

City Manager's Budget Message

May 10, 2024

FY 2024/25 Recommended Budget

Dear Honorable Mayor, Councilmembers, and Sunnyvale Community,

I am pleased to present the FY 2024/25 Recommended Budget and Resource Allocation Plan. This year is an operating budget year, and as such, all departments focused on development of their operating resource needs. Only minor changes were made to projects, which will be the focus in the next budget cycle.

The City has weathered economic volatility over the last several decades by holding total staffing flat to control costs. Over that same period, population in the City has grown over 15%. This proposed budget takes an incremental step toward right-sizing our operations with the growing and evolving needs of our community, aiming to balance short-term demands and long-term fiscal sustainability.

Overall, our financial outlook remains positive with the majority of revenues rebounding to pre-pandemic levels. Notably, key revenues such as property taxes and sales taxes continue to exceed projections, creating a stable fiscal foundation upon which to build up service delivery. On the expenditure side, we are facing persistent challenges stemming from inflationary pressures, which have driven up costs for not only goods, but services as well, with impacts ranging from vehicle parts to liability insurance. On balance, strong revenue growth—even in the face of rising expenditures—enables targeted investments in operations to address the increasing demand for core City services through incremental augmentation of staffing, to meet unfunded mandates, and to fund new community priorities.

For FY 2024/25, the Recommended Budget totals \$731M across all funds. This includes \$670.7M in revenues, a \$362.1M operating budget (8% overall increase), \$296.6M in projects, and \$72.3M in other expenditures. Also included is a total of \$60.3M in draws from various reserves. The use of reserves come primarily from project related expenditures for the Main Library (\$15M), Fire Station 2 (\$18M) and issuing a Notice of Funding Availability (NOFA) for affordable housing projects (\$26M). Funding is also continued at the same level as the prior year for both ongoing pension costs and contributions to the Pension Trust, maintaining a new floor for anticipated pension costs over the long term. Additional detail on various funding sources, expenditures, and the use of reserves is included in the Budget Summary section.

Stable Fiscal Outlook

The City's financial current position and long-term outlook is stable. The General Fund, the City's largest fund, is balanced at both ten and twenty years. For the first twelve years of the fund, expenditures exceed projected revenues. However, in the context of Sunnyvale's budgeting and long-term planning, this is not a structural imbalance, but an expected and intended outcome as we continue to draw on reserves to address the unfunded accrued liabilities associated with pensions that are anticipated to peak in FY 2034/35 and then subside after this period (see Table 1 below).

Table 1 – Ten-year General Fund Forecast (\$M)

FY Ending	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Resources	\$260.2	\$268.7	\$279.1	\$287.9	\$298.4	\$310.9	\$322.2	\$332.8	\$345.3	\$357.7
Expenditures	\$266.8	\$276.1	\$281.6	\$293.5	\$304.1	\$316.7	\$328.3	\$338.1	\$347.8	\$359.8
Variance	(\$6.6)	(\$7.4)	(\$2.5)	(\$5.6)	(\$5.7)	(\$5.8)	(\$6.1)	(\$5.3)	(\$2.5)	(\$2.1)

