



ADMINISTRATIVE SERVICES DEPARTMENT

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CITY COUNCIL STAFF REPORT

Meeting: March 3, 2026

Subject

Acceptance of City Manager's Mid-Year Financial Report for Fiscal Year 2025-26;
Approval of Budget Modification increasing appropriations by \$663,616 and revenues by \$149,578

Recommended Action

1. Accept the City Manager's Mid-Year Financial Report for Fiscal Year 2025-26
2. Adopt Resolution No. 26-XXX approving Budget Modification No. 2526-433, increasing appropriations by \$663,616 and revenues by \$149,578

Executive Summary

The Mid-Year Financial Report for Fiscal Year (FY) 2025-26 provides an update on the City's financial status as of December 31, 2025. The City has updated its 10-Year Financial Forecast to reflect revised revenue and expenditure assumptions, establishing a new baseline projection as well as a second scenario incorporating the proposed 36% increase to the Sheriff's contract. Under the revised scenario, the City anticipates ongoing structural deficits beginning in FY 2026-27. Additional details are provided later in this report.

The FY 2025-26 Amended Budget across all funds as of Mid-Year is \$228.9 million, increasing from an adopted budget of \$136.1 million due to carryovers and encumbrances from the last fiscal year, in addition to Council-approved budget adjustments in the first two quarters of the fiscal year.

As of Mid-Year FY 2025-26, General Fund revenue was \$0.8 million, or 2%, higher than Mid-Year FY 2024-25, primarily due to the receipt of a \$3.7 million transportation grant from Apple. The increase is also attributed to the timing of tax sharing agreement payments which led to higher sales taxes in the first half of the year; the first two quarters of sales tax rebates will be paid and reflected in third quarter report. These increases are offset by a decrease in Other Financing Sources primarily due to revenues received from the sale of the Byrne property in the prior mid-year period. Mid-Year expenditures were \$4.1 million, or 7% lower than last year, primarily due to a City Council approved one-

time Additional Discretionary Payment to CalPERS to address the City’s Unfunded Accrued Liability retirement costs in the prior mid-year period. This decrease is offset by increases in the following areas: restart annual Capital Reserve funding transfer, legal services, law enforcement contract costs, and community shuttle rate increases/increased ridership.

Key recommendations from the report include the following proposed budget adjustments:

- Legal Services costs due to the emergence of new and unforeseen legal matters
- Control Room Build - Fund Transfer from General Fund to Internal Service Fund (PEG Funded)

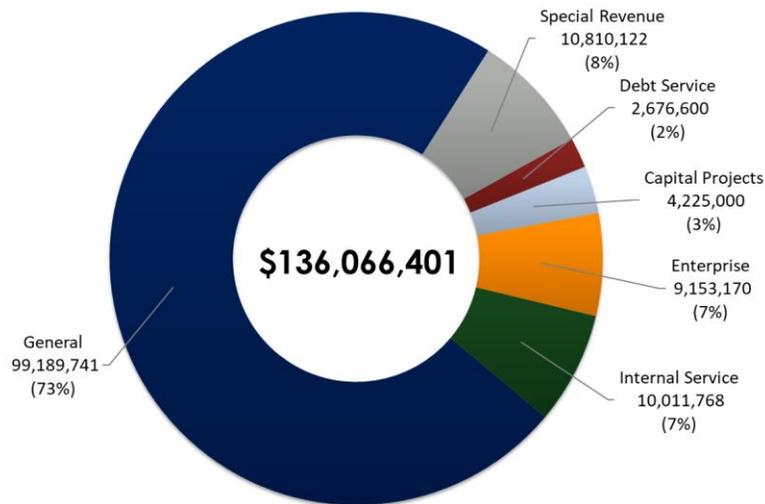
Reasons for Recommendation

Background

On June 3, 2025, the City Council adopted the FY 2025-26 Adopted Budget, a \$136.1 million spending plan funded by \$133.7 million in revenue and \$2.4 million in fund balance. The adopted budget reflected a \$68,966 increase from the proposed budget as illustrated below.

Budget Actions	Amount
Proposed Budget & Capital Improvement Program (Including Transfers)	\$ 135,997,435
Final Budget Hearing & Adoption Operating Changes	68,966
FY 2025-26 Adopted Budget	\$ 136,066,401

FY 2025-26 Adopted Budget Expenditures by Fund



As described in the City Manager’s First Quarter Financial Report, the budget was revised to account for encumbrances and carryover appropriations. As part of the FY 2024-25 year-end close, additional funds were carried forward to FY 2025-26, amounting to \$18.2 million in encumbrances and \$68.3 million in budget carryovers.¹ The largest encumbrances were for Capital Projects (\$8.2 million), and the largest carryovers were for General Fund (\$28.1 million). Furthermore, the FY 2025-26 Amended Budget includes Council-approved budget adjustments from July 1 to December 31, 2025, totaling \$228,948,923 across all funds primarily due to negotiated increases for all bargaining groups. Please refer to Attachment C for details on the carryovers.

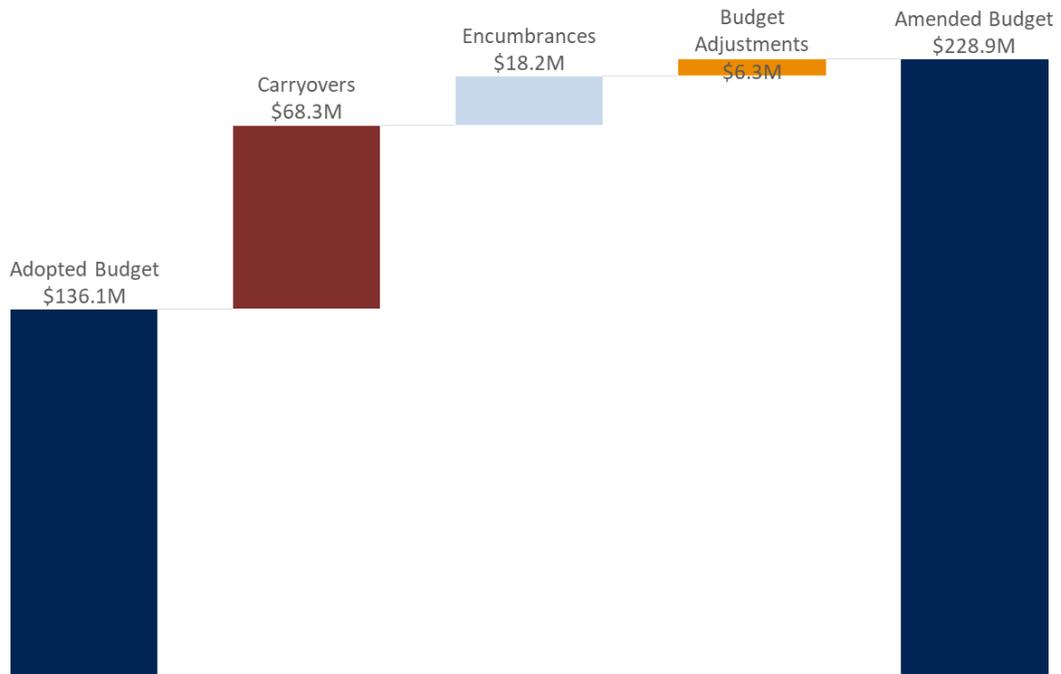
The amended budget at the end of mid-year is \$228.9 million, funded with \$186.2 million in revenue and \$42.7 million in fund balance. The amended budget is the adopted budget, plus encumbrances, carryovers, and Council-approved budget adjustments. The reflection of carryovers and encumbrances in the amended budget is a standard practice in municipal budgeting and aligns with the amounts in previous years, which have been approximately \$80 million. Carryovers and encumbrances are appropriations approved in prior years but have not yet been spent and are still required for ongoing projects or obligations.

