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**Title:** Study Session: Review of the Proposed FY 2022/23 & FY 2023/24 Biennial Capital Improvement Program Budget and FY 2022/23 Operating Budget Changes and Review of Proposed FY 2022/23 Municipal Fee Schedule Changes to Library Community Room Rental Fees

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Date	Ver.	Action By	Action	Result
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**REPORT TO COUNCIL**

**SUBJECT**

Study Session: Review of the Proposed FY 2022/23 & FY 2023/24 Biennial Capital Improvement Program Budget and FY 2022/23 Operating Budget Changes and Review of Proposed FY 2022/23 Municipal Fee Schedule Changes to Library Community Room Rental Fees

**COUNCIL PILLAR**

Enhance Community Engagement and Transparency

**BACKGROUND**

City Charter *Section 1302 Budget - Submission to City Council* requires that at least thirty-five 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.

On February 8, 2022, the City Council held a Priority Setting Session which confirmed the following City Council Strategic Pillars:

1. Promote and Enhance Economic, Housing and Transportation Development
2. Deliver and Enhance High Quality Efficient Services and Infrastructure
3. Enhance Community Sports, Recreational and Arts Assets
4. Enhance Community Engagement and Transparency
5. Ensure Compliance with Measure J and Manage Levi’s Stadium
6. Manage Strategically our Workforce Capacity and Resources
7. Promote Sustainability and Environmental Protection

As part of the Council Priority Setting, the City Council also adopted FY 2022/23 Budget Principles.

These Budget Principles provide a framework for budget review and development, ensuring fiscal stability by considering both the short and long-term impacts of any funding decisions. The principles were modified to acknowledge the drop of the Budget Stabilization Reserve (BSR) to 15% of expenditures in FY 2022/23. The FY 2021/22 and FY 2022/23 Biennial Operating Budget assumed the drop in the BSR below the policy level of 25% of expenditures as a budget balancing action. The Budget Principles can be found in the *Budget and Fiscal Policies* section of the Proposed Budget document.

This budget continues the biennial budget process that alternates between an operating and capital budget. This year's budget focuses on the capital infrastructure, supporting the facilities that serve our residents and community. Amendments to the FY 2022/23 Adopted Operating Budget are also included. The Proposed Budget is attached to the memorandum and can be found online at: <https://www.santaclaraca.gov/home/showpublisheddocument/77216>

On May 24, 2022, a Study Session was held to allow the City Council and public to review and provide input on the Proposed Budget. Responses to questions from that Study Session are included in an attachment to this report.

## **DISCUSSION**

The annual budget serves as a financial plan and operational guide that reflects the policies, goals, and priorities of the City Council and community. The capital budget guides the City in the planning, scheduling, and budgeting of capital investments within the City.

### **Total Budget Overview**

The FY 2022/23 Proposed Budget totals \$1.12 billion and reflects a 7.6% reduction from FY 2021/22 Adopted Budget. The FY 2022/23 Proposed Budget is below the FY 2021/22 Adopted Budget of \$1.22 billion primarily because the carryover of funds from FY 2021/22 to FY 2022/23 has not yet been factored into the budget. These carryover adjustments are expected to be brought forward later in the budget process and incorporated into the FY 2022/23 Adopted Budget. In the General Fund, the FY 2021/22 Adopted Budget is higher than the FY 2022/23 Proposed Budget due primarily to one-time transfers in FY 2021/22, including the \$18.0 million transfer of the Building Inspection Reserve to the newly established Building Development Services Fund.

Table 1: City of Santa Clara Annual Budget summarizes the total budgets by fund group.