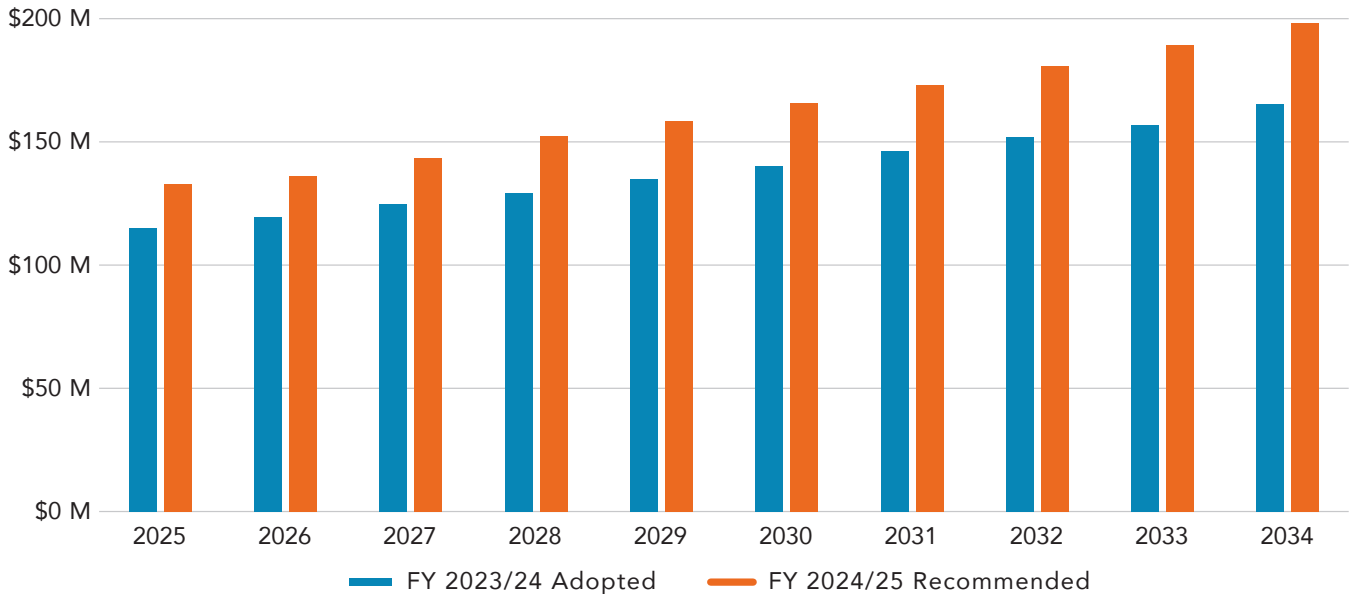
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Revenues

Revenue growth is increasing at a stable rate, and the Recommended Budget includes increases year over year in most major revenue sources. Property tax, the City's most stable General Fund revenue, has been revised upwards over the twenty-year plan, reflecting anticipated continued stable growth of five percent per year (2% per year annual Prop 13 adjustment and 3% per year from property turnover/reassessment). Staff also incorporated an ongoing portion of Excess Educational Revenue Augmentation Fund (ERAF) revenue, cautiously projecting 50% of the historical average as an ongoing source.

These changes, combined with an increased starting point due to higher than anticipated growth in FY 2022/23, result in an additional \$231.5M in additional property tax revenue over the first ten years of the plan as compared to projections used in the prior year budget (Figure 1).

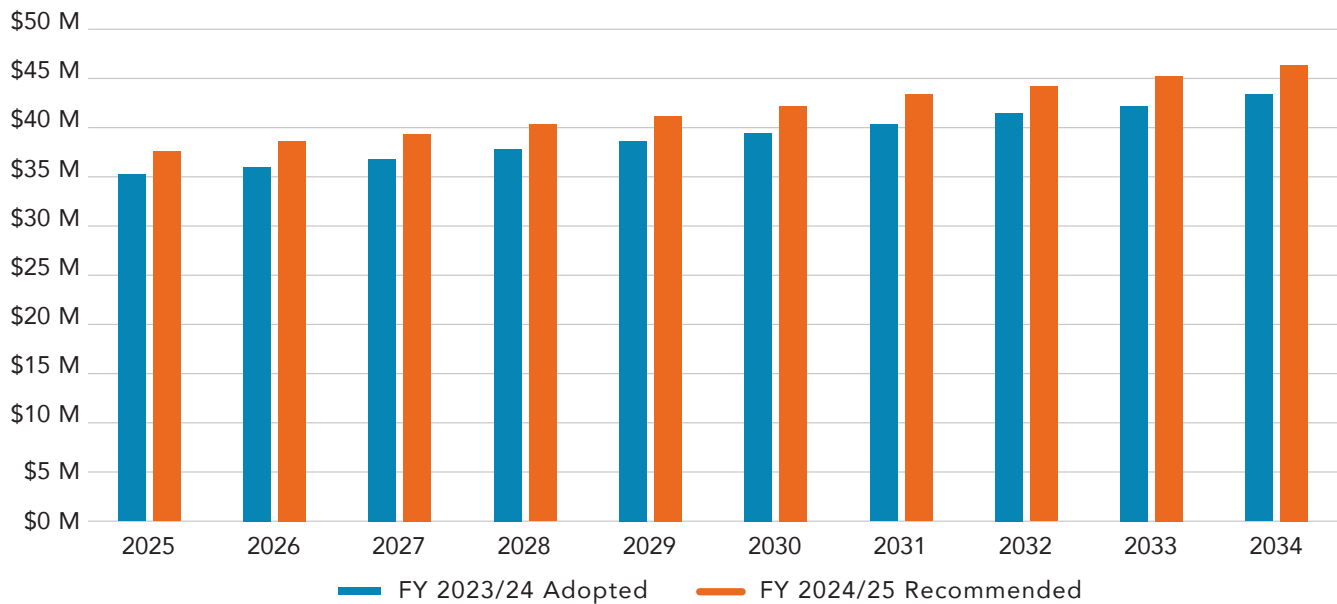
Figure 1 – Ten-Year Property Tax Forecast Comparison



