



Fiscal Outlook

10-Year General Fund Forecast

Kenn Lee, Finance Director
February 2021

Agenda

- Overview
- Economic Outlook
- 10-Year General Fund Forecast
- Budget Balancing
- Budget Principles
- Next Steps



Overview



Overview

Financial Update as a Strategic Planning Tool

- Evaluate current condition
- Foundation for looking at priorities
- Know risk factors and vulnerabilities
- Understand trade-offs moving forward
- Develop mitigation efforts
- Strategic positioning and use of reserves



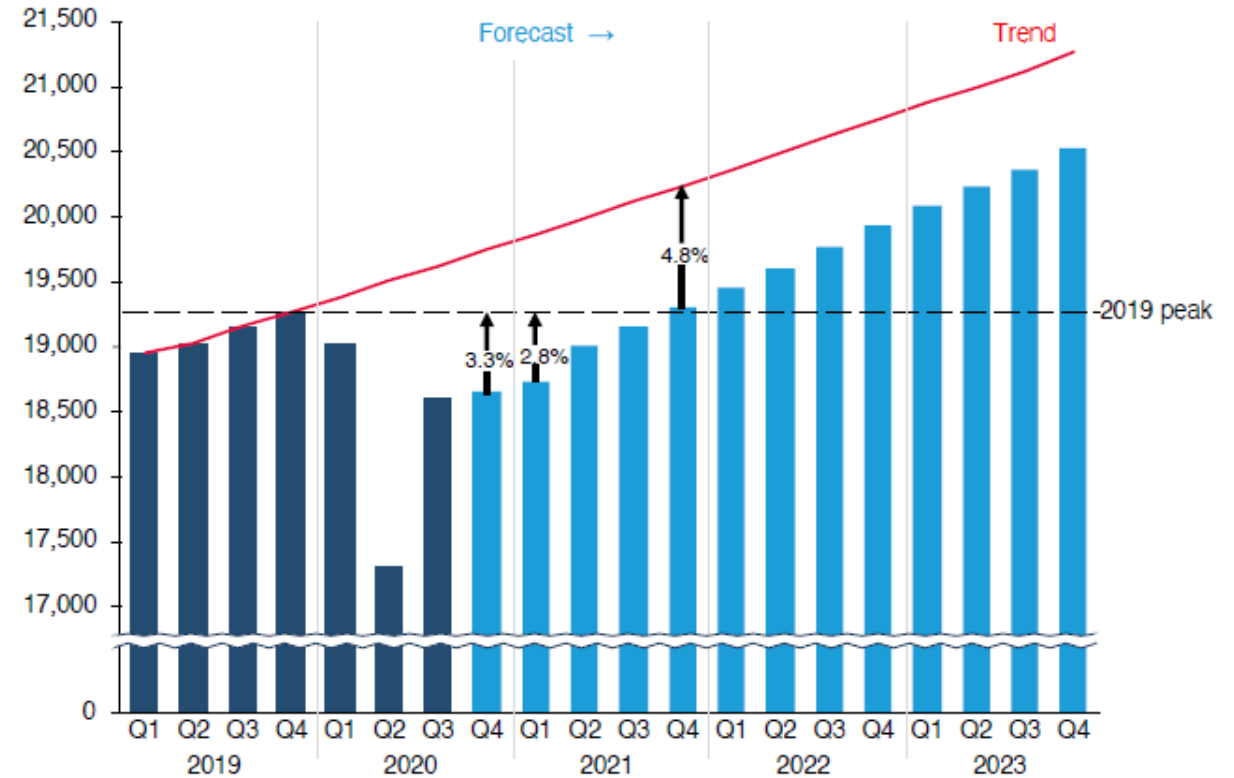
Economic Outlook



Economic Outlook

- COVID-19 spurred abrupt end to longest expansion in U.S. history
- With mass vaccinations, strong growth expected in 2021; UCLA Forecast assumes economy reaching previous peak by the end of 2021, but still below expected pre-COVID trend
- Uneven impacts to businesses and residents with some facing significant hardships

Real GDP Levels and Trends, \$ Billions



Source: U.S. Department of Commerce, Bureau of Economic Analysis and UCLA Anderson Forecast

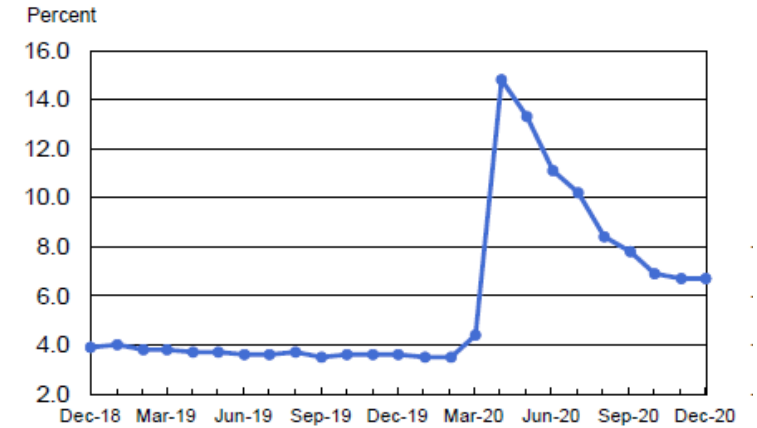
Notes: Real GDP growth rate, seasonally adjusted annual rate



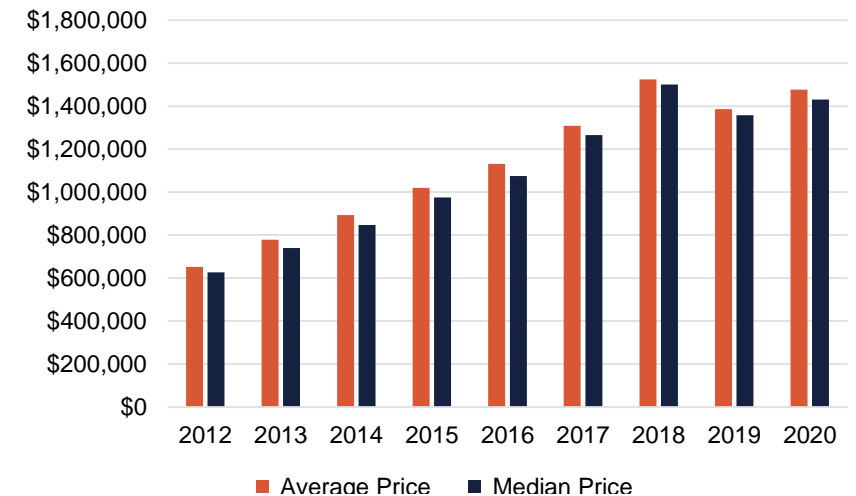
Economic Outlook

- Unemployment improving after unprecedented increase in March 2020; Silicon Valley lower than State and U.S.
- Santa Clara residential real estate market experienced growth despite COVID-19
- UCLA expects housing market to remain hot through at least 2023
- Development activity also remains strong; can change quickly based on economic conditions

U.S. Unemployment Rate
December 2018 – December 2020



Single Family Residential Home Sales



Data Source: Santa Clara County Association of Realtors



10-Year General Fund Forecast



10-Year General Fund Forecast

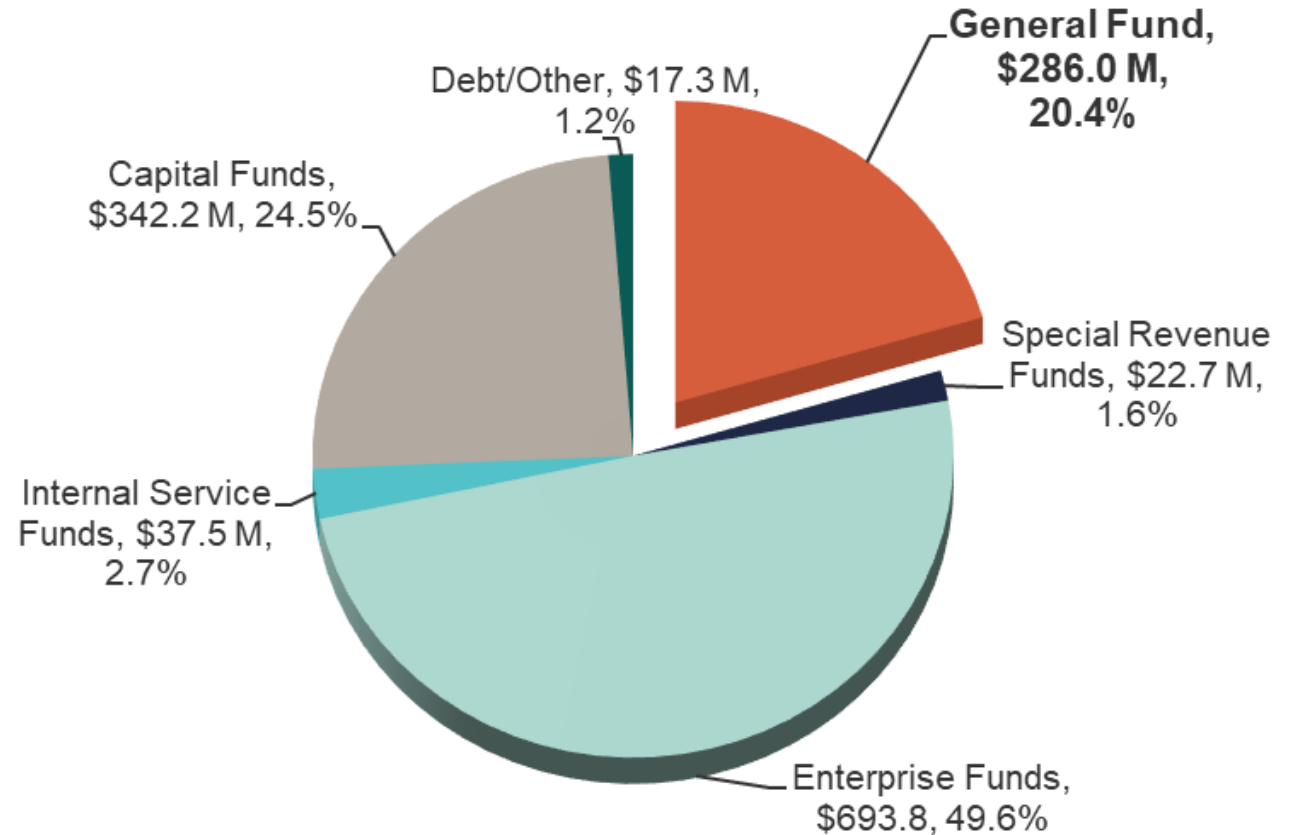
- Planning tool
- Compare ongoing General Fund revenues and expenditures
- Projected deficits/surpluses if solved with ongoing dollars (Net Operating Margin)



