The Annual Budget Process

The City's annual budget is prepared on a July 1 to June 30 fiscal year basis. However, the budget process is an ongoing process that occurs throughout the year and includes the phases of development, proposal, adoption, monitoring and budget amendments.

The budget development phase begins in December with the preparation of budget instructions and work program development by the City Council and City Manager. During March, departments prepare the budgets for which they are responsible. These proposed department budgets are reviewed by the Finance Division using current and prior year trends data. The City Manager then reviews the proposals with the Director of Administrative Services and departmental staff and makes final decisions which form the basis of the City Managers Proposed Budget. The proposed budget is then submitted to the City Council in May.

During the months of May and June, the City Council considers the budget proposals at a study session and public hearing. At these times, the Council hears from Boards, Commissions, community groups, and the public regarding budget requests and recommendations. The final budget is adopted by resolution in June and takes effect on July 1.

The following chart illustrates the City's budget reporting cycle. Staff reports to Council on a quarterly basis in addition to the annual proposed and final budget. Should amendments to the budget be required outside of this cycle, staff will bring budget amendments as separate Council staff reports.

Budget Amendment Process

After the budget is adopted, the City enters the budget monitoring phase. Throughout the year, expenditures are monitored by the Finance Division staff and department managers to ensure that funds are used in an approved manner. Adjustments to expenditures within or between departmental budgets are accomplished on an as-needed basis administratively throughout the year. The City Manager and Department Heads can transfer funds between their line items and/or divisions as needed.

City Council approval is required for additional appropriations from fund balances or for new revenue sources.

Structure of City Finances

COST ACCOUNTING

The City of Cupertino has five internal service funds that account for innovation & technology, equipment replacement, workers compensation, long-term disability and compensated absence, and retiree health costs experienced by City departments. Fund costs are allocated to user departments or operating funds based on salaries, equipment and software purchase price, actuarial studies and actual and projected service level. Please view the Cost Allocation Plan and Changes to the Internal Service Fund section of this document for details.

Other employee fringe benefits such as medical, dental, life insurance, and pensions are directly added to department costs as a percentage of salaries. Staff salary and benefit costs are split among departments and related funds based on the anticipated percentage of time spent working in various departments.

OVERHEAD COST ALLOCATION

All overhead costs are allocated to the appropriate program within the limits of local, State and federal laws. The City utilizes a two-step method (double step down method) where costs are first allocated among the central service department support programs to arrive at the total costs of central service programs. Beginning in FY 2014 overhead/indirect costs associated with service departments in the General Fund were allocated based on a Cost Allocation Plan (CAP).

These total costs are then allocated to the departments and funds that are benefiting from these expenses. The corresponding revenue is collected by the General Fund for indirect/overhead costs associated with the Cost Allocation Plan (CAP) and Internal Service Funds and allocated directly to the department providing the service.

BASIS OF BUDGETING

Basis of Budgeting refers to the method used to recognize revenues and expenditures in the budget. For the City of Cupertino, the basis of budgeting is the same basis used for accounting. The modified accrual basis is followed in the Governmental Funds, including the General, Capital, Debt Service, and Special Revenue funds. Under this basis, revenues are recognized when they become "susceptible to accrual", which means they are both measureable and available. Measurable means the transaction can be determined.

The budget is split into nine Departments: City Council and Commissions, Administration, Law Enforcement, Innovation and Technology, Administrative Services, Recreation and Community Services, Planning and Community Development, Public Works, Non Departmental (includes budget that are not attributable to any specific division) and Capital Projects. These departments are further split into divisions then programs. The programs within the divisions are balanced at the department level within a given fund.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR)

The Comprehensive Annual Financial Report (CAFR) is prepared by Crowe and Horwath, the City's Auditors and according to "Generally Accepted Accounting Principles" (GAAP).

CITIZEN PARTICIPATION

Every two years the City of Cupertino has a Community Survey completed by Godbe Research to measure resident's satisfaction with living in the City, City Services and to identify issues facing the City. In addition, the budget study session and budget hearings are public meetings where citizens are given the opportunity to comment on the budget. The public can also provide feedback to two Council sub-committees, the Fiscal Strategic Planning and Audit Committees.

Fund Structure

For accounting purposes, a state or local government is not treated as a single, integrated entity. Rather, a government is viewed as a collection of smaller separate businesses known as 'funds'. Fund accounting is an accounting system emphasizing accountability rather than profitability. In this system, a fund is a self-balancing set of accounts, segregated for specific purposes in accordance with laws and regulations or special restrictions and limitations.

The City's finances are structured in a variety of funds that are the basic accounting and reporting entities in governmental accounting. The funds that comprise the FY 2018-19 budget are grouped into two major categories, Governmental Funds and Proprietary Funds. The purpose of each of the various funds within these two categories is described below:

GOVERNMENTAL FUNDS

Governmental Funds are those through which most governmental functions of the City are financed. The acquisition, use, and balances of the City's expendable financial resources and the related liabilities (except those accounted for in the proprietary funds) are accounted for through governmental funds. Governmental funds include Tax Supported Funds, Special Revenue Funds and Federal Grant Funds. They are accounted for under the modified accrual basis of accounting.

Tax Supported Funds

Tax Supported Funds include the General and Capital Improvement Funds. The General Fund is the primary operating fund for governmental services. The Capital Improvements Fund is utilized for the acquisition or construction of major capital facilities.

Tax Supported Funds	Purpose
General	The General Fund is used to pay for core services such as public safety, parks and recreation, planning and community development, public works, and a host of other vital services. The revenue used to pay for these services comes primarily from local taxes such as property tax and sales tax, franchise fees, charges for services, and a variety of other discretionary sources.
Capital Improvement	
Capital Improvement Projects	This fund pays for the acquisition and/or construction of major capital facilities.
Stevens Creek Corridor Park Capital Projects	This fund pays for the design and construction of the Stevens Creek Corridor Park projects.

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 include the Park Dedication, Transportation, Storm Drain, Environmental Management/ Clean Creeks funds and Housing and Community Development

Special Revenue Funds	Purpose
Storm Drain Improvement	This fund pays for the construction and maintenance of storm drain facilities, including drainage and sanitary sewer facilities.
Park Dedication	This fund pays for the activity granted by the business and professions code of the State of California in accordance with the open space and conservation element of the City's General Plan.
Environmental Management/Clean Creek/ Storm Drain	This fund pays for all activities related to operating the Non-Point Source pollution program.
Transportation	This fund pays for expenditures related to the maintenance and construction of City streets.
Housing & Community Development	This fund pays for the Federal Housing and Community Development Grant Program activities administered by the City. This fund also pays for activities related to the Below Market Rate Housing Program.

Federal Grant Funds

Federal Grant Funds include the Community Development Block Grant program. The Community Development Block Grant is a federally funded program for housing assistance and public improvements.

Federal Grant Funds	Purpose
Community Development Block Grant	This fund pays for activities related to the Community Development Block Grant (CDBG).

PROPRIETARY FUNDS

Proprietary Funds are used to account for "business-type" activities. Proprietary Funds include Enterprise Funds and Internal Service funds. They are accounted for under the full accrual basis of accounting.

Enterprise Funds

Enterprise Funds are set up for specific services that are funded directly by fees charged for goods or services. Enterprise Funds include the Resource Recovery, Sports Center, Blackberry Farm Golf Course and Recreation funds.

Enterprise Fund	Purpose
Resource Recovery	This fund pays for operating costs related to the collection, disposal, and recycling of solid waste performed under a franchise agreement with Recology.
Blackberry Farm Golf Course	This fund pays for operating costs related to the Blackberry Farm Golf Course.
Sports Center	This fund pays for operating costs related to the Sports Center.
Recreation Programs	This fund pays for operating costs related to the City's community centers and park facilities.

Internal Service Funds

Internal Service Funds are used for areas where goods or services are provided to other departments or governments on a cost-reimbursement basis. Internal Service Funds include the Innovation & Technology, Equipment, Workers Compensation, Long-Term Disability/Compensated Absence, and Retiree Medical funds.

Internal Service Funds	Purpose
Information Technology	This fund pays for all technology related expenses for the citywide management of information services. This fund pays for the replacement of existing hardware and software and the funding of new hardware and software needs city-wide. Equipment is depreciated based on the acquisition or historical costs for the useful life of the asset using the straight line method.
Workers' Compensation	This fund pays for claims and insurance premiums related to workers' compensation.

Internal Service Funds	**Purpose**
Equipment Maintenance and Fixed Asset Acquisition	This fund pays for the purchase and maintenance of fleet and general equipment having a value greater than $5,000 and expected life of more than one year. Assets are depreciated based on the acquisition or historical costs for the useful life of the asset and using the straight line method.
Compensated Absences & Long Term Disability	This fund pays for liabilities associated with employees retiring or leaving service and claims and premiums associated with long term disability.
Retiree Medical	This fund pays for Retiree Medical costs.

Fiscal Policies – Revenue Policies

PURPOSE

To establish revenue polices that assist the City in striving for and maintaining a diversified and stable revenue system to prevent undue or unbalanced reliance on any one source of funds. This revenue diversity will shelter the City from short-run fluctuations in any one revenue source.

SCOPE

All revenue sources across all funds.

POLICY

To the extent possible, maximize investment yield while maintaining a high level of liquidity for the City's anticipated capital costs.

Identify and recommend sources of revenue necessary to maintain the services desired by the community and to maintain the City's quality of life.

Perform ongoing evaluations of existing sources of revenue to maximize the City's revenue base.

Recover costs of special services through user fees.

Pursue full cost recovery and reduce the General Fund fee subsidy to the degree feasible.

Allocate all internal service and Cost Allocation Plan charges to appropriate user departments and

Ensure that Enterprise activities remain self-supporting in the long term.

Fiscal Policies – Expenditure Policies

PURPOSE

To establish expenditure control polices through the appropriate internal controls and procedures. Management must ensure expenditures comply with the legally adopted or amended budget.

SCOPE

All expenditure categories across all funds.

POLICY

Each Department or Division Manager will be responsible for the administration of their department/division budget. This includes accomplishing the goals and objectives incorporated into the budget and monitoring each department/division budget for compliance with spending limits.

Accurately charge expenditures to the appropriate chart of accounts;

Maintain operating activities at levels which are offset by revenues;

The City will make every effort to control expenditures to ensure City services and programs provided to its citizens and tax payers are cost effective and efficient;

Evaluate expenditures at the department and project levels to ensure control;

Before the City purchases any major asset or undertakes any operating or capital arrangements that create fixed assets or ongoing operational expenses, the implications of such purchases or arrangements will be fully determined for current and future years;

All compensation planning and collective bargaining will include analysis of total cost of compensation which includes analysis of salary increases, health benefits, pension contributions, fringe benefits and other personnel costs. The City will only propose operating personnel costs which can be sustained by on-going operating revenues;

Reduce costs and improve productivity through the use of efficiency and effective measures. -

Structure debt financing to provide the necessary capital while minimizing future debt service costs.

Fiscal Policies – Capital Improvement Policy

PURPOSE

To establish a Capital Improvement Policy to assist in future planning.

SCOPE

All anticipated Capital Improvement Projects for the current fiscal year plus four additional fiscal years.

POLICY

The City will prepare and update a five year Capital Improvement Plan (CIP) encompassing all City facilities.

Projects included in the CIP will have complete information on the need for the project (project justification), description and scope of work, total cost estimates, future cost estimates, future operating and maintenance costs and how the project will be funded.

An objective process for evaluating CIP projects with respect to the overall needs of the City will be established through a priority ranking of CIP projects. The ranking of projects will be used to allocate resources to ensure priority projects are completed effectively and efficiently.

Changes to the CIP such as addition of new projects, changes in scope and costs of a project or reprioritization of projects will require City Manager and City Council approval.

The City will maintain its physical assets at a level adequate to protect the City's capital investment and to minimize future operating maintenance and replacement costs. The City recognizes that deferred maintenance increases future capital costs, thus placing a burden on future residents. Therefore, the budget will provide for adequate maintenance and the orderly replacement of capital plant and equipment from current revenues when possible.

The City will determine the least costly funding method for its capital projects and will obtain grants, contributions and low cost state or federal loans whenever possible.

The City will utilize "pay-as-you-go" funding for capital improvement expenditures considered recurring, operating or maintenance in nature. The City may also utilize "pay-as-you-go" funding for capital improvements when current revenues and adequate fund balances are available or when issuing debt would adversely affect the City's credit rating.

The City will consider the use of debt financing for capital projects under the following circumstances:

- When the project’s useful life will exceed the terms of the financing
- When resources are deemed sufficient and reliable to service the long-term debt
- When market conditions present favorable interest rates for City financing
- When the issuance of debt will not adversely affect the City’s credit rating and debt coverage ratios.

Fiscal Policies – Information Technology Replacement and Capitalization Policy

Purpose

The purpose of this policy is to establish guidelines for replacing and capitalizing technology equipment and systems. Replacement is indicated when a product has run its useful life and updating/upgrading is no longer an option. Capitalization of equipment requires the set aside of funding for future replacement.

Generally, technology equipment with a life expectancy of at least 5 years and a total cost of over $5,000 shall be capitalized. Software with an expected life of at least 7 years or a cost of over $10,000 shall also be capitalized. Software-as-a-Service (SaaS) contracts are not capitalizable and are expensed as incurred.

Technology upgrades are determined by the Innovation Technology Department and user departments based on functionality, vendor support, and industry standards.

Scope

This policy covers the City of Cupertino: network infrastructure (routers, switches, firewalls, security appliances); server infrastructure (files servers, database servers, mail servers, web servers, etc); user laptops and workstations; mission-critical systems, telephone system (telephone equipment not already listed previously); desktop software; enterprise software; workgroup software; and broadcast video and audiovisual equipment.

Cell phones, printers, and tablet devices are not covered by this policy as these items do not meet the minimum criteria for capitalization. Replacement of these items are at the discretion of the Innovation Technology Department in concert with the user Department.

Policy

All technology shall be replaced according to the following:

Network infrastructure (routers, switches, firewalls) shall be replaced when no longer functional, as determined by the Innovation Technology Department Division (IT), or when parts or support are no longer available from the manufacturer. Replacement needs will be determined by IT annually as part of the operating budget process. Network infrastructure with a life expectancy of at least 5 years and a total cost of over $5,000 shall be capitalized.

Server infrastructure shall be replaced when it is no longer functional (defined as not being able to meet its intended purpose), or when parts or support are no longer available from the manufacturer. These needs are evaluated annually by IT and user departments as part of the operating budget process. Servers are evaluated as they approach 3 years in service, and placed on the schedule accordingly. Server lifetime may be extended by the purchase of additional memory or disk. Server infrastructure with a life expectancy of at least 5 years and a total cost of over $5,000 shall be capitalized.

User workstations shall be replaced, on average, after 4 years as is industry standard. Zero Client work stations shall be replaced, on average, every 8 years. IT will determine the need for specific replacements. User workstations shall not be capitalized as they do not meet the minimum criteria for capitalization.

Interoperable systems are defined as a group of interdependent and/or interoperable components that together form a single functional unit. These components may be interconnected by their structural relationships, their common functional behavior, or by both. Generally, for a system to be eligible for capitalization, the cumulative value of its components should be at least $5,000 and have a life expectancy of five years or more. A common example of such system would be a telephone system or network. Individual component or replacement costs are not capitalizable unless they are greater than $5,000 and increase the value of the asset.

Enterprise Software replacement shall be determined individually by IT and the end users. Only those large enterprise systems (on-site or on premise) with an expected life of at least 7 years or a cost of over $10,000 shall be capitalized. SaaS contracts are not capitalizable and are to be expenses as incurred.

Desktop Software is replaced/updated according to Microsoft's releases of Windows and Office. Software shall not be more than one version out of date to ensure functionality and vendor support. IT will generally wait at least 90 days after a new release to roll out new versions. Only software with an expected life of at least 7 years or a cost of over $10,000 shall be capitalized. Desktop software generally does not meet this criterion.

Broadcast Video and Audiovisual Equipment/Systems shall be repaired or replaced when determined no longer functional. Replacement will occur on average after 10 years. Broadcast video and audiovisual equipment/systems with a life expectancy of at least 5 years and a total cost of over $5,000 shall be capitalized. Equipment that does not meet these criteria may still be capitalized if the item is a component of interoperable systems.

Fiscal Policies – Pension and Retirement Funding Policy

PURPOSE

To establish a policy for the funding of Retirement and Retiree health.

SCOPE

Retirement and Retiree Health costs citywide, across all funds.

POLICY

Fund all current pension liabilities on an annual basis.

Monitor certain health and dental care benefits for retired employees. Funding the liability for future retiree benefits will be determined by City Council action.

Fiscal Policies – Long Term Financial Stability Policies

PURPOSE

To establish a policy for Long Term Financial Stability

SCOPE

All programs across all funds

POLICY

Ensure ongoing productivity through employee training and retention programs.

Pursue consolidation of resources and activities with other agencies and jurisdictions where beneficial.

Ensure financial planning flexibility by maintaining adequate fund balances and reserves.

Provide for major maintenance and repair of City buildings and facilities on a timely basis.

Provide for infrastructure asset preservation that maximizes the performance of these assets at minimum life-cycle costs.

Continually evaluate and implement long-term financial planning including technology automation, multiple year capital improvement programs, revenue and expenditure forecasting, automating and streamlining service delivery, stabilizing and repositioning revenue sources, and decreasing expenditures and risk exposure.

Fiscal Policies – Committed, Unassigned Fund Balance, and Use of One Time Funds Policy

PURPOSE

To establish assigned and unassigned fund balance and one time use policies.

SCOPE

The General Fund and Capital Funds.

POLICY

To maintain sufficient committed and unassigned fund balance (general fund only) in each fund for the ability to meet following economic uncertainties:

Economic Uncertainty –$19,000,000 and represents two months of General Fund (GF) operating 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. Transfers out are primarily used to fund Capital Projects and do not represent on-going expenditures. This assignment will change from year to year based on budgeted general fund expenditures and revenues.

- Mitigate short-term economic downturns and volatility in revenues (2 years or less)
- Sustain city services in the event of an emergency
- Meet requirements for debt reserves
- Meet operating cash flow requirements as a result of delay in the receipt of taxes, grant proceeds and other operating revenues

PERS– $8,000,000 and represents the initial investment into the City's Pension Rate Stabilization Program (PRSP). As a result of the significant increase in retirement costs based on the most recent actuarial forecast, the City elects to establish and fund a secondary pension trust to assist in stabilizing the potential impact of pension cost volatility on the City's operating budget. Annual contributions subsequent to the initial funding are determined by calculating the difference between CalPERS' current discount rate and a more conservative rate determined by the City. This difference is to be transferred to the pension trust and to be used solely for the benefit of members in the plan.