Sales tax, the second largest source of revenue in the General Fund, has also been revised to a new base. Sunnyvale has an extremely resilient and diverse local economy. The quality and mix of businesses is a strength and hedges against sales tax volatility seen by other agencies. A byproduct of the current inflationary period is the rise in prices for taxable goods. While this puts pressure on the expenditure side of the budget, it also results in higher sales tax revenue. Increased sales tax projections yield \$29M in additional revenue in the first ten years of the plan as compared to projections used in the prior year budget (Figure 2).

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Figure 2 – Ten-Year Sales Tax Forecast Comparison



Not all revenues are projected to increase. Construction is slowing, the housing market is cooling due to rising interest rates, and the hotel industry is continuing to experience lower occupancy and room rates than prior to the pandemic. Correspondingly, construction tax, transient occupancy tax, and real property transfer tax revenues have all been revised downward in the proposed budget. Fortunately, these reductions are offset by the described revenue increases. Overall, total General Fund revenues are up \$295.5M over the first ten-years of the plan as compared to the prior year budget, with property and sales tax accounting for nearly 90% of that growth.

Expenditures

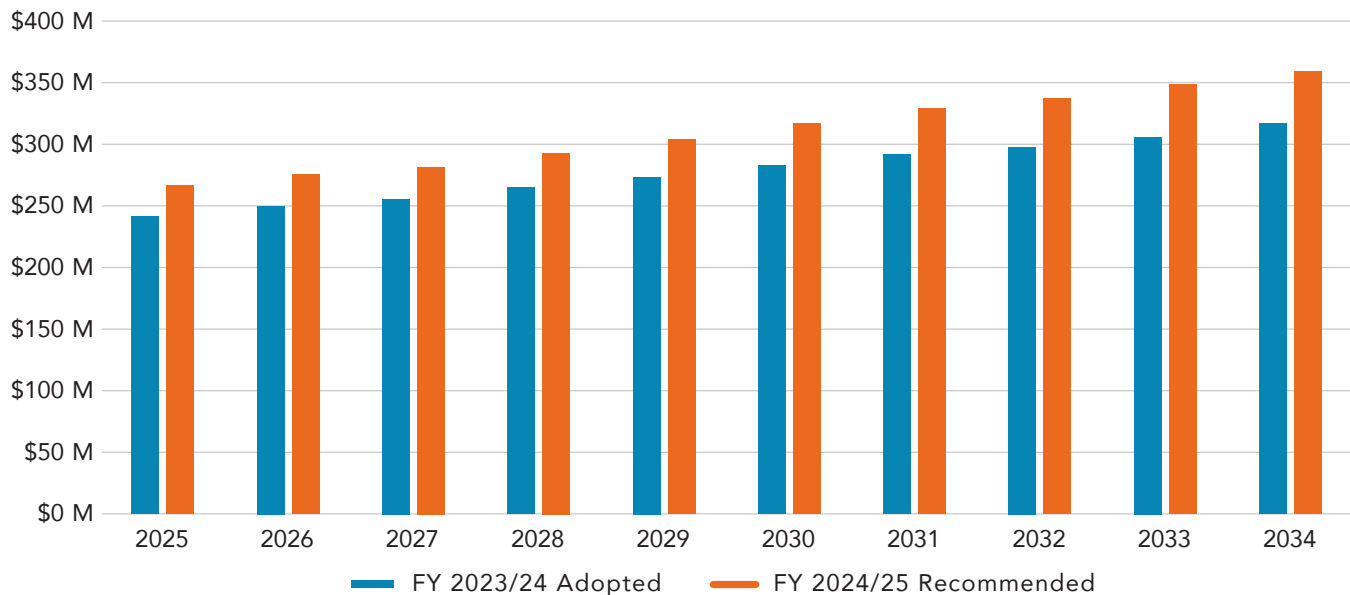
As the proposed expenditure budget reflects, costs are rising across the board. Realized overtime and ongoing recruitment costs in the Department of Public Safety, anticipated increases in total compensation costs, and the rise in the costs for goods and services are up a combined \$150M over the first ten years of the plan. However, these costs also include the addition of 25.5 new positions to the budget totaling approximately \$61M over the first ten years or approximately forty percent of the total increase.