10-Year General Fund Forecast

- 10-Year General Fund Forecast for long-term planning
- Focused on the General Fund portion of the budget that provides many of the direct services to community (police, fire, libraries, parks and recreation)
- Base General Fund shortfall in FY 2021/22 due to COVID-19 impacts

FY 2020/21 Adopted Budget



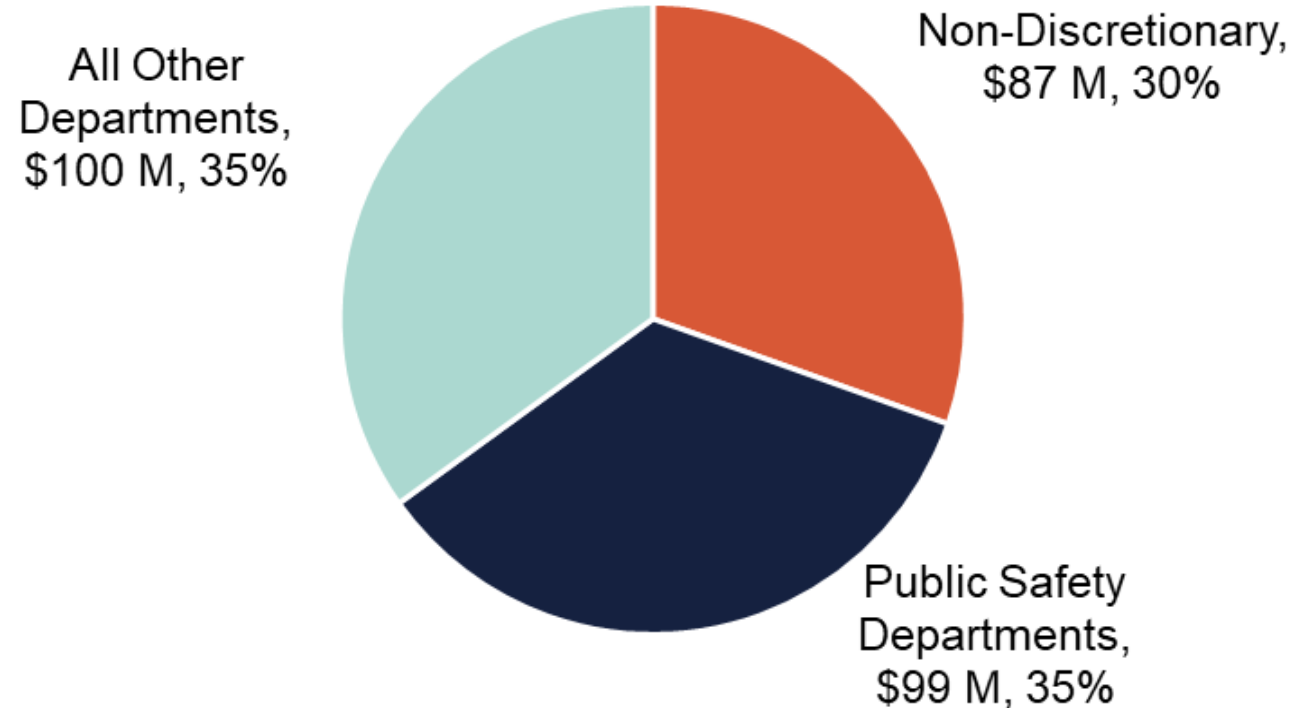
10-Year General Fund Forecast

Expenditure Budget

Limited control in certain areas

- Non-Discretionary costs represent approx. 30% of the General Fund budget
- CalPERS costs – unfunded liability
- Debt service costs
- Fixed facility operating costs
- Fee-supported activities

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



10-Year General Fund Forecast

Development and Assumptions

Major assumptions:

- Post COVID-19 continued economic recovery with longer-term impacts to Transient Occupancy Tax
- Current CalPERS direction/ methodology for payments
- Revenue and expenditure review
- Adjustments for latest salaries and benefits costs

Forecast does not include:

- Additional contributions to reserves (Council Policy for BSR, Pension)
- One-time funding sources
- One-time expenditures
- The cost to address unmet/ deferred infrastructure needs



10-Year General Fund Forecast

Known Risks

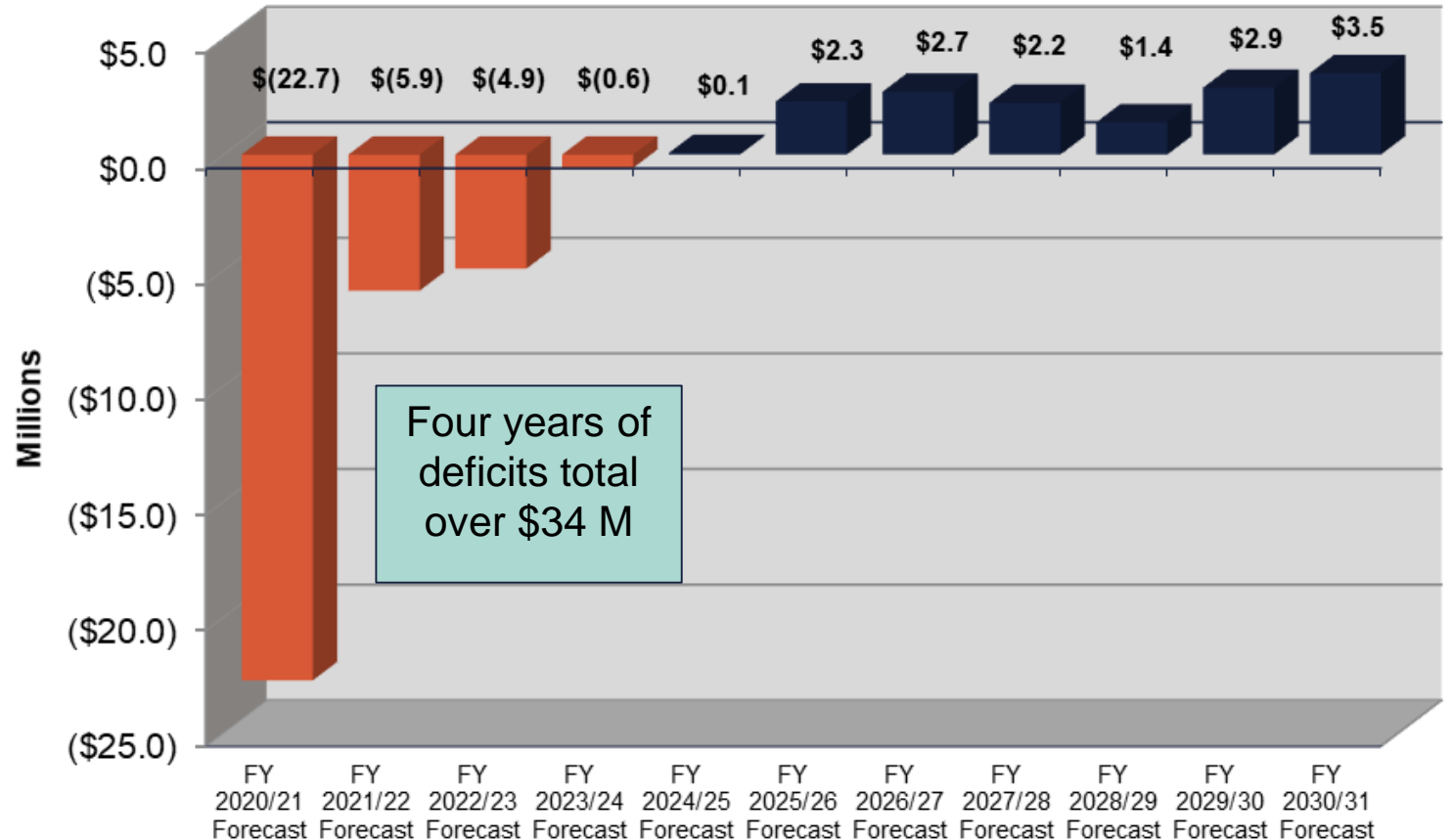
- More significant impact from COVID-19 / vaccine roll out timing
- Prolonged economic slowdown/recession
- Property Tax – re-assessment of non-residential properties
- State/federal legislative changes and legal challenges
- Labor costs outside the budget assumptions
- Impacts of updated Cost Allocation Plan and Fee Study
- CalPERS actuarial changes or reform actions
- Capital/infrastructure - unanticipated critical maintenance needs
- Maintenance impacts and timing of development projects



