



## ADMINISTRATIVE SERVICES DEPARTMENT

CITY HALL  
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### CITY COUNCIL STAFF REPORT

Meeting: June 15, 2021

#### Subject

Public hearing to consider the Capital Improvement Program (CIP) and the Recommended Budget for Fiscal Year (FY) 2021-22; consider Adoption of the Budget for FY 2021-22; consider Establishment of the Appropriation Limit, and related actions; or take other action to approve interim expenditures.

#### Recommended Action

1. Adopt Resolution No. 21-\_\_\_\_ establishing an Operating Budget of \$122,615,187 for FY 2021-22 which includes the following changes to the FY 2021-22 Proposed Budget, published on May 1, 2021:
  - a. Approve the Proposed Funding requests of \$121,032,637 as outlined in the FY 2021-22 Proposed Budget.
  - b. Approve Community Funding Requests of \$95,900 and remove \$20,000 for Historical Society as a future base budget line item as included in Attachment E
  - c. Approve a \$518,250 reduction in appropriations for the City Manager Discretion Fund as included in Attachment E
  - d. Approve appropriations of \$313,000 for City Work Program items as included in Attachment E
  - e. Approve additional 4 full-time employees (Senior Planner, Permit Technician, Plan Check Engineer, and CIP Project Manager) and appropriations of \$754,992 as included in Attachment E
  - f. Approve \$66,794 of revenues and \$66,794 of appropriations for Community Development Block Grant (CDBG) final allocations as included in Attachment E
  - g. Approve \$500,000 of appropriations for Community Development Department legal costs as included in Attachment E
  - h. Approve \$63,376 of appropriations for City Hall Annex (10455 Torre) maintenance costs as included in Attachment E
  - i. Approve a \$65,000 reduction in appropriations for Stevens Creek Corridor Tree Inventory (operating) as included in Attachment E
  - j. Approve \$371,738 of appropriations and \$177,000 of revenues for library services as included in Attachment E
  - k. Approve budget adjustments as presented in Attachment E

2. Adopt Resolution No. 21-\_\_\_\_ establishing a Capital Improvement Program budget of \$26,230,048 for FY 2021-22
  - a. Approve appropriations of \$2,000,000 in the Minor Storm Drain Improvements Special Revenue Fund for the Pumpkin and Fiesta Storm Drain Project Phase 1 & 2 project
  - b. Approve appropriations of \$215,000 in the Transportation Special Revenue Fund for Homestead/De Anza – Construction project
  - c. Approve appropriations of \$3,000,000 in the Park Dedication Special Revenue Fund for the Memorial Park - Pond Repurposing project
  - d. Approve appropriations of \$1,150,000 in the Park Dedication Special Revenue Fund for the Memorial Park – Amphitheater Improvements project
  - e. Approve appropriations of \$500,000 in the Park Dedication Special Revenue Fund for the Memorial Park – Specific Plan Design project
  - f. Approve appropriations of \$3,000,000 in the Capital Improvement Program Capital Projects Fund for the 10445 Torre Avenue Improvements project
  - g. Approve appropriations of \$750,000 in the Capital Improvement Program Capital Projects Fund for the Blackberry Farm Pool Improvements project
  - h. Approve appropriations of \$75,000 in the Capital Improvement Program Capital Projects Fund for the Carmen Road Bridge Right-of-Way project
  - i. Approve appropriations of \$500,000 in the Capital Improvement Program Capital Projects Fund for the City Hall and Community Hall Improvements – Programming & Feasibility project
  - j. Approve appropriations of \$408,000 in the Capital Improvement Program Capital Projects Fund for the Electric Vehicle Parking Expansion project
  - k. Approve appropriations of \$350,000 in the Capital Improvement Program Capital Projects Fund for the Full-sized Outdoor Basketball Court project
  - l. Approve appropriations of \$80,000 in the Capital Improvement Program Capital Projects Fund for the Stelling and Alves Crosswalk Installation project
  - m. Approve appropriations of \$2,000,000 in the Capital Improvement Program Capital Projects Fund for the Stevens Creek Boulevard Class IV Bikeway Phase 2 - Construction project
  - n. Approve appropriations of \$50,000 in the Capital Improvement Program Capital Projects Fund for the City Lighting LED Transition Assessment project
  - o. Approve appropriations of \$65,000 in the Capital Improvement Program Capital Projects Fund for the Tree Inventory – Stevens Creek Corridor project
  - p. Approve appropriations of \$90,000 in the Capital Improvement Program Capital Projects Fund for the ADA Improvements project
  - q. Approve appropriations of \$300,000 in the Capital Improvement Program Capital Projects Fund for the Annual Playground Replacement project
  - r. Approve appropriations of \$200,000 in the Capital Improvement Program Capital Projects Fund for the Park Amenity Improvements project
  - s. Approve appropriations of \$75,000 in the Capital Improvement Program Capital Projects Fund for the Street Light Installation – Annual Infill project

- t. Approve \$11,422,048 of transfers out from the Capital Reserve to fund the Capital Improvement Program budget in FY 2021-22
3. Adopt Resolution No. 21- \_\_\_\_ establishing an Appropriation Limit of \$114,666,491 for FY 2021-22

