

## FY 2023/24 and FY 2024/25 Proposed Operating Budget Responses to Questions from the 5/9/23 Budget Study Session

1. Does the high SVP vacancy rate prevent us from executing projects? If SVP is an enterprise, can't we hire competitively?

**Response:** Yes, the vacancies can have an impact on projects and proactive maintenance. Holistically, recruitment has been prioritized, and outside recruiting firms/consultants have been brought on to assist in this effort. We are hiring aggressively, but the market is still very competitive. While the SVP vacancy rate is steady, since we have added more positions, the overall number of filled positions has increased.

2. Are we capped at 9.5% for the sales tax? How do transportation-related district taxes factor into that cap?

**Response:** A district sales tax is a revenue-generating option that requires voter approval. This option will be included as part of the separate discussion of potential ballot measures starting with the November 2024 ballot. The City's current sales tax rate is 9.125% and includes the base statewide rate of 7.25% (State: 6%, City: 1%, County Transportation: 0.25%) and district taxes of 1.875%.

The combined rate of all district taxes imposed in any county is capped at 2% unless particular district taxes are exempted. The chart below from the California Department and Tax and Fee Administration provides a breakdown of Santa Clara County's district taxes. There are two district taxes totaling 0.625% that are exempt from the 2% cap as noted below. The other four county district taxes that count towards the cap total 1.25%, **leaving 0.75% capacity available** for the City of Santa Clara for a maximum rate of 9.875%.

Legal Name	Rate	2% Cap	Operative Date	Sunset Date	ORD No.	AB/SB No.
Silicon Valley Transportation Solutions Tax	0.50%	Exempt	4/1/2017	3/31/2047	2016-01	<a href="#">SB 703 (2017)</a>
2020 Peninsula Corridor Joint Powers Board Retail Transactions and Use Tax	0.125%	Exempt	7/1/2021	6/30/2051	Reso 2020-40	<a href="#">SB 797 (2017-2018)</a>
Santa Clara County Transit District	0.50%	Included	10/1/1976	NONE	2, 2.1, 2.2	
Santa Clara Valley Transportation Authority	0.50%	Included	4/1/2006	3/31/2036	01.1	
Santa Clara VTA BART Operating and Maintenance Transactions and Use Tax	0.125%	Included	7/1/2012	6/30/2042	2011.01	
Santa Clara County Retail Transactions and Use Tax	0.125%	Included	4/1/2013	NONE	NS-7.13; NS-7.19	
Total Included Under 2% Cap	1.25%					
Total Available for City of Santa Clara	0.75%					

There are four cities within Santa Clara County that have approved district taxes: San José (0.25%), Milpitas (0.25%), Campbell (0.25%), and Los Gatos (0.125%).

3. How conservative are we with the growth assumptions from development in our forecast?

**Response:** Secured property tax growth of 4.5% to 6% annually is projected which is appropriately conservative. This requires growth from new development of approximately \$750 million - \$1 billion annually. New developments may also generate other revenues, such as sales tax and transfer from the City's utilities. The forecast assumes annual growth in these areas that is not tied to particular developments. It is difficult to determine the timing of these projects. From a finance perspective, we do not want to put ourselves in a position where we need to downsize because we

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over-estimated the positive impacts from development. To the extent the City realizes these gains, the forecast will be revised.

**4. Are we incorporating Airbnb-type rentals into our Transient Occupancy Tax (TOT)? How diligently are we going after illegal rentals?**

**Response:** The City has a voluntary collection agreement (VCA) with Airbnb to collect TOT on our behalf. The City will also explore entering VCAs with other providers, such as VRBO. There are currently no zoning code requirements that regulate short term rentals from a land use perspective. As part of the Zoning Code Update process, outreach was conducted on the topic and new regulations will be proposed as part of the upcoming Zoning Code Update. As proposed, any short-term rental would be required to obtain an annual permit which would be administratively issued. The Zoning Code Update is scheduled for City Council consideration in October. This would be a policy level discussion. It is also notable that revenue generated from administrative permits would be set at a level to cover the costs of enforcement.

