CITY OF SUNNYVALE

Memorandum

DATE: May 5, 2016

TO: Mayor, Councilmembers and Residents of Sunnyvale

FROM: Deanna J. Santana, City Manager

SUBJECT: Fiscal Year 2016/17 Recommended Budget for the City of Sunnyvale

I am pleased to present the FY 2016/17 Recommended Budget and 20-Year Resource Allocation Plan. This Recommended Budget balances the resource demands for core operations, City Council's strategic policy priorities, personnel costs, strategic investments, and the increasing demand for services from the community. It also provides new tools to respond to opportunities or address current issues that can no longer be deferred, setting the groundwork for an even more nimble and proactive organization that is positioned to continue to provide high-quality service in a modern, thriving, and active community. City staff had four goals while developing this Recommended Budget:

1. Carefully reflect the benefits of the strong economy with thoughtful and reasonable revenue growth projections that provide a sustainable resource base to make strategic investments, while maintaining our high-quality services and fiscal prudence.
2. Make investments in internal service departments to improve "backbone" support to externally focused departments that serve our community.
3. Invest in mission critical information technology systems.
4. Provide a foundation to fund future increases in total compensation costs for employees.

Sunnyvale's economic climate and fiscal condition are complex. On the one hand, Sunnyvale continues to be at the forefront of a strong state-wide economic recovery led by the Bay Area region. Businesses in the city are creating jobs, the economy is active, and unemployment is low. The City is on solid financial footing with a growing real estate market impacting property tax revenue in a significant and positive way. We are fortunate to experience this additional revenue during growing demand for resources and unanticipated cost increases. In this very complex economic context, we remain cautious as new revenues are quickly consumed by deferred investments that require immediate action to sustain core operations or cost escalations that are not necessarily within our control. That said, the Recommended Budget allows for some opportunity for investment in key service areas, but largely this budget has focused on stabilizing the City's primary information technology systems ($15.7 million investment) and increasing pension costs ($167+ million investment). As such, this requires the consideration of policy trade-offs, limited-term budgeting to pilot new services, and is placed in the context of the broader unfunded needs of the City. I believe that with this budget we have done a great job of balancing these conditions under the circumstances we are facing to provide the best and most strategic set of resources to serve our community, while cautious and mindful of growing expenditures.

We are fortunate that the City Council has had the wisdom to establish policy priorities and has held several strategic sessions where, through a deliberative process, we have advanced each of them. In acknowledgement of our operational priorities and limited capacity, Council adopted the following policy priorities:

- Civic Center Campus and Main Library
- Ability of Infrastructure to Support Development and Traffic
- Open Space Acquisition Planning: Future of Golf Courses
- Downtown Sunnyvale
- Improved Processes and Services through the use of Technology

The Recommended Budget advances each of these priorities, applying resources both at a high level and on a very specific and targeted basis. Examples include: continued effort to identify a path forward on the Civic Center based on pending results from public opinion polling and potential Council action; targeted funding for projects that address infrastructure deficiencies, especially in transportation infrastructure; resourcing the golf courses to put them on a path to success; continued resources to make progress on the downtown; and investment in the City's technology services.

Investing Strategically to Address Increasing Demand and Strengthen Sunnyvale's Internal Service Departments

The Recommended Budget provides for investments in internal service departments to address increasing demands for service from the community. Examples include additional staffing resources for development-related services, permanently adding staff to meet the growing demand for care management services, very limited resources to continue implementation of the City's Climate Action Plan goals, and more.

During the recession, some of the hardest hit areas of the City's business operations were the internal service departments. Those departments remain under resourced and face significant infrastructure challenges. This is not unusual, as in tough times limited resources are generally preserved to focus on maintaining externally focused departments to preserve services levels for the community. However, the combination of deferred investment and growing service demand calls for investment in our internal service departments, advancing service innovations, and making strategic changes to align to community service trends. Given the deferred investments in these departments over the years, we are challenged with advancing the organization while keeping up with service demands due to insufficient staffing or resources (e.g. procurement, hiring, and training). The Recommended Budget begins to resolve this concern.

The Recommended Budget invests an additional $15.7 million in technology initiatives including a new Enterprise Resource Planning Solution, permitting system, and Public Safety records management system. Funding not only includes the cost of acquisition of these systems, but staffing and resources to properly implement the systems. Another investment made in our internal service departments includes the addition of a Buyer for the Purchasing Division in the Finance Department, which is heavily impacted by increased infrastructure renovation activities. Finally, resources and staffing have been added to the Human Resources Department in support of employee development, recruitment/retention, succession planning, wellness, recruitment, and training efforts. These investments are essential to developing and maintaining a quality workforce and advancing service demands and policy priorities.

Ensuring Stable and Sustainable Employee Compensation, at a Time of Significant Increases

Another important area to highlight in the Recommended Budget is employee total compensation. The City continues to face growing personnel-related expenses and long-term liabilities. Recognizing that our workforce is our most important asset and working collaboratively with our bargaining units over the past several years, we have made considerable progress towards sustainable compensation costs. Contributions made by our employees, such as moderated increases in salaries and increases in employee-paid pension contribution rates have been critical to stabilizing the City's finances and maintaining service levels. Unfortunately, due to poor investment returns last year and in the current year, current actuarial information suggests that CalPERS will need to again increase the employers' pension contributions. While this Recommended Budget includes a plan to resolve the projected $167+ million of increased pension expenditures, it does so by using ongoing revenue and reserves while postponing investment in areas that were originally slated for funding. The City will need to continue to work with bargaining units and develop fiscal measures that alleviate salary and benefit expenditures. More details are provided in the budget highlights section of this Recommended Budget Message.

Identifying Unfunded Needs and Service Trade-offs and Buy Backs

As part of the development of the FY 2016/17 Recommended Budget, I initiated a process to identify potential adjustments to service levels and unfunded needs (e.g. programs, projects, and infrastructure). Departments were tasked to bring forward potential adjustments to service levels for my consideration that they felt aligned to service demand and begin the development of a list of unfunded needs. The latter is intended to be a dynamic and evolving document that captures funding priorities in a larger context and maintains the long-term vision for which Sunnyvale is so well known. The Recommended Budget also includes a series of 10 Budget Supplements that total $4.2 million over 20 years, all of which impact the General Fund. Without any of these in place, the Recommended Long-Term General Fund Financial Plan reaches a low point in FY 2033/34 of approximately $7.1 million in the Budget Stabilization Fund. If the Council opts to fund all the recommended budget supplements, the Budget Stabilization Fund is projected to be as low as $3.3 million. Each of these supplements focus on areas that are responsive to the needs of the community; however, with the exception of only a few, the majority are discretionary in nature and, in most cases, are ultimately policy trade-offs against the Council's desire to maintain a Budget Stabilization Fund at a certain level. I've strategically reviewed each Budget Supplement and made a recommendation, identifying partial or limited term efforts where appropriate. To the extent that Council eliminates expenditures included in the Recommended Budget, identifies additional revenues, or draws reserves, Council can use those resources to add supplements, make service level adjustments, or begin to address unfunded needs.

