



City of Sunnyvale

Agenda Item-No Attachments (PDF)

File #: 17-0192, Version: 1

REPORT TO COUNCIL

SUBJECT

Annual Public Hearing on FY 2017/18 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.

Additionally, Article XIII B 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 Originally enacted by Proposition 4 in 1979, the appropriations limit creates a ceiling for the appropriations of tax proceeds that can be made by the state, school districts,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 10, 2017, included in *Volume I* of the *FY 2017/18 Recommended Budget*. It is also provided as Attachment 1 to this report.

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

The action being considered does not constitute a "project" within the meaning of the California Environmental Quality Act ("CEQA") pursuant to CEQA Guidelines section 15378(b)(4) in that it is a fiscal activity that does not involve any commitment to any specific project which may result in a

potential significant impact on the environment.

DISCUSSION

The purpose of the public hearing is to provide an opportunity for the public to voice its opinions on the City's proposed budget and the appropriations limit. Legal notices of the hearing were published in the *Sunnyvale Sun* on May 19th, May 26th and June 2nd. No action is required from the City Council at the hearing. The FY 2017/18 Recommended Budget and Resource Allocation Plan is scheduled for adoption on June 20, 2017.

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 1, the appropriations limit for FY 2017/18 is \$219,843,964. 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 specific purposes are also excluded from the calculation. The City will be under the allowable appropriations limit by approximately \$75.6 million for FY 2017/18, which means that the City has additional capacity allowed by law by approximately \$75 million before the limit is reached.

FY 2017/18 Recommended Budget

The FY 2017/18 Recommended Budget is focused on the City's projects plan and includes a balanced inventory of proposed projects which reflect the City's wide range of services. The Projects Budget is comprised of capital projects, strategic initiatives, and multi-year projects not requiring on-going funds over 20 years. These projects represent investments being made on multiple City Council strategic priorities.

The FY 2017/18 Projects Budget totals \$166 million in FY 2017/18 and \$1.49 billion over the twenty-year plan. It is important to note that several projects in FY 2016/17 will continue into FY 2017/18. Significant projects include rehabilitation of the Fair Oaks and Calabazas Creek bridges, reconfiguration of Mathilda/237/101 intersection, and additional funding for pavement and the replacement of sidewalks, curbs and gutters. A twenty-year, \$185 million plan has also been budgeted for the renovation and enhancement of all the City's 21 parks. Additionally, efforts are underway to modernize the Civic Center and the construction of the Lakewood Branch Library and Learning Center.

The FY 2017/18 Recommended Budget includes total revenues of approximately \$468 million. The total recommended budget for all expenditures is approximately \$474.6 million. Of that total, \$277.3 million is for operating; \$187.4 million is for projects, project administration, and council service level set-aside; and \$9.9 million is for other expenditures including debt service, lease payments, and equipment. Planned net use of reserves totals \$6.2 million Citywide, which factors in drawdowns and additions to reserves across funds. The funds in which the budget assumes a planned drawdown of reserves include the General Fund and the Capital Projects Fund. The use of reserves in those funds is offset by addition to reserves in other funds, including the Park Dedication, due to elevated Impact Fee revenue, and the Utility funds (Wastewater, Solid Waste, and Water) due to funds being set aside for significant capital projects scheduled over the next two to three years.

While the focus of the FY 2017/18 Budget is on the City's projects budget, several changes were also made to the operating budget. A few significant changes include the addition of a new Assistant City Attorney, four new positions in the Information Technology Department to support the City's network infrastructure and enable project delivery; three new WPCP Operator positions; the addition of a Senior Management Analyst in the Office of the City Manager; the addition of a Senior Management Analyst in the Department of Public Works; and a new Associate Planner in the Community Development Department.

