



ADMINISTRATIVE SERVICES DEPARTMENT

CITY HALL
10300 TORRE AVENUE • CUPERTINO, CA 95014-3255
TELEPHONE: (408) 777-3220 • FAX: (408) 777-3109
CUPERTINO.ORG

CITY COUNCIL STAFF REPORT

Meeting: March 4, 2025

Subject

Accept the City Manager's Mid-Year Financial Report for Fiscal Year 2024-25

Recommended Action

1. Accept the City Manager's Mid-Year Financial Report for Fiscal Year 2024-25
2. Adopt Resolution No. 25-XXX approving Budget Modification No. 2425-383, increasing appropriations by \$4,161,892 and revenues by \$4,115,183.

Executive Summary

The Mid-Year Financial Report for Fiscal Year (FY) 2024-25 outlines the City's financial status as of December 31, 2024. The City has updated its 10-Year financial forecast and, due to significant changes in revenues and expenditures assumptions, is forecasting to be structurally sound with no deficits through FY 2033-34. The details are discussed later in the report.

The FY 2024-25 Amended Budget is \$217.4 million, increasing from an adopted budget of \$146.6 million due to carryovers and encumbrances from the last fiscal year, in addition to Council-approved budget adjustments.

As of Mid-Year FY 2024-25, revenue was \$5.3 million, or 11%, lower than Mid-Year 2023-24, primarily attributed to a significant decrease in reported sales tax due to a shift to cash basis accounting for interim reports as recommended by the City's financial auditors, The Pun Group. While this change enhances cash flow accuracy, it may limit comparability with FY 2023-24. This decrease is offset by an increase in use of money and property primarily 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 FY 2024-25. Mid-Year expenditures were \$10.3 million, or 22% higher 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.

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

- Increase Capital Reserve to meet the minimum reserve levels per policy and restart annual Capital Reserve funding transfers;
- Funding for additional executive recruitment; and
- Funding for the purchase of a new lawn mower.

Reasons for Recommendation

Background

On June 4, 2024, the City Council adopted the FY 2024-25 Adopted Budget, a \$146.6 million spending plan funded by \$139.3 million in revenue and \$7.3 million in fund balance. The adopted budget reflected a \$102,805 increase from the proposed budget.

As described in the City Manager's First Quarter Financial Report, the budget was revised to account for encumbrances and carryover appropriations.¹ As part of the FY 2023-24 year-end close, additional funds were carried forward to FY 2024-25, amounting to \$9.0 million in encumbrances and \$61.1 million in budget carryovers. The largest encumbrances were for General Fund (\$4.8 million), and the largest carryovers were for General Fund (\$24.3 million) and are largely related to The Rise Project.

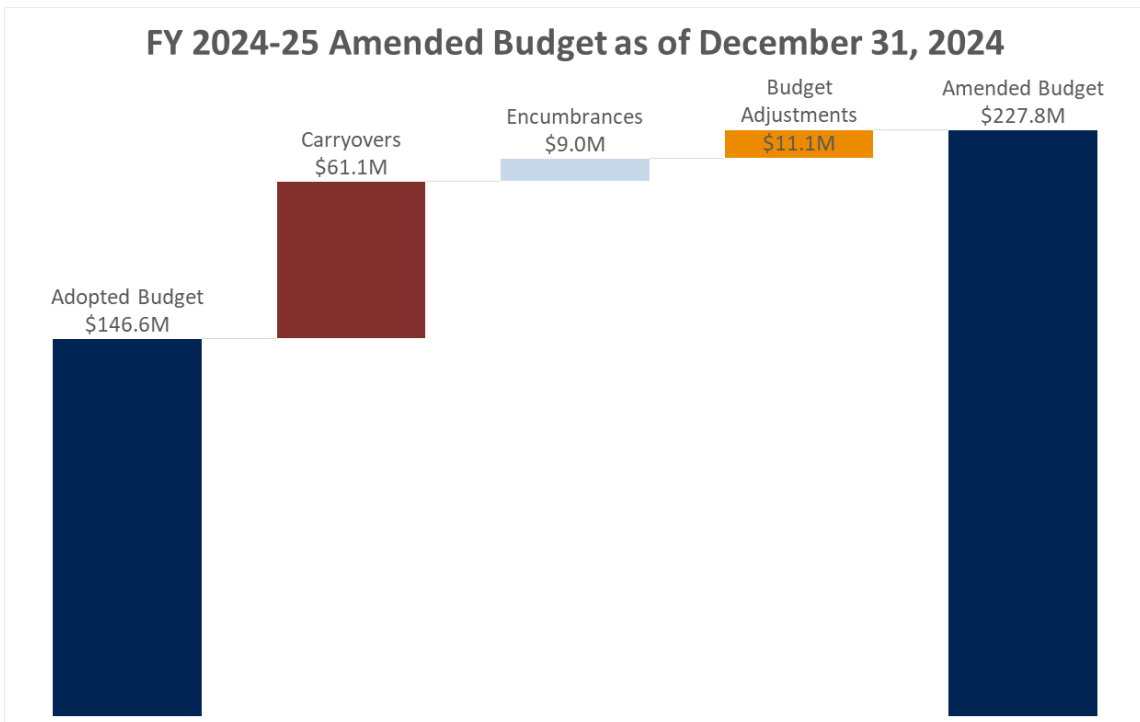
Furthermore, the FY 2024-25 Amended Budget as of December 31, 2024, includes Council-approved budget adjustments from July 1 to December 31, 2024, for a total of \$227,801,053 across all funds.

The amended budget at the end of mid-year is \$227.8 million, funded with \$175.0 million in revenue and \$52.8 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.

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. 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. Carryovers can be found in the Q1 financial report presented to City Council on December 3, 2024.

Mid-Year Summary of Budget Adjustments by Fund

Fund	FY 2024-25 Adopted Budget	Carryovers	Encumbrances	Adjustments Approved in 1st and 2nd Quarters	FY 2024-25 Amended Budget as of December 31, 2024
General	90,041,794	24,271,306	4,753,530	10,729,524	129,796,154
Special Revenue	13,956,348	15,445,956	885,056	374,115	30,661,475
Debt Service	2,676,200	-	-	-	2,676,200
Capital Projects	22,057,580	20,678,417	2,449,854	300,000	45,485,851
Enterprise	9,271,222	522,360	55,396	20,545	9,869,523
Internal Service	8,643,349	151,167	837,023	(299,998)	9,331,541
Total All Funds	\$ 146,646,493	\$ 61,069,206	\$ 8,980,859	\$ 11,124,186	\$ 227,820,744



Discussion

The Mid-Year Financial Report, reported as of December 31, 2024, 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.

