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Title:	Public Hearing: Action on the Adoption of the Proposed FY 2020/21 & FY 2021/22 Biennial Capital Improvement Program Budget and FY 2020/21 Operating Budget Changes [Council Pillar: Enhance Community Engagement and Transparency]		
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Date	Ver.	Action By	Action	Result
6/23/2020	1	Council and Authorities Concurrent Meeting	Approved	Pass
6/23/2020	1	Council and Authorities Concurrent Meeting	Approved	Pass

REPORT TO COUNCIL

SUBJECT

Public Hearing: Action on the Adoption of the Proposed FY 2020/21 & FY 2021/22 Biennial Capital Improvement Program Budget and FY 2020/21 Operating Budget Changes [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 January 30 and January 31, the City Council held a Priority Setting Session, in which the following City Council Strategic Pillars were validated:

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

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As part of the Council Priority Setting, the City Council also adopted FY 2020/21 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 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 2020/21 Adopted Operating Budget are also included.

Study sessions were held on May 12, 2020 and June 9, 2020 to allow the City Council and public to review and provide input on the Proposed FY 2020/21 and FY 2021/22 Biennial Capital Improvement Program Budget and FY 2020/21 Operating Budget Adjustments. The June 9, 2020 study session and Council report also included follow-up from the May 12, 2020 study session.

As required by California Government Code Section 65401, the FY 2020/21 & FY 2021/22 Biennial Capital Improvement Program Budget was reviewed and approved by the Planning Commission (Commission) for conformity with the City of Santa Clara 2010-2035 General Plan at their June 10, 2020 meeting.

DISCUSSION

City Charter Section 1303 Budget - Public Hearing, requires that the City Council shall hold a public hearing on the proposed budget, at which interested parties shall be given an opportunity to be heard. A Public Hearing is scheduled for the purpose of taking public input on Council adoption of the Proposed FY 2020/21 & FY 2021/22 Biennial Capital Improvement Program Budget, FY 2020/21 Operating Budget Changes, and Budget and Fiscal Policies as amended, including the Housing Authority and Sports and Open Space Authority budgets.

A copy of the Proposed Budget is available for review in the City Clerk's Office and on the City's website at <http://santaclaraca.gov/finance>. The Proposed Budget is also included as Attachment 1 to this document.

In addition, the City is required to calculate the expenditure appropriation limit from tax proceeds to determine compliance with Propositions 4 (Gann Initiative) and 111 (Spending Limitation Act of 1990). The City's GANN Appropriations limit is included as a separate report for Council action. As stated in this companion report, the City's Proposed Budget is in compliance with the GANN Appropriations limit.

Budget Overview

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.

This budget is being presented during a time of unprecedented uncertainty and while both a global public health and economic crisis take place. While the focus of this budget is on capital improvements, there are operating budget adjustments that are necessary to address the projected drop in revenues associated with COVID-19.

The global pandemic has suddenly altered the trajectory of the economy and the long-lasting impacts

are yet to be fully known, but they already have been significant for residents and the economy. The organization must continue to plan for the impacts to the City. High-level budget balancing strategies are outlined in the *Transmittal Letter* of the Proposed Budget and additional detailed budget actions will be brought forward during FY 2020/21 to implement those strategies.

FY 2020/21 Total Budget

With the recommended amendments to the Proposed Budget, the FY 2020/21 Budget totals $1.2 billion, which is consistent with the FY 2019/20 Adopted Budget as shown in the table below. This figure includes adjustments for transfers, contributions and reserves to avoid double counting of the same funds (e.g. internal service funds are excluded).

City of Santa Clara Annual Budget		
Fund Type	**FY 2019/20 Budget**	**FY 2020/21 Budget**
General Fund	262,904,910	285,968,205
Special Revenue Funds	29,248,422	22,709,200
Enterprise Funds	652,028,906	693,847,310
Internal Service Funds	35,767,831	37,533,057
Debt/Other*	74,536,674	17,254,022
Less (Transfers, Contribu and Reserves)*	(209,783,877)	(228,281,944)
Subtotal Operating Bud	**844,702,866**	**829,029,850**
Capital Funds	339,560,757	338,187,422
Total Budget	**1,184,263,623**	**1,167,217,272**

Biennial Capital Budget

With the recommended amendments to the Proposed Budget, the Biennial Capital Budget totals $475.5 million and the Five-Year Capital Improvement Program (CIP) totals $705.3 million.

