City of Sunnyvale
Current Fiscal Environment Agenda

- Where We Were
- The Positive and the Negative
- Where We Are Now
- Key Messages
- What’s Next?

Where We Were

- June 2009 – Adopted budget required multi-year use of budget stabilization fund
  - ~$20M drawdown over the next seven fiscal years
  - Other strategies used to balance budget
    - Operational efficiencies
    - Realignment of personnel costs
      - Salary increase deferrals
        - » $4.5M in FY 2009/2010 and $15M over 20 years

Some Positive Signs…

- July 2009 – January 2010
  - Signs point to end of "Great Recession" and slow recovery
    - GDP grew in the third quarter of 2009
    - Productivity is up
    - Consumption is up
    - Retail sales are up
    - Inflation remains low
    - Consumer confidence is improving
  - **HOWEVER…**

Negative Conditions Continue

- July 2009 – January 2010
  - Local governments continue to struggle
    - Escondido: Without drastic cuts, city would run out of money by Summer 2012
      - » *North County Times – 1/13/10*
    - San Rafael council brings ax down on 15 jobs
      - » *Marin Independent Journal – 1/26/10*
    - Cupertino freezes hiring, delays new capital projects to balance budget
      - » *San Jose Mercury News – 1/20/10*
    - Rocklin: “The city will be out of cash by 2012, if not sooner, if cuts are not made.”
      - » *Placer Herald – 1/27/10*

Where We Are Now

- Unemployment remains very high
    - ~10% nationally; 11.5% county-wide
    - 19.6% “underutilization” rate in CA
        - Unemployed plus underemployed
- Major City revenues continue to be a concern
    - Short term: Sales Tax, TOT, Interest
        - Less than anticipated one year ago
    - Long term: Property Tax
        - Expecting commercial appeals
            - » One pending appeal worth $500K annually

