



ADMINISTRATIVE SERVICES DEPARTMENT

CITY HALL
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CITY COUNCIL STAFF REPORT

Meeting: November 15, 2022

Subject

Consider the First Quarter Financial Report for Fiscal Year 2022-23

Recommended Action

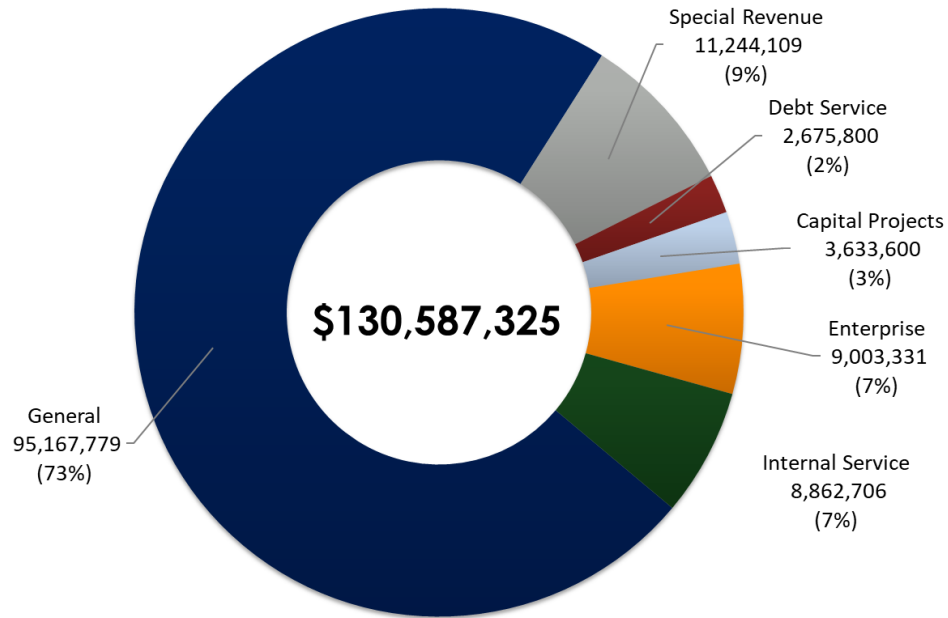
1. Accept the City Manager’s First Quarter Financial Report for Fiscal Year 2022-23
2. Adopt Resolution #22-XXX approving Budget Modification #2223-244 increasing appropriations by \$1,806,337 and revenues by \$920,149

Fiscal Impact

On June 9, 2022, as part of the Final Budget Hearing and Adoption, the City Council approved the Fiscal Year (FY) 2022-23 Adopted Budget, a \$130,587,325 spending plan funded by \$130,244,157 in revenue and \$343,168 in fund balance. The FY 2022-23 Adopted Budget reflected a \$5.1 million increase from the FY 2022-23 Proposed Budget, mainly due to operating changes, the City Work Program, and the Capital Improvement Program.

Budget Actions	Amount
Proposed Budget	\$ 125,461,857
Final Budget Hearing & Adoption	
Operating Changes	799,268
City Work Program	844,000
Capital Improvement Program (Including Transfers)	3,482,200
FY 2022-23 Adopted Budget	\$ 130,587,325

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



As part of the FY 2021-22 year-end close, additional funds were carried forward from FY 2021-22 to FY 2022-23 due to encumbrances of \$13,280,075 and carryover appropriations of \$65,916,968. The largest encumbrances were \$7.4 million for capital projects and \$2.3 million for Vallco Town Center (renamed The Rise), while the largest carryovers were \$34.3 million for capital projects and \$19.7 million for Vallco Town Center. Encumbrances are outstanding commitments related to unfilled purchase orders or unfilled contracts that are rolled over to the following fiscal year until those obligations are fulfilled or terminated. Carryover appropriations are unencumbered funds for unfinished projects carried over to the following fiscal year to be spent for the same purpose for which they were approved. Lastly, the FY 2022-23 Amended Budget includes Council-approved budget amendments from July 1 to September 30, 2022 totaling \$3,290,351. The Amended Budget at the end of the first quarter is \$213,074,719 and is funded with \$174,376,686 in revenue and \$38,698,033 in fund balance and one-time funding sources. Budget amendments are summarized in the chart below.

Appropriation Changes since the FY 2022-23 Adopted Budget

Fund	FY 2022-23			Adjustments	FY 2022-23 Amended
	Adopted Budget	Carryovers	Encumbrances	Approved in 1st Quarter	Budget as of September 30, 2022
General	95,167,779	23,785,988	5,041,683	2,228,580	126,224,030
Special Revenue	11,244,109	18,140,319	3,965,049	174,220	33,523,697
Debt Service	2,675,800	-	-	-	2,675,800
Capital Projects	3,633,600	22,285,752	3,688,943	650,000	30,258,295
Enterprise	9,003,331	1,154,594	118,032	102,909	10,378,866
Internal Service	8,862,706	550,315	466,368	134,642	10,014,031
Total All Funds	\$ 130,587,325	\$ 65,916,968	\$ 13,280,075	\$ 3,290,351	\$ 213,074,719

For detailed descriptions of budget amendments, please refer to Attachment C.

FY 2021-22 Year End Update

Revenues

The City is expected to end FY 2021-22 with total revenues of \$167.4 million, which is \$36.4 million less than budgeted, primarily due to the carryover of Vallco Town Center plan check and building inspection revenues. These revenues will continue to be carried over each year until the services are rendered, and the revenues are recognized. Except for ongoing revenues to be carried over, the City's revenues performed strongly in FY 2021-22.

