



ADMINISTRATIVE SERVICES DEPARTMENT

CITY HALL
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CITY COUNCIL STAFF REPORT

Meeting: June 3, 2025

Subject

Consideration of Recommended Operating and Capital Improvement Program Budgets for Fiscal Year (FY) 2025-26, Adoption of the Operating and Capital Improvement Program Budgets for FY 2025-26, Establishment of the Appropriation Limit, and related actions; Direction on past and current City Work Program and FY 2024-25 Special Projects

Recommended Action

1. Adopt Resolution No. 25-XXX establishing an Operating Budget of \$131,838,401 for FY 2025-26, which includes the following changes to the FY 2025-26 Proposed Budget, published on May 1, 2025:
 - a. Approve the operating budget of \$131,772,435, outlined in the FY 2025-26 Proposed Budget.
 - b. Approve a reduction in revenues of \$1,500,000 for transfers in to Fund 580 (\$500,000) and Fund 610 (\$1,000,000) from the General Fund.
 - c. Approve a reduction in expenditures of (\$63,733) due to the elimination of the proposed part-time Economic Development Analyst.
 - d. Approve additional appropriations of \$146,710 for a proposed Administrative Assistant position to assist with all current and future hybrid Commissions and Committees meetings.
 - e. Approve a reduction in expenditures of (\$17,011) due to the elimination of the proposed Assistant Director of Administrative Services
 - f. Approve any other recommended changes as directed by City Council
2. Adopt Resolution No. 25-XXX establishing a Capital Improvement Program Budget of \$4,225,000 for FY 2025-26.
3. Adopt Resolution No. 25-XXX amending the Unrepresented Employees' Compensation Program
 - a. Senior Business Systems Analyst Position Description; and
 - b. Code Enforcement Supervisor Position Description

4. Adopt Resolution No. 25-XXX amending the Cupertino Employees' Association (CEA) Memorandum of Understanding
 - a. Assistant Housing Coordinator Position Description
5. Adopt Resolution No. 25-XXX establishing an Appropriation Limit of \$141,134,546 for FY 2025-26
6. Provide direction on any remaining past and current City Work Program currently budget and FY 2024-25 Special Projects
7. Approve Resolution 25-XXX and Budget modification number 2425-393 to reduce expenditures by \$326,266, in the General Fund to defund three special projects and two City Work Programs

Executive Summary

Overall, the Final Budget for both Operating and Capital Budgets for Fiscal Year 2025-26 is recommended at \$136,063,401 across all funds with estimated revenues of \$133,654,373, which includes the use of one-time funds of \$2,373,901. Focusing on the General Fund, the City's largest tax-supported fund, a proposed budget of \$99,186,741, with estimated revenues of \$97,229,134 resulting in a use of fund balance \$1,957,607.

The **proposed budget** included the following requests:

- \$2,280,000 in one-time funds for City Work Program (CWP) items
- \$3,983,565 in department requests, including special projects and staffing changes, and
- Request to add three new positions, two part-time positions, and four new classifications for existing positions that will not result in additional full-time positions.

The **final budget** includes the following additional changes since the proposed budget was printed:

- Removing the request for a part-time management analyst in Economic Development, bringing part-time staffing request to one.
- Removing the request for an Assistant Director of Administrative Services classification
- Adding a new Administrative Assistant position to assist with hybrid meetings bringing full-time staffing requests to four
- Transferring Economic Development division from Community Development back to Administration
- Transferring the Strategic Plan special project from Administrative Services to Administration, and
- The reduction of transfer in revenues to enterprise fund 580 and internal service fund 610 that were inadvertently placed in those funds.

Reasons for Recommendation

At its May 15, 2025 meeting, City Council received the proposed budget and directed staff to bring it back for final adoption on June 3.

This report consists of the initial proposed budget that was printed on May 1, 2025, as well as any subsequent modifications made to date. Most of these modifications were also presented to Council on May 15 and include unforeseen adjustments to expenditures and revenues that have emerged since the publication of the Proposed Budget. New to the adjustments is the request to include the addition of one full-time position for an Administrative Assistant in the City Clerk's Office to support hybrid meetings as highlighted in the [informational memo dated May 29, 2025](#), and the reduction of transfers in totaling \$1.5 million that were inadvertently included, the transfer of Economic Development division back to Administration from Community Development and the removal of the request to add the Assistant Director of Administrative Services. Those changes are summarized by funds below:

Changes to Revenues

Fund Type	Proposed Revenues	Changes Since Proposed	Final Revenues
General	\$ 97,229,134	\$ -	\$ 97,229,134
Special Revenue	\$ 14,322,146	\$ -	\$ 14,322,146
Debt Service	\$ 2,676,600	\$ -	\$ 2,676,600
Capital Projects	\$ 4,000,000	\$ -	\$ 4,000,000
Enterprise	\$ 7,326,084	\$ (500,000)	\$ 6,826,084
Internal Service	\$ 9,600,409	\$ (1,000,000)	\$ 8,600,409
TOTAL	\$ 135,154,373	\$ (1,500,000)	\$ 133,654,373

Changes to Expenditures

Fund Type	Proposed Expenditure	Changes Since Proposed	Final Expenditure
General	\$ 99,120,775	\$ 65,966	\$ 99,186,741
Special Revenue	\$ 10,810,122	\$ -	\$ 10,810,122
Debt Service	\$ 2,676,600	\$ -	\$ 2,676,600
Capital Projects	\$ 4,225,000	\$ -	\$ 4,225,000
Enterprise	\$ 9,153,170	\$ -	\$ 9,153,170
Internal Service	\$ 10,011,768	\$ -	\$ 10,011,768
TOTAL	\$ 135,997,435	\$ 65,966	\$ 136,063,401

Changes to Fund Balance/Net Position

Fund Type	Proposed Change in Fund Balance/Net Position	Changes Since Proposed	Final Change in Fund Balance/Net Position
General	\$ 1,891,641	\$ 65,966	\$ 1,957,607
Special Revenue	\$ (3,512,024)	\$ -	\$ (3,512,024)
Debt Service	\$ -	\$ -	\$ -
Capital Projects	\$ 225,000	\$ -	\$ 225,000
Enterprise	\$ 1,827,086	\$ 500,000	\$ 2,327,086
Internal Service	\$ 411,359	\$ 1,000,000	\$ 1,411,359
TOTAL	\$ 843,062	\$ 1,565,966	\$ 2,409,028

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

The Final Budget for the upcoming fiscal year highlights a decrease in both expenditures and revenues compared to the previous year's Adopted Budget. Total expenditures for all funds are proposed at \$136.1 million, a \$10.6 million or 7.2%, decrease from the previous year's Adopted Budget. Similarly, total revenues for all funds are anticipated to be \$133.7 million, a \$5.7 million or 4.1%, decrease from last year's Adopted Budget. The decrease in expenditures and revenues is primarily due to a decrease in Capital Improvement Projects.