Sustainability Reserve– Cupertino's Sustainability Division oversees the City's Climate Action Plan (CAP), which defines strategies to reduce greenhouse gas emissions, and provides residents, businesses and schools with programs and services focused on energy efficiency, renewable energy, water conservation, alternative transportation and other sustainable actions. The City receives rebates for projects that successfully meet the eligibility requirements such as energy or water efficiency. If the rebates were not initially budgeted, they are categorized as committed fund balance in the General Fund. The purpose of this reserve is to help support future sustainability projects/programs.

Unassigned – $500,000 and represents 1% of the total general fund operating budget**.** This assignment may change from year to year based on budgeted general fund expenditures.

- Absorb unanticipated operating needs that arise during the fiscal year that were not anticipated during the budget process
- Absorb unexpected claims or litigation settlements

Capital Improvement – $5,000,000 and represents average dollars spent for capital projects in the last three fiscal years. This assignment may change from year to year based on actuals dollars spent on capital projects and anticipated future capital project needs.

- Meet future capital project needs so as to minimize future debt obligations

The City shall not use fund balances/reserves in lieu of revenues to pay for ongoing expenses except as specifically provided in the City's reserve policy.

The chart below summarizes reserve policy levels as described above:

Funding Priority	Reserve	Reserve Level	Escalator[1]	Description
GENERAL FUND				
1	Economic Uncertainty	$19,000,000	GF Budgeted Operating Expenditures[2] GF Budget Revenue[3]	For economic downturns and major revenue changes.
2	PERS	$8,000,000	Budgeted Citywide retirement costs	For pension cost increases.
3	Sustainability Reserve	$75,499	GF Budget Revenue[3]	For future sustainability projects/programs.

[1] Rounded to the nearest hundred thousand
[2] Excludes Transfers Out
[3] Excludes the use of reserves

Funding Priority	Reserve	Reserve Level	Escalator[1]	Description
4	Unassigned	$500,000	Budgeted GF Operating Expenditures[4]	For mid-year budget adjustments and redeployment into the five year budget.
CAPITAL PROJECT FUNDS				
5	Capital Improvement	$5,000,000	None	Reserves set aside for future capital projects.

Changes to Committed Fund Balance – All reserves listed in this policy are classified as Committed Fund Balance under Government Accounting Standards Board (GASB) Statement 54. Committed fund balance is comprised of amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Changes to committed fund balances must be approved by City Council. This policy will be reviewed annually as part of the budget process.

Replenishment process – Should the City need to utilize any of the committed fund balances listed in this policy, recommendation will be brought to City Council for approval and a plan to replenish the committed balance will be developed in conjunction with its use.

Excess – Funding of these reserves will come generally from one-time revenues, annual net income, and transfers from other reserves that exceed policy levels. They will be funded in the following priority order with any remaining funds to be placed in the Capital Reserve:

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

[4] Excludes Transfers Out

Fiscal Policies – Investment Policy

The City Council annually updates and adopts a City Investment Policy that is in compliance with State statutes on allowable investments. By policy, the Audit Committee reviews the policy and acts as an oversight committee on investments. The policy directs that an external auditor perform agreed-upon procedures to review City compliance with the policy. The full policy is available on the City website as part of the May 1, 2018 City Council agenda packet.

Fiscal Policies – COMMUNITY FUNDING POLICY

Purpose

The City of Cupertino currently provides funding to local non-profit organizations in the areas of social services, fine arts and other programs for the general public. This policy establishes a standard application process whereby funding decisions of non-profit requests can be addressed on a fair and consistent basis by establishing a set of criteria for evaluating requests, ensuring that all entities follow a formal application process and pre-approving a dollar limit for those requests.

Scope

All requests for funding must comply with this policy.

Policy

The applicant should identify the services provided, purpose for the funds, how the expenditure aligns to City priorities and how the funds will be used to benefit the Cupertino community.

A recurring organization should state how prior year funds, if any, were used.

The applicant should include information about the organization, its budget and its purpose.

Non-profit organizations which serve multi-jurisdictions should state what they have requested from other cities/organizations they service in regards to this program request.

Cupertino does not fund ongoing operational costs. Requests should be for one-time, project specific needs.

The organization must show that their staff has the experience to implement and manage the project. More than 75% of the budget must go to direct service costs versus administrative costs.

Staff should include all requests and funding recommendations for Council consideration.

Non-profits will be notified of our process in advance and no proposals will be entertained after **March 1 of each year**.

City Council will make the final decision as part of the budget process.

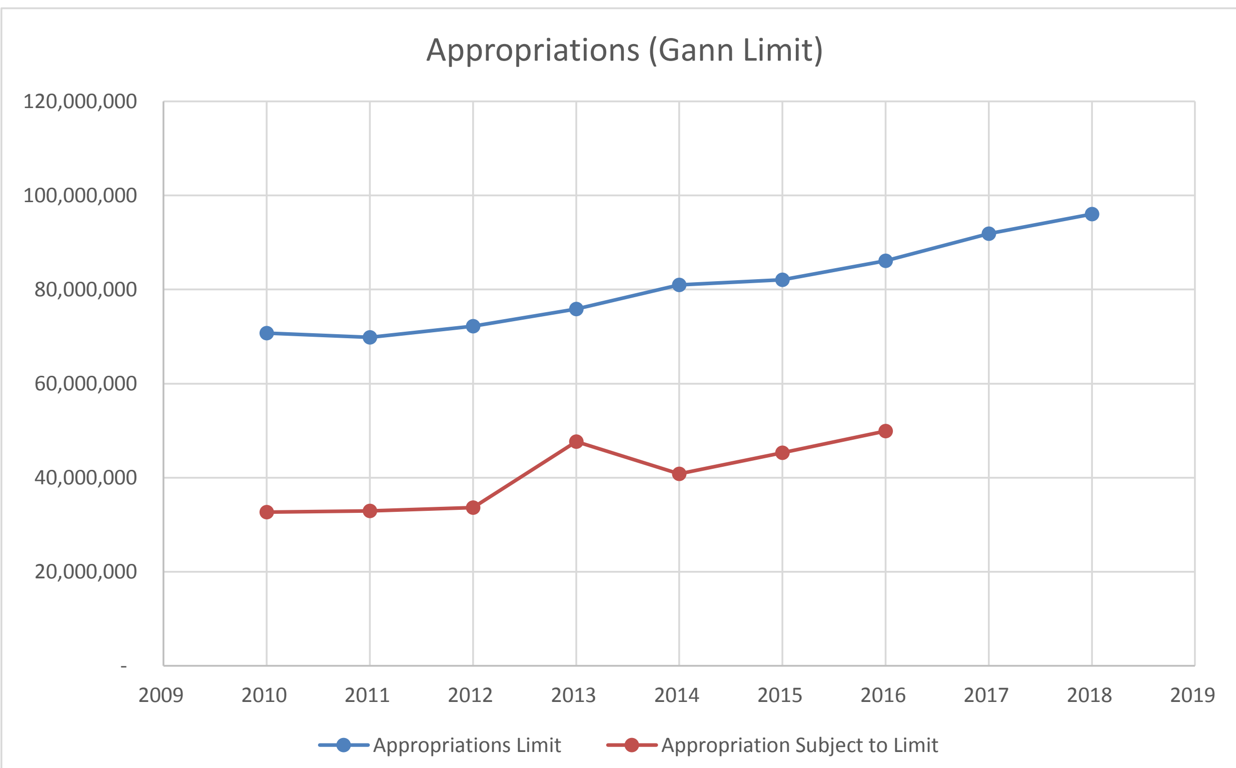
Appropriations & Legal Debt Limit Margin

GANN APPROPRIATIONS LIMIT

Fiscal Year 2018-19

Article XIIIB of the California State Constitution as enacted by Proposition 4, the Gann initiative of 1979, mandates a limit on the amount of proceeds of taxes that state and local governments can receive and appropriate (authorize to spend) each year. The purpose of this law is to limit government spending by putting a cap on the total proceeds of taxes that may be appropriated each year. The original Article XIIIB was further modified by Proposition 111 and SB 88 approved by California voters in June of 1990. Proposition 111 allows cities more flexibility in choosing certain inflation and population factors to calculate the limit.

Appropriations Subject to Limit



The limit is different for each agency and the limit changes each year. Each year's limit is based on the amount of tax proceeds that were authorized to be spent in fiscal year 1978-79 in each agency, modified for changes in inflation and population in each subsequent year. Proposition 111 has modified those factors to allow cities to choose either the growth in California Per Capita Income or the growth in non-residential assessed valuation due to new construction in the city. Alternatively, the city could select a population growth factor represented by the population growth in Santa Clara County. Each year the city establishes its appropriations limit for the following fiscal year.

The City's appropriations limit for FY 2019 is $______, $______, or ___% higher than the FY 2018 limit of $96,028,488. For FY 2019, the City's estimated appropriations of proceeds from taxes, less statutory exclusions, are unchanged as of the Final Budget. If a city exceeds the legal limit, excess tax revenue must be returned to the State or citizens through a process of refunds, rebates, or other means that may be determined at that time. The appropriations limit is not expected to present a constraint on current or future budget deliberations.

LEGAL DEBT MARGIN

Fiscal Year 2018-19

The Government Code of the State of California provides for a legal debt limit of 15% of gross assessed valuation. However, this provision was enacted when assessed valuation was based upon 25% of market value. Effective with the 1981-82 fiscal year, each parcel is now assessed at 100% of market value (as of the most recent change in ownership for that parcel). The computation shown below reflects a conversion of assessed valuation data for fiscal year 2017/18 from the current full valuation perspective to the 25% level that was in effect at the time that the legal debt margin was enacted by the State of California for local governments located within the State.

Description	Amount	Formula
Secured Property Assessed Value, Net of Exempt Real Property (1)	$27,750,185,792	
Adjusted Valuation – 25% of Assessed Valuation (2)	6,937,546,448	(1) * 25%
Debt Limit – 15% of Adjusted Valuation	1,040,631,967	(2) * 15%
Total City Bonded Debt (3)	31,520,000	
Less: Certificates of Participation Not Subject to Debt Limit (4)	(31,520,000)	
Amount of Debt Subject to Limit	-	(3) – (4)
Legal Debt Margin	$1,040,631,967	

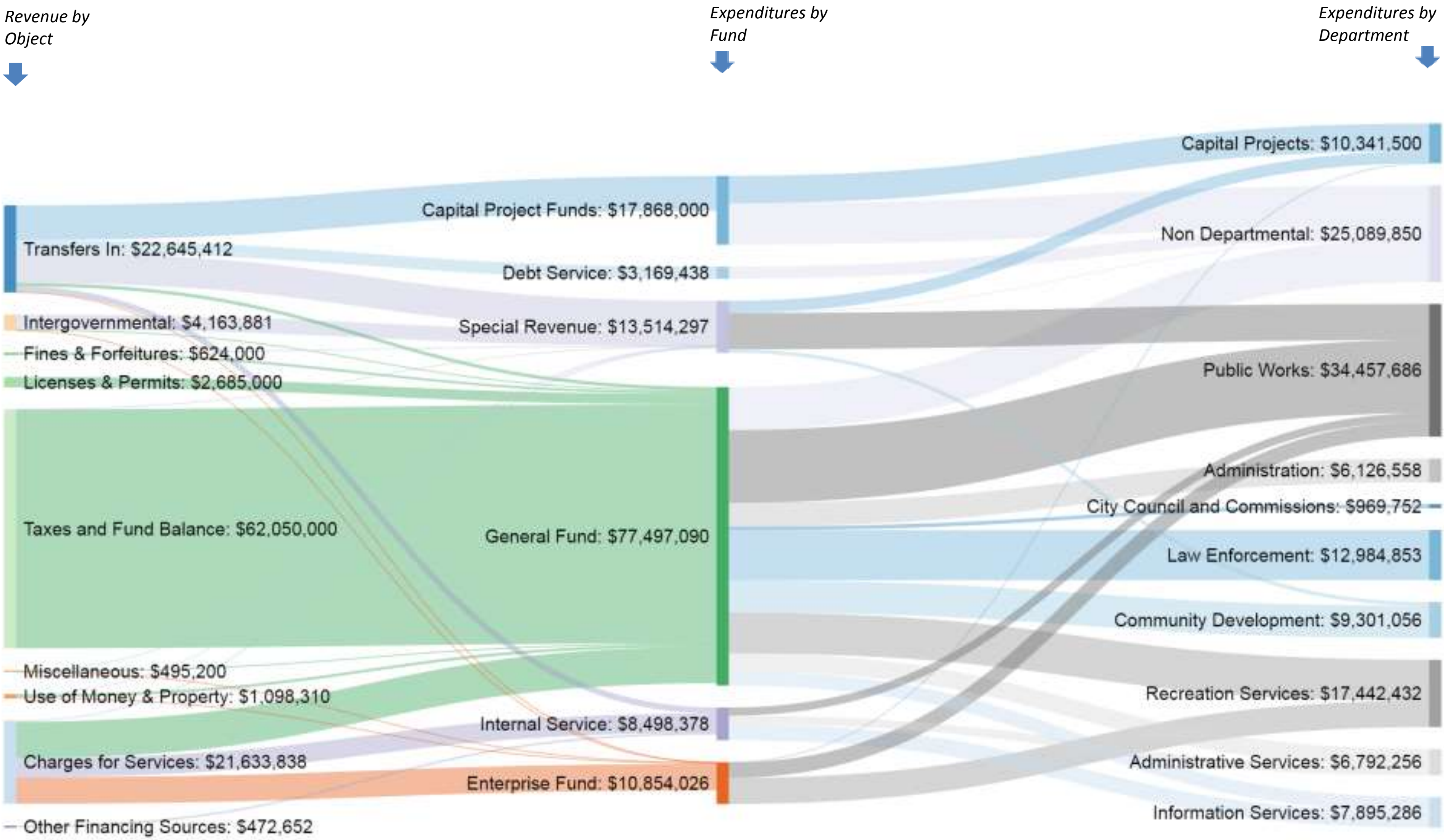
FISCAL YEAR 2018-19 PROPOSED BUDGET
FINANCIAL OVERVIEW BY FUND

Revenue Categories	General Fund	Special Revenue Fund	Debt Service Fund	Capital Project Funds	Enterprise Funds	Internal Service Funds	2018-19 Proposed Budget Total
Sales Tax	$ 23,637,000	$ -	$ -	$ -	$ -	$ -	$ 23,637,000
Property Tax	$ 22,766,000	$ -	$ -	$ -	$ -	$ -	$ 22,766,000
Transient Occupancy	$ 8,252,000	$ -	$ -	$ -	$ -	$ -	$ 8,252,000
Utility Tax	$ 3,200,000	$ -	$ -	$ -	$ -	$ -	$ 3,200,000
Franchise Fees	$ 3,042,000	$ -	$ -	$ -	$ -	$ -	$ 3,042,000
Other Taxes	$ 1,150,000	$ 3,000	$ -	$ -	$ -	$ -	$ 1,153,000
Licenses & Permits	$ 2,685,000	$ -	$ -	$ -	$ -	$ -	$ 2,685,000
Use of Money & Property	$ 692,000	$ 89,310	$ -	$ -	$ 317,000	$ -	$ 1,098,310
Intergovernmental	$ 326,000	$ 3,822,881	$ -	$ -	$ 15,000	$ -	$ 4,163,881
Charges for Services	$ 9,419,276	$ 370,000	$ -	$ -	$ 6,871,400	$ 4,973,162	$ 21,633,838
Fines & Forfeitures	$ 615,000	$ 9,000	$ -	$ -	$ -	$ -	$ 624,000
Miscellaneous	$ 244,200	$ 185,000	$ -	$ -	$ 66,000	$ -	$ 495,200
Transfers In/Other Financing Uses	$ 860,000	$ 7,911,000	$ 3,169,438	$ 9,051,500	$ 75,000	$ 2,051,126	$ 23,118,064
TOTAL REVENUE	**$ 76,888,476**	**$ 12,390,191**	**$ 3,169,438**	**$ 9,051,500**	**$ 7,344,400**	**$ 7,024,288**	**$ 115,868,293**

Appropriation Categories	General Fund	Special Revenue Fund	Debt Service Fund	Capital Project Funds	Enterprise Funds	Internal Service Funds	2018-19 Proposed Budget Total
Employee Compensation	$ 19,479,164	$ 990,595	$ -	$ -	$ 1,902,484	$ 1,361,662	$ 23,733,905
Employee Benefits	$ 8,116,568	$ 501,148	$ -	$ -	$ 566,178	$ 1,696,269	$ 10,880,163
Materials	$ 5,772,556	$ 680,119	$ -	$ -	$ 568,836	$ 981,277	$ 8,002,788
Contract Services	$ 19,307,436	$ 867,900	$ -	$ -	$ 6,066,925	$ 1,981,855	$ 28,224,116
Cost Allocation	$ 9,368,223	$ 425,454	$ -	$ -	$ 906,362	$ 727,082	$ 11,427,121
Capital Outlays	$ 793,000	$ 4,103,379	$ -	$ 7,141,500	$ 75,000	$ -	$ 12,112,879
Special Projects	$ 1,368,298	$ 5,900,000	$ -	$ -	$ 240,000	$ 903,000	$ 8,411,298
Contingencies	$ 1,197,933	$ 35,702	$ -	$ -	$ 207,732	$ 147,882	$ 1,589,249
Transfers Out	$ 11,183,912	$ 10,000	$ -	$ 10,726,500	$ -	$ -	$ 21,920,412
Debt Service/Other Uses	$ 910,000	$ -	$ 3,169,438	$ -	$ 320,509	$ 699,351	$ 5,099,298
TOTAL EXPENDITURES	**$ 77,497,090**	**$ 13,514,297**	**$ 3,169,438**	**$ 17,868,000**	**$ 10,854,026**	**$ 8,498,378**	**$ 131,401,229**
Depreciation Reserve							$ -
Net Increase (Decrease) in Fund Balance/Retained Earnings	**$ (608,614)**	**$ (1,124,106)**	**$ -**	**$ (8,816,500)**	**$ (3,509,626)**	**$ (1,474,090)**	**$ (15,532,936)**

