



## ADMINISTRATIVE SERVICES DEPARTMENT

CITY HALL  
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### CITY COUNCIL STAFF REPORT

Meeting: June 16, 2020

#### Subject

Public hearing to consider and approve the Capital Improvement Plan (CIP); and the Recommended Budget for Fiscal Year (FY) 2020-21; and the Adoption of the Recommended Budget; and Establishment of the Appropriation Limit, and related actions; or take other action to approve interim expenditures.

#### Recommended Action

1. Adopt Resolution No. 20-\_\_\_\_ establishing an Operating Budget for FY 2020-21
  - a. Approve Community Funding Requests of \$34,000 as included in Attachment E
  - b. Approve budget adjustments as presented in Attachment E
  - c. Approve conversion from limited-term to permanent for Senior Management Analyst in Administrative Services Department
  
2. Adopt Resolution No. 20-\_\_\_\_ establishing a Capital Improvement Program budget of \$1,807,000 for FY 2020-21.
  - a. Approve \$1,589,449 of transfers out from the Capital Reserve to fund the Capital Improvement Program budget in FY 2020-21 as noted below:
    - \$200,000 to Transportation Special Revenue Fund
    - \$1,030,000 to Capital Improvement Projects Capital Projects Fund
    - \$50,000 to Blackberry Farm Golf Course Enterprise Fund
    - \$25,000 to Cupertino Sports Center Enterprise Fund
    - \$284,449 to Recreation Programs Enterprise Fund
  - b. Approve \$217,551 of transfers out of the General Fund to fund the Capital Improvement Program budget in FY 2020-21 as noted below:
    - \$217,551 of Public Safety Power Shutoff (PSPS) funds to Recreation Programs Enterprise Fund
  
3. Adopt Resolution No. 20- \_\_\_\_ establishing an Appropriation Limit of \$109,062,934 for FY 2020-21

### Description

The California Government Code requires a Public Hearing be held prior to the adoption of the City's budget. The purpose of the public hearing is to provide an opportunity for residents to voice their opinions on the City's budget and the appropriations limit. In prior years the budget hearing and adoption were held in separate meetings. California Government Code permits the budget hearing and adoption of budget to take place in the same meeting. Staff is recommending Council do both at the same meeting for FY 2019-20. Council will first hold the public hearing then after the public hearing is closed, move to consider budget adoption. In addition, Article XIII B of the California Constitution established appropriations limits on government agencies within California. Originally established by Proposition 4 in 1979, the appropriations limit places a maximum limit on the appropriations of tax proceeds that can be made by the state, school districts, and local governments in California.

