



ADMINISTRATIVE SERVICES
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CITY COUNCIL STAFF REPORT
 Meeting: December 5, 2017

Subject

Approve the First Quarter Financial Report for Fiscal Year 2017-18

Recommended Action

1. Accept the City Manager’s First Quarter Financial Report for Fiscal Year 2017-18
2. Adopt a draft resolution approving First Quarter budget adjustments

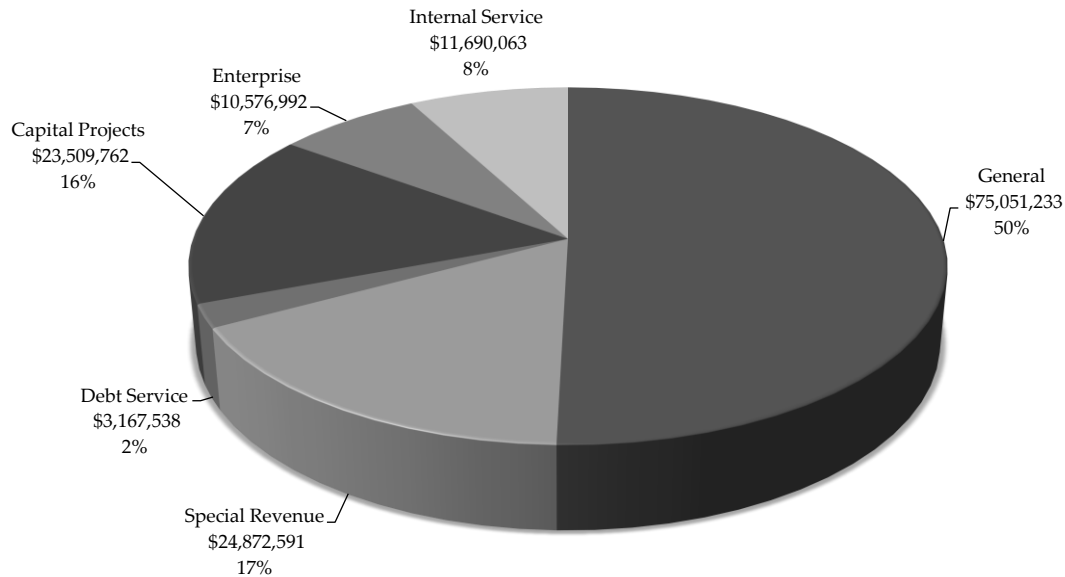
Fiscal Impact

On June 20, 2017, as part of the Final Budget Hearing and Adoption, the City Council approved the following changes to the FY 2017-18 Proposed Budget:

BUDGET ACTIONS	AMOUNT
Proposed Budget	141,236,255
Final Budget Hearing & Adoption	
Appropriation to Capital Projects for the Bike Plan Implementation	3,000,000
Transfers out of the Capital Reserve for the Bike Plan	3,000,000
Appropriation to the Capital Improvement Fund to fund Bike Plan Implementation	779,762
Transfers out of the Transportation Fund for the Bike Plan	779,762
Appropriation to the Creekside Building Roof Modification	50,000
Appropriation to Public Works Traffic Engineering for Senior Mobility Pilot Program	22,000
Appropriation to City Council Community Funding for the Iranian Federated Women’s Club Event	400
Final Budget Hearing & Adoption	
FY 2017-18 Final Adopted Budget	\$148,868,179

The FY 2017-18 Final Budget was adopted at \$148,868,179, and is balanced using the combination of \$125,692,328 in revenue, and is expected to use \$23,175,851 of fund balance by the end of the fiscal year. This is primarily due to the use of savings in the Capital Reserve to fund Capital Improvement Projects and the CalPERS reserve. Additionally, savings already set aside for the Lawrence Mitty property acquisition are projected to be used this fiscal year.

