


6/9/20


Item # 2



Study Session

**Item #2 - Review of the
Proposed FY 2020/21 & FY
2021/22 Biennial Capital
Improvement Program Budget
and FY 2020/21 Operating
Budget Changes**

June 9, 2020



**City of
Santa Clara**
The Center of What's Possible

Agenda

- Budget Overview
- FY 2020/21 and 2021/22 Proposed Biennial Capital Budget and Five-Year CIP
- FY 2020/21 Operating Budget Amendments
- Economic Conditions/Ten-Year Financial Forecast Update
- Budget Balancing Actions and Timeline
- Budget Calendar
- Questions and Answers

2

POST MEETING MATERIAL

Budget Overview

3



Annual Budget

Fund Type (\$ millions)	2019/20 Adopted	2020/21 Adopted	Increase/ (Decrease)	2020/21 Proposed	Increase/ (Decrease)
General Fund	\$ 262.9	\$ 269.3	\$ 6.4	\$ 285.8	\$ 16.5
Special Revenue Funds	29.3	13.8	(15.5)	20.5	6.7
Internal Service Funds	35.8	35.3	(0.5)	37.5	2.2
Enterprise Funds	652.0	740.2	88.2	692.0	(48.2)
Debt Service/Other	74.5	26.8	(47.7)	17.2	(9.6)
Net Adjustments*	(209.8)	(239.0)	(29.2)	(228.3)	10.7
Subtotal Operating Budget	\$ 844.7	\$ 846.4	\$ 1.7	\$ 824.7	(\$ 21.7)
Capital Improvement Program Funds**	339.6	145.8	(193.8)	147.4	1.6
Total City Budget	\$ 1,184.3	\$ 992.2	(\$ 192.1)	\$ 972.1	(\$ 20.1)

* Excludes interfund transfers and Internal Service Fund charges to avoid double counting

** FY 2019/20 Adopted Capital Improvement Funds include carryover of approximately \$209.8 million

4



FY 2020/21 Budgeted Positions

Summary of Budget Position Changes (All Funds)	
FY 2019/20 Adopted Budget Positions	1,132.75
FY 2020/21 Adopted Budget Position	1.00
Base Budget Changes (non-General Fund, previously approved by Council)	17.00
FY 2020/21 Proposed Net Additional Positions (net-zero cost)	1.75
FY 2020/21 Proposed Budget Positions	1,151.50

5

FY 2020/21 & FY 2021/22 Proposed Capital Program Budget and Five-Year CIP



6










New Look

- Continued transition from a transactional budget organized by fund to one that focuses on project themes, priorities and service delivery
- Aligns projects to City Council strategic priorities
- Clearly identifies projects that are funded vs. unfunded
- Includes narratives that summarize project highlights and accomplishments, priorities, funding sources
- Continued display of comprehensive budgetary financial statements that include beginning and ending fund balances
- Pictures included

7



CIP Budget by Strategic Pillar

	Strategic Pillar	Proposed Five-Year CIP (\$ in millions)
	Promote and Enhance Economic, Housing, and Transportation Development	\$11.4 M
	Deliver and Enhance High Quality Efficient Services and Infrastructure	\$471.4 M
	Enhance Community Sports, Recreational and Arts Assets	\$19.1 M
	Enhance Community Engagement and Transparency	\$0
	Ensure Compliance with Measure J and Manage Levi's Stadium	\$0
	Manage Strategically Our Workforce Capacity and Resources	\$1.3 M
	Promote Sustainability and Environmental Protection	\$11.2 M
Total Proposed Five-Year CIP		\$514.5 M

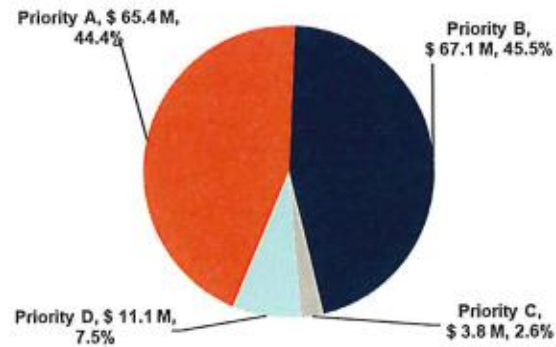
8



CIP Budget Project Priority

- A – Critical Need Mandated, Emergency, or Under Construction
- B – Maintenance System Reliability and/or Ongoing Operations
- C – Future System Needs or Future Regulatory Requirements
- D – Not Critical but Achieve Efficiencies and/or Sustainability