General Fund expenditures are at \$99.2 million, which is an increase of \$9.1 million or 10.2%, from the previous year's Adopted Budget. General Fund revenues are anticipated to be \$97.2 million, which is a \$7.4 million or 8.3%, increase from the previous year's Adopted Budget.

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

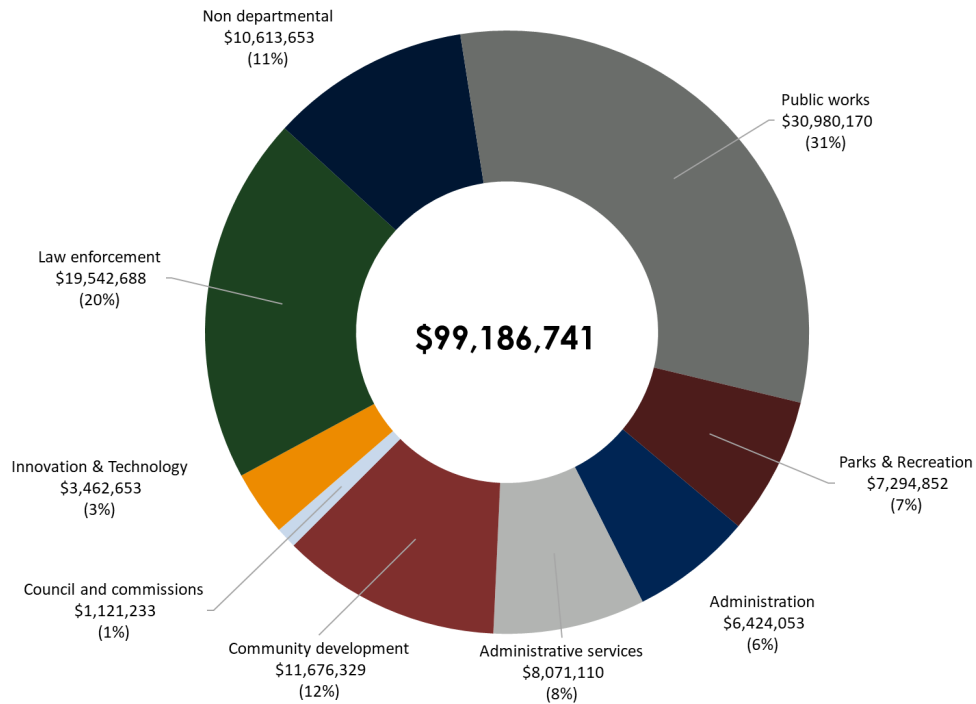
Fund Type	Final Revenues	Final Expenditure	Final Change in Fund Balance/Net Position
General	\$ 97,229,134	\$ 99,186,741	\$ (1,957,607)
Special Revenue	\$ 14,322,146	\$ 10,810,122	\$ 3,512,024
Debt Service	\$ 2,676,600	\$ 2,676,600	\$ -
Capital Projects	\$ 4,000,000	\$ 4,225,000	\$ (225,000)
Enterprise	\$ 6,826,084	\$ 9,153,170	\$ (2,327,086)
Internal Service	\$ 8,600,409	\$ 10,011,768	\$ (1,411,359)
TOTAL	\$ 133,654,373	\$ 136,063,401	\$ (2,409,028)

General Fund

The General Fund is the City's primary operating fund. It accounts for basic services such as public safety, public works, community development, park maintenance, code enforcement, and the administrative services required to support them. The fund generates revenue from the City's discretionary funding sources (e.g., sales tax, property tax, transient occupancy tax, and utility tax). As a rule, General Fund resources are used only to fund operations that do not have other dedicated (restricted) funding sources. Operations that rely heavily upon non-General Fund resources, such as street maintenance, solid waste collection, and recreation, are accounted for in other funds. Information on these funds may be found in the Other Funds section of this document on page 13.

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

FY 2025-26 Final Budget General Fund Expenditures by Department



General Fund Expenditures

FY 2025-26 expenditures are estimated at \$99.2 million, which represents a \$9.1 million or 10.2% increase compared to the adopted budget from the previous year. This increase is primarily attributed to increases in salaries for additional position requests, increases in contracts and increases in special projects and capital outlay.

GENERAL FUND EXPENDITURE SUMMARY						
EXPENDITURES	2022-23 Actual	2023-24 Actual	2024-25 Adopted	2025-26 Proposed	2025-26 Final	Percent Change
Employee Compensation	21,760,345	21,367,731	23,388,317	24,182,741	24,197,538	3.5%
Employee Benefits	8,464,077	9,503,988	11,329,376	10,595,638	10,643,857	-6.1%
Total Personnel Costs	30,224,422	30,871,719	34,717,693	34,778,379	34,841,395	0.4%
Non-Personnel Costs						
Materials	5,507,090	5,215,228	5,775,194	6,174,481	6,174,481	6.9%
Contract Services	21,845,913	25,655,721	29,216,149	31,496,502	31,496,502	7.8%
Cost Allocation	10,385,961	10,257,656	10,638,580	11,993,327	11,993,327	12.7%
Capital Outlay & Special Projects	3,020,115	3,683,913	1,165,000	2,968,433	2,968,433	154.8%
Contingencies	277	5,732	254,580	50,000	50,000	-80.4%
Other Uses	619,687	482,077	925,000	1,065,000	1,065,000	15.1%
Total Non-Personnel	41,379,044	45,300,327	47,974,503	53,747,743	53,747,743	12.0%
Transfers	12,344,345	6,595,284	7,349,598	10,594,653	10,594,653	44.2%
TOTAL EXPENDITURES	\$ 83,947,811	\$ 82,767,330	\$ 90,041,794	\$ 99,120,775	\$ 99,183,791	10.2%

General Fund expenditures increased by \$65,966 from the \$99.1 million the Proposed Budget printed on May 1, 2025, to the final budget due to:

Description	Expenditure Change
Administration – Transfer in of Economic Development	\$999,057
Community Development – Transfer Out of Economic Development	-\$999,057
Eliminate request for additional part time Management Analyst in Economic Development	-\$63,733
Add one new full-time position, Administrative Assistant	\$146,710
Eliminate request for an Assistant Director of Administrative Services	-\$17,011
Total	\$65,966

The estimates for FY 2025-26 General Fund expenditures are based on a thorough analysis of anticipated personnel and non-personnel costs. To create a more fiscally responsible budget, department budgets reflect a base budget with only justified ongoing expenses. This accounts for changes in personnel costs as well as any other anticipated or known increased costs in FY 2025-26.

