



ADMINISTRATIVE SERVICES DEPARTMENT

CITY HALL
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CITY COUNCIL STAFF REPORT

Meeting: June 4, 2024

Subject

Consider the Recommended Operating and Capital Improvement Program Budgets for Fiscal Year (FY) 2024-25, adoption of the Operating and Capital Improvement Program Budgets for FY 2024-25, establishment of the Appropriation Limit, and related actions.

Recommended Action

1. Adopt Resolution No. 24-XXX establishing an Operating Budget of \$120,495,113 for FY 2024-25, which includes the following changes to the FY 2024-25 Proposed Budget, published on May 1, 2024:
 - a. Approve the operating budget of \$120,392,308 outlined in the FY 2024-25 Proposed Budget.
 - b. Approve additional appropriations of \$32,500 for the Community Funding Grant Program as included in Attachment D.
 - c. Approve additional appropriations of \$3,905 for festival costs as included in Attachment D.
 - d. Approve additional appropriations of \$2,050 for the Artist Awards program as included in Attachment D.
 - e. Approve additional appropriations of \$64,350 for the animal services contract as included in Attachment D.
 - f. Approve a reduction in revenues of \$21,200 due to the elimination of the proposed permit parking and crane lift fees as included in Attachment D.
 - g. Approve additional revenues of \$212,614 for SB 1 as included in Attachment D.
 - h. Approve Community Funding Grants for the following organizations, allocating a total of \$32,500:
 - i. AINAK: \$2,750
 - ii. Cupertino Little League: \$16,000
 - iii. Cupertino Symphonic Band: \$3,000
 - iv. Rotary Club of Cupertino: \$4,000
 - v. STEMBoost Corporation: \$3,000
 - vi. West Valley Community Services: \$3,750
2. Adopt Resolution No. 24-XXX establishing a Capital Improvement Program Budget of \$26,151,380 for FY 2024-25

3. Adopt Resolution No. 24-XXX establishing an Appropriation Limit of \$132,542,385 for FY 2024-25

Reasons for Recommendation

At its May 21, 2024 meeting, City Council received the proposed budget and directed staff to bring it back for final adoption on June 4. City Council made no changes to the staff recommendation.

This report consists of the initial proposed budget that was printed on May 1, 2024, as well as any subsequent modifications made to date. These modifications were also presented to Council on May 21 and include unforeseen adjustments to expenditures and revenues that have emerged since the publication of the Proposed Budget.

In addition, responses to Council's questions during the Proposed Budget Study Session are included in Attachment G

The Proposed Budget for the upcoming fiscal year highlights an increase in both expenditures and revenues compared to the previous year's Adopted Budget. Total expenditures are proposed at \$146.6 million, a \$24.9 million or 20.4%, increase from the previous year. Similarly, total revenues are anticipated to be \$139.3 million, a \$29.1 million or 26.4%, increase from last year. The increase in expenditures and revenues is primarily due to the City's community shuttle program and a larger Capital Improvement Program (CIP).

General Fund expenditures are proposed at \$90.0 million, which is an increase of \$4.0 million or 4.6%, from the previous year's Adopted Budget. General Fund revenues are anticipated to be \$89.8 million, which is a \$9.5 million or 11.9%, increase from the previous year's Adopted Budget.

The following table shows the City's budget by fund type.

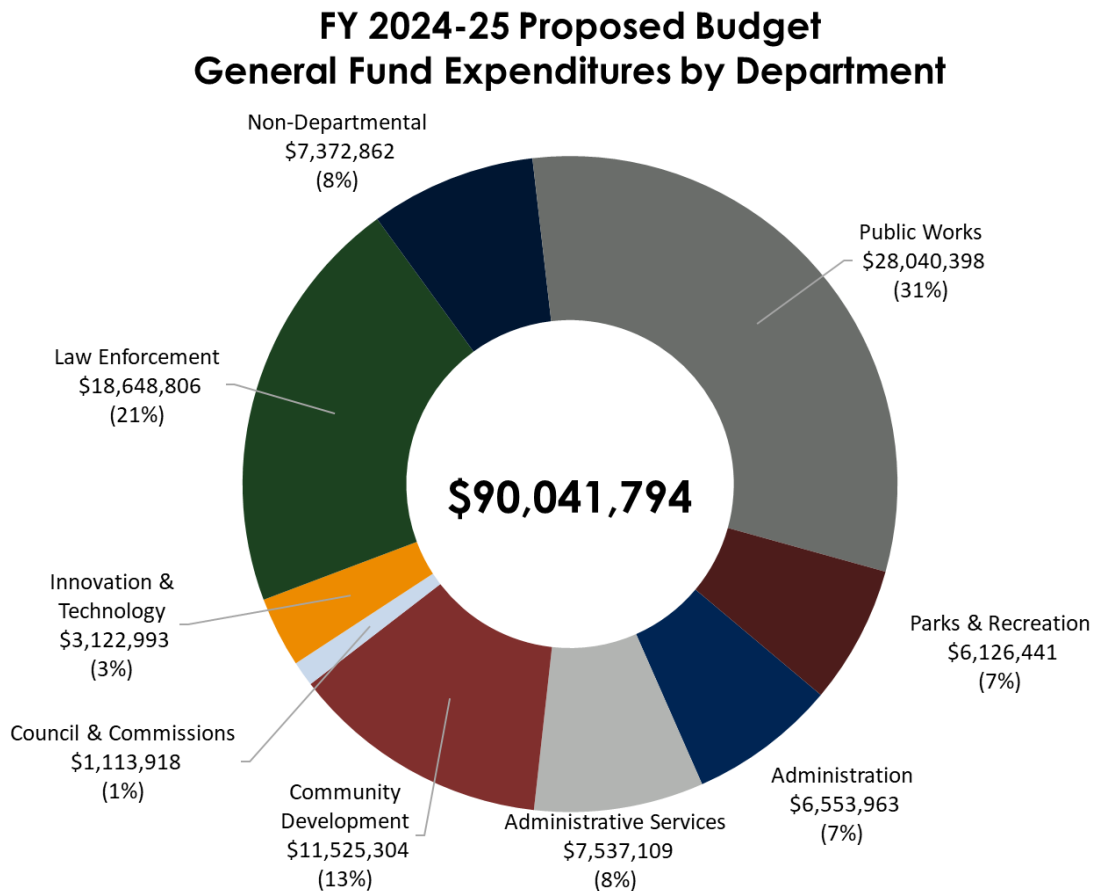
Fund Type	Proposed Revenues	Proposed Expenditures	Change in Fund Balance/Net Position
General	89,804,468	90,041,794	(237,326)
Special Revenue	18,829,495	13,956,348	4,873,147
Debt Service	2,676,200	2,676,200	-
Capital Projects	13,635,000	22,057,580	(8,422,580)
Enterprise	6,608,500	9,271,222	(2,662,722)
Internal Service	7,784,696	8,643,349	(858,653)
TOTAL \$	139,338,359	\$ 146,646,493	\$ (7,308,134)

