

City of Sunnyvale

PRELIMINARY YEAR-END FINANCIAL REPORT

FISCAL YEAR 2011/2012
JULY 1, 2011 - JUNE 30, 2012

OVERVIEW

FY 2011/12 was an encouraging year financially for the City of Sunnyvale, as steady progress was made toward rebuilding a solid financial foundation in the aftermath of the severe recession from several years ago. Over the course of the fiscal year, the local economy stabilized in several areas and many revenue sources improved. Revenue projections for Property Tax, Sales Tax, Transient Occupancy Tax and Development Revenues were all adjusted upward to reflect a recovering local economy. In each case, actual revenues came in higher than the updated projection.

General Fund operating expenditures came in approximately 2% under budget, resulting in a savings of approximately \$2.5 million. This is primarily the result of savings from the strategic management of personnel turnover, and as such, these savings are expected to be one-time in nature, as many vacant positions were eliminated during the development of the FY 2012/13 Budget. Further, \$1.8 million of this savings was anticipated and was already incorporated into the FY 2012/13 Adopted Budget.

Preliminary revenue and expenditure values do not consider the impact of interfund loan repayments to the General Fund, including the repayment from the Redevelopment Agency, or any interfund transfers. It should be noted that because of the uncertainty around the dissolution of the Redevelopment Agency, loan repayment to the General Fund from the RDA were only budgeted through January 31, 2012, right before the dissolution, to be conservative. The final year-end report, which is scheduled to be presented to Council in December, will contain the final reconciliation of all loan repayments and transfers. This reconciliation will impact the final fund balance of the General Fund.

Top General Fund Revenues

	FY 11/12 Revised Budget	FY 11/12 AP14 Actuals	% Year- End/ Budget	FY 10/11 Budgeted Revenue	FY 10/11 Year-end Totals	% Year- End/ Budget
Property Tax	43,077,019	43,407,026	101%	41,937,637	42,356,100	101%
Sales & Use Tax	29,971,933	30,430,535	102%	27,286,190	29,412,214	108%
Development Revenues	12,500,000	14,038,699	112%	6,700,000	7,306,660	109%
Transient Occupancy Tax	7,314,725	7,777,583	106%	6,430,805	6,600,077	103%
Utility Users Tax	6,858,531	6,830,496	100%	6,801,741	6,805,668	100%
Franchise Fees	6,344,385	6,372,876	100%	6,309,686	6,246,832	99%
Rents and Concessions	1,981,722	2,039,814	103%	1,954,014	1,998,569	102%
Business License Tax	1,507,000	1,504,737	100%	1,450,000	1,494,340	103%
Other Permits and Licenses	1,425,883	1,419,820	100%	1,383,003	1,469,125	106%
Real Property Transfer Tax	800,000	924,868	116%	650,000	717,629	110%
TOTAL	111,781,198	114,746,454	102.65%	100,903,076	104,407,214	103.47%

Revenue Updates

The discussion below covering the performance of our major revenues compares actual revenues against updated projections made for the FY 2011/2012 Budget, referred to in this section as the “May Revised Budget.” Projections made for the May Revised Budget were developed in February and March and finalized in April.

Property Tax:

Final Property Tax remittances for FY 2011/12 came in approximately \$330,000 higher than what was projected for the May Revised Budget. This is predominantly the result the City receiving a share of the former Redevelopment Property Tax Increment, which was originally not programmed until FY 2014/15.

Sales Tax:

Sales Tax revenues were approximately \$460,000 above estimates made for the May Revised Budget and exceeded total FY 2010/11 Sales Tax revenues by approximately \$1 million. The positive results reflect the strong business-to-business activity that has driven the recovery of this revenue source over the past several years. Due to the volatile nature of business-to-business sales, which constitute approximately 40% of Sales Tax revenue, staff will continue to closely monitor this revenue source and will update Council when results from the first quarter of the fiscal year are available in December.

Utility Users Tax (UUT)/Franchise Fees:

Utility Users Tax revenues for FY 2011/12 were flat compared to FY 2010/11 and were very close to the projections made for the May Revised Budget. Overall, energy-related revenues were \$123,000 higher than in FY 2010/11, with PG&E electricity revenues accounting for \$80,000 of the increase. Telecommunication-related revenues decreased by approximately 5% in FY 2011/12 and reflect the recent degradation of this revenue source due to the gradual shift in the way consumers are using telecommunication devices, as more and more usage (i.e. text and data) are not subject to the UUT. The City’s Franchise Fee revenue was slightly higher than what had been projected for the May Revised Budget and was \$126,000 higher than FY 2010/11. The fluctuations in Franchise Fees are primarily a result of increased AT&T and Garbage royalty revenues.

