



City of Sunnyvale

Agenda Item-No Attachments (PDF)

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REPORT TO COUNCIL

SUBJECT

Receive and File the FY 2020/21 Second Quarter Budget Update

REPORT IN BRIEF

This report summarizes the FY 2020/21 year to date financial position of the City's major funds, including an update on the receipt of revenue and current status of expenditures through November 2020. Overall, the City's operating expenditures are tracking at budget. FY 2020/21 revenue is tracking slower than budgeted in some categories, but at this point in the year information is still forming.

Staff is recommending that Council Receive and File the Second Quarter Budget Update.

BACKGROUND

As part of the FY 2020/21 Budget Adoption, staff committed to providing a report to Council detailing the current financial condition of the City on a quarterly basis. This is the second of these reports. This update compares the FY 2020/21 Adopted Budget with actual revenues and expenditures year to date.

Data early in the fiscal year, especially on revenues, is not yet fully developed. Many sources of revenue aren't received until several months into the year. For example, Business License Tax will appear low until the second half of the fiscal year after renewals occur. While operating expenditures tend to trend more evenly due to regular payroll costs, some expenditures also develop further into the year. Consequently, each Quarterly Report will provide a little more context for the year to date status of revenues and expenditures.

EXISTING POLICY

Pursuant to Sunnyvale Charter Section 1305, at any meeting after the adoption of the budget, the City Council may amend or supplement the budget by motion adopted by affirmative votes of at least four members so as to authorize the transfer of unused balances appropriated for one purpose to another, or to appropriate available revenue not included in the budget.

ENVIRONMENTAL REVIEW

The action being considered does not constitute a "project" with the meaning of the California Environmental Quality Act ("CEQA") pursuant to CEQA Guidelines section 15378 (b) (4) in that it is a fiscal activity that does not involve any commitment to any specific project which may result in a potential significant impact on the environment.

DISCUSSION

This report presents the FY 2020/21 Adopted Budget and actual year-to-date information for FY 2020/21 (as of November 2020) for the General Fund and Enterprise funds. Transfers, Interfund revenues, bond proceeds, debt service as well as project and equipment costs are not included in this report.

While overall progress looks to be as planned for operating expenditures, staff is watching incoming receipts closely as many revenues are not received evenly through the year and the ongoing restrictions associated with the COVID-19 pandemic continue to interrupt business as usual. While some of the City's business interruption is offset by operational savings (e.g. not incurring recreation class costs when no classes are offered), most of the City's costs are fixed costs related to base staffing and operations & maintenance expenditures required to meet established service levels.

One of the most closely watched unbudgeted expenditure is the effect of underperforming CalPERS returns on the City's pension costs. Preliminary estimates indicate an impact of \$1.5 million to \$2 million annually. The CalPERS reports have been released and staff has engaged Bartel and Associates, the City's consulting actuary and is expecting preliminary results by the end of January, which will be factored into the FY 2021/22 budget and long-term financial plans for each fund.

During the budget development process, one of the major cost savings strategies was to hold vacant positions. The practical effect of this is some impact to various services. The City Manager held 29.65 FTE vacancies in the budget process and continues to exercise judgement on which vacancies to hold, with the service level reductions approved by Council through the cost savings measures maintained as planned. To date, the City Manager has frozen an additional two part time positions and one full time position in the Library Recreation Services Department. This surgical approach to freezing positions allows the City to continue to be responsive to shifting and changing conditions while maintaining the needed cost savings in each affected fund.

General Fund

At this point in the fiscal year, revenues are tracking behind, but operating expenditures are in line with FY 2020/21 estimates. General Fund revenue tends to trend unevenly throughout the year; however, operating cost trends are not subject to the same level of volatility and it would not be unusual to continue seeing this as a recurring timing difference in the quarterly reports, especially early in the fiscal year.