Personnel Costs

In FY 2025-26, personnel costs are expected to reach \$34.8 million, accounting for 35% of the General Fund expenditures. These costs include salaries and compensation for benefited and

part-time staff (68%), retirement benefits (15%), and other fringe benefits (17%), such as health coverage.

To obtain these figures, the City extracted data from the payroll system and made necessary updates to account for vacant positions, new hires, salary adjustments, and reallocated positions. Furthermore, the projected costs of benefits for the upcoming year, such as retirement and health plans, were taken into consideration. A transfer to the Retiree Medical Fund for retiree healthcare, which is an ongoing expense, is budgeted in FY 2025-26.

The FY 2025-26 Final Budget includes funding for a total of 211 positions, representing an increase of four positions from the FY 2024-25 Amended Budget.

Non-Personnel

Non-Personnel budgets were developed based on previous year's base budget and adjusted for the current year's needs. One-time projects were excluded to reflect ongoing expenditure needs. Materials and contract services were adjusted by CPI, where applicable.

Major changes from the prior fiscal year include:

- Employee Compensation – Increasing primarily due to step progressions and requests to add additional full-time and part-time staffing.
- Contract Services – Increasing primarily due to the Hopper Community Shuttle costs, which has some offsetting revenue and increase cost for the Sheriff's Law Enforcement Contract at 6%.
- Cost Allocation – Increasing because of our new Cost Allocation model and increased budget across service providing departments.
- Capital Outlays and Special Projects – Increasing due to a more robust City work Plan, and increased funding request for maintenance projects.

Contingencies

Contingencies for individual program budgets were calculated based on FY 2025-26 base budget numbers and then incorporated into the materials budget. This has resulted in the City Manager Contingency being the only remaining contingencies in the budget.

General Fund Revenue

The City's General Fund revenues for the upcoming fiscal year are projected to be \$97.2 million, representing an increase of \$7.4 million or 8.3% from the FY 2024-25 Adopted Budget. This

increase is primarily due to an increase in Property Tax, Intergovernmental Revenues, and Franchise Fees. There have been no changes to General Fund revenues since the Proposed Budget study session on May 15.

GENERAL FUND REVENUE SUMMARY					
REVENUES	2022-23 Actuals	2023-24 Actuals	2024-25 Adopted	2025-26 Final	Percent Change
Sales Tax	34,819,341	30,961,166	11,648,962	11,983,958	2.9%
Property Tax	31,889,638	33,036,853	33,174,977	35,413,310	6.7%
Transient Occupancy	7,062,150	6,486,798	7,731,947	7,500,000	-3.0%
Utility Tax	4,103,906	3,935,917	4,130,140	4,206,907	1.9%
Franchise Fees	3,995,018	4,313,669	3,509,346	4,394,563	25.2%
Other Taxes	1,471,789	1,621,328	1,684,329	1,736,718	3.1%
Licenses & Permits	4,093,631	4,412,057	3,665,866	4,261,859	16.3%
Use of Money & Property	3,033,683	9,098,441	4,697,122	6,538,880	39.2%
Intergovernmental	7,771,411	1,404,322	2,471,990	3,569,332	44.4%
Charges for Services	10,841,202	12,181,459	15,102,136	15,162,032	0.4%
Fines & Forfeitures	303,573	416,402	395,000	410,760	4.0%
Miscellaneous	1,306,454	2,199,861	1,210,653	1,668,815	37.8%
Transfers in	861,140	111,000	15,000	15,000	0.0%
Other financing sources	272,396	127,037	367,000	367,000	0.0%
TOTAL REVENUES \$	111,825,331	\$ 110,306,310	\$89,804,468	\$ 97,229,134	8.3%

Property tax - Increasing by \$2.2 million primarily due to actual growth in FY25 and updated budget methodology to align budget with actuals.

Franchise fees - Increased by \$0.9 million primarily due to actual growth in FY25 and updated budget methodology to align budget with actuals.

Intergovernmental revenues are higher due to an increase in funds received from other cities and grant funds for the hopper shuttle.

General Fund – Fund Balance

FY 2025-26 total fund balance is estimated to be \$155.3 million, a decrease of \$2.0 million, or 1.2%, from the FY 2024-25 Projected Budget; however, this does not account for the \$2.0 million vacancy

savings discussed later in the report under the Forecast section. It's important to note that the only portion available for use, according to City policy, is unassigned funds. Committed funds, such as the 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.

Of the total fund balance, \$42.6 million is categorized as unassigned and available; however, approximately \$14.3 million of this amount is tied to the Vallco Town Center project. While the current accounting reflects the assumption that all revenue and contracted expenditures for the project have been recognized, Vallco is a multi-year effort, likely spanning a decade. Key long-term costs, including staff salaries and benefits associated with managing and supporting the project, have not yet been fully incurred or accounted for. As a result, this portion of the unassigned balance should not be viewed as fully available, as the project is expected to ultimately net to a zero fiscal impact to the City.