FISCAL YEAR 2018-19 PROPOSED BUDGET
FLOW OF FUNDS CHART

SOURCE OF FUNDS



FISCAL YEAR 2018-19 PROPOSED BUDGET
GENERAL FUND CONTRIBUTION SCHEDULE

Fund Type	Proposed Budget Expenditures	Projected Program Revenues	Proposed Budget Fund Balance/ Retained Earnings (Usage) /	Proposed General Fund Contribution
General Fund				
10 City Council				
100 City Council	417,912	406,858	-	11,054
101 Community Funding	74,531	-	-	74,531
110 Sister Cities	57,352	-	-	57,352
11 Commissions				
131 Telecommunication Commission	6,640	-	-	6,640
140 Library Commission	27,350	-	-	27,350
142 Fine Arts Commission	44,349	-	-	44,349
150 Public Safety Commission	28,945	-	-	28,945
155 Bike/Ped Safety Commission	6,278	-	-	6,278
160 Recreation Commission	40,690	-	-	40,690
165 Teen Commission	71,571	-	-	71,571
170 Planning Commission	127,478	-	-	127,478
175 Housing Commission	36,565	-	-	36,565
180 Sustainability Commission	30,091	-	-	30,091
12 City Manager				
120 City Manager	1,179,888	332,342	-	847,546
122 Sustainability Division	888,266	-	-	888,266
126 Public Affairs	549,902	122,318	-	427,584
13 City Clerk				
130 City Clerk	603,198	63,559	-	539,639
132 Duplicating/Mail Services	98,911	-	-	98,911
133 Elections	82,740	-	-	82,740
14 City Manager Discretion				
123 City Manager Contingency	593,661	-	-	593,661
15 City Attorney				
141 City Attorney	2,129,992	194,351	-	1,935,641
20 Law Enforcement				
200 Law Enforcement SC Sherif	12,300,529	510,000	-	11,790,529
201 Interoperability Project	49,598	-	-	49,598
202 Code Enforcement	634,726	265,000	-	369,726
31 I&T Video				
305 Video	1,557,572	-	-	1,557,572
307 Public Access Support	73,503	-	-	73,503
32 I&T Applications				
308 Applications	2,083,188	-	-	2,083,188
40 Administrative Services				
400 Admin Services Administration	966,135	49,347	-	916,788
41 Finance				
405 Accounting	1,294,931	1,206,427	-	88,504
406 Business Licenses	189,184	-	-	189,184
44 Human Resources				
412 Human Resources	1,201,425	788,243	-	413,182
417 Insurance Administration	954,886	788,243	-	166,643
60 Recreation & Community Service				
601 Rec & Comm Svcs Administration	804,138	42,000	-	762,138
634 Park Planning and Restoration	267,549	-	-	267,549
636 Library Services	969,505	-	-	969,505
61 Business and Community Services				
602 Administration	923,993	-	-	923,993
605 Cultural Events	646,618	-	-	646,618
630 Facilities	684,362	703,382	-	(19,020)
632 Comm Outreach & Neigh Watch	201,251	-	-	201,251

FISCAL YEAR 2018-19 PROPOSED BUDGET
GENERAL FUND CONTRIBUTION SCHEDULE

Fund Type	Proposed Budget Expenditures	Projected Program Revenues	Proposed Budget Fund Balance/ Retained Earnings (Usage) /	Proposed General Fund Contribution
62 Recreation and Education				
608 Administration	1,281,016	34,000	-	1,247,016
623 Youth, Teen and Senior Adult Rec	2,036,109	581,550	-	1,454,559
63 Sports, Safety & Outdoor Rec				
612 Park Facilities	2,382,394	374,000	-	2,008,394
615 Administration	190,734	-	-	190,734
633 Disaster Preparedness	266,914	-	-	266,914
70 Planning & Community Development				
700 Community Development Admin	786,755	-	-	786,755
71 Planning				
701 Current Planning	2,854,250	1,462,500	-	1,391,750
702 Mid Long Term Planning	739,478	215,000	-	524,478
704 Annexations	903	-	-	903
705 Economic Development	231,632	-	-	231,632
72 Housing Services				
712 Human Service Grants	103,010	-	-	103,010
73 Building				
713 General Building	854,205	460,000	-	394,205
714 Construction Plan Check	1,341,586	751,000	-	590,586
715 Building Code Enforcement	1,158,840	1,450,000	-	(291,160)
718 Muni-Bldg Code Enforcement	262,224	-	-	262,224
80 PW Admin				
800 Public Works Admin	938,583	-	-	938,583
82 Developmental Services				
804 Plan Review	1,297,073	556,000	-	741,073
806 CIP Administration	739,939	-	-	739,939
83 Service Center				
807 Service Center Administration	1,234,946	50,000	-	1,184,946
84 Grounds				
808 McClellan Ranch Park	84,009	-	-	84,009
809 Memorial Park	760,345	-	-	760,345
812 School Site Maintenance	1,128,886	135,000	-	993,886
813 Neighborhood Parks	1,629,502	-	-	1,629,502
814 Sport Fields Jollyman CRK	665,541	-	-	665,541
815 Civic Center Ground Maint	261,867	193,990	-	67,877
85 Streets				
818 Storm Drain Maintenance	476,503	-	-	476,503
848 Street Lighting	588,241	-	-	588,241
850 Environmental Materials	195,008	-	-	195,008
86 Trees and Right of Way				
824 Overpasses and Medians	1,251,274	-	-	1,251,274
825 Street Tree Maintenance	1,194,987	22,000	-	1,172,987
826 Weekend Work Program	469,476	-	-	469,476
87 Facilities and Fleet				
827 Bldg Maint City Hall	619,750	303,250	-	316,500
828 Bldg Maint Library	338,834	550,800	-	(211,966)
829 Bldg Maint Service Center	262,132	323,466	-	(61,334)
830 Bldg Maint Quinlan Center	466,416	181,950	-	284,466
831 Bldg Maint Senior Center	241,686	181,950	-	59,736
832 Bldg Maint McClellan Ranch	178,993	1,700	-	177,293
833 Bldg Maint Monta Vista Ct	227,890	121,300	-	106,590
834 Bldg Maint Wilson	63,164	-	-	63,164
835 Bldg Maint Portal	37,207	-	-	37,207
837 Bldg Maint Creekside	65,790	60,650	-	5,140

FISCAL YEAR 2018-19 PROPOSED BUDGET
GENERAL FUND CONTRIBUTION SCHEDULE

Fund Type	Proposed Budget Expenditures	Projected Program Revenues	Proposed Budget Fund Balance/ Retained Earnings (Usage) /	Proposed General Fund Contribution
838 Comm Hall Bldg Maint	251,328	202,167	-	49,161
839 Teen Center Bldg Maint	96,024	80,867	-	15,157
840 Park Bathrooms	168,860	-	-	168,860
841 BBF Facilities Maintenance	556,114	444,766	-	111,348
852 Franco Traffic Operations Center	35,633	-	-	35,633
88 Transportation				
844 Traffic Engineering	1,424,695	458,500	-	966,195
845 Traffic Signal Maintenance	526,530	-	-	526,530
846 Safe Routes 2 School	446,499	-	-	446,499
90 Citywide - Non Departmental				
001 No Department	11,183,912	-	-	11,183,912
502 EE Housing Loan	-	-	-	-
GENERAL FUND SUBTOTAL I	**$ 77,497,090**	**$ 14,668,476**	**$ -**	**$ 62,828,614**
General Fund Revenue/Fund Balance				
General Fund Revenue	-	61,720,000	-	(61,720,000)
Unassigned Fund Balance	-	-	$ (608,614)	(608,614)
GENERAL FUND SUBTOTAL II	**$ -**	**$ 61,720,000**	**$ (608,614)**	**$ (62,328,614)**
TOTAL GENERAL FUND	**$ 77,497,090**	**$ 76,388,476**	**$ (608,614)**	**$ 500,000**
Special Revenue Fund				
Non Point Source	720,785	379,000	94,215	436,000
HCD General Administration	65,871	62,388	(3,483)	-
CDBG- Capital Grants	210,892	205,729	(5,163)	-
Public Service Grants	47,983	46,791	(1,192)	-
Below Market Rate Housing	643,427	3,000	(640,427)	-
Sidewalk, Curb and Gutter Maint	1,195,876	1,057,060	661,184	800,000
Street Pavement Maintenance	6,832,574	1,525,379	(307,195)	5,000,000
Street Signs/Markings	661,889	-	(661,889)	-
Parkland Fund	10,000	-	(10,000)	-
CIP - MRP Community Garden Improvement Construction	1,500,000	575,000	(925,000)	-
CIP - MRP EEC Aquatic Habitat	125,000	-	(125,000)	-
CIP - Storm Drain MP Implementation	1,500,000	700,000	(600,000)	200,000
Non-Departmental	-	1,399,844	1,399,844	-
TOTAL SPECIAL REVENUE FUNDS	**$ 13,514,297**	**$ 5,954,191**	**$ (2,523,950)**	**$ 6,436,000**
		0		
Debt Service				
Public Facilities Corporation	3,169,438	-	-	3,169,438
TOTAL DEBT SERVICE	**$ 3,169,438**	**$ -**	**$ -**	**$ 3,169,438**
Capital Funds				
CIP - SCCP Chain to MP-MCLN to SCB	75,000	75,000	-	-
CIP - ADA Improvements	75,000	75,000	-	-
CIP - Sport Center Exterior Upgrades	830,000	830,000	-	-
CIP - Service Center Shed #3 Improvements	600,000	600,000	-	-
CIP - Bike Plan Implementation	1,800,000	1,800,000		
CIP - Citywide Parks and Recreation Master Plan	100,000	100,000	-	-
CIP - Prelim Planning and Design	125,000	125,000	-	-
CIP - Capital Project Support	50,000	50,000	-	-
CIP - Street Light Install Annual Infill	30,000	30,000	-	-
CIP - CW Building Condition Assessment Implementation	1,000,000	1,000,000	-	-
CIP - Creek Infall/Outfall Restoration	160,000	160,000	-	-

FISCAL YEAR 2018-19 PROPOSED BUDGET
GENERAL FUND CONTRIBUTION SCHEDULE

Fund Type	Proposed Budget Expenditures	Projected Program Revenues	Proposed Budget Fund Balance/ Retained Earnings (Usage) /	Proposed General Fund Contribution
CIP - DeAnza Median Island Landscaping Phase 2	1,546,500	1,546,500	-	-
CIP - Regnart Road Improvements	150,000	150,000	-	-
CIP - School Walk Audit Implementation	250,000	250,000	-	-
CIP -SCB/Bandley Signal and Median Improvements	150,000	150,000	-	-
CIP - Street Light Replacement CW (Labor)	200,000	200,000	-	-
Transfer In	-	1,910,000		
Transfer Out	10,726,500	-	(10,726,500)	-
TOTAL CAPITAL FUNDS	**$ 17,868,000**	**$ 9,051,500**	**$ (10,726,500)**	**$ -**
Enterprise Funds				
Resources Recovery	3,501,101	2,268,000	(1,233,101)	-
Golf Course	687,939	335,000	(352,939)	-
Sports Center	2,460,735	2,100,500	(360,235)	-
Sports Center Maintenance	490,076	-	(490,076)	-
Youth Teen Recreation	2,040,825	1,444,500	(596,325)	-
Outdoor Recreation	1,598,350	1,121,400	(476,950)	-
CIP - BBF Entrance Road Improvement Feasability Study	75,000	75,000	-	-
TOTAL ENTERPRISE FUNDS	**$ 10,854,026**	**$ 7,344,400**	**$ (3,509,626)**	**$ -**
Internal Service Funds				
Information Services Admin	405,034	359,741	(45,293)	-
Information Technology	2,668,918	2,284,031	(384,887)	-
GIS	1,107,071	1,110,156	3,085	-
Equipment Maintenance	1,593,660	1,056,968	(536,692)	-
Equipment Fixed Asset Acquisition	538,000	-	(538,000)	-
Workers' Compensation Claims	472,652	472,652		-
Disability Claims	162,266	162,266	-	-
Leave Payouts	422,772	-	24,228	447,000
Retiree Medical Insurance	1,128,005	-	3,469	1,131,474
TOTAL INTERNAL SERVICE FUNDS	**$ 8,498,378**	**$ 5,445,814**	**$ (1,474,090)**	**$ 1,578,474**
TOTAL ALL FUNDS	**$ 131,401,229**	**$ 104,184,381**	**$ (18,842,780)**	**$ 11,683,912**

FISCAL YEAR 2018-19 PROPOSED BUDGET
FUND BALANCE REPORT

FUND		Fund Balance 7/1/2017	Projected Fund Balance 7/1/2018	Projected Program Revenue	Proposed Budget Expenditures	Projected Fund Balance 7/1/2019
100	**GENERAL FUND**	$ 53,589,690	$ 45,961,772	$ 76,888,476	$ 77,497,090	$ 45,353,158
	SPECIAL REVENUE					
210, 215	Storm Drain Improvement	$ 3,102,458	$ 806,981	$ 1,100,000	$ 1,500,000	$ 406,981
230	Environmental Management/ Clean Creek / Storm Drain	397,236	63,752	815,900	720,785	158,867
260, 261 265	Housing & Community Development	12,484,169	1,390,243	325,852	968,173	747,922
270	Transportation	8,379,939	523,437	9,573,439	8,690,339	1,406,537
280, 281	Park Dedication	9,412,547	1,435,261	575,000	1,635,000	375,261
	TOTAL SPECIAL REVENUE FUNDS	**$ 33,776,349**	**$ 4,219,674**	**$ 12,390,191**	**$ 13,514,297**	**$ 3,095,568**
	Debt Service					
365	Public Facilities Corporation	$ 1,597,234	$ 1,597,234	$ 3,167,538	$ 3,167,538	$ 1,597,234
	Capital Funds					
420	Capital Improvement Fund	9,272,101	2,920,404	9,051,500	7,141,500	4,830,404
427	Stevens Creek Corridor Park	236,814	54,971	-	-	54,971
429	Capital Reserve	15,797,060	10,613,062	-	10,726,500	(113,438)
	TOTAL CAPITAL FUNDS	**$ 25,305,975**	**$ 13,588,436**	**$ 9,051,500**	**$ 17,868,000**	**$ 4,771,936**
	Enterprise Funds					
520	Resource Recovery	$ 5,341,647	$ 3,972,178	$ 2,268,000	$ 3,501,101	$ 2,739,077
560	Blackberry Farm	637,556	228,590	410,000	762,939	(124,349)
570	Sports Center	2,004,836	1,760,432	2,100,500	2,950,811	910,121
580	Recreation Programs	3,067,419	2,213,327	2,565,900	3,639,175	1,140,052
	TOTAL ENTERPRISE FUNDS	**$ 11,051,458**	**$ 8,174,527**	**$ 7,344,400**	**$ 10,854,026**	**$ 4,664,901**
	Internal Service Funds					
610	Information Technology	$ 2,204,739	$ 207,573	$ 3,753,928	$ 4,181,023	$ (219,522)
620	Workers' Compensation	1,325,940	1,428,703	472,652	472,652	1,428,703
630	Equipment	2,371,328	1,490,496	1,056,968	2,131,660	415,804
641	Compensated Absence & LTD	150,989	225,484	609,266	585,038	249,712
642	Retiree Medical	9,015,651	10,415,651	1,131,474	1,128,005	10,419,120
	TOTAL INTERNAL SERVICE FUNDS	**$ 15,068,647**	**$ 13,767,907**	**$ 7,024,288**	**$ 8,498,378**	**$ 12,293,817**
	TOTAL ALL FUNDS	**$ 140,389,353**	**$ 87,309,550**	**$ 115,866,393**	**$ 131,399,329**	**$ 71,776,614**

General Fund Summary

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.

For FY 2018-19, General Fund revenue estimates (excluding fund balance) total $76.9 million, representing a 4% decrease from the FY 2017-18 Adopted Budget, mostly due to a wind down in development resulting in less revenue in Charges for Services and Construction Tax. When fund balance carryover is included, General Fund resources total $45.4 million, which is consistent with the FY 2017-18 Adopted Budget. General Fund expenditure estimates total $77.5 million, representing a 3% increase from FY 2017-18 Adopted, mostly due to increased costs in salary and benefits as a result of increased staffing and negotiated increases as part of the third year of a 3 year contract with the City's bargaining groups. In addition, cost allocation has increased due to a change in allocation methodology for IT charges from a "per user" to "per device" basis and an increase in materials due to the acquisition of software. The General Fund's ending fund balance is projected to decrease by 1% from FY 2017-18 estimated ending fund balance. This is due to the transfer out of $6 million to the Capital Reserve as approved in the Mid-Year Financial Report.

GENERAL FUND OPERATING SUMMARY					
	FY 15-16 Actual	FY 16-17 Actual	FY 17-18 Estimated	FY 18-19 Proposed	Percent Change
Beginning Fund Balance	39,324,543	52,194,840	53,589,690	45,961,772	-14%
Operating Revenue	77,932,145	95,163,736	94,580,834	76,888,476	-19%
Operating Expenditures	(65,023,330)	(94,040,212)	(102,208,752)	(77,497,090)	-24%
Net Revenue/Expenditures	12,908,815	1,123,524	(7,627,918)	(608,614)	-92%
Committed/Other	22,325,755	25,531,891	36,316,546	36,316,546	0%
Unassigned	29,869,085	28,057,799	9,645,226	9,036,612	-6%
Total Ending Fund Balance	52,194,840	53,589,690	45,961,772	45,353,158	-1%

This section provides information on the FY 2018-19 General Fund budget including, expenditure and revenue highlights, transfers to other funds, reserve funds and the financial forecast.

General Fund Revenue

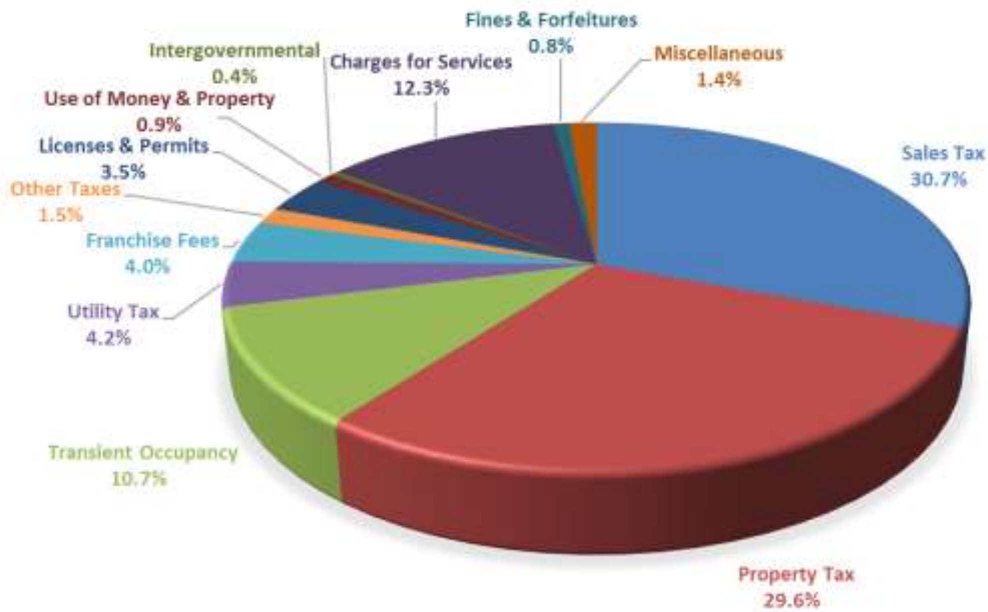
Estimates for the FY 2018-19 beginning fund balance and General Fund revenue sources are based upon a careful examination of collection history and patterns as they relate to such factors as seasonality and performance in the economic environment that the City is most likely to encounter in the coming year. FY 2018-19 revenue estimates are based on the anticipated increase or decrease in activity and receipts over the current year. Each source of revenue can be influenced by external (outside of the City's control) and/or internal factors. The FY 2018-19 revenue estimates are built on the assumption of moderate economic growth that continues to positively impact on the City's tax revenues, while uncertainty surrounding development activities reduces development-related fees and charges.

