

# Financial Policies

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# Annual Budget Process

## Adopted Budget

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.

## Budget Process

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

### Development

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

### Proposal

Every year in March, departments prepare budget proposals for new ongoing or one-time initiatives. These proposals are reviewed by Finance staff, who use data from current and past years to evaluate their feasibility. The city’s long-term financial forecast is also taken into account to ensure that budget decisions align with the city’s financial goals.

The City Manager, with the assistance of the Director of Administrative Services and Budget Team, reviews the proposals and selects the proposals to be included in the Proposed Budget. The Proposed Budget is published by May 1st.

In May, staff presents the Proposed Budget to the City Council during a proposed budget study session. Commissions, committees, community organizations, and the public are all welcome to review and provide feedback on the Proposed Budget. During the session, City Council members have the opportunity to ask questions, offer suggestions, and provide recommendations to staff on the Proposed Budget.

### Adoption

In June, the City Council holds a public hearing to consider the Proposed Budget presented by staff. At this hearing, an updated version of the Proposed Budget is presented, and staff addresses any questions or concerns that were raised during the study session.

After the presentation, City Council members deliberate and vote to adopt the budget. The adopted budget authorizes expenditures for the specific activities and funds outlined in the budget. This ensures that the city has a clear plan for how to allocate its resources in the upcoming fiscal year.

The adopted budget goes into effect on July 1st, marking the beginning of the new fiscal year.

## **Monitoring**

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.

In addition to the annual proposed and adopted budgets, staff reports to the City Council quarterly. Quarterly reports update the City Council on any changes from July 1 through the end of the quarter. Quarterly reports help:

- Compare budget versus actuals.
- 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.
- 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).

## **Amendment**

After the budget is adopted, a department may request a change through a budget amendment. A budget amendment is required to:

- Allocate additional appropriations during the fiscal year
- Reallocate appropriations between line items during the fiscal year

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. Transfers between fund types need approval by City Council.

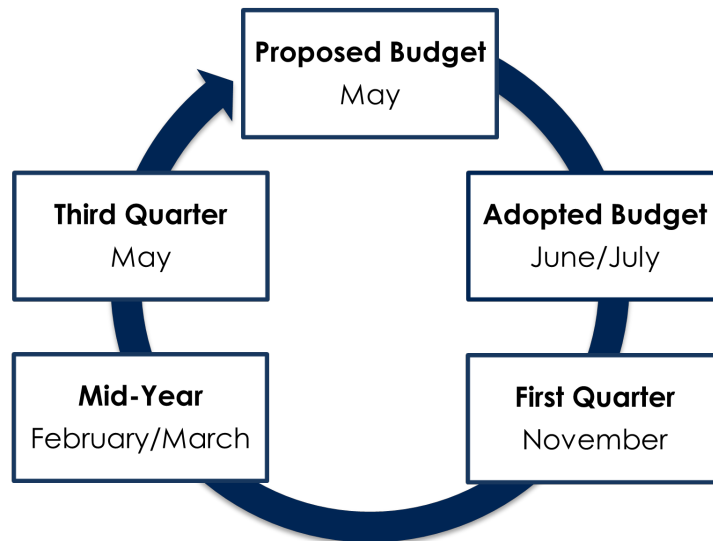
City Council approval is also required for additional appropriations from fund balances or from new revenue sources.

## **Carryover**

Unexpended and unencumbered appropriations expire at the end of the fiscal year. A budget carryover allows an unspent appropriation to be carried over into the next fiscal year. A department may request a budget carryover for a project or purchase that is not expected to be completed in the current fiscal year. The department may only use the budget carryover for its original purpose.

## **Budget Reporting Cycle**

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



## Citizen Participation

The budget study session and budget hearings are public meetings where citizens are allowed to comment on the budget. The public can also provide feedback on budget format to the Audit Committee.

The City's annual community budget workshop is held every April. However, this year, City staff are hosting a variety of budget outreach events by educating the community on budget-related topics at local farmer's markets, Cupertino festivals, and in front of the Cupertino Library. Additionally, the City hosted a Budget Town Hall event on May 18, 2023. These outreach efforts educated the community about the City's current budget challenges and budget reduction strategies.