The following table shows changes to fund balance for the General Fund since the close of FY 2022-23:

Classification	2022-23 Actual	2023-24 Actual	2024-25 Adopted Budget	2024-25 Year End Projected	2025-26 Final Budget
<u>Nonspendable</u>					
Loans Receivable	970,962	428,431	435,000	428,431	435,000
Advance to Other Funds	3,000,000	3,000,000	-	3,000,000	3,000,000
Inventories/Prepaid Items	29,626	21,383	-	21,383	21,383
Total Nonspendable	4,000,588	3,449,814	435,000	3,449,814	3,456,383

<u>Restricted</u>					
CASp Certification and Training	-	7,628	12,377	7,628	7,628
Section 115 Pension Trust	19,088,859	21,663,664	19,088,859	21,663,664	21,663,664
Public Access Television	-	1,639,443	1,565,153	429,443	429,443
Public Art In-Lieu	-	-	-	-	-
Total Restricted	19,088,859	23,310,735	20,666,389	22,100,734	22,100,734

<u>Committed</u>					
Sales Tax Repayment Reserve	-	74,500,000	77,554,500	-	-
For Future Use Reserve	-	-	-	64,500,000	64,500,000
Economic Uncertainty Reserve	24,000,000	24,000,000	21,346,728	18,000,000	22,543,315
Capital Projects Reserve	10,000,000	10,000,000	-	-	-
Sustainability Reserve	127,891	127,891	127,891	127,891	127,891
Total Committed	34,127,891	108,627,891	99,029,119	82,627,891	87,171,206

<u>Assigned</u>					
Reserve for Encumbrances*	9,735,187	4,741,474	7,000,000	-	-
Total Assigned	9,735,187	4,741,474	7,000,000	-	-

Total Unassigned	71,603,813	25,965,405	23,630,860	49,069,295	42,561,802
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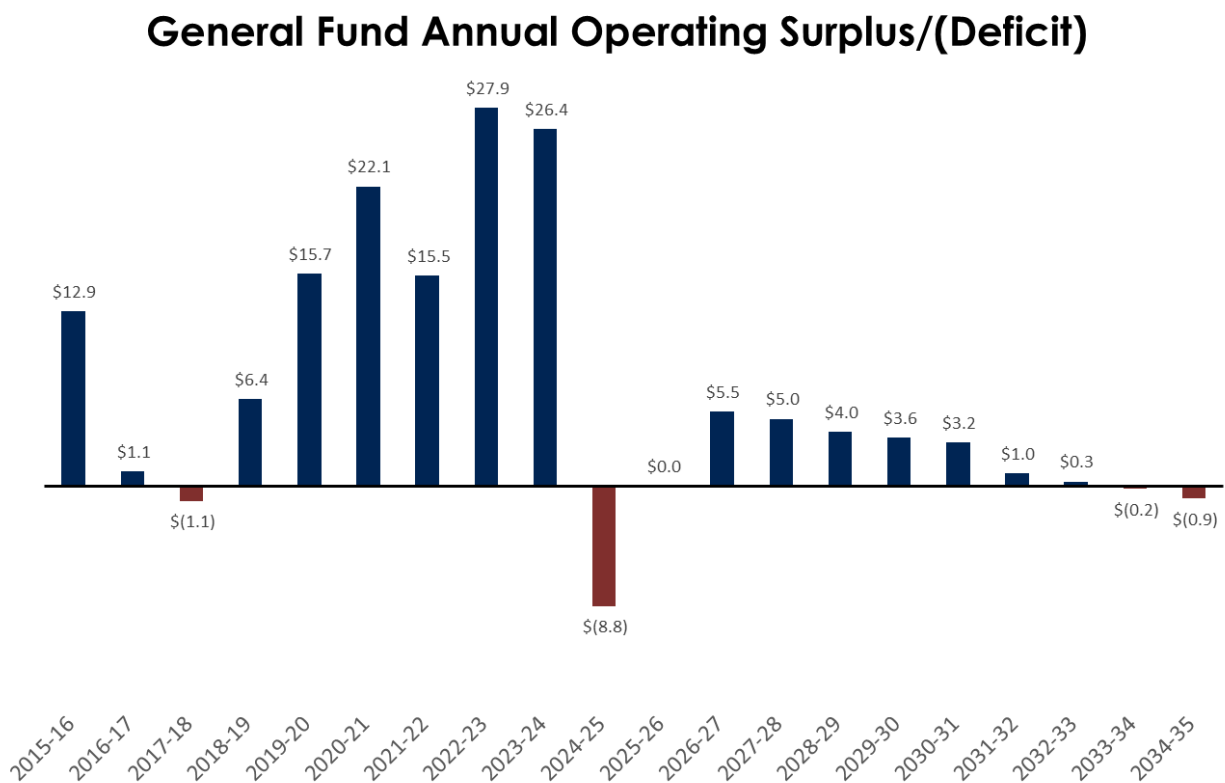
TOTAL FUND BALANCE	\$ 138,556,339	\$ 166,095,319	\$ 150,761,368	\$ 157,247,734	\$ 155,290,125
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*Beginning with the FY 2025–26 Budget, the City will no longer present projected or proposed fund balance amounts. Instead, prior year actuals will be updated to reflect recorded activity. This adjustment is being made to align with the City's practice of budgeting under the assumption that all appropriations will be fully expended within the fiscal year.

General Fund Forecast

Since the City has reached resolution on the California Department of Tax and Fee Administration (CDTFA) Audit, this budget focuses on the 10-year forecast post audit resolution. While long-term projections inherently carry more uncertainty than short-term projections, they remain a valuable tool for identifying potential structural budget issues in advance.

The following chart illustrates the City's structural deficit beginning in FY 2033-34, driven by expenditure growth averaging 3.76% annually, compared to revenue growth at a more modest 1.71%. Although this updated forecast is a marked improvement from the FY 2024-25 Adopted Budget forecast, which projected six years of deficits, it now reflects modest deficits in only the final two years of the 10-year horizon. This change is primarily attributable to upward adjustments in expenditure assumptions, particularly in the areas of materials, contracts, and special projects. Notably, the City's law enforcement contract costs have materialized at a 6% annual growth rate, higher than the 4% previously assumed in the forecast.



Additionally, the forecast accounts for ongoing expenditure growth related to personnel. These include requests for four new full-time positions and one part-time position, totaling \$851,293 in additional salary and benefit costs, as well as \$544,340 in additional materials and contracts.

