



ADMINISTRATIVE SERVICES DEPARTMENT

CITY HALL
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CITY COUNCIL STAFF REPORT

Meeting: March 3, 2020

Subject

Approve the Mid-Year Financial Report and budget adjustments for Fiscal Year 2019-20

Recommended Action

1. Accept the City Manager's Mid-Year Financial Report for FY 2019-20
2. Approve Budget Modification 1920-XXX for Mid-Year adjustments as described in the Mid-Year Financial Report
3. Adopt a resolution 20-XXX approving Mid-Year budget adjustments

Background

On June 18, 2019, the City Council adopted the Fiscal Year (FY) 2019-20 Budget, a \$150,532,151 spending plan for the City of Cupertino. On November 19, 2019, Council received an update on the City's spending plan as part of the City Manager's First Quarter Financial Report, which revised the budget to account for encumbrances of \$10,718,669 and carryover appropriations of \$35,250,910 from FY 2018-19. Encumbrances represent funds for valid obligations related to unfilled purchase orders or unfilled contracts that are rolled over from one year to the next until those obligations are fulfilled or terminated. Carryover appropriations are unencumbered funds for unfinished projects that are carried over for use in the following fiscal year in order to complete those projects.

In the first two quarters of FY 2019-20, Council approved \$10,463,215 in additional appropriations mostly related to a \$2.5 million increase for Regnart Creek Trail, \$1.7 million for salary and benefit increases due to labor negotiations, \$1.3 million for Orange & Byrne Ave Sidewalk project, and \$3 million for the Library Expansion Project.

This resulted in an amended budget of \$206,964,945. These FY 2019-20 budget adjustments are summarized in the following table:

Mid-Year Financial Report Summary of Budget Adjustments by Fund

Fund	FY 19-20 Adopted	Carryovers	Encumbrances	Adjustments Approved in 1st-2nd Quarters	FY 19-20 Amended Budget as Dec 31, 2019
General	\$80,104,468	\$8,478,803	\$1,962,541	\$2,247,428	\$92,793,240
Special Revenue	9,837,377	15,746,048	4,075,806	\$1,564,528	\$31,223,759
Debt Service	3,172,838	-	-	-	\$3,172,838
Capital Projects	37,944,918	9,906,136	4,179,420	\$6,448,441	\$58,478,915
Enterprise	11,524,189	804,884	30,265	\$94,073	\$12,453,411
Internal Service	7,948,361	315,039	470,637	\$108,745	\$8,842,782
Total All Funds	\$150,532,151	\$35,250,910	\$10,718,669	\$10,463,215	\$206,964,945

Discussion

The Mid-Year Financial Report focuses on the status of the City's budget as of December 31, 2019 and recommends adjustments to ensure the budget reflects the City's current revenue outlook and is responsive to changing spending priorities. As shown in the chart below, \$44,805,615, in net budget adjustments are being requested, of which \$20,000,000 involves a transfer of excess fund balance to the Capital Reserve per the City's Reserve and One Time Use Policy. Additionally, \$22,057,710 of requested appropriations pertain to Vallco Town Center and will be offset with \$32,048,517 in fee revenues. The \$9,990,807 excess in revenues over expenditures will fund staffing and overhead costs for performing plan check and construction reviews and inspections. If approved, the City's new spending plan would total \$253,181,436 across all funds.

Mid-Year Financial Report Summary by Fund

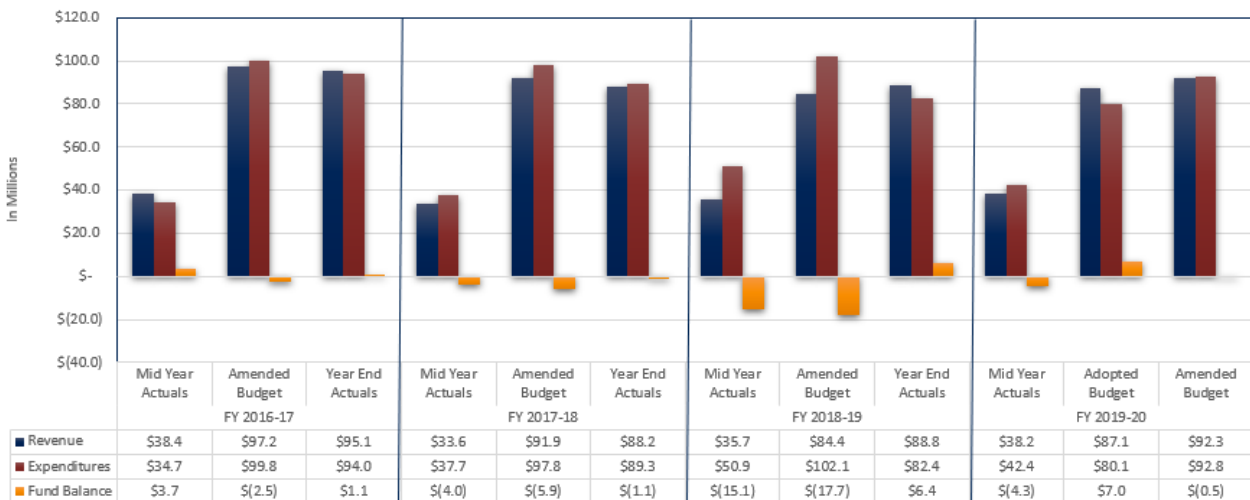
Fund	Amended Budget as of December 31, 2019	Requested Mid-Year Adjustments	Year End Projections
General	\$92,793,240	\$43,758,334	\$136,550,574
Special Revenue	\$31,223,759	\$0	\$33,539,383
Debt Service	\$3,172,838	\$0	\$3,169,438
Capital Projects	\$58,478,915	\$2,458,157	\$60,937,072
Enterprise	\$12,453,411	\$0	\$11,242,379
Internal Service	\$8,842,782	\$0	\$9,275,600
Total All Funds	\$206,964,945	\$46,216,491	\$253,181,436

