



Legislation Details (With Text)

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| Title: | Review the FY 2018/19 Proposed Annual Operating Budget and Ten-Year Financial Plan | | | | |
| Sponsors: | | | | | |
| Indexes: | | | | | |
| Code sections: | | | | | |
| Attachments: | 1. FY 2018/19 Proposed Annual Operating Budget, 2. Ten-Year Financial Plan, 3. POST MEETING MATERIAL | | | | |

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

SUBJECT

Review the FY 2018/19 Proposed Annual Operating Budget and Ten-Year Financial Plan

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.

In January 2018, the City Council held a Council Operational and Strategic Priority Setting Retreat (Council Priority Setting), in which the City Council Strategic Pillars were identified and discussed. 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. Enhance Community Sports and Recreational Assets
3. Deliver and Enhance High Quality Efficient Services and Infrastructure
4. Maintain Adequate Staffing Levels
5. Enhance Community Engagement and Transparency
6. Ensure Compliance with Measure J and Manage Levi's Stadium

In addition, the City Council approved the 2018/19 Budget Principles at the Council Retreat which have been included in the proposed budget document (Page i). 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 Council Priority Setting, this budget moves from a Five-Year Financial Plan to a Ten-Year Financial Plan which allows for a better understanding of today's fiscal actions over the long term and aligns with the existing strategic pillars.

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. The total operating budget for 2018/19 of \$859.5 million represents an increase of \$130.4 million, or 17.9% compared to the fiscal year 2017/18 Adopted Annual Operating Budget primarily due to rising personnel costs, reclassing of transfers-out to an expense (\$75 million or 58% of the increase), and increases in Resource and Productions costs for Electric and Water Funds (as outlined in Table 1).

Table 1 - Annual Operating Budget by Fund Group

| Fund | 2017/18 Budget | 2018/19 Budget | Increase* (Decrease) | Percent Change |
|-------------------------------|-------------------|-------------------|-------------------------|-------------------|
| General Funds (w/Debt) | \$ 221,654,487 | \$ 250,102,186 | \$ 28,447,699 | 12.8 % |
| Special Revenue Funds | 7,157,755 | 13,578,142 | 6,420,387 | 89.7 % |
| Enterprise Funds | 484,488,224 | 578,291,115 | 93,802,891 | 19.4 % |
| Internal Service Funds | 15,755,567 | 17,492,612 | 1,737,045 | 11.0 % |
| Total Annual Operating Budget | 729,056,033 | 859,464,055 | 130,408,022 | 17.9 % |

*The majority of the total increase is due to increases in personnel costs, resource and production costs, and the change in budgeting transfers-out from revenue to an expenditure/expense

Key highlights to the proposed budget are outlined in the following table:

Table 2 - Budget Refinements

| | |
|----|---|
| 1 | Transfers are reflected as Transfers-in (revenue) and Transfers-out (expenditures/expenses) versus net transfers in the revenue section |
| 2 | Addition of a Stadium Operations program located in the General Fund Non-Departmental section |
| 3 | One-time allocation of \$100,000 for waiver of fees or sponsorship as approved by the Council |
| 4 | Council Contingency of \$100,000 for the City Council to expend on Council initiatives |
| 5 | Net Addition of six (6) new positions (including a Risk Manager, Management Analyst (audit), and Contracts Analyst) |
| 6 | Three (3) vacant budgeted positions were removed from this budget |
| 7 | Reclass of vacant Office Specialist to a Records Manager |
| 8 | MOU agreements were incorporated into the budget |
| 9 | Included the upcoming increase in the City's minimum wage to \$15 in January 2019 |
| 10 | Includes a full year of funding for the Golf Course |
| 11 | Includes a management fee of 2% of budgeted revenue for the Convention Center |

The Fiscal Year 2018/19 General Fund Operating Budget does not anticipate any savings and/or surpluses; therefore, no transfer of funds has been included to the 2018/19 Budget Stabilization Reserve (formerly Working Capital Reserve). The Budget Stabilization Reserve level for the end of FY 2017/18 is currently projected to be \$55.1 million. Per Council policy, the FY 2018/19 BSR level needs to be set at \$59.3 million, which is adjusted upward to reflect an increase in expenditures. To make up the shortfall of \$4.2 million, as part of closing the current fiscal year budget, staff will bring

forward a recommendation to allocate \$4.2 million of the current estimated Fiscal Year 2017/18 General Fund surplus of a projected \$7 million.

As mentioned previously, this budget includes the transition from a Five-Year Financial Plan to the development of a Ten-Year Financial Plan for the City's General Fund. Moving to a ten-year outlook allows the City Council and staff to work proactively, strategically, and collaboratively on solutions for addressing year-over-year deficits. Further, it allows for a better understanding of today's fiscal actions over the long-term instead of budgeting year-to-year on a short-term basis. The current General Fund Ten-Year Financial Plan forecasts cumulative annual deficits between \$4 million to \$28 million, which means that ongoing expenditures are outpacing ongoing revenue projections. However, by committing to fiscal discipline and addressing the annual deficits with cost reductions, alternative service delivery options, or increasing revenue, the year-over-year deficits range between \$2 million and \$6 million.

FISCAL IMPACT

The 2018/19 Proposed Annual Operating Budget totals \$859.5 million (as shown in Table 1). The Budget is scheduled for adoption on June 26, 2018.

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>> or at the public information desk at any City of Santa Clara public library.

RECOMMENDATION

Review and provide input on the FY 2018/19 Proposed Annual Operating Budget and Ten-Year Financial Plan.

Reviewed by: Angela Kraetsch, Director of Finance

Approved by: Deanna J. Santana, City Manager

ATTACHMENTS

1. FY 2018/19 Proposed Annual Operating Budget
2. Ten-Year Financial Plan