Responses to Council Questions and Requests for Information from the FY 2015/16 Budget Workshop

Why is there a decrease in the property tax projections for FY 2017/18?

Total property tax revenue is projected to decline slightly in FY 2017/18 after the anticipated receipt of one-time tax increment revenue of $1.8M in FY 2016/17. This payment represents the City's portion that is returned as regular tax receipts after remitting the $14 million claw back payment related to the dissolution of the Redevelopment Agency. While this payment is under litigation, staff has budgeted for the worst case scenario.

What are the actual historical sales tax receipts over the last ten years and how do those affect projections?

The table below presents actual returns for the past ten fiscal years and historical averages based on different periods of time. This data underscores the volatility of this major revenue source and the challenges in setting the forecast for the long-term financial plan. Each year, staff conducts a detailed review of all sales tax categories with a sales tax consultant to prepare projections. For the FY 2014/15 Budget, staff revised projections downward by $42 million over the twenty-year plan. Given that the economy has improved, the projections reflected in this FY 2015/16 Recommended Budget, which are essentially unchanged compared to FY 2014/15, reflect a balanced estimate, moderating the unpredictability of sales tax with the growing economy. The long term forecast uses 3%, which aligns with the ten-year average. When considering the growing cost of goods and services, this forecast is not anticipating much growth over the long term for this revenue. It should also be stressed that sales tax data is scrutinized closely throughout the year and the forecast is updated annually.

Sales Tax Revenue History

Year	Revenue	% Change
2005	24,917,237	6.25%
2006	28,421,884	14.07%
2007	30,852,313	8.55%
2008	29,705,343	-3.72%
2009	25,071,916	-15.60%
2010	25,431,711	1.44%
2011	29,228,078	14.93%
2012	30,345,514	3.82%
2013	30,028,067	-1.05%
2014	30,194,827	0.56%

Averages	
3 year	1.11%
5 year	3.94%
7 year	0.05%
10 year	2.92%

What is the positive effect of new hotels on transient occupancy tax revenue?

Several variables impact the amount of revenue that a new hotel will generate for the City in TOT including number of rooms, room rate, and occupancy rate. When estimating revenue from a new hotel, we generally use the following model:

Annual TOT Tax revenue = Number of hotel rooms x 365 x Average occupancy (currently 72%) x Average room rate for a higher quality hotel (currently $132.16) x 10.5% TOT tax rate

For example, if a new 100 room project is projected to open next fiscal year the calculation would be: 100 rooms * 365 nights * 72% occupancy * $132.16/night * 10.5% = Revenue of $364,682 / year

Depending on the type of hotel, we typically also consider an adjustment for some loss of revenue from other Sunnyvale hotels. The revenue projection included in the budget uses the long-term (8-year) average. Given the current economic climate, the City is currently experiencing above-average levels of both occupancy and room rates. However, given that this revenue source has proven to be highly cyclical, the longer-term average is more prudent to use as a general model.

Are there other compatible zoning options for the Unilever site?

