



CITY MANAGER'S OFFICE

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To the Residents of Cupertino, Honorable Mayor, and Members of the City Council:

As the City of Cupertino enters a time of economic uncertainty, I am pleased to present the City Council with a balanced budget for Fiscal Year 2020/2021. Forecasting anything, be it the economy or the weather, is not an exact science. There are many variables and a lot that we cannot see. But what we can do, and what we are doing, is preparing for the worst while taking steps to ensure the continual financial stability of our organization.

The COVID-19 pandemic, and the ensuing lockdowns, has negatively affected the economies of all countries and likely caused a worldwide recession. The City, for purposes of our budget forecast, is anticipating at least a two-year recession.

The Fiscal Year 2020/2021 Proposed Budget presents a General Fund with revenues of \$79.5 million and expenditures of \$82.3 million. The City's top three revenue sources have been property, sales, and transient occupancy taxes. While this will continue to be true, the City will not see the same level of revenue as in recent years. Sales tax is anticipated to experience an approximately 20% decline, while transient occupancy tax is expected to drop by 25%. The City also expects a decline in fee revenues, mostly attributed to Parks & Recreation Departments programs being ceased, but also due to economic strains on the local, state, and national levels.

With declining revenues for the next several years, difficult but necessary decisions must be made to bring expenditures into line. The City is implementing several budget balancing strategies to the General Fund forecast as noted below:

- Phasing in an increase of vacant staff positions from five (5) to twenty (20) within a three-year period, which will result in up to \$3.2 million in annual savings.
- Reducing contingencies by 50%, which is expected to save approximately \$850,000. This reduction has been implemented in the proposed budget and will remain as part of the final adopted budget.
- Reducing materials by 10%, which is expected to save approximately \$670,000 in Fiscal Year 2020/2021. This reduction will be implemented as part of the final adopted budget.
- Reducing contract services by \$1 million, which will be part of the final adopted budget.

- Reducing special projects by \$500,000, which will be part of the final adopted budget.

While we expect these actions to be enough in the short-term, staff will continue to monitor the situation and adjust when necessary. Staff fully intends on keeping the City Council and community informed with regular updates. Having the latest information and up-to-date data will allow for informed decision making.

It is said that even the darkest cloud has a silver lining. The COVID-19 pandemic has shone a bright light on quite a few positive things going on in Cupertino. I would like to highlight them for the City Council and community below:

Long-Term Financial Planning

The foresight of the City Council and staff in previous years to focus on ensuring healthy reserves is paying off in full. While we will focus on reducing expenditures to offset declining revenues, we do have healthy reserves that could be used to mitigate any unforeseen shortfalls.

The City's Economic Uncertainty Reserve remains intact, with \$19 million, and may be used to mitigate potential shortfalls in future fiscal years. The City's Section 115 Pension Trust (\$12 million) also could be used to mitigate potential increases to CalPERS' annual required contribution rate or further reductions in the discount rate as set by CalPERS. The City's unassigned fund balance remains healthy and will be able to assist in addressing funding gaps.

Virtual Activities, Meetings, and Services

The future is virtual. That we already knew. But the COVID-19 pandemic provided an impetus to move some of our most significant activities and services online—most likely permanently.

The City's Innovation Technology Department (IT) had the vision years ago to slowly migrate full-time employees to laptop computers. This allowed staff to be more mobile. Coupled with IT's decision to move to a VoIP phone system, which allows staff to answer their work lines from a computer, the transition from working in the office to working at home was practically seamless for many employees. With the addition of Zoom virtual conferencing and Microsoft Teams, an online collaboration tool, staff was able to keep internal meetings and communication moving forward. It also allowed the City to quickly offer its services and activities online once the first Shelter-in-Place Order was given in March 2020.

The City began utilizing standard video conferencing software to provide virtual inspections for essential activities. In addition, the Geographic Information System (GIS) Division and the Building Division worked to develop a longer-term solution that allows applicants to submit building inspection videos in lieu of a physical inspection.

Applicants upload their submission through an online form, the videos are stored into a queue, and inspectors review the video remotely. While the form was developed in response to the COVID-19 pandemic, the Building Division expects this new video inspection review process to remain a part of Cupertino's inspection process for limited scopes of work.

The Parks & Recreation Department also began utilizing teleconferencing software in April 2020 to offer residents free virtual fitness classes. These classes quickly gained in popularity, going from about 10 attendees in the first week about 100 after just a few class offerings. Residents have already requested that the City continue some form of virtual classes once the Shelter-in-Place Order is lifted and in-person classes begin.

Embracing Change and Innovation

Change is difficult for everyone. It can be uncomfortable and stressful. That is why I have been so impressed with City staff, which has quickly and eagerly embraced change and innovation. Along with the move to new equipment and software, the reason the City's was able to continue its services with little interruption was because of our employees. Work is being completed and internal virtual meetings have been utilized to a great extent. Our staff has been a critical link to our City's success. It gives me confidence that our employees will readily accept more changes and continue to improve our programs and services. The City Council and residents should be heartened to know that Cupertino is in good hands.

In conclusion, the City—along with every other municipalities—is heading into much uncertainty. While there is a lot we do not know, the picture will become clearer as we move forward and receive more information. Fortunately, the City stands on a solid financial foundation and decisions have already been made, and will continue to be made, to ensure that stays true into the foreseeable future.

Respectfully Submitted,



Deborah L. Feng
City Manager

Notable Accomplishments and New Initiatives

NOTABLE ACCOMPLISHMENTS IN FISCAL YEAR 2019-20

Reducing Youth Access to Tobacco

In February, the City approved a tobacco ordinance to reduce youth access to tobacco. Most notably the ordinance prohibits the sale of vaping products and flavored tobacco. This effort was funded through a \$48,608 grant the City was awarded from the Santa Clara County Public Health Department. Next year the City will pursue options to reduce exposure to secondhand smoke through another grant received from the County.

Reach Code: The City of Cupertino Acts on Fossil Fuels in New Buildings

Cupertino's Climate Action Plan outlines a path towards creating a healthy, livable, and vibrant place for its current and future residents to live, learn, work, and play. It was found that fossil fuels used in buildings and cars presents the biggest remaining challenge to meeting the 2030 greenhouse gas emissions targets. The City Council took steps to enhance the safety and cost savings of the City's buildings by adopting a local reach code that requires most new buildings to utilize clean electricity for uses like water heating and cooking. Eliminating the natural gas line for new developments is expected to save money for both consumers and contractors in most cases. With this step Cupertino joins the vanguard of 30 other California cities, and several across the nation, in starting a long-term reduction in fossil fuel use in the community. Outreach was conducted by City staff and regional partners Silicon Valley Clean Energy. Homeowners, students, contractors, real estate professionals, and business owners in Cupertino provided feedback on what an all-electric reach code would mean for them.

Greenhouse Gas Inventory Shows Cupertino Meeting 2020 Emissions Targets

The City of Cupertino Climate Action Plan goal is to reduce GHG emissions by 15% by 2020, compared to 2010 GHG levels. Since 2010, Cupertino has experienced an estimated 6% increase in population, 18% increase in jobs, and a 10% increase in service population. However, due to the City's climate actions, there is an overall 24% decrease in community GHG emissions during that period of economic growth. The path forward to the 2030 target remains ambitious, with transportation and natural gas used in buildings becoming the largest remaining categories of greenhouse gas emissions and air pollutants, and the State of California considering plans for zero emissions by 2045.

Employee Commute Program Helps Employees Get to Work and Reduce Climate Impacts

Staff created a pilot program to help City employees get to work using alternatives to driving alone. The pilot program resulted in 70 employees signing up to reduce their solo car trips. Over the course of the pilot program, which ran from August 2019 to March 2020, employees took 2,541 “alternative trips” to work which includes transit, carpooling, biking, or taking the VIA shuttle to work. This resulted in reduced parking impacts at City Hall, paycheck incentives paid directly to staff, and an estimated 12 million pounds of carbon emissions avoided. The program’s early success led to a successful grant award for the City to continue with a Phase II employee commute pilot, which is being designed and rolled out by staff.

Master Plan Adoption

This year, the Parks and Recreation System Master Plan was completed and adopted, following an extensive public input process. A final draft Master Plan as well as the associated environmental clearance documents were circulated for public review. The documents were presented to the Planning Commission, Parks and Recreation Commission, and Environmental Review Committee. On February 18, 2020, the City Council adopted the environmental clearance documents and adopted the Parks and Recreation System Master Plan.

Program Overview and Marketing Analysis Completed

The City contracted with the Learning Resource Network (LERN) to provide a two day program review that would analyze recreation program offerings in addition to: provide benchmark tracking to measure department performance, provide recommendations and key actions to implement to reduce costs and boost revenue and registration, and describe specific steps to improve marketing strategies and overall department operations. Recommendations on best practices and trends in the delivery of recreation services were presented to the Parks and Recreation Commission in March 2020.

