



Agenda Report

20-174

Agenda Date: 6/9/2020

REPORT TO COUNCIL

SUBJECT

Study Session: Review 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

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.

On May 12, 2020 the first study session was held 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.

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.

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.

Total Budget Overview

The FY 2020/21 Proposed Budget totals \$972.1 million. This budget figure includes adjustments for transfers, contributions and reserves to avoid double counting of the same funds (e.g. internal service funds are excluded). The FY 2020/21 Proposed Budget is below the FY 2019/20 Adopted Budget of \$1.18 billion primarily because the carryover of funds from FY 2019/20 to FY 2020/21 has not yet been factored into the budget. The table below summarizes the total adopted budgets by fund group.

City of Santa Clara Annual Budget		
Fund Type	FY 2019/20 Adopted Budget	FY 2020/21 Proposed Budget
General Fund	262,904,910	285,758,755
Special Revenue Funds	29,248,422	20,474,387
Enterprise Funds	652,028,906	691,971,182
Internal Service Funds	35,767,831	37,533,057
Debt/Other	74,536,674	17,254,022
Less (Transfers, Contributions and Reserves)	(209,783,877)	(228,281,944)
Subtotal Operating Budget	844,702,866	824,709,459
Capital Funds	339,560,757	147,360,699
Total Budget	1,184,263,623	972,070,158

Biennial Capital Budget

The Proposed Biennial Capital Budget totals \$284.7 and the Five-Year Capital Improvement Program (CIP) totals \$514.5 million. 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.

Following is a breakdown of the capital budget by theme:

Theme	2020/21 Budget	2021/22 Budget	Five-Year CIP
Administrative Facilities	1,745,000	335,000	2,080,000
Community Facilities	1,006,880	0	1,006,880
Convention Center	0	0	0
Electric Utility	57,997,602	59,163,653	191,510,247
Other Community Projects	5,726,797	5,512,432	31,740,238
Parks and Trails	4,764,800	11,914,248	24,834,748
Sewer Utility	41,370,152	34,002,842	148,499,214
Solid Waste	882,000	623,700	3,570,225
Storm Drain	4,190,000	339,000	4,829,000
Technology and Equipment	2,341,401	1,464,310	7,146,995
Transportation	22,176,067	17,650,313	73,373,210
Water and Recycled Water Utilities	5,160,000	6,335,000	25,923,029
TOTAL	147,360,699	137,340,498	514,513,786

Capital Highlights

Of the \$514.5 million CIP, \$369.5 million (72%) funds capital projects for the City's utilities and the remaining \$145.0 million (28%) 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 for the July 1 start to the fiscal year, the use of \$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 additional 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

FY 2020/21 Potential Budget Amendment - Small Business Assistance Program

In response to COVID-19, the City has implemented a Small Business Assistance Grant Program to provide aid to businesses impacted by the business closures. The funding for this program of \$800,000 has been quickly depleted. An additional \$300,000 is being brought forward for City Council consideration on May 26, 2020 from current year savings. Any additional funding in FY 2020/21 would be provided through the use of the Budget Stabilization Reserve.

In addition, staff is pursuing a donation program that would invite big businesses and developers to contribute. Any funds collected through this donation program would also be available to support small businesses.

FY 2020/21 Budget Adoption and September/December 2020 Revisions

Following the Proposed Budget Study Sessions on May 12, 2020 and June 9, 2020, the budget will be brought forward for final approval on June 23, 2020.

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

Follow-Up from the City Council Study Session on May 12, 2020

At the first Proposed Budget Study Session on May 12, 2020, there were a number of questions from the City Council and public. Responses to those questions are provided in Attachment 2.

Information is included on the following:

1. Building improvements to address COVID-19 safety precautions
2. Anticipated development projects that would generate park mitigation fees
3. Top 10 priorities for capital projects supported by the General Fund
4. Utility rates for FY 2020/21
5. Morse Mansion use and funding
6. High bandwidth internet capacity

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

The FY 2020/21 and FY 2021/22 Proposed Biennial Capital Budget totals \$147.4 million and \$137.3 million, respectively, and the five-year Capital Improvement Program totals \$514.5 million. The Proposed Operating Budget for FY 2020/21 is \$824.7 million. The combined proposed capital and operating budgets for FY 2020/21 totals \$972.1 million.

Given the significant impacts from COVID-19, the FY 2020/21 proposed 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%, exception to this policy or amendment will be required as part of the adoption of the budget on June 23, 2020. 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 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

Review and provide input on the Proposed FY 2020/21 & FY 2021/22 Biennial Capital Improvement Program Budget and FY 2020/21 Operating Budget Changes.

Reviewed by: Kenn Lee, Finance Director

Approved by: Deanna J. Santana, City Manager

ATTACHMENTS

1. FY 2020/21 & FY 2021/22 Biennial Capital Improvement Program Budget and FY 2020/21 Operating Budget Changes
2. Supplemental Information - Responses to Questions from the May 12, 2020 City Council Study Session