General Fund

The General Fund is the City's primary operating fund. It accounts for basic services such as public safety, public works, community development, park maintenance, code enforcement, and the administrative services required to support them. The fund generates revenue from the City's discretionary funding sources (e.g., sales tax, property tax, transient occupancy tax, and utility tax). As a rule, General Fund resources are used only to fund operations that do not have other

dedicated (restricted) funding sources. Operations that rely heavily upon non-General Fund resources, such as street maintenance, solid waste collection, and recreation, are accounted for in other funds. Information on these funds may be found in the Other Funds section of this document.

As illustrated in the following chart, most of the General Fund supports costs for Public Works, Law Enforcement, and Community Development.



General Fund Expenditures

FY 2024-25 expenditures are estimated at \$ 90.0 million, which represents a \$4.0 million or 4.6% increase compared to the adopted budget from the previous year. This increase is primarily attributed to the City's community shuttle program.

General Fund expenditures increased by \$0.1 million from the \$89.9 million in the Proposed Budget printed on May 1, 2024, due to:

- Addition of Community Funding: \$32,500
- Increase in Festival Costs: \$3,905
- Addition of the Artist Awards Program: \$2,050

- Increase in Animal Services Contract: \$64,350

GENERAL FUND EXPENDITURE SUMMARY					
EXPENDITURES	2021-22 Actual	2022-23 Actual	2023-24 Adopted	2024-25 Proposed	Percent Change
Employee Compensation	19,749,109	21,760,345	24,781,492	23,388,317	-5.6%
Employee Benefits	9,086,959	8,464,077	11,004,730	11,329,376	3.0%
Total Personnel Costs	28,836,068	30,224,422	35,786,222	34,717,693	-3.0%
Non-Personnel Costs					
Materials	4,875,697	5,507,090	6,395,466	5,775,194	-9.7%
Contract Services	21,340,524	21,845,913	24,813,166	29,216,149	17.7%
Cost Allocation	11,948,062	10,385,961	10,257,656	10,638,580	3.7%
Capital Outlay & Special Projects	2,863,072	3,020,115	1,211,157	1,165,000	-3.8%
Contingencies	5,132	277	216,731	254,580	17.5%
Other Uses	569,977	619,687	925,000	925,000	0.0%
Total Non-Personnel	41,602,464	41,379,044	43,819,176	47,974,503	9.5%
Transfers	26,272,864	12,334,447	6,457,600	7,349,598	13.8%
TOTAL EXPENDITURES	\$ 96,711,396	\$ 83,937,913	\$ 86,062,998	\$ 90,041,794	4.6%

General Fund Revenue

The City's General Fund revenues for the upcoming fiscal year are projected to be \$89.8 million, representing an increase of \$9.5 million or 11.9% from the FY 2023-24 Adopted Budget. This increase is primarily due to an increase in Charges for Services related to Cost Allocation expenses, an increase in Other Service Fees related to the City's community shuttle program revenue, and an increase in the City's investment earnings.

GENERAL FUND REVENUE SUMMARY					
REVENUES	2021-22 Actuals	2022-23 Actuals	2023-24 Adopted	2024-25 Proposed	Percent Change
Sales Tax	42,175,218	34,819,341	11,428,930	11,648,962	1.9%
Property Tax	29,724,411	31,889,638	31,736,834	33,174,977	4.5%
Transient Occupancy	4,404,958	7,062,150	7,500,000	7,731,947	3.1%
Utility Tax	3,356,389	4,103,906	3,304,742	4,130,140	25.0%
Franchise Fees	3,479,555	3,995,018	3,443,574	3,509,346	1.9%
Other Taxes	1,905,393	1,471,789	1,641,486	1,684,329	2.6%
Licenses & Permits	4,141,902	4,093,631	4,265,081	3,665,866	-14.0%
Use of Money & Property	-5,341,211	3,005,895	2,328,336	4,697,122	101.7%
Intergovernmental	4,417,903	7,771,411	807,624	2,471,990	206.1%
Charges for Services	14,299,032	11,639,763	11,894,786	15,102,136	27.0%
Fines & Forfeitures	370,160	303,573	405,000	395,000	-2.5%
Miscellaneous	1,940,935	1,306,454	1,142,836	1,210,653	5.9%
Transfers in	4,862,387	861,140	15,000	15,000	0.0%
Other financing sources	293,116	272,396	367,000	367,000	0.0%
TOTAL REVENUES	\$ 110,030,148	\$ 112,596,103	\$ 80,281,229	\$ 89,804,468	11.9%

