



# City of Sunnyvale

## Agenda Item-No Attachments (PDF)

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### REPORT TO COUNCIL

#### **SUBJECT**

Annual Public Hearing on FY 2014/15 Budget and Resource Allocation Plan and Establishment of Appropriations Limit

#### **BACKGROUND**

The City Charter requires a Public Hearing be held prior to the adoption of the City's budget and resource allocation plan.

Further, Article XIIIB of the California Constitution established appropriations limits on government agencies within California. Originally enacted by Proposition 4 in 1979, the appropriations limit creates a ceiling for the appropriations of tax proceeds that can be made by the state, school districts, and local governments in California. The limit uses 1978-79 as the "base" year and is adjusted annually for population growth and cost of living factors. The purpose of the appropriations limit is to preclude state and local governments from retaining excess revenues, which are required to be redistributed back to taxpayers and schools. To date, the City has not exceeded its appropriations limit in any year. Section 7910 of the Government Code requires that the City annually adopt an appropriations limit for the coming year. The supporting documentation for the establishment of the limit must be available for public review at least 15 days prior to the adoption of the appropriations limit resolution. The required material that provides detailed information on the City's appropriations limit has been available for public review since May 5, 2014 (Attachment A). The material is included in *Volume I* of the *FY 2014/15 Recommended Budget*.

#### **EXISTING POLICY**

In accordance with the City Charter, the California Constitution, and the California Government Code, a public hearing has been held annually for public comment on the budget and resource allocation plan and appropriations limit for the upcoming fiscal year.

Council Policy 7.1.1 *Fiscal -Long Range Goals and Financial Policies:*

*A.1.7: At least one public hearing shall be held after the City Manager's recommended budget is presented to the Council in order to solicit public input before adoption.*

*A.1.8: Boards and Commissions should review the annual budget as appropriate to their area of interest and make recommendations to the City Council.*

*A.1.14: Final actions on study items with significant financial impacts should be withheld until they can be made in the full context of the annual budget process.*

#### **ENVIRONMENTAL REVIEW**

N/A

#### **DISCUSSION**

The purpose of the public hearing is to provide an opportunity for residents to voice their opinions on the City's budget and the appropriations limit. Legal notices of the hearing were published in the *Sunnyvale Sun* on May 23rd and May 30th. No action is required from the City Council at the hearing. The *FY 2014/15 Recommended Budget and Resource Allocation Plan* is scheduled for adoption on June 24, 2014.

### **Appropriations Limit**

The appropriations limit is set on an annual basis and is dependent upon the change in population within the jurisdiction and the change in the cost of living as determined by the State. As shown in Attachment A, the appropriations limit for FY 2014/15 is \$187,740,565. Expenditures subject to the appropriations limit exclude Redevelopment Successor Agency activity, enterprise and internal service activity, debt service payments, and capital outlay projects purchased with tax proceeds that have a useful life of ten years or more and a value that exceeds \$100,000. Non-tax revenues, such as federal and state grants, fees for service, or revenues restricted for particular purposes are also excluded from the calculation. The City will be under the allowable appropriations limit by approximately \$92.5 million for FY 2014/15.

### **FY 2014/15 Recommended Budget**

The FY 2014/15 Budget continues to maintain the path of long-term fiscal sustainability established two years ago. This plan, along with the economic recovery, has allowed the City to stay the course for the FY 2014/15 Budget by continuing to hold the line on expenses, while also strategically restoring services to critical areas such as public safety, environmental management, and infrastructure renovation. However, challenges persist that require the City to stay vigilant to maintain this financial stability. Sales tax, the second largest source of revenue in the General Fund, is highly volatile; FY 2012/13 revenues came in less than FY 2011/12 revenues, and FY 2013/14 projections have been revised downward by approximately \$1.7 million. The City is currently operating with a workforce that is 20% smaller compared to a decade ago, with a population that is 10% larger. While the organization has restructured and implemented other efficiencies to maintain service levels with fewer employees, increasing demands will need to be addressed in the near future. Examples include regulatory pressures, increasing demand for services from high development activity, and aging infrastructure. Most significantly, the City's personnel costs, which are 60% of the total budget and 82% of General Fund expenses, continue to rise, especially with regard to pensions and health care. Given all these pressures and demands, it is critical that the City stay the course by taking a balanced approach to evaluating decisions in a long-term fiscal context.

The FY 2014/15 Recommended Budget includes total revenues of approximately \$321.1 million. The total recommended budget for all expenditures is approximately \$314.6 million. Of that total, \$235.3 million is for operating; \$69.2 million is for projects, project administration, and equipment; and \$10.1 million is for other expenditures including debt service (\$7.2 million), lease payments (\$2.2 million), and budget supplements (\$700k). Planned contribution to reserves total \$6.5 million citywide, which factors in drawdowns and additions to reserves across all funds. The majority of reserve funds planned to be drawn down are from the Water and Wastewater Funds for capital projects to address the rehabilitation of the wastewater collection and treatment systems and aging water storage and distribution systems. These significant drawdowns on reserves are offset by additions to reserves across a number of funds, including the Housing, Capital Projects, and Park Dedication Funds, primarily due to increased Mitigation and Impact Fee Revenues from the recent surge of development activity in the City. This increase in reserves has been set aside in the FY 2014/15 Budget as *Future Projects*, or in the reserves of the respective fund. Because the FY 2014/15 Budget

is focused on the City's operating budget, staff has not made significant changes to the twenty-year capital projects plan; for the FY 2015/16 Budget, the focus will be on projects and this significant increase in reserves will be considered in the development of that budget.

