



Fiscal Year 2006/2007 Budget Workshop

Tuesday, May 23, 2006

City Council Chambers



FY 2006/2007 Budget Workshop

◆ Agenda

- Overview of FY 2006/2007 Recommended Budget
- Fund Reviews: Twenty-Year Financial Plans
- Review of Operating Programs
- Review of Fee Schedule



Budget Process

- ◆ **20-Year RAP and Long Term Financial Plan**
- ◆ **2-Year Operating and Projects Budget with Alternating Focus**
 - On-Year for Operating Budget
 - Off-Year for Projects Budget
- ◆ **Revenues, Personnel Costs, Enterprise activities reviewed annually**



Budget Process

- ◆ **Fiscal Issues Workshop: January 30, 2006**
- ◆ **Budget Workshop: May 23, 2006**
- ◆ **Public Hearing: June 13, 2006**
- ◆ **Budget Adoption: June 20, 2006**



Budget Overview

- ◆ **Citywide Budget - \$237 million**
 - 13% below FY 2005/2006 Budget
 - 6.7% above FY 2005/2006 when project carryovers are excluded
 - Operating budget up 3.56%
 - 2.6% increase without Water Supply and Distribution Fund



Budget Overview

- ◆ **Sunnyvale's New Fiscal Reality**
 - Includes most FY 2003/2004 reductions
 - Some service restoration
- ◆ **Service Enhancements for consideration through Budget Supplement process**
- ◆ **General Fund Service Level Set-Aside: \$500,000**



Budget Overview

- ◆ **Ongoing structural gap eliminated in General Fund and Community Recreation Fund**
 - Voter Approved Tax Increases
 - Fiscal Strategies
 - Improved Economic Climate
 - Financial Successes



State Budget

◆ Governor's Proposed Budget

- Issued in January

- Effects on local government:

- End of two-year property tax shift
- Mandated Costs – Repayments begin \$500,000 over 15 years
- Continuation of Supplemental Law Enforcement Funding (SLES)
 - \$192,000 for Sunnyvale

◆ All incorporated in recommended budget



State Budget

◆ Governor's Proposed Budget

– Transportation Funding (Prop 42)

- No Local Prop 42 Funds for FY 2006/2007
- Potential Local Funds in FY 2007/2008
 - Sunnyvale allocation - \$700,000 (estimated)
- Repayment of past year suspended payments - \$560,000 for Sunnyvale in FY 2006/2007
- State may defer under current law
- Constitutional amendment on ballot to prevent deferral



State Budget

◆ Proposition 42 “Fix” Initiative

- New Prop 1A proposed to constitutionally protect transportation funding
 - On November 2006 ballot
 - Permanently dedicates sales tax on gas for transportation needs
 - Severely restricts state’s ability to borrow \$\$
 - Strengthens loan repayment provisions



State Budget

◆ Governor's May Revise Budget

- Released on May 12, 2006
- State revenues higher than originally estimated by \$7.5 billion over 2 years
 - \$4.8 billion FY 2005/2006
 - \$2.7 billion FY 2006/2007
- Additional school funding
- Pay down of debt



State Budget

◆ Governor's May Revise Budget

– Effects on local government

- Proposed Supplemental Law Enforcement Grant increased
 - \$97,000 more for Sunnyvale
- Pre-payment of FY 2007/2008 obligation for prior years mandated costs



State Budget

◆ State Budget – Governor’s Strategic Growth Plan

- November 2006 ballot measure for state infrastructure improvement:
 - \$19.9 billion for transportation infrastructure
 - **\$4.2 million for Sunnyvale**
 - \$2.85 billion for Housing
 - \$4.5 billion for education
 - \$4.09 billion for levee repair and flood control



Revenue Assumptions

- ◆ **Recovery already budgeted**
 - FY 2004/2005 was start of upturn
- ◆ **Business cycles for major revenues reviewed**
 - Modified to 7-year cycle in most cases
- ◆ **Fees reviewed and increased to cover costs**



