



## ADMINISTRATIVE SERVICES DEPARTMENT

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### CITY COUNCIL STAFF REPORT

Meeting: November 18, 2025

#### 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

#### Executive Summary

The First Quarter (Q1) Financial Report for FY 2025-26 outlines the City's financial status as of September 30, 2025. It 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.

The FY 2025-26 Amended Budget across all funds as of the first quarter is \$223.8 million, increasing from an adopted budget of \$136.1 million due to carryovers and encumbrances from the last fiscal year, in addition to Council-approved budget adjustments.

The City is expected to end FY 2024-25 with total revenues of \$165.0 million, \$21.9 million more than budgeted, primarily due to increases across almost all revenue categories with the Use of Money and Property related to investment earnings and mark-to-market adjustments making up the largest increase. Mark-to-market is an accounting method that values assets and liabilities at their current market price instead of their original cost. Expenditures were lower than budgeted across all expense categories except for Transfers Out to other funds, primarily driven by savings in contract services and staff vacancies.

As of the first quarter of FY 2025-26, revenue was \$1.9 million (17% lower than last year), primarily due to decreases in sales tax and other financing sources, offset by use of money and property.

Staff is currently in discussion with the Sheriff's Office for the new service contract, as the current one expires in 2026, and may increase significantly and will impact the city's general fund forecast. Staff will continue to monitor and provide updates as additional information becomes available.

#### Reasons for Recommendation

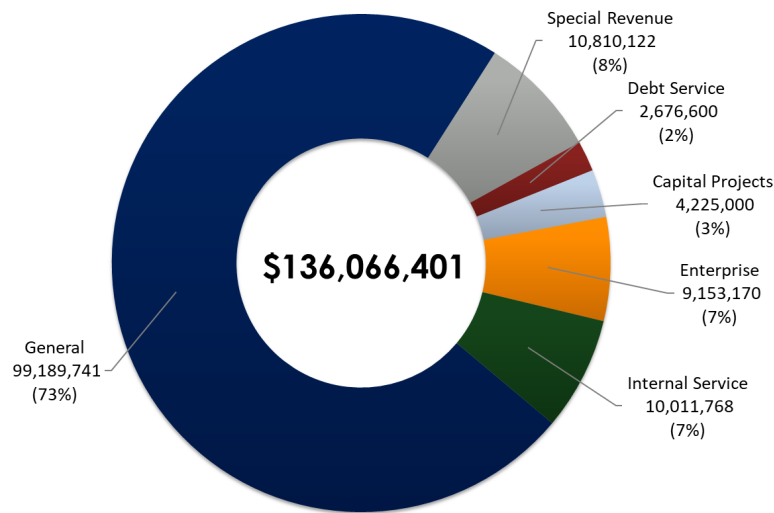
As of first quarter, staff recommends decreasing appropriations by \$674,221 and increasing revenues by \$503,628 representing either final budget clean up items, or new items that materialized after budget adoption.

#### Background

On June 3, 2025, the City Council adopted the FY 2025-26 Adopted Budget, a \$136.1 million spending plan funded by \$133.7 million in revenue and \$2.4 million in fund balance. The adopted budget reflected a \$68,966 increase from the proposed budget as illustrated below.

| Budget Actions                                                      | Amount                |
|---------------------------------------------------------------------|-----------------------|
| Proposed Budget & Capital Improvement Program (Including Transfers) | \$ 135,997,435        |
| Final Budget Hearing & Adoption                                     |                       |
| Operating Changes                                                   | 68,966                |
| <b>FY 2025-26 Adopted Budget</b>                                    | <b>\$ 136,066,401</b> |

### FY 2025-26 Adopted Budget Expenditures by Fund



As part of the FY 2024-25 year-end close, additional funds were carried forward to FY 2025-26, amounting to \$18.2 million in encumbrances and \$68.3 million in budget carryovers.<sup>1</sup> The largest encumbrances were for Capital Projects (\$8.2 million), and the largest carryovers were for General Fund (\$28.1 million). Furthermore, the FY 2025-26 Amended Budget includes Council-approved budget adjustments from July 1 to September 30, 2025, totaling \$1.2 million primarily due to negotiated increases for all but one bargaining group (Cupertino Employees Association). Please refer to Attachment C for details on the carryovers.

As a result of these budget adjustments, encumbrances, and carryovers, the amended budget at the end of the first quarter is \$223.8 million, funded with \$183.2 million in revenue and \$40.6 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.

The budget adjustments are summarized in the chart below.

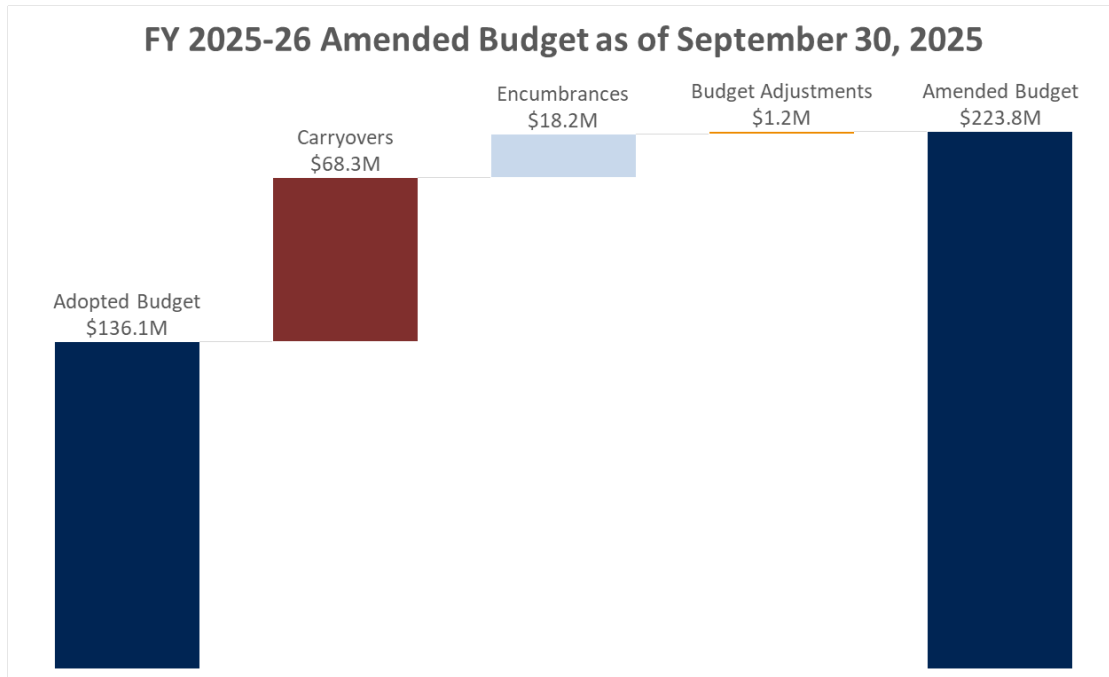
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<sup>1</sup> Encumbrances are outstanding commitments tied to unfilled purchase orders or contracts, which are rolled over to the following fiscal year until those obligations are fulfilled or terminated. Budget carryovers are unencumbered funds for unfinished projects carried over to the following fiscal year to be spent for the same purpose for which they were approved.

### First Quarter Financial Report Summary of Budget Adjustments by Fund

| Fund                   | FY 2025-26<br>Adopted<br>Budget | Carryovers           | Encumbrances         | Adjustments<br>Approved in 1st<br>Quarter | FY 2025-26 Amended<br>Budget as of<br>September 30, 2025 |
|------------------------|---------------------------------|----------------------|----------------------|-------------------------------------------|----------------------------------------------------------|
| General                | 99,189,741                      | 28,105,391           | 7,162,543            | 957,166                                   | 135,414,841                                              |
| Special Revenue        | 10,810,122                      | 17,269,837           | 1,604,982            | 75,532                                    | 29,760,473                                               |
| Debt Service           | 2,676,600                       | -                    | -                    | -                                         | 2,676,600                                                |
| Capital Projects       | 4,225,000                       | 22,691,140           | 8,198,536            | -                                         | 35,114,676                                               |
| Enterprise             | 9,153,170                       | 181,612              | 535,558              | 27,694                                    | 9,898,034                                                |
| Internal Service       | 10,011,768                      | 96,963               | 712,952              | 98,977                                    | 10,920,660                                               |
| <b>Total All Funds</b> | <b>\$ 136,066,401</b>           | <b>\$ 68,344,943</b> | <b>\$ 18,214,571</b> | <b>\$ 1,159,369</b>                       | <b>\$ 223,785,284</b>                                    |

As shown in the following chart, the amended budget is the adopted budget, plus encumbrances, budget carryovers, and Council-approved budget adjustments.