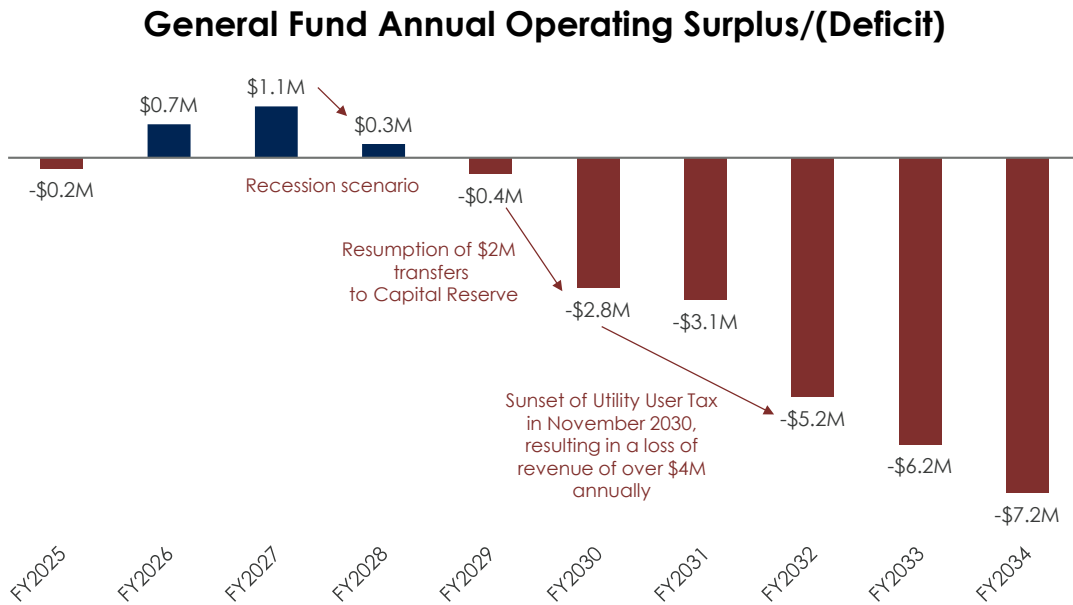
Fund	FY 2024-25 Amended		
	Budget as of December 31, 2024	Requested Mid-Year Adjustments	Year-End Projections
General	129,796,154	4,161,892	133,958,046
Special Revenue	30,661,475	-	30,661,475
Debt Service	2,676,200	-	2,676,200
Capital Projects	45,485,851	-	45,485,851
Enterprise	9,869,523	-	9,869,523
Internal Service	9,331,541	-	9,331,541
Total All Funds	\$ 227,820,744	\$ 4,161,892	\$ 231,982,636

The largest request at mid-year is related to fully funding the Capital Reserve to policy levels and a few other minor requests for funding. Transferring unassigned fund balance dollars from the General Fund to the Capital Reserve does not allocate those funds for spending, which is done as part of the Capital Improvement Plan process or via a staff report.

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
Forecast**

The City had previously forecasted a structural deficit in the last six years of its ten-year financial forecast. As shown in the graphic below, the City’s deficit began in FY 2029, primarily due to the reinstatement of a \$2 million transfer to the Capital Reserve to fund future capital improvement projects. In FY 2030, the deficit grows as the Utility User Tax sunsets, resulting in a loss of approximately \$4 million annually. However, this impact is partially offset by the full repayment of debt in FY 2031. From then, ongoing increases in expenditures outpace revenues resulting in a growing deficit.



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Due to the settlement agreement with California Department of Tax and Fee Administration (CDTFA) and other adjustments to forecast assumptions, the City is now forecasting to be structurally sound for the next 10 years. The table below describes how the funding gap closed.

In FY 2023-24, \$15.1 million in reductions was achieved by reducing materials and contracts and eliminating 13 vacant positions. In FY 2024-25, the reduction focus shifted from category to service-level reductions, resulting in \$8.7 million in savings. The majority of the savings came from aligning the budgets to actual expenditures and reducing annual Capital Improvement funding. These efforts resulted in \$23.8 million in total reductions. In addition, refinements to the City’s budget forecast had a net positive impact further improving the City’s long-term financial outlook. Budget reductions are detailed in the table below:

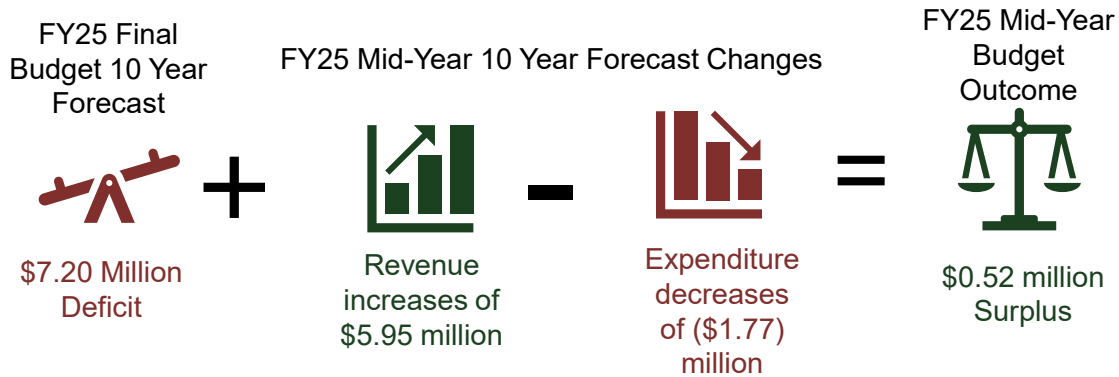
Budget Reductions FY 2023-24 and FY 2024-25

Category	FY24		Summary
Materials & Contracts	\$5.5M		Reductions across departments, most notably reductions to street pavement maintenance and training and development
Staffing	\$2.4M		13 FTE positions
Transfers ²	\$5.8M		Reduced Transfers out to other funds
Capital Outlays, Special Project, Contingencies and Cost Allocations ²	\$1.4M		Reduced all categories listed
FY24 Reductions	\$15.1M		

Category		FY25	
Community Benefits		\$0.1M	4 th of July Fireworks
Fiscal Accountability		\$2.8M	Align Law Enforcement costs with actuals, ERP, and legal costs
Infrastructure		\$2.9M	No CIP reserve transfer and tree maintenance moved inhouse
Operations and Maintenance		\$2.9M	Elimination of two Project Managers and reduction of part-time staff. Includes additional materials and contract reductions.
Total FY25 Reductions		\$8.7M	
TOTAL REDUCTIONS ALL YEARS		\$23.8M	

² Transfers and Capital outlay, special projects etc. were not previously included in reduction discussions after the proposed budget as they did not result in a service level reduction. These are included to show the full budget reductions made, with exception of use of fund balance.

