

Probability Management Comes to City Hall



Government Finance Officers Association

Annual Conference 2015





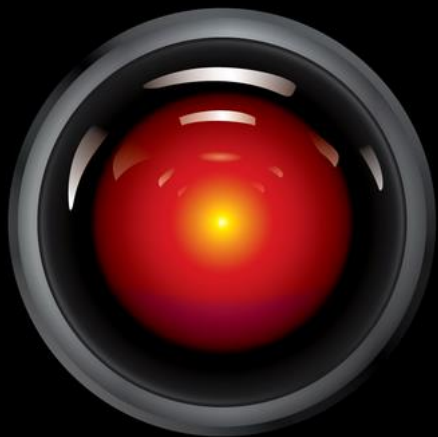






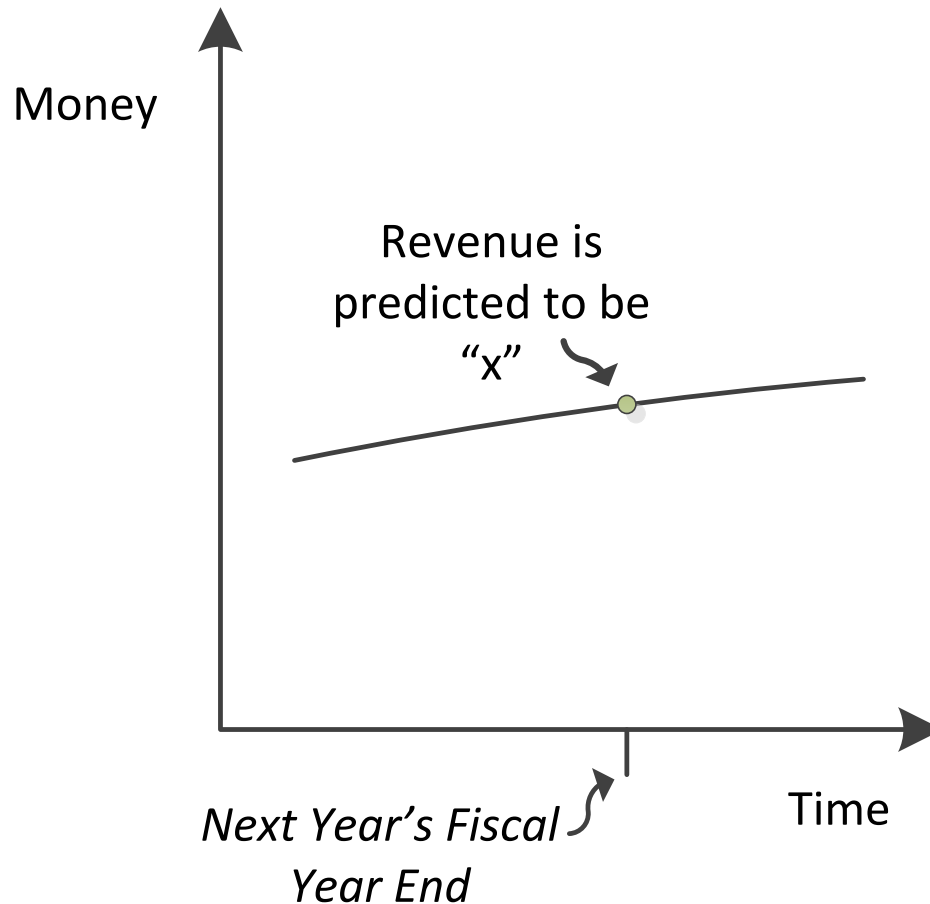


Today's Story



Our Hannibal Lecter?

The Point Forecast!





Its Villainous Misdeeds

- It obscures variation and uncertainty
- So, elected officials want to budget up to the amount of the forecast
- And staff will be blamed if revenues are less than forecast
- So, staff forecast “conservatively”
- So, staff credibility is at risk when forecasts are always below actual

Who will save us?