Final Adopted Budget by Fund, \$148,868,179



As part of the FY 2016-17 year-end close, additional funds were carried forward through encumbrances of \$10,532,154, and carryforward appropriations from fiscal year 2016-17 of \$41,133,535. In addition, due to an operating transfer of Internal Service Fund 615 back into the General Fund, there was a post-closing adjustment of \$3,028,366 resulting in a net zero impact to the Amended Budget when revenue is taken into account. Lastly, Council approved budget amendments between July 1 to September 30, 2017 totaling \$418,092. The Amended Budget at the end of the first quarter is \$197,923,594 and is funded with \$131,525,888 in revenue and \$66,397,706 in fund balance and one-time funding sources. Budget amendments are summarized in the chart below:

Fund	Description	Amount
General Fund Total		11,974,549
Special Revenue Total		21,061,815
Capital Project Total		5,971,870
Enterprise Fund Total		1,438,826
Internal Service Total		686,475
	Budget Carryover Total	41,133,535
General Fund Total		147,810
Special Revenue Total		270,282
	Council Action Total	418,092
General Fund Total		(3,028,366)
	Post-Closing Budget Adjustment Total	(3,028,366)
General Fund Total		4,529,247
Special Revenue Total		4,362,855
Capital Project Total		839,842
Enterprise Fund Total		38,195
Internal Service Total		762,015
	Encumbrance Carryover Total	10,532,154
	Grand Total	49,055,415

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

2016-17 Fiscal Year End

The City of Cupertino is expected to end FY 2016-17 with total expenditures of \$134.9 million - \$12.8 million lower than budgeted. This decrease in expenditures is due to various savings achieved over several expense categories as summarized in the table below:

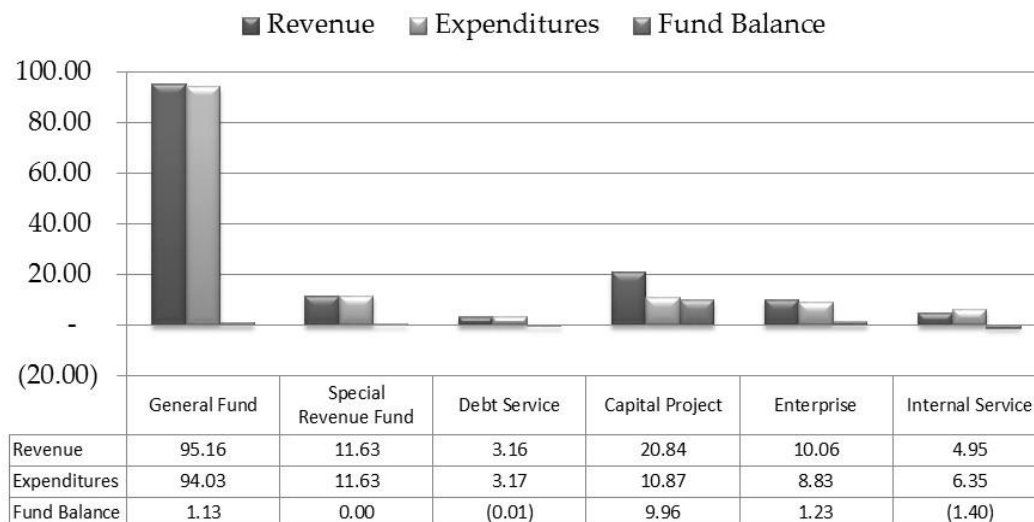
Expense Category	Amended Budget	Actual Expenditures	(Savings)/ Deficit	Description
Salary and Benefits	30,318,770	27,898,513	(2,420,257)	Due to full time vacancy rate and part time salary savings
Materials	6,065,517	5,005,065	(1,060,452)	Due to savings in Special Program Expenses, Grant Expenditures, General Supplies, Water Services, and Electrical Services
Contracts	28,252,813	25,177,617	(3,075,196)	Due to savings in Planning, Building, City Attorney, Recreation, I&T Infrastructure, and Compensated Absence
Cost Allocation	15,086,901	15,086,900	1	Slight overage due to rounding
Capital Outlays and Special Projects	24,843,486	20,185,568	(4,657,918)	Due to savings in Fixed Asset purchases in I&T and special project savings for Main Street, Traffic Impact Fee, and CDD.
Contingencies	1,326,154	1,186	(1,324,968)	Due to departments having sufficient appropriations
Debt Service, Transfers Out and Other Financing Uses	41,766,416	41,529,670	(236,746)	Due to decreased depreciation expenses for Equipment Maintenance and Video
Total	147,660,058	134,884,519	(12,775,538)	

