



# City of Sunnyvale

## Agenda Item-No Attachments (PDF)

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### **REPORT TO COUNCIL**

#### **SUBJECT**

Receive and File the FY 2021/22 First Quarter Budget Update

#### **REPORT IN BRIEF**

This report summarizes the year-to-date financial position of the City's major funds, including an update on the receipt of revenue and current status of expenditures. Overall, the City's financial position is tracking as planned pursuant to the FY 2021/22 Budget, though based on limited information. FY 2020/21 is anticipated to end the year slightly better than planned.

#### **BACKGROUND**

In FY 2020/21, staff began providing a report to Council detailing the current financial condition of the City on a quarterly basis. This is the first of these reports for FY 2021/22. This update compares the FY 2021/22 Adopted Budget with actual revenues and expenditures through the first quarter of the fiscal year. In addition, this report provides a preliminary review of the FY 2020/21 year-end financial results.

Information on actuals, especially revenues, is not yet fully developed. Receipts tend to lag by a month. Many sources of revenue aren't received until several months into the year. For example, Transient Occupancy Tax (TOT) for September, is not due to the City until the end of October. Another example is Business License Tax, which will appear low until the second half of the fiscal year after renewals occur. Operating expenditures tend to trend more evenly due to regular payroll costs. Exceptions include large bills like water purchases with July expenses not paid until mid or late August. Consequently, each Quarterly Report will provide 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 preliminary budget and actual year-end results for FY 2020/21 and year-to-date information for FY 2021/22 (through September 2021) for the General Fund and Enterprise funds. FY 2020/21 data reflects the estimates presented in the FY 2021/22 Adopted Budget, which includes updated revenue projections and budget modifications. Transfers, interfund revenues, bond proceeds, debt service as well as project and equipment costs are not included in this report. Note that FY 2020/21 actuals are unaudited and that significant changes can occur during the fiscal year end close.

While overall progress looks to be as planned for FY 2021/22, staff continue to carefully monitor incoming receipts and outgoing expenditures. Economic factors, such as supply chain issues and inflationary pressures on goods and services due to reported labor shortages are being closely monitored.

Additionally, during the FY 2021/22 budget development process, some vacant positions continued to be frozen as cost-savings measures. The City Manager froze 21.65 FTE vacancies in the budget process with the service level reductions approved by Council. The City Manager continues to exercise judgement on which vacancies to hold. 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. To that end, it should be noted that the City is experiencing more turnover than in recent history. To address this issue, the City Manager recently unfroze a Human Resources Analyst. The cost for this position will be absorbed within the current operating budget of the Human Resources Department using vacancy savings.

## General Fund

Overall, preliminary FY 2021/22 financials show positive year-end revenue and expenditure results for the General Fund. FY 2021/22 is tracking as expected at this point and staff continue to diligently monitor revenue and expenditures.

## Revenue

General Fund Revenue	FY 2021/22 25.00% of Fiscal Year			FY 2020/21 99.00% of Fiscal Year		
	Budget	Actuals	% to Date	Adjusted Budget	Actuals	Variance
Property Tax	\$ 94,860,330	\$ 98,692	0.1%	\$ 93,432,808	\$ 94,805,639	\$ 1,372,831
Sales Tax	\$ 27,782,519	\$ 2,089,110	7.5%	\$ 26,255,743	\$ 26,089,903	\$ (165,840)
Transient Occupancy Tax	\$ 8,296,416	\$ 2,021,674	24.4%	\$ 5,308,664	\$ 5,192,090	\$ (116,573)
UUT & Franchise Fees	\$ 15,872,231	\$ 2,354,257	14.8%	\$ 15,407,784	\$ 15,570,014	\$ 162,230
Construction Tax	\$ 2,795,302	\$ 1,278,946	45.8%	\$ 2,345,528	\$ 2,454,170	\$ 108,642
Business License Tax	\$ 1,914,476	\$ 110,623	5.8%	\$ 1,914,476	\$ 1,922,860	\$ 8,384
Real Property Transfer Tax	\$ 1,844,144	\$ 633,452	34.3%	\$ 1,315,802	\$ 1,970,280	\$ 654,478
Permits & Licenses	\$ 1,955,653	\$ 459,924	23.5%	\$ 1,915,142	\$ 1,894,016	\$ (21,126)
Service Fees	\$ 4,111,732	\$ 1,257,446	30.6%	\$ 3,389,771	\$ 3,669,946	\$ 280,175
Rents & Concession	\$ 3,134,422	\$ 309,482	9.9%	\$ 2,691,932	\$ 2,988,355	\$ 296,423
Other Revenue	\$ 17,666,511	\$ 384,695	2.2%	\$ 21,660,345	\$ 19,890,117	\$ (1,770,229)
Revenue Subtotal	\$ 180,233,736	\$ 10,998,301	6.1%	\$ 175,637,996	\$ 176,447,390	\$ 809,394
One-Time Revenue*	\$ -	\$ 2,635,039		\$ 9,000,000	\$ 6,491,153	\$ (2,508,847)
Grand Total	\$ 180,233,736	\$ 13,633,340	7.6%	\$ 184,637,996	\$ 182,938,543	\$ (1,699,453)

