



# City of Sunnyvale

## Agenda Item-No Attachments (PDF)

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File #: 17-0193, Version: 1

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### REPORT TO COUNCIL AND SUNNYVALE FINANCING AUTHORITY

#### **SUBJECT**

City Council Adoption of the FY 2017/18 Budget, Fee Schedule, and Appropriations Limit and Sunnyvale Financing Authority Public Hearing and Adoption of the FY 2017/18 Budget

#### **BACKGROUND**

On May 10, 2017, the City Manager's FY 2017/18 Recommended Budget was provided to City Council and made publicly available on the City's website and at the Sunnyvale library. On May 19, 2017, City Council held a budget workshop to review in detail the recommended budget and twenty-year resource allocation plan. On June 6, 2017, the City Council held public hearings on the FY 2017/18 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 consider the adoption of the FY 2017/18 Budget, Fee Schedule, and Appropriations Limit.

The FY 2017/18 Recommended Budget also includes the annual budget for the Sunnyvale Financing Authority, the governing body established to provide the debt service for the Sunnyvale Office Center. The only appropriation for the Financing Authority is the annual debt service payment for the Sunnyvale Office Center. The governing board of the Joint Powers Agency, the Sunnyvale Financing Authority must also hold a public hearing and approve the Authority's FY 2017/18 Budget.

#### **EXISTING POLICY**

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

California Government Code Section 6508 requires that any annual budget of the agency to which the delegation is made must be approved by the governing body of the Joint Powers Agency (Sunnyvale Financing Authority).

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

Section 4.2 of the Joint Exercise of Powers Agreement Creating the Sunnyvale Finance Authority requires the adoption of a budget prior to July 1 of each year.

#### **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**

The adoption of the budget is a fiscal activity that does not require review under the Environmental Quality Act (CEQA Guidelines, Section 15378(b)(4)).

## **DISCUSSION**

Three actions by the City Council are required at tonight's meeting, and one action is required by the Sunnyvale Financing Authority. 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 2017/18 Fees, Rates, and Charges Resolution.

Second, the City Council must adopt the FY 2017/18 Budget by June 30, 2017. 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 2017/18 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.

Lastly, the Sunnyvale Financing Authority must hold a public hearing and adopt, by resolution, the FY 2017/18 Budget for Debt Service related to the Sunnyvale Office Center, which totals \$808,937. The Budget Resolution (Attachment 4) includes the appropriation for the debt service payment.

## **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. Other details regarding the proposed fee changes are discussed in Report to Council No.

17-0530, presented on June 6, 2017. During the June 6 public hearing, discussion regarding the proposed increase to Fire Prevention and Hazardous Materials Permit and Inspection Fees occurred. These fees, in most cases, have increased significantly and include funding of additional staffing to improve quality and cycle time, and many of these fees will be increased over two fiscal years to achieve full cost recovery. The consultant report from which these fee changes were recommended is included as Attachment 5.

## **Summary of FY 2017/18 Recommended Budget**

As published on May 10, 2017, the City Manager's FY 2017/18 Recommended Budget and Resource Allocation Plan includes total revenues of approximately \$468.4 million. The total recommended budget for all expenditures is approximately \$474.6 million, with the difference between planned

revenues and planned expenditures resulting in a net draw down of reserves of approximately \$6.2 million, which factors drawdowns and additions to reserves across all funds. Of the \$474.6 million in total expenditures, \$277.3 million is for operating; \$187.4 million is for projects, and project administration; and \$9.9 million is for other expenditures, including debt service (\$5.3 million), lease payments (\$2.6 million), and equipment (\$2 million). Details of the revenues and expenditures are contained in the *FY 2017/18 Recommended Budget and Resource Allocation Plan*.