General Fund – Fund Balance

FY 2024-25 total fund balance is estimated to be \$149.8 million, a decrease of \$0.2 million, or 0.2%, from the FY 2023-24 Amended Budget. It's important to note that the only portion available for use, according to City policy, is unassigned funds. Committed funds, such as the Sales Tax Repayment Reserve, are set aside for specific purposes determined by City Council resolution. Restricted funds, such as the Section 115 Pension Trust, are allocated for specific purposes stipulated by external resource providers. Assigned funds are reserved for encumbrances. Of the total fund balance, \$22.7 million is unassigned and available to be used.

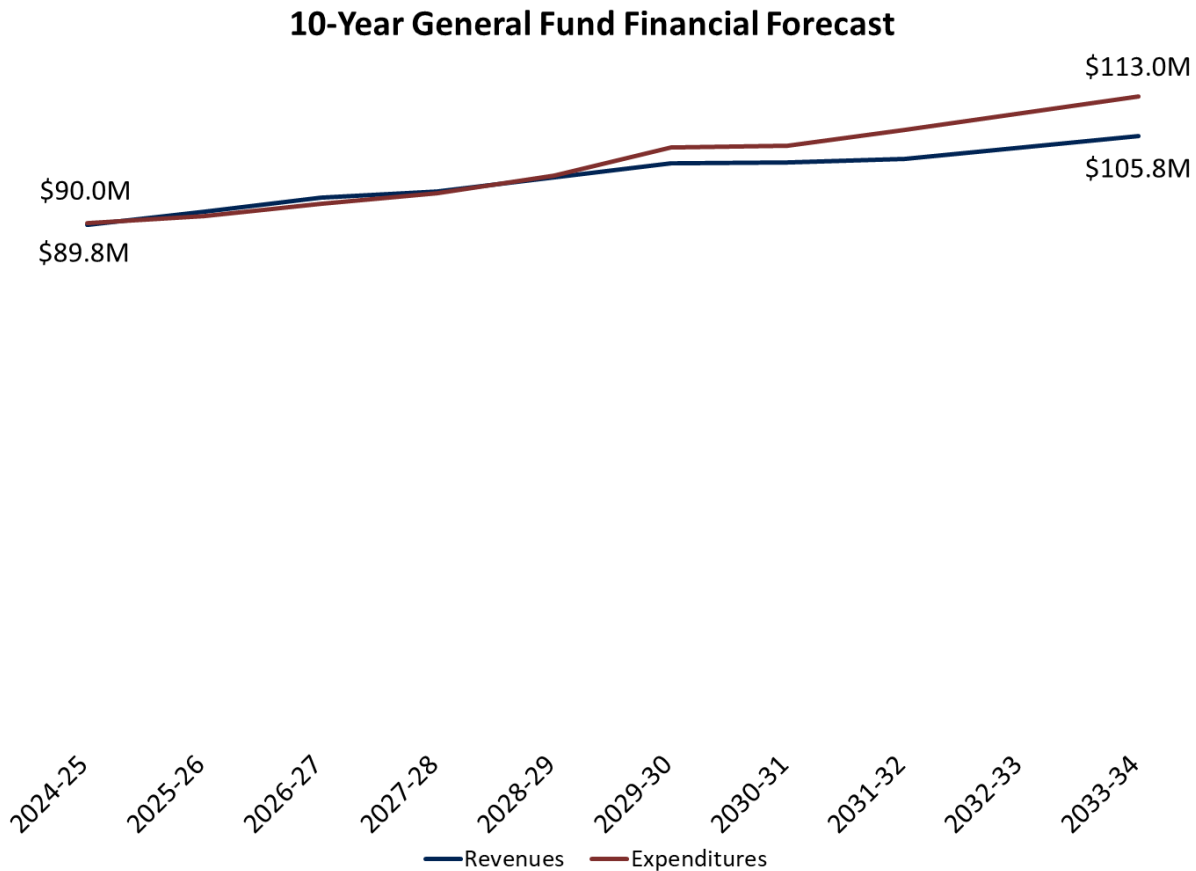
The following table shows changes to fund balance for the General Fund since the close of FY 2021-22:

Classification	2021-22 Actual	2022-23 Actual	2023-24 Adopted Budget	2023-24 Year End Projected	2024-25 Proposed Budget
<u>Nonspendable</u>					
Loans Receivable	439,199	433,896	435,000	433,896	435,000
Advance to Other Funds	-	-	-	-	-
Total Nonspendable	439,199	433,896	435,000	433,896	435,000
<u>Restricted</u>					
CASp Certification and Training	23,621	12,377	23,621	12,377	12,377
Section 115 Pension Trust	17,240,051	19,088,859	17,240,051	19,088,859	19,088,859
Public Access Television	1,492,810	1,565,153	1,492,810	1,565,153	1,565,153
Public Art In-Lieu	-	-	-	-	-
Total Restricted	18,756,482	20,666,389	18,756,482	20,666,389	20,666,388
<u>Committed</u>					
Sales Tax Repayment Reserve	-	-	-	74,500,000	77,554,500
Economic Uncertainty Reserve	24,000,000	24,000,000	24,000,000	18,000,000	21,346,728
Capital Projects Reserve	10,000,000	10,000,000	10,000,000	-	-
Sustainability Reserve	127,891	127,891	127,891	127,891	127,891
Total Committed	34,127,891	34,127,891	34,127,891	92,627,891	99,029,119
<u>Assigned</u>					
Reserve for Encumbrances	5,041,681	9,735,187	3,000,000	9,735,187	7,000,000
Total Assigned	5,041,681	9,735,187	3,000,000	9,735,187	7,000,000
Total Unassigned	51,804,288	73,864,369	48,332,873	26,593,360	22,688,890
TOTAL FUND BALANCE	\$ 110,169,541	\$ 138,827,732	\$ 104,652,246	\$ 150,056,723	\$ 149,819,397

The Sales Tax Repayment Reserve is projected to increase in FY 2024-25 due to interest earnings. The Economic Uncertainty Reserve is increasing due to higher budgeted revenues and expenditures in FY 2024-25, in accordance with the City's Fund Balance Policy.