The FY 2017/18 Recommended General Fund budget includes a drawdown of the Budget Stabilization Fund Reserve of \$26 million. Drawdown of this reserve is primarily the result of a change in project funding methodology. The past practice has been for the City to fund capital projects based on the estimated project timelines, with the budget mirroring the anticipated cash requirement. The drawback of this funding strategy is that it leaves dollars in the Budget Stabilization Fund reserve which appear to be available for other uses. However, they were committed previously to specific projects. Under the new project funding methodology, projects funded by a transfer from the General Fund will be pre-funded in either the Capital Projects or Infrastructure Funds. What is not spent in FY 2017/18 will fall to reserves in the Projects fund thereby reducing future transfers from the General Fund to the Capital Projects or Infrastructure Funds. The FY 2017/18 General Fund Budget Stabilization Fund achieves the policy requirement of being at a level of at least 15% of total revenues for the first two years. However, in order to comply with Council Policy, \$2.4 million in one-time fiscal strategies are required such as FY 2017/18 expenditure savings, one-time revenues, or use of other reserves. Ongoing fiscal strategies are needed throughout the plan in order for the fund to remain solvent. The budget assumes \$2.8 million per year in fiscal strategies, beginning in FY 2020/21. With fiscal strategies assumed, the Budget Stabilization Fund reaches a low point of \$1.5 million in FY 2025/26 and has a projected balance of \$14.9 million at the end of the twenty-year plan.

In addition to the fiscal strategies needed in the General Fund, another important tool that was used to balance the budget was the Total Compensation Set Aside. While planned as an expenditure to begin in FY 2025/26, this set aside was drawn upon that year and through much of the following years, to maintain positive Budget Stabilization Fund reserve amounts. The Set Aside originally totaled \$121 million, of which \$57 million was drawn down, leaving a balance of \$64 million which is presented on the Long Term Financial Plan. This illustrates the fact that expenditures are outpacing revenue growth in the near- to mid-term.

FY 2017/18 Budget Supplements

For the FY 2017/18 Recommended Budget, ten budget supplements are presented for Council consideration. Staff recommends funding for eight supplements as identified below totaling approximately \$1 million over twenty years, with the majority (\$1.02 million) in year one.

A brief summary of all the proposed budget supplements is below. A more complete description of each budget supplement is included in *Volume I* of the FY 2017/18 Recommended Budget.

Budget Supplements:

- *Evaluation of New Revenue Strategies to Fund New and Increasing Service Demands and/or Unfunded Capital Investment Needs:* This supplement would provide one-time funding in the amount of \$20,000 from the General Fund to hire a consultant with expertise to help guide a revenue strategy evaluation. Since this supplement is being recommended for funding, the

cost has been incorporated into the FY 2017/18 Recommended Budget.

