

# Financial Schedules

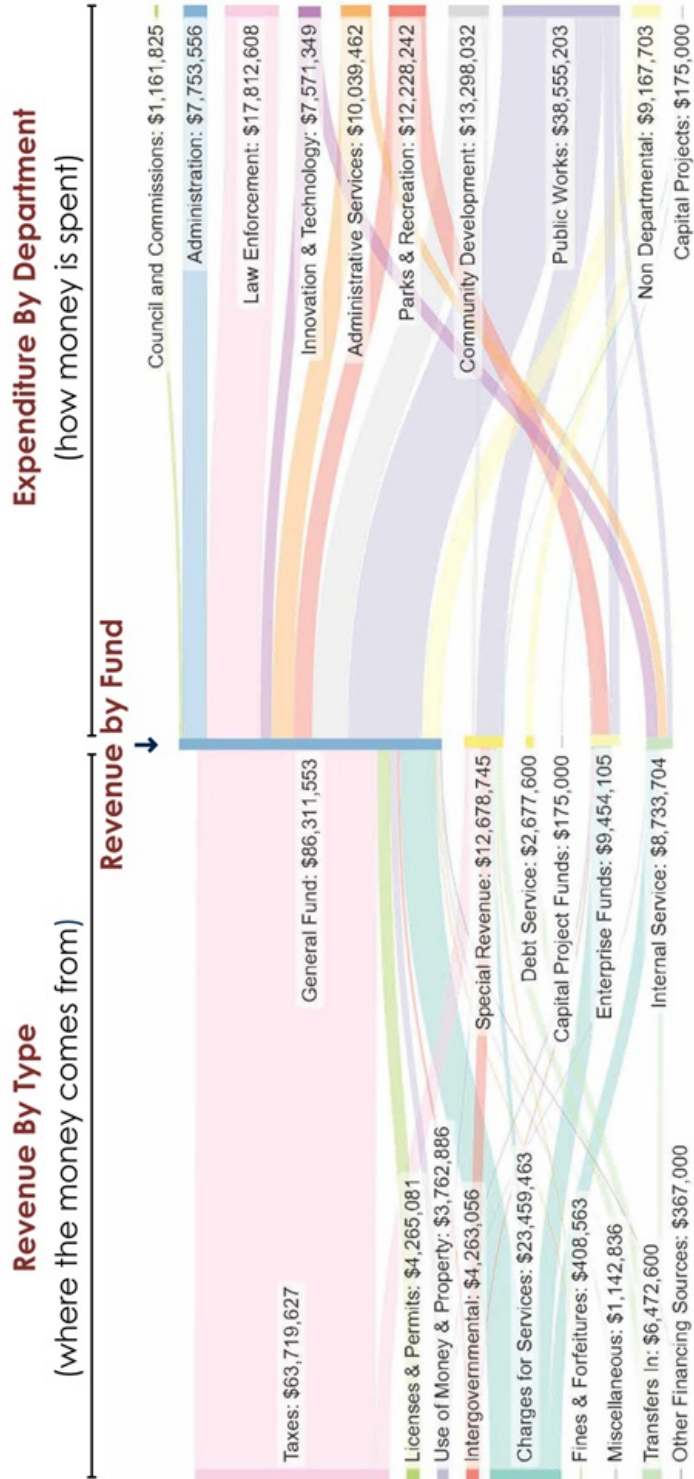
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# Financial Overview by Fund

Revenue Categories	2023-24 Proposed Budget				
	General Fund	Special Revenue Fund	Debt Service Fund	Capital Project Funds	Enterprise Funds
Sales Tax	11,428,930	-	-	-	-
Property Tax	31,736,834	-	-	-	-
Transient Occupancy	7,500,000	-	-	-	-
Utility Tax	3,304,742	-	-	-	-
Franchise Fees	3,443,574	-	-	-	-
Other Taxes	1,641,486	4,664,061	-	-	-
Licenses & Permits	4,265,081	-	-	-	-
Use of Money & Property	2,328,336	572,300	-	-	733,250
Intergovernmental	807,624	3,440,620	-	-	14,812
Charges for Services	11,894,611	1,498,201	-	-	5,996,727
Fines & Forfeitures	405,000	3,563	-	-	-
Miscellaneous	1,142,836	-	-	-	-
Other Financing Sources	367,000	-	-	-	-
Transfers In	15,000	2,500,000	2,677,600	-	1,280,000
<b>TOTAL REVENUES</b>	<b>\$ 80,281,054</b>	<b>\$ 12,678,745</b>	<b>\$ 2,677,600</b>	<b>\$ -</b>	<b>\$ 6,744,789</b>
					<b>\$ 5,478,924</b>
					<b>\$ 107,861,112</b>

Appropriation Categories	2023-24 Proposed Budget				
	General Fund	Special Revenue Fund	Debt Service Fund	Capital Project Funds	Enterprise Funds
Employee Compensation	24,756,604	1,901,795	-	-	2,016,689
Employee Benefits	11,124,035	900,847	-	-	676,087
Materials	6,387,746	1,040,163	-	-	444,258
Contract Services	24,975,024	1,037,847	-	175,000	4,951,958
Cost Allocation	10,257,656	1,220,614	-	-	939,358
Capital Outlays	-	880,224	-	-	-
Special Projects	1,211,157	3,403,849	-	-	135,733
Contingencies	216,731	10,679	-	-	67,455
Debt Service	-	-	2,677,600	-	-
Transfers Out	6,457,600	15,000	-	-	-
Other Financing Uses	925,000	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>\$ 86,311,553</b>	<b>\$ 10,411,018</b>	<b>\$ 2,677,600</b>	<b>\$ 175,000</b>	<b>\$ 9,454,105</b>
					<b>\$ 8,733,704</b>
					<b>\$ 117,762,980</b>
<b>CHANGE IN FUND BALANCE/</b>	<b>\$ (6,030,499)</b>	<b>\$ 2,267,727</b>	<b>\$ -</b>	<b>\$ (175,000)</b>	<b>\$ (2,709,316)</b>
<b>NET POSITION</b>					<b>\$ (3,254,780)</b>
					<b>\$ (9,901,868)</b>

# Flow of Funds Chart (Sankey)



The three most important things to learn from this chart:

1. The chart above demonstrates how revenues (left to right) and expenditures (right to left) flow out of and into each type of City fund.
2. Where revenues meet expenditures at the center of the chart (fund line type), a gap to the left is indicative of expenditures exceeding revenue and a decrease in fund balance/savings for that type of fund.
3. A gap to the right is indicative of an increase in fund balance/savings for that type of fund.



# General Fund Contribution Schedule

Fund Type/Budget Unit	Description	Proposed Budget Revenues	Proposed Budget Expenditures	Proposed Budget Change in Fund Balance/Net Position	Proposed Budget General Fund Contribution
<b>GENERAL FUND</b>					
<b>10 City Council</b>					
100-10-100	City Council	827,983	432,215	-	(395,768)
100-10-101	Community Funding	-	67,573	-	67,573
100-10-110	Sister Cities	-	73,155	-	73,155
<b>11 Commissions</b>					
100-11-131	Telecommunication Commission	-	35,695	-	35,695
100-11-140	Library Commission	-	43,025	-	43,025
100-11-142	Arts and Culture Commission	-	41,598	-	41,598
100-11-150	Public Safety Commission	-	46,001	-	46,001
100-11-155	Bike/Ped Safety Commission	-	62,864	-	62,864
100-11-160	Recreation Commission	-	38,916	-	38,916
100-11-165	Teen Commission	-	42,506	-	42,506
100-11-170	Planning Commission	-	117,855	-	117,855
100-11-175	Housing Commission	-	61,513	-	61,513
100-11-180	Sustainability Commission	-	58,238	-	58,238
100-11-190	Audit Committee	-	40,671	-	40,671
<b>12 City Manager</b>					
100-12-120	City Manager	617,164	2,390,876	-	1,773,712
100-12-122	Sustainability	111,500	705,617	-	594,117
100-12-126	Office of Communications	-	682,026	-	682,026
100-12-305	Video	167,188	16,752	-	(150,436)
100-12-307	Public Access Support	-	47,732	-	47,732
100-12-632	Comm Outreach & Neigh Watch	-	252,691	-	252,691
100-12-633	Disaster Preparedness	-	728,067	-	728,067
100-12-705	Economic Development	-	467,954	-	467,954
<b>13 City Clerk</b>					
100-13-130	City Clerk	87,435	777,023	-	689,588
100-13-132	Duplicating/Mail Services	-	40,808	-	40,808
100-13-133	Elections	-	977	-	977
<b>14 City Manager Discretionary</b>					
100-14-123	City Manager Contingency	-	50,000	-	50,000
<b>15 City Attorney</b>					
100-15-141	City Attorney	278,070	1,593,033	-	1,314,963
<b>20 Law Enforcement</b>					
100-20-200	Law Enforcement SC Sheriff	1,462,646	17,812,608	-	16,349,962
100-20-201	Interoperability Project	-	-	-	-
<b>31 I&amp;T Video</b>					
100-31-305	Video	-	928,452	-	928,452
<b>32 I&amp;T Applications</b>					
100-32-308	Applications	1,599,005	2,710,361	-	1,111,356
<b>40 Administrative Services</b>					
100-40-400	Admin Services Administration	154,333	369,022	-	214,689
<b>41 Finance</b>					
100-41-405	Accounting	2,120,939	1,823,581	-	(297,358)
100-41-406	Business Licenses	-	424,145	-	424,145
100-41-425	Purchasing	-	370,890	-	370,890
100-41-426	Budgeting	-	524,087	-	524,087
<b>44 Human Resources</b>					
100-44-412	Human Resources	1,884,120	1,399,766	-	(484,354)
100-44-417	Insurance Administration	-	2,297,558	-	2,297,558
<b>60 Recreation &amp; Community Service</b>					
100-60-601	Recreation Administration	-	1,362,344	-	1,362,344
100-60-634	Park Planning and Restoration	-	-	-	-
100-60-636	Library Services	-	329,698	-	329,698

Fund Type/Program	Description	Proposed Budget Revenues	Proposed Budget Expenditures	Proposed Budget Change in Fund Balance/Net Position	Proposed Budget General Fund Contribution
<b>61 Business and Community Services</b>					
100-61-602	Administration	-	587,782	-	587,782
100-61-605	Cultural Events	30,500	373,395	-	342,895
100-61-630	Facilities	190,992	390,500	-	199,508
<b>62 Recreation and Education</b>					
100-62-608	Administration	28,000	685,123	-	657,123
100-62-623	Youth, Teen and Senior Adult Rec	240,000	813,480	-	573,480
100-62-639	Youth and Teen Programs	14,000	279,358	-	265,358
100-62-640	Neighborhood Events	4,000	84,623	-	80,623
<b>63 Sports, Safety &amp; Outdoor Rec</b>					
100-63-612	Park Facilities	167,257	1,269,657	-	1,102,400
100-63-615	Administration	-	-	-	-
<b>70 Planning &amp; Community Development</b>					
100-70-700	Community Development Admin	-	571,523	-	571,523
<b>71 Planning</b>					
100-71-701	Current Planning	1,218,300	3,413,213	-	2,194,913
100-71-702	Mid Long Term Planning	138,750	1,233,728	-	1,094,978
100-71-704	Annexations	-	-	-	-
100-71-705	Economic Development	-	-	-	-
<b>72 Housing Services</b>					
100-72-712	Human Services Grants	50,000	180,140	-	130,140
<b>73 Building</b>					
100-73-713	General Building	315,000	947,871	-	632,871
100-73-714	Construction Plan Check	1,800,000	2,302,495	-	502,495
100-73-715	Building Inspection	2,120,000	1,523,406	-	(596,594)
100-73-718	Muni-Bldg Code Enforcement	-	88,812	-	88,812
<b>74 Code Enforcement</b>					
100-74-202	Code Enforcement	225,000	1,402,507	-	1,177,507
<b>80 PW Admin</b>					
100-80-800	Public Works Admin	54,375	1,046,761	-	992,386
<b>82 Developmental Services</b>					
100-82-804	Plan Review	1,374,278	1,434,926	-	60,648
100-82-806	CIP Administration	-	1,491,690	-	1,491,690
<b>83 Service Center</b>					
100-83-807	Service Center Administration	71,867	1,104,457	-	1,032,590
<b>84 Grounds</b>					
100-84-808	McClellan Ranch Park	-	176,568	-	176,568
100-84-809	Memorial Park	-	819,844	-	819,844
100-84-811	BBF Ground Maintenance	-	446,371	-	446,371
100-84-812	School Site Maintenance	145,823	1,385,825	-	1,240,002
100-84-813	Neighborhood Parks	-	2,597,350	-	2,597,350
100-84-814	Sport Fields Jollyman, Creekside	-	941,182	-	941,182
100-84-815	Civic Center Ground Maint	220,710	182,684	-	(38,026)
<b>85 Streets</b>					
100-85-848	Street Lighting	-	1,012,690	-	1,012,690
100-85-850	Environmental Materials	-	219,272	-	219,272
<b>86 Trees and Right of Way</b>					
100-86-261	Trail Maintenance	-	199,926	-	199,926
100-86-824	Overpasses and Medians	4,410	1,674,062	-	1,669,652
100-86-825	Street Tree Maintenance	56,337	1,792,601	-	1,736,264
100-86-826	Sheriff Work Program	-	593,307	-	593,307
<b>87 Facilities and Fleet</b>					
100-87-827	Bldg Maint City Hall	468,887	501,115	-	32,228
100-87-828	Bldg Maint Library	918,938	1,007,661	-	88,723
100-87-829	Bldg Maint Service Center	-	311,181	-	311,181

Fund Type/Budget Unit	Description	Proposed Budget Revenues	Proposed Budget Expenditures	Proposed Budget Change in Fund Balance/Net Position	Proposed Budget General Fund Contribution
100-87-830	Bldg Maint Quinlan Center	-	574,990	-	574,990
100-87-831	Bldg Maint Senior Center	-	324,580	-	324,580
100-87-832	Bldg Maint McClellan Ranch	4,462	294,063	-	289,601
100-87-833	Bldg Maint Monta Vista Ct	-	186,598	-	186,598
100-87-834	Bldg Maint Wilson	-	95,762	-	95,762
100-87-835	Bldg Maint Portal	-	46,228	-	46,228
100-87-837	Bldg Maint Creekside	-	136,235	-	136,235
100-87-838	Comm Hall Bldg Maint	-	225,694	-	225,694
100-87-839	Teen Center Bldg Maint	-	52,950	-	52,950
100-87-840	Park Bathrooms	-	180,333	-	180,333
100-87-841	BBF Facilities Maintenance	-	526,238	-	526,238
100-87-852	Franco Traffic Operations Center	-	15,257	-	15,257
100-87-857	City Hall Annex	-	24,949	-	24,949
<b>88 Transportation</b>					
100-88-844	Traffic Engineering	34,880	1,243,187	-	1,208,307
100-88-845	Traffic Signal Maintenance	13,742	821,471	-	807,729
100-88-846	Safe Routes 2 School	154,000	732,936	-	578,936
<b>TOTAL DEPARTMENTAL</b>		<b>\$ 19,374,891</b>	<b>\$ 79,836,450</b>	<b>\$ -</b>	<b>\$ 60,461,559</b>
100-90-001	No Department	60,906,163	6,475,103	-	(54,431,060)
<b>TOTAL NON-DEPARTMENTAL</b>		<b>\$ 60,906,163</b>	<b>\$ 6,475,103</b>	<b>\$ -</b>	<b>\$ (54,431,060)</b>
<b>CHANGE IN FUND BALANCE</b>		<b>\$ -</b>	<b>\$ -</b>	<b>\$ (6,030,499)</b>	<b>\$ (6,030,499)</b>
<b>TOTAL GENERAL FUND</b>		<b>\$ 80,281,054</b>	<b>\$ 86,311,553</b>	<b>\$ (6,030,499)</b>	<b>\$ -</b>
<b>SPECIAL REVENUE FUNDS</b>					
210-90-001	No Department	28,000	-	28,000	-
215-90-001	No Department	154,135	-	154,135	-
230-81-802	Non Point Source	1,501,764	1,179,519	322,245	-
230-81-853	Storm Drain Fee	-	25,924	(25,924)	-
230-81-854	General Fund Subsidy	-	23,164	(23,164)	-
230-81-855	Storm Drain Maintenance	-	1,008,247	(1,008,247)	-
230-90-001	No Department	9,000	-	9,000	-
260-72-707	CDBG General Admin	73,371	132,578	(59,207)	-
260-72-709	CDBG Capital/Housing Projects	463,787	460,487	3,300	-
260-72-710	CDBG Public Service Grants	55,028	55,028	-	-
260-90-001	No Department	12,000	-	12,000	-
265-72-711	BMR Affordable Housing Fund	4,532,926	986,244	3,546,682	-
265-90-001	No Department	71,000	-	71,000	-
270-85-820	Sidewalk Curb and Gutter	-	1,796,584	(1,796,584)	-
270-85-821	Street Pavement Maintenance	1,542,298	3,947,711	(2,405,413)	-
270-85-822	Street Sign Marking	-	780,532	(780,532)	-
270-90-001	No Department	1,468,436	-	3,968,436	2,500,000
271-90-001	No Department	10,000	-	10,000	-
280-90-001	No Department	256,000	-	256,000	-
281-90-001	No Department	1,000	15,000	(14,000)	-
<b>TOTAL SPECIAL REVENUE FUNDS</b>		<b>\$ 10,178,745</b>	<b>\$ 10,411,018</b>	<b>\$ 2,267,727</b>	<b>\$ 2,500,000</b>
<b>DEBT SERVICE FUNDS</b>					
365-90-001	No Department	-	-	2,677,600	2,677,600
365-90-500	Facility Lease	-	2,677,600	(2,677,600)	-
<b>TOTAL DEBT SERVICE FUNDS</b>		<b>\$ -</b>	<b>\$ 2,677,600</b>	<b>\$ -</b>	<b>\$ 2,677,600</b>
<b>CAPITAL PROJECTS FUNDS</b>					
429-90-001	No Department	-	-	-	-
420-99-047	CIP Prelim Planning & Design	-	125,000	(125,000)	-
420-99-048	Capital Project Support	-	50,000	(50,000)	-
<b>TOTAL CAPITAL PROJECTS FUNDS</b>		<b>\$ -</b>	<b>\$ 175,000</b>	<b>\$ (175,000)</b>	<b>\$ -</b>

Fund Type/Budget Unit	Description	Proposed Budget Revenues	Proposed Budget Expenditures	Proposed Budget Change in Fund Balance/Net Position	Proposed Budget General Fund Contribution
<b>ENTERPRISE FUNDS</b>					
520-81-801	Resources Recovery	1,617,964	2,639,033	(1,021,069)	-
560-63-616	BBF Golf Course	520,250	418,040	102,210	-
560-87-260	BBF Golf Maintenance	-	103,244	(103,244)	-
560-90-001	No Department	15,000	-	15,000	-
570-63-621	Sports Center Operation	2,625,000	2,841,678	(216,678)	-
570-87-836	Bldg Maint Sports Center	-	659,546	(659,546)	-
570-90-001	No Department	24,000	-	24,000	-
580-62-613	Youth Teen Recreation	1,258,800	1,704,199	(445,399)	-
580-63-620	Outdoor Recreation	639,775	1,088,365	(448,590)	-
580-90-001	No Department	44,000	-	44,000	-
<b>TOTAL ENTERPRISE FUNDS</b>		<b>\$ 6,744,789</b>	<b>\$ 9,454,105</b>	<b>\$ (2,709,316)</b>	<b>\$ -</b>
<b>INTERNAL SERVICE FUNDS</b>					
610-30-300	Administration	-	190,420	(190,420)	-
610-34-310	Infrastructure	1,591,722	2,249,231	242,491	900,000
610-35-986	GIS	955,136	1,492,885	(537,749)	-
610-90-001	No Department	51,000	-	51,000	-
620-44-418	Workers Compensation Insurance	-	582,954	(582,954)	-
620-90-001	No Department	47,000	-	47,000	-
630-85-849	Equipment Maintenance	1,523,066	1,502,887	20,179	-
630-90-001	No Department	12,000	-	12,000	-
630-90-985	Fixed Assets Acquisition	-	467,868	(467,868)	-
641-44-419	Long Term Disability	-	102,381	(102,381)	-
641-44-420	Compensated Absence	-	658,090	(278,090)	380,000
641-90-001	No Department	19,000	-	19,000	-
642-44-414	HR Retiree Benefits	-	1,486,988	(1,486,988)	-
<b>TOTAL INTERNAL SERVICE FUNDS</b>		<b>\$ 4,198,924</b>	<b>\$ 8,733,704</b>	<b>\$ (3,254,780)</b>	<b>\$ 1,280,000</b>
<b>TOTAL ALL FUNDS</b>		<b>\$ 101,403,512</b>	<b>\$ 117,762,980</b>	<b>\$ (9,901,868)</b>	<b>\$ 6,457,600</b>

No Department budget units reflect revenue from interest earnings for Special Revenue, Enterprise, and Internal Service Funds. In previous years, interest earnings were not budgeted for these funds.