Expenditure Assumptions

- ◆ **Salary assumptions based on MOU's and salary formulas**
- ◆ **Employee Benefit Costs are up 1.5% from FY 2005/2006 projected**
- ◆ **Rental Rates up 3.7% from FY 2005/2006**
 - Savings from physical assets inventory project reflected



Projects Budget

- ◆ **\$19.8 million budgeted for FY 2006/2007**
 - \$238 million budgeted over twenty years
 - 307 projects recommended
- ◆ **Unfunded projects list refined**
 - \$433 million over twenty years
 - Represents substantial future unfunded liabilities to the City
 - Will be reviewed during Projects Budget process



Budget Supplements

Fund	Supplement Number	Description	FY 2006/2007 Revenues	FY 2006/2007 Expenses	CM Rec.
General	1	Liquidambar Street Tree Removal	\$0	\$50,000	Yes
General	2	Identify Sunnyvale – Promote Sunnyvale as a Destination for Shopping, Entertainment, Dining and Lodging	\$0	\$35,000	Yes
General	3	Funding for Expanded Neighborhood Grant Program	\$0	\$11,740	Yes
General	4	Proposal to Eliminate the Library's DVD/Videotape Feature Film Rental Fee in FY 2006/2007	(\$106,090)	(\$100,000)	Yes
Comm. Rec.	5	Case Management for Seniors	\$20,000	\$60,000	Yes
General	6	Restoration of Street Sweeping Service Levels	\$0	\$246,252 - \$315,804	No 17



Budget Supplements

Fund	Supplement Number	Description	FY 2006/2007 Revenues	FY 2006/2007 Expenses	CM Rec.
Park Ded.	7	Construct Restroom Building at San Antonio Park	\$0	\$278,000	No
General	8	Reduce Service Level for Median Island Landscaping	\$0	(\$36,898)	Yes
General	9	Public Safety Enhanced Traffic Enforcement	\$96,914	\$96,914	Yes
General	10	Public Safety Officer Recruitment	\$0	\$3,222,084	Yes
Gen. Svcs.	11	Request for Email Subscription Management Application	\$0	\$0	Yes
Comm. Rec.	12	Community Recreation Fund Budget Imbalance	\$0	(\$349,566)	Yes



Financial Successes

◆ Year-End Results for FY 2003/2004 and FY 2004/2005

- Positive impact from higher revenues and lower expenditures
 - FY 2003/2004: \$4.8 million
 - FY 2004/2005: \$6.5 million
- Reduced drawdown from General Fund reserves



Financial Successes

- ◆ **Long Range Infrastructure Plan**
 - Full twenty year estimates including utility-related assets included in FY 2006/2007
- ◆ **Affordable Housing**
 - Strategic planning process started to maximize and leverage funding



Financial Successes

◆ Sunnyvale's Planning and Management System

- Performance budgeting component updated
- All operating programs restructured for FY 2006/2007
- Council Workshop on February 4, 2006 to review restructures
 - Preliminary direction incorporated into recommended budget



Financial Successes

◆ General Services Inventory Project

- Physical assets inventory of all IT and Facilities equipment
- Overall equipment valuation reduced \$500,000
- IT replacement schedule reduced 20%
- Rental rates adjusted to reflect savings



Financial Successes

- ◆ **Library Facility and Programming**
 - Visioning exercise completed
 - Planning phase slated for FY 2006/2007
- ◆ **Sunnyvale Center for Innovation, Invention and Ideas (Patent Library)**
 - SCI³ closed, Patent and Trademark Depository Library status maintained



Financial Successes

◆ Fee Analysis

- Comprehensive initiative to ensure fees cover full costs
- Subsidy analysis of development fees completed
- Full costing of DPS and utility fees incorporated in fee schedule
- Project to be continued in FY 2006/2007



Financial Successes

- ◆ **Transient Occupancy and Business License Tax Increases**
 - Voter approved increases provide \$1.4 million when fully implemented



Fiscal Pressures

- ◆ **Base Realignment and Closure process for Onizuka AFS**
 - Funding for BRAC process needed
- ◆ **Roadway maintenance**
 - Potential reduction in City's overall Pavement Condition Indicator
- ◆ **Rising costs of labor**
 - PSOA MOU expires June 30, 2006



