Enterprise Funds

The City budgets and accounts for business like activities in Enterprise Funds. Each fund reflects a service or group of related services that are generally fee supported and independent of the City's General Fund or other funds. These include six funds related to the City's water, wastewater, and solid waste business operations, the operation of the Sunnyvale Materials Recovery and Transfer Station (SMaRT Station), the Development Enterprise Fund, and the Golf and Tennis Operations Fund. Each of these service areas are discussed in detail below.

Utility Enterprise Funds and Utility Rate Process

The following across-the-board changes to current rates for the Water, Wastewater, and Solid Waste Utility enterprises are recommended for Council approval for FY 2017/18:

Utility	Rate Change
Water	12.5%
Wastewater	10.0%
Solid Waste	3.0%

Each increase and the contributing factors are discussed below. The major reasons for the required increases in rates are the lower-than-forecast water revenues and continuing rise in costs for wholesale water due to changing patterns of water consumption after years of drought, major wastewater infrastructure needs, particularly at the City's Water Pollution Control Plant, and the City's Zero Waste project to increase landfill diversion rates.

Monthly costs associated with water, solid waste, and wastewater services for an average residential customer will increase by 8.7% or $12.37, from $142.21 to $154.53, per month. It is important to note that even with these increases, Sunnyvale utility rates and services are competitive with our surrounding communities.

Water Supply and Distribution Fund

The Water Supply and Distribution Fund (Water Fund) accounts for all revenues and expenses related to the City-operated water utility. Expenses include costs for wholesale water, capital and infrastructure project-related costs, debt service, and other operating costs. Revenues consist of service fees for water and recycled water, water-related public works and construction fees, and interest income. Once expenditure levels are developed, water rates are set to collect enough revenue to maintain a sustainable financial position. The annual review and use of long-range financial planning and projections help minimize utility rate swings.

The largest expense of the Water Fund is the cost of purchasing water. Sunnyvale currently receives water from four different sources, the San Francisco Public Utilities Commission (SFPUC), the Santa Clara Valley Water District (SCVWD), City-owned wells, and recycled water produced by the City's Water Pollution Control Plant. The majority of the water supply is provided by SFPUC and SCVWD, with the quantity provided established by contracts with each agency. Approximately three-quarters of a percent will come from well water, which is adequate to keep the wells fresh and operating.

The City's water demand is extremely volatile, previously due to the drought and now because of consumer conservation as well as the impact of a very wet winter keeping demand low. While the 5-year drought emergency is now declared over, consumption patterns have permanently changed due to adjustments made by consumers in response to the cut backs on the amount of water use mandated during the drought years. Throughout the twenty-year financial plan, it is assumed that water conservation efforts will continue, and that sales will not return to the levels seen in FY 2013/14 until FY 2022/23. This anticipated reduction in demand will impact both the revenue and expenses of the Fund.

The City has agreements with both SCVWD and SFPUC to purchase a minimum quantity of water each year, which are known as “take or pay” provisions in the agreement. During the ongoing drought, both wholesalers were concerned about water supplies, and chose to ease up on the take or pay provisions to encourage customers to conserve as much as possible. Effective July 1, 2017 the City’s two suppliers will resume enforcement of their contractual minimums. Even though both wholesalers plan to enforce these provisions, it is unlikely that the City will be able to meet the minimums at one or both of the wholesalers at their current levels, as our customers continue to conserve water. The City has requested a lower “take or pay” amount and revised downward its Three Year Delivery Schedules with SCVWD in anticipation of this situation. Nevertheless, the City is projecting overall water purchases costs to rise a further 17%.

The City is currently paying the SFPUC approximately $1,786 per acre foot of water, and paying SCVWD $1,178 per acre foot, including a treated water charge. The City is also paying approximately $1.5 million in FY 2017/18 to the SFPUC for the Bay Area Water Supply and Conservation Agency (BAWSCA) Surcharge which makes up Sunnyvale’s share of the debt service on bonds issued by BAWSCA in FY 2012/13. BAWSCA issued the bonds on behalf of its 26 member agencies in its effort to restructure capital debt owed to the SFPUC for facilities constructed by the SFPUC that benefit the regional customers.