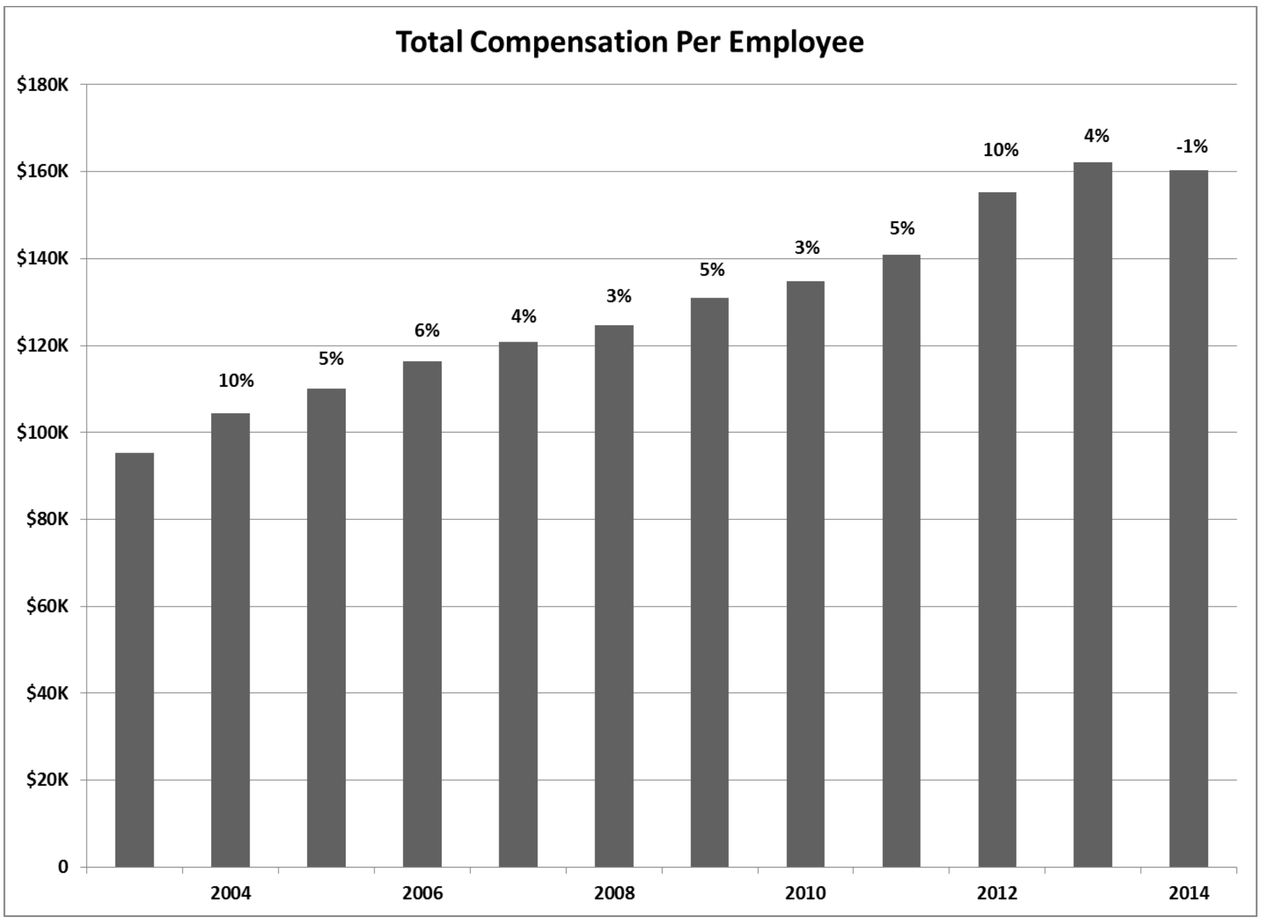
The Unilever site is currently zoned as industrial/warehouse and valued at approximately $18 million. The parcel is located within, but at the eastern edge of the Draft Lawrence Station Area Plan, and zoning is proposed to remain office/industrial. With that consideration, Council may entertain changing the General Plan and zoning to a different use. If residential, a qualifying factor would be that the site would need to be cleaned up to residential standards. Staff has not yet determined if the site is contaminated and Unilever has indicated there is no known contamination on the site.

Provide details on change in % Salaries & Benefits of Total Expenditures in General Fund; why was this 82% a few years ago and 88% in the FY 2015/16 Recommended Budget?

The data provided at the Budget Workshop was not correct. Staff inadvertently provided 88% which reflects the General Fund operating budget (salaries, benefits, purchased goods and services) as a percent of total General Fund expenditures, including projects, equipment, transfers and lease payments. Salaries & Benefits as a percent of total General Fund operating expenses is 82% in the FY 2015/16 Recommended Budget, which is the same percentage as the last several years. This percentage stays consistent throughout the majority of the twenty-year General Fund financial plan.

