



## CITY MANAGER'S OFFICE

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## CITY COUNCIL STAFF REPORT

Meeting: February 16, 2021

### Subject

FY 2020-21 Interim Budget and Key Projects Update

### Recommended Action

Accept City Manager's Interim Budget and Key Projects Report

### Discussion

While the Administrative Services Department will be providing the City's Mid-Year Financial Report on March 2, 2021, a preliminary update on the budget and key projects would be appropriate due to the on-going economic uncertainty related to the pandemic. In summary, General Fund revenues are materializing slightly above last year; however, this has been significantly impacted due to a change in estimate for sales tax accruals. On an adjusted accrual basis, sales tax revenues are projected to come in \$4.7 million or 39% higher than the previous year. Transient occupancy tax continues to experience significant declines beyond original projections. Actual receipts for transient occupancy tax are down \$3.4 million or 79% from the same period last year. Although current revenue projections for FY 20-21 exceed budgetary estimations, City staff recognizes the positive sales tax experience to be one-time and does not anticipate these levels of sales to be recurring in the future.

Expenditures are slightly below the same period last year and aligned with year-end projections and the budget reduction strategies implemented as part of the FY 20-21 Adopted Budget. Additionally, current expenditure projections indicate city-wide savings of approximately \$10.2 million across all funds for FY 20-21.

No recommendations are being made at this time to change course on the City's expenditure reduction strategy and year-end projections given all the uncertainty that remains in the economy.

### Budget Update – General Fund

#### *Revenue*

Major revenue sources for the City in the two quarters of the fiscal year saw mixed results. Sales tax revenue continued to experience significant increases due to strong

business to business sales as schools and businesses rushed to get ready for mass and prolonged telework. This was complemented by a reduction in statewide brick and mortar retail sales which resulted in an increase of on-line sales that contributed to the City's business-to-business industry group as well as the County pool allocation to the City. As of December 31, 2020, the City recognized \$16.8 million in sales tax revenues, which represents 80% of the total amount budgeted in FY 2020-21. It also represents an increase of 39% over the Mid-Year point in FY 2019-20. As part of the FY 19-20 Financial Statement Audit, a change in estimate was applied to the City's sales tax accrual practice. This resulted in two-month shift in sales tax revenues in which payments received in July and August were reclassified to the previous fiscal year (FY 2019-20). The purpose of this change in estimate was to achieve more consistent and accurate data for reported periods.

Transient occupancy tax continued to be impacted from COVID-19 and the shelter-in-place orders. As of December 31, 2020, the City recognized \$879,000 in transient occupancy tax, which represents 12% of the total amount budgeted in FY 20-21. It also represents a decrease of 79% over the Mid-Year point of FY 2019-20. While the City anticipates moderate recovery on a monthly basis as the vaccine continues to roll out, much of the transient occupancy tax's recovery will be driven on shelter-in-place orders and business' short and long-term decisions to bring their employees back to the work place.

Property taxes came in \$457,000, or 6%, higher than last year and are within forecast range. Because property values for the FY 20-21 roll were assessed on January 1, 2020 (prior to the pandemic), staff are not anticipating adverse impacts on property taxes in FY 20-21. The County Assessor's Office is anticipating roll increases of 1.036% for the FY 21-22 roll. This is the first time in many years that the roll has not been applied the full 2% consumer price index (CPI) inflator. HdL, the City's property tax consultant, recently issued a five-year forecast for the City's property tax revenues:

FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
\$27,839,030	\$28,745,930	\$29,848,859	\$31,013,953	\$32,238,690

There is still uncertainty around post-pandemic impacts to property values, such as expanded and/or permanent telecommuting. Despite the uncertainty, the City's property tax base remains strong and the forecasted future periods project consistent growth.

Charges for services revenue is down \$550,000, or 9% from the same point last year driven mainly by decreases in cost allocation charges. Additionally, charges for services experienced decreases in Parks & Recreation service fees that were offset by increases in Planning fees. Although the City had forecasted this revenue category would experience a decrease of 16% in the current fiscal year, current projections are indicating the City will end the year only slightly below the previous fiscal year.