FY 2020/21 Proposed CIP = \$147.4 M



9



CIP Budget by Theme/Category

	FY 2020/21 Proposed	FY 2021/22 Proposed	FY 2022/23 Proposed	FY 2023/24 Proposed	FY 2024/25 Proposed	Proposed Five-Year CIP Total (\$ in millions)
Theme						
Administrative Facilities	\$ 1.7	\$ 0.3	\$ -	\$ -	\$ -	\$ 2.0
Community Facilities	1.0	-	-	-	-	1.0
Electric Utility	58.0	59.2	30.5	23.9	20.0	191.6
Other Community Projects	5.7	5.5	6.5	6.9	7.1	31.7
Parks and Trails	4.8	11.9	3.2	0.2	4.7	24.8
Sewer Utility	41.4	34.0	39.5	12.0	21.7	148.6
Solid Waste	0.9	0.6	0.7	0.7	0.7	3.6
Storm Drain	4.2	0.3	-	0.3	-	4.8
Technology and Equipment	2.3	1.5	1.1	1.1	1.1	7.1
Transportation	22.2	17.7	11.3	11.1	11.1	73.4
Water and Recycled Water Utilities	5.2	6.3	6.4	4.0	4.0	25.9
Five-Year CIP Total	\$ 147.4	\$ 137.3	\$ 99.2	\$ 60.2	\$ 70.4	\$ 514.5

10



CIP Budget – General Fund

Project	Proposed Five-Year CIP Total (\$ in millions)	Notes
Non-Discretionary		
6549 - Agenda and Document Management Systems	500,000	In progress
6075 - Permit Information System (Building Inspection Reserve funding)	204,400	Different restricted funding source
6559 - Downtown Master Plan (Advanced Planning Reserve Funding)	100,000	Different restricted funding source
1325 - Bridge Maintenance Program	2,260,000	CalTrans requirement
NEW-131-Public Right-of-Way ADA Improvements (Settlement Agreement)	10,750,000	Needed for Lawsuit
Transfer to Electric Utility Fund (SCADA projects)	330,000	Storm share of project in progress
1831 - Storm Drain Repairs and Maintenance	100,000	Required for annual maintenance
1838 - SDPS Motor and Control Maintenance, Repair, and Replacement	189,000	Required for annual maintenance
1839 - Urban Runoff Pollution Prevention Program	750,000	Required for annual maintenance
6138 - Repairs-Modifications to City Buildings	300,000	Required for annual maintenance
6139 - Repair to Historic Buildings	200,000	Required for annual maintenance
6140 - Triton Museum Repair and Modifications	70,000	Required for annual maintenance
6558 - Morse Mansion Maintenance and Repair	100,000	Required for annual maintenance
Total Non-Discretionary	15,853,400	

11



CIP Budget – General Fund

Project	Proposed Five-Year CIP Total (\$ in millions)	Notes
Other Projects		
1. 6158 - Stationary Standby Generators	1,000,000	Generator failure at buildings and storm pump stations
2. NEW - 325 - Sarah E. Fox Memorial Mausoleum Repairs	300,000	Critical repairs to ensure protection of remains
3. 3187 - Bowers Roof Replacement Project	130,680	Rated as critical project in Kitchell report
4. NEW - 181 - Lafayette St. Underpass at Subway Pump Station	200,000	Study only; current standing water issue
5. 1841 - Laurelwood Pump Station Rehabilitation	3,200,000	Neighborhood flood protection - increased risk during storm events with delays
6. 4084 - Protective Equipment Replacement	1,232,595	Needed to meet replacement cycle
7. 6501 - FHRMS Update Project (Partial funding by other funds)*	550,000	Peoplesoft operational efficiencies
8. 1250 - Annual Curb Ramp Installation	600,000	ADA concern
9. 6505 - Replace Network Equipment	210,000	Potential network failure
10. 6514 - Consolidate and Upgrade Servers	200,000	
Top Ten Other Projects	7,623,275	

