



ADMINISTRATIVE SERVICES DEPARTMENT

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CITY COUNCIL STAFF REPORT DESK ITEM

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: I appreciate the level of detail in the latest financial report. While the 2024-25 financial report looks fine, with revenue coming in above expectations (to note, primarily due to mark to market adjustments) and expenses coming in below, the Q1 2025-26 \$21.6M deficit raises some questions.

Revenues: How much in sales taxes are we expecting to be returned by CDTF? Will it be similar to the prior year? Assuming that amount is returned and brings us back to, we still have the \$31M in expenses to contend with. Should we be concerned that revenues and expenses are so greatly imbalanced?

Expenses: There is a \$3.2M one-time transfer to capital reserves -- which fund is this exactly? Per the latest ACFR we have a \$10M capital projects reserve, \$24M economic uncertainty reserve, \$124K sustainability reserve and a sales tax repayment reserve (although I believe there have since been changes to this fund). Were we somehow using these reserves and need to replenish them, or are we adding them?

Staff Response: The city estimates sales tax revenue for Fiscal Year 2025-26 Adopted Budget is \$11.9 million. The current variance in the first quarter revenue is driven by sales tax and not receiving the typical advance disbursement from the California Department of Tax and Fee Administration (CDTFA) due to the settlement agreement. The \$31 million dollars spent to date is trending higher than in prior years, but with revenues expected to materialize at the budgeted level at first quarter, we estimate ending the fiscal year utilizing only \$1.1 million of the estimated unassigned fund balance. This balance is currently projected at \$65.5 million.

The \$3.2 million-dollar one-time transfer transferred to the Capital Reserve Fund (429). The \$10 million capital project reserve listed in the FY24 ACFR was defunded to assist with funding the sales tax repayment reserve. That reserve is now the "For Future Use" reserve. The City has a policy that outline how these funds can be used and a replenishment process. That policy can be found by going to www.cupertino.org/finance then scroll down and select, budget and reports, scroll down to archive and select Financial Policies and select "Committed, Unassigned Fund Balance, and Use of One Time Funds Policy."

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