



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 2020/21 Budget and Resource Allocation Plan and Establishment of Appropriations Limit and Sunnyvale Financing Authority Public Hearing on FY 2020/21 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 XIIB 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 Originally enacted by Proposition 4 in 1979, the appropriations limit creates a ceiling for the appropriations of tax proceeds that can be made by the state, school districts,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 11, included in Volume I of the FY 2020/21 Recommended Budget. It is also provided as Attachment 1 to this report.

The FY 2020/21 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 2020/21 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 both the FY 2020/21 Recommended Budget and the Sunnyvale Financing Authority were published in the Sunnyvale Sun on May 22 and 29 as well as June 5. The FY 2020/21 Recommended Budget and Resource Allocation Plan is scheduled for adoption on June 23.

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 2020/21 is \$253,870,523. 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 \$140.5 million for FY 2020/21, which means that the City has additional capacity allowed by law of approximately \$140.5 million before the limit is reached.

FY 2020/21 Recommended Budget

The FY 2020/21 Recommended Budget is focused on the City's operations and on allocating both personnel resources as well as goods and services to maintain the City's wide range of services in support of our community values and Council's strategic priorities. Additionally, due to the business interruption and revenue loss associated with the COVID-19 pandemic, the Recommended Budget also includes \$24.6 million in proposed reductions in FY 2020/21 as well as ongoing cost savings measures across the twenty-year plan in order to position the City for fiscal sustainability over the long term.

This year's Recommended Budget:

- Revises revenues to reflect the economic downturn due to the COVID-19 pandemic
- Proposes cost saving measures to offset revenue loss
- Uses reserves strategically across the twenty-year financial plan
- Moderates utility rate increases
- Aligns resources to current operations
- Maintains salary and benefit assumptions
- Continues pension trust contributions
- Retains infrastructure investment contributions
- Continues the City's investment in recruitment and retention of employees
- Updates project and operating costs for the Lakewood Branch Library
- Updates the Civic Center Modernization project
- Includes funding for the startup of the new Headwork and Primary Treatment facilities at the Water Pollution Control Plant (WPCP)

The FY 2020/21 Recommended Budget provides for a balanced budget of approximately \$587.9 million in total revenues and expenditures (including contributions to reserves). Of the expenditure total, \$290.3 million is for operating; \$218.9 million is for projects, project administration, and council service level set-aside; and \$8.7 million is for other expenditures including debt service, lease payments, and equipment. Planned contributions to reserves total \$70.0 million citywide, which factors in drawdowns and additions to reserves across funds.

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, HOME, CDBG, CFD, and General Services. The Golf and Tennis Operations Fund has a planned General Fund subsidy transfer of \$1.9 million in FY 2020/21 to maintain a positive reserve balance.

The use of reserves in some 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 utility funds (i.e., Wastewater, Water, and Solid Waste) have added to reserves due to funds being set aside for significant capital projects scheduled over the next two to three years.

The Budget Stabilization Fund Reserve in the General Fund serves as the General Fund's economic volatility and cash flow reserve. In the presentation of the initial Recommended Budget, the projected Budget Stabilization Fund maintains a stable position throughout the twenty-year plan. Further, the FY 2020/21 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 2020/21 Recommended General Fund budget including a drawdown of the Budget Stabilization Fund Reserve of about \$2.9 million.

After adjusting for anticipated revenue decline due to the economic impacts of the COVID-19 pandemic in the near-term, expenditures outpace revenues (even with planned ongoing expenditure reductions of an average \$4.6 million annually through FY 2029/30) and the Budget Stabilization Fund is anticipated to drop to a low of \$9.8 million in FY 2029/30. However, Council took several actions during the Budget Workshop that improved the position of the reserve to a low point of \$12.4 million. Staff has included this version of the General Fund as Attachment 3. In FY 2030/31, revenues and expenditures become more aligned and the Budget Stabilization Fund begins to grow. At the end of the 20-year plan, the Budget Stabilization Fund balance is projected at approximately \$67.0 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 2020/21 Recommended Budget meets this requirement.

Budget Supplements

For the FY 2020/21 Recommended Budget, two budget supplements are presented for Council consideration. There are two items from Budget Supplement #1 that are included in the Recommended Budget - the Bike Rack Installation Program in Commercial Areas item is recommended for funding from the General Fund Council Service Level Set-Aside at \$20,000; and the second item, Updates to the Single-Family Home Design Techniques Document, with Development Enterprise funding at \$100,000. Additionally, during the Budget Workshop on May 21, Council moved to include \$50,000 from the Council Level Set-Aside for the Cricket Stadium at Baylands Park study issue.

Budget Supplement # 2 outlined proposed expenditure reductions of \$24.6 million across all funds. The City Council had further discussion during the Budget Workshop on May 21 and approved staff's recommendation with a modification to the General Fund proposal to add an additional \$2.0 million in reductions for FY 2020/21. Also, to note, item 2.09 from Budget Supplement #2 was not approved. With these actions, the General Fund's FY 2020/21 cost-savings measures total \$24.1 million and will be included in the Adopted Budget. A complete description of each budget supplement is included in Volume I of the FY 2020/21 Recommended Budget.

May 21, 2020 Budget Workshop

Staff provided a detailed presentation on the City's FY 2020/21 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 2020/21 Recommended Budget, which was made available beginning May 11. Boards and commissions wishing to make comments, suggestions, or recommendations have the opportunity to testify at the public hearing. Meeting minutes from the boards and commissions that held meetings to discuss the budget prior to submission of this report are included in Attachment 4. Recommendations to Council on the budget were voted on and are detailed in the minutes. 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 2020/21 Budget for Debt Service related to the Sunnyvale Office Center. This totals \$990,629.

FISCAL IMPACT

There is no fiscal impact to this public hearing. Budget adoption is scheduled for June 23, 2020.

PUBLIC CONTACT

Public contact was made by posting the Council agenda on the City's official-notice bulletin board outside City Hall, Sunnyvale Public Library and Department of Public Safety; and by making the agenda and report available at the Office of the City Clerk and on the City's Web site. Legal ads for both the FY 2020/21 Recommended Budget and the Sunnyvale Financing Authority were published in the Sunnyvale Sun on May 22 and 29 as well as June 5. Finally, the City's website has included the entire FY 2020/21 Recommended Budget and Resource Allocation Plan since May 11.

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 2020/21 Budget on June 23, 2020.

Sunnyvale Financing Authority:

Conduct a Public Hearing on the FY 2020/21 Budget. The Board can also provide direction to staff on any issue requiring further review prior to the adoption of the FY 2020/21 Budget on June 23, 2020.

Prepared by: Joseph Shin, Budget Analyst

Prepared by: Felicia Silva, Budget Manager

Reviewed by: Tim Kirby, Finance Director

Reviewed by: Teri Silva, Assistant City Manager

Approved by: Kent Steffens, City Manager

ATTACHMENTS

1. FY 2020/21 Appropriations Limit
2. Responses to Council Questions and Requests from the Budget Workshop
3. Revised General Fund Long-Term Financial Plan
4. Draft Board and Commission Meeting Minutes for the FY 2020/21 Recommended Budget