Mid-Year Summary of Budget Adjustments by Fund

Fund	FY 2025-26			Adjustments Approved in 1st and 2nd Quarters	FY 2025-26 Amended Budget as of December 31, 2025
	Adopted Budget	Carryovers	Encumbrances		
General	99,189,741	28,105,391	7,162,543	3,261,850	137,719,525
Special Revenue	10,810,122	17,269,837	1,604,982	135,181	29,820,122
Debt Service	2,676,600	-	-	-	2,676,600
Capital Projects	4,225,000	22,691,140	8,198,536	2,538,284	37,652,960
Enterprise	9,153,170	181,612	535,558	123,005	9,993,345
Internal Service	10,011,768	96,963	712,952	264,688	11,086,371
Total All Funds	\$ 136,066,401	\$ 68,344,943	\$ 18,214,571	\$ 6,323,008	\$ 228,948,923

¹ Encumbrances are outstanding commitments tied to unfilled purchase orders or contracts, which are rolled over to the following fiscal year until those obligations are fulfilled or terminated. Budget carryovers 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.

FY 2025-26 Amended Budget as of December 31, 2025

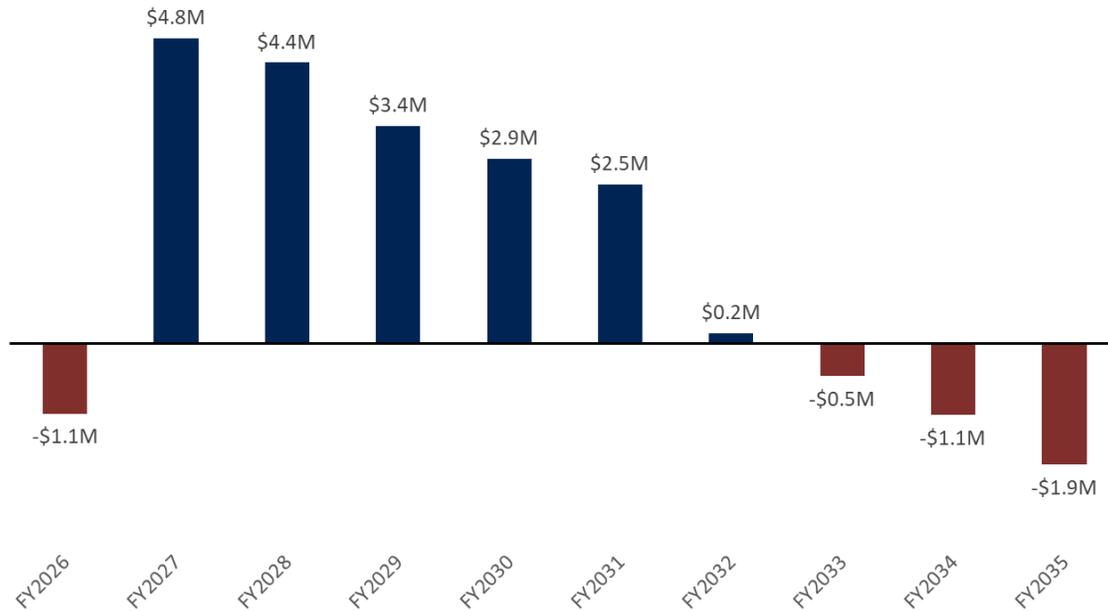


General Fund

Forecast

The updated General Fund forecast, reflecting carryovers from the prior fiscal year and Council-approved appropriations through the end of the second quarter, remains largely consistent with the FY 2025-26 Adopted Budget's forecast. Major appropriation changes are summarized in Attachment C and discussed in greater detail in the Background section of this report.

General Fund Annual Operating Surplus/(Deficit)



Under the updated baseline assumptions, the City's 10-year forecast (FY 2025-26 through FY 2034-35) reflects a structurally balanced budget for eight years, through FY 2032-33. However, the final three years of the forecast now reflect structural deficits, compared to the prior forecast which showed deficits only in the last two years.

The updated forecast does not include the following:

- Additional projected costs associated with the City Hall project
- Extension of the Utility Users Tax (UUT), which is set to sunset in FY 2030-31
- Potential revenue measures currently under Council discussion (next scheduled discussion: March 17)
- The proposed 36% increase to the Sheriff's contract
- Potential business license revenue increase as a result from the City's amnesty program

Although sales tax revenues are trending stronger than budgeted, staff recommends waiting until the third quarter, when additional disbursement data has been received from the California Department of Tax and Fee Administration (CDTFA), before proposing any formal revenue adjustments.

