



ADMINISTRATIVE SERVICES DEPARTMENT

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CITY COUNCIL STAFF REPORT

Meeting: March 7, 2023

Subject

Consider the Mid-Year Financial Report for Fiscal Year 2022-23, amending the Unrepresented Employees' Compensation Program, and approving a new job classification

Recommended Action

1. Receive the City Manager's Mid-Year Financial Report for Fiscal Year 2022-23;
2. Adopt Resolution No. 23-XXX amending the Unrepresented Employees' Compensation Program and Classification Plan; and
3. Approve a new Special Project Executive job classification and separate the Assistant Director of Community Development and Building Official job classifications.

Reasons for Recommendation

Background

On June 9, 2022, the City Council adopted the Fiscal Year (FY) 2022-23 Budget, a \$130,587,325 spending plan funded by \$130,244,157 in revenue and \$343,168 in fund balance. The FY 2022-23 Adopted Budget reflected a \$5.1 million increase from the FY 2022-23 Proposed Budget, mainly due to operating changes, the City Work Program, and the Capital Improvement Program.

As described in the City Manager's First Quarter Financial Report presented to the City Council on November 15, 2022, the budget was revised to account for encumbrances and carryover appropriations.¹ As part of the FY 2021-22 year-end close, additional funds were carried forward from FY 2021-22 to FY 2022-23 due to encumbrances of \$13,280,075

¹ Encumbrances are outstanding commitments related to unfilled purchase orders or unfilled contracts that are rolled over to the following fiscal year until those obligations are fulfilled or terminated. Carryover appropriations are unencumbered funds for unfinished projects carried over to the following fiscal year to be spent for the same purpose for which they were approved.

and carryover appropriations of \$65,916,968. The largest encumbrances were for capital projects (\$7.4 million) and The Rise (formerly known as Vallco Town Center) (\$2.3 million), while the largest carryovers were for capital projects (\$34.3 million) and The Rise (\$19.7 million).

The City Council approved \$5.1 million in additional appropriations during the first two quarters of FY 2022-23. This includes \$2.4 million for negotiated amendments to the City's employee compensation programs and \$1.8 million for first quarter budget adjustments. Among the first quarter budget adjustments, \$669,000 was allocated for vehicle and equipment replacement.

As a result of these budget adjustments, encumbrances, and carryovers, the amended budget as of December 31, 2022, totaled \$214,901,056. The budget adjustments are summarized in the table below.

Mid-Year Financial Report Summary of Budget Adjustments by Fund

Fund	FY 2022-23			Adjustments	FY 2022-23 Amended
	Adopted Budget	Carryovers	Encumbrances	Approved in 1st and 2nd Quarters	Budget as of December 31, 2022
General	95,167,779	23,785,988	5,041,683	3,223,350	127,218,800
Special Revenue	11,244,109	18,140,319	3,965,049	180,458	33,529,935
Debt Service	2,675,800	-	-	-	2,675,800
Capital Projects	3,633,600	22,285,752	3,688,943	650,000	30,258,295
Enterprise	9,003,331	1,154,594	118,032	140,426	10,416,383
Internal Service	8,862,706	550,315	466,368	922,454	10,801,843
Total All Funds	\$ 130,587,325	\$ 65,916,968	\$ 13,280,075	\$ 5,116,688	\$ 214,901,056

For detailed descriptions of the budget adjustments, please refer to Attachment C.

Discussion

The Mid-Year Financial Report, reported as of December 31, 2022, is a critical tool for the City to evaluate its current revenue outlook and make necessary adjustments to the budget in response to changing spending priorities. It provides an overview of the City's budget status, including its revenue outlook, expenditure patterns, and other key financial metrics. Additionally, the report helps the City ensure that it stays on track toward achieving its goals and objectives by providing valuable insights into the City's financial performance. By using this information to make informed decisions and take appropriate actions, the City can maintain its fiscal sustainability.

FY 2022-23 Amended			
Fund	Budget as of December 31, 2022	Requested Mid-Year Adjustments	Year-End Projections
General	127,218,800	-	127,218,800
Special Revenue	33,529,935	-	33,529,935
Debt Service	2,675,800	-	2,675,800
Capital Projects	30,258,295	-	30,258,295
Enterprise	10,416,383	-	10,416,383
Internal Service	10,801,843	-	10,801,843
Total All Funds	\$ 214,901,056	\$ -	\$ 214,901,056

While no budget adjustments are being requested at FY 2022-23 mid-year, the City will continue to closely monitor revenue and expenditure trends in the coming months. This ongoing analysis is critical to ensuring that the City's budget remains responsive to the needs of its constituents and is aligned with the City's goals and objectives. By proactively managing its budget, the City can remain fiscally responsible and provide essential services and programs to its community.

