



Preliminary Fiscal Outlook 2017

Study/Budget Issues Workshop
February 17, 2017

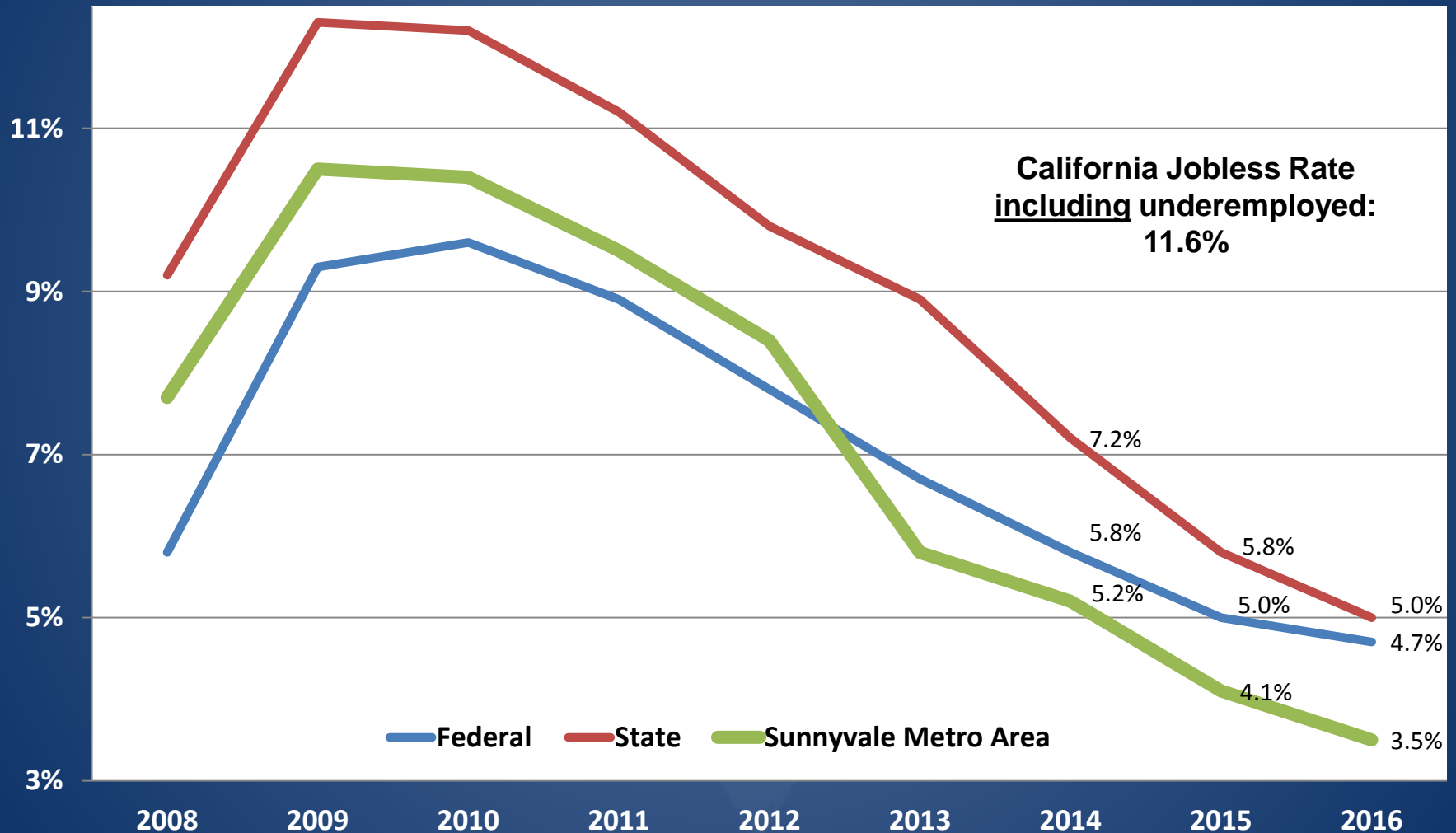
2017 Economic Forecast

- Economy continues to expand, but the future is uncertain
- Moderate potential upsides, more potential downside
 - jobless rate
 - development activity
 - housing prices
 - consumer spending
 - modest inflation