Revenue

It was anticipated during FY 2020/21 budget development that uncertainty regarding the length of the COVID-19 pandemic could impact revenue estimates. While revenues were adjusted downward to account for this uncertainty, the level of impact could not be predicted. Accordingly, revenues such as service fees continue to be depressed due to the prolonged pandemic restrictions as some services cannot be offered or can only be offered at a reduced scale for the time being. Other revenues, such as Property Tax, are expected to meet or exceed budget and will continue to evolve over the fiscal year. Revenue projections will be carefully analyzed and updated accordingly as part of the current year update during FY 2021/22 budget development.

General Fund Revenue	FY 2020/21		
	41.67% of Fiscal Year		
	Budget	Actuals	% to Date
Property Tax	\$ 90,750,445	\$ 15,610,067	17.2%
Sales Tax	\$ 27,163,221	\$ 6,201,864	22.8%
Transient Occupancy Tax	\$ 10,617,327	\$ 1,353,887	12.8%
UUT & Franchise Fees	\$ 15,760,876	\$ 3,710,907	23.5%
Construction Tax	\$ 3,686,757	\$ 927,370	25.2%
Business License Tax	\$ 1,914,476	\$ 135,968	7.1%
Real Property Transfer Tax	\$ 1,790,431	\$ 567,736	31.7%
Permits & Licenses	\$ 1,634,631	\$ 1,005,043	61.5%
Service Fees	\$ 3,626,133	\$ 686,824	18.9%
Rents & Concession	\$ 3,113,907	\$ 228,780	7.3%
Other Revenue	\$ 3,822,573	\$ 2,572,029	67.3%
Grand Total	\$ 163,880,779	\$ 33,000,475	20.1%

FY 2020/21 Year to Date Update

Recent valuation growth for the FY 2020/21 tax roll shows an increase of 10.4%, which is greater than the FY 2020/21 Budget estimate of 7.8%. This increase will be included as part of the current year revenue updates during FY 2021/22 budget development and will increase the Property Tax base over the entire twenty-year plan. That said, with slower property sales and a sluggish economy, tax roll growth for FY 2021/22 is expected to moderate heavily and anticipated growth is projected in the financial plan at 2.6% with the current County estimate at 3.3%. To note, though, the County Assessor's Office confirmed that the California CPI growth factor to be applied to the FY 2021/22 assessment roll is 1%, which is less than the 2% allowed. This 1% growth factor will be included in the County's next roll growth estimate, which is anticipated to reduce roll growth downward to 2.3%.

Property tax revenue received to date is \$15.6 million made up of the first Secured Tax payment of \$11.5 million, Supplemental Tax payments (\$0.4 million), and Unsecured Tax payments (\$3.7 million). Secured is received in ten payments that the City receives between late November and June and the first payment is reflected in this report. Supplemental taxes are taxes that are due when property undergoes a change of ownership or new construction. These mid-year adjustments will be reflected on the tax roll the following year, but in the year of the event, the tax is prorated, and the City receives this amount separate from the Secured tax revenue. Unsecured property tax is collected on certain business property, such as equipment and fixtures, as well as certain personal property, such as boats and airplanes.

Real Property Transfer Tax (RPTT) is imposed on property sales. The budget of \$1.8 million is based on the seven-year historical average. Revenue to date is showing signs of slower property turnover and is at 31.7% to budget vs. 53.8% to budget at this time last year.

\$6.2 million in Sales Tax has been received through November and this is consistent with the same amount as this time last year. \$5.9 million has been received to date for July - September and \$0.3 million for the Public Safety July & August sales tax. Receipt of sales tax revenue lags the actual economic activity because taxpayers have 30 days to file for monthly reporting periods followed for processing by the California Department of Tax and Fee Administration (CDTFA), which takes several weeks. Sales Tax is expected to see sharp revenue declines in FY 2020/21 due to the impacts of the pandemic. Accordingly, Sales Tax estimates for FY 2020/21 Budget anticipate a drop of an additional 2% from FY 2019/20 after falling off 19% from FY 2018/19. The City uses a Sales Tax consultant to analyze activity and at this time it is expected to be at budget for FY 2020/21. More will be known as the 2021 calendar year unfolds and in particular, when the fourth quarter data (of the 2020 calendar year) that includes the December holiday season is available.