A projected increase to unassigned fund balance in the amount of \$6,537,464 across all funds would occur as summarized in the table below:

Fund	Department	Expense	Revenue	Fund Balance	Proposal
GENERAL FUNDS					
100 General Fund	Parks & Recreation	\$ 6,000	\$ -	\$ (6,000)	BBF Freezer
100 General Fund	Parks & Recreation	\$ 5,280	\$ -	\$ (5,280)	Hidden Treasures
100 General Fund	Parks & Recreation	\$ 7,920	\$ -	\$ (7,920)	Hidden Treasures
100 General Fund	Community Development	\$ 14,650,000	\$ 22,538,435	\$ 7,888,435	Vallco Town Center Construction Plan Check
100 General Fund	Community Development	\$ 5,406,634	\$ 7,208,845	\$ 1,802,211	Vallco Town Center Building Inspections
100 General Fund	Community Development	\$ 1,069,000	\$ -	\$ (1,069,000)	Vallco Specific Plan
100 General Fund	Public Works	\$ 2,001,076	\$ 2,301,237	\$ 300,161	Vallco Town Center PW Plan Review/Inspections
100 General Fund	Public Works	\$ 60,000	\$ -	\$ (60,000)	Street Lighting - Contract Services
100 General Fund	Public Works	\$ 45,000	\$ -	\$ (45,000)	Street Lighting - Materials
100 General Fund	Public Works	\$ 42,500	\$ -	\$ (42,500)	Sr. Ctr. Fire Sprinkler System Repair
100 General Fund	Public Works	\$ 100,000	\$ -	\$ (100,000)	Traffic Calming
100 General Fund	Public Works	\$ 12,205	\$ -	\$ (12,205)	BBF Tree Removal
100 General Fund	Non-Departmental	\$ 352,719	\$ -	\$ (352,719)	Transfer for Library Expansion Project
100 General Fund	Non-Departmental	\$ 20,000,000	\$ -	\$ (20,000,000)	Transfer Excess Fund Balance to Capital Reserve
TOTAL GENERAL FUNDS		\$ 43,758,334	\$ 32,048,517	\$ (11,709,817)	
CAPITAL PROJECT FUNDS					
420 Capital Improvement Fund CIP		\$ 1,400,000	\$ -	\$ (1,400,000)	Sports Center Interior Improvements
420 Capital Improvement Fund CIP		\$ 705,438	\$ 705,438	\$ -	Library Expansion Project
429 Capital Reserve	Non-Departmental	\$ 352,719	\$ -	\$ (352,719)	Transfer to CIP for Library Expansion Project
429 Capital Reserve	Non-Departmental	\$ -	\$ 20,000,000	\$ 20,000,000	Transfer in fund balance from the General Fund
TOTAL CAPITAL PROJECT FUNDS		\$ 2,458,157	\$ 20,705,438	\$ 18,247,281	
TOTAL ALL FUNDS		\$ 46,216,491	\$ 52,753,955	\$ 6,537,464	

General Fund Update

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



In reviewing the City's General Fund historical revenue, expenditures and fund balance, you will note that although the City has historically budgeted the use of fund balance, this use was not due to a structural deficit but due to the transfer out of excess fund balance from the General Fund to the Capital Reserve per the City's one time use policy. Due to the City's encumbrance and budget carryover process, excess fund balance resulted as part of the year end actuals.

Revenue

As of mid-year, General Fund revenue is tracking at \$38.2 million or 7% higher than the same time last year due to changes in the City’s in various revenue sources as shown in the table and described in greater detail below.

