



# Fiscal Outlook 2015

*Study/Budget Issues Workshop*  
*February 19, 2015*

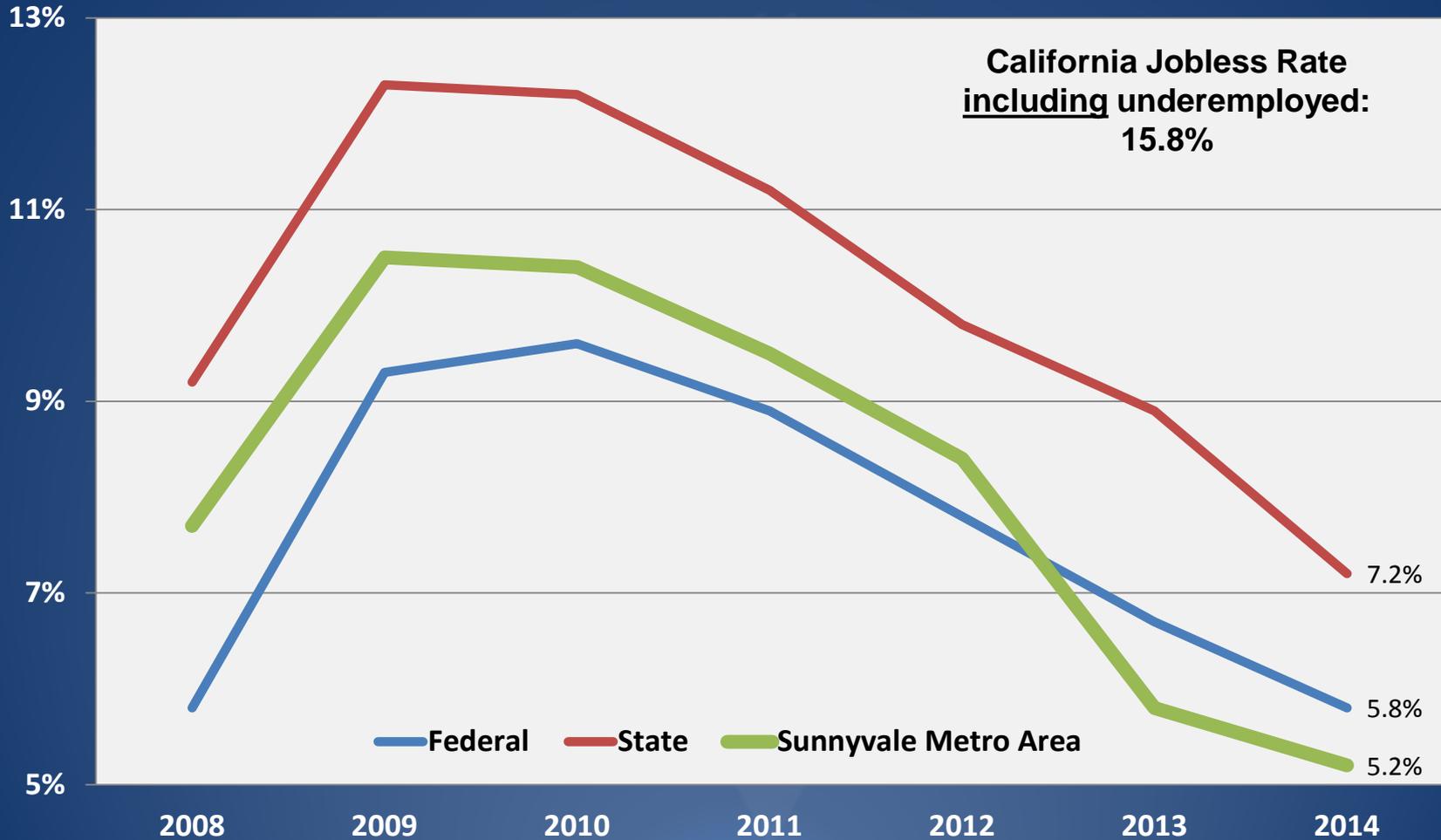
# The New Stable

- For 2014, Moody's Investor Services revised its US Local Governments outlook to "Stable" from "Negative"
- Under the new "Stable" local government cost structures must remain reduced to cope with constrained resources and deal with long term liabilities