Fiscal Pressures

- ◆ **Golf course operations**
 - Decline in golf play
 - Increasing infrastructure requirements
 - Golf Course Strategic Vision process
- ◆ **Water Pollution Control Plant rehabilitation**
 - \$35 million in projects in next 10 years
 - Study indicates \$55 - \$65 million needed
 - Possible process modifications to reduce costs



Fiscal Pressures

- ◆ **Maintenance of 100 Block of Murphy Avenue**
 - Enhanced maintenance done as capital project through June 30, 2006
 - Council to decide if funding should continue
 - \$46,000 annual cost from General Fund



New Initiatives

- ◆ **Traffic and Transportation funding comprehensive review**
- ◆ **Overall review and strategic plan for all parks and open space assets**
- ◆ **Analysis of civic center and corporation yard facilities**



Budget Overview

- ◆ Questions, Comments, Suggestions on Budget Overview Section



Fund Reviews

◆ Review of Twenty-Year Financial Plans

- Focus will be on Funds with major changes or policy issues



General Fund

- ◆ Includes basic City services and general government support functions
- ◆ Impacted by economic conditions and State legislature actions



General Fund Revenues

- ◆ **Overall revenues for FY 2006/2007 up 2.8% from FY 2005/2006 projected**
 - \$2.9 million increase
- ◆ **Five major revenue sources generate 76% of revenue**
 - Sales Tax
 - Property Tax
 - Utility Users Tax/Franchise Fees
 - Transient Occupancy Tax
 - Construction-Related Revenues



Sales Tax

- ◆ Overall revenues for FY 2006/2007 up 3.7% from FY 2005/2006 projected
 - \$1 million increase
- ◆ FY 2005/2006 projected 10% higher than last year due to accelerated business to business purchases and one-time Use Tax
- ◆ Ongoing base identified
- ◆ Projections based on four categories
- ◆ Seven year business cycle



Property Tax

- ◆ Overall revenues for FY 2006/2007 up 3.3% from FY 2005/2006 projected
 - \$1.1 million increase
- ◆ Projections isolate residential and commercial/industrial
- ◆ Commercial/Industrial held flat
- ◆ Continued growth in residential
- ◆ Property tax lags economic cycle by 1 year



Utility Users Tax

- ◆ Overall revenues for FY 2006/2007 up 2.8% from FY 2005/2006 projected
 - \$169K increase
- ◆ Electricity sales - 59% of UUT
 - 3.8% increase
 - Reflects full year of PG&E rate increase



Utility Users Tax

- ◆ **Telephone sales - 26% of UUT**
 - 1% annual increase due to competitive telephone market
- ◆ **Gas sales – 15% of UUT**
 - Based on average because of market volatility



Franchise Fees

- ◆ Overall revenues for FY 2006/2007 up 3.8% from FY 2005/2006 projected
 - \$209K increase
- ◆ Franchise Payments from:
 - PG&E (40%)
 - AT&T Cable (18%)
 - Specialty Garbage (26%)
 - SMaRT Garbage Host Fees (14%)



Transient Occupancy Tax

- ◆ Overall revenues for FY 2006/2007 up 11.9% from FY 2005/2006 projected
 - \$648K increase
- ◆ Revenue up 8% in FY 2005/2006
- ◆ Average occupancy rate up
- ◆ New tax rate
 - 9% on January 1, 2007
 - 9.5% on January 1, 2009



Construction-Related Revenue

- ◆ Overall revenues for FY 2006/2007 up 9.3% from FY 2005/2006 projected
 - \$613K increase
- ◆ Includes Construction Tax, building permits, plan check fees
- ◆ FY 2005/2006 up 11% due to high levels of residential development
- ◆ Rolling seven year economic cycle
 - Peak in FY 2006/2007



Other Revenue Highlights

◆ Business License Tax

- Rate increase over two-year period
- \$800K additional when fully implemented

◆ Real Property Sales

- Downtown properties \$2.8 million in FY 2010/2011
- Unilever Margarine Plant \$21 million in FY 2017/2018
- Proceeds placed into Capital Improvement Projects Reserve