#### 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 21-22. 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.

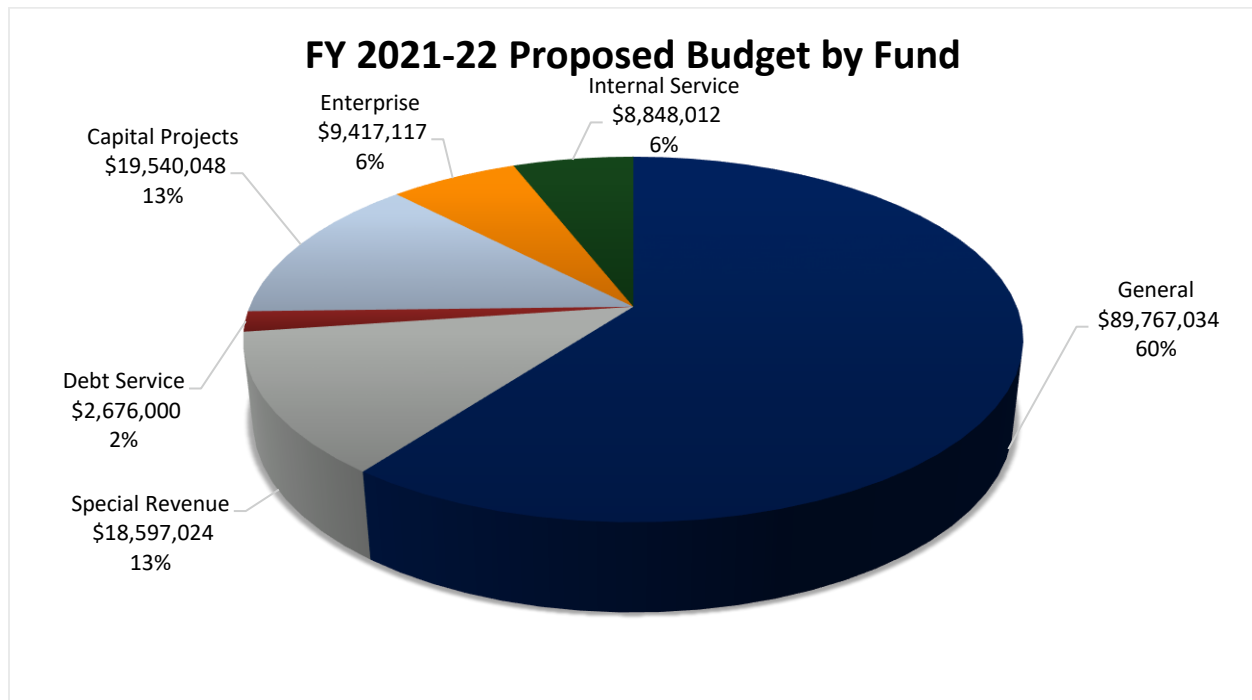
#### Fiscal Impact

The Proposed Budget reflects a total City budget of \$148.8 million, an increase of \$38.8 million or 35% when compared to the FY 20-21 Adopted Budget. The City's General Fund is proposed at \$89.8 million, representing a \$9.6 million, or 12%, increase over the FY 20-21 Adopted Budget. These increases are a result of significant FY 20-21 budget reduction strategies in response to COVID-19. Since the onset of the pandemic, the City's revenues have come in higher than anticipated and as a result, the City is well-positioned to recommend budget items that were previously deferred. The General Fund is funded through the use of General Fund revenue of \$89.6 million, \$0.1 million of unassigned fund balance, and is projected to end FY 21-22 with approximately \$37.0 million in unassigned fund balance. This balance may be transferred to the Capital Reserve per the Reserve and One Time Use Policy as part of the City's FY 21-22 Mid-Year Financial Report. The transfer is not reflected in the Proposed Budget.

Fund Type	Total Proposed Expenditures		Total Proposed Revenue		Change in Fund Balance/Net Position
<b>General</b>	\$	89,767,034	\$	89,647,891	\$ (119,143)
<b>Special Revenue</b>	\$	18,597,024	\$	19,130,289	\$ 533,265
<b>Debt Service</b>	\$	2,676,000	\$	2,621,000	\$ (55,000)
<b>Capital Projects</b>	\$	19,540,048	\$	7,943,000	\$ (11,597,048)
<b>Enterprise</b>	\$	9,417,117	\$	6,821,379	\$ (2,595,738)
<b>Internal Service</b>	\$	8,848,012	\$	6,687,399	\$ (2,160,613)
<b>Total</b>	\$	148,845,235	\$	132,850,958	\$ (15,994,277)

