Local Reserve Policies

May 25, 2018
Agenda

Overview of Sunnyvale

Community Values

Reserve types

Practical Application

Policy Overview and Implementation

Conclusion
Sunnyvale Overview

• Heart of Silicon Valley
• Population – 153,389
• Seventh largest in Bay Area, second in Santa Clara County
• Council-Manager form of Government
• Full-service – 11 departments, 900 FTE, 50 funds, $489M budget
Sunnyvale Overview

Top Employers:
1. Google
2. Juniper Networks
3. Lockheed Martin
4. Apple
5. Altaba
6. LinkedIn
7. NetApp
8. A2Z Development Center
9. Intuitive Surgical
10. West Valley Engineering
Legal Framework and Community Values

• 10-Year Balanced Budget Mandate (City Charter, Article 1302)

• 20-Year Resource Allocation Plan Requirement (City Council Policy 7.1.1)

• General Fund Budget Stabilization Fund Threshold requirement
  • 15% of revenues in first two years of the Financial Plan (City Council Policy 7.1.E (1.4))
Legal Framework and Community Values

• Long tradition of long-term financial planning
• Twenty-year plans prepared for all major funds annually
• Twenty-year impact of decisions regularly discussed by Council during decision making
• Fiscal Sustainability is a key decision point during budget process
• All major funds carry reserves
Reserve Types

• Guided by Council Policy
• General Fund, Internal Service Fund, Enterprise Fund
• Restricted and Unrestricted
• Four types:
  • Contingency (for emergencies only)
  • Stabilization (economic/unplanned expenses)
  • Capital Improvement
  • Debt Service
• Addresses volatility, constrains decision makers
Use of Reserves

- Also guided by Council Policy
- Used in tandem with revenue and expense forecasting and long term financial planning
- Serve as a shock absorber against a long term sustainable revenue base
- Careful to distinguish between one-time resources and ongoing resources
Reserve Balances by Type – All Funds

- **Reserved for Projects**: $109.4M (31%)
- **Legally Restricted**: $89.4M (25%)
- **Contingency**: $58.6M (16%)
- **Other**: $67.9M (19%)
- **Restricted by Policy**: $26.5M (7%)
- **Debt Service**: $6.4M (2%)

Funds breakdown:
- **General Fund**: $33.3M (9%)
- **Wastewater Fund**: $9.1M (3%)
- **Solid Waste Fund**: $9.5M (3%)
- **Water Fund**: $16.0M (4%)

Utility Enterprises

• Contingency – 25% of operations (3 months)
• Stabilization – allows for consistent and predictable rate adjustments
• CIP – held for future projects
General Fund Reserves

Contingency Reserve
Council Policy to be 15% of the operating budget in the first year of the long-term plan

Capital Improvement Projects Reserve
Funds held from one-time sources to fund CIP projects

Budget Stabilization Fund
Functions to normalize service levels

Council Policy to be at least 15% of total projected revenues for years 1 & 2
General Fund Revenue vs. Expenditure Growth

Revenues exceed expenditures in FY 2031/32 realizing impact from CalPERS “Fresh Start”
Sales Tax by Major Industry Group
Transient Occupancy Tax

TOT change from 9.5% to 10.5% in FY 2013/14
General Fund Budget Stabilization Fund

Recommended Budget low point at $14.2 million in FY 2030/31
Without Fiscal Strategies, BSF becomes -$4 million in FY 2030/31
Without Fiscal Strategies in Golf and the General Fund, BSF becomes negative in FY 2028/29

Low point at -$16.3 million
Conclusion

• Strong Council adopted policies
• Driving the discussion towards reserves and fiscal sustainability
• Reserve one-time funds for one-time expenses
• Address volatility