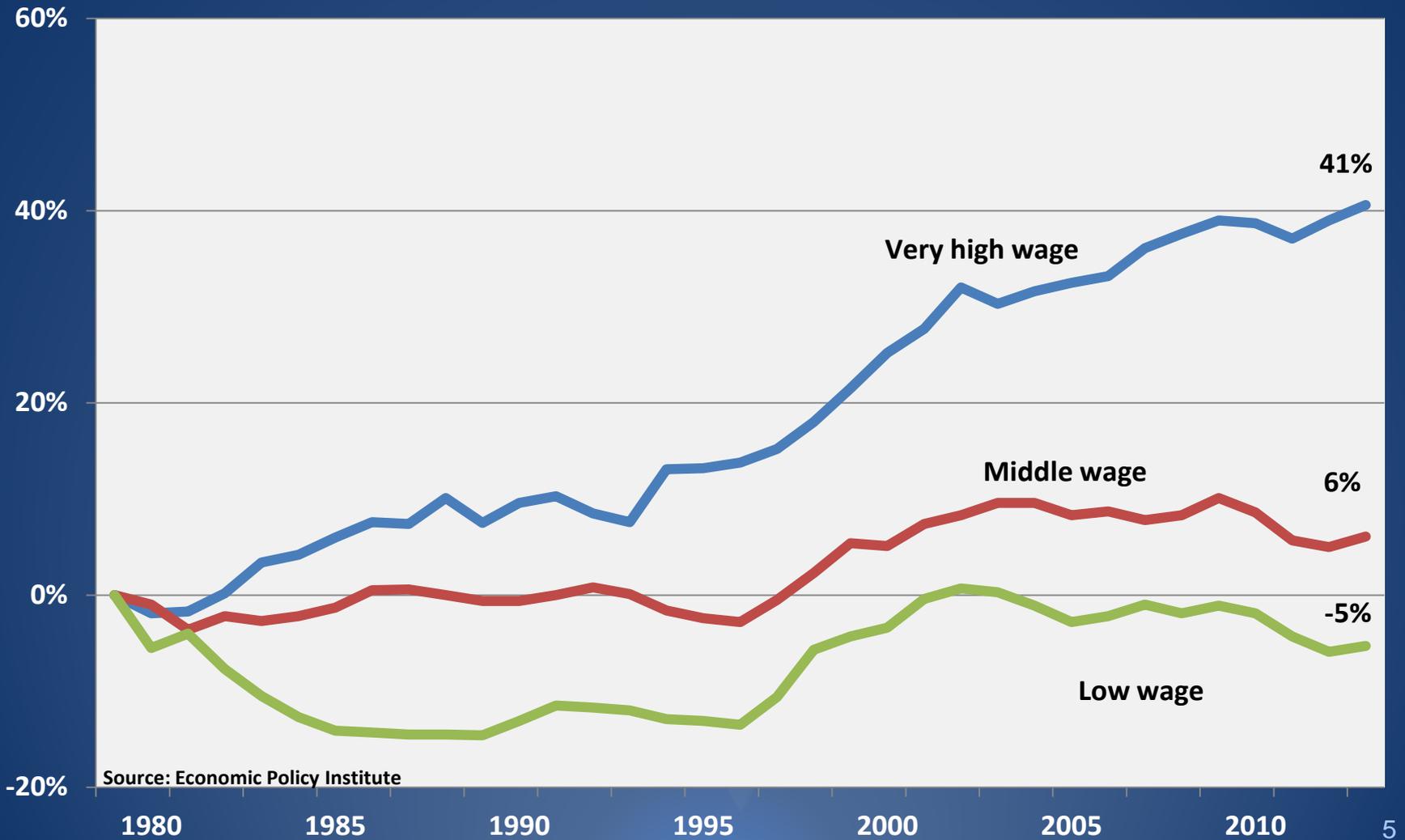
# 2015 Economic Forecast

- Economic recovery has strengthened
- Positive indicators: job growth, development activity, housing prices, consumer spending, low inflation
- Concerns: slowdown in growth in China and Europe, income disparity gap, global economy volatile, declining energy prices

