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**Title:** Joint Study Session to Review Proposed FY 2019/20 and FY 2020/21 Biennial Operating Budget and Capital Improvement Program Budget Adjustments and Review the FY 2019/20 Convention Center Budget (City Council, Sports and Open Space Authority, Housing Authority and Public Facilities Financing Corporation)

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**Attachments:** 1. FY 2019/20 and 2020/21 Proposed Biennial Operating Budget, 2. FY 2019/20 Capital Improvement Program Budget Amendments, 3. FY 2019/20 Convention Center Proposed Budget, 4. Supplemental Information - Responses to Questions from the May 7, 2019 City Council Study Session, 5. POST MEETING MATERIAL

Date	Ver.	Action By	Action	Result
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**REPORT TO COUNCIL, SPORTS AND OPEN SPACE AUTHORITY, HOUSING AUTHORITY AND PUBLIC FACILITIES FINANCING CORPORATION**

**SUBJECT**

Joint Study Session to Review Proposed FY 2019/20 and FY 2020/21 Biennial Operating Budget and Capital Improvement Program Budget Adjustments and Review the FY 2019/20 Convention Center Budget (City Council, Sports and Open Space Authority, Housing Authority and Public Facilities Financing Corporation)

**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 January 31 and February 1, the City Council held a City Council Operational and Strategic Priority Setting Session (Council Priority Setting), in which the City Council Strategic Pillars were adopted. The pillars are as follows and all have a direct impact on the City’s Operating Budget.

1. Promote and Enhance Economic and Housing Development
2. Deliver and Enhance High Quality Efficient Services and Infrastructure
3. Enhance Community Sports and Recreational 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 (previously Maintain Adequate Staffing Levels)

## 7. Sustainability (new)

In addition, the City Council approved the Budget Principles at the Council Priority Setting which have been included in the proposed budget document

<http://santaclaraca.gov/home/showdocument?id=63911> (Page 28). The proposed budget as submitted was developed in accordance with these guiding principles. As was proposed by staff and approved by the City Council at the prior year Council Priority Setting, this budget moves from an annual budget to a two-year (biennial) budget.

On May 7, 2019, a Study Session was held to allow the City Council and public to review and provide input on the Proposed FY 2019/20 and FY 2020/21 Biennial Operating Budget and Capital Improvement Program Budget Adjustments. In addition, a discussion of City Council Priorities was discussed and an internal deadline of May 17, 2019 was provided for additional considerations of City Council Priorities to be funded through the budget. Comments and changes from that meeting are included in 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 while at the same time maintaining fiscal stability. The budget incorporates a balanced and responsible approach to meeting the City's short and long-term needs.

This budget document is a transition from a transactional budget organized by fund to one that highlights department performance and service delivery. Service level changes included in the department sections discuss in detail the specific impact of each department request, how these requests align to departmental goals and objectives and ultimately show how our limited resources are spent to maximize and meet the City Council's strategic priorities. In this document, we present enhanced budget and fiscal policies; comprehensive budgetary financial statements that establish new reserves and incorporate fund balances; and summarize this information through new key graphs and charts.

### **Biennial Operating Budget**

The total operating budget for FY 2019/20 of \$844.5 million represents a decrease of \$15.0 million, or 2% compared to the FY 2018/19 Adopted Annual Operating Budget. This downward shift is due to further refinements in calculating CalPERS costs and revenue sources and netting out fund transfers along with our change in budgeting practices. The FY 2020/21 operating budget of \$846.4 million is an increase of \$1.9 million or 0.2% above the proposed FY 2019/20 budget. These figures are revised from those presented at the May 7, 2019 Study Session, incorporating the proposed changes discussed later in this report.

The proposed budget includes key investments and the strategic net addition of 15.5 positions (8.9 positions in the General Fund) across every City Council Priority and several funds, examples include:

- Expanding the existing Housing Division Manager's duties (and converting it to an Assistant to the City Manager, until properly classified, with a working title of Housing and Real Estate Development Officer) will result in formal oversight and coordination of the City's real estate portfolio, along with adding a Management Analyst and resources to establish a baseline real estate asset management system to address the City's needs.

