

# Financial Policies

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# Annual Budget Process

The City Council annually adopts a budget by resolution for the upcoming fiscal year. The adopted budget – a policy document, financial plan, operations guide, and communications tool – authorizes expenditures for the activities and funds specified in the budget. It is the basis of the City’s financial planning and control.

The City’s annual budget follows a July 1 to June 30 fiscal year. However, the budget process continues throughout the year, including phases of:

- Development
- Proposal
- Adoption
- Monitoring
- Amendment
- Carryover

Budget development begins in December with the base budget, where ongoing operational costs are reviewed and adjusted. The base budget does not include any one-time initiatives. Departments must justify all new costs each year.

In March, departments develop budget proposals for new ongoing or one-time initiatives. Department budget proposals are reviewed by Finance staff using data on current and prior year trends. Budget decisions are guided by a long-term financial forecast. The financial forecast helps identify revenue and expenditure trends that may have an immediate or long-term effect on the City’s fiscal health.

The City Manager reviews the proposals with the Director of Administrative Services and department staff and approves proposals to be included in the Proposed Budget. The Proposed Budget is published by May 1.

In May, staff presents the Proposed Budget to City Council at a proposed budget study session. Boards, Commissions, community organizations, and the public can comment on the budget. During the study session, City Council provides comments, questions, and recommendations to staff regarding the Proposed Budget.

In June, City Council considers the Proposed Budget at a public hearing. Staff presents an updated Proposed Budget and responds to City Council’s questions and recommendations from the study session. Then, City Council deliberates and votes to adopt the budget. By adopting the budget, City Council authorizes expenditures for the activities and funds specified in the budget. The adopted budget takes effect on July 1.

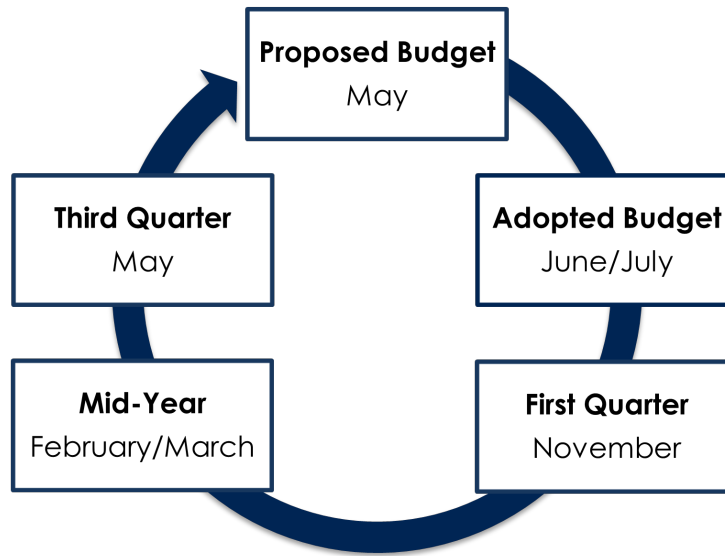
The following chart illustrates the City’s budget reporting cycle. In addition to the annual proposed and adopted budget, staff reports to City Council quarterly. Quarterly reports update City Council on any changes from July 1 through the end of the quarter. Quarterly reports help:

- Forecast year-end results;
- Demonstrate the City is on track to end the year within budget;
- Update City Council on any changes to the budget; and
- Amend the budget to account for any unforeseen changes.

If amendments to the budget are required outside of this cycle, staff can seek approval through the budget amendment process (see next section).

The following chart illustrates the City’s budget reporting cycle.

## Budget Reporting Cycle



### Budget Amendment Process

After the budget is adopted, the City enters the budget monitoring phase. Throughout the year, departments monitor their budgets to ensure spending does not exceed the budget.

Adjustments to expenditures within or between departmental budgets are accomplished on an as-needed basis administratively throughout the year. The City Manager and Department Heads can transfer funds between their accounts and/or programs as needed.