Volunteers, Wellness, and Collaboration

The Senior Center strives to create a culture of collaboration and engages the community at all levels—this can be noted in the diverse program offerings at the facility. The Cupertino Senior Center celebrated the commitment of its 230 volunteers who have devoted 24,000 hours to serving the community through various volunteer opportunities at the Senior Center. *The 50+ Scene* newsletter underwent an expansive content and aesthetic overhaul in order to adhere to the Office of Communication’s branding guidelines, as well as ensure the publication is more readable and user-friendly. *The Smart Living and Wellness Health Fair* provided valuable information and services to the 50+ community on how best to maintain a healthy and independent lifestyle, coordinated by the City’s own Case Management team. The yearly Hidden Treasures event brought in the most sales ever at \$15,000, which helps support the case management program and the Stay Active Fund to keep Cupertino seniors stay active and

engaged. These innovative services for the 50+ population continue to respond to the City's changing community needs.

Appointment of Cupertino's Sixth Poet Laureate

On February 18, 2020 Cupertino's City Council approved the Library Commission's recommendation of Jing Jing Yang for the appointment of the new Cupertino Poet Laureate. A celebration event was held on February 27th at Quinlan Community Center with nearly 100 attendees to thank the outgoing Poet Laureate, Kaecey McCormick for her contributions to the Poet Laureate program and to welcome Jing Jing Yang as the new Poet Laureate. The event also featured the revealing of Kaecey's final project as Poet Laureate, "Celebrate Creativity: A Cupertino Community Anthology", with 350 pages featuring creative writing from over 80 contributors from the Cupertino community. A copy of the Anthology will be available at the Cupertino Library.

Summer Events

The Summer Events program ran from June 2019 to September 2019 and offered activities at 12 different sites. The program included themed activities, 11 Movies, 11 Concerts, 10 Free Fitness in the Park classes (Zumba and Yoga), 5 Art in the Park Parent/Child classes. It also included Shakespeare in the Park, Cupertino's first Night Market, Game Night, Astronomy Night, Hawaiian Luau, Chess, Bollywood Night and Cupertino Campout with 230 campers. Attendance was slightly under 12,000. Other offered events highlighted celebrity guests, non-profits, and local partnerships.

Teen Offerings

Teen programs were enhanced to address the teen stress levels in Cupertino through innovative, collaborative and educational approaches while addressing community livability amongst the teens. The Bobatino event had its second successful year with over 600 teens enjoying various activities while drinking free milk tea provided by the City. Techie Teens began in August of 2019. The primary goal of Cupertino's Techie Teens volunteer program at the Senior Center is to help teens give back to the community by engaging the 50+ community to assist in developing their technological skills. The volunteers can expect to gain the following experiences: leadership roles, public speaking opportunities, interpersonal communication, and much more. The Cupertino Café run by the Youth Activity Board started in May 2019 but expanded in winter 2020 with more dates and partnerships with the library.

Corridor Stroll

On Friday, August 2, the Parks & Recreation Department held the first annual Corridor Stroll on the Stevens Creek Corridor. Participants strolling between McClellan Ranch Preserve and Blackberry Farm enjoyed acoustic music, a magician, wine tasting, food trucks, crafts, ranger activities, reptile and insect presentations and blacksmith demonstrations.

Signing Santa

On February 27, the Parks and Recreation Department received a programming award from the California Parks and Recreation Society, for their innovative Signing Santa event. This event was the first of its kind in the Bay Area and provided an opportunity for deaf and hard of hearing children to talk to Santa and his elves using American Sign Language. More than 70 people attended the event that included crafts, cookies, hot cocoa, and quality time with Santa.

Blacksmith Shop at McClellan Ranch

In the Fall of 2019, the restored Baer Blacksmith Shop at McClellan Ranch Preserve became fully operational. Free drop-in hours are offered one Sunday a month, and volunteers are learning blacksmithing techniques. Demonstrations can also be scheduled for schools and groups. The blacksmith shop does not operate if Spare-the-Air or Red Flag warnings have been issued.

Golf Course Improvements

In the Spring of 2020, much needed improvements were made to the tee boxes on holes #1 and #9. Both tee boxes were leveled and had new turf installed. In addition to these tees, the green on hole #6 was made level and enlarged.

McClellan Ranch Preserve Meadow Habitat Restoration

The City's partnership with Grassroots Ecology continues to yield positive results for the restoration of the meadow at McClellan Ranch Preserve. In FY 19-20, over 350 volunteers planted over 300 native plants, removed invasive plants, and monitored the water quality in this open space.

Athletic Fields Use Study

In FY19-20, the Parks and Recreation Department began a field use study to update the current Field Use Policy. The study encompasses review of the user group categories, the fees and how the City charges users, times, days for use, and rest periods for the fields. The new policy is expected to be adopted by the Fall of 2020 and implemented in the Spring season of 2021.

Accessory Dwelling Unit Ordinance

The Accessory Dwelling Unit Ordinance (ADU) was adopted by City Council after the its second reading on March 3, 2020. This was in a response to the State adopting six (6) separate Assembly and Senate Bills that seek to streamline and encourage the development of ADUs in an effort to relieve the State's housing crisis. Such revisions allow a shorter, more affordable review process which will also further flexibility on certain development standards.

De Anza Hotel Project Approval

The De Anza Hotel Project was part of a General Plan Amendment proposal to develop a 155 room, seven story boutique hotel on the site currently occupied by Goodyear Tires at 10931 N De Anza Blvd. The developer, John Vidovich of De Anza Properties, has agreed to a Development Agreement that would contribute a one-time payment \$500,000 to the City to fund various projects, reduced price shuttle service for City residents to utilize for Airport transportation as well as connections to job centers, free use of hotel facilities for the City and local schools, and public access to a roof top bar & restaurant.

California Department of Housing and Community Development (HCD) SB 2 Planning Grants Program

The California Department of Housing and Community Development (HCD) announced that the City of Cupertino was awarded \$310,000 in grant funds under the HCD's SB 2 Planning Grants Program. The City will use the funds to improve the Permit Center to offer community access to government services utilizing advancing technologies. As part of the Permit Center improvements, staff is redesigning the customer experience through projects ranging from physical on-site enhancements, availability of online resources and services, permit software and programs, and updates to distributional handouts on development regulations. The SB2 Planning Grants funds will be used specifically to offset the digital program improvements and online access solutions.

Cupertino Village Hotel Project Approval

The Cupertino Village Hotel Project was part of a General Plan Amendment proposal to develop a 185 room, 5-story hotel with event meeting rooms, restaurant, and rooftop bar. The developer, Kimco Realty, agreed to a Developer Agreement that would contribute \$1.85 million (\$10,000 per room) towards Community Amenity Funding, participation in a Transportation Management Association, shuttle service access, meeting room availability for official City business, reduced rates for people visiting Cupertino for official City business, and internship opportunities. When constructed, the project is anticipated to have a net fiscal impact of \$1.78 million on the City's General Fund.

Homeless Encampments

The Code Enforcement Office is currently working on creating a Standard Operating Procedure and contract to have public camping sites removed from the Public Right-of Way and public property. The City of Cupertino has seen a growth of illegal camping sites along Wolfe Road and 280. The goal of this project is the removal of unlawful encampments and the mitigation of health, safety and access issues while respecting the rights of the occupants and informing them of alternative resources within the community.

Permit Tracking and Electronic Plan Review System

Cupertino's initiative to replace its obsolete permit tracking system was realized on July 22, 2019, with the implementation of Accela and the successful integration to the electronic plan review system, ProjectDox. Cupertino's new system gives staff better tracking and management of permitting processes with a centralized database and GIS centric controls which allows information to be shared across Departments for improved communication.

Plan Review, Permit and Inspection Services: Smooth transition after Shelter-In-Place order

The Development Review process which includes Building, Planning, Public Works, Fire, Sanitary District, and Code Enforcement to review plans, issue permits and provide observation inspections successfully transitioned crucial City Service functions as a telecommuting operation on day one of the Shelter-in-Place order due to COVID-19. All services are electronically processed remotely with technology that each Department worked tirelessly over the past four years to implement. While other jurisdictions had no choice but to shut down their Departments, Cupertino was able to seamlessly continue operations remotely with minimal impacts.

Reach Codes

In January 2020, the City Council considered and adopted a local addition to the building codes in Cupertino that will lower greenhouse gas impacts from newly constructed buildings, known as the all-electric building reach code. Staff is pleased to report that the Cupertino reach code has been heard at a public meeting of the California Energy Commission on April 8, 2020. CEC staff found that the Cupertino reach code met all requirements in order to be adopted. CEC staff issued a resolution stating that, "CEC applauds the City of Cupertino for seeking to achieve additional energy demand reductions, energy savings, and other benefits exceeding those of the 2019 Energy Code."

