Memorandum

Date: May 8, 2017

To: Honorable Mayor, Councilmembers and Residents of Sunnyvale

From: Deanna J. Santana, City Manager

Subject: Fiscal Year 2017/18 Recommended Budget and 20-Year Resource Allocation Plan

I am pleased to present the FY 2017/18 Recommended Budget and 20-Year Resource Allocation Plan. As background, Sunnyvale's budget process alternates each year between an operating and projects budget. This Recommended Budget focuses on the City's projects plan which is comprised of capital projects, strategic initiatives, and multi-year projects not requiring on-going funds over 20 years. As we focus on the projects budget, part of the normal course of this process includes presenting operating budget adjustments or corrections that require fiscal consideration/action. This Recommended Budget maintains the high level of service that our community enjoys and invests in strategic projects needed to sustain and improve our public services. In the following pages, the FY 2017/18 Recommended Budget Highlights provides greater detail on the budget by its key components. This year's Recommended Budget includes:

- Balanced inventory of proposed projects that reflect the City's wide range of services;
- Investment in multiple City Council strategic priorities;
- Funds for major transportation infrastructure projects, including the funds allocated from Measure B's successful passage;
- Increased funding due to the rising construction costs to deliver projects during a competitive economic market;
- Investment in the significant needs of our aging infrastructure and equipment;
- Operating budget refinements that require budget consideration in advance of next year's more detailed review; and,
- Detailed phased planning that reflects staff capacity with a goal of preparing for a slowed economy and delivering capital projects at a lower cost when the market is less competitive.

Legal and Policy Framework

The Recommended Budget and 20-Year Resource Allocation Plan is a set of community values reflecting the Council's public policies and related resources to implement them. Unlike many other public agencies, Sunnyvale is relatively unique in that it does not budget year-to year or over two years. Sunnyvale's reputation of strong financial management rests in the wisdom and strong community values of City Charter voter mandates and long-established City Council Policies that together require that the City remain fiscally strategic and sustainable. These disciplined laws and policies promote fiscal solvency over the long term, for example:

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

  A.1.3 A balanced 20-Year Resource Allocation Plan shall be presented to the City Council annually.

  A.2.1 The City shall maintain a long term fiscal perspective by annually preparing a 20-Year Long Term Financial Plan for each fund. Those funds which account for intergovernmental grants will only include known entitlements.

  A.2.2. Major financial decisions should be made in the context of the 20-Year Long Term Financial Plan.

  A.2.3 Long term financial planning should enable the current service level provided to be sustained over time through the strategic use of reserves.

  A.2.4 The Long Term Financial Plans should be used to communicate the fiscal impact of City decisions to all stakeholders whenever possible.

- **Budget Stabilization Fund Threshold Requirement** – City Council Policy 7.1.E. (1.4) requires that the General Fund “Budget Stabilization Fund will be a minimum of 15% of projected revenues for the first two years of the 20-year planning period. Beyond year two, the Budget Stabilization Fund will always have a balance of at least zero.”

Continuing the City’s long standing tradition, the FY 2017/18 Recommended Budget seeks to maintain the balance of resource demands for core operations and strategic investments. As we review the Recommended Budget we must be deliberate in investing in present day needs, sufficiently plan for unanticipated events that cause for additional expenditures, and be mindful that our budget and service needs change quickly but must rest within a long-term fiscal context.

Economic Climate

Sunnyvale’s economy is local with global impact. While our multi-year economic boom results in revenue growth, expenditures are growing at an even faster pace. The economic climate and fiscal condition in Sunnyvale are complex and dynamic with key indicators, such as:

- Unprecedented low unemployment rates for the region (3.1%);
- Record breaking year after year volume of business development and/or expansion;
- Year to date increase in private sector layoff or closure WARN notices (4.7%);

- Multi-year drop in sales tax revenue, with a paradigm shift in the retail economic sector, causing for a projected $35 million reduction in sales tax in this budget; and
- Economic uncertainty with the Federal Administration's policy initiatives that potentially impact community well-being, programs for employees, and businesses in the innovation economy.

The innovation economy experienced in Silicon Valley has a major impact on the global economy and private sector; however, as revenue growth is both shared and restricted by State law, the City's revenue does not grow as fast as the private sector but, nonetheless, the City has experienced some revenue growth. Historically, periods of expansion are followed by periods of economic contraction. With an average economic boom lasting about five to eight years, our current economic expansion has exceeded well beyond the average term. While we must continue to plan for the inevitable economic slow-down, it has proven challenging.   New revenues are quickly consumed by cost escalations that are not always in our control and previously deferred investments that require immediate action to sustain core operations.

While the underlying financial foundation of the City is solidly fueled by a growing real estate market impacting property tax revenue, uncertainty in other revenues sources, mixed signals from economic indicators, as well as significant expenditure pressures temper the ability to absorb new services and meet demands.

Last, the Federal Administration's recommended budget threatens key sources of funding for service delivery that directly benefits a slowed economy and unemployed (NOVA). With potential impacts to the workforce development, Community Development Block Grant, the HOME Program, environment and sustainability, and transportation funding, we must prepare for the absence of these services or develop alternate strategies to maintain these critical services to vulnerable parts of our community. In the context of an unprecedented housing and transportation crisis, with long-term consequences, it is imperative that these larger policy and service impacts are given proper consideration when evaluating our local budget. Unfortunately, while the Recommended Budget sustains past year's programs, and absorbs new funding resulting from Measure B (Transportation Initiative), this budget does not present options for stabilizing appropriation reductions or eliminations resulting from any federal action.

Recommended Budget Context and Significant Impacts

The City's budget is developed based on review of revenue and expenditure trends and projections. Within the above policy framework and economic climate, this Recommended Budget maintains service levels and invests in strategic policy priorities and projects that continue to advance the above average level of service that our community enjoys.   We are fortunate to review our budget with a long-term focus and, it is with that in mind, that the below context and significant impacts are provided to add to a more robust conversation and long-term focus of the work that we will need to continue to stabilize areas in our budget that require solutions.

Like last year, budget presentations and Council deliberations will continue to focus on investment opportunities and expenditure challenges emerging quickly that have a significant impact to the City's Budget. As already mentioned, key economic indicators are across the board showing complex patterns that directly impact our budget projections. Below are additional topics to consider when deliberating on the Recommended Budget and considering resource investment trade-offs against each other:

The CalPERS Challenge – The California Public Employee Retirement System (CalPERS), the agency that manages the City's pension benefits, has taken steps to de-risk the system. There is no greater single factor of our budget impacting costs, that we do not have policy control over, than retirement costs. In most cases, the City can control cost escalation by local policy actions to contain them. In this case, the management of this pension system is by a different board charged with managing the total fund, ensuring that CalPERS members receive the vested pension benefit, and issuing actions, that require member compliance, in order to continue to participate in this system.

In this Recommended Budget, the payment to CalPERS is set at $36.5 million for FY 2017/18. In the tenth year, the payment is anticipated to rise to a total of $65.5 million, illustrating the rapid growth resulting from reforms, corrections due to lower than expected rate of returns, or new de-risking efforts. This Recommended Budget resolves this near doubling of CalPERS payments over 10 years, as required by the City Charter.

After two consecutive years of virtually no return on investments (upon which benefit payments depend), the FY 2016/17 Budget included a projection of a significant increase in Sunnyvale's cost for pensions totaling an additional $167 million over 20 years to make up for those losses. On the heels of resolving this mandate, the CalPERS Board implemented a reduction in the assumed rate of return on investments from 7.5% annually to 7%. This is projected to have an additional impact of $108 million over 20 years. Combined with increases in the cost for the retiree medical benefit, this year's budget assumes another $130 million in just these two categories, totaling approximately $300 million over the past two budgets. To simplify, in order to fund these increased mandated costs, the City is required to generate approximately $15+ million of new revenue per year to support this benefit (equivalent to an additional investment of about $333,000/full-time position over 20 years).

