



Agenda Report

25-272

Agenda Date: 6/10/2025

REPORT TO COUNCIL

SUBJECT

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

COUNCIL PILLAR

Enhance Community Engagement and Transparency

BACKGROUND

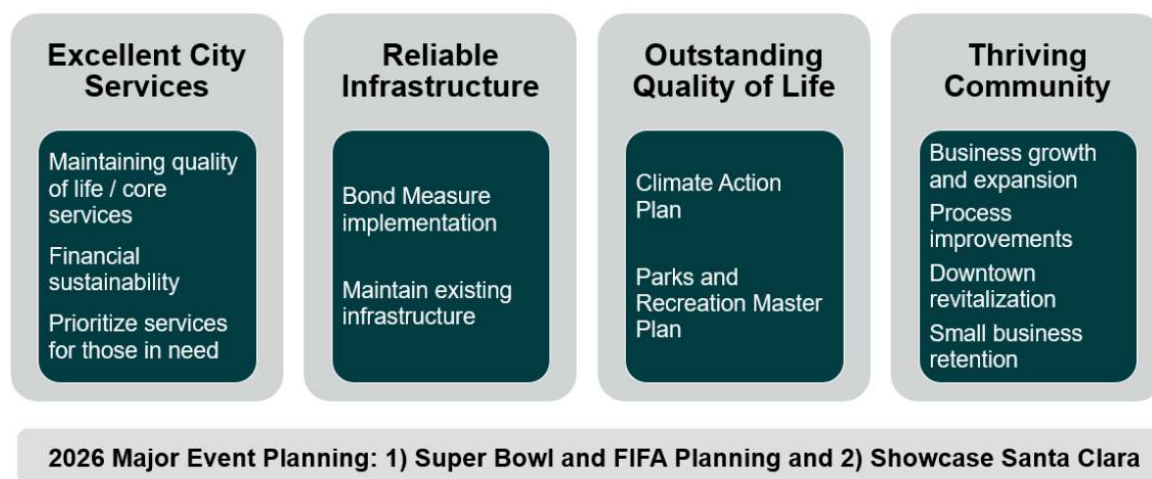
City Charter Section 1302 (Budget - Submission to City Council) requires that at least 35 days prior to the beginning of each fiscal year, or at such prior date thereto determined by the City Council, the City Manager shall submit to the City Council the proposed budget. In accordance with this requirement the Proposed FY 2025/26 and FY 2026/2027 Biennial Operating Budget ("Proposed Budget") was submitted to the City Council on May 1, 2025. The Proposed Budget is included as Attachment 1 to this Report to Council and can be found online at:

<<https://www.santaclaraca.gov/home/showpublisheddocument/86913/638817079281508561>>.

In addition, a summary of the Proposed Budget has been prepared. The Budget-in-Brief is included as Attachment 2 to this report and posted on the City's website at:

<<https://www.santaclaraca.gov/home/showpublisheddocument/87059/638832534582286497>>.

As part of the 2025 City Council Priority Setting session, the City Council identified priority areas of focus as displayed below. These help provide a policy framework for budget decisions.



In addition, the Proposed Budget includes a set of Budget Principles that provide a general

framework and approach for developing the City's budget, ensuring fiscal stability by considering both the short and long-term impacts of any funding decisions. In recent years, the Budget Principles have included an exception to the Council policy that would set the Budget Stabilization Reserve (BSR) at 25% of expenditures, allowing the BSR to be set at a minimum of 15% given the City's fiscal challenges. For FY 2025/26, this exception has been removed along with other changes that reflect the current forecast. These principles are incorporated as part of the actions considered in the Proposed Budget. The FY 2025/26 Budget Principles can be found in the Budget and Fiscal Policies section of the budget document.

Study Sessions were held on May 13, 2025, and May 27, 2025, to allow the City Council and public to review and provide input on the Proposed Budget. Responses to questions from those Study Sessions are included as Attachment 5 and Attachment 6 to this report.

DISCUSSION

City Charter Section 1303 (Budget - Public Hearing) requires that the City Council hold a public hearing on the proposed budget, at which interested parties are given an opportunity to be heard. A public hearing is scheduled for the Council meeting on June 10, 2025, for the purpose of taking public input on the City Council adoption of the Proposed FY 2025/26 & FY 2026/27 Biennial Operating Budget and FY 2025/26 Capital Program Budget Changes, including the Housing Authority and Sports and Open Space Authority budgets.

