

6/7/22



**City Council Meeting**


**Item # 2 – Study Session #2:  
Review of the Proposed  
FY 2022/23 & FY 2023/24  
Biennial Capital Improvement  
Program Budget and FY 2022/23  
Operating Budget Changes**

**June 7, 2022**

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## **Agenda**

- Proposed Budget Overview
- General Fund Financial Forecast Update
- May 24<sup>th</sup> Budget Study Session Follow-Up
- Questions and Answers
- Library Community Room Rental Fees



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# Proposed Budget Overview

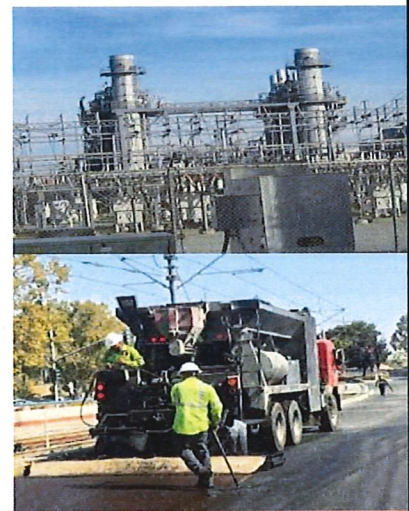
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## Proposed Budget Overview

- Biennial Capital Budget and Five-Year CIP, amendments to the FY 2022/23 Operating Budget (\$1.1 B overall budget)
- Five-Year CIP project funding of \$624 M: utility projects (\$509 M) and non-utility projects (\$115 M)
- CIP identifies significant unfunded needs totaling \$572 M
- Ongoing capital funding sources needed to address needs
- Limited Capital Projects Reserve (CPR) funds projects in CIP (\$7 M) and projects funding in last CIP (\$3 M)
- FY 2022/23 Operating Budget balancing strategy remains in place; \$20 M projected General Fund shortfall to be addressed in next Biennial Operating Budget
- Collaboration with all City departments



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## CIP Projects by Theme

Theme	2022/23 Budget	2023/24 Budget	Biennial Budget	Five-Year CIP
Administrative Facilities	\$1,320,000	\$1,551,000	\$2,871,000	\$2,871,000
Community Facilities	1,431,000	0	1,431,000	1,431,000
Convention Center	0	0	0	550,000
Electric Utility	93,832,936	184,175,278	278,008,214	389,769,831
Other Community Projects	9,460,082	6,453,710	15,913,792	34,882,959
Parks and Trails	3,028,920	278,000	3,306,920	7,806,920
Sewer Utility	19,045,006	17,797,655	36,842,661	92,217,360
Solid Waste	743,000	765,000	1,508,000	3,944,000
Storm Drain	761,000	714,000	1,475,000	1,475,000
Technology and Equipment	861,536	1,302,374	2,163,910	4,944,718
Transportation	12,869,832	13,790,232	26,660,064	61,725,510
Water and Recycled Water Utilities	6,715,000	5,215,000	11,930,000	22,835,000
<b>TOTAL</b>	<b>\$150,068,312</b>	<b>\$232,042,249</b>	<b>\$382,110,561</b>	<b>\$624,453,298</b>

## CIP Projects – Capital Projects Reserve (CPR)

- Limited CPR funding of \$9.9 M: \$6.7 M for projects in this CIP and \$3.2 M for projects in last CIP
  - Standby generators
  - Repairs to City facilities and historic buildings
  - Central Park Library concrete sidewalk replacement
  - Storm drain pump Station motor and control maintenance; slide gate rehabilitation; urban runoff pollution prevention
  - Fire equipment
  - Bridge maintenance; sidewalk, curb and gutter repair; street tree services; annual curb ramp installation; safe routes to school

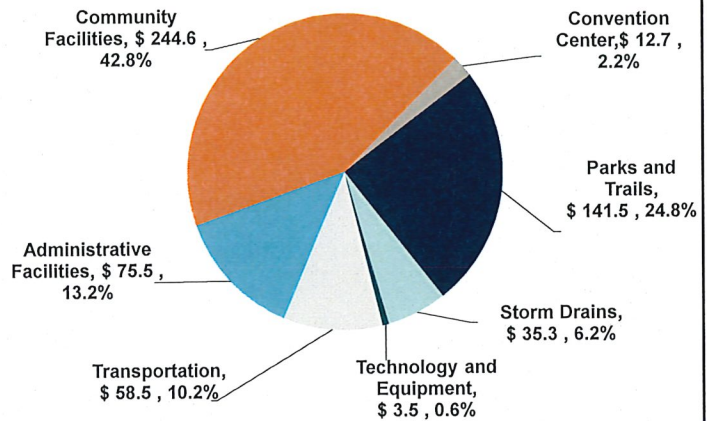
Theme	5-Year Total
Administrative Facilities	\$2,871,000
Community Facilities	\$273,000
Storm Drain	\$1,540,000
Technology and Equipment	\$1,270,133
Transportation	\$3,909,000
<b>Total General Fund CPR Funding</b>	<b>\$9,863,133</b>