Both the SFPUC and the SCVWD provided wholesale rate projections for the next ten years. Their projections have changed significantly over the previous year, as they expect to need additional revenue to make up for lost sales due to water conservation. These projections serve as a base for the long-term rate projections in the twenty-year financial plan.

The table below reflects the projections included in the financial plan for both agencies. The projected increases in the table do not reflect changes in the BAWSCA Surcharge or any other costs related to purchasing water.

Additionally, the SFPUC is projecting no rate increase for FY 2018/19. It is the City’s practice to take a conservative approach to planning for potential rate increases. Since FY 2018/19 is still two years out, the proposed budget assumes a rate increase for that year, given the uncertainty regarding future water demand.

Projected Increases in Base Wholesale Rates

Fiscal Year	SFPUC	SCVWD
2017/18	0%	9.9%
2018/19	2.8%	9.9%
2019/20	3.2%	10.9%
2020/21	10.1%	10.9%
2021/22	9.9%	10.9%
2022/23	3.8%	10.9%
2023/24	4.0%	9.8%
2024/25	3.8%	7.6%
2025/26	3.8%	2.7%
2026/27	0.8%	2.7%

The projected well water total unit cost for FY 2017/18 is $1,178 per acre foot, an increase of 9.9% over the current year unit cost of $1,072. This cost includes a charge from SCVWD for pumping ground water from City wells, as well as the power costs associated with running the pumps.

The City attempts to purchase water at the lowest possible cost. The City’s water system allows the movement of water from one portion of the City to another, and this allows staff to monitor and adjust water purchases to utilize the most cost effective source or meet contractual minimums as appropriate. Water rates have risen significantly over the past four years due to ongoing drought conditions. Now that the drought is over, there is still much uncertainty regarding water demand, but the wholesalers were able to ease up on the rate increases for the coming year. For FY 2017/18, SFPUC indicated that its rate would stay flat at $1,786 per acre foot, while SCVWD is proposing to increase rates 9.9% to $1,178 per acre foot. While these rate increases are lower than those seen in recent years, both wholesalers are resuming enforcement of minimum purchase requirements, which could increase the City’s cost for purchased water if there is insufficient demand to meet our contractual obligations. Due to the lower rate increases from the

City's wholesalers, the proposed rate increase for FY 2017/18 of 12.5% is lower than the previous financial plan's rate of 15%.

Lastly, the City's Water Pollution Control Plant (WPCP) provides recycled water, which is wastewater that has been treated to very high standards.

Due to production limitations and increased chemical requirements, the City has scaled back its recycled water production. Construction is nearing completion to improve recycled water production reliability and is scheduled to be commissioned in late summer or early fall of 2017. Additionally, staff and SCVWD have ongoing discussions to partner in significant capital improvement projects that may bring recycled water to more areas of the City. The first of those projects, the Wolfe Road Recycled Water Pipeline, is nearing completion and will begin providing recycled water to use at Apple's new campus in the coming months.

Operations and Capital Expenses

The FY 2017/18 budget for the Water Fund includes approximately $6.9 million for personnel and other costs related to operating and maintaining the water supply and distribution system. The Water Fund contains annual debt service of approximately $2.0 million in FY 2017/18. This consists of two components, the majority of which is for debt service on the City's thirty-year Water Revenue Bonds, Series 2010, terminating in FY 2040 outside the City's planning window. The remainder of the debt service is the Water Fund's portion of the Certificates of Participation issued in 2001 for purchase of the 505 West Olive Avenue Government Center property. This latter debt service ends in FY 2029/30.

Like many municipalities in the state and the country, Sunnyvale's water storage and distribution systems are over fifty years old and in need of significant rehabilitation. The Environmental Services Department prioritizes projects to address this aging water utility infrastructure. The highest priority is being placed on water pipe replacements. The FY 2017/18 financial plan continues to provide funding for infrastructure projects including main pipe replacements, the refurbishments of water tanks across the City.