A copy of the CEC resolution can be viewed at (outside link):

https://ww2.energy.ca.gov/business_meetings/2020_packets/2020-04-08/Item_04f_CUPERTINO_ADA.pdf

Real Estate Sign Pickups

The Code Enforcement Office conducted the removal and storage of illegally placed real estate signs from the Public Right-of-Way. The project involved a code enforcement officer patrolling on the weekends for unlawfully placed real estate signs and promptly removing them for storage at the Cupertino Service Center. The investigating officer would notify the offending agent(s) and advise them of the number of sign(s) removed including instructions on how to retrieve the signs with a fee. No Administrative Citations were issued for this project.

Recruitments and Onboarding Software Implementation

Cupertino prides itself in the high level of services provided to the community, always striving to hire the best employees. Human Resources conducted 17 full-time recruitments resulting in 21 new hires or promotions. Additionally, phase two of NeoGov, an online system for onboarding, recruitment and applicant tracking, was implemented to streamline the new hire and onboarding process for all departments. Implementing the Onboarding module was comprised of staff training, converting all new hire payroll, policies, and benefit information into digital format, creating a Welcome Portal page, uploading content for new hires, and testing. The new onboarding module has been a great success with new hires. Human Resources has been able to complete new hire onboarding with telework in place.

COVID-19 Leaves Implementation

The Families First Coronavirus Response Act (FFCRA) is an emergency law passed by Congress and signed by the President on March 18, 2020, in response to the COVID-19 Pandemic. The law required the City of Cupertino to provide employees with Emergency Paid Sick Leave (EPSL), and/or Emergency Family and Medical Leave Expansion (EFMLEA), for reasons related to COVID-19. Human Resources quickly implemented these new paid leaves effective April 1, 2020. Staff outreach and training included webinars, development of webpage, infographics and individual meetings with all employees as needed.

Citywide Employee Training - BEST

“BEST” (Building Employee Skills through Training) program focused on professional development as part of Cupertino’s succession planning and employee retention initiatives. Human Resources offered 7-8 workshops each quarter on subjects such as Public Speaking and Time Management. Human Resources also launched popular quarterly Employee Orientations and Refreshers for the departments to share the latest Citywide policies and programs available to employees.

Employee Engagement Initiative

Human Resources implemented its first citywide Employee Engagement Initiative to support each other and work together towards the City's mission to provide exceptional service, encourage all members of the community to take responsibility for one another, and support the values of education, innovation, and collaboration. City employees were assigned to a Work Group, participated in a citywide Employee Engagement survey, and created Action Plan Teams to brainstorm solutions for any issues identified in the survey. Employee Engagement is a mutual commitment between the organization and the employee, and this initiative was a successful first step towards the goal of having engaged employees who feel valued, are listened to, and are enthused about their work.

Investment Management

Through a formal Request for Proposal (RFP) process, the Finance Division engaged Chandler Asset Management for investment management services in FY 2018-19. Managing the City's investment portfolio with three key principles in mind: safety to ensure the preservation of capital in the overall portfolio, provide sufficient liquidity for cash needs and a market rate of return consistent with the investment program. Since inception in January 2019, the City's portfolio has yielded a total rate of return of 4.96%, significantly higher than U.S. Treasury and Local Agency Investment Fund rates during that time period. As a result, the City's investment portfolio is well-positioned to move forward as the COVID-19 pandemic continues to evolve.

Internal Audit Function

Through a formal Request for Proposal (RFP) process, the Finance Division engaged Moss Adams LLP for internal audit services in FY 2019-20. This function will be assisting the City in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. While the timing of the onboarding and initial risk assessment have been delayed due to COVID-19, the City is eager to resume its internal audit function.

Innovation Technology Strategic Plan

The Innovation Technology Department concluded the final phase of a three-year strategic plan, published in October 2017. The plan revolved around the implementation/execution of 54 technical infrastructure or enterprise application projects. As of July 2020, all 54 projects are complete. Highlights of this year's efforts include:

Applications

- Going live with Accela Land Management System; a cloud-based application that includes urban planning, permitting and building inspections. Accela's web-based customer portal provides easy access and use to customers applying, reviewing status or paying for a permit.
- Implementation of the NeoGov Onboarding application; a cloud-based application utilized by Human Resources to onboard new staff
- Development of an Electronic Content Management three-year roadmap that guides the expansion and best practices for the City's record management system.
- Expansion of the City's cloud-based asset management system, Cityworks to include storeroom. Update asset inventory for street legends and striping as well as streetlight cabinets.
- Implementation of Chyron utilized by the Video Division for television graphics
- Upgraded BuildingEye to Civic Central. Integrated Civic Central with Accela Land Management
- Implemented NextRequest, cloud-based application that streamlines the public records act request process.
- Microsoft O365 and Exchange citywide implementation
- Implement Zoom as City's teleconferencing solution.
- Cobblestone, cloud-based contract management workflow application was implemented.

Technical Infrastructure

- Build/test of disaster recovery environment outside of California
- Updated Emergency Operations Center to include state-of-the-art AV and teleconferencing equipment
- Windows 10 and Server 2019 upgrades citywide.

Projects Completed outside of Strategic Plan

- Transitioned 10 conference rooms to "Zoom Rooms" providing the ability to teleconference.
- Installed 300 terabyte video storage system

- Developed Bid Management application for publishing City RFPs and providing capability of vendors to submit bids electronically.
- Upgraded the City's record retention schedule to align with best practices
- Upgraded Permit Parking application which allows residents to renew parking applications online.
- Upgraded Community Hall projector system
- Implemented a Queue Management system to provide a more streamlined and friendly experience for permit center customers.

Innovation Technology Data Visualization and Analytics

Data visualization is the presentation of data in a pictorial or graphical format providing tools to better understand the data and/or identify patterns. Cupertino prides itself on making transparent data-driven decisions – this is one more tool to assist in that process. The following dashboards and storymaps were added this year.

- Capital Improvement Plan Storymap. Define project, status and location of CIP projects.
- 311 Dashboard. Provides graphical representation of 311 (work request) tickets. How many, status, location and time to respond.
- Pavement Condition Index Storymap. Provides Citywide view of the PCI value for City streets.
- Bike/Ped Storymap – Define project, status and location of bike and pedestrian projects throughout the City.
- Civic Central – View permits geographically by street, neighborhood, or the entire City. Residents can be notified of new permits if desired.

Innovation Technology Response to COVID-19

Business Continuity (BC) is a major and necessary goal for all organizations. The ability to continue business operation during and after a natural or person-made disruption is a true test of an organization's BC. COVID-19 provided such a test – and IT's response was exemplary. Within a day of the Shelter-in-Place order, 95% of all computer-based staff were able to telework as if they were in the office. Staff had the equipment (laptop & softphone), applications, collaboration tools, and necessary cybersecurity measures to seamlessly & securely continue their daily work. Cupertino lead the way in providing a secure, yet easy to use teleconferencing solution for Council, Commission and Committee meetings. Additionally, IT provided a quick turnaround for COVID-19 related applications such as: COVID-19 update page, What Businesses are Open web page, HR Information Page, an electronic bid submission, and electronic signatures on citywide contracts to name a few.

VERBS Grant Award

The McClellan Road Separated Bikeway project was awarded the Vehicle Emissions Reductions Based at Schools (VERBS) Award for \$1M from the Metropolitan Transportation Commission.

McClellan Road Separated Bike Lane Phase 1

The Capital Improvement Program most notably completed the first phase of the McClellan Road Bike Corridor from Stelling Road to Imperial Avenue, which is part of the 2016 Bicycle Transportation Plan to enhance and promote safer bicycle transportation in the City.

Sidewalk Improvements – Byrne Avenue

The Capital Improvement Program also completed standard right-of-way improvements on Byrne Avenue from McClellan Road to Granada Avenue, including sidewalks, curb and gutter and relocated utility poles. Adding sidewalks will improve pedestrian safety in the Monta Vista Tri-school area.

McClellan Ranch West Parking Lot Improvement

This project formalized the existing use of the site located at 22241 McClellan Road. This new “green”, meadow-style parking lot has a permeable concrete paving and appropriate landscaping. The parking lot and landscaping has been designed to be compatible with and sensitive to the creek environment in order to have minimal impact to the site.

Senior Center ADA Sidewalk

The Capital Improvement Program also completed construction of an ADA compliant sidewalk adjacent to the Senior Center parking lot. The new sidewalk provides a safe pedestrian path of travel connecting the permit parking areas to the Senior Center complex.

