

Budget Summary Overview

I. FY 2023/24 Budget

There are three (3) key elements to the City’s budget and resource allocation plan that provide the financial picture of the City for both the short and long term: revenues, expenditures, and reserves. Accordingly, the City of Sunnyvale FY 2023/24 Adopted Budget totals \$608.6 million and includes \$335.2 million for City operations, \$172.8 million in project and equipment expenditures, as well as contributions to the City’s reserves of \$24.5 million. As a full-service city providing a host of essential services to the community, budgeted expenditures are funded from multiple sources including general taxes and revenues (General Fund), fee supported Enterprise Funds (Water, Wastewater, Solid Waste, Development Enterprise, etc.), restricted Special Revenue Funds (Housing, Park Dedication, Gas Tax, various grants, etc.), and significant loans and debt proceeds related to major capital projects.

The graphs below show revenues by source and use.

Figure 1. Expenditures by Type – All Funds*

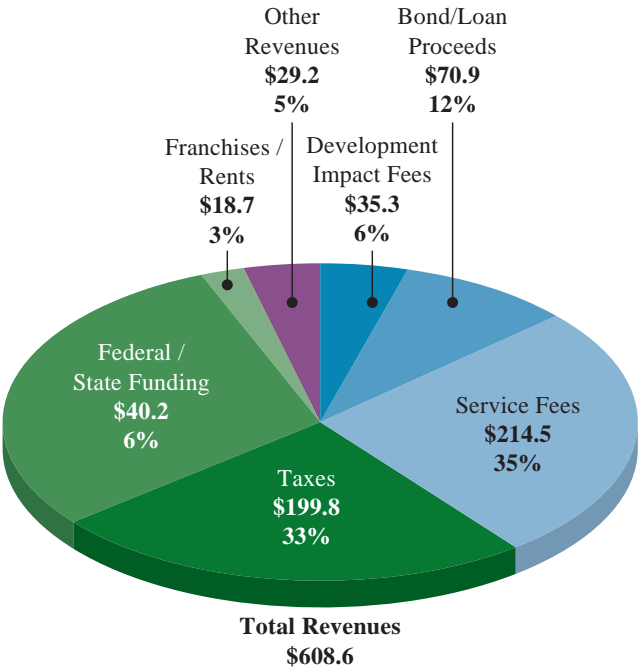
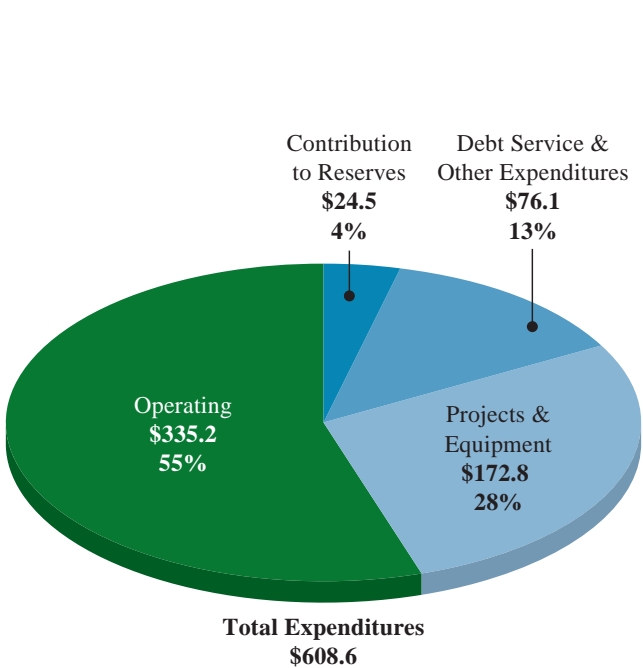


Figure 2. Revenues by Source – All Funds*



* in millions

II. Budget Development Process

The City performs a detailed review of operations and projects in alternating years. The FY 2023/24 Adopted Budget focuses on the projects budget, which is comprised of capital projects, strategic initiatives, and multi-year projects with scheduled funding over 20 years. The budget development process is the same whether an operating or projects budget year and consists of the three main phases below. More information on the budget development process can be found in the Budget Guide.

- 1) Baseline budget review phase – to evaluate organizational structure and re-align resources within existing service levels
- 2) Adjusted baseline phase – to revise revenue and expenditure assumptions to maintain existing commitments; and
- 3) Service level adjustment phase – to consider service level enhancements and/or reductions.

III. Public Engagement on the Budget

The City Council engages the public on budget development through several avenues. The most significant is the [City Council's Strategic Workshop](#) each year to discuss Council Policy Priorities. Early in the calendar year, Council receives a progress update from staff on current Council Policy and Priorities. In that meeting, Council seeks public input and provides direction to staff regarding Council's priorities for the upcoming year as well as resourcing of these priorities.

