



ADMINISTRATIVE SERVICES DEPARTMENT

CITY HALL
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CITY COUNCIL STAFF REPORT

Meeting: May 18, 2021

Subject

Accept the Third Quarter Financial Report for Fiscal Year 2020-21 and City Work Program and Key Project Update; consider adopting Resolution 21-XXX approving Budget Modification #2021-140 increasing appropriations by \$787,279 and revenues by \$9,552,599; consider approving \$2,000,000 contribution from the General Fund to the City's Section 115 Pension Trust.

Recommended Action

1. Accept the City Manager's Third Quarter Financial Report for FY 2020-21 and City Work Program and Key Project Update and provide any input.
2. Adopt Resolution 21-XXX approving Budget Modification #2021-140 increasing appropriations by \$787,279 and revenues by \$9,552,599.
3. Approve \$2,000,000 contribution from the General Fund to the City's Section 115 Pension Trust.

Background

On June 16, 2020, the City Council adopted the Fiscal Year (FY) 2020-21 Budget, a \$110,591,225 spending plan for the City of Cupertino. On November 17, 2020 Council received an update on the City's spending plan as part of the City Manager's First Quarter Financial Report, which revised the budget to account for encumbrances of \$5,775,664 and carryover appropriations of \$83,404,472 from FY 2019-20. These carryover appropriations included \$35 million in capital projects, \$20 million for Vallco Town Center, and \$8 million for Lawrence Mitty Park. Encumbrances represent funds for obligations related to unfilled purchase orders or unfilled contracts that are rolled over from one year to the next until those obligations are fulfilled or terminated. Carryover appropriations are unencumbered funds for unfinished projects that are carried over for use in the following fiscal year to complete those projects.

In the first three quarters of FY 2020-21, Council approved \$41,193,122 in additional appropriations mostly related to the refinancing of the City's Certificates of Participation which increased current year appropriations by \$27.5 million, a \$5 million

transfer to the Capital Reserve, and a \$4.5 million increase for the Torre Ave. property acquisition.

This resulted in an amended budget of \$240,964,483. These FY 2020-21 budget adjustments are summarized in the following table:

Third Quarter Financial Report Summary of Budget Adjustments by Fund

Fund	FY 20-21 Adopted	Carryovers	Encumbrances	Adjustments Approved in 1st-3rd Quarter	FY 20-21 Amended Budget as of March 31, 2021
General	\$ 80,528,492	\$ 26,980,460	\$ 3,176,881	\$ 11,071,577	\$ 121,757,410
Special Revenue	7,778,561	19,458,782	555,369	1,047,239	28,839,951
Debt Service	3,169,138	-	-	27,549,892	30,719,030
Capital Projects	3,762,723	35,073,216	1,732,364	1,125,600	41,693,903
Enterprise	7,679,246	1,713,928	120,218	398,814	9,912,206
Internal Service	7,673,065	178,086	190,832	-	8,041,983
Total All Funds	\$ 110,591,225	\$ 83,404,472	\$ 5,775,664	\$ 41,193,122	\$ 240,964,483

Discussion

The Third Quarter Financial Report focuses on the status of the City's budget as of March 31, 2021 and recommends adjustments to ensure the budget reflects the City's current revenue outlook and is responsive to changing spending priorities.

As shown in the chart below, \$787,279 in additional appropriations are being requested. These are offset with \$9.6 million in additional revenues. If approved, the City's new spending plan would total \$241,751,762 across all funds.

