



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: November 21, 2023

Subject

Accept the City Manager's First Quarter Financial Report for Fiscal Year 2023-24

Recommended Action

1. Accept the City Manager's First Quarter Financial Report for Fiscal Year 2023-24
2. Adopt Resolution No. 23-XXX approving Budget Modification No. 2324-314, increasing appropriations by \$464,384 and revenues by \$540,141
3. Adopt Resolution No. 23-XXX amending the Cupertino City Employees' Association /IFPTE Local 21 Classification Plan and Salary Schedule
4. Adopt Resolution No. 23-XXX amending the Unrepresented Employees' Compensation Program
5. Approve new Senior Housing Coordinator and Communications and Marketing Coordinator classifications
6. Receive FY 2023-24 First Quarter City Work Program Dashboard Update
7. Provide direction on potential service level reductions for FY 2024-25
 - a. Defunding the 4th of July Event in FY 2024-25
 - b. Defunding Community Grant Funding Program in FY 2024-25
 - c. Defunding Weed Abatement subsidy of \$8,600 annually.

Executive Summary

The First Quarter Financial Report for Fiscal Year (FY) 2023-24 outlines the City's financial status as of September 30, 2023. The FY 2023-24 Amended Budget is \$204.7 million, increasing from an adopted budget of \$121.8 million due to carryovers and encumbrances from the last fiscal year, in addition to Council-approved budget adjustments.

In FY 2022-23, revenues were lower than budgeted, primarily due to the carryover of Vallco Town Center revenues. Positive variances were noted in the most significant revenue sources: sales tax, property tax, and Transient Occupancy Tax (TOT); however, the potential reallocation of sales tax revenues by the California Department of Tax and Fee Administration (CDTFA) introduces uncertainty. Expenditures were also lower than

budgeted, driven by savings in salaries, materials, and contract services.

In the first quarter of FY 2023-24, revenue was \$5.5 million, or 31% lower than last year, primarily attributed to drops in sales tax, intergovernmental, and transfers, while expenditures were \$5.7 million, or 18% lower than last year, primarily due to decreases in transfers and salaries and benefits.

Key recommendations from the report include the following:

- Proposed budget adjustments increasing appropriations by \$464,384 and revenues by \$540,141 to cover transfers, unforeseen repairs, utilities, tree maintenance, and janitorial costs.
- Establishing new Senior Housing Coordinator and Communications and Marketing Coordinator classifications. A Senior Housing Planner position will be reclassified as a Senior Housing Coordinator and a Communications Officer position will be reclassified as a Communications and Marketing Coordinator, with the latter resulting in cost savings. This will not result in any additional positions.
- Looking ahead to FY 2024-25, potential reductions for Council consideration include defunding the 4th of July event, the Community Grant Funding Program, and the annual Weed Abatement subsidy. Direction on these three items will be important as staff plans for further cost controls next fiscal year.

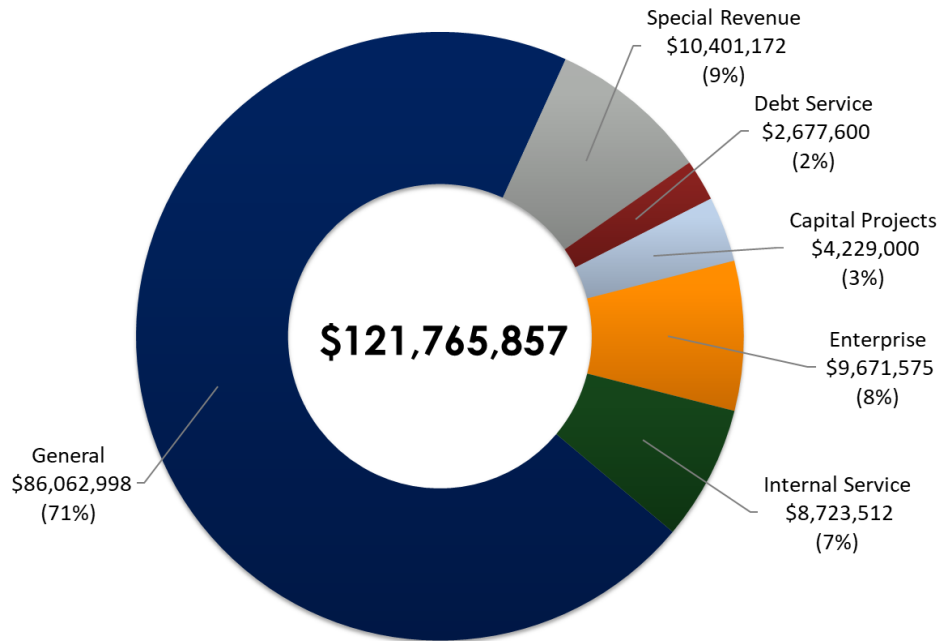
Reasons for Recommendation

Background

On June 6, 2023, the City Council adopted the FY 2023-24 Adopted Budget, a \$121.8 million spending plan funded by \$110.2 million in revenue and \$11.6 million in fund balance. The adopted budget reflected a \$4.0 million increase from the proposed budget, mainly due to the Capital Improvement Program.

Budget Actions	Amount
Proposed Budget	\$ 117,762,980
Final Budget Hearing & Adoption	
Operating Changes	(51,123)
Capital Improvement Program (Including Transfers)	4,054,000
FY 2023-24 Adopted Budget	\$ 121,765,857

FY 2023-24 Adopted Budget Expenditures by Fund



As part of the FY 2022-23 year-end close, additional funds were carried forward to FY 2023-24, amounting to \$17.1 million in encumbrances and \$64.0 million in carryover appropriations.¹ The largest encumbrances were for capital projects (\$3.8 million), while the largest carryovers were also for capital projects (\$31.0 million) and The Rise (\$19.1 million).

Furthermore, the FY 2023-24 Amended Budget includes Council-approved budget amendments from July 1 to September 30, 2023, totaling \$1.8 million for capital projects.

As a result of these budget adjustments, encumbrances, and carryovers, the amended budget at the end of the first quarter is \$204.7 million, funded with \$149.5 million in revenue and \$55.2 million in fund balance. 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.

¹Encumbrances 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.

The budget adjustments are summarized in the chart below.

Appropriation Changes since the FY 2023-24 Adopted Budget

Fund	FY 2023-24 Adopted			Adjustments	FY 2023-24 Amended
	Budget	Carryovers	Encumbrances	Approved in 1st Quarter	Budget as of September 30, 2023
General	86,062,998	25,990,872	9,723,884	-	121,777,754
Special Revenue	10,401,172	14,081,926	4,101,434	-	28,584,532
Debt Service	2,677,600	-	-	-	2,677,600
Capital Projects	4,229,000	22,533,377	2,002,735	1,798,532	30,563,644
Enterprise	9,671,575	608,333	298,323	-	10,578,231
Internal Service	8,723,512	820,692	1,001,388	-	10,545,592
Total All Funds	\$ 121,765,857	\$ 64,035,200	\$ 17,127,764	\$ 1,798,532	\$ 204,727,353

For detailed descriptions of budget amendments, please refer to Attachment C.

Discussion

The First Quarter Financial Report, as of September 30, 2023, 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 stay 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.

FY 2022-23 Year End Update

Revenues

The City is expected to end FY 2022-23 with total revenues of \$148.1 million, \$37.4 million less than budgeted, primarily due to the carryover of Vallco Town Center plan check and building inspection revenues. These revenues will continue to be carried over each year until the services are rendered, and the revenues are recognized. Additionally, revenues are less than budgeted due to Housing Mitigation fees, and outstanding Apple donations for 2016 Bike Plan projects for which revenues will be carried over and recognized as the projects are completed. Additionally, revenues came in lower due to an outstanding reimbursement request from the Section 115 OPEB Trust for retiree health expenses in FY 2021-22 and FY 2022-23, as is further explained in the miscellaneous revenues section below.