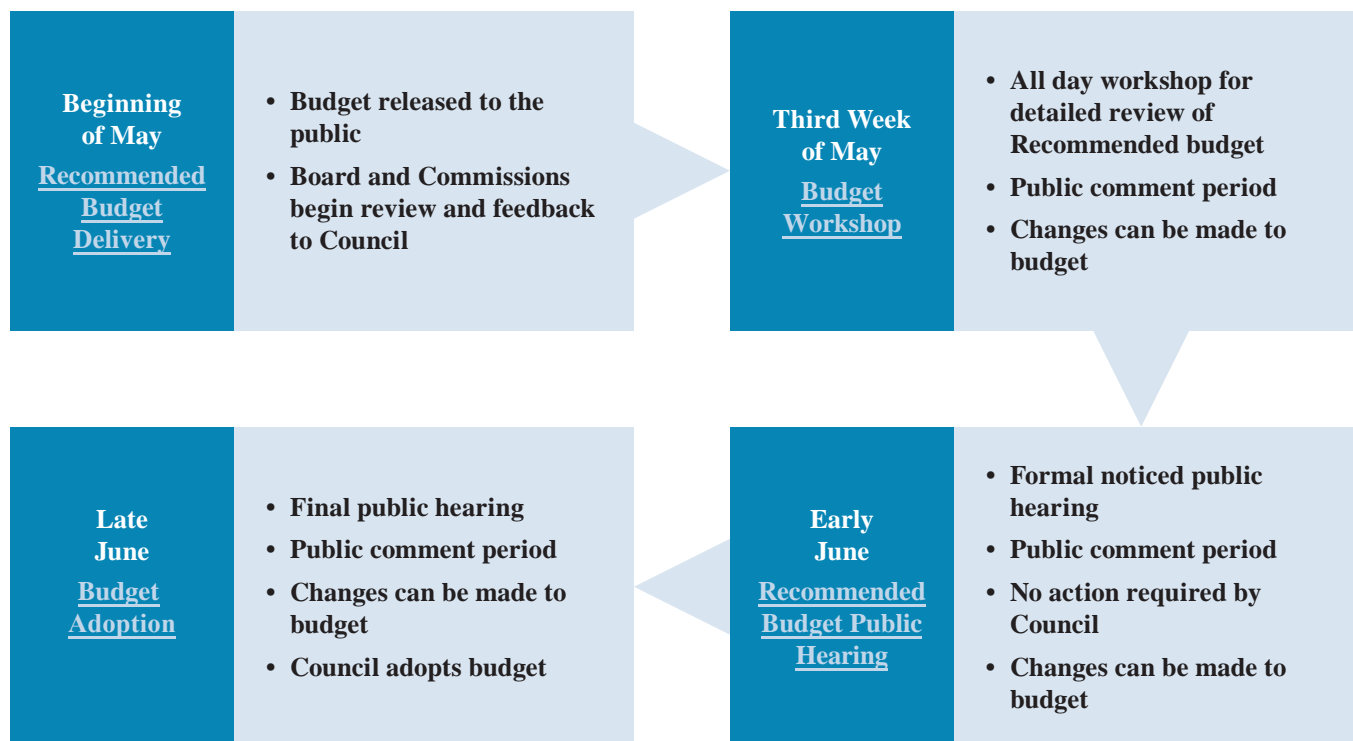
Council Policy Priorities considered with the FY 2023/24 Budget:

- Civic Center Campus Modernization
- Ability of Infrastructure to Support Development and Traffic
- Accelerating Climate Action, the Active Transportation Plan and Vision Zero Plan
- Support the Unhoused Community
- Downtown Sunnyvale
- Equity, Access, and Inclusion

The Study Issues (topic of concern that may result in new or revised policy) and Budget Proposals (proposal to add, delete, or change service levels) processes are another key piece of public engagement on the City's budget.

City Council and staff use these formal processes to identify, prioritize, and manage the review of suggested topics during each calendar year. To this end, Council holds an annual [Study Issues and Budget Proposals public hearing](#) and workshop, and makes a decision on how to move forward and if they should be referred to the Recommended Budget for funding consideration.

Lastly, the budget itself goes through a public and transparent process.



IV. Budget Document

The budget document is organized into two volumes containing the following:

Volume 1 – Summary and Operating Budget:

- City Manager’s Message;
- Budget Guide, Budget Summary, City Information, Statistics, Appropriations, Debt Service;
- Twenty-year financial plans with preceding narrative for each of the City’s appropriated funds;
- Department Operating Budgets with service description, service highlights, and performance indicators tied to the City’s General Plan goals; and
- Budget Supplements (proposals for new initiatives or service level changes that require specific Council approval).

Volume 2 – Projects Budget

- Project Budget Guide;
- Budgeted projects are organized by project category (e.g.; Traffic and Transportation Projects) with a brief narrative highlighting key projects in each section; and
- Individual project budgets with a description of each project’s scope, fiscal impact, and relevant General Plan goals.

FY 2023/24 Budget Highlights

This section highlights key assumptions and changes included in this Adopted budget for revenue, expenditures, and reserves. Detailed discussions regarding revenues, expenditures, and reserves can be found throughout the Adopted Budget.

I. City Revenues and Resources

The City relies on many sources of revenues and the strategic use of reserves to fund services to the community at a stable and sustainable level. The largest revenue categories are taxes and service fees, followed by federal and state revenues (e.g., Gas Tax) as well as bond and loan proceeds being used to fund major capital initiatives.

Taxes

Taxes, imposed by a government for the purpose of raising revenue to support governmental activities, are distinct from fees in that a tax does not need to be levied in proportion to the specific benefit received by a person or property. Almost all of the City’s tax revenues are general taxes received by the General Fund, the primary general purpose fund of the City. Taxes account for about 85% of revenues in the General Fund, supporting many of the City’s most visible and essential services such as police, fire, road maintenance, libraries, and parks maintenance.