## OpenGov Financial Transparency Portal

In order to facilitate understanding and transparency of the budget document, the City presents budget information through OpenGov, an online tool that provides users with different views of the City's budget data by fund, department, revenues, and expenditures. The tool can be accessed by visiting [cupertino.org/opengov](https://cupertino.org/opengov).

The City invites you to use the online tool to:

- Search the current year's budget and financial data.
- View trends in revenues and expenditures over time.
- Drill down into expenses by department or account type.
- Display the data as graphs or charts.
- Download into Excel.
- Share with friends using email or social media.
- Send comments directly to the City online.

# Annual Budget

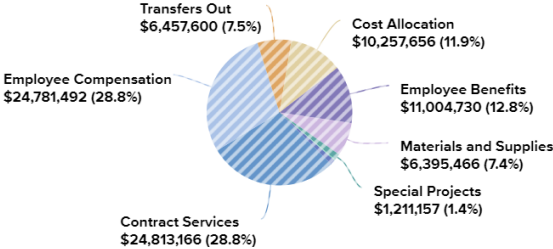
Cupertino's budgets: [cupertino.org/budget](http://cupertino.org/budget)

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Broken down by  
**Expenses** General Fund

## Visualization



2023-24  
Adopted  
Budget

[<](#) [>](#)

[Table](#) [Bar](#) [Line](#) [Pie](#) [Map](#)

Sort **Large to Small**

- Contract Services
- Employee Compensation
- Transfers Out
- Cost Allocation
- Employee Benefits
- Materials and Supplies
- Special Projects

# Structure of City Finances

## Cost Accounting

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. 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. Please view the Cost Allocation Plan and 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.

## Cost Allocation Plan

All overhead costs are allocated to the appropriate program within the limits of local, state, and federal laws. Beginning in FY 2013-14, the City allocated indirect and overhead costs based on a Cost Allocation Plan (CAP). In FY 2015-16, Matrix Consulting Group developed a full CAP for the City. Matrix Consulting Group developed the plan based on "Generally Accepted Accounting Principles" (GAAP) and indirect cost allocation methods defined by the federal Office of Management and Budget's (OMB) Circular A-87. Matrix Consulting Group is in the process of updating the CAP, which will be included in the FY 2024-25 budget. Generally, the CAP is updated every five to seven years.

In addition to the direct cost of providing services, the City has indirect costs. Indirect costs include shared expenses where a department provides support to other departments (e.g., legal, finance, human resources, IT, facilities, and maintenance). The CAP allows the City to understand the full cost of providing specific services to the community more accurately. For example, the full cost of the Quinlan Community Center includes its direct costs (e.g., salaries, benefits, materials, and contracts) plus its indirect costs (e.g., finance, human resources, and IT). The CAP helps the City analyze the full cost of the Quinlan Community Center as if it were a stand-alone business that had costs for services such as finance, human resources, and IT.

The CAP distributes the allowable costs of central service programs to receiving programs. Central service programs (e.g., City Manager's Office, City Attorney's Office, Finance, Human Resources, Innovation and Technology, and City Hall building maintenance) provide support to other programs. Receiving programs, also known as grantees, receive support from central service programs.

### Method

The CAP follows the double step-down method, which uses two steps to allocate costs fully. In the first step, the costs of central service programs are allocated to other central service programs and receiving programs. In the second step, the total costs (including costs allocated in the first step) of central service programs are allocated to the receiving programs only. Revenues are allocated directly to the central service program providing the service.

The CAP allocates costs to receiving programs based on an allocation base, which quantifies the use of each service. For example,

- Human Resources benefits costs are allocated based on each program's number of FTE.
- Accounting costs are allocated based on each program's number of financial transactions.
- IT costs are allocated based on the number of computer and mobile devices assigned to each program.

The CAP is updated annually. The FY 2023-24 CAP was prepared using data from FY 2021-22.

