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# SUNNYVALE BUDGET AND FISCAL POLICIES

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## BUDGET POLICIES

### Planning and Management System (PAMS)

The Planning and Management System (PAMS) was designed to integrate the policymaking, service delivery, fiscal control, and evaluation activities of the City into one strategic management blueprint. Comprised of three major components - General Plan, Service Delivery, and Personnel/Program Evaluation, PAMS provides the City a structured process of managing services, assigning responsibility, and ensuring accountability.

### General Plan

The General Plan is a long-term planning document that provides the City with a framework for action, as well as the direction in which to focus that action. General Plan Elements are areas in which the City has elected to administer and manage the delivery of services to its citizens and customers. The seven General Plan Elements are Land Use & Transportation, Community Development, Environmental Management, Public Safety, Socio-Economic, Cultural, and Planning & Management. Each element of the City's General Plan has a sub-element, or series of sub-elements, which make up the goals or standards desired for the future of the community. These sub-elements provide the avenue through which long-range policy is developed and ultimately implemented.

### Service Delivery

The service delivery component of PAMS is the area in which the role of the program manager becomes essential. Program managers are ultimately responsible for meeting the service levels set by the Council and reflected in the operating budget. Meeting performance measures in each program contributes to accomplishing the sub-element goal to which the operating program is linked. Every program is broken down into service delivery plans. Furthermore, every service delivery plan is composed of specific activities that are performed by staff to accomplish defined products. Activities and their associated products are the actual services delivered.

### Twenty-Year Resource Allocation Plan & Financial Planning

The Twenty-year Resource Allocation Plan is the backbone of the City's financial planning process. For operating expenditures, twenty planning years are forecast using assumed inflation and salary rates, based on the last year in which a detailed operating budget is presented. For capital expenditures, projects are planned out over the entire 20-year horizon. For revenues,

each major source has unique characteristics that affect projections.

A fundamental part of the allocation plan is that it is balanced to the twentieth year. By utilizing a twenty-year planning horizon, the City is able to plan and manage reserves so that funds are increased in good times and drawn down in difficult financial times. In short, a balanced twenty-year plan allows the City to be proactive in its financial management, while maintaining a strong, proactive financial position when faced with dynamic circumstances.

This long-range planning methodology also provides the City Council a tool with which it can address policy. The methodology incorporates both short- and long-term perspectives for planning project revenues, operating requirements, and capital spending. It allows the cost of any policy decision to be measured in terms of long-range expenditure requirements, thereby raising “red flags” in areas where financial conditions may be significantly different in the future. The Twenty-year Resource Allocation Plan has helped the City establish a “pay-as-you-go” philosophy, allowing money to be set aside in reserve funds for future service expansion or capital projects.

## **Two-Year Operating & Projects Budget**

Although the City reviews its budget on an annual basis, it only prepares a detailed operating budget each biennium. This means that operating budgets are not modified during the second year of the two-year budget. During the “off year” of the operating budget, the projects budget is reviewed in detail. The two-year cycle for operating and projects do not coincide.

The Projects Budget is comprised of capital, infrastructure, outside group funding, and special projects, which are “non-operating efforts.” Special projects are somewhat unique to Sunnyvale because this type of project often is considered as part of the operating budgets in other cities. However, special projects are included in projects budget precisely because they are one-time special efforts and not anticipated to affect the base operating budget after they are completed. Capital and infrastructure projects are probably the most crucial area in which the City must allocate and administer limited resources. Within these projects, the City’s infrastructure maintenance and replacement is managed. Outside group funding projects provide supplemental support to the City’s needy residents through funding of local human services agencies. The principal source of funding is the Community Development Block Grant (CDBG). In recent years, the City has supplemented federal funding with some General Fund support.