Enter:

***Risk-Aware
Budgeting***





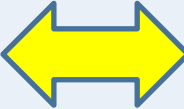



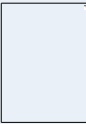

Forecasting Sales Tax in Sunnyvale

March 8, 2017

Sunnyvale Budget

- Sunnyvale is a "Full Service" City
- FY 2016/17 Budget - \$398 M
 - Operating – 65%
 - Capital Projects - 27%
 - Debt & Other – 8%
- General Fund
 - Police, Fire, Libraries, Streets, Parks
 - FY 2016/17 Revenue Budget: \$153 M
 - Key Revenue sources: Property Tax, **Sales Tax**, TOT, UUT

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%

Long Term Financial Plan

- City Charter requires that we prepare 10 Year Financial Plans for all Funds
- Council Policy – 20 Year Plans

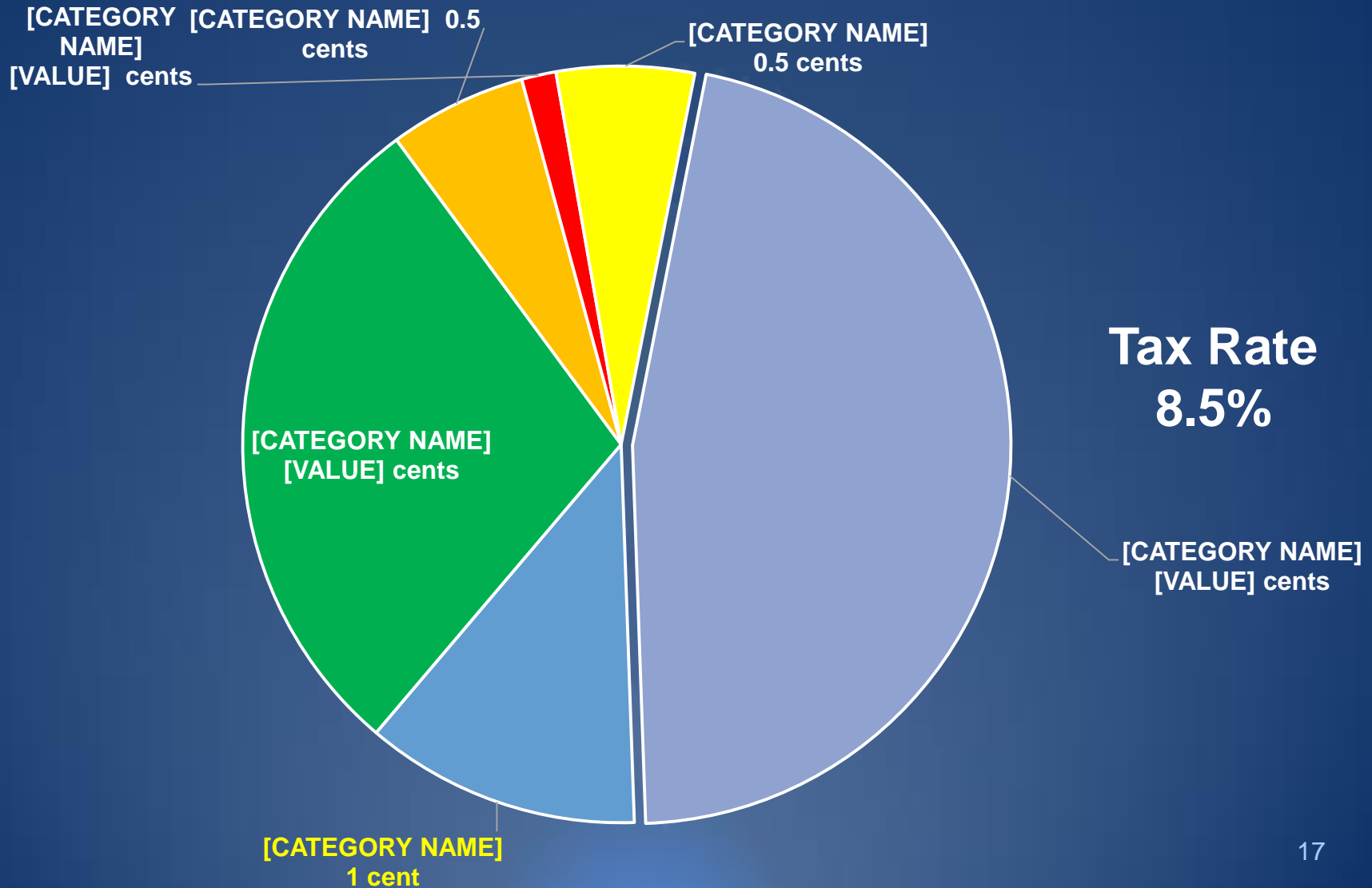
**CITY OF SUNNYVALE
035. GENERAL FUND
LONG TERM FINANCIAL PLAN
JULY 1, 2015 TO JUNE 30, 2026**