Figure 3 – Top Tax Revenues

Revenue Source	2020/21 Actual	2021/22 Actual	2022/23 Budget	2022/23 Revised Projection	2023/24 Proposed Projection
Property Tax*	\$101,296,792	\$113,499,852	\$110,227,140	\$114,315,019	\$117,633,140
Sales Tax*	26,089,903	35,801,316	29,876,069	34,915,338	34,286,478
Transient Occupancy Tax*	5,192,090	10,584,492	11,893,731	14,125,965	17,390,205
Utility Users Tax*	8,590,351	8,594,301	9,021,519	9,500,000	9,697,950
Construction Tax*	2,454,170	5,548,089	4,072,154	4,072,154	4,333,550
Gas Tax	3,400,604	3,608,091	4,447,916	3,975,339	3,975,310
RMRA Funds ¹	2,901,337	3,109,280	3,506,434	3,388,440	3,761,168
Measure B Funds ²	2,281,526	1,873,207	3,511,869	3,511,869	3,511,869
Total Top Tax Revenues	\$152,206,773	\$182,618,628	\$176,556,832	\$187,804,124	\$194,589,670

* General Fund tax

1. Road Maintenance and Rehabilitation Funds (Senate Bill 1)

2. Measure B is a half cent County-Wide sales tax for transportation funding; does not include grants or allocation carryover from prior years.

The current year's projections are also updated during budget development. Based on year-to-date figures, FY 2022/23 top tax revenue will increase by approximately \$5.2 million over the prior fiscal year due to the recovering local economy and strong property value growth.

Property Tax revenue has experienced significant growth over the past three fiscal years. Despite a drop from the peak valuation in the second quarter of 2022, the median Sunnyvale home sale price remained strong at \$2.1 million as of the first quarter of 2023 and the overall assessed property value increased 8.3% for FY 2022/23. For FY 2023/24, the assessed property value is currently projected to increase by 5.9% over initial FY 2022/23 valuations. However, the rise of interest rates have begun to temper growth and will continue to be monitored closely.

The City is also the recipient of excess Educational Revenue Augmentation Funds (ERAF). ERAF is local property tax revenue that is shifted to public school systems in each county to ensure a baseline level of funding. When the county auditors determine that the fund has enough money to meet the minimum state funding requirements for its public schools and community colleges, the remaining funds are returned to local governments. In both FY 2022/23 and FY 2023/24, the City is projecting \$7.1 million based on the County's estimate.

Sales Tax, the City's second largest tax revenue source, has continued to recover and is approaching pre-pandemic levels. The largest segment of activity in the City's sales tax base is business-to-business sales, which have been highly volatile. However, due to high inflation and post-pandemic retail recovery, FY 2023/24 Sales Tax revenue forecast at \$34.3 million. The City projects Sales Tax to slow slightly in FY 2023/24 before continuing to grow moderately each year with some of the anticipated growth as a result of the downtown CityLine project development.

Transient Occupancy Tax (TOT) revenue is the City's third largest revenue sources of the General Fund. The 2018 TOT ordinance increased the TOT rate from 10.5% to 12.5% as of January 1, 2019. This change brought in strong TOT returns through the third quarter of FY 2019/20 before the COVID-19 Pandemic hit. Since then, TOT revenue has been significantly impacted. The TOT projection of \$17.4 million (\$559,000 related to short-term rentals) in FY 2023/24 is still substantially lower than the peak of \$21.2 million received in FY 2018/19. Since the hotel industry continues to experience some of the deepest economic impacts, TOT is expected to recover over several years.

Utility Users Tax (UUT) revenue, generated from the sale of electricity, telecom services and gas, is forecasted for slow growth over the long-term. UUT revenue from telecom services is forecast to slightly decline over time. This is primarily due to the increasing popularity of streaming services, which are not subject to UUT. Additionally, although development activity is growing the taxpayer base, this growth has been substantially offset by increases in energy efficiency, resulting in modest growth in revenue for gas, and electricity usage.

Construction Tax is charged for most development projects. Revenues resumed along with the strong development activity in the City beginning in FY 2021/22, after slowing in FY 2020/21 due to the pandemic that stalled or cancelled some development. The FY 2023/24 Budget estimate is \$4.3 million and assumes that development activity will continue to be steady.

Gas Tax comes from gasoline excise taxes levied as a flat rate per gallon sold. While fuel consumption was suppressed due to a sharp reduction in commuting during the Pandemic, gas sales have rebounded again and the City is projected to receive \$4.0 million in FY 2023/24.

RMRA funds come from the Road Repair and Accountability Act of 2017 (SB1). This allocates 50% of a new gas tax to cities and counties after a series of specific program cost appropriations. City apportionments are based on population and are intended for basic road maintenance, rehabilitation, and critical safety projects on the local streets and roads system pursuant to the CA Streets and Highways Code.

2016 Measure B is a 30-year half-cent countywide sales tax to enhance investment in transit, highways, expressways and active transportation. Measure B funds are restricted for transportation purposes. Funds are distributed based on population through a reimbursement basis and also to specific projects. The Adopted Budget includes an estimated \$3.5 million in baseline Measure B funds for FY 2023/24.

Service Fees

Service fees are one of the City's largest revenue sources. A diverse set of fees are charged to recover all or a portion of the City's costs for providing a service or access to public property, or for mitigating the impacts of the fee payer's activities on the community. Intended for cost recovery, a fee may not exceed the estimated reasonable cost of providing the service for which the fee is charged. By far, the largest source of fee revenue comes from the provision of water, wastewater, and solid waste collection services. The proposed increases in utility rates are discussed below, as well as highlights in other fee categories.