12



CIP Budget – General Fund

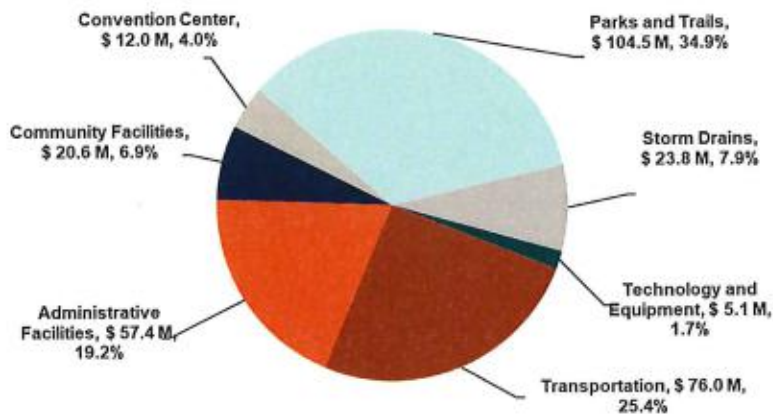
Project	Proposed Five-Year CIP Total (\$ in millions)	Notes
Other Projects		
11. 1203 - Annual Creek Trail Rehabilitation Program	940,000	Further degradation of trail surfaces (San Tomas)
12. NEW - 182 - Storm Drain Slide Gate Rehabilitation	390,000	Reduced flood protection capacity
13. 6123 - Public Building Parking Lot Improvements	250,000	Further degradation of parking lot surfaces
14. 6513 - Computer Replacement Program	250,000	
15. NEW - 608 - Fire Station 8 Fixtures, Furniture and Equipment	60,000	
16. NEW - 326 - Mission Library Gazebo	200,000	
17. NEW - 134 - Traffic Engineering Consultant Support	250,000	Slower response or not able to address requests
18. 6144 - Civic Center Campus Renovation (Multi-Department)	100,000	
19. NEW - 323 - Electronic Access for Meeting Rooms	576,200	
20. 1226 - Uncontrolled Crosswalks	200,000	Study only - prioritizing uncontrolled cross walks to evaluate requests
21. NEW - 6560 - Downtown Master Plan Implementation (Land Sale Reserve Funding)*	1,800,000	
Other Projects	5,016,200	

13



CIP Unfunded Needs

Five-Year CIP Unfunded Needs = \$299.4 M



14



Major CIP Unfunded Needs

By Theme, by Project	Five-Year Unfunded Total (\$ in millions)
Administrative Facilities	
Fire Station 5 Replacement	\$ 13.0 M
Fire Stations 1, 7, 9 and Admin Building Renovation Study	\$ 15.3 M
Stationary Standby Generators	\$ 10.3 M
Community Facilities	
Library Expansion	\$ 20.0 M
Convention Center	
Convention Center Condition Assessment Repairs	\$ 6.6 M
Convention Center Garage Condition Assessment Repairs	\$ 5.4 M
Parks and Trails	
Central Park Master Plan – Aquatic Center, Community Recreation Center and Gymnasium	\$ 90.0 M

15



Major CIP Unfunded Needs

By Theme, by Project	Five-Year Unfunded Total (\$ in millions)
Storm Drain	
Storm Drain System Improvements	\$ 18.4 M
Storm Water Retention Basin Remediation	\$ 3.9 M
Technology and Equipment	
Computer Replacement Program	\$ 2.0 M
Cybersecurity Risk Mitigation	\$ 1.5 M
Transportation	
Annual Street Maintenance and Pavement Rehabilitation Program	\$ 45.0 M
MCB/GAP Intersection Improvement	\$ 6.2 M
Uncontrolled Sidewalks Improvements	\$ 7.6 M
Annexed Neighborhood Street Improvements	\$ 5.0 M
El Camino Real Bike Lane	\$ 5.6 M