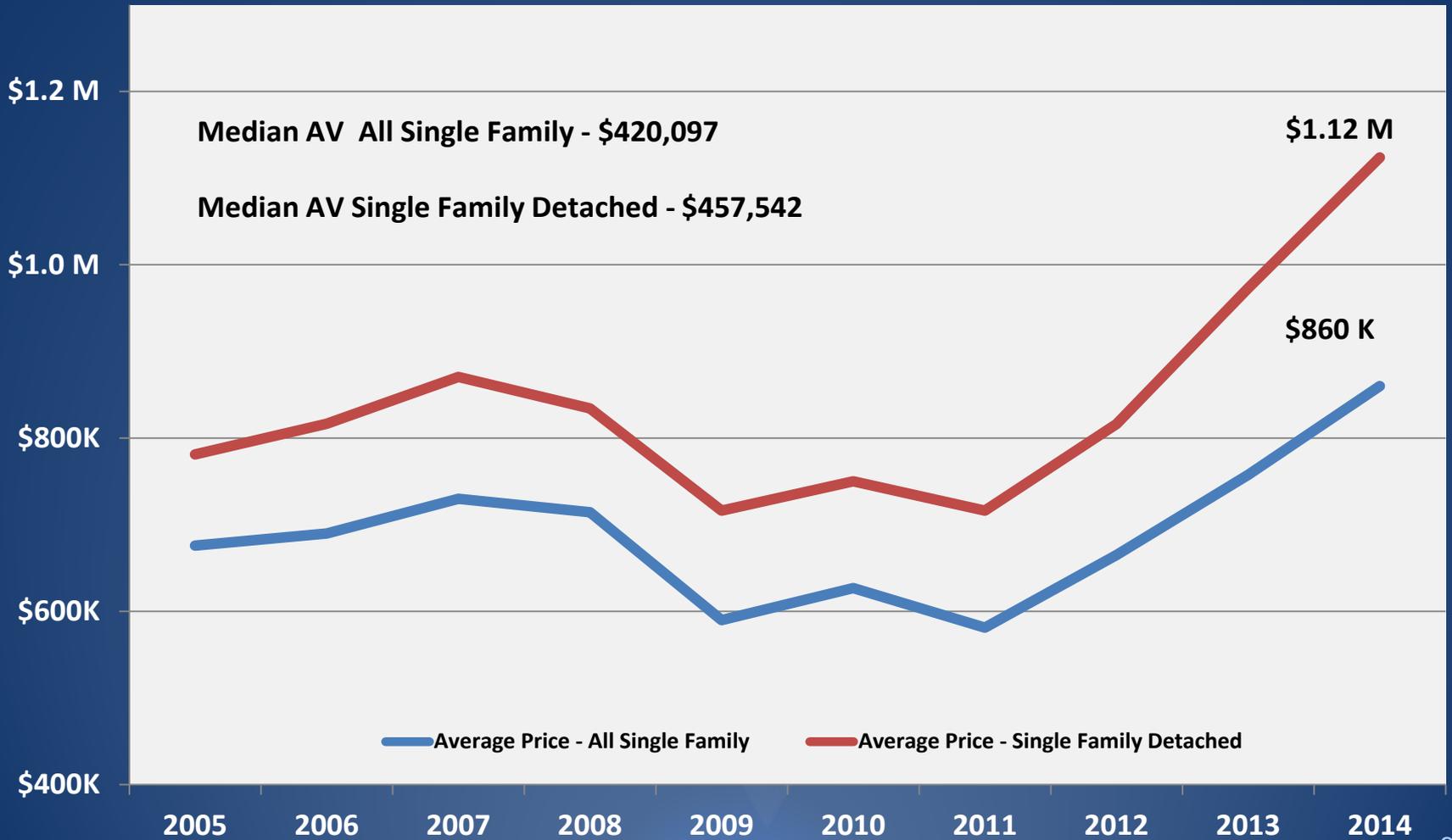
# Jobless Rate – Through Nov 2014



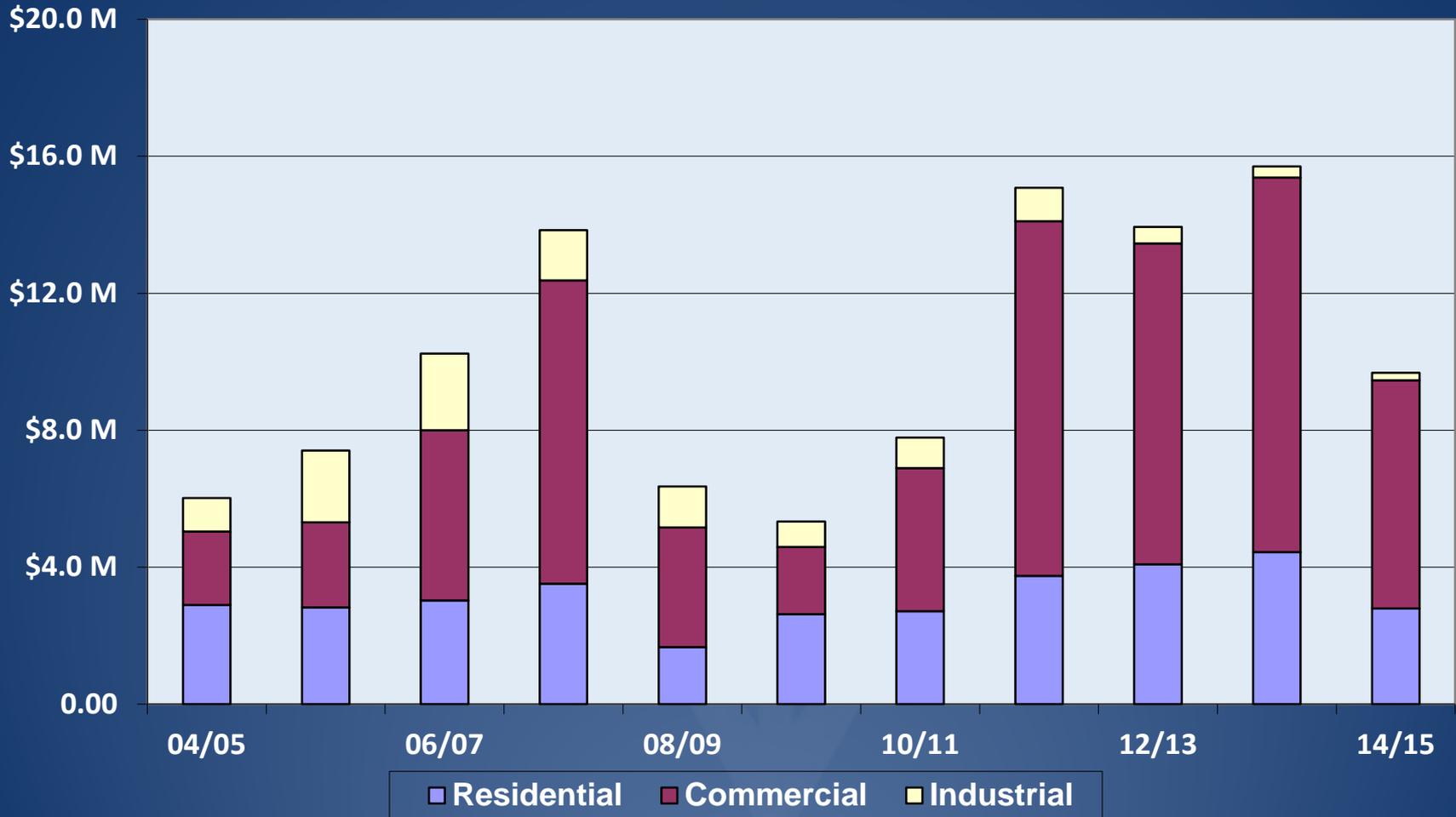
# Cumulative Change in U.S. Hourly Wages



# Sunnyvale Home Sales



# Building Permit Revenue



By Fiscal Year through January 2015

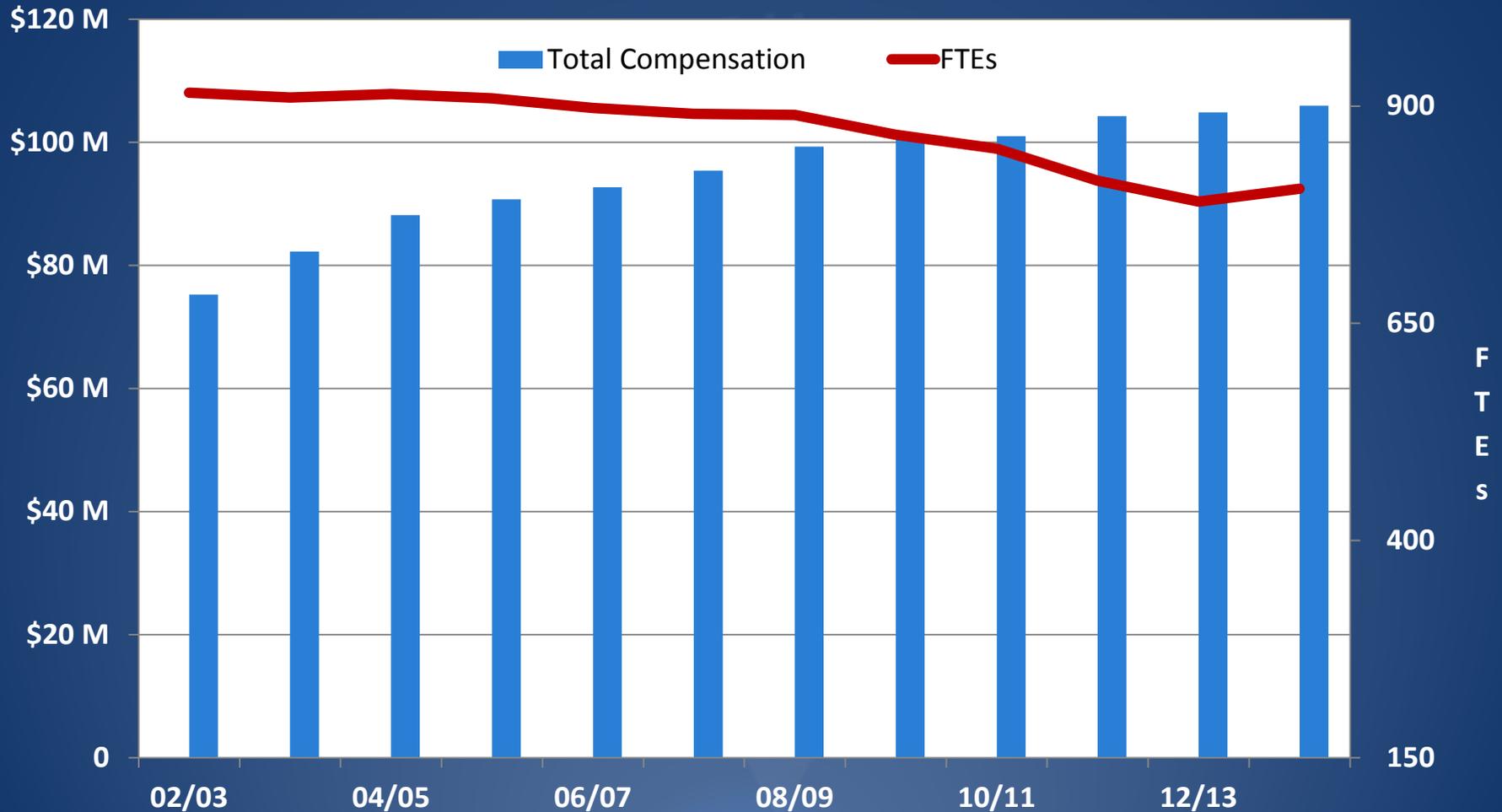
# State Budget Update

- Budget projects State will end FY 2015/16 with \$3.4 billion reserve
- Proposal is cautious, up just 1.4%
- Strong revenue growth, offset by higher Prop 98 spending (schools)
- First year under Proposition 2
  - Requires that \$1.2 billion be deposited to BSA and \$1.2 billion goes to pay down debts

# The Sunnyvale Fiscal Environment

- Sunnyvale is part of strong economy
- Peak levels for several revenue sources
- Are we at the top of an economic cycle?
- Still drawing down Budget Stabilization Fund Reserve to maintain services despite a significantly smaller workforce
- Need to continue addressing long term liabilities
- Need to remain competitive in the region for talent

