

# City of Sunnyvale

## Current Fiscal Environment Agenda

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- ◆ Where we were
- ◆ What happened?
- ◆ Where we are now
- ◆ What does this mean for Sunnyvale?
- ◆ What's next?

# Where We Were

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- ◆ June 2008 – Adopted balanced budget and 20-year resource allocation plan
  - Incorporated expected downturn in economic cycle
  - Major revenues were considered to be at sustainable base
  - Vulnerabilities were cost-related
    - Rising personnel costs
    - Unfunded capital projects
    - Aging infrastructure

# What Happened?

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- ◆ September 2008 – January 2009  
Economic conditions have deteriorated significantly
  - Final FY 2007/2008 Sales Tax remittances down 14%
  - U.S. economy melts down in Q4
    - Dramatic loss of wealth in the financial markets
    - Credit markets become frozen
    - Consumer confidence plunges
    - Job losses begin to mount

# What Happened?

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- Announcement in December that U.S. has been in a recession for last 11 months
- Microsoft announces first major layoff in company history
  - 5,000 jobs over next 18 months
  - Profit down 11%
- Intel to cut up to 6,000 jobs and close 5 plants in the U.S. and Asia
- U.S. jobless claims were 589,000 for the week ending January 17
  - Highest rate in 26 years; Unemployment rate is 7.2%

# What Happened?

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- Oil prices drop precipitously in second half of 2008
  - From \$150/barrel to \$40/barrel
- Losses and job cuts throughout the airline industry, even with reduced fuel prices
- Housing starts decreased 15.5% compared to last month
  - Worse year for builds dating back to 1959
  - Largest annual drop (31.8%) for the Silicon Valley in two decades
  - Median price for resale homes in Silicon Valley down to \$457,000; lowest level in seven years

# What Happened?

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- Economic weakness also affecting worldwide economy
  - Growth in China fell to 6.8% compared to previous year
  - Germany will see worst performance in six years
    - Slump in exports and capital investment
- \$125 billion cash infusion to largest nine banks in the U.S. in October 2008
  - Citigroup and Bank of America have subsequently returned requesting more cash
  - Another \$125 billion committed to buy stakes in remaining 8,500 banks and thrift institutions

# What Happened?

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- Bank bailouts in the U.K.
  - \$55 billion (USD) in October 2008
  - Another bailout planned; credit scarce
- \$17.4 billion auto industry bailout
  - \$13.4 billion to GM; \$4 billion for Chrysler
  - Industry represents 13% of U.S manufacturing jobs
- Motor vehicle and parts industry shedding jobs
  - 14% of jobs lost since November 2007
- Local dealers' sales dropped dramatically in December/January

# What Happened?

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- Best Buy takes \$60 million in charges related to employee buyouts
- Circuit City filed for Chapter 11 bankruptcy in November and began closing stores
  - Sunnyvale store being closed
- Sony expects \$3 billion loss this year
  - First loss in 14 years
- Worst holiday sales in 38 years
  - Experts predicting worst trend of store closings in 35 years

# Where We Are Now

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- ◆ FY 2008/2009 Adopted General Fund 20-Year Long-Term Financial Plan updated to incorporate:
  - Revenues at least \$12 million lower than originally projected this year
    - Sales Tax (\$7M)
    - Transient Occupancy Tax (\$1M)
    - Development-related revenues (\$3M)
    - Interest earnings (\$1M)
  - CalPERS losses increasing City contribution rates beginning in FY 2011/2012 by 4% per year
  - Adjusted future projections for Sales Tax and TOT to reflect the new reality

# Where We Are Now

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- ◆ Updated General Fund 20-Year Long-Term Financial Plan has a \$9 million structural deficit
  - That is, expenses exceed revenues by an average of \$9 million annually

# What Does This Mean For Sunnyvale/What's Next?

- ◆ Sunnyvale system of long-term planning allows the City to take a “measured” approach
- ◆ First steps include looking for operating improvements
  - Explore our methods for doing business and look for ways to improve
  - Identify and implement efficiencies
- ◆ Approach will change and adapt as the situation evolves
- ◆ Extreme communications on progress

# What Does This Mean for Sunnyvale/What's Next?

- ◆ What worked in the past may not work this time
  - Creativity, ingenuity and flexibility are the keys to navigating our course
- ◆ Time is of the essence
- ◆ Change is scary, but it has to be embraced to succeed
- ◆ Rely on staff to execute the plan
- ◆ Stay Focused!