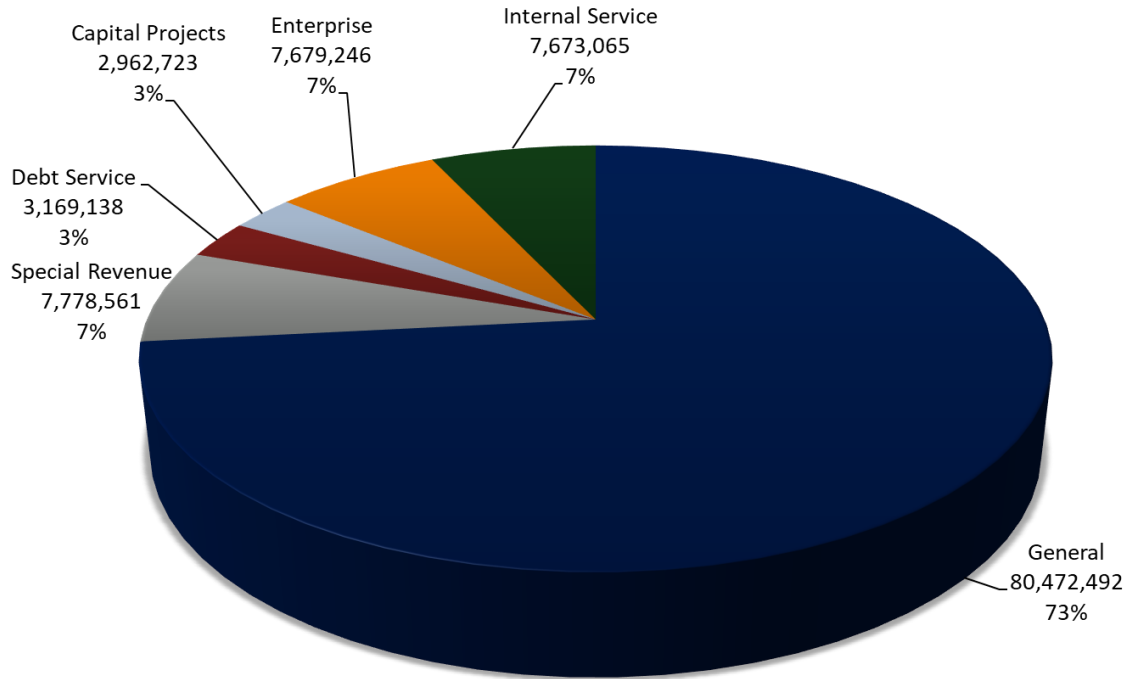
### Fiscal Impact

The Proposed Budget reflects a total City budget of \$109.7 million, a decrease of \$40.8 million or 27% when compared to the FY 2020 Adopted Budget. The City's General Fund is proposed at \$80.5 million, representing a \$0.4 million, or 0.5% increase over the FY 2020 Adopted Budget. As part of the City's budget balancing strategies, staff anticipate achieving \$800,000 of vacancy savings in FY 2020-21 which would result in additional fund balance for the General Fund. The General Fund is funded through the use of General Fund revenue of \$79.1 million, \$1.4 million of unassigned fund balance, and is projected to end FY 2021 with approximately \$16.1 million in unassigned fund balance that may be transferred to the Capital Reserve per the Reserve and One Time Use Policy as part of the City's FY20-21 Mid-Year Financial Report. The transfer is not reflected in the Proposed Budget.

COVID-19 has significantly impacted the FY 20-21 Proposed Budget process. The budget process, which was originally slated to be the City's first biennial budget, commenced in November 2019 and the preliminary data was nearly complete leading up to the pandemic outbreak in March 2020. As a result, City staff have been reviewing the information and data within each of the Department budgets to identify budget savings opportunities. The information to follow in this report reflects the proposed budget with significant adjustments made to each Fund and Department. Attachment E provides a comprehensive reconciliation from the figures in the printed Proposed Budget as of May 1, 2020 with the adjusted figures included in this staff report.

<b>Fund Type</b>	<b>Total Proposed Expenditures</b>	<b>Total Proposed Revenue</b>	<b>Change in Fund Balance/Net Position</b>
<b>General</b>	\$ 80,472,492	\$ 79,060,125	\$ (1,412,367)
<b>Special Revenue</b>	\$ 7,778,561	\$ 12,026,210	\$ 4,247,649
<b>Debt Service</b>	\$ 3,169,138	\$ 3,169,138	\$ -
<b>Capital Projects</b>	\$ 2,962,723	\$ 1,030,000	\$ (1,932,723)
<b>Enterprise</b>	\$ 7,679,246	\$ 6,967,042	\$ (712,204)
<b>Internal Service</b>	\$ 7,673,065	\$ 5,051,334	\$ (2,621,731)
<b>Total</b>	<b>\$ 109,735,225</b>	<b>\$ 107,303,849</b>	<b>\$ (2,431,376)</b>