FY 2022-23 Year End Actuals versus Amended Budget by Revenue Category

Revenue Category	Amended Budget	Actual	Variance (\$)	Variance (%)
05 - Sales tax	31,944,089	34,819,341	2,875,252	9%
10 - Property tax	30,039,574	31,889,638	1,850,064	6%
15 - Transient occupancy	6,000,000	7,062,150	1,062,150	18%
20 - Utility tax	2,955,404	4,103,906	1,148,502	39%
25 - Franchise fees	3,230,101	3,995,018	764,917	24%
30 - Other taxes	9,991,122	2,363,292	(7,627,830)	-76%
35 - Licenses and permits	34,057,523	4,093,631	(29,963,892)	-88%
40 - Use of money and property	1,993,561	4,402,822	2,409,261	121%
45 - Intergovernmental revenue	14,861,249	11,989,612	(2,871,637)	-19%
50 - Charges for services	25,641,541	24,028,943	(1,612,598)	-6%
55 - Fines and forfeitures	495,669	326,944	(168,725)	-34%
60 - Miscellaneous	6,439,474	1,447,672	(4,991,802)	-78%
65 - Transfers in	16,954,117	16,835,351	(118,766)	-1%
70 - Other financing sources	850,320	739,016	(111,304)	-13%
Total	\$ 185,453,744	\$ 148,097,335	\$ (37,356,409)	-20%

Sales Tax revenue came in \$2.9 million higher than budgeted. The City budgets revenues conservatively and anticipated a reduction in online sales as the pandemic waned.

Sales tax revenue is derived from five primary economic categories, including business-to-business, state and county pools, restaurants and hotels, general consumer goods, and fuel and service stations. County pool revenue is based on the City's share of direct sales tax in the County. As a result, when sales tax fluctuates, the City's share of the County pool adjusts proportionally.

Nonetheless, despite the positive variance, revenue for FY 2022-23 was still significantly lower than in previous years due to a shift from online to in-store shopping. The COVID-19 pandemic had a substantial impact on the City's sales tax revenues from FY 2019-20 to FY 2021-22. Notably, certain sectors, including business-to-business sales tax and County pool allocation, experienced growth during this period. This growth was primarily driven by increased online sales due to statewide shelter-in-place mandates and a heightened demand for computer and electronics equipment, reflecting the shift to remote work during the pandemic.

The CDTFA is responsible for administering the distribution of sales and use tax in California. Businesses in California must register for a sales tax permit, collect taxes from customers, and report their sales taxes accurately and timely. These taxes, along with information about their allocation to jurisdictions, are then forwarded to the CDTFA, which distributes them to the appropriate jurisdictions. Additionally, the CDTFA conducts audits on businesses to ensure compliance with tax laws and regulations. The City receives a share of the sales tax revenue generated within its boundaries, which funds a wide range of City services and programs.

Though it occurred after the first quarter, it is important to note that in October 2023, the CDTFA notified the City of a proposed reallocation of sales and use tax revenues and the amount of money that the CDTFA alleges to have been incorrectly allocated. On October 10, 2023, the City Council took action to establish a Sales Tax Repayment Reserve to set aside disputed sales tax revenue. The initial allocation was \$56.5 million, corresponding to disputed sales tax revenue received between April 2021 and June 2023.

Property Tax revenue came in \$1.9 million higher than estimated. In FY 2022-23, the City's property tax roll grew \$2.08 billion, or 7.2%. This growth was \$1.09 billion more than in FY 2021-22, when the property tax roll grew by \$986 million, or 3.5%. This increase is predominantly attributable to increases in residential, commercial, and industrial property values.

Transient Occupancy Tax (TOT) revenue came in \$1.1 million higher than estimated due to increased travel but was still significantly lower relative to pre-pandemic conditions.

Utility Tax came in \$1.1 million higher than expected.

Franchise Fees revenues are in line with estimated amounts.

Other Taxes are lower than budgeted primarily due to Housing Mitigation fees. This is primarily due to certain developments that have not yet reached the permit submittal phase. As these developments progress, the Housing Mitigation fees will be collected.

Licenses and Permits are significantly lower than budgeted primarily due to the carryover of Vallco Town Center plan check and building inspection revenues. These revenues will continue to be carried over each year until the services are rendered, and the revenues are recognized.

Use of Money and Property is higher than budgeted because of increases in the market values of the City's fixed-income and Section 115 Trust investment portfolios. At the end of the fiscal year, the values of the City's investments are adjusted to reflect the year-end market value. The market value of fixed-income investment fluctuates depending on interest rates. When interest rates increase after an investment is purchased, the market value of the investment decreases. However, when interest rates decrease after an investment is purchased, the market value of the investment increases. At the time of purchase, the City intends to hold investments until maturity, so changes in market value do not affect the City's investment principal. The gain or loss will only be realized if the City sells its investments before maturity.

Intergovernmental revenue came in lower than budgeted due to the anticipated receipt of a state grant and revenues from the Transportation Development Act (TDA) Article 3

Program related to the city's Bike Plan projects that are expected to be received in FY 2023-24.

Charges for Services revenues are lower than budgeted due to the carryover of Vallco Town Center engineering fees. These revenues will continue to be carried over each year until the services are rendered, and the revenues are recognized.

Fines and Forfeitures came in lower than budgeted due to fewer fines and citations than expected.

Miscellaneous revenues came in lower than budgeted due to outstanding Apple donations for 2016 Bike Plan projects. These revenues will be carried over and recognized as the projects are completed. Additionally, revenues came in lower due to an outstanding reimbursement request from the Section 115 OPEB Trust for retiree health expenses in FY 2021-22 and FY 2022-23. This trust was set up by the City in FY 2009-10 to support its Other Post-Employment Benefits (OPEB) obligations. The Section 115 OPEB Trust is solely designated for retiree health costs, and the funds can be used to pay the benefits administrator or to reimburse the City for OPEB Plan benefits and costs.

Transfers In revenues are in line with estimated amounts.

Other Financing Sources are in line with estimated amounts.

Expenditures

The City is expected to end FY 2022-23 with total expenditures of \$123.3 million, which is \$17.9 million lower than budgeted. This is due to various savings achieved over several expense categories, as described below.

FY 2022-23 Year End Actuals versus Amended Budget by Expense Category

Expenditure Category	Amended Budget	Actual Expenditures	Variance (\$)	Variance (%)
05 - Employee compensation	31,681,411	27,014,934	(4,666,477)	-15%
10 - Employee benefits	15,437,830	11,766,738	(3,671,092)	-24%
15 - Materials	9,612,113	7,116,687	(2,495,426)	-26%
20 - Contract services	33,161,258	29,034,987	(4,126,271)	-12%
25 - Cost allocation	12,429,509	12,429,509	-	0%
30 - Capital outlays	9,044,611	9,032,056	(12,555)	0%
31 - Special projects	7,621,690	5,824,885	(1,796,805)	-24%
35 - Contingencies	575,449	277	(575,172)	-100%
40 - Debt services	2,675,800	2,675,800	-	0%
45 - Transfer out	16,892,977	16,835,351	(57,626)	0%
50 - Other financing uses	2,093,409	1,580,126	(513,283)	-25%
Total	\$ 141,226,057	\$ 123,311,349	\$ (17,914,708)	-13%

Salaries and Benefits decreased by approximately \$8.3 million, or 18%, from last year due to more full-time position vacancies.