Figure 4 – Top Service Fee Revenues

Revenue Source	2020/21 Actual	2021/22 Actual	2022/23 Budget	2022/23 Revised Projection	2023/24 Proposed Projection
Golf Fees	4,295,471	4,540,101	4,421,031	4,239,777	4,358,450
Development Enterprise Fees	14,470,190	23,903,835	19,049,929	23,323,535	21,596,949
Solid Waste Fees	49,741,885	52,351,916	55,658,742	54,720,188	58,320,364
Wastewater Fees	44,654,833	47,393,693	47,228,819	48,904,704	53,306,127
Water Fees	57,379,901	54,004,985	54,236,788	52,542,740	55,535,602
Total Top Tax Revenues	170,542,280	182,194,530	180,595,309	183,730,944	193,117,492

Golf Fees support the Golf and Tennis Fund with the planned transfers from the General Fund. After years of operating at a deficit, it is currently a self-supporting enterprise fund. This has been a strategic focus for Council, and staff has made progress in restructuring activities to reduce expenditures. During the pandemic, golf was one of the few activities that was allowed under the safety restrictions, resulting in higher than anticipated revenues. This positive revenue trend has continued and staff continues to monitor progress. The \$2.1 million transfer from the General Fund in FY 2023/24 is the last planned transfer.

Development-Related Fees include revenue from most fees related to development activity (e.g., plan check fees, inspection fees, and permit application fees). The Development Enterprise Fund accounts for these fees and related expenditures to ensure full cost recovery with the ability to build and draw from the reserve. This is especially important as development-related fee revenues are highly volatile. Large development projects take many years to complete and expenditures related to specific fees can occur over multiple fiscal years.

Development related revenues are projected to be stable in FY 2023/24 and for the foreseeable future. Development-related activity is closely monitored, and projections are re-assessed each fiscal year.

Utility Rates provide funding for the City's three self-supporting utility funds: The Water Supply and Distribution Fund, the Solid Waste Management Fund, and the Wastewater Management Fund. Each year, staff analyzes the current condition and long-term outlook for all three funds. The analysis includes a review of fund balances; state and federal environmental requirements; revenues; anticipated capital, infrastructure, and operational requirements. The results of this analysis lead to proposed adjustments to rates that will generate the revenues necessary to meet planned expenditures. Through the long-term planning model, staff attempts to keep utility rates as stable as possible with modest increases annually. The overall increases planned for FY 2023/24 is shown below, in Figure 3, with a comparison to the original projection made in the FY 2022/23 Adopted Budget:

Figure 5 – Utility Rates

Utility	Original Projection	Adopted FY 2023/24	Change in Percentage Points	Monthly Utility Rate*
Water	4.0%	4.0%	0.0%	\$71.32
Wastewater	3.0%	9.0%	6.0%	\$62.34
Solid Waste	5.5%	6.0%	0.5%	\$44.64

* Average monthly utility rates for single-family dwelling

Each of the utility enterprises has its own unique pressures that drive rate adjustments. As the FY 2023/24 Adopted Budget is a capital budget cycle, the focus was on reviewing projects.

In the **Water** utility, the two drivers affecting rates are purchased water and increased infrastructure needs. The long-term plan anticipates changes to rates charged by the City's wholesalers, which account for most of the water supplied to the City. The financial plan calls for using the rate stabilization reserve to moderate rate increases over the next ten years, enabling the fund to absorb larger than usual rate increases from the wholesale water providers.

As with all utilities, there are fixed costs to operate the water system that are not based on the volume of water delivered. These include large capital needs in the fund, mainly associated with pipe, main, tank, and well replacements and rehabilitation. The age of the system also required modest requests for additional equipment and repair services needed to maintain the system.

Wastewater rates are rising, driven primarily by costs associated with planned improvements to the City's wastewater collection and treatment system, and stricter regulatory requirements. The main driver of rates in the Wastewater Management Fund is the need to replace the City's aging wastewater treatment plant, which will cost approximately \$1.1 billion over twenty years. The rates take into account the debt that the City has and will issue to fund the project over many years. Annual debt service is projected to be \$8.4 million in FY 2023/24 and will increase as debt is matured over the twenty-year financial plan. It is notable that the City received State Clean Water Revolving loan funds and Water Infrastructure Finance Innovation Act (WIFIA) loan funds for the project, which provide significantly lower interest rates than traditional municipal bonds.

Solid Waste rates are increasing for FY 2023/24 due to numerous service additions, such as the expansion of food scraps and yard waste recycling to additional customers. These service changes are necessary to meet diversion goals and maintain compliance with SB 1383. Larger than average increases will be seen annually in the short term as more services are added. Solid waste rates also include the costs of operating and maintaining the Sunnyvale Materials Recovery and Transfer Station (SMaRT Station®). These costs are shared with Mountain View proportionally by the amount of recyclable material processed. As Palo Alto is no longer a partner in the SMaRT Station® as of January 1, 2022, the proportional share of expenses has increased for the two remaining partners.

Impact Fees

Development Impact Fees are imposed to mitigate the impact of development on the community. These four (4) fees include: Housing Mitigation Fees, Park Dedication fees, Sense of Place fees, and Transportation Impact fees. Impact fees have strict requirements, set by state government code, that require fees to be roughly proportional to the impacts of the project and imposed for purposes related to the impacts of the project. Therefore, each of these fees is accounted for separately in its own fund or sub-fund. With development activity in the City at high levels, revenue from these fees has been significant.