### FY 2020-21 Proposed Budget by Fund



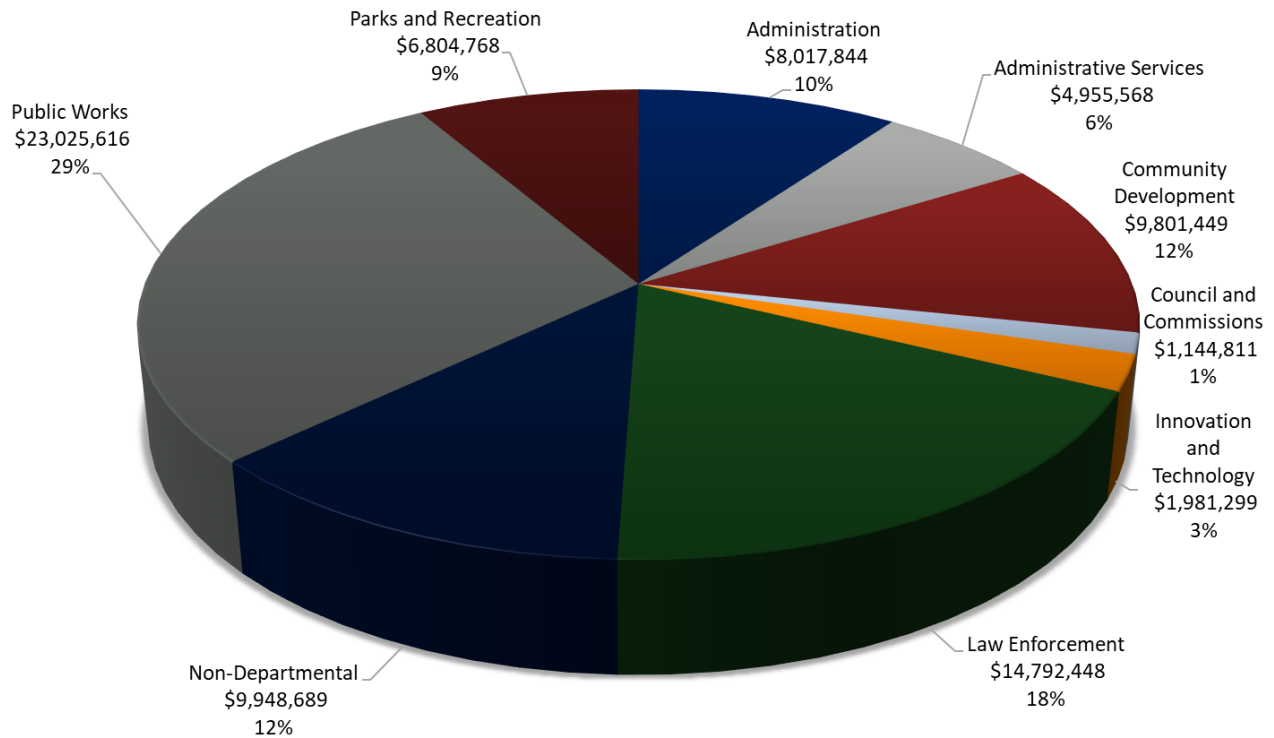
#### General Fund

The General Fund is the City's primary operating fund. It accounts for basic services such as public safety, public works, planning and development, park maintenance, code enforcement, and the administrative services required to support them. The fund generates revenue from the City's discretionary funding sources (e.g., property tax, sales tax, transient occupancy tax and utility tax). As a rule, general fund resources are used only to fund operations that do not have other dedicated (restricted) funding sources. Operations that rely heavily upon non-general fund resources, such as street maintenance, solid waste collection, and recreation are accounted for in other funds. Information on these funds may be found in the Other Funds section of this document.

FY 2020-21 Proposed General Fund Budget by Category  
 \$80,472,492

As illustrated in the following chart, the majority of the General Fund supports costs for Public Works, Community Development, and Law Enforcement.

**Expenditures by Department - General Fund**



General Fund expenditure estimates total \$80.5 million. The printed proposed budget as of May 1, 2020 presented General Fund expenditures at \$82.3 million. This represents a decrease of \$1.8 million due to department reductions in compensation, materials, contract services, contingencies, special projects, and transfers. What is not included in the \$80.5 million is the anticipated \$800,000 is vacancy savings. When factored in, total reductions from the proposed budget as of May 1, 2020 amounts to approximately \$2.6 million in the General Fund.

**General Fund Revenue**

For FY 2020-21, General Fund revenue estimates (excluding fund balance) total \$79.1 million, representing an \$8.0 million, or 9.2% decrease from the FY 2019-20 Adopted Budget. Decreases in revenue are due to COVID-19 impacts on the City’s sales tax and transient occupancy tax. The following table represents the total General Fund revenue:

GENERAL FUND REVENUE SUMMARY					
	FY 17-18	FY 18-19	FY 19-20	FY 20-21	Percent
REVENUES	Actuals	Actuals	Adopted	Proposed	Change
Sales Tax	26,164,531	24,901,779	25,637,093	20,910,889	-18.4%
Property Tax	22,433,806	25,301,094	24,703,218	25,353,783	2.6%
Transient Occupancy	6,810,718	8,901,337	9,666,056	7,546,884	-21.9%
Utility Tax	3,146,398	3,089,921	3,198,644	3,223,712	0.8%
Franchise Fees	3,563,820	3,445,253	3,162,457	3,280,447	3.7%
Other Taxes	1,339,860	1,659,916	1,181,050	1,212,939	2.7%
Licenses & Permits	2,757,929	4,102,665	2,524,000	3,139,473	24.4%
Use of Money & Propert	1,342,626	2,680,997	1,330,579	1,246,510	-6.3%
Intergovernmental	1,000,777	473,942	354,547	335,567	-5.4%
Charges for Services	10,548,179	10,977,805	13,233,225	11,091,064	-16.2%
Fines & Forfeitures	575,032	511,472	615,000	425,000	-30.9%
Miscellaneous	8,559,972	2,783,761	1,494,283	1,293,857	-13.4%
<b>TOTAL REVENUES</b>	<b>88,243,646</b>	<b>88,829,941</b>	<b>87,100,152</b>	<b>79,060,125</b>	<b>-9.2%</b>

### General Fund – Fund Balance

The General Fund unassigned fund balance is projected to decrease from the current year estimate of \$17.5 million to \$16.1 million in FY 2021. Unassigned fund balance means that is has not been earmarked for a specific purpose. As shown in the chart below, the FY 2021 ending fund balance is estimated to be \$52.0 million, or 2.6% lower than the FY 2020 year-end estimate. The decrease in unassigned fund balance is due to anticipated declines in revenues streams due to COVID-19. These declines are offset by mitigation efforts to reduce department appropriations.