Transient Occupancy Tax (TOT):

Transient Occupancy Tax (TOT) revenues exceeded projections made for the May Revised Budget by \$450,000 and were nearly \$1.2 million higher than FY 2010/11. Because of the heavy amount of business-related activity that occurs in the City, TOT revenues tend to follow the Sales Tax revenue trends. Average room rates increased to \$101 in FY 2011/12, a 7% increase over FY 2010/11. Average occupancy rates also increased, climbing to 71%, which was a 4 percentage-point increase over FY 2010/11. Occupancy rates have returned to historically high levels, but room rates are still lower than pre-recession levels. Since these revenues serve as a key early indicator of the City’s fiscal health, especially as it relates to Sales Tax revenue, staff will continue to monitor TOT revenues and report out as appropriate.

Development Revenues:

Revenue received from the various permits and licenses offered by the City, as well as from Plan Check Fees, are a good indicator of the level of development activity within the City. After years of above-average activity, development-related revenues declined considerably in FY 2008/09 and FY 2009/10. However, these revenue sources rebounded sharply in FY 2010/11 and continued to increase substantially in FY 2011/12. In total, development-related revenues exceeded the projections made for the May Revised Budget by approximately \$1.5 million, and were more than \$6.7 million higher than FY 2010/11. The largest increases were seen in Construction Tax and Building Permits, as several large-

Revenue Updates

scale projects were initiated over the past year. Development-related revenues have remained strong during the first few months of FY 2012/13 and staff will continue to closely monitor these revenues and update projections as appropriate.

General Fund Expenditures by Department

Departmental Operating Expenditures:

Preliminarily, General Fund operating expenditures came in approximately \$2.5 million lower than budgeted. This is the result of significant efforts made by the departments to reduce discretionary expenditures and to deliver services with reduced staffing levels. These results are excellent, however, most of these savings are expected to be one-time in nature, and \$1.8 million of the \$2.5 million in savings was already incorporated into the General Fund Financial Plan for the FY 2012/13 Adopted Budget.

	FY 11/12 Revised Budget	FY 11/12 AP14 Actuals	% of Budget	FY 10/11 Budget	FY 10/11 AP14 Actuals	% of Budget
Public Safety	\$73,164,276	\$72,685,830	99.35%	\$70,979,249	\$70,813,977	99.77%
Public Works	\$18,003,748	\$17,653,813	98.06%	\$17,707,684	\$16,701,080	94.32%
Library & Community Svs	\$8,268,033	\$7,695,041	93.07%	\$8,148,752	\$7,871,701	96.60%
Finance	\$7,974,347	\$7,527,454	94.40%	\$7,803,602	\$7,401,600	94.85%
Community Development	\$5,472,128	\$5,426,572	99.17%	\$5,122,945	\$5,138,516	100.30%
Office of City Manager	\$4,334,436	\$3,766,338	86.89%	\$3,914,222	\$3,723,299	95.12%
Human Resources	\$3,419,916	\$3,303,420	96.59%	\$3,459,362	\$3,080,467	89.05%
Office of City Attorney	\$1,626,242	\$1,719,717	105.75%	\$1,790,865	\$1,560,541	87.14%
TOTAL	\$122,263,126	\$119,778,184	97.97%	\$118,926,682	\$116,291,180	97.78%

Although overall General Fund expenditures in total were under budget, the Office of the City Attorney did exceed its General Fund operating budget by nearly \$94,000. This was the result of expenditures for outside legal counsel for ongoing litigation issues being higher than anticipated, as significant resources were required on a number of issues. Most notably, these issues included the ongoing Sunnyvale Town Center insurance recovery and the defense of the park in-lieu fees. It should be noted that the City budgets for outside legal counsel based on the average annual expenditure for these services. Because of this, year-over-year fluctuations in these legal expenditures are expected, and during years with heavy activity, it is not uncommon for these expenditures to exceed budget. However, this is typically offset during years when activity is not as heavy.