

Budget Message

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Budget Message

May 1, 2021

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

The cover of this budget depicts a cherry blossom tree. I chose this image for a specific reason.

Years ago, our Sister City in Toyokawa, Japan gifted the City of Cupertino with numerous cherry blossom trees. They were planted in Memorial Park where quite a few can still be found today. An homage to friendship, collaboration, and the human spirit.

Cherry blossom trees bloom in the spring, their petals floating through the air like snow, painting the ground with color. The trees are symbols of the beauty and fragility of life. I cannot think of a more apt representation of what we all have experienced during the pandemic. The last year and a half not only upended our personal lives, it upended this organization's budget, services, and programs. Everything and all of it.

But we've persevered. The budget stabilized, services continued, and programs returned. Vaccines are here and some shades of normalcy are expected to return. But life may not look like it did before the pandemic began and that will be reflected in everything we do, including this budget.

Cherry blossom trees also represent a time of renewal. As we put the worst of the pandemic behind us, and as we begin to look forward, we are left with one question: What comes next?

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I am pleased to present the City Council with a balanced budget for Fiscal Year 2021-2022. The Proposed Budget presents a General Fund with revenues of \$89.5 million and expenditures of \$88.1 million.

I am proud of the tremendous efforts our City has and continues to put forth toward mitigating the impacts of the COVID-19 pandemic. Although the City remains fiscally well-positioned, there is much uncertainty as we move toward a recovery.

This organization has a long history of cautious budgeting. It has worked to our benefit over the years and I see no reason to change our approach. For example, the City went into the FY 2020-21 budget process with eyes wide open. Although we could not pinpoint the exact spots where the pandemic would affect our budget, we knew that proactive steps needed to be taken. So the City's FY 2020-21 Adopted Budget included budget reductions to mitigate the expected financial impacts of the pandemic. These strategies, along with unexpected increases in sales tax revenues, have allowed the City's General Fund to maintain healthy reserves and enabled the opportunity to recommend projects that were deferred in last year's budget.

While we move forward with optimism, it will take some time before we can see the full picture of our revenue stream with the effects of the pandemic. The City's top three revenue sources have historically been property, sales, and transient occupancy taxes. While this will continue to be true for both property and sales tax, transient occupancy taxes have been significantly impacted by the lack of travel and the effects of the telework environment.

Sales tax revenues experienced tremendous growth during FY 2020-21 due to increases in business-to-business and online sales. However, we believe this to be a one-time experience due to statewide shelter-in-place orders. Property taxes are anticipated to remain stable in the near-term, but we have yet to identify how potential telework structures might impact these revenues in the long-term. Transient occupancy taxes rely heavily on local business' employees being at the workplace. As a result, potential telework structures will also have a significant impact on these revenues.

What does this mean? It's likely that we will see a slight drop in revenue as other cities hit much harder financially begin to recover.

The slight drop is expected for a few reasons:

- Sales tax revenue will decline as business begin to open and online sales decrease.
- Property tax--while stable currently--could be affected as new telecommute policies impact property values in the Bay Area.
- Transient occupancy tax is not expected to fully recover until FY 2023-24. And the extent of a "full recovery" is unknown. Like property taxes, we do not fully understand how telecommute policies will impact the demand for City hotels.

In short, we are optimistic about a recovery but are aware that it will take time. Patience will be essential.

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The COVID-19 pandemic has presented challenges for every community and while we focus on addressing these challenges, it is also important to reflect upon the successes along the way. Here is a highlight of two of them:

Long-Term Financial Planning

The foresight of the City in previous years to focus on investing in healthy reserves is paying off in full. Increases in sales tax revenues and budget reductions in FY 2020-21 have contributed to this planning strategy and will provide additional resources for the City into the future.

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 (\$17 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.

COVID-19 Relief

The Coronavirus Aid, Relief, and Economic Security (CARES) Act, passed on March 27, 2020, granted the City with \$735,259 to be used to mitigate the financial burden of the pandemic. Additionally, \$553,939 in Community Development Block Grant (also known as CDBG) Coronavirus funding was authorized to assist small businesses and tenants at risk of eviction.

Effective March 11, 2021, Congress signed the American Rescue Plan Act of 2021 which is estimated to result in additional relief funding of approximately \$9.7 million for the City over the next two fiscal years. Most notably, these dollars may be used to backfill revenues that were "lost" due to COVID-19. The City anticipates being able to fully allocate these funds immediately.

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While we continue on the road to recovery and return to some type of normal, the City will monitor the situation and adjust when necessary. I intend on keeping the City Council and our residents fully informed. I understand that having the latest information and up-to-date data will allow for informed decision making.

Respectfully Submitted,



Deborah L. Feng
City Manager

Notable Accomplishments

Administration Department

Reduce Secondhand Smoke Exposure - In March 2021, Council approved the first reading of an ordinance to reduce secondhand smoke exposure in multi-unit housing, entryways, public events, service areas, and outdoor worksites. This demonstrates the City's commitment to protecting the health of its residents. The ordinance is expected to be adopted by July 2021.

Work Program Dashboard - In 2020, the City rolled out its City Work Program Dashboard, which includes progress updates for the FY 2020-2021 City Work Program items. This effort, with the support and collaboration of the City's Innovation & Technology Department, accomplishes the City's goals to increase public engagement and transparency. This Dashboard is updated quarterly and is available on the City Council's webpage (cupertino.org/cityworkprogram).

COVID-19 Response and Coordination - In partnership with the County of Santa Clara, the City has provided regular COVID-19 testing, vaccine registration. Cupertino has maintained the lowest rate of cases in the County in part to the community's adherence to social distancing protocols and the City's adaptation to technology.

- Regular COVID-19 Test Clinics – 1st and 3rd Wednesday of the Month – 21 clinic days
- Vaccine Registration Fair for those 75 and older
- Coordinated Vaccine Appointments for Essential Workers

Response to Emergencies -

- CZU Fire Complex – August 2020 – The City established a Temporary Evacuation Point (TEP) at Quinlan Community Center to support those evacuated from their homes.
- Excessive Heat - Based upon the forecast, the City of Cupertino activated a cooling center at Cupertino Senior Center on September 6 – 9, 2020 from 1:00 p.m. through 8:00 p.m. each day. 100 community members utilized the Cooling Center over four days.

Wolfe Road Encampment Resolution - The Cupertino Homelessness Taskforce coordinated an encampment resolution and provided the primary members of the encampment shelter in a motel and storage for personal items for up to six months. Additionally, the City of Cupertino established a temporary, alternate outdoor site for the remaining encampment members to relocate during the COVID-19 shelter in place orders. The members at the temporary outdoor site elected to move to the Abode Services motel. The temporary outdoor site was removed on March 2, 2021.

Climate Victory Gardens Pilot Program - This City Work Program item involved launching a pilot program to help residents install drought-tolerant gardens, providing direct install services and professional support. The pilot is on track with 29 landscape designs provided to property owners and making progress towards the goal of 20 new gardens by the fall of 2022.

Statewide Recognition for Climate Leadership - The City of Cupertino was one of six cities recognized with a Beacon Vanguard Award from the Institute for Local Government (ILG) for achievements in climate action. This is the highest honor a city can achieve in the Beacon Program. The Mayor accepted the award virtually on October 8, 2020 at the League of California Cities' Annual Conference.

Administrative Services Department

Virtual Benefits Fair – Implemented with City staff and vendors as well as transitioned to an online open enrollment process.

HR Hub – Intranet Hub & Training Management Application - built out this internal City application that provides Organization, Finance, and HR sites. This project also included digitizing 16 high priority HR and Payroll forms, as well as developing the training management system.

BEST Training – Transitioned to online registration and training platform. Offered a semester based program with a variety of training programs to assist employees with their professional growth, health and wellness as well as retirement and financial planning.

COVID-19 –

- Provided employee support, coordination, communication, and collaboration across all City Departments through creation of COVID website, all City Town Hall meetings and communications.
- Researched, analyzed and implemented Federal, State and local rules and regulations such as contract tracing, creation of new OSHA policies, and related trainings

Diversity, Equity, and Inclusion (DEI) – Brought in key-note speaker, virtual trainings and book club to City staff to increase cultural awareness, knowledge, and communication.

CARES Act Funding – The City received \$735,259 in CARES Act funding during FY 2020-21. These dollars were strategically allocated toward eligible public safety costs which allowed for additional appropriations allocated for COVID-19 related expenses such as cleaning and sanitation, personal protective equipment, telework equipment, virtual programming, senior meal delivery, and facility enhancements.

Certificates of Participation Refinancing – On September 29, 2020, the City's 2020A Certificates of Participation (2020 COPs) were successfully sold in order to refund the City's 2012 Certificates of Participation for debt service savings. The refunding generated net present value savings of approximately \$3.14 million, 11.61% of refunded par and a True Interest Cost of 0.72%. Savings to the City's General Fund amounts to approximately \$494,000 per year for the next 10 years, or almost \$5 million in total savings.

Internal Audit Function – the City commenced its internal audit program in the fall of 2020. The City's internal audit, Moss Adams, conducted a City-wide enterprise risk assessment which resulted in the identification of key and/or high risk areas for which opportunities of improvements and increased efficiency were present. The internal audit work program will commence in FY 21-22 and correspond to the results of the enterprise risk assessment.