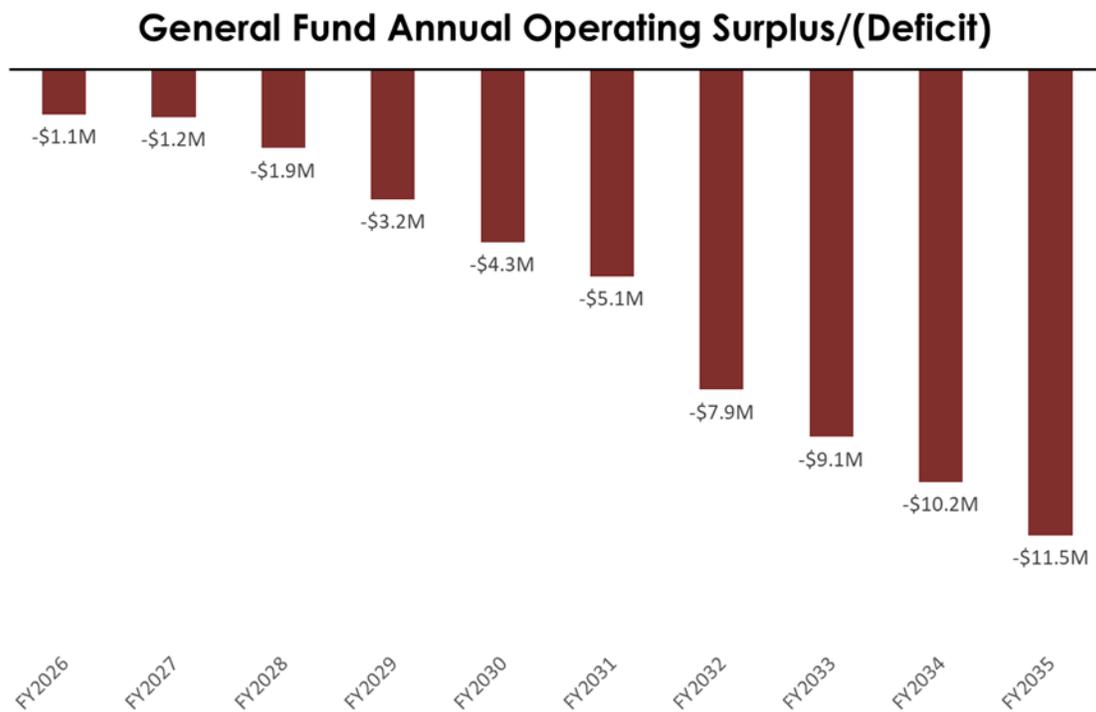
This updated forecast reflects the City's ongoing efforts to align expenditures with sustainable revenue levels following the \$30 million CDTFA settlement. Over the past two fiscal years, the City implemented approximately \$23.8 million in ongoing reductions, including staffing realignments, materials and contract reductions, transfer adjustments, and capital reserve deferrals. Additional structural refinements — including updated

vacancy assumptions, property tax trends, franchise fee projections, water lease revenue, and the \$10 million CalPERS Additional Discretionary Payment (ADP) — have stabilized near-term fiscal conditions.

However, even with these efforts, structural pressure reemerges in the later years of the forecast. The scheduled sunset of the UUT in FY 2030-31 and the absence of new ongoing revenues create long-term fiscal vulnerability. As the City moves forward in the budget process, continued focus on controlling ongoing expenditures and prioritizing one-time uses of surplus funds will be critical to maintaining fiscal stability.

Forecast - Sheriff's Contract Scenario

A second forecast scenario is provided below incorporating the proposed 36% increase to the Sheriff's contract beginning in FY 2026-27.



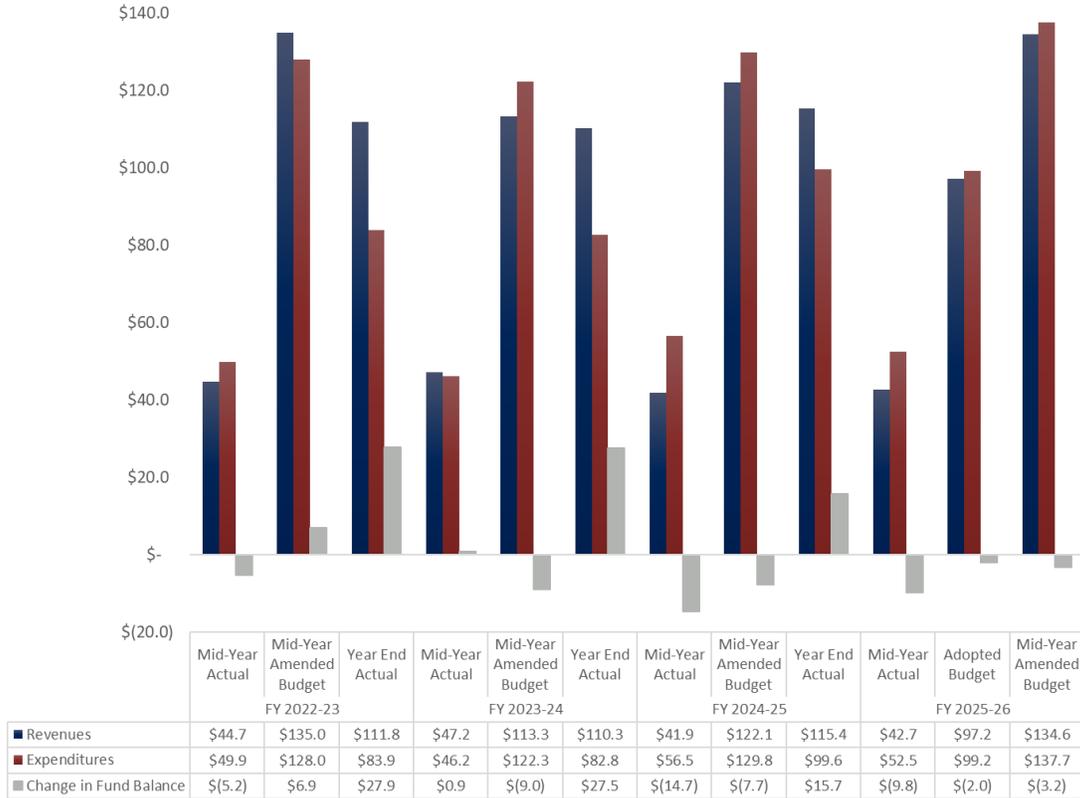
Under this scenario, the City would experience structural deficits across all forecast years. Because the proposed increase represents an ongoing expenditure adjustment rather than a one-time cost, it would immediately shift the City from near-term structural balance into sustained deficits absent offsetting reductions or new revenue.

Staff continues to coordinate regionally with Saratoga and Los Altos Hills and engage Santa Clara County to better understand the methodology changes contributing to the increase, including reallocation of Records and Investigative Services, adjustments to productive hour assumptions, updated sworn compensation costs, and expanded overhead allocations.

If implemented as proposed, the contract increase would significantly accelerate the City’s structural imbalance and require difficult policy decisions related to service levels, expenditure reductions, or revenue enhancements. Staff will continue refining long-term projections, evaluating cost containment options, and returning to Council with updated financial scenarios as negotiations and policy discussions evolve.

General Fund at Mid-Year

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



FY 2025-26 General Fund Mid-Year Update

The General Fund's year-end actuals show that the City’s revenues have historically exceeded expenditures, leading to the increase in fund balance. In addition, the City's encumbrance and budget carryover process typically led to increases in year-end fund balance. Historically, when this was not the case, it was not due to a structural deficit but the transfer of excess fund balance from the General Fund to the Capital Reserve per the City's Fund Balance policy. 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 \$0.8 million, or 2%, higher than the same time last year due to changes in the City’s revenue sources as shown in the following table.

