



Agenda Report

18-277

Agenda Date: 6/12/2018

REPORT TO COUNCIL

SUBJECT

Public Hearing: Consideration of the City of Santa Clara's Annual Operating Budget, Biennial Capital Improvement Program (CIP) Budget, and Ten-Year Financial Plan

BACKGROUND

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, and the Budget Principles were adopted. The pillars are as follows:

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

These were the guiding priorities and principles that departments were directed to follow during the budget preparation and which were incorporated into the Proposed 2018/19 Annual Operating Budget and the Proposed 2018/19 & 2019/20 Biennial CIP Budget. 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.

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 compliance with the Charter, the Proposed 2018/19 & 2019/20 Biennial Capital Improvement Program (CIP) Budget was presented to the City Council at a Study Session held on May 9, 2018 and the Proposed 2018/19 Annual Operating Budget was presented to the City Council at a Study Session held on May 22, 2018. These study sessions were held to seek Council and public input on the Proposed Annual Operating and Proposed CIP budgets prior to requesting the Council to take action in approving the proposed budgets.

As required by California Government Code Section 65401, the CIP budget was approved by the Planning Commission (Commission) at their May 23, 2018 meeting. The proposed CIP, with the exception of the Morse Mansion Rehabilitation project (CIP 539-6558), was found to be consistent with the City's General Plan. The Planning Commission found that the Morse Mansion Rehabilitation project was not consistent with the General Plan major strategy to maintain the City's Fiscal Health and Quality Services (please see Attachment 1 for further details on this item). A total of \$100,000 is

budgeted for immediate repair and maintenance needs in 2018/19 & 2019/20; however, the Commission was concerned about the long-term obligation of \$2.0 million in 2022/23 to restore and repair the mansion. The Commission's report is advisory in nature; therefore the project was not eliminated from the proposed CIP budget.

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 following proposed budgets:

- City of Santa Clara 2018/19 Annual Operating Budget (Attachment 2)
- City of Santa Clara 2018/19 & 2019/20 Biennial Capital Improvement Program Budget (Attachment 3)
- 2018/19 Sports and Open Space Authority Budget (included in the Annual Operating Budget p. 31-1)
- 2018/19 Housing Authority Budget (included in the Annual Operating Budget p. 20-1)

Copies of the proposed budgets are available for review on the City's website at <http://santaclaraca.gov/finance>, in the City Clerk's Office, and the City's libraries during normal business hours.

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.

2018/19 Annual Operating Budget

The FY 2018/19 Annual Operating 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 total operating budget for FY 2018/19 of \$860.9 million represents an increase of \$1.4 million when compared to the \$859.5 million presented to the City Council on May 22, 2018 (as shown in Table 1).

Table 1
Changes to the Proposed Annual Operating Budget Presented on May 22nd

Fund	2018/19 Initial Proposed Budget	2018/19 Final Proposed Budget	Increase* (Decrease)	Percent Change
General Funds (w/Debt)	\$ 250,102,186	\$ 250,467,323	\$ 365,137	0.14 %
Special Revenue Funds	13,578,142	14,636,231	1,058,089	7.8 %
Enterprise Funds	578,291,115	578,299,220	8,105	0.0 %
Internal Service Funds	17,492,612	17,493,831	1,219	0.0 %
Total Annual Operating Budget	<u>859,464,055</u>	<u>860,896,605</u>	<u>1,432,550</u>	<u>0.17 %</u>

The increase of \$1.4 million is primarily due to the following:

- General Fund increase of \$365,137:
 - \$200,000 increase for development impact/art fee studies to be funded from the Budget Stabilization Reserve
 - \$165,137 increase in the new janitorial services contract that was approved by the City Council on June 12, 2018 (Agenda Item 18-228); to be funded by transfers from the Non-General fund programs that receive these services and the Budget Stabilization Reserve
- Enterprise Fund increase of \$8,105 in transfers-out for janitorial services
- Internal Service Funds increase of \$1,219 in transfers-out for janitorial services
- Housing and Urban Development (HUD) increase of \$1,058,089, primarily due to an increase in program expenses (affordable rental housing, TBRA, NCIP, CDBG public service agency, and Community Housing Development Organization); this increase is funded from prior year CDBG and HOME funds, and an increase of \$210,328 in the final CDBG and HOME grant allocations

A detailed summary of changes from the total operating budget for FY 2018/19 of \$860.9 million as presented to the City Council on May 22, 2018 can be found in Attachment 4.