General Fund

4-Year Comparison of Revenues, Expenditures, and Changes to Fund Balance (\$ in millions)



The General Fund's historical financial data indicates that amended expenditures have often exceeded amended revenues, leading to a decrease in fund balance. This decrease in fund balance is not due to a structural deficit; rather, the City transferred excess fund balance from the General Fund to the Capital Reserve as part of its Fund Balance Policy. The City's encumbrance and budget carryover process has resulted in increases to fund balance at the end of most fiscal years.

By continuing to monitor and manage its financial resources effectively, the City can ensure that it maintains a healthy fund balance in the General Fund.

Revenue

General Fund revenue is tracking at \$13.4 million, or 23%, lower than the same time last year due to changes in the City's revenue sources as shown in the following table.

**Comparison of FY 2021-22 and FY 2022-23 Mid-Year Revenues
General Fund**

Revenue Category	Mid-Year 2022	Mid-Year 2023	Variance (\$)	Variance (%)
05 - Sales tax	25,058,489	18,112,541	(6,945,948)	-28%
10 - Property tax	8,331,800	8,810,200	478,400	6%
15 - Transient occupancy	1,336,855	2,818,190	1,481,335	111%
20 - Utility tax	1,276,177	1,633,462	357,286	28%
25 - Franchise fees	684,498	758,501	74,002	11%
30 - Other taxes	1,056,602	604,611	(451,991)	-43%
35 - Licenses and permits	2,188,177	2,151,138	(37,039)	-2%
40 - Use of money and property	925,576	1,147,839	222,263	24%
45 - Intergovernmental revenue	3,433,481	1,183,361	(2,250,120)	-66%
50 - Charges for services	6,905,845	5,317,399	(1,588,446)	-23%
55 - Fines and forfeitures	105,865	116,311	10,446	10%
60 - Miscellaneous	986,591	1,112,371	125,779	13%
65 - Transfers in	4,862,387	61,140	(4,801,247)	-99%
70 - Other financing sources	52,224	-	(52,224)	-100%
Grand Total	\$ 57,204,568	\$ 43,827,063	\$ (13,377,505)	-23%

Sales Tax revenue as of mid-year was \$18.1 million, which is a 28% decrease from the previous year. This decline was primarily due to the timing of payments from the California Department of Tax and Fee Administration (CDTFA), which are received two months in arrears. To provide some context, sales tax revenues for FY 2021-22 correspond to July to December 2021, while for FY 2022-23, they correspond to July to November 2022.

During the start of FY 2021-22, new taxes from marketplace facilitators and increased online sales due to pandemic-related lockdowns resulted in a larger county pool allocation. As the economy began to recover, sales tax revenues from consumer goods, restaurants and hotels, and fuel and service stations rose for the remainder of the fiscal year.

However, the first half of FY 2022-23 indicates lower sales tax revenues than during the pandemic period, and staff anticipates a continued downward trend. According to a recent Sales Tax Update for July to September 2022 by HdL, the City's sales tax consultant, the casual dining sector contributed to double-digit increases in restaurant revenues compared to the same period last year. Despite increased menu prices, residents and visitors continued to enjoy dining out. The cost of crude oil remained high, and with more drivers on the road, service station receipts increased by 39%. Revenues also remained high in the autos-transportation group. However, these increases only slightly mitigated the declines in the City's business-to-business industry group as online sales fell from recent historic highs. As a result, the City's share of the countywide use tax pool also decreased, contributing to the reduction in sales tax for the period.

Looking ahead, it is expected that the City's restaurants and hotels, fuel and service stations, and automotive industry groups will continue to experience growth, albeit only slightly mitigating the anticipated declines in the City's business-to-business and County pool share allocation as online sales fall from recent historic highs. Furthermore, the future growth rate for sales tax revenue is expected to slow due to factors such as rising inflation, high mortgage rates, and the Federal Reserve's tightening monetary policy. These factors are expected to weaken consumer sentiment and slower growth into 2023.

Property Tax revenue increased by \$478,400, or 6%, compared to last year. In FY 2022-23, the City's property tax roll grew \$2.08 billion, or 7.2%. This growth was \$1.09 billion more than in FY 2021-22 when the property tax roll grew by \$986 million, or 3.5%. Residential use values increased \$1.26 billion, or 7.2%, representing 60% of all growth experienced in the City. Commercial properties increased by \$1.07 billion, or 13.1%, due to the addition of assets by Campus Holdings at the Apple site. Industrial use grew \$280 million, or 24.7%, due to Apple parcel growth, some of which showed the transfer of assets from the unsecured to the secured roll.² Unsecured assets decreased by \$655 million, or 38%.

The growth in home sales was strong in 2021, leading to an increase in median sale prices reflected in the 2022-23 tax rolls. Although many cities saw median price increases, new concerns over rising interest rates and inflation are leading to a decrease in home sales. The median sale price for Cupertino detached single-family homes in January through August 2022 was \$2,975,000, an increase of \$165,000 or 5.9% from the same period in 2021. The annual consumer price index (CPI) applied per Proposition 13 was 2% this year after a 1.036% increase in the prior year.