Changes since FY 2024-25 Final Budget



Since the forecast was last presented to City Council as part of the FY 2024-25 Final Budget, we have gained clarity on a number of budget-related items, including the CDTFA Audit resolution and water system lease revenues. Additionally, City Council approved a one-time additional discretionary payment (ADP) to CalPERS for the City's retirement system of \$10 million dollars, which has had a significant impact on the forecast.

Furthermore, staff have made additional refinements to the forecast to better align with historical actuals in property tax and Franchise fees, and made changes to the employee vacancy rate to better align it with historical employee vacancy savings. The table below summarizes these changes and their impact, comparing the FY 2024-25 Final Budget Forecast with the FY 2024-25 Mid-Year Forecast.

FY26 and FY34 Projection Changes by Category: Final Budget vs Mid-Year Forecasts (\$ in millions)

Expenditure Categories	Changes in FY26 of the Forecast	Changes in FY34 of the Forecast
Employee compensation & benefits	\$ (2.39)	\$ (1.77)
45 - Transfer out	\$ 2.00	\$ -
Total Expenditure Changes	\$ (0.39)	\$ (1.77)
Revenue Categories		
05 - Sales Tax	\$ (0.04)	\$ (0.05)
10 - Property Tax	\$ 1.11	\$ 1.40
15 - Transient Occupancy	\$ (0.46)	\$ (0.54)
25 - Franchise Fees	\$ 0.82	\$ 0.92
40 - Use of Money and Property	\$ 0.17	\$ 2.32
60 - Miscellaneous	\$ 1.85	\$ 1.84
Total Revenue Changes	\$ 3.49	\$ 5.95
Net Impact	\$ 3.88	\$ 7.72

The table above compares the original forecast presented as part of the FY 2024-25 Final Budget to the updated FY 2024-25 Mid-Year forecast. These numbers were calculated by comparing both forecasts at the category level. Both FY 2025-26 and FY 2033-34 forecast are compared to show how impacts either increase or decrease in the forecast.

Revenues

Sales and Transient Occupancy Tax are decreasing just over \$500,000 in FY 2025-26 and just under \$600,000 in FY 2033-34. This decline is primarily driven by updated forecast projections based on prior year actuals.

Property Tax and Franchise Fees are increasing by about \$1.9 million dollars in FY 2025-26 and \$2.3 million in FY 2033-34, reflecting refinements in the forecast to better align with the prior year actuals. The growth trend is expected to continue throughout the forecast.

Use of Money and Property is increasing due to the City's improved financial position. With more years in the positive than in a deficit this results in more funds or fund balance available for the City to invest. The additional fund balance contributes to higher interest earnings, as more funds are available for investment. The increase is reflected throughout the forecast, with estimated increases in FY 2025-26 of \$170,000, growing by \$2.32 million in FY 2033-34, as fund balances continue to rise.

Miscellaneous Revenue is increasing due to the City's new water system lease agreement, which provides approximately \$1.8 million in annual revenues for the life of the 12-year contract with San Jose Water Company. These revenues began in the current fiscal year, FY 2024-25, and will conclude in FY 2036-37, which is beyond the current forecast.

Expenditures

Employee Compensation and Benefits is decreasing by \$2.39 million in FY 2025-26 and \$1.77 million in FY 2033-34. This reduction is primarily due to aligning FY 2024-25 projections with the adopted budget, the one-time Additional Discretionary Payment (ADP) to CalPERS to reduce the City's Unfunded Accrued Liability (UAL), and an increase in the assumed vacancy rate to 4%. The gradual decline in annual savings over the forecast period is attributed to CalPERS UAL payments stabilizing and aligning more closely with the initial forecast.

Transfers out is increasing in the FY 2025-26 to account for the recommendation in this staff report to begin funding the Capital Reserve sooner than previously anticipated. Since this funding was already included in the later years of the original forecast, there is no impact in FY 2033-34.

Although this is great news, the City must remain cautious, as expenditure growth outpaces our revenues, leading to a decreasing surplus figure in the later years of the

current forecast. To maintain long-term financial stability, the City will likely need to seek further reductions and/or revenue enhancements in the near future.

Updated 10-Year Forecast as of FY 2024-25 Mid-Year Financial Report

After applying the changes noted in the section above, the City’s financial forecast has significantly improved. What was previously a deficit in over half the forecast is now positive throughout the entire forecast period. Additionally, the forecast allows for resumption funding of the Capital Improvement at \$2 million annually beginning in FY 2024-25 versus FY 2028-29. These positive changes in our forecast reflects the work the City Council, Community, and staff have put into solving the unprecedented loss of \$30 million in revenue and subsequent structural deficit

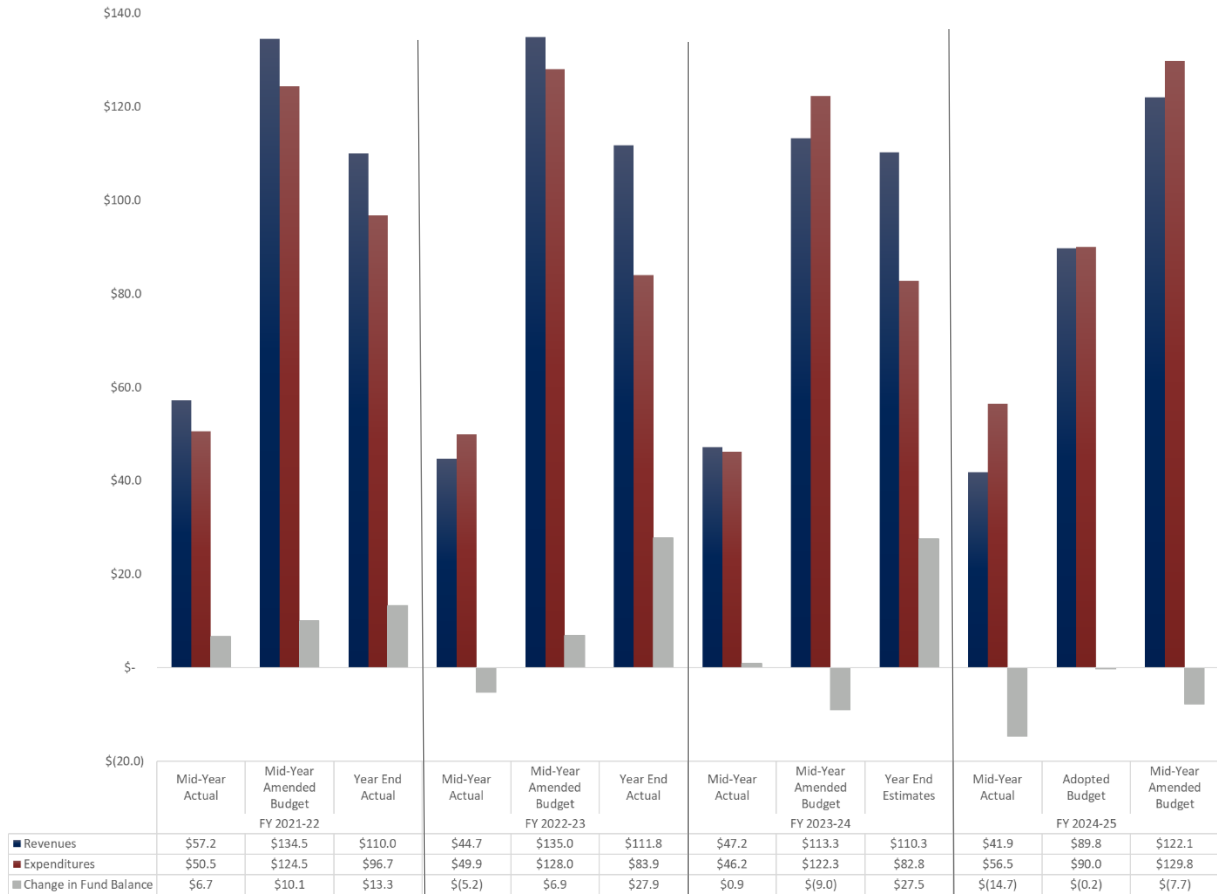
General Fund Annual Operating Surplus/(Deficit)



