



## ADMINISTRATIVE SERVICES DEPARTMENT

CITY HALL  
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### CITY COUNCIL STAFF REPORT

Meeting: June 7, 2022

#### Subject

Public hearing to consider the Capital Improvement Program (CIP); consider the Recommended Budget for Fiscal Year (FY) 2022-23, adoption of the Budget for FY 2022-23, establishment of the Appropriation Limit, and related actions.

#### Recommended Action

1. Adopt Resolution No. 22-XXX establishing an Operating Budget of \$126,027,164 for FY 2022-23, which includes the following changes to the FY 2022-23 Proposed Budget, published on May 1, 2022:
  - a. Approve the operating budget of \$125,461,857 outlined in the FY 2022-23 Proposed Budget
  - b. Approve the 12 position requests outlined in the FY 2022-23 Proposed Budget. The positions include:
    - i. Administrative Assistant in Administration
    - ii. Associate Planner in Community Development
    - iii. Budget Manager in Administrative Services
    - iv. Code Enforcement Officer in Community Development
    - v. Communications Analyst (Three-Year Limited-Term) in Administration
    - vi. Community Outreach Specialist in Community Development
    - vii. Maintenance Worker Lead in Public Works
    - viii. Management Analyst in Public Works
    - ix. Office Assistant in Community Development
    - x. Purchasing Manager in Administrative Services
    - xi. Senior Planner (Housing) in Community Development
    - xii. Senior Planner (Planning) in Community Development
  - c. Approve an Assistant City Manager position in Administration and appropriations of \$386,988 as included in Attachment D
  - d. Approve a Legislative Aide (Management Analyst) position in Administration and appropriations of \$183,365 as included in Attachment D
  - e. Approve a \$180,000 reduction in appropriations for the Economic Development Fuse Fellow as included in Attachment D
  - f. Approve a \$669,046 reduction in appropriations for Fixed Assets acquisition as included in Attachment D

- g. Approve \$348,427 of additional SB 1 revenue as included in Attachment D.
  - h. Approve appropriations of \$736,500 for City Work Program items as included in Attachment D. The items include:
    - i. \$50,000 for Analyze Potential Revenue Measures
    - ii. \$10,000 for Artwork at the Library/Exhibits/Poetry and Art Day
    - iii. \$50,000 for Bicycle Facilities
    - iv. \$12,000 for Community Engagement on Alternative Transportation and Parking
    - v. \$145,000 for Cupertino Store Implementation
    - vi. \$7,500 for Cybersecurity Public Education
    - vii. \$50,000 for Electrification Study
    - viii. \$200,000 for Homeless Jobs Program
    - ix. \$25,000 for Housing for De Anza College Students
    - x. \$15,000 for Hybrid Meeting for City Council and Commission Meetings
    - xi. \$30,000 for Integrated Plan for Community Engagement
    - xii. \$20,000 for Intergenerational Engagement
    - xiii. \$60,000 for License Plate Readers
    - xiv. \$12,000 for Safe Gun Storage Ordinance
    - xv. \$35,000 for Senior Strategy
    - xvi. \$15,000 for Student Internship Program
  - i. Approve \$107,500 of transfers out from the General Fund to fund City Work Program projects
  - j. Approve budget adjustments as presented in Attachment D
2. Adopt Resolution No. 22-XXX establishing a Capital Improvement Program budget of \$12,617,200 for FY 2022-23
- a. Approve appropriations of \$500,000 in the Capital Improvement Program Capital Projects Fund for the Blackberry Farms Pools Splash Pad project
  - b. Approve appropriations of \$4,000,000 in the Capital Improvement Program Capital Projects Fund for the City Hall and Library Parking Garage: Design and Construction project
  - c. Approve appropriations of \$1,300,000 in the Capital Improvement Program Capital Projects Fund for the City Lighting - LED Lighting project
  - d. Approve appropriations of \$525,000 in the Capital Improvement Program Capital Projects Fund for the De Anza Boulevard Buffered Bike Lanes project
  - e. Approve appropriations of \$850,000 in the Capital Improvement Program Capital Projects Fund for the Jollyman All-Inclusive Play Area: Adult-Assistive Bathroom Facilities project
  - f. Approve appropriations of \$90,000 in the Capital Improvement Program Capital Projects Fund for the Stocklmeir, Bryne and Blesch: Inspection Reports and Analysis project
  - g. Approve appropriations of \$95,000 in the Capital Improvement Program Capital Projects Fund for the ADA Improvements project

- h. Approve appropriations of \$300,000 in the Capital Improvement Program Capital Projects Fund for the Annual Playground Replacement project
  - i. Approve appropriations of \$200,000 in the Capital Improvement Program Capital Projects Fund for the Park Amenity Improvements project
  - j. Approve appropriations of \$75,000 in the Capital Improvement Program Capital Projects Fund for the Street Light Installation - Annual Infill project
  - k. Approve \$4,308,600 of transfers out from the Capital Reserve to fund the Capital Improvement Program budget in FY 2022-23
  - l. Approve appropriations of \$23,600 in the Blackberry Farm Enterprise Fund for the Blackberry Farm Golf Renovation / Alternative Use Study project
  - m. Approve appropriations of \$350,000 in the Recreation Program Enterprise Fund for the Major Recreation Facilities: Use and Market Analysis project
3. Adopt Resolution No. 22-XXX establishing an Appropriation Limit of \$122,756,522 for FY 2022-23
  4. Adopt Resolution No. 22-XXX amending the Unrepresented Employees' Compensation Program to add a Budget Manager and Purchasing Manager