	ACTUAL 2014/2015	CURRENT 2015/2016	BUDGET 2016/2017	PLAN 2017/2018	PLAN 2018/2019	PLAN 2019/2020	PLAN 2020/2021
RESERVES/FUND BALANCE, JULY 1	116,003,026	112,566,377	97,751,647	100,932,134	88,303,575	83,858,708	87,170,000
CURRENT RESOURCES:							
Property Tax	54,940,570	61,748,736	62,777,052	64,448,323	67,791,647	71,085,747	73,867,000
Sales Tax	29,676,176	30,352,481	31,698,678	33,009,729	33,694,247	34,711,878	35,706,000
Public Safety Sales Tax	1,542,805	1,566,638	1,636,121	1,698,630	1,727,251	1,767,904	1,812,000
Business License Tax	1,845,883	1,734,000	1,768,680	1,804,054	1,840,135	1,876,937	1,914,000
Other Taxes	4,830,902	4,859,967	3,570,449	3,259,512	3,358,584	3,463,337	3,568,000

Sales Tax

- Imposed on retail sales of tangible personal property (not on services)
- Total rate varies by County and City
- City share: 1%
 - 1956 - Bradley Burns Uniform Local Sales Tax
- Challenges:
 - Determining Point of Sale (unique treatment for sales offices, merchandise warehouses)
 - Special Allocations (E-commerce, Leases, Use tax)
 - Long list of exemptions