We know that this is not the end of these increases, as it is already predicted that further significant reforms to the system will be required to stabilize it in the short- and long-term. This is not unique to Sunnyvale. California public agencies that are CalPERS members will face additional corrections; however, given our City Charter and Council Policies, we are required to balance the budget over a 10-year term and, additionally, plan for these costs over 20 years. As an example, in the long term, CalPERS has discussed bringing down its rate of return to 6% to further stabilize the pension system; true to our long-term fiscal focus, our actuarial review and expenditure planning, assumes a rate of return of 6% in the long-term to begin to plan for the inevitable fiscal impact and understand the fiscal conditions that result from absorbing additional costs. This is exactly why these local mandates exist, to provide advanced time to prepare for these fiscal events and manage services and resources in the long term.

Unfunded Liabilities – This FY 2017/18 Recommended Budget projects the City's Unfunded Liability level at $291 million ($146.6 Public Safety and $144.3 Miscellaneous). This is up $40 million from last year due to poor returns. Additionally, the change in the discount rate lowers the project funded status of City's pension plans from the prior year's projection. That means that in addition to the above base projected annual payments, along with the recent CalPERS actions resulting in $300 million fiscal impacts, the City must also address the Unfunded Liability over time. For FY 2017/18, the Unfunded Liability payment totals approximately $19.5 million. This climbs to $45.6 million in 10 years. The cost is roughly split in half between public safety and miscellaneous employees, despite a much smaller number of safety employees.

Unfunded Infrastructure **–** In the face of rising personnel cost challenges, the City also faces continued challenges with unfunded or underfunded infrastructure. In fact, this manifested itself this winter with the storms bringing down the City's 911 call center for a brief period, and the loss of a transformer at City Hall, closing the facility for almost a full day. Most recently, equipment failures have partially and fully shut down Fire Station #2 and the Library, respectively. Infrastructure is aging across the City. The Council is scheduled to consider an award of contract for the Civic Center master planning effort; the corporation yard is currently under a master planning process to address old facilities; evidence storage is outdated and in need of modernization; fire stations are over fifty years old and in need of remodel or rebuild; and, the City does not have a modern Emergency Operations Center from which to manage recent local service emergencies or the inevitable disaster that we know is on the horizon. A more complete list of unfunded projects is provided as part the Overview of the Recommended Budget and 20-Year Resource Allocation Plan attached to this budget message. As alarming as this issue may sound, infrastructure maintenance and replacement is a national issue and has been discussed significantly at a state and federal level.

A Strategic Approach to a Solution

In order to address long term uncertainty, unfunded needs, and rising personnel and other costs, the Recommended Budget takes a three-pronged approach: partial use of reserves, full use of revenue growth, and focused fiscal strategies. Holding true to one of Sunnyvale's core values, challenges are being taken in the context of the 20-year planning period.

First, we are fortunate to experience additional revenue during a period of growing demand for resources and unanticipated cost increases. In this Recommended Budget, as the first step to balancing the budget, all new revenue was used to fund planned service levels. Last year, we increased citywide revenue projections and, as a result, we worked off a higher revenue base for our 20-year revenue projections with this Recommended Budget. In the event that more revenue is realized, we would recommend that funds first be invested in the third category to preserve service levels and then replenish reserve levels.

Second, the City strategically set aside a reserve fund for unanticipated increases in total compensation. A portion of this funding has also been allocated to absorb the escalations in cost. It is important to note that there is much uncertainty in total compensation costs outside of just pensions. With the health care market in flux due to the uncertainty around the fate of the Affordable Care Act, and increasing costs in workers' compensation, maintaining capacity to absorb future increases will be critical. This Recommended Budget uses a portion of this reserve, leaving funds for unanticipated costs while focusing on more structural changes to our long-term fiscal management. If new revenue is achieved, a portion of those funds should be invested in this reserve because, based on past cost impacts, the balance is unlikely to be able to fully absorb any additional costs.

Lastly, the General Fund recommended budget plans for fiscal strategies needed to keep the fund in overall health. These needs may be met through new revenue sources, alternative methods of service delivery, or moderation/cost control of current expenditures. The first step in achieving this goal will be through the Study Issue to evaluate New Revenue Strategies. From there, other actions may need to be taken. However, as Sunnyvale plans over a long period, we can foresee this need and have several years to plan and implement the needed changes. In the near term, the City will rely on approximately $4 million in unanticipated revenue and/or cost control strategies for FY 2017/18 to help maintain current services levels while fiscal strategies are explored. This combination comes from an estimate of actual current year operational savings from vacancies and controlling goods and services costs, as well as anticipated revenues meeting or exceeding planned levels.

Overall, this three-pronged approach serves to balance our budget over the long term, but not without significant impacts. In fact, were we not faced with the challenges from CalPERS, if we had made the crucial timely infrastructure investments in the past that were needed, the new revenues we are experiencing could be used to enhance services to our community, instead of absorbing ever increasing costs for providing the same level of service.

Budget Stabilization Fund

One of the key tools the City uses in its budget are reserves. Reserves are purposed for many different needs, including emergencies, holding restricted monies, or to balance out cash flow and economic volatility. We frequently discuss the Budget Stabilization Fund in the General Fund, which serves as the General Fund's economic volatility and cash flow reserve, however there are other similar "discretionary" reserves in other funds (e.g. the Rate Stabilization Reserves in the Utility Funds). As part of the budget presentation and Council deliberations, we will review the City's reserves, funding levels, and strategic uses over 20 years.

One of the long-standing practices Sunnyvale has used is to budget large, multi-year, one-time expenditures over multiple years on a cash flow basis. This results in reserves appearing to be much larger than they are, as these one-time multi-year expenditures are really already committed to Council Approved expenditures. During preparation of the Recommended Budget, staff changed this practice for the Budget Stabilization Fund, removing multi-year one-time expenditures. This serves to surface what portion of the Budget Stabilization Fund is really discretionary. In fact, this reduces the Budget Stabilization Fund to less than one million of discretionary funding within nine years, showing just how precarious a financial position the General Fund maintains. This fundamental shift in Budget Stabilization Fund management provides for greater transparency of actual discretionary funds and provides for a clearer fiscal picture for the City Council to make informed policy decisions.

Projects Budget

As mentioned early on in this cover letter, the FY 2017/18 Recommended Budget focuses on projects, as we alternate between a detailed review of operations and projects each year. The proposed projects budget, totaling $165.9 million in FY 2017/18 ($1.5 billion over 20 years), reflects rising construction costs, the significant needs of our aging infrastructure, but also the forethought and detailed planning that goes into the City's capital project program.

Addressing multiple City Council strategic priorities, the positive side of this budget is that service levels are preserved, maintaining a high level of service for our community and the project budget includes planned parks projects, major transportation infrastructure projects, the Lakewood Branch Library and Learning Center, and the Washington Community Swim Center. Additionally, with the passage of Measure B providing $3 million per year, the City can invest in streets and sidewalks to maintain a Pavement Condition Index or PCI of 77 and hold the current backlog of sidewalk repairs steady at five years. Due to the timing of the subsequent gas tax legislation approved by the governor, the City is anticipating additional investments in this critical area of infrastructure. The City's utilities infrastructure is also addressed with the replacement of the water pollution control plant now fully funded and increased funding for waterline replacements.

In 2014, the Department of Public Works reviewed the implementation process for capital projects. In the past all capital projects "started" on July 1st, with the new Fiscal Year budget. This caused a number of issues, as it was not really feasible to start all new projects at the same time. The approach caused confusion because too many projects were being managed at one time, the phases of projects would extend beyond typical timeframes, and it made reasonable and realistic scheduling difficult. In 2015, Public Works staff modified the approach by dividing the fiscal year into quarters, and developing realistic schedules based on the number of projects that would start each quarter. It considered the number of projects each project manager had, and the phase of each project (scoping, request for proposals, design, etc.) as each phase has different work requirements.

In 2017, this new scheduling approach was maintained and further refined allowing the City to be proactive instead of reactive, and giving the City flexibility to pace, accelerate, decelerate, or replace projects as needed (without delaying active projects). This flexibility can also allow staff to decelerate project schedules to take advantage of better bidding markets in the future or delay planned projects and replace them with unplanned near-term needs (such as the recent need to accelerate the City generators project). This scheduling approach also better aligns with the City's new modern project management database, which complements this recent project management strategy.