## **Types of Expenditures**

There are four major types of expenditures in the City’s spending plan: operating, equipment, capital improvements, and debt service. Operating expenditures are related to a program’s base budget and include such items as general supplies, personnel costs, and equipment rental. Major equipment expenses like computer hardware or city-owned cars are provided for separately under a general services program. Capital improvements are expenditures which affect the economic vitality and quality of life in the community. A good example would be construction of a park or resurfacing a city street. Debt service allows an improvement to be made when it is needed rather than being delayed until funds are accumulated in the City’s treasury. Debt

service is used like a credit card — buying something today and paying for it over time. It may be used to finance, for example, a new community center building.

## **Cost Accounting**

Cost accounting is a method of accounting that gathers together all the elements of cost incurred to accomplish a purpose, carry on an activity, or complete a unit of work. By using this financial technique, the City is able to assess the true cost of providing a service. The City's internal users of information management, fleet and equipment, and buildings are assessed rental rates through their programs for the use and eventual replacement of services and equipment. Employee benefits such as leave usage, retirement, and insurances also are recovered by charging the programs that use personnel services. The City also uses an allocation system to distribute administrative costs to those activities that provide a service.

## **Basis of Budgeting**

“Basis of budgeting” refers to the method used to recognize revenues and expenditures in the budget. For the City of Sunnyvale, the basis of budgeting is the same basis used for accounting. The modified accrual basis is followed in the Governmental and Agency Funds including the General Fund and special revenue funds like the Park Dedication Fund. Under this basis, revenues are recognized when they become “susceptible to accrual,” which means they are both measurable and available. Measurable means the amount of the transaction can be determined.

The City considers revenues to be available if they are collected within 60 days of the current fiscal year end for property tax and 90 days for other revenues with the exception of the County back-fill (for the loss of sales tax and Motor Vehicle License Fees (VLF) revenues) for which the City adopts a seven-month availability period so that total sales tax and VLF revenues would be most consistent with revenues reported in years before the State sales tax flip and VLF swap. Expenditures generally are recorded when a liability is incurred except for debt service expenditures, which are recorded when payment is due.

Intergovernmental revenues (primarily grants) that are received as reimbursement for specific purposes or projects are recognized based on when the related expenditures are recorded. Intergovernmental revenues which have virtually unrestricted purpose and are revocable only for failure to meet prescribed compliance requirements are reflected as revenues at the time of receipt or earlier if availability criteria are met.

The accrual basis is used in the proprietary funds which include enterprise funds and internal service funds. Revenues are recognized when earned and expenses are recognized when the related liabilities are incurred.

## **Comprehensive Annual Financial Report (CAFR)**

The Comprehensive Annual Financial Report (CAFR) is prepared according to “generally accepted accounting principles” (GAAP). The City prepares its budget in accordance with GAAP with the following exceptions:

- Loans requiring the use of current resources need to be budgeted as expenditures; in the CAFR, the disbursement of loans are treated as balance sheet items.
- Appropriated budgets are not always needed for all of the City's funds. For example, a budget is not appropriated for the advance refunding of bonds because the resulting bond proceeds are deposited into escrow accounts and are considered restricted assets.
- Principal payments on long-term debt within the enterprise funds are applied to the outstanding liability in the CAFR while such items are treated as expenses in the budget.
- Capital outlay within enterprise funds and internal service funds are capitalized as fixed assets in the CAFR in contrast to being treated as expenses in the budget.
- The budget does not record depreciation expenses.
- GAAP requires the reporting of investments at fair value. Because the City's policy is to hold investments to maturity, the changes in fair value are not reflected in the budget.

The CAFR shows fund expenditures and revenues on both a GAAP and budget basis for comparison purposes.

