Financial Schedules

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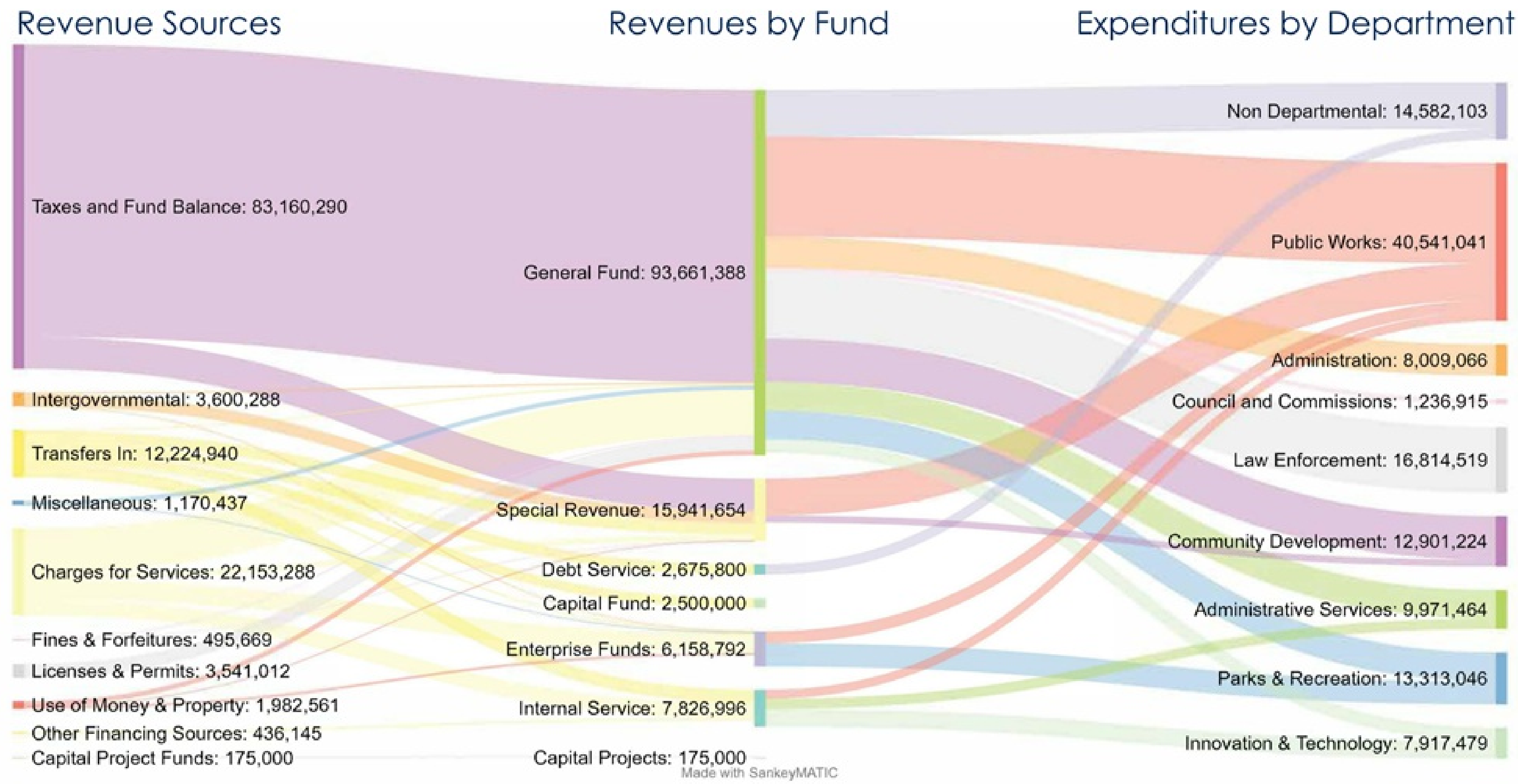
Financial Overview by Fund

Revenue Categories	General Fund	Special Revenue Fund	Debt Service Fund	Capital Project Funds	Enterprise Funds	Internal Service Funds	All Funds
	2022-23 Proposed Budget						
Sales Tax	31,944,089	-	-	-	-	-	31,944,089
Property Tax	30,039,574	-	-	-	-	-	30,039,574
Transient Occupancy	5,000,000	-	-	-	-	-	5,000,000
Utility Tax	2,955,404	-	-	-	-	-	2,955,404
Franchise Fees	3,230,101	-	-	-	-	-	3,230,101
Other Taxes	1,787,691	8,203,431	-	-	-	-	9,991,122
Licenses & Permits	3,541,012	-	-	-	-	-	3,541,012
Use of Money & Property	1,277,013	5,548	-	-	700,000	-	1,982,561
Intergovernmental	434,491	3,151,797	-	-	14,000	-	3,600,288
Charges for Services	11,528,436	1,512,209	-	-	5,058,792	4,053,851	22,153,288
Fines & Forfeitures	427,000	68,669	-	-	-	-	495,669
Miscellaneous	1,160,437	-	-	-	10,000	-	1,170,437
Transfers In/Other Financing Uses	336,140	3,000,000	2,675,800	2,500,000	376,000	3,773,145	12,661,085
TOTAL REVENUES	$ 93,661,388	$ 15,941,654	$ 2,675,800	$ 2,500,000	$ 6,158,792	$ 7,826,996	$ 128,764,630

Appropriation Categories	General Fund	Special Revenue Fund	Debt Service Fund	Capital Project Funds	Enterprise Funds	Internal Service Funds	All Funds
	2022-23 Proposed Budget						
Employee Compensation	23,901,059	2,050,572	-	-	1,786,450	1,803,287	29,541,368
Employee Benefits	11,264,884	1,037,760	-	-	605,466	2,190,096	15,098,206
Materials	7,217,573	1,001,596	-	-	500,003	1,418,575	10,137,747
Contract Services	24,949,571	1,152,665	-	175,000	4,804,188	1,798,390	32,879,814
Cost Allocation	10,385,961	1,191,567	-	-	789,939	62,042	12,429,509
Capital Outlays	-	1,038,000	-	-	-	-	1,038,000
Special Projects	2,208,378	3,717,268	-	-	183,553	1,127,646	7,236,845
Contingencies	451,739	29,681	-	-	132,526	80,425	694,371
Transfers Out	11,888,800	-	-	-	-	-	11,888,800
Debt Service/Other Uses	695,000	-	2,675,800	-	177,606	968,791	4,517,197
TOTAL EXPENDITURES	$ 92,962,965	$ 11,219,109	$ 2,675,800	$ 175,000	$ 8,979,731	$ 9,449,252	$ 125,461,857
CHANGE IN FUND BALANCE/ NET POSITION	$ 698,423	$ 4,722,545	$ -	$ 2,325,000	$ (2,820,939)	$ (1,622,256)	$ 3,302,773

Flow of Funds Chart (Sankey)



General Fund Contribution Schedule

Fund Type/Program	Proposed Budget Revenues	Proposed Budget Expenditures	Proposed Budget Change in Fund Balance/Net Position	Proposed Budget General Fund Contribution
GENERAL FUND				
10 City Council				
100 City Council	830,532	499,627	-	(330,905)
101 Community Funding	-	22,770	-	22,770
110 Sister Cities	-	64,006	-	64,006
11 Commissions				
131 Telecommunication Commission	-	39,481	-	39,481
140 Library Commission	-	51,371	-	51,371
142 Fine Arts Commission	-	73,624	-	73,624
150 Public Safety Commission	-	45,192	-	45,192
155 Bike/Ped Safety Commission	-	62,230	-	62,230
160 Recreation Commission	-	53,085	-	53,085
165 Teen Commission	-	46,076	-	46,076
170 Planning Commission	-	121,496	-	121,496
175 Housing Commission	-	61,468	-	61,468
180 Sustainability Commission	-	60,983	-	60,983
190 Audit Committee	-	35,506	-	35,506
12 City Manager				
120 City Manager	631,098	1,637,369	-	1,006,271
122 Sustainability Division	-	763,464	-	763,464
126 Office of Communications	-	977,517	-	977,517
305 Video	354,821	438,792	-	83,971
307 Public Access Support	-	79,249		79,249
632 Comm Outreach & Neigh Watch	-	213,823	-	213,823
633 Disaster Preparedness	-	706,493	-	706,493
705 Economic Development	-	633,893	-	633,893
13 City Clerk				
130 City Clerk	121,651	719,419	-	597,768
132 Duplicating/Mail Services	-	49,075	-	49,075
133 Elections	-	140,839	-	140,839
14 City Manager Discretion				
123 City Manager Contingency	-	75,000	-	75,000
15 City Attorney				-
141 City Attorney	362,253	1,574,133	-	1,211,880
20 Law Enforcement				-
200 Law Enforcement SC Sherif	1,367,721	16,765,096	-	15,397,375
201 Interoperability Project	-	49,423	-	49,423
31 I&T Video				
305 Video	-	574,604	-	574,604
32 I&T Applications				-
308 Applications	1,431,322	2,815,258	-	1,383,936
40 Administrative Services				-
400 Admin Services Administration	156,003	901,880	-	745,877
41 Finance				
405 Accounting	2,105,135	1,745,952	-	(359,183)
406 Business Licenses	-	473,445	-	473,445
425 Purchasing	-	369,240	-	369,240
426 Budgeting	-	290,600	-	290,600
44 Human Resources				
412 Human Resources	1,706,378	1,505,541	-	(200,837)
417 Insurance Administration	-	2,034,411	-	2,034,411
60 Recreation & Community Service				
601 Rec & Comm Svcs Administration	-	1,704,745	-	1,704,745
634 Park Planning and Restoration	-	-	-	-
636 Library Services	-	600,266	-	600,266

Fund Type/Program	Proposed Budget Revenues	Proposed Budget Expenditures	Proposed Budget Change in Fund Balance/Net Position	Proposed Budget General Fund Contribution
61 Business and Community Services				
602 Administration	-	642,068	-	642,068
605 Cultural Events	31,000	493,143	-	462,143
630 Facilities	203,660	407,006	-	203,346
62 Recreation and Education				
608 Administration	12,500	713,833	-	701,333
623 Youth, Teen and Senior Adult Rec	154,500	1,076,295	-	921,795
639 Youth and Teen Programs	3,800	322,011	-	318,211
640 Neighborhood Events	-	154,307	-	154,307
63 Sports, Safety & Outdoor Rec				
612 Park Facilities	265,757	1,218,846	-	953,089
615 Administration	-	59,668	-	59,668
70 Planning & Community Development				
700 Community Development Admin	-	854,844	-	854,844
71 Planning				
701 Current Planning	1,037,500	3,132,994	-	2,095,494
702 Mid Long Term Planning	138,750	1,221,488	-	1,082,738
704 Annexations	-	-	-	-
705 Economic Development	-	-	-	-
72 Housing Services				
712 Gen Fund Human Services Grants	-	123,965	-	123,965
73 Building				
713 General Building	315,000	935,194	-	620,194
714 Construction Plan Check	1,500,000	2,116,415	-	616,415
715 Building Inspection	1,700,000	1,432,502	-	(267,498)
718 Muni-Bldg Code Enforcement	-	84,454	-	84,454
74 Code Enforcement				
202 Code Enforcement	225,000	1,246,971	-	1,021,971
80 PW Admin				
800 Public Works Admin	-	1,158,135	-	1,158,135
82 Developmental Services				
804 Plan Review	1,408,348	1,471,996	-	63,648
806 CIP Administration	-	1,804,405	-	1,804,405
83 Service Center				
807 Service Center Administration	216,589	1,290,762	-	1,074,173
84 Grounds				
808 McClellan Ranch Park	-	235,194	-	235,194
809 Memorial Park	-	871,977	-	871,977
811 BBF Ground Maintenance	-	298,534		298,534
812 School Site Maintenance	144,000	1,630,018	-	1,486,018
813 Neighborhood Parks	-	2,687,196	-	2,687,196
814 Sport Fields Jollyman CRK	-	881,604	-	881,604
815 Civic Center Ground Maint	241,589	180,415	-	(61,174)
85 Streets				
848 Street Lighting	-	1,024,841	-	1,024,841
850 Environmental Materials	-	224,137	-	224,137
86 Trees and Right of Way				
261 Trail Maintenance	-	232,764	-	232,764
824 Overpasses and Medians	-	1,802,896	-	1,802,896
825 Street Tree Maintenance	77,966	1,681,931	-	1,603,965
826 Weekend Work Program	-	541,776	-	541,776
87 Facilities and Fleet				
827 Bldg Maint City Hall	379,100	548,697	-	169,597
828 Bldg Maint Library	621,162	667,502	-	46,340
829 Bldg Maint Service Center	-	435,665	-	435,665

Fund Type/Program	Proposed Budget Revenues	Proposed Budget Expenditures	Proposed Budget Change in Fund Balance/Net Position	Proposed Budget General Fund Contribution
830 Bldg Maint Quinlan Center	-	638,815	-	638,815
831 Bldg Maint Senior Center	-	616,786	-	616,786
832 Bldg Maint McClellan Ranch	891	238,267	-	237,376
833 Bldg Maint Monta Vista Ct	-	202,498	-	202,498
834 Bldg Maint Wilson	-	104,887	-	104,887
835 Bldg Maint Portal	-	69,185	-	69,185
837 Bldg Maint Creekside	-	111,461	-	111,461
838 Comm Hall Bldg Maint	-	255,256	-	255,256
839 Teen Center Bldg Maint	-	50,100	-	50,100
840 Park Bathrooms	-	212,702	-	212,702
841 BBF Facilities Maintenance	-	578,769	-	578,769
852 Franco Traffic Operations Center	-	17,036	-	17,036
857 City Hall Annex	-	25,525	-	25,525
88 Transportation				
844 Traffic Engineering	-	1,480,072	-	1,480,072
845 Traffic Signal Maintenance	8,706	811,350	-	802,644
846 Safe Routes 2 School	-	661,062	-	661,062
TOTAL DEPARTMENTAL	**$ 17,752,732**	**$ 81,056,662**	**$ -**	**$ 63,303,930**
Transfers Out	-	11,906,303	-	11,906,303
Non-Departmental Revenues	75,908,656	-	-	(75,908,656)
TOTAL NON-DEPARTMENTAL	**$ 75,908,656**	**$ 11,906,303**	**$ -**	**$ (64,002,353)**
CHANGE IN FUND BALANCE	**$ -**	**$ -**	**$ 698,423**	**$ 698,423**
TOTAL GENERAL FUND	**$ 93,661,388**	**$ 92,962,965**	**$ 698,423**	**$ -**
SPECIAL REVENUE FUNDS				
001 No Department	1,492,374	-	4,492,374	3,000,000
707 CDBG General Admin	88,356	155,589	(67,233)	-
709 CDBG Capital/Housing Projects	340,858	337,558	3,300	-
710 CDBG Public Service Grants	66,267	61,852	4,415	-
711 BMR Affordable Housing Fund	8,002,202	1,197,398	6,804,804	-
802 Non Point Source	1,579,224	1,226,654	352,570	-
820 Sidewalk Curb and Gutter	-	1,982,206	(1,982,206)	-
821 Street Pavement Maintenance	1,372,373	4,587,213	(3,214,840)	-
822 Street Sign Marking	-	829,894	(829,894)	-
853 Storm Drain Fee	-	25,528	(25,528)	-
854 General Fund Subsidy	-	30,215	(30,215)	-
855 Storm Drain Maintenance	-	785,002	(785,002)	-
TOTAL SPECIAL REVENUE FUNDS	**$ 12,941,654**	**$ 11,219,109**	**$ 4,722,545**	**$ 3,000,000**
DEBT SERVICE FUNDS				
001 No Department	-	-	2,675,800	2,675,800
500 Facility Lease	-	2,675,800	(2,675,800)	-
TOTAL DEBT SERVICE FUNDS	**$ -**	**$ 2,675,800**	**$ -**	**$ 2,675,800**
CAPITAL PROJECTS FUNDS				
001 No Department	-	-	2,500,000	2,500,000
047 CIP Prelim Planning & Design	-	125,000	(125,000)	-
048 Capital Project Support	-	50,000	(50,000)	-
TOTAL CAPITAL PROJECTS FUNDS	**$ -**	**$ 175,000**	**$ 2,325,000**	**$ 2,500,000**

Fund Type/Program	Proposed Budget Revenues	Proposed Budget Expenditures	Proposed Budget Change in Fund Balance/Net Position	Proposed Budget General Fund Contribution
ENTERPRISE FUNDS				
001 No Department	-	3,106	(3,106)	-
260 BBF Golf Maintenance	-	133,586	(133,586)	-
613 Youth Teen Recreation	674,550	1,504,209	(829,659)	-
616 BBF Golf Course	433,600	668,446	(234,846)	-
620 Outdoor Recreation	862,000	869,015	368,985	376,000
621 Sports Center Operation	2,600,000	2,876,082	(276,082)	-
801 Resources Recovery	1,212,642	2,285,090	(1,072,448)	-
836 Bldg Maint Sports Center	-	640,197	(640,197)	-
TOTAL ENTERPRISE FUNDS	**$ 5,782,792**	**$ 8,979,731**	**$ (2,820,939)**	**$ 376,000**
INTERNAL SERVICE FUNDS				
300 Administration	-	259,434	(259,434)	-
310 Infrastructure	1,556,269	2,721,957	1,289,312	2,455,000
414 HR Retiree Benefits	-	1,388,276	(1,388,276)	-
418 Workers Compensation Insurance	436,145	516,946	(80,801)	-
419 Long Term Disability	-	98,523	(98,523)	-
420 Compensated Absence	-	646,650	235,350	882,000
849 Equipment Maintenance	1,568,633	1,594,350	(25,717)	-
985 Fixed Assets Acquisition	-	676,890	(676,890)	-
986 GIS	928,949	1,546,226	(617,277)	-
TOTAL INTERNAL SERVICE FUNDS	**$ 4,489,996**	**$ 9,449,252**	**$ (1,622,256)**	**$ 3,337,000**
TOTAL ALL FUNDS	**$ 116,875,830**	**$ 125,461,857**	**$ 3,302,773**	**$ 11,888,800**

Fund Balance Report

Fund	Actual Beginning Fund Balance as of 7/1/2021	Projected Beginning Fund Balance as of 7/1/2022	Proposed Budget Revenues	Proposed Budget Expenditures	Proposed Budget Ending Fund Balance as of 6/30/2022
GENERAL FUND					
100 General Fund	96,851,990	96,926,266	93,661,388	92,962,965	97,624,689
130 Investment Fund	(1,200)	(1,200)	-	-	(1,200)
TOTAL GENERAL FUNDS	**$ 96,850,790**	**$ 96,925,066**	**$ 93,661,388**	**$ 92,962,965**	**$ 97,623,489**
SPECIAL REVENUE FUNDS					
210 Storm Drain Improvement	2,368,060	368,060	-	-	368,060
215 Storm Drain AB1600	1,715,966	1,795,203	201,229	-	1,996,432
230 Env Mgmt Cln Crk Strm Drain	1,887,623	917,878	1,581,472	2,067,399	431,951
260 CDBG	1,159,287	1,341,754	495,481	554,999	1,282,236
261 HCD Loan Rehab	188,294	188,294	-	-	188,294
265 BMR Housing	6,600,532	8,527,597	8,002,202	1,197,398	15,332,401
270 Transportation Fund	9,409,837	12,491,018	5,661,270	7,399,313	10,752,975
271 Traffic Impact	468,998	468,998	-	-	468,998
280 Park Dedication	9,556,519	2,175,440	-	-	2,175,440
281 Tree Fund	152,156	137,156	-	-	137,156
TOTAL SPECIAL REVENUE FUNDS	**$ 33,507,271**	**$ 28,411,396**	**$ 15,941,654**	**$ 11,219,109**	**33,133,941**
DEBT SERVICE FUNDS					
365 Public Facilities Corp	63,350	8,350	2,675,800	2,675,800	8,350
TOTAL DEBT SERVICE FUNDS	**$ 63,350**	**$ 8,350**	**$ 2,675,800**	**$ 2,675,800**	**$ 8,350**
CAPITAL PROJECTS FUNDS					
420 Capital Improvement Fund	25,890,500	30,841,037	-	175,000	30,666,037
427 Stevens Creek Corridor Park	179,057	119,511	-	-	119,511
429 Capital Reserve	10,968,616	9,546,568	2,500,000	-	12,046,568
TOTAL CAPITAL PROJECTS FUNDS	**$ 37,038,174**	**$ 40,507,117**	**$ 2,500,000**	**$ 175,000**	**$ 42,832,117**
ENTERPRISE FUNDS					
520 Resource Recovery	5,498,063	4,339,786	1,212,642	2,285,090	3,267,338
560 Blackberry Farm	868,510	652,891	433,600	802,436	284,055
570 Sports Center	2,897,406	1,693,601	2,600,000	3,517,900	775,701
580 Recreation Program	2,200,680	879,991	1,912,550	2,374,305	418,236
TOTAL ENTERPRISE FUNDS	**$ 11,464,658**	**$ 7,566,268**	**$ 6,158,792**	**$ 8,979,731**	**$ 4,745,329**
INTERNAL SERVICE FUNDS					
610 Innovation & Technology	1,143,639	54,318	4,940,218	4,527,617	466,919
620 Workers' Compensation	2,540,345	2,462,344	436,145	516,946	2,381,543
630 Vehicle/Equip Replacement	1,801,826	1,186,847	1,568,633	2,271,240	484,240
641 Compensated Absence/LTD	669,671	(24,961)	882,000	745,173	111,866
642 Retiree Medical	157,590	(11,625)	-	1,388,276	(1,399,901)
TOTAL INTERNAL SERVICE FUNDS	**$ 6,313,071**	**$ 3,666,923**	**$ 7,826,996**	**$ 9,449,252**	**$ 2,044,667**
TOTAL ALL FUNDS	**$ 185,237,313**	**$ 177,085,119**	**$ 128,764,630**	**$ 125,461,857**	**$ 180,387,892**

General Fund Summary

The General Fund is the City's primary operating fund. It accounts for basic services such as public safety, public works, planning and 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., property tax, sales 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.