Sales Tax Breakdown

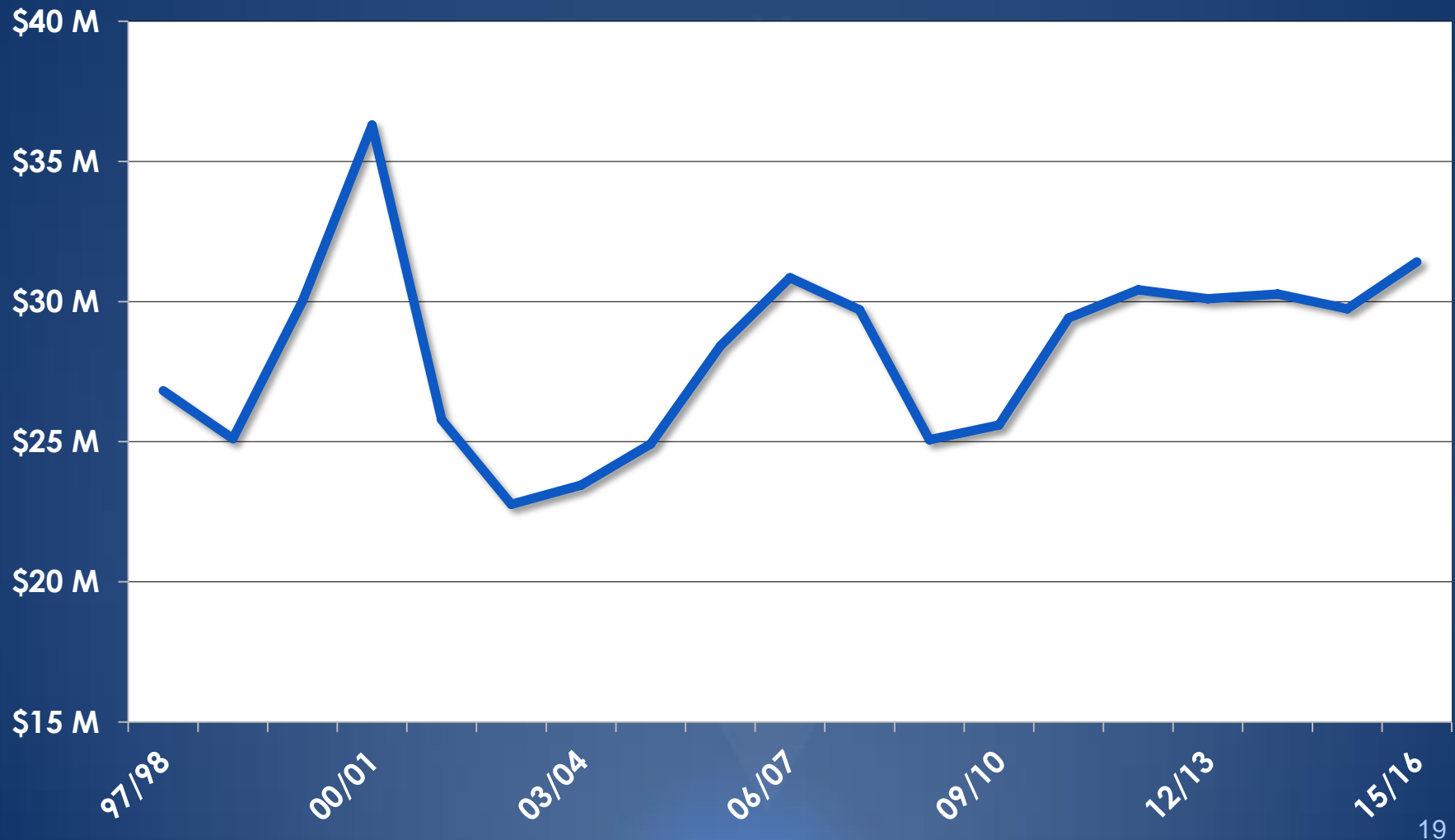


Sales Tax - Sunnyvale

- FY 2016/17 Budget - \$31.7M
- Historical returns volatile
- Despite local economic growth...
Recent year returns have been flat
- Comprised of numerous segments which behave differently
 - Autos, General Consumer, County pool growth
 - Offset by changes in Business & Industry