Materials came in lower than budgeted due to savings in water service costs for various City facilities. There was also a reduction in various discontinued software applications as well as negotiated lowered costs with various software vendors. Grant expenditures for CDBG Capital/Housing projects came in under budget, as the nonprofit that was awarded funds was not able to expend its full allocation. There was also a Citywide reduction in expenses related to general supplies.

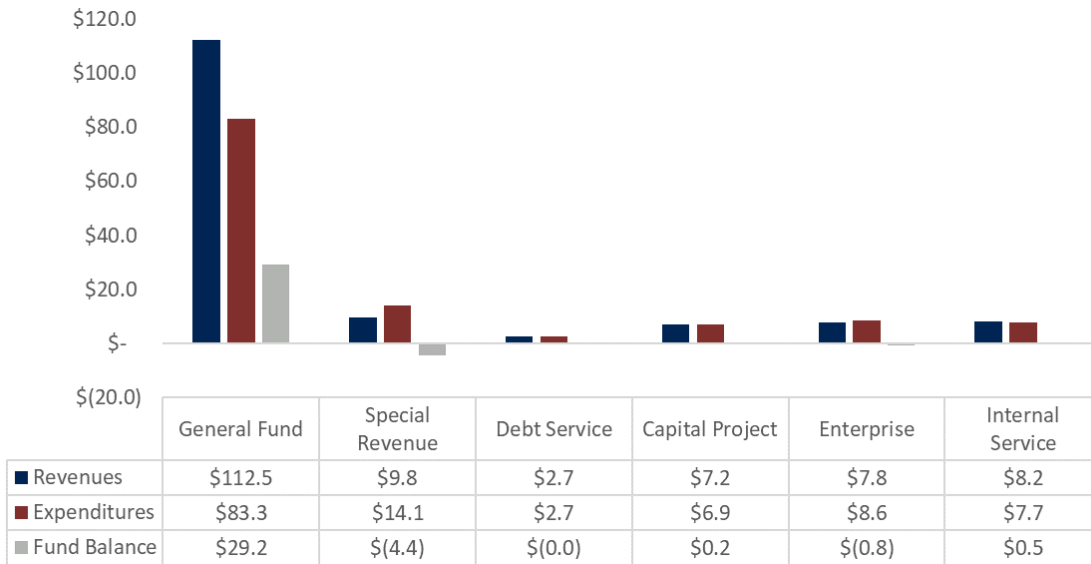
Contract Services were lower than budgeted due to savings in the Law Enforcement contract and various contracts related to Library Services, Parks and Recreation programs, and the City Attorney's Office.

Capital Outlays and Special Projects came in lower primarily due to project completion and fixed asset cost capitalization.

Contingencies were lower than budgeted due to departments having sufficient appropriations.

The table below compares actual revenues and expenditures and the resulting changes to fund balance effective as of FY 2022-23 year-end.

FY 2022-23 Year-End Estimates (\$ in millions)

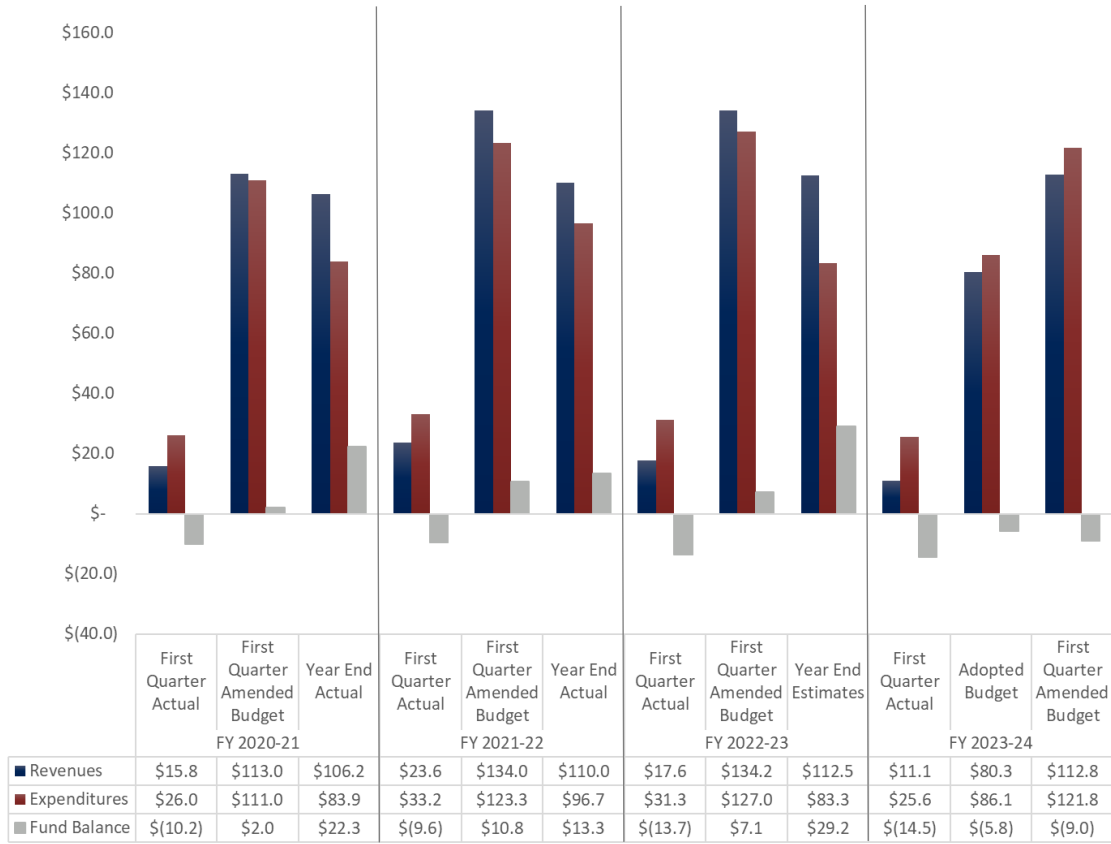


FY 2023-24 First Quarter Update

General Fund

The General Fund's historical revenues, expenditures, and fund balance demonstrate that amended expenditures have often exceeded amended revenues, leading to the use of fund balance. However, 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 use of one-time funds policy. Due to the City's encumbrance and budget carryover process, fiscal years have generally ended with increases in fund balance.

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



Revenues

As of the first quarter, overall revenue is \$12.1 million, which is \$5.5 million, or 31%, lower than last year. This is primarily due to decreases in sales tax, intergovernmental, and transfers.

The following table shows the differences between General Fund revenues collected as of the first quarter in the current fiscal year and the prior fiscal year.

**Comparison of FY 2022-23 First Quarter Revenue to FY 2023-24
General Fund**

Revenue Category	First Quarter 2023	First Quarter 2024	Variance (\$)	Variance (%)
05 - Sales tax	8,390,499	4,528,163	(3,862,336)	-46%
10 - Property tax	79,078	54,731	(24,346)	-31%
15 - Transient occupancy	1,485,719	1,544,806	59,086	4%
20 - Utility tax	636,988	600,139	(36,849)	-6%
25 - Franchise fees	180,066	220,813	40,747	23%
30 - Other taxes	328,349	326,683	(1,667)	-1%
35 - Licenses and permits	931,463	961,174	29,710	3%
40 - Use of money and property	589,007	816,272	227,265	39%
45 - Intergovernmental revenue	1,070,673	150,961	(919,712)	-86%
50 - Charges for services	2,746,279	2,830,640	84,361	3%
55 - Fines and forfeitures	41,997	23,082	(18,915)	-45%
60 - Miscellaneous	292,886	40,704	(252,182)	-86%
65 - Transfers in	861,140	15,000	(846,140)	-98%
70 - Other financing sources	-	-	-	N/A
Total	\$ 17,634,146	\$ 12,113,167	\$ (5,520,979)	-31%

Sales Tax revenue received in the first quarter was \$3.9 million, or 46%, lower than last year. Sales tax revenues are received two months in arrears, so we are looking at sales tax revenues corresponding to July and August 2023 for FY 2023-24 and July to September 2022 for FY 2022-23.

