



City of Sunnyvale

Agenda Item-No Attachments (PDF)

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REPORT TO COUNCIL AND SUNNYVALE FINANCING AUTHORITY

SUBJECT

City Council Adoption of the FY 2020/21 Budget, Fee Schedule and Appropriations Limit, Approve Budget Modification No. 29 to Appropriate Community Development Block Grant CARES Funding, and Sunnyvale Financing Authority Adoption of the FY 2020/21 Budget

BACKGROUND

On May 11, 2020, the City Manager's FY 2020/21 Recommended Budget was provided to City Council and made publicly available on the City's website. On May 21, 2020, City Council held a budget workshop to review in detail the recommended budget and twenty-year resource allocation plan. On June 9, 2020, the City Council held a public hearing on the FY 2020/21 Recommended Budget, the establishment of the City's Appropriations Limit, and the Fee Schedule. Public comments were received at this hearing and no action was taken affecting the proposed budget. Notification of the hearing was also 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 2020/21 Budget, Fee Schedule, and Appropriations Limit.

On June 9, 2020 the Council amended the City's 2019 Housing and Urban Development (HUD) Action Plan with RTC No. 20-0526 and approved receipt of CDBG CARES funds for immediate assistance to households financially impacted by COVID-19. Those funds require appropriation for expenditure.

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 Sunnyvale Financing Authority Board held a public hearing on the Authority's FY 2020/21 Budget on June 9, 2020. The Authority must now consider the adoption of the FY 2020/21 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.1.8 Boards and Commissions should review the annual budget as appropriate to their area of interest and make recommendations to the City Council.
- 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.
- 7.1E.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.

Pursuant to Sunnyvale Charter Section 1305, at any meeting after the adoption of the budget, the City Council may amend or supplement the budget by motion adopted by affirmative votes of at least four members to authorize the transfer of unused balances appropriated for one purpose to another, or to appropriate available revenue not included in the budget.

ENVIRONMENTAL REVIEW

The adoption of the City and Sunnyvale Finance Authority's budgets and the City's FY 2020/21 Appropriations Limit are a fiscal activity that does not require review under the Environmental Quality Act (CEQA Guidelines, Section 15378(b)(4)).

The adoption by the City's FY 2020/21 Fee Schedule is exempt from the California Environmental Quality Act pursuant to Public Resources Code Section 21080(b)(8), because the fees, rates and charges are for the purposes of (1) meeting operating expenses, including employee wage rates and fringe benefits; (2) purchasing or leasing supplies, equipment or materials; (3) meeting financial reserve needs and requirements; (4) obtaining funds for capital projects, necessary to maintain service within the existing service areas; and/or (5) obtaining funds necessary to maintain intra-city transfers.

DISCUSSION

Four actions by the Council are required at tonight's meeting, and one action is required by the Sunnyvale Financing Authority. First, the Council must consider and take action on the proposed fee changes. The proposed Fee Schedule is presented as Exhibit A under Attachment 1 - FY 2020/21 Fees, Rates, and Charges Resolution.

Second, the Council must adopt the FY 2020/21 Budget by June 30, 2020. 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 Council must adopt, by resolution, the FY 2020/21 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.

Fourth, the Council must approve Budget Modification No. 29 to appropriate \$350,000 in CDBG CARES (CDBG-CV) funding per Council's amendment of the City's 2019 Housing and Urban Development (HUD) Action Plan with RTC No. 20-0526 approving receipt of funds for immediate assistance to households financially impacted by COVID-19.

Lastly, the Sunnyvale Financing Authority must adopt, by resolution, the FY 2020/21 Budget for Debt Service related to the Sunnyvale Office Center, which totals \$990,629. 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 a 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 RTC No. 20-0347, presented on June 9, 2020. During the June 9 public hearing, Council took public input and there was no action taken that affected the fees proposed.

Summary of 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.

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.

Updates to FY 2020/21 Recommended Budget

It should be noted that the amounts proposed for adoption have changed subsequent to the public hearing. This is due to reconciling authorized position changes that occurred after development of the Recommended Budget, as well as adjusting project and operational budgets to incorporate items from Budget Supplement # 1 and Budget Supplement # 2 that were moved by Council to be included in the Adopted Budget during the May 21, 2020 Budget Workshop. Budget modifications adopted after delivery of the Recommended Budget have also been included.

The updated FY 2020/21 Budget reflects approximately \$597.5 million in total revenues (including contributions from reserves from the Workers' Compensation funding change) and expenditures (including contributions to reserves). Of the expenditure total, \$302.2 million is for operating; \$218.7 million is for projects, project administration, budget supplements 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 \$67.8 million citywide, which factors in drawdowns and additions to reserves across funds.

