

**CUPERTINO**

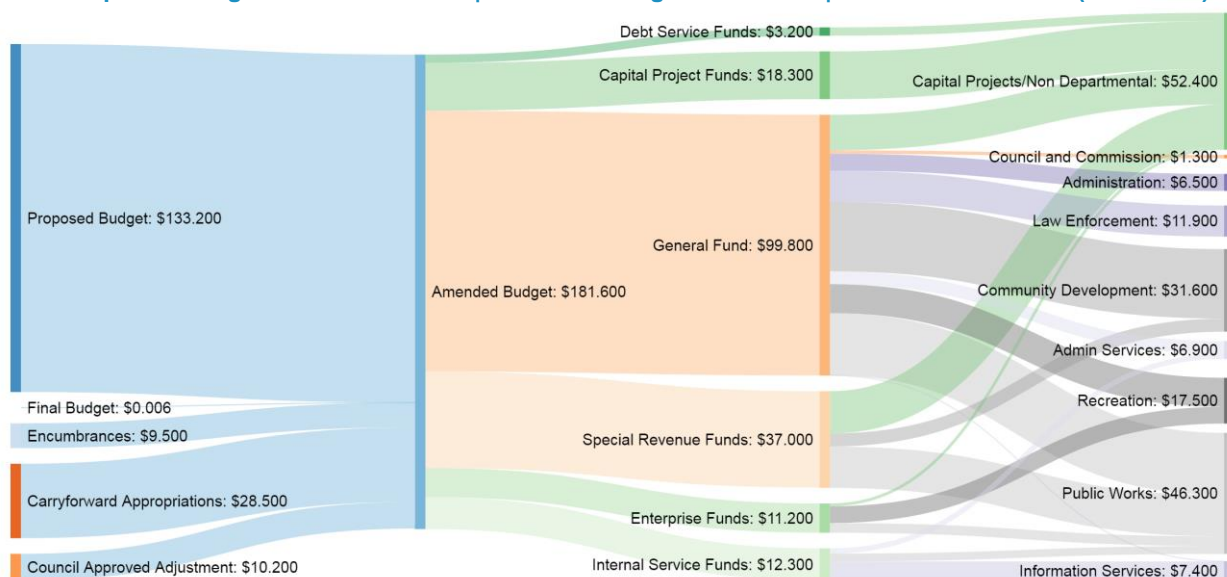
# MID-YEAR REPORT

The following is the Mid-Year Financial Report for the period of July 2016-December 2016 for the 2016-2017 Fiscal Year. It has been prepared to inform the City Council, City leadership and the public of the City's financial status at the mid-point of this fiscal year. The report provides revenue and expenditure summaries and recommends adjustments needed to City budgets since the adoption of the Final Budget in June 2016.

## BACKGROUND

On June 6, 2016, the City Council adopted the Fiscal Year (FY) 2016-17 Budget, a \$133.2 million spending plan for the City of Cupertino. On November 15, 2016, Council received an update on the City's spending plan as part of the City Manager's First Quarter Financial Report, which revised the budget to account for encumbrances and carryover expenditure appropriations from FY 2015-16 of \$38,091,854. Council approved \$10,239,848 in additional expenditures in the first two quarters of the FY mostly related to Apple Campus 2 contracts and negotiated salary and benefit increases. This resulted in an amended budget of \$181,564,052.