- Adding a Sustainability Officer (Assistant to the City Manager, until properly classified), with the use of various enterprise funds, to advance the City Council's most recent added policy priority of Sustainability.
- Expanding our parks programming through the expected opening of the Reed and Grant Sports Complex through the addition of resources and two positions (Recreation Coordinator and Grounds Maintenance Worker II).
- Providing additional stadium oversight and public safety coordination, as described in various Stadium Authority reports and approved budget (Deputy City Manager).
- Mitigating future risk through the addition of a real estate focused Assistant City Attorney in FY 2020/21.
- Serving our electric utility customers through additional industrial development customer support, technical resources to manage capital projects, and engineering permit review staff (three Electric Program Managers and one Electric Utility Engineer).
- Increasing our strategic communications bandwidth and oversight of a website redesign through a Web and Digital Content Manager.
- Supporting our solid waste organic waste diversion programs to enhance sustainability through a Staff Analyst in Public Works.
- Reorganizing and focusing our housing programs through a Staff Aide in Community Development.
- Gaining Risk Management efficiencies by adding an Office Specialist III so our existing Risk Manager can focus on developing more robust risk management policies and procedures, managing insurance and claims, and ensuring legal compliance.
- Shoring up central services departments by adding a Senior Accounting Technician in Finance and an Office Specialist IV in Human Resources.

A significant investment in one-time resources is included in this budget, dedicated to filling administrative gaps, gain efficiencies through technology or seek expertise through consultant support services. These small investments are intended to guide managers through specific operational issues faced from processes that are overdue for update, reevaluation and/or revision. They touch operations in almost every City department. This initiative includes:

- Funding to organize our affordable housing approach through an accessory dwelling unit pilot program, software to track affordable housing assets and consultant services to input the existing data into a new system and issuing a request for proposal for an administrator for the City's Affordable Rental Program;
- Records management platform and policy update in the City Clerk's Office;
- Update to citywide administrative policies (e.g., City Manager Directives, etc.) and legislative advocacy support in the City Manager's Office, enhancement of purchasing policies and records in the Finance Department;
- Evaluation of the City's pre-employment physical requirements of class specifications and Civil Service rules in the Human Resources Department;
- Workforce development transformation through Office 365 in the Information Technology Department;
- Fleet management consultant in the Public Works Department to assess fleet and bring about efficiencies while reducing costs;
- As-needed hours to support response to public records requests while concurrently implementing the technology to modernize our processes;

- Funding for Census 2020 to ensure an accurate population count and aggressively compete for federal funding from which we receive population-based revenues; and,
- Resources to explore new revenue strategies and conduct community research.

### **Changes to the Proposed Biennial Operating Budget**

Following are the changes that are being recommended to the Proposed Budget:

Submittals by the City Council amending the City Council Priorities Matrix presented at the May 7<sup>th</sup> Study Session:

- “Love Santa Clara” Program - Instead of adding 1.0 Web and Digital Media Manager (\$194,224), add 1.0 Management Analyst (\$139,404) and \$50,000 ongoing supplies, materials and outreach. This program would provide additional written and online communications to promote Santa Clara. These resources are in addition to an existing \$200,000 allocated for communications in the City Manager’s Office budget that could also be used to support the “Love Santa Clara” Program - submitted by Mayor Gillmor/Councilmember O’Neill

***Staff Recommendation:** the Web and Digital Media Manager proposal was initiated due to multiple departments requesting additional resources for communication services within their individual departmental budgets and a compromised approach to meet multi-department demand in the Communications Office to address their high level, volume resource needs. In order to streamline communications and to further our shared citywide resources approach, we created one position (Director of Communications) to ensure one voice for citywide communications rather than continue to have it decentralized (which is a higher cost service delivery model). Staff has an alternate proposal to accomplish the goal of implementing a Love Santa Clara Program and recommends it to accomplish the goals of both Mayor Gillmor and Councilmember O’Neil.*