As a revenue particularly sensitive to the impacts of the COVID-19 pandemic, such as travel being restricted to essential travel, extremely reduced business travel as companies have pivoted to working remotely and meeting virtually, and general COVID-19 public health concerns as related to travel, the FY 2020/21 Transient Occupancy Tax (TOT) revenue estimate anticipated a sharp decline in hotel occupancy rates. Occupancy rates were reduced over 50% from the historical average occupancy rate of about 75% to 22%, which also reflects an approximate 56% decline in the revenue estimate (\$24.2 million) initially planned for FY 2020/21 in the FY 2019/20 Adopted Budget to the current FY 2020/21 estimate of \$10.6 million. At \$1.4 million, TOT revenue collection is trending behind at 8.9% versus the historical average collection of 14.1% at this point in the fiscal year.

The Utility Users Tax (UUT) revenue forecast decreased slightly from the FY 2019/20 Adopted Budget revised estimate by \$0.04 million to a budget of \$8.3 million in FY 2020/21. Expecting some continued impacts of COVID-19, gas and electric tax forecasts were reduced by 1% to account for the many businesses moving to the work from home model and therefore, less utility demand in the office/commercial sector. Utility Users Tax is at 32.5% of its revenue budget, which is tracking in line with November of prior years.

Franchise fees were also expected to mostly stay flat from FY 2019/20 to FY 2020/21 to account for the uncertainty regarding COVID-19. The largest fee is the PG&E franchise fee and similar to UUT, is anticipated to be impacted by many of the businesses now allowing most employees to work from home rather than working from an office. This is also a revenue that trends unevenly throughout the year. For example, the City typically receives one payment from PG&E in the fourth quarter of the fiscal year. The \$1 million received to date is consistent with prior years at this point in the fiscal year.

Business License Tax revenue is trending behind at 7.1% (vs. 28.4% at this time last year) but is cyclical with renewals due at the beginning of the calendar year. The current revenue rate is primarily due to the City sending out the renewal notices later than in prior years. Additionally, the slow start reflects a handful of (temporary) closed accounts that are expected to re-apply when more favorable economic conditions return. It should also be noted that in December 2020, Council authorized renewal deferrals due to the pandemic's financial impact on small businesses (RTC No.10-0918). Therefore, it is anticipated that much of the deferred renewal revenue will still be collected, though at a later date.

The FY 2020/21 Construction Tax estimate was moderated to taper down to the historical average and in anticipation of slowing development activity. Though development activity continues to be steady, it is not on pace with the heightened activity of the past few years when comparing now to the same point in time in FY 2018/19 and FY 2019/20. Revenue through November is at \$0.9 million versus almost \$2.1 million at this time last year.

The FY 2020/21 Permits and Licenses revenue budget of \$1.6 million was based on a three-year historical average. Permit activity related to hazardous materials permitting and fire operations are performing well. At 61.5% of the revenue estimate, permits and license revenue is trending above 41.7% of the fiscal year. To note, though, \$0.5 million in Certified Unified Program Agency (CUPA) receipts are approximately half of the \$1 million collected to date and these funds are restricted to the City's CUPA program to require permits, inspect facilities, issue violations, and perform enforcement actions related to hazardous material or hazardous waste.

Service fees are at 18.9% as of November versus 41.7% of the fiscal year. Hit the hardest as a result of the COVID-19 stay-at-home orders and health restrictions, it was expected that we would continue to see some Recreation service interruptions related to ongoing COVID-19 restrictions. As a result, Recreation fees were budgeted at 50% (\$1.8 million) of actual revenue (\$3.6 million) in FY 2018/19. At \$0.2 million to date, recreation fee revenue is a fraction (12%) of the average 35% collected at this time in prior years due to these prolonged restrictions limiting recreation offerings.

Similarly, FY 2020/21 revenue of \$0.5 million for facility rentals was also based on 50% of actual revenue of \$1 million in FY 2018/19. To date, approximately 10% (or \$0.05 million) has been received versus about 45% in previous years.