Please refer to Attachment C for detailed descriptions of the budget adjustments.

### FY 2024-25 Year End Update - All Funds

#### *Revenues*

The city is expected to end FY 2024-25 with total revenues of \$165.0 million, \$21.9 million more than budgeted, primarily due to increases across almost all revenue categories, with approximately half of that increase due to Use of Money and Property related to investment earnings and mark-to-market adjustments.

## FY 2024-25 All Funds Year End Actuals versus Amended Budget by Revenue Category

| Revenue Category               | Amended<br>Budget      | Actual                 | Variance (\$)          | Variance (%) |
|--------------------------------|------------------------|------------------------|------------------------|--------------|
| 05 - Sales tax                 | (16,100,000)           | (17,394,996)           | (1,294,996)            | 8%           |
| 10 - Property tax              | (33,174,977)           | (34,425,468)           | (1,250,491)            | 4%           |
| 15 - Transient occupancy       | (7,731,947)            | (8,305,933)            | (573,986)              | 7%           |
| 20 - Utility tax               | (4,130,140)            | (4,214,212)            | (84,072)               | 2%           |
| 25 - Franchise fees            | (3,509,346)            | (4,383,827)            | (874,481)              | 25%          |
| 30 - Other taxes               | (6,312,859)            | (3,668,729)            | 2,644,130              | -42%         |
| 35 - Licenses and permits      | (3,665,866)            | (5,755,842)            | (2,089,976)            | 57%          |
| 40 - Use of money and property | (6,938,065)            | (19,309,206)           | (12,371,141)           | 178%         |
| 45 - Intergovernmental revenue | (10,724,246)           | (11,620,836)           | (896,590)              | 8%           |
| 50 - Charges for services      | (26,838,293)           | (26,245,147)           | 593,146                | -2%          |
| 55 - Fines and forfeitures     | (415,000)              | (397,575)              | 17,425                 | -4%          |
| 60 - Miscellaneous             | (1,370,415)            | (2,065,202)            | (694,787)              | 51%          |
| 65 - Transfers in              | (21,384,000)           | (23,078,398)           | (1,694,398)            | 8%           |
| 70 - Other financing sources   | (835,984)              | (4,147,007)            | (3,311,023)            | 396%         |
| <b>Total</b>                   | <b>\$(143,131,138)</b> | <b>\$(165,012,378)</b> | <b>\$ (21,881,240)</b> | <b>15%</b>   |

*Sales Tax* revenue came in \$1.3 million higher than the \$11.6 million originally budgeted in FY 2024-25. This increase was due to the impacts related to the settlement agreement with the California Department of Tax and Fee Administration (CDTFA).

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.

*Property Tax* revenue came in \$1.3 million higher than estimated. According to HdL, the City's property tax consultant, residential use values increased 5.7% for a total of \$1.147 billion and represented 81% of all growth experienced in the City.

In FY 2024-25, the City's property tax roll grew \$1.4 billion, or 4.4%, year-over-year, compared to 5.4% for the county. The bulk of the increase was due to increases in residential properties by \$1.1 billion, or 5.7%. This category makes up 63.2% of the net taxable value. Commercial property values increased by \$225.1 million, or 2.5%. This category makes up 27.7% of the net taxable value.

Industrial properties increased by \$115.8 million, or 7.7%. This makes up 4.8% of the net taxable value. Unsecured property tax decreased by \$64.8 million, or 5.7%. This category makes up 3.2% of the net taxable value.

*Transient Occupancy Tax (TOT)* revenue came in \$0.6 million higher than estimated due to increased travel post pandemic.

*Utility Tax* revenues remained in line with estimated amounts.

*Franchise Fees* came in \$0.9 million higher than estimated due to an increase in revenues received from Recology and PG&E.

*Other Taxes* revenues came in \$2.6 million lower than estimated 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 \$2.1 million higher than budgeted due to a higher amount of building permit revenues received than originally anticipated. The increase was driven by large office tenant improvement projects, more residential submittals, and additional permits issued to resolve code enforcement cases.

*Use of Money and Property* came in \$12.4 million above budget, primarily due to three factors. First, the City retained funds that had been budgeted for repayment to CDTFA; however, the finalized settlement agreement allowed the City to retain those funds and earn returns on the General Fund's increased cash balance. Second, the City's OPEB Section 115 Trust performed well, generating investment returns that exceeded initial expectations. Third, the City recorded a \$3.5 million year-end unrealized gain from mark-to-market adjustments in its investment portfolio, reflecting favorable shifts in interest rates compared to the previous fiscal year. These gains are non-cash and would only be realized if the underlying assets are sold before maturity. Together, these factors contributed to a stronger-than-anticipated year-end performance in this revenue category.

*Intergovernmental revenue* came in \$0.9 million higher due to the receipt of County Grants related to Jollyman Inclusive Playground grant fund revenues that were inadvertently not carried over to FY2025, in addition to the receipt of cost-share dollars for community shuttle services which were previously budgeted in another program. This was offset by anticipated revenues for Measure B.

*Charges for Services* are \$0.6 million higher than budgeted primarily due to an increase in volume for encroachment permits and plan check fees.

*Fines and Forfeitures* remained in line with estimated amounts.

*Miscellaneous* revenues came in \$0.7 million higher than budgeted primarily due to revenues received for the City's new technology fee assessed on permits created in FY 2024-25.

*Transfers In* revenues are \$1.7 million higher than budgeted due to higher than anticipated transportation fund revenues and storm drain revenues.

*Other Financing Sources* came in \$3.3 million higher than estimated largely due to the sale of Byrne property.

### ***Expenditures***

The City is expected to end FY 2024-25 with total expenditures of \$145.5 million, which is \$10.2 million lower than budgeted. This is due to various savings achieved over several expense categories, as shown in the following table and described further below.

**FY 2024-25 All Funds Year End Actuals versus Amended Budget by Expense Category**

| <b>Expenditure Category</b> | <b>Amended<br/>Budget</b> | <b>Actual<br/>Expenditures</b> | <b>Variance (\$)</b>   | <b>Variance (%)</b> |
|-----------------------------|---------------------------|--------------------------------|------------------------|---------------------|
| 05 - Employee compensation  | 29,051,059                | 25,939,903                     | (3,111,156)            | -11%                |
| 10 - Employee benefits      | 25,536,555                | 23,518,558                     | (2,017,997)            | -8%                 |
| 15 - Materials              | 8,998,281                 | 7,966,603                      | (1,031,678)            | -11%                |
| 20 - Contract services      | 36,721,363                | 32,531,110                     | (4,190,253)            | -11%                |
| 25 - Cost allocation        | 14,550,523                | 14,550,523                     | -                      | 0%                  |
| 30 - Capital outlays        | 8,576,215                 | 8,248,798                      | (327,417)              | -4%                 |
| 31 - Special projects       | 6,112,288                 | 5,601,975                      | (510,313)              | -8%                 |
| 35 - Contingencies          | 341,045                   | 20,544                         | (320,501)              | -94%                |
| 40 - Debt services          | 2,676,200                 | 2,676,200                      | -                      | 0%                  |
| 45 - Transfer out           | 21,384,000                | 23,078,398                     | 1,694,398              | 8%                  |
| 50 - Other financing uses   | 1,788,615                 | 1,372,455                      | (416,160)              | -23%                |
| <b>Total</b>                | <b>\$ 155,736,144</b>     | <b>\$ 145,505,065</b>          | <b>\$ (10,231,079)</b> | <b>-7%</b>          |

*Salaries and Benefits* were lower than budgeted due to staff vacancies. Several long-term vacancies have or will be filled and staff anticipate much lower salary savings in the current fiscal year.

*Materials* came in \$1.0 million lower than budgeted due to a reduction in expenses related to Citywide general supplies, primarily in various Public Works accounts. Grant expenditures for CDBG Capital/Housing projects came in under budget due to rehabilitation projects at the Senior Center still in progress.

*Contract Services* were \$4.2 million lower than budgeted primarily due to various contracts across City departments. The largest variance is in Parks and Recreation, due to the updated contract services for racquet sports, basketball, and chess instruction, where the registration procedures have been streamlined. This lowers the direct costs for the City. Other contract savings are found in City Manager's Office, Public Works, Administrative Services, and Innovation Technology.

*Cost Allocation* was in line within budgeted amounts.

*Capital Outlays* came in \$0.3 million lower than budgeted primarily due to the defunding of Bollinger Road Corridor.

