

# Budget Message

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# Budget Message

April 29, 2022

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

Albert Einstein said, “Life is like riding a bicycle, to keep your balance, you must keep moving.”

As the City emerges from the COVID-19 pandemic, we are defining our future, and the opportunities and challenges the future presents. From how we offer services to the development of our financial and human resources and the needs of residents, the City is not in the same place as it was pre-pandemic. In Fiscal Year (FY) 2021-2022, we saw increases in expenditures after experiencing a decrease across various categories due to the pandemic. We saw transient occupancy taxes, the hardest hit of our revenue sources, rebound. We transitioned from online-only to hybrid service models and we saw the revitalization of in-person events. The City has been impacted by a wave of retirements as the baby boomer generation leaves the workforce and the Great Resignation (a pandemic by-product of mass resignations as people consider different career paths). As a result, we have seen a significant increase in retirees and turnover in FY 2020-2021, with normalization in FY 2021-2022. However, our staff has been resilient in overcoming challenges and implementing new and innovative solutions, while managing new and limited staffing, as well as continuing vacancies.

The positive news is that the City is on a solid financial footing to weather any of the challenges ahead.

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I am pleased to present the City Council with a balanced budget for FY 2022-2023. The proposed budget is recommended at \$125,461,857 and is funded by \$128,764,630 in revenue, supporting a workforce of over 200 employees. Consistent with last year, and to allow more discussion, the Capital Improvement Program (CIP), Council Work Program, and Community Funding requests are not included in the proposed budget. The costs associated with these programs will be added as part of the final budget, after Council study sessions on these programs. The General Fund, the City’s largest tax-supported fund, is recommended at \$92,962,965 and is funded by \$93,661,388 in revenue. This budget reflects the invaluable input provided by your Council, Department Heads, and other City stakeholders.

The City has historically been fiscally prudent in budgeting both expenditures and revenues. This has been part of a deliberate strategy to build up fund balance and to provide the City with time to mitigate the impacts of the pandemic. The City continues to have a strong revenue tax base which enables us to provide public safety and general government services to support our community. However, since the City has limited resources, it is important that we balance the many needs of the community so that the City can continue to remain in a strong financial position.

For Cupertino, the top three revenue sources continue to be Sales, Property, and Transient Occupancy taxes (TOT, or Hotel Taxes). Sales and property taxes continue to do well post-pandemic, and we have seen TOT rebound to around 37% of pre-pandemic levels (up over 57% since shelter-in-place restrictions were implemented). While sales tax was anticipated to decrease during the pandemic, it increased significantly due to positive impacts from online sales. We continue to closely monitor the situation as we believe this was a one-time occurrence due to the pandemic. Overall, most sales tax sources have recovered to pre-pandemic levels. The City is currently in the midst of a sales tax audit by the California Department of Tax and Fee Administration (CDTFA). The impact of this audit is unknown but it has the potential to have a significant impact on the City’s sales tax revenue. Once more information is known, staff will provide updates to City

Council. The proposed budget does take into consideration a potential reduction in sales tax revenue, as the City does take a conservative stance in financial matters.

Additionally, a major impact of the pandemic has been on the City's ability to retain and recruit employees. As mentioned previously, the City experienced a spike in retirements and resignations, compounded by challenges in recruiting. For certain positions, we had to conduct multiple recruitments before hiring a successful candidate, or we had to extend recruitment timelines. As a result, the time required to fill vacancies after employees leave city service has grown. As the City transitions from a small to a mid-size City, the need for additional positions will continue as service expectations expand. This year's budget recommends funding 12 new positions in various departments. We are also currently forecasting the need for an additional 8 positions in the near future, once the impact of the sales tax audit is known. To date, the City has been successful in mitigating these impacts and has been able to complete projects on time. However, if, current staffing trends continue, we may experience major impacts on service delivery to our residents.

A growing area of concern for the City is our aging infrastructure. The need to address our infrastructure will have a significant impact on the City's budget. The City will need to decide how and when to update, remodel, or rebuild existing infrastructure while balancing safety concerns with new infrastructure projects and ongoing operations. Infrastructure needs are discussed in the City's Capital Improvement Program.

As the City moves forward, we will begin to strategically use reserves to further strengthen the City's fiscal position in the short and long-term. As described in the budget-balancing strategies in the financial schedules portion of the budget, we are recommending use of the Section 115 Other Post-Employment Benefits (OPEB) Trust to fund the costs of retiree health benefits. In addition, we continue to monitor our Section 115 Pension Trust (a specialized fund that may only be used to pay for retirement costs) and may recommend the use of this fund in the future for pension-related costs. Lastly, City Council approved mid-year adjustments of \$27 million in General Fund unassigned fund balance as follows:

- \$10 million transfer to Capital Reserve;
- \$5 million increase to General Fund Economic Uncertainty Reserve;
- \$10 million contribution to a new General Fund Capital Projects Reserve; and
- \$2 million contribution to Section 115 Pension Trust.

Despite challenges and uncertainty in the State, Nation, and Globally, the City's fiscal outlook remains strong. Our City has a strong financial foundation to build upon for the successful future of Cupertino. And it will be more incredible than any of us can possibly imagine.

Respectfully Submitted,



Jim Throop

City Manager

# Strategic Goals

On February 18, 2020, City Council adopted the following goals to provide a framework for the City's priorities and City Work Program:

## Public Engagement and Transparency

- Creating and maintaining key conversations and interactions with the Cupertino Community.

## Sustainability and Fiscal Strategy

- Continuing Cupertino's commitment to building a sustainable and resilient community for future generations.

## Housing

- Contributing meaningfully and in a balanced manner to the housing inventory in support of our community needs, including affordable housing (from extremely low-income to moderate-income level housing) and addressing homelessness.

## Transportation

- Providing access to an efficient, safe multi-modal transportation system for our community, and advocating for effective, equitable mass transit in the greater region.
  - Improving Traffic Flow and Alleviating Congestion

## Quality of Life

- Furthering the health and well-being of all Cupertino community members.
  - Air Quality
  - Public Safety
  - Recreation
  - Access to Goods and Services

While these are intended as multi-year goals, they are reviewed annually by the City Council. The Council may adopt the same goals or revised goals as the Council sees fit.

The strategic planning process and City Council goal-setting are paramount as they drive the City's annual Work Program. The City has created an online dashboard to show the status and performance of the City Work Program in real-time ([gis.cupertino.org/webmap/CityWorkProgram/](https://gis.cupertino.org/webmap/CityWorkProgram/)). City Work Program items with budgetary impacts can be found in the respective program budgets under Special Projects. The budgets of some City Work Program items from previous fiscal years may be carried forward into FY 2022-23.

The City Work Program will be presented to City Council at a separate study session and is not included in the Proposed Budget. The City Work Program will be included in the Adopted Budget.

# Notable Accomplishments

## Administration Department

*ADA Webinar* – In November 2021, Economic Development partnered with the Silicon Valley Economic Development Alliance (SVEDA) to host a webinar on Americans with Disabilities Act (ADA) laws and compliance for small businesses. The webinar equipped small businesses on how to comply with ADA laws to avoid costly litigation and penalties, drawing 150 attendees. Close to two dozen Cupertino businesses were able to hear directly from experts, get their questions answered, and connect with City employees directly.

*Small Business Saturday* – This event empowered local businesses, connected them with the community, and attracted more visitors to the shopping center. In addition to creating a [webpage](#), a first-ever partnership between the City, Cupertino Library, and the Chamber of Commerce was formed. Representatives from partner organizations met with local businesses and greeted visitors. Community members were able to learn about the benefits of supporting small businesses, local promotions, checking out books, opening a new library card, and the City's Climate Action Plan.

*COVID-19 Response* – Over the past 12 months, the Office of Emergency Management responded to the COVID-19 pandemic, guiding City departments through two years of navigating the evolving best practices and health orders.

*2021 Virtual Earth Day* – The virtual festival included an entire day of live and recorded content which can be viewed anytime on Cupertino's YouTube channel. The live stream was hosted by volunteers from Cupertino's youth environmental organizations. A Tree Scavenger Hunt and litter clean-up event were created to keep the community engaged in a socially distanced way. The live-streamed festival generated 1,500 impressions online, including viewers as far away as India, and the recordings have hundreds of views on the City's YouTube channel.

*Drought Response Coordination* – With a combination of strategies and regular feedback based on the consumption data, the City achieved a 15% reduction in municipal water use during the summer of 2021. As the region expects a third year of drought, these measures will continue to be utilized.

*Climate Action Plan 2.0* – To update the City Climate Action Plan, a multi-pronged engagement strategy was utilized to include Cupertino residents, businesses, organizations, and stakeholders. The objectives was to gather community perspectives, create a framework for community action, educate, empower, and energize the community, and strengthen relationships within the City. Six virtual events were held throughout 2021, two surveys were conducted, two City Council study sessions, and the topic was discussed at each Sustainability Commission meeting throughout the year. 135 people participated in workshops, 161 responses were collected from surveys, and several hundred people were directed to the project website from in-person community tabling events such as at farmer's markets and the Rotary's Fall Festival. All the public feedback is available to review at [www.Cupertino.org/ClimateAction](http://www.Cupertino.org/ClimateAction)

## Administrative Services Department

*Virtual Benefits Fair* – Enhanced process with City staff and vendors as well as continued with an online open enrollment process.