\*Sale of Property, ERA F

### FY 2020/21

General Fund revenue is expected to end the year \$0.8M above projections when one-time revenues are excluded. Almost all major sources exceeded revised revenue projections, except for sales tax and transient occupancy tax. Sales Tax was \$0.2M below its revised estimate. People continued to shop online but resumed some in person shopping for consumer goods and other discretionary purchases, such as jewelry. Auto sales also rebounded with higher prices amid anticipated inventory shortages. Building material prices rose with the home improvement trend continuing. Additionally, the City has started to receive the direct allocation of one-time sales tax associated with major construction projects in the city. These gains were offset with a slower recovery for the restaurant and hospitality industries as COVID-19 restrictions and public health concerns lingered and workers continued to work remotely. The City's County Pool receipts were also impacted by a one-time negative adjustment and sales spikes associated with other agencies in the countywide pool.

Transient Occupancy Tax (TOT) came in \$0.1M below its revised estimate of \$5.3M. While TOT revenue is still a fraction of the pre-pandemic revenue. Business travel has yet to significantly resume with average occupancy and room rates remaining steady through the fiscal year. Reporting indicates that average room rates for the fiscal year were approximately \$89 per night and average occupancy rate tracked at 42%.

Construction tax revenue has moderated from the elevated levels experienced prior to the COVID-19 pandemic. It continues to be steady and has a positive variance of \$0.1M to the revised revenue projection. Real Property Transfer Tax exceeded its revised revenue expectations by \$0.7M led by increased prices for single family homes due to fewer properties being offered for sale and lower interest rates for home loans.

The Other Revenue category is driven primarily by interest income and also includes the \$14.1M in American Rescue Plan Act (ARPA) representing the first half of the City's federal allocation. The \$1.8M negative variance is primarily related to grant projects that are still underway with the revenue expected next fiscal year.

One-time revenue reflects \$6.5M in Property Tax Educational Revenue Augmentation Funds (Excess ERAF). that was not budgeted during FY 2021/22 budget development due to a dispute between Santa Clara County and the State over the distribution methodology. The \$2.5M negative variance is associated with a delay in the Sale of Property (Transfer of the Block 15 - Charles Street at Mathilda property) from the General Fund to the Housing Fund. It will now be completed in FY 2021/22 with Council approving the final transfer amount in October.

### FY 2021/22 Year to Date Update

Few revenues are received evenly throughout the year and therefore progress is difficult to gauge early in the fiscal year. For example, sales tax revenue lags the actual economic activity because taxpayers have 30 days to file for monthly reporting periods followed by processing by the California Department of Tax and Fee Administration (CDTFA), which takes several weeks. The City uses a Sales Tax consultant to analyze activity. At this time, the City's consultant has indicated that it is anticipated that the City will meet its Sales Tax estimates for FY 2021/22, though staff is closely monitoring the impact of a major retailer's change in tax payer return filing to the County Pool as the State/County Pool is now the City's second highest major industry group for sales tax returns.

