



ADMINISTRATIVE SERVICES DEPARTMENT

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CITY COUNCIL STAFF REPORT

Meeting: June 16, 2026

Subject

Consideration of Recommended Operating and Capital Improvement Program Budgets for Fiscal Year (FY) 2026-27, adoption of the Operating and Capital Improvement Program Budgets for FY 2026-27, establishment of the Appropriation Limit, and related actions

Recommended Action

1. Adopt Resolution No. 26-XXX establishing an Operating Budget of \$141,318,264 for FY 2026-27, which includes the following changes to the FY 2026-27 Proposed Budget, published on May 4, 2026:
 - a. Approve the operating budget of \$141,293,145 outlined in the FY 2026-27 Proposed Budget.
 - b. Approve a reduction in appropriations of \$47,000 for recurring Chamber of Commerce funding agreement
 - c. Approve additional appropriations of \$25,000 for City Work Program Special Projects PR & Strategic Comm Strategy
 - d. Approve additional appropriations of \$34,119 for the Council approved salary adjustment of Senior Assistant City Attorney
 - e. Approve additional appropriations of \$13,000 for RISE Housing Solutions
 - f. Approve the allocation of \$200,000 for RISE Housing funds to be budgeted in the General Fund previously funded in Special Revenue Fund as approved by Council on May 19, 2026
 - g. Approve a reduction in revenues of (\$224,320) relating to at-risk ERAF property tax
 - h. Approve additional revenues of \$15,000 for Law Enforcement related administrative fees
 - i. Approve any other recommended changes as directed by City Council
2. Adopt Resolution No. 26-XXX establishing a Capital Improvement Program Budget of \$14,235,000 for FY 2026-27.
3. Adopt Resolution No. 26-XXX establishing an Appropriation Limit of \$148,461,383 for FY 2026-27

Executive Summary

Overall, the Final Budget for both Operating and Capital Budgets for Fiscal Year 2026-27 is recommended at \$155,553,264 across all funds with estimated revenues of \$150,378,779, which

includes the use of one-time funds of \$2,303,500. Focusing on the General Fund, the City's largest tax-supported fund, includes a budget of \$109,922,076, with estimated revenues of \$109,518,537 resulting in a use of fund balance \$403,539.

The proposed budget included the following requests:

- \$2,394,903 in department requests (\$2,303,500 in one-time costs and \$91,403 in ongoing costs)

The final budget includes the following additional changes since the proposed budget was printed:

- Reduction in appropriations for recurring Chamber of Commerce funding agreement
- Additional appropriations for City Work Program Special Projects PR & Strategic Comm Strategy
- Additional appropriations for the Council approved salary adjustment of Senior Assistant City Attorney
- Additional appropriations for RISE Housing Solutions
- Reallocation of RISE Housing funds to General Fund from Special Revenue Fund as previously approved by Council
- Reduction in property tax revenues
- Budgeting Law Enforcement related administrative revenues
- Creating the Economic Development Committee budget and reallocating current staff time to this program budget
- Identifying recurring costs for Innovation & Technology Department proposals that were not originally included
- Updated General Fund Fund Balance Chart to reflect recent budget adjustments

Reasons for Recommendation

At its May 11, 2026 meeting, the City Council received the proposed budget and directed staff to bring it back for final adoption on June 16.

This report consists of the initial Proposed Budget that was printed on May 4, 2026, as well as any subsequent modifications made to date. Most of these modifications were also presented to Council on May 11 and include unforeseen adjustments to expenditures and revenues that have emerged since the publication of the Proposed Budget. New among these adjustments are requests for additional appropriations for a City Work Program item, the Council approved salary adjustment of the Senior Assistant City Attorney, additional appropriations for RISE Housing Solutions, the reallocation of RISE Housing funds to General Fund from Special Revenue Fund as previously approved by Council, , budgeted revenues for Law Enforcement related administrative fees, These adjustments also include a reduction in estimated property tax revenues and a reduction in recurring costs for the Chamber of Commerce funding agreement. Those changes are summarized by funds below:

Changes to Revenues

Fund Type	Proposed Revenues	Changes Since Proposed	Final Revenues
General	\$ 109,727,857	\$ (209,320)	\$ 109,518,537
Special Revenue	\$ 12,399,553	\$ -	\$ 12,399,553
Debt Service	\$ 2,675,100	\$ -	\$ 2,675,100
Capital Projects	\$ 9,330,000	\$ -	\$ 9,330,000
Enterprise	\$ 6,679,600	\$ -	\$ 6,679,600
Internal Service	\$ 9,775,989	\$ -	\$ 9,775,989
TOTAL	\$ 150,588,099	\$ (209,320)	\$ 150,378,779

Changes to Expenditures

Fund Type	Proposed Expenditures	Changes Since Proposed	Final Expenditures
General	\$ 109,696,957	\$ 225,119	\$ 109,922,076
Special Revenue	\$ 9,766,776	\$ (200,000)	\$ 9,566,776
Debt Service	\$ 2,675,100	\$ -	\$ 2,675,100
Capital Projects	\$ 14,235,000	\$ -	\$ 14,235,000
Enterprise	\$ 8,514,580	\$ -	\$ 8,514,580
Internal Service	\$ 10,639,732	\$ -	\$ 10,639,732
TOTAL	\$ 155,528,145	\$ 25,119	\$ 155,553,264

Changes to Fund Balance/Net Position

Fund Type	Proposed Change in Fund Balance/Net Position	Changes Since Proposed	Final Change in Fund Balance/Net Position
General	\$ 30,900	\$ (434,439)	\$ (403,539)
Special Revenue	\$ 2,632,777	\$ 200,000	\$ 2,832,777
Debt Service	\$ -	\$ -	\$ -
Capital Projects	\$ (4,905,000)	\$ -	\$ (4,905,000)
Enterprise	\$ (1,834,980)	\$ -	\$ (1,834,980)
Internal Service	\$ (863,743)	\$ -	\$ (863,743)
TOTAL	\$ (4,940,046)	\$ (234,439)	\$ (5,174,485)

In addition, responses to Council’s questions during the Proposed Budget Study Session are included in Attachment G.

The Final Budget for the upcoming fiscal year highlights an increase in both expenditures and revenues compared to the previous year’s Adopted Budget. Total expenditures for all funds are at \$155.5 million, a \$19.5 million or 14.3%, increase from the previous year’s Adopted Budget. Similarly, total revenues for all funds are anticipated to be \$150.4 million, a \$16.7 million or 12.5%, increase from last year’s Adopted Budget. The increase in expenditures are primarily due to increases in the Law Enforcement Contract, Community Shuttle expenses, and negotiated labor contracts.

General Fund expenditures are at \$109.9 million, which is an increase of \$10.7 million or 10.8%, from the previous year’s Adopted Budget. General Fund revenues are anticipated to be \$109.5 million, which is a \$12.3 million or 12.6%, increase from the previous year’s Adopted Budget.