Figure 6 – Top Impact Fee Revenues

Revenue Source	2020/21 Actual	2021/22 Actual	2022/23 Budget	2022/23 Revised Projection	2023/24 Proposed Projection
Housing Mitigation Fees	38,304	37,666,107	27,586,461	3,509,180	15,550,264
Park Dedication Fees	4,203,104	21,785,663	25,437,302	37,170,085	12,872,241
Sense of Place Fees	1,821,552	1,058,384	457,239	4,038	1,132,395
Transportation Impact Fees	(146,192)	10,481,569	5,802,208	2,461,028	4,677,569
Total Top Impact Fee Revenues	5,916,769	70,991,723	59,283,210	43,144,331	34,232,469

Based on year-to-date figures and approved projects, staff estimates collecting \$43.1 million in FY 2022/23 and projects \$34.2 million in FY 2023/24. Development activity is closely monitored, and projections are revised annually based on the City's future economic outlook for development.

Other Revenue Sources

The remaining revenue sources are varied, including franchises, federal and state grants, rents, fines, licenses, and interest income. There are also one-time revenues in this category such as bond proceeds, and sale of property. Highlights of other revenue sources are discussed below.

Debt Financing is a tool for managing cash flow when large, one-time outlays are required, generally for large infrastructure projects.

The City currently carries debt for both the Water and Wastewater Systems, and the Civic Center Phase 1 project. All of the currently held debt is funded by rate revenues or lease payments paid by various funds. The City does not maintain any general obligation debt (commonly called "GO Bonds") and continues to maintain the highest issuer credit rating issued by Standard & Poor's (AAA) and Moody's (Aaa).

Federal and state grants are important sources of funding for many of the City's services. The FY 2023/24 Adopted Budget projects \$12.9 million in federal and state grants. The City receives an annual allocation for the Workforce Innovation and Opportunity Act grant as the main source of funding for NOVA Workforce Services, which offers job placement and training services for Santa Clara and San Mateo Counties. The City also receives an annual allocation of Community Development Block Grant (CDBG) and HOME grant funds, which are used to help support affordable housing and rental assistance programs. Various other grants, such as transportation grants, are also incorporated in the FY 2023/24 Budget. In addition, the City regularly receives competitive grants throughout the year that are budgeted at the time of grant award.

Sale of Property includes one-time proceeds from the sale of property. By City policy, one-time revenues are spent on one-time expenditures. There are no plans for sale of property in FY 2023/24.

II. City Expenditures

City expenditures fall into several broad categories: projects and equipment, operating, and debt service.

Projects Budget

This year is the second year of the two-year budget cycle and focuses on the City's projects plan which is comprised of capital projects, strategic initiatives, and multi-year projects with scheduled funding over 20 years. The City plans for the long-term capital maintenance, renovation, and replacement needs of its aging infrastructure through the Projects Budget. In this budget cycle, we reviewed all current projects, detailed phased planning that reflects staff capacity, and updated project costs to reflect the economic environment. Though each project was reviewed in depth and updated based on its unique circumstance, the following general working assumptions applied across the twenty-year planning period.

Category	Escalator	Description
Capital Projects		
Construction Related	12% / 4%	Capital and Infrastructure projects with significant design, architectural and construction expenditures planned in the short term were escalated at 12% and then 4% across the planning period.
Non-Construction Related	3.00%	Inflation for special projects; grant funded projects; or less significant replacement/maintenance expenses.

New projects in support of [General Plan goals](#) and [Council Priorities](#) were also considered as part of the process. Additional detail on significant changes can be found in the [Projects Budget Guide in Vol. II](#).

Totaling over \$2.2 billion over twenty years, the projects themselves are budgeted and accounted for in various funds. Figure 7 shows the year over year change of the total 20-year project budget by fund.

Figure 7. Twenty Year Project Budget Change by Fund

Fund	FY 2022/23	FY 2023/24	Increase/Decrease
General Fund	200,100,565	238,360,802	38,260,237
Combined Housing Fund	1,133,572	16,891,065	15,757,494
HOME Fund	2,000,000	–	(2,000,000)
Redevelopment Housing Fund	2,500,000	2,250,000	(250,000)
CDBG Fund	7,399,177	6,094,703	(1,304,474)
Gas Tax Fund	63,296,604	62,768,806	(527,798)
Capital Projects Fund	34,274,444	25,587,069	(8,687,374)
Water Fund	125,029,071	117,828,343	(7,200,728)
Wastewater Fund	731,206,265	1,016,599,099	285,392,834
Solid Waste Fund	53,883,803	36,734,540	(17,149,263)
General Services Fund	12,184,267	23,767,453	11,583,185
Infrastructure Fund	41,423,322	88,666,705	47,243,383
Parking District	1,395,910	1,403,058	7,148
Park Dedication Fund	178,467,460	160,917,707	(17,549,752)
Road Maintenance & Rehab Account Fund	71,986,140	101,063,993	29,077,853
VRF Local Road Improvement Program Fund	23,431,995	18,969,620	(4,462,375)
Measure B Fund	78,233,911	275,915,972	197,682,060
Total*	1,627,946,504	2,193,818,935	565,872,431

* Totals as of April 2023

Projects Budget Highlights

Sunnyvale Cleanwater Program

The Sunnyvale Cleanwater Program will renovate the City's aging Wastewater Pollution Control Plant, which serves residents, businesses and industries in the City of Sunnyvale. It includes the renovation of existing facilities, as well as construction of some new facilities to replace existing infrastructure that is in too poor of a condition to rehabilitate. The program is planned as a series of design and construction projects over the next twenty years in various phases, and some project expenditures beyond the twenty-year horizon. The first two phases are fully underway. The Program is budgeted across multiple projects with a total cost of over \$1.1 billion over the twenty-year planning period, which includes an additional \$262.2 million added in the FY 2023/24 Adopted Budget.