For FY 2022-23, General Fund revenue estimates are $93.7 million, a $4.0 million, or 4.5%, increase from the FY 2021-22 Adopted Budget, mostly due to an increase in sales tax and property tax.

General Fund expenditure estimates are $93.0 million, a $3.2 million, or 3.6%, increase from the FY 2021-22 Adopted Budget. The General Fund's ending fund balance is projected to increase by 1.1% from the FY 2021-22 Adopted Budget ending fund balance. This is due to a projected increase in sales tax, property tax, and transient occupancy taxes offset by a projected decrease in utility user's tax.

GENERAL FUND OPERATING SUMMARY	2019-20 Actual	2020-21 Actual	2021-22 Adopted	2022-23 Proposed	Percent Change
Beginning Fund Balance	**58,922,584**	**74,505,822**	**96,850,790**	**96,925,066**	**0.1%**
Operating Revenues	111,179,073	105,987,732	89,647,891	93,661,388	4.5%
Operating Expenditures	95,481,452	83,872,526	89,767,034	92,962,965	3.6%
Net Revenues - Expenditures	**15,697,621**	**22,115,206**	**(119,143)**	**698,423**	**-686.2%**
Unassigned	37,426,951	52,449,546	32,243,487	35,852,049	11.2%
All Other Classifications	37,078,871	44,401,244	64,348,805	61,771,440	-4.0%
Total Ending Fund Balance	**74,505,822**	**96,850,790**	**96,592,292**	**97,623,489**	**1.1%**

Note: Revenues from Investment Fund (Fund 130) not included in table

General Fund Revenues

Estimates for the FY 2022-23 beginning fund balance and General Fund revenue sources are based upon a careful examination of collection history and patterns as they relate to such factors as seasonality and performance in the economic environment that the City is most likely to encounter in the coming year. FY 2022-23 revenue estimates are based on the anticipated increase or decrease in activity and receipts over the current year. Each source of revenue can be influenced by external (outside of the City's control) and/or internal factors. The FY 2022-23 revenue estimates are built on the assumption of the City moving toward a recovery from the COVID-19 pandemic.

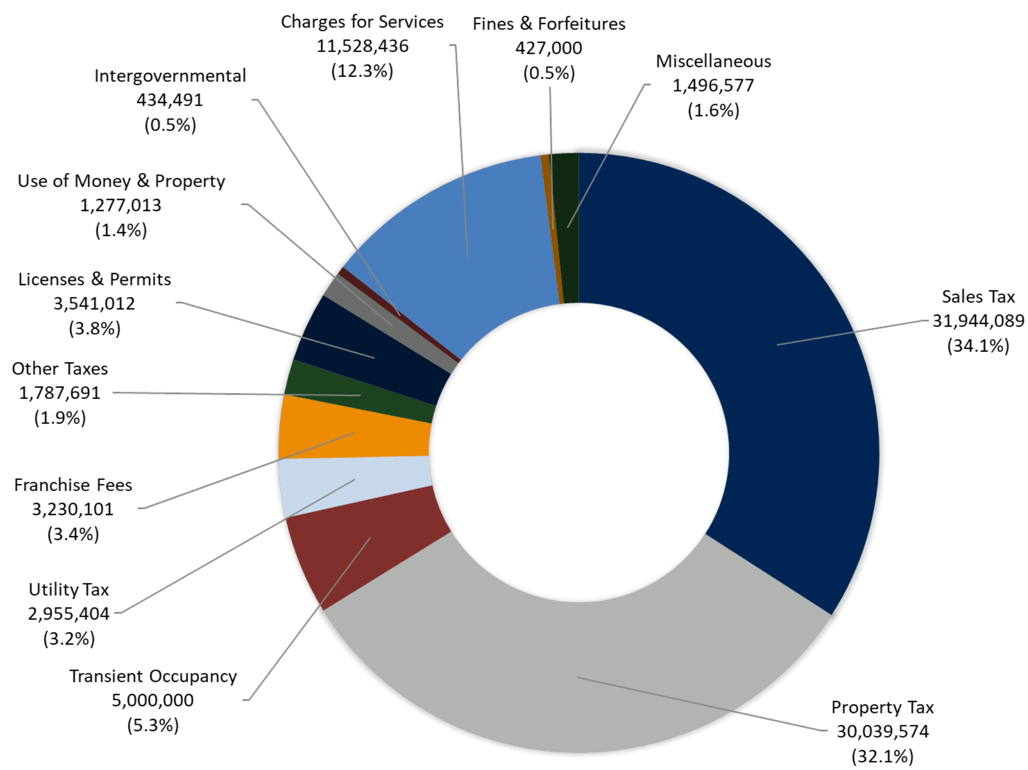
As shown in the chart below, FY 2022-23 revenues are estimated at $93.7 million, a 4.5% increase over the FY 2021-22 Adopted Budget.

GENERAL FUND REVENUE SUMMARY					
REVENUES	2019-20 Actuals	2020-21 Actuals	2021-22 Adopted	2022-23 Proposed	Percent Change
Sales Tax	35,657,215	42,576,587	27,855,559	31,944,089	14.7%
Property Tax	26,606,844	28,277,839	27,840,341	30,039,574	7.9%
Transient Occupancy	7,286,083	2,141,058	3,000,000	5,000,000	66.7%
Utility Tax	3,182,087	3,074,358	3,245,447	2,955,404	-8.9%
Franchise Fees	3,418,909	3,368,287	3,380,986	3,230,101	-4.5%
Other Taxes	1,402,002	2,639,000	1,248,720	1,787,691	43.2%
Licenses & Permits	4,692,845	4,068,238	3,140,195	3,541,012	12.8%
Use of Money & Property	4,189,877	4,608,556	1,249,220	1,277,013	2.2%
Intergovernmental	747,942	1,451,076	5,093,946	434,491	-91.5%
Charges for Services	11,986,328	11,345,222	12,047,922	11,528,436	-4.3%
Fines & Forfeitures	327,833	129,394	225,000	427,000	89.8%
Miscellaneous	11,681,108	2,308,118	1,320,555	1,496,577	13.3%
TOTAL REVENUES	**111,179,073**	**105,987,732**	**89,647,891**	**93,661,388**	**4.5%**

Note: Revenues from Investment Fund (Fund 130) not included in table

The majority of Cupertino's General Fund operating revenues are generated by sales taxes (34%) and property taxes (32%), followed by charges for services (12%) and Transient Occupancy Tax (5%). The chart on the next page illustrates the sources of General Fund revenue by category.

General Fund Revenues By Category



The FY 2022-23 General Fund revenue estimates are discussed by category in the material that follows.

SALES & USE TAX	
FY 20-21 Actual	42,576,587
FY 21-22 Adopted	27,855,559
FY 21-22 Estimate	27,855,559
FY 22-23 Proposed	31,944,089
% of General Fund	34.24%
% Change from FY 21-22 Adopted	14.68%

Agency	Sales Tax Distribution
State	3.938%
VTA	0.125%
City of Cupertino	1.000%
County General Purpose	3.813%
County Transportation	0.250%
Total:	**9.125%**

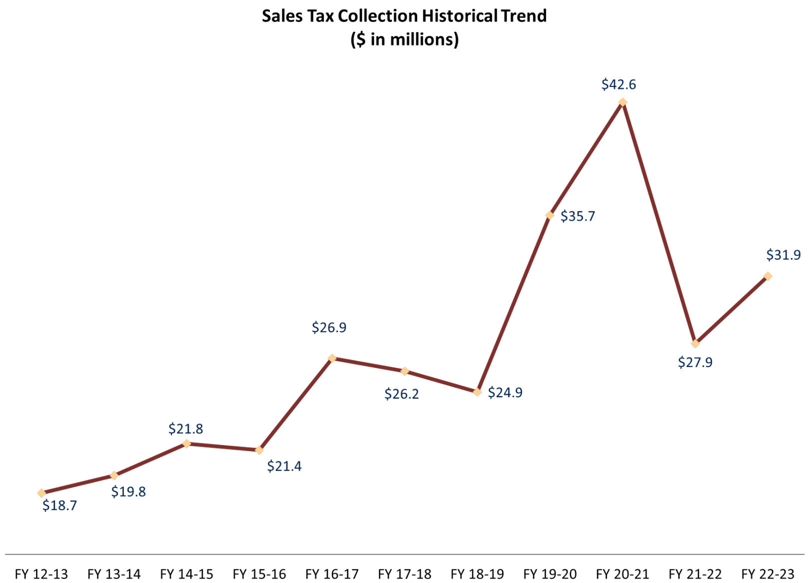
Sales and Use Tax, commonly referred to as just the "sales tax" has two components: (1) an excise tax imposed on retailers for the privilege of selling tangible personal property, and (2) an excise tax imposed on a person and applies to purchases from out-of-state vendors that are not required to collect tax on their sales. The proceeds of sales and use taxes imposed within the boundaries of Cupertino are distributed by the State to various agencies, with the City of Cupertino receiving one percent, as shown in the chart to the right. Staff will continue to monitor competing interests for the City's ¼ cent sales tax imposed on local governments as a potential new source of revenue for affordable housing and transportation. If the City decides to include a similar ballot measure at a future election, subject to voter approval, the City has an opportunity to retain local control over the additional sales tax proceeds.

The City's sales tax revenues are generated from five principal economic categories: business-to-business 53% (includes electronic equipment and software manufacturers and distributors), state and county pools 32%, restaurants and hotels 7%, general consumer goods 4%, and fuel and service stations and other 1.6%.

Our two largest sales taxpayers in the business-to-business category represent a large part of that sector and can significantly affect sales tax trends. Corporate and business technology spending drove growth in this sector in FY 2019-20 and FY 2020-21 as businesses transitioned to remote work during the pandemic. Business-to-business sales tax is expected to decrease as pandemic restrictions end and the State transitions to a new normal. Given these trends, the City's FY 2022-23 sales tax revenue is expected to be lower than the historic highs seen in FY 2020-21.

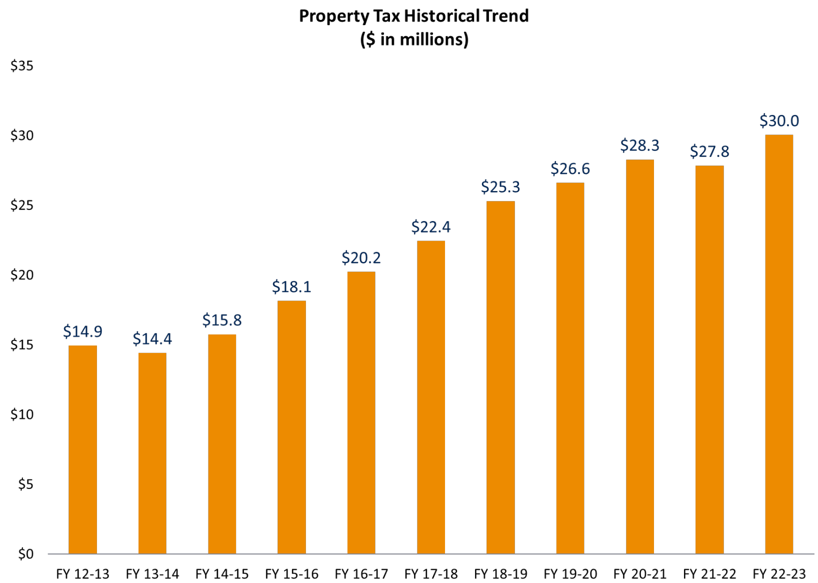
Sales tax receipts increased by 26.1% in FY 2016-17 due to a one-time $3.5 million payment related to the closeout of the triple flip and took a slight dip of 2.8% in FY 17-18. Additionally, the City's sales tax revenues spiked to historic highs in both FY 2019-20 and FY 2020-21; however, the City is considering it one-time. Sales tax revenues are estimated to generate $32 million in FY 2022-23, up 14.7% from the FY 2021-22 Adopted Budget.

The swift reaction by consumers and businesses to the outbreak of COVID-19 in 2020 created significant fluctuations for the City's industry groups. While restaurants and hotels, general consumer goods, and automotive industry groups were severely impacted, the City's business-to-business and County pool allocation share increased substantially. This was brought on by shelter-in-place mandates throughout the State, which reduced sales tax revenues for restaurants and brick and mortar retail; thereby increasing online sales. Additionally, the conversion to remote work increased the demand for computer and electronic equipment, which also increased the City's sales tax revenues. As the State continues toward recovery and businesses continue their opening, it is anticipated that the City's restaurant and hotels, general consumer goods, and automotive industry groups will recover and increase. However, these increases will only slightly mitigate the anticipated declines in the City's business-to-business and County pool share allocation as online sales fall from recent historic highs. Although there is much uncertainty about the City's sales tax revenues, the City anticipates positive annual sales tax increases in the future. As information and data continue to become available, staff will bring forth updates and adjustments regularly as necessary.



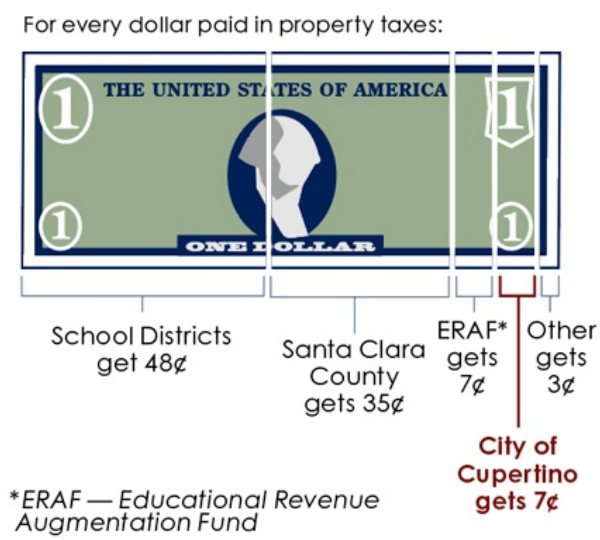
PROPERTY TAX	
FY 20-21 Actual	28,277,839
FY 21-22 Adopted	27,840,341
FY 21-22 Estimate	27,840,341
FY 22-23 Proposed	30,039,574
% of General Fund	33.24%
% Change from FY 21-22 Adopted	7.90%

Under current law, property is assessed at actual full cash value with the maximum levy being 1% of the assessed valuation. The assessed value of real property that has not changed ownership can be adjusted by the change in the California Consumer Price Index (CCPI) up to a maximum of 2% per year. Property that changes ownership, property that is substantially altered, newly-constructed property, State-assessed property, and personal property are assessed at the full market value in the first year and subject to the two percent cap, thereafter.



In 1978, voters approved the passage of Proposition 13, which froze property tax rates and limited the amount that rates could increase each year. Cupertino had one of the lowest property tax rates in Santa Clara County receiving only $0.02 for every $1.00 paid. Subsequent legislation required Counties to provide "no/low tax" cities with a Tax Equity Allocation (TEA) equal to 7% of the property tax share, however, the property tax distribution for the no/low tax cities in Santa Clara County was limited to 55% of what other TEA cities in the State received.

Property Tax



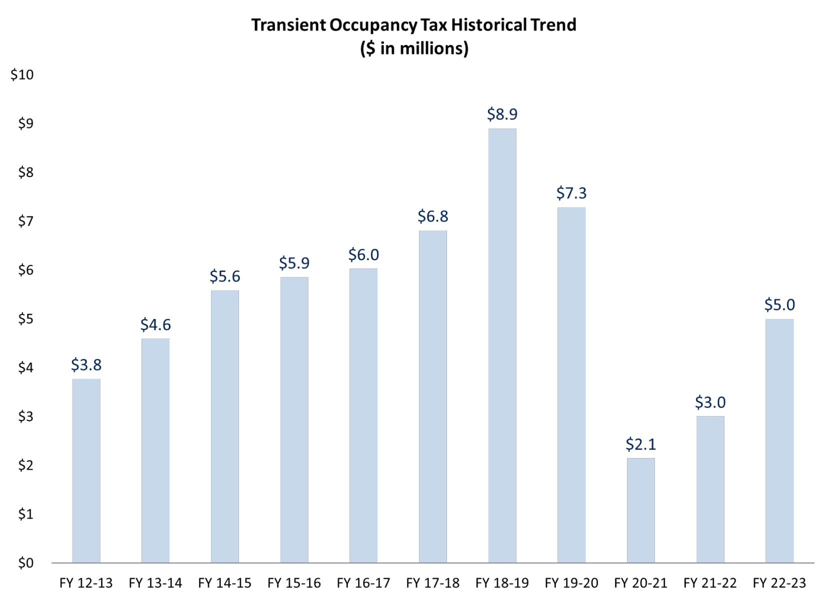
In FY 2006-07 West Valley cities won the passage of State legislation which restored a portion of TEA property tax revenue. This TEA change provided an additional $1.35 million in property tax annually and increased the City's share of property taxes to 5.6%. In conjunction with three other West Valley cities, Cupertino continued legislative efforts to gain parity with other no/low property tax cities in the State. In FY 2015-16, Governor Brown agreed to restore TEA revenues over a five-year period. In FY 2019-20 TEA was fully restored, and Cupertino kept approximately 7.0% of property tax revenues in FY 2019-20 compared to 6.72% in FY 2018-19.

Additionally, Educational Revenue Augmentation Fund (ERAF), a mechanism enacted in July of 1992 by the State Legislature to shift local tax revenues from cities, counties, and special districts to a State control ERAF, absorbs the shift-back of the TEA.