As shown in the chart below, FY 2018-19 revenues are estimated at $76.9 million, a 4% decrease below the FY 2017-18 Adopted Budget.

GENERAL FUND REVENUE SUMMARY					
REVENUES	**FY 16-17 Actuals**	**FY 17-18 Adopted**	**FY 17-18 Estimate**	**FY 18-19 Proposed**	**Percent Change***
Sales Tax	26,932,012	22,790,000	23,790,000	23,637,000	3.7%
Property Tax	20,219,077	20,757,000	22,357,000	22,766,000	9.7%
Transient Occupancy	6,023,681	6,708,000	6,708,000	8,252,000	23.0%
Utility Tax	3,082,408	3,200,000	3,200,000	3,200,000	0.0%
Franchise Fees	3,409,572	3,040,000	3,040,000	3,042,000	0.1%
Other Taxes	2,981,883	2,850,000	2,850,000	1,150,000	-59.6%
Licenses & Permits	2,536,924	2,145,000	2,145,000	2,685,000	25.2%
Use of Money & Property	1,210,231	1,647,790	1,647,790	692,000	-58.0%
Intergovernmental	330,107	484,000	484,000	326,000	-32.6%
Charges for Services	17,913,165	13,337,897	15,259,770	9,419,276	-29.4%
Fines & Forfeitures	593,122	600,000	600,000	615,000	2.5%
Miscellaneous	9,931,554	2,435,960	12,499,274	1,104,200	-54.7%
TOTAL REVENUE	**95,163,736**	**79,995,647**	**94,580,834**	**76,888,476**	**-3.9%**

*FY18-19 Proposed to FY 17-18 Adopted

The majority of Cupertino's General Fund operating revenues are generated by sales taxes (31%) and property taxes (30%), followed by charges for services (12%) and the transient occupancy tax (11%). The chart on the next page illustrates the sources of General Fund revenue by category.



The FY 2018-19 General Fund revenue estimates are discussed by category in the material that follows.

SALES & USE TAX	
FY 16-17 Actual	26,932,012
FY 17-18 Adopted	22,790,000
FY 17-18 Estimate	23,790,000
FY 18-19 Proposed	23,637,000
% of General Fund	30.74%
% Change from FY 17-18 Adopted	3.72%

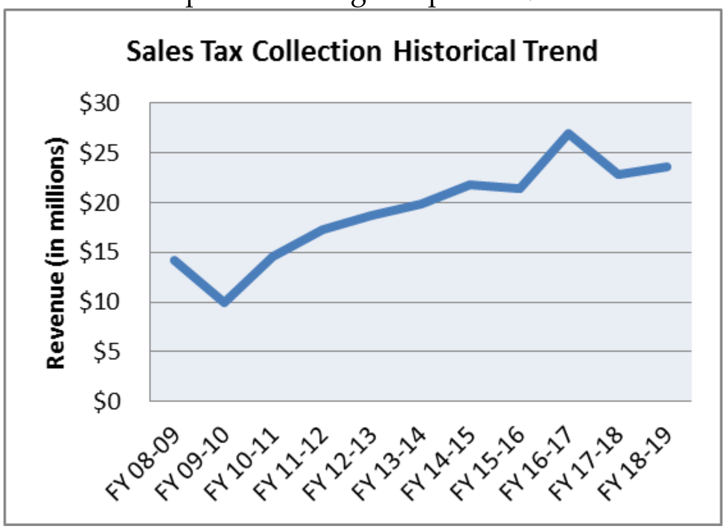
Sales and Use Tax commonly referred to as just the "sales tax" has two components: (1) an excise tax imposed on retailers for the privilege of selling tangible personal property, and (2) an excise tax imposed on a person and applies to purchases from out-of-state vendors that are not required to collect tax on their sales. The proceeds of sales and use taxes imposed within the boundaries of Cupertino are distributed by the State to various agencies, with the City of Cupertino receiving one percent, as shown in the chart to the right.

Agency	Sales Tax Distribution
State	6.250%
Valley Transportation Authority	1.125%
City of Cupertino	1.000%
County Transportation	0.500%
County General Purpose	0.125%
Total:	**9.000%**

The City's sales tax revenues are generated from five principal economic categories: business-to-business 67.0% (includes electronic equipment and software manufacturers and distributors), construction 13.2%, general retail 8.2%, food products 8.2%, and transportation 3.0%.

Our two largest sales tax payers in the business-to-business category represent a large part of that sector and therefore can significantly affect sales tax trends. The top tax payer's corporate and business technology spending has driven growth in this sector. Sales tax activity has increased across most sectors with a decrease primarily in construction. This decrease is attributed to the winding down of construction projects in the City, particularly, the Apple Park campus development. Given these trends, the City's FY 2018-19 sales tax revenue is projected to show a more modest increase going forward.

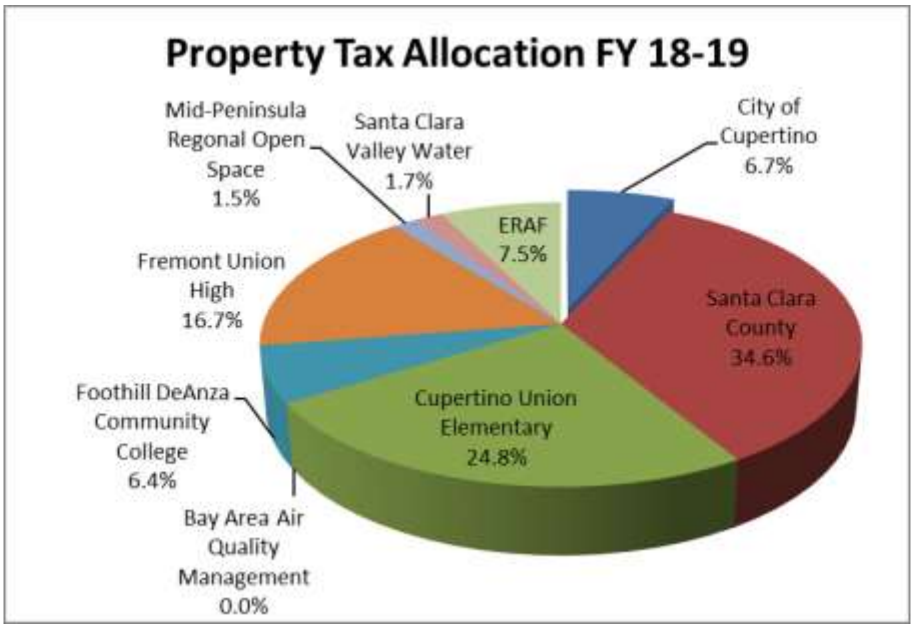
Sales tax receipts took a slight dip of 1.8% in FY 2015-16 only to increase by 26.1% in FY 2016-17 due to a onetime $3.5 million payment related to the close out of the triple flip. Sales tax revenue is expected to drop 11.7% in FY 2017-18, returning to normal levels prior to the triple flip payment. In FY 2017-18, initial fixture, furniture, and equipment purchases for Apple Park contributed to higher sales tax revenues for the year but are not expected for FY 2018-19. Sales tax revenues are estimated to generate $23.6 million in FY 2018-19, which is up 3.7% from the FY 2017-18 Adopted Budget.



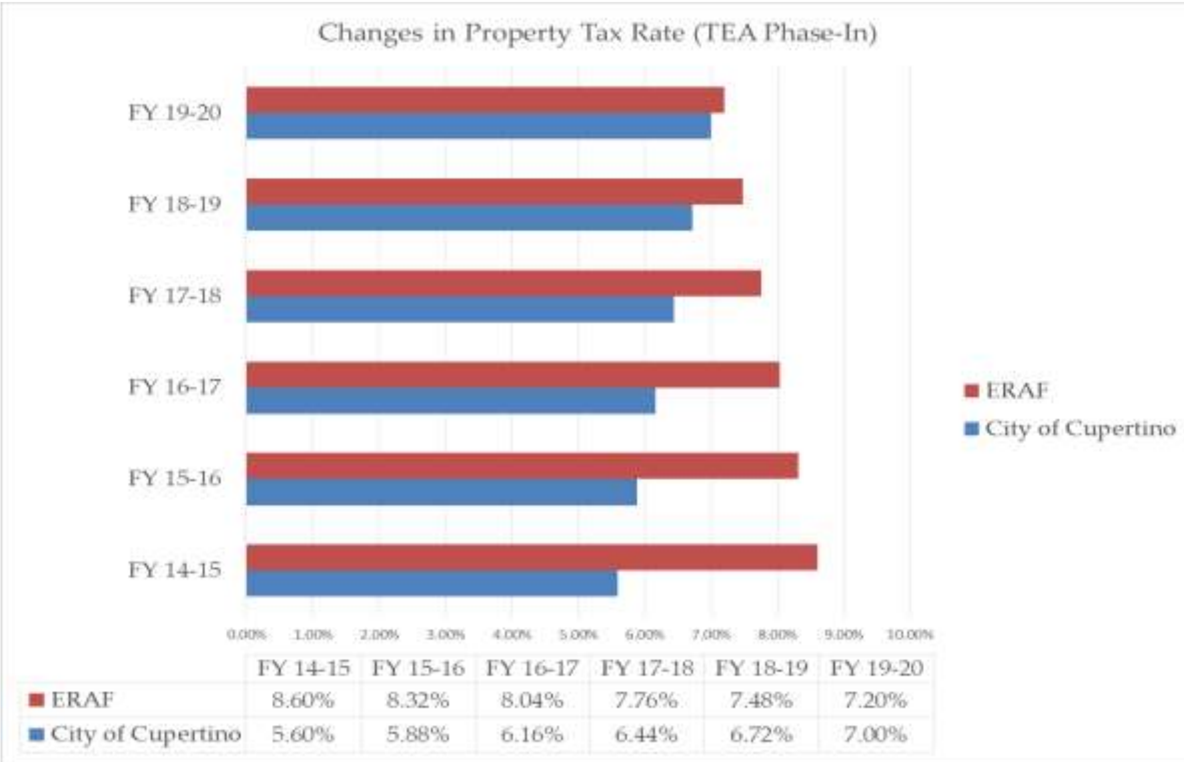
PROPERTY TAX	
FY 16-17 Actual	20,219,077
FY 17-18 Adopted	20,757,000
FY 17-18 Estimate	22,357,000
FY 18-19 Proposed	22,766,000
% of General Fund	29.61%
% Change from FY 17-18 Adopted	9.68%

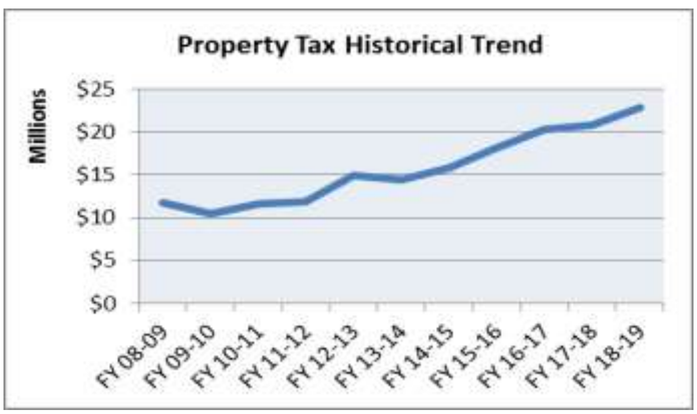
Under current law, property is assessed at actual full cash value with the maximum levy being 1% of the assessed valuation. The assessed value of real property that has not changed ownership can be adjusted by the change in the California Consumer Price Index (CCPI) up to a maximum of 2% per year. Property which changes ownership, property which is substantially altered, newly-constructed property, State-assessed property, and personal property are assessed at the full market value in the first year and subject to the two percent cap, thereafter.

In 1978, voters approved the passage of Proposition 13, which froze property tax rates and limited the amount that rates could increase each year. Cupertino had one of the lowest property tax rates in Santa Clara County receiving only $0.02 for every $1.00 paid. Subsequent legislation required Counties to provide "no/low tax" cities with a Tax Equity Allocation (TEA) equal to 7% of the property tax share, however, the property tax distribution for the no/low tax cities in Santa Clara County was limited to 55% of what other TEA cities in the state received.



In FY 2006-07 West Valley cities won the passage of State legislation which restored a portion of TEA property tax revenue. This TEA change provided an additional $1.35 million in property tax annually and increased the City's share of property taxes to 5.6%. Cupertino, in conjunction with three other West Valley cities, continued legislative efforts to gain parity with other no/low property tax cities in the state. In FY 2015-16, Governor Brown agreed to restore TEA revenues over a five-year period. As shown in the graph above, Cupertino will keep 6.72% of property tax revenues compared to 6.44% in FY 2017-18. TEA will be fully restored to 7% by FY 2019-20 as shown in the following chart.





Property tax receipts increased 11.5% in FY 2016-17. In FY 2017-18, property taxes are up 10.6% due in part to the restoration of TEA funds and reassessment of value for Apple Park. Property tax revenues are estimated to generate $22.8 million in FY 2018-19, which represents a 9.7% increase from the FY 2017-18 Adopted Budget.

TRANSIENT OCCUPANCY TAX	
FY 16-17 Actual	6,023,681
FY 17-18 Adopted	6,708,000
FY 17-18 Estimate	6,708,000
FY 18-19 Proposed	8,252,000
% of General Fund	10.73%
% Change from FY 17-18 Adopted	23.02%

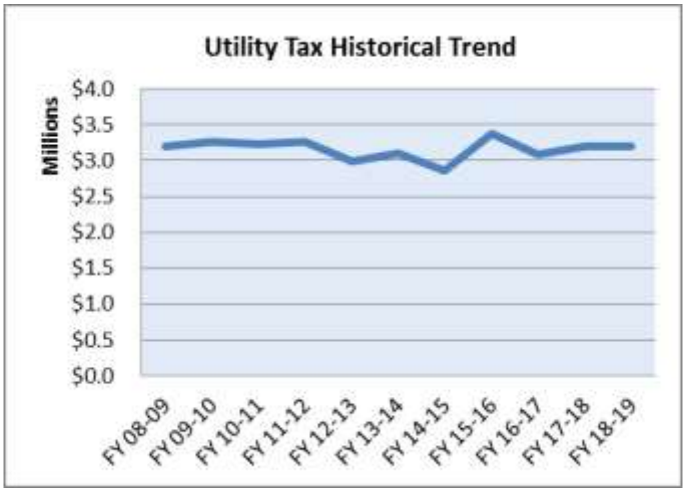
Transient occupancy taxes (TOT) are levied on hotels and short term room rentals located in the City at the rate of 12% of room revenues. In November 2011, 83% of voters approved increasing the rate from 10% to 12%. This rate increase contributed to the upward trend shown in the TOT Historical Trend graph to the right. TOT is expected to increase by 23% in FY 2018-19 mostly due to the new Residence Inn by Marriot located at Main Street, which opened in 2018.

UTILITY TAX	
FY 16-17 Actual	3,082,408
FY 17-18 Adopted	3,200,000
FY 17-18 Estimate	3,200,000
FY 18-19 Proposed	3,200,000
% of General Fund	4.16%
% Change from FY 17-18 Adopted	0.00%

The utility user tax (UUT), approved by voters in 1990, is assessed on gas, electricity and telecommunication services provided within the City's jurisdiction at a rate of 2.4% of billed charges. Revenues generated from this tax can be used for general City purposes.

Utility User Tax Comparison				
	Gas/Electric	Cable	Water	Telecom
Sunnyvale	2.00%	--	--	2.00%
Cupertino	2.40%	--	--	2.40%
Mountain View	3.00%	--	--	3.00%
Los Altos	3.50%	3.20%	3.50%	3.20%
Palo Alto	5.00%	--	5.00%	5.00%
Gilroy	5.00%	4.50%	--	4.50%
San Jose	5.00%	--	5.00%	4.50%

The City's tax rate is generally lower than that of other cities within Santa Clara County, as shown in the chart above. In March 2002, voters approved extending the utility tax's sunset date from 2015 to 2030. This extension corresponded with the extended debt maturity date resulting from the refinancing of debt for capital improvement projects. To maintain tax revenues currently received from telecom services, voters passed a measure in 2009 to update the ordinance to the changing technology in this area.



In FY 2016-17, UUT revenues decreased by 8.6% compared to FY 2015-16, primarily due to the settlement payout that was taken from UUT receipts. UUT revenues are trending up 3.8% in FY 2017-18. Budgeted revenues are expected to remain at $3.2 million for FY 2018-19 and beyond. This revenue source will be monitored closely as the fiscal year progresses.

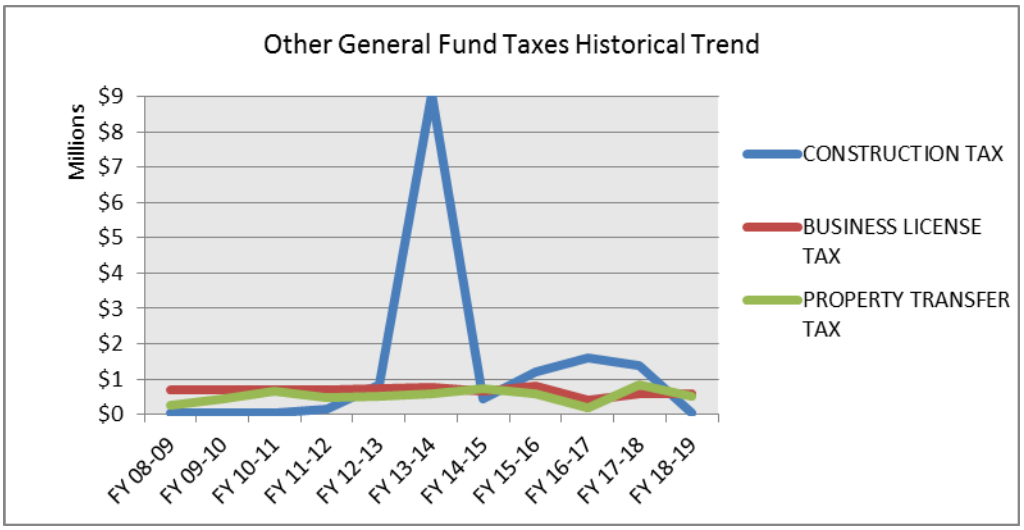
FRANCHISE FEES	
FY 16-17 Actual	3,409,572
FY 17-18 Adopted	3,040,000
FY 17-18 Estimate	3,040,000
FY 18-19 Proposed	3,042,000
% of General Fund	3.96%
% Change from FY 17-18 Adopted	0.07%

Franchise fees are received from cable, solid waste, water, gas and electricity franchisees that operate in the City. The fees range from 1% to 12% of the franchisee's gross revenues depending on each particular agreement. As shown in the graph below, these revenues are relatively steady and not sensitive to economic fluctuations.