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

# Structure of City Finances

## Cost Accounting

The City of Cupertino has five internal service funds: Innovation & Technology, Vehicle & Equipment Replacement, Workers' Compensation, Compensated Absences & Long-Term Disability, and Retiree Medical, whose costs are allocated to City departments. Fund costs are allocated to user departments or operating funds based on salaries, equipment and software purchase price, actuarial studies, and actual and projected service level. Please view the Cost Allocation Plan and Changes to the Internal Service Fund section of this document for details.

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

## Overhead Cost Allocation

All overhead costs are allocated to the appropriate program within the limits of local, State, and federal laws. Beginning in FY 2013-14, overhead/indirect costs associated with service providers in the General Fund were allocated based on a Cost Allocation Plan (CAP).

The City utilizes a two-step method (double step down method). In the first step, the costs of service programs are allocated to other service programs and receiving programs. In the second step, the total costs of the service programs are allocated to the receiving programs. Costs are allocated to programs based on their use of services. Revenues are allocated directly to the program providing the service.

## Basis of Budgeting

Basis of Budgeting refers to the method used to recognize revenues and expenditures in the budget. For the City of Cupertino, the basis of budgeting is the same basis used for accounting.

The Governmental Funds, including the General, Capital, Debt Service, and Special Revenue funds, use a modified accrual basis. The modified accrual basis uses a current financial resources measurement focus. As a result, only current assets and current liabilities and deferred outflows of resources, and deferred inflows of resources generally are included. Under the modified accrual basis, revenues are recognized when they become "susceptible to accrual", which means they are both measurable and available. Measurable means the transaction can be determined. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For example, revenues from property taxes are determined to be available if collectible within 60 days.

The Proprietary Funds, including Enterprise and Internal Service Funds, use a full accrual basis. The full accrual basis uses an economic resources measurement focus. Under the accrual basis of accounting, revenues are recognized when they are earned and expenses are recognized when incurred, regardless of the timing of related cash flows. For example, property taxes are recognized as revenue in the year for which they are levied. Grants are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The budget is split into ten departments: Council and Commissions, Administration, Law Enforcement, Innovation and Technology, Administrative Services, Parks and Recreation, Community Development, Public Works, Non-Departmental (includes budgets that are not attributable to any specific division), and Capital Improvement Program (presented separately but will be included in the Adopted Budget). These departments are further split into divisions and then programs. The programs within the divisions are balanced at the department level within a given fund.

### **Annual Comprehensive Financial Report (ACFR)**

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

### **Citizen Participation**

The budget study session and budget hearings are public meetings where citizens are given the opportunity to comment on the budget. The public can also provide feedback to two Council sub-committees, the Fiscal Strategic Planning and Audit Committees. Additionally, the City utilizes OpenGov, an interactive financial transparency portal, to provide the public with the opportunity to view the City's financial and budgetary information in real-time.

On April 21, 2022, the City hosted its third annual community budget workshop, "Budget & Bites." The Budget Team hosted the event in collaboration with the City's Youth Activity Board. The event taught residents how to use OpenGov, the City's interactive financial transparency portal, to explore the City's financial data.

# Fund Structure

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

The City’s finances are structured in a variety of funds that are the basic accounting and reporting entities in governmental accounting. The funds that comprise the FY 2020-21 budget are grouped into two major categories: Governmental Funds and Proprietary Funds. The purpose of each of the various funds within these two categories is described below:

## Governmental Funds

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

### *Tax Supported Funds*

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

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

Special Revenue Funds are a fund type used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. Special Revenue Funds include the Park Dedication,

Transportation, Storm Drain, Environmental Management/Clean Creeks funds, and Housing and Community Development.

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

*Federal Grant Funds*

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

<b>Federal Grant Funds</b>	<b>Purpose</b>
Community Development Block Grant	This fund pay for activities related to the Community Development Block Grant (CDBG).