# Total Compensation vs. Staffing



# The Other Side of a Positive Economy

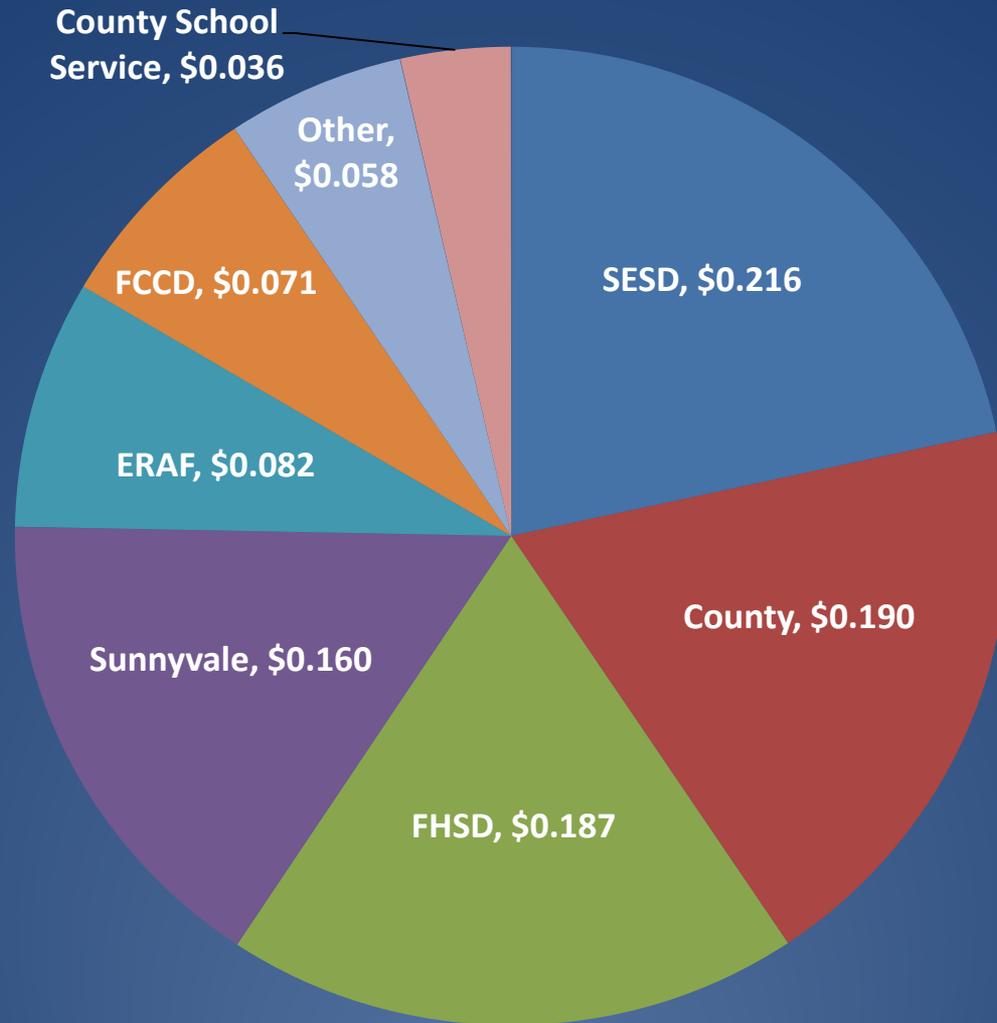
- Construction costs up due to demand
  - City project costs are increasing
  - Bids exceeding engineer's estimates
- Demand for services up
  - Additional safety resources allocated
  - Traffic increases requiring roadway improvements
  - Demand for parks and recreational facilities
  - Catching up with maintenance that was deferred during the downturn (e.g. streets, sidewalks, trees)
  - Loss of full time positions constrains ability to add services and absorb retirements

# FY 2014/15 Major General Fund Revenues

	Stable	Trend	City Controlled	Percent of General Fund <sup>1</sup>
Property Tax				42%
Sales Tax				26%
TOT				9%
UUT				6%
			<b>Total</b>	<b>83%</b>

1. Excludes Revenue from Sale of Property

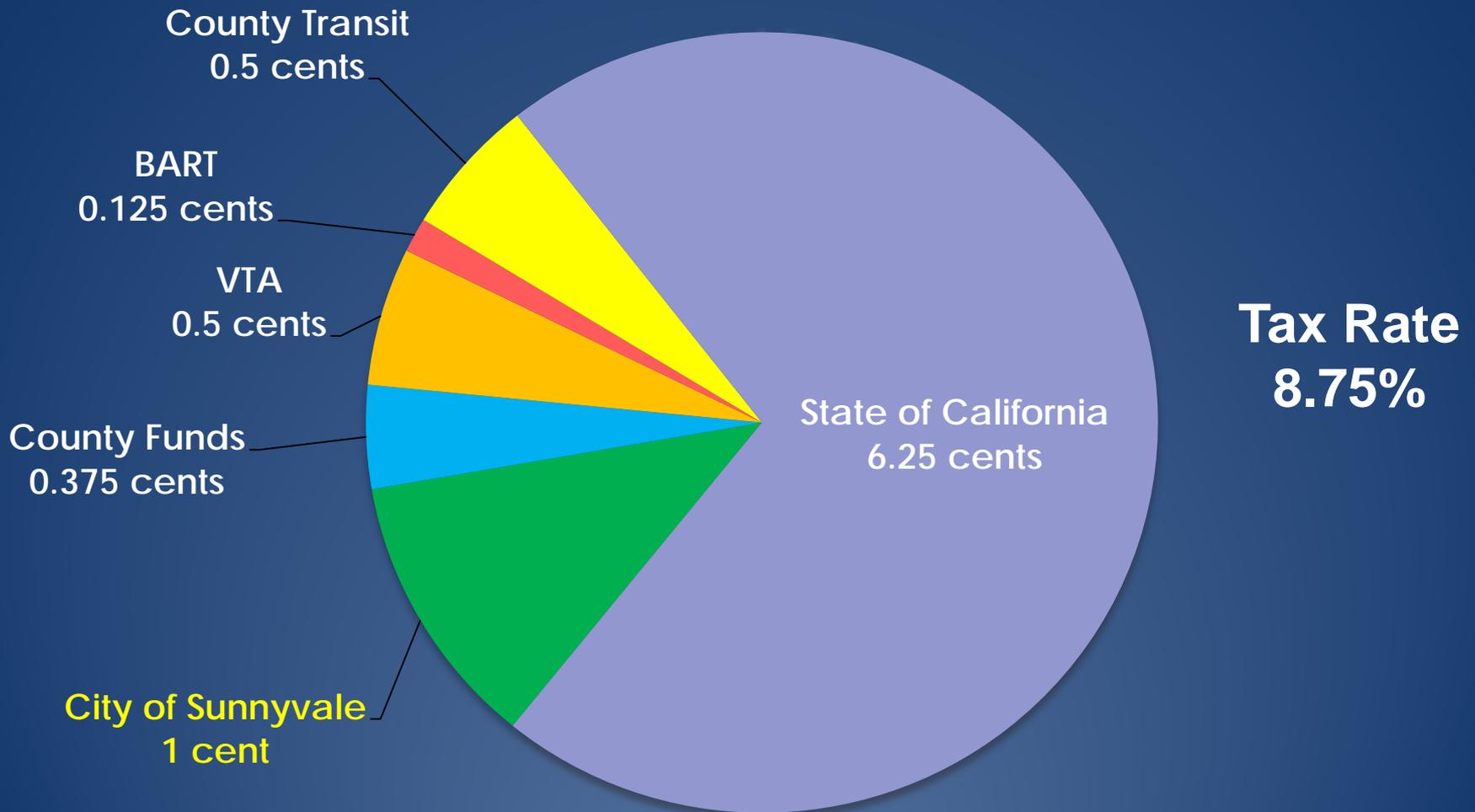
# Property Tax Breakdown - \$1.00



# Property Tax

- FY 2014/15 projection - \$52M
- Significant commercial growth projected
- On track to exceed projection
  - Assessed valuation up 7% over FY 2013/14
  - 4% already built into the budget
- FY 2015/16 tax roll – CPI adjustment 1.9%