Council Policy Priorities

The City Council has established strategic policy priorities and has held several sessions that help guide the development of the recommended budget. In acknowledgement of our operational priorities and limited capacity, Council adopted the following policy priorities:

1. **Civic Center Campus and Main Library** – The City Council will work on the Master Plan process and determine next steps for surplus land over this fiscal year.
2. **Ability of Infrastructure to Support Development and Traffic** – Efforts to implement several capital projects and absorb the positive impact of Measure B passage will begin.
3. **Open Space Acquisition Planning: Future of Golf Courses** – The City Council will consider up to approximately 8.5 acres of new park space this year and evaluate policy options for the golf courses over the next five years.

4. **Downtown Sunnyvale** – Phase 1 completion continues with the pending announcement of the theater lease, housing construction, and preparation work on Phase 2.
5. **Improved Processes and Services through the Use of Technology** – This budget requests additional staff to begin implementation of critical IT projects and to provide proactive operational support such as IT security and risk aversion. Major accomplishments include core information technology service updates (e.g., Microsoft O365, Skype for Business, expanded remote access to service - Virtual Private Network (VPN) - enhanced network bandwidth) along with the establishment of an IT Governance Structure (IT Steering and IT Solutions) to prioritize and approve IT projects, standards, policies and procedures.
6. **Accelerate the Climate Action Plan** – Council consideration of a collaborative effort to determine required actions to accelerate the City's efforts on implementing the climate action plan and develop aspirational goals.

The Recommended Budget advances each of these priorities, applying resources both at a high level and on a very specific and targeted basis. While these are important strategic priorities, the City is resourced for core operations and, therefore, supporting policy priorities does heavily impact staff. Staff is taking care to add resources where appropriate to support Council's policy priorities, as well as pacing the work to meet resource and staffing levels. Continued focused discussions of staff's capacity is important in order to be able to maintain core operations, advance administrative initiatives to stabilize services, and implement strategic policy priorities.

Budget Supplements

The Recommended Budget also includes a series of 10 Budget Supplements, eight of which are recommended for funding. These total $1.04 million over 20 years, all of which impact the General Fund. With these in place, the Recommended Long-Term General Fund Financial Plan reaches a low point in FY 2025/26 of approximately one million in the Budget Stabilization Fund. If the Council opts to fund all budget supplements, the Budget Stabilization Fund would be projected to reach a dangerously low level of $1.5 million in FY 2025/26. Except for only a few, the majority rise from the Study Issues process. These are ultimately policy tradeoffs against the Council's desire to maintain a Budget Stabilization Fund at a certain level. I have strategically reviewed each Budget Supplement and made a recommendation, identifying partial or limited-term efforts where appropriate.

In the following pages, the FY 2017/18 Recommended Budget Highlights provide greater detail by the key components: revenues, expenditures, and reserves. It also includes a section for 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.

Conclusion

In summary, the FY 2017/18 Recommended Budget presents a sustained level of resources required to maintain a high level of service to our community and invest in strategic projects. Additionally, this Recommended Budget is an allocation of resources that maintains reserves to position the City well to manage new challenges sure to come in the future. It 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 infrastructure to modernize and improve service to the community, and sustains services 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 and underfunded infrastructure, with continued prudent fiscal planning and thoughtful deliberation on setting priorities, we are well positioned to address these issues and there is time to work on the identified challenges. With a continued focus on community engagement and collaboration we will find solutions to the challenges presented and continue Sunnyvale's strong tradition as a top City. I look forward to presenting this Recommended Budget to the City Council and engaging in a thoughtful discussion of our ultimate highest priority – ensuring a strong fiscal foundation to maintain quality and strategic services for our community!

Deanna Santana

Deanna J. Santana
City Manager

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FY 2017/18 Recommended Budget Highlights

The FY 2017/18 Recommended Budget totals $474.6 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), 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 total City budget is up 19.0% over FY 2016/17 primarily due to new and already planned capital projects as well as increases in personnel costs. Citywide operations, which total $277.4 million are up 6.3% due primarily to increases in costs for total compensation of employees and some strategic position additions. The total projects budget is up $80 million (74.3%) over the prior year. It is important to note that much of this increase was already planned in the FY 2016/17 Budget and is almost wholly related to a small number of very large infrastructure projects including the Water Pollution Control Plant renovation, and several large grant or impact fee funded transportation and housing projects.

The City's General Fund, which accounts for 36% of the citywide budget, has proposed expenditures of $169.8 million. The General Fund is balanced over the ten year financial plan with a Budget Stabilization Fund Reserve that ends with $2 million in the tenth year, however, the reserve is dipping down to $1.5 million in FY 2025/26. In order to balance the fund to the tenth year per charter and the twentieth year per Council Policy, the General Fund has to implement fiscal strategies through reduced services, enhanced revenue, or alternative service delivery starting in Fiscal Year 2020/21 by $2.8 million on an ongoing basis. In addition, cost control measures are underway in FY 2016/17 to ensure vacancy savings that are assumed in this budget. An additional $2.4 million of cost control measures are required in FY 2018/19 in order to meet the City Council Policy of 15% Budget Stabilization Fund Balance in the first two years of the twenty year plan. We also will review revenue projections next year again, which may yield slightly more revenue for FY 2018/19 in order to meet Council policy.

The Budget Stabilization Fund is used strategically over the twenty-year planning period to ensure a stable and consistent level of services is provided over the long term. One of the long standing practices Sunnyvale has used is to budget large, multi-year, one time expenditures over multiple years on a cash flow basis. This resulted in the Budget Stabilization Fund appearing to be much larger than it really was, as Council committed funds for expenditures in future years were included in the Budget Stabilization Fund. During preparation of the Recommended Budget, staff changed this practice for the Budget Stabilization Fund, removing multi year one-time expenditures. This serves to surface the really discretionary portion within the reserve. In fact, this reduces the Budget Stabilization Fund to less than one million within nine years, showing just how precarious a financial position the General Fund maintains.

It is important to note that this plan takes real, long term risk. While it uses the Budget Stabilization Fund to absorb increases in cost to maintain services over the mid term, longer term projections reflect the need to slow expenditure growth to the pace of revenue growth. The current budget is prepared at a time when several revenues appear to be at high-growth levels. Care has been taken to budget to historical growth averages over the long-term plan, as the City has experienced years of slow revenue growth and dramatic revenue reductions during the last 20 years.

Additionally, 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 uncertainty in the health care market as a result of federal actions. As such, this budget includes projected increased costs for pension ($108 million) and other post employment benefit contributions ($35 million) totaling $143 million over a twenty year planning period. It is important to note that planned personnel cost assumptions may not be reflective of future increases given the City's long-term unfunded liabilities for pension and other post employment benefits. This, coupled with the results of recent labor negotiations and their corresponding ripple effect, puts significant additional pressure on the City's long term financial plans. Therefore, long-term, fiscal sustainability will have to be balanced with controlling the total cost of compensation for our employees. With these vulnerabilities in mind, funds from the Budget Stabilization Reserve should be used thoughtfully and strategically.

The FY 2017/18 Recommended Budget also includes ten Budget Supplements, eight of which are recommended for funding totaling $1.03 million. Detail is provided in the "Budget Supplements" section. These Budget Supplements, while included in the budget, require specific Council approval.

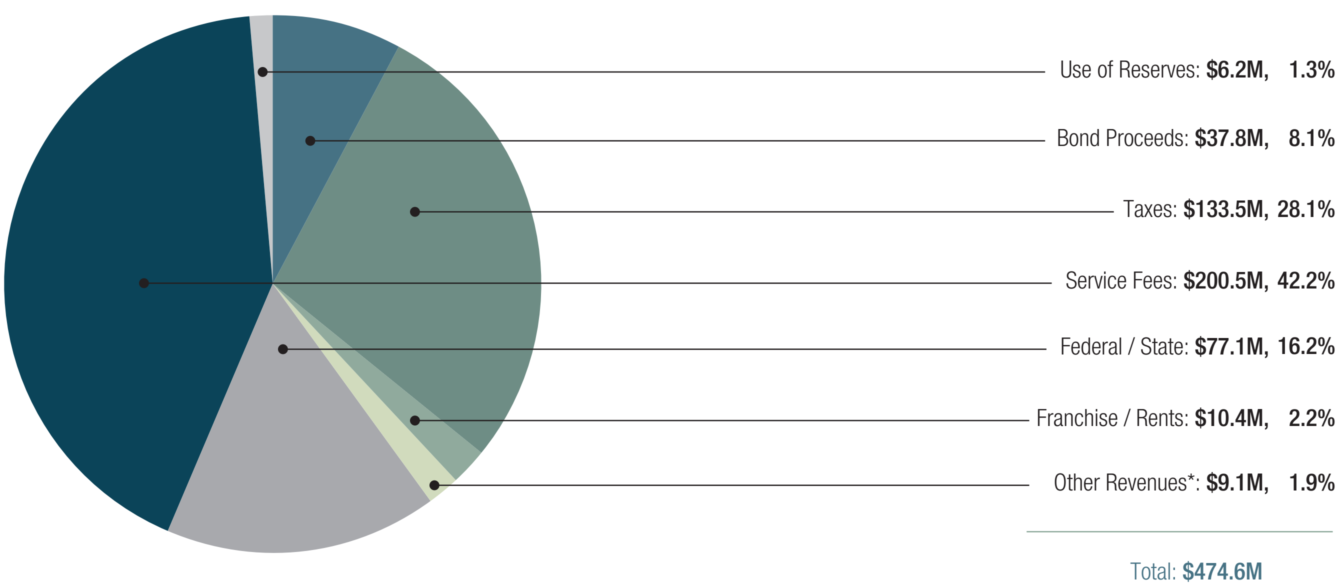
City's Budget and Resource Allocation Plan