*HR Hub and Training Management Application* – Continued collaboration with I&T to enhance and develop the City's intranet, including digitizing forms, enhancing employee accessibility to HR tools and resources, and centralizing and maintaining HR information (MOUs, Policies & Procedures, COVID Information, etc.)

*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* – Continued to provide employee support across all City Departments through the COVID website, City Town Hall, and Department meetings. Researched, analyzed, and implemented Federal, State, and local rules and regulations such as leave programs, contract tracing, creation of new and revised OSHA policies, and related trainings.

*Diversity, Equity, and Inclusion (DEI)* – Offered staff 5 DEI training classes as part of the City’s BEST program to increase cultural awareness, knowledge, and communication.

*Recruitment and Retention* – Responded to a large increase in separations from previous FY20 (12) to FY21 (30) which translates to a FY21 16.3% turnover rate from a FY20 of 6.4%. As a result, this increased the number of recruitments conducted from FY20 (19) to FY21 (43).

*Benefit Administration* – Processed triple the number of employee separations due to a large increase in employee onboarding and offboarding. From 7/1/2019 – 6/30/2020, there were 12 Full Time (FT) employee separations and 19 FT new hires. From 7/1/2020 – 6/30/2021, there were 32 FT (includes 2 councilmembers) employee separations and 18 (includes 2 councilmembers) FT new hires.

*Internal Audit* – The City’s internal auditor, Moss Adams, developed an internal audit work plan to guide activities for FY 2021-22. The Audit Committee and City Council approved the FY 2021-22 internal audit work plan, which included the following projects:

- Procurement Operational Review
- Policy Inventory and Plan
- Capital Program Effectiveness Study
- Fraud, Waste, and Abuse Program

The projects are expected to be completed by the end of FY 2021-22.

*CSMFO Innovation Award* – CSMFO awarded the City of Cupertino the 2022 Innovation Award for the City’s Resident Tax Calculator and Budget Forecast Tool. This is the first time that the City of Cupertino has received this award and highlights the City’s commitment to innovation despite unique challenges presented by the pandemic over the past year. They are available at [cupertino.org/interactive-budget-tools](https://cupertino.org/interactive-budget-tools)

## **Community Development Department**

*Update the Housing Element of the General Plan and concurrent rezoning* –Ongoing updates to 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. Concurrent rezoning of the Priority Housing sites to ensure that sites are appropriately rezoned to allow for planned growth/capacity.

*Homeless Jobs Program* – In partnership with the West Valley Community Services, created a pilot Homeless Jobs Program to assist two individuals with obtaining full-time employment. In addition to employment, they received job training, housing support, financial coaching, and case management services.

*City Plan to End Homelessness* – Drafted the City Plan to End Homelessness to address the needs of the unhoused residents of Cupertino as identified in the Santa Clara County Community Plan to End Homelessness. The City Plan will help direct the decisions that will be made about funding, program, and needs. Over 150 people attended the City’s Community Workshop in support of this effort.

*ProjectDox Expansion and Upgrade* – Improved software (for both staff and customers) in the way permits are processed. Additionally, ProjectDox will be migrated to a cloud-based application allowing for enhanced business continuity and disaster recovery.

## **Innovation & Technology Department**

*IT Strategic Plan* – Completion of the three-year Strategic Plan (Plan). The Plan outlines and prioritizes I&T projects and associated costs for the next three years resulting in enhanced efficiencies and increased transparency in each work product.

*Adaptive Traffic Signaling* – Completed the Adaptive Traffic Signaling (ATS) project. ATS adjusts the timing of the City's green light cycle to match current traffic conditions. Mitigating traffic congestion is a high priority for the City and ATS will measure how effective this technology is in moving Cupertino traffic.

*Multimodal Traffic technologies* – Provided additional tools to Planning and Public Works to better measure impacts and plan for future projects. In partnership with Public Works, IT procured technology(s), selected locations, implemented and tested multimodal count sensors.

*Multi-Factor Authentication* – Implemented multi-factor authentication (MFA) for all City staff to enhance security. This ensures that the City follows industry best practices and reduces security exposure risk in an ever-evolving online workspace.

*Interactive Projector System* – Utilized augmented reality (AR) to provide public engagement with visitors. This allows for enhanced consumption of provided media notices as well as interactive AR engagement.

*Wireless Network + Internet Park Expansion* – Expanded WiFi network services to selected parks (Wilson, Portal, and Creekside), including connectivity at those sites to allow staff access to City network resources for future services and events. Enhancement of services at current facilities with a more reliable fiber-optic network connection. This includes connections from City Hall to Monte Vista Recreation Center & Park, McClellan Ranch, Blackberry Farm, and the golf course at Blackberry Farm.

*Developed Policies and Procedures* – Developed Cybersecurity Incident Response, IT Governance, Enterprise Architecture, and Data Classification and Standards policies and procedures to protect the integrity of the City's information and databases.

*Telematics* – Implemented the Telematics solution, GeoTab, for all City Vehicles - Enabled the IT Department & Fleet Division to analyze and evaluate: 1) vehicle utilization, 2) vehicle performance data, 3) driver safety and behaviors and 4) fuel efficiency to recommend cost-saving, operational efficiency, and safety measures.

*Laserfiche Roadmap* – Implemented the 2nd-year out of the three-year Enterprise Content Management roadmap. Completed the file plan and restructuring for all Public Work Divisions, Planning, Housing, & Code Enforcement, Parks and Recreation, Sustainability, and Human Resources. Ongoing scanning of historic records, as well as building out the internal web-link portal and Division specific training.

*Business Process Automation* – Continued conversion of existing paper/static forms to digital/dynamic processes. Workflow and business method was added to the digital forms to provide a true paperless environment. Digitized over 25 workflows.

*Disaster Response* – Developed and tested the Quick Capture app, Building Damage Assessment survey, and the Situational Awareness app along with the corresponding dashboards.



*CodeHub Implementation* – Created a modern-day zoning code all in one platform which seamlessly integrates zoning code text into 3D maps that show zoned development potential, providing a self-service public portal reducing front counter citizen inquiries by 10x.

*Drone Program* – Developed Cupertino’s Drone Policy and Procedures and established a drone training program.

*Moved to Enterprise GIS* – Enhanced security and authentication options through web-tier authentication, Active Directory, and more.

*Teen Commission Online Application* – Implemented an online Teen Commission applicant intake solution enabling greater productivity and collaboration. Aspiring teen commission applicants can apply online and get their parents' digital signatures via the online application portal.

*Zendesk Customer Service Solution for Community Development* – Implemented a Zendesk customer service solution for Community Development staff to facilitate the management of their customer services requests and communications enabling greater productivity and collaboration.

*Business License Move to Accela* – Implemented Business License module in Accela Land Management System for smart and accessible infrastructure-related business licenses enabling greater productivity and collaboration.

*Customer In-person Appointment Calendars* – Implemented MS Appointments booking calendars where external customers can make in-person appointments during Covid facility closures. Applications staff configured the appointment booking sites for Building, Planning, Public Works, Finance, and City Clerk staff.

*Parks & Recreation ActiveNet Dashboards* – Created dashboards that pull data from the ActiveNet system to give managers business intelligence on their daily operations. These dashboards provide various program statistics, membership details, and other related datasets to help the management and staff get business overviews and make relevant decisions.

## **Parks & Recreation Department**

*Continued Services Through COVID* – Continued to offer services to community members, focusing on the safety of participants, and following the rules and regulations set by the county, including contact tracing guidelines.

At the beginning of the pandemic, the Cupertino Sports Center offered usage of the outdoor tennis courts and several tennis programs and camps. In addition, the Department was able to continue these services through the scheduled closure due to the Seismic Retrofit project for the building. In the summer of 2021, the building had reopened to welcome members back into the gym. Equipment had been reorganized to allow for more space between users and sanitation stations were set up for cleaning equipment.

The Quinlan Community Center front office reopened in July of 2021, to provide in-person customer service support for those who wished to register for classes or camps, or to reserve City facilities and picnic areas for rentals.

The Cupertino Senior Center continued to engage senior members through the monthly production of *The 50+ Scene*, outdoor 50+ sports, virtual travel, and remote classes. The building partially reopened in August of 2021, with some in-person programs and classes coming back to the center. Through a phased reopening process some senior socials have restarted, including table tennis, card playing, Bingo, and more. As of March, luncheons, in-person lectures, and day trips have returned and in May, the center is planning to be open five days a week. For a large portion of the pandemic, the building was also a dedicated COVID testing site, offering appointments twice a month.

Blackberry Farm reopened for the 2021 season with a handful of modifications. The pools were available for use through a reservation system to control crowds and allow time for cleaning throughout the day. This new system was welcomed by swimmers and staff received many compliments about how safe guests felt while using the pool facility. The picnic sites were also available by reservation and guests were excited to gather outdoors with friends and family again. Additionally, participants of all ages enjoyed swim lessons taught in the Blackberry Farm pools. Private, semi-private, and parent-child classes were offered, however, beginner lessons for adults were the most popular classes.