**Comparison of FY 2024-25 and FY 2025-26 Mid-Year Revenues
General Fund**

Revenue Category	Mid-Year 2025	Mid-Year 2026	Variance (\$)	Variance (%)
05 - Sales tax	6,253,234	7,771,677	1,518,444	24%
10 - Property tax	9,533,057	9,675,458	142,401	1%
15 - Transient occupancy	2,517,307	2,643,176	125,869	5%
20 - Utility tax	1,747,222	1,671,264	(75,958)	-4%
25 - Franchise fees	828,043	1,024,238	196,196	24%
30 - Other taxes	903,132	592,468	(310,663)	-34%
35 - Licenses and permits	2,704,260	3,174,439	470,179	17%
40 - Use of money and property	5,620,126	4,274,815	(1,345,311)	-24%
45 - Intergovernmental revenue	1,593,094	4,285,139	2,692,045	169%
50 - Charges for services	7,219,090	7,013,364	(205,726)	-3%
55 - Fines and forfeitures	157,093	99,778	(57,315)	-36%
60 - Miscellaneous	1,445,733	390,653	(1,055,080)	-73%
65 - Transfers in	15,000	15,000	-	0%
70 - Other financing sources	1,331,275	77,921	(1,253,355)	-94%
Total	\$ 41,867,665	\$ 42,709,392	\$ 841,726	2%

Sales Tax revenue as of mid-year totals \$7.8 million, representing a 24% increase compared to the second quarter of the prior fiscal year. This increase is primarily attributable to the timing of payments related to the City’s tax sharing agreements. While the agreements were in effect in the prior year, associated rebates had not yet been paid during the comparable period. The rebates for the current fiscal year will be paid and reflected in the third quarter.

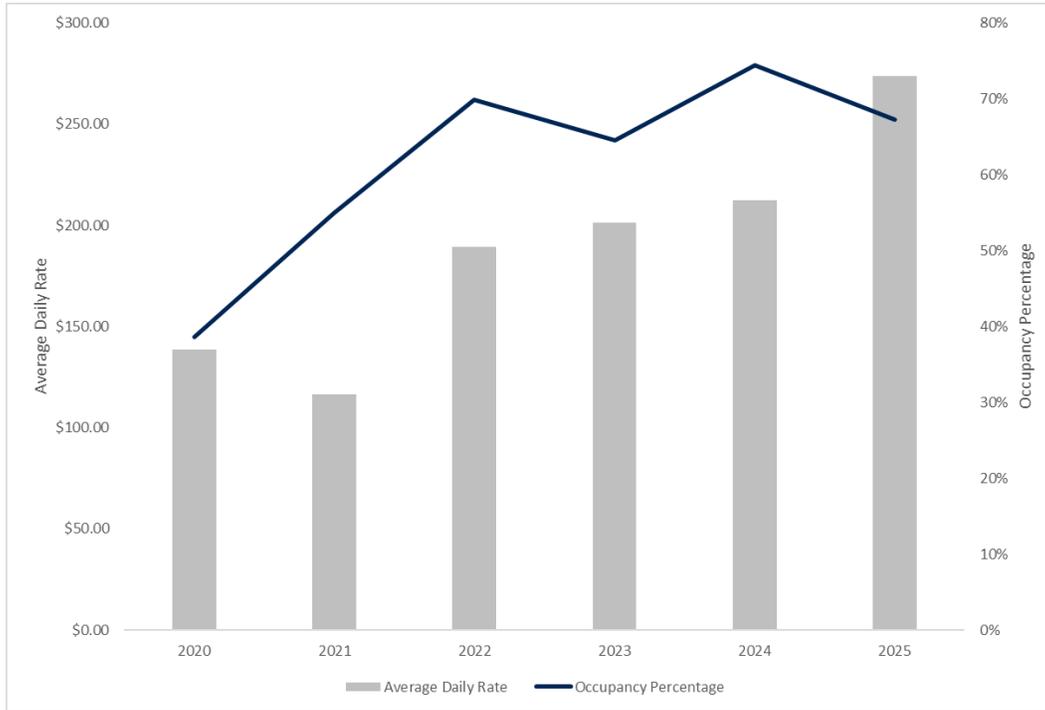
Property Tax revenue is slightly higher than last year by approximately \$142,000, or 1%. According to the HdL, the City’s property tax consultant, the citywide growth in value in the 2025-26 assessment roll is \$1.21 billion, an increase of 3.6%. With the first 7 months of sales data processed for 2025, Single Family Residential are selling for 4.57% less than in the previous calendar year. Prices for the full calendar year 2023 increased 10.24%. Prices are still being driven by higher interest rates and fewer properties being offered for sale. Staff will continue to monitor this top revenue source and may recommend adjustments as part of the Third Quarter Financial Report.

The City’s property tax base remains strong, and HdL is currently projecting growth in 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 \$126,000, or 5%, compared to the prior mid-year period, primarily due to higher average daily room rates. The chart below illustrates recent trends in both average daily rates and occupancy levels. While occupancy experienced a slight decline in 2025 compared to 2024, the increase in room rates more than offset the decrease, resulting in overall revenue growth.

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



Utility Tax (UUT) decreased by approximately \$76,000, or 4%, primarily due to the timing of payments recorded.

Franchise Fees increased by approximately \$196,000, or 24%, due to fluctuations in construction activity and billing cadence.

Other Taxes decreased by approximately \$311,000, or 34%, primarily due to the transition of business license administration to HdL and the timing of remittances being received and recorded by the City. This decrease is timing-related rather than structural. Staff will continue to closely monitor this revenue category to ensure collections are aligned with expectations in future quarters.

Licenses and Permits increased by approximately \$470,000, or 17%, due to an increase in the number of permits received this mid-year period.

Use of Money and Property decreased by approximately \$1.3 million, or 24%, largely due to the reversal of the \$2.8 million mark-to-market adjustment recorded as a year-end entry in FY 2023-24, resulting in a temporary positive revenue impact in the prior mid-year period FY 2024-25.

Intergovernmental Revenue increased by \$2.7 million, or 169%, over the same period last year primarily due to the receipt of a \$3.7 million transportation grant from Apple, offset by less monies received for state grants this mid-year period.

Charges for Services decreased by \$206,000, or 3%, driven mainly by decreases in costs for general service fees related to library maintenance, offset by an increase in planning fees and cost allocation plan methodology.

Fines and Forfeitures decreased by \$57,000, or 32%, due to an increase in revenues related to parking fines compared to the same period last year.

Miscellaneous Revenue decreased by approximately \$1.1 million, or 73%, primarily due to the timing of the Apple donation for sheriff services.

Transfers In remained consistent with the prior mid-year period.

Other Financing Sources decreased by \$1.3 million, or 94%, due to revenues received from the sale of the Byrne property in the prior mid-year period.

