



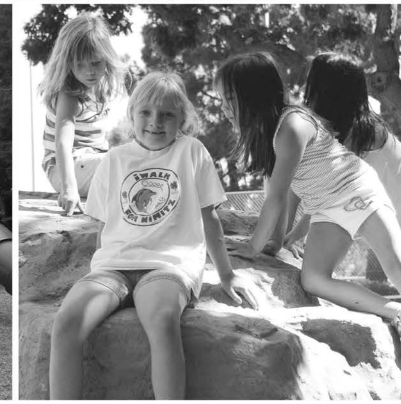

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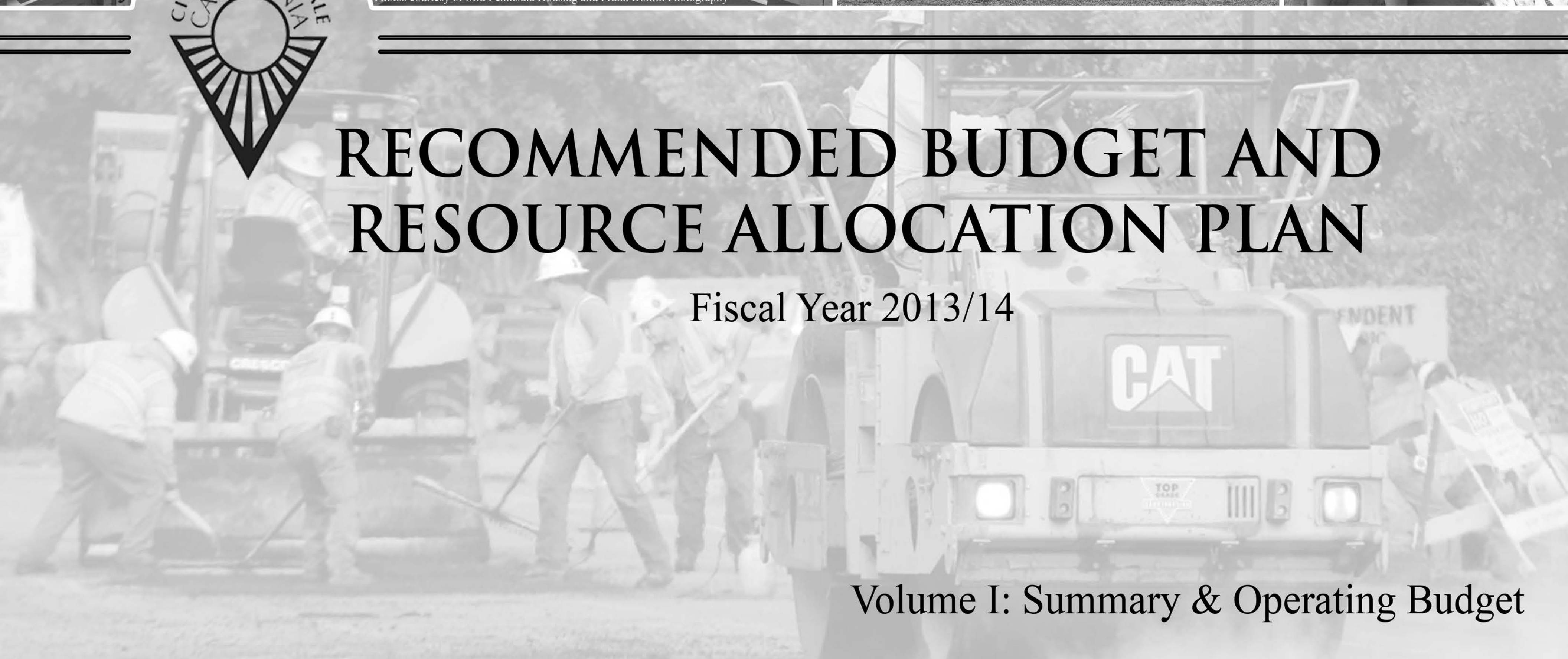
CITY OF SUNNYVALE CALIFORNIA

RECOMMENDED BUDGET AND RESOURCE ALLOCATION PLAN

Fiscal Year 2013/14



Volume I: Summary & Operating Budget

City Manager's
Letter of Transmittal

Honorable Mayor and Members of the City Council:

Introduction

I am pleased to present for your review and consideration the FY 2013/14 Recommended Budget and Twenty-Year Resource Allocation Plan. This is now the fifth budget I have presented as Sunnyvale's City Manager and I thought it would be valuable to review where we were when I first arrived and the key decisions we've made to get us to where we are today – a proposed budget that not only maintains the structural balance that came into place last year, but also moves us toward providing services at optimal levels and securing a more stable financial future. As I look back over the past five years, a singular theme emerges that I am convinced will continue to serve us well going forward: Develop a comprehensive plan that truly addresses our challenges and, above all, stay the course.

When I arrived in Sunnyvale in December 2008, we were in the midst of the worst global recession since the Great Depression. As a result, the City was facing the worst of both worlds; significant declines in our major revenue sources compounded by escalating expenses due to the loss of asset value in the California Public Employees Retirement System (CalPERS). If ever there was a silver lining, it was that the City's well-established long-term financial planning process gave us the time to address these challenges strategically and for the long term. On the other hand, the recession brought to light that we weren't as financially prepared as we could have been. While our budget had always been balanced and reserves were at comfortable levels, in reality those reserves were artificially high because we were not adequately funding core services such as paving roads, trimming trees and maintaining facilities and infrastructure.

One of the things I might be accused of is that I call it as I see it. And it was clear to me that we needed to make swift and decisive changes in the time we had remaining to prepare the FY 2009/10 Budget and then immediately get to work on longer term solutions for our structural deficit. That first year, we put together a budget focused on operating more efficiently to reduce costs without significantly impacting services, realigning our assumptions for future personnel costs to match our reduced revenue base and judiciously using the Budget Stabilization Fund to reduce the impact on services until the economy began to improve. All of this was just the beginning. Over the course of the next several years, we made it our goal to put in place budget measures that would stabilize the core components affecting our operations and long-term financial stability. Each year, we continued to build on the one before as we made – and you, the Council, approved – difficult but necessary recommendations.

You might recall that I laid out Five Key Commitments in my transmittal letter to you with last year's budget. Rather than simply summarize the numbers in the budget, I intended for this letter to evolve into a policy document that outlines the development of and basis for the budget and financial plan. This letter's essential purpose now is to set a course of action based on past experience and critical future decision points. The first three commitments all relate to personnel. Because we are a service-providing organization it stands to reason that most of our costs are driven by personnel. And while these three commitments are inextricably linked, I believe we must call them out separately because of their significance and the strategies we are using to resolve them. The fourth commitment focuses on enhancing our funding for infrastructure needs and the fifth emphasizes the interconnectedness of the strategies and the importance of staying the course. I am happy to report we have made significant progress in each but we have much left to do.

Commitment 1: Manage our Personnel Costs

Employee salaries and benefits constitute the largest component of the City's budget, particularly the General Fund where they are 82% of total operational costs. Because personnel costs are such a high percentage of overall costs, the actions we've taken to manage them over the past several years have had a significant impact on our ability to return structural balance to the City's budget in both the short and long term, as well as restore some of the service levels that had declined over the years. One of the first steps I took in the FY 2009/10 Budget was to lower the salary increase assumptions in the long-term financial plan to ensure that salary adjustments competed with all other expenses that needed to be budgeted within the sustainable revenue base. During FY 2009/10, I also pursued and achieved a year with no salary increases with all bargaining units. We then assumed an additional two years of no salary increases in the FY 2011/12 Budget. These two actions resulted in all non-sworn employees agreeing to a total of three years without a salary increase. I commend both the City Council and City employees for their commitment to slowing the annual growth of personnel cost increases to a more sustainable long-term level.