Comparison of FY 2018-19 General Fund Mid-Year Revenues to FY 2019-20

Revenue Category	Mid-Year 2019	Mid-Year 2020	Variance	% Change
05 - Sales tax	\$ 12,646,444	\$ 12,082,134	\$ (564,309)	-4%
10 - Property tax	7,003,151	7,430,263	427,112	6%
15 - Transient occupancy	3,136,963	4,248,918	1,111,955	35%
20 - Utility tax	1,201,574	1,332,066	130,492	11%
25 - Franchise fees	644,658	694,529	49,871	8%
30 - Other taxes	684,519	669,321	(15,198)	-2%
35 - Licenses and permits	1,730,418	3,301,123	1,570,705	91%
40 - Use of money and property	1,007,092	1,095,695	88,604	9%
45 - Intergovernmental revenue	126,198	167,979	41,781	33%
50 - Charges for services	5,262,979	5,801,392	538,413	10%
55 - Fines and forfeitures	175,607	145,735	(29,873)	-17%
60 - Miscellaneous	894,986	1,006,780	111,793	12%
65 - Transfers in	10,000	12,000	2,000	20%
70 - Other financing sources	\$ 1,199,524	\$ 164,663	\$ (1,034,861)	-86%
Grand Total	\$ 35,724,114	\$ 38,152,599	\$ 2,428,484	7%

Sales Tax revenue is received six months in arrears, with dollars received for the most recent quarter (Oct-Dec 2019) relating to revenue collected in the fourth quarter of the last fiscal year (Apr-Jun 2019). Sales tax received as of mid-year was \$564,309, or 4%, less than last year due to reduced sales tax localization. This decrease, based on economically adjusted sales tax data, is due primarily to decreases in the Business to Business industry group; a 1% decrease over the same time period one year ago. Additionally, the State and County pools remained relatively stagnant, experiencing a \$10,000, or 0.5% decrease. The Building and Construction industry group experienced the largest decline of approximately \$63,000, or Restaurants and Hotels saw approximately \$50,000 or 8.2% increase due to recent new eateries opening in the City. This growth was offset by a decrease in Building and Construction of 35.5% or approximately \$63,000, or 22%. As of December 31, 2019, the City’s sales tax is approximately 47% of the annual budget. At this time, City staff are not requesting an adjustment and will continue to monitor the activities for the remainder of the fiscal year.

Effective October 1, 2019, companies such as Amazon, eBay and Google who provide sales tax related services to other retailers are required to assume the obligation for collecting and remitting their client's sales and use tax. The Marketplace provision was part of AB 147 which was adopted to implement California's approach to the U.S. Supreme Court decision in South Dakota v. Wayfair Inc. AB 147 requires out-of-state retailers with annual combined sales of \$500,000 or more to now collect and remit this state's sales and use tax from its customers. Applying the \$500,000 threshold to the sum total of all the third-party transactions that facilitators process for their clients, is hoped to produce moderate gains in previously uncollected revenues for the state, cities, counties, and local transaction tax districts. Facilitator tax remittances from merchandise inventoried in California will be allocated to specific jurisdictions while receipts from deliveries outside of the state will be distributed via the pools based on respective share of the pool. As of the last reporting quarter Cupertino's share of the County pool was 7.0%.

Property Tax revenue has come in higher than the same time last year by \$427,112, or 6%. Residential use values increased 5.8%, or \$881.5 million and represented 38% of all growth experienced in the City. Commercial properties posted an increase of \$20.9 million or a year-over-year increase of 0.3%. Unsecured assets in Cupertino decreased 7.8% or \$138 million on forty (40) fewer bills that were reported this year. Many of the additions and movements between sites of assets owned by Apple Inc. contributed to this shift. At this time, staff do not recommend an adjustment to the annual property tax estimation.

Transient Occupancy Tax has come in \$1,111,955, or 35%, higher than last year's mid-year point. Increases in Transient Occupancy Tax (TOT) revenues are a result of the Hyatt House that opened in April 2019. Additionally, the City's voluntary collection agreement with Airbnb to collect TOT, which began in August 2018, has continued to experience growth (approximately \$450,000 annually). Staff have estimated total TOT revenues for FY 19-20 at \$9.7 million and currently anticipate meeting and/or exceeding the estimation by fiscal year-end. The Cupertino Village Hotel, approved by City Council on July 16, 2019, and the De Anza Hotel, will be brought to City Council for approval on March 3, 2020, do not have an anticipated opening date; however, would likely generate an estimated \$2.2 million in additional annual TOT revenue for the City. Staff will continue to monitor and report back as part of the third-quarter financial report.

Utility Tax is up approximately \$130,500 or 11% mainly due to a large increase in utility revenue coming from Silicon Valley Clean Energy Authority and 3 Phases Renewables.

Other Taxes have decreased by approximately \$16,000, or 2%, primarily due to receiving penalties and interests related to late payment penalties from Apple Inc. last fiscal year offset by an increase in Property Tax Transfers.

Franchise Fees have increased by \$50,000, or 8%, primarily due to an increase in Recology franchise fees collected.