# Fund Balance Report

Fund	Actual Ending Fund Balance as of 6/30/2022	Projected Ending Fund Balance as of 6/30/2023	FY 2023-24 Proposed Budget Revenues	FY 2023-24 Proposed Budget Expenditures	Proposed Budget Ending Fund Balance as of 6/30/2024
<b>GENERAL FUND</b>					
100 General Fund	109,940,116	113,266,844	80,281,054	86,311,553	107,236,345
130 Investment Fund	229,425	229,425	-	-	229,425
<b>TOTAL GENERAL FUNDS</b>	<b>\$ 110,169,541</b>	<b>\$ 113,496,269</b>	<b>\$ 80,281,054</b>	<b>\$ 86,311,553</b>	<b>\$ 107,465,770</b>
<b>SPECIAL REVENUE FUNDS</b>					
210 Storm Drain Improvement	2,246,262	294,383	28,000	-	322,383
215 Storm Drain AB1600	1,787,537	1,988,766	154,135	-	2,142,901
230 Env Mgmt Cln Crk Strm Drain	1,309,648	694,156	1,510,764	2,236,854	(31,934)
260 CDBG	1,256,222	1,144,454	604,186	648,093	1,100,547
261 HCD Loan Rehab	222,300	222,300	-	-	222,300
265 BMR Housing	5,699,089	11,980,205	4,603,926	986,244	15,597,887
270 Transportation Fund	11,828,395	1,486,520	5,510,734	6,524,827	472,427
271 Traffic Impact	720,198	720,198	10,000	-	730,198
280 Park Dedication	21,170,101	10,493,916	256,000	-	10,749,916
281 Tree Fund	132,786	132,786	1,000	15,000	118,786
<b>TOTAL SPECIAL REVENUE FUNDS</b>	<b>\$ 46,372,537</b>	<b>\$ 29,157,683</b>	<b>\$ 12,678,745</b>	<b>\$ 10,411,018</b>	<b>31,425,410</b>
<b>DEBT SERVICE FUNDS</b>					
365 Public Facilities Corp	8,350	8,350	2,677,600	2,677,600	8,350
<b>TOTAL DEBT SERVICE FUNDS</b>	<b>\$ 8,350</b>	<b>\$ 8,350</b>	<b>\$ 2,677,600</b>	<b>\$ 2,677,600</b>	<b>\$ 8,350</b>
<b>CAPITAL PROJECTS FUNDS</b>					
420 Capital Improvement Fund	25,785,167	1,725,167	-	175,000	1,550,167
427 Stevens Creek Corridor Park	166,579	150,188	-	-	150,188
429 Capital Reserve	9,137,046	11,637,046	-	-	11,637,046
<b>TOTAL CAPITAL PROJECTS FUNDS</b>	<b>\$ 35,088,791</b>	<b>\$ 13,512,400</b>	<b>\$ -</b>	<b>\$ 175,000</b>	<b>\$ 13,337,400</b>
<b>ENTERPRISE FUNDS</b>					
520 Resource Recovery	5,010,999	3,298,132	1,617,964	2,639,033	2,277,063
560 Blackberry Farm	856,220	323,470	535,250	521,284	337,436
570 Sports Center	2,235,165	1,188,849	2,649,000	3,501,224	336,625
580 Recreation Program	2,576,722	1,634,664	1,942,575	2,792,564	784,675
<b>TOTAL ENTERPRISE FUNDS</b>	<b>\$ 10,679,106</b>	<b>\$ 6,445,115</b>	<b>\$ 6,744,789</b>	<b>\$ 9,454,105</b>	<b>\$ 3,735,799</b>
<b>INTERNAL SERVICE FUNDS</b>					
610 Innovation & Technology	876,150	720,234	3,497,858	3,932,536	285,556
620 Workers' Compensation	2,226,753	2,143,592	47,000	582,954	1,607,638
630 Vehicle/Equip Replacement	2,450,200	1,167,145	1,535,066	1,970,755	731,456
641 Compensated Absence/LTD	337,336	474,163	399,000	760,471	112,692
642 Retiree Medical	26,554	(1,361,722)	-	1,486,988	(2,848,710)
<b>TOTAL INTERNAL SERVICE FUNDS</b>	<b>\$ 5,916,994</b>	<b>\$ 3,143,413</b>	<b>\$ 5,478,924</b>	<b>\$ 8,733,704</b>	<b>\$ (111,367)</b>
<b>TOTAL ALL FUNDS</b>	<b>\$ 208,235,319</b>	<b>\$ 165,763,230</b>	<b>\$ 107,861,112</b>	<b>\$ 117,762,980</b>	<b>\$ 155,861,362</b>

Although the Retiree Medical Fund shows a negative balance, 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.

For descriptions of funds, see Financial Policies: Fund Structure.

## General Fund Summary

The General Fund is the City's main operating fund, responsible for providing essential services such as law enforcement, public works, community development, park maintenance, code enforcement, and administrative support. It is funded by discretionary sources such as property tax, sales tax, transient occupancy tax, and utility tax. The General Fund is typically reserved for operations that lack other dedicated funding sources, while operations such as street maintenance, solid waste collection, and recreation are funded from other sources, detailed in the All Funds Summary section of this document.

For FY 2023-24, General Fund revenue estimates are \$80.3 million, reflecting a \$14.4 million or 15.2% decrease from the previous fiscal year's Adopted Budget, mainly due to a sales tax decrease resulting from a CDTPA audit. General Fund expenditure estimates for the current fiscal year are \$86.3 million, an \$8.9 million or 9.3% decrease from the previous year's Adopted Budget. The General Fund's ending balance is projected to decrease to \$107.5 million.

GENERAL FUND OPERATING SUMMARY					
	2020-21	2021-22	2022-23	2023-24	Percent
	Actual	Actual	Adopted	Proposed	Change
<b>Beginning Fund Balance</b>	74,505,822	96,850,790	110,610,704	113,496,269	2.6%
Operating Revenues	106,217,493	110,030,148	94,661,388	80,281,054	-15.2%
Operating Expenditures	83,872,526	96,711,396	95,167,779	86,311,553	-9.3%
<b>Net Revenues - Expenditures</b>	22,344,967	13,318,751	(506,391)	(6,030,499)	1090.9%
Unassigned	52,449,546	51,804,288	48,332,873	47,146,398	-2.5%
All Other Classifications	44,401,243	48,365,253	61,771,440	60,319,373	-2.4%
<b>Total Ending Fund Balance</b>	96,850,790	100,169,541	110,104,313	107,465,770	-2.4%

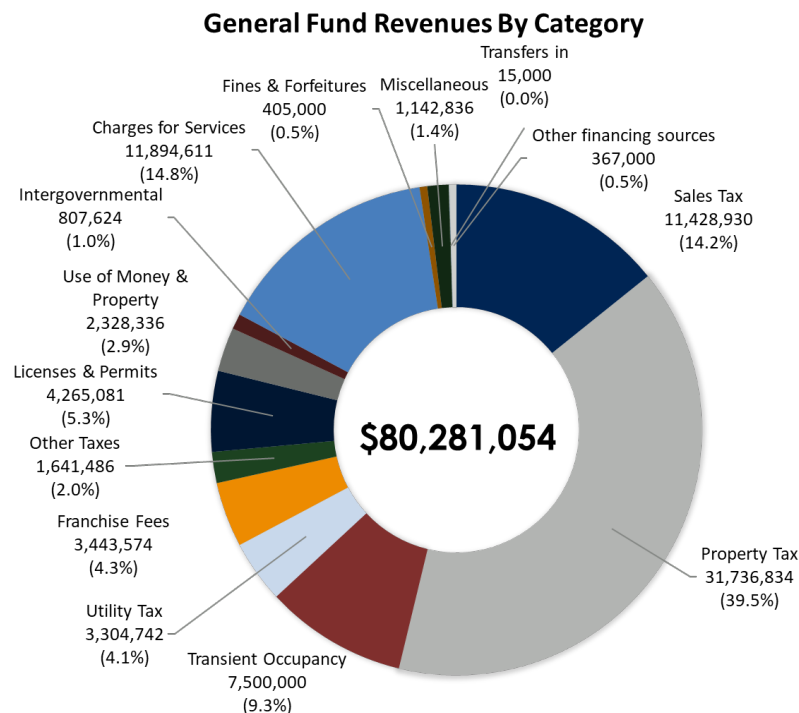
# General Fund Revenues

FY 2023-24 General Fund revenue sources have been carefully evaluated by considering collection history, seasonal patterns, and economic performance. These estimates are based on projected increases or decreases in activity and receipts in the upcoming year. It is important to note that each revenue source can be affected by external or internal factors beyond the City's control.

As shown in the chart below, FY 2023-24 revenues are estimated at \$80.3 million, a 15.2% decrease from the FY 2022-23 Adopted Budget.

GENERAL FUND REVENUE SUMMARY					
REVENUES	2020-21 Actuals	2021-22 Actuals	2022-23 Adopted	2023-24 Proposed	Percent Change
Sales Tax	42,576,587	42,175,218	31,944,089	11,428,930	-64.2%
Property Tax	28,277,839	29,724,411	30,039,574	31,736,834	5.7%
Transient Occupancy	2,141,058	4,404,958	5,000,000	7,500,000	50.0%
Utility Tax	3,074,358	3,356,389	2,955,404	3,304,742	11.8%
Franchise Fees	3,368,287	3,479,555	3,230,101	3,443,574	6.6%
Other Taxes	2,639,000	1,905,393	1,787,691	1,641,486	-8.2%
Licenses & Permits	4,068,238	4,141,902	3,541,012	4,265,081	20.4%
Use of Money & Property	4,838,316	-5,341,211	1,277,013	2,328,336	82.3%
Intergovernmental	1,451,076	4,417,903	1,434,491	807,624	-43.7%
Charges for Services	11,345,222	14,299,032	11,528,436	11,894,611	3.2%
Fines & Forfeitures	129,394	370,160	427,000	405,000	-5.2%
Miscellaneous	1,263,163	1,940,935	1,160,437	1,142,836	-1.5%
Transfers in	507,831	4,862,387	61,140	15,000	-75.5%
Other financing sources	537,124	293,116	275,000	367,000	33.5%
<b>TOTAL REVENUES</b>	<b>\$ 106,217,492</b>	<b>\$110,030,148</b>	<b>\$ 94,661,388</b>	<b>\$ 80,281,054</b>	<b>-15.2%</b>

The majority of Cupertino's General Fund operating revenues are generated by property taxes (40%), charges for services (15%), sales taxes (14%), and transient occupancy taxes (9%). The chart below illustrates the sources of General Fund revenue by category.



The FY 2023-24 General Fund revenue estimates are discussed by category below.

## Sales Tax

Sales and Use Tax, commonly known as the "sales tax," consists of two components: an excise tax levied on retailers for selling tangible personal property, and an excise tax applied to purchases from out-of-state vendors that are not required to collect tax on their sales. The revenue generated from sales and use taxes collected within Cupertino's boundaries is allocated by the State to various agencies, with the City receiving one percent, as depicted in the chart to the right. The City is exploring a potential new source of revenue by monitoring competing interests for the ¼ cent sales tax imposed on local governments. If a similar ballot measure is presented to the voters in the future, the City could maintain local control over the additional sales tax proceeds.

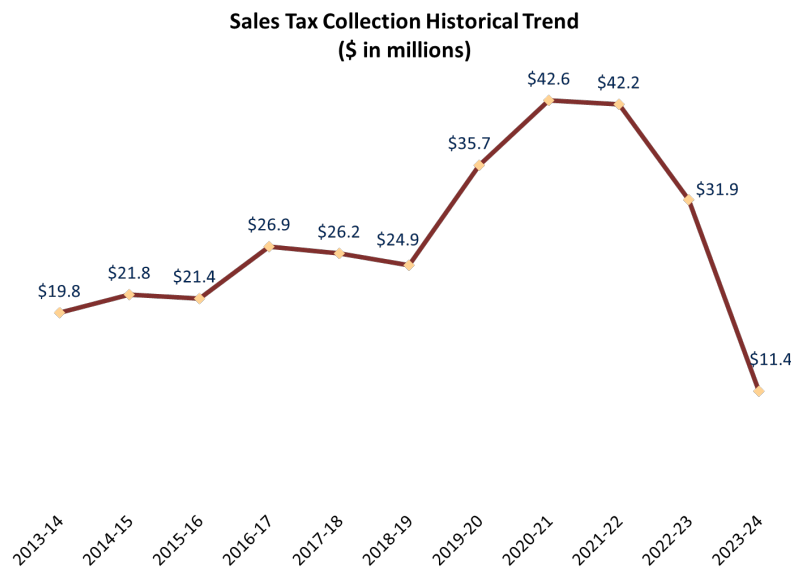
Agency	Sales Tax Distribution
State	6.000%
MTA	1.125%
City of Cupertino	1.000%
County General Purpose	0.750%
County Transportation	0.250%
<b>Total:</b>	<b>9.125%</b>

The City's sales tax revenue comes from five primary economic categories: business-to-business (including electronic equipment and software manufacturers and distributors), state and county pools, restaurants and hotels, general consumer goods, and fuel and service stations and other. The California Department of Tax and Fee Administration (CDTFA) manages the collection and administration of sales and use taxes, which is a significant source of revenue for the state and local governments. Businesses are required to register for a sales tax permit and collect taxes from their customers, and the collected taxes are then remitted to the CDTFA for distribution to the relevant local governments. In addition, the CDTFA conducts audits to ensure tax compliance by businesses. The City receives a portion of the sales tax revenue generated within its boundaries, which funds a wide range of City services and programs.

In December 2021, the CDTFA informed the City of an audit that would be conducted on one of its taxpayers. The City was verbally informed in March 2023 of the CDTFA's preliminary determination that tax dollars had been misallocated to the City, and potential impacts on City funds were provided. The CDTFA is expected to provide the City with a formal letter in the next four to six months, including the final results of the audit and the actual amount of money lost.

As a result, 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 an overall revenue decrease of \$30 million, or 28%. In particular, sales tax revenues, which were expected to generate \$31.9 million in the FY 2022-23 Adopted Budget, are now anticipated to amount to only \$11.4 million in FY 2023-24, marking a decline of 64%.





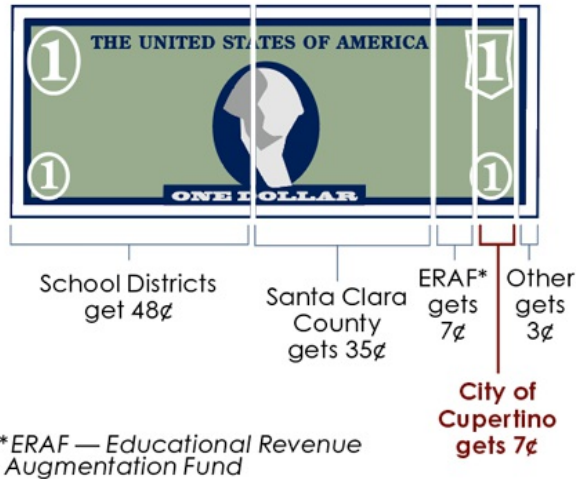
SALES & USE TAX	
FY 21-22 Actual	42,175,218
FY 22-23 Adopted	31,944,089
FY 22-23 Estimate	31,944,089
FY 23-24 Proposed	11,428,930
% of General Fund	14.24%
% Change from FY 22-23 Adopted	-64.22%

### Property Tax

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

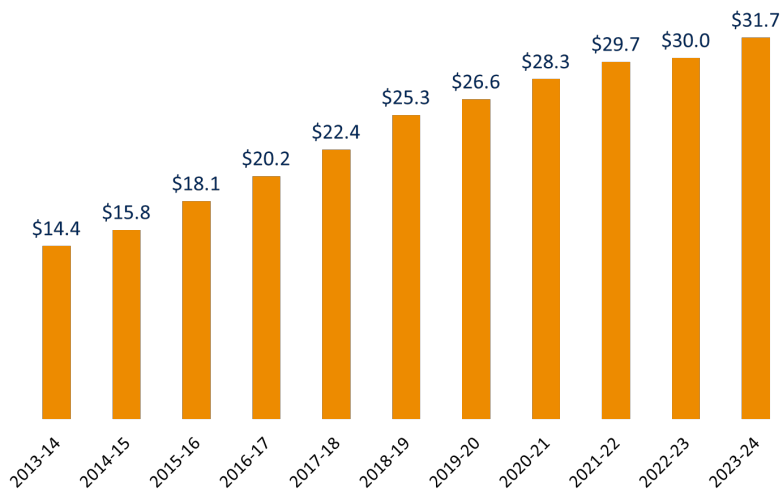
In 1978, voters approved the passage of Proposition 13, which froze property tax rates and limited the amount that rates could increase each year. Cupertino had one of the lowest property tax rates in Santa Clara County, receiving only \$0.02 for every \$1.00 paid. Subsequent legislation required Counties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

For every dollar paid in property taxes:



In FY 2006-07, West Valley cities won the passage of State legislation which restored a portion of TEA property tax revenue. This TEA change provided an additional \$1.35 million in property tax annually and increased the City's share of property taxes to 5.6%. In conjunction with three other West Valley cities, Cupertino continued legislative efforts to gain parity with other no/low property tax cities in the State. In FY 2015-16, Governor Brown agreed to restore TEA revenues over a five-year period. In FY 2019-20 TEA was fully restored, and Cupertino kept approximately 7.0% of property tax revenues in FY 2019-20 compared to 6.72% in FY 2018-19. Additionally, the Educational Revenue Augmentation Fund (ERAF), enacted in July of 1992 by the State Legislature to shift local tax revenues from cities, counties, and special districts to a State control ERAF, absorbs the shift-back of the TEA.