**Proposed Budget thru the Mid-Year | Amended Budget FY 2016-17 | Flow of Funds Chart (in Millions)**



## GENERAL FUND UPDATE

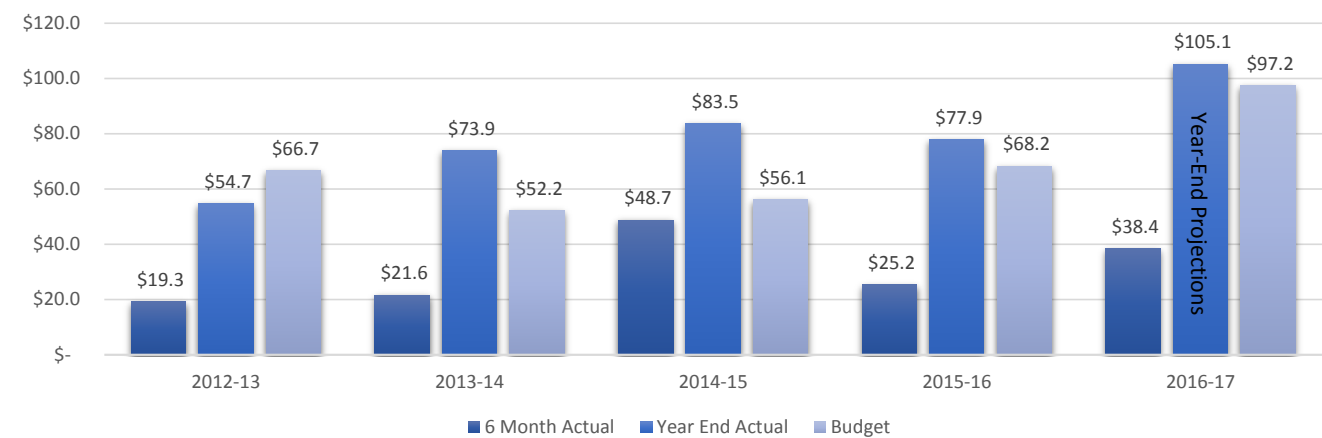
### General Fund—General Fund Four Year Comparison of Revenues, Expenditures and Changes to Fund Balance



Revenues

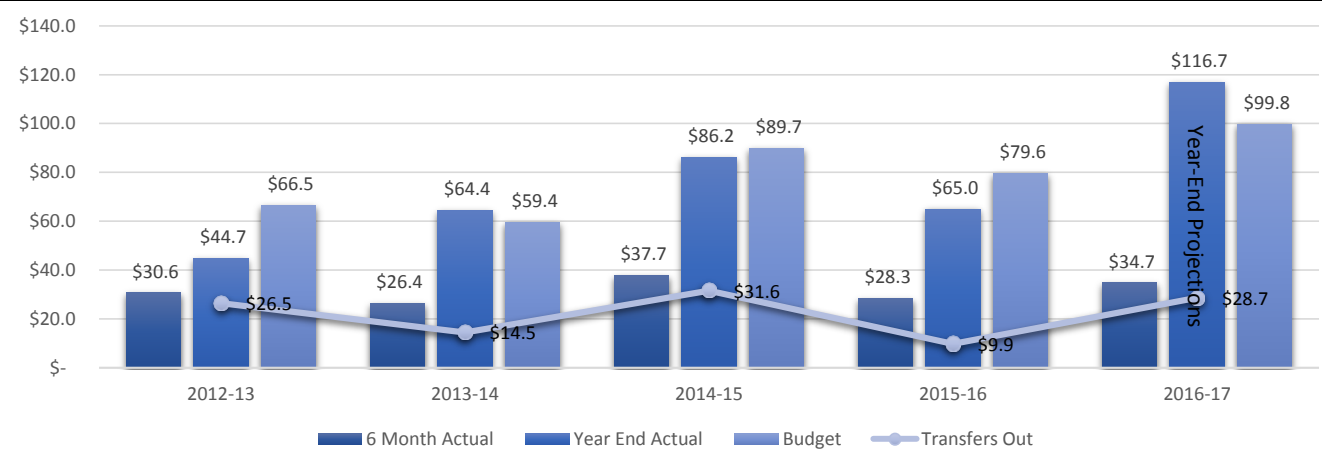
General Fund—General Fund Revenue Five Year Comparison

The City received a one-time payment of \$3.5 million dollars in sales tax due to the close out of the Triple Flip as discussed as part of the First Quarter report. In addition, revised estimates on property taxes from the County anticipate that the City will receive an additional \$2 million dollars in FY 2016-17. The City also received construction tax revenue for numerous buildings at Apple Campus 2, thus resulting in an additional \$600,000 in revenue. Lastly, an additional \$120,000 in Use of Money and Property revenue was received due to proactive investing by the City in addition to an increase in interest rates. In total, staff is recommending to increase budgeted revenues in the General Fund by \$7.8 million.



