



FY 2014/15 Budget Workshop

Staying on the Path of Sustainability

May 22, 2014



A Sustainable Path Forward

- Adherence to the five key commitments forms the base
- FY 2014/15 budget builds on that base
- General Fund balanced
- Must continue to be vigilant



Economic Context

- Property Tax , TOT, and Development – Related revenues are up
- Sales Tax revenue is down
- Expenditure pressures
 - Retirement, Infrastructure, Regulatory Requirements
- Budget development – clear message from the City Manager to “hold the line”



Budget Process

- Two year budget cycle
- Alternate between operating and projects budgets
- FY 2014/15 budget - first year of the operating budget cycle
- Limited adjustments to projects budget



Five Key Commitments

- Manage our personnel costs
- Fund retirement costs for long-term sustainability
- Get to optimum service levels
- Establish long-term funding for the City's infrastructure needs
- Commit to a long-term comprehensive solution and stay the course



Progress to Date

- Salary and benefit growth contained
- Service levels increased in some areas
- Strategic additions to staff
- Improved and invested in infrastructure
- Continued commitment to the plan

A large, light blue arrow graphic pointing upwards and to the right, starting from the top left and ending at the top right of the slide.

Pressures Going Forward

- Increasing demand for service
- Addressing the City's Infrastructure
- Rising cost of utility operations
- Containment of personnel costs
- Strengthening our revenue base



Increasing Demand for Service

- Growing population, smaller City staff
- Increases in demand
 - Traffic/congestion management
 - Sustainability initiatives
 - Use of technology
- Determining appropriate service levels
 - Sidewalk repair / replacement
 - Sewer lateral repair
- Pressure to do more, in core services and non-core areas

Aging Infrastructure

- Significant Progress
 - WPCP rebuild underway
 - PCI improved to 79
 - Water and sewer main replacements
- To be Addressed
 - City administrative facilities
 - Funding has begun - \$30M over 20 years
 - Next step will be to confirm Council's decisions regarding administrative facilities

Utility Operations

- Regulatory requirements tightening
 - Wastewater and storm water discharge
 - Water and air quality
 - Trash control and Zero Waste
- Maintenance costs, especially at WPCP
- Operating WPCP while building new one
- Wholesale water infrastructure and drought management



Personnel Cost Containment

- Salaries and benefits are about 60% of Citywide budget
- Containing growth critical to maintain structural balance
- All labor agreements up in 2014 or 2015
- Pension and health care costs escalating

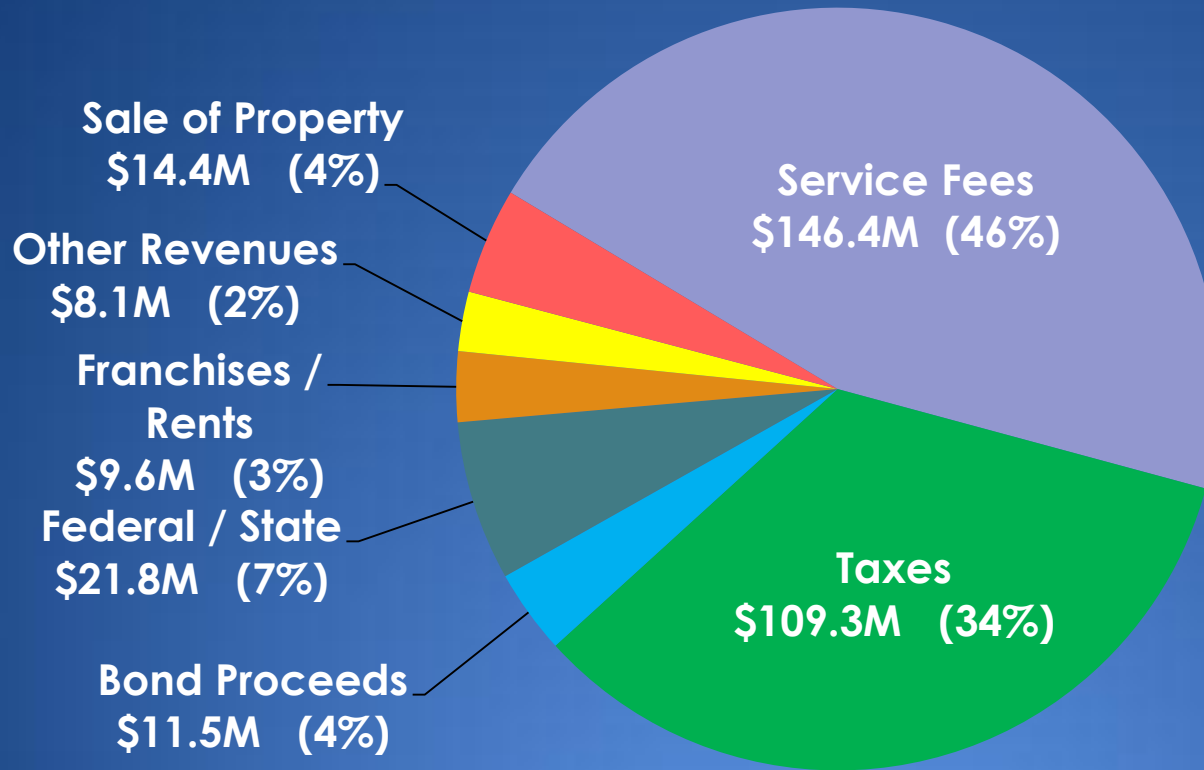
Long-Term Revenue Stability

- Strengthen our revenue base to reduce impact of volatility and eroding base
- TOT from 9.5% to 10.5%
- Study issue to evaluate UUT modernization and rate increase
- Hold adequate reserves to absorb economic cycles



