



City of Sunnyvale

Agenda Item-No Attachments (PDF)

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REPORT TO COUNCIL

SUBJECT

Receive and File the FY 2020/21 Third 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 February 2021. Overall, the City's operating expenditures are tracking within budget. FY 2020/21 revenue is tracking lower than budgeted in some categories.

Staff is recommending that Council Receive and File the Third 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 third of these reports. This update compares the FY 2020/21 Adopted Budget with actual revenues and expenditures year to date.

Fiscal year data, especially on revenues, has now begun to fully develop. Operating expenditures trend more evenly due to regular payroll costs with some expenditures that also develop further into the year. Consequently, each Quarterly Report provides a little more context for the year to date status of revenues and expenditures with the third quarter results informing the current year revised revenue estimates in the FY 2021/22 Long Term Financial Plan.

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 February 2021) 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.

Overall progress looks to be as planned for operating expenditures and staff continue to watch incoming receipts closely as many revenues are not received evenly through the year and the ongoing restrictions associated with the COVID-19 pandemic have continued to interrupt business as usual. With some of the pandemic restrictions recently lifted and COVID-19 vaccinations rolling out, the economy is slowly reopening. That said, there is expected to be continued pandemic-related limitations that will impact service delivery (e.g., capacity limits on recreation classes) as well as ongoing concern that some economic activity, such as business travel that affects the City's Transient Occupancy Tax (TOT) revenue, will continue to impact revenue into the post-pandemic future. Revenue projections will be carefully analyzed and updated as part of the current year update during FY 2021/22 budget development.

To that end, the City is anticipating \$29.5 million in COVID-19 relief funding per the American Rescue Plan Act of 2021 that was recently passed by Congress. Though it is expected that these funds will help mitigate the short-term general revenue loss that the City has experienced as a result of the pandemic over the past year, specifics regarding eligible use of the funds are still forthcoming. Furthermore, total anticipated revenue loss over the twenty-year planning period is expected to continue to pressure the General Fund.

One of the most closely watched unbudgeted expenditure is the effect of underperforming CalPERS returns from FY 2019/20 on the City's pension costs. The City's consulting actuary has calculated an impact of \$4 million over ten years, and a total of \$23.1 million over twenty years. CalPERS smooths in gains and losses over a five-year period, starting two years after the initial gain or loss. This results in the larger annual impact in the long run. CalPERS is currently on track to have a return that is better than planned, which if materializes will be factored into next year's analysis.

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 judgment 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 with most sources catching up the second half of the year, though it is expected that some revenue estimates will be revised downward as part of the current year update in the FY 2021/22 budget.

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 accurately predicted. Accordingly, revenues such as service fees and TOT continue to be depressed due to the prolonged pandemic restrictions and are expected to be further adjusted downward with the current year revised revenue projections. Other revenues, such as Property Tax, are expected to meet or exceed budget and will be revised upward for the current year forecast.

<i>General Fund Revenue</i>	FY 2020/21		
	<i>66.67% of Fiscal Year</i>		
	Budget	Actuals	% to Date
Property Tax	\$ 90,750,445	\$ 53,377,483	58.8%
Sales Tax	\$ 27,163,221	\$ 13,564,816	49.9%
Transient Occupancy Tax	\$ 10,617,327	\$ 2,667,724	25.1%
UUT & Franchise Fees	\$ 15,760,876	\$ 6,590,782	41.8%
Construction Tax	\$ 3,686,757	\$ 1,697,261	46.0%
Business License Tax	\$ 1,914,476	\$ 1,671,841	87.3%
Real Property Transfer Tax	\$ 1,790,431	\$ 948,482	53.0%
Permits & Licenses	\$ 1,634,631	\$ 1,202,713	73.6%
Service Fees	\$ 3,626,133	\$ 1,146,340	31.6%
Rents & Concession	\$ 3,113,907	\$ 2,481,377	79.7%
Other Revenue	\$ 3,822,573	\$ 2,778,078	72.7%
<i>Revenue Subtotal</i>	\$ 163,880,779	\$ 88,126,897	53.8%
Grand Total	\$ 163,880,779	\$ 88,126,897	53.8%

FY 2020/21 Year to Date Update

Property Taxes

Valuation growth for the FY 2020/21 tax roll increased 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 as of March at 2.8%, which includes the 1% California CPI growth factor that was under the maximum 2% allowed.