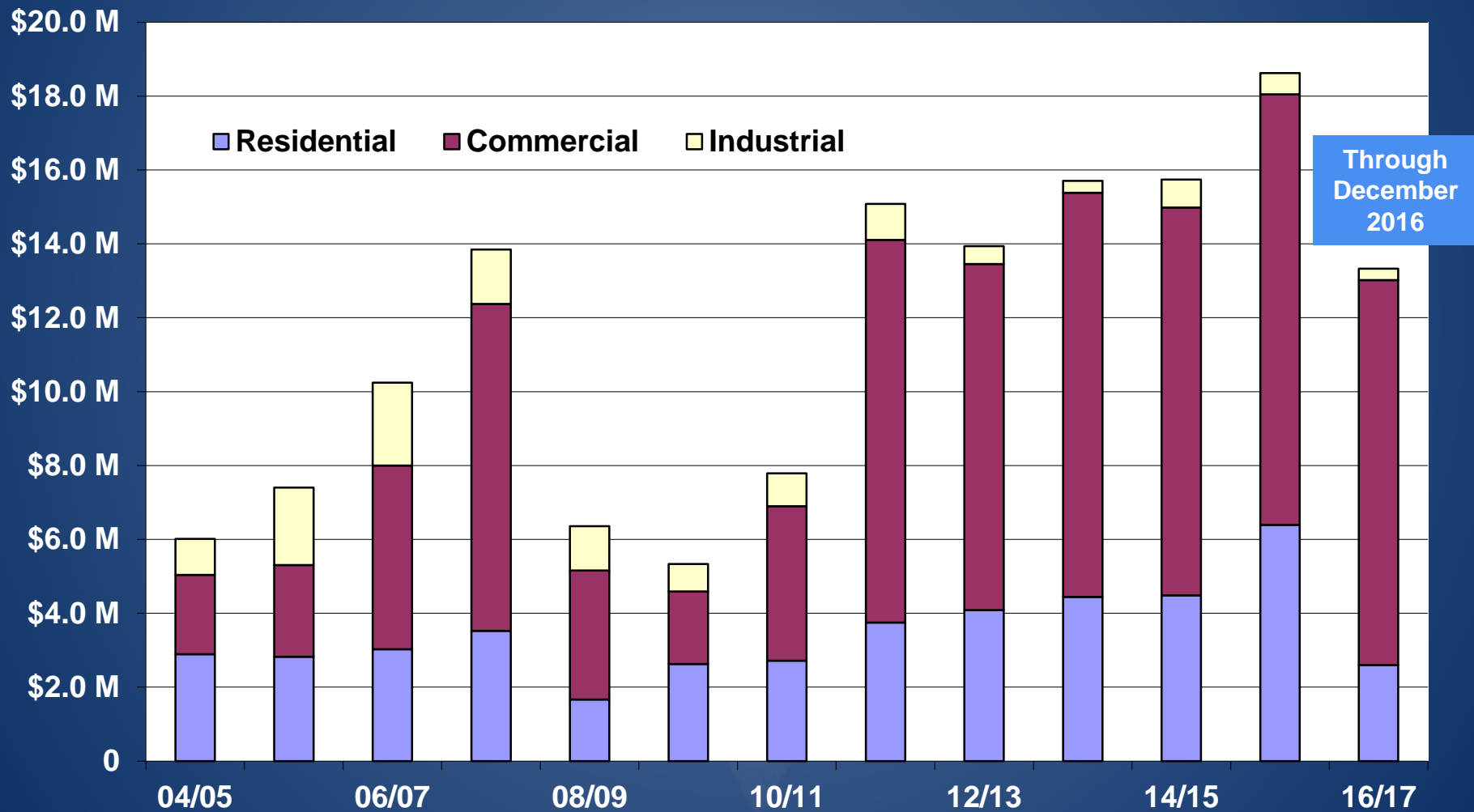
State Outlook

- Positive 2017/18 position, however Gov Brown warned against “double barreled” uncertainty of federal gov and recession
- Estimate in General Fund \$11.5B total reserves, \$2.8b discretionary
- Personal Income growing at 5-5.6%
- State could weather a mild recession through 2020/21- without changes in current conditions

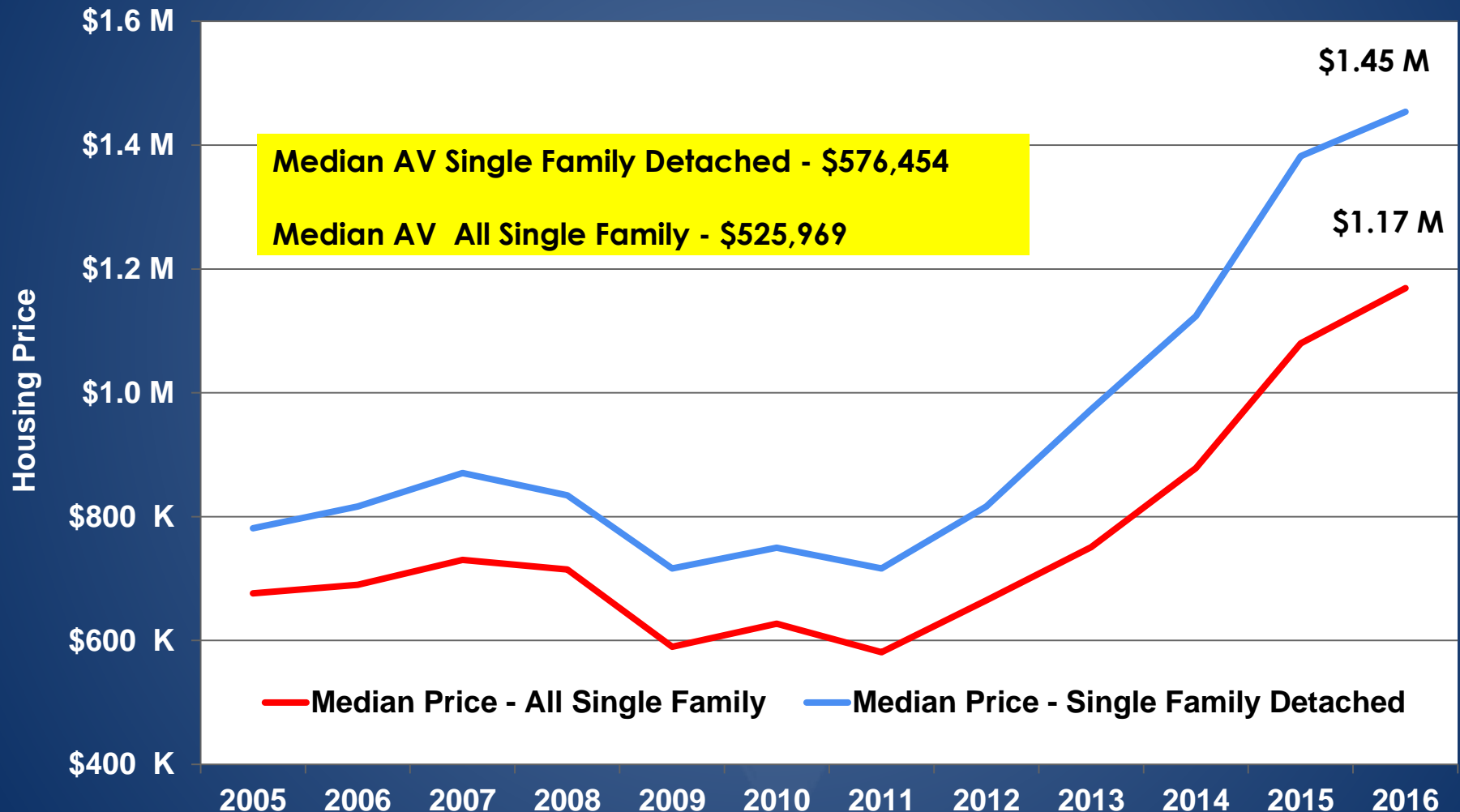
Jobless Rate – Through Nov 2016



Building Permit Revenue



Sunnyvale Home Sales



2017 Economic Forecast - Trends

- Globally
 - Monetary policy normalization
 - Global conditions, especially in emerging markets
 - Volatility in foreign markets
- Locally/Regionally
 - Silicon Valley leading the economy
 - Peak levels continue for several revenue sources/Volatility
 - Addressing increasing unfunded liabilities
 - Managing revenue volatility
 - Income inequality/Social equity
 - Political uncertainty

Remaining Stable and Sustainable

- Budgeting in good times must be strategic, disciplined and focus on the long term sustainability
 - City deferred projects during recession that require funding
 - The FY 2016/17 Budget included a reserve reduction strategy to fund service levels
 - A list of unfunded programs and projects was developed and must be addressed – dynamic list
- Growing revenues have been met with growing expenditures

Remaining Stable and Sustainable

(Continued)

- Current economy is leading to growth in some revenue sectors – Property Tax held to 2% growth after a property is transferred
- Other revenues don't react as might be expected – Sales Tax
- Revenue projections should carefully reflect the benefits of a recovering economy
- Balancing expenditure priorities is critical