**Property Tax Historical Trend**  
(\$ in millions)

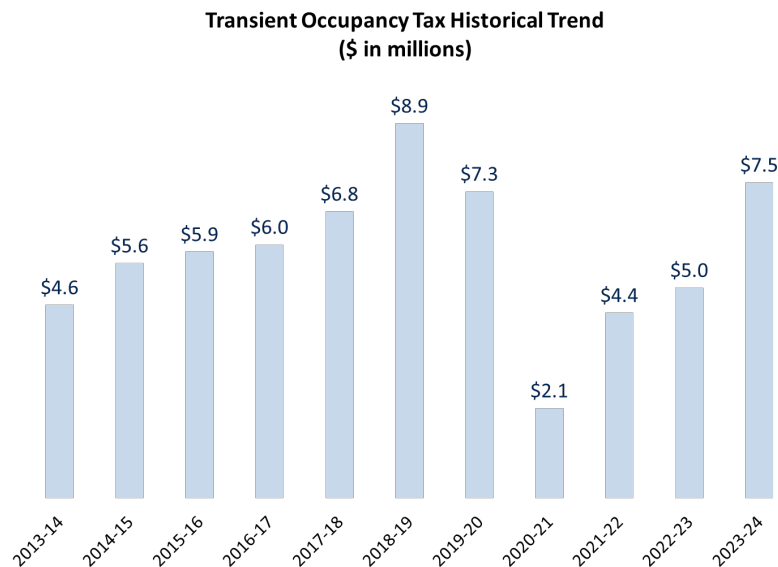


PROPERTY TAX	
FY 21-22 Actual	29,724,411
FY 22-23 Adopted	30,039,574
FY 22-23 Estimate	30,039,574
FY 23-24 Proposed	31,736,834
% of General Fund	39.53%
% Change from FY 22-23 Adopted	5.65%

The City experienced a net taxable value increase of 7.2% for the FY 2022-23 tax roll. The bulk of the increase was due to increases in residential properties by \$1.3 billion, or 7.2%. This category makes up 61.1% of the net taxable value. Unsecured property tax decreased by \$655 million, or 38%. This category makes up 3.5% of the net taxable value. Lastly, commercial property values increased by \$1.1 billion, or 13.1%. This category makes up 29.8% of the net taxable value. According to the City's property tax consultant HdL, there were fewer sale transactions of single-family residential homes sales and a flattening in median sale prices during calendar year 2022. This reduction in sales numbers were mainly driven by interest rate hikes. In most cities the median prices are still higher overall than last year, but the month-over-month median price changes started trailing negatively towards the end of 2022. Staff will continue to monitor the potential impact of long-term and even permanent remote work in the City and region.

### Transient Occupancy Taxes

Transient occupancy taxes (TOT) are levied on hotels and short-term room rentals located in the City at 12% of room revenues. In November 2011, 83% of voters approved increasing the rate from 10% to 12%. This rate increase contributed to the upward trend shown in the TOT Historical Trend graph.



TOT is originally budgeted to end FY 2022-23 at \$5 million, a 14% increase from FY 2021-22 actuals. However, staff expects to exceed the estimated \$5 million in the current fiscal year. The anticipated increase is due to the relaxation of prior pandemic-based restrictions, allowing for increased travel and the return of employees to their places of work. A recovery to a \$7.5 million level is anticipated in FY 2023-24, up 50% from FY 2022-23 Adopted Budget. Staff will continue to monitor these activities and bring forward adjustments and recommendations as necessary.

TRANSIENT OCCUPANCY TAX	
FY 21-22 Actual	4,404,958
FY 22-23 Adopted	5,000,000
FY 22-23 Estimate	5,000,000
FY 23-24 Proposed	7,500,000
% of General Fund	9.34%
% Change from FY 22-23 Adopted	50.00%

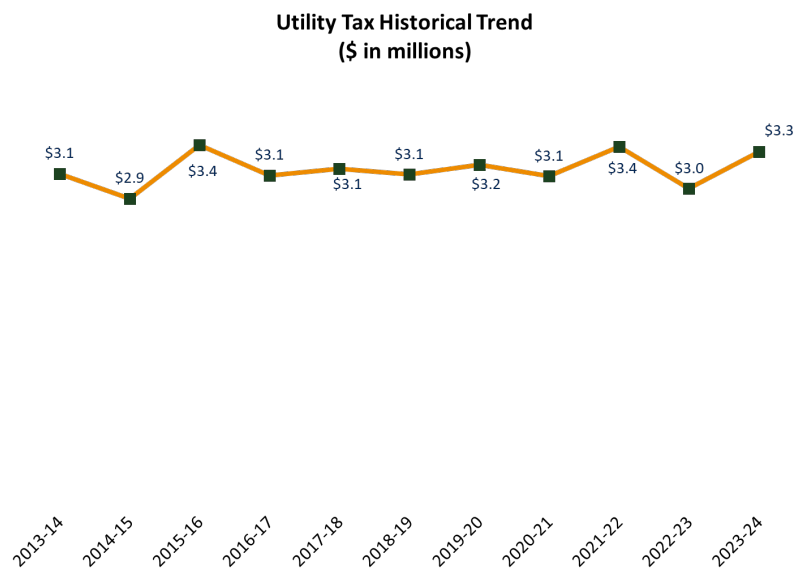
## Utility Tax

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

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

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

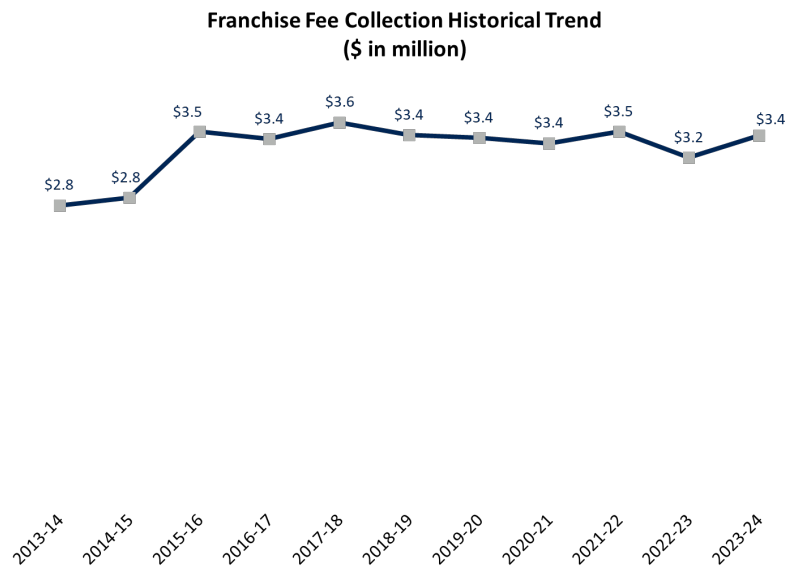
Budgeted revenues are expected to increase 11.8% to \$3.3 million in FY 2023-24. This revenue source will be monitored closely as the fiscal year progresses.



UTILITY TAX	
FY 21-22 Actual	3,356,389
FY 22-23 Adopted	2,955,404
FY 22-23 Estimate	2,955,404
FY 23-24 Proposed	3,304,742
% of General Fund	4.12%
% Change from FY 22-23 Adopted	11.82%

## Franchise Fees

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

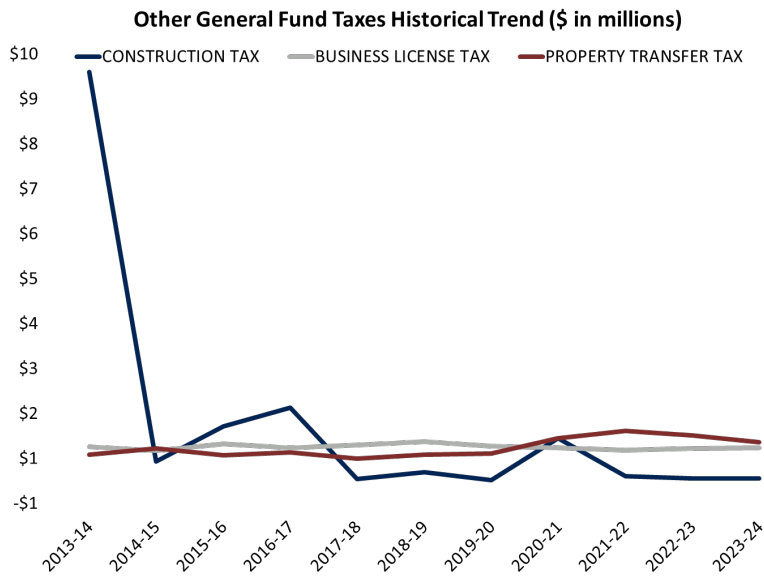


FRANCHISE FEES	
FY 21-22 Actual	3,479,555
FY 22-23 Adopted	3,230,101
FY 22-23 Estimate	3,230,101
FY 23-24 Proposed	3,443,574
% of General Fund	4.29%
% Change from FY 22-23 Adopted	6.61%

In FY 2022-23, franchise fee revenues are trending down 7.2% from FY 2021-22 actuals primarily due to a decrease in usage for cable, solid waste, and telecommunication costs, offset by an increase in electricity usage. Budgeted revenues are expected to increase approximately 6.7% in FY 2023-24. This revenue source will be monitored closely as the fiscal year progresses.

## Other Taxes

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

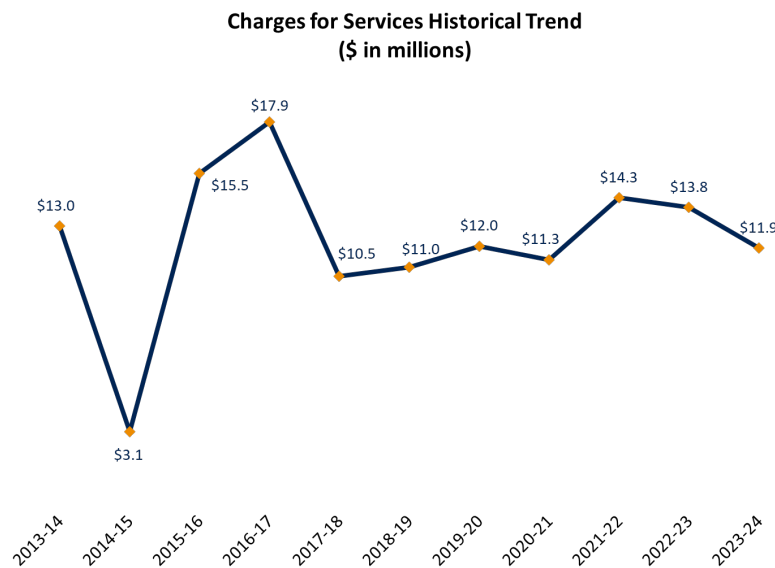


OTHER TAXES	
FY 21-22 Actual	1,905,393
FY 22-23 Adopted	1,787,691
FY 22-23 Estimate	1,787,691
FY 23-24 Proposed	1,641,486
% of General Fund	2.04%
% Change from FY 22-23 Adopted	-8.18%

With the influx of several major construction projects beginning in 2012, revenues began increasing. The largest of the projects included the Apple Park and Main Street developments. These projects, coupled with a strong housing recovery, created a record year for revenues in FY 2013-14. These revenues have since returned to historic levels. In FY 2023-24, these revenues are expected to decrease by 8.2% from the prior year to \$1.6 million. The projected decrease is based on a 3-year historical trend of actuals for property tax transfers. The recent hikes in interest rates have caused a reduction in home sales numbers, having direct impact on property tax transfers. For FY 2024-25 and later, a growth rate is applied that is representative of the historical average rate of real property growth due to properties that have transferred ownership.

### Charges for Services

Charges for Services account for charges to users of City services funded by the General Fund as well as internal City-wide overhead. The City attempts to recover the cost of the services, including planning, zoning, and engineering permit processing for new property development, as well as some recreation-related fees. As such, this revenue source is sensitive to economic fluctuations, as shown in the graph below.



Apple Park and other large developments generated large one-time revenues in FY 2013-14 as well as FY 2015-16 and FY 2016-17. In addition, beginning in FY 2013-14, enterprise funds, internal service funds, and special funds began charging for overhead services previously subsidized by the General Fund. Some internal strategic support services (Human Resources, Finance, City Clerk, etc.) also began charging internal departments to capture the true cost of providing various programs and services within City operations. After a comprehensive Cost Allocation Plan was approved by Council in April 2016, internal strategic support services (City Council, Facilities, Maintenance, etc.) were included. In FY 2015-16, the City's administration changed its methodology for tracking developer deposits driven by increased developer activity, and, as a result, both budgets for revenues and expenses were increased by anticipated deposit amounts leading to another large increase in revenue.

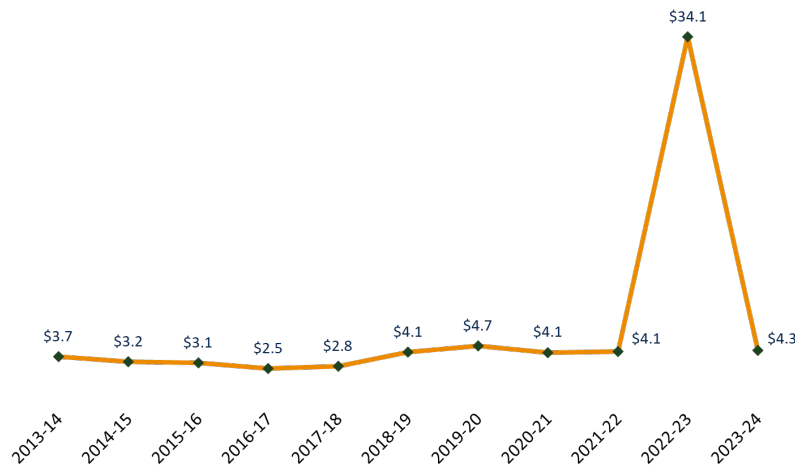
CHARGES FOR SERVICES	
FY 21-22 Actual	14,299,032
FY 22-23 Adopted	11,528,436
FY 22-23 Estimate	13,840,743
FY 23-24 Proposed	11,894,611
% of General Fund	14.82%
% Change from FY 22-23 Adopted	3.18%

In FY 2022-23, the estimated amount is expected to come in roughly \$2 million higher compared to budgeted levels due to the Vallco Town Center (renamed the Rise) and its scheduled commencement in FY 2022-23. However, due to the developer's need to hire a new architect to complete the buildout plans and to value engineer the original design, the \$2.3 million for plan review, inspection, and engineering fee revenues will be carried forward and recognized in FY 2023-24.

### License and Permits

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

**Licenses & Permits Historical Trend**  
(\$ in millions)



Apple Park and large residential projects (Rosebowl, Biltmore expansion, Main Street) generated significant permitting revenues in FY 2013-14. Since then, activity has slowed until FY 2018-19, when revenues came in 48.8% higher. Although this revenue source is relatively consistent from year to year, fluctuations may occur depending on the timing of projects being completed. The \$34 million estimated amount in FY 2022-23 is due to Vallco Town Center (renamed The Rise) and its scheduled commencement in FY 2022-23. However, due to the developer's need to hire a new architect to complete the buildout plans and to value engineer the original design, the \$30 million plan check fee revenues will be carried forward and recognized in FY 2023-24.

LICENSES AND PERMITS	
FY 21-22 Actual	4,141,902
FY 22-23 Adopted	3,541,012
FY 22-23 Estimate	34,057,523
FY 23-24 Proposed	4,265,081
% of General Fund	5.31%
% Change from FY 22-23 Adopted	20.45%

### Use of Money and Property

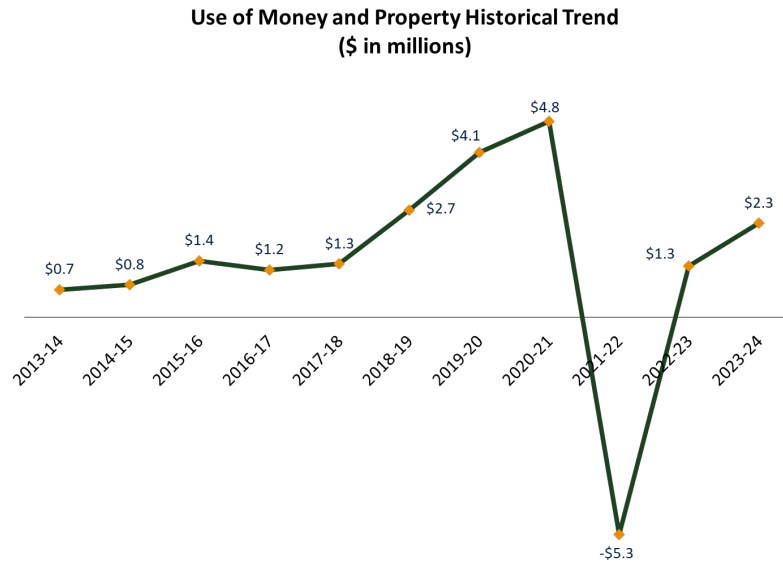
The use of money and property category is comprised of General Fund interest earnings as well as facility and concession rental income of City-owned property. As of March 31, 2023, the City's portfolio included \$21.3 million invested with the Local Agency Investment Fund (LAIF) and \$149.7 million invested with Chandler Asset Management. As of March 31, 2023, the City also had \$18.3 million in its Section 115 Pension Trust.