Property tax revenue received to date is \$53.4 million and primarily made up of Secured Tax payments of \$35.1 million and \$11.6 million in Property Tax in Lieu of Vehicle License Fees (first of two payments), Supplemental Tax payments (\$1.2 million), and Unsecured Tax payments (\$3.7 million). Secured Tax payment is received in ten payments that the City receives between late November and June and will continue to be received throughout the second half of the year. 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 and therefore, is subject to the volatility of sales activity. The budget of \$1.8 million is based on the seven-year historical average. Revenue of \$0.9 million is at 53% of budgeted revenue to date, which is below the historical average for this point in time.

Sales Tax

\$13.6 million in Sales Tax (\$12.7 million for State and \$0.9 million for the local Public Safety sales tax) has been received through February and this is consistent with the collection rate at this time last year. 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 the FY 2020/21 Budget anticipate a drop of an additional 2% from FY 2019/20 after falling off 19% from FY 2018/19. Based on our sales tax consultant's analysis, it is anticipated that some business restructuring will impact the State and County Pools starting in the first quarter of the 2021 calendar year that will reduce the City's Pool allocation and likely necessitate an adjustment to the current year revenue forecast in the FY 2021/22 budget.

Transient Occupancy Tax (TOT)

At \$2.7 million, TOT revenue collection is trending behind at 25% versus the historical average collection of approximately 50% at this point in the fiscal year with both room and occupancy following the post-COVID trend (economy hotels leading room and occupancy rates). As a revenue particularly sensitive to the impacts of the COVID-19 pandemic due to travel restrictions and general public health concerns related to travel, the FY 2020/21 Transient Occupancy Tax (TOT) revenue estimate anticipated a sharp decline in hotel occupancy rates with over a 55% decline in the revenue estimate (\$24.2 million to \$10.6 million) when compared to the FY 2020/21 plan in the FY 2019/20 Adopted Budget. With restrictions easing and some pent-up demand, travel is expected to slowly resume. However, as the City's TOT is driven mainly by business travel and with many businesses now comfortable conducting business remotely, there is grave concern that the City will not reach pre-pandemic levels of TOT revenue for some time, if at all. Therefore, both short and long-term revenue projections are expected to be further moderated in the FY 2021/22 budget.

Utility Users Tax (UUT)

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 \$4.5 million (54% of its revenue budget), which is just slightly lower than February of prior years.

Franchise Fees

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 \$2.1 million received to date is consistent with prior years at this point in the fiscal year.

Business License Tax

Business License Tax revenue is trending at 87% of budget as renewals are due at the beginning of the calendar year. 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). Approximately a dozen small businesses took advantage of this deferral and it is anticipated that this deferred renewal revenue will still be collected this year.

Construction Tax

The FY 2020/21 Construction Tax estimate was moderated to taper down to the historical average and in anticipation of slowing development activity. Development activity continues to be slower than the heightened activity of the past few years.

Revenue through February is at \$1.7 million (46% of budget), which is below the projected revenue expected for this point in the fiscal year.

Permits and Licenses

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 73.6% of the revenue estimate, permits and license revenue is trending above 66.7% of the fiscal year. To note, though, \$0.7 million in Certified Unified Program Agency (CUPA) receipts are over half of the \$1.2 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

Service fees are at 31.6% versus 66.7% 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 slightly over 10% of budget due to prolonged restrictions limiting recreation offerings. Therefore, this current year revenue projection will be lowered during FY 2021/22 budget development.

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 and this current year revenue forecast will also be reduced.

Parking Fees

Parking fees from the City's downtown parking lots near the CalTrain station have also been impacted by the pandemic with less ridership due to many companies moving to work from home situations as well as general public health concerns towards using public transportation. With a budget of \$0.1 million, as of February, less than 1% has been collected. This is also a current year revenue estimate that is anticipated to be reduced for the short-term.

The positive position of Other Revenue is primarily related to a large non-compliance Transportation Demand Management (TDM) penalty of \$0.5 million that the City received as well as other fines and penalties, \$1.6 million of interest income received to date, and various reimbursements from other agencies.

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. Revenue is, however, reviewed and analyzed through the beginning of the fourth quarter before finalizing current year revised revenue estimates in the FY 2021/22 Recommended Budget.