#### Discussion

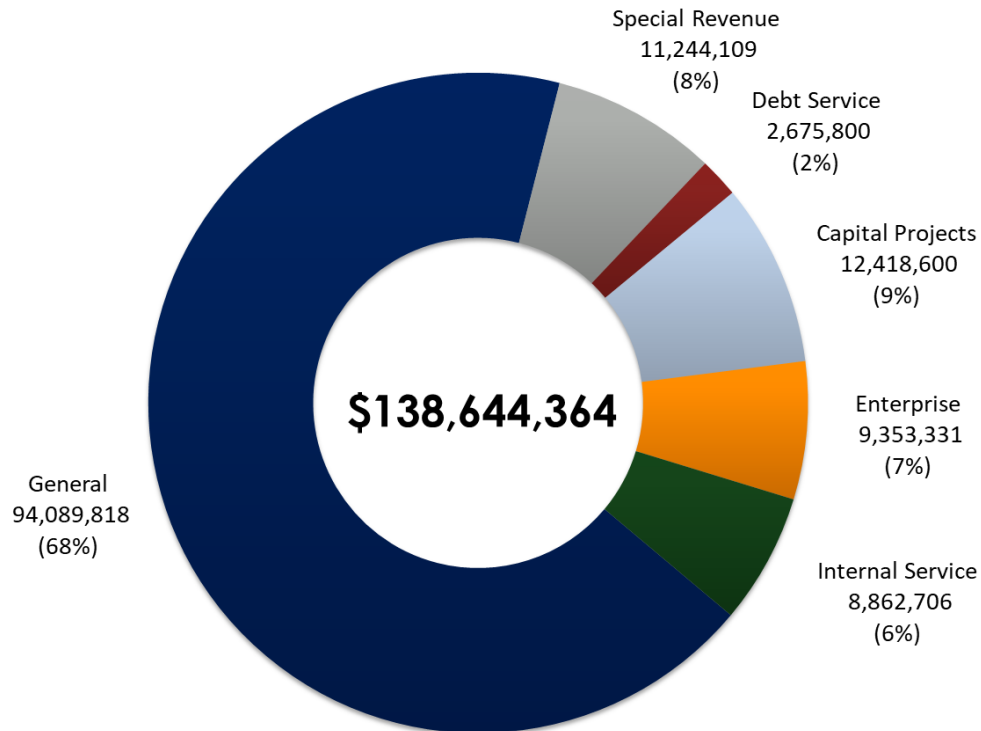
Article XIII B of the California Constitution established appropriations limits on government agencies within California. Originally established by Proposition 4 in 1979, the appropriations limit places a maximum limit on the appropriations of tax proceeds by the State, school districts, and local governments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

#### Fiscal Impact

The Proposed Budget reflects a total City budget of \$138.6 million, a decrease of \$10.2 million, or 6.9%, from the FY 2021-22 Adopted Budget. General Fund expenditures are proposed at \$94.1 million, funded by General Fund revenues of \$93.7 million and \$0.4 million of unassigned fund balance. The General Fund is projected to end FY 2022-23 with approximately \$48.4 million in unassigned fund balance. This balance may be transferred to the Capital Reserve per the Unassigned Fund Balance and Use of One-Time Funds Policy as part of the City's FY 2022-23 Mid-Year Financial Report.

Fund Type	Proposed Revenues	Proposed Expenditures	Change in Fund Balance/Net Position
General	93,661,388	94,089,818	(428,430)
Special Revenue	16,315,081	11,244,109	5,070,972
Debt Service	2,675,800	2,675,800	-
Capital Projects	6,435,000	12,418,600	(5,983,600)
Enterprise	6,532,392	9,353,331	(2,820,939)
Internal Service	7,909,496	8,862,706	(953,210)
<b>TOTAL \$</b>	<b>133,529,157</b>	<b>\$ 138,644,364</b>	<b>\$ (5,115,207)</b>

## FY 2022-23 Proposed Budget Expenditures by Fund

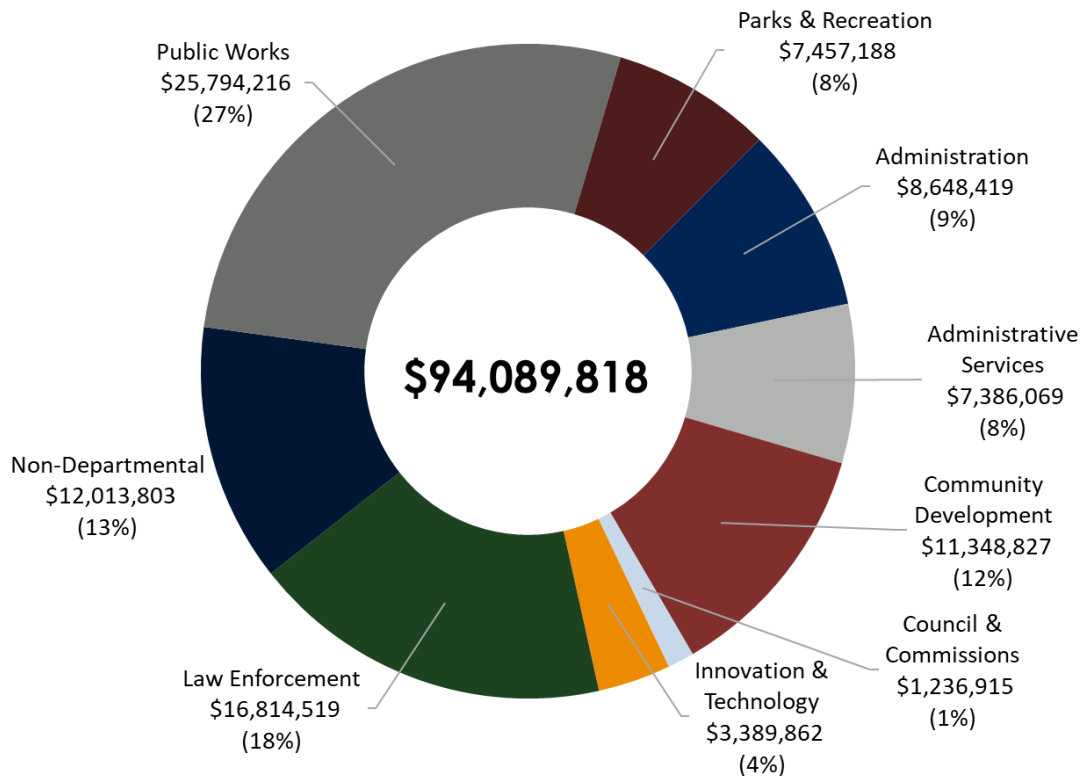


### General Fund

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

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

## FY 2022-23 Proposed Budget General Fund Expenditures by Department



### General Fund Expenditures

For FY 2022-23, General Fund expenditure estimates are \$94.1 million, an increase of \$4.3 million, or 4.8%, from the FY 2021-22 Adopted Budget. The increase is due to requests for additional staffing and an increase in the law enforcement contract with the Santa Clara County Sheriff's Office. General Fund expenditures increased by \$1.1 million from the \$93.0 million in the Proposed Budget printed on May 1, 2022, due to:

- Addition of an Assistant City Manager position: \$386,988
- Addition of a Legislative Aide (Management Analyst) position: \$183,365
- Removal of the Economic Development Fuse Fellow: (\$180,000)
- Addition of City Work Program projects: \$629,000
- Transfers to fund City Work Program projects: \$107,500

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	24,295,660	11.4%
Employee Benefits	7,732,290	8,238,449	10,154,044	11,440,636	12.7%
<b>Total Personnel Costs</b>	<b>25,886,123</b>	<b>26,680,058</b>	<b>31,960,765</b>	<b>35,736,296</b>	<b>11.8%</b>
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	2,657,378	-17.5%
Contingencies	40	293	426,779	451,739	5.8%
Other Uses	282,038	319,444	545,000	695,000	27.5%
<b>Total Non-Personnel</b>	<b>38,703,053</b>	<b>42,043,779</b>	<b>46,554,285</b>	<b>46,357,222</b>	<b>-0.4%</b>
<b>Transfers</b>	<b>30,892,276</b>	<b>15,148,689</b>	<b>11,251,984</b>	<b>11,996,300</b>	<b>6.6%</b>
<b>TOTAL EXPENDITURES</b>	<b>95,481,452</b>	<b>83,872,526</b>	<b>89,767,034</b>	<b>94,089,818</b>	<b>4.8%</b>

### General Fund Revenue

For FY 2022-23, General Fund revenue estimates are \$93.7 million, an increase of \$4.0 million, or 4.5%, from the FY 2021-22 Adopted Budget. The increase is due to projected sales, property, and transient occupancy tax increases. There are no changes to revenue estimates since the printing of the FY 2022-23 Proposed Budget. General Fund revenue is shown in the following table:

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%
<b>TOTAL REVENUES</b>	<b>111,179,073</b>	<b>105,987,732</b>	<b>89,647,891</b>	<b>93,661,388</b>	<b>4.5%</b>

### General Fund – Fund Balance

Unassigned fund balance is fund balance that has not been earmarked for a specific purpose. FY 2022-23 unassigned fund balance is projected to increase to \$48.4 million, an increase of \$2.3 million, or 5.1%, from the FY 2021-22 Amended Budget. FY 2022-23 total fund balance is estimated to be \$110.2 million, a decrease of \$0.4 million, or 0.4%, from the FY 2021-22 Amended Budget.

The following table shows changes to fund balance for the General Fund since the close of FY 2019-20:

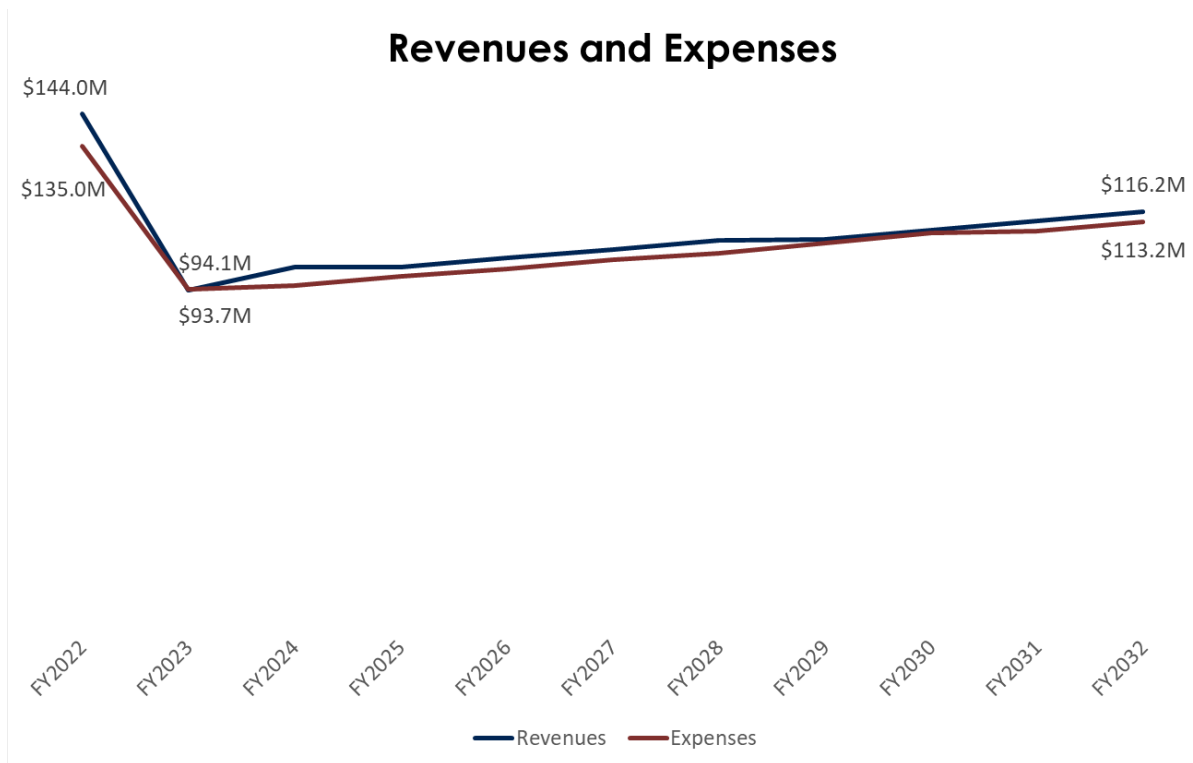
Classification	2019-20 Actual	2020-21 Actual	2021-22 Adopted Budget	2021-22 Amended Budget	2022-23 Proposed Budget	Percent Change
Unassigned	37,426,951	52,449,546	46,068,178	46,068,178	48,410,834	5.1%
All Other Classifications	37,078,871	44,401,243	64,209,752	64,542,526	61,771,440	-4.3%
<b>TOTAL FUND BALANCE</b>	<b>74,505,822</b>	<b>96,850,790</b>	<b>110,277,930</b>	<b>110,610,704</b>	<b>110,182,274</b>	<b>-0.4%</b>