## **Internal Service Funds**

In addition to support services, all eligible funds are charged a prorated share of the costs for Innovation & Technology, Vehicle & Equipment Replacement, and Compensated Absences.

## **Transfers**

In addition to the allocation of costs between funds, the City also makes transfers from the General Fund to various funds, which provide subsidies and resources to the receiving fund to support operating, debt service, and capital project costs. General Fund subsidies are evaluated annually to ensure that funds outside of the General Fund end the year with sufficient fund balance. Typically, transfers are made to Special Revenue and Enterprise Funds that require subsidies due to their revenues falling short of full program costs. Furthermore, the City has recurring transfers to the Debt Service Fund to fund the costs associated with the annual debt payment.

## **Basis of Budgeting**

The 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 as the basis of accounting.

## **Governmental Funds**

The Governmental Funds, which include the General, Special Revenue, Debt Service, and Capital Projects 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.

## **Proprietary Funds**

The Proprietary Funds, which include 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 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 they are levied. Grants are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

## **Departments, Divisions, and Programs**

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. 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 the City's auditors according to generally accepted accounting principles (GAAP) set by the Governmental Accounting Standards Board (GASB). The City's auditor was Crowe, LLP from FY 2016-17 to FY 2021-22. Beginning FY 2022-23, the City's auditor is The Pun Group, LLP.



# Fund Structure

In governmental accounting, a state or local government is not considered a single entity but is instead viewed as a collection of individual business units known as 'funds.' This approach is known as fund accounting, which emphasizes accountability rather than profitability.

Under fund accounting, each fund is a self-contained set of accounts that are segregated for specific purposes in accordance with laws, regulations, or other limitations. This system ensures that funds are used for their intended purpose and that there is transparency in the use of public funds.

The City's finances are structured into a range of funds that serve as the primary accounting and reporting entities in governmental accounting. These funds are broadly categorized into two groups: Governmental Funds and Proprietary Funds.

## Governmental Funds

Governmental Funds are used to account for the City's general operations and other activities financed by taxes, grants, and other governmental resources. These funds include the General Fund, Special Revenue Funds, Capital Projects Funds, and Debt Service Funds. They are accounted for under the modified accrual basis of accounting.

### General Fund

The General Fund is the primary operating fund for governmental services. The General Fund is a tax-supported fund.

<b>General Fund</b>	<b>Purpose</b>
100 General	The General Fund is used to pay for core services such as public safety, parks and recreation, 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 sales tax, property tax, franchise fees, charges for services, and a variety of other discretionary sources.
130 Investment	Accounts for activities related to the City's investment portfolio.

### Special Revenue Funds

Special Revenue Funds account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. Special Revenue Funds include the Storm Drain, Environmental Management/Clean Creek, Community Development Block Grant, BMR Housing, Transportation, and Park Dedication funds.

<b>Special Revenue Funds</b>	<b>Purpose</b>
210 Storm Drain Improvement	Accounts for the construction and maintenance of storm drain facilities, including drainage and sanitary sewer facilities. Projects are funded by the Capital Reserve.
215 Storm Drain AB1600	Accounts for AB1600 revenue from development impact fees. Revenues were collected from developers as a result of connections to the storm drainage sewer system.
230 Environmental Management/Clean Creek/Storm Drain	Accounts for activities related to operating the Non-Point Source Pollution Program. Revenues are from parcel taxes.
260 Community Development Block Grant	Accounts for the Federal Housing and Community Development Block Grant (CDBG) Program activities. CDBG is a federally funded program for housing assistance and public improvements.
261 HCD Loan Rehab	Accounts for activities related to Community Development Block Grant (CDBG) rehabilitation loans.
265 BMR Housing	Accounts for activities related to the Below Market Rate (BMR) Housing Program. Revenues include BMR Housing Mitigation Fees collected from developers to mitigate the impact of housing needs. Monies in this fund are governed by the program's rules.
270 Transportation	Accounts for the City's gas tax, vehicle registration fees, and grant revenues and expenditures related to the maintenance and construction of City streets. All revenue in this fund is restricted exclusively for street and road purposes, including related engineering and administrative expenditures.
271 Traffic Impact	Accounts for development impact fees to ensure that new development and redevelopment projects pay their "fair share" to mitigate traffic impacts.
280 Park Dedication	Accounts 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. Revenues are restricted for the acquisition, improvement, expansion, and implementation of the City's parks and recreation facilities.
281 Tree	Accounts for revenues from in-lieu tree replacement fees and tree damage and removal fees. The revenues are transferred to the Street Tree Maintenance program to pay for new and replacement trees.