Streetlight Installation – Randy Lane & Larry Way

The Capital Improvement Program completed the installation of LED streetlights on Randy Lane between Merritt Drive and Lucille Avenue & Larry Way between Merritt Drive and Lucille Avenue

Projects that have met significant progress milestones include

- McClellan Road Bikeway Phase 2 (Stelling Rd to Torre Ave)- design Complete;
- Regnart Creek Trail – Design and Environmental Clearance completed
- Blackberry Farm Entrance Road Feasibility Study - Study Complete
- Stevens Creek Blvd Cl IV Bikeway Phase 1 – Design Complete
- Civic Center Parking Analysis – Study Complete

Via Community Shuttle Launch

Public Works Transportation staff was integral in launching Via, an on-demand micro transit system to all of Cupertino and beyond, connecting the City to regional rail service for the first time ever. The program includes discounted fares for low-income riders, seniors, and De Anza College students.

Arbor Day Foundation Tree City USA designation and Growth Award

The Arbor Day Foundation named the City of Cupertino “Tree City USA” for the eighth consecutive year and was awarded the “Growth Award” for the sixth time. Tree City USA distinction activities include two public planting events, 188 new trees planted, 3387 trees pruned and community outreach efforts about the importance of a healthy Urban Forest. Growth Award activities include enhancing the asset management system with tree Inventory and ongoing efforts of public education / public relations.

Clean Water & Storm Protection Fee

Public Works Environmental Program staff conducted extensive community outreach, education, and public hearings resulting in successfully passing the ballot initiative to update Cupertino’s Clean Water and Storm Protection Fees for the first time since 1992. These fees will help protect stormwater infrastructure, local creeks, regional wetlands, the San Francisco Bay and ocean.

NEW INITIATIVES FOR FISCAL YEAR 2020-21

Blackberry Farm Golf Course

Determine short-term and long-term improvements to the golf course and amenities. To be completed by the Spring of 2021.

Dog Off Leash Areas

Identify additional areas suitable for permitting dogs to be off leash and establish one such area, if the current trial period is successful. The Parks and Recreation Commission will evaluate the DOLA at Jollyman Park after the trial period concludes in July 2020 before considering additional sites in the community. To be completed by Spring of 2021.

Pilot – Sensor Technology based on IOT (Internet of Things)

Seven projects fall under this classification: Adaptive traffic signaling, multi-modal traffic count, noise measurement, pollution monitoring, trash collection and water scheduling. All projects are part of the City Council Work Program. The goal is to extend the City's network and database structure to include IOT based sensors to determine the cost/benefit and practicality of utilizing this technology to provide enhanced service and data that will drive future business decisions.

ESRI IOT for Analytics is a cloud-based solution that will be implemented for the City to ingest, visualize, and analyze spatial big data real-time to gain insights that allow for analysis and data driven action. This application will allow the City to categorize and make sense of the data generated from the above mentioned IOT sensors.

ProjectDox Expansion and Upgrade

ProjectDox is an on-premise application that provides for electronic plan submission and review. ProjectDox is integrated with the City's land management system, Accela. These two applications have brought significant improvements (for both staff and customers) in the way permits are processed by the Building Division. The goal of this request is to extend these improvements to the Planning Division and Public Works Engineering. Additionally, ProjectDox will be migrated to a cloud-based application allowing for enhanced business continuity and disaster recovery.

AI Cybersecurity Tools

This past year has seen multiple municipalities fall victim to Ransomware attacks. The remediation of these attacks has cost millions of dollars on top of the extended down time for crucial City services. This project will add artificial intelligence (AI) to the City's cybersecurity defenses. While AI will not stop an attack – it can quickly isolate the impacted files and mitigate the spread of Ransomware. As hackers continue to improve their attack profile – so must Cupertino improve its defenses.

Review of City's Housing and Human services grant funds

Review existing grant funds to determine allowable uses for emergency financial assistance programs. Consider increasing Below Market Rate Affordable Housing Fund Public Service allocation.

Housing Strategies

Explore the development of strategies that provides a variety of products across the affordability levels including housing for the developmentally disabled, as well as those with moderate, low, very low, and extremely low income. *Continued from FY 19-20 work program.

Heart of the City

Amend the Heart of the City Specific Plan: 1) For clarifications to the minimum street side setback requirements. 2) To review street tree requirements to allow larger trees, increase diversity of tree type and encourage drought-tolerant and native tree types. 3) Update sections such as transit corridors in the City. 4) Maintain existing setbacks and consider minimum retail percentage to maintain a commercial strip. 5) Minimum retail space.

Vallco Specific Plan

Create a community-based vision and objective standards for development at Vallco.

Traffic Congestion Map and Identify Solutions

Identify traffic congestion areas in a heat map. Identify, implement and measure effectiveness of data driven solutions to improve traffic flow in most congested areas.

Single-Use Plastics Ordinance

Single-use plastics, especially those used as foodware (plastic utensils, food packaging, straws, coffee stirrers, lids for coffee cups, spill-prevention plugs to go into those lids, etc.) are not recyclable and create significant amounts of waste that end up in landfills and as littered items that reach and harm the marine environment. Jurisdictions in the Bay Area are beginning to consider and implement ordinances that aim to reduce single-use foodware where possible. This aligns with Cupertino's Zero Waste Policy (adopted in December 2017) which specifies a

goal to “Reduce the proliferation of unnecessary plastic reusable food service ware and packaging in daily commerce, to the extent practicable.” Environmental Programs staff participate on County and wider Bay Area work groups developing model ordinance language which includes enabling re-usable foodware business models that allow for use, sterilization, and re-use of to-go foodware.

Climate Action and Adaptation Plan updates

The Cupertino Climate Action Plan was created nearly ten years ago and has guided the City to a successful reduction of carbon emissions, even while the City has experienced stellar economic growth. Since adopting the CAP, the State of California has evolved the guidelines to address not only carbon emissions, but also adaptation to changing climate risks like wildfires and droughts. The Sustainability Commission and City Staff are planning an update of the CAP to align with new science-based targets for carbon emissions and resilient infrastructure. This budget includes funding to support this update to the Plan. An update to the CAP would include public outreach activities and technical analysis of the best options to support Cupertino’s resilient and climate-friendly growth. The Earth Day volunteer network and all interested residents are encouraged to begin conversations about what Cupertino’s sustainability strategy should be for the next 10 years.

Reduce Secondhand Smoke Exposure

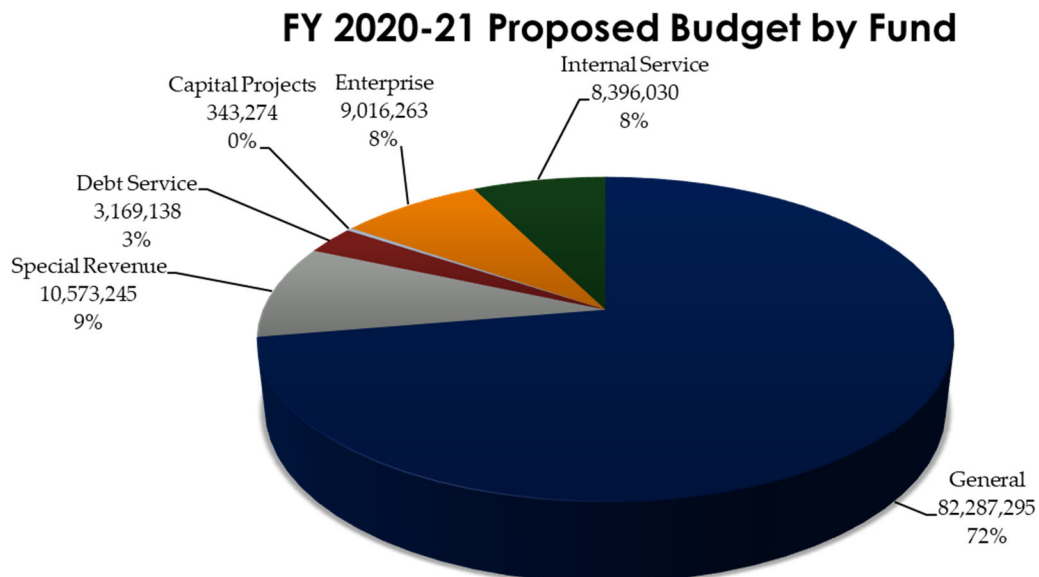
Revise and develop policies to reduce exposure to secondhand smoke. Potential options include smoke-free multi-unit housing, smoke-free service areas, and smoke-free public events.