The following table shows the City’s budget by fund type.

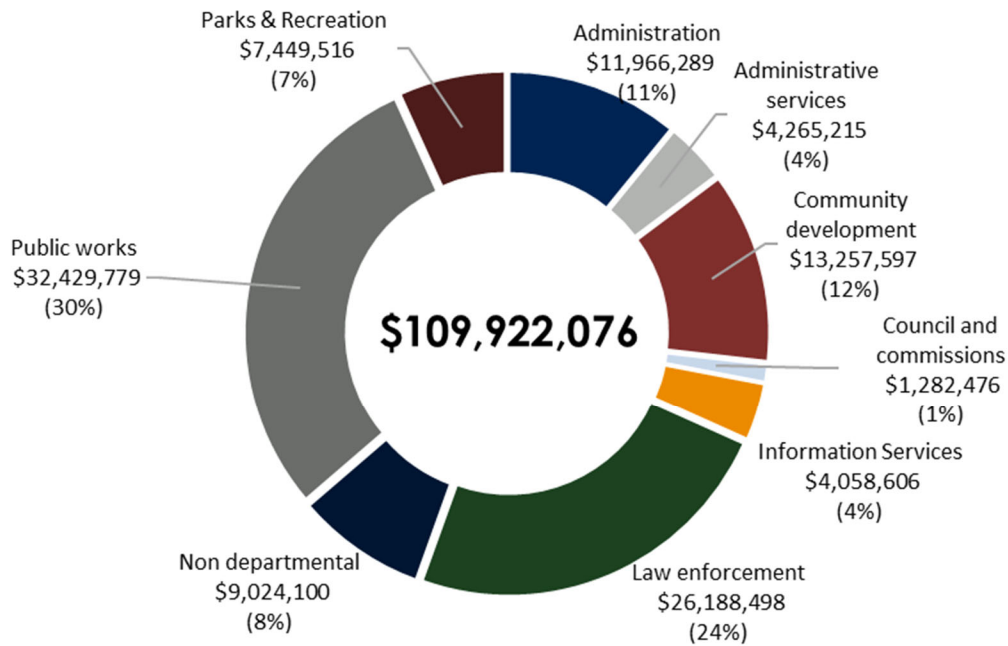
Fund Type	Final Revenues	Final Expenditures	Final Change in Fund Balance/Net Position
General	\$ 109,518,537	\$ 109,922,076	\$ (403,539)
Special Revenue	\$ 12,399,553	\$ 9,566,776	\$ 2,832,777
Debt Service	\$ 2,675,100	\$ 2,675,100	\$ -
Capital Projects	\$ 9,330,000	\$ 14,235,000	\$ (4,905,000)
Enterprise	\$ 6,679,600	\$ 8,514,580	\$ (1,834,980)
Internal Service	\$ 9,775,989	\$ 10,639,732	\$ (863,743)
TOTAL	\$ 150,378,779	\$ 155,553,264	\$ (5,174,485)

General Fund

The General Fund is the City's primary operating fund. It accounts for basic services such as public safety, public works, community development, park maintenance, code enforcement, and the administrative services required to support them. The fund generates revenue from the City's discretionary funding sources (e.g., sales tax, property tax, transient occupancy tax, and utility tax). As a rule, General Fund resources are used only to fund operations that do not have other dedicated (restricted) funding sources. Operations that rely heavily upon non-General Fund resources, such as street maintenance, solid waste collection, and recreation, are accounted for in other funds. Information on these funds may be found in the Other Funds section of this document on page 17.

As illustrated in the following chart, most of the General Fund supports costs for Public Works, Law Enforcement, and Community Development.

FY 2026-27 Final Budget General Fund Expenditures by Department



General Fund Expenditures

FY 2026-27 expenditures are estimated at \$109.9 million, which represents a \$10.7 million or 10.8% increase compared to the adopted budget from the previous year. This increase is primarily attributed to increases in negotiated compensation adjustments and benefit cost increases, increases in outsourcing legal services, law enforcement contract costs, and community shuttle rate increases and increased ridership.

GENERAL FUND EXPENDITURE SUMMARY						
EXPENDITURES	2023-24	2024-25	2025-26	2026-27	2026-27	Percent
	Actual	Actual	Adopted	Proposed	Final	Change
Employee Compensation	21,367,731	21,017,542	24,200,418	26,098,310	26,125,573	8.0%
Employee Benefits	9,503,988	18,880,247	10,643,927	11,206,493	11,213,349	5.3%
Total Personnel Costs	30,871,719	39,897,790	34,844,345	37,304,803	37,338,922	7.2%
Non-Personnel Costs						
Materials	5,215,228	5,847,731	6,174,481	6,801,762	6,801,762	10.2%
Contract Services	25,655,721	27,373,356	31,499,502	41,772,223	41,938,223	33.1%
Cost Allocation	10,257,656	10,638,580	11,993,327	12,168,069	12,168,069	1.5%
Capital Outlay & Special Projects	3,683,913	1,864,434	2,968,433	753,000	778,000	-73.8%
Contingencies	5,732	20,544	50,000	50,000	50,000	0.0%
Other Uses	482,077	769,409	1,065,000	1,842,000	1,842,000	73.0%
Total Non-Personnel	45,300,327	46,514,054	53,750,743	63,387,054	63,578,054	18.3%
Transfers	6,595,284	13,199,130	10,594,653	9,005,100	9,005,100	-15.0%
TOTAL EXPENDITURES	\$ 82,767,330	\$ 99,610,975	\$ 99,189,741	\$ 109,696,957	\$ 109,922,076	10.8%

General Fund expenditures increased by \$225,119 from the \$109.7 million as printed in the Proposed Budget, due to the following:

Description	Expenditure Change
Administration – City Work Program Special Projects PR & Strategic Comm Strategy	\$25,000
Community Development Department – RISE Housing Solutions from Special Revenue Fund to General Fund	\$200,000
Community Development Department – RISE Housing Solutions – Additional Appropriations	\$13,000
Additional appropriations for the Council approved salary adjustment of Senior Assistant City Attorney	\$34,119
Reduced budget for annual contract with Chamber of Commerce	(\$47,000)
Total	\$225,119

The estimates for FY 2026-27 General Fund expenditures are based on a thorough analysis of anticipated personnel and non-personnel costs. To create a more fiscally responsible budget, department budgets reflect a base budget with only justified ongoing expenses. This accounts for changes in personnel costs as well as any other anticipated or known increased costs in FY 2026-27.

Personnel Costs

In FY 2026-27, personnel costs are expected to reach \$37.3 million, accounting for 33% of the General Fund expenditures. These costs include salaries and compensation for benefited and part-time staff (69%), retirement benefits (15%), and other fringe benefits (14%), such as health coverage.

To obtain these figures, the City extracted data from the payroll system and made necessary updates to account for vacant positions, new hires, salary adjustments, and reallocated positions. Furthermore, the projected costs of benefits for the upcoming year, such as retirement and health plans, were taken into consideration. A transfer to the Retiree Medical Fund for retiree healthcare, which is an ongoing expense, is budgeted in FY 2026-27.