However, we recommend proceeding with caution as our forecast shows that our expenditure growth outpaces revenue growth, as shown with declining budget surpluses throughout the forecast. As we move forward in this year’s budget process along with next year’s proposed and final budget, the focus should be on limiting ongoing expenses and focusing on one-time costs. The City should continue to pursue revenue enhancements such as fee increases and tax measures and look to reduce costs where feasible, with a goal of having growing surpluses in out-years versus declining, a sign that the city is fiscally sound into the future.

General Fund at Mid-Year

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



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. The updated long-term forecast discussed later in this report will show that the City expect to have positive fund balance for the next 10 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 \$5.3 million, or 11%, 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 2023-24 and FY 2024-25 Mid-Year Revenues General Fund

Revenue Category	Mid-Year 2024	Mid-Year 2025	Variance (\$)	Variance (%)
05 - Sales tax	22,486,303	6,253,234	(16,233,070)	-72%
10 - Property tax	9,111,207	9,533,057	421,850	5%
15 - Transient occupancy	2,256,103	2,517,307	261,204	12%
20 - Utility tax	1,519,268	1,747,222	227,953	15%
25 - Franchise fees	910,438	828,043	(82,396)	-9%
30 - Other taxes	656,756	903,132	246,376	38%
35 - Licenses and permits	1,859,890	2,703,734	843,845	45%
40 - Use of money and property	1,662,349	5,620,126	3,957,777	238%
45 - Intergovernmental revenue	221,695	1,593,094	1,371,399	619%
50 - Charges for services	5,705,245	7,219,090	1,513,845	27%
55 - Fines and forfeitures	118,777	157,093	38,316	32%
60 - Miscellaneous	564,192	1,445,733	881,540	156%
65 - Transfers in	111,000	15,000	(96,000)	-86%
70 - Other financing sources	-	1,331,275	1,331,275	N/A
Total	\$ 47,183,225	\$ 41,867,139	\$ (5,316,086)	-11%

Sales Tax revenue as of mid-year is \$6.2 million, which is a 72% decrease from the previous year. This decline is primarily due to two factors. First, as noted in the First Quarter Financial Report, the City reached a settlement agreement with the CDTFA, which resulted in the cessation of previously misallocated sales tax revenue. The City adjusted the sales tax received to reflect the new reporting amount of \$6.2 million. The CDTFA has yet to adjust any sales tax reporting as a result of the settlement. Second, sales tax revenues are received on a two-month lag, meaning the current figures account for collections from July through October 2024 (FY 2024-25), whereas mid-year figures from the prior fiscal year (FY 2023-24) included six months of collections, spanning July through December 2023.

For FY 2024-25, the City budgeted \$11.6 million in sales tax revenue. Staff recommends maintaining this projection to remain both conservative and realistic, as it accounts for current trends while ensuring fiscal prudence. Given that only four months of sales tax collections have been received, it is still too early in the fiscal year to make significant adjustments based on partial-year data.

Property Tax revenue is higher than last year by approximately \$422,000, or 5%. According to HdL, the City's property tax consultant, residential use values increased 5.7% for a total

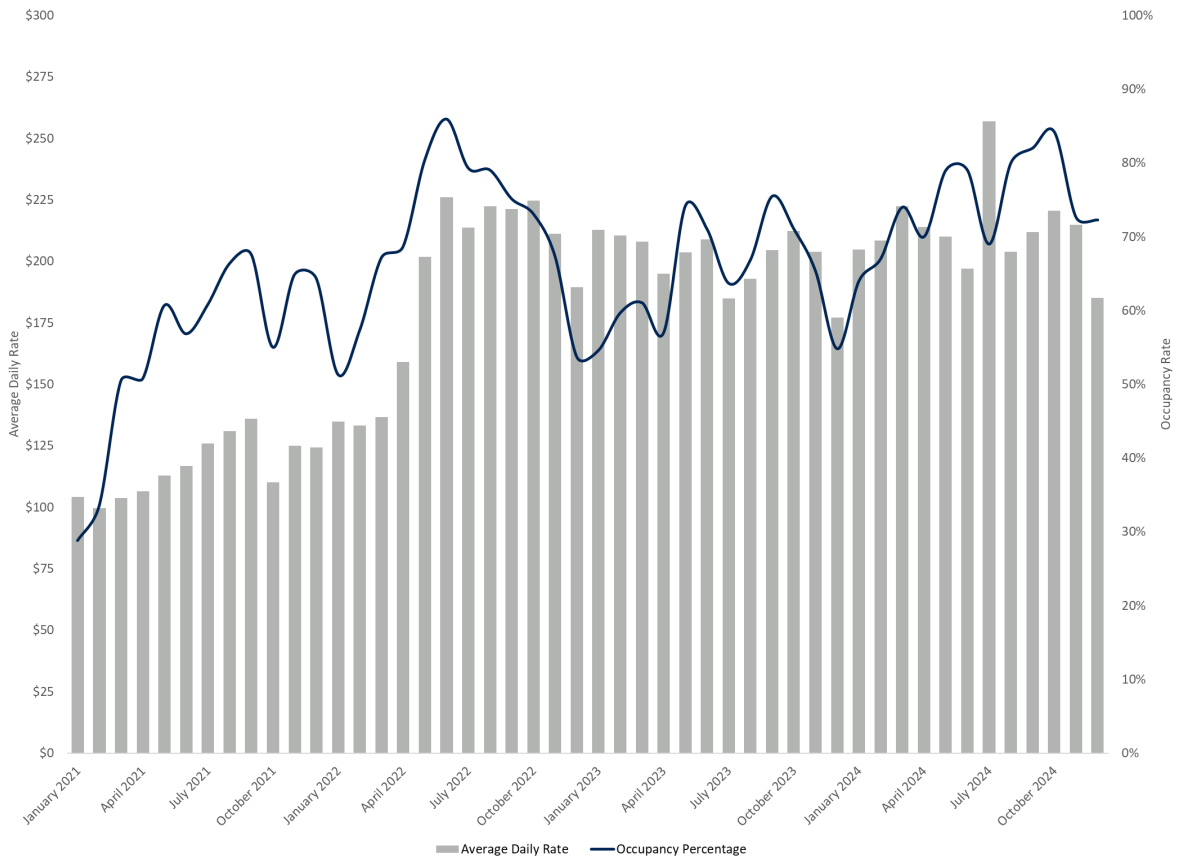
of \$1.147 billion and represented 81% of all growth experienced in the City. The citywide growth in value in the 2024-25 assessment roll is \$1.412 billion, an increase of 4.4%. Staff will continue to monitor this top revenue source and may recommend adjustments as part of the Third Quarter Financial 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 \$261,000, or 12%, compared to the previous year due to the remittance of taxes from a hotel in Cupertino during the current mid-year period that were not received in the previous year. Although an increase is reflected here, business travel has not returned compared to pre-pandemic levels. According to HdL, occupancy is improving a couple of percentage points each year, however, the Average Daily Rate may still be too low, compared to prior years. So, while the Average Daily Rate is increasing, it doesn't appear that it is driven by demand.