General Fund Forecast - April 2020

Net Operating Margin

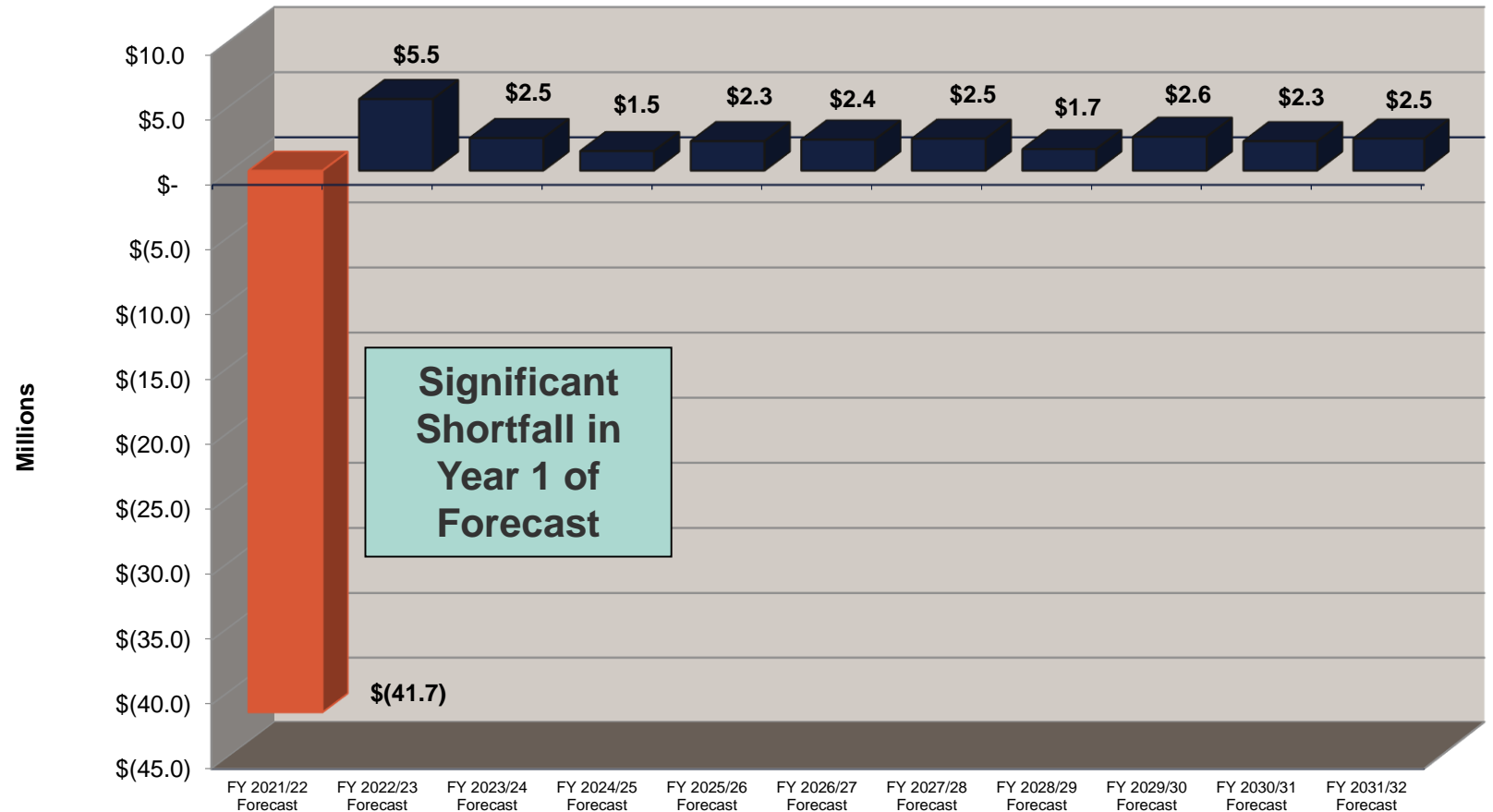
- April Forecast was based on very early understanding of COVID-19 assuming we would open up in summer 2020
- Revision in September increased the projected deficit to \$40 M over three years
- With Phase I solutions, we would have a \$28 M ongoing deficit to solve



General Fund Forecast – January 2021

Net Operating Margin

- 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, \$30 M ongoing deficit to solve



General Fund Forecast Comparison

FY 2022-2032 General Fund Ten-Year Forecast Net Operating Margin - Ongoing Surplus/(Deficit) (\$ in millions)										
2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32
JANUARY 2021 FORECAST										
(\$41.7 m)	\$5.5 m	\$3.3 m	\$1.6 m	\$2.3 m	\$2.5 m	\$2.0 m	\$1.7 m	\$2.7 m	\$2.2 m	\$2.4 m
APRIL 2020 FORECAST										
(\$28.6 m)*	(\$4.9 m)	(\$0.6 m)	\$0.1 m	\$2.3 m	\$2.7 m	\$2.2 m	\$1.4 m	\$2.9 m	\$3.5 m	N/A
CHANGE FROM PRIOR FORECAST										
(\$13.1 m)	\$10.4 m	\$3.9 m	\$1.5 m	\$0.0 m	(\$0.2 m)	(\$0.2 m)	\$0.3 m	(\$0.2 m)	(\$1.3 m)	N/A

* Includes the \$22.7 M shortfall from FY 2020/21 and the \$5.9 M shortfall from FY 2021/22

Major Changes from Prior Forecast

Revenues - Down \$10.0 M in 2021/22 (Approx. 4% of revenue budget)

- Drops in Transient Occupancy Tax (\$6.8 M), Interest Income (\$2.7 M) in 2021/22; Charges for Services - Stadium reimbursements, fees for services (\$2.6 M); Rents - Related lease payments extended timeline (\$2.4 M)
- Sales Tax up \$4.5 M in 2021/22 (previously assumed slowdown)

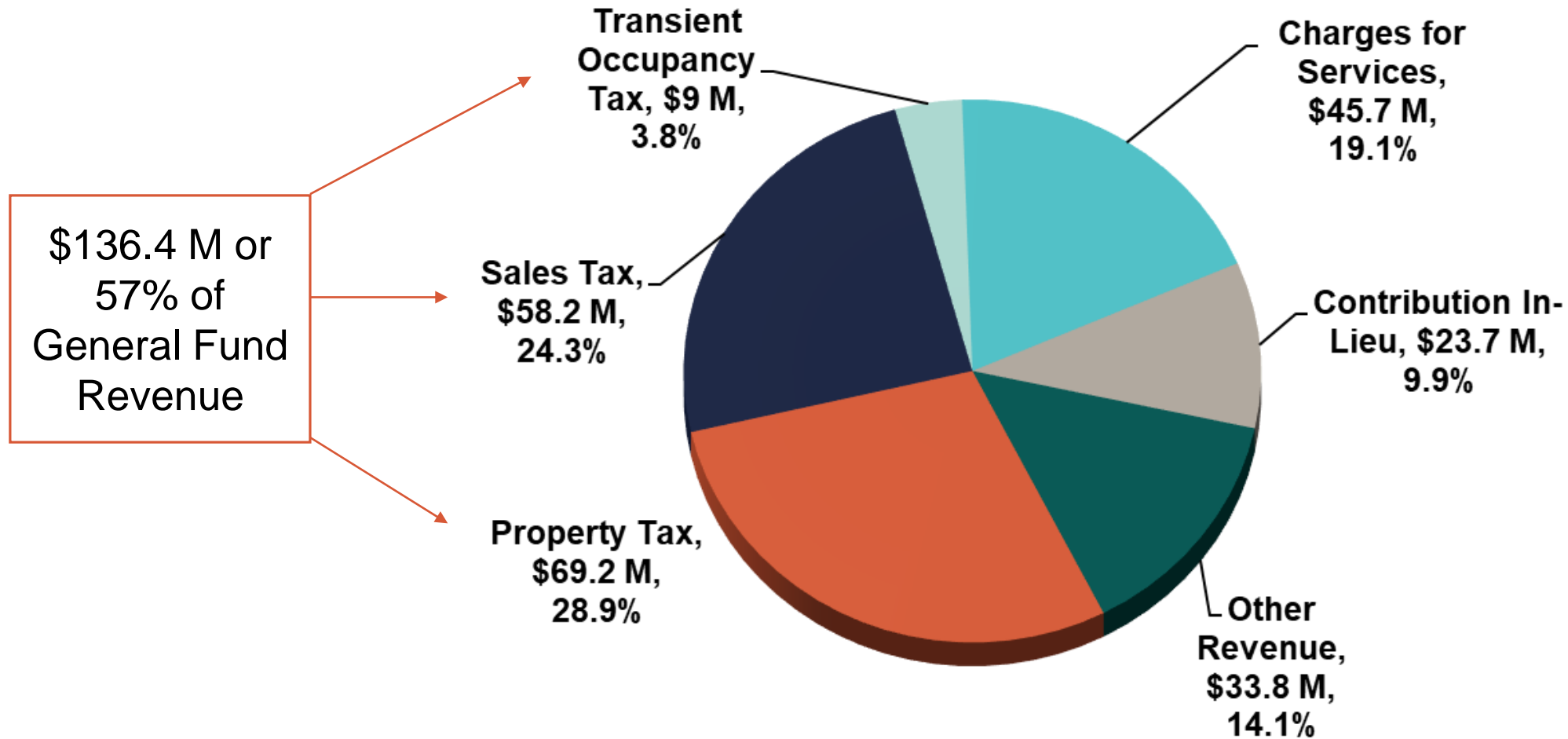
Expenditures - Up \$3.1 M in 2021/22 (Approx. 1% of expenditure budget)

- Salaries and Benefits down \$0.5 M
 - Salaries down \$3.4 M in 2021/22 (savings generated in Units 5-7-8, 6 and 9)
 - Retirement costs up \$0.9 M in 2021/22
 - Fire overtime up \$2.1 M with cost escalation
- Non-Personnel Costs up \$1.1 M
- Other Operating Costs up \$2.5 M in 2021/22
 - Interfund Services up \$0.7 M (Unemployment, Special Liability)
 - Development Reserves up \$1.8 M in FY 2021/22 (offset by revenues)