FY 2021-22 Year End Actuals versus Amended Budget by Revenue Category

Revenue Category	Amended			
	Budget	Actual	Variance (\$)	Variance (%)
05 - Sales tax	36,911,996	42,175,218	5,263,222	14%
10 - Property tax	27,840,341	29,724,411	1,884,070	7%
15 - Transient occupancy	3,000,000	4,404,958	1,404,958	47%
20 - Utility tax	3,245,447	3,356,389	110,942	3%
25 - Franchise fees	3,380,986	3,479,555	98,569	3%
30 - Other taxes	4,939,812	11,117,528	6,177,716	125%
35 - Licenses and permits	33,594,629	4,141,902	(29,452,727)	-88%
40 - Use of money and property	1,960,428	(8,974,147)	(10,934,575)	-558%
45 - Intergovernmental revenue	17,967,786	9,718,143	(8,249,643)	-46%
50 - Charges for services	26,074,036	26,546,349	472,313	2%
55 - Fines and forfeitures	235,000	373,722	138,722	59%
60 - Miscellaneous	4,381,648	2,670,622	(1,711,026)	-39%
65 - Transfers in	38,262,654	38,032,654	(230,000)	-1%
70 - Other financing sources	1,995,169	667,591	(1,327,578)	-67%
Total	\$ 203,789,932	\$ 167,434,894	\$ (36,355,038)	-18%

Sales Tax continued to outperform expectations due to strong performance from online sales and the City's county pool allocation, as well as increases in restaurants and hotels and fuel and service stations. The restaurants and hotels group increased from last fiscal year due to the relaxation of prior pandemic-based restrictions. Fuel and service station revenues also increased due to high gas prices and increased travel compared to the prior fiscal year. The City's share of the countywide use tax pool allocations declined due to taxpayer reporting changes and a shift in overall pool allocation as other agencies in the county realized larger growth. However, online sales and the county pool were solid sources of revenue in FY 2021-22.

Property Tax revenue came in \$1.9 million higher than estimated. The City's 2021-22 total net taxable property value increased approximately \$1.0 billion or 3.5% over the previous year. This increase is predominantly attributable to increases in residential, commercial, and industrial property values.

Transient Occupancy Tax (TOT) revenue came in \$1.4 million higher than estimated due to increased travel but was still significantly lower relative to pre-pandemic conditions.

Intergovernmental revenue came in lower than budgeted due to the timing of revenue recognition of American Rescue Plan Act (ARPA) funding. ARPA revenue began to be recognized in FY 2021-22.

Use of Money and Property is lower than budgeted because of decreases in the market values of the City's fixed-income and Section 115 Pension Trust investment portfolios. At the end of the fiscal year, the values of the City's investments are adjusted to reflect the year-end market value. Market volatility has intensified as financial conditions tighten and global central banks pursue monetary policies to combat persistently high inflation and maintain financial market stability. Rising interest rates have decreased the market value of the City's fixed-income investments, resulting in an unrealized loss for FY 2021-22. The market value of fixed-income investment fluctuates depending on interest rates. When interest rates increase after an investment is purchased, the market value of the investment decreases. At the time of purchase, the City intends to hold investments until maturity, so changes in market value do not affect the City's investment principal. The loss will only be realized if the City sells its investments before maturity. The Section 115 Pension Trust also declined in value in FY 2021-22 due to market volatility.

Miscellaneous revenues came in lower than budgeted due to outstanding Apple donations for 2016 Bike Plan projects. These revenues will be carried over and recognized as the projects are completed.

Expenditures

The City is expected to end FY 2021-22 with total expenditures of \$142.9 million, which is \$17.3 million lower than budgeted. This excess budget is due to various savings achieved over several expense categories, as described below.

FY 2021-22 Year End Actuals versus Amended Budget by Expense Category

Expenditure Category	Amended Budget	Actual Expenditures	Variance (\$)	Variance (%)
05 - Employee compensation	27,694,272	24,804,825	(2,889,447)	-10%
10 - Employee benefits	13,923,946	10,233,560	(3,690,386)	-27%
15 - Materials	9,424,317	7,331,558	(2,092,759)	-22%
20 - Contract services	31,482,230	26,760,840	(4,721,390)	-15%
25 - Cost allocation	14,368,931	14,368,931	-	0%
30 - Capital outlays	13,131,584	11,286,126	(1,845,458)	-14%
31 - Special projects	6,878,272	5,637,526	(1,240,746)	-18%
35 - Contingencies	556,768	5,132	(551,636)	-99%
40 - Debt services	2,676,000	2,676,000	-	0%
45 - Transfer out	38,232,654	38,032,654	(200,000)	-1%
50 - Other financing uses	1,834,960	1,718,997	(115,963)	-6%
Total	\$ 160,203,934	\$ 142,856,148	\$ (17,347,786)	-11%

Salaries and Benefits came in lower than budgeted due to full-time vacancies and part-time salary savings.

Materials savings are due to a Citywide reduction in general supplies, conferences, and training.

