



CITY OF SUNNYVALE

Memorandum

DATE: May 1, 2015

TO: Mayor, Councilmembers and Residents of Sunnyvale

FROM: Deanna J. Santana, City Manager *DJS*

SUBJECT: Fiscal Year 2015/16 Recommended Budget for the City of Sunnyvale

I am pleased to present for your review and consideration the FY 2015/16 Recommended Budget and 20-Year Resource Allocation Plan. This recommended budget balances sustainable funding for core operations with additional resources to address City Council's strategic areas of focus and the increasing demands for services from the community.

With strong leadership from the Council, the good work of City staff, and the long-term fiscal planning framework, Sunnyvale has emerged from recession and is at the forefront of a strong state-wide economic recovery led by the Bay Area region. We believe the City is on solid financial footing, with a growing real estate market positively impacting property tax revenue, and active development throughout the city creating jobs and increasing economic activity. This budget carefully reflects the benefits of economic recovery with revenue growth projections and an improved fiscal outlook for the City's General Fund. While we are both optimistic and cautious, the City's improved fiscal standing presents opportunity for investment in key service areas.

The combination of deferred "mission critical" projects during the recession and increased economic growth naturally brings additional demands for investment in City services and infrastructure. Past economic cycles have shown the volatility of our key revenues and the need to prepare for the inevitable downturns. This FY 2015/16 Recommended Budget and 20-Year Resource Allocation Plan proposes investment in key areas that likely can no longer be deferred and/or are strategic areas where the City stands to improve its service delivery to the community. Therefore, in this time of economic prosperity, Council has many choices to make to invest our resources wisely and for the long term. This recommended budget and long-term financial plan lays down the framework to do so and continues with the City's practice of fiscal prudence.

Strengthening the City's Financial Position for the Long Term

Our current positive fiscal position allows us to continue to address many of the growing expenses and long-term liabilities. Working collaboratively with our labor associations, and in recognition that our workforce is our largest asset, we have made considerable progress to contain compensation costs in the short and long term, with actions that included: moderating salary increases, implementing second- and third-tier reduced benefit retirement plans, modifying leave programs, and increasing employee contributions for

retirement costs. These significant concessions made by our employees have been critical to stabilize the City's finances and maintain service levels. Similarly, we are also working to pay down our unfunded liability with CalPERS, propose to increase reserves to hedge against increasing retirement contribution rate volatility, and continue to contribute to our Other Post Employment Benefit Trust to mitigate our long term healthcare liabilities.

While many of our revenues are strong, the recommended budget also seeks to moderate the impact of the revenue volatility inherent in some of our largest revenue sources, specifically sales tax and development-related fees, and incorporates and absorbs the reality of declining revenue sources like utility users tax. It does so through the effective use of reserves, and a cautious approach to projecting the long-term revenue base. Through these actions, the FY 2015/16 Recommended Budget and 20-Year Resource Allocation Plan generally preserves the amount of the Budget Stabilization Fund, as adopted in FY 2014/15, funds all of the proposed projects identified by staff, and allows for additional investment on the part of the City Council to address long-term, ongoing needs.

Investing in Sunnyvale's Infrastructure

The FY 2015/16 Recommended Budget is focused on the projects budget, as we alternate between a detailed review of operations and projects each year. The proposed projects budget, totaling \$879 million over 20 years, reflects rising construction costs and the significant needs of our aging infrastructure.

One of Council's strategic priorities, the ability of transportation and other infrastructure to support development, is a major focus with projects to rehabilitate the Fair Oaks and Calabazas Creek bridges, reconfigure the Mathilda/237/101 intersection and additional funding for sidewalks, curbs and gutter replacement among other projects to improve our transportation network. The City's utilities infrastructure is also addressed with the replacement of the Water Pollution Control Plant and increased funding for water line replacement.

Open space is another high priority for the Council and the community. With funding through park dedication fees, all of the City's 21 parks are budgeted for renovation over the 20-year planning period. Renovations in the near term include Fair Oaks Park, Lakewood Park and the Washington Community Swim Center. A fully funded plan to maintain all of the City's existing parks is a significant achievement, and allows Council to focus on expansion of our open space.

Rebuilding Capacity to Meet Strategic Priorities

With the City in a stronger fiscal position and the demand for increased service or project implementation, we are constrained by a workforce that is nearly 20 percent smaller than it was 15 years ago. This presents significant challenges because our resources are not able to keep pace with operational demands, while there is also interest and need to implement key initiatives that require additional resources.

We have begun to conservatively address these needs with additional funding for resources in the Community Development Department and this recommended budget

adds resources for the Departments of Public Safety, Public Works and the Office of the City Manager. However, the additional resources are modest and only begin to address the gap between workload and staff capacity in these departments as well as in several other areas of the City. As demands continue to pressure our existing assets, we'll continue to look to strategically add resources where appropriate.

In the following pages, the overview of the FY 2015/16 Recommended Budget provides greater detail by the key components: revenues, expenditures, and reserves. For further information, Volume I: Summary & Operating Budget includes the 20-year financial plans for all funds and the operating budget by department. Volume II: Projects presents specific project detail by project category.

In summary, the FY 2015/16 Recommended Budget presents a balanced allocation of resources designed to begin meeting the increasing demands of a growing economy while maintaining a sustainable financial position for the long term. This budget maintains sufficient reserves to manage the volatility of the modern economy, and holds Sunnyvale's reputation for being strategic and thoughtful in budgeting. While we will continue to be faced with challenges such as our long-term liabilities and aging infrastructure, we are in a positive and stable fiscal position and are well situated to meet the future head on. Overall, I believe that our challenges translate to opportunities and that the wisdom of our City Council, workforce, and community are well poised to resolve them in the best interest of Sunnyvale.

FY 2015/16 Recommended Budget Highlights

The FY 2015/16 Recommended Budget totals \$356 million and includes all City operations and project expenditures, as well as contributions to reserves. Citywide budgeted expenditures are funded from multiple sources that include restricted enterprise funds (Water, Wastewater, Solid Waste, Development Enterprise and Golf and Tennis), restricted special revenue funds such as Housing, Park Dedication and Gas Tax, and grant funding, which include transportation related grants for capital projects, and federal and state workforce grants for employment development. These restricted funds make up over half of the budget.

The City's General Fund, which accounts for 42% of the citywide budget, has proposed expenditures of \$153 million. The General Fund is balanced over the twenty-year financial plan with a Budget Stabilization Fund Reserve that ends with \$13.5 million in the twentieth year. The Budget Stabilization Fund is used strategically over the twenty-year planning period to ensure we provide a stable and consistent level of service over the long term.

Primarily due to an increase in the property tax revenue base (discussed in detail below), the General Fund includes an expenditure line item, entitled "service level set aside," budgeted at \$950,000 and growing by a general inflation factor over the twenty-year plan. This line item represents the amount that can be added to the budget while maintaining a structural balance over the twenty years.

The service level set aside and the Budget Stabilization Fund provide flexibility to invest in services, deal with unexpected events, or absorb the impact when budgetary assumptions do not come in as planned. This is an important factor given two significant vulnerabilities in the General Fund long-term financial plan. First, several of the major revenue sources in the General Fund are highly volatile and heavily impacted by economic cycles. While we have taken care to budget to historical averages over the long-term plan, the City has experienced severe drops from peak levels in the recent

past. Additionally, we are also budgeting at a time when several revenues appear to be at peak levels.

Second, the budgeted salary assumptions may be challenging to hold to given the salary surveys in place that affect three bargaining groups and the need to make investments in our employees to maintain competitiveness in an improving economy. Fiscal sustainability will have to be balanced with that competitiveness, particularly with the concessions made by employees over the past several years, and the reduced retirement formulas in place for new employees. With these vulnerabilities in mind, these funds should be used thoughtfully and strategically.

As part of the development of the budget, the City performs a detailed review of operations and projects in alternating years. For the FY 2015/16 Recommended Budget, the focus is on the twenty-year projects budget. All projects were updated and reviewed in detail. Many existing project budgets have increased due to the rising costs of construction. In addition, due to the numerous capital and infrastructure needs across many categories such as transportation, parks, and utilities, careful attention was paid to the pacing of projects and what can be realistically delivered with the current staffing levels. Some staffing has been added to manage through the current workload, but resource levels will continue to need to be managed, particularly as the City progresses further into its largest infrastructure project to date, the water pollution control plant reconstruction. The twenty-year projects budget totals \$879.7 million over twenty years, up \$101.6 million or 13% from the FY 2013/14 Adopted Budget, the last projects budget cycle. Highlights are included below under "Major Project Highlights."

As FY 2015/16 is the second year of the two-year operating budget, the operating budget is largely the same as presented in the FY 2014/15 Adopted Budget and Long-Term Financial Plan. The recommended budget includes a few changes based on Council actions during FY 2014/15 and to provide resources

for increasing service demands and Council strategic priorities which are discussed in detail in the “Operating Budget” section.

The FY 2015/16 Recommended Budget also includes eight Budget Supplements, which provide funding to complete study issues or contribute funds to external agencies who serve City residents and have been traditionally funded by the City. Seven of the supplements provide funding for one year only. The eighth budget supplement proposes funding for five years to the Downtown Association during a critical time in the revitalization of the City’s downtown.

There are three key elements to the City’s budget and resource allocation plan that provide the financial picture of the City for both the short and long term: revenues, expenditures and reserves. The following sections discuss the highlights, key assumptions and changes included in this recommended budget for each of these elements. It is important to note these elements are budgeted into specific funds, such as the Park Dedication Fund and the Gas Tax Fund, primarily to ensure that revenues restricted to specific purposes are spent for those purposes. While the discussion here is not organized by fund, this important structure is reflected in the budget document with the presentation of twenty-year financial plans for each of the City’s 27 funds. Detailed discussions about revenues, expenditures, and reserves by specific fund are included with the financial plans.

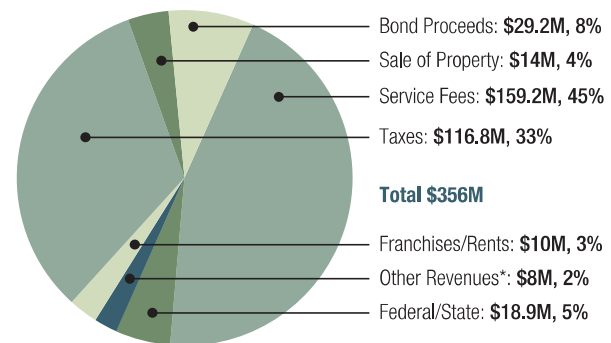
Figure 2
Top Tax Revenues

| Revenue Source | 2012/13 Actual | 2013/14 Actual | 2014/15 Revised Projection | 2015/16 Proposed Projection |
|---------------------------|---------------------|----------------------|-------------------------------|--------------------------------|
| Property Tax | \$47,555,857 | \$50,293,385 | \$53,511,242 | \$56,486,757 |
| Sales Tax | 30,028,067 | 30,194,827 | 29,849,173 | 31,947,169 |
| Transient Occupancy Tax | 9,016,052 | 10,858,671 | 12,436,990 | 11,397,216 |
| Utility Users Tax | 6,549,144 | 6,754,263 | 6,720,489 | 6,809,616 |
| Gas Tax | 3,246,768 | 4,568,727 | 4,170,352 | 3,102,861 |
| Construction Tax | 2,724,864 | 2,983,677 | 3,067,503 | 2,599,579 |
| Total Top Revenues | \$99,120,752 | \$105,653,550 | \$109,755,749 | \$112,343,198 |

City Revenues and Resources

The City relies on many sources of revenues and the strategic use of reserves to fund services to the community at a stable and sustainable level. As Figure 1 shows, the largest revenue categories are taxes and service fees.

Figure 1
FY 2015/16 Recommended Budget/Revenues by Source



**Other Revenues include: interest income, fines / licenses /permits, miscellaneous revenues (ie: damage to City property, housing loan repayments), SMarT Station revenues, reimbursement from the county, and other agencies contributions.

Taxes

Taxes, imposed by a government for the purpose of raising revenue to support governmental activities, are distinctly different from fees in that a tax does not need to be levied in proportion to the specific benefit received

by a person or property. Therefore, almost all of the City's tax revenues are in the General Fund, the primary general purpose fund of the City. Taxes account for 80% of the total revenues in the General Fund, supporting many of the most visible and essential city services such as police, fire, road maintenance, libraries and parks maintenance. The one major tax revenue accounted for in a separate fund is the Gas Tax, which is levied and distributed by the State. Gas Tax funds must be spent on maintenance and capital projects related to public streets and highways. Figure 2 presents recent revenue received and projections for the top tax revenues.

The proposed revenues present an overall positive outlook in the short term, but also reflect the volatility in key tax revenue sources. As part of the development of the recommended budget, the current year projections are also updated. Based on year-to-date figures, we anticipate FY 2014/15 revenues for property tax, transient occupancy tax and construction tax to exceed actual returns in the prior year. Revised FY 2014/15 estimates for sales tax, utility users' tax and gas tax project that these revenues will decrease from FY 2013/14. These revenue declines are a strong reminder that strengthening the City's revenue base must be a priority. We are currently working on a Council Study Issue to analyze the utility users' tax ordinance for modernization and potential tax increase for the 2016 ballot. This work will also be done in conjunction with a revenue strategy team to review all City revenues and areas to further pursue with Council and the community.