Budget Overview

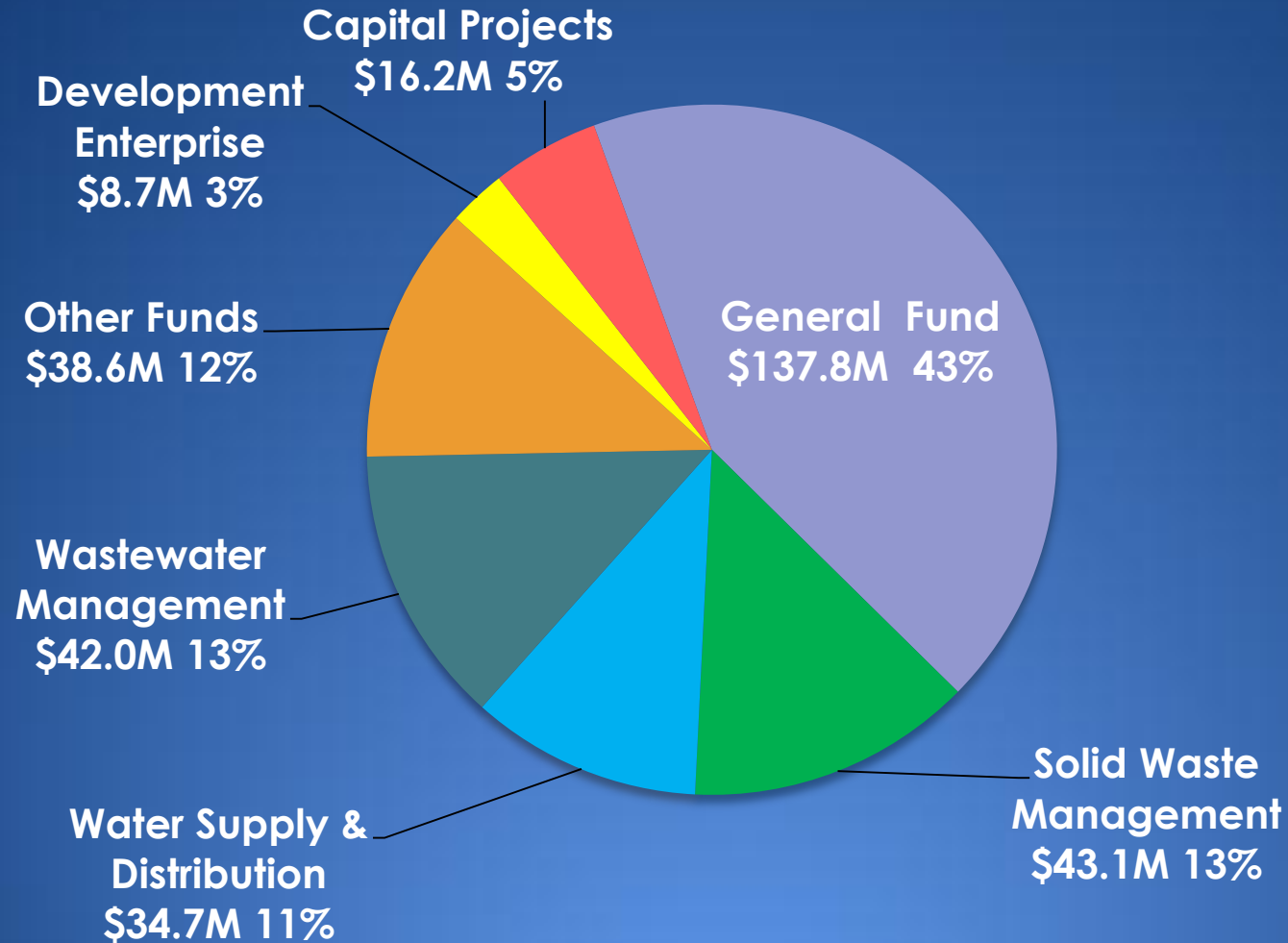
FY 2014/15 Revenues by Source *



Total Revenues
\$321.1 Million

* Excludes internal service fund charges and inter-fund transfers

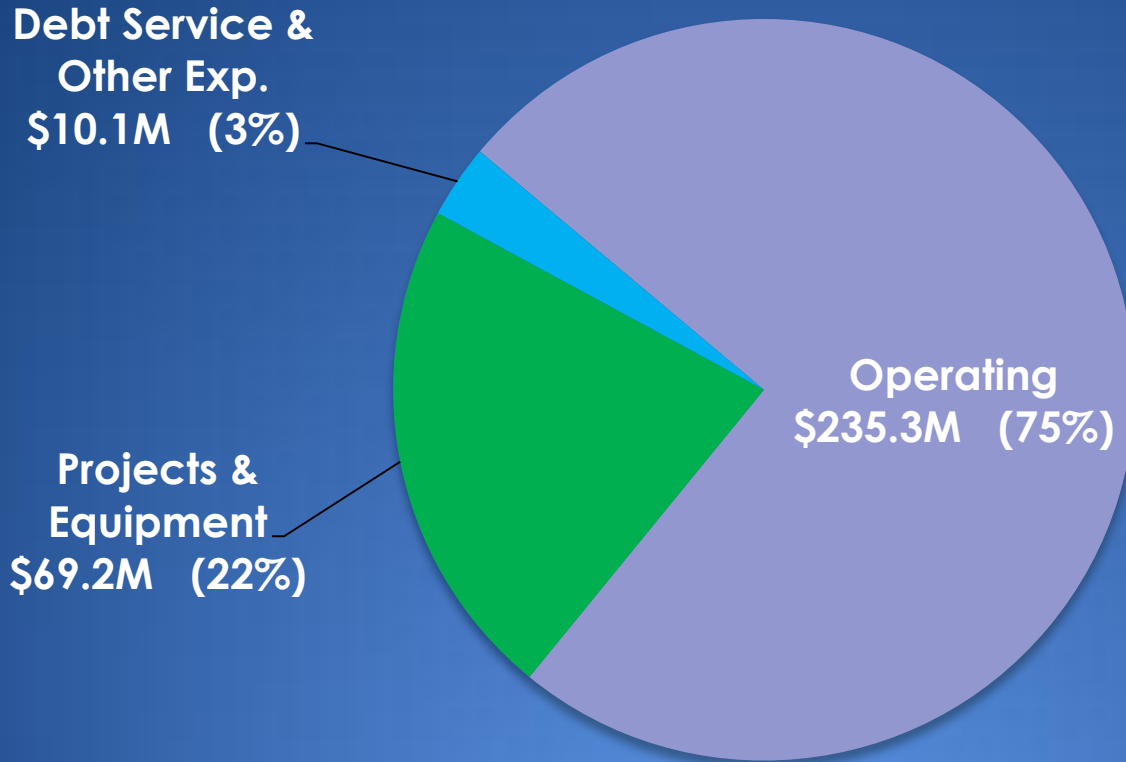
FY 2014/15 Revenues by Fund*



Total Revenues
\$321.1 Million

* Excludes internal service fund charges and inter-fund transfers

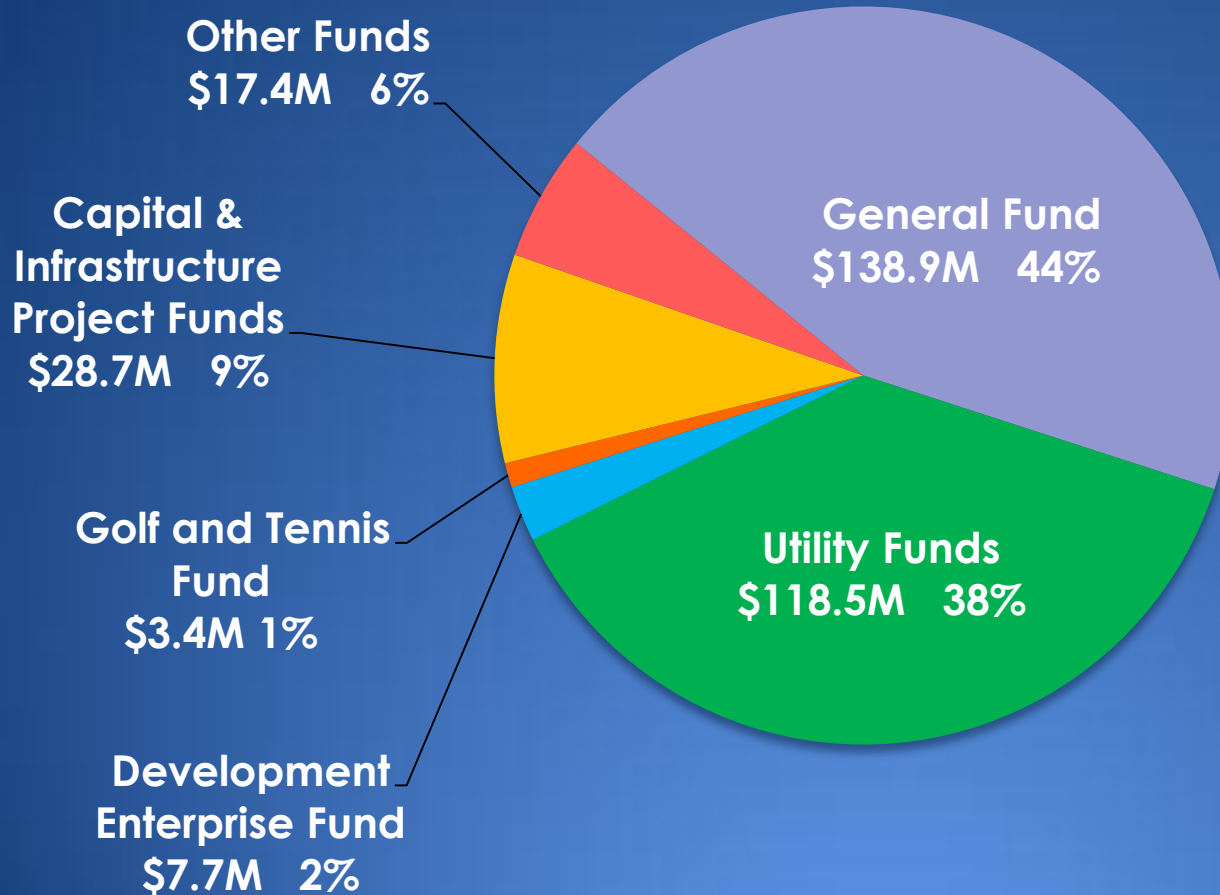
FY 2014/15 Expenditures by Type*



Total Expenditures
\$314.6 Million

* Excludes internal service fund charges and inter-fund transfers

FY 2014/15 Expenditures by Fund*



Total Expenditures
\$314.6 Million

* Excludes internal service fund charges