Property Tax revenue is lower than last year by approximately \$24,000, or 31%, due to a decrease in supplemental property tax. In 2023-24, the City's property tax roll grew \$1.411 billion, or 4.57%, year-over-year, compared to 6.65% for the county.

As of June 2023, statewide home sales volume has declined for the last 9 months, due to high interest rates and low inventory. There were 19.7% fewer home sales in June than in June 2022; 46.5% fewer than at the peak in 2021. The state median home price in June was \$838,260. This is 2.4% below the median a year ago, a smaller annual decline than in recent months. 2022 sale prices impacted values on the 2023/24 tax rolls. Value changes from 2023 sales through June are trending up each month but are below 2022 levels. The median sale price of Cupertino detached single-family homes from January through August 2023 was \$2,900,000, a decrease of -\$32,500 (-1.1%) from 2022's median sale price.

Staff will continue to monitor all revenue categories and, as part of the Mid-Year Financial Report, make any necessary adjustments to revenue projections.

Transient Occupancy Tax (TOT) increased by approximately \$59,000, or 4%, representing nominal change.

Utility Tax decreased by approximately \$37,000, or 6%, representing nominal change.

Franchise Fees increased by approximately \$41,000, or 23%, due to increased Recology fees.

Other Taxes decreased by \$1,667, or 1%, representing nominal change.

Licenses and Permits increased by approximately \$30,000 or 3%, representing nominal change.

Use of Money and Property increased by approximately \$227,000, or 39%, due to increased investment earnings.

Intergovernmental Revenue decreased by approximately \$920,000, or 86%, over the same period last year as all remaining American Rescue Plan Act revenue was recognized in FY 2022-23.

Charges for Services increased by approximately \$84,000, or 3%, representing nominal change.

Fines and Forfeitures decreased by \$19,000, or 45%, as August's and September's revenues were recorded in the second quarter of FY 2023-24.

Miscellaneous Revenue decreased by approximately \$252,000, or 86%, due to an Apple donation for sheriff services that was recorded in October 2023 instead of the first quarter of FY 2023-24.

Transfers In decreased by approximately \$846,000, or 98%, due to the one-time transfer of funds to General Fund departments for a 10% non-Measure B local match for the I-280/Wolfe Road Interchange Improvements Project in the first quarter of FY 2022-23.

Other Financing Sources remain budgeted at zero dollars depending on the timing of refundable deposit revenues received.

Expenditures

As of the first quarter, overall expenditures are \$25.6 million, which is \$5.7 million, or 18%, lower than last year. This is primarily due to decreased transfers as part of an expenditure reduction strategy.

The following table shows the differences between General Fund expenditures incurred as of the first quarter in the current fiscal year and the prior fiscal year.

**Comparison of FY 2022-23 First Quarter Expenditures to FY 2023-24
General Fund**

Expenditure Category	First Quarter 2023	First Quarter 2024	Variance (\$)	Variance (%)
05 - Employee compensation	5,886,488	4,963,883	(922,606)	-16%
10 - Employee benefits	2,654,002	2,124,850	(529,152)	-20%
15 - Materials	1,249,383	1,318,427	69,044	6%
20 - Contract services	6,532,556	7,591,224	1,058,667	16%
25 - Cost allocation	2,596,490	2,564,414	(32,076)	-1%
30 - Capital outlays	-	282,142	282,142	N/A
31 - Special projects	353,953	301,497	(52,456)	-15%
35 - Contingencies	-	-	-	N/A
45 - Transfer out	11,996,300	6,457,600	(5,538,700)	-46%
50 - Other financing uses	75,186	38,225	(36,961)	-49%
Total	\$ 31,344,358	\$ 25,642,260	\$ (5,702,098)	-18%

Salaries and Benefits decreased by approximately \$1.5 million, or 17%, from last year due to a reduction in staffing, full-time vacancies, and part-time salary savings.

Materials have increased by approximately \$69,000, or 6% from last year due to multi-year software encumbered at the beginning of FY 2023-24.

Contract Services have increased by approximately \$1.1 million, or 16%, primarily due to increases in insurance premiums and the law enforcement contract with the Santa Clara County Sheriff's Office.

Capital Outlays and *Special Projects* have increased by approximately \$229,000 due to projects that differ in scope and timing from year to year.

Transfers Out decreased by approximately \$5.5 million, or 46%, due to the reduction of transfers as an expenditure reduction strategy. 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.

Special Revenue Funds

Revenue

Special Revenue Funds revenue is tracking at \$316,000, or 8%, lower than last year primarily due to decreased transfers from the General Fund.

**Comparison of FY 2022-23 and FY 2023-24 First Quarter Revenues
Special Revenue Funds**

Revenue Category	First Quarter 2023	First Quarter 2024	Variance (\$)	Variance (%)
30 - Other taxes	67,104	145,331	78,227	117%
40 - Use of money and property	152,603	177,834	25,231	17%
45 - Intergovernmental revenue	496,593	542,614	46,020	9%
50 - Charges for services	1,514	61,181	59,667	3940%
55 - Fines and forfeitures	-	156	156	N/A
65 - Transfers in	3,025,000	2,500,000	(525,000)	-17%
Grand Total	\$ 3,742,815	\$ 3,427,116	\$ (315,699)	-8%

Other Taxes increased by approximately \$78,000, or 117%, due to the collection of park dedication fees for two residential development projects proposing new dwelling units.

Use of Money and Property increased by approximately \$25,000, or 17%, due to increased interest earnings from the City's investment portfolio.

Intergovernmental Revenue increased by approximately \$46,000, or 9%, due to increased SB1 and Gas Tax revenues and a Highway Safety Improvement Program (HSIP) grant for the Homestead Road/De Anza Traffic Signal Modification project.

Charges for services increased by approximately \$60,000, or 3940%, primarily due to the collection of engineering fees associated with development projects.

Fines and forfeitures have nominal change from the prior year.

Transfers In decreased by approximately \$525,000, or 17%, due to decreased transfers to the Transportation Fund and capital projects.

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 the General Fund Contribution Schedule and General Fund Transfers in the Financial Schedules section of the FY 2023-24 Adopted Budget.

Expenditures

Special Revenue Funds expenditures are tracking at \$1.8 million, or 47%, lower than last year primarily due to decreases in capital outlays.

**Comparison of FY 2022-23 and FY 2023-24 First Quarter Expenditures
Special Revenue Funds**

Expenditure Category	First Quarter 2023	First Quarter 2024	Variance (\$)	Variance (%)
05 - Employee compensation	466,560	378,164	(88,396)	-19%
10 - Employee benefits	222,640	173,642	(48,998)	-22%
15 - Materials	62,423	71,427	9,005	14%
20 - Contract services	146,404	360,866	214,463	146%
25 - Cost allocation	297,892	305,154	7,262	2%
30 - Capital outlays	1,975,377	392,497	(1,582,880)	-80%
31 - Special projects	72,508	309,634	237,127	327%
45 - Transfer out	561,140	15,000	(546,140)	-97%
Grand Total	\$ 3,804,943	\$ 2,006,384	\$ (1,798,559)	-47%

Salary and Benefits decreased by approximately \$137,000, or 20%, from last year due to a reduction in staffing, full-time vacancies, and part-time salary savings.

Materials increased by approximately \$9,000, or 14% primarily due to an increase in special departmental expenses.

Contract Services increased by approximately \$214,000, or 146%, primarily due to a street pavement maintenance project.

Cost Allocation remained relatively unchanged from the previous year.