Third Quarter Financial Report Summary by Fund

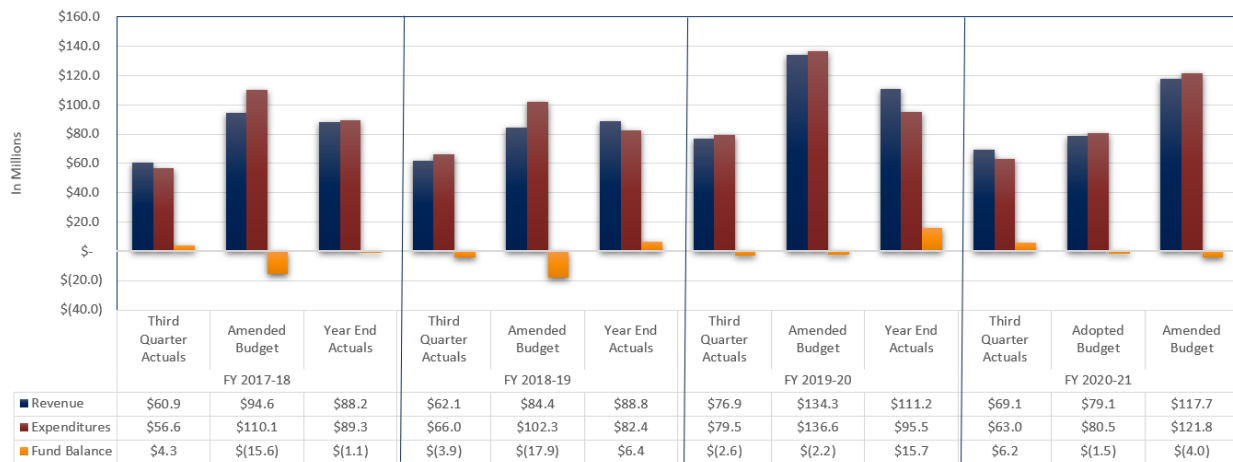
Fund	Amended Budget as of March 31, 2021	Requested 3rd Quarter Adjustments	Year-End Projections
General	\$ 121,757,410	\$ 128,257	\$ 121,885,667
Special Revenue	28,839,951	733	28,840,684
Debt Service	30,719,030	-	30,719,030
Capital Projects	41,693,903	39,200	41,733,103
Enterprise	9,912,206	589,889	10,502,095
Internal Service	8,041,983	29,200	8,071,183
Total All Funds	\$ 240,964,483	\$ 787,279	\$ 241,751,762

Approval of these requests would increase the projected ending fund balance across all funds by \$8,765,320 as summarized by Department in the table below:

Department	Expense	Revenue	Fund Balance
Administration	\$ 30,665	\$ -	\$ (30,665)
Administrative Services	\$ 310,574	\$ -	\$ (310,574)
Innovation and Technology	\$ 37,295	\$ -	\$ (37,295)
Parks & Recreation	\$ 615,697	\$ 645,750	\$ 30,053
Public Works	\$ 297,393	\$ 40,167	\$ (257,226)
Non-Departmental	\$ (504,345)	\$ 8,866,682	\$ 9,371,027
TOTAL ALL DEPARTMENTS	\$ 787,279	\$ 9,552,599	\$ 8,765,320

General Fund Update

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



The City's General Fund historical revenue, expenditures and fund balance demonstrates the City has historically budgeted the use of fund balance. This means the General Fund's amended budget estimated appropriations to exceed revenues. This use was not due to a structural deficit but due to the transfer out of excess fund balance from the General Fund to the Capital Reserve in accordance with the City's One-time use policy. Due to the City's encumbrance and budget carryover process, excess fund balance resulted as part of the year end actuals.

Revenue

As of Third Quarter, General Fund revenue is tracking at \$69.1 million which is \$7.7 million, or 10%, lower the same time last year due to a one-time transfer into the General Fund of \$10 million from the Capital Reserve that was a COVID-19 mitigation strategy late last fiscal year. Additionally, transient occupancy has been impacted by

COVID-19 for the entire fiscal year and is tracking \$5 million, or 80%, below the same time last year.

Comparison of FY 2019-20 and FY 2020-21 General Fund Third Quarter Revenues

Revenue Category	3rd Qtr 2020	3rd Qtr 2021	Variance	% Change
05 - Sales tax	\$ 23,030,624	\$ 29,074,921	\$ 6,044,297	26%
10 - Property tax	15,818,537	17,078,696	1,260,158	8%
15 - Transient occupancy	6,291,592	1,257,976	(5,033,616)	-80%
20 - Utility tax	2,247,616	2,053,658	(193,958)	-9%
25 - Franchise fees	1,591,598	1,486,102	(105,497)	-7%
30 - Other taxes	1,068,099	2,156,548	1,088,450	102%
35 - Licenses and permits	4,048,493	3,099,012	(949,481)	-23%
40 - Use of money and property	1,703,481	1,427,530	(275,951)	-16%
45 - Intergovernmental revenue	492,944	1,139,709	646,766	131%
50 - Charges for services	8,877,563	8,207,298	(670,265)	-8%
55 - Fines and forfeitures	254,611	83,408	(171,202)	-67%
60 - Miscellaneous	1,154,168	1,167,244	13,076	1%
65 - Transfers in	10,012,000	507,831	(9,504,169)	-95%
70 - Other financing sources	\$ 268,305	\$ 391,475	\$ 123,170	46%
Grand Total	\$ 76,859,630	\$ 69,131,408	\$ (7,728,221)	-10%