# Sales Tax Breakdown

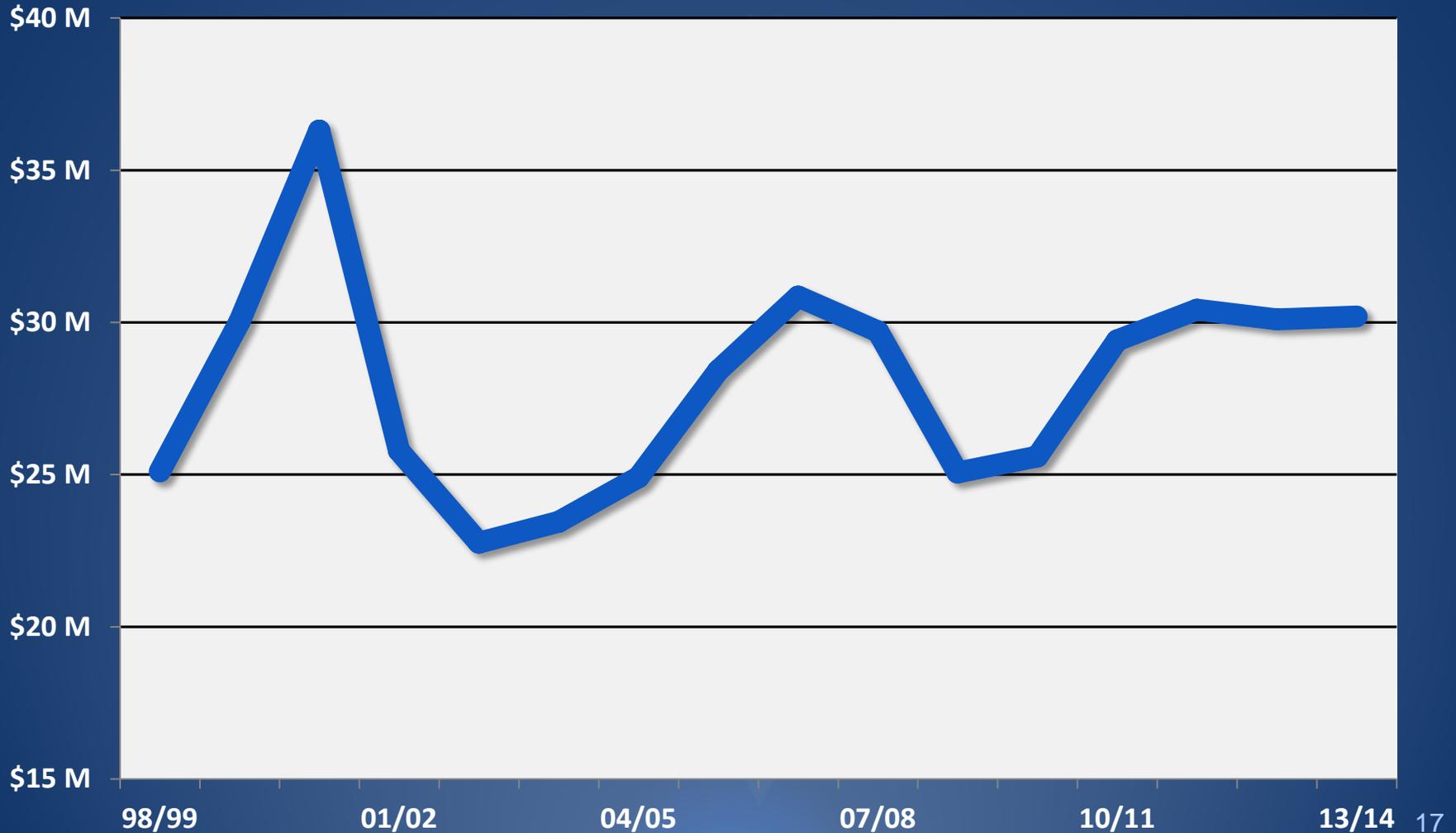


# Sales Tax

- FY 2014/15 Budget - \$30.2M
- Challenge is managing volatility
- Business to Business sector makes up 40%
- FY 2014/15 1<sup>st</sup> Quarter up 1.8% over prior year
- Increases in County Pool reflect shifting economy
- Reduced base for FY 2014/15 - long-term projection down \$42M over twenty years