In addition, the City is required to calculate the expenditure appropriation limit from tax proceeds to determine compliance with Proposition 4 (Gann Initiative) and Proposition 111 (Spending Limitation Act of 1990). The City's Gann Appropriations limit is included as a separate report for City Council action. As stated in this companion report, the City's Proposed Budget is in compliance with the Gann Appropriations limit.

Budget Overview

The annual budget serves as a financial plan and operational guide that reflects the policies, goals, and priorities of the City Council and community while also maintaining fiscal stability.

The City's financial position has improved since the adoption of the last biennial operating budget. When looking at projected revenue and expenses, the Ten-Year General Fund Forecast is positive by \$9.3 million in FY 2025/26 and projects a deficit of \$0.1 million in FY 2026/27. Small deficits and surpluses are projected for the remaining years of the forecast as summarized in the Ten-Year Financial Forecast section of the Proposed Budget document. This outlook depicts a stable General Fund budget; however, the forecast does not include the capacity to fully restore prior cuts, add capacity to support new service areas and growth in the City, and to fully fund capital infrastructure maintenance and replacement.

This improved financial picture provides for targeted investments that fund many of the City Council's identified priorities as well as enhance the City's operating reserves, restoring the BSR to the Council policy level of 25% of expenditures. The budget includes enhancements to key City services and funding for the implementation of Measure I - General Obligation (GO) Bond approved by the voters in November 2024. The Proposed Budget also includes one-time expenses, and associated reimbursement, to ensure the safety of our community during major events planned at the Stadium, including the Super Bowl LX and FIFA World Cup matches.

Proposed FY 2025/26 and FY 2026/27 Biennial Budget

With the recommended amendments to the Proposed Budget, the expenditure budgets total \$2.0 billion in FY 2025/26 and \$1.4 billion in FY 2026/27. The FY 2025/26 budget is up from the \$1.6 billion in FY 2024/25. Changes in planned debt issuances, enterprise funding, and capital budget funding are major drivers of the variances from year to year.

The Proposed Budget funds 1,198.50 positions in FY 2025/26 and 1,196.50 positions in FY 2026/27.

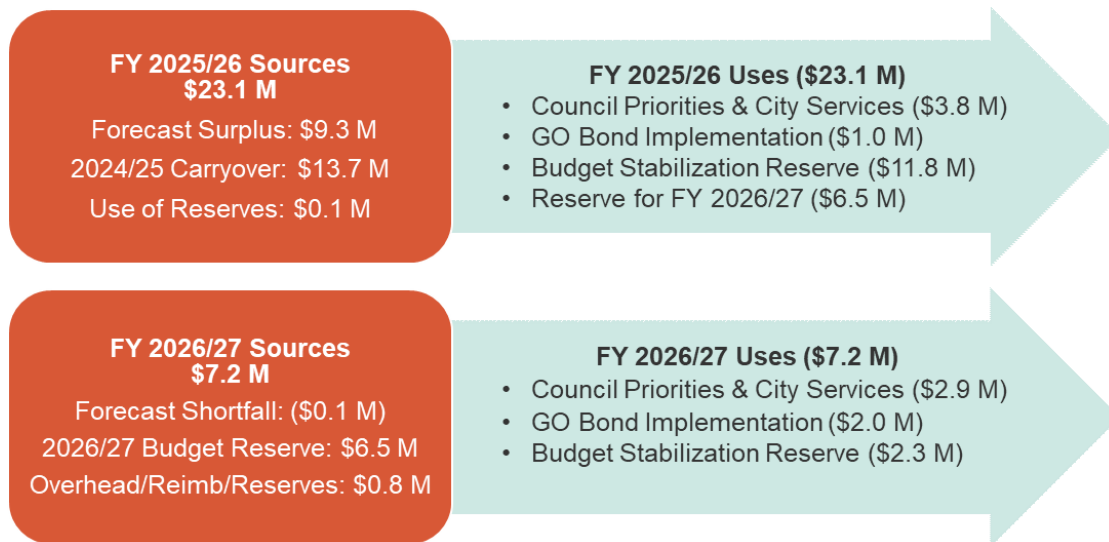
The Enterprise Funds, consisting of Silicon Valley Power (SVP), Water and Sewer utilities, Solid Waste, the Convention Center, and the Cemetery, represent the largest share of the City's budget. With the exception of the Cemetery Fund that relies on General Fund support, the budget for each enterprise is balanced within the resources available for that enterprise. These functions are primarily supported by user fees and charges.