In the following pages, the overview of the FY 2016/17 Recommended Budget provides greater detail by the key components: revenues, expenditures, and reserves. It also includes a section for Service Level Adjustments, Budget Supplements, and Unfunded Needs for the evaluation discussed above. 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 2016/17 Recommended Budget presents a balanced allocation of resources that maintains sufficient reserves to manage the volatility of our regional economy, and holds Sunnyvale's reputation for being strategic, prudent, and thoughtful in its long-term budgeting. It allows resources to continue advancing the policy priorities set by the City Council, invests in the internal service departments to better serve the community, and sustains service levels that our residents have ranked highly. While we will continue to be faced with challenges such as long-term compensation costs for our employees, inadequate technology, and aging infrastructure, with prudent fiscal planning and thoughtful deliberation on setting priorities, we are well positioned to address these issues. With patience, partnership, and persistence, along with a collective focus on providing the best for our community, we will find solutions to the challenges presented and continue Sunnyvale's strong tradition as a world class city.

Deanna Santana

Deanna J. Santana
City Manager

FY 2016/17 Recommended Budget Highlights

The FY 2016/17 Recommended Budget totals $398 million and includes all City operations and project expenditures, as well as withdrawls and contributions to the City's reserves. Citywide budgeted expenditures are funded from multiple sources that include general taxes and revenues (the General Fund), 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. Restricted funds make up over half of the budget.

The City's General Fund, which accounts for 41% of the citywide budget, has proposed expenditures of $165 million. The General Fund is balanced over the twenty-year financial plan with a Budget Stabilization Fund Reserve that ends with $6.3 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 and remain fiscally sustainable.

The Budget Stabilization Fund serves to 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. We are also budgeting at a time when several revenues appear to be at high-growth levels. While we have taken care to budget to historical growth averages over the long-term plan, the City has experienced years of slow revenue growth and dramatic revenue reductions during the last 20 years.

Second, in the context of more complex economic cycles, personnel expenditures have also become less predictable with growing focus on corrective action for pension sustainability and related directives that assume significant expenditures. As such, this budget includes projected increased costs for pension contributions totaling $167 million over a twenty year planning period. However, the budgeted personnel cost assumptions may not be reflective of future increases in personnel costs given the City's long-term unfunded liabilities for pension and other post employment benefits. This, coupled with the need to remain a competitive employer in an improving economy puts additional pressure on the City's long term financial plans. Therefore, fiscal sustainability will have to be balanced with the totality of personnel costs, i.e., salaries and benefits. With these vulnerabilities in mind, funds from the Budget Stabilization Reserve should be used thoughtfully and strategically and, while this issue is resolved in this Recommended Budget for now, the City needs to vigilantly monitor this issue and develop additional fiscal measures to continue the City's fiscal sustainability and prepare for additional actions that the State may take relative to pension sustainability.

As part of the development of the budget, the City performs a detailed review of operations and projects in alternating years. For the FY 2016/17 Recommended Budget, the focus is on the two year operating budget. First and foremost, the Recommended Budget resolves two current requirements for investment: (1) $15.7 million for antiquated information technology systems that are at a critical state, but not properly funded for replacement, and (2) $167 million to stabilize our greatest asset, our workforce, and fund projected personnel costs (albeit additional fiscal impacts are projected). Upon assigning fiscal resources for the two priorities, all City operating budgets were updated and reviewed in detail for adjustments. Many existing budgets have increased reflectingthe rising costs of doing business due to costs for materials and contract services. Additionally, costs have increased due to the rising demand for services. Requests for development services such as plan checking, building and fire inspections, and engineering review have been at record high levels. At the same time, a significantly higher number of public works construction projects are currently underway or in the pipeline than ever before. In addition, the Recommended Budget includes investments in several strategic areas, specifically in internal service departments, which provide backbone support to the City's externally focused departments. The FY 2016/17 operating budget for all funds totals $262 million, up $18.4 million or 7.5% from the FY 2015/16 Adopted Budget. Highlights are included below under "Major Operating Budget Highlights."

As FY 2016/17 is not a projects budget year, the projects budget is largely the same as presented in the FY 2015/16 Adopted Budget and Long-Term Financial Plan. The recommended budget includes a few changes based on Council actions during FY 2015/16 with the exception of a few new projects that address Council strategic priorities. These are detailed in the "Projects Budget" section.

The FY 2016/17 Recommended Budget also includes ten Budget Supplements totaling $4.2 million, which provide funding for a variety of services or initiatives. Detail is provided in the "Budget Supplements" section. These Budget Supplements require specific Council approval and the funding is included in the Recommended Budget. While all Budget Supplements are generally great concepts, staff proposes to fund some for a limited duration to learn more about the service before committing to funding them for a 20 year term. This is a fiscally prudent approach and leaves flexibility for decision making based on additional information on how successful these additional investments are with responding to the community's demand for services. This is a departure from past practice, but warranted given the desire to remain fiscally flexible in future years.

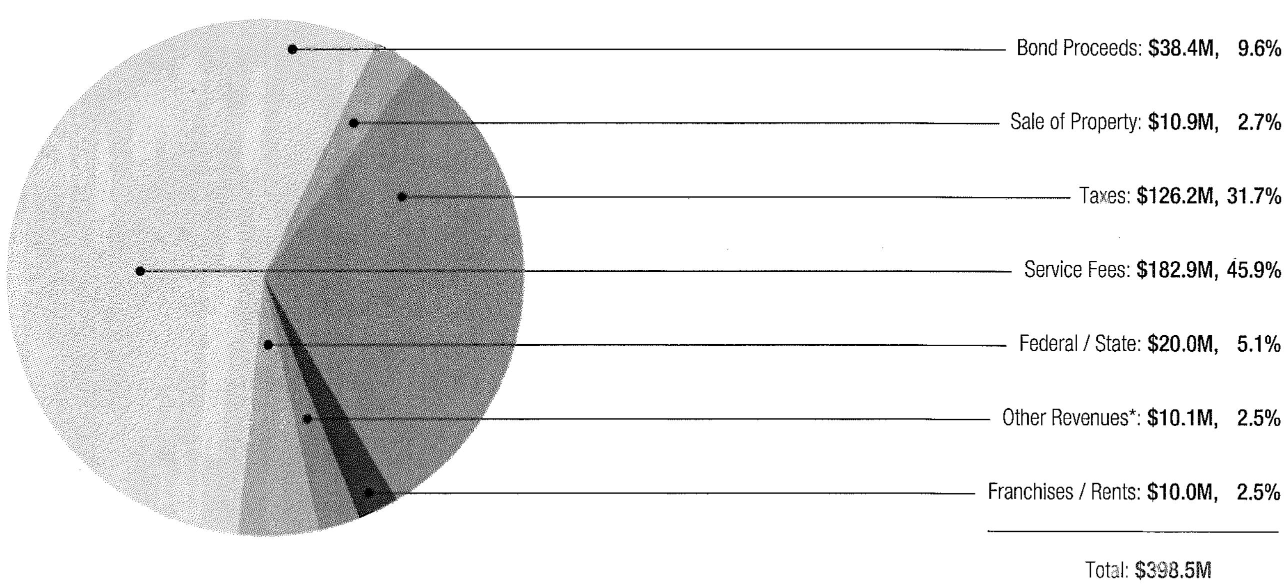
City's Budget and Resource Allocation Plan

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 funds. Detailed discussions about revenues, expenditures, and reserves by specific fund are included with the financial plans.