General Fund

Top General Fund Revenues

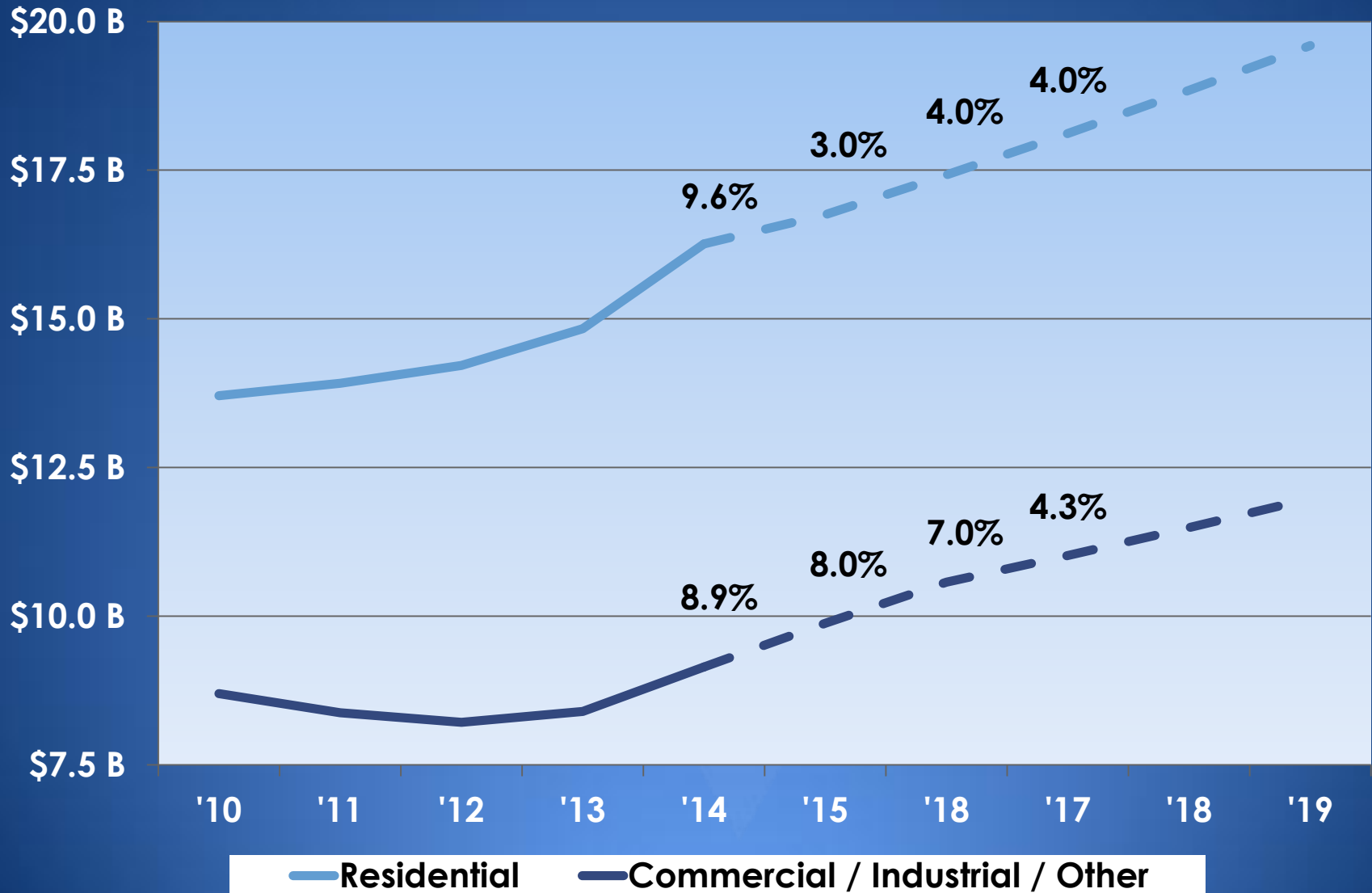
Revenue Source	2012/13 Actual (\$)	2013/14 Projection (\$)	2014/15 Projection (\$)	% Change 2014/15 over 2013/14
Property Tax	47,555,857	49,778,401	51,931,017	4.32%
Sales Tax	30,028,067	29,755,382	30,184,219	1.44%
Transient Occupancy Tax	9,016,052	10,136,188	10,674,737	5.31%
Utility Users Tax & Franchise	13,010,712	13,426,835	13,761,564	2.49%
Subtotal	99,610,688	103,096,806	106,551,537	3.35%
Total General Fund Revenue	153,192,473	158,379,481	153,900,487	-2.83%
Total General Fund (adjusted*)	134,506,963	130,056,288	130,690,049	0.49%