The FY 2014/15 Recommended General Fund budget includes a drawdown of the Budget Stabilization Reserve of \$12 million. This drawdown reflects a combination of factors including reduced sales tax revenue, personnel cost increases, the transfer of development related revenues to the new Development Enterprise Fund, the acceleration of budget for Public Safety Recruitment projects and other adjustments to the long term outlook for revenues and expenses. While tightly budgeted, the General Fund is balanced with a sustainable level of reserves throughout the Long Term Financial Plan.

Lastly, the Recommended Budget inadvertently did not reflect a proposed contribution to the Housing Trust of Silicon Valley for investment in City approved housing projects. The revised Project Information Sheet is included in this report as Attachment 3. The proposed contribution of \$200,000, funded with Housing Mitigation funds, would continue funding that has been provided over the last several years.

### **FY 2014/15 Budget Supplements**

For the FY 2014/15 Recommended Budget, nine budget supplements are presented for Council consideration.

A brief summary of all budget supplements presented for Council consideration is below. A more complete description of each budget supplement is included in *Volume I* of the FY 2014/15 Recommended Budget.

#### Budget Supplements Recommended for Funding:

- *Funding for Dispute Resolution Services:* This supplement would provide one-time FY 2014/15 funding for dispute resolution and mediation services by the contractor currently providing these services, Project Sentinel. The focus of this service is on tenant/landlord disputes, but other types of community disputes would also be accommodated to the extent possible. Approval of this request would allocate \$20,000 from the General Fund for this purpose. Since this supplement is being recommended for funding, the cost has already been incorporated into the FY 2014/15 Recommended Budget.
- *Comprehensive Update of the Precise Plan for El Camino Real:* This supplement will address issues that have arisen since the plan was adopted in 2007. The updated Plan requires \$80,000 from the General Fund for consultant services to prepare a market and economic analysis to assess the viability of commercial uses for the corridor and to prepare an environmental impact document and supporting technical studies as needed, depending on the level of plan amendments. Since this supplement is being recommended for funding, the cost has already been incorporated into the FY 2014/15 Recommended Budget.
- *Las Palmas Park/Tennis Center Auxiliary Restroom:* This supplement will provide for the design and construction of a modular type restroom building to be installed in the northeast corner of Las Palmas Park near the Sunnyvale Tennis Center. The estimated cost to design and build the project is \$300,000 and is funded by the Park Dedication Fund. Park Dedication

Fee revenues have exceeded budgeted levels; therefore the project can be accommodated without affecting other projects currently planned in the Park Dedication Fund. Operating costs are estimated to be \$11,000 annually and will be absorbed by the current operating budget for program 267 Neighborhood Parks and Open Space. Since this supplement is being recommended for funding, the cost has already been incorporated into the FY 2014/15 Recommended Budget.

- *Wolfe Road Corridor Traffic Improvement Study - El Camino Real to Homestead Road:* This budget supplement is the result of combining two 2014 Council Study Issues: DPW 14-14 - Optimization of Wolfe Road for Neighborhood and Commuter Reconfiguration and Signalization; and DPW 14-17 - Analysis of Reconfiguration or Other Capacity Improvement Alternatives for the Wolfe Road/El Camino Real/Fremont Avenue Intersection Complex. Combining these two study issues could result in a more efficient and coordinated analysis of traffic issues along the Wolfe Road Corridor. Completing the proposed study is estimated to cost \$350,000 for consulting services from an outside traffic engineering firm. Funding would be provided from the General Fund. This would include the scope of work outlined in Study Issues DPW 14-14 and 14-17. Because of the very high cost of constructing grade separations, staff does not recommend including this analysis as part of the study. Without this additional work, the budgeted cost is reduced to \$250,000. Since this supplement is being recommended for funding, the cost has already been incorporated into the FY 2014/15 Recommended Budget.
- *Captioning for Council Meeting Broadcasts:* This supplement would provide ongoing funding to include closed captioning service for City Council meeting broadcasts on the City's cable channel KSUN-15. Approval of this request would allocate \$10,200 from the General Fund annually for this purpose. Since this supplement is being recommended for funding, the cost has already been incorporated into the FY 2014/15 Recommended Budget.
- *Funding for Leadership Sunnyvale:* This supplement will provide one-time funding to support the Leadership Sunnyvale public affairs and leadership training program provided by Silicon Valley Leadership. Approval of this supplement would appropriate \$6,000 from the General Fund. Since this supplement is being recommended for funding, the cost has already been incorporated into the FY 2014/15 Recommended Budget.
- *Funding for Study of Community Choice Aggregation (CCA):* This supplement will provide a preliminary evaluation of the feasibility of establishing a Community Choice Aggregation program, either specifically for Sunnyvale or as a part of a regional, multi-city program. CCA is a system enabled by State legislation, which allows cities and counties to aggregate the buying power of individual customers in order to secure alternative or renewable energy supplies. The study is estimated to cost \$30,000. Staff will engage interested cities who may be willing to contribute towards a joint study. Upon determination and agreement of the study scope and financial contribution, such contributions may offset the requested funds from the General Fund. Since this supplement is being recommended for funding, the cost has already been incorporated into the FY 2014/15 Recommended Budget.