One modification has been included with the FY 2017/18 Recommended Budget subsequent to the public hearing. Due to the revised fees recommended for Fire Prevention and Hazardous Materials Permits and Inspection Fees, staff has added three positions and upgraded one position in the Department of Public Safety. The revenue estimates for the updated fees have been included in the revised General Fund Long Term Financial Plan (Attachment 6). This change increases the total budget for all revenues to approximately \$468.8 million, and the total budget for all expenditures to approximately \$475.0 million. The increased revenue fully funds the position adds; therefore, this change did not impact the Budget Stabilization Fund in FY 2017/18. A portion of the Fire Prevention positions are not funded by fee revenue as they perform duties related to protecting general health and safety. These costs are assumed to be absorbed for FY 2017/18 and fully funded in FY 2018/19 during the operating budget cycle.

The FY 2017/18 Recommended Budget also contains ten budget supplements, eight of which were recommended for funding by the City Manager.

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		

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 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 in FY 2018/19 and \$2.8 million ongoing in FY 2020/21. 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. 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 General Fund 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
  - a) California per capita income
  - b) Increase in non-residential assessed valuation due to new construction
2. Population factors
  - a) City population growth
  - b) County population growth

For FY 2017/18, 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 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 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 \$76 million for FY 2017/18.

### **FISCAL IMPACT**

The City Manager's FY 2017/18 Recommended Budget presents a balanced allocation of resources designed to continue a high level of service, fund projects and begin to meet the increasing demands of a growing economy.

### **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.

### **Public Hearing**

On June 6, 2017, the City Council held a public hearing on the FY 2017/18 Recommended Budget and Resource Allocation Plan, the Appropriations Limit, and the proposed Fee Schedule. Council took input from the public. No action affecting the FY 2017/18 Recommended Budget was taken.

On June 20, 2017, the Sunnyvale Financing Authority will hold a public hearing on the FY 2017/18 Recommended Budget. The Sunnyvale Financing Authority will take input from the public prior to adoption of the Authority's FY 2017/18 Budget.

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

All the City's boards and commissions have had the opportunity to review the FY 2017/18 Recommended Budget, which was made available to them on May 10, 2017. Meeting minutes from the boards and commissions that held meetings to discuss the budget prior to submission of this report are included in Attachment 7 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.

### **ALTERNATIVES**

1. City Council:

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 2017/18 Fee Schedule, Budget, and Appropriations Limit.

Sunnyvale Financing Authority:

Conduct a Public Hearing and Approve the FY 2017/18 Budget Resolution (Sunnyvale Financing Authority) presented as Attachment 4 to the report.

2. City Council: 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 2017/18 Fee Schedule, Budget, and Appropriations Limit. Include any amendments, also identifying, in the case of increases in expenditures, any corresponding decreases in expenditures, draws from reserves, or increases in revenue to ensure there is no adverse effect to the City's financial position.

### **STAFF RECOMMENDATION**

City Council:

Approve the resolutions presented as Attachment 1 (including Exhibit A), Attachment 2 (including Exhibits A through D), and Attachment 3 (including Exhibit A) to the report that provide for the adoption of the FY 2017/18 Fee Schedule, Budget, and Appropriations Limit.

Sunnyvale Financing Authority:

Conduct a Public Hearing and Approve the FY 2017/18 Budget Resolution (Sunnyvale Financing Authority) presented as Attachment 4 to the report.

Prepared by: Kenn Lee, Assistant Director of Finance

Reviewed by: Timothy J. Kirby, Director of Finance

Reviewed by: Walter C. Rossmann, Assistant City Manager

Approved by: Deanna J. Santana, City Manager

### **ATTACHMENTS**

1. FY 2017/18 Fees, Rates, and Charges Resolution, including Exhibit A. FY 2017/ Fee Schedule
2. FY 2017/18 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 2017/18 Appropriations Limit Resolution, including Exhibit A. Appropriations Limit
- 4. Sunnyvale Financing Authority FY 2017/18 Budget Resolution
- 5. NBS Final Report - Cost of Service Study for Fire Prevention and Hazardous Materials Permits and Fees
- 6. Revised FY 2017/18 Recommended General Fund Long-Term Financial Plan
- 7. Draft Board and Commission Meeting Minutes for the FY 2017/18 Recommended Budget