Capital Outlays decreased by approximately \$1.6 million, or 80%, primarily due to facility improvements that differ in scope and timing from year to year.

Special Projects increased by approximately \$237,000, or 327%, due to timing of the annual sidewalk curb and gutter project as well as fixed asset acquisition.

Transfers Out decreased by \$546,000, or 97%, primarily due to reduced transfers for capital improvement program projects.

Debt Service Funds

Revenue

Debt Service Funds revenue is similar to last year.

**Comparison of FY 2022-23 and FY 2023-24 First Quarter Revenues
Debt Service Funds**

Revenue Category	1st Quarter 2023	1st Quarter 2024	Variance (\$)	Variance (%)
65 - Transfers in	2,675,800	2,677,600	1,800	0%
Grand Total	\$ 2,675,800	\$ 2,677,600	\$ 1,800	0%

Expenditures

Debt Service Funds expenditures are similar to last year.

**Comparison of FY 2022-23 and FY 2023-24 First Quarter Expenditures
Debt Service Funds**

Expenditure Category	1st Quarter 2023	1st Quarter 2024	Variance (\$)	Variance (%)
40 - Debt services	-	-	-	N/A
Grand Total	\$ -	\$ -	\$ -	N/A

Capital Projects Funds

Revenue

Capital Projects Funds revenue is similar to last year.

**Comparison of FY 2022-23 and FY 2023-24 First Quarter Revenues
Capital Projects Funds**

Revenue Category	1st Quarter 2023	1st Quarter 2024	Variance (\$)	Variance (%)
45 - Intergovernmental revenue	-	47,700	47,700	N/A
50 - Charges for services	-	-	-	N/A
60 - Miscellaneous	31,522	-	(31,522)	-100%
65 - Transfers in	3,000,000	2,918,766	(81,234)	-3%
Grand Total	\$ 3,031,522	\$ 2,966,466	\$ (65,056)	-2%

Expenditures

Capital Projects Funds expenditures are higher than last year due to more transfers to fund capital projects.

**Comparison of FY 2022-23 and FY 2023-24 First Quarter Expenditures
Capital Projects Funds**

Expenditure Category	1st Quarter 2023	1st Quarter 2024	Variance (\$)	Variance (%)
05 - Employee compensation	2,508	-	(2,508)	-100%
10 - Employee benefits	1,097	-	(1,097)	-100%
20 - Contract services	64,153	16,483	(47,670)	-74%
30 - Capital outlays	992,403	359,784	(632,619)	-64%
45 - Transfer out	823,600	2,918,766	2,095,166	254%
Grand Total	\$ 1,883,760	\$ 3,295,033	\$ 1,411,273	75%

Enterprise Funds

Revenue

Enterprise Funds revenue is tracking at approximately \$428,000, or 18%, lower than last year primarily due to no revenue transfer to Enterprise funds from the General Fund.

Comparison of FY 2022-23 and FY 2023-24 First Quarter Revenues

Enterprise Funds

Revenue Category	1st Quarter 2023	1st Quarter 2024	Variance (\$)	Variance (%)
40 - Use of money and property	165,932	157,623	(8,309)	-5%
45 - Intergovernmental revenue	83,693	-	(83,693)	-100%
50 - Charges for services	1,739,628	1,803,704	64,076	4%
60 - Miscellaneous	-	-	-	N/A
65 - Transfers in	399,600	-	(399,600)	-100%
Grand Total	\$ 2,388,853	\$ 1,961,327	\$ (427,526)	-18%

Use of Money and Property decreased by approximately \$8,000, or 5%, due to a decrease in field permit rentals offset by increased interest earnings from the City's investment portfolio.

Intergovernmental Revenue decreased by \$84,000 due to a grant to help meet the requirements of Senate Bill (SB) 1383, the State's Short-Lived Climate Pollutant Reduction Strategy for FY 2022-23.

Charges for services increased by approximately \$64,000, or 4%, primarily due to increased revenues from Parks and Recreation programs and classes.

Transfers In are down approximately \$400,000, or 100%, due to no transfers from the General Fund.

Expenditures

Overall enterprise funds expenditures are tracking at approximately \$74,000, or 4%, higher than last year primarily due to an increase in contract services and cost allocation.

Comparison of FY 2022-23 and FY 2023-24 First Quarter Expenditures

Enterprise Funds

Expenditure Category	1st Quarter 2023	1st Quarter 2024	Variance (\$)	Variance (%)
05 - Employee compensation	433,912	430,632	(3,280)	-1%
10 - Employee benefits	151,415	132,996	(18,420)	-12%
15 - Materials	73,139	82,088	8,950	12%
20 - Contract services	1,018,470	1,041,944	23,474	2%
25 - Cost allocation	197,485	234,840	37,355	19%
30 - Capital outlays	342	13,995	13,653	3997%
31 - Special projects	2,742	15,556	12,814	467%
50 - Other financing uses	-	-	-	N/A
Grand Total	\$ 1,877,505	\$ 1,952,051	\$ 74,546	4%

Salary and Benefits decreased by approximately \$22,000, or 4%, from last year due to a reduction in full-time staffing.

Materials increased by approximately \$9,000, or 12%, primarily due to increased expenditures for electricity and water.

Contract Services increased by approximately \$23,000, or 2%, and remained relatively unchanged from last year.

Cost Allocation increased by approximately \$37,000, or 19%, primarily due to increased Human Resources and Innovation Technology CAP charges.

Capital Outlays increased by approximately \$14,000, or 3997%, due to facility improvement projects that differ in scope and timing from year to year.

Special Projects increased by approximately \$13,000, or 467%, due to projects that differ in scope and timing from year to year.

Internal Service Funds

Revenue

Internal Service Funds revenue is tracking at \$2.2 million, or 49%, lower than last year due to a decrease in transfers.

Comparison of FY 2022-23 and FY 2023-24 First Quarter Revenues

Internal Service Funds

Revenue Category	1st Quarter 2023	1st Quarter 2024	Variance (\$)	Variance (%)
40 - Use of money and property	35,725	41,679	5,954	17%
50 - Charges for services	1,040,535	1,034,415	(6,120)	-1%
60 - Miscellaneous	-	-	-	N/A
65 - Transfers in	3,419,500	1,280,000	(2,139,500)	-63%
70 - Other financing sources	109,556	-	(109,556)	-100%
Grant Total	\$ 4,605,316	\$ 2,356,094	\$ (2,249,222)	-49%

Use of Money and Property increased by approximately \$6,000, or 17%, due to increased interest earnings from the City’s investment portfolio.

Charges for Services decreased by approximately \$6,000, or 1%, due to decreased other service fees.

Transfers In decreased by approximately \$2.1 million, or 63%, due to decreased transfers from the General Fund.

Other Financing Sources decreased by approximately \$110,000, or 100%, as Workers’ Compensation costs were not allocated to other funds, due to sufficient fund balance in the Workers’ Compensation Fund this fiscal year.

Expenditures

Internal Service Funds expenditures remained relatively unchanged from last year. Increases in contract services are offset by decreased expenses in special projects and salary and benefits.

Comparison of FY 2022-23 and FY 2023-24 First Quarter Expenditures Internal Service Funds

Expenditure Category	1st Quarter 2023	1st Quarter 2024	Variance (\$)	Variance (%)
05 - Employee compensation	478,171	432,040	(46,131)	-10%
10 - Employee benefits	553,503	502,306	(51,196)	-9%
15 - Materials	201,579	173,587	(27,992)	-14%
20 - Contract services	233,338	479,609	246,271	106%
25 - Cost allocation	15,511	14,406	(1,105)	-7%
31 - Special projects	149,933	28,562	(121,372)	-81%
35 - Contingencies	-	-	-	N/A
50 - Other financing uses	-	-	-	N/A
Grand Total	\$ 1,632,035	\$ 1,630,510	\$ (1,525)	0%

Salary and Benefits decreased by approximately \$97,000, or 9%, from last year due to a reduction in full-time staffing.