Property tax revenue has continued to experience very strong growth. The increased revenue is due to bustling development activity in both the residential and commercial real estate markets. In particular, Sunnyvale home sales prices have hit record levels with an average sale price of \$860,000. Revenues from the residential sector increased 6.3% in FY 2014/15 while the commercial/industrial sector experienced 8.0% growth. While growth was forecast in the FY 2014/15 Adopted Budget, actual growth is higher than these estimates and therefore, the City's property tax revenue base was adjusted up. In addition, we anticipate continued strong growth in property tax revenue for the next two years. The residential growth projection

is adjusted up 0.5% to 4.5% for FY 2015/16. On the commercial side, we have analyzed significant approved development projects and the estimated construction schedules for these projects. Based on this data, three years of high growth is projected as these projects are added to the tax roll. Beginning in FY 2018/19, we forecast property tax growth at a long-term historical average. With the higher property tax base and increased growth assumptions in the short term, the combined effect is that property tax revenues over the General Fund long-term financial plan are up \$67.5 million over twenty years.

Sales tax, the City's second largest tax revenue source, continues to provide unstable returns. The largest segment of activity in our sales tax base is business-to-business sales, which has declined over the last three years. In addition, a large negative adjustment made by the State Board of Equalization related to remittances from one of the City's largest sales tax producers is impacting revenues for FY 2013/14 through FY 2015/16. With weak business-to-business revenues year to date and the impact of the negative adjustment, FY 2014/15 sales tax revenue is anticipated to be less than FY 2013/14 actuals by approximately \$350,000. Non business-to-business activity has trended positive, which we anticipate continuing in FY 2015/16. Without the effect of the negative audit adjustment, we forecast FY 2015/16 revenue to be up 4.5% over the revised FY 2014/15 projection. For the long term, given the ongoing volatility and the erosion of the sales tax base as we continue to move into more of a service based economy, we have maintained modest sales tax growth projections. Projections for additional sales tax revenue from the redevelopment of the downtown have been pushed back one year to mid-FY 2017/18 and reduced from \$1.5 million annually to \$1 million annually. The overall impact of all these adjustments to the City's General Fund long-term financial plan is a \$3 million decrease over twenty years.

Transient occupancy tax (TOT) has shown significant growth over recent years, coming in above estimates for FY 2013/14 and anticipated to be above estimates again for FY 2014/15. Historically, this revenue source has correlated with the economy and followed

sales tax trends, because business related travel is the core business for Sunnyvale's hotels. Currently, TOT growth is outpacing sales tax growth as TOT revenue continues to remain strong and is anticipated to stay strong through FY 2015/16. Growth has also come from the 1% increase in TOT rate to 10.5%, effective January 1, 2014. In the update of revenue projections for the FY 2015/16 Recommended Budget, we have adjusted the timing of the three new hotels forecast in the budget and have only included approved projects. Because of the heavy reliance on business travel and the resulting volatility, we utilize historical room and occupancy rates for projections starting in FY 2016/17.

Utility users tax (UUT) revenue, generated from the sale of electricity, telecom services, and the sale of gas, is forecasted to decline over the long term. The decline is being driven by two factors, energy efficiency and how the City's outdated ordinance applies to telecom. High development activity, in particular the impact of additional buildings within the City, is growing the base. However, the impact of this growth has been substantially negated by energy efficiency, resulting in only modest growth in revenue. The telecom tax base has been deteriorating as the majority of telecom utility user tax revenue is based on landlines, while services such as data transmission are not included in the tax calculation of our outdated ordinance. Upon analysis of the UUT returns for the past several years, we have seen that the telecom tax base is deteriorating at a faster pace than previously projected as the market shifts away from traditional land lines. We have revised projections accordingly, which results in a reduction of \$23 million over the twenty-year financial plan.

Gas tax, levied as a flat rate per gallon sold, is projected to decline in the short term and then hold flat in the long term over the twenty-year financial plan. The majority of the tax is based on volume sold and not on the price of gasoline, and therefore, our projections consider advancements in fuel economy offsetting increased population and number of vehicles. The short-term decrease is due to a true-up rate set by the State for the portion that is based on price, caused by gas prices in FY 2013/14 declining much further than projected. While this revenue source holds flat over time, the costs

and needs for street maintenance and improvements continue to climb. There is discussion at the State and Federal level to make changes to the gas tax and how it is levied. In the meantime, the City's General Fund is picking up the increased funding requirement for these important expenditures.

Construction tax returns have been very strong, an indication of the high level of development activity that the City has sustained for three consecutive years. We anticipate that this historically high level will cool off, with an elevated amount estimated for FY 2015/16 and the historical average level planned beginning in FY 2016/17.

Service Fees

Service fees are the City's largest source of revenue. A diverse set of fees are charged to recover all or a portion of the City's costs for providing a service or access to public property, or for mitigating the impacts of the fee payer's activities on the community. Intended for cost recovery, a fee may not exceed the estimated reasonable cost of providing the service or facility for which the fee is charged. Because of this basis and the legal restrictions related to the expenditure of many of the fees, several of the City's fees are accounted for in separate funds. By far, the largest source of fee revenue comes from the provision of water, sewer and refuse collection services. The proposed increases in utility rates are discussed below, as well as significant highlights in other fee categories.

Utility Rates. The City has three utility funds that are fully self-supporting: the Water Supply and Distribution Fund, the Solid Waste Management Fund, and the Wastewater Management Fund. Each year, as part of the budget process, staff analyzes the current condition and long-term outlook for all three funds. The analysis includes a review of fund balances; State and Federal environmental requirements; revenues; anticipated capital, infrastructure, and operational requirements; and a detailed inspection of significant expenditure areas. The results lead to proposed adjustments to rates that will generate the revenues necessary to meet planned expenditures. Through the long-term planning model, staff attempts to keep

utility rates as stable as possible with modest increases annually, rather than keeping rates flat and impacting customers with a high increase in one year. The overall recommended increase for FY 2015/16 is shown below, in Figure 3, with a comparison to the original projection made in the FY 2014/15 Adopted Budget:

Figure 3
Proposed Utility Rate Increases

| Utility | Original Projection | Recommended FY 2015/16 | Change in Percentage Points |
|-------------|---------------------|------------------------|-----------------------------|
| Water | 5.0% | 20.0% | 15.0% |
| Wastewater | 8.0% | 8.0% | 0.0% |
| Solid Waste | 5.0% | 5.0% | 0.0% |

Each of the utility enterprises has its own unique pressures that are driving rate adjustments. The FY 2015/16 Recommended Budget is the first year in the two year project budget cycle. As such, each utility submitted updated project budgets that included revised current projects as well as proposed new projects. Because the capital program for the utilities is substantial, the project budgets are significant enough that adjustments are typically made based on the changing priorities in each of the utilities every year and workload to administer these projects must be taken into consideration.

In the water utility, the two drivers affecting rates are the extended drought being experienced across the State for four consecutive years, and the increased infrastructure needs in the water utility. The drought adds a layer of financial uncertainty to the Fund. The State recently called for a mandatory 25% reduction in water use. The financial plan assumes that the drought will affect both revenues and expenditures as customers adjust to the mandate and the City sells and buys less water. In FY 2014/15, both wholesalers agreed to reduce the City's minimum purchase requirements, so the revenue loss will be largely offset by savings in buying less water. The plan anticipates that these reductions will continue for another year. However, both wholesalers have also announced proposed rate increases of approximately 30% or more. These are much larger than

what was previously in the plan, and as such, the City's rates must also be adjusted significantly.

Furthermore, as with all utilities, there are fixed costs to operate the water system that are not based on the volume of water delivered. These include large capital needs in the Fund, mainly associated with pipe, tank, and well replacements and rehabilitation. The recommended budget includes approximately \$103.6 million in projects over 20 years, the most significant of which is \$70 million for water pipe and main replacements. The plan also includes investment in recycled water through the Continuous Recycled Water Production project being implemented at the City's Water Pollution Control Plant. This investment leverages a \$1.5 million grant from the State Department of Water Resources and supports both an investment in recycled water within the City and a more regional approach in partnership with the Santa Clara Valley Water District to secure and stabilize water supply.

Wastewater rates are rising as planned and being driven primarily by costs associated with improvements to the City's wastewater collection and treatment system and stricter regulatory requirements. The main driver of rates in the Wastewater Management Fund is the need to replace the City's aging wastewater treatment plant. The rates include an assumption that the City will issue utility revenue bonds to fund the project over many years; annual debt service costs are expected to be over \$22 million by FY 2023/24 after all the bonds have been issued. This debt service expense is substantial – it will eventually make up more than a third of the Fund's total expenditure requirements.

The Fund also has several new projects that address regulatory needs as ongoing infrastructure needs, and support the Council's adopted Climate Action Plan. Tightening regulations on storm water management are the primary driver of new projects. The plan includes \$6.4 million to make improvements and implement programs to capture trash and keep it from the storm water system. Also included is \$500,000 to pilot infrastructure improvements such as green streets to better manage storm water in the City.

Solid waste rates are rising as planned, driven

primarily by the implementation of the City's Zero Waste Strategic Plan. This project, which is working to increase the City's waste diversion rate to 75% by 2020 and 90% by 2030, is achieving these goals through a combination of new services and enhanced public education and outreach. A portion of the increases from zero waste are offset by savings through less waste being landfilled.

Solid waste rates also include the costs of operating and maintaining the Sunnyvale Materials Recovery and Transfer Station (SMaRT Station). These costs are shared by the cities of Mountain View and Palo Alto. This year, approximately \$1.3 million in new costs are added (half of which are Sunnyvale's) to comply with a settlement agreement with Baykeeper on storm water pollution prevention. These costs include preliminary estimates of new capital improvements and ongoing costs to better manage storm water at the site.

Overall, the utility funds remain on solid footing and are performing well despite facing many unforeseen challenges. As the City continues its disciplined approach in reviewing the financial condition of each of these critical funds every year, time is provided to make adjustments and minimize the fiscal impact on each utility's customers.

Development-Related Fees. Effective FY 2014/15, a separate Development Enterprise Fund was established that includes all development-related fees (e.g. plan check fees, inspection fees and permit application fees) and related expenditures. In addition to ensuring full cost recovery, the Fund allows us to track revenues and expenditures separately, because these fee revenues are highly volatile and expenditures related to specific fees can occur later than when the revenue is collected; a separate fund allows us to build and draw down on a separate reserve. Prior to establishing the Fund, in preparation a separate Development Enterprise Reserve was created in the General Fund to hold revenues collected in excess of what was budgeted for development-related revenue for FY 2012/13 and FY 2013/14. It should be noted that construction tax, while tied to development activity, is a tax and therefore remains in the General Fund.

With several large scale development projects in the Moffett Park and Peery Park areas, staff estimates an elevated level of revenue to continue for FY 2015/16. However, this will be the fifth consecutive year of high

activity, and history has shown us that this revenue is highly volatile with very wide swings between the peaks and valleys. As a result, a historical average has been budgeted starting in FY 2016/17. On the expenditure side, a detailed analysis was conducted to ensure all direct and indirect costs are reflected in the new Fund. The long-term financial plan for the Development Enterprise Fund includes indirect costs that were not captured in the FY 2014/15 Adopted Budget. With these costs included, the long-term financial plan indicates the historical level of revenues will not fully cover expenditures over the long term. As a result, fees will need to be increased over the long term. As we develop more actual history, this separate Fund will assist us in ensuring full cost recovery.

Development Impact Fees. The City imposes four development impact fees to mitigate the impact of a development on the community: Park Dedication fees, Transportation Impact fees, Housing Mitigation fees and Sense of Place fees. Impact fees have strict requirements, set by state government code, that require fees to be roughly proportional to the impacts of the project and imposed for purposes related to the impacts of the project. Therefore, each of these fees is accounted for separately in its own fund or sub-fund. With development activity in the City at record levels, revenue from these fees has been significant. The City collected \$18.8 million in revenue from these four fees in FY 2013/14. Based on year-to-date figures and approved projects, we estimate collecting \$21.8 million in FY 2014/15. With the known development projects in the permitting process currently, a high level of revenue is anticipated for FY 2015/16 and FY 2016/17. Because of the volatile nature of development projects, it is challenging to forecast impact fee revenue beyond the most immediate years. As Figure 4 shows, Park Dedication Fee revenue is expected to remain high through FY 2016/17, based on several large projects triggering these fees, and then a historical average is used. We use the historical average starting in FY 2016/17 for Transportation Impact fees, and FY 2017/18 for Park Dedication, Housing Mitigation and Sense of Place fee revenue. The revenue projected above last year's budget is primarily appropriated in projects, or reflected as increases to fund reserves that will go to projects in the future.

Figure 4
Impact Fee Revenue

| Revenue Source | 2014/15 Projection | 2015/16 Budget | 2016/17 Plan | 2017/18 Plan | 2018/19 Plan | 2019/20 Plan |
|----------------------------|-----------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Park Dedication Fee | \$8,926,823 | \$13,120,105 | \$10,982,138 | \$7,527,168 | \$7,527,168 | \$7,527,168 |
| Housing Mitigation Fee | 7,190,529 | 4,833,550 | 7,530,760 | 2,895,693 | 2,895,693 | 2,895,693 |
| Transportation Impact Fee | 5,396,302 | 2,276,568 | 1,776,803 | 1,812,339 | 1,848,585 | 1,885,557 |
| Sense of Place Fee | 294,953 | 539,815 | 569,081 | 238,177 | 242,940 | 247,799 |
| IMPACT FEES - TOTAL | \$21,808,607 | \$20,770,039 | \$20,858,782 | \$12,473,376 | \$12,514,386 | \$12,556,217 |

Golf Fees. Newly configured in FY 2012/13, the Golf and Tennis Fund has struggled over the last two years to operate as a true enterprise fund, with all activities attempting to be self-supporting. Due to the sudden departure of the restaurant operator for the two golf courses in 2012, golf revenues suffered greatly and the General Fund provided a \$300,000 subsidy to cover anticipated deficits for FY 2012/13 and FY 2013/14. During this time period, staff has made good progress in restructuring staffing to reduce expenditures; however growing revenues has been a challenge. Although the restaurants re-opened under a new operator, revenues did not rebound as strongly as anticipated and the new operator went out of business in early FY 2014/15. The Fund remains in a precarious position and staff is recommending action to provide General Fund monies to the Golf and Tennis Operations Fund due to projected shortfalls in FY 2014/15 and 2015/16.

