

Budget Message

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Budget Message

May 5, 2023

To the residents of Cupertino, Honorable Mayor, and members of the City Council,

Typically, a butterfly is not the first thing that comes to mind when we think about the City budget, yet the life cycle of the butterfly provides a strong analogy to what this year's budget brings. The caterpillar, through focused efforts, undergoes a transformative change to something unexpected. Like the caterpillar, the City faces a necessary transformative period. Through its transformation, the butterfly becomes a testament to the caterpillar's perseverance and resilience in the face of adversity.

Similarly, while the City's budget situation for this year and beyond may feel like a dark and uncertain place, it presents an opportunity for transformation and innovation. To deal with a significant reduction in sales tax revenue, as described in greater detail below, the City must be nimble and adapt to change. We will need to reduce our expenditures to balance the budget. In the face of these challenges, I firmly believe that the best for Cupertino is yet to come, and that the commitment of the City's residents, City Council, and employees will create a new and different Cupertino. We may even gain some new abilities as we move to right size the City's resources to our new reality.

The proposed budget for FY 2023-2024 is \$117,762,980, funded with \$107,861,112 in revenue and \$9,901,868 in the use of one-time funds. The General Fund, the City's largest tax-supported fund, is proposed at \$86,311,553, funded with \$80,281,054 in revenue and \$6,030,049 in the use of one-time funds. The use of fund balance and reserves are necessary to close the structural deficit, which is an unprecedented situation. In previous years, unallocated funds were typically transferred to the Capital Reserve or other funds to support initiatives such as our 115 trust funds.

The uncertainty of the California Department of Tax and Fee Administration (CDTFA) audit has been looming in the City's budget since the FY 2021-2022 Mid-Year Financial Report. In this report, the City staff informed the City Council and the community for the first time that one of the City's taxpayers was being audited by the State, and that the impacts on the budget were unknown but could potentially be significant.

The FY 2022-2023 Adopted Budget included staff's best estimate of the impacts of the audit at that time, given the limited information available. The estimated impacts could be weathered with the City's strong financial foundation that includes fully funded reserves and a significant unassigned fund balance in the General Fund. In addition, the City maintains well-funded 115 trusts for both retiree health and pension. Also, after budget adoption, the City Manager initiated a soft hiring freeze that primarily impacted new positions that had been added as part of the budget to limit expenses.

Fast forward to April 13 of this year, after staff had met with the impacted taxpayer and the CDTFA, we provided an updated financial forecast to the City Council and community. This impact was much larger than previously estimated. It included an estimated 73% drop in sales tax revenue, that translates to a \$30 million ongoing decrease. This has put the City in a structural deficit, meaning ongoing expenses exceed ongoing revenue.

The Proposed Budget serves to inform what the impacts of the currently recommended budget reduction strategies will have on day-to-day operations and to the residents of Cupertino. Those strategies include:

- Reduced spending across all categories
- Reduced full time staffing over a 10-year period through elimination of vacant positions
- Use of both the pension trust and retiree health trust

- Significant use of reserves

As a result of these revenue reductions, the City will need to reduce or eliminate some services. City leadership understands this will be difficult for residents and staff but will be necessary to ensure the City's long-term success. Details of those proposed reductions are included in the Budget Message: Budget Overview and in each program budget. They include:

- Elimination of some free events and reduced fee waivers for festivals
- A reduction in free Wi-Fi in parks
- Fewer professional development opportunities due to reduced Citywide training and conference attendance
- A decrease in technology purchases and fewer pilots of future tech, like augmented and virtual reality
- A reduction in services and longer response times for Cupertino 311 requests
- Decreased frequency of maintenance at City facilities, parks, streets, and trees
- Reduced pavement maintenance expenditures which may affect the pavement condition index (PCI)

While the current situation may appear dire, the City Council's and staff's advanced planning over the years have established an unparalleled solid financial foundation. As a result, even with necessary service reductions, this foundation is expected to significantly lessen the impact of navigating this challenge.

This is an ever-evolving situation, and this budget represents our best estimates. I am committed to continuing communication and feedback with our residents, City Council, and staff as we navigate these changes. I am confident that with our hard work, dedication, and innovative thinking, we will emerge from these difficult times even better than before.

Respectfully Submitted,



Pamela Wu

City Manager

Strategic Goals

On March 1, 2023, the City Council held a Goal Setting Workshop to discuss City goals and priorities for the next two years. The City Council re-affirmed their commitment to the following five goals, which were formally adopted in February 2020:

Public Engagement and Transparency

Creating and maintaining key conversations and interactions with the Cupertino Community.

Sustainability and Fiscal Strategy

Continuing Cupertino's commitment to building a sustainable and resilient community for future generations.

Housing

Contributing meaningfully and in a balanced manner to the housing inventory in support of our community needs, including affordable housing (from extremely low-income to moderate-income level housing) and addressing homelessness.

Transportation

Providing access to an efficient, safe multi-modal transportation system for our community, and advocating for effective, equitable mass transit in the greater region.

- Improving Traffic Flow and Alleviating Congestion

Quality of Life

Furthering the health and well-being of all Cupertino community members.

- Air Quality
- Public Safety
- Recreation
- Access to Goods and Services

While these are intended as multi-year goals, they are reviewed annually by the City Council. The Council may adopt the same goals or revised goals as the Council sees fit.

The strategic planning process and City Council goal-setting are paramount as they drive the City's annual Work Program. The City has created an online dashboard to show the status and performance of the City Work Program in real-time (gis.cupertino.org/webmap/CityWorkProgram/). Special Projects with budgetary impacts associated with the City Work Program are listed in the respective program budgets. Some City Work Program projects from prior fiscal years may be carried forward into FY 2023-24.

FY 2023-25 Proposed City Work Program

On April 4, 2023, the City Council approved the FY 2023-2025 City Work Program, which comprised a total of 24 projects requiring \$2,340,000 in additional funding, in addition to \$2,539,625 of previously allocated funds, totaling \$4,879,625. As part of the City's budget reduction strategy, staff is proposing the following list of 15 projects that only require \$215,000 in additional funding. These 15 projects include all previously funded items and all high priority items that require additional funding. Additionally, staff is proposing to include one low-priority item aimed at supporting the unhoused, as Santa Clara County will be matching the funds for this project. The remaining nine projects can be considered for funding next year when more special project funds are available.

FY 2022-23 Funded Work Program and FY 2023-24 Proposed Work Program

Strategic Goal	Project	Description	Department	Funded in FY 2022-23	FY 2023-24 Recommended Funding
Quality of Life	CWP - Public Safety in both residential/commercial areas	1) Deploy city-owned license plate readers and implement policies to allow neighborhood-owned ones. 2) Strengthen Block Leader/Neighborhood Watch programs to ensure the leaders are active and expand the coverage of active neighborhoods. 3) Explore best practices to deter crime in commercial areas and	Administration	60,000	10,000
Publ Eng and Transparency	CWP - Senior Services and Youth Engagement	1) Assess Survey results and develop a plan to increase awareness of programs and services for seniors based on gaps identified by the survey. 2) Connect seniors with youth and their families	Parks and Recreation	-	20,000
Quality of Life	CWP - Dogs Off Leash Area	1) Transition successful trial DOLA programs to permanent programs with a staff level permitting process housed in Parks and Rec 2) Amenities for DOLA programs in City parks, e.g., water facilities for dogs, fencing, benches, etc.	Parks and Recreation	200,000	5,000
Sustainability & Fiscal Strategy	CWP - Tree List	Project phases: 1) Review and revise development tree list (per Ch. 14.18: Protected Trees) with an emphasis on appropriate trees and native species. 2) Review, revise, and communicate street tree list with an emphasis on appropriate trees and native species. 3) Develop an Urban Forest program scope and cost for future consideration.	Community Development/ Public Works	-	110,000
Housing	CWP - Support for the Unhoused	Collaborate and fund jointly with West Valley efforts to address regional needs and find workable support for the Unhoused. Develop a Vision Zero Policy and Action Plan and hire a consultant. The Plan will guide policies and programs with the goal of eliminating fatalities on Cupertino roadways. Special emphasis will be placed on routes to, and streets surrounding,	Community Development	-	50,000
Transportation	CWP - Planned Transportation Project (Vision Zero)	Cupertino schools.	Public Works	80,000	20,000
Sustainability & Fiscal Strategy	CWP - Analyze Potential Revenue Resources	Analyze potential revenue resources such as transient occupancy tax, sales tax, property tax, utility users tax, the City-owned municipal water system, and potential lease/rental income to address possible future financing challenges.	Administrative Services	50,000	-
Sustainability & Fiscal Strategy	CWP - Fiscal Procedures and Policies Handbook	Develop the handbook to ensure standardization of accounting, budget, investment, procurement policies, procedures, rules and regulations.	Administrative Services	45,000	-
Sustainability & Fiscal Strategy	CWP - Budget Audit	Audit the Budget and Budget Policies.	Administrative Services	15,000	-
Publ Eng and Transparency	CWP - Whole City Policy Review	Repeat the 2013 process of compiling and reviewing all City Policies including 1) Administrative and 2) Council policies and provide recommendations/updates, e.g. Green Purchasing, Property Acquisition	Administrative Services/City Attorney's Office/City Manager's Office	10,000	-

Publ Eng and Transparency	CWP - Council Governance Reform Package	1. Revised Ethics Policy consistent with City response to the Civil Grand Jury Report authorized on 2/21/2023 2. Investigate and report back on incidents of violations of the Municipal Code and Ethics Policy relative to the Council-staff relationship cited in the Civil Grand Jury Report	City Attorney's Office/City Manager's Office	25,000	-
Publ Eng and Transparency	CWP - Commission Governance Reform Package	1. Revised Commissioner's Handbook to align it with Council Procedures Manual 2. Investigate & report back on incidents of violations of the Muni Code re: the Commission-Staff relationship 3. Realignment of Commissioner terms of office 4. Establishment/revision of commissioner qualifications	City Attorney's Office/City Manager's Office	-	-
Sustainability & Fiscal Strategy	CWP - Study Session on City-Owned Properties	Inventory and assess existing facilities and prepare a long-range planning report for three City-owned properties (including, but not limited to Blesch, Byrne, and Stockmeir)	City Manager's Office	90,000	-
Housing	CWP - Preserve existing and develop new BMR/ELI Housing	Explore opportunities to preserve existing expiring BMR housing. Develop ELI (Extremely Low Income) and BMR housing units for Developmentally Disabled individuals (IDD) on City-owned property as well as the County-owned sites.	Community Development	250,000	-
Housing	CWP - Housing Element Update 2023.	Update Housing Element and complete rezoning, General Plan Amendments and EIR by December	Community Development	1,714,625	-
TOTAL \$				2,539,625	\$ 215,000