FY 2021-22 Proposed Budget by Fund  
\$148,845,235

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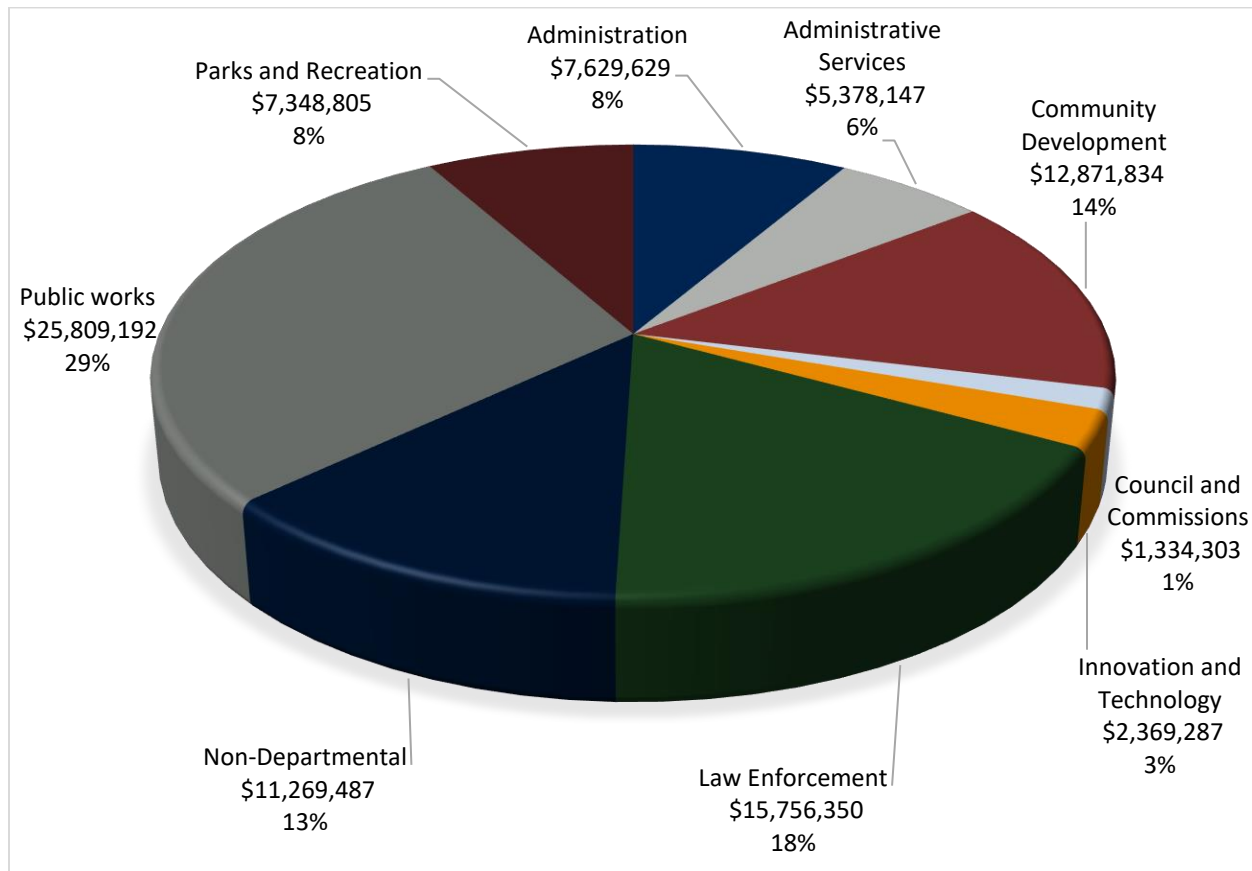
**General Fund**

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 2021-22 Proposed General Fund Budget by Category  
\$89,767,034

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



General Fund expenditure estimates total \$89.8 million. The printed proposed budget as of May 1, 2021 presented General Fund expenditures at \$88.1 million. This represents an increase of \$1.7 million due to the inclusion of:

- City Hall Annex (\$63,376),
- Community Funding (\$95,900),
- Library Services (\$371,738),
- 4 full-time employee requests (\$754,992),
- CDD legal costs (\$500,000),
- A reduction for Stevens Creek Corridor Tree Inventory (\$65,000),
- City Work Program items (\$425,500), and
- A reduction of City Manager Discretionary Fund (\$518,250).

## General Fund Revenue

For FY 2021-22, General Fund revenue estimates (excluding fund balance) total \$89.6 million, representing a \$10.6 million, or 13.4% increase from the FY 20-21 Adopted Budget. This increase is due to anticipated revenue declines in FY 20-21 due to COVID-19 as well as anticipated American Rescue Plan Act revenues in FY 21-22. The following table represents the total General Fund revenue:

GENERAL FUND REVENUE SUMMARY					
REVENUES	2018-19 Actuals	2019-20 Actuals	2020-21 Adopted	2021-22 Proposed	Percent Change
Sales Tax	24,901,779	35,657,215	20,910,889	27,855,559	33.2%
Property Tax	25,301,094	26,606,844	25,353,783	27,840,341	9.8%
Transient Occupancy	8,901,337	7,286,083	7,546,884	3,000,000	-60.2%
Utility Tax	3,089,921	3,182,087	3,223,712	3,245,447	0.7%
Franchise Fees	3,445,253	3,418,909	3,280,447	3,380,986	3.1%
Other Taxes	1,659,916	1,402,002	1,212,939	1,248,720	2.9%
Licenses & Permits	4,102,665	4,692,845	3,139,473	3,140,195	0.0%
Use of Money & Property	2,680,997	4,189,877	1,246,510	1,249,220	0.2%
Intergovernmental	473,942	747,942	335,567	5,093,946	1418.0%
Charges for Services	10,977,805	11,986,328	11,091,064	12,047,922	8.6%
Fines & Forfeitures	511,472	327,833	425,000	225,000	-47.1%
Miscellaneous	2,783,761	11,681,108	1,293,857	1,320,555	2.1%
<b>TOTAL REVENUES</b>	<b>88,829,941</b>	<b>111,179,073</b>	<b>79,060,125</b>	<b>89,647,891</b>	<b>13.4%</b>

## General Fund – Fund Balance

The General Fund unassigned fund balance is projected to decrease from the current year estimate of \$39.1 million to \$37.0 million in FY 21-22. Unassigned fund balance means that is has not been earmarked for a specific purpose. As shown in the chart below, the FY 21-22 ending fund balance is estimated to be \$83.1 million, or -0.1% lower than the FY 20-21 year-end estimate.