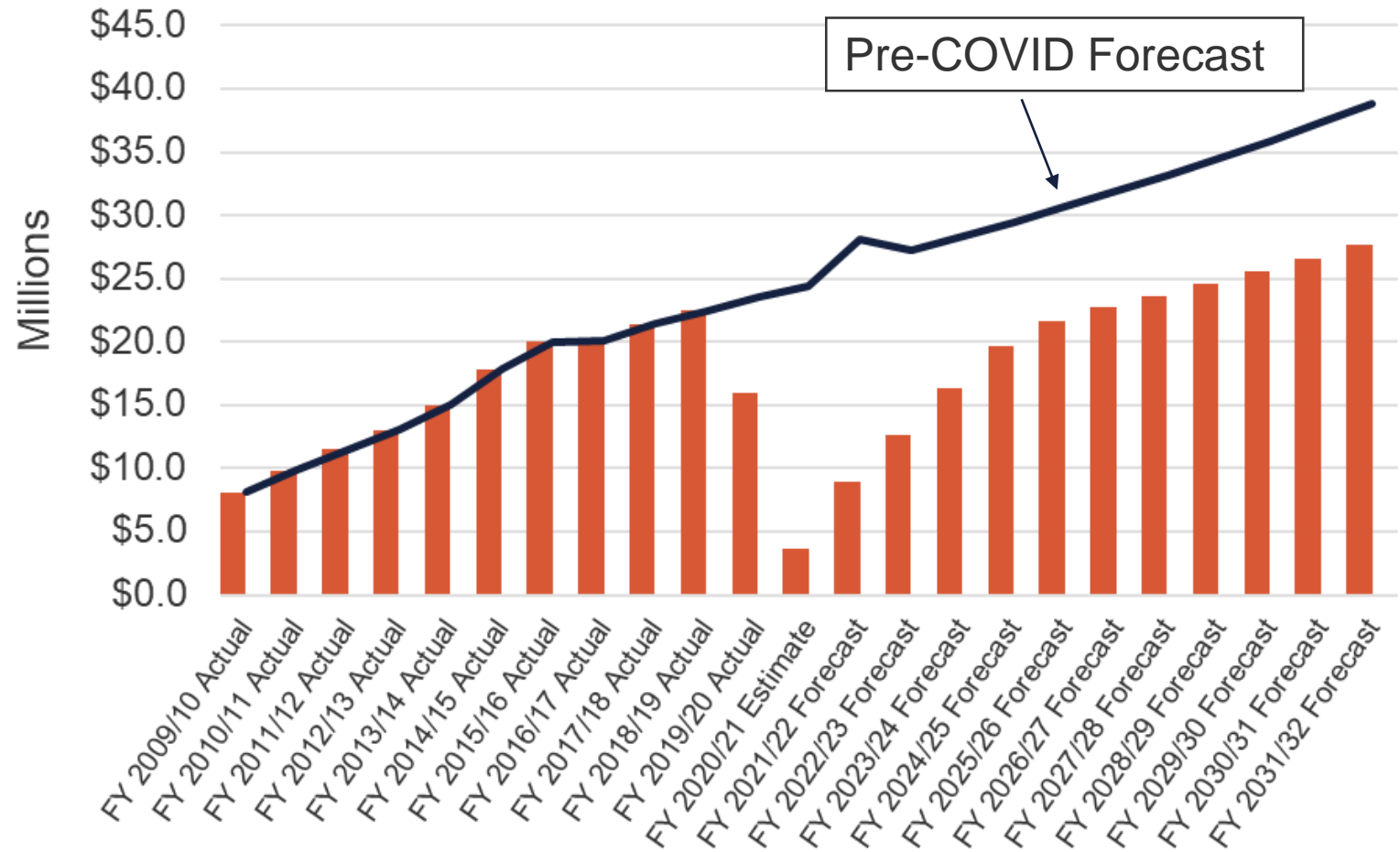
10-Year General Fund Forecast

2021/22 General Fund Revenues = \$239.6 M



10-Year General Fund Forecast Transient Occupancy Tax (TOT)

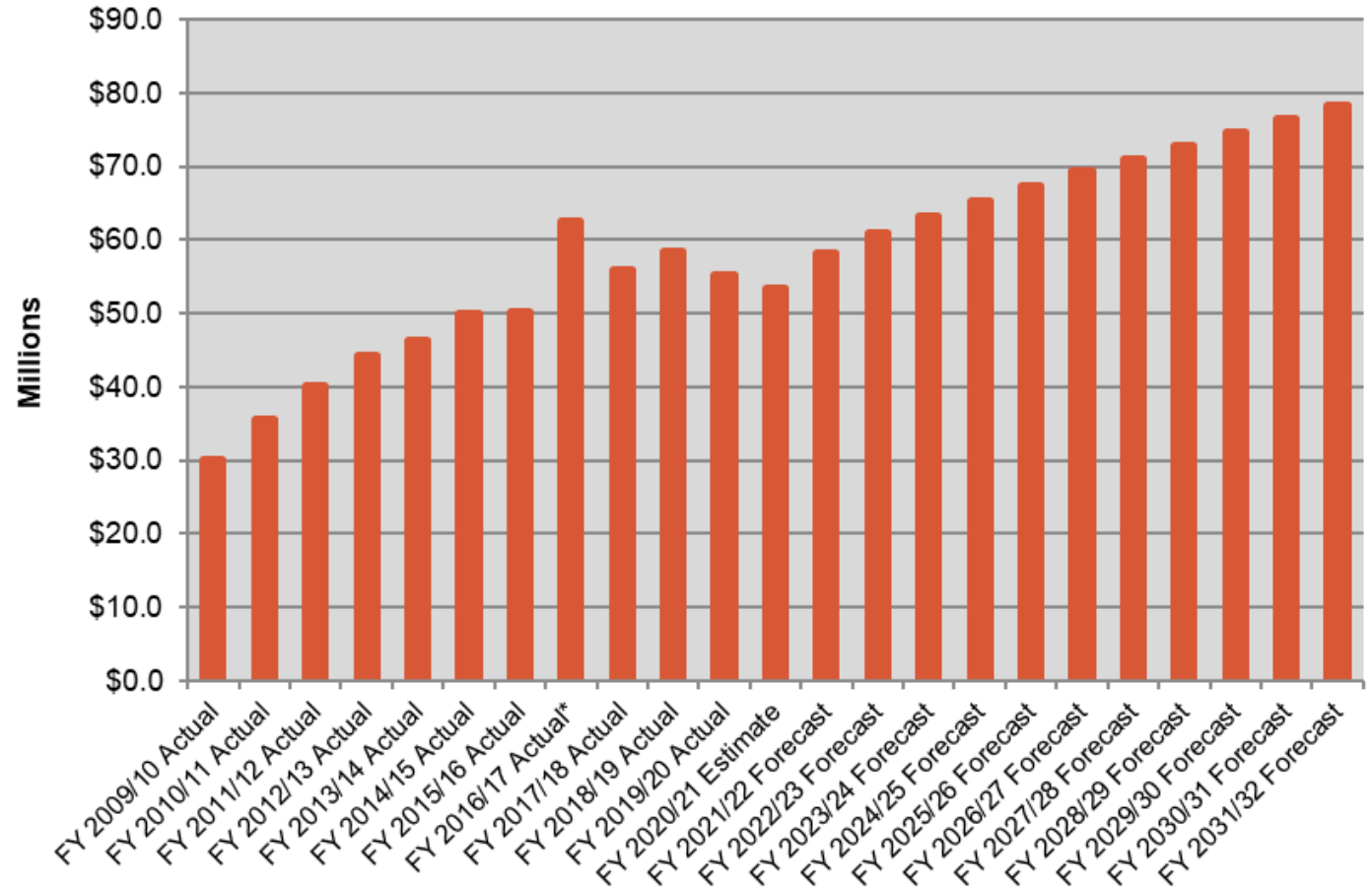
- 3rd largest General Fund revenue source
- COVID-19 Significantly Impacted TOT receipts
- Occupancy and room rates plummeted in 2020; slow return assumed
- Rate increase approved in November 2020 up to 4 percentage points (assume 2% increase from 9.5% to 11.5%)
- No additional hotels assumed



10-Year General Fund Forecast

Sales Tax

- 2nd largest General Fund revenue source
- COVID-19 Impacted Collections in FY 2019/20 and 2020/21
- Business to Business sales make up over 40% of the City's Sales Tax
- Economically sensitive



*FY 2016/17 includes one-time \$7.0 million true-up payment due to the unwinding of the State's Triple Flip.