**5. 76% of the General Fund Budget goes to Salaries and Benefits. How does that compare to other cities?**

**Response:** There are variances with other cities depending on how and if they budget different services between the General Fund and other funds and variances in their operations (e.g., in-house services vs. contracting out services). The allocation of 70% to 80% of the General Fund budget to salaries and benefits is typical of most cities.

**6. With a citywide 16.7% vacancy, does that mean we have around 191 vacancies of our 1149.25 positions?**

**Response:** Yes, that is the correct assumption of roughly 190 vacancies. The goal is to stay ahead of the retirements and other separations from City employment to increase staffing capacity.

**7. When does the Federal Grant for SAFER start? Is it when we hire the person or related to the fiscal year?**

**Response:** The three-year grant period began in March 2023 and ends in March 2026. After the expiration of the grant, there would be a net cost to the City to continue funding the 18.0 firefighter positions. These positions provide relief staffing when there are absences rather than the use of overtime; however, the associated overtime savings are not sufficient to cover the staff costs. At the end of the grant period, a budget and policy discussion will be necessary to determine if and how many of the positions to continue and how those positions would be staffed. If the positions are continued beyond the grant period, additional funding not currently included in the Forecast will need to be allocated.

**8. What are our options to obtain funding for the \$500 million in unfunded infrastructure need? What are ways we can fund CIP needs like a new swim center, aging fire stations and fire infrastructure, and Central Park North?**

**Response:** Many cities have dedicated capital revenue streams, while the City of Santa Clara has a pay-as-you go approach for much of its infrastructure. A separate Council item will discuss these various funding options for potential ballot measures, starting with the November 2024 ballot.

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9. **Why does the presentation (slide 15) show a reduction in sales tax of \$2 million dollars while the other slides show increased in sales tax?**

**Response:** Sales tax is expected to grow each year. The decrease in sales tax shown on Slide 15 is a comparison of the previous forecast to an updated forecast. Sales tax did not improve as much as we had previously assumed and actual receipts in FY 2021/22 were below expectations, which lowered the starting point for the updated forecast. Overall, sales tax is increasing, though not at the rate we previously assumed.

10. **Have we incorporated high inflation rates into the budget particularly as they are driving higher construction and labor costs?**

**Response:** The operating budget has assumptions around labor based on negotiated MOU agreements and the CIP amendments include adjustments to a few projects based on inflation and higher costs. In the upcoming FY 2024/25 and FY 2025/26 Capital Budget cycle, additional adjustments may be brought forward to address the high inflation and construction costs. Capital projects are estimated to also include a contingency to cover unforeseen increases in costs.

11. **How did we factor in the volatility of the CalPERS costs/return? What are the actuarial assumptions for the worst-case scenario and how can we plan for that?**

**Response:** Yes, we plan for the change in the performance in the two-year budget and the 10-year forecast. For FY 2023/24, the information provided by CalPERS is used for budget development as those figures (normal cost rates and unfunded actuarial liability (UAL) dollar amounts) represent the amounts the City will be charged in FY 2023/24. For FY 2024/25 and the remaining years of the forecast, information from the City's actuary is used to model the projected normal rates and UAL dollar amounts. The rates modeled by the actuary are more conservative and factor in the retirement plan losses experienced in FY 2021/22 and expected reduction of investment return assumptions based on CalPERS risk mitigation policies. The City also has a Pension Trust Reserve in the General Fund and Enterprise Funds, which we have increased as funding is available, to help cover the City's risk.

12. **How are counties and cities resolving the issue with online sales tax distribution? How does the city ensure we are getting our fair share?**

**Response:** Online sales and use tax can be allocated to the City where a product is sent from if the company has a physical presence in California (e.g., retail store, fulfillment center in California) or can be allocated through the County pool for out-of-state vendors selling in California (the County pool is allocated based on relative sales tax collected by jurisdictions). While the methodology makes it difficult in terms of transparency, the City works with its sales tax consultant to audit sales tax receipts to help ensure the City is receiving all of its revenue. Additionally, the League of California Cities has a subcommittee of City Managers that is working on a new paradigm for allocating sales tax given the move to on-line sales.