### General Fund Forecast

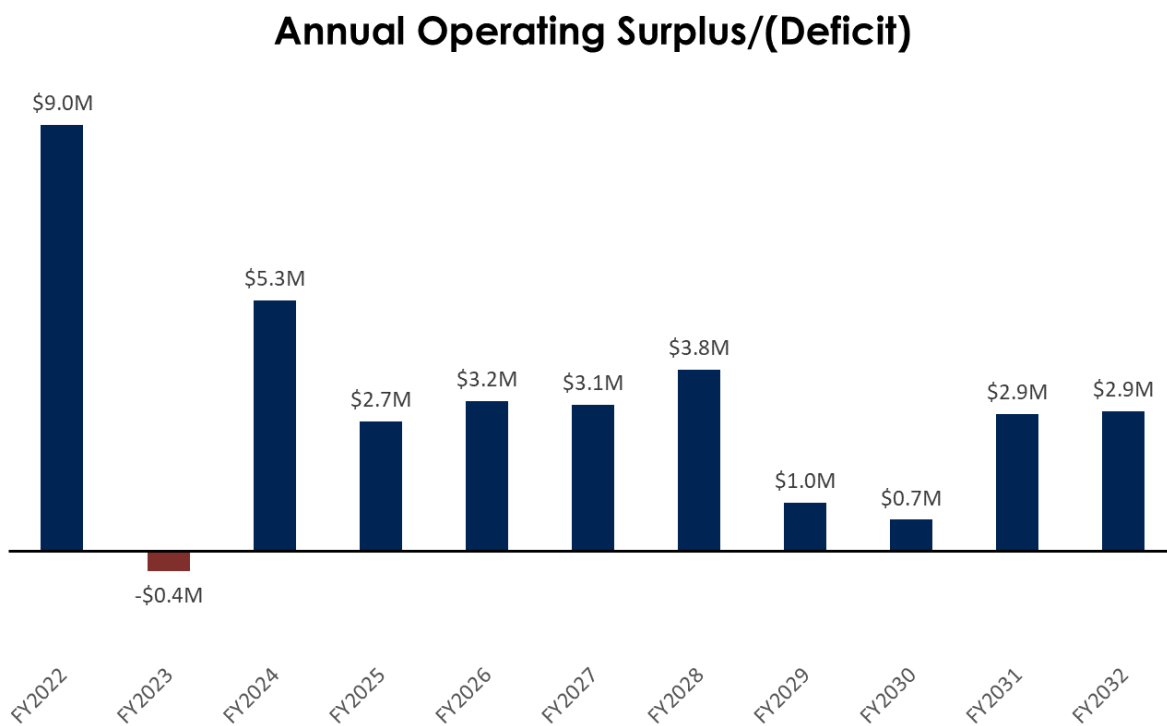
FY 2021-22 is estimated to end with revenues above expenditures, primarily due to the strong performance of sales tax. On May 19, 2022, City Council approved the Third Quarter Financial Report, which increased sales tax estimates by \$9.1 million to align with FY 2021-22 year-end projections. As the State continues to recover from the pandemic and businesses continue opening, it is anticipated that sales tax revenues will decline from the highs of FY 2020-21. Sales taxes are lower than original projections due to a California Department of Tax and Fee Administration (CDTFA) sales tax audit. Property taxes are projected to increase moderately. Transient occupancy taxes decreased significantly during the pandemic due to travel restrictions. Transient occupancy taxes are expected to rebound gradually as business travel has been slow to recover. The City's forecast model assumes recessionary periods every four years during which revenues reflect zero growth. The forecast does not include revenues from potential new development projects or hotels. The City's forecast is conservative to reduce the risk of an actual shortfall, which may require disruptive cuts.

General Fund expenditures are expected to grow at a higher rate due primarily to increased costs for additional staffing and the City's law enforcement contract. In FY 2029-30, the City's annual debt service payment for Civic Center will be fully repaid, saving \$2.7 million annually.

The following chart shows the City's ten-year revenues and expenditures forecast.



The following chart reflects a 10-year forecast of the General Fund's annual operating surpluses or deficits. The small deficit in FY 2022-23 will be funded by unassigned fund balance should it materialize.





## **Other Funds**

### *Special Revenue Funds*

Special Revenue Funds account for the proceeds of specific revenue sources legally restricted for specific purposes. Special Revenue Funds account for 8% of the citywide expenditure budget. The largest Special Revenue Fund accounts for streets, roads, and transportation. Other funds account for storm drain management, affordable housing programs, and park development.

The Proposed Budget for Special Revenue Funds is \$11.2 million, which is a \$7.4 million, or 39.7%, decrease from the FY 2021-22 Adopted Budget primarily due to decreases in Capital Improvement Program projects, transportation projects, and City Work Program projects.

The Special Revenue Funds are funded by \$13.3 million in restricted department revenue, and \$3.0 million in transfers, bringing total funding sources to \$16.3 million. Fund balance is projected to increase by \$5.0 million. Increased revenue is primarily due to housing mitigation revenue in the BMR Housing Fund.