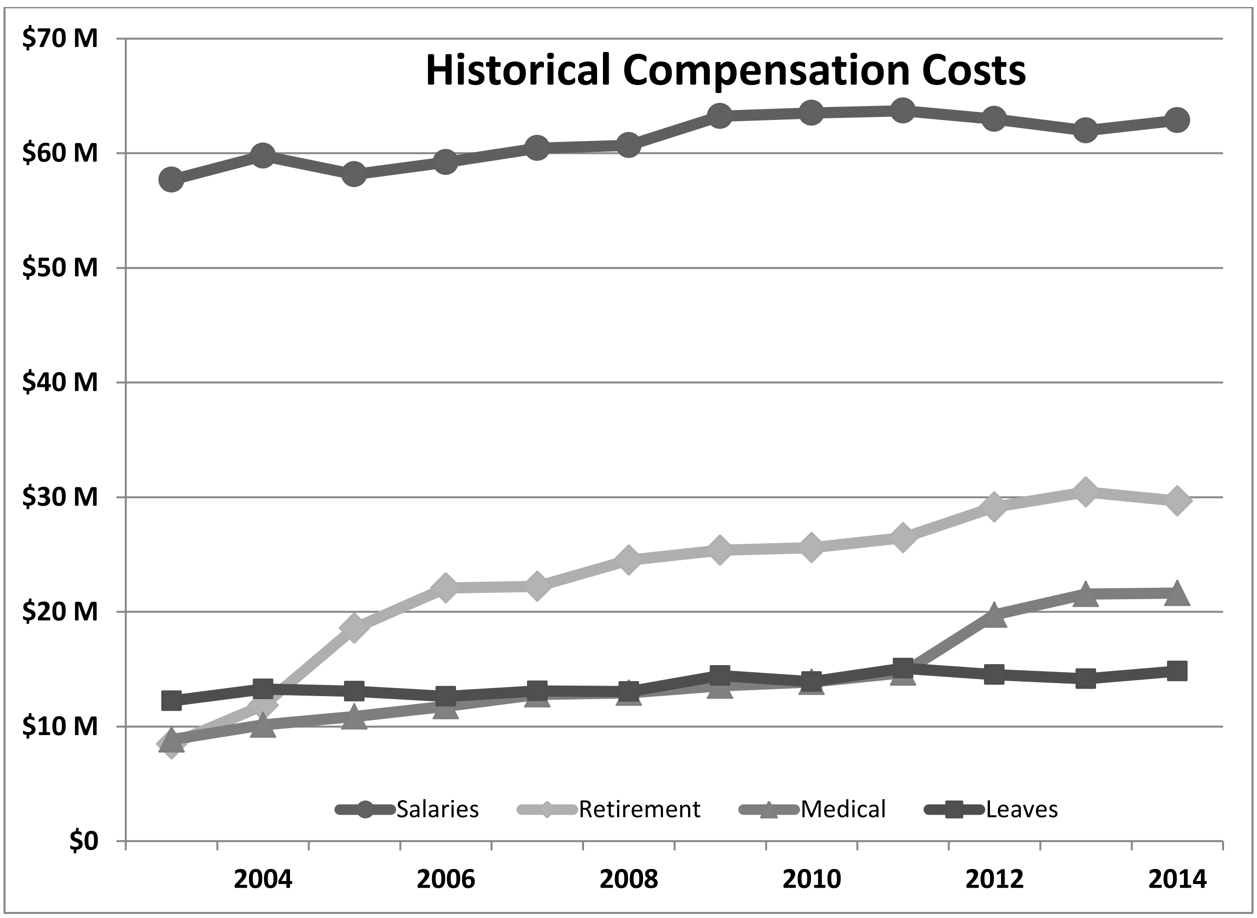
What was the corresponding cost of personnel over the period headcount decreased by 20%?

The following graph provides the average unit cost per person from FY 2002/03 to FY 2013/14. Total compensation per employee rose a total of 68% over this period, primarily driven by CalPERS and policy actions that significantly increased employer contribution rates for the City's PERS retirement plans. These actions included benefit enhancements for both safety (2001) and miscellaneous (2007) groups, rate increases to make up for market losses from the dot com bust and great recession, changes to the actuarial methodology used by CalPERS, the lowering rate of return for CalPERS investments, and additional payments made by the City to keep the City's long term unfunded pension liability from growing. Also influencing total compensation were increases in medical premiums, rising costs for retiree medical, and the prefunding of retiree medical costs which began in FY 2010/11.