The FY 2018/19 Proposed Operating Budget of approximately \$860.9 million represents an increase of \$131.8 million, or 18.1% compared to the FY 2017/18 Adopted Annual Operating Budget primarily due to rising personnel costs, reclassifying 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 2).

Table 2
Total Annual Operating Budget by Fund Group

Fund	2017/18 Budget	2018/19 Budget	Increase* (Decrease)	Percent Change
General Funds (w/Debt)	\$ 221,654,487	\$ 250,467,323	\$ 28,812,836	13.0 %
Special Revenue Funds	7,157,755	14,636,231	7,478,476	104.4 %
Enterprise Funds	484,488,224	578,299,220	93,810,996	19.4 %
Internal Service Funds	15,755,567	17,493,831	1,738,264	11.0 %
Total Annual Operating Budget	729,056,033	860,896,605	131,840,572	18.1 %

*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

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Key highlights to the 2018/19 Proposed Annual Operating Budget are outlined in the following table:

Table 3 - 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	Convention Center - includes removing the management fee of 2% of budgeted revenue in the amount of \$150,573 for the Convention Center and moving those funds to a Reserve in the Convention Center Enterprise Fund

The FY 2018/19 Proposed 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 ("BSR," formerly known as the Working Capital Reserve). It is recommended that the Council adopt a resolution to rename the Working Capital Reserve to Budget Stabilization Reserve (Attachment 5). The BSR 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 should be set at \$59.3 million, which is adjusted upward to reflect an increase in budgeted 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.

Ten-Year Financial Plan

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 (Attachment 6) 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.

2018/19 & 2019/20 Biennial Capital Improvement Program (CIP)

The FY 2018/19 & 2019/20 Proposed Biennial CIP Budget is a planning document covering a five-year period that includes project descriptions and funding requirements for projects planned for

completion during the five-year time period. Changes to existing projects as well as the addition of new projects may occur during the five-year planning period as new needs are identified that require attention and the allocation of resources.

The Proposed Biennial CIP budget for FY 2018/19 of \$84.0 million represents an increase of approximately \$0.5 million when compared to the \$83.5 million presented to the City Council on May 8, 2018 (as shown in Table 4).

Table 4
Changes to the Proposed Biennial CIP Budget Presented on May 8th

Fund	2018/19 Initial Proposed Budget*	2018/19 Final Proposed Budget*	Increase (Decrease)	Percent Change
General Government Funds	\$ 11,767,905	\$ 11,942,905	\$ 175,000	1.5 %
Streets & Highways Fund	9,773,440	10,052,654	279,214	2.9 %
Enterprise Funds	61,997,086	61,997,086	0	0.0 %
Total CIP Budget	83,538,431	83,992,645	454,214	0.5 %

*does not include prior year carryover

The increase of approximately \$0.5 million can be attributed to the following:

- Adjustment to the Pedestrian Master Plan project (1233) to move 2017/18 carryover of \$279,214 to 2018/19 as a new project budget appropriation
- An increase of \$175,000 to the Park Improvements project (3001) for the repair and maintenance of the lawn bowling facility at Central Park per Council direction at the May 22, 2018 Operating Budget Study Session

At the May 22, 2018 meeting, Council inquired about the cost of rehabilitating the International Swim Center restrooms. Staff is currently assessing this project and will return to Council at a later date with their recommendation.

In addition, the estimated 2017/18 carryforward balance increased by \$1.4 million as described below:

- Increase of \$414,276 from re-opening CIP projects that were originally anticipated to close in 2017/18 to be used for widening improvements on San Tomas Expressway (6/12/18 Agenda Item 18-430). These re-opened projects will be using existing carryover funds from Developer Contributions and Traffic Mitigation Fees.
- Increase of \$1,013,476 from re-opening the Public Benefits Program project (2125) for various public benefits such as solar installer walk-throughs

The Proposed Biennial CIP Budget totals \$216.4 million for FY 2018/19 & FY 2019/20 and a total of \$510.3 million (before 2017/18 carryforwards) over the five-year period. Staff is estimating that there will be an additional \$137.7 million carried forward from 2017/18 for projects that are in process but not yet completed at year-end.