Average Daily Rates and Occupancy Rates by Month Hotels in Cupertino



Although TOT revenues have mostly recovered from the pandemic, the City's TOT revenues may continue to be affected in the long term due to telework and decreased business travel. Headwinds in the tech industry have resulted in layoffs and reduced spending in areas such as travel. 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 (UT) increased by approximately \$228,000, or 15%, primarily due to an increase in the amount of UUT collected based on higher gross receipts compared to the same period in the prior year.

Franchise Fees decreased by approximately \$82,000, or 9%, due to a one-time overpayment reflected in the prior mid-year period for October 2023 that was corrected with an underpayment in January 2024.

Other Taxes increased by approximately \$246,000, or 38%, due to increases received for the collection of business license taxes and property transfer taxes.

Licenses and Permits increased by approximately \$844,000, or 45%, due to construction plan check revenues for multiple large office tenant improvement submittals, an increase in residential submittals for new homes and remodels, as well as an increase in permits to clear code enforcement cases.

Use of Money and Property increased by approximately \$4.0 million, or 238%, 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 FY 2024-25.

Intergovernmental Revenue increased by \$1.4 million, or 619%, over the same period last year primarily due to the receipt of grant funds for the community shuttle.

Charges for Services increased by \$1.5 million, or 27%, driven mainly by increases in cost allocation plan methodology and general service fees related to library maintenance.

Fines and Forfeitures increased by \$38,000, or 32%, due to an increase in revenues related to parking fines compared to the same period last year.

Miscellaneous Revenue increased by approximately \$882,000, or 156%, primarily due to the timing of the Apple donation for sheriff services.

Transfers In decreased by \$96,000, or 86%, due to transfers in from other funds that occurred during the previous mid-year period.

Other Financing Sources increased by \$1.3 million due to revenues received from the Byrne property transaction.

Expenditures

Expenditures in the General Fund have increased by \$10.3 million, or 22%, 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 2023-24 and FY 2024-25 Mid-Year Expenditures
General Fund**

Expenditure Category	Mid-Year 2024	Mid-Year 2025	Variance (\$)	Variance (%)
05 - Employee compensation	11,096,489	10,566,467	(530,022)	-5%
10 - Employee benefits	4,664,982	15,264,471	10,599,488	227%
15 - Materials	2,487,504	2,813,766	326,262	13%
20 - Contract services	13,833,030	14,256,813	423,784	3%
25 - Cost allocation	5,128,828	5,319,290	190,462	4%
30 - Capital outlays	421,523	32,349	(389,174)	-92%
31 - Special projects	1,909,536	623,226	(1,286,311)	-67%
35 - Contingencies	-	3,035	-	N/A
45 - Transfer out	6,595,284	7,403,168	807,884	12%
50 - Other financing uses	102,412	247,521	145,109	142%
Total	\$ 46,239,589	\$ 56,530,107	\$ 10,287,483	22%

Salary decreased by approximately \$0.5 million, or 5%, from the previous mid-year period due to vacancy savings.

Benefits increased by approximately \$10.6 million, or 227%, from 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 addition, increases in retirement, healthcare, and workers’ compensation costs account for the remaining increase.

Materials increased by approximately \$326,000, or 13%, primarily due to increases in electrical costs and general supplies.

Contract Services increased by approximately \$424,000, or 3%, primarily driven by insurance premium increases, paid claims, settlements, and law enforcement contract costs.

Cost Allocation increased by approximately \$190,000, or 4%, primarily due to increased Cost Allocation Plan (CAP) charges.³

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.

Capital Outlay decreased by approximately \$389,000, or 92%, due to the security gate project at the Service Center in the prior year.

Special Projects decreased by approximately \$1.3 million, or 67%, primarily due to I-280/Wolfe Road Interchange Improvement.

Contingencies remain relatively unchanged from last year.

Transfers Out increased by approximately \$808,000, or 12%, due to the increase of transfers for retiree medical due to the use of the Other Post Employment Benefits Trust paying for the last two years. 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 \$145,000, or 142%, due to a higher volume of on-call contracts in the Community Development Department for plan reviews and inspections.

Special Revenue Funds

Revenue

Special Revenue Funds revenue is \$0.2 million, or 4%, higher than the same time last year primarily due to an increase in use of money and property and intergovernmental revenue.

Comparison of FY 2023-24 and FY 2024-25 Mid-Year Revenues Special Revenue Funds

Revenue Category	Mid-Year 2024	Mid-Year 2025	Variance (\$)	Variance (%)
30 - Other taxes	205,602	86,517	(119,085)	-58%
40 - Use of money and property	348,511	1,116,291	767,779	220%
45 - Intergovernmental revenue	3,031,052	3,527,541	496,489	16%
50 - Charges for services	76,061	54,491	(21,570)	-28%
55 - Fines and forfeitures	156	-	(156)	N/A
60 - Miscellaneous	4,304	200	(4,104)	-95%
65 - Transfers in	3,449,019	2,595,150	(853,869)	-25%
Total	\$ 7,114,705	\$ 7,380,189	\$ 265,485	4%

Other Taxes decreased by approximately \$119,000, or 58%, primarily due to decreased park dedication fees received in the prior mid-year period for Alan Row.

