

CITY MANAGER'S BUDGET MESSAGE

May 8, 2025

FY 2025/26 Recommended Budget

Dear Honorable Mayor, Council members, and Sunnyvale Community,

I am pleased to present the FY 2025/26 Recommended Budget and Resource Allocation Plan. The Recommended Budget is balanced in the short and long term, despite the current environment marked by economic uncertainty, inflationary pressures, and shifts in state and federal funding. As a result of the City's continued fiscal discipline and maintenance of adequate reserve balances, the City's finances remain on solid footing. The use of long-range planning enables us to focus on judicious and targeted investments in service levels and continue substantial investments in its infrastructure, which supports long-term stability and community resilience.

While the Recommended Budget is balanced, the current economic climate remains uncertain. The City relies on Federal funding for several key programs and projects, and the risk to that funding is still evolving. The City's current federal funding that remains unspent includes significant program support in the areas listed below. Future funding in these areas is also at risk:

- Cleanwater Program loans—\$441.4 million
- Transportation—\$3.8 million
- NOVA Workforce Services—\$2.3 million
- Community Development Block Grant/HOME—\$411,000

The uncertainty has also led to a slowdown in the City's overall revenue growth, which is expected to remain relatively flat in the short term before returning to historical averages. On the expenditure side, challenges persist as persistent inflation continues to drive up costs for goods, services, and salaries and benefits. Even with these challenges, the Recommended Budget continues the fiscal path the City Council has set forth over the past several cycles by making investments to right-size City operations and addressing aging infrastructure.

Legal and Policy and Framework

The Recommended Budget and Twenty-Year Resource Allocation Plan reflects the Council's policy priorities and the related resources needed to implement them. Sunnyvale's reputation for strong financial management is rooted in the community's values, as expressed through the City Charter and long-standing City Council Policies that require the City to remain fiscally strategic and sustainable. These disciplined laws and policies promote fiscal solvency over the long term, for example:

- 10-Year Balanced Budget Mandate – Sunnyvale voters have mandated a City Charter provision requiring "At least thirty-five days prior to the beginning of each fiscal year, the City Manager shall submit to the City Council the proposed budget as prepared by him/her. Said budget shall be a balanced ten-year budget, reflect a minimum of ten years long-range financial planning" (Article 1302).
- 20-Year Resource Allocation Plan Requirement – In addition to the Charter mandate, City Council Policy 7.1.1 requires decision-making focused on long-range implications of current budgeting decisions, with specific focus on the following elements:

A.1.3 A balanced Twenty-Year Resource Allocation Plan shall be presented to the City Council annually.

- A.2.1 The City shall maintain a long-term fiscal perspective by annually preparing a Twenty-Year Long-Term Financial Plan for each fund. Those funds which account for intergovernmental grants will only include known entitlements.
- A.2.2 Major financial decisions should be made in the context of the Twenty-Year Long Term Financial Plan.
- A.2.3 Long-term financial planning should enable the current service level provided to be sustained over time through the strategic use of reserves.
- A.2.4 The Long-Term Financial Plans should be used to communicate the fiscal impact of City decisions to all stakeholders whenever possible.

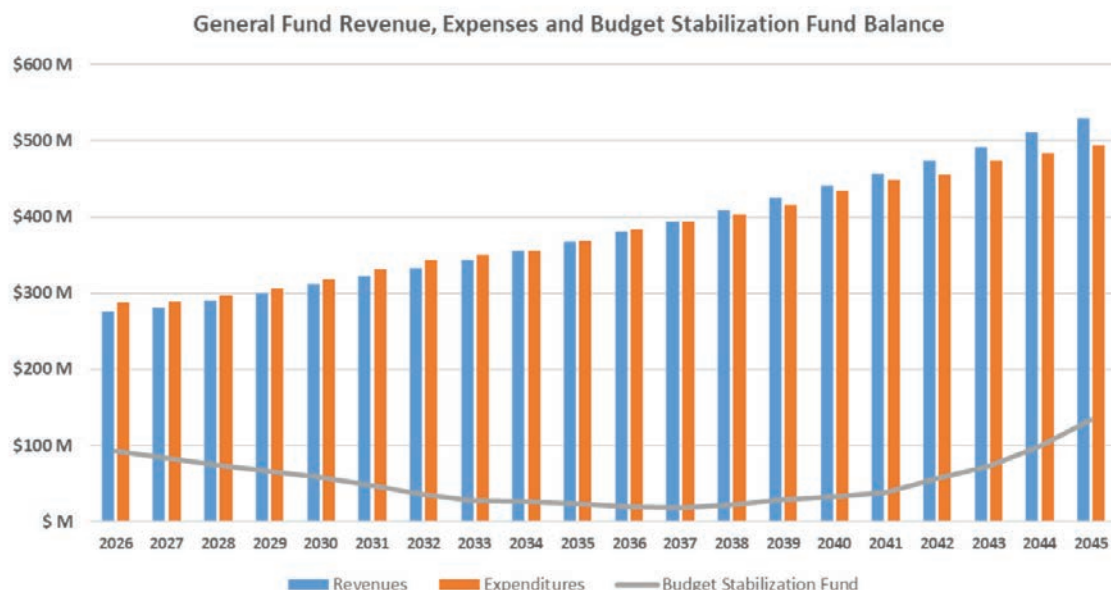
• Budget Stabilization Fund Threshold Requirement – City Council Policy 7.1.1 (E.1.4) requires that:

The General Fund Budget Stabilization Fund will be a minimum of 15% of projected revenues for the first two years of the 20-year planning period. Beyond year two, the Budget Stabilization Fund will always have a balance of at least zero.

Although the focus is on the long-term financial picture, ultimately, the Council will approve legal appropriations for only the following year. For FY 2025/26, the Recommended Budget totals \$779.8 million across all funds. This includes a \$392.2 million operating budget, \$234.3 million in projects, \$78.1 million in other expenditures, and \$75.1 million in contributions to reserves. The City’s revenues total \$779.8 million across all funds. The contribution to reserves is primarily due to the timing of major projects relative to respective revenue sources. Additional details on various funding sources, expenditures, and the use of reserves are included in the Budget Summary section.

The City’s largest fund, the General Fund, is balanced over the Twenty-Year Plan. However, balancing the General Fund requires using reserves until the latter half of the twenty years. This is consistent with the City’s past practice and reflects the known increase in retirement costs in the mid-term, which are largely reflective of unfunded liabilities incurred before pension reform, rather than costs for new employees. Pension costs are expected to stabilize over the long term due to pension reform. Until they do, volatility in those costs will continue to be a challenge to manage.

Adding expenditures today has a significant compounded impact on the Twenty-Year Plan. Adding \$1 million in ongoing costs today would draw down the Budget Stabilization Fund by \$17.2 million by FY 2036/37, the current low point, for example, which would nearly deplete the balance of the reserve. Therefore, continued fiscal discipline is warranted. The following graph summarizes revenues, expenditures, and the Budget Stabilization Fund Balance.



Revenues

Due to economic uncertainty, General Fund revenue is projected to increase by only 1.1 percent in FY 2025/26. Long-term, Property Tax, the City's largest and most stable General Fund revenue, has been projected to steadily grow over the twenty-year plan, reflecting anticipated continued stable growth of 5 percent per year (2% per year annual Prop 13 adjustment and 3% per year from property turnover/reassessment). The budget also assumes Excess Educational Revenue Augmentation Fund (ERAF) revenue as an ongoing source, but only 50% of the historical average to hedge against uncertainty.

The second-largest General Fund revenue source, Sales Tax, is projected to decline slightly in FY 2025/26 due to economic uncertainty, but is expected to grow modestly in line with the trend. Sunnyvale is fortunate to have an extremely resilient and diverse local economy. The quality and mix of its businesses are a strength and protect against sales tax volatility seen by other agencies. Staff will continue to closely monitor these revenues, as potential tariffs, inflation, and consumer confidence could have a significant impact on sales tax, making it difficult to predict.

Transient Occupancy Tax (TOT), or hotel tax, experienced a significant decrease during the COVID-19 pandemic. However, it has rebounded more quickly than anticipated. FY 2025/26 is the first year TOT revenue projections will exceed the tax collected in FY 2018/19, the peak pre-pandemic year for TOT.

Utility Users Tax, which is charged on utility user fees, continues to decrease due to declining telecom (cable) usage and a drop in clean energy rates. Interest and investment income are also projected to decline as interest rates and market fluctuations invite additional caution.

The City is projecting \$275.5 million in total General Fund revenues, with Property Tax, Sales Tax, and TOT accounting for nearly 71% of the total.

Expenditures

As the Recommended Budget reflects, costs continue to rise across the board. General Fund expenditures continue to increase due to a combination of inflationary pressures, contractual obligations, and growing service demands. Ongoing recruitment costs in the Department of Public Safety, anticipated increases in total compensation costs, and the price for goods and services are up a combined \$107.2 million over the first ten years of the plan compared to the prior year's Adopted Budget.

Despite these pressures, this budget advances Council priorities through targeted improvements to service levels and investments in infrastructure, including staffing for the Lakewood Branch library, micro transit grant management, parks support, investments in GIS staffing, and more.