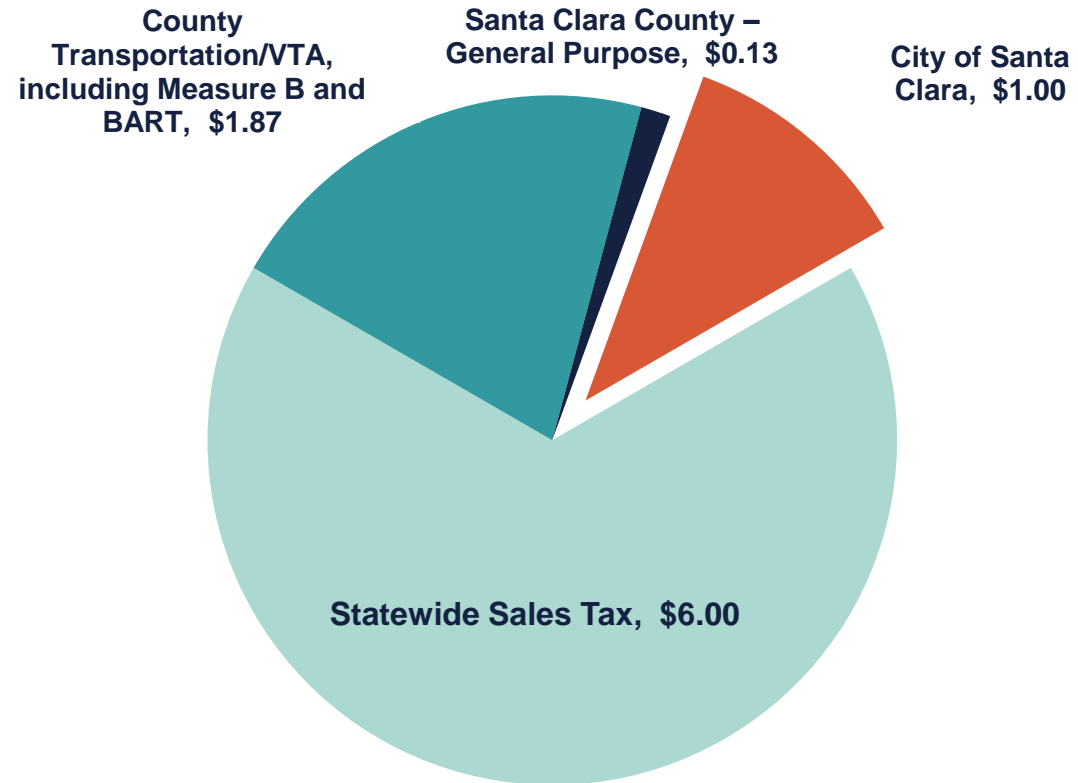


10-Year General Fund Forecast

Sales Tax

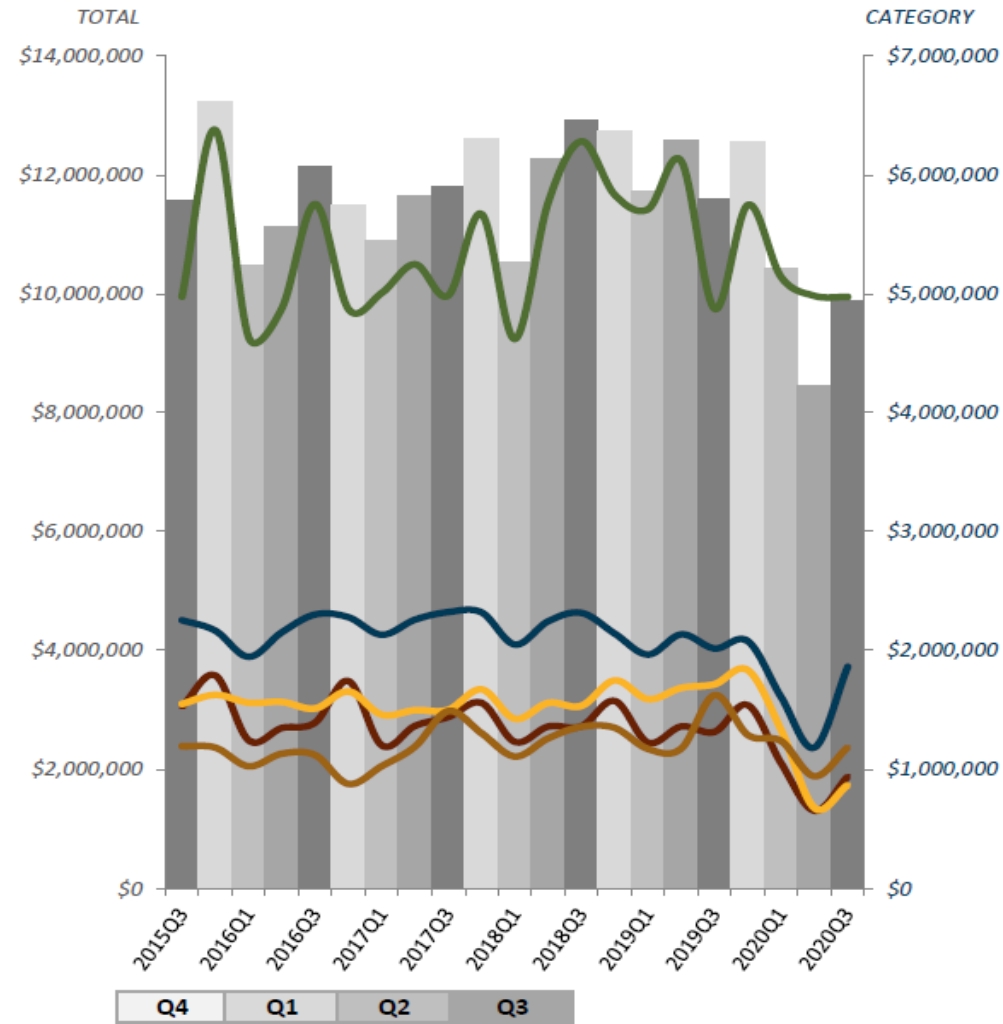
Sales Tax Based on \$100 Purchase

- The City of Santa Clara receives \$1 of every \$9 of sales tax collected
- Most of sales tax revenues support the State and County Transportation



10-Year General Fund Forecast Sales Tax

- Sales Tax by Sector shows the steepest declines in General Retail and Food Products (including restaurants) due to COVID-19
- Stronger Business to Business performance helps offset the large declines in other areas



TOTAL				
2020Q3	QoQ %Δ	QoQ \$Δ	YoY %Δ	YoY \$Δ
\$9,883,338	-14.8%	-\$1,711,782	-15.0%	-\$7,313,106

GENERAL RETAIL				
2020Q3	QoQ %Δ	QoQ \$Δ	YoY %Δ	YoY \$Δ
\$938,593	-28.7%	-\$376,888	-23.7%	-\$1,294,935
% of 2020Q3 Total:		9.5%		

FOOD PRODUCTS				
2020Q3	QoQ %Δ	QoQ \$Δ	YoY %Δ	YoY \$Δ
\$866,620	-49.5%	-\$849,261	-30.2%	-\$2,031,763
% of Total:		8.8%		

TRANSPORTATION				
2020Q3	QoQ %Δ	QoQ \$Δ	YoY %Δ	YoY \$Δ
\$1,862,056	-7.7%	-\$154,295	-18.5%	-\$1,527,872
% of Total:		18.8%		

CONSTRUCTION				
2020Q3	QoQ %Δ	QoQ \$Δ	YoY %Δ	YoY \$Δ
\$1,184,614	-27.0%	-\$438,492	-12.5%	-\$665,300
% of Total:		12.0%		

BUSINESS TO BUSINESS				
2020Q3	QoQ %Δ	QoQ \$Δ	YoY %Δ	YoY \$Δ
\$4,973,539	2.0%	\$98,846	-7.5%	-\$1,689,944
% of Total:		50.3%		