While great progress has been made in this area, there is still significant work to do. Most notably, the assumptions we've included for future salary increases for sworn public safety officers in the FY 2013/14 Recommended Budget are lower than historical average annual salary increases. Because the contract with the Public Safety Officers' Association (PSOA) uses a salary survey to determine salary increases and the Public Safety Managers' Association (PSMA) salary adjustments are tied to those of the PSOA, the City's ability to contain salary increases for these two groups has been limited. The salary survey formula, with some minor modifications over the years, has been in place for decades and yielded strong results for PSOA. The historical average annual salary increases have been approximately 4.5%. As part of the commitment to manage personnel costs, this budget continues to assume salary increases will average 3% annually in the first ten years of the long-term plan and 4% annually in the final ten years. To achieve these results, it is imperative that the City negotiate a modified survey with the PSOA when its contract expires in 2015. If this does not occur and the assumptions for future increases align with historical averages, we will need substantial cuts in other areas to maintain a balanced long-term plan.

Commitment 2: Fund Retirement Costs for Long-term Sustainability

Since 2010, we have been taking essential steps to address the rising costs of pensions and move to a fiscally sustainable structure for the long term. These actions include moving all new employees to a pension plan with reduced defined benefits and increasing the contribution that our current employees make to the employee share of the pension expense. When I first arrived in 2008, non-sworn employees were paying 1% of salary toward their pension costs and sworn employees were not paying anything. To put that in perspective, in general, current non-sworn and sworn employees would need to pay 8% and 9% of their salaries respectively if they were paying their entire employee contribution rate which is set by state law. Now, as of July 2013, all employees will be contributing 3% of salary toward the cost of their pension expense. Additionally, the contract we recently negotiated with the Sunnyvale Employees' Association (SEA) increased that bargaining unit's contribution to 4% beginning in July 2014.

Through negotiations, sworn employees led the way to a second-tier pension plan by agreeing to move their new employees onto the 3% at age 55 formula effective July 2011. A second-tier pension plan for non-sworn employees required negotiations with four bargaining units and was ultimately contingent on SEA agreeing to move its new employees onto a second tier. We achieved this late last year and the 2% at age 60 formula became effective December 2012. These changes to the pension formulas for new employees put the cost of the City's pension benefit on the path to sustainability; however, it will take years before the new formulas will yield the type of savings that will allow this cost to be considered truly sustainable. As a result, we need to take more action in the near term to reduce the City's cost for the pension expense.

The primary way to do this is to continue moving toward employees paying the entire employee contribution rate that funds retirement benefits. To that end, the FY 2013/14 Recommended Budget assumes non-sworn employees will contribute 8% of pay by FY 2018/19 and sworn employees will contribute 9% of pay by FY 2019/20. These dates are several years away but it is important to remember that we must negotiate the contribution changes with all of the bargaining units. So while we show these changes occurring incrementally over the next five years for the purposes of budget planning (Figure 1), the negotiations will primarily take place after each labor contract expires so the timing of the contribution changes will likely be different.

Figure 1: Employee Contributions to Retirement - Budgetary Assumptions

Fiscal Year	Non-Sworn	Sworn
FY 2013/14	3%	3%
FY 2014/15	4%	3%
FY 2015/16	5%	5%
FY 2016/17	6%	6%
FY 2017/18	7%	7%
FY 2018/19	8%	8%
FY 2019/20	8%	9%

Similar to the assumed changes to the sworn personnel salary survey, it is critical that we successfully negotiate the assumed increases in the employee contribution to their pension expense. Based on the City's salary base, savings of nearly $1 million annually for each additional 1% contribution are already included in the FY 2013/14 Recommended Budget. To the extent these contribution increases are not achieved, we will be required to reassess service levels in terms of affordability and actual need which will likely result in major course corrections in future budgets.

The other significant component of retirement costs is the cost of retiree medical insurance. I am pleased to report that the funding plan the City has implemented to address this unfunded liability remains on track. We have contributed nearly $42 million to the City's Other Post-Employment Benefits (OPEB) Trust since FY 2010/11, which includes an initial contribution of $32.6 million, and we expect the trust to be 38% funded by the end of FY 2012/13. We also have continued to include annual contributions to the trust according to our long-term plan in our FY 2013/14 Recommended Budget, and we remain on track with our anticipated timeframe to satisfy that liability in FY 2030/31.

Commitment 3: Get to Optimum Service Levels through Strategic Review/Analysis

In many ways, I have been working to achieve optimal service levels since the day I arrived. This is accomplished by ensuring we have the appropriate number and types of staff and that they are well-equipped and organized efficiently. Almost immediately, I looked critically at how we were providing services and began realigning the organization. While the major components of the reorganization were completed last year, I will continue to explore strategic and creative ways to improve our service levels while maintaining a structurally-balanced budget within the confines of our revenue base. A good example of this is the civilian Community Services Officer (CSO) model that we implemented in the Department of Public Safety in FY 2012/13. These uniformed, highly trained CSOs will be out in the field seven days a week supporting our public safety officers in ways that free these officers up to do more proactive policing.

During this time of fiscal crisis, I also reduced City staffing out of necessity by eliminating certain vacant positions; we simply could not financially support the number of budgeted staff at the time. As a service-providing organization, our primary cost is our people, and because increases in personnel-related costs have outpaced growth in revenues, this has necessitated a smaller workforce – despite a population that is nearly 8% larger than a decade ago, our staffing levels are down 20% over that same period.

My goal, which has largely been achieved, has been to reduce staffing to a sustainable level while minimally impacting the services we provide to the community. We've been able to mitigate much of the impact of the staffing reductions with technological advances, organizational restructures, and other efficiencies that have allowed us to maintain service levels with fewer employees. However, I also want to emphasize that while I believe the City is now operating much more efficiently and effectively, we are not yet at the level I want us to be. And while I have stated on several occasions that 1,021 budgeted employees in 2003 were too many, 816 budgeted full-time employees in 2012 are not enough.

Based on our analysis and evaluation of where additional resources are needed to best improve services levels, I am recommending seven new positions across four departments in the FY 2013/14 Budget: two public safety officers and one crime analyst in the Department of Public Safety; one principal human resources analyst in the Department of Human Resources; two technology coordinators in the Department of Information Technology; and one civil engineer in the Department of Public Works. We carefully selected these seven positions to provide the best service-level value while maintaining a structurally-balanced budget and I believe these additional positions will bring us closer to the optimal level of staffing. Looking beyond FY 2013/14, I also envision incorporating an additional five to seven employees into the long-term financial plan over the next few years; however, this is entirely dependent on revenue increases that would support the additional operating expenditures.

Commitment 4: Establish Long-term Funding for the City's Infrastructure Needs

As with the personnel-related commitments, the Council should be pleased with the progress that has been made to restore adequate funding to address the City's infrastructure needs. In the FY 2011/12 Budget, we programmed $28 million over the 20-year planning period to accelerate street rehabilitation and reconstruction work, including $12.75 million over the first five years. Our goal is to return the City's Pavement Condition Index (PCI) from 76 to 80 over five years and then maintain that optimal level for the 20-year planning period. In FY 2012/13 we used new revenue from a vehicle registration fee to restore tree-trimming services. We're now underway with that contract and are on pace to maintain an average seven-year cycle by trimming a minimum of 5,000 trees per year. Also in the FY 2012/13 Budget, we programmed a total of $30 million over the 20-year planning period towards additional investment in our infrastructure. While we have not yet earmarked these funds for a specific purpose, the intent is to use them to address the needs of the City's administrative facilities, specifically the Civic Center campus and Corporation Yard.

Even with this progress, I want to stress the importance of staying the course as it relates to funding our infrastructure. Because we have budgeted the $28 million for specific street rehabilitation projects, I am confident that we will reach our PCI goal on schedule and are adequately funded to maintain that optimal level going forward. As for the $30 million that has been planned but not yet specifically appropriated, we must continue to move forward with next steps in the process. Specifically, now that we have executed a funding plan to begin to address our City administrative infrastructure, the key next step will be to make decisions on what to do with the Civic Center campus and administrative facilities. Once those decisions are made, the set-aside funds can be appropriated to specific projects and we can proceed with the rehabilitation and/or renovation of our facilities.

Commitment 5: Commit to a Long-term Comprehensive Solution and Stay the Course

The budget and 20-year financial plan to achieve long-term fiscal sustainability come together much like a large tapestry. From afar, you see the tapestry as one piece of art displaying a complete picture. Up close, you see the thousands, if not millions, of interwoven threads. If you were to take one thread and pull it out, you would alter the image. Even more problematic, you won't necessarily know how the image will change because all of the threads are so integrally woven together. You could change the tapestry more significantly or in a far different area than you could ever have guessed.