General Fund Expenditures

- ◆ **Total Expenditures: \$114.6 million**
 - Up 5.82%
- ◆ **Operating Budget: \$108 million**
 - Increase of 4.54% over FY 2005/2006
 - 1% of increase due to reallocations from projects or other funds
- ◆ **Budget Supplements: \$3.3 million recommended**



Major Changes in Operating Budget

- ◆ **Three ongoing Special Projects moved into Operations**
 - Dispute resolution services (\$104K)
 - Congestion Management Agency (\$250K)
 - Property Management Services (\$300K)
- ◆ **Election-related costs reduced \$400K in off year**
- ◆ **Public Safety light duty program moved from Employee Benefits Fund to Public Safety Department (\$392K)**



Major Changes in Operating Budget

- ◆ **Gas Tax funds supporting smaller portion of Pavement Operations Program**
 - Reduction of \$1.7 million
- ◆ **Employee benefit additives for Public Safety reduced \$1.4 million for new retirement and workers' compensation rates**



Major Changes in Operating Budget

- ◆ **Major changes to Human Resources Department Budget**
 - \$1.7 million administrative costs moved from Employee Benefits Fund to General Fund
 - Services enhanced (\$445K)
 - Increased recruitment efforts for three-year period only (\$188K annually)
 - One position reduced starting in FY 2009/2010



Major Changes in Operating Budget

- ◆ **Variable costs for Public Safety recruitment and training moved from operations to special projects (\$2.2 million)**



Reserves and Set-Asides

- ◆ **20% Contingencies Reserve maintained**
- ◆ **New Reserve for Capital Improvement Projects (originally Land Acquisition Reserve)**
- ◆ **Service Level Set Aside: \$500,000 starting FY 2006/2007**



General Fund Fiscal Condition

- ◆ **Significant progress toward fiscal stability**
- ◆ **Balanced over twenty years with no additional service reductions**
- ◆ **Significant service level additions recommended in Budget Supplement process**



General Fund Fiscal Condition

- ◆ **Service Level Set-Aside funded at \$500,000**
- ◆ **Community Recreation Fund subsidy increased**
- ◆ **Improved conditions but vulnerabilities remain**



Gas Tax Fund

- ◆ Revenue projections show slight decline
- ◆ Gas Tax revenues have not kept pace with road usage or inflation
- ◆ Major expenditure is street maintenance operating expenses



Park Dedication Fund

- ◆ Fees imposed on high density residential development
- ◆ \$11 million expected in the next 4 years
 - Fee increase to \$81/s.f. in July 2006
 - Revenue projection based on construction development cycle
 - Plaza del Sol Phase II moved up in schedule to FY 2006/2007
 - \$ appropriated to Parks & Recreation capital projects - no further reliance on General Fund



Parking District Fund

◆ Revised Long-Term Financial Plan prepared

- Reserves drawn down over 20 years
- Assessments increased 9% every two years
 - 4.5% annually
- Revised Plan to be reviewed by property owners before approval



Youth and Neighborhood Services Fund

◆ Columbia Neighborhood Center revenues and expenditures

- Partnership with School District
- Restructured to align services and expenses
- Increase in youth and neighborhood safety services
- Staffing changes



Redevelopment Agency Fund

- ◆ **Agency amended tax increment cap to \$600 million in FY 2005/2006**
 - \$24.4 million low and moderate housing liability deferred to FY 2028/2029
 - 20% Housing funds starting in FY 2017/2018
 - General Fund loan repayment \$75M over twenty years, ending balance \$167M



Redevelopment Agency Fund

◆ Reflects Town Center Redevelopment

- Opening delayed to 2008
- \$4 million additional property taxes annually
- Return to developer up to \$4.05 million, plus 50% of any receipts above this
- Developer to construct public streets and parking



Water Supply and Distribution Fund

- ◆ **FY 2006/2007 total operating costs = \$19.9 million**
- ◆ **Purchased Water Costs = \$12.7 million (63% of total operating costs)**
- ◆ **FY 2006/2007 Adopted rate increase is 11.5%**
 - Major factor is increase in cost of purchased water
 - SFPUC 16.2%
 - SCVWD 4.9%