## Unfunded Capital Needs

- **\$572 M unfunded needs over five years**

- Fire Stations
- Parks, Outdoor Spaces and Trails
- Community Facilities
- International Swim Center
- Streets and Roads Pavement
- Traffic and Bicycle Safety
- Storm Sewer System
- City Buildings
- Historical Buildings

Five-Year CIP Unfunded Needs = \$571.6 M



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## General Fund Financial Forecast Update

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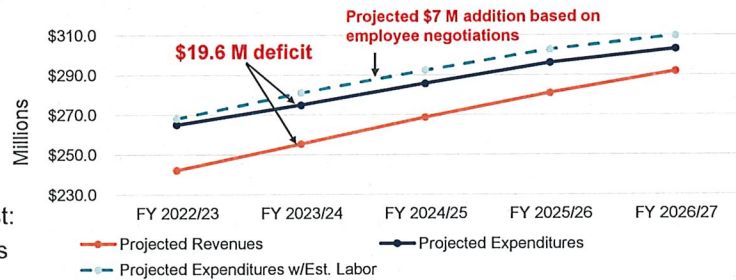
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# General Fund Forecast Update

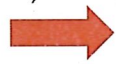
- Continued economic improvement assumed; uncertainty remains in terms of COVID-19 impacts and changing economic conditions (inflation, supply chain, war in Ukraine)
- Use of Budget Stabilization and Land Sale Reserves to address \$23 M shortfall in FY 2022/23
- \$19.6 M shortfall projected for FY 2023/24
- Impacting Factors **not included** in Forecast:
  - Higher/lower revenue growth (TOT, sales tax, property tax, program fees)
  - Success of potential ballot measures
  - Negotiated salary/benefits additional costs of **approx. \$7 M ongoing**

Five-Year Revenues vs. Expenditures Projection

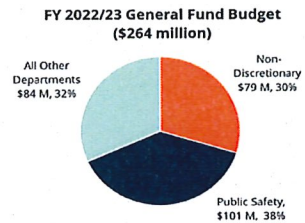


# General Fund Budget Balancing Scenario

- Presented scenario in February with a strategy that would solve the deficit
- Requires the following to close the \$19.6 M gap + \$7 M employee negotiations
  - New revenues (\$7 M)
    - Business Tax, TOT, New Fees
  - Position/Service reductions (\$12 M)
    - Approx. 75 non-sworn positions**
  - Future Economic Growth (\$8 M)
    - One-time reserves and hiring controls (approx. \$20 M - \$30 M over 4 years to bridge recovery)



Approx. 15% of Non-Public Safety Depts

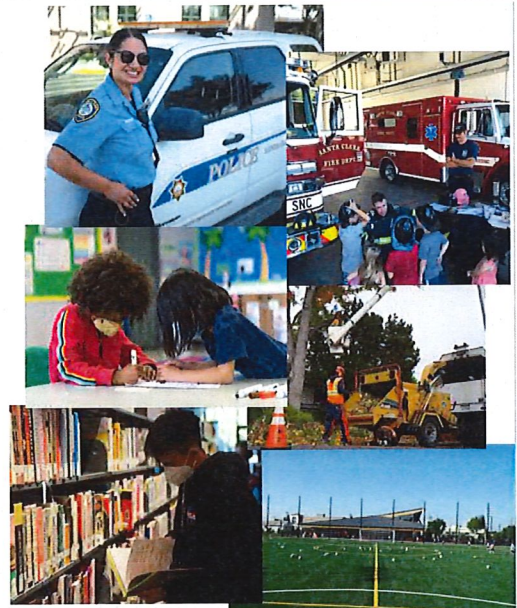


## Budget Balancing and Credit Rating

- S&P assigned the City of Santa Clara's "AA+" Independent Credit Review rating
- The ratings reflect S&P's view of the city's:
  - Stable tax base with very strong wealth and income indicators
  - Strong financial management policies/practices and strong institutional framework
  - Maintenance of a very strong **15% reserve position** despite recent draws
  - Moderate leverage and large unfunded pension liabilities, which could be a source of budgetary pressure as costs continue to rise
- **Downside scenario** - should operating deficits persist beyond current projections, resulting in a material reduction in reserves, S&P could take a negative rating action, particularly if it is believed that the city is experiencing a sustained structural imbalance without a plan in place to reasonably restore balance