I. 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 2016/17 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 Revs, 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.

Figure 2 – Top Tax Revenues

Revenue Source	2013/14 Actual	2014/15 Actual	2015/16 Budget	2015/16 Revised Projection	2016/17 Proposed Projection
Property Tax	$50,293,385	$54,940,570	$56,486,757	$61,748,736	$62,777,052
Sales Tax	30,194,827	29,676,176	31,947,169	30,352,481	31,698,678
Transient Occupancy Tax	10,858,671	14,137,069	11,397,216	16,383,291	14,471,479
Utility Users Tax	6,754,263	6,774,027	6,809,616	6,809,616	6,903,949
Gas Tax	4,568,727	3,717,503	2,599,579	3,102,861	3,023,610
Construction Tax	2,983,677	3,066,351	3,102,861	2,948,440	2,582,427
Total Top Tax Revenues	$105,653,550	$112,311,696	$112,343,198	$121,345,425	$121,457,195

The proposed revenues present an overall positive outlook in the short term, but also reflect the volatility in key tax revenue sources such as the Transient Occupancy Tax. 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 2015/16 revenues to exceed actual returns in the prior year with the exceptions of gas tax and construction tax. Revised FY 2015/16 estimates for these revenues estimate a slight decrease from FY 2014/15. It is important to note that we are currently working on a Council Study Issue to modernize the utility users' tax ordinance. In May, staff will share polling results related to the modernization of the Utility User Tax (UUT) which may result in Council adding a UUT modernization ballot measure for voter approval on the November 2016 ballot.

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 $1.1M. Revenues from the residential sector increased 8.7% in FY 2015/16 while the commercial/industrial sector experienced 14.1% growth. While growth was forecast in the FY 2015/16 Adopted Budget, actual growth is higher than these estimates and therefore, the City's property tax revenue base was adjusted upward. In addition, we anticipate continued strong growth in property tax revenue for the next two years. The residential growth projection is adjusted up to 5.8% for FY 2016/17. 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 2019/20, we forecast property tax growth at a long-term historical average of 4.1%. 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 $128.6 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 four 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 impacted revenues for FY 2013/14 through FY 2015/16. With the end of this adjustment, projected FY 2015/16 sales tax revenue is anticipated to be up from FY 2014/15 by approximately $675,000. 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 $30.4 million decrease over twenty years.

Transient occupancy tax (TOT) has shown significant growth over recent years, coming in above estimates for FY 2014/15 and anticipated to be above estimates again for FY 2015/16. Currently, TOT is one of the City's strongest growth revenues, and the recommended budget anticipates that room rates and occupancy levels will remain strong in the short-term, stepping down from current record level but remaining well above the historical average, through FY 2016/17. It is important to note that hotel activity in Sunnyvale is heavily reliant on business travel activity, and therefore this revenue source can be quite volatile and directly related to the economic climate. In the update of revenue projections for the FY 2016/17 Recommended Budget, we have adjusted the timing of projected 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 2017/18 but have revised those up to reflect more recent trends.

Utility users tax (UUT) revenue, generated from the sale of electricity, telecom services, and the sale of gas, is forecasted to remain flat over the long term as compared to the FY 2015/16 Budget. The decline is being driven by two factors, energy efficiency and how the City's current ordinance applies to telecom services. 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 related to gas, and electricity usage. The majority of telecom utility user tax revenue is based on land-lines, while services such as data transmission are not included in the tax calculation due to the City's current 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. In Spring, Council is scheduled to consider placing a measure on the November 2016 ballot to modernize the City's UUT ordinance. It is expected that the UUT modernization will stem the flattening or decline of UUT revenue and growth will return, however this assumption is not included in the FY 2016/17 Recommended Budget, as the change in the tax structure requires voter approval.

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, in this 20-year Financial Plan, 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 current peak level will cool off, stepping down over the next three years although still estimated at elevated amounts as compared to historical aveages through FY 2018/19 and return to the historical average level planned beginning in FY 2019/20.

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, many 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 solid waste 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 2016/17 is shown below, in Figure 3, with a comparison to the original projection made in the FY 2015/16 Adopted Budget:

Figure 3. Table of Planned and Recommended Utility Rate Increases

Utility	Original Projection	Recommended FY 2016/17	Change in Percentage Points
Water	6.00%	Varies*	Varies*
Wastewater	8.00%	8.00%	0.00%
Solid Waste	3.00%	3.50%	0.50%

*Percentages vary by customer group as a result of cost of service adjustments

Each of the utility enterprises has its own unique pressures that are driving rate adjustments. The FY 2016/17 Recommended Budget is the first year in the two year operating budget cycle. As such, each utility submitted updated operating budgets as discussed in more detail below.

In the water utility, the two drivers affecting rates are the extended drought being experienced across the State for four consecutive years, and increased infrastructure needs. The drought adds a layer of financial uncertainty to the Fund. Water demand and corresponding sales are down significantly over the last several years. In fact, from FY 2012/13 to FY 2014/15, water demand in Sunnyvale is down 23.4%. The State has continued its call for reductions in water use. Due to some of the landscape and water smart appliance incentives that have been available, we are projecting that water consumption will remain relatively flat with moderate growth into the future. 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 2015/16, both wholesalers have 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 apporoximately 8-20% 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.

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 $108 million in projects over 20 years, the most significant of which is $71 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.

Also, the City completed a Water Cost of Service Rate Study for the FY 2016/17 rates. This practice, which periodically recalibrates rates to reflect the current costs of providing water service proposes modifications to the City's pricing structure to adjust rates to more closely reflect the cost of providing service. The proposed pricing structure shifts costs from the variable water consumption charges to the fixed service charge to reflect the fixed costs of providing water service. Additionally, in response to recent statewide rate structure changes, the modifications include a flattening of the tiered pricing structure, which will have a varying effect on different customer classes.