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 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 2017/18 Citywide Revenue by Source



*Other Revenues include: miscellaneous revenues (e.g. damage to City property, housing loan repayments), SMaRT Station Revenues, reimbursement from the county, and other agencies contributions.

Taxes

Taxes, imposed by a government for the purpose of raising revenue to support governmental activities, are distinctly different from fees in that a tax does not need to be levied in proportion to the specific benefit received by a person or property. Therefore, almost all of the City's tax revenues are in the General Fund, the primary general purpose fund of the City. Taxes account for 80% of the total revenues in the General Fund, supporting many of the most visible and essential city services such as police, fire, road maintenance, libraries and parks maintenance. The one major tax revenue accounted for in a separate fund is the Gas Tax, which is levied and distributed by the State. Gas Tax funds must be spent on maintenance and capital projects related to public streets and highways. Figure 2 presents recent revenue received and projections for the top tax revenues.

Figure 2 – Top Tax Revenues

Revenue Source	2014 /15 Actual	2015/16 Actual	2016/17 Budget	2016/17 Revised Projection	2017/18 Proposed Projection	% Change 2017/18 over 2016/17
Property Tax	$54,940,570	$62,390,637	$62,777,052	$67,335,066	$68,974,004	2.43%
Sales Tax	29,676,176	31,356,775	31,698,678	31,488,243	31,230,324	-0.82%
Transient Occupancy Tax	14,137,069	16,295,589	14,471,479	16,798,573	15,294,653	-8.95%
Utility Users Tax	6,774,027	6,900,881	6,903,949	6,903,949	7,058,149	2.23%
Gas Tax	3,717,503	3,219,726	3,023,610	2,894,726	3,275,903	13.17%
Construction Tax	3,066,351	3,298,178	2,582,427	3,378,579	3,026,335	-10.43%
Total Top Tax Revenues	**$112,311,696**	**$123,461,786**	**$121,457,195**	**$128,799,136**	**$128,859,368**	**0.05%**

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 2017/18 revenues to exceed actual returns in the prior year with the exceptions of gas tax and sales tax. Revised FY 2017/18 estimates for these revenues estimate a slight decrease from FY 2015/16.

Property tax revenue has continued to experience strong growth. The increased revenue is due to property sales and new construction 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 $1.2 million. Revenues from the residential sector increased 8.2% in FY 2016/17 while the commercial/industrial sector experienced 13.3% growth. While growth was forecast in the FY 2016/17 Adopted Budget, actual growth is higher than estimated 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 to 4.6% for FY 2017/18. Additionally, we have analyzed significant approved commercial 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 2021/22, 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 $90 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 the sales tax base is business-to-business sales, which has been essentially flat over the last five years. 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 are estimated to start in FY 2018/19, phased in over eight years to add an estimated $1.1 million annually to the base. The overall impact of all these adjustments to the City's General Fund long-term financial plan is a $33 million decrease over twenty years.

Transient occupancy tax (TOT) has shown significant growth over recent years, coming in above estimates for FY 2015/16 and anticipated to be above estimates again for FY 2017/18. 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. 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 2017/18 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 grow moderately in the FY 2017/18 Budget. The forecast is driven by two factors, the recent modernization of the ordinance around telecom services and the increase in energy efficiency improvements. In November 2016, the voters passed a UUT Modernization ballot measure, updating the tax to include new telecom services such as pre-paid wireless. Although, it is expected that the modernization of telecom services will stem the decline of telecom UUT revenue and growth will slowly return, no growth from telecom was forecasted in the FY 2017/18 Recommended Budget, as the City had not received new data on the impacts of the UUT modernization as of the development of the Recommended Budget. Additionally, energy efficiency improvements continue to impact the City's gas and electricity UUT. 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 improvements, resulting in only moderate growth in revenue related to gas, and electricity usage.

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, projections consider advancements in fuel economy offsetting increased population and number of vehicles. The short-term increase is due to a true-up rate set by the State for the portion that is based on price. While this revenue source holds flat over time, the costs and needs for street maintenance and improvements continue to climb.

In April 2017, State lawmakers approved a plan to raise fuel tax rates and vehicle registration fees to generate $52 billion for transportation purposes over a 10-year period. The measure raises the gasoline tax by 12 cents per gallon and the diesel fuel tax by 20 cents per gallon starting November 1, 2017. The increase in vehicle registration fees will range from $25 to $175, depending on the value of the vehicle, beginning January 1, 2018, with an additional $100 per year charge on electric vehicles starting July 1, 2020. The measure also includes annual inflation adjustments that will be applied to both fuel taxes and vehicle registration fees. The funds raised will be allocated to repairing local streets, state highways and local transit projects. Based on revenue projections provided by the State Department of Finance, it is estimated that the City of Sunnyvale will be eligible to receive approximately $34 million over this 10-year period for local street and road projects. It is also important to note that as part of this program, there are maintenance of effort and other requirements that must be met to obtain the funding. While it is anticipated that the City will receive some funding in FY 2017/18, staff is evaluating the fiscal impact and funding restrictions, and will incorporate the future revenue into the FY 2018/19 Recommended Budget.

Construction tax returns have been strong, reflecting the high level of development activity that the City has sustained for three consecutive years. It is anticipated that this current peak level will cool off, stepping down over the next two years although still estimated at elevated amounts as compared to historical aveages through FY 2018/19.

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 2017/18 is shown below, in Figure 3, with a comparison to the original projection made in the FY 2016/17 Adopted Budget:

Figure 3. Utility Rates

Utility	Original Projection	Recommended FY 2017/18	Change in Percentage Points
Water	15.00%	12.50%	-2.50%
Wastewater	8.00%	10.00%	2.00%
Solid Waste	3.00%	3.00%	0.00%

*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 2017/18 Recommended Budget is a capital budget cycle. As such, each utility updated current project budgets as well as adding new projects. These projects are highlighted in the “Major Project Highlights” section below. There are other significant drivers as detailed 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. Although the drought is now over, Sunnyvale residents and businesses have done an outstanding job conserving water and as a result,water demand and corresponding sales are down significantly over the last several years. In fact, from FY 2012/13 to FY 2015/16, water demand in Sunnyvale is down 24%. Coming out of the drought, the region is experiencing a wetter than normal year. This also negatively affects the revenues to the fund, as demand slows due to the extensive rain. Due to the underlying behavior change that has occurred during the drought water consumption is projected to remain relatively flat with moderate growth into the future. Another factor in increasing rates is related to the City’s take or pay provisions in its water supply agreements. In FY 2017/18, both wholesalers agreed to reduce the City’s minimum purchase requirements, so the revenue loss is largely offset by savings in buying less water. The wholesalers have notified the City that they will no longer reduce the take or pay provisions going forward. 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 $113 million in projects over 20 years, the most significant of which is $73 million for water pipe and main replacements. The plan also includes investment in recycled water through the Wolfe Road Pipeline and 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 implemented a Water Cost of Service Rate Study for the FY 2017/18 rates. This practice, which periodically recalibrates rates to reflect the current costs of providing water service modified the City’s pricing structure to adjust rates to more closely reflect the cost of providing service. The new 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 has had 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 recommended budget includes the full impact of the master plan for the plant. The rates include the debt service on a $127 million loan from the State for the first phase of the project, as well as 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 $48 million by FY 2034/35 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.