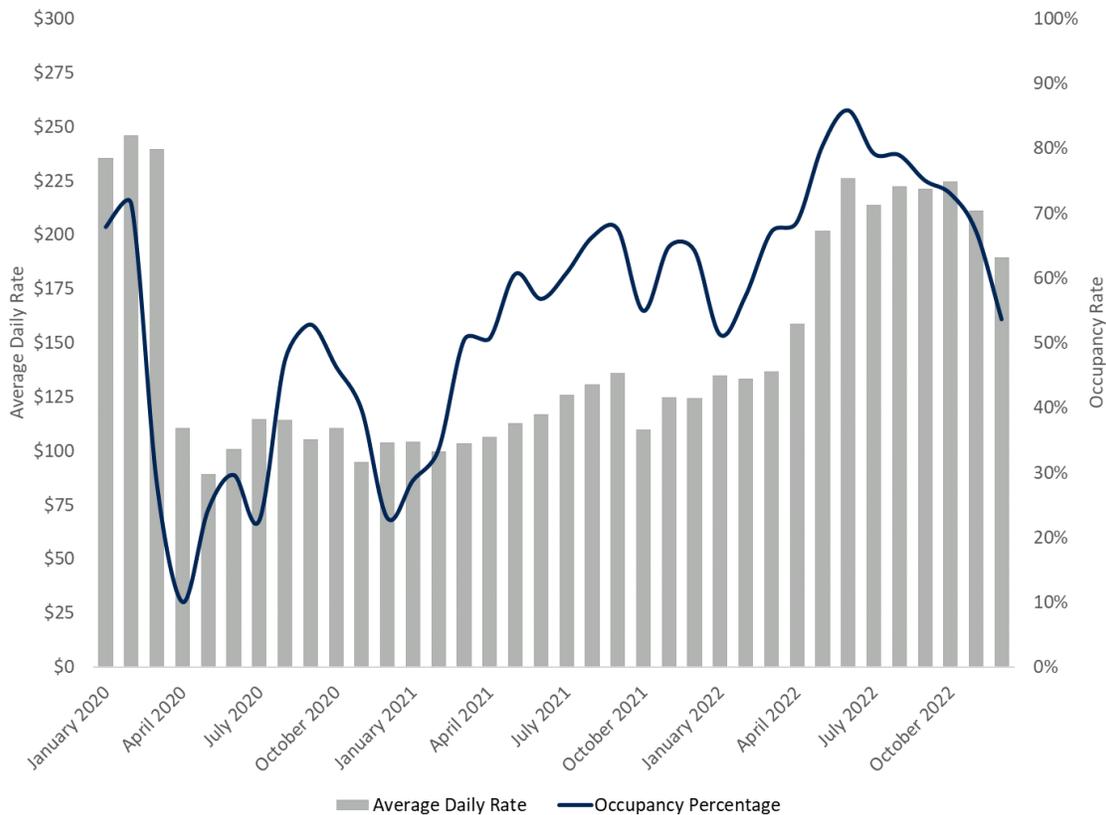
² Secured property generally includes buildings and land, whereas unsecured property generally includes properties that are portable, such as boats, aircraft, business equipment, and other possessory interests.

The City’s property tax base remains strong and HdL, the City’s property tax consultant, is currently projecting property taxes over the next five years as shown in the table below.

FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
31,223,141	32,324,317	33,606,651	35,024,886	36,531,087

Transient Occupancy Tax (TOT) revenue increased by \$1.5 million, or 111%, compared to the previous year due to increased travel, but it is still significantly lower than pre-pandemic levels. This significant increase is due to the relaxation of pandemic-based travel restrictions that previously reduced travel. With increased travel and employees returning to work onsite, the City's TOT revenues have been directly and significantly affected. The average daily rates and occupancy rates for hotels are now closer to pre-pandemic levels, as shown in the table below.

**Average Daily Rates and Occupancy Rates by Month
Hotels in Cupertino**



Although staff anticipates a recovery in FY 2023-24, the City's TOT revenues may continue to be affected in the long term due to telework policies. Staff will continue to monitor economic regulations and other factors and report back on their impact on TOT revenues as part of the quarterly financial reports.

Utility Tax increased by approximately \$357,000, or 28%, over the previous mid-year period due to the timing of Utility User Tax (UUT) payments recorded.

Franchise Fees increased by approximately \$74,000, or 11%, primarily due to increased Recology franchise fees collected.

Other Taxes decreased by approximately \$452,000, or 43% primarily due to decreased property transfer taxes.

Licenses and Permits decreased by approximately \$37,000, or 2%, which is a nominal change.

Use of Money and Property increased by approximately \$222,000, or 24%, due to increased interest earnings from the City's investment portfolio.

Intergovernmental Revenue decreased by \$2.3 million, or 66%, over the same period last year due to American Rescue Plan Act (ARPA) revenue recognized in FY 2021-22.