The FY 2026-27 Final Budget includes funding for a total of 211 positions, representing no staffing changes from the FY 2025-26 Adopted Budget.

Non-Personnel

Non-Personnel budgets were developed based on previous year's base budget and adjusted for the current year's needs. One-time projects were excluded to reflect ongoing expenditure needs. Materials and contract services were adjusted by CPI, where applicable.

Major changes from the prior fiscal year include:

- Employee Compensation – Increasing primarily due to negotiated compensation adjustments and benefit cost increases, and step progressions.
- Contract Services – Increase primarily driven by outsourcing legal services, law enforcement contract costs, and community shuttle rate increases and increased ridership.

Contingencies

Contingencies for individual program budgets were calculated based on FY 2026-27 base budget numbers and then incorporated into the materials budget. This has resulted in the City Manager Contingency being the only remaining contingencies in the budget.

General Fund Revenue

The City's General Fund revenues for the upcoming fiscal year are projected to be \$109.5 million, representing an increase of \$12.3 million or 12.6% from the FY 2025-26 Adopted Budget. This increase is primarily due to an increase in Sales Tax, Licenses and Permits, and Use of Money and Property.

GENERAL FUND REVENUE SUMMARY						
REVENUES	2023-24 Actual	2024-25 Actual	2025-26 Adopted	2026-27 Proposed	2026-27 Final	Percent Change
Sales Tax	30,961,166	17,394,996	11,983,958	16,903,174	16,903,174	41.0%
Property Tax	33,036,853	34,425,468	35,413,310	35,939,222	35,714,902	0.9%
Transient Occupancy	6,486,798	8,305,933	7,500,000	7,676,155	7,676,155	2.3%
Utility Tax	3,935,917	4,214,212	4,206,907	4,102,431	4,102,431	-2.5%
Franchise Fees	4,313,669	4,383,827	4,394,563	4,475,281	4,475,281	1.8%
Other Taxes	1,621,328	2,113,162	1,736,718	1,763,401	1,763,401	1.5%
Licenses & Permits	4,412,057	5,755,842	4,261,859	6,528,411	6,528,411	53.2%
Use of Money & Property	9,098,441	14,804,318	6,538,880	8,476,479	8,476,479	29.6%
Intergovernmental	1,404,322	14,574,153	3,569,332	5,231,221	5,231,221	46.6%
Charges for Services	12,181,459	394,405	15,162,032	15,616,424	15,616,424	3.0%
Fines & Forfeitures	416,402	2,962,429	410,760	413,760	413,760	0.7%
Miscellaneous	2,199,861	2,056,694	1,668,815	2,219,898	2,234,898	33.9%
Transfers in	111,000	348,333	15,000	15,000	15,000	0.0%
Other financing sources	127,037	3,619,142	367,000	367,000	367,000	0.0%
TOTAL REVENUES	\$ 110,306,310	\$ 115,352,915	\$ 97,229,134	\$ 109,727,857	\$ 109,518,537	12.6%

Since the Proposed Budget Study Session on May 11th, there has been a decrease in Property Tax revenues and an increase in Law Enforcement administrative fee revenues. Overall, General Fund revenues decreased by \$209,320 from \$109.7 million in the Proposed Budget as shown below:

Description	Revenue Change
Law Enforcement Administrative Fee Revenues not previously budgeted	\$15,000
Property Tax Revenue Reduction	(\$224,320)
Total	\$(209,320)

Major changes from the prior fiscal year include:

- Sales Tax revenue increases driven primarily by strong performance from a small number of businesses.
- Increases in Licenses and Permits due to development-related activity and updated fee assumptions.
- Increases in Use of Money and Property revenues due to higher investment earnings.

Educational Revenue Augmentation Fund (ERAF) Revenue

The FY 2026-27 Final Budget does not include revenue associated with the State's proposed redirection of excess Educational Revenue Augmentation Fund (ERAF) revenues from counties to schools. Several counties, including Santa Clara County, have challenged the State's interpretation and implementation of the proposal, creating uncertainty regarding the timing and availability of these revenues.

Given the ongoing litigation and uncertainty surrounding the ultimate disposition of excess ERAF funds, staff recommends a conservative approach and has not budgeted any ERAF-related revenue in FY 2026-27. If excess ERAF revenues are ultimately received, staff recommends that such revenues be assigned to a dedicated reserve at year-end until the legal and policy implications are fully resolved. This approach preserves fiscal flexibility while avoiding reliance on revenues that may be subject to future legal challenges or policy changes.

Other agencies throughout California have taken varying approaches, ranging from budgeting anticipated revenues to establishing reserves. Staff believes establishing an assigned reserve represents the most prudent fiscal approach until additional certainty is available.

General Fund – Fund Balance

FY 2026-27 total ending fund balance is estimated to be \$176.6 million, a decrease of \$0.4 million from the FY 2025-26 Projected Budget; however, this does not account for the \$1.4 million vacancy savings discussed later in the report under the Forecast section. It's important to note that the only portion available for use, according to City policy, are unassigned funds. Committed funds, such as the For Future Use Reserve, 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.

Of the total fund balance, \$59.1 million is categorized as unassigned and available; however, approximately \$14.3 million of this amount is tied to the Vallco Town Center project. While the current accounting reflects the assumption that all revenue and contracted expenditures for the project have been recognized, Vallco is a multi-year effort, likely spanning a decade. Key long-term costs, including staff salaries and benefits associated with managing and supporting the project, have not yet been fully incurred or accounted for. As a result, this portion of the unassigned balance should not be viewed as fully available, as the project is expected to ultimately have a net zero fiscal impact to the City.

The following table shows changes to fund balance for the General Fund since the close of FY 2023-24:

Classification	2023-24 Actual	2024-25 Actual	2025-26 Adopted	2025-26 Year End Projected	2026-27 Final
<u>Nonspendable</u>					
Loans Receivable	428,431	1,012,168	435,000	1,012,168	1,012,168
Advance to Other Funds	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
Inventories/Prepaid Items	21,383	25,267	21,383	25,267	25,267
Total Nonspendable	3,449,814	4,037,435	3,456,383	4,037,435	4,037,435
<u>Restricted</u>					
CASp Certification and Training	7,628	9,753	7,628	9,753	9,753
Section 115 Pension Trust	21,663,664	24,320,860	21,663,664	21,663,664	24,320,860
Public Access Television	1,639,443	1,471,890	429,443	261,890	261,890
Public Art In-Lieu	-	-	-	-	-
Total Restricted	23,310,735	25,802,503	22,100,735	21,935,307	24,592,503
<u>Committed</u>					
Sales Tax Repayment Reserve	74,500,000	-	-	-	-
For Future Use Reserve	-	64,500,000	64,500,000	62,000,000	62,000,000
Economic Uncertainty Reserve	24,000,000	24,000,000	22,543,315	24,000,000	26,517,894
Capital Projects Reserve	10,000,000	-	-	-	-
Sustainability Reserve	127,891	127,891	127,891	127,891	127,891
Total Committed	108,627,891	88,627,891	87,171,206	86,127,891	88,645,785
<u>Assigned</u>					
Reserve for Encumbrances*	4,741,474	7,287,794	-	-	-
Reserve for ERAF	-	-	-	-	224,320
Total Assigned	4,741,474	7,287,794	-	-	224,320
Total Unassigned	25,965,405	56,081,637	43,275,717	64,897,986	59,095,037
TOTAL FUND BALANCE	\$ 166,095,319	\$ 181,837,260	\$ 156,004,041	\$ 176,998,619	\$ 176,595,080