Wastewater rates are rising as planned 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 30-year 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 as it will eventually make up a third of the Fund's total expenditure requirements. It is notable that the City is in the final stages of approval to receive State Clean Water Revolving Funds for the project, which will come at a significantly lower rate than traditional municipal bonds. Once approved, we will include the reduced debt service costs in the long term financial plan for this enterprise.

Solid waste rates are rising approximately as planned, driven primarily by the implementation of the City's Zero Waste Strategic Plan. This plan, which targets increasing the City's waste diversion rate to 75% by 2020 and 90% by 2030, is scheduled to achieve 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 waste being diverted from the landfill.

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 proportionally by the amount of recyclable material processed.

Overall, the utility funds remain on solid footing and are performing well. As the City continues its disciplined approach in reviewing the financial condition of each of these critical funds every year, if affords sufficient time to make adjustments and minimize the fiscal impact on each utility's customers over the twenty-year horizon.

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 and build and draw down on a separate reserve. This is especially important as development-related fee revenues are highly volatile and, as large development projects take many years to complete, expenditures related to specific fees can occur later fiscal years than the one in which the revenue was collected.

With several large scale development projects in the Moffett Park and Peery Park areas, staff estimates revenue to remain elevated over historical averages through FY 2017/18 however have stepped projections down slightly from peak year numbers. 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 2018/19.

On the expenditure side, a detailed analysis was conducted to ensure all direct and indirect costs are reflected in the Fund and each of the departments with operations in this fund updated their operating budgets. Additionally, Council took action to add staffing to development related operations to address increasing demands for service. These staff were added on a limited term basis, with the assumption that attrition will occur over time to reduce staffing levels to reflect more normal (as opposed to peak) demands for services. Once the projection for revenues drops back to historical averages, the long-term financial plan indicates revenues will not fully cover expenditures over the long term. As a result, in out-years of the financial plan, fees will need to be increased or expenses reduced. Careful monitoring of development activity within the City and the effects on the Development Enterprise fund will be key in the coming years.

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 $12 million in revenue from these four fees in FY 2014/15. Based on year-to-date figures and approved projects, we estimate collecting $27.3 million in FY 2015/16. With the known development projects in the permitting process currently, a high level of revenue is anticipated for FY 2016/17 and FY 2017/18. Because of the volatile nature of development projects, it is challenging to forecast impact fee revenue beyond the most immediate years. The revenue projected above last year's budget is primarily appropriated in projects, or reflected as increases to fund reserves that will be dedicated to future projects.

Figure 4. Impact Fee Revenue

Revenue Source	FY 2014/15 Actual	FY 2015/16 Budget	FY 2016/17 Plan	FY 2017/18 Plan	FY 2018/19 Plan	FY 2019/20 Plan
Park Dedication Fee	6,214,777	23,001,064	22,291,133	25,488,824	7,527,168	7,527,168
Housing Mitigation Fee	2,833,200	2,320,526	8,410,030	18,679,705	4,785,526	4,881,237
Transportation Impact Fee	2,929,329	1,901,680	5,801,648	6,444,394	1,939,858	1,978,655
Sense of Place Fee	63,609	54,223	915,111	56,876	251,226	256,250
IMPACT FEES – TOTAL	12,040,915	27,277,493	37,417,922	50,669,799	14,503,778	14,643,310

Golf Fees Newly configured in FY 2012/13, the Golf and Tennis Fund has struggled over the last four years to operate as a true enterprise fund, with all activities attempting to be self-supporting. This has been a strategic focus for Council, and staff has made good progress in restructuring activities to reduce expenditures; however growing revenues has been a challenge and the Fund will require continued subsidy, as illustrated during the Fall 2015 study session and proposed study issue. Recently, we have contracted with new restaurant operators for both courses and Sunken Gardens is now open for business with the restaurant operator at Sunnyvale Municipal Golf Course just beginning preparations to open. While staff will continue to explore cost saving opportunities, the Fund remains in a precarious position and requires Council action to again provide General Fund monies to the Golf and Tennis Operations Fund due to a projected shortfall in FY 2016/17. In FY 2015/16, the Golf and Tennis Operations Fund received a $450,000 subsidy from the General Fund. It is estimated that an additional $550,000 will be required in FY 2016/17 to keep the fund in a positive cash position and allow time for the establishment of the new restaurant owner. As a separate action, the City Council can act to reexamine this Fund and fund the study issue to alleviate future subsidies as any cost-saving efficiencies developed by staff would not likely resolve entirely the structural shortage that exists.

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, the recently begun discussion of the long-term viability of the golf course operations and the current funding modelneeds towill continue in earnestFY 2016/17.

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 is a tool for managing cash flow when large, one-time outlays are required, generally for large infrastructure projects.

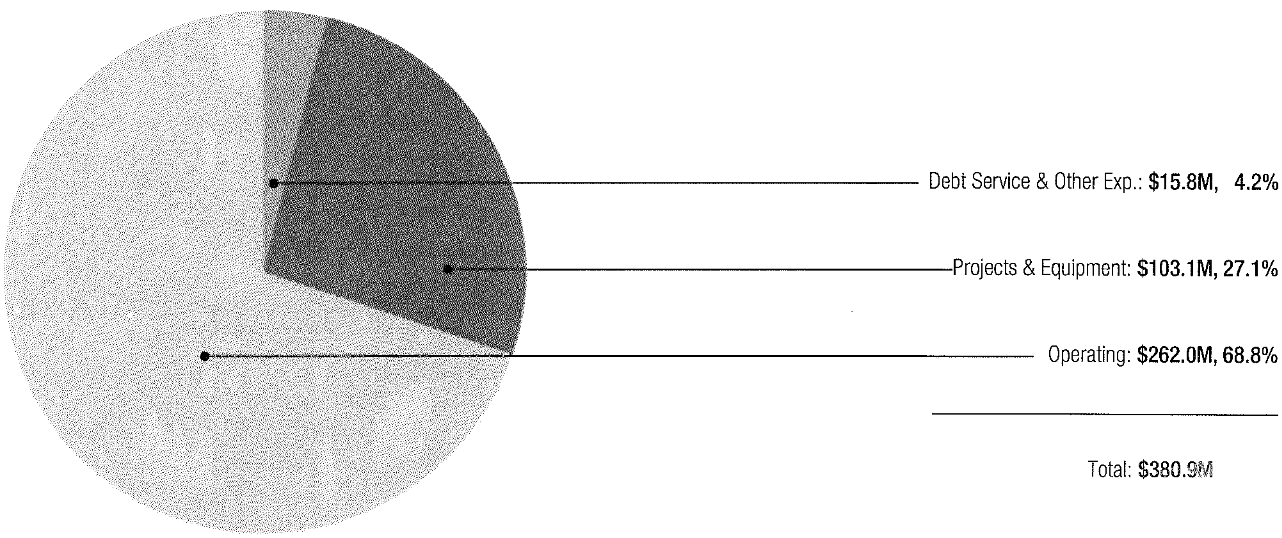
The City currently carries debt for both the Water and Wastewater Systems, the SMaRT Station, the Redevelopment Successor Agency and the Government Center property at 505 West Olive Avenue ("Sunnyvale Office Center"). All of the currently held debt is funded by rate revenues, former tax increment or lease payments paid by various funds. 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).