## Debt Service Funds

Debt Service Funds account for financial resources that are restricted, committed, or assigned to expenditures for and payment of principal and interest.

<b>Debt Service Funds</b>	<b>Purpose</b>
365 Public Facilities Corporation	Accounts for the payments of principal and interest on certificates of participation issued to provide for the financing of the Civic Center, Library, Wilson Park, Memorial Park, and other City facilities.

## Capital Projects Funds

Capital Projects Funds account for the acquisition and/or construction of major capital facilities.

<b>Capital Projects Funds</b>	<b>Purpose</b>
420 Capital Improvement Projects	Accounts for activities related to the acquisition or construction of major capital facilities.
427 Stevens Creek Corridor Park	Accounts for the design and construction of the Stevens Creek Corridor Park projects.
429 Capital Reserve	Reserves to fund future capital improvement projects.

## Proprietary Funds

Proprietary Funds are used to account for the City's ongoing business activities that are similar to those of a private enterprise. These funds include the Enterprise Funds and Internal Service Funds. They are accounted for under the full accrual basis of accounting.

### Enterprise Funds

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

<b>Enterprise Funds</b>	<b>Purpose</b>
520 Resource Recovery	Accounts for activity related to the collection, disposal, and recycling of solid waste. A private company has been issued an exclusive franchise to perform the services.
560 Blackberry Farm	Accounts for activities related to operating the City-owned golf course.
570 Sports Center	Accounts for the operation and maintenance of the Cupertino Sports Center.
580 Recreation Program	Accounts for activities of the City's community center and park facilities.

## Internal Service Funds

Internal Service Funds are 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, Workers' Compensation, Vehicle and Equipment Replacement, Compensated Absences & Long-Term Disability, and Retiree Medical funds.

<b>Internal Service Funds</b>	<b>Purpose</b>
610 Innovation & Technology	Accounts for the activities related to the maintenance and replacement of the City's technology infrastructure. Equipment is depreciated based on the acquisition or historical costs for the useful life of the asset using the straight-line method.
620 Workers' Compensation	Accounts for claims and insurance premiums related to workers' compensation.
630 Vehicle/Equipment Replacement	Accounts 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.
641 Compensated Absences & Long-Term Disability	Accounts for accrued leave payouts and the long-term disability insurance program.
642 Retiree Medical	Accounts for funds set aside for Other Post-Employment Benefits (OPEB).

# Department/Fund Relationship

The following table illustrates the relationship between the City’s departments and funds. It also shows which funds are major funds.

Fund	Department				
	Council & Commissions	Administration	Law Enforcement	Innovation & Technology	Administrative Services
<b>GENERAL FUND</b>					
100 General Fund*	X	X	X	X	X
130 Investment Fund					
<b>SPECIAL REVENUE FUNDS</b>					
210 Storm Drain Improvement					
215 Storm Drain AB1600					
230 Env Mgmt Cln Crk Strm Drain					
260 CDBG*					
261 HCD Loan Rehab					
265 BMR Housing					
270 Transportation Fund*					
271 Traffic Impact					
280 Park Dedication					
281 Tree Fund					
<b>DEBT SERVICE FUNDS</b>					
365 Public Facilities Corp*					
<b>CAPITAL PROJECTS FUNDS</b>					
420 Capital Improvement Fund*					
427 Stevens Creek Corridor Park					
429 Capital Reserve					
<b>ENTERPRISE FUNDS</b>					
520 Resource Recovery*					
560 Blackberry Farm					
570 Sports Center*					
580 Recreation Program*					
<b>INTERNAL SERVICE FUNDS</b>					
610 Innovation & Technology				X	
620 Workers' Compensation					X
630 Vehicle/Equip Replacement					
641 Compensated Absence/LTD					X
642 Retiree Medical					X