FY 2024-25 Proposed City Work Program

Strategic Goal	Project	Description	Department	Funding Requests for FY 2024-25
Publ Eng and Transparency	CWP - The Rise: construction stakeholder engagement	Improve engagement with stakeholders to ensure progress with construction and reduce barriers.	City Manager's Office	100,000
Sustainability & Fiscal Strategy	CWP - Real Estate Purchasing Policy	Create Real Estate Purchasing Policy	City Manager's Office	75,000
Quality of Life	CWP - Revise & Update Heart of the City Special Area	Prioritize following completion of Housing Element: 1. Address effect of AB 2011 and build on Housing Element goals to facilitate housing production in transit-oriented locations 2. Tailor permissible uses to revitalize local public-facing commercial uses (retail/restaurant/entertainment/professional office, etc.)	Community Development	1,050,000
Housing	CWP - Homelessness Jobs Project and Transitional Housing	Continue the Homeless Jobs program for two individuals for the third year. Revisit for review and consider Transitional Housing	Community Development	225,000
Quality of Life	CWP - Privacy Screening and Balconies Code	Prioritize following completion of Housing Element: Muni Code (Ch.19.28: R-1 Zones) Privacy Screening and Balconies. Update privacy planting list to be climate appropriate/native	Community Development	200,000
Sustainability & Fiscal Strategy	CWP - Recycled Water Feasibility Study	Develop Recycled Water Feasibility Study. Include Blackberry Farm focus and extension of recycled water from SCVWD.	Public Works	200,000
Quality of Life	CWP - Pond Repurposing at Blackberry Farm	Repurposing ponds at Blackberry Farm, focus on groundwater recharge.	Public Works	50,000
Transportation	CWP - New Bicycle-Pedestrian Plan	1) Update the current Bicycle and Pedestrian Plans and combine them to create a comprehensive Active Transportation Plan. 2) Consider Complete Streets concepts to enhance the interface between Active Transportation improvements and public and private transportation systems.	Public Works	200,000
Quality of Life	CWP - 280 stretch as scenic highway	Establish/maintain I-280 as scenic highway	Public Works	25,000
TOTAL \$				2,125,000

Notable Accomplishments

Administration Department

Wildfire Protection and Local Hazard Mitigation Planning - Coordinated with Santa Clara County Fire and Santa Clara County Sheriff's office to develop evacuation planning maps for residents. This initiative addresses the requirements of AB 747 and AB 1409. The Office is currently updating both the Local Hazard Mitigation Plan and the Community Wildfire Protection Plan, with a focus on incorporating projects identified in other City plans. Integrating these plans provides the opportunity to meet additional legislative requirements related to [hazards and land use planning](#).

Emergency Operation Training - Initiated a new training program for City Emergency Operations Center Staff and set completion dates for Disaster Service Worker training for all City staff. In April 2023, OEM worked with the Department of Parks and Recreation to train 25 City staff who have a role in staffing emergency shelters in a disaster. Finally, the Office developed a program to initiate and track emergency public messaging using volunteer units to share information with the community.

Cupertino Business Outreach Program - Further enhanced the quality working relationship with companies that choose Cupertino as their location, the Economic Development Division introduced the new Cupertino Business Outreach Program (or CBOP) - a program designed to facilitate a dialogue between the private and public sectors. This program provides an opportunity to understand the unique needs of our local businesses and connect them with resources. CBOP incorporates an in-person (or virtual) visit to companies located within Cupertino for a conversation with the leadership team and an optional tour of the operations. With insights gained during these visits, the City hopes to double down on supporting programs that work or create new ones to fill gaps in addressing common business needs.

New Business Connect Newsletter - Enhanced the City's business newsletter - Business Connect. The newsletter serves as another way for the City to stay in touch with and provide updates and resources to Cupertino businesses for growth and vitality. The Business Connect newsletter has grown exponentially to almost 8,000 subscribers and is another testament to the City's desire to engage the business community as well as an unwavering commitment to their success.

Cupertino Online Store - Designed and launched an online store selling Cupertino-branded merchandise. The City team explored the design and technology platform options, launched an internal trial, and introduced the store to the public in February 2023. This pilot is expected to run through the current fiscal year.

Community Outreach and Events - Planned, executed, and supported various outreach efforts and community events, including: India Flag Raising Ceremony, Public Safety Forum, Swearing-In Ceremony, Tree Lighting Ceremony, 2023 State of the City, Housing Element, Spelling Bee Competition, Revitalize Memorial Park, Online Cupertino Store, Jollyman All-Inclusive Playground, Lawrence-Mitty Park and Trail, Regnart Creek Trail, ribbon cuttings, grand openings, Pizza and Politics, video montages of events played during regular City Council meetings, monthly Morning Chat with Cupertino Mayor meetings, Earth and Arbor Day Festival, Lehigh Town Hall with Supervisor Simitian, Safe Routes to School, Office of Emergency Management programs, Environmental Programs and Sustainability programs, and more.

Publications and Videos - Published eight monthly editions of The Scene (10 by end of the Fiscal Year (FY)), 19 editions of the Items of Interest newsletter (24 by end of the FY), and 16 editions of the Council Actions Newsletter (20 by end of the FY). The Video Division has shot and edited multiple video projects including: Cupertino 311 promotional video, Gridics instructional video, Cupertino City Staff introductory video, Upgraded Bike Lanes video, Pedestrian Scramble video, and have several ongoing currently.

Administrative Services Department

GFOA Distinguished Budget Presentation Award - GFOA awarded the City of Cupertino the 2022 GFOA Distinguished Budget Presentation Award with special recognition for Special Long Range Financial Plans Recognition & Special Financial Policies Recognition. The policies can be found under the Financial Policies section.

HR Hub – Continued collaboration with I&T to enhance and develop the City’s intranet, including digitizing forms, enhancing employee accessibility to HR tools and resources, and centralizing and maintaining HR information (MOUs, Policies & Procedures, COVID Information, etc.) and the City’s training management application.

BEST Training Program - Offered 70 training courses via a semester-based program with a variety of training programs to assist employees with their professional growth, health, and wellness as well as retirement and financial planning.

Coordinated the City’s participation in the Santa Clara and San Mateo County NextGen program and the Santa Clara County Leadership Academy to promote professional growth and succession planning within our agency.

COVID-19 – Continued to provide employee support across all City Departments through the COVID website, City Town Hall, and Department meetings. Researched, analyzed, and implemented Federal, State, and local rules and regulations such as leave programs, contact tracing, creation of new and revised OSHA policies, noticing and reporting requirements pursuant to AB685 and SB1159 and related health and safety trainings.

Diversity, Equity, and Inclusion (DEI) – Offered staff DEI training through webinars, onsite and virtual presentations, and activities as part of the City’s BEST program to increase cultural awareness, knowledge, and communication as well as promote a more inclusive and diverse work environment.

Recruitment and Retention – From 7/1/2021 - 6/30/2022, there were 22 Full Time (FT) separations, a 12% turnover rate. From 7/1/2022 – current, there have been 21 FT separations, an 11% turnover rate. In FY 2020-21 there were 43 FT recruitments. In FY 2021-22 there have been 24 FT recruitments thus far. Hosted a recruitment booth at the City’s Earth Day Event to promote City job opportunities within the community.

Benefits Administration – Continued to process a considerable number of employee onboarding and offboarding functions. From 7/1/2021 - 6/30/2022, there were 38 FT new hires and 22 separations. From 7/1/2022 - current, there have been 18 FT new hires and 21 separations.

Labor and Employee Relations - Successfully negotiated successor MOUS with both Labor Unions as well as updated the City’s Unrepresented and Elected Employee Compensation Programs and salary plans. Continued to work collaboratively with the City’s labor unions through monthly labor management meetings.

Risk Management and Worker’s Compensation - Continued to administer the City’s general liability and property insurance programs with the City Attorney’s Office. Administer the City’s Worker’s Compensation program and coordinate with the City’s third-party administrator. Managed and administered the City’s unemployment insurance program as well as the City’s DOT commercial driver program. Coordinated City’s OSHA safety and training programs and Risk Management Committee.

Community Development Department

Permit Activities – To date, 1,954 permits have been issued for a variety of projects. As a result, a total of 229 housing units were approved, a total of 280,320 square feet of office space were approved, and 44,129 square feet of retail space were approved.

Update the Housing Element of the General Plan and concurrent rezoning– Ongoing updates to the Housing Element goals, policies, and strategies to address housing needs, constraints, both governmental and nongovernmental, and identify Priority Housing sites to accommodate the city’s Regional Housing Needs Allocation, as required by state law. Concurrent rezoning of the Priority Housing sites to ensure that sites are appropriately rezoned to allow for planned growth/capacity.

Process Improvement – 1) Streamlined the permitting process for minor permits such as Electric Vehicle, Air Conditioning, Photovoltaic, and Temp Power Pole by creating online permit applications and issuance processes. 2) Coordinated with Santa Clara County Fire to re-establish the in-person over-the-counter coverage. Fire Department staff is in the office on Tuesdays and Thursdays from 11am to 12pm to perform permit reviews in person. 3) Updated online application forms (public art, planning entitlements, Accessory Dwelling Unit, etc.) to reflect any changes in state laws and regulations and to facilitate an easier and smoother application process.

Housing Outreach and Coordination– 1) Drafted and finalized the U.S. Dept of Housing & Urban Development (HUD) National Environmental Policy Act (NEPA) Manual to improve the City’s Community Development Block Grant (CDBG) environmental processes and meet HUDs compliance requirements. 2) Established regular outreach efforts to homeless encampments with the Bill Wilson Center and the County. 3) Joined the West Valley Collaboration- Housing and Homelessness Group to address regional needs.

Innovation & Technology Department

Video Capture Camera Expansion - Successfully expanded video capture to public areas within City facilities by adding or replacing cameras in areas such as the lobby, entry, and exit points. Cameras were installed in Blackberry Farm, Quinlan Recreation Center, and McClellan Ranch Preserve, specifically around high-risk areas such as the pool to provide enhanced security to City residents.

Supplemental Wi-Fi Expansion in Public Areas - Continued expansion of the City’s Internet services to Wilson City Park. Members of the public can access Wi-Fi internet services at this park and City staff working at this park have a secure seamless connection to the City’s network.

Proactive Managed Risk and Security Monitoring– Procured Cybersecurity Professional Services to respond to active threats through proactive monitoring and management tools that scan, manage and resolve security vulnerabilities.

Quinlan Touch Screen – Replaced the existing 24-inch poster staff used to post calendar of events, building layout, and room booking info in the Quinlan lobby. The replacement is a state-of-the-art interactive display that allows customers to navigate through all that Parks & Recreation has to offer, e.g., classes, facilities, parks, events, and more.

Laserfiche Roadmap (Concluding Phase) – Accomplished the file plan design, Laserfiche template and metadata population, and reorganization of records for all departments. This endeavor also involved overseeing the commencement of scanning of all archival records, as well as developing the internal web-link portal and delivering training tailored to each Division.

Capital Improvement Plan (CIP) Management System – Implemented a CIP management system that will streamline how CIP projects are managed, bring consistency to CIP workflows and reporting, combine CIP and related financial data in one place, as well as provide an external portal for contractors and developers to upload CIP submittals and invoices in one consistent, reliable, and trackable platform.

Business Process Automation – Continued to pursue business process automation, having achieved the successful automation of 40 forms, workflows, approval processes, and routine tasks. Our aim is to enhance process and technology integration, facilitating the adoption of streamlined, digital workflows that optimize efficiency while

minimizing risk exposure. Our dependable platform offers users a secure and easily configurable solution that can be scaled to meet evolving needs.

Drone Program – Integrated drone operations into emergency operations procedures and collaborate with city departments to identify opportunities for utilizing drones in routine workflows, thereby enabling our certified personnel to maintain their flying and image-processing skills while achieving enhanced efficiencies and benefits.