It's important to note that the 10-year forecast differs from the FY 2025-26 Proposed Budget in its treatment of staffing vacancies. While the proposed budget reflects a shortfall of approximately

\$2.0 million, this gap is not present in the forecast due to the application of a 6% vacancy factor in FY 2025-26 and FY 2026-27. The proposed budget assumed a 4% vacancy rate; however, the forecast increases this to 6% in the near term to better reflect recent trends in vacancy savings. Beginning in FY 2027-28, the forecast reverts to a 4% vacancy rate, consistent with more stable staffing levels and a fiscally prudent long-term approach. This adjustment ensures a realistic view of potential expenditure savings without understating long-term costs.

Additionally, the forecast does not yet reflect revenue adjustments from proposed user fee increases scheduled for consideration by City Council on July 2, 2025.

In the out years, the deficit is primarily driven by two factors: a recession scenario modeled in FY 2027-28, and the sunset of the Utility Users Tax in FY 2030-31.

Despite these pressures, the forecast demonstrates that the City is well-positioned to maintain balanced budgets without drawing on reserves during the majority of the 10-year period.

Fund Balance Outlook

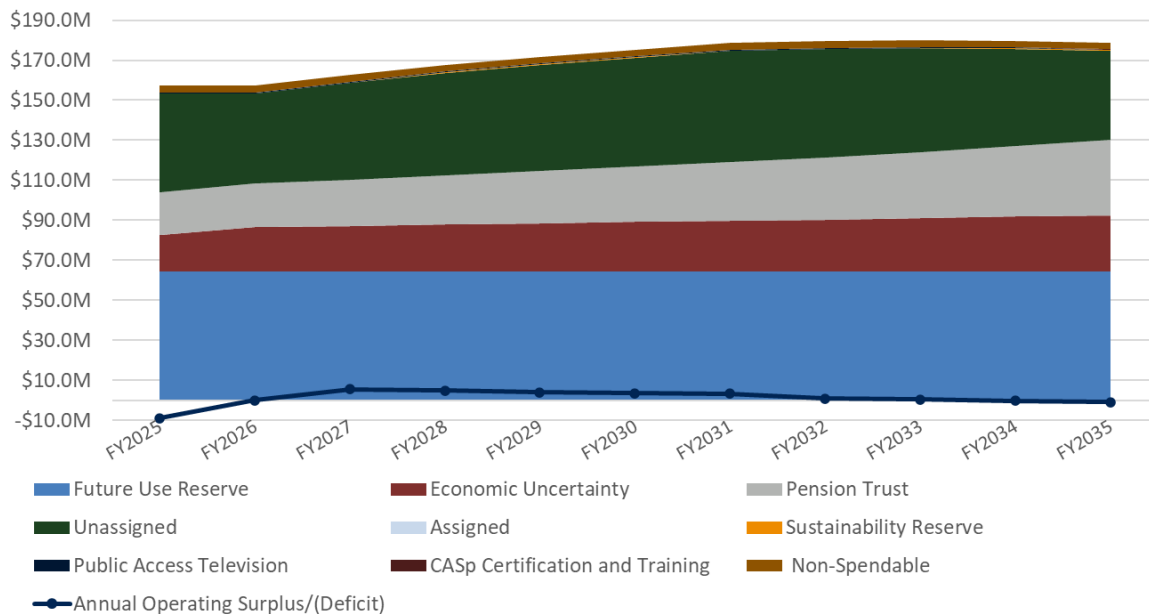
The City's long-standing commitment to fiscal discipline has resulted in a strong fund balance position, which provides flexibility to address future funding challenges. As of FY 2025-26, the General Fund's total fund balance is projected at \$157.3 million, with the Unassigned portion totaling \$44.9 million.

As discussed during the mid-year, largely due to City fiscally prudent decisions to reduce the FY 2023-24 and FY 2024-25 budgets in addition to the CDTFA settlement and water system lease, the City's 10 year forecast positively improved with only the last two years of the forecast showing minor deficits compared to last year's forecast showing 6 years in the red.

The forecast anticipates total fund balance growing from an estimated \$157 million at the end of FY 2026 to \$178 million on FY 2035. Key reserve categories include:

- Future Use Reserve - Maintains a consistent balance of \$64.5 million throughout the forecast period, available for use as determined by City Council.
- Economic Uncertainty Reserve - Grows incrementally due to projected increases in General Fund revenues and expenditures, supporting the City's ability to weather economic shocks. Section 115 Pension Trust - Grows initially through investment earnings. The trust may be used to offset CalPERS costs and ensure long-term pension funding stability.
- Unassigned Fund Balance - Projected to grow steadily from \$44.1 million in FY 2026, peaking in FY 2031 before returning to \$44.1 million in FY 2035, largely reflecting the impact of structural surpluses and prudent expenditure assumptions.

10-Year General Fund Fund Balance and Reserves



As emphasized during the FY 2024-25 Mid-Year Update, the positive trajectory in this forecast is largely a result of proactive reductions to the FY 2023-24 and FY 2024-25 budgets, the favorable resolution of the CDTFA audit, and the City's recently executed water system lease agreement.

Overall, this forecast reaffirms the City's commitment to responsible financial management and positions Cupertino to remain resilient in the face of future uncertainties.

Other Funds

This section combines all non-general funds. Discussion at the fund type level can be found in the All Funds Summary of the budget.

All Other Funds Expenditures

EXPENDITURE USES	2022-23 Actual	2023-24 Actual	2024-25 Adopted	2025-26 Proposed	2025-26 Final
Employee Compensation	5,327,164	5,348,486	5,526,311	5,333,643	5,333,643
Employee Benefits	1,716,224	2,903,259	2,609,854	2,230,186	2,230,186
Materials	2,316,457	2,480,125	2,785,973	3,070,406	3,070,406
Contract Services	7,189,075	5,891,885	6,190,610	6,226,298	6,226,298
Cost Allocation	2,028,766	2,203,606	3,895,296	4,807,709	4,807,709
Capital Outlays	9,012,370	8,300,842	18,759,024	3,583,075	3,583,075
Special Projects	2,828,968	1,576,185	3,239,420	4,107,412	4,107,412
Contingencies	-	-	89,946	-	-
Debt Services	2,675,800	2,677,600	2,676,200	2,676,600	2,676,600
Transfers Out	4,500,904	5,612,269	8,262,580	2,015,000	2,015,000
Other Financing Uses	960,438	732,685	960,440	1,149,020	1,149,020
Total Expenditure Uses	\$ 38,556,165	\$ 37,726,941	\$ 54,995,654	\$ 35,199,349	\$ 35,199,349

Expenditure sources decreased by \$19.8 million from the FY 2024-25 Adopted Budget. This is primarily due to a reduction in Capital Outlays due to a decrease in CIP projects in FY 2025-26. No changes have been made to all other funds expenditures since the budget study session on May 15.