\* Major fund

Fund	Department			Non-Departmental
	Parks & Recreation	Community Development	Public Works	
<b>GENERAL FUND</b>				
100 General Fund*	X	X	X	X
130 Investment Fund				X
<b>SPECIAL REVENUE FUNDS</b>				
210 Storm Drain Improvement			X	X
215 Storm Drain AB1600			X	X
230 Env Mgmt Cln Crk Strm Drain			X	
260 CDBG*		X		
261 HCD Loan Rehab		X		
265 BMR Housing		X		
270 Transportation Fund*			X	X
271 Traffic Impact				X
280 Park Dedication				X
281 Tree Fund				X
<b>DEBT SERVICE FUNDS</b>				
365 Public Facilities Corp*				X
<b>CAPITAL PROJECTS FUNDS</b>				
420 Capital Improvement Fund*				X
427 Stevens Creek Corridor Park				X
429 Capital Reserve				X
<b>ENTERPRISE FUNDS</b>				
520 Resource Recovery*			X	
560 Blackberry Farm	X		X	X
570 Sports Center*	X		X	X
580 Recreation Program*	X			X
<b>INTERNAL SERVICE FUNDS</b>				
610 Innovation & Technology				
620 Workers' Compensation				
630 Vehicle/Equip Replacement			X	
641 Compensated Absence/LTD				
642 Retiree Medical				

# Balanced Budget Policy

## PURPOSE

The purpose of this policy is to ensure that the City has a balanced budget that is sustainable in the long term. It aims to establish a clear definition of a balanced budget, promote a commitment to achieving this balance, and ensure transparency and disclosure when there is deviation from the balanced operating budget.

## SCOPE

This policy applies to all operating funds of the City. This policy excludes Capital Projects Funds and Debt Service Funds.

## POLICY

### Statutory Balanced Budget

At a minimum, the City shall adopt a statutory balanced budget, where the City's use of resources for operating purposes does not exceed available resources for the fiscal year.

### Structurally Balanced Budget

The City shall adopt a balanced budget where operating expenditures do not exceed operating revenues in the ten-year forecast. The budget must be balanced not only during the current operating period but also in the future, which is referred to as a structurally balanced budget.

Recurring revenues are the portion of a government's revenues that can reasonably be expected to continue year to year, with some degree of predictability. Property taxes are an example of recurring revenue. Proceeds from the sale of property are an example of non-recurring revenue. Recurring expenditures appear in the budget each year. Salaries, benefits, materials and services, and maintenance costs are examples of recurring expenditures. Capital asset acquisitions are typically non-recurring.

### Balanced Budget Calculation

To calculate a balanced budget, the following factors shall be included: operating revenues, operating expenditures, and interfund transfers. However, capital costs shall be excluded from the calculation. The use of reserves and fund balance may be considered.

The accrual basis will be used to define revenues and expenditures.

### Use of Fund Balance

If a structurally balanced budget is not possible for the City at a given time, reserves and fund balance may be used to balance the budget. However, this should only be done in the context of a plan to return to structural balance, replenish fund balance, and remediate the negative impacts of any short-term balancing actions that may be taken. The plan should clearly specify the time period over which these actions will occur.

### Noncompliance with Balanced Budget Policy

The policy permits noncompliance during the early stages of an economic downturn so that services can be reduced in an orderly fashion.

**Responsibility for a Balanced Budget**

The City Manager is responsible for making any necessary decisions on whether or not a budget is in balance. They shall take appropriate action to bring the budget into balance if adjustments are needed during the fiscal period.

Revised April 2023



# 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 Programs (CIP) Policy to assist in future budget projections.

## SCOPE

All anticipated CIP projects for the current fiscal year plus four additional fiscal years.

## POLICY

The City will prepare an annual CIP for the current fiscal year that includes a projection of anticipated programming and funding for a total of five fiscal years.

