Fiscal Year 2006/2007 Budget Workshop

Tuesday, May 23, 2006
City Council Chambers
FY 2006/2007 Budget Workshop

♦ Agenda
- Overview of FY 2006/2007 Recommended Budget
- Fund Reviews: Twenty-Year Financial Plans
- Review of Operating Programs
- Review of Fee Schedule
Budget Process

- 20-Year RAP and Long Term Financial Plan
- 2-Year Operating and Projects Budget with Alternating Focus
  - On-Year for Operating Budget
  - Off-Year for Projects Budget
- Revenues, Personnel Costs, Enterprise activities reviewed annually
Budget Process

- Fiscal Issues Workshop: January 30, 2006
- Budget Workshop: May 23, 2006
- Public Hearing: June 13, 2006
- Budget Adoption: June 20, 2006
Budget Overview

Citywide Budget - $237 million
- 13% below FY 2005/2006 Budget
- 6.7% above FY 2005/2006 when project carryovers are excluded
- Operating budget up 3.56%
  - 2.6% increase without Water Supply and Distribution Fund
Budget Overview

- Sunnyvale’s New Fiscal Reality
  - Includes most FY 2003/2004 reductions
  - Some service restoration

- Service Enhancements for consideration through Budget Supplement process

- General Fund Service Level Set-Aside: $500,000
Ongoing structural gap eliminated in General Fund and Community Recreation Fund

- Voter Approved Tax Increases
- Fiscal Strategies
- Improved Economic Climate
- Financial Successes
State Budget

- Governor’s Proposed Budget
  - Issued in January
  - Effects on local government:
    - End of two-year property tax shift
    - Mandated Costs – Repayments begin $500,000 over 15 years
    - Continuation of Supplemental Law Enforcement Funding (SLES)
      - $192,000 for Sunnyvale

All incorporated in recommended budget
Governor’s Proposed Budget

- Transportation Funding (Prop 42)
  - No Local Prop 42 Funds for FY 2006/2007
  - Potential Local Funds in FY 2007/2008
    - Sunnyvale allocation - $700,000 (estimated)
  - Repayment of past year suspended payments - $560,000 for Sunnyvale in FY 2006/2007
  - State may defer under current law
  - Constitutional amendment on ballot to prevent deferral
State Budget

Proposition 42 “Fix” Initiative

- New Prop 1A proposed to constitutionally protect transportation funding
  - On November 2006 ballot
  - Permanently dedicates sales tax on gas for transportation needs
  - Severely restricts state’s ability to borrow $$$
  - Strengthens loan repayment provisions
State Budget

- Governor’s May Revise Budget
  - Released on May 12, 2006
  - State revenues higher than originally estimated by $7.5 billion over 2 years
    - $4.8 billion FY 2005/2006
    - $2.7 billion FY 2006/2007
  - Additional school funding
  - Pay down of debt
State Budget

Governor’s May Revise Budget

- Effects on local government
  - Proposed Supplemental Law Enforcement Grant increased
    - $97,000 more for Sunnyvale
  - Pre-payment of FY 2007/2008 obligation for prior years mandated costs
State Budget

- State Budget – Governor’s Strategic Growth Plan
  - November 2006 ballot measure for state infrastructure improvement:
    - $19.9 billion for transportation infrastructure
      - $4.2 million for Sunnyvale
    - $2.85 billion for Housing
    - $4.5 billion for education
    - $4.09 billion for levee repair and flood control
Revenue Assumptions

- Recovery already budgeted
  - FY 2004/2005 was start of upturn
- Business cycles for major revenues reviewed
  - Modified to 7-year cycle in most cases
- Fees reviewed and increased to cover costs
Expenditure Assumptions

- Salary assumptions based on MOU’s and salary formulas
- Employee Benefit Costs are up 1.5% from FY 2005/2006 projected
- Rental Rates up 3.7% from FY 2005/2006
  - Savings from physical assets inventory project reflected
$19.8 million budgeted for FY 2006/2007
- $238 million budgeted over twenty years
- 307 projects recommended

Unfunded projects list refined
- $433 million over twenty years
- Represents substantial future unfunded liabilities to the City
- Will be reviewed during Projects Budget process
## Budget Supplements