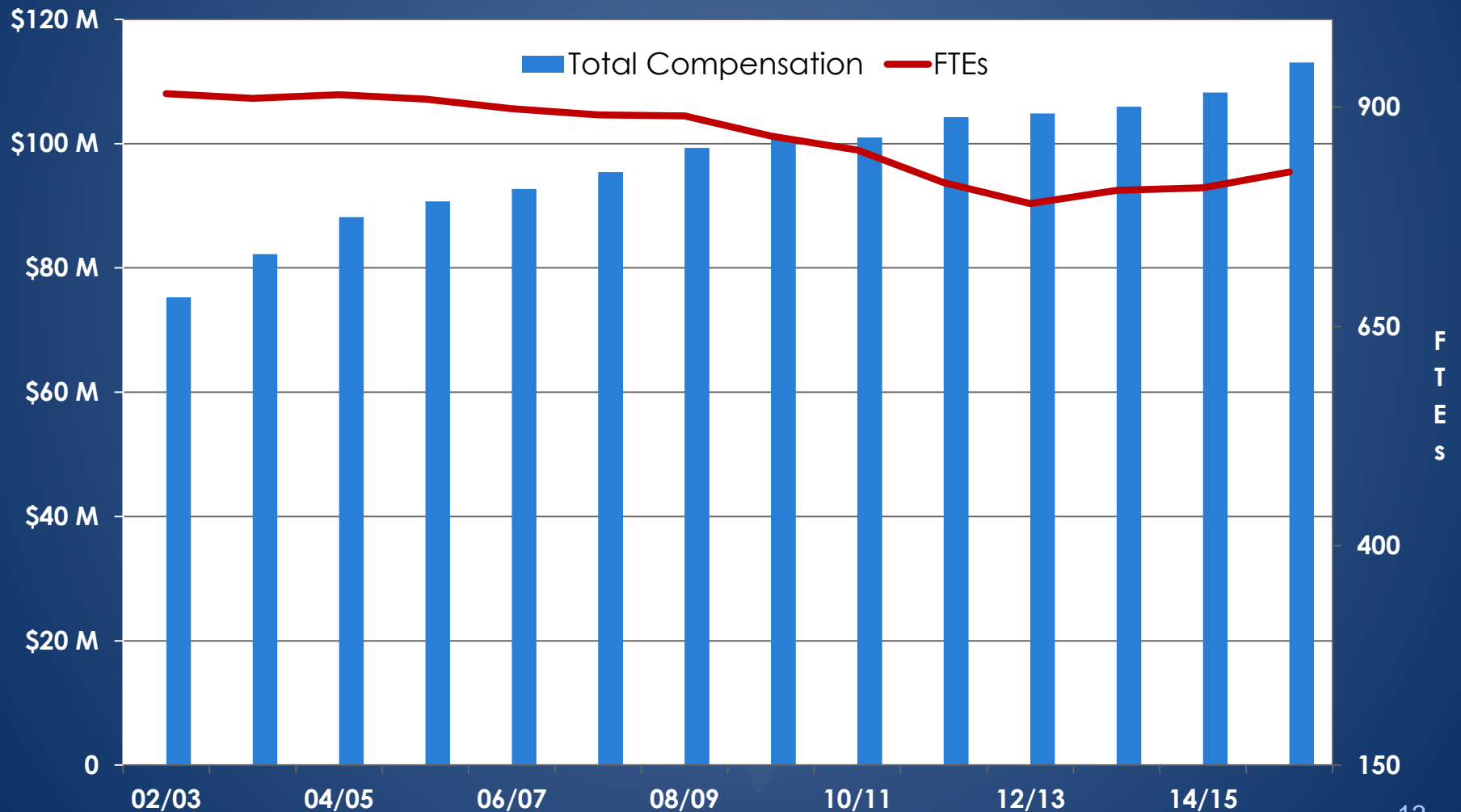
The Other Side of a Positive Economy

- City project costs are increasing
 - Construction costs up due to demand
 - Bids exceeding engineer's estimates
 - Prevailing wage requirement
 - Many newly funded “mission critical” initiatives underway at once due to prior deferral



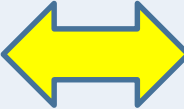





The Other Side of a Positive Economy (Continued)

- Demand for services up
 - Significant transportation projects underway
 - Catching up with maintenance on aging infrastructure (e.g. streets, sidewalks, facilities)
 - To meet demand succession planning is critical workforce demographics change
 - Increasing CalPERS pressures existing services

Staffing Costs vs. Levels

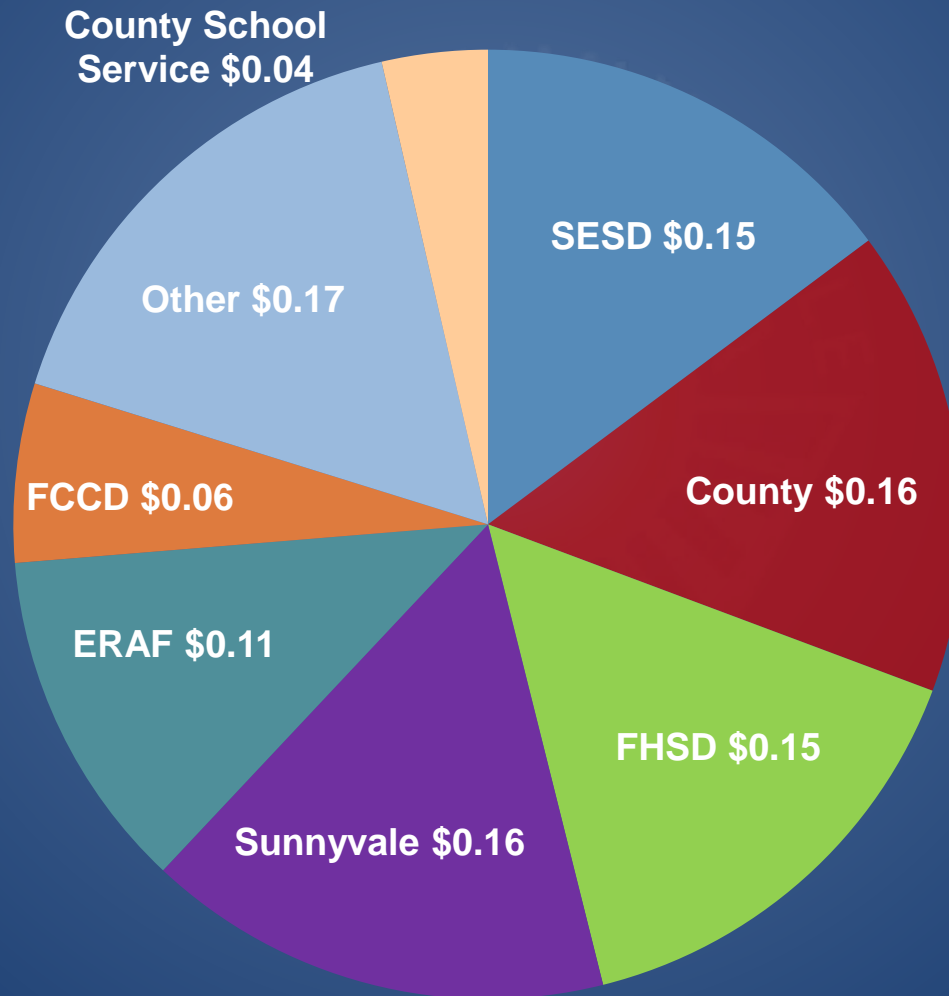


FY 2016/17 Major General Fund Revenues

	Stable	Trend	City Controlled	Percent of General Fund ¹
Property Tax				39%
Sales Tax				20%
TOT				9%
UUT				4%
			Total	72%