Projects included in the CIP will have information on the need for the project (project justification), description and scope of work, total cost estimates, future operating and maintenance impacts, and funding sources.

The project justification will incorporate information on the factors that affect the prioritization of the project. The factors to be considered include (but are not limited to) the Health & Safety of the community, continuation of ongoing work, Community requests, General Plan and Master Plans' directives, staffing and operational demands, sustainability and resiliency, and internal and external funding viability.

Changes to the CIP such as addition of new projects, significant 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 facilities 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.

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.

Revised April 2023

# 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);
- enterprise software;
- workgroup software; and
- broadcast video and audiovisual equipment.

Laptops and associated peripherals, desktop software not being utilized across a workgroup or enterprise, 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.

**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 (based on license count) 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.

**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.

Revised April 2023

# 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** – \$19,088,859 and represents the funds restricted for the City's pension obligations. In response to the increasing retirement costs based on actuarial forecasts, the City created a secondary pension trust to help stabilize the impact of pension cost volatility on the City's operating budget. To fund this secondary trust, the City made an initial contribution. After that, the annual contributions are determined based on the difference between CalPERS' current discount rate and a more conservative rate determined by the City. This difference will then be transferred to the pension trust and used exclusively for the benefit of members in the plan.

The primary goal of establishing this secondary trust is to ensure that the City can continue to provide its employees with the retirement benefits they have earned while maintaining fiscal responsibility. By using a more conservative rate for calculating contributions, the City can better anticipate and manage pension costs and mitigate potential negative impacts on the City's budget.

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 <sup>1</sup>	Escalator <sup>2</sup>	Description
<b>GENERAL FUND</b>				
1	Economic Uncertainty	\$24,000,000	GF Budgeted Operating Expenditures <sup>3</sup> GF Budgeted Revenue <sup>4</sup>	For economic downturns and major revenue changes.
2	PERS	\$19,088,859	Budgeted Citywide Retirement Costs	For pension costs.
3	Capital Projects	\$10,000,000	None	For future capital projects funding.
4	Sustainability Reserve	\$127,891	GF Budget Revenue <sup>4</sup>	For future sustainability projects/programs.
5	Unassigned	\$500,000	Budgeted GF Operating Expenditures <sup>3</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> As of June 30, 2023

<sup>2</sup> Rounded to the nearest hundred thousand

<sup>3</sup> Excludes Transfers Out

<sup>4</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

Revised July 2023

# 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, or endowment funds.
- 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
  - Number of Cupertino residents served vs. number of non-Cupertino residents served
  - Availability of the program/project/event to the entire Cupertino community
- Community need for the program/project/event
- Alignment with Cupertino General Plan Principles
- Uniqueness of the program/project/event
  - Lack of duplication in service in Cupertino
  - Level of collaboration if a duplicated service
- 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.
- If requested, recipients must provide full financial statements for the organization.
- Festivals currently receiving funding through Festival Fee waivers may not apply for funding through the Community Funding Grant Process for the same festival
- Admission to or participation in the event must be "free of charge"
- 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.

Revised November 15, 2022

## 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 Audit Committee reviewed and accepted the current Investment Policy on April 24, 2023. The City Council approved the current City Investment Policy on May 16, 2023.