16



Capital Funding Strategy Needed

- No dedicated capital funds for many city facilities (e.g., fire stations, libraries, storm drains, technology, City Hall)
- Available funding in these areas as well as others (e.g., parks, transportation system) fall well below needs
- One-time funds, such as GO Bonds, could address significant deferred/unmet needs
- Ongoing funding strategy also necessary to ensure the long-term sustainability of the City's infrastructure

17



Capital Funding Community Engagement

- **Prioritize Santa Clara** – Infrastructure Investments
 - Education and engagement process
 - Interactive discussions with the community about necessary infrastructure improvements
 - Five online meetings for resident input (June 1 – June 6) and survey on infrastructure needs
 - Behind-the-scenes virtual tours (fire station, streets, Central Park, storm system)

18

FY 2020/21 Operating Budget Amendments

19



FY 2020/21 Operating Budget Amendments

- FY 2020/21 Adopted Operating Budget approved June 25, 2019
- Operating Budget amendments necessary to:
 - update revenue estimates for the General Fund and other funds
 - make adjustments to account for updated labor and non-personnel costs in the General Fund and other funds
 - Update resources and production costs in Enterprise Funds
 - Bring all funds into balance in the Proposed Budget
- Described in the Appendices section of the Proposed Budget

20



Economic Conditions and Ten-Year Financial Forecast Update

21



Latest Economic Impact

42.65M JOBLESS CLAIMS FILED AMID CORONAVIRUS OUTBREAK



Palo Alto will eliminate 74 full-time positions at city hall, cut back popular services

The cutbacks are in response to a \$38.8 million forecasted revenue shortfall



LIVE TV

California governor lays out deep budget cuts to close \$54 billion deficit

El Cerrito plans to furlough entire city staff to address fiscal woes

Proposal would go into effect this month and might be extended through next year; city offices would close Fridays.

Gilroy outlines staff layoffs

Monterey to hold virtual town hall for input on projected \$31M revenue shortfall

22



Ten-Year General Fund Forecast

April 2020 (Updated) General Fund Net Operating Margin – Base Scenario

	Potential 2019/20 Shortfall (One-Time)	January 2020 2020/21 Forecast	Updated 2020/21 Forecast (Ongoing)
General Fund Shortfall	(\$10 M)	(\$4.8 M)	(\$22.7 M)

- Forecasting during unprecedented times
- Shortfall figures may get worse depending on the length of the shelter in place orders and the response once those orders are lifted
- The FY 2020/21 shortfall will need to be addressed with ongoing expenditure reductions and/or revenue solutions.
- Deficits in the remaining years of the Forecast are expected to grow in a recession scenario

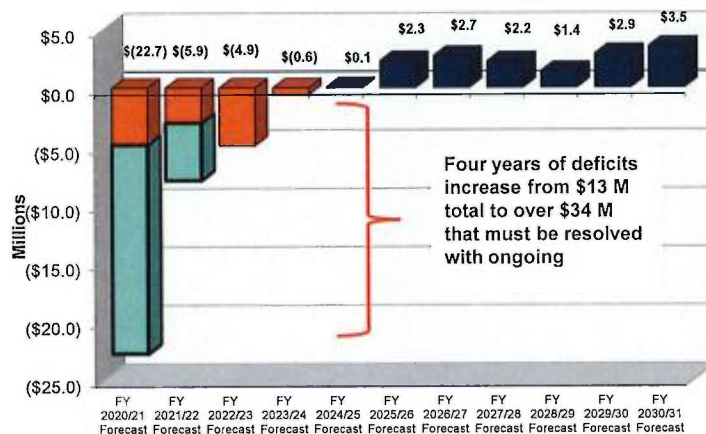
23



Ten-Year General Fund Forecast

April 2020 General Fund Net Operating Margin – COVID 19 Impact

- After solving for \$10m in FY 2019/20 we face a \$22.7m deficit in FY 2020/21; these must be resolved with ongoing solutions
- Total shortfall over the first four years is over \$34m ongoing
- May get worse