Expenditures

Expenditures in the General Fund decreased by \$4.1 million, or 7%, 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 2024-25 and FY 2025-26 Mid-Year Expenditures General Fund

Expenditure Category	Mid-Year	Mid-Year	Variance (\$)	Variance (%)
	2025	2026		
05 - Employee compensation	10,566,467	11,165,494	599,026	6%
10 - Employee benefits	15,264,471	4,799,606	(10,464,865)	-69%
15 - Materials	2,813,766	2,963,067	149,300	5%
20 - Contract services	14,256,813	15,613,313	1,356,499	10%
25 - Cost allocation	5,319,290	5,549,229	229,939	4%
30 - Capital outlays	32,349	80,484	48,135	149%
31 - Special projects	623,226	1,243,515	620,290	100%
35 - Contingencies	3,035	7,400	4,365	144%
45 - Transfer out	7,403,168	10,594,653	3,191,485	43%
50 - Other financing uses	247,521	467,509	219,988	89%
Total	\$ 56,530,107	\$ 52,484,270	\$ (4,045,837)	-7%

Salary increased by approximately \$0.6 million, or 6%, from the previous mid-year period due to contract negotiation increases in the current mid-year period.

Benefits decreased by approximately \$10.5 million, or 69%, primarily due to a City Council approved one-time Additional Discretionary Payment to CalPERS to address the City's Unfunded Accrued Liability retirement costs in the prior mid-year period.

Materials remained relatively consistent with the prior mid-year period.

Contract Services increased by approximately \$1.4 million, or 10%, primarily driven by outsourcing legal services, law enforcement contract costs, and community shuttle rate increases and increased ridership.

Cost Allocation remained relatively consistent with the prior mid-year period.

Capital Outlay increased by approximately \$48,000, or 149%, due to a building maintenance project at the service center.

Special Projects increased by approximately \$620,000, or 100%, due to fluctuations in one-time expenditures. It's important to note that staff has not adjusted projects in this category to align with the Special Project policy thus expenses in this category include all special projects, including development and City Work Program items.

Contingencies increased by \$4,000, or 144%. As of December 31, 2025, the City Manager's Discretionary Fund has been used for Property Appraisal Services for 10480 Finch Avenue.

Transfers Out increased by approximately \$3.2 million, or 43%, primarily due to an increase in transfers to restart annual Capital Reserve funding transfer. 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 each fund has a positive fund balance at the end of the fiscal year.

Other Financing Uses increased by approximately \$220,000, or 89%, due to a higher volume of on-call contracts in the Community Development Department for plan reviews and inspections, and an increase in special contracts for current planning. Special contracts are for vendors that do not have on-call master agreements, typically for larger projects and for contracts with larger dollar amounts.

Special Revenue Funds

Revenue

Special Revenue Funds revenue is \$0.6 million, or 9%, lower than the same time last year primarily due to a decrease in use of money and property and transfers in.

Comparison of FY 2024-25 and FY 2025-26 Mid-Year Revenues Special Revenue Funds

Revenue Category	Mid-Year 2025	Mid-Year 2026	Variance (\$)	Variance (%)
30 - Other taxes	86,517	176,480	89,963	104%
40 - Use of money and property	1,116,291	451,563	(664,728)	-60%
45 - Intergovernmental revenue	3,527,541	3,968,843	441,302	13%
50 - Charges for services	54,491	65,439	10,948	20%
55 - Fines and forfeitures	0	208	208	N/A
60 - Miscellaneous	200	987	787	394%
65 - Transfers in	2,595,150	2,067,000	(528,150)	-20%
Total	\$ 7,380,189	\$ 6,730,519	\$ (649,670)	-9%

Other Taxes increased by approximately \$90,000, or 104%, primarily due to an increase in storm drain fees and park dedication fees received compared to the prior mid-year period.

Use of Money and Property decreased by approximately \$665,000, or 60%, primarily due to no mark-to-market adjustment, mirroring the impact seen in the General Fund.

Intergovernmental Revenue increased by approximately \$441,000, or 13%, due primarily to Measure B Transportation fund street pavement maintenance.

Charges for services increased by approximately \$11,000, or 20%, primarily due to engineering fees revenues received for traffic impact and tree funds citywide.

Fines and forfeitures were relatively unchanged from last year.

Miscellaneous revenues increased by \$787 or 394% primarily due to increase in miscellaneous revenue and admin fees.

Transfers In decreased by approximately \$0.5 million, or 20%, due to decreased transfers in from general fund for roadway safety improvements, Bollinger Road corridors and non departmental for Bridge rehab minor.

Expenditures

Special Revenue Funds expenditures are \$0.2 million, or 4%, higher than the same time last year due primarily to increases in contract services, capital outlays and transfers out.

Comparison of FY 2024-25 and FY 2025-26 Mid-Year Expenditures Special Revenue Funds

Expenditure Category	Mid-Year 2025	Mid-Year 2026	Variance (\$)	Variance (%)
05 - Employee compensation	801,517	786,806	(14,711)	-2%
10 - Employee benefits	439,696	378,017	(61,679)	-14%
15 - Materials	241,638	236,459	(5,179)	-2%
20 - Contract services	225,746	249,527	23,781	11%
25 - Cost allocation	1,015,027	1,005,325	(9,703)	-1%
30 - Capital outlays	1,264,565	1,339,061	74,495	6%
31 - Special projects	121,791	90,491	(31,300)	-26%
35 - Contingencies	-	-	-	N/A
45 - Transfer out	15,000	221,032	206,032	1374%
Total	\$ 4,124,981	\$ 4,306,718	\$ 181,736	4%

Salary decreased by approximately \$15,000, or 2%, due to vacancy savings.

Benefits decreased by \$62,000 or 14%, from last year due to decreases in retirement costs.

Materials decreased by \$5,000, or 2%, due to decreases in small tools and equipment and general supplies expenditures compared to the same period last year.

Contract Services increased by approximately \$24,000, or 11%, primarily due to environmental storm drain maintenance and BMR housing services.

Cost Allocation decreased by approximately \$10,000, or 1%, primarily due to decrease in City Manager, Finance and Human Resources CAP Charges.

Capital Outlays increased by approximately \$74,000, or 6%, largely attributed to SB1 Road expenditures.

Special Projects decreased by approximately \$31,000, or 6%, due to decreases in the rainwater capture, CUSD joint use cost share, and annual asphalt project.

Transfers Out increased by \$206,032, or 1,374%, due to transfers for McClellan Road Separated Bike Ph3 and Bollinger Road Corridor CIP projects.

Debt Service Funds

Revenue

Debt Service Funds revenue is similar to last year.

**Comparison of FY 2024-25 and FY 2025-26 Mid-Year Revenues
Debt Service Funds**

Revenue Category	Mid-Year 2025	Mid-Year 2026	Variance (\$)	Variance (%)
65 - Transfers in	2,676,200	2,676,600	400	0%
Total	\$ 2,676,200	\$ 2,676,600	\$ 400	0%

Expenditures

Debt Service Funds expenditures are similar to last year.