13. **Prioritize getting library and senior center hours to pre-COVID times. What needs to be done to accomplish that?**

**Response:** Planning for increased library and senior center hours are underway. The funding included in the budget is available to increase library and senior center hours, however, filling staff vacancies is ongoing. Recruitments for both full-time and as-needed positions are in progress. Assuming the successful completion of these recruitments, the Departments are developing a

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phased-in implementation plan that would increase both Library and Senior Center hours. During Phase 1, the Senior Center will reopen with limited programming by July 1 with a goal of expanding operations to include Saturday hours. During Phase 2, the Library will seek to increase hours to six-days a week by the Fall. Additional time is needed for the Library Department to properly train new staff and develop the appropriate community programming.

### 14. What is the update on the On-Demand Shuttle program in collaboration with the City of Cupertino? What can we communicate with the residents?

**Response:** RTC 23-409 regarding the agreement with Cupertino on the joint on-demand shuttle service project is on the June 6, 2023 Agenda and provides details regarding this program. As described in that RTC, the planned expansion into Santa Clara would occur after completion of the funding agreement between Cupertino and Santa Clara. The RTC describes the phased expansion into Santa Clara, the fares and service hours, the service launch targets, and the funding agreement.

### 15. How can we explore public/private partnerships in restoring some of our services?

**Response:** Partnering with outside organizations is part of how we do business. For instance, the Parks & Recreation Department contracts with or establishes Memoranda of Understanding (MOU) with many service providers for special programs and services depending upon the community need and expertise. The Library Department partners with the Santa Clara City Library Foundation and Friends that raises money for all branches of the library to support programming and materials. If additional effort is desired, staff resources would be necessary to support this targeted effort and those resources would be determined based on the scope of that work.

### 16. While we are ready to hire, how can we explore opportunities for automation and efficiencies and the implementation of AI where we can?

**Response:** While the budget includes funding for technology, including ongoing improvements and realizing efficiencies, staff would need to explore AI technologies and how further efficiencies could be achieved. As efficiencies are considered, the process must conform with the Civil Service Rules for classified positions.

### 17. What is the streets capital project at the end of the presentation?

**Response:** Funding of \$463,050 is provided in the Street Tree Services capital project for the third and final year of the Modesto Ash tree removal. The trees were studied in a consultant report brought to council on February 23, 2021 and were considered a hazard to the city. This action is included in the CIP amendments (Streets and Highways Capital Fund) in the Appendix of the Proposed Budget.

### 18. What are measures for Council to consider that would augment the City's revenue? Can that be included in the next report we know what we need to discuss?

**Response:** City staff is researching several ideas for generating revenue and a separate Council item will be brought forward to discuss those ideas (e.g., general obligation bond, parcel tax, documentary transfer tax, district sales tax, utility tax). In the fall, staff will be seeking input on the specific revenues the City Council would like to explore further.

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### 19. Have we considered removing positions that have had long time vacancies?

**Response:** Yes, we have used this method over the past three years in the evaluation of budget proposals to bring forward to address the General Fund shortfalls. The strategy now is to fill budgeted positions in order to improve services.

### 20. Are we adding officers to reopen the Northside substation?

**Response:** The Community Service Officer (CSO) assigned to the Northside substation was frozen in FY 2020/21 as a budget balancing action and was subsequently restored in FY 2021/22. The position has been approved to hire and the plan is to reopen the substation once hiring of staff is complete. A separate Council item (RTC 23-475) was approved at the May 23<sup>rd</sup> Council Agenda to extend the property lease to May 31, 2028.

