



ADMINISTRATIVE SERVICES DEPARTMENT

CITY HALL
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CITY COUNCIL STAFF REPORT

Meeting: March 5, 2019

Subject

Approve the Mid-Year Financial Report and recommended budget adjustments for Fiscal Year 2018-19

Recommended Action

1. Accept the City Manager's Mid-Year Financial Report for FY 2018-19
2. Approve Budget Modification 1819-XXX for Mid-Year adjustments as described in the Mid-Year Financial Report
3. Adopt a resolution 19-XXX approving Mid-Year budget adjustments

Background

On June 5, 2018, the City Council adopted the Fiscal Year (FY) 2018-19 Budget, a \$131,718,859 million spending plan for the City of Cupertino. On November 20, 2018, Council received an update on the City's spending plan as part of the City Manager's First Quarter Financial Report, which revised the budget to account for encumbrances of \$11,061,145 and carryover appropriations of \$37,177,851 from FY 2017-18. Encumbrances represent funds for valid obligations related to unfilled purchase orders or unfilled contracts that are rolled over from one year to the next until those obligations are fulfilled or terminated. Carryover appropriations are unencumbered funds for unfinished projects that are carried over for use in the following fiscal year in order to complete those projects.

In the first two quarters of FY 2018-19, Council approved \$6,523,652 in additional appropriations mostly related to a \$4 million increase for Interim City Hall and \$558,979 for Apple Park law enforcement services. These increases were offset with the defunding of several Capital Improvement Program projects noted in Resolution No. 18-104 totaling \$4,350,750 which include \$1,470,900 for De Anza Median Island Landscaping Phase II, \$991,050 for Service Center Shed No. 3 Improvement, and \$920,500 for Sports Center Upgrades.

This resulted in an amended budget of \$186,481,507. These FY 2018-19 budget adjustments are summarized in the following table:

Mid-Year Financial Report Summary of Budget Adjustments by Fund

Fund	FY 18-19 Final Adopted	Carryovers	Encumbrances	Adjustments Approved in 1st-2nd Quarters	FY 18-19 Amended Budget as Dec 31, 2018
General	\$77,639,720	\$9,486,150	\$5,168,152	\$1,511,577	\$93,805,599
Special Revenue	13,689,297	15,827,938	4,459,499	\$324,411	\$34,301,145
Debt Service	3,169,438	-	-	-	\$3,169,438
Capital Projects	17,868,000	11,202,852	1,025,302	\$4,655,000	\$34,751,154
Enterprise	10,854,026	160,707	135,974	\$27,864	\$11,178,571
Internal Service	8,498,378	500,204	272,218	\$4,800	\$9,275,600
Total All Funds	\$131,718,859	\$37,177,851	\$11,061,145	\$6,523,652	\$186,481,507

Discussion

The Mid-Year Financial Report focuses on the status of the City's budget as of December 31, 2018, and recommends adjustments to ensure the budget reflects the City's current revenue outlook and is responsive to changing spending priorities. As shown in the chart below, \$7,722,588 in net budget adjustments are being requested, of which \$8,000,000 involves a transfer of excess fund balance to the Capital Reserve per the City's Reserve and One Time Use Policy. If approved, the City's new spending plan would total \$194,204,095 across all funds.

Mid-Year Financial Report Summary by Fund

Fund	Amended Budget as of December 31, 2018	Requested Mid-Year Adjustments	Year End Projections
General	\$93,805,599	\$8,355,542	\$102,161,141
Special Revenue	\$34,301,145	(\$761,762)	\$33,539,383
Debt Service	\$3,169,438		\$3,169,438
Capital Projects	\$34,751,154	\$65,000	\$34,816,154
Enterprise	\$11,178,571	\$63,808	\$11,242,379
Internal Service	\$9,275,600		\$9,275,600
Total All Funds	\$186,481,507	\$7,722,588	\$194,204,095

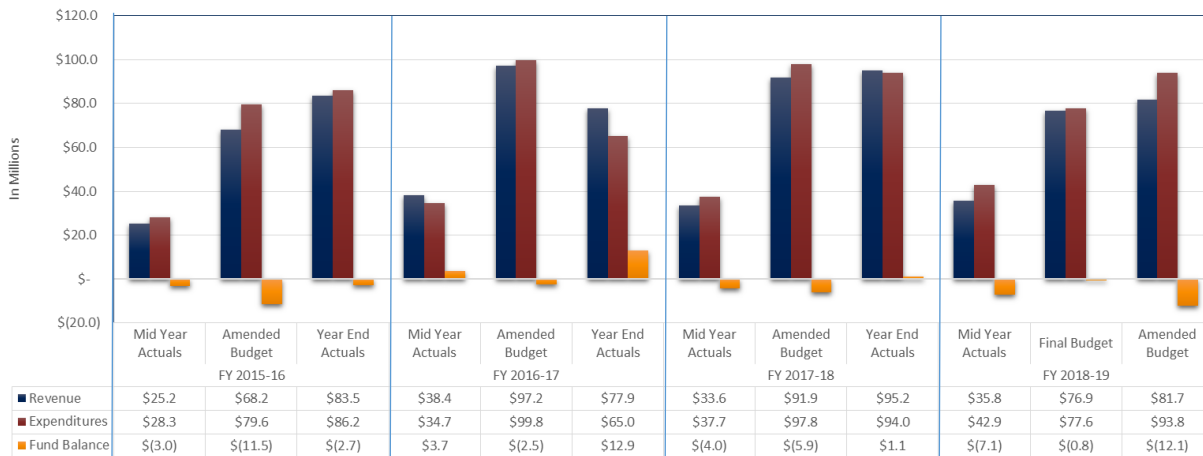
The recommended budget adjustments would be funded through the use of departmental revenue of \$815,000 and non-departmental revenue of \$9,900,000 of which \$8,000,000 is a movement of cash from the General Fund to the Capital Reserve. A