Materials decreased by approximately \$28,000, or 14%, mainly due to decreases in fuel expenses and conferences and trainings offset by increases in Innovation & Technology software expenditures.

Contract Services increased by approximately \$246,000, or 106%, largely due to increases in workers' compensation insurance premiums.

Cost Allocation remains relatively unchanged from the prior year.

Special Projects decreased by approximately \$121,000, or 81%, due to projects that differ in scope and timing from year to year.

Budget Adjustment Requests

As of the first quarter, departments are requesting budget adjustments to ensure they end the year within budget appropriations. The budget adjustment requests are summarized in the table below.

Budget Adjustments by Fund

Fund	Department	Change in			Proposal
		Revenue	Expenditure	Fund Balance	
GENERAL FUND					
100 General Fund	Administration	222,233	64,405	157,828	CA Volunteer N2N Grant
100 General Fund	Public Works	-	10,858	(10,858)	Unforeseen HVAC Repair
100 General Fund	Public Works	-	14,574	(14,574)	Unforeseen Generator Repair
100 General Fund	Public Works	-	7,882	(7,882)	Unforeseen Breaker Repair
100 General Fund	Public Works	-	14,636	(14,636)	Compressor Repair
100 General Fund	Public Works	-	2,401	(2,401)	Fire Sprinkler Repair
100 General Fund	Public Works	-	2,500	(2,500)	4H Rack Room Building Damage
100 General Fund	Public Works	-	3,631	(3,631)	Ceramic Room A/C Unit Repair
100 General Fund	Public Works	-	8,831	(8,831)	Unforeseen Panel Replacement
100 General Fund	Public Works	-	29,118	(29,118)	IMPEC Additional Janitorial Services
100 General Fund	Innovation & Technology	20,000	20,000	-	Transfer from Resource Recovery Fund for ClimateNav Hub funds
100 General Fund	Innovation & Technology	16,000	16,000	-	Transfer from I&T Fund for Senior Center Access Controls
100 General Fund	Innovation & Technology	60,000	60,000	-	Transfer from I&T Fund for License Plate Readers
100 General Fund	Administration	8,000	8,000	-	Emergency Management Performance Grant
TOTAL GENERAL FUND		326,233	262,836	63,397	
SPECIAL REVENUE FUNDS					
230 Env Mgmt Cln Crk Strm Drain	Public Works	-	(12,500)	12,500	Defund Permeable Pavement Rebate
270 Transportation Fund	Public Works	467	467	-	Transfer from CIP for Street Sign damage at Wilson Park
TOTAL SPECIAL REVENUE FUNDS		467	(12,033)	12,500	
CAPITAL PROJECT FUNDS					
420 Capital Improvement Fund	Capital Projects	-	467	(467)	Transfer from CIP for Street Sign damage at Wilson Park
TOTAL CAPITAL PROJECT FUNDS		-	467	(467)	
ENTERPRISE FUNDS					
560 Blackberry Farm	Public Works	-	77,000	(77,000)	Utilities Adjustment
560 Blackberry Farm	Public Works	-	55,000	(55,000)	Tree Maintenance
TOTAL ENTERPRISE FUNDS		-	132,000	(132,000)	
INTERNAL SERVICE FUNDS					
610 Innovation & Technology	Innovation & Technology	56,000	56,000	-	Transfer from General Fund for Salaries Part Time
610 Innovation & Technology	Innovation & Technology	45,000	45,000	-	Transfer from General Fund for LaserFiche Subscription
610 Innovation & Technology	Innovation & Technology	2,500	2,500	-	Transfer from General Fund for LaserFiche Conference
610 Innovation & Technology	Innovation & Technology	15,900	15,900	-	Transfer from General Fund for LaserFiche Consultation
610 Innovation & Technology	Innovation & Technology	10,600	10,600	-	Transfer from General Fund for NexSan WORM Device
610 Innovation & Technology	Innovation & Technology	7,684	7,684	-	Transfer from General Fund for Municipal Code Publishing
630 Vehicle/Equip Replacement	Public Works	-	19,187	(19,187)	Install Wood Chipper Safety Shields
TOTAL INTERNAL SERVICE FUNDS		137,684	156,871	(19,187)	
TOTAL ALL FUNDS \$ 464,384 \$ 540,141 \$ (75,757)					

Administration

Community Outreach & Neighborhood Watch (100-12-632)

CA Volunteer N2N Grant

Funds are requested to strengthen Block Leader/Neighborhood Watch programs in the neighborhood to ensure the leaders are active and expand the coverage of active neighborhoods. Appropriations are recommended to be increased by \$222,233 offset by revenue from the California Volunteers Neighbor to Neighbor Grant.

City Clerk (100-13-130) & GIS (610-35-986)

Transfer from General Fund to I&T Fund for Municipal Code Publishing

Funds are requested to move to cover the required Legal Publishing of Municipal Code updates. The funds will be allocated for the procurement of Gridics, as Gridics' CodeHub is taking the place of AM Legal in the IT budget.

Disaster Preparedness (100-12-633)

Emergency Management Performance Grant

The FY 2022 Emergency Management Performance Grant (EMPG) program is one of the grant programs that constitute the Department of Homeland Security/Federal Emergency

Management's (DHS/FEMA) focus on all-hazards emergency preparedness. These grant programs are part of a comprehensive set of measures authorized by Congress and implemented by DHS. Among the goals noted in the DHS Strategic Plan, the EMPG program supports the goal to Strengthen Preparedness and Resilience. Appropriations are recommended to increase by \$8,000 offset by revenue received from the grant.

Innovation and Technology Department

Applications (100-32-308) & Infrastructure (610-34-310)

Transfer from General Fund to I&T Fund for NexSan WORM Device

Request to transfer funds for department restructuring and to accurately reflect staff allocation corresponding with Laserfiche application (server infrastructure).

Applications (100-32-308) & GIS (610-35-986)

Transfer from General Fund to I&T Fund for Part-time salary, Laserfiche Conference, Consultation and Subscription

Request to transfer funds for department restructuring and to accurately reflect staff allocation corresponding with Laserfiche application.

Applications (100-32-308) & Resource Recovery (520-81-801)

Transfer from Resource Recovery Fund to General Fund for ClimateNav Hub funds

Request to transfer funds to fund a climate action plan greenhouse gas emissions reduction online visualization tool. The funds will be used to develop a user-friendly and highly visual Climate Action Plan 2.0 (CAP 2.0) dashboard to explain ongoing progress toward CAP goals to both City Council and the community. This visualization tool will be updatable by staff and may avoid the cost of hiring a consultant to preform separate greenhouse gas emissions inventories.

Public Works Fleet & Facilities (100-87-831)

Transfer from I&T Fund to General Fund for Senior Center Access Controls

A one-time transfer of \$16,000 from Infrastructure (610-34-310 750-130) to Public Works Facilities (100-87-831 750-025) is requested to install access controls on two facility entrance points at the Senior Center. This facility currently does not have any modern building access controls in place. The pilot would provide "lock down" capability when needed in an emergency. Control and remote access of management have been identified by staff as one of the concerns relating to safety. By implementing this pilot program, the City will better understand the value such a system will bring and adjust accordingly to future deployments that will replace the current access control system which is considered legacy and unsecure by the industry.