The Other Revenue positive position is primarily related to a large non-compliance Transportation Demand Management (TDM) penalty of \$0.5 million that the City received as well as \$1.1 million of interest income received to date.

As discussed, the revenue picture evolves over the course of the fiscal year. Typically, by the end of the third quarter of the fiscal year, revenue trends become more certain. Accordingly, this is also the timeframe in which we update current year revenue with revised estimates. Although there will continue to be uncertainty regarding the economic impacts of the unprecedented COVID-19 pandemic, it will also give us a full year to evaluate what we do know based on our experience so far to inform these revised revenue estimates.

Expenditures

General Fund Expenditures	FY 2020/21		
	41.67% of Fiscal Year		
	Budget	Actuals	% to Date
Community Development	\$ 1,780,747	\$ 729,586	41.0%
Environmental Services	\$ 2,417,676	\$ 1,157,111	47.9%
Finance	\$ 11,298,211	\$ 4,182,914	37.0%
Human Resources	\$ 5,136,261	\$ 1,782,792	34.7%
Library and Recreation Services*	\$ 18,308,181	\$ 7,156,748	39.1%
Office of the City Attorney	\$ 1,875,126	\$ 824,238	44.0%
Office of the City Manager	\$ 5,505,884	\$ 2,166,155	39.3%
Public Safety	\$ 102,064,174	\$ 41,674,863	40.8%
Public Works	\$ 25,057,955	\$ 10,527,627	42.0%
Operating Subtotal	\$ 173,444,216	\$ 70,202,035	40.5%
Grand Total	\$ 173,444,216	\$ 70,202,035	40.5%

* Library and Community Services changed name to Library and Recreation Services in Sept. 2

FY 2020/21 Year to Date Update

General Fund expenditures are at 40.5% while 41.7% of the fiscal year has passed. Expenditures trend more evenly throughout the year driven mainly by bi-weekly payroll costs. Accordingly, salary and benefit expenditures are trending on target with the payroll benchmark for this point in the fiscal year at 41.4%. The timing of operations & maintenance expenditures can vary throughout the year and are expected to end the year at budget.

To that end, one of the COVID-19 impacts that we are seeing on the operating side is that staff are working more hours. Due to prolonged restrictions on travel as well as general health concerns related to travel and recurring stay-at-home orders, staff are taking less vacation and other paid time off. As a result, we are seeing some uptick in salary costs since paid time off (PTO) is paid for from the Employee Payroll & Benefits - Leave Subfund (640-100) versus regular salary costs that are paid from operating funds. Coupled with frozen positions and other cost-savings measures incorporated into the FY 2020/21 operating budget, the operating budget is very tight this year. While operating expenditures are expected to end at budget, we're continuing to closely monitor all expenditures.

Enterprise Funds

Golf & Tennis Operations

<i>Golf & Tennis Fund Revenue</i>	FY 2020/21		
	<i>41.67% of Fiscal Year</i>		
	Budget	Actuals	% to Date
Golf Course Revenue	\$ 2,907,403	\$ 1,864,073	64.1%
Tennis Revenue (Rental Fee)	\$ 105,000	\$ -	0.0%
Grand Total	\$ 3,012,403	\$ 1,864,073	61.9%

<i>Golf & Tennis Fund Expenditure</i>	FY 2020/21		
	<i>41.67% of Fiscal Year</i>		
	Budget	Actuals	% to Date
Golf Course Expenditures	\$ 3,961,279	\$ 1,898,387	47.9%
Tennis Expenditures	\$ 108,428	\$ 26,582	24.5%
Grand Total	\$ 4,069,707	\$ 1,924,969	47.3%

FY 2020/21 Year to Date Update

Golf play continues to be steady and is benefiting as a sport that allows for the physical distancing required to prevent the spread of COVID-19. At 64.1% of the annual revenue estimate, golf fees are performing very well for this point in the year. As an outdoor sport; however, golf play is seasonal and is expected to slow for the winter.