Charges for Services decreased by \$1.6 million, or 23%, driven mainly by decreases in cost allocation charges and general service fees.

Fines and Forfeitures increased by \$10,400, or 10%, primarily due to increased citations administered over the prior year.

Miscellaneous Revenue increased by approximately \$126,000, or 13%, primarily due to two factors: an increase in an Apple donation agreement for sheriff services and community amenity payments for the Cupertino Village and De Anza Hotel.

Transfers In decreased by \$4.8 million, or 99%, due to the one-time transfer of funds to General Fund departments as part of the American Rescue Plan Act funding strategy in FY 2021-22.

Other Financing Sources remain budgeted at zero dollars due to the timing of refundable deposit revenues received.

Expenditures

Overall expenditures in the General Fund are down \$428,000, or 1%, when compared to the same time last year. The following table shows the differences between General Fund expenditures as of the mid-year in the current fiscal year and the prior fiscal year:

**Comparison of FY 2021-22 and FY 2022-23 Mid-Year Expenditures
General Fund**

Expenditure Category	Mid-Year 2022	Mid-Year 2023	Variance (\$)	Variance (%)
05 - Employee compensation	10,018,381	11,688,616	1,670,234	17%
10 - Employee benefits	4,701,573	5,368,895	667,321	14%
15 - Materials	1,822,909	2,487,430	664,521	36%
20 - Contract services	10,593,497	11,896,017	1,302,520	12%
25 - Cost allocation	5,974,031	5,192,981	(781,051)	-13%
30 - Capital outlays	32,700	7,750	(24,950)	-76%
31 - Special projects	953,489	1,289,725	336,236	35%
35 - Contingencies	2,440	277	(2,163)	-89%
45 - Transfer out	16,099,371	11,996,300	(4,103,071)	-25%
50 - Other financing uses	336,005	178,047	(157,958)	-47%
Grand Total	\$ 50,534,396	\$ 50,106,038	\$ (428,359)	-1%

Salary and Benefits have increased by approximately \$2.3 million, or 16%. This increase in compensation is primarily due to negotiated cost-of-living adjustments approved by the City Council on August 16, 2022. In addition, the FY 2022-23 Adopted Budget included 14 new full-time benefitted positions (FTE), offset by vacancy savings through attrition. Benefit increases were primarily driven by retirement and workers' compensation costs.

Materials costs have increased by approximately \$667,000, or 36%, primarily due to increases in Public Works materials costs, particularly water and electricity costs.

Contract Services have increased by approximately \$1.3 million, or 12%, primarily driven by the rise in the City's law enforcement contract with the Santa Clara County Sheriff's Office.

Cost Allocation decreased by approximately \$781,000, or 13%, primarily due to decreased Innovation & Technology and Human Resources Cost Allocation Plan (CAP) charges.³

Capital Outlay costs decreased by approximately \$25,000, or 76% mainly due to decreased capitalizable facilities costs.

Special Projects increased by approximately \$336,000, or 35%, due to fluctuations in one-time expenditures.

³ The cost allocation plan (CAP) allocates indirect and overhead costs to the departments that benefit from them. Costs incurred by central service providers (e.g., City Manager's Office, City Attorney's Office, Finance, Human Resources, Facilities, etc.) are charged to the departments that benefit from the services (e.g., Parks & Recreation). The purpose of the CAP is to help the City to determine the true cost of providing services.

Contingencies were higher last year due to the purchase of a sound meter for code enforcement.

Transfers Out decreased by approximately \$4.1 million, or 25%, due to the one-time transfer of funds to General Fund departments as part of the American Rescue Plan Act funding strategy in FY 2021-22.

Other Financing Uses decreased by approximately \$158,000, or 47%, due to refundable deposit on-call contracts for the Community Development Department.

Special Revenue Funds

Revenue

Special Revenue Funds revenue is tracking at \$16.1 million, or 73%, lower than the same time last year primarily due to a one-time park dedication fee in FY 2021-22 and decreased transfers from the General Fund.

Comparison of FY 2021-22 and FY 2022-23 Special Revenue Funds Mid-Year Revenues

Revenue Category	Mid-Year 2022	Mid-Year 2023	Variance (\$)	Variance (%)
30 - Other taxes	9,367,692	740,204	(8,627,488)	-92%
40 - Use of money and property	274,002	286,041	12,039	4%
45 - Intergovernmental revenue	1,619,102	1,738,682	119,580	7%
50 - Charges for services	339,937	118,121	(221,816)	-65%
55 - Fines and forfeitures	34,133	-	(34,133)	-100%
60 - Miscellaneous	2,167	1,429	(738)	-34%
65 - Transfers in	10,322,824	3,025,000	(7,297,824)	-71%
Grand Total	\$ 21,959,856	\$ 5,909,476	\$ (16,050,380)	-73%

Other Taxes decreased by approximately \$8.6 million, or 92%, due to decreased park dedication fees. In FY 2021-22, the City received a one-time park dedication fee due to a development agreement for Westport, which contributed to the Other Taxes revenue that year.

