



Date: January 19-20, 2018

To: Honorable Mayor and City Council

From: City Manager, Deanna J. Santana

Subject: Overview of City Council Operational and Strategic Priority Setting Sessions

As I complete my first quarter with the City of Santa Clara, I continue to be impressed by the City Council's commitment and organization's resilience. I have spent the last few months observing and in dialogue with employees, stakeholders, and community in order to become more informed on our major accomplishment and opportunity areas. While still learning about various topics impacting Santa Clara, I look forward to spending two days with the City Council and executive staff to discuss and define operational and strategic priorities. I believe strongly that our highest priority and focus is remaining fiscally stable because, all of our public services depend on it and, without it, we cannot continue to provide our community with a broad range of quality services and maintain the high performing workforce that serves our City.

The goal of this Goal Setting Session (Session) is to create a shared understanding and realistic assessment about the state of the organization and City Council's policy priorities. Major outcomes of this Session include:

1. Review and discuss budget update, 10-year financial plan, staffing metrics and factors contributing to staff workload and organizational performance.
2. Review and discuss key operations and administrative priorities from each of the departments.
3. Review and assess current policy priorities (from January 2017), aligning them to staff workload, organizational capacity and upcoming projects and initiatives for 2018.

GOAL SETTING SESSION FACILITATOR

Mr. Shawn Spano will facilitate this strategic planning session. Mr. Spano has over 18 years of experience working with city government and public organizations. He is a specialist in designing and facilitating public forums, meetings, training workshops and off-site retreats with leaders, executive staff, elected officials, middle managers, commissions and boards, and local residents.

As background, Mr. Spano is a professor at San Jose State University where he teaches courses and conducts applied research in interpersonal and small group communication. He specializes in bridging social construction and dialogue theory with practical skills and tools that enable students to design and facilitate processes to improve communication in community, organizational and interpersonal contexts. Mr. Spano also serves as President of the Public Dialogue Consortium, a non-profit organization committed to fostering high quality communication in the public sphere, collaborative problem solving, appreciation for different perspectives, and common ground for action.

SESSION FRAMEWORK – Day 1 & Day 2

The Session is specifically designed so that the City Council can consider and, more importantly, align the process of goal setting to the City's fiscal condition, operational realities and priorities, and within the context of our existing strategic pillars:

1. Promote and Enhance Economic and Housing Development
2. Deliver and Enhance High Quality Efficient Services and Infrastructure
3. Enhance Community Sports and Recreational Assets
4. Enhance Community Engagement and Transparency
5. Ensure Compliance with Measure J and Manage Levi's Stadium
6. Ensure Adequate Staffing Levels

With this framework in mind, below is an overview of our two-day Session:

Day 1 will consist of a review of the state of the organization, City's current fiscal condition and presentation of a 10-Year financial plan, department reports of ongoing workload that requires dedicated capacity to continue work and strategic initiatives underway, and city-wide workforce trends and outlook. By the end of Day 1, the City Council will have current information about the status of our financial resources, workforce capacity/resources, and state of operations. This approach sets a strong contextual foundation for understanding the strengths and weaknesses of our organization as we endeavor to continue with strategic goal setting.

I am eager to discuss service trends and themes facing Santa Clara and how we work together to connect policy areas, as well as identify and work through resource needs and gaps. As part of my presentation, I will share major drivers of workload throughout the organization and the necessity to align policy/legislation with resource capacity and program management/evaluation. In some cases, there are significant barriers to the delivery of quality and efficient service and/or an urgent need to better pace the organization. In addition, each department will provide a review of service delivery highlights, upcoming policy issues, operational constraints, and areas for opportunity.

Day 2 will begin with a presentation by the City Attorney related to conduct at public meetings, followed by the remainder of departmental presentations and then we will transition to a review of the current directives from the January 2017 Council Goal Setting Retreat. From there, the City Council will be guided on a focused discussion of aligning policy priorities and determining any adjustments necessary to sustain strategic efforts. As additional policy priorities/goals surface, the Council will be asked to consider these efforts within the context of current fiscal and workforce resources and capacity (See 10-Year Financial Plan Section) and what operational or priority tradeoffs to consider.

As the City Council has been advised as part of FY 2016-2017 Budget process, the City faces several years of structural deficits due to the projected pace of revenue growth at a slower pace than expenditure growth. Through review of the current workload and capacity, it becomes apparent that new efforts would need to be absorbed by "net neutral" impact to capacity or else should be considered "deficit-spending" of both fiscal and human resources if new resources are not available. While we have completed remarkable work to improve our fiscal condition over the past three months, it is also necessary to consider the city-wide staff resources required to focus on projected shortfalls when considering new areas of service or policy, along with other work mandates.