Community Engagement and Resident Tax Calculator – In FY 2019-20, the City's Budget Team hosted an in-person Budget & Bites event open to the Community. Noting the event's success and great participation among all age groups, the Team was excited to host a second annual event. Although an in-person event was not possible during the pandemic, the Budget Team decided to take the event virtual and hosted an event that included information on the City's financial forecasting, a highly relevant topic given the times.

Additionally, the Budget Team created and published a Resident Tax Calculator tool on its website that enables residents not only to estimate the amount of sales and property they contribute to the City on an annual basis, but how those specific revenue dollars are spent in the City (<https://stories.opengov.com/cupertino/published/zRi2B8NVg>).

Utility Billing Audit - The Finance and Sustainability divisions partnered to perform a comprehensive utility bill audit, aiming to secure cost savings. Some small savings opportunities were discovered, but overall, the audit revealed that the City has captured most of the low-hanging utility expense reductions. A live

dashboard of the City's utility consumption can be viewed at the [Environment Open Data Hub](#).

Community Development Department

Leaf Blower Ordinance update - Completed the update to the Community Noise Control Ordinance of the Municipal Code to implement a FY19/20 City Work Program item. Beginning Nov. 6, 2022, only certified leaf blowers (those with a rating of 65dB or less) may be used.

City of Cupertino Emergency Assistance Funds for Cupertino Tenants Impacted by COVID-19 -The City contributed \$200,000 in emergency assistance funds to support low- and moderate-income tenants through partnerships with Earnin, Meriwest Credit Union, and West Valley Community Services.

City of Cupertino Housing Program for De Anza Students -The City contributed \$25,000 to help create two new programs for qualified De Anza students. These new programs are administered by the college in partnership with West Valley Community Services and Catholic Charities of Santa Clara County.

City of Cupertino Homelessness Task Force - To assist with the needs of Cupertino's unhoused residents, the City created a task force comprised of staff from the City Manager's Office, Community Development, and Public Works. The Task Force developed and launched an Emergency Assistance Funds program to assist unhoused members of the encampments located along Wolfe Road near Interstate 280 with a pathway to housing.

Emergency Assistance Funds to assist unhoused members of the encampments located along Wolfe Road near Interstate 280 (Wolfe Road) to mitigate safety hazards including COVID-19 - The City's Homeless Task Force developed and launched the program to provide weekly outreach and a pathway to housing for encampment members.

Safe Park Program - The City partnered with the West Valley Rotating Safe Car Park (RSCP) program, an emergency homeless program made up of a network of local city governments, service organizations, and volunteer faith-based host sites that provide temporary overnight parking for homeless individuals/families living out of their cars. The City created a website and application process for the RSCP program.

Study Session on Regional Housing Needs Allocation (RHNA) -Conducted five study sessions and hearings on the draft RHNA methodology and Plan Bay Area 2050. This will evolve into the Housing Element update process for the FY21/22.

Bird Safe and Dark Sky Regulations - Adopted Bird Safe and Dark Sky regulations with a new Chapter 19.102, Glass and Lighting Standards in the Municipal Code.

CA Dept. Of Housing and Community Development (HCD) Local Early Action Planning Grants Program (LEAP) - Successfully applied for and received \$300,000 in LEAP funds to assist with the Housing Element 2023-2031 update process.

Innovation & Technology Department

Due to the COVID-19 pandemic, FY 2020-21, was a year full of adversity and challenges. Innovation Technology (IT), like other City departments, lived the adage, "out of adversity comes opportunity." IT took the opportunity to enhance City digital services, increase transparency into City operations and streamlined work processes. The City's ability to move forward despite COVID-19 was highlighted in a *Forbes Magazine* article "Silicon Valley City Agency Goes Digital After The State Orders Everyone To Work From Home." Providing transparency to City Operations continues to be a very high priority. Cupertino prides itself in this area, but we can always do more. This year we expanded our transparency applications to include:

- CampaignDocs - an application which provides access to the city's campaign statements electronically,

and campaign disclosure statements for filers who have filing requirements with the City. Additionally, City staff developed a Campaign Finance Report which is searchable by candidate or by the committee and can be exported.

- City Work Program Dashboard – Provides the public insight into City projects assigned by Council – project objective, status, category, and fiscal impact.
- Environmental Hub tells the environmental story of Cupertino in a quick and easy, digestible fashion – through numbers, charts, and maps.
- GovDelivery, the new e-notification platform. This service help residents and other City customers to subscribe to email notifications on city news, events, meetings, and projects. The new systems have consolidated the design and delivery of citywide electronic communications, including email notifications and city electronic newsletters under this new platform.

The following applications were added or significantly enhanced:

- ProjectDox is the electronic plan check system which manages plans submission, review, and approval process for the City. ProjectDox is integrated with Accela, the City's land-use management system and Laserfiche the city's digital records system. These applications have brought seamless integration for the city staff and customers in the way permits and plan checks are processed by the Building department staff. During shelter in place, the permitting and plan check review services delivery continued without any impacts even after the physical permit counter was closed. The goal of this upgrade is to extend these plan check services to the Planning, Public Works and Environmental Services divisions.
- Climate Victory Garden. Aligns with City's green initiative of converting Cupertino residents hard-to-maintain green turf into a sustainable easy to maintain drought resistant landscape thus lowering City's carbon footprint. Again, this application moved digitally from resident request to City approval/denial.
- Implemented an online commission intake solution where aspiring Teen Commissioner applicants can submit their teen commission application, supplemental questions with their guardian's electronic signatures. The system is fully automated and digitally moves thru applicant, guardian, and City Clerk for approval.
- Paperless Encroachment Permits. The solution based on an Adobe-Sign based e-signature digital workflow. The process integrates the data from the Accela permit information and populates the Encroachment Permit Application document template in Adobe Sign and sends to the staff/applicant for E-Signature. The status of the Accela permit is integrated with the status of the signature and email notifications throughout the process are automated.
- Open Enrollment platform through which the city staff can fill medical, dental, vision and other benefits updates in the digital forms configured on the Microsoft Power platform. The City's HR department can manage the new open enrollment and updates by the city staff.
- Safe Routes to School - This new interactive map allows a resident to select a mode of transportation, it then calculates the optimal route and provides an estimated travel times and distance to get to school. The purpose of the map is to help families identify their own safe, routes to school!
- Intranet Hub & Training Management Application - built out this internal City application that provides Organization, Finance, and HR sites. This project also included digitizing 16 high priority HR and Payroll forms, as well as developing the training management system.
- ARTour - In a truly collaborative effort by the GIS Division, the Fine Arts Commission, and the Communication Division Cupertino brings you the **ART**our app, an exciting way to explore Cupertino's Public Art with Augmented Reality.

Maintaining a secure, resilient, and cost-effective compute infrastructure is another high priority for Innovation Technology. This year the following major projects were completed.

- AI Cybersecurity Tools – Implementation of AI powered network detection and response security solution. Allows security based artificial intelligence and machine learning to automatically respond to network level threats IT staff may not be readily available to respond with threats that occur during off-business hours.
- Network Access Control – Implementation of network access control tools to ensure devices accessing the City's network are properly authenticated and if not, are placed in a restricted access mode. This ensures the City continues to evolve and adapt to industry best practices for physical device access controls.
- Multi-Factor Authentication (MFA) – Rollout MFA across all staff with computer access for assigned computer equipment on online productivity suite to continue to ensure City follows best practices security access controls.
- Traffic Operations Center (TOC) Network Infrastructure Foundation Refresh – Refreshed the TOC network infrastructure with enterprise grade networking hardware and reconfigured network to follow configuration best practices; implemented firewall controls to separate City and TOC networks.
- Traffic Operations Center Cabinet Upgrade – Updated controller and networking equipment at traffic intersections to provide standard Ethernet based communications for upcoming applications and IoT devices. Below is a picture of the TOC Cabinet.
- AT&T ASE Fiber Point-to-Point – Improve reliability of services between sites that use Cable Internet to City Network by adding point to point network connections to remote locations including Blackberry Farm, Blackberry Farm Golf Course, McClellan Ranch, and Monte Vista.
- SD-WAN VoIP - Improved reliability and resiliency of VoIP (phone system) circuit by implementing SD-WAN based services for voice traffic.
- Surveillance System Cameras – Installed cameras at Service Yard to replace aging legacy system.
- Zoom Room – Deployed additional web conferencing solutions at smaller facility sites such as Blackberry Farm and McClellan Ranch.
- SaaS Cloud Audit – Auditing of Cloud hosted services for best practices and security.

Parks & Recreation Department

#CupertinoCares - #CupertinoCares is an initiative to help foster positive and healthy community connections during the current times of staying at home and socially distancing. Notable programs include giveaways, such as the Fourth of July Celebration Boxes, Back-to-School tote bags, and Halloween buckets, holiday events including the Deck the Doors and Shine Bright Cupertino, and community engagement, which includes the Take the Pledge initiative and sharing stories of frontline workers through Hidden Heroes.

Art in Unexpected Places - The Fine Arts Commission announced the completion of the inaugural project of the Art in Unexpected Places program. This pilot program was created by the commission to beautify public spaces, surprise and delight passers-by, and encourage the community to reflect on themes and imagery that represent the heritage, natural beauty, diversity, and creativity of our city. Artist Sarabjit Singh was chosen by the Fine Arts Commission and completed a mural at Blackberry Farm in early April.