Disaster Preparedness – Through a collaborative effort with OES, we have successfully developed a suite of tools designed to aid in the aftermath of a disaster. The Quick Capture tool, specifically tailored for Cupertino staff and OES Volunteers, facilitates prompt and efficient reporting of issues to the EOC in the immediate aftermath of a disaster via a windshield survey. Additionally, we have designed a Building Damage Assessment Survey on the standard state form to gauge the extent of building damage. EOC Dashboards have been implemented to enable real-time monitoring of data being collected from the field, and a Reviewer Map has been configured for the GIS staff to review and edit reports as necessary as they come in. Furthermore, we have produced detailed evacuation maps for each evacuation zone to aid in emergency evacuations.

Enterprise Resource Planning (ERP) Phase I Need Analysis– Procured an external consultant to conduct an ERP Need Analysis and gap analysis in terms of business needs and functionality as a significant issue with the current system is the lack of security logs required for auditing.

Consolidation of Code Enforcement Services – Consolidated Code Enforcement operations under Accela Land Management System (LMS) and Cupertino 311 service request. The project consisted of automating Code Enforcement business processes under LMS. Working with one system creates a more efficient, trusted outcome. Additionally, custom reports become an easier task due to one application – one database. Finally, code enforcement complaints and service requests are routed from Cupertino 311 system to Code Enforcement officers.

Resource Mapping Software – Implemented Startup Space platform to provide ecosystem mapping between resource providers and small and medium-sized businesses. Provide access to government, public, and privately sponsored resources for underrepresented and minority-owned small business owners.

Accela Roadmap – Developed strategic initiatives for achieving the maximum potential from the use of Accela platform pertaining to both its back-office systems and its public portal for Cupertino residents and external stakeholders.

Climate Monitoring and Noise Measurement extension – Installed four air quality sensors close to the quarries to monitor real-time air quality data 24/7 365 days a year. Together these solutions provide the Sustainability division with a good representation of air quality data for Cupertino – an important component to the City's Climate Action Plan.

Cupertino Room Lectern Upgrade project– Upgraded the audiovisual system in the Cupertino Room to allow for better connection as well as updated infrastructure.

Social Room Audio Upgrade project– Upgraded audio system at the Quinlan Center Social Room to allow and support wireless/Bluetooth infrastructure.

Sports Center Audio system upgrade– Upgraded audio system in the Cupertino Sports Center to better facilitate Sports Center programs and classes such as Zumba, Pilates, cardio workout, etc. where mixed amplification of music and instructor microphone audio is an important feature.

Parks & Recreation Department

Camps - In the 2022 Summer Season, more than 500 kids enjoyed endless fun at the City's camp programs run by the Parks and Recreation part-time staff at Quinlan Community Center and McClellan Ranch Preserve. To support the camp program, the Leaders in Training volunteer program is designed for teens aged 14 to 18 to learn

valuable life skills. Leaders in Training are invaluable Parks and Recreation summer team members as they support our recreation leaders and are trained in supervision, safety, problem-solving, and leading camp activities.

Hidden Treasures 2022 - The Hidden Treasures event returned to the Cupertino Senior Center for the first time since 2019. The return was a great success, with more than \$14,000 worth of donated items sold. Proceeds from this event go to support the Stay Active Fund, which helps pay for Senior Center memberships and programs for seniors in need of financial assistance. In addition to the monetary benefit of Hidden Treasures, the months of sorting, pricing, and preparation for the day of the sale provided members an opportunity to give back. More than 50 volunteers donated over 1,000 hours.

Winter Holiday Events – Parks and Recreation staff held the annual Tree Lighting event. This heartwarming event brought the community together to experience the joy and excitement of the holiday kickoff. Other sold-out, fee-based holiday programs include Breakfast with Santa with over 300 registrations, and Santa Visits in which Santa visited over 40 homes. One of the most heartwarming events of the year was Signing Santa. This event provides an opportunity for deaf and hard-of-hearing children to communicate with Santa using ASL.

Closing the Gap: An Intergenerational Mixer – More than 50 teens and adults 50+ attended an intergenerational engagement event at the Cupertino Senior Center, interacting through fun and enriching recreational activities. The event opened with heartfelt speeches from the Parks and Recreation and Teen Commission representatives about the importance of connecting with different generations and its positive impact on their lives. Event participants enjoyed various activities, including hula dancing, chair volleyball, giant Jenga, and Connect-4. The City's Geographic Information Services (GIS) department gave a very informative presentation about the City's useful applications available to residents. Topics included Cupertino 311, Service Finder, and Cupertino Augmented Reality Tour, also known as ARTour. The event concluded with a "Bingocize" demonstration led by Silicon Valley Healthy Aging Partnership.

Senior Strategy Survey – The City of Cupertino conducted a Community Assessment Survey for Older Adults (CASOA) to better understand the contributions that adults (50+) make to their communities, as well as the needs they have and challenges they experience. The feedback will help the City be sure that our policies and programs align with our residents' values. This survey was conducted in partnership with Polco, an online civic engagement platform that enables residents to provide direct input to local government decision-making processes. The survey launched in March, with 2,800 randomly selected households receiving a postcard invitation to take the survey online. A week later, these same residents received a printed survey in the mail with a postage-paid return envelope. In April, the open participation outreach window opened allowing all members of the community a chance to complete the survey and share their input online. The survey closed on April 25 resulting in more than 630 responses.

Spring Swing Scramble at Blackberry Farm Golf Course - Hosted the first Spring Swing Scramble at Blackberry Farm Golf Course on Saturday, April 23. The 36-person tournament had filled up a month in advance. Participants were a mix of new and experienced golfers, including Blackberry Farm regulars and first-timers. At the conclusion of play, there was a three-way tie for first place. To break the tie, the three teams participated in a putting contest that went through three rounds before crowning a winner. Prizes were awarded to the first-place team and the contest hole winners for the closest to the pin and longest drive. The event was a success, with many participants inquiring about future tournaments.

Teens – Teen events which have come back for the first time in-person since Covid are Hack Cupertino, Pizza and Politics, and Summer Job Fair. HACK Cupertino was hosted by the Youth Activity Board and City staff. Almost 100 teens participated to de-stress, socialize, and flex their coding skills. Friday, October 21, more than 50 teens and guests attended Pizza and Politics. This youth political event for teens was jointly coordinated by the Cupertino Youth Activity Board, Campbell Youth Commission, and Saratoga Youth commission. The program had a mayor's roundtable, a forum panel with the Fremont Union High School District (FUHSD) board of trustee

candidates, and a teen debate with teens from FUHSD. City staff hosted a Summer Job Fair, an event that gave the teen community an opportunity to come speak to staff about summer jobs and volunteer opportunities. In conjunction with the Job Fair, Teen Commission also hosted the City's first 'Spring Window Decorating,' which highlighted local youth-led organizations. The Wildfire Awareness Initiative Organization, Fremont Animation Club, Cupertino Teen Commission, and Youth Activity Board set the tone for spring with amazing window art! This teen day was topped off with the teen organization, Health Connect, running a spike ball tournament for teens attending the event.

Activities at McClellan Ranch Preserve - From March to May, City staff hosted third grade classes from the Cupertino Union School District and guided them on environmental educational tours around the preserve. The Creek Tours, which serve students across the Cupertino Union School District, are an essential component of the third-grade curriculum. The tours introduce students to the local watershed, the importance of keeping a healthy creek by reducing pollutants and promoting a healthy relationship with nature. Along with Creek Tours, McClellan Ranch Preserve hosted a variety of highly popular Park Ranger led activities including a night hike and flashlight tour, apex predator workshop, wildflower walk, and wildlife tracking class. Additionally, the Baer Blacksmith shop was open monthly for open houses and facilitated regular blacksmithing classes for adults and teens.

Festivals - City staff worked with several festival organizers to ensure festivals offered at Memorial Park met with all City policies and guidelines while providing large-scale events for the community in a fun and safe manner. In FY 23, the festivals were Dilli Haat, Day N' Night Fest, Diwali, Community Egg Hunt, Holi, Cherry Blossom, and Relay for Life. The Ikebana Show was also hosted at Quinlan Community Center presented by the Wafu School of Ikebana. On November 11 at 11 a.m. Cupertino Veteran's Memorial held the Veteran's Day Ceremony at the Memorial in Memorial Park.

Events – City staff directly coordinated several fee-based events in FY 23. City Parks and Recreation staff hosted the Cupertino Campout. More than 190 campers from 80 families of all skill levels visited Creekside Park to camp under the stars. Participants enjoyed mobile recreation activities, the McClellan Ranch Preserve pop-up museum, crafts, and an outdoor movie. Scout troop members from Troop 688 volunteered as campsite attendants to assist families with setting up their tents. Staff also hosted a sold-out Halloween special event, Monster Mash. Families enjoyed a night of crafts, games, and trick-or-treating at the Quinlan Community Center. The first in-person spelling bee since 2020 returned for 2nd through 5th graders, hosted by the Cupertino Parks and Recreation Department and the Cupertino Youth Activity Board. Over 35 students battled in a fierce competition to be the best speller. This year's Spelling Bee was moderated and judged by members of the Teen Commission and Youth Activity Board. The Parks and Recreation Department also hosted the second in-person Big Bunny 5K and Kids Run since 2019. This year's event had over 500 participants with 5K runners navigating the local streets around the Civic Center Plaza.

Public Works Department

- *11th consecutive Tree City USA Recognition* – The Tree City USA program provides communities with a four-step framework to maintain and grow their tree cover. It also gives them an avenue to celebrate their work, showing residents, visitors, and the entire country that they're committed to the mission of environmental change.
- Received and reviewed applications for approximately 13 development projects and 400 encroachment permits between January 1, 2022 and December 31, 2022.
- Reviewed and facilitated the approval of Vallco Parkway 1 for Apple and a 7 lot subdivision at 20860 McClellan Road.
- Installed water-saving drip irrigation on Bandlely Dr, between Mariani Ave and Lazaneo Dr.
- Removed the dirt mound (for water conservation efforts) and re-landscaped the median on Stevens Creek Blvd, east of De Anza Blvd (completion expected in June 2023).

- Completed the Memorial Park Ponds removal project and provided more usable open space area for Cupertino residents and visitors.
- Completed Bicycle Boulevard Interim Improvements (Phase 2), Stelling and Alves Crosswalk Installation.
- Completed and opened the Regnart Creek Trail and Fencing project.
- Completed installation of the Creekside Tot Lot playground.
- Renamed the I-280 trail to “Tamien Innu” through a successful community engagement process.
- Passed a Single-Use Plastics ordinance effective September 2023 that will ban single-use plastic foodware, require fiber-based compostable alternatives, and require reusable foodware for dining on-site.
- Provided organics service or exemptions as appropriate to all businesses in Cupertino to meet Senate Bill 1383 and Assembly Bill 1826 requirements for the diversion of organics.
- Conducted over 200 site visits in 2022 to assist businesses with sorting and recycling issues.
- Arranged installation of 23 full trash capture devices to keep trash out of our creeks.
- Reviewed 693 building and demolition permits for debris management and stormwater compliance.
- Conducted 109 preventative stormwater inspections
- Responded to 98 reports of discharges and threats of discharge to the storm drain system
- Completion of Local Roadway Safety Plan, and subsequent initial development of Vision Zero Policy and Action Plan, to be completed late 2023.
- Coordinated 2022 Fall Bike Fest, the largest and most attended Bike Fest to date. 10th Anniversary Fall Bike Fest in planning stages for 2023.
- Substantial completion of School Walk Audit improvements and completion of crossing guard warrant analysis.
- Completed the installation of hydration stations in city parks as part of the park amenities project.
- Effective maintenance response and clean-up during the intensive 2023 winter storm season.
- Replaced 68 fluted street light poles to provide enhanced lighting, power, and communication services to residents as well as sustainable infrastructure for the City.
- Installed 15 new street lights in various neighborhoods as part of the annual new street light infill project.
- Completed 356 bi-annual inspections/cleanings of storm drain inlets that have trash capture devices
- Completed installations for the way finding signage project. This project included 384 new signs.