General Fund Forecast

FY 2024-25 is projected to end with revenues slightly falling short of expenditures, resulting in a slight deficit. The following chart shows a structural deficit that begins in FY 2028-29 due to expenditures (2.6% average annual growth rate) growing at a faster rate than revenues (1.9% AAGR).



The California Department of Tax and Fee Administration (CDTFA) recently conducted an audit on one of the City's taxpayers. This will have a substantial impact on the City's finances, with a projected decline of \$30 million, or 73%, in sales tax revenues from the initial FY 2023-24 forecast provided by HdL, the City's sales tax consultant. As a result, the City's total revenues are also anticipated to decrease by \$30 million, or 28%, from the original FY 2023-24 forecast. In addition, the notice from the CDTFA indicated that the City may be required to pay back any disputed sales tax received since April 2021. While the ongoing impact of the audit is included in the forecast, the one-time impact is not.

The Council and staff have demonstrated proactive fiscal stewardship in response to the evolving financial landscape. The FY 2023-24 Adopted Budget, which Council adopted on June 6, 2023, incorporated significant expenditure reductions of more than \$15 million dollars, including:

- Eliminating 14 vacant positions (\$2.6 million)
- Decreasing materials, contract services, special projects, capital outlays, and contingency expenditures (\$5.9 million)
- Decreasing transfers from the General Fund to other funds (\$5.5 million)
- Using the City's Section 115 Trust to fund OPEB (Other Post-Employment Benefits) costs (\$1.4 million)

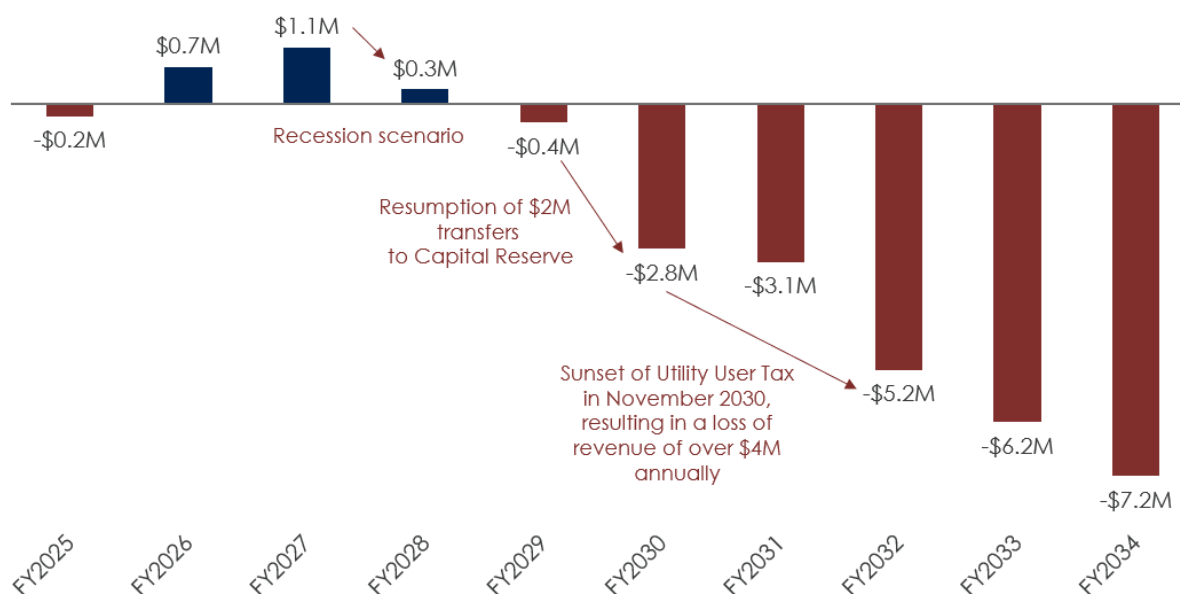
Additionally, on October 10, 2023, the Council established a committed Sales Tax Repayment Reserve with an initial allocation of \$56.5 million. This reserve was designed to address a potential adverse CDTFA decision and the uncertain outcome of the anticipated legal challenge. Funding came from Unassigned fund balance, the Capital Projects Reserve, and the Economic Uncertainty Reserve. On May 21, 2024, Council increased the Sales Tax Repayment Reserve to \$74.5 million.

On January 17, 2024, staff sought Council direction on potential service-level reductions to help resolve the City's structural deficit. Council provided feedback and directed staff to provide additional information. On April 16, 2024, staff provided additional information to Council and received confirmation on the updated service-level reductions.

The City is taking a proactive approach to minimize the impact on its staff and residents, and City staff will continue to keep the Council informed of any new developments related to the audit and its impact on the City's finances. It is crucial to note that the CDTFA audit has resulted in an estimated structural deficit beginning in FY 2028-29 of the forecast, and the City will need to continue implementing long-term solutions to address this ongoing challenge.