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<td>General</td>
<td>1</td>
<td>Liquidambar Street Tree Removal</td>
<td>$0</td>
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<td>Yes</td>
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<td>General</td>
<td>2</td>
<td>Identify Sunnyvale – Promote Sunnyvale as a Destination for Shopping,</td>
<td>$0</td>
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<td>Entertainment, Dining and Lodging</td>
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<td>Funding for Expanded Neighborhood Grant Program</td>
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<td>4</td>
<td>Proposal to Eliminate the Library’s DVD/Videotape Feature Film Rental Fee</td>
<td>($106,090)</td>
<td>($100,000)</td>
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<td>in FY 2006/2007</td>
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<td>Case Management for Seniors</td>
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<td>Restoration of Street Sweeping Service Levels</td>
<td>$0</td>
<td>$246,252 - $315,804</td>
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<td>Park Ded.</td>
<td>7</td>
<td>Construct Restroom Building at San Antonio Park</td>
<td>$0</td>
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<td>Reduce Service Level for Median Island Landscaping</td>
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<td>Public Safety Enhanced Traffic Enforcement</td>
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<td>Public Safety Officer Recruitment</td>
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<td>Request for Email Subscription Management Application</td>
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<td>Comm. Rec.</td>
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<td>Community Recreation Fund Budget Imbalance</td>
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Financial Successes

Year-End Results for FY 2003/2004 and FY 2004/2005

- Positive impact from higher revenues and lower expenditures
  - FY 2003/2004: $4.8 million
  - FY 2004/2005: $6.5 million
- Reduced drawdown from General Fund reserves
Financial Successes

- **Long Range Infrastructure Plan**
  - Full twenty year estimates including utility-related assets included in FY 2006/2007

- **Affordable Housing**
  - Strategic planning process started to maximize and leverage funding
Financial Successes

- Sunnyvale’s Planning and Management System
  - Performance budgeting component updated
  - All operating programs restructured for FY 2006/2007
  - Council Workshop on February 4, 2006 to review restructures
    - Preliminary direction incorporated into recommended budget
Financial Successes

- General Services Inventory Project
  - Physical assets inventory of all IT and Facilities equipment
  - Overall equipment valuation reduced $500,000
  - IT replacement schedule reduced 20%
  - Rental rates adjusted to reflect savings
Financial Successes

- **Library Facility and Programming**
  - Visioning exercise completed
  - Planning phase slated for FY 2006/2007

- **Sunnyvale Center for Innovation, Invention and Ideas (Patent Library)**
  - SCI³ closed, Patent and Trademark Depository Library status maintained
Financial Successes

◆ Fee Analysis
  – Comprehensive initiative to ensure fees cover full costs
  – Subsidy analysis of development fees completed
  – Full costing of DPS and utility fees incorporated in fee schedule
  – Project to be continued in FY 2006/2007
Financial Successes

- Transient Occupancy and Business License Tax Increases
  - Voter approved increases provide $1.4 million when fully implemented
Fiscal Pressures

- Base Realignment and Closure process for Onizuka AFS
  - Funding for BRAC process needed
- Roadway maintenance
  - Potential reduction in City’s overall Pavement Condition Indicator
- Rising costs of labor
  - PSOA MOU expires June 30, 2006
Fiscal Pressures

- **Golf course operations**
  - Decline in golf play
  - Increasing infrastructure requirements
  - Golf Course Strategic Vision process

- **Water Pollution Control Plant rehabilitation**
  - $35 million in projects in next 10 years
  - Study indicates $55 - $65 million needed
  - Possible process modifications to reduce costs
Fiscal Pressures

- Maintenance of 100 Block of Murphy Avenue
  - Enhanced maintenance done as capital project through June 30, 2006
  - Council to decide if funding should continue
  - $46,000 annual cost from General Fund
New Initiatives

- Traffic and Transportation funding comprehensive review
- Overall review and strategic plan for all parks and open space assets
- Analysis of civic center and corporation yard facilities
Questions, Comments, Suggestions on Budget Overview Section
Fund Reviews

- Review of Twenty-Year Financial Plans
  - Focus will be on Funds with major changes or policy issues
General Fund

- Includes basic City services and general government support functions
- Impacted by economic conditions and State legislature actions
General Fund Revenues

- Overall revenues for FY 2006/2007 up 2.8% from FY 2005/2006 projected
  - $2.9 million increase
- Five major revenue sources generate 76% of revenue
  - Sales Tax
  - Property Tax
  - Utility Users Tax/Franchise Fees
  - Transient Occupancy Tax
  - Construction-Related Revenues
Sales Tax

- Overall revenues for FY 2006/2007 up 3.7% from FY 2005/2006 projected
  - $1 million increase
- FY 2005/2006 projected 10% higher than last year due to accelerated business to business purchases and one-time Use Tax
- Ongoing base identified
- Projections based on four categories
- Seven year business cycle
Overall revenues for FY 2006/2007 up 3.3% from FY 2005/2006 projected
– $1.1 million increase