- *2017 Housing Strategy*: This supplement would provide one-time funding in the amount of \$200,000 from the General Fund. The supplement would fund consultant studies of housing market dynamics, possible mobile home park rent stabilization programs, and evaluate the pros and cons of various affordable housing policies. Funding would include staffing costs to manage the project and public engagement process, as well as related administrative and noticing costs. Since this supplement is being recommended for funding, the cost has been incorporated into the FY 2017/18 Recommended Budget.
- *Downtown Development Policies for Parking*: This supplement would provide one-time funding of \$60,000 from the General to hire a consultant with specialized knowledge to examine the City's downtown development policies to identify and explore alternative solutions for meeting future downtown parking needs. Since this supplement is being recommended for funding, the cost has been incorporated into the FY 2017/18 Recommended Budget.
- *Funding for Consultant and/or Legal Services to Develop a Program for Implementation of a Wage Theft Ordinance*: This supplement would provide one-time funding of \$20,000 from the General Fund for consultant or legal services to examine wage theft laws, ordinances, and policies at the State level as well as in other local jurisdictions. Since this supplement is being recommended for funding, the cost has been incorporated into the FY 2017/18 Recommended Budget.
- *Public Access Programming for KSUN2*: This supplement would provide one-funding in the amount of \$15,000 per year for two and a half years, from the General Fund, to continue an agreement with Mountain View Community Television (CMTV) for public access programming. Since this supplement is being recommended for funding, the cost has been incorporated into the FY 2017/18 Recommended Budget.
- *Accelerating Climate Action*: This supplement would provide one-time funding of \$250,000 from the General Fund for consultant services and other expenses to implement the Climate Action Plan (CAP) 2.0 initiative. The CAP 2.0 Initiative is aimed to establish new greenhouse gas reduction targets for Sunnyvale, conduct broad community engagement, and create a framework for accelerated CAP implementation. Since this supplement is being recommended for funding, the cost has been incorporated into the FY 2017/18 Recommended Budget.
- *Increased Supplemental Human Services Funding in FY 2017/18*: This supplement would provide additional funding of \$50,000 from the General Fund to increase the budget for human services funding. The City allocates human services grants every two years for a term of up to two years. The Recommended Budget includes funding of \$100,000 from for this program. This supplement would increase the funding level to \$150,000 for a period of two years. Since this supplement is not recommended for funding, the cost has not been incorporated into the FY 2017/18 Recommended Budget.
- *Feasibility Study for Development of a Class 1 Cycle and Pedestrian Trail Along Evelyn*

Avenue: This supplement would provide additional funding of \$100,000 from the Capital Projects Fund / Transportation Impact Fee Sub-fund for consultant services to examine the feasibility of developing a Class 1 Bicycle Trail along Evelyn Avenue adjacent to the Caltrain Railroad tracks. Since this supplement is not recommended for funding, the cost has not been incorporated into the FY 2017/18 Recommended Budget.

- *Parkland / Open Space Policy / Initiative:* This was identified as a Budget Issue at the January 27, 2017 Strategic Session on Council Policy Priorities to help establish the City's scope and resources for setting new Parkland / Open Space Policy/Initiative. If approved, this supplement would provide one-time funding of \$250,000 from the General Fund for consultant services and other expenses to assist with the analysis, scoping, planning, and community engagement necessary to support a Parkland/Open Space Policy/Initiative. Since this supplement is being recommended for funding, the cost has been incorporated into the FY 2017/18 Recommended Budget.
- *Lawrence Station Area Plan - Increased Housing Study and Sense of Place Plan:* This supplement would provide additional funding of \$200,000 from the General Fund to hire an outside firm to prepare amendments to the Lawrence Station Area Plan (LSAP) and complete the appropriate environmental review. Since this supplement is recommended for funding, the cost has been incorporated into the FY 2017/18 Recommended Budget.

May 19, 2017 Budget Workshop

Staff provided a detailed presentation on the City's FY 2017/18 Recommended Budget and Resource Allocation Plan at the Budget Workshop. At the workshop, Council asked for information and/or clarification on a number of issues. These items are listed in Attachment 2, 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 2017/18 Recommended Budget, which was made available beginning May 10, 2017. Boards and commissions wishing to make comments, suggestions, or recommendations have the opportunity to testify at the June 6, 2017 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 20, 2017.

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 19th, May 26th and June 2nd. Finally, the City's website has included the entire FY 2017/18 Recommended Budget and Resource Allocation Plan since May 10, 2017.

STAFF RECOMMENDATION

Conduct a Public Hearing to obtain input from the public has required by City Charter Section 1303, the California Constitution, and the California Government Code. Council can also provide direction to staff on any issue requiring further review prior to the adoption of the FY 2017/18 Budget on June 20, 2017.

Prepared by: Nick Kurns, Budget Analyst II

Reviewed by: Timothy J. Kirby, Finance Director

Reviewed by: Walter Rossmann, Assistant City Manager

Approved by: Deanna J. Santana, City Manager

ATTACHMENTS

1. FY 2017/18 Appropriations Limit
2. Responses to Council Questions and Requests from the Budget Workshop