## Fiscal Sustainability

- Work to identify new ongoing revenue sources underway
- Potential November 2022 ballot measures:
  - Modernize business tax
  - Outreach underway with public and business community
- Reduce the level of service disruptions that may be needed
- Better position the City moving forward



## General Fund Reserves

Reserve Type	FY 2021/22 Estimated Balance	FY 2022/23 Proposed Balance
General Fund Budget Stabilization (BSR)	\$53.6 M	\$40.4 M*
General Fund Capital Projects	\$6.7 M	\$0 M
Land Sale Reserve	\$22.4 M	\$12.7 M
Pension Trust (General Fund)	\$24.0 M	\$24.0 M

\* The BSR reserve dropped to \$36.6 million in the FY 2022/23 Adopted Budget; adjustment to \$40.4 million to meet the 15% target in FY 2022/23

## Follow-up from May 24<sup>th</sup> Budget Study Session

## May 24<sup>th</sup> Budget Study Session Follow-Up

1. With a General Fund Budget Stabilization (BSR) of \$40.4 million, is there approximately two years of funding remaining if we drew down the entire BSR to address the General Fund shortfall?

**Response:** Staff does not recommend completely depleting this contingency reserve as it would leave the City without the “rainy day” funds to address unexpected declines in revenues or other disruptions to maintaining essential services, leaving the city in an extremely vulnerable position. As seen with COVID-19, there can be circumstances beyond our control that materially impact the City’s finances. For context, the BSR would cover the budgeted payroll costs in the General Fund for a little more than two months if there is a serious disruption in service. This action would also negatively impact the City’s credit ratings.

2. There was interest in establishing a committee to handle resident complaints regarding the stadium, similar to the Neighborhood-University Relations Committee (NURC). What would be the ongoing cost to fund this committee and can it be supported by stadium concert revenues?

**Response:** The estimated cost of the Stadium Neighborhood committee is premised on the Measure J requirement that all costs associated with the Stadium not be borne by the General Fund. The cost of this committee would be a Stadium Authority cost to the extent it works on stadium-related issues. The cost of \$156k was based on the presumed key staff involved and an estimate of the hours required to support the committee (e.g., agenda preparation, reports, meeting time and follow up) with staff from the City Manager’s Office, Police Department, Fire Department and Public Works Department.



## May 24<sup>th</sup> Budget Study Session Follow-Up

3. Is there a capital project to redo the entrance to Central Park given that the International Swim Center (ISC) is in such disrepair?

**Response:** The Central Park Master Plan – New Entrance, Access and Parking project (\$2.5 M in FY 2021/22 will be carried over) is included in the budget. This project includes a new signalized entrance and drop off area necessary to complete safe access to the future Magical Bridge All Inclusive Playground, add 25 parking spaces (6 with EV charging stations), and provide recycled water to the large CP meadow and adjacent areas.

4. Council identified several capital priorities (replace fire station 5 and training tower, ISC, central Park lawn bowl, expand Central Park community center) and there was interest expressed in continuing to pursue a bond measure or potentially a targeted bond measure (e.g., fire facilities focused, swim center focused)

**Response:** A bond measure requires two-thirds voter approval. The City polling on potential bond measures has not yet met the two-thirds threshold. Given the City’s significant unfunded capital needs, staff will return in early 2023 to seek Council direction and funding to support a community outreach and engagement process to develop priorities for an infrastructure bond in 2024.





## May 24<sup>th</sup> Budget Study Session Follow-Up

5. There was a suggestion to potentially add a Youth Activities Commission or explore other options to partner with other organizations/obtain sponsorships to help address needs and deliver services

**Response:** The City has Youth, Parks & Recreation, Senior Advisory, and Cultural Commissions that provide feedback on programs and services as well as existing and proposed goals, priorities and activities. The Parks & Rec Dept. also conducts neighborhood and community surveys on those plans. Partnering with outside organizations is part of how we do business. The Department works with many service providers for special programs/services depending upon the community need and expertise. 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.

6. A member of the public inquired whether any traffic signals were planned for the Cabrillo and San Tomas intersection and the Cabrillo and Scott intersection and/or whether any traffic calming efforts were planned given the accidents in that area.

**Response:** Staff is studying Cabrillo Ave. between Scott Blvd. and Los Padres Ave. for potential traffic calming improvements and intersection improvements at Cabrillo Ave. and Scott Blvd. including the potential for a signal (est. completion July/August timeframe). The intersection of San Tomas Expwy. and Cabrillo Ave. is within the County of Santa Clara's jurisdiction and has an existing signal. Staff has reached out to the County to see if any improvements are planned for this intersection.