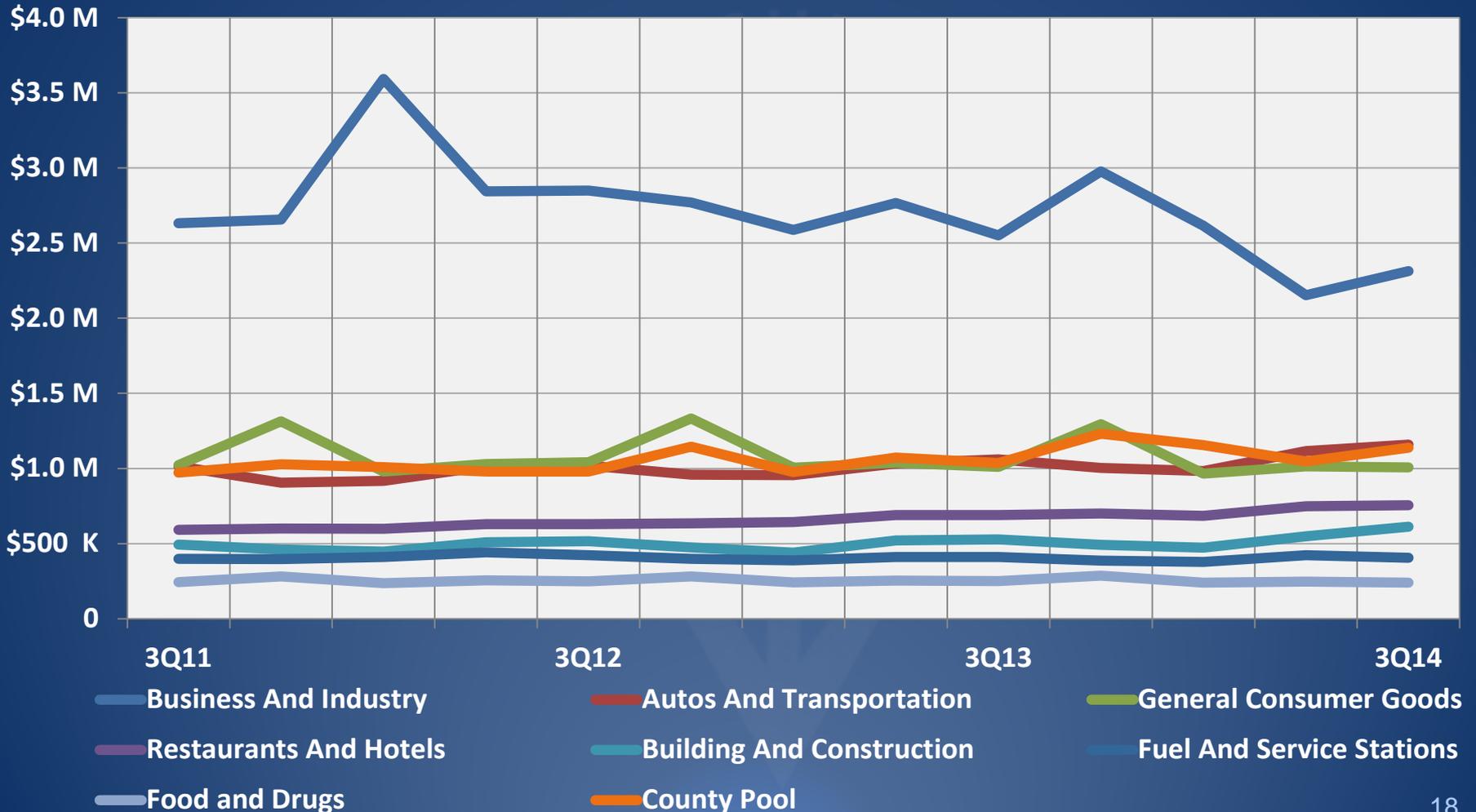
# Sunnyvale Sales Tax Revenue

## 15 Year History



# Sales Tax Revenue

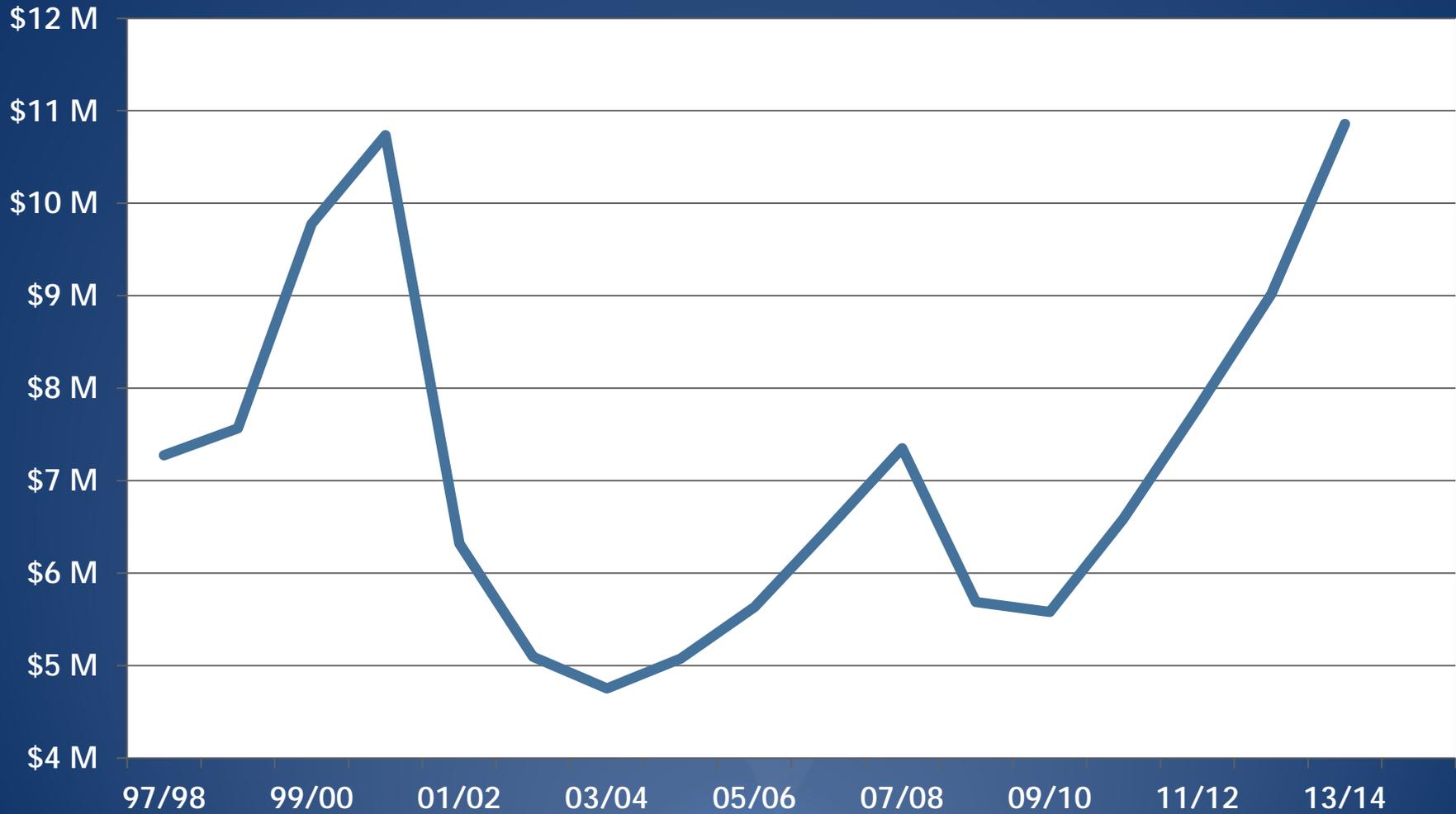
## Results from Prior 13 Quarters by Major Industry Group



# Transient Occupancy Tax (TOT)

- FY 2014/15 Budget - \$10.7M
- Significant growth
- Tax rate increased in January 2014
- Historically volatile
- Three new hotels in the long-term plan
- Continue at elevated levels for two years
- FY 2016/17 forward use historical average