Sales Tax received as of third quarter was \$6.0 million (or 26%) more than last year due to increases in the City's business-to-business industry group and its County Pool allocation share. This is directly related to COVID-19 and State-wide efforts to convert to a remote work environment. Additionally, with Shelter-in-Place orders in effect, there was a reduction in brick-and-mortar retail sales which resulted in an increase in on-line sales that also increased the City's tax base. HdL, the City's sales tax consultant, recently provided a report on sales tax performance during the period October-December 2020. Restaurants and Hotels, General Consumer Goods, Fuel and Service Stations, Building and Construction, and Autos and Transportation were down 53%, 20.2%, 61.9%, 45%, and 7.6%, respectively. This poor performance was vastly overshadowed by strong performance in the business to business and pool allocations. While similar trends are continuing in the first quarter (January-March 2021), this performance is a one-time experience. While the State continues to roll out the vaccine and the economy recovers, we can anticipate the City's major industry groups to balance the scale back to normalcy. As of March 31, 2021, the City's sales tax was approximately 99% of the annual budget for that revenue category. Staff are recommending an increase in the City's sales tax estimate of \$4,014,381 to better align with year-end projections.

Effective October 1, 2019, companies such as Amazon, eBay and Google who provide sales tax related services to other retailers are required to assume the obligation for collecting and remitting their client's sales and use tax. The Marketplace provision was part of AB 147 which was adopted to implement California's approach to the U.S. Supreme Court decision in South Dakota v. Wayfair Inc. AB 147 requires out-of-state retailers with annual combined sales of \$500,000 or more to now collect and remit this state's sales and use tax from its customers. Applying the \$500,000 threshold to the sum of all the third-party transactions that facilitators process for their clients, is hoped to produce moderate gains in previously uncollected revenues for the state, cities, counties, and local transaction tax districts. Facilitator tax remittances from merchandise inventoried in California will be allocated to specific jurisdictions while receipts from deliveries outside of the state will be distributed via the pools based on respective share of the pool. As of the last reporting quarter Cupertino's share of the County pool was 14.7%, up from 9.3% in the previous quarter.

Property Tax revenue has come in higher than the same time last year by \$1.3 million (or 8%). Residential use values increased \$801.5 million (or 5%) and represented 44% of all growth experienced in the City. Commercial properties posted an increase of \$169 million or a year-over-year increase of 2.3%. Unsecured assets in Cupertino increased \$782 million (or 47.6%) and were primarily attributable to assets owned by Apple Inc. Overall, the FY 20-21 property tax revenues are anticipated to increase by 6.95% over the previous fiscal year. The County Assessor's Office has informed the City that a 1.036% inflator will be applied to the 2021-22 roll. This is the first time in recent history that an inflator below the maximum 2% consumer price index (CPI) will be used. 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 HdL is currently projecting property taxes over the next five years as presented below:

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

Transient Occupancy Tax continued to be impacted by COVID-19 and the shelter-in-place orders. As of March 31, 2021, the City recognized \$1.3 million in transient occupancy tax, which represents a \$5 million (or 80%) decrease over last year. While the City anticipates moderate recovery monthly as the vaccine continues to roll out, much of the transient occupancy tax's recovery will be driven by shelter-in-place orders and business' short and long-term decisions to bring their employees back to the workplace. Staff are currently estimating a 3–4-year period before full recovery is achieved.

Utility Tax is down approximately \$194,000 (or 9%) mainly due to decreases in utility revenue coming from Silicon Valley Clean Energy Authority over the previous fiscal year.

Other Taxes have increased by approximately \$1.1 million (or 102%) primarily due to a construction tax received from PSI Inc. for a public storage facility.

Franchise Fees have decreased by \$105,000 (or 7%) primarily due to a decrease in Recology franchise fees collected.

Licenses and Permits decreased by \$949,000 (or 41%) due to a one-time \$1.4 million permit fee for Vallco Town Center received in FY 19-20.

Use of Money and Property decreased by \$276,000 (or 16%) due to decreased interest earnings from the City's investment portfolio.

Intergovernmental Revenue has increased by \$647,000 (or 131%) due to CARES Act funding received in the amount of \$735,259.

Charges for Services have decreased by \$670,000 (or 8%) 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.

Fines and Forfeitures have decreased \$171,000 (or 67%) primarily due to fewer citations administered in the current year due to COVID-19 and shelter-in-place orders.

Miscellaneous revenue has increased by \$13,000 (or 1%) due primarily to an increase to an ongoing donation from Apple Inc. to fund additional law enforcement services.

Transfers In have decreased by \$9.5 million (or 95%) due to a one-time \$10 million transfer received from the Capital Reserve in FY 19-20.

Other Financing Sources increased \$123,000 (or 46%) due to an increase in refundable deposit administrative fees collected over the previous fiscal year.