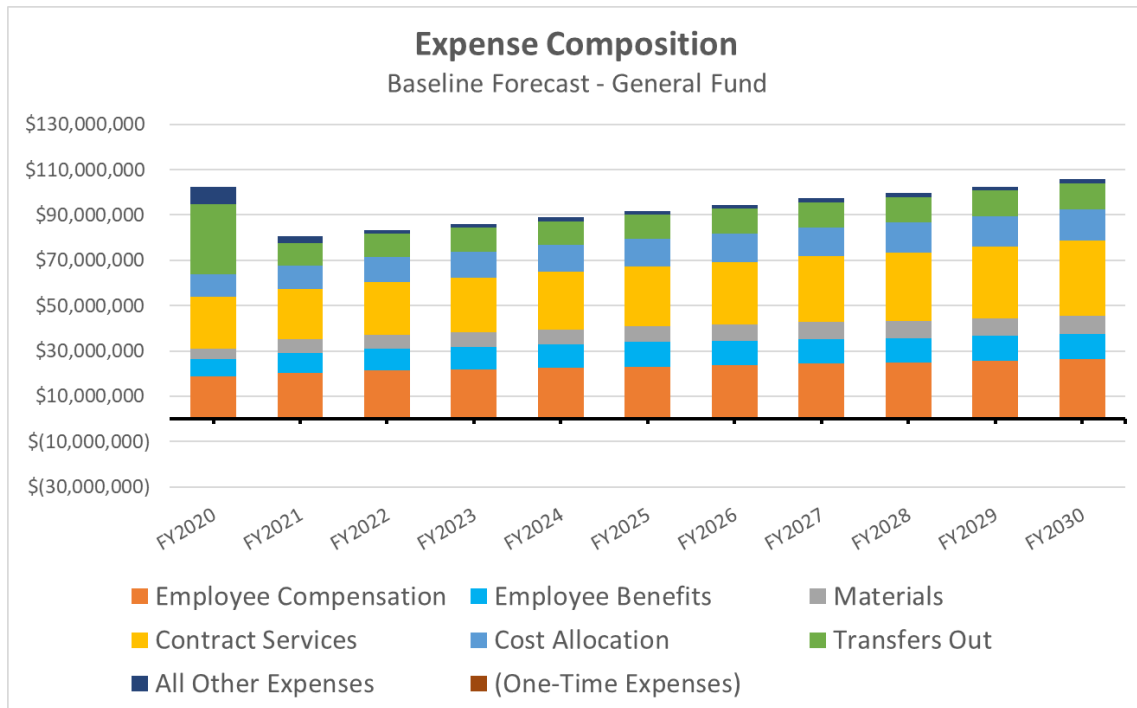
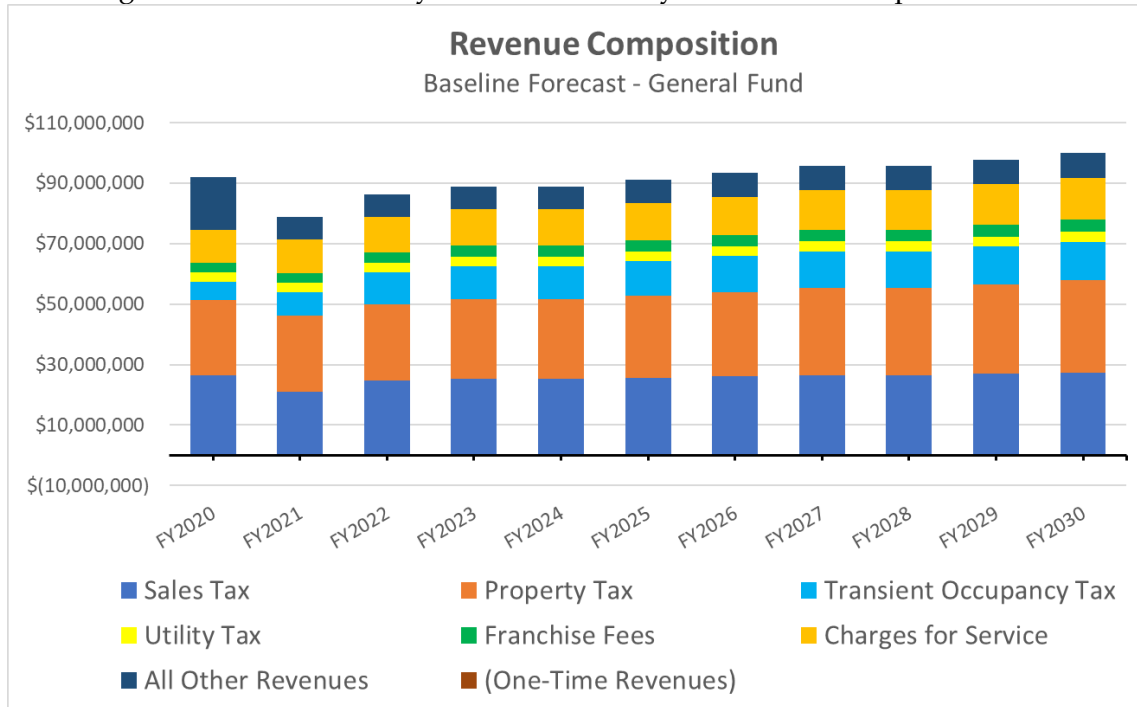
The following table shows changes to fund balance for the General Fund since the close of FY 2017-18:

GENERAL FUND FUND BALANCE					
	FY 17-18	FY 18-19	FY 19-20	FY 20-21	Percent
Classification	Actual	Actual	Estimated	Proposed	Change
Unassigned	\$ 21,704,922	\$ 27,896,128	\$ 17,500,000	\$ 16,096,633	-8%
All Other Classification	30,805,535	31,026,457	35,938,546	35,929,546	0%
<b>Total Fund Balance</b>	<b>\$ 52,510,457</b>	<b>\$ 58,922,585</b>	<b>\$ 53,438,546</b>	<b>\$ 52,026,179</b>	<b>-2.6%</b>

After steep declines in sales tax and transient occupancy tax, we see conservative growth with relatively full recovery achieved in FY 2022-2023. The City's FY 2020-2021 forecast model assumes two recessionary periods during the 10-year range in which revenues reflect zero growth. One-time revenues from development projects in the City and the addition of new hotels are not included in the forecast at this time.