Licenses and Permits increased by \$1.57 million, or 91%, due to permit fees for Vallco Town Center.

Use of Money and Property increased by \$89,000, or 9%, due to increased interest earnings from the City's investment portfolio and an increase in antenna site rental rate for the Service Center.

Intergovernmental Revenue has increased by \$42,000, or 33%, due primarily to an increase of State Mandated Cost reimbursements received.

Charges for Services have increased by \$538,000, or 10%, primarily due to increases in Engineering fees for Public Works' plan reviews.

Fines and Forfeitures have decreased \$30,000, or 17%, primarily due to fewer citations administered in the current year. Additionally, the City experienced a higher volume of administration citation appeal hearings at the mid-point last fiscal year compared to fiscal year 2019-20.

Miscellaneous revenue has increased by \$112,000, or 12%, due primarily to an increase to an ongoing donation from Apple Inc. to fund additional law enforcement services.

Transfers In have increased by \$2,000, or 20% due to a transfer in from the Tree Fund.

Other Financing Sources is down \$1 million, or 86%, due to last fiscal year's increase in refundable deposit administrative fees collected due to the Vallco Specific Plan.

Expenditures

As of mid-year, overall expenditures in the General Fund are down by \$8.4 million, or 17%, when compared to the same time last year due to an \$8 million transfer from the General Fund to the Capital Reserve in FY 2018-19. The following table shows the differences between General Fund expenditures as of the mid-year in the current fiscal year and the prior fiscal year:

Comparison of FY 2018-19 General Fund Mid-Year Expenditures to FY 2019-20

Expenditure Category	Mid-Year 2019	Mid-Year 2020	Variance	% Change
05 - Employee compensation	\$ 8,470,928	\$ 8,767,818	\$ 296,890	4%
10 - Employee benefits	3,499,014	3,770,254	\$ 271,240	8%
15 - Materials	2,107,880	2,621,548	\$ 513,668	24%
20 - Contract services	9,581,857	10,863,901	\$ 1,282,044	13%
25 - Cost allocation	4,684,112	4,893,239	\$ 209,127	4%
30 - Capital outlays	417,937	68,424	\$ (349,513)	-84%
31 - Special projects	2,606,450	809,324	\$ (1,797,126)	-69%
45 - Transfer out	19,358,912	10,539,557	\$ (8,819,355)	-46%
50 - Other financing uses	133,765	95,957	\$ (37,808)	-28%
Grand Total	\$ 50,860,854	\$ 42,430,022	\$ (8,430,832)	-17%

Salary and Benefits increases are approximately \$568,000, or 5%, due primarily to labor negotiations approved by Council on July 16, 2019. Increases in salary, driven by cost of living adjustments as well as equity adjustments, can be anticipated for the span of the negotiation term ending June 30, 2022.

Materials costs are up approximately \$514,000, or 24%, due primarily to the San Jose Water and PG&E service increases over the previous fiscal year. Additionally, the Innovation & Technology Department experienced increases in materials spending, primarily related to the acquisition of Accela, the City's new land use management system.

Contract Services have increased approximately \$1.3 million, or 13%, due primarily to increased costs for the City's contract with the Santa Clara County Sheriff. Administrative Services Department experienced an increase in insurance fees, claims, and premiums, specifically related to a settlement agreement. Additionally, contracting out of the City Attorney's Office contributed significantly to the increase over the prior year.

Cost Allocation increases are approximately \$209,000, or 4%, due primarily to increases in Administrative Services charges.

Capital Outlay costs are down approximately \$350,000, or 84%, due to streets and Creekside building maintenance expenditures in fiscal year 2018-19 that weren't incurred in the current fiscal year.

Special Projects decreases are approximately \$1.8 million, or 69%, primarily due to costs associated with the Water System Assessment, Apple Campus 2 and Vallco Specific Plan in fiscal year 2018-19 that were not incurred in fiscal year 2019-20.

Transfers Out decreases are approximately \$8.8 million, or 46%, due to an \$8 million transfer from the General Fund to the Capital Reserve as part of Mid-Year in fiscal year 2018-19 and in accordance with the City’s one-time fund balance policy.

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

All Other Funds Update and Year End Projections

Revenue

As of mid-year, revenue in all other funds is tracking at \$37.9 million, or 15%, lower than the same time last year due primarily to an \$8 million transfer into the Capital Reserve as part of Mid-Year in fiscal year 2018-19 and in accordance with the City’s one-time fund balance policy.