The City's forecast model assumes recessionary periods every seven years, during which revenues other than property tax show no growth. Additionally, the forecast does not account for ongoing revenues from potential new development projects or hotels until they are constructed and occupied.

General Fund Annual Operating Surplus/(Deficit)



Despite the challenging times, the City's financial position remains strong with reserves that can be utilized to offset deficits until the City can align its ongoing expenditures with its revenues. It is important to note that these reserves are one-time funding, which cannot be relied upon to sustain the City's finances in the long run. In addition, reductions in FY 2023-24 and FY 2024-25, along with increases in charges for services and interest earnings, have positively impacted the forecast resulting in a modest surplus from FY 2025-26 to FY 2027-28.

In the out years, the deficit is primarily due to a recession scenario in FY 2027-28, the resumption of a \$2 million transfer to the Capital Reserve in FY 2029-30, and the sunset of the Utility Users Tax in FY 2030-31.

These resources give the City a buffer and more options to manage its finances effectively. With a solid financial footing and prudent planning, the City is well-positioned to navigate these uncertain times and maintain its commitment to its staff and community.

Other Funds

Special Revenue Funds

Special Revenue Funds are established to account for the proceeds of specific revenue sources that are legally restricted for expenditures for particular purposes. The largest Special Revenue Fund is allocated to streets, roads, and transportation, while other funds are designated for storm drain management, affordable housing programs, and park development.

EXPENDITURE USES	2021-22	2022-23	2023-24	2024-25	Percent Change
	Actual	Actual	Adopted Budget	Proposed Budget	
Employee Compensation	1,716,677	1,814,298	1,901,795	1,785,475	-6.1%
Employee Benefits	796,662	755,875	891,001	953,406	7.0%
Materials	1,048,952	713,237	1,040,163	1,047,713	0.7%
Contract Services	358,244	667,154	1,037,847	555,004	-46.5%
Cost Allocation	1,325,945	1,191,567	1,220,614	2,030,054	66.3%
Capital Outlays	2,565,810	4,936,812	880,224	4,974,024	465.1%
Special Projects	2,506,843	2,133,588	3,403,849	2,586,687	-24.0%
Contingencies	-	-	10,679	8,985	-15.9%
Transfers Out	486,235	1,908,631	15,000	15,000	0.0%
Total Expenditure Uses	\$ 10,805,367	\$ 14,121,161	\$ 10,401,172	\$ 13,956,348	34.2%

For FY 2024-25, the Proposed Budget for Special Revenue Funds is \$14.0 million, which represents an increase of \$3.6 million or 34.2%, compared to last year's Adopted Budget. This increase is attributed to increases in facility improvements for Bollinger Road Corridor and HSIP – Roadway Safety Improvements.

The Special Revenue Funds receive funding from two sources: \$10.5 million in restricted department revenue and \$2.5 million in transfers, resulting in a total funding of \$13.0 million. The Special Revenue Funds are expected to end the year with a fund balance of \$30.9 million, reflecting an increase of \$4.9 million from the previous year. This increase in fund balance is mainly due to Measure B funds received.

Capital Projects Funds

Capital Projects Funds are used for the acquisition or construction of major capital facilities and infrastructure. Capital Projects Funds include the Capital Improvement Projects Fund, Stevens Creek Corridor Park Fund, and Capital Reserve Fund. These funds are used to finance the implementation of projects identified in the City's five-year Capital Improvement Program (CIP).

EXPENDITURE USES	2021-22 Actual	2022-23 Actual	2023-24 Adopted Budget	2024-25 Proposed Budget	Percent Change
Employee Compensation	543	4,757	-	-	N/A
Employee Benefits	310	1,933	-	-	N/A
Contract Services	53,630	343,680	175,000	175,000	0.0%
Capital Outlays	8,662,133	4,075,557	2,027,000	13,635,000	572.7%
Cost Allocation	-	-	-	-	N/A
Transfers Out	11,422,048	2,489,154	2,027,000	8,247,580	306.9%
Total Expenditure Uses	\$ 20,138,664	\$ 6,915,082	\$ 4,229,000	\$ 22,057,580	421.6%

For FY 2024-25, the Proposed Budget for Capital Projects Funds is \$22.1 million, which represents an increase of \$17.8 million, or 421.6%, compared to last year's Adopted Budget. This increase is due to increased capital outlays and transfers (from the Capital Reserve Fund to the Capital Improvement Projects Fund) resulting from a larger Capital Improvement Program (CIP) this year.

The Capital Projects Funds are primarily funded through a combination of transfers from the General Fund, grants, donations, development impact fees, and other dedicated revenue sources. As projects are completed, any remaining funds are typically rolled over into the Capital Reserve Fund to be used for future projects.

Enterprise Funds

Enterprise Funds are designed to support services that are funded directly by fees charged for goods or services. The City's Enterprise Funds include the Resource Recovery Fund for the solid waste collection franchise, Blackberry Farm Fund for the City-owned golf course, Sports Center Fund for the Cupertino Sports Center, and Recreation Programs Fund for cultural, youth, teen, sports, and physical recreation programs.