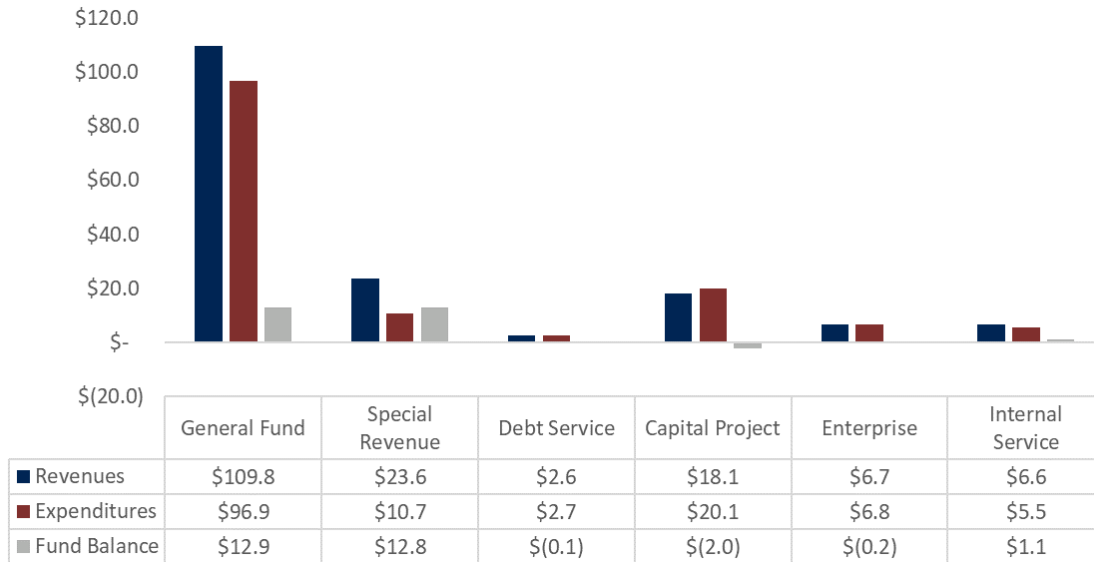
Contract Services were lower than budgeted due to savings in the City Attorney's Office, Parks and Recreation, and Public Works departments.

Capital Outlays and Special Projects came in lower due primarily to the completion of projects and capitalization of fixed asset costs.

Contingencies were lower than budgeted due to departments having sufficient appropriations.

The table below compares actual revenues and expenditures, and the resulting changes to fund balance effective as of FY 2021-22 year-end.

FY 2021-22 Year-End Estimates (\$ in millions)



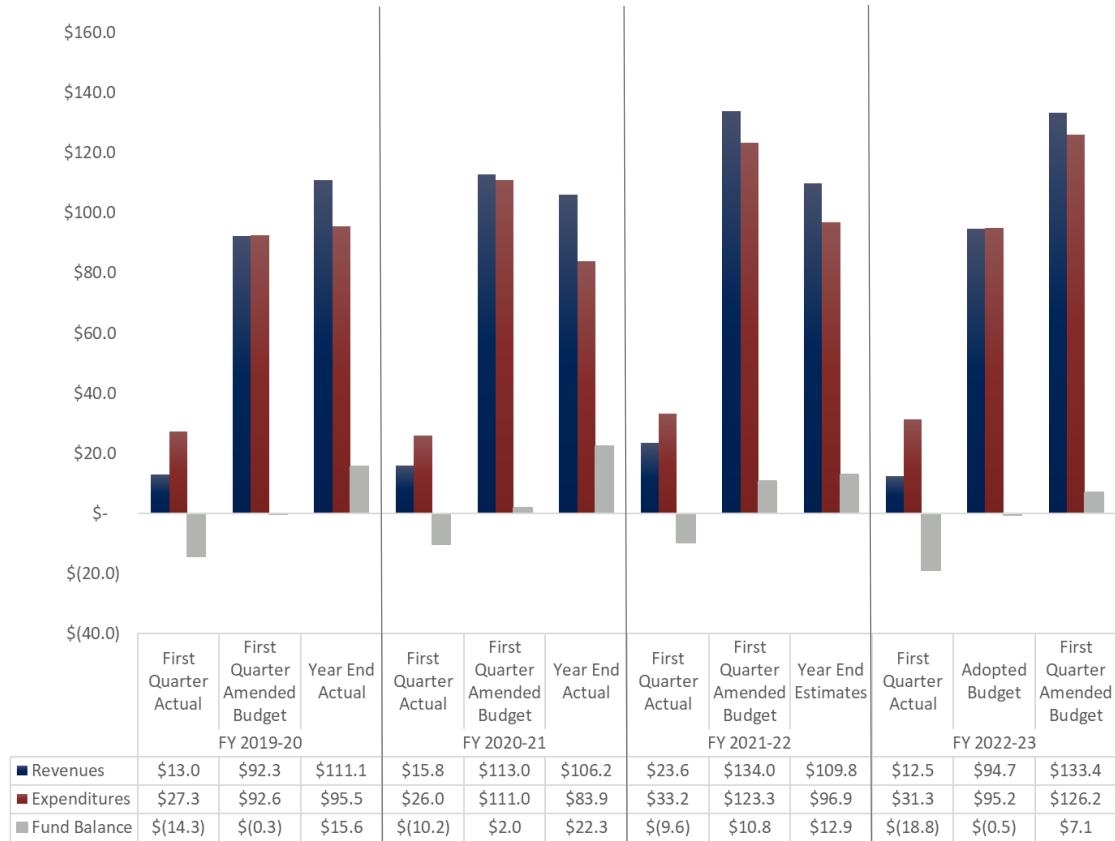
Discussion

The primary focus of the First Quarter Financial Report is to provide an update on the status of the City budget; the report also reviews current revenue and expenditure patterns to ensure that budgets are on track to end the year in a positive fiscal position and reviews any significant variances in expenditures from the prior fiscal year.