Fluctuations in this revenue category are a result of investment earnings, as rental income is fairly steady. Investment earnings were higher in FY 2019-20 and FY 2020-21 due to investment gains in the City's Section 115 Pension Trust. Investment earnings fell in FY 2021-22 due to mark-to-market adjustments to account for unrealized losses in the City's portfolio.

The portfolio's market value fluctuates depending on interest rates. When interest rates decrease after an investment is purchased, the market value of the investment increases. In contrast, when interest rates increase after an investment is purchased, the market value of the investment decreases. At the time of purchase, the City



intends to hold all investments until maturity, meaning that changes in market value will not impact the City's investment principal. If the market value decreases, the City will incur an unrealized loss. However, the loss will only be realized if the City sells its investments before their maturity.



USE OF MONEY AND PROPERTY	
FY 21-22 Actual	-5,341,211
FY 22-23 Adopted	1,277,013
FY 22-23 Estimate	1,277,013
FY 23-24 Proposed	2,328,336
% of General Fund	2.90%
% Change from FY 22-23 Adopted	82.33%

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

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

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.

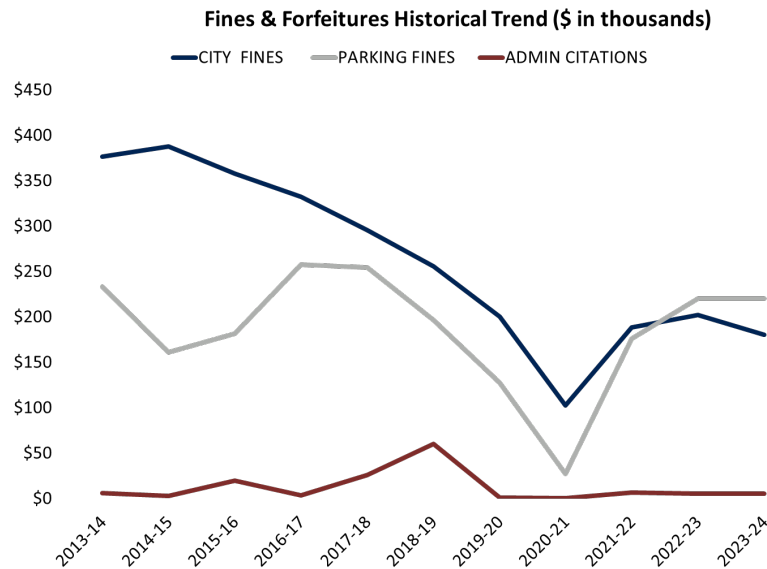
At the end of March, the 2-year Treasury yield was 169 basis points higher, and the 10-Year Treasury yield was about 113 basis points higher, year-over-year. The inversion between the 2-year Treasury yield and 10-year Treasury yield narrowed to -56 basis points at March month-end versus -90 basis points 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.

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

## Fines and Forfeitures

Fines and forfeitures account for revenues generated from vehicle, parking, and miscellaneous code violations issued by the County Sheriff and the City's Code Enforcement officers. Revenues in this category dropped significantly in FY 2020-21 due to pandemic related restrictions and have increased over the next few years as society continued to rebound from the pandemic. In FY 2022-23, this revenue source is expected to reach \$427,000. Revenues in FY 2023-24 are expected to remain relatively consistent to FY 2022-23 Adopted Budget.

FINES AND FORFEITURES	
FY 21-22 Actual	370,160
FY 22-23 Adopted	427,000
FY 22-23 Estimate	427,000
FY 23-24 Proposed	405,000
% of General Fund	0.50%
% Change from FY 22-23 Adopted	-5.15%



## Intergovernmental

Intergovernmental revenues are made up of federal, state, and regional grants, including miscellaneous intergovernmental revenue.

INTERGOVERNMENTAL	
FY 21-22 Actual	4,417,903
FY 22-23 Adopted	1,434,491
FY 22-23 Estimate	7,946,051
FY 23-24 Proposed	807,624
% of General Fund	1.01%
% Change from FY 22-23 Adopted	-43.70%

FY 2022-23 actuals are estimated to come in significantly higher than budgeted levels due to the recognition of COVID-19 relief dollars as part of the American Rescue Plan Act of 2021. The City recorded revenues of \$3,594,028 in FY 2021-22 and \$6,100,745 in FY 2022-23. FY 2023-24 revenues in this category are anticipated to be 44% lower than the prior year Adopted Budget due to an anticipated decrease in grants or miscellaneous intergovernmental revenue received.

### Miscellaneous Revenue

Miscellaneous revenues account for unanticipated revenues such as donations and administrative fees.

MISCELLANEOUS REVENUE	
FY 21-22 Actual	1,940,935
FY 22-23 Adopted	1,160,437
FY 22-23 Estimate	1,182,892
FY 23-24 Proposed	1,142,836
% of General Fund	1.42%
% Change from FY 22-23 Adopted	-1.52%

In FY 2022-23, miscellaneous revenues are trending down 39% from FY 2021-22 actuals due to a restitution payment related to the 2014 embezzlement and also a payment received for fees in-lieu of public art. The proposed funds will be used for the all-inclusive playground at Jollyman Park. The majority of the General Fund's miscellaneous revenues are due to an annual donation for additional sheriff services at Apple Park.

### Other Financing Sources

Other Financing Sources generally account for refundable deposit revenues within the Community Development Department. With significant fluctuations, year-over-year, staff conservatively estimate these revenues. In FY 2023-24, revenues are projected to be higher than the prior year adopted budget due to an increase in cost of services from 3rd party consultants therefore increasing refundable deposit revenues.

OTHER FINANCING SOURCES	
FY 21-22 Actual	293,116
FY 22-23 Adopted	275,000
FY 22-23 Estimate	414,175
FY 23-24 Proposed	367,000
% of General Fund	0.46%
% Change from FY 22-23 Adopted	33.45%

This revenue source is expected to increase to \$367,000 in FY 2023-24.

### Transfers In

Transfers In represent the movement of funds from one City fund to another, the General Fund in this case.

TRANSFERS IN	
FY 21-22 Actual	4,862,387
FY 22-23 Adopted	61,140
FY 22-23 Estimate	61,140
FY 23-24 Proposed	15,000
% of General Fund	0.02%
% Change from FY 22-23 Adopted	-75.47%

In FY 2021-22, actual transfers were high due to \$4.8 million in transfers related to the American Rescue Plan Act. In FY 2023-24, the City plans to transfer \$15,000 from the City's Tree Fund to the General Fund to support ongoing tree maintenance operations.

## General Fund Expenditures

The estimates for FY 2023-24 General Fund expenditures are based on a thorough analysis of anticipated personnel and non-personnel costs. To create a more fiscally responsible budget, department budgets reflect a base budget with only justified ongoing expenses. This accounts for changes in personnel costs as well as any other anticipated or known increased costs in FY 2023-24.

FY 2023-24 expenditures are estimated at \$86.3 million, which represents a 9.3% decrease compared to the adopted budget from the previous year. This decrease is primarily attributed to expenditure-reduction strategies that include:

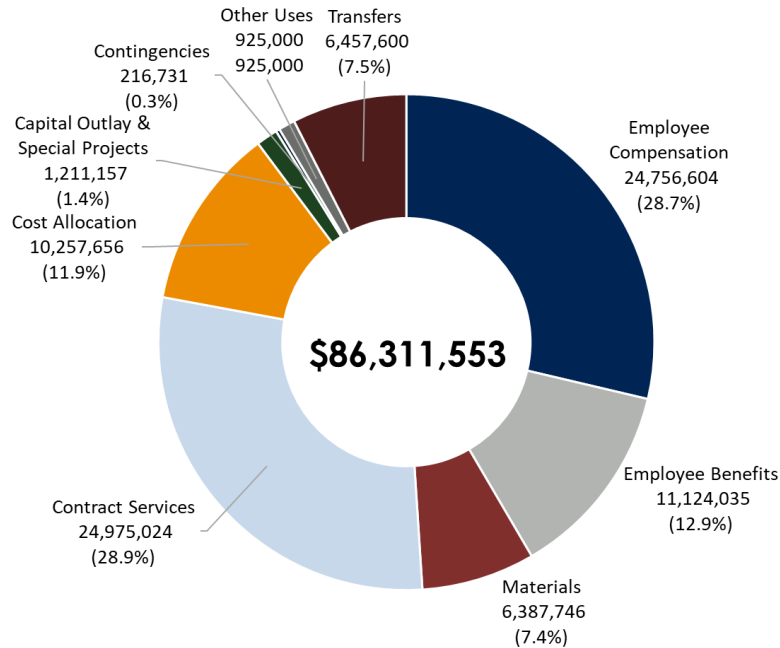
- Eliminating 14 vacant positions.
- Decreasing expenditure on materials and contract services.
- Reducing spending on special projects and capital outlays.
- Reducing the City Manager's Contingency Fund by \$25,000 and contingencies by 50%.
- Reducing transfers and General Fund subsidies to other funds.

As a result, expenditures were reduced by \$20.3 million, or 19.5%, from 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.

GENERAL FUND EXPENDITURE SUMMARY					
EXPENDITURES	2020-21 Actual	2021-22 Actual	2022-23 Adopted	2023-24 Proposed	Percent Change
Employee Compensation	18,441,609	19,749,109	24,295,660	24,756,604	1.9%
Employee Benefits	8,238,449	9,086,959	11,440,636	11,124,035	-2.8%
<b>Total Personnel Costs</b>	<b>26,680,058</b>	<b>28,836,068</b>	<b>35,736,296</b>	<b>35,880,639</b>	<b>0.4%</b>
Non-Personnel Costs					
Materials	4,248,715	4,875,697	7,219,073	6,387,746	-11.5%
Contract Services	21,106,602	21,340,524	25,026,032	24,975,024	-0.2%
Cost Allocation	10,473,540	11,948,062	10,385,961	10,257,656	-1.2%
Capital Outlay & Special Projects	5,895,185	2,863,072	3,657,378	1,211,157	-66.9%
Contingencies	293	5,132	451,739	216,731	-52.0%
Other Uses	319,444	569,977	695,000	925,000	33.1%
<b>Total Non-Personnel</b>	<b>42,043,779</b>	<b>41,602,464</b>	<b>47,435,183</b>	<b>43,973,314</b>	<b>-7.3%</b>
<b>Transfers</b>	<b>15,148,689</b>	<b>26,272,864</b>	<b>11,996,300</b>	<b>6,457,600</b>	<b>-46.2%</b>
<b>TOTAL EXPENDITURES</b>	<b>\$ 83,872,526</b>	<b>\$ 96,711,396</b>	<b>\$ 95,167,779</b>	<b>\$ 86,311,553</b>	<b>-9.3%</b>

The largest General Fund operating expenditure categories include Employee Compensation and Benefits (42%), Contract Services (29%), Cost Allocation (12%), and Transfers Out (8%) as illustrated in the FY 2023-24 General Fund Expenditures by Category chart.

## General Fund Expenditures by Category



## Personnel Costs

In FY 2023-24, personnel costs are expected to reach \$35.9 million, accounting for 43% of the General Fund expenditures. These costs include salaries and compensation for benefitted and part-time staff (69%), retirement benefits (20%), and other fringe benefits (10%), such as health coverage.

To obtain these figures, the City extracted data from the payroll system and made necessary updates to account for vacant positions, new hires, salary adjustments, and reallocated positions. Furthermore, the projected costs of benefits for the upcoming year, such as retirement and health plans, were taken into consideration. It's worth noting that the contribution for retiree healthcare, which is an ongoing expense, is not factored into personnel costs as it will be funded separately through the Section 115 OPEB Trust.

The City expects CalPERS retirement rates to rise to \$7.1 million, with the normal cost rate increasing to 10.7%, based on the latest actuarial valuation report from CalPERS. These projections are reflected in the General Fund forecast section of the budget.

The Proposed Budget includes funding for a total of 212 positions, which is 14 positions less than the FY 2022-23 Amended Budget. This reduction is attributed to projected decreases in revenue following the CDTEFA audit. As a result, 14 vacant positions have been eliminated from the budget. These positions were vacant due to reasons such as resignations, retirements, or not being filled at all.

Position	Department	Description	FTE
<b>FY 2022-23 Adopted Budget</b>			<b>225.00</b>
<b>FY 2022-23 Amended Budget</b>			
Special Project Executive (Limited-Term)	Administration	Adding New Position	1.00
<b>FY 2022-23 Amended Budget</b>			<b>226.00</b>
<b>FY 2023-24 Proposed Budget</b>			
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
<b>FY 2023-24 Proposed Budget</b>			<b>212.00</b>

To address the City's staffing levels in a responsible and sustainable manner, staff has devised 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. This gradual reduction approach will help ensure that essential services to the community are maintained without significant disruptions.

## Non-Personnel

In the General Fund budgeted appropriations for FY 2023-24, non-personnel costs make up 51% of the total at \$44.0 million. Contract services are the largest component at 29%, followed by cost allocation charges at 12%, materials at 7%, and capital outlays and special projects at 1%.

One-time projects were separated into a different category in FY 2013-14 to ensure expenditure trends reflect ongoing needs. In FY 2017-18, special projects and capital outlays were categorized separately from other costs.

Non-Personnel budgets were developed based on previous year's base budget and adjusted for the current year's needs. One-time projects were excluded to reflect ongoing expenditure needs. Materials and contract services were adjusted by CPI, where applicable. 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.

### Contingencies

In FY 2013-14, a contingencies expenditure category was added to each program to provide a cushion for any unforeseen expenses. In FY 2020-21, the program contingencies and City Manager Contingency were reduced from 5% to 2.5%. To further reduce expenditures, in FY 2021-22, the City Manager Contingency was reduced to \$75,000, and in FY 2022-23, program contingencies are proposed to be reduced to 1.25%, and the City Manager Contingency is proposed to be reduced to \$50,000. The City has a track record of underspending in this category. The program contingency budget may be used by departments to cover unanticipated expenses at their discretion, while the City Manager Contingency requires the approval of the City Manager and is reported to the City Council quarterly for transparency and accountability.

# General Fund Revenue Comparisons with Other Jurisdictions

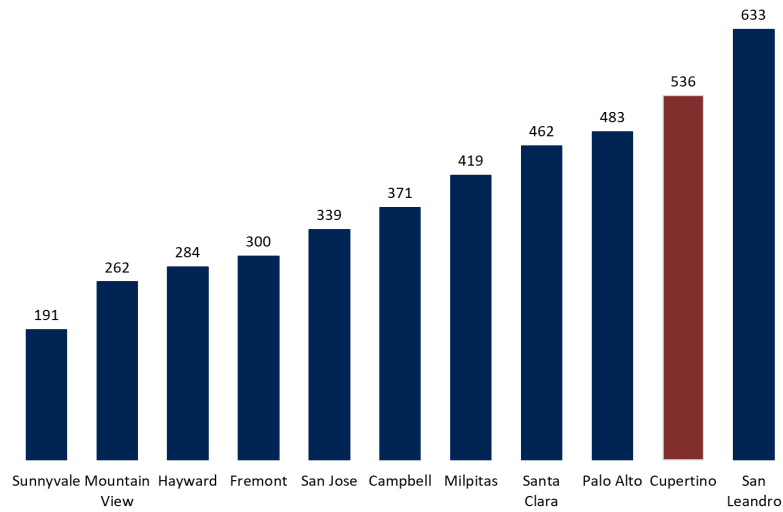
The table below shows General Fund Revenue Comparisons with neighboring jurisdictions for FY 2018-19 through FY 2022-23. It shows general fund revenue totals and population. Population data is from the California Department of Finance. Revenue information for other cities in FY 2023-24 is not yet available. Revenue comparisons for FY 2023-24 will be included in the Adopted Budget.

City	2018-19 Actual	2019-20 Actual	2020-21 Actual	2021-22 Adopted	2022-23 Adopted
<b>Milpitas</b>					
General Fund-Rev	112,751,530	105,104,426	98,130,755	110,779,648	117,726,970
Population	74,762	75,796	77,180	80,287	80,839
<b>Campbell</b>					
General Fund-Rev	54,364,113	50,606,793	53,968,736	57,130,551	61,239,715
Population	41,748	41,977	41,898	43,086	42,833
<b>Cupertino</b>					
General Fund-Rev	88,788,444	80,104,468	105,987,732	89,647,891	94,661,388
Population	59,784	59,436	59,244	59,884	59,610
<b>Fremont</b>					
General Fund-Rev	207,266,000	201,589,000	238,247,805	210,501,660	244,603,497
Population	232,107	232,601	233,132	228,872	229,476
<b>Hayward</b>					
General Fund-Rev	181,803,935	170,106,989	172,864,000	189,011,000	199,141,000
Population	158,896	159,272	159,266	161,744	160,591
<b>Mountain View</b>					
General Fund-Rev	146,010,075	142,667,193	143,706,287	152,248,350	163,835,960
Population	80,104	80,986	81,302	83,128	83,864
<b>Palo Alto</b>					
General Fund-Rev	205,600,846	188,947,000	179,834,301	183,331,789	215,219,384
Population	68,482	68,272	68,145	67,422	67,473
<b>San Jose</b>					
General Fund-Rev	1,394,877,114	1,204,729,056	1,355,444,037	1,218,643,055	1,352,528,025
Population	1,045,854	1,043,617	1,041,466	991,144	976,482
<b>San Leandro</b>					
General Fund-Rev	118,797,274	117,510,313	131,849,000	129,269,000	133,527,000
Population	88,389	88,328	87,840	89,926	88,404
<b>Santa Clara</b>					
General Fund-Rev	284,451,230	242,422,504	240,695,681	256,944,069	242,058,385
Population	126,374	125,908	127,301	129,122	130,127
<b>Sunnyvale</b>					
General Fund-Rev	212,294,815	197,073,210	213,758,215	234,732,112	218,299,456
Population	152,935	154,074	154,252	155,326	156,234

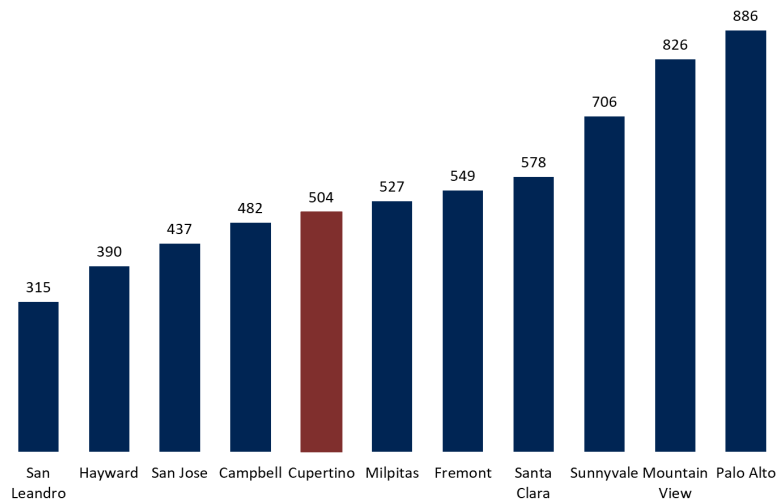
The charts below compares sales tax, property tax, transient occupancy tax, franchise fees, and building permits revenues with other jurisdictions in dollars per capita.



