

## **Responses to Council Questions and Requests for Information from the FY 2017/18 Budget Workshop**

### **Budget Presentation**

#### **Council had discussion about the City's Fiscal Policies and the process for updating Fiscal Policies.**

The City's Fiscal Policies are City Council Approved Policies. The policies are published in the Council Policy Manual (Council Policy 7.1.1), as well as the annual budget. The current Fiscal Policies originated with the City's Fiscal Sub-Element, a document first published in 1988 and updated in 2006. The policies were subsequently moved from the Fiscal Sub-Element to the Council Policy Manual as part of the most recent General Plan update.

Staff is planning a comprehensive review of the financial policies, that will reflect the feedback requested from Council at the workshop.

#### **What happens with the General Fund Budget Stabilization Fund in years three and four of the General Fund Long Term Financial Plan given that they don't keep pace with the 15% Council Policy but are very near term.**

As discussed in detail at the workshop and in the City Manager's Budget Message, the General Fund Budget Stabilization Fund only includes dollars which are truly discretionary. The Recommended Budget allocates previously committed funds (primarily funding for projects) to the appropriate fund. The next several years will be critical to employing fiscal strategies to ensure that the recommended budget complies with Charter and policy requirements.

#### **Can trees be treated as capital assets and be part of a capital improvement plan?**

Capital assets are defined as tangible and intangible resources of significant economic value owned by the government and used in operations with an initial useful life extending beyond the one year reporting period, such as land improvements, right-of-way easements, buildings and equipment. Trees do not meet the City's capitalization threshold as defined by the City's Capitalization Policy, which was developed in accordance with the Government Accounting Standards Board (GASB) Statement No. 34 Capital Assets and Depreciation Guidance (2001) and the Government Finance Officers Association's recommended best practices. The Capitalization Policy states that land improvements, such as trees, have a capitalization threshold of \$50,000 (the threshold is applied to individual items rather than groups of items). While Sunnyvale does not classify trees as capital assets from an accounting treatment perspective, the City could include an investment in trees in the Projects Budget.

Currently, the City invests approximately \$2.1 million through the operating budget in street tree services. In addition, the City is investing through the FY 2017/18 Recommended Projects Budget, to conduct a City Maintained Tree Inventory Study, scheduled for Fiscal Year 2018/19. Currently all service levels established by Council for tree maintenance and replacement are being met or exceeded.

**Can short-term rental businesses, like AirBNB, remit TOT directly to the City?**

Transient Occupancy Tax (TOT) revenue from short-term rentals, facilitated by companies like AirBNB, currently comprise a very small amount of our total TOT revenue, currently \$18,000 year to date. In Sunnyvale, the TOT due on the short term rental transactions is remitted by the owner of the property. As was mentioned at the workshop, some other cities have negotiated agreements with service providers such as AirBNB to have the TOT remitted directly from the business. This process will be addressed as part of Revenue Strategies Study Issue, pending approval of Budget Supplement #1. This effort will require resources to evaluate agreements that successfully have been reached where AirBNB or other short-term rental providers remit directly TOT payments and support for negotiating these agreements.

**Can Sunnyvale impose a local gas tax?**

There are various taxes and fees that are levied by the State that are shared with cities. The motor vehicle fuel tax (commonly known as the gas tax) is one of those state taxes. Gas Tax funds may be used for public streets and highways, public mass transit guideways, and their related public facilities. As the gas tax is a state tax, then the City is preempted from imposing its own gas tax.

**What is the impact of the Governor's budget? With approval of SB1, can increased gas tax revenue be used to supplant existing funding?**

The new Road Repair and Accountability Act taxes, that will provide funding through the Road Maintenance and Rehabilitation Account (RMRA), will take effect November 1, 2017. On that date, a new per-gallon fuel excise taxes begin. On January 1, 2018, a new vehicle registration tax, the "Transportation Improvement Fee," will take effect. Cities and counties will not see a full year of funding from these new taxes until FY 2018/19. It is estimated that Sunnyvale will receive approximately \$800,000 in FY 2017/18, and \$2.5 million annually thereafter. These funds were not included in the FY 2017/18 Recommended Budget and Resource Allocation Plan.

RMRA funds can be used on road maintenance and rehabilitation, safety projects, railroad grade separations, traffic control devices, and complete street components. The funds can also be used to satisfy a match requirement to obtain grant funding. There is a Maintenance of Effort (MOE) requirement for the receipt of RMRA funds which states that a city must maintain general fund spending for street, road, and highway purposes at no less than average of FY 2009/10, FY 2010/11, and FY 2011/12 years (one-time funds may be excluded). The RMRA stipulates that, prior to receiving RMRA funds in a fiscal year, a city must submit a project list pursuant to an adopted Budget to the State, that includes for each project: description, location, schedule, useful life. Also, Cities are required to submit an annual report of project completion, in order to receive future RMRA funds.

Staff anticipates that further guidance will be published by the State Controller's Office related to the implementation of the new taxes. Once staff knows more we will return with a more comprehensive update through the City Manager's Biweekly Report. If appropriate,

staff will return as part of the Budgetary Year End Report in December with a funding recommendation to appropriate funds in FY 2017/18.

**When presenting pension cost projections, can staff include a chart comparing prior pension projections with the pension cost projections in the Recommended Budget?**

This information will be included in the June 20<sup>th</sup> presentation by John Bartel and will be included in future presentations of pension cost projections as appropriate.