Expenditures

<i>General Fund Expenditures</i>	FY 2020/21 66.67% of Fiscal Year		
	Budget	Actuals	% to Date
Community Development	\$ 1,780,747	\$ 1,149,382	64.5%
Environmental Services	\$ 2,417,676	\$ 1,618,705	67.0%
Finance	\$ 11,298,211	\$ 6,433,055	56.9%
Human Resources	\$ 5,136,261	\$ 2,716,340	52.9%
Library and Recreation Services*	\$ 18,308,181	\$ 10,879,988	59.4%
Office of the City Attorney	\$ 1,875,126	\$ 1,272,175	67.8%
Office of the City Manager	\$ 5,505,884	\$ 3,243,767	58.9%
Public Safety	\$ 102,064,174	\$ 64,532,742	63.2%
Public Works	\$ 25,057,955	\$ 14,738,564	58.8%
<i>Operating Subtotal</i>	\$ 173,444,216	\$ 106,584,719	61.5%
Grand Total	\$ 173,444,216	\$ 106,584,719	61.5%

* Library and Community Services changed name to Library and Recreation Services in Sept. 2020

FY 2020/21 Year to Date Update

General Fund expenditures are at 61.5% while 66.7% 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 (62.9%) with the payroll benchmark for this point in the fiscal year at 64.4%. The timing of operations & maintenance expenditures can vary throughout the year and are expected to end the year at budget.

Due to prolonged restrictions on travel as well as general health concerns related to travel and recurring stay-at-home orders, staff have been working more hours and taking less 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. 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 overall operating expenditures are tracking at budget, the Department of Public Safety (DPS) is tracking overbudget in overtime due to mutual aid, protest events, backfill for COVID medical leave, etc. A separate report to Council is being prepared to discuss DPS' overtime and seek authorization to appropriate reimbursement revenue.

Enterprise Funds

Golf & Tennis Operations

<i>Golf & Tennis Fund Revenue</i>	FY 2020/21 66.67% of Fiscal Year		
	Budget	Actuals	% to Date
Golf Course Revenue	\$ 2,907,403	\$ 2,608,842	89.7%
Tennis Revenue (Rental Fee)	\$ 105,000	\$ -	0.0%
Grand Total	\$ 3,012,403	\$ 2,608,842	86.6%

<i>Golf & Tennis Fund Expenditure</i>	FY 2020/21 66.67% of Fiscal Year		
	Budget	Actuals	% to Date
Golf Course Expenditures	\$ 3,961,279	\$ 2,547,549	64.3%
Tennis Expenditures	\$ 108,428	\$ 44,936	41.4%
Grand Total	\$ 4,069,707	\$ 2,592,485	63.7%

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. \$2.4 million of the \$2.6 million collected to date are for golf fees and are expected to outpace the current revenue estimate. Accordingly, the current year revenue estimate will be revised upward as the trend is expected to continue as we head from winter to the more favorable spring and summer months, though this heightened golf activity is not expected to last over the long term. Golf & Tennis fund operating costs are trending within budget at this point in the fiscal year.

COVID-19 restrictions continue to impact concession operations with both the tennis operator and the restaurant operator at Sunken Gardens experiencing revenue loss due to the varying ongoing restrictions to recreation and dining. City Council authorized the City Manager to negotiate reduced rent for both operators in May 2020 to help mitigate their financial losses and staff have been negotiating with both vendors to update these rent abatement agreements with a plan to bring forward to Council for consideration in the fourth quarter. Final amounts approved by Council will be updated with the current year budget updates in the FY 2021/22 financial plan.

Development Enterprise Fund

<i>Development Enterprise Fund Revenue</i>	FY 2020/21 66.67% of Fiscal Year		
	Budget	Actuals	% to Date
Permits & Licenses	\$ 10,399,818	\$ 5,587,880	53.7%
Community Development Fees	\$ 4,641,052	\$ 2,153,073	46.4%
Public Works Fees	\$ 1,282,029	\$ 882,840	68.9%
Other*	\$ 1,178,648	\$ 687,780	58.4%
Grand Total	\$ 17,501,547	\$ 9,311,574	53.2%

*Interest Income & Miscellaneous

<i>Development Enterprise Fund Expenditures</i>	FY 2020/21 66.67% of Fiscal Year		
	Budget	Actuals	% to Date
Community Development	\$ 7,895,889	\$ 5,435,377	68.8%
Environmental Services	\$ 271,741	\$ 101,174	37.2%
Library and Recreation Services	\$ 25,018	\$ 23,462	93.8%
Office of the City Attorney	\$ 511,221	\$ 319,480	62.5%
Public Safety	\$ 1,425,639	\$ 727,955	51.1%
Public Works	\$ 2,756,989	\$ 1,552,040	56.3%
Grand Total	\$ 12,886,496	\$ 8,159,487	63.3%

* Library and Community Services changed name to Library and Recreation Services in Sept. 20

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 \$9.3 million collected to date is at 53.2% of budget compared to over a 100% revenue rate at this same time last fiscal year.