Even after the stay-at-home order was lifted, the popularity of the Blackberry Farm Golf Course continued into FY 2021-2022. To date, 30,628 rounds have been played and \$460,968 in revenue has come in from green fees, rentals, and pro shop merchandise.

*Collaboration with Capital Improvement Program (CIP)* - Partnered with Public Works on outreach efforts, which included creating surveys for community members, mailing postcards to residents, presenting projects to applicable Commissions, and co-hosting public meetings to gather feedback and public input. Ongoing support with outreach efforts for park and recreation facility-related projects.

*Field Use Policy* – Adopted policy that switched to an hourly fee structure and added two additional Sunday uses for regular permitting groups. Since adoption, the Recreation Department has been able to better track scheduled use and share it with the public on the City website. In addition, four new Youth Sports Organizations have become regular permitting groups.

*Strategic Plan* - Completed the first edition of a strategic plan that addresses the immediate and short-term opportunities for enhancement identified in the Parks and Recreation System Master Plan. The Strategic Plan includes two formats that outline existing and planned progress toward the implementation of opportunities identified in the Master Plan. The first format organizes implementation efforts by which community goal they address, and the second organizes what enhancements are being implemented by park site.

*Summer Events* – Revitalized several popular events, including the Summer Concerts, Movies in the Park, and Shakespeare in the Park. For the movie nights, more than 200 people attended each night, and many positive comments were received about the first movies in the park since 2019.

*Teen Programming/Pizza and Politics* – Continued support for Cupertino teen programs. The Cupertino Youth Activity Board revitalized the Bobateeno event, the Cupertino Café, and new initiatives. Ongoing socialization opportunities that provide youth with mental health and tutoring resources.

*Dog Off Leash Area (DOLA)* - Established an ongoing DOLA program at Jollyman Park providing residents opportunities for engagement with their pets.

*Gymnastics* – Promoted physical, social, and cognitive development in children 1 to 5 years old through Bay Aerials at Monta Vista Recreation Center. Since classes began, 199 participants have registered, 86% of whom are residents.

## **Public Works Department**

- *10<sup>th</sup> consecutive Tree City USA Recognition* – The Tree City USA program provides communities with a four-step framework to maintain and grow their tree cover. It also gives them an avenue to celebrate their work, showing residents, visitors, and the entire country that they're committed to the mission of environmental change.
- Replaced 115 fluted street light poles to provide enhanced lighting, power, and communication services to residents as well as sustainable infrastructure for the City.
- Prepared facilities for employees returning to work, including completing repairs and air balancing to

the ventilation system at City Hall.

- Provided employee information on disinfecting schedules, placing Disinfecting Stations throughout City facilities, and provided a map of station locations for The Hub.
- Completed a portion of feminine sanitary product dispensers at various City facilities. The remaining dispensers are scheduled to be installed in Spring 2022.
- Completed the purchase of new leaf blowers to comply with Cupertino's sound ordinance.
- Initiated the grounds division irrigation controller replacement project anticipated completion by end of FY22.
- Partnered with IT on more efficient documentation of backflow device testing and repairs in Cityworks.
- Initiated the first phase of park amenities project - The installation of hydration stations throughout the parks.
- Received and reviewed applications for 100 development projects (resulting in 161 submittal reviews) and issued 217 encroachment permits between July 1, 2021 and December 31, 2021 (the remainder of FY 21-22 is still in progress).
- Passed a local enforceable ordinance and began implementation of Senate Bill 1383 requirements for diversion of organics, including creating a new position and hiring an Environmental Programs Assistant.
- Implemented Green Halo construction and demolition debris tracking software for use by construction contractors.
- Arranged installation of 77 new adjustable retractable screens to keep trash out of our creeks.
- Arranged for 7-day-per-week access to free compost at mulch for Cupertino residents at the Sunnyvale SMaRT Station.

# New Initiatives

## Administration Department

*Economic Development Strategy Update* – Prepare to update the City’s Economic Development strategy. The last economic development strategy was completed in 2016. Staff is in the process of gathering updated local and regional data and trends to identify the strengths and gaps of the local economy, particularly as we move into the recovery phase of the pandemic.

*Emergency Management Capacity Building* – Focus on building response capability in the following ways:

- Building more resilient communities through re-imagined volunteer programs, including the Block Leader program, with new engagement led by a dedicated full-time staff member.
- Implementing a multi-year training and exercise program, consisting of regular training for City staff and volunteers as well as exercises with partner agencies and jurisdictions.
- Developing new emergency operational annexes to guide the City’s response to specific hazards including earthquakes and wildfires.

*Electrification Study* – Work with cross-sector partners and experts to conduct public outreach and develop a specific strategy and policy options to achieve carbon-free buildings through electrification while navigating the economic and equity concerns that were raised during the public engagement process.

## Administrative Services Department

*ERP Need Analysis (Phase I) and RFP Development and Vendor Selection (Phase II)* – Selecting 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 of remaining up to date and ensuring the system that allows us to provide excellent services to the public is functioning optimally.

*Fee Study and Cost Allocation Study* – The studies will analyze the City’s fees and services to determine costs that can be allocated between City departments and costs that can be recovered through fees charged to the public. These studies are conducted approximately every seven years.

## Community Development Department

*Development standards for ministerial subdivision and development of single-family zoned properties under SB-9* – Present a regular ordinance that addresses development standards for ministerial subdivision and development of single-family zoned properties to the Planning Commission and City Council in late Spring/early Summer.

*Adopt environmental protection standard conditions of approval (adopt objective standards)* – Prepare and present a new Chapter with regulations on implementing environmental protection standards for all projects, whether ministerial or discretionary.

## Innovation & Technology Department

*Climate Monitoring and Noise Measurement extension* – Install four air quality sensors that will be placed close to the quarries to monitor real-time air quality data 24/7 365 days a year. Together these solutions provide the Sustainability division with a good representation of air quality data for Cupertino – an important component to the City’s Climate Action Plan.

*Cupertino Room Lectern Upgrade project* – Upgrade the audiovisual system in the Cupertino Room to allow for better connection as well as updated infrastructure.

*Social Room Audio Upgrade project* – Upgrade audio system at the Quinlan Center Social Room to allow and support wireless/bluetooth infrastructure.

*Sports Center Audio system upgrade* – Upgrade audio system in the Cupertino Sports Center to better facilitate Sports Center programs and classes such as Zumba, Pilates, cardio workout, etc. where mixed amplification of music and instructor microphone audio is an important feature.

*Video Capture Camera Expansion* – Expand video capture to public areas within City facilities by adding or replacing cameras in areas such as the lobby, entry, and exit points. Cameras will also be placed around Blackberry Farm, specifically around high-risk areas such as the pool to provide enhanced security to City residents.

*City Hall Enterprise Server & Storage Tech Refresh* – Replace the current server environment that houses the City's Financial ERP and Land Management business applications with a Cloud-based solution known as Infrastructure as a Service (IaaS). IaaS provides a secure, scalable solution that meets the IT strategic needs of the City.

*Supplemental Wi-Fi Expansion in Public Areas* – Continued expansion of the City's Internet services to three additional City parks. Members of the public will be able to access WiFi internet services at these parks and City staff working at these parks will be able to have a secure seamless connection to the City network.

*Proactive Managed Risk and Security Monitoring* – Respond to active threats through proactive monitoring and management tools that scan, manage and resolve security vulnerabilities.

*Computer-Aided Dispatch (CAD) and Records Management System (RMS) WAN Link* – Ensure the City's EOC has all the technical tools and capabilities to allow staff to make informed decisions based on situational awareness. Secure telecommunications link from the County to City Hall through Public Safety Computer-aided dispatch and records management system (CAD/RMS) access from the County.

*Dataverse Architecture* – Develop a common data warehouse that will integrate with Cupertino's enterprise applications to ensure data security, integrity, and normalization. Dataverse allows data to be integrated from multiple sources into a single store, which can then be used to quickly develop applications, dashboards, automated business processes, and more.

*AR McClellan* – Bring the Cupertino native wildlife to life in a fun interactive Augmented Reality (AR) environment for the visitors, classes, and tours at McClellan Ranch Preserve.

*Laserfiche Roadmap* – Year three of the Laserfiche Roadmap. Complete the file plan and restructuring for all Divisions. Ensure all scanning of historic records is underway, as well as build out the internal web-link portal and conduct Division specific training.

*Capital Improvement Plan (CIP) Management System* – Implement a CIP management system that will streamline how CIP projects are managed, bring consistency to CIP workflows and reporting, combine CIP and related financial data in one place, as well as provide an external portal for contractors and developers to upload CIP submittals and invoices in one consistent, reliable, and trackable platform.

*Quinlan Touch Screen* – Replace the existing static display, that staff post 24" poster paper to of the calendar of events, building layout, and room booking info sitting in the Quinlan lobby now. The replacement would be a state-of-the-art interactive display that allows customers to navigate through all that P&R has to offer, e.g., classes, facilities, parks, events, and more.