New Initiatives

Administration Department

Council/Commission Governance Reform Package – As part of the new FY 23-25 City Work Program, the City Manager's Office and the City Attorney's Office will be working to revise the Ethics Policy and address the Civil Grand Jury Report. Staff will also be updating the Commissioner's Handbook to align it with the new Council Procedures Manual and realign terms of office and qualifications.

Public Safety Initiatives - As part of the new FY 23-25 City Work Program, the City Manager's Office will strengthen the Block Leader/ Neighborhood Watch programs to ensure greater participation as well as explore best practices to deter crime in commercial areas.

Administrative Services Department

Fee Study and Cost Allocation Study – The City is working with Matrix Consulting Group to analyze the City's fees and services to determine costs that can be allocated between City departments and costs that can be recovered through fees charged to the public.

Revenue Measures – The City is working with Urban Futures, Inc. (UFI) to analyze potential revenue measures, such as transient occupancy tax, sales tax, property tax, and utility users tax.

Community Development Department

Process Improvement – 1) Ongoing effort to create and update handouts to facilitate a more transparent and efficient review process, such as Accessory Dwelling Unit (ADU), planning inspections, etc. 2) Project review software updates for improved integration and access. 3) Review and establish new and updated policies and procedures for the permitting, plan review, and inspection functions. 4) Collaboration for data migration from permitting softwares.

Environmental Protection Standards – Finalize a standardized plan review sheet to help applicants implement requirement of Chapter 17.04 (Standard Environmental Protection Requirements) as result of new Cupertino Municipal Code Chapter approved by City Council.

Tree List Update - Review and revise development tree list (per CMC Ch. 14.18: Protected Trees) with an emphasis on appropriate trees and native species.

Revise & Update Heart of the City Special Area -Prioritize following completion of Housing Element: 1) Address effect of AB 2011 and build on Housing Element goals to facilitate housing production in transit-oriented locations, 2) Tailor permissible uses to revitalize local public-facing commercial uses (retail/restaurant/entertainment/professional office, etc.).

Privacy Screening and Balconies Requirements - Prioritize following completion of Housing Element to update CMC Ch.19.28: R-1 Zones on Privacy Screening and Balconies and privacy planting list to be climate appropriate/native.

Support for the Unhoused - Collaborate and fund jointly with West Valley efforts to address regional needs and find workable support for the Unhoused.

Innovation & Technology Department

Air-Gapped Backups – The main tool utilized to restore files from a successful cyber hack is backups. Recently, cyber criminals have learned how to navigate the network to not only corrupt active files, but to corrupt those files stored on backup. In essence, leaving organizations with no useful data. A solution is air-gapped backups. These backups are only available to the network write operations during the actual backup routine – they are then removed from network access and/or written to a WORM (write once read many) drive. A recent cyber survey conducted by our Cyber insurance noted this as a weakness in our cyber profile.

City Hall Enterprise Server & Storage Tech Refresh – Replace the current server environment that houses the City's Financial ERP and Land Management business applications with a Cloud-based solution known as Infrastructure as a Service (IaaS). IaaS provides a secure, scalable solution that meets the IT strategic needs of the city.

Virtual Reality (VR) Decarb – Using the Silicon Valley Clean Energy (SVCE) awarded grant funds, Cupertino will develop a VR experience providing an engaging way to learn about decarbonization. The virtual environment will be a way to create familiarity with a zero-emissions home and ideally inspire residents to adopt these zero-emission options in their own homes. The VR DECARB system will be available at Cupertino festivals, Block Parties, and available as requested by the community.

FuelMaster (FM) upgrade to FMLive – Upgrade our FuelMaster (FM) SQL deployment to the FMLive cloud-based fuel management system. IT will no longer have to support a stand-alone system. The upgrade will give us customizable email alerts and report distribution for both fueling and tank management as well as a user-friendly interface from a GUI dashboard menu.

Enterprise Resource Planning (ERP) Phase II Request for Proposals (RFP) Development and Vendor Selection– Work with the Consultant for RFP development detailing all business and functional requirements and specifications that will come out of need analysis and meetings/surveys with various stakeholders. After RFP response, the final vendor selection meetings and other related processes will also be part of this project.

Enterprise Resource Planning (ERP) Phase III Implementation - ERP is the most important application for any business, including government. The goal of a new ERP system includes improved collaboration, better data analytics, improved productivity, better customer (internal & external) experience, and move to SaaS which aligns with IT Strategic Plan.

ProjectDox move to SaaS –The City currently utilizes ProjectDox for Plan Check reviews and approval of all permit applications since 2017. The system works to ensure that proposed construction plans meet life safety, accessibility, sustainability, and structural safety requirements of the code. Currently, the ProjectDox servers are an on-premises environment, and the maintenance and upgrades of the servers is the responsibility of the City IT Staff. Moving to the SaaS (Software as Service) model will shift the responsibility of the day-to-day maintenance, upgrades, and back-ups will shift to the vendor.

City Website Redesign – Work with various departments and divisions to redesign the City of Cupertino website (cupertino.org). This project will involve building new wireframes, content audit, usability analysis, tracking current traffic patterns, and evaluating ADA compliance of city webpages.

Parks & Recreation Department

Senior Services and Youth Engagement – Connect seniors with youth and their families with inclusive activities.

Dogs Off-Leash Area (DOLA) Programs – Transition successful trial DOLA programs to permanent programs with a staff level permitting process housed in Parks and Rec.

Public Works Department

- Initiated the Storm Drain Outfall Inspection Project which is anticipated to be completed in Fall 2023.
- Started construction of the Wilson Park Community Garden and Basketball projects.
- Successful application for funding for McClellan Road Bridge from Evan Low's office (\$5M) and cleared initial stages of CPG funding from Ro Khanna's office (\$2.5M) for this project.
- Successful application for funding for Jollyman All-Inclusive Playground through Evan Low's office (\$1M).
- Negotiated a 2-year extension to the current landfill agreement (to November 2023) and have begun work toward negotiation of a new one. The current agreement, established in 1989, expires in November 2023.
- Successfully awarded a \$8.465 million grant to initiate a significant four-year expansion of the Via-Cupertino on-demand shuttle into City of Santa Clara, including electrification of fleet. Program rollout efforts underway, expanded service begins July 1.
- Lawson Middle School Bikeway Study in progress, to evaluate alternatives to enhance safety for students riding bicycles to and from Lawson Middle School. Three community meetings and draft study completed to date, City Council meeting anticipated summer 2023.
- Implementation and ongoing evaluation of pedestrian scramble traffic signal phasing at Bubb Rd/McClellan Rd intersection.
- Implementation of traffic adaptive traffic signal operations along North De Anza Blvd. Acquisition of hardware for citywide traffic signal and communication upgrade. Installation and improvements in progress.

Budget Overview

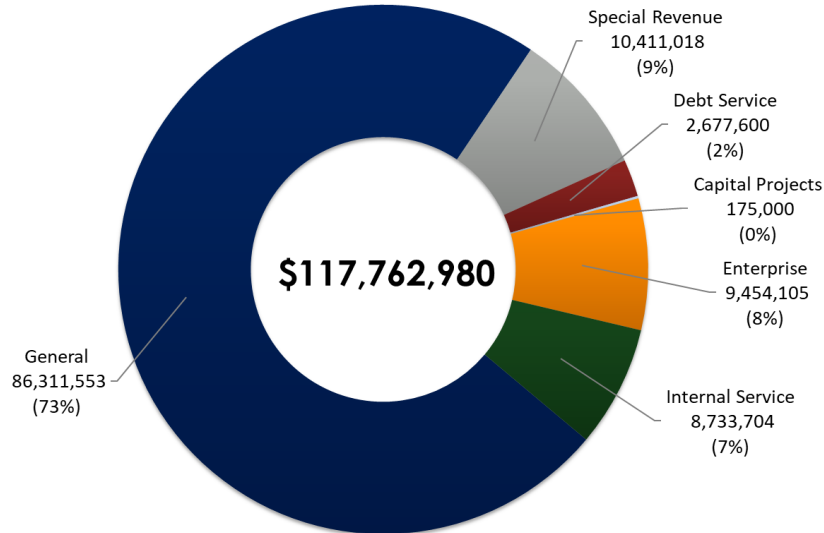
The Proposed Budget for the upcoming fiscal year highlights a decrease in both expenditures and revenues compared to the previous year's Adopted Budget. Total expenditures are proposed at \$117.8 million, a \$12.8 million or 9.8%, reduction from the previous year. Similarly, total revenues are anticipated to be \$107.9 million, a \$22.4 million or 17.2%, decrease from last year.

The General Fund, which supports the majority of City operations, is allocated \$86.3 million in expenditures for the upcoming fiscal year. This reflects a decrease of \$8.9 million or 9.3%, from the previous year's Adopted Budget. General Fund revenues are anticipated to be \$80.3 million, which is a \$14.4 million or 15.2%, decrease from the previous year's Adopted Budget.

Fund Type	Proposed Revenues	Proposed Expenditures	Change in Fund Balance/Net Position
General	80,281,054	86,311,553	(6,030,499)
Special Revenue	12,678,745	10,411,018	2,267,727
Debt Service	2,677,600	2,677,600	-
Capital Projects	-	175,000	(175,000)
Enterprise	6,744,789	9,454,105	(2,709,316)
Internal Service	5,478,924	8,733,704	(3,254,780)
TOTAL \$	107,861,112	\$ 117,762,980	\$ (9,901,868)

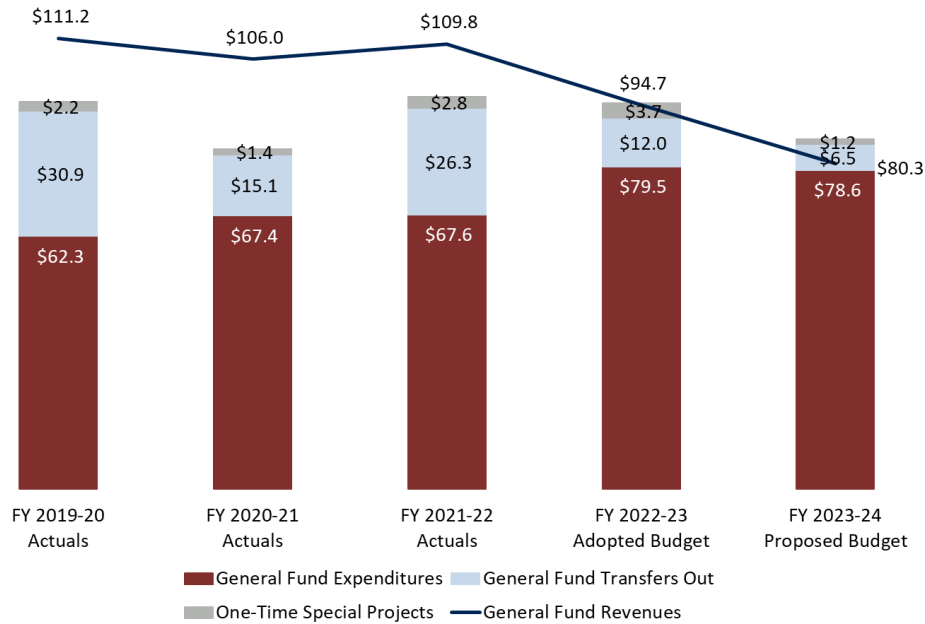
As shown in the chart below, the largest fund is the General fund at 73%.