*To provide more strategic communications bandwidth, increase community engagement and outreach, and expand pro-active media relations, it is recommended for the proposed budget to include a manager-level communications position (Communications and Outreach Manager) that would replace the previously proposed Web and Digital Media Manager and the revised request of a Management Analyst.*

*A manager-level position allows for the flexibility to provide a higher level of service for a variety of City issues and activities that require the attention of a seasoned communications professional. The position provides increased flexibility for job duties and greater knowledge of the principles, techniques and methods of public communications, outreach and marketing. In addition to developing community outreach and engagement strategies for City priorities and projects, the manager would develop and oversee the “Love Santa Clara” program. Other responsibilities would include managing and overseeing public outreach and engagement programs for City issues, programs and services; providing strategic guidance to City staff regarding public outreach to meet City objectives; build community awareness of City initiatives; create and distribute diverse communications collateral for a wide variety of audiences to include flyers, brochures, video projects and newsletters; effective supervision and management of the City’s cable television channel, Santa Clara City Television; and work with the City Communications Team to assess and respond to crisis and emergency situations. In addition, we will include an additional \$50,000 of one-time funds for supplies and outreach as requested.*

- Increase the Human Resources Department to fund an internship program for high school students. This program would provide an opportunity for students that need a supportive summer job that would provide direction and experience for future jobs, including careers in public service (\$100,000 funded from General Budget Stabilization Reserve) - submitted by Councilmember Watanabe.

Changes for consideration since the release of the Proposed Budget:

- Reallocate Sister Cities funding from Parks and Recreation to Non-Departmental to increase transparency for these costs (\$5,659).
- Increase the Police Department budget to reflect the recent agreement approved for the Police Officer's Association (POA). Elements of the approved contract were within City Council authority and proposed to be funded by one-time sources. As a result, increases to the Police Department budget (\$370,000) in FY 2019/20 and FY 2020/21 is recommended, to be funded from the General Fund Budget Stabilization Reserve to fund costs associated with deferred compensation and Voluntary Employee Beneficiary Association (VEBA) costs.
- Increase Convention Center budget by \$100,000 for City related contingency items.

### **Capital Improvement Program (CIP)**

The City Council approved the FY 2018/19 and 2019/20 Biennial CIP Budget on June 12, 2018. This action approved a two-year capital budget and presented a five-year capital improvement plan. The total CIP budget for FY 2019/20 is \$128.6 million, which reflects an increase of \$44.6 million, or 53% compared to the FY 2018/19 adopted CIP budget. The increase is due to a modest number of new projects and the timing of several large projects.

As the focus of this year's budget is operations, several budget amendments to the FY 2019/20 Adopted CIP Budget are being recommended. Some of the key budget amendments are summarized below:

- Water and Sewer projects (\$4.2 million) - additional contributions for the San Jose/Santa Clara Regional Wastewater Facility, water tank rehabilitation and to develop a water infrastructure asset management program.
- Civic Center Campus Renovations - Multi-Department (\$1.0 million, General Fund) - funds renovations for finance, human resources and other departments to bring offices to modern standards and transition of a portion of the cafeteria for employee collaboration.
- Parks and Recreation projects (\$900,000) - funding to repair the roof at the recreation center at Bowers Park and construction of a restroom at Fairway Glen Park.
- Storm Sewer and Corporation Yard infrastructure (\$787,000) - funding for fiber optics to storm pumps, storm water retention basin remediation, and to repave the parking lot at the corporation yard.
- Silicon Valley Power Electric Utility projects (-\$12.8 million) - funding adjustments to several projects to reflect current project timelines and necessary project augmentations.
- Public Works Capital Projects Management - a new internal service fund to centralize Public Works staff costs in support of our capital programs.

In addition, the carryover of unexpended capital project funds from FY 2018/19 to FY 2019/20 is necessary in order to continue or complete projects beyond the current fiscal year. As appropriations

lapse annually on June 30th, recommendations to carryover funding will be brought forward under separate cover for City Council consideration as part of the budget adoption in June 2019.