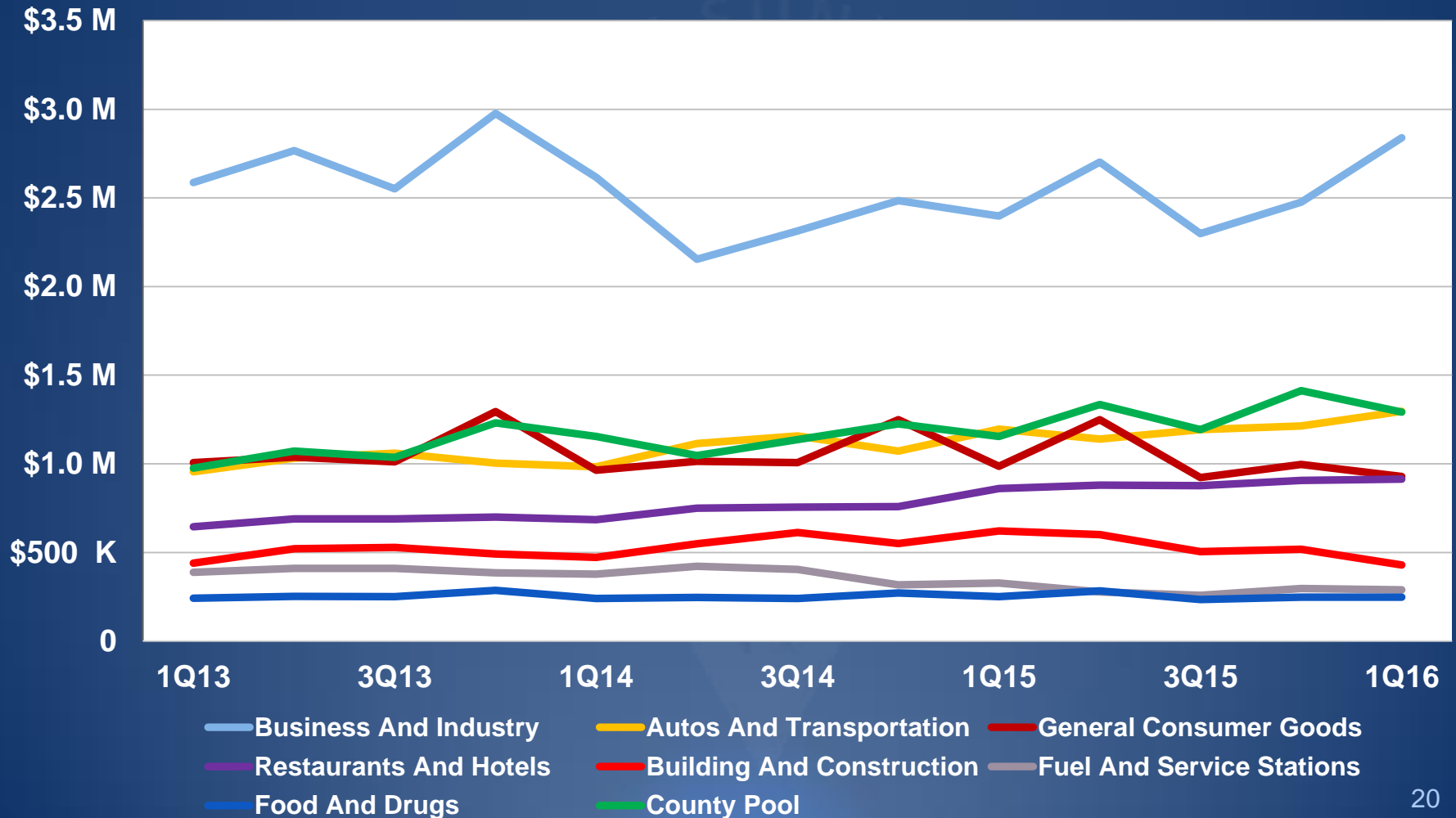
Sunnyvale Sales Tax Revenue

Historical Collections



Sales Tax Revenue

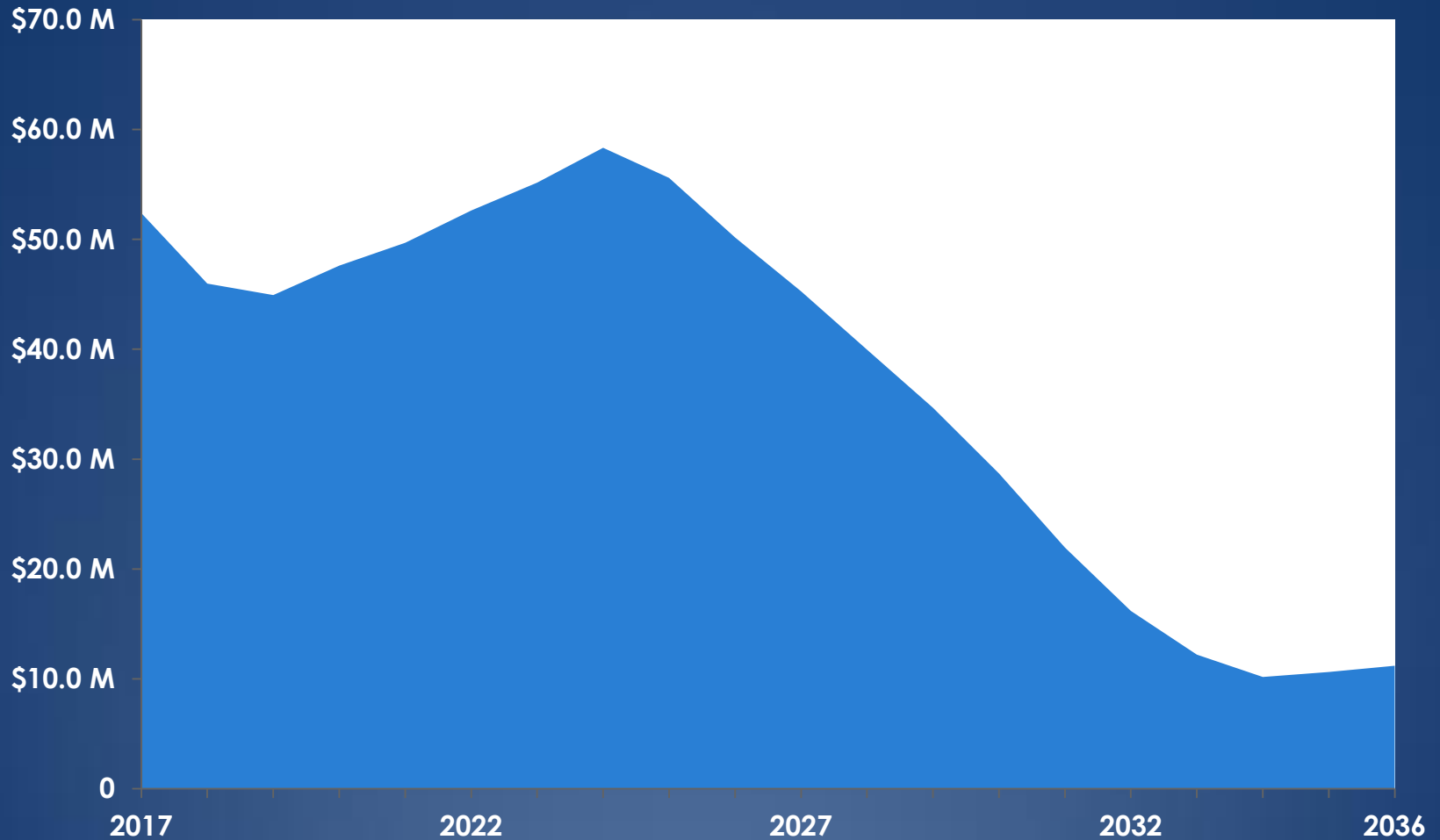
Results by Major Industry Group



Project goal

- Working with GFOA and Probability Management to find a new and better approach to forecasting
- Quantitative approach
- Accounts for Risk
 - 2nd largest source, missing on the down side is very costly; could result in service reductions (ie. fewer officers on the street)
- Tells the story

Budget Stabilization Fund



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

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

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



The Model