Questions Regarding the Current Budget Report

Audit Committee Chair Daisy Liang

1. Page 35 and 55 of the FY 21-22 Proposed Budget: Please add the Adopted Budget amounts for anywhere the FY18 and FY19 actuals are presented. This will allow a reader to understand where the actuals ended in respect to the amounts budgeted.

RESPONSE: The format of showing two years of actuals, prior year adopted, and current year adopted follows the criteria set forth by the Government Finance Officers Association (GFOA). Additionally, changing the size of the charts would result in the charts being significantly reduced in size and could make is less legible. As an alternative, staff could issue a separate appendix showing the prior year budget and actuals at the detailed account line item level and post on the City's website.

2. Page 42: The Non-Personnel Assumptions section discussed one-time special projects. Can we add links throughout the document for repeated information? Can we add onetime special projects as a saved "view" in OpenGov to allow the public to easily access the information?

RESPONSE: We can add a reference on page 42 to note that special projects are further detailed in the respective department narrative sections. Each page of the budget document has a link back to the Table of Contents. From there, a user can easily move to any section of the document they desire.

3. Page 81: The Basis of Budgeting section discusses the budget being split into nine departments. Can the document include a pie chart to show the departments percentages?

RESPONSE: General Fund expenditures by department is presented on page 36 of the Proposed Budget.

4. Page 93: What is the formula to calculate the $19,000,000 for Economic Uncertainty reserve?

RESPONSE: The formula is noted on page 93 of the Proposed Budget document: "represents two months of General Fund (GF) expenditures excluding transfers out plus a two year drop in total general fund revenue of 13% or approximately 1.5 months, excluding the use of reserves." This can be estimated by using the "Financial Overview by Fund" chart on page 103.

Total GF Expenditures	$	88,138,778
(less transfers out)	$	(11,251,984)
Subtotal	$	76,886,794
Expenditures (2 months)	$	12,814,466
Revenues (1.5 months)	$	9,372,611
Hypothetical Reserve Amount in FY 21-22	$	22,187,077
Actual Reserve Amount in FY 21-22	$	19,000,000
Difference	$	(3,187,077)

In recent years, unassigned fund balance in General Fund has maintained high levels. That, coupled with the establishment of the Section 115 Trust (pension), City staff have not recommended increases to the Economic Uncertainty Reserve. In the event of economic uncertainty, further recommendations would be brought before City Council (e.g., increasing the Economic Uncertainty Reserve, utilizing the Pension Section 115 Trust, budget reductions, etc.).

5. Page 138: Can General Fund fund balance be added to the 20-Year General Fund Financial Forecast chart?

RESPONSE: Page 138 shows the revenues and expenditures and difference between the bars and the line represent changes in fund balance; these are emphasized on page 139. We could add a sentence nothing the beginning unassigned and total fund balance to provide additional context. That said, the General Fund fund balance forecast is discussed in detail beginning on page 155. Although having all of this information on one page would be ideal, it simply is not feasible. The forecast section is presented in a format consistent with the rest of the document and follows the flow/format of an income statement (revenue → expenditures → fund balance).

6. Page 148: What is "salary savings" as presented in the Five-year General Fund Expenditures Forecast chart?

RESPONSE: Salary savings is a common line item in budgets, particularly in forecast models. The City budgets for 100% of the authorized employee head count; however, throughout the year, savings is realized through turnover and attrition. This amount represents the anticipated savings from vacant positions and attrition throughout the fiscal year (cost of approximately 5 full-time employees).

7. Page 541: Where are the capital projects for FY 21-22 as well as any previously funded projects that have yet to be completed?

RESONSE: The Capital Improvement Program (CIP) was not included in the Proposed Budget. It was first introduced to City Council at a study session on May 4, 2021, subsequent to the publishing of the Proposed Budget on May 1, 2021. The Final Adopted Budget will incorporate all financial information pertaining to CIP. Additionally, Public Works and the CIP team will be issuing a separate CIP Budget document as well.

Councilmember Moore
May 18, 2021
Format:

1. While Contingencies may not be an appropriate format issue to discuss, I think it should be removed and the reserve in the General Fund be appropriated as needed. The item has not been transparent from its inception in 2013 and looks like a slush fund with the largest share in the City Manager's budget. The Staff Report to City Council in June of 2013 neglected to mention that a new contingency amount of $427k was even being appropriated and now the current format for the Budget shows $3,773 for contingencies for the City Manager on p. 221, yet on p. 245 of the current Proposed Budget, there is $593,250 appropriated in contingencies. Additionally, the City Manager is given authority to approve their spending on p. 244. This practice, and the whole contingency category, in my opinion, needs to end.

RESPONSE: City Council directed staff to reduce the City Manager Discretionary Fund to $75,000 (a reduction of $518,250) at the June 4, 2021 study session. City Council ultimately adopted the FY 21-22 Budget with a City Manager Discretionary Fund budget amount of $75,000.