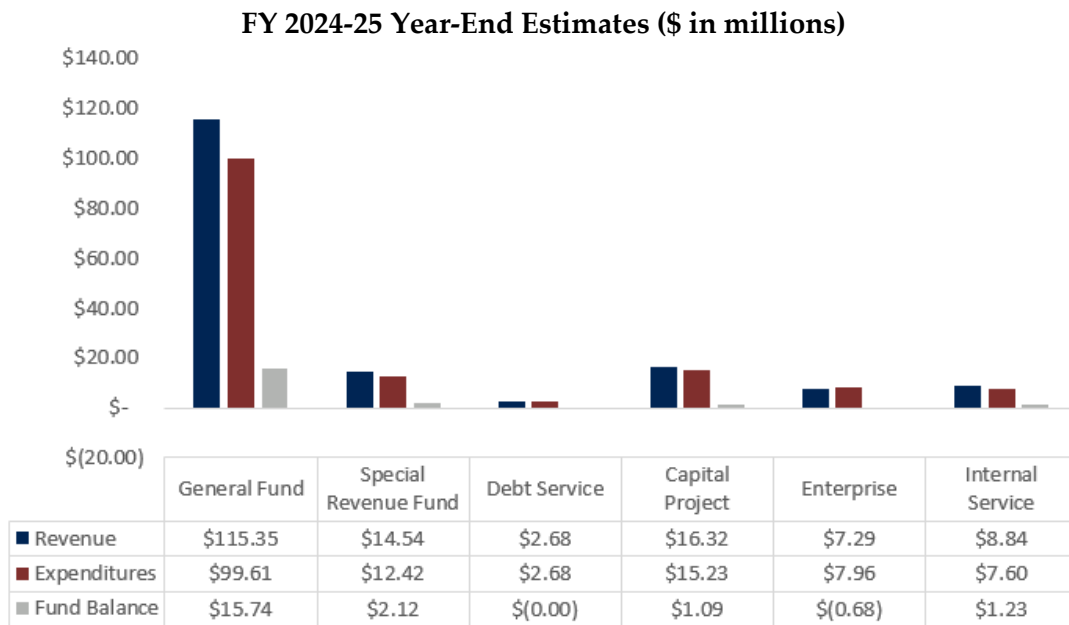
*Special Projects* came in \$0.5 million lower primarily due to project completion and fixed asset cost capitalization.

*Contingencies* were \$0.3 million lower than budgeted due to departments having sufficient appropriations.

*Transfers Out* were \$1.7 million higher than budgeted due to transfers related to FY25 CalPERS Additional Discretionary Payment.

*Other Financing Uses* were \$0.4 million lower than budgeted primarily due to depreciation expenses related to equipment maintenance and infrastructure.

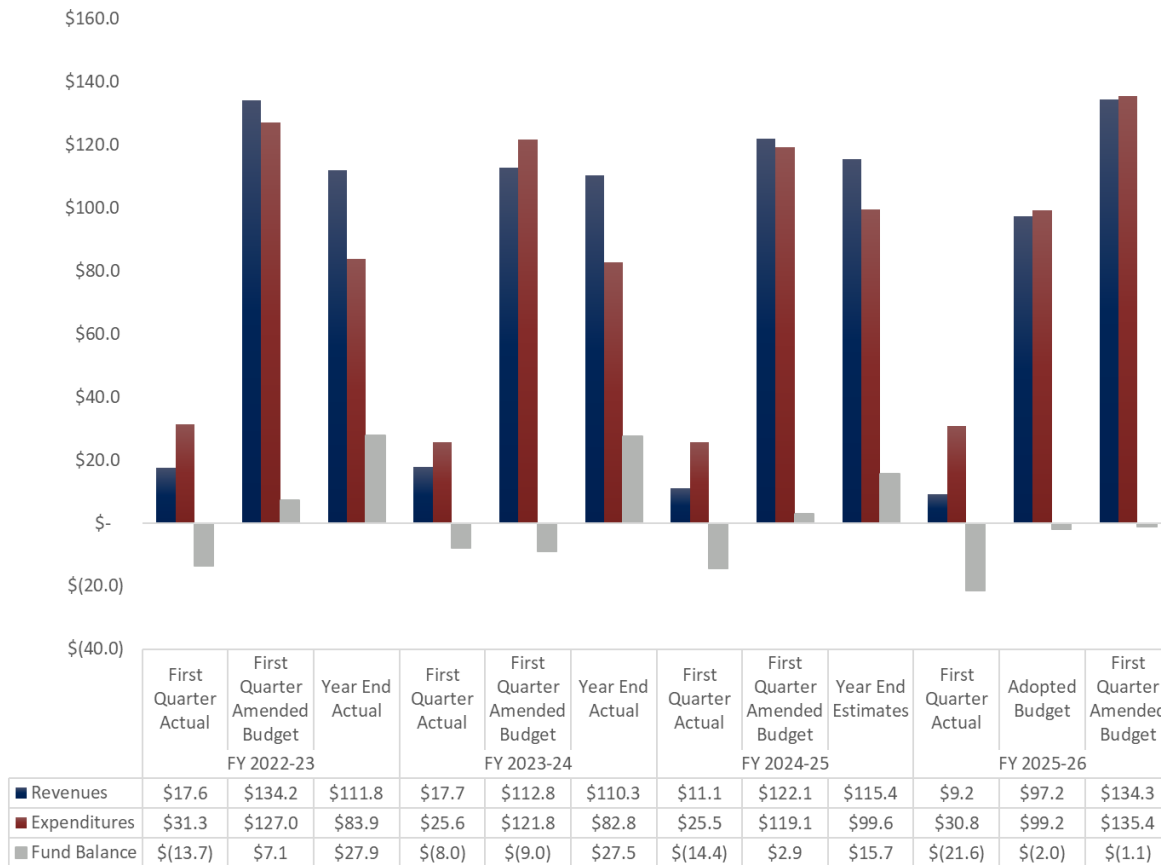
The table below compares estimated revenues and expenditures and the resulting changes to fund balance effective as of FY 2024-25 year-end.



#### FY 2025-26 General Fund First Quarter Update

The following table shows a 4-year comparison of revenues, expenditures, and changes to fund balance.

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



The General Fund's year-end actuals show that the City's revenues have historically exceeded expenditures, leading to the increase in fund balance. In addition, the City's encumbrance and budget carryover process typically led to increases in year-end fund balance. Historically, when this was not the case, 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 Fund Balance policy.

#### **Revenues**

As of the first quarter, total revenue is \$9.2 million, which is \$1.9 million, or 17%, lower than last year. This decrease is primarily due to revenue categories for Sales Tax and Other Financing Sources, offset by Use of Money and Property and are described in further detail below.

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 2024-25 First Quarter Revenue to FY 2025-26  
General Fund**

| Revenue Category               | First Quarter<br>2025 | First Quarter<br>2026 | Variance (\$)         | Variance (%) |
|--------------------------------|-----------------------|-----------------------|-----------------------|--------------|
| 05 - Sales tax                 | 2,733,793             | 9,893                 | (2,723,901)           | -100%        |
| 10 - Property tax              | 40,983                | 39,297                | (1,686)               | -4%          |
| 15 - Transient occupancy       | 633,478               | 732,222               | 98,744                | 16%          |
| 20 - Utility tax               | 742,741               | 705,121               | (37,620)              | -5%          |
| 25 - Franchise fees            | 209,378               | 227,000               | 17,622                | 8%           |
| 30 - Other taxes               | 384,331               | 311,766               | (72,565)              | -19%         |
| 35 - Licenses and permits      | 1,456,326             | 1,452,692             | (3,634)               | 0%           |
| 40 - Use of money and property | 156,159               | 1,856,026             | 1,699,867             | 1089%        |
| 45 - Intergovernmental revenue | 12,718                | 181,007               | 168,289               | 1323%        |
| 50 - Charges for services      | 3,244,350             | 3,448,938             | 204,588               | 6%           |
| 55 - Fines and forfeitures     | 40,478                | 35,996                | (4,482)               | -11%         |
| 60 - Miscellaneous             | 143,867               | 183,994               | 40,127                | 28%          |
| 65 - Transfers in              | 15,000                | 15,000                | -                     | 0%           |
| 70 - Other financing sources   | 1,330,326             | 0                     | (1,330,326)           | -100%        |
| <b>Total</b>                   | <b>\$ 11,143,927</b>  | <b>\$ 9,198,951</b>   | <b>\$ (1,944,977)</b> | <b>-17%</b>  |

*Sales Tax* revenue for the first quarter totaled approximately \$10,000, significantly lower than the \$2.7 million received in Q1 of the prior fiscal year. This decline is due to the City not receiving typical advance disbursements from the CDTFA, as part of the previously reported settlement agreement. Under normal conditions, sales tax distributions are received in three installments each quarter, two monthly advance payments and a final “true-up” payment. For Q1 of FY 2025–26, no advances were issued. The City expects to receive its Q1 true-up payment in mid-November and anticipates returning to a regular distribution schedule beginning in Q2 (October–December 2025). Staff expect to meet sales tax projections.