**Proprietary Funds**

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

*Enterprise Funds*

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



**Enterprise Funds****Purpose**

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

*Internal Service Funds*

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

**Internal Service Funds****Purpose**

Innovation & Technology	This fund pays for all technology-related expenses for the citywide management of information services. This fund pays for the replacement of existing hardware and software and the funding of new hardware and software needs city-wide. Equipment is depreciated based on the acquisition or historical costs for the useful life of the asset using the straight-line method.
Workers' Compensation	This fund pays for claims and insurance premiums related to workers' compensation.
Vehicle/Equipment Replacement	This fund pays for the purchase and maintenance of fleet and general equipment having a value greater than \$5,000 and an expected life of more than one year. Assets are depreciated based on the acquisition or historical costs for the useful life of the asset and using the straight-line method.
Compensated Absences & Long-Term Disability	This fund pays for liabilities associated with employees retiring or leaving service and claims and premiums associated with long-term disability.
Retiree Medical	This fund pays for Other Post-Employment Benefits (OPEB) costs.

# Revenue Policies

## PURPOSE

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

## SCOPE

All revenue sources across all funds.

## POLICY

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

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

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

Recover costs of special services through user fees;

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

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

Monitor Enterprise activities remain self-supporting in the long term.

# Expenditure Policies

## PURPOSE

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

## SCOPE

All expenditure categories across all funds.

## POLICY

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

Accurately charge expenditures to the appropriate chart of accounts;

Maintain operating activities at levels which are offset by revenues;

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

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

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

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

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

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

# Capital Improvement Policy

## PURPOSE

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

## SCOPE

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

## POLICY

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

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

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

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

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

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

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

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

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

# Information Technology Replacement and Capitalization Policy

## PURPOSE

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

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

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

## SCOPE

This policy covers the City of Cupertino:

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

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

## POLICY

All technology shall be replaced according to the following:

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

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

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

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

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

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

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

# Pension and Retirement Funding Policy

## **PURPOSE**

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

## **SCOPE**

Retirement and Retiree Health costs citywide, across all funds.

## **POLICY**

Fund all current pension liabilities on an annual basis; and

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

# Long Term Financial Stability Policies

## PURPOSE

To establish a policy for Long Term Financial Stability

## SCOPE

All programs across all funds

## POLICY

Ensure ongoing productivity through employee training and retention programs;

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

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

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

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

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



# Committed, Unassigned Fund Balance, and Use of One Time Funds Policy

## PURPOSE

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

## SCOPE

The General Fund and Capital Funds.

## POLICY

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

**Economic Uncertainty** – \$24,000,000 and represents two months of General Fund (GF) expenditures excluding transfers out plus a two year drop in total general fund revenue of 13% or approximately 1.5 months, excluding the use of reserves. Transfers out are primarily used to fund Capital Projects and do not represent on-going expenditures. This assignment will change from year to year based on budgeted general fund expenditures and revenues.

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

**PERS** – \$20,491,004 and represents the initial investment into the City’s Pension Rate Stabilization Program (PRSP). As a result of the significant increase in retirement costs based on the most recent actuarial forecast, the City elects to establish and fund a secondary pension trust to assist in stabilizing the potential impact of pension cost volatility on the City’s operating budget. Annual contributions subsequent to the initial funding are determined by calculating the difference between CalPERS’ current discount rate and a more conservative rate determined by the City. This difference is to be transferred to the pension trust and to be used solely for the benefit of members in the plan.

Funds in this trust are technically “restricted” under Governmental Accounting Standards Board (GASB) Statement No. 54 in that the funds are legally restricted to be used for retirement costs; however, the timing for which these funds may be used is only at the discretion of City Council.

**Capital Projects** – \$10,000,000 and represents the amount of General Fund resources readily available to fund future capital projects in the City’s Capital Improvement Program (CIP). The City’s Capital Projects Funds has a \$5,000,000 reserve threshold; however, establishing a secondary reserve in the City’s General Fund will enable more efficient and accurate short- and long-term capital budgeting and planning.

**Sustainability Reserve** – Cupertino’s Sustainability Division oversees the City’s Climate Action Plan (CAP), which defines strategies to reduce greenhouse gas emissions, and provides residents, businesses and schools with programs and services focused on energy efficiency, renewable energy, water conservation, alternative transportation and other sustainable actions. The City receives rebates for projects that successfully meet the

eligibility requirements such as energy or water efficiency. If the rebates were not initially budgeted, they are categorized as committed fund balance in the General Fund. The purpose of this reserve is to help support future sustainability projects/programs.