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 2018/19 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 2019/20.

On the expenditure side, total operations are up $10.2 million over twenty years. This reflects rising personnel costs as well as the addition of limited term staffing to meet the current high level of demand for services. This addition comes 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 $36 million in revenue from these four fees in FY 2015/16. Based on year-to-date figures and approved projects, we estimate collecting $23.3 million in FY 2016/17. With the known development projects in the permitting process currently, a high level of revenue is anticipated for FY 2017/18 and FY 2018/19. 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. Development Impact Fee Revenue

Revenue Source	2015/16 Actual	2016/17 Budget	2017/18 Budget	2018/19 Plan	2019/20 Plan	2020/21 Plan
Park Dedication Fee	23,053,336	18,320,933	16,556,388	11,282,310	8,232,840	8,397,497
Housing Mitigation Fee	8,488,706	2,439,908	21,515,745	18,297,353	4,893,666	4,991,540
Transportation Impact Fee	4,047,810	1,765,793	5,841,007	7,500,111	2,969,586	3,028,977
Sense of Place Fee	54,223	727,719	1,915,116	1,214,345	183,885	187,563
IMPACT FEES - TOTAL	**35,644,075**	**23,254,353**	**45,828,256**	**38,294,119**	**16,279,977**	**16,605,577**

Golf Fees Newly configured in FY 2012/13, the Golf and Tennis Fund has struggled over the last five 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. Recently, we have contracted with new restaurant operators for both courses with both restaurants now open. While staff will continue to explore cost saving opportunities, the Fund remains in a precarious position requiring annual subsidies of $1.4 million in FY 2017/18. In April of this year, staff brought forward a report acknowledging the fiscal condition of this fund and committed to presenting policy options to the Council next fiscal year. An additional 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. General Fund monies are recommended for appropriation to the Golf and Tennis Operations Fund over the next seven years, totaling $9.8 million. This will allow time for the stabilization of Golf Operations and a strategic review of how to address the issue in the long run.

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.

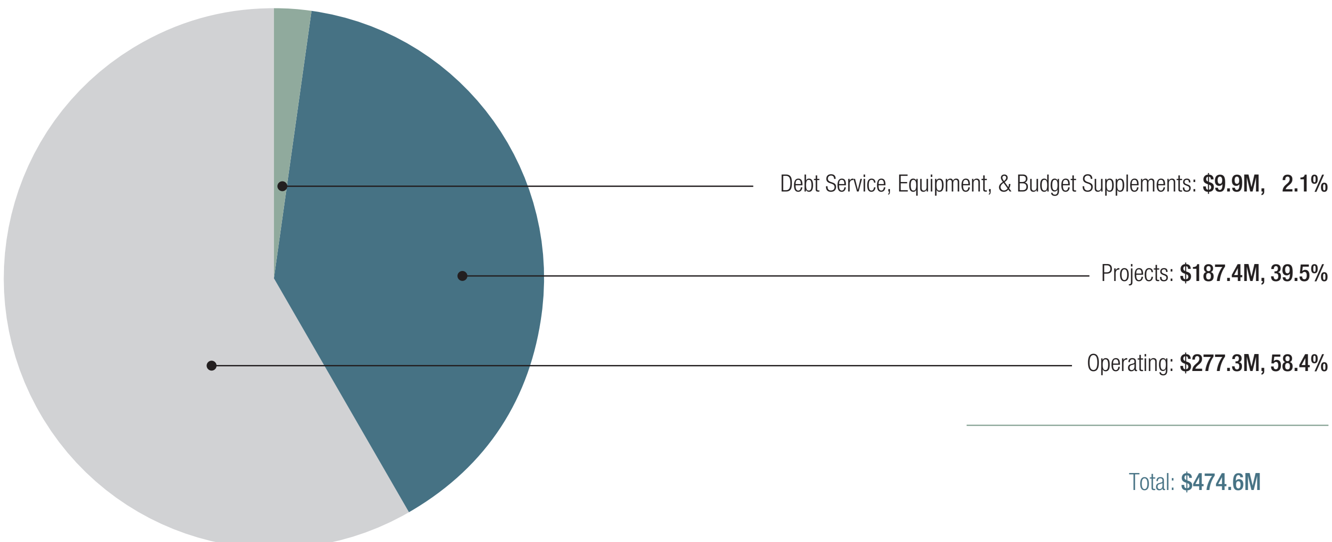
The City currently carries debt for both the Water and Wastewater Systems, the SMaRT Station, the Redevelopment Successor Agency and the Government Center property at 505 West Olive Avenue ("Sunnyvale Office Center"). All of the currently held debt is funded by rate revenues, former tax increment or 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 2017/18 Recommended Budget Citywide Expenditures By Type



Operating Expenditures

The City alternates budget years, focusing on operating in one year and projects in the other. This recommended budget is a projects budget. As such, the majority of the operating budget remains intact. However each year staff does review major expenditure areas such as employee compensation assumptions, and overall budgetary inflation factors, as well as large single expenditures such as the cost for buying water or paying for solid waste collection services.

Total Employee Compensation

As a service organization, total employee compensation, which includes salaries and benefits, are the largest component of the City's operating expenditures, accounting for 59% of total operations. Throughout the twenty-years of the financial plan, keeping the growth of salaries, retirement and healthcare costs balanced with revenue growth will continue to be a major driver in Sunnyvale's ability to maintain current services or provide enhanced services without a new revenue source. As of the production of this document, a potential tentative agreement with Sunnyvale Employee's Association (SEA) is being considered. The assumptions of that agreement and the impact of that agreement on other bargaining units has been assumed in this budget. In the event an agreement cannot be approved by the SEA or modifications to the tentative agreement is required, changes to this budget may be required. In the recommended budget, pay increases are based on current agreements reached with each of the City's bargaining units. While the majority of the agreements are set to expire within the first few years of the twenty years of the financial plan, modest increases are assumed for all bargaining units in the out-years in anticipaton of negotiations for years beyond the current contract period.

In recent years, retirement costs have risen steeply due to investment losses and demographic changes that have increased unfunded liabilities. Additionally, CalPERS has changed its rate methodology to recognize gains and losses over a shorter period of time. Lastly, this spring, CalPERS dialed down the investment return assumption over the next three years (from 7.5% to 7.0%). These factors have resulted in increasing employer contribution rates (what the City pays for retirement) for the next several years and more rate volatility on a year to year basis in general. This rate volatility is reflected in the updated rates in this long-term financial plan. On average, the long-term rates developed by our consulting actuary are several percentage points higher than the rates we have in the FY 2016/17 Adopted

Budget. It is also important to note that the City's retirement plans are around 70% funded with a total unfunded liability currently at $291 million. Therefore, this recommended budget reflects an increase of approximately $108 million to pension costs, in addition to the $167 million increase from June 2016 in order to pay down the unfunded liabilities within the next 30 years with a majority of the unfunded liability scheduled to be paid off within the 20-year plan horizon. Combined with retiree medical increases, this increase totals over $300 million over the past two years. As we monitor CalPERS current information indicates that the recent reduction to the investment return rate will not be the last. The rates developed by the City's actuary assume the investment return rate drops to 6% by the last year of the financial plan.

There is also greater uncertainty with increases in medical premiums over the next several years. The City contracts with CalPERS for medical benefits and rate increases have varied by different medical plans in recent years. Another part of the uncertainty is the impact of revisions ot the Affordable Care Act on our premiums. With the regulations continuing to evolve, we do not know the full impact at this time. To address these uncertainties, increases are throughout the long-term financial plan. Another element of medical costs is the cost for retiree medical benefits. Retiree medical costs have continued to grow. The City began addressing this issue several years ago by prefunding retiree medical costs through a trust. We continue to be on track to pay down the unfunded liability over the next twenty years.