* Excludes: Sale of Property, Development Related revenues, and Transfers

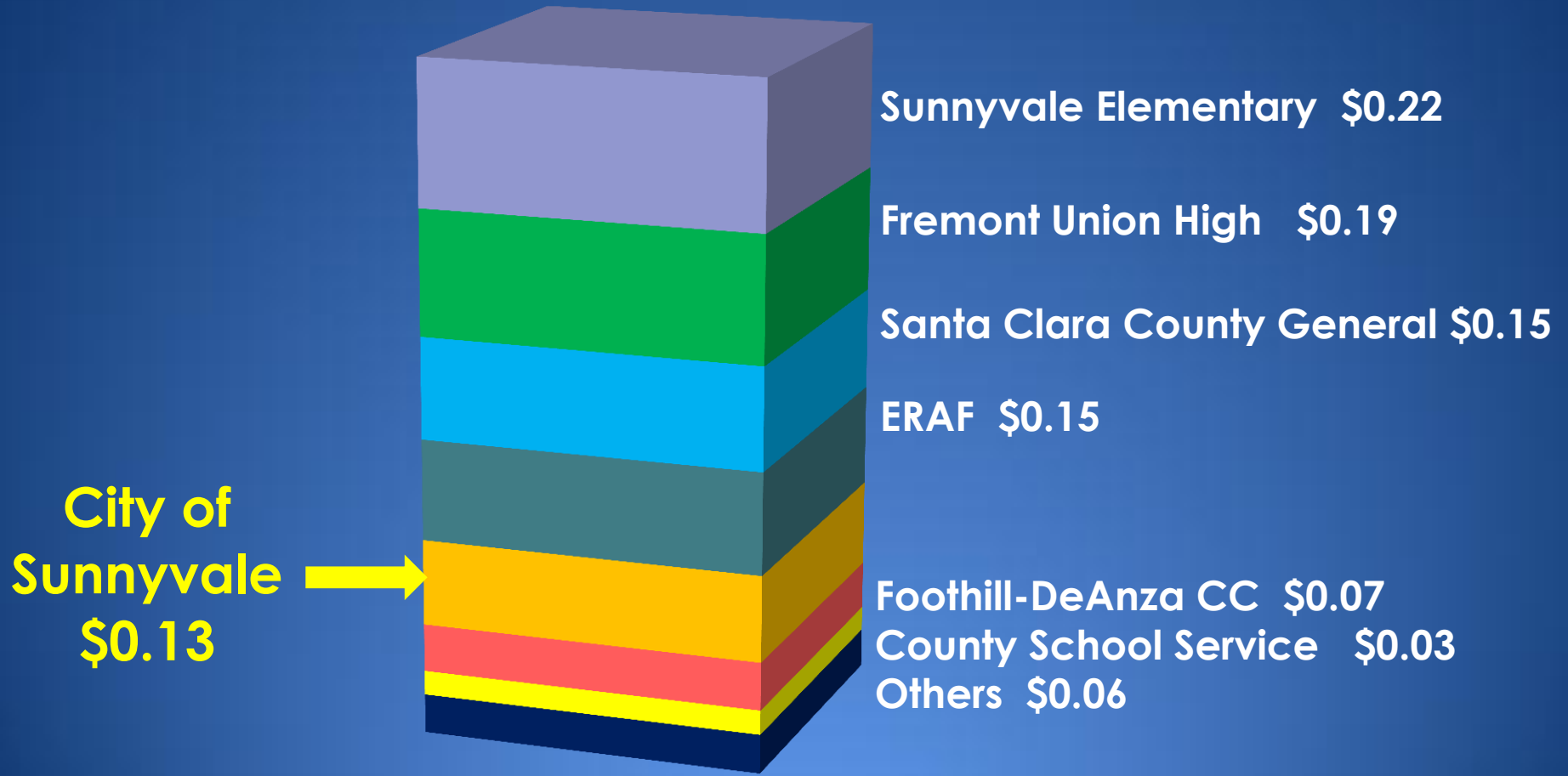
Property Taxes

- Stable and Growing
 - Median home prices – all time high
 - Commercial vacancy rate 9.88%
- 37% of all General Fund revenue
- FY 2014/15 up 4.3%
- Continued strong growth for next two years
- FY 2016/17 forward - historical average