One of the larger operational increases is rising costs for property and liability insurance, which is up \$27.6M over the first ten years of the plan. Staff will be reviewing options with regards to liability and property insurance during the upcoming year as the risk management market continues to be volatile.

The improved revenue picture has also allowed the City to take additional steps to convert the City fleet to clean air vehicles, true up the equipment replacement schedule to current values (+\$14.5M over ten years), close the fiscal strategies for golf (\$8.2M over the first ten years), fund the Budget Supplements (Study Issues and Budget Proposals) (\$11.5M over ten years), transfer funding to the Infrastructure Fund for City facilities (\$38.6M over ten years) and add \$37M over ten years to the Service Level Set-Aside (described below). In total, the ten-year plan adds \$301M in expenditures to the General Fund as compared to the prior year budget and carries these projections for the remainder of the twenty-year plan (Figure 3).

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Figure 3 – Ten-Year Expenditure Forecast Comparison



Use of Reserves and Balancing the Budget

The City has three main categories of reserves across many of its funds. Contingency Reserves are used during emergencies only. For example, the City deployed the Contingency Reserve of the General Fund in FY 2019/20 in response to the COVID-19 pandemic. Many funds have Capital Improvement Reserves, which are restricted legally or by policy for use on one-time capital expenditures. Lastly, all major funds carry Stabilization Reserves, which address revenue fluctuations and unanticipated expenditures.