The City experienced a net taxable value increase of 3.5% for the 2021-22 tax roll. The bulk of the increase was due to increases in residential properties by $829 million, or 4.9%. This category makes up 61.1% of the net taxable value. Unsecured property tax decreased by $700 million, or 28.9%. This category makes up 6.0% of the net taxable value. Lastly, commercial property values increased by $573 million, or 7.6%. This category makes up 28.3% of the net taxable value. The effects of COVID-19 on housing prices in Cupertino and the Bay Area have yet to be seen. Although values continue to increase, staff will monitor the potential impact of long-term and even permanent remote work in the City and region.

TRANSIENT OCCUPANCY TAX	
FY 20-21 Actual	2,141,058
FY 21-22 Adopted	3,000,000
FY 21-22 Estimate	3,000,000
FY 22-23 Proposed	5,000,000
% of General Fund	5.53%
% Change from FY 21-22 Adopted	66.67%

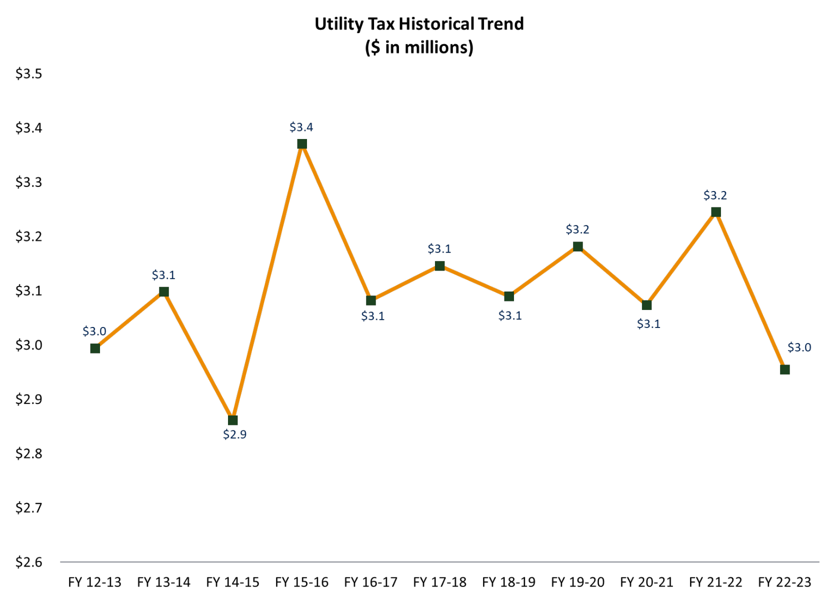
Transient occupancy taxes (TOT) are levied on hotels and short-term room rentals located in the City at the rate of 12% of room revenues. In November 2011, 83% of voters approved increasing the rate from 10% to 12%. This rate increase contributed to the upward trend shown in the TOT Historical Trend graph. TOT is expected to end FY 2021-22 at $3 million, a 40% increase from FY 20-21 actuals. The anticipated increase is due to the recent relaxation of prior pandemic-based restrictions, allowing for increased travel and the return of employees to their places of work.



TOT is projected to increase 66.7% in FY 2022-23. The City anticipates a "full-recovery" of TOT by FY 2023-24; however, the extent of the recovery is uncertain as the effect of teleworking on business travel remains to be determined. Currently, a recovery to a $7.5 million level is anticipated by FY 2023-24. With a Proposed Budget amount in FY 2022-23 of $5 million, it is clear the recovery in travel will gradual; however, staff are cautiously optimistic that this recovery could be accelerated through the continued roll out of the COVID-19 vaccination. Staff will continue to monitor these activities and bring forward adjustments and recommendations as necessary.

UTILITY TAX	
FY 20-21 Actual	3,074,358
FY 21-22 Adopted	3,245,447
FY 21-22 Estimate	3,245,447
FY 22-23 Proposed	2,955,404
% of General Fund	3.27%
% Change from FY 21-22 Adopted	-8.94%

The utility user tax (UUT), approved by voters in 1990, is assessed on gas, electricity, and telecommunication services provided within the City's jurisdiction at a rate of 2.4% of billed charges. Revenues generated from this tax can be used for general City purposes.



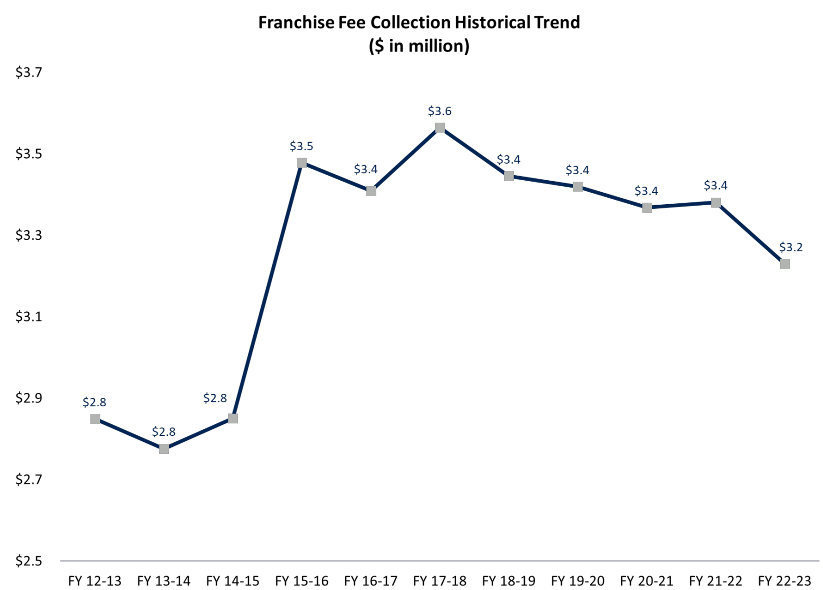
Utility User Tax Comparison	Gas/Electric	Cable	Water	Telecom
Sunnyvale	2.0%	-	-	2.0%
Cupertino	2.4%	-	-	2.4%
Mountain View	3.0%	-	-	3.0%
Los Altos	3.5%	3.2%	3.5%	3.2%
Palo Alto	5.0%	-	5.0%	4.8%
Gilroy	5.0%	5.0%	-	5.0%
San Jose	5.0%	-	5.0%	4.5%

The City's tax rate is generally lower than that of other cities within Santa Clara County, as shown in the chart above. In March 2002, voters approved extending the utility tax's sunset date from 2015 to 2030. This extension corresponded with the extended debt maturity date resulting from the refinancing of debt for capital improvement projects. To maintain tax revenues currently received from telecom services, voters passed a measure in 2009 to update the ordinance to the changing technology in this area.

FY 2021-22, UUT revenues are estimated to increase 5.6% from FY 2020-21 actuals, with projected revenues of $3.2 million due to more revenue generated from utilities being used. Budgeted revenues are expected to decrease to $3 million in FY 2022-23. This revenue source will be monitored closely as the fiscal year progresses.

FRANCHISE FEES	
FY 20-21 Actual	3,368,287
FY 21-22 Adopted	3,380,986
FY 21-22 Estimate	3,380,986
FY 22-23 Proposed	3,230,101
% of General Fund	3.57%
% Change from FY 21-22 Adopted	-4.46%

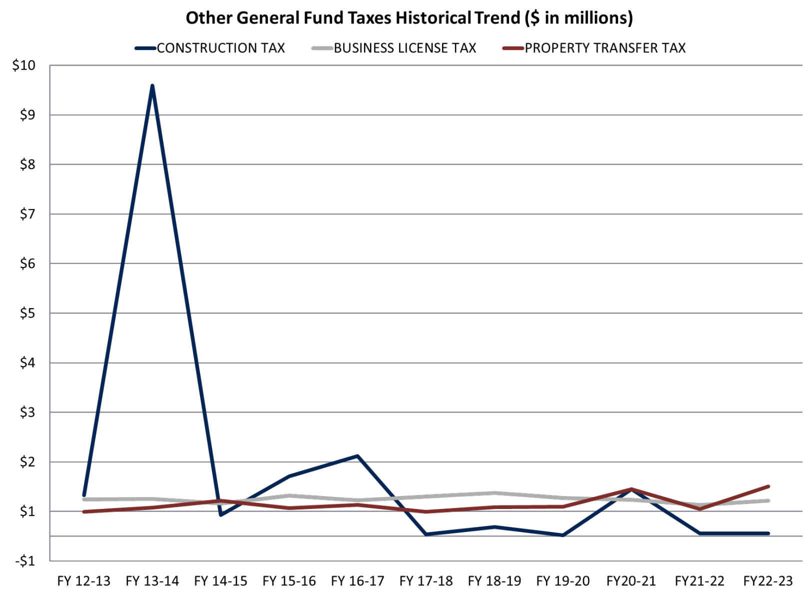
Franchise fees are received from cable, solid waste, water, gas, and electricity franchisees that operate in the City. The fees range from 1% to 12% of the franchisee's gross revenues depending on each agreement. As shown in the graph below, these revenues are relatively steady and not sensitive to economic fluctuations.



In FY 2021-22, franchise fee revenues are trending up 0.3% from FY 2020-21 actuals primarily due to an increase in electricity and water rates. Budgeted revenues are expected to remain at approximately $3 million for FY 2022-23. This revenue source will be monitored closely as the fiscal year progresses.

OTHER TAXES	
FY 20-21 Actual	2,639,000
FY 21-22 Adopted	1,248,720
FY 21-22 Estimate	1,248,720
FY 22-23 Proposed	1,787,691
% of General Fund	1.98%
% Change from FY 21-22 Adopted	43.16%

Other taxes are comprised mainly of business license taxes, construction taxes, and property transfer taxes. As shown in the graph, business license and property transfer taxes are relatively steady while construction taxes are extremely volatile and sensitive to economic fluctuations.

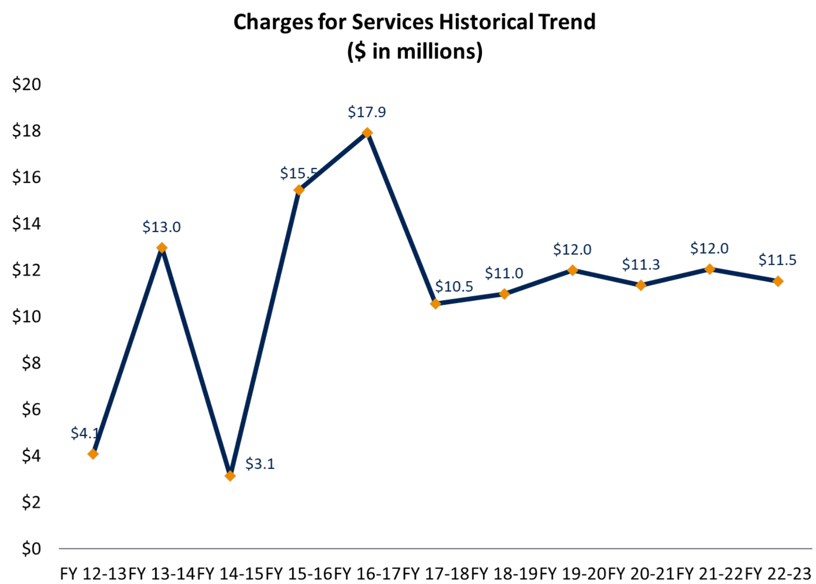


With the influx of several major construction projects beginning in 2012, revenues began increasing. The largest of the projects included the Apple Park and Main Street developments. These projects coupled with a strong housing recovery created a record year for revenues in FY 2013-14. These revenues have since returned to historic levels. In FY 2022-23, these revenues are expected to increase by 43% from the prior year to $1.8 million. This is primarily due to the projected increase from known 2021 property tax transfers. For years 2023-24 and later a growth rate is applied that is representative of the historical average rate of real property growth due to properties that have transferred ownership.

CHARGES FOR SERVICES	
FY 20-21 Actual	11,345,222
FY 21-22 Adopted	12,047,922
FY 21-22 Estimate	14,425,179
FY 22-23 Proposed	11,528,436
% of General Fund	12.31%
% Change from FY 21-22 Adopted	-4.31%

This category accounts for charges to users of City services funded by the General Fund as well as internal City-wide overhead. The City attempts to recover the cost of the services, including planning, zoning, and engineering permit processing for new property development as well as some recreation-related fees. As such, this revenue source is sensitive to economic fluctuations, as shown in the graph below. Apple Park and other large developments generated large one-time revenues in FY 2013-14 as well as FY 2015-16 and FY 2016-17.

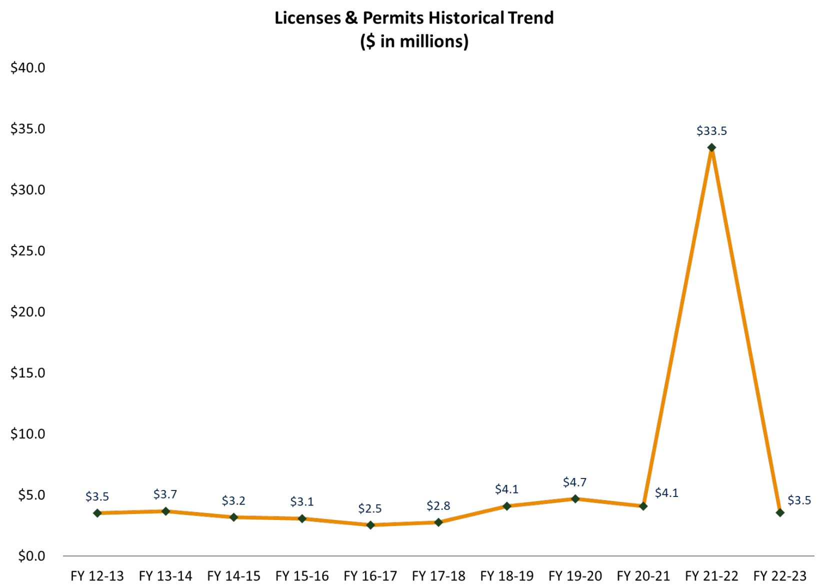
In addition, beginning in FY 2013-14, enterprise funds, internal service funds, and special funds began charging for overhead services previously subsidized by the General Fund. Some internal strategic support services (Human Resources, Finance, City Clerk, etc.) also began charging internal departments for their services to capture the true cost of providing various programs and services within City operations. After a comprehensive cost allocation plan (CAP) was approved by Council in April 2016, internal strategic support services (City Council, Facilities, Maintenance, etc.) were included. In FY 2015-16, the City's administration changed its methodology for tracking developer deposits driven by increased developer activity and, as a result, both budgets for revenues and expenses were increased by anticipated deposit amounts leading to another large increase in revenue.



Current year actuals will come in higher compared to budgeted levels due to relaxation of prior pandemic restrictions, allowing for the continued reopening of City facilities. Increases in the City fees (expected to be effective July 2022) would represent additional revenues of approximately $92,662 in the General Fund and $158,000 in the Enterprise Funds. As the City moves toward recovery, growth in charges for services revenues is anticipated in FY 2022-23.

LICENSES AND PERMITS	
FY 20-21 Actual	4,068,238
FY 21-22 Adopted	3,140,195
FY 21-22 Estimate	33,471,552
FY 22-23 Proposed	3,541,012
% of General Fund	3.92%
% Change from FY 21-22 Adopted	12.76%

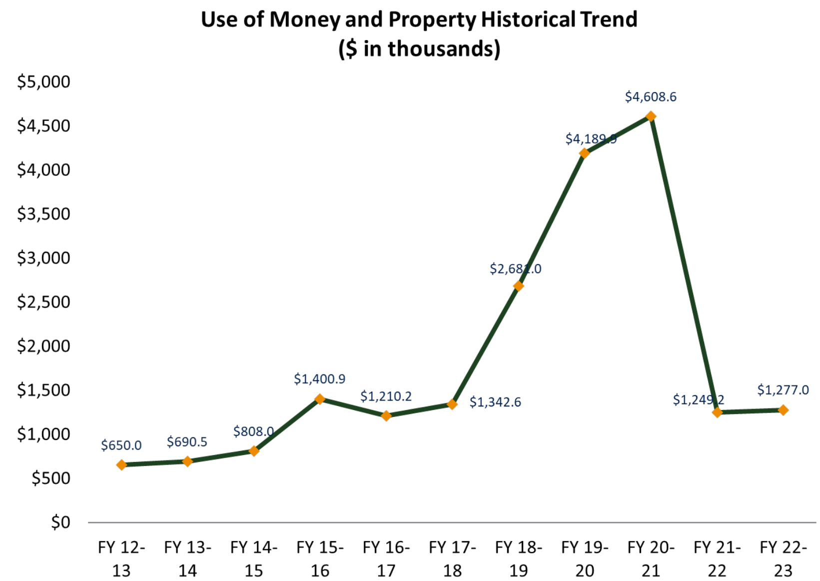
Licenses and permits include fees for reviewing building plans, building inspections, construction, tenant improvements, and commercial/residential installations for compliance with state and municipal building codes.



The Apple Park project and large residential projects (Rosebowl, Biltmore expansion, Main Street) generated significant permitting revenues in FY 2013-14. Since then, activity has slowed until FY 2018-19 when revenues came in 48.8% higher. Although this revenue source is relatively consistent from year to year, fluctuations may occur depending on the timing of projects being completed. The $33.5 million estimated amount in FY 2021-22 is due to Vallco Town Center (renamed The Rise) and its scheduled commencement in FY 2022-23. Vallco's commencement was originally scheduled in FY 2020-21 and FY 2021-22 but was postponed due to soil contamination. These revenues will be carried forward and recognized as the project progresses to completion. This revenue source is expected to reach $3.5 million in FY 2022-23.

USE OF MONEY AND PROPERTY	
FY 20-21 Actual	4,608,556
FY 21-22 Adopted	1,249,220
FY 21-22 Estimate	1,249,220
FY 22-23 Proposed	1,277,013
% of General Fund	1.41%
% Change from FY 21-22 Adopted	2.22%

The use of money and property category is comprised of General Fund interest earnings as well as facility and concession rental income of City-owned property. The City's portfolio is approximately $171.2 million. Fluctuations in this revenue category are a result of investment earnings, as rental income is fairly steady. Investment earnings were higher in FY 2019-20 and FY 2020-21 due to investment gains in the City's Section 115 Pension Trust.



Investment earnings are a function of the amount of cash available for investment, current interest rates, and composition of investments. The City's investment objectives, in order of priority, are:

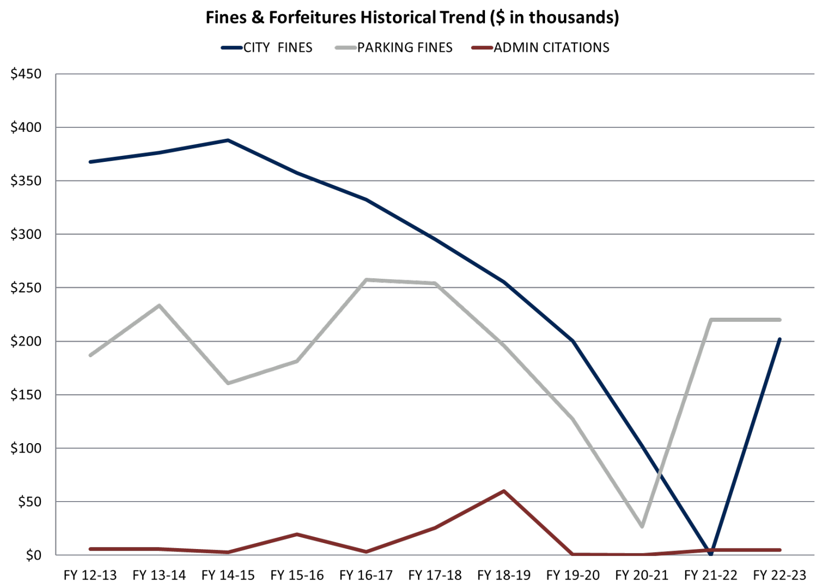
- Safety to ensure the preservation of capital
- Sufficient liquidity for cash needs
- A market rate of return consistent with the investment program

Geopolitical conflict has fueled volatility in financial markets. The conflict has exacerbated inflationary pressures, particularly in energy and commodities, and has caused tightening conditions in financial markets. While consumer spending and economic growth remain strong, an extended conflict along with elevated energy prices increases the risk of an economic fslowdown later this year. While the Federal Reserve is expected to tighten monetary policy, the Federal Open Market Committee (FOMC) has very little margin for error as it attempts to combat inflation without pushing the economy into a recession. Over the near-term, the City's investment manager, Chandler Asset Management, expects financial market volatility to remain elevated and conditions to remain tighter with heightened geopolitical risk, supply chain bottlenecks and persistent inflation, and the Federal Reserve's pivot to less accommodative monetary policy.