With all of this said, I am hopeful that our work over these 2 days will culminate into common priorities and clear policy direction for the upcoming year as we look at issues and projects on the horizon. I believe this new approach supports the City Council well in its governance role and will advance strategic policy priorities with clear information on the needed resources to achieve them. It is also well acknowledged that this is a new approach for the City and we will learn how to work together under this integrated framework.

BUDGET UPDATE & 10-YEAR FINANCIAL PLAN

As stated, upon beginning my tenure, I asked staff to develop a 10-Year Financial Plan and called for a review of our budget principles to validate the long-term financial condition of the City. As part of this session, I recommend that we review the budget principles to also align budget principles to this process.

After review of the state of the organization, we will present the 10 Year fiscal plan and discuss the implications to our strategic planning and action. While we still have forecasted structural deficits over ten years, by committing ourselves to solve annual deficits with ongoing budget solutions as shown through the “net operating margin” model, the fiscal outlook is not as grave as originally projected in July, but on-going expenditure reductions or an increase in ongoing revenues are required in order to stabilize the City’s fiscal condition. However, the incredible work that we have completed has provided some time to strategically plan and stabilize our fiscal future. In short, we have one year to focus on stabilizing the out years of our fiscal outlook (years 2-10, specifically). This affords the City Council and staff time to work strategically, holistically and collaboratively on solutions. Our goal is to align expenditures with revenue growth which may require service changes and/or reductions. It also requires the continued leadership and discipline that the City Council has practiced and the significant partnership that our employees have provided in the best interest of the City.

In short, the City’s fiscal outlook is like many other local municipalities, whereby revenue growth occurs more slowly than expenditures. Particularly of note is that our General Fund relies heavily on volatile revenue sources (e.g., sales tax and transient occupancy tax), which is a vulnerability for service levels. With these volatile revenue sources, and the predictable rising pension cost expenditures and liabilities for other post-employment benefits, what quickly surfaces is a need for a strategic work plan on new revenue opportunities and expenditure growth management. As reported, pension costs alone are predicted to increase to \$32 million by 2022-23 and the unfunded accrued liability (UAL) equals \$45.2 million.

Within this context, the overall budget approach for Fiscal Year 2018-19 is to position the City for on-going budget balancing measures with the least amount of service impacts while avoiding spending incongruent with the proposed budget principles. Since the City has a prolonged deficit outlook, it is time to develop long-term resource allocations that link today’s decisions to future years.

TWO-YEAR BUDGET PLANNING

For the reasons noted above, and with City Council’s approval, I will be proposing that we consider the City’s fiscal plans over a two-year cycle and a two-year Capital Improvement Project (CIP) budget for this upcoming budget cycle (rotating Operating in Fiscal Year 2019-

20), which allows for staff to spend the next year fiscally aligning and incorporating the City Council priorities to resource investments.

The opportunity to focus on one budget, over a two-year term, also preserves capacity of our limited budget staff during a time when we need to initiate and pursue revenue opportunities and expenditure growth management. The combination of two-year operating and capital budgets aligned to our strategic pillars, and in the context of a 10 Year fiscal plan, is an improved practice of understanding today's fiscal actions over the long term, rather than budgeting year-to-year in a shorter five-year fiscal context.

In addition, in the instance of the Capital Budget, all existing projects will be reviewed for funding level and priority with a focus on completing projects approved in prior capital budget cycles. The highest priority will be placed on projects that address any safety issues and serious deferred maintenance needs that can no longer be delayed. Budget decisions will be made with long-term implications taken into account using data from the 10-Year Financial Plan. The Annual Operating Budget will also look to address critical gaps in staffing and will continue community engagement and transparency efforts.

Key to this process is to track and disclose to the City Council the universe of un- or under-funded service needs. To make sure the Council has a more comprehensive assessment of service needs, beyond existing operations, a lengthy list of unmet, under- or unfunded needs (such as public facility and utility infrastructure) has been developed (Attachment A) and is part of our work in the short- and long-term to stabilize both our financial and service conditions and for which dedicated capacity is required to develop realistic work plans. We must begin to address these gaps in service and make them part of our discussion when we consider new initiatives/priorities. As these needs have gone un- or under-funded, solutions to address them have also been un- and under-staffed.

As a separate matter, this work is being completed concurrently with the Fiscal Year 2018-19 Stadium Authority Budget process which has already begun and will be brought to the Stadium Authority Board in March 2018. I will continue to work with StadCo/ManCo to receive all the required documentation and recommendations outlined within the Harvey Rose Associates Measure J audit will be incorporated.