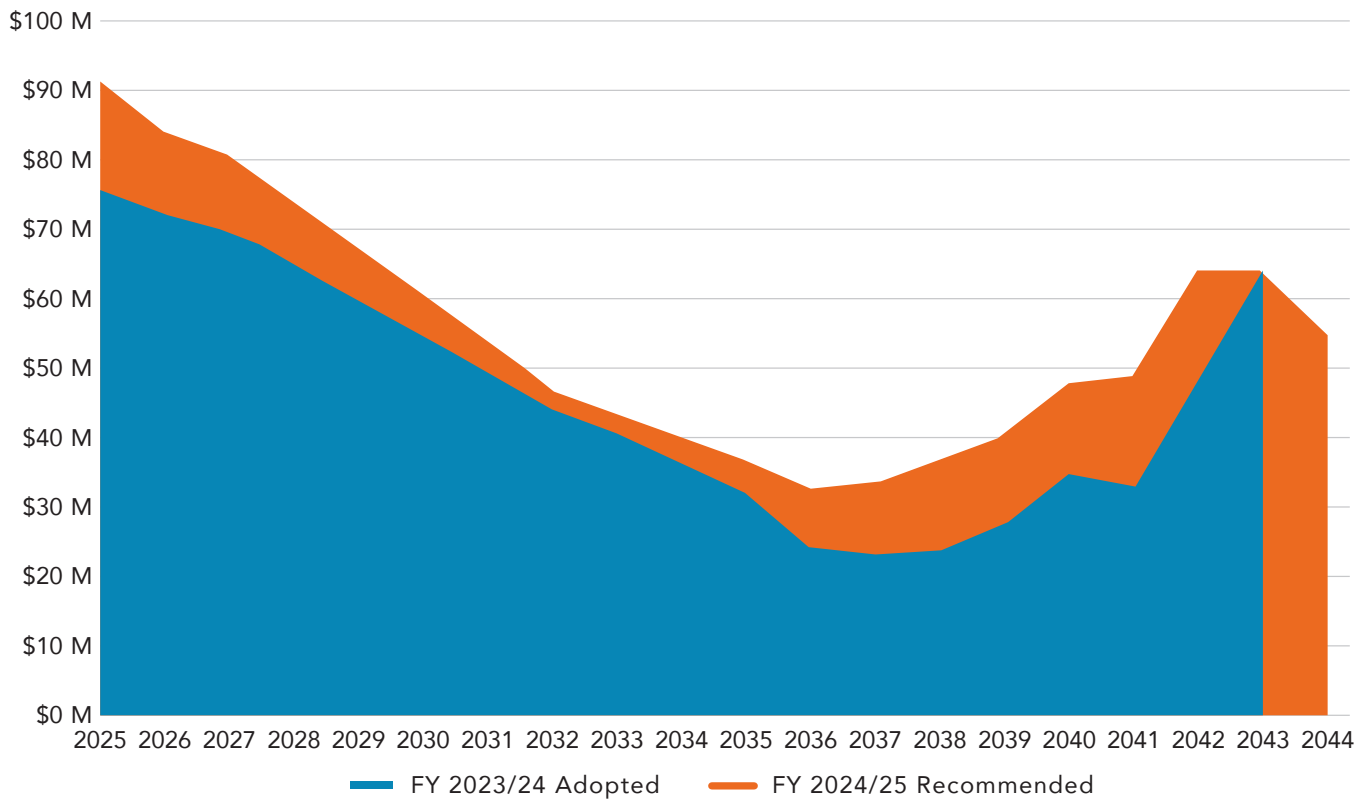
Council Policy also identifies a reserve called the Service Level Set-Aside, which is used to increase service levels or add new services. The Recommended Budget includes \$3.5M in ongoing funding in the Service Level Set-Aside. There are several areas that Council has been exploring for enhanced services in alignment with the Council's Strategic Priorities, including services for the unhoused, active transportation, an on-demand shuttle service, and implementing the Climate Action Game Plan 2028.

It is also important to note that the contribution to the Service Level Set Aside increases significantly in the second ten years of the plan, starting at \$7M per year and climbing to \$30.2M by the twentieth year. A higher level of funding becomes available due to the decline in the cost associated with the Unfunded Actuarial Liability for retirement, which falls off by \$20M per year by the end of the long-term plan.

Maintaining adequate reserves is one of Sunnyvale's strengths and it is paying off as anticipated. Strategic use of the Budget Stabilization Fund which is the primary discretionary reserve in the General Fund used to manage economic and other financial volatility, allows the City to meet both short- and long-term challenges. The revised projected ending balance in the Budget Stabilization Fund for FY 2024/25 is \$94.3M, which represents 35% of revenues. From there, the plan draws reserves down to a low point in FY 2035/36 of \$33M (9% of revenues). Thereafter, the Budget Stabilization Fund begins a steady recovery through the remainder of the twenty-year plan, ending at a balance of \$55M (11% of revenues) in FY 2043/44. Figure 4 shows the Budget Stabilization Fund balance over the full twenty-year plan.

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Figure 4 – Budget Stabilization Fund Comparison



Right Sizing the Organization

At the January 25, 2025 Council Strategic Workshop, staff outlined the challenges of balancing city resourcing with increasing population and demand growth, unfunded mandates, new or increased services, completing Study Issues, and updating infrastructure and technology. Capacity to address these pressures depends on revenue growth from a strong local economy, and maintenance of healthy reserves.