### *Capital Projects Funds*

Capital Projects Funds typically account for the acquisition or construction of major capital facilities. The Capital Improvement Project Fund, Stevens Creek Corridor Park Fund, and Capital Reserve Fund are Capital Projects Funds. Capital projects are identified in the five-year Capital Improvement Program (CIP).

The Proposed budget for the Capital Projects Funds for FY 2022-23 is \$12.4 million, a decrease of \$7.1 million, or 36.3%, from the FY 2021-22 Adopted Budget. This decrease is due to reductions in Capital Improvement Program projects. A detailed list of proposed CIP projects can be found in the budget adjustments section of the staff report.

Transfers from the General Fund to the Capital Reserve are budgeted at \$2.5 million. 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 project needs, the City is budgeting transfers to facilitate Capital Improvement Program forecasting.

### *Enterprise Funds*

Enterprise Funds are for specific services funded directly by fees charged for goods or services. Enterprise Funds consist of Resource Recovery for the solid waste collection franchise, Blackberry Farm for the City-owned golf course, Sports Center for the Cupertino Sports Center, and Recreation Programs for cultural, youth, teen, sports, and physical recreation programs.

The Proposed Budget for Enterprise Funds is \$9.4 million, a decrease of \$0.1 million, or 0.7%, from the FY 2021-22 Adopted Budget. The Enterprise Funds are funded by \$5.8 million in program revenue, \$0.4 million in transfers from the General Fund, \$0.4 million in transfers from the Capital Reserve, and \$2.8 million in reserves. The Enterprise Funds are projected to begin the year with \$7.5 million in reserves and end with \$4.7 million in reserves, decreasing by \$2.8 million.

The Enterprise Funds are projected to draw down on reserves that have been increasing in recent years. During the pandemic, the Parks and Recreation funds built up reserves as revenues were higher than expenditures.

#### *Internal Service Funds*

Internal Service Funds are used for areas where goods or services are provided to other City departments or governments on a cost-reimbursement basis. Internal Service Funds include funds and programs for innovation and technology, workers' compensation, equipment, compensated absences, long-term disability, and retiree medical insurance.

The Proposed Budget for Internal Service Funds is \$8.9 million, similar to the FY 2021-22 Adopted Budget. The costs for the acquisition of fixed assets are not included and will be brought to City Council at a later time. The Internal Service Funds are funded by \$4.5 million in program revenue, \$3.4 million in transfers from the General Fund, and \$1.0 million in reserves. The Internal Service Funds are projected to begin the year with \$3.7 million in reserves and end with \$2.7 million in reserves, decreasing by \$1.0 million. Reserves are decreasing because the City is eliminating the General Fund transfer to the Retiree Medical Fund. 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.

### **STAFFING**

#### *Personnel Assumptions*

The City is currently negotiating with its bargaining groups because labor agreements expire on June 30, 2022. Due to the uncertainty, personnel budgets only account for step increases and changes in CalPERS retirement rates. The budget 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.

#### *New Position Requests*

The FY 2022-23 Proposed Budget recommends a total of 225 positions (including Councilmembers), an increase of 14 positions from the previous fiscal year. The FY 2022-23 Proposed Budget recommends a total of 225 positions (including Councilmembers), an increase of 14 positions from the previous fiscal year. Two of the requested positions, the Budget Manager and Purchasing Manager, are new job classifications. The new job descriptions and the revised Unrepresented Employees' Compensation Program, which adds these job classifications to the agreement and sets the salaries, are included as attachments G to J.

Position	Department	FTE
<b>FY 2021-22 Adopted Budget</b>		<b>208.75</b>
<b>FY 2021-22 Amended Budget</b>		
City Attorney	Administration	1.00
Senior Assistant City Attorney	Administration	1.00
Community Relations Coordinator	Administration	0.25
<b>FY 2021-22 Amended Budget</b>		<b>211.00</b>
<b>FY 2022-23 Proposed Budget</b>		
Administrative Assistant	Administration	1.00
Communications Analyst (Limited-Term)	Administration	1.00
Assistant City Manager	Administration	1.00
Legislative Aide (Management Analyst)	Administration	1.00
Budget Manager	Administrative Services	1.00
Purchasing Manager	Administrative Services	1.00
Community Outreach Specialist	Parks and Recreation	1.00
Associate Planner	Community Development	1.00
Code Enforcement Officer	Community Development	1.00
Office Assistant	Community Development	1.00
Senior Planner (Housing)	Community Development	1.00
Senior Planner (Planning)	Community Development	1.00
Management Analyst	Public Works	1.00
Maintenance Worker Lead	Public Works	1.00
<b>FY 2022-23 Proposed Budget</b>		<b>225.00</b>

The Assistant City Manager and Legislative Aide (Management Analyst) positions were added after the FY 2022-23 Proposed Budget was printed. The table below describes all position requests.

Position	Purpose	FTE	Salaries and Benefits
<b>Administration</b>			
Administrative Assistant	Address increased workload in the City Clerk's Office	1	138,055
Assistant City Manager	Oversee strategic planning and outreach, especially in legislative issues and advocacy, oversee outreach to the communities (residents, developers, and property owners), and oversee engagement with affordable housing developers on various ways to deliver low-income and middle-income housing.	1	386,988
Communications Analyst (Three-year Limited-Term)	Support consistent engagement across the organization (developing a plan and training) as well as involvement in individual project communications	1	183,365