Total revenue of \$145.8 million is expected. This is \$46.3 million lower than estimated, primarily due to decreases in charges for services as a result of a change in methodology for the Cost Allocation Plan and decreases in development fees related to housing mitigation and park dedication tax zone. In addition, revenues from Other Financing Sources were higher than budgeted primarily due to increases in refundable deposit revenue from the Apple development.

Revenue Category	Amended Budget	Actual Amount	(Overage)/Shortage
05 - Sales tax	25,940,000	26,932,012	992,012
10 - Property tax	20,741,000	20,219,077	(521,923)
15 - Transient occupancy	6,708,000	6,023,681	(684,319)
20 - Utility tax	3,122,000	3,082,408	(39,592)
25 - Franchise fees	2,900,000	3,409,572	509,572
30 - Other taxes	35,234,404	3,258,117	(31,976,287)
35 - Licenses and permits	2,499,000	2,536,924	37,924
40 - Use of money and property	1,120,180	1,752,056	631,876
45 - Intergovernmental revenue	3,570,529	2,600,418	(970,111)
50 - Charges for services	48,690,980	29,535,377	(19,155,603)
55 - Fines and forfeitures	1,102,000	603,193	(498,807)
60 - Miscellaneous	3,026,225	2,325,850	(700,375)
65 - Transfers in	37,199,639	37,665,966	466,327
70 - Other financing sources	247,300	5,829,140	5,581,840
Grand Total	192,101,257	145,773,789	(46,327,468)

The table below compares by fund, total budgeted and actual revenue and expenditures, and the resulting changes to the fund balance effective as of FY 2016-17 year-end close.

FY 2016-17 Year End Estimates (Revenue, Expenditures and Fund Balance in millions)



Discussion

The primary focus of the First Quarter Financial Report is to provide an update on the current status of the City budget; the report also reviews current revenue and expenditure patterns to ensure that budgets are on track to end the year in a positive fiscal position, and reviews any significant variances in expenditures from the prior fiscal year.

General Fund Update

Revenue

As of the first quarter, General Fund revenue is expected to end the year within projections. Overall revenue is tracking at \$2.7 million or 17% lower than last year primarily due to a decrease in charges for services due to a change in the methodology for cost allocation and a decrease in sales tax revenue this year because, in 2017, the city received a one-time sales tax payment from the state to reconcile the “triple-flip”.

In addition, revenue increases are driven by transfers in from the Capital Reserve to create the reserve for CalPERS as well as other financing sources such as refundable deposit revenue from the Apple Campus 2 development. Staff will continue to monitor all revenue categories, and as part of the Mid-Year proposal make any necessary revenue projection adjustments.

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

Revenue Category	First Quarter 2017	First Quarter 2018	Variance
05 - Sales tax	9,183,818	6,666,889	(2,516,929)
10 - Property tax	42,241	36,740	(5,501)
15 - Transient occupancy	835,973	1,003,046	167,073
20 - Utility tax	538,005	422,586	(115,419)
25 - Franchise fees	207,791	205,058	(2,734)
30 - Other taxes	262,929	299,865	36,936
35 - Licenses and permits	696,591	719,647	23,056
40 - Use of money and property	306,294	404,678	98,384
45 - Intergovernmental revenue	30,689	26,563	(4,125)
50 - Charges for services	3,882,299	2,476,766	(1,405,533)
55 - Fines and forfeitures	63,971	72,214	8,242
60 - Miscellaneous	33,856	151,170	117,314
65 - Transfers in	0	500,001	500,001
70 - Other financing sources	105,555	506,776	401,220
Grand Total	16,190,014	13,491,999	(2,698,015)