Over the longer term, a combination of greater revenue growth and further expenditure reduction is required for this Fund to be structurally balanced. An additional longer term pressure is the funding of capital improvements. Current planned capital projects are funded by Park Dedication Fees through FY 2032/33, but subsequently the Golf and Tennis Fund is expected to fund its own capital and infrastructure. Given the many challenges, a discussion of the long-term viability of the golf course operations and the current funding model will begin in the next year.

Other Revenue Sources

The remaining revenue sources are varied including franchises, rents, fines, licenses and interest income. There are also one-time revenues in this category such as bond proceeds, federal and state grants and sale of property. Highlights of other revenue sources are discussed below.

Debt Financing. We use debt financing as a tool to maintain long-term financial stability by paying for certain expenditures over time. Debt financing allows us to manage cash flow when large, one-time outlays are required, generally for large infrastructure projects.

The City currently carries debt for both the Water and Wastewater Systems, the SMaRT Station, the Redevelopment Successor Agency and the Government Center property at 505 West Olive Avenue ("Sunnyvale Office Center"). All of the currently held debt is funded by rate revenues, former tax increment or lease payments. The City does not maintain any general obligation debt (commonly called "GO Bonds") and continues to maintain the highest issuer credit rating issued by Standard & Poors (AAA) and Moody's (Aaa).

The recommended budget includes the assumption that we will issue a significant amount of debt to finance the Water Pollution Control Plant (WPCP) renovation. It is anticipated that the first series of bonds may be issued as soon as FY 2015/16, with a financing program to continue for about 10 years. Financing for the WPCP will be secured by revenues from the Wastewater System (sewer rates). We are currently exploring a mix of

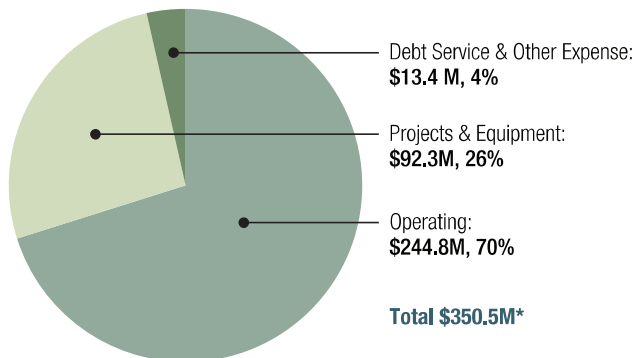
financing options including the use of State Revolving funds, traditional revenue bonds and short term cash borrowing rolled into a long-term financing option.

Sale of Property. One-time in nature, proceeds from the sale of property go to the fund that owned or purchased the property. By City policy, one-time revenues are spent on one-time expenditures. As such, in the General Fund, sale of property revenue is placed in the *Capital Improvement Reserve* within the Fund. For FY 2015/16, the General Fund reflects \$14 million for the sale of the Raynor Activity Center. Sale proceeds from the Raynor Activity Center are planned for design and construction of a branch library on the Lakewood Park site. The recommended budget also reflects updated sales numbers for the Unilever Margarine Plant site, moving the sale forward one year to FY 2016/17 and increasing the estimated value from \$11 million to \$18 million. Based on recent discussions with Unilever, they are planning exiting the site in FY 2015/16, at which point evaluation of the disposition of the property will begin.

City Expenditures

City expenditures fall into three broad categories: operating, projects and equipment, and debt service. As Figure 5 shows, operating expenditures make up most of the City's expenditures.

Figure 5
FY 2015/16 Recommended Budget Citywide Expenditures by Type



*The difference between total Citywide revenues and expenditures is reflected as an increase to reserves of \$5.5 million.

Capital Projects and Infrastructure

The City operates on a two-year budget cycle. While Council approves a budget annually, the first year of the two-year cycle focuses on the City's operations budget, while the second year focuses on the City's projects budget. The FY 2015/16 Recommended Budget is in the second year of the two-year budget cycle, and as such, this budget focuses on the City's projects. During the development of this budget, there was a detailed review of all City projects for the entire 20-year planning period. Detailed information on all of the projects is included in Volume II: Projects Budget.

Figure 6
Total Projects Budget by Fund

| Fund | Fund Title | 2015/16 | 2016/17 | 2017/18 | 20-Yr Total |
|--------------------|---|---------------------|---------------------|---------------------|----------------------|
| 35 | General | \$10,300,391 | \$5,308,574 | \$3,727,432 | \$73,882,819 |
| 70 | Housing Mitigation | 5,466,610 | 26,183 | 10,000 | 5,780,801 |
| 71 | HOME | 1,320,000 | — | — | 1,320,000 |
| 110 | CDBG | 760,000 | 248,000 | 548,000 | 7,272,000 |
| 141 | Park Dedication | — | — | — | — |
| 175 | Asset Forfeiture | 44,500 | 44,500 | 44,500 | 311,500 |
| 245 | Downtown Parking District | 202,595 | 61,200 | — | 1,037,566 |
| 255 | Sunnyvale Community Facilities District No. 3 | — | — | — | 104,752 |
| 280 | Gas Tax | 105,000 | 81,600 | 265,302 | 561,905 |
| 315 | RDA Successor | 163,000 | 163,000 | 148,000 | 554,000 |
| 385 | Capital Projects | 6,882,200 | 16,555,696 | 13,261,129 | 45,036,554 |
| 460 | Water | 5,816,288 | 3,575,500 | 3,374,368 | 96,844,815 |
| 465 | Wastewater | 42,964,054 | 42,666,133 | 47,756,549 | 369,013,968 |
| 485 | Solid Waste | 2,317,256 | 2,092,035 | 1,579,278 | 33,660,932 |
| 490 | SMaRT Station | 600,855 | 1,146,238 | 276,618 | 39,537,960 |
| 510 | Development Enterprise | 50,000 | — | — | 50,000 |
| 595 | General Services | 75,000 | 188,700 | 541,008 | 1,391,429 |
| 610 | Infrastructure Replacement | 13,056,824 | 11,210,643 | 17,097,983 | 203,291,296 |
| Grand Total | | \$90,124,573 | \$83,368,002 | \$88,630,167 | \$879,652,297 |

The FY 2015/16 Recommended Budget includes 293 projects. We categorize our projects into four broad types: Capital, Infrastructure, Special and Outside Group Funding. Capital projects are efforts to construct new or expanded facilities or infrastructure. Infrastructure projects are to rehabilitate existing infrastructure. Special projects are efforts like special studies or initiatives. Projects also fall into thirteen categories based on the type of project or the need that they are addressing. Projects that are marked as

“unfunded” are typically dependent on grant funding or other outside funding sources that have not been identified or awarded at this time. In addition, there are many unfunded projects identified in the long-range plans for traffic and transportation that guide the development of the capital projects budget in the short and long term. The list of specific projects related to the traffic and transportation plans are included in the Traffic and Transportation section of Volume II: Projects Budget.

Major Project Highlights

Park and Recreational Facilities Renovation and Improvement



Parks projects, which are funded through park dedication fees, underwent a significant review and update through this budget process. Each project received a detailed review and costs for design and construction were updated to reflect the City's most recent experience in constructing Seven Seas Park. The FY 2015/16 Recommended Budget reflects projects throughout the twenty-year plan that renovate and update all the City's existing parks. Several major park projects are in the near term.

Fair Oaks and Lakewood Park Renovations

A total of \$14.5 million in park dedication fees over the next three years is planned for the significant renovation of two of the City's community parks, Lakewood Park and Fair Oaks Park. Both projects will include replacement of the athletic fields with synthetic turf, new bleachers and fencing, updated buildings, energy efficient fixtures and more.

Other Park Renovation Projects

Renovation of parks throughout the City other than Lakewood and Fair Oaks are spaced over the twenty-year planning period to allow for workload considerations, as well as timing them when renovation is appropriate. Some of the major highlights include

the renovation of Ortega Park starting in FY 2020/21, Baylands Park starting in FY 2022/23, Las Palmas and Serra Parks starting in FY 2023/24. The budget also includes funding every three years for the replacement of playground equipment at various parks. As the project budget is reviewed in detail every two years, adjustments may be made to the current schedules based on need or other considerations.

Recreational Facilities



The City also maintains numerous recreational facilities, the renovations of which are also funded largely by park dedication fees. The Washington Community Swim Center is a highlight of proposed projects. Funded at \$8 million over the next four years, this facility will be fully rebuilt, completely replacing the pool complex. Included will be a new family observation area, zero depth entry pools, water play equipment, slides and wading areas. This will increase the footprint of the facility, and the surrounding areas will also be improved as appropriate.

At the Community Center, progress is being made on a \$5 million project to upgrade the infrastructure at the site. Work includes roof repair, heating and air conditioning replacement, theatre house lighting, and miscellaneous finishes and upgrades in the various rooms throughout the facility.

Projects currently funded by park dedication fees involving facilities in the Golf and Tennis Operations Fund continue to be funded at the same level. Although there are no new golf and tennis facilities projects planned in this budget, any future new projects will be funded by the Golf and Tennis Operations Fund and not the Park Dedication Fund.

Civic Center and Library Facility Modernization

The City provides an array of services from six different buildings located at the Civic Center. These include buildings that were built from 1958 to 1985, with one additional small modular building purchased in 2001. The City is engaged in an effort to modernize its civic center and library facilities. In fall 2014, the City Council gave direction to prepare a robust Community Engagement Plan for the project and include a \$400,000 appropriation into the FY 2014/15 Adopted Budget. The City is still very early in the planning process and a full range of options are being explored. Efforts are being taken to insure that there are many opportunities for community participation and input as the City evaluates alternatives and before decisions are made on next steps.



Funding for the construction of a new or renovated Civic Center and Library is not included in the FY 2015/16 Recommended Budget. Funding strategies are being evaluated as part of the Community Engagement Plan and options will be presented to the City Council later in 2015.

Branch Library in North Sunnyvale

In order to increase access to library services for residents in north Sunnyvale, Council directed staff in 2012 to explore a branch library at the Lakewood School and Park site in partnership with the Sunnyvale School District. In line with the City's policy to utilize one-time funds for one-time expenditures, the proceeds from the sale of the Raynor Activity Center are planned to provide funding for the construction of the branch library. The process to sell the Raynor Activity Center is currently underway but has been delayed by litigation. Consequently, the design for the library is now estimated to begin in FY 2016/17, with construction to follow over the subsequent two years. The annual operating costs for the branch library are estimated to be approximately \$439,000. Of this amount, \$197,000 will be reallocated funding from the Library's existing operating budget and will not constitute new funding. The remaining \$242,000 will be the net new annual funding requirement. This amount has been reflected in the General Fund twenty-year financial plan beginning in FY 2019/20.

Utility Infrastructure

The City has been addressing its aging water and wastewater utility infrastructure for many years now and will continue to for the foreseeable future. Like many municipalities in the state and the country, Sunnyvale's water storage and distribution systems and wastewater collection and treatment systems are over fifty years old and in need of significant rehabilitation. Due to the physical location of the infrastructure, the need to make investments that will benefit the City over a very long time, and the ever-changing policy and regulatory environment, there is no cheap, easy, or simple solution.

The Water Supply and Distribution System

The Sunnyvale water system is a comprehensive water storage and delivery system. The City is divided into three zones. Zone 1 comprises the northerly two-thirds of the City and is supplied by six San Francisco Public Utilities Commission (SFPUC) turnouts. Zones 2 and 3 comprise the southerly one-third of the City and

are supplied by two Santa Clara Valley Water District (SCVWD) turnouts, and by seven wells. The distribution system also consists of three booster pump plants and ten storage tanks with a capacity of 26 million gallons. There is also one recycled water reservoir with a storage capacity of two million gallons. The system also serves an important role in providing fire protection for the City, featuring approximately 3,400 public fire hydrants and many private fire service connections. The system is managed by an automated Supervisory Control and Data Acquisition (SCADA) system that controls distribution of water throughout the system.

Over the past few years, staff has been working to identify and scope projects to replace the aging infrastructure and improve the system's reliability. The FY 2015/16 Recommended Budget includes \$103.6 million over 31 projects. While the main focus on water line replacements will continue, comprising \$70 million of the total, emphasis is also being placed on rehabilitation and maintenance of potable water tanks and wells and extending the recycled water system. Approximately \$15 million has been budgeted for the renovation of water plants, wells, and tanks.

An additional \$2.4 million in funding is provided to install the Wolfe Road recycled water pipeline and provide for continuous recycled water production at the water pollution control plant. This renewed focus on expansion of the recycled water system is in partnership with the Santa Clara Valley Water District, who is participating in a regional effort that will expand Sunnyvale's recycled water system and bring recycled water to southern Sunnyvale. Regional benefits include the delivery of recycled water to northern Cupertino, including the future Apple campus, and the potential to extend the system to serve groundwater recharge facilities in other areas of the valley.

