



# 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 2021/22 Budget, Fee Schedule and Appropriations Limit, and Sunnyvale Financing Authority Adoption of the FY 2021/22 Budget

#### **BACKGROUND**

On May 6, 2021, the City Manager's FY 2021/22 Recommended Budget was provided to City Council. It was made publicly available on the City's website on May 7. On May 20, City Council held a budget workshop to review in detail the recommended budget and twenty-year resource allocation plan. On June 8, the City Council held a public hearing on the FY 2021/22 Recommended Budget, the establishment of the City's Appropriations Limit, and the Fee Schedule. Public comments were received at this hearing. At the hearing, Council directed staff to return with an analysis to move funding for the construction and ongoing maintenance costs for a new Park at 1142 Dhalia Ct. forward in the long-term financial plan, and to consider adding a Manager of Equity, Access and Inclusion position as a one-year pilot program. 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 2021/22 Budget, Fee Schedule, and Appropriations Limit.

The FY 2021/22 Recommended Budget also includes the annual budget for the Sunnyvale Financing Authority, the governing body established to provide the debt service. The only appropriation for the Financing Authority is the annual debt service payment for the new civic center bond issuance. The Sunnyvale Financing Authority Board held a public hearing on the Authority's FY 2021/22 Budget on June 8, 2021. The Authority must now consider the adoption of the FY 2021/22 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:***

- I. To make financial decisions over a 20-year planning horizon to allow decision-makers to consider the long-range implications of short-range budgeting decisions.
- 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.

**ENVIRONMENTAL REVIEW**

The adoption of the City and Sunnyvale Finance Authority's budgets and the City's FY 2021/22 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 2021/22 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**

Three 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 2021/22 Fees, Rates, and Charges Resolution.

Second, the Council must adopt the FY 2021/22 Budget by June 30, 2021. 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 2021/22 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.

Lastly, the Sunnyvale Financing Authority must adopt, by resolution, the FY 2021/22 Budget for Debt Service related to the new civic center bond issuance, which totals \$5,055,425. 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 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. 21-0615, presented on June 8, 2021. During the June 8 public hearing, Council took public input and there was no action taken that affected the fees proposed.

### **Summary of 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 \$28.1M in American Rescue Act funding
- Updates project timelines and assumptions
- 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 Adopted Budget presents a balanced budget of approximately \$528.9 million in total revenues and expenditures (including \$12.1 million in use of reserves). Of the expenditure total, \$289.1 million is for operating; \$176.5 million is for projects, project administration, and council service level set-aside; and \$63.3 million is for other expenditures including debt service, lease payments, and equipment. Planned use of reserves total \$12.1 million citywide, which factors in drawdowns and additions to reserves across funds

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

It should be noted that the amounts proposed for adoption have changed subsequent to the public hearing. This is due to reconciling items, updating 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 No. 1 and Budget Supplement No. 2 that were moved by Council to be included in the Adopted Budget during the May 20 Budget Workshop. Budget modifications adopted after delivery of the Recommended Budget have also been included.

There are a few significant updates between the FY 2021/22 Recommended and Adopted budgets:

1) There is a revenue reduction in the City's American Rescue Plan Act (ARPA) COVID-19 economic relief allocation in the General Fund. The initial ARPA allocation estimate was \$29.5 million, but the final allocation released by the U.S. Department of Treasury using the Community Development Block Grant formula is \$28.1 million. With this change and other reconciling items noted above in the General Fund, the Budget Stabilization Fund reserve low point is now \$17.4 million in FY 2031/32 versus the estimated \$18.9 million after Council action from the May 20 Budget Workshop. Attachment 6 shows the revised General Fund financial plan incorporating this change.

2) The transfer to the Employee Benefit Fund associated with retiree medical and the unfunded accrued liability pension costs was reduced from \$45.7 million to \$42.4 million. Staff realized that internal service transfers were included in the initial transfer amount in the Recommended Budget and would therefore double count the expense since department operating budgets include the cost of internal services.

3) The City's portion of costs associated with the new AMD park were not accurately reflected in the Land Acquisition Set-Aside Reserve in the Park Dedication Fund. The City provided an \$8 million Park Dedication Fund fee credit to the developer in exchange for land for the new park, therefore no appropriation is needed because there is no actual City expenditure required. This transaction did, however, affect the two reserve balances and the revised Park Dedication Fund financial plan reconciles the Land Acquisition Set-Aside Reserve and Capital Reserve to account for this transaction. An updated Park Dedication Fund financial plan is attached (Attachment 7).