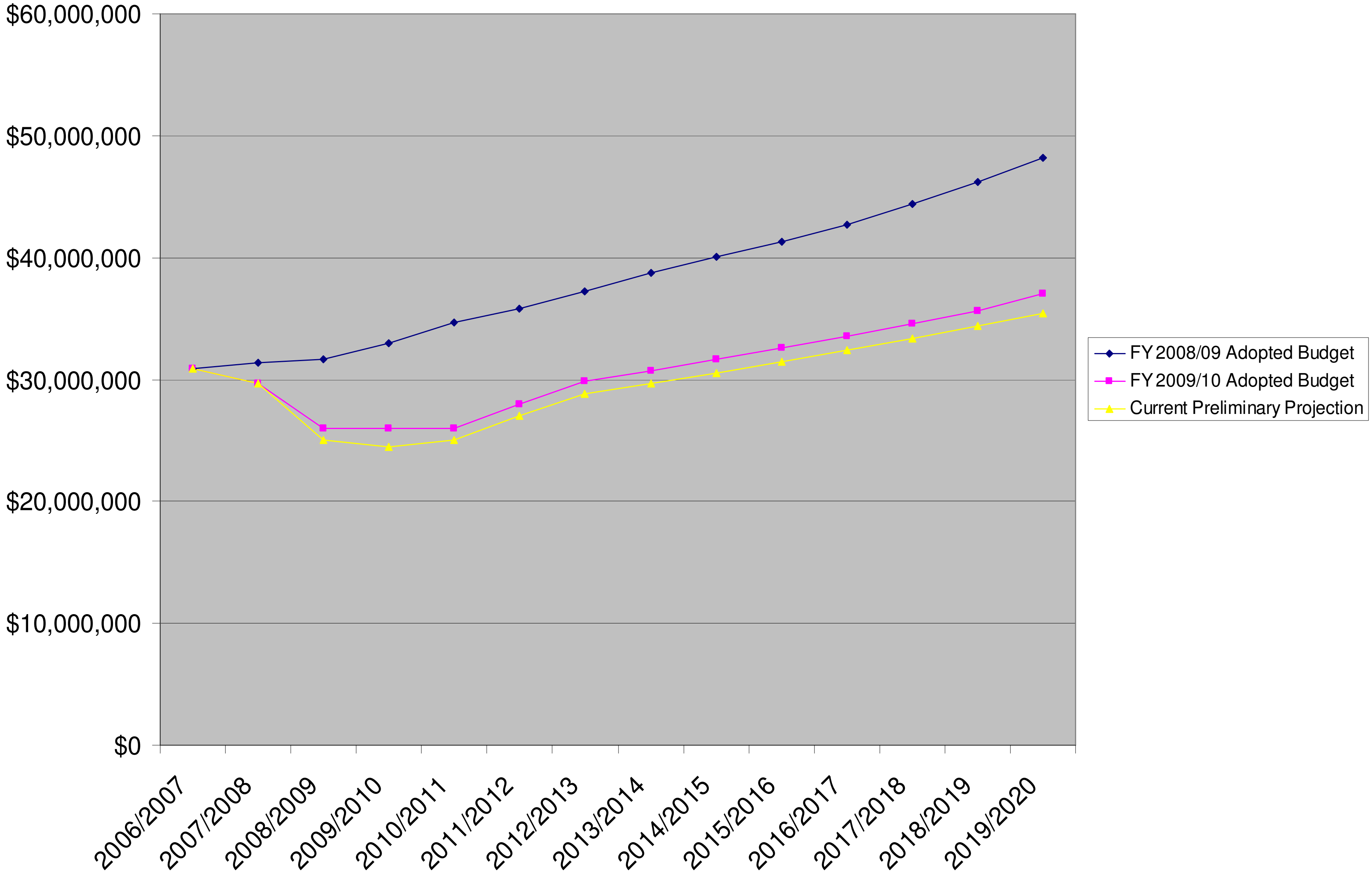
Where We Are Now

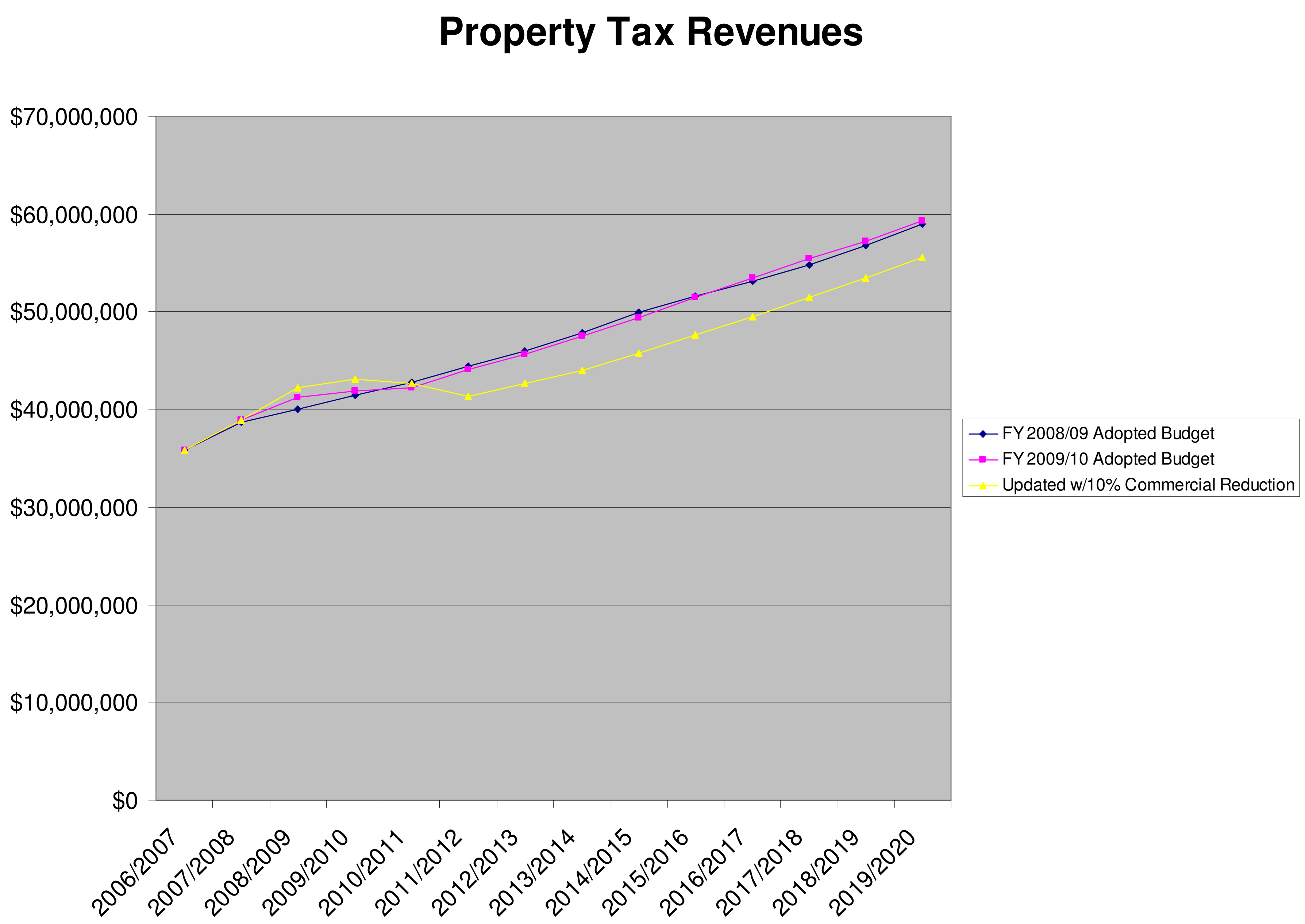
- FY 2009/2010 status:
  – Total revenues expected to be ~$1M below original projections
  – Expenditures will be below budget
    - Additional cost saving actions implemented on an on-going basis