The following table shows changes to fund balance for the General Fund since the close of FY 2018-19:

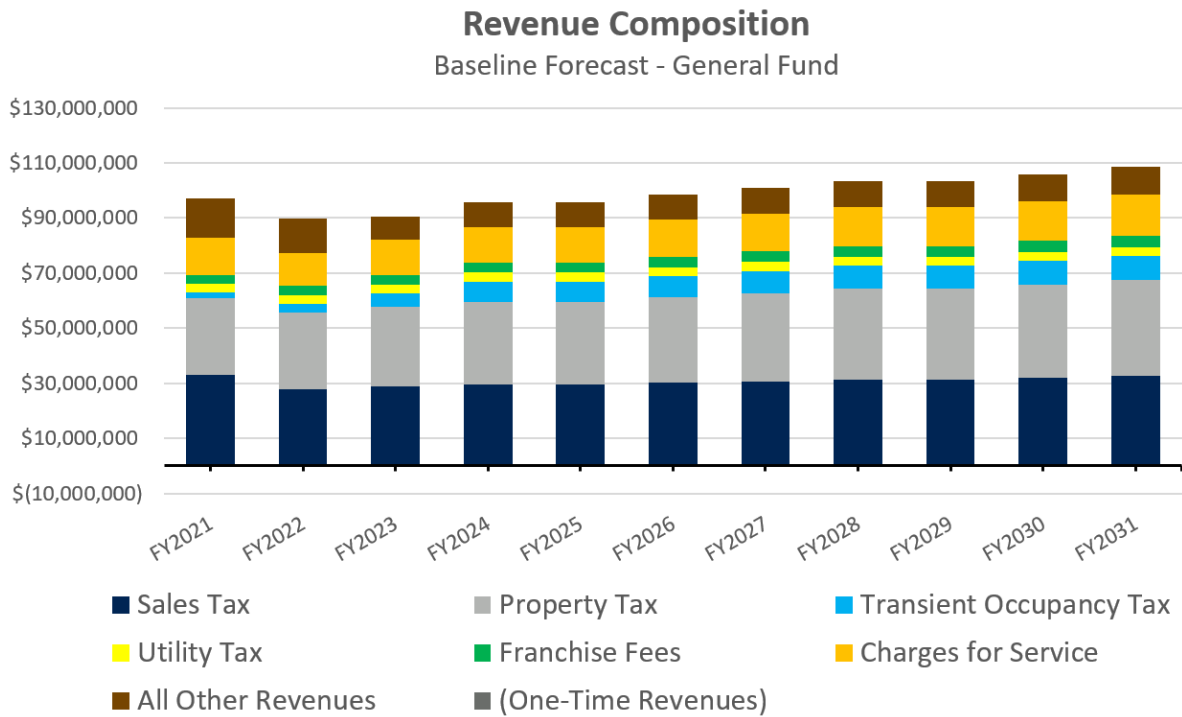
GENERAL FUND FUND BALANCE					
Classification	FY 18-19 Actual	FY 19-20 Actual	FY 20-21 Estimated	FY 21-22 Proposed	Percent Change
Unassigned	\$ 27,896,128	\$ 34,426,942	\$ 39,125,447	\$ 37,011,304	-5%
All Other Classification	\$ 31,026,457	\$ 40,078,871	\$ 44,134,009	\$ 46,129,009	5%
<b>Total Fund Balance</b>	<b>\$ 58,922,585</b>	<b>\$ 74,505,813</b>	<b>\$ 83,259,456</b>	<b>\$ 83,140,313</b>	<b>-0.1%</b>

FY 20-21 is estimated to end with revenues in excess of expenditures. This is primarily due to the strong performance of sales tax throughout the pandemic. As the State continues to recover and businesses continue opening, it is anticipated that sales tax revenues will decline in respect to recent experience. The FY 21-22 forecast model assumes a three-year recovery before moderate

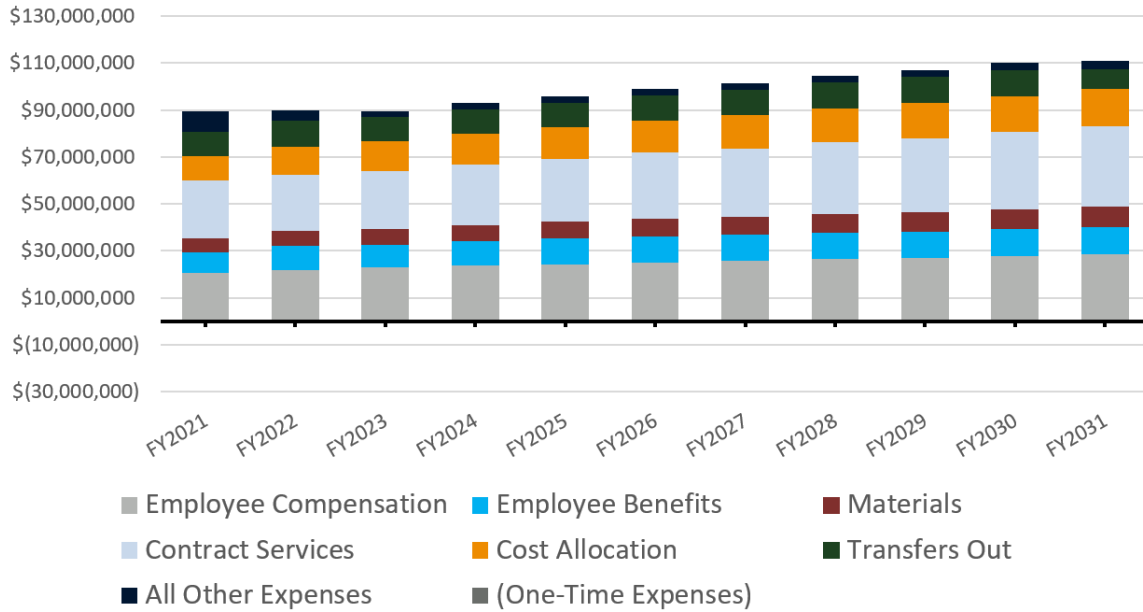
growth is assumed annually. The City's forecast model assumes two recessionary periods during the 10-year range in which revenues reflect zero growth. One-time revenues from development projects in the City and the addition of new hotels are not included in the forecast at this time.