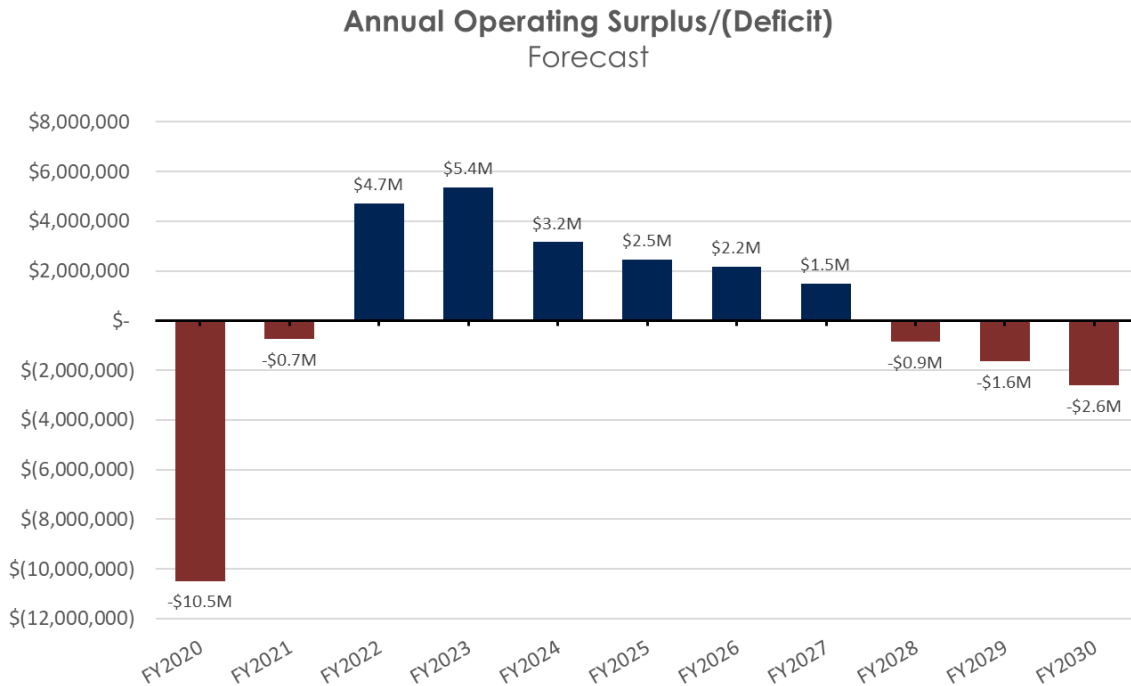
General Fund expenditures are expected to grow at a higher rate in the forecast due primarily to increasing costs for CalPERS and the City's sheriff contract. With expenditures are growing at a faster rate than the City's revenues, the forecast model reflects this structural deficit pattern subsequent to full recovery in FY 2022-23. In the year immediately following the ten-year range, the City's annual debt service payment for Civic Center will be fully repaid and an additional \$3.1 million will be saved annually.

The following charts reflects the 10-year forecast of City revenues and expenditures.



The following chart reflects a 10-year forecast of General Fund annual operating surpluses/deficits. We see the COVID-19 and recessionary recovery period through fiscal year 2022-2023; however, we see annual declines in operating surplus before experiencing a deficit in FY 2027-2028. This is indicative of a structural deficit resulting from expenditures increasing at a

higher rate than revenues. It is important to note that this forecast does not include any potential revenue associated with Vallco Town Center and three new hotels that are being proposed but not yet permitted in the City.



*Special Revenue Funds*

Special Revenue Funds are a fund type used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. Special Revenue Funds account for 7% of the citywide expenditure budget. The largest Special Revenue Fund accounts for streets, roads, and transportation. Other funds account for storm drain management, affordable housing programs, and park development. The Proposed Budget for Special Revenue Funds for FY 2021 is \$7.8 million, which is a \$2.0 million decrease from FY 2020 Adopted Budget primarily due to a reduction in new annual pavement and sidewalk, curb and gutter projects. FY 2019-20 appropriations will be carried over and expended in FY 2020-21, relieving the need to add new funding appropriations. As a result, staff are recommending a decrease in appropriations from the printed proposed budget as of May 1, 2020 of \$2.8 million.

COVID-19 impacts to Special Revenue Fund revenues are relatively minimal in respect to impacts experienced in the General Fund. Gasoline excise taxes will be increasing, effective July 1, 2020, by 6.76% and representing two years work of inflationary increases. This will greatly assist in offsetting any decreases in gasoline consumption during FY 2020-21.

Budgets within the Special Revenue Funds are funded by \$8.0 million in restricted department revenue, and \$4.0 million in transfers from the General Fund and Capital Reserve, bringing total funding sources for the fund to \$12.0 million. This will result in a projected increase to fund

balance of \$4.2 million. The Special Revenue Funds are projected to end the year with fund balances of approximately \$27.0 million.

*Capital Projects Funds*

The Capital Improvement Project Fund, Stevens Creek Corridor Park Fund, and Capital Reserve Fund are currently in the Capital Projects Fund type category. This fund type is typically used to account for financial resources that are used for the acquisition or construction of major capital facilities or to provide facilities for City departments and are identified in the five-year Capital Improvement Program (CIP).

