Meeting Date: 3/27/12

### AGENDA REPORT

City of Santa Clara, California





Date:

March 21, 2012

To:

City Manager for Council Action

From:

Director of Finance

**Subject:** 

Special Order of Business: Adopt Budget Principles for 2012-13 and Refer to the City

Manager for Implementation During the Fiscal Year 2012-13

#### **EXECUTIVE SUMMARY:**

The City's Budget Principles were last updated as part of the 2011-12 budget process on April 19, 2011. Those Budget Principles were published in the City's Operating Budget document.

Six of the prior year's 18 Budget Principles are recommended for modification. No new Budget Principles are proposed to be added for 2012-13.

Over the last few years, several of the Budget Principles have provided direction on resolving the City's structural deficit (i.e., bringing ongoing revenues and expenditures into balance). The City implemented a three year strategy to implement a combination of one-time and ongoing changes to bring ongoing expenditures in line with ongoing revenues. Fiscal year 2012-13 was supposed to be the culmination of this three year effort. Due to the impact of the dissolution of the Redevelopment Agency and a change in actuarial assumptions by CalPERS affecting our pension rates, the City may need additional time to fully resolve the structural deficit.

Attached for the Council's review are "clean" and "redline" versions of the proposed Budget Principles for 2012-13. The redline version (Attachment 1) makes it easy to see the proposed changes.

#### **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.

City Manager for Council Action Adoption of Budget Principles for 2012-13 March 21, 2012 Page 2

#### **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 2012-13 and refer to the City Manager for implementation during the fiscal year 2012-13.

Gary Ameling

Director of Finance

APPROVED:

Jennifer Sparacino

City Manager

Documents Related to this Report:

- 1) Proposed Budget Principles for 2012-13(Redline Version)
- 2) Proposed Budget Principles for 2012-13 (Clean Version)



# **Budget Principles for 20142-123**

(As proposed to adopted by the City Council on AprilMarch 1927, 20112)



- 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.
- Team-based approach to identify and implement cost saving measures including input and participation from all major stakeholders.
- Pursue economic development objectives and strategies to foster new public and private investment within Santa Clara, and to create employment opportunities.
- Budget decisions will be made as a whole in context, with no special requests considered in isolation.
- Continue to discuss Meet with employee bargaining groups to discuss the subject of pension reform with employee bargaining groups through the collective bargaining process, including but not limited to the possibility of a 2nd tier retirement plan for future new hires.
- Any necessary reduction in permanent positions will be accomplished first through attrition and retirements, with layoffs used only as a last resort.
- Continue <u>and possibly extend the</u> implementation of a three-year strategy to bring ongoing revenues and expenditures into balance, recognizing that the City's General Fund has a structural deficit <u>that</u> <u>has now been exacerbated by the dissolution of the City's Redevelopment Agency</u> and that the use of one-time monies is only a temporary solution.
- Since the City's General Fund Emergency Reserves, Capital Project Reserves, and Utility Reserves continue to be at historically-low levels, the use of reserves does not provide a viable solution to the revenue/expenditure gap.
- <u>Although</u> ∓the City <u>has proactively addressed the structural deficit, it 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.</u>
- As soon as possible, return to the In accordance with Council policy, continue 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 as required while maintaining essential service levels.
- Review options for consolidation of functions that reduce operational costs and improve efficiency.

- Consider delay in opening or phase in opening of new facilities, particularly those Capital Improvement Projects (CIP) that have significant continuing staffing, operational and maintenance costs.
- The perception of funding actions, as well as the fiscal impact, will be considered before expenditures are made.
- <u>With limited exceptions, e</u>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.



## **Budget Principles for 2012-13**

Santa Clara
All-America City

(As proposed to the City Council on March 27, 2012)

- 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.
- Team-based approach to identify and implement cost saving measures including input and participation from all major stakeholders.
- Pursue economic development objectives and strategies to foster new public and private investment within Santa Clara, and to create employment opportunities.
- Budget decisions will be made as a whole in context, with no special requests considered in isolation.
- Continue to discuss the subject of pension reform with employee bargaining groups through the collective bargaining process, including but not limited to the possibility of a 2nd tier retirement plan for future new hires.
- Any necessary reduction in permanent positions will be accomplished first through attrition and retirements, with layoffs used only as a last resort.
- Continue and possibly extend the implementation of a three-year strategy to bring ongoing revenues and expenditures into balance, recognizing that the City's General Fund has a structural deficit that has now been exacerbated by the dissolution of the City's Redevelopment Agency and that the use of one-time monies is only a temporary solution.
- Since the City's General Fund Emergency Reserves, Capital Project Reserves, and Utility Reserves continue to be at low levels, the use of reserves does not provide a viable solution to the revenue/expenditure gap.
- Although the City has proactively addressed the structural deficit, it 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.
- In accordance with Council policy, continue 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 as required while maintaining essential service levels.
- Review options for consolidation of functions that reduce operational costs and improve efficiency.
- Consider delay in opening or phase in opening of new facilities, particularly those Capital Improvement Projects (CIP) that have significant continuing staffing, operational and maintenance costs.
- The perception of funding actions, as well as the fiscal impact, will be considered before expenditures are made.
- With limited exceptions, 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.