*Business Process Automation* – Moving forward with the onboarding in SimpliGov, a system that has proven results, we will be able to automate any mundane process quickly and efficiently, drag-and-drop form builder, import existing forms, build new forms, embed conditional logic, use multiple form field types, integrate e-signatures and more. We'll be able to assemble even complex workflows with supercharged efficiency. The standardized platform form components and workflows will ensure consistency in filings, routings, revisions, approvals, archiving, and more.

*Drone Program* – Incorporate drone operations into Emergency Operations Plan and work with City departments to find efficiencies and benefits to using drones for routine workflows – this will have the added bonus of keeping the drone flying and image processing skills sharp for our certified staff.

*Disaster assessment* – Obtain a tool that can capture high-resolution imagery quickly to ascertain the damage, prioritize response and communicate damage visually with EOC and disaster service workers.

- Image capture for before/after analysis. This is useful for PW and P&R projects in demonstrating work progress and end results. Images could be quickly uploaded to the City's website and provided to the Communications Division with video and photo acquisition for City branding and marketing.
- Coupled with Pix4D (another request) capture 3D imagery of a specific building or business area in Cupertino to understand the impact of new development or future growth.
- Test Pilot - Determine the health of trees from a different vantage point.
- Test Pilot - Building Roof inspections

*ERP Phase I: Need Analysis* – External consultant will conduct an ERP Need Analysis and gap analysis in terms of business needs and functionality as a significant issue with the current system is the lack of security logs required for auditing.

*ERP Phase II (RFP Development and Vendor Selection)* – Work with the contractor for RFP development detailing all business and functional requirements and specifications that will come out to need analysis and meetings/surveys with various stakeholders. After RFP response the final vendor selection meetings and other related processes will also be part of this project.

*ACA Guide and Wrapper* – Enhance user interface and provide seamless navigation through a new guide and wrapper of the City's Land Management System's Accela Citizen Access. The portals site has high traffic for users seeking the permit counter and business license services and user-friendly interface and navigation will help the city to provide its core services to our customers in an efficient way.

*Consolidated Code Enforcement Services* – Consolidate code's operations under the Accela Land Management system and Cupertino 311. The project will automate the code enforcement business process under one enterprise Land use management system. Working with one system creates a more efficient, trusted (which data is correct) outcome. Additionally, custom reports become an easier task due to one application – one database. Finally, code complaints and service requests are routed from Cupertino 311 system for the code enforcement officers.

*Climate Action Plan software* – Develop, in collaboration with Sustainability, Climate change and adopt our City to consider the wide range of hazards that a changing climate poses to public policy and public health.

*Resource Mapping Software* – Implement the Startup Space platform to provide ecosystem mapping between resource providers and small and medium-size businesses. Provide access to government, public, and privately sponsored resources for underrepresented and minority-owned small business owners.

*Accela Roadmap* – Develop strategic initiatives for achieving the maximum potential from the use of Accela platform pertaining to both its back-office systems and its public portal for Cupertino residents and external stakeholders.

*ActiveNet Roadmap* – Develop strategic initiatives for achieving the maximum potential from the use of Accela platform pertaining to both its back-office systems and its public portal for Cupertino residents.

*City Website Redesign* – Work with various departments and divisions to redesign the City of Cupertino website (cupertino.org). This project will involve building new wireframes, content audit, usability analysis, tracking current traffic patterns, and evaluating ADA compliance of city webpages.

## **Parks & Recreation Department**

*Enable Additional DOLA Locations* – Standardize the process to create DOLA trial programs, with no more than two trials running at a time. Two new trials should start as soon as feasible, and the new trial should last at least 6 months unless the trial is adjacent to a field or playground. Respond to and evaluate community-driven DOLA proposals to implement additional DOLAs throughout the City.

*Recruit for the 2023-2025 Poet Laureate* – Work with the Library Commission to advertise and successfully recruit the next Poet Laureate for the 2023-2025 calendar years.

*Update the Community Funding Policy* – Review and update the Community Funding Policy to establish and initiate for the FY 2023-2024 grant funding period.

*Support Outreach Efforts for New Park Projects (Memorial Park Design, Lawrence Mitty Park, Jollyman All-Inclusive Playground)* – Partner with Communications and the Capital Improvement Program to perform outreach efforts for the upcoming park-related projects.

## **Public Works Department**

*Local Roadway Safety Plan* – Develop Local Roadway Safety Plan to identify high-risk intersections and roadway corridors, design safety improvements, and enhance eligibility for federal safety improvement grants

*Via Shuttle* – Explore options for a multi-city expansion of the Via on-demand shuttle, in partnership with the cities of San Jose and Santa Clara. In conjunction with this, staff has applied for a CalSTA grant through the Transit and Intercity Rail Capital Program (TIRCP) to potentially fund one-half the capital and operating costs of the expansion.

*Facilities Operations Improvements* - Implement an enhanced preventive maintenance program for City facilities including emergency power, ventilation systems, and energy management systems at various City facilities.

*Development Improvements* - Review and entitlement for various new development projects including Marina, Vallco Parkway 1 for Apple, 1655 S. De Anza Blvd, and other new project initiatives.

*Environmental Programs* – Prepare for negotiation of a new landfill agreement. The current agreement, established in 1989, expires in November 2023.

# Budget Overview

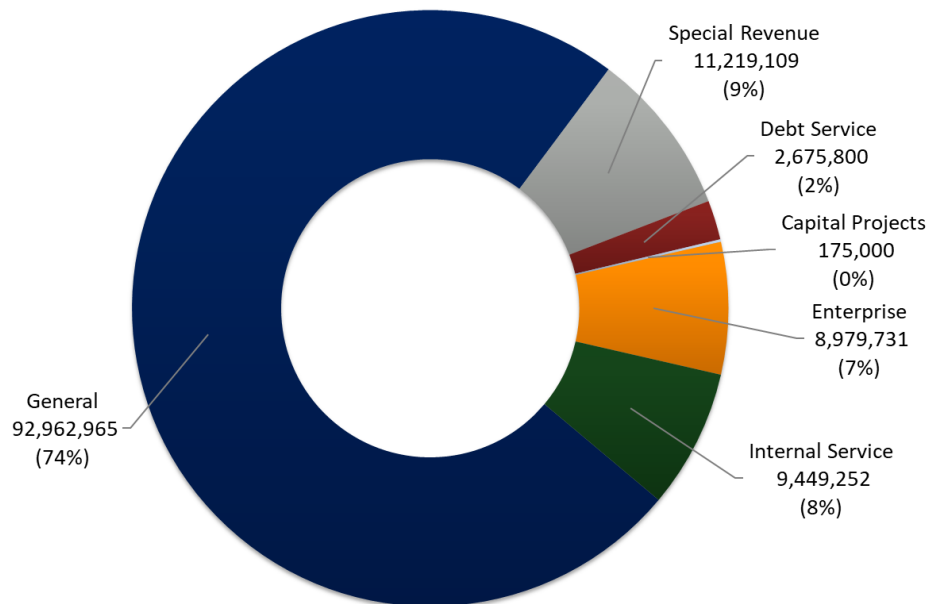
The Proposed Budget across all City funds recommends expenditures of \$125.5 million, a decrease of \$23.4 million, or 15.7%, and total revenues of \$128.8 million, a decrease of \$4.1 million, or 3.1% from last year's Adopted Budget.

General Fund expenditures, which support most City operations, are \$93.0 million, an increase of \$3.2 million, or 3.6%, from the FY 2021-22 Adopted Budget. General Fund revenues are \$93.7 million, an increase of \$4.0 million, or 4.5%, from the FY 2021-22 Adopted Budget. The General Fund is projected to end FY 2022-23 with approximately \$35.9 million in unassigned fund balance. Unassigned fund balance may be transferred to the Capital Reserve, Capital Projects Reserve, or Section 115 Trust per the Fund Balance and Use of One Time Funds Policy.

Fund Type	Proposed Revenues	Proposed Expenditures	Change in Fund Balance/Net Position
General	93,661,388	92,962,965	698,423
Special Revenue	15,941,654	11,219,109	4,722,545
Debt Service	2,675,800	2,675,800	-
Capital Projects	2,500,000	175,000	2,325,000
Enterprise	6,158,792	8,979,731	(2,820,939)
Internal Service	7,826,996	9,449,252	(1,622,256)
<b>TOTAL \$</b>	<b>128,764,630</b>	<b>\$ 125,461,857</b>	<b>\$ 3,302,773</b>

As shown in the chart below, the Proposed Budget's largest fund is the General fund at 74%.