### ***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. It is important to note that the Tasman Study, the Poplar Sidewalk, and the Smart Cities Study all have unidentified ongoing operating or replacement costs that could impact the City's twenty-year financial plans after completion of the study.

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.

### ***Direction from the Budget Public Hearing***

At the public hearing on June 8, Council provided direction to staff to do a brief analysis of two separate actions, one to accelerate the construction of a new park at 1142 Dhalia Court (Corn Palace Park). The other was related to hiring of an equity, Access and inclusion manager.

### Corn Palace Park

Staff analyzed the ability to move the design and construction of the Corn Palace Park forward. It was originally planned to start in FY 2038/39 and the proposal is to move it forward to FY 2022/23. Moving the project forward can be done from a construction funding perspective, as the project is funded by Park Dedication Fee revenue allocated to the Land Acquisition Reserve for new parks and only minimally affects the plan by requiring the deferral of an undesignated \$25M land acquisition by one year.

Funding for maintenance of the park, which is two acres, is roughly estimated to be approximately \$70,000 per year. This will impact the General Fund, adding \$1.5M in costs over twenty years and bringing the low point of the Budget Stabilization Fund to \$16.8 M.

The most significant impact is the deferral of other projects to move this project forward. The Corn Palace Park Project would be managed by the Public Works Project Administration (PAS) team, which typically carries approximately 60-70 multi-year Capital Improvement Projects (CIP) in design at any given time. The Corn Palace Park Project (834330) is planned to be a two-year project with design in the first year and construction in the second year and is currently scheduled to begin in FY 2037/38. In order to accommodate moving the Project forward to begin in FY 2022/23, staff reviewed the projects which were included in the CIP to begin in FY 2022/23 and which will be managed by PAS. There are a number of projects including the following:

- 818550: Park Building - Rehabilitation (Various Locations)
- 820270: Playground Equipment Replacement (Greenwood Manor Park)
- 826800: Downtown Wayfinding and Gateways
- 830580: Emergency Generator Installation (Senior Center, Community Center Theater, and Corporation Yard)
- 820190: Traffic Signal Hardware and Wiring (Fair Oaks/California and Bernardo/Heatherstone)

None of these projects had a direct equivalency for swapping with the Corn Palace Park Development Project. However, staff would propose the following alternative for consideration of moving the Corn Place Project to begin in FY 2022/23:

- Shift the Parks Buildings - Rehabilitation project out by two years
- Shift the Downtown Wayfinding and Gateways project out by two years
- Move Emergency Generator Installation funding from FY 2022/23 and combine it with the funding in FY 2024/25 to create a larger project in FY 2024/25

This alternative would push out several items from their typical infrastructure replacement cycle. The generators for the various buildings could experience issues during this time; however, they are currently running effectively with no indication of failure. Also, the Parks Buildings project is for roofing repair, so issues could arise with the shift in years for these maintenance activities.

### Equity, Access and Inclusion Manager Position

In February 2021, the City Council established Equity, Access and Inclusion as one of its strategic priorities. The recommended budget included \$135,000 annually to fund citywide training, cultural events, and the formation of an internal team. No additional staff resources were added to support this new program given current resource constraints.

For the addition of a Manager of Equity, Access and Inclusion, staff has estimated a budget of \$240,000. As proposed, this change would require the development of a new job classification. Based on staff's recent experience, the process to develop a new job classification and obtain approval by Council will take approximately 2-3 months. The process includes preparing a draft job specification, sending the draft and salary recommendation to the appropriate bargaining unit for review/consultation. Bargaining units have an opportunity for review/consult with Human Resources for any questions and/or comments related to the draft job title and specification before the draft recommendations are finalized.

Upon approval of the City Manager, the finalized classification title and salary are submitted for City Council review and adoption to the Salary Resolution and Schedule of Pay. After the classification has been created, the recruitment and hiring process should take approximately 2-3 months.

Establishment of this position would support equity, Access and inclusion efforts. However, this initiative is not one time in nature. Council Policy requires that decisions be made within the context of the twenty-year plan to allow decision makers to consider the impact of short-term budget decisions on the long-term fiscal health of the City. At this level of funding, were the program to be continued, it would bring the General Fund Budget Stabilization Fund down to only \$5.6 million in FY 2031/32, or 5% of resources in that year.