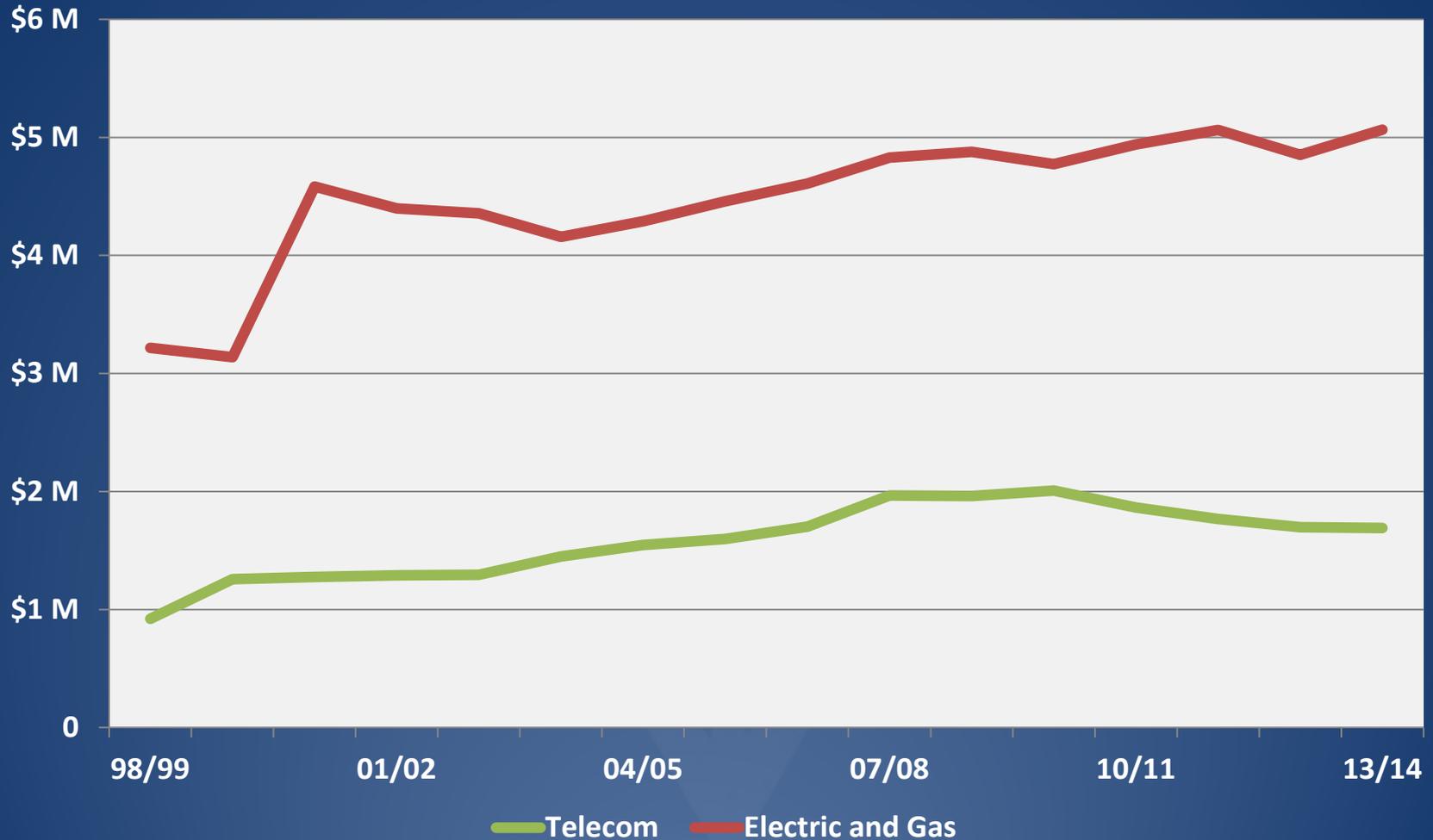
# TOT Revenue by Year



# Utility Users Tax (UUT)

- UUT base shifting
- Energy consumption expected from growth moderated by energy efficiency gains
- Telecom base deteriorating – new forms of communication not subject to UUT
- 2015 Study Issue to explore:
  - Modernizing the City's UUT ordinance
  - Increasing UUT rate
  - Broadening the tax base

# Utility Users Tax (UUT)



# FY 2014/15 General Fund Operations

Department	Budget	Y-T-D Exp.	% of Budget
CDD	\$999,892	\$496,163	49.6%
FIN	\$8,224,057	\$4,056,883	49.3%
HRD	\$3,732,817	\$1,760,399	47.2%
LCS	\$16,589,773	\$7,877,242	47.5%
OCA	\$1,404,685	\$689,657	49.1%
OCM	\$3,640,940	\$1,845,667	50.7%
DPS	\$77,155,512	\$38,731,700	50.2%
DPW	\$20,187,081	\$9,941,891	49.3%
<b>Total</b>	<b>\$131,934,757</b>	<b>\$65,399,602</b>	<b>49.6%</b>

51.2% of the fiscal year has elapsed

# Development Enterprise Fund

- Revenues and activity remain elevated
- FY 2014/15 Projection – \$8.3M
- YTD revenue already at \$7.98M
- Challenge is managing revenue volatility and ensuring full funding of services over the long run