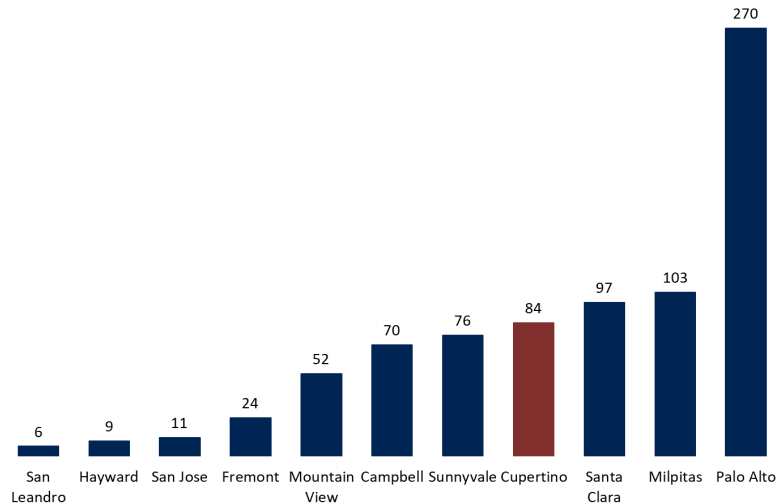
FY 2022-23 Sales Tax - \$ Per Capita



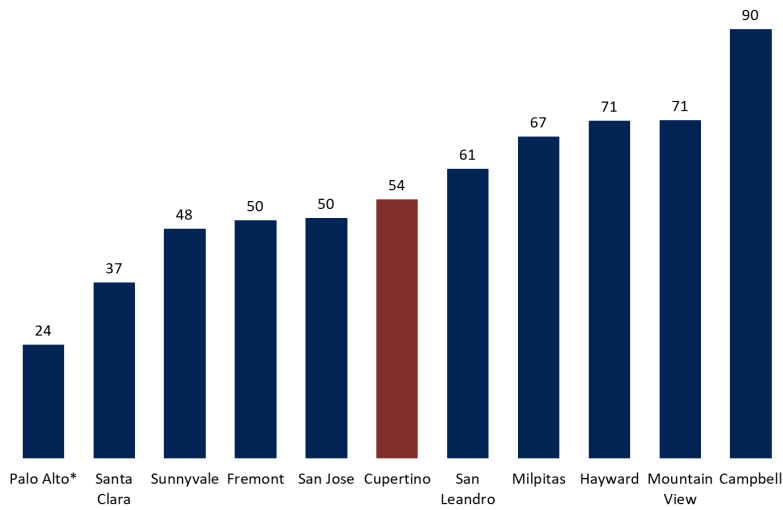
FY 2022-23 Property Tax - \$ Per Capita



FY 2022-23 Transient Occupancy Tax - \$ Per Capita

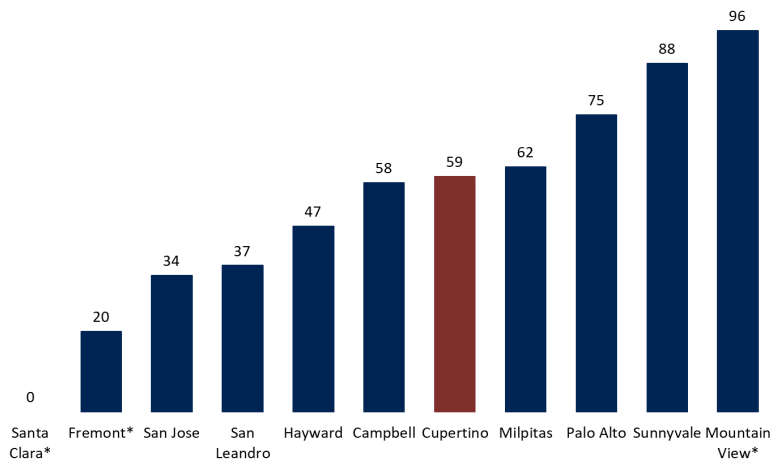


**FY 2022-23 Franchise Fees - \$ Per Capita**



\* Palo Alto - Only cable franchise fees are included. Franchise fees are not part of the General Fund but are included for comparison purposes.

**FY 2022-23 Building Permits - \$ Per Capita**



\*Santa Clara - Building-related revenues are not reflected in the General Fund. Fremont - Building permits are not part of the General Fund but are included for comparison purposes. Mountain View - Building permit revenues are not part of the General Fund, but are included for comparison purposes.

## General Fund Transfers

Transfers out represent transfers of monies out of the General Fund to various other funds. These transfers provide resources to the receiving fund to support operating and capital expenditures. Transfers from the General Fund are as follows:

Receiving Fund	Description	FY 2022-23	FY 2023-24
		Adopted Budget	Proposed Budget
Transportation Fund	Sidewalk, Curb, and Gutter Maintenance	3,025,000	2,500,000
Debt Service Fund	Annual Debt Payment	2,675,800	2,677,600
Capital Reserve Fund	Capital Projects	2,500,000	-
Recreation Fund	Recreation	376,000	-
Innovation & Technology Fund	IT Infrastructure	2,537,500	900,000
Compensated Absence/LTD Fund	Compensated Absences	882,000	380,000
<b>TOTAL</b>		<b>\$ 11,996,300</b>	<b>\$ 6,457,600</b>

For descriptions of funds, see Financial Policies: Fund Structure.

## General Fund Fund Balance

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

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

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

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

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

**Unassigned Fund Balance** – is the residual classification for the General Fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose. Only the General Fund reports a positive unassigned fund balance. A governmental fund other than the General Fund may report a negative unassigned fund balance if expenditures incurred for a specific purpose exceed the amounts that are restricted, committed, or assigned to those purposes.

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

## General Fund Classification of Fund Balance

Classification	2020-21 Actual	2021-22 Actual	2022-23 Adopted Budget	2022-23 Year End Projected	2023-24 Proposed Budget
<b><u>Nonspendable</u></b>					
Loans Receivable	444,346	439,199	440,000	439,199	435,000
Advance to Other Funds	-	-	-	-	-
<b>Total Nonspendable</b>	<b>444,346</b>	<b>439,199</b>	<b>440,000</b>	<b>439,199</b>	<b>435,000</b>
<b><u>Restricted</u></b>					
CASp Certification and Training	13,392	23,621	13,982	23,621	23,621
Section 115 Pension Trust	18,491,004	17,240,051	22,820,778	17,240,051	17,240,051
Public Access Television	1,418,472	1,492,810	1,368,789	1,492,810	1,492,810
Public Art In-Lieu	-	-	-	338,147	-
<b>Total Restricted</b>	<b>19,922,868</b>	<b>18,756,482</b>	<b>24,203,549</b>	<b>19,094,629</b>	<b>18,756,482</b>
<b><u>Committed</u></b>					
Economic Uncertainty Reserve	19,000,000	24,000,000	24,000,000	24,000,000	24,000,000
Capital Projects Reserve	-	-	10,000,000	10,000,000	10,000,000
Sustainability Reserve	127,891	127,891	127,891	127,891	127,891
<b>Total Committed</b>	<b>19,127,891</b>	<b>24,127,891</b>	<b>34,127,891</b>	<b>34,127,891</b>	<b>34,127,891</b>
<b><u>Assigned</u></b>					
Reserve for Encumbrances	4,906,139	5,041,681	3,000,000	7,000,000	7,000,000
<b>Total Assigned</b>	<b>4,906,139</b>	<b>5,041,681</b>	<b>3,000,000</b>	<b>7,000,000</b>	<b>7,000,000</b>
<b>Total Unassigned</b>	<b>52,449,546</b>	<b>51,804,288</b>	<b>48,332,873</b>	<b>52,834,551</b>	<b>47,146,398</b>
<b>TOTAL FUND BALANCE</b>	<b>96,850,790</b>	<b>100,169,541</b>	<b>110,104,313</b>	<b>113,496,269</b>	<b>107,465,770</b>

## All Funds Summary

This section provides information on the FY 2023-24 Special Revenue, Debt Service, Capital Project, Enterprise, and Internal Service Funds budgets including, expenditure and revenue highlights, transfers to other funds, reserve funds, and the financial forecast. For descriptions of funds, see Financial Policies: Fund Structure.

### Revenue Estimates

Estimates for FY 2023-24 fund balance and individual revenue accounts are based upon a careful examination of the collection history and patterns as they relate to such factors as seasonality and performance in the economic environment that the City is most likely to encounter in the coming year. Each source of revenue can be influenced by external and/or internal factors outside of the City's control.

## Special Revenue Funds

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

### Revenue

Revenue sources are projected to decrease by \$3.6 million. Other Taxes is decreasing due to a decrease in BMR housing mitigation revenue. Use of Money & Property is increasing due to budgeting for interest earnings in each fund. Fines and Forfeitures decreased due to decreased admin citations for Non-Point Source. As a result of anticipated revenue shortfalls due to the CDTFA audit, transfers from the General Fund to the Special Revenue Funds have been reduced as part of an expenditure reduction strategy aimed at decreasing General Fund subsidies of Special Revenue Funds.

REVENUE SOURCES	2021-22 Actuals	2022-23 Projected	2023-24 Proposed Budget
Other Taxes	9,212,135	8,203,431	4,664,061
Use of Money & Property	(1,469,905)	5,548	572,300
Intergovernmental	3,812,862	3,500,224	3,440,620
Charges for Services	1,781,872	1,512,209	1,498,201
Miscellaneous Revenue	7,282	-	-
Fines and Forfeitures	3,563	68,669	3,563
Transfers In	10,322,824	3,025,000	2,500,000
<b>Total Revenue Sources</b>	<b>\$ 23,670,633</b>	<b>\$ 16,315,081</b>	<b>\$ 12,678,745</b>

### Expenditures

Expenditure uses are projected to decrease by \$23.1 million primarily due to a decrease in Capital Outlays and Contract Services. Capital Outlays are lower as Capital Improvement Program (CIP) projects are not budgeted. 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. As part of an expenditure reduction strategy, departments decreased their materials and contract services.

EXPENDITURE USES	2021-22 Actuals	2022-23 Projected	2023-24 Proposed Budget
Employee Compensation	1,716,677	2,212,985	1,901,795
Employee Benefits	796,662	1,049,567	900,847
Materials	1,048,952	1,054,988	1,040,163
Contract Services	358,244	3,028,905	1,037,847
Cost Allocation	1,325,945	1,191,567	1,220,614
Capital Outlays	2,565,810	16,530,340	880,224
Special Projects	2,506,842	7,931,902	3,403,849
Contingencies	-	29,681	10,679
Transfers Out	486,235	500,000	15,000
<b>Total Expenditure Uses</b>	<b>\$ 10,805,366</b>	<b>\$ 33,529,935</b>	<b>\$ 10,411,018</b>

### Fund Balance

Fund balance represents fund savings and is calculated by taking the beginning balance and then adding the difference between revenue and expenditures to arrive at the ending fund balance. It is projected to increase by \$2.3 million due to BMR housing mitigation revenue for Aloft and 19191 Vallco Parkway.

CHANGES TO FUND BALANCE	2021-22	2022-23	2023-24
	Actuals	Projected	Proposed Budget
Beginning Balance	33,507,271	46,372,538	29,157,684
Change in Fund Balance	12,865,267	(17,214,854)	2,267,726
Ending Balance	\$ 46,372,538	\$ 29,157,684	\$ 31,425,410



## Debt Service Fund

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

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

### Revenue

Revenue sources are relatively unchanged from the last fiscal year. The \$2.7 million transfer from the General Fund funds the annual payment of principal and interest for the City's debt.

REVENUE SOURCES	2021-22	2022-23	2023-24
	Actuals	Projected	Proposed Budget
Use of Money & Property	-	-	-
Other Financing Sources	-	-	-
Transfers In	2,621,000	2,675,800	2,677,600
<b>Total Revenue Sources</b>	<b>\$ 2,621,000</b>	<b>\$ 2,675,800</b>	<b>\$ 2,677,600</b>

### Expenditures

Expenditure uses are relatively unchanged from the last fiscal year. The \$2.7 million in expenditures represents the annual payment of principal and interest for the City's debt.

EXPENDITURE USES	2021-22	2022-23	2023-24
	Actuals	Projected	Proposed Budget
Debt Service	2,676,000	2,675,800	2,677,600
Transfers Out	-	-	-
<b>Total Expenditure Uses</b>	<b>\$ 2,676,000</b>	<b>\$ 2,675,800</b>	<b>\$ 2,677,600</b>

### Fund Balance

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

CHANGES TO FUND BALANCE	2021-22	2022-23	2023-24
	Actuals	Projected	Proposed Budget
<b>Beginning Balance</b>	<b>63,350</b>	<b>8,350</b>	<b>8,350</b>
Change in Fund Balance	(55,000)	-	-
<b>Ending Balance</b>	<b>\$ 8,350</b>	<b>\$ 8,350</b>	<b>\$ 8,350</b>

## Capital Project Funds

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

### Revenue

Revenue sources are projected to decrease by \$9.0 million because Capital Improvement Program (CIP) projects are not budgeted. 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. As a result of the revenue shortfalls stemming from the CDTFA audit, the annual transfers from the General Fund to the Capital Reserve have been eliminated.

REVENUE SOURCES	2021-22	2022-23	2023-24
	Actuals	Projected	Proposed Budget
Use of Money and Property	(1,690,421)	-	-
Intergovernmental	1,472,565	3,400,974	-
Charges for Services	-	-	-
Miscellaneous	719,854	2,530,930	-
Transfers In	17,687,283	3,000,000	-
<b>Total Revenue Sources</b>	<b>\$ 18,189,281</b>	<b>\$ 8,931,904</b>	<b>\$ -</b>

### Expenditures

Expenditure uses are projected to decrease by \$30.3 million because Capital Improvement Program (CIP) projects are not budgeted. 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.

EXPENDITURE USES	2021-22	2022-23	2023-24
	Actuals	Projected	Proposed Budget
Employee Compensation	543	-	-
Employee Benefits	310	-	-
Contract Services	53,630	2,031,279	175,000
Capital Outlays	8,662,133	28,453,416	-
Cost Allocation	-	-	-
Transfers Out	11,422,048	23,600	-
<b>Total Expenditure Uses</b>	<b>\$ 20,138,664</b>	<b>\$ 30,508,295</b>	<b>\$ 175,000</b>

### Fund Balance

Fund balance represents fund savings and is calculated by taking the beginning balance and then adding the difference between revenue and expenditures to arrive at the ending fund balance.

CHANGES TO FUND BALANCE	2021-22	2022-23	2023-24
	Actuals	Projected	Proposed Budget
<b>Beginning Balance</b>	<b>37,038,174</b>	<b>35,088,791</b>	<b>13,512,400</b>
Change in Fund Balance	(1,949,383)	(21,576,391)	(175,000)
<b>Ending Balance</b>	<b>\$ 35,088,791</b>	<b>\$ 13,512,400</b>	<b>\$ 13,337,400</b>

## Enterprise Funds

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

### Revenue

Projected revenue sources are expected to rise by \$0.6 million, driven by an increase in fees and Use of Money & Property. However, as a result of anticipated revenue shortfalls due to the CDTFa audit, transfers from the General Fund to the Enterprise Funds have been reduced as part of an expenditure reduction strategy aimed at decreasing General Fund subsidies of Enterprise Funds.

REVENUE SOURCES	2021-22	2022-23	2023-24
	Actuals	Projected	Proposed Budget
Use of Money & Property	134,289	700,000	733,250
Intergovernmental	14,812	14,000	14,812
Charges for Services	5,685,374	5,058,792	5,996,727
Miscellaneous Revenue	-	10,000	-
Transfers In	886,801	399,600	-
<b>Total Revenue Sources</b>	<b>\$ 6,721,276</b>	<b>\$ 6,182,392</b>	<b>\$ 6,744,789</b>

### Expenditures

Expenditure uses are projected to decrease by \$0.9 million due to a decrease in contract services, contingencies, and special projects resulting from expenditure-reduction strategies.

EXPENDITURE USES	2021-22	2022-23	2023-24
	Actuals	Projected	Proposed Budget
Employee Compensation	1,271,044	1,882,761	2,016,689
Employee Benefits	305,998	612,064	676,087
Materials	329,767	522,996	444,258
Contract Services	4,247,810	5,046,186	4,951,958
Contingencies	-	132,526	67,455
Cost Allocation	1,034,107	789,939	939,358
Special Projects	95,536	1,252,305	135,733
Transfers Out	222,566	177,606	222,567
<b>Total Expenditure Uses</b>	<b>\$ 7,506,828</b>	<b>\$ 10,416,383</b>	<b>\$ 9,454,105</b>

### Net Position

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

CHANGES TO NET POSITION	2021-22	2022-23	2023-24
	Actuals	Projected	Proposed Budget
<b>Beginning Balance</b>	<b>11,464,658</b>	<b>10,679,106</b>	<b>6,445,115</b>
Change in Net Position	(785,552)	(4,233,991)	(2,709,316)
<b>Ending Balance</b>	<b>\$ 10,679,106</b>	<b>\$ 6,445,115</b>	<b>\$ 3,735,799</b>

## Internal Service Funds

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

### Revenue

Revenue sources are projected to decrease by \$2.5 million as a result of reduced transfers from the General Fund for IT, Workers' Compensation, and Compensated Absences. Furthermore, starting in FY 2022-23, the City will be funding Other Post-Employment Benefits (OPEB) costs with the City's Section 115 OPEB Trust, as the City's OPEB plan is over 100% funded. This has led to the elimination of transfers from the General Fund to the Retiree Medical Fund.