### 21. How are we using \$1.1 million in reserves in FY 2023/24 and then replenishing it in FY 2024/25?

**Response:** Based on projected General Fund revenues and expenditures, the use of \$1.1 million of the Budget Balancing Reserve is needed in FY 2023/24 to balance the budget. In FY 2024/25, the reserve is able to be replenished due primarily to the phased implementation of the Transient Occupancy Tax increase as well as additional overtime savings in year two generated from the Fire Department's SAFER grant. In FY 2023/24, overtime savings from the SAFER grant is generated for only a portion of the year after the 18 firefighter positions complete the 5-month Fire Academy while the full year of savings is realized in FY 2024/25.

### 22. For the Lick Mill Boulevard Beacons project, how much longer are we carrying that forward? Because the costs seem to be increasing.

**Response:** City Council awarded the design contract in late summer 2022 to make improvements at several locations along Lick Mill Boulevard. This project is actively under design and the consultant is approximately 70% complete. The schedule anticipates bidding out the project for construction in fall 2023.

### 23. When we use one-time funds, such as ARPA, for ongoing costs are we just adding to future shortfalls? How do we avoid using one-time funds to fund ongoing costs?

**Response:** As part of the FY 2021/22 and FY 2022/23 operating budget adoption, Council approved the use of one-time stimulus funds to protect services and offset the significant loss revenue due to the COVID-19 restrictions. As a practice, one-time funds are best allocated to one-time expenses with ongoing funds used to cover ongoing expenses. However, there are certain circumstances that warrant the use of a combination of one-time and ongoing solutions to balance the budget. Severe disruptions, such as the pandemic or a deep recession, can quickly change the City's finances and it would cause major service upheavals to close the resulting budget gaps entirely with ongoing solutions. In these cases, a balanced approach can be used to allow time for the City's finances to normalize, determine the true ongoing impacts, and phase in any service impacts.

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**24. How much money can we save in third party partnerships if the swim club manages the pool? Additionally, would it be better if we replaced the pool instead of repairing it?**

**Response:** Whether to provide aquatic services in-house, to contract with a third party or some combination thereof is a policy issue. In evaluating this issue, several factors need to be considered: 1) the programming to be provided; 2) the revenues to be generated; 3) the cost to provide services; 3) status of existing agreements; and 4) the fiscal responsibility for capital repair and maintenance costs which are the single most significant cost factor associated with Aquatics programming. While the City has historically partnered with local Swim Clubs for the provision of certain programs, the City has always retained responsibility for day-to-day operations of facilities as well as the costs associated with capital repair and maintenance. However, the City lacks a dedicated source of funding to maintain the City's various pools and the City continues to experience equipment failures that impact services. In an effort to answer the question whether to continue to repair existing facilities or replace, the City has initiated a formal process to hire a qualified consultant to perform a forensic study of the pools. This study will provide expert opinion as to whether existing facilities have reached, or surpassed, their useful life with recommendations as to the whether the facilities can continue to provide services in a safe environment in alignment with health and safety codes. It is anticipated that staff will return to the Council with a recommendation later in the calendar year.

**25. How does the Police Department address other public safety issues, etc. unhoued people, mental health? Are we going to allocate any funding to that?**

**Response:** The Police Community Response Team (CRT) deals with quality of life issues that can often be non-criminal/nuisance matters. The unit is currently comprised of four officers and a sergeant. The department is in the process of adding a licensed clinician from the county to the team to assist with emergency calls and long-term mental health cases. The clinician is funded by grant monies. The proposed budget for public safety has no reductions in services or positions; the department is also strongly considering adding additional officers to the unit as staffing improves.

**26. Why did the Council budget increase by 30%?**

**Response:** The Mayor and City Council budget increased due to the shift of 1.0 Assistant to the City Manager position from the City Manager's Office to the Mayor and City Council based on the work assignments.

**27. What is the status of bringing back the D.A.R.E. program?**

**Response:** The positions in the Police Department are funded in the budget to support drug prevention education. The program was initially paused due to COVID-19 restrictions and has not yet restarted due to staff vacancies. The department is in the early stages of developing a new program to get our officers back into the schools. Staffing permitting, the current plan would introduce a pilot program to include drug prevention education at a few schools in the next school year.