To fund these projects, the City was able to secure up to \$220.6 million in Water Infrastructure Finance Innovation Act (WIFIA) loans through the Environmental Protection Agency and a total of up to \$429.2 million in funding from the Clean Water State Revolving Fund (CWSRF) through the California State Water Resources Control Board. Both of these programs offer interest rates and repayment terms that are more favorable to the City than other financing sources. Financial risks remain from potential unbudgeted increases in the cost of construction, as well as stricter regulatory requirements and rapidly aging infrastructure that may fail early.

Civic Center Modernization/Administrative Facilities Projects

The City has been actively planning to modernize the Civic Center campus since early 2015. Buildings at the Civic Center are in need of renovation or replacement. Phase 1, which includes City Hall and a Public Safety Emergency Operations Center Addition and Renovation, is nearing completion. The new City Hall, a modern and innovative 119,874 square foot, four story building, was completed in March 2023. It was designed to be Net Zero in energy use and Certified LEED Platinum. The two-story, 15,002 square foot Emergency Operations Center is LEED Gold and all electric (except for back-up generators). The final steps in Phase 1 involve the demolition of the old buildings and the conversion of approximately 6 acres of open park space, including a Civic plaza and outdoor amphitheater, with estimated completion scheduled for FY 2023/24.

Phase 2 of the Civic Center Master Plan adopted by the City Council in September 2018 includes a new Main Library building. The FY 2023/24 Adopted Budget sets aside \$15 million to support the implementation phase of the project.

Additionally, while not part of the main Civic Center campus, the budget also funds a total of \$21.5 million for the first phase of the Corporation Yard Master Plan with design scheduled to begin in FY 2026/27 and construction beginning in FY 2026/27. The FY 2023/24 Adopted Budget maintains \$40.8 million in funding to build a new Fire Station 2, which includes a new training center, and also adds \$15.4 million for the sequential renovation of the remaining fire stations, with the first to begin design in FY 2025/26.

Parks and Recreation Projects

Parks and Recreation projects are funded by Park Dedication Fees. These fees may be used to pay for developing new or rehabilitating existing neighborhood or community parks or recreational facilities. The FY 2023/24 Projects Budget reflects a continuation of park projects with updated labor and construction costs. The Adopted Budget has \$162.2 million in park and recreation projects, which includes an aggregate of \$74.3 million in various projects over the next twenty years for golf infrastructure renovation.

Traffic and Transportation Projects

Maintaining and improving our transportation infrastructure is critical to ensuring livable local communities, balancing housing and jobs, and supporting economic development. Much of Sunnyvale's transportation infrastructure is old and requires rehabilitation and modernization. The City has made significant progress over the last several years addressing traffic and transportation needs. We are actively involved in countywide planning efforts. We also leverage federal and state funds, where possible, to fund many of these very expensive projects.

This Adopted Budget includes \$132.3 million in funding for the Caltrain Grade Separation at Mary and \$43.3 million for Sunnyvale Avenue as well as \$10 million for the Bernardo Avenue Undercrossing. The City also continued its investment in both pavement and sidewalk, curb, and gutter rehabilitation. Sunnyvale is leveraging Measure B funds, SBI Funds, and traditional General Fund, Gas Tax, and Vehicle Registration Fee funding sources for a total investment of \$549.1 million over twenty years.

Water Distribution and Sewer Collection Infrastructure

In addition to the Sunnyvale Clean Water Program, the City also has projects to maintain and rehabilitate our aging water distribution and sewer collection infrastructure. Funded by revenues from utility rates, these projects ensure that our community receives a clean and reliable water supply. They also ensure that our sewer system safely and sustainably transports sewage to the Water Pollution Control Plant. The Adopted Budget includes \$142 million over twenty years in water system projects and \$96.8 million in wastewater system projects not related to the Sunnyvale Clean Water Program.

Public Safety

With this Adopted Budget, the City continues significant investments in public safety. The budget includes funding for the recruitment and training of 72 new public safety officers over the first 10 years of the General Fund, thirty of which come in the first four years. The total allocation increased by \$13.4 million over that period for a new total of \$72.3 million.

Budget Supplements

There are thirteen Study Issues included in Budget Supplement No.1 with eleven requiring funding for a totaling of \$1,188,000. Nine of the eleven Study Issues are funded by the General Fund for a total impact of \$990,000, with the remaining two funded by the Technology and Communications Services Sub-Fund of the General Services Internal Service Fund.

Budget Supplement No. 2 outlines potential additions or savings above what is included in the FY 2023/24 Recommended Budget. City Council discussed these items during the Budget Workshop on May 18, 2023 and moved to include two items: 2A.5 (820130 – Routine Resurfacing of City Owned Parking Lots) and 2B.2 (835490 – Community Events & Neighborhood Grants). The net impact of these two items is a reduction of \$328,162 and has been incorporated into the General Fund FY 2023/24 Adopted Budget.