**Comparison of FY 2024-25 and FY 2025-26 Mid-Year Expenditures
Debt Service Funds**

Expenditure Category	Mid-Year 2025	Mid-Year 2026	Variance (\$)	Variance (%)
20 - Contract services	1,500	1,500	-	0%
40 - Debt services	280,600	238,300	(42,300)	-15%
Total	\$ 282,100	\$ 239,800	\$ (42,300)	-15%

Capital Projects Funds

Revenue

Capital Projects Funds revenue is lower than last year primarily due to decreases in use of money and property and transfers in from the general fund.

**Comparison of FY 2024-25 and FY 2025-26 Mid-Year Revenues
Capital Projects Funds**

Revenue Category	Mid-Year 2025	Mid-Year 2026	Variance (\$)	Variance (%)
40 - Use of money and property	657,685	-	(657,685)	-100%
45 - Intergovernmental revenue	21,365	212,230	190,865	893%
65 - Transfers in	7,785,000	4,244,316	(3,540,684)	-45%
Grand Total	8,464,050	4,456,546	(4,007,504)	-47%

Capital Projects funds differ from year to year based on projects that have been approved or worked on in a given fiscal year.

Expenditures

Capital Projects Funds expenditures are \$6.8 million, or 64%, lower than last year due to a decrease in transfers to the capital reserve to fund capital projects.

Comparison of FY 2024-25 and FY 2025-26 Mid-Year Expenditures

Capital Projects Funds

Expenditure Category	Mid-Year 2025	Mid-Year 2026	Variance (\$)	Variance (%)
20 - Contract services	9,690	5,526	(4,164)	-43%
30 - Capital outlays	2,098,518	1,815,741	(282,777)	-13%
45 - Transfer out	8,547,580	2,038,284	(6,509,296)	-76%
Grand Total	\$ 10,655,788	\$ 3,859,551	\$ (6,796,237)	-64%

Capital Projects funds differ from year to year based on projects that have been approved or worked on in a given fiscal year.

Enterprise Funds

Revenue

Enterprise Funds revenue is \$593,000, or 17%, higher than the same time last year due primarily to an increase in transfer in.

Comparison of FY 2024-25 and FY 2025-26 Mid-Year Revenues Enterprise Funds

Revenue Category	Mid-Year 2025	Mid-Year 2026	Variance (\$)	Variance (%)
40 - Use of money and property	427,282	257,253	(170,029)	-40%
45 - Intergovernmental revenue	-	-	-	N/A
50 - Charges for services	2,505,137	2,547,204	42,066	2%
65 - Transfers in	514,000	1,235,000	721,000	140%
Grand Total	\$ 3,446,419	\$ 4,039,456	\$ 593,037	17%

Use of Money and Property decreased by approximately \$0.2 million, or 40%, primarily due to decrease in mark-to-market cash in bank. Balances will continue to flow and are anticipated to end within projections.

Charges for services increased by approximately \$42,000, or 2%, primarily due to enterprise services, engineering, and other service fees.

Transfers In increased by approximately \$0.7 million due to transfers from the General Fund.

Expenditures

Enterprise Funds expenditures are \$0.2 million, or 6%, lower than the same time last year due primarily to a decrease in special projects and employee salary and benefits.

Comparison of FY 2024-25 and FY 2025-26 Mid-Year Expenditures

Enterprise Funds

Expenditure Category	Mid-Year	Mid-Year	Variance (\$)	Variance (%)
	2025	2026		
05 - Employee compensation	1,008,717	895,439	(113,278)	-11%
10 - Employee benefits	403,365	344,362	(59,002)	-15%
15 - Materials	204,328	246,120	41,792	20%
20 - Contract services	1,208,854	1,194,547	(14,307)	-1%
25 - Cost allocation	788,715	823,281	34,566	4%
31 - Special projects	110,165	14,602	(95,563)	-87%
Grand Total	\$ 3,724,144	\$ 3,518,351	\$ (205,792)	-6%

Salary and Benefits decreased by approximately \$172,000, or 12%, primarily due to vacancies.

Materials increased by approximately \$42,000, or 20%, primarily due to Cal Recycle payment program administration expenses.

Contract Services decreased by approximately \$14,000, or 1%, primarily due to decrease in expenses in general services for environmental programs resource recovery and bank charges.

Cost Allocation increased by approximately \$35,000, or 4%, primarily due to increase IT reimbursement and Finance cost allocation.

Special Projects decreased by approximately \$95,000, or 87%, due to projects that differ in scope and timing from year to year.

Internal Service Funds

Revenue

Internal Service Funds revenue is \$0.5 million, or 9%, higher than the same time last year due to increased charges for services and transfers in.

Comparison of FY 2024-25 and FY 2025-26 Mid-Year Revenues

Internal Service Funds

Revenue Category	Mid-Year	Mid-Year	Variance (\$)	Variance (%)
	2025	2026		
40 - Use of money and property	184,223	97,489	(86,733)	-47%
50 - Charges for services	2,408,179	2,712,128	303,948	13%
60 - Miscellaneous	-	4,295	4,295	N/A
65 - Transfers in	2,380,398	2,616,053	235,655	10%
70 - Other financing sources	251,991	276,764	24,773	10%
Total	\$ 5,224,791	\$ 5,706,729	\$ 481,938	9%

Use of Money and Property decreased by approximately \$87,000, or 47%, due to decrease in mark-to-market adjustments.

Charges for Services increased by approximately \$303,000, or 13%, primarily due to Innovation Technology related Cost Allocation charges.

Miscellaneous remains relatively unchanged from the prior fiscal year.

Transfers In increased by approximately \$236,000, or 10%, due to increase in compensated absence and retiree medical expenses.

Other Financing Sources increased by approximately \$25,000 due to workers compensation charges being billed to departments and received as revenue in this fund.

Expenditures

Internal Service Funds expenditures are \$0.9 million, or 26%, higher than the same time last year due primarily to an increase in materials, salaries, and cost allocation offset by decrease in contract services.

**Comparison of FY 2024-25 and FY 2025-26 Mid-Year Expenditures
Internal Service Funds**

Expenditure Category	Mid-Year 2025	Mid-Year 2026	Variance (\$)	Variance (%)
05 - Employee compensation	808,373	930,929	122,555	15%
10 - Employee benefits	1,082,838	1,248,745	165,907	15%
15 - Materials	372,637	637,516	264,880	71%
20 - Contract services	897,792	780,883	(116,909)	-13%
25 - Cost allocation	152,230	435,924	283,695	186%
31 - Special projects	252,434	446,107	193,673	77%
Grand Total	\$ 3,566,303	\$ 4,480,104	\$ 913,801	26%

Salary and Benefits increased by approximately \$288,000, or 15%, due to filling vacancies and increase in employee health insurance and retirees health insurance premiums.