Where We Are Now

- Significant issues going forward
  - Further drop in all major revenues
  - Steep drawdown of Budget Stabilization Fund
  - $5M increase in retirement costs for the General Fund

Sales Tax Projections




Property Tax Revenues
$70,000,000
$60,000,000
$50,000,000
$40,000,000
$30,000,000
$20,000,000
$10,000,000
$0
2006/2007
2007/2008
2008/2009
2009/2010
2010/2011
2011/2012
2012/2013
2013/2014
2014/2015
2015/2016
2016/2017
2017/2018
2018/2019
2019/2020
FY 2008/09 Adopted Budget
FY 2009/10 Adopted Budget
Updated w/10% Commercial Reduction

Where We Are Now

- Revenue issues and increasing expenses accelerate Budget Stabilization Fund drawdown
  - Increases consecutive years of drawdowns
  - Specific amounts depend on impact of commercial property reassessments
  - Without further action, Budget Stabilization Fund to hit lowest level since FY 1998/1999 by next fiscal year

Key Messages

- Sunnyvale/California not yet seeing impacts of economic recovery
- Long-term projections for major revenue require further downward adjustments
- Commercial Property Tax expected to be significantly impacted
  - Still working to quantify impact
  - Impact to hit beginning in FY 2011/2012

Key Messages

- Actions taken last year mitigating impact
  – We took a big hit in the FY 2009/2010 Budget
    - Drastically reduced short- and long-term revenue projections
    - Incorporated impact of PERS increases
- <u>Further cost reductions are required</u>
  – Budget Stabilization Fund cannot support long-term revenue and expenditure trends

What's Next?

- Quantify current unknowns
  - Impact to Property Tax of commercial reassessments
  - New structural deficit
    - Expenses exceed revenues by an average of approximately $1.3M annually over the 20-year plan

What's Next?

- Continue strategic hold of vacancies
  - 30 full-time positions held City-wide
    - Approximately $3.2M of salary and benefit costs
  - Several positions identified for permanent closure as part of budget proposals
    - Already incorporated into initial projections
- <u>Adapt to a new way of doing business</u>
  - Cost reductions required are not temporary
  - We must adjust to a new baseline

Projected BSF Balance
(Without Further Action)

	FY 2010/2011	FY 2011/2012	FY 2012/2013	FY 2013/2014	FY 2014/2015
Projected Revenues	$124.9M	$133.6M	$140.6M	$148.5M	$142.6M
Projected Expenses	$132.9M	$139.0M	$142.8M	$148.1M	$150.5M
Ending BSF Balance	$25.8M	$19.7M	$16.5M	$13.7M	$5.1M

Assumes 10% reduction in Property Tax on commercial buildings. In this scenario, the BSF goes negative in FY 2016/2017 and **never** recovers. This scenario requires $1.3M of additional cost savings annually to maintain the BSF at a level of no less than $10M.

Projected BSF Balance
(With Two-Tier Retirement Model)

	FY 2010/2011	FY 2011/2012	FY 2012/2013	FY 2013/2014	FY 2014/2015
Projected Revenues	$124.9M	$133.7M	$140.6M	$148.6M	$142.7M
Projected Expenses	$132.9M	$138.8M	$142.3M	$147.4M	$149.5M
Ending BSF Balance	$25.8M	$20.1M	$17.3M	$15.4M	$7.9M

Assumes 10% reduction in Property Tax on commercial buildings and a two-tier retirement system implemented by FY 2011/12. In this scenario, the BSF goes below $5.5M in FY 2016/2017 and **never** recovers. This scenario requires $500K of additional cost savings **annually** to maintain the BSF at a level of no less than $10M.