Solid Waste Management Fund

- ◆ **FY 2006/2007 total operating costs = \$30.3 million**
- ◆ **Solid Waste collection contract up \$300K from FY 2005/2006**
 - Total contract costs = \$16.1 million or 52% of operating costs



Solid Waste Management Fund

- ◆ Sunnyvale's SMaRT Station expense share and cost of landfill disposal = \$8 million or 26% of total fund operating costs
- ◆ 1% Increase in Tonnage to SMaRT Station projected
- ◆ FY 2006/2007 Adopted rate increase is 5.5%, same as planned



Wastewater Management Fund

- ◆ **FY 2006/2007 total operating costs = \$16.2 million**
- ◆ **\$76.3 million investment in infrastructure and capital projects over the twenty-year plan**
- ◆ **FY 2006/2007 Adopted rate increase is 6%, one and a half percent lower than projected last year**



Community Recreation Fund

- ◆ **Contains the City's recreation activities: golf courses, tennis center, classes**
- ◆ **Realignment of services and activities with Funds (Community Recreation Fund or General Fund)**
 - No net fiscal impact for Funds



Community Recreation Fund

- ◆ **Structural Imbalance in Adopted FY 2005/2006 Budget**
 - \$650,000 starting in FY 2006/2007
- ◆ **During FY 2005/2006, staff developed fiscal strategies**
 - Preliminary plan = \$413,000
 - Approved by Council at Fiscal Issues Workshop
 - Budget Supplement #12



Community Recreation Fund

- ◆ **General Fund subsidy \$3.9 million**
 - Amount set after realignment of revenues and services
- ◆ **Recommended that subsidy be fixed at FY 2006/2007 level and grow by inflation**
 - Increase in service level would require additional subsidy



Community Recreation Fund

◆ Other issues for Council consideration

– Family Day

- \$8 - \$12,000 cost
- Subsidy increase required

– Golf Services

- Golf play down from peak
- Less net income
 - Fresh look at golf operations



Community Recreation Fund

- Senior Lunch Program
 - \$24,000 net cost
 - Participation lower than goal
 - Evaluate future fee increases
- Fee Waiver Program
 - High level of demand
 - Budget increased for 2005/2006, 2006/2007
 - Study Issue September 2006
- Swirsky Fund Interest Transfer
 - All used to supplement Mobile Recreation Program



Employee Benefits Fund

- ◆ **Mechanism to cover expenditures related to employee costs**
 - Leaves
 - Retirement
 - Workers' Compensation
 - Insurance
- ◆ **Additive rate charged to staff salaries wherever personnel hours are budgeted**



Employee Benefits Fund

- ◆ **Total expenditures \$52.2 million**
 - Decrease of \$300K from FY 2005/2006
- ◆ **\$1.7 million transferred to H.R. program in General Fund**
 - No net effect
- ◆ **Excluding transfer, costs are up 1.5% for FY 2006/2007**



Employee Benefits Fund

◆ Retirement

- PERS rates reflect new actuarial methodology for FY 2006/2007
- PERS Rate Uncertainty Reserve established because of volatility
 - Beginning in FY 2007/2008



Employee Benefits Fund

◆ Workers' Compensation

- Goal to reduce costs by 25% in FY 2005/06 will be met
- Additional 25% reduction over next 5 years



Employee Benefits Fund

◆ Insurances

- Reserve established for Retiree Medical Benefits
 - Liability calculated at 8.6% of payroll = \$7 million
- New Actuarial study to be conducted
- Insurance Rate Uncertainty Reserve created



Fund Reviews

- ◆ Questions, Comments, Suggestions on Fund Reviews Section



Review of Operating Programs

- ◆ All programs restructured for FY 2006/2007
- ◆ Council reviewed on February 4
 - Changes incorporated
- ◆ Council final approval of structures and measures with budget adoption
- ◆ Review by program



Review of Fee Schedule

- ◆ **Adjustments to align with cost of service**
- ◆ **New Fees**
 - Community Development
 - Public Safety
 - Finance
 - Public Works
- ◆ **Addendum for tree removal fees**