The Wastewater Collection and Treatment System

The Wastewater Utility continues to face large infrastructure challenges. The most significant is the renovation of the City's Water Pollution Control Plant (WPCP). The FY 2015/16 Recommended Budget includes planned infrastructure expenditures of \$328 million over the first ten years solely for the replacement of the

WPCP. In addition, funds are budgeted for projects to manage the gap between the old and new plant, and infrastructure work on the sewer and storm collection systems.

Replacement of the Water Pollution Control Plant



Rehabilitation and replacement of the WPCP continues to be the highest priority for the City's wastewater treatment system. Projects in the FY 2015/16 Recommended Budget include a \$117 million project for the design and construction of new primary treatment facilities over the next five years, \$28.5 million over the next ten years for program management, \$19 million to dredge the oxidation ponds, \$5.9 million for the master planning efforts, and a project for \$154 million as an estimated placeholder to provide funding for the remaining phases to complete the full replacement of the WPCP. Once the master planning effort is complete, which is anticipated the end of FY 2015/16, more refined cost estimates and cash flows will be available for the full project.

Work also continues on certain critical projects that were previously identified as necessary in the short term to address the most advanced areas of deterioration. Several such projects were recently completed or are currently in progress. These include a project to replace the gaseous chlorine disinfection system with a much safer liquid hypochlorite system and the rehabilitation of the digesters.

It is important to note that over time, the City will be issuing bonds or applying for State Revolving Fund Loans to fund the renovation program. At its completion, the City will be paying significant annual debt service, anticipated to be around \$22 million per year, approximately 40% of the Fund's total expenses. This level of debt service is estimated to remain for 21 years.

Wastewater Collection System

The wastewater collection system consists of approximately 610 miles of sewer and storm mains and seven pump or lift stations. The system has five major sewer trunk lines that terminate at the WPCP, where sewage is treated.

The City's wastewater collection systems are in need of significant rehabilitation due to their age. The FY 2015/16 Recommended Budget includes approximately \$25.2 million over the twenty-year plan to fund sewer collection pipe replacements. This includes rehabilitation of the Lawrence Expressway trunk line for \$6.8 million.

Additionally, \$6.4 million is budgeted for storm system trash capture devices and programs. To meet new permit requirements, trash capture devices need to be installed throughout the storm water collection system. The project funds the design and installation of two devices every other year over ten years.

Solid Waste Management System

In 2013, the City Council approved the Zero Waste Strategic Plan, a policy which seeks to increase the City's waste diversion rate to 75% by 2020 and 90% by 2030. The FY 2015/16 Recommended Budget includes a project to implement public education and new collection programs to help the City meet this goal. Examples include multi-family yard trimmings collection, and a residential food waste collection pilot. Programs will be piloted and paid for out of the Zero Waste Strategic Plan project, eventually getting rolled into the ongoing operating costs of the solid waste system.

Another significant project in the Solid Waste Utility is a \$30.4 million project for the replacement of the SMaRT Station. The current agreement among

the cities of Sunnyvale, Mountain View, and Palo Alto for the use of the SMaRT Station expires in 2021. This coincides with the end dates of the estimated useful life of the SMaRT Station, the refuse collection franchise, and the three cities' landfill disposal agreements. The year 2021 therefore provides an opportunity to consider changes in how Sunnyvale manages its waste and recyclables. The project provides funding for planning and inter-jurisdictional coordination in fiscal years 2016/17 through 2019/20. Funds for design and construction are scheduled for FY 2020/21, either to replace the SMaRT Station or to implement some other solution for the management of solid waste and recyclables in the City. The recommended budget is based on the initial construction cost of the SMaRT Station. It is anticipated that the cost for the ultimate replacement will be refined during the planning phase of the project.

Traffic and Transportation Projects



The City's transportation infrastructure is a critical component for ensuring livable local communities while supporting economic development. While in general the transportation infrastructure in Sunnyvale is in good condition, and major improvements such as

the renovation of the Mathilda Avenue Bridge Overpass and the Hendy Complete Streets project have been completed, there is much left to do. Regional and local growth, along with the age of the infrastructure, place a continual strain on the capacity and maintenance needs of the City's transportation infrastructure. As such, the City is engaged in several large projects to improve the system.

Mathilda/237/101 Interchange Project



Work has begun on a project to reconstruct the Mathilda/237/101 interchange. This project will improve traffic operations and capacity in the area and provide for safe and efficient movement of traffic at one of the busiest and most complex roadway systems in the region. Design has been funded by a \$2 million grant from the Santa Clara Valley Transportation Authority (VTA) that will be matched by the City. Estimated construction costs for the project are \$16.5 million for a total project cost of \$20.5M. The City expects VTA to pay for 50% of this cost with the remainder to come from the City's Traffic Impact Fees.

Streets and Roadway Infrastructure Maintenance

Over the past several years, the City has made great strides to bringing its Pavement Condition Index (PCI) back to an acceptable level through investment in its streets. Since FY 2012/13, over \$14 million has been invested in pavement rehabilitation. The FY 2015/16 Recommended Budget includes an average of approximately \$1.8 million per year in ongoing pavement maintenance, in addition to funds provided through the City's operating budget, directed towards maintaining the City's PCI going forward.

Calabazas Creek Bridge at Old Mt. View-Alviso Road

The Calabazas Creek Bridge, located on Old Mountain View Road near Highway 237, is shared by the cities of Sunnyvale and Santa Clara. The project received a commitment of Federal Highway Bridge program funding in the amount of \$1.2 million, or 88.53% of the estimated design cost for bridge replacement.

The required local match for the design portion is \$154,000 which will be split between both cities, with Sunnyvale's share of \$77,000 funded with Gas Tax revenues.

Design is currently underway with construction expected to begin mid-2016. The total project is estimated to cost \$9.9 million, with Sunnyvale's share of the local match at \$565,000. The project has a construction completion goal of 2016 and once completed the useful life of the new bridge is estimated to be 40 years.

Fair Oaks Bridge

The State of California Department of Transportation has determined that the Fair Oaks Bridge over Caltrain is structurally deficient. The FY 2015/16 Recommended Budget includes a project that will complete seismic upgrades, install sidewalks and bike lanes, rehabilitate the bridge deck, and replace lighting for the Fair Oaks Avenue Bridge over Caltrain. The City has received a commitment of Federal Highway Bridge program funding for the project. The total project is estimated to cost \$22.8 million, with Sunnyvale's required local match at approximately \$2.8 million.

The design, right-of-way certification, and environmental process has commenced and is scheduled for completion in 2015. Once completed, staff will submit a proposal to CalTrans to obtain construction funding. The project will begin construction in 2016. Once completed the useful life of the new bridge is estimated to be 40 years.

Sidewalks, Curbs, and Gutters

The City maintains the vast majority of sidewalks, curbs and gutters throughout the City. This infrastructure is often pushed up or broken by street trees; as they grow over time, trees slowly damage sidewalks curbs and gutters with their roots. This can result in poor sidewalk condition and lead to hazards in the sidewalks for users. Currently, the City has a growing backlog of repairs that have been reported by the public or City crews. We began to address the increasing need in the FY 2014/15 Adopted Budget with additional funding for two years so the project budget

includes \$1 million for FY 2014/15 and FY 2015/16. This recommended budget allocates one-time property tax revenues to the budgeted funds for FY 2016/17 and FY 2017/18, for a total of \$1.3 million budget for each of these years, to maintain an elevated level. The recommended budget also includes a new project to specifically repair sidewalks which become out of compliance with the Americans for Disabilities Act. In total, a combined \$21.9 million over twenty years is allocated for these repairs. Over the next year, we will be evaluating service levels, potential funding sources, and expenditures to provide Council options to consider for addressing these needs for the long term.



Other Major Projects and Initiatives

Community Choice Energy

The City is currently engaged in evaluating and preparing to initiate a Community Choice Energy (CCE) program for the South Bay in partnership with Mountain View, Cupertino, and the County of Santa Clara. In a CCE, a city, county, or group of public agencies can form a separate public agency to procure or build electricity supplies for residents and businesses within their communities. PG&E would still operate and maintain the electric distribution system and provide customer service. A CCE brings local control to power procurement decisions, allowing for accelerated and enhanced investment in renewable energy supplies (such as solar and wind), which in turn reduces greenhouse gas emissions. There are two multi-jurisdictional CCE programs operating in California - Marin Clean Energy and Sonoma Clean Power. Both

programs are currently delivering greener electricity at lower prices to their customers, in addition to enhanced programs for local renewables and energy conservation. Implementing a CCE is by far the most impactful strategy identified in the City's adopted Climate Action Plan.

Sunnyvale's preliminary share to fund the initial partnership to complete the study and launch a CCE program is estimated to be \$500,000, funded by the General Fund. The City and its partners can recover the initial investments once the CCE is fully operational.

Recruitment and Training for Sworn Officers

The Public Safety Department budgets for the recruitment, selection, and training of new public safety officers in a series of recurring Special Projects rather than in the operating budget. This methodology allows expenditures to fluctuate each year based on the number of recruitments and allows for better monitoring and tracking of costs. The total twenty-year budget for these recruitment and training projects is \$57 million. In December 2014, Council accelerated funding for recruitment and training to address reduced staffing levels in the Department. The new schedule reflects \$13.5 million over the next three years to fund increased recruitment efforts.

This funding will provide for the continued hiring and training of recruits to bring the Department staffing levels back up to authorized amounts.

Body-Worn Cameras

Police agencies across the country are beginning to implement the use of body-worn cameras. These cameras, which are carried by individual officers, document the activities of each officer, providing an additional source of information about specific incidents. A new project has been included to fund the purchase of body-worn cameras, and policies around their use are being developed. The initial purchase has been included along with the ongoing costs, for a total estimated cost of approximately \$5.2 million over twenty years.

Climate Action Plan

In 2014, the Council adopted the City's Climate Action Plan (CAP). The CAP's goals are to significantly reduce community wide generation of greenhouse gas emissions. The FY 2015/16 Recommended Budget includes almost \$600,000 for the development of policies and programs for actions identified in the CAP. These include energy efficiency, use of renewable energy, alternative transportation modes, and others. The project will begin by updating the greenhouse gas inventory, initiating a school outreach program, and providing a plan for moving forward.

Operating Expenditures

Salaries

As a service organization, employee salaries and benefits are the largest component of the City's operating expenditures, accounting for 58% of total operations. Managing the growth of salaries and benefits was central to achieving structural balance in the City's budget as we dealt with the impacts of the global recession. Working together with our bargaining units, we made considerable progress with actions such as zero salary increase years, implementation of second- and third-tier reduced benefit retirement plans and increased employee contributions for retirement costs. Without these concessions from employees, the City would not be in the sustainable financial position it is in today.

The recommended budget maintains assumptions for increased employee contribution to retirement over the next several years and projected salary increases with one adjustment. The FY 2014/15 Adopted Budget included 2% salary increases for the first ten years and 3% increases for the next ten years for non-sworn employees and 3% increases for the first ten years and 4% increases for the next ten years for sworn employees. To maintain the salary increases in the same years, the FY 2015/16 Recommended Budget moves up the additional percentage increase by one year so 2% salary increases are assumed for the first nine years and then 3% increases for the next ten years for non-sworn employees and 3% increases for the first nine years and 4% increases for the next ten years for

sworn employees. In the twentieth year, assumptions return to the lower 2% and 3% increases planned in the first nine years.

Employee Benefits

The other side of employee compensation costs is driven by employee benefits, primarily medical and retirement. In recent years, retirement costs have risen steeply due to investment losses and demographic changes that have increased unfunded liabilities. Additionally, CalPERS has changed its rate methodology to recognize gains and losses over a shorter period of time. These factors have resulted in increasing employer contribution rates (what the City pays for retirement) for the next several years and more rate volatility on a year to year basis in general. This rate volatility is reflected in the updated rates in this long-term financial plan. Because CalPERS had better than assumed investment returns for the last two years, the long-term rates developed by our consulting actuary are, on average, two percentage points lower than the rates we have in the FY 2014/15 Adopted Budget. This is positive news, but can also mean the rates can quickly move the other direction when CalPERS does not meet its expected returns, which is currently estimated to occur for FY 2014/15. It is also important to note that the City's retirement plans are 70% funded with a total unfunded liability currently at \$268 million. Therefore, rather than recognizing the rate savings, this recommended budget includes an additional contribution to CalPERS at \$1.2 million annually for a total of \$32 million over twenty years. This provides the City additional funds to pay down the unfunded liability more quickly or could be used to supplement the City's reserves for PERS rate uncertainty, allowing the City to be well positioned to absorb the impacts of rate volatility should they swing the other way.

There is also uncertainty with increases in medical premiums over the next several years. The City contracts with CalPERS for medical benefits and rate increases have varied by different medical plans in recent years. Another part of the uncertainty is the impact of the Affordable Care Act on our premiums. With the regulations continuing to evolve, we do not know the full impact at this time. To address these

uncertainties, our assumptions for medical premium increases start at 7.5% and gradually settle at 5% for the remainder of the long-term financial plan. Another element of medical costs is the cost for retiree medical benefits. Retiree medical costs have continued to grow, rising 24% in the last five years from \$3.94 million to \$4.87 million. The City began addressing this issue several years ago by prefunding retiree medical costs through a trust. We continue to be on track to pay down the unfunded liability over the next sixteen years.