**What is the status on establishing a pension trust?**

Staff will return to City Council with a detailed report and actions needed for the establishment of a pension trust upon close of Fiscal Year 2016/17. At that time, the source of funds will also be presented as well as the first allocation to begin this effort.

**Is a project to renovate the tennis center building part of the capital improvement plan?**

The Projects Budget does not include plans for major renovation of the building at the tennis center. There is a current year project for minor repairs of infrastructure in the Tennis Center Buildings Infrastructure, which has been completed. However, no significant work is currently planned for the future. Staff will evaluate the condition of the facility during the next project budget cycle and make recommendations as appropriate.

**Has staff explored a small hotel development at the Sunken Gardens golf course site?**

No. This idea has surfaced in past years in previous discussions to evaluate Golf Course operations, however, it has not been directed by the City Council for staff to study/explore. An evaluation of this effort, can be explored as part of the policy options, and related to a Council approved workplan, that we will begin next fiscal year. This study would require consultant support and appropriate resources to ensure a comprehensive study. For this reason, and absent Council direction, staff has not initiated this effort and has adhered to prior Council direction.

*Projects by Service Cluster*

*Community, Economic & Workforce Development*

**Mayor Hendricks requested the details of the “Development Activity” table which presented Housing units, and hotels. Provide a grid of Affordable Housing to make sure Sunnyvale gets recognized for what it is doing to address affordable housing.**

Staff will prepare a dashboard of development information that provides a better snapshot of general housing and affordable housing accomplishments, by year. This information will be available in a few weeks.

**What is the impact of Measure A 2016 -Santa Clara County Affordable Housing Bond?**

In May, City staff had several discussions with County staff regarding the draft funding guidelines for Measure A loans. The Housing Officer has also conferenced with the housing

staff at several other cities in Santa Clara County to review and discuss the County staff proposed guidelines. Sunnyvale organized a four-city joint letter with comments and questions that was sent to the County staff prior to preparation of the staff report. A follow up letter was sent by the Director of Community Development to the Board of Supervisors referencing the comments and concerns in the letter to County staff. Many of the local cities, including Sunnyvale, expressed concern regarding the County's proposed methods for distributing the units, related concerns about funding equity, and that there be more direct benefit to the local community by providing more local control in the selection of residents.

#### Library and Community Services and Public Facilities

##### **What is the feasibility of including trees planted on recently developed commercial properties in the City's tree inventory? Have we explored establishing a Tree fund?**

Including privately owned trees would be difficult to maintain over the long run given it would require access to private property. The City could conduct aerial surveys on trees in the City, however that would require additional cost and regular updates as staff would not always know when trees are removed or added.

Regarding a tree fund, staff recommends that Council consider that as a study issue if desired. This would allow staff to define the approach, and identify funding sources and the costs for administering such a fund.

#### Environmental Services Department

##### **Can we provide more details about the enforcement of the food scraps program?**

As with all the City's recycling and waste programs, staff makes a significant effort to obtain compliance through education prior to any strict enforcement. In this case, staff is working with customers using community based social marketing techniques which rely on positive feedback and education to gain compliance. Outreach materials will provide residents with tips on maximizing recycling efforts and keeping all food scraps out of the garbage as well as ways to prevent waste. In general, concerns from residents regarding the program roll out have been minimal.

##### **Is staff doing outreach to the community about City's sustainable programs & investments?**

The City launched the Sustainability Speaker Series to provide a resource to our community with actionable information on sustainability initiatives. The Sustainability Speaker Series will bring renowned experts at the forefront of sustainability research and policy development to Sunnyvale. On May 31<sup>st</sup>, the first event of the series was held on the topic of fuel switching strategies including electric heat pump water heating and home heating systems. The next Speaker Series event is scheduled for August 2<sup>nd</sup>.

#### Budget System

##### **Will the budget system include visibility/reporting on Performance Measures? Would the system be able to support 'Community budgeting' efforts?**

The new budget system, which is scheduled for Council consideration of contract award on June 20, does have performance measurement and internal and external dashboarding capabilities. Community budgeting efforts are slightly different. Those types of initiatives are more staff supported and less system dependent. Staff recommends that, given current workload and staffing levels, the focus remain on implementing the technical system first prior to engaging in a more robust community budgeting effort. If community budgeting is desired by council, its recommended that a study issue be proposed to review various programs of other agencies, explore the impacts specific to Sunnyvale, and fully understand the resource requirements.

Questions asked after the Budget Workshop

**Regarding the appropriations calculation, what would happen if Council made a 17/18 appropriations amount that was \$75,640,696 less than shown in the Recommended Budget?**

Voters passed the Gann Limit in 1979 to constrain government spending and this ballot measure was amended in 1990. Per the state constitution, the City is required to calculate the maximum appropriations limit. As shown in the budget document, the City's appropriations as modified per the required calculation is \$75.6 million below the state limit, which means that the City has additional capacity allowed by law, by approximately \$75 million before the limit is reached. In response to the question, if the City Council were to reduce the appropriations amount by additional taxing capacity authorized under state law, the City Council would need to reduce services; however, this is not necessary, since the two figures are not meant to be connected in the manner posed by the question. More details about the Gann Limit are provided in the body of the staff report with these responses.