



City of Sunnyvale

Agenda Item-No Attachments (PDF)

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REPORT TO COUNCIL

SUBJECT

Adoption of the FY 2014/15 Budget, Fee Schedule, and Appropriations Limit

BACKGROUND

On May 22, 2014, City Council held a budget workshop to review in detail the FY 2014/15 Recommended Budget and Resource Allocation Plan. On June 10, 2014, the City Council held public hearings on the FY 2014/15 Recommended Budget, the establishment of the City's Appropriations Limit, and the Fee Schedule. The public offered comments at this hearing. Notification of the hearing was sent to those who specifically requested notice of fee increases as per the provisions of California Government Code section 66016(a). Council must now adopt a FY 2014/15 Budget, Fee Schedule, and Appropriations Limit.

EXISTING POLICY

The California Constitution Article XIII B requires that the City annually adopt an appropriations limit for the upcoming fiscal year.

City Charter, Section 1304 requires the City Council to adopt the budget for the upcoming fiscal year on or before June 30.

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

7.1A.1.3 A balanced Twenty-Year Resource Allocation Plan shall be presented to the City Council annually.

7.1A.1.9 The City Council shall adopt the City Manager's Recommended Budget, with any changes desired, by resolution before June 30th of each year.

7.1A.1.13 All competing requests for City resources should be weighed within the formal annual budget process.

ENVIRONMENTAL REVIEW

N/A

DISCUSSION

Three actions by the City Council are required at tonight's meeting. First, the City Council must consider and take action on the proposed fee changes. The proposed Fee Schedule is presented as Exhibit A under Attachment 1 - FY 2014/15 Fees, Rates, and Charges Resolution.

Second, the City Council must adopt the FY 2014/15 Budget by June 30, 2014. Traditionally, this has been accomplished by resolution. The Budget Resolution, including exhibits, presents the appropriations by fund, fund transfers, and reserve changes that are necessary to implement the

budget as recommended in this report (Attachment 2).

Third, the City Council must adopt, by resolution, the FY 2014/15 Appropriations Limit. The calculations and detailed supporting information are contained in Attachment 3. A discussion concerning each of the three actions required by Council is included below.

Fees, Rates, and Charges

The current fees and charges of the City have been reviewed in accordance with the Council Fiscal Policy. After an extensive and detailed staff review of fees, necessary adjustments have been made to the proposed Fee Schedule to ensure fees and charges are aligned with the cost to provide each service. The only exceptions are those fees that are legally limited, market based, or subsidized for public purpose. Certain new fees have been added to the Fee Schedule where appropriate. One additional change was identified with section 8.03 - Traffic Impact Fees (TIF). It was discovered that staff had used old fees, instead of those most recently adopted in the middle of FY 2013/14, as the starting basis for adjustment. As a result the incorrect fees were noticed. Staff has restored the current fees in Attachment 1 and will return to Council under separate action to increase the TIF fees. Other details regarding the proposed fee changes are discussed in Report to Council 14-0515, presented on June 10, 2014.

Summary of FY 2014/15 Recommended Budget

The City Manager's FY 2014/15 Recommended Budget and Resource Allocation Plan includes total revenues of approximately \$321.1 million. The total recommended budget for all expenditures is approximately \$314.6 million, with the difference between planned revenues and planned expenditures resulting in an addition to reserves of approximately \$6.5 million, which is discussed in more detail below. Of the \$314.6 million in total expenditures, \$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). Details of the revenues and expenditures are contained in the *FY 2014/15 Recommended Budget and Resource Allocation Plan*.

The appropriations by fund for all City funds are included in Attachment 2 of this report. Exhibit D of Attachment 2 presents the reserve changes that are necessary to implement the budget as recommended. As noted in the preceding paragraph, the net change in city-wide reserves for FY 2014/15 is an increase of approximately \$6.5 million, which factors in drawdowns and additions to reserves across all funds, excluding Internal Service Funds. A total of approximately \$18.4 million in reserve funds are planned to be drawn down across the City, which includes \$13.5 million from utility funds (\$9 million from the Wastewater Management Fund, \$3.3 million from the Water Fund, and \$1.2 million from the Solid Waste Fund) to fund increasing water, contract and project costs. Reserves in the General Fund are down \$3.4 million, which factors in the transfer of \$6 million in excess development-related revenue to the new Development Enterprise Fund, increase in the Capital Improvement Projects Reserve, and a drawdown of the Budget Stabilization Reserve.

These significant drawdowns on reserves are offset by \$24.9 million in additions to reserves across a number of funds. The increases are primarily driven by increased Mitigation and Impact Fee revenue projections from the recent surge of development activity in the City. Reserves in the Housing Mitigation Fund are anticipated to increase by \$6.1 million, and reserves in the Park Dedication Fund are anticipated to increase by \$3.6 million, due to increased revenue from Housing Mitigation fees and Park Dedication fees, respectively. In addition, the City projects an increase in the Capital

Reserve of the Capital Projects Fund of \$5.6 million due to increased revenue from Traffic Impact fees and the Sense of Place fee. This increase in reserves has been set aside in the FY 2014/15 Budget for use on future projects, or in the reserves of the respective fund. The FY 2015/16 Budget will entail a full review of City projects, and all expenditures will be considered in the context of the reserves in each fund.