24



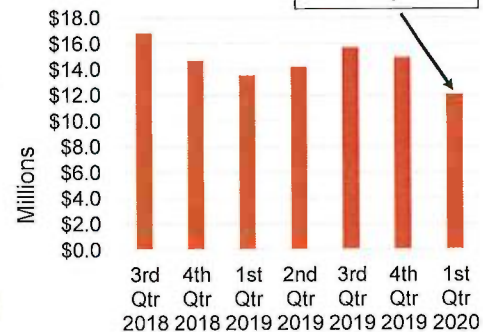
Ten-Year General Fund Forecast

New Information/Status Check

General Fund Net Operating Margin – COVID 19 Impact

- Sales Tax

- FY 2019/20
 - Actual sales tax data for 1st Qtr. 2020 (Jan-March) – down 10.9% from prior year
 - 2nd Qtr. 2020 (Apr-June) data will be available in August 2020
- FY 2020/21
 - April projections assumed revenues down 10% in FY 2020/21
 - If decreases by 20%, deficit grows by an additional \$7 million ongoing
 - Could be worse (Palo Alto assumes 43% drop)



25



Ten-Year General Fund Forecast

New Information/Status Check

General Fund Net Operating Margin – COVID 19 Impact

- Transient Occupancy Tax

- FY 2019/20 – Projections in line with revised April Forecast figures (30% year over year decline). Some hotels remain closed with delayed payments (minimal new data)
- FY 2020/21 – Assumes 25% decline ongoing but may get worse (e.g., Hyatt Regency currently closed until July 1)
 - We will need to review activity once hotels open up (Palo Alto assumes 44% drop)

- Property Tax

- FY 2019/20 and 2020/21 – Projections on track
- FY 2021/22 – County Assessor has concern on meeting Prop 13 annual inflation factor of 2% due to low CPI; ERAF calculation issue
 - Potential ongoing impact - \$1.2 million - \$3 million not yet factored into Forecast

26

Budget Balancing Actions and Timeline

27



Budget Balancing Strategy

- Combination of strategies to balance FY 2020/21 General Fund budget
 - Potential ballot measures and other revenue-generating actions
 - One-time savings from cost control measures
 - Potential labor negotiations (subject to meet and confer)
 - Ongoing expenditure reductions
- Use of Budget Stabilization Reserve as interim strategy
- Potential layoffs as a last resort

28





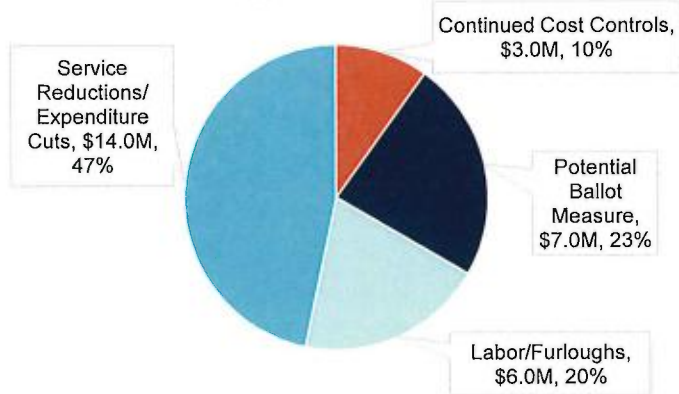
Budget Balancing Strategy

SAMPLE SCENARIO

Combination of strategies to generate \$30M in General Fund Savings

- Revenue Measures or Budget Stabilization Reserve
- Continued Cost Controls
- Labor/Furloughs
- Service Reductions/Expenditure Cuts

Balanced Approach to Address Shortfall



29



Budget Balancing Strategy Revenue Opportunities

- Community survey underway for potential revenues
 - Transient Occupancy Tax, deferred implementation up to 4% (9.5% to 13.5%)
 - Projects General Obligation Bond
 - Public Art fee
- Continuation of Development Projects (e.g., Related Santa Clara, Kylli)
- Fees for Services
- Longer-term – Evaluate other fees and taxes compared to neighboring jurisdictions

30



Potential Ballot Measure

Transient Occupancy Tax Scenarios

	4%	3%	2%	1%
General Fund Revenue	\$7.0 M	\$5.5 M	\$3.0 M	\$1.5 M
Sworn Positions Equivalent	27	21	12	6
Non-Sworn Positions Equivalent	42	33	18	9

- Average Position Sworn = \$260,000; Average Position Non-Sworn= \$165,000 (excludes non-discretionary unfunded liability costs)
- TOT revenue based on FY2020/21 projection from April 2020. Actual amount will differ.
- Additional reduction proposals will be needed if ballot measure is not approved.