Use of Reserves and Balancing the Budget

Maintaining adequate reserves is one of Sunnyvale's strengths, which is paying off as anticipated. The City has three main categories of reserves across many of its funds, most significantly in the large funds such as the General Fund, various enterprise funds, and infrastructure and capital funds. Contingency Reserves are used during emergencies only. Many funds have Capital Improvement Reserves, which are restricted legally or by policy for one-time capital expenditures. Lastly, all major funds carry Stabilization Reserves, which address revenue fluctuations and unanticipated costs.

Beginning in the prior fiscal year, Council Policy also identifies a reserve called the Service Level Set-Aside, which is used to increase service levels or add new services. The Recommended Budget includes \$2.2 million in ongoing funding from the Service Level Set-Aside to continue funding existing and new Council priorities, including mobile hygiene services for the unhoused, traffic calming, special events management, and citywide shuttle services.

The Budget Stabilization Fund is the primary discretionary reserve in the General Fund and is used to manage economic and other financial volatility, which allows the City to meet short- and long-term challenges. The revised projected ending balance in the Budget Stabilization Fund for FY 2025/26 is \$92.9 million, representing 34% of revenues. From there, the plan draws this reserve, which is in addition

to the Contingency Reserve, down to a low point in FY 2036/37 of nearly \$18.9 million (5% of revenues). Thereafter, the Budget Stabilization Fund begins a steady recovery through the remainder of the twenty-year plan, ending with a balance of \$118.9 million (22% of revenues) in FY 2044/45.

FY 2025/26 Project Budget Cycle

The FY 2025/26 Recommended Budget strives to balance the distribution of resources and use of reserves to sustain core operations and essential projects. The City alternates years between the operating budget and the projects budget, with this year being a projects budget year. One of Sunnyvale's many strengths is its commitment to maintaining a high level of service to the community. Keeping Sunnyvale as a desirable place to live by delivering high-quality services that keep its residents, visitors, and businesses safe and healthy, and providing opportunities to work, learn, and play requires modern community-responsive infrastructure. The projects included in this Recommended Budget are based on a planning approach that incorporates detailed and thoughtful facilities master planning, as well as the distribution of projects across ten and twenty years, to ensure sufficient project delivery resources and timely project completion.

These investments include:

- An additional \$81.1 million over twenty years for the Sunnyvale Clean Water Program, with current and increased funding provided through a combination of Federal and State low-interest loans and future anticipated issuance of revenue bonds.
- A planned investment of \$152.3 million to renovate and enhance existing parks throughout the City over the twenty-year Resource Allocation Plan, which is a \$28.6 million increase over the prior year Plan. These park enhancements will be funded by Developer Park In-Lieu Fees.
- An increase to the planned investment in the Computer-Aided Dispatch (CAD) system replacement by \$36.4 million to \$45 million over the twenty-year plan, which includes \$10.0 million for a necessary replacement of the records management system. The CAD system supports comprehensive dispatching and incident control for law enforcement, fire, and emergency medical services. The current system is reaching end-of-life and will need to be replaced soon with a modernized system that will meet DPS's needs to deliver critical services to Sunnyvale. The increase in budget includes costs for staffing, implementation, and maintenance and licensing for the next twenty years,
- Funding for the first phase of the Corporation Yard Master Plan, with design scheduled to begin in FY 2026/27 and construction in FY 2028/29, totaling \$22 million.
- Setting aside \$24 million to modernize the City's water meters with newer, more accurate technology that will also fully automate the water meter reading process. This project will increase efficiency, allow meters to be read more frequently to help prevent losses from leaks or unregistered consumption, and provide additional operational and customer service benefits.
- Allocating a planned \$122 million over twenty years for golf infrastructure renovations funded by the Park Dedication Fund.

While this Budget cycle focuses on projects, several operating changes were made to reflect updated Council priorities and to continue right-sizing City operations to meet the growing demands for City services. Some of these highlights include:

- Funding to recruit and train up to 30 new public safety officers over the two-year project cycle, costing a total of \$14 million over that period. This funding is tracked as a project budget given the limited term duration of recruiting and training Public Safety Officers.
- An additional seven library staff positions to operate and maintain the Lakewood Branch Library, scheduled to open in January 2026, allowing it to operate six days per week. In addition, a term-limited Senior Library Assistant position is being added to continue coordinating the library's adult literacy program, and a full-time Recreation Services Manager is being added to accommodate the City's growing demand for Special Events.

- Funding to solidify Information Technology support for the City’s crucial systems. This includes five positions and funding for consultant support added to stabilize, maintain, and enhance the City’s foundational Enterprise Resource Planning system, and funding to add 2 FTE and additional equipment and licenses to maintain a Geographic Information System, which is relied on by various departments.
- Funding for the Department of Public Works for:
 - o One part-time Traffic Engineer position to enhance the City’s traffic calming program.
 - o One analyst position to manage and monitor labor compliance for contracts and grants.
 - o One transportation planner position to manage and monitor a Citywide shuttle program and funding for a required local match for grant funding.
 - o One additional park worker to help maintain the City’s recently added parks.