1. Excludes Revenue from Sale of Property

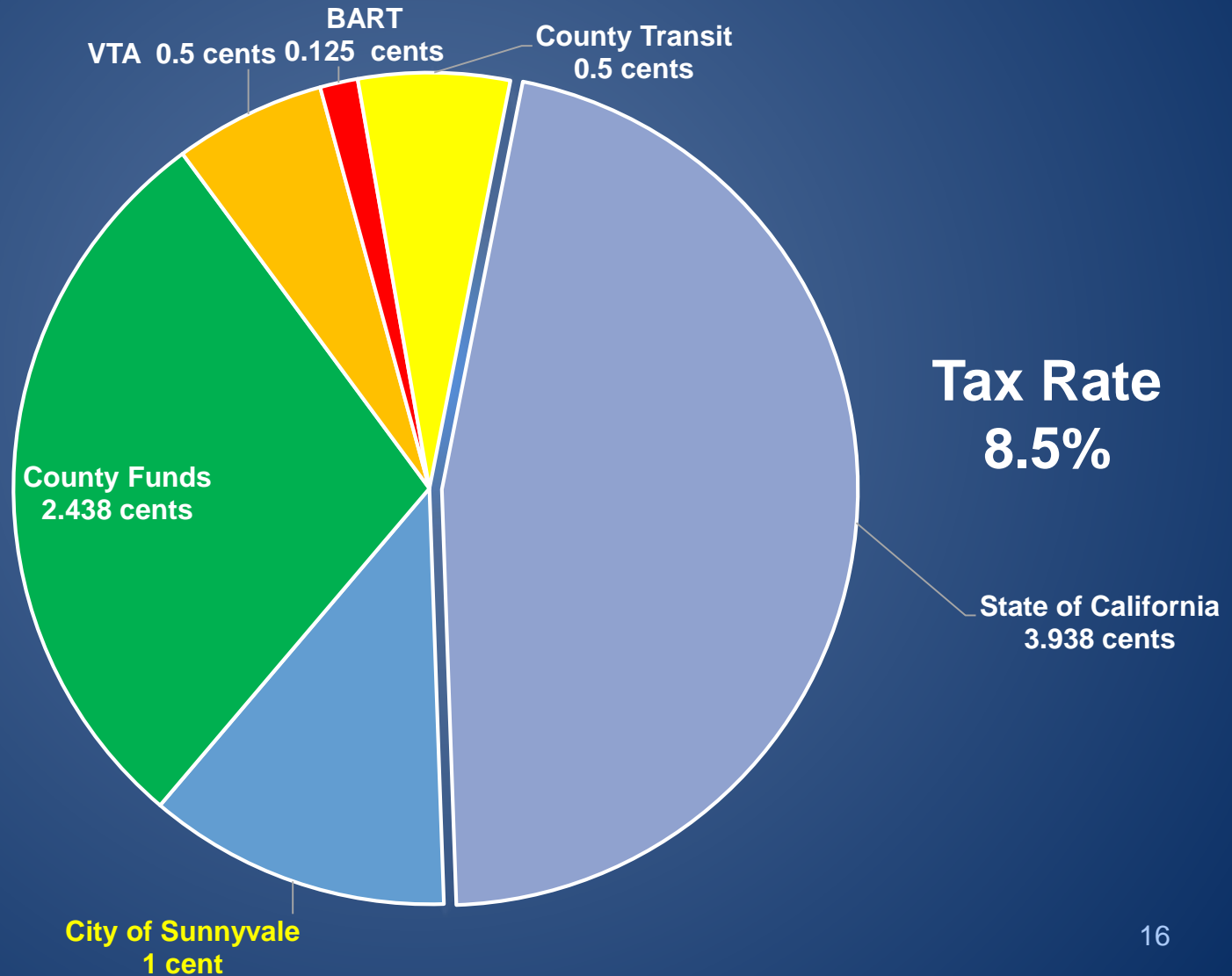
Property Tax Breakdown - \$1.00



Property Tax

- FY 2016/17 projection - \$62.8M
- Significant residential and commercial growth projected
- On track to exceed projection
 - Assessed valuation up 9.5% over FY 2015/16
 - 6% already built into the FY 2016/17 budget
- FY 2017/18 tax roll – CPI adjustment 2%