And so it is with the different pieces we have built upon each other to create a long-term plan for fiscal sustainability. For example, if the PSOA salary survey yields a 3% increase for FY 2013/14 instead of the 2% that is currently budgeted, the General Fund Budget Stabilization Fund will go negative in Year 18 of the long-term plan and end the twentieth year at negative $14.8 million, a decrease of over $25 million for just that one percent change.

Now, does this mean we must rigidly follow the plan and never change it? Of course not. With the Silicon Valley economy and the resulting volatility of our major revenue sources, we continually experience changes in our fiscal environment and must react and adapt. The critical piece is our ability to ride out the inevitable up and down cycles by staying committed to our long-term approach and the principles of our plan. This will allow us to maintain focus on reaching our goals while tackling new issues and challenges as they arise.

For instance, while much of our focus has been on controlling our expenses, we also need more discussion and action related to increasing our revenues and strengthening our revenue base. Over the next year, we should discuss the Utility Users Tax (UUT) which makes up 5% of our total General Fund revenue. The UUT has not been adjusted since 1975 when it was set at 2%. This rate is now nearly 50% lower than the Santa Clara County average of 3.7% and it is only applied to a limited set of utilities. Local voters set the UUT rate and the City retains 100% of the revenue. Because we have full control over this revenue source, it is vitally important that we analyze our rate compared to our neighboring jurisdictions and ensure we are collecting an appropriate amount of revenue to help keep pace with the ever-increasing demand for our services.

The Five Key Commitments form the basis of our long-term budget strategy. They are all rooted in the hard work we have done together and I strongly believe they will give us a solid path forward. I commend the City Council for demonstrating such commitment to the long-term comprehensive plan over the past four years and I remain confident that you will be able to keep us on this path.

Gary Luebbers

May 3, 2013

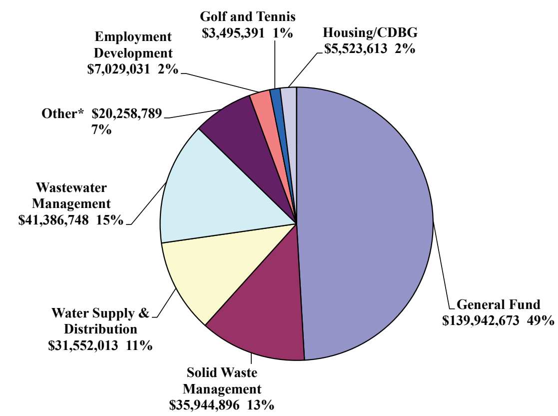
Overview of the Recommended Budget

Citywide Expenditures

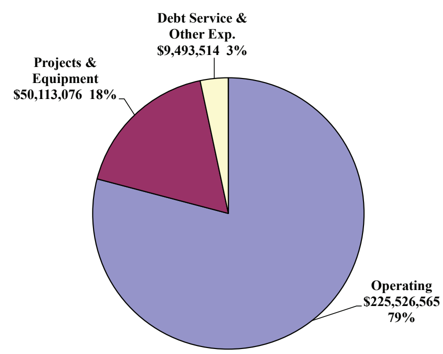
The Citywide FY 2013/14 Recommended Budget and 20-Year Resource Allocation Plan as presented for Council consideration totals $285.1 million. This encompasses all City funds, the largest of which are the General Fund, at 49%, and the Utilities Funds, with 39% of the total. As Figure 2 shows, operating expenditures make up 79% of the total budget, with projects and equipment expenditures at 18% of the total, accounting for nearly all of the rest. The FY 2013/14 Budget is a projects budget year in which a detailed review of the City's twenty-year projects budget was conducted and projects were updated accordingly for this recommended budget. Next year, a detailed review of the operating programs will be performed.

Figure 2: FY 2013/14 Citywide Expenditures

Expenditures by Fund



Expenditures by Type



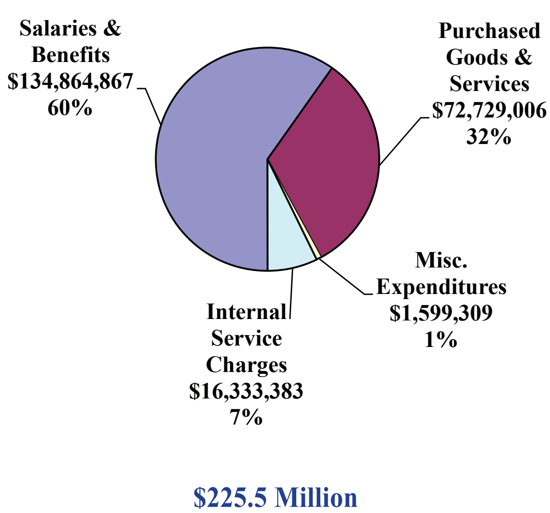
$285.1 Million

**Other Funds include Park Dedication, Asset Forfeiture, Police Services Augmentation, Parking District, Gas Tax, Youth and Neighborhood, Redevelopment Successor Agency Fund, Capital Projects, and Infrastructure Renovation and Replacement. Interfund transfers excluded.*

Operations

The total Citywide operating budget of $225.5 million is up $6.6 million, or 3%, from the FY 2012/13 Adopted Budget. The largest component of the increase is in purchased goods and services which are up $4.3 million, primarily the result of increased costs for the refuse collection contract. Salaries and benefits are up $1.7 million, or 1.3%, from the prior year's budget. While seven new positions have been added Citywide, this increase in personnel costs is partially offset by a lower public safety salary base than what was assumed last year. The base is lower for two reasons: the 2012 salary survey results came in with a negative adjustment whereas a 2% increase was budgeted, and the salary adjustment assumption for FY 2013/14 has been lowered from 2.5% to 2.0%. The budgeted additive rate to cover costs for benefits is up over the FY 2012/13 rate but is in line with the estimate for FY 2013/14 made in last fiscal year's long-term plan.

Figure 3: Operating Expenditure by Type



Salaries and Benefits

Within Citywide operations, 60% of budgeted costs are for salaries and benefits. Therefore, personnel cost containment has been a priority over the last several years, and the City and its employees have made significant progress in this area. Over the past two years, all Miscellaneous employees, which includes all employees who are not sworn officers, have agreed to the concessions first laid out in the FY 2011/12 Budget. These concessions included no salary increases for two years, contributing an additional 2% toward pension costs, and implementing a lower-tier retirement formula for new hires. As of last year at this time, all Miscellaneous bargaining units except SEA had agreed to these concessions. In December 2012, SEA and the City reached agreement on a new contract that included these concessions. As a result, a second-tier retirement plan, the 2% @ 60 formula, was implemented for non-Safety employees. In addition, SEA agreed to an additional 3% contribution toward their retirement costs, phased in over the term of the contract so that by July 2014, SEA employees will be paying a total of 4% of salary for retirement costs.

For the City's sworn officers, good progress has also been made in containing personnel costs; however, there is more work to be done. Over FY 2010/11 and FY 2011/12, both PSOA and PSMA agreed to compensation concessions that have started to address the significant increase in pension expenses that the City has experienced over the past decade. These concessions include both units agreeing to contribute 3% of the employee contribution of the pension expense, as well as new employees going on the lower tier 3% @ 55 pension formula instead of the 3% @ 50 formula. These concessions have assisted in containing rising personnel costs; however, the salary survey utilized to determine PSOA salaries was not a part of these concessions.

The salary survey uses a modified total compensation base and includes base salaries, employer paid contributions to retirement, and employer paid health benefits. Twelve agencies are surveyed and the four lowest agencies from a total compensation perspective are removed from the final calculation. The total compensation for the remaining eight agencies is averaged and PSOA members are compensated 11% higher than that average. As noted previously, this salary survey formula has yielded strong results for sworn officers over the years, with historical average annual salary increases of approximately 4.5%.

Due to the recent fiscal climate, the salary survey has produced results lower than the historical average in the last two years. For FY 2011/12, the survey yielded an increase of 1.25% and for FY 2012/13, the survey produced a negative 0.37%, resulting in a $1 million reduction to the public safety salary base when compared to what was budgeted. Based on preliminary survey information, this budget assumes a 2% increase for FY 2013/14. In FY 2014/15, the final year of the current contract, the assumed increase is 4%. Starting in FY 2015/16, assumed increases are 3% annually through FY 2022/23 and then increase to 4% annually for the remainder of the long-term plan.