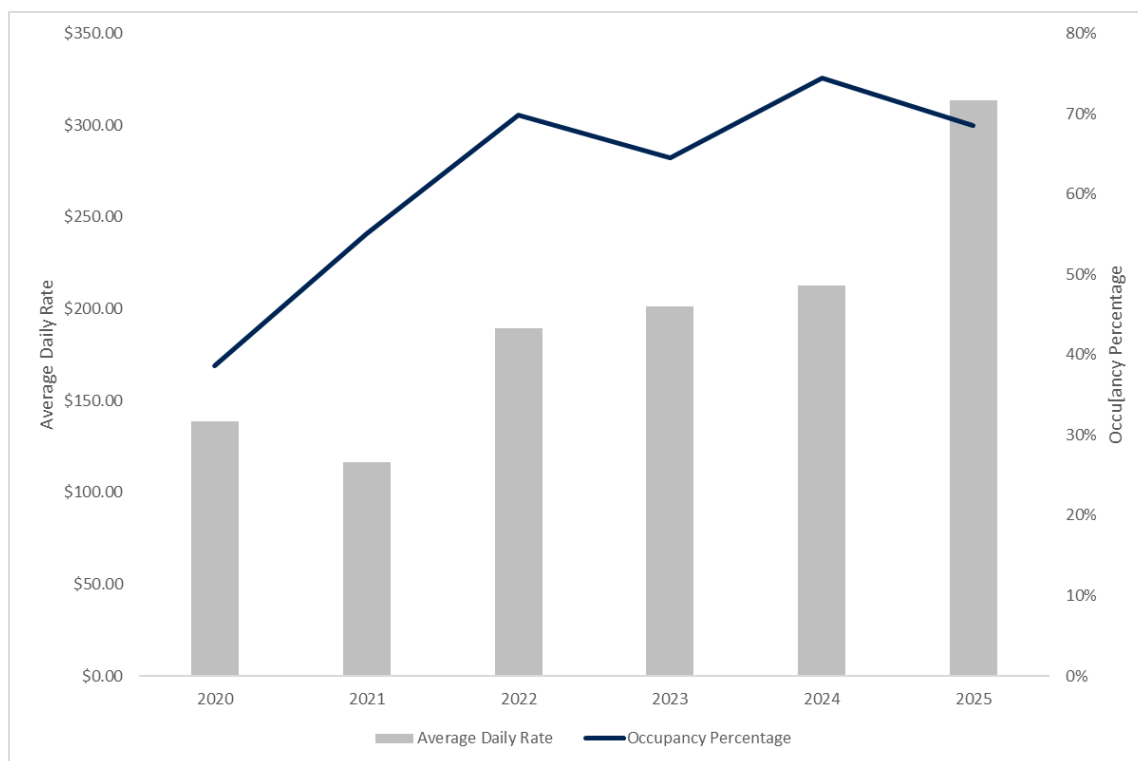
*Property Tax* revenue is slightly lower than last year by approximately \$1,700, or 4%, due to a decrease in supplemental property tax. According to the HdL, the City’s property tax consultant, the citywide growth in value in the 2024-25 assessment roll is \$1.41 billion, an increase of 4.4%. With the first 7 months of sales data processed for 2024, Single Family Residentials are selling for 4.57% less than in the previous calendar year. Prices for the full calendar year 2023 increased 10.24%. Prices are still being driven by higher interest rates and fewer properties being offered for sale.

The City's property tax base remains strong and HdL is currently projecting property taxes over the next five years as shown in the table below.

| FY 2023-24 | FY 2024-25 | FY 2025-26 | FY 2026-27 | FY 2027-28 |
|------------|------------|------------|------------|------------|
| 31,223,141 | 32,324,317 | 33,606,651 | 35,024,886 | 36,531,087 |

*Transient Occupancy Tax (TOT)* revenue increased by approximately \$98,700, or 16%, compared to the previous year due to increased travel. The average daily rates and occupancy rates for hotels are now closer to pre-pandemic levels, but the average daily rate remains low, as shown in the table below.

**Average Daily Rates and Occupancy Rates by Year  
Hotels in Cupertino**



Although TOT revenues have mostly recovered from the pandemic, the City's TOT revenues may continue to be affected in the long term due to decreased business travel. Headwinds in the tech industry have resulted in layoffs and reduced spending in areas such as travel. Staff will continue to monitor economic regulations and other factors and report back on their impact on TOT revenues as part of the quarterly financial reports.

*Utility Tax* decreased by approximately \$37,600, or 5%, primarily due to decrease in the amount of UUT collected based on lower gross receipts compared to the same period in the prior year.

*Franchise Fees* increased by approximately \$17,600, or 8%, from the same period in the prior year, due to fluctuations in construction activity and billing cadence.

*Other Taxes* decreased by approximately \$72,600 or 19%, primarily due to decreases in revenues received for property transfer taxes and the collection of business license taxes.

*Licenses and Permits* decreased by approximately \$3,600 or 0%, representing nominal change from the same period last year.

*Use of Money and Property* increased by approximately \$1.7 million, or 1,089%, due to increased investment earnings. Changes to investment is due to a change in accounting to align with best practices. Balances will continue to flow and are anticipated to end within projections.

*Intergovernmental Revenue* increased by approximately \$168,300, or 1,323%, due to revenues received in the same period last year for a vehicle license fee collection, Measure B dollars related to Safe Routes to School, and a State mandate reimbursement.

*Charges for Services* increased by approximately \$204,600, or 6%, due to increases in cost allocation plan methodology and plan review engineering fees compared to the same period last year, such as water main replacement projects and Apple private fiber installation.

*Fines and Forfeitures* decreased by \$4,500, or 11%, due to a decrease in revenues related to parking fines and administrative citations compared to the same period last year. This is offset by a slight increase in city fines.

*Miscellaneous Revenue* increased by approximately \$40,100, or 28% due to revenues received from a new Technology fee assessed on permits created in FY 2024-25.

*Transfers In* are in line with estimated dollars.

*Other Financing Sources* decreased by \$1.3 million, or 100% due to revenues received from the Byrne property transaction in the prior fiscal year.

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

### *Expenditures*

General Fund expenditures are \$5.2 million, or 20%, higher when compared to the same time last year. The following table shows the differences between General Fund expenditures as of the first quarter in the current fiscal year and the prior fiscal year:

**Comparison of FY 2024-25 and FY 2025-26 First Quarter Expenditures**  
**General Fund**

| Expenditure Category       | First Quarter        | First Quarter        | Variance (\$)       | Variance (%) |
|----------------------------|----------------------|----------------------|---------------------|--------------|
|                            | 2025                 | 2026                 |                     |              |
| 05 - Employee compensation | 4,850,724            | 4,796,589            | (54,136)            | -1%          |
| 10 - Employee benefits     | 2,323,956            | 2,135,054            | (188,901)           | -8%          |
| 15 - Materials             | 1,724,239            | 1,785,910            | 61,671              | 4%           |
| 20 - Contract services     | 6,401,334            | 7,963,667            | 1,562,333           | 24%          |
| 25 - Cost allocation       | 2,659,645            | 2,775,156            | 115,511             | 4%           |
| 30 - Capital outlays       | 12,487               | -                    | (12,487)            | -100%        |
| 31 - Special projects      | 81,575               | 613,288              | 531,712             | 652%         |
| 35 - Contingencies         | -                    | 7,400                | 7,400               | N/A          |
| 45 - Transfer out          | 7,349,598            | 10,594,653           | 3,245,055           | 44%          |
| 50 - Other financing uses  | 129,249              | 87,020               | (42,228)            | -33%         |
| <b>Total</b>               | <b>\$ 25,532,807</b> | <b>\$ 30,758,738</b> | <b>\$ 5,225,931</b> | <b>20%</b>   |

*Salaries and benefits* are lower than the same period last year due to staff vacancies. Several long-term vacancies have or will be filled and we anticipate much lower salary savings in the current fiscal year.

*Materials* costs have increased by approximately \$61,700, or 4%, primarily due to an increase in Information & Technology software and Public Works electricity costs.

*Contract Services* have increased by approximately \$1.6 million, or 24%, primarily due to the timing of expenses for the City's law enforcement contract with the Santa Clara County Sheriff's Office. To provide some context, FY 2024-25 First Quarter Law Enforcement contract invoices correspond to July and August 2024, where September invoices were paid in October 2024. In FY 2025-26, First Quarter Law Enforcement contract invoices correspond to July through September 2025.