**FY 2023-24 Proposed Budget
Expenditures by Fund**



The graph below summarizes the changes in the City's General Fund over the last five years:

General Fund Revenues, Expenditures, and Transfers Out In Millions



The FY 2023-24 Proposed Budget proposes funding for a total of 212 positions, representing a reduction of 14 positions from the FY 2022-23 Amended Budget. This reduction is due to revenue shortfalls resulting from the California Department of Taxes and Fee Administration (CDTFA) audit. It is important to note that the 14 positions being eliminated are vacant positions that have not been filled for various reasons such as resignation, retirement, or the positions being left unfilled.

To address the City's staffing levels in a responsible and sustainable manner, staff has developed a plan to gradually reduce staffing levels over the next decade through the elimination of vacant positions. The plan aims to eliminate 3-4 vacant positions annually until the City reaches a staffing level of 180 positions, which is consistent with the levels in FY 2015-16.

Position	Department	Description	FTE
FY 2022-23 Adopted Budget			225.00
FY 2022-23 Amended Budget			
Special Project Executive (Limited-Term)	Administration	Adding New Position	1.00
FY 2022-23 Amended Budget			226.00
FY 2023-24 Proposed Budget			
Assistant City Manager	Administration	Eliminating Position	-1.00
Communications Analyst (Limited-Term)	Administration	Eliminating Position	-1.00
Administrative Assistant	Administrative Services	Eliminating Position	-1.00
Office Assistant	Community Development	Eliminating Position	-1.00
Housing Senior Planner	Community Development	Eliminating Position	-1.00
Permit Center Manager	Community Development	Eliminating Position	-1.00
Recreation Manager	Parks and Recreation	Eliminating Position	-1.00
Community Outreach Specialist	Parks and Recreation	Eliminating Position	-1.00
Maintenance Worker I	Public Works	Eliminating Position	-1.00
Maintenance Worker I	Public Works	Eliminating Position	-1.00
Maintenance Worker Lead	Public Works	Eliminating Position	-1.00
Project Manager	Public Works	Eliminating Position	-1.00
Project Manager (Limited-Term)	Public Works	Eliminating Position	-1.00
Assistant Director of Public Works	Public Works	Eliminating Position	-1.00
FY 2023-24 Proposed Budget			212.00

The City acknowledges that reducing staffing levels is difficult and may result in the elimination of some services.

Nevertheless, the City is committed to balancing the budget responsibly while continuing to provide essential services to the community. By gradually reducing staffing levels, the City can avoid any significant disruptions and ensure that services are not compromised while also addressing the need for responsible fiscal management.

Changes to the Budget and Policies

Revised Fees

On May 19, 2022, the City Council approved the fee schedules for FY 2022-23. The City Council is expected to consider an updated fee schedule on July 18, 2023, with an update based on the Consumer Price Index (CPI) increase. Moreover, the Matrix Consulting Group is currently conducting a comprehensive fee study, which is expected to be considered for City Council adoption in late 2023.

Investment Policy

The City Council annually updates and adopts a City Investment Policy that is in compliance with State statutes on allowable investments. By policy, the Audit Committee reviews the policy and acts as an oversight committee on investments. The policy directs that an external auditor perform agreed-upon procedures to review City compliance with the policy. City Council approved the current City Investment Policy on May 19, 2022. The Audit Committee reviewed and accepted a revised Investment Policy on April 24, 2023, which will be considered for City Council adoption on May 16, 2023.

GANN Appropriations Limit

The City's FY 2022-23 appropriations limit is \$122,756,522, an increase of \$8.1 million or 7.1%, from the FY 2021-22 limit of \$114,666,491. If a city exceeds the legal limit, excess tax revenue must be returned to the State or citizens through refunds, rebates, or other means that may be determined at that time. For FY 2022-23, the City's estimated appropriations of proceeds from taxes, less statutory exclusions, do not appear to exceed the limit and are not expected to present a constraint on current or future deliberations. The California Department of Finance will publish the price and population data to calculate the City's FY 2023-24 appropriations limit in May 2023. As a result, the FY 2023-24 Appropriations Limit will not be known until May 2023 and will be included in the Adopted Budget.

Budget Audit and Updated Policies

Moss Adams, the City's internal auditor, conducted a review of the City's budget development and monitoring processes to improve workflows, communication, and alignment with industry standards. The review revealed that the City's budget process adheres to 76 out of 80 criteria established by the Government Finance Officers Association (GFOA). However, four elements lacked documentation to support alignment with best practices.

To address this, the report recommended developing a prioritized implementation plan to align the City's budget process with GFOA best practices in the four categories that are not aligned. Consequently, staff has taken several steps to ensure the City's alignment with GFOA best practices in these areas.

These steps include the following:

- Developing a Balanced Budget Policy, which is included in the FY 2023-24 Proposed Budget.
- Coordinating with departments to ensure each has a performance measure linked to City financial outcomes in the FY 2023-24 Proposed Budget.
- Working with the City Manager's Office to resume the community survey in FY 2023-24 to monitor stakeholder satisfaction.
- Updating the City's budget policies and procedures to describe the process for adjusting the City's broad goals, which are adjusted as part of the City Work Program.
- Enhancing the budget process by developing internal budget policies and procedures that were reviewed

by Moss Adams during the Policies and Procedures Review.

Budget by Fund

General Fund

The General Fund is the primary source of funding for critical services in the community, including law enforcement, public works, community development, park maintenance, code enforcement, and administrative support services. These services are financed mainly by local taxes such as sales tax, property tax, and transient occupancy tax, as well as other discretionary sources. The General Fund is responsible for financing services that do not have dedicated funding sources, ensuring that essential public services are available to the community.

The City's General Fund revenues for the upcoming fiscal year are projected to be \$80.3 million, representing a significant decrease of \$14.4 million or 15.2% from the FY 2022-23 Adopted Budget. This decline is due to a California Department of Tax and Fee Administration (CDTFA) audit of one of the City's taxpayers, which is expected to result in a substantial reduction in sales tax revenue. The City is expected to experience a \$30 million, or 73%, decrease in sales tax revenue from the original FY 2023-24 projections provided by its sales tax consultant, HdL. This corresponds to a decrease of \$30 million, or 28%, in General Fund revenue.

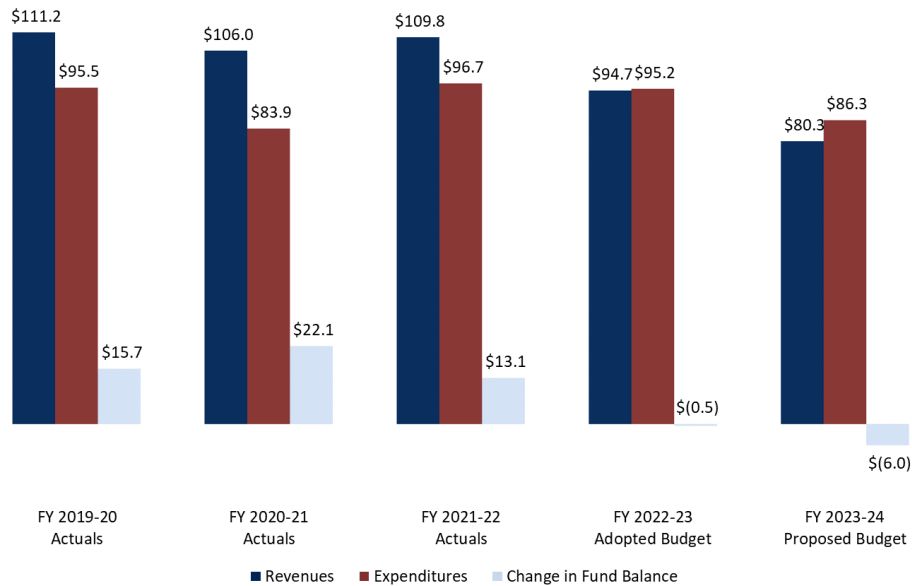
The proposed General Fund expenditures for the next fiscal year are \$86.3 million, indicating a \$8.9 million, or 9.3% decrease from the FY 2022-23 Adopted Budget. This reduction is due to the implementation of several expenditure reduction strategies, which include:

- Eliminating 14 vacant positions
- Decreasing expenditures on materials and contract services
- Reducing spending on special projects and capital outlays
- Reducing the City Manager's Contingency Fund by \$25,000 and contingencies by 50%
- Decreasing the amount of transfers to other funds
- Utilizing the City's Section 115 Trusts to fund pension and OPEB (Other Post-Employment Benefits) costs

Through these measures, the City aims to balance its budget while ensuring that essential services continue to be provided to the community.

The following chart shows four years of total revenue, expenditures, and changes to fund balance for the General Fund:

General Fund Revenues, Expenditures, and Change in Fund Balance In Millions

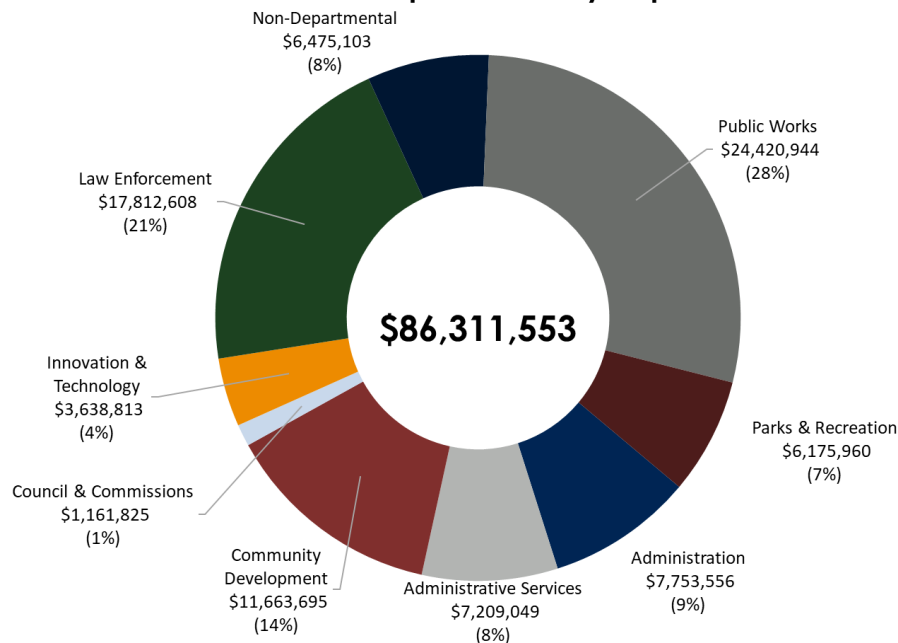


In FY 2023-24, the General Fund's unassigned fund balance is projected to be \$47.1 million, a decrease of \$5.7 million, or 10.8%, from the FY 2022-23 Amended Budget. Total fund balance is estimated to be \$107.5 million, a decrease of \$6.0 million, or 5.3%, from the FY 2022-23 Amended Budget. The decrease is primarily attributable to a \$6.0 million deficit in FY 2023-24 due to a decrease in revenue resulting from the CDTFA audit. The deficit will be funded by unassigned fund balance.