Use of Money and Property increased by approximately \$768,000, or 220%, primarily due to the mark-to-market adjustment, mirroring the impact seen in the General Fund.

Intergovernmental Revenue increased by approximately \$0.5 million, or 16%, due primarily to transportation related federal grants.

Charges for services decreased by approximately \$22,000, or 28%, primarily due to general fee revenues received for environmental storm drain clean-up reimbursement received.

Fines and forfeitures were relatively unchanged from last year.

Miscellaneous revenues were relatively unchanged from last year.

Transfers In decreased by approximately \$854,000, or 25%, due to decreased transfers in from general fund for street and sidewalk maintenance as part of service level reductions.

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 625-627 and 631-632 of the FY 2024-25 Adopted Budget.

Expenditures

Special Revenue Funds expenditures are \$1.8 million, or 30%, lower than the same time last year due primarily to decreases in capital outlays and special projects.

**Comparison of FY 2023-24 and FY 2024-25 Mid-Year Expenditures
Special Revenue Funds**

Expenditure Category	Mid-Year 2024	Mid-Year 2025	Variance (\$)	Variance (%)
05 - Employee compensation	838,413	801,517	(36,896)	-4%
10 - Employee benefits	383,234	439,696	56,462	15%
15 - Materials	274,984	241,638	(33,346)	-12%
20 - Contract services	481,661	225,746	(255,915)	-53%
25 - Cost allocation	610,307	1,015,027	404,720	66%
30 - Capital outlays	2,058,193	1,264,565	(793,627)	-39%
31 - Special projects	879,804	121,791	(758,013)	-86%
35 - Contingencies	-	-	-	N/A
45 - Transfer out	382,951	15,000	(367,951)	-96%
Total	\$ 5,909,548	\$ 4,124,981	\$ (1,784,566)	-30%

Salary decreased by approximately \$37,000, or 4%, due to vacancy savings.

Benefits increased by approximately \$56,000 or 15%, from last year due to increases in health care premiums and retirement costs.

Materials decreased by approximately \$33,000, or 12%, due to decreases in BMR and CDBG expenditures compared to the same period last year.

Contract Services decreased by approximately \$256,000, or 53%, primarily due to annual sidewalk curb and gutter maintenance.

Cost Allocation increased by approximately \$405,000, or 66%, primarily due to increased City Manager and Human Resources CAP Charges.

Capital Outlays decreased by approximately \$794,000, or 39%, due to decreases in Facility Improvements and SB1 Road.

Special Projects decreased by approximately \$758,000, or 86%, due to decreases in the annual asphalt project.

Transfers Out decreased by \$368,000, or 96%, due to reduced transfers for CIP projects.

Debt Service Funds

Revenue

Debt Service Funds revenue is similar to last year.

Comparison of FY 2023-24 and FY 2024-25 Mid-Year Revenues

Debt Service Funds

Revenue Category	Mid-Year	Mid-Year	Variance (\$)	Variance (%)
	2024	2025		
65 - Transfers in	2,677,600	2,676,200	(1,400)	0%
	\$ 2,677,600	\$ 2,676,200	\$ (1,400)	0%

Expenditures

Debt Service Funds expenditures are similar to last year.

Comparison of FY 2023-24 and FY 2024-25 Mid-Year Expenditures

Debt Service Funds

Expenditure Category	Mid-Year	Mid-Year	Variance (\$)	Variance (%)
	2024	2025		
20 - Contract services	1,500	1,500	-	0%
40 - Debt services	321,300	280,600	(40,700)	-13%
Total	\$ 322,800	\$ 282,100	\$ (40,700)	-13%

Capital Projects Funds

Revenue

Capital Projects Funds revenue is higher than last year primarily due to transfers in.

Comparison of FY 2023-24 and FY 2024-25 Mid-Year Revenues

Capital Projects Funds

Revenue Category	Mid-Year	Mid-Year	Variance (\$)	Variance (%)
	2024	2025		
40 - Use of money and property	-	657,685	657,685	N/A
45 - Intergovernmental revenue	225,652	21,365	(204,287)	-91%
50 - Charges for services	-	-	-	N/A
60 - Miscellaneous	14,365	-	(14,365)	-100%
65 - Transfers in	3,746,717	7,785,000	4,038,283	108%
Grand Total	3,986,734	8,464,050	4,477,315	112%

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 \$4.8 million, or 83%, higher than last year due to an increase in transfers to fund capital projects.

Comparison of FY 2023-24 and FY 2024-25 Mid-Year Expenditures Capital Projects Funds

Expenditure Category	Mid-Year		Variance (\$)	Variance (%)
	2024	2025		
20 - Contract services	161,960	9,690	(152,270)	-94%
30 - Capital outlays	1,332,901	2,098,518	765,617	57%
45 - Transfer out	4,327,785	8,547,580	4,219,795	98%
Grand Total	\$ 5,822,646	\$ 10,655,788	\$ 4,833,142	83%

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 \$66,000, or 2%, lower than the same time last year due primarily to a reduction in service fee charges.

Comparison of FY 2023-24 and FY 2024-25 Mid-Year Revenues Enterprise Funds

Revenue Category	Mid-Year		Variance (\$)	Variance (%)
	2024	2025		
40 - Use of money and property	328,058	427,282	99,223	30%
45 - Intergovernmental revenue	-	-	-	N/A
50 - Charges for services	3,173,342	2,505,137	(668,205)	-21%
60 - Miscellaneous	11,300	-	(11,300)	-100%
65 - Transfers in	-	514,000	514,000	N/A
Total	\$ 3,512,700	\$ 3,446,419	\$ (66,281)	-2%

Use of Money and Property increased by approximately \$99,000, or 30%, due to increased field rental permit revenue.

Charges for services decreased by approximately \$668,000, or 21%, primarily due to a reduction in enterprise service fees.

Miscellaneous decreased by \$11,300, or 100%, primarily due to stormwater pollution remediation recovery received during the prior mid-year period.

Transfers In increased by approximately \$0.5 million due to transfers from the General Fund.

Expenditures

Enterprise Funds expenditures are \$0.7 million, or 16%, lower than the same time last year due primarily to a decrease in contract services.