At 63.3%, operating expenditures are trending just below the fiscal year benchmark of 66.7%. We are monitoring revenues and expenditures closely and anticipate slightly reducing the current year revenue estimate with the FY 2021/22 budget.

Development Impact Fees

<i>Development Impact Fees*</i>	FY 2020/21 66.67% of Fiscal Year		
	Budget	Actuals	% to Date
Park Dedication Fees	\$ 41,704,226	\$ 3,999,244	9.6%
Housing Mitigation Fees	\$ 41,047,149	\$ -	0.0%
Transportation Impact Fees	\$ 7,459,583	\$ 113,032	1.5%
Sense of Place Fees	\$ 1,632,757	\$ 320	0.0%
Grand Total	\$ 91,843,715	\$ 4,112,595	4.5%

*Excludes Interest Income

Impact fees are not received evenly throughout the year and are difficult to predict as payments are collected based on milestones in the development process. Development projects take years to come to fruition and 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.

Staff will revise the current year revenue projections downward with the FY 2021/22 Development Enterprise financial plan. For projects in the earlier stages of the development pipeline, economic uncertainty makes it difficult to predict projects that will proceed or stall, though we anticipate most fees will be collected in a future year as they are associated with confirmed projects moving along in the development process.

Utility Funds

<i>Utility Fund Revenue</i>	FY 2020/21 *58.33% of Fiscal Year		
	Budget	Actuals	% to Date
Water Fund	\$ 61,799,016	\$ 31,220,129	50.5%
Wastewater Fund	\$ 49,738,978	\$ 27,796,527	55.9%
Solid Waste Management Fund	\$ 53,167,280	\$ 26,551,393	49.9%
Grand Total	\$ 164,705,274	\$ 85,568,049	52.0%

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

<i>Utility Fund Expenditures</i>	FY 2020/21 66.67% of Fiscal Year		
	Budget	Actuals	% to Date
Water Fund	\$ 44,033,189	\$ 26,995,541	61.3%
Wastewater Fund	\$ 22,166,607	\$ 12,655,453	57.1%
Solid Waste Management Fund	\$ 41,838,851	\$ 31,548,466	75.4%
Grand Total	\$ 108,038,647	\$ 71,199,460	65.9%

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 and a year-end accrual occurs to true this up.

To date, at 58.3% of the fiscal year (for utility billing), Water revenues are near the benchmark at 56.2% with metered water sales and recycled water fees trending high for this point in the fiscal year. For the Wastewater Fund, sewer revenues are on par with this time of the year at 55.9%. Solid Waste Fees continue to trend low at 49.7% as businesses are holding and/or reducing service due to the ongoing pandemic. Solid waste fees are expected to remain sensitive through the fiscal year, though as restrictions ease and the economy begins to reopen, we anticipate a related demand for service.

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 61.1%, which is slightly lower than the payroll benchmark of 66.7% of the fiscal year. The cost to purchase water, this fund's largest expense, is trending at 61.4%, which is below the accounting benchmark of 66.7% of the fiscal year. Water consumption typically increases as the weather warms in the spring, and expenditures are expected to closely align with budget by the end of the fiscal year. Wastewater salary costs are trending at 65.3%, near the accounting benchmark of 66.7% for the fiscal year. Solid Waste salary costs are trending slightly low for this point in time at 62.9%. Transfer and Landfill costs have been recorded in advance for the full fiscal year and therefore, are trending near 100%.

Utility delinquencies have increased compared to prior years due to the COVID-19 pandemic. The delinquency rate is down slightly from the prior quarter's collection rate of 96.4% to 95.2% for delinquent balances over 80 days and a collection rate of 89.6% when all delinquent balances are considered. Due to a state mandate preventing discontinuation of water service for non-payment, 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 we continue outreach efforts to see how customers might begin to start paying again, such as with alternative payment arrangements.

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 Third Quarter Budget Update
2. Other action as determined by Council

STAFF RECOMMENDATION

Alternative 1: Receive and file the FY 2020/21 Third 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