COVID-19 restrictions continue to impact tennis operations with the operator reporting significant revenue loss since the pandemic hit. The restaurant operator at Sunken Gardens also continues to experience revenue loss due to the ongoing restrictions on indoor dining and varying restrictions to outdoor recreation. To this end, City Council authorized the City Manager to negotiate reduced rent for both operators in May 2020. to help mitigate their financial losses. For the current year, the FY 2020/21 Long-Term Financial Plan included an assumption of three months of concession revenue loss, but with the prolonged business interruption, staff anticipates returning to Council later in the fiscal year to update and finalize the rent reduction agreement with these vendors.

Golf & Tennis fund operating costs are trending high at this point in the fiscal year mainly due to salaries and benefits at 42.9%, which is a little above the payroll benchmark of 41.4%. Rent paid to Planetary Ventures for the Sunnyvale course is also prepaid for the fiscal year and that impacts the rate of spending for operations & maintenance costs at this time in the fiscal year.

Development Enterprise Fund

Development Enterprise Fund Revenue	FY 2020/21		
	41.67% of Fiscal Year		
	Budget	Actuals	% to Date
Permits & Licenses	\$ 10,399,818	\$ 3,258,777	31.3%
Community Development Fees	\$ 4,641,052	\$ 1,440,448	31.0%
Public Works Fees	\$ 1,282,029	\$ 538,650	42.0%
Other*	\$ 1,178,648	\$ 482,874	41.0%
Grand Total	\$ 17,501,547	\$ 5,720,749	32.7%

*Interest Income & Miscellaneous

Development Enterprise Fund Expenditures	FY 2020/21		
	41.67% of Fiscal Year		
	Budget	Actuals	% to Date
Community Development	\$ 7,895,889	\$ 3,584,586	45.4%
Environmental Services	\$ 271,741	\$ 66,107	24.3%
Library and Recreation Services	\$ 25,018	\$ 12,877	51.5%
Office of the City Attorney	\$ 511,221	\$ 216,051	42.3%
Public Safety	\$ 1,425,639	\$ 479,155	33.6%
Public Works	\$ 2,756,989	\$ 1,030,458	37.4%
Grand Total	\$ 12,886,496	\$ 5,389,236	41.8%

* Library and Community Services changed name to Library and Recreation Services in Sept.

FY 2020/21 Year to Date Update

Development fee revenue has been steady for this point in the fiscal year, though not as elevated as the past few years. The FY 2020/21 Development fee revenue forecast was moderated to 80% (\$17.5 million) of the FY 2019/20 Revised Budget of \$21.8 million to bring down the revenue base from recent peaks and with an assumption of some slowdown due to the economic uncertainty related to the COVID-19 pandemic. Revenue of \$5.7 million collected to date is at 32.7% of budget compared against \$10.7 million and a 57% revenue rate in November of last fiscal year.

At 41.8%, operating expenditures are trending just slightly above the fiscal year benchmark of 41.7%. We are monitoring revenues and expenditures closely to make timely adjustments as may be needed, but at this point, the fund is expected to meet budget.

Development Impact Fees

<i>Development Impact Fees*</i>	FY 2020/21 41.67% of Fiscal Year		
	Budget	Actuals	% to Date
Park Dedication Fees	\$ 41,704,226	\$ 3,463,782	8.3%
Housing Mitigation Fees	\$ 41,047,149	\$ -	0.0%
Transportation Impact Fees	\$ 7,459,583	\$ 79,676	1.1%
Sense of Place Fees	\$ 1,632,757	\$ 320	0.0%
Grand Total	\$ 91,843,715	\$ 3,543,778	3.9%

*Excludes Interest Income

Development projects take years to come to fruition; therefore, the timing of Development Fee Impact revenue is difficult to predict in the short-term. The FY 2020/21 revenue estimates are based on actual projects in the development pipeline that were expected in FY 2019/20, but did not reach the payment threshold due to project delays plus estimated impact fees associated with FY 2020/21 activity.