Big Bunny 5k Virtual Run - The Big Bunny 5K went virtual in April. Over 200 participants, including some from Las Vegas, Reno, and Minnesota, ran, walked, or hopped from their home, local park, or favorite trail between April 3 to 11. Each registration included a t-shirt, race bib, water bottle stickers, and bunny ears. Participants picked up their race packets at the Quinlan Community Center on April 1 and 2, or had their packet mailed to their home.

Community Funding Policy - The Community Funding Grant Policy was adopted in Fiscal Year 2012-2013 and was recently updated with new requirements and procedures, following best practices, and recommendations from the Parks and Recreation Commission. Adjustments included the establishment of an earlier deadline, a funding cap per applicant and a tiered funding evaluation structure for all applications. The establishment of an earlier deadline provides more time for applications to be vetted and reviewed by the Commission and City Council, prior to the budget approval meeting in June. The establishment of the funding range for the entire program provides a budgetary consideration during the evaluation process. The remaining adjustments clarify the Commission's role in ranking the applications, while providing City Council the opportunity to review all applications for consideration. The Community Funding website was also updated, and a new web page was created to share historical data on the City's support of non-profit organizations through Community Festival Fee Waivers, the Community Funding Grant Program, Sister City Funding, and In Budget and Out of Cycle City Council Fee Waivers.

CPRS Awards - California Parks and Recreation Society District 4 recognized outstanding accomplishments of Parks and Recreation Professionals and Departments in February 2021 with their "Keys to the Community" Awards. The Teen Division's TEDxYouth@Torre Ave program won the Award of Excellence, through the Volunteer and Sponsor Citation, Maria Lopez, Jim Cunningham, and Tim Petersen were recognized of their volunteer efforts at the Cupertino Senior Center, #CupertinoCares received the Key to the Community Award, and Barbara Banfield received a Professional Merit Award for her significant contribution to the field of parks, recreation, and human services.

Holiday Programs - The Parks and Recreation Department brought the holidays to the community in a safe and socially distanced set of events, including The Santa Stop, Holidays in Hawai'i, and Zoom with Santa. Participants in "The Santa Stop" were able to greet Santa from a safe distance in a drive-thru event at the Quinlan Community Center. Every participant received a hot chocolate packet and candy cane, and each car was given a collectible City of Cupertino themed ornament. Holidays in Hawai'i, an annual tradition at the Senior Center, was converted to Zoom-based format this year. Volunteers from the Lei Nani Hula group danced from their homes to prerecorded music performed by the Pila Ho'Okani band. The Department brought holiday cheer to many Cupertino homes with the Zoom with Santa program. Santa and his elf called in from the North Pole's Cupertino branch and hosted Zoom calls for Cupertino families since Santa was unable to make his annual in-person visits to Cupertino.

Senior Care Cards - The Cupertino Senior Center has partnered with local youth to write letters to senior residents, Block Leaders, and Senior Center volunteers with limited social contact due to the current Stay-At-Home order. To date this partnership has mailed over 800 letters with uplifting messages and short stories. The intent of this program is to bring generations together and create a positive, connected community.

Senior Meal Delivery Program - The Senior Meal Delivery Program provides meals to seniors in need while supporting local business. The meals are scheduled twice week and currently provides relief for seniors who are at high risk due to health or mobility reasons and to follow the stay-at-home orders. More than 2,500 senior meals have been served to date.

Teen Programming - Teen programming continued thriving despite the challenges imposed by the ongoing COVID-19 pandemic. Annual, in-person events such as the TEDxYouth@TorreAve, <hack> Cupertino, and Pizza and Politics were re-imagined for a virtual setting and served over 1,900 participants. The Cupertino Youth Activity Board (YAB) created InfoTeeno, a new virtual workshop series to provide teens with virtual educational and enrichment opportunities. Workshop's topics included college preparations, financial literacy, and mental health coping skills. YAB members also collaborated with the City of Saratoga and City of Campbell to offer #TeenKindnessWeek, a region-wide social media campaign to inspire goodwill and

foster kindness during the pandemic. New programs introduced included the Drafting Cupertino's Future essay contest and Cupertino Esports, an intramural league where participants compete in their favorite video games.

Tennis Reservations - The Cupertino Sports Center went live with online tennis court reservations for members on January 1, 2021. The reservation process can be done through the City's reg4rec.org registration webpage. The tennis court reservations online allow members two ways to reserve including the former process of calling the Sports Center directly. The new process for tennis court reservations has been well received by the members and reduces the incoming phone call volume for staff during the morning rush to reserve tennis courts.

The 50+ Scene: Shelter-in-Place Edition - The 50+ Scene, Cupertino Senior Center's typically bi-monthly production, has been running in a digital-only format in response to the stay-at-home orders. To keep Cupertino's senior population active and engaged, the publication contains information about virtual programs and classes, sudoku and crossword puzzles, a human-interest article, and upcoming events. Also included are links to Santa Clara County's website providing seniors the most up to date information on COVID-19 vaccinations and testing dates. The newsletter is sent out to about 1300 senior center members each month.

Virtual Recreation - Throughout the year, the Parks and Recreation Department has curated indoor and outdoor activities to engage our positive, healthy, connected community. From the advent of the pandemic, the Department has provided free online fitness classes for the community, as well as crafts, educational activities, outdoor games and more to keep minds and bodies moving. The free fitness classes include cardio, strength, flexibility, and balance training and average about 260 attendees per week. The Virtual Recreation team has also worked to bring Cupertino's community events into the virtual space, including a virtual scavenger "egg hunt" complete with poetic clues to lead participants on a week-long search through Cupertino parks.

Public Works Department

Response and effectiveness through COVID - Effectively maintained minimal staffing immediately after initial shelter in place. Quick implementation of protocols allowed full staffing in May 2020, significantly in advance of other public work agencies. Actions allowed for a timely response to a twofold increase in 311 requests.

Small Cell Guidelines - Revised small cell guidelines to include site preference lists and other objective standards for review and permitting of small cell facilities in the public right of way.

Lawrence-Mitty Acquisition - Negotiated and purchased, from the County of Santa Clara, approximately 7 acres of land needed to develop a neighborhood park along the easterly edge of Saratoga Creek, near the intersection of Lawrence Expressway and Mitty Avenue.

Street Light Installation-Randy Lane & Larry Way - Successfully installed infill street lighting along Randy Lane and Larry Way with extensive outreach and coordination with the neighboring residents.

Civic Center Parking Mitigation Plan - Feasibility report analyzing the parking requirement for the Civic Center and proposed Library Expansion, is complete. Multiple mitigation measures in place.

Competitive Measure B funds for Junipero Serra Trail (Approved by VTA for \$6.12M competitive Measure B grant for the eastern and central sections) - The Junipero Serra Trail east and central segments, were competitively recommended by VTA to be on the 10-year priority funding list, for a total funding allocation of \$6.12

million. These segments parallel the Junipero Serra channel south of Interstate 280 between De Anza Blvd and Calabazas Creek, and along Calabazas Creek from Interstate 280 to Vallco Parkway.

Level of Service (LOS) to Vehicle Miles Traveled (VMT) - Develop City policies to transition from LOS to VMT for the determination of transportation impacts under CEQA, in conformance with SB 743.

Bollinger Road Safety Study - Perform an operational and safety evaluation of Bollinger Road, and develop recommendations for improvements to enhance vehicle, bicycle and pedestrian safety.

Bollinger Road Paving Project (joint project with City of San Jose) - Place asphalt overlay on Bollinger Rd between Miller Ave and Lawrence Expressway. The project also included a rubberized cape seal on McClellan Rd between Bubb Rd and Stelling Rd.

2016 Bicycle Plan - McClellan Road Separated Bike Corridor, Phase 2 - Design and construct separated bike lanes on McClellan Road from Stelling Road to De Anza, and Pacifica Avenue between De Anza and Torre Avenue.

2016 Bicycle Plan - McClellan Road Sidewalk Improvements, Phase 2 - Design and construct sidewalk improvements along McClellan Road between Byrne Avenue and San Leandro Avenue.

2016 Bicycle Plan - Stevens Creek Boulevard Class IV Bikeway Installation, Phase 1 - Design and construct a separated bikeway along Stevens Creek Blvd from Tantau to Wolfe Rd. Improvements include traffic signal modifications at Wolfe Road and Finch Avenue to provide separate bicycle phasing.

Linda Vista Trail - Design and construct a pedestrian trail between Linda Vista Park and McClellan Ranch.

Library Expansion Project Initiation - Using a design option from the Civic Center Master Plan, develop a design and construct a 5600 SF addition to the existing Library building for multi-function program rooms that serve as flexible meeting spaces for library events.

McClellan Ranch Preserve Community Garden - Reconstruct the existing community garden to better serve the community by providing better accessibility and more sustainable garden features/ infrastructure. The project included reconfiguration of the garden plots, improved ADA accessibility to and within the garden, installation of new perimeter fencing, irrigation distribution system and informal meeting area.

McClellan West Parking Lot Improvements - Design and construct a new “green” meadow-style parking lot that is compatible with the creek environment at McClellan Ranch West and designed to have minimal impact to the site.