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, The estimated value (based on an appraisal) is $11 million. Unilever has exited the property and an evaluation of its disposition has begun.

II. 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 2016/17 Recommended Budget Citywide Expenditures by Type



*The difference between total Citywide revenues and expenditures is reflects as an increase to reserves of $17.6 million.

Operating Expenditures

City departments are extremely integrated and highly reliant on each other to deliver services and achieve the goals and results established by the City Council. With this in mind, the subsequent overview discusses the changes in the context ofservice delivery clusters. These are:

- The Office of the City Attorney
- The Office of the City Manager
- Administrative Services
- Library & Community Services and Public Facilities
- Transportation, Streets, and Infrastructure
- Public Safety
- Community, Economic, and Workforce Development; and
- Environment and Sustainability

Citywide Operations

Employee Compensation

As a service delivery organization, the majority of the operating expenditures are the salaries and benefits costs for our employees. Therefore, the City has focused on managing compensation costs during and after the deep recession and will continue this effort to ensure our financial sustainability over the long term.

The most significant change in employee compensation for the FY 2016/17 Recommended Budget is the projected increase in pension benefits costs. The cost to fund the CalPERS retirement benefit provided to employees is broken down into two contributions, the employer contribution and the employee contribution. The FY 2016/17 Budget, consistent with the prior year budget, assumes that tier one and two employees will contribute their full employee share by FY 2018/19 (Miscellaneous) and FY 2019/20 (Safety, excluding a 2.25% employee cost share paid by the City). Tier three employees (those employees hired under the Public Employees Pension Reform Act, PEPRA), must pay half their normal cost at the end of any existing labor agreement, or by January 1, 2018.

While the employee contribution rate is set by law, the employer contribution rate is adjusted annually by CalPERS through an actuarial analysis which considers factors such as demographic information and investment earnings. The contribution rates that are received from CalPERS are applied against the City's employee salaries (PERSable earnings) in order to calculate the dollar amounts the City must contribute.

Over the past decade, employer contribution rates have increased significantly, predominantly due to the significant market losses experienced in the early 2000s and in FY 2008/09. Other factors contributing to the sharp increase in contribution rates have been enhanced pension benefits for employees, applied retroactively, and changes in actuarial experience (i.e. employees retiring earlier at higher salaries and living longer in retirement).

As part of the budget process, the City engages a consulting actuary to review the latest CalPERS valuation reports, and project long term rates based on those reports as well as reasonable assumptions based on current information. Poor recent CalPERS returns, plus the implementation of new mortality assumptions and their de-risking strategy are projected to have a significant impact on the City's cost for pensions during the next 20 years. The City's consulting actuary updated the contribution rate projections for the twenty-year plan, revising the rates significantly upward primarily due to CalPERS efforts on risk mitigation strategies, assumption changes and contribution policy changes. The resulting impact is approximately $167 million in additional cost over the twenty year plan.

The Recommended Budget addresses the additional pension costs of $167 million in several ways. The City accounts for pension costs in a separate Employee Benefits Fund. The FY 2015/16 Budget for this fund had several assumptions to hedge against future pension cost volatility built in and the fund has a healthy reserve level. The FY 2015/16 Budget assumed that the City will make additional contributions to CalPERS to pay down the City's long term liability. The plan included an additional 1% per year towards safety pensions, and an additional half a percent towards miscellaneous pensions. These additional contributions, which total $16 million have been used to offset the increased cost. Also as part of the FY 2015/16 Budget, the City set aside an additional $1.2 million per year in savings that came from reduced projections on pension costs. These reductions reflected two strong years of CalPERS earnings. In order to offset the increased cost in the FY 2016/17 Recommended Budget, staff also used these savings, which totaled $33 million over twenty years. Lastly, the Recommended Budget draws down reserves in the Employee Benefits fund by $13 million over twenty years. The total of these three actions provided $62 million in resources to offset the additional anticipated cost for pensions. With these adjustments, the additional pension cost remaining is approximately $105 million for all funds with the largest impact on the General Fund. The other funds are able to pay for the increased pension costs through use of reserves and increased revenue.

Combined with other changes in personnel cost assumptions including salaries, insurances, and a rise in total number of employees, the total employee compensation costs will rise approximately $167 million over twenty years. This increase has been offset by the addition of new revenue, primarily property tax and transient occupancy tax as discussed above. We will be closely watching total compensation costs into the future, with a continued emphasis on providing sustainable and competitive compensation while managing our long term liabilities. As a change to previous 20-year financial plans, planned increases in salaries are combined with related benefits costs. For example as salaries increase, the related increased in pension costs is included in that line item.

The City is organized into eleven operating departments. Figure 6 summarizes the changes in the budget for each department:

Figure 6. Budgeted and Actual Operating Costs by Department

Fund/Program	Actual 2013/14	Budget 2014/15	Actual 2014/15	Budget 2015/16	Plan 2016/17	% Change 15/16 to 16/17
Community Development	6,966,614	7,271,984	7,206,305	7,548,975	8,529,105	13.0%
Environmental Services *	76,495,173	81,501,963	75,351,517	84,211,327	87,406,197	3.8%
Finance	7,860,003	8,396,376	8,200,684	8,490,746	8,996,089	6.0%
Human Resources	3,529,369	4,152,879	4,027,665	4,419,667	5,041,213	14.1%
Information Technology	6,142,175	6,949,480	6,715,674	7,100,904	7,837,713	10.4%
Library and Community Services	16,192,208	17,364,506	16,731,226	17,847,712	18,554,883	4.0%
NOVA Workforce Services	6,917,787	8,103,883	7,193,894	10,055,000	10,462,945	4.1%
Office of the City Attorney	2,057,641	1,946,939	1,738,918	1,856,142	1,956,799	5.4%
Office of the City Manager	4,457,164	4,326,582	4,303,071	4,621,502	6,469,079	40%
Public Safety	78,795,895	85,995,244	82,754,365	89,778,056	95,928,241	6.9%
Public Works	34,370,048	35,481,432	34,886,063	36,745,801	39,332,963	7.0%
TOTAL EXPENDITURES	243,784,076	261,491,267	249,109,381	272,675,831	290,515,227	6.4%

*Excludes SMaRT Station Operating Program

Overall, the operating budget is up 6.4%. Some of this change is due to base changes in employee compensation, and some is due to increases in the number of employees, goods and services budgets to meet increasing demands. The following discusses some of the significant changes that were made in each service cluster.