The Proposed budget for the Capital Projects Funds for FY 2020-21 is \$2,962,723, projected to decrease by \$34.9 million due to a significant reduction in proposed projects considering the unprecedented uncertainty surrounding COVID-19. The following changes to the Proposed CIP Budget are recommended below:

*Regnart Creek Trail (Privacy Fencing Improvements)*

Current funded amounts for fencing are \$150,000 for properties abutting the trail on Lozano / De Palma Lanes and \$60,000 for other properties adjacent to the creek. Lozano and De Palma property fence enhancements are being designed with materials other than wood. Per the direction provided by Council last September, all other fence enhancements are to be constructed with a standard 7' tall wood fence. Some residents continue to express concerns that standard wood fencing will not adequately address sound issues. At the June 2<sup>nd</sup> Council CIP study session, discussion occurred to increase the fencing budget by \$200,000 to address this concern. In response, Public Works considered the following:

- Effects of trail use to private property noise levels
- Equity requirement to offer similar fence enhancements to each property based on proximity of trail to property
- Cost
- Creek trail environment

The below table provides a summary of fence options to attenuate noise and the budget increase needed if directed.



Type of Fencing	Number of Properties	Linear Feet	Cost per Foot	Cost to Construct	Location of Fencing	Additional Budget Needed
Double sided 7' tall wood fencing with mass load vinyl	28+/-	2080	\$125	\$260,000	Majority of properties immediately abutting the trail only ( <i>no fence improvements for properties on opposite side of trail</i> )	\$200,000
Double sided 7' tall wood fencing with mass load vinyl	33	2674	\$125	\$334,250	All properties immediately abutting the trail only ( <i>no fence improvements for properties on opposite side of trail</i> )	\$274,250

Note: Single sided wood fence unit cost is \$55 per foot.

*Quinlan Community Center/Multi-Site Sustainable Infrastructure Upgrade*

This project is revised to an estimated project cost of \$502,000 which will be funded by \$217,551 of Public Safety Power Shutoff grant relief funds received. An opportunity for \$255,000 in grant funding from Silicon Valley Clean Energy Authority is also likely to be a possible funding source, for a net proposed budget of \$30,000. Two projects were presented to Council at the June 2nd CIP study session: \$59,500 to evaluate the HVAC equipment for this designated Cooling Center, and one for installing a permanent emergency generator. Council expressed interest in alternatives that might reduce the need for fossil fuel generators and requested that Staff reconsider the costs of various studies. Staff believes that by combining the two critical needs into one integrated design process, the City can achieve the desired outcomes at a lower overall cost and maximize the grant funding which emphasizes low-carbon technologies. The net request after grant funding is \$30,000 to initiate the integrated design process and deliver a package of options for Council. Once an investment-grade audit is complete, a financing package with an energy services company will be presented to Council with the best life-cycle cost options to consider. Staff estimates the total capital cost to be in the range of \$900,000 - \$1.5M that would have a payback period of 10-12 years. Additional appropriations that may include external funds will be needed in the future.

The Capital Projects Funds have approximately \$36.0 million in unencumbered appropriations to be spent on existing, on-going capital projects. Currently, the City's capital reserve has approximately \$3.6 million available for funding new projects. If the FY 2020-21 proposed CIP

projects are approved, approximately \$1.7 million in Capital Reserve fund balance will remain. Any projects that may occur subsequent to the approval of this budget and exceed the available capital reserve will require additional funding sources not identified in this report.

#### *Enterprise Funds*

Enterprise Funds are set up for specific services that are funded directly by fees charged for goods or services. Enterprise Funds consist of Resource Recovery for the solid waste collection franchise, Blackberry Farm for the City-owned golf course, the Cupertino Sports Center, and Recreation Programs for cultural, youth, teen, sports, and physical recreation programs.

The proposed budget for Enterprise Funds for FY 2020 is \$7.7 million, a decrease of \$3.8 million from the FY 2020 Adopted Budget. Budgets within the Enterprise Funds are funded by \$4.1 million in program revenue and \$2.9 million in transfers from the General Fund and Capital Reserve, and \$0.7 million from retained earnings. Enterprise funds are anticipating significant declines in both program revenues and expenditures over the previous fiscal year due to COVID-19. Since the printed proposed budget as of May 1, 2020, Enterprise Fund revenues are recommended to be decreased by \$2.0 million and expenses decreased by \$1.9 million. This is primarily due to impacted operations such as Blackberry Farm, aquatics program, senior program, and sports center operations.

#### *Internal Service Funds*

Internal Service Funds are used for areas where goods or services are provided to other City departments or governments on a cost-reimbursement basis. Internal Service Funds include funds and programs for information technology, workers' compensation, equipment, compensated absence, long-term disability, and retiree medical insurance.

The Proposed Budget for the Internal Service Funds is \$7.7 million, which is \$0.2 million lower than the FY 2020 Adopted Budget. This decrease is primarily attributable to a reduction in the acquisition of fixed assets over the previous fiscal year. Budgets within Internal Service Funds are funded by \$4.6 million in department revenue, \$0.5 million in transfers from the General Fund, and \$2.6 million from a combination of depreciation reserves and retained earnings.