The FOMC raised the federal funds rate by 0.25% at their March 16th meeting to a target range of 0.25% to 0.50%. The Federal Reserve also ended their bond-buying program as expected in March, which included the purchase of treasury and agency mortgage-backed securities. Federal Reserve Chair Powell suggested that balance sheet runoff could begin as early as their next meeting in May, sooner than previously anticipated, and that the pace of the unwind will likely be faster than in the previous quantitative tightening cycle. The dot plot favors six additional rate hikes in 2022, which implies a 25 basis point rate hike at each remaining meeting this year, but the Federal Reserve hasn't ruled out incorporating one or more 50 basis point hikes to address inflation.

City staff will continue to monitor interest rates as well as economic factors in both the local as well as the national economy.

FINES AND FORFEITURES	
FY 20-21 Actual	129,394
FY 21-22 Adopted	225,000
FY 21-22 Estimate	225,000
FY 22-23 Proposed	427,000
% of General Fund	0.46%
% Change from FY 21-22 Adopted	89.78%



Fines and forfeitures account for revenues generated from vehicle, parking, and miscellaneous code violations issued by the County Sheriff and the City's Code Enforcement officers. In FY 2021-22, the revenues for City Fines were inadvertently excluded, reflecting a projected estimate of only $225,000. However, after adding an estimated $102,000 in revenues for City Fines, this revenue source is expected to reach $327,000 in FY 2021-22. Additionally, FY 2022-23 revenues are expected to increase to $427,000 due to an increase in fines as society rebounds from the pandemic.

INTERGOVERNMENTAL	
FY 20-21 Actual	1,451,076
FY 21-22 Adopted	5,093,946
FY 21-22 Estimate	10,365,946
FY 22-23 Proposed	434,491
% of General Fund	0.46%
% Change from FY 21-22 Adopted	-91.47%

Intergovernmental revenues are made up of federal, State, and regional grants, including miscellaneous intergovernmental revenue. FY 2021-22 actuals are estimated to come in significantly higher than budgeted levels due to the receipt of COVID-19 relief dollars as part of the American Rescue Plan Act of 2021. The City received $4,852,301 in FY 2020-21 and is expecting to receive $4,852,301 in FY 2021-22.

MISCELLANEOUS REVENUE	
FY 20-21 Actual	1,263,163
FY 21-22 Adopted	1,000,555
FY 21-22 Estimate	1,504,923
FY 22-23 Proposed	1,160,437
% of General Fund	1.24%
% Change from FY 21-22 Adopted	15.98%

Miscellaneous revenues account for unanticipated revenues such as donations and administrative fees. FY 2022-23 miscellaneous revenue remains relatively consistent with FY 2021-22 Adopted Budget. FY 2021-22 miscellaneous revenue is estimated to come in higher than budgeted due to a $500,000 increase in administrative fees for Community Development Department projects. These revenues will be carried forward and recognized as the project progresses to completion. The majority of the General Fund's miscellaneous revenues are due to Apple's annual donation for additional sheriff services at Apple Park.

OTHER FINANCING SOURCES	
FY 20-21 Actual	537,124
FY 21-22 Adopted	275,000
FY 21-22 Estimate	1,638,330
FY 22-23 Proposed	275,000
% of General Fund	0.30%
% Change from FY 21-22 Adopted	0.00%

Other Financing Sources generally account for refundable deposit revenues within the Community Development Department. With significant fluctuations year-over-year, staff conservatively estimate these revenues. In FY 2021-22, revenues are projected to be higher due to the carryover of refundable deposit revenues for development projects. This revenue source is expected to remain at $275,000 in FY 2022-23.

TRANSFERS IN	
FY 20-21 Actual	507,831
FY 21-22 Adopted	45,000
FY 21-22 Estimate	5,092,387
FY 22-23 Proposed	61,140
% of General Fund	0.07%
% Change from FY 21-22 Adopted	35.87%

Transfers In represent the movement of funds from one City fund to another, the General Fund in this case. In the FY 2021-22, actual transfers were higher due to $4.8 million in transfers related to the American Rescue Plan Act. In FY 2022-23, the City plans to transfer $15,000 from the City's Tree Fund to the General Fund to support ongoing tree maintenance operations.

General Fund Expenditures

Estimates for the FY 2022-23 General Fund expenditures are based upon anticipated personnel and non-personnel cost increases. This year, department budgets reflect a base budget with justified ongoing expenses, accounting for changes in personnel costs and any other anticipated/known increased costs in FY 2022-23. In addition, most budgets were given additional funds for any unexpected expenditures that are accounted for in the contingency account, which remained at 2.5% of base materials and contract services. Lastly, per the City's Reserve policy, an unassigned General Fund balance above the $500,000 maximum balance will be recommended for transfer to the Capital Reserve Fund for future capital and infrastructure projects, after year-end close and as part of the mid-year financial report.

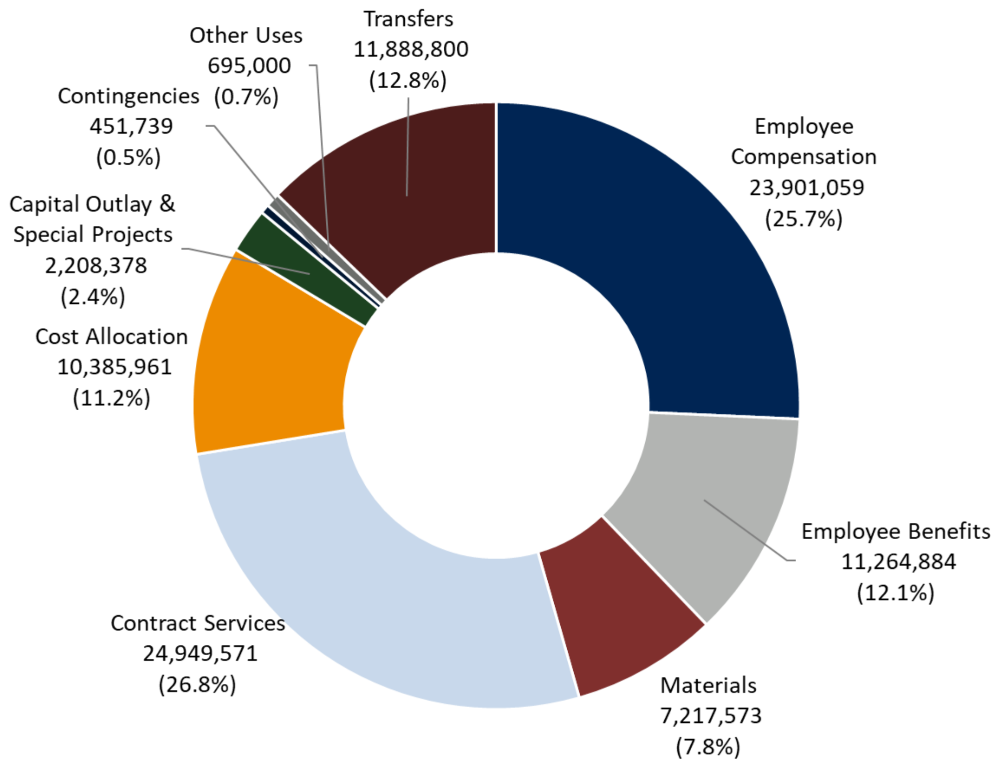
With a projected increase in unassigned fund balance for FY 2022-23 and an unexpected increase in revenues during FY 2020-21 and FY 2021-22, the City is recommending adding back a number of prior year materials and contract services requests that were deferred to mitigate the impacts of COVID-19. Additionally, financial updates will be provided on a quarterly basis to effectively communicate the City's progress toward a financial recovery from COVID-19.

As shown in the chart on the next page, FY 2022-23 expenditures are estimated at $93.0 million, which represents a 4% increase compared to the adopted budget from the prior year. This budget reflects an increase in Employee Compensation and Benefits due to negotiated salary and benefit changes as well as increased retirement costs. There is also an increase in Materials primarily attributed to an increase in software expenses, electrical, and water service charges in FY 2022-23. Additionally, there is an increase in Contract Services primarily attributed to the annual increase in the City's Law Enforcement contract with Santa Clara County Sheriff.

GENERAL FUND EXPENDITURE SUMMARY					
EXPENDITURES	2019-20 Actual	2020-21 Actual	2021-22 Adopted	2022-23 Proposed	Percent Change
Employee Compensation	18,153,833	18,441,609	21,806,721	23,901,059	9.6%
Employee Benefits	7,732,290	8,238,449	10,154,044	11,264,884	10.9%
Total Personnel Costs	**25,886,123**	**26,680,058**	**31,960,765**	**35,165,943**	**10.0%**
Non-Personnel Costs					
Materials	4,860,223	4,248,715	6,639,523	7,217,573	8.7%
Contract Services	21,528,698	21,106,602	23,773,121	24,949,571	4.9%
Cost Allocation	9,786,477	10,473,540	11,948,062	10,385,961	-13.1%
Capital Outlay & Special Projects	2,245,576	5,895,185	3,221,800	2,208,378	-31.5%
Contingencies	40	293	426,779	451,739	5.8%
Other Uses	282,038	319,444	545,000	695,000	27.5%
Total Non-Personnel	**38,703,053**	**42,043,779**	**46,554,285**	**45,908,222**	**-1.4%**
Transfers	**30,892,276**	**15,148,689**	**11,251,984**	**11,888,800**	**5.7%**
TOTAL EXPENDITURES	**95,481,452**	**83,872,526**	**89,767,034**	**92,962,965**	**3.6%**

The largest General Fund operating expenditure categories include Employee Compensation and Benefits (38%), Contract Services (27%), Transfers Out (13%), and Cost Allocation (11%) as illustrated in the FY 2022-23 General Fund Expenditures by Category chart.

General Fund Expenditures by Category



Personnel Costs

Personnel costs total $35.2 million in FY 2022-23, comprising 38% of General Fund expenditures. These costs are made up of salaries and compensation for benefitted and part-time staff (68%), retirement benefits (20%), and other fringe benefits (11%), including health coverage.

Costs were calculated by taking an extract of payroll system information. This individual position-level information was then reviewed, corrected, and updated by each department to include current vacancies and filled positions, accurate salary step status, as well as any position reallocations. Also, all categories of benefit costs in the coming year were projected. The most recent retirement plan and health plan information for each position was also updated from the payroll system. Not included in personnel costs is the ongoing contribution for retiree healthcare which is included in the transfers category.

CalPERS retirement rates are projected to increase to $6.9 million, an increase of $0.7 million, or 11.5%, per the most recent actuarial valuation report from CalPERS. Under the Funding Risk Mitigation Policy, the 21.3% return in FY 2020-21 triggered a reduction in the discount rate from 7% to 6.8%. Pension contribution projections are reflected in the General Fund forecast section of the budget.

A total of 223 FTEs are proposed in FY 2022-23, an increase of 12 FTEs, or 5.7%, from the FY 2021-22 Amended Budget. The positions are summarized below:

Position	Department	FTE
FY 2021-22 Adopted Budget		**208.75**
FY 2021-22 Amended Budget		
City Attorney	Administration	1.00
Senior Assistant City Attorney	Administration	1.00
Community Relations Coordinator	Administration	0.25
FY 2021-22 Amended Budget		**211.00**
FY 2022-23 Proposed Budget		
Administrative Assistant	Administration	1.00
Communications Analyst (Limited-Term)	Administration	1.00
Budget Manager	Administrative Services	1.00
Purchasing Manager	Administrative Services	1.00
Community Outreach Specialist	Parks and Recreation	1.00
Senior Planner	Community Development	2.00
Associate Planner	Community Development	1.00
Code Enforcement Officer	Community Development	1.00
Office Assistant	Community Development	1.00
Management Analyst	Public Works	1.00
Maintenance Worker Lead	Public Works	1.00
FY 2022-23 Proposed Budget		**223.00**

Non-Personnel

Non-personnel costs total $45.9 million in FY 2022-23, comprising 49% of General Fund budgeted appropriations. These costs are primarily made up of Contract Services (27%), Cost Allocation charges (11%), Materials (8%), and Capital Outlays and Special Projects (2%). Costs were developed from the base budget created in FY 2021-22 with justified ongoing expenses and adjustments for any other anticipated/known increased costs in FY 2022-23. One-time projects were moved to a separate category in FY 2013-14 to ensure that expenditure trends reflect ongoing expenditure needs. In FY 2017-18, a concerted effort was made to differentiate costs related to special projects and capital outlays that are required to be depreciated. A special projects series was created in the contracts section of accounts for any new special projects going forward.

With a projected increase in total unassigned fund balance for FY 2022-23, the City is able to add back a number of FY 2021-22 materials and contract services that were cut due to COVID-19 which is reflected in the 9% increase in materials and 5% increase in contract services compared to the prior year. Although program contingencies will remain reduced from 5% of budgeted General Fund materials and contract services to 2.5%. Program contingencies have been allocated proportionately among operating programs based on each program's share of General Fund budget for materials and contract services. The City Manager Contingency is the second level of contingency established for unexpected expenditures that may occur over the program contingency. In FY 2020-21, the City Manager Contingency was reduced from 2.5% of budgeted General Fund materials and contract services to $75,000. This brings total contingencies for the General Fund to approximately 2.5% of budgeted materials and contract services. This percentage is lower than the best practices adopted by the Governmental Accounting Standards Board (GASB) which recommended 5-15% contingency. Program contingency budgets may be used to cover unanticipated program expenses at the department's discretion, while the use of the City Manager Contingency will require City Manager approval. The Sheriff's contract is excluded from the contingency calculation.

General Fund Transfers

Transfers out represent transfers of monies out of the General Fund to various other funds. These transfers provide resources to the receiving fund to support operating and capital expenditures. For FY 2022-23, the following transfers are proposed.

Receiving Fund	Description	Amount
Special Revenue Funds	Sidewalk, Curb, and Gutter Maintenance	3,000,000
Debt Service Funds	Annual Debt Payment	2,675,800
Capital Projects Funds	Capital Improvement Program	2,500,000
Enterprise Funds	Recreation	376,000
Internal Service Funds	IT Infrastructure, Compensated Absences	3,337,000
TOTAL		**$ 11,888,800**

General Fund Fund Balance

As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. Fund balances for governmental funds are made up of the following:

Nonspendable Fund Balance – includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example, prepaid items, property held for resale, and long-term notes receivable.

Restricted Fund Balance – includes amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.

Committed Fund Balance – includes amounts that can only be used for the specific purposes determined by formal action of the City's highest level of decision-making authority, the City Council. Commitments may be changed or lifted only by the City taking the same formal action (resolution) that imposed the constraint originally.

Assigned Fund Balance – comprises amounts intended to be used by the City for specific purposes that are neither restricted nor committed. The intent is expressed by the City Council or official to which the City Council has delegated the authority to assign amounts to be used for specific purposes. Through the adopted budget, the City Council establishes assigned fund balance policy levels and also sets the means and priority for the City Manager to fund these levels.

Unassigned Fund Balance – is the residual classification for the General Fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose.

In circumstances when an expenditure may be made for which amounts are available in multiple fund balance classifications, the fund balance in General Fund will generally be used in the order of restricted, unassigned, and then assigned reserves. In other governmental funds, the order will generally be restricted and then assigned.

General Fund Classification of Fund Balance

Classification	2019-20 Actual	2020-21 Actual	2021-22 Adopted Budget	2021-22 Year End Projected	2022-23 Proposed Budget
Nonspendable					
Loans Receivable	449,341	444,346	441,000	444,000	440,000
Advance to Other Funds	-	-	3,000,000	3,000,000	-
Total Nonspendable	**449,341**	**444,346**	**3,441,000**	**3,444,000**	**440,000**
Restricted					
Public Safety Power Shutoff	217,551	-	-	-	-
CASp Certification and Training	13,193	13,392	13,982	13,982	13,982
Section 115 Trust	12,725,224	18,491,004	20,491,004	20,820,778	22,820,778
Public Access Television	1,368,789	1,418,472	1,368,789	1,368,789	1,368,789
Total Restricted	**14,324,757**	**19,922,868**	**21,873,775**	**22,203,549**	**24,203,549**
Committed					
Economic Uncertainty	19,000,000	19,000,000	24,000,000	24,000,000	24,000,000
Capital Projects Reserve	-	-	10,000,000	10,000,000	10,000,000
Sustainability Reserve	127,891	127,891	127,891	127,891	127,891
Total Committed	**19,127,891**	**19,127,891**	**34,127,891**	**34,127,891**	**34,127,891**
Assigned					
Reserve for Encumbrances	3,176,882	4,906,139	4,906,139	4,906,139	3,000,000
Total Assigned	**3,176,882**	**4,906,139**	**4,906,139**	**4,906,139**	**3,000,000**
Total Unassigned	**37,426,951**	**52,449,546**	**32,243,487**	**32,243,487**	**35,852,049**
TOTAL FUND BALANCE	**74,505,822**	**96,850,790**	**96,592,292**	**96,925,066**	**97,623,489**

All Funds Summary

This section provides information on the FY 2022-23 Special Revenue, Debt Service, Capital Project, Enterprise, and Internal Service Funds budgets including, expenditure and revenue highlights, transfers to other funds, reserve funds, and the financial forecast.

Revenue Estimates

Estimates for FY 2022-23 fund balance and individual revenue accounts are based upon a careful examination of the collection history and patterns as they relate to such factors as seasonality and performance in the economic environment that the City is most likely to encounter in the coming year. Each source of revenue can be influenced by external (outside of the City's control) and/or internal factors. The FY 2022-23 revenue estimates are built on the assumption that the economy will experience conservative growth as society recovers from the pandemic.

Special Revenue Funds

Special Revenue Funds account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. Special Revenue Funds include the Park Dedication, Transportation, Storm Drain, and Environmental Management/Clean Creeks funds.

Revenue

Revenue sources are projected to increase by $3.5 million. Increases in taxes are offset by decreases in transfers from the General Fund. Other Taxes is increasing due to housing mitigation revenue from the office project at 19191 Vallco Parkway. Transfers are decreasing because the Capital Improvement Program is not included in the Proposed Budget. The Capital Improvement Program will be considered in a separate study session and included in the Adopted Budget.

REVENUE SOURCES	2020-21 Actuals	2021-22 Projected	2022-23 Proposed Budget
Other Taxes	383,333	3,691,092	8,203,431
Use of Money & Property	81,809	4,208	5,548
Intergovernmental	4,040,627	3,805,888	3,151,797
Charges for Services	1,718,950	1,547,078	1,512,209
Miscellaneous Revenue	1,921,936	87,057	-
Fines and Forfeitures	5,065	10,000	68,669
Transfers In	4,200,000	10,322,824	3,000,000
Total Revenue Sources	**$ 12,351,720**	**$ 19,468,147**	**$ 15,941,654**

Expenditures

Expenditure uses are projected to decrease by $13.3 million primarily due to a decrease in Capital Outlays because the Capital Improvement Program is not included in the Proposed Budget.