2. I do prefer the staffing tables used by Campbell and Sunnyvale for clarity.

RESPONSE: Noted. It will be challenging to incorporate similar staffing tables throughout each of the respective Program narratives. However, staff can create an appendix report for all positions and present by Department and Program.

3. I prefer the more detailed accounting which the City did in 2013 and other cities continue to do, referred to as the Account Level Summary.

RESPONSE: Noted. It will significantly increase the length of the document to show the account level detail throughout the document, but as an alternative, staff can create an appendix report for all budget and actuals at the account level detail.

4. I would like the previous comments from the last Budget Format Review Subcommittee (attached) added along with my comments and Daisy's for next week's City Council Budget Agenda item.

RESPONSE: Noted.

Content:
Proposed Budget is pretty easy to read and follow. Movement of money between funds along with department divisions and tasks moving between departments makes following the changes to department costs difficult to capture. Because some funding increased a great deal in 2020, it
would help to have a comparison back to 2019 in some instances (City Manager Contingency, for example, Proposed Budget p. 245)

1. Community outreach improvements to get input regarding the Proposed Budget goals and process.
a. Proposed Budget mentions input from the Audit and Fiscal Strategic Plan Committees, however neither has reviewed the Proposed Budget for input. Should these committees receive the Proposed Budget prior to coming to City Council in the future or is this process order better? The Fiscal Strategic Plan Committee is not codified and has no codified duty to review the Proposed Budget.

RESPONSE: The Audit Committee is tasked with reviewing the Budget Format and the Fiscal Strategic Plan has historically reviewed the City's financial forecast, which is an important component to the City's budget document. While input on the actual budget document is only received from the Community via public meetings, the City's budget team holds annual community engagement budget workshops and includes interactive budget reports throughout the year via OpenGov.

2. The organizational charts need to reflect the Cupertino Municipal Code (CMC)
a. Add date of organizational chart
b. Update the online chart
c. Update CMC to reflect current organizational structure (e.g. add I.T. Department)
d. This should probably not be a work plan item, but an ongoing process of CMC cleanup

RESPONSE: The organizational charts in the budget document are correct. They will need to be updated online and in the CMC. The date of the organization chart in the budget corresponds to the budget document itself; thus the organization chart corresponds to FY 21-22.

3. CMC mentions a potential Public Safety Department should Police and Fire be administered by the City. The City contracts out both. How is the Fire Department paid for?

RESPONSE: Santa Clara County Fire is funded via property taxes. Property tax revenues are generated from the 1% tax on property values. Of that 1%, the City receives 7% and Santa Clara County Fire receives 15%, with the majority of the 1% going to school districts.

4. City Manager discretionary spending was $743 for 2020 yet the 2022 Proposed Budget is $593,250. Additionally, the Program Overview states that the contingency budget for the City Manager requires the City Manager approval (Proposed Budget p. 244). I would recommend this amount be removed and a policy for oversight be put in place. The City Manager's overall budget has increased from $786,535 in 2019 (expenditures plus contingencies) to $2,115,071 proposed for 2022. How is this increase accounted for? Review the City of Cupertino Purchasing Policy (2013) Code Sec. 3.22 and 3.23.

RESPONSE: The City Manager Contingency program was established to meet citywide unexpected expenses that may occur during the year. In FY 2013-14, a Contingencies expenditures category was added to each General Fund program to serve as a contingency for any unexpected expenditures that might occur during the year. Prior to FY 2020-21, the contingency amount was derived by taking 5% of the General Fund's base materials and contract services to account for unforeseen events and/or activities that were not included in the respective fiscal year's budget. In FY 2020-21, and in response to COVID-19, the contingency amount was cut in half to 2.5% of the General Fund's base materials and contract services. Additionally, in FY 2020-21 The City Manager's contingency established an appropriation specifically for Public Works' unforeseen maintenance and repairs in an amount of $280,000. The current 2.5% calculation is below GFOA's best practice recommended range of 5-15%; however, once the Public Works unforeseen maintenance and repair contingency is factored, the contingency amount ends within the recommended range at 5%. In total, the City Manager's contingency budget has remained relatively consistent year-over-year (YOY) as noted below:

Fiscal Year	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22
Budget	$505,000	$593,661	$486,353	$551,827	$593,250
Actual	$240,365	$127,480	$279,337	$283,384	$ -

The City Manager budget unit within the Department of Administration (100-12-120) has increased from $993,118 (adopted) in FY 2018-19 to $1,521,821 (proposed) in FY 2021-22. This increase is due to 2.3 additional full-time employees being accounted for in this budget unit. City Council recommended and adopted a FY 21-22 budget with a City Manager Discretionary Fund of $75,000.