REVENUE SOURCES	2021-22 Actuals	2022-23 Projected	2023-24 Proposed Budget
Use of Money & Property	(202,689)	-	129,000
Charges for Services	4,780,071	4,053,851	4,069,924
Miscellaneous	2,818	-	-
Transfers In	1,800,852	3,538,266	1,280,000
Other Financing Uses	374,475	436,145	-
<b>Total Revenue Sources</b>	<b>\$ 6,755,526</b>	<b>\$ 8,028,262</b>	<b>\$ 5,478,924</b>

### Expenditures

Expenditure uses are projected to decrease by \$2.1 million mainly due to a decrease in Special Projects.

EXPENDITURE USES	2021-22 Actuals	2022-23 Projected	2023-24 Proposed Budget
Employee Compensation	1,675,495	1,942,326	1,971,220
Employee Benefits	1,833,582	2,199,699	2,330,024
Materials	1,144,432	1,367,267	1,060,611
Contract Services	1,280,565	1,805,925	1,789,573
Cost Allocation	60,817	62,042	57,622
Special Projects	230,258	2,389,368	572,000
Contingencies	-	66,425	26,201
Other Financing Uses	926,453	968,791	926,453
<b>Total Expenditure Uses</b>	<b>\$ 7,151,603</b>	<b>\$ 10,801,843</b>	<b>\$ 8,733,704</b>

### Net Position

Internal Service Funds carry net position instead of fund balance. Net position is calculated in the same manner as fund balance, taking the beginning balance and then adding the difference between revenue and expenditures to arrive at the ending net position. However, some of the resources are not liquid and represent capital assets. These monies are generally accumulated to support capital replacement and/or expansion needs. It is projected to decrease by \$3.3 million due to revenues being lower than expenditures. Although the Internal Service Funds show a negative balance, 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.

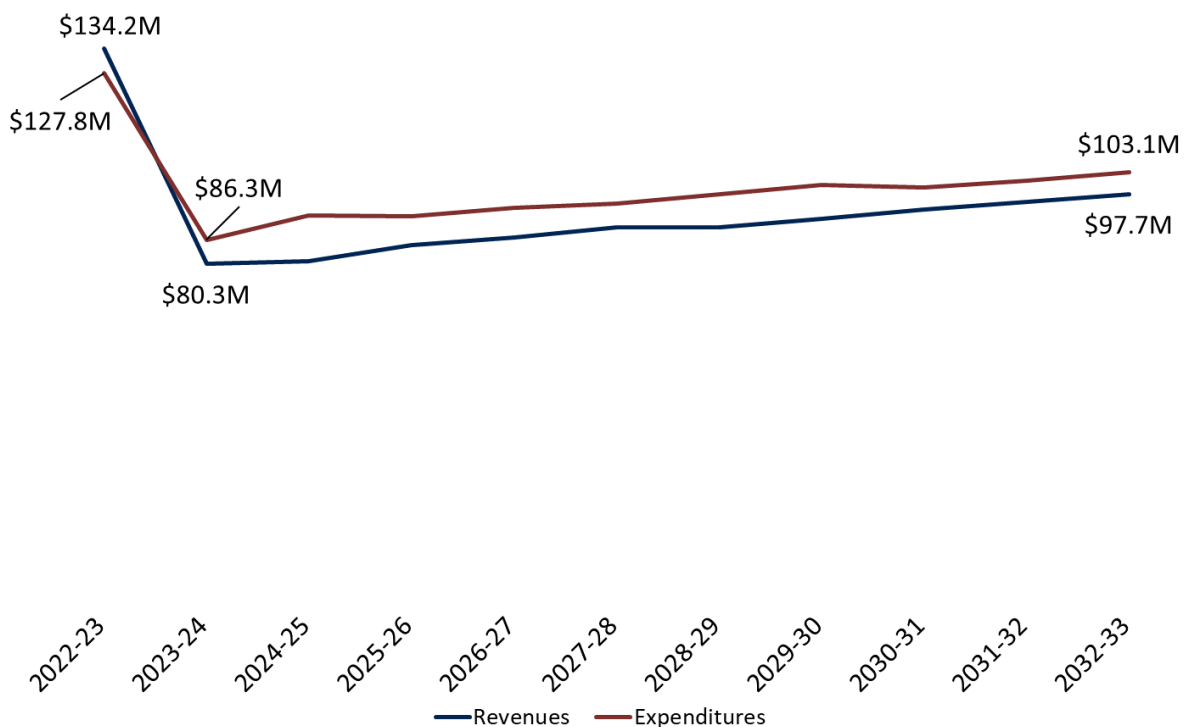
CHANGES TO NET POSITION	2021-22 Actuals	2022-23 Projected	2023-24 Proposed Budget
<b>Beginning Balance</b>	<b>6,313,071</b>	<b>5,916,994</b>	<b>3,143,413</b>
Change in Net Position	(396,077)	(2,773,581)	(3,254,780)
<b>Ending Balance</b>	<b>\$ 5,916,994</b>	<b>\$ 3,143,413</b>	<b>\$ (111,367)</b>

# General Fund Forecast

## Overview

City staff prepares medium-term (5-year) and long-term (10-year and 20-year) forecasts as part of the budget process. While long-term projections may be less precise than short-term projections, they can help identify potential structural budget issues in advance. However, given the unpredictability of the CDTFA audit, this budget only includes a 10-year forecast.

10-Year General Fund Financial Forecast

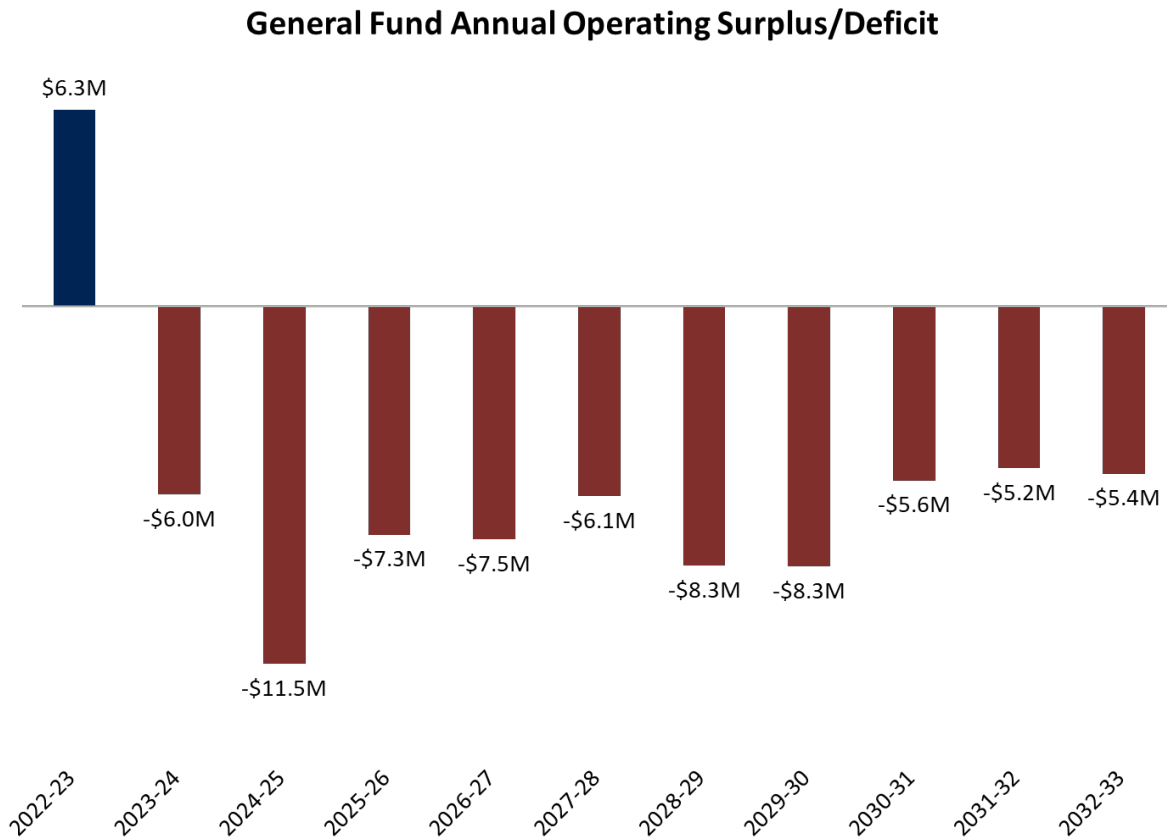


The California Department of Tax and Fee Administration (CDTFA) is currently conducting an audit on one of the City's taxpayers. This is expected to have a substantial impact on the City's finances, with a projected decline of \$30 million, or 73%, in its sales tax revenues from the initial FY 2023-24 forecast provided by HdL, the City's sales tax consultant. As a result, the City's total revenues are also anticipated to decrease by \$30 million, or 28%, from the original FY 2023-24 forecast.

The City recognizes the importance of fiscal prudence and responsible financial management in light of this significant revenue loss. To address the potential shortfall resulting from the CDTFA audit, City staff has updated the financial forecast and is actively exploring various strategies to balance the budget. Unfortunately, these strategies will result in service level reductions for the community, and the impacts will be shared across all areas. The City is also evaluating different revenue-generating options to mitigate the budget shortfalls caused by the audit.

To address the structural deficit caused by recurring expenditures consistently surpassing recurring revenues, the City has been implementing cost-cutting measures while ensuring that essential services continue to be provided to the community.

The City is taking a proactive approach to minimize the impact on its staff and residents, and City staff will continue to keep the Council informed of any new developments related to the audit and its impact on the City's finances. It is crucial to note that the CDTFA audit has resulted in a structural deficit, and the City will need to continue implementing long-term solutions to address this ongoing challenge.



Despite the challenging times, the City's financial position remains strong, and it has a number of advantages that will help it weather the storm without having to resort to more painful cuts. These advantages include an unassigned General Fund balance of over \$50 million, a fully funded retiree healthcare program, and a Section 115 Pension Trust of over \$17 million that can be used to offset the impact of revenue losses. These reserves can be utilized to offset deficits until the City can align its ongoing expenditures with its revenues. It's important to note that these reserves are one-time funding, which cannot be relied upon to sustain the City's finances in the long run.

These resources give the City a buffer and more options to manage its finances effectively. With a solid financial footing and prudent planning, the City is well-positioned to navigate these uncertain times and maintain its commitment to its staff and community.

## Forecast Methodology

A financial forecast is a crucial tool for planning and budgeting, allowing staff to analyze trends and anticipate the long-term impacts of budget decisions. It plays a vital role in modeling the effects of various factors, such as retirement costs, employee compensation, and revenues, on the City's budget.

It is important to note that the forecast is not a plan but rather a model that relies on revenue and cost assumptions, which are updated regularly as new information becomes available. While cost projections, which are based on known costs, are relatively reliable, revenue forecasts are subject to uncertainties related to future economic conditions. Economic forecasts can change frequently, making it difficult to commit to a particular prediction of the future. As such, staff must update the forecast regularly to ensure it reflects the latest information and trends.

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

A discussion of the national and local economic outlooks used to develop the revenue estimates for the FY 2023-24 forecast is included below. To create the revenue forecasts, the City reviewed national, state, and regional economic forecasts from multiple sources, including the Congressional Budget Office, California's Legislative Analyst's Office (LAO), and the Center for Continuing Study of the California Economy (CCSCE). To develop the sales tax, property tax, and transient occupancy tax (TOT) revenue projections, the City worked with HdL Companies, a tax consultant.

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

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

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

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

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

## National Economic Outlook

Real gross domestic product (GDP) increased at an annual rate of 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.

## **Cupertino Economic Outlook**

The City does not anticipate significant impacts on property tax revenues in FY 2023-24. The City is optimistic about the future of transient occupancy tax (TOT) revenues, as the relaxation of pandemic-related restrictions has boosted business travel. Although strong in previous years, construction activity will continue to flatten out as recent large development projects, notably Apple Park, are now complete.

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



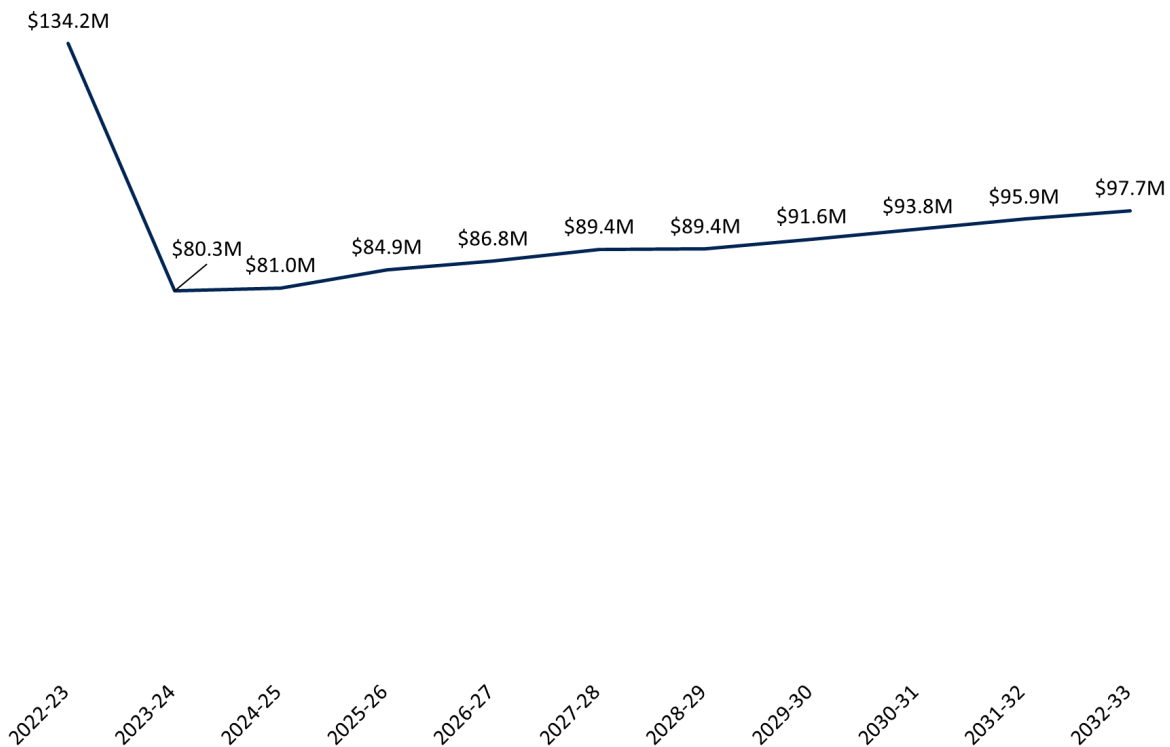
## Revenues

The City relies heavily on three revenue sources: property tax, sales tax, and transient occupancy tax (TOT), which together make up the majority of its General Fund revenues. However, the City is facing a significant drop in revenue due to the impact of the CDTFA audit, which is expected to reduce revenues by \$30 million, or 28%, from original projections.

The City's General Fund revenues are projected to be \$80.3 million in FY 2023-24, and are expected to increase over the forecast period. Property tax and transient occupancy tax are expected to continue to be strong revenue sources, with projected increases. However, sales tax is projected to decrease significantly due to the CDTFA audit.

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

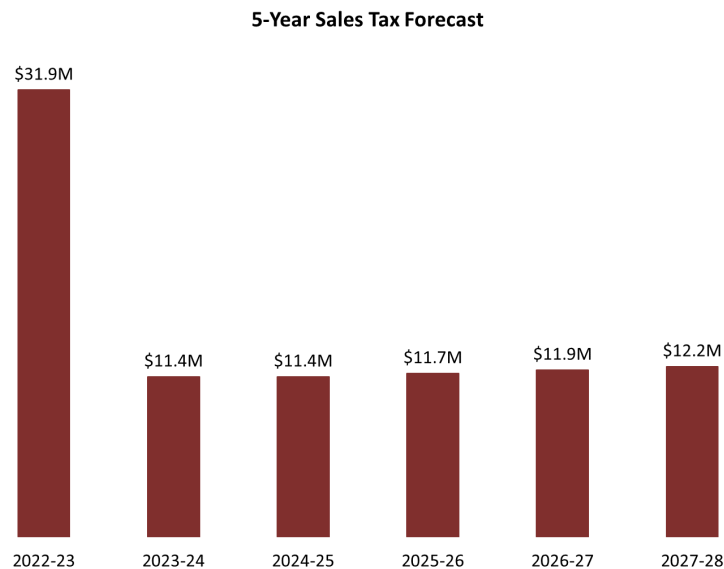
**10-Year General Fund Revenue Forecast**



FIVE-YEAR GENERAL FUND REVENUES FORECAST						
	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
	Estimate	Proposed	Forecast	Forecast	Forecast	Forecast
<b>REVENUES</b>						
Sales Tax	31,944,089	11,428,930	11,428,930	11,667,239	11,912,472	12,156,862
Property Tax	30,039,574	31,736,834	31,736,834	34,595,300	35,538,579	37,044,780
Transient Occupancy Tax	5,000,000	7,500,000	7,500,000	7,718,436	7,930,861	8,137,745
Utility Tax	2,955,404	3,304,742	3,304,742	3,328,964	3,328,893	3,353,221
Franchise Fees	3,230,101	3,443,574	3,443,574	3,508,151	3,506,962	3,571,561
Other Taxes	1,787,691	1,641,486	1,641,486	1,682,873	1,679,433	1,722,554
Licenses and Permits	34,057,523	4,265,081	4,265,081	4,286,406	4,286,406	4,307,838
Use of Money and Property	1,277,013	2,328,336	3,405,839	3,484,825	3,568,078	3,655,861
Intergovernmental	7,946,051	807,624	807,624	811,662	815,720	819,799
Charges for Services	13,840,743	11,894,611	11,894,611	12,234,595	12,552,849	12,871,421
Fines and Forfeitures	427,000	405,000	405,000	405,000	405,000	405,000
Miscellaneous	1,182,892	1,142,836	1,142,836	1,197,650	1,251,525	1,305,344
Transfers In	61,140	15,000	-	-	-	-
Other Financing Sources	414,175	367,000	-	-	-	-
<b>TOTAL REVENUES</b>	<b>134,163,396</b>	<b>80,281,054</b>	<b>80,976,558</b>	<b>84,921,103</b>	<b>86,776,779</b>	<b>89,351,986</b>

## Sales Tax

Prior to FY 2023-24, sales tax has been the City's largest revenue source. Sales taxes are collected at the point of sale and remitted to the California Department of Tax and Fee Administration (CDTFA), formerly the Board of Equalization. The CDTFA allocates tax revenue owed to the City in monthly payments. Each quarterly payment is divided into three monthly payments: two advance payments and a final reconciliatory payment that reconciles the actual revenue collected with the CDTFA's projected revenue for that quarter.