Additionally, an emphasis has been placed on the City's recycled water production and distribution system. Funding for this effort crosses both the water utility and the wastewater utility. $2.1 million has been budgeted for Sunnyvale's share of a regional project that includes upgrades to the San Lucar Pump Station and extension of the recycled water system along Wolfe Road to Homestead Road. Sunnyvale entered into a partnership agreement with SCVWD to fund this significant expansion of the recycled water system, which is nearing completion. Recycled water deliveries through the new extension will begin in the coming months.

By City policy, the Water Fund maintains a Contingency Reserve of 25% of operations and a Rate Stabilization Reserve to normalize rates and provide for the effect of economic cycles. This Fund also contains reserves for revenue and debt funded projects to manage the naturally uneven flow of these funds against project expenditures.

Wastewater Management Fund

The Wastewater Management Fund (Wastewater Fund) accounts for revenues and expenses related to the provision of the safe and reliable removal of wastewater from all residences and businesses in Sunnyvale. Storm water operations and infrastructure improvements, non-point source pollution prevention, and other critical public service activities are accounted for in this fund, however, funded through General Fund transfers.

The City owns and operates an extensive system for management of wastewater within City limits and in a small area in the northern portions of Cupertino and San Jose. The system includes approximately 283 miles of sewer pipes, a storm drainage system consisting of 330 miles of storm drainage pipes, and a 29.5 million gallon per day (MGD design capacity) Grade V Water Pollution Control Plant (WPCP). Operations include the transport of sewage to the treatment plant, wastewater treatment, recycled water production, industrial discharge inspection and enforcement, stormwater management, and many other services related to wastewater.

Operations and Capital Expenses

The proposed FY 2017/18 operations expenses in the Wastewater Fund reflect personnel, chemicals, and other costs necessary to maintain the City's sewer system and operate the Water Pollution Control Plan.

The Wastewater Utility recently completed a master planning effort for the Water Pollution Control Plant (WPCP) which consists of a number of projects that will renovate the City's existing wastewater treatment. The Master Plan, which was approved by City Council in August of 2016, will serve as a long-term guide for replacing the WPCP's facilities and operations. The FY 2017/18 Recommended Budget includes planned infrastructure expenditures of approximately $723 million over twenty years, with 91% (or $658 million) allocated to the WPCP Master Plan.

The first phase of the Master Plan is underway with site demolition and grading work which is nearing completion and the construction contract award of the Primary Treatment Facility anticipated in Spring 2017. This includes a new headworks facility, which removes large debris from incoming sewage and pumps the sewage into new primary treatment tanks which, in turn, slow down the wastewater to settle out large solids. The existing primary treatment facilities are structurally deficient, deteriorated, and susceptible to significant failure during a seismic event. The current influent sewage pump station includes gas-powered influent engines that will not meet future emissions limits and need replacement. The new headworks and primary facilities will be located at the previous biosolids drying operation site, adjacent to the current influent pump station. Currently, biosolids drying operations are being performed mechanically by a vendor contract until new biosolids facilities are constructed. Other phase 1 projects include new parking on Caribbean Drive and Bay Trail access enhancements, and rehabilitation of influent pipelines to the treatment facility.

The second phase of the Master Plan includes new buildings for maintenance, administration staff and a laboratory, new secondary treatment, as well as a new thickening and dewatering facility and other piping and draining upgrades. Pre-construction and design activities are underway.

The WPCP Master Plan also includes $46.5 million for Program Management Services and $33 million for Construction Management. The Program Management Consultant (PMC) is responsible for quality assurance related to project design documents and will assist the City in evaluating design consultant recommendations for equipment selection and design features. The PMC provides oversight and coordination for the overall program implementation of the reconstruction program including establishing, maintaining, and tracking project budgets and schedule. The construction management consultant provides additional technical, engineering and project support such as contractibility reviews, construction oversight, inspection services, quality assurance testing, construction schedule and budget management, construction coordination, meeting management and records management to deliver the projects in the program.

