



City of Sunnyvale

Agenda Item-No Attachments (PDF)

File #: 18-0064, Version: 1

REPORT TO COUNCIL AND SUNNYVALE FINANCING AUTHORITY

SUBJECT

Annual City Council Public Hearing on FY 2018/19 Budget and Resource Allocation Plan and Establishment of Appropriations Limit and Sunnyvale Financing Authority Public Hearing on FY 2018/19 Budget

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 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 Originally enacted by Proposition 4 in 1979, the appropriations limit creates a ceiling for the appropriations of tax proceeds that can be made by the state, school districts,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 9, 2018, included in Volume I of the FY 2018/19 Recommended Budget. It is also provided as Attachment 1 to this report.

The FY 2018/19 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 for the Authority's FY 2018/19 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.

Section 4.2 of the Joint Exercise of Powers Agreement Creating the Sunnyvale Finance Authority requires a public hearing of the Authority's budget.

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.

E.1.4: The Budget Stabilization Fund will be a minimum of 15% of projected revenues for the first two years of the 20-year planning period. Beyond year two, the Budget Stabilization Fund will always have a balance of at least zero.

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 ads for the FY 2018/19 Recommended Budget were published in the Sunnyvale Sun on May 25, June 1 and June 8. Legal ads for the Sunnyvale Financing Authority were published in the Sunnyvale Sun on June 1. The FY 2018/19 Recommended Budget and Resource Allocation Plan is scheduled for adoption on June 26, 2018.

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 2018/19 is \$232,144,496. 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 \$105.6 million for FY 2018/19, which means that the City has additional capacity allowed by law by approximately \$105.6 million before the limit is reached.

FY 2018/19 Recommended Budget

The FY 2018/19 Recommended Budget is focused on the City's operations, allocating resources, personnel, goods, and services to support the high level of service to our community values and invest in Council's strategic priorities. This budget also positions the City for sustainable, fiscally responsible growth.

This year's Recommended Budget includes:

- A nuanced analysis balancing the benefits of a strong economy with sound revenue growth projections to ensure the budget provides a sustainable resource base for the City's strategic investments and services over the long term.
- Funding for public safety and maintenance of the City's excellent response times and low crime rates.
- Additional significant investments over the twenty-year plan in public safety including an

additional \$19.3 million for recruitment and training, the acceleration of \$1.1 million for the replacement of two fire engines, and the addition of \$650,000 for the replacement of fire hoses.

- The strategic and prudent addition of staff, carefully positioned to meet targeted demands.
- The results of our initial work on the Revenue Strategy Study Issue, yielding appropriate fee adjustments and the anticipation of an additional \$500,000 per year in Transient Occupancy Tax Revenue from short-term rentals.
- Funds for major transportation infrastructure projects, including the funds allocated to street and sidewalk maintenance from the Road Maintenance and Rehabilitation Act (SB1) and Measure B.
- Continued investment in the significant needs of our aging infrastructure including the recognition of \$127 million in State Revolving Funds for the Sunnyvale Clean Water Program and the continued focus on Civic Center Modernization.
- Investments in personnel-related costs to ensure we attract and retain a high-quality workforce.
- Funding for a proposed pension trust to better meet long-term pension obligations.
- Fiscal Strategies in the General Fund are still required until resolved in the fifteenth year of the plan when a significant portion of the City's pension liability is funded.

The FY 2018/19 Recommended Budget includes total revenues of approximately \$489.6 million. The total recommended budget for all expenditures is approximately \$480.1 million. Of that total, \$292.6 million is for operating; \$179.2 million is for projects, project administration, and council service level set-aside; and \$8.3 million is for other expenditures including debt service, lease payments, and equipment. Planned contributions to reserves totals \$9.5 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, Infrastructure Renovation and Replacement 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 (i.e., 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 FY 2018/19 Budget is focused on operations, the budget also includes significant funding toward special and capital projects. This totals \$179.2 million in FY 2018/19. It is important to note that over the course of a project's life, unspent funding is carried over from year to year. A number of projects in FY 2017/18 will continue into FY 2018/19 based on the continuation of projects between fiscal years and the actual project budget for FY 2018/19 will increase as a result. 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, \$189 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, rebuild the Water Pollution Control Plant and the construction of the Lakewood Branch Library and Learning Center.