The primary change in the contribution to reserves is associated with a misstatement of the \$1.6 M in savings from the shift in funding from the General Fund to the Solid Waste Fund. Staff inadvertently counted this as an overall savings to the City, when in fact it is a funding change. The correction does not affect the General Fund savings or the Solid Waste Fund reserve position as it was correctly portrayed in the long-term financial plan, but not in the budget summary. This resulted in a double counting of the savings. The remaining contribution to reserves is made up of the other reconciling items noted above. Overall, all City Funds remain balanced and the General Fund remains as presented with a Budget Stabilization Fund low point of \$12.4 million in FY 2029/30 after including the additional cost-saving measures and other Council actions from the May 21 Budget Workshop in FY 2020/21.

Budget Supplements

For the FY 2020/21 Adopted Budget, two budget supplements are presented. There are three items from Budget Supplement #1 that are included in the Adopted 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 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. Also, to note, item 2.09 from Budget Supplement #2 (the reduction to the Term Limited Administrative Aide in the Office of the City Manager) was not approved. These actions have been incorporated into the FY 2020/21 Adopted Budget and across the twenty-year financial plan as appropriate. A complete description of each budget supplement is included in Volume I of the FY 2020/21 Recommended Budget.

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 \$1.7 million in FY 2020/21 to maintain a positive reserve balance.

The use of reserves in some funds is offset by an 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. 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.

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 \$12.4 million in FY 2029/30 after including the additional cost-saving measures and other Council actions from the May 21 Budget Workshop. 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 \$67.4 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.

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 2020/21, 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 2020/21 is \$253,870,523 for Expenditures subject to the appropriations limit excluding 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 \$131.9 million for FY 2020/21, which means that the City has additional capacity allowed by law of approximately \$131.9 million before the limit is reached. Note that the Appropriations Limit attached has been amended from the original included in the June 20, 2020 Council Meeting (RTC No. 20-0344) and includes any updates as applicable to the changes outlined above.

FISCAL IMPACT

The City Manager's FY 2020/21 Recommended Budget presents a balanced allocation of resources designed to advance the policy priorities set by Council, continues providing a high level of service, fund projects, and begin to meet the increasing demands of a growing economy while maintaining a sustainable financial position for the City. Budget Modification No. 29 allows for the appropriation for CDBG CARES act funding of \$350,000.

Budget Modification No. 29 FY 2019/20

	Current	Increase/ (Decrease)	Revised
Community Development Block Grant Fund			
<u>Revenue</u>			
CDBG CARES (CDBG-CV)	\$0	\$350,000	\$350,000
<u>Expenditure</u>			
New Project: COVID-19 Rent Relief and Community Support Program	\$0	\$350,000	\$350,000

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 9, 2020, the City Council held a public hearing on the FY 2020/21 Recommended Budget and Resource Allocation Plan, the Appropriations Limit, and the proposed Fee Schedule. Council took public input and there was no action taken that affected the FY 2020/21 Recommended Budget.

On June 9, 2020, the Sunnyvale Financing Authority held a public hearing on the FY 2020/21 Recommended Budget. The Sunnyvale Financing Authority took input from the public. No action affecting the FY 2020/21 Recommended Budget was taken.

Boards and Commissions Budget Review

The FY 2020/21 Recommended Budget was made available to boards and commissions on May 11, 2020. Meeting minutes from the boards and commissions that held meetings to discuss the budget prior to submission of this report are included in Attachment 5. 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:
Adopt 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 2020/21 Fee Schedule, Budget, and Appropriations Limit.
2. Sunnyvale Financing Authority:
Adopt the FY 2020/21 Budget Resolution (Sunnyvale Financing Authority) presented as Attachment 4 to the report.
3. City Council:
Adopt the resolutions specified in Alternative 1 with amendments to the FY 2020/21 Budget, FY 2020/21 Fee Schedule or revisions to the Appropriations Limit. (e.g., 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).
4. Approve Budget Modification No. 29 in the amount of \$350,000.

STAFF RECOMMENDATION

City Council:

Staff recommends Alternatives 1 and 4: Adopt 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 2020/21 Fee Schedule, Budget, and Appropriations Limit and Approve Budget Modification No. 29.

Sunnyvale Financing Authority:

Staff recommends Alternative 2: Adopt the FY 2020/21 Budget Resolution (Sunnyvale Financing Authority) presented as Attachment 4 to the report.

Prepared by: Felicia Silva, Budget Manager

Reviewed by: Tim Kirby, Director of Finance

Reviewed by: Teri Silva, Assistant City Manager

Approved by: Kent Steffens, City Manager

ATTACHMENTS

1. FY 2020/21 Fees, Rates, and Charges Resolution, including Exhibit A - FY 2020/21 Fee Schedule
2. FY 2020/21 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 2020/21 Appropriations Limit Resolution, including Exhibit A - Appropriations Limit
4. Sunnyvale Financing Authority FY 2020/21 Budget Resolution, including Exhibit A
5. Draft Boards and Commissions Meeting Minutes for the FY 2020/21 Recommended Budget