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 2014/15	Budget 2015/16	Actual 2015/16	Budget 2016/17	Budget 2017/18	% Change FY 2016/17 to FY 2017/18
Community Development	7,206,305	7,596,975	7,636,757	8,682,219	9,382,868	8.1%
Environmental Services *	75,351,517	84,211,327	79,398,618	86,494,304	93,755,874	8.4%
Finance	8,200,684	8,490,746	8,317,651	8,996,089	10,356,607	15.1%
Human Resources	4,027,665	4,419,667	4,209,209	5,041,213	5,305,105	5.2%
Information Technology	6,715,674	7,100,904	7,033,848	7,877,713	9,099,053	15.5%
Library and Community Services	16,731,226	17,847,712	17,332,406	18,637,047	19,787,776	6.2%
NOVA Workforce Services	7,193,894	10,344,250	10,111,368	10,055,000	10,249,975	1.9%
Office of the City Attorney	1,738,918	1,856,142	1,773,735	1,956,799	2,265,877	15.8%
Office of the City Manager	4,303,071	4,626,672	4,660,763	6,469,079	4,840,753	-25.2%
Public Safety	82,754,465	90,783,057	89,085,098	97,656,943	99,524,423	1.9%
Public Works	34,886,063	36,768,298	35,102,817	39,708,133	41,824,394	5.3%
TOTAL EXPENDITURES	**249,109,481**	**274,045,749**	**264,662,269**	**291,574,539**	**306,392,705**	**5.1%**

**Excludes SMaRT Station Operating Program*

Overall, the operating budget is up 5.1% across all funds. 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.

Project and Equipment Expenditures

We categorize our projects into four broad categories, Capital, Infrastructure, Special and Outside Group Funding. Capital projects are efforts to construct new or expanded facilities or infrastructure. Infrastructure projects are to rehabilitate existing infrastructure. Special projects are efforts like special studies or initiatives. Outside Group Funding projects are separate to capture funding to community organizations. These categories overlay the more specific project types by which the projects are grouped with the Projects Budget Volume III. Project categories and types have meaning from a budgetary and funding perspective, however have little meaning when viewed from the organizational and operational viewpoint under which city services are provided on a daily basis.

As 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, city services are grouped into functional areas or service clusters as illustrated in the diagram below. Services and strategy are highly dependent on collatoration, teaming and working beyond departmental boundries as many priorities and decisions do not fall into a single department. With this in mind, the subsequent overview highlights the major projects presented in the FY 2017/18 Recommended Project Budget in the context of service delivery clusters.

Figure 7. Projects Budget by Service Cluster

Projects by Service Delivery Cluster				
	2017/18 Budget	2018/19 Plan	2019/20 Plan	20-Year Project Totals
Administrative Services	8,325,519	2,720,968	1,577,320	17,122,796
Community, Economic and Workforce Development	12,826,221	430,630	936,302	23,735,779
Environment & Sustainability	42,704,772	61,563,454	64,258,757	858,130,285
Library, Community Services & Public Facilities	33,882,011	18,893,286	15,665,880	229,641,549
Public Safety	7,233,781	7,442,779	3,185,784	64,729,491
Transportation, Streets & Infrastructure	60,972,006	8,587,534	10,494,553	254,523,303
Grand Total	**165,944,310**	**99,638,651**	**96,118,596**	**1,447,883,203**

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 FY 2017/18 Recommended Budget reflects funding for two primary projects falling under the direct oversight of the City Manager's Office. This includes $340,000 over the 20-year plan for the City's website redesign, implementation and maintenance and $204,000 in FY 2017/18 for a Charter Assessment. An additional $240,000 is set aside over the next 20 years to fund project management for the Town Center Development Agreement overseen by the Office of the City Attorney.

Administrative Services

The Administrative Services cluster includes the Departments of Finance, Human Resources, and Information Technology (also referred to as internal service departmetns throughout this Recommended Budget). Consistent with Council's action in FY 2016/17 to prioritize the proper planning and investment in mission-critical technology systems, the recommended budget continues funding for critical information technology systems such as the Enterprise Resource Planning System, the permitting system, and the public safety records management system over the next 20 years. Additionally, the budget reflects funding to support the sale of Onizuka and the Unilever plant, a Wastewater Cost of Service Study and contracting out for Administrative Hearing Officer services.

Major Project Highlights

Enterprise Resource Planning System In FY 2014/15 initial funding was provided to begin the process of replacing the City's financial and budget systems. As the project has evolved, the scope expanded from a stand-alone financial system to an Enterprise Resource Planning (ERP) system that will integrate core financials with payroll and human resources functionality within one system and a specialized budget system. The project will replace the City's current aging systems with modern, integrated systems that will provide real-time access and reporting of financial information to City leaders and managers and can provide greater functionality and ease of use for all staff. The FY 2017/18 project budget includes funding to meet the cost of the ERP and Budget System acquisition; to provide for the consulting expertise and staffing backfill needed to ensure a successful implementation; and complete an upgrade of the current HRIS system to bridge the system through the HRIS phase of the ERP. Funding for the ERP was added in FY 2016/17 as part of the City's overall investment in technology with $8.1 million of the City's $15.7 million investment directed to the ERP project. In FY 2016/17 the project funding, combined with funds set aside in Informational Technology Internal Services Fund, equaled $12.6 million. The FY 2017/18 project budget increased $1.1 million to $13.7 million and, reflects the allocation of project costs across City funds resulting in the Enterprise Funds contributing $2.8 million to the project and reducing the share paid by the General Fund by approximately $1.7 million.

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 2017/18 budget reflects funding for contracted services to support this effort. The City's support of on-going housing efforts continue to be funded in the recommended budget including projects for first time home buyer and housing rehabilitation loans as well as homeless prevention and rapid re-housing. Minimum wage enforcement and an economic strategy initiative are also included in the recommended budget. The City's Workforce Development effort is grant funded and the FY 2017/18 Recommended Budget reflects the recent expansion of services into San Mateo County.

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. The FY 2017/18 recommended budget reflects on-going City investments in community services including funding for recreational fee waivers and the State of the City. The budget also reflects funding for city facilities as well as funding for a number of parks related projects. Parks projects, which are primarily funded through park dedication fees, underwent a significant review and update through this budget process. Each project received a detailed review and costs for design and construction were updated to reflect the City's most recent construction bid experience and design consultant estimates. The FY 2017/18 Recommended Budget reflects projects throughout the twenty-year plan that renovate and update all the City's existing parks. Several major park projects are in the near term.

Major Project Highlights

Fair Oaks Park and Lakewood Park Enhancements Over $18.5 million in the next three years is planned to replace features that are over fifty years old. Updates include the planting of more drought tolerant plants, more efficient irrigation, energy efficient lighting and ADA compliance. These parks will be the first in the City to have artificial turf fields installed, which will allow for year-round and all weather programming.

All-Inclusive Playground This project provides for an all-inclusive playground at one of the City's Community Parks. The playground will have equipment suitable for all park users including the elderly and children with various physical and cognitive abilities. This project schedule is aligned with the Fair Oaks Park renovation.

Other Park Renovation Projects Renovation of parks throughout the City other than Lakewood and Fair Oaks are spaced over the twenty-year planning period to allow for workload considerations, as well as timing them when renovation is appropriate. Some of the major highlights include the renovation of Ortega Park starting in FY 2020/21, Baylands Park starting in FY 2022/23, Las Palmas and Serra Parks starting in FY 2023/24. The budget also includes funding for the replacement of playground equipment at various parks. As the project budget is reviewed in detail every two years, adjustments may be made to the current schedules based on need or other considerations.

Recreational Facilities The City also maintains numerous recreational facilities, the renovations of which are also funded largely by park dedication fees. The Washington Community Swim Center is one of many highlights in this Recommended Budget. Funded at $7.8 million over the next few years, this facility will be fully rebuilt, completely replacing the pool complex. Included will be a new family observation area, zero depth entry pools, water play equipment, slides and wading areas. This will increase the footprint of the facility, and the surrounding areas will also be improved, as appropriate. Design is underway with construction scheduled to start in 2018.

At the Community Center, progress is being made to upgrade the infrastructure at the site. Work includes roof repair, heating and air conditioning replacement, theatre house lighting, and miscellaneous finishes and upgrades in the various rooms throughout the facility. In addition, infrastructure repair and renovation to exiting park buildings are included in this projects budget.