### **Convention Center Proposed Budget**

In February 2019, the City of Santa Clara entered into an agreement with Global Spectrum, LP, dba Spectra Venue Management (Spectra). As part of the agreement, Spectra was to provide the City with an operating budget proposal for FY 2019/20 and a Capital Improvement Program (CIP) report in May 2019. The operating budget proposal for FY 2019/20, additional recommendations to the operating budget proposal and CIP report submitted by Spectra are included in Attachment 3. In addition, the revised FY 2019/20 and FY 2020/21 Statement of Sources and Uses for the Convention Center Enterprise Fund and Public Buildings Capital Fund are also included in Attachment 3.

The operating budget proposal for FY 2019/20 represents the anticipated revenue and expense on an annual, as well as monthly basis. This document also details the anticipated revenue by event type. The operating budget proposal shows an initial net income estimate of approximately \$2.3 million, consistent with the pro-forma financial statement included in Spectra's Request for Proposal (RFP) response. Spectra also submitted additional recommendations to the operating budget proposal, which are as follows:

- Personnel expenses (\$130,000) - funding to add one full-time sales manager to provide additional support in overseeing day-to-day event management
- Maintenance expenses (\$85,000) - funding for maintenance contracts related to preventative maintenance and repair costs, including for the elevator and escalators
- Travel/Trade Show expenses (\$70,000) - funding for travel related to conferences and trade shows to expand Spectra's event portfolio and connect to potential new clients
- Marketing expenses (\$65,000) - funding for additional marketing costs to increase industry awareness of the Santa Clara Convention Center

These adjustments of \$350,000 would result in a lower estimated net income of \$1.9 million, compared to the \$2.3 million. This adjusted \$1.9 million net income is reflected in the Convention Center Enterprise Fund's Statement of Sources and Uses.

As outlined in the agreement, Spectra will invest \$1.1 million for capital improvements and repairs, which is programmed in the Public Buildings Capital Fund's Statement of Sources and Uses. As part of the Monthly Financial Status Report for February 2019, the City Council approved a budget amendment allocating \$3.0 million (\$1.5 million from the Convention Center Enterprise Fund and \$1.5 million from the General Fund Capital Projects Reserve) to the Convention Center Condition Assessment Repairs project in the Public Buildings Capital Fund. The \$3.0 million will be recommended to be carried over into FY 2019/20, leaving a total allocation of \$4.1 million for Convention Center capital funding. Spectra identified the highest priority items that will be funded with this allocation, including the repair of the leaking roof (\$1.0 million), repair and reseal of the glass pyramids (\$1.0 million), replacement of carpet and paint, and the upgrade of the security and HVAC operating systems. Spectra's five-year CIP report, included in the attachment, outlines the repairs and replacements needed and their estimated cost. The items noted in this report total \$19.2 million over the five-years, with \$6.5 million identified as the highest priority items for FY 2019/20. As there are insufficient funds to cover the full list of capital projects identified by Spectra, the City will continue to prioritize the highest needs with Spectra and will present a revised CIP report in December 2019, as stated in the agreement.

### **Follow up from City Council Study Session on May 7, 2019**

Supplemental information is included in Attachment 4. These include responses to Council Member and public questions from the May 7, 2019 City Council Study Session.

### **FISCAL IMPACT**

The FY 2019/20 and FY 2020/21 Proposed Biennial Operating Budget totals \$844.5 million and \$846.4 million, respectively. The total Capital Improvement Program (CIP) budget for FY 2019/20 is \$128.6 million.

The Budget is scheduled for the City Council's consideration for adoption on June 25, 2019.

### **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(a)(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.

### **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 2019/20 and FY 2020/21 Biennial Operating Budget and Capital Improvement Program Budget Adjustments including the FY 2019/20 Proposed Convention Center Budget.

Reviewed by: Angela Kraetsch, Director of Finance, Treasurer

Approved by: Deanna J. Santana, City Manager, Executive Director and Contract Administrator

### **ATTACHMENTS**

1. FY 2019/20 and 2020/21 Proposed Biennial Operating Budget
2. FY 2019/20 Capital Improvement Program Budget Adjustments
3. FY 2019/20 Convention Center Proposed Budget
4. Supplemental Information - Responses to Questions from the May 7, 2019 City Council Study Session