31



Budget Balancing Strategy

Continued Cost Controls: One-Time Savings

- Hiring freeze, with limited exceptions
- Stricter expenditure controls
- Decreased temporary staffing (by 49%)
- Limited travel
- Limited training
- Reduced expenditures for IT
- Reduced expenditures for vehicle and fleet purchases
- Evaluating current contracts and other non-personnel expenditures

32



Budget Balancing Strategy Labor/Furloughs

- Subject to meet and confer
- Discussions with bargaining units underway
- Variety of approaches under consideration

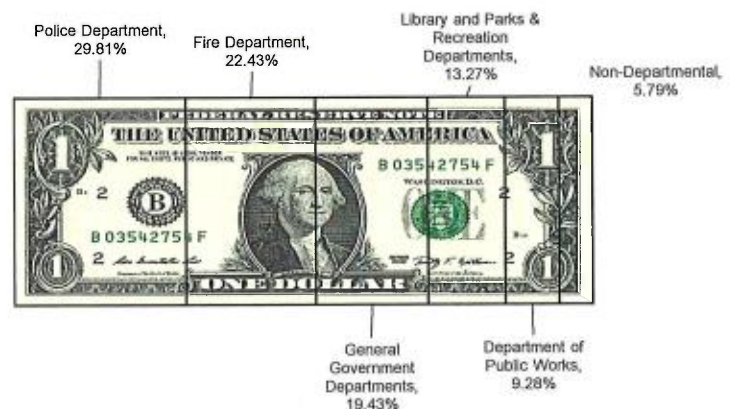
33



Budget Balancing Strategy Expenditure Reductions

General Fund Shortfall Rough Equivalents

- Entire Parks and Recreation Department **or**
- One-Half of the Fire Department **or**
- One-Third of the Police Department



34



Budget Balancing Strategy Departmental Reduction Targets

- Departmental General Fund reduction targets to be issued
- Targets based on adjusted budget that removes non-discretionary costs
- Potential targets to generate \$30 M in expenditure proposals to provide options
- Potential tiered strategy for expenditure reductions based on results of labor actions and potential ballot measure

35

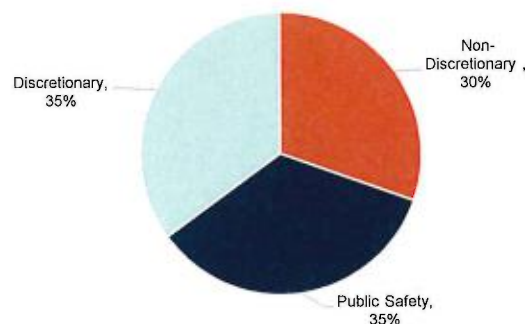


Budget Balancing Strategy Expenditure Reductions

Limited control in certain areas
(Non-Discretionary)

- CalPERS costs – unfunded liability
- Debt service costs
- Fixed facility operating costs
- Costs supported by fees/ reimbursements
- Mandated costs
- Claims/insurance

FY 2020/21 Proposed General Fund Budget



36



Budget Balancing Strategy - Timeline



37



Budget Balancing - Key Takeaways

- Continuous evaluation of financial condition to determine if adjustments to budget balancing are needed
- Full COVID 19 impact on revenues unknown, and will likely be worse
- Multi-pronged approach to addressing General Fund shortfall will be critical to preserve services
- Reductions will be based on service impacts
- Successful ballot measure will be required to avoid potential additional cuts (up to 42 full-time non-sworn or 27 sworn positions)
- Potential layoffs as a last resort

38

Budget Calendar

39



Budget Calendar

- **May 1** – Proposed Capital Program Budget Released
- **May 12** – City Council Study Session on Capital Program Budget and Operating Budget Changes
- **June 9** – Second City Council Study Session on Capital Program Budget and Operating Budget Changes
- **June 23** – City Council Adoption of Capital Program Budget, Gann limit, Operating Budget Changes and CIP Carryovers

40



Questions and Answers

41



Study Session

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