendments detailed in Attachment 1 for all Departments and Offices, except the Mayor and Council and the City Auditor's Office and City Attorney's Office appointees, as recommended by the City Manager (five affirmative Council votes required for revenue actions only).
2. Consider and approve the FY 2020/21 budget amendments detailed in Attachment 2 for the Mayor and Council, the City Auditor's Office, and City Attorney's Office appointees.



## City Council Meeting

**Item #3 - FY 2020/21 Budget Rebalancing Actions to Address COVID-19 Pandemic Impacts**

**February 23, 2021**