Sales tax revenues experienced a significant increase in FY 2020-21 and FY 2021-22. The City's business-to-business (B2B) industry and online sales were the primary drivers of this growth. The pandemic contributed to the surge in B2B revenues as businesses transitioned to remote work. Meanwhile, brick-and-mortar retail sales decreased due to Shelter-in-Place orders, resulting in an increase in online sales. However, the City believes this increase was a one-time event due to the pandemic.

In FY 2023-24, sales tax revenues are projected to be \$11.4 million, a decrease of \$30 million, or 73%, from the original forecast due to the CDTFA audit. Sales tax revenues are projected to increase by an average annual growth rate of 1.6% in the forecast. Staff used conservative estimates for business and industry, general consumer goods, restaurants and hotels, and state and county pools.

The City faces a concentration risk due to the dependence on a single industry, particularly the B2B sector, which is sensitive to economic forces. Two technology companies account for a significant portion of the City's total sales tax revenue.

To mitigate the volatility of B2B revenue, the City's long-term fiscal, strategic plan aims to diversify its sales tax sources. Recently completed development projects, such as Nineteen800 and Main Street, have boosted retail sales and can help reduce the City's reliance on B2B revenue.

### Property Tax

Property taxes are projected to remain stable in the near term. However, the impact of potential remote work on property taxes in the long term is uncertain. The trend towards remote work has caused people to reconsider where they choose to live, which could lead to a decrease in demand for residential real estate. Additionally, companies may need less office space if fewer employees are working at the office, which could decrease demand for commercial office space. This could result in a reduction of property tax revenue for the City.



In FY 2023-24, property tax revenues are expected to reach \$31.7 million and increase at an average annual growth rate of 3.1% in the forecast. The moderate forecast is based on a range of factors, including historical trends for the City and projections for the region. While property tax has grown at an average annual rate of 11% historically, this projection assumes a lower growth rate due to the absence of significant development projects.

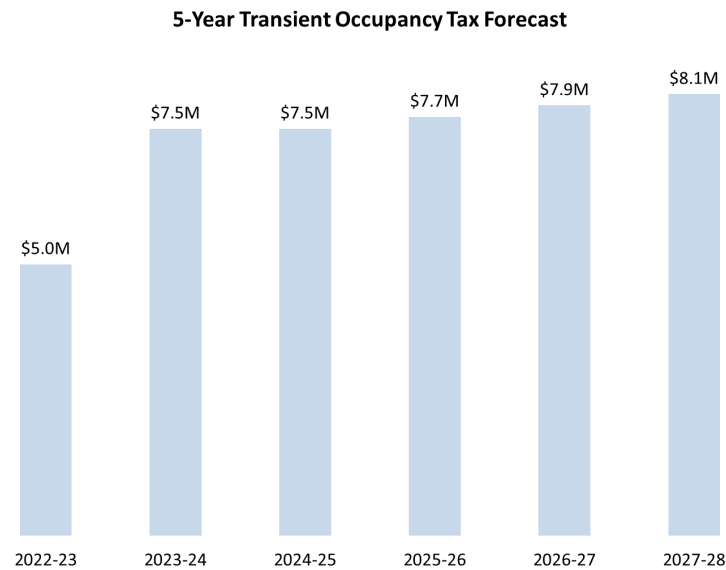
It is essential to note that major development projects, such as Main Street and Apple Park, have been significant contributors to the historical growth in property tax revenues. However, the current projection does not assume any such developments in the near future, resulting in a more modest growth rate forecast.

The City will continue to monitor economic and market trends to ensure that property tax revenue projections remain accurate.

### Transient Occupancy Tax

The COVID-19 pandemic had a significant impact on Transient Occupancy Tax (TOT) revenues, with a dramatic decline in revenues due to the reduction in travel. The City experienced a decrease in TOT revenues from \$8.9

million in FY 2018-19 to \$2.1 million in FY 2020-21, with a partial recovery to \$4.4 million in FY 2021-22. TOT revenues are heavily reliant on business travel, which may be affected by remote work or economic conditions. Although leisure travel has recovered faster than expected, business travel has been slower to recover. The City is cautiously optimistic that business travel will continue to increase in FY 2023-24.



The City's current forecast assumes that TOT revenues will recover to \$7.5 million in FY 2023-24, and gradually increase from the new normal. The forecast projects an average annual growth rate of 1.9% for TOT revenues. This moderate forecast is based on historical tax collections and assumes slower growth than historical trends.

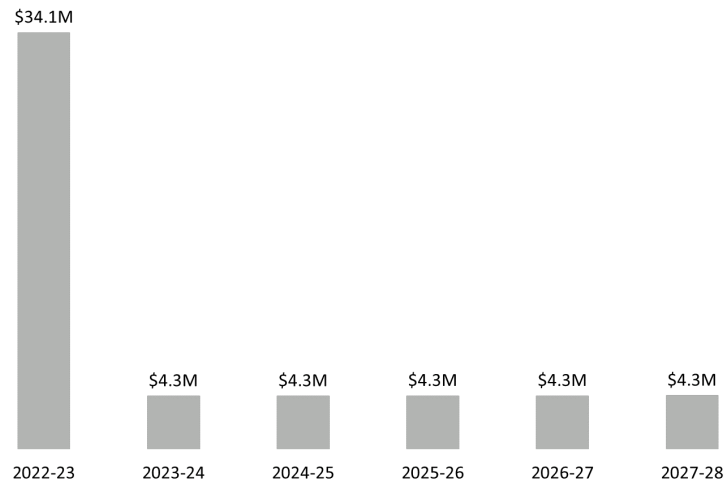
The TOT revenues are affected by the tax rate charged on hotels, occupancy rates, and average daily room rates (ADR). Given that TOT revenues in Cupertino are mainly driven by business travel, any shift in travel habits or economic conditions could significantly impact this revenue source.

### Licenses and Permits

Licenses and permits revenue is expected to decrease in FY 2023-24 due to the slowdown in development activity, but is expected to increase slightly in the out-years. The City's forecast projects an average annual growth rate of 0.3% for licenses and permits revenue, based on forecasts of California residential building permits, non-residential building permits, and construction payrolls from the UCLA Anderson Forecast for the Nation and California.

It is important to note that this forecast does not take into account any significant development projects that are awaiting approval. In the event that new development projects are approved, staff will update this forecast accordingly.

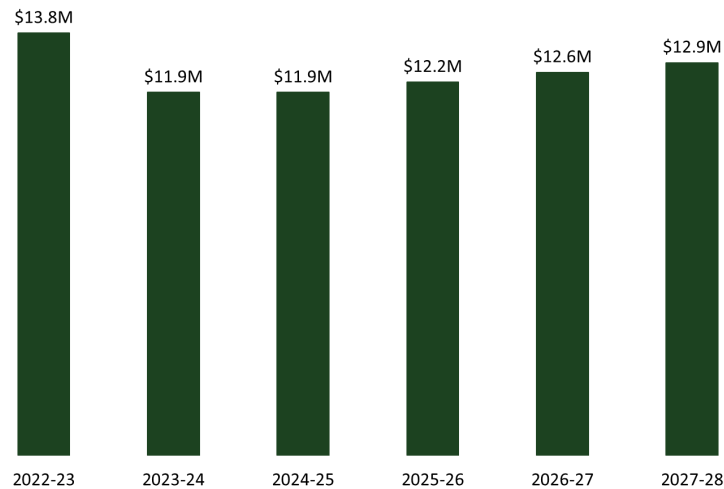
#### 5-Year Licenses & Permits Forecast



#### Charges for Services

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

#### 5-Year Charges for Services Forecast



Charges for services revenues are projected to increase at an average annual growth rate of 2.0%. Other Service Fees, Cost Allocation Plan Charges for Services, and General Service Fees are expected to increase by 2.75%, reflecting full-time salary growth. Planning Fees and Engineering Fees are forecasted based on construction and development factors, such as California residential and non-residential building permits, and construction payrolls from the UCLA Anderson Forecast for the Nation and California.

This forecast does not consider any significant development projects awaiting approval. The City will update the forecast if new projects are approved.

#### Other Revenue

**Utility taxes** are forecasted to increase by an annual average growth rate of 0.5% based on historical trends. In recent years, increases in rates have been offset by decreases in consumption.

**Franchise fees** are projected to increase by an average annual growth rate of 1.2% based on a trend of historical data.

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

**Use of money and property** is expected to grow at a rate of 0.4% each year based on the City's current conservative investment strategy and low-interest rates. The Section 115 Pension Trust is expected to grow at the discount rate of 6.25%.

**Intergovernmental revenues** are projected to grow at a rate of 0.4% each year.

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

**Miscellaneous revenues** are forecasted to increase by CPI each year.

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

## Expenditures

In FY 2019-20, the City developed a zero-based budget, which involved analyzing every function of the City for its needs and costs. As a result, all costs were justified, and base budget savings were achieved.

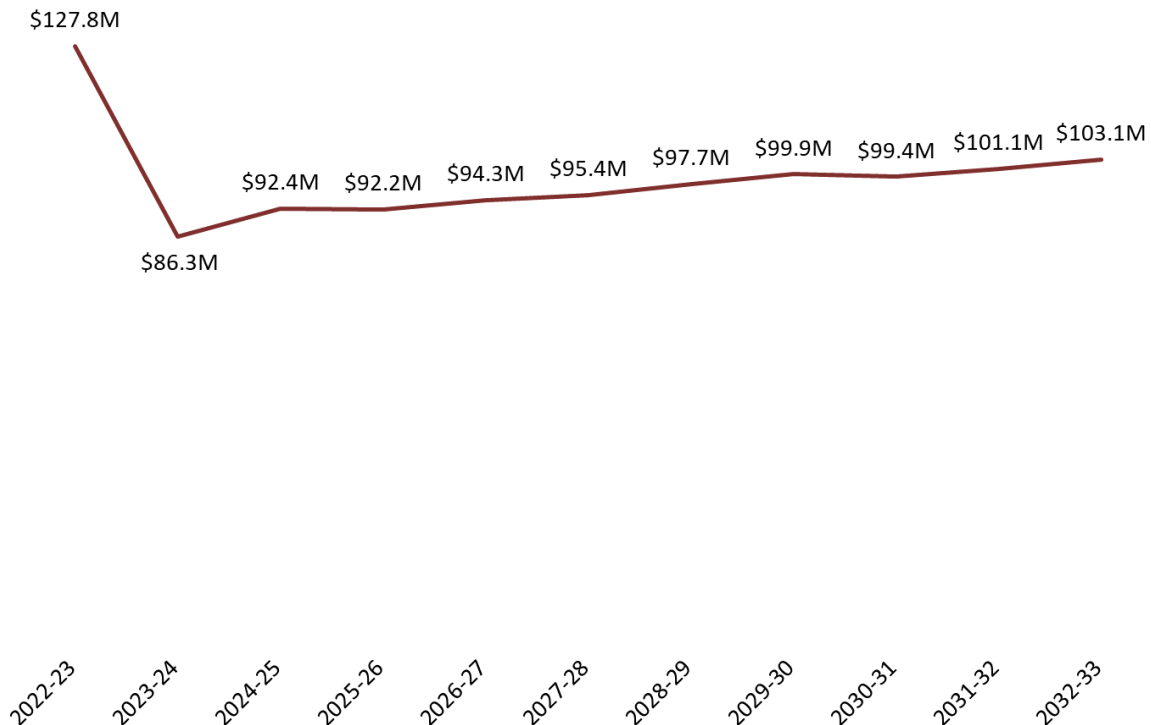
However, for FY 2023-24, the City is facing an expected revenue shortfall due to the CDTFA audit. To address this, departments have been asked to reduce their base budget expenditures by reducing materials and contract services by 40% and 20%, respectively. These efforts will help balance the City's budget.

In addition to these cost-saving measures, the City is proposing several budget-balancing strategies, including:

- Eliminating 14 vacant positions
- Decreasing expenditure on materials and contract services
- Reducing spending on special projects and capital outlays
- Reducing the City Manager's Discretionary 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

To inform these decisions, the City developed a forecast based on actual expenditures in prior years and FY 2023-24 projections. The forecast also considered factors such as CPI, construction and development activity, and CalPERS Normal Cost and Unfunded Liability projections. The forecast will be adjusted throughout the year to account for one-time changes and budget adjustments.

### 10-Year General Fund Expenditure Forecast



FIVE-YEAR GENERAL FUND EXPENDITURES FORECAST						
	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
	Estimate	Proposed	Forecast	Forecast	Forecast	Forecast
<b>EXPENDITURES</b>						
Employee Compensation & Benefits	37,620,076	35,880,639	35,843,555	33,759,533	33,927,960	33,286,309
<b>Personnel Costs</b>	<b>37,620,076</b>	<b>35,880,639</b>	<b>35,843,555</b>	<b>33,759,533</b>	<b>33,927,960</b>	<b>33,286,309</b>
Materials	7,871,945	6,387,746	6,611,317	6,796,434	6,966,345	7,126,571
Contract Services	26,613,726	24,975,024	31,043,515	32,404,525	33,730,528	35,045,950
Cost Allocation	10,385,961	10,257,656	10,539,742	10,829,584	11,127,398	11,433,401
Capital Outlay & Special Projects	31,218,822	1,211,157	755,291	776,439	795,850	814,155
Contingencies	438,907	216,731	177,952	182,935	187,508	191,821
Other Uses	1,572,165	925,000	-	-	-	-
<b>Non-Personnel Costs</b>	<b>78,101,526</b>	<b>43,973,314</b>	<b>49,127,817</b>	<b>50,989,917</b>	<b>52,807,629</b>	<b>54,611,898</b>
Transfers	12,115,066	6,457,600	7,476,200	7,498,600	7,518,205	7,545,032
<b>TOTAL EXPENDITURES</b>	<b>127,836,668</b>	<b>86,311,553</b>	<b>92,447,572</b>	<b>92,248,050</b>	<b>94,253,794</b>	<b>95,443,239</b>

The chart above illustrates the projected General Fund expenditures, which are estimated to be \$86.3 million in FY 2023-24, with an expected increase over the forecast period. The forecasted expenditure growth is primarily driven by increasing Law Enforcement costs. To provide an in-depth understanding of the estimated expenditure categories in the General Fund Forecast, the following discussion focuses on the assumptions made for each category.

## Personnel Expenditures

### Salaries

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%, because historically, part-time salaries have tended to grow at 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.

### Health Benefits

In FY 2023-24, health benefits account for about 7% of all personnel costs in the General Fund, primarily due to health insurance costs. The City pays employees a fixed amount for health and dental insurance costs instead of covering a percentage of premiums. In October 2016, City Council approved labor contracts that significantly increased the City's health insurance contributions to align the City with the median offerings of our comparator cities. For the duration of the contract, cost increases in health and dental premiums above the negotiated amounts were fully absorbed by employees. The City is in negotiations with its bargaining groups, CEA and OE3.



## Retirement Benefits

Rising retirement costs are driving the increase in employee benefits. Cupertino 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
<b>Projected Payroll</b>	\$ 21,617,038	\$ 22,222,316	\$ 22,844,540	\$ 23,484,187	\$ 24,141,744	\$ 24,817,713
<b>Normal Cost (%)</b>	10.7%	10.6%	10.4%	10.2%	10.1%	9.9%
<b>Normal Cost</b>	\$ 2,315,185	\$ 2,355,565	\$ 2,375,832	\$ 2,395,387	\$ 2,438,316	\$ 2,456,954
<b>UAL Payment (%)</b>	22.0%	21.6%	19.1%	18.2%	14.4%	14.4%
<b>UAL Payment</b>	\$ 4,763,735	\$ 4,811,000	\$ 4,361,000	\$ 4,278,000	\$ 3,465,000	\$ 3,586,000
<b>Total Contribution (%)</b>	32.7%	32.2%	29.5%	28.4%	24.5%	24.3%
<b>Total Contribution</b>	\$ 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%. This was done to enhance the financial stability of the pension system, resulting in significant increases in retirement costs. Additionally, in FY 2021-22, the discount rate was further lowered from 7.0% to 6.8% due to the FY 2020-21 investment gain of 21.3%, which triggered the Funding Risk Mitigation Policy.

The City's retirement rates are based on a blend of all three tiers (2.7% @ 55, 2% @ 60, and 2% @ 62). Although employees pay a different rate depending on their tier, the City's costs are the same for all three tiers. The table below shows the current breakdown of City employees amongst the three retirement tiers. The majority of employees in the City are currently covered under Tier 3.

Tier	Number of Employees	Benefit Factor	CalPERS Plan Breakdown by Tier			
			Compensation Basis	Employer Share of Contribution	Employee Share of Contribution	Total Contribution
1	56	2.7% @ 55	Highest Year	32.70%	8.00%	40.70%
2	19	2% @ 60	Highest 3 Year Average	32.70%	7.00%	39.70%
3	117	2% @ 62	Highest 3 Year Average	32.70%	7.00%	39.70%

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

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

## Other Benefits

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

## Non-Personnel Expenditures

Non-Personnel budgets were developed based on previous year's base budget and adjusted for the current year's needs. One-time projects were excluded to reflect ongoing expenditure needs. Materials and contract services were adjusted by CPI, where applicable. 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.

**Materials** costs are forecasted to increase by CPI.

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

- Percentage increase in total compensation and annual CalPERS cost increase
- Annual CPI plus 2% and annual CalPERS cost increase

The City's current agreement with the Santa Clara County Sheriff's Office is set to expire in June 2024, and negotiations are ongoing for a new agreement. In anticipation of potential increases in Law Enforcement costs, a placeholder increase has been included in the forecast. These costs have been a significant driver of the City's expenditure growth in recent years, and it is expected that they will continue to increase in the coming years.

**Cost Allocation** is projected to grow by 2.8%.

**Capital Outlays** and **Special Projects** are projected to increase by CPI. In the last five years, the City has spent about \$5 million per year on capital outlays and special projects, excluding development projects that include pass-through revenue. Capital Outlays and Special Projects are proposed to be reduced as an expenditure-reduction strategy.

**Contingencies** are projected to increase by CPI. Program contingencies are proposed to be reduced to 1.25%, while the City Manager's Contingency Fund is proposed to be reduced to \$50,000 in FY 2023-24. Program contingencies were cut in half to 2.5% in FY 2020-21, and the City Manager's Contingency Fund was reduced to \$75,000 in FY 2021-22. In prior years, program contingencies were 5% of Materials and Contract Services, and the City Manager's Contingency was 5% of General Fund Materials and Contract Services, excluding the law enforcement contract. It's worth noting that the City has historically underutilized contingencies, and the use of these funds would require pre-approval by the City Manager or their designee.