The table below summarizes the Proposed Budget for FY 2025/26 and FY 2026/27 by fund group.

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 service funds are excluded)

The FY 2025/26 and FY 2026/27 Proposed Budget incorporates actions to address needs throughout the organization within the available resources of each fund. Staff has carefully analyzed department budget proposals, considering the fiscal year projected resources, anticipated service impacts to Santa Clara residents and businesses, and City Council goals, principles and priorities. The Proposed Budget also factors in recommended changes to FY 2025/26 capital projects. With the projected General Fund surplus of \$9.3 million in FY 2025/26 and small shortfall of -\$0.1 million, the budget balancing strategy for the FY 2025/26 and FY 2026/27 Biennial Operating Budget includes targeted investments and contributions to the Budget Stabilization Reserve as shown below.



Following is a summary of the budget balancing components that are also discussed in more detail in the individual department sections of the budget document:

- Funding Sources:** The funding available for allocation in the Proposed Budget includes the FY 2025/26 forecasted surplus of \$9.3 million along with additional fund balance from FY 2024/25 generated from the Stadium performance rent and higher than budgeted revenue, particularly in the Sales Tax category. It is assumed that a portion of this additional one-time funding will be set aside in a Reserve for FY 2026/27 Budget Balancing and carried over from FY 2025/26 to FY 2026/27 to balance the FY 2026/27 budget. A limited amount of reimbursement funding from the Technology Fee Reserve to support a Business Analyst in the Community Development Department and from the Utilities to support Finance positions in the Municipal Services Division is also factored into the Proposed Budget.
- Expenditure Changes:** The expenditure changes address City Council priorities identified during the Council Priority Setting session, such as funding for library materials, a public art master plan, a fiber optics network study and a Tasman/Lafayette walkway study. There are also targeted departmental investments, such as the continuation of 12.0 firefighter positions after the end of the SAFER grant, the restoration of 3.0 sworn police positions in FY 2026/27, the addition of positions to support efforts related to housing and homelessness, the addition of fee-supported staff and contractual services to improve development services, the addition of staff to improve customer support for the City's utilities, and additions to support City administration functions (e.g., City Attorney, Finance, Information Technology, Human Resources). In addition, funding is added for General Obligation Bond implementation staffing. These investments are summarized in the *Transmittal Letter* under Proposed Budget Highlights and described in the *City Departments* section of the Proposed Budget.
- Changes to Reserves:** The Proposed Budget allocates a portion of the one-time funding to the Budget Stabilization Reserve and brings the reserve to the Council policy level of 25% of expenditures. This is a prudent use of one-time funding and better positions the City to address unexpected revenue and/or expenditure fluctuations in the future.

Proposed FY 2025/26 Capital Improvement Program Amendments

The City Council approved the FY 2024/25 and 2025/26 Biennial Capital Budget in June 2024. This action approved a two-year capital budget and presented a five-year capital improvement program plan. While the focus of this year's budget is operations, several budget amendments to the FY 2025/26 Adopted Capital Budget are also recommended, including new funding for a Public Art Master Plan and a Walkway/Stairway Tasman to Lafayette Feasibility Study that were identified as City Council priorities. Other budget changes include added funding for the Henry Schmidt Park Rehabilitation Project, the Central Park Access and Parking Improvements project, and the Distribution System Replacement/Restoration project (Water Utility), and new project funding for the Public Works Paving Project Support - Sewer project and the Public Works Paving Project Support - Water project. Further detail can be found in the *Appendices* section of the Proposed Budget.

May 13th and May 27th Budget Study Sessions

At the two Budget Study Sessions, the City Council provided general comments regarding the budget, budgeting practices, Council priorities and other funding needs. This included the need for fiscal sustainability; the importance of restoring the Budget Stabilization Reserve and identifying ongoing funding to support the City's infrastructure; interest in fully restoring funding for library materials; and the value of SVP in supporting the City. There was also interest in understanding how the special events in 2026 will be supported by the City and the potential impacts on other City services as well as potential opportunities for revenue generation.