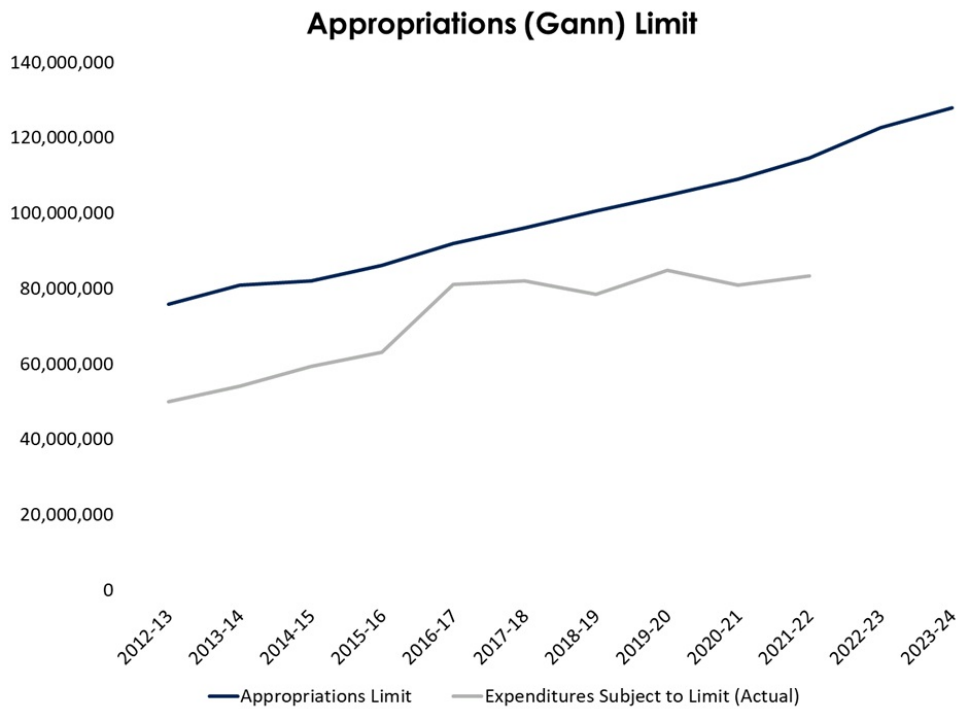
The City Investment Policy is available [here](#).

# 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 Senate Bill 88, approved by California voters in June of 1990, offered cities more flexibility in choosing inflation and population factors to calculate the limit.

The following chart and table show the appropriations limit and actual expenditures<sup>1</sup> subject to the appropriations limit.



<sup>1</sup> Actual Expenditures from the Annual Comprehensive Financial Report (ACFR)

Fiscal Year	Appropriations Limit	Change in Appropriations Limit	Percent Change in Appropriations Limit	Expenditures Subject to Limit (Actual)
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	\$ 91,867,014	\$ 5,766,706	6.7%	\$ 81,138,846
2017-18	\$ 96,028,488	\$ 4,161,474	4.5%	\$ 82,077,590
2018-19	\$ 100,538,305	\$ 4,509,818	4.7%	\$ 78,411,811
2019-20	\$ 104,753,580	\$ 4,215,275	4.2%	\$ 84,757,139
2020-21	\$ 109,062,934	\$ 4,309,354	4.1%	\$ 80,875,397
2021-22	\$ 114,666,491	\$ 5,603,558	5.1%	\$ 83,239,295
2022-23	\$ 122,756,522	\$ 8,090,031	7.1%	
2023-24	\$ 127,886,394	\$ 5,129,872	4.2%	

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: 4.44%

*Population Factor*

- (B) Percent Change in County Population: -0.25%
- (C) Percent Change in City Population: -0.87%

The City multiplied the FY 2022-23 appropriations limit by Price Factor (A) and Population Factor (B) to calculate the FY 2023-24 appropriations limit, as shown below:

<b>FY 2022-23 Appropriations Limit</b>	<b>\$122,756,522</b>
Price Factor (A)	1.0444
Population Factor (B)	0.9975
<b>FY 2023-24 Appropriations Limit</b>	<b>\$127,886,394</b>

The City’s FY 2023-24 appropriations limit is \$127,886,394, an increase of \$5,129,872, or 4.2%, from the FY 2022-23 limit of \$122,756,522.

## 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 2021-22 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.

Description	Amount	Formula
Secured Property Assessed Value, Net of Exempt Real Property (1)	\$29,822,398,085	
Adjusted Valuation - 25% of Assessed Valuation (2)	\$7,455,599,521	(1) x 25%
Debt Limit - 15% of Adjusted Valuation	\$1,118,339,928	(2) x 15%
Total City Bonded Debt (3)	\$18,020,000	
Less: Certificates of Participation Not Subject to Debt Limit (4)	\$(18,020,000)	
Amount of Debt Subject to Limit		- (3) - (4)
<b>Legal Debt Margin</b>	<b>\$1,118,339,928</b>	