QoQ = 20Q3 / 19Q3

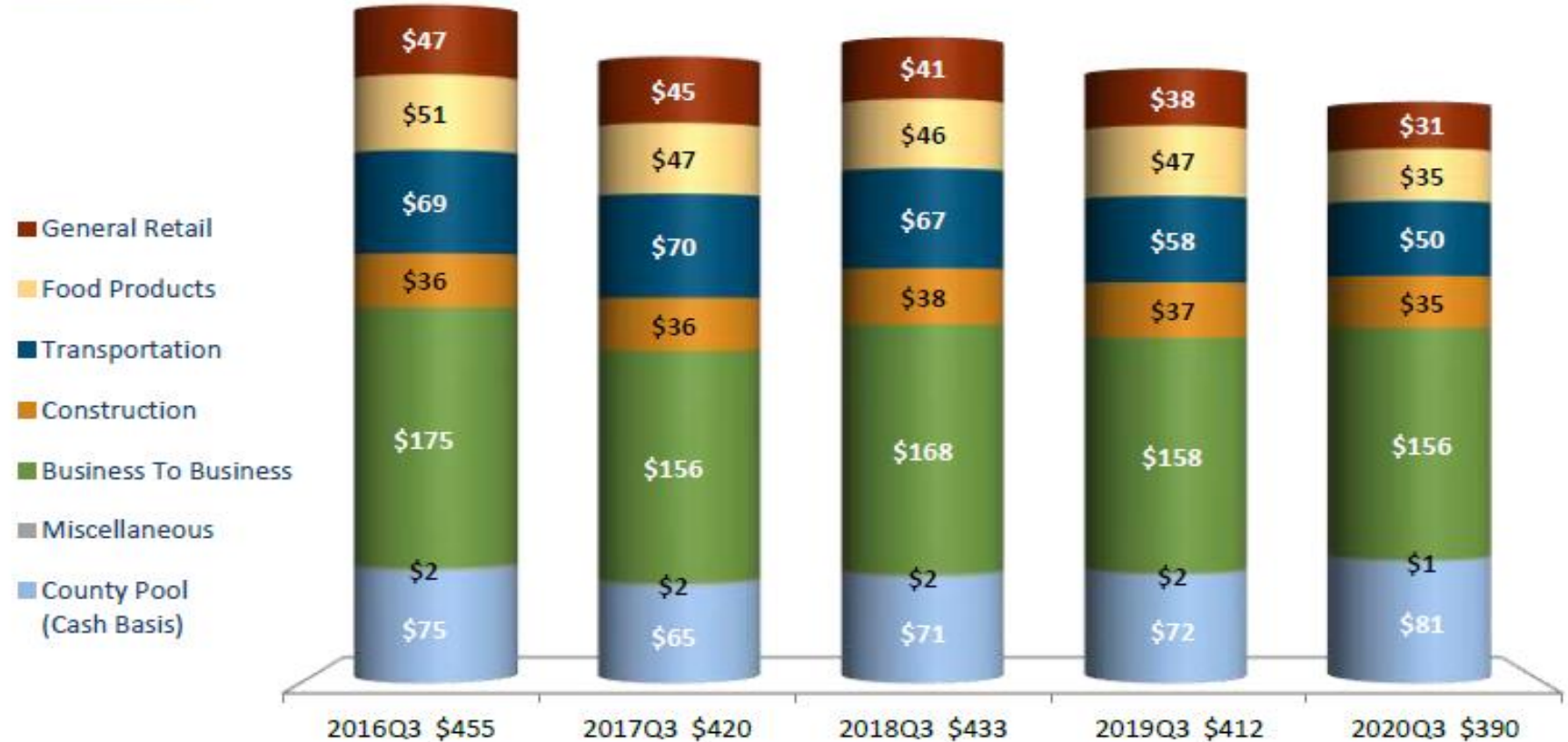
YoY = YE 20Q3 / YE 19Q3



10-Year General Fund Forecast Sales Tax

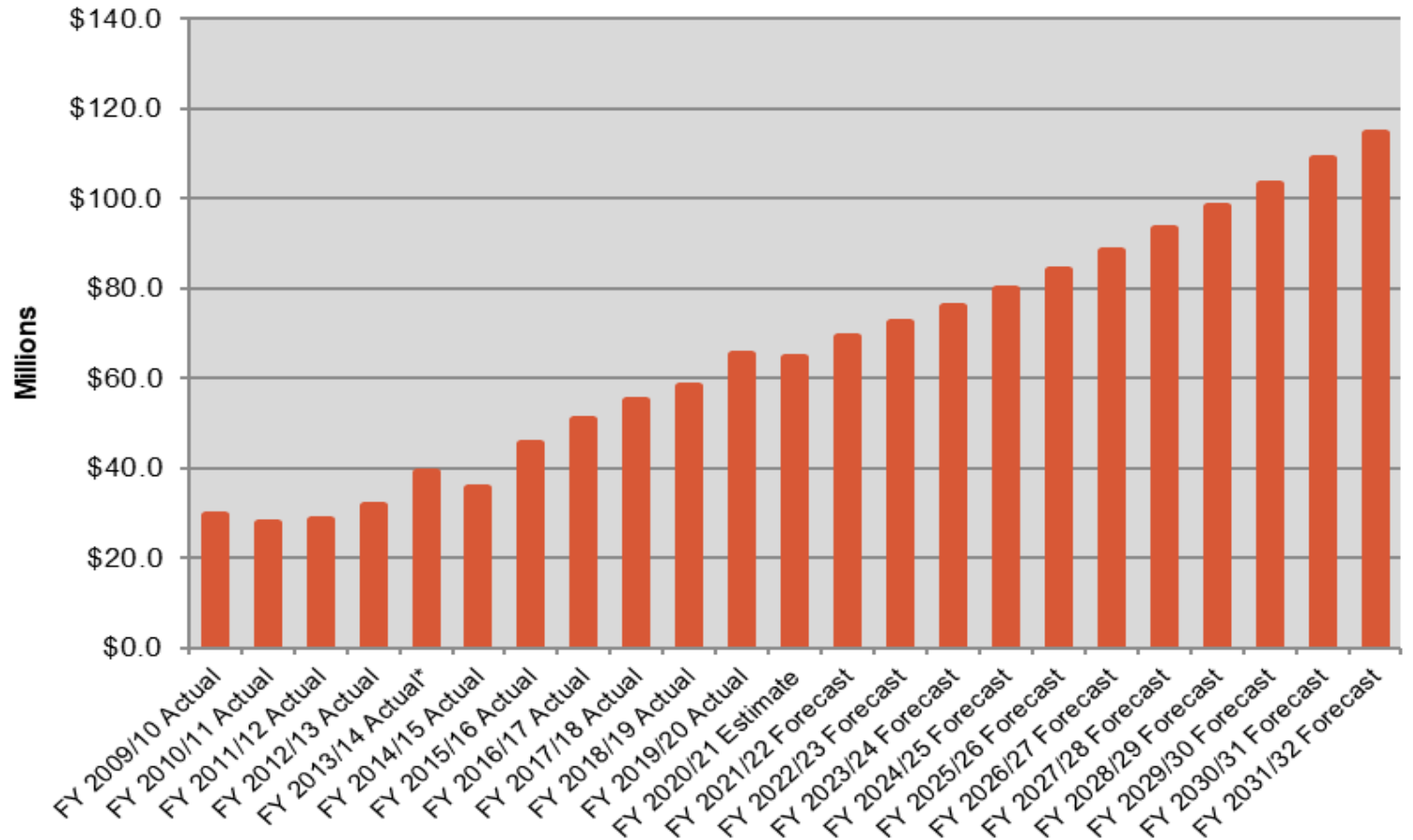
- Annual Per Capita Sales Tax down in the most recent quarter
- Business to Business is the backbone of the City's sales tax

Santa Clara
Annual Per Capita Sales Tax
Adjusted for Inflation
(Constant 2016 \$)



10-Year General Fund Forecast Property Tax

- Largest General Fund revenue source
- Secured valuation growth ranging from 5.0% - 5.5% over the forecast period
- Assumes approximately \$750 M - \$1.0 billion annual development growth valuation in out years



*FY 2013/14 includes one-time \$6.1 million due to Redevelopment Agency dissolution

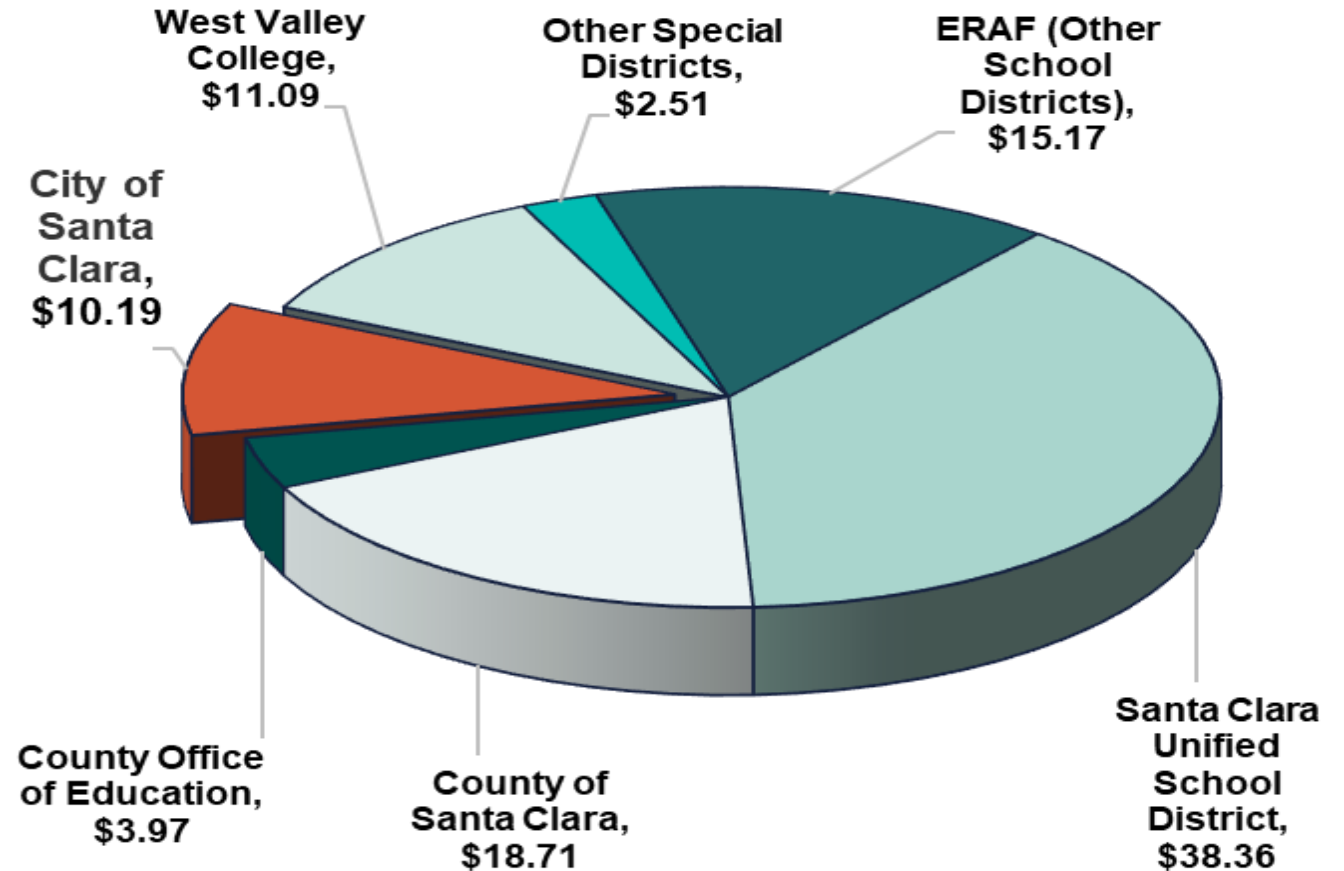


10-Year General Fund Forecast

Property Tax

- The City of Santa Clara receives \$10.19 of every \$100 collected in property tax
- Most of property tax revenues support schools and the County

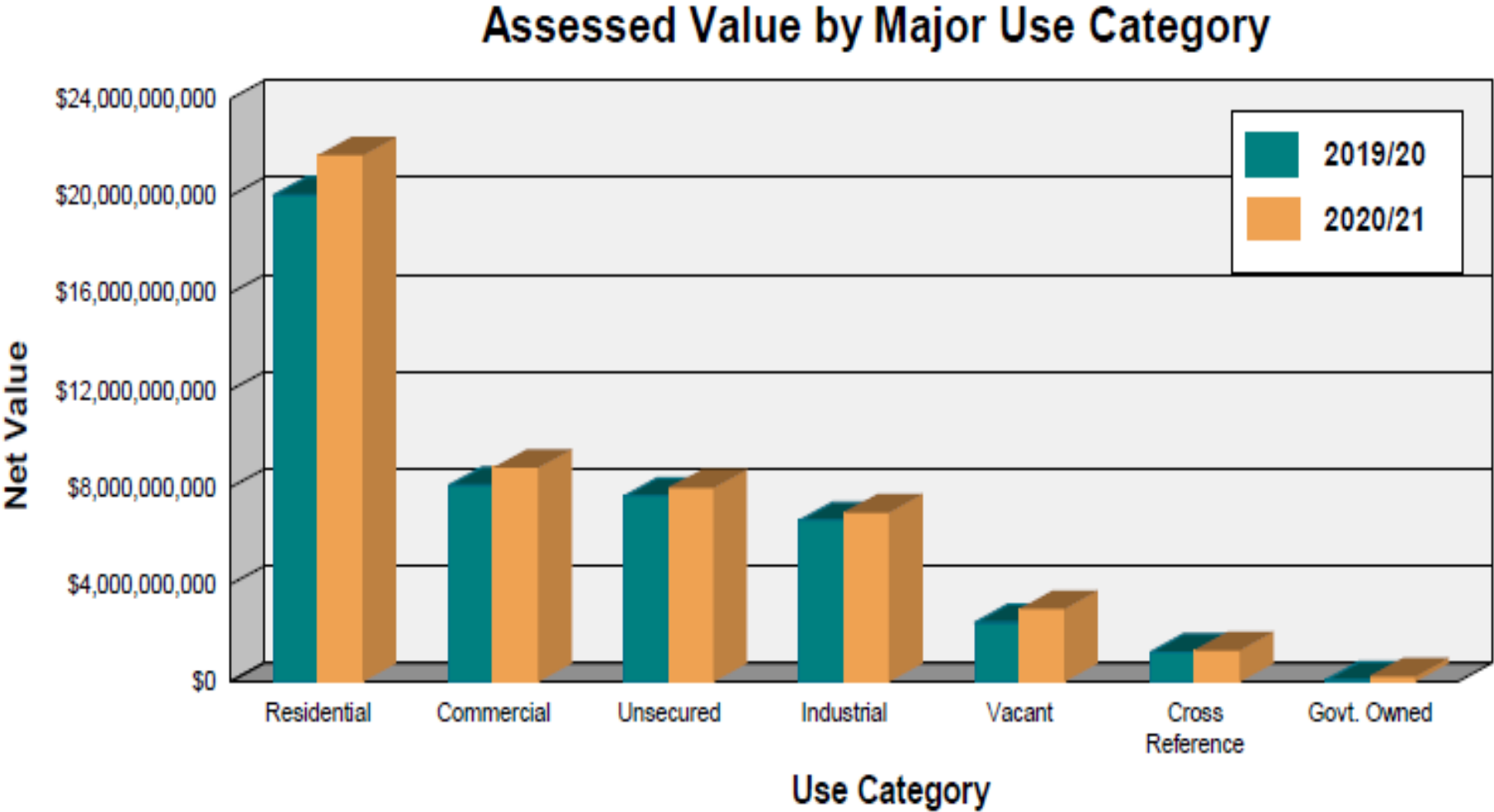
Property Tax Distribution Per \$100 Collected