Municipal governments are primarily service organizations, and Sunnyvale is no exception. Services are delivered by staff. This recommended budget fortifies our service delivery through the addition of 21.5 full-time equivalent (FTE) positions across the organization (a modest 2% increase in total staffing levels), which are strategically aligned with Council's policy priorities. Four additional positions initiated as Budget Proposals from the City Council have also been included in the Recommended Budget, bringing the total in the Recommended Budget to 25.5 FTE. Table 2 summarizes the additional personnel:

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Table 2 – Personnel Additions

Department and Funding Source	Funding Source	Position(s)	Purpose
Public Safety	General Fund	Three (3) Public Safety Officers	Two (2) to support Department Wide, One (1) Rangemaster
Public Safety	Development Enterprise Fund	One (1) Part-time Permit Technician	Administrative support for Fire Protection
Community Development	Housing Mitigation Fund	One (1) Housing Specialist	Address new requirements and implement the housing element
Public Works	General Fund	One (1) Senior Traffic Engineer and One (1) Traffic Engineer	Additional support for Traffic Related Projects
Public Works	General Fund	One (1) Traffic and Transportation Planner	Support Active Transportation Projects
Public Works	Golf and Tennis Operations Fund	One (1) Part-time Golf Services Assistant and One (1) utility worker	Additional staffing to support increased activity and course usage
Public Works	General Fund	One (1) Senior Engineer	Support Climate Action Plan transportation related moves
Environmental Services	Solid Waste Fund	Convert Environmental Programs Specialist from Term Limited to Permanent	Support SB1383 (organics recycling)
Environmental Services	Water Fund (60%) Wastewater Fund (40%)	One (1) Senior Engineer	Manage recycled water, sewer, modeling, and Capital planning
Environmental Services	Wastewater Fund	One (1) Senior Engineer at the Water Pollution Control Plant (WPCP)	To provide additional capacity for Plant operations and SCWP construction coordination
Environmental Services	Wastewater Fund (70%) Solid Waste Fund (30%)	Reclassify One (1) Utility Worker to WPCP Maintenance Mechanic	Additional resources to support maintenance of new treatment works
Environmental Services	Water Fund (40%) Wastewater Fund (30%) Solid Waste Fund (30%)	Reclassify One (1) Staff Office Assistant to Administrative Analyst	Provide higher level of administrative support department wide
Environmental Services	Water Fund	One (1) Environmental Programs Specialist	Administer Water Conservation mandate
Environmental Services	General Fund (75%) Solid Waste Fund (25%)	One (1) Environmental Programs Specialist	Implement Game Plan 2028
Environmental Services	General Fund (75%) Solid Waste Fund (25%)	One (1) Environmental Programs Manager	Implement Game Plan 2028

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Department and Funding Source	Funding Source	Position(s)	Purpose
Environmental Services	Wastewater Fund	Reclassify one (1) Environmental Engineering Coordinator to Senior Environmental Engineer	Support more complex engineering needs at the WPCP
Finance	Utility Enterprise Funds offset by revenue recovery	One (1) Accounting Technician	Proactively audit water, sewer, and solid waste billings
Finance	General Fund	One (1) Accountant	Support increased compliance and grant reporting
Finance	General Fund	Reclassify one (1) Senior Management Analyst to Finance Manager	Support additional complexity in point of sale, receivables, and special projects
Finance	General Fund	One (1) Senior Buyer	Improve procurement cycle times and manage increasing complexity
Information Technology	General Services Fund	One (1) Administrative Aide – Confidential	General support to the department and CIO
Information Technology	General Services Fund	One (1) Client Support	Support public safety radios and other mobile technology
Information Technology	General Services Fund	One (1) Network Engineer	Support expansion of the City's network and systems infrastructure
Office of the City Manager	General Fund	One (1) Chief Communications Officer (1) Web and Communications Specialist	Align resources with public information demands, media responses, marketing, and community engagement

Legal, Policy, and Strategic Framework

The Recommended Budget and Twenty-Year Resource Allocation Plan reflects the Council's public policies, strategic priorities, and the related resources needed to implement them. Sunnyvale's reputation of strong financial management rests in the community's values expressed through the City Charter and long-established City Council Policies. These, guided by a disciplined and data-driven City Council, continue the tradition of remaining fiscally strategic and sustainable. City Charter and Council Policies are as follows, and investments in Council's Strategic Priorities are outlined in Table 3 below.