*Cost Allocation* increased by approximately \$115,500, or 4%, primarily due to an increase in Information and Technology costs.

*Capital Outlay* costs decreased by \$12,500, or 100%, mainly due to a decrease in capitalizable facilities costs.

*Special Projects* increased by \$531,700, or 652%, due to fluctuations in one-time expenditures. It's important to note that staff has not adjusted projects in this category to align with the Special Project policy thus expenses in this category include all special projects, including development and City Work Program items.

*Contingencies* are \$7,400 higher than the same time last year. As of September 30, 2025, the City Manager's Discretionary Fund has been used for Property Appraisal Services for 10480 Finch Avenue.

*Transfers Out* increased by \$3.2 million, or 44%, primarily due to an increase in transfers to the Capital Reserve to meet the minimum reserve levels per policy and restart annual Capital Reserve funding transfer. 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.

*Other Financing Uses* decreased by \$42,200, or 33%, primarily due to the timing of on-call invoices received and paid in FY 2026 first-quarter. This is offset by an increase in special contracts for current planning. Special contracts are for vendors that do not have on-call master agreements, typically for larger projects and for contracts with larger dollar amounts.

### Special Revenue Funds

#### *Revenue*

Special Revenue Funds revenue is \$1.15 million, or 35%, higher than the same time last year primarily due to an increase in intergovernmental revenue as shown in the following table.

**Comparison of FY 2024-25 and FY 2025-26  
Special Revenue Funds First Quarter Revenues**

| Revenue Category               | First Quarter<br>2025 | First Quarter<br>2026 | Variance (\$)       | Variance (%) |
|--------------------------------|-----------------------|-----------------------|---------------------|--------------|
| 30 - Other taxes               | 33,638                | 82,654                | 49,016              | 146%         |
| 40 - Use of money and property | 2,105                 | 96,690                | 94,585              | 4493%        |
| 45 - Intergovernmental revenue | 647,056               | 2,125,874             | 1,478,818           | 229%         |
| 50 - Charges for services      | 50,845                | 53,944                | 3,099               | 6%           |
| 55 - Fines and forfeitures     | -                     | -                     | -                   | 0%           |
| 60 - Miscellaneous             | 200                   | 637                   | 437                 | 219%         |
| 65 - Transfers in              | 2,541,580             | 2,067,000             | (474,580)           | -19%         |
| <b>Total</b>                   | <b>\$ 3,275,424</b>   | <b>\$ 4,426,799</b>   | <b>\$ 1,151,375</b> | <b>35%</b>   |

*Other Taxes* increased by approximately \$49,000, or 146%, primarily due to increased park dedication fees received in the first quarter.

*Use of Money and Property* increased by approximately \$94,500, or 4493%, due to an increase in investment earnings. Changes to investment is due to a change in accounting to align with best practices. Balances will continue to flow and are anticipated to end within projections.

*Intergovernmental Revenue* increased by approximately \$1.5 million, or 229%, due to Measure B dollars related to Safe Routes to School, and a State mandate reimbursement.

*Charges for services* increased by approximately \$3,000, or 6%, primarily due to revenue received in the prior first quarter period for Engineering and General Service fees.

*Fines and forfeitures* remained relatively unchanged from the same time last year.

*Transfers In* decreased by approximately \$0.5 million, or 19% compared to same time last year.

#### *Expenditures*

Special Revenue Funds expenditures are \$0.3 million, or 26%, higher than the same time last year due primarily to increase in contract services, capital outlays, and special projects offset by a decrease in salary, benefits, and materials as shown in the following table.

### Comparison of FY 2024-25 and FY 2025-26 First Quarter Expenditures Special Revenue Funds

| Expenditure Category       | First Quarter<br>2025 | First Quarter<br>2026 | Variance (\$)     | Variance (%) |
|----------------------------|-----------------------|-----------------------|-------------------|--------------|
| 05 - Employee compensation | 352,677               | 321,551               | (31,126)          | -9%          |
| 10 - Employee benefits     | 192,968               | 171,208               | (21,760)          | -11%         |
| 15 - Materials             | 66,666                | 47,231                | (19,434)          | -29%         |
| 20 - Contract services     | 177,773               | 189,050               | 11,277            | 6%           |
| 25 - Cost allocation       | 507,514               | 502,662               | (4,851)           | -1%          |
| 30 - Capital outlays       | 48,387                | 391,791               | 343,404           | 710%         |
| 31 - Special projects      | 6,635                 | 90,147                | 83,512            | 1259%        |
| 35 - Contingencies         | -                     | -                     | -                 | N/A          |
| 45 - Transfer out          | 15,000                | 15,000                | -                 | 0%           |
| <b>Total</b>               | <b>\$ 1,367,618</b>   | <b>\$ 1,728,640</b>   | <b>\$ 361,022</b> | <b>26%</b>   |

*Salary* decreased by approximately \$31,000, or 9% due to decreases in full-time salaries from vacancy savings.

*Benefits* decreased by approximately \$22,000, or 11% due to decreases in retirement benefits.

*Materials* decreased by approximately \$19,000, or 29% primarily due to general supplies and special departmental expenses.

*Contract Services* increased by approximately \$11,000, or 6%, primarily due to an increase in fluctuations in expenses related to storm drain and resource recovery.

*Cost Allocation* decreased by approximately \$5,000, or 1% due to a decrease in Human Resources, Finance, and City Manager cost allocations.

*Capital Outlays* increased by approximately \$343,000, or 710%, due to Facility Improvements for bridge preventative maintenance program project.

*Special Projects* increased by approximately \$83,000, or 1259%, due to an increase in the Annual Sidewalk, Curb, & Gutter project.

*Transfers Out* remained relatively unchanged from the same time last year.

#### Debt Service Funds

##### *Revenue*

Debt Service Funds revenue remained relatively unchanged from the same time last year.

#### **Comparison of FY 2024-25 and FY 2025-26 First Quarter Revenues Debt Service Funds**

| Revenue Category  | First Quarter       |           | First Quarter    |           | Variance (\$) | Variance (%) |
|-------------------|---------------------|-----------|------------------|-----------|---------------|--------------|
|                   | 2025                |           | 2026             |           |               |              |
| 65 - Transfers in | 2,676,200           |           | 2,676,600        |           | 400           | 0%           |
| <b>Total</b>      | <b>\$ 2,676,200</b> | <b>\$</b> | <b>2,676,600</b> | <b>\$</b> | <b>400</b>    | <b>0%</b>    |

##### *Expenditures*

Debt Service Funds expenditures are the same as last year as shown in the following table.

**Comparison of FY 2024-25 and FY 2025-26 First Quarter Expenditures  
Debt Service Funds**

| Expenditure Category | First Quarter<br>2025 | First Quarter<br>2026 | Variance (\$) | Variance (%) |
|----------------------|-----------------------|-----------------------|---------------|--------------|
| 40 - Debt services   | -                     | -                     | -             | N/A          |
| <b>Total</b>         | <b>\$ -</b>           | <b>\$ -</b>           | <b>\$ -</b>   | <b>N/A</b>   |

Capital Projects Funds

*Revenue*

Capital Projects Funds revenue is lower than last year due to decreases in transfers to fund capital projects from the capital reserve as shown in the following table.

**Comparison of FY 2024-25 and FY 2025-26 First Quarter Revenues  
Capital Projects Funds**

| Revenue Category               | First Quarter<br>2025 | First Quarter<br>2026 | Variance (\$)    | Variance (%) |
|--------------------------------|-----------------------|-----------------------|------------------|--------------|
| 45 - Intergovernmental revenue | -                     | 3,842                 | 3,842            | N/A          |
| 65 - Transfers in              | (7,785,000)           | (4,000,000)           | 3,785,000        | -49%         |
| <b>Total</b>                   | <b>(7,785,000)</b>    | <b>(3,996,158)</b>    | <b>3,788,842</b> | <b>-49%</b>  |

*Expenditures*

Capital Projects Fund expenditures decreased by \$6.2 million, or 68% due to decrease in transfers from the capital reserve to fund capital projects and increased expenditures for capital projects as shown in the following table.

**Comparison of FY 2024-25 and FY 2025-26 First Quarter Expenditures  
Capital Projects Funds**

| Expenditure Category   | First Quarter<br>2025 | First Quarter<br>2026 | Variance (\$)         | Variance (%) |
|------------------------|-----------------------|-----------------------|-----------------------|--------------|
| 20 - Contract services | -                     | -                     | -                     | N/A          |
| 30 - Capital outlays   | 532,738               | 883,749               | 351,011               | 66%          |
| 45 - Transfer out      | 8,547,580             | 2,000,000             | (6,547,580)           | -77%         |
| <b>Total</b>           | <b>\$ 9,080,318</b>   | <b>\$ 2,883,749</b>   | <b>\$ (6,196,569)</b> | <b>-68%</b>  |

## Enterprise Funds

### *Revenue*

Enterprise Funds revenue increased by \$0.7 million or 39% from the same time last year as shown in the following table.