5. Economic Development has switched to a contract service and has more than doubled in cost.

RESPONSE: The Economic Development budget is proposed to decrease from $430,494 in FY 2020-21 to $337,074. As the function becomes further defined, staff will bring forward budget recommendations to City Council for consideration.

6. Some committees use staff time (which seems to imply they have a budget amount) and are not codified: Economic Development Committee, Disaster Council, Fiscal Strategic Plan Committee. Needs clarification.

RESPONSE: Staff time allocations less than 5% are generally not charged to specific budget units. In other words, the City would not create a budget unit for Fiscal Strategic Plan Committee because less than 5% of a respective employee's annual time is required.

7. Multiple projects which are not approved in the City Council Work Plan show up in the Proposed Budget: New Logo, online store. Please remove these items from other headings such as "Contract Services" to a new heading which indicates they are Proposed Work Plan Items and not approved.

RESPONSE: All City Work Program items will be budgeted and shown as "special projects" in the final adopted budget. Recording activities in a unique account requires the creation of a new general ledger account. This is completed once the City Work Program is adopted and the projects are finalized.

8. Communications costs seems to be a separate area, could this be shown as a group?

RESPONSE: Combining these groups would decrease transparency and also sacrifice historical data comparisons. OpenGov's Transparency Portal now has a saved "view" so that the Office of Communications and the Multimedia budget units can be seen in a combined fashion.

OpenGov Saved View

9. It is unclear how much of the Cultural Events ($402,137) items will occur, such as the 4th of July celebration. (PB p. 335-336), a similar item, Neighborhood Events ($163,119) raises the same question (PB p. 350). Total events: $565,256.

RESPONSE: Most of the 4th of July funds are spent the FY before the event, so the money in the FY 2021-2022 budget will go toward the July 4, 2022. The other events within this account are Memorial Park Summer Events and Shakespeare in the Park which we are planning for late summer/early Fall 2021, Tree Lighting which is in December 2021, Big Bunny 5K in March/April 2022, and other small events. The Festivals start in the Fall and continue to Spring. At this time, we are assuming those will happen.

10. Economic Development was $89,910 for the 2019 actual expenditure and is now proposed at FY 2022 $337,074 with a new contingency and materials amount of over $60K with no staffing. Additionally, there is no codified Economic Development Committee which uses staff time. This area needs attention.

RESPONSE: The Economic Development budget is proposed to decrease from $430,494 in FY 2020-21 to $337,074. With the function likely moving "in-house," staff are recommending a reduction in this budget unit of $38,694. As the function becomes further defined, staff will bring forward budget recommendations to City Council for consideration.

11. Please explain the large increase in the BMR affordable housing fund PB p. 393 which shows an increase of revenue from 2019 actual of $159,179 in taxes to 2022 Proposed Budget taxes of $3,611,855. There is an allocation of $600,000 shown for Homelessness and other Special Projects which has not been approved and the City Resolution to support the county Task Force on Homelessness indicated that the City would participate in a county-wide program which the City would likely be asked to contribute financially to.

RESPONSE: Estimated revenues increased due to one-time anticipated Housing Mitigation In-Lieu Fees for Cupertino Village and De Anza Hotel. The majority of this program's budget increase is due to two (2) tentative City Work Program items: $300,000 for Affordable Housing Strategies and $300,000 for Homeless Services and Facilities. Although the Affordable Housing Strategies is slated for removal, a $200,000 item for Homeless Jobs Program is slated to be added.

12. Code Enforcement has increased from $508,167 in 2019 to $1,202,392 proposed 2022. PB p. 406.

RESPONSE: Full-time employee (FTE) allocations have increased since FY 2018-19 which is contributing to the increase. Additionally, and because of these relatively large proportional staffing increases and changes in methodology, the amount of cost allocation charges increased from $22,478 in FY 2018-19 to $277,786 in the proposed budget year.

13. Facilities would be easier to track if grouped together, Facilities and Fleet next to Grounds, for example. Where are Stocklmeir, Byrne, Blech?

RESPONSE: The Department's budget units/programs are organized in order of Division (xxx-**XX-**xxx). Because the Fleet or "Fixed Assets Acquisition" program is numbered 630-90-985, it naturally comes at the end. Changing the accounting structure would be an administrative challenge and make it more difficult to identity fluctuations year over year. A saved "view" on OpenGov has been created to see Grounds and Facilities budget units together.

OpenGov Saved View

Stocklmeir, Byrne and Blesch are not occupied buildings that are in use. The Facilities budgets are for maintenance of city buildings that are in use. Any budget allocations for these three properties would be considered a special project with a specific scope. Additionally, The City's budget does not include a comprehensive list of the City's capital assets for two primary reasons: 1) it is not a requirement or recommendation by the Government Finance Officer's Association (GFOA) and 2) the City strives to keep the budget document as concise as possible. It is regularly recommended by GFOA to shorten the document as necessary and appropriate.