ADMINISTRATIVE SERVICES DEPARTMENT

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CITY COUNCIL STAFF REPORT
SUPPLEMENTAL 1
Meeting: November 18, 2025

Agenda Item #18

Subject
City Manager's First Quarter Financial Report for Fiscal Year (FY) 2025-26; Budget Modification decreasing appropriations by $674,221 and increasing revenues by $503,628 resulting in a $1,177,849 increase to unassigned fund balance

Recommended Action
1. Accept the City Manager's First Quarter Financial Report for Fiscal Year 2025-26; and
2. Adopt Resolution No. 25-XXX approving Budget Modification No. 2526-419, decreasing appropriations by $674,221 and increasing revenues by $503,628 resulting in a $1,177,849 increase to unassigned fund balance

Background:
Staff's responses to questions received from councilmembers are shown in italics.

Q1: Can you explain how we are beginning the first quarter with $182M and ending it quarter with $155M?

That does not look like things are going in the right direction. Can you explain?

I went to opengov and it seems to me that the anticipated sales-tax-revenue is too high.

I would like to understand how the City determined the anticipated sales-tax revenues for 2025/26.

Previously, revenue from tax-sharing agreements with Apple and Insight, see third attachment, were rolled into sales-tax-revenue, so there was no transparency as to how much income we were deriving from these agreements. We all know that the Apple agreement has been terminated. But what about Insight? Please explain how we have anticipated the revenue drop from the loss of that agreement? I haven't attended all council meetings, but I have not seen mention of the loss of that income.

In looking at CDTFA data, there have been zero sales-tax income distributions from the state since May 2025. The first attachment is a report that I generated from the CDTFA (I removed the pennies and added commas for the thousands). By comparison, see the second attachment shows the City of Campbell. So you can see that there are six months of zero income for Cupertino where Campbell has these fields populated. There is some explanation on page 11, but can you please provide some more color here? We don't have transparency on a full six months of data! In detail, why is this happening? And, what do we anticipate that the numbers should be?

According to open gov, it is expected that sales-tax-revenue will rise – I am not that optimistic. Please explain more.

I am glad that we'll probably have a good year for TOT (hotel tax revenue) with the football Superbowl and the big soccer matches coming, but that will be a one-time revenue opportunity.

Finally, please go through the CIP project status line-by-line, I think that there are some opportunities for savings there.

Staff Response: See excerpt from page 25 of the First Quarter Financial Report staff report:

As of first quarter, staff anticipate the General Fund will end FY 2025-26 with $183 million in fund balance, an increase of $26.9 million from the FY 2025-26 Adopted Budget fund balance projection. The increase from the Adopted Budget is a result of both year-end revenues exceeding expenditures and budget savings achieved in the prior fiscal year. It's important to note that the only portion available for use, according to City policy, is unassigned funds. Committed funds are set aside for specific purposes determined by City Council resolution. Restricted funds, such as the Section 115 Pension Trust, are allocated for specific purposes stipulated by external resource providers. Assigned funds are reserved for encumbrances. Of the total fund balance, $65.5 million is unassigned and available to be used.

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

General Fund Classification of Fund Balance ($ in millions)

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

*Q1 Year-End Projections assume budgeted revenues and expenditures are fully collected and incurred. Fund balances do not consider City Council actions after September 30, 2025.

The excerpt from the financial report above shows $181.8 million in estimated ending fund balance for FY25. The FY Adopted Budget fund balance number was estimated by taking FY24 beginning fund balance and assuming revenue materializing and all budget being expended for FY 25 and FY 26. As discussed in the report, revenue has exceeded budget across almost all revenue categories and expenditures materialized under budget, this has resulted in an increase in estimated ending fund balance in FY25 that carries over into FY26 beginning balance resulting in an updated year-end estimate of $183 million.

The sales tax sharing agreement with Apple has not been terminated. Unrelated to the agreement, the City has forecasted approximately a 90% drop in sale tax revenue including the direct allocation and pool share due to the impact of the California Department of Tax and Fee Administration (CDTFA) audit and subsequent settlement agreement. The Insight sales tax sharing agreement is due to expire on June 30, 2026, and staff are working with the City Attorney's Office to determine what action if any the City needs to take in regard to that agreement.

Per the settlement agreement with CDTFA the City has a payback amount due. These payments are processed by reducing the amount an agency would have received in sales tax dollars. The CDTFA is expected to release sales tax revenues generated in calendar quarter three (July–September) during the week of November 17, 2025. Staff will continue to closely monitor these distributions and will update the City Council as new information becomes available.

For FY 2025-26 sales tax revenue is budgeted at $12.0 million, a decrease from prior year's amended budget. The estimates are made together with our sales tax consultant HDL, considering the CDTFA settlement agreement, any tax sharing agreements, historical trend analysis, and economic analysis based on sales tax sector.

Attachments Provided with Original Staff Report:

A – Fiscal Year 2025-26 First Quarter Financial Report
B – Draft Resolution
C – Description of Carryovers and Adjustments as of September 30, 2025
D – Description of Budget Transfers as of September 30, 2025
E – First Quarter Recommended Budget Adjustments
F – FY 2025-26 First Quarter Special Projects Update as of September 30, 2025
G – Competitive and Non-Competitive Citywide Grants Tracking
H – FY 2025-26 First Quarter CIP Project Status