EXPENDITURE USES	2021-22 Actual	2022-23 Actual	2023-24 Adopted Budget	2024-25 Proposed Budget	Percent Change
Employee Compensation	1,271,044	1,608,718	2,016,689	1,922,348	-4.7%
Employee Benefits	305,998	(53,139)	668,557	839,347	25.5%
Materials	329,767	412,827	444,258	691,338	55.6%
Contract Services	4,247,810	4,736,292	5,176,958	3,661,846	-29.3%
Contingencies	-	-	67,455	54,339	-19.4%
Cost Allocation	1,034,107	789,939	939,358	1,577,430	67.9%
Special Projects	95,536	297,015	135,733	362,733	167.2%
Transfers Out	222,566	264,959	222,567	161,841	-27.3%
Total Expenditure Uses	\$ 7,506,828	\$ 8,056,612	\$ 9,671,575	\$ 9,271,222	-4.1%

For FY 2024-25, the Proposed Budget for Enterprise Funds is \$9.3 million, which represents a decrease of \$0.4 million or 4.1%, compared to last year's Adopted Budget. The Enterprise Funds are funded by \$6.7 million in program revenue and \$2.9 million in reserves. The Enterprise Funds are projected to end the year with \$3.8 million in reserves, a decrease of \$3.7 million. This decrease

is due to the use of reserves, which were accumulated in previous years. During the pandemic, the Parks and Recreation funds accumulated reserves as revenues were higher than expenditures.

Internal Service Funds

Internal Service Funds are for goods or services provided to other City departments or governments on a cost-reimbursement basis. These funds include programs for innovation and technology, workers' compensation, equipment, compensated absences, long-term disability, and retiree medical insurance.

EXPENDITURE USES	2021-22 Actual	2022-23 Actual	2023-24 Adopted Budget	2024-25 Proposed Budget	Percent Change
Employee Compensation	1,675,495	1,826,815	1,971,220	1,818,488	-7.7%
Employee Benefits	1,833,582	2,374,158	2,319,832	2,409,499	3.9%
Materials	1,144,432	1,190,393	1,060,611	1,046,922	-1.3%
Contract Services	1,280,565	1,440,449	1,789,573	1,798,760	0.5%
Cost Allocation	60,817	62,042	57,622	304,459	428.4%
Special Projects	230,258	398,365	572,000	440,000	-23.1%
Contingencies	-	-	26,201	26,622	1.6%
Other Financing Uses	926,453	798,599	926,453	798,599	-13.8%
Total Expenditure Uses	\$ 7,151,603	\$ 8,090,821	\$ 8,723,512	\$ 8,643,349	-0.9%

The Proposed Budget for Internal Service Funds is \$8.6 million, which is a slight decrease of \$0.08 million or 0.9%, compared to last year's Adopted Budget. The Internal Service Funds are funded by \$4.2 million in program revenue, \$1.3 million in transfers from the General Fund, and \$3.2 million in reserves. The Internal Service Funds are projected to end the fiscal year with \$2.6 million in reserves, increasing by \$0.01 million.

Staffing

Personnel Assumptions

FY 2024-25 salaries and benefits reflect the cost-of-living adjustments and health insurance contribution increases approved by the City Council in November 2023.

Employees who have yet to reach the top step in their classification's salary range are eligible to receive a step increase on their anniversary date. Typically, classifications have five steps, with each increase equivalent to a 5% increase in salary. Currently, approximately 39% of employees are below Step 5.

Position Eliminations

The FY 2024-25 Proposed Budget proposes funding for a total of 207 positions, representing a reduction of 5 positions. It is important to note that the 5 positions being eliminated are vacant positions that have not been filled for various reasons such as resignation, retirement, or the positions being left unfilled.

Reductions in Vacant Positions

Position	Department	FTE
Special Project Executive Limited-Term	Administration	-1.00
Public Works Project Manager	Public Works	-1.00
Public Works Project Manager	Public Works	-1.00
Maintenance Worker I/II	Public Works	-1.00
Innovation & Technology Manager	Innovation & Technology	-1.00
Total		-5.00

Total Staffing by Department

Department	FY 2023-24 Adopted Budget	FY 2024-25 Proposed Budget
Council and Commissions	7.23	7.23
Administration	21.80	19.00
Law Enforcement	-	-
Innovation and Technology	14.93	13.93
Administrative Services	17.90	17.90
Parks and Recreation	27.63	27.63
Community Development	34.39	34.29
Public Works	88.12	87.02
Total	212.00	207.00

Summary of Budget Adjustments (Attachment D)

The changes are discussed further below and are also detailed in Attachment D.

Operating Change	Revenue	Expenditure	Change in Fund Balance
GENERAL FUND			
Increase Animal Services Contract	-	64,350	(64,350)
Reduce Revenue from Permit Parking and Crane Lift Fees	(21,200)	-	(21,200)
Artists Award Program	-	2,050	(2,050)
Community Grant Funding	-	32,500	(32,500)
Festival Costs	-	3,905	(3,905)
TOTAL GENERAL FUND	(21,200)	102,805	(124,005)
SPECIAL REVENUE FUNDS			
Increase SB 1 (Gas Tax) Revenue Estimate	212,614	-	212,614
TOTAL SPECIAL REVENUE FUNDS	212,614	-	212,614
TOTAL ALL FUNDS	\$ 191,414	\$ 102,805	\$ 88,609

Increase Animal Services Contract

Also on the June 4 City Council agenda, staff recommends the approval of a new contract for animal management services. The increase is due to higher costs for the new contract if it is

approved by Council. The original 20-year contract between the City and the City of San Jose for animal services is set to expire on June 30, 2024. The new contract scope of work and compensation amount provides cost recovery for City of San Jose staffing and resources based on an annual service level for the City. The scope of work covers a variety of services such as impound, confiscation, disposal, euthanasia requests, spay and neuter, wildlife pick up, and transportation. These are all current services that are offered to Cupertino residents. If approved, costs would increase by \$64,350 for FY 2024-25.