Revenue Category	Mid-Year 2019	Mid-Year 2020	Variance	% Change
30 - Other taxes	\$ 423,241	\$ 272,115	\$ (151,126)	-36%
40 - Use of money and property	560,793	787,109	226,317	40%
45 - Intergovernmental revenue	1,336,028	1,644,959	308,931	23%
50 - Charges for services	5,468,758	5,221,710	(247,048)	-5%
55 - Fines and forfeitures	12,912	7,243	(5,669)	-44%
60 - Miscellaneous	54,743	3,518,419	3,463,676	6327%
65 - Transfers in	36,511,162	26,244,557	(10,266,605)	-28%
70 - Other financing sources	249,143	192,360	(56,783)	-23%
Grand Total	\$ 44,616,780	\$ 37,888,473	\$ (6,728,308)	-15%

Other Taxes decreased approximately \$151,000, or 36%, due to decreases in storm drain fees, park dedication fees, and housing mitigation fees.

Use of Money and Property increased by approximately \$226,000, or 40%, due to increased interest earnings from the City’s investment portfolio.

Intergovernmental Revenue increased by approximately \$309,000, or 23%, due primarily to an increase in our Transportation Fund collections of Vehicle Registration Fees, Highway User’s Tax, and SB1 Road Maintenance and Rehabilitation funding.

Charges for services decreased approximately \$247,000, or 5%, primarily due to a reduction in Innovation and Technology Infrastructure and GIS allocated services.

Fines and forfeitures decreased approximately \$5,700, or 44%, due to a decreased volume in citations administered over the prior year.

Miscellaneous revenue increased approximately \$3,500,000, or 6327%, due primarily to an Apple Grant received to fund various CIP projects for bikeways, trails, and sidewalks.

Transfers In decreased approximately \$10.3 million, or 28%, primarily due to last fiscal year's defunded CIP projects and \$8 million transfer into the Capital Reserve from the General Fund.

Other financing sources decreased approximately \$56,800, or 23%, due to a reduction in workers' compensation cost allocation plan charges offset by an increase in proceeds received from the sale of vehicles and equipment that had reached their useful lives.

Expenditures

As of first quarter, overall expenditures are tracking at \$32.7 million or 5% higher than the same time last year due primarily to increases in compensation and capital outlays.

Expenditure Category	Mid-Year 2019	Mid-Year 2020	Variance	% Change
05 - Employee compensation	\$ 2,005,689	\$ 2,284,933	\$ 279,245	14%
10 - Employee benefits	1,317,747	1,457,873	140,126	11%
15 - Materials	741,731	769,283	27,553	4%
20 - Contract services	2,975,516	3,178,757	203,241	7%
25 - Cost allocation	1,029,449	1,492,657	463,208	45%
30 - Capital outlays	2,036,118	4,562,889	2,526,770	124%
31 - Special projects	3,589,972	2,905,295	(684,678)	-19%
40 - Debt services	45,604	-	(45,604)	N/A
45 - Transfer out	17,162,250	15,717,000	(1,445,250)	-8%
Grand Total	\$ 30,904,076	\$ 32,368,687	\$ 1,464,611	5%

Salary and Benefits increases are approximately \$419,000 or 12% due primarily to labor negotiations approved by Council on July 16, 2019. Increases in compensation, driven by cost of living adjustments as well as equity adjustments, can be anticipated for the span of the negotiation term ending June 30, 2022.

Materials have increased approximately \$28,000, or 4%, and is due to various minor fluctuations. City staff performed a zero-base budget in fiscal year 2019-20 and as a result, minor reclassifications of expenditures were made and are attributed to the increase.

Contract Services have increased approximately \$203,000, or 7%, due, but not limited to increases for tennis camps and related activities within the Parks & Recreation Department. Innovation & Technology Department's Infrastructure Division experienced increases due to the re-engineering of the compute and applications infrastructure for the City.

Cost Allocation increased approximately \$463,000, or 45%, due primarily to increases in the Innovation & Technology charges due to additional one-time project expenses.

Capital Outlays increased approximately \$2.5 million, or 124%, due to a number of projects progressing including, but not limited to, McClellan West Parking Lot Improvements and 2016 Bike Plan Implementation.

Special Projects decreased approximately \$685,000, or 19%, due to decreases in annual asphalt project spending, offset with increase in vehicle/equipment spending or fixed asset acquisition.

Debt Service, Transfers Out decreased approximately \$1.5 million, or 8%, due to less capital project funding outside of the Capital Projects Fund in respect to the previous fiscal year.