Use of Money and Property increased by approximately \$12,000, or 4%, due to increased interest earnings from the City's investment portfolio.

Intergovernmental Revenue increased by approximately \$120,000, or 7%, due to a Highway Safety Improvement Program (HSIP) grant for the Homestead Road/De Anza Traffic Signal Modification project.

Charges for services decreased by approximately \$222,000, or 65%, primarily due to decreased engineering fees. In FY 2021-22, the City received a one-time traffic impact fee due to a development agreement for Westport, which contributed to the Charges for Services revenue that year.

Fines and forfeitures were higher last year due to revenues that were incorrectly recorded in the Environmental Management Clean Creek Storm Drain Fund and reclassified to the General Fund later in FY 2021-22.

Transfers In decreased by approximately \$7.3 million, or 71%, due to decreased transfers to the Transportation Fund and capital projects.

Interfund transfers are the movement of cash between one or more funds. As part of the Adopted Budget process, transfers from the General Fund to other City funds serve as operating subsidies to ensure that each fund has a positive fund balance at the end of the fiscal year. Additionally, when Capital Improvement Program (CIP) projects are authorized by City Council, a transfer from the Capital Reserve to the appropriate fund is necessary to record the costs and activities of the project. For more information on the City’s operating and capital transfers, refer to pages 115-118, and 578 of the FY 2022-23 Adopted Budget.

Expenditures

Special Revenue Funds expenditures are tracking at \$3.2 million, or 59%, higher than the same time last year due primarily to increases in capital outlays.

**Comparison of FY 2021-22 and FY 2022-23 Mid-Year Expenditures
Special Revenue Funds**

Expenditure Category	Mid-Year 2022	Mid-Year 2023	Variance (\$)	Variance (%)
05 - Employee compensation	854,883	993,200	138,316	16%
10 - Employee benefits	429,852	467,876	38,024	9%
15 - Materials	281,470	288,344	6,874	2%
20 - Contract services	199,265	456,400	257,136	129%
25 - Cost allocation	662,973	595,784	(67,189)	-10%
30 - Capital outlays	1,556,259	3,639,886	2,083,627	134%
31 - Special projects	1,057,657	1,617,220	559,563	53%
45 - Transfer out	381,000	561,140	180,140	47%
Grand Total	\$ 5,423,359	\$ 8,619,849	\$ 3,196,490	59%

Salary and Benefits increased by approximately \$0.2 million, or 14%, primarily due to negotiated cost-of-living adjustments approved by the City Council on August 16, 2022.

Materials costs are relatively consistent with the previous fiscal year.

Contract Services increased by approximately \$0.3 million, or 129%, primarily due to a street pavement maintenance project.

Cost Allocation decreased by approximately \$67,000, or 10%, primarily due to decreased Innovation & Technology and City Council CAP charges.

Capital Outlays increased by approximately \$2.1 million, or 134%, due to the Orange Avenue Sidewalk Improvements and Memorial Park Pond Repurposing projects.

Special Projects increased by approximately \$0.6 million, or 53%, due to the timing of the annual asphalt project. The annual asphalt project is a maintenance project carried out every year. It is budgeted in a special project account for the purpose of effective tracking and management.

Transfers Out increased by \$0.2 million, or 47%, primarily due to a transfer from the Park Dedication Fund to the Capital Improvement Fund for the Memorial Park Specific Plan.

Debt Service Funds

Revenue

Debt Service Funds revenue is similar to last year.

Comparison of FY 2021-22 and FY 2022-23 Mid-Year Revenues Debt Service Funds

Revenue Category	Mid-Year 2022	Mid-Year 2023	Variance (\$)	Variance (%)
65 - Transfers in	2,621,000	2,675,800	54,800	2%
Grand Total	\$ 2,621,000	\$ 2,675,800	\$ 54,800	2%

Expenditures

Debt Service Funds expenditures are similar to last year.

Comparison of FY 2021-22 and FY 2022-23 Mid-Year Expenditures Debt Service Funds

Expenditure Category	Mid-Year 2022	Mid-Year 2023	Variance (\$)	Variance (%)
20 - Contract services	1,500	1,500	-	0%
40 - Debt services	398,000	360,400	(37,600)	-9%
Grand Total	\$ 399,500	\$ 361,900	\$ (37,600)	-9%

Capital Projects Funds

Revenue

Capital Projects Funds revenue is lower than last year due to fewer transfers to fund capital projects.