### **Comparison of FY 2024-25 and FY 2025-26 First Quarter Revenues Enterprise Funds**

| <b>Revenue Category</b>        | <b>First Quarter<br/>2025</b> | <b>First Quarter<br/>2026</b> | <b>Variance (\$)</b> | <b>Variance (%)</b> |
|--------------------------------|-------------------------------|-------------------------------|----------------------|---------------------|
| 40 - Use of money and property | 26,597                        | 57,921                        | 31,324               | 118%                |
| 45 - Intergovernmental revenue | -                             | -                             | -                    | N/A                 |
| 50 - Charges for services      | 1,373,150                     | 1,364,696                     | (8,454)              | -1%                 |
| 65 - Transfers in              | 514,000                       | 1,235,000                     | 721,000              | 140%                |
| <b>Total</b>                   | <b>\$ 1,913,747</b>           | <b>\$ 2,657,617</b>           | <b>\$ 743,870</b>    | <b>39%</b>          |

*Use of Money and Property* increased by approximately \$31,000, or 118%, due to environmental programs resources recovery investment earnings. Changes to investment is due to a change in accounting to align with best practices. Balances will continue to flow and are anticipated to end within projections.

*Charges for services* remained relatively unchanged from the same time last year.

*Transfers In* increased by \$0.7 million, or 140%, due to increased transfers from the General Fund.

### *Expenditures*

Enterprise Funds expenditures are \$183,000, or 10%, lower than the same time last year due primarily to decreases in special projects, contract services, salary and benefits offset by an increase in cost allocation as shown in the following table.

**Comparison of FY 2024-25 and FY 2025-26 First Quarter Expenditures  
Enterprise Funds**

| Expenditure Category       | First Quarter<br>2025 | First Quarter<br>2026 | Variance (\$)       | Variance (%) |
|----------------------------|-----------------------|-----------------------|---------------------|--------------|
| 05 - Employee compensation | 445,452               | 411,005               | (34,447)            | -8%          |
| 10 - Employee benefits     | 174,719               | 150,056               | (24,663)            | -14%         |
| 15 - Materials             | 122,926               | 107,793               | (15,133)            | -12%         |
| 20 - Contract services     | 578,245               | 530,039               | (48,206)            | -8%          |
| 25 - Cost allocation       | 394,358               | 411,641               | 17,283              | 4%           |
| 30 - Capital outlays       | -                     | -                     | -                   | N/A          |
| 31 - Special projects      | 78,298                | -                     | (78,298)            | -100%        |
| <b>Total</b>               | <b>\$ 1,793,997</b>   | <b>\$ 1,610,534</b>   | <b>\$ (183,463)</b> | <b>-10%</b>  |

*Salary* decreased by approximately \$34,000, or 8%, primarily due to lower expenses in employee compensation from vacancy savings.

*Benefits* decreased by approximately \$25,000, or 14%, primarily due to lower expenses in employee compensation from vacancy savings and a one-time discretionary payment to CalPERS.

*Materials* decreased by approximately \$15,000, or 12%, primarily due to reduction in CalRecycle city Payment Program, and water service.

*Contract Services* decreased by approximately \$48,000, or 8%, primarily due to a decrease in bank charges, and training and instruction general services agreement.

*Cost Allocation* increased by approximately \$17,000, or 4%, primarily due to increased IT Reimbursement and Finance CAP charges.

*Special Projects* decreased by approximately \$78,000, or 100%, due to projects that differ in scope and timing from year to year.

**Internal Service Funds**

*Revenue*

Internal Service Funds revenue increased by \$0.4 million, or 12%, higher than the same time last year due to increases in transfers in and charges for services as shown in the following table.

**Comparison of FY 2024-25 and FY 2025-26 First Quarter Revenues**  
**Internal Service Funds**

| Revenue Category               | First Quarter<br>2025 | First Quarter<br>2026 | Variance (\$)     | Variance (%) |
|--------------------------------|-----------------------|-----------------------|-------------------|--------------|
| 40 - Use of money and property | (3,711)               | 22,141                | 25,852            | 697%         |
| 50 - Charges for services      | 1,195,727             | 1,347,723             | 151,997           | 13%          |
| 65 - Transfers in              | 2,380,398             | 2,616,053             | 235,655           | 10%          |
| 70- Other financing sources    | 0                     | (138,382)             | (138,382)         | N/A          |
| <b>Total</b>                   | <b>\$ 3,572,414</b>   | <b>\$ 3,985,917</b>   | <b>\$ 413,503</b> | <b>12%</b>   |

*Use of Money and Property* increased by approximately \$26,000, or 697% due to an increase in investment earnings. Changes to investment is due to a change in accounting to align with best practices. Balances will continue to flow and are anticipated to end within projections.

*Charges for Services* increased by approximately \$152,000, or 13%, due to an increase in I&T Infrastructure CAP.

*Transfers In* increased by \$236,000, or 10%, due to increases in transfers from the General Fund to the Compensated Absences and Retiree Medical Funds.

*Expenditures*

Internal Service Funds expenditures increased by \$0.4 million, or 22%, higher than the same time last year due primarily to increases in materials and cost allocation as shown in the following table.

**Comparison of FY 2024-25 and FY 2025-26 First Quarter Expenditures**  
**Internal Service Funds**

| Expenditure Category       | First Quarter<br>2025 | First Quarter<br>2026 | Variance (\$)     | Variance (%) |
|----------------------------|-----------------------|-----------------------|-------------------|--------------|
| 05 - Employee compensation | 370,972               | 417,093               | 46,121            | 12%          |
| 10 - Employee benefits     | 520,715               | 605,424               | 84,709            | 16%          |
| 15 - Materials             | 123,731               | 321,747               | 198,016           | 160%         |
| 20 - Contract services     | 538,673               | 478,474               | (60,199)          | -11%         |
| 25 - Cost allocation       | 76,115                | 217,962               | 141,847           | 186%         |
| 31 - Special projects      | 167,444               | 147,556               | (19,888)          | -12%         |
| <b>Total</b>               | <b>\$ 1,797,650</b>   | <b>\$ 2,188,256</b>   | <b>\$ 390,606</b> | <b>22%</b>   |

*Salary* Increased by \$46,000 or 12% due to staff vacancies. *Benefits* increased by approximately \$85,000, or 16% due to higher costs in health insurance and CalPERS' Unfunded Accrued Liability (UAL).

*Materials* Increased by \$198,000, or 160%, mainly due to increases in Innovation & Technology software and small tools and equipment expenses.

*Contract Services* decreased by \$60,000, or 11%, largely due to decreases in Innovation & Technology cybersecurity services.

*Cost Allocation* increased by approximately \$142,000, or 186%, mainly due to increases in City wide CAP charges.

*Special Projects* decreased by approximately \$20,000, or 12%, 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. Staff recommends decreasing appropriations by \$674,221 and increasing revenues by \$503,628 resulting in an increase of \$1,177,849 to unassigned fund balance. The budget adjustment requests are summarized in the table below. See Attachment E.