Position	Purpose	FTE	Salaries and Benefits
	plans to ensure consistency. This position will also support a higher-touch involvement with our residents and their concerns.		
Legislative Aide (Management Analyst)	Support the City Council on legislative matters and government relations.	1	183,365
<b>Total Administration</b>		<b>4</b>	<b>891,773</b>
<b>Administrative Services</b>			
Budget Manager	Dedicated resource to manage the City's budget process and additional research and analysis workload	1	263,996
Purchasing Manager	Provide a centralized position for purchasing compliance, administration, and policy development	1	263,996
<b>Total Administrative Services</b>		<b>2</b>	<b>527,992</b>
<b>Parks and Recreation</b>			
Community Outreach Specialist	Support marketing and outreach such as surveys, mailings, pop-up events, and community meetings for recreation programs, events, City Work Program items, park-related Capital Improvement Projects, and recreation facilities.	1	147,868
<b>Total Parks and Recreation</b>		<b>1</b>	<b>147,868</b>
<b>Community Development</b>			
Associate Planner	Help with project management and the increased demand and volume of applications/permits.	1	183,923
Code Enforcement Officer	Provide better weekend coverage and alleviate the high volume of cases and inquiries and meet expectations from the community. Provide better interdepartmental and interagency coordination and support.	1	158,125
Office Assistant	Provide more efficient administrative support and coverage throughout the divisions and functions.	1	114,703
Senior Planner (Housing)	Alleviate the increased demand and volume of work and continue to provide efficient project management and coordination.	1	195,607

Position	Purpose	FTE	Salaries and Benefits
Senior Planner (Planning)	Help with project management and the increased demand and volume of applications/permits.	1	195,607
<b>Total Community Development</b>		<b>5</b>	<b>847,965</b>
<b>Public Works</b>			
Management Analyst	Risk and workload - One person with responsibility for all budget, finance and contract actions in Department	1	183,365
Maintenance Worker Lead	Workload - Pavement maintenance within program Reporting Structure - one lead for 8+ Maintenance Workers Critical Work - keeping the streets safe a priority Accountability - Lead MW will ensure continued productivity	1	146,133
<b>Total Public Works</b>		<b>2</b>	<b>329,498</b>
<b>TOTAL ALL POSITIONS</b>		<b>14</b>	<b>\$2,745,096</b>

#### SUMMARY OF BUDGET ADJUSTMENTS (ATTACHMENT D)

The budget adjustments are presented in three primary groups. The first group pertains to the City Work Program. Due to the timing of the City Work Program's adoption, many items were not able to be included in the Proposed Budget. The second group accounts for the City's Capital Improvement Program. The third and final group are for operating changes and generally represent items that were unknown when the Proposed Budget was published. These changes are discussed further below and are also detailed in Attachment D.

Fund Type	Proposed Expenditures as of May 1, 2022	City Work Program	Capital Improvement Program	Operating Changes	Proposed Expenditures as of June 7, 2022
General	92,962,965	736,500	-	390,353	94,089,818
Special Revenue	11,219,109	25,000	-	-	11,244,109
Debt Service	2,675,800	-	-	-	2,675,800
Capital Projects	175,000	-	12,243,600	-	12,418,600
Enterprise	8,979,731	-	373,600	-	9,353,331
Internal Service	9,449,252	82,500	-	(669,046)	8,862,706
<b>TOTAL</b>	<b>\$ 125,461,857</b>	<b>\$ 844,000</b>	<b>\$ 12,617,200</b>	<b>\$ (278,693)</b>	<b>\$ 138,644,364</b>

#### *Addition of Assistant City Manager Position*

This item was added via City Council motion at the Proposed Budget study session. An Assistant City Manager would oversee strategic planning and outreach, especially in legislative issues and

advocacy, oversee outreach to the communities (residents, developers, and property owners), and oversee engagement with affordable housing developers on various ways to deliver low-income and middle-income housing

#### *Addition of Legislative Aide (Management Analyst) Position*

This item was added via City Council motion at the Proposed Budget study session. A Legislative Aide would support the City Council on legislative matters and government relations. This classification doesn't currently exist in the City's classification plan. It is costed at a Management Analyst level based on information received at the study session.

#### *Removal of Economic Development Fuse Fellow/Limited-Term Management Analyst*

Subsequent to submitting this proposal, staff reassessed this budget proposal due to the emergence of a critical factor: updated cost-sharing model parameters. Until recently, Fuse Corps supported a 50/50 cost-sharing model over two years. However, staff recently learned that Fuse Corps does not guarantee this model. The City may have to bear the total cost, which led staff to reconsider how best to move forward with Council prioritized work items.

Alternatively, the same goal of adding bandwidth could be accomplished with a two-year limited-term analyst to support the work of the Division for a similar cost. This item was removed via City Council motion at the Proposed Budget study session. As stated at the Proposed Budget study session, the removal of this proposal/position will result in the Visitor Center and Youth Who Work City Work Programs items being removed due to insufficient staff resources.

#### *Removal of Fixed Assets Requests*

This item was removed via City Council motion at the Proposed Budget study session. Fixed assets requests will be brought to City Council at a later time when additional information is available.

#### *Updated SB 1 Revenue Estimates*

Public Works recommends increasing Senate Bill (SB) 1 revenue estimates by \$348,427 to \$1,337,044 to align with projections from the State. SB 1, also known as the Road Repair and Accountability Act of 2017 or "Gas Tax," provides funding for local streets and roads maintenance. The amount received by the City is tied to overall State gas consumption.

#### *Capital Improvement Program (CIP)*

The CIP recommends \$8,308,600 in new projects, which will be funded by the Capital Reserve.

FY 2021-22 Amended Budget fund balance for the Capital Reserve is estimated to be \$13,579,991. This is in addition to the \$10,000,000 Capital Projects reserve in the General Fund that was established in the FY 2021-22 Mid-Year Financial Report. The current Proposed Budget recommends transferring \$2,500,000 annually to the Capital Reserve. With the proposed transfer of \$2,500,000 and proposed projects of \$8,308,600, the Capital Reserve's fund balance would

decrease by \$5,808,600. If all CIP projects are approved, the Capital Reserve will have approximately \$7,771,391 available for future programming.