As noted above, our highest priority is our fiscal stability and strong management so that we can continue to provide our residents with a broad range of quality services and maintain the high performing workforce that serves our City so well. I also believe that our current and past practices acknowledge that from the sustainment of fiscal stability and strong management, all other policy priorities are possible. That said, as we work to address the current expenditure growth increases, economists continue to state the likely possibility of an economic slowdown that many experts project is over the next 18-24 months. It is important to acknowledge, that we should not assume that past solutions that existed during the Great Recession are available to resolve current or future conditions.

STATE OF OPERATIONS

As part of the state of operations overview, as your new City Manager, I want to recognize the incredible work that the City Council and the organization have accomplished. While there are too many specific accomplishments to list, here are just a few to highlight the successes:

- Silicon Valley Power becoming coal-free;

- World Health Organization designated Santa Clara as an official “Age Friendly City”;
- Inaugural ComicCon event receiving the 2017 PR Excellence Award by the California Library Association;
- Began construction on the City’s first community garden;
- Approved new Master Plan for Great America;
- Adopted a Worker Retention ordinance;
- Conducted a series of Placemaking workshops;
- Implementation of Granicus (next generation agenda management) and Legistar enterprise document management software, which streamlines work and promotes a paperless process;
- Conducted and developed a 10-year budget validation and financial plan;
- Established Early Consideration Policy for General Plan Amendment applications;
- Began implementation for new Computer Aided Dispatch (CAD) software;
- Adoption of an Affordable Housing Ordinance;
- Prevailed and/or settled significant litigation matters related to development and land-use for Santa Clara’s CityPlace and San Jose’s Santana West projects;
- Launched Santa Clara Source, which promotes government transparency and modern media practices;
- Initiated a website redesign project to modernize the information provided on-line, including mobile devices;
- Began process for implementation of District Elections and ballot initiative;
- Launched cannabis commercial retails policy development and revenue ballot initiative;
- Began first-ever statistically valid public opinion polling and community engagement for issues related to Levi’s Stadium; and,
- Stabilized the City leadership by appointing the City Council’s two employees--City Attorney and City Manager.

While these broad-ranging service acknowledgments demonstrate the City’s ability to deliver high quality service with existing resources, they further illustrate how resourceful and resilient the organization has been especially against the backdrop of continuous change and transition.

There has been an unprecedented volume of new initiatives and the pace of the organization has increased disproportionately to its capacity/resource increases. In the context of an absence of an official performance management process that would assist in evaluating and tracking program success capacity, it is difficult to quantify how the impact of absorbing more work with some new resources has impacted the delivery of services. However, it is easy to observe gaps in service, mistakes in upholding policy or implementing direction, risks in administrative processes, or inaction that is from assigning focus and capacity over upholding conventional administrative processes. Nevertheless, in the absence of a centralized, structured and valid process to evaluate services, along with the inability to make data-driven decisions throughout the organization, I have worked with staff to establish some metrics on key policy to better understand whether the increased investment in capacity is yielding the proportionate value-add in outcome. For example, anecdotally, there has been a significant increase in public records act, citizen and/or Council requests without implementation of very needed software or staff training to support these efforts. Further, severely antiquated manual processes and technologies are hindering many necessary streamlining efforts and it is difficult to dedicate the resources to update them when workload continues to increase.

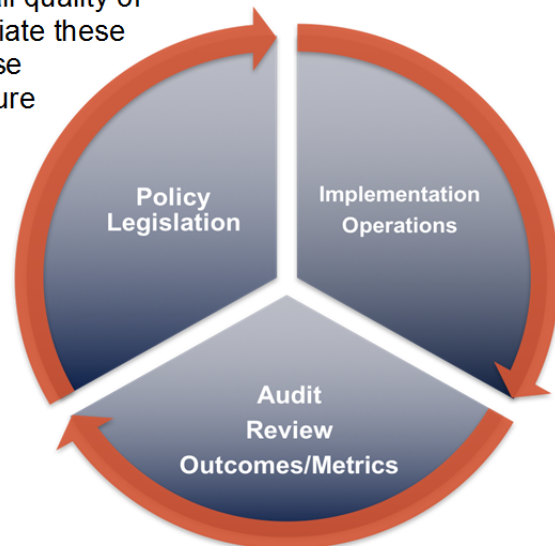
The City's "management grip" will be discussed to better inform our readiness to move forward on key strategic initiatives. It would be negligent for me to suppress discussion of key service areas that the City needs to strengthen or make present. For example, the following areas need program management attention:

- Transition from manual to automated city-wide customer relationship management system (CRM);
- Establish a risk management function;
- Establish an auditor function with certified auditing presence in the organization;
- Enhance conventional economic development services with focus on small businesses;
- Establish dedicated media/public relations service;
- Focus on strengthening intergovernmental relations and legislative tracking; and
- Establish a performance management system to accurately, holistically, and meaningfully report metrics/outcomes for policy decision-making and resource investments.