Citywide Operations

Operating expenditures reflect all of the costs to

deliver the wide variety of services provided to our community on an ongoing basis. FY 2015/16 is the second year of a two-year operating budget cycle. Therefore, only a few significant changes are proposed to the operating budget. These changes are primarily to address increasing demands for service or to further the strategic goals set by Council.

As Figure 7 indicates, total budgeted operating expenditures are up 3.4%. This is driven largely by increases for employee compensation, and the Department of Employment Development, which has begun operating the San Mateo County Job Training program, which increases the department's budget.

Figure 7
Budgeted and Actual Operating Costs by Department

| Department | 2012/13 Actual | 2013/14 Actual | 2014/15 Budget | 2015/16 Plan | % Change FY 2014/15 to 2015/16 |
|--------------------------------|----------------------|----------------------|----------------------|----------------------|-----------------------------------|
| Community Development | \$6,585,094 | \$6,966,614 | \$7,271,984 | \$7,472,943 | 2.8% |
| Environmental Services* | 74,113,837 | 76,495,173 | 81,501,963 | 84,251,326 | 3.4% |
| Finance | 7,892,186 | 7,860,003 | 8,396,376 | 8,619,038 | 2.7% |
| Human Resources | 3,335,356 | 3,529,369 | 4,152,879 | 4,291,399 | 3.3% |
| Information Technology | 5,828,313 | 6,142,175 | 6,949,480 | 7,100,904 | 2.2% |
| Library and Community Services | 16,295,361 | 16,192,208 | 17,364,506 | 17,772,712 | 2.4% |
| NOVA Workforce Services | 7,210,861 | 6,917,787 | 8,103,883 | 10,055,000 | 24.1% |
| Office of the City Attorney** | 2,036,054 | 2,057,641 | 1,946,939 | 1,856,142 | -4.7% |
| Office of the City Manager | 4,113,344 | 4,457,164 | 4,326,582 | 4,620,121 | 6.8% |
| Public Safety | 75,567,473 | 78,795,895 | 85,995,244 | 87,823,423 | 2.1% |
| Public Works | 32,772,717 | 34,370,048 | 35,481,432 | 36,527,316 | 2.9% |
| TOTAL EXPENDITURES | \$235,750,593 | \$243,784,077 | \$261,491,268 | \$270,390,324 | 3.4% |

*Excludes SMaRT Station Operating Program

**The Office of the City Attorney's costs are down in 2015/16 due to one-time legal costs that were reflected in the FY 2014/15 operating costs.

One of the most significant changes is the addition of three new public safety officers. As part of the Moffet Place development in North Sunnyvale, an agreement was reached with the developer to construct a new Fire Station 5, expand the station to include amenities such as a shooting range and new training center, and purchase a new ladder truck for the department. This facility and equipment will help to maintain service levels in Moffet Park and the northern area of the City, where growth and development are increasing demands for service. The three new officers are being included to staff the new fire truck and facility.

The FY 2015/16 Recommended Budget includes \$21 million over twenty years for the new public safety officers, as well as \$50,000 per year in additional ongoing maintenance costs for the expanded facility. Due to the lead time needed to train a new public safety officer, the budget does not reflect the addition until FY 2016/17.

To support the recruitment and training efforts in the Department of Public Safety, the recommended budget also includes the addition of one Public Safety Specialist. This position, which is assigned to the recruitment and training unit, was added as part of Council action to accelerate recruitment efforts due to low sworn staffing levels within the Department of Public Safety.

Another addition to the operating costs in the recommended budget is the inclusion of a second Assistant City Manager (ACM) position in the Office of the City Manager. The new ACM is leading efforts to modernize the Civic Center, administer the Stevens Creek Trail Study, and work on other Special Projects. The Civic Center Modernization is one of the strategic goals set by Council. To date, the project is well into its initial stage, with space planning and community engagement efforts in full swing. As this project ramps up and a final direction is chosen, the addition of the ACM dedicated to its administration will ensure a timely and effective project implementation.

Lastly, one additional Assistant City Engineer position has been added for three years in the Department of Public Works as a temporary overflow. Public Works is managing peak workloads in both its

land development division and its project engineering division. With the large number of major projects that are in the development queue in areas like Moffet Park and Peery Park, land development engineering staff resources are strained. In project engineering, the City is managing two major bridge projects, a major reconfiguration of the Mathilda/237 interchange, several park and recreational renovation projects and more. The additional staff will help the Department work through this peak period.

Equipment and Other Expenditures

The City accounts for equipment replacement and other one-time expenditures separately from operations or projects. The recommended budget includes continued funding for replacement of information technology equipment, fleet vehicles, facilities equipment, wastewater equipment, public safety equipment and recreation equipment (furniture and equipment for recreation classes). Highlights include the replacement of Tasers, the addition of periodic funding for common area furniture (for example lobby or conference room furniture), and two fire trucks. Taser replacement had previously been funding through Asset Forfeiture funds. These funds have been decreasing due to a change in the way they are distributed and consequently the General Fund will start funding Taser replacement beginning in FY 2017/18. Also included in the recommended budget is a one-time appropriation of \$200,000 for the City Manager to utilize for unanticipated, time sensitive expenditures.

Budget Supplements

Budget supplements are proposals to increase, decrease or change service levels. Each supplement is presented separately and recommended for inclusion or exclusion from the FY 2015/16 Adopted Budget. This year, the recommended budget includes eight Budget Supplements. Figure 8 lists the supplements and the City Manager's recommendation. If the supplement is recommended for funding, it has been included in the financial plan of the affected fund. Details of each supplement can be found in the Budget Supplements section of this recommended budget.

Figure 8. Proposed Budget Supplements

| No. | Title | Cost | Recommendation |
|-----|--|--|------------------------------------|
| 1. | Consider Multi-family Residential Transportation Demand Management Programs (Study Issue CDD 15-02) | \$30,000 – one time | Fund – Development Enterprise Fund |
| 2. | Determine Steps to Move Forward to Becoming a Silver Level in the League of American Bicyclists – Bicycle Friendly Communities (Study Issue DPW 15-03) | \$25,000 – one time | Fund – General Fund |
| 3. | Determine Feasibility of Establishing a Park Mitigation Fee for Non-Residential Development (Study Issue DPW 15-09) | \$50,000 – one time | Fund – General Fund |
| 4. | Relocation of the Butcher House to Heritage Garden Park and Review of the Need for a Retaining Wall (Study Issue DPW 15-10) | \$50,000 – one time | Fund – General Fund |
| 5. | Funding for an Economic Consultant to Evaluate the Market Potential and Appropriate Land Use Mix for the Town Center | \$50,000 – one time | Fund – General Fund |
| 6. | Funding for Tenant-Landlord Dispute Resolution Services | \$30,000 – one time | Fund – General Fund |
| 7. | Funding for Leadership Sunnyvale | \$6,000 – one time | Fund – General Fund |
| 8. | Sunnyvale Downtown Business Association \$30,000 Funding | \$30,000 – five years, \$150,000 total | Fund – General Fund |

City Reserves

The backbone of our financial planning process is the Twenty-Year Resource Allocation Plan. This planning document provides the framework to maintain a structurally balanced budget by requiring financial discipline in making policy and service level decisions. One of the key components of the financial plans is the various reserves contained within each plan, which is considered a best practice. While many organizations have reserves, our use of them in this strategic and disciplined way is different and more active than a typical city. We maintain reserves for different purposes; some are restricted in use while others are available for a variety of priorities. Examples of restricted reserves include debt service reserves or reserves of special revenues. Unrestricted reserves are used strategically over the twenty-year planning period to balance each fund. We plan to add to them or take from them as business and economic cycles pass, allowing us to provide a stable and consistent level of service. This is especially critical when so many of our large revenue sources are volatile by nature. Reviewing reserves over a long period forces policymakers, staff and the community to think carefully before adding services that must be sustained through good times and bad.

In the General Fund, the unrestricted reserve is the Budget Stabilization Fund. Disciplined and strategic use of this reserve has allowed us to weather the great recession, and is helping us to strategically add back services in a planned way to ensure sustainability over the long run. It will also help us manage our infrastructure needs and other pressures discussed at the beginning of this transmittal.

In the utility funds, the use of the Rate Stabilization Reserves allows for the measured increase of rates to cover rapidly increasing costs such as wholesale water costs and tightening regulations on wastewater discharge. This reserve also allows us to incrementally increase rates to the level needed to support the significant debt service associated with the replacement of the WPCP.

In both these cases, and throughout the budget, reserves also allow us to deal with unexpected expenditures. In the most extreme case, each significant fund carries large contingency reserves for emergencies such as natural disasters; however, reserves also allow us to address projects that may be more expensive than estimated or absorb unanticipated operating costs. In all cases, reserves are one of our most critical tools to achieve and maintain financial sustainability.

Council Policy Priorities

Over two days in the fall of 2014, Council held a strategic planning workshop that provided a briefing on operational priorities, service gaps, trends in service, and identification of Council's policy priorities on day one. On the second day, an in-depth discussion occurred on the four top ranked policy priorities: Civic Center Campus and Main Library; The Ability of Infrastructure to Support Development and Traffic; Open Space Acquisition Planning/Future of Golf Course; and Downtown Sunnyvale. These policy priorities have informed this recommended budget presented for your consideration. However, as discussed at the strategic planning workshop, our operational priorities and resource/capacity limitations require us to be resourceful and creative in addressing these policy priorities. As briefly detailed below, this recommended budget allocates resources with this approach in mind.

Civic Center Campus and the Main Library

Efforts are now well underway to modernize the civic center and main library beginning with a community engagement plan, market analysis and space planning study. A key step in the coming months will be the development of a funding plan. While community input and further analysis are needed before any decisions will be made, the long-term financial plan includes funding sources that can go toward these efforts. The General Fund includes a \$1.5 million transfer to the Infrastructure Fund annually for additional investment in the City's infrastructure. \$6 million has already been transferred over the past several years. The General Fund's Capital Improvement Projects (CIP) Reserve includes approximately \$13 million in reserve and additional funds anticipated from the sale the Unilever margarine plant when the lease expires. In addition, funding of approximately \$300,000 per year has been set aside in the Facilities Management Subfund for additional costs related to a new civic center campus. Because debt financing may also be considered, a potential bond measure will be reviewed along with other items by the revenue strategy team.

The Ability of Infrastructure to Support Development and Traffic

The economic recovery has presented significant challenges as unprecedented levels of development activity impact the City's infrastructure and increase traffic. As discussed at the strategic planning workshop, these issues are also very much regional and will require collaborative regional solutions to substantively address over the long term. Within the City, rebuilding and improving our transportation infrastructure has been a priority over the last several years and this projects budget continues this focus. These projects, detailed in the "Major Project Highlights" section include the reconfiguration of the Mathilda/237/101 intersection and rehabilitation of the Fair Oaks and Calabazas Creek Bridges. We are also addressing the growing backlog of sidewalk repairs with additional funding. While this does not address the full funding needs, combined with current funding, it does provide significant funding for the next three years, during which time we will explore ways to most cost effectively address the backlog, determine the appropriate service level and secure the right level of funding for the long term. Also included is continued funding to maintain street conditions at optimal levels, allocating an average of \$1.8 million per year over twenty years. The FY 2015/16 Recommended Budget also includes substantial funding to address the City's utilities infrastructure, as detailed in the "Major Project Highlights" section.

Open Space Acquisition Planning/Future of Golf Courses

Another challenge related to the high levels of development activity is to ensure adequate open space for the growing number of businesses and residents. The elevated development activity is increasing revenue from Park Dedication fees in the near term. These revenues are primarily utilized to ensure the City's parks and recreational facilities are maintained over the long term. The recommended budget includes updated estimates for the renovation and enhancement of all parks in the City over the twenty year plan with \$145 million budgeted over twenty years. In addition to funding projects, 20% of the Park Dedication

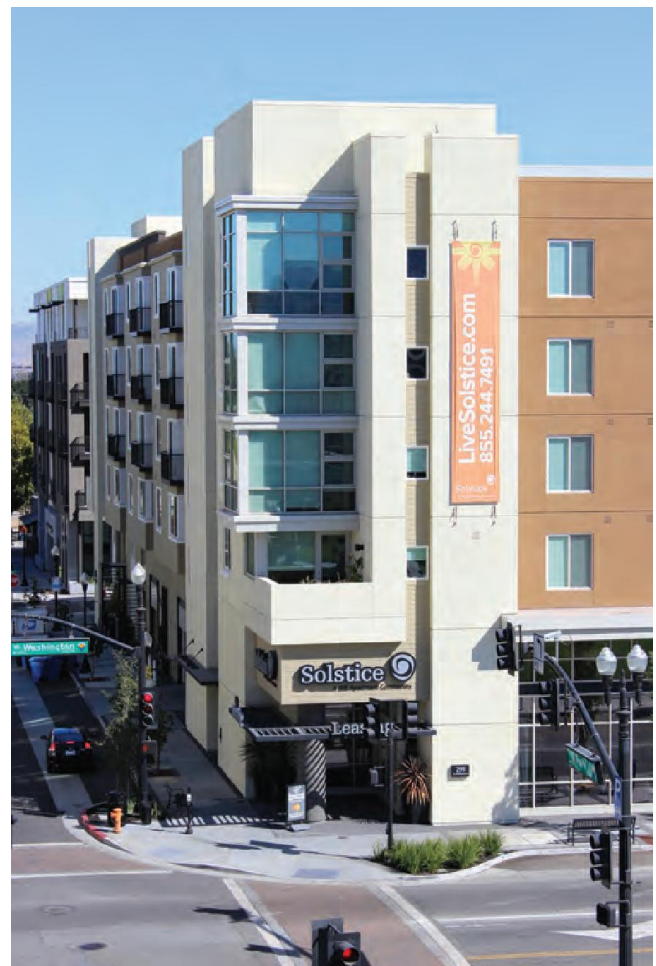
Fee revenue is set aside for land acquisition and we anticipate approximately \$7.7 million in this reserve at the end of FY 2015/16. Work will begin in FY 2015/16 on a study issue to develop a park dedication fee for non-residential development. While this study may result in increased funding for park development, it will not generate enough for land acquisition in the current economic climate and the high price of land today. We will need to be strategic in finding ways to increase open space, such as working in local and regional partnerships.