Sunnyvale - Assessed Values



Property Tax - \$1 Breakdown

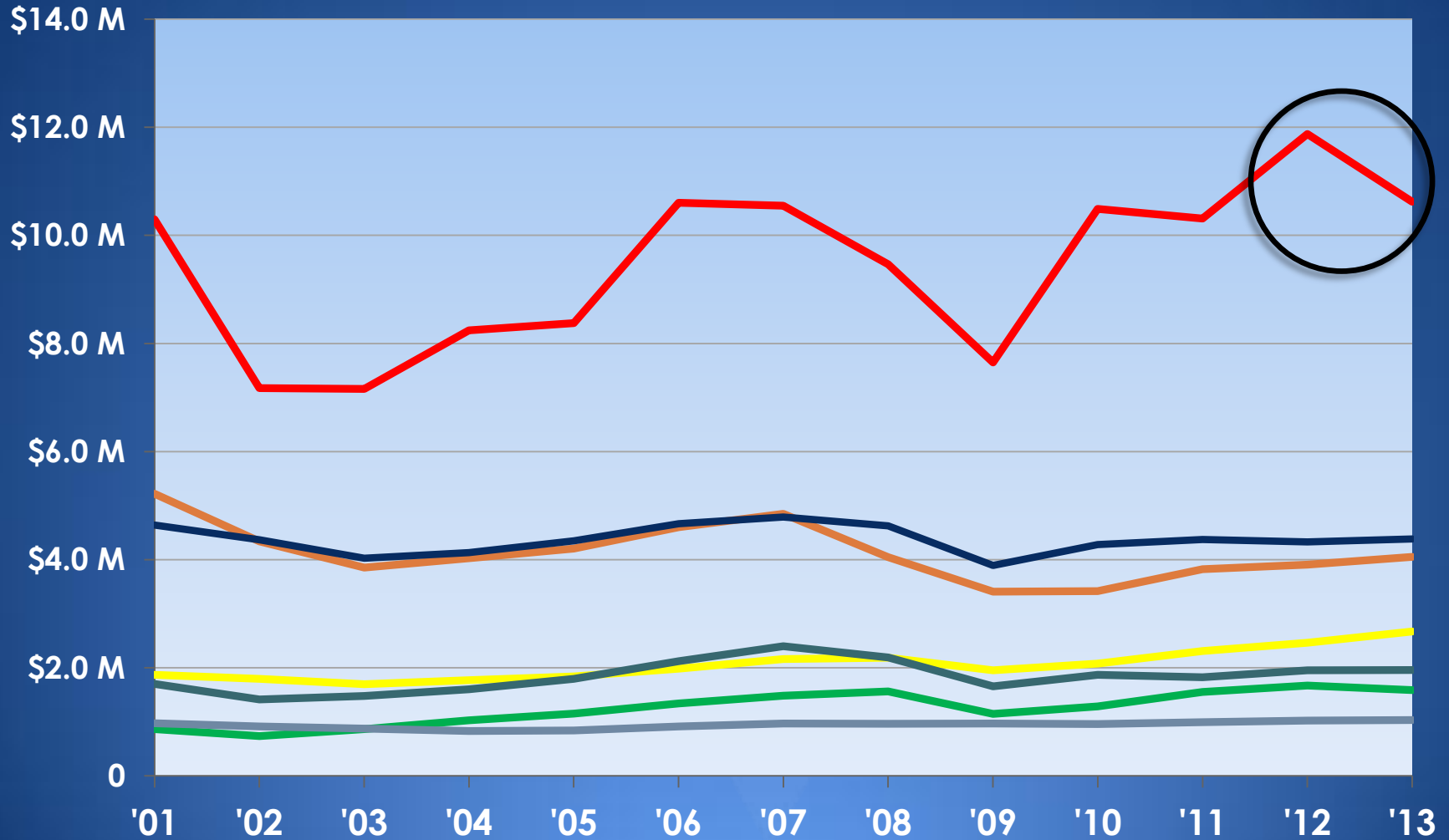


Sales Tax

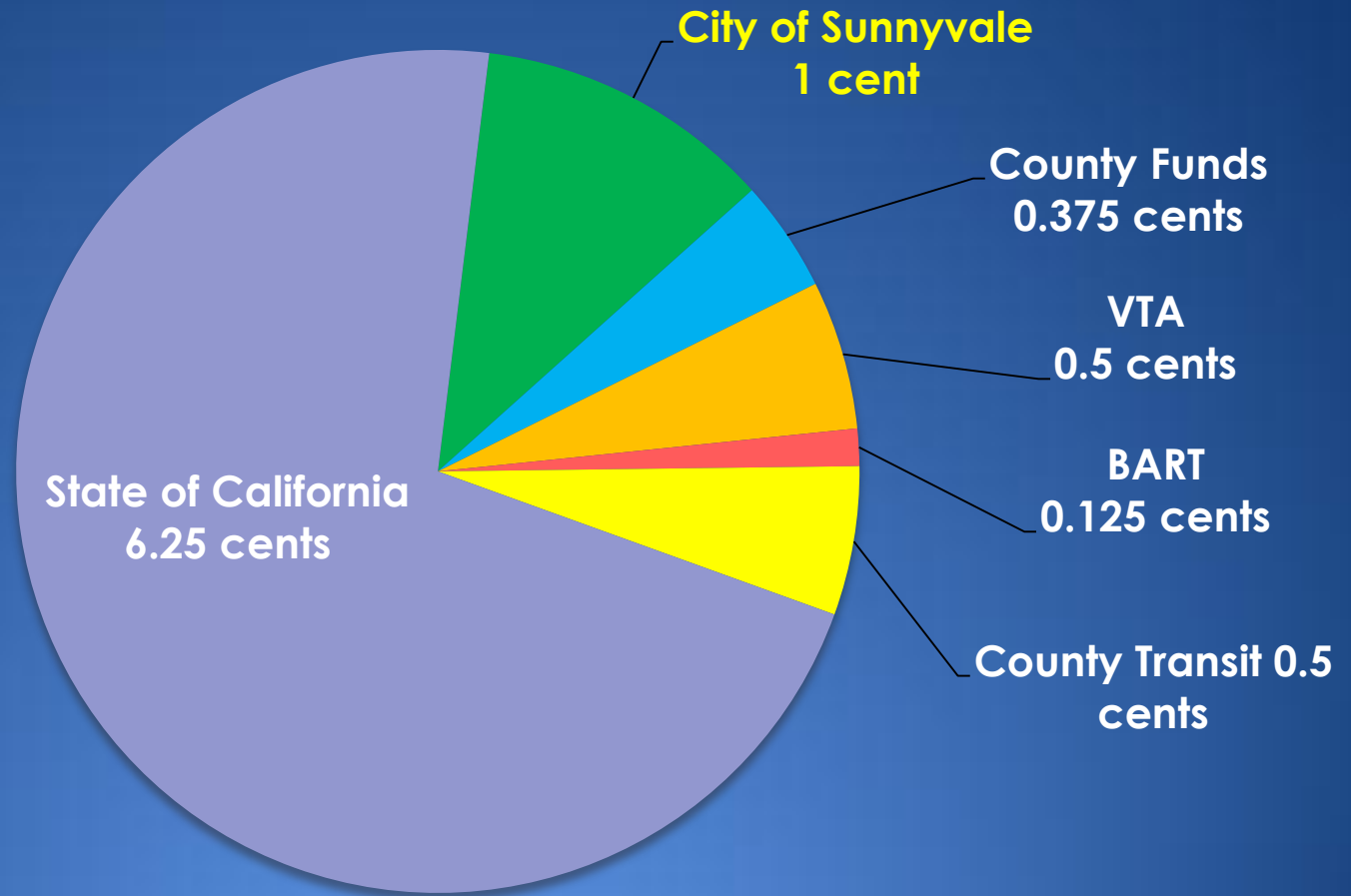
- 22% of General Fund revenue
- Challenge is managing volatility
- Business to Business 40% of sales tax
- Increases in County Pool
- Current year estimate revised down \$1.7M
- Reduced base - long-term projection down \$42M over twenty years

Sales Tax History

Major Industry Groups – 13 Year History



Sales Tax Distribution

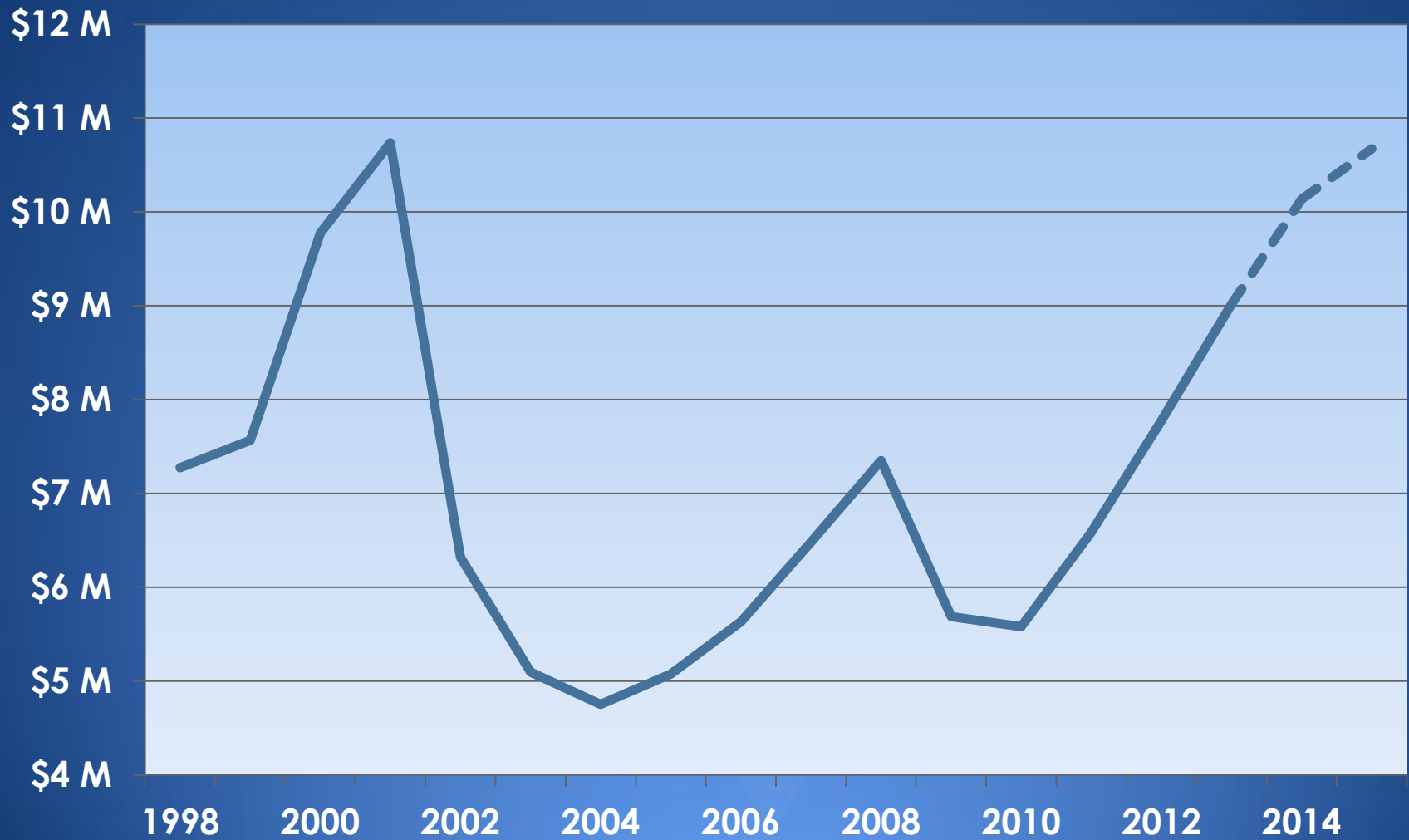


**Santa Clara County -
8.75 cents per Dollar**

Transient Occupancy Tax (TOT)

- Significant growth
- 7% of all General Fund revenue
- Increase in TOT rate from 9.5% to 10.5%
- 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 is shifting
- Growth from new construction 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

Franchise Fees

- City issues franchises to companies that use the City's right-of-way
- Key agreements
 - Utilities - PG&E
 - Cable TV providers
 - Specialty Solid Waste
- \$6.8M revenue forecasted for FY 2014/15 (2% growth)

Development Related Revenue

- Effective FY 2014/15 – fee revenues segregated into new Development Enterprise Fund
- A major component of General Fund revenue until this year
- Construction tax to remain in the General Fund

Other Revenues

- Sale of Property - Reserved for one time capital needs
 - Reflects updated sale amount for Raynor Activity Center - \$14.0M in FY 2014/15
- Service Fees - \$5.5 M
 - Includes recreation and public safety fees
- Rents & Concessions - \$2.3 M
 - Utility facilities, Park and Building Rentals
- Business License Tax - \$1.5 M



