



CITY MANAGER'S OFFICE

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CITY COUNCIL STAFF REPORT

Meeting: October 20, 2020

Subject

FY 2020-21 Interim Budget and Key Projects Update

Recommended Action

Accept City Manager's Interim Budget and Key Projects Report

Discussion

While the Administrative Services Department will be providing the City's First Quarter Financial Report on November 17, 2020, a preliminary update on the budget and key projects would be appropriate due to the economic uncertainty related to the pandemic. In summary, General Fund revenue is materializing slightly above, and expenditures are in line with year-end projections. However, the future impacts of the pandemic are unknown and will continue to be monitored.

No recommendations are being made at this time to change course on the City's expenditure reduction strategy and year-end projections given all the uncertainty that remains in the economy.

Budget Update – General Fund

Revenue

Major revenue sources for the City in the first quarter of the fiscal year saw mixed results. An unexpected increase in sales tax revenue due to strong business to business sales as schools and businesses rushed to get ready for mass and prolonged telework provided a boost in this sector and overall sales tax for the City. As of September 30, 2020, the City recognized \$11.7 million in sales tax, which represents 56% of the total amount budgeted in FY 2020-21. It also represents an increase of 109% over the First Quarter of FY 2019-20.

Transient occupancy tax continued to be impacted from COVID-19 and the shelter-in-place orders. As of September 30, 2020, the City recognized \$238,000 in transient occupancy tax, which represents 3% of the total amount budgeted in FY 2020-21. It also represents a decrease of 86% over the First Quarter of FY 2019-20.

Property taxes came in \$25,000, or 61%, higher than last year but are within forecast range.

Charges for services revenue is down 40% from the same point last year driven mainly by decreases in the other services and general services fees and offset slightly by increases in planning fee revenue. The City had forecasted that this revenue category would experience a decrease of 16% in the current fiscal year.

While these revenue fluctuations are significant, at this time, the City does not anticipate the General Fund's total budgeted revenue to fall below original projections.

Expenditures

Actual expenditures in the General Fund are tracking about 4% lower than first quarter last fiscal year. This is driven mainly by savings in materials and contracts and offset by increases in retirement and workers' compensation costs. Expenditures are still within range of year-end estimates.

Fund Balance

General Fund fund balance is projected to end FY 19-20 at \$65.5 million, including \$28.4 million in unassigned fund balance. As of September 30, 2020, the General Fund fund balance is estimated to end the year with \$72.6 million, including \$31.7 million in unassigned. This projection also assumes additional contributions to the Pension Section 115 Trust in the current fiscal year.

These unassigned fund balance dollars may be used in many ways at City Council's discretion. The City may:

- 1) Retain the unassigned reserve in the General Fund to absorb impacts from COVID-19 and recessionary conditions into the future,
- 2) Transfer a reasonable amount to the Capital Reserve to fund future capital projects, and/or
- 3) Bolster General Fund reserves (economic uncertainty, natural disaster, pension).

Key Project Updates

During the City's Work Program development, Council requested updates on key projects identified as high priority. Some of those projects such as alternatives to City Hall, density bonus ordinance update, the golf course, secondhand smoke policies, and development accountability are included in the City Work Program, therefore those updates will be included in a City Work Program update in November. Updates for the remaining key projects that are not part of the City Work Program are listed below.

Regnart Creek Trail

Project plans are 95% complete and fence selections by residents have been finalized. Permits from the Department of Fish and Wildlife have been received, and the permit from Army Corps of Engineers is expected in November. Authorization of the joint use agreement and land swap with Valley Water will be considered by the Valley Water

Board in November. If the Department of Fish and Wildlife permit is received in November, and authorization of the agreement with Valley Water is finalized is received in November, the project will go out to bid in November/December and Council will consider authorization to award the construction contract in January/February 2021.

Transit Center at State Route 85 (SR 85) and Stevens Creek Boulevard

On October 1, 2020, the Valley Transit Authority (VTA) Board of Directors accepted the SR 85 Corridor Policy Advisory Board (PAB) recommendation for: 1) a transit lane project on SR 85; and 2) to proceed with an alternatives analysis. With this action, Alternative 3.2 Long Median Transit Lane will be further analyzed. The FY 20-21 VTA budget allocated \$2.5M for initial project steps including project definition, preliminary engineering, and outreach. The timing of when and how VTA will allocate \$350M of Measure B funds for this project is unknown. Many larger transit projects, such as BART to San Jose, have the potential to significantly delay the SR 85 project. The VTA PAB will provide continuing input into the analysis, future funding, and ultimately design and construction of the project.

Gateway Process

A Study Session was conducted on July 7, 2020 to receive input from City Council on General Plan Amendment authorization policy. Amendments are being prepared based on input from Council. A presentation to Planning Commission is planned for fall 2020 with City Council review and approval by winter 2020.

Vallco Engagement

No longer applicable due to the upheld SB 35 project. Any updates on the building permit status will be reflected on the City's website.

Library Expansion

City Council awarded the Design Build contract on August 18, 2020 and the Rodan/SVA Design Build team is proceeding with design development. Demolition of the existing single-story children's reading room is scheduled for February 2021. Completion of the two-story expansion is scheduled for December 2021.

Lawrence Mitty

On September 25, 2020, the City completed the purchase of the Lawrence-Mitty property. The City will begin work on annexation of the property into Cupertino and on planning documents that will be used in future improvement of the property. Annexation of the property is being coordinated with the City of San Jose and the Local Agency Formation Commission (LAFCO). The funds used for the purchase, as well as for future development of the property, were provided as part of the development agreement between the City and Apple for the Apple Park Campus project. At mid-year, staff will be requesting a budget appropriation to begin work on the specific plan that will be used to guide the development of the park.

Objective Standards

Proposed amendments are being evaluated. General Plan amendments for suggestions received from City Council and Planning Commission will be presented to the Council in winter 2020.

Sustainability Impact

No sustainability impact.

Fiscal Impact

No fiscal impact.

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