Following is a breakdown of the capital budget by theme:

Theme	**2020/21 Budget**	**2021/22 Budget**	**Five-Year CIP**
Administrative Facilities	7,557,349	335,000	7,892,349
Community Facilities	1,498,616	0	1,498,616
Convention Center	8,296,707	0	8,296,707
Electric Utility	157,579,972	59,163,653	291,092,617
Other Community Projects	5,776,399	5,512,432	31,789,840
Parks and Trails	16,465,063	11,914,248	36,535,011
Sewer Utility	64,168,620	34,002,842	171,297,682
Solid Waste	1,032,000	623,700	3,720,225
Storm Drain	9,750,899	339,000	10,389,899
Technology and Equipment	8,624,799	1,464,310	13,430,393

Transportation	47,776,998	17,650,313	98,974,141
Water and Recycled Water Utilities	9,660,000	6,335,000	30,423,029
TOTAL	**338,187,422**	**137,340,498**	**705,340,509**

Consistent with the City Council pillar to enhance transparency, this capital budget is restructured to provide the Council and public with a better representation of City funds and spending. This document includes enhanced budget and fiscal policies, comprehensive budgetary financial statements, capital overviews by theme with alignment to the Council priorities, and summaries of this information through new key graphs and charts. Similar to the changes to the Biennial Operating Budget last year, this reset continues the broader effort to set a foundation for long-term financial sustainability of our organization.

Capital Highlights

Of the $705.3 million CIP, $496.5 million (70%) funds capital projects for the City's utilities and the remaining $208.8 million (30%) fund improvements to the parks, trails, libraries, transportation system, storm system, and other City facilities.

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 ($1.0 million), Repairs-Modifications to City Buildings ($300,000), and Public Building Parking Lot Improvements ($250,000);
- **Community Facilities** -Electronic Access for Meeting Rooms ($576,000), Sarah E. Fox Memorial Mausoleum Repairs ($300,000), and Bowers Roof Replacement ($131,000);
- **Convention Center** - no additional funding programmed; work will continue on projects funded in FY 2019/20;
- **Electric Utility** - Major Engine Overhaul and Repair ($21.3 million), Esperanca Substation ($18.9 million), Homestead Substation Rebuild ($18.6 million), Laurelwood Substation ($15.3 million), Renewable Energy Microgrid ($4.3 million), and Electric Vehicle Charging ($4.0 million);
- **Other Community Projects** - Downtown Master Plan Implementation ($1.8 million), and Downtown Master Plan ($100,000);
- **Parks and Trails** - Park Playground Rehabilitation (various parks - $9.8 million), Community Park North - Phase I ($5.0 million), Saratoga Creek Trail (Homeridge Park to Central Park) ($2.0 million), Annual Creek Trail Rehabilitation ($940,000), and Mission Library Gazebo ($200,000);
- **Sewer Utility** - San Jose-Santa Clara Regional Wastewater Facility ($110.4 million), Sanitary Sewer Capacity Improvements ($16.1 million), and Sanitary Sewer System Improvements ($13.3 million);
- **Solid Waste** - Sanitary Landfill Development - Post Closure ($3.6 million);
- **Storm Drain** - Laurelwood Pump Station Rehabilitation ($3.2 million), Urban Runoff Pollution Prevention Program ($750,000), Storm Drain Slide Gate Rehabilitation ($390,000), and Lafayette Street Underpass at Subway Pump Station ($200,000);
- **Technology and Equipment** - Protective Equipment Replacement (Fire) ($1.2 million), FHRMS Update Project ($550,000), Agenda and Document Management Systems ($500,000), and Permit Information System ($204,400);
- **Transportation** - Annual Street Maintenance and Pavement Rehabilitation ($33.9 million), Public Right-of-Way ADA Improvements ($10.8 million), Pedestrian and Bicycle Enhancement

Facilities ($5.0 million), and Uncontrolled Crosswalks and Improvements ($2.7 million); and

- **Water and Recycled Water Utilities** - Distribution System Replacement/ Restoration ($10.6 million), New and Replacement Wells ($8.0 million), and SCADA Improvements ($4.0 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 chart below identifies unfunded projects of approximately $300 million that were itemized as part of this CIP process.