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

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

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

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

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

The chart below summarizes reserve policy levels as described above:

Funding Priority	Reserve	Reserve Level	Escalator <sup>1</sup>	Description
<b>GENERAL FUND</b>				
1	Economic Uncertainty	\$24,000,000	GF Budgeted Operating Expenditures <sup>2</sup> GF Budget Revenue <sup>3</sup>	For economic downturns and major revenue changes.
2	PERS	\$20,491,004	Budgeted Citywide Retirement Costs	For pension cost increases.
3	Capital Projects	\$10,000,000	None	For future capital projects funding.
4	Sustainability Reserve	\$127,891	GF Budget Revenue <sup>3</sup>	For future sustainability projects/programs.
5	Unassigned	\$500,000	Budgeted GF Operating Expenditures <sup>2</sup>	For mid-year budget adjustments and redeployment into the five year budget.
<b>CAPITAL PROJECTS FUNDS</b>				
6	Capital Improvement	\$5,000,000	None	Reserves set aside for future capital projects.

<sup>1</sup> Rounded to the nearest hundred thousand

<sup>2</sup> Excludes Transfers Out

<sup>3</sup> Excludes the use of reserves

**Changes to Committed Fund Balance** – All reserves listed in this policy, with the exception of the PERS restricted reserve, are classified as Committed Fund Balance under GASB Statement No. 54. Committed fund balance is comprised of amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Changes to committed fund balances must be approved by City Council. This policy will be reviewed annually as part of the budget process.

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

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

- 1) Economic Uncertainty
- 2) PERS
- 3) Capital Projects
- 4) Sustainability Reserve
- 5) Unassigned

## Investment Policy

The City Council annually updates and adopts a City Investment Policy that is in compliance with State statutes on allowable investments. By policy, the Audit Committee reviews the policy and acts as an oversight committee on investments. The policy directs that an external auditor perform agreed-upon procedures to review City compliance with the policy. The full policy is expected to be presented to the City Council on May 17, 2022.

# Community Funding Policy

## PURPOSE

The City of Cupertino currently provides funding to local non-profit organizations in the areas of social services, fine arts and other programs for the general public. The policy provides a framework for the City's Community Funding Grant Program and guides the administration of the program and decision-making process. It also provides guidance on key aspects of the City's Community Funding Grant Program processes including: Eligibility, Evaluation Criteria, Restrictions/Guidelines, and Procedure.

## SCOPE

All requests for funding must comply with this policy.

## POLICY

The City has established the Community Funding Grant Program, subject to availability of funds, with a range of \$70,000 to \$90,000 in total funding available. Community Funding Grants shall not exceed \$20,000 per applicant, per year. City Council will determine the organizations to be awarded funds through the Community Funding Grant Program. City Staff shall review applications for completeness and review the qualifications and accuracy based upon the eligibility criteria set forth below. In all cases, the City reserves the right to reject any and all applications in the event staff identifies a potential conflict of interest or the appearance of a conflict of interest. Submission of an application in no way obligates the City to award a grant and the City reserves the right to reject any or all applications, for any reason, at any time.

### *Eligibility*

To receive consideration for a Community Funding Grant, grant requests must:

- Be made or sponsored by a 501(c)(3) non-profit organization with experienced members capable of implementing and managing the program/project/event.
- Identify how the funds will be used to benefit the Cupertino community.
- Be awarded only once per project
- For specific needs, not ongoing, operational costs.
- Have more than 75% of the requested funds allocated for direct service costs versus administrative costs.
- Be complete and submitted by the application deadline.