General Fund Update

The General Fund's historical revenues, expenditures, and fund balance demonstrate that amended expenditures have often exceeded amended revenues, leading to the use of fund balance. However, it was not due to a structural deficit but the transfer of excess fund balance from the General Fund to the Capital Reserve per the City's use of one-time funds policy. Due to the City's encumbrance and budget carryover process, fiscal years have generally ended with increases to fund balance.

4-Year Comparison of Revenues, Expenditures, and Changes to Fund Balance (\$ in millions)



Revenues

As of the first quarter, overall revenue is lower than the same time last year due to changes in sales tax, intergovernmental, and transfers. To get a clearer picture of city finances and to demonstrate the impact of American Rescue Plan Act of 2021 (ARPA) dollars on the City’s budget, staff has included an analysis – excluding transfers and revenues recognized due to the ARPA. As of the first quarter, excluding ARPA transfers and revenues, revenues are down \$3.5 million, or 22%, compared to last year. This is mostly attributable to decreases in sales tax. All revenue classification fluctuations are explained in detail below.

The following table shows the differences between General Fund revenues collected as of the first quarter in the current fiscal year and the prior fiscal year.

Comparison of FY 2021-22 General Fund First Quarter Revenue to FY 2022-23

Revenue Category	First Quarter 2022	First Quarter 2023	Variance (\$)	Variance (%)
05 - Sales tax	9,459,612	4,082,699	(5,376,913)	-57%
10 - Property tax	265,394	79,078	(186,317)	-70%
15 - Transient occupancy	287,021	1,485,719	1,198,699	418%
20 - Utility tax	478,155	636,988	158,832	33%
25 - Franchise fees	170,876	180,066	9,191	5%
30 - Other taxes	386,972	328,349	(58,623)	-15%
35 - Licenses and permits	1,137,359	931,463	(205,895)	-18%
40 - Use of money and property	457,729	589,007	131,278	29%
45 - Intergovernmental revenue	2,786,645	1,070,673	(1,715,972)	-62%
50 - Charges for services	3,035,190	2,746,279	(288,911)	-10%
55 - Fines and forfeitures	36,578	41,997	5,419	15%
60 - Miscellaneous	236,900	292,886	55,986	24%
65 - Transfers in	4,862,387	61,140	(4,801,247)	-99%
70 - Other financing sources	-	-	-	0%
Total	\$ 23,600,818	\$ 12,526,346	\$ (11,074,472)	-47%

Sales Tax revenue received in first quarter was \$5.4 million, or 57%, lower than last year. Sales tax revenues are received two months in arrears. As a result, we are looking at sales tax revenues corresponding to July and August 2022 for FY 2022-23 and July to September 2021 for FY 2021-22. The start of FY 2021-22 experienced similar trends of new taxes from marketplace facilitators plus a surge in online sales while citizens sheltered in place generated a larger county pool allocation, but to a lesser degree compared to FY 2020-21. As the economy recovered from the depths of the pandemic, sales tax revenues from general consumer goods, restaurants and hotels, and fuel and service stations rose in FY 2021-22. The first quarter of FY 2022-23 reports sales tax revenues significantly lower than pandemic conditions, and staff anticipate a continued downward trend in sales tax revenue as the State continues to reopen and recover from the pandemic. It is anticipated that the City's restaurants and hotels, fuel and service stations, and automotive industry groups will continue to increase in FY 2022-23. However, these increases will only slightly mitigate the anticipated declines in the City's business-to-business and County pool share allocation as online sales fall from recent historic highs. In addition, the future growth rate for sales tax revenue is expected to slow. Rising inflation, high mortgage rates, and the Federal Reserve's tightening monetary policy are expected to result in weakening consumer sentiment and slower growth into 2023.

Property Tax revenue has come in lower than the same time last year by \$186,000, or 70%, because the City received an excess Educational Revenue Augmentation Fund (ERAF) remittance last year. When local property taxes are sufficient to support local schools without major state aid, excess ERAF funds are remitted to applicable local jurisdictions. In 2022-23, the City's property tax roll grew \$2.084 billion, or 7.2%, year-over-year, compared to 7.4% for the county. This growth was \$1.09 billion more than in 2021-22,

when the property tax roll grew by \$986 million, or 3.5%. Residential use values increased \$1.259 billion, or 7.2%, representing 60% of all growth experienced in the City. Commercial properties posted an increase of \$1.066 billion, or 13.1%, due to the addition of assets by Campus Holdings at the Apple site. Industrial use grew \$280 million, or 24.7%, due to Apple parcel growth, some of which showed the transfer of assets from the unsecured to the secured roll. Unsecured assets in Cupertino decreased by \$655 million, or 38%, on 18 fewer bills reported. Secured property generally includes buildings and land, whereas unsecured property generally includes properties that are portable, such as boats, aircrafts, business equipment, and other possessory interests. Growth in home sales remained strong through the summer of 2021. Many cities saw median price increases due to low interest rates, high demand, and limited properties for sale. Sales price increases in 2021 were reflected in the 2022-23 tax rolls. Tracking activity into 2022, new concerns over rising interest rates and inflation are decreasing the volume of home sales. For many locales, median prices have waned slightly in recent months, but still represent increases in sale price when compared to the prior year. The median sale price of Cupertino detached single-family homes from January through August 2022 was \$2,975,000, an increase of \$165,000, or 5.9%, from the median sale price in the same period for 2021. The annual consumer price index (CPI) applied per Proposition 13 was 2% this year after a granting of 1.036% in the prior year. Staff will continue to monitor all revenue categories, and as part of the Mid-Year Financial Report, make any necessary adjustments to revenue projections.