Theme	Unfunded Projects
Administrative Facilities	$57.4 M
Community Facilities	$20.6 M
Convention Center	$11.9 M
Parks and Trails	$104.5 M
Storm Drain	$23.8 M
Technology and Equipment	$5.2 M
Transportation	$76.0 M
TOTAL	**$299.4 M**

The unfunded projects identified in this Proposed Budget represent only a portion of the unmet/deferred infrastructure needs in the City. There is close to $1.0 billion of identified capital needs, including those identified in the parks assessment (Kitchell Report), the Storm Drain Master Plan, the Creek Trail Plan, the Bicycle Plan, as well as the unmet needs for the International Swim Center, pavement, transportation infrastructure, the City Hall facility, fire stations, historic buildings, the cemetery, corporation yard, ADA improvements, and expanded facility capacity (e.g., library).

To address these needs, a capital revenue source is needed. This could include a bond measure and/or a parcel tax measure in the future. Polling for a potential bond measure as part of the November 2020 ballot, with delayed implementation, is underway.

FY 2020/21 Adopted Operating Budget Amendments

The City Council approved the FY 2019/20 and FY 2020/21 Biennial Operating Budget on June 25, 2019. While this year's budget is focused on the capital budget, several budget amendments to the FY 2020/21 Adopted Operating Budget are necessary to reflect the updated General Fund revenue estimates, address the General Fund shortfall, make adjustments to account for updated labor and non-personnel costs in the General Fund and other funds, and make adjustments to revenues in other funds.

General Fund Budget Balancing Strategy

The *Transmittal Letter* provides the high-level strategy that will be used to balance the FY 2020/21 budget due to the impact of COVID-19. The table below summarizes the estimated General Fund deficits and the approach to resolve these in the proposed budget.

	FY 2019/20	FY 2020/21
Deficit Amount	**($10 million)**	**($22.7 million)**

This situation is not unique to Santa Clara: local governments across California and throughout the U.S. are facing similar deficits resulting from the impacts of COVID-19. These estimates are based on the current information that we have available and there remains uncertainty with the economic forecast. Further, since we still do not know the long-lasting impacts of COVID-19 or whether full economic recovery will happen when the State of California begins to re-open based on the Governor's framework.

We have already taken actions to reduce costs while trying to minimize the effects on level of public services. To date, we have implemented:

- Hiring freeze, with limited exceptions
- Stricter expenditure controls
- Decreased approximately 50% of temporary staffing
- Limited travel
- Limited training
- Reduced expenditures for IT
- Reduced expenditures for vehicle/fleet purchases
- Evaluating current contracts and other non-personnel expenditures

Understandably, due to the COVID-19 fiscal consequences, our priorities have shifted. Where we were once focused on growth strategies and strategic addition of resources for expanded services, we are now focused to strategic decisions of maintaining service levels.

Because a balanced budget is needed to for the July 1 start to the fiscal year, the use $22.7 million from the Budget Stabilization Reserve is recommended as an interim strategy until further analysis can be completed to close the deficit on an ongoing basis. These budget balancing actions will be brought forward in September 2020, with a subsequent check-in in December 2020 should revenue measures be placed on the November 2020 ballot.

The plan is to address the shortfall with a combination of the following:

- Ongoing expenditure reductions
- One-time savings from cost control measures
- Potential ballot measures and other revenue generating actions
- Potential labor negotiations (subject to meet and confer)

Over the coming months, we will bring forward addition budget reductions to resolve our estimated deficits, which ***may*** include:

- Reduced parks and recreation programming
- Fewer library hours and/or programming
- Longer planning, code enforcement, and public safety response times
- Fewer community events and grants
- Reduced or deferred capital infrastructure maintenance
- Less administrative staff to support quick public service

- Reduced programs
- Potential layoffs

Recommended Changes to the Proposed Budget

A number of changes are recommended to the Proposed Budget as itemized in Attachment 2, including the following:
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- **Capital Project Carryovers**: The carryover of capital funds from FY 2019/20 to FY 2020/21 to complete capital projects totals $189.8 million.

- **Other Adjustments:** Other adjustments are recommended to account for changes that have occurred since the release of the Proposed Budget or to reflect updated information. Some of these actions include the alignment of the Housing and Urban Development Fund budget to the final FY 2020/21 Annual Action Plan approved by the City Council; the recognition and budgeting of a developer contribution for the Laurelwood Substation Project; the rebudgeting of operating funds in the General Fund for specific projects, such as the City Attorney's Office legal management software and parks equipment for the new sports park and Raymond G. Gamma Dog Park; the carryover of funding in the Solid Waste Fund to support the Clean Up Campaign that was postponed to August 2020, and adjusted revenue estimates for gas tax and SB1 proceeds.