Sports Center Seismic Retrofit - Design and construct structural upgrades to the Sports Center for increased resiliency in the event of an earthquake.

Solid Waste Franchise Agreement Negotiations - Successful negotiation of new 10-year franchise agreement with Recology for recyclable materials, organic materials, and solid waste collection, recyclable materials and organic materials processing services, and transport for disposal.

New Initiatives

Administration Department

Climate Action & Adaptation Plan 2.0 - As approved in the Fiscal Year 2020-2021 City Work Program, the Sustainability Division has been working diligently on the foundational work to update this major City strategic document. The community can expect to see an exciting public engagement process beginning in June 2021 and extending into the following winter, when a final plan will be presented to Council. The community can expect multiple ways to interact with the process to create a plan for reaching a carbon-neutral and zero-waste Cupertino.

Administrative Services Department

Labor Negotiations - As the City enters its third and final year of its negotiated labor contract, the City will commence the negotiation process for the period effective July 1, 2022.

Workforce Planning - Administration and Human Resource Divisions staff are implementing a Workforce Planning program to use data in the City's enterprise resource planning system and several City documents such as the budget, Capital Improvement Program, and City Work Program to identify key positions needed and how to attract, retain, and train staff to ensure the availability of those positions when needed.

OpenGov Stories - The City utilizes OpenGov, an online financial transparency tool, to communicate financial and budgetary information with not only internal users, but external users as well. Stories is a product of OpenGov that bridges the intellectual gap between the financial data and the meaningful narrative sides of the story. The Budget Team, in coordination with the CIP team, will be converting the Capital Improvement Program (CIP) budget document to a story, allowing users to look at individual project information in real-time.

Forecasting Transparency Tool - The Budget Team, with members of the Teen Commission, hosted the City's second annual Budget & Bites event, this time virtually. The topic of the event was City forecasting and included an exercise allowing attendees to build their own forecast and gain a better understanding for the various factors to consider and the decisions to be made. City staff will be exploring the use of this Microsoft BI tool to potentially incorporate into its regular quarterly reporting.

ERP Planning and Analysis - In coordination with the Innovation & Technology Department, Administrative Services is beginning the exploration of a new enterprise resource planning (ERP) system. Having implemented and operated Tyler's New World System since January 2015, staff are aware of the importance to remain up with the times and to ensure the system that allows us to provide excellent services to the public is up to date and functioning optimally.

Post-Pandemic Return to Work Planning - Significant planning is required to develop an effective return to work policy. Balancing the necessary safety precautions and County and State Orders with best practices for transitioning back into the work place requires coordination amongst all Departments and employees. The City's conversion to a telework environment was relatively smooth given the City's continued investment in Innovation and Technology and has provided the City the ability to consider potential hybrid models.

Community Development Department

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.

Affordable Housing Strategies - As a part of the City's Work Program, 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.

City Plan on Homelessness - Prepare an Implementation Plan to the Santa Clara County Community Plan to End Homelessness 2020-25 to create a roadmap for addressing homelessness in Cupertino.

Extremely-Low Income (ELI) Housing for the Developmentally Disabled Community -Consider options to develop ELI housing units on City-owned properties.

Residential Development and Mixed-use Development Design Standards -Ensure that the City adopts objective design standards for townhomes, rowhomes, attached multi-family and mixed-use developments.

Clarify objective standards in General Plan and Municipal Code -Clarify standards in General Plan to be objective. Also adopt objective standards for environmental protection and concerns.

Update the Housing Element of the General Plan and concurrent rezoning -Update the Housing Element goals, policies and strategies to address housing needs, constraints, both governmental and non-governmental, and identify Priority Housing sites to accommodate the city's Regional Housing Needs Allocation, as required by state law. Also, complete the concurrent rezoning of the Priority Housing sites to ensure sites are appropriately rezoned to allow the planned growth/capacity.

Innovation & Technology Department

Under the heading "Prepare for the Future" the following initiatives will be completed in FY21/22

- Develop a three-year IT strategic plan. The plan will provide infrastructure and application direction through July 2025.
- Develop a security framework and audit existing systems. The framework is a documented policies, procedures and processes that define how information is managed to lower risk and vulnerability.
- Data Governance, Classification, and Warehouse. Over the past 4 years, Cupertino has replaced or enhanced almost every computer application utilized by the City. The result of these changes has significantly improved City response, process, and reporting. One major challenge has resulted - data governance. Data governance includes data integrity, integration, security, and data normalization (same value and format for the same info across all applications). As the City's data continues to grow due to artificial intelligence, machine learning, Internet of things technologies – this project will provide a roadmap to ensure data quality as add and integrate applications.
- ERP Needs Analysis. Tyler's New World, our current ERP, was implemented over six years ago and the City should review current options that overcome existing operational and security limitations.

Innovation Technology will continue to enhance or add new applications. Included in this list are:

- In collaboration with the City's Environmental Division provide process automation in managing construction recycling. The application will provide city an effective waste management plan that

implements city's waste recycling mandate.

- The City currently struggles in managing the plethora of requests that come in via in-person visit, email, phone call or web application. The management of assigning, tracking, following-up and reporting on the various requests is a difficult process at best. IT will implement a proven solution that will aggregate multichannel (voice, onsite, email....) requests into one application for staff and customers.
- Lobbyist Registration System. Per City Council directive develop a solution to track lobbyist activity as it pertains to the City of Cupertino.
- Redesign City Website. Redesigning the city's main communication platform will result in improving city's website traffic as well as site content and information. Typically, during the redesign process all the site content will get audited that will enable in aligning the city main communication platform to city's strategic initiatives and restructuring of website content for usability and relevance.
- Augmented Reality (AR) at McClellan Ranch. Bring the Cupertino native wildlife to life in a fun interactive AR environment for the visitors, classes, and tours at McClellan Ranch Preserve.

Under the areas of emergency management and compute environment the following projects are scheduled.

- Satellite Emergency Response System. Provide redundant Internet access in the event both traditional fiber optic and cell communication services are down. Internet connectivity is limited to City facilities.
- In collaboration with the Office of Emergency Services (OES) to improve accessibility of the City's OES vehicle to City facilities. To accomplish this, a wireless bridge will be implemented to solve this issue.
- A drone coupled with autonomous flight planning software. This application will be used to automate flights (limits pilot intervention) and mapping, create accurate, high-resolution maps, reports, and 3D models, as well as real-time 2D Live Maps for immediate analysis.
- Add Wi-Fi to Park and Recreation facilities. To enhance public outreach and services, IT is working with Parks & Recreation to expand Wi-Fi network services to selected parks throughout the City. The end goal is to provide members of the public Wi-Fi internet services at three parks (Wilson, Portal, and Creekside).

Parks & Recreation Department

Implementation of the Strategic Plan - Implement the immediate and short-term improvements to local parks in Cupertino through Park Amenity Upgrades as well as Playground Equipment Replacement and additional CIP projects for Fiscal Year 2021-2022.

Implementation of the Revised Field Use Policy - Implement the revised field use policy and maximize the efficiency of field use.

Collaboration with Public Works on Proposed CIP Projects for Fiscal Year 2021-2022

Memorial Park – Specific Plan Design - Design and construct Memorial Park improvements as indicated in the Parks and Recreation System Master Plan.

Lawrence-Mitty Park – Programming, Outreach, and Design - Develop a Master Plan for a proposed neighborhood park located on the parcel at Lawrence Expressway and Mitty Ave for trail expansion and park development.

Public Works Department

City Hall & 10445 Torre – programming and feasibility: Programming, Feasibility and Community Outreach to form the basis of a renovation strategy for the buildings.

City light transition assessment - Assess the costs, benefits, and opportunities and develop a strategy to transition the City's streetlight infrastructure, and other City operated lights, from induction to LED fixtures to meet the “Dark Sky” requirements and reduce light pollution.

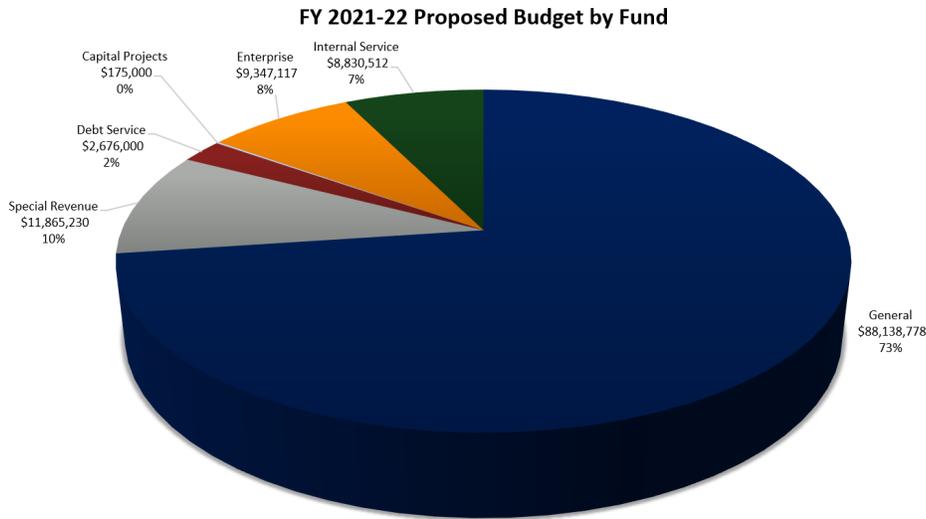
Vision Zero: Develop programs and policies for a City of Cupertino Vision Zero Program with emphasis near schools.