Expenditures

As of Third Quarter, overall expenditures in the General Fund have decreased by \$16.5 million, or 21%, when compared to the same time last year due to a \$20 million transfer from the General Fund to the Capital Reserve approved as part of mid-year. Although

\$20 million was transferred at Mid-Year last year, \$10 million was transferred back to the General Fund at Third Quarter in response to COVID-19. The following table shows the differences between General Fund expenditures as of the third quarter in the current fiscal year and the prior fiscal year:

Comparison of FY 2019-20 and FY 2020-21 General Fund Third Quarter Expenditures

Expenditure Category	3rd Qtr 2020	3rd Qtr 2021	Variance	% Change
05 - Employee compensation	\$ 13,616,045	\$ 14,025,160	\$ 409,115	3%
10 - Employee benefits	5,956,476	6,501,104	\$ 544,628	9%
15 - Materials	3,546,836	2,680,853	\$ (865,982)	-24%
20 - Contract services	16,428,381	15,412,930	\$ (1,015,452)	-6%
25 - Cost allocation	7,339,858	7,855,155	\$ 515,297	7%
30 - Capital outlays	-	171,322	\$ 171,322	0%
31 - Special projects	1,524,095	973,256	\$ (550,839)	-36%
45 - Transfer out	30,892,276	15,148,689	\$ (15,743,587)	-51%
50 - Other financing uses	198,597	205,633	\$ 7,036	4%
Grand Total	\$ 79,502,604	\$ 62,974,394	\$ (16,528,209)	-21%

Salary and Benefits increases are approximately \$409,000 (or 3%). Compensation increases are due primarily to labor negotiations approved by Council on July 16, 2019. Increases in salary, driven by cost-of-living adjustments and equity adjustments, can be anticipated for the span of the negotiation term ending June 30, 2022. These increases were offset by decreases due to vacancy savings and savings through attrition. Benefit increases were primarily due to retirement, health, and workers' compensation costs. As part of the budget reduction strategies in FY 20-21, savings through attrition in the amount of \$800,000 are anticipated and current year-end projections are aligned.

Materials costs are down approximately \$866,000 (or 24%) due primarily to the budget reduction strategies put in place in FY 20-21. The strategy called for approximately \$670,000 in total materials savings and current year-end projections are aligned.

Contract Services have decreased approximately \$1 million (or 6%) due primarily to the budget reduction strategies put in place in FY 20-21. The strategy called for approximately \$1 million in total contract services savings and current year-end projections are aligned.

Cost Allocation increases are approximately \$515,000 (or 7%) due primarily to increases in I&T and Human Resources charges.

Capital Outlay costs are up approximately \$171,000, due to capitalizable facilities costs that were not incurred in the previous fiscal year.

Special Projects decreases are approximately \$551,000 (or 36%) due to fluctuations in one-time expenditures. Additionally, as part of the budget reduction strategy implementation, savings of \$500,000 was anticipated and current year-end projections are aligned.

Transfers Out decreases are approximately \$15.7 million (or 51%) due to a reduction in the transfer amount to the Capital Reserve in the current fiscal year. \$20 million was transferred in the previous fiscal year, whereas, \$5 million was transferred this year.

Other Financing Uses have increased slightly due to refundable deposit on-call contracts for Community Development Department.

All Other Funds Update and Year End Projections

Revenue

As of Third Quarter, revenue in all other funds is tracking at \$56.9 million, or 10%, lower than the same time last year due primarily to an overall reduction in transfers from the General Fund to the Capital Improvement Program because of a decrease in Capital Projects in FY 20-21 compares to FY 19-20.

Revenue Category	3rd Quarter 2020	3rd Quarter 2021	Variance	% Change
30 - Other taxes	\$ 280,003	\$ 316,965	\$ 36,962	13%
40 - Use of money and property	1,151,172	811,589	(339,582)	-29%
45 - Intergovernmental revenue	2,280,315	2,926,799	646,484	28%
50 - Charges for services	8,450,416	7,453,156	(997,260)	-12%
55 - Fines and forfeitures	14,091	3,923	(10,168)	-72%
60 - Miscellaneous	3,518,522	2,042,549	(1,475,972)	-42%
65 - Transfers in	46,949,995	17,138,138	(29,811,857)	-63%
70 - Other financing sources	250,589	26,193,470	25,942,881	10353%
Grand Total	\$ 62,895,102	\$ 56,886,590	\$ (6,008,512)	-10%

Other Taxes increased approximately \$37,000 (or 13%) due to increased housing mitigation taxes received over the previous fiscal year.

Use of Money and Property decreased by approximately \$340,000 (or 29%) due to decreased interest earnings from the City's investment portfolio compared to the previous fiscal year.

Intergovernmental Revenue increased by approximately \$646,000 (or 28%) due primarily to an increase in our Transportation Fund collections of Vehicle Registration Fees, Gas Tax, and SB1 Road Maintenance and Rehabilitation funding.