The City Council also had several questions regarding specific aspects of the budget. Responses to questions from the Study Sessions are included in Attachment 5 and Attachment 6 of this Report to Council.

Given the feedback from the Study Sessions, a recommendation is included in this report to 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. Funding is also recommended to fully restore the library materials budget as described in the Changes to the Proposed Budget below.

Changes to the Proposed Budget

Recommended revisions to the Proposed Budget, including the carryover of capital funds from FY 2024/25 to FY 2025/26 and other budget adjustments, are described in Attachment 3. A budget adjustment is recommended to add funding to the Library Department's General Fund budget in the amount of \$145,000 in FY 2025/26 and \$145,000 in FY 2026/27 for library materials, offset by an increase to the FY 2025/26 Beginning Fund Balance of \$290,000 to reflect additional ending fund balance in FY 2024/25 that will be available for use in FY 2025/26.

Subsequent to the posting of the FY 2025/26 and FY 2026/27 Proposed Biennial Operating Budget, the City Council approved the Community Development Department's FY 2025/26 Annual Action Plan (AAP) on May 13, 2025. Actions in the Housing and Urban Development Fund are recommended to align with the approved AAP. To reflect updated cost estimates related to Regional Wastewater Facility, actions are recommended to adjust the budgets for the Sewer Utility Fund and the Sewer Utility Capital Fund. Budget adjustments are also included to account for the third year of

funding for SV Hopper. Augmentation of several capital projects are also included in the Electric Utility to support the system's growth plans and advance design on projects to meet customer needs.

In addition, a limited number of adjustments are recommended in operating funds to complete projects and deliver programs and account for updated costs.

Housing Authority Proposed Budget

The Housing Authority Fund expenditure budget totals \$459,878 in FY 2025/26 and \$471,936 in FY 2026/27 as shown in the Proposed Budget. The budget allows the City of Santa Clara Housing Authority to continue to manage and monitor housing assets from the dissolution of the Redevelopment Agency. Additionally, funding will be used to support loan monitoring, administration and other programs and projects related to affordable housing.

Sports and Open Space Authority Budget

The Sports and Open Space Authority expenditure budget totals \$11,404 in FY 2025/26 and \$11,612 in FY 2026/27 as shown in the Proposed Budget. The purpose of the Sports and Open Space Authority is to support the acquisition and preservation of open space within the City and the development of local sports.

ENVIRONMENTAL REVIEW

The action being considered does not constitute a "project" within the meaning of the California Environment Quality Act ("CEQA") pursuant to section 15378(a)(4) of Title 14 of the California Code of Regulations in that it is a fiscal activity that does not involve any commitment to any specific project which may result in a potential significant impact on the environment.

FISCAL IMPACT

With the recommended adjustments detailed in Attachment 3, the FY 2025/26 and FY 2026/27 Proposed Biennial Operating Budget totals \$1.2 billion and \$1.3 billion, respectively, and the FY 2025/26 Capital Budget totals \$776 million in FY 2025/26 as shown in the Proposed Budget table on page 3 of this report.

The budget amounts are itemized in the Appropriation Schedule included as Attachment 4.

COORDINATION

This report has been coordinated with the City Attorney's Office.

PUBLIC CONTACT

Public contact was made by posting the Council agenda on the City's official-notice bulletin board outside City Hall Council Chambers. A complete agenda packet is available on the City's website and in the City Clerk's Office at least 72 hours prior to a Regular Meeting and 24 hours prior to a Special Meeting. A hard copy of any agenda report may be requested by contacting the City Clerk's Office at (408) 615-2220, email clerk@santaclaraca.gov or at the public information desk at any City of Santa Clara public library.

RECOMMENDATION

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 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.

Reviewed by: Kenn Lee, Director of Finance

Approved by: Jovan D. Grogan, City Manager

ATTACHMENTS

1. FY 2025/26 and FY 2026/27 Proposed Biennial Operating Budget and FY 2025/26 Capital Improvement Program Amendments
2. FY 2025/26 and FY 2026/27 Proposed Biennial Operating Budget Budget-in-Brief
3. Revisions to the Proposed Budget, including FY 2025/26 Capital Budget Carryovers and other budget adjustments
4. FY 2025/26 and FY 2026/27 Appropriation Schedule
5. Responses to Questions from the May 13, 2025 City Council Study Session
6. Responses to Questions from the May 27, 2025 City Council Study Session