TOT revenue is still slowly recovering to the pre-pandemic revenue level. The trend is more positive in FY 2021/22 with average room rates at \$98 per night and average occupancy rates tracking at 58% in the first quarter of the fiscal year. Construction Tax is also showing an uptick in returns at roughly 46% of the FY 2021/22 revenue estimate year-to-date.

Property tax revenue received to date reflects a Supplemental Tax payment. 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. Secured property tax is received in ten payments that the City receives between late November and June. Property valuation growth for the FY 2021/22 tax roll shows an increase of 4.9%, which is greater than the FY 2021/22 Budget estimate of 3%. Additionally, the growth factor is trending greater than the 2% California CPI allowed for the FY 2022/23 roll at this time. We will know the final growth factor for the FY 2022/23 tax roll when the County releases the data at the beginning of the 2022 calendar year.

The City also received \$2.6M in Excess ERAF funding this first quarter, which is the balance of the FY 2020/21 ERAF due to the City that the County had set aside while the distribution methodology was under review with the state.

Service fees are tracking ahead of the 25% accounting benchmark, with recreation activity offerings increasing as well as resuming to greater capacity. Parking fees, however, continue to be very depressed when compared to pre-pandemic revenue.

## Expenditures

General Fund Expenditures	FY 2021/22			FY 2020/21		
	25.00% of Fiscal Year			99.00% of Fiscal Year		
	Budget	Actuals	% to Date	Adjusted Budget	Actuals	Variance
Community Development	\$ 1,511,080	\$ 260,904	17.3%	\$ 1,780,747	\$ 1,653,202	\$ 127,545
Environmental Services	\$ 2,416,846	\$ 659,224	27.3%	\$ 2,417,676	\$ 2,218,011	\$ 199,665
Finance	\$ 10,449,054	\$ 1,664,010	15.9%	\$ 11,298,211	\$ 10,411,568	\$ 886,643
Human Resources	\$ 4,621,728	\$ 898,073	19.4%	\$ 5,136,261	\$ 4,453,762	\$ 682,499
Library and Recreation Services*	\$ 18,008,325	\$ 2,699,170	15.0%	\$ 18,308,181	\$ 17,172,959	\$ 1,135,222
Office of the City Attorney	\$ 1,641,269	\$ 374,245	22.8%	\$ 1,875,126	\$ 2,023,531	\$ (148,405)
Office of the City Manager	\$ 5,165,085	\$ 818,058	15.8%	\$ 5,505,884	\$ 5,297,633	\$ 208,251
Public Safety	\$ 83,273,492	\$ 17,390,752	20.9%	\$ 102,064,174	\$ 101,363,024	\$ 701,151
Public Works	\$ 23,610,283	\$ 4,321,843	18.3%	\$ 25,057,955	\$ 23,061,740	\$ 1,996,214
Operating Subtotal	\$ 150,697,162	\$ 29,086,279	19.3%	\$ 173,444,216	\$ 167,655,429	\$ 5,788,787
Grand Total	\$ 150,697,162	\$ 29,086,279	19.3%	\$ 173,444,216	\$ 167,655,429	\$ 5,788,787

## FY 2020/21

The General Fund is preliminarily projected to end the year with a \$5.8M positive operating variance primarily as a result of salary savings. Goods & Services spending is expected to end the year with a positive variance as some non-essential business activity continued to be slowed down due to the pandemic.

While General Fund expenditures are expected to end the year favorably, the City continues to incur some operating costs in response to the COVID-19 pandemic, such as for Personal Protection Equipment (PPE). The City does not anticipate that all of these costs will be reimbursed, though the \$14.1M in ARPA revenue to backfill the City's General Fund revenue loss as a result of the pandemic, will help offset these added expenditures.