### *Evaluation Criteria*

- Impact on and benefit to the Cupertino community
- Community need for the program/project/event
- Alignment with City mission and values
- Uniqueness of the program/project/event
- Qualifications and experience of the organization and its members
- Reasonable cost
- Demonstrated effort to secure funding from other sources and/or establishing
- partnerships with other community or city organizations
- Clarity, completeness, and accuracy of grant application
- Past performance and compliance with requirements if a recurring applicant

*Applications will be sorted into two categories:*

- *New applicants*
- *Past recipients*

*Applications in each category will be evaluated using a tiered structure based on the dollar amount requested for award as follows:*

- < \$999.99
- \$1,000.00 - \$4,999.99
- \$5,000.00 – \$9,999.99
- \$10,000.00 - \$20,000.00

***Restrictions/Guidelines***

- An organization that is applying for multiple grants shall only submit one application.
- Proceeds generated from the funded activity may only be used for the conducted activity.
- If requested, recipients must provide full financial statements for the organization.
- Admission to or participation in the event must be "free of charge" for Cupertino residents unless stated in the application and approved by Parks & Recreation Commission.
- If an applicant makes a grant request directly to a member of the City Council, whether individually or as a group, the Council shall refer the applicant to the Parks and Recreation Department for a Grant application to be reviewed in accordance with this policy.
- Grant recipients shall acknowledge the City contribution in formal promotional materials and efforts related to the funded activity. Any use of the City logo must be approved by the City's Communications Officer.

***Procedure***

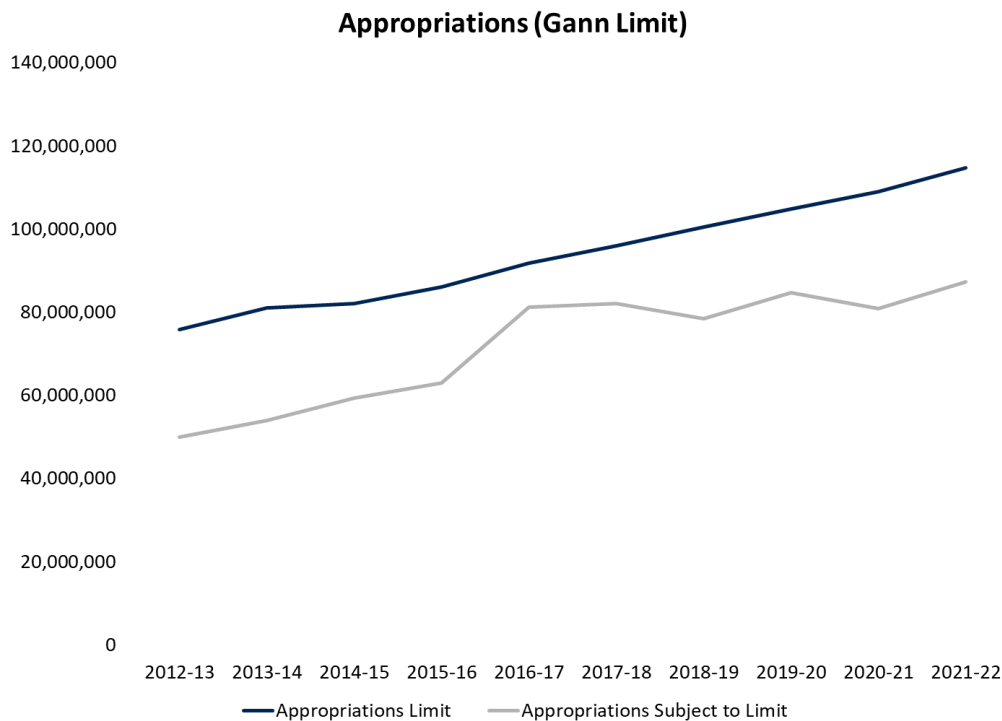
1. Applicants submit timely and complete grant applications by February 1.
2. City Staff reviews application for completeness and compliance eligibility.
3. Applications will then be forwarded to the Parks and Recreation Commission to be evaluated and sorted into the tiered funding structure. All applicants will be notified and invited to attend the Parks and Recreation Commission Meeting where their applications will be discussed. This meeting typically takes place in Spring.
4. City Council will make the final decision on grant amounts for each applicant as part of the budget adoption which typically happens in June. All applicants will be notified and invited to attend the City Council Meeting where their applications will be discussed.
5. Grant recipients shall submit a written report to the Parks and Recreation Department to show proof that the grant funds have been spent in the manner and for the purposes stated on the application, including information about the number of persons served and other results that benefit Cupertino.
  - Due by the 15th business day of July following the Fiscal Year in which grant funds are disbursed.
  - Failure to submit a written report by the July deadline could result in the loss of grant funding eligibility in the future.
  - Applicants will be expected to reimburse the City any funding awarded and not used for their program/project/event.