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 2023-24. In the final year of the 10-year range, the City's annual debt service payment for Civic Center will be fully repaid and an additional \$2.7 million will be saved annually.

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

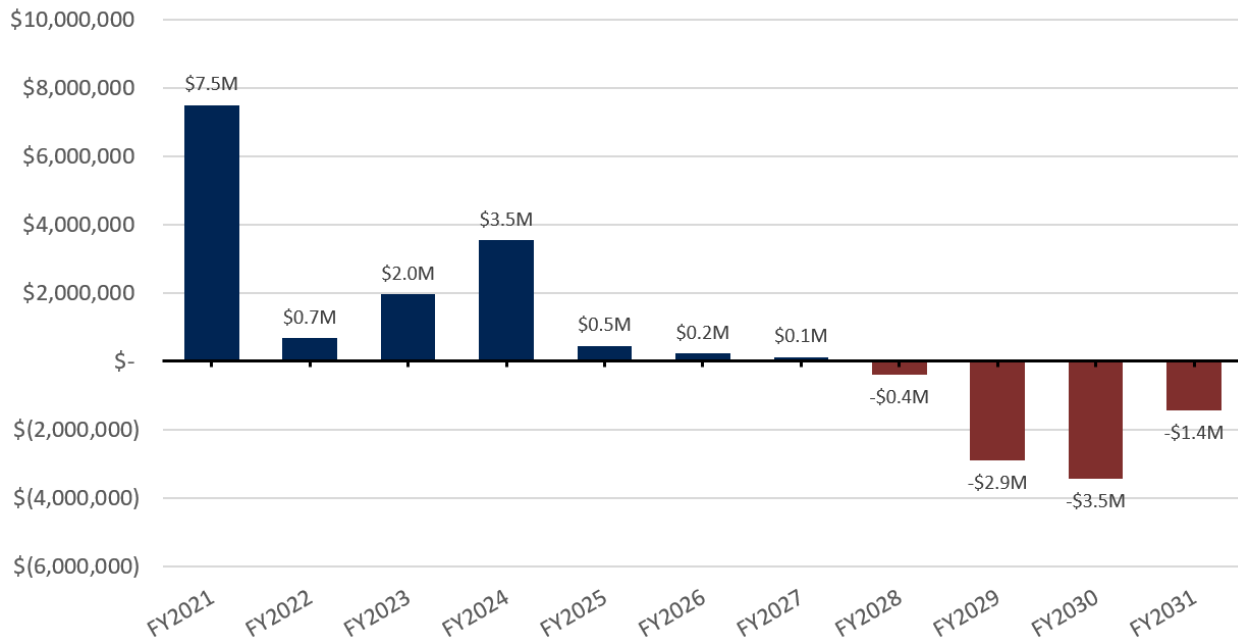


### Expense Composition Baseline Forecast - General Fund



The following chart reflects a 10-year forecast of General Fund annual operating surpluses/deficits.

### Annual Operating Surplus/(Deficit) Forecast





### *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 13% 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 \$18.6 million, which is a \$10.8 million increase from FY 21-22 Adopted Budget primarily due to increases in Capital Improvement Program projects, transportation projects, and City Work Program items.

Budgets within the Special Revenue Funds are funded by \$8.8 million in restricted department revenue, and \$10.3 million in transfers from the General Fund and Capital Reserve, bringing total funding sources for the fund to \$19.1 million. This will result in a projected increase to fund balance of \$0.5 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 2021-22 is \$19,540,048 and projected to decrease by \$11.6 million. This decrease is due to the funding of the FY 21-22 Capital Improvement Program Budget. A detailed list of proposed CIP projects can be found in the budget adjustment section of the staff 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 21-22 is \$9.4 million, an increase of \$1.7 million from the FY 20-21 Adopted Budget. Budgets within the Enterprise Funds are funded by \$5.9 million in program revenue, \$0.9 million in transfers from the General Fund, and \$2.6 million from retained earnings.

### *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 \$8.8 million, which is \$1.2 million higher than the FY 20-21 Adopted Budget. This increase is primarily attributable to an increase in vehicle replacement costs and special projects in the Innovation & Technology Department. Budgets within Internal Service Funds are funded by \$5.0 million in department revenue, \$1.7 million in transfers from the General Fund, and \$2.2 million from a combination of depreciation reserves and retained earnings.