Comparison of FY 2021-22 and FY 2022-23 Mid-Year Revenues Capital Projects Funds

Revenue Category	Mid-Year 2022	Mid-Year 2023	Variance (\$)	Variance (%)
45 - Intergovernmental revenue	70,111	-	(70,111)	-100%
60 - Miscellaneous	-	56,522	56,522	N/A
65 - Transfers in	7,557,048	3,000,000	(4,557,048)	-60%
Grand Total	\$ 7,627,159	\$ 3,056,522	\$ (4,570,637)	-60%

Expenditures

Capital Projects Funds expenditures are lower than last year due to fewer transfers to fund capital projects and reduced expenditures for capital projects.

Comparison of FY 2021-22 and FY 2022-23 Mid-Year Expenditures Capital Projects Funds

Expenditure Category	Mid-Year 2022	Mid-Year 2023	Variance (\$)	Variance (%)
05 - Employee compensation	-	3,250	3,250	N/A
10 - Employee benefits	-	1,498	1,498	N/A
20 - Contract services	17,500	144,788	127,288	727%
30 - Capital outlays	3,388,292	1,769,880	(1,618,412)	-48%
45 - Transfer out	11,422,048	23,600	(11,398,448)	-100%
Grand Total	\$ 14,827,840	\$ 1,943,016	\$ (12,884,824)	-87%

Enterprise Funds

Revenue

Enterprise Funds revenue is tracking at \$0.3 million, or 7%, higher than the same time last year due primarily to increased charges for services.

Comparison of FY 2021-22 and FY 2022-23 Mid-Year Revenues Enterprise Funds

Revenue Category	Mid-Year 2022	Mid-Year 2023	Variance (\$)	Variance (%)
40 - Use of money and property	324,024	353,890	29,866	9%
45 - Intergovernmental revenue	-	83,693	83,693	N/A
50 - Charges for services	2,506,676	3,151,136	644,460	26%
60 - Miscellaneous	-	-	-	N/A
65 - Transfers in	886,801	399,600	(487,201)	-55%
Grand Total	\$ 3,717,501	\$ 3,988,319	\$ 270,818	7%

Use of Money and Property increased by \$30,000, or 9%, due to increased interest earnings from the City's investment portfolio.

Intergovernmental Revenue is up \$84,000 due to a grant to assist with meeting the requirements of Senate Bill (SB) 1383, the State's Short-Lived Climate Pollutant Reduction Strategy.

Charges for services increased by approximately \$0.6 million, or 26%, primarily due to increased revenues from Parks and Recreation programs and classes. Programs and classes returned as pandemic restrictions eased.

Transfers In are down approximately \$0.5 million, or 55%, due to decreased transfers from the General Fund.

Expenditures

Overall expenditures are tracking at \$0.4 million, or 12%, higher than the same time last year due primarily to increases in compensation and contract services.

Comparison of FY 2021-22 and FY 2022-23 Mid-Year Expenditures
Enterprise Funds

Expenditure Category	Mid-Year 2022	Mid-Year 2023	Variance (\$)	Variance (%)
05 - Employee compensation	606,966	832,565	225,599	37%
10 - Employee benefits	242,296	306,790	64,494	27%
15 - Materials	131,989	187,673	55,683	42%
20 - Contract services	1,949,911	2,277,057	327,146	17%
25 - Cost allocation	517,054	394,970	(122,084)	-24%
30 - Capital outlays	165,219	342	(164,877)	-100%
31 - Special projects	60,226	121,846	61,620	102%
50 - Other financing uses	54,516	40,845	(13,671)	-25%
Grand Total	\$ 3,728,177	\$ 4,162,086	\$ 433,909	12%

Salary and Benefits increased by approximately \$0.3 million, or 34%, primarily due to negotiated cost-of-living adjustments approved by the City Council on August 16, 2022.

Materials increased by approximately \$56,000, or 42%, primarily due to increased expenditures for electricity, CalRecycle, and general supplies.

Contract Services increased by approximately \$0.3 million, or 17%, primarily due to increased programs and classes provided by Parks and Recreation. Programs and classes returned as pandemic restrictions eased.

Cost Allocation decreased by approximately \$0.1 million, or 24%, primarily due to decreased Finance and Human Resources CAP charges.

Capital Outlays decreased by approximately \$0.2 million, or 100%, due to projects that differ in scope and timing from year to year.

Special Projects increased by approximately \$62,000, or 102%, due to projects that differ in scope and timing from year to year.

Internal Service Funds

Revenue

Internal Service Funds revenue is tracking at \$1.5 million, or 35%, higher than the same time last year due to an increase in transfers in.

Comparison of FY 2021-22 and FY 2022-23 Mid-Year Revenues
Internal Service Funds

Revenue Category	Mid-Year 2022	Mid-Year 2023	Variance (\$)	Variance (%)
40 - Use of money and property	48,610	64,795	16,185	33%
50 - Charges for services	2,397,464	2,089,981	(307,483)	-13%
65 - Transfers in	1,652,359	3,419,500	1,767,141	107%
70 - Other financing sources	188,157	218,671	30,514	16%
Grand Total	\$ 4,286,590	\$ 5,792,947	\$ 1,506,357	35%

Use of Money and Property increased by \$16,000, or 33%, due to increased interest earnings from the City's investment portfolio.