Charges for services decreased approximately \$997,000 (or 19%) primarily due to a reduction in Youth, Teen, and Recreation and Sports Center compared to the previous fiscal year.

Fines and forfeitures decreased approximately \$10,000 (or 72%) due to a decreased volume in citations administered over the prior year.

Miscellaneous revenue decreased approximately \$1.5 million (or 42%) due primarily to an Apple Grant received to fund various CIP projects for bikeways, trails, and sidewalks in FY 19-20.

Transfers In decreased approximately \$29.8 million (or 63%) due to a reduction in the Mid-year transfer about from the General Fund to the Capital Reserve.

Other financing sources increased approximately \$25.9 million (or 10,353%) due to the refinancing of the City's Certificates of Participation which achieved approximately \$5 million in savings over the next 10 years.

Expenditures

As of third quarter, overall expenditures are tracking at \$2.5 million (or 15%) higher than the same time last year due to the refinancing of the City's Certificates of Participation which was offset by a significant reduction in the amount of transfers required for new Capital Improvement Program projects in FY 20-21.

Expenditure Category	3rd Quarter 2020	3rd Quarter 2021	Variance	% Change
05 - Employee compensation	\$ 3,459,557	\$ 3,452,686	\$ (6,871)	0%
10 - Employee benefits	2,254,178	2,478,311	224,133	10%
15 - Materials	1,223,556	1,509,082	285,525	23%
20 - Contract services	4,751,303	2,467,408	(2,283,895)	-48%
25 - Cost allocation	2,238,985	1,642,905	(596,080)	-27%
30 - Capital outlays	7,538,305	9,109,789	1,571,485	21%
31 - Special projects	4,026,560	3,104,042	(922,518)	-23%
40 - Debt services	441,419	27,645,398	27,203,979	6163%
45 - Transfer out	26,069,719	2,497,280	(23,572,439)	-90%
Grand Total	\$ 52,003,582	\$ 54,483,753	\$ 2,480,171	5%

Salary and Benefits increases are approximately \$217,000 (or 3.8%). Compensation decreases are due primarily to a reduction in part-time compensation due to COVID-19 and vacancy savings through attrition. Benefit increases were primarily due to retirement, health, and workers' compensation costs. As part of the budget reduction strategies in FY 20-21, savings through attrition in the amount of \$800,000 are anticipated and current year-end projections are aligned.

Materials have increased approximately \$286,000 (or 23%) and is due to COVID-19 grant expenditures in the City's Community Development Block Grant Special Revenue Fund.

Contract Services have decreased approximately \$2.3 million (or 48%) due, but not limited to, decreases in the Recology franchise agreement and decreased services provided at the Sports Center throughout construction and COVID-19.

Cost Allocation decreased approximately \$596,000 (or 27%) due primarily to increases in Innovation & Technology, Human Resources, and Finance charges.

Capital Outlays increased approximately \$1.6 million (or 21%) due to several projects progressing including, but not limited to, the Library Expansion and the acquisition of Lawrence Mitty Park.

Special Projects decreased approximately \$923,000 (or 23%) due to decreases in annual asphalt project spending.

Debt Service increased \$27.2 million (or 6,163%) due to the refinancing of the City's Certificates of Participation in the fall of 2020.

Transfers Out decreased \$23.6 million (or 90%) due to a reduction in new Capital Improvement Program projects in FY 20-21 that would ordinarily require a transfer out of the Capital Reserve. Additionally, a \$10 million transfer from the Capital Reserve to the General Fund occurred in the previous year.