EXPENDITURE USES	2020-21 Actuals	2021-22 Projected	2022-23 Proposed Budget
Employee Compensation	1,590,963	1,670,873	2,050,572
Employee Benefits	764,490	835,875	1,037,760
Materials	1,235,228	1,045,588	1,001,596
Contract Services	430,662	1,893,027	1,152,665
Cost Allocation	1,046,834	1,325,945	1,191,567
Capital Outlays	2,875,144	14,205,003	1,038,000
Special Projects	2,881,301	2,989,965	3,717,268
Contingencies	-	16,745	29,681
Transfers Out	15,000	581,000	-
Total Expenditure Uses	**$ 10,839,622**	**$ 24,564,022**	**$ 11,219,109**

Fund Balance

Fund balance represents fund savings and is calculated by taking the beginning balance and then adding the difference between revenue and expenditures to arrive at the ending fund balance. It is projected to increase by $4.7 million due to an increase in housing mitigation revenue from the office project at 19191 Vallco Parkway.

CHANGES TO FUND BALANCE	2020-21 Actuals	2021-22 Projected	2022-23 Proposed Budget
Beginning Balance	**31,995,174**	**33,507,272**	**28,411,397**
Change in Fund Balance	1,512,098	(5,095,875)	4,722,545
Ending Balance	**$ 33,507,272**	**$ 28,411,397**	**$ 33,133,942**

Debt Service Fund

The Debt Service Fund provides for the payment of principal, interest, and associated administrative costs incurred with the issuance of debt instruments for the City's Public Facilities Corporation. The budget funds the Corporation's annual payment of principal and interest on the City Hall/Community Hall/Library Certificates of Participation (COP) that will be paid off by July 1, 2030.

On September 29, 2020, the City's 2020A Certificates of Participation (2020 COPs) were successfully sold in order to refund the City's 2012 Certificates of Participation for debt service savings. The refunding generated net present value savings of approximately $3.14 million, 11.61% of refunded par, and a True Interest Cost of 0.72%. Savings to the City's General Fund amounts to approximately $494,000 per year for the next 10 years or almost $5 million in total savings.

Revenue

Revenue sources are relatively unchanged from the last fiscal year. The $2.7 million transfer from the General Fund funds the annual payment of principal and interest for the City's debt. Increased activity in FY 2020-21 is due to the refinancing.

REVENUE SOURCES	2020-21 Actuals	2021-22 Projected	2022-23 Proposed Budget
Use of Money & Property	332	-	-
Other Financing Sources	25,918,704	-	-
Transfers In	3,169,138	2,621,000	2,675,800
Total Revenue Sources	**$ 29,088,174**	**$ 2,621,000**	**$ 2,675,800**

Expenditures

Expenditure uses are relatively unchanged from last fiscal year. The $2.7 million in expenditures represents the annual payment of principal and interest for the City's debt. Increased activity in FY 2020-21 is due to the refinancing.

EXPENDITURE USES	2020-21 Actuals	2021-22 Projected	2022-23 Proposed Budget
Debt Service	30,710,696	2,676,000	2,675,800
Transfers Out	-	-	-
Total Expenditure Uses	**$ 30,710,696**	**$ 2,676,000**	**$ 2,675,800**

Fund Balance

Fund balance represents fund savings and is calculated by taking the beginning balance and then adding the difference between revenue and expenditures to arrive at the ending fund balance. Fund balance is relatively unchanged from last fiscal year.

CHANGES TO FUND BALANCE	2020-21 Actuals	2021-22 Projected	2022-23 Proposed Budget
Beginning Balance	**1,685,872**	**63,350**	**8,350**
Change in Fund Balance	(1,622,522)	(55,000)	-
Ending Balance	**$ 63,350**	**$ 8,350**	**$ 8,350**

Capital Project Funds

This fund pays for the acquisition of major capital facilities and/or construction of major capital projects.

Revenue

Revenue sources are projected to decrease by $21.5 million because the Capital Improvement Program is not incorporated into the Proposed Budget. The Capital Improvement Program will be presented to City Council in a separate study session and included in the Adopted Budget. Transfers from the General Fund to the Capital Reserve are budgeted for this year. In the past, transfers to the Capital Reserve were not budgeted and instead adjusted at mid-year. Given the City's aging infrastructure and capital projects needs, the City is allocating $2.5 million in transfers annually to the Capital Reserve throughout the forecast to facilitate Capital Improvement Program budget forecasting.

REVENUE SOURCES	2020-21 Actuals	2021-22 Projected	2022-23 Proposed Budget
Use of Money and Property	(472,493)	-	-
Intergovernmental	-	3,781,952	-
Charges for Services	-	-	-
Miscellaneous	2,347,037	2,640,930	-
Transfers In	6,430,000	17,557,048	2,500,000
Total Revenue Sources	**$ 8,304,544**	**$ 23,979,930**	**$ 2,500,000**

Expenditures

Expenditure uses are projected to decrease by $20.3 million because the Capital Improvement Program is not incorporated into the Proposed Budget. The $175,000 is budgeted for annual capital project planning and support.

REVENUE SOURCES	2020-21 Actuals	2021-22 Projected	2022-23 Proposed Budget
Use of Money and Property	(472,493)	-	-
Intergovernmental	-	3,781,952	-
Charges for Services	-	-	-
Miscellaneous	2,347,037	2,640,930	-
Transfers In	6,430,000	17,557,048	2,500,000
Total Revenue Sources	**$ 8,304,544**	**$ 23,979,930**	**$ 2,500,000**

Fund Balance

Fund balance represents fund savings and is calculated by taking the beginning balance and then adding the difference between revenue and expenditures to arrive at the ending fund balance. It is projected to decrease by $2.3 million because the Capital Improvement Program is not incorporated into the Proposed Budget.

CHANGES TO FUND BALANCE	2020-21 Actuals	2021-22 Projected	2022-23 Proposed Budget
Beginning Balance	**40,551,134**	**37,038,174**	**40,507,117**
Change in Fund Balance	(3,512,960)	3,468,943	2,325,000
Ending Balance	**$ 37,038,174**	**$ 40,507,117**	**$ 42,832,117**

Enterprise Funds

Enterprise Funds are set up for the provision of specific services that are funded directly by fees charged for those goods or services. Enterprise Funds include the Resource Recovery, Sports Center, Blackberry Farm Golf Course, and Recreation funds.

Revenue

Revenue sources are projected to decrease by $0.9 million due to a decrease in fees and a decrease in transfers from the General Fund. Fee revenue estimates are conservative as the timing and extent of recovery to pre-COVID level activity are difficult to measure.

REVENUE SOURCES	2020-21 Actuals	2021-22 Projected	2022-23 Proposed Budget
Use of Money & Property	437,303	707,000	700,000
Intergovernmental	14,916	14,000	14,000
Charges for Services	4,415,295	5,423,578	5,058,792
Miscellaneous Revenue	-	10,000	10,000
Transfers In	2,849,000	886,801	376,000
Total Revenue Sources	**$ 7,716,514**	**$ 7,041,379**	**$ 6,158,792**

Expenditures

Expenditure uses are projected to decrease by $2.0 million due to a decrease in cost allocation charges and a decrease in special projects.

EXPENDITURE USES	2020-21 Actuals	2021-22 Projected	2022-23 Proposed Budget
Employee Compensation	994,004	1,871,811	1,786,450
Employee Benefits	411,936	647,092	605,466
Materials	276,213	423,939	500,003
Contract Services	2,634,890	4,984,096	4,804,188
Contingencies	-	134,527	132,526
Cost Allocation	923,089	1,034,107	789,939
Special Projects	87,941	1,569,038	183,553
Transfers Out	177,606	275,159	177,606
Total Expenditure Uses	**$ 5,505,679**	**$ 10,939,769**	**$ 8,979,731**

Net Position

Enterprise funds carry net position instead of fund balance. Net position is calculated by taking the beginning balance and then adding the difference between revenue and expenditures to arrive at the ending net position. However, some of these resources are not liquid and represent capital assets. These monies are generally accumulated to support capital replacement and/or expansion needs. It is projected to decrease by $2.8 million due to decreased revenues and transfers.

CHANGES TO NET POSITION	2020-21 Actuals	2021-22 Projected	2022-23 Proposed Budget
Beginning Balance	9,253,822	11,464,658	7,566,268
Change in Net Position	2,210,836	(3,898,390)	(2,820,939)
Ending Balance	**$ 11,464,658**	**$ 7,566,268**	**$ 4,745,329**

Internal Service Funds

Internal Service Funds are used for areas where goods or services are provided to other departments or governments on a cost-reimbursement basis. Internal Service Funds include the Information & Technology, Vehicle & Equipment Replacement, Workers' Compensation, Compensated Absences & Long-Term Disability, and Retiree Medical funds.

Revenue

Revenue sources are projected to increase by $1.1 million due to increased transfers from the General Fund for IT costs.

REVENUE SOURCES		2020-21 Actuals		2021-22 Projected		2022-23 Proposed Budget
Use of Money & Property		33,297		-		-
Charges for Services		4,443,083		4,678,201		4,053,851
Miscellaneous		9,799		-		-
Transfers In		490,000		1,652,359		3,337,000
Other Financing Uses		336,362		356,839		436,145
Total Revenue Sources	**$**	**5,312,540**	**$**	**6,687,399**	**$**	**7,826,996**

Expenditures

Expenditure uses are projected to increase by $0.1 million.

EXPENDITURE USES		2020-21 Actuals		2021-22 Projected		2022-23 Proposed Budget
Employee Compensation		1,722,848		1,736,052		1,803,287
Employee Benefits		1,881,727		2,015,467		2,190,096
Materials		924,646		1,227,490		1,418,575
Contract Services		1,267,879		1,678,005		1,798,390
Cost Allocation		52,343		60,817		62,042
Special Projects		140,684		1,594,337		1,127,646
Contingencies		-		51,910		80,425
Other Financing Uses		968,791		969,469		968,791
Total Expenditure Uses	**$**	**6,958,919**	**$**	**9,333,547**	**$**	**9,449,252**

Net Position

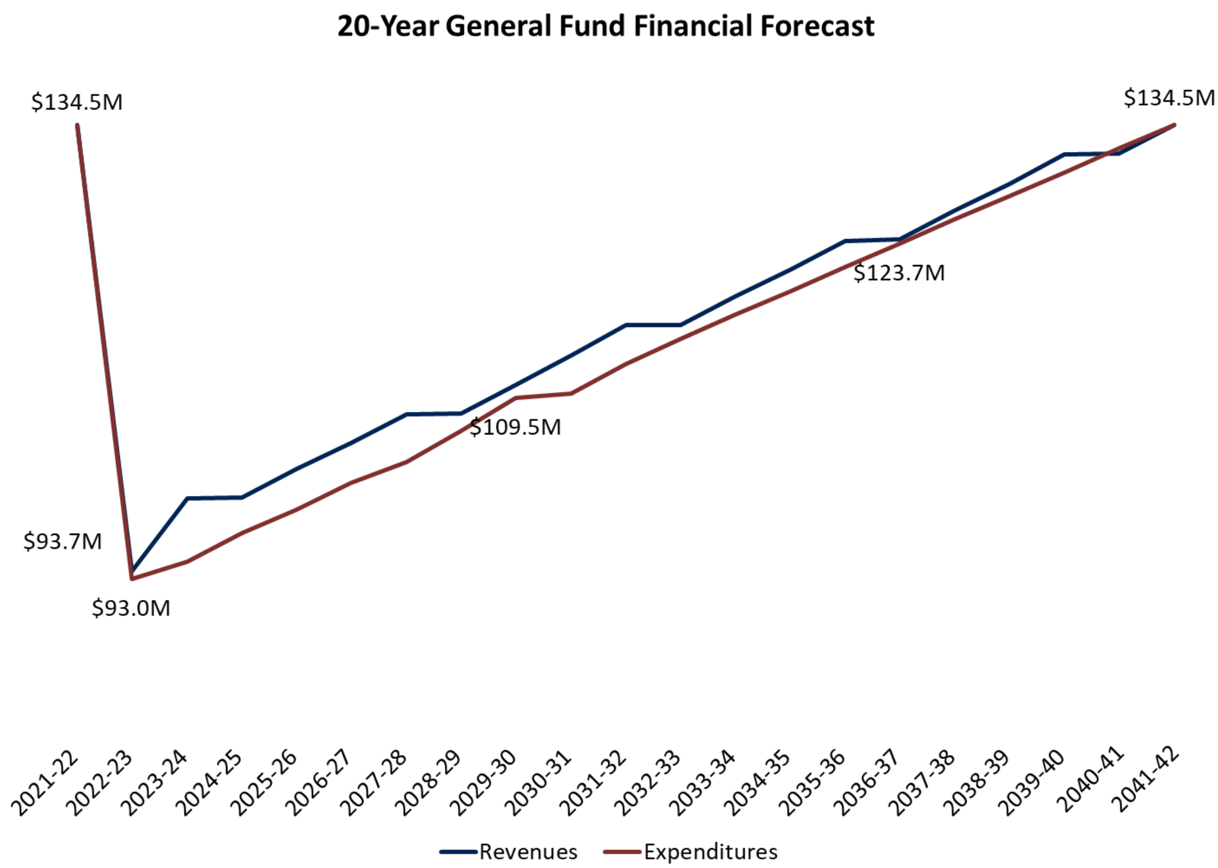
Internal Service Funds carry net position instead of fund balance. Net position is calculated in the same manner as fund balance, taking the beginning balance and then adding the difference between revenue and expenditures to arrive at the ending net position. However, some of the resources are not liquid and represent capital assets. These monies are generally accumulated to support capital replacement and/or expansion needs. It is projected to decrease by $1.6 million due to revenues being higher than expenditures. Expenditures are increasing due to a technology refresh.

CHANGES TO NET POSITION		2020-21 Actuals		2021-22 Projected		2022-23 Proposed Budget
Beginning Balance		**7,959,449**		**6,313,071**		**3,666,923**
Change in Net Position		(1,646,379)		(2,646,148)		(1,622,256)
Ending Balance	**$**	**6,313,071**	**$**	**3,666,923**	**$**	**2,044,667**

General Fund Forecast

Overview

City staff develops medium-term (5-year) and long-term (20-year) forecasts as part of the budget process. While long-term projections are inherently less reliable than short-term projections, they can help detect structural budget issues early. As shown in the following chart, revenues will start to fall short of expenditures in FY 2040-41 because revenues are growing slower than expenditures.



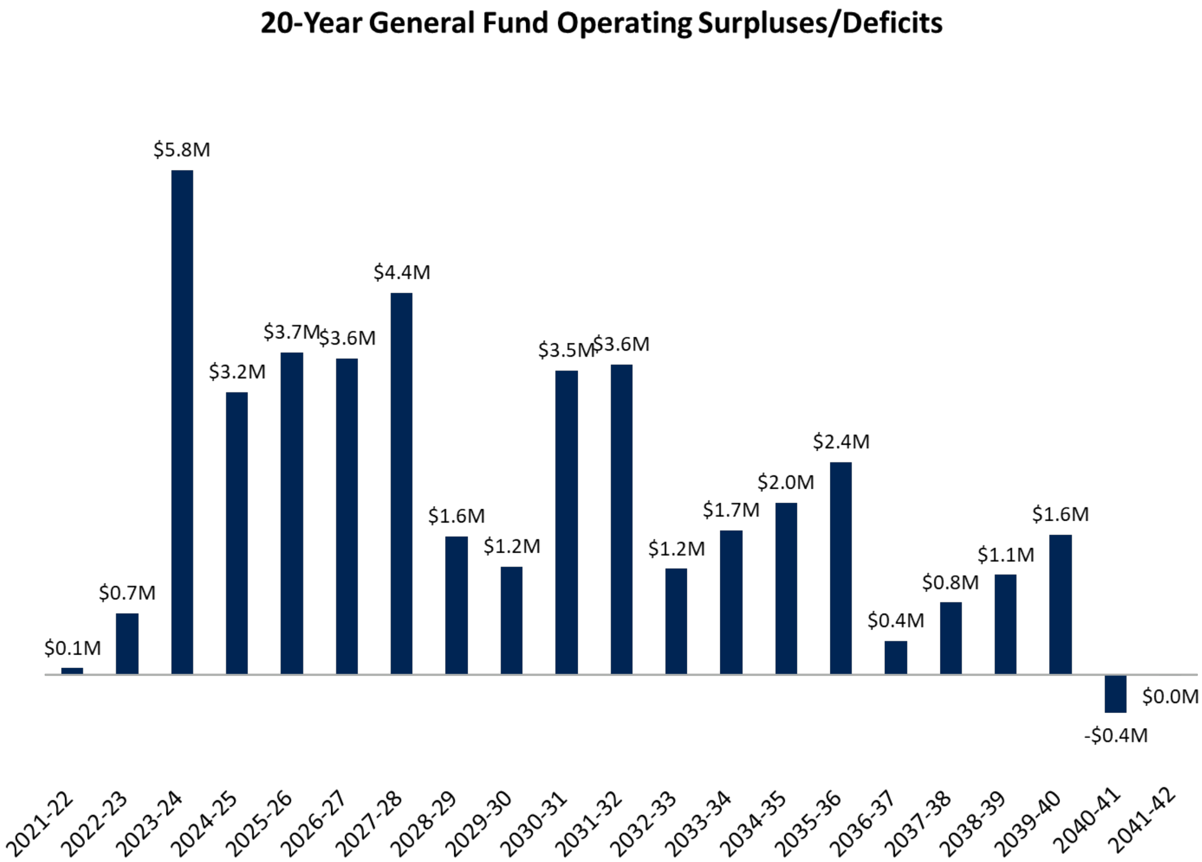
Revenue growth is primarily driven by sales, property, and transient occupancy taxes.

- Sales tax revenues experienced tremendous growth in FY 2019-20 and FY 2020-21 as the pandemic lead to increases in business-to-business and online sales. Sales tax is expected to be lower in FY 2022-23 compared to FY 2020-21 as the State emerges from the pandemic. In addition, the California Department of Tax and Fee Administration (CDTFA) is currently auditing the City's sales tax revenues. The impact of this audit is unknown but has the potential to have a significant impact on the City's sales tax revenues. Once more information is known, staff will bring updates to Council.
- Property tax—while currently strong—may be affected if telecommuting impacts property values in the Bay Area.
- Transient occupancy tax revenues have been slow to recover and are expected to gradually recover to 75% of pre-pandemic levels. Telecommuting may reduce business travel, reducing the demand for City hotels.

Expenditure growth is primarily driven by:

- Requests for additional staffing to meet the demand for City services.
- Increases in the City's Law Enforcement contract with the Santa Clara County Sheriff's Office.

Revenues continue to grow at a slower pace than expenditures, with annual operating surpluses projecting to decrease, as shown below.



Although it is difficult to estimate the full impacts of COVID-19 long-term, the City's fiscal foundation remains strong. With the General Fund's Economic Uncertainty Reserve intact and a healthy unassigned fund balance, the City is poised to withstand the impacts of revenue volatility. As the City emerges from the pandemic, staff will continue to closely monitor the situation and adjust when necessary. Staff intends on keeping the City Council and community informed with regular updates. Having the latest information and up-to-date data will allow for informed decision-making.

Forecast Methodology

A financial forecast is a planning tool that helps staff identify trends and anticipate the long-term consequences of budget decisions. The forecast is instrumental in modeling the effects of retirement costs, employee compensation, and revenues on the City's budget.