Additionally, staffing for a one-year pilot program will be challenging to recruit based on the unique skill set for this position. A one-year term-limited appointment specific to FY 2021/22 would expire on June 30, 2022, regardless of when the hire was made, meaning the incumbent may have less than one year to accomplish goals and demonstrate effectiveness. Staff's experience with limited-term positions is that incumbents typically seek out permanent or longer-term employment before the end of the limited term.

Due to the time needed to implement a new position, and for that person to get up to speed, staff recommends that if Council decides to add this position this one-time funding be held in a project so that it carries forward to the next fiscal year if unspent. This would allow the limited term to end one year after appointment rather than at the end of Fiscal Year 2021/22 as specified in the Council motion on June 8. Staff also recommends Council consider the ongoing cost if the program if continued, which is likely.

As an alternative to adding a full-time position, staff consider other ways that progress on this strategic priority could be accelerated. The addition of \$100,000 to fund support from a consultant specialized in equity, access and inclusion would increase the effectiveness of the City's internal team and could significantly advance our goals of operationalizing equity in city services. The consultant would develop a strategic plan for addressing systemic inequity, including scaling the City's program. They would also guide the City in:

- Examining historic and current racial inequities in Sunnyvale
- Conducting internal and external surveys on race and equity
- Developing Sunnyvale's racial equity framework
- Creating internal and external buy-in for Sunnyvale's equity, Access and inclusion efforts
- Identifying racial equity tools and best practices throughout the organization
- Reviewing existing and new policies and practices using an equity lens

Staff does not recommend either approach as \$135,000 in first time annual funding has been included in the Recommended Budget. However, funding an additional \$100,000 for consulting services would bring total funding for this new service to \$235,000 for FY 2021/22 with an ongoing \$135,000 per year. Due to recruiting challenges and limited duration of a new position discussed above, staff feels that augmenting the budget with consulting services would result in more progress over the next year. This approach would also align the expansion of the program and potential addition of a manager position to be included in a future 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. Some of the main 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. 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.

After adjusting for the change in ARPA allocation, the Budget Stabilization Fund is anticipated to drop to a low of \$17.4 million in FY 2031/32. After FY 2031/32, 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 \$51.5 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 Adopted 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 2021/22, 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 2021/22 is \$269,920,441 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 \$113 million for FY 2021/22, which means that the City has additional capacity allowed by law of approximately \$113 million before the limit is reached. Note that the Appropriations Limit attached has been amended from the original included in the June 8, 2021 Council Meeting (RTC No. 21-0212) and includes any updates as applicable to the changes outlined above.

### **FISCAL IMPACT**

The City Manager's FY 2021/22 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.

### **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 Office of the City Clerk, and on the City's website.

On June 8, 2021, the City Council held a public hearing on the FY 2021/22 Recommended Budget and Resource Allocation Plan, the Appropriations Limit, and the proposed Fee Schedule. On June 8, 2021, the Sunnyvale Financing Authority held a public hearing on the FY 2021/22 Recommended Budget. The Sunnyvale Financing Authority took input from the public. No action affecting the FY 2021/22 Recommended Budget was taken.

### **Boards and Commissions Budget Review**

The FY 2021/22 Recommended Budget was made available to boards and commissions on May 7, 2021. 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 2021/22 Fee Schedule, Budget, and Appropriations Limit.



2. Sunnyvale Financing Authority:  
Adopt the FY 2021/22 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 2021/22 Budget (e.g., including the Corn Palace Park Project and hiring of a Manager of Equity, Access and Inclusion), FY 2021/22 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).

### **STAFF RECOMMENDATION**

City Council:

Staff recommends Alternatives 1: 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 2021/22 Fee Schedule, Budget, and Appropriations Limit.

Sunnyvale Financing Authority:

Staff recommends Alternative 2: Adopt the FY 2021/22 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: Jaqui Guzmán, Deputy City Manager

Approved by: Kent Steffens, City Manager

### **ATTACHMENTS**

1. FY 2021/22 Fees, Rates, and Charges Resolution, including Exhibit A - FY 2021/22 Fee Schedule
2. FY 2021/22 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 2021/22 Appropriations Limit Resolution, including Exhibit A - Appropriations Limit
4. Sunnyvale Financing Authority FY 2021/22 Budget Resolution, including Exhibit A
5. Draft Boards and Commissions Meeting Minutes for the FY 2021/22 Recommended Budget
6. Revised FY 2021/22 Recommended General Fund Financial Plan
7. Revised FY 2021/22 Recommended Park Dedication Fund Financial Plan