FY 2021/22 Year to Date Update

General Fund expenditures are at 19.3% while approximately 25% of the fiscal year has passed. Expenditures trend more evenly throughout the year driven mainly by bi-weekly payroll costs. Accordingly, salaries are trending slightly above the 25.3% payroll benchmark for this point in the fiscal year at 26.8%. Staff is closely monitoring salaries and benefits this fiscal year with the implementation of the change to some employee benefits (i.e., retiree medical, unfunded accrued pension liability, etc.) moving to a fund-to-fund transfer rather than being incorporated into department operating budgets as part of the benefit rate. The timing of operations & maintenance expenditures can vary throughout the year and are expected to end the year at budget as rental rates and other known expenditures actualize. That said, staff is closely monitoring costs for goods and services in the current inflationary economic environment.

**Enterprise Funds****Golf & Tennis Operations**

Golf & Tennis Fund Revenue	FY 2021/22			FY 2020/21		
	25.00% of Fiscal Year			99% of Fiscal Year		
	Budget	Actuals	% to Date	Adjusted Budget	Actuals	Variance
Golf Course Revenue	\$ 3,139,748	\$ 1,416,377	45.1%	\$ 3,440,023	\$ 4,613,990	\$ 1,173,967
Tennis Revenue (Rental Fee)	\$ 145,000	\$ 24,174	16.7%	\$ 70,000	\$ 97,831	\$ 27,831
<b>Grand Total</b>	<b>\$ 3,284,748</b>	<b>\$ 1,440,551</b>	<b>43.9%</b>	<b>\$ 3,510,023</b>	<b>\$ 4,711,821</b>	<b>\$ 1,201,798</b>

Golf & Tennis Fund Expenditures*	FY 2021/22			FY 2020/21		
	25.00% of Fiscal Year			99% of Fiscal Year		
	Budget	Actuals	% to Date	Adjusted Budget	Actuals	Variance
Golf Course Expenditures	\$ 3,773,179	\$ 801,364	21.2%	\$ 3,961,279	\$ 3,992,866	\$ (31,587)
Tennis Expenditures	\$ 107,513	\$ 11,086	10.3%	\$ 108,428	\$ 69,842	\$ 38,586
<b>Grand Total</b>	<b>\$ 3,880,692</b>	<b>\$ 812,450</b>	<b>20.9%</b>	<b>\$ 4,069,707</b>	<b>\$ 4,062,708</b>	<b>\$ 7,000</b>

\*Excludes transfers and in-lieu fees.

FY 2020/21

Revenue associated with the golf courses ended the year with a \$1.2M positive variance. Golf play became more popular as an outdoor sport that allows for social distancing. The majority of this positive variance can be attributed directly to golf fees, such as Green fees and Driving Range fees. Tennis activities also resumed after varying restrictions and likewise shows a positive year-end variance. When transfers and overhead costs are factored in (approximately \$0.7M), the Golf & Tennis fund is expected to be just shy of breaking even for the fiscal year with total expenditures at \$4.7M.

FY 2021/22 Year to Date Update

The Golf and Tennis fund is off to a strong start with Golf revenue at 45% the first quarter of the year compared to the 25% accounting benchmark. The restaurant operations at Sunken Gardens and tennis operations also have a stable start to the year.

Golf & Tennis fund expenditures are trending low at this point in the fiscal year as known costs such as internal service charges will be actualized throughout the year.

## Development Enterprise Fund

Development Enterprise Fund Revenue	FY2021/22 25.00% of Fiscal Year			FY 2020/21 99.00% of Fiscal Year		
	Budget	Actuals	% to Date	Budget	Actuals	Variance
Permits & Licenses	\$ 11,273,821	\$ 3,887,100	34.5%	\$ 9,381,521	\$ 10,225,124	\$ 843,603
Service Fees	\$ 3,996,083	\$ 1,318,834	33.0%	\$ 4,723,056	\$ 4,232,598	\$ (490,458)
Other*	\$ 1,025,231	\$ 1,766	0.2%	\$ 1,237,299	\$ 1,069,541	\$ (167,758)
<b>Grand Total</b>	<b>\$ 16,295,135</b>	<b>\$ 5,207,700</b>	<b>32.0%</b>	<b>\$ 15,341,876</b>	<b>\$ 15,527,263</b>	<b>\$ 185,387</b>