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

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

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

- Innovation and Technology Fund: \$1 million and increases at CPI annually.
- Enterprise Funds: \$0.5 million and increases at CPI per year.

Transfers from the General Fund to other funds have been reduced as part of an expenditure reduction strategy aimed at decreasing General Fund subsidies of other funds.

The City is expected to complete its debt payments for city facilities by FY 2029-30. Until then, the City will pay approximately \$2.7 million annually in principal and interest on its Certificates of Participation for City Hall, Community Hall, and Library. These funds will be transferred from the General Fund to the Debt Service Funds.

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

## Pension

### CalPERS

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

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

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

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

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

- Normal cost (the cost of the benefits earned in a respective year)
- Amortization of the unfunded accrued liability (UAL)

### CalPERS Discount Rate

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

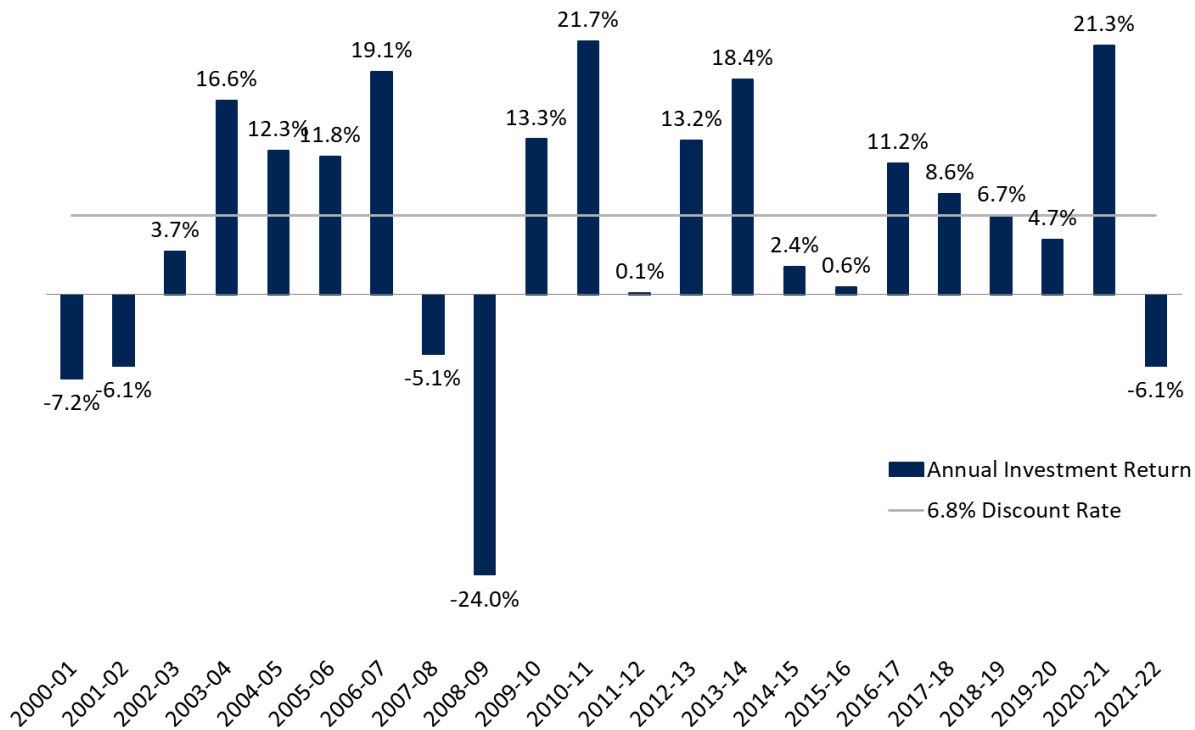
From the City's perspective, the discount rate is important as it is used to determine the City's annual contributions to the plan, the plan's unfunded liability, and the plan's funded status. In other words, the discount rate is used to determine whether a plan has enough assets to meet its future obligations.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

### CalPERS Investment Earnings

The City's pension plan heavily relies on investment earnings, which fund nearly 60% of retirement benefits. Thus, the plan is sensitive to the investment returns of CalPERS. When investment returns fall below the discount rate, contributions must increase to cover the shortfall.

Currently, CalPERS assumes an annual investment return of 6.8%. However, the investment returns earned by CalPERS have fallen short of the discount rate assumption approximately half the time over the past 20 years, as shown in the chart below. Investment returns for individual fiscal years have ranged between -24.0% and +21.7%. For instance, CalPERS suffered negative investment returns in 2001 and 2002 due to the dot-com crash and in 2008 and 2009 due to the Great Recession.

## CalPERS Historical Annual Investment Returns



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

For FY 2021-22, CalPERS reported an investment return of -6.1%. The average investment return is 6.7% for a 5-year period, 7.7% for a 10-year period, 6.9% for a 20-year period, and 7.7% for a 30-year period. As returns in a given year are volatile, it can be more instructive to look at returns over longer time horizons.

### CalPERS Update

#### *Asset Liability Management Process*

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

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

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

The new portfolio includes a 5% allocation to leverage.

## CalPERS Plan Status

As of the most recent actuarial valuation on June 30, 2021, the City's pension plan had assets of \$127.1 million and liabilities of \$168.4 million, resulting in an unfunded liability of \$41.3 million and a funded ratio of 75.5%. The unfunded liability is the difference between assets and liabilities, while the funded ratio is the ratio of assets to liabilities.

CalPERS Plan Status		
	June 30, 2020	June 30, 2021
Present Value of Projected Benefits	\$ 185,199,838	\$ 201,774,867
Entry Age Normal Accrued Liability	\$ 157,610,543	\$ 168,421,875
Market Value of Assets	\$ 103,788,993	\$ 127,113,891
Unfunded Accrued Liability	\$ 53,821,550	\$ 41,307,984
Funded Ratio	65.9%	75.5%

A defined-benefit plan is considered adequately funded if its assets equal or exceed the value of its future liabilities. When the funded ratio is lower than 100%, the plan has insufficient assets to pay all future liabilities. The funded status of the system decreased because:

- Poor investment returns during the Great Recession significantly decreased the plan's assets.
- Enhanced benefits and actuarial assumption changes due to increased life expectancies increased the plan's liabilities.

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

### Impact of CalPERS Investment Returns

CalPERS assumes it will earn investment returns of 6.8% each year. If investment returns are higher than 6.8%, the City's contributions decrease. On the other hand, if investment returns are lower than 6.8%, the City's contributions increase.

Challenging and volatile financial markets impacted CalPERS investment returns for FY 2021-22. During this period, CalPERS earned an investment return of -6.1%, which is lower than the assumed rate. The investment performance is expected to affect the City's pension contributions starting in FY 2024-25. In 2022, financial market volatility increased due to heightened geopolitical risk, supply chain bottlenecks and persistent inflation, and the Federal Reserve's pivot to a less accommodative monetary policy.

### Impact of CalPERS Discount Rate Changes

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

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

The discount rate has a significant effect on the City's CalPERS contributions. If the discount rate is less than the discount rate assumption, the City's CalPERS contributions will increase. If CalPERS lowers the discount rate by one percentage point, the City's contributions will increase by up to \$2.9 million per year. This analysis would show the potential contribution impact if CalPERS were to lower the discount rate.

## **Section 115 Trust**

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

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

## City Strategies

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

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

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

As a result, the funding strategy proposed \$8.0 million in initial funding, along with additional funding of \$10.0 million over the first five years. The City has contributed \$16.0 million, including:

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

As of June 30, 2022, the Section 115 Pension Trust had a balance of \$17.2 million and had earned an annualized investment return of 3.94% gross of fees since inception.



## Fund Balance

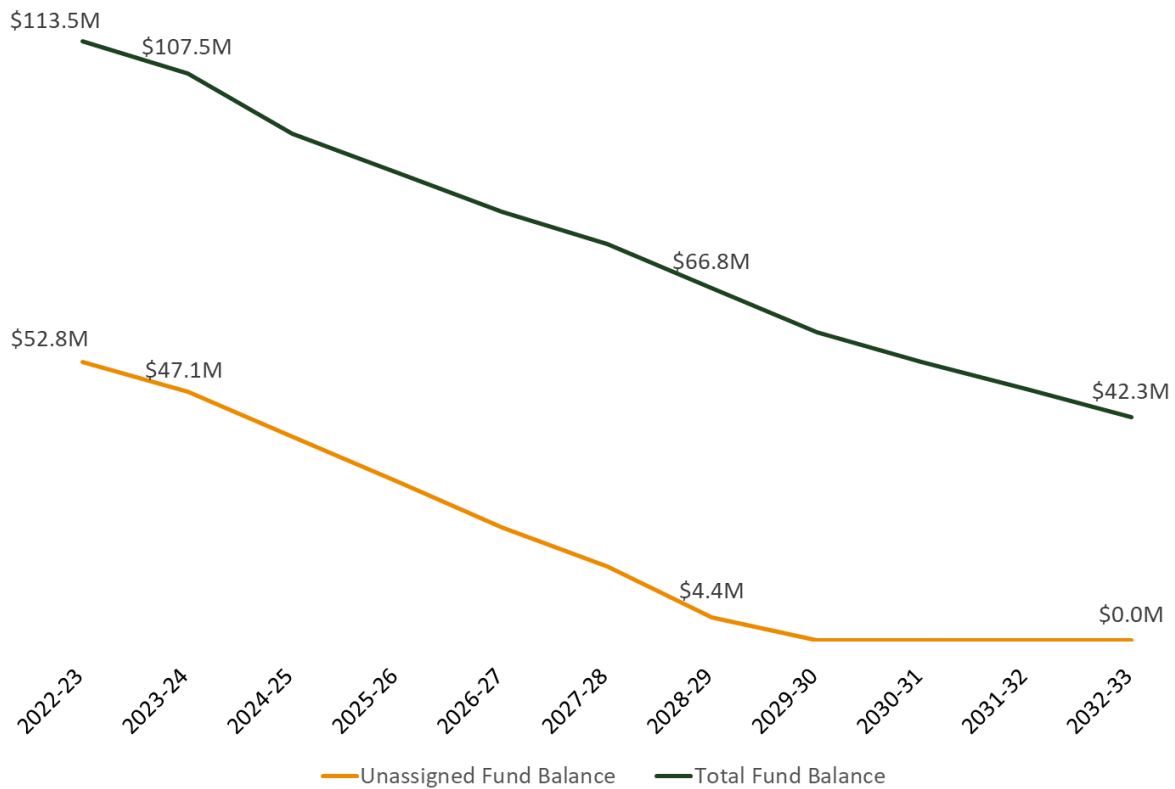
The foresight of the City Council and staff in previous years to focus on ensuring healthy reserves is paying off in full. Increases in sales tax revenues and budget reductions in FY 2020-21 have contributed to this planning strategy and will provide additional resources for the City in the future.

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

- Economic Uncertainty Reserve: may be used to mitigate potential shortfalls.
- Capital Projects Reserve: may be used to fund capital projects.
- Section 115 Pension Trust: may be used to fund pension costs. Funds in the Section 115 Pension Trust are restricted and can only be used to pay CalPERS or reimburse the City for pension contributions.

In FY 2023-24, the General Fund's total fund balance is projected to be \$107.5 million, and the General Fund's Unassigned fund balance is projected to be \$47.1 million. Fund balance is decreasing due to a persistent structural deficit, resulting from ongoing expenses exceeding ongoing revenues. To address this, the City intends to utilize the fund balance to cover the shortfall until revenue and expenditure can be brought into alignment.

### 10-Year General Fund Fund Balance Forecast



FIVE-YEAR GENERAL FUND FUND BALANCE FORECAST						
	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
	Estimate	Proposed	Forecast	Forecast	Forecast	Forecast
Operating Revenue	134,163,396	80,281,054	80,976,558	84,921,103	86,776,779	89,351,986
Operating Expenditures	127,836,668	86,311,553	92,447,572	92,248,050	94,253,794	95,443,239
Net Revenues - Expenditures	6,326,728	(6,030,499)	(11,471,014)	(7,326,947)	(7,477,015)	(6,091,253)
Unassigned	52,834,551	47,146,398	38,602,881	30,136,086	21,447,671	14,068,993
All Other Classifications	60,661,719	60,319,373	57,391,876	58,531,723	59,743,123	61,030,548
Ending Fund Balance	113,496,269	107,465,770	95,994,756	88,667,809	81,190,794	75,099,541

FIVE-YEAR GENERAL FUND FUND BALANCE FORECAST						
	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
	Estimate	Proposed	Forecast	Forecast	Forecast	Forecast
<b><u>Nonspendable</u></b>						
Loans Receivable	439,199	435,000	430,000	425,000	420,000	415,000
Prepaid Items	-	-	-	-	-	-
Total Nonspendable	439,199	435,000	430,000	425,000	420,000	415,000
<b><u>Restricted</u></b>						
CASp Certification and Training	23,621	23,621	23,621	23,621	23,621	23,621
Section 115 Trust	17,240,051	17,240,051	18,317,554	19,462,401	20,678,801	21,971,226
Public Access Television	1,492,810	1,492,810	1,492,810	1,492,810	1,492,810	1,492,810
Public Art In-Lieu	338,147	-	-	-	-	-
Total Restricted	19,094,629	18,756,482	19,833,985	20,978,832	22,195,232	23,487,657
<b><u>Committed</u></b>						
Economic Uncertainty	24,000,000	24,000,000	24,000,000	24,000,000	24,000,000	24,000,000
Capital Projects Reserve	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000
Sustainability Reserve	127,891	127,891	127,891	127,891	127,891	127,891
Total Committed	34,127,891	34,127,891	34,127,891	34,127,891	34,127,891	34,127,891
<b><u>Assigned</u></b>						
Reserve for Encumbrances	7,000,000	7,000,000	3,000,000	3,000,000	3,000,000	3,000,000
Total Assigned	7,000,000	7,000,000	3,000,000	3,000,000	3,000,000	3,000,000
Total Unassigned	52,834,551	47,146,398	38,602,881	30,136,086	21,447,671	14,068,993
TOTAL FUND BALANCE	113,496,269	107,465,770	95,994,756	88,667,809	81,190,794	75,099,541

## Potential Budget-Balancing Strategies

Historically, the City has maintained a structurally sound budget, with revenues surpassing expenditures in most fiscal years. During periods of excess revenue, the City has transferred the surplus fund balance to the Capital Reserve Fund in accordance with the City's Fund Balance and Use of One-Time Funds Policy.

However, the forecast shows a potential structural deficit resulting from the anticipated decrease in sales tax revenue due to the CDTFA audit. A structural deficit occurs when recurring expenditures consistently surpass recurring revenues, leading to an ongoing imbalance that cannot be remedied through short-term solutions.

Potential Strategy	Description	Potential Impact	Currently Recommended
Section 115 Pension Trust	<p>In FY 2017-18, the City established a Section 115 Pension Trust to mitigate pension rate volatility when CalPERS investment returns are below the discount rate or when CalPERS changes assumptions. The City can also use it to offset pension costs in any given year.</p> <p>The City established a Section 115 Trust to reduce pension rate volatility when CalPERS investment returns are below the discount rate or when CalPERS changes assumptions. The City can also use it to offset pension costs.</p>	The fund has a balance of \$17.2 million. <sup>1</sup>	Yes
Section 115 OPEB Trust	<p>In FY 2009-10, the City established a Section 115 OPEB Trust to help fund its retiree health obligations, also known as other post-employment benefits (OPEB).</p> <p>The OPEB plan is fully funded. Starting in FY 2022-23, retiree health costs will be funded by the OPEB Trust rather than the General Fund.</p>	The fund has a balance of \$33.3 million. <sup>1</sup>	Yes
Capital Projects Reserve	The General Fund Capital Projects Reserve may be used to fund capital projects.	The reserve has a balance of \$10 million.	Yes
Economic Uncertainty Reserve	The General Fund Economic Uncertainty Reserve may be used to mitigate potential shortfalls.	The reserve has a balance of \$24 million.	No

<sup>1</sup> As of June 30, 2022

## Expenditure Reduction Strategies

Potential Strategy	Description	Potential Impact	Currently Recommended
No new positions	Cost containment strategy	\$0	Yes
Vacancy control	Keep non-essential positions unfilled as they become vacant.	Approximately \$186,000 per position on average	Yes
Employee cost-sharing of increases to CalPERS	Negotiate to share costs of increases to CalPERS employer rates with employees. Would be subject to bargaining unit agreement.	\$250,000 approximate based on a 5% rate increase	No
Defer or eliminate negotiated increases	Would be subject to bargaining unit agreement.	Approximately \$0.3 million savings based on a 1% decrease	No
Furloughs	Employees would take up to a 10% decrease in pay in exchange for 1 unpaid furlough day per pay period. Would be subject to bargaining unit agreement.	Approximately \$3 million savings based on a 10% decrease	No
Reduction in force	Identify positions to be reduced (laid off) based on MOU provisions and service level needs.	Approximately \$186,000 per position on average	No
Reduction in capital outlays and special projects	Cost containment strategy	Up to \$4 million	Yes
Reduction in contingencies	Cost containment strategy	Up to \$400,000	Yes
Defer or cancel capital projects	Cost reduction strategy	Varies	Yes
Reduction of Community Funding and Historical Society Funding	Cost reduction strategy	Up to \$110,000	Yes
Reduction of festival fee waivers	Cost reduction strategy	Varies	Yes

## Revenue Generation Strategies

Potential Strategy	Description	Potential Impact	Currently Recommended
¼ Cent Transaction and Use Tax (TUT)	Voter approval is required Could increase sales tax from 9.125% to 9.375%	\$5.2 million	No
Transient Occupancy Tax (2% increase)	Voter approval is required Could increase transient occupancy tax from 12% to 14%	\$1.7M @ \$10M base \$1.25M at \$7.5M base \$833k at \$5M base	No
Parcel Tax	Voter approval is required	\$3.5M flat rate per parcel \$3.6M variable rate per SF	No
Other Revenue Tax Measures	Urban Futures, Inc. (UFI) has been contracted to analyze potential revenue tax measures.	Varies	No
Increase fees and cost-recovery	Matrix Consulting Group has been contracted to conduct a fee study, which is scheduled to take place from April to July 2023. The study aims to assess the potential for fee increases and cost recovery.	Varies	Yes
Sale of City-owned Properties or Assets	The sale of city-owned assets would generate one-time revenue.	Varies	No

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