



City of Sunnyvale

Agenda Item-No Attachments (PDF)

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REPORT TO COUNCIL AND SUNNYVALE FINANCING AUTHORITY

SUBJECT

Annual City Council Public Hearing on FY 2019/20 Budget and Resource Allocation Plan and Establishment of Appropriations Limit and Sunnyvale Financing Authority Public Hearing on FY 2019/20 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 Originally enacted by Proposition 4 in 1979, the appropriations limit creates a ceiling for the appropriations of tax proceeds that can be made by the state, school districts,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 8, 2019, included in Volume I of the FY 2019/20 Recommended Budget. It is also provided as Attachment 1 to this report.

The FY 2019/20 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 2019/20 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 2019/20 Recommended Budget were published in the Sunnyvale Sun on May 24 and 31 as well as June 7, 2019. Legal ads for the Sunnyvale Financing Authority were published in the Sunnyvale Sun on June 7, 2019. The FY 2019/20 Recommended Budget and Resource Allocation Plan is scheduled for adoption on June 25, 2019.

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 2019/20 is \$243,596,754. 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 \$105.8 million for FY 2019/20, which means that the City has additional capacity allowed by law of approximately \$105.8 million before the limit is reached.

FY 2019/20 Recommended Budget

The FY 2019/20 Recommended Budget is focused on the City's projects and includes a balanced inventory of proposed projects that reflect the City's wide range of services. Therefore, in support of our community values and Council's strategic priorities, this budget allocates significant resources to projects as an investment in the City's infrastructure, public safety, and reducing greenhouse gas emissions. Additionally, this budget positions the City for sustainable, fiscally responsible growth.

This year's Recommended Budget includes:

- A portfolio of projects that make significant investments in the City's transportation, parks, and public facilities infrastructure.
- Significant investments in public safety including an additional \$22.3 million over the twenty-year plan for recruitment and training, and the acceleration of \$1.8 million for the replacement of two fire engines and the rescue unit with three years.
- The formalization of the first phase of the Civic Center Modernization project; appropriating \$212 million for design construction of a new City Hall.
- Investment in the City's transportation infrastructure, including allocation of funds to street and sidewalk maintenance from the Road Maintenance and Rehabilitation Act Senate Bill 1 (SB1) and Measure B half-cent sales tax.
- Continued investment in significant needs of our aging wastewater infrastructure including continued investment in the Sunnyvale Cleanwater Program.
- Investments in personnel-related costs to ensure we attract and retain a high-quality workforce.
- Closing the fiscal strategies included in the FY 2018/19 Budget required to balance the General fund over the long term.
- \$1.6 million in funding for the implementation of the City Climate Action Plan.

The FY 2019/20 Recommended Budget provides for a balanced budget of approximately \$493.2 million in total revenues and expenditures (including contributions to reserves). Of the expenditure total, \$302.2 million is for operating; \$96.9 million is for projects, project administration, and council service level set-aside; and \$9.6 million is for other expenditures including debt service, lease payments, and equipment. Planned contributions to reserves totals \$84.5 million citywide, which factors in drawdowns and additions to reserves across funds.

Projects

Over the course of a project's life, unspent funding is carried over from year-to-year. Accordingly, many construction projects in FY 2019/20 are projects that have continued from prior fiscal years with some project budgets increasing with an additional appropriation in FY 2019/20. Major capital projects include the rehabilitation of the Fair Oaks Avenue Overhead Bridge, Lakewood Branch Library, reconfiguration of Mathilda/237/101 intersection, and the Washington Community Swim Center. Infrastructure funding for the Civic Center Modernization project as well as funding for pavement and the replacement of sidewalks, curbs and gutters is also included. Other significant investments in infrastructure include \$214 million for the City's parks with all parks scheduled for renovation over the twenty-year period as well as project funding for the All-Inclusive Playground and Playground Equipment Replacement Project. Additionally, the FY 2019/20 Recommended Budget provides updated project budgets associated with Traffic and Transportation, the Cleanwater Program, and other projects necessary for the repair and/or rehabilitation of the City's infrastructure.