## May 24<sup>th</sup> Budget Study Session Follow-Up

7. Council expressed an interest in restoring the Drug Abuse Resistance Education (D.A.R.E.) Program in the Police Department.

**Response:** The School Services Unit within the Police Department is responsible for the D.A.R.E. program as well as other programs serving the schools and is assigned three Police Officers. The School Service Unit and the D.A.R.E. program were not reduced or eliminated by the City Council as part of the budget process. The D.A.R.E. program was suspended during COVID and because of other higher priority needs (e.g., patrol and mental health-related responses). Because of recruitment and retention issues, the positions assigned to the D.A.R.E. program remain unfilled. In January 2022, the Police Department launched a 6-month focused hiring initiative that has already resulted in eight new employees hired with 12 additional new hires coming as of the end of June. The Police Department currently has 8 Police Officer vacancies and 3 Police Officers in training that will be street ready by September.

## May 24<sup>th</sup> Budget Study Session Follow-Up

8. Several one-time and ongoing funding requests to add or restore services. The balance of \$325,000 from the Council Initiatives allocation was identified as a potential funding source

Item	One-Time Cost	Ongoing Cost
Transportation Demand Management	\$0.2 M	
El Camino Real Specific Plan	\$1.0 M	
Homeless Task Force Recommendation Implementation	TBD	TBD
Police Restorations (6.0 sworn positions): 1.0 Sergeant - Drone Program; 1.0 Sergeant - Task Force Unit; and 4.0 Officers - Field Training Officer (FTO) program (Task Force Unit and School Resource Officer impacts)		\$1.6 M
Downtown Task Force/Precise Plan for Downtown	\$0.3 M	
<b>Total</b>	<b>\$1.5 M</b>	<b>\$1.6 M</b>

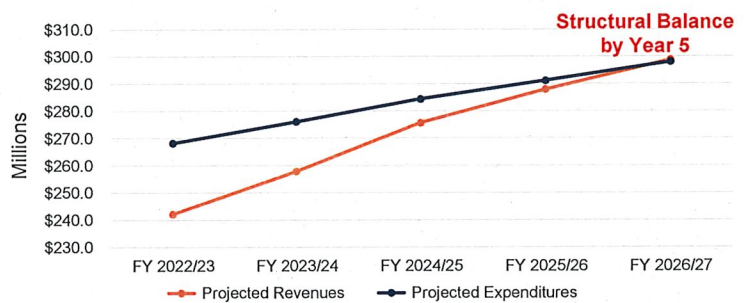
Impacts on Budget Balancing:

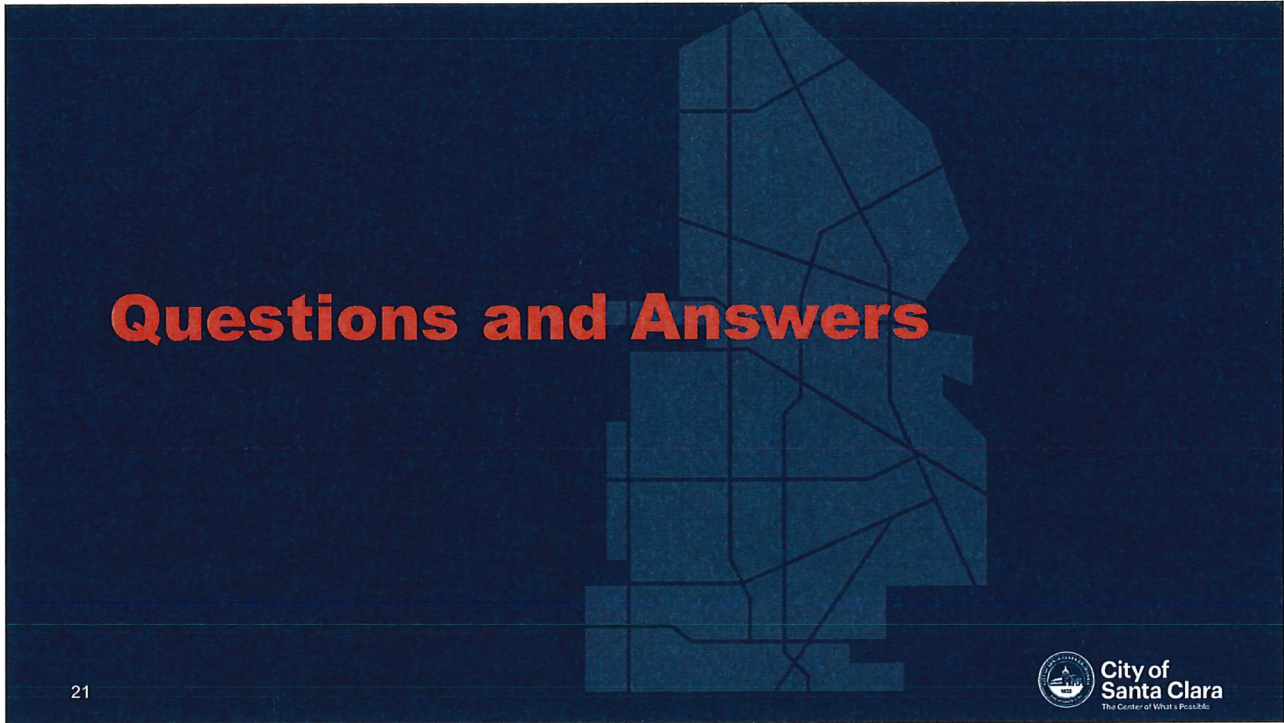
- Position/Service reductions of 75 Positions would increase by 10 non-sworn
- Would require additional \$1.5 M of one-time solutions that are not identified