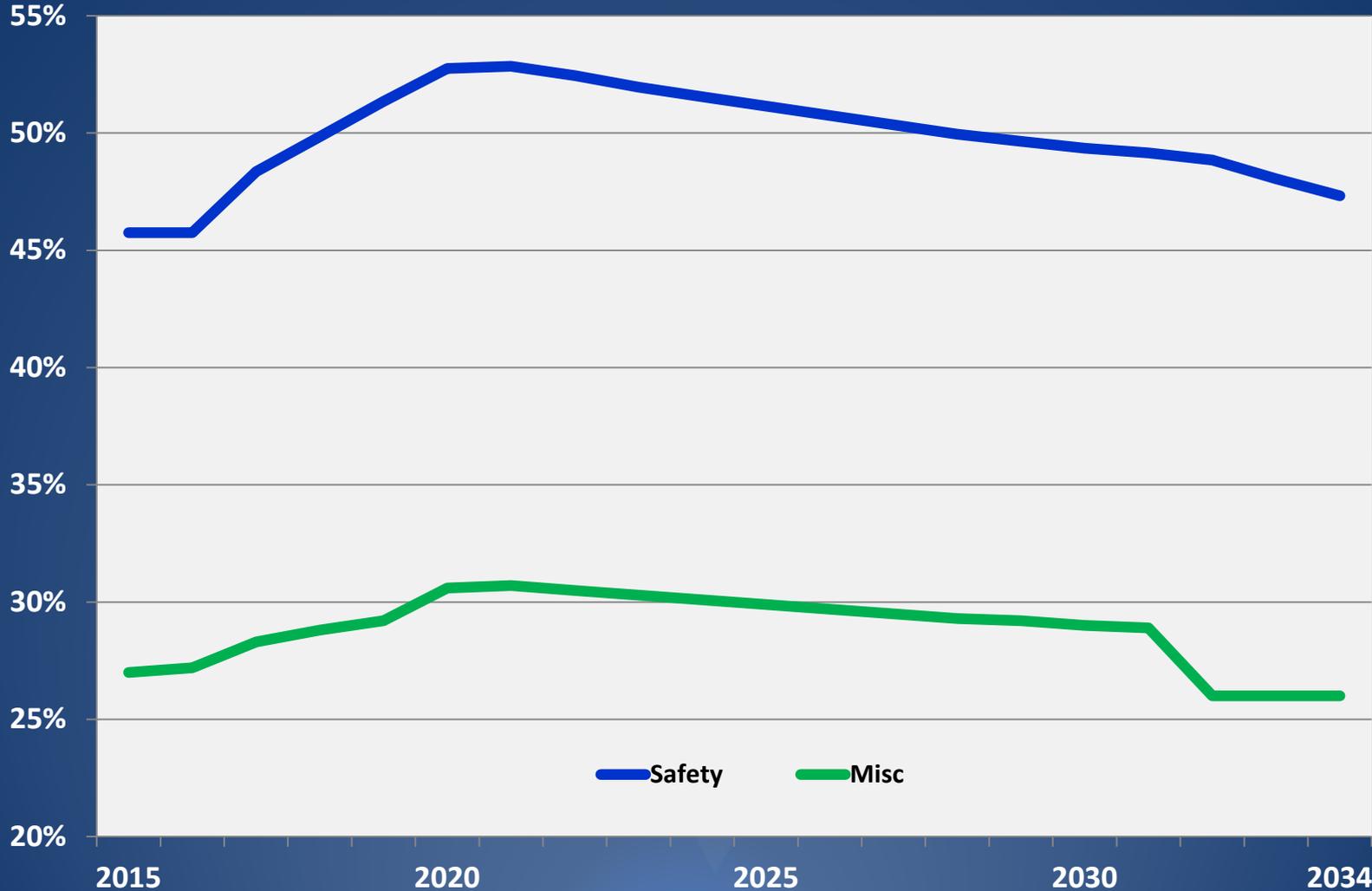
# FY 2014/15 Utility Fund Operations

- Water enterprise under pressure from drought
  - Wholesale water rates to rise over 30% for next year
- Solid Waste cost of service rate adjustments
- WPCP renovation underway
  - Significant rate increases currently built into long term financial plan

# Pension Costs

- Significant increases over last 10 years
- Current unfunded liability totals \$268M
- Pension costs rising due to actuarial methodology and assumption changes
- Greater rate volatility year to year
- All employees budgeted to pay full employee contribution rate by FY 2019/20

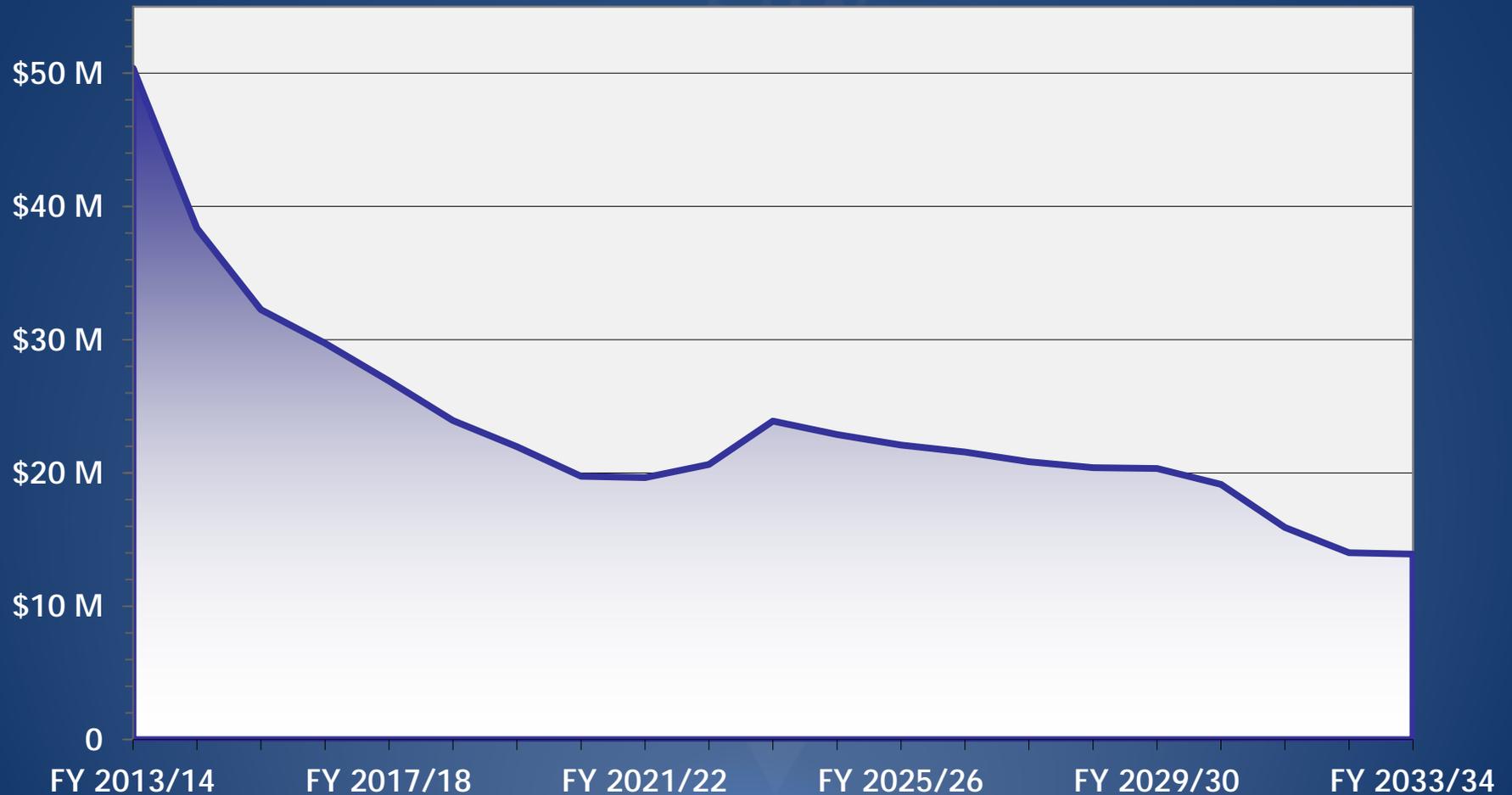
# PERS Contribution Rate Projection



# Retiree Medical Funding

- OPEB Trust over \$60M
- Actuarial valuation for 6/30/2014 completed
- Implied subsidy – employer cost for allowing retirees to participate at active premium rates
- Total OPEB liability with implied subsidy as of June 30, 2014 - \$92M

# FY 2014/15 Budget Stabilization Fund Reserve



# FY 2015/16 Recommended Budget

- Focus on projects budget
  - Increasing construction costs
  - Projects driven by regulatory and policy requirements
- Currently updating revenue forecasts – focus on the right baseline
- Incorporating resources for increasing demands on services
- Balancing within current projection of continued drawdown from the Budget Stabilization Fund Reserve

# FY 2015/16 Recommended Budget

- Council Study Session on Utility Rates on March 17, 2015
- Proposed Utility Rates noticed end of April
- City Manager's Budget delivered to Council in early May
- Budget Workshop on May 21, 2015
- Public Hearing and Budget Adoption in June

# Fiscal Sustainability in the New Stable

- Sunnyvale is resourced for operations – limited capacity for new initiatives
- City has limited control over revenues
- Expenses still outpacing revenues, even in good economy
- Many expenses also outside the City's control
- Therefore, balancing priorities is critical to success
- Expectations must be reset in the new stable