Sales Tax Breakdown

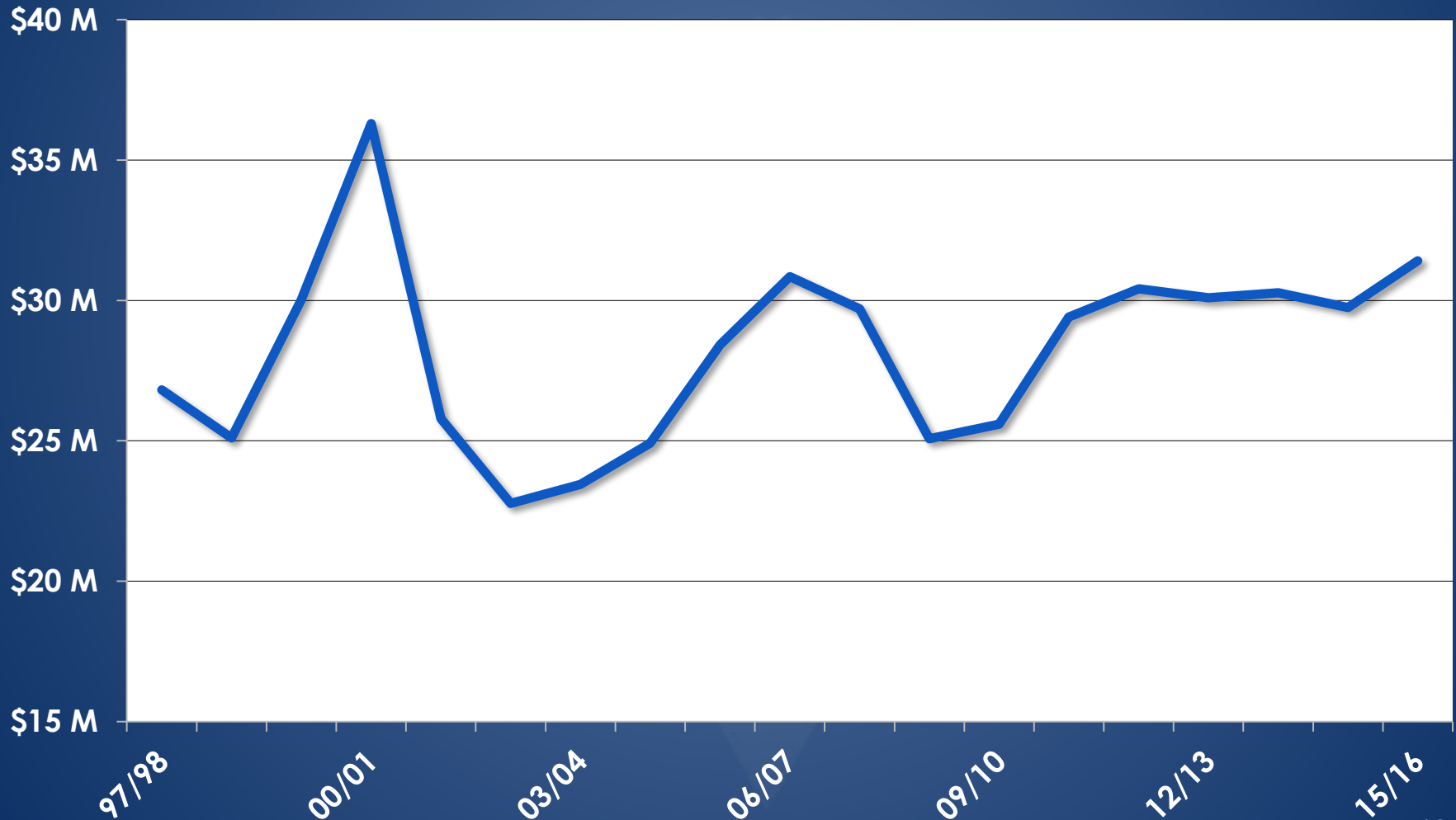


Sales Tax

- FY 2016/17 Budget - \$31.7M
- Volatile revenue source – projection down
- Business to Business sector makes up 40%
- FY 2016/17 - 1st Quarter up 6% over prior year
- Continued increases in County Pool reflect shifting economy from retail to on-line purchases
- Need to evaluate carefully to determine sustainable revenue base