Capital Improvement Program Project	Revenue	Expense	Fund Balance
<b>CAPITAL PROJECTS FUNDS</b>			
Blackberry Farms Pools Splash Pad	-	500,000	(500,000)
City Hall and Library Parking Garage: Design and Construction	-	4,000,000	(4,000,000)
City Lighting - LED Lighting	-	1,300,000	(1,300,000)
De Anza Boulevard Buffered Bike Lanes	-	525,000	(525,000)
Jollyman All Inclusive Play Area: Adult-Assistive Bathroom Facilities	-	850,000	(850,000)
Stockmeir, Bryne and Blesch: Inspection Reports and Analysis	-	90,000	(90,000)
ADA Improvements (Category 2 - Multi-Year Funding)	-	95,000	(95,000)
Annual Playground Replacement (Category 2 - Multi-Year Funding)	-	300,000	(300,000)
Park Amenity Improvements (Category 2 - Multi-Year Funding)	-	200,000	(200,000)
Street Light Installation - Annual Infill (Category 2 - Multi-Year Funding)	-	75,000	(75,000)
<b>TOTAL CAPITAL PROJECTS FUNDS</b>	<b>-</b>	<b>7,935,000</b>	<b>(7,935,000)</b>
<b>ENTERPRISE FUNDS</b>			
Blackberry Farm Golf Renovation / Alternative Use Study	-	23,600	(23,600)
Major Recreation Facilities: Use and Market Analysis	-	350,000	(350,000)
<b>TOTAL ENTERPRISE FUNDS</b>	<b>-</b>	<b>373,600</b>	<b>(373,600)</b>
<b>TOTAL ALL FUNDS</b>	<b>\$ -</b>	<b>\$ 8,308,600</b>	<b>\$ (8,308,600)</b>

The Capital Improvement Program (CIP) also requires interfund transfers, which are transfers between funds, to fund the projects. The first table below illustrates the capital projects' budgetary impacts. The FY 2022-23 CIP will use \$8,308,600 in fund balance. The second table below illustrates the necessary interfund transfers between the Capital Projects Funds and the Enterprise Funds.

FY 2022-23 CIP Budget (excluding transfers)			
Fund	Revenue	Expense	Fund Balance
Capital Projects Funds	-	7,935,000	(7,935,000)
Enterprise Funds	-	373,600	(373,600)
<b>TOTAL ALL FUNDS</b>	<b>\$ -</b>	<b>\$ 8,308,600</b>	<b>\$ (8,308,600)</b>

FY 2022-23 CIP Transfers			
Fund	Revenue (Transfer In)	Expense (Transfer Out)	Fund Balance
Capital Projects Funds	3,935,000	4,308,600	(373,600)
Enterprise Funds	373,600	-	373,600
<b>TOTAL ALL FUNDS</b>	<b>\$ 4,308,600</b>	<b>\$ 4,308,600</b>	<b>\$ -</b>

FY 2022-23 Total CIP Budget and Transfers			
Fund	Revenue	Expense	Fund Balance
Capital Projects Funds	3,935,000	12,243,600	(8,308,600)
Enterprise Funds	373,600	373,600	-
<b>TOTAL ALL FUNDS</b>	<b>\$ 4,308,600</b>	<b>\$ 12,617,200</b>	<b>\$ (8,308,600)</b>

### City Work Program

The City Work Program for FY 2022-23 was adopted by City Council on May 17, 2022, after the Proposed Budget was published on May 1, 2022. As a result, the following items and adjustments are recommended to account for City Council's actions.

City Work Program Project	Revenue	Expense	Fund Balance
<b>GENERAL FUND</b>			
CWP - Analyze Potential Revenue Measures	-	50,000	(50,000)
CWP - Artwork at the Library/Exhibits/Poetry and Art Day	-	10,000	(10,000)
CWP - Bicycle Facilities	-	50,000	(50,000)
CWP - Community Engagement on Alternative Transportation and Parking	-	12,000	(12,000)
CWP - Cupertino Store Implementation	-	145,000	(145,000)
CWP - Electrification Study	-	50,000	(50,000)
CWP - Homeless Jobs Program	-	200,000	(200,000)
CWP - Integrated Plan for Community Engagement	-	30,000	(30,000)
CWP - Intergenerational Engagement	-	20,000	(20,000)
CWP - Safe Gun Storage Ordinance	-	12,000	(12,000)
CWP - Senior Strategy	-	35,000	(35,000)
CWP - Student Internship Program	-	15,000	(15,000)
CWP - Lawson Middle School Bikeway <sup>1</sup>	-	-	-
CWP - Vision Zero <sup>2</sup>	-	-	-
CWP - Visitor Center <sup>3</sup>	-	-	-
CWP - Youth Who Work <sup>4</sup>	-	-	-
<b>TOTAL GENERAL FUND</b>	<b>-</b>	<b>629,000</b>	<b>(629,000)</b>
<b>SPECIAL REVENUE FUNDS</b>			
CWP - Housing Programs for De Anza College Students	-	25,000	(25,000)
<b>TOTAL SPECIAL REVENUE FUNDS</b>	<b>-</b>	<b>25,000</b>	<b>(25,000)</b>
<b>CAPITAL PROJECTS FUNDS</b>			
CWP - Study Session on City-Owned Properties <sup>5</sup>	-	-	-
<b>TOTAL CAPITAL PROJECTS FUNDS</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>ENTERPRISE FUNDS</b>			
CWP - Blackberry Farm Golf Course Needs Assessment <sup>6</sup>	-	-	-
<b>TOTAL ENTERPRISE FUNDS</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>INTERNAL SERVICE FUNDS</b>			
CWP - Cybersecurity Public Education	-	7,500	(7,500)
CWP - Hybrid Meeting for City Council and Commission Meetings	-	15,000	(15,000)
CWP - License Plate Readers	-	60,000	(60,000)
<b>TOTAL INTERNAL SERVICE FUNDS</b>	<b>-</b>	<b>82,500</b>	<b>(82,500)</b>
<b>TOTAL ALL FUNDS</b>	<b>\$ -</b>	<b>\$ 736,500</b>	<b>\$ (736,500)</b>

1 Lawson Middle School Bikeway (\$40,000) was included in the FY 2022-23 Proposed Budget printed on May 1, 2022.

2 Vision Zero (\$80,000) was included in the FY 2022-23 Proposed Budget printed on May 1, 2022.

3 Visitor Center (\$40,000) is on hold until additional staff resources are allocated.

4 Youth Who Work (\$70,000) is on hold until additional staff resources are allocated.

5 Study Session on City-Owned Properties (\$90,000) is funded in the CIP budget under Stocklmeir, Bryne and Blesch: Inspection Reports and Analysis.