The City's wastewater collection systems are also in need of significant rehabilitation due to their age. The FY 2017/18 Recommended Budget includes projects related to sewer and stormwater collection. The wastewater collection system consists of approximately 613 miles of sewer and storm mains, and seven pump or lift stations. The system has five major sewer trunk lines that terminate at the WPCP, where sewage is treated. Major projects include $17 million for sanitary sewer pipe improvements and $10.7 million for storm water infrastructure. Funding of $1.4 million is allocated for immediate repairs and further analysis of the Lawrence Expressway trunk line. Additional funding may be necessary based upon the conclusion of additional analysis on that sewer project.

There are over $45 million in the financial plan for stormwater program costs. The City stormwater system operates under the terms of a Municipal Stormwater National Pollutant Discharge Elimination System (NPDES) permit. These projects would implement trash reduction programs and other maintenance activities in order to meet permit requirements. The funds will provide for outreach and enforcement efforts, and fund retrofit projects that would redirect stormwater to biotreatment areas.

The Wastewater Fund has two inter-fund loans advanced from the General Fund. The first loan was to finance the remodel of the primary facilities of the WPCP, expanding the capacity from 22.5 million gallons per day to 29.5 million gallons per day. The loan was made by the General Fund in FY 1980/81 for a total of $10.7 million. The original term was for 20 years; however, payments were periodically deferred or delayed to help balance cash needs in the Wastewater Fund. Regular payments have been made as scheduled since FY 2004/05. The second loan was made to assist the Wastewater Fund with cash flow issues by providing needed cash to stabilize rates. The loan was advanced in FY 1995/96 for a total of $2.4 million. The term was for 20 years with ongoing payments also periodically deferred until FY 2004/05. These loans were refinanced at lower interest rates for FY 2017/18 with no changes to pay-off schedules in FY 2019/20 and FY 2028/29 respectively.

Approximately $3 million annual debt service payments are largely for the Wastewater Revenue Bonds, issued in 2010 for $35 million, to refund the existing bonds and provide $22.5 million in new funds for capital and infrastructure projects. These new funds have been spent, with some of the proceeds funding the initial efforts for the renovation of the WPCP. Future debt is reflected in the New WPCP Debt Service line item. In April 2017, the City finalized documents obtaining a $127 million loan from the Clean Water State Revolving Fund Loan Program. The payments on this loan are reflected in this line item, with additional payments projected in the future for upcoming project phases. The actual amount and structure of the financing will be determined as the plan is further defined. However, it is important to note that over time, the City will be issuing bonds to fund the WPCP renovation. At its completion, the City will be paying significant annual debt service, anticipated to be approximately $41.4 million each year, accounting for almost half of the Fund's total resource requirements. This level of debt service will require multiple years of rate increases to fund the scheduled projects in the immediate fiscal years. However, mid and long-term rate assumptions are forecast to decline to low single digits, reaching as low as 1%, starting from FY 2026/27, and rise again as additional phases of the reconstruction projects are implemented.

Debt service is also included for the Wastewater Fund's portion of the Certificates of Participation issued in 2001 for purchase of the 505 West Olive Avenue Government Center property.

In order to help the Solid Waste Management Fund with cash flow issues, the Wastewater Fund loaned the Solid Waste Fund $2 million in FY 2011/12. Payment is deferred to FY 2017/18 and then repaid over a seven-year period. This helped the Solid Waste Fund with cash it needed and helps the Wastewater Fund in the future as its cash needs increase to fund the new WPCP. As part of the FY 2017/18 Recommended Budget, the interest rate to this loans has been amended to reflect an average of the assumed pooled investment rate earned by the City over the remaining term of the loan. This loan is anticipated to be repaid in FY 2020/21.

By City policy, the Wastewater Fund maintains a Contingency Reserve of 25% of operations and a Rate Stabilization Reserve to normalize rates and provide for the effect of economic cycles. This Fund also contains a capital and infrastructure reserve at 10% of service fee revenue and a debt service reserve based upon bond covenants of issued or anticipated debt.