Budget Adjustment Requests

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

Fund	Department	Expense	Revenue	Fund Balance	Proposal
GENERAL FUND					
100 General Fund	Administration	\$ 1,468	\$ -	\$ (1,468)	COVID - General Supplies
100 General Fund	Administration	\$ 29,165	\$ -	\$ (29,165)	COVID - Homeless Encampment
100 General Fund	Administration	\$ 32	\$ -	\$ (32)	COVID - Sanitation and Cleaning
100 General Fund	Administrative Services	\$ 8,508	\$ -	\$ (8,508)	COVID - General Supplies
100 General Fund	Administrative Services	\$ 9,110	\$ -	\$ (9,110)	COVID - Legal
100 General Fund	Administrative Services	\$ 491	\$ -	\$ (491)	COVID - Telework
100 General Fund	Administrative Services	\$ 156,647	\$ -	\$ (156,647)	COVID - EDD Unemployment
100 General Fund	Administrative Services	\$ 135,818	\$ -	\$ (135,818)	EDD Unemployment
100 General Fund	Innovation & Technology	\$ 19,337	\$ -	\$ (19,337)	COVID - Telework
100 General Fund	Parks & Recreation	\$ 5,937	\$ -	\$ (5,937)	COVID - General Supplies
100 General Fund	Parks & Recreation	\$ 14,652	\$ -	\$ (14,652)	COVID - PPE
100 General Fund	Parks & Recreation	\$ 1,643	\$ -	\$ (1,643)	COVID - Sanitation and Cleaning
100 General Fund	Parks & Recreation	\$ 27,451	\$ -	\$ (27,451)	COVID - Senior Meal Delivery
100 General Fund	Parks & Recreation	\$ 3,225	\$ -	\$ (3,225)	COVID - Virtual Programming
100 General Fund	Public Works	\$ 177,962	\$ -	\$ (177,962)	COVID - Facilities
100 General Fund	Public Works	\$ 19,783	\$ -	\$ (19,783)	COVID - General Supplies
100 General Fund	Public Works	\$ 2,262	\$ -	\$ (2,262)	COVID - PPE
100 General Fund	Public Works	\$ 2,139	\$ -	\$ (2,139)	COVID - Sanitation and Cleaning
100 General Fund	Public Works	\$ 21,631	\$ -	\$ (21,631)	Telephone and Data Services
100 General Fund	Non-Departmental	\$ (535,258)	\$ -	\$ 535,258	COVID - Reimbursement
100 General Fund	Non-Departmental	\$ -	\$ 4,014,381	\$ 4,014,381	Sales tax estimate increase
100 General Fund	Non-Departmental	\$ -	\$ 4,852,301	\$ 4,852,301	American Rescue Plan Act
100 General Fund	Non-Departmental	\$ 26,254	\$ -	\$ (26,254)	City Property Storm Water Fee
TOTAL GENERAL FUND		\$ 128,257	\$ 8,866,682	\$ 8,738,425	
SPECIAL REVENUE FUNDS					
230 Environmental Management/Clean					
Creek Storm Drain	Public Works	\$ -	\$ 30,913	\$ 30,913	City Property Storm Water Fee
270 Transportation	Public Works	\$ 733	\$ -	\$ (733)	COVID - Sanitation and Cleaning
TOTAL SPECIAL REVENUE FUNDS		\$ 733	\$ 30,913	\$ 30,180	
CAPITAL PROJECTS FUNDS					
McClellan West Parking Lot Improvements					
420 Capital Improvement Program	CIP	\$ 39,200	\$ -	\$ (39,200)	Environmental Monitoring
TOTAL CAPITAL PROJECTS FUNDS		\$ 39,200	\$ -	\$ (39,200)	
ENTERPRISE FUNDS					
560 Blackberry Farm Golf Course	Non-Departmental	\$ 606	\$ -	\$ (606)	City Property Storm Water Fee
560 Blackberry Farm Golf Course	Parks & Recreation	\$ 31	\$ -	\$ (31)	COVID - General Supplies
560 Blackberry Farm Golf Course	Parks & Recreation	\$ 145	\$ -	\$ (145)	COVID - Sanitation and Cleaning
570 Sports Center	Parks & Recreation	\$ 2,688	\$ -	\$ (2,688)	COVID - General Supplies
570 Sports Center	Parks & Recreation	\$ 1,377	\$ -	\$ (1,377)	COVID - Sanitation and Cleaning
570 Sports Center	Parks & Recreation	\$ 11,235	\$ -	\$ (11,235)	COVID - Virtual Programming
570 Sports Center	Parks & Recreation	\$ 547,313	\$ 645,750	\$ 98,437	Tennis Program
570 Sports Center	Public Works	\$ 21,279	\$ -	\$ (21,279)	COVID - Facilities
570 Sports Center	Public Works	\$ 1,162	\$ -	\$ (1,162)	Telephone and Data Services
570 Sports Center	Non-Departmental	\$ 2,431	\$ -	\$ (2,431)	City Property Storm Water Fee
580 Recreation	Non-Departmental	\$ 1,622	\$ -	\$ (1,622)	City Property Storm Water Fee
TOTAL ENTERPRISE FUNDS		\$ 589,889	\$ 645,750	\$ 55,861	
INTERNAL SERVICE FUNDS					
610 Innovation & Technology	Innovation & Technology	\$ 82	\$ -	\$ (82)	COVID - General Supplies
610 Innovation & Technology	Innovation & Technology	\$ 1,664	\$ -	\$ (1,664)	COVID - Sanitation and Cleaning
610 Innovation & Technology	Innovation & Technology	\$ 776	\$ -	\$ (776)	COVID - PPE
610 Innovation & Technology	Innovation & Technology	\$ 14,695	\$ -	\$ (14,695)	COVID - Telework
610 Innovation & Technology	Innovation & Technology	\$ 412	\$ -	\$ (412)	COVID - Facilities
630 Vehicle & Equipment Replacement	Innovation & Technology	\$ 68	\$ -	\$ (68)	COVID - PPE
630 Vehicle & Equipment Replacement	Innovation & Technology	\$ 261	\$ -	\$ (261)	COVID - Sanitation and Cleaning
630 Vehicle & Equipment Replacement	Public Works	\$ 11,242	\$ 9,254	\$ (1,988)	Vehicle accident and settlement
TOTAL INTERNAL SERVICE FUNDS		\$ 29,200	\$ 9,254	\$ (19,946)	
TOTAL ALL FUNDS		\$ 787,279	\$ 9,552,599	\$ 8,765,320	