### **STAFFING**

#### *Personnel Assumptions*

The increases in compensation in the FY 2021 Proposed Budget include negotiated cost of living and equity adjustments and cost increases in retirement and health.

In addition, budgeted personnel expenditures factor in salary step increases for approximately 48% of employees who have yet to reach the top step in their classification's salary range. Typically, a step increase is equivalent to a five percent increase in salary with a range of five salary steps. These projections do not include any cost of living (COLA) or equity adjustments.

*New Position Requests*

A total of 203.75 positions are proposed in FY 2020-21. Prior to COVID-19, the City was anticipating bringing a number of new position requests to City Council over a three-year period; however, given the level of fiscal uncertainty surrounding COVID-19, the City has removed all position requests in FY 2020-21. As the COVID-19 situation evolves, City staff will bring forward requests for City Council approval as more information becomes available for purposes of making informed decisions.

<b>FY 2019-20 Adopted Budget</b>	<b>202.75</b>
Maintenance Worker I/II	1.00
<b>FY 2020-21 Proposed Budget</b>	
None	0.00
<b>FY 2020-21 Benefitted Positions</b>	<b>203.75</b>

In the past, staff recommended adding positions only on a limited term basis unless staff was confident that the needed level of service would be permanent, or ongoing revenues could support the position long term, or staff could not recruit and/or retain the staff resource on a limited term basis. The City currently has five (5) limited-term positions; however, considering each position’s term-end date, staff are requesting that only the Senior Management Analyst in the Administrative Services Department be converted to a permanent basis. As more information becomes available during this time of unprecedented uncertainty, staff will reassess and bring additional position requests at that time.

<b>Department</b>	<b>Position</b>
Administrative Services	Senior Management Analyst

**SUMMARY OF BUDGET ADJUSTMENTS (ATTACHMENT E)**

City staff presented budget balancing strategies to City Council as part of the Proposed Budget Study Session on May 19, 2020. These included 10% reduction to materials, \$1 million reduction in contract services, 50% reduction in contingencies, as well as \$800,000 in vacancy savings. Subsequent to the Proposed Budget Study Session, Departments reviewed their respective budgets and submitted reduction requests to align with the proposed budget balancing strategies. As a result, the tables below present the expenditures reductions at the “Fund” and “Department” levels:

<b>Fund Summary</b>	<b>Change Amount</b>
<b>General Fund Total</b>	<b>\$ (1,480,069)</b>
<b>Special Revenue Fund Total</b>	<b>\$ (2,999,235)</b>
<b>Enterprise Fund Total</b>	<b>\$ (1,906,406)</b>
<b>Internal Service Fund Total</b>	<b>\$ (704,964)</b>
<b>Grand Total</b>	<b>\$ (7,090,674)</b>

<b>Department Summary</b>	<b>Change Amount</b>
<b>Administration</b>	<b>\$ (145,778)</b>
<b>Administrative Services</b>	<b>\$ (173,444)</b>
<b>Innovation &amp; Technology</b>	<b>\$ (157,130)</b>
<b>Community Development</b>	<b>\$ (42,500)</b>
<b>Parks &amp; Recreation</b>	<b>\$ (2,599,397)</b>
<b>Public Works</b>	<b>\$ (3,972,425)</b>
<b>Grand Total</b>	<b>\$ (7,090,674)</b>

After taking these reductions into account, contingencies and operating transfers were recalculated, which resulted in further budget decreases of \$183,347 and \$172,449, respectively. All City Council actions pertaining to the FY 2020-21 City Council Work Program were incorporated in the adjustments above.

### **COMMUNITY FUNDING**

The Parks & Recreation Commission held a regular meeting on June 4, 2020 and reviewed funding request applications. The Commissioners ranked and selected organizations to be recommended for funding in accordance with the City's Community Funding Policy. The Commission recommends funding the top three highest ranked organizations (1-3), amounting to \$34,000 which is included in the General Fund expenditure figures in this staff report. The next three highest ranked organizations (4-6) were recommended for funding if City Council determines sufficient funding in the General Fund be available. If City Council approves funding for organizations ranked 4-6, an additional \$30,000 would be allocated for a total Community Funding budget of \$64,000.

Community Funding Requests	
<i>Tier 1 - Approved</i>	
Breathe CA	\$ 4,000
WVCS	\$ 20,000
Euphrat Museum	\$ 10,000
<b>Subtotal</b>	<b>\$ 34,000</b>
<i>Tier 2 - If Funding is Available</i>	
Elevate the Future	\$ 3,000
Rotary Club	\$ 12,000
Deer Hollow Farm	\$ 15,000
<b>Subtotal</b>	<b>\$ 30,000</b>
<b>Grand Total</b>	<b>\$ 64,000</b>

## ONGOING CHALLENGES

### *Retirement Benefits*

Cupertino provides retirement benefits for its employees through the California Public Employee’s Retirement System (CalPERS). Poor investment returns during the Great Recession and actuarial assumption changes have increased the gap between the pension system’s assets and liabilities, resulting in the overall funded status of the system falling significantly. The funded status as of June 30, 2019 is estimated at 69%, down from 71% over the prior year due to lower than expected investment returns.