In my observations and discussions with department staff, there is a desire and need to better connect policy development with existing resource capacity and operational priorities. This can be resolved by use of conventional program management efforts that support continuous improvement, surfacing of service impacts when additional workload is directed or absorbed, and deliberate integration of this process to our operating and capital budget, which requires time and focused capacity throughout the organization. I would like to spend some time on this concept and work with the City Council in support of a balanced approach to strengthening business operations that will lead to the strategic and efficient use of resources (e.g., fiscal, staff capacity, etc).

Now is a good time to advance this concept, particularly because there are many upcoming large scale development projects, most notably, City Place, which will have a significant impact on all departments to sustain and meet tight turnaround deadlines articulated in the Development Agreement. Additionally, strategic work continues on the Specific Plans for El Camino, East Tasman, Lawrence, Patrick Henry and Freedom Circle, the next phase of Santa Clara Square, and Downtown Revitalization that will further require our focus. These land-use projects are essential to the vitality of the City in many ways, such as: jobs development, revenue generating opportunities, housing development, transportation improvements, economic development, place making, and overall quality of life. As the Council was strategic and wise to initiate these various projects, it is well acknowledged that these projects will better position Santa Clara in the future and require a significant dedication of resources. My goal is to ensure that we are properly resourced to deliver on these existing strategies.

As part of this discussion, the graphic illustrates a balanced approach to our work where policy legislative action is informed by implementation/operations, and further informed by performance outcomes resulting from audits, management reviews, and continuous

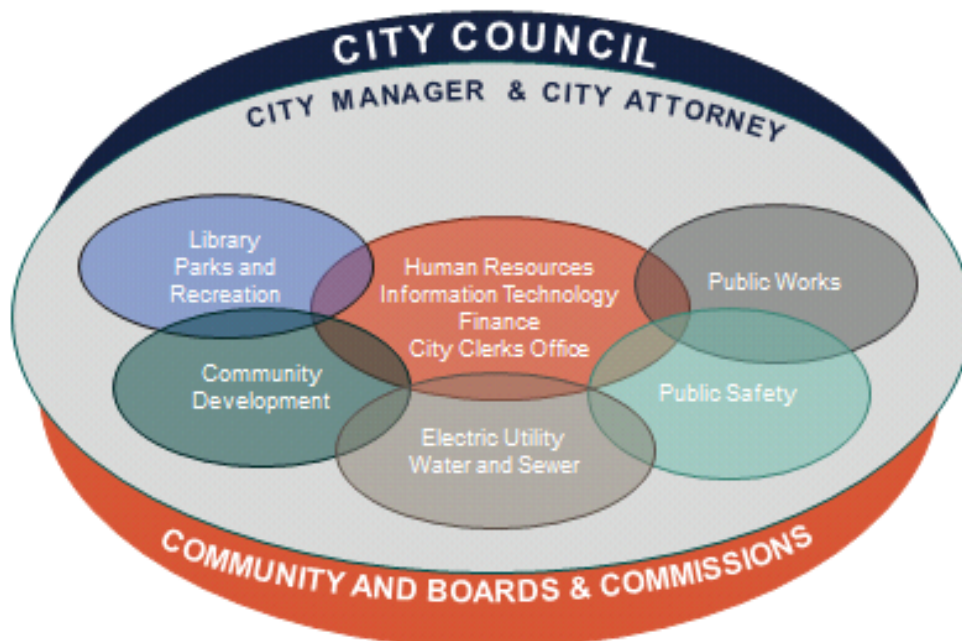


improvement. Additionally, as already stated, it is professional responsible to surface the discussion and disclosure of the absence or understaffing of significant and conventional civic functions commonly present in other municipalities that are causing administrative failures, implementation non-starts, and/or confusion and adverse impacts to Council Members (e.g., travel, contract management, procurement, PRAs, audit function, minutes, policy implementation, risk, delays in state law implementation, etc.). These core administrative functions go hand-in-hand with the strategic work that is underway.

As part of this session, the City Council will be presented with information about the above work cycle diagram. I will comment on the long-term results to business operations in the absence of a formal workload review process to manage capacity, identify resource savings, service efficiencies, improving or modernizing business operations, and establishing routine reporting to the City Manager or Council, for policy setting, on efforts associated with continuous improvement. This is a key element of a City Council's goal setting process; that is, the presence of strong quality controls and integrity of business operations to advance them.

