



# City of Sunnyvale

## Agenda Item-No Attachments (PDF)

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### **REPORT TO COUNCIL**

#### **SUBJECT**

Annual City Council Public Hearing on FY 2021/22 Budget and Resource Allocation Plan and Establishment of Appropriations Limit and Sunnyvale Financing Authority Public Hearing on FY 2021/22 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 Originally enacted by Proposition 4 in 1979, the appropriations limit creates a ceiling for the appropriations of tax proceeds that can be made by the state, school districts,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 7, included in Volume I of the FY 2021/22 Recommended Budget. It is also provided as Attachment 1 to this report.

The FY 2021/22 Recommended Budget also includes the annual budget for the Sunnyvale Financing Authority. The only appropriation for the Financing Authority is the annual debt service payment for the new civic center. The governing board of the Joint Powers Agency, the Sunnyvale Financing Authority, must also hold a public hearing for the Authority's FY 2021/22 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 2021/22 Recommended Budget and the Sunnyvale Financing Authority were published in the Sunnyvale Sun on May 21 and 28 as well as June 4. The FY 2021/22 Recommended Budget and Resource Allocation Plan is scheduled for adoption on June 15.

## **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 2021/22 is \$264,577,591. 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 \$99.1 million for FY 2021/22, which means that the City has additional capacity allowed by law of approximately \$99.1 million before the limit is reached.

## **FY 2021/22 Recommended Budget**

The FY 2021/22 Recommended Budget is focused on the City's projects (capital projects, strategic initiatives, and multi-year projects with cyclical funding over the twenty-year planning period) in order to sustain and improve our infrastructure and public services. Additionally, as part of the normal course of budget development, some operating budget adjustments are included.

This year's Recommended Budget:

- Continues with moderated revenues to reflect downturn due to COVID-19; includes assumptions for economic recovery
- Continues some cost-saving measures to offset revenue loss
- Uses reserves strategically
- Includes \$29.5M in American Rescue Act funding
- Updates project timelines and assumptions; few new projects
- Continues investment in infrastructure and stated priorities
- Maintains salary and benefit assumptions
- Updates project operating costs
- Restores some prior year cost-savings measures, including unfreezing some positions

The FY 2021/22 Recommended Budget provides for a balanced budget of approximately \$531.9 million in total revenues and expenditures (including \$15M in use of reserves). Of the expenditure total, \$89.1 million is for operating; \$176.3 million is for projects, project administration, and council service level set-aside; and \$66.5 million is for other expenditures including debt service, lease payments, and equipment. Planned use of reserves total \$15.0 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 includes the General Fund, Gas Tax, Infrastructure, Development Enterprise, Wastewater, Solid Waste, as well as the Golf and Tennis Fund, and General Services. The Golf and Tennis Operations Fund also has a planned General Fund subsidy transfer of \$1.5 million in FY 2021/22.

The use of reserves in some funds is offset by addition to reserves in other funds, including Housing, Park Dedication, and Capital Projects due to anticipated collection of Impact Fee revenue. In addition, Water is expected to add to reserves.

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 2021/22 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 2021/22 Recommended General Fund budget including a drawdown of the Budget Stabilization Fund Reserve of about \$3.3 million in FY 2021/22 and on average across the first ten years of the long-term financial plan.

The low point of the Budget Stabilization Fund Reserve is in FY 2031/32 at \$18.9 million, before 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 \$53.2 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 2021/22 Recommended Budget meets this requirement.

### ***Budget Supplements***

For the FY 2021/22 Recommended Budget, two budget supplements are presented for Council consideration. There are three items from Budget Supplement No.1 that are included in the Recommended Budget to be funded from the General Fund - Housing Mitigation Fee Study for \$60,000, Real Property Tax Ballot Measure Study for \$50,000, and Pedestrian and Bicycle Facility Installation on Tasman Study at \$200,000. Additionally, during the Budget Workshop on May 20 Council moved to include funding for two additional Study Issues to be funded by the General Fund - Poplar Avenue Sidewalk Study for \$75,000 and Smart Cities Initiatives Study at \$125,000.

Budget Supplement No. 2 outlines funding options for Council to either add additional savings to the budget or add funding for certain items. No action was required of Council; however, the City Council had further discussion during the Budget Workshop on May 20 and moved to include one item (2.13 - Citywide Tree Trimming) from Budget Supplement No. 2 in the budget. This action yields an additional savings of \$310,500 in the General Fund. A complete description of each budget supplement is included in Volume I of the FY 2021/22 Recommended Budget.

### **May 20, 2021 Budget Workshop**

Staff provided a detailed presentation on the City's FY 2021/22 Recommended Budget at the Budget Workshop. At the workshop, Council asked for information and/or clarification on several 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 2021/22 Recommended Budget, which was made available beginning May 7. 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 3. 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 2021/22 Budget for Debt Service related to the new civic center bond issuance. This totals \$5,055,425.

### **FISCAL IMPACT**

There is no fiscal impact to this public hearing. Budget adoption is scheduled for June 15, 2021.

### **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. In addition, the agenda and report are available at the Office of the City Clerk and on the City's Web site. Legal ads for both the FY 2021/22 Recommended Budget and the Sunnyvale Financing Authority were published in the Sunnyvale Sun on May 21 and 28 as well as June 4. Finally, the City's website has included the

entire FY 2021/22 Recommended Budget and Resource Allocation Plan since May 7.

### **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 2021/22 Budget on June 15, 2021.

Sunnyvale Financing Authority:

Conduct a Public Hearing on the FY 2021/22 Budget. The Board can also provide direction to staff on any issue requiring further review prior to the adoption of the FY 2021/22 Budget on June 15, 2021.

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 2021/22 Appropriations Limit
2. Responses to Council Questions and Requests from the Budget Workshop
3. Draft Board and Commission Meeting Minutes for the FY 2021/22 Recommended Budget