City Attorney and City Manager

These two departments serve as support to all service clusters, providing overall legal and policy guidance as well as organizational leadership and strategic direction. They support the City Council in its policy making and strategic planning while also providing core services such as the City Clerk, Elections, and City-wide printing and mailing services. The Office of the City Manager is directly responsible for all day-to-day operations, through collaboration and coordination with departments. The Office of the City Attorney ensures that actions are legally compliant and minimize risk or liability to the City.

The overwhelming majority of the increase in the Office of the City Managers is associated with the 2016 Special and General Elections. The cost for a General Election totals approximately $460,000 and is held every other year. Additionally, $772,000 is included in FY 2016/17 for a Special Election to be held in August to fill a vacant seat on Council. Costs in the Office of the City Attorney reflect primarily the true up of personnel related costs to fully reflect the number of hours staff in the department are working. The Office of the City Manager has made similar adjustments to more accurately reflect the hours staff in the department work.

Administrative Services

The Administrative Services cluster includes the Departments of Finance, Human Resources, and Information Technology (also referred to as internal service departments throughout this Recommended Budget). Changes in this group primarily reflect the addition of personnel resources. In Finance an additional Buyer has been added to keep pace with the procurement demands of the organization and large scale projects (e.g., WPCP, capital projects, etc.). The department also reorganized to better align its personnel and service delivery structure at no additional cost. In Human Resources, additional resources were added to support our workforce with recruitment and retention efforts, succession planning, training, employee engagement and wellness programs. These additions will enable the department to keep up with recruitment demands and reinvest in the City's workforce. In the Information Technology Department, the addition of an IT Manager is required to support the delivery of projects. Also, consistent with Council's recent action to prioritize the proper planning and investment in mission-critical technology systems, the budget includes an additional $15.7 million for critical information technology systems such as the Enterprise Resource Planning System, the permitting system, and the public safety records management system.

Library, Community Services, and Public Facilities

The Library, Community Services and Public Facilities cluster includes services provided through the Library and Community Services Department and the Facilities Divison of the Department of Public Works. While largely remaining flat in terms of year over year budget, Library and Community Services did make some minor adjustments, restoring full funding for performing arts and adjusting budgeted personnel resources and materials as appropriate. The Recommended Budget also includes continued efforts to modernize the City's public facilities including the Library and Civic Center. Separately, as a continued practice, the City included a Budget Supplement to fund care management services but added additional resources to more accurately reflect the increasining growing demand for service.

Transportation, Streets and Infrastructure

The Transportation, Streets and Infrustructure cluster includes Divisions within the Department of Public Works. While most investments in this area are through the capital projects budget, several additions were made to the operating budget to address increasing demands. Two additional limited duration positions were funded in Traffic Engineering through a cooperative agreement with Google. Additional funding was included to address the increasing costs related to emergency signal and street light repair and the ever increasing cost of electricity.

Public Safety

The Recommended Budget for the Department of Public Safety now includes funding for four previously authorized Public Safety Officers that were not included in prior years as they were anticipated to be progressing through the training program. Additional overtime hours were included for dispatch and the addition of a Dispatcher in Training position shore up the needs in the Communications Division. Lastly, funding was added to provide resources for a contract with the County to continue services provided by a probation officer targeted toward youth. In the near term, the City Council will consider additional Public Safety Officer staffing increases through a development agreement.

Community, Economic, and Workforce Development

The Community, Economic, and Workforce Development cluster combines services from the Community Development Department, the Office of the City Manager and NOVA. Community development activity has been at a high level for the past several years and the FY 2016/17 Recommended Budget reflects the addition of one planner as well as some increase and reallocation of hours to meet service demands. Additionally, Council added six positions to in the middle of FY 2015/16 to address workload and development services. These included two Building Inspectors, a Public Works Construction inspector, a senior transportation engineer, and two Fire Protection Engineers. The City's Workforce Development effort is grant funded and the FY 2016/17 Recommended Budget reflects the recent expansion of services into San Mateo County.

Environment and Sustainability

The Environment and Sustainability cluster includes the City's water, wastewater and solid waste utilities as well as efforts toward environmental sustainability and is largely supported by utility rates. The results of the drought on the cost of water, reduced demand for water and the maintenance requirements of the aging utility system continue to be major contributing factors in the cost of service provision.

Projects Budget

This year is the second year of the projects budget cycle, so the only changes made to projects were on an exception basis. We categorize our projects into three broad categories, Capital, Infrastructure, and Special. 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.

As only minimal changes were made to projects, the following highlights notable changes or new projects added in the FY 2016/17 Budget that are forthcoming within the next several years.

Projects Budget Highlights

Public Safety Recruitment Projects All of the costs associated with the recruitment, selection and training of new Public Safety Officers are accounted for separate from the Operating Budget in special projects by recruitment class. The Department of Public Safety recently completed a comprehensive staffing analysis. The result from the analysis is a revised timeline and cost estimate for each project. The FY 2016/17 recruit total was increased from eleven to twenty, with an increased cost of $2.6 million. The overall cost increase of recruitment projects included in the FY 2016/17 budget is $4.2 million. This aligns to the previous Council action to put in place an accelerated recruitment strategy to resolve the higher than usual anticipated vacancies.

Sidewalks Annual funding is provided for the replacement of damaged or raised sidewalks, curbs and gutters throughout the City. The City has programmed one-time revenue from additional property tax that was received in FY 2015/16 to increase the budgeted project costs over the next three years. Approximately $1.5 million was received in Excess ERAF, which was used to increase the overall project budget to $15.77 over the twenty years.

Technology Initiatives

$8.4 million has been programmed to replace the City's aging financial and budget systems as well as the current HRIS system. The ERP System Acquisition, Implementation and Support project enables the City to modernize our technological infrastructure with enhanced functionality and reporting capabilities. The FY 2016/17 Recommended Budget also funds a new project to replace the City's Permitting System with $1.2 million from the Development Enterprise fund. In addition, approximately $758,700 is budgeted to provide additional staffing for the City's Website Redesign project.

Budget Supplements, Service Level Adjustments, and Unfunded Needs

As part of the development of the FY 2016/17 Recommended budget, we identified potential adjustments to service levels, unfunded needs (i.e. programs, projects, and infrastructure) and carried forward Budget Supplements that came out of the Study/Budget Issues Workshop. Departments were tasked to bring in potential adjustments to service levels and begin the development of a list of unfunded needs which is intended to be a dynamic and evolving document that helps illustrate funding priorities in a larger context and maintain the long term vision for which Sunnyvale is so well known. The Recommended Budget also includes a series of ten Budget Supplements, all of which impact the General Fund.