### **Budgetary Policy & Control**

The City follows procedures that enact its policy when the annual budget is adopted. These procedures involve the City management, employees, the public, boards and commissions, and the City Council throughout the year. These interactions between policy and planning culminate in the establishment of new or revised General Plan goals and objectives. The budget must implement the policies contained in the General Plan. Therefore, both must be synchronized completely. The City follows the following general procedures to establish the budgetary data reflected in its financial statements:

- During January of each year, a City Council workshop is held to discuss important fiscal issues, which may have short-term or long-term effects, on how the City provides and maintains services to its citizens and customers.
- During May of each year, the City Manager submits to the City Council a recommended budget for the fiscal year commencing July 1. The City Charter requires that the City Council receive the City Manager's recommended budget no later than thirty-five days prior to June 30.
- The City Manager's recommended budget include budgets for equipment, operating costs, debt service costs, as well as capital, infrastructure, and special projects for the ensuing year. The recommended budget also contains detailed long-term financial plans with projections for expenditures, revenues, and reserves for an additional nineteen years.

- During May of each year, the City Council holds a workshop on the budget. The workshop is open to the public.
- During June of each year, the City Council holds a public hearing in which the public may submit written or oral comments regarding the entire budget or portions thereof. This public hearing is legally required by the City Charter.
- Prior to June 30 of each year, the budget as modified by the City Council, is legally enacted by adoption of a budget resolution.
- For governmental and agency funds, the City Manager is authorized to reappropriate budgeted amounts between programs that are financed by the same fund and within the same department. Council approval is required if the reappropriation exceeds the thresholds outlined below:

<ul style="list-style-type: none"> <li>• <b>Annual Program Budget</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Reappropriation Threshold</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Maximum Reappropriation Threshold (Annual)</b></li> </ul>
<ul style="list-style-type: none"> <li>• <math>\geq</math> \$500,000</li> </ul>	<ul style="list-style-type: none"> <li>• \$100,000 or 5%, whichever is greater</li> </ul>	<ul style="list-style-type: none"> <li>• \$250,000</li> </ul>
<ul style="list-style-type: none"> <li>• <math>&lt;</math> \$500,000</li> </ul>	<ul style="list-style-type: none"> <li>• \$50,000 or 50%, whichever is less</li> </ul>	<ul style="list-style-type: none"> <li>• \$50,000</li> </ul>

- Council approval also is required for proprietary funds and internal services funds if the expenditures for the fiscal year exceed actual revenues plus the planned, annualized appropriation from either the Rate Stabilization Reserve Account or the Resource Allocation Plan Reserve Account, whichever is applicable.
- Budgets are legally adopted for all governmental funds except for the Special Assessment Debt Service Fund. The Special Assessment Debt Service Fund does not have an adopted budget because the City is only required to make debt service payments in the event of a property owner's default. Budgets are adopted legally for all proprietary funds. Formal budgets are employed as a management control device for all funds in which a budget has been adopted. However, it serves as the primary means of spending control for the General Fund, special revenue funds, debt service funds, and capital project funds.
- Budgets can be modified during the fiscal year if needed because of a legislative mandate, City Council or City Manager directive, or an unanticipated change in service level. Budget modifications cover one fiscal year only and must be approved by City Council. This allows management to focus on changes to the base budget during the next budget process.

## **Citizen Participation**

Citizens have an opportunity to participate in the Twenty-year Resource Allocation Planning Process through avenues such as Council-appointed boards and commissions, study sessions, and public hearings. Each fall, various boards and commissions examine changing conditions and prepare documents for Council's consideration. Citizens may attend study sessions dealing with upcoming Council issues, as well as Council meetings which are scheduled on Tuesdays throughout the year. At the Council meetings, citizens are given an opportunity to speak during the public hearing period. In addition, staff and Council work together to prepare issues for the annual budget workshop which is geared toward citizen involvement.