In the last several years, CalPERS has taken steps to improve its long-term financial sustainability. In February 2018, the CalPERS board voted to decrease the amortization period for new pension liabilities from 30 years to 20 years effective July 1, 2019. In addition, 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. The decrease in the discount rate will considerably increase the City’s pension contributions. Because the impacts of the discount rate decreases will be smoothed over a 5-year period, the City’s contributions are projected to increase until FY 2024-25. The following table shows the City’s projected pension contributions from FY 2020-21 to FY 2025-26.

Projected Employer Contributions						
	FY20-21	FY21-22	FY22-23	FY23-24	FY24-25	FY25-26
Projected Payroll	\$ 19,490,834	\$ 20,026,831	\$ 20,577,569	\$ 21,143,452	\$ 21,724,897	\$ 22,322,332
Normal Cost (%)	11.3%	11.3%	11.3%	11.3%	11.3%	11.3%
Normal Cost	\$ 2,203,634	\$ 2,264,234	\$ 2,326,500	\$ 2,390,479	\$ 2,456,217	\$ 2,523,763
UAL Payment	\$ 3,607,122	\$ 4,056,000	\$ 4,448,000	\$ 4,724,000	\$ 5,001,000	\$ 4,775,000
Total Contribution	\$ 5,810,756	\$ 6,320,234	\$ 6,774,500	\$ 7,114,479	\$ 7,457,217	\$ 7,298,763
Total Contribution (%)	29.8%	31.6%	32.9%	33.6%	34.3%	32.7%

As of March 2020, CalPERS year-to-date earnings on investments were at -4%. Assuming CalPERS ends the year in a similar position, or in a position below the 7% desired target, the City can expect to see continued spikes in annual required contributions. The impacts from CalPERS

investment earnings would not be included in the City's actuarial reports until FY 22-23 and would be smoothed over a five-year period. If the FY 2019-20 investment return is 1 percentage point below the 7% assumption, the City's costs are projected to increase by up to \$130,000 per year (\$0.8 million total) in our 10-year forecast.

As part of the FY 2019 Adopted Budget, City Council approved the creation of a Pension Rate Stabilization Program (PRSP), a Section 115 Trust that will act to stabilize pension rate volatility and minimize the impact on the General Fund's operating budget from year to year. During FY 2019, the City contributed an initial investment of \$8.0 million to the trust. The FY 2021 Proposed Budget includes this \$8.0 million as well as an additional \$4M contributed during FY 2020 as restricted fund balance to provide stabilization.

#### *Revenue Volatility*

The City's revenue mix is heavily reliant on volatile business-to-business sales tax, which makes up a large portion of the City's annual General Fund revenues. Business-to-business sales taxes are very sensitive to economic fluctuations as evidenced by Cupertino's experience during the dotcom bust from 2000-2004. Our heavy reliance on the volatile high tech industry also makes us vulnerable. The loss of one of our top three sales tax producers in FY 2013-14 only made the City more reliant on a single tax producer, making us more vulnerable to its business volatility. COVID-19 is expected to significantly increase the volatility of the City's revenues in FY 2020-21; particularly its sales and transient occupancy taxes. While the overall reductions in these two categories (\$6.9 million) is sure to have a profound impact, the General Fund is well-positioned to absorb the temporary decline and withstand the economic recovery period into the future.

#### *Health Benefits*

There is uncertainty around potential repeal and replacement of the Affordable Care Act (ACA) and how it would affect health care costs. Rate increases have stabilized with the implementation of the ACA.

#### **Budget Study Session**

On May 19, 2020, the City Council held a Budget Study Session to review in detail the City Manager's FY 2020-21 Proposed Budget. At the study session, City staff presented General Fund revenues, expenditures and forecast models assuming further reductions to materials and contract services are made. While significant reductions to materials and contract services have been achieved, capital outlay and special projects have also decreased outside of the General Fund. Attachment E provides a comprehensive look at all of the reductions made to the printed proposed budget as of May 1, 2020.

#### **General Plan Consistency and Environmental Compliance of the Capital Improvement Plan**

State law and the Cupertino Municipal Code (Section 2.32.070.C) require the Planning Commission to review the CIP for consistency with the City's General Plan (General Plan: Community Vision 2015 - 2040). The Planning Commission is slated to review the FY 2020-21 Proposed CIP Budget on June 15, 2020. City staff will report on the Planning Commission's

analysis and recommendation to City Council as part of the Final Budget Hearing and Adoption on June 16, 2020.

Prepared by: Zach Korach, Finance Manager

Reviewed by: Kristina Alfaro, Director of Administrative Services

Approved for Submission by: Dianne Thompson, Assistant City Manager

Attachments:

A – Draft Resolution – Operating Budget for FY 2020-21

B – Draft Resolution – Capital Budget for FY 2020-21

C – Draft Resolution – Appropriation limit for FY 2020-21

D – CIP Project Narratives

E – Budget Adjustments Detail and Summary – Revenues, Expenditures, Contingencies and Transfers

F – Community Funding Applications