Transient Occupancy Tax (TOT) revenue has come in \$1.2 million, or 418%, higher than last year. The significant increase is due to the relaxation of prior pandemic-based restrictions that reduced travel. Increased travel and the return of employees onsite have resulted in a direct and significant effect on the City's TOT revenues. Average daily rates and occupancy rates for hotels are near pre-pandemic levels. In September 2022, the average daily rate was \$221.29, an increase from \$135.98 in September 2021 and \$105.34 in September 2020. The average occupancy rate was 75% in September 2022, an increase from 68% in September 2021 and 53% in September 2020. While staff anticipates a recovery in FY 2023-24, long-term telework policies may have long-lasting impacts on the City's TOT revenues with respect to pre-pandemic conditions. Staff will continue to monitor economic regulations and other factors and report back as part of the mid-year financial report.

Utility Tax increased \$158,832, or 33%, over the previous quarter. This is due to the Utility User Tax (UUT) August payment recorded in October during FY 2021-22. In FY 2022-23, the August UUT was recorded in September.

Franchise Fees increased \$9,200, or 5%, representing nominal change.

Other Taxes decreased \$58,623, or 15%, due to a decrease in property transfer taxes.

Licenses and Permits decreased \$205,895, or 18%, due to lower revenues in miscellaneous building permits over the same period last year.

Use of Money and Property increased \$131,278, or 29%, due to an increase in investment earnings.

Intergovernmental Revenue decreased approximately \$1.7 million, or 62%, over the same period last year due to American Rescue Plan Act revenue recognized in FY 2021-22.

Charges for Services decreased \$288,911, or 10%, primarily due to a decrease in cost allocation charges. Cost allocation has decreased due to lower cost allocation expenses that need to be allocated.

Fines and Forfeitures increased \$5,419, or 15%, due to an increase in City fines.

Miscellaneous Revenue increased \$55,986, or 24%, due to two forfeited Temporary Certificate of Occupancy (TCO) bonds totaling \$20,000, and a settlement check for \$18,000. Additionally, revenues from a law enforcement donation are \$15,000 more than last year due to increased Sheriff's costs.

Transfers In decreased \$4.8 million, or 99%, due to the one-time transfer of funds to General Fund departments as part of the American Rescue Plan Act funding strategy in the first quarter of FY 2021-22.

Other Financing Sources remain budgeted at zero dollars due to the timing of refundable deposit revenues received.

Expenditures

As of first quarter, overall expenditures are tracking at \$31.3 million, which is \$1.9 million, or 6%, lower than the same time last year. This is primarily due to decreases in transfers out because of the American Rescue Plan Act funding strategy approved by City Council in the first quarter of FY 2021-22. On an adjusted basis and excluding transfers out, expenditures are tracking \$2.2 million or 13% higher than last year.

The following table shows the differences between General Fund expenditures incurred as of the first quarter in the current fiscal year and the prior fiscal year.

Comparison of FY 2021-22 General Fund First Quarter Expenditures to FY 2022-23

Expenditure Category	First Quarter 2022	First Quarter 2023	Variance (\$)	Variance (%)
05 - Employee compensation	4,526,689	5,886,488	1,359,799	30%
10 - Employee benefits	2,374,179	2,654,002	279,823	12%
15 - Materials	952,840	1,242,176	289,336	30%
20 - Contract services	5,826,209	6,525,117	698,908	12%
25 - Cost allocation	2,987,016	2,596,490	(390,525)	-13%
30 - Capital outlays	750	-	(750)	N/A
31 - Special projects	287,063	353,953	66,890	23%
35 - Contingencies	-	-	-	N/A
45 - Transfer out	16,099,371	11,996,300	(4,103,071)	-25%
50 - Other financing uses	139,096	75,186	(63,910)	-46%
Total	\$ 33,193,212	\$ 31,329,712	\$ (1,863,500)	-6%

Salaries and Benefits increased approximately \$1.6 million, or 24%, over the same period last year due to negotiated cost of living adjustments and increases in retirement and workers' compensation benefit costs.

Materials have increased approximately \$289,000, or 30%, representing a moderate recovery and return to normal relative to FY 2021-22. In FY 2021-22, conference and training expenses were lower due to reduced travel and in-person events during the pandemic. In FY 2022-23, electricity costs are higher due to higher rates.

Contract Services have increased by approximately \$699,000, or 12%, due primarily to increases in insurance premiums and the law enforcement contract with the Santa Clara County Sheriff's Office.

Capital Outlays and *Special Projects* have increased by approximately \$66,000, or 23%, due to projects that differ in scope and timing from year to year.

Transfers Out decreased by approximately \$4.1 million, or 25%, primarily due to a one-time \$4.8 million transfer to General Fund departments as part of the American Rescue Plan Act funding strategy in the first quarter of FY 2021-22. Interfund transfers are the movement of cash between one or more funds. As part of the Adopted Budget process, transfers from the General Fund to other City funds serve as operating subsidies to ensure each fund has a positive fund balance at the end of the fiscal year. Additionally, when Capital Improvement Program capital projects are authorized by City Council, a transfer from the Capital Reserve to the appropriate fund is necessary to record the costs and activities of the project. More information on the City's operating and capital transfers can be found on pages 115-118, and 578 of the Fiscal Year 2022-23 Adopted Budget.

Recommended Adjustments

As of the first quarter, departments are requesting budget adjustments to ensure they end the year within budget appropriations. The recommended adjustments are summarized in the table below.