## STAFFING

### *Personnel Assumptions*

The increases in compensation in the FY 21-22 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 43% 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 208.75 positions (including Councilmembers) are proposed in FY 2021-22. This is an increase of 6 positions over the previous fiscal year. Each position is described in detail below.

<b>FY 2020-21 Adopted Budget</b>	<b>203.75</b>
Limited-term Recreation Coordinator	-1.00
<b>FY 2021-22 Proposed Budget</b>	
Emergency Management Analyst	1.00
Environmental Programs Assistant	1.00
Senior Planner	1.00
Plan Check Engineer	1.00
Permit Technician	1.00
CIP Project Manager	1.00
<b>FY 2021-22 Benefitted Positions</b>	<b>208.75</b>

The Emergency Management Analyst and Environmental Programs Assistant were requested and included in the printed FY 2021-22 Proposed Budget and thus not included in the adjustment below. A summary of duties to be performed by each position is included below:

**Emergency Management Analyst** - This position will enhance the City of Cupertino's ability to conduct comprehensive emergency management planning and response. This position will interact with others at similar levels within the organization, or external peers, general public and customers for the purpose of answering questions requiring explanation or interpretation of standard procedures.

Environmental Programs Assistant - New State regulations pertaining to diversion of organic materials from landfill (SB1383) beginning in January 2022 require extensive field work, records management, and reporting. Commercial garbage customers as well as all residential customers will require feedback and engagement and education to achieve the required diversion activities for compliance. This position will also coordinate the City's procurement requirements under the new regulations. Non-compliance carries threat of penalties. This position was anticipated and incorporated into the franchise agreement negotiations as discussed on page 11 of the December 15, 2020 City Council staff report and the projected cost was incorporated into the calculation of the Solid Waste Fund Operations Fee paid by Recology to the City. The Franchise Agreement with Recology was authorized by City Council on 12/15/2020. This position will reside in the Resource Recovery Enterprise Fund and is not anticipated to have an impact on the General Fund.

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

The budget adjustments are presented in three primary groups. The first group pertains to the City Work Program. Due to the timing of the City Work Program's adoption, many items were not able to be included in the Proposed Budget. The second group accounts for the City's Capital Improvement Program. The third and final group are for operating changes and generally represent items that were unknown at the time of Proposed Budget publishing (May 1). These changes are discussed further below and are also detailed in Attachment E.

City Hall Annex: \$63,376 is recommended to account for the operating and maintenance costs for the newly acquired property at 10455 Torre Avenue.

Community Funding: \$95,900 is recommended for the City's Community Funding Grant Program.

City Manager Discretionary Fund: At the second budget study session on June 4, 2021, City Council provided direction to staff to reduce the City Manager Discretion Fund to \$75,000 (a reduction of \$518,250) and to provide comparative data with the City of Campbell, City of Mountain View, and City of Sunnyvale regarding the policy, practice, and use of contingencies.

### City of Campbell

The City does not appear to budget for contingencies. The City's financial policies authorize the City Manager to administratively approve budget adjustments within the adopted budget up to \$10,000 or requiring transfers from reserves up to \$5,000 per transaction.

### City of Sunnyvale

In FY 2020-21, the City's adopted budget included \$2.5 million for "miscellaneous expenditures" which do not appear to be defined. The \$2.5 million comprises 1% of the City's operating budget.

### City of Mountain View

Per review of the FY 2021-22 Proposed Budget, there does not appear to be mention of contingency budgets.

Library Services: The City's contract with Santa Clara County Library District was not approved by City Council until after the Proposed Budget was published on May 1. As a result, it is recommended to account for \$371,738 in additional appropriations for library staffing and \$177,000 in revenues per the terms of the agreement.

### Position Requests (4):

#### **CDD - Permit Technician**

The City's permit center has never had a consistent planning presence. Currently, it is mostly staffed by building staff, with planning staff sharing the counter shifts. The introduction of a planning permit technician will provide consistency over planning review and communication, and allow more experienced planners to perform planning tasks such as City Work Program items. Having a designated permit technician for the planning division provides the most transparent, accountable, and efficient public service.

#### **CDD - Senior Planner**

With the increase of long-range projects such as the Housing Element and City Work Program items, there is an increased need for an experienced and versatile project manager that can pivot between assignments. Assignments could include: Housing Element update, Development Accountability, General Plan update, etc.

#### **CDD - Plan Check Engineer**

Building Division currently has one plan check engineer. With an average of 2,300 permits received annually, staff have had to utilize contractors and other building staff (Building Official, Deputy Building Official, Permit Center Manager) to provide plan review services. The allocation of other staff to cover the task has a trickle-down effect to other tasks, such as division operations, inspection management, permit center improvements and operations.

#### **CIP - Project Manager**

The Capital Improvement Programs Division has 6.25 FTEs. There are 40 existing funded CIP projects valued at \$46.8 million. This number, value and complexity of projects is large compared to previous years CIP. Many of these projects, such as the various trail projects require significant and time-consuming public outreach. Completion of the Citywide Park Master Plan, continued implementation of the 2018 Pedestrian Master Plan, 2016 Bicycle Master Plan and project at the Civic Center indicate continued projects with heavy community coordination.

The addition of one FTE will help ensure that both current and proposed projects stay on schedule and are managed to completion efficiently and at the lowest cost possible. If an

additional FTE is not authorized, two options are available. One option is to defer several proposed projects or to contract out project management services at an additional cost.