COUNCIL’S POLICY PRIORITIES

The Council revisits its priorities annually at the Council Strategic Planning Workshop to help guide the development of the Adopted Budget. Below is a summary of how this Adopted Budget supports the Council’s five resourcing priorities. Significant efforts in each policy area are highlighted, but numerous smaller work efforts are also funded and support these broad policy areas.

- 1. A responsive, transparent and efficient city government** – The Recommended Budget includes \$45 million (\$13.9 million one-time, \$31.1 million ongoing over twenty years) to replace and maintain the City’s aged Computer-Aided Dispatch system, which includes \$10 million for the related Public Safety Records Management System. Additionally, \$2.8 million is included in the budget to comply with updated Americans with Disabilities Act requirements for public agencies to make all content digitally accessible.
- 2. An accessible, engaged and welcoming community** – The Recommended Budget continues funding for this Council priority and adds additional resources. This includes \$65,000 annually, or \$1.2 million over the twenty-year plan to continue staff Equity, Access, and Inclusion training. The City’s Sunnyvale Employees for Equity and Diversity team has been developing an equity framework and strategic plan that is expected to guide programs for the coming years. The Recommended Budget also adds funding to replace Access Sunnyvale, the City’s current Customer Relationship Management system, to reflect the community’s changing needs. Implementing and maintaining this new system is expected to cost \$19.5 million over the twenty-year plan.
- 3. A sustainable city: advancing climate action, active transportation and the Vision Zero Plan** – A new \$3.8 million project was added in the Recommended Budget to produce recycled water for irrigation and other activities that do not require potable water. Investments are continued for implementing the Climate Action Plan, with a total budget of \$2.6 million. \$1.9 million is also included for new green stormwater infrastructure. Projects related to Active Transportation include \$1.8 million for an update of the Active Transportation Plan and \$1.5 million for periodic bicycle improvement studies, as well as continuing ongoing funding for new bike and ped infrastructure.
- 4. A model to prevent homelessness, prioritize new housing and support the unhoused community** – During FY 2024/25, the City Council appropriated over \$1 million to fund a pilot program of street outreach, case management, mobile hygiene services, and an inclement weather hotel program. This program will continue to be funded in the Recommended Budget. The Budget also includes \$126.5 million in funding in the Housing funds over the twenty-year plan for future affordable housing projects and \$1.1 million in the General Fund and Housing Mitigation Fund to update the City’s Housing Element.

5. A city that invests in modern public infrastructure – This budget plan funds significant traffic and transportation projects over the twenty-year plan. \$233.7 million is planned for pavement rehabilitation and slurry seal, \$4.5 million for ADA projects and emergency concrete replacement, and \$68.8 million for sidewalk, curbs, and gutters. Additionally, while the ballot measure to finance the Main Library phase of the Civic Center did not pass in November of 2024, this budget maintains a \$15 million investment in the project while exploring options to enhance library infrastructure and service delivery.

BUDGET SUPPLEMENTS

Six budget supplements are presented for Council consideration for the FY 2025/26 Recommended Budget. A complete description of each budget supplement is included in Volume I of the FY 2025/26 Budget. Budget Supplement No. 1 provides funding for the Study Issues adopted by the Council and placed above the line by the City Manager.

Budget Supplement No. 2 outlines potential additions or savings above (or below) what is included in the FY 2025/26 Recommended Budget. This practice was initiated during the FY 2021/22 budget cycle in response to the COVID-19 pandemic. This list includes budget proposals that are not recommended for funding, as well as other unfunded programs or projects. It should be noted that any additions should be offset by a corresponding reduction to maintain a balanced budget.

The remaining Budget Supplements reflect the Budget Proposals referred to the Recommended Budget by the Council at the Study Issues/Budget Proposals workshop.

CLOSING

The City remains clear-eyed about the potential challenges it faces in the near future. However, the strength of its long-term planning and disciplined practice of maintaining strong reserve balances will allow the City to continue delivering core services while retaining the flexibility to adjust as needed. Sunnyvale staff have consistently shown dedication to the City's mission, "We build community trust by delivering exceptional services." Staff take pride in these services and endeavor to make Sunnyvale a desirable place to work and live.

In the following pages, the FY 2025/26 Recommended Budget Summary provides greater detail on key components of this budget. For further information, Volume I: Summary and Operating Budget includes the 20-year financial plans for all funds and operating budgets by department. Volume II: Projects Budget presents specific project detail by category.

Sincerely,



Timothy J. Kirby

City Manager