The forecast is not a plan but a model based on cost and revenue assumptions updated regularly as new information becomes available. Of these components, cost projections, which are based on known costs, are relatively reliable. On the other hand, revenue forecasts are based on assumptions related to future economic conditions, which are fraught with uncertainty. Economic forecasts change frequently and demonstrate the difficulties of committing to a particular prediction of the future. For this reason, staff updates the forecast regularly.

While economic conditions are the primary drivers for economically sensitive revenues such as sales tax and property tax, other factors drive non-economically sensitive categories such as utility user taxes and franchise fees. These revenue categories are more heavily impacted by utility rate changes, energy prices, and consumption levels. Collections from local, state, and federal agencies are primarily driven by grant and reimbursement funding available from these agencies. As a result, these revenues experience no significant net gain or loss during economic expansions or slowdowns. All revenue projections are based upon a careful examination of the collection history and patterns related to seasonality and the economic environment the City is most likely to encounter in the future. Staff also considered potential COVID-19 impacts in determining the most reasonable estimated figures.

A discussion of both the national and local economic outlooks used to develop the revenue estimates for the FY 2022-23 forecast is included below. To create the revenue forecasts, the City reviewed national, state, and regional economic forecasts from multiple sources, including the Congressional Budget Office, California's Legislative Analyst's Office (LAO), and the Center for Continuing Study of the California Economy (CCSCE). To develop the sales tax, property tax, and transient occupancy tax (TOT) revenue projections, the City worked with HdL Companies, a tax consultant.

The City's Consumer Price Index (CPI) forecasts are an average of State and County CPI from:

- UCLA Anderson Forecast for the Nation and California
- California Department of Transportation's California County-Level Economic Forecast

In 2019, the City worked with UFI (Urban Futures, Inc.), a financial advisory and consulting firm, to:

- Review, update, and enhance the City's baseline financial forecast.
- Evaluate fiscal strategies including potential local revenue measures.
- Develop capital financing options, structures, and estimates for identified projects.
- Prepare an analysis of city charter costs/benefits related to fiscal activities.

This forecast includes the updates and enhancements that UFI has made to the City's baseline financial forecast.

National Economic Outlook

Real gross domestic product (GDP) increased at an annual rate of 6.9 percent in the fourth quarter of 2021, following an increase of 2.3 percent in the third quarter. The increase was revised down 0.1 percentage points from the "second" estimate released in February. The acceleration in the fourth quarter was led by an acceleration in inventory investment, upturns in exports and residential fixed investment, and an acceleration in consumer spending. In the fourth quarter, COVID-19 cases resulted in continued restrictions and disruptions in the operations of establishments in some parts of the country. Government assistance payments in the form of forgivable loans to businesses, grants to state and local governments, and social benefits to households all decreased as provisions of several federal programs expired or tapered off.

Geopolitical conflict has fueled volatility in financial markets. The conflict has exacerbated inflationary pressures, particularly in energy and commodities, and has caused tightening conditions in financial markets. While consumer spending and economic growth remain strong, an extended conflict along with elevated energy prices increases the risk of an economic slowdown later this year. While the Federal Reserve is expected to tighten monetary policy, the Federal Open Market Committee (FOMC) has very little margin for error as it attempts to combat inflation without pushing the economy into a recession. Over the near term, the City's investment manager, Chandler Asset Management, expects financial market volatility to remain elevated and conditions to remain tighter with heightened geopolitical risk, supply chain bottlenecks and persistent inflation, and the Federal Reserve's pivot to a less accommodative monetary policy.

As the City moves forward through the pandemic and more information becomes available, staff will bring forward updates and adjustments to City Council regularly as necessary.

Cupertino Economic Outlook

Despite strong economic performance continuing in Silicon Valley and Cupertino pre-COVID, data from the State of California Employment Development Department indicates significant impacts resulting from the virus.

Due to the timing of property appraisals entering the assessor's role, the City does not anticipate significant impacts to property tax revenues in FY 2022-23. Property tax, while stable currently, could be affected if remote work impacts property values in the Bay Area. Although strong in previous years, construction activity will continue to flatten out as recent large development projects, notably Apple Park, are now complete. Given the level of volatility surrounding the pandemic, it is difficult to estimate the timing of significant projects that could positively impact the City's revenues.

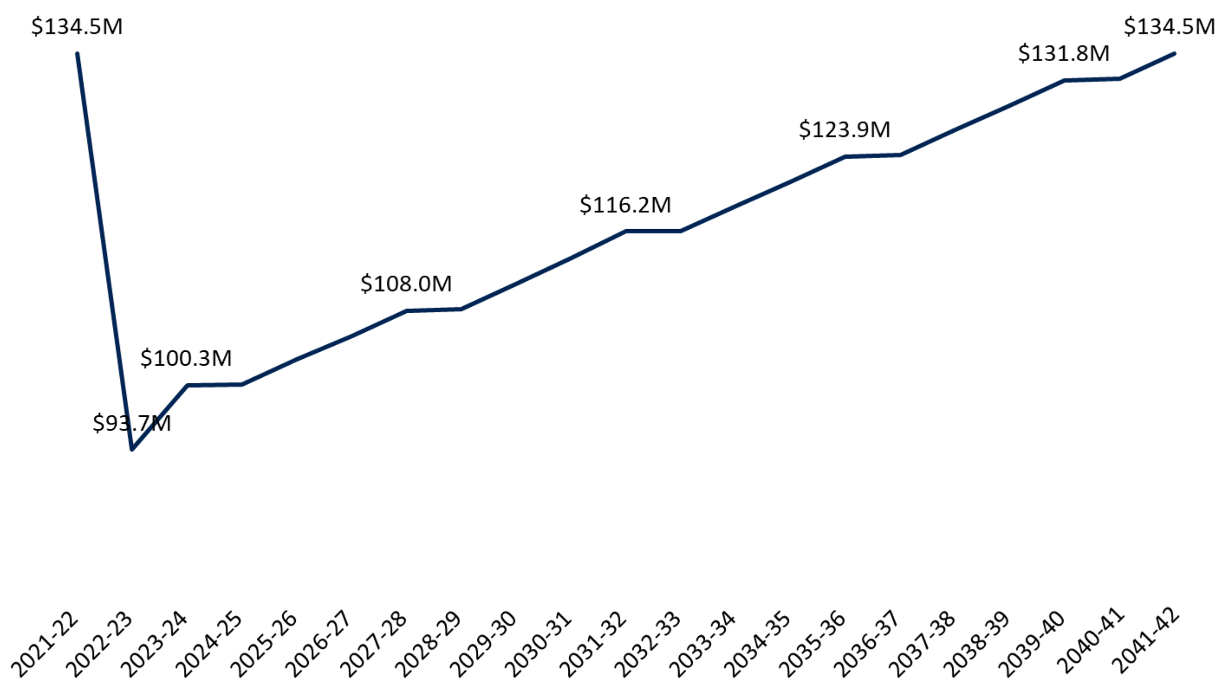
Revenues

The City's top three revenue sources continue to be property tax, sales tax, and transient occupancy tax (TOT). While this will continue to be true, the City expects revenues to be below the highs in FY 2020-21.

As shown in the chart below, General Fund revenues are expected to be $93.7 million in FY 2022-23 and increase through the forecast. Sales tax is projected to decrease from the record highs of FY 2020-21. Transient occupancy tax is projected to recover to a new normal gradually. Property tax is anticipated to increase in FY 2022-23. Other revenue sources consider assumptions ranging from no growth to conservative growth.

The National Bureau of Economic Research (NBER), an American private nonprofit research organization, defines the beginning and ending dates of recessions. The NBER defines a recession as "a significant decline in economic activity spread across the economy, lasting more than two quarters which is 6 months, normally visible in real gross domestic product (GDP), real income, employment, industrial production, and wholesale-retail sales. Since World War II, recessions have lasted an average of 11.1 months and have occurred, on average, about every 58.4 months (4.8 years). As a result, the forecast assumes a recession every 4 years where revenues remain flat while expenditures continue to increase.

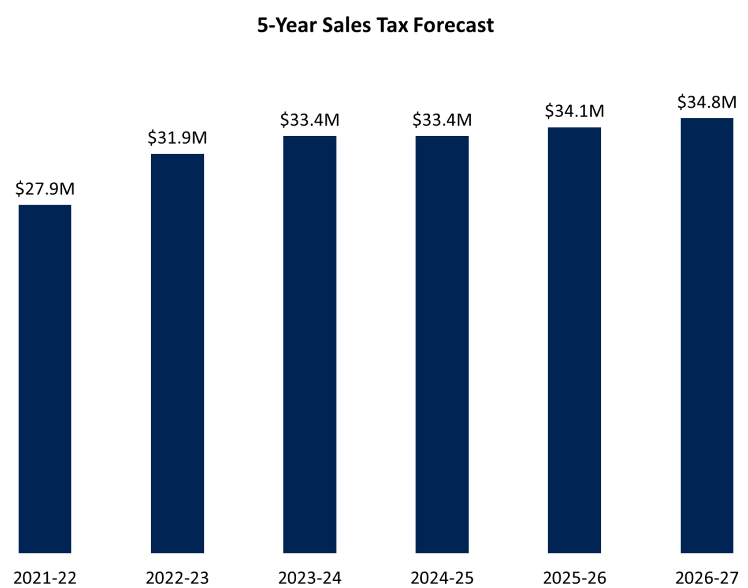
20-Year General Fund Revenue Forecast



FIVE-YEAR GENERAL FUND REVENUES FORECAST	2021-22 Estimate	2022-23 Proposed	2023-24 Forecast	2024-25 Forecast	2025-26 Forecast	2026-27 Forecast
REVENUES						
Sales Tax	27,855,559	31,944,089	33,374,226	33,374,226	34,084,183	34,793,274
Property Tax	27,840,341	30,039,574	31,309,702	31,309,702	32,280,957	33,261,335
Transient Occupancy Tax	3,000,000	5,000,000	7,500,000	7,500,000	7,769,397	8,015,889
Utility Tax	3,245,447	2,955,404	2,975,245	2,975,245	2,995,136	2,995,095
Franchise Fees	3,380,986	3,230,101	3,323,379	3,323,379	3,414,110	3,411,699
Other Taxes	1,248,720	1,787,691	1,850,260	1,850,260	1,896,517	1,892,816
Licenses and Permits	33,471,552	3,541,012	3,558,717	3,558,717	3,576,511	3,576,511
Use of Money and Property	1,249,220	1,277,013	2,709,697	2,798,840	2,899,972	3,007,056
Intergovernmental	10,365,946	434,491	242,853	242,853	244,067	245,288
Charges for Services	14,425,179	11,528,436	11,848,938	11,848,938	12,156,215	12,463,336
Fines and Forfeitures	225,000	427,000	427,000	427,000	427,000	427,000
Miscellaneous	1,504,923	1,160,437	1,220,975	1,220,975	1,272,539	1,323,814
Transfers In	5,092,387	61,140	-	-	-	-
Other Financing Sources	1,638,330	275,000	-	-	-	-
TOTAL REVENUES	**134,543,590**	**93,661,388**	**100,340,993**	**100,430,137**	**103,016,605**	**105,413,113**

Sales Tax

Sales tax is the City's largest revenue source. Sales taxes are collected at the point of sale and remitted to the California Department of Tax and Fee Administration (CDTFA), formerly the Board of Equalization. The CDTFA allocates tax revenue owed to the City in monthly payments.



Sales tax revenues increased significantly in FY 2020-21 due to increases in the City's business-to-business industry and online sales. Business-to-business revenues reached record highs as businesses transitioned to remote work as a result of the pandemic. Additionally, due to Shelter-in-Place orders, brick and mortar retail sales decreased while online sales increased. However, the City believes this increase is one-time in nature due to the pandemic.

As the economy recovered from the depths of the pandemic, sales tax revenues from the general consumer goods, restaurants and hotels, and fuel and service stations industries rose in FY 2021-22. However, the future growth rate for sales tax revenue is expected to slow markedly. Surging inflation, a dramatic jump in the global price of crude oil due to geopolitical conflict, and the Federal Reserve's tightening monetary policy will be headwinds in 2022. This is expected to result in weakening consumer sentiment and continued, but decelerating, sales tax growth into 2023.

In FY 2022-23, sales tax revenues are projected to be $31.9 million, a decrease from the highs in FY 2020-21. Sales tax revenues are projected to increase by an average annual growth rate of 1.9% in the forecast. Staff used conservative estimates for business and industry, general consumer goods, restaurants and hotels, and state and county pools.

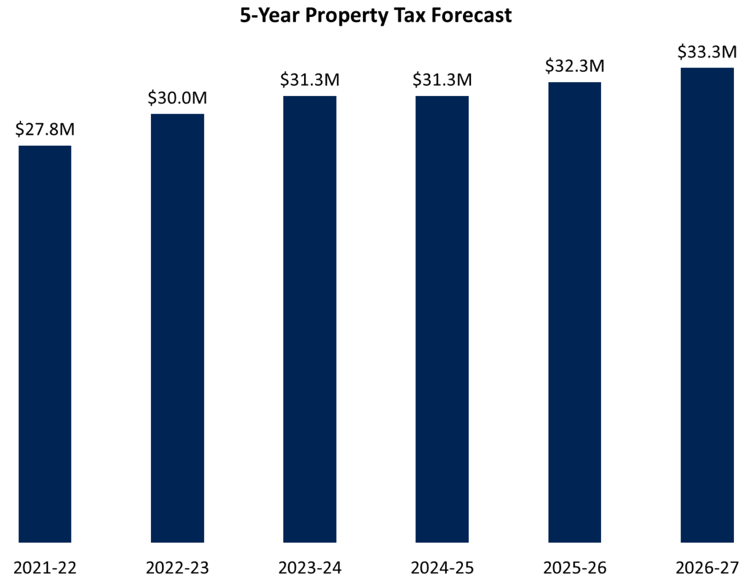
The City's sales tax revenues face concentration risk due to the dependence on a single industry. The largest industry group, business-to-business (B2B), is sensitive to economic forces. In particular, the City's two largest sales tax sources—both technology companies—account for a large portion of the City's total sales tax revenues. Sales tax revenue is reported two quarters in arrears, providing the City with about six months to react if this revenue starts to decline.

Another risk is the California Department of Tax and Fee Administration (CDTFA) sales tax audit. The CDTFA is currently auditing the City's sales tax revenues. The impact of this audit is unknown but has the potential to have a significant impact on the City's sales tax revenues. Once more information is known, staff will bring updates to Council.

Given the volatility of B2B revenue, which accounts for the majority of the City's sales tax revenue, a key goal of the City's long-term fiscal strategic plan is to diversify its sales tax sources. Recently completed development projects such as Nineteen800 and Main Street have boosted retail sales and can help reduce the City's reliance on B2B revenue.

Property Tax

Property taxes are anticipated to remain stable in the near term, but it is unknown how potential remote work might impact property taxes in the long term. With remote work, people are rethinking where they choose to live. As people no longer need to live close to the office, demand for residential real estate in urban areas may decrease. Companies can reduce office space if fewer employees are working at the office, decreasing demand for commercial office space.



Property tax revenues are projected to be $30.0 million in FY 2022-23 and increase by an average annual growth rate of 2.5% in the forecast. This moderate forecast is based on various factors, including historical trends for the City and projections for the region. Historically, property tax has increased at an average annual growth rate of 11%. However, this moderate forecast projects a much lower growth rate because no major development projects are assumed. Major development projects, such as Main Street and Apple Park, were significant contributors to the historical growth in property tax revenues.

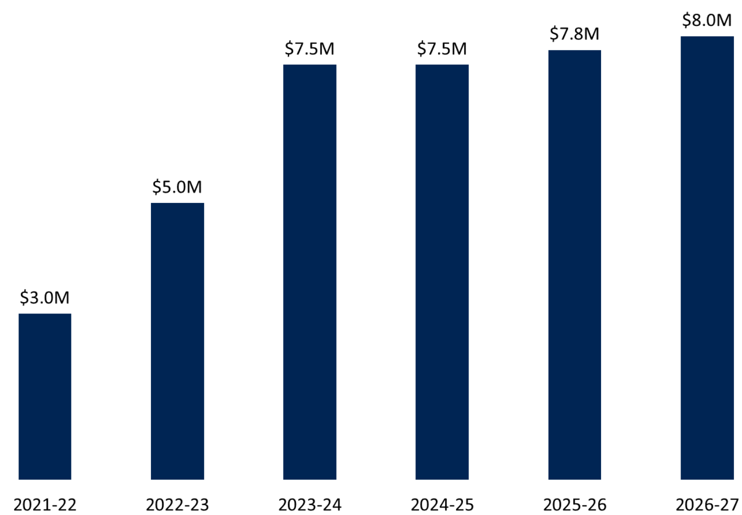
Transient Occupancy Tax

Transient occupancy tax (TOT) revenues fell dramatically as the pandemic reduced travel. TOT revenues were $8.9 million in FY 2018-19 and $7.3 million in FY 2019-20, falling to $2.1 million in FY 2020-21. Transient occupancy taxes rely heavily on business travel. As businesses become accustomed to remote work, business travel may be permanently affected. If business travel fails to rebound, TOT revenues will be significantly affected.

While leisure travel has recovered much sooner than expected, business travel has not recovered as quickly. Staff is cautiously optimistic business travel will increase gradually over the next few years.

The City anticipates a recovery of TOT revenues by FY 2023-24; however, it is unknown whether business travel will return to pre-COVID levels. This forecast assumes that TOT revenues will recover to 75% of pre-COVID levels, or $7.5 million, in FY 2023-24 and gradually increase from the new normal.

5-Year Transient Occupancy Tax Forecast



TOT revenues are projected to be $5.0 million in FY 2022-23. In the forecast, TOT is projected to increase at an average annual growth rate of 2.6%. Beginning in FY 2023-24, the City used a moderate forecast based on historical tax collections. This moderate forecast assumes slower growth than historical trends, given that no additional hotels are expected to open. De Anza Hotel and Cupertino Village Hotel are not included in the forecast as they have not been permitted yet.

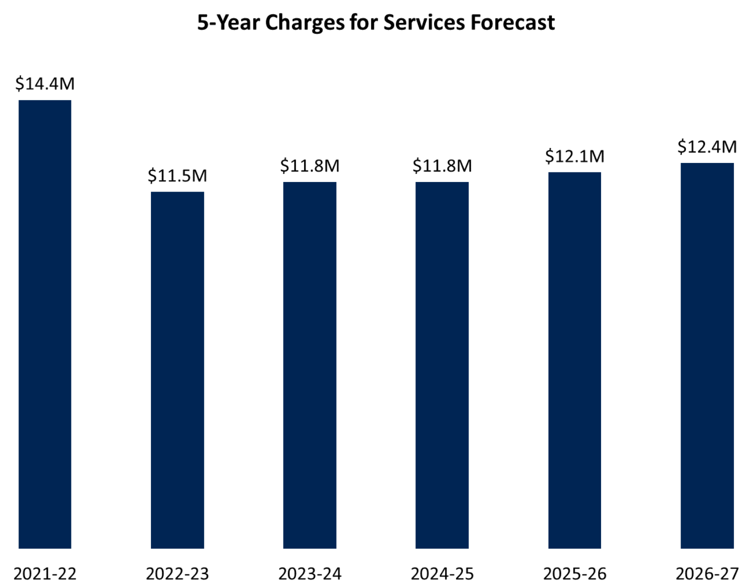
TOT revenues are impacted by the tax rate charged on hotels in the City, the occupancy rate of the hotels, and the average daily room rates (ADR) of the hotels. TOT revenues are highly correlated with B2B revenue, as TOT revenues in Cupertino are primarily driven by business travel. Before the pandemic, occupancy rates were currently at record levels given the City's strong local economy. However, given the dependence on business travel, shifts in travel habits or economic conditions could significantly impact this revenue source.