One of the key tools the City uses in its budget are reserves. Reserves are intended for many different needs, including emergencies, holding restricted monies, or to balance out cash flow and economic volatility. We frequently discuss the Budget Stabilization Fund in the General Fund, which serves as the General Fund's economic volatility and cash flow reserve. In the Recommended Budget, the projected Budget Stabilization Fund maintains a stable position throughout the twenty-

year plan. The FY 2018/19 Recommended General Fund budget includes a drawdown of the Budget Stabilization Fund Reserve of \$11 million. After adjusting for one-time transactions, expenditures continue to outpace revenues in the near-term. The Budget Stabilization Fund is anticipated to drop to a low of \$14.2 million in FY 2030/31 before revenues are anticipated to outpace expenditures. At the end of the 20-year financial plan, the Budget Stabilization Fund balance is projected at approximately \$65 million. While the FY 2018/19 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, fiscal strategies in the out-years of the General Fund financial plan are required to keep the Budget Stabilization Fund above zero. City Council Reserve Policy 7.E.1 states that beyond year two, the Budget Stabilization Fund will always have a balance of at least zero. In conferring with the City Attorney, staff will add language to the budget adoption resolution for City Council action to approve the budget recognizing that without corrective action the Budget Stabilization Fund can potentially drop below zero before recovering within the twenty-year plan.

For the FY 2018/19 Recommended Budget, eight budget supplements are presented for Council consideration. Staff recommended funding for six supplements and the City Council had further discussion during the Budget Workshop on May 25, 2018. The City Council approved staff's recommendation with a modification to provide additional funding for tenant-landlord and community mediation services annually for a five-year period. With this modification, the recommended Budget Supplements total approximately \$4.6 million over twenty years, with approximately \$707,500 in FY 2018/19. A more complete description of each budget supplement is included in Volume I of the FY 2018/19 Recommended Budget.

New Budget Approach and Format

The FY 2018/19 Recommended Budget includes several changes that have been implemented to improve readability and transparency of the Recommended Budget. First, the budget has been rolled up to more aggregated service categories. While still organized by department and program, programs are now broken down by service delivery plans (groups of discrete similar services) as opposed to the more granular activity level. Second, personnel are now budgeted by Full Time Equivalent (FTE) as opposed to the long standing productive hours approach. This more widely-adopted approach simplifies our process and still provides needed detail on staffing costs and allocations. Furthering transparency, we are also now including a Department Budget Reconciliation to display the major changes, reconciling the FY 2017/18 Adopted Budget with the FY 2018/19 Recommended Budget.

The development of the Recommended Budget was a two-step process. First, departments submitted adjustments to their base budget needed to maintain current service levels, making changes for increasing costs as needed. The second step was the submission of Service Level Adjustments, which reflected additional resources required for increased service levels. Details on these adjustments can be found in each department section in the Recommended Budget.

Through this transition, we have retained our highly recognized Twenty-Year Resource Allocation Plans, and continue to analyze all budgetary impacts in a twenty-year context, ensuring decisions made today can be supported over the long run. For further information, Volume I: Summary & Operating Budget includes the twenty-year financial plans for all funds and the operating budget by department. Volume II: Projects presents specific project detail by project category.

May 25, 2018 Budget Workshop

Staff provided a detailed presentation on the City's FY 2018/19 Recommended Budget 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 2018/19 Recommended Budget, which was made available beginning May 9, 2018. Boards and commissions wishing to make comments, suggestions, or recommendations have the opportunity to testify at the June 12, 2018 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.

Sunnyvale Financing Authority Budget

The Sunnyvale Financing Authority must hold a public hearing and adopt, by resolution the FY 2018/19 Budget for Debt Service related to the Sunnyvale Office Center. This totals \$870,346.

FISCAL IMPACT

There is no fiscal impact to this public hearing. Budget adoption is scheduled for June 26, 2018.

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 for the FY 2018/19 Recommended Budget were published in the Sunnyvale Sun on May 25, June 1 and June 8. Legal ads for the Sunnyvale Financing Authority were published in the Sunnyvale Sun on June 1. Finally, the City's website has included the entire FY 2018/19 Recommended Budget and Resource Allocation Plan since May 9, 2018.

STAFF RECOMMENDATION

City Council:

Conduct a Public Hearing to obtain input from the public as 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 2018/19 Budget on June 26, 2018.

Sunnyvale Financing Authority:

Conduct a Public Hearing on the FY 2018/19 Budget. Council can also provide direction to staff on any issue requiring further review prior to the adoption of the FY 2018/19 Budget on June 26, 2018.

Prepared by: Kenn Lee, Assistant Director of Finance

Reviewed by: Timothy J. Kirby, Finance Director

Reviewed by: Teri Silva, Assistant City Manager

Approved by: Kent Steffens, City Manager

ATTACHMENTS

1. FY 2018/19 Appropriations Limit
2. Responses to Council Questions and Requests from the Budget Workshop