As discussed in this overview, the long-term future of the City's golf courses requires further study. In the short term golf revenues have been negatively impacted by the lack of restaurant operator, but more concerning is that over the long term, golf revenues are not anticipated to keep pace with the rising costs of expenditures such as personnel and water or its capital needs. Due to this fiscal outlook, a General Fund subsidy is proposed which will provide time to analyze the issues, gather data and community input, and develop options for the Council to consider. While future subsidies are likely to be required, our goal is to reduce the projected amount to zero over time.

Downtown Sunnyvale

Many new recently completed projects have added to the vibrancy of Downtown Sunnyvale as it continues to be seen as a very attractive location by employers, visitors and residents. The Solstice and Carmel Loft mixed-used projects added over 400 apartments and about 30,000 square feet of commercial space to the area attracting new residents and businesses. Several businesses recently opened including Flywheel Spin Studio, Kabul Afghan restaurant, Philz Coffee, The Sandwich Spot, and Aloft hotel. Several other businesses are scheduled to open soon: Prolific Oven Cafe, Nom Burger, Beach Hut Deli, and City Place Wine Bar. While the redevelopment of the downtown requires the largest, privately owned Town Center mall parcel to move forward, we have been working on areas that the City can impact. This recommended budget includes a budget supplement to fund a study issue that will evaluate the market potential and land use mix for the

Town Center. This study, per Council direction, will provide guidance prior to embarking on a Specific Plan Amendment study. Setting the stage, so that when the litigation surrounding the Town Center is ultimately resolved, should allow the project to move forward in a timely manner. As mentioned earlier in this letter, we have reduced and moved out additional sales tax revenues estimated from the redevelopment of the Town Center mall in this recommended budget.



Conclusion

With the economic recovery in full swing, this budget focuses on deploying resources strategically to meet the increasing demands of the community and improve the City's infrastructure while continuing to maintain a sustainable financial position for the long term. The recommended budget resources the vast array of services the City provides and funds a wide variety of projects that improve our transportation and utility infrastructure, adds wonderful new amenities like the Washington Community Swim Center and a branch library, upgrades parks and recreational facilities, and more. Revenues are growing, allowing the City to add some ongoing costs, most significantly three new public

safety officers. Long-term pension and retiree medical liabilities continue to be addressed in a fiscally prudent and measured manner.

However, given the volatility in the modern economy, it is very important that we remain strategic and thoughtful in our approach. We will continue to be faced with tough decisions regarding management of personnel costs, use of debt for large infrastructure needs and mitigating volatility in our major revenues. Our twenty-year planning allows us to take a balanced approach, to evaluate decisions in a long-term fiscal context and plan ahead. To that end, this budget presents a responsible, sustainable, and balanced plan for the future of Sunnyvale.

Public Safety Recruitment Projects, Projects and Project Administration, and Project Operating Costs reflect General Fund expenditures related to capital, special, and Department of Public Safety recruitment projects. The content of these expenditures is discussed below in the General Fund Projects section.

The **Equipment** line item contains the appropriations for equipment for the Departments of Public Safety and Library and Community Services based on their replacement schedules. These costs are up slightly, primarily due to adjustments and additions for some public safety equipment. In particular, due to decreasing Asset Forfeiture funds, the replacement of Tasers has been moved to the General Fund. The Equipment line also includes a one-time appropriation of \$200,000 for the City Manager to utilize for unanticipated, time sensitive items.

Lease payments in the amount of \$1,202,750 are included in the appropriation for FY 2015/16 as well. These payments fulfill the City's agreement with the former Redevelopment Agency to pay lease payments equal to the annual debt service on one of the downtown parking structures. Previously a Redevelopment Agency obligation, this item remains a subject of litigation in the redevelopment dissolution process.

Council Service-Level Set Aside is an annual \$100,000 set aside for Council's use at its discretion for unplanned projects, services, or other initiatives that come up over the course of the fiscal year. For FY 2015/16, this amount has been reduced to \$25,000, due to \$75,000 in funding that Council approved to augment Care Management services for one year.

The FY 2015/16 General Fund Budget includes one-time funding for six budget supplements and five-year funding for one budget supplement. Details on each of the supplements are included in the Budget Supplement section in this volume of the FY 2015/16 Recommended Budget. The total one-time expenditures budget for the six supplements in FY 2015/16 is \$241,000; the ongoing supplement is for five years, starting FY 2015/16, and is budgeted at \$30,000 annually.

Transfers to Other Funds reflect transfers from the General Fund to other funds for operating and capital project purposes. These include transfers to the Youth and Neighborhood Services Fund for support of

Columbia Neighborhood Center, the Liability and Property Insurance Fund for the General Fund's share of claims and insurance, and the Capital and Infrastructure Project Funds to cover project expenditures. Major transfers budgeted for FY 2015/16 includes a transfer of \$1.5 million to the Infrastructure Fund, primarily for the Pavement Rehabilitation project and the Sidewalk, Curb, and Gutter Replacement project. As established in the FY 2012/13 Budget, the long-term financial plan for the General Fund reflects an annual transfer of \$1.5 million for investment in the City's administrative infrastructure. These funds are not set aside for a specific project or set of projects at this point but will accumulate in the Infrastructure Fund and be appropriated as projects are identified and prioritized. Starting in FY 2016/17, approximately \$11.6 million is planned to be transferred over three years to the Capital Projects Fund for the design and construction work on the Lakewood Branch Library Facility project. \$450,000 has also been budgeted to transfer to the Golf and Tennis Fund to address the deficit in that Fund anticipated for FY 2015/16.

General Fund Projects

The FY 2015/16 Recommended Budget for the General Fund includes \$10.6 million for capital, special, and outside group funding projects. This amount also includes Project Administration costs of \$301,188. These are costs of Public Works staff for design and inspection of General Fund supported capital projects. The majority of the projects budget in FY 2015/16, or \$6.6 million, is in a special project for the recruitment and training of sworn public safety officers. Starting in FY 2014/15 and through FY 2017/18, \$6.3 million has been brought forward from future years' recruitment budgets to accelerate recruitment efforts, fill vacancies and reach the current authorized sworn staffing of 201. These funds will support the recruitment of 10 additional recruits in the FY 2014/15 budget. It will also fund the acceleration of additional recruits through FY 2016/17 in anticipation of the elevated level of projected separations in the next few years. This category of projects also represents the majority of General Fund project expenditures over the twenty-year plan, with \$57 million budgeted for this purpose. The practice of budgeting for the recruitment, selection, and training of new public safety officers in a series of recurring special projects rather than in the operating budget began in FY 2006/07. This methodology allows

expenditures to fluctuate each year based on the number of recruitments and allows for better monitoring and tracking of costs. It should be noted that the fixed costs associated with this activity, which include management oversight and other recruitment expenses, continue to be part of the Public Safety Department operating budget.

\$3.6 million has been budgeted for non-DPS (Department of Public Safety) recruitment project costs in FY 2015/16. 15 new projects comprise \$2.7 million, or 75%, of the \$3.6 million budgeted. These include \$850,000 for Fire Station 5 Improvements, \$500,000 for the Community Choice Energy Program, \$400,000 for the Department of Public Safety (DPS) Body Worn Cameras, and \$210,000 for Climate Action Plan Implementation. The DPS Body Worn Cameras also have an ongoing annual cost of \$200,000 for data storage and periodic replacement or upgrades, which total \$4.8 million over the twenty-year plan. There is also one ongoing special project for \$30,000 a year related to a minimum wage enforcement agreement with the San Jose Office of Equality Assurance, totaling \$600,000 over the twenty-year plan. Additionally, \$300,000 has been budgeted in FY 2015/16 to update the City's American with Disabilities Act (ADA) transition plan. This will update the current plan to reflect current standards and practices and evaluate citywide needs and funding requirements to upgrade City facilities and rights-of-way. In FY 2016/17, \$867,000 has also been budgeted to upgrade and expand existing outdated emergency vehicle traffic signal preemption equipment in the City of Sunnyvale.

The FY 2015/16 Budget also contains \$115,000 for Outside Group Funding per Council policy. During November 2014, Council increased this maximum support from the General Fund to \$115,000 for FY 2015/16 only. The ongoing support for Outside Group Funding projects remains at \$100,000 a year for the remaining 19 years.

Often times, one-time capital projects will result in ongoing operational costs. The Project Operating Costs line reflects the future operating costs of budgeted projects. The first set of operating costs arising from projects starts in FY 2016/17, with the majority of the total being attributable to the DPS Body Worn Cameras (\$204,000). Another significant increase to project operating costs comes in FY 2018/19, when approximately \$265,000 is added annually to cover the net new ongoing costs of the Lakewood Branch

Library and \$128,000 is added annually to cover the ongoing costs of the Washington Community Swim Center project. These ongoing costs are expected to be partially offset by increased revenues at Washington Pool once expansion is complete.

General Fund Reserves

One of the most powerful aspects of multi-year financial planning is its capability to recognize trends over time and begin at an early point to consider the necessary steps to alter the long-term forecasted position of a particular fund should that appear necessary. The reserves contained in the General Fund's long-term financial plan play a pivotal role in the City's multi-year planning strategy.

The City has established reserves in the General Fund that are restricted by prior policy or legal requirements to specific uses. Most of the City's reserves are established in accordance with policies adopted by Council.

The General Fund has five reserves that are contained in its long-term financial plan under the sub-heading, *Reserves*. The first is the *Contingencies Reserve*. By Council policy, this reserve must be equal to 15% of the operating budget in the first year of the long-term plan, in this case FY 2015/16, and then grow by the estimated change in the Consumer Price Index in each subsequent year. Prior to FY 2011/12, this reserve was set at 20% of General Fund operational expenditures annually; however, Council changed this reserve policy in 2011 to better reflect the intent and potential uses of this reserve. It is important to note that this reserve is not intended for normal unanticipated expenditures and is instead to be used for non-fiscal emergencies or disasters as determined by Council.

A second reserve in the General Fund mandated by Council policy is the Budget Stabilization Fund. The Budget Stabilization Fund functions to normalize service levels through economic cycles. In essence, the intent is for this fund to increase during periods of economic growth and to be drawn down during the low points of economic cycles to maintain stable service levels. Using the Budget Stabilization Fund prevents us from adding services at the top of the economic cycle that cannot be sustained while allowing us to maintain Council-approved services levels during economic downturns.

In August 2011, Council adopted a new policy governing the balance of the Budget Stabilization Fund. This policy requires that the Budget Stabilization Fund be maintained at no less than 15% of total projected revenues for the first two years of the 20-year plan and that it never go below \$0 in any year. For the FY 2015/16 Budget, the Budget Stabilization Fund balance is 26% of revenues in FY 2015/16 and 23% in FY 2016/17.

The FY 2015/16 Recommended Budget continues to maintain the short- and long-term balance. Over the twenty-year plan, *Total Available Resources* are up \$75 million, and *Total Expenditures* are also up, approximately \$68 million. This results in a slightly higher budget stabilization reserve over the current budget, with a modest increase of \$3.4 million over the entire twenty-year plan. However, this comparison also includes the service level set-aside, which accounts for \$22 million of the increase in expenditures over twenty years.

The Budget Stabilization Fund is able to absorb an annual set aside of \$950,000, with a projected balance of \$13.5 million in the twentieth year. This indicates the improved fiscal position of the General Fund over the FY 2014/15 Adopted Budget.

The third reserve in the General Fund is the *Reserve for Capital Improvement Projects*. Originally entitled the *Land Acquisition Reserve*, it was established in FY 1994/95 for the purpose of purchasing land or property in the downtown area with an emphasis on future income generation through economic development. In the past, it was used to purchase key parcels in the downtown area. In FY 2006/07 the reserve name was changed to *Reserve for Capital Improvement Projects* to reflect its expanded purpose. At the end of FY 2014/15, it is projected that the balance in this reserve will be \$13.3 million. The reserve is projected to increase with the anticipated sale of the Raynor Activity Center for \$14 million in FY 2015/16, and the Margarine Plant in FY 2016/17. After FY 2018/19, the reserve is projected to increase with interest earnings.

The fourth reserve is the *Development Enterprise Reserve*. This reserve was set up to fund the Development Enterprise Fund, which was created with the FY 2014/15 budget to allow greater visibility to the relationship of total Development-related costs and offsetting fee-based revenue. This reserve represented the initial, one-time transfer of actual Development-related revenue amounts collected over original revenue projections for FY 2012/13 and FY 2013/14 to the Development Enterprise Fund.