Solid Waste Management Fund

The Solid Waste Management Fund (Solid Waste Fund) accounts for the revenues and expenses related to collection, recycling, and disposal of solid waste generated within the City of Sunnyvale. A private company, Bay Counties Waste Services, doing business in Sunnyvale as Specialty Solid Waste & Recycling (Specialty), has an exclusive franchise for collection of solid waste and recyclable materials through 2021, and these contract costs are reflected here. Operation of the Sunnyvale Materials Recovery and Transfer (SMaRT®) Station and disposal of refuse at the Kirby Canyon Landfill are captured in their own fund, but the City's share of these activities is reflected in the Solid Waste Fund.

The City's franchise with Specialty is the largest single expense within the Solid Waste Fund and makes up 43% of the total expenses in the FY 2017/18 Recommended Budget for the solid waste system. The City's payment for the following fiscal year is driven primarily by actual expenditures from the last full fiscal year, adjusted by various indexes as identified in the contract. The projected FY 2017/18 contractor payment is $21 million, which is a 3.7% increase from the current FY 2016/17 contractor payment. This increase is in line with San Francisco Bay Area December 2016 CPI-U rate, driven by a combination of equipment fees related to new food scrap collection service and rising fuel charges.

The Solid Waste Fund has two inter-fund loans from the General Fund. The first loan provided a total of $3.68 million during 1985, 1988 and 1989 for construction of a system to convert methane gas to a marketable form of energy. The second loan, for $10.5 million, was to stabilize solid waste rates between FY 1994/95 and FY 1998/99. Both loans were refinanced this year, generating interest savings of over $4.8 million for the remaining term of the loan, with no changes to payoff schedule.

Additionally, in order to help with cash flow purposes, the Solid Waste Fund reflects a $2 million loan made in FY 2011/12 from the Wastewater Fund. Payment was deferred to FY 2015/16 and then repaid over a seven-year period. This helps the Solid Waste Fund with short term cash flow, and the Wastewater Fund with cash it needs in the future to fund the new WPCP. This was also refinanced, reflecting interest savings of over $161,000 over the repayment period.

Debt service expenditures reflect Sunnyvale's portion of the debt service for the original cost of the SMaRT Station facility and replacement equipment, as well as the estimated portion of debt which will be issued in FY 2021/22 and FY 2022/23 for a new materials recovery system. Debt service also includes the Solid Waste Fund's portion of the Certificates of Participation issued in 2001 for purchase of the 505 West Olive Avenue Government Center property.

The Fund also includes a project to implement the City's Zero Waste policy. The project includes $35 million to fund new practices aimed at meeting the Zero Waste Strategic Plan goals of 75% diversion by 2020. This project does not incorporate the costs necessary to reach the goal of 90% diversion by 2030 due to uncertainty regarding legal and technical barriers to meeting the 90% goal. Methods planned to increase the diversion rate include implementation of new SMaRT equipment, programs related to food scraps and commercial yard trimmings, and the implementation of City-wide multi-family recycling. The additional diversion is expected to generate approximately $889,000 per year in operating savings due to a reduction in landfill expenditures.

In FY 2017/18, a residential split cart program called FoodCycle will be implemented. The new carts will accommodate a smaller garbage volume than the current carts, but there will be an additional separate compartment for food scrap collection. This program is being implemented following a successful pilot of the carts during FY 2016/17. Food scraps make up approximately 30 percent of the garbage collected from Sunnyvale homes and contribute to greenhouse gas production when they decompose in a landfill. Through FoodCycle, residents will separate this valuable resource and place it in the food scraps side of the new cart. The carts will be emptied into a two-compartment truck that keeps food scraps and garbage separate. Then, instead of sending food scraps to the landfill, they will be taken to a local facility to be made into a protein-rich ingredient for pig, fish and chicken feed. Participation in FoodCycle will help Sunnyvale reach its Zero Waste goal of keeping 75% of our waste out of the landfill by 2020.

By fiscal policy, the Solid Waste Fund maintains a Contingency Reserve of 10% of operations. This is less than the 25% required for the Water and Wastewater Funds to reflect the fact that this operation has less City-owned infrastructure at risk for damage or disaster. The Fund also maintains a Rate Stabilization Reserve similar to the other utilities.