While these revenue fluctuations are significant, at this time, the City does not anticipate the General Fund's total budgeted revenue to fall below original projections. The City anticipates the positive one-time sales tax revenues to exceed the reductions in transient occupancy tax and charges for services that have resulted from COVID-19 and shelter-in-place orders.

#### *Expenditures*

Actual expenditures in the General Fund are tracking about 2% lower than the mid-year point last fiscal year. This is driven mainly by savings in materials and contracts and offset by increases in retirement and cost allocation charges. Expenditures are still within range of year-end estimates.

#### *Fund Balance*

General Fund fund balance is projected to end FY 19-20 at \$74.5 million, including \$34.4 million in unassigned fund balance. As of December 31, 2020, the General Fund fund balance is estimated to end the year with \$79.6 million, including \$35.5 million in unassigned. This projection also assumes a \$2 million additional contribution to the Pension Section 115 Trust in accordance with the Trust's funding schedule.

These unassigned fund balance dollars may be used in many ways at City Council's discretion. The City may:

- 1) Retain the unassigned reserve in the General Fund to absorb impacts from COVID-19 and recessionary conditions into the future,
- 2) Fund the Section 115 Pension Trust
- 3) Transfer a reasonable amount to the Capital Reserve to fund future capital projects, and/or
- 4) Bolster General Fund reserves (economic uncertainty, natural disaster, pension).

#### Key Project Updates

During the City's Work Program development, Council requested updates on key projects identified as high priority. These key project updates are listed below. Updates for all other City Work Program projects will be brought to City Council on March 2, 2021 as part of the Mid-Year Financial Report.

#### Regnart Creek Trail

Bids for the trail project were received on January 8th. The qualified low bid contractor was selected and the contract was executed within the authorized budget.

Environmental surveys of sensitive areas are being conducted and work on the project will begin in early February. The fence project did not receive any bids and staff will be negotiating with a contractor to complete the work.

#### Transit Center at State Route 85 (SR 85) and Stevens Creek Boulevard

The FY 2020-2021 VTA budget allocated \$2.5M for initial project steps including project definition, preliminary engineering, and outreach. It is not known how or when VTA will allocate the expected \$350M of Measure B funds for the SR 85 project. Measure B funding of BART to San Jose has the potential to significantly delay this project. Final recommendations for the draft Measure B FY22/23 budget is expected from VTA in February with final action scheduled to occur on May 6, 2021.

#### Library Expansion

The contractor has mobilized fencing and a construction trailer at the site and demolition of the existing single-story children's reading room is scheduled for February. Building permit plans are in progress and are being reviewed by City staff. Completion of the two-story expansion is scheduled for December 2021.

#### Lawrence Mitty

The property was acquired by the City in September 2020. Annexation of the property is being coordinated with the City of San Jose and the Local Agency Formation Commission (LAFCO). Efforts to begin the master plan process for the park are anticipated to begin in Spring of 2021.

#### Gateway Process

A public hearing was conducted at the Feb 2, 2020 Council meeting; however, the item was continued to a date uncertain. A study session is being prepared to explore options with the Council.

#### Objective Standards

The City Manager and staff, with the City Attorney's input, have categorized the items identified as needing clarification by individual councilmembers, Planning Commissioners and members of the public into six categories. The items in the first category are expected to be presented for the Council's consideration in late Spring 2021. The other items are sorted into five categories as follows:

- Current Work Program Items – Items that are part of the current FY20/21 Work Program.
- Completed – Items that have been completed as part of prior projects/actions or Work Program items.
- Housing Element Update – Items that may not be completed by themselves due to limitations of state law but may be considered as part of upzoning that may be necessary to accommodate the City's RHNA.
- Future Work Program Items – Items that the City may consider incorporating into future Work Programs based on staffing and budgetary considerations.
- On Hold – Items the Planning Commission recommended not proceed or those that may be considered with a future comprehensive General Plan update.

Sustainability Impact

No sustainability impact.

Fiscal Impact

No fiscal impact.

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