\*Interest Income &amp; Miscellaneous

Development Enterprise Fund Expenditures	FY2021/22 25.00% of Fiscal Year			FY 2020/21 99.00% of Fiscal Year		
	Budget	Actuals	% to Date	Budget	Actuals	Variance
Community Development	\$ 6,916,092	\$ 1,352,875	19.6%	\$ 7,916,010	\$ 8,908,680	\$ (992,670)
Environmental Services	\$ 243,640	\$ 42,824	17.6%	\$ 271,741	\$ 170,684	\$ 101,057
Library and Recreation Services	\$ 21,274	\$ 5,512	25.9%	\$ 25,018	\$ 54,014	\$ (28,996)
Office of the City Attorney	\$ 435,534	\$ 64,890	14.9%	\$ 511,221	\$ 475,521	\$ 35,700
Public Safety	\$ 1,207,260	\$ 200,496	16.6%	\$ 1,425,639	\$ 1,208,695	\$ 216,944
Public Works	\$ 2,595,428	\$ 432,623	16.7%	\$ 2,756,989	\$ 2,451,357	\$ 305,632
<b>Grand Total</b>	<b>\$ 11,419,228</b>	<b>\$ 2,099,220</b>	<b>18.4%</b>	<b>\$ 12,906,618</b>	<b>\$ 13,268,951</b>	<b>\$ (362,333)</b>

### FY 2020/21

Revenues in the Development Enterprise Fund exceeded current revenue estimates by almost \$0.2M driven by permits and license fees, which includes building permits and fire prevention construction permits.

Overall, the Development Enterprise Fund expenditures came in over budget by approximately \$0.4M. The Community Development Department exceeded its operating budget. This overage can be attributed to the use of contract services by the Building Safety Division to augment staffing needed to provide additional workload capacity related to plan check and inspections though overspending is offset by additional revenues.

### FY 2021/22 Year to Date Update

Development fee revenues have been steady for this point in the fiscal year and Housing Mitigation and Transportation Impact fees are off to a strong start. Expenditures are trending low at this time in the fiscal year as known costs such as rental rates will be actualized throughout the year. We will monitor revenues and expenditures closely to adjust as may be needed, but at this point, the fund is expected to meet budget.

## Development Impact Fees

Development Impact Fees*	FY2021/22 25.00% of Fiscal Year			FY 2020/21 99.00% of Fiscal Year		
	Budget	Actuals	% to Date	Budget	Actuals	Variance
Park Dedication Fees	\$ 33,629,534	\$ -	0.0%	\$ 6,927,565	\$ 4,203,104	\$ (2,724,461)
Housing Mitigation Fees	\$ 20,549,092	\$ 5,277,700	25.7%	\$ 2,063,538	\$ 38,304	\$ (2,025,234)
Transportation Impact Fees	\$ 8,779,304	\$ 2,723,156	31.0%	\$ 313,610	\$ 56,800	\$ (256,810)
Sense of Place Fees	\$ 876,937	\$ -	0.0%	\$ -	\$ 1,821,552	\$ 1,821,552
<b>Grand Total</b>	<b>\$ 63,834,867</b>	<b>\$ 8,000,856</b>	<b>12.5%</b>	<b>\$ 9,304,713</b>	<b>\$ 6,119,760</b>	<b>\$ (3,184,953)</b>



Development projects take years to come to fruition, therefore, the timing of Development Fee Impact revenue is difficult to predict in the short-term. FY 2020/21 revenue came in below revised revenue estimates by \$3.2M, though it is expected that much of the revenue not yet received is delayed and will be received in a future year. Impact fees are not received evenly throughout year, but rather based on milestones in the development process.

Current year budget estimates are based on known projects in the development pipeline, including shifting some expected revenue from FY 2020/21 to FY 2021/22 based on project status. Staff will monitor development activity and revisit revenue projections as necessary during FY 2022/23 budget development.