All Other Funds Revenues

REVENUE SOURCES	2022-23 Actual	2023-24 Actual	2024-25 Adopted	2025-26 Proposed	2025-26 Final
Other Taxes	891,503	349,283	4,628,530	4,637,703	4,637,703
Use of Money & Property	1,079,748	4,027,375	2,113,944	1,380,981	1,380,981
Intergovernmental	4,143,771	5,437,152	14,860,441	5,366,533	5,366,533
Charges for Services	12,389,180	11,777,241	11,844,814	11,880,319	11,880,319
Fines and Forfeitures	23,371	2,746	20,000	10,000	10,000
Miscellaneous Revenue	1,526,977	1,024,658	-	1,519	1,519
Transfers In	15,984,109	12,096,553	15,597,178	14,094,653	12,594,653
Other Financing Sources	466,620	30,750	468,984	553,531	553,531
Total Revenue Sources	\$ 36,505,279	\$ 34,745,757	\$ 49,533,891	\$ 37,925,239	\$ 36,425,239

Revenue sources decreased by \$13.1 million from FY 2024-25 Adopted Budget. This decrease is primarily due to a reduction in Intergovernmental revenue anticipated from federal and state grants. Since the proposed budget study session on May 15, all other funds revenues have decreased by \$1,500,000 as shown in the chart above. This was due to a correction of transfers out that were inadvertently included in the proposed budget document.

All Other Funds Fund Balance/Net Position

CHANGES TO FUND BALANCE	2022-23 Actual	2023-24 Actual	2024-25 Adopted	2025-26 Proposed	2025-26 Final
Beginning Balance	98,065,778	99,344,693	94,961,562	87,890,754	87,890,754
Change in Fund Balance	(3,446,543)	(4,383,131)	(7,070,808)	1,048,579	(451,421)
Ending Balance	\$ 94,619,235	\$ 94,961,562	\$ 87,890,754	\$ 88,939,333	\$ 87,439,333

Fund Balance/Net Position sources decreased by \$0.5 million from the prior year Adopted Budget due to overall expenditures exceeding revenues.

Requests for Funding

City Work Program (CWP)

For the FY 25-27 CWP, Council prioritized a total of 19 projects at the March 18 City Council meeting. In total, the new projects require \$2.28 million in additional funding that are being requested as part of the final budget. Details on funding for each project are included in Attachment I.

Special Projects

Special Projects are listed in the table below by department.

Program		Project	Expenditure	Funding Source
ADMINISTRATION				
126 Administration	100-12-126-750-277	Cupertino 70th Anniversary Celebration	5,000	General Fund
	100-12-120-750-279	Strategic Plan	200,000	General Fund
TOTAL ADMINISTRATION			205,000	
ADMINISTRATIVE SERVICES				
425 Administrative services	100-41-425-750-278	Citywide Purchasing Training	20,000	General Fund
426 Administrative services	100-41-426-750-280	Tax Measure	20,000	General Fund
TOTAL ADMINISTRATIVE SERVICES			40,000	

Program		Project	Expenditure	Funding Source
INNOVATION & TECHNOLOGY				
310 Information Services	610-34-310-750-250	Adapt TS Expansion	225,000	Innovation & Technology
TOTAL INNOVATION & TECHNOLOGY			225,000	
PUBLIC WORKS				
122 Public works	100-81-122-750-281	Greenhouse Gas Inventory Assessment	40,000	General Fund
836 Public Works	570-87-836-750-025	Energy Management System Replacement	160,000	General Fund
TOTAL PUBLIC WORKS			200,000	
TOTAL OTHER SPECIAL PROJECTS			\$ 670,000	

All Other Department Requests

These requests can be found in Attachment Y. Please note that special projects also appear under department requests in order to illustrate total requests.

Staffing

Position Additions

The FY 2025-26 Final Budget proposes funding for a total of 211 positions, representing an addition of 4 positions from the FY 2024-25 Adopted Budget.

Full-Time

Department	Proposal	Costs
ADMIN SERVICES	1 Management Analyst (Grants) CWP	\$207,883
PUBLIC WORKS	1 Maintenance Worker I/II	\$125,236
ADMINISTRATION	1 Receptionist	\$113,774
	1 Administrative Assistant (Hybrid Meetings)	\$146,710
TOTAL ALL FULL TIME STAFFING REQUEST		\$593,603

Part-time

Department	Proposal	Costs
ADMINISTRATION	1 Comms and Marketing Coordinator	\$66,351
TOTAL ALL PART TIME STAFFING REQUEST		\$66,351

New Classifications

Current Classification	Current Salary & Benefit Cost	Proposed Classification	Proposed Salary & Benefits Costs	Difference
Business Systems Analyst	\$239,147	Sr. Business Systems Analyst	\$253,803	\$14,656
Sr. Code Enforcement Officer	\$189,006	Code Enforcement Supervisor	\$242,552	\$53,546
Housing Manager	\$275,760	Assistant Housing Coordinator	\$170,634	\$(105,126)
Total	\$703,913		\$666,989	\$(36,924)

Budget Adjustments Summary and Detail

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

Capital Improvement Program (CIP)

On April 2, 2025, the City Council conducted a study session to review the Capital Improvement Program (CIP). The FY 2025-26 Proposed Budget for CIP is \$2 million, along with \$225,000 ongoing administrative support. This also includes the annual transfer in from the General Fund of \$2,000,000. The chart below does not include ongoing cost of \$225,000 for CIP Preliminary Planning & Design and Capital Project Support which are part of the CIP base budget.

Project	Program	External Funding	City Funding	Total Proposed Budget
ADA Improvements	420-99-007	-	110,000	110,000
Facilities Condition Assessment (FCA) Implementation	420-99-063	-	940,000	940,000
Outfall Repairs	420-99-276	-	950,000	950,000
TOTAL		\$ -	\$ 2,000,000	\$ 2,000,000

Ongoing Challenges

The city is continuing to navigate a major loss in sales tax revenues along with stagnation in its transient occupancy taxes and the potential loss of Utility User Tax that is set to sunset in FY2030.