With these in place, the Recommended Long-Term General Fund Financial Plan ends the twenty years with $6.3 million in the Budget Stabilization Fund. To the extent that Council eliminates expenditures included in the Recommended Budget, identifies additional revenues, or draws reserves, Council can use those resources to add supplements, service level adjustments, or begin to address unfunded needs.

The following list includes all Budget Supplements, Service Level Adjustments, and currently identified unfunded needs for the evaluation discussed above. The City Manager has recommended certain Budget Supplements for inclusion in the Adopted Budget. Any service Level Adjustments brought forward by departments that were recommended by the City Manager were included in the base Recommended Budget. No unfunded needs have been addressed at this time as many are still in the early stages of development or other funding requirements were necessary to structurally cure the budget in the twenty year plan.

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 2016/17 Recocmmended Budget. This year, the recommended budget includes eight Budget Supplements. Figure 7 lists the supplements and the City Manager's recommendation. If the supplement is recommended for funding, it will be included in the financial plan of the affected fund for budget adoption. Details of each supplement can be found in the Budget Supplements section of this recommended budget.

Figure 7. Proposed Budget Supplements

FY 2016/17 Budget Supplements				
No.	Title	Cost	Fund	Recommendation
1	Silicon Valley Talent Partnership	$3,000 annually for 3 years $9,000 total	General Fund	Recommended for Limited Duration Funding
2	Implementation of Green Bike Lanes	$250,000 one-time +	General Fund	Recommend partial funding/Defer to Projects Budget Cycle for further review
3	Tenant-Landlord and Community Mediation Services	$45,000 one-time	General Fund	Recommended for Funding
4	Safe Routes to School	$176,279 one-time + $453,637 over three years	General Fund	Recommended for Limited Duration Funding

FY 2016/17 Budget Supplements				
No.	Title	Cost	Fund	Recommendation
5	Care Management	$81,264 annually $2,108,776 over 20 years	General Fund	Recommended for Funding
6	Inflation Adjustment to Planned Supplemental Human Services Funding	$478,332 over 20 years	General Fund	No action as Council has the discretion to fund above or below average rate of expenditure based on its assessment of need.
7	Sustainability Speaker Series	$25,000 annually $131,408 over five years	General Fund	Recommended for Limited Duration Funding, Limited to Five Years
8	Scoping of Grade Separation for Caltrain Crossings at Mary Avenue and Sunnyvale Avenue	$500,000 one-time	General Fund	Recommended for Funding
9	Vision Zero	$150,000 one-time	General Fund	Recommended for Funding
10	Update to the Murphy Avenue Design Guidelines	$25,000 one-time	General Fund	Recommended for Funding
	20 Year Total	**4,151,153**		

Service Level Adjustments

The following reflects the adjustments to service levels requested by various deparments that were not included in the Recommended Budget. They are organized by Service Cluster.

FY 2016/17 Service Level Adjusment Requests		
Title	Cost	Fund
Community, Economic & Workforce Development		
Senior Planner	$175,120 annually $4.4 million over twenty years	Development Fund
Public Safety		
Street Crimes – 3 PSO IIs	$898,853 one time $17.6 million over 20 years	General Fund
Traffic Officer	$322,648 one time $7.95 million over twenty years	General Fund
Hazardous Materials – 3 PSO IIs	$814,740 annually $22.9 million over twenty years	General Fund
Animal Control Officer	$125,523 annually $3.2 million over twenty years	General Fund
Community Services Officer for Investigations	$169,474 one time $3.5 million over twenty years	General Fund

FY 2016/17 Service Level Adjusment Requests		
Title	Cost	Fund
Assistant Fire Marshal (reclassification)	$28,053 annually $710,500 over twenty years	General Fund
Fire Protection Specialist	$156,808 one time $3.4 million over 20 years	General Fund
Fire Protection Specialist - Apartments	$156,808 one time $3.4 million over 20 years	General Fund
Public Safety Specialist	$127,706 one time $3.2 million over twenty years	General Fund
Sr. Hazardous Materials Inspector (reclassification)	$24,052 one time $609,168 over twenty years	General Fund
Library, Community Services & Public Facilities		
Parks Staff	$158,960 annually $4 million over twenty years	General Fund
Parks Worker II OT & Materials	$34,855 annually $882,777 over twenty years	
Office of the City Attorney		
Deputy City Attorney	$210,200 annually $5.1 million over 20 years	General Fund

Unfunded Programs and Projects

The following list enumerates known areas that are unfunded or underfunded. It is important to note that this list is dynamic and will change with each budget cycle and as the City identifies new needs or funds items on the list.

Unfunded Projects Listing

Transportation, Streets & Infrastructure

- Transportation Strategic Plan Projects
- Bicycle CIP Improvement Program Projects
- Downtown Specific Plan Projects

Traffic Signal Infrastructure Replacement

- Sidewalk Repair
- Street maintenance (addl to maintain PCI)

Environment and Sustainability

- CAP Program Funding
- Water Infrastructure
- Wastewater Collection Infrastructure

- Stormwater Collection Infrastructure
- Power Generation Facility Funding
- Stormwater Program Funding

Library, Community Services & Public Facilities

- Civic Center Modernization
- Corporation Yard Modernization
- Fire Station Replacements/Rehabilitation
- Gap funding for repairs to corporation yard
- Golf building replacements
- Golf operations subsidy
- Branch Library operating and ongoing costs

Public Safety

- Fully functioning Emergency Operations Center

Administrative Services

- Work order and Asset Management Systems
- GIS Assessment - GIS Coordinator
- Modernization of vairous customer interface systems (POS, non-CDD permitting, etc)

III. 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 increase or decrease reserve levels as business and economic cycles pass, allowing us to provide a stable and consistent level of service. This is especially critical when several 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 growing and recessionary economic periods.

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. Most significantly, in this Recommended Budget and as directed by former Council actions, it helped manage the significant increase in projected pension costs.

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.

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, as are expenditures, which requires that the City look critically at any actions taken to augment services and resource allocations. While this budget allows for some additional ongoing costs, it resolves projected pension and retiree medical liabilities that will continue into the future. This budget is both strategic in advancing the City Council's goals, and services that the residents highly value, while being fiscally prudent to sustain our service in the long-term.

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 and, like many other California jurisdictions, more work is required to remain competive and sustainable over the years.

Lease payments in the amount of $1,200,750 are included in the appropriation for FY 2016/17 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.

The FY 2016/17 General Fund Budget includes funding for ten **Budget Supplements**. Details on each of the supplements are included in the Budget Supplement section in this volume of the FY 2016/17 Recommended Budget. The total expenditures budget for the ten supplements in FY 2016/17 is $1,005,543 with total costs over the twenty year plan of $3.7 million.

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. 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. $550,000 has also been budgeted to transfer to the Golf and Tennis Fund to address the deficit in that Fund anticipated for FY 2016/17.