## General Fund Forecast with Fiscal Sustainability

- Requires the following to close the \$19.6 M gap + \$7 M employee negotiations
  - New revenues (\$7M)
    - Business Tax, TOT, New Fees
  - Position/Service reductions (\$12 M)
    - **Approx. 75 non-sworn positions**
  - Future Economic Growth (\$8 M)
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Five-Year Revenues vs. Expenditures Projection





# Questions and Answers

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# FY 2022/23 Library Community Room Fee Adjustments

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# FY 2022/23 Municipal Fee Schedule – Library Community Room Rental Fees

- ClearSource Financial assisted with FY 2022/23 Municipal Fee Schedule and Parks & Recreation Cost Recovery Policy (adopted by City Council on April 19, 2022)
- Study Session held on April 5, 2022 to provide feedback:
  - Align library community room rentals with Parks & Recreation
  - Lower technology fee
  - High value on Santa Clara residents and non-profit organizations
- Library community room rental fees have been suspended since 2019 out of concern that there was not customer service alignment with Parks & Recreation fee
- Based on April 5<sup>th</sup> Study Session feedback, Library met with the Board of Library Trustees (BOLT) on April 28, 2022; BOLT approved proposed fee changes



## Library Community Room Rental Fees Proposed Fee

- \$20 per meeting – Non-Profit or Santa Clara Residents community events
- \$90/hr. – Non-Resident Use
- No processing/set up fee
- \$30 hourly staff charges if groups require assistance throughout their reservation

CITY OF SANTA CLARA MUNICIPAL FEE SCHEDULE

DESCRIPTION OF FEE, RATE OR CHARGE	CURRENT FEE AND PERIOD	TECHNOLOGY FEE (3.37% APPLIES (Yes or No))	SUBMITTED BY DEPARTMENT / DIVISION:		RESOLUTION NUMBER:		APPROVED:		PROPOSED NEW OR REVISED FEE 2022-23
			LIBRARY	LIBRARY	CHARGING DEPT / DIV	DATE FEE LAST CHANGED	ORIGINATOR NUMBER & DATE (if applicable)	FEE DETAIL OBJECTIVE PROP 26 EXCEPTION (SEE READER'S GUIDE) FULL COST FACTOR	
Overdue Fines for Portable Electronic Devices	\$ 15.00	No	Charged By: Library Collected By: Library	Date: 6/12/2012 O. No.: O. Date:	Objective: Prop 26 Exception: Full Cost:	Penalty Encourage prompt return of portable electronic devices. N/A		\$ 15.00	
Room Rental, Processing and Set-Up and Clean-Up Fee	\$ 90.00	No	Charged By: Library Collected By: Library	Date: 4/22/2014 O. No.: O. Date:	Objective: Prop 26 Exception: Full Cost:	Revenue Cost User Fee -	Currently suspended. Fee change to be brought forward separately at a later date.		
Fee for using library meeting room  Residents / Non-Profits  Non-residents  Additional assistance required	\$ 30.00 per hour 2-hr. minimum	No	Charged By: Library Collected By: Library	Date: 6/11/2013 O. No.: O. Date:	Objective: Prop 26 Exception: Full Cost:	User Fee 4 N/A	Currently suspended. Fee change to be brought forward separately at a later date.	\$ 20.00 per meeting  \$ 90.00 per hour  \$ 30.00 per hour	



# Questions and Answers

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## City Council Meeting



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