General Fund Forecast

The City has reached resolution on the California Department of Tax and Fee Administration (CDTFA) Audit, and this budget focuses on the 10-year forecast following this resolution. While long-term projections may be less precise than short-term projections, they help identify potential structural budget issues in advance. The Sheriff's contract is the most significant cost driver impacting the City's financial outlook and is the primary reason for the shift in the forecast from prior years. The projections reflect the latest proposal as of April 13, with an annual contract cost of approximately \$25.5 million—an increase of \$6.5 million from the current \$19.0 million

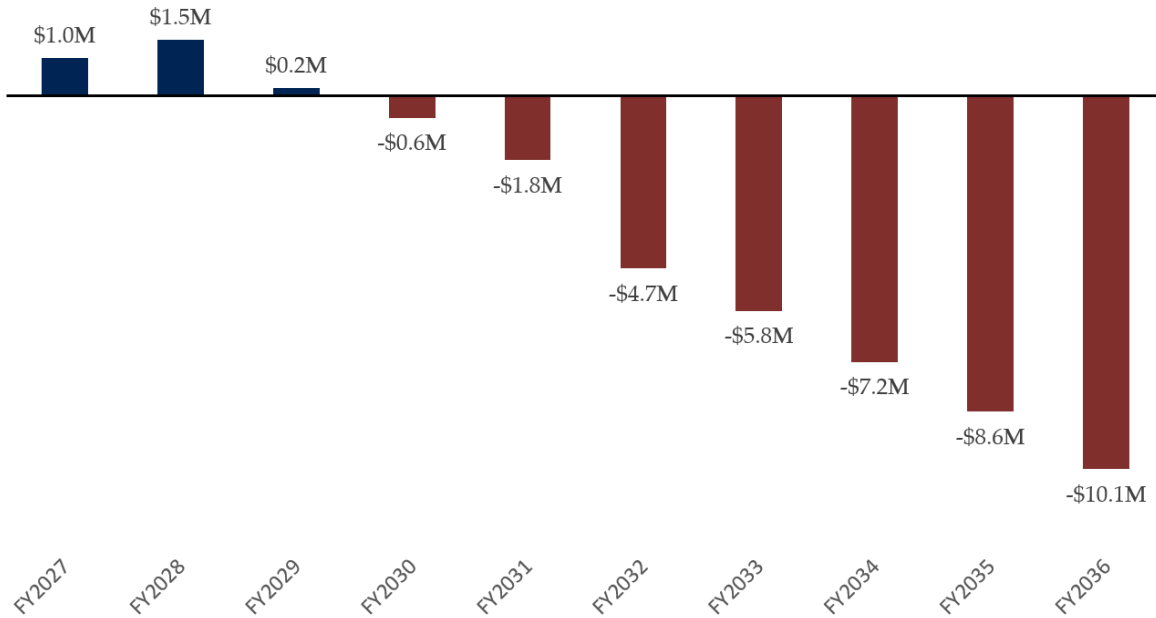
contract. This increase materially changes the City's long-term financial trajectory and accelerates the onset of structural deficits. With the CDTFA audit now in the City's rearview window and a more certain—albeit reduced—sales tax revenue base, the forecast has shifted significantly. The following chart shows a structural deficit beginning in FY 2029-30 of approximately \$134.8 thousand, growing to \$3.9 million in FY 2030-31. This increase is largely attributed to the anticipated sunset of the Utility Users Tax (UUT) in FY 2030-31. The City is currently exploring an option to extend the UUT through a ballot measure in the November 2026 election to help secure a more financially stable future. Additional details will be provided as part of the FY 2026-27 Mid-Year Report, which will include an updated forecast. The forecast assumes expenditures grow at an average annual rate of 2.58%, while revenues are projected to grow at an average annual growth rate (AAGR) of 1.60%. This imbalance contributes to the structural deficit in the later years of the forecast

Although this forecast reflects improved certainty in revenue assumptions compared to prior projections, it represents a notable change from the FY 2025-26 Adopted Budget and prior forecast updates. The results of the CDTFA audit have been finalized, resulting in an ongoing reduction of approximately \$30 million, or 73%, in sales tax revenues, and an overall decrease of approximately \$30 million, or 28%, in total.

City revenues from the original FY 2023-24 forecast. While these impacts are significant, they are now fully incorporated into the City's baseline and provide a more stable foundation for long-term financial planning. Given the proposed and expected structural balance in the early years of the forecast, it is important that the City avoid reactive or premature service reductions. The primary driver of long-term fiscal pressure remains the Sheriff's contract, for which negotiations are ongoing and not yet finalized. As such, maintaining current service levels while continuing to monitor developments and refine the forecast will be critical to ensuring thoughtful and strategic financial decision-making.

The City has worked to hold the line on expenditures in the near term, particularly in areas within its control, while continuing to face significant cost pressures from the Sheriff's contract and personnel costs. Based on the updated forecast, deficits are now projected to begin earlier, in FY 2029-30, with a modest shortfall of approximately \$134.8 thousand, growing to \$3.9 million in FY 2030-31. This shift from prior forecasts is primarily driven by the proposed increase in the Sheriff's contract. In the out years, the deficit is further impacted by the anticipated sunset of the Utility Users Tax (UUT) in FY 2030-31. While prior forecasts included recessionary assumptions, the current forecast more clearly reflects ongoing structural cost pressures, particularly in law enforcement services. Looking ahead, the City should continue evaluating long-term solutions to address the structural imbalance, including potential revenue measures such as extending the UUT.

General Fund Annual Operating Surplus/(Deficit)



FY 2026-27 salaries and benefits reflect the cost-of-living adjustments (COLA) approved by the City Council in the Fall of 2025. Additionally, the forecast, full-time salaries are expected to increase by estimated payroll increases from the CalPERS valuation report. On the other hand, part-time salaries are forecasted to grow at a rate of 1.5%, because historically, part-time salaries have tended to grow at a slower rate than full-time salaries. A 4% vacancy rate has been included in the out-years of the forecast, in alignment with historical vacancy rates. The vacancy rate is not included in the budgeted salary and benefits as the City budget at the position level making is difficult to determine where vacancies may occur.