It is imperative that the City negotiate a modified survey with the PSOA to have any hope of meeting the budgetary assumptions for long-term Safety salary increases and retirement costs.

While the 3% and 4% salary increase projections may seem reasonable given the recent survey results for the past two years, it is likely as cities regain their financial footing that compensation for Safety employees will begin to again rise at more historical levels and may even go higher to compensate for low years as historical trends have shown. In fact, recent budget discussions in the City of San Jose include potential salary increases for police officers even though San Jose still has a budget deficit. As such, the salary increase projections that are maintained in the FY 2013/14 Recommended Budget <u>assume adjustments to the salary survey formula when the MOU expires in 2015</u>. It is imperative that the City negotiate a modified survey with the PSOA to have any hope of meeting the budgetary assumptions for long-term Safety salary increases and retirement costs.

Going forward, the efforts to further contain personnel costs will continue, and the focus will be on increasing the amount City employees contribute to pay for the employee share of the pension expense. As of July 1, 2013, all City employees will be paying 3% of pay towards the employee share of the pension expense. The FY 2013/14 Recommended Budget assumes that the contribution for Miscellaneous employees will increase to the full 8% of pay by FY 2018/19, with Safety employees increasing to the full 9% of pay by FY 2019/20. It is important to note, however, that these increases must be negotiated with the bargaining units.

Pension Update

In addition to the progress the City and its employees made to move new employees onto lower-tier pension formulas, the State also passed a comprehensive pension reform bill in 2012. This bill, known as the California Public Employees' Pension Reform Act (PEPRA), included a number of components aimed at addressing the cost of providing defined-benefit pension plans to public employees. From a long-term cost savings perspective, the most significant components of the bill include a lower pension formula for new employees who are not already part of the CalPERS system (which created a third-tier pension formula for the City), a mandatory employee contribution equal to half of the normal cost of the pension benefit for new employees to CalPERS, and a cap on earnings eligible to be included in the pension calculation for new employees. The impact of PEPRA has been incorporated into the City's short- and long-term employer contribution rate, which is developed by the City's consulting actuary.

Unlike the employee rate, which is a fixed percentage of pay, the employer rate is adjusted annually by CalPERS through an actuarial analysis that takes into account demographic information and investment earnings on the asset portfolio. Over the past decade, CalPERS contribution rates have increased significantly, predominantly due to market losses experienced in the early 2000s and in FY 2008/09. To mitigate the impact to employer contribution rates, CalPERS applied smoothing methodologies that phased in rate increases but results in higher rates over the long run and leaves employers subject to high rate volatility if investment returns do not meet CalPERS assumptions. This methodology also does not fully pay down the unfunded liability.

In an effort to mitigate some of this rate volatility, as well as to more aggressively fund the City's pension plans, the City has contributed more to CalPERS than required over the past several years

Figure 4: Sunnyvale & CalPERS Employer Contribution Rates and Costs

Fiscal Year	CalPERS Safety Employer Rate	Sunnyvale Safety Employer Rate	Cost of Sunnyvale Contribution	CalPERS Miscellaneous Employer Rate	Sunnyvale Miscellaneous Employer Rate	Cost of Sunnyvale Contribution
FY 2013/14	35.2%	38.5%	$11.7M	21.0%	23.7%	$12.9M
FY 2014/15	37.1% (est)	39.4%	$12.5M	22.2% (est)	24.3%	$13.6M
FY 2015/16	--	41.0%	$13.4M	--	25.1%	$14.3M
FY 2016/17	--	44.1%	$14.9M	--	26.7%	$15.6M
FY 2017/18	--	45.0%	$15.6M	--	27.2%	$16.2M

based on rates developed by our consulting actuary. Recently, the chief actuary of CalPERS proposed, and the CalPERS Board approved, eliminating the current smoothing methodologies in favor of a more direct-rate smoothing method that will recognize gains and losses over five years, and setting rates to pay down unfunded liabilities over a fixed period. These changes will increase rates in the near term. The chief actuary is also looking to incorporate mortality improvements that will further increase rates. Our consulting actuary has adjusted our employer contribution rates to include these changes, as well as the savings for the new pension formulas. Because we have already been paying higher rates, the City has effectively implemented some of the CalPERS changes early. In addition, with the recommended budget assuming employees will contribute more towards their retirement costs, the net impact to the City's retirement cost is modest savings over the 20-year plan in comparison to projections made last fiscal year, which is a significant accomplishment. Through the City's long-term planning model, we identified the real cost of retirement over the long term, built in these costs, took steps to contain costs, and developed a funding plan. Sunnyvale is now in a better position financially than most other agencies, as we are paying into CalPERS now at rates that reflect changes that will not be fully implemented by CalPERS until FY 2019/20. This more aggressively addresses the imminent rate increases, which, as noted, reduces some of our rate volatility, fully amortizes the City's unfunded liability, and will result in lower long-term rates in comparison to other jurisdictions.

While we are in a better place than most, like everyone else, our costs depend heavily on the investment returns of our assets in CalPERS. Therefore, a concern of moving to a more direct-rate smoothing method that will recognize gains and losses faster is that we will be subject to more rate volatility on a year-to-year basis with the normal ups and downs of the investment market. In addition, the CalPERS chief actuary has stated the economic assumptions, including the discount rate, or rate of return, will be reviewed next spring. He has discussed the three likely scenarios to result from this review: keeping the current rate of 7.5%, a 0.25% reduction, or a 0.50% reduction. A reduction will have a significant impact on employers' contribution rates. For Sunnyvale, even a 0.25% reduction will increase rates by 5% of pay for Safety employees and 3% of pay for Miscellaneous employees. This would increase retirement costs by over $3 million annually. To deal with the year to year volatility and prepare for the potential change to the discount rate, we are increasing the reserve levels in the Employee Benefits Fund. The PERS Rate Uncertainty Reserve is estimated to be $2.7 million at the end of FY 2012/13 and is projected to grow to $16.4 million over twenty years.

Sunnyvale is now in a better position financially than most other agencies, as we are paying into CalPERS now at rates that reflect changes that will not be fully implemented by CalPERS until FY 2019/20.

Increase in Budgeted Positions

The FY 2013/14 Recommended Budget includes seven new positions across four departments: two public safety officers and one crime analyst in the Department of Public Safety; one principal human resources analyst in the Department of Human Resources; two technology coordinators in the Department of Information Technology; and one civil engineer in the Department of Public Works. One of the public safety officer positions will be funded with Supplemental Law Enforcement (SLES) grant funds. The positions in the Department of Public Safety were added for the direct impact they will have on services to the community. The positions in Human Resources and the Information Technology Department will increase operational effectiveness within the organization. Reductions to internal service departments are often the first ones made during a fiscal crisis and that is what occurred here several years ago. While staff managed, it has impacted services as these areas provide the essential tools and resources for all operating departments. The position in Public Works is essential to managing and completing the extensive capital project plan we have in front of us. As the *Major Projects Highlights* section of this transmittal letter details, we have numerous capital efforts occurring across the City. Additional resources are necessary to ensure successful execution.

Projects

Nearly half of the $50.1 million budgeted for projects and equipment is for utilities infrastructure, with $22 million for the Wastewater Fund alone. Highlights of the significant projects in this FY 2013/14 Recommended Budget are detailed later in this transmittal letter, under *Overview of the Recommended Budget – Projects*. Because of the City's long-term planning framework, project expenditures and resulting operating costs are identified over the twenty-year planning period. Of note is a new project to build a branch library in north Sunnyvale. In addition to the costs of construction, new operating costs are expected to be $439,000 annually starting in FY 2014/15. Of this amount, $242,000 represents net new operating costs, while the remaining $197,000 will be reallocated from the existing Library budget.