Sunnyvale Materials Recovery and Transfer (SMaRT) Station Fund

The Sunnyvale Materials Recovery and Transfer (SMaRT) Station began operations in October 1993. The costs of building, maintaining, and operating the SMaRT Station® are shared by the cities of Sunnyvale, Mountain View and Palo Alto as specified by a Memorandum of Understanding (MOU) among the cities. Operating costs and revenues from the sale of recyclables are charged to or distributed to the cities based on the total tons of solid waste each community brings to the SMaRT Station for materials recovery, transfer, and disposal. At current garbage delivery rates, Sunnyvale is responsible for about half of the SMaRT Station operating expenditures and receives about half of the revenues earned by the cities from recyclables removed from the garbage. The capital cost of the SMaRT Station was financed by the sale of revenue bonds by Sunnyvale. Those bonds were refinanced in FY 2014/15 to take advantage of the lower interest rates available, generating a savings to the City's debt service obligations of approximately $956,000. The debt service on the bonds is shared among the three cities as specified in the MOU. The SMaRT Station MOU expires in FY 2021/22.

The SMaRT Station Operations Fund was established to account for operations at the facility. It receives revenue from charges to the cities of Sunnyvale (Solid Waste Fund), Mountain View, and Palo Alto, and from the sale of recyclables. Major operating cost components include the SMaRT Station operator contract and disposal fees and taxes collected by the Kirby Canyon Landfill. The Fund is managed so that annual revenues and expenditures are in balance and that no fund balance is carried forward to the next year.

The SMaRT Station is operated by a private company under contract with the City. A Request for Proposals (RFP) process was completed in 2014 for the operation of the SMaRT Station. The City Council awarded the contract to Bay Counties Waste Services on June 24, 2014. Bay Counties Waste Services held the previous agreement as well, and began operations on January 1, 2008. The FY 2017/18 Recommended Budget incorporates SMaRT Station expenses based on these contractual terms.

The SMaRT Station Replacement Fund provides for the replacement of City-owned SMaRT Station equipment. The three participating cities contribute to these efforts and to payment of debt service based on fixed percentages established by the SMaRT Station MOU. Debt service reflects payment through FY 2017/18 for debt issued for the original cost of the facility, and through FY 2020/21 for replacement of materials recovery facility equipment.

Staff anticipates that while most of the facility's equipment and the overall SMaRT Station can be maintained in good working order through the term of the MOU, there will come a point when the facility and equipment will need replacement or rehabilitation. In order to allow for the cost impact of this eventuality, funding is projected for a new materials recovery system and any other improvements needed to the SMaRT Station Facility in FY 2021/22, with annual debt service of $2 million. Funding is provided for planning and inter-jurisdictional coordination in FY 2017/18 through FY 2019/20, with design and construction following in FY 2020/21 through FY 2022/23. This project could replace the SMaRT station, or it could implement some other solution for the management of solid waste and recyclables in the City. The recommended budget is based on the initial construction cost of the SMaRT Station. It is anticipated that the cost for the ultimate replacement will be refined during the planning phase of the project.

Development Enterprise Fund

This fund was established with the FY 2014/15 Budget in order to better align development-related revenues and expenses. Prior to the creation of this fund, development-related activities and associated revenues were included in the General Fund across a range of operating activities, focused primarily within the Building and Planning divisions of the Community Development Department.

Development-related revenues include the major fees for permits and licenses that the City collects, as well as from Plan Check Fees and Engineering Fees. These revenue sources tend to increase and decrease with development cycles, and over the past eight years (five in the General Fund and three in the Development Enterprise Fund), the City has seen significant fluctuations in the amount of development-related revenue received. When the recession hit in FY 2008/09, activity slowed considerably with revenues declining to $5.2 million in FY 2009/10. The rebound, however, began the following year and continued to accelerate through FY 2015/16 which ended the year with $15.8 million in revenue. FY 2016/17 total development-related revenues are estimated to end the year at $14.3 million, and staff is projecting that the anticipated level of development activity will moderate beginning in FY 2017/18, with planned revenues of $11.7 million and $11.1 million for FY 2017/18 and FY 2018/19, respectively. Revenues from FY 2019/20 forward are based on the historical average of $10.5 million. It should be noted that this historical average has increased significantly over recent years, with six consecutive years of record high development activity.