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Table 1: City of Santa Clara Annual Budget		
Fund Type	FY 2021/22 Adopted Budget	FY 2022/23 Proposed Budget
General Fund	\$286,025,931	\$269,591,355
Special Revenue Funds	28,214,477	27,453,289
Enterprise Funds	670,250,848	815,864,620
Internal Service Funds	41,211,645	42,329,153
Debt/Other*	39,291,994	19,846,647
Less (Transfers, Contributions, and Reserves)*	(178,378,596)	(200,317,482)
<b>Subtotal Operating Budget</b>	<b>\$886,616,299</b>	<b>\$974,767,582</b>
Capital Funds	\$ 337,391,387	\$ 151,522,312
Less (Transfers, Contributions, and Reserves)*	(6,682,539)	(1,454,000)
<b>Subtotal Capital Budget</b>	<b>\$330,708,848</b>	<b>\$150,068,312</b>
<b>Total Budget</b>	<b>\$1,217,325,147</b>	<b>\$1,124,835,894</b>

\* Adjusts for transfers, contributions and reserves to avoid double counting of the same funds (e.g., internal service funds are excluded).

### Biennial Capital Budget

The CIP guides the City in the planning, scheduling, and budgeting of capital investments within each of the twelve theme areas. The FY 2022/23 and 2023/24 Biennial Capital Budget and CIP is a carefully balanced budget that reflects the City Council priorities and continues strategic investments in the City’s infrastructure. The Proposed Biennial Capital Budget totals \$382.1 million and the five-year CIP totals \$624.5 million.

Table 2: Proposed CIP by Theme is a breakdown of the capital budget by theme.

Table 2: Proposed CIP 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 & 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 Capital Budget</b>	<b>\$150,068,312</b>	<b>\$232,042,249</b>	<b>\$382,110,561</b>	<b>\$624,453,298</b>

Capital Highlights

Of the \$624.5 million CIP, \$508.8 million (81%) funds capital projects for the City’s utilities and there is sufficient funding in the associated utility funds to support these projects. The other projects total \$115.7 million (19%) and fund improvements to the parks, trails, libraries, transportation system, storm system, convention center and other City facilities. There are significant funding gaps in these areas and unfunded projects identified in this budget total \$571.6 million over the next five years. This funding gap does not fully represent all the unmet/deferred infrastructure needs throughout the City beyond the five-year CIP period.

Long term funding strategies are needed to meet the City’s infrastructure needs as the General Fund does not have sufficient funding to cover these capital costs. The General Fund Capital Projects Reserve (CPR) is fully allocated in this Proposed CIP to address the most immediate needs. The limited CPR provides funding of \$9.9 million for capital projects, including \$6.7 million for projects identified in this CIP, and \$3.2 million for projects previously approved for funding in the out years of the last CIP.

Following are some of the key investments by theme in this CIP that are detailed in the *Capital Improvement Program* section of the Proposed Budget:

- **Administrative Facilities** - Stationary Standby Generators (\$2.1 million), Repairs-Modifications to City Buildings (\$325,000), Repairs to Historic Buildings (\$200,000), and Replacement of Self-Contained Breathing Apparatus Filling Stations (\$100,000);
- **Community Facilities** -Park Service Center Roof (\$800,000), Central Park Library Concrete Replacement (\$273,000), and Central Park Master Plan - Aquatic Center Planning and Design (\$358,000);