Comparison of FY 2023-24 and FY 2024-25 Mid-Year Expenditures Enterprise Funds

Expenditure Category	Mid-Year		Variance (\$)	Variance (%)
	2024	2025		
05 - Employee compensation	889,199	1,008,717	119,518	13%
10 - Employee benefits	298,906	403,365	104,459	35%
15 - Materials	155,008	204,328	49,320	32%
20 - Contract services	2,223,367	1,208,854	(1,014,512)	-46%
25 - Cost allocation	469,679	788,715	319,036	68%
30 - Capital outlays	13,995	-	(13,995)	-100%
31 - Special projects	359,960	110,165	(249,795)	-69%
45 - Transfer out	20,000	-	(20,000)	-100%
50 - Other financing uses	-	-	-	N/A
Grand Total	\$ 4,430,113	\$ 3,724,144	\$ (705,969)	-16%

Salary and Benefits increased by approximately \$224,000, or 19%, primarily due to health insurance premiums and retirement costs.

Materials increased by approximately \$49,000, or 32%, primarily due to software and Cal Recycle payment program administration expenses.

Contract Services decreased by approximately \$1.0 million, or 46%, primarily due to the restructuring of the Lifetime Tennis contract at the Sports Center.

Cost Allocation increased by approximately \$319,000, or 68%, primarily due to increased City Manager CAP allocation and Finance cost allocation.

Special Projects decreased by approximately \$0.25 million, or 69%, due to projects that differ in scope and timing from year to year.

Internal Service Funds

Revenue

Internal Service Funds revenue is \$1.6 million, or 46%, higher than the same time last year due to increased transfers in.

**Comparison of FY 2023-24 and FY 2024-25 Mid-Year Revenues
Internal Service Funds**

Revenue Category	Mid-Year 2024	Mid-Year 2025	Variance (\$)	Variance (%)
40 - Use of money and property	76,316	184,223	107,906	141%
50 - Charges for services	2,086,768	2,408,179	321,411	15%
60 - Miscellaneous	5,666	-	(5,666)	-100%
65 - Transfers in	1,417,684	2,380,398	962,714	68%
70 - Other financing sources	-	251,991	251,991	100%
Total	\$ 3,586,434	\$ 5,224,791	\$ 1,638,357	46%

Use of Money and Property increased by approximately \$108,000, or 141%, due to increased interest earnings from the City's investment portfolio and mark-to-market adjustments.

Charges for Services increased by approximately \$321,000, or 15%, primarily due to Innovation Technology related Cost Allocation charges.

Transfers In increased by approximately \$1.0 million, or 68%, due to increased transfers from the General Fund to the Innovation & Technology and Compensated Absences Fund.

Other Financing Sources increased by about \$252,000 due to workers compensation charges being billed to departments and received as revenue in this fund. In FY 2023-24, the fund had enough savings to cover the workers compensation fund, and therefore no revenue was collected.

Expenditures

Internal Service Funds expenditures are \$290,000, or 8%, lower than the same time last year due primarily to a decrease in materials and salaries, offset by increases in cost allocation and contract services.

**Comparison of FY 2023-24 and FY 2024-25 Mid-Year Expenditures
Internal Service Funds**

Expenditure Category	Mid-Year	Mid-Year	Variance (\$)	Variance (%)
	2024	2025		
05 - Employee compensation	965,434	808,373	(157,061)	-16%
10 - Employee benefits	1,027,952	1,082,838	54,886	5%
15 - Materials	631,637	372,637	(259,000)	-41%
20 - Contract services	782,649	897,792	115,143	15%
25 - Cost allocation	28,811	152,230	123,419	428%
31 - Special projects	343,867	252,434	(91,433)	-27%
35 - Contingencies	-	-	-	N/A
45 - Transfer out	76,000	-	(76,000)	-100%
50 - Other financing uses	-	-	-	NA
Grand Total	\$ 3,856,350	\$ 3,566,303	\$ (290,047)	-8%

Salary decreased by approximately \$157,000, or 16%, due to vacancy savings. This is offset by a \$55,000 increase in benefit costs.

Materials decreased by \$259,000, or 41%, mainly due to a decrease in small tools and equipment costs.

Contract Services are up approximately \$115,000, or 15%, largely due to an increase in general service agreements.

Cost Allocation increased by approximately \$123,000, or 428%, primarily due to Innovation Technology and Finance related CAP charges.

Special Projects decreased by approximately \$91,000, or 27%, due to projects that differ in scope and timing from year to year.

Transfers Out decreased by \$76,000, or 100%, due to Innovation Technology related transfers that occurred in the prior mid-year period.

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.

Fund	Department	Revenue	Expenditure	Change in Fund	
				Balance	Proposal
GENERAL FUND					
100 General Fund	Innovation & Technology	-	(31,564)	31,564	I&T - Admin - PT Admin Assistant
100 General Fund	Administrative Services	-	25,000	(25,000)	Exec recruitment - Assistant City Manager & City Attorney
100 General Fund	Parks & Recreation	13,619	11,188	2,431	Hidden Treasures Proceeds
100 General Fund	Non-Departmental	-	4,101,564	(4,101,564)	Transfer out to meet minimum capital reserve levels per policy, resume annual \$2 million transfer to capital reserve and IT salary savings to Internal Service Funds
100 General Fund	Innovation & Technology	-	(3,481)	3,481	Partial Defund of Redesign of City Website
TOTAL GENERAL FUND		13,619	4,102,707	(4,092,569)	
CAPITAL FUNDS					
429 Capital Reserve	Non-Departmental	4,070,000	-	4,070,000	Transfer in to meet minimum reserve levels per policy & resume annual \$2 million transfer
TOTAL CAPITAL FUND		4,070,000	-	4,070,000	
INTERNAL SERVICE FUNDS					
610 Innovation & Technology	Innovation & Technology	31,564	31,564	-	I&T - Admin - PT Admin Assistant fund by GF Transfer
610 Innovation & Technology	Innovation & Technology	-	(6,079)	6,079	Partial Defund of City Facilities Video Capture
630 Vehicle/Equip Replacement	Public Works	-	33,700	(33,700)	Mower Replacement
TOTAL INTERNAL SERVICE FUND		31,564	59,185	(27,621)	
TOTAL ALL FUNDS		\$ 4,115,183	\$ 4,161,892	\$ (50,190)	

I&T - Video & Admin - PT salary transfers

Staff is requesting salary transfers to cover administrative support for the department during the Management Analyst's upcoming leave of absence.

Executive Recruitment – Assistant City Manager and City Attorney

Staff requests additional funds to be used for the executive recruitment of an Assistant City Manager and City Attorney. The cost of engaging an Executive Search Firm for executive-level recruitment can vary, but based on past experience, the average expense is approximately \$25,000 per recruitment. The Human Resources budget includes only one executive level recruitment in their base budget.

Hidden Treasures Proceeds

The Hidden Treasures event at the Senior Center accepts donations from the community and, in turn, sells the donations on the last Thursday in October. The proceeds are then calculated into the costs to run the event, with the remaining amount incorporated into the Stay Active Fund. 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. Staff requests the use of the \$13,619 revenue brought in during the Hidden Treasures event to reimburse the costs to run the program and continue to support the Stay Active Fund.