Charges for Services decreased by \$0.3 million, or 13%, due to decreased cost allocation charges. Cost allocation decreased due to lower cost allocation expenses that need to be allocated.

Transfers In increased by approximately \$1.8 million, or 107%, due to increased transfers from the General Fund to the Innovation & Technology and Compensated Absences Fund.

Other Financing Sources increased by approximately \$31,000 due to higher depreciation expenses.

Expenditures

Internal Service Funds expenditures are tracking at \$53,000, or 1%, lower than the same time last year due primarily to decreases in materials and special projects.

Comparison of FY 2021-22 and FY 2022-23 Mid-Year Expenditures

Internal Service Funds

Expenditure Category	Mid-Year 2022	Mid-Year 2023	Variance (\$)	Variance (%)
05 - Employee compensation	886,025	967,811	81,786	9%
10 - Employee benefits	1,047,639	1,094,145	46,506	4%
15 - Materials	512,493	406,767	(105,726)	-21%
20 - Contract services	404,806	448,721	43,915	11%
25 - Cost allocation	30,409	31,021	613	2%
31 - Special projects	502,529	389,419	(113,110)	-23%
35 - Contingencies	-	-	-	N/A
50 - Other financing uses	232,635	225,443	(7,192)	-3%
Grand Total	\$ 3,616,536	\$ 3,563,327	\$ (53,209)	-1%

Salary and Benefits increased by \$0.1 million, or 7%, primarily due to negotiated cost-of-living adjustments approved by the City Council on August 16, 2022.

Materials decreased by \$106,000, or 21%, mainly due to decreases in Innovation & Technology software expenditures.

Contract Services are up approximately \$44,000, or 11%, largely due to increases in workers' compensation insurance premiums.

Special Projects decreased by approximately \$113,000, or 23%, due to the timing of expenditures for vehicle and equipment replacement.

Budget Adjustment Requests

The City's departments regularly evaluate their budget expenditures throughout the fiscal year to ensure they stay within their budget appropriations. In case of any variance, they can request budget adjustments as necessary as part of the quarterly reports. However, as of mid-year, departments are on track to stay within their budget appropriations, and therefore, they are not requesting any budget adjustments.

Fund Balance

The City's General Fund ended FY 2020-21 with \$96.9 million in total fund balance. Staff anticipates the General Fund will end FY 2021-22 with \$110.0 million in fund balance, an increase of \$13.1 million from the prior year, due to revenues being higher than expenditures. At first quarter, staff projected the General Fund to end FY 2022-23 with \$121.6 million in fund balance. As of mid-year, the General Fund is expected to end FY 2022-23 with \$121.5 million in fund balance, with \$63.1 million in unassigned fund balance.

General Fund Classification of Fund Balance

Classification	Year End		Adopted Budget 2022-23	1st Quarter Year		Mid-Year Year	
	Actual 2020-21	Projection 2021-22		End Projection 2022-23	End Projection 2022-23		
Non Spendable	\$ 0.4	\$ 0.4	\$ 0.4	\$ 0.4	\$ 0.4	\$ 0.4	
Restricted	19.9	18.8	24.2	18.8	18.8	18.8	
Committed	19.1	34.1	34.1	34.1	34.1	34.1	
Assigned	4.9	5.0	3.0	5.0	5.0	5.0	
Unassigned	52.4	51.6	48.3	63.2	63.2	63.1	
TOTAL FUND BALANCE	\$ 96.9	\$ 110.0	\$ 110.1	\$ 121.6	\$ 121.6	\$ 121.5	

To date, the City's external auditors have not completed their review of the City's financials. Revenue, expenditure, and fund balance totals listed in this report are preliminary and subject to change after a full review by the City's auditors. City Staff does not anticipate many, if any, changes to these figures.

Per the City's Fund Balance Policy, unassigned fund balance over \$500,000 is to be used in the following order to replenish committed/restricted fund balances with any remaining balances to be placed in the Capital Reserve:

1. Economic Uncertainty Reserve
2. CalPERS Reserve (Section 115 Pension Trust)
3. Capital Projects Reserve
4. Sustainability Reserve
5. Unassigned

As of mid-year, all priority areas have been fully funded. Per the City's Fund Balance policy, it has been the City's practice to recommend the transfer of unassigned fund balance as part of the mid-year financial report. However, this year, the City is not recommending the use of unassigned fund balance at mid-year due to the uncertainty

surrounding a sales tax audit of one of the City's taxpayers by the California Department of Tax and Fee Administration (CDTFA). While the impact of this audit is unknown, it has the potential to significantly affect the City's sales tax revenues.

Given this uncertainty, staff anticipates bringing recommendations on the use of fund balance to the City Council once more information regarding the sales tax audit is available. The City is committed to maintaining a responsible and sustainable approach to its financial management, and will continue to closely monitor and analyze revenue and expenditure trends in order to make informed budgetary decisions.