Recommended Adjustments by Fund

Fund	Department	Revenue	Expenditure	Change in Fund Balance	Proposal
GENERAL FUNDS					
100 General Fund	Administration	-	9,650	(9,650)	Community Outreach Printing and Mailing
100 General Fund	Administration	-	7,150	(7,150)	Earth and Arbor Day Festival Services
100 General Fund	Administration	-	20,000	(20,000)	Greenhouse Gas Emissions Inventory Update
100 General Fund	Administration	-	30,000	(30,000)	Valley Water Cost Share Program
100 General Fund	Innovation & Technology	12,000	-	12,000	Revenue from Video Production Services
100 General Fund	Innovation & Technology	20,152	-	20,152	Revenue from HCD Grant
100 General Fund	Community Development	769,231	500,000	269,231	Construction Plan Check
100 General Fund	Public Works	-	11,965	(11,965)	McClellan Ranch Path Repair
100 General Fund	Public Works	-	136,734	(136,734)	Tree Maintenance
100 General Fund	Public Works	-	118,500	(118,500)	Utilities Adjustments
100 General Fund	Public Works	-	8,201	(8,201)	Backwater Check Valve Replacement
100 General Fund	Public Works	-	13,804	(13,804)	Pool Equipment Preventive Maintenance
100 General Fund	Non-Departmental	-	118,766	(118,766)	Transfer to I&T Fund for Faro Scanners
TOTAL GENERAL FUNDS		801,383	974,770	(173,387)	
SPECIAL REVENUE FUNDS					
230 Environmental Mgmt	Public Works	-	6,238	(6,238)	Utilities Adjustments
TOTAL SPECIAL REVENUE FUNDS		-	6,238	(6,238)	
ENTERPRISE FUNDS					
520 Resource Recovery	Public Works	-	31,377	(31,377)	Household Hazardous Waste (HHW)
520 Resource Recovery	Public Works	-	6,140	(6,140)	SB 1383 Grant Fund Allocation
TOTAL ENTERPRISE FUNDS		-	37,517	(37,517)	
INTERNAL SERVICE FUNDS					
610 Innovation & Technology	Innovation & Technology	118,766	-	118,766	Transfer from General Fund for Faro Scanners
610 Innovation & Technology	Innovation & Technology	-	118,766	(118,766)	Faro Scanners for the Sheriff's Office
630 Vehicle/Equip Replacement	Public Works	-	669,046	(669,046)	Vehicle and Equipment Replacement
TOTAL INTERNAL SERVICE FUNDS		118,766	787,812	(669,046)	
TOTAL ALL FUNDS		\$ 920,149	\$ 1,806,337	\$ (886,188)	

Administration

Sustainability (100-12-122)

Community Outreach Printing and Mailing

Funds are requested to provide marketing and outreach for the newly adopted Climate Action Plan 2.0, targeted mailing for a Silicon Valley Clean Energy (SVCE) or BayREN program to market new and improved residential and commercial offerings for energy efficiency and electrification, and for the replacement of the Earth and Arbor Day Festival banner which was damaged last year. Appropriations are recommended to be increased by \$9,650.

Sustainability (100-12-122)

Earth and Arbor Day Festival Services

In 2022, the Earth and Arbor Day Festival resumed in person, with SVCE sponsoring a solar-powered stage that garnered attention for the festival. SVCE will not have the same resources to continue to sponsor this service. Funds are requested to cover the rental fee, set up, and staffing for the stage. Due to reduced staff capacity to staff and set up the Bike Valet, funds are also requested for a bike valet, which will be set up and run by the Silicon Valley Bicycle Coalition. Appropriations are recommended to be increased by \$7,150.

Sustainability (100-12-122)

Greenhouse Gas Emissions Inventory Update

The current emissions inventory reflects data from 2018. An update to this inventory needs to be completed this year to remain compliant with the Global Covenant of Mayors' requirements. This expense occurs every two to three years. To help address department workload limitations, funds are requested to engage an outside consultant who performs this work exclusively for local governments. This inventory is an essential part of implementing the newly adopted Climate Action Plan 2.0, a FY 2021-22 Work Program project. Appropriations are recommended to be increased by \$20,000.

Sustainability (100-12-122)

Valley Water Cost Share Program

The approved budget includes a multi-year contract of \$45,000. However, over the past six months, there has been a large increase in demand for this program. Additional funds are requested to match the demand increase and ensure fund availability to support rebates for residents and commercial customers accessing Landscape Rebate Program and Graywater Rebate Program rebate funds. This program is essential to the successful continuation of the Climate Victory Gardens pilot, a FY 2019-20 Work Program project titled "Lawn Buster Drought Tolerant Planting Pilot." Appropriations are recommended to be increased by \$30,000.

Innovation and Technology Department

Video (100-31-305)

Revenue from Video Production Services

In-person video production services have resumed for Silicon Valley Clean Energy Authority. Revenues will increase by \$12,000 in accordance with the \$1,000 per meeting supported.

Applications (100-32-308)

Revenue from HCD Grant

In FY 2019-20, Innovation & Technology received a \$310,000 grant from the California Department of Housing and Community Development for implementation services and software (Accela and ProjectDox) that accelerate and streamline Housing Production. Revenues will increase by \$20,152 for funds expected to be reimbursed this year.

Infrastructure (610-34-310)

Faro Scanners for Sheriff's Office

Funds are requested to procure a system to help the Sheriff's Office with crime scene analysis. IT is simply assisting with procurement; the Sheriff's Office will manage implementation and fund future budget requirements. The focus laser scanner will assist Law enforcement officials in sharing on-scene reality-capture data faster than ever before and accurately capturing the on-scene elements that may have led to or contributed to an incident, be it a car accident, structural collapse, a mass-casualty event, homicide, etc. The purchase is for four years of equipment, maintenance, and support with a one-time fee of \$118,766. Appropriations are recommended to be increased by \$118,766. This request is funded by a \$496,083 refund from the Sheriff's Office as law enforcement services in FY 2021-22 came in under budget.