10-Year General Fund Forecast

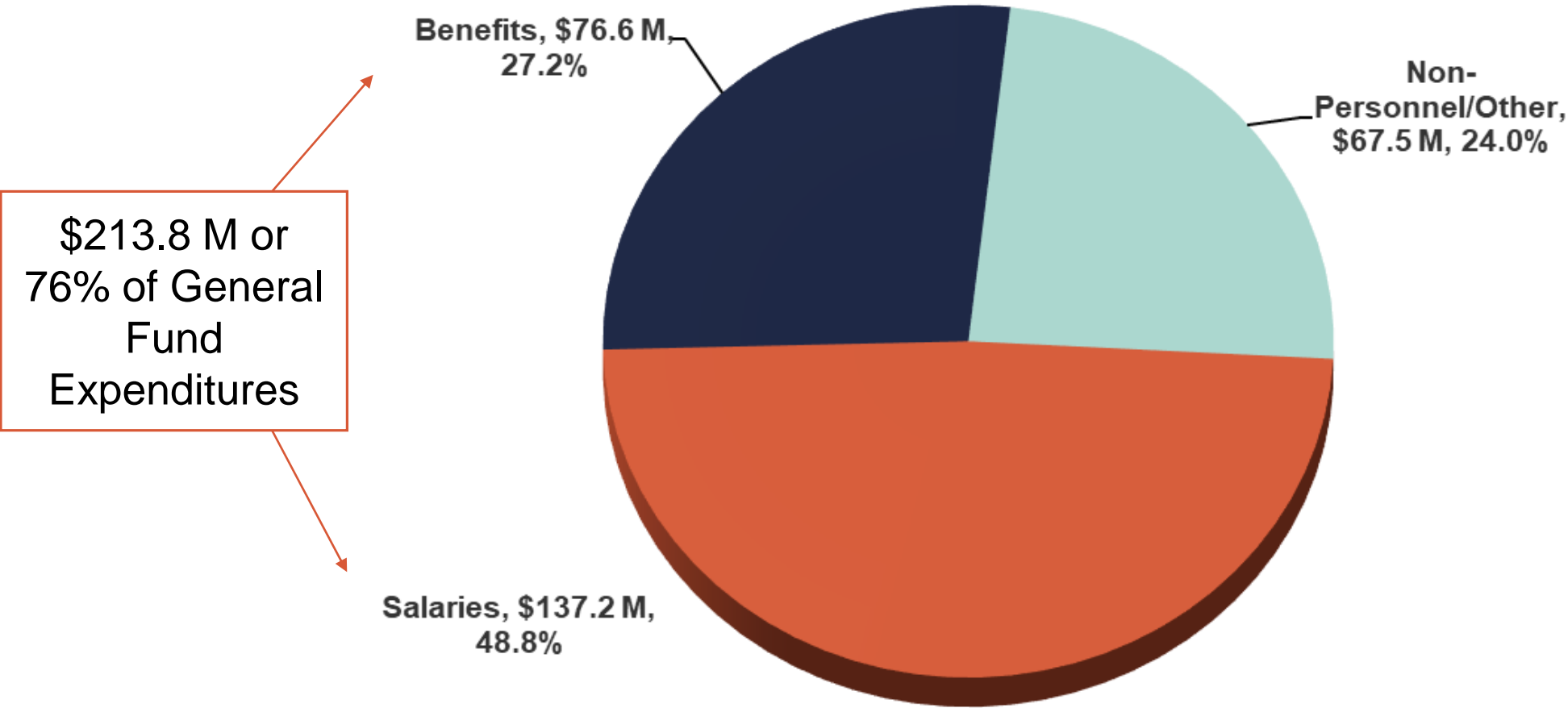
Property Tax

- City of Santa Clara's mix of residential and non-residential property assessed values



10-Year General Fund Forecast

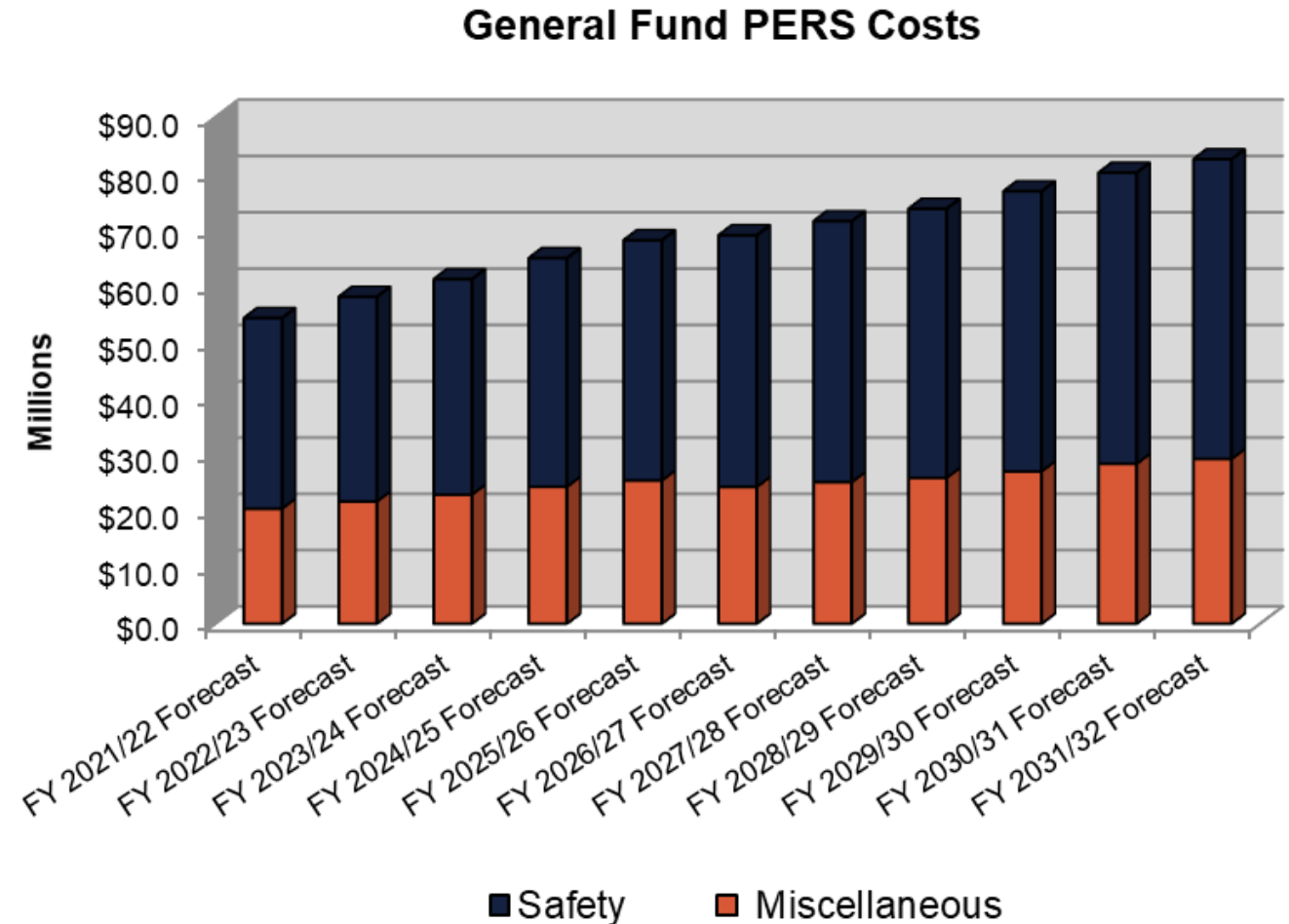
2021/22 General Fund Expenditures by Type



10-Year General Fund Forecast

Rising Pension Costs

- Managing three impacted categories: retirees, classic members, and new employees (under PEPRA)
- From FY 2021/22 to 2031/32 General Fund projected to increase \$28.2 M (from \$54.3 M to \$82.5 M)
- Current Unfunded Actuarial Liability (UAL) (all funds) of \$602 M¹
 - 66% of Miscellaneous and 72% of Safety Accrued Liability is due to retirees
- Payments part of CalPERS reform efforts; Actuary projects rates to peak at end of forecast period, followed by declines
- Labor agreements can impact UAL



¹ Combined Safety and Miscellaneous Unfunded Accrued Liability, as of June 30, 2019 CalPERS valuation report



Unfunded Infrastructure Needs

Close to \$1 billion of identified capital needs not in Forecast:

- Parks Assessment (December 2017-Kitchell Report) identified \$100 M of parks grounds and building needs (\$156 M w/ escalation)
- 2015 Storm Drain Master Plan identified \$343 M in projects (2018 dollars), including almost \$68 M in high priority projects
- Transportation infrastructure (e.g., traffic signal infrastructure replacement (\$50 M), uncontrolled crosswalks (\$50 M), Bicycle Plan (\$40 M), Creek Trail Master Plan (\$50 M), pavement (\$9 M annually beyond CIP)
- Public Buildings (New City Hall (\$236 M – \$300 M), existing City Hall (\$39 M); fire stations, historic buildings, corporation yard, ADA plan)
- Expand capacity (e.g., library)

Budget Balancing



Budget Balancing

Cost Control Measures Already Implemented

- Hiring freeze, with limited exceptions
- Stricter expenditure controls
- Decreased temporary staffing (by over 500 staff or 55%)
- Limited travel
- Limited training
- Reduced expenditures for IT
- Reduced expenditures for vehicle and fleet purchases
- Evaluating current contracts and other non-personnel expenditures



Potential Budget Balancing Strategy

- Combination of strategies to balance FY 2021/22 and FY 2022/23 General Fund budget (\$41.7 M shortfall) (see scenario slide)
 - Ongoing expenditure reductions of approximately \$24 M
 - Revenue-generating actions (TBD)
 - Potential labor negotiations (TBD)
- Use of Budget Stabilization Reserve and Other Reserves (\$30 M)
- Future ballot measures (Business Tax, Utility Tax, Transfer Tax)



Potential Budget Balancing Strategy Reductions Implemented in Local Jurisdictions

Palo Alto sees biggest budget reduction in decades

Palo Alto concluded one of its most brutal budget seasons in recent memory on Monday night, when the City Council approved over \$40 million in cuts and agreed to eliminate more than 70 City Hall positions.

...The budget represents a \$41.8 million reduction from the current year, which includes \$4.9 million in cuts from community services and libraries, \$7.3 million from public safety and \$3.26 million from planning and transportation, including the elimination of the city's shuttle program. The general fund includes \$197 million in expenditures and reduces staffing levels by 74 full-time positions.

by Gennady Sheyner / Palo Alto Weekly

Gilroy Moves To Cut City Jobs Amid Budget Crunch: Report

The city is facing an \$8 million budget shortfall amid the coronavirus crisis as revenues from sales and hotel taxes have plummeted, the rep

GILROY, CA — Cash-strapped by the coronavirus crisis, the city of Gilroy has moved to lay off 10 employees after negotiations with a group representing employees collapsed, The Gilroy Dispatch reports.

City of Morgan Hill

Council to vote on two-year budget June 17

At least \$6.5M worth of cuts identified over next three years

By: MICHAEL MOORE

June 10, 2020

The city's estimated long-term budget deficit continues to grow due to cascading impacts of Covid-19 and related shelter-in-place orders. An advisory group of Morgan Hill citizens recently estimated the budget shortfall will top \$17 million over the next three years.

"There will be cuts to every possible department, which means fewer services," reads a statement from the Morgan Hill Community Advisory Group. The projected \$17 million shortfall is "expected to rise" as the pandemic continues to dampen the economy.

City of San Jose Releases 2020-2021 Proposed Operating Budget

Impacts of COVID-19 global pandemic results in significant revenue declines; estimated General Fund budget shortfall of \$71.6 million projected

The City's \$4.1 billion 2020-2021 Proposed Operating Budget successfully closes a \$71.6 million General Fund shortfall through a combination of a limited number of new revenue sources, expenditure reductions, and the strategic use of reserves and other one-time dollars. The recommendations include decreases to position levels throughout the organization. No employee layoffs are anticipated at this stage because of the City's high position vacancy rate, although some limit dated positions will expire on June 30, 2020, as previously planned.



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

Potential Budget Balancing Scenario

	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 (Sworn 2 Yr @ 0% = \$5 M)	TBD				
Remaining Shortfall	(\$17.6 M)	(\$12.1 M)	(\$8.8 M)		
Use of Budget Stabilization Reserve	\$14.0 M				
Land Sale Reserve	\$3.6 M	\$12.1 M			
Remaining Budget (Shortfall)/Surplus	\$0 M	\$0 M	(\$8.8 M)	\$1.6 M	\$2.3 M



Potential Budget Balancing Strategy

February 2021 Potential Reduction Proposals

- Eliminate vacancies (some services have already been absorbed) (\$7.7 million)
 - 43.5 net position reduction
- Reduce budget for Boards & Commissions
- Continue strong fiscal management controls/non-personnel reductions (\$5.7 million)
 - 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 requesting discounts when contracts are up for renewal



Potential Budget Balancing Strategy

February 2021 Potential Position Reductions

Department	Net Position Change
City Attorney's Office	(1.0)
City Clerk's Office	(1.0)
City Manager's Office/Non-Departmental	(4.0)
Community Development	(1.75)
Finance	(1.0)
Fire	(12.75)
Parks and Recreation	(4.0)
Police	(15.0)
Public Works	(3.0)
Total Adjustments	(43.5)

**Net reduction of
43.5 positions
saving \$7.7 million
ongoing**

No Layoffs

**4 employees
reallocated to
different functions
or departments**



Budget Balancing

Select General Fund Reserves

Reserve Type	2020/21 Current Balance
General Fund Budget Stabilization (BSR)	\$57.7 M
General Fund Capital Projects	\$5.4 M
Land Sale Reserve	\$23.7 M
Pension Trust (General Fund)	\$21.6 M



Budget Balancing

Revenue Opportunities

- **City generates General Fund revenues through a variety of sources:**
 - Taxes (e.g., property tax, sales tax, transient occupancy tax – needs implementation)
 - Permits and fees for services (e.g., development fees, recreation fees)
 - Rents (e.g., Related property, right-of-way)
 - Other sources (fines, interest earning, other agencies, miscellaneous)
- **Governed by State law and Council policies on cost recovery**
- **Tax measures require voter approval** (majority approval for general tax and two-thirds supermajority for special tax/parcel tax/G.O. bonds)
- **City has lower taxes and fees than many neighboring jurisdictions; the larger subsidies and foregone tax revenue impact ability to support services**

Budget Balancing Revenue Opportunities

- One component of the budget balancing strategy
- Revenue opportunities are needed to:
 - Continue to deliver key city services
 - Preserve quality of day-to-day life and ensure safety for our community in times of emergency
 - Reduce expenditure reductions necessary
 - Address critical infrastructure backlog



Budget Balancing

Potential New Revenue Sources

Potential New Revenue Sources

- Federal stimulus funding
- Improve municipal fee cost recovery
- Utility User Tax
- Business License
- Documentary Transfer Tax
- New or modernization of impact fees
- Parcel Tax and/or General Obligation Bond (Capital Infrastructure)



Budget Balancing

Potential New Revenue Sources

Stimulus Funding update

- Approximately \$350 billion allocated to State and Local Government
- Lobbyist estimate of \$2 - \$10 million to Santa Clara
- Still under development
 - Timing and restrictions are still unknown



Budget Principles



Budget Principles

- Provide framework and approach for developing the City's budget
- Budget Principles approved by Council each year

BUDGET PRINCIPLES FOR FY 2021/22 AND FY 2022/23

1. Make decisions within the context of the City's Code of Ethics and Values, especially being Fiscally Responsible, Communicative, and Service-Oriented.
2. Consider budget decisions with long-term implications taking into account data from the Ten-Year Financial Forecast.
3. To the extent possible, align ongoing expenditures with ongoing revenues to avoid negative impacts on future budgets and maintain the City's high financial management standards.
4. To address the projected General Fund shortfall, use a combination of ongoing and one-time solutions to balance the competing goals of aligning ongoing revenues and expenditures and minimizing the service delivery impacts to the community.
5. Continue cost control measures until the ongoing General Fund revenues and expenditures are in alignment.
6. If an exception to the Council Policy to set the General Fund Budget Stabilization Reserve at or above 25% of adopted budget expenditures is considered, maintain the Reserve level at a minimum of 15% of expenditures.
7. Focus on projects and services that benefit the community as a whole.
8. Pursue economic development objectives and strategies to foster new public and private investment within Santa Clara, and to create employment opportunities.
9. Balance between compensation adjustments to retain and attract employees and funding for positions.
10. Use one-time unrestricted revenues (e.g., annual General Fund surplus) for one-time uses such as increasing reserves, funding capital or Information Technology projects, paying off debt, and/or paying off unfunded pension or other post-employment benefits liabilities.
11. Inform and communicate clearly and broadly to residents, businesses and employees regarding the City's fiscal position and budget; schedule hearings to promote active participation in the City Council's budget deliberations.
12. With limited exceptions, establish fees based on full cost recovery where individuals/businesses rather than the community at-large are benefitting from City services. This preserves limited unrestricted resources for providing services that benefit the community as a whole.
13. Focus on business process redesign in order to improve employee productivity and the quality, flexibility, and cost-effectiveness of service delivery (e.g., streamlining, simplifying, reorganizing functions, and reallocating resources).
14. Explore expanding existing revenue sources and/or adding new revenue sources.
15. Engage employees to contribute new and innovative ideas during the department budget development process.
16. Use the General Plan as a primary long-term fiscal planning tool and link ability to provide City services to development policy decisions.



Budget Principles

Updates for the FY 2021/22 and FY 2022/23 Operating Budget

- #3 Modify principle to recognize that the budget will be balanced with ongoing solutions to the extent possible
- #4 Added principle to address the budget shortfall with a combination of ongoing and one-time solutions to balance the competing goals of aligning ongoing revenues and expenditures and minimizing the service delivery impacts to the community
- #5 Added principle to continue cost control measures until General Fund revenues and expenditures are in balance
- #6 Modified principle that would maintain the BSR at a minimum of 15% of expenditures if an exception to the Council Policy for the BSR is considered



Next Steps / Policy Discussion



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
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





Fiscal Outlook

10-Year General Fund Forecast

Kenn Lee, Finance Director
February 2021