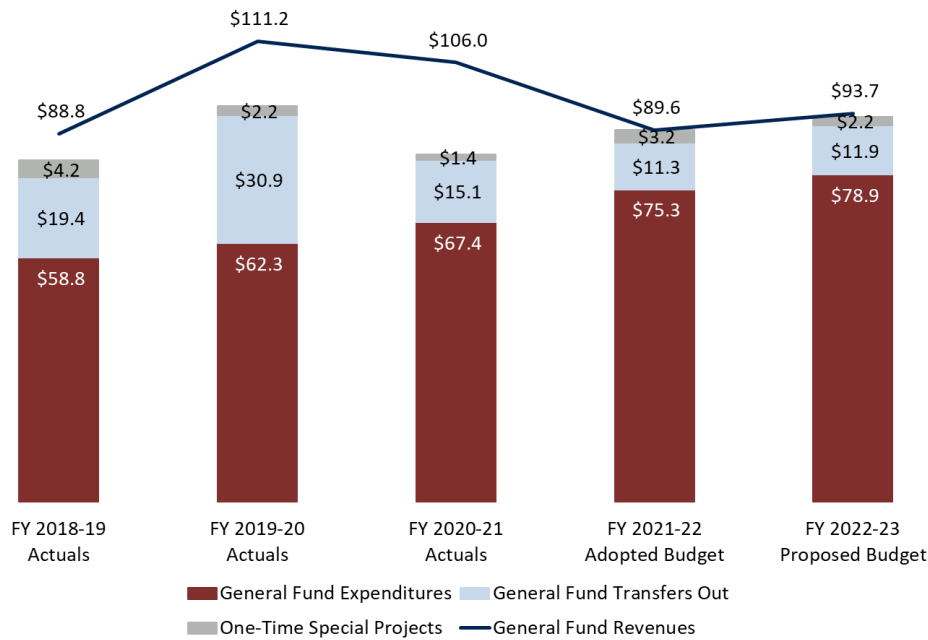
**FY 2022-23 Proposed Budget Expenditures by Fund**



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



**General Fund Revenues, Expenditures, and Transfers Out**  
In Millions



Note: Revenues from Investment Fund (Fund 130) not included in chart

The Proposed Budget includes funding for 223 positions (including Councilmembers), an increase of 12 positions from the FY 2021-22 Amended Budget. While the City has experienced increases in sales tax during the pandemic, there is uncertainty around the City’s future revenues post-pandemic. The City is cautiously optimistic as it adds new full-time employees and City staff will bring forward requests for City Council approval as more information becomes available to make informed decisions. The City is proposing 12 additional positions to meet the demand for City services.

Position	Department	FTE
<b>FY 2021-22 Adopted Budget</b>		<b>208.75</b>
<b>FY 2021-22 Amended Budget</b>		
City Attorney	Administration	1.00
Senior Assistant City Attorney	Administration	1.00
Community Relations Coordinator	Administration	0.25
<b>FY 2021-22 Amended Budget</b>		<b>211.00</b>
<b>FY 2022-23 Proposed Budget</b>		
Administrative Assistant	Administration	1.00
Communications Analyst (Limited-Term)	Administration	1.00
Budget Manager	Administrative Services	1.00
Purchasing Manager	Administrative Services	1.00
Community Outreach Specialist	Parks and Recreation	1.00
Senior Planner	Community Development	2.00
Associate Planner	Community Development	1.00
Code Enforcement Officer	Community Development	1.00
Office Assistant	Community Development	1.00
Management Analyst	Public Works	1.00
Maintenance Worker Lead	Public Works	1.00
<b>FY 2022-23 Proposed Budget</b>		<b>223.00</b>

## **Changes to the Budget and Policies**

### **Revised Fees**

City Council is expected to consider the FY 2022-23 fee schedules on May 3, 2022. The increases to the various fee schedules are estimated to result in increased revenues of approximately \$92,662 in the General Fund and \$158,000 in the Enterprise Funds.

### **Investment Policy**

The City Council annually updates and adopts a City Investment Policy that is in compliance with State statutes on allowable investments. The Audit Committee reviews the policy and acts as an oversight committee on investments. An external auditor performs agreed-upon procedures to review City compliance with the policy. The policy is expected to be available on the City website as part of the May 17, 2022, City Council agenda.

### **GANN Appropriations Limit**

The City's FY 2021-22 appropriations limit is \$114,666,491, a \$5.6 million increase or 5.1% higher than the FY 2020-21 limit of \$109,062,934. 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. For FY 2021-22, the City's estimated appropriations of proceeds from taxes, less statutory exclusions, do not appear to exceed the limit and are not expected to present a constraint on current or future deliberations. The California Department of Finance will publish the price and population data to calculate the City's FY 2022-23 appropriations limit in May 2022. As a result, the FY 2022-23 Appropriations Limit will not be known until May 2022 and will be included in the Adopted Budget.

### **Revised Fund Balance and Use of One-Time Funds Policy**

On March 8, 2022, City Council approved updates to the Committed, Unassigned Fund Balance and Use of One-Time Funds Policy. The Economic Uncertainty Reserve was increased from \$19 million to \$24 million to align with increases in the City's revenues and expenditures. A Capital Projects Reserve of \$10 million was created to fund capital projects. Finally, \$2 million was transferred to the Section 115 Pension Trust to fund pension costs.

### **Budget Document**

In FY 2021-22, the budget document was updated to include staffing tables in each department and program section. The staffing tables include two years of actuals and two years of budgeted staffing by position title. An online appendix was also added to include two years of actual and two years of budgeted expenditures at the account detail level.

## **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.

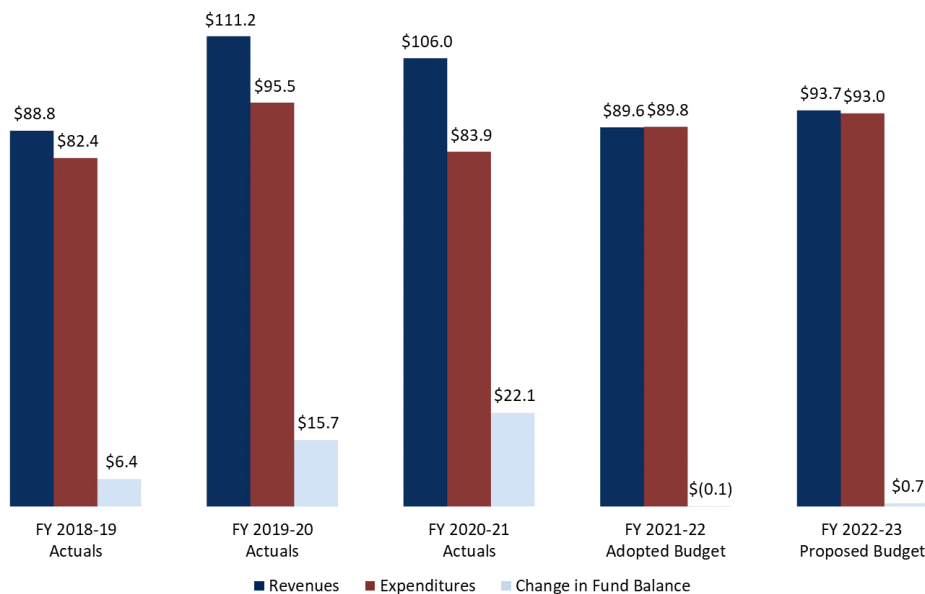
General Fund revenues are projected to be \$93.7 million, an increase of \$4.0 million, or 4.5%, from the FY 2021-22 Adopted Budget. In FY 2020-21, sales tax revenues experienced an unprecedented increase due to increased demand for computer equipment during the transition to remote work and increases in State-wide online

sales. Sales tax is expected to be lower in FY 2022-23 compared to FY 2020-21 as the California Department of Tax and Fee Administration (CDTFA) is currently auditing the City's sales tax revenues. The impact of this audit is unknown but has the potential to have a significant impact on the City's sales tax revenues. Once more information is known, staff will bring updates to Council. Transient occupancy taxes will continue to be heavily impacted as business travel has been slow to recover. Property tax revenues will increase slightly.

General Fund expenditures are \$93.0 million, representing a \$3.2 million, or 3.6% increase from the FY 2021-22 Adopted Budget. The increase is primarily due to the addition of 12 positions and the addition of a \$2.5 million transfer to the Capital Reserve. In the past, transfers to the Capital Reserve were not programmed in the Adopted Budget; instead, funds were transferred to the Capital Reserve as a mid-year budget adjustment. Due to the uncertainty of the pandemic, the City implemented significant budget reduction strategies in FY 2020-21 which increased the General Fund's unassigned fund balance. With the General Fund's fiscal condition remaining strong, the City intends to invest in infrastructure and additional staffing to meet the needs of the community. As the City emerges from the pandemic, staff will continue to monitor the City's fiscal condition 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:

**General Fund Revenues, Expenditures, and Change in Fund Balance**  
In Millions

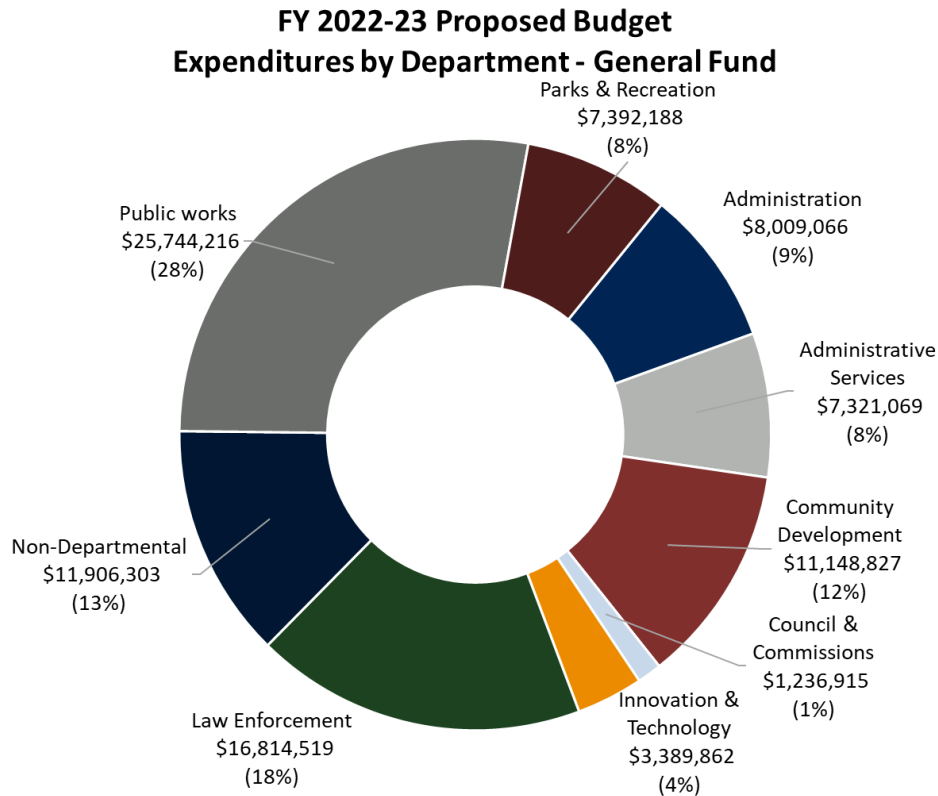


Note: Revenues from Investment Fund (Fund 130) not included in chart

In FY 2022-23, General Fund unassigned fund balance is projected to be \$35.9 million, an increase of \$3.6 million, or 11.2%, from FY 2021-22. Total fund balance is estimated to be \$97.6 million, an increase of \$1.0 million, or 1.1%, from FY 2021-22. This is primarily attributable to a small surplus in FY 2022-23.

GENERAL FUND FUND BALANCE					
Classification	2019-20 Actual	2020-21 Actual	2021-22 Adopted Budget	2022-23 Proposed Budget	Percent Change
Unassigned	37,426,951	52,449,546	32,243,487	35,852,049	11.2%
All Other Classifications	37,078,871	44,401,243	64,348,805	61,771,440	-4.0%
<b>TOTAL FUND BALANCE</b>	<b>74,505,822</b>	<b>96,850,790</b>	<b>96,592,292</b>	<b>97,623,489</b>	<b>1.1%</b>

As shown in the graph below, the majority of General Fund resources are used to support Public Works (28%), Law Enforcement (18%), Non-Departmental (13%), Community Development (12%), Administration (9%), and Parks and Recreation (8%). Non-Departmental expenditures are transfers to other funds.



### 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 City’s budgeted expenditures. 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 is \$11.2 million, a \$7.4 million, or 39.7%, decrease from the FY 2021-22 Adopted Budget. The decrease is because the Capital Improvement Program is not included in the Proposed Budget. The Capital Improvement Program will be presented to City Council at a separate study session and included in the Adopted Budget. The Special Revenue Funds are funded by \$12.9 million in restricted department revenue and \$3.0 million in transfers. The Special Revenue Funds are projected to begin the year with fund balance of \$28.4 million and end the year with fund balance of \$33.1 million, increasing by \$4.7 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. The debt is expected to be fully paid by FY 2029-30.

The Proposed Budget for Debt Service Funds is \$2.7 million, relatively unchanged from the FY 2021-22 Adopted Budget. The Debt Service Funds are funded by \$2.7 million in transfers.

## **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 Capital Projects Funds is \$175,000, a decrease of \$19.4 million, or 99.1%, from the FY 2021-22 Adopted Budget because the Capital Improvement Program budget is not included in the Proposed Budget. The Capital Improvement Program will be presented to City Council in a separate study session and added to the Adopted Budget.

## **Enterprise Funds**

Enterprise Funds are used for 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 is \$9.0 million, a decrease of \$0.4 million, or 4.6%, from the FY 2021-22 Adopted Budget. The Enterprise Funds are funded by \$5.8 million in program revenue and \$0.4 million in transfers from the General Fund, and \$2.8 million in reserves. The Enterprise Funds are projected to begin the year with \$7.5 million in reserves and end the year with \$4.7 million in reserves, decreasing by \$2.8 million. Impacts to Enterprise Fund revenues as a result of COVID-19 were significant, particularly while shelter-in-place orders remained in effect. While the City anticipates recovery to pre-pandemic levels, the timing and extent of the recovery are 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 Internal Service Funds is \$9.4 million, an increase of \$0.6 million, or 6.8%, from the FY 2021-22 Adopted Budget. The Internal Service Funds are funded by \$4.5 million in program revenue, \$3.3 million in transfers from the General Fund, and \$1.6 million in reserves. The Internal Service Funds are projected to begin the year with \$3.7 million in reserves and end the year with \$2.0 million in reserves, decreasing by \$1.6 million.

## Special Projects

The FY 2022-23 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 following table. The City Work Program is being presented to City Council in a separate study session and is not included in the Proposed Budget. City Work Program project budgets will be included in the Adopted Budget.

Program	Project	Funding Source	Expenditure
<b>ADMINISTRATION</b>			
122 Sustainability Division	Climate Action Plan Vision Summary Doc	General Fund	10,000
305 Video	Field Lighting Package	General Fund	10,000
705 Economic Development	Economic Development Fuse Fellow	General Fund	180,000
705 Economic Development	Economic Development Strategy Outreach	General Fund	20,000
<b>TOTAL ADMINISTRATION</b>			<b>220,000</b>
<b>INNOVATION &amp; TECHNOLOGY</b>			
300 Administration	Aclima and Envirosuite Pilot Extension	General Fund	66,000
305 Video	Cupertino Room Lectern Upgrade	General Fund	7,500
305 Video	Cupertino Room Enhanced Video System	General Fund	35,000
305 Video	Social Room Audio System Upgrade	General Fund	16,500
305 Video	Sports Center Audio System Upgrade	General Fund	9,000
308 Applications	Accela Citizen Access Guide & Wrapper	General Fund	25,000
308 Applications	Accela Roadmap	General Fund	25,000
308 Applications	ActiveNet Roadmap	General Fund	25,000
308 Applications	Climate Action Plan Implementation Software	General Fund	20,000
308 Applications	Code Enforcement Consolidated Application	General Fund	40,000
308 Applications	Crisis Management Software	General Fund	15,000
308 Applications	ERP (Phase II)	General Fund	106,928
308 Applications	Semi Annual ADA Consultant	General Fund	35,000
308 Applications	Zendesk for Parks and Rec	General Fund	40,000
310 Infrastructure	CAD & RMS WAN Link	Innovation & Technology	7,200
310 Infrastructure	City Hall Enterprise Server & Storage Tech Refresh	Innovation & Technology	150,000
310 Infrastructure	City Facilities Camera Capture Expansion	Innovation & Technology	60,000
310 Infrastructure	Digital Signage	Innovation & Technology	25,000
310 Infrastructure	Office 365 E5 Licenses	Innovation & Technology	7,000
310 Infrastructure	Proactive Managed Risk & Security Monitoring	Innovation & Technology	23,000
310 Infrastructure	Public Bicycle Smart Rack Docks Technology Enhancement	Innovation & Technology	2,000
310 Infrastructure	Sign Shop Printer Warranty	Innovation & Technology	3,000
310 Infrastructure	Supplemental Wi-Fi Expansion in Public Areas	Innovation & Technology	20,500
986 GIS	Additional Telematics Devices	Innovation & Technology	5,300
986 GIS	Amazon EC2 Instance t3aXLarge	Innovation & Technology	5,000
986 GIS	Business Process Automation Platform	Innovation & Technology	42,000
986 GIS	Drone Instructor Training	Innovation & Technology	1,600
986 GIS	Geotab Keyless Solution	Innovation & Technology	6,000
986 GIS	Google Query	Innovation & Technology	5,000
986 GIS	Laserfiche Scanning	Innovation & Technology	30,000
<b>TOTAL INNOVATION &amp; TECHNOLOGY</b>			<b>858,528</b>
<b>ADMINISTRATIVE SERVICES</b>			
405 Accounting	Fee Study	General Fund	75,000
412 Human Resources	Hybrid Recruitment Strategy	General Fund	40,000
412 Human Resources	Online Marketing and Branding	General Fund	50,000
425 Purchasing	Federal Grants Program	General Fund	100,000
<b>TOTAL ADMINISTRATIVE SERVICES</b>			<b>265,000</b>
<b>PUBLIC WORKS</b>			
801 Resources Recovery	SB1383 Procurement Requirements	Resource Recovery	77,553
801 Resources Recovery	Single Use Plastics Ordinance	Resource Recovery	40,000
802 Non Point Source	Storm Water (SWPPP) Update	Env Mgmt Cln Crk Strm Drain	19,100
804 Plan Review	BBF Golf Netting Support Inspect	General Fund	6,000
807 Service Center Administration	Office Reconfiguration	General Fund	77,850
808 McClellan Ranch Park	Pedestrian Bridge Decking Replacement	General Fund	70,000
809 Memorial Park	Veterans Memorial Maintenance	General Fund	15,000
811 BBF Ground Maintenance	Pedestrian Bridge Decking Replacement	General Fund	30,000
813 Neighborhood Parks	Franco Park Solar Powered Light Bollard Replacement	General Fund	18,000
813 Neighborhood Parks	Portal Park Concrete Replacement/Repair	General Fund	35,000
813 Neighborhood Parks	Wilson Park Irrigation Pump Replacement	General Fund	60,000