General Fund Expenditures

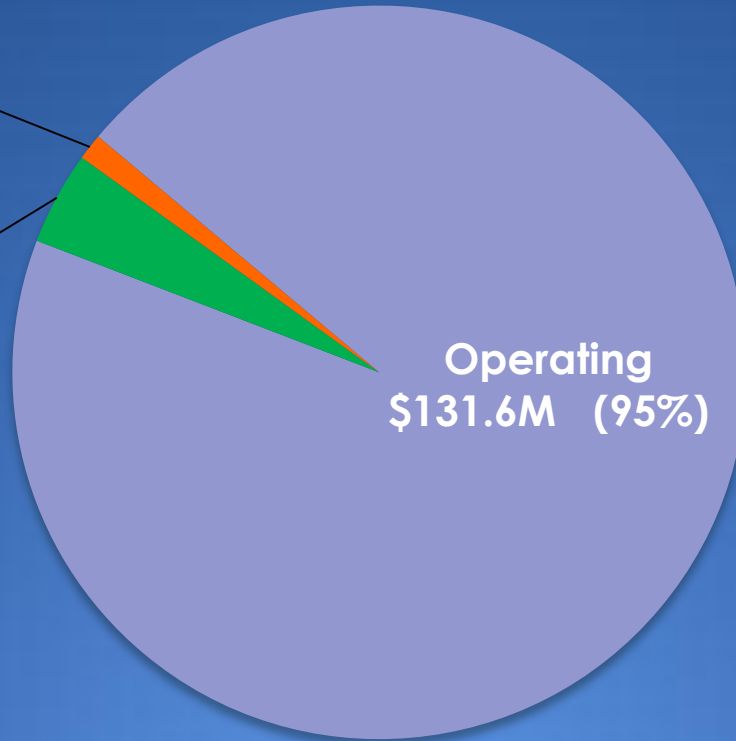
General Fund Expenditures by Type

Lease Payments
& Other Exp.
\$1.6M (1%)

Projects &
Equipment
\$5.7M (4%)

Operating
\$131.6M (95%)

Total Expenditures
\$138.9 Million



Operating Costs by Department

General Fund & Development Enterprise Fund

Department	FY 2013/14 Budget (\$)	FY 2014/15 Budget (\$)	% Change FY 2013/14 – FY 2014/15
Community Development	5,847,011	5,965,990	2.0%
Environmental Services	0	180,366	n/a
Finance	7,856,214	8,224,058	4.7%
Human Resources	3,576,685	3,732,817	4.4%
Library and Community Services	16,653,456	16,619,156	-0.2%
Office of the City Attorney	1,839,243	1,731,895	-5.8%
Office of the City Manager	4,153,145	3,730,546	-10.2%
Public Safety	76,515,918	79,548,911	4.0%
Public Works	18,859,115	19,549,280	3.7%
TOTAL EXPENDITURES	135,300,787	139,283,019	2.9%

Salaries and Benefits

- Personnel costs account for 82% of General Fund budget
- Miscellaneous employees salary increase assumptions - 2% and 3%
- Sworn employees salary increase assumptions – 4%, 3% and 4%
- Benefit costs - average increase of 3.4% annually over long term plan



FY 2014/15 Operating Budget Highlights

- Overall increases driven primarily by increases in personnel costs
- New PS dispatcher and additional PSO
- Office of the City Manager – decrease reflects shift to even year elections
- Office of the City Attorney - budget for legal services shifted to the liability fund



FY 2014/15 Operating Budget Highlights

- Graphic Artist position converted to Library Specialist III to improve Thursday evening service at Library
- Additional Parks Worker for Seven Seas Park
- Funds added for red curb painting
- Eight General Fund Budget Supplements totaling approximately \$500,000

FY 2014/15 Project Highlights

- DPS recruitment budget accelerated
- Additional \$1M over two years for sidewalks
- New traffic services staff augmentation project - \$250k over next two years
- \$30M for administrative facilities infrastructure over twenty years
- Council set aside set at \$100,000/year

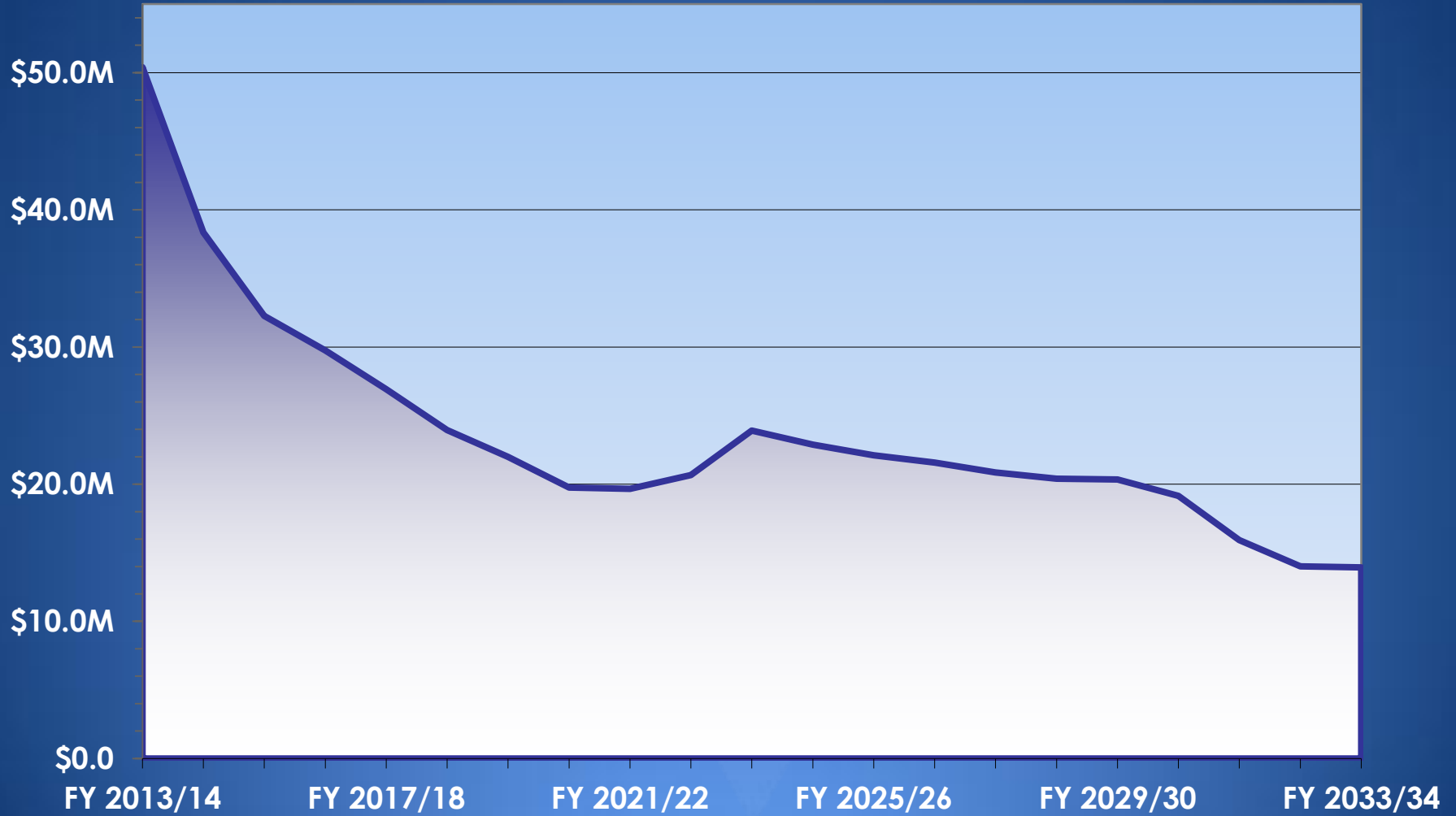
Reserves

- Contingency Reserve
 - Council policy to be 15% of operating budget in the first year of the long-term plan
- Budget Stabilization Reserve
 - Functions to normalize service levels
 - Council policy to be at least 15% of total projected revenues for years 1 & 2
- Reserve for Capital Improvement Projects
- Reserve for RDA payment