RDA Losses Continue

With the dissolution of redevelopment agencies (RDAs) in early 2012, last year's budget absorbed a net loss of $91 million in the General Fund 20-year financial plan. This accounted for the loss of projected loan repayments from Sunnyvale's RDA to the City. Subsequent actions by the State's Department of Finance (DOF) have resulted in additional losses to the City. DOF has denied reimbursement of lease payments made in connection with a RDA related debt, certificates of participation, requiring $11 million to be absorbed within the General Fund 20-year plan. In early April 2013, DOF ordered the return of $13.8 million from the City for loan repayments made in FY 2010/11 and FY 2011/12, prior to the RDA dissolution. We feel strongly that DOF is not applying the dissolution legislation correctly and staff is currently in the administrative appeal process for both of these actions. However, because the appeals process is through DOF, we are not optimistic on a positive resolution and may have to consider litigation. As a result, to be conservative, both of these losses have been reflected in this financial plan. If the City prevails, there will be a considerable positive impact that could address infrastructure funding, unfunded liabilities, and/or optimal staffing levels.

Golf and Tennis Fund Structural Imbalance

In FY 2011/12, recreation operations were moved into the General Fund and the Community Recreation Fund became the Golf and Tennis Fund. The newly configured fund was first presented in the FY 2012/13 Budget. The intent was for golf and tennis operations to continue to operate as a true enterprise fund, with all activities self-supporting.

The Golf and Tennis Fund faced significant challenges in FY 2012/13. In August 2012, the long-time operator of the restaurants at the golf courses closed its doors with virtually no notice to the City. The operator's contract was subsequently terminated and a new operator took over in the spring of 2013. This reduced revenue to the Fund for rental income, but more importantly, rounds of play at both courses declined approximately 10% from FY 2011/12 to year-end projections for FY 2012/13. While staff has been able to reduce expenses this year by not filling some vacant positions, the reductions in revenue will cause the Golf and Tennis Fund to run a deficit of approximately $300,000 in FY 2012/13, which is more than the available balance in the Fund's reserve. Based on current revenue and expense projections for FY 2012/13 and FY 2013/14, a $300,000 budget modification from the General Fund will be requested in FY 2012/13 to cover the expected deficits in both of those years.

As a result of the restaurants reopening prior to the start of FY 2013/14, staff is projecting that golf course revenues will return to FY 2011/12 levels and then trend up slowly going forward. Even with modest increases in revenue, expenses are also projected to increase, resulting in a projection of ongoing deficits in the 20-year financial plan. In addition, planned capital improvements at the golf courses are currently funded by Park Dedication Fees. This is expected to be eliminated by FY 2032/33, which will place added pressure on the Fund by requiring it to fund its own capital and infrastructure.

In FY 2013/14, staff will focus on both growing golf course revenues and looking for additional opportunities to reduce expenses. This will include reviewing current operations and staffing levels to look for efficiencies, including the possibility of contracting out some portions of the operation.

On a more positive note, the new operator of the Tennis Center has done very well. Feedback from the tennis community has been very positive and much needed improvements to the pro shop and locker room were completed as scheduled and funded by the new operator.

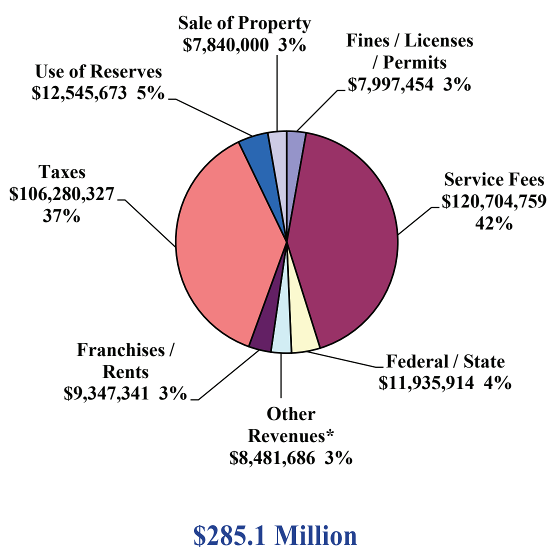
New Enterprise Fund for Development Activities

Over the last several years, staff has been evaluating development-related fees and costs to ensure the City is charging the appropriate level of fees and obtaining full cost recovery. As part of this effort, staff will be creating a separate enterprise fund for development-related activities over the next fiscal year. The enterprise fund will allow all direct and indirect costs related to development activities that occur across several departments to be accounted for in one place. Because expenditures related to specific fees can occur later than when the revenue is collected, a separate fund will provide for better tracking of expenditures and revenues over time as cost recovery is validated. As a start to this process, a separate reserve has been created in the General Fund entitled *Development Enterprise Reserve*. At the end of FY 2012/13, this reserve will hold revenues collected in excess of what was budgeted for development-related revenue for the fiscal year. This reserve will transfer over to the new enterprise fund when it is created. Staff anticipates the new fund will be set up for FY 2014/15 and will be presented in next year's budget.

Citywide Revenues

On the resources side, the largest sources of revenue are service fees and taxes as Figure 5 indicates. Service fees are primarily utility fees for water, sewer, and refuse services, but also include recreation fees and development impact fees such as Park Dedication and Traffic Impact fees. The majority of the tax revenue is comprised of property tax, sales tax, transient occupancy tax, and utility users tax revenue, which are all in the General Fund.

Figure 5: Citywide Revenue by Source



**Other Revenues include interest income, SMaRT Station revenues, and housing loan repayments.*

Utility Fees

The City has three utilities that are fully self-supporting: the Water Supply and Distribution Fund, the Solid Waste Management Fund, and the Wastewater Management Fund. Each year, as part of the budget process, staff analyzes the current condition and long-term outlook for all of the City's utility funds. The analysis includes a review of fund balances, state and federal environmental requirements, revenues, anticipated capital, infrastructure and operational requirements, and a detailed inspection of significant expenditure areas. The results of these analyses 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, rather than keeping rates flat and hitting customers with a high increase in one year. The overall recommended increase for FY 2013/14 is just below the total planned increase established last fiscal year:

Figure 6: Planned & Recommended Utility Rate Increases

Utility	Original Projection	Recommended FY 2013/14	Change in Percentage Points
Water	6.5%	5.0%	-1.5%
Wastewater	6.5%	6.5%	0.0%
Solid Waste	3.0%	4.0%	1.0%

The primary drivers of rate adjustments for the water utility are the costs of purchased water and the rehabilitation and replacement of the City's aging water infrastructure. The increases in wastewater rates are largely due to the needed improvements for the wastewater collection and treatment infrastructure including the replacement of the wastewater treatment plant. Solid waste rates are driven primarily by increases in the cost of the collection contract. Additional details on the utility infrastructure projects are included in this transmittal letter under *Overview of the Recommended Budget – Projects*. Detailed information on the utilities funds are included in Volume I of this recommended budget under *Financial Plans – Enterprise Funds*.

General Fund Revenue Highlights

The proposed revenues reflect the continued robust economic activity in the region and Sunnyvale in particular. Based on year to date figures, we anticipate FY 2012/13 revenues for transient occupancy tax, property tax, and development-related revenue to exceed projections made for the FY 2012/13 Adopted Budget. In fact, it appears that development activity for FY 2012/13 will come close to the record high activity of FY 2011/12. This also bodes well for future growth in property tax for commercial properties, which is incorporated into this year's long-term plan.

Overall, five sources generate nearly 78% of the City's General Fund revenues (excluding property sale proceeds). These sources are property tax, sales tax, transient occupancy tax, utility users tax/franchise fees, and development-related taxes and fees. Our projections for FY 2013/14 and beyond vary based on the revenue source. For development-related taxes and fees and transient occupancy tax, which are both currently tracking above a sustainable level, FY 2013/14 projections reflect a reduction in revenues towards an updated baseline amount, with modest growth factored in thereafter. Property tax is projected to experience healthy growth over the next three years before growth returns to more historical levels. Sales tax growth is also expected to be strong in FY 2013/14, with modest growth projected thereafter. Utility users tax/franchise fees are expected to rebound in FY 2013/14 and then also see modest annual growth from there. Detailed information on projections for all of the General Fund's major revenue sources is included in the *Financial Plan – General Fund* tab of *Volume I* of the budget document.