820 Sidewalk Curb and Gutter	Annual Sidewalk Curb & Gutter	Transportation Fund	1,453,200
821 Street Pavement Maintenance	Annual Asphalt Project	Transportation Fund	2,179,800
822 Street Sign Marking	Holiday Banner Replacement	Transportation Fund	10,300
824 Overpasses and Medians	Mound Removals	General Fund	141,900
824 Overpasses and Medians	Split Rail Fence-SCB & Mary Ave	General Fund	16,400
824 Overpasses and Medians	Trench Work	General Fund	40,000
825 Street Tree Maintenance	Trees and Badges	General Fund	15,000
828 Bldg Maint Library	Ventilation Preventative Maintenance & Repair	General Fund	45,000
829 Bldg Maint Service Center	Air Conditioning Replacement	General Fund	16,500
829 Bldg Maint Service Center	Conference Room Carpet Replacement	General Fund	12,000
829 Bldg Maint Service Center	Locker Room Floor Replacement	General Fund	12,000
829 Bldg Maint Service Center	Mechanic Bay Lighting Upgrade	General Fund	15,000
829 Bldg Maint Service Center	Roof Gutter Replacement	General Fund	12,000
829 Bldg Maint Service Center	Shops Roof Replacement Phase 2	General Fund	42,000
830 Bldg Maint Quinlan Center	Conference Room Carpet Replacement	General Fund	14,000
830 Bldg Maint Quinlan Center	Stage Floor Refinishing	General Fund	20,000
831 Bldg Maint Senior Center	Air Conditioning Replacement	General Fund	14,500
831 Bldg Maint Senior Center	Exterior Deck Dry Rot Repair	General Fund	9,000
831 Bldg Maint Senior Center	Partial Roof Replacement	General Fund	75,000
831 Bldg Maint Senior Center	Energy Management System Upgrades	General Fund	90,000
832 Bldg Maint McClellan Ranch	4H Roof and Gutter Replacement	General Fund	25,000
832 Bldg Maint McClellan Ranch	Milk Barn Exterior Painting	General Fund	30,000
836 Bldg Maint Sports Center	Locker Room Floor Replacement	General Fund	15,000
836 Bldg Maint Sports Center	Racquetball Court Floor Refinishing	General Fund	16,000
836 Bldg Maint Sports Center	Ventilation Preventive Maintenance and Repair	General Fund	35,000
841 BBF Facilities Maintenance	Blesch, Byrne and Stockmeir Maintenance Allowance	General Fund	25,000
844 Traffic Engineering	Lawson Middle School Bikeway	General Fund	40,000
844 Traffic Engineering	Planned Transportation Project	General Fund	80,000
848 Street Lighting	Service Center Exterior Building Light Fixture LED Upgrade	General Fund	8,300
848 Street Lighting	Street Light Pole Replacement	General Fund	213,000
853 Storm Drain Fee	Permeable Pavement	Env Mgmt Cln Crk Strm Drain	12,500
853 Storm Drain Fee	Rainwater Capture	Env Mgmt Cln Crk Strm Drain	12,500
854 General Fund Subsidy	CUSD Joint Use Cost Share	Env Mgmt Cln Crk Strm Drain	21,868
854 General Fund Subsidy	Low Income Cost Share	Env Mgmt Cln Crk Strm Drain	8,000
985 Fixed Assets Acquisition	Vehicle and Equipment Replacement	Vehicle/Equip Replacement	669,046
<b>TOTAL PUBLIC WORKS</b>			<b>5,893,317</b>
<b>TOTAL</b>			<b>7,236,845</b>

## Current Economic Update

### National and State Economic Conditions

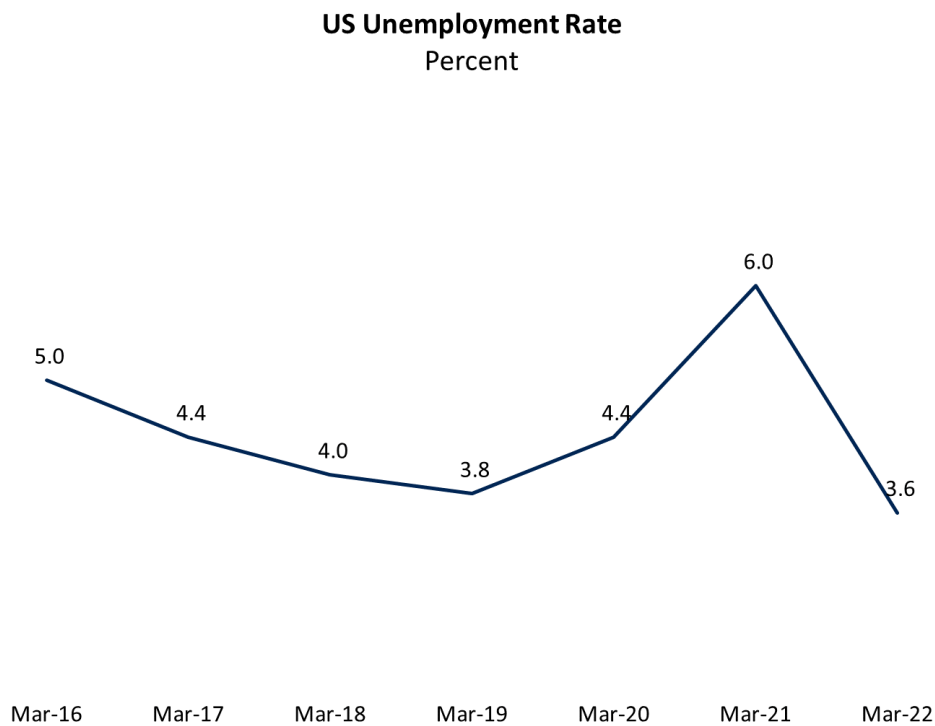
Real gross domestic product (GDP) increased at an annual rate of 6.9 percent in the fourth quarter of 2021, following an increase of 2.3 percent in the third quarter. The increase was revised down 0.1 percentage point from the "second" estimate released in February. The acceleration in the fourth quarter was led by an acceleration in inventory investment, upturns in exports and residential fixed investment, and an acceleration in consumer spending. In the fourth quarter, COVID-19 cases resulted in continued restrictions and disruptions in the operations of establishments in some parts of the country. Government assistance payments in the form of forgivable loans to businesses, grants to state and local governments, and social benefits to households all decreased as provisions of several federal programs expired or tapered off.

In 2022, geopolitical conflict has fueled volatility in financial markets. The conflict has exacerbated inflationary pressures, particularly in energy and commodities, and has caused tightening conditions in financial markets. While consumer spending and economic growth remain strong, an extended conflict along with elevated energy prices increases the risk of an economic slowdown later this year. While the Federal Reserve is expected to tighten monetary policy, the Federal Open Market Committee (FOMC) has very little margin for error as it attempts to combat inflation without pushing the economy into a recession. Over the near-term, the City's

investment manager, Chandler Asset Management, expects financial market volatility to remain elevated and conditions to remain tighter with heightened geopolitical risk, supply chain bottlenecks and persistent inflation, and the Federal Reserve’s pivot to less accommodative monetary policy.

The FOMC raised the federal funds rate by 0.25% at their March 16th meeting to a target range of 0.25% to 0.50%. The Federal Reserve also ended its bond-buying program as expected in March, which included the purchase of Treasury and agency mortgage-backed securities. Federal Reserve Chair Powell suggested that balance sheet runoff could begin as early as their next meeting in May, sooner than previously anticipated, and that the pace of the unwind will likely be faster than in the previous quantitative tightening cycle. The dot plot favors six additional rate hikes in 2022, which implies a 25 basis point rate hike at each remaining meeting this year, but the Fed hasn’t ruled out incorporating one or more 50 basis point hikes to address inflation.

The FOMC’s Summary of Economic Projections forecasts higher Personal Consumption Expenditure (PCE) inflation this year at 4.3% and a lower growth rate of 2.8% real GDP. Chandler Asset Management is anticipating additional rates hikes by the Federal Reserve this year, but they do not believe that monetary policy is on a pre-set course and expect the Federal Reserve's policy adjustments will depend on developments in the economy.