Budget Stabilization Fund

- Reserve for revenue or expense uncertainty
- \$38.4M projected for FY 2014/15
- Draws down to \$14M in twentieth year
- Helps to maintain sustainable level of services through economic cycles

Budget Stabilization Fund





Enterprise Funds

Utility Funds

- Segregated into four self supporting enterprise funds
 - Water Supply and Distribution
 - Wastewater Management
 - Solid Waste Management
 - SMaRT Station (pass through)
- Revenues derived from service fees (commonly called utility rates)

Utility Rates

Utility	Original Projection	Recommended FY 2014/15	Change in Percentage Points
Water	5.0%	5.0%	0.0%
Wastewater	7.0%	9.0%	2.0%
Solid Waste	4.0%	6.0%	2.0%

- Council reviews and adjusts fees annually – this year on June 10th

Utility Fund Operating Costs

Fund	FY 2013/14 Budget (\$)	FY 2014/15 Budget (\$)	% Change FY 2013/14 – FY 2014/15
Water Supply and Distribution Fund	27,269,924	28,450,470	4.3%
Wastewater Management Fund	14,770,465	16,098,993	9.0%
Solid Waste Management Fund	33,333,382	34,739,221	4.2%

Utility Expenditure Highlights

- \$1.4 M increase in cost for water
- Two new positions for operating WPCP through construction - \$347,000
- \$300,000 increase in chemicals for sewage treatment

Utility Expenditure Highlights

- \$106,000 in increased costs for keeping trash out of the storm system
- \$500,000 over two years to begin work on Zero Waste policy
- Anticipated \$12M in WPCP renovation work – bond funded

Development Enterprise Fund

- Established in FY 2014/15 to better align development-related revenues and operating activities
- Identified direct development-related costs for FY 2014/15 Budget
- This separate fund will assist us in ensuring full cost recovery

Development Enterprise Fund

- Starting balance of \$6M from development revenues
- Development revenues at all time high – expect \$8.6M in FY 2014/15
- Historical average of \$7.4M over long term
- Expenses exceed revenues over the long term
- With additional experience, will evaluate fee structure in the future

Development Enterprise Fund

Operating Costs

Department	FY 2013/14 Budget (\$)	FY 2014/15 Budget (\$)	% Change FY 2013/14 – FY 2014/15
Community Development	0	4,966,098	N/A
Environmental Services	0	180,366	N/A
Library and Community Services	0	29,383	N/A
Office of the City Attorney	0	327,210	N/A
Office of the City Manager	0	99,756	N/A
Public Safety	0	692,219	N/A
Public Works	0	1,387,197	N/A
TOTAL EXPENDITURES	0	7,682,229	N/A

Development Revenue History *



* Includes Construction Tax



Golf and Tennis Fund

- Segregated as a stand alone enterprise fund in FY 2012/13
- FY 2013/14 anticipated to break even; however only \$30,000 in reserve remaining
- Revenue growth projected for FY 2014/15 but long term growth a concern
- Good progress toward restructuring staffing to reduce expenditures
 - Operating Budget decreased 2.7% from FY 2013/14

Golf and Tennis Fund

- Additional \$100,000 per year in savings or new revenue needed starting FY 2016/17
- Other long-term challenges include:
 - Stabilizing and growing revenue base
 - Addressing long-term capital funding needs – funded by Park Dedication through FY 2032/33



Capital and Infrastructure Funds

Capital Projects Fund

- Used to account for new or enhanced non-utility assets or major rehabilitation of capital facilities
- Distinct Subfunds
 - General Assets
 - Gas Tax
 - Traffic Mitigation
 - Traffic Impact Fee

General Assets Subfund

- FY 2014/15 projects budget - \$8.4M
- Lakewood Branch Library - \$11.5M over four years
- Fair Oaks overhead bridge renovation – \$17M over two years
- Washington Pool expansion - \$6.6M accelerated to FY 2015/16

Gas Tax Subfund

- FY 2014/15 projects budget - \$5.2M for Calabazas Creek Bridge project
- Revenue sources:
 - 85% - Federal grants
 - 9% - contribution from City of Santa Clara
 - 6% - Gas Tax

Traffic Impact and Sense of Place Subfunds

Revenue	FY 2013/14 Budget (\$)	FY 2014/15 Budget (\$)	FY 2015/16 Budget (\$)	20 Year Total
Traffic Impact Fee	3,500,715	5,552,448	1,818,113	51,941,258
Sense of Place Fee	156,128	213,200	362,500	4,114,223
TOTAL REVENUES	3,656,843	5,765,648	2,180,613	56,055,480

- Large development projects generating significant impact fee revenue
- Additional revenue to be addressed in CIP budget cycle

Infrastructure Renovation and Replacement Fund

- To account for long-term renovation and replacement of the City's non-utility, existing physical assets
- Majority of projects funded by transfers from other funds
- Subfunds
 - General Assets
 - Community Recreation

Key Projects in FY 2014/15

- Street Reconstruction & Resurfacing - \$7.7M funded by transfer from the General Fund
- Lakewood Park – \$4.3M funded by the Park Dedication Fund
- Golf Buildings Renovation - \$408k



Special Revenue Funds



Housing Mitigation Fund

- FY 2014/15 Mitigation Fee revenue \$6.8M based on three large commercial developments
- \$1M for Morse Court rental rehabilitation
- \$18.9M reserve balance anticipated for FY 2014/15
- Housing Mitigation Fee ordinance coming to Council for update later this year



Park Dedication Fund

- \$9.5M in revenue for FY 2014/15 based on current development projects
- \$172M in revenue projected over the twenty year plan
- Land valuation study currently being conducted, may result in rate increase
- \$4.3M for Lakewood Park Renovation (Infrastructure Fund)
- Budget supplement for Las Palmas Park auxiliary restroom - \$300,000

Police Services Augmentation Fund

- Revenue of \$230k annually in State Supplemental Law Enforcement Services (SLES) program
- Funding in FY 2014/15 through twenty-year plan for nearly one full-time officer for the Department of Public Safety

Gas Tax Fund

- Funds street maintenance operating expenses
- \$3.5M annually in Gas Tax revenue
 - Based on gallons, not price of gasoline
 - No growth projected
- \$1.3M - Pavement Rehab project