Expenditures

As of the first quarter a few departments are requesting budget adjustments to ensure they end the year within budget appropriations. The recommended adjustments are summarized below:

Fund	Department	Recommended Adjustment			Description
		Expenditure	Revenue	Fund Balance	
GENERAL FUND					
100	Recreation & Community Services	47,000	-	47,000	4th of July Fireworks
100	Recreation & Community Services	30,000	-	30,000	Customer Service Training for Staff
100	Public Works	350,000	-	350,000	Asset Management Plan for Municipal Water System
100	Innovation & Technology	287,880	287,880	-	Transfer Software Costs to Applications
100	Recreation & Community Services	58,435	-	58,435	Reallocating Noontime Program Funds to 100-62-623 (Youth, Teen, and Senior Adult Recreation) and 100-11-165 (Teen Commission)
		(58,435)	-	(58,435)	
TOTAL GENERAL FUND		714,880	287,880	427,000	
SPECIAL REVENUE FUND					
260	Community Development	(56,938)	-	(56,938)	Update Budget with Final CDBG Numbers
TOTAL SPECIAL REVENUE FUND		(56,938)	-	(56,938)	
INTERNAL SERVICE FUND					
610	Innovation & Technology	(287,880)	(287,880)	-	Transfer Software Costs to Applications
TOTAL INTERNAL SERVICE FUND		(287,880)	(287,880)	-	
TOTAL ALL FUNDS		370,062	-	370,062	

4th of July Fireworks

The City Council allocated one-time funding of \$100,000 to the FY 2016-17 budget in May 2017 to support the July 4, 2017 fireworks show. Because of the late timing and trial basis of the 2017 show, no ongoing funding for fireworks was included in the FY 2017-18 Adopted Budget. To adequately resource the July 4, 2018 fireworks show, a FY 2017-18 budget amendment of \$47,000 is requested to allow Recreation & Community Services to encumber necessary contracts for professional services with the pyrotechnic firm and to arrange school district permits, all of which occurs in December and January. In order to fund this event annually, \$100,000 will be needed each year on an ongoing basis.

Asset Management Plan for Municipal Water System

The purpose of the Asset Management Plan (AMP) is to provide information that will assist Public Works in understanding a variety of system conditions of the municipal water system (system) leased to San Jose Water Company. The system is comprised of approximately 60 miles of distribution piping, two wells, three above ground reservoirs, a pump station and approximately 4,100 service connections. The system was last operated by the City in 1997 and the current 25 year lease expires in 2022. Available system information has been found to be incomplete or outdated. When completed, the AMP will include a prioritized list of recommended capital improvement projects for years 2018-2028. Information contained within the AMP will be utilized for the remaining term of the lease and to provide system improvement priorities beyond the current lease term as may be applicable.

Reallocating Noontime Program Funds

For FY 2017-18, \$58,435 was budgeted for the Noontime program in the Youth, Teen, and Senior Adult Recreation Program (100-62-623), but was discontinued due to staffing challenges and evolving need within the Cupertino community. In an effort to provide the youth and teen community with enhanced services, staff and the Teen Commission are looking to reallocate funds for the following purposes:

- Youth, Teen, and Senior Adult Recreation (100-62-623)
 - YAC Attack – a biannual leadership summit organized by Cupertino Recreation and YTRS, a youth and teen organization, designed to bring youth and teens

from the Bay Area to meet other teen leaders. Funding would be used for supplies and staffing.