Community Development Department

Building Plan Review (100-73-714)

Construction Plan Check

To alleviate the consistent backlog and provide a timely turnaround of plan reviews, funds are requested to hire two consultants to assist with plan reviews for The Hamptons Redevelopment, Cupertino Village, De Anza Hotel, Marina Plaza, Apple Tenant Improvements, Vallco Parkway VP1, and Apple Campus 2 Ancillary Building. Appropriations are recommended to be increased by \$500,000 and offset with \$769,231 in fee revenues. The City keeps 35% of the fee revenues, and the contractor receives 65%.

Public Works Department

Environmental Programs Resource Recovery (520-81-801)

Household Hazardous Waste (HHW)

Due to changes in the use of the County's HHW program by Cupertino residents and increased costs at the County level, funds are requested to continue the partnership with the County for the safe disposal of HHW. Appropriations are recommended to be increased by \$31,377.

Environmental Programs Resource Recovery (520-81-801)

SB 1383 Grant Fund Allocation

The grant amount received from CalRecycle was higher than anticipated. The grant totaled \$83,693, of which \$77,553 was expended during FY 2021-22. Funds are requested to budget the additional \$6,140 for expenditure. Appropriations are recommended to be increased by \$6,140.

BBF Pool Equipment (100-87-841)

Blackberry Farm Pool Equipment Preventative Maintenance

Recent semi-annual maintenance revealed the need for a preventive maintenance (PM) program for swimming pool equipment at Blackberry Farm. Funds are requested to hire a contractor to complete the PM program, which will reduce the chance of closing pool operations due to equipment failure. Appropriations are recommended to be increased by \$13,804.

Monta Vista Community Center (100-87-833)

Backwater Check Valve Replacement

Monta Vista has a backwater valve that has reached its useful life and is in a confined space (manhole) with the danger of engulfment of sewage. Recent semi-annual maintenance revealed the need for replacement. Otherwise, there will be an increased risk of death, injury, and cost to maintain the valve. Funds are requested to install a new extendible backwater valve and valve box, repair any piping damage, backfill excavation, compact fill materials, and repave asphalt to match the existing profile. Appropriations are recommended to be increased by \$8,201.

Library Facilities & Storm Drain Maintenance (100-87-828 & 230-81-855)

Utilities Adjustments

Funds are requested for utilities adjustments that were missed during the base budget. All Library facility utility costs are billed at fiscal year-end to Santa Clara County, which reimburses 100% of those costs. The revenues for the reimbursement are included in the base budget. Appropriations are recommended to be increased by \$124,738.

PW Grounds (100-84-809, 100-84-811, 100-84-812, 100-84-813 & 100-84-814)

Tree Maintenance

Funds are requested to contract with a tree contractor for necessary tree maintenance at several City-owned sites. The increase in tree maintenance costs is due to drought-related tree failures and deferred maintenance. Appropriations are recommended to be increased by \$136,734.

McClellan Ranch (100-84-808)

McClellan Ranch Path Repair

In FY 2021-22 First Quarter, City Council approved a \$54,966 request for McClellan Ranch Path Repair. The project included removing and replacing 13 sections of pervious concrete to mitigate trip hazards on a pathway that is highly used by pedestrians

walking the Stevens Creek Trail. The funds were carried over to FY 2022-23. Additional funds are requested due to an increase in the scope of work. Appropriations are recommended to be increased by \$11,965.

Fixed Assets Acquisition (630-90-985)

Fixed Assets (Vehicle and Equipment Replacement)

Funds are requested for fixed assets purchases for vehicle and equipment replacement as listed below.

Vehicle and Equipment Requests

Vehicle and Equipment Replacement	Cost
Vehicle Replacement	
Replace Toyota 1-Ton sprayer (#2)	115,000
Replace Ford F350 (#31)	80,000
Replace Ford Escape (#90)	40,000
Replace Ford F550 Boom Truck (#57)	190,000
Replace Ford Escape (#87)	32,000
Total Vehicle Replacement	457,000
Equipment Replacement	
Replace Forklift (#107)	60,000
Replace John Deere Tractor (#109 & #111)	110,000
New Forklift Pallet Stacker	25,000
Total Equipment Replacement	195,000
Unassigned (to cover the rising cost of vehicles and equipment due to supply issues)	17,046
Total Vehicle and Equipment Replacement	\$669,046

Fixed assets requests were removed at the Proposed Budget Study Session via City Council motion so that City staff could provide additional information. See Attachment I for additional information on the fleet and equipment replacement process and a complete list of fleet and equipment assets.

Fund Balance

The City’s General Fund ended FY 2020-21 with \$96.9 million in total fund balance. Staff anticipates the General Fund will end FY 2021-22 with \$109.8 million in fund balance, an increase of \$12.9 million from the prior year due to FY 2021-22 ending with revenues higher than expenditures. As of the first quarter, staff anticipates the General Fund will end FY 2022-23 with \$121.6 million in fund balance.