Staff has revised the FY 2014/15 Recommended General Fund long term financial plan for this report (Attachment 4). The FY 2013/14 column misclassified some of the development related revenues that are being reserved for transfer to the Development Enterprise Fund into the Budget Stabilization Fund. This has been adjusted to reflect the appropriate amount of revenue that will be transferred to the Development Enterprise Fund in FY 2014/15. This change has no impact on the FY 2014/15 Recommended Budget as this issue is an adjustment for FY 2013/14 only.

The revised FY 2014/15 Recommended General Fund includes a drawdown of the Budget Stabilization Reserve of \$8.9 million. This drawdown reflects a combination of factors including reduced sales tax revenue, personnel cost increases, 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.

Appropriations Limit

The appropriations limit, required by Article XIIIB of the State Constitution, places a limit on the amount of revenue that can be spent by government entities and is set on an annual basis. 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. California Government Code section 7910 requires the City annually adopt an appropriations limit for the coming year. The appropriations limit is dependent upon the change in population within the jurisdiction and the change in the cost of living, as determined by the State. State law requires the Council to select one factor by which the limit is calculated. The options available are as follows:

1. Inflation Factors
 - 1) California per capita income
 - 2) Increase in non-residential assessed valuation due to new construction
2. Population factors
 - 1) City population growth
 - 2) County population growth

For FY 2014/15, the choices that lead to the most favorable appropriations limit are California per capita income and the City population growth factor, and these are the factors staff used to calculate this value.

As shown in Attachment 3, 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 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.

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 to them on May 5, 2014. Meeting minutes from the boards and commissions that held meetings to discuss the budget prior to submission of this report are included in Attachment 5 of this report. Recommendations to Council on the budget were voted on and are detailed in the minutes. Given the short timeframe available for review of the minutes by the boards and commissions, some of the minutes are draft minutes.

Public Hearing

On June 10, 2014, the City Council held a public hearing on the FY 2014/15 Recommended Budget and Resource Allocation Plan, the Appropriations Limit, and the proposed Fee Schedule. Council took input from the public. No action was taken and no additional direction was provided to staff.

FISCAL IMPACT

The City Manager's FY 2014/15 Recommended Budget continues to maintain the path of long-term fiscal sustainability established two years ago. The City's long-term financial plan, along with the continued economic recovery, enables the FY 2014/15 Budget to stay the course set by previous budgets. The budget continues to hold the line on expenses, while restoring or enhancing service levels in strategic 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. The City's second largest source of General Fund revenue, sales tax, is highly volatile. FY 2012/13 revenues came in less than FY 2011/12 revenues, and this budget revises downward the projections for FY 2013/14 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. Along with the higher population is an increase in demands, which the City will need to address in the near future. Examples include regulatory pressures, increasing demand for services due to the high level of development activity, and addressing the City's aging infrastructure. Most significantly, the City's personnel costs, which comprise 60% of the total budget and 82% of General Fund expenses, continue to rise, especially with regard to pensions and health care. Given all of these pressures and demands, it is critical that the City stay the course by taking a balanced approach and that key decisions are evaluated in a long-term fiscal context.

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 website.

ALTERNATIVES

1. Approve the resolutions presented as Attachment 1 (including Exhibit A), Attachment 2 (including Exhibits A through D) and Attachment 3 (including Exhibit A) that provide for the adoption of the FY 2014/15 Budget, Fee Schedule, and Appropriations Limit.
2. Approve the resolutions presented as Attachment 1 (including Exhibit A), Attachment 2 (including Exhibits A through D) and Attachment 3 (including Exhibit A) that provide for the

adoption of the FY 2014/15 Budget, Fee Schedule, and Appropriations Limit. Include any amendments, also identifying, in the case of increases in expenditures, any corresponding decreases in expenditures or increases in revenue to ensure there is no adverse effect to the City's financial position.

STAFF RECOMMENDATION

Alternative 1: Approve the resolutions presented as Attachment 1 (including Exhibit A), Attachment 2 (including Exhibits A through D) and Attachment 3 (including Exhibit A) that provide for the adoption of the FY 2014/15 Budget, Fee Schedule, and Appropriations Limit.

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 Fees, Rates, and Charges Resolution, including Exhibit A. FY 2014/15 Fee Schedule
2. FY 2014/15 Budget Resolution, including:
 - Exhibit A. Appropriations - General Fund, Special Revenue Funds, Enterprise Funds
 - Exhibit B. Appropriations - Internal Service Funds
 - Exhibit C. Transfers - To/From All Funds
 - Exhibit D. Appropriations To / Deductions From Reserves - All Funds
3. FY 2014/15 Appropriations Limit Resolution, including Exhibit A. Appropriations Limit
4. Revised FY 2014/15 Recommended General Fund Long Term Financial Plan
5. Draft Board and Commission Meeting Minutes for the FY 2014/15 Recommended Budget