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Title:	Public Hearing: Action on the Adoption of the Proposed Biennial Operating Budget, Budget and Fiscal Policies, and Changes to the Capital Improvement Program (Not to be Heard prior to 7:00 PM)				
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Date	Ver.	Action By	Action	Result
6/25/2019	1	Council and Authorities Concurrent Meeting	Approved	Pass

REPORT TO COUNCIL, SPORTS AND OPEN SPACE AUTHORITY, HOUSING AUTHORITY AND PUBLIC FACILITIES FINANCING CORPORATION

SUBJECT

Public Hearing: Action on the Adoption of the Proposed Biennial Operating Budget, Budget and Fiscal Policies, and Changes to the Capital Improvement Program (Not to be Heard prior to 7:00 PM)

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.

On June 4, 2019, a public hearing 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, changes to the budget including City Council Priorities, Convention Center Budget, and City Council and public comment follow-up from the May 7 meeting was included in the report.

As required by California Government Code Section 65401, the FY 2018/19 and FY 2019/20 Biennial Capital Improvement Program budget was reviewed and approved by the Planning Commission (Commission) at their May 23, 2018 meeting. The changes to the capital projects included in the FY 2019/20 Capital Improvement Program Budget Amendments do not materially change the projects reviewed by the Commission as part of the adopted budget or impact the current General Plan.

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 \$844.7 million represents a decrease of \$14.8 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. The FY 2020/21 operating budget of \$846.5 million is an increase of \$1.8 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 the new job description can be prepared, 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 the new job description can be prepared), 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).
- Develop a "Love Santa Clara" program while increasing our strategic communications bandwidth and oversight of a website redesign through a Communications and Outreach 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 I 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 fill 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;
- Marketing and communications resources for a “Love Santa Clara” program to promote our city;
- Intern funding to provide jobs for high school students;
- 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.

The schedules in Attachment 2 include final budget appropriations and transfers between City funds. The totals include changes presented to the City Council on June 4, 2019.

Capital Improvement Program (CIP)

The City Council approved the FY 2018/19 and FY 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 \$339.7 million which includes carryover CIP projects from FY 2018/19 totaling \$209.8 million. Since appropriations lapse annually on June 30th, recommendations to carryover funding are included in Attachment 3. In addition, recommendations to return funds to their original funding source (e.g. General Fund Capital Projects Reserve) for projects that have been completed or do not need to carryover all funds are also included in Attachment 3.

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 José/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 to 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 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.

Budget and Fiscal Policies

A new section with more extensive budget and fiscal policies was included in the proposed budget. As detailed in Attachment 4, many of the budget policies are focused on the way the City manages its budget, reserves, interfund loans, investments, and debt with the goal of long-term fiscal

sustainability. In the City's utility funds, reserve policies are established to ensure sufficient funds for operations and maintenance, construction projects, and to stabilize rates. The formal approval of the budget and fiscal policies is recommended as part of this report.

Housing Authority Proposed Budget

The FY 2019/20 and FY 2020/21 Proposed Budget recommends total expenses of \$494,298 and \$489,678 respectively. The proposed budget allows the City of Santa Clara Housing Authority to continue to manage and monitor housing assets from the dissolution of the Redevelopment Agency. Additionally, funding will be used to support loan monitoring, administration and other programs and projects related to affordable housing. Furthermore, the proposed biennial budget includes \$200,000 to support a new pilot program that provides low interest loans to homeowners for the construction of accessory dwelling units that will serve a select group of income qualified individuals such as teachers and public service employees.

Convention Center Proposed Budget

As discussed at the June 4, 2019 City Council meeting, the Convention Center budget is included in Attachment 5 for approval. 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 were submitted by Spectra. In addition, the revised FY 2019/20 and FY 2020/21 Statement of Sources and Uses of Funds for the Convention Center Enterprise Fund and Public Buildings Capital Fund are included in Attachment 5.

Santa Clara Golf and Tennis Club Proposed Budget

The proposed Santa Clara Golf and Tennis Club budget is included in Attachment 6. This budget was received from the City's golf contractor and reviewed by the Parks and Recreation and Finance Departments. It assumes operations cease after October 2019. Maintenance costs for the property after the closure of golf operations are included in the General Fund Non-Departmental section of the budget.

Additional Changes to the Proposed Budget

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

- "Love Santa Clara" Program - 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. In addition, the budget includes an additional \$50,000 of one-time funds for supplies and outreach.
- Reallocate Sister Cities funding from Parks and Recreation to Non-Departmental to increase transparency for these costs (\$5,659). Additional \$15,000 for Sister Cities Mayor and Council Travel each of the two budget years, funded by the Budget Stabilization Reserve.
- 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 are recommended, to be funded from the Budget Stabilization Reserve to fund costs associated with deferred

compensation and Voluntary Employee Beneficiary Association (VEBA).