Budget Adjustment Requests

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

Fund	Department	Expense	Revenue	Fund Balance	Proposal
GENERAL FUNDS					
100 General Fund	Parks & Recreation	\$ 6,000	\$ -	\$ (6,000)	BBF Freezer
100 General Fund	Parks & Recreation	\$ 5,280	\$ -	\$ (5,280)	Hidden Treasures
100 General Fund	Parks & Recreation	\$ 7,920	\$ -	\$ (7,920)	Hidden Treasures
100 General Fund	Community Development	\$ 14,650,000	\$ 22,538,435	\$ 7,888,435	Vallco Town Center Construction Plan Check
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100 General Fund	Public Works	\$ 60,000	\$ -	\$ (60,000)	Street Lighting - Contract Services
100 General Fund	Public Works	\$ 45,000	\$ -	\$ (45,000)	Street Lighting - Materials
100 General Fund	Public Works	\$ 42,500	\$ -	\$ (42,500)	Sr. Ctr. Fire Sprinkler System Repair
100 General Fund	Public Works	\$ 100,000	\$ -	\$ (100,000)	Traffic Calming
100 General Fund	Public Works	\$ 12,205	\$ -	\$ (12,205)	BBF Tree Removal
100 General Fund	Non-Departmental	\$ 352,719	\$ -	\$ (352,719)	Transfer for Library Expansion Project
100 General Fund	Non-Departmental	\$ 20,000,000	\$ -	\$ (20,000,000)	Transfer Excess Fund Balance to Capital Reserve
TOTAL GENERAL FUNDS		\$ 43,758,334	\$ 32,048,517	\$ (11,709,817)	
CAPITAL PROJECT FUNDS					
420 Capital Improvement Fund CIP		\$ 1,400,000	\$ -	\$ (1,400,000)	Sports Center Interior Improvements
420 Capital Improvement Fund CIP		\$ 705,438	\$ 705,438	\$ -	Library Expansion Project
429 Capital Reserve	Non-Departmental	\$ 352,719	\$ -	\$ (352,719)	Transfer to CIP for Library Expansion Project
429 Capital Reserve	Non-Departmental	\$ -	\$ 20,000,000	\$ 20,000,000	Transfer in fund balance from the General Fund
TOTAL CAPITAL PROJECT FUNDS		\$ 2,458,157	\$ 20,705,438	\$ 18,247,281	
TOTAL ALL FUNDS		\$ 46,216,491	\$ 52,753,955	\$ 6,537,464	

Blackberry Farm Freezer – The walk-in freezer at the Blackberry Farm Café is broken and requires new coils and repair in order to be operable for the upcoming season, which begins in May 2020. Costs related to this repair are estimated at \$6,000. With 435 season pass holders, 19,000 drop in swimmers, and 178 picnic reservations, the café is a critical component of the operation which generates approximately \$53,000 in revenue annually. The replacement cost of the freezer is approximately \$24,900 and would have a similar useful life compared to simply replacing the coils and repairing the current unit.

Hidden Treasures - The Hidden Treasures event at the Senior Center takes in donations from the community and then in turn sells the donations on the last Thursday in October. For the past sixteen (16) years, the Senior Center has been using these funds for the Case Management Program and for the Stay Active Fund. These case management funds provide vital resources for clients and members by meeting individual client’s needs, member’s presentations and lectures, and events such as the health fair. The Stay Active Fund is a scholarship that helps offset the cost of Senior Center membership, and a class and event to those residents who are in need. Staff requests the use of the \$13,200 revenue brought in during the Hidden Treasures event to continue to provide resources to resident members and for the Stay Active Fund Scholarship.

Vallco Town Center – City Council approved the contracts with CSG Consultants, Inc, Independent Code Consultants, Inc., and 4LEAF, Inc. on February 18, 2020. As a result

of the services to be rendered by the contractors and the estimated fees to be received from the Developer, City staff recommend a corresponding budget adjustment.

The following is a summary of cost proposals provided by the selected firms. The Plan Review consultants will receive 65% of the calculated plan review while the City will collect the remaining 35%. The Inspection firm will receive 75% of the calculated building permit fees while the City will collect the remaining 25%. The negotiated 75% is substantiated due to the additional administrative support services provided by the vendor which include, but are not limited to, inspection scheduling, reporting, project management, and document management.

Additionally, and as a component of the Public Works related inspections, additional pass-thru dollars will be required to fund a full-time inspector on site. This \$2,001,076 estimated portion will be administered through a deposit made by the Developer in which the City will retain a 15% admin fee.

Over the estimated three-year contract period, total revenues of \$32,048,517, expenditures of \$22,057,710, and an increase to fund balance of \$9,990,807 are anticipated. The excess fund balance will be used to fund staffing costs related to the review, inspection, administrative, and overhead work associated with the project.

Vallco Specific Plan - The City Council took actions in September 2019 to modify the development allocations at the Vallco Shopping District Special Area. At that time, the Council directed staff to begin preparation of a Specific Plan for the Vallco Special Area that would allow for additional housing and further modifications to the development allocations. Council also directed staff to approach the property owner to determine whether they would be interested in an alternate development. Total estimated cost of preparing a specific plan is \$1,069,000 and includes \$170,000 for legal fees, \$174,000 for community outreach, \$150,000 for environmental review, \$500,000 for design reveies and \$75,000 for transportation.

Street Lighting – Staff is requesting a total of \$105,000 for a master agreement with a contractor to make unforeseen repairs to the existing street light infrastructure system. \$45,000 of the total request will be used to purchase the necessary materials to accommodate the infrastructure repairs.