## Utility Funds

Utility Fund Revenue	FY 2021/22			FY 2020/21		
	25.00% of Fiscal Year*			99.00% of Fiscal Year		
	Budget	Actuals	% to Date	Adjusted Budget	Actuals	Variance
Water Fund	\$ 60,188,552	\$ 18,384,408	30.5%	\$ 61,616,893	\$ 63,421,053	\$ 1,804,160
Wastewater Fund	\$ 51,064,199	\$ 18,186,511	35.6%	\$ 50,153,933	\$ 51,698,344	\$ 1,544,411
Solid Waste Management Fund	\$ 54,677,049	\$ 12,029,987	22.0%	\$ 50,002,966	\$ 51,528,732	\$ 1,525,766
<b>Grand Total</b>	<b>\$ 165,929,800</b>	<b>\$ 48,600,906</b>	<b>29.3%</b>	<b>\$ 161,773,792</b>	<b>\$ 166,648,129</b>	<b>\$ 4,874,337</b>

\*July and August customer billing revenue.

Utility Fund Expenditures	FY 2021/22			FY 2020/21		
	25.00% of Fiscal Year			99.00% of Fiscal Year		
	Budget	Actuals	% to Date	Budget	Actuals	Variance
Water Fund	\$ 43,530,362	\$ 8,588,828	19.7%	\$ 42,532,763	\$ 42,436,108	\$ 96,655
Wastewater Fund	\$ 18,989,800	\$ 2,908,063	15.3%	\$ 20,332,934	\$ 19,228,800	\$ 1,104,134
Solid Waste Management Fund	\$ 47,619,507	\$ 9,484,315	19.9%	\$ 42,422,156	\$ 41,502,287	\$ 919,869
<b>Grand Total</b>	<b>\$ 110,139,669</b>	<b>\$ 20,981,206</b>	<b>19.0%</b>	<b>\$ 105,287,853</b>	<b>\$ 103,167,195</b>	<b>\$ 2,120,658</b>

## FY 2020/21

Preliminary year end results show all three utility funds exceeding revised revenue estimates. The Water Fund is anticipated to end the year with a positive variance of about \$1.8M mostly driven by metered water sales. The positive Wastewater revenue result is due to Connection Fees beating the revised estimate.

Fines and penalties continue to be down across all three utility funds due to Council action to waive late fee penalties in consideration of COVID-19 financial impacts to the community. This is not a significant portion (average of \$96,000) of the utility funds' revenue budget.

Anticipated year end savings for the Water and Wastewater funds are mainly the result of salary savings and lower than expected spending on services. Some of these expenditures are likely delayed and will be actualized the following year. The Solid Waste Fund had some salary savings, but also realized savings related to landfill and transfer costs. These reduced expenditures have a proportionate impact on revenue.

## FY 2021/22 Year to Date Update

Utility revenue is off to a strong start. Connection fees continue to be a large contributor to the positive first quarter revenue variances in the Water and Wastewater funds. Solid Waste service fees are in line with costs for the collection, transfer and disposal services for this point in the fiscal year.

There is some risk ahead for the Water Fund as the City has implemented a voluntary 15% water reduction campaign for its water customers due to drought conditions. Should the drought conditions worsen, and customer usage reductions become mandatory, less water use will likely result in less revenue for water service fees as well as some potential pressure for increases in the City's costs to purchase water.

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 and maintenance costs can vary. Salaries and benefits are right around the 25% payroll benchmark for all three utility funds. Timing of operations and maintenance expenditures can vary throughout the year and known costs, such as rental rates, will be actualized throughout the year. Therefore, at this time, it is expected these funds will meet budget.

### **FISCAL IMPACT**

Preliminary FY 2020/21 year-end financial data as well as the FY 2021/22 first quarter financial analysis discussed in this report are 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.

### **STAFF RECOMMENDATION**

Receive and file the FY 2021/22 First Quarter Budget Update.

Prepared by: Felicia Silva, Budget Manager

Reviewed by: Tim Kirby, Director of Finance

Reviewed by: Jaqui Guzmán, Deputy City Manager

Approved by: Kent Steffens, City Manager