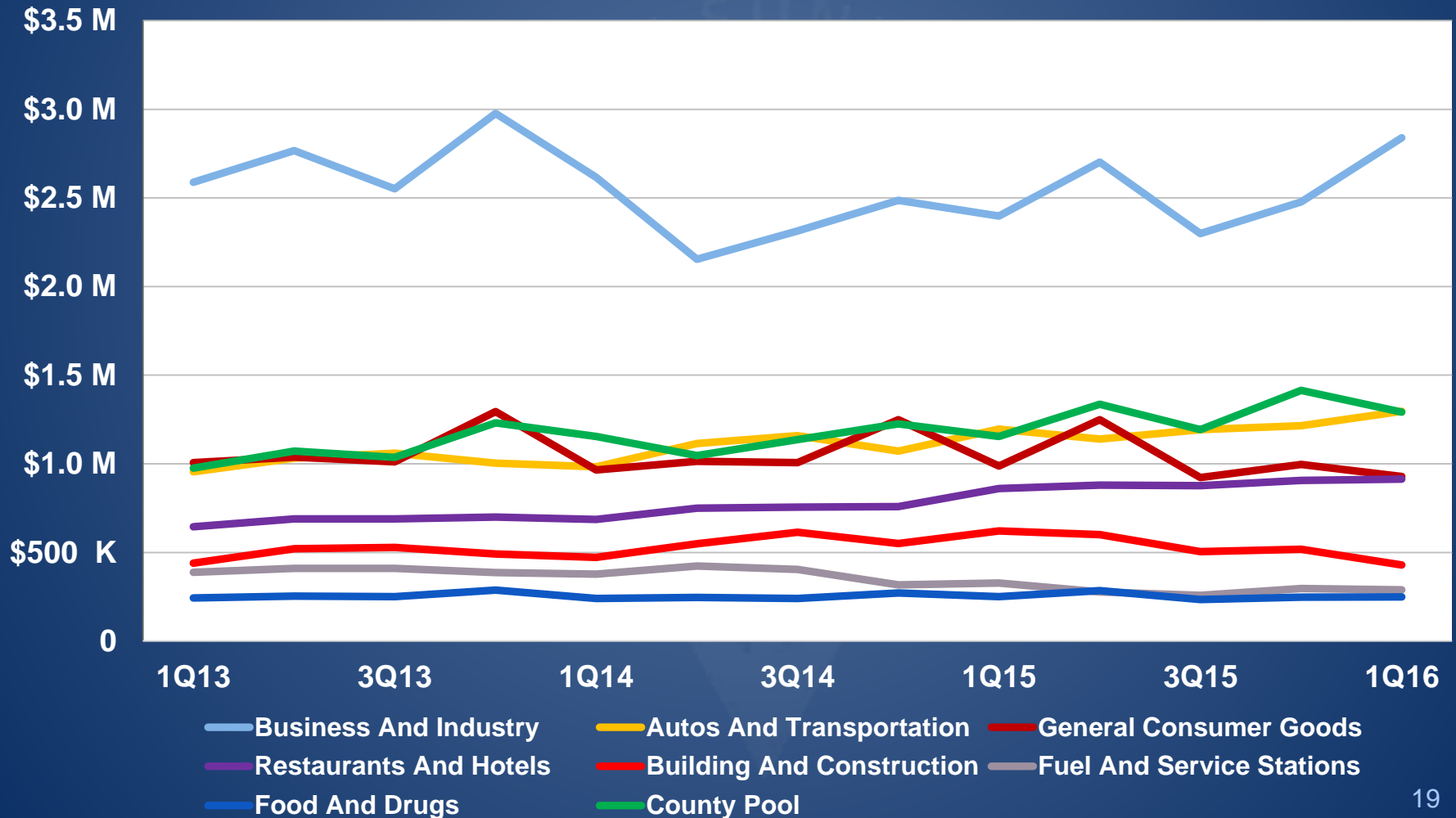
Sunnyvale Sales Tax Revenue

Historical Collections



Sales Tax Revenue

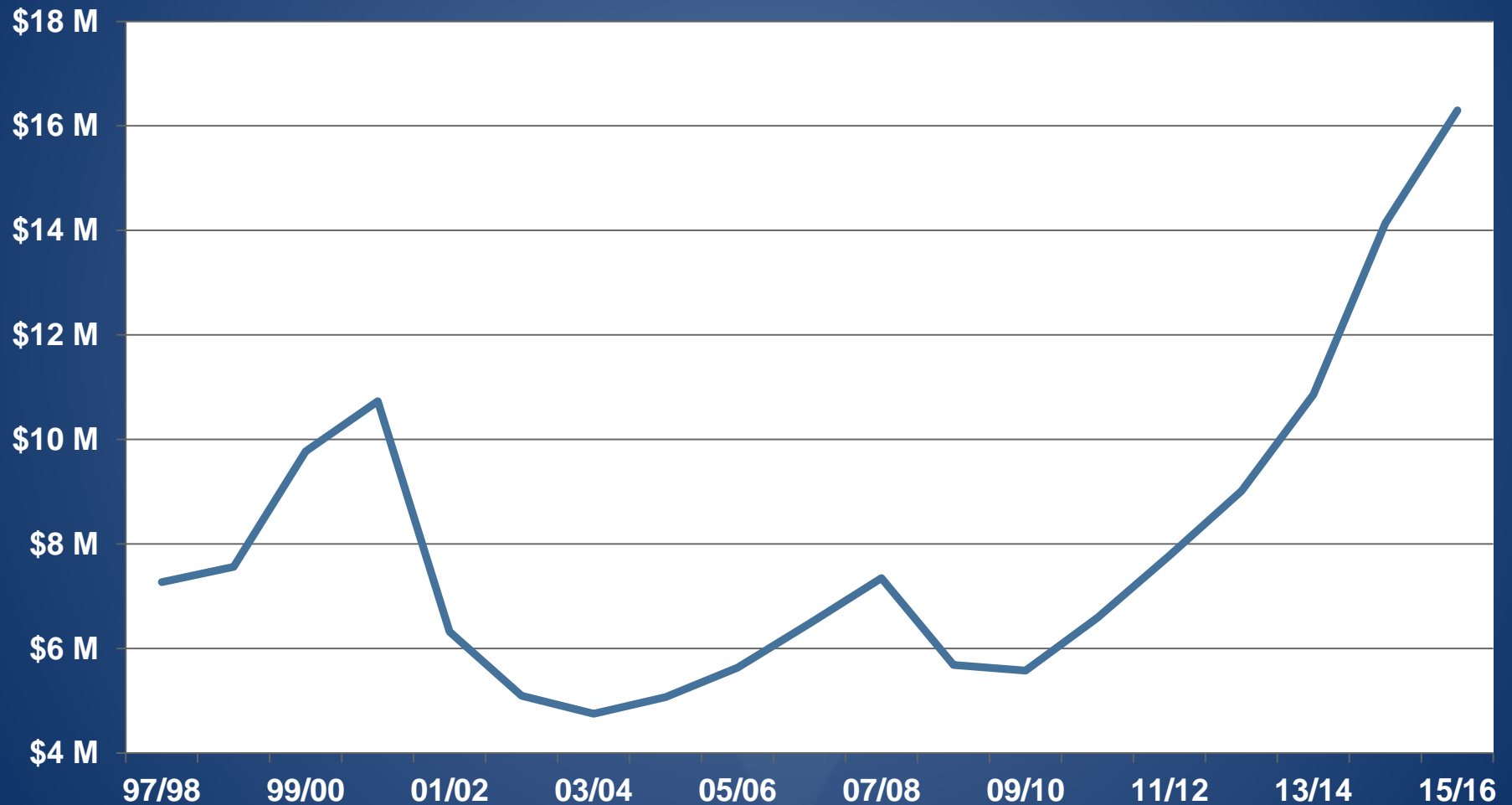
Results by Major Industry Group



Transient Occupancy Tax (TOT)

- FY 2016/17 Budget - \$14.5M
- Significant growth – FY 2015/16: \$16.3 M, up \$2.2 M from FY 2014/15
- At historical high, but also this has proven to be volatile in the past, flows with the local economy
- Long term projections include approved new hotels, and ongoing revenue in the long-term financial plan