- Cupertino Youth Academy – a leadership program for 14-17 year olds which will give teens a wider perspective on careers in government and non-profit organizations. Funding would be used for transportation, staffing, and supplies.
- Spelling Bee – a spelling bee for 4th to 8th graders. Funding would be used for supplies and staffing.
- Teen Commission (100-11-165)
 - Teen Workshops – the Teen Commission would like to have workshops led by either professional speakers or student volunteers. Funding would be for program supplies.
 - <hack> Cupertino – yearly hackathon for Cupertino teens. Funding would be for event supplies.
 - Teen Stress Outreach – Teen Commission would like to work on addressing the issue of teen stress in Cupertino. Ideas include outreach and awareness. Funding would go to supplies for this endeavor.

Transfer of City Channel/Web Internal Service Fund (615) to the General Fund (100)

Governmental Accounting Standards say that internal service funds should be used if the reporting government is the predominant participant in the activity. The City’s City Channel/Web internal service fund pays for all the operating and equipment costs related to City Channel, the City Website, and City applications. Since the main users of these services are the residents of Cupertino, the City has elected to consolidate the City Channel/Web internal service fund with the City’s General Fund. All related budget amendments and actual expense and revenue changes related to the change in fund type have not yet been reflected in the City’s financials but will be complete and reflected in the Mid-Year Financial Report.

Fund Balance

The FY 2016-17 Amended Budget as of the third quarter anticipated the General Fund would end FY 2016-17 with \$45.01 million in total fund balance, of which \$11.28 million would be unassigned fund balance. Updated projections as of the first quarter anticipate the City will end FY 2017-18 with \$55.77 million in General Fund fund balance - approximately \$10.4 million higher than the Final Adopted Budget due to higher revenues received and less expenditures, as described in the sections above.

CLASSIFICATION	Actuals 2015-16	Year End Projection 2016-17	Adopted Budget 2017-18	First Quarter 2017-18
Non Spendable	0.94	0.94	1.10	0.94
Restricted	0.89	0.69	0.76	0.69
Committed	-	11.60	11.60	10.43
Assigned	20.50	20.50	25.19	23.87
UnAssigned	29.87	11.28	6.75	19.85
TOTAL FUND BALANCE	52.19	45.01	45.41	55.77

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.

Sustainability Reserve

Cupertino's Sustainability Division oversees the City's Climate Action Plan (CAP), which defines strategies to reduce greenhouse gas emissions, and provides residents, businesses and schools with programs and services focused on energy efficiency, renewable energy, water conservation, alternative transportation and other sustainable actions. Funding sources and project expenditures for these projects/programs are approved through the budgeting process. Every so often the City receives rebates for projects that successfully meet the eligibility requirements such as energy or water efficiency. If the rebates were not initially budgeted, they are typically categorized as unassigned fund balances in the General Fund. The Sustainability Division requests Council to approve that any unbudgeted rebates or revenue received for sustainability projects be placed in an assigned fund balance within the general fund to help support future sustainability projects/programs. This year this will result in \$75,499 of unassigned General Fund Balance to become assigned General Fund Balance.

Staffing

As part of the final budget, Council approved 198 FTEs. No new positions were added in the first quarter of the 2017-18 Fiscal Year.

Performance Measures

The City's performance measures align with government and private industry best practices. City Staff will update Council with the status of performance measures as part of the Mid-Year Budget Report, including prior year totals and current year results through December.

Conclusion

The First Quarter Financial Report shows the City is well-positioned to move forward. City Staff recommends adjustments of \$370,062 in appropriations resulting in an increase use of fund balance of \$370,062 across all funds.

Prepared by: Budget Team Members - Karen Bernard-Guerin, Thomas Leung, Katy Nomura, and Toni Oasay-Anderson

Reviewed by: Kristina Alfaro, Director of Administrative Services

Approved for Submission by: David Brandt, City Manager

Attachments:

A – Draft Resolution

B – First Quarter Financial Report for Fiscal Year 2017-18

C – Detailed Description of Year End and Adjustments made through 9/30/17

D – Budget Journal