Budget Overview

The Proposed Budget reflects a total City budget of \$121.0 million, an increase of \$10.4 million or 9.4% when compared to the FY 2020-21 Adopted Budget. The City’s General Fund is proposed at \$88.1 million, representing a \$7.6 million, or 9.5% increase over the FY 2020-21 Adopted Budget. The General Fund is funded by General Fund revenue of \$89.5 million and is projected to end FY 2021-22 with approximately \$38.5 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 FY 2021-22 Mid-Year Financial Report. The transfer is not reflected in the Proposed Budget.

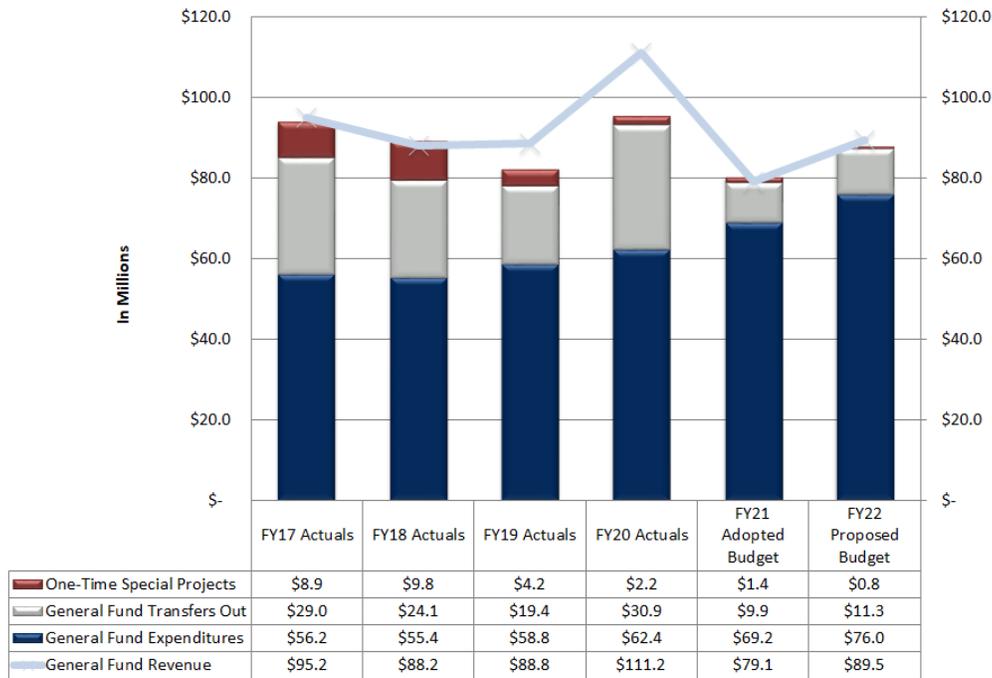
Fund Type	Total Proposed Expenditures	Total Proposed Revenue	Change in Fund Balance/Net Position
General	\$ 88,138,778	\$ 89,470,891	\$ 1,332,113
Special Revenue	\$ 11,865,230	\$ 15,198,495	\$ 3,333,265
Debt Service	\$ 2,676,000	\$ 2,621,000	\$ (55,000)
Capital Projects	\$ 175,000	\$ -	\$ (175,000)
Enterprise	\$ 9,347,117	\$ 6,821,379	\$ (2,525,738)
Internal Service	\$ 8,830,512	\$ 6,687,399	\$ (2,143,113)
Total	\$ 121,032,637	\$ 120,799,164	\$ (233,473)

As shown in the chart below, the Proposed Budget’s largest fund is the General fund at 73%.



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

General Fund Revenues Expenditures and Transfers Out



A total of 204.75 positions are proposed in FY 2021-22. Prior to COVID-19, the City was anticipating bringing a number of new position requests to the City Council over a three-year period. While the City has experienced increases in sales tax and total revenues, much financial uncertainty surrounding a post-pandemic environment remains. The City is cautiously optimistic as it proposes to add two new full-time employees and City staff will bring forward requests for City Council approval as more information becomes available for purposes of making informed decisions.

FY 2020-21 Adopted Budget	203.75
Limited Term Recreation Coordinator	-1.00
FY 2021-22 Proposed Budget	
Emergency Management Analyst	1.00
Environmental Programs Assistant	1.00
FY 2021-22 Benefitted Positions	204.75

Changes to the Budget and Policies

Revised Fees

City Council is set to approve the fee schedules effective for FY 2021-22 on May 4, 2021. The increases to the various fee schedules are estimated to result in increased revenues of approximately \$531,000 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 FY 2021-22.

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 18, 2021 City Council agenda packet.

GANN Appropriations Limit

For FY 2021-22, 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 2021-22 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 2021.

Budget by Fund

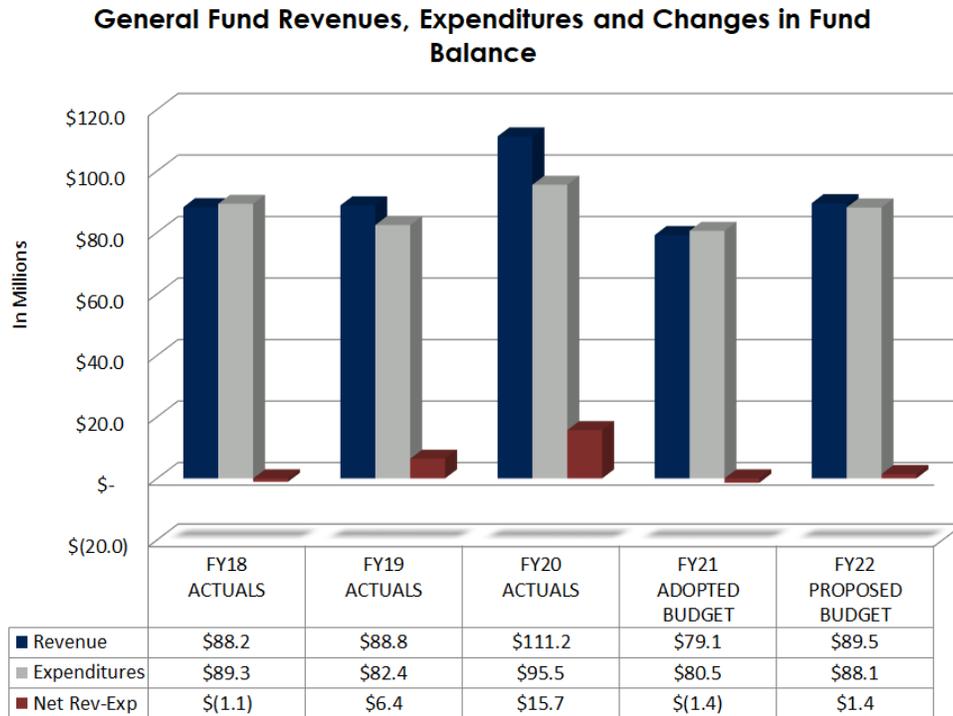
General Fund

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 \$89.5 million in the FY 2021-22 Proposed Budget. This is an overall increase of \$10.4 million (13.1%) when compared to the FY 2020-21 Adopted Budget. FY 2020-21 anticipated significant declines in sales tax and transient occupancy tax due to COVID-19 and shelter-in-place mandates. While transient occupancy taxes were severely impacted, sales tax revenues experienced an unprecedented increase. This was due to increased demand for computer equipment for telework conversion and increases in State-wide online sales. FY 2021-22 is expected to see declines in sales tax, relative to the previous year's actuals. Transient occupancy taxes will continue to be heavily impacted as it builds toward recovery. Property tax revenues appear to be moderately impacted. For the first time in many years, the County Assessor's Office is using an inflation escalator less than the 2% CPI maximum (1.036%).

Significant budget reduction strategies were implemented in FY 2020-21 which contributed to increased unassigned fund balance in the General Fund. With the General Fund's fiscal condition remaining strong, the City is bringing back budget proposals that were previously deferred due to the uncertainty brought on by COVID-19. As the City continues to move towards a recovery and "new normal," staff will continue to monitor the financial impacts of COVID-19 and ensure City Council is informed on a regular basis.