POLICY PRIORITIES AND GOAL SETTING

The City of Santa Clara has long been regarded as an innovative, forward-thinking organization with a tradition of effectiveness and being a model city in providing services to the community. Through the presentations, each department has provided a long-range planning diagram, which visually identifies how many notable policy initiatives are concurrently underway within an established timeframe. We hope that this information is integrated into any new goal setting directives so that, in addition to this diagram and work efforts already underway, we can discuss how this work gets done which is a key concern of city staff. The diagram below was created to illustrate the inter-relationships that exist between the two Council appointees, the service areas that provide direct services to advance the Council's visions, and our community. The goal of this diagram is to emphasize that we are an integrated cluster of resources and in order to advance an initiative, all will require the attention of the two Council appointees and a lead department, along with supporting departments to be successful. In other words, we can't accomplish our work without each other and each hold key pieces for all of us to be successful. [Note: This diagram is an illustration; it does not reflect a hierarchy or organizational structure.]



This means, for instance, that as we consider assigning a department an initiative, we need to consider the workload of the lead department along with the supporting departments to understand the barriers to implementation or a more complete assignment of resource investment (or use of capacity). This approach is preferred because our priorities and decisions often do not fall into a single department and, as Council deliberates on its policy priorities, it can interpret how a priority may impact the organization as a whole.

Equally as important as evaluating the workload of departments, is evaluating the current Council Committees and Boards & Commissions workload and the staff support required to sustain them. While the work done by these groups is valuable, there has been a significant increase in Committee meetings year-to-year based on a sample of a few committees and Council meetings. This significant increase in legislative meetings has occurred without additional resources to support policy development and agenda production/minutes. As we evaluate this significant growth, against the backdrop of dedicated capacity, we need to evaluate how this growth has diverted resources from other service priorities, administrative process, initiatives, and/or whether it is adding the value needed to justify sustaining this increased pace. This is one example of a growing workload that we would like to discuss and determine how we can improve sustainment of it. Lastly, discussion will be encouraged between the Council and staff in order to clarify priorities that should carry forward into 2018 and to create a shared understanding of the progress that has been made since they were developed last January with clear direction on where we are headed in the next year. Again, emphasis will be placed on capacity and resources available to ensure that they are best applied to achieve policy priorities.

RECOMMENDATION

That the City Council:

1. Adopt budget principles;
2. Direct staff to initiate a revenue opportunities and expenditure growth management effort to stabilize the 10-Year Financial Plan;
3. Support and approve transition to a two-year budget development process, beginning with FYs 2018-19/2019-20 Capital Budget, and direction to align resource investment to Strategic Pillars for the FYs 2019-20/20-21 Operating Budgets;
4. Validate Strategic Pillars;
5. Authorize the City Manager to make amendments to work plan items, in alignment with Council direction, as needed; and,
6. Develop workplan, including resources, to initiate services mentioned in this report that cure the absence of risk and core administrative support for public service (e.g., CRM, risk management, auditor functions, performance management system, etc.).
7. Direction to staff to bring forward Council actions that are administrative in nature and result in building staff capacity, streamlining administrative process, promote efficient use of resources, and lower cost of providing service.

CONCLUSION

I want to thank the City Council for being open to a new goal setting approach. While there are many new policy ideas for the City to consider, I respectfully request that the City Council continue to practice discipline in directing new work efforts and allow for us to consider the

required work to stabilize the organization and, more importantly, focus on revenue opportunities to stabilize our fiscal condition. Through this session, we will illustrate how our resources are already extremely stretched and how adding new assignments must come with trade-offs. This doesn't mean that there isn't capacity to absorb new workload, but rather a disclosure of the conditions for which we will make every effort to successfully serve the City Council and community. Indeed, it is my strong desire to work with the City Council on managing our resources while achieving our goals and the opportunity to surface the context of our work is much appreciated.

In closing, I feel confident that we can work to maximize our resources and goals and continue to provide superb services within our community. These sessions offer the City Council an opportunity to continue setting the City on a strategic path. City staff is fortunate that the City Council has elected to hold this Session and discuss, through a deliberative process, the City's future and key initiatives.

On behalf of the Executive Leadership Team (ELT) and City staff, we look forward to the City Council sessions and are eager to engage at this level!



Deanna J. Santana
City Manager

Attachments:

- A) Session Agenda – Day 1 and 2
- B) Budget Principles
- C) Unfunded Projects List
- D) Matrix – Update on January 2017 Goal Setting Directives
- E) Session Slides for Day 1 and 2