The U.S. unemployment rate was 3.6% in March 2022, down from 6.0% in March 2021. For the first time since the start of the pandemic, the nation’s unemployment rate has returned to its February 2020 level of 3.5%. The participation rate increased to 62.3% from 62.4%, remaining below February 2020 levels of 63.4%. A broader measure of unemployment, U-6, which includes those who are marginally attached to the labor force and employed part-time for economic reasons, decreased to 6.9% from 7.2%.

Consumer confidence, as reflected by the Conference Board Consumer Confidence Index, decreased over the previous year and was 107.2 as of March 2022, up from 105.7 in February. Consumer confidence was up slightly in March after declines in February and January. Consumer confidence continues to be supported by strong employment growth and thus has been holding up remarkably well despite geopolitical uncertainties



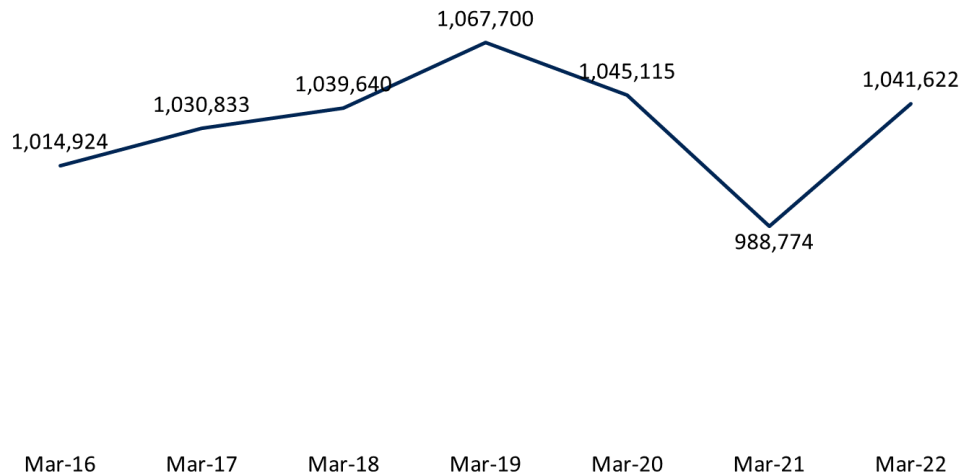
and expectations for inflation over the next 12 months reaching 7.9 percent—an all-time high. However, these headwinds are expected to persist in the short term and may potentially dampen confidence as well as cool spending further in the months ahead.

California’s unemployment rate decreased to 4.9% in March 2022, a 3.5 percentage point decrease from 8.4% in March 2021. Employment increased to 17,396,400 in March 2022, an increase of 1,041,900, or 6.4%, from March 2021. 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. In February, growth in the housing market continued over the prior year with prices of single-family homes up 10.3% and sales down 8.2% from a year ago 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 22.3% and sales down 20.3% from a year ago.

**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 2022 employment level in the MSA was 1,041,600 representing an approximately 53,000 increase from the March 2021 level of 989,000. The March 2022 preliminary unemployment rate of 3.0% has decreased from 5.1% a year ago and is the lowest since February 2020, the start of the pandemic. The local unemployment rate is lower than the national unemployment rate.

**Monthly Employment - San Jose/Santa Clara MSA**  
 Number of Employed Persons (not seasonally adjusted)



Housing prices remain strong compared to the same period in 2021. According to CoreLogic, in February 2022, the median sale price for single-family residences and condos was \$2,280,000, a 1.3% increase from February 2021. The increase in the median home prices correlates with property tax revenue increasing from last year. The City experienced a net taxable value increase of 3.5% for the 2021-22 tax roll. The bulk of the increase was due to increases in residential properties. The effects of COVID-19 on housing prices in Cupertino and the Bay Area have yet to be seen. Although values continue to increase, staff will monitor the potential impact of long-term and even permanent remote work in the City and region.

## Key Budget Assumptions

### Revenue Assumptions

The FY 2022-23 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 experienced unanticipated increases in FY 2020-21, staff consider it a one-time increase and expect sales tax to remain below the highs in FY 2020-21. Property taxes remain stable and although positive growth is anticipated in FY 2022-23, the impacts of remote work on property values remain to be seen. Transient occupancy taxes are expected to be higher than FY 2021-22; however, they are expected to be significantly less than historical highs in FY 2018-19. Although transient occupancy taxes are expected to recover by FY 2023-24, the impacts of remote work on business travel long-term have yet to be seen.

### Personnel Assumptions

The City is currently negotiating with its bargaining groups because labor agreements expire on June 30, 2022. Due to the uncertainty, personnel budgets only account for step increases and changes in CalPERS retirement rates. The budget does not include any cost-of-living adjustments (COLA) or equity adjustments.

Employees who have yet to reach the top step in their classification’s salary range are eligible to receive a step increase on their anniversary date. Typically, classifications have five steps, with each increase equivalent to a 5% increase in salary. Currently, approximately 41% of employees are below Step 5.

### Non-Personnel Assumptions

Non-Personnel budgets were developed based on actual expenditures in prior years and adjusted for FY 2022-23 funding needs. In addition, one-time projects were excluded to ensure that expenditure trends reflect ongoing expenditure needs. Contingency budgets remained reduced. Program contingencies were cut in half to 2.5% in FY 2020-21 and the City Manager’s Contingency was reduced to \$75,000 in FY 2021-22. In prior years, program contingencies were 5% of Materials and Contract Services and the City Manager’s Contingency was 5% of General Fund Materials and Contract Services, excluding the law enforcement contract.

## Ongoing Challenges

### Retirement Benefits

Rising retirement costs are driving the increase in employee benefits. Cupertino provides retirement benefits for its employees through the California Public Employee’s Retirement System (CalPERS). Poor investment returns during the Great Recession significantly decreased the plan’s assets. In addition, enhanced benefits and actuarial assumption changes due to increased life expectancies increased the plan’s liabilities. As a result, the City’s pension costs have increased significantly and are one of the City’s largest financial obligations.

The City’s CalPERS costs are projected to increase over the next few years, as shown in the table below.

	Projected CalPERS Contributions					
	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
<b>Projected Payroll</b>	\$ 21,566,041	\$ 22,159,108	\$ 22,768,483	\$ 23,394,616	\$ 24,037,969	\$ 24,699,012
<b>Normal Cost (%)</b>	9.7%	9.5%	9.3%	9.1%	8.9%	8.8%
<b>Normal Cost</b>	\$ 2,100,532	\$ 2,105,115	\$ 2,117,469	\$ 2,128,910	\$ 2,139,379	\$ 2,173,513
<b>UAL Payment</b>	\$ 4,775,294	\$ 5,126,000	\$ 5,477,000	\$ 5,326,000	\$ 5,545,000	\$ 5,027,000
<b>Total Contribution</b>	\$ 6,875,826	\$ 7,231,115	\$ 7,594,469	\$ 7,454,910	\$ 7,684,379	\$ 7,200,513
<b>Total Contribution (%)</b>	31.9%	32.6%	33.4%	31.9%	32.0%	29.2%

In December 2016, the CalPERS Board of Administration lowered the discount rate from 7.5% to 7.0% with a three-year phase-in beginning in FY 2018-19. This change will result in significant increases in retirement costs but was implemented to improve the financial stability of the pension system. In FY 2021-22, the CalPERS Board lowered the discount rate from 7.0% to 6.8% because the FY 2020-21 investment gain of 21.3% triggered the Funding Risk Mitigation Policy.

2022 has been a volatile year for stocks. Financial conditions are expected to remain tighter with heightened geopolitical risk, supply chain bottlenecks and persistent inflation, and the Federal Reserve's pivot to less accommodative monetary policy. If CalPERS' investments earn less than the 6.8% discount rate, the City can expect an increase in pension costs. The impacts from CalPERS investment earnings would affect the City's costs starting FY 2024-25 and would gradually increase over five years.

In May 2018, the City implemented a Pension Rate Stabilization Program (PRSP), a Section 115 Trust, to reduce pension rate volatility on the City's budget. The Section 115 Trust's balance of \$19.5 million, as of March 31, 2022, can be used to fund pension costs if CalPERS costs increase.

### **Revenue Volatility**

The City's sales tax revenue is highly dependent on a volatile revenue source: business-to-business (B2B) sales taxes. Business-to-business sales tax revenues are sensitive to economic fluctuations as Cupertino experienced during the dot-com crash from 2000 to 2004. The City's heavy reliance on the volatile high-tech industry makes the City vulnerable. The loss of one of the City's top three sales tax producers in FY 2013-14 made the City more reliant on a single tax producer, making the City 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. Statewide shelter-in-place mandates reduced sales tax revenue from restaurants and brick and mortar retail but increased sales tax revenue from online sales. Additionally, the conversion to remote work throughout the State 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 FY 2020-21, but the City considers it one-time. As the State rebounds from the pandemic 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 allocation as online sales fall from recent historic highs. Transient occupancy remains devastated due to a reduction in business travel during the pandemic. Although recovery is anticipated by FY 2023-24, the extent of the post-pandemic recovery is unknown.

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