The \$14.0 million in *Reserve for RDA Payment* has been set aside, pending final determination of payments made to the City by the former Redevelopment Successor Agency (RDA) prior to the dissolution of the former RDA. The Successor Agency filed suit on May 23, 2013 challenging the California Department of Finance's (DOF) determination that the City is not entitled to reimbursement for all payments made related to the RDA's financing obligation associated to the Town Center development agreement. In response to this petition, on September 4, 2013, Santa Clara County Counsel on behalf of two affected taxing entities (the County Office of Education and Fremont Union High School District) filed a counter lawsuit against the Successor Agency, the City and DOF. Since DOF's determination on past payments contradicts the findings of the Due Diligence Review and the State Controller's Asset Transfer Review, which both determined that all payments made by the RDA to the City prior to the dissolution of the former RDA were allowable, the Successor Agency/City has not remitted the funds. On July 8, 2014, the Sacramento County Superior Court issued its ruling on the two related cases that retroactively invalidated \$14.0 million in repayments legally made to the City. The Court's decision is pending on appeal by the Redevelopment Successor Agency. To prepare for the worst case scenario, \$14.0 million has been set aside and resolution is anticipated by FY 2016/17.

Lastly, the *Equipment & Project C/O Reserve* accounts for actual FY 2014/15 project carryover costs (and related revenues). Since a significant portion of the current budgeted project costs are from the prior year (FY 2013/14) carryover, it was prudent to separate out this reserve to increase transparency of unspent project costs. Additionally, accounting for this reserve separately helps ensure that the available funds in the Budget Stabilization Fund are not overstated.

Total Reserves in the General Fund increase or decrease depending upon the relationship between *Total Current Resources* and *Total Current Requirements* in the long-term financial plan. Put simply, when revenues and resources are greater than expenditures and transfers, money is put into the reserves, and when expenses are higher, money is taken out. The relationship between these can be seen at the bottom of the plan in the rows marked *Total Current Resources*, *Total Current Requirements*, and *Difference*. It should be noted that Sunnyvale's Reserves are actual funds rather than *estimated* surpluses as is the case in the State Budget and some other local jurisdictions. The advantage of funded reserves includes the substantial interest earnings that are generated and added to annual revenues.

of programs that have been operated by NOVA during the last several years are not included in the budget document. Rather, a base funding level will be carried into the new fiscal year and the budget will be modified for planned activities, outcomes, and expenditures during the course of the year as new funding is secured and new contract goals and obligations are agreed upon.

To recognize NOVA's long tenure in the City, grant funding of \$10.5 million has been projected for FY 2015/16 and as an average resource level per year for the remaining 19 years of the twenty-year planning period.

Parking District Fund

The Parking District Fund is a small fund that provides for the ongoing landscape and maintenance of downtown parking lots through assessments on property owners within the district. The Downtown Parking District includes all public parking in the downtown area, with the exception of the parking provided by the Sunnyvale Town Center.

For a number of years, the Parking District assessment was set by an election held every one or two years. In June 2009, the District property owners approved a long-term assessment methodology whereby the FY 2009/10 assessment rate was set as the base rate that would be adjusted annually by the previous year's change in the Consumer Price Index going forward. For FY 2015/16, the special assessment is projected to be \$187,865 based on preliminary estimates from the assessment and administration engineer for the District. Total project costs of \$1.1 million are planned over the twenty-year plan to install gutters and rehabilitate existing pavement in the downtown lots, and for various maintenance activities, including periodic asphalt patching, slurry seals, curb painting, sign replacement, and re-striping as necessary.

Annual operations costs represent the ongoing maintenance of the Parking District by the City for personnel, utilities, materials, contractual services and other items necessary or appropriate for the parking facilities and administration of the district and assessment.

It is anticipated the Parking District and assessment methodology will be reviewed after the redevelopment of the adjacent Town Center and Town and Country sites.

Gas Tax Fund

The Gas Tax Fund is required by State law to account for Gas Taxes collected and allocated by the State. The State Gasoline Tax is a flat rate per gallon levied on gasoline and other motor fuels. Gas Tax is distributed to the State, cities, and counties on a formula based on population and the proportion of registered vehicles.

In March 2010 the legislature passed a bill that repealed a portion of the State Sales Tax on gasoline, which had been the funding source for Proposition 42, and replaced it with a variable rate excise tax on gasoline. The intention was for the repeal and replacement to be revenue neutral. As such, the excise tax is adjusted annually to ensure that revenue will keep pace with the repealed sales tax. It should be noted that only the State Sales Tax on gasoline was repealed; the local 1% rate remains intact. Starting with the FY 2011/12 Adopted Budget, revenues and expenditures that were formerly in the Traffic Congestion Relief Fund (Proposition 42) were incorporated into the Gas Tax Fund to reflect this legislation.

In the FY 2014/15 Adopted Budget, combined Gas Tax revenues were projected to decline in FY 2014/15. This decline is the result of a true-up from the State for the excise tax portion of gas tax revenue. As gas prices declined much further than projected in FY 2013/14, the 2014/15 excise tax index was adjusted down by the State for having over-allocated in the prior year. Starting in FY 2015/16 through the end of the twenty-year plan, Gas Tax revenues are forecasted to be approximately \$3.1 million each year. This totals a decrease of \$7.5 million over the twenty-year plan. As a result, the General Fund is picking up the increased funding requirement for previously Gas-Tax supported expenditures. As the majority of gas tax revenue is based on the number of gallons sold and not on the price of gasoline, no growth in revenue is projected. This is assumed because staff expects advancements in fuel economy to offset increases in population that will increase the total number of vehicles on the road.

Due to the lower projected Gas Tax revenues in the long-term plan, funding for street maintenance operations and projects has decreased. Over the twenty-year plan, funding for street maintenance operations is lower by nearly \$6.7 million compared to the current budget. As such, it will necessitate \$6.7 million more of General Fund support over the current

twenty-year budget. The FY 2015/16 Recommended Budget for the Gas Tax Fund has transfers to the Capital and Infrastructure Funds of \$1.9 million. The majority of this amount, \$1.1 million, is for the Pavement Rehabilitation project. In the FY 2015/16 Budget, approximately \$400,000 more has been added for the preventative maintenance of bridges over the next three years. The Gas Tax Fund also transfers funds to replace the controls, LED arrays, and backup battery systems of traffic signals, as well as the replacement of street light conduit and the repainting of street light poles.

In accordance with State law, the Gas Tax Fund receives interest earnings on any unspent cash balances. Gas Tax funds must be spent on maintenance and capital related to public streets and highways. The Gas Tax Fund works in tandem with the General Fund, with a set amount of funding for operations and remaining funds used to cover Gas Tax-eligible capital projects.

The project administration expenditure in the Gas Tax Fund represents the indirect charges for Engineering Services that are expected to be utilized in supporting capital projects that are funded from the Gas Tax Fund.

Transportation Development Act (TDA) Fund

In FY 2003/04 a small special revenue fund was established to account for activities related to Transportation Development Act (TDA) funds. These funds were created by State legislation that annually returns to each region in the State $\frac{1}{4}$ of 1% of State Sales Tax revenues to be used for transportation projects. These funds are restricted for pedestrian and bicycle facilities and bicycle safety education programs and must be segregated for those purposes. The TDA, in accordance with Public Utilities Code Section 99245, must submit a report of a fiscal and compliance audit made by an independent auditor at the end of each fiscal year.

The FY 2015/16 Recommended Budget does not include any new appropriations; however, as TDA-eligible projects are identified, revenues will be recognized and appropriated to those projects. FY 2014/15 appropriations which total approximately \$850,000, are primarily for various bicycle lane projects.

Vehicle Registration Fee Fund

In 2010, voters approved Measure B, which collects vehicle registration fees to pay for programs and projects that provide local transportation improvements. In FY 2012/13 the City of Sunnyvale established a special revenue fund to account for revenues received through the \$10 annual Vehicle Registration Fee (VRF) assessed to automobiles owned by residents of Santa Clara County.

In 2012, the VRF provided \$14.8 million to the County, and 80 percent of this amount was distributed to the cities based on population. In August 2012, the City of Sunnyvale received its first allocation of VRF funds in the amount of \$797,394. For FY 2014/15, the City has received \$882,669 in VRF funds, and it is expected that the City's share will remain constant throughout the twenty-year planning period. In general, VRF funds are distributed based on each jurisdiction's population in the county, and a small percentage is available based on a competitive County-wide program. The remainder is reserved for Program Administration.

All VRF funds received from the County are programmed to be transferred to the Infrastructure Fund to provide funding for the Pavement Rehabilitation project throughout the twenty year plan.

Youth and Neighborhood Services Fund

The Youth and Neighborhood Services Fund accounts for the revenues and ongoing operating program expenditures associated with the management and maintenance of the Columbia Neighborhood Center (CNC). On May 10, 1994, Council approved development of a neighborhood service center at Columbia Middle School to meet the health, social, recreational, and educational needs of North Sunnyvale residents (with an emphasis on serving disadvantaged youth) through a coordinated network of services. Advanced Micro Devices contributed \$1 million to the Columbia Neighborhood Center project, one-half of which Council used to establish the Youth Opportunity Fund (now renamed the Youth and Neighborhood Services Fund) to generate interest to help offset ongoing operating program expenditures.

Capital And Infrastructure Projects Funds

Capital and Infrastructure Projects Funds are used for major capital acquisition, construction activities, and renovation or replacement of general City fixed assets. The City currently accounts for these activities in two funds: the Capital Projects Fund and the Infrastructure Renovation and Replacement Fund. Capital and Infrastructure projects related to the Utility Enterprise Funds are budgeted and accounted for within each individual utility fund.

Capital Projects Fund

The Capital Projects Fund was established in FY 1997/98 to account for financial resources to be used for new or substantially enhanced assets or for major rehabilitation of capital facilities. These projects are funded by the General Fund, other governmental funds, or outside sources. Outside revenues into the Capital Projects Fund include federal and state grants, intergovernmental revenues, developer contributions, Traffic Impact and Mitigation Fees, and Sense of Place Fees.

The Capital Projects Fund is divided into distinct sub-funds that receive direct transfers from the funds that are responsible for particular projects. Each sub-fund records revenues, interest earnings, transfers and expenses separately.

General Assets Sub-Fund

The General Assets Sub-Fund is the largest Capital Projects sub-fund. In FY 2014/15 it accounts for \$30.2 million in appropriations to projects, \$20 million of which comes from federal grant funding. Of this amount, \$8.4 million is planned for the Fair Oaks Ave Overhead Bridge renovation, with another \$13 million planned for FY 2015/16 and FY 2016/17 for that project. The Lakewood Branch Library Facility is also accounted for in this Fund. A total of \$11.5 million is budgeted over the next four years for the design and construction. This project is contingent on the final sale of the Raynor Activity Center, and the recommended project budget has been adjusted to accommodate the sale timeline accordingly. This sub-fund also includes the Washington Community Swim Center renovation, which is scheduled to begin design in FY 2015/16 and total \$8 million over the next four years.

There are also a significant number of currently funded projects that will not fully expend their appropriations in FY 2014/15, and these unspent funds will be carried over into FY 2015/16. Projects that are currently underway include the East and West Channel Trails project for \$4.4 million, the Orchard Gardens Park Expansion project, which is funded by a \$1 million transfer from the Park Dedication Fund, the Safe routes to School and Neighborhood Guided Bike Routes project which is funded by a federal grant, the Hendy Avenue Complete Street Project, Downtown Streetscape Improvements, and design work on the repair of the Fair Oaks Overhead Bridge. Beyond FY 2015/16, significant projects in this Sub-Fund include Downtown Wayfinding and Gateways, the Plaza Del Sol Phase II project, and GIS support for the mapping of utilities.

Gas Tax Sub-Fund

The Gas Tax Sub-Fund accounts for capital projects funded partially or fully by Gas Tax revenues. There are no new appropriations in FY 2015/16; however, carryover from FY 2014/15 is expected for the design phase of the Calabazas Creek Bridge project, with construction scheduled for FY 2015/16.

Calabazas Creek Bridge Sub-Fund

A new Sub-Fund was established in the Capital Projects Fund in FY 2013/14 to account for \$565,000 from the City of Santa Clara to fund its share of the Calabazas Creek Bridge renovation. The purpose of this Sub-Fund is to account for the interest allocation from the City of Santa Clara contribution that the City will be managing and administering.

Traffic Mitigation and Traffic Impact Fees Sub-Funds

The Cumulative Traffic Mitigation Fees and Traffic Impact Fees are accounted for in individual sub-funds of the Capital Projects Fund. Prior to the adoption of the Transportation Strategic Program in November 2003, an interim funding mechanism was implemented for transportation mitigation of major land development. This mechanism was known as Cumulative Traffic Mitigation Fees. The Traffic Mitigation Sub-Fund was created in order

to use Cumulative Traffic Mitigation Fees for capital projects that improve traffic capacity or alternative transportation facilities. Funds are allocated to projects of local or regional significance, depending upon the nature of traffic impacts identified in association with the land development. The adoption of the Transportation Strategic Program in November 2003 replaced the interim Cumulative Traffic Mitigation Fees.

The Traffic Mitigation Sub-Fund contains one capital project, Future Traffic Signal Construction/Modification, which is expected to be complete in FY 2014/15. Additionally, the fund is providing approximately \$1.6 million in grant matching funds to fund a variety of projects including Safe Routes to Schools, several intersection safety improvement projects, bike lane projects, and the Hendy Ave Complete Street Improvements. All of these projects are currently underway and expected to be complete in FY 2015/16. With these funds being available as a local match for grant funding, the City has been able to leverage significant grant dollars for these projects, although it is largely drawn down at this time. It is estimated that the Traffic Mitigation Fund will have a balance of approximately \$41,000 available for grant matching purposes at the end of FY 2014/15.