Operating expenditures support the administration and regulation of development related activity in the City. This includes activities and services across multiple departments. Building Safety and Planning activities in the Community Development Department comprise approximately 60% of the total operating costs in this fund. Operations are also budgeted for fire prevention and hazardous material service program activities in the Department of Public Safety, development-related transportation and traffic services and land development-engineering services in the Department of Public Works; as well as very specific operating activities in the Environmental Services Department, Department of Library and Community Services, and the Office of the City Attorney that relate to development in the City. Additionally, the operation budget includes resources for limited term staffing to address peak workloads. Staffing is planned through FY 2018/19 with the need to extend being regularly reviewed.

The Projects in the Development Enterprise Fund are for temporary staffing for the five divisions (Planning, Building, Traffic & Transportation, Fire Prevention, and Engineering) to address the peak demand which these divisions continue to experience. Additionally, $50,000 is programmed in FY 2016/17 to repair the City's aging One Stop Permit Center. Program In-Lieu

Charges reflect indirect costs charged to the Development Enterprise Fund for program overhead expenses. The Transfer to the General Services Fund provides funding for the project to replace the City's Permitting System.

The direct and indirect costs in the Development Enterprise Fund exceed the historical average level of development revenues, which represents a structural challenge for the Fund. The operating expenses are predominantly fixed. However, some of the costs are variable and will fluctuate with the level of development activity. Fund balance will be drawn down, as intended, in years where the development revenue declines to the historical average or lower. Given that this fund will enable visibility toward the actual revenue and expenses over time, fee levels will need to be reviewed and adjusted on an ongoing basis to ensure full cost recovery over the long term and fiscal stability for the fund.

Golf and Tennis Operations Fund

Golf and tennis operations have been operating as a stand-alone enterprise fund since FY 2012/13, following the dissolution of the Community Recreation Fund, with all activities intended to be self-supporting. However, the golf operations of the Golf and Tennis Enterprise Fund has struggled to operate as a true enterprise fund due to a number of reasons including the overall decline in popularity in golf, the closure of the golf course restaurants while the City transitioned to new operators, and the quality of the golf buildings. This has affected the number of rounds played at the golf courses, which have continued to decline, and additional General Fund transfers were made or approved during the last two and current fiscal years in the amount of $1.44 million to account for the loss in revenue (FY 2014/15: $140,000; FY 2015/16: $450,000; FY 2016/17: $850,000). This has kept the Golf and Tennis Operations Fund in a positive cash position, allow for the establishment of new concessions, explore creative marketing strategies to attract new patrons and maximize revenue opportunities.

Golf and tennis operations continue to face challenges over the twenty-year financial plan. These challenges include rising costs including water and retirement costs, continued deferred capital maintenance, and the continued decline in the interest in golf nationally. Revenues are projected to grow at a modest rate of 2% per year. Cost reduction efforts will continue through operational efficiencies, including water conservation and a restructure plan that will reduce labor costs through personnel attrition. Although positive strides in reducing operating costs are being made, expenses are projected to grow faster than 2% per year. An additional concern over the longer term is that existing capital improvement projects at the golf courses will only be funded by Park Dedication Fees, which is scheduled to decrease substantially after FY 2023/24, with only minor improvements thereafter, until FY 2034/35, which was directed by Council in RTC 11-082. After this, golf and tennis revenues are expected to fund any new capital or infrastructure projects.

The FY 2017/18 Recommended Budget includes General Fund contribution averaging $1.4 million annually until FY 2023/24 when substantial capital contributions are planned to end, in order to maintain the fund in a positive position, with fiscal strategies required beyond that point to fund operations and deferred capital infrastructure maintenance. As reported to Council at the April 18, 2017 Meeting, Staff plans to evaluate options regarding golf course operations during the next fiscal year and will bring forward recommendations for Council consideration.