Senior Center Fire Sprinkler System Repair – On December 30, 2019, a fire sprinkler valve failed at the Cupertino Senior Center. This failure necessitated taking the fire alarm panel offline and required that the City hire a vendor to monitor that building for fires. Code requires that the individual performing this duty, termed fire watch (FW), be

performed 24-hours per day until the fire alarm panel is reactivated. If FW was not performed, all programs and classes at the Senior Center would have ceased until the fire alarm panel was reactivated. The valve repair was completed and the panel was reactivated on January 14, 2020. The total cost of this request is \$42,500.

Traffic Calming – The Transportation Division regularly receives requests from residents for help in addressing speeding and cut-through traffic. The \$100,000 request will address speeding and cut-through traffic on City residential streets through the implementation of traffic calming measures. Funds will enable to staff to perform data collection in the field, prioritize streets for improvements, and construct improvements. Additionally, this request will increase safety for vehicles, bicycles, and pedestrians as well as the quality of life for the adjacent property owners.

Blackberry Farm Tree Removal – The trail connecting the Stocklmeir Property to Blackberry Farm has one dead pine tree and one oak tree that has a severe lean to it. Recently, the tree has been leaning more. The tree leans over the walking path and out over the 8th hole at the Blackberry Farm golf course. The requested funds will be used to have a contractor remove the trees that have become a safety hazard. Staff requested the services of an on-call arborist to which they recommended immediate removal.

Sport Center Interior Improvements (CIP) - This project will upgrade/modernize the interior of the Sports Center in three areas; renovate the women's locker room and shower, renovate the men's locker room and shower and renovate the front lobby counter. The last major upgrades to the building were in 2004 and the facility is in need of some minor upgrades due to wear - & - tear. This project also includes \$170,000 for ADA improvements required by the Building Code. The improvements proposed will improve the user experience and attract new users. This project was previously funded in 2017-18 with additional funding added in 2018-19. This project was defunded on October 16, 2018 in order to fund the New City Hall and Interim City Hall projects. The project budget of \$1,400,000 was estimated based on the architect's estimate of probably costs plus 10% contingency and soft costs to complete the design and manage the project during constructions. The expected bid date is June 2020 with start of construction in September 2020. Improvements are expected to be complete before the increased gym usage in January.

Transfer to Capital Reserve – Staff are recommending a \$20,000,000 transfer of excess General Fund fund balance to the Capital Reserve for purpose of funding current and future capital projects.

Library Expansion Project – As part of the FY 2019-20 Capital Improvement Program budget, a \$5,000,000 funding amount was allocated for the Library Expansion Project. At the November 19, 2019 City Council meeting, an additional \$3,000,000 was appropriated for the Library Expansion Project. This was initiated via a three (3)-year interfund advance from the General Fund. For many years, the City of Cupertino has provided funding for twelve (12) additional hours for the Cupertino Community Library. The City and the Library JPA have agreed to apportion this funding in FY 2019-20 and FY 2020-21 toward the Library Expansion Project and the GoGo Biblio Program (\$117,000 annually). Accordingly, the City transferred \$352,719 from the General Fund to the Capital Reserve for purposes of funding the cost of the project. Staff are recommending an additional transfer of \$352,719 from the General Fund to the Capital Projects Fund as well as an increase in Library Expansion Project budget from \$8,000,000 to \$8,705,438.

Section 115 Trust (PRSP) – Staff are recommending an additional contribution of \$4,000,000 to the City's Section 115 Trust (Pension Rate Stabilization Program). The City established this trust with PARS in 2018 for purposes of 1) maintaining local control over assets, 2) mitigating impact of large pension cost fluctuations, 3) potential for higher investment returns than General Fund, and 4) asset diversification. The trust's assets are required to be used to pay CalPERS for related retirement costs; however, at this time, staff do not anticipate drawing down from this trust in the near future. In 2018, the City made an additional contribution of \$8,000,000 and had recommended funding \$2 million annually for five (5) years. With this strategy, the trust would accumulate sufficient funds to pay the difference between a 7% and 6.25% discount rate, or approximately \$42 million. With a \$4 million contribution in FY 2019-20, the City will be on schedule to address this funding gap by 2037.