Projections isolate residential and commercial/industrial

Commercial/Industrial held flat

Continued growth in residential

Property tax lags economic cycle by 1 year
Utility Users Tax

- Overall revenues for FY 2006/2007 up 2.8% from FY 2005/2006 projected
  - $169K increase
- Electricity sales - 59% of UUT
  - 3.8% increase
  - Reflects full year of PG&E rate increase
Utility Users Tax

- **Telephone sales** - 26% of UUT
  - 1% annual increase due to competitive telephone market

- **Gas sales** – 15% of UUT
  - Based on average because of market volatility
Franchise Fees

- Overall revenues for FY 2006/2007 up 3.8% from FY 2005/2006 projected
  - $209K increase

- Franchise Payments from:
  - PG&E (40%)
  - AT&T Cable (18%)
  - Specialty Garbage (26%)
  - SMaRT Garbage Host Fees (14%)
Transient Occupancy Tax

- Overall revenues for FY 2006/2007 up 11.9% from FY 2005/2006 projected
  - $648K increase
- Revenue up 8% in FY 2005/2006
- Average occupancy rate up
- New tax rate
  - 9% on January 1, 2007
  - 9.5% on January 1, 2009
Construction-Related Revenue

- Overall revenues for FY 2006/2007 up 9.3% from FY 2005/2006 projected
  - $613K increase
- Includes Construction Tax, building permits, plan check fees
- FY 2005/2006 up 11% due to high levels of residential development
- Rolling seven year economic cycle
  - Peak in FY 2006/2007
Other Revenue Highlights

- **Business License Tax**
  - Rate increase over two-year period
  - $800K additional when fully implemented

- **Real Property Sales**
  - Downtown properties $2.8 million in FY 2010/2011
  - Unilever Margarine Plant $21 million in FY 2017/2018
  - Proceeds placed into Capital Improvement Projects Reserve
General Fund Expenditures

- **Total Expenditures**: $114.6 million
  - Up 5.82%
- **Operating Budget**: $108 million
  - Increase of 4.54% over FY 2005/2006
  - 1% of increase due to reallocations from projects or other funds
- **Budget Supplements**: $3.3 million recommended
Major Changes in Operating Budget

- Three ongoing Special Projects moved into Operations
  - Dispute resolution services ($104K)
  - Congestion Management Agency ($250K)
  - Property Management Services ($300K)
- Election-related costs reduced $400K in off year
- Public Safety light duty program moved from Employee Benefits Fund to Public Safety Department ($392K)
Major Changes in Operating Budget

- Gas Tax funds supporting smaller portion of Pavement Operations Program
  - Reduction of $1.7 million

- Employee benefit additives for Public Safety reduced $1.4 million for new retirement and workers’ compensation rates
**Major Changes in Operating Budget**

- **Major changes to Human Resources Department Budget**
  - $1.7 million administrative costs moved from Employee Benefits Fund to General Fund
  - Services enhanced ($445K)
  - Increased recruitment efforts for three-year period only ($188K annually)
  - One position reduced starting in FY 2009/2010
Variable costs for Public Safety recruitment and training moved from operations to special projects ($2.2 million)
Reserves and Set-Asides

- 20% Contingencies Reserve maintained
- New Reserve for Capital Improvement Projects (originally Land Acquisition Reserve)
- Service Level Set Aside: $500,000 starting FY 2006/2007
Significant progress toward fiscal stability
Balanced over twenty years with no additional service reductions
Significant service level additions recommended in Budget Supplement process
General Fund Fiscal Condition

- Service Level Set-Aside funded at $500,000
- Community Recreation Fund subsidy increased
- Improved conditions but vulnerabilities remain
Gas Tax Fund

- Revenue projections show slight decline
- Gas Tax revenues have not kept pace with road usage or inflation
- Major expenditure is street maintenance operating expenses
Fees imposed on high density residential development

$11 million expected in the next 4 years

- Fee increase to $81/s.f. in July 2006
- Revenue projection based on construction development cycle
- Plaza del Sol Phase II moved up in schedule to FY 2006/2007
- $ appropriated to Parks & Recreation capital projects - no further reliance on General Fund
Parking District Fund

- **Revised Long-Term Financial Plan prepared**
  - Reserves drawn down over 20 years
  - Assessments increased 9% every two years
    - 4.5% annually
  - Revised Plan to be reviewed by property owners before approval
Youth and Neighborhood Services Fund