Staffing

As of December 31, 2022, the FY 2022-23 Amended Budget includes a total of 225 full-time equivalent (FTE) positions. The City Manager's Office is requesting the addition of one new position. If approved, the total benefitted positions will increase to 226 FTEs.

Addition of Limited-Term Special Project Executive

The City Manager's Office is requesting a new two-year limited-term position of Special Project Executive. This new classification will serve as the liaison for complex and highly sensitive projects and act as the liaison between developers and the City. Additional information can be found in the attached position description. This position will be 100% funded by revenue from agreements with developers who are looking to expedite their projects. This position will not have any fiscal impact in the current fiscal year, FY 2022-23, due to vacancy savings in the department. In FY 2023-24, the salary and benefits for the position are expected to be approximately \$400,000.

Revision of the Assistant Director of Community Development/Building Official Classification

The position of Assistant Director of Community Development/Building Official was reviewed. To provide the Community Development Department with additional staff resources and enhance operational functions between the planning and building divisions, staff recommends filling each of these positions as two separate job classifications and positions. This revision will not have any fiscal impact in the current fiscal year, FY 2022-23, due to vacancy savings in the department.

The request to add a Limited-Term Special Project Executive and the revisions to the Assistant Director of Community Development/Building Official classification are pursuant to Cupertino Municipal Code Sections 2.52.140, 2.52.150, 2.52.160 and the City's Administrative Rules and Regulations Section 4.

Performance Measures & Workload Indicators

The Mid-Year Financial Report includes updated performance measures and workload indicators that are in line with the best practices of both government and private industry. These measures have been designed to provide a comprehensive understanding of the City's performance and progress toward achieving its goals and objectives.

Attachment B provides an overview of the status of the performance measures as of Mid-Year. This information is critical to effective decision-making and ensuring that resources are being used in the most efficient and effective way possible.

City Manager Discretionary Fund

In the FY 2022-23 Adopted Budget, City Council approved \$75,000 in funding for the City Manager Discretionary Fund. The quarterly financial reports will detail the City Manager's use of the discretionary fund and may include recommendations to replenish depending on the extent and nature of use. As of December 31, 2022, \$2,632.50 has been used for environmental consulting services for the initial preparation of a Phase I environmental site assessment at 21801 Stevens Creek Boulevard.

Special Projects

Beginning FY 2022-23, the quarterly financial reports will provide a status update on special projects including the budget, amount spent, and estimated completion date. See Attachment E for FY 2022-23 special projects as of December 31, 2022.

Grants

In February 2019, the City contracted with California Consulting to identify and apply for State and Federal grants on the City's behalf. Originally under Public Works, the contract was later transferred to Administrative Services in the amount of \$75,509 in FY 2022-23. The pilot program aims to centralize the grant function and maximize grant opportunities. Updates on the progress of the grants will be provided in the quarterly financial reports, including this mid-year report.

During FY 2021-22 and 2022-23, the City applied for 17 competitive grants totaling \$32.6 million. To this date, the City has been awarded \$17.7 million. Furthermore, during FY 2018-19, 2019-20, and 2020-21, the City applied for 8 additional grants totaling \$8.3 million. Of these 8 grants, the City has been awarded \$7.4 million.

Also, during FY 2021-22 and 2022-23, the City applied for 13 non-competitive grants totaling \$4.0 million. See Attachment F for further details on grants applied, pending, awarded, and not awarded.

Capital Improvement Program

Beginning FY 2022-23, the quarterly financial reports will provide a revised estimate and update on Capital Improvement Program (CIP) projects. As of mid-year, the Public Works Department is not requesting any revisions to the capital budget. See Attachment G for the status of projects.

Sustainability Impact

No sustainability impact.

Fiscal Impact

Based on the Mid-Year Financial Report, the City's current financial position is stable, and City staff is not recommending any adjustments to appropriations or revenues. The City will continue to monitor its revenue and expenditure trends closely to ensure it remains on track toward achieving its budgetary goals and objectives.

California Environmental Quality Act

Not applicable.

Prepared by: Thomas Leung, Budget Manager

Reviewed by: Kristina Alfaro, Director of Administrative Services

Approved for Submission by: Pamela Wu, City Manager

Attachments:

A – Fiscal Year 2022-23 Mid-Year Financial Report

B – Mid-Year Performance Measures

C – Description of Carryovers and Adjustments as of December 31, 2022

D – Description of Budget Transfers as of December 31, 2022

E – FY 2022-23 Mid-Year Special Projects Update as of December 31, 2022

F – Competitive and Non-Competitive Citywide Grants Tracking

G – Capital Improvement Program Project Status

H – Resolution amending the Unrepresented Employees' Compensation Program

I – Unrepresented Comp Program – Clean

J – Unrepresented Comp Program – Redline

K – Special Project Executive Job Description