- **Convention Center** -Santa Clara Convention Center Condition Assessment Repair (\$550,000); work will continue on projects funded in FY 2021/22;
- **Electric Utility** - Scott Receiving Station (SRS) Rebuild and Replacement (\$58.6 million), Kifer Receiving Station (KRS) Rebuild and Replacement (\$53.0 million), Homestead Substation Rebuild (\$33.0 million), Esperanca Substation (\$26.8 million), Grizzly Tap Line Repairs (\$25.0 million), NRS-KRS 115kV Line (\$22.8 million), and NRS Transformer Replacement (\$14.0 million);
- **Other Community Projects** - Related Santa Clara (\$13.8 million), Tasman East Specific Plan (\$3.0 million), and Patrick Henry Specific Plan (\$367,000);
- **Parks and Trails** -Community Park North - Phase I (\$4.5 million), and Westwood Oaks Park Playground Rehabilitation (\$1.0 million);
- **Sewer Utility** - San José-Santa Clara Regional Wastewater Facility (\$76.5 million), Sanitary Sewer System Improvements (\$10.0 million), Sanitary Sewer Condition Assessment (\$2.5 million), Sanitary Sewer Hydraulic Modeling As-Needed Support (\$1.7 million), and Sanitary Sewer Capacity Improvements (\$1.0 million);
- **Solid Waste** - Sanitary Landfill Development - Post Closure (\$3.9 million);
- **Storm Drain** - Storm Drain Pump Station Motor and Control Maintenance, Repair and Replacement (\$556,000), Storm Drain Slide Gate Rehabilitation (\$500,000), Urban Runoff Pollution Prevention Program (\$300,000), and Storm Drain Pump Station Facility Maintenance & Repair (\$184,000);
- **Technology and Equipment** - Utility Management Information System Enhancements (\$2.0 million), Geospatial Information System (GIS) Enterprise System (\$1.5 million), Protective Equipment Replacement (Fire) (\$1.0 million), and Financial and Human Resources Management System (FHRMS) Update Project (\$296,000);
- **Transportation** - Annual Street Maintenance and Pavement Rehabilitation (\$38.2 million), Bridge Maintenance Program (\$2.4 million), Pedestrian and Bicycle Enhancement Facilities (\$1.5 million), Traffic Signal Enhancements (\$2.5 million), and Uncontrolled Crosswalks and Improvements (\$5.7 million); and
- **Water and Recycled Water Utilities** - Distribution System Replacement/ Restoration (\$10.0 million), New and Replacement Wells (\$5.6 million), Buildings and Grounds (\$3.7 million), and Supervisory Control and Data Acquisition (SCADA) Improvements (\$2.5 million).

### Unfunded Projects

While there is funding available to support the capital projects for the City's utilities, there is insufficient funding to meet the infrastructure needs in many other areas. The table below identifies unfunded projects of \$571.6 million that were itemized as part of this CIP process.

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Table 3: Unfunded CIP Projects by Theme	
Theme	Unfunded Projects
Administrative Facilities	\$75,495,667
Community Facilities	244,581,305
Convention Center	12,649,017
Parks and Trails	141,484,400
Storm Drain	35,317,032
Technology and Equipment	3,492,520
Transportation	58,544,015
<b>Total Unfunded Projects</b>	<b>\$571,563,956</b>

Descriptions of the unfunded projects are provided in the *Capital Improvement Program* section of the Proposed Budget by theme.

The unfunded projects identified in the Proposed Budget represent only a portion of the unmet/deferred infrastructure needs in the City, with many significant needs spread across the capital theme areas, including:

- 2015 Storm Drain Master Plan identified \$343 million in projects (2018 dollars), including almost \$68 million in high priority projects
- Transportation infrastructure (e.g., traffic signal infrastructure replacement, uncontrolled crosswalks, Bicycle Plan, Creek Trail Master Plan, and pavement)
- Public Buildings (new City Hall, existing City Hall, fire stations, historic buildings, corporation yard, ADA plan)
- Expand capacity (e.g., library)

In addition to these unfunded needs, there are other City Council priorities that have not been funded. On December 14, 2021, City staff presented the FY 2020/21 Budget Year-End Report that included \$400,000 for City Council initiatives. Of this amount, \$75,000 was allocated to support homelessness and the remaining balance of \$325,000 is available to carryover to FY 2022/23 to support Council initiatives. Discussion will be included in the Study Session to obtain feedback and direction from the City Council regarding the potential allocation of these funds. As identified for the 2022 City Council Priority Setting Session, the following capital priorities are unfunded:

- Vision Zero Policy;
- Transportation “Quiet Zone”;
- Transportation Demand Management Study;
- Station Area Plan; and
- Downtown Task Force/Precise Plan.