Proposed Budget Overview

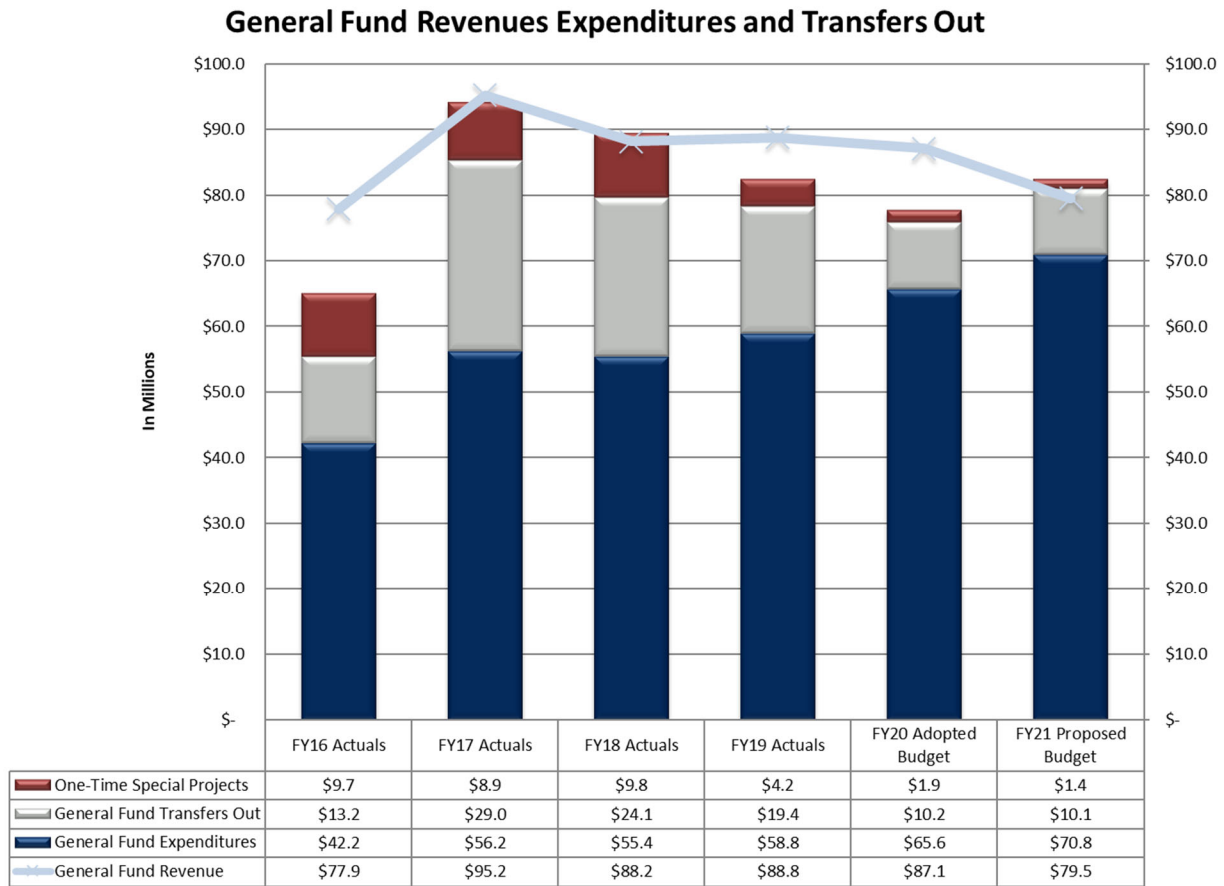
The Proposed Budget reflects a total City budget of \$113.8 million, a decrease of \$36.7 million or 24.4% when compared to the FY 2020 Adopted Budget. The City's General Fund is proposed at \$82.3 million, representing a \$2.2 million, or 2.7% increase over the FY 2020 Adopted Budget. The General Fund is funded through the use of General Fund revenue of \$79.5 million, \$2.8 million of unassigned fund balance, and is projected to end FY 2021 with approximately \$14.7 million in unassigned fund balance that may be transferred to the Capital Reserve per the Reserve and One Time Use Policy as part of the City's FY20-21 Mid-Year Financial Report. The transfer is not reflected in the Proposed Budget.

Fund Type	Total Proposed Expenditures	Total Proposed Revenue	Change in Fund Balance/Net Position
General	\$ 82,287,295	\$ 79,450,892	\$ (2,836,403)
Special Revenue	\$ 10,573,245	\$ 11,926,643	\$ 1,353,398
Debt Service	\$ 3,169,138	\$ 3,169,138	\$ -
Capital Projects	\$ 343,274	\$ -	\$ (343,274)
Enterprise	\$ 9,016,263	\$ 8,631,042	\$ (385,221)
Internal Service	\$ 8,396,030	\$ 5,245,334	\$ (3,150,696)
Total	\$ 113,785,245	\$ 108,423,049	\$ (5,362,196)

As shown in the chart below, the Proposed Budget's largest fund is the General fund at 72%.



The graph below summarizes the changes in the City’s General Fund for a five-year period:



A total of 202.75 positions are proposed in FY 2020-21. Prior to COVID-19, the City was anticipating bringing a number of new position requests to City Council over a three-year period; however, given the level of fiscal uncertainty surrounding COVID-19, the City has removed all position requests in FY 2020-21. As the COVID-19 situation evolves, City staff will bring forward requests for City Council approval as more information becomes available for purposes of making informed decisions.

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

In the past, staff recommended adding positions only on a limited term basis unless staff was confident that the needed level of service would be permanent, or ongoing revenues could support the position long term, or staff could not recruit and/or retain the staff resource on a

limited term basis. The City currently has five (5) limited-term positions are staff are requesting that they be converted to a permanent basis.

Limited-Term Conversions	
Department	Position
Administrative Services	Senior Management Analyst
Public Works	Senior Transportation Planner
Public Works	Assistant Civil Engineer
Public Works	Public Works Project Manager
Parks & Recreation	Recreation Coordinator

Changes to the Budget and Policies

City staff performed a zero-base budget for the FY 2020 budget document in which all expenses were justified and every function within the City was analyzed for its needs and costs. The City had planned to convert to a biennial budget process; however, given the timing and constraints of COVID-19, the City will be deferring the conversion until next fiscal year. Below are a few highlights from the budget and process:

Revised Fees and Cost Allocation Plan (CAP)

While the Cost Allocation Plan remained relatively consistent over the previous fiscal year, a change in methodology was implemented in the FY 2020-21 model. Costs attributable to grounds and facilities, specifically and only related to the City’s Civic Center, are being charged out for more equitable and reasonable cost sharing among service providers in the City.

Additionally, City Council approved the fee schedules effective for FY 2020-21 on April 21, 2020. Due to impacts related to COVID-19, and the City’s intent to provide financial relief during this time of great uncertainty, the increases to the City’s fees were delayed and will not become effective until October 1, 2020. The increases to the various fee schedules are estimated to result in increased revenues of approximately \$900,000 over the previous fiscal year; however, the timing of services to be provided and revenues to be collected may be impacted by COVID-19 throughout fiscal year 2020-21.

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 will be available on the City website as part of the May 19, 2020 City Council agenda packet.

GANN Appropriations Limit

For FY 2021, the City’s estimated appropriations of proceeds from taxes, less statutory exclusions, are unchanged as of the Proposed Budget. Data needed to calculate the FY 2021

appropriations limit will not be available until mid-May. 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. This reflects the prior year limit and will not be updated until the Adopted Budget when the information required for this calculation is available.

Revised Community Funding Policy

The first Community Funding policy was adopted by City Council in FY 2012-13, and the most recent policy was adopted as part of the FY 2015-16 Adopted Budget. At the Budget Adoption hearing in June 2018, City Council requested that the Community Funding Program be updated in order to assure that all applications received due consideration and that City Council is provided with all information necessary to make final funding decisions. At that meeting, City Council requested that the Parks and Recreation Commission evaluate all grant applications, and provide funding recommendations to Council for consideration. An updated policy with minimal substantive changes was approved by City Council in 2020.

Budget by Fund

General Fund

The General Fund pays for core services such as public safety, recreation and community services, planning and community development, streets and trees, 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, transient occupancy tax, charges for service, and a variety of other discretionary sources.

General Fund revenue is estimated at \$79.5 million in the FY 2021 Proposed Budget. This is an overall decrease of \$7.6 million (8.7%) when compared to the FY 2020 Adopted Budget. In recent years, the City has experienced local economic boom that had driven strong gains in sales tax, property tax, and transient occupancy tax revenues, which were partially offset by decreases in development-related fees. FY 2021 will experience significant General Fund declines in sales tax (\$4.7 million or 18%) and transient occupancy tax (\$2.1 million or 22%) due to COVID-19 impacts. Property tax is not anticipated to be affected by COVID-19 in FY 20-21 due to the timing of assessed market valuations; however, the City anticipates a flattening of the property tax revenues in FY 21-22.