GENERAL FUND FUND BALANCE						
Classification	2020-21 Actual	2021-22 Actual	2022-23 Adopted Budget	2022-23 Amended Budget	2023-24 Proposed Budget	Percent Change
Unassigned	52,449,546	51,804,288	48,332,873	52,834,551	47,146,398	-10.8%
All Other Classifications	44,401,243	48,365,253	61,771,440	60,661,719	60,319,373	-0.6%
TOTAL FUND BALANCE	96,850,790	100,169,541	110,104,313	113,496,269	107,465,770	-5.3%

As shown in the graph below, the majority of General Fund resources are used to support Public Works (28%), Law Enforcement (21%), Community Development (14%), Non-Departmental (8%), Administration (9%), and Parks and Recreation (7%). Non-Departmental expenditures are transfers to other funds.

FY 2023-24 Proposed Budget General Fund Expenditures by Department



Special Revenue Funds

Special Revenue Funds are established to account for the proceeds of specific revenue sources that are legally restricted for expenditures for particular purposes. The largest Special Revenue Fund is allocated to streets, roads, and transportation, while other funds are designated for storm drain management, affordable housing programs, and park development.

For the upcoming fiscal year, the Proposed Budget for Special Revenue Funds is \$10.4 million, which represents a decrease of \$0.8 million or 7.4% compared to the FY 2022-23 Adopted Budget. This reduction is attributed to a decrease in pavement expenditures.

The Special Revenue Funds receive funding from two sources: \$10.2 million in restricted department revenue and \$2.5 million in transfers, resulting in a total funding of \$12.7 million. The Special Revenue Funds are expected to end the year with a fund balance of \$31.6 million, reflecting an increase of \$2.3 million from the previous year. This increase in fund balance is mainly due to the housing mitigation revenue in the BMR Housing Fund.

Debt Service Funds

The Public Facilities Corporation Debt Service Fund provides for the payment of principal, interest, and associated administrative costs incurred with issuing debt instruments. On September 29, 2020, the City's 2020A Certificates of Participation (2020 COPs) were successfully sold 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 ten years or almost \$5 million in total savings. The debt is expected to be fully paid by FY 2029-30.

The Proposed Budget for Debt Service Funds is \$2.7 million, relatively unchanged from the FY 2022-23 Adopted Budget. The Debt Service Funds are funded by \$2.7 million in transfers from the General Fund.

Capital Projects Funds

Capital Projects Funds are used for the acquisition or construction of major capital facilities and infrastructure. Capital Projects Funds include the Capital Improvement Projects Fund, Stevens Creek Corridor Park Fund, and Capital Reserve Fund. These funds are used to finance the implementation of projects identified in the City's five-year Capital Improvement Program (CIP).

While the Proposed Budget for Capital Projects Funds is only \$175,000, a decrease of \$3.5 million, or 95.2%, from last year's Adopted Budget, this is because the Capital Improvement Program budget is not included in the Proposed Budget. The City is currently working on an updated Capital Improvement Program, which will be presented to City Council on May 17 and added for Council consideration at the final budget hearing and adoption.

The Capital Projects Funds are primarily funded through a combination of transfers from the General Fund, grants, donations, development impact fees, and other dedicated revenue sources. As projects are completed, any remaining funds are typically rolled over into the Capital Reserve Fund to be used for future projects.

Enterprise Funds

Enterprise Funds are designed to support services that are funded directly by fees charged for goods or services. The City's Enterprise Funds include 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.

In the Proposed Budget, the Enterprise Funds are allocated \$9.5 million, which represents an increase of \$0.5 million or 5.0%, from the FY 2022-23 Adopted Budget. The Enterprise Funds are funded by \$6.7 million in program revenue and \$2.7 million in reserves. The Enterprise Funds are projected to end the year with \$3.7 million in reserves, a decrease of \$2.7 million. This decrease is due to the use of reserves, which were accumulated in previous years. During the pandemic, the Parks and Recreation funds accumulated reserves as revenues were higher than expenditures.

Internal Service Funds

Internal Service Funds are for goods or services provided to other City departments or governments on a cost-reimbursement basis. These funds include 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 \$8.7 million, which is a slight decrease of \$0.1 million or 1.5%, compared to last year's Adopted Budget. The Internal Service Funds are funded by \$4.2 million in program revenue, \$1.3 million in transfers from the General Fund, and \$3.3 million in reserves. The Internal Service Funds are projected to end the fiscal year with \$(0.1) million in reserves, decreasing by \$3.3 million. Although the Internal Service Funds show a negative net position, it's important to note that retiree health expenses will be reimbursed by the Section 115 OPEB Trust at the close of each fiscal year.

This decrease in reserves is due to the City's decision to eliminate the General Fund transfer to the Retiree Medical Fund in FY 2022-23. Instead, the City plans to fund Other Post-Employment Benefits (OPEB) costs with the City's Section 115 OPEB Trust, as the City's OPEB plan is over 100% funded. The City will continue to monitor the Internal Service Funds to ensure they remain sustainable and effective in supporting City operations.

Budget Reductions

The table below illustrates the reductions made to the original FY 2023-24 Budget. This budget was developed by taking the previous year's base budget and incorporating additional ongoing costs, while also adjusting material and contract expenses based on the Consumer Price Index (CPI), where applicable.

Description	FY 2023-24		FY 2023-24		Reduction	Service Impact
	Original Budget		Proposed Budget			
COUNCIL AND COMMISSIONS						
Materials	\$ 286,824	\$	161,259	\$	125,565	Reduced meeting expenses, general supplies, and food and drink for Council meetings.
TOTAL COUNCIL AND COMMISSIONS	\$ 286,824	\$	161,259	\$	125,565	
ADMINISTRATION						
Materials	\$ 535,812	\$	400,223	\$	135,589	This reduction is primarily related to savings in supplies, meeting expenses, and conference and travel. This should have minimal impact on services throughout the department.
Contract Services	\$ 1,362,790	\$	941,380	\$	421,410	This reduction is primarily related to contract negotiations to reduce cost for services throughout the department.
TOTAL ADMINISTRATION	\$ 1,898,602	\$	1,341,603	\$	556,999	
INNOVATION & TECHNOLOGY						
Materials	\$ 2,794,442	\$	1,812,505	\$	981,937	Reduced applications utilized by staff, residents, and customers. Commissioners and part time staff limited to E-mail; Prolonged tech refresh cycles and significant reduction in replacement parts and supplies. Reduced Training and Conferences for department. Drone program and training reduced, and eliminate Wi-Fi in parks.
Contract Services	\$ 791,240	\$	620,119	\$	171,121	Reduce expert technical training; less outside technical support, and reduced LaserFiche document scanning. Reduced maintenance of equipment
TOTAL INNOVATION & TECHNOLOGY	\$ 3,585,682	\$	2,432,624	\$	1,153,058	
ADMINISTRATIVE SERVICES						
Materials	\$ 186,223	\$	108,808	\$	77,415	Reduced conference attendance, office and general supplies, recruitment advertisements, printing, citywide coffee and tea and reduced citywide employee events.
Contract Services	\$ 4,152,414	\$	4,020,746	\$	131,668	Reduced citywide trainings, reduced executive recruitments and reduced consultant costs.
TOTAL ADMINISTRATIVE SERVICES	\$ 4,338,637	\$	4,129,554	\$	209,083	

Description	FY 2023-24 Original Budget	FY 2023-24 Proposed Budget	Reduction	Service Impact
PARKS AND RECREATION				
Part-Time Staffing - Department Wide	\$1,606,998	\$1,381,602	\$225,396	Reduced PT Staff budgets to minimum levels necessary to operate currently open Recreational facilities and ongoing programs.
Materials	\$779,829	\$457,723	\$322,106	Simplification or streamlining of current programs and events and fewer marketing efforts and printed materials thereof. Removed budgets for nonessential trainings and conferences in the Department and additional savings from reduced expenditures for meetings and events for staff.
Contract Services	\$4,532,489	\$3,953,917	\$578,572	Reduced expansion of current or new offerings for contracted programs, camps, and classes. Reduction of free events offered and removed budget to cover fees for festivals
TOTAL PARKS AND RECREATION	\$6,919,316	\$5,793,242	\$1,126,074	
COMMUNITY DEVELOPMENT				
Materials	\$1,186,321	\$1,121,866	\$64,455	Reduced conference attendance, professional development opportunities, and materials and supplies.
Contract Services	\$655,080	\$565,580	\$89,500	Termination of on-call contracts and negotiation of new contracts will reduce service level and response time.
TOTAL COMMUNITY DEVELOPMENT	\$1,841,401	\$1,687,446	\$153,955	
PUBLIC WORKS				
Materials	\$5,439,339	\$4,852,483	\$586,857	Reduced or eliminated office and general supplies; meetings, conference and trainings; memberships; safety equipment not covered under the MOU; small tools and equipment; and printing and advertising.
Contract Services	\$5,460,208	\$4,859,824	\$600,384	Delayed services and response to work requests; deferred maintenance at City parks, facilities, streets and trees.
Special Projects	\$5,290,259	\$4,496,264	\$793,995	Delayed or deferred sidewalk repairs and pavement maintenance.
Capital Outlays	\$1,100,280	\$880,224	\$220,056	Delayed or deferred pavement maintenance, which will lower the City's Pavement Condition Index (PCI) rating.
TOTAL PUBLIC WORKS	\$17,290,086	\$15,088,795	\$2,201,292	
TOTAL	\$ 36,160,548	\$ 30,634,523	\$ 5,526,026	

Unfunded Needs

Departments have identified the following projects as unfunded needs, which refer to priority projects that lack sufficient funding to be implemented at this time.