CDD Legal Costs: Special projects within the Community Development Department often result in unforeseen legal costs. \$500,000 is anticipated to be sufficient to cover the legal costs for FY 21-22.

Stevens Creek Corridor Tree Inventory: \$65,000 is recommended for removal from the operating budget as this item is also recommended as part of the City's Capital Improvement Program.

CDBG Final Allocations: CDBG final allocations become available subsequent to the Proposed Budget being published on May 1, 2021. As a result, an additional \$66,794 is needed to expend the full grant award for FY 21-22. This amount is entirely offset by reimbursable revenues.

Capital Improvement Program (CIP): The CIP recommends \$14,808,000 in new projects. \$385,952 is funded by external grants, \$3,000,000 is funded by beginning fund balance in special revenue funds, and the remainder, \$11,422,048 is funded by the Capital Reserve. Assuming all CIP projects are approved by City Council, the Capital Reserve will have approximately \$100,000 available for future programming.

CIP Project	Revenue	Expenditure	Fund Balance
10445 Torre Avenue Improvements	-	3,000,000	(3,000,000)
Blackberry Farm Pool Improvements	-	750,000	(750,000)
Carmen Road Bridge Right-of-Way	-	75,000	(75,000)
City Hall and Community Hall Improvements - Programming & Feasibility	-	500,000	(500,000)
Electric Vehicle Parking Expansion	208,000	408,000	(200,000)
Full-sized Outdoor Basketball Court	177,952	350,000	(172,048)
Stelling and Alves Crosswalk Intallation	-	80,000	(80,000)
Stevens Creek Boulevard Class IV Bikeway Phase 2 - Construction	-	2,000,000	(2,000,000)
City Lighting LED Transition Assessment	-	50,000	(50,000)
Tree Inventory - Stevens Creek Corridor	-	65,000	(65,000)
ADA Improvements (Category 2 - Multi-Year Funding)	-	90,000	(90,000)
Annual Playground Replacement (Category 2 - Multi-Year Funding)	-	300,000	(300,000)
Park Amenity Improvements (Category 2 - Multi-Year Funding)	-	200,000	(200,000)
Street Light Installation - Annual Infill (Category 2 - Multi-Year Funding)	-	75,000	(75,000)
<b>Total Capital Projects Funds</b>	<b>385,952</b>	<b>7,943,000</b>	<b>(7,557,048)</b>
Pumpkin and Fiesta Storm Drain Project Phase 1 & 2 (\$2M of fund balance)	-	2,000,000	(2,000,000)
Homestead/De Anza - Construction	-	215,000	(215,000)
Memorial Park - Amphitheater Improvements	-	1,150,000	(1,150,000)
Memorial Park - Pond Repurposing (\$1M of fund balance)	-	3,000,000	(3,000,000)
Memorial Park - Specific Plan Design	-	500,000	(500,000)
<b>Total Special Revenue Funds</b>	<b>-</b>	<b>6,865,000</b>	<b>(6,865,000)</b>
<b>TOTAL ALL FUNDS</b>	<b>\$385,952</b>	<b>\$14,808,000</b>	<b>\$ (14,422,048)</b>

The Capital Improvement Program (CIP) also requires interfund transfers to the fund the various projects. The first table below illustrates the actual capital projects' budgetary impacts. In total, the FY 2021-22 CIP will use \$14,422,048 in fund balance. The second table below illustrates the necessary interfund transfers to fund the capital projects between the Capital Improvement Program Capital Projects Fund and the Special Revenue Funds.

#### FY 2021-22 Capital Budget

Fund	Expenditure	Revenue	Fund Balance
Special Revenue	\$6,865,000	\$ -	(\$6,865,000)
Capital Project	\$7,943,000	\$ 385,952	(\$7,557,048)
<b>Total All Funds Capital Budget</b>	<b>\$14,808,000</b>	<b>\$ 385,952</b>	<b>(\$14,422,048)</b>

#### FY 2021-22 Capital Budget Transfers

Fund	Expenditure (Transfer Out)	Revenue (Transfer In)	Fund Balance
Special Revenue	\$ -	\$ 3,865,000	\$ 3,865,000
Capital Project	\$11,422,048	\$ 7,557,048	\$ (3,865,000)
<b>Total All Fund Transfers</b>	<b>\$11,422,048</b>	<b>\$11,422,048</b>	<b>\$</b>
<b>Total Capital budget</b>	<b>\$26,230,048</b>	<b>\$23,230,048</b>	<b>\$3,000,000</b>

City Work Program: The City Work Program for FY 21-22 was adopted by City Council on May 26, 2021 and subsequent to the publishing of the Proposed Budget on May 1, 2021. As a result, the following items and adjustments are recommended to account for City Council's actions.