| Fund                                   | Department              | Revenue           | Expenditure         | Change in Fund Balance | Proposal                                             |
|----------------------------------------|-------------------------|-------------------|---------------------|------------------------|------------------------------------------------------|
| <b>GENERAL FUND</b>                    |                         |                   |                     |                        |                                                      |
| 100 General Fund                       | Multiple Departments    | (3,405)           | (892,702)           | 889,297                | CAP Reallocation                                     |
| 100 General Fund                       | Community Development   | -                 | 30,000              | (30,000)               | Citation Processing Center - Fees                    |
| 100 General Fund                       | Community Development   | -                 | 79,000              | (79,000)               | GF HSG Grant Contracts                               |
| 100 General Fund                       | Community Development   | 269,231           | 175,000             | 94,231                 | Plan Review Services - Toll Brothers                 |
| 100 General Fund                       | Innovation & Technology | -                 | 15,000              | (15,000)               | CRM Software solution                                |
| 100 General Fund                       | Innovation & Technology | -                 | 7,000               | (7,000)                | I&T - Video - Operational Enhancements - Small Tools |
| 100 General Fund                       | Parks and Recreation    | -                 | 140,000             | (140,000)              | 4th of July                                          |
| 100 General Fund                       | Public Works            | -                 | 20,000              | (20,000)               | Library HVAC VFD Replacement                         |
| 100 General Fund                       | Public Works            | -                 | 200,000             | (200,000)              | Traffic Data Collection                              |
| 100 General Fund                       | Public Works            | -                 | 7,000               | (7,000)                | Bridge Fencing                                       |
| 100 General Fund                       | Public Works            | -                 | 24,386              | (24,386)               | Tree Maintenance                                     |
| <b>TOTAL GENERAL FUND</b>              |                         | <b>265,826</b>    | <b>(195,316)</b>    | <b>461,142</b>         |                                                      |
| <b>SPECIAL REVENUE FUNDS</b>           |                         |                   |                     |                        |                                                      |
| 230 Env Mgmt Cln Crk Strm              | Public Works            | -                 | (55,167)            | 55,167                 | CAP Reallocation                                     |
| 270 Transportation Fund                | Public Works            | -                 | (131,216)           | 131,216                | CAP Reallocation                                     |
| 270 Transportation Fund                | Public Works            | -                 | (425,599)           | 425,599                | PW Defunded CIPs & transfers in and outs             |
| 270 Transportation Fund                | Public Works            | -                 | 40,000              | (40,000)               | RV Ordinance Signage                                 |
| <b>TOTAL SPECIAL REVENUE FUNDS</b>     |                         | <b>-</b>          | <b>(571,982)</b>    | <b>571,982</b>         |                                                      |
| <b>CAPITAL IMPROVEMENT FUNDS</b>       |                         |                   |                     |                        |                                                      |
| 420 Capital Improvement Fund           | Public Works            | 99,632            | (42,945)            | 142,577                | PW Defunded CIPs & transfers in and outs             |
| 429 Capital Reserve                    | Public Works            | 144,684           | -                   | 144,684                | PW Defunded CIPs & transfers in and outs             |
| <b>TOTAL CAPITAL IMPROVEMENT FUNDS</b> |                         | <b>244,316</b>    | <b>(42,945)</b>     | <b>287,261</b>         |                                                      |
| <b>ENTERPRISE FUNDS</b>                |                         |                   |                     |                        |                                                      |
| 570 Sports Center                      | Public Works            | -                 | (29,689)            | 29,689                 | CAP Reallocation                                     |
| <b>TOTAL ENTERPRISE FUNDS</b>          |                         | <b>-</b>          | <b>(29,689)</b>     | <b>29,689</b>          |                                                      |
| <b>INTERNAL SERVICE FUNDS</b>          |                         |                   |                     |                        |                                                      |
| 610 Innovation & Technology            | Innovation & Technology | -                 | 15,000              | (15,000)               | Accessibility, Security, and Operational Updates     |
| 610 Innovation & Technology            | Innovation & Technology | -                 | 131,100             | (131,100)              | Control Room Project AV Systems Upgrade              |
| 610 Innovation & Technology            | Innovation & Technology | -                 | 72,500              | (72,500)               | Control Room Project Tech Refresh - Reimbursement    |
| 610 Innovation & Technology            | Innovation & Technology | -                 | 25,000              | (25,000)               | Operational Enhancements                             |
| 620 Workers' Compensation              | Human Resources         | (6,514)           | -                   | (6,514)                | CAP Reallocation                                     |
| 630 Vehicle/Equip Replacement          | Public Works            | -                 | (77,889)            | 77,889                 | CAP Reallocation                                     |
| <b>TOTAL INTERNAL SERVICE FUNDS</b>    |                         | <b>(6,514)</b>    | <b>165,711</b>      | <b>(172,225)</b>       |                                                      |
| <b>TOTAL ALL FUNDS</b>                 |                         | <b>\$ 503,628</b> | <b>\$ (674,221)</b> | <b>\$ 1,177,849</b>    |                                                      |

## Administrative Services

### Citywide

#### *Cost Allocation Plan (CAP) Reallocation*

The Department is requesting a budget adjustment to align internal cost allocations with updated CAP modeling. This action ensures accurate distribution of overhead costs across departments and reflects refinements to the City's budget system inputs.

### Community Development

#### Code Enforcement (100-74-702)

##### *Citation Processing Fees*

The Department is requesting \$30,000 in additional appropriations for Citation Processing Center fees. Due to an additional software contract with Data Ticket that was not included as part of the

Adopted Budget, costs have exceeded what was expected for this fiscal year. It is necessary to process citations as they generate revenue for the city.

#### Human Service Grants (100-72-712)

##### *GF HSG Grant Recipient Contracts*

The Department is requesting \$79,000 in additional appropriations for General Fund Human Services Grant recipient contracts. This is needed to meet the funding recommendations awarded to the applicants for HSG public service activities.

#### Construction Plan Check (100-73-714)

##### *Plan Review Services - Toll Brothers*

The Department is requesting \$175,000 in additional appropriations for plan review services for the building permit application process for the proposed United Furniture/Idlewild Toll Brothers project at 10065 & 10075 Stevens Creek Blvd. This wasn't included in the budget because the project hearing schedule was only recently confirmed. It cannot wait until later in the year because the permit submittal is anticipated to occur by December. If this request is not approved, it will require one of the City's two Plan Check Engineers to review the plans, thus delaying processing the daily permit load received from the community. The result will be a significant delay in permit processing time, causing a backlog and not meeting state mandated permit review times.

#### Innovation and Technology

##### Video (100-31-305)

##### *Operational Enhancements - Small Tools*

The Department is requesting \$7,000 in additional appropriations to assist in offsetting expenses incurred related to the control room project. These include converter devices that are needed to make our older equipment compatible with the newly installed technology—for example, digital to analog audio conversion and video scalars. New microphones are needed to better match levels across all dais stations. These expenses, while essential to ensure all staff are properly supported and operational, have exceeded the base budget allocation for small tools and equipment. Without this additional funding, the Department will be unable to sustain essential operations through the remainder of the fiscal year, impacting day-to-day productivity and service delivery.

##### Applications (100-32-308)

##### *Customer Relationship Management (CRM) Software Solution*

The Department is requesting \$15,000 in additional appropriations for a CRM software tool to help manage contact information, and resident requests within a single software platform. In June 2025, the Interim City Manager directed staff to begin evaluating potential Customer Relationship Management (CRM) solutions to improve efficiency in responding to resident requests and

general inquiries. The volume of these requests has grown significantly, highlighting the need for a centralized system to effectively manage and track community engagement. Between August and September 2025, staff from Innovation & Technology (I&T) and the City Manager's Office (CMO) evaluated multiple CRM platforms and identified a solution that meets the City's functional requirements and is fully compatible with the existing suite of applications.

Infrastructure (610-34-310 - PEG Funded)

*Control Room Project AV Systems Upgrade*

The Department is requesting \$131,100 additional appropriations for Control Room AV Systems Upgrades to ensure the reliability, quality, and efficiency of the City's live broadcast operations. During the design phase of the Control Room Modernization Project, an overwhelming number of end-of-life (EOL) replacement items were identified from the old control room infrastructure. Due to the significant costs exceeding the original contract budget, these items were deferred and categorized as Phase II upgrades.

The proposed replacements — including the Ross XPression live broadcast graphics system and KiPro Ultra digital recorders — are essential to complete integration of the new control room. These systems will modernize live broadcast graphics, automate playback, and improve recording performance to current 12G-SDI standards, greatly enhancing production quality and operational efficiency. Two additional Q-SYS panels will be purchased and added to the dais technical system to allow the City Manager and City Attorney the ability to view the public and council timers. Cost also includes additional necessary programming. Without replacements, the City's broadcast operations remain at risk of downtime due to unsupported legacy equipment. Approving this request will ensure system reliability, continuity of City meeting broadcasts, and a professional grade viewing experience for the community.

Infrastructure (610-34-310)

*Control Room Project Tech Refresh - Reimbursement*

The Department is requesting \$72,500 in additional appropriations to cover expenses for a technology refresh necessitated by the new Control Room build. These items fall under infrastructure replacements—specifically, servers and network equipment that had reached end of life but were not identified in this year's maintenance refresh due to their replacement being funded through PEG-allocated project expenses.

The department absorbed these costs to maintain the project schedule during Council's recess in August; however, the accounts now need to be reimbursed to sustain operations through the remainder of the fiscal year. The items procured—such as the City Channel server and HP switches—were classified as Owner-Furnished Equipment and not included in the Advanced Systems Group contract. These procurements were required to complete implementation, testing, and transition of the new system. Moving forward, all PEG-funded assets will follow a defined

depreciation schedule and be closely tracked as part of the City's technology refresh cycle. The expenses are PEG eligible.