Table 5
FY 2018./19 & 2019/20 Biennial CIP Budget

Fund	2017/18 Estimated Carryover	2018/19 Final Proposed Budget	2019/20 Final Proposed Budget	2018/19 & 2019/20 Total*
General Government Funds	\$ 28,623,249	\$ 11,942,905	\$ 9,073,991	\$ 21,016,896
Streets & Highways Fund	17,793,106	10,052,654	16,510,048	26,562,702
Enterprise Funds	91,326,952	61,997,086	106,822,830	168,819,916
Total CIP Budget	137,743,307	83,992,645	132,406,869	216,399,514
*does not include prior year carryover				

The Proposed CIP Budget is made up of 204 active projects (includes 34 new projects). The budget focuses on completing projects approved in prior capital budget cycles and placing the highest priority on projects that address any safety issues and serious deferred maintenance needs that can no longer be delayed. The program addresses the various long-term capital needs such as improving water, wastewater, and electric infrastructure, and parks and recreation improvements.

The budget includes \$5.7 million (FY 2018/19: \$3.4 M, FY 2019/20: \$2.3 M) in City-wide information technology projects such as computer and network equipment replacement, CAD upgrade, and video conferencing for the Fire department. In addition, \$11.3 million is budgeted over the two year planning period to fund the Annual Street Maintenance and Rehabilitation Program.

Additionally, to this report are the submitted budgets for the Convention Visitors Bureau (Attachment 7), the Santa Clara Convention Center (Attachment 8), and the Santa Clara Golf and Tennis Club (Attachment 9). These budgets are incorporated in the City's Proposed Budget as amended with this staff report.

FISCAL IMPACT

The proposed budget documents plus all adjustments detailed in the "Summary of Changes to Proposed Budget" has the following fiscal impact:

- FY 2018/19 Annual Operating Budget of \$860.9 million
- FY 2018/19 & FY 2019/20 Biennial Capital Improvement Program Budget of \$216.4 million
- Estimated 2017/18 CIP Carryforward of \$137.7 million

COORDINATION

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

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.

PUBLIC CONTACT

On May 30, 2018 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 and Housing Authority, take the following actions:

- 1) Approve the City of Santa Clara FY 2018/19 Annual Operating Budget of \$860,896,605 (including the adjustments as noted in the Summary of Changes to Proposed Budget detailed in Attachment 4);
- 2) Approve the City of Santa Clara FY 2018/19 & FY 2019/20 Biennial Capital Improvement Program Budget of \$216,399,514 (including the adjustments as noted in the Summary of Changes to Proposed Budget detailed in Attachment 4), and the 2017/18 estimated CIP carryover of \$137,743,307;
- 3) Approve the Housing Authority 2018/19 Budget of \$288,989 (amount is included in the City's Operating Budget);
- 4) Approve the Sports and Open Space Authority 2018/19 Budget of \$2,557,729 (amount is included in the City's Operating Budget);
- 5) Approve the 2019/20 through 2028/29 Ten-Year Financial Plan; and
- 6) Approve the Resolution changing the name of the Working Capital Reserve to the Budget Stabilization Reserve

Reviewed by: Angela Kraetsch, Director of Finance

Approved by: Deanna J. Santana, City Manager

ATTACHMENTS

1. Planning Commission Resolution 18-017
2. FY 2018/19 Annual Operating Budget
3. FY 2018/19 & FY 2019/20 Biennial Capital Improvement Program Budget
4. Summary of Changes to Proposed Budget (Attachments A through M)
5. Resolution changing the name of the Working Capital Reserve to the Budget Stabilization Reserve
6. 2019/20 through 2028/29 Ten-Year Financial Plan
7. Convention Visitors Bureau 2018-19 Budget as submitted
8. SCCC (Santa Clara Convention Center) 2018/19 Convention Center Budget as submitted
9. SCGTC (Santa Clara Golf and Tennis Club) FY2018-2019 Budget as submitted