General Fund Projects

The FY 2016/17 Recommended Budget for the General Fund includes $10.8 million for capital, special, and outside group funding projects. This amount also includes Project Administration costs of $402,979. This is the cost of Public Works staff for design and inspection of General Fund supported capital projects. The majority of the projects budget in FY 2016/17, or $7.8 million, is in a special project for the recruitment and training of sworn public safety officers. In FY 2014/15, $6.3 million was been brought forward from future years' recruitment budgets to accelerate recruitment efforts, fill vacancies and reach the current authorized sworn staffing. The additional funds supported the recruitment of additional recruits through FY 2016/17 in anticipation of the elevated level of projected separations in the next few years. In the FY 2016/17 Recommended Budget $10.7 million was added to the recruitment projects over twenty years. 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.

Other projects include $867,000 for the Emergency Vehicle Traffic Signal Preemption project to upgrade and expand existing outdated traffic signal preemption equipment in the City of Sunnyvale. $316,200 is budgeted for Climate Action Plan Implementation, and $152,150 for the Website Redesign project. 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. The FY 2016/17 Budget also contains $100,000 for Outside Group Funding per Council policy.

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 2019/20, when approximately $267,000 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 2016/17, 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 revenue for the first two years of the 20-year plan and that it never go below $0 in any year. For the FY 2016/17 Budget, the Budget Stabilization Fund balance is 26% of revenues in FY 2016/17 and 24% in FY 2017/18.

The FY 2016/17 Recommended Budget continues to maintain the short- and long-term balance. Over the twenty-year plan, Total Available Resources are up $162 million, and Total Expenditures are also up, approximately $201 million.

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 FY 2006/07 the reserve name was changed to Reserve for Capital Improvement Projects to reflect its expanded purpose. At the end of FY 2015/16,it is projected that the balance in this reserve will be $23 million, an increase from the prior year due to the anticipated sale of the Raynor Activity Center for $14 million in FY 2015/16. It is anticipated that the Reserve for Capital Improvement Projects will increase again in FY 2016/17 due to the sale of the Margarine Plant. After FY 2017/18, the reserve is projected to increase with interest earnings.

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 2014/15) 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.

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. The special assessment is projected based on preliminary estimates from the assessment and administration engineer for the District. Total project costs of $1.2 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.

Since FY 2014/15, combined Gas Tax revenues have been on the decline. This decline is the result of a decline in gas prices and a true-up from the State for the excise tax portion of gas tax revenue. After two years of decline, the FY 2016/17 excise tax index was adjusted down again by the State for having over-allocated in the prior year. Starting in FY 2016/17 through the end of the twenty-year plan, Gas Tax revenues are forecasted to be approximately $3 million each year. This totals a decrease of $1.6 million over the twenty-year plan, compared to prior fiscal year's projections. As a portion of Gas Tax revenues offset the cost of the Street Operations Program, this loss of resources will directly impact the General Fund. 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 due to continued expected advancements in vehicle fuel economy.

Governor Brown is proposing a new transportation funding package in his FY 2016-17 Budget to address critical needs at various local agencies to rehabilitate streets and roads. Should this proposal be adopted, Sunnyvale will receive an additional allocated amount of approximately $785,000.

Gas Tax funds are also used for street renovation projects. The Recommended Budget for the Gas Tax Fund has transfers to the Capital and Infrastructure Funds of $454,242, earmarked for design and contrasted against the prior fiscal year's high amount, when it was a construction year. The majority of this funding will be used 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 ¼ 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 2016/17 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 2015/16 appropriations which total approximately $885,000 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 2015/16, the City has received $897,964 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 income which is used to offset ongoing operating program expenditures.

The operating program expenditures for Columbia Neighborhood Center and related projects are accounted for in this fund, along with the associated program revenues. As outlined in the partnership agreement, the City is reimbursed by the Sunnyvale School District for a portion of the cost of services provided at the Columbia Neighborhood Center. For FY 2016/17 this reimbursement is projected to be $194,570. Other revenues to the Fund are recreation fees, rental fees for the facilities, interest earnings on the endowment, and an annual subsidy from the General Fund. For FY 2016/17, this subsidy is expected to be $582,886.

Expenses included in this Fund are for the direct services provided at the CNC, including CNC operations, which is overseen by the Library and Community Services Department.

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 2016/17 it accounts for $8.3 million in appropriations to projects, $6.2million of which comes from federal grant funding. Of this amount, $7 million is planned for the completion of the Fair Oaks Ave Overhead Bridge renovation project. The Lakewood Branch Library Facility is also accounted for in this Fund. A total of $11.5 million is budgeted 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 funding for the Washington Community Swim Center renovation, which originated in FY 2015/16 with a total $8 million over four years.

There are also a significant number of currently funded projects that will not fully expend their appropriations in FY 2015/16, and these unspent funds will be carried over into FY 2016/17. 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 the Neighborhood Guided Bike Routes project which is funded by a federal grant. Beyond FY 2016/17, 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 2016/17; however, carryover from FY 2015/16 is expected for the design phase of the Calabazas Creek Bridge project.

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 2016/17. Additionally, the fund is providing grant matching funds to fund a variety of projects including Safe Routes to Schools, several intersection safety improvement projects, and the bike lane projects. All of these projects are currently underway and expected to be complete in FY 2016/17. 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. 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 2016/17 Recommended Budget.

As the local economy continues to recover, the City is seeing larger development projects that are generating significant Traffic Impact Fee revenue. $1.9 million is anticipated in FY 2015/16 and $5.8 million in FY 2016/17. Beginning in FY 2018/19, revenues are budgeted at the six year historical average of approximately $1.9 million annually, adjusted for inflation. For the twenty-year planning period, a total of approximately $57 million in Traffic Impact Fee revenue is expected.

There are no new projects in the Traffic Impact Sub-Fund in FY 2016/17. 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. Beginning in FY 2017/18, 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 $1.0 million over the next two years, and then decreases to $250,000 annually, adjusted for inflation, throughout the long-term plan. Approximately $6.5 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.

General Sub-Fund

There are 24 projects in the General Sub-Fund recommended for funding in FY 2016/17 totaling $11.1 million. Approximately $8.1 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 providing sufficient funding to maintain that level going forward. In FY 2015/16, $6.8 million is budgeted for pavement rehabilitation, which will conclude the increased funding. Funding then returns to an average of $1.9 million per year

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 $48.9 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. As of FY 2015/16, the General Fund has contributed $9 million for future infrastructure projects, and has a planned appropriation of $1.5 million per year going forward. Out of this fund, $550,000 has been allocated to a project for current and future costs the Civic Center project.

Through these actions, the FY 2016/17 budget maintains this commitment to infrastructure rehabilitation.

Golf and Tennis Sub-Fund

In the Golf and Tennis Sub-Fund, funds are budgeted in FY 2016/17 for minor renovation of golf buildings and replacement of the irrigation system. 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.