## **FISCAL POLICIES**

The Fiscal Sub-element of the General Plan applies the following guiding fiscal policies to the City's Budget and Resource Allocation Plan:

### **7.1A Budget Policies**

#### **A.1: Development of the Budget and Resource Allocation Plan**

- A.1.1 The public will be encouraged to participate fully in the budget process.
- A.1.2 A Fiscal Issues Workshop will be held each year prior to preparation of the City Manager's Recommended Budget to consider budget issues for the upcoming Resource Allocation Plan.
- A.1.3 A balanced Twenty-Year Resource Allocation Plan shall be presented to the City Council annually.
- A.1.4 The Twenty-Year Resource Allocation Plan shall be prepared on a two-year Operating Budget cycle.
- A.1.5 The Operating Budget shall be approved annually with the second year approved in concept.
- A.1.6 A proposed budget shall be recommended to the City Council by the City Manager no less than thirty-five days before the beginning of the fiscal year, in accordance with the City Charter.
- 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.1.9 The City Council shall adopt the City Manager's Recommended Budget, with any changes desired, by resolution before June 30th of each year.
- A.1.10 Resources will be allocated in direct relation to General Plan goals.
- A.1.11 The Resource Allocation Plan shall be prepared by General Plan element to link city resources with the accomplishment of General Plan goals.
- A.1.12 New or expanded services should support the priorities reflected in the General Plan.
- A.1.13 All competing requests for City resources should be weighed within the formal annual budget process.

- 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.

#### A.2: Long Term Financial Planning

- A.2.1. The City shall maintain a long-term fiscal perspective by annually preparing a Twenty-year Long Term Financial Plan for each fund. Those funds which account for intergovernmental grants will only include known entitlements.
- A.2.2. Major financial decisions should be made in the context of the Twenty-Year Long Term Financial Plan.
- A.2.3. Long term financial planning should enable the current service level provided to be sustained over time through the strategic use of reserves.
- A.2.4. The Long Term Financial Plans should be used to communicate the fiscal impact of City decisions to all stakeholders whenever possible.

#### A.3: Performance-Based Budget System

- A.3.1. The operating budget will be prepared and managed on a program basis.
- A.3.2. All costs attributable to a budgeted program will be fully reflected in program budgets (with the exception of capital costs of general-use public buildings and facilities).
- A.3.3. An emphasis should be placed on achieving maximum work productivity to ensure an optimal allocation of human and fiscal resources for Council approved services and programs.
- A.3.4. All operating programs must identify the service provided, the service level, and the resources necessary to accomplish the specific service level.
- A.3.5. A performance measurement system will be maintained and used to evaluate quality of service and to report results.

#### A.4: Budget Monitoring and Modification

- A.4.1. Expenditures for each department are legally limited to the amount authorized by the City Council in the Budget Resolution, plus subsequent changes individually approved by the City Council through Budget Modifications.
- A.4.2. The City's annual budget may be modified at any Council meeting by a majority vote of the City Council.
- A.4.3. The City's budget appropriation control shall be by program within the same fund for operating programs in the General Fund and Special Revenue Funds. For the Proprietary and Internal Service Funds, expenditures cannot exceed actual revenues plus the planned use of reserves.

- A.4.4. Appropriations for capital and special projects shall be limited to the amounts contained on the Budget Resolution for each project. All modifications to project budgets require Council approval.
- A.4.5. Budget reappropriations among programs within a Department and Fund may be authorized by the City Manager if service levels as approved by City Council are maintained.
- A.4.6. Any unexpended appropriations shall expire at fiscal year-end unless specifically reappropriated by the City Council for expenditure during the new fiscal year.