FY 2020/21 Budget - September/December 2020 Revisions

As discussed above, the budget is proposed to be initially balanced with the use of the Budget Stabilization Reserve and ongoing budget reductions will be brought forward for City Council consideration in September and potentially December 2020.

Housing Authority Proposed Budget

The FY 2020/21 Budget recommends total expenses of $552,222 for the Housing Authority Fund. The 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.

Sports and Open Space Authority Budget

The Sports and Open Space Authority Budget totals $9,540 in FY 2020/21 as shown in Attachment 2 to this memorandum. The purpose of the Sports and Open Space Authority is to support the acquisition and preservation of open space within the City and the development of local sports.

Budget and Fiscal Policies Revisions

The Budget and Fiscal Policies were added in the FY 2019/2020 and FY 2020/21 Biennial Operating Budget and formally adopted by the City Council. Revisions are recommended to these policies to provide additional clarification in areas such as reserves and capital planning and budgeting. These proposed changes are outlined in Attachment 5.

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.

FISCAL IMPACT

With the recommended adjustments to the Proposed Budget detailed in Attachment 2, the Biennial Capital Budget totals $338.2 million in FY 2020/21 and $137.3 million in FY 2021/22 and the five-year Capital Improvement Program totals $705.3 million. The Operating Budget for FY 2020/21 is $1.1 billion (including Transfers, Contributions and Reserves).

Given the significant impacts from COVID-19, the FY 2020/21 General Fund budget is balanced using $22.7 million from the Budget Stabilization Reserve. As discussed above, high level budget balancing strategies are outlined in the *Transmittal Letter* of the Proposed Budget and additional detailed budget actions will be brought forward during FY 2020/21 to implement those strategies.

Because the City Council policy for the Budget Stabilization Reserve is set at 25%, an exception to this policy is recommended as part of the adoption of the budget. Based on the proposed General Fund budget of $285.8 million, a reserve of $71.5 million is required based on the Council Policy. The Budget Stabilization Reserve is projected to drop from $80.4 million to $57.7 million, or 20% 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, or email clerk@santaclaraca.gov <mailto:clerk@santaclaraca.gov>.

RECOMMENDATION

That the City Council, and the City Council acting as the Governing Boards of the Housing Authority and the Sports and Open Space Authority take the following actions (requires 5 affirmative votes):

1. Approve the City of Santa Clara FY 2020/21 & FY 2021/22 Biennial Capital Improvement Program Budget and FY 2020/21 Operating Budget Changes, including the recommended revisions detailed in Attachment 2;
2. Approve the Appropriation Schedule for capital funds totaling $338,187,422 in FY 2020/21 and $137,340,498 in FY 2021/22 and the FY 2020/21 Appropriation Schedule for operating funds totaling $1,057,311,794 as detailed in Attachment 3;
3. Approve the FY 2020/21 Transfer Schedule for capital and operating funds and the FY 2021/22 Transfer Schedule for capital funds as detailed in Attachment 4;
4. Approve the Housing Authority FY 2020/21 expenditure budget of $552,222 as presented in the Operating Budget;
5. Approve the Sports and Open Space Authority FY 2020/21 expenditure budget of $9,540 as described in Attachment 2;

6. Approve the revised Budget and Fiscal Policies as described in Attachment 5; and
7. Approve an exception to the Budget and Fiscal Policies and allow the FY 2020/21 Budget Stabilization Reserve to drop below 25% of the Operating Budget expenditures to 20%, drawing down the reserve by $22,659,619 from $80,369,307 to $57,709,688.

Reviewed by: Kenn Lee, Director of Finance
Approved by: Deanna J. Santana, City Manager

ATTACHMENTS

1. FY 2020/21 & FY 2021/22 Proposed Biennial Capital Improvement Program Budget and FY 2020/21 Operating Budget Changes
2. Revisions to the FY 2020/21 Budget Including Carryover of CIP Funds and Other Budget Adjustments
3. FY 2020/21 and FY 2021/22 Appropriation Schedules
4. FY 2020/21 and FY 2021/22 Transfer Schedules
5. Revised Budget and Fiscal Policies