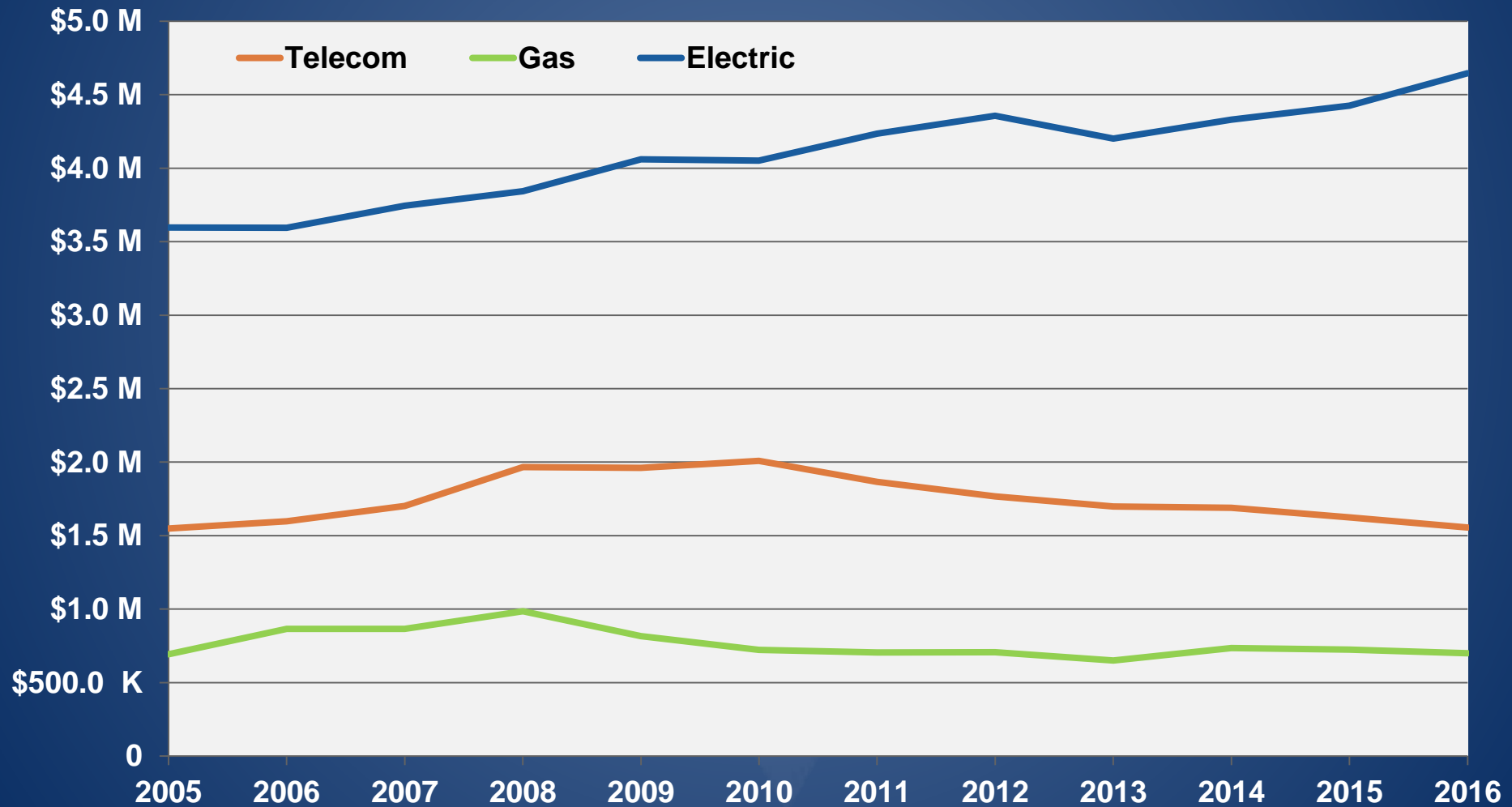
TOT Revenue by Year



Utility Users Tax (UUT)

- UUT revenue base is evolving
- Electricity revenue moderated by energy efficiency gains
- Telecom base deteriorating – new forms of communication services not subject to UUT
- The voters approved Measure N to modernize the City's UUT ordinance in November, 2016 – will help to stabilize revenue

Utility Users Tax (UUT)



FY 2016/17 General Fund Operations

Department	Budget	Current	% of Budget
CDD	\$1,154,542	\$537,900	46.6%
FIN	\$8,936,029	\$4,116,220	46.1%
HRD	\$4,588,585	\$2,003,923	43.7%
LCS	\$17,809,664	\$8,168,970	45.9%
OCA	\$1,463,588	\$712,569	48.7%
OCM	\$5,836,609	\$2,885,005	49.4%
DPS	\$86,519,052	\$41,358,780	47.8%
DPW	\$22,113,245	\$10,787,310	48.8%
Total	\$148,421,314	\$70,570,677	47.5%

50.41% of the fiscal year has elapsed

Development Enterprise Fund

- Revenues and activity remain elevated – however historically volatile
- FY 2016/17 Revised Revenue Projection – \$14.4M
- YTD revenue already at \$12.1M (102%)
- Fund expenditures at 59%
- This level of revenue will not remain once growth slows; increased revenue means increased level of service required, which is not sustainable

FY 2016/17 Utility Fund Operations

- Water enterprise fund under pressure
 - Fee structure change starting July 1, 2016
 - Wholesale water rates to rise further
 - Wet year is equal to a drought in terms of revenue
- Solid Waste implementing zero waste goals
 - Waste disposal contract change
 - Potential additional SMaRT® Station partner
- WPCP renovation underway
 - Significant rate increases currently built into long term financial plan
 - Clean Water State Revolving Loan agreement to finalize February 2017

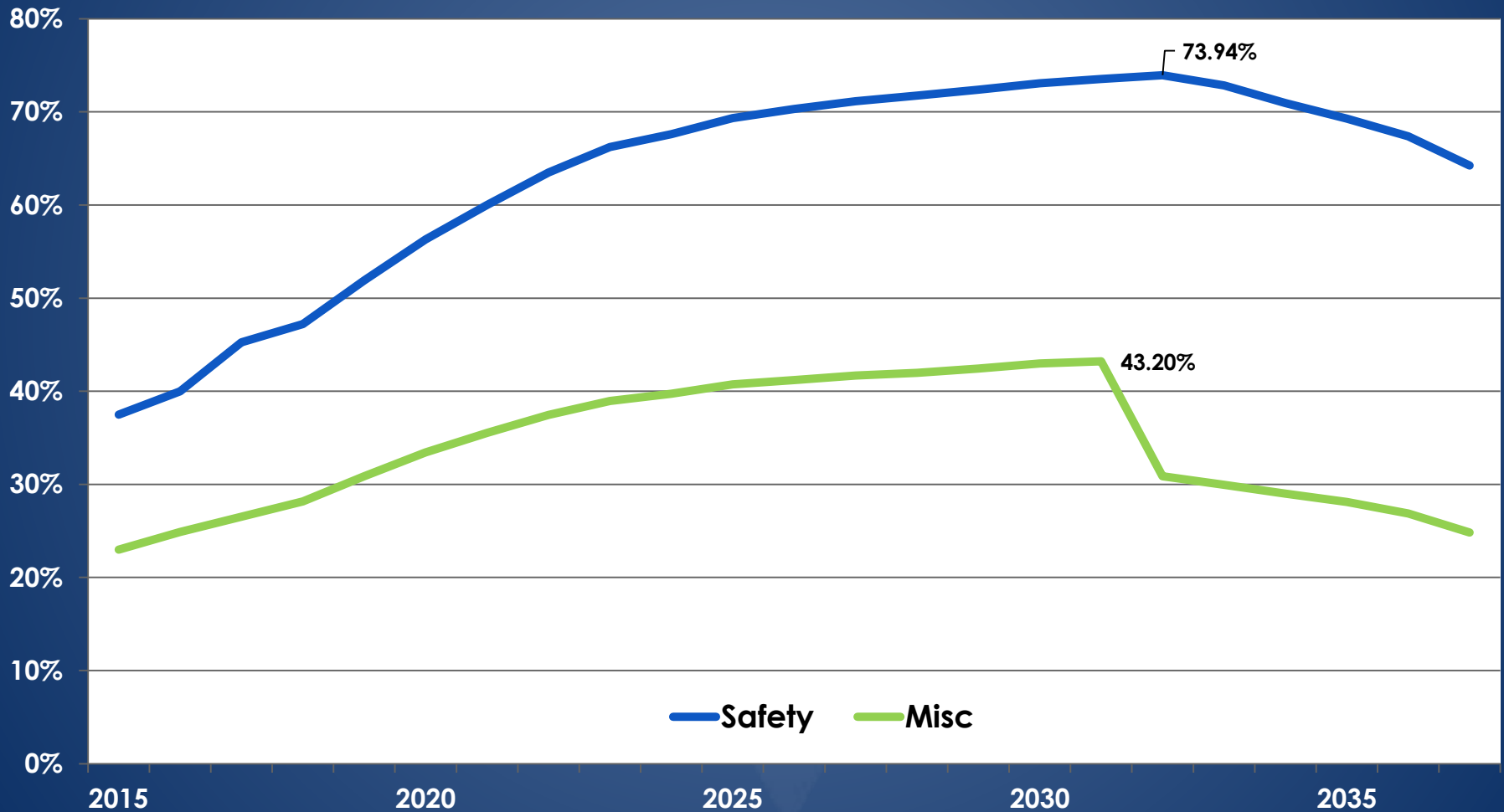
Pension Costs

- CalPERS investment returns under target – board lowered discount rate
- On top of significant increases over last 15 years
- Unfunded liability increasing, > \$290M
- Pension costs rising due to actuarial methodology changes, demographic assumption changes, de-risking policies
- Projected FY 2017/18 and forward contribution rates up