Law Enforcement (100-20-200)

Transfer from I&T Fund to General Fund for CWP License Plate Readers

A transfer of \$60,000 from I&T Administration (610-30-300 750-227) to Law Enforcement (100-20-200 750-227) is requested for the License Plate Recognition (LPR) pilot project. The

project consists of installing LPR devices for the automated detection of license plates. This data will only be for official law enforcement purposes, including identifying stolen or wanted vehicles, stolen license plates, and missing persons. It may also be used to gather information related to active warrants, homeland security, electronic surveillance, suspect interdiction, and stolen property recovery.

Public Works Department

Building Maintenance McClellan Ranch (100-87-832)

4H Rack Room Building Damage

Funds are requested to fix damage to the walls of the building caused by rodents. Appropriations are recommended to be increased by \$2,500.

Building Maintenance Wilson Park (100-87-834)

Ceramic Room A/C Unit Repair

Funds are requested to repair the AC unit at Wilson Park Ceramic Room. Services at the building will have to be postponed or cancelled as the ceramic kiln produces extreme heat in the room. Appropriations are recommended to be increased by \$3,631.

Building Maintenance Senior Center (100-87-831)

Compressor Replacement

Funds are requested to replace the AC compressor at the Senior Center. The Senior Center is a cooling center for the residents of Cupertino. Not replacing the compressor would render the air conditioning unit unusable, resulting in unsafe conditions during high temperatures. Appropriations are recommended to be increased by \$14,636.

Environmental Programs (230-81-853)

Defund Permeable Pavement Rebate

City Council defunded this initiative on June 6, 2023 and the budget is being updated to reflect the action.

Building Maintenance McClellan Ranch (100-87-832)

Fire Sprinkler Repair

Funds are requested for the repair of the fire sprinkler leak. The leak was repaired to stop water leaking, which was causing increases in utility bills and the inability to use the space. Appropriations are recommended to be increased by \$2,401.

Building Maintenance City Hall, Quinlan Center & Senior Center (100-87-827, 100-87-830, 100-87-831)

IMPEC Additional Janitorial Services

The custodial contract was reduced as part of the FY 2023-24 budget reductions. In adjusting to the reduced services, the contractor is not able to completely service city facilities on the reduced schedule. Funds are requested to provide additional contract staff to complete the minimum level of scheduled cleaning services. Appropriations are recommended to be increased by \$29,118.

Equipment Maintenance (630-85-849)

Install Wood Chipper Safety Shields

Funds are requested to install safety shields on the wood chipper. This provides additional safety measures to wood chipper operation and reduces the chance of injury or accident. This modification to equipment was recommended by the City's safety consultant. Appropriations are recommended to be increased by \$19,187.

Street Sign Marking (270-85-822) & Full-Sized Outdoor Basketball Court (420-99-252)

Transfer from CIP to Special Revenue for Street Sign damage at Wilson Park

Funds are requested to repair the street sign that was damaged during the Wilson Park Basketball Court CIP project. Appropriations are recommended to be increased by \$467.

Building Maintenance Service Center (100-87-829)

Unforeseen Breaker Repair

Funds are requested to replace the breaker, which feeds power into the Fleet shop. The breaker is constantly tripping at least two times a day every day during the week. It is also warm to the touch, which is a safety concern. Replacing this breaker will eliminate safety concerns and daily work interruptions. Appropriations are recommended to be increased by \$7,882.

Building Maintenance City Hall (100-87-827)

Unforeseen Generator Repair

Funds are requested to repair the generator at City Hall. During a preventive inspection, a mechanical failure of the generator water pump was found, resulting in the generator needing to be taken out of service. The needed repairs will allow the generator to return to service to provide emergency power to City Hall and the Emergency Operations Center (EOC). Appropriations are recommended to be increased by \$14,574.

Building Maintenance City Hall (100-87-827)

Unforeseen HVAC Repair

Funds are requested to repair the HVAC system at City Hall. Repairs will allow the HVAC system to be functional and the building to be occupied during hot temperatures. Appropriations are recommended to be increased by \$10,858.

Building Maintenance Quinlan Center (100-87-830)

Unforeseen Panel Replacement

Funds are requested to replace the panel at Quinlan Community Center. Testing by Sedgwick, the City's Risk Management Consultant, showed that critical replacement is needed. Appropriations are recommended to be increased by \$8,831.

Blackberry Farm Golf Course (560-84-268)

Utilities Adjustments & Tree Maintenance

Funds are requested to establish a base budget in the Grounds Division for Blackberry Farm Golf Course Grounds maintenance. These expenses, formerly budgeted in Parks and Recreation, are now being budgeted in the Grounds Division. The request is for tree maintenance, fence repair, and water service. Due to the timing of this budget modification, this expense was not included in the FY 2023-24 Public Works base budget. Appropriations are recommended to be increased by \$132,000.

Fund Balance

The General Fund ended FY 2021-22 with total fund balance of \$110.2 million. Staff anticipates the General Fund will end FY 2022-23 with \$139.3 million in fund balance, an increase of \$29.1 million from the prior year due to FY 2022-23 ending with revenues higher than expenditures. As of the first quarter, staff anticipates the General Fund will end FY 2023-24 with \$135.4 million in fund balance.

General Fund Classification of Fund Balance (in millions)

Classification	Actual	Year End	Adopted Budget	1st Quarter Year
	2021-22	Projection	2023-24	End Projection
	2021-22	2022-23	2023-24	2023-24
Non Spendable	\$ 0.4	\$ 0.4	\$ 0.4	\$ 0.4
Restricted	18.8	18.8	18.8	18.8
Committed	34.1	34.1	34.1	34.1
Assigned	5.0	5.0	7.0	5.0
Unassigned	51.8	80.9	44.1	77.0
TOTAL FUND BALANCE	\$ 110.2	\$ 139.3	\$ 104.4	\$ 135.4

Though outside the scope of the first quarter, it is important to note that on October 10, 2023, the City established a committed Sales Tax Repayment Reserve with an initial allocation of \$56.5 million. This reserve is designed to address a potential adverse CDTFA decision and the uncertain outcome of the anticipated legal challenge. Committed fund balance, as described on page 165 of the FY 2023-24 Adopted Budget, “includes amounts that can only be used for the specific purposes determined by formal action of the City’s highest level of decision-making authority, the City Council. Commitments may be changed or lifted only by the City taking the same formal action (resolution) that imposed the constraint originally.”

The reserve was funded as follows:

- \$40.5 million from General Fund Unassigned fund balance.
- \$10.0 million from the General Fund Committed Capital Projects Reserve.
- \$6.0 million from the General Fund Committed Economic Uncertainty Reserve.

The reserve affects the first quarter year-end projections outlined above by decreasing unassigned fund balance to \$36.5 million and increasing committed fund balance to \$74.6

million. This will be discussed further and included in year-end fund balance projections at mid-year.

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.

The City provides a quarterly Treasurer’s Investment Report focusing on the City’s economy, cash flow, and investments. The report separates the City’s total cash and investment balances into six fund categories: General Fund, Capital Projects, Special Revenue, Debt Service, Enterprise, and Internal Services, with the first two funds being the most discretionary. Factoring for approved reserves, the following chart outlines how the General Fund and Capital Projects total cash as of the September 30, 2023, report is restricted or available to fund future day-to-day operations:

Cash Balances by Fund Type

Fund Type	Quarter Ending September 30, 2023	
General Fund		
Unavailable - Operating Reserve*	33,608,388	
Unavailable - Tax Repayment Reserve	56,500,000	
Unavailable - Section 115 Trust	18,475,216	
Unavailable - Deposits/Liabilities	13,426,388	
Available Cash	9,434,903	
Total General Fund		131,444,895
Capital Projects		
Unavailable - Existing Capital Projects**	24,889,056	
Unavailable - Capital Reserve	5,000,000	
Unavailable - Stevens Creek Corridor Park	154,692	
Available Cash	7,934,451	
Total Capital Projects		37,978,199
RESTRICTED USES		
Special Revenue Funds		42,765,040
Debt Service Funds		2,684,450
Enterprise Funds		11,155,667
Internal Service Funds		8,580,528
Total Cash and Investments		234,608,779

* Accounts payable transactions (from 2023.04 to 2023.09) do not include transfers to other funds

** Capital projects are net of anticipated revenues

To date, the City's outside auditors have not completed their review of the City's financials. Revenue, expenditure, and fund balance totals listed in this report are preliminary and subject to change after a full review by the City's auditors. City Staff does not anticipate many, if any, changes from the auditors.