Franchise fee revenues decreased by 2% in FY 2016-17 from the prior year. In FY 2017-18, franchise fee revenues are trending down 10.8% partially due to the winding down of development resulting in lower solid waste revenues. Budgeted revenues are expected to remain at approximately $3 million for FY 2018-19. This revenue source will be monitored closely as the fiscal year progresses.

OTHER TAXES	
FY 16-17 Actual	2,981,883
FY 17-18 Adopted	2,850,000
FY 17-18 Estimate	2,850,000
FY 18-19 Proposed	1,150,000
% of General Fund	1.50%
% Change from FY 17-18 Adopted	-59.65%

Other taxes are comprised mainly of business license taxes, construction taxes, and property transfer taxes. As shown in the graph, business license taxes are relatively steady while construction and property transfer taxes are extremely volatile and sensitive to economic fluctuations.

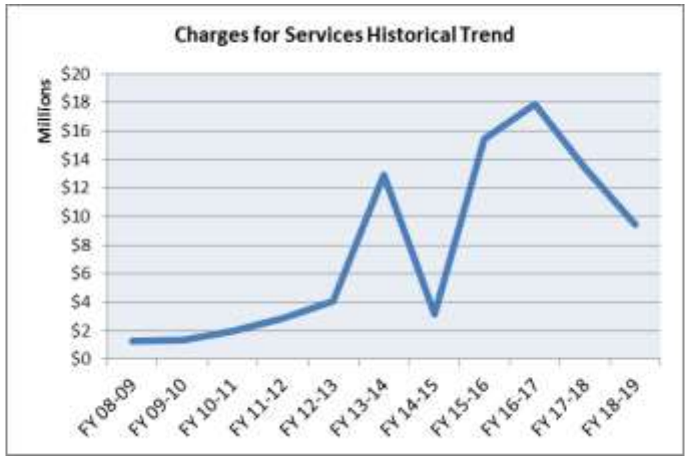


With the influx of several major construction projects beginning in 2012, revenues began increasing. The largest of the projects included the Apple Park and Main Street developments. These projects coupled with a strong housing recovery created a record year for revenues in FY 2013-14. These revenues have since returned to historic levels. In FY 2018-19, these revenues are expected to be $1.2 million.

CHARGES FOR SERVICE	
FY 16-17 Actual	17,913,165
FY 17-18 Adopted	13,337,897
FY 17-18 Estimate	15,259,770
FY 18-19 Proposed	9,419,276
% of General Fund	12.25%
% Change from FY 17-18 Adopted	-29.38%

This category accounts for charges to users of City services funded by the General Fund as well as internal City-wide overhead. The City attempts to recover the cost of the services, including planning, zoning, and engineering permit processing for new property development as well as some recreation-related fees. As such, this revenue source is sensitive to economic fluctuations, as shown in the graph below. Apple Park and other large developments generated large one-time revenues in FY 2013-14 as well as FY 2015-16 and FY 2016-17.

In addition, beginning in FY 2013-14, enterprise funds, internal service funds, and special funds began charging for overhead services previously subsidized by the General Fund. Some internal strategic support services (HR, Finance, City Clerk, etc.) also began charging internal departments for their services to accurately capture the true cost of providing various programs and services within City operations. After a comprehensive cost allocation plan (CAP) was approved by Council in April 2016, new CAP charges were included to capture internal strategic support services that were previously excluded (City Council, Facilities, Maintenance, etc.). In FY 2015-16, the City's administration changed its methodology for tracking developer deposits driven by increased developer activity and, as a result, both budgets for revenues and expenses were increased by anticipated deposit amounts leading to another large increase in revenue.

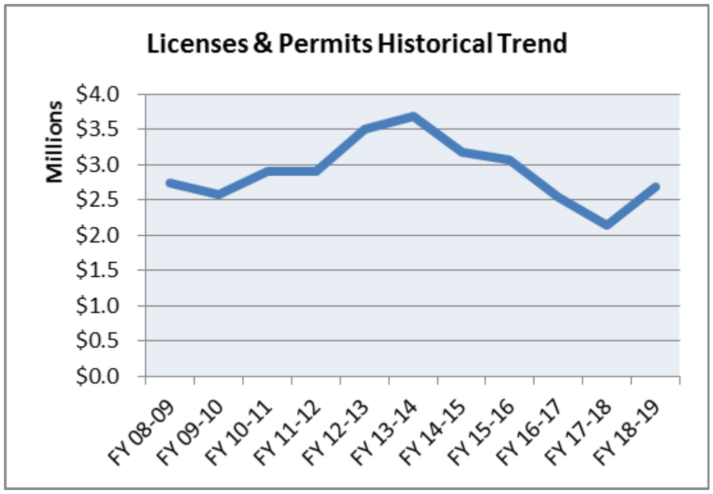


For FY 2018-19, Charges for Services will decrease to $9.4 million largely due to the winding down of development projects. In addition, revised fees will be brought to Council for approval in June which may result in increased revenue estimates.

LICENCES AND PERMITS	
FY 16-17 Actual	2,536,924
FY 17-18 Adopted	2,145,000
FY 17-18 Estimate	2,145,000
FY 18-19 Proposed	2,685,000
% of General Fund	3.49%
% Change from FY 17-18 Adopted	25.17%

Licenses and permits include fees for reviewing building plans, building inspections, construction, tenant improvements, and commercial/residential installations for compliance with state and municipal building codes.

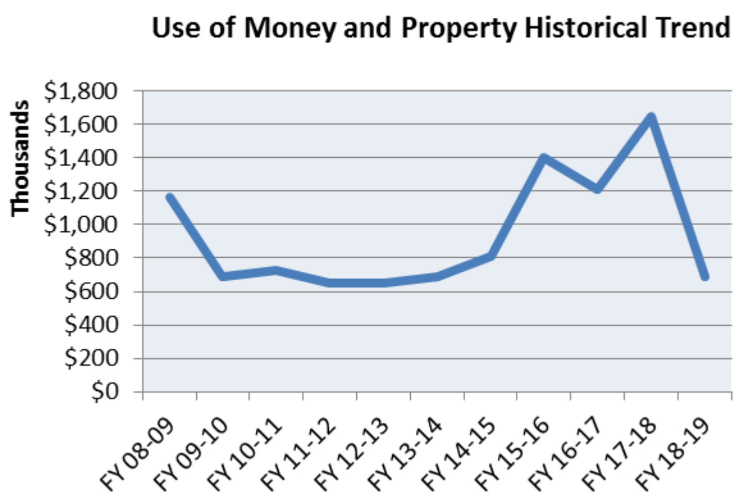
The Apple Park project and large residential projects (Rosebowl, Biltmore expansion, Main Street) generated significant permitting revenues in FY 2013-14. Since then, activity has slowed. FY 2016-17 revenues came in 17.4% lower and another 15.4% drop was projected as part of the FY 2017-18 Adopted Budget due to the winding down of construction projects in the City. Revenue estimates for FY 2018-19 are up 25.2% as building plan review revenue actuals have been trending higher.



USE OF MONEY AND PROPERTY	
FY 16-17 Actual	1,210,231
FY 17-18 Adopted	1,647,790
FY 17-18 Estimate	1,647,790
FY 18-19 Proposed	692,000
% of General Fund	0.90%
% Change from FY 17-18 Adopted	-58.00%

The use of money and property category is comprised of General Fund interest earnings as well as facility and concession rental income of City-owned property. The City's portfolio is approximately $136.6 million. Fluctuations in this revenue category are a result of investment earnings, as rental income is fairly steady.

Investment earnings are a function of the amount of excess cash available for investment, current interest rates, and composition of investments. The City's investment policy requires investments to be made in this order of priority: safety, liquidity, and yield. The unprecedented turmoil in the financial markets and state cash flow problems necessitated a weighting of the portfolio toward safety and lower average yields. In March 2018, the Federal Reserve

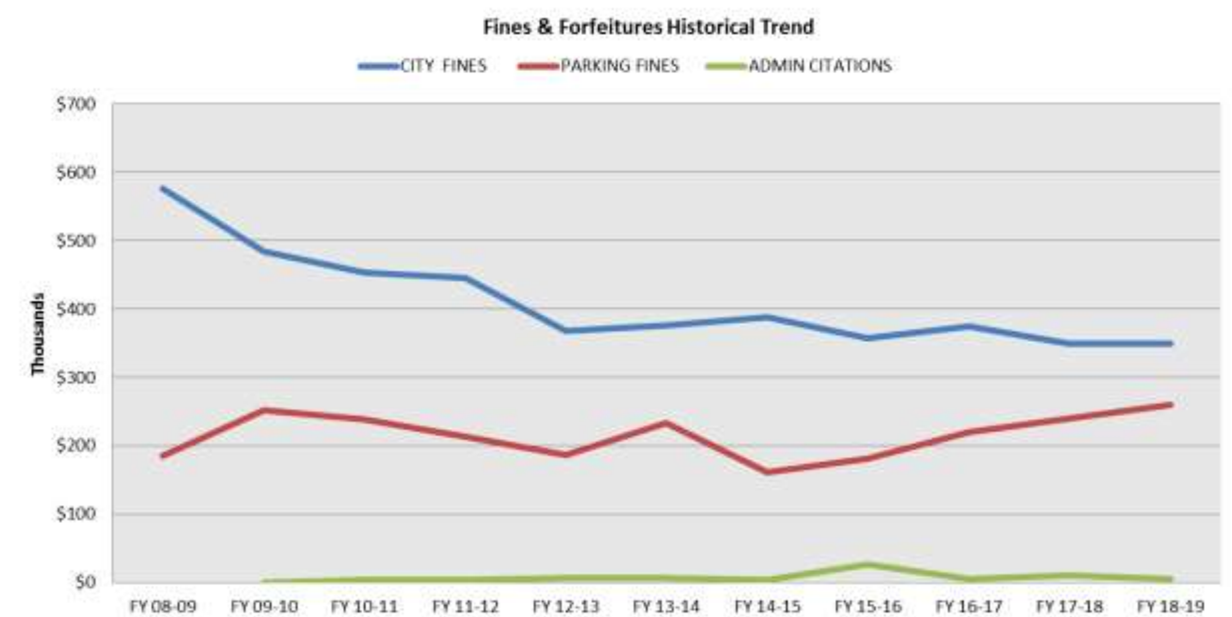


raised short-term interest rates by a quarter percentage point to a range of 1.50% to 1.75%. Two more increases are forecasted for the next year.

Investment earnings are expected to begin to rise as the Federal Reserve continues its ramp up, though modest, with interest rates. Economists predict interest rates will increase further in FY 2018-19 with an additional two to three increases, resulting in a 2019 projected rate of 2.9%. Due to recent volatility in the market, revenue in this category for FY 2018-19 was estimated using a conservative approach, resulting in 58% decrease.

FINES AND FORFEITURES	
FY 16-17 Actual	593,122
FY 17-18 Adopted	600,000
FY 17-18 Estimate	600,000
FY 18-19 Proposed	615,000
% of General Fund	0.80%
% Change from FY 17-18 Adopted	2.50%

Fines and forfeitures account for revenues generated from vehicle, parking, and miscellaneous code violations issued by the County Sheriff and the City's Code Enforcement officers. Parking fine revenues have increased with the addition of a part-time Code Enforcement Officer. Fines and forfeiture revenue is projected to remain relatively flat in FY 2017-18. In FY 2018-19 revenues are expected to remain at this level with a slight increase due to expected increases in parking fine revenues.



INTERGOVERNMENTAL	
FY 16-17 Actual	330,107
FY 17-18 Adopted	484,000
FY 17-18 Estimate	484,000
FY 18-19 Proposed	326,000
% of General Fund	0.42%
% Change from FY 17-18 Adopted	-32.64%

Intergovernmental revenues are made up of federal, state, and regional grants, including miscellaneous intergovernmental revenue. Current year actuals may come in higher compared to budgeted levels due to anticipated State mandate reimbursements. In FY 2018-19, revenues of $326,000 are anticipated.

MISCELLANEOUS REVENUE	
FY 16-17 Actual	9,931,554
FY 17-18 Adopted	2,435,960
FY 17-18 Estimate	12,499,274
FY 18-19 Proposed	1,104,200
% of General Fund	1.44%
% Change from FY 17-18 Adopted	-54.67%

Miscellaneous revenues account for the sale of land and other miscellaneous revenues such as administrative fees. FY 2017-18 miscellaneous revenue is estimated to come in about $10 million higher than budgeted due to refundable deposit revenue associated with development projects and the transfer in of fund balance from the Capital Reserve back to the General Fund. Miscellaneous revenue is expected to decline and is projected to be $1.1 million for FY 2018-19.

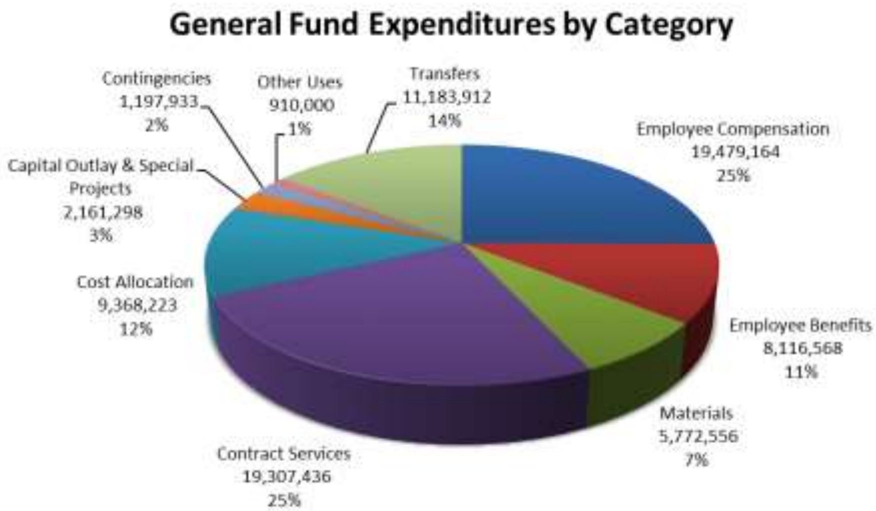
General Fund Expenditures

Estimates for the FY 2018-19 General Fund expenditures are based upon anticipated personnel and non-personnel cost increases. This year department budgets reflect actual projected costs based on the 2017-18 Final Adopted Budget, removing any one time costs, and accounting for changes in personnel costs and any other anticipated/known increased costs in FY 2018-19. In addition, most budgets were given additional funds for any unexpected expenditures that are accounted for in the contingency account. Lastly, per the City's Reserve policy, an unassigned General Fund balance above the $500,000 maximum balance will be transferred to the Capital Fund for future capital and infrastructure projects, after year-end close and as part of the mid-year budget. As shown in the chart below, FY 2018-19 expenditures are estimated at $77.5 million, a 3% increase above the final budget. This increase is primarily attributed to increased costs in salary and benefits as a result of increased staffing and negotiated salary and benefit increases as part of the third year of a 3 year contract with the City's bargaining groups. In addition, cost allocation has increased due to a change in allocation methodology for IT charges from a "per user" to "per device" basis and an increase in materials due to the acquisition of software. These increases are offset by a decrease in transfers out due a reduction in enterprise and internal service fund subsidies driven primarily by the communication fund being moved to the general fund.

GENERAL FUND EXPENDITURE SUMMARY					
EXPENDITURES	2015-2016 Actuals	2016-2017 Actuals	2017-18 Adopted	2018-19 Proposed	% Change
Employee Compensation	13,430,658	15,019,952	17,078,787	19,479,164	14%
Employee Benefits	5,543,191	6,522,993	7,210,639	8,116,568	13%
Total Personnel Costs	**18,973,848**	**21,542,944**	**24,289,426**	**27,595,732**	**14%**
Non-Personnel Costs					
Materials	3,323,691	3,637,591	4,784,228	5,772,556	21%
Contract Services	16,819,679	17,366,277	18,165,596	19,307,436	6%
Cost Allocation	3,078,935	13,459,891	7,812,849	9,368,223	20%
Capital Outlay & Special Projects	9,657,395	8,919,870	2,827,469	2,161,298	-24%
Contingencies	5,010	1,186	1,253,931	1,197,933	-4%
Other Uses	827	146,722	160,000	910,000	* 469%
Total Non-Personnel	**32,885,537**	**43,531,537**	**35,004,073**	**38,717,446**	**11%**
Transfers	**13,163,945**	**28,965,731**	**15,757,734**	**11,183,912**	**-29%**
TOTAL EXPENDITURES	**65,023,330**	**94,040,212**	**75,051,233**	**77,497,090**	**3%**

*The increase in Other Uses is due to the reallocation of budget from Special Projects to the Refundable deposit account in Current Planning and Building. The increase is off-set by a decrease in Special Projects.

The largest General Fund operating expenditure categories include Employee Compensation and Benefits (36%), Contract Services (25%) and Transfers Out (14%) as illustrated in the FY 2018-19 General Fund Expenditures by Category chart.



Personnel Costs

Personnel cost total $27.6 million in FY 2018-19, comprising 36% of General Fund expenditures. These costs are made up of salaries and compensation for benefitted and part-time staff (71%), retirement benefits (17%), and other fringe benefits (12%), including health coverage.

Costs were calculated by taking an extract of payroll system information. This individual position-level information was then reviewed, corrected, and updated by each department to include current vacancies and filled positions, accurate salary step status, as well as any position reallocations. Also, all categories of benefit costs in the coming year were projected. The most recent retirement plan and health plan information for each position was also updated from the payroll system. Not included in personnel costs, is the ongoing contribution for retiree healthcare which is included in the transfers category. Costs in salary and benefits are up primarily due to a cost of living increase negotiated as part of the labor agreements, and projected cost escalators for health, dental, long-term disability, and vision benefits. In addition, an increase in salaries is attributed to an increase in part-time staffing.