Licenses and Permits

Licenses and permits are forecasted to decrease in FY 2022-23 due to reduced development activity but increase slightly in the out-years. Licenses and permits revenue is projected to grow at a rate of 0.3% each year. Revenues are based on forecasts of California residential building permits, non-residential building permits, and construction payrolls from the UCLA Anderson Forecasts for the Nation and California. Out of prudence, this forecast does not reflect any major development projects that are awaiting approval. If new development projects are approved, staff will update this forecast accordingly.

Charges for Services

Revenues from charges for services have decreased from their FY 2016-17 levels, primarily due to a decrease in development activity.



In FY 2020-21, revenues from charges for services decreased due to Parks & Recreation Department's programs being affected by the COVID-19 pandemic. During the COVID-19 pandemic, the City's recreation facilities were shut down due to the Stay-at-Home order issued by the Santa Clara County Public Health Department in mid-March 2020. As COVID-19 restrictions have lifted, programs and events have resumed.

Charges for Services revenues are projected to increase at an average annual growth rate of 2.0%. Other Service Fees, Cost Allocation Plan Charges for Services, and General Service Fees are projected to increase by 2.8% based on full-time salary growth. Planning Fees and Engineering Fees are based on construction and development factors, including California residential building permits, non-residential building permits, and construction payrolls from the UCLA Anderson Forecasts for the Nation and California. This forecast does not assume any major development projects that are awaiting approval.

Other Revenue

Utility taxes are forecasted to increase by an annual average growth rate of 0.4% based on historical trends. In recent years, increases in rates have been offset by decreases in consumption.

Franchise fees are projected to increase by an average annual growth rate of 1.7% based on a trend of historical data.

Other taxes are made up of construction, property transfer, and business license tax revenue. Revenue is projected to increase by an average of State and County CPI.

Use of money and property is expected to grow at a rate of 0.5% each year based on the City's current conservative investment strategy and low-interest rates. The Section 115 Pension Trust is expected to grow at the discount rate of 6.3%.

Intergovernmental revenues are projected to grow at a rate of 0.5% each year.

Fines and Forfeitures are forecasted to remain constant in the forecast.

Miscellaneous revenues are forecasted to increase by CPI each year.

Non-operational revenues (Transfers and Other Financing Sources) are not assumed in the forecast.

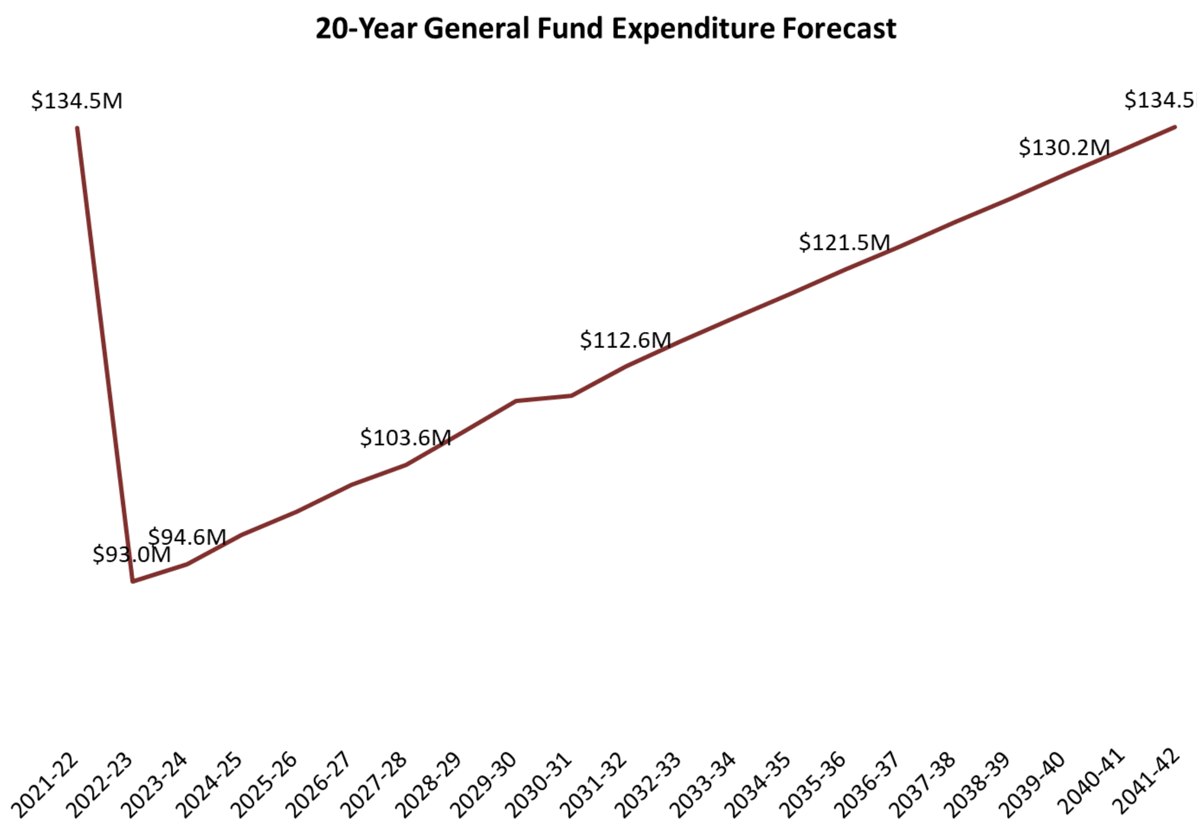
Expenditures

In FY 2019-20, the City developed a zero-based budget. Staff analyzed every function of the City for its needs and costs. Staff built the budget starting from a zero base and justified all costs. This best practice resulted in base budget savings.

For FY 2022-23, the City updated the prior year's base budget. Materials were increased by CPI and contracts were updated based on contractual obligations. Ongoing costs that were approved during the prior fiscal year were also added to the base budget.

The forecast was developed based on actual expenditures in prior years and FY 2022-23 projections. The forecast also included the following factors: CPI, construction and development activity, and CalPERS Normal Cost and Unfunded Liability projections. The forecast is adjusted to account for one-time changes and budget adjustments throughout the year.

To manage expenditure growth, the City is considering budget-balancing strategies such as the use of the City’s Section 115 Trusts to fund pension and OPEB costs.



FIVE-YEAR GENERAL FUND EXPENDITURES FORECAST	2021-22 Estimate	2022-23 Proposed	2023-24 Forecast	2024-25 Forecast	2025-26 Forecast	2026-27 Forecast
EXPENDITURES						
Employee Compensation	22,397,686	23,901,059	24,529,069	25,203,687	25,896,763	26,608,849
Employee Benefits	10,384,127	11,264,884	11,612,940	11,796,622	11,503,083	11,558,667
Salary Savings	-	-	(986,422)	(1,009,681)	(1,019,650)	(1,040,210)
Personnel Costs	**32,781,813**	**35,165,943**	**35,155,587**	**35,990,627**	**36,380,195**	**37,127,306**
Materials	7,488,719	7,217,573	7,470,188	7,679,353	7,871,337	8,052,378
Contract Services	24,807,968	24,949,571	26,170,528	27,270,498	28,337,447	29,392,114
Cost Allocation	11,948,062	10,385,961	10,671,575	10,965,043	11,266,582	11,576,413
Capital Outlay & Special Projects	30,152,147	2,208,378	2,373,773	2,440,238	2,501,244	2,558,773
Contingencies	424,379	451,739	403,881	415,190	425,570	435,358
Other Uses	766,855	695,000	-	-	-	-
Non-Personnel Costs	**75,588,130**	**45,908,222**	**47,089,945**	**48,770,322**	**50,402,180**	**52,015,036**
Transfers	**26,099,371**	**11,888,800**	**12,320,818**	**12,434,974**	**12,544,172**	**12,645,931**
TOTAL EXPENDITURES	**134,469,314**	**92,962,965**	**94,566,350**	**97,195,924**	**99,326,547**	**101,788,273**

As displayed in the chart above, General Fund expenditures are projected to be $93.0 million in FY 2022-23 and increase throughout the forecast. The main drivers of expenditure growth are employee compensation and contract services due to additional staffing, retirement rates, and increasing Law Enforcement costs. The following discussion focuses on the assumptions used for estimating each of the expenditure categories in the General Fund Forecast.

Personnel Expenditures

Salaries

The City is currently negotiating with its bargaining groups because labor agreements expire on June 30, 2022. Due to the uncertainty, the forecast only accounts for step increases and changes in CalPERS retirement rates. The forecast does not include any cost-of-living adjustments (COLA) or equity adjustments.

Employees who have yet to reach the top step in their classification's salary range are eligible to receive a step increase on their anniversary date. Typically, classifications have five steps, with each increase equivalent to a 5% increase in salary. Currently, approximately 41% of employees are below Step 5.

Full-time salaries are projected to grow at a rate of 2.8% per year, based on the presumed rate of growth by CalPERS. Part-time salaries are forecasted to grow at a rate of 1.5% as they generally grow slower than full-time salaries.

Health Benefits

In FY 2022-23, health benefits account for about 7% of all personnel costs in the General Fund, primarily due to health insurance costs. The City pays employees a fixed amount for health and dental insurance costs instead of covering a percentage of premiums. In October 2016, City Council approved labor contracts that significantly increased the City's health insurance contributions to align the City with the median offerings of our comparator cities. For the duration of the contract, cost increases in health and dental premiums above the negotiated amounts were fully absorbed by employees. The City is in negotiations with its bargaining groups, CEA and OE3.

Retirement Benefits

Rising retirement costs are driving the increase in employee benefits. Cupertino provides retirement benefits for its employees through the California Public Employee's Retirement System (CalPERS). Poor investment returns during the Great Recession significantly decreased the plan's assets. In addition, enhanced benefits and actuarial assumption changes due to increased life expectancies increased the plan's liabilities. As a result, the City's pension costs have increased significantly and are one of the City's largest financial obligations.

The City's CalPERS costs are projected to increase over the next few years, as shown in the table below.

Projected CalPERS Contributions	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
Projected Payroll	$ 21,566,041	$ 22,159,108	$ 22,768,483	$ 23,394,616	$ 24,037,969	$ 24,699,012
Normal Cost (%)	9.7%	9.5%	9.3%	9.1%	8.9%	8.8%
Normal Cost	$ 2,100,532	$ 2,105,115	$ 2,117,469	$ 2,128,910	$ 2,139,379	$ 2,173,513
UAL Payment	$ 4,775,294	$ 5,126,000	$ 5,477,000	$ 5,326,000	$ 5,545,000	$ 5,027,000
Total Contribution	**$ 6,875,826**	**$ 7,231,115**	**$ 7,594,469**	**$ 7,454,910**	**$ 7,684,379**	**$ 7,200,513**
Total Contribution (%)	**31.9%**	**32.6%**	**33.4%**	**31.9%**	**32.0%**	**29.2%**

In December 2016, the CalPERS Board of Administration lowered the discount rate from 7.5% to 7.0% with a three-year phase-in beginning in FY 2018-19 to improve the financial stability of the pension system. This resulted in significant increases in retirement costs. In FY 2021-22, the CalPERS Board lowered the discount rate from 7.0% to 6.8% because the FY 2020-21 investment gain of 21.3% triggered the Funding Risk Mitigation Policy.

The City's retirement rates are based on a blend of all three tiers (2.7% @ 55, 2% @ 60, and 2% @ 62). Although employees pay a different rate depending on their tier, the City's costs are the same for all three tiers. The table below shows the current breakdown of City employees amongst the three retirement tiers. The majority of employees in the City are currently covered under Tier 3. Savings from the lower-cost Tier 2 and Tier 3 plans are not expected to be substantial for several years.

CalPERS Plan Breakdown by Tier						
Tier	Number of Employees	Benefit Factor	Compensation Basis	Employer Share of Contribution	Employee Share of Contribution	Total Contribution
1	58	2.7% @ 55	Highest Year	31.88%	8.00%	39.88%
2	19	2% @ 60	Highest 3 Year Average	31.88%	7.00%	38.88%
3	111	2% @ 62	Highest 3 Year Average	31.88%	7.00%	38.88%

A retiree's highest monthly pension benefits are calculated by multiplying:

- Service credit: the number of years of CalPERS service.
- Benefit Factor: percentage of pay based on age.
- Compensation Basis: the highest monthly average salary for a defined period.

Other Benefits

The forecast assumes health insurance, dental insurance, and vision insurance increase by CPI. No increases were forecasted for the following benefits: internet allowance, standby pay, Employee Assistance Program, and Deferred Compensation. Rec Bucks are assumed to increase at a 0.5% growth rate.

Vacancy Savings

The forecast assumes vacancy savings of 5 FTE annually, based on historical vacancy rates due to attrition.

Non-Personnel Expenditures

Non-Personnel budgets were developed based on actual expenditures in prior years and then adjusted for FY 2022-23 funding needs. In addition, one-time projects have been excluded to ensure that expenditure trends reflect ongoing expenditure needs.

For the out-years of the forecast, expenditures are projected to increase by CPI.

Materials costs are forecasted to increase by CPI.

Contract Services costs are projected to grow by CPI except for the Law Enforcement contract with the Santa Clara County Sheriff's Office. Law Enforcement costs are projected to grow by CPI plus 2%. Per the terms of the contract, the annual increase is limited to the lesser of:

- percentage increase in total compensation and annual CalPERS cost increase or
- annual CPI plus 2% and annual CalPERS cost increase.

Increases in the City's Law Enforcement costs are a primary driver of the City's expenditure growth.

Cost Allocation is projected to grow by 2.8%.

Capital Outlays and **Special Projects** are projected to increase by CPI. In the last five years, the City has spent about $2 million per year in capital outlay and special project costs, excluding development projects that include pass-through revenue.

Contingencies are projected to increase by CPI. Contingencies remain reduced in FY 2022-23. Program contingencies were cut in half to 2.5% in FY 2020-21 and the City Manager's Contingency Fund was reduced to $75,000 in FY 2021-22. In prior years, program contingencies were 5% of Materials and Contract Services and the City Manager's Contingency was 5% of General Fund Materials and Contract Services, excluding the law enforcement contract. The City has historically underspent in this category, and use of these funds would require pre-approval by the City Manager or his/her designee.

Transfers represent the General Fund's contributions to other City funds to support debt payments, pay retiree health costs, finance capital projects, replenish capital project reserves, acquire new equipment, and subsidize enterprises and operations. With the implementation of the full cost allocation plan in FY 2015-16, General Fund expenses have been shifted to other City funds, causing some of those funds' revenues to fall short of expenses and necessitating the use of fund balances to cover expenses. The General Fund benefits in the near term from the cost shift; however, after fund balances in those other funds are drawn down to minimum levels and absent aggressive revenue or cost actions in those other funds, General Fund subsidies are necessary to maintain those fund balance minimums.

Projected General Fund subsidies to each fund are based on the following assumptions:

- Special Revenue Funds: $3 million annually.
- Debt Service Funds: $2.7 million based on 2012 COPS debt service schedule.
- Capital Reserve: $2.5 million annually.
- Retiree Medical Fund: $0 million.
- Compensated Absences Fund: $0.8 million and increases at a rate of 2.8% per year.
- Innovation and Technology Fund: $2 million and increases at CPI per year.
- Enterprise Funds: $1 million and increases at CPI per year.

In FY 2029-30, the City will finish paying off its debt for city facilities. Until FY 2029-30, the City is scheduled to pay approximately $2.7 million per year in principal and interest on the City Hall, Community Hall, and Library Certificates of Participation. The funds are transferred from the City's General Fund to the City's Debt

Service Funds.

Historically, the City has transferred funds from the General Fund to the Capital Reserve at mid-year. While mid-year fund transfers are typically significant, $10 million annually on average, there has been a high degree of variability. To facilitate forecasting Capital Improvement Program funding, the forecast allocates $2.5 million annually for transfers to the Capital Reserve.

Starting in FY 2022-23, the City plans to fund Other Post-Employment Benefits (OPEB) costs with the City's Section 115 OPEB Trust because the City's OPEB plan is over 100% funded. The OPEB Trust had a balance of $36.1 million as of March 31, 2022. Funding OPEB costs with the OPEB Trust will eliminate the transfers from the General Fund to the Retiree Medical Fund.

Pension

CalPERS

The City provides a defined benefit pension to its employees through the California Public Employees' Retirement System (CalPERS). Retirement benefits are calculated using a formula based on an employee’s age, earnings, and years of service. The retirement benefits are funded by:

- Investment earnings (60%)
- Employer contributions (29%)
- Employee contributions (11%)

Each year, CalPERS determines an employer's contributions based on actual investment returns and actuarial assumptions including:

- Expected investment returns (discount rates)
- Inflation rates
- Salaries
- Retirement ages
- Life expectancies

Contributions to fund the pension plan are comprised of two components:

The normal cost (the cost of the benefits earned in a respective year).
The amortization of the unfunded accrued liability (UAL).

CalPERS Discount Rate

Defined benefit plans are highly sensitive to the discount rate assumption. The discount rate is the expected rate of return of the plan's assets over the long term. The discount rate will depend on the plan's size, asset allocation, time horizon, and other considerations.

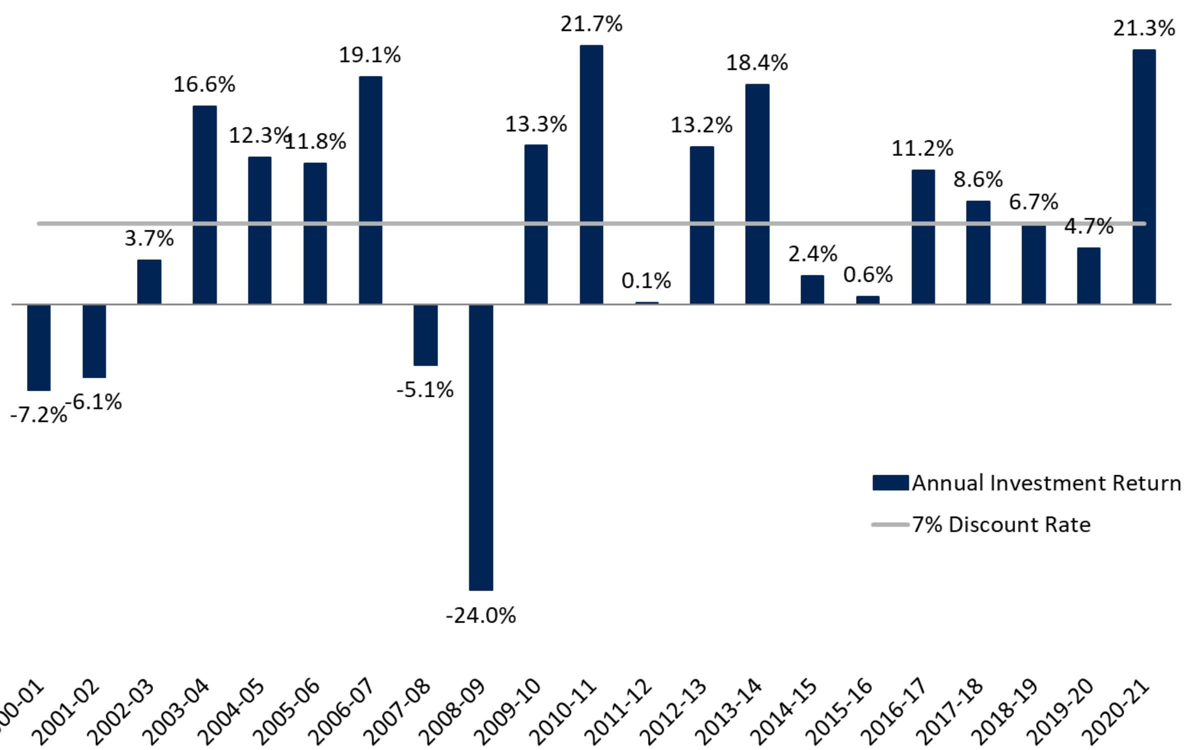
From the City's perspective, the discount rate is important as it is used to determine the City's annual contributions to the plan, the plan's unfunded liability, and the plan's funded status. In other words, the discount rate is used to determine whether a plan has enough assets to meet its future obligations. The discount rate must be realistic to allow the City to foresee funding issues that may impact future operating budgets and future generations of retirees and plan members. If the discount rate assumption is too high and investments earn less than expected, a funding shortfall may result, requiring the City or CalPERS members to make greater contributions than expected.