Fund	Revenue	Expenditure	Fund Balance	Description
General Fund	-	200,000	(200,000)	Homeless Jobs Program
General Fund	-	(5,000)	5,000	RHNA General Plan Updates
General Fund	-	250,000	(250,000)	Revisit 5G
General Fund	-	34,000	(34,000)	Senior Strategy
General Fund	-	1,500	(1,500)	Revamping Block Leader and Neighborhood Watch Program
General Fund	-	10,000	(10,000)	Encouraging Dark Sky Compliance
General Fund	-	10,000	(10,000)	Mental Health Support
General Fund	-	5,000	(5,000)	Dogs Off Leash Area
General Fund	-	(75,000)	75,000	New City Seal
General Fund	-	(5,000)	5,000	City Marketing (Online Store)
<b>Total General Fund</b>	<b>-</b>	<b>425,500</b>	<b>(425,500)</b>	
BMR Affordable Housing Special Revenue Fund	-	100,000	(100,000)	Consider Options to Develop ELI and BMR Housing Units
BMR Affordable Housing Special Revenue Fund	-	(300,000)	300,000	Affordable Housing Strategies
<b>Total Special Revenue Funds</b>	<b>-</b>	<b>(200,000)</b>	<b>200,000</b>	
Resource Recovery Enterprise Fund	-	70,000	(70,000)	Single-Use Plastics Ordinance and Mayor's Cup Challenge Event
<b>Total Enterprise Funds</b>	<b>-</b>	<b>70,000</b>	<b>(70,000)</b>	
I&T Administration	-	17,500	(17,500)	Lehigh and Stevens Creek Quarry
<b>Total Internal Service Funds</b>	<b>-</b>	<b>17,500</b>	<b>(17,500)</b>	
<b>TOTAL ALL FUNDS \$</b>	<b>- \$</b>	<b>\$ 313,000</b>	<b>\$ (313,000)</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.

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.

In 2018, the City implemented a Pension Rate Stabilization Program (PRSP), a Section 115 Trust to stabilize pension rate volatility. During FY 2018-19, the City contributed an initial investment of \$8.0 million to the trust. The FY 21-22 Proposed Budget includes this \$8.0 million as well as an additional \$6 million in contributions made since inception. The trust's estimated fund balance is reported as restricted fund balance to provide stabilization through the following ramp-up period as necessary:

	Projected Employer Contributions					
	FY21-22	FY22-23	FY23-24	FY24-25	FY25-26	FY26-27
Projected Payroll	\$ 19,703,312	\$ 20,245,154	\$ 20,801,895	\$ 21,373,947	\$ 21,961,731	\$ 22,565,678
Normal Cost (%)	10.4%	10.1%	9.8%	9.4%	9.1%	8.8%
Normal Cost	\$ 2,057,026	\$ 2,044,761	\$ 2,038,586	\$ 2,009,151	\$ 1,998,518	\$ 1,985,780
UAL Payment	\$ 4,107,747	\$ 4,513,000	\$ 4,803,000	\$ 5,093,000	\$ 4,881,000	\$ 5,039,000
Total Contribution	\$ 6,164,773	\$ 6,557,761	\$ 6,841,586	\$ 7,102,151	\$ 6,879,518	\$ 7,024,780
Total Contribution (%)	31.3%	32.4%	32.9%	33.2%	31.3%	31.1%

As of the most recent actuarial valuation on June 30, 2019, the City's pension plan had assets of \$99.4 million and liabilities of \$148.5 million, resulting in an unfunded liability of \$49.2 million and a funded ratio of 66.9%. When we factor in the City's balance in the Section 115 Trust, the funded status of the City's pension fund is closer to 78.5%.

### *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. The City's sales and transient occupancy tax revenues experienced great fluctuation since the

outbreak of COVID-19 in 2020. While restaurants and hotels, general consumer goods, and automotive industry groups were severely impacted, the City's business-to-business and County pool allocation share increased substantially. This was brought on by shelter-in-place mandates throughout the State which reduced the sales tax revenue for restaurants and brick and mortar retail; thereby increasing on-line sales. Additionally, the conversion to a telework environment increased the demand for computer and electronics equipment, which also increased the City's sales tax revenues. In total, the City's sales tax revenues spiked to historic highs in both FY 19-20 and FY 20-21; however, the City is considering this to be a one-time experience. As the State continues toward a recovery and businesses continue their opening, it is anticipated the City's restaurant and hotels, general consumer goods, and automotive industry groups will recover and increase as well. However, these increases will only slightly mitigate the anticipated declines in the City's business-to-business and County pool share allocation as on-line sales fall from recent historic highs. Transient occupancy remains devastated and although a recovery is anticipated by FY 23-24, we are unsure about the extent of the recovery and what the "new normal" will look like.

### **Budget Study Session**

On May 18, 2021 and June 4, 2021, the City Council held study sessions to review the City Manager's FY 21-22 Proposed Budget. At the study sessions, City staff presented General Fund revenues, expenditures and forecast. City Council provided input and requested clarifications for which staff responses were attached.

### **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 reviewed the FY 2021-22 Proposed CIP Budget on May 25, 2021 and found that the FY 2021-22 Capital Improvement Program is consistent with the City's General Plan. (See Planning Commission Resolution attachment F).

City staff has independently studied the Proposed CIP and has determined that the CIP is exempt from environmental review pursuant to the exemption in Title 14-California Code of Regulations, §15061(b) (3), and §15378, in that it can be seen with certainty that there is no possibility that this CIP budget action will have a significant effect on the environment due to the approval of the budget, and does not involve approval of any specific project that may have a significant effect on the environment. Each project of the Proposed CIP projects will be evaluated for the application of CEQA to it and, as applicable, each project will conduct the appropriate level of environmental analysis.

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 2021-22



- B – Draft Resolution – Capital Budget for FY 2021-22
- C – Draft Resolution – Appropriation limit for FY 2021-22
- D – CIP Project Narratives
- E – Budget Adjustments Summary & Detail
- F – Planning Commission Resolution