In the out years, the deficit is primarily driven by a few factors: a recession scenario modeled in FY 2027-28, and the sunset of the Utility Users Tax in FY 2030-31, and uncertainty surrounding the long-term growth of the Sheriff’s contract.

Additionally, the forecast does not yet reflect revenue adjustments City Council approved the FY 2026-27 fee schedule in April 2026 with the newly adopted fees going into effect 60 days after adoption in July 1, 2026. Increased fee revenue has not been included in this budget due to the timing of new fee schedule adoption and preparation of the proposed budget document.

Despite these pressures, the forecast demonstrates that the City is well-positioned to maintain balanced budgets without drawing on reserves during the majority of the 10-year period.

Fund Balance Outlook

The City's long-standing commitment to fiscal discipline has resulted in a strong fund balance position, which provides flexibility to address future funding challenges. In FY 2026-27, the General Fund's total fund balance is projected to be \$176.6 million, of which \$59.1 million is Unassigned. Beginning in FY 2030, fund balance is projected to gradually decline as expenditure growth begins to outpace revenue growth and the forecast returns to structural deficits.

The forecast assumes the Reserve for Future Use remains untouched at approximately \$62 million throughout the entire forecast period. The Economic Uncertainty Reserve is projected to grow over time as revenues and expenditures increase, while the Pension Trust initially grows due to investment earnings.

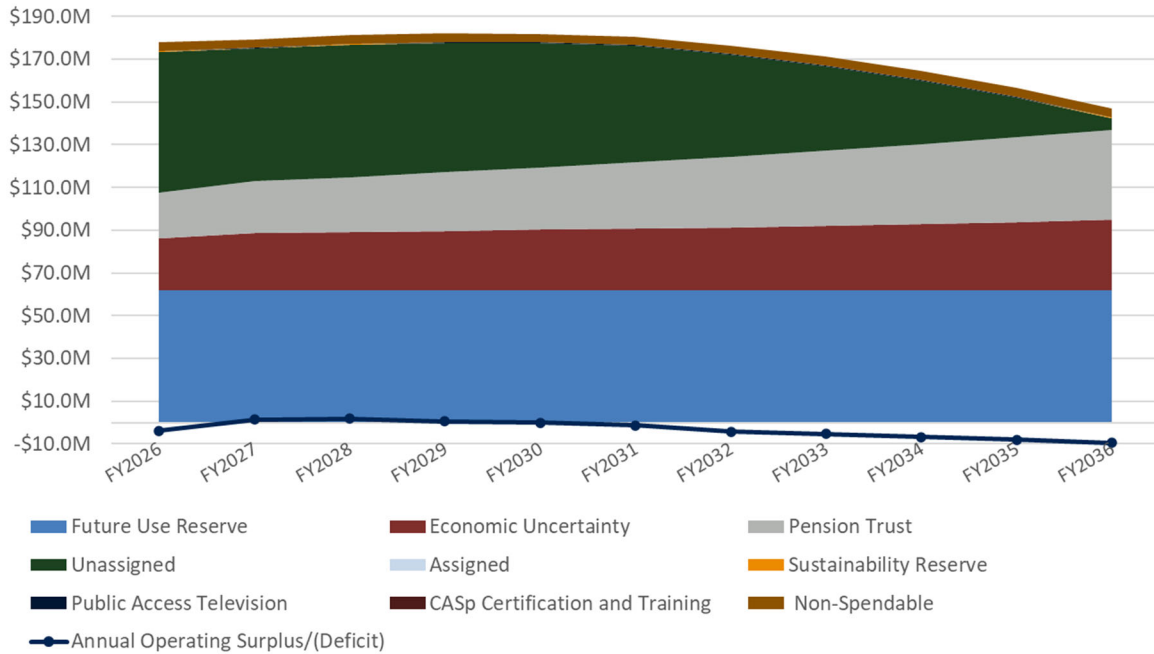
Unassigned fund balance is projected to remain positive throughout the forecast period, though it declines in the later years of the forecast due to ongoing expenditure pressures and the scheduled sunset of the Utility Users Tax in FY 2030-31.

While these reserves provide a strong financial foundation, ongoing uncertainty surrounding the Law Enforcement contract, particularly the magnitude and structure of future cost increases, continues to be a significant factor influencing the City's long-term financial outlook. Maintaining these reserves will be critical as negotiations progress and future cost obligations become more defined.

The forecast anticipates total fund balance growing from an estimated \$176.6 million at the end of FY 2027 to \$150.8 million on FY 2035. Key reserve categories include:

- Future Use Reserve - Maintains a consistent balance of \$62.0 million throughout the forecast period, available for use as determined by City Council.
- Economic Uncertainty Reserve - Grows incrementally due to projected increases in General Fund revenues and expenditures, supporting the City's ability to weather economic shocks. Section 115 Pension Trust - Grows initially through investment earnings. The trust may be used to offset CalPERS costs and ensure long-term pension funding stability.
- Unassigned Fund Balance - Projected to steadily decrease from \$60.7 million in FY 2027 to zero in FY 2035, largely reflecting the impact of a structural deficit resulting from the increase of the Sheriff's contract increase and at-risk ERAF funds.

10-Year General Fund Fund Balance and Reserves



Overall, this forecast reaffirms the City’s commitment to responsible financial management and positions Cupertino to remain resilient in the face of future uncertainties.

Budget Balancing Options

The FY 2026-27 Final Budget reflects a use of fund balance of approximately \$403,539. While the City's 10-year forecast projects modest surpluses in the near term, those projections assume vacancy savings that are not budgeted at the position level in the annual budget. As a result, City Council may wish to provide direction regarding how the FY 2026-27 budget shortfall should be addressed.

Staff recommends addressing the FY 2026-27 shortfall through temporary use of fund balance. The projected deficit represents less than one-half of one percent of General Fund expenditures and is expected to be offset through normal vacancy savings during the fiscal year. However, for a structurally balanced budget, the following options are available for Council consideration.

Temporary Use of Fund Balance

The City could utilize available unassigned fund balance to address the FY 2026-27 shortfall. Given the City's strong reserve position and relatively modest size of the deficit, this approach would have minimal impact on the City's overall financial condition.

Section 115 OPEB Trust

The City's Section 115 OPEB Trust remains well-funded, with a funded status of approximately 103% as of FY 2025 and a market value of approximately \$50.0 million as of May 31, 2026. The City may consider utilizing a portion of the trust to offset future retiree medical costs currently paid from the General Fund, thereby reducing ongoing operating expenditures.

Service Level Adjustments to Law Enforcement Services

Given that the Sheriff's contract is the City's single largest operating expenditure and the primary driver of long-term fiscal pressures, the City could consider reducing law enforcement service levels to offset the FY 2026-27 budget shortfall. Additionally, the recent County contract proposal does not include caps on annual increases, making forecasting difficult. Potential options include reducing dedicated positions such as two School Resource Officers (\$772,000), one Traffic Enforcement Officer (\$336,000), or one General Law Enforcement Officer (\$336,000), subject to Council priorities and community service expectations. Any reductions would lower ongoing contract costs and could help mitigate future structural deficits.