I&T – Partial Defund of Redesign of City Website & City Facilities Video Capture

Staff is requesting the partial defund of Redesign of City Website & City Facilities Video Capture as these projects were successfully completed under budget.

Capital Funds Reserve Transfer

Staff is requesting \$2.07 million in transfers to meet the minimum reserve levels per the Committed, Unassigned Fund Balance, and Use of One Time Funds Policy and resuming Capital Fund Transfer in the current Fiscal Year. In addition, staff is requesting to resume the annual Capital Reserve transfer of \$2 million dollars this fiscal year due to the updated forecast versus waiting for FY29 to resume the transfer, for a total request of \$4.07 million.

Mower Replacement

The proposal seeks to address the issue of an aging and inefficient EQP15 Mower, a 2015 model that has accumulated 2,114 engine hours and reached the end of its useful life. The current equipment is no longer reliable, with frequent repairs and ongoing maintenance becoming economically unfeasible. This situation has created operational inefficiencies and increased downtime, which hinders productivity and escalates costs. Staff requests funds for the purchase of a new mower. This investment will ensure improved performance, reduce maintenance expenses, and enhance operational efficiency. By replacing the outdated mower, the organization can maintain its commitment to reliable and cost-effective operations while ensuring uninterrupted service delivery.

Fund Balance

As of mid-year, staff anticipates the General Fund will end FY 2024-25 with \$152.8 million in fund balance, a decrease of \$17 million from the first quarter projection of \$169.8. The decrease is due to the uncommitting of \$10 million dollars for a one-time discretionary payment towards the City's retirement system, CalPERS, in addition to changes in the amended budget, including adjustments being requested in this report. It is important to note that the only portion available for use, according to City policy, is unassigned funds. Committed funds, such as the Committed for Future Use 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, \$25.3 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

Classification	Actual		Adopted Budget	1st Quarter	Mid-Year Year
	2022-23	2023-24	2024-25	Projection	End Projection
Non Spendable	\$ 0.9	\$ 3.4	\$ 0.4	\$ 4.7	\$ 3.4
Restricted	20.7	23.3	20.7	20.7	20.7
Committed	34.1	108.6	99.0	31.1	98.6
Assigned	9.7	4.7	7.0	7.0	4.7
Unassigned	73.1	26.0	23.6	106.2	25.3
TOTAL FUND BALANCE	\$ 138.6	\$ 166.1	\$ 150.8	\$ 169.8	\$ 152.8

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. For Future Use
3. CalPERS Reserve (Section 115 Pension Trust)
4. Sustainability Reserve
5. Unassigned

As of mid-year, all priority areas in the General fund are fully funded. As mentioned earlier in this report minimum funding for the Capital Reserve in the Capital Reserve Fund is under funding minimums and an adjustment is being requested to bring it back in line with policy.

Staffing

As of December 31, 2024, the FY 2024-25 Amended Budget includes a total of 207 full-time equivalent (FTE) positions. No changes are recommended at mid-year.

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 E 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 2024-25 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, 2024, the City Manager’s Discretionary Fund has not been used.

Special Projects

The quarterly financial reports provide a status update on special projects, including the budget, amount spent, and estimated completion date. See Attachment F for FY 2024-25 special projects as of December 31, 2024.

Grants

Staff provides updates on the status of grants as part of the quarterly financial reports. As mentioned in the First Quarter financial staff report, staff will begin to provide updates only on active grants and any completed projects for which funding is yet to be received. Active grants have not yet been fully closed out with the granting agency. Previously, staff reported on grants that have also been closed out. Also, as of Mid-Year, staff will now begin to provide information on the granting agency, grant amount spent, and grant amount remaining.

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

	Competitive Grants	Non-Competitive Grants
Active Grants	18	10
Pending Results	2	1
Total Grant Dollars Awarded	\$30,128,192	\$1,444,913

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

Capital Improvement Program

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 H for the status of projects.

Proposed Budget Changes

Vacancy Reporting

On September 22, 2024, Assembly Bill 2561 (“AB 2561”) was signed into law to amend the Meyers-Milias-Brown Act (“MMBA”) and create a new obligation for public agencies to publicly address the status of their vacancies. AB 2561 requires public agencies to present the status of their vacancies in a public hearing before their governing body at least once per fiscal year. This section is in compliance with AB 2561. Staff will bring this information as part of the Proposed Budget study session in May 2024.

Budget Format Changes

Based on recommendations from Baker Tilly on the Budget Document and Performance Measures Improvements review, staff will determine what changes may be feasible as part of the FY 2025-26 Proposed Budget.

Capital Improvement Plan

Public Works staff will bring forward potential Capital Improvement Projects to City Council in April and May 2025, to be reviewed at the FY 2025-26 Proposed Budget Study Session in May 2025, for inclusion in the FY 2025-26 Final Budget Hearing and Adoption in June 2025.

Council Work Program

City Manager’s Office staff will be bringing City Council Work Programs in March and April 2025, for inclusion the FY 2025-26 Proposed Budget Study Session in May 2025.

Other Budget Items

Administrative Services staff in conjunction with Parks and Recreation anticipates including both the Festival and Fee Waiver and Community Funding items as part of the proposed budget. This is a change from prior years when these documents were discussed as part of the proposed budget study session but not included in the document due to timing issues.

Additionally, proposed budget requests are still in process but staff wanted to highlight that it anticipates providing potential revenue tax measures in FY 2025-26 for Council consideration to inform Council of options should it choose to proceed with placing a tax measure on the November 2026 ballot. This aligns with the need to have a structurally balanced budget in the out years of our forecast where we currently have declining surpluses.

Sustainability Impact

No sustainability impact.

Fiscal Impact

The Mid-Year Financial Report shows the City is positioned as anticipated. City staff recommends adjustments of \$4,161,892 in new appropriations, funded by \$4,115,183 in revenues and \$50,190 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:

No.

CWP Item Description:

Not applicable.

Council Goal:

Public Engagement and Transparency
Sustainability and Fiscal Strategy

California Environmental Quality Act

Not applicable.

Prepared by: Toni Oasay-Anderson, Senior Management Analyst

Reviewed by: Kristina Alfaro, Director of Administrative Services

Tina Kapoor, Deputy City Manager

Approved for Submission by: Pamela Wu, City Manager

Attachments:

A – FY 2024-25 Mid-Year Financial Report

B – Draft Resolution

C – Description of Budget Transfers as of December 31, 2024

D – FY 2024-25 Mid-Year Recommended Adjustments

E – Mid-Year Performance Measures & Workload Indicators

F – FY 2024-25 Mid-Year Special Projects Update as of December 31, 2024

G – Competitive and Non-Competitive Citywide Grants Tracking

H – Capital Improvement Program Project Status