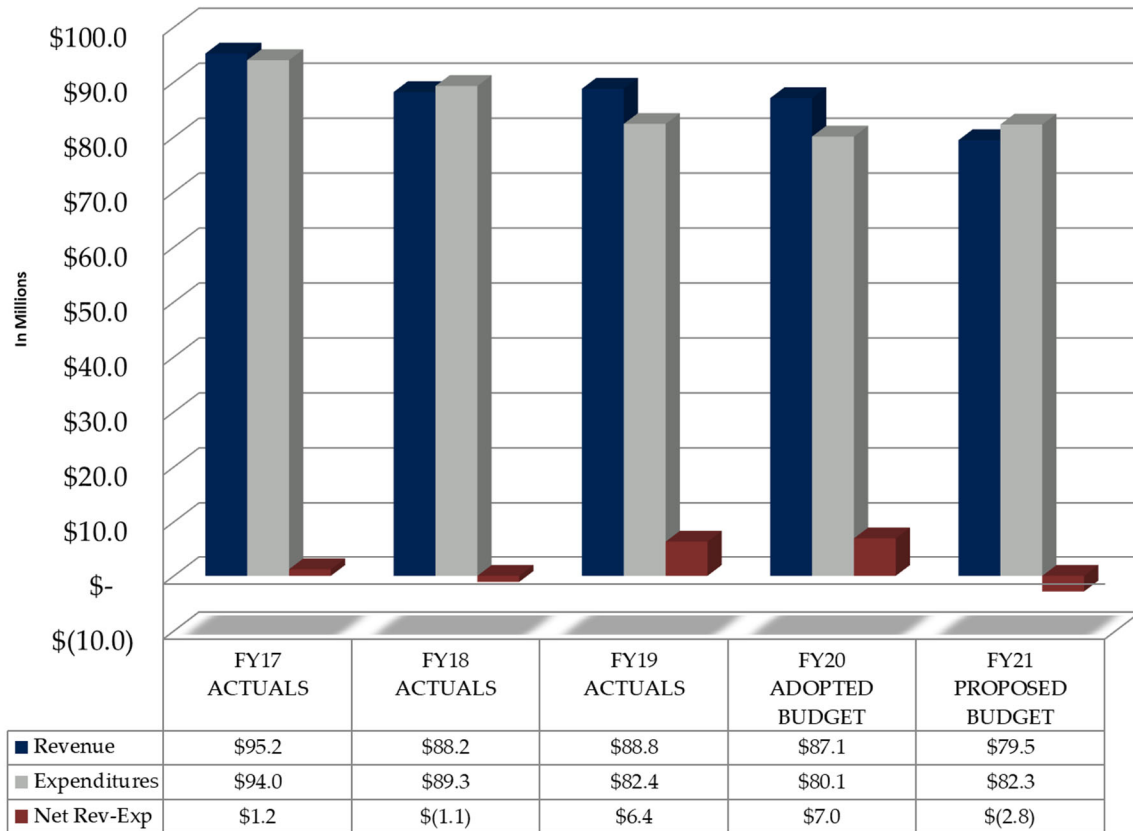
In an effort to mitigate the impacts to COVID-19, the City is taking steps to reduce expenditures by increasing vacancy levels through attrition (up to \$3.2 million annually), reducing materials and contract services spending (\$650,000 and \$1 million, respectively), reducing contingency amounts by 50% or \$850,000), and reducing the amount of special project and capital outlay spending on an annual basis.

Although it is difficult to estimate the full-impacts of COVID-19 into the near and long-term, the City's fiscal foundation remains strong. With the General Fund's Economic Uncertainty Reserve

intact and a healthy unassigned fund balance, the City is poised to withstand the impacts of COVID-19 into the future.

The following chart shows four years of total revenue, expenditures and changes to fund balance for the General Fund:

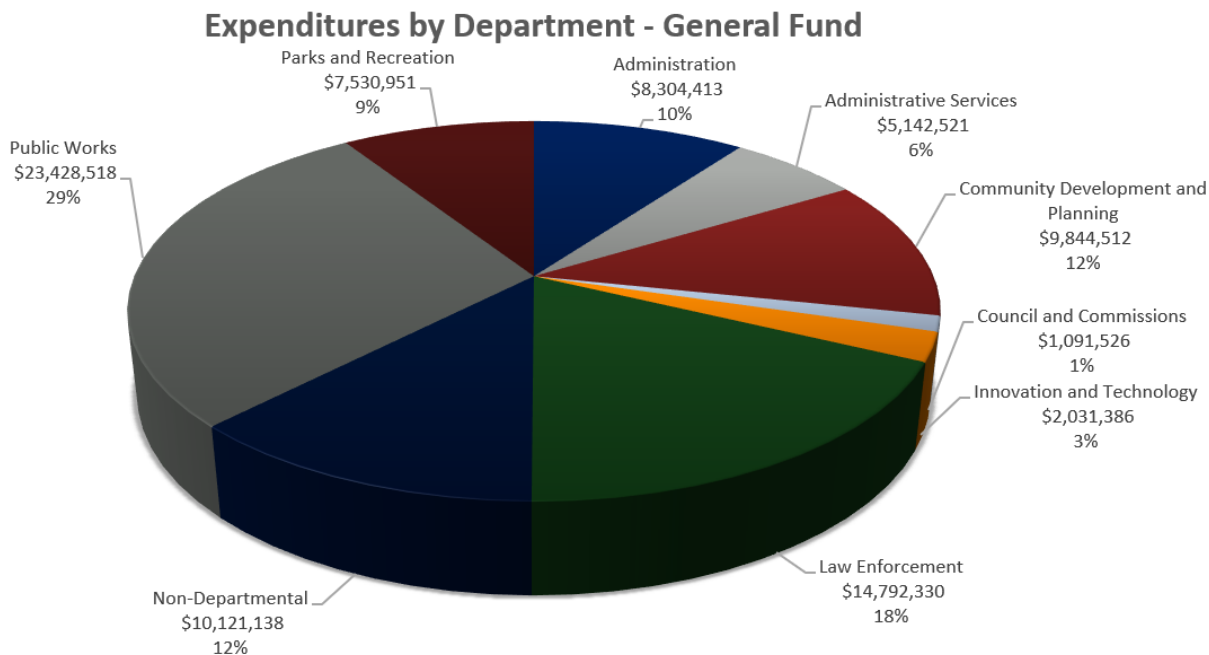
General Fund Revenue, Expenditures and Changes in Fund Balance



The General Fund unassigned fund balance is projected to decrease from the current year estimate of \$17.5 million to \$14.7 million in FY 2021. As shown in the chart below, the FY 2021 ending fund balance is estimated to be \$50.6 million, or 5.3% lower than the FY 2020 year-end estimate. This is primarily attributable to a notable decline in sales tax and transient occupancy tax revenues due to COVID-19.

GENERAL FUND FUND BALANCE					
	FY 17-18	FY 18-19	FY 19-20	FY 20-21	Percent
Classification	Actual	Actual	Estimated	Proposed	Change
Unassigned	\$ 21,704,922	\$ 27,896,128	\$ 17,500,000	\$ 14,672,597	-16%
All Other Classification	30,805,535	31,026,457	35,938,546	35,929,546	0%
Total Fund Balance	\$ 52,510,457	\$ 58,922,585	\$ 53,438,546	\$ 50,602,143	-5.3%

As shown in the graph below, the majority of General Fund resources are used to support Public Works (29%), Non-Departmental expenditures (12%), Law Enforcement (18%), Parks and Recreation (9%), Administration (10%), and Community Development and Planning (12%).



Special Revenue Funds

Special Revenue Funds are a fund type used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. Special Revenue Funds account for 9% of the citywide expenditure budget. The largest Special Revenue Fund accounts for streets, roads, and transportation. Other funds account for storm drain management, affordable housing programs, and park development. The Proposed Budget for Special Revenue Funds for FY 2020 is \$10.6 million, which is an \$800,000, or 8%, increase from FY 2020 Adopted Budget primarily due to storm drain activities, previously budgeted in the General Fund, that were reallocated to the Environmental Management Special Revenue Fund.

Budgets within the Special Revenue Funds are funded by \$8.1 million in restricted department revenue, and \$3.8 million in transfers, bringing total funding sources for the fund to \$11.9 million. This will result in a projected increase to fund balance of \$1.4 million. The Special Revenue Funds are projected to end the year with fund balances of \$24.8 million.

Capital Projects Funds

The Capital Improvement Project Fund, Stevens Creek Corridor Park Fund, and Capital Reserve Fund are currently in the Capital Projects Fund type category. This fund type is typically used to account for financial resources that are used for the acquisition or construction of major

capital facilities or to provide facilities for City departments, and are identified in the five-year Capital Improvement Program (CIP).

The Proposed Budget for the Capital Projects Funds for FY 2021 is \$343,274. The FY 2021 budget is \$37.6 million lower than FY 2020 Adopted Budget appropriations until the Capital Improvement Program budget is incorporated in the Adopted Budget.