- Increase Convention Center budget by \$100,000 for City related contingency items.
- At the June 4, 2019, the City Council directed staff to include \$70,000 of funding in FY 2019/20 to support the Santa Clara Parade of Champions. This budget has been included in the General Fund Non-Departmental section, funded by the Budget Stabilization Reserve.
- One-time funding of \$100,000 to provide intern opportunities for high school students each of the two budget years, funded by the Budget Stabilization Reserve.

In addition, subsequent to the release of the Proposed Budget, it was determined that several replacement pages are necessary to correct inadvertent errors or clarify budgeted dollars and programs. These pages are included in Attachment 7 and detailed below.

- In the Electric Utility Capital Fund, changes to the Statement of Sources and Uses of Funds are included to correct the double counting of encumbrance carryover balances in the Beginning and Ending Fund Balances, reflect revised FY 2018/19 Amended and Estimate for the Clean Energy and Carbon Reduction, and funding between projects from approved Budget Amendments.
- In the Streets and Highways Capital Fund, changes to the FY 2018/19 Amended and Estimate and Beginning and Ending Fund Balances to reflect and correct approved FY 2018/19 Budget Amendments.
- In the Electric Utility Department Section, reallocation of dollars in programs that are no longer active. For FY 2019/20 and FY 2020/21 proposed special liability insurance costs were inadvertently allocated to the Field Administration (\$200,674 and \$206,694) and Joint Action Coordination (\$37,736 and \$38,868) programs. Due to Electric Utility Department's reorganization, they are now included in the Transmission and Distribution (Utility Operations Division) and Resource Management (Resource Planning and Engagement Division) programs, respectively.

Responses to the June 4 City Council and Public Questions

In the June 4, 2019 City Council meeting, members of the public inquired about the status of establishing policies and fees for public art. The City has procured a consultant to evaluate impact fees for public art as well as other development-related impact fees. A Study Session to discuss options on future impact fees will be conducted later this year once the Development Impact Fee Study has been completed.

In addition, Councilmember Chahal requested that additional analysis be completed for a comparison of the percentage of salaries and benefits costs of General Fund expenditures and revenues. The Finance Department will respond with additional information related to this request at a later date.

FISCAL IMPACT

The FY 2019/20 and FY 2020/21 Proposed Biennial Operating Budget totals \$844.7 million and \$846.5 million, respectively. The total Capital Improvement Program (CIP) budget for FY 2019/20 is \$339.7 million which includes carryover CIP projects from FY 2018/19 totaling \$209.8 million.

ENVIRONMENTAL REVIEW

The action being considered does not constitute a "project" within the meaning of the California Environmental Quality Act ("CEQA") pursuant to CEQA Guidelines section 15378(a) as it has no potential for resulting in either a direct physical change in the environment, or a reasonably

foreseeable indirect physical change in the environment.

COORDINATION

This report has been coordinated with the City Attorney's Office.

PUBLIC CONTACT

On June 12, 2019, a notice of the public hearing was published in the *Santa Clara Weekly*. 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

That the City Council, and City Council acting as the Governing Boards of the Sports and Open Space Authority, Housing Authority, and Public Facilities Financing Corporation take the following actions:

1. Approve the City of Santa Clara FY 2019/20 and FY 2020/21 Biennial Operating Budget of \$1,054,486,746 including the Appropriation Schedule and Transfer Schedule detailed in Attachment 2;
2. Approve the FY 2019/20 Capital Improvement Program Budget Adjustments including the estimated carryover of CIP projects of \$209,851,239 detailed in Attachment 3;
3. Approve the Budget and Fiscal Policies included in the FY 2019/20 and FY 2020/21 Biennial Operating Budget and detailed in Attachment 4;
4. Approve the Housing Authority FY 2019/20 Budget of \$494,298 and FY 2020/21 Budget of \$489,678 as detailed in the City's Operating Budget;
5. Approve the Convention Center FY 2019/20 Budget of \$18,254,306 as detailed in Attachment 5; and,
6. Approve the Sports and Open Space Authority FY 2019/20 Budget of \$904,502 as detailed in Attachment 6.

Reviewed by: Angela Kraetsch, Director of Finance/Treasurer

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

ATTACHMENTS

1. FY 2019/20 and FY 2020/21 Proposed Biennial Operating Budget
2. FY 2019/20 and FY 2020/21 Appropriation and Transfer Schedules
3. FY 2019/20 Capital Improvement Program Budget Amendments including Carryover and Return to Fund
4. Budget and Fiscal Policies
5. Convention Center Proposed Budget
6. Santa Clara Golf and Tennis Club FY2019/20 Budget
7. FY 2019/20 and FY 2020/21 Proposed Operating Budget Replacement Pages