Budget Supplements - Not Recommended for Funding:

- *Public Access Programming for KSUN2 (Channel 26):* This supplement would cost \$63,500

annually from the General Fund to implement additional programming on the City's cable channel 26 (KSUN2) on Comcast to include Public Access content. The operation of and programming for KSUN2 will be handled by a third party which is typically a non-profit organization specializing in this area. While the proposed programming services would enhance opportunities for the public and the City to share information, they are not a core service provided by the City. Given the City's inability to fund certain core services at a desired level, staff does not recommend this particular expenditure at this time.

- *Downtown Sunnyvale Business Improvement District (BID) \$30,000 Funding Request:* As part of the BID's annual reauthorization, the Sunnyvale Downtown Association (SDA), on behalf of the BID, requested \$30,000 from the City to support promotional efforts such as special events and an updated visitor's guide. Staff does not recommend approval of General Fund support for BID activities other than special events for several reasons. Prior to the SDA asking the City to help them form a BID, the City provided a significant amount of funding as well as in-kind services and staff support to the SDA. The main reason the City agreed to financially support the SDA in forming a BID was to make the SDA a self-funded/stand-alone organization. The intention was for the SDA to leverage the BID assessment revenue with additional sponsorships from downtown businesses for all events. Second, the SDA has listed an increased cost of doing business as a reason for needing the City's financial support, yet it has not increased association fees for member businesses since the BID was created in 2007. Third, the City believes it provides a reasonable level of support to the BID in numerous ways. Staff continues to work hard to attract new business to downtown and currently is working with the brokers representing the Solstice and Carmel projects on the former Town & Country site. Lastly, staff would not recommend financial support for such activities as visitor guides or letterhead for any private business, regardless of City location. Support for a community event is something that any private business could apply for through the Community Event Grant process. Staff has encouraged the SDA to submit its \$30,000 request via the City's special event grant funding process

### **May 22, 2014 Budget Workshop**

Staff provided a detailed presentation on the City's FY 2014/15 Recommended Budget and Resource Allocation Plan at the Budget Workshop. At the workshop, Council took action to make one addition to the City Manager's Recommended Budget. \$40,000 was appropriated from the Budget Stabilization Reserve to provide one additional year of supplemental funding for Care Management services. This addition will be incorporated into the FY 2014/15 Budget that Council will consider for adoption on June 24, 2014. Staff will be returning to Council during FY 2014/15 with additional information on the program and for discussion regarding on-going funding.

During the presentation, Council asked for information and/or clarification on a number of issues. These items are listed in Attachment B, with responses or follow-up action noted as appropriate.

### **Boards and Commissions Budget Review**

All of the City's boards and commissions have had the opportunity to review the FY 2014/15 Recommended Budget, which was made available beginning May 5, 2014. Boards and commissions wishing to make comments, suggestions, or recommendations have the opportunity to testify at the June 10, 2014 public hearing. Testimony from the hearing, as well as draft board and commission meeting minutes discussing the Budget, will be included in the Budget Adoption Report to Council.

### **FISCAL IMPACT**

There is no fiscal impact to this public hearing. Budget adoption is scheduled for June 24, 2014.

### **PUBLIC CONTACT**

Public contact was made by posting the Council agenda on the City's official-notice bulletin board outside City Hall, at the Sunnyvale Senior Center, Community Center and Department of Public Safety; and by making the agenda and report available at the Sunnyvale Public Library, the Office of the City Clerk and on the City's Web site. Legal ads were published in the Sunnyvale Sun on May 23, 2014, and May 30, 2014. Finally, the City's website has included the entire FY 2014/15 Recommended Budget and Resource Allocation Plan since May 5, 2014.

### **STAFF RECOMMENDATION**

Hold the Public Hearing to meet the legal requirements of the City Charter, the California Constitution, and the California Government Code and provide direction to staff on any issue requiring further review prior to the adoption of the FY 2014/15 Budget on June 24, 2014.

Prepared by: Timothy Kirby, Assistant Director of Finance

Reviewed by: Grace Leung, Director of Finance

Approved by: Robert A. Walker, Assistant City Manager

### **ATTACHMENTS**

1. FY 2014/15 Appropriations Limit
2. Responses to Council's Questions at the Budget Workshop
3. Housing Trust Silicon Valley Project Information Sheet