Project	Description	Estimated Cost	Funding Status
ADMINISTRATION			
Enhanced water conservation incentives for Cupertino residents	Cupertino provides additional incentives to promote water conservation activities by community members. Residents have leveraged these enhanced incentives since 2015 resulting in approximately 80,000 square feet of grass removed and replaced with drought-tolerant gardens each year.	\$45,000	Unfunded
Employee Alternative Commute program	Program to manage parking impacts, reduce traffic, and encourage use of local public transit and carpooling for staff as they return back to the office. The fund would pay for three years of operation of this program.	\$35,000	Unfunded
Climate Victory Gardens	A program to support residents to remove grass from their property by providing direct technical support, landscape design services, and assistance with filling out rebate paperwork.	\$175,000	Unfunded
TOTAL ADMINISTRATION		\$255,000	
INNOVATION & TECHNOLOGY			
IT Strategic Plan	Partner with Departments to develop a three-year FY25- FY27 Strategic Plan to provide guidance/governance to future IT Projects	\$75,000 onetime	Unfunded
Debtbook for GASB 96	Application required for accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments).	\$15,000 one-time, \$13,000 ongoing	Unfunded
Air Gapped Backups	As part of a network backup and recovery strategy, Air Gapped backups provide a copy of the Organizations data that is offline and inaccessible to cyber criminals.	\$45,000 onetime	Unfunded
GPS Rental Equipment	Creating topological deliverables requires renting GPS equipment to achieve the positional accuracy required to produce contours, a service we would like to bring in-house for cost savings.	\$5,000 onetime; \$5,000 ongoing	Unfunded
FuelMaster Live	Update our existing FuelMaster SQL deployment to the updated FMLive cloud-based fuel management system.	\$22,000 onetime; \$5,000 ongoing	Unfunded
Community Hall Portable Projector	Procurement of a portable projector for revenue generating public and private events	\$6,000 one-time	Unfunded
Monta Vista Recreation Center Portable Projection System	Procurement of portable projector for revenue generating classroom rentals	\$6,000 one-time	Unfunded
Quinlan Craft Room Display System	Installation of a large 98 inch flat panel display for revenue generating room	\$10,000 one-time	Unfunded
Quinlan Social Room Projection System and Screen	Procurement of a ceiling-mounted video projection system and motorized retractable screen for revenue generating room	\$25,000 one-time	Unfunded
Senior Center Digital Signage Displays	Procurement of two 50-inch displays at revenue generating Senior Center Lobby for displaying Electronic Activity Calendar	\$5,000 one-time	Unfunded
Senior Center Tech Lab Projection System	Installation of a ceiling-mounted video projector for revenue generating room	\$15,000 one-time	Unfunded
TOTAL INNOVATION & TECHNOLOGY		\$229,000	

Project	Description	Estimated Cost	Funding Status
PUBLIC WORKS			
Public Works Administration	Public Works Outreach and Events - Ribbon Cutting Ceremonies for newly completed projects; Public Works Week Demonstrations and Open House	\$17,400	Unfunded
Non-Point Source	Stevens Creek Water Quality Monitoring & Pollution Prevention-Creek monitoring is an educational opportunity that produces data that is helpful to the Environmental Team, but not required as a permit condition.	\$26,460	Unfunded
Pre-filled sandbags	Purchase of pre-filled sandbags for residents during storm events. This work will be performed by City staff.	\$11,100	Unfunded
Grounds School Site Maintenance	Garden Gate Elementary School City Access Gate Relocation. Deferred maintenance may negatively impact health of adjacent oak tree and will limit access of service vehicles	\$25,000	Unfunded
Grounds School Site Maintenance	Faria Elementary School Baseball Field Dugout Roof Replacements. Deferred building maintenance will result in deterioration of building assets.	\$25,000	Unfunded
Sports Fields	Jollyman Dugout Roof Replacement. Deferred building maintenance will result in deterioration of building assets	\$10,000	Unfunded
Facilities Maintenance City Hall Alarm	City Hall Burglar Alarm Upgrade. Increase in false alarm response.	\$2,000	Unfunded
Service Center Maintenance	Service Center Men's Restroom Floor Replacement. Deferred building maintenance will result in deterioration of building assets.	\$30,000	Unfunded
Service Center Maintenance	Service Center Women's Restroom Floor Replacement - Deferred building maintenance will result in deterioration of building assets.	\$20,000	Unfunded
Service Center Maintenance	Service Center Coffee Room Cabinet Replacement - Deferred building maintenance will result in deterioration of building assets.	\$7,000	Unfunded
Facilities Maintenance Quinlan Community Center Alarm	Quinlan Community Center Burglar Alarm Upgrade. Increase in false alarm response.	\$2,000	Unfunded
Facilities Maintenance Senior Center Alarm	Senior Center Burglar Alarm Upgrade. Increase in false alarm response.	\$2,000	Unfunded
Facilities Maintenance McClellan Ranch Alarm	McClellan Ranch Burglar Alarm Upgrade. Increase in false alarm response.	\$2,000	Unfunded
Facilities Maintenance Monta Vista Alarm	Monta Vista Burglar Alarm Upgrade. Increase in false alarm response.	\$2,000	Unfunded
Facilities Maintenance Wilson Park	Wilson Park Pottery Building Exterior Painting - Deferred building maintenance will result in deterioration of building assets	\$25,000	Unfunded
Facilities Maintenance Sports Center Alarm	Sports Center Burglar Alarm Upgrade - Increase in false alarm response	\$2,000	Unfunded
Facilities Maintenance Sports Center Roof	Sports Center Roof Hatch Replacement - Deferred building maintenance will result in deterioration of building assets	\$25,000	Unfunded
Facilities Maintenance Sports Center Restroom	Sports Center Restroom Partition Replacement - Deferred building maintenance will result in deterioration of building assets	\$9,000	Unfunded
Facilities Maintenance Community Hall Alarm	Community Hall Burglar Alarm Upgrade. Increase in false alarm response.	\$2,000	Unfunded

Project	Description	Estimated Cost	Funding Status
Fixed Assets Acquisition	Bandit 18xp 180HP Chipper to replace Equipment #184 - Service impact is non-compliance with CA Emissions requirement.	\$90,000	Unfunded
Fixed Assets Acquisition	Kubota L6060 to replace Equipment #179 - Service impact is non-compliance with CA Emissions requirement	\$66,192	Unfunded
Fixed Assets Acquisition	Diamond C 5x8 dump to replace Equipment #158 - Service impact is reduced operational efficiency.	\$10,000	Unfunded
Fixed Assets Acquisition	Kubota RTV to replace Equipment #180 - Service impact is reduced operational efficiency.	\$33,000	Unfunded
Fixed Assets Acquisition	Grayco Line Driver - Service impact is reduced operational efficiency.	\$17,500	Unfunded
Fixed Assets Acquisition	SR28 Thermal Heater - Service impact is reduced operational efficiency.	\$14,000	Unfunded
Fixed Assets Acquisition	Kubota Mini Ex and Trailer - Service impact is ongoing rental expense.	\$80,000	Unfunded
TOTAL PUBLIC WORKS		\$555,652	
TOTAL		\$ 1,039,652	

Special Projects

The FY 2023-24 Proposed Budget allocates funds for Special Projects, which are typically one-time operational projects. The Special Projects are detailed in the respective program's Special Project section and summarized in the table below. Some Special Projects' budgets from previous fiscal years may also be carried forward into FY 2023-24.

Program	Project	Expenditure	Funding Source	Strategic Goal
CITY WORK PROGRAM				
ADMINISTRATION				
632 Community Outreach and Neighborhood Watch	CWP - License Plate Readers	10,000	General Fund	Quality of Life
TOTAL ADMINISTRATION		10,000		
PARKS AND RECREATION				
601 Rec & Comm Svcs Administration	CWP - Senior Strategy	20,000	General Fund	Publ Eng and Transparency
601 Rec & Comm Svcs Administration	CWP - Dogs Off Leash Area	5,000	General Fund	Quality of Life
TOTAL PARKS AND RECREATION		25,000		
COMMUNITY DEVELOPMENT				
702 Mid Long Term Planning	CWP - Tree List	50,000	General Fund	Sustainability & Fiscal Strategy
711 BMR Affordable Housing Fund	CWP - Support for the Unhoused	50,000	General Fund	Housing
TOTAL COMMUNITY DEVELOPMENT		100,000		
PUBLIC WORKS				
825 Street Tree Maintenance	CWP - Tree List	60,000	General Fund	Sustainability & Fiscal Strategy
844 Traffic Engineering	CWP - Planned Transportation Project (Vision Zer	20,000	General Fund	Transportation
TOTAL PUBLIC WORKS		80,000		
TOTAL CITY WORK PROGRAM		\$ 215,000		
OTHER SPECIAL PROJECTS				
Program	Project	Expenditure	Funding Source	
INNOVATION & TECHNOLOGY				
308 Applications	ProjectDox	129,475	General Fund	
308 Applications	ERP (Phase III)	450,000	General Fund	
986 GIS	VR Decarb	112,000	I&T	
TOTAL INNOVATION & TECHNOLOGY		691,475		
PUBLIC WORKS				
801 Resources Recovery	HHW and PaintCare	115,733	Resource Recovery	
807 Service Center Administration	Office Reconfiguration	17,682	General Fund	
812 School Site Maintenance	Baseball Field Dugout Roof Replacements-Kennedy	20,000	General Fund	
820 Sidewalk Curb and Gutter	Annual Sidewalk Curb & Gutter	1,232,313	Transportation Fund	
821 Street Pavement Maintenance	Annual Asphalt Project	1,943,668	Transportation Fund	
825 Street Tree Maintenance	Trees and Badges	15,000	General Fund	
829 Bldg Maint Service Center	Service Center Shop Roof Recoating	15,000	General Fund	
830 Bldg Maint Quinlan Center	Lobby Office Security Upgrade, Pre-School Counter Laminate Replacement and Floor Replacement	85,000	General Fund	
832 Bldg Maint McClellan Ranch	Nature Shop Roof Repair, EEC Exterior Painting, Shop Roof/Gutter Repair	65,000	General Fund	
834 Bldg Maint Wilson	Wilson Park Snack Shack Gutter Replacements	7,000	General Fund	
836 Bldg Maint Sports Center	Interior Lighting Improvements	20,000	General Fund	
837 Bldg Maint Creekside	Creekside Interior Lighting Improvements	12,000	General Fund	
848 Street Lighting	Fluted Street Light Pole Replacement	230,000	General Fund	
853 Storm Drain Fee	Permeable Pavement	12,500	Env Mgmt Cln Crk	
853 Storm Drain Fee	Rainwater Capture	12,500	Env Mgmt Cln Crk	
854 General Fund Subsidy	Low Income Cost Share	13,162	Env Mgmt Cln Crk	
854 General Fund Subsidy	CUSD Joint Use Cost Share	8,706	Env Mgmt Cln Crk	
855 Storm Drain Maintenance	Envirosight ROVVER X Remote Control Camera Sy	131,000	Env Mgmt Cln Crk	
985 Fixed Assets Acquisition	Fixed Asset Acquisition	460,000	Vehicle/Equip Replacement	
TOTAL PUBLIC WORKS		4,416,264		
TOTAL OTHER SPECIAL PROJECTS		\$ 5,107,739		
TOTAL SPECIAL PROJECTS		\$ 5,322,739		

Current Economic Update

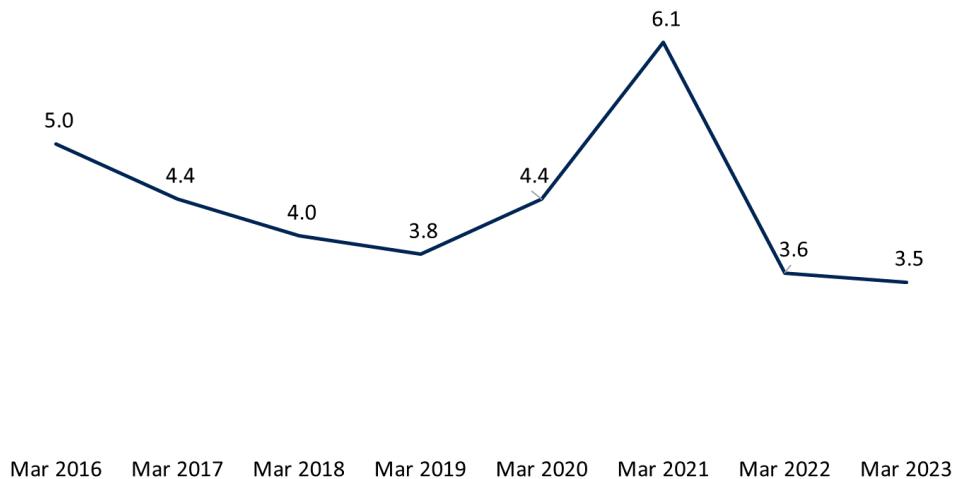
National and State Economic Conditions

Real gross domestic product (GDP) increased at an annual rate of 2.6% in the fourth quarter of 2022, after increasing by 3.2% in the third quarter. The increase in the fourth quarter primarily reflected increases in inventory investment and consumer spending that were partly offset by a decrease in housing investment. The deceleration in the fourth quarter, compared to the third quarter, primarily reflected a downturn in exports and decelerations in consumer spending, business investment, and state and local government spending. These movements were partly offset by an upturn in inventory investment, a smaller decrease in housing investment, and an acceleration in federal government spending. Imports decreased less in the fourth quarter than in the third quarter.