Reduce Revenue from Permit Parking and Crane Lift Fees

In 2023, the City conducted a new Comprehensive Fee Study. Staff presented the results of the fee study to Council on February 6, 2024, and presented a Fee Schedule Update to Council on May 14, 2024. Per the Council's direction on February 6, 2024 to prepare full cost recovery fees, staff also presented a list of new fees to be adopted on May 14, 2024. Council voted to remove two proposed fees in Schedule B – Engineering for Crane Lift Encroachment Permits (\$1,415) and Permit Parking Bi-annual Fee (\$40) from the fee schedule. As a result, budgeted revenue is being reduced by \$21,200.

Artist Awards Program

The Artist Awards Program for the Arts and Culture Commission was inadvertently missed in the printed Proposed Budget and is being proposed to be added back to the budget. The cost for the program is \$2,050. x

Festival Costs

The cost for sheriff services was budgeted based on the previous year's rates. However, those rates have increased since, resulting in an increase for FY 2024-25.

Community Grant Funding

Per Council's direction on November 21, 2024, the total grant funding amount for Community Funding remains at \$32,500. On April 4, 2024, the Parks and Recreation Commission approved the following proposed list of organizations to recommend to City Council for funding, totaling \$32,500:

Non-Profit Organization	FY 2023-24 Funding	FY 2023-24 Program/Project/Event	FY 2024-25 Funding	FY 2024-25 Program/Project/Event
AINAK	2,500	Eye Exams & Eyeglasses	2,750	AINAK Eyeglasses
Asian American Parents Association	3,000	2024 Cupertino Multicultural Fair	N/A ²	N/A ²
Cupertino Little League	N/A ¹	N/A ¹	16,000	Scoreboard Replacement
Cupertino Symphonic Band	4,000	Band Equipment	3,000	Band Equipment & Materials
No Time to Waste	5,000	7/250 Feed the Need	N/A ²	N/A ²
Omniware Networks	4,000	Mental Health Program	N/A ²	N/A ²
Rotary Club of Cupertino	N/A ¹	N/A ¹	4,000	House Renovations
STEMBoost Corporation	4,000	Elementary Science Olympiad	3,000	Elementary Science Olympiad Summer Workshops
		Fund Day/Night		
West Valley Community Services	10,000	Gift of Hope 2023	3,750	Gift of Hope 2024
Total	\$32,500		\$32,500	

¹Organization did not apply for or receive a Community Funding Grant in FY 2023-24.

²Organization did not apply for or receive a Community Funding Grant in FY 2024-25.

Increase SB 1 Revenue Estimate

The Public Works department recommends increasing Senate Bill (SB) 1 revenue estimates by \$212,614 to \$1,549,796 to align with projections from the State. SB 1, also known as the Road Repair and Accountability Act of 2017 or "Gas Tax," provides funding for local streets and roads maintenance. The amount received by the City is tied to overall State gas consumption.

Capital Improvement Program (CIP)

On March 7, 2024, the City Council conducted a study session to review the Capital Improvement Program (CIP). The FY 2024-25 Proposed Budget for CIP is \$26.2 million, including \$17.9 million in projects and \$8.2 million in transfers.

Capital Improvement Program Project	Revenue	Expense	Fund Balance
SPECIAL REVENUE FUNDS			
Bollinger Road Corridor Design	425,600	532,000	(106,400)
Roadway Safety Improvements - High Friction Pavement & Speed Feedback Signage	3,205,620	3,561,800	(356,180)
Transfer from Capital Reserve to Transportation Fund	462,580		462,580
TOTAL SPECIAL REVENUE FUNDS	4,093,800	4,093,800	-
CAPITAL PROJECTS FUNDS			
CIP Preliminary Planning & Design	-	125,000	(125,000)
Capital Project Support	-	50,000	(50,000)
Electric Vehicle Charging Station (EVCS) expansion - Service Center	-	560,000	(560,000)
McClellan Road Bridge Replacement	5,850,000	5,850,000	-
Photovoltaic Systems Design & Installation	-	6,300,000	(6,300,000)
Vai Avenue Outfall	-	490,000	(490,000)
ADA Improvements (Annually funded)	-	100,000	(100,000)
Annual Playground Replacement (Year 5 of 5)	-	300,000	(300,000)
Street Light Installation - Annual Infill (Annually funded)	-	35,000	(35,000)
Transfer from Capital Reserve to Capital Improvement Program Fund	7,785,000	8,247,580	(462,580)
TOTAL CAPITAL PROJECTS FUNDS	13,635,000	22,057,580	(8,422,580)
TOTAL ALL FUNDS	\$ 17,728,800	\$ 26,151,380	\$ (8,422,580)

Interfund transfers, which are transfers between funds, are required to fund CIP projects. A recommended transfer of \$8.2 million from the Capital Reserve to the Capital Improvement Program Fund and Transportation Fund will provide the necessary funding for these projects.

Ongoing Challenges

Retirement Benefits

Rising retirement costs are driving the increase in employee benefits. Cupertino offers retirement benefits to its employees through the California Public Employee's Retirement System (CalPERS), which experienced a significant decline in its assets due to poor investment returns during the Great Recession. Moreover, changes in actuarial assumptions and enhanced benefits due to higher life expectancies have further increased the plan's liabilities. Consequently, the City's

pension costs have escalated considerably and currently constitute one of the City's largest financial obligations.

The table below illustrates the City's CalPERS costs over the next few years.