Budgeting ERAF Revenues

If litigation surrounding excess ERAF revenues is resolved favorably and the revenues become recurring and reliable, the City could consider incorporating a portion of those revenues into future operating budgets.

Combination of Strategies

The City may ultimately choose a combination of the options described above, balancing the use of reserves, operational efficiencies, service level adjustments, and revenue enhancements to maintain long-term fiscal sustainability while minimizing impacts to residents and businesses.

Other Funds

This section combines all non-general funds. Discussion at the fund type level can be found in the All Funds Summary of the budget.

All Other Funds Expenditures

EXPENDITURE USES	2023-24	2024-25	2025-26	2026-27	2026-27
	Actual	Actual	Adopted	Proposed	Final
Employee Compensation	5,348,486	4,922,360	5,333,643	5,756,917	5,756,917
Employee Benefits	4,291,218	4,638,310	3,892,186	3,951,123	3,951,123
Materials	2,480,125	2,118,872	3,070,406	2,696,304	2,696,304
Contract Services	5,891,885	5,157,754	6,226,298	5,921,999	5,721,999
Cost Allocation	2,217,594	3,911,943	4,823,020	4,836,417	4,836,417
Capital Outlays	8,300,842	7,634,569	3,583,075	9,077,075	9,077,075
Special Projects	1,576,185	4,351,770	4,107,412	3,255,865	3,255,865
Contingencies	-	-	-	-	-
Debt Services	2,677,600	2,676,200	2,676,600	2,673,600	2,673,600
Transfers Out	5,612,269	9,879,267	2,015,000	6,745,000	6,745,000
Other Financing Uses	732,685	603,045	1,149,020	916,888	916,888
Total Expenditure Uses	\$ 39,128,888	\$ 45,894,091	\$ 36,876,660	\$ 45,831,188	\$ 45,631,188

Expenditure sources increased by \$8.8 million from the FY 2025-26 Adopted Budget. This is primarily due to an increase in Capital Outlays and Transfers Out. Since the proposed budget study session on May 11, all other funds expenditures have remained unchanged apart from Contract Services which decreased by \$200,000 due to the reallocation of \$200,000 for RISE Housing funds from a Special Revenue fund to the correct account in the General Fund. This account change was previously approved by Council at the May 19, 2026 Council meeting.

All Other Funds Revenues

REVENUE SOURCES	2023-24	2024-25	2025-26	2026-27	2026-27
	Actual	Actual	Adopted	Proposed	Final
Other Taxes	349,283	1,555,568	4,637,703	4,532,926	4,532,926
Use of Money & Property	4,027,375	4,504,888	1,380,981	1,379,344	1,379,344
Intergovernmental	5,437,152	8,658,408	5,366,533	4,952,859	4,952,859
Charges for Services	11,777,241	11,670,994	11,880,319	13,781,113	13,781,113
Fines and Forfeitures	2,746	3,170	10,000	3,000	3,000
Miscellaneous Revenue	1,024,658	8,508	1,519	5,633	5,633
Transfers In	12,096,553	22,730,064	12,594,653	15,735,100	15,735,100
Other Financing Sources	30,750	527,865	553,531	470,267	470,267
Total Revenue Sources	\$ 34,745,757	\$ 49,659,463	\$ 36,425,239	\$ 40,860,242	\$ 40,860,242

Revenue sources increased by \$4.4 million from FY 2025-26 Adopted Budget. This increase is primarily due to an increase in charges for services and Transfer In. Since the proposed budget study session on May 11, all other funds revenues have remained unchanged.

All Other Funds Fund Balance/Net Position

CHANGES TO FUND BALANCE	2023-24 Actual	2024-25 Actual	2025-26 Adopted	2026-27 Proposed	2026-27 Final
Beginning Balance	99,344,693	94,961,562	98,726,935	98,275,514	98,275,514
Change in Fund Balance	(4,383,131)	3,765,373	(451,421)	(4,970,946)	(4,770,946)
Ending Balance	\$ 94,961,562	\$ 98,726,935	\$ 98,275,514	\$ 93,304,568	\$ 93,504,568

Fund Balance/Net Position sources decreased by \$4.77 million from the prior year Adopted Budget due to overall expenditures exceeding revenues.

Requests for Funding

City Work Program (CWP)

Last fiscal year, Council approved the funding for the FY 2025-27 City Work Program as part of the FY 2025-26 adopted budget. On December 1, 2025, Council voted to modify the CWP by adding six new projects and eliminating the Sign Ordinance project as shown in Attachment I. The elimination of the Sign Ordinance allowed for \$200,000 to be defunded and returned to the general fund.

The new projects have resulted in an additional \$1.135 million that has already been allocated during this fiscal year to support the Housing Site Inventory (\$660k) and Protections for Parkland (\$475k) projects. This increase is shown in the table below under FY 26 amended budget. For FY 27, an additional \$25,000 is needed for the Public Outreach and Engagement Strategy to establish citywide standards and consistency to all community engagement. The total CWP budgets for FY 26 and FY 27 are shown below.

Project	FY26 Adopted Budget	FY26 Amended Budget	FY 27 Proposed Budget
FY 2025-2027 CWP	\$3,498,000	\$4,433,000	\$4,458,000

Unfunded Needs

Departments have identified the following items as unfunded needs, which refer to priority projects that lack sufficient funding to be implemented at this time.

Fund	Department	Request	Frequency	Expense One-time	Expense Recurring
100	CDD	Emergency Building Inspection Services	One Time	\$ 125,000	
100	CDD	CDBG Human Service Grants program	One Time	\$ 152,000	
CDD Total				\$ 277,000	\$ -
Grand Total				\$ 277,000	\$ -

Community Development Department – Emergency Building Inspection Services

The City utilizes on-call consultants to provide building inspection services when City inspection staff are unavailable. Due to staffing challenges and the expiration of the existing consultant agreement, additional funding may be needed to maintain service levels. Staff will continue to

monitor staffing and workload needs and may return to Council during the first quarter or Mid-Year Budget Review process if additional resources are necessary.

Community Development Department – CDBG Human Service Grants program

The Housing Commission recommended increasing annual funding for the Housing Services Grant Program by \$152,000 due to ongoing uncertainty surrounding federal Community Development Block Grant (CDBG) funding. While staff recognizes these concerns, the recommendation is not included in the FY 2026-27 Final Budget given current fiscal constraints and uncertainty surrounding other major budgetary pressures. Staff will continue to monitor federal funding developments and evaluate future funding needs as part of subsequent budget reviews.

All Department Requests

Additional requests in red font were changes added since the proposed budget was printed. Refer to Page 9 of the staff report for changes to revenues since the proposed budget was printed.