#### Infrastructure (610-34-310)

##### *Operational Enhancements*

The Department is requesting \$25,000 in additional appropriations for Infrastructure and Video Program Small Tools to maintain operations through the end of the fiscal year. This year, the Department experienced an unusual volume of staff hires, including a combination of new positions and backfills for previously unfilled roles, which required additional technology purchases to properly equip new employees. In addition, new equipment purchases were necessary for the Council Office and the City Attorney's Office (CAO) as part of ongoing workspace and technology refresh efforts. These expenses, while essential to ensure all staff are properly supported and operational, have exceeded the base budget allocation for small tools and equipment. Without this additional funding, the Department will be unable to sustain essential operations through the remainder of the fiscal year, impacting day-to-day productivity and service delivery.

#### GIS (610-35-986)

##### *Accessibility, Security, and Operational Updates*

The Department is requesting \$15,000 in additional appropriations for keeping the City's third-party mobile and web applications compliant and operable. Funds cover vendor updates required by evolving security, platform, and accessibility (WCAG 2.1 by April 2026) standards. Needs arise mid-year as app store and vendor requirements change, which is why this was not fully captured in the prior budget. Approval avoids service degradation, potential removal from app stores, accessibility non-compliance, and higher rush-fix costs. This funding ensures the City can proactively maintain reliable, secure, and accessible applications that support effective public engagement and service delivery.

#### Parks & Recreation Department

##### Cultural Events (100-61-605)

##### *4<sup>th</sup> of July*

The Department is requesting \$140,000 for the 4<sup>th</sup> of July event held in Cupertino. This was inadvertently not included in the FY 2025-26 budget.

#### Public Works Department

##### Building Maintenance Library (100-87-828)

##### *Library HVAC VFD Replacement*

The Department is requesting \$20,000 in additional appropriations to replace a VFD in the Library HVAC System. Many of the components in the Library HVAC system have reached the end of their useful life. Public Works has continued to maintain these facilities and to keep them

operational. One of the VFD's has failed and needs to be replaced. Funding this request would facilitate purchasing the materials and enable professional installation to ensure the HVAC system continues operating. The City will coordinate this repair with the Santa Clara County Library District and will request reimbursement for the capital expense if appropriate.

*Traffic Engineering (100-88-844)*

*Traffic Data Collection*

The Department is requesting \$200,000 in additional appropriations for collection of traffic data along arterial and collector streets throughout the City. When City Council defunded the Bollinger Road Study, they had expressed interest in collecting traffic data throughout the City. Staff has evaluated this request and intends to perform an Engineering and Traffic Study to collect data for speed limits, as well as to collect traffic volumes, and turning movements at major intersections. The data will also collect bicycle and pedestrian counts at key locations. This data will be used to inform adjustment to speed limits, as well as to provide important data for future transportation initiatives.

*Trail Maintenance (100-86-821)*

*Bridge Fencing*

The Department is requesting \$7,000 in additional appropriations for extending the length of the existing fence on the northwest side of the Stevens Creek Blvd Bridge. City Council requested that the City extend the existing fence on the northwest side of the Stevens Creek Blvd Bridge over Stevens Creek. The fence will be extended approximately 40-feet to the west to discourage pedestrians from enter the City property situated north of the boulevard.

*Street Tree Maintenance (100-86-825)*

The Department is requesting \$24,386 in additional appropriations to correct an under budgeted fund. The FY24-25 base amount of \$67,368, when adjusted by the escalator of 1.032, results in a total of \$69,524. However, the GL was budgeted at only \$45,138, creating a shortfall of \$24,386. Without this adjustment, the fund will exceed its budget before the end of the fiscal year.

*Blackberry Farm Park Pool Improvements (420-99-073)*

*CIP Defund - Regnart Road*

Staff is requesting the project be defunded as the project is completed.

*De Anza Blvd Buffered Bike Lanes (420-99-262)*

*CIP Defund - De Anza Blvd Buffered Bike Lanes*

Staff is requesting the project be defunded as the project is completed.

*McClellan Rd Separated Bike Phase 3 (270-99-269)*

*CIP Defund - McClellan Rd Separated Bike Ph3*

Staff is requesting the project be defunded as the project is completed.

Bollinger Road Corridor (270-99-270)

CIP Defund - Bollinger Road Corridor

Project was defunded by Council 5/15/2025.

Fund Balance

The General Fund's estimated, unaudited ending fund balance for FY 2024-25 is \$181.8 million, a 15.7 million increase from FY 2023-24 actuals primarily due to the prior year ending with expenditure savings that outpaced revenue decreases. Expenditure savings were primarily because of salary and contract savings along with increased revenues across almost all revenue categories, primarily due to increased investment earnings.

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 Valco 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<br>2023-24 | Unaudited<br>2024-25 | Adopted Budget<br>2025-26 | 1st Quarter Projection<br>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                              |
| <b>TOTAL FUND BALANCE</b> | <b>\$ 166.1</b>   | <b>\$ 181.8</b>      | <b>\$ 156.0</b>           | <b>\$ 183.0</b>                   |

\*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.

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. CalPERS Reserve (Section 115 Pension Trust)
3. Sustainability Reserve
4. Unassigned

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

### **Staffing**

As of September 30, 2025, the FY 2025-26 Amended Budget includes a total of 211 full-time equivalent (FTE) positions. No additional full-time equivalent positions are requested as part of this First Quarter Financial Report.

### **City Manager Discretionary Fund**

In the FY 2025-26 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, 2025, the City Manager's Discretionary Fund has been used for Property Appraisal Services for 10480 Finch Avenue at a cost of \$7,400.

### **Carryovers and Budget Adjustments**

The quarterly financial reports provide details on carryovers and budget adjustments. Encumbrances 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. Budget carryovers 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. Budget adjustments are amendments to the budget that are approved by Council via resolution. The amended budget is the adopted budget, plus encumbrances, budget carryovers, and Council-approved budget adjustments. Revenue and expenditure carryover processes are handled similarly. See Attachment C for details on carryovers and budget adjustments.

### **Special Projects**

The quarterly financial reports provide a status update on special projects including the budget, amount spent, and estimated completion date. Special projects are operational projects, often one-time, that are budgeted in separate accounts for transparency and ease of tracking. If a special project is not completed by the end of a fiscal year, staff may request a carryover to the subsequent fiscal year. Fixed assets have been removed from the list as they are not one-time special projects

but the purchase of a fixed asset. Fixed assets are generally items over \$5,000 with a useful life of over 5 years or more. Similarly, the Tree Badges were removed from the list as it is now an ongoing operational item. Projects included in this reporting category now align with the City Council Special Project Policy. These include updated special projects from the FY24-25 Third Quarter Report that were not completed last fiscal year but have been carried forward, along with new special projects added as part of the final budget and special projects added in the first three months of the current fiscal year via a City Council consent item or council memo. See Attachment F.

### **Grants**

The quarterly financial reports provide a status update on active grants and any completed projects for which funding is yet to be received from FY 2018-19 to September 30, 2025. Active grants are those that have not yet been fully closed out with the granting agency.

Below is a high-level summary of the grant tracking document. Please refer to Attachment G for complete grant tracking updates.

|                                    | <b>Competitive Grants</b> | <b>Non-Competitive Grants</b> |
|------------------------------------|---------------------------|-------------------------------|
| <b>Active Grants</b>               | 15                        | 20                            |
| <b>Pending Results</b>             | 0                         | 0                             |
| <b>Total Grant Dollars Awarded</b> | \$28,859,428              | \$4,054,938                   |

Staff will continue to provide additional updates on the status of grants as part of the quarterly financial reports.

### **Capital Improvement Program**

The quarterly financial reports provide a revised estimate and update on Capital Improvement Program (CIP) projects. See Attachment H for further details.

### Next Steps

Should Council move forward with the recommended budget adjustments, the Administrative Services department will ensure budget adjustments are entered into the systems so that departments have sufficient appropriations.

### Sustainability Impact

No sustainability impact.

Fiscal Impact

The First Quarter Financial Report shows the City is positioned as anticipated. With Council approval City staff recommends decreasing appropriations by \$674,221 and increasing revenues by \$503,628 resulting in an increase of \$1,177,849 to unassigned fund balance. The City will continue to monitor its revenue and expenditure trends closely to ensure it remains on track toward achieving its budgetary goals and objectives.

California Environmental Quality Act

Not applicable.

City Work Program (CWP) Item:

Not a CWP item.

CWP Item Description:

Not Applicable.

Council Goal:

Sustainability and Fiscal Strategy

Prepared by: Toni Oasay-Anderson, Acting Budget Manager

Reviewed by: Kristina Alfaro, Director of Administrative Services

Approved for Submission by: Tina Kapoor, Interim City Manager

Attachments:

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