Impact fees are not received evenly throughout the year, but rather based on milestones in the development process. For projects in the earlier stages of the development pipeline, the current economic uncertainty makes it difficult to predict projects that will proceed or stall. Staff will monitor development activity and revisit revenue projections during annual budget development.

Utility Funds

<i>Utility Fund Revenue</i>	FY 2020/21 *33.33% of Fiscal Year		
	Budget	Actuals	% to Date
Water Fund	\$ 61,799,016	\$ 25,834,915	41.8%
Wastewater Fund	\$ 49,738,978	\$ 19,733,664	39.7%
Solid Waste Management Fund	\$ 53,167,280	\$ 17,163,971	32.3%
Grand Total	\$ 164,705,274	\$ 62,732,550	38.1%

*Service Fee revenue lags by one month due to timing of billing.

<i>Utility Fund Expenditures</i>	FY 2020/21 41.67% of Fiscal Year		
	Budget	Actuals	% to Date
Water Fund	\$ 44,033,189	\$ 16,922,460	38.4%
Wastewater Fund	\$ 22,166,607	\$ 7,006,282	31.6%
Solid Waste Management Fund	\$ 41,838,851	\$ 16,242,276	38.8%
Grand Total	\$ 108,038,647	\$ 40,171,018	37.2%

FY 2020/21 Year to Date Update

With COVID-19's prolonged impact to businesses (e.g., moving to work from home scenarios, reduced capacity, etc.), the City is closely monitoring utility service fees. It's also important to note that these fees lag as the City bills two months in arrears.

To date, at 33.3% of the fiscal year, Water revenues are at 41.5% with metered water sales and recycled water fees trending high for this point in the fiscal year. For the Wastewater Fund, sewer fees are on par with this point in the fiscal year at 34%. Solid Waste Fees are trending slightly low at 32.8% as businesses are holding and/or reducing service. Solid waste fees are expected to remain sensitive through the fiscal year due to the impacts of the ongoing pandemic.

As with other funds, salary and benefit operating expenditures tend to trend more evenly during the fiscal year due to regular payroll costs while timing of Operations & Maintenance costs can vary. Water salary costs are trending at 38.2%, which is slightly lower than the payroll benchmark of 41.4% of the fiscal year. The cost to purchase water, this fund's largest expense, is trending at 40.3%, which is below the accounting benchmark of 41.7% of the fiscal year, but in line with costs for the same time last year. Wastewater salary costs are trending at 38.5%, slightly lower than the payroll benchmark of 41.4% for the fiscal year. Solid Waste salary costs are trending low for this point in time at 35.2%. Transfer and Landfill costs are trending high at 47.4%, though the \$6.8 million spent through November is less than the \$7.1 million spent at the same time last year.

Utility delinquencies are now beginning to creep up with the City's collection rate falling to 96.4% for delinquent balances over 80 days and a collection rate of 91.3% when all delinquent balances are considered. In addition, some customers who have not paid since the beginning of the pandemic are accruing increasingly large balances. Staff has opened a conversation with Sunnyvale Community Services to use donation funds to assist these customers, and has begun outreach to each customer to see how they might begin to start paying again, such as with alternative payment arrangements. Staff will continue to keep Council updated on the status of delinquencies through these quarterly reports.

FISCAL IMPACT

The quarterly financial analysis discussed in this report is informational.

PUBLIC CONTACT

Public contact was made by posting the Council agenda on the City's official-notice bulletin board outside City Hall, Sunnyvale Public Library and Department of Public Safety. In addition, the agenda and report are available at the Office of the City Clerk and on the City's website.

ALTERNATIVES

1. Receive and file the FY 2020/21 Second Quarter Budget Update
2. Other action as determined by Council

STAFF RECOMMENDATION

Alternative 1: Receive and file the FY 2020/21 Second Quarter Budget Update

Prepared by: Felicia Silva, Budget Manager

Reviewed by: Tim Kirby, Director of Finance

Reviewed by: Teri Silva, Assistant City Manager

Approved by: Kent Steffens, City Manager