Internal Service Funds

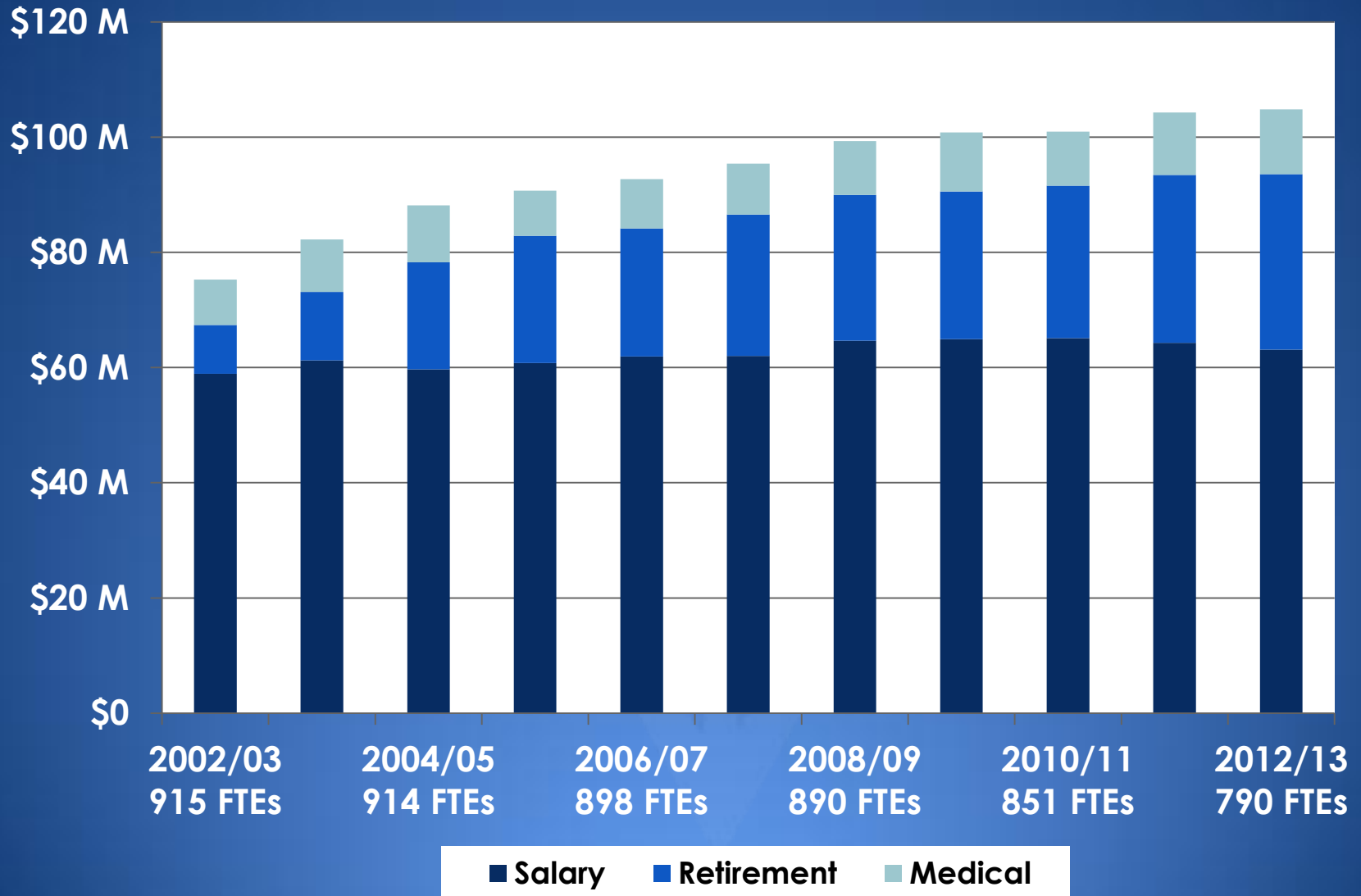
General Services Fund

- Fleet, Facilities, Technology Services
- Rental rates charged to operating programs for operations and replacement costs
- Rental rates held flat for the FY 2014/15 budget
- One new budgeted position in ITD: Programmer Analyst

Employee Benefits Fund

- Accounts for personnel benefit expenses
 - Pension costs
 - Leave costs
 - Insurance costs
 - Worker's compensation costs
- Provides for full-cost accounting by charging additive rate to salaries wherever personnel hours are charged

City Compensation Costs



Pension Costs

- Pension costs rising due to actuarial methodology and assumption changes
- Greater rate volatility year to year
- Retirement additive rate increased
- All employees pay entire employee contribution rate by FY 2019/20

PERS Contribution Rates

MISCELLANEOUS

Fiscal Year	Employer Contribution Rate	Employee Contribution Rate Paid by City	Total City Paid (%)	Total City Paid (\$)
FY 2014/15	23.0%	4%	27.0%	\$15.4 M
FY 2015/16	24.2%	3%	27.2%	\$15.8 M
FY 2016/17	27.3%	2%	29.3%	\$16.7 M
FY 2017/18	28.8%	1%	29.8%	\$17.4 M
FY 2018/19	30.2%	0%	30.2%	\$18.1 M
FY 2019/20	31.6%	0%	31.6%	\$19.4 M

PERS Contribution Rates

PUBLIC SAFETY

Fiscal Year	Employer Contribution Rate	Employee Contribution Rate Paid by City	Total City Paid (%)	Total City Paid (\$)
FY 2014/15	35.21%	8.25%	43.46%	\$14.2 M
FY 2015/16	37.25%	6.25%	43.50%	\$14.8 M
FY 2016/17	42.35%	5.25%	47.60%	\$16.3 M
FY 2017/18	44.90%	4.25%	49.15%	\$17.3 M
FY 2018/19	47.39%	3.25%	50.64%	\$18.4 M
FY 2019/20	49.71%	2.25%	51.96%	\$19.5 M



Medical Insurance Costs

- 10% increase budgeted for FY 2014/15
- Several drivers to cost increases
 - Impact of the Affordable Care Act
 - Potential changes to PERS calculation of premiums to a regional approach
 - Workforce currently at low headcount; anticipated to grow as vacancies filled
- Retiree medical premiums down 35% due to adjustments made by PERS



Budget Supplements

Budget Supplements

- Budget Supplements are additions or reductions in service levels
- Result from Study Issues or Budget Issues that have a fiscal impact
- Some also included by City Manager
- Nine total Budget Supplements totaling \$792,000 in one time costs and \$76,000 in ongoing costs

Budget Supplements

- #1 – Dispute Resolution Services
 - \$20,000 in one-time costs
 - Recommended by City Manager
- #2 – El Camino Precise Plan Update
 - \$80,000 in one-time costs
 - Recommended by City Manager
- #3 – Las Palmas Auxiliary Restroom
 - \$300,000 in one-time costs
 - Funded by Park Dedication Fees
 - Recommended by City Manager



Budget Supplements

- #4 – Wolfe Rd Corridor Traffic Improvement
 - \$250,000 in one-time costs
 - Recommended by City Manager
 - Additional \$100,000 to study grade separations at El Camino and Wolfe not recommended
- #5 – Captioning for Council Meeting Broadcasts
 - \$10,200 in ongoing costs, 20-year total: \$255,000
 - Recommended by City Manager

Budget Supplements

- #6 – Public Access Programming for KSUN2
 - \$65,800 in ongoing costs, 20-year total: \$1.6M
 - Not recommended by City Manager
- #7 – Funding for Leadership Sunnyvale
 - \$6,000 in one-time costs
 - Recommended by City Manager
- #8 – Community Choice Aggregation
 - \$30,000 in one-time costs
 - Recommended by City Manager

Budget Supplements

- #9 – Business Improvement District Funding Request
 - \$30,000 in one-time costs
 - Not recommended by City Manager
- Care Management
 - Two year Supplement FY 2012/13 & FY 2013/14

What's coming up next?

June 10th Public Hearings

- Public Hearing on FY 2014/15 Budget
- Annual Review of Fees and Charges for Fiscal Year 2014/15
- Proposed FY 2014/15 Rates for Water, Wastewater, and Solid Waste Utilities

June 24th

- Adoption of the FY 2014/15 Budget, Fee Schedule, and Appropriations Limit



Staying on the Path of Sustainability

- Managing revenue volatility
- Maintaining focus on core services
- Mitigating long term increases in expenses
- Utilizing the long term plan strategically
- Stay the course



Thank you