Pension Costs (Continued)

- FY 2014/15 – Investment Returns were 2.4%
- FY 2015/16 – Investment Returns were 0.6%
- Most recent projected employer rates adjusted, higher than planned
- Currently evaluating impact of higher long term projections
- Impact of discount rate change beginning in FY 2018/19 – full impact in FY 2024/25

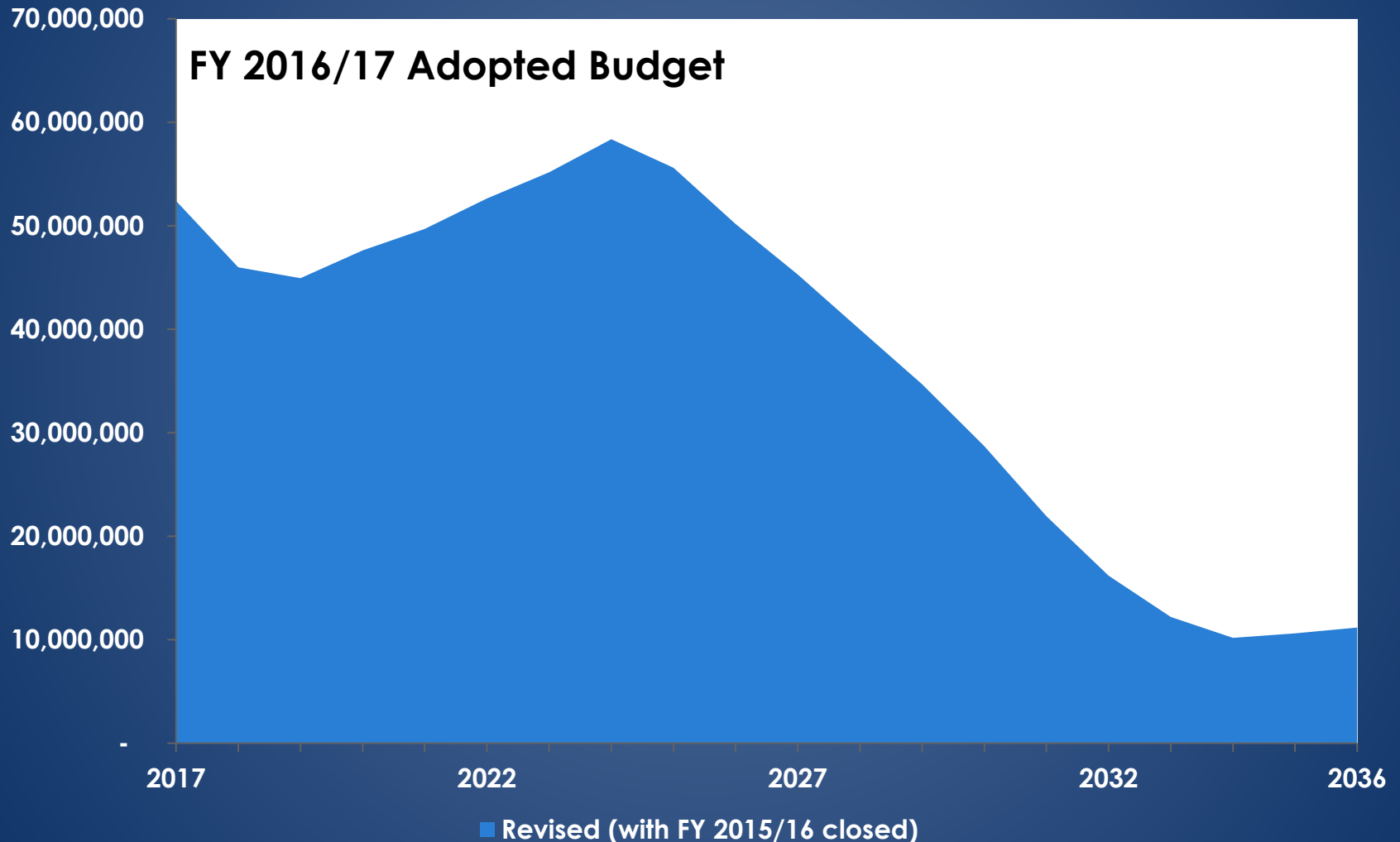
PERS Contribution Rate Projection



Retiree Medical Funding

- OPEB Trust over \$75M
- Actuarial valuation every 2 years
- Implied subsidy – employer cost for allowing retirees to participate at blended premium rates
- Total OPEB liability as of June 30, 2016 - \$158M (includes \$29M for Implied Subsidy)
- Other health care costs higher than planned

Budget Stabilization Fund



FY 2017/18 Recommended Budget

- Focus on capital budget
 - Hot construction market leading to project cost escalation – project review strategy
 - New measure B funding will enhance transportation projects; still backlog
 - Water Pollution Control Plant
- Currently updating revenue forecasts and major expenditure assumptions

FY 2017/18 Recommended Budget (Continued)

- Balancing revenues and expenditures to maintain a positive balance for the whole 20 years – will require use of limited revenues, some reserves and strategic service delivery evaluation

Unfunded Programs and Projects

- Unfunded programs, services, or projects for budget workshop
- List is dynamic and not anticipated to be all inclusive
- Examples include:
 - Civic Center Modernization
 - Safe routes to schools funding
 - Sidewalks, curbs, and gutters
 - Corporation Yard Modernization
 - Water, Sewer, and Stormwater Infrastructure
 - Climate Action Plan implementation
 - Traffic signal infrastructure

FY 2017/18 Recommended Budget Next Steps

- Utility Rates under development
- Proposed Utility Rates noticed end of April
- City Manager's Budget delivered to Council in early May
- Budget Workshop end of May
- Public Hearing and Budget Adoption in June

Conclusion

- Maintain focus on high level service delivery and policy priorities
- We are at the peak of economic cycle – need to plan for future downturn
- City has limited control over revenues and some expenditures
- Existing service delivery will need to be evaluated in next few years to balance pressures from CalPERS actions

Conclusion (Continued)

- Unfunded programs and projects are significant
- Budgeting in good times must be strategic, disciplined and focus on long term sustainability