## **7.1B Revenue Policies**

### B.1: Revenue Base

- B.1.1. The City will maintain a diversified and stable revenue base, not overly dependent on any land use or external funding source.
- B.1.2. Taxes levied by the City will be used for the purpose of financing services performed for the common benefit.
- B.1.3. Taxes should be held at their lowest possible level, while maintaining Council-approved service levels.
- B.1.4. When considering a new tax or revenue source or an increase in an existing tax or revenue source, the following criteria should be considered:
  - Community/voter acceptance
  - Competitiveness with surrounding communities
  - Efficiency of revenue collection and enforcement
  - Effectiveness in generating sufficient revenues in the short and long-term to justify its establishment
  - Enhancement of revenue diversity to promote stability and provide protection from downturns in business cycles
  - Equity/Fairness in distribution of the revenue burden on various segments of the community
- B.1.5. Reliance on any restricted and/or inelastic sources of revenue will be avoided.
- B.1.6. One-time revenues should not be used for ongoing expenditures.
- B.1.7. Revenue should not be targeted for a specific program, unless a revenue source has been established for the sole purpose of financing a particular expenditure.
- B.1.8. Potential new revenue sources will be investigated periodically to ensure that the City's revenue base is stable and diversified.
- B.1.9. Donations, contributions, and sponsorships may be accepted if they are in accordance with City policy and General Plan priorities.

## B.2: Revenue Forecasting and Monitoring

- B.2.1. All revenue estimates must be conservative, objective and reasonable.
- B.2.2. Revenue forecasts should be based on detailed information regarding historical performance and economic conditions whenever possible.
- B.2.3. At least ten years data for all tax revenue sources will be maintained.
- B.2.4. Revenues will be estimated for the budget year and for each planning year in the Twenty-year Resource Allocation Plan.
- B.2.5. Methods to maximize the accuracy of revenue forecasts will be established.
- B.2.6. Estimated revenues from grant sources will be projected only to the specific date on which the entitlement will end.
- B.2.7. Estimated intergovernmental revenues for which the City is eligible (but which are not guaranteed) will be forecast to assure that local matching funds will be available if the revenues are realized.

## B.3: Revenue Collection

- B.3.1. The City will seek all possible Federal and State reimbursement for mandated projects and/or programs.
- B.3.2. An aggressive collection system for all accounts receivable, including utility receivables, will be utilized to assure that monies due to the City are received in a timely fashion.
- B.3.3. Monthly reviews and periodic audits of Transient Occupancy Tax returns will be conducted.
- B.3.4. Monthly reviews and periodic audits of all major locally administered revenue sources will be conducted.
- B.3.5. Periodic point-of-sale audits for Sales Tax will be conducted.

## B.4: Grants and Intergovernmental Assistance

- B.4.1. The use of intergovernmental grant assistance for routine programs will be discouraged. Intergovernmental grants may be used for special projects which strengthen a program, have a definable starting and ending date, and do not expand a service in such a way as to require the substitution of local funds to continue part or all of the service once intergovernmental assistance ends.

- B.4.2. Intergovernmental assistance may only be used to establish or expand a program when the Twenty-Year Resource Allocation Plan meets the following conditions:
- The program is eliminated at the end of the intergovernmental funding period, or
  - The program continues with the requisite local funding in the Twenty-Year Resource Allocation Plan upon completion of intergovernmental funding
- B.4.3. A uniform grants application process must be utilized to assure that the City Council has the information necessary to make a decision regarding a potential intergovernmental grant. Staff should present to Council a Notice of Intent regarding a possible grant source which shall include at least the following information:
- The grant being pursued and the use to which it would be placed
  - The objectives or goals of the City which will be achieved through use of the grant
  - The local match required, if any, plus the source of the local match
  - The increased cost to be locally funded upon termination of the grant
  - The ability of the City to administer the grant

#### B.5: User Fees

- B.5.1. User fees should be used to recover the cost of services that benefit specific segments of the community.
- B.5.2. User fees should be reviewed and adjusted at least annually to avoid sharp changes.
- B.5.3. User fees and charges should not exceed the City's full cost of providing the service.
- B.5.4. User fees should be established at a level which reflects the full cost of providing those services.
- B.5.5. The City Council may determine for any service whether a subsidy from the General Fund is in the public interest.
- B.5.6. User fees shall only be used when the cost of providing the service can be readily calculated and administered.
- B.5.7. User fees should be adopted by Council resolution and included in the Annual Fee Schedule.

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*\*Note: For additional user fee policies specific to the Utility Funds or the Community Recreation Fund, please see those sections under Enterprise Fund policies.*

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