Projects currently funded by park dedication fees involving facilities in the Golf and Tennis Operations Fund continue to be funded at the same level. Although there are no new golf and tennis facilities projects planned in this budget, any future new projects will be funded by the Golf and Tennis Operations Fund and not the Park Dedication Fund. As that fund may not have sufficient operational revenue to support capital projects, fiscal strategies will be required to operate and fund necessary capital improvements at the City's golf and tennis center facilities.

Civic Center and Library Facility Modernization The City provides an array of services from six different buildings located at the Civic Center. These include buildings that were built from 1958 to 1985, with one additional small modular building purchased in 2001. The City Council has provided direction to create a Master Plan for the entire campus, implement a phased approach to the project, create a financing plan based on existing City assets and to not sell any land at the Civic Center. In FY 2017/18, a Civic Center Master Plan will be completed to address future building locations, site circulation, open space and sustainability features.

Funding for the construction of a new or renovated Civic Center and Library is not included in the FY 2017/18 Recommended Budget. Funding strategies will be identified once a project approach and scope has been further developed.

Branch Library and Learning Center at Lakewood Park In order to increase access to library services for residents in north Sunnyvale, Council directed staff in 2012 to explore a branch library at the Lakewood School and Park site in partnership with the Sunnyvale School District. In line with the City's policy to utilize one-time funds for one-time expenditures, the proceeds from the sale of the Raynor Activity Center were planned to provide funding for the construction of the branch library. Additional funding from the Park Dedication Fund and the General Fund to fund a community learning center are included in this budget to supplement the project funding. In total, $20.9 million is included in this budget, with $13.5 million of the proceeds from the sale of Raynor Activity Center set aside for design, construction, and startup costs of a new branch library. The City is exploring a partnership with Sunnyvale School District to construct and operate the project. Design is anticipated to start in FY 2017/18. Operating costs for the branch library are estimated to be approximately $500,000. Of this amount, $197,000 will be reallocated funding from the Library's existing operating budget and will not constitute new funding. The remaining $292,000 will be the net new annual funding requirement. This amount has been reflected in the General Fund twenty-year financial plan beginning in FY 2019/20.

Transportation, Streets and Infrastructure

The Transportation, Streets and Infrustructure cluster includes Divisions within the Department of Public Works. The City's transportation infrastructure is a critical component for ensuring livable local communities while supporting economic development. Sunnyvale has developed an excellent transportation infrastructure, but regional and local growth and the passage of time has put continual strain on capacity and maintenance needs. The City has proactively conducted long range planning for traffic and transportation needs for a number of years and is actively involved in countywide planning efforts. Several long-range plans guide the development of the projects budget for the short and long term. These are: Valley Transportation Plan (VTP) 2040, Transportation Strategic Program, Downtown Specific Plan (2003), Bicycle Capital Improvement Program, 2007 Pedestrian Safety and Opportunities Study, Tasman/Fair Oaks Bicycle and Pedestrian Circulation Plan, Moffett Park Specific Plan, and Fair Oaks Junction Sense of Place Plan. Each of these plans identifies traffic and transportation projects that are important for the specific area, the City, and/or the region. These plans allow the City to undertake a coordinated traffic and transportation capital projects program and to position itself to compete strongly for outside specialized discretionary funding as it becomes available.

Major Project Highlights

Mathilda/237/101 Interchange Project Work has begun on design of the reconstruction of the Mathilda Avenue interchanges with SR 237 and US 101. The objective is to provide for safe and efficient movement of traffic at one of the busiest and most complex roadway junctures in the region. Design of the project has been funded by a $2 million grant from the Valley Transportation Authority, combined with a $2 million City match. The estimated construction cost is $36 million, out of which $8.25 million is planned to be funded by the City with the remaining being funded through grants and developer contributions.

Pavement Rehabilitation and Annual Slurry Seal of City Streets Each year, the Department of Public Works Pavement Operations staff surveys one half of the City's streets and inputs the data in the City's pavement management system. The system produces a list of deteriorated streets and plans are made to repair, slurry seal, double chip seal, overlay, or reconstruct the streets, as needed. Over the past several years, the City accelerated investment in pavement, with the intent of providing sufficient funding to maintain the City's Pavement Condition Index (PCI) at the current level, rating in the high seventies, going forward. Funding from Measure B is included in this recommended budget to maintain that PCI level through the twenty-year plan. Funding is provided through two projects with combined budgets totaling $94.6 million for the twenty-year plan. The Annual Slurry Seal of City Streets project covers contract construction costs of slurry sealing a portion of the City's streets each year. The Pavement Rehabilitation project budgets the additional funds needed in the years where more extensive rehabilitation work is required.

Calabazas Creek Bridge at Old Mt. View-Alviso Road The Calabazas Creek Bridge, located on Old Mountain View Road near Highway 237, is shared by the cities of Sunnyvale and Santa Clara. Design is currently underway with construction expected to begin mid-2017. The total project is estimated to cost $9.9 million, with Sunnyvale's share of the local match at $565,000. The project has a construction completion goal of 2017.

Fair Oaks Bridge The State of California Department of Transportation (CalTrans) rated the existing Fair Oaks Avenue Overhead bridge "structurally deficient" in 2004 during their biannual inspection. The rating is primarily due to severe deck cracking and spalling; and inadequate sidewalk width, barrier railings, approach railing and lateral clearance to the columns. Funding for this project includes design and construction. Upon completion, the estimated life of the bridge will be 40 years. The design phase of this project and environmental studies began in FY 2012/13. Design is expected to be complete in 2017 and construction will begin in 2018.

The total project cost is budgeted at $22.8 million. Highway Bridge Program funds from CalTrans were received for the Preliminary Engineering phase. Additional applications to fund future phases of the project will be submitted to CalTrans. It is anticipated that 88% of the project cost will be covered by grant funding, with the remainder to be funded by reserves in the Infrastructure Fund.

Sidewalks, Curbs, and Gutters The City maintains the vast majority of sidewalks, curbs and gutters throughout the City. This infrastructure is often pushed up or broken by street trees; as they grow over time, trees slowly damage sidewalks, curbs, and gutters with their roots. The budget includes two projects to address this issue, one to provide ongoing funding to repair damaged sidewalks, and the other to repair sidewalks which become out of compliance with the Americans for Disabilities Act. The two projects provide a combined $42.6 million over twenty years in funding for these repairs.

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

Major Project Highlights

The Water Supply and Distribution System The Sunnyvale water system is a comprehensive water storage and delivery system. The City is divided into three zones. Zone 1 comprises the northerly two-thirds of the City and is supplied by six San Francisco Public Utilities Commission (SFPUC) turnouts. Zones 2 and 3 comprise the southerly one-third of the City and are supplied by two Santa Clara Valley Water District (SCVWD) turnouts, and by seven wells. The distribution system also consists of three booster pump plants and ten storage tanks with a capacity of 26 million gallons. There is also one recycled water reservoir with a storage capacity of two million gallons. The system also serves an important role in providing fire protection for the City, featuring approximately 3,400 public fire hydrants and many private fire service connections. The system is managed by an automated Supervisory Control and Data Acquisition (SCADA) system that controls distribution of water throughout the system.

Over the past few years, staff has been working to identify and scope projects to replace the aging infrastructure and improve the system's reliability. The FY 2017/18 Recommended Budget includes $141.8 million over 22 projects. While the main focus on water line replacements will continue, comprising $75 million of the total, emphasis is also being placed on rehabilitation and maintenance of potable water tanks and wells and ensuring reliability for recycled water production and delivery. Approximately $13 million has been budgeted for the renovation of water plants, wells, and tanks.

The Wastewater Collection and Treatment System The Wastewater Utility continues to face large infrastructure challenges. The most significant is the renovation of the City's Water Pollution Control Plant (WPCP). The Wastewater Utility recently completed a master planning effort which consists of a number of projects that will renovate the City's existing wastewater treatment. The Master Plan, which was approved by City Council in August of 2016, will serve as a long-term guide for replacing the WPCP's facilities and operations. The FY 2017/18 Recommended Budget includes planned infrastructure expenditures of approximately $723 million over twenty years, with 91% (or $658 million) allocated to the WPCP Master Plan. In addition, funds are budgeted for projects to manage the gap between the old and new plant, and infrastructure work on the sewer and storm collection systems.