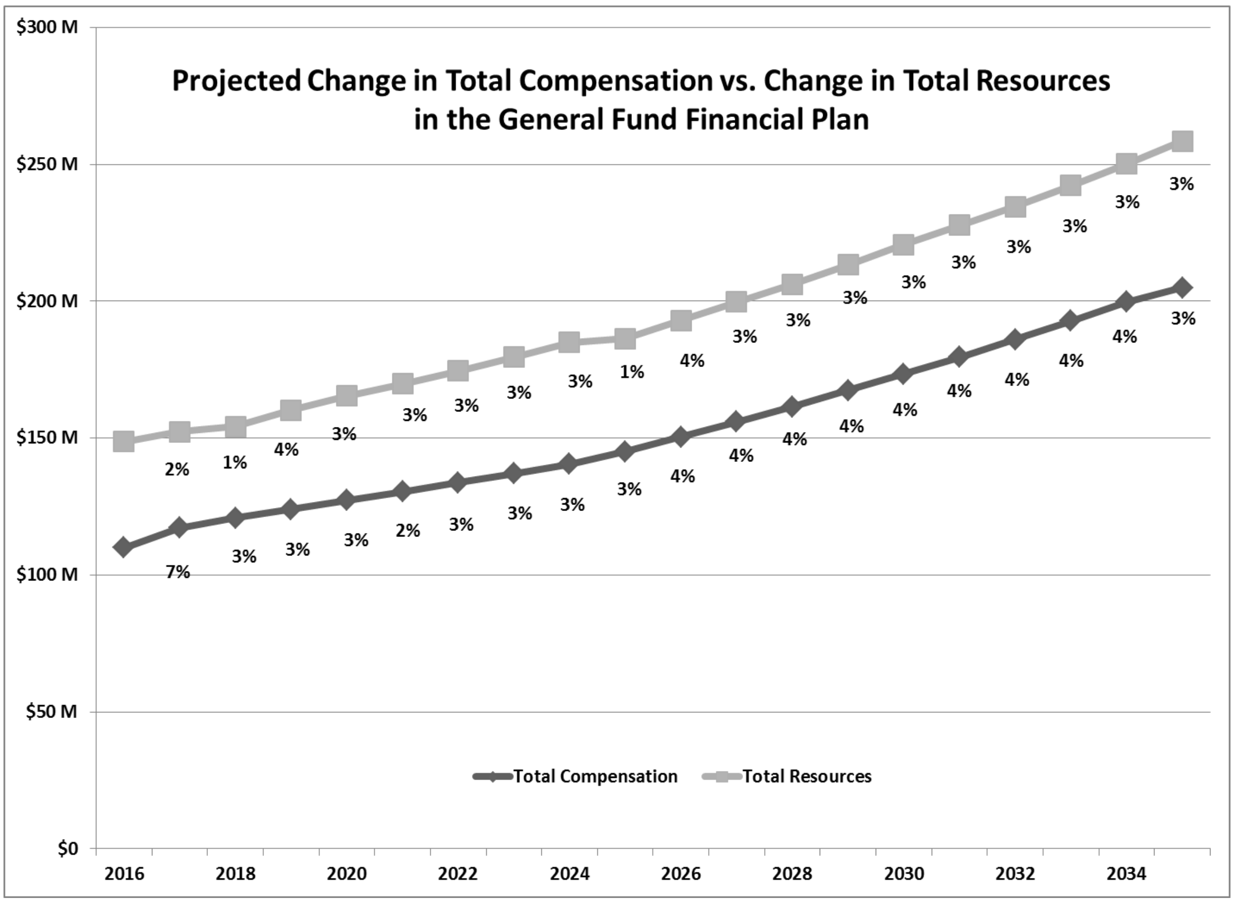
Which pieces of compensation costs are under our control?

Understanding that all components of compensation are subject to bargaining, of the four components (salaries, pensions, medical, leaves), only salaries and leaves are wholly under the City's control. To some extent, the City's cost for retirement and health benefits can be affected, primarily through cost sharing with employees; however that does not change the fact that these costs can increase without action of the City Council. The following chart shows the historical spending on these four components over the last ten years. The chart shows that the components not fully under the City's control, retirement and health have increased the most. The health line has a steep jump in FY 2011/12 following the creation of the OPEB Trust to begin prefunding retiree medical benefits.



Is the growth in resources in sync with the growth in compensation expenditures?

The chart below shows the projected growth in total compensation in the General Fund twenty-year financial plan as compared to the projected growth in total resources (excluding sale of property revenue). The 7% increase in total compensation for FY 2016/17 includes the funding for four additional public safety officers (PSOs). One additional PSO was added in FY 2013/14 and three added during FY 2014/15 for the increased staffing needs at Fire Station 5. Due to the long recruitment and training lead time, these PSOs aren't reflected in operating budget until FY 2016/17. The chart indicates the growth rates are well aligned in the first ten years and a consistent differential in the second ten years, with revenues growing by 3% and compensation growing by 4%.



Please provide details on the scope of the Community Center renovation project.

Base Project Scope (Required Improvements)
Maintenance (HVAC, roof, water damage)
Accessibility, life safety, fire alarm, required signage
Upgrades/Aesthetic Enhancements
Rec Center Ballroom Finishes (replace flooring, acoustical ceiling panels, lighting fixtures, paint, kitchen access)
Rec Center Community Room Finishes (replace acoustical ceiling and wall panels, paint, lighting, window coverings)
Rec Center Lobby Finishes (acoustical panels, paint, replace lighting fixtures)
Indoor Sports Center Gymnastics Room (roll-up door storefront, lighting)
Creative Arts Lobby Finishes (flooring, acoustical ceiling, paint, lighting)
Creative Arts Gallery Room Finishes (replace flooring, lighting fixtures)
Theater House Door Quiet-Closers and Light Fixture Replacement
Dance Studio Restroom Addition
Door hardware replacement (not required by Code)

Identify and provide Council a list of unfunded items including projects, services, technology needs.

This is a complex and multi-dimensional question to address that requires an examination of City services and levels of service, resource constraints and limitations, revenue strategies for the long term, prioritization and trade-offs, and the understanding that unanticipated events and issues do come along that must be balanced against. The development of the two-year operating budget is the ideal time to undertake this more detailed examination and staff will begin the process this fall. Based on the direction provided by Council at the Budget Workshop, staff will be looking to bring Council in earlier in the budget development process and build on the work done at Council’s Strategic Planning Workshop on operating priorities, service gaps, and trends in service last August which provided a good start to this discussion.