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

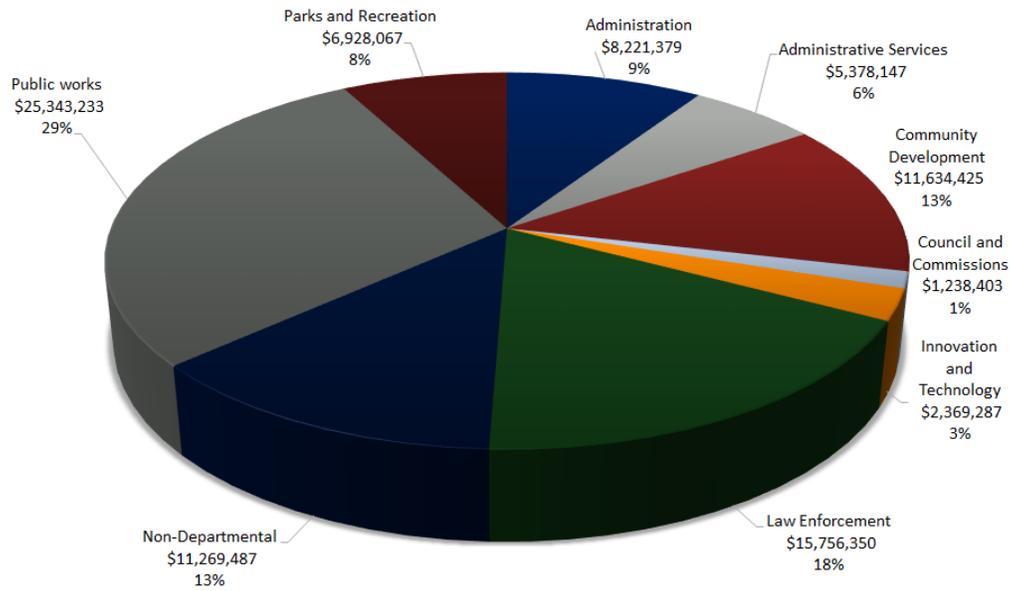


The General Fund unassigned fund balance is projected to increase from the current year estimate of \$39.1 million to \$38.5 million in FY 2021-22. As shown in the chart below, the FY 2021-22 ending fund balance is estimated to be \$84.6 million, or 1.6% higher than the FY 2020-21 year-end estimate. This is primarily attributable to one-time grant dollars the City will receive as part of the American Rescue Plan.

GENERAL FUND FUND BALANCE					
	FY 18-19	FY 19-20	FY 20-21	FY 21-22	Percent
Classification	Actual	Actual	Estimated	Proposed	Change
Unassigned	\$ 27,896,128	\$ 34,426,942	\$ 39,125,447	\$ 38,462,560	-2%
All Other Classification	\$ 31,026,457	\$ 40,078,871	\$ 44,134,009	\$ 46,129,009	5%
Total Fund Balance	\$ 58,922,585	\$ 74,505,813	\$ 83,259,456	\$ 84,591,569	1.6%

As shown in the graph below, the majority of General Fund resources are used to support Public Works (29%), Non-Departmental expenditures (13%), Law Enforcement (18%), Parks and Recreation (8%), Administration (9%), and Community Development (11%).

Expenditures by Department - General Fund



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 10% of the citywide expenditure budget. The largest Special Revenue Fund accounts for streets, roads, and transportation. Other funds account for storm drain management, affordable housing programs, and park development. The Proposed Budget for Special Revenue Funds for FY 2021-22 is \$11.9 million, which is a \$4.1 million, or 34.4%, increase from FY 2020-21 Adopted Budget primarily due to increases in Transportation Fund subsidies from the General Fund.

Budgets within the Special Revenue Funds are funded by \$8.7 million in restricted department revenue, and \$6.5 million in transfers, bringing total funding sources for the fund to \$15.2 million. This will result in a projected increase to fund balance of \$3.3 million. The Special Revenue Funds are projected to end the year with fund balances of \$32.2 million.

Debt Service Funds

The Public Facilities Corporation Debt Service Fund provides for the payment of principal, interest, and associated administrative costs incurred with the issuance of debt instruments. On September 29, 2020, the City's 2020A Certificates of Participation (2020 COPs) were successfully sold in order to refund the City's 2012 Certificates of Participation for debt service savings. The refunding generated net present value savings of approximately \$3.14 million, 11.61% of refunded par and a True Interest Cost of 0.72%. Savings to the City's General Fund amounts to approximately \$494,000 per year for the next 10 years, or almost \$5 million in total savings.

Capital Projects Funds

The Capital Improvement Project Fund, Stevens Creek Corridor Park Fund, and Capital Reserve Fund are currently in the Capital Projects Fund type category. This fund type is typically used to account for financial resources that are used for the acquisition or construction of major capital facilities or to provide facilities for City departments, and are identified in the five-year Capital Improvement Program (CIP).

The Proposed Budget for the Capital Projects Funds for FY 2021-22 is \$175,000. The FY 2021-22 budget is \$3.6 million lower than FY 2020-21 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 2021-22 is \$9.3 million, an increase of \$1.7 million from the FY 2020-21 Adopted Budget. Budgets within the Enterprise Funds are funded by \$5.9 million in program revenue and \$887,000 in transfers from the General Fund. The Enterprise Funds also rely on \$2.5 million of prior year fund balance, bringing total funding sources for the funds to \$9.3 million. The Enterprise Funds are projected to begin the fiscal year with \$6.9 million in retained earnings and are projected to end the year with retained earnings of \$4.4 million. Impacts to Enterprise Fund revenues as a result of COVID-19 have been significant, particularly while shelter-in-place orders remained in effect. While we anticipate moving towards a recovery in FY 2021-22, the timing and extent of the recovery is difficult to measure. As a result, conservative revenue estimates are programmed for the Enterprise Funds.

Internal Service Funds

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

The Proposed Budget for the Internal Service Funds is \$8.8 million, which is \$1.2 million higher than the FY 2020-21 Adopted Budget. Budgets within Internal Service Funds are funded by \$5.0 million in department revenue, \$1.7 million in transfers from the General Fund, and \$2.1 million from a combination of depreciation reserves and retained earnings. The Internal Service Funds are projected to begin the fiscal year with \$5.2 million in retained earnings and are projected to end the year with retained earnings of \$3.1 million.

Special Projects

The FY 2021-22 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.

FY 2021-22 Special Projects				
Program Budget	Project Name	Expenditure	Funding Source	Work Program
122 Sustainability	CWP Climate Action Plan 2.0	\$ 78,000	General Fund	Yes
126 Communications	CWP New City Seal	\$ 75,000	General Fund	Yes
633 Office of Emergency Management	CWP Personal Preparedness Kit	\$ 10,000	General Fund	Yes
702 Mid Long Term Planning	CWP Development Accountability	\$ 10,000	General Fund	Yes
702 Mid Long Term Planning	CWP General Plan and Muni Code Update	\$ 250,000	General Fund	Yes
702 Mid Long Term Planning	CWP Residential and Mixed Use Design Standards	\$ 40,000	General Fund	Yes
702 Mid Long Term Planning	CWP RHNA and General Plan Update	\$ 300,000	General Fund	Yes
702 Mid Long Term Planning	CWP Sign Ordinance Update	\$ 25,000	General Fund	Yes
705 Economic Development	CWP City Marketing	\$ 5,000	General Fund	Yes
705 Economic Development	CWP Regulating Diversified Retail Use	\$ 5,000	General Fund	Yes
711 BMR Affordable Housing Fund	CWP Affordable Housing Strategies	\$ 300,000	BMR Housing	Yes
711 BMR Affordable Housing Fund	CWP Homeless Services and Facilities	\$ 300,000	BMR Housing	Yes
800 PW Administration	CWP Municipal Water System	\$ 100,000	General Fund	Yes
	TOTAL CITY COUNCIL WORK PROGRAM	\$ 1,498,000		
122 Sustainability	Electric Cooking Workshop Series	\$ 6,400	General Fund	
300 I&T Administration	Security Framework and Audit	\$ 60,000	Internal Service	
305 Multimedia	EOC Control System Upgrade	\$ 15,000	General Fund	
305 Multimedia	Radio Windows 10 Replacement	\$ 10,000	General Fund	
308 Applications	Accla Business License	\$ 25,000	General Fund	
308 Applications	Campaign Docs	\$ 3,500	General Fund	
308 Applications	City Data Services	\$ 1,500	General Fund	
308 Applications	Community Climate Solutions	\$ 4,000	General Fund	
308 Applications	Customer Service Solution for CDD	\$ 65,000	General Fund	
308 Applications	ERP Exploration	\$ 50,000	General Fund	
308 Applications	Esports	\$ 1,700	General Fund	
308 Applications	Green Halo	\$ 7,860	General Fund	
308 Applications	Intranet Hub Consulting Services	\$ 20,000	General Fund	
308 Applications	Lobbyist Registration System in Netfile	\$ 15,000	General Fund	
308 Applications	Performance Management Application	\$ 32,000	General Fund	
308 Applications	Pre-Employment Assessment and Tests	\$ 5,000	General Fund	
308 Applications	Public Engagement	\$ 20,000	General Fund	
308 Applications	Redesign of City Website	\$ 45,000	General Fund	
310 Infrastructure	ActiveNet Additional Readers	\$ 9,000	Internal Service	
310 Infrastructure	Council Voting System and Timer	\$ 32,000	Internal Service	
310 Infrastructure	DUO MFA	\$ 19,500	Internal Service	
310 Infrastructure	Interactive Projector System with Games	\$ 7,000	Internal Service	
310 Infrastructure	Line Locator with GPS	\$ 15,000	Internal Service	
310 Infrastructure	Redundant Satellite Network	\$ 10,000	Internal Service	
310 Infrastructure	Senior Center Access Controls	\$ 16,000	Internal Service	
310 Infrastructure	Skydio Drone	\$ 18,000	Internal Service	
310 Infrastructure	Wireless Bridge	\$ 12,400	Internal Service	
310 Infrastructure	Wireless Network and Internet Park Expansion	\$ 20,500	Internal Service	
601 Recreation Administration	#CupertinoCares	\$ 75,000	General Fund	
612 Park Facilities	Environmental Education Center Animal Displays	\$ 1,000	General Fund	
702 Mid and Long Term Planning	Laserfische planning map scanning	\$ 30,000	General Fund	
705 Economic Development	Targeted Marketing Program to Assist Small Business	\$ 9,100	General Fund	
801 Resource Recovery	SB1383 Procurement Requirements	\$ 50,000	Enterprise	
808 McClellan Ranch Grounds	4H Perimeter Fence Replacement	\$ 30,000	General Fund	
811 Blackberry Farm Grounds Maintenance	Refinish Arbors	\$ 15,000	General Fund	
811 Blackberry Farm Grounds Maintenance	Stevens Creek Corridor Tree Inventory	\$ 65,000	General Fund	
812 School Site Maintenance	Backflow Prevention Device Replacements	\$ 6,000	General Fund	
813 Neighborhood Parks	Backflow Prevention Device Replacements	\$ 15,000	General Fund	
813 Neighborhood Parks	Basketball Court Resurfacing	\$ 20,000	General Fund	
814 Sport Fields Jollyman, Creekside	Basketball Court Resurfacing	\$ 10,000	General Fund	
814 Sport Fields Jollyman, Creekside	Backflow Prevention Device Replacements	\$ 4,000	General Fund	
820 Sidewalk Curb and Gutter	Annual Sidewalk Curb & Gutter	\$ 1,300,000	Special Revenue	
820 Sidewalk Curb and Gutter	Annual Sidewalk Grinding	\$ 100,000	Special Revenue	
821 Street Pavement Maintenance	Annual Crack Seal Project	\$ 105,925	Special Revenue	
821 Street Pavement Maintenance	Annual Fog Seal Project	\$ 245,926	Special Revenue	
821 Street Pavement Maintenance	Streets, Parking Lots, and Park Pathways	\$ 3,100,000	Special Revenue	
825 Street Tree Maintenance	Cage conversion to Rope Shop	\$ 10,000	General Fund	
825 Street Tree Maintenance	Foothill Blvd Median Tree Work	\$ 30,000	General Fund	
827 Building Maintenance City Hall	Electrical Preventive Maintenance	\$ 25,000	General Fund	
827 Building Maintenance City Hall	Fascia Repair and Painting	\$ 60,000	General Fund	