# Appropriations and Legal Debt Limit Margin

## Gann Appropriations Limit

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

## Appropriations Subject to Limit



Fiscal Year	Appropriations Limit	Change in Appropriations Limit (\$)	Change in Appropriations Limit (%)	Appropriations Subject to Limit
2012-13	75,844,982	3,650,684	5.1%	49,965,332
2013-14	80,979,979	5,134,997	6.8%	54,016,316
2014-15	82,005,630	1,025,652	1.3%	59,297,603
2015-16	86,100,308	4,094,677	5.0%	63,005,392
2016-17	91,867,015	5,766,708	6.7%	81,138,846
2017-18	96,028,489	4,161,474	4.5%	82,077,590
2018-19	100,538,307	4,509,818	4.7%	78,411,811
2019-20	104,753,581	4,215,275	4.2%	84,757,139
2020-21	109,062,935	4,309,354	4.1%	80,875,397
2021-22	114,666,493	5,603,558	5.1%	87,322,024

The limit is different for each agency and changes annually. It is calculated by taking the amount of tax proceeds that were authorized to be spent in FY 1978-79 and adjusting for changes in inflation and population each subsequent year.

Proposition 111 changed the way the limit is calculated and allowed a City to increase its limit annually in two ways:

- By the percent change in per capita personal income in California or the percent change in the assessment roll the preceding year due to the addition of local non-residential new construction; or
- By the percent change in county or city population.

The City used the following factors from the California Department of Finance.

*Price Factor*

- (A) Percent Change in California Per Capita Personal Income: 5.73%
  - (Source: Dept of Finance, California)

*Population Factor*

- (B) Percent Change in County Population: -0.56%
  - (Source: Dept of Finance, California)
- (C) Percent Change in City Population: -0.99%
  - (Source: Dept of Finance, California)

The City multiplied the FY 2020-21 appropriations limit by Price Factor (A) of 5.73% and Population Factor (B) of -0.56% to calculate the FY 2021-22 appropriations limit, as shown below:

FY 2020-21 Appropriations Limit	\$109,062,934
Price Factor (A)	1.0573
Population Factor (B)	0.9944
<b>FY 2021-22 Appropriations Limit</b>	<b>\$114,666,491</b>

The City’s FY 2021-22 appropriations limit was \$114,666,491, \$5.6 million or 5.1% higher than the FY 2020-21 limit of \$109,062,934. 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.

**Legal Debt Margin**

The Government Code of the State of California provides for a legal debt limit of 15% of gross assessed valuation. However, this provision was enacted when the assessed valuation was based upon 25% of market value. Effective FY 1981-82, each parcel is now assessed at 100% of market value (as of the most recent change in ownership for that parcel). The computation shown below reflects a conversion of assessed valuation data for FY 2020-21 from the current full valuation perspective to the 25% level that was in effect at the time that the legal debt margin was enacted by the State of California for local governments located within the State.



<b>Description</b>	<b>Amount</b>	<b>Formula</b>
Secured Property Assessed Value, Net of Exempt Real Property (1)	\$27,083,468,890	
Adjusted Valuation - 25% of Assessed Valuation (2)	\$6,770,867,223	(1) x 25%
Debt Limit - 15% of Adjusted Valuation	\$1,015,630,083	(2) x 15%
Total City Bonded Debt (3)	\$19,900,000	
Less: Certificates of Participation Not Subject to Debt Limit (4)	\$(19,900,000)	
Amount of Debt Subject to Limit		- (3) - (4)
<b>Legal Debt Margin</b>	<b>\$1,015,630,083</b>	

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