Expenditures

General Fund—General Fund Expenditure Five Year Comparison

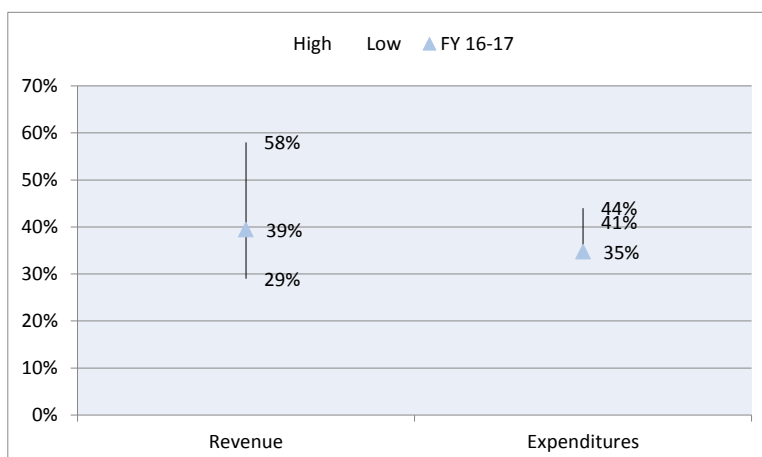


As of Mid-Year, several General Fund departments are requesting adjustments totaling \$16.95 million. These requests include staffing, an auditor contract, a business license module, a cellular capacity/coverage study, bank service charges, an irrigation controller settlement, soundwall damage reimbursement, Ash Whitefly treatment in Rancho Rinconada, City Hall elevator repair, park pump repair and control panel replacement, and a contribution in lieu for planned transportation project. These requests would be funded by increases in revenue and General Fund unassigned fund balance. The bulk of the request involves the transfer of \$15 million in excess fund balance to the Capital Reserve per the City’s Reserve and One Time Use Policy. These requests are summarized in the table below:

Fund	Department	Recommended Adjustments			Description
		Expenditure	Revenue	Fund Balance	
General Fund	Administrative Services	\$ (22,912.00)	\$ -	\$ 22,912.00	Transfer out salary savings to Non-Departmental to fund full-time Business Systems Analyst
General Fund	Administrative Services	\$ 80,000.00	\$ -	\$ (80,000.00)	New Auditor Contract
General Fund	Administrative Services	\$ 50,000.00	\$ -	\$ (50,000.00)	Purchase and implementation of Business License Module
General Fund	Commissions	\$ 30,000.00	\$ -	\$ (30,000.00)	TICC Cellular Capacity/Coverage Study
General Fund	Community Development	\$ 20,000.00	\$ -	\$ (20,000.00)	Bank Service Charges
General Fund	Public Works	\$ 410,000.00	\$ 410,000.00	\$ -	Irrigation controller settlement
General Fund	Public Works	\$ 20,900.00	\$ 20,900.00	\$ -	Soundwall damage reimbursement
General Fund	Public Works	\$ 62,160.00	\$ -	\$ (62,160.00)	Ash Whitefly treatment at Rancho Rinconada
General Fund	Public Works	\$ 9,665.00	\$ -	\$ (9,665.00)	City Hall elevator repair
General Fund	Public Works	\$ 15,000.00	\$ -	\$ (15,000.00)	Linda Vista park pump repair and control panel replacement
General Fund	Public Works	\$ 1,187,395.00	\$ 1,187,395.00	\$ -	Contribution in lieu for Planned Transportation Project
General Fund	Non-Departmental	\$ -	\$ 6,220,000.00	\$ 6,220,000.00	Increases in Sales Tax, Property Tax, Construction Tax, and Use of Money and Property
General Fund	Non-Departmental	\$ 22,192.00	\$ -	\$ (22,192.00)	Transfer out salary savings to Information Services to fund full-time Business Systems Analyst
General Fund	Non-Departmental	\$ 67,482.00	\$ -	\$ (67,482.00)	Transfer out to fund remaining portion of Business Systems Analyst cost
General Fund	Non-Departmental	\$ 15,000,000.00	\$ -	\$ (15,000,000.00)	Transfer out excess fund balance to Capital Reserve
<b>Total General Fund</b>		<b>\$ 16,951,882.00</b>	<b>\$ 7,838,295.00</b>	<b>\$ (9,113,587.00)</b>	

## GENERAL FUND TRENDS

As of December 31, 2016, General Fund expenditures are \$34.7 million; this represents 35% of the budgeted appropriations. Expenditures at the Mid-Year point of the prior three years were between 41% and 44% of the final actual expenditures, placing this year below the range. This is primarily due to the timing of expenditures in Capital Outlays and Special Projects being completed later in this fiscal year than in previous fiscal years. General Fund revenues are at \$38.4 million; this represents 39% of the budgeted revenue. Revenues at the Mid-Year point of the prior three years were between 29% and 58%, placing this year within the range.