Replacement of the Water Pollution Control Plant Rehabilitation and replacement of the WPCP continues to be the highest priority for the City's wastewater treatment system. The first phase of the Master Plan is underway with site demolition and grading work nearing completion and the construction contract award of the Primary Treatment Facility anticipated in Spring 2017. This includes a new headworks facility, which removes large debris from incoming sewage and pumps the sewage into new primary treatment tanks which, in turn, slow down the wastewater to settle out large solids. The existing primary treatment facilities are structurally deficient, deteriorated, and susceptible to significant failure during a seismic event. The current influent sewage pump station includes gas-powered influent engines that will not meet future emissions limits and need replacement. The new headworks and primary facilities will be located at the previous biosolids drying operation site, adjacent to the current influent pump station. Currently, biosolids drying operations are being performed mechanically by a vendor contract until new bio-solids facilities are constructed. Other phase 1 projects include new parking on Caribbean Drive and Bay Trail access enhancements, and rehabilitation of influent pipelines to the treatment facility.

The second phase of the Master Plan includes new buildings for maintenance, administration staff and a laboratory, new secondary treatment, as well as a new thickening and dewatering facility and other piping and draining upgrades. Pre-construction and design activities are underway.

The WPCP Master Plan also includes $46.5 million for Program Management Services and $33.0 million for Construction Management over the next 20 years. The Program Management Consultant (PMC) is responsible for quality assurance related to project design documents and will assist the City in evaluating design consultant recommendations for equipment selection and design features. The PMC provides oversight and coordination for the overall program implementation of the reconstruction program including establishing, maintaining, and tracking project budgets and schedule. The construction management consultant provides additional technical, engineering and project support such as contractibility reviews, construction oversight, inspection services, quality assurance testing, construction schedule and budget management, construction coordination, meeting management and records management to deliver the projects in the program.

It is important to note that over time, the City will be issuing bonds to fund the renovation project. In addition, the City signed final papers completing Clean Water State Revolving Fund Loans totaling $127 million.

Wastewater Collection System The City's wastewater collection systems are also in need of significant rehabilitation due to their age. The FY 2017/18 Recommended Budget includes projects related to sewer and stormwater collection. The wastewater collection system consists of approximately 613 miles of sewer and storm mains, and seven pump or lift stations. The system has five major sewer trunk lines that terminate at the WPCP, where sewage is treated. Major projects include $17 million for sanitary sewer pipe improvements and $10.7 million for storm water infrastructure. Funding of $1.4 million is allocated for immediate repairs and further analysis of the Lawrence Expressway trunk line. Additional funding may be necessary based upon the conclusion of additional analysis on that sewer project.

Over $45 million has been included in the Recommended Budget for stormwater program costs. The City stormwater system operates under the terms of a Municipal Stormwater National Pollutant Discharge Elimination System (NPDES) permit. This allocation also includes project funding to implement trash reduction programs and other maintenance activities in order to meet permit requirements. The funds will provide for outreach and enforcement efforts, and fund retrofit projects that would redirect stormwater to biotreatment areas.

Solid Waste Management System In 2013, the City Council approved the Zero Waste Strategic Plan, a policy which seeks to increase the City's waste diversion rate to 75% by 2020 and 90% by 2030. The FY 2017/18 Recommended Budget includes $39.2 million to initiate new collection programs, such as multi-family yard waste collection, conduct outreach and education, and improve processes at the SMaRT Station.

There are four projects that relate to the replacement of equipment and the operating contract for the SMaRT Station, These projects include Sunnyvale's contribution to financing the equipment replacement plan and the actual replacement of the equipment. A fifth project is for the replacement of the SMaRT Station facility, which is budgeted at $30.4 million, half of which will be paid for by Sunnyvale.

Climate Action Plan In 2014, the Council adopted the City's Climate Action Plan (CAP) aimed at significantly reducing greenhouse gas emissions. While some of the City's actions are large and resources needs are managed as discreet projects, this project is intended to support the aggregate of smaller actions. Current funding was previously in place through FY 2016/17 with an updated Projects Budget proposal included in the recommended budget to support current CAP implementation as well as a budget supplement proposed to initiate a more aggressive planning effort to advance climate action beyond 2020.

Public Safety

The City continues to deliver police, fire and EMS services to the community through the utilization of cross-trained personnel. This unique model of service provision provides the City with the ability to be more agile in the deployment of resources to best serve the needs of the community. The FY 2017/18 recommended budget reflects funding for a Fire Station Master plan, Safe Routes to School initiatives and equipment acquisition and maintenance.

Major Project Highlights

Recruitment and Training for Sworn Officers The Public Safety Department budgets for the recruitment, selection, and training of new public safety officers in a series of recurring Special Projects rather than in the operating budget. This methodology allows expenditures to fluctuate each year based on the number of recruitments and allows for better monitoring and tracking of costs. The total twenty-year budget for these recruitment and training projects is $74 million. In December 2016, Council accelerated funding for recruitment and training to address continued low staffing levels in the department. The new schedule reflects an additional $9.2 million over the next twenty years to fund increased recruitment efforts.

Budget Supplements and Unfunded Needs

As part of the development of the FY 2017/18 Recommended budget, we identified potential 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 develop 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, eight of which are recommended and will impact the General Fund.

Without any of these in place, the Recommended Long-Term General Fund Financial Plan ends the twenty years with $15.9 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 or begin to address unfunded needs.

The following lists include all Budget Supplements and currently identified unfunded needs for the evaluation discussed above. The City Manager has recommended certain Budget Supplements for inclusion in the Adopted 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 2017/18 Recocmmended Budget. This year, the recommended budget includes eight Budget Supplements. Figure 8 lists the supplements and the City Manager's recommendation. If the supplement is recommended for funding, it 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 8. Proposed Budget Supplements

FY 2017/18 Budget Supplements				
No.	**Title**	**Cost**	**Fund**	**Recommendation**
1	Evaluation of New Revenue Strategies to Fund New and Increasing Service Demands and/or Unfunded Capital Investments Needs	$20,000 one-time	General Fund	Recommended for Funding
2	2017 Housing Strategy	$200,000 one-time	General Fund	Recommended for Funding
3	Downtown Development Policies for Parking	$60,000 one-time	General Fund	Recommended for Funding
4	Funding for Consultant and/or Legal Services to Develop a Program for Implementation of a Wage Theft Ordinance	$20,000 one-time	General Fund	Recommended for Funding
5	Public Access Programming for KSUN2	$15,000 each, for 2.5 years	General Fund	Recommended for Funding
6	Accelerating Climate Action	$250,000 one-time	General Fund	Recommended for Funding
7	Increased Supplemental Human Services Funding in FY 2017/18	$50,000 one-time	General Fund	Not Recommended
8	Feasibility Study for Development of a Class 1 Cycle and Pedestrian Trail Along Evelyn Avenue	$100,000 one-time	Traffic Impact Fees Fund	Not Recommended
9	Parkland/Open Space Policy/Initiative	$250,000 one-time	General Fund	Recommended for Funding
10	Lawrence Station Area Plan - Increased Housing Study and Sense of Place Plan	$200,000 one-time	General Fund	Recommended for Funding
	20 Year Total	**$1,037,500**		

Unfunded Programs and Projects

The following list enumerates known areas that are unfunded or underfunded. Some of the programs have numbers associated with them while others would require more study or scoping to fully identify. 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.

Figure 9. Unfunded Programs and Projects

Unfunded Projects Listing
Administrative Services
Work order and Asset Management Systems
GIS Assessment — GIS Coordinator
Modernization of various customer interface systems (POS, non-CDD permitting, etc.)
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
Transportation, Streets & Infrastructure
Transportation Strategic Plan Projects
Bicycle CIP Improvement Program Projects
Downtown Specific Plan Projects
Traffic Signal Infrastructure Replacement
Sidewalk Repair
Street Maintenance (additional to maintain PCI)
Public Safety
Fully functioning Emergency Operations Center
Environment and Sustainability
CAP Program Funding
Water Infrastructure
Wastewater Collection Infrastructure
Stormwater Collection Infrastructure
Power Generation Facility Funding
Stormwater Program Funding

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. A Capital Improvement Projects Reserve is set-aside for land or property purchases in the downtown area with an emphasis on future income generation through economic development. Proceeds from surplus land sales are deposited into this reserve

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. Capital reserves are also set-aside in the utility funds to fund projects in the event of an emergency or unanticipated circumstances.

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

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, housing, 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 a 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.