Separately, there have been numerous Council Initiatives that have been requested and or discussed at the City Council that do not have capital funding identified. These include, but are not limited to:

- Ballot Measure for infrastructure bond or tax in November 2024;
- Revisions to the El Camino Real Specific Plan;
- Sanitary Sewer Laterals;
- Construction of Lawn Bowl Facility;

- Crosswalks/Beacons at various locations;
- Feasibility Study for constructing a roadway undercrossing at the railroad tracks separating Benton Street and Brokaw Road near the Santa Clara Caltrain Station and Future BART Station; and
- Swim Center improvements.

### CIP Funding Strategies

The City has historically relied on annual General Fund savings allocated to the Capital Projects Reserve to support various capital improvements not supported by dedicated funding sources (e.g., utility infrastructure funds, dedicated transportation and parks funds). The Capital Projects Reserve does not provide consistent funding nor is it sufficient to address the significant unfunded/unmet capital infrastructure needs. Additional capital revenue sources are needed to start meeting these needs. In the future, this could include a bond measure, a parcel tax measure, and/or other dedicated funding (e.g., allocate an increase to the documentary transfer tax to fund City infrastructure). These funding strategies have successfully been used in other jurisdictions.

Staff will continue to recommend the pursuit of alternative funding sources to improve the City's infrastructure to meet the needs of our community. Because these alternative funding strategies typically require voter approval, efforts to inform the public about these capital needs and obtain their feedback are critical to gain community support. These efforts are expected to continue with a goal of bringing forward a potential ballot measure in November 2024, allowing time for a robust community engagement process.

### **FY 2022/23 Adopted Operating Budget**

#### FY 2022/23 Budget Balancing

The Adopted FY 2021/22 and FY 2022/23 Biennial Operating Budget included a General Fund budget balancing strategy that relied on a combination of expenditure reductions, revenue solutions, and use of reserves. The use of ongoing and one-time solutions balanced the competing goals of aligning ongoing revenues and expenditures and minimizing the service delivery impacts to the community. This also allowed for time to evaluate the post COVID-19 recovery.

The overall FY 2022/23 General Fund balancing strategy that primarily uses reserves to address the projected shortfall remains in place. Because the FY 2021/22 and FY 2022/23 Biennial Operating Budget used one-time balancing actions and reserves, additional budget balancing actions will be necessary in the upcoming FY 2023/24 and FY 2024/25 Biennial Operating Budget that will be adopted in June 2023. Based on the most recent forecast, a General Fund shortfall of \$19.6 million is expected to be addressed as part of that budget process. This shortfall figure may be adjusted in the next Ten-Year General Fund Forecast that will be updated in January 2023.

Work to identify new ongoing sources has been underway, including fiscal sustainability measures for consideration on the November 2022 ballot. These measures will be critical to better position the City moving forward and reduce the level of service disruptions that may be needed to address the budget deficit.

#### FY 2022/23 Operating Budget Amendments

The City Council approved the FY 2021/22 and 2022/23 Biennial Operating Budget in June 2021. While this year's budget is focused on the capital budget, budget amendments to the FY 2022/23 Adopted Operating Budget are necessary to reflect the updated revenue estimates and to account for updated labor and non-personnel costs in the General Fund and other funds.

The 2022/23 Proposed Budget also reflects an increase of 32.0 positions from the 2021/22 Adopted Budget. The following positions were added during FY 2021/22: 1) 18.0 non-General Funded positions to support the Electric Utility; 2) 10.0 positions in the Police Department to restore several eliminated and frozen positions from the \$1.7 million added by the City Council for this purpose in the FY 2021/22 and FY 2022/23 Biennial Operating Budget; and 3) 4.0 positions supported by various funds and reimbursements. These positions are detailed in the Budgeted Positions section of this document.