## General Fund - Fund Balance

The City, based on unaudited final numbers, is anticipated to end the 2015-16 Fiscal Year with \$52.2 million in fund balance in the General Fund. This results in an additional \$7.93 million over the first quarter projections and a total of \$20.93 million higher than projected as of the third quarter. As part of the First Quarter Report the City anticipated making the following recommendations at Mid-Year:

- Transfer approximately \$3.5 million in fund balance to the Capital Reserve to fund future years of the Capital Improvement Plan
- Use of approximately \$6 million in fund balance to cover year-end encumbrances, budget carryovers, and City Council approval on budget adjustments; including those related to the newly negotiated salary and benefit increases

At Mid-Year, staff has revised its recommendations as follows:

- Transfer \$15 million in fund balance to the Capital Reserve to fund future years of the Capital Improvement Plan

- Increase the assigned encumbrance reserve by \$5 million to account for an increase in encumbrances due to additional contract expenses and changes to existing contracts

If approved, the changes above would result in an anticipated year-end of fund balance of \$40.54 million in the General Fund for FY 2016-17 as shown in the table below, of which \$6.57 million would be unassigned. Total projected fund balance is derived by taking actual fund balance as of year-end + (amended budget revenues minus expenses) + (recommended adjustments to revenues minus expenses in this staff report) \$52.19 + (\$2.54) + (\$9.11) = \$40.54.

CLASSIFICATION	Third Quarter Projections 2015-16	First Quarter Projections 2015-16	Unaudited Actuals 2015-16	Final Budget 2016-17	First Quarter 2016-17	Mid Year Projections 2016-17
Non Spendable	1.10	1.10	0.94	1.10	1.10	1.10
Restricted	0.76	0.76	0.89	0.76	0.76	0.76
Assigned	27.50	27.50	20.50	27.50	27.50	32.10
UnAssigned	1.91	14.91	29.87	3.69	27.08	6.57
<b>TOTAL FUND BALANCE</b>	<b>31.27</b>	<b>44.27</b>	<b>52.19</b>	<b>33.05</b>	<b>56.44</b>	<b>40.54</b>

## MID YEAR BUDGET REQUESTS - ALL FUNDS

Fund	Department	Recommended Adjustments			Description
		Expenditure	Revenue	Fund Balance	
Total General Fund		\$ 16,951,882.00	\$ 7,838,295.00	\$ (9,113,587.00)	
Capital Fund	Non-Departmental	\$ -	\$ 15,000,000.00	\$ 15,000,000.00	Transfer in excess fund balance to Capital Reserve
Special Revenue	Public Works	\$ 21,104.00	\$ 21,104.00	\$ -	ABAG Grant for sidewalk repair
Special Revenue	Public Works	\$ 25,859.00	\$ 25,859.00	\$ -	Monument sign damage settlement & repair
Internal Service	Information Services	\$ 50,744.00	\$ 50,744.00	\$ -	Transfer in salary savings from Admin. Services to fund full-time Business Systems Analyst
Internal Service	Information Services	\$ 38,930.00	\$ 38,930.00	\$ -	Budget for full-time Business Systems Analyst position in IT/Application (Website)
Total Other Funds		\$ 136,637.00	\$ 15,136,637.00	\$ 15,000,000.00	
TOTAL ALL FUNDS		\$ 17,088,519.00	\$ 22,974,932.00	\$ 5,886,413.00	

## STAFFING

Currently, the city has a total of 186.75 FTEs. As of Mid-Year, staff is requesting one additional full-time position - the conversion of two part-time Business Systems Analysts to full-time positions for the Information Services Department. If approved, this would bring the full-time benefited employee count to 187.75. It should be noted that the request would result in both existing Business Systems Analyst positions being benefitted.

## SUMMARY

City staff recommends adjustments of \$17,088,519 in appropriations and \$22,974,932 in projected revenue resulting in \$5,886,413 added to fund balance across all funds. Staff will continue to monitor the 2016-17 FY Amended Budget and be prepared to make recommendations and changes based on business needs and Council priorities before June 30, 2017 to ensure that the City ends the year within budgeted appropriations.