In addition, expenditure increases continue to outpace revenue growth as shown by growing deficits in the last two year of the forecast.

Appropriations Limit

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

The City's FY 2025-26 appropriations limit is \$141,134,546 an increase of \$8,592,161, or 6.5%, from the prior year. Please refer to Attachment E for the calculation of the appropriations limit, and Attachment F for the corresponding price and population factors utilized in the calculation of the appropriations limit.

Budget Study Session

On May 15, 2025, City Council conducted a study session to review the FY 2025-26 Operating and Capital Improvement Project Budgets. During the session, City staff presented General Fund revenues, expenditures, and forecasts. City Council offered input, sought clarifications, and provided recommendations.

During the study session, City Council requested staff follow-up on several items. The responses to Council's questions are included in Attachment G.

Changes to the Budget Document

Changes to the Budget and Policies

Budget Format and Performance Measures Report and Implementation Action Plan

In Fall 2024, the City engaged Baker Tilly US, LLP to conduct a comprehensive review of its Budget Document and Performance Measures. The primary objective of this engagement was to enhance clarity, accessibility, and to align the City's annual budget document and to improve the effectiveness of performance measures in tracking progress toward key citywide goals. The draft Budget Format Implementation Action Plan (IAP) was presented to the City Council in March 2025. This plan included 32 recommendations that were prioritized 1-3, with 1 being the highest priority. One additional recommendation was added by City Council for a total of 33. For further details on this IAP, please see City Council staff report dated March 4, 2025. The updated IAP was approved by City Council for on May 6, 2025.

The FY 2025-26 budget document accomplished 17 of the 33 recommendations which also includes a request for funding to assist in completing the Strategic Plan. It is also expected the Capital Improvement Plan will print with the budget this year, this would bring total recommendations accomplished between the two documents to 17 recommendations implemented or 50% implementation rate for the first year of the IAP.

Special Projects Policy

As part of the Implementation Action Plan outlined above, the creation of a Special Projects Policy was identified as a top priority. Accordingly, City Council adopted the Special Projects Policy in March 2025 and is included in the financial policies on the [City's website](#). This accomplishment is included in the total above.

Revised Fees

Matrix Consulting Group recently conducted a comprehensive fee study that was presented to City Council in February 2024. City Council will consider the FY 2025-26 fee schedule in May 2025 with the newly adopted fees going into effect 60 days after adoption in mid-July 2025. Increased fee revenue has not been included in this budget.

Investment Policy

The City Council annually updates and adopts a City Investment Policy that is in compliance with State statutes on allowable investments. By policy, the Audit Committee reviews the policy and acts as an oversight committee on investments. The policy directs that an external auditor performs agreed-upon procedures to review City compliance with the policy. The Audit Committee reviewed and accepted the current Investment Policy on April 28, 2025. The City Council adopted the City's Investment Policy on May 20, 2025.

Citywide Conference and Training Budget Add-backs

As part of a budget reduction strategy, citywide training was significantly reduced across all budget units as part of budget reductions in the last two fiscal years. Staff is requesting the restoration of 50% of the previously reduced training funds. This amount was calculated by comparing the training budgets in materials and contracts from FY 2022–23 to those in FY 2024–25, determining the difference, and then adding back 50% of that difference.

Contingencies

Contingency dollars have been calculated from the department's FY 2025-26 base budget materials and contracts and have been consolidated into materials budgets. The City Manager Contingency is the only remaining budget with contingencies as an expense category.

Reorganizations

The City Manager's Office underwent a reorganization in April 2025, transferring Economic Development to the Community Development Department and Office of Emergency Management to Parks and Recreation from Administration. Since the printing of the proposed budget, the City Manager's Office has reviewed these organizational changes and determined that the Economic Development program will be more effective as part of the City Manager's Office. The current staff recommendation reflects this change. The City Manager's Office will continue to evaluate whether the Office of Emergency Management is appropriately housed in the Parks and Recreation Department.

General Plan Consistency and Environmental Compliance of the Capital Improvement Plan

State law and the Cupertino Municipal Code (Section 2.32.070(C)) require the Planning Commission to review the CIP for consistency with the City's General Plan (General Plan: Community Vision 2015 - 2040). The Planning Commission reviewed the FY 2025-26 Proposed CIP Budget on April 22, 2025, and found that the FY 2025-26 Proposed CIP is consistent with the City's General Plan and that this consistency determination is exempt from CEQA (see resolution Attachment H).

Special Projects

In April of 2025 the City Council passed a Special Project Policy (Attachment X) that defined special projects as “one-time, staff-initiated projects that require City Council approval due to the need for budget appropriations that exceed a department’s base budget. Base budget items are the baseline appropriations to continue operations at the current level. In instances where there are sufficient budget appropriations the City Manager must request City Council authority in the form of a consent agenda item to reappropriate the funds as a special project. As discussed in the Special Project Reporting section below, these projects will continue to be reported in the Special Project reports.

Special Projects are not meant to track ongoing operational costs like street pavement maintenance, minor repairs, development projects which may span multiple fiscal years, or the purchase of equipment, unless the department needs to track these expenses because of the use of restricted funds to pay for the equipment or materials. Ongoing operational costs will be included in the department’s base budget or added as an ongoing budget appropriation request to the City Council”.

As part of the FY 2024-25 Third Quarter Financial Presentation, Council requested that an item be brought back as part of the final budget adoption, to discuss the defunding of specials projects, using the broader term for a special project prior to policy adoption. This includes City Work Program, ongoing costs, development items, and minor maintenance repairs and/or purchases. A total of 74 projects were listed for a total budgeted cost of \$41,598,688. This includes the following major projects:

Project	FY25 Amended Budget	FY25 Actuals as of 3/31/2025	Encumbrances as of 3/31/2025
Vallco Town Center (VTC)	\$21,963,179	\$23,780	\$3,767,988
Enterprise Resource Planning (ERP) Software	\$2,500,000	\$0	\$0
Special projects CDD/IT (New Community Hall Control Room and AV and lighting upgrade)	\$1,242,675	\$20,427	\$1,102,479
Annual Asphalt Project	\$2,776,484	\$607,033	\$981,535
Annual Sidewalk Curb and Gutter Project	\$7,472,764	\$2,278,856	\$538,594

Project	FY25 Amended Budget	FY25 Actuals as of 3/31/2025	Encumbrances as of 3/31/2025
All other Special Projects	\$5,643,586	\$968,798	\$1,053,451
TOTAL ALL PROJECTS	\$41,598,688	\$3,898,894	\$7,444,047*

*Totals vary due to rounding

Staff has reviewed and updated the special projects (Attachment Y) list provided as part of the Third Quarter Financial Report. The updates are marked in red and staff recommendations are summarized by categories listed in the narrative above.