CalPERS retirement rates are projected to increase 2.7%, as per the most recent actuarial valuation report from CalPERS. In addition, the CalPERS discount rate is projected to remain at 7%, as the CalPERS board voted in December 2017 to maintain the same rate. Future actuarial assumptions project changes to the discount rate and these projections are reflected in the General Fund forecast section of the budget.

A total of 202.75 FTEs are budgeted in FY 2018-19, up from 197.75 in FY 2017-18. This increase of 5.0 FTEs represents a 2.5% increase in staffing. The growth in positions is summarized below:

FY 2017-18 Adopted Budget	**197.75**
Senior Assistant Attorney (Council Item)	1.00
Account Clerk I/II (Mid-Year)	1.00
Proposed Conversions from Limited Term to Permanent	
Environmental Programs Assistant	0.00
Associate Civil Engineer	0.00
FY 2018-2019 Proposed Budget	
Risk Manager	1.00
Senior Management Analyst, Limited Term	1.00
Engineering Technician	1.00
FY 2018-19 Benefitted Positions	**202.75**

Positions requested as part of the Proposed Budget are summarized below:

Department(s)	Classification	Salaries	Benefits	Total Costs	Funding Source/Purpose
Administration	Risk Manager	$130,079	$50,497	$180,576	General Fund Manage liabilities, Insurance, Worker's Comp.
Administrative Services	Senior Management Analyst, 2 year limited term	$122,900	$47,464	$170,364	General Fund Continue Current Technical and Analytical Projects
Public Works	Engineering Technician	$87,448	$38,768	$126,216	General Fund Development Services Projects
Limited Term to Permanent					
Administration	Environmental Programs Assistant	$38,120	$11,317	$49,437	General Fund Sustainability and CAP
Public Works	Associate Civil Engineer	$11,841	$3,426	$15,267	General Fund Bicycle and Pedestrian Transportation, Traffic Impact Fee
POSITIONS FUNDED BY THE GENERAL		**$390,388**	**$151,472**	**$541,860**	

Non-Personnel

Non-personnel cost total $38.7 million in FY 2018-19, comprising 50% of General Fund expenditures. These costs are primarily made up of Contract Services (25%), Cost Allocation charges (12%), Materials (7%), Capital Outlays and Special Projects (3%) and Contingencies (2%). Costs were developed based on FY 2017-18 Adopted budget and actual expenditures in prior years, and then adjusted for FY 2018-19 funding needs. One-time projects were moved to a separate category in FY 2013-14 to ensure that expenditure trends reflect ongoing expenditure needs. In FY 2017-18, a concerted effort was made to differentiate costs related to special projects and capital outlays that are required to be depreciated. A special projects series was created in the contracts section of accounts for any new special projects going forward.

Contingencies totaling 5% of the total General Fund and 5% of Material and Contract budgets have been established. This contingency level is within the recommended range by the Government Finance Officers Association. Contingencies have been allocated proportionately amongst operating programs based on each program's share of General Fund budget for contractual services and supplies and materials. The remaining is allocated to the City Manager's Discretionary Program. Program contingency budgets may be used to cover unanticipated program expenses at the department's discretion, while the use of the City Manager's Discretionary Program will require City Manager approval. The 5% is consistent with best practices adopted by the Governmental Accounting Standards Board (GASB) which recommends a 5-15% contingency.

General Fund Transfers

Transfers out represent transfers of monies out of the General Fund to various other funds. These transfers provide resources to the receiving fund to support operating and capital project costs. For Fiscal Year 2018-19, budgets have been established for the following transfers.

Transfer Out from General Fund	Description	Amount
Special Revenue Funds	Storm Drain, Non-Point Source, Sidewalk, Curb and Gutter Maintenance	$6,436,000
Debt Service Fund	Annual Debt Payment	$3,169,438
Internal Service Funds	General Fund Subsidy of Compensated Absences and Retiree Medical	$1,578,474
	TOTAL GENERAL FUND TRANSFERS OUT	$11,183,912

General Fund – Reserves and Classification of Fund Balance

The Government Accounting Standards Board (GASB) Statement No. 54 establishes five categories for the classification of fund balance: Non-spendable, Restricted, Committed, Assigned and Unassigned.

Although only the General Fund is addressed in this section, Statement No. 54 applies to the Special Revenue and Capital Project funds as well.

Non-spendable fund balance includes amounts that are not in a spendable form or are legally or contractually required to be maintained intact. Loans receivable or prepaid expenses comprise this category in the City.

Restricted fund balance includes amounts that can be spent only for the specific purposes stipulated by constitution, external parties (such as creditors, grant providers or contributors) or through enabling legislation. Franchise fees collected for public, educational, and governmental access purposes comprise this classification.

Committed fund balance includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority, such as the City Council. Commitments may be changed or lifted only by the government taking the same formal action that imposed the constraint originally. Reserves discussed in the Reserve and use of One Time Funds Policy are assigned to this classification. General Fund committed reserves at June 30, 2019 are projected to be at policy levels.

Assigned fund balance is comprised of amounts intended to be used by the government for specific purposes that are neither restricted nor committed. Intent can be expressed by the governing body or by an official body to which the governing body delegates the authority. The only assigned classification as of June 30, 2019 is Reserve for Encumbrances.

Unassigned fund balance is the classification for the General Fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose.

FISCAL YEAR 2018-19 PROPOSED BUDGET

General Fund Classification of Fund Balance

CLASSIFICATION	Actuals 2015-16	Actuals 2016-17	Final Budget 2017-18	Year End Projection 2017-18	Proposed Budget 2018-19
Non Spendable					
Loans Receivable	868,608	851,714	1,032,275	460,047	460,047
Prepaid Items	68,773	25,225	66,428	6,000	6,000
Total Non Spendable	**937,381**	**876,939**	**1,098,703**	**466,047**	**466,047**
Restricted					
Public Access Television	888,374	1,016,771	761,693	843,000	843,000
Total Restricted	**888,374**	**1,016,771**	**761,693**	**843,000**	**843,000**
Committed					
Economic Uncertainty	-	19,000,000	-	19,000,000	19,000,000
Sustainability Reserve	-	-	-	75,499	75,499
PERS	-	-	-	8,000,000	8,000,000
Total Committed	**-**	**19,000,000**	**-**	**27,075,499**	**27,075,499**
Assigned					
Economic Uncertainty	19,000,000	-	19,000,000	-	-
Economic Fluctuation	1,400,000	-	1,400,000	-	-
PERS	100,000	100,000	4,793,000	-	-
Reserve for Encumbrances	-	4,538,181	11,604,000	7,932,000	7,932,000
Total Assigned	**20,500,000**	**4,638,181**	**36,797,000**	**7,932,000**	**7,932,000**
Total UnAssigned	**29,869,085**	**28,057,799**	**6,750,090**	**9,645,226**	**9,036,612**
TOTAL FUND BALANCE	**52,194,840**	**53,589,690**	**45,407,486**	**45,961,772**	**45,353,158**

5-Year and 20-Year General Fund Forecast

In the past, City staff has completed 5-year forecasts as part of the Proposed Budget process. This year, City staff has also prepared a 20-year forecast as the City prepares to deal with significant increases in retirement costs due to changes in the CalPERS discount rate, also known as the assumed rate of return. These increases in CalPERS retirement costs will also impact the City's law enforcement contract, which increases as retirement costs rise. These rising costs coupled with stalled growth in development in the City are resulting in projected shortfalls beginning in FY 2023-24.

The financial forecast is a planning tool that helps staff identify important trends and anticipate the longer term consequences of budget decisions. The forecast is an instrumental tool in modeling the effects of rising retirement costs, increases in employee compensation, and revenue performance scenarios.

The forecast is not a plan, but a model based on cost and revenue assumptions that are updated regularly as new information becomes available. Of these components, cost projections, which are based on known costs, are relatively reliable. Revenue forecasts, on the other hand, are based on assumptions related to future economic conditions, which are fraught with uncertainty. Economic forecasts in the financial markets and the media swing from optimistic to pessimistic on a seemingly daily basis and demonstrate the difficulties of committing to a particular prediction of the future. For this reason, the forecast is updated regularly.

A discussion of both the national and local economic outlooks used to develop the revenue estimates for the FY 2018-19 forecast is discussed below. Key economic forecasts were reviewed in the development of the revenue estimates, including the national, State and regional economic forecasts produced by the Congressional Budget Office, California's Legislative Analyst's Office (LAO), and economist Steven Levy of the Center for Continuing Study of the California Economy (CCSCE). The City also uses tax consultant HDL to assist in the development of sales tax, property tax and transient occupancy tax (TOT) revenue estimates and projections.

While economic conditions are the primary drivers for economically sensitive revenues such as the sales tax and property tax categories, performance is primarily driven by other factors for non-economically sensitive categories such as the utility user tax and franchise fee categories. These revenue categories are more heavily impacted by utility rate changes, energy prices, and consumption levels. Collections from local, State, and federal agencies are primarily driven by grant and reimbursement funding available from these agencies. As a result, these General Fund revenues experience no significant net gain or loss during economic expansions or slowdowns. All revenue projections are based upon a careful examination of the collection history and patterns as they relate to such factors as seasonality and performance in the economic environment that the City is most likely to encounter in the coming year.

National Economic Outlook

Both locally and nationally, uncertainty is the main theme among forecasts. Most are projecting either moderate economic growth or a mild recession during the next two years. In the growth scenario, growth will be driven by employment, personal income, and the stock market. Under the recession scenario, economists are expecting a big stock market decline comparable to the dot.com bust of the early 2000s.

It's important to note that the national economy has been expanding since June 2009, as defined by the National Bureau of Economic Research (NBER). The expansion is now in its ninth year and is poised to become the second-longest on record later this year. According to the non-partisan Congressional Budget Office (CBO), economic growth is expected to dampen between 2020 and 2026 primarily due to higher interest rates. Similarly, the Federal Open Market Committee (FOMC) forecasts GDP growth of 2.7 percent in 2018, 2.4 percent in 2019, and 2.0 percent in 2020. The broad consensus among economists is modest expansion until 2020, after which growth is expected to decrease.

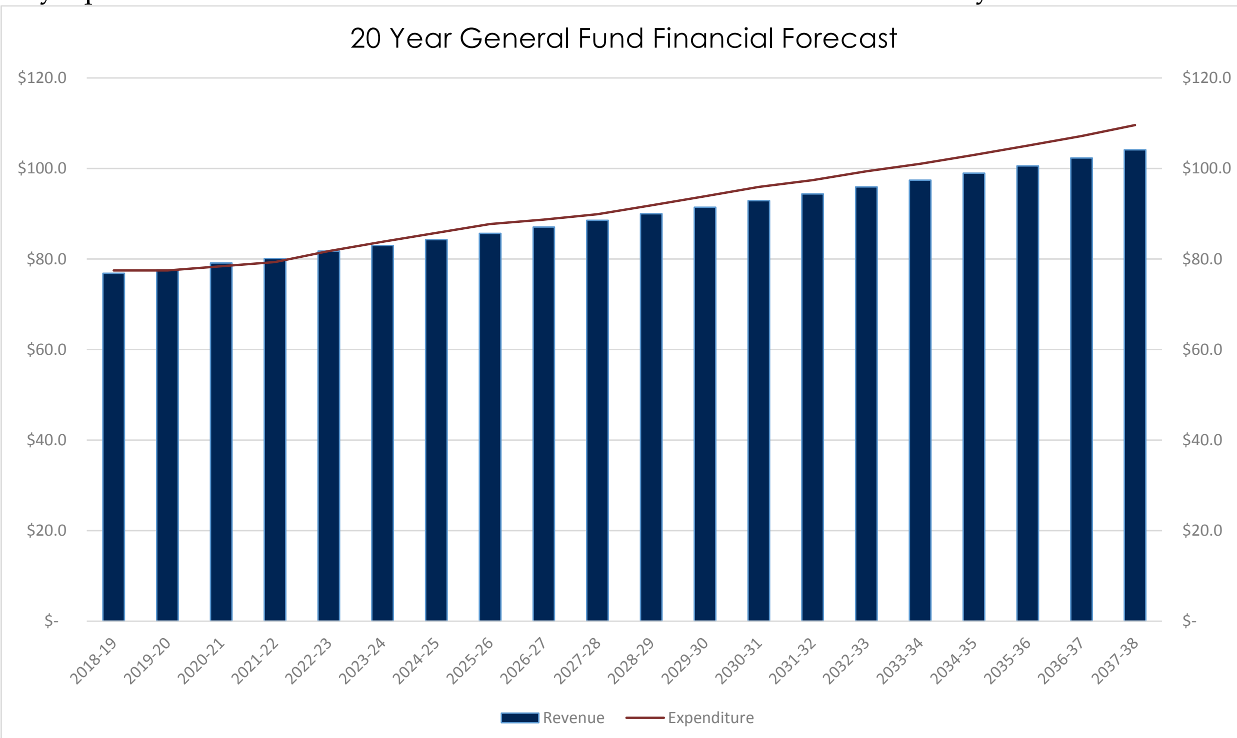
Cupertino Economic Outlook

The outlook for Cupertino and the Silicon Valley overall has been positive, with steady growth in this forecast. Sales taxes continue to be very strong, driven by business-to-business sales in the City's technology sector. Property taxes have also performed well over the last several years, but are expected to stabilize as interest rates begin to rise during the forecast period. The limited supply of housing may eventually dampen growth as well.

Large construction projects have generated strong development-related revenue for the City's coffers but have started to level off. The majority of revenues associated with the Apple Park project have already been collected per the development agreement. No other major development projects are forecasted at this time. Development projects that have yet to be approved and permitted are not included in this forecast out of prudence. It would be risky to rely on these one-time revenues given the political uncertainty around development projects.

In summary, the steady recovery from the great recession is expected to continue impacting the City's revenue performance. Economically sensitive revenues, such as sales tax and property tax receipts, are expected to experience moderate growth over the forecast period. Development-related revenue such as licenses and permits, construction tax, and charges for services are expected to decline from the peak experienced in FY 2013-14 due to the completion of one-time projects.

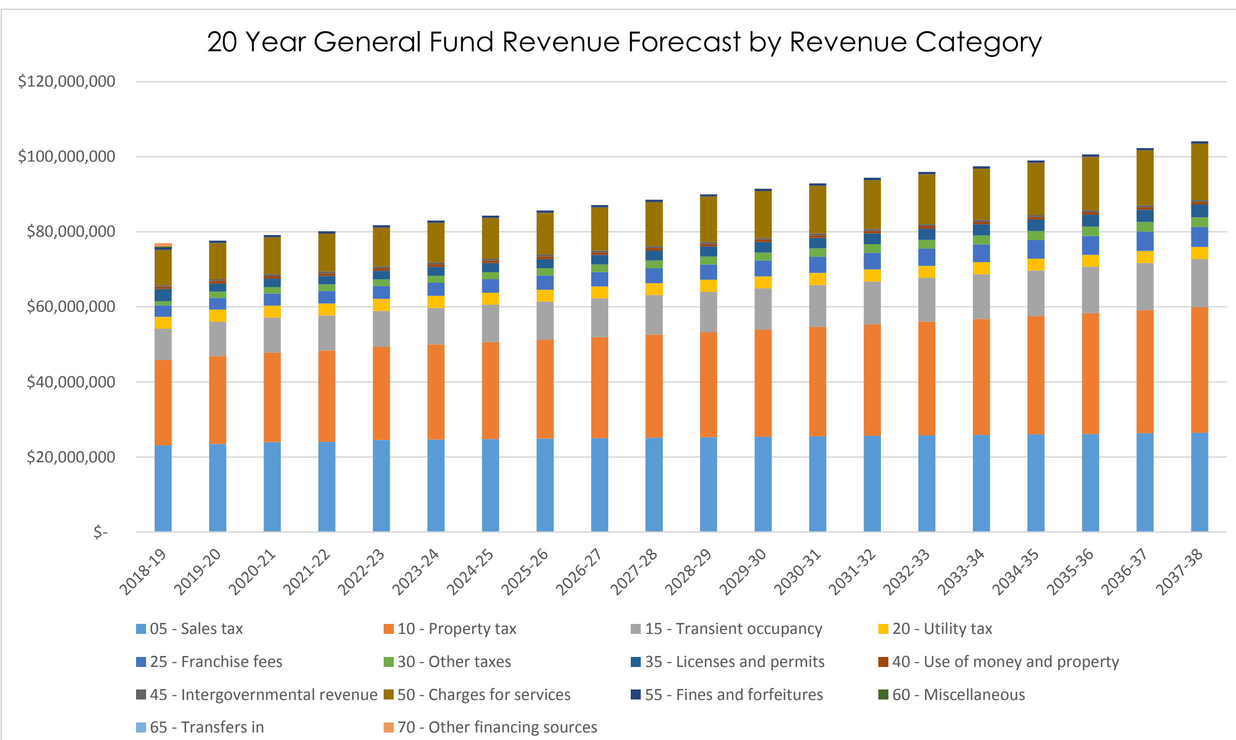
As shown in the chart on the next page, operating revenues are expected to exceed operating expenditures through the fifth year of the forecast. Per the City's One Time Use and Reserve Policy, any additional unassigned fund balance above the $500,000 maximum will be transferred to the Capital Reserve at the end of the year. This year, staff is also recommending funding the CalPERS Reserve on an annual basis as part of a long term strategy to bring the City's portion of the retirement fund to 80% funded status over the next 20 years.



Revenues

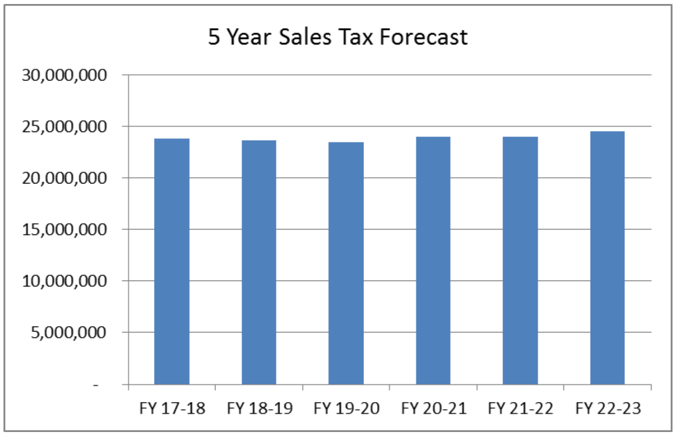
As shown in the following table, the City's top three revenue sources continue to be property, sales and transient occupancy tax. All three revenue sources are expected to grow, although that pace of growth is projected to slow. In the last five years, major development projects, such as Main Street and Apple Park, were a large source of revenue.