Enterprise Funds

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

The Proposed Budget for Enterprise Funds for FY 2021 is \$9.0 million, a decrease of \$2.5 million from the FY 2020 Adopted Budget. Budgets within the Enterprise Funds are funded by \$6.1 million in program revenue and \$2.5 million in transfers from the General Fund. The Enterprise Funds also rely on \$5.0 million of prior year fund balance, bringing total funding sources for the funds to \$13.6 million. The Enterprise Funds are projected to begin the fiscal year with \$5.0 million in retained earnings and are projected to end the year with retained earnings of \$4.6 million. Impacts to Enterprise Fund revenues as a result of COVID-19 are significant, particularly while shelter-in-place orders remain in effect. FY 2020 experienced sharp declines in the fourth quarter and as such, staff are conservatively budgeting for anticipated reductions in overall revenue and expenditures. While it is difficult to estimate the extent of shelter-in-place orders for FY 2020-21, staff will continue to monitor the activities and report to City Council on a regular basis.

Internal Service Funds

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

The Proposed Budget for the Internal Service Funds is \$8.4 million, which is \$0.5 million higher than the FY 2020 Adopted Budget. Budgets within Internal Service Funds are funded by \$4.6 million in department revenue, \$0.7 million in transfers from the General Fund, and \$3.2 million from a combination of depreciation reserves and retained earnings. The Internal Service Funds are projected to begin the fiscal year with \$6.8 million in retained earnings and are projected to end the year with retained earnings of \$3.7 million.

Special Projects

The FY 2021 Proposed Budget includes funding for several one-time Special Projects. These projects are identified as part of the Special Project section within each program and are summarized in the table on the next page. This list excludes one-time capital outlays and ongoing pavement management costs.

FY 2020-21 Special Projects				
Program Budget	Project Name	Expenditure	Funding Source	Work Program
120 City Manager's Office	Reduce Second Hand Smoke Exposure	\$ 27,592	General Fund	Yes
122 Sustainability	Climate Action Plan	\$ 212,000	General Fund	Yes
300 I&T Administration	Pilot Adaptive Traffic Signaling	\$ 65,000	Internal Service Fund	Yes
300 I&T Administration	Pilot Multi-modal Traffic Count	\$ 40,000	Internal Service Fund	Yes
300 I&T Administration	Pilot Noise Measurement	\$ 35,000	Internal Service Fund	Yes
300 I&T Administration	Pilot Pollution Monitoring	\$ 35,000	Internal Service Fund	Yes
300 I&T Administration	Pilot Trash Collection	\$ 25,000	Internal Service Fund	Yes
800 PW Administration	Municipal Water System	\$ 50,000	General Fund	Yes
801 Resource Recovery	Single Use Plastics Ordinance	\$ 30,000	Enterprise	Yes
804 Plan Review	Alternatives to New City Hall	\$ 25,000	General Fund	Yes
845 Traffic Signal Maintenance	Adaptive Traffic Signaling and Battery Backup	\$ 180,000	General Fund	Yes
	TOTAL CITY COUNCIL WORK PROGRAM	\$ 724,592		
122 Sustainability	Sustainable Infrastructure Audit	\$ 10,000	General Fund	
300 I&T Administration	Pilot Waste Management	\$ 10,000	Internal Service Fund	
305 Video	Community Hall Podium Replacement	\$ 15,000	General Fund	
305 Video	Portable Signal Generator/Analyzer	\$ 9,000	General Fund	
305 Video	Wireless Video Transmission System	\$ 11,500	General Fund	
308 Applications	Vehicle Miles Traveled	\$ 25,000	General Fund	
310 Infrastructure	Artificial Intelligence Remediation	\$ 50,000	Internal Service Fund	
310 Infrastructure	Facility Battery	\$ 40,000	Internal Service Fund	
701 Current Planning	Marina Plaza	\$ 50,000	General Fund	
801 Resource Recovery	Trash Enclosure SWMP	\$ 2,500	Enterprise	
802 Non-Point Source	Trash Enclosure SWMP	\$ 2,500	Special Revenue	
807 Service Center Administration	Citywide Office Reconfiguration	\$ 95,000	General Fund	
812 School Site Maintenance	Irrigation Pump for Hyde Middle School	\$ 85,000	General Fund	
812 School Site Maintenance	Dedicated Water Service at Collins School	\$ 60,000	General Fund	
812 School Site Maintenance	Hyde Middle School Fence Repairs	\$ 6,600	General Fund	

813 Neighborhood Parks	Master Valve and Flow Sensor at Hoover Park	\$ 12,000	General Fund	
813 Neighborhood Parks	Tot Lot Rubber Resurfacing	\$ 80,000	General Fund	
813 Neighborhood Parks	Irrigation and Domestic Service	\$ 70,000	General Fund	
813 Neighborhood Parks	Environmental Consulting Services	\$ 14,000	General Fund	
820 Sidewalk Curb and Gutter	Annual Sidewalk Curb and Gutter	\$ 1,500,000	Transportation Fund	
820 Sidewalk Curb and Gutter	Concrete Maintenance Backlog	\$ 550,000	Transportation Fund	
820 Sidewalk Curb and Gutter	Annual Sidewalk Grinding Project	\$ 80,000	Transportation Fund	
821 Street Pavement Maintenance	Pavement Maintenance	\$ 2,000,000	Transportation Fund	
822 Street Sign Marking	Stanley Cutoff & Chain Saws	\$ 5,600	Transportation Fund	
825 Street Tree Maintenance	Trees and Badges	\$ 15,000	General Fund	
829 Service Center Maintenance	Storage Shed Replacement	\$ 7,000	General Fund	
829 Service Center Maintenance	Mechanic Shop Asbestos Removal	\$ 8,000	General Fund	
830 Quinlan Community Center Maintenance	Restroom Partition Replacement	\$ 10,000	General Fund	
830 Quinlan Community Center Maintenance	Security System Retrofit	\$ 25,000	General Fund	
831 Senior Center Maintenance	Drinking Fountain Replacement	\$ 6,000	General Fund	
833 Monta Vista Community Center Maintenance	Monta Vista Partition and Key Replacement	\$ 57,000	General Fund	
846 Safe Routes 2 School	Pedestrian Education	\$ 41,160	General Fund	
848 Street Lighting	Street Light Pole Replacement	\$ 161,000	General Fund	
848 Street Lighting	Don Burnett Bridge Pathway LED Light Upgrade	\$ 47,000	General Fund	
848 Street Lighting	Linda Vista Park LED Light Upgrade	\$ 6,000	General Fund	
849 Equipment Maintenance	Mechanic Shop Hose Reels	\$ 9,000	General Fund	
855 Storm Drain Maintenance	Service Center IND Inspection	\$ 5,000	General Fund	
985 Fixed Asset Acquisition	Vehicle Replacement	\$ 959,136	General Fund	
986 GIS	IoT for Analytics	\$ 15,000	Internal Service Fund	
	TOTAL NON-CITY COUNCIL WORK PROGRAM	\$ 6,154,996		
	TOTAL CITY SPECIAL PROJECTS	\$ 6,879,588		

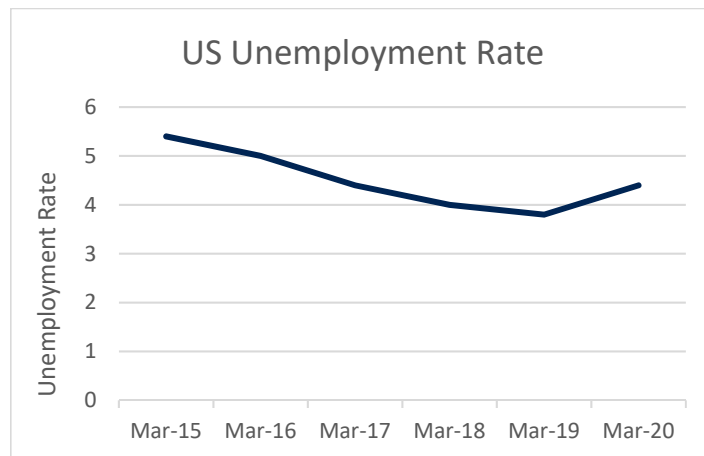
Current Economic Update

National and State Economic Conditions

Through the fourth quarter of 2019, the U.S. economy continued to show steady growth. U.S. Gross Domestic Product (GDP) increased by 2.1% in 2019 according to the Bureau of Economic Analysis, compared with an increase of 2.2% in 2018. The increase in real GDP in 2019 primarily reflected positive contributions from personal consumption, exports, residential fixed investment, federal government spending, and state and local government spending that were partly offset by negative contributions from private inventory investment and nonresidential fixed investment.

