Meeting Date: 04-27-10

AGENDA REPORT

City of Santa Clara, California

Agenda Item # 6C

Santa Clara All-America City 2001

Date: April 20, 2010

To: City Manager for Council Action

From: Director of Finance

Subject: Recommendation Regarding Budget Principles for 2010-11

EXECUTIVE SUMMARY:

During last year's Joint Public Hearing to Adopt the City's budgets on June 9, 2009, the City Council with the Sports and Open Space Authority and the Redevelopment Agency, also adopted Budget Principles for 2009-10. Those Budget Principles were included with the 2009-10 Adopted Budget and published in the City's Operating Budget.

Four of the prior year's fifteen Budget Principles are recommended for modification for the year 2010-11. One new Budget Principle is proposed to be added for 2010-11.

Budget Principles for 2009-10:

- The City will need time to execute its strategy to negotiate through the severe recession of 2008-09, as well as a period of time for gradual recovery.
- Any reduction of permanent positions will be through attrition, retirement, with avoidance of layoffs as a goal.
- Strong efforts will be made to balance the budget and to minimize the use of emergency reserves during the recession. The City recognizes it will need to make a conscious decision to use some of the City's reserves during the current 5 Year Financial Plan.
- Complete a long-range plan to increase certain fees which reduce subsidy from the General Fund while maintaining the City's low-fee structure.

Modified Budget Principles for 2010-11:

- Implement a three-year strategy to bring ongoing revenues and expenditures into balance, recognizing that the City's General Fund has a structural deficit and that the use of one-time monies is only a temporary solution.
- Any necessary reduction in permanent positions will be accomplished first through attrition and retirements, with layoffs used only as a last resort.
- The City recognizes that the implementation of strategies to resolve the structural deficit may take time requiring short-term solutions until ongoing savings associated with structural changes are realized.
- Establish fees based on full cost recovery where individuals/businesses rather than the community at-large are benefiting from City services. This preserves limited unrestricted resources for providing services that benefit the community as a whole.

New Budget Principle for 2010-11:

- Since the City's General Fund Emergency Reserves and Capital Project Reserves are at historically low levels, the use of reserves does not provide a viable solution to the revenue/expenditure gap.

ADVANTAGES AND DISADVANTAGES OF ISSUE:

The advantage to adopting Budget Principles is the clarity and direction these principles communicate to Santa Clara's residents and other stakeholders. The Budget Principles also provide clear indication of budget priorities and direction to Staff.

The budget principles are consistent with the City's Code of Ethics and Values, especially in terms of fiscal responsibility, communicative and service-oriented. There are no disadvantages to adopting Budget Principles.

ECONOMIC/FISCAL IMPACT:

The annual review and revision of Budget Principles is evidence of the City's conscious and pro-active management in continually re-evaluating priorities for operating and capital needs of the City. These budget principles clearly articulate the City's financial management strategies. Rating agencies (e.g., Moody's, Standard &Poor's, and Fitch) review the City's long term strategies and measure success in relation to the Budget Principles. This can have an impact on the City's access to capital markets.

RECOMMENDATION:

That the Council adopt the Budget Principles for 2010-11 and refer to the City Manager for implementation during the fiscal year 2010-11.

Gary Ameling
Director of Finance

APPROVED:

Jennifer Sparacino
City Manager

Documents Related to this Report:
1) Budget Principles 2010-11

Attachment 1

Budget Principles for 2010-11

- Budget decisions will be made with long-term implications taken into account, using data from the Five Year Financial Plan.
- Value of fiscal responsibility will be used as a guide for decisions.
- Focus on benefit to community as a whole.
- Inform residents, businesses and employees of challenges and the City's responses.
- Budget decisions will be made as a whole in context, with no special requests considered in isolation.
- Any necessary reduction in permanent positions will be accomplished first through attrition and retirements, with layoffs used only as a last resort.
- Implement a three-year strategy to bring ongoing revenues and expenditures into balance, recognizing that the City's General Fund has a structural deficit and that the use of one-time monies is only a temporary solution.
- Since the City's General Fund Emergency Reserves and Capital Project Reserves are at historically low levels, the use of reserves does not provide a viable solution to the revenue/expenditure gap.
- The City recognizes that the implementation of strategies to resolve the structural deficit may take time requiring short-term solutions until ongoing savings associated with structural changes are realized.
- As soon as possible, return to the Council policy to rebuild General Fund Contingency Reserves (Emergency Working Capital and Capital Projects) for the long-term financial health of the City.
- Reduce hours of operations where possible while maintaining essential service levels.
- Review options for consolidation of functions that reduce operational costs and improve efficiency.
- Capital Improvement Projects (CIP) that have significant continuing staffing, operational and maintenance costs will be evaluated for deferral/elimination.
- Consider delay in opening or phase in opening of new facilities.
- The perception of funding actions, as well as the fiscal impact, will be considered before expenditures are made.
- Establish fees based on full cost recovery where individuals/businesses rather than the community at-large are benefiting from City services. This preserves limited unrestricted resources for providing services that benefit the community as a whole.