FIVE-YEAR GENERAL FUND REVENUES FORECAST						
	FY 17-18 Estimate	FY 18-19 Proposed	FY 19-20 Forecast	FY 20-21 Forecast	FY 21-22 Forecast	FY 22-23 Forecast
REVENUES						
Sales Tax	23,790,000	23,637,000	23,495,000	23,965,000	24,022,000	24,550,000
Property Tax	22,357,000	22,766,000	23,405,000	23,873,000	24,350,000	24,837,000
Transient Occupancy Tax	6,708,000	8,252,000	9,170,000	9,308,000	9,355,000	9,542,000
Utility Tax	3,200,000	3,200,000	3,200,000	3,200,000	3,200,000	3,200,000
Franchise Fees	3,040,000	3,042,000	3,133,000	3,227,000	3,324,000	3,424,000
Other Taxes	2,850,000	1,150,000	1,672,000	1,710,000	1,750,000	1,790,000
Licenses & Permits	2,145,000	2,685,000	2,145,000	2,194,000	2,245,000	2,296,000
Use of Money & Property	1,647,790	692,000	692,000	692,000	692,000	692,000
Intergovernmental	484,000	326,000	484,000	484,000	484,000	484,000
Charges for Services	15,259,770	9,419,276	9,636,000	9,858,000	10,084,000	10,316,000
Fines & Forfeitures	600,000	615,000	615,000	615,000	615,000	615,000
Miscellaneous	1,546,389	244,200	-	-	-	-
Other	8,952,885	850,000	-	-	-	-
Transfers In	2,000,000	10,000	-	-	-	-
TOTAL REVENUES	**94,580,834**	**76,888,476**	**77,647,000**	**79,126,000**	**80,121,000**	**81,746,000**



Sales Tax

FIVE-YEAR SALES TAX FORECAST	FY 17-18 Estimate	FY 18-19 Proposed	FY 19-20 Forecast	FY 20-21 Forecast	FY 21-22 Forecast	FY 22-23 Forecast
Sales Tax	23,790,000	23,637,000	23,495,000	23,965,000	24,022,000	24,550,000

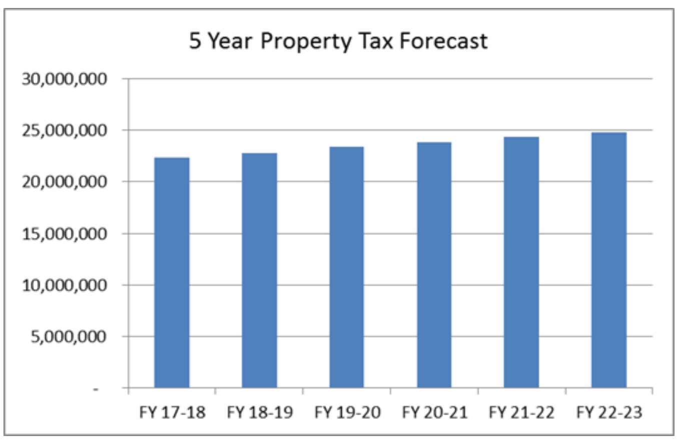


Sales tax is projected to be lower in FY 2018-19 due to the completion of Apple Park, then increase modestly in subsequent years. Starting in FY 2024-25, sales tax is projected to grow by 0.5% in the long-term forecast. Business–to-business (B2B) revenue is the largest portion of the City's sales tax base, so the City's sales tax revenue is sensitive to market forces. In particular, the City's two largest sales tax payers—both technology companies—account for a large portion of the City's total sales tax revenue. This revenue source is reported two quarters in arrears thus providing the City with about six months to react should a reduction in this revenue source occur.

Given the volatility of B2B revenue, which accounts for 67.0% of the City's sales tax, a key goal of the City's long-term fiscal strategic plan is to diversify its sales tax base by promoting the general retail and food product sectors. Recently completed development projects such as Nineteen800 and Main Street are expected to generate new or replacement retail. These developments should boost retail sales and reduce the City's reliance on B2B revenue

Property Tax

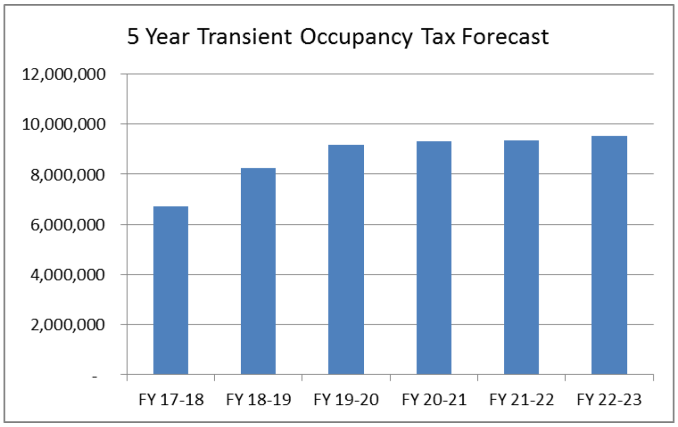
FIVE-YEAR PROPERTY TAX FORECAST	FY 17-18 Estimate	FY 18-19 Proposed	FY 19-20 Forecast	FY 20-21 Forecast	FY 21-22 Forecast	FY 22-23 Forecast
Property Tax	22,357,000	22,766,000	23,405,000	23,873,000	24,350,000	24,837,000



Property taxes are projected to increase by 2% each year in the forecast. These forecasts are based on estimates from the Santa Clara County Assessor's Office. Again, with little to no major development projects expected in the City, the City will not continue to see dramatic increases in property tax revenue as it has in the past.

Transient Occupancy Tax

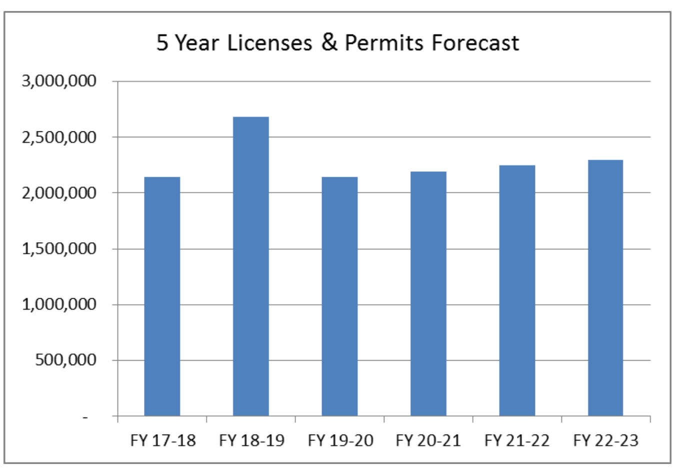
FIVE-YEAR TRANSIENT OCCUPANCY TAX FORECAST						
	FY 17-18 Estimate	FY 18-19 Proposed	FY 19-20 Forecast	FY 20-21 Forecast	FY 21-22 Forecast	FY 22-23 Forecast
Transient Occupancy Tax	6,708,000	8,252,000	9,170,000	9,308,000	9,355,000	9,542,000



In FY 2018-19 and FY 2019-20, transient occupancy tax (TOT) revenues are projected to increase due to the opening of new hotels: the 180-room Residence Inn by Marriott hotel at Main Street and the 148-room Hyatt House hotel at Vallco Park (expected in 2019). Starting in FY 2022-23, revenues are projected to increase by national Gross Domestic Product (GDP) or about 2% per year. This revenue source is impacted by the tax rate charged on hotels in the City and the occupancy rate of these hotels. This revenue source is highly correlated with B2B revenue, as revenue is driven by business travel. Occupancy rates are currently at record levels given our strong local economy. However, a decline in the economy could have a significant impact to this revenue source. In addition, this forecast does not reflect any additional hotels opening in the City.

Licenses and Permits

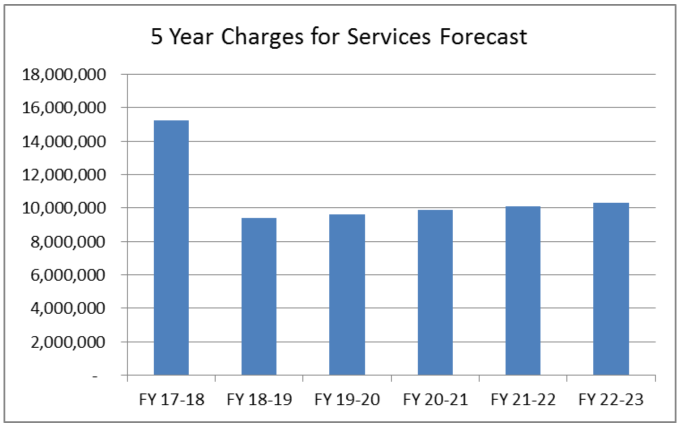
FIVE-YEAR LICENSES & PERMITS FORECAST						
	FY 17-18 Estimate	FY 18-19 Proposed	FY 19-20 Forecast	FY 20-21 Forecast	FY 21-22 Forecast	FY 22-23 Forecast
Licenses & Permits	2,145,000	2,685,000	2,145,000	2,194,000	2,245,000	2,296,000



Licenses and permits are forecasted to decrease in FY 2019-20 due to reduced development activity. Starting in FY 2019-20, revenue is projected to increase by CPI. Out of prudence, this forecast does not assume any major development projects that are awaiting approval. If new development projects are approved, this forecast will be updated accordingly.

Charges for Services

FIVE-YEAR CHARGES FOR SERVICES FORECAST						
	FY 17-18 Estimate	FY 18-19 Proposed	FY 19-20 Forecast	FY 20-21 Forecast	FY 21-22 Forecast	FY 22-23 Forecast
Charges for Services	15,259,770	9,419,276	9,636,000	9,858,000	10,084,000	10,316,000



In FY 2018-19, revenues from charges for services are projected to decrease, primarily due to a decrease in development activity. Starting in FY 2018-19, revenue is projected to increase by CPI. This conservative forecast does not assume any major development projects that are awaiting approval.

Utility user taxes are assumed to remain flat based on past performance. In the last 10 years, increases in rates have been offset by decreases in consumption.

*Franchise fee*s are projected to increase by CPI in all out-years.

Other taxes are made up of construction, property transfer, and business license tax revenue. Revenue is projected to increase by CPI in all out-years.

Intergovernmental revenues will decrease in FY 2018-19 but are projected to remain flat in the out-years.

Use of money and property is expected to remain flat throughout the forecast based on the City's current conservative investment strategy and low interest rates.

Fines and Forfeitures are anticipated to increase in FY 2018-19 but will remain flat in the out-years.

Miscellaneous and non-operational revenues are not assumed in the forecast.

Expenditures

FIVE-YEAR GENERAL FUND EXPENDITURES FORECAST						
	FY 17-18 Estimate	FY 18-19 Proposed	FY 19-20 Forecast	FY 20-21 Forecast	FY 21-22 Forecast	FY 22-23 Forecast
EXPENDITURES						
Employee Compensation	18,104,474	19,479,164	19,923,000	19,923,000	19,786,000	20,252,000
Employee Benefits	7,548,730	8,116,568	9,604,000	9,604,000	9,744,000	10,748,000
Personnel Costs	25,653,204	27,595,732	29,527,000	29,527,000	29,530,000	31,000,000
Materials	6,138,881	5,772,556	5,773,000	5,773,000	5,773,000	5,773,000
Contract Services	22,180,595	19,307,436	20,108,000	20,711,000	21,332,000	21,972,000
Cost Allocation	8,101,838	9,368,223	9,612,000	9,910,000	10,207,000	10,513,000
Capital Outlay	4,798,538	793,000	-	-	-	-
Special Projects	16,923,964	1,368,298	500,000	500,000	500,000	500,000
Contingencies	1,020,239	1,197,933	800,000	800,000	800,000	800,000
Other Uses	1,194,125	910,000	-	-	-	-
Non-Personnel Costs	60,358,180	38,717,446	36,793,000	37,694,000	38,612,000	39,558,000
Transfers	24,129,368	11,183,912	11,184,000	11,184,000	11,184,000	11,184,000
TOTAL EXPENDITURES	**110,140,752**	**77,497,090**	**77,504,000**	**78,405,000**	**79,326,000**	**81,742,000**

An in-depth analysis of General Fund expenditures was completed to develop the FY 2018-19 expenditure estimates included in this forecast. As displayed in the chart above, General Fund expenditures are projected to decrease from $110.1 million in FY 2017-18 to $77.5 million in FY 2018-19 and increase each year in the forecast.

The forecast is adjusted to eliminate one-time additions or deletions and annualize partial year allocations that were included in the FY 2017-18 Adopted Budget. One-time additions scheduled to expire in June 2018 were eliminated in the out-years of the forecast.

The following discussion focuses on the assumptions used for estimating each of the expenditure categories in the General Fund Forecast.

Personnel Expenditures

Salary (personnel assumptions) are expected to grow significantly in the out-years of the forecast. Full time salaries are projected to grow at a rate of 2.5% per year which is slightly lower than the presumed rate of growth by CalPERS. Part time salaries are forecasted at a 1.5% growth rate in the out-years of the forecast as they generally grow at a slower pace than full time salaries. Increases in salaries are primarily due to employees below Step 5 progressing to higher salary steps. Five limited term positions, which are not being recommended for permanent status as of the FY 2018-19 budget, are forecasted to end in FY 2020-21. The ending of these limited term positions will result in approximately $1 million in ongoing salary and benefits savings.

Health Benefits

Health benefits account for about 9% of all personnel costs in the General Fund, mostly due to health insurance costs. The City pays employees a fixed dollar amount for health and dental insurance costs, as opposed to covering a percentage of premiums. In October 2016, City Council approved labor contracts that resulted in a significant increase in the amount the City pays toward health costs. In the out-years, an annual increase of 5% is projected for health insurance and 2% for dental insurance. Cost increases in health above the negotiated flat amount and any increases in dental are fully absorbed by employees.

While not factored into the forecast, there is uncertainty around the fate of the Affordable Care Act (ACA). Rate increases have stabilized with the implementation of the ACA. Still looming is the so called "Cadillac Tax" which, beginning in 2022, will impose an excise tax for any employer-sponsored health coverage whose value exceeds $10,200 per year for individuals and $27,500 for families. A 40% excise tax will be imposed on the amount that exceeds the predetermined thresholds. Most of the City's current health plans would fall under the definition of a Cadillac plan, which could increase the City's cost of providing health benefits to employees. The City's health care administrator, CalPERS, has given assurances that coverage plans will fall below the Cadillac Tax threshold.

Retirement Benefits

Rising retirement costs are driving the increase in employment benefits. The chart below shows the current breakdown of retirement costs borne by the City and employees for the three retirement tiers. The majority of employees in the City are currently covered under the Tier 1 retirement system. Savings from the lower cost Tier 2 and Tier 3 plans are not expected to be substantial for another 10-15 years.

Tier	# Employees	Benefits	Employer Share	Employee Share	Total Rate
I	102	2.7@ 55 Highest Year	26.169%	8.00%	34.17%
II	16	2% @ 60 Highest 3 Yr Avg	26.169%	7.00%	33.17%
III	79	2% @ 62 Highest 3 Yr Avg	26.169%	6.25%	32.42%

Significant investment losses experienced by CalPERS during the great recession resulted in the overall funded status of the retirement system dropping below desired levels.[1] Currently, the funded status of the CalPERS plan is 68%.

A defined-benefit plan is considered adequately funded if its assets equal or exceed the value of its future liabilities. The funded ratio is the ratio of assets to liabilities. When the funded ratio is lower than 100%, the plan has insufficient assets to pay all future liabilities. After a thorough analysis, CalPERS actuaries determined that the retirement system was at significant risk of falling to dangerously low funded status levels under existing actuarial policies.

In December 2016, the CalPERS Board voted to reduce the discount rate by 0.5 percentage points. This change will result in significant increases in retirement costs well above the City's previous forecasts. As a result of the discount rate reduction, the City's annual required contributions to CalPERS are projected to increase by over 80% from FY 2017-18 to FY 2024-25 as shown in the table below.[3]

PROJECTED CALPERS CONTRIBUTIONS	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23	FY 23-24	FY 24-25
Projected Payroll	$ 16,544,880	$ 17,041,226	$ 17,552,463	$ 18,079,037	$ 18,621,408	$ 19,180,050	$ 19,755,452
Normal Cost (%)	10.1%	10.6%	11.6%	11.6%	11.6%	11.6%	11.6%
Normal Cost	$ 1,677,320	$ 1,806,370	$ 2,036,086	$ 2,097,168	$ 2,160,083	$ 2,224,886	$ 2,291,632
UAL Payment	$ 2,770,235	$ 3,201,000	$ 3,584,000	$ 4,029,000	$ 4,420,000	$ 4,698,000	$ 4,940,000
Total Contribution	$ 4,447,555	$ 5,007,370	$ 5,620,086	$ 6,126,168	$ 6,580,083	$ 6,922,886	$ 7,231,632
Total Contribution (%)	26.9%	29.4%	32.0%	33.9%	35.3%	36.1%	36.6%

In addition, it is unclear if CalPERS investment returns will be able to meet this new rate of return and many experts speculate that CalPERS will need to lower the discount rate again in the future. The City's pension plan has an Unfunded Accrued Liability (UAL) of $40.6 million and a funded ratio of 65.8%, according to the most recent actuarial report issued by CalPERS in August 2017.

CITY OF CUPERTINO'S CALPERS PLAN FUNDED STATUS	6/30/2015	6/30/2016
Present Value of Projected Benefits	$ 129,440,196	$ 138,600,233
Entry Age Normal Accrued Liability	$ 111,188,031	$ 118,489,119
Market Value of Assets (MVA)	$ 77,897,977	$ 77,919,876
Unfunded Accrued Liability (UAL)	$ 33,290,054	$ 40,569,243
Funded Ratio	70.1%	65.8%

As part of a budget-balancing strategy, the budget proposes the creation of a Pension Rate Stabilization Program (PRSP), also known as a Section 115 Trust. The Section 115 Trust would help the City to offset the costs of any further discount rate changes, address the UAL earlier than required by CalPERS, and attain a funded status of at least 80% within 20 years.

Other Benefits

The forecast assumes an annual 2% cost escalator for life insurance, long-term disability insurance, and the employee assistance program. Workers' compensation costs vary widely depending on the number and type of claims, which makes these costs very hard to predict. The forecast assumes a 2% annual increase. No increases were forecasted for the following benefits: car allowance, internet allowance, standby pay and wellness credit.

Non-Personnel Expenditures

Non-personnel expenditures in FY 2018-19 were adjusted to remove one-time uses and build forecast projections off of base levels. For the out-years of the forecast, a growth rate based on projected CPI has been assumed from the FY 2018-19 non-personnel base levels in each of the four years. The average growth rate for the non-personnel category is 3% annually.

Materials costs are forecasted to remain flat in the out year of the forecast as the City's base budget is reviewed. It is anticipated savings can be found within existing budgets to flatten out these costs.