Budget Supplements 3, 4, and 5 reflect Budget Proposals that were considered by Council:

Budget Supplement No. 3 *Increase the Tree Pruning Contract to Resolve the Two-Year Backlog Over the Next Two Fiscal Years* was approved with \$1.2 million from the General Fund.

Budget Supplement No. 4 *Bicycle and Pedestrian Collision Investigation Pilot Program* appropriates \$60,000 in the General Fund.

Budget Supplement No. 5 *Increase Service Levels For Neighborhood Preservation to Proactively Enforce Sunnyvale's Short-Term Rental Ordinance* was not approved. Therefore, staff will continue short-term enforcement efforts within existing resources.

Unfunded Needs

The list of unfunded needs is intended to assist the City in establishing funding priorities in a larger and long-term context. The following list enumerates known areas that are unfunded or underfunded. These issues all require additional scoping to identify. It is important to note this list is dynamic and will change with each budget cycle and as the City identifies new needs or funds items on the list. Progress has been made, most significantly the Adopted Budget includes funding for the renovation or replacement of all fire stations as well as the first phase of the corporation yard renovation.

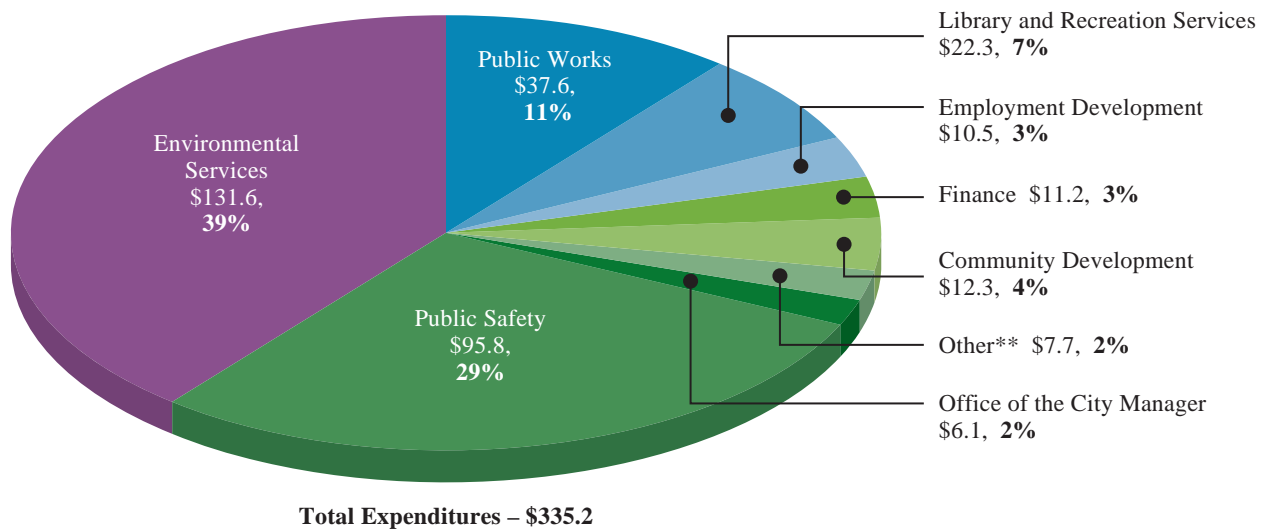
Unfunded Projects Listing

Short Description
Community, Economic & Workforce Development
Transportation, Streets and Infrastructure
Transportation Strategic Plan Projects
Active Transportation Plan
Traffic Signal Infrastructure Replacement
Implementation Sidewalk Repair
Street Maintenance (additional to maintain PCI)
Environment and Sustainability
Climate Action Plan Program Funding
Water Infrastructure
Wastewater Collection Infrastructure
Stormwater Collection Infrastructure
Stormwater Program Funding
Library, Community Services & Public Facilities
Civic Center Modernization
Corporation Yard Modernization
Golf Building Replacements
Golf Course Infrastructure
Work order and Asset Management Systems
Evidence Storage

Operating Expenditures

City departments are extremely integrated and highly reliant on each other to deliver services and achieve the goals and results established by the City Council.

Figure 8. Operating Expenditures by Department – All Funds*



* In millions; excludes internal service fund operating budgets

** Other includes Office of the City Attorney and Human Resources

Citywide Operations

Employee Compensation

As a service delivery organization, most operating expenditures are related to salaries and benefits costs for personnel. Managing total compensation costs is a key component of long-term financial sustainability.

The City accounts for pension costs in a separate Employee Payroll & Benefits Fund. Investment returns play an integral role in determining the City's pension contribution rates to CalPERS. In FY 2020/21 CalPERS achieved a 21.3% return on its investments, significantly exceeding its goals. However, in FY 2021/22 CalPERS experienced a 7.5% loss, well short of its stated goal of 6.8% growth and therefore virtually eliminating the prior year gain. Due to the propensity for this volatility, the FY 2023/24 Adopted Budget assumes conservative returns short of the 6.8% goal for the current fiscal year and across the planning period in an effort to mitigate sharp increases in budget requirements.

Additionally, the City holds a pension trust. Because these funds will grow at a higher projected earnings rate than regular City reserves, which are restricted by law as to how they can be invested, over time the additional funds can help stabilize or fund future pension cost increases. The City works with the City's actuary to refine the funding level and the timing of transfers in and out of the trust fund that would be most advantageous to reduce the unfunded pension liability and create budget stabilization. The City contributed \$13.5 million as of June 30, 2023. In the FY 2023/24 Adopted Budget, an annual funding commitment of \$1 million is budgeted for the next five years. The City is anticipated to start using the pension trust fund to offset pension payments starting FY 2028/29 and estimated to have \$31.4 million from the trust to pay for pension liabilities.