Materials increased by \$265,000, or 71%, mainly due to an increase in small tools and equipment costs, software, and conference and training expenses.

Contract Services decreased approximately \$117,000, or 13%, largely due to a decrease in general service agreements.

Cost Allocation increased by approximately \$284,000, or 186%, primarily due to Human Resources and Finance related CAP charges.

Special Projects increased by approximately \$193,000, or 77%, primarily due to fixed asset acquisition.

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.

The budget adjustment requests are summarized in the table below and are also provided in this report as Attachment D.

Department	Revenue	Expenditure	Change in Fund	
			Balance	Proposal
Administration - City Attorney's Office	-	410,000	(410,000)	City Attorney's Office Contract Services
Administration - City Attorney's Office	-	10,461	(10,461)	Senior Assistant City Attorney salary alignment - remainder of FY 2026
Admin Services	-	75,000	(75,000)	Finance consulting, additional auditing and tax services pun group
Innovation & Technology	-	15,000	(15,000)	ADA Closed Captioning
Parks & Recreation	18,478	15,944	2,534	Hidden Treasures Proceeds
Public Works	-	6,111	(6,111)	Emergency HVAC Compressor Replacement
Non-Departmental	-	131,100	(131,100)	IT PEG Transfer Out
TOTAL GENERAL FUND	18,478	663,616	(645,138)	
Innovation & Technology	131,100	-	131,100	IT PEG Transfer In
TOTAL INTERNAL SERVICE FUND	131,100	-	131,100	
TOTAL ALL FUNDS	\$ 149,578	\$ 663,616	\$ (514,038)	

Administration – CAO – Contract Services

The City Attorney is appointed by the City Council to manage the legal affairs of the City. The CAO is requesting \$410,000 for Legal Services as costs have increased this year due to unique circumstances, including various personnel matters, an important interpleader case, a complicated City-sponsored affordable housing project and builder’s remedy cases.

Administration – City Attorney’s Office (CAO) – Senior Assistant City Attorney Salary Alignment to Department Director – remainder of FY 2026

The CAO is requesting an increase to salaries and benefits for the remainder of Fiscal Year 2026 in the amount of \$10,461 to align the salary of the Senior Assistant City Attorney. This alignment reflects the elevation of that classification as a member of the City’s Executive Management Team and increased responsibilities including review and revision of department staff reports, review of an increasing volume of Public Records Act requests and appointment as the Board member to PLAN and its concomitant

responsibilities in risk and insurance management. This alignment will result in an ongoing expense of approximately \$35,000 for future fiscal years.

Admin Services – Finance consulting, additional auditing and tax services

The Department is requesting a one-time increase of \$75,000 for financial consulting from HdL and additional auditing and tax services from The Pun Group.

Parks & Recreation -Hidden Treasures Proceeds

The Department is requesting \$18,478 in additional appropriations from the 2025 Hidden Treasures Event to reimburse the costs to run the program and continue to support the Stay Active Fund. This proposal also includes allocation of a \$300 donation received for the Stay Active Fund, as requested by the donor. The Stay Active Fund helps members ages 50 and over remain active and engaged at the Cupertino Senior Center. This fund provides financial assistance through scholarships for members to offset the cost of a Senior Center membership and registration for classes and events. This fund is also utilized to bring in specialized speakers, secure educational films, and purchase resource materials, etc. for events and programs that promote prevention and preparedness of aging issues such as the Health Fair. If not approved, the funds will not be utilized to recoup the costs to produce the event or support the Stay Active Fund.

I&T – Closed Captioning

The Department is requesting a one-time increase of \$15,000 to support closed captioning for the City’s public-facing video content and virtual meetings to meet upcoming federal accessibility requirements. Effective April 24, 2026, the Americans with Disabilities Act (ADA) Title II requires public entities serving populations of 50,000 or more to ensure digital content—including prerecorded and live videos—is accessible in accordance with WCAG 2.1 Level AA standards, which include accurate closed captioning. The requested funding will support compliant captioning services, reduce legal and compliance risk, and ensure equitable access to public information for individuals who are deaf or hard of hearing. This investment advances the City’s commitment to accessibility, inclusivity, and transparent public communication. As part of the request, an ongoing budget of \$5,000 is requested.

I&T - Video - Fund transfer between different funds

As part of Q1, The Department received \$131,100 in additional appropriations to cover expenses for the new Control Room build. This funding was used for infrastructure replacements—specifically, servers and network equipment that had reached end of life. The expenses were required to complete implementation, testing, and transition to the new system. The replacements are funded through PEG-allocated project expenses.

Since the funds were allocated to the Internal Services Fund 610-34-310, Council must authorize the transfer of \$131,000 from the General Fund to the Internal Services Fund (610) for the expenses to be reimbursed via PEG funds at end of FY2026.

Public Works - HVAC System Compressor Replacement

The Department is requesting a one-time increase of \$6,111.00 in additional appropriations for HVAC System Compressor Replacement for Quinlan Community Center (QCC). The compressor failed and reached the end of its useful life. If this is not approved, the QCC will continue to experience inconsistent temperature control, ongoing equipment failures and higher energy and maintenance costs. System performance will remain suboptimal, increasing user complaints and the likelihood of unplanned repairs.

Fund Balance

The General Fund’s audited ending fund balance for FY 2024-25 is \$181.8 million, a 15.7 million increase from FY 2023-24 actuals primarily due to the prior year ending with expenditure savings that outpaced revenue decreases. Expenditure savings were primarily because of salary and contract savings along with increased revenues across almost all revenue categories, primarily due to increased investment earnings.

As of mid-year, staff anticipate the General Fund will end FY 2025-26 with \$178.7 million in fund balance, an increase of \$22.7 million from the FY 2025-26 Adopted Budget fund balance projection. The increase from the Adopted Budget is a result of both year-end revenues exceeding expenditures and budget savings achieved in the prior fiscal year. It’s important to note that the only portion available for use, according to City policy, is unassigned funds. Committed funds 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, \$62.7 million is unassigned and available to be used.

Approximately \$10.7 million of unassigned fund balance is attributed to Vallco Town Center plan check and building inspection revenues that were carried over. These revenues will continue to be carried over each year until the services are rendered, and the revenues are recognized.