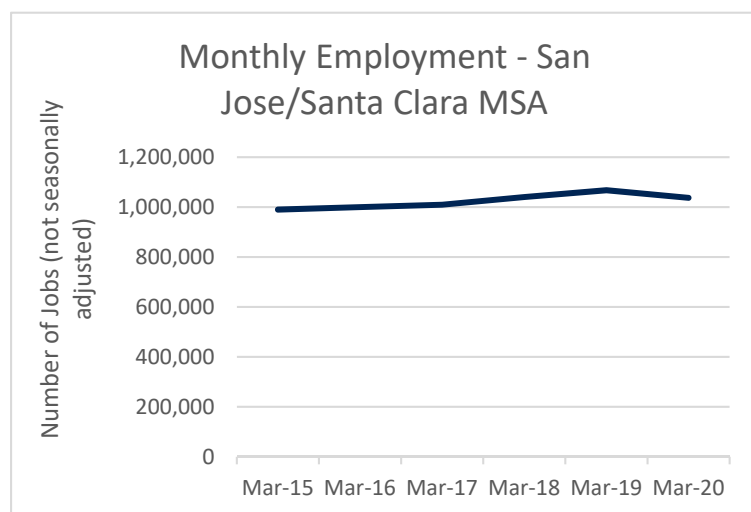
Through the first quarter of 2020, financial markets have experienced significant turbulence, driven by a high level of uncertainty about the impact of the COVID-19 pandemic on the global economy. US Treasury yields have declined, amid a global flight to quality. At the end of first quarter, the yield on 2-year Treasuries was down 132 basis points year-to-date, and the yield on 10-year Treasuries was down nearly 125 basis points. The S&P 500 index declined 20.0% in the first quarter as well. There are still many unknowns about the coronavirus including how widespread it will become, how long it will take to contain the virus, and the actual impact on economic activity. During this period of uncertainty, staff believe continued increases in unemployment and deep contractions in overall economic activity will be experienced. Financial markets will likely remain volatile over the near term, though large-scale global monetary and fiscal stimulus programs will assist in mitigating the longer-term impact of the pandemic. The Fed has taken a wide range of aggressive actions to help stabilize and provide liquidity to the financial markets including the lowering of the target rate to a range of 0.0%-0.25%. Fed Chair Powell has indicated that the Fed will continue to act “forcefully, proactively, and aggressively” until the economy is solidly on a road to recovery.

COVID-19 is having significant impacts on the nation’s unemployment. The U.S. unemployment rate stood at 4.4% in March 2020, up from 3.5% in the previous month. The participation rate decline to 62.7% from 63.4%. A broader measure of unemployment called the U-6, which includes those who are marginally attached to the labor force and employed part-time for economic reasons, increased to 8.7% from 7.0%. Although the



unemployment rate has improved significantly from a high of 9.6% in 2010, economists believe that if we are not currently in a recession, the chances of entering one this year are certain, thus marking the end to the nation’s longest-running expansionary period.

Consumer confidence, as reflected by the Conference Board Consumer Confidence Index, decreased over the previous year and stands at 120.0 as of March 2020, including a 12.6 point decrease over the previous month. The year-over-year decrease is the result of a deterioration in the short-term outlook. The Present Situation Index remained relatively strong, reflective of an economy that was on solid footing, and prior to the recent surge in unemployment claims. However, the intensification of COVID-19 and extreme volatility in the financial markets have increased uncertainty about the outlook for the economic and jobs. March’s decline in confidence is more in line with a severe contraction – rather than a temporary shock – and further declines are sure to follow.



California’s unemployment rate rose to 5.3% in March 2020, an improvement compared to last year’s unemployment rate of 4.2%. Per capita personal income increased 4.5% in 2019 over 2018, mostly due to faster growth in wages; however, it is reasonable to anticipate declines in income in 2020 as a result of COVID-19. Growth in the housing market slowed over the prior year with the prices of single-

family homes up 8.3% and sales down 6.1% compared to March of last year according to the California Association of Realtors (CAR). Growth in Santa Clara County slowed over the prior year with the prices of single-family homes up 7.7% and sales down 19.0%. Recognizing that the State has a chronic housing shortage and understanding that inadequate housing has the potential to impede economic growth, state legislators have succeeded in passing a legislative housing package that has the potential to make a difference.

Cupertino Economic Conditions

Despite strong economic performance continuing in Silicon Valley and Cupertino pre-COVID, data from the State of California Employment Development Department indicates significant impacts as a result of the virus. Employment in the San José/Sunnyvale/Santa Clara Metropolitan Statistical Area (MSA) continues to increase. The preliminary estimate of the March 2020 employment level in the MSA was 1.03 million, representing an approximately 300,000 drop from the March 2019 level. The March 2020 preliminary unemployment rate of 3.4% has increased from the 2.8% rate experienced a year ago. Our local unemployment rate is lower than the national unemployment rate of 4.4%.

Housing prices remain strong compared to the same period in 2019. As of February 2020, single family homes sold for a median home price of \$2.08 million, a notable increase over the past year. The increase in the median home prices correlates with property tax revenue being expected to increase slightly compared to last year due to reassessments of development

projects, and additional TEA property tax share. Due to the timing of property appraisals entering the assessor's role, the City does not anticipate significant impacts to property tax revenues in FY 20-21. When property values are appraised again in January 2021 and are included in the FY 21-22 roll, only then will the City expect to see adverse impacts resulting from COVID-19. Construction activity, although strong in previous years, will continue to flatten out as development projects, particularly Apple Park, are completed. Given the level of volatility surrounding COVID-19 and the uncertainty of recovery time, it is difficult to estimate the timing of significant projects that could have a positive impact on the City's general revenue bases.

Key Budget Assumptions

Revenue Assumptions

Because of COVID-19, the FY 2021 Proposed Budget assumes significant declines in the sales tax and transient occupancy tax categories. Other categories consider assumptions ranging from no growth to conservative growth. As has been done in the past, revenue projections for each category were 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. With that, potential COVID-19 impacts were also heavily weighed in determining the most reasonable estimated figures. Given the extreme volatility and high level of uncertainty, staff are prepared to bring forward information and budget adjustments to the City Council throughout the fiscal year and as the COVID-19 situation evolves. Revenue assumptions are discussed in detail in the Fund Summary section under Financial Policies and Schedules.

Personnel Assumptions

The City is entering the second year of its currently effective labor agreements which assume 3.5% cost of living adjustment increases. Equity adjustments, and increases for retirement and health were also included in the increase for compensation and benefits.

In addition, budgeted personnel expenditures factor in salary step increases for approximately 54% of employees who have yet to reach the top step in their classification's salary range. Typically, a step increase is equivalent to a five percent increase in salary with a range of five salary steps.

Non-Personnel Assumptions

Non-Personnel budgets were developed based on actual expenditures in prior years, and then adjusted for FY 2021 funding needs. In addition, one-time projects have been separated out in FY 2021 to ensure that expenditure trends reflect ongoing expenditure needs. Contingency budgets are assumed to be reduced by 50% over the prior year, representing an approximate \$850,000 in savings. Contingencies are calculated at 5% of the total General Fund budget for contractual services and supplies and materials for operating programs. Consistent with past budgets, an additional 5% is allocated to the City Manager's discretionary budget to cover unanticipated program expenses.

Ongoing Challenges

Retirement Benefits

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

As a result, the CalPERS Board has adopted revised actuarial policies to improve the financial sustainability of the system. In February 2018, the CalPERS board voted to decrease the amortization period for new pension liabilities from 30 years to 20 years, effective July 1, 2019. In addition, in December 2016, the CalPERS Board voted to reduce the discount rate, also known as the assumed rate of return for investments, by 0.5 percentage points to 7.0%. The result of this change is significant and will result in considerable increases in retirement costs well above what the City had previously forecasted for retirement expenses as noted in the table below. As of March 2020, CalPERS year-to-date earnings on investments were at -4%. Assuming CalPERS ends the year in a similar position, or in a position below the 7% desired target, the City can expect to see continued spikes in annual required contributions. The impacts from CalPERS investment earnings would not be included in the City's actuarial reports until FY 22-23 and would be smoothed over a five-year period. As part of the FY 2019 Adopted Budget, City Council approved the creation of a Pension Rate Stabilization Program (PRSP), a Section 115 Trust that will act to stabilize pension rate volatility and minimize the impact on the General Fund's operating budget from year to year. During FY 2019, the City contributed an initial investment of \$8.0 million to the trust. The FY 2021 Proposed Budget includes this \$8.0 million as well as an additional \$4M contributed during FY 2020 as restricted fund balance to provide stabilization through the following ramp-up period as necessary:

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

Revenue Volatility

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

two categories (\$6.9 million) is sure to have a profound impact, the General Fund is well-positioned to absorb the temporary decline and withstand the economic recovery period into the future.

Health Benefits

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