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. Sales Tax Repayment Reserve
3. CalPERS Reserve (Section 115 Pension Trust)
4. Sustainability Reserve
5. Unassigned

As of the first quarter, all priority areas are fully funded.

Staffing

As part of the FY 2023-24 Adopted Budget, City Council approved 212 FTEs. As of the first quarter, City staff is recommending establishing two new position classifications. Existing positions will be reclassified to the new classifications, ensuring no net increase in the number of positions.

Reclassification of the Senior Housing Planner

The Community Development Department is requesting the reclassification of one existing full-time Senior Housing Planner position to one newly created Senior Housing Coordinator classification. The new housing classification will be a specialized, professional position that is distinctive and separate from the planner classification and series. The position will effectively coordinate with City staff, non-profits, developers, regional agencies, and consultants to achieve high quality housing projects and programs in a timely and efficient manner that is responsive to the public. In addition, this position performs work in the analysis, planning, and coordination of housing and grant programs, coordinates the City's Below Market Rate (BMR) Affordable Housing Program, assists with housing strategies, including preservation of the City's housing portfolio, assist with the City's homelessness prevention efforts, and manages the City's Housing and Human Services Grants Program, including the Community Development Block Grant (CDBG) Program. Reclassifying the existing position would be (1) consistent with industry standards for the housing planner professional field, (2) comparable with the City's existing senior planner classification without any net impact to the budget, (3) maintain a competitive level for employee retention and any future recruitments. Additional information can be found in the attached position description. This reclassification will not have a fiscal impact in the current fiscal year, FY 2023- 24, as it will

be aligned to Senior Planner for salary purposes. In FY 2023-24, the salary and benefits for the position are expected to be approximately \$212,635.

Reclassification of the Communications Officer

The City Manager's Office is requesting to reclassify the existing Communications Officer full-time classification to a newly created Communications and Marketing Coordinator classification. This new classification will serve to enhance department operations, more effectively address the City's immediate communication needs, and also result in cost savings for the City. Additional information can be found in the attached position description. This reclassification will result in a positive fiscal impact in the current fiscal year, FY 2023- 24, as it will be aligned to Senior Management Analyst for salary purposes, which is a lower-paid classification in the Unrepresented Employees' Compensation Program. This will result in savings of approximately \$41,000. In FY 2023-24, the salary and benefits for the position are expected to be approximately \$215,612.

City Manager Discretionary Fund

In the FY 2023-24 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 September 30, 2023, no funds have been spent.

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 2022-23 special projects as of year-end and Attachment G for FY 2023-24 special projects as of September 30, 2023.

Grants

The City entered into a contract with California Consulting in February 2019 to identify and apply for State and Federal grants on behalf of the City. The contract originated in Public Works and was transferred to Administrative Services in the amount of \$75,509 in FY 2022-23. The goals of this pilot program were to centralize the grant function and to maximize grant opportunities. However, as part of a Citywide budget reduction strategy, the contract with California Consulting ended on June 30, 2023. With the elimination of this contract, departments are now responsible for identifying and applying for grants.

Staff will continue to provide additional updates on the status of grants as part of the quarterly financial reports. During FY 2021-22, FY 2022-23, and FY 2023-24, the City applied for 22 competitive grants totaling \$33.4 million. To this date, the City has been awarded \$21.5 million. Furthermore, during FY 2018-19, 2019-20, and 2020-21, the City applied for 10 additional grants totaling \$10.2 million. Of these 10 grants, the City has been awarded \$9.2 million. Also, during FY 2021-22 and 2022-23, the City applied for 16 non-competitive grants totaling \$4.1 million.

See Attachment H for further details on grants applied, pending, awarded, and not awarded.

Capital Improvement Program

The quarterly financial reports provide a status update on Capital Improvement Program (CIP) projects. See Attachment I for more information.

FY 2023-24 City Work Program Update

On April 4, 2023, the City Council adopted the FY 2023-2025 City Work Program, which included a total of 24 projects. As part of the City's budget reduction strategy, the City Council approved funding for 15 of the 24 projects for FY 2023-2024. The remaining nine projects will be considered for funding in early 2024. Attachment J includes updates for all funded projects in FY 2023-2024. These updates can also be viewed on the City Work Program dashboard at cupertino.org/cityworkprogram. The City will be reevaluating all projects in February 2024 in anticipation of further Citywide budget reductions.

Potential Service Level Reductions for FY 2024-25

Several potential FY 2024-25 budget reductions require discussion in advance of the budget process as the timing associated with the planning and implementation require advance commitments. These are identified here for Council consideration and direction:

4th of July Event

Staff is seeking City Council direction for the Cupertino Parks and Recreation July 4 event due to the planning and costs associated. Planning for this event begins in January 2024, therefore, staff needs direction before the new fiscal year budget is approved. The July 4 event, in total, costs \$145,000, including overtime staffing due to the event being on a City holiday. Due to the City's budgetary constraints, staff is recommending the event be defunded.

Community Funding Grant Program

The Community Funding Grant Program application period opens on January 1, 2024. Applications are then presented to the Parks and Recreation Commission in March and April. A recommendation is brought to City Council at their Budget Study Session and finalized with that year's adopted budget. The current funding range tops out at \$90,000. Due to the City's budgetary constraints and timeline for this program, staff is seeking direction from City Council on program continuation.

Annual Weed Abatement Subsidy

In November 2020, the City Council allocated funds annually to the Weed Abatement Program to subsidize the inspection of some properties in the program. Properties given

a notice to comply with the program continue in the program for three years to ensure continued compliance. The property incurs a re-inspection fee in years two and three. Council direction has been for the subsidy to cover that fee for years two and three if the property comes into compliance after the first year. Although the subsidy amount varies, the program is funded at \$8,046 per year. If approved, these fees would be recovered from property owners in the future.

Sustainability Impact

No sustainability impact.

Fiscal Impact

The First Quarter Financial Report shows the City is positioned as anticipated. City staff recommends adjustments of \$540,141 in new appropriations, funded by \$464,384 in revenues and \$75,757 in one-time fund balance.

California Environmental Quality Act

Not applicable.

Prepared by: Thomas Leung, Budget Manager

Reviewed by: Kristina Alfaro, Director of Administrative Services

Matt Morley, Assistant City Manager

Approved for Submission by: Pamela Wu, City Manager

Attachments:

A – FY 2023-24 First Quarter Financial Report

B – Draft Resolution

C – Description of Carryovers and Adjustments through September 30, 2023

D – Description of Budget Transfers through September 30, 2023

E – FY 2023-24 First Quarter Recommended Budget Adjustments

F – FY 2022-23 Special Projects Update

G – FY 2023-24 First Quarter Special Projects Update

H – Competitive and Non-Competitive Citywide Grants

I – Capital Improvement Program Project Status

J – FY 2023-24 City Work Program First Quarter Update

K – Senior Housing Coordinator Position Description

L – Communications and Marketing Coordinator Position Description

M – DRAFT Resolution Amending the Cupertino Employees' Association/IFPTE Local 21 Classification Plan and Salary Schedule

N – DRAFT Resolution Amending the Unrepresented Employees' Compensation Program