827 Building Maintenance City Hall	Lower Floor Recarpeting	\$ 70,000	General Fund	
827 Building Maintenance City Hall	Boiler Preventive Maintenance	\$ 5,000	General Fund	
828 Building Maintenance Library	Boiler Preventive Maintenance	\$ 5,000	General Fund	
828 Building Maintenance Library	Exterior Door Paintain	\$ 6,000	General Fund	
829 Building Maintenance Service Center	Emergency Power Upgrades	\$ 28,000	General Fund	
829 Building Maintenance Service Center	Shop Building Roof Recoating	\$ 50,000	General Fund	
829 Building Maintenance Service Center	Storage Shed Replacement	\$ 7,000	General Fund	
829 Building Maintenance Service Center	Locksmith Training	\$ 4,000	General Fund	
830 Quinlan Community Center Maintenance	Boiler Preventive Maintenance	\$ 5,000	General Fund	
832 Building Maintenance McClellan Ranch	Gift Shop Exterior Painting	\$ 20,000	General Fund	
836 Building Maintenance Sports Center	Exterior Lighting Improvements	\$ 24,000	General Fund	
836 Building Maintenance Sports Center	Exterior Painting	\$ 45,000	General Fund	
836 Building Maintenance Sports Center	Multipurpose Room Hardwood Floor Refinishing	\$ 20,000	General Fund	
836 Building Maintenance Sports Center	Door Refinishing	\$ 15,000	General Fund	
836 Building Maintenance Sports Center	Locker Room Bench Refinishing	\$ 5,000	General Fund	
838 Building Maintenance Community Hall	Exterior Door Painting	\$ 4,000	General Fund	
838 Building Maintenance Community Hall	Water Bottle Filling Installation	\$ 13,000	General Fund	
841 BBF Facilities Maintenance	Pool Water Bottle Filling Station Installation	\$ 13,000	General Fund	
841 BBF Facilities Maintenance	Pool Cover Replacement	\$ 11,000	General Fund	
841 BBF Facilities Maintenance	Uninterrupted Power Supply Installation	\$ 5,000	General Fund	
844 Traffic Engineering	CWP VMT to LOS Standards	\$ 130,000	General Fund	
846 Safe Routes to School	Pedestrian Education	\$ 44,240	General Fund	
846 Safe Routes to School	Riding for Focus Program	\$ 49,000	General Fund	
848 Street Lighting	Cvric Center/Library Atrium LED Light Upgrade	\$ 47,000	General Fund	
848 Street Lighting	Don Burnett Bridge LED Light Replacement	\$ 47,000	General Fund	
848 Street Lighting	Street Light Pole Replacement	\$ 208,000	General Fund	
985 Fixed Asset Acquisition	Vactor Truck	\$ 366,000	Internal Service	
985 Fixed Asset Acquisition	Vehicle Replacement	\$ 626,200	Internal Service	
986 GIS	AR McClellan Ranch	\$ 40,000	Internal Service	
986 GIS	Data Governance and Data Warehouse	\$ 75,000	Internal Service	
986 GIS	Drone Deploy	\$ 18,000	Internal Service	
986 GIS	ESRI Web Editor Licenses	\$ 10,000	Internal Service	
986 GIS	Online Services Subscription Fees	\$ 2,200	Internal Service	
986 GIS	Quinlan Touch Screen	\$ 40,000	Internal Service	
986 GIS	Rapid Plan	\$ 4,000	Internal Service	
	TOTAL NON-CITY COUNCIL WORK PROGRAM	\$ 7,914,951		
	TOTAL CITY SPECIAL PROJECTS	\$ 9,412,951		