6 Blackberry Farm Golf Course Needs Assessment (\$23,600) is funded in the CIP budget under Blackberry Farm Golf Renovation / Alternative Use Study.



## ONGOING CHALLENGES

### *Retirement 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 projected CalPERS costs as of the June 30, 2020, actuarial valuation are shown below.

	Projected CalPERS Contributions					
	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
<b>Projected Payroll</b>	\$ 21,566,041	\$ 22,159,108	\$ 22,768,483	\$ 23,394,616	\$ 24,037,969	\$ 24,699,012
<b>Normal Cost (%)</b>	9.7%	9.5%	9.3%	9.1%	8.9%	8.8%
<b>Normal Cost</b>	\$ 2,100,532	\$ 2,105,115	\$ 2,117,469	\$ 2,128,910	\$ 2,139,379	\$ 2,173,513
<b>UAL Payment</b>	\$ 4,775,294	\$ 5,126,000	\$ 5,477,000	\$ 5,326,000	\$ 5,545,000	\$ 5,027,000
<b>Total Contribution</b>	\$ 6,875,826	\$ 7,231,115	\$ 7,594,469	\$ 7,454,910	\$ 7,684,379	\$ 7,200,513
<b>Total Contribution (%)</b>	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. This change resulted in significant increases in retirement costs but improved the financial stability of the pension system.

In FY 2020-21, CalPERS earned 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 discount rate reduction partially offsets the effect of the investment gain. The investment gain and discount rate reduction will impact the City's pension costs starting in FY 2023-24. 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.

In contrast, 2022 has been a volatile year for stocks. Financial conditions are expected to remain tighter with heightened geopolitical risk, supply chain bottlenecks and persistent inflation, and the Federal Reserve's pivot to less accommodative monetary policy. If CalPERS's investments earn less than the 6.8% discount rate, the City can expect increased pension costs. CalPERS investment earnings would affect the City's costs starting FY 2024-25 and would gradually increase over five years.

In May 2018, the City implemented a Pension Rate Stabilization Program (PRSP), a Section 115 Trust, to reduce pension rate volatility on the City's budget. The Section 115 Trust can be used to fund pension costs if CalPERS costs increase.

### *Revenue Volatility*

The City's sales tax revenue is highly dependent on a volatile revenue source: business-to-business (B2B) sales taxes. Business-to-business sales tax revenues are sensitive to economic fluctuations, as Cupertino experienced during the dot-com crash from 2000 to 2004. The loss of one of the City's top three sales tax producers in FY 2013-14 made the City more reliant on a single tax producer, making the City more vulnerable.

The City's sales and transient occupancy tax revenues have experienced significant fluctuation since the outbreak of COVID-19 in 2020. 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. Statewide shelter-in-place mandates reduced sales tax revenue from restaurants and brick and mortar retail but increased sales tax revenue from online sales. Additionally, the conversion to remote work throughout the State increased the demand for computer and electronics equipment, which also increased the City's sales tax revenues. The City's sales tax revenues spiked to historic highs in FY 2020-21, but the City considers it one-time. As the State rebounds from the pandemic 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 allocation as online sales fall from recent historic highs. Transient occupancy remains devastated due to reduced business travel during the pandemic. Although recovery is anticipated by FY 2023-24, the extent of the post-pandemic recovery is unknown.

#### **Budget Study Session**

On May 17, 2022, and May 19, 2022, City Council held study sessions to review the FY 2022-23 Proposed Budget. City staff presented General Fund revenues, expenditures, and forecasts. City Council provided input and requested clarifications for which staff responses were attached.

#### **General Plan Consistency and Environmental Compliance of the Capital Improvement Plan**

State law and the Cupertino Municipal Code (Section 2.32.070.C) require the Planning Commission to review the CIP for consistency with the City's General Plan (General Plan: Community Vision 2015 - 2040). The Planning Commission reviewed the FY 2022-23 Proposed CIP Budget on April 12, 2022, and found that the FY 2022-23 Proposed CIP is consistent with the City's General Plan and that this consistency determination is exempt from CEQA (see draft resolution Attachment L).

City staff has independently studied the Proposed CIP and determined that the CIP is exempt from environmental review pursuant to the exemption in Title 14-California Code of Regulations, §15061(b) (3), and §15378, in that it can be seen with certainty that there is no possibility that this CIP budget action will have a significant effect on the environment due to the approval of the budget, and does not involve approval of any specific project that may have a significant effect on the environment. Each proposed CIP project will be evaluated to determine if the California Environmental Quality Act (CEQA) applies. As applicable, each project will conduct the appropriate level of environmental analysis.

Prepared by: Thomas Leung, Acting Finance Manager

Reviewed by: Kristina Alfaro, Director of Administrative Services

Approved for Submission by: Dianne Thompson, Assistant City Manager

Attachments:

- A – Draft Resolution – Operating Budget for Fiscal Year 2022-23
- B – Draft Resolution – Capital Budget for Fiscal Year 2022-23
- C – Draft Resolution – Appropriations Limit for Fiscal Year 2022-23
- D – Budget Adjustments Summary and Detail
- E – Appropriation Limit for Fiscal Year 2022-23
- F – Appropriation Limit Price and Population Factors for Fiscal Year 2022-23
- G – Budget Manager and Purchasing Manager Job Descriptions
- H – Draft Resolution Amending Unrepresented Employees' Compensation Program 06.07.2022
- I – Unrepresented Comp - Revised - 06.07.2022 Clean Draft - Adding Budget and Purchasing Manager
- J – Unrepresented Comp - Revised - 06.07.2022 Redline Draft - Adding Budget and Purchasing Manager
- K – Proposed Budget Questions and Answers
- L – Planning Commission Draft Resolution
- M – CIP Supplemental Information