COVID-19 Reimbursement Adjustment – On October 6, 2020, City Council approved a budget funding request in the amount of \$735,259 for COVID-19 related purchases. This budget allocation was recorded in a single non-departmental account in the General

Fund. Prior and subsequent to the funding, Departments had been purchasing COVID-19-related items which had a direct impact on their respective budgets. On November 19, 2020, City Council authorized a transfer of \$200,000 from this allocation to the BMR Special Revenue fund for Wolfe Road Encampment. Currently, the City does not anticipate a significant volume or dollar amount of additional purchases in the future and is requesting the Department budgets receive the allocations to replenish past purchases. In total, \$535,258 is being reimbursed to Department budgets and has no impact on fund balance across all funds.

EDD Unemployment – The City's unemployment benefit costs have significantly increased because of COVID-19. In FY 20-21, the City has incurred \$292,465 in unemployment costs with the Employment Development Department (EDD) of the State of California. \$156,647 will be replenished by the budget allocation established by City Council on October 6, 2020; however, the remaining \$135,818 is an additional appropriation request. Approximately one-third (1/3) or \$92,821 has been reimbursed as a component of the CARES Act.

Telephone and Data Services – Charges for telephone, data, and cable/internet service was overlooked in the base budget process for various Public Works' Facility budgets. The \$22,793 will be an on-going cost.

Sales Tax Estimate Increase – Strong performance in the business-to-business industry which emphasized the positive performance in the City's County pool allocations has continued the increases in sales tax revenues. While similar trends are continuing in the first quarter (January-March 2021), this performance is a one-time experience. While the State continues to roll out the vaccine and the economy recovers, we can anticipate the City's major industry groups to balance the scale back to normalcy. As of March 31, 2021, the City's sales tax was approximately 99% of the annual budget. Staff are recommending an increase in the City's sales tax estimate of \$4,014,381 to better align with year-end projections.

American Rescue Plan Act – With the recently passed Act, California cities are expected to receive more than \$7 billion in much needed assistance to help offset the billions of dollars in revenue shortfalls due to the shutdown of local economies and the billions spent protecting public health, delivering essential services, protecting vulnerable populations, and helping small businesses survive during the pandemic. The City of Cupertino is scheduled to receive \$9,704,602 in total funding. The first round of funding (\$4,852,301) is anticipated to be received during the month of May 2021.

City Property Storm Water Fee – Although City properties are exempt from property taxes, they are still subject to the 2019 Storm Water Special Assessment Fee. As such, this budget request is transferring \$30,913 from various City funds to the Environmental Management/Clean Creek Special Revenue Fund, where the 2019 Storm Water Fee is recorded.

McClellan West Parking Lot Improvements Environmental Monitoring – This Capital Improvement Program capital project has been completed; however, to satisfy mandatory environmental monitoring regulations of federal permit from the Department of Fish and Wildlife, a one-time \$39,200 budget request is needed.

Sports Center Tennis Program – The Sports Center needs additional funds to support the current tennis program. The budget was originally reduced due to COVID-19 and the State-mandated restrictions. However, since tennis could be played safely during the pandemic, registration numbers and the resulting revenue generated have exceeded what was originally estimated. The program requires additional funds to continue to compensate the contractor and to cover the excess bank charges from the additional revenue earned and the projected revenue for the rest of the fiscal year. The \$547,313 in additional appropriations will be offset with \$645,750 in program revenues.

Vehicle Accident and Settlement – Additional appropriations of \$11,242 are needed to fund the claim and repair costs for a vehicle accident. As a result of the claim process, the City will receive \$9,254 in settlement.