Contracts costs are projected to grow by CPI in the out-years of the forecast with the exception of the Law Enforcement contract with the Santa Clara County Sheriff's Office. Law Enforcement costs are projected to grow by CPI plus 2% and by changes in retirement costs per the current contract terms. The major increase in contracts is driven by increases in CalPERS that will be passed on to the City.

Cost Allocation is projected to grow by CPI in the out-years but this estimate is conservative as savings may materialize in department budgets that may drive these costs down.

Capital Outlays and Special Projects are projected to remain flat at $500,000 in the forecast period. In the last five years, the City has spent about $2 million per year in capital outlay and special project costs excluding development projects that include pass thru revenue. Costs related to this category are being reduced as a budget balancing strategy.

Appropriations for Contingency are projected to remain flat at $800,000 in the forecast period. The City has historically underspent in this category and the decrease is being used as a budget balancing strategy. In addition, use of these funds would require pre-approval by the City Manager or his designee should departments want to utilize these funds.

Transfers represent the General Fund's contributions to other City funds to support debt payments, pay retiree health costs, finance capital projects, replenish capital project reserves, acquire new equipment, and subsidize enterprises and operations. With the implementation of full cost allocation in FY 2015-16, General Fund expenses will be shifted to other City funds causing some of those funds' revenues to fall short of expenses and necessitating the use of fund balances to cover expenses. The General Fund benefits in the near term with the cost shift, however, after fund balances in those other funds are drawn down to minimum levels, and absent aggressive revenue or cost actions in those other funds, General Fund subsidies are projected to kick in and remain flat in the forecast in order to maintain those fund balance minimums.

Fund Balance

General Fund reserves are projected to increase by $4 million over the forecast period. This is driven by the City's ongoing strong revenues and the City's conservative approach to ongoing expenditure growth. Restricted fund balance is projected to increase, as the City proposes to initially fund the Section 115 Trust, if approved, with $8.0 million from the CalPERS Reserve. In addition, the City proposes to add $2.0 million of fund balance to the Section 115 Trust each year until FY 2022-23.

FIVE-YEAR GENERAL FUND ASSIGNED FUND BALANCE FORECAST						
	FY 17-18 Estimate	FY 18-19 Proposed	FY 19-20 Forecast	FY 20-21 Forecast	FY 21-22 Forecast	FY 22-23 Forecast
Non-Spendable						
Loans Receivable	460,047	460,047	460,047	460,047	460,047	460,047
Prepaid Items	6,000	6,000	-	-	-	-
Total Non-Spendable	466,047	466,047	460,047	460,047	460,047	460,047
Restricted						
Public Access Television	843,000	843,000	888,933	888,933	888,933	888,933
Section 115 Trust			10,000,000	12,000,000	14,000,000	16,000,000
Total Restricted	843,000	843,000	10,888,933	12,888,933	14,888,933	16,888,933
Committed						
Economic Uncertainty	19,000,000	19,000,000	19,000,000	19,000,000	19,000,000	19,000,000
Sustainability Reserve	75,499	75,499	75,499	75,499	75,499	75,499
PERS	8,000,000	8,000,000	-	-	-	-
Total Committed	27,075,499	27,075,499	19,075,499	19,075,499	19,075,499	19,075,499
Assigned						
Economic Fluctuation	-	-	-	-	-	-
Reserve for Encumbrances	7,932,000	7,932,000	4,000,000	4,000,000	4,000,000	4,000,000
Total Assigned	7,932,000	7,932,000	4,000,000	4,000,000	4,000,000	4,000,000
Total	36,316,546	36,316,546	34,424,479	36,424,479	38,424,479	40,424,479

FIVE-YEAR GENERAL FUND UNASSIGNED FUND BALANCE FORECAST						
	FY 17-18 Estimate	FY 18-19 Proposed	FY 19-20 Forecast	FY 20-21 Forecast	FY 21-22 Forecast	FY 22-23 Forecast
Unassigned	9,645,226	9,036,612	11,071,679	9,792,679	8,587,679	6,591,679

It is anticipated that any unassigned fund balance over the $500,000 threshold will be transferred to the Capital Reserve, the CalPERS Reserve, or the Section 115 Trust, if approved by City Council. The budget proposes the creation of a Section 115 Trust to stabilize the potential impact of pension cost volatility on the City's operating budget. The City will be able to use funds from the Section 115 Trust to offset unexpected increases in retirement contributions. Funds in the Section 115 Trust are restricted and can only be used to pay CalPERS or reimburse the City for pension contributions.

Budget Balancing Strategies

The City's budget has historically been structurally sound with revenues exceeding expenditures in most years. When revenues exceeded expenditures, excess fund balance was moved to the Capital Reserve per the City's One Time Use and Reserve Policy. The current 5-year forecast anticipates a small deficit in the first year that the City anticipates will not materialize due to the salary and benefits costs driven by vacancies and attrition in full time positions. In addition, as mentioned above, the City has historically underspent contingencies. Overall, in the next five years, our projections show small operating surpluses. However, beginning in FY 2023-24, City staff anticipates structural deficits. To better position itself financially over the next 20 years, staff is currently recommending the following strategies to assist in balancing the budget.

Strategy	**Description**	**Potential Impact**
Revenues		
Employer Based business license tax	Introduced as part of City Council Work Plan	Unknown at this time
Storm Water Fee Increase	Introduced as part of the City Council Work Plan. Rates have not increased in many years and would be brought to cost recovery levels, thereby eliminating a General Fund subsidy.	Unknown at this time
Expenditures		
Salary and Benefit Savings through attrition	Keep non-essential positions unfilled as they become vacant. Goal would be approximately 10 positions.	$2 million
No new positions past the current fiscal year	Cost containment strategy	$0
Section 115 Trust	Smoothing mechanism for years when CalPERS does not meet discount rate projections or assumption changes	Will vary based on CalPERS actual rates of return
No extension of limited term positions	Eliminates potential ongoing salary and benefit costs associated with 5 remaining limited term positions in FY 2020-21	$1 million
Reduction in capital outlays and special projects	Cost containment strategy	Up to $1.5 million
Reduction in contingencies	Cost containment strategy	Up to $400,000

Additional Strategies

The following strategies, although not recommended at this time, may be considered by the City in future years should revenues experience a sharp decline or expenditures a sharp unexpected increase resulting in a larger structural deficit than currently anticipated.

Strategy	Description	Potential Impact
Employee cost sharing of increases to CalPERS	Negotiate to share costs of increases to CalPERS employer rates with employees	$250,000 approximate based on 5% rate increase
Furloughs	Employees would take up to 20 hours or the equivalent of a 1% decrease in pay in exchange for 2.5 unpaid furlough days	$300,000 approximate based on 1% decrease
Reduction in force	The City would identify what positions could be reduced (laid off) based on provisions in the MOUs where applicable and service level needs in the City	Varies

ALL FUNDS SUMMARY

This section provides information on the FY 2018-19 Special Revenue, Debt Service, Capital Project, Enterprise and Internal Service Funds budgets including, expenditure and revenue highlights, transfers to other funds, reserve funds and the financial forecast.

Revenue Estimates

Estimates for FY 2018-19 fund balance and individual revenue accounts are based upon a careful examination of the collection history and patterns as they relate to such factors as seasonality and performance in the economic environment that the City is most likely to encounter in the coming year. Each source of revenue can be influenced by external (outside of the City's control) and/or internal factors. The FY 2018-19 revenue estimates are built on the assumption that the economy will continue to experience modest growth.

Special Revenue Funds

Special Revenue Funds account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. Special Revenue Funds include the Park Dedication, Transportation, Storm Drain, and Environmental Management/Clean Creeks funds.

Revenue

Revenue sources for special revenue funds are summarized in the table below and discussed in greater detail following the table:

REVENUE SOURCES	2016-17 Actuals	2017-18 Projected	2018-19 Proposed Budget
Other Taxes	276,234	1,350,000	3,000
Use of Money & Property	252,529	2,000	89,310
Intergovernmental	2,254,931	1,980,590	3,822,881
Charges for Services	394,862	384,100	370,000
Miscellaneous Revenue	182,138	-	185,000
Fines and Forfeitures	10,071	6,000	9,000
Transfers In	8,263,430	12,772,122	7,911,000
Total Revenue Sources	**$11,634,195**	**$16,494,812**	**$12,390,191**

Revenues are projected to decrease by $4.1 million dollars, largely due to a reduction in one-time transfers in from the General Fund as well as a decrease in estimated development fees related to housing mitigation and park dedication fees.

Expenditures

Expenditure uses for special revenue funds are summarized in the table below and discussed in greater detail following the table:

EXPENDITURE USES	2016-17 Actuals	2017-18 Projected	2018-19 Proposed Budget
Employee Compensation	893,672	936,730	990,595
Employee Benefits	463,651	511,493	501,148
Materials	601,690	690,869	680,119
Contract Services	821,701	976,537	867,900
Cost Allocation	379,431	550,748	425,454
Capital Outlays	1,022,285	21,467,129	4,103,379
Special Projects	7,450,532	20,098,648	5,900,000
Contingencies	-	39,571.00	35,702
Transfers Out	-	779,762.00	10,000
Total Expenditures Uses	**$11,632,963**	**$46,051,487**	**$13,514,297**

Expenditures are projected to decrease by $32.5 million dollars, which is primarily due to a decrease related to the completion of capital and BMR projects in FY 2017-18.

Fund Balance

Fund balance represents a funds savings and is calculated by taking the beginning balance and then adding the difference between revenue and expenditures to arrive at the ending fund balance.

CHANGES TO FUND BALANCE	2016-17 Actuals	2017-18 Projected	2018-19 Proposed Budget
Beginning Balance	33,775,116	33,776,349	4,219,674
Net Increase (Decrease) in Fund Balance	1,233	(29,556,675)	(1,124,106)
Ending Balance	**$33,776,349**	**$4,219,674**	**$3,095,568**

Debt Service Fund

The Debt Service Fund provides for the payment of principal, interest, and associated administrative costs incurred with the issuance of debt instruments for the City's Public Facilities Corporation. The budget funds the Corporation's annual payment of principal and interest on the City Hall/Library, Wilson/Memorial Open Space and Library Certificates of Participation (COP) that will be paid off by the year 2030.

Revenue

Revenue sources for the Debt Service Funds are summarized in the table below and discussed in greater detail following the table:

REVENUE SOURCES	2016-17 Actuals	2017-18 Projected	2018-19 Proposed Budget
Use of Money & Property	4,951	-	-
Transfers In	3,167,538	3,167,538	3,169,438
Total Revenue Sources	**$3,172,489**	**$3,167,538**	**$3,169,438**

Revenues are expected to remain relatively unchanged.

Expenditures

Expenditure uses for Debt Service Funds are summarized in the table below and discussed in greater detail following the table:

EXPENDITURE USES	2016-17 Actuals	2017-18 Projected	2018-19 Proposed Budget
Debt Service	3,172,238	3,167,538	3,169,438
Total Expenditures Uses	**$3,172,238**	**$3,167,538**	**$3,169,438**

Expenditures are expected to remain relatively unchanged. This represents a repayment of debt and payments which are fixed for the life of the loan.

Fund Balance

Fund balance represents a funds savings and is calculated by taking the beginning balance and then adding the difference between revenue and expenditures to arrive at the ending fund balance.

CHANGES TO FUND BALANCE	2016-17 Actuals	2017-18 Projected	2018-19 Proposed Budget
Beginning Balance	1,596,982	1,597,234	1,597,234
Net Increase (Decrease) in Fund Balance	252	-	-
Ending Balance	**$1,597,234**	**$1,597,234**	**$1,597,234**

Capital Project Funds

This fund pays for the acquisition of major capital facilities and/or construction of major capital projects.

Revenue

Revenue sources for Capital Project Funds are summarized in the table below and discussed in greater detail following the table:

REVENUE SOURCES	2016-17 Actuals	2017-18 Projected	2018-19 Proposed Budget
Miscellaneous	-	1,800,000	-
Transfers In	20,907,000	18,325,762	9,051,500
Total Revenue Sources	**$20,907,000**	**20,125,762**	**$9,051,500**

Revenue is projected to decrease by $11.1. This decrease is caused primarily by a $10 million transfer in from the General Fund in FY 2017-18.

Expenditures

Expenditure uses for Capital Project Funds are summarized in the table below and discussed in greater detail following the table:

EXPENDITURE USES	2016-17 Actuals	2017-18 Projected	2018-19 Proposed
Employee Compensation	29,077	-	-
Employee Benefits	11,013	-	-
Materials	841	-	-
Contract Services	-	147,289	-
Capital Outlays	2,194,303	16,512,013	7,141,500
Transfers Out	8,709,982	15,184,000	10,726,500
Total Expenditures Uses	**$10,945,216**	**$31,843,302**	**$17,868,000**

Expenditures are projected to decrease by $14.0 million dollars primarily due to a decrease in transfers out of other funds to fund capital projects. Capital outlays are also proposed to decrease $9.4 million due to significant completion of capital projects in FY 2017-18.

Fund Balance

Fund balance represents a funds savings and is calculated by taking the beginning balance and then adding the difference between revenue and expenditures to arrive at the ending fund balance.

CHANGES TO FUND BALANCE	2016-17 Actuals	2017-18 Projected	2018-19 Proposed Budget
Beginning Balance	15,344,191	25,305,975	13,588,436
Net Increase (Decrease) in Fund Balance	9,961,784	(11,717,540)	(8,816,500)
Ending Balance	**$25,305,975**	**$13,588,436**	**$4,771,936**

Enterprise Funds

Enterprise Funds are set up for the provision of specific services that are funded directly by fees charged for those goods or services. Enterprise Funds include the Resource Recovery, Sports Center, Blackberry Farm Golf Course and Recreation funds.

Revenue

Revenue sources for Enterprise Funds are summarized in the table below and discussed in greater detail following the table:

REVENUE SOURCES	2016-17 Actuals	2017-18 Projected	2018-19 Proposed Budget
Use of Money & Property	366,914	231,200	317,000
Intergovernmental	15,380	15,000	15,000
Charges for Services	7,484,945	7,181,800	6,871,400
Miscellaneous Revenue	319,419	56,000	66,000
Transfers In	1,874,120	400,000	75,000
Total Revenue Sources	**$10,060,779**	**$7,884,000**	**$7,344,400**

Revenue is projected to decrease by $540,000, this is primarily driven by anticipated decreases in charges for services and a decrease in transfers due to the department using unassigned fund balance to cover operational shortages. As part of the budget process each fund is evaluated. Funds that are bringing in less revenue than they are expending require the use of fund balance or a subsidy from the General Fund.

Expenditures

Expenditure uses for Enterprise Funds are summarized in the table below and discussed in greater detail following the table:

EXPENDITURE USES	2016-17 Actuals	2017-18 Projected	2018-19 Proposed Budget
Employee Compensation	1,526,685	1,952,091	1,902,484
Employee Benefits	517,333	603,569	566,178
Materials	223,998	565,186	568,836
Contract Services	5,118,569	5,184,094	6,066,925
Contingencies	-	273,496	207,732
Cost Allocation	661,972	759,543	906,362
Special Projects	40,284	729,186	315,000
Transfers Out	331,836	693,766	320,509
Total Expense Uses	**$8,420,678**	**$10,760,931**	**$10,854,026**

Expenditures are projected to increase by $94,000. This increase is driven primarily by an increase in contract services, cost allocation plan charges, and transfers out to other funds.

Retained Earnings

Enterprise funds carry retained earning instead of fund balance. Retained earnings are calculated by taking the beginning balance and then adding the difference between revenue and expenditures to arrive at the ending retained earnings. However, some of these resources are not liquid and represent capital assets. These monies are generally accumulated to support capital replacement and/or expansion needs.

CHANGES TO RETAINED EARNINGS	2016-17 Actuals	2017-18 Projected	2018-19 Proposed Budget
Beginning Balance	9,411,357	11,051,458	8,174,527
Net Increase (Decrease) in Retained Earnings	1,640,101	(2,876,931)	(3,509,626)
Ending Balance	**$11,051,458**	**$8,174,527**	**$4,664,901**

Internal Service Funds

Internal Service Funds are used for areas where goods or services are provided to other departments or governments on a cost-reimbursement basis. Internal Service Funds include the Information Technology, City Channel and Website, Equipment, Workers Compensation, Long-Term Disability/Compensated Absence, and Retiree Medical funds.

Revenue

Revenue sources for Internal Service Funds are summarized in the table below and discussed in greater detail following the table:

REVENUE SOURCES	2016-17 Actuals	2017-18 Projected	2018-19 Proposed Budget
Use of Money & Property	32,275	-	-
Intergovernmental	-	-	-
Charges for Services	3,742,404	3,955,512	4,973,162
Miscellaneous Revenue	1,530	-	-
Transfers In	1,092,130	3,427,708	1,578,474
Other Financing Uses	82,095	601,003	472,652
Total Revenue Sources	**$4,950,434**	**$7,984,223**	**$7,024,288**

Revenues are projected to decrease by $960,000. The reduction is primarily due to a decrease in transfers in from the General Fund as a result of the consolidation of the City Channel fund to the General Fund in FY 2016-17. This decrease is offset with an increase in cost allocation plan charges to recoup funds for additional Innovation and Technology projects in FY 2018-19.

Expenditures

Expenditure uses for Internal Service Funds are summarized in the table below and discussed in greater detail following the table:

EXPENDITURE USES	2016-17 Actuals	2017-18 Projected	2018-19 Proposed Budget
Employee Compensation	1,137,168	1,421,306	1,361,662
Employee Benefits	2,064,248	1,505,057	1,696,269
Materials	545,556	818,238	981,277
Contract Services	1,871,151	1,717,095	1,981,855
Contingencies	-	323,695	147,882
Cost Allocation	798,514	444,717	727,082
Special Projects	438,866	2,594,413	903,000
Transfers Out	532,385	460,442	699,351
Total Expenditures Uses	**$7,387,889**	**$9,284,963**	**$8,498,378**

Total expenditures is projected to decrease $787,000 as a result of the consolidation of the City's City Channel fund to the General Fund in FY 2016-17.

Retained Earnings

Internal Service Funds carry retained earning instead of fund balance. Retained earnings are calculated in the same manner as fund balance, taking the beginning balance and then adding the difference between revenue and expenditures to arrive at the ending retained earnings. However, some of the resources are not liquid and represent capital assets. These monies are generally accumulated to support capital replacement and/or expansion needs.

CHANGES TO RETAINED EARNINGS	2016-17 Actuals	2017-18 Projected	2018-19 Proposed Budget
Beginning Balance	17,506,102	15,068,647	13,767,907
Net Increase (Decrease) in Retained Earnings	(2,437,455)	(1,300,740)	(1,474,090)
Ending Balance	**$15,068,647**	**$13,767,907**	**$12,293,817**