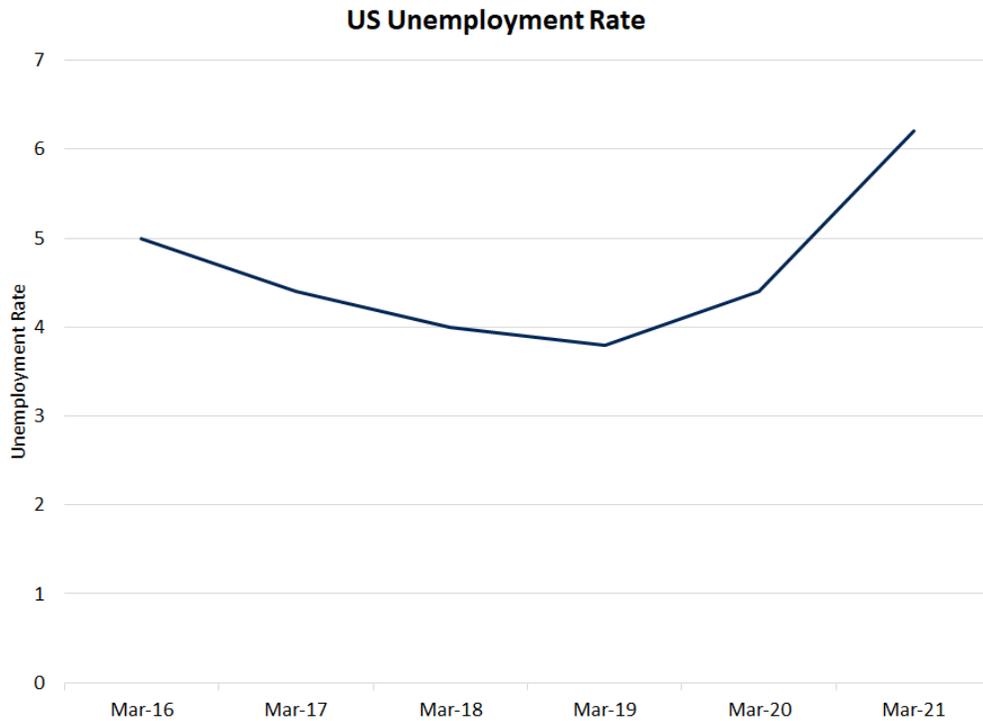
Current Economic Update

National and State Economic Conditions

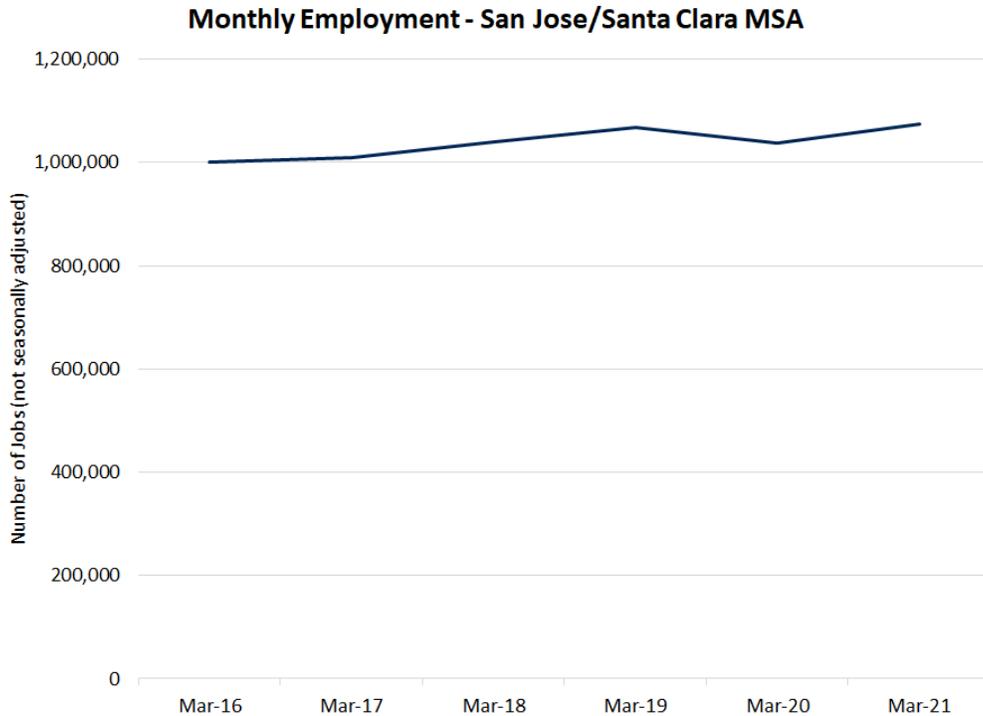
Through the fourth quarter of 2020, the U.S. economy continued to show steady growth. U.S. Gross Domestic Product (GDP) increased by 4.0% in 2020 according to the Bureau of Economic Analysis, compared with an increase of 2.1% in 2019. The increase in fourth quarter GDP reflected both the continued economic recovery from the sharp declines earlier in the year and the ongoing impact of the COVID-19 pandemic, including new restrictions and closures that took effect in some areas of the United States. The full economic effects of the COVID-19 pandemic cannot be quantified in the GDP estimate for the fourth quarter of 2020 because the impacts are generally embedded in source data and cannot be separately identified.

Economic growth is poised to accelerate meaningfully in the current quarter as vaccine distribution becomes more widespread in the U.S. amid an ongoing backdrop of robust fiscal support, low interest rates, and accommodative monetary policy. The vaccine rollout has been faster than expected and roughly 20% of the U.S. population is now fully vaccinated, and more than one-third has received at least one dose. Meanwhile, robust fiscal spending along the Federal Reserve's highly accommodative monetary policy continues to provide support for the economic and financial markets. The Federal Open Market Committee kept monetary policy unchanged at their March 2021 meeting as expected, with the fed funds target rate in the range of 0.0% to 0.25%. The Fed intends to remain accommodative until the labor market has made a strong recovery and inflation is sustainably on track to achieve their 2.0% longer-run target. The majority of Fed policymakers expect to keep the fed funds rates unchanged through 2023. Through inflation rates are likely to increase in

the coming months, the Fed believes the increase will be transitory and the Fed intends to remain on the sidelines. Fed Chair Powell emphasized that policymakers will clearly telegraph their outlook for monetary policy well in advance of any future policy changes. The yield curve has steepened. Year-to-date, the yield on 2-year Treasuries is about four basis points higher while the yield on 10-year Treasuries is nearly 83 basis points higher, as of March month-end. In April, we have seen a modest retreat in longer-term Treasury yields. Nevertheless, it is believed the Treasury yield curve is poised to modestly steepen further as the year progresses, which would be consistent with an improving economic outlook, more widespread vaccine distribution, the anticipation of ongoing fiscal spending, and a moderate pick-up inflation.



COVID-19 is having significant impacts on the nation’s unemployment. The U.S. unemployment rate stood at 6.0% in March 2021, down from 6.2% in the previous month. The participation rate increased to 61.5% from 61.4%. 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, decreased to 10.7% from 11.1%.



Consumer confidence, as reflected by the Conference Board Consumer Confidence Index, decreased over the previous year and stands at 109.7 as of March 2021, including a 19.3 point increase over the previous month. Consumer Confidence increased to its highest level since the onset of the pandemic in March 2020. Consumers’ assessment of current conditions and their short-term outlook improved significantly, an indication that economic growth is likely to strengthen further in the coming months. Consumers’ renewed optimism boosted their purchasing intentions for homes, autos, and several big-ticket items. However, concerns of inflation in the short-term rose, most likely due to rising prices at the pump, and may temper spending intentions in the months ahead.

California’s unemployment rate improved to 8.5% in March 2021, a significant decrease compared to last year’s unemployment rate of 5.3%. Per capita personal income increased 7.1% in 2020 over 2019, mostly due to faster growth in wages; however, it is reasonable to anticipate declines in income in 2021 as a result of COVID-19. Growth in the housing market continued over the prior year with the prices of single-family homes up 23.9% and sales up 19.7% compared to March of last year according to the California Association of Realtors (CAR). Growth in Santa Clara County also increased over the prior year with the prices of single-family homes up 14.3% and sales up 44.3%.

Cupertino Economic Conditions

Employment in the San José/Sunnyvale/Santa Clara Metropolitan Statistical Area (MSA) continues to improve since the onset of the COVID-19 pandemic. The preliminary estimate of the March 2021 employment level in the MSA was 990,000, representing an approximately 55,000 drop from the March 2020 level. The March 2021 preliminary unemployment rate of 8.2% has increased from the 5.1% rate experienced a year ago, but decreased from the 9.2% rate as of January 2021. Our local unemployment rate is lower than the national unemployment rate of 4.2%.

Housing prices remain strong compared to the same period in 2020. As of March 2020, single-family homes sold for a median home price of \$2.5 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. Due to the timing of property appraisals entering the assessor's role, the City did not anticipate significant impacts to property tax revenues in FY 2020-21. While growth has continued, the County Assessor's Office, for the first time in years, has elected to use a lower rate (1.036%) than the maximum 2% CPI annual inflator for the FY 2021-22 property tax roll.

Key Budget Assumptions

Revenue Assumptions

The FY 2021-22 Proposed Budget is heavily reliant on the General Fund's top three revenue producers, sales tax, property tax, and transient occupancy tax. Although sales tax has experienced unanticipated increases, staff believe this to be a one-time experience and for sales tax to decrease in FY 2021-22 before increasing annually thereafter. Property taxes remain stable and although positive growth is anticipated in FY 2021-22, the impacts of a potential long-term and even permanent telework environment on property values remains to be seen. Transient occupancy taxes are expected to increase over the FY 2020-21 estimate; however, they are expected to be significantly less than historical highs experienced in FY 18-19. Although a full-recovery in FY 23-24 is anticipated, the extent of that recovery and long-term and/or permanent telework impacts has also yet to be seen.

Personnel Assumptions

The City is entering the third year of its currently effective labor agreements which assume 3.0% 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 43% of employees who have yet to reach the top step in their classification's salary range. Typically, a step increase is equivalent to a five percent increase in salary with a range of five salary steps.

Non-Personnel Assumptions

Non-Personnel budgets were developed based on actual expenditures in prior years, and then adjusted for FY 2021-22 funding needs. In addition, one-time projects have been separated out in FY 2021-22 to ensure that expenditure trends reflect ongoing expenditure needs. Contingency budgets remained to be reduced by 50% since FY 2019-20. Contingencies are calculated at 2.5% of the total General Fund budget for contractual services and supplies and materials for operating programs. Consistent with past budgets, an additional 2.5% 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 66.9%, down from 66.3% 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 2022-23 and would be smoothed over a five-year period. As part of the FY 2018-19 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 2018-19, the City contributed an initial investment of \$8.0 million to the trust. The FY 2021-22 Proposed Budget includes this \$8.0 million as well as an additional \$6 million in contributions made since inception. The trust’s estimated fund balance is reported as restricted fund balance to provide stabilization through the following ramp-up period as necessary:

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

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 dot-com bust from 2000-2004. Our heavy reliance on the volatile high-tech industry also makes us vulnerable. The loss of one of our top three sales tax producers in FY 2013-14 only made the City more reliant on a single tax producer, making us more vulnerable to its business volatility. The City’s sales and transient occupancy tax revenues experienced great fluctuation since the outbreak of COVID-19 in 2020. While restaurants and hotels, general consumer goods, and automotive industry groups were severely impacted, the City’s business-to-business and County pool allocation share increased substantially. This was brought on by shelter-in-place mandates throughout the State which reduced the sales tax revenue for restaurants and brick and mortar retail; thereby increasing online sales. Additionally, the conversion to a telework environment increased the demand for computer and electronics equipment, which also increased the City’s sales tax revenues. In total, the City’s sales tax revenues spiked to historic highs in both FY 2019-20 and FY 2020-21; however, the City is considering this to be a one-time experience. As the State continues toward a recovery and businesses continue their opening, it is anticipated the City’s restaurant and hotels, general consumer goods, and automotive industry groups will recover and increase as well. However, these increases will only slightly mitigate the anticipated declines in the City’s business-to-business and County pool share allocation as online sales fall from recent historic highs. Transient occupancy remains devastated and although a recovery is anticipated by FY 2023-24, we’re unsure about the extent of the recovery and what the “new normal” will look like.

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