CalPERS Investment Earnings

Since investment earnings fund nearly 60% of retirement benefits, the City’s pension plan is sensitive to the investment returns of CalPERS. Investment returns affect how much of the retirement benefits can be funded by investment earnings rather than contributions. If investment returns are lower than the discount rate, contributions must increase to make up the difference. As a result, pension plans need accurate return assumptions to ensure fiscal sustainability.

Currently, CalPERS assumes it will earn investment returns of 6.8% each year. As illustrated in the following chart, over the last 20 years, CalPERS has earned investment returns below the discount rate assumption approximately half of the time. Individual fiscal year investment returns have ranged between -24.0% and +21.7%. In particular, CalPERS earned negative investment returns in 2001 and 2002 due to the dot-com crash and 2008 and 2009 due to the Great Recession.

CalPERS Historical Annual Investment Returns



Note: Beginning in 2002, investment returns are reported as gross of fees.

For FY 2020-21, CalPERS reported an investment return of 21.3%, 14.3 percentage points higher than the 7% discount rate. The average investment return is 10.3% for a 5-year period, 8.5% for a 10-year period, 6.9% for a 20-year period, and 8.4% for a 30-year period. As returns in a given year are volatile, it can be more instructive to look at returns over longer time horizons.

Time Period	Total Investment Return
1 Year	21.3%
5 Year	10.3%
10 Year	8.5%
20 Year	6.9%
30 Year	8.4%

CalPERS Update

Funding Risk Mitigation Policy

Under the Funding Risk Mitigation Policy, the 21.3% return in FY 2020-21 triggered a reduction in the discount rate from 7% to 6.8%. The Funding Risk Mitigation Policy, approved by the CalPERS Board in 2005, lowers the discount rate in years of good investment returns to reduce risk in the portfolio. The Risk Mitigation Policy will affect contributions starting in FY 2023-24.

Asset Liability Management Process

In November 2021, CalPERS completed its quadrennial Asset Liability Management (ALM) process, which reviewed investment strategies and actuarial assumptions. At the November 15-17, 2021, meetings, the CalPERS Board approved a 6.8% discount rate, selected a new asset allocation for the fund's investment portfolio, and adopted new actuarial assumptions.

During the ALM process, the board examined different potential portfolios and their impact on the CalPERS fund. Ultimately, the board selected the portfolio with an assumed investment return of 6.8%.

Asset Class	Current Allocation	New Allocation
Global Equity	50%	42%
Fixed Income	28%	30%
Real Assets	13%	15%
Private Equity	8%	13%
Private Debt	0%	5%
Liquidity	1%	0%
Total	**100%**	**105%**

The new portfolio includes a 5% allocation to leverage.

CalPERS Plan Status

As of the most recent actuarial valuation on June 30, 2020, the City's pension plan had assets of $103.8 million and liabilities of $157.6 million, resulting in an unfunded liability of $53.8 million and a funded ratio of 65.9%. The unfunded liability is the difference between assets and liabilities, while the funded ratio is the ratio of assets to liabilities.

CalPERS Plan Status				
		June 30, 2019		June 30, 2019
Present Value of Projected Benefits	$	174,248,022	$	185,199,838
Entry Age Normal Accrued Liability	$	148,525,073	$	157,610,543
Market Value of Assets	$	99,363,109	$	103,788,993
Unfunded Accrued Liability	$	49,161,964	$	53,821,550
Funded Ratio		66.9%		65.9%

The City has also established a fund, a Section 115 Trust, to reduce pension rate volatility. After factoring in the City's Section 115 Trust, the funded status of the City's pension fund is 78.0%.

A defined-benefit plan is considered adequately funded if its assets equal or exceed the value of its future liabilities. When the funded ratio is lower than 100%, the plan has insufficient assets to pay all future liabilities. Poor investment returns during the Great Recession significantly decreased the plan's assets. In addition, enhanced benefits and actuarial assumption changes due to increased life expectancies increased the plan's liabilities. These two factors significantly decreased the funded status of the system.

Over the past few years, CalPERS has taken steps to improve the long-term financial sustainability of the system. In December 2016, the CalPERS board voted to reduce the discount rate, also known as the assumed rate of return for investments, from 7.5% to 7.0% over three years from FY 2018-19 to FY 2020-21. In February 2018, the CalPERS board also voted to decrease the amortization period for new pension liabilities from 30 years to 20 years, effective July 1, 2019. While these changes will provide long-term benefits to the pension plan, they will also increase the City's pension contributions.

Impact of CalPERS Investment Returns

CalPERS assumes it will earn investment returns of 7% each year. If investment returns are higher than 7%, the City's contributions decrease. On the other hand, if investment returns are lower than 7%, the City's contributions increase.

In FY 2019-20, CalPERS earned 4.7%, 2.3 percentage points below the 7% discount rate. As a result, the City's required pension contributions will increase to make up for the difference. The FY 2019-20 investment loss will affect the City's pension costs starting in FY 2022-23. The contribution increase will be amortized over 20 years and phased in over five years. In FY 2026-27, when the investment loss is fully phased in, the CIty's annual costs are expected to be $0.30 million higher than previously projected.

For FY 2020-21, CalPERS reported an investment return of 21.3%, 14.3 percentage points above the 7% discount rate. The investment return triggered the Funding Risk Mitigation Policy, lowering the discount rate to 6.8%. The investment gain and discount rate reduction will impact the City's pension costs starting in FY 2023-24. The discount rate reduction partially offsets the effect of the investment gain. In FY 2027-28, when the investment gain is fully phased in, the City's annual costs are expected to be $1.3 million lower than previously projected.

The FY 2020-21 investment gain will also increase the funded status of the City's plan. As of June 30, 2021, the funded status is projected to be 76% with a 6.8% discount rate.

In 2022, financial market volatility has increased due to heightened geopolitical risk, supply chain bottlenecks and persistent inflation, and the Federal Reserve's pivot to a less accommodative monetary policy. Any investment losses will impact the City's future pension costs.

Impact of CalPERS Discount Rate Changes

Due to lower-than-historical interest rates and economic growth, market experts project lower returns for the next several decades. The Pew Research Center forecasts a long-term investment return of 6.5% for typical pension fund portfolios.

During its Asset Management Liability Process, CalPERS considered discount rates between 6.25% and 7%. Ultimately, CalPERS approved a discount rate of 6.8%, a decrease from the previous discount rate of 7%.

The discount rate has a significant effect on the City's CalPERS contributions. If the discount rate is less than the discount rate assumption, the City's CalPERS contributions will increase. If CalPERS lowers the discount rate by one percentage point, the City's contributions will increase by up to $2.9 million per year.

This analysis shows the potential contribution impact if CalPERS were to lower the discount rate.

Section 115 Trust

A Section 115 Trust is a tax-exempt investment tool that allows local governments to pre-fund pension and retiree health costs. Once contributions are placed into the trust, the City can only use assets from the trust for retirement plan purposes. The City may make withdrawals to either reimburse the City for retirement system contributions or to pay CalPERS directly. The benefits of a Section 115 Trust include the following:

- Local control over assets: The City controls the contributions, withdrawals, investment strategy, and risk level of assets in the Trust.
- Pension rate stabilization: Assets can be transferred to CalPERS at the City's discretion to pay for Normal Cost or UAL contributions and can be used to reduce or eliminate large fluctuations in the City's pension costs.
- Potential for higher investment returns than General Fund: Investment requirements applicable to the City's General Fund assets under Government Code 53601 do not apply to Trust assets.

- Diversification: Trust assets will be diversified from CalPERS investments.

City Strategies

Given that pension obligations are one of the City's largest financial obligations, the City has taken proactive steps to reduce the impact of pension cost volatility. In March 2018, the City provided options to Council to address rising pension costs. In April 2018, the City presented a long-term pension funding strategy to the Fiscal Strategic Plan Committee. In May 2018, the City implemented a Pension Rate Stabilization Program (PRSP), also known as a Section 115 Trust, to reduce pension rate volatility on the City's budget. The Pension Trust helps the City to:

- Grow assets for future pension contributions.
- Invest assets over appropriate time horizons.
- Earn higher investment returns than the General Fund.
- Reduce pension contribution volatility.
- Diversify funds from CalPERS investments.

As a fiscal sustainability measure, the City funds the Section 115 Trust using a more conservative discount rate of 6.25%. The City's pension funding goal is to accumulate sufficient funds in the Pension Trust to fund the difference between a 6.25% and a 7% discount rate and achieve a funded ratio of 80% over 20 years. The City's projections indicated that the City would need to accumulate over $42 million in the Pension Trust within 20 years to achieve its pension funding goal.

To achieve this goal, the funding strategy proposed $8.0 million in initial funding, along with additional funding of $10.0 million over the first five years. The City contributed:

- $8 million in FY 2018-19
- $4 million in FY 2019-20
- $2 million in FY 2020-21
- $2 million in FY 2021-22

Total contributions are $16.0 million. As of March 31, 2022, the Section 115 Trust had a balance of $19.5 million and had earned an annualized investment return of 9.35% gross of fees since inception.

Given the funding currently set aside for pension funding, the City is in a solid position to withstand the effects of pension cost increases. If CalPERS earns less than the discount rate assumption, the City will be better prepared for future pension cost increases. If CalPERS lowers the discount rate in the future, the City will be better prepared to absorb these costs.

Fund Balance

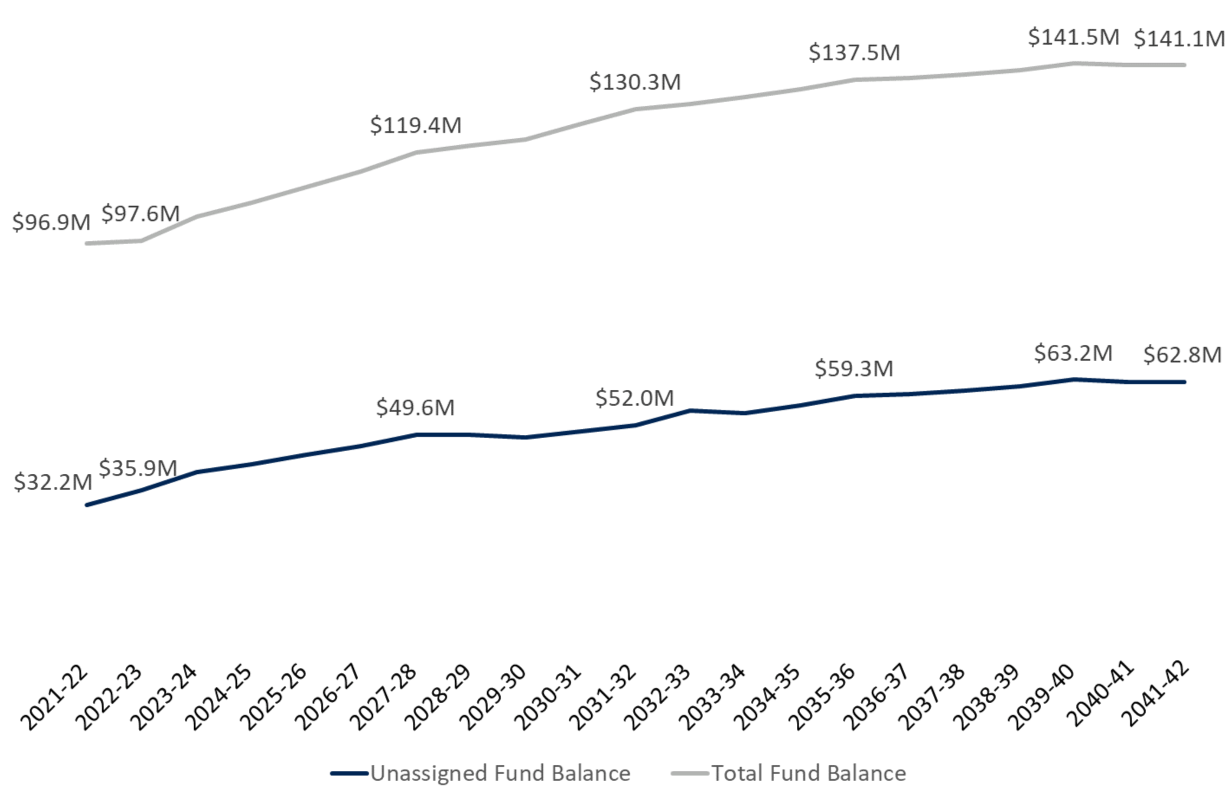
The foresight of the City Council and staff in previous years to focus on ensuring healthy reserves is paying off in full. Increases in sales tax revenues and budget reductions in FY 2020-21 have contributed to this planning strategy and will provide additional resources for the City in the future.

The General Fund's Unassigned fund balance remains healthy and will be able to assist in addressing funding gaps. In addition, the General Fund's Committed and Restricted fund balance includes:

- Economic Uncertainty Reserve ($25 million): may be used to mitigate potential shortfalls in future fiscal years.
- Capital Projects Reserve ($10 million): may be used to fund capital projects.
- Section 115 Pension Trust ($19.5 million): may be used to mitigate potential increases to CalPERS's annual required contribution rate or further reductions in the discount rate set by CalPERS.

The General Fund's fund balance is projected to be $97.6 million in FY 2022-23 and increase throughout the forecast. The General Fund's Unassigned fund balance is forecasted to be $35.9 million in FY 2022-23.

20-Year General Fund Fund Balance Forecast



FIVE-YEAR GENERAL FUND FUND BALANCE FORECAST	2021-22 Estimate	2022-23 Proposed	2023-24 Forecast	2024-25 Forecast	2025-26 Forecast	2026-27 Forecast
Beginning Fund Balance	96,850,790	96,925,066	97,623,489	103,617,258	107,070,597	110,985,258
Operating Revenue	134,543,590	93,661,388	100,340,993	100,430,137	103,016,605	105,413,113
Operating Expenditures	134,469,314	92,962,965	94,566,350	97,195,924	99,326,547	101,788,273
Net Revenues - Expenditures	74,276	698,423	5,774,643	3,234,213	3,690,057	3,624,840
Unassigned	32,243,487	35,852,049	40,424,519	42,367,416	44,676,920	46,825,738
All Other Classifications	64,681,579	61,771,440	63,192,739	64,703,181	66,308,338	68,014,131
Ending Fund Balance	96,925,066	97,623,489	103,617,258	107,070,597	110,985,258	114,839,868

FIVE-YEAR GENERAL FUND FUND BALANCE FORECAST	2021-22 Estimate	2022-23 Proposed	2023-24 Forecast	2024-25 Forecast	2025-26 Forecast	2026-27 Forecast
Nonspendable						
Loans Receivable	444,000	444,000	440,000	435,000	430,000	425,000
Prepaid Items	3,000,000	3,000,000	-	-	-	-
Total Nonspendable	3,444,000	3,444,000	440,000	435,000	430,000	425,000
Restricted						
CASp Certification and Training	13,982	13,982	13,982	13,982	13,982	13,982
Section 115 Trust	20,820,778	22,820,778	24,247,077	25,762,519	27,372,676	29,083,469
Public Access Television	1,368,789	1,368,789	1,368,789	1,368,789	1,368,789	1,368,789
Total Restricted	22,203,549	24,203,549	25,629,848	27,145,290	28,755,447	30,466,240
Committed						
Economic Uncertainty	24,000,000	24,000,000	24,000,000	24,000,000	24,000,000	24,000,000
Capital Projects Reserve	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000
Sustainability Reserve	127,891	127,891	127,891	127,891	127,891	127,891
Total Committed	34,127,891	34,127,891	34,127,891	34,127,891	34,127,891	34,127,891
Assigned						
Reserve for Encumbrances	4,906,139	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
Total Assigned	4,906,139	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
Total Unassigned	32,243,487	35,852,049	40,424,519	42,367,416	44,676,920	46,825,738
TOTAL FUND BALANCE	96,925,066	97,623,489	103,617,258	107,070,597	110,985,258	114,839,868

It is anticipated that the City will transfer any unassigned fund balance over the $500,000 threshold to the Capital Reserve, the Capital Projects Reserve, or the Section 115 Trust as described in the City's Fund Balance and Use of One Time Funds Policy.

In FY 2018-19, the City adopted a Section 115 as part of a long-term strategy to improve the financial sustainability of the City's pension system and reduce the effect of pension rate volatility. The City can use funds from the Section 115 Trust to offset unexpected increases in retirement contributions. Funds in the Section 115 Trust are restricted and can only be used to pay CalPERS or reimburse the City for pension contributions.

Budget-Balancing Strategies

Historically, the City's budget has been structurally sound, with revenues exceeding expenditures in most years. When revenues have exceeded expenditures, the City has transferred the excess fund balance to the Capital Reserve per the City's One Time Use and Reserve Policy. The current 5-year and 20-year forecasts anticipate operating deficits near the end of the forecast, beginning in FY 2040-41. The operating deficits are projected to increase as revenues grow at a slower pace than expenditures. As a result, the following strategies may be used to assist in balancing the budget over the next 20 years.

Strategy	Description	Potential Impact
Expenditures		
Section 115 Trust	The City established a Section 115 Trust to reduce pension rate volatility when CalPERS investment returns are below the discount rate or when CalPERS changes assumptions. The City can also use it to offset pension costs in any given year.	The fund is currently at $19.5 million.*
Capital Projects Reserve	The City has $10 million in its Capital Projects Reserve (General Fund).	The fund is currently at $10 million.
Economic Uncertainty Reserve	The City has $25 million in its Economic Uncertainty Reserve (General Fund).	The fund is currently at $25 million.

*As of March 31, 2022

Additional Potential Strategies

Although not recommended at this time, the City may consider the following potential strategies in future years if sharp declines in revenues or increases in expenditures cause large structural deficits.

Potential Strategy	Description	Potential Impact
Revenues		
Transaction and Use Tax (1/4 cent)	Voter approval is required Could increase sales tax from 9.125% to 9.375%	$5.2 million

Transient Occupancy Tax Measure	Voter approval is required Could increase transient occupancy tax from 12% to 14%	$1.7M @ $10M base $1.25M at $7.5M base $833k at $5M base
Parcel Tax	Voter approval is required	$3.5M flat rate per parcel $3.6M variable rate per SF
Expenditures		
Salary and benefit savings through attrition	Keep non-essential positions unfilled as they become vacant.	Approximately $186,000 per position on average
Employee cost-sharing of increases to CalPERS	Negotiate to share costs of increases to CalPERS employer rates with employees.	$250,000 approximate based on a 5% rate increase
No new positions	Cost containment strategy	$0
Furloughs	Employees would take up to 20 hours or the equivalent of a 1% decrease in pay in exchange for 2.5 unpaid furlough days	$295,000 approximate based on a 1% decrease
Deferring or eliminating negotiated increases	The City's current labor agreements expire on June 30, 2022. Deferring or eliminating negotiated increases would require agreement from the bargaining units.	$295,000 approximate based on a 1% decrease
Reduction in force	The City would identify what positions could be reduced (laid off) based on provisions in the MOUs where appropriate and service level needs in the City.	Approximately $186,000 per position on average
Reduction in capital outlays and special projects	Cost containment strategy	Up to $4 million
Reduction in contingencies	Cost containment strategy	Up to $400,000

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