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).

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20-Year Resource Allocation Plan Requirement – In addition to voter mandates, City Council Policy 7.1.1 requires decision making focused on long-range implications of current budgeting decisions, with specific focus on the following:

- 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.

Council Strategic Priorities

Council has identified a series of Strategic Priorities, which it updates each year. The Recommended Budget includes continued and new investments in these areas. Table 3 Summarizes these investments.

Table 3 – Investments in Council Strategic Priorities

Strategic Priority	Investments
Civic Center Campus Modernization	<ul style="list-style-type: none"> Completed Phase 1 – City Hall and Emergency Operations Center Phase 2 – Main Library is underway Polling on a bond measure for library options; cost estimate \$240M – \$290M
Ability of Infrastructure to Support Development and Traffic	<ul style="list-style-type: none"> Adds two Traffic and Transportation Division positions Includes one position, equipment, and materials for painting approaches to intersections and crosswalks red per new Daylighting to Save Lives bill (AB 413)
Accelerating Climate Action, the Active Transportation Plan and Vision Zero Plan	<ul style="list-style-type: none"> Implementation of Game Plan 2028 (FY 2024/25 – FY 2027/28) \$1.07 M in one-time costs over four years Four new positions across three departments for implementation Significant update to fleet vehicle replacement schedule to include electric vehicles as replacements where practical
Support the Unhoused Community	<ul style="list-style-type: none"> Adds Housing Specialist position Incorporates new state funding; Permanent Local Housing Allocation (PLHA) funds Continues current operating investments; Homeless Services Manager hired and programming started Adds \$500,000 in anticipation of costs for service provider contract
Downtown Sunnyvale	<ul style="list-style-type: none"> Continues funding for downtown association events Includes funding for improvements to the Murphy Avenue Pedestrian Mall and improvements to bike and ped access at Caltrain Adds funding for entryway banner replacements to enhance appearance and messaging
Equity, Access and Inclusion	<ul style="list-style-type: none"> Continues funding for implementation of SEED team recommendations First effort is a focus from a city-wide staffed Innovation Team to improve internal communications

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Budget Supplements

For the FY 2024/25 Recommended Budget, seven budget supplements are presented for Council consideration. A complete description of each budget supplement is included in Volume I of the FY 2024/25 Budget under the Budget Supplements Section. Budget Supplement No. 1 provides funding for the Study Issues adopted by 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 2024/25 Recommended Budget. This year's list, which is shorter than the past few years, includes items that were proposed but 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 or use the Service Level Set-Aside to fund to maintain a balanced budget.

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

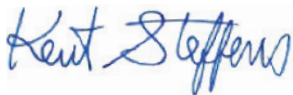
Closing

Sunnyvale remains in a strong and stable fiscal position. Our emphasis on long-term planning and our disciplined practice of maintaining strong reserve balances allowed us to continue delivering core services through the impacts of the pandemic and we are now emerging from it stronger than ever.

The work of Sunnyvale staff continues to be the source of our success. Staff consistently and professionally meets our mission of building community trust by providing excellent services. I opened this message by sharing my optimism and my excitement about the steps we are taking towards right sizing our service delivery.

The City alternates operating and project budgets each year, with this year being an operating year. In the following pages, the FY 2024/25 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 as well as operating budgets by department and Volume II: Projects Budget presents specific project detail by category.

Sincerely,

A handwritten signature in blue ink that reads "Kent Steffens". The signature is written in a cursive, flowing style.

Kent Steffens
City Manager