The detailed amendments to the FY 2022/23 Operating Budget by fund can be found in the Appendices section of the Proposed Budget.

### **FY 2022/23 Municipal Fee Schedule Change - Library Community Rooms**

On April 19, 2022, the City Council approved the FY 2022/23 Municipal Fee Schedule that will be effective July 1, 2022. At that time, the library community room rental fees had not yet been determined. These fees have been suspended since 2019 out of concern that there was not customer service alignment with the parks & recreation community room rental fees. Based on City Council feedback during the April 5, 2022 Study Session on the FY 2022/23 Municipal Fee Schedule and the new Parks & Recreation Cost Recovery Policy, revised parks and recreation community room rental fees were established for FY 2022/23. Subsequently, the Library Department met with the Board of Library Trustees (BOLT) on April 28, 2022 to discuss library community room rental fees considering the fees adopted for the parks and recreation community room rentals. BOLT approved the proposed library community room rental fees.

The proposed Library community room rental fees are: \$20 per meeting for non-profit or Santa Clara resident community events; \$90 per hour for non-resident use; and staff charges of \$30 per hour if groups require assistance throughout their reservation. The revised page from the Municipal Fee Schedule is included as an attachment to this memorandum.

### **May 24, 2022 Budget Study Session**

The City Council and the public provided feedback and had questions regarding the Proposed Budget and particular capital projects. The Councilmembers expressed interest in pursuing a bond measure in the future to address the significant unfunded capital needs and discussed the use of reserves as a budget balancing strategy. The Councilmembers also identified a number of capital and operating funding needs and discussed the potential establishment of City committees to focus on resident issues associated with the stadium and to focus on youth activities and/or partnership opportunities to help address needs and deliver services.

Responses to questions are included as an attachment to this report. This includes the estimated one-time and ongoing costs of the various funding needs identified by the City Council. It is important to note that the use of reserves to address any of these needs would limit the availability of these funds to address the projected \$19.6 million General Fund shortfall in the next Biennial Operating

Budget and any ongoing items would result in an increase to the shortfall.

### **ENVIRONMENTAL REVIEW**

The action being considered does not constitute a “project” within the meaning of the California Environment Quality Act (“CEQA”) pursuant to CEQA Guidelines section 15378(b)(4) 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**

The Proposed Biennial Capital Budget totals \$150.1 million in FY 2022/23 and \$232.0 million in FY 2023/24, and the five-year Capital Improvement Program totals \$624.5 million. The Proposed Operating Budget for FY 2022/23 is \$974.8 million. The combined proposed capital and operating budgets for FY 2020/21 totals \$1.12 billion.

Under the City Council approved budget policies, the Budget Stabilization Reserve is to be set at a minimum of 25% of expenditures. Given the City’s fiscal challenges, the City Council approved an exception to this policy in the FY 2021/22 and FY 2022/23 Biennial Operating Budget, allowing the reserve to drop to 15% of expenditures. In the FY 2022/23 Amended Budget, the Budget Stabilization Reserve is projected to drop to \$40.4 million, or 15% of the General Fund, as part of this budget.

### **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](mailto:clerk@santaclaraca.gov) <<mailto:clerk@santaclaraca.gov>> or at the public information desk at any City of Santa Clara public library.

### **RECOMMENDATION**

Review and provide input on the Proposed FY 2022/23 & FY 2023/24 Biennial Capital Improvement Program Budget and FY 2022/23 Operating Budget Changes and the proposed FY 2022/23 Municipal Fee Schedule changes to Library community room rental fees.

Reviewed by: Kenn Lee, Director of Finance

Approved by: Rajeev Batra, City Manager

### **ATTACHMENT**

1. FY 2022/23 & FY 2023/24 Biennial Capital Improvement Program Budget and FY 2022/23 Operating Budget Changes
2. FY 2022/23 Municipal Fee Schedule Change - Library Fees
3. Responses to Questions from May 24, 2022 Budget Study Session