City Work Program (Attachment Z & AA)

The second year of the FY 23-25 City Work Program (CWP) includes 22 projects. Of these, the current CWP includes 14 projects that have budget associated with them that were previously considered Special Projects in Attachment Z, with Budget, Actuals and Encumbrances shown in the table below:

Project	FY25 Amended Budget	FY25 Actuals as of 3/31/2025	Encumbrance s as of 3/31/2025
CWP	\$2,261,844	\$179,736	\$708,667

When reviewing the 22 projects in total regardless of funding, 16 have either been completed or will be carried into the FY 25-27 CWP. Of the remaining six, four are ongoing and two can be defunded at year end, Block Leader Enhancements and The Rise Community Engagement, resulting in savings of \$109,700. Status updates for all 22 projects, including the reason for defunding these projects, are included in Attachment AA.

Ongoing Costs (Attachment AB)

Ongoing Cost projects include 11 projects, with Budget, Actuals and Encumbrances shown in the table below. All these projects will be moved to the base budget. There is no recommendation to defund any ongoing projects:

Project	FY25 Amended Budget	FY25 Actuals as of 3/31/2025	Encumbrances as of 3/31/2025
Ongoing Costs	\$10,887,456	\$3,064,343	\$1,611,624

Maintenance purchases/projects (Attachment AC)

Maintenance projects include 16 total projects; however, five projects were completed at or under budget and any under budget projects were defunded in the third quarter, leaving eleven projects remaining. All but one remaining project, the HVAC kitchen replacement at the Senior Center are in progress and expected to be completed by June 30, 2025. The department is not requesting

to defund any additional maintenance projects. Budget, Actuals and Encumbrances for the remaining eleven special projects are shown in the table below:

Project	FY25 Amended Budget	FY25 Actuals as of 3/31/2025	Encumbrances as of 3/31/2025
Maintenance purchases/projects	\$576,491	\$288,902	\$0

Development Projects (AD)

Development projects include 7 projects, with Budget, Actuals and Encumbrances shown in the table below. These projects are either active or have an entitlement period that requires us to leave the budget active. There is no recommendation to defund any development projects:

Project	FY25 Amended Budget	FY25 Actuals as of 3/31/2025	Encumbrances as of 3/31/2025
Development Projects	\$22,268,964	\$26,250	\$3,801,182

All Remaining Special Projects per new Policy (Attachment AE)

For projects meeting the new definition of a special project (there are 26 projects), nine of those projects have been completed and three were defunded as part of the third quarter financial report. Of the remaining 15, 12 are in progress and the remaining three projects, PR & Strategic Comm Strategy, Economic Development Strategy, and ERP Phase II are recommended to be defunded for a savings of \$216,566. Budget, Actuals and Encumbrances shown in the table below for all projects:

Project	FY25 Amended Budget	FY25 Actuals as of 3/31/2025	Encumbrances as of 3/31/2025
All Remaining Special Projects	\$5,603,933	\$339,663	\$1,322,575

Sustainability Impact

No sustainability impact.

Fiscal Impact

City staff recommends establishing an Operating Budget of \$131,855,412 and a Capital Improvement Program Budget of \$4,225,000 for FY 2025-26.

For special projects, staff is recommending to defund three current special projects and two current CWP items for a total of four items for a savings of \$326,266.

City Work Program (CWP) Item/Description

None

Council Goal

Public Engagement and Transparency

Fiscal Strategy

California Environmental Quality Act

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

Prepared by: Toni Oasay-Anderson, Acting Budget Manager

Reviewed by: Kristina Alfaro, Director of Administrative Services

Department Heads

Floy Andrews, Interim City Attorney

Approved for Submission by: Tina Kapoor, Acting City Manager

Attachments for FY 2025-26 Final Budget:

A – Draft Resolution – Operating Budget for Fiscal Year 2025-26

B – Draft Resolution – Capital Budget for Fiscal Year 2025-26

C – Draft Resolution – Appropriations Limit for Fiscal Year 2025-26

D – Budget Adjustments Summary and Detail

E – Appropriation Limit for Fiscal Year 2025-26

F – Appropriation Limit Price and Population Factors for Fiscal Year 2025-26

G – Proposed Budget Study Session Supplemental Report

H – Planning Commission Adopted Resolution

I – Adopted FY 2025-26 City Work Program Budget Details

J – Code Enforcement Supervisor Position Description

K – Senior Business Systems Analyst Position Description

L – Assistant Housing Coordinator Position Description

M– Unrepresented Employees’ Compensation Program (Redline)

N – Unrepresented Employees’ Compensation Program (Clean)

O – UNREP Salary Schedule (Redline)

P– UNREP Salary Schedule (Clean)

Q – UNREP Salary Effective 7.01.2023

R– Draft Resolution Amending the Unrepresented Employees’ Compensation Program

S – CEA Local 21 Employees’ Compensation Program (Redline)

T – CEA Local 21 Employees’ Compensation Program (Clean)

U – CEA Local 21 Salary Effective 7.01.2023

V – Draft Resolution Amending the CEA Local 21 Employees’ Memorandum of Understanding

W – All Other Department Requests

Attachments for FY 2024-25 Special Projects:

X - City Council Special Project Policy
Y – All Special Projects from FY25 Q3
Z – CWP Status Updates from FY25 Q3
AA – Current CWP Status Updates for FY23-25
AB – Ongoing Special Projects from FY25 Q3
AC– Maintenance and Equipment Purchase Special Projects from FY25 Q3
AD – Development Special Projects from FY25 Q3
AE – Special Projects as Defined in City Council Special Projects Policy
AF – Draft Resolution to Defund Special Projects