Other Requests Not Included in the FY 2019-20 Mid-Year Report

Bike Boulevard Improvements (CIP) – The 2016 Bicycle Transportation Plan identifies improvements to enhance and promote safer transportation in the City. Bike boulevards will provide a network of Class III shared bike routes along local residential streets, enhanced with traffic calming features to maintain low traffic volumes and speeds, providing bicycle-friendly alternatives to busy roadways. Improvements include sidewalk, curb ramps, bulb-outs, bollards, speed tables and roadway markings. Enhancing bicycle lane visibility improves bicycle safety, facilitates livability and promotes alternative modes of transportation. Included in the 2016 Bicycle Transportation Plan (\$7,266,000) is \$1.4 million for Bike Boulevard Implementation. The original estimate was based on a conceptual cost estimate from the 2016 Bicycle Transportation Plan which was based on statewide average costs and did not

adequately reflect Bay Area pricing. In retrospect, it does not appear that those costs adequately accounted for soft costs to design and implement the improvements. In addition, the Bay Area has experienced double digit escalation per year since those estimated were prepared. As the project scopes were finalized and the exact nature of the improvements were designed, it became apparent that additional storm drainage facilities needed to be included which significantly impacted the cost. The additional \$3.4 million that is necessary to fully fund the project will be included as part of the FY 2020-21 Capital Improvement Program Budget.

Stevens Creek Blvd Class IV Bikeway Phase 2 Project (CIP) - Phase 1 was anticipated to be completed from east City limits to Wolfe Rd. and evaluate the performance, driver reaction, and design. After a suitable evaluation period, staff would then implement Phase 2 (Wolfe to Hwy 85) and include any and all “lessons learned” from Phase 1. The estimated cost of \$650,000 includes approximately \$100,000 for a part-time consultant project manager to manage the project throughout design. This is the top ranked project in the 2016 Bicycle Transportation Plan. No new bicycle projects are proposed for fiscal year 2020-21 and as a result, this should not push back or take any other project off the list. The additional \$650,000 that is necessary to fully fund the project will be included as part of the FY 2020-21 Capital Improvement Program Budget.

Staffing

The Amended Budget as of December 31, 2019 has a total of 199.75 FTEs. There are no proposed changes to staffing as part of the Mid-Year Report.

Fund Balance

The City’s General Fund ended FY 2018-19 with \$58.92 million in total fund balance. As part of the FY 2019-20 Adopted Budget, the City projected ending the fiscal year with \$46.63 million in total fund balance. As of the First Quarter Report, the City updated its year-end projections for FY 2019-20 to \$63.21 million in total fund balance, an increase of \$16.6 million due to increases in revenues received and lower expenditures in FY 2018-19. Projected year-end fund balance as of mid-year FY 2019-20 estimated to be \$49.93, a reduction of \$13.28 million from the first quarter projections due primarily to a one-time transfer out of \$20 million to the Capital Improvement Program Reserve Fund.

General Fund Classification of Fund Balance

CLASSIFICATION	Actuals 2017-18	Year End Projection 2018-19	Adopted Budget 2019-20	1st Quarter	Mid-Year End
				Year End Projection 2019-20	Projection 2019-20
Non Spendable	0.46	0.45	0.46	0.46	0.45
Restricted	1.25	9.47	9.24	9.47	14.02
Committed	19.12	19.12	19.12	19.12	19.12
Assigned	9.96	1.98	5.01	5.01	3.23
Unassigned	21.70	27.90	12.80	29.15	13.11
TOTAL FUND BALANCE	52.51	58.92	46.62	63.21	49.93

To date, the City's outside auditors have not completed their review of the City's financials. Revenue, expenditure, and fund balance totals listed in this report are preliminary and subject to change after a full review by the City's auditors. City Staff does not anticipate many, if any, changes to these figures.

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

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

Cash & Investments

The City's cash and investment balance as of December 31, 2019 was \$146.2 million. This comprised 13.2% cash, 14.1% LAIF, 4.3% money market funds, 6.4% Asset-backed Securities, 22.8% Agency Notes, 1.4% Commercial Paper, 3.1% Foreign Corporate, 0.5% Municipal Bonds, 2/8% Negotiable CDs, 15.5% Corporate Notes, and 15.9% US Treasuries. In accordance with California Government Code section 53646(3) the City maintains the ability to meet its expenditure requirements for the next six (6) months. As a result, a certain degree of liquidity is necessary within an agency's portfolio.

Performance Measures

Updated performance measures that align with government and private industry best practices have been included in the Mid-Year Financial Report. Staff will continue to provide updates to Council on the performance measures as part of the Mid-Year Budget Report, including prior year totals and current year results through December. Attachment C represents the status of the performance measures as of Mid-Year.

Conclusion

The Mid-Year Financial Report shows the City is well-positioned to move forward. City staff recommends adjustments of \$46,216,491 in new appropriations funded by \$52,753,955 in revenues. \$32,048,517 of the revenues pertain to fees received for Vallco Town Center and \$20,000,000 as an internal transfer from the General Fund to the Capital Reserve to assist in funding current and future capital projects. If approved, the City's fund balance will increase by \$6,537,464.

Prepared by: Zach Korach, Finance Manager

Reviewed by: Kristina Alfaro, Director of Administrative Services

Approved for Submission by: Deborah L. Feng, City Manager

Attachments:

A – Draft Resolution

B – Mid-Year Financial Report for Fiscal Year 2019-20

C – Mid-Year Performance Measures

D – Mid-Year Budget Adjustment Journal