The Adopted Budget also includes updated assumptions on health and other insurance costs and salaries. A tightened and highly competitive labor market is creating stiff competition for talent. Just as the City doesn't project revenues under the assumption of a peak economy, annual increases in salaries are not projected at peak levels. This budget includes resources to maintain competitiveness in the short term, while moderating salary growth in the long term.

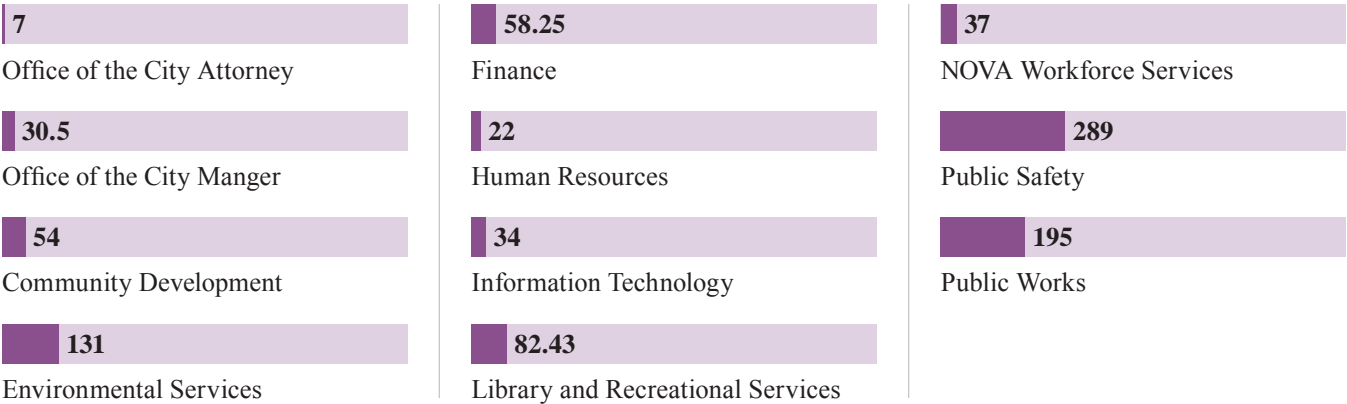
Changing demographics have reduced health insurance costs in prior years. Fewer employees are insuring families as younger employees take advantage of multiple household members’ insurance plans and have fewer dependents. However, insurance rates are expected to increase sharply over the next three years due to the costs being passed on from healthcare providers. Similar to pensions, the City carries reserves for insurance rate volatility and uncertainty.

Total compensation in the General Fund (salaries, pensions, and insurance costs) is projected to rise by approximately 8.0% or \$13.0 million in FY 2023/24 when compared against the FY 2022/23 Budget, primarily due to negotiated wage and benefit increases. The City will be closely monitoring total compensation costs in the coming years, with an emphasis on providing competitive compensation while managing long-term liabilities and maintaining a structurally balanced budget. The chart below outlines salary assumptions included in FY 2023/24.

Category	Escalator	Description
Salaries and Benefits	4 -7.55%	FY 2023/24 increases authorized by City Council; bargaining unit Memorandum of Understanding (MOU), salary survey, etc.

The Adopted Budget includes 940.68 Full Time Equivalent (FTE) Employees. Figure 9 summarizes budgeted positions for each department:

Figure 9. Total Personnel by Department



As this year is the second year of an operating budget cycle, minimal changes have been made to non-personnel costs in the budget. Significant operating changes are noted in the Budget Highlights section of each Department’s narrative.

III. City Reserves

The backbone of the City’s financial planning process is the Twenty-Year Resource Allocation Plan. Reserves are a key component of the financial plans. Various reserves are maintained for different purposes within each plan consistent with best practices. Some are restricted in use while others are available for a variety of priorities. Examples of restricted reserves include debt service reserves or reserves of special revenues. Unrestricted reserves are used strategically over the twenty-year planning period to balance each fund. While many organizations have reserves, the City’s strategic and disciplined use of reserves is unique and more active than a typical city. The City plans to increase or decrease reserve levels as business and economic cycles pass, allowing stable and consistent levels of service. This is especially critical in periods of revenue volatility. Reviewing reserves over a long period forces policymakers, staff, and the community to think carefully before adding services that must be sustained through growing and recessionary economic periods.

In the General Fund, the unrestricted reserve is the Budget Stabilization Fund. Controlled use of this reserve allowed the City to weather the great recession and the COVID-19 Pandemic. Most significantly, in the past several years, the reserve helped manage the significant increase in projected pension costs. In the FY 2023/24 Adopted Budget, the reserve is stable across the twenty-year plan reaching a low point of \$23.7 million in FY 2036/37 and then growing over the remainder of the twenty- year plan.

In the utility funds, the use of the Rate Stabilization Reserves allows for the measured increase of rates to cover growing costs, such as wholesale water costs and tightening regulations on wastewater discharge. Additionally, this reserve allows the City to incrementally increase rates to the level needed to support the replacement of the WPCP.

Each major fund also carries large contingency reserves for emergencies such as natural disasters. Reserves also allow the City to undertake projects that may be more expensive than estimated or absorb unanticipated operating costs. In all cases, reserves are one of the City's most critical tools to achieve and maintain financial sustainability.