In addition to demonstrating the City's investment in infrastructure, the FY 2019/20 Recommended Budget also includes projects that demonstrate the City's commitment to other strategic initiatives, such as: implementing the IT Strategic Plan, preparing for district-based elections, developing and implementing the City's Climate Action Plan 2.0, and organizational development. Moreover, the budget earmarks \$84 million for public safety recruitment and training projects over the twenty-year period. The Recommended Budget includes projects to support affordable housing and human services as well.

Operating

While the FY 2019/20 Budget is focused on projects, the budget also includes significant funding toward operations totaling \$302.2 million in FY 2019/20. This budget continues the City's investment in attracting and retaining personnel by prudently planning for total compensation costs over the twenty-year period, including budgeting \$9 million over nine years in the City's recently established Pension Stabilization Trust Fund to reserve resources for pension cost uncertainty. Total compensation is estimated to increase approximately 6% in the FY 2019/20 Recommended Budget when compared to the prior year.

The Recommended Budget also reflects current and anticipated contractual costs as well as updated operating costs associated with project completion. Additionally, this budget continues the planned subsidy for the Golf and Tennis Operations fund with \$1.5 million programmed for FY 2019/20.

Reserves

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. The funds in which the budget assumes a planned drawdown of reserves include the General Fund, CDBG, Gas Tax, General Services, and Liability and Property. The use of reserves in those funds is offset by addition to reserves in other funds, including Housing, Park Dedication, Development Enterprise, and Capital Projects due to elevated Impact Fee revenue. In addition, the Infrastructure Renovation and Replacement Fund and the Utility funds (i.e. Wastewater and Water) have added to reserves due to funds being set aside for significant capital projects scheduled over the next two to three years.

We frequently discuss the Budget Stabilization Fund Reserve 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. Further, the FY 2019/20 General Fund Budget Stabilization Reserve achieves the policy requirement of being at a level of at least 15% of total revenues for the first two years even with the FY 2019/20 Recommended General Fund budget including a drawdown of the Budget Stabilization Fund Reserve of about \$4 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 \$13 million in FY 2028/29 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. 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 and the FY 2019/20 Recommended Budget meets this requirement.

Budget Supplements

For the FY 2019/20 Recommended Budget, thirteen budget supplements are presented for Council consideration. Staff recommended funding for eleven supplements and the City Council had further discussion during the Budget Workshop on May 23, 2019. The City Council approved staff's recommendation with a modification to Budget Supplement # 2. Budget supplement # 2 passed with a substitute motion to fund at a \$75,000 level. With this modification, the recommended Budget Supplements total \$632,000 in FY 2019/20 and approximately \$1.3 million over twenty years. A complete description of each budget supplement is included in Volume I of the FY 2019/20 Recommended Budget.

May 23, 2019 Budget Workshop

Staff provided a detailed presentation on the City's FY 2019/20 Recommended Budget at the Budget Workshop. At the workshop, Council asked for information and/or clarification on a few issues. These items are listed in Attachment 2, with responses or follow-up action noted as appropriate.

Boards and Commissions Budget Review

The City's boards and commissions have had the opportunity to review the FY 2019/20 Recommended Budget, which was made available beginning May 8, 2019. Boards and commissions wishing to make comments, suggestions, or recommendations have the opportunity to testify at the June 11, 2019 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 2019/20 Budget for Debt Service related to the Sunnyvale Office Center. This totals \$933,026.

FISCAL IMPACT

There is no fiscal impact to this public hearing. Budget adoption is scheduled for June 25, 2019.

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 2019/20 Recommended Budget were published in the Sunnyvale Sun on May 24 and 31 as well as June 7, 2019. Legal ads for the Sunnyvale Financing Authority were published in the Sunnyvale Sun on June 7, 2019. Finally, the City's website has included the entire FY 2019/20 Recommended Budget and Resource Allocation Plan since May 8, 2019.

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 2019/20 Budget on June 25, 2019.

Sunnyvale Financing Authority:

Conduct a Public Hearing on the FY 2019/20 Budget. The Board can also provide direction to staff on any issue requiring further review prior to the adoption of the FY 2019/20 Budget on June 25, 2019.

Prepared by: Felicia Silva, Budget Manager

Reviewed by: Timothy J. Kirby, Finance Director

Reviewed by: Teri Silva, Assistant City Manager

Approved by: Kent Steffens, City Manager

ATTACHMENTS

1. FY 2019/20 Appropriations Limit
2. Responses to Council Questions and Requests from the Budget Workshop