- Columbia Neighborhood Center revenues and expenditures
  - Partnership with School District
  - Restructured to align services and expenses
  - Increase in youth and neighborhood safety services
  - Staffing changes
Agency amended tax increment cap to $600 million in FY 2005/2006
- $24.4 million low and moderate housing liability deferred to FY 2028/2029
- 20% Housing funds starting in FY 2017/2018
- General Fund loan repayment $75M over twenty years, ending balance $167M
Redevelopment Agency Fund

- Reflects Town Center Redevelopment
  - Opening delayed to 2008
  - $4 million additional property taxes annually
  - Return to developer up to $4.05 million, plus 50% of any receipts above this
  - Developer to construct public streets and parking
Water Supply and Distribution Fund

- FY 2006/2007 total operating costs = $19.9 million
- Purchased Water Costs = $12.7 million (63% of total operating costs)
- FY 2006/2007 Adopted rate increase is 11.5%
  - Major factor is increase in cost of purchased water
    - SFPUC 16.2%
    - SCVWD 4.9%
Solid Waste Management Fund

- FY 2006/2007 total operating costs = $30.3 million
- Solid Waste collection contract up $300K from FY 2005/2006
  - Total contract costs = $16.1 million or 52% of operating costs
Solid Waste Management Fund

- Sunnyvale’s SMaRT Station expense share and cost of landfill disposal = $8 million or 26% of total fund operating costs
- 1% Increase in Tonnage to SMaRT Station projected
- FY 2006/2007 Adopted rate increase is 5.5%, same as planned
Wastewater Management Fund

- FY 2006/2007 total operating costs = $16.2 million
- $76.3 million investment in infrastructure and capital projects over the twenty-year plan
- FY 2006/2007 Adopted rate increase is 6%, one and a half percent lower than projected last year
Community Recreation Fund

- Contains the City’s recreation activities: golf courses, tennis center, classes
- Realignment of services and activities with Funds (Community Recreation Fund or General Fund)
  - No net fiscal impact for Funds
Community Recreation Fund

- **Structural Imbalance in Adopted FY 2005/2006 Budget**
  - $650,000 starting in FY 2006/2007

- **During FY 2005/2006, staff developed fiscal strategies**
  - Preliminary plan = $413,000
  - Approved by Council at Fiscal Issues Workshop
  - Budget Supplement #12
Community Recreation Fund

- **General Fund subsidy $3.9 million**
  - Amount set after realignment of revenues and services

- **Recommended that subsidy be fixed at FY 2006/2007 level and grow by inflation**
  - Increase in service level would require additional subsidy
Community Recreation Fund

Other issues for Council consideration

– Family Day
  ▪ $8 - $12,000 cost
  ▪ Subsidy increase required

– Golf Services
  ▪ Golf play down from peak
  ▪ Less net income
    – Fresh look at golf operations
Community Recreation Fund

- Senior Lunch Program
  - $24,000 net cost
  - Participation lower than goal
  - Evaluate future fee increases

- Fee Waiver Program
  - High level of demand
  - Study Issue September 2006

- Swirsky Fund Interest Transfer
  - All used to supplement Mobile Recreation Program
Employee Benefits Fund

- Mechanism to cover expenditures related to employee costs
  - Leaves
  - Retirement
  - Workers’ Compensation
  - Insurance

- Additive rate charged to staff salaries wherever personnel hours are budgeted
Employee Benefits Fund

- Total expenditures $52.2 million
  - Decrease of $300K from FY 2005/2006
- $1.7 million transferred to H.R. program in General Fund
  - No net effect
- Excluding transfer, costs are up 1.5% for FY 2006/2007
Employee Benefits Fund

- Retirement
  - PERS rates reflect new actuarial methodology for FY 2006/2007
  - PERS Rate Uncertainty Reserve established because of volatility
    - Beginning in FY 2007/2008
Employee Benefits Fund

- Workers’ Compensation
  - Goal to reduce costs by 25% in FY 2005/06 will be met
  - Additional 25% reduction over next 5 years
Employee Benefits Fund

◆ Insurances

  – Reserve established for Retiree Medical Benefits
    ▪ Liability calculated at 8.6% of payroll = $7 million
  – New Actuarial study to be conducted
  – Insurance Rate Uncertainty Reserve created
Fund Reviews

Questions, Comments, Suggestions on Fund Reviews Section
Review of Operating Programs

- All programs restructured for FY 2006/2007
- Council reviewed on February 4
  - Changes incorporated
- Council final approval of structures and measures with budget adoption
- Review by program
Review of Fee Schedule

- Adjustments to align with cost of service
- New Fees
  - Community Development
  - Public Safety
  - Finance
  - Public Works
- Addendum for tree removal fees