**28. While programs like D.A.R.E. are paused, before resuming them, have we looked into replacing them with more effective programs instead? There was concern from residents about the effectiveness of the program.**

**Response:** The Police Department has been evaluating the benefits and drawbacks of the existing program. For a number of reasons, staff has concluded that the nationally regulated curriculum is

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not as effective within our community. The Police Department plans to retain the services of a curriculum development professional to facilitate a collaborative effort with the Santa Clara Unified School District (SCUSD) on developing a homegrown program with lessons and messages that center on our community values. At this time, the plan is to conduct a pilot program with a select number of SCUSD sites in the Spring of 2024, with an intended district-wide deployment beginning in the 2024/2025 school year.

### **29. Measure M passed a few years ago, but we never took advantage of it. Are we looking into any revenue from cannabis or using Measure M?**

**Response:** The Proposed Budget does not assume any revenue from cannabis. On May 12, 2020, the City Council adopted Ordinance No. 2018, which prohibits all commercial cannabis activities with the City of Santa Clara. Any change to this ordinance is a policy discussion for the City Council that would take into consideration projected revenues and potential impacts on City services and public safety.

### **30. Do the City of Cupertino's online internet sales with Apple affect the City of Santa Clara?**

**Response:** Some cities have agreements with specific companies to assign point-of-sale (POS) for sales tax purposes to that jurisdiction, resulting in that jurisdiction receiving the entire 1% local sales tax allocated to cities. A portion of the local 1% sales tax is then returned to those companies. The City of Santa Clara does not have any POS agreements. If POS agreements in other cities are dissolved or changed, this could potentially positively impact Santa Clara if it receives some of the sales tax previously allocated to a particular city. The impact of the Apple decision in Cupertino on City of Santa Clara sales tax is unknown at this time. Additional revenue from these sources will not be budgeted until there is data on actual performance.

### **31. Can we address the missing director for the Police Activities League (PAL) Organization?**

**Response:** The PAL Director has historically been a Police Department position. While the assignment to this function is dependent on available filled staffing in the Police Department, there are concerns regarding the City staffing of this organization. Guidance from the City Attorney's Office will be sought regarding this structure.

### **32. Can we address being short-staffed in school site officers and community service officers for park patrols?**

**Response:** School Resource Officers (SRO) provide dedicated service to all schools within the city. SROs are unique in that their interactions generally result in punitive results for students. The Police Department has not had SROs for several years – dating back well before COVID-19. As Police staffing continues to improve, we will look at statistics for uniformed response to schools and determine if it merits bringing back SROs.

Proactive park patrol had historically been a role filled by paid Police Reserve Officers. In FY 2020/21, the as-needed budget for park patrols was cut. Since then, the Police Department has used overtime funds to provide some park patrols when needed.

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**33. With the 12% vacancy rate in the Police Department, what is the plan to manage the vacancy rate as additional upcoming retirements occur? With the World Cup and Super Bowl events in Santa Clara, this is a concern.**

**Response:** The current hiring process will drop the Police Department's vacancy rate, but upcoming retirements will have an effect. The City will continue to prioritize recruitments and hiring to manage vacancies.

**34. Can we continue to relook at Park fees charged to youth groups?**

**Response:** As referred in the April 18, 2023 Council meeting, a separate study session will be scheduled to further discuss this topic.

**35. Can we work on receiving non-NFL event revenues for the General Fund?**

**Response:** The booking of events for the Stadium is managed through a management company, the Forty Niners Stadium Management Company, LLC (Management Co). Future Non-NFL Event revenues to the General Fund will be depended on the success of future events and the outcome of ongoing litigation.

**36. Can get a budget summary for the public?**

**Response:** A Budget-in-Brief that summarizes the budget has been added to the City's website and is included as an attachment to the Budget Study Session RTC.