Section 115 Trust (PRSP) – Staff are recommending an additional contribution of \$2,000,000 to the City's Section 115 Trust (Pension Rate Stabilization Program). The City established this trust with PARS in 2018 for purposes of 1) maintaining local control over assets, 2) mitigating impact of large pension cost fluctuations, 3) potential for higher investment returns than General Fund, and 4) asset diversification. The trust's assets are required to be used to pay CalPERS for related retirement costs; however, at this time, staff do not anticipate drawing down from this trust in the near future. In 2018, the City made an additional contribution of \$8,000,000 and had recommended funding \$2 million annually for five (5) years. With this strategy, the trust would accumulate sufficient funds to pay the difference between a 7% and 6.25% discount rate, or approximately \$42 million. With a total principal contribution amount of \$12 million to date, approving this \$2 million additional contribution will allow the City to be on schedule to address this funding gap by 2037.

City Work Program Update

As requested by Council, the City has been providing updates on the Fiscal Year 2020-2021 City Work Program on a quarterly basis through the City Work Program dashboard at cupertino.org/cityworkprogram. The third quarterly update is currently reflected in the City Work Program dashboard. A printout of these updates can be found in Attachment E for review.

Key Project Updates

During the City's Work Program development process last year, Council requested updates on key projects identified as high priority. These key project updates are listed below.

- *Regnart Creek Trail*
Construction for the project commenced on February 16, 2021, and is currently underway. The project is anticipated to be completed in early 2022. The City is currently coordinating with contractors to initiate the privacy fence construction.
- *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 for the SR 85 Transit Guideway Project, including project definition, preliminary engineering, and community outreach. It is not known how or when VTA will allocate the expected \$350M of Measure B funds for the project. Prioritization of Measure B funds for the BART to San Jose rail extension may significantly delay the SR 85 Transit Guideway Project. The VTA Board considers criteria and prioritization processes for approval in May and in August. The Transit Center concept is a large infrastructure project envisioned at Stevens Creek Boulevard at SR 85 that would complement the Transit Guideway Project.
- *Library Expansion*
The Cupertino Library has been abuzz with activity as the expansion project moved into its second month. Existing infrastructure was rerouted and work continued on the foundation. The month of May promises to be exciting as reinforcing steel will be installed and steel anchor bolts set in place in the foundation.
- *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. An agenda item is being prepared and scheduled for May 18, 2021 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 Summer 2021. In addition, a Municipal Code amendment related to Environmental Protection Standard Conditions of Approval is being worked on to help ensure that all ministerial and discretionary projects will have standard environmental requirements. This is expected to go to the Planning Commission this summer. 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.

Staffing

The Amended Budget as of March 2021 has a total of 202.75 FTEs (including City Council). There are no proposed changes to staffing as part of the Third Quarter Report.

Fund Balance

The City's General Fund ended FY 2019-20 with \$74.5 million in total fund balance. As part of the FY 2020-21 Adopted Budget, the City projected ending the fiscal year with \$52 million in total fund balance. As of the Mid-Year Financial Report, the City updated its year-end projections for FY 2020-21 to \$78.12 million in total fund balance, an increase of nearly \$27 million due to increases in revenues received and lower expenditures in both FY 2019-20 and FY 202-21. Projected year-end fund balance as of Third Quarter FY 2020-21 is estimated to be \$83.26 million. This represents an increase of \$5.14 million from the mid-year projections due primarily to further increases in sales tax and anticipated ARPA funding in the third quarter. The \$83.26 million includes a \$2 million contribution to the Section 115 Pension Trust.

General Fund Classification of Fund Balance

CLASSIFICATION	Actuals 2018-19	Adopted Budget 2020-21	1st Quarter Year End Projection 2020-21	Mid-Year End Projection 2020-21	3rd Quarter Year End Projection 2020-21
Non Spendable	0.45	0.45	0.44	3.44	3.45
Restricted	9.47	13.36	18.32	18.56	18.56
Committed	19.12	19.12	19.13	19.13	19.13
Assigned	1.98	3.00	3.00	3.00	3.00
Unassigned	27.90	16.04	29.56	33.99	39.13
TOTAL FUND BALANCE	58.92	51.96	70.46	78.12	83.26

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

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

Conclusion

The Third Quarter Financial Report shows the City is well-positioned to move forward, despite significant impacts from COVID-19. City staff recommends adjustments \$787,279 in new appropriations funded by \$9,552,599 in revenues. If approved, the City's fund balance across all funds will increase by \$8,765,320.

Prepared by: Zach Korach, Finance Manager

Reviewed by: Kristina Alfaro, Director of Administrative Services

Approved for Submission by: Dianne Thompson, Assistant City Manager

Attachments:

A – Draft Resolution

B – Third Quarter Financial Report for Fiscal Year 2020-21

C – Third Quarter Budget Adjustment Journal

D – Amended Budget Detail as of March 31, 2021

E – FY 2020-2021 City Work Program Third Quarter Update