General Fund Classification of Fund Balance (in millions)

Classification	Actual		Year End Projection		Adopted Budget		1st Quarter Year End Projection	
	2020-21		2021-22		2022-23		2022-23	
Non Spendable	\$	0.4	\$	0.4	\$	0.4	\$	0.4
Restricted		19.9		18.8		24.2		18.8
Committed		19.1		34.1		34.1		34.1
Assigned		4.9		5.0		3.0		5.0
Unassigned		52.4		51.4		48.3		63.2
TOTAL FUND BALANCE	\$	96.9	\$	109.8	\$	110.1	\$	121.6

To date, the City’s outside auditors have not completed their review of the City’s financials. Revenue, expenditure, and fund balance totals listed in this report are preliminary and subject to change after a full review by the City’s auditors. City Staff does not anticipate many, if any, changes from the auditors.

Per the City’s Fund Balance Policy, unassigned fund balance over \$500,000 is to be used in the following order to replenish committed/restricted fund balances with any remaining balances to be placed in the Capital Reserve:

1. Economic Uncertainty Reserve
2. CalPERS Reserve (Section 115 Pension Trust)
3. Sustainability Reserve
4. Unassigned

As of the first quarter, all priority areas are fully funded. Due to the uncertainty around a California Department of Tax and Fee Administration (CDTFA) sales tax audit of one of the City’s taxpayers, City staff is not recommending any transfers to reserves currently. The impact of this audit is unknown but has the potential to significantly affect the City’s sales tax revenues. Staff anticipates bringing recommendations on the use of fund balance to the City Council at mid-year in March 2023 once more information regarding the sales tax audit is available.

Staffing

As part of the FY 2022-23 Adopted Budget, City Council approved 225 FTEs. City staff is recommending no changes to staffing as of the first quarter.

The City of Cupertino continues to be affected by the impacts of the labor shortage at all levels of the organization. The City is experiencing a significant amount of staff turnover, due to both resignations and retirements. As a result, the City’s recruitment efforts have been greatly impacted. The City has had several positions, e.g., Finance Manager, Public Works Project Manager, and Sr. Planner/Associate Planner/Assistant Planners, that have required multiple recruitments for several reasons including, but not limited to, reduced applicant pools, competing job offers, and unexpected resignations. Administrative Services continues to place recruitment efforts as a key department

priority. As seen in the table below, recruitments were higher in FY 2020-21 and FY 2021-22, with the drop in FY 2019-20 due to a soft hiring freeze that was in place for half of the year.

Fiscal Year	Average Employee Turnover Rate ¹	Number of Recruitments ²	Average Vacancy Rate
2018-19	10.4%	20	7.2%
2019-20	6.4%	18 ³	5.7%
2020-21	14.7%	24	8.0%
2021-22	10.3%	33	10.8%
2022-23 Q1	14.5% ⁴	4	6.5%

¹ Full-time employee separations due to retirement or resignation

² Full-time recruitments opened

³ Decline due to COVID-19 and soft hiring freeze while staffing study was pending

⁴ Annualized

Recommended adjustments in Community Development for plan check show the impacts of these turnover and recruitment trends as the City needs to contract a portion of services out to backfill vacancies.

City Manager Discretionary Fund

In the FY 2022-23 Adopted Budget, City Council approved \$75,000 in funding for the City Manager Discretionary Fund. The quarterly financial reports will detail the City Manager’s use of the discretionary fund and may include recommendations to replenish depending on the extent and nature of use. As of September 30, 2022, \$2,632.50 has been used for environmental consulting services for the initial preparation of a Phase I environmental site assessment at 21801 Stevens Creek Boulevard.

Special Projects

Beginning FY 2022-23, the quarterly financial reports will provide a status update on special projects, including the budget, amount spent, and estimated completion date. See Attachment F for FY 2021-22 special projects as of year-end and Attachment G for FY 2022-23 special projects as of September 30, 2022.

Grants

The City entered into a contract with California Consulting in February 2019 to identify and apply for State and Federal grants on behalf of the City. The contract originated in Public Works and was transferred to Administrative Services in the amount of \$75,509 in FY 2022-23. The goals of this pilot program are to centralize the grant function and to maximize grant opportunities. Additional updates on the status of grants will be provided as part of the quarterly financial reports beginning with this report.

During FY 2021-22 and 2022-23, the City applied for 16 competitive grants totaling \$31.2 million. To this date, the City has been awarded \$17.7 million. Furthermore, during FY 2018-19, 2019-20, and 2020-21, the City applied for 7 additional grants totaling \$8 million. Of these 7 grants, the City has been awarded \$7 million.

Also, during FY 2021-22 and 2022-23, the City applied for 12 non-competitive grants totaling \$4.0 million. See Attachment H for further details on grants applied, pending, awarded, and not awarded.

Capital Improvement Program

Beginning FY 2022-23, the quarterly financial reports will provide a status update on Capital Improvement Program (CIP) projects. See Attachment J for more information.

Conclusion

The First Quarter Financial Report shows the City is well-positioned to move forward. City staff recommends adjustments of \$1,806,337 in new appropriations, funded by \$920,149 in revenues and \$886,188 in fund balance.

Prepared by: Thomas Leung, Budget Manager

Reviewed by: Kristina Alfaro, Director of Administrative Services

Approved for Submission by: Pamela Wu, City Manager

Attachments:

A – FY 2022-23 First Quarter Financial Report

B – Draft Resolution

C – Description of Carryovers and Adjustments through September 30, 2022

D – Description of Budget Transfers through September 30, 2022

E – FY 2022-23 First Quarter Recommended Budget Adjustments Journal

F – FY 2021-22 Special Projects Update

G – FY 2022-23 First Quarter Special Projects Update

H – Competitive and Non-Competitive Citywide Grants Tracking

I – Fleet and Equipment Replacement Process

J – Capital Improvement Program Project Status