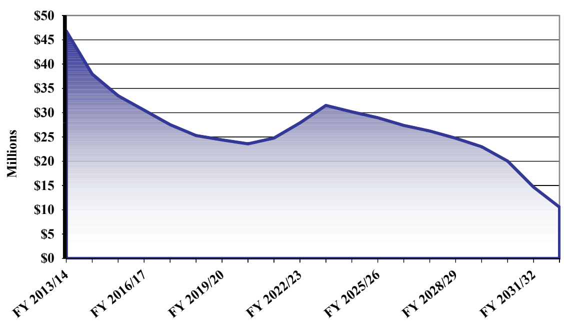
Figure 7: General Fund Top Five Revenues

Revenue Source	2010/11 Actual	2011/12 Actual	2012/13 Revised Projection	2013/14 Proposed Projection	% Change 2013/14 Over 2012/13
Property Tax	$42,356,100	$43,407,026	$49,362,825	$49,025,162	-0.7%
Sales Tax	29,228,078	30,345,514	31,039,146	32,236,373	3.9%
Utility Users Tax/Franchise Fees	13,052,500	13,203,372	12,970,987	13,514,205	4.2%
Development-Related Revenue	7,306,662	13,968,981	13,500,000	9,000,000	-33.3%
Transient Occupancy Tax	6,589,448	7,777,583	8,856,790	8,588,303	-3.0%
Total Top Five Revenues	**$98,532,788**	**$108,702,476**	**$115,729,748**	**$112,364,043**	**-2.9%**

A Structurally Balanced Budget Over the Long Term

The FY 2013/14 Recommended Budget maintains the short- and long-term balance that was established with the FY 2012/13 Budget. Overall, the Budget Stabilization Fund is expected to begin the first year of the long-term financial plan with a balance of $49.1 million and finish the 20th year with a balance of $10.5 million. While it may initially seem concerning that nearly $40 million is being drawn from the Budget Stabilization Fund during the 20-year planning period, the long-term financial plan being presented actually strikes the right balance between ensuring the Budget Stabilization Fund is prudently and thoughtfully funded throughout the long-term plan, but that it is not so well-funded, especially in the latter years, that the City is not maximizing its current service delivery opportunities.

Figure 8: 20-Year Projection of Budget Stabilization Fund



With additions to the revenue base and a lower than previously anticipated salary baseline for the Department of Public Safety, the Budget Stabilization Fund was able to absorb the impact of adding four additional positions into the operations in FY 2013/14. This is in addition to maintaining all of the new funding incorporated into the FY 2012/13 Adopted Budget, including $1.5 million annually as a set aside for administrative infrastructure, the $100,000 annual set aside for Council, and the service-level enhancements for the tree trimming cycle and sidewalk repair.

Overview of the Recommended Budget - Projects

The City operates on a two-year budget cycle. While Council approves a budget annually, the first year of the two-year cycle focuses on the City's operations budget, while the second year focuses on the City's projects budget. The FY 2013/14 Recommended Budget is in the second year of the two-year budget cycle, and as such, this budget focuses on the City's projects. During the development of this budget, there was a detailed review of all City projects for the entire 20-year planning period. Detailed information on all of the projects is included in *Volume II - Projects Budget*.

Figure 9: Total Projects Budget by Fund

Fund	Fund Title	2013/14	2014/15	2015/16	20-Yr Total
35	General	$3,088,138	$2,731,611	$2,677,329	$61,514,092
70	Housing Mitigation	871,610	25,674	17,281	1,249,311
71	HOME	2,450,000	-	-	2,450,000
110	CDBG	967,455	274,300	224,300	7,079,155
141	Park Dedication	15,070	-	-	15,070
175	Asset Forfeiture	44,500	60,690	46,298	1,380,369
245	Downtown Parking District	51,376	-	210,780	262,156
280	Gas Tax	5,000	5,100	5,202	151,650
315	RDA Successor	369,681	125,000	125,000	934,681
385	Capital Projects	3,126,770	19,929,016	22,273,679	56,443,328
460	Water	1,841,330	4,442,123	1,196,514	32,037,849
465	Wastewater	22,011,920	17,919,370	27,671,926	377,405,921
485	Solid Waste	192,771	406,309	117,237	3,616,807
490	SMaRT Station	703,508	88,345	201,245	35,877,627
595	General Services	160,000	94,452	270,504	1,166,460
610	Infrastructure Replacement	11,799,624	14,051,316	6,515,272	195,248,683
Grand Total		**$47,698,753**	**$60,153,306**	**$61,552,567**	**$776,833,159**

The FY 2013/14 Recommended Budget includes 280 projects, 247 proposed for funding and 33 unfunded projects. Unfunded projects are typically in this category because they are dependent on grant funding or other outside funding sources that have not been identified or awarded at this time. In addition, there are many unfunded projects identified in the long-range plans for traffic and transportation that guide the development of the capital projects budget in the short and long term. The list of specific projects related to the traffic and transportation plans are included in the *Traffic and Transportation* section of *Volume II - Projects Budget*.

Major Project Highlights

Prioritization and Strategic Plan for the Utilities Infrastructure

The City has been addressing its aging water and wastewater utility infrastructure for several years now. Like many municipalities in the state and the country, Sunnyvale's water storage and distribution systems and wastewater collection and treatment systems are over fifty years old and in need of significant rehabilitation. Due to the physical location of the infrastructure, the need to make investments that will benefit the City over a very long time, and the ever-changing policy and regulatory environment, there is no cheap, easy, or simple solution.

Two years ago, the City reorganized, carving utility-related activities out of the Public Works Department and creating a new Environmental Services Department with the intent of bringing more focus to these critical services. With the creation of the Environmental Services Department, staff has taken a fresh look at the plan for replacement and rehabilitation of the utility infrastructure and the prioritization of projects. The primary focus to date has been to complete projects funded by bond proceeds from the issuance of $40 million in Water and Wastewater Utility Revenue Bonds. With that effort coming to a close, and the majority of the proceeds anticipated to be expended by the end of calendar year 2013, the Environmental Services Department is moving to focus its effort on the next set of infrastructure replacement projects needed to keep the City's utility systems in good condition.

The Water Supply and Distribution System

The Sunnyvale water system is a comprehensive water storage and delivery system. The City is divided into three pressure zones. Zone 1 comprises the northerly two-thirds of the City and is supplied by six San Francisco Public Utilities Commission (SFPUC) turnouts. Zones 2 and 3 comprise the southerly one-third of the City and are supplied by two Santa Clara Valley Water District (SCVWD) turnouts, and by seven wells. The distribution system also consists of three booster pump plants and ten storage tanks with a capacity of 26 million gallons. There is also one recycled water reservoir with a storage capacity of two million gallons. The system also serves an important role in providing fire protection for the City, featuring approximately 3,400 public fire hydrants and many private fire service connections. The system is managed by an automated Supervisory Control and Data Acquisition (SCADA) system that controls distribution of water throughout the system.

Over the past few years, staff has been working to identify and scope projects to replace the aging infrastructure and improve the system's reliability. $17 million in capital, special, and infrastructure projects are included in the first 10 years of the FY 2013/14 long-term financial plan, and an additional $15 million in fully-identified water infrastructure and capital projects are included in the second 10 years of the plan.

The $32 million total is budgeted over 18 capital improvement projects. While focus on water line replacements will continue, particular emphasis is being placed on rehabilitation and maintenance of potable water tanks and wells and extending the recycled water system. Approximately $15.9 million has budgeted for the renovation of water plants, wells, and tanks. An additional $7.7 million in funding is provided to replace the City's aging water lines and pressure reducing valves. Additionally, by June 2013, the Environmental Services Department will complete the replacement and upgrade of the SCADA System.

A renewed focus has been placed on expansion of the recycled water system. Sunnyvale, in partnership with SCVWD, is participating in a regional effort that will expand Sunnyvale's recycled water system and bring recycled water to southern Sunnyvale. Regional benefits include the delivery of recycled water to northern Cupertino, including the future Apple campus, and the potential to extend the system to serve groundwater recharge facilities in other areas of the valley. $2.1 million has been budgeted for Sunnyvale's share of the regional project to fund upgrades to the San Lucar Pump Station and the extension of the recycled water system along Wolfe Road to Homestead Road. Sunnyvale is working on an agreement with SCVWD to partner in funding this significant expansion of the recycled water system. If such an agreement is approved by Council, staff will return with suggested revisions to the projects budget that reflect the changes. It is anticipated that revisions to the projects will not result in any significant impact on water rates.