The Traffic Impact Sub-Fund was created to account for the Traffic Impact Fee that was adopted in November 2003 to be applied to traffic-generating development Citywide. As noted above, this Traffic Impact Fee replaced the interim Cumulative Traffic Mitigation Fee. The City began collecting Traffic Impact Fees on new developments in January 2004. Traffic Impact Fees are to be applied to a specific list of roadway capacity improvement projects that were identified using a Citywide transportation model. The Transportation Strategic Program consists of 11 projects totaling \$290 million. These projects are largely unfunded and will move into the City's twenty-year Projects Budget as funds are received and improvements are needed. A comprehensive listing of these projects can be found under Traffic and Transportation in Volume II – Projects Budget of the FY 2015/16 Recommended Budget.

As the local economy continues to recover, the City is seeing larger development projects that are generating significant Traffic Impact Fee revenue. \$5.4 million is anticipated in FY 2014/15 and \$2.3 million in FY 2015/16. Beginning in FY 2016/17, revenues are budgeted at the six year historical average of approximately \$1.8 million annually, adjusted for

inflation. For the twenty-year planning period, a total of approximately \$50 million in Traffic Impact Fee revenue is expected.

There are no new projects in the Traffic Impact Sub-Fund in FY 2015/16. Funds are currently appropriated to the design and construction of Interchange Improvements at Mathilda/237/101. The design phase is 50 percent funded by a grant from the VTA. Construction costs in the amount of \$16.5 million are planned for FY 2016/17. It is estimated that the City's share of construction will be \$8.25 million. Beginning in FY 2015/16, funds have been set aside in a Future Transportation Strategic Plan Projects expenditure line item to reflect the fact that the purpose of these funds is to accumulate and be used for major roadway projects, as identified in the Transportation Strategic Program.

Sense of Place Sub-Fund

A new Sub-Fund was established in the Capital Projects Fund in FY 2008/09 to formally account for projects funded by Sense of Place Fees. Sense of Place Fees have been collected in the City for several years as conditions of approval in certain Industrial-to-Residential areas. So far, the City has three land use areas subject to Sense of Place Fees. These are the Tasman/Fair Oaks Area, the Duane/Lawrence Expressway Industrial-to-Residential area, and the Fair Oaks Junction area. Dwelling units constructed in these areas are each subject to a Sense of Place Fee as a condition of approval.

Sense of Place Fee revenues are projected to be approximately \$1.1 million over the next two years, and then decreases to \$240,000 annually, adjusted for inflation, throughout the long-term plan. Approximately \$6.7 million is expected over the entire twenty-year planning period.

Staff believes that Sense of Place Fees could become more widespread in coming years. The fees would be required in areas where desired public improvements exceed the requirements of other areas of the City. Developers are normally responsible for frontage improvements, and Sense of Place Fees would help pay for other amenities that are not project specific and benefit the entire area (e.g. special signage, area entry treatments, aesthetic enhancements, etc.). Sense of Place Fees could also be required in areas with special land use or public improvement plans (Specific Plans, Precise Plans, Pedestrian and Bicycle area plans, etc.). Specific projects for future fee

revenues have not yet been identified. Anticipated future expenditures are shown as Future Sense of Place Projects in the long-term plan.

VTa Local Program Reserve Sub-Fund

A new Sub-Fund was established in the Capital Projects Fund in FY 2012/13 to account for a \$2 million VTA Local Program Reserve funds grant. This grant was awarded to provide 50% of the funds for the design costs of the Mathilda/237/101 Interchange Improvement project. The entire project design budget, as well as the City's 50% share of the cost, is included in the Traffic Impact Fee Sub-Fund. The purpose of this Sub-Fund is to account for the interest allocation from the VTA grant funds that the City will be managing and administering.

Infrastructure Renovation and Replacement Fund

The Infrastructure Renovation and Replacement Fund was introduced with the FY 1996/97 budget. Its purpose is to account for revenues and expenditures associated with the rehabilitation of the City's extensive physical infrastructure, except for utility assets, which are funded separately in the utility funds.

Similar to the Capital Projects Fund, this Fund is divided into distinct sub-funds that receive direct transfers from the funds that are responsible for the particular infrastructure projects. Each sub-fund records revenues, interest earnings, transfers and expenses separately. Currently, there are two sub-funds: General and Golf and Tennis. The General Sub-Fund accounts for the majority of City infrastructure projects. The Golf and Tennis Sub-Fund is specifically for golf and tennis projects, with funding predominantly from the Park Dedication Fund.

There are 30 projects in the General Sub-Fund recommended for funding in FY 2015/16 totaling \$13.7 million. Approximately \$6.7 million is funded by a transfer from the Park Dedication Fund with the majority going to fund five park or recreation facility related renovation projects. The fund also contains an additional \$1.4 million over two years starting in FY 2016/17 for concrete and sidewalk replacement. The funding is provided by one time excess property tax revenue and will help to address the current backlog of

repairs. Strategies and funding to address the backlog of side walk repairs will continue to be evaluated over the next several years.

A project is also funded for pavement rehabilitation, which provides the funding to return the City's Pavement Condition Index (PCI) to a level of 80. The City accelerated investment in its pavement over the last several years, with the intent of then providing sufficient funding to maintain that level going forward. In FY 2014/15, \$8.2 million is budgeted for pavement rehabilitation, which will conclude the increased funding. Funding then returns to an average of \$1.8 million per year

In the Golf and Tennis Sub-Fund, there is \$100,000 budgeted in FY 2014/15 for minor renovation of golf buildings. This fund provides for projects related to golf and tennis through FY 2032/33. It is then expected that the Golf and Tennis Enterprise Fund will fund its own infrastructure and capital projects.

Ongoing funding to address the City's infrastructure needs remains a particular area of concern. The City has a vast and wide array of infrastructure assets to maintain, including buildings, streets, parks, sidewalks, and utility-related infrastructure. These assets are an important part of the foundation of our service provision to the community. The City has long recognized the importance of maintaining these assets, as evidenced by the City policy of prioritizing the repair and replacement of existing infrastructure before the provision of new or expanded facilities. To this end, starting with the adopted FY 2011/12 Budget, the City has been setting aside funding for investment in its infrastructure. A total of \$44.5 million is currently earmarked for pavement rehabilitation. All of the City's parks have funding planned to renovate them over the next twenty years. Additional funding is being allocated to sidewalk, curb, and gutter replacement, and the General Fund has contributed \$7.1 million for future infrastructure projects, and has a planned appropriation of \$1.5 million per year going forward. Through these actions, the FY 2015/16 budget maintains this commitment to infrastructure rehabilitation.

The SMaRT Station Operations Fund was established to account for operations at the facility. It receives revenue from charges to the cities of Sunnyvale (Solid Waste Fund), Mountain View, and Palo Alto, and from the sale of recyclables. Major operating cost components include the SMaRT Station operator contract and disposal fees and taxes collected by the Kirby Canyon Landfill. The Fund is managed so that annual revenues and expenditures are in balance and that no fund balance, with the exception of a small debt service reserve, is carried forward to the next year.

The SMaRT Station is operated by a private company under contract with the City. A Request for Proposals (RFP) process was completed in 2014 for the operation of the SMaRT Station. The City Council awarded the contract to Bay Counties Waste Services on June 24, 2014. Bay Counties Waste Services held the previous agreement as well, and began operations on January 1, 2008. The FY 2015/16 Recommended Budget incorporates the changes in SMaRT Station expenses based on the new contractual terms. Since the previous year financial plan had estimated additional funding requirements in anticipation of the new contract, the impact to the twenty year financial plan was minimal.

The SMaRT Station Replacement Fund provides for the replacement of City-owned SMaRT Station equipment. The three participating cities contribute to these efforts and to payment of debt service based on fixed percentages established by the SMaRT Station MOU. Debt service reflects payment through FY 2017/18 for debt issued for the original cost of the facility, and through FY 2021/22 for replacement of materials recovery facility equipment.

Staff anticipates that while most of the facility's equipment and the overall SMaRT Station can be maintained in good working order through the term of the MOU, there will come a point when the facility and equipment will need replacement or rehabilitation. In order to allow for the cost impact of this eventuality, funding is projected for a new materials recovery system and any other improvements needed to the SMaRT Station Facility in FY 2021/22, with annual debt service of \$2 million. Funding is provided for planning and inter-jurisdictional coordination in FY 2016/2017 through FY 2019/20, with design and construction following in FY 2020/21 through FY 2022/23. This project could replace the SMaRT station, or it could implement

some other solution for the management of solid waste and recyclables in the City. The recommended budget is based on the initial construction cost of the SMaRT Station. It is anticipated that the cost for the ultimate replacement will be refined during the planning phase of the project.

Development Enterprise Fund

This new fund was established with the FY 2014/15 Adopted Budget. Prior to the creation of this fund, development-related activities and associated revenues were included in the General Fund across a range of operating activities, focused primarily within the Building and Planning divisions of the Community Development Department. In order to better align development-related revenues and expenses, which tend to increase and decrease with development cycles, the City created this new fund.

In the FY 2014/15 Adopted Budget the Development Enterprise Fund was programmed to receive its initial funding in the form of a transfer from the General Fund. The Development Enterprise Reserve was established in the General Fund to account for unplanned development-related revenue in FY 2012/13 and FY 2013/14. At the close of FY 2013/14 \$8.3 million had been collected in this reserve. At the beginning of FY 2014/15, the General Fund transferred the full amount to the Development Enterprise Fund.

Development-related revenue includes the major fees for permits and licenses that the City collects, as well as from Plan Check Fees and Engineering Fees. Over the past six years (five in the General Fund and one year in the Development Enterprise Fund), the City has seen significant fluctuations in the amount of development-related revenue received. When the recession hit in FY 2008/09, activity slowed considerably with revenues dropping all the way to \$5.2 million in FY 2009/10. The rebound, however, began that same year and continued to accelerate through FY 2011/12, with revenues approaching \$14 million. FY 2014/15 total development-related revenues are estimated to end the year at \$13.2 million, and staff is projecting that the anticipated level of development activity will remain high in FY 2015/16 with revenues of \$11.4 million before returning to the historical average of \$7.9 million. It should be noted that this historical average has increased, with four consecutive years of record high development activity.

Operating expenditures support the administration and regulation of development related activity in the City. This includes activities and services across multiple departments. Building Safety and Planning activities in the Community Development Department comprise approximately 64% of the total operating costs in this fund. Operations are also budgeted for fire prevention and hazardous material service program activities in the Department of Public Safety, development-related transportation and traffic services and land development-engineering services in the Department of Public Works; as well as very specific operating activities in the Environmental Services Department, Department of Library and Community Services, the Office of the City Attorney and the Office of the City Manager that relate to development in the City.

The FY 2015/16 Recommended Budget includes a revised payment schedule for indirect costs charged to the fund. FY 2015/16 will represent the first year that the fund will contribute the full indirect cost after one year of partial funding. The Projects budget funds temporary staffing projects for the Planning and Engineering divisions to address the peak demand which these divisions are currently experiencing. Additionally, \$50,000 is budgeted in FY 2015/16 to repair the City's aging One Stop Permit Center. The Transfer to the General Fund provides funding for the Transportation and Traffic Services Augmentation project that is also attributable to development-related activity. The Fund also includes a Budget Supplement in FY 2015/16 for consulting services to consider a Transportation Demand Management program for multi-family residential development projects.

The direct and indirect costs in this Fund exceed the historical average level of development revenues collected, creating a financial challenge for the Fund. The operating expenses are predominantly fixed. However, some of the costs are variable and will fluctuate with the level of development activity. Fund balance will be drawn down, as intended, in years where the development revenue declines to the historical average or lower. Given that this fund will enable visibility toward the actual revenue and expenses over time, fee levels will need to be reviewed and adjusted on an ongoing basis to ensure full cost recovery over the long term and fiscal stability for the fund.

Golf and Tennis Operations Fund

Golf and tennis operations have been operating as a stand-alone enterprise fund since FY 2012/13, following the dissolution of the Community Recreation Fund, with all activities intended to be self-supporting. However, the Golf and Tennis Operations Fund has struggled to operate as a true enterprise fund. A transfer of \$300,000 from the General Fund in FY 2012/13 was required to stabilize the fund after a restaurant operator terminated its operations at both golf courses. Although the restaurant re-opened under a new operator, revenue did not rebound as strongly as anticipated and the new operator went out of business in early FY 2014/15. As a result, a General Fund transfer is proposed for both FY 2014/15 (\$140,000) and FY 2015/16 (\$400,000). This will keep the Golf and Tennis Operations Fund in a positive cash position, allow for the establishment of a new restaurant operator, and time for further analysis, study and discussion with Council.

Over the long term, revenues are projected to grow at a modest rate of 2% per year, impacted by the general decline in golf play nationally and locally. Although positive strides in reducing operating costs are being made, expenses are projected to grow faster than 2% per year due to the rising costs of personnel and other expenses including water costs. Staff has looked for additional opportunities to reduce costs, but any further reductions may lead to declining service levels, which in turn, would negatively affect revenues due to poor course conditions. As a result, closing the ongoing gap between revenues and expenditures, identified as Fiscal Strategies in the twenty-year financial plan, will be a challenge.

An additional concern over the longer term is that existing capital improvement projects at the golf courses will only be funded by Park Dedication Fees until FY 2032/33. After this, golf and tennis revenues are expected to fund any new capital or infrastructure projects. Given the many challenges, discussion of the short- and long-term future of the fund, including the current funding model will continue.