Economic trends have been decelerating along with tighter financial conditions and restrictive monetary policy. Recent data suggests positive but below-trend growth this year. Although the pace of job growth is moderating, labor markets remain solid, and the U.S. consumer has demonstrated resiliency.

At the end of March, the 2-year Treasury yield was 169 basis points higher, and the 10-Year Treasury yield was about 113 basis points higher, year-over-year. The inversion between the 2-year Treasury yield and 10-year Treasury yield narrowed to -56 basis points at March month-end versus -90 basis points at February month-end. The average historical spread (since 2003) is about +130 basis points. The inversion between 3-month and 10-year Treasuries widened to -128 in March from -89 basis points in February. The shape of the yield curve indicates that the probability of recession is increasing.

US Unemployment Rate
(In percentages)



As of March 2023, the U.S. unemployment rate stood at 3.5%, showing a slight decrease from 3.6% in March 2022. This rate is comparable to the 3.5% reported in February 2020 before the start of the pandemic. The participation rate rose to 62.6%, up from 62.4% in the previous year but still below the February 2020 level of 63.4%. The U-6, a broader measure of unemployment that includes those marginally attached to the labor force and employed part-time for economic reasons, declined to 6.7% from 6.9% in March 2022.

Despite concerns over inflation, bank collapses, and a possible recession, American consumer confidence showed a slight increase in March following two consecutive monthly declines. According to the Conference Board, the consumer confidence index rose from 103.4 in February to 104.2 in March. However, while consumers expressed slightly more optimism about the short-term future, their confidence in current conditions decreased. This marks a reversal from recent surveys. The Conference Board notes that although there was an uptick in confidence, the index still remains below the 2022 average level of 104.5. The latest results also reveal that consumer expectations of inflation over the next 12 months remains elevated—at 6.3%.

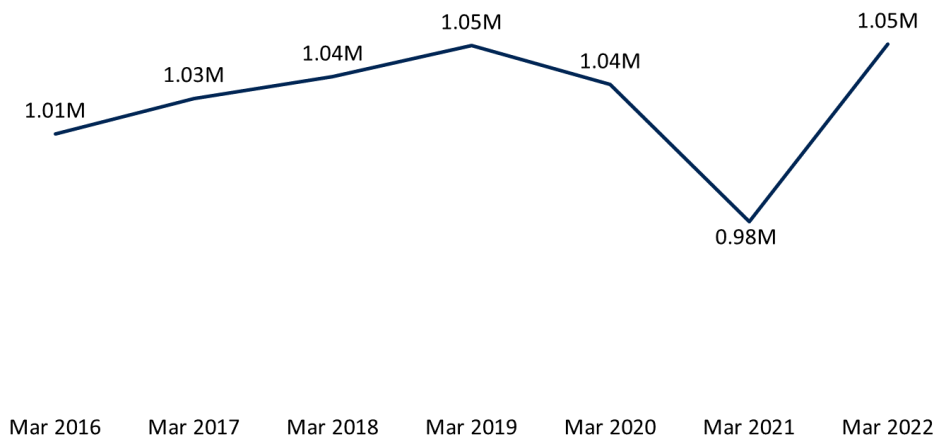
According to the California Employment Development Department (EDD), the state's unemployment rate held steady at 4.4% in March 2023, the same as in March 2022. The EDD also reported that employers added 8,700 nonfarm payroll jobs to the economy in March 2023. Total employment reached 17,967,800, up by 2.5% (432,100 jobs) compared to the same period last year.

The California Association of Realtors (CAR) reported a 4.8% decline in median home prices and a 33.2% decrease in sales in February compared to the previous year. Similarly, Santa Clara County's growth rate also slowed down, with a 17.6% fall in prices of single-family homes and a 37.9% decrease in sales compared to the same period last year.

Cupertino Economic Conditions

The unemployment rate in the San Jose-Sunnyvale-Santa Clara MSA was 3.3% in March 2023, up from a revised 3.2% in February 2023, and above the year-ago estimate of 2.9%. This was below the unemployment rate for California and the nation during the same period. Between March 2022 and March 2023, combined employment in the South Bay counties of San Benito and Santa Clara, increased by 37,700 jobs, or 3.3%.

Monthly Employment - San Jose/Santa Clara MSA
Number of Employed Persons (not seasonally adjusted)



Housing prices remain relatively strong compared to the same period in 2022. Based on data from Redfin, the median sales price for an existing single-family home was \$2,758,000 in March 2023 compared to \$3,400,000 in March 2022. The City experienced a net taxable value increase of 7.24% for the 2022-23 tax roll.

Key Budget Assumptions

Revenue Assumptions

The City's General Fund revenues heavily depend on property tax, sales tax, and transient occupancy tax (TOT). However, the ongoing CDTFA audit is expected to alter the way sales tax is allocated to the City, leading to a significant reduction in sales tax revenue. As a result, the City anticipates General Fund revenues to decrease by \$30 million, or 28%, from original projections.

Personnel Assumptions

FY 2023-24 salaries and benefits reflect the cost-of-living adjustments approved by the City Council in August 2022. The City is currently negotiating with its bargaining groups because the agreements, which expire on June 30, 2025, include a salary and benefits reopener. In the forecast, full-time salaries are expected to increase by the CalPERS payroll growth rate. On the other hand, part-time salaries are forecasted to grow at a rate of 1.5%, which is a slower rate than full-time salaries.

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 38% of employees are below Step 5.

Non-Personnel Assumptions

Non-Personnel budgets were developed based on previous year's actual expenditures and adjusted for the current year's needs. One-time projects were excluded to reflect ongoing expenditure needs. In response to the anticipated revenue shortfall resulting from the CDTFA audit, departments were asked to find ways to reduce the base budget. To balance the budget, various categories including materials, contract services, capital outlays, special projects, transfers to other funds, and contingencies were reduced in the Proposed Budget.

Ongoing Challenges

Retirement Benefits

Rising retirement costs are driving the increase in employee benefits. Cupertino offers retirement benefits to its employees through the California Public Employee's Retirement System (CalPERS), which experienced a significant decline in its assets due to poor investment returns during the Great Recession. Moreover, changes in actuarial assumptions and enhanced benefits due to higher life expectancies have further increased the plan's liabilities. Consequently, the City's pension costs have escalated considerably and currently constitute one of the City's largest financial obligations.

The table below illustrates the City's CalPERS costs over the next few years.

	Projected CalPERS Contributions					
	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29
Projected Payroll	\$ 21,617,038	\$ 22,222,316	\$ 22,844,540	\$ 23,484,187	\$ 24,141,744	\$ 24,817,713
Normal Cost (%)	10.7%	10.6%	10.4%	10.2%	10.1%	9.9%
Normal Cost	\$ 2,315,185	\$ 2,355,565	\$ 2,375,832	\$ 2,395,387	\$ 2,438,316	\$ 2,456,954
UAL Payment (%)	22.0%	21.6%	19.1%	18.2%	14.4%	14.4%
UAL Payment	\$ 4,763,735	\$ 4,811,000	\$ 4,361,000	\$ 4,278,000	\$ 3,465,000	\$ 3,586,000
Total Contribution (%)	32.7%	32.2%	29.5%	28.4%	24.5%	24.3%
Total Contribution	\$ 7,078,920	\$ 7,166,565	\$ 6,736,832	\$ 6,673,387	\$ 5,903,316	\$ 6,042,954

In December 2016, the CalPERS Board of Administration implemented a three-year phase-in beginning in FY 2018-19 to lower the discount rate from 7.5% to 7.0%, resulting in significant increases in retirement costs. In FY 2021-22, the discount rate was further reduced to 6.8% due to the FY 2020-21 investment gain of 21.3%, which triggered the Funding Risk Mitigation Policy.

To mitigate the impact of pension rate volatility on the City's budget, the City established a Section 115 Trust in May 2018. The Section 115 Pension Trust had a balance of \$17.2 million as of June 30, 2022, which can be utilized to fund pension costs.

Revenue Volatility

The City of Cupertino heavily relies on business-to-business (B2B) sales taxes for its sales tax revenue, making it highly sensitive to economic fluctuations. The City experienced the impact of this volatility during the dot-com crash from 2000 to 2004. The heavy reliance on the high-tech industry makes the City vulnerable, and the loss of one of the top three sales tax producers in FY 2013-14 made the City more dependent on a single tax producer, further increasing its vulnerability to business volatility.

The COVID-19 outbreak in 2020 significantly impacted the City's revenues from sales and transient occupancy taxes. Although certain sectors, such as restaurants and hotels, brick-and-mortar retail and restaurants, were severely affected, the City experienced an increase in business-to-business sales tax revenues and County pool allocation share. The increase in sales tax revenue was attributed to the rise in online sales due to statewide shelter-in-place mandates and the higher demand for computer and electronics equipment due to the shift to remote work. While the City's sales tax revenues reached historic highs in FY 2020-21 and FY 2021-22, the City considers it a one-time event, and the recovery of the restaurant and hotel, general consumer goods, and automotive industry groups did not offset the declines in business-to-business sales tax and County pool allocation as online sales decreased from their recent historic highs. Transient occupancy tax revenue decreased due to reduced business travel during the pandemic but has begun to recover in FY 2022-23.

In December 2021, the CDTFA informed the City that an audit would be conducted on one of its taxpayers. The CDTFA verbally notified the City in March 2023 of its preliminary determination that tax dollars had been misallocated to the City, discussing the potential impacts on the City. The CDTFA is expected to issue a formal letter to the City within the next four to six months, providing the final audit results and the actual amount of money lost. As a result of the audit, the City's sales tax revenue is expected to significantly decrease.