The Wastewater Collection and Treatment System

The Wastewater Utility continues to face even larger infrastructure challenges than the Water Utility. The most significant is the renovation of the City's Water Pollution Control Plant (WPCP). The FY 2013/14 Recommended Budget includes planned infrastructure expenditures of over $377 million over 20 years, $316 million of which are related solely to the replacement of the WPCP. Remaining funding is associated with projects to manage the gap between the old and new plant, and infrastructure work on the sewer and storm collection systems.

Replacement of the Water Pollution Control Plant

Rehabilitation and replacement of the WPCP continues to be the highest priority for the City's wastewater treatment system. Projects in the FY 2013/14 Recommended Budget include planning and implementation projects for the replacement of the WPCP and additional projects needed to keep the WPCP operating as the City transitions from the old plant to a new plant over many years.

Over the past several years, the City has been engaged in the early stages of renovating the WPCP. The renovation, which was originally

expected to take ten years and is now anticipated to take twelve years, is a program that will have many components and a series of projects. As such, the projects will evolve and change over time as work progresses.

The proposed 20-year financial plan has included a project for $316 million as a placeholder to provide funding for the full replacement of the plant. The initial planning stages have begun and specific projects are beginning to be identified. As a result, the financial impact of several new projects is being netted out of the placeholder project and reflected as new projects.

The most significant of these included in the FY 2013/14 Recommended Budget is a $58 million project to design and build new primary treatment facilities. It is anticipated that the primary treatment facilities, which will include new headworks, will be constructed on the current bio-solids drying beds. The financial plan also includes a new project to develop the WPCP Master Plan. The Master Plan will help to identify future secondary and tertiary treatment processes as well as prepare the programmatic EIR for the facility. Finally, the budget includes a new project totaling $33.6 million for program management services. The program manager will provide overall program implementation services, oversight, project design management, construction management, and other services in support of the WPCP renovation program.

Work also continues on certain critical projects that were previously identified as necessary in the short term to address the most advanced areas of deterioration. Several such projects were recently completed or are currently in progress. These include a project to replace the gaseous chlorine disinfection system with a much safer liquid hypochlorite system and the rehabilitation of the digesters.

The FY 2013/14 Recommended Budget also includes $4.4 million in funding for new projects to rehabilitate the existing power generation systems and the primary, secondary, and tertiary treatment systems to keep the WPCP functioning until these elements are rebuilt as part of the renovation program.

It is important to note that over time, the City will be issuing bonds to fund the renovation program. At its completion, the City will be paying significant annual debt service, anticipated to be around $20 million per year, approximately 40% of the fund's total expenses. This level of debt service is estimated to remain for 21 years.

Wastewater Collection System

The wastewater collection system consists of approximately 610 miles of sewer and storm mains and seven pump or lift stations. The system has five major sewer trunk lines that terminate at the WPCP, where sewage is treated.

The City's wastewater collection systems are in need of significant rehabilitation due to their age. The FY 2013/14 Recommended Budget includes approximately $19.7 million in the first 10 years in projects related to sewer and storm water collection and an additional $15 million of fully-identified projects in the second 10 years of the plan. Major projects over the first 10 years include $7.5 million for sewer and storm pipe improvements, $6.7 million for rehabilitation of the Lawrence Expressway trunk line, and $4.7 million for sewer and storm pump and lift station rebuilds.

Additionally, $4.4 million in funding is allocated for storm system trash capture devices. To meet new permit requirements, trash capture devices need to be installed throughout the storm water collection system. The project funds the design and installation of two devices every other year over ten years.

Solid Waste Management System

The City's solid waste management system infrastructure is comprised of the closed Sunnyvale Landfill and the Sunnyvale Materials Recovery and Transfer Station (SMaRT Station®). The FY

2013/14 Recommended Budget includes a variety of small projects in the short term to address primarily periodic infrastructure maintenance and regulatory issues.

The most significant project is a $30.4 million project for the replacement of the SMaRT Station. The current agreement among the cities of Sunnyvale, Mountain View, and Palo Alto for the use of the SMaRT Station expires in 2021. This coincides with the end dates of the estimated useful life of the SMaRT Station, the refuse collection franchise, and the three cities' landfill disposal agreements. The year 2021 therefore provides an opportunity to consider changes in how Sunnyvale manages its waste and recyclables. The project provides funding for planning and inter-jurisdictional coordination in fiscal years 2016/17 through 2019/20. Funds for design and construction are scheduled for fiscal years 2020/21 through 2022/23, either to replace the SMaRT Station or to implement some other solution for the management of solid waste and recyclables in the City. The recommended budget is based on the initial construction cost of the SMaRT Station. It is anticipated that the cost for the ultimate replacement will be refined during the planning phase of the project.

Capital Improvement Projects Reserve Funding Prioritization

As discussed earlier as one of the five key commitments, the budget includes $1.5 million annually, totaling $30 million over 20 years, for investment in the City's infrastructure. In addition to the $1.5 million annual set aside, another source of funding for City infrastructure is the Capital Improvement Projects Reserve in the General Fund. This reserve houses proceeds received from the sale of property with the intent of using these one-time funds for one-time capital projects. There is currently $5.6 million in this reserve that is not appropriated. An estimated $8 million is projected to come in for the sale of the Raynor Activity Center. These funds have been appropriated for a branch library in north Sunnyvale. There are also several other sales or long-term lease revenues anticipated in the next several years: long-term lease of the Armory site ($7.4 million), sale of downtown houses ($2.1 million), and sale or long-term lease of the margarine plant ($11.5 million). These proceeds are not earmarked for a specific expenditure so they remain in the reserve and grow with interest earnings. At the end of the 20-year plan, this reserve is estimated to have $49.7 million if funds have not been drawn down prior to that point. Together with the set aside, there will be $81.2 million available in twenty years.

Given the well-documented need for rehabilitation and/or renovation of the Civic Center facilities, the Corporation Yard, and the Sunnyvale Office Center, as well as the current availability of funds from the Capital Improvement Projects reserve and the annual set aside, it is important that we begin taking action. The first step in this process is to determine the scope of rehabilitation and/or renovation, as that will drive the next steps and funding requirements. Whatever direction Council decides to take, a viable funding source is available to begin prioritizing components of the rehabilitation and creating projects to get those components funded.

Park Dedication Fund Projects and Prioritization

Significant increases in revenue to the Park Dedication Fund are expected as a result of Council's action in 2011 to gradually raise the park dedication facility standard from 3.0 acres to 5.0 acres per 1,000 population by July 2014. As a result, the long-term financial plan projects $153 million in revenues to the Park Dedication Fund over the next 20 years. With this increase, staff has prepared a major update to the 20-year Capital Improvement Program (CIP) for the City's parks and recreational amenities. The CIP continues to fund the capital replacement needs for infrastructure such as playgrounds, parking lots, and buildings. In addition, the increased funding has allowed many new park projects to be proposed for the more complete renovations of parks, swimming pools, and buildings with a goal of meeting the recreation needs of the community over the next 40 years. New features in the existing parks are also planned, such as synthetic turf sports fields to improve the usability of parks for organized sports groups. Significant outreach efforts for each major renovation project will be conducted throughout the 20-year plan to ensure renovated parks meet the needs of current park users.

Currently funded projects involving facilities in the Golf and Tennis Operations Fund continue to be funded at the same level. Although there are no new golf and tennis facilities projects planned in this budget, any future new projects will be funded by the Golf and Tennis Operations Fund and not the Park Dedication Fund.

In 2012, staff worked with Council and the Parks and Recreation Commission to develop policies for allocation of Park Dedication Fees. Draft policies were developed and presented to Council in October 2012 for project prioritization criteria, a minimum set aside for park land acquisition, and a system to allocate funds geographically within the City. Council provided feedback on the draft policies and specific direction to develop alternatives for the minimum set aside for park land acquisition that would accelerate the accumulation of funds for park land acquisition and improvement.

In the draft policy reviewed by Council to allocate Park Dedication Fees, staff recommended that a minimum of 20% of revenues be set aside for park land acquisition and improvement. This policy would result in over $30 million of funds being set aside for land acquisition and improvement over the 20-year planning period. This is the base scenario that staff has built the FY 2013/14 Recommended Budget around. Only a small portion of this $30+ million is allocated to specific projects, allowing flexibility to acquire and improve new park sites as opportunities arise.