General Fund Classification of Fund Balance (\$ in millions)

Classification	Actual		Adopted Budget	1st Quarter Projection	Mid-Year	Year End
	2023-24	2024-25	2025-26	2025-26	Projection	Projection
Non Spendable	\$ 3.4	\$ 4.0	\$ 3.5	\$ 4.0	\$ 4.0	\$ 4.0
Restricted	23.3	25.8	22.1	24.8	25.8	25.8
Committed	108.6	88.6	87.2	88.6	86.1	86.1
Assigned	4.7	7.3	-	-	-	-
Unassigned	26.0	56.1	43.3	65.5	62.7	62.7
TOTAL FUND BALANCE	\$ 166.1	\$ 181.8	\$ 156.0	\$ 183.0	\$ 178.7	\$ 178.7

*Mid-Year Year-End Projections assume budgeted revenues and expenditures are fully collected and incurred. Fund balances do not consider City Council actions after December 31, 2025. Adjustments to Committed fund balance are made as part of the year-end closing process.

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. Sustainability Reserve
4. Unassigned

As of mid-year, all priority areas are fully funded.

Staffing

As of December 31, 2025, the FY 2025-26 Amended Budget includes a total of 211 full-time equivalent (FTE) positions. No additional full-time equivalent positions are requested as part of mid-year.

Performance Measures

The Mid-Year Financial Report includes updated performance measures that are in line with the best practices of both government and private industry. Workload indicators were removed as part of Baker Tilly's, the City's internal auditor, recommendation. These measures have been designed to provide a comprehensive understanding of the City's performance and progress toward achieving its goals and objectives. Attachment F provides an overview of the status of the performance measures as of mid-year. This information is critical to effective decision-making and ensures that resources are being used in the most efficient and effective way possible.

City Manager Discretionary Fund

In the FY 2025-26 Adopted Budget, City Council approved \$50,000 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, 2025, the City Manager's Discretionary Fund has been used for Property Appraisal Services for 10480 Finch Avenue at a cost of \$7,400.

Carryovers and Budget Adjustments

The quarterly financial reports provide details on carryovers and budget adjustments. Encumbrances are outstanding commitments tied to unfilled purchase orders or contracts, which are rolled over to the following fiscal year until those obligations are fulfilled or terminated. Budget carryovers 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. Budget adjustments are amendments to the budget that are approved by Council via resolution. The amended budget is the adopted budget, plus encumbrances, budget carryovers, and Council-approved budget adjustments. Revenue

and expenditure carryover processes are handled similarly. See Attachment C for details on carryovers and budget adjustments.

Special Projects

The quarterly financial reports provide a status update on special projects including the budget, amount spent, and estimated completion date. Special projects are operational projects, often one-time, that are budgeted in separate accounts for transparency and ease of tracking. If a special project is not completed by the end of a fiscal year, staff may request a carryover to the subsequent fiscal year. Fixed assets have been removed from the list as they are not one-time special projects but the purchase of a fixed asset. Fixed assets are generally items over \$5,000 with a useful life of over 5 years or more. Projects included in this reporting category now align with the City Council Special Project Policy. See Attachment G.

Grants

The quarterly financial reports provide a status update on all active grants and any completed projects for which funding is yet to be received. Active grants are those that have not yet been fully closed out with the granting agency.

Below is a high-level summary of the grant tracking document. Please refer to Attachment H for complete grant tracking updates.

	Competitive Grants	Non-Competitive Grants
Active Grants	15	20
Pending Results	0	0
Total Grant Dollars Awarded	\$28,859,428	\$4,054,938

Staff will continue to provide additional updates on the status of grants as part of the quarterly financial reports.

Capital Improvement Plan

Public Works staff will bring the Capital Improvement Program FY 2026-27 proposal to City Council in March 2026, for review and later inclusion in the FY 2026-27 Budget discussions.

CIP Project Status

The quarterly financial reports 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 I for the status of projects.

City Work Program

On December 1, 2025, Council added six new projects to the FY 2025-27 City Work Program. These have been incorporated into the two-year CWP and any funding needs, if any, will be presented as part of proposed budget study sessions in May 2026.

Other Budget Items

Sheriff's Contract Increase

The complete impact of the Sheriff contract increase is not yet known. Staff is continuing to negotiate and provide updates as additional information becomes available, as noted in the earlier forecast section of this report.

Reorganization of Insurance Administration from Human Resources to City Attorney's Office

As part of ongoing City operational alignment, the Insurance Administration Program was transferred from Administrative Services to the City Attorney's Office. The City Attorney's Office maintains day-to-day contact with PLAN JPA (the City's self-insurance pool) and serves as the Board appointees to PLAN. In addition, the City Attorney's Office oversees and manages the City's general liability and property insurance programs. Given this existing oversight and regular coordination with PLAN JPA, consolidating the Insurance Administration Program within the City Attorney's Office improves efficiency, streamlines communications, and ensures consistent management of the City's risk mitigation and insurance functions.

Reorganization of Human Resources Division from Administrative Services to City Manager's Office

The Human Resources Division has been reassigned from the Administrative Services Department to the City Manager's Office. In this structure, Human Resources provides direct support to the City Manager and delivers strategic and operational services and continues to support the policy direction of the City Council. This change strengthens coordination across departments and enhances the City's ability to address citywide priorities and workforce needs.

Development Services Division Salary Savings for 3rd Party Inspection Services

Following the retirement of a Public Works Inspector, the Public Works Department expects to fill the position permanently in April, creating a 3–4 month vacancy. Because existing staff cannot fully absorb the additional workload, the Department proposes hiring temporary inspection services at an estimated cost of \$73,600 which includes contingency. These costs would be covered by salary savings from the vacant position, allowing the Department to maintain service levels without exceeding the approved budget. Without using these savings, additional appropriations or service delays may occur.

Sustainability Impact

No sustainability impact.

Fiscal Impact

The Mid-Year Financial Report shows the City is positioned as anticipated. City staff recommends adjustments of \$663,616 in new appropriations, funded by \$149,578 in revenues and \$514,038 in one-time fund balance. 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.

City Work Program (CWP) Item/Description:

None

Council Goal:

Public Engagement and Transparency, Fiscal Strategy

California Environmental Quality Act

Not applicable.

Prepared by: Toni Oasay-Anderson, Acting Budget Manager

Reviewed by: Jonathan Orozco, Acting Director of Administrative Services

Floy Andrews, Interim City Attorney

Approved for Submission by: Tina Kapoor, City Manager

Attachments:

A – FY 2025-26 Mid-Year Financial Report

B – Draft Resolution – Budget Appropriations

C – Description of Carryovers and Adjustments as of December 31, 2025

D – Description of Budget Transfers as of December 31, 2025

E – FY 2025-26 Mid-Year Recommended Adjustments

F – Mid-Year Performance Measures

G – FY 2025-26 Mid-Year Special Projects Update as of December 31, 2025

H – FY 2025-26 Competitive and Non-Competitive Citywide Grants Tracking

I – Capital Improvement Program Project Status

J - Draft Resolution – Unrepresented Agreement Update

K – Unrepresented Employees’ Compensation Program (Clean)

L – Unrepresented Employees’ Compensation Program (Redline)