	Projected CalPERS Contributions					
	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2028-29
Projected Payroll	\$ 24,352,479	\$ 25,034,349	\$ 25,735,310	\$ 26,455,899	\$ 27,196,665	\$ 27,958,170
Normal Cost (%)	10.5%	10.3%	10.1%	10.0%	9.8%	9.7%
Normal Cost	\$ 2,547,269	\$ 2,578,538	\$ 2,599,266	\$ 2,645,590	\$ 2,665,273	\$ 2,711,942
UAL Payment (%)	22.3%	21.7%	22.6%	20.6%	22.1%	22.0%
UAL Payment	\$ 5,441,780	\$ 5,441,000	\$ 5,807,000	\$ 5,443,000	\$ 6,013,000	\$ 6,138,000
Total Contribution (%)	32.8%	32.0%	32.7%	30.6%	31.9%	31.7%
Total Contribution	\$ 7,989,049	\$ 8,019,538	\$ 8,406,266	\$ 8,088,590	\$ 8,678,273	\$ 8,849,942

In December 2016, the CalPERS Board of Administration implemented a three-year phase-in beginning in FY 2018-19 to lower the discount rate from 7.5% to 7.0%, resulting in significant increases in retirement costs. In FY 2021-22, the discount rate was further reduced to 6.8% due to the FY 2020-21 investment gain of 21.3%, which triggered the Funding Risk Mitigation Policy.

To mitigate the impact of pension rate volatility on the City's budget, the City established a Section 115 Trust in May 2018. The Section 115 Pension Trust had a balance of \$19.1 million as of June 30, 2023, which can be utilized to fund pension costs.

Revenue Volatility

In December 2021, the CDTFA informed the City that an audit would be conducted on one of its taxpayers. The CDTFA verbally notified the City in March 2023 of its preliminary determination that tax dollars had been misallocated to the City, discussing the potential impacts on the City. Following discussions with the affected taxpayer and the CDTFA, an updated forecast was presented to the Council in April 2023. The impact was estimated to be a 73% decline in sales tax revenue, equating to an ongoing \$30 million decrease. This shifted the City's financial outlook from a surplus to a structural deficit, where ongoing expenses exceed revenue. In October 2023, the CDTFA issued a formal letter to the City providing the final audit results and the actual amount of money lost.

Appropriations Limit

Article XIII B of the California Constitution established appropriations limits on government agencies within California. Originally established by Proposition 4 in 1979, the appropriations limit places a maximum limit on the appropriations of tax proceeds by the State, school districts, and local governments in California.

The City's FY 2024-25 appropriations limit is \$132,542,385, an increase of \$4,655,991, or 3.6%, from the prior year. Please refer to Attachment E for the calculation of the appropriations limit, and Attachment F for the corresponding price and population factors utilized in the calculation of the appropriations limit.

Budget Study Session

On May 21, 2024, City Council conducted a study session to review the FY 2024-25 Proposed Budget. During the session, City staff presented General Fund revenues, expenditures, and forecasts. City Council offered input, sought clarifications, and provided recommendations.

During the study session, City Council voted 4-0-1 (Chao abstaining) to direct staff to bring back the proposed budget for consideration by Council for adoption on June 4. Responses to Council's questions are included in Attachment G. Staff received questions about the City Work Program and special projects, which are answered in the attachment.

Community Budget Survey, Outreach, and Town Hall

In April, City staff launched an extensive outreach initiative to engage with the community on City's budget. Engagement efforts included interactive in-person and hybrid sessions at various locations and times, as well as three booths at community events, three focus groups, and two community budget meetings. Staff reached 23 residents at the booths, three residents at the focus groups, and 18 residents at the community meetings. The variety of outreach styles and times provided options for residents. Despite best efforts, this series of outreach efforts designed to involve residents saw lower than hoped-for attendance, however, staff remains committed to fostering community connections and showcasing the budget tools available to better understand and research city finances. These events were centered around the discussions outlined in the City's budget adoption roadmap, which is a key tool to inform residents and City Council of where we are in the budget process and the many touch points we have had this year. The budget and communication team worked diligently to organize and promote these gatherings through city and partner channels to ensure community awareness.

General Plan Consistency and Environmental Compliance of the Capital Improvement Plan

State law and the Cupertino Municipal Code (Section 2.32.070(C)) require the Planning Commission to review the CIP for consistency with the City's General Plan (General Plan: Community Vision 2015 - 2040). The Planning Commission reviewed the FY 2024-25 Proposed CIP Budget on April 9, 2024, and found that the FY 2024-25 Proposed CIP is consistent with the City's General Plan and that this consistency determination is exempt from CEQA (see resolution Attachment H).

Sustainability Impact

No sustainability impact.

Fiscal Impact

City staff recommends establishing an Operating Budget of \$120,495,113 and a Capital Improvement Program Budget of \$26,151,380 for FY 2024-25.

California Environmental Quality Act

The adoption of the budget is exempt from the California Environmental Quality Act (CEQA) under CEQA Guidelines section 15378(b)(4), Each proposed project will be evaluated to determine if CEQA applies. As applicable, each project will conduct the appropriate level of environmental analysis.

Prepared by: Thomas Leung, Budget Manager

Reviewed by: Kristina Alfaro, Director of Administrative Services

Matt Morley, Assistant City Manager

Approved for Submission by: Pamela Wu, City Manager

Attachments:

A – Draft Resolution – Operating Budget for Fiscal Year 2024-25

B – Draft Resolution – Capital Budget for Fiscal Year 2024-25

C – Draft Resolution – Appropriations Limit for Fiscal Year 2024-25

D – Budget Adjustments Summary and Detail

E – Appropriation Limit for Fiscal Year 2024-25

F – Appropriation Limit Price and Population Factors for Fiscal Year 2024-25

G – Proposed Budget Study Session Supplemental Report

H – Planning Commission Adopted Resolution

I – Adopted FY 2024-25 City Work Program Budget Details