As an alternative, staff has developed a scenario where 40% of Park Dedication Fees would be set aside for acquisition until $20 million is reached, at which point the allocation changes to 10%. Under this scenario $20 million is projected to be set aside for land acquisition in the first eight years of the plan. Over the course of the entire 20-year plan approximately the same amount of funds would be set aside for acquisitions. Under this scenario, numerous park improvement projects must be shifted to later years of the plan when more funding becomes available. Direction will be needed from Council on which approach will best meet the City's future needs.

Seven Seas/Morse Avenue Neighborhood Park Development

Development of the new 5.3 acre Seven Seas Neighborhood Park began in FY 2009/10. This project includes the closing and demolition of the Fair Oaks Industrial Park and the construction of a new neighborhood park on the site. The Fair Oaks Industrial Park was purchased by the City in 1990 in anticipation of future park needs for the area between State Highway 237, U.S. Route 101, and Tasman Drive.

This project is currently in the final design phase, which is scheduled for completion in spring 2013. In addition, all work has been completed for the removal of soil contaminants in preparation of a clean site for construction. Construction of the park is expected to begin September 2013, and will be completed in the summer of 2014. The project, which is expected to cost a total of $9.5 million, is funded by Park Dedication Fees. Operating costs, with the exception of utilities, will be absorbed within the existing Parks operating budget.

Other Major Projects and Initiatives

Mathilda/237/101 Interchange Project

The City has initiated a project to reconstruct the Mathilda/237/101 interchange. This project will improve traffic operations and capacity in the area. The current project activities will include Caltrans approval of a project concept (the interchanges are largely Caltrans right-of-way), environmental review, and preparation of construction plans and specifications.

In March 2013, City Council accepted a $2 million grant from the Santa Clara Valley Transportation Authority (VTA) that will be matched by the City to complete the design phase of the project. Alternatives analysis and environmental review will begin in 2013. Design is expected to be completed in October 2015, and construction should be complete by February 2017. Estimated construction costs for the project are $16.5 million. The City expects VTA to pay for 50% of this cost with the remainder to come from City Traffic Impact Fees.

Streets and Roadway Infrastructure Maintenance

Maintenance of street surfaces was greatly affected by the economic downturn. In 2010, as a result of reduced street maintenance, the pavement condition index for Sunnyvale streets was at 76, which is not an optimal level from a cost-benefit perspective. In response, the City budgeted additional funds for pavement rehabilitation beginning in FY 2011/12. This included $12.75 million for the first five years to accelerate rehabilitation work on our streets. In FY 2011/12, the City was able to complete maintenance on approximately 15 miles of streets. This included a number of projects on major corridors such as Hollenbeck Avenue, Remington Drive, and Evelyn Avenue.

A large street resurfacing project is planned for the summer of 2013. This includes significant rehabilitation projects on major roadways, including segments along Wolfe Road, Mathilda Avenue, Evelyn Avenue, and Caribbean Drive. The additional funds will continue to be utilized into FY 2014/15 with a goal of restoring the City-wide pavement condition index to at least 80 by the end of 2015.

Calabazas Creek Bridge at Old Mt. View-Alviso Road

The Calabazas Creek Bridge, located on Old Mountain View Road near Highway 237, is shared by the cities of Sunnyvale and Santa Clara. The project received a commitment of Federal

Highway Bridge program funding in the amount of $1.2 million, or 88.53% of the estimated design cost for bridge replacement. The required local match for the design portion is $154,000 which will be split between both cities, with Sunnyvale's share of $77,000 funded with Gas Tax revenues.

Currently staff is working on the request for proposals to select a consultant, and this summer the design, right-of-way certification, and environmental clearance work will start. Once completed, staff will submit a proposal to obtain construction funding. The total project is estimated to cost $9.9 million, with Sunnyvale's share of the local match at $565,000. The project has a construction completion goal of 2015, and once completed, the useful life of the new bridge is estimated to be 40 years.

Fair Oaks Bridge over Caltrain and Hendy Avenue

The Fair Oaks Bridge project will complete seismic upgrades, install sidewalks and bike lanes, rehabilitate the bridge deck, and replace lighting for the Fair Oaks Avenue Bridge over Caltrain. The City has received a commitment of Federal Highway Bridge program funding in the amount of $2.6 million, or 88.53% of the estimated design cost to rehabilitate the bridge. The City's required local match for the preliminary design portion is $337,000 and will be funded with Gas Tax revenues. The total project is estimated to cost $22.8 million, with Sunnyvale's required local match at approximately $2.8 million.

The design, right-of-way certification, and environmental process has commenced and is scheduled for completion in 2015. Once completed, staff will submit a proposal to Caltrans to obtain construction funding. The project has a construction completion goal of 2016, and once completed, the useful life of the new bridge is estimated to be 40 years.

Street Tree Block Pruning Services

In FY 2012/13, Council approved increased service levels for street tree pruning by appropriating an additional $475,000 annually. A contract for $1.2 million was awarded to West Coast Arborists Inc. for a term of two-and-a-half years that will help to ensure sustainability of the urban forest in Sunnyvale. The contract calls for a minimum of 5,000 trees to be pruned annually so that each of the 37,000 trees in the inventory will be pruned on an average 7-year cycle, depending upon the species. Previously, City staff was only able to prune 1,000-2,000 trees per year due to the focus on abating hazardous conditions taking priority. Between the contractor and City staff, a minimum of 6,500 trees are planned for pruning in FY 2013/14, which represents a 300% increase over the previous year.

Branch Library in North Sunnyvale

In order to increase access to library services for residents in north Sunnyvale, Council directed staff on July 31, 2012 to explore a branch library at the

Lakewood School and Park site in partnership with the Sunnyvale School District. In line with the City's policy to utilize one-time funds for one-time expenditures, the proceeds from the sale of the Raynor Activity Center will fund the construction of the branch library. The process to sell the Raynor Activity Center is currently underway and is anticipated to be completed in the summer of 2013. The size and cost of the branch library will be determined based on the sale proceeds.

The branch library project is scheduled to start design in FY 2013/14 with construction to begin the following year. Current construction estimates are based on a 7,000 to 10,000 square-foot branch library at the Lakewood School and Park site totaling approximately $7 to $9 million. The annual operating costs for the branch library are estimated to be approximately $439,000. Of this amount, $197,000 will be reallocated funding from the Library's existing operating budget and will not constitute new funding. The remaining $242,000 will be the net new annual funding requirement. This amount has been reflected in the General Fund 20-year financial plan beginning in FY 2014/15.

Recruitment and Training for Sworn Officers

The Public Safety Department budgets for the recruitment, selection, and training of new public safety officers in a series of recurring special projects rather than in the operating budget. This methodology allows expenditures to fluctuate each year based on the number of recruitments and allows for better monitoring and tracking of costs. To meet the staffing needs of the department in FY 2013/14 and support the proposed sworn staffing level of 197, $2.5 million in funding has been budgeted in two projects to provide for the selection, recruitment and training of new recruits. This funding will provide for the continued training of 11 recruits hired during the FY 2012/13 hiring cycle and the training of nine new recruits during the FY 2013/14 hiring cycle. 13 of the 20 total recruits are anticipated to complete the process in FY 2013/14, with the remaining recruits anticipated to complete training in FY 2014/15. A total of $54 million is included in the proposed budget over the 20-year period in these recurring special projects. These projects are adjusted each year, based on projected needs.

Downtown Projects

The revitalization of Downtown Sunnyvale has been underway for several years. Frustratingly, there have been two significant challenges that are out of the City's control which have had a negative impact on the redevelopment of the downtown. First, the stalled development efforts of the privately owned Town Center Mall property and the ensuing protracted legal battles has had a large impact because of its primary spot in the downtown area. Second, the State's decision to dissolve redevelopment agencies in 2012 had a direct impact since the City's one redevelopment project area was our downtown. Despite these challenges, the City remains committed to making downtown a strong and viable city center. With the substantial progress in the redevelopment of the former Town and Country retail site, the Plaza del Sol Phase II project has been funded in this budget. Because the specific elements of this phase have not been developed yet, $2.2 million

has been budgeted over two years starting in FY 2016/17 as a placeholder. This project is funded by the Park Dedication Fund. In addition, there is $2.3 million budgeted over the next three years for various downtown traffic and transportation projects funded by the General Fund Capital Improvement Projects Reserve.