projected increase to unassigned fund balance in the amount of \$2,992,412 across all funds would occur as summarized in the table below:

Fund	Department	Expense	Revenue	Fund Balance	Proposal
GENERAL FUNDS					
100 General Fund	Innovation & Technology	\$ 28,750	\$ -	\$ (28,750)	Labor Costing Software
100 General Fund	Recreation	\$ 63,044	\$ -	\$ (63,044)	Lawson Teen Center, Hidden Treasurers, Sr. Ctr. P/T
100 General Fund	Community Development	\$ 100,000	\$ 815,000	\$ 715,000	Arborist, Plan Check, Charges for Services Park Fee, Conduit Repair, Overtime, Compressor,
100 General Fund	Public Works	\$ 163,748	\$ -	\$ (163,748)	Emergency Roof, Minimum Wage Increase, BBF Café
100 General Fund	Non-Departmental	\$ -	\$ 1,900,000	\$ 1,900,000	Increase in projected Sales Tax and Property Tax
100 General Fund	Non-Departmental	\$ 8,000,000	\$ -	\$ (8,000,000)	Transfer out fund balance to the Capital Reserve
TOTAL GENERAL FUNDS		\$ 8,355,542	\$ 2,715,000	\$ (5,640,542)	
SPECIAL REVENUE FUNDS					
265 BMR Housing	Community Development	\$ 18,000	\$ -	\$ (18,000)	Moving Expenses Program at Aviare
270 Transportation Fund	Non-Departmental	\$ (779,762)	\$ -	\$ 779,762	Defunding Project
TOTAL SPECIAL REVENUE FUNDS		\$ (761,762)	\$ -	\$ 761,762	
CAPITAL PROJECT FUNDS					
420 Capital Improvement Fund	Non-Departmental	\$ 65,000	\$ -	\$ (65,000)	McClellan Ranch West Parking Lot
429 Capital Reserve	Non-Departmental	\$ -	\$ 8,000,000	\$ 8,000,000	Transfer in fund balance from the General Fund
TOTAL CAPITAL PROJECT FUNDS		\$ 65,000	\$ 8,000,000	\$ 7,935,000	
ENTERPRISE FUNDS					
560 Blackberry Farm	Recreation	\$ 3,495	\$ -	\$ (3,495)	Bank charges
570 Sports Center	Public Works	\$ 19,250	\$ -	\$ (19,250)	Minimum Wage Increase to Janitorial Contracts
570 Sports Center	Recreation	\$ 41,063	\$ -	\$ (41,063)	Bank charges
TOTAL ENTERPRISE FUNDS		\$ 63,808	\$ -	\$ (63,808)	
TOTAL ALL FUNDS		\$ 7,722,588	\$ 10,715,000	\$ 2,992,412	

General Fund Update

4-Year Comparison of Revenues, Expenditures and Changes to Fund Balance



In reviewing the City's General Fund historical revenue, expenditures and fund balance, you will note that although the City has historically budgeted the use of fund balance, this use was not due to a structural deficit but due to the transfer out of excess fund balance from the General Fund to the Capital Reserve per the City's one time use policy. Additionally, in only one of the last three fiscal years has the City actually

ended the year with expenditures exceeding revenues. This occurred in FY 2015-16 due to a \$1.4 million payoff of retiree health.