Fund	Department	Request	One-time Expense	Recurring Expense
100	Administration	City Work Program Special Projects PR & Strategic Comm Strategy	\$ 25,000	
100	Administration	Assistant City Attorney Salary Adjustment		\$ 34,119
100	Administration	Law Enforcement ALPR		\$ (60,000)
100	Administration	Removed budget for annual contract with Chamber of Commerce		\$ (47,000)
CMO Total			\$ 25,000	\$ (72,881)
100	CDD	Planning - On Call Contract for Design Review	\$ 35,000	
100	CDD	Planning - On Call Contract for Environmental Review	\$ 82,000	
100	CDD	RISE Housing Solutions – Additional Appropriations		\$ 13,000
CDD Total			\$ 117,000	\$ 13,000
100	I&T	Video - AJA Ki Pro Ultra	\$ 6,500	
100	I&T	Video - City Hall Lobby Monitor Replacements	\$ 7,500	
100	I&T	Video - Tally system for Ross Carbonite Switcher	\$ 12,000	
100	I&T	Video - Panasonic PTZ Cameras and Controller	\$ 115,000	
100	I&T	Video - Tiger Technology	\$ 17,000	
100	I&T	Applications - Doc Access		\$ 15,000
100	I&T	Applications - Open Counter		\$ 37,000
610	I&T	Infrastructure - Regional vCISO (Pilot)	\$ 45,000	
610	I&T	Infrastructure - MFPs	\$ 150,000	
610	I&T	Infrastructure - Network Access Control and Wi-Fi refresh	\$ 150,000	
610	I&T	GIS - Ichi Plan		\$ 10,000
I&T Total			\$ 503,000	\$ 62,000
100	P&R	QCC Round Table Replacement	\$ 15,500	
P&R Total			\$ 15,500	\$ -
100	PW	Sustainability Intern - 81-122 and 520-81-801		\$ 25,205
100	PW	Sustainability Intern - 81-122 and 520-81-801		\$ 356
100	PW	Sustainability Intern - 81-122 and 520-81-801		\$ 319
100	PW	Grounds Memorial Park Asphalt Repairs - 84-809	\$ 36,000	
100	PW	Trees/ROW Median Sleeve - 86-824	\$ 95,000	
100	PW	Facilities - Library VAV HVAC Upgrade - 87-828	\$ 130,000	
100	PW	Facilities - QCC - Control Valves & Circuit Setters - 87-830	\$ 52,000	
100	PW	Facilities - Wilson Park - Dry Rot and New Roof - 87-834	\$ 80,000	
100	PW	Facilities - BBF Painting - 87-841	\$ 60,000	
100	PW	Transportation - DeAnza Traffic Signal Sync 88-844	\$ 110,000	
100	PW	Transportation - SCB Traffic Signal Sync - 88-844	\$ 115,000	
100	PW	Transportation - Traffic Signal Video Detection Upgrade - 88-844		\$ 50,000
100	PW	Transportation Bike Ped Education - 88-846	\$ 15,000	
100	PW	Transportation - eBike education 88-846		\$ 5,000
520	PW	Sustainability Intern - 81-122 and 520-81-801		\$ 8,179
520	PW	Sustainability Intern - 81-122 and 520-81-801		\$ 119
520	PW	Sustainability Intern - 81-122 and 520-81-801		\$ 106
630	PW	Fleet - Replace Fuel Dispensers - 85-849	\$ 60,000	
630	PW	Fleet - Vehicle and Equipment Replacement List - 90-985	\$ 890,000	
PW Total			\$ 1,643,000	\$ 89,284
Grand Total			\$ 2,303,500	\$ 91,403

Administration – CWP – Special Projects PR & Strategic Comm Strategy

Council approved this project as part of the FY 25-27 City Work Program in December 2025. Staff is requesting \$25,000 to establish citywide standards to embed meaningful engagement into every city project. Funds will be used to secure a contractor to administer a citywide survey targeting resident responses about public outreach standards. Staff will utilize the survey results to present a report to Council about outreach strategies and recommended policy implementation.

Administration – City Attorney’s Office (CAO) – Senior Assistant City Attorney Salary adjustment

At the May 19, 2026 Council meeting, Council approved an increase to salary and benefits to align the salary of the Senior Assistant City Attorney. This alignment reflects the elevation of that classification as a member of the City’s Executive Management Team and increased responsibilities including review and revision of department staff reports, review of an increasing volume of Public Records Act requests, increased work on special complicated projects such as

interagency agreements and appointment as the Board member to PLAN and its concomitant responsibilities in risk and insurance management.

Administration – Law Enforcement – Automated License Plate Reader (ALPR)

In early 2026, Santa Clara County suspended their partnership with Flock Safety due to privacy reasons. Staff is requesting to remove \$60,000 which was previously allocated annually to fund the Automated License Plate Reader (ALPR) contract with Flock Safety.

Administration – Chamber of Commerce Contract

Staff is requesting to remove \$47,000 per Council direction due to cost reduction of the annual Cupertino Chamber of Commerce contract. This contract was previously budgeted at \$52,000 per year, and the amended contract terms limit the agreement to a maximum of \$5,000 per year.

Community Development Department – RISE housing solutions

On May 19, 2026, the City Council approved a three-year contract with RISE Housing Solutions for administration of the Below Market Rate program. Staff originally budgeted \$200,000 as an estimate for FY 2026-27, however the exact total for FY 2026-27 services will be \$213,000. Therefore, staff requests an additional \$13,000 to cover the financial contract amount. With the May 19, 2026 award, Council approved an appropriation from the General Fund to cover costs of the BMR Program for the three-year period. The budget should reflect this decision with a total of \$213,000 from the General Fund to cover Below Market Administration services for FY 2026-27.

Innovation & Technology – DocAccess, Open Counter, & Ichi Plan

Staff is requesting recurring costs of \$62,000 respectively to cover ongoing costs beyond FY 2026-27. The ongoing costs were inadvertently excluded from the May 11th Study Session.

Staffing

The FY 2026-27 Final Budget proposes funding for a total of 211 positions, representing no changes from the FY 2025-26 Adopted Budget.

Budget Adjustments Summary and Detail

The changes are discussed further below and are also detailed in Attachment D.

Capital Improvement Program (CIP)

On March 3, 2026, the City Council conducted a study session to review the Capital Improvement Program (CIP). The FY 2026-27 Proposed Budget for CIP is \$7.5 million, along with \$175,000 ongoing administrative support. This also includes the annual transfer in from the General Fund of \$2,000,000. The chart below includes the ongoing cost of \$175,000 for CIP Preliminary Planning & Design and Capital Project Support which are part of the CIP base budget.

The draft CIP Budget document is included as Attachment J to this report. As this is the City's first year pursuing recognition through the California Society of Municipal Finance Officers

(CSMFO) Capital Improvement Program Awards Program, the document remains in draft form while staff continues to incorporate feedback received through the CSMFO review process. In addition, FY 2026-27 marks the first year the City’s CIP document will be published through OpenGov, and staff is currently finalizing the transition to that platform.

Project	Program	External Funding	City Funding	Total Proposed Budget
Citywide Building Conditions FCA Implementation (<i>annually funded</i>)	420-99-063	-	1,250,000	1,250,000
City Hall Annex	420-99-248	-	5,000,000	5,000,000
BBG Golf Course Pro Shop Renovation	420-99-277	-	120,000	120,000
Sports Center Courts Resurfacing	420-99-278	-	210,000	210,000
SCB/SR 85 NB Ramp Intersection Improvements	420-99-279	600,000	-	600,000
Memorial Park Pickleball Sound Attenuation	420-99-280	-	150,000	150,000
Blesch Property Improvements	420-99-281	TBD	TBD	TBD
CIP Preliminary Planning & Design	420-99-047	-	125,000	125,000
Capital Project Support	420-99-048	-	50,000	50,000
TOTAL		\$ 600,000	\$ 6,905,000	\$ 7,505,000

Ongoing Challenges

The City is continuing to navigate a major loss in sales tax revenues along with stagnation in its transient occupancy taxes and the potential loss of Utility User Tax that is set to sunset in FY2030. In addition, expenditure increases continue to outpace revenue growth as shown by growing deficits in the last two years of the forecast.

Appropriations Limit

Article XIII B of the California Constitution established appropriations limits on government agencies within California. Originally established by Proposition 4 in 1979, the appropriations limit places a maximum limit on the appropriations of tax proceeds by the State, school districts, and local governments in California.

The City’s FY 2026-27 appropriations limit is \$148,461,383 an increase of \$7,326,838, or 5.2%, from the prior year. Please refer to Attachment E for the calculation of the appropriations limit, and Attachment F for the corresponding price and population factors utilized in the calculation of the appropriations limit.

Budget Study Session

On May 11, 2026, City Council conducted a study session to review the FY 2026-27 Operating Budget. The Capital Improvement Programs Budget was reviewed at a separate Council meeting date of March 3, 2026. During the session, City staff presented General Fund revenues, expenditures, and forecasts. City Council offered input, sought clarifications, and provided recommendations.

During the study session, City Council requested staff follow-up on several items. The responses to Council’s questions are included in Attachment G.

Changes to the Budget Document

Changes to the Budget and Policies

Budget Format and Performance Measures Report and Implementation Action Plan

In Fall 2024, the City engaged Baker Tilly US, LLP to conduct a comprehensive review of its Budget Document and Performance Measures. The primary objective of this engagement was to enhance clarity, accessibility, and to strategically align the City's annual budget document and to improve the effectiveness of performance measures in tracking progress toward key citywide goals. The Budget Format Implementation Action Plan (IAP) was approved by Council on May 6, 2025.

The prior year adopted budget document (FY 2025-26) accomplished about half of the items listed in the IAP. Staff continued to address items listed in the IAP during FY 2025-26. In July 2025, the Audit Committee formed a Budget Format Sub-Committee to review budget format changes and finalize recommendations. In fall 2025, staff and the Sub-Committee distributed a community survey and held a focus group, which emphasized keeping the PDF version alongside a new interactive format, with searchable content, enhanced AI features, and mobile-friendly visuals. In response, several enhancements were made to the online budget, including an interactive table of contents, inclusion of the CIP book, embedded financial policy documents, improved navigation for departments and divisions, added links to CIP dashboard and CWP dashboard, and added division summaries. The FY 2026-27 adopted budget document marks the first year that the City's budget is built and presented utilizing OpenGov Publications.

Revised Fees

Matrix Consulting Group recently conducted a comprehensive fee study that was presented to City Council in February 2024. City Council considered the FY 2026-27 fee schedule in April 2026 with the newly adopted fees going into effect 60 days after adoption in July 2026. Increased fee revenue has not been included in this budget.

Investment Policy

The City Council annually updates and adopts a City Investment Policy that is in compliance with State statutes on allowable investments. By policy, the Audit Committee reviews the policy and acts as an oversight committee on investments. The policy directs that an external auditor performs agreed-upon procedures to review City compliance with the policy. The Audit Committee reviewed and accepted the current Investment Policy on April 27, 2026. The City Council adopted the City's Investment Policy on May 19, 2026.

Contingencies

Contingency dollars have been calculated from the department's FY 2026-27 base budget materials have been consolidated into materials budgets. The City Manager Contingency is the only remaining budget with contingencies as an expense category.

Reorganizations

The Administrative Services Department underwent a reorganization in mid FY 2025-26, with the Council authorizing the transfer of the responsibilities to oversee the City's Liability, Property and Claims Insurance Program from Human Resources to the City Attorney's Office, moving the Human Resources Division to the City Manager's Office and renaming the Administrative Services Department to the Department of Finance.

General Plan Consistency and Environmental Compliance of the Capital Improvement Plan

State law and the Cupertino Municipal Code (Section 2.32.070(C)) require the Planning Commission to review the CIP for consistency with the City's General Plan (General Plan: Community Vision 2015 - 2040). The Planning Commission reviewed the FY 2026-27 Proposed CIP Budget on April 28, 2026, and found that the FY 2026-27 Proposed CIP is consistent with the City's General Plan and that this consistency determination is exempt from CEQA (see resolution Attachment H).

Sustainability Impact

No sustainability impact.

Fiscal Impact

City staff recommends establishing an Operating Budget of \$141,318,264 and a Capital Improvement Program Budget of \$14,235,000 for FY 2026-27.

City Work Program (CWP) Item/Description

None

Council Goal

Public Engagement and Transparency
Fiscal Strategy

California Environmental Quality Act

The adoption of the budget is exempt from the California Environmental Quality Act (CEQA) under CEQA Guidelines section 15378(b)(4), Each proposed project will be evaluated to determine if CEQA applies. As applicable, each project will conduct the appropriate level of environmental analysis.

Prepared by: Toni Oasay-Anderson, Budget Manager

Reviewed by: Jonathan Orozco, Acting Director of Administrative Services

Reviewed by: Department Heads

Reviewed by: Floy Andrews, Interim City Attorney

Approved for Submission by: Tina Kapoor, City Manager

Attachments for FY 2026-27 Final Budget:

A – Draft Resolution – Operating Budget for Fiscal Year 2026-27

- B – Draft Resolution – Capital Budget for Fiscal Year 2026-27
- C – Draft Resolution – Appropriations Limit for Fiscal Year 2026-27
- D – Budget Proposals Summary
- E – Appropriation Limit for Fiscal Year 2026-27
- F – Appropriation Limit Price and Population Factors for Fiscal Year 2026-27
- G – Proposed Budget Study Session Supplemental Report
- H – Planning Commission Adopted Resolution
- I – Adopted FY 2025-27 City Work Program Budget Details
- J – FY 2026-27 Capital Improvement Budget (CIP) Book (Draft)