Revenue

As of mid-year General Fund revenue is tracking at \$35.8 million or 6% higher than the same time last year due to changes in the City’s in various revenue sources as shown in the table and described in greater detail below. Comparison of FY 2017-18 General Fund Mid-Year Revenue to FY 2018-19

Revenue Category	Mid-Year 2017	Mid-Year 2018	Variance	% Change
05 - Sales tax	\$ 13,421,916	\$ 12,646,444	\$ (775,473)	-6%
10 - Property tax	6,244,884	7,003,151	758,267	12%
15 - Transient occupancy	2,491,628	3,136,963	645,335	26%
20 - Utility tax	1,148,864	1,201,574	52,710	5%
25 - Franchise fees	807,067	644,658	(162,409)	-20%
30 - Other taxes	588,152	684,519	96,367	16%
35 - Licenses and permits	1,257,872	1,730,418	472,546	38%
40 - Use of money and property	826,818	1,007,092	180,274	22%
45 - Intergovernmental revenue	165,981	126,198	(39,783)	-24%
50 - Charges for services	4,605,443	5,253,451	648,008	14%
55 - Fines and forfeitures	201,979	174,190	(27,789)	-14%
60 - Miscellaneous	197,936	954,728	756,792	382%
65 - Transfers in	1,000,002	10,000	(990,002)	-99%
70 - Other financing sources	\$ 655,702	\$ 1,199,524	\$ 543,823	83%
Grand Total	\$ 33,614,244	\$ 35,772,910	\$ 2,158,666	6%

Sales Tax revenue is received six months in arrears, with dollars received for the most recent quarter (Oct-Dec 2018) relating to revenue collected in the fourth quarter of the last fiscal year (Apr-Jun 2018). Sales tax received as of mid-year was \$775,473, or 6%, less than last year due to reduced sales tax localization and an additional clean-up payment received in first quarter last year. It is proposed that sales tax revenues estimates be increased by 4% for a total increase of \$900,000. This increase, based on economically adjusted sales tax data, is due primarily to strong growth in the Business to Business industry group; a 14% increase over the same time period one year ago. Additionally the State and County pools experienced growth of approximately \$100,000, or 7.5% due to outstanding disbursements that resulted from the State’s software conversion, and Restaurants and Hotels saw approximately \$50,000 or 8.2% increase due to recent new eateries opening in the City. This growth was offset by a decrease in Building and Construction of 35.5% or approximately \$63,000. The impact of the Supreme Court decision that requires out-of-state online retailers to collect sales

taxes on sales to in-state residents has yet to be determined. However, California does currently collect these taxes from the major retailers like Amazon and Wayfairs. These tax dollars go into the County Sales tax pool and are then distributed to the various agencies based on respective share of the pool. As of the last reporting quarter Cupertino's share of the County pool was 6.9%.

Property Tax revenue has come in higher than the same time last year by \$758,267, or 12%, due to increased residential property values over the prior year and in respect to agencies in the county pool. As a result of the increase throughout the fiscal year, staff are proposing an increase of \$1,000,000, or 4.5%. Staff will continue to monitor property tax revenue and propose revenue projection adjustments as necessary throughout the remainder of the fiscal year.

Transient Occupancy Tax has come in \$645,335, or 26%, higher than last year's mid-year point. Increases in Transient Occupancy Tax (TOT) revenues are a result of the Residence Inn by Marriott opening at Main Street in early 2018, which was not open during mid-year last fiscal year. The City also signed a voluntary collection agreement with Airbnb to collect TOT, which began in August and has resulted in additional TOT collection of approximately \$113,000 that was not included as part of the final budget. In early 2018, the City switched from a manual TOT collection process to an automated process through the City's revenue consultant firm, HdL, which contributed to more consistent collection from hotels. This new process also delays monthly TOT payments by one month to accommodate the third-party collection. The opening of the Hyatt House Hotel has been delayed to mid-March 2019. This may have an impact on TOT revenue. Staff will continue to monitor and report back as part of the third-quarter financial report.

Utility Tax is up approximately \$53,000 or 5% due to a \$133,000 increase in all utilities except for AT&T, PG&E and Verizon who collectively experienced a decrease in revenue of approximately \$83,000 under last year. The largest increases in utility revenue came from Silicon Valley Clean Energy Authority, New Cingular Wireless and 3 Phases Renewables.

Other Taxes have increased by approximately \$96,000, or 16%, primarily due to penalties and interests related to late payment penalties from Apple Inc. and Property Tax Transfers.

Franchise Fees have decreased by \$162,000, or 20%, primarily due to the reduction in Recology franchise fees in which the City receives a percentage of rental costs for construction debris boxes.

Licenses and Permits increased by \$473,000, or 38%, due to Apple beginning renovation at the Infinite Loop Campus and other Apple buildings subsequent to occupancy at Apple Park.

Use of Money and Property increased by \$180,000, or 22%, due to increased interest earnings due to rising Local Agency Investment Fund (LAIF) rates as well as an additional \$25 million invested in the City's LAIF account over the prior year.

Intergovernmental Revenue has decreased by \$40,000, or 24%, due primarily to the Transportation Fund for Clean Air (TFCA) grant that was received in the previous fiscal year.

Charges for Services have increased by \$648,000, or 14%, primarily due to increases in current, mid and long-term planning fees for Vallco Specific Plan. Internal city charges related to increases in the Information & Technology charges due to additional one-time project expenses have also contributed to the increase. A corresponding and offsetting increase can be found in the Cost Allocation section of the General Fund expenditures. Staff propose increasing estimated revenues by \$815,000, or 11.6%, in anticipation of Planning fees continuing throughout the remainder of FY 2018-19.

Fines and Forfeitures have decreased \$28,000, or 14%, primarily due to a decreased number of citations administered in the current year.

Miscellaneous revenue has increased by \$757,000, or 38%, due primarily to a new ongoing donation from Apple Inc. to fund increased security at Apple Park.

Transfers In have decreased by \$990,000, or 99%, due to a transfer in from the Capital Reserve last fiscal year that is not budgeted in the current year.

Other Financing Sources is up \$544,000, or 83%, due to increased refundable deposit administrative fees due to the Vallco development.

Expenditures

As of mid-year, overall expenditures in the General Fund are up by \$5.2 million, or 14%, when compared to the same time last year due to increases in salary and benefits, Contract Services, Cost Allocation, Special Projects and Transfers Out. The following table shows the differences between General Fund revenues collected as of the mid-year in the current fiscal year and the prior fiscal year:

Comparison of FY 2017-18 General Fund Mid-Year Expenditures to FY 2018-19

Expenditure Category	Mid-Year 2017	Mid-Year 2018	Variance	% Change
05 - Employee compensation	\$ 8,021,182	\$ 8,470,928	\$ 449,747	6%
10 - Employee benefits	3,480,500	3,499,014	\$ 18,513	1%
15 - Materials	2,239,474	2,110,651	\$ (128,823)	-6%
20 - Contract services	9,331,120	9,579,257	\$ 248,137	3%
25 - Cost allocation	4,050,919	4,684,112	\$ 633,193	16%
30 - Capital outlays	3,038,957	417,937	\$ (2,621,020)	-86%
31 - Special projects	996,395	2,606,450	\$ 1,610,055	162%
45 - Transfer out	6,364,686	11,358,912	\$ 4,994,226	78%
50 - Other financing uses	133,937	133,765	\$ (172)	0%
Grand Total	\$ 37,657,170	\$ 42,861,026	\$ 5,203,856	14%

Salary and Benefits increases are approximately \$468,000, or 4%, due primarily to step advances as employees progress through the five steps in a given position classification, negotiated cost of living increases that took effect the first full pay period in July (2.5%) and fluctuations in vacancies from the previous year. Additionally, there was an increased number of pay periods this year versus last. In FY 2017-18, 12 pay periods had been processed and 13 pay periods have been processed in the current year. The City only processes 26 biweekly pay periods in a fiscal year.

Materials costs are down approximately \$129,000, or 6%, due to an overall decrease in spending on office supplies and general supplies across all departments.

Contract services have increased approximately \$248,000, or 3%, due primarily to increased costs for the City's contract with the Santa Clara County Sheriff and increased general liability insurance costs, and also I&T software implementation costs.

Cost Allocation increases are approximately \$633,000, or 16%, due primarily to increases in the Information & Technology charges due to additional one-time project expenses.

Capital Outlay costs are down \$2.6 million, or 86%, due to property acquisition of 10301 Byrne Avenue in the previous fiscal year.

Special Projects increases are approximately \$1.6 million, or 162%, primarily due to costs associated with the Vallco specific plan, the water system planning and valuation assessment project, and the Apple Campus 2 Traffic Mitigation Improvement project between Santa Clara Valley Transportation Authority and the City.

Transfers Out increases are approximately \$5 million, or 78%, higher and are the cause of the bulk of the increase in costs over midyear last fiscal year. This is due to a change in methodology for recording operating transfers. The City elected to record them at the beginning of the fiscal year rather than on a monthly basis.

Other Financing Uses have remained relatively flat.

All Other Funds Update and Year End Projections

Revenue

As of mid-year, revenue in all other funds is tracking at \$36.6 million, or 54%, higher than the same time last year due to changes transfers in and intergovernmental revenue and is offset by decreases in Charges for Services and Miscellaneous Revenue.

Revenue Category	Mid-Year 2018	Mid-Year 2019	Variance	% Change
30 - Other taxes	\$ 386,066	\$ 423,241	\$ 37,175	10%
40 - Use of money and property	359,303	499,622	140,319	39%
45 - Intergovernmental revenue	952,187	1,336,028	383,841	40%
50 - Charges for services	5,862,292	5,485,478	(376,815)	-6%
55 - Fines and forfeitures	4,289	2,767	(1,522)	-35%
60 - Miscellaneous	2,062,933	54,743	(2,008,190)	-97%
65 - Transfers in	13,816,562	28,511,162	14,694,600	106%
70 - Other financing sources	360,859	249,143	(111,716)	-31%
Grand Total	\$ 23,804,490	\$ 36,562,183	\$ 12,757,693	54%

Other Taxes increased approximately \$37,000, or 10%, due to increases in storm drain fees which were offset with a reduction in park dedication fees.

Use of Money and Property increased by approximately \$140,000, or 39%, due to increased interest earnings due to rising rates in LAIF as well as an additional \$25 million invested in the City’s LAIF account over the prior year.

Intergovernmental Revenue increased by approximately \$384,000, or 40%, due to SB1 Road Maintenance and Rehabilitation funding that commenced in FY 2018-19.

Charges for services decreased approximately \$377,000, or 6%, primarily due to a reduction in landfill fees for construction debris box materials, in which the City previously received pass-through revenue. Starting in January 2018, Recology began paying International Disposal Corporation directly for the landfill fees.

Fines and forfeitures decreased approximately \$1,500, or 35%, due to a decreased volume in citations administered over the prior year.

Miscellaneous revenue decreased approximately \$2,000,000, or 97%, due primarily to the one-time donation from Apple in the amount of \$1.8 million for the 2016 Bicycle Transportation Plan that was received in the prior year.

Transfers In increased approximately \$14.7 million, or 106%, due to a change in methodology for recording operating transfers. The City elected to record them at the beginning of the fiscal year rather than on a monthly basis.

Other financing sources decreased approximately \$111,800, or 31%, due to a reduction in proceeds received from the sale of vehicles and equipment that had reached their useful lives. A reduction in workers' compensation cost allocation plan charges also contributed to the decrease.

Expenditures

As of first quarter, overall expenditures are tracking at \$22.6 million or 25% lower than the same time last year due decreases in capital outlays and special projects.

Expenditure Category	Mid-Year 2018	Mid-Year 2019	Variance	% Change
05 - Employee compensation	\$ 1,848,959	\$ 2,005,689	\$ 156,730	8%
10 - Employee benefits	1,252,726	1,317,747	65,021	5%
15 - Materials	777,966	741,559	(36,407)	-5%
20 - Contract services	2,797,681	2,975,516	177,834	6%
25 - Cost allocation	877,504	1,029,449	151,945	17%
30 - Capital outlays	3,162,713	2,036,118	(1,126,594)	-36%
31 - Special projects	10,705,465	3,589,972	(7,115,493)	-66%
40 - Debt services	-	45,604	45,604	N/A
45 - Transfer out	8,451,878	17,162,250	8,710,372	103%
Grand Total	\$ 29,874,892	\$ 30,903,904	\$ 1,029,012	3%

Salary and Benefits increases are approximately \$221,000 or 7% due primarily to step advances as employees progress through the 5 steps in a given position classification, negotiated cost of living increases that took effect the first full pay period in July (2.5%) and fluctuations in vacancies from the previous year. Additionally, there was an increased number of pay periods this year versus last. In FY 2017-18, 12 pay periods had been processed and 13 pay periods have been processed in the current year. The City only processes 26 biweekly pay periods in a fiscal year.

Materials has decreased approximately \$36,000, or 5%, and is due to various minor fluctuations including electrical service for Sports Center, printing and duplication charges for Recreation and Community Services, and auto parts/supplies for the City's fleet.

Contract Services have increased approximately \$178,000, or 6%, due, but not limited to increases in for tennis camps and related activities and minor asphalt repair projects.

Cost Allocation increased approximately \$152,000, or 17%, due primarily to increases in the Information Technology charges due to additional one-time project expenses.

Capital Outlays decreased approximately \$1.1 million, or 36%, due to a number of projects being completed in fiscal year 2017-18. These include but are not limited to storm drain improvements at Foothill and Cupertino Road, street resurfacing projects, tennis court resurfacing, and fiber network extension to service center. The decrease over the previous fiscal year is also due to significant defunding in capital improvement projects in fiscal year 2018-19.

Special Projects decreased approximately \$7.1 million, or 66%, due to a one-time Affordable Housing loan to Stevens Creek L.P. in fiscal year 2017-18 as well as decreases in annual asphalt project expenditures year-over-year.

Debt Service, Transfers Out increased approximately \$8.8 million, or 103%, due to a change in methodology for recording operating transfers. The City elected to record them at the beginning of the fiscal year rather than on a monthly basis.

Budget Adjustment Requests

As of the mid-year a few departments are requesting budget adjustments to ensure they end the year within budget appropriations. The recommended adjustments are summarized in the table below:

Fund	GL Account	Expense	Revenue	Fund Balance	Proposal
GENERAL FUNDS					
100 General Fund	100-32-308-600-606	\$ 28,750	\$ -	\$ (28,750)	Labor Costing Software
100 General Fund	100-62-608-500-502	\$ 25,624	\$ -	\$ (25,624)	Senior Center Part-time Staffing Addition
100 General Fund	100-62-623-500-502	\$ 22,320	\$ -	\$ (22,320)	Lawson Teen Center
100 General Fund	100-62-623-600-613	\$ 800	\$ -	\$ (800)	Lawson Teen Center
100 General Fund	100-62-623-700-706	\$ 2,400	\$ -	\$ (2,400)	Lawson Teen Center
100 General Fund	100-62-623-600-605	\$ 1,785	\$ -	\$ (1,785)	Hidden Treasures
100 General Fund	100-62-623-600-613	\$ 2,975	\$ -	\$ (2,975)	Hidden Treasures
100 General Fund	100-62-623-700-702	\$ 7,140	\$ -	\$ (7,140)	Hidden Treasures
100 General Fund	100-71-701-701-701	\$ 20,000	\$ -	\$ (20,000)	Arborist Contract Services
100 General Fund	100-71-702-450-401		\$ 815,000	\$ 815,000	Increase in projected Charges for Services Revenue
100 General Fund	100-73-715-701-701	\$ 80,000	\$ -	\$ (80,000)	Construction Plan Check Contract Services
100 General Fund	100-82-804-700-702	\$ 12,600	\$ -	\$ (12,600)	Annual Park Fee Appraisal
100 General Fund	100-85-848-700-702	\$ 28,000	\$ -	\$ (28,000)	Conduit Repair for Street Light System
100 General Fund	100-85-848-500-505	\$ 13,350	\$ -	\$ (13,350)	Street Lighting Overtime
100 General Fund	100-87-827-700-702	\$ 29,729	\$ -	\$ (29,729)	Facilities Emergency Compressor
100 General Fund	100-87-828-700-702	\$ 9,470	\$ -	\$ (9,470)	Minimum Wage Increase to Janitorial Contracts
100 General Fund	100-87-829-700-702	\$ 25,000	\$ -	\$ (25,000)	Emergency Roof Repair for Service Center Shop
100 General Fund	100-87-831-700-702	\$ 5,817	\$ -	\$ (5,817)	Minimum Wage Increase to Janitorial Contracts
100 General Fund	100-87-832-700-702	\$ 10,130	\$ -	\$ (10,130)	Minimum Wage Increase to Janitorial Contracts
100 General Fund	100-87-834-700-702	\$ 5,832	\$ -	\$ (5,832)	Minimum Wage Increase to Janitorial Contracts
100 General Fund	100-87-837-700-702	\$ 2,820	\$ -	\$ (2,820)	Minimum Wage Increase to Janitorial Contracts
100 General Fund	100-87-841-900-990	\$ 15,000	\$ -	\$ (15,000)	Air Curtains for BBF Cafe
100 General Fund	100-87-841-900-990	\$ 6,000	\$ -	\$ (6,000)	Sun Shade for BBF Ticket Kiosk
100 General Fund	100-90-001-401-401	\$ -	\$ 900,000	\$ 900,000	Increase in projected Sales Tax Revenue
100 General Fund	100-90-001-402-401	\$ -	\$ 1,000,000	\$ 1,000,000	Increase in projected Property Tax Revenue
100 General Fund	100-90-001-800-902	\$ 8,000,000	\$ -	\$ (8,000,000)	Transfer out fund balance to the Capital Reserve
TOTAL GENERAL FUNDS		\$ 8,355,542	\$ 2,715,000	\$ (5,640,542)	
SPECIAL REVENUE FUNDS					
265 BMR Housing	265-72-711-750-042	\$ 18,000	\$ -	\$ (18,000)	Moving Expenses Program at Aviare
270 Transportation Fund	270-90-962-900-905	\$ (779,762)	\$ -	\$ 779,762	Defunding Project
TOTAL SPECIAL REVENUE FUNDS		\$ (761,762)	\$ -	\$ 761,762	
CAPITAL PROJECT FUNDS					
420 Capital Improvement Fund	420-99-030-900-905	\$ 65,000	\$ -	\$ (65,000)	McClellan Ranch West Parking Lot
429 Capital Reserve	420-90-001-421-401	\$ -	\$ 8,000,000	\$ 8,000,000	Transfer in fund balance from the General Fund
TOTAL CAPITAL PROJECT FUNDS		\$ 65,000	\$ 8,000,000	\$ 7,935,000	
ENTERPRISE FUNDS					
560 Blackberry Farm	560-63-616-700-707	\$ 3,495	\$ -	\$ (3,495)	Bank charges
570 Sports Center	570-87-836-700-702	\$ 19,250	\$ -	\$ (19,250)	Minimum Wage Increase to Janitorial Contracts
570 Sports Center	570-63-621-700-707	\$ 41,063	\$ -	\$ (41,063)	Bank charges
TOTAL ENTERPRISE FUNDS		\$ 63,808	\$ -	\$ (63,808)	
TOTAL ALL FUNDS		\$ 7,722,588	\$ 10,715,000	\$ 2,992,412	

Labor Costing Software – the AdastraGov Labor Costing Module is a cloud-based software platform that will increase efficiency by providing the ability to easily calculate the cost of a labor proposal, making changes to benefits, visualizing results, and benchmarking against other agencies more efficiently. This \$28,750 proposal will increase the transparency for City council, bargaining groups, negotiators, and City staff, while allowing the user to seamlessly create scenarios at the bargaining table.

Hidden Treasures - The Hidden Treasures event at the Senior Center takes in donations from the community and then in turn sells the donations on the last Thursday in October. For the past fifteen (15) years, the Senior Center has been using these funds for the Case Management Program and for the Stay Active Fund. These case management

funds provide vital resources for clients and members by meeting individual client's needs, member's presentations and lectures, and events such as the health fair. The Stay Active Fund is a scholarship that helps offset the cost of Senior Center membership, and a class and event to those residents who are in need. Staff requests the use of the \$11,900 revenue brought in during the Hidden Treasures event to continue to provide resources to resident members and for the Stay Active Fund Scholarship.

Lawson Teen Center - The Teen Center at Lawson is a new initiative to introduce a mobile recreation component to youth and teen programming. Recreation staff would rent a room at Lawson Middle School and have a pop-up program on-site for teens in 6th - 8th grade. By having a dedicated space in a school and essentially bringing the Teen Center to students, staff will have direct access to the teen population and can provide more community benefit for students after school ends. Additionally, this proposal would continue to foster the relationship between Cupertino Unified School District and the City of Cupertino. Of the \$25,520 being requested, \$22,320 will be allocated to part-time staffing, \$2,400 will be allocated for room rental costs, and \$800 will be allocated for miscellaneous supplies and snacks.

Senior Center Part-time Staffing – A part-time staff is being requested for the Senior Center. Currently, the Senior Center has one full-time office staff and one part-time staff. The additional part-time staff will add coverage to equate to one full-time staff so as to achieve optimal levels of customer services. The \$25,624 in additional part-time staff will also assist with coverage on Saturdays.

On-Call Arborist – City staff are currently searching for an on-call arborist to assist with tree assessment that is required to process Planning applications. In order to effectively assess trees on safety, health, and aesthetics, it should be performed by a professional arborist. Costs for such services would be 100% recoverable to the City. Staff are requesting an amendment of \$20,000 for the remainder of FY 2018-19.

Construction Plan Check Contract Services – Staff are requesting an increase of \$80,000 to on-call contract services for construction plan checks. Due to a major development submittal received by Planning, current resources will need assistance with plan review to ensure accurate and timely turn around for applicants. Costs for such services would be 100% recoverable to the City.

Blackberry Farm Café – the County Health Department required the installation of three (3) air curtains to keep insects out of the Blackberry Farm café. Staff is requesting an amount of \$15,000 for the installation that is targeted for completion prior to the opening of the café in 2019.

Annual Park Fee Appraisal – Cupertino Municipal Code Section 13.08 requires the Public Works Department to update the fair market value of land within the City on an annual basis. This appraisal is used to establish the fair market value and will be updated prior the end of FY 2018-19. Staff are requesting \$12,600 to fund this proposal.

Street Lighting Conduit Repair and Street Lighting Overtime – This request of \$28,000 is to facilitate making emergency repairs to the underground power supply circuits for the existing street light system. The underground power supply to street lights have failed due to the aging of street light infrastructure. This project can be completed within 60-90 days once funding is approved at which point public safety will be improved for both pedestrian and vehicle traffic. Staff is also requesting \$13,350 for additional staff time to continue with the replacement of 340 street light poles that are 40-50 years old. These poles are past their life expectancy and could pose a safety risk. By replacing these aged poles with new poles that meet current standards, there should not be any ongoing maintenance required for 30 or more years.

Emergency Roofing Repair – The roofing over the building that houses the mechanics, sign shop, wood shop, facilities, and miscellaneous storage has leaked for several consecutive years. After many attempts at temporary repairs, the entire roof requires a maintenance coating and other long-term maintenance. This \$25,000 request will provide a roof repair that will last a minimum of five (5) years and keep the existing roof from corroding further.

Facilities Emergency Compressor – Staff are requesting \$29,729 to replace the City Hall compressor that failed during fiscal year 2018-19. Thermal Mechanical Service was requested to diagnose the chiller at City Hall that was experiencing some levels of operational difficulties at which point, an unrepairable internal issue was identified.

Minimum Wage Adjustments for Janitorial Services – Staff is requesting \$53,319 for minimum wage increases for janitorial services to be rendered at Library, Senior Center, McClellan Ranch, Wilson Park, Creekside Park, and Sports Center.

Sun Shade at Blackberry Farm – Staff is requesting \$6,000 for sun shades for the Blackberry Farm ticket kiosk in which the existing sun screen is holding moisture and creating a mold issue. If approved, replacement is targeted to occur before summer of 2019.

Moving Expenses at Aviare – Staff is requesting the appropriation of \$18,000 of funds received from Aviare to administer the Aviare Moving Incentives Program, a component of the City's Below Market Rate (BMR) program.

Defunding CIP – The Bicycle Pedestrian Facility Improvement CIP was combined into the 2016 Bike Plan Implementation CIP in FY 2017-18; however, the funding was not combined during the same year. As a result of this oversight, \$779,762 will be defunded from the Bicycle Pedestrian Facility Improvement CIP.

McClellan Ranch West Parking Lot – Staff is requesting \$65,000 addition to the previously approved budget of \$950,000 for the McClellan Ranch West Parking Lot. The additional funding is required to comply with permitting requirements identified by the California Department of Fish and Wildlife (CDFW). Subsequent to the award of the project, CDFW responded with mitigation requirements that required additional biological surveys and monitoring. In order to address these requirements, additional consultant resources are required. Upon completion of this project, the City will have a formal parking area with 27 stalls and an overflow parking area for an additional 20 vehicles that can be used year-round. This will support the increased demand for parking at the location.

Bank Charges – The City's Recreation and Community Services Department implemented a new payment processing application in ActiveNet. This application increased the efficiencies and capabilities in processing related transactions and as a result, the City is incurring additional processing fees. Staff are requesting an additional \$44,558 to sufficiently fund estimated processing charges for the remainder of FY 2018-19.

Staffing

The Amended Budget as of December 31, 2018 has a total of 198.75 FTEs. There are no proposed changes to staffing as part of the Mid-Year Report.

Fund Balance

The City's General Fund ended FY 2017-18 with \$52.42 million in total fund balance. As part of the FY 2018-19 Adopted Budget, the City projected ending the fiscal year with \$45.21 million in total fund balance. As of the First Quarter Report, the City updated its

year-end projections for FY 2018-19 to \$48.96 million in total fund balance, an increase of \$3.7 million due to increases in revenues received and lower expenditures in FY 2017-18. Projected year-end fund balance as of mid-year FY 2018-19 estimated to be \$42.25, a reduction of \$6.71 million from the first quarter projections due primarily to a one-time transfer out of \$8 million to the Capital Improvement Plan Reserve Fund.

General Fund Classification of Fund Balance

CLASSIFICATION	Actuals 2016-17	Year End Projection 2017-18	Adopted Budget 2018-19	1st Quarter	Mid-Year End
				Year End Projection 2018-19	Projection 2018-19
Non Spendable	0.88	0.47	0.47	0.47	0.46
Restricted	1.02	1.25	0.84	1.25	9.24
Committed	19.00	23.92	27.08	27.08	19.12
Assigned	4.64	5.17	7.93	7.93	7.59
Unassigned	28.06	21.62	8.89	12.23	5.84
TOTAL FUND BALANCE	53.59	52.42	45.21	48.96	42.25

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

Per the City’s one Fund Balance Policy, unassigned fund balance over \$500,000 are to be used in the following order to replenish committed fund balances with any remaining balances to be placed in the Capital Reserve:

1. Economic Uncertainty
2. PERS
3. Sustainability Reserve
4. Unassigned

Cash & Investments

The City’s cash and investment balance as of December 31, 2018 was \$138.3 million. This comprised 10.9% cash, 15.2% money market funds, 40.8% LAIF, 25.9% Agency Notes, and 7.2% US Treasuries. In accordance with California Government Code section 53646(3) the City maintains the ability to meet its expenditure requirements for the next six (6) months. As a result, a certain degree of liquidity is necessary within an agency’s portfolio. The City recently contracted with Chandler Asset Management and will be constructing and proposing an investment strategy that achieves balance between safety, liquidity, and return.

To determine the amount of the City's cash that is free from internal and/or external constraint, we apply the "accounting equation" [assets = liabilities + fund balance] to the City's General Fund. By taking the total assets (approximately \$57.2 million), less the total liabilities (approximately \$11.8 million), we arrive at a total fund balance of approximately \$45.4 million as of December 31, 2018. This is a decrease of approximately \$7.1 million, or 13.5%, over the previous mid-year point and is primarily due to the change in methodology for recording the City's operating transfers. From the total fund balance, we must account for any classifications in which the City is bound to honor constraints on the specific purposes for which amounts in the General Fund can be spent. This would include Restricted, Committed, Nonspendable, and Assigned classifications. This leaves the Unassigned balance, approximately \$9 million, as the amount free from constraint as of December 31, 2019.

Performance Measures

Updated performance measures that align with government and private industry best practices have been included in the Mid-Year Financial Report. Staff will continue to provide updates to Council on the performance measures as part of the Mid-Year Budget Report, including prior year totals and current year results through December. Attachment C represents the status of the performance measures as of Mid-Year.

Conclusion

The Mid-Year Financial Report shows the City is well-positioned to move forward. City staff recommends adjustments of \$7,722,588 in new appropriations funded by respective fund balance. This will be partially offset by the \$779,762 in defunded Transportation Fund appropriations which will increase fund balance. It will also be partially offset by an increase in estimated revenues of \$2,715,000 and an \$8,000,000 transfer to the Capital Reserve. In total, if the recommendations are approved, appropriations would increase by \$7,722,588, transfer in revenues would increase by \$8,000,000, non-departmental revenues would increase by \$1,900,000, departmental revenues would increase by \$815,000, and estimated fund balance would increase by \$2,992,412.

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Approved for Submission by: Timm Borden, Interim City Manager

Attachments:

